Reporting on ESG targets gains pace, but GHG emission performance stagnates

Welcome to the fifth PR Square Survey on ESG Reporting in Europe

Executive Summary

Throughout 2021, the importance of environmental, social and governance (ESG) topics proved to be greater than many expected, with ESG becoming a key area of focus for a range of stakeholders, particularly in the boardroom. The rise of ESG, as we observed in the past surveys, is likely to continue in 2022, as ESG remains a priority in the corporate sphere.

When it comes to ESG reporting and establishing a sustainability strategy, companies are stepping up their game, and just in time, as there is an avalanche of disclosure requirements on their way. This year's survey sees an increase in reporting on ESG targets and again an increase in linking corporate ESG strategies to the UN Sustainable Development Goals (SDGs).

In response to demand and regulatory drivers, the quality and quantity of ESG data is expected to improve. Almost all companies report absolute ESG data, especially climate related disclosures. Only 6% of companies do not report at least one ESG target, with GHG emission targets being the most popular. Unsurprisingly, climate related data, again, is the number of numbers.

Observations about disclosure are not limited to the 'E' in ESG. On the contrary, when the pandemic hit, it brought widespread social interest in income inequality and worker safety. This year's survey finds the "S" still remains an underdeveloped reporting topic. Reporting occupational health data remains high, yet setting health & safety and/or society & compliance targets lags behind by a length. Social topics, in general, require more attention in corporate ESG strategies to justify the "S" in ESG.

Survey Spotlights

This year, the survey spotlights emerging developments within ESG reporting by corporations.

1 **ESG target setting is improving**

56% of companies are reporting on more than three targets, up by 6%. Most popular are GHG emissions and human resource related targets.

2 **Climate data rules, again**

93% of the companies report absolute GHG emission data and 89% report GHG targets, making GHG data, again, the main reporting focus.

3 **GHG emissions performance is not improving**

68% of companies reported lower GHG emissions over a 3-year period down from 70% last year; however, 20% of companies report higher 3-year GHG emissions.

4 **Supply chain audit reporting slightly improves, but remains the Achilles heel of reporting**

Reporting the number of supply chain audits has slightly improved to 28%, up from 23% of organisations doing so last year, yet still lags behind the pre-pandemic level of 41%.

5 **SDG trend grows again, nearing 100%**

95% of companies make a connection between the company's ESG strategy and the SDGs, an impressive 10% yearly increase, following last year's 6% increase.

Survey Framework

This survey, conducted for the fifth time, is an assessment of the current sustainability reporting status of 325 European companies included in 9 stock market indices.

In the past year, a number of new ESG-related rules and regulations came into force or are being prepared, which, in a nutshell, will require companies to disclose more non-financial information.

In the UK, companies listed on the premium segment of the London Stock Exchange were already required to include climate-related disclosures, but now standard-listed companies must also do so.

The EU will also see a number of ESG-related regulations come into force in 2022. The EU Taxonomy Regulation was published in June 2020 and established six environmental objectives. Also in 2022, European authorities plan to draft a new Corporate Sustainability Reporting Directive (CSRD), which will require around 50,000 companies to file reports. The CSRD will amend the existing reporting requirements under the Non-Financial Reporting Directive, introducing more detailed reporting requirements.

Furthermore, on March 21, 2022, the SEC issued a proposed rule that would enhance and standardize the climate-related disclosures provided by public companies.

This survey followed a four-step approach to determining how far reporting has progressed:

1. SDG alignment
2. ESG target setting
3. Corporate footprint perspective
4. GHG emissions disclosure

The 325 companies surveyed span across a wide range of business sectors, such as Food and Beverages, Energy, Consumer Products, Chemicals, Healthcare and Telecommunications.

We have reviewed ESG communication at European companies that are part of the following European Indices:

- FTSE (UK)
- CAC (France)
- DAX (Germany)
- MIB (Italy)
- BEX (Spain)
- AEX (Netherlands)
- BEL (Belgium)
- PSI (Portugal)
- SMI (Switzerland)

Corporate websites and reports were reviewed and analysed, hence only publicly available information was used.

Study Objectives

The survey provides a detailed perspective at trends in ESG reporting and insights for business leaders, company boards, and ESG and sustainability professionals. It is meant to offer guidance on good business practice to corporate professionals who prepare their own organizations' ESG reporting. It is also designed as a guide to investors, asset managers and ratings agencies who now factor environmental, social and governance (ESG) information into their assessments of corporate performance and risk.

The survey is based on several months of research, with our professionals analysing 325 company financial reports, corporate responsibility reports, and websites. The number of companies and markets involved in the survey makes it one of the most comprehensive pieces of research on ESG reporting available in Europe.

Our goals were as follows:
• Put together a smart database of best ESG reporting practices based on reports published by major public companies;
• Identify the underlying shifts in communicating corporate social responsibility information to stakeholders;
• Develop recommendations and tools to improve such communication.

We are convinced that corporate sustainability information should include more than a mere list of metrics and issues to be disclosed. It must present a clear picture of the company's goals and strategies in this area and demonstrate that the company meets the expectations of and the requirements set by its stakeholders. It is the active dialogue between the company and its stakeholders that must be at the heart of any ESG effort.

Yet another important objective is to ensure that information reported by different companies allows for proper apples-to-apples comparison. It must be up to the stakeholders to determine whether, and to what extent operations of any particular company meet their expectations and comply with best globally accepted practices.

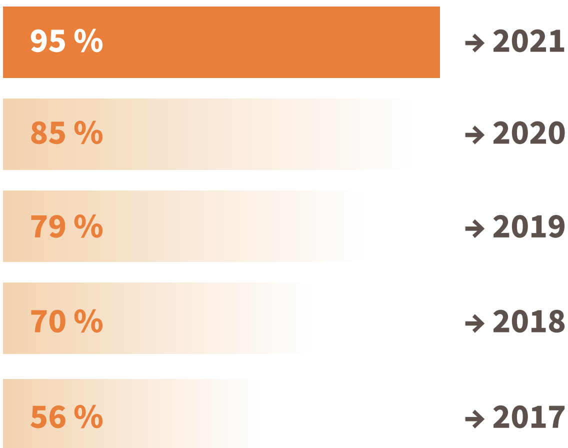
This study is conducted annually.

The SDGs in CSR Communication

The 17 UN's Sustainable Development Goals, set out to solve the greatest economic, environmental and social challenges of our world by 2030, have been widely adopted by business. Last year's survey highlighted that there is a stronger trend in evidence towards aligning corporate responsibility strategy with the UN Sustainable Development Goals (SDGs).

SDGs have resonated strongly with businesses since their launch. This year, again, we see an increase of companies referring to the SDGs in corporate communication : 95% compared to 85% last year.

The SDGs have become an ESG reporting standard.

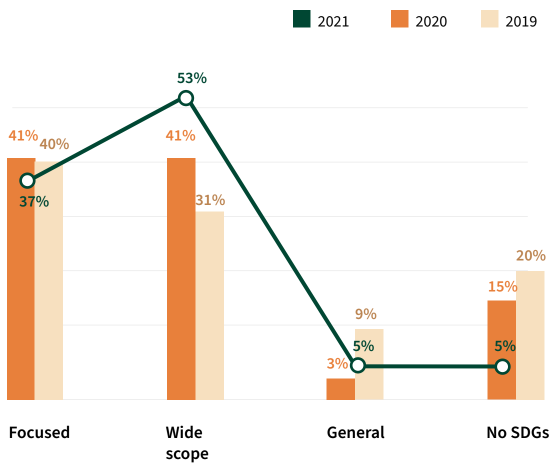


The 17 SDGs are broad and topline. If a company aims to be perceived as SDGs-focused, it needs to show that it understands the 17 goals. Corporate communications can disclose which of them the business aims to contribute to. Focusing on specific SDG targets helps a company to define and communicate its SDG-related business priorities clearly and show implementation of effective actions.

Therefore, for the third time, we analysed how communication of corporate sustainability strategies is assigned to the SDGs.

Besides checking if an organisation refers to the SDGs, we researched which SDGs are mentioned and we counted how many are specifically being applied. We then classified the use of SDGs:

• Focused: up to 7 SDGs linked to corporate SDG strategy
• Wide scope: between 8-16 SDGs linked to corporate SDG strategy
• General: reference to all 17 SDGs
• No referral to SDGs



90% of the organisations show priority setting with regards to SDG alignment and, surprisingly, are specifying their SDG approach with enhanced detail in a focused and wide scope way.

On a broader scale (up from 82% last year), companies are increasingly setting and communicating clearer priorities and implementation actions connected to the SDGs.

Only 5% do not refer to SDGs at all, down from 15% last year. Those companies choosing to engage with the SDGS, prefer to do so in a detailed manner.

Target Setting

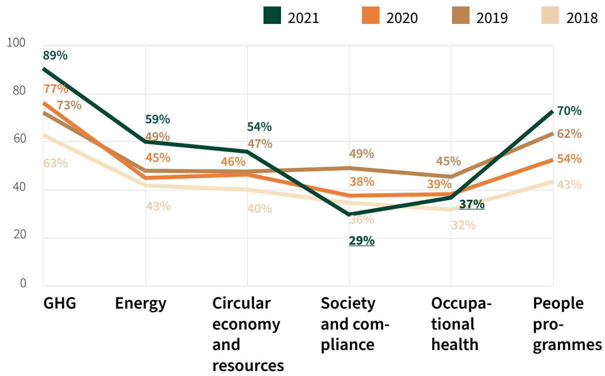
In our last three surveys we examined whether companies reported on measurable, objective and accountable targets. Due to the increasing relevance of transparent sustainability strategies based on, for example, the EU non-financial reporting directive and the EU Action Plan on Financing Sustainable Growth, communicating ESG targets is deemed to become a business necessity.

For comparability reasons, we conducted identical research to the types undertaken in the past three years. Target setting in the following areas was analysed:

- Energy
- Greenhouse Gas (GHG) emissions
- Circular economy and resources
- Society and compliance
- Occupational health
- Employee development programmes

Year on year, the percentage of companies reporting on at least one ESG target sharply increased by 10% to 94%:

The areas on which targets were reported have shifted again:



Overall, we again observe an increase of target setting on GHG emissions. Climate change remains the prevailing ESG topic on the corporate agenda. 89% of the companies report GHG targets and 59% energy targets.

Circular economy and resource related targets showed a strong performance with over 50% of companies reporting on them. For the first time the majority of companies are reporting on these topics.

Reporting targets related to people programmes still comes second, with an increase of 16%. We believe this is a pandemic related rebound effect; however, setting occupational health targets has decreased again.

Overall, there remains vast room for improving overall sustainability target setting. Our observation is that this year, on average, social targets again were primarily not in the ESG focus.

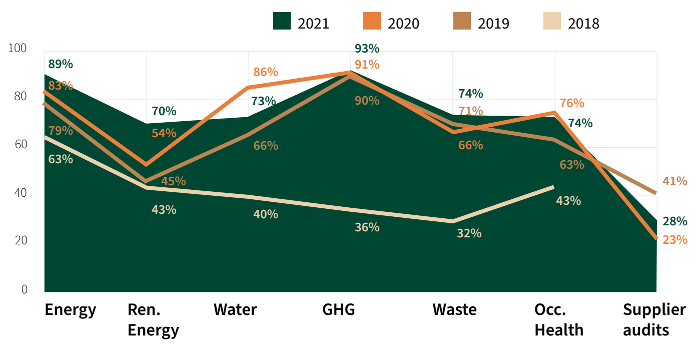
Footprint Data Perspective

Communication of ESG performance data has increased again, but it can still be improved

For the fourth time we analysed the extent of company reporting, in terms of absolute numbers, on seven ESG performance data points. In this year's survey, we looked into the extent of company reporting, in terms of absolute numbers, on the following topics:

- Energy;
- Greenhouse gas emissions;
- Renewable Energy;
- Waste generation;
- Water use;
- Occupational health;
- Supplier audits.

Overall, reporting of absolute performance year-on-year did not change, with an average, observed across all topics, at 95%. However, this does not mean per se that no data is reported by the other 5%, as various companies still choose to report relative data, e.g. per revenue or number of employees.



Again, reporting on greenhouse gas emissions and energy remains the focus of attention. Climate change is still the most relevant communication issue for various reasons. Reporting performance on all environment related data increased, except for water data.

93% of the companies report absolute GHG emissions, a slight increase by 2%. The largest increase is observed with renewable energy data (+24%).

At the same time reporting waste data increased by 8%. Apparently, Circular Economy awareness has risen, in line with the increase in Circular Economy & resource target setting.

Reporting occupational health data remains at a high level at 74%, but reporting the number of supply chain audits remains the lowest by far for the third consecutive year.

GHG Emission Reporting

This year, for the second time, we checked if GHG emissions are being disclosed for three consecutive years and if impact trends can be observed.

• 88% of the companies provide 3-year historic GHG emission data, up by 5%
• 12% of the companies do not provide substantial historic data or any data at all

In total, 68% of companies lowered their GHG emissions over the past 3 years. Last year the percentage was 70%, meaning that fewer companies managed to decrease GHG emissions this year.

On the other hand, 20% of the companies were honest and reported higher GHG emissions over 3 years. Last year 13% of the companies reported higher GHG emissions: the effects of the Covid pandemic might explain this.

European Index Comparison

Large differences at the Index-level regarding specific ESG communication are observed, again. Some highlights are:

The SDGs in CSR Communication

A large increase of FTSE (London) constituents aligning sustainability strategy to the SDGs, up to 90% from 78% last year.

SDG reporting is highest in the IBEX (Madrid) and SMI (Zurich) with all constituents at 100%.

Target Setting

Again, the MIB (Milan) has the most constituents (24%) not communicating any measurable ESG targets, whereas in four Indexes 100% of constituents do (AEX; BEL, IBEX and PSI).

Footprint Perspective

Over the past 3 years ESG data reporting has risen to a high level with a 100% of AEX, BEL, IBEX and PSI constituents communicating absolute ESG data. The CAC lags behind with only 87% of constituents.

GHG emissions 3-year performance

77% of FTSE (London) and 70% of SMI (Zurich) constituents lowered their GHG emissions, a good performance across all industries.

32% of MIB (Milan) and 27% of PSI (Lisbon) constituents, however, reported higher GHG emissions over 3 years.

About this survey

P&R Square team led by Mr. Erik van Buuren produced this study.

A specific methodology was developed for the ESG analysis of organisational reporting.

Perception & Reality Square is a Berlin-based consultancy specializing in ESG Reporting, Financial Communications, Online Platforms Developing, Public Opinion & Perception. Our main objective is to develop solutions to help corporations, their stakeholders, non-profit organizations and the general public to use all kinds of information more effectively.

Erik van Buuren is a leading practitioner and chief analyst in ESG asset management and product & process development for the Circular Economy. He has organized innovation projects with asset managers, companies, NGOs, and international agencies since 1994.

Currently, he is a co-founder of SDiD, a dedicated platform for transparent and comparable ESG data.

He holds a Master's degree in Materials Science and Engineering and has specialised expertise in applying ESG integration and stewardship frameworks within the financial sector.

Erik was advisor to the Dutch Government's Cradle-to-Cradle initiatives and co-initiator of the Circular Economy Hotspot in the Netherlands, focusing on the positive impacts of circularity.

Besides, he was a key-note speaker during the official documenta14 programme in Athens and a jury member of the German Design Prize 2012-14 appointed by the German Minister of Economics. For the EU Commission, he was a member of the technical steering group for environmental management in the automotive and metal processing industry from 2014-16.

In the early 1990s, as a researcher with EPEA Internationale Umweltforschung, he co-developed formative product studies in Asia, Europe and the USA based on "Intelligent Product System" methods that set the groundwork for Cradle to Cradle® products. In the late 1990s, as an analyst in London, he operationalised initial ESG research for the foundation of the Dow Jones Sustainability Index®.

For contacts and further information:

Perception & Reality Square GmbH
Germany, 10435 Berlin, Schoenhauser Allee
149.

Website: www.pr-square.de
E-mail: info@pr-square.de

Perception & Reality Square
GmbH