

Climate reporting of listed companies

Analysis of the DAX 30, MDAX, ATX 20 and SMI 20
December 2020



Executive Summary

95% of listed companies generally report on **climate issues** ...

... *but only four out of ten* companies present a **roadmap** for the realization of their climate goals.

Almost 70% of the companies analysed **use their websites** to publish climate-related information ...

... *but only about 15% include* climate-related information in their **investor presentations**.

Two thirds already report on climate-related **risks** and about **half** on climate-related **opportunities** ...

... *but less than one in five companies* report on **climate scenario analyses** to manage risks and opportunities.



Scope 1 and **Scope 2 emissions** are reported by about **80%** of companies ...

... *but only about a third* of them compare climate-related indicators with established **financial indicators or operating performance indicators**.

Analysis of the quality of climate reporting



Goals & background

- Analysis of the **status quo of climate reporting** in Germany, Austria and Switzerland against the background of increasing demands from investors and regulation
- Identification of **elements** for a **transparent, consistent** and **credible presentation** of climate-related information in external corporate communication
- Development of **recommendations based on best practice** examples from companies

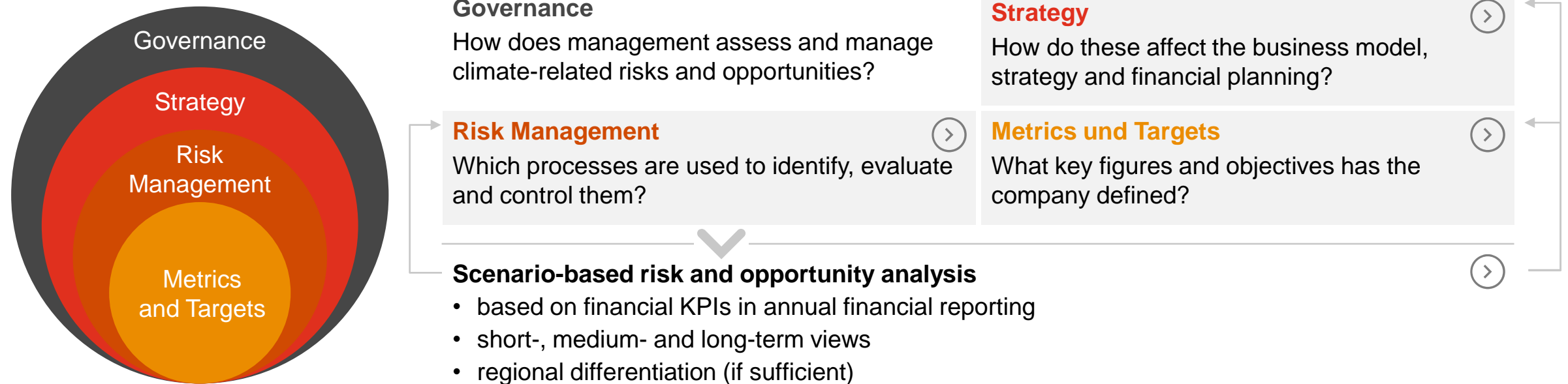


Method

- Scope: **130 companies in DAX 30, MDAX, ATX 20, SMI 20**
- Analysis of **external climate reporting** such as annual and sustainability reports, TCFD reports, websites and investor presentations
- Evaluation of climate reporting on the basis of a **detailed set of criteria**, including current frameworks and standards such as the TCFD recommendations
- Supplementary **text analysis** by Prof. Dr. Alexander Bassen and Prof. Dr. Kerstin Lopatta (both University of Hamburg) with regard to the use, frequency and distribution of trust-building terms and expressions related to climate change

The TCFD recommendations as a basis for the evaluation of climate-related information

TCFD components



The main objective of the TCFD recommendations is to **integrate more climate-relevant information** into the core activities of companies.


Results of the analysis per topic

Communication – Text analysis – Strategy – Governance

Topics	General observations
Publication, communication & length	<ul style="list-style-type: none"> The extent of climate-related reporting varies extremely, however a significant correlation between the size of the companies (measured in turnover) and the length of reporting could be observed. Other possible correlations, such as between quality and length of reporting, were not identified.
Text analysis	<ul style="list-style-type: none"> There are significant differences in reporting both in terms of integration and the scope of climate-related information across all indices examined. The assessed distribution of climate-related terms across several reporting formats shows that companies are able to report in an “integrated” and consistent way, provided that a common thread is discernible. Relative to the overall report, climate issues occur significantly more frequently in the reporting of companies listed on the DAX 30 and ATX 20, which suggests a more advanced integration of climate information.
Corporate strategy: Goals, climate risks & opportunities	<ul style="list-style-type: none"> The majority of companies report strategic goals but only use short- and medium-term time horizons. More than two thirds of companies report on climate-related risks. However, only around half of the companies analyzed have considered the opportunities that may arise from changes in climate. Less than one in five companies (18%) are using climate scenario analyses in their reporting to show how climate-related risks and opportunities are identified and managed.
Governance	<ul style="list-style-type: none"> The analyzed climate governance reporting suggests that less than half of the companies have clearly defined their management and control functions.

Results of the analysis per topic

Targets and roadmaps – Indicators – External audit

Topics	General observations
Operational targets & use of roadmaps	<ul style="list-style-type: none">• Most companies report specific climate targets, but only about two fifths of the companies present a specific roadmap that sets out in detail how they plan to reach these goals and measure their progress. There are strong sector-specific differences.• Targets are mostly set for the reduction of Scope-1- and Scope-2-emissions.
(Key) performance indicators	<ul style="list-style-type: none">• While 90% of the assessed companies report climate-related indicators, only around a third of the companies describe their climate indicators in a detailed and comprehensible way.• The automotive industry as well as the chemical and energy sectors report more details on key indicators than other sectors.
External assurance of climate information	<ul style="list-style-type: none">• 73% of the companies analyzed have at least part of their climate reporting externally audited.• Particularly in DAX 30, the audit of selected quantitative indicators with reasonable assurance is increasing.
	<p>Companies with a significant impact on climate change generally have a more sophisticated and detailed reporting.</p> <p>The assessment of the climate-related performance of companies is sometimes constrained by a very heterogeneous and hardly standardized climate reporting practice.</p>

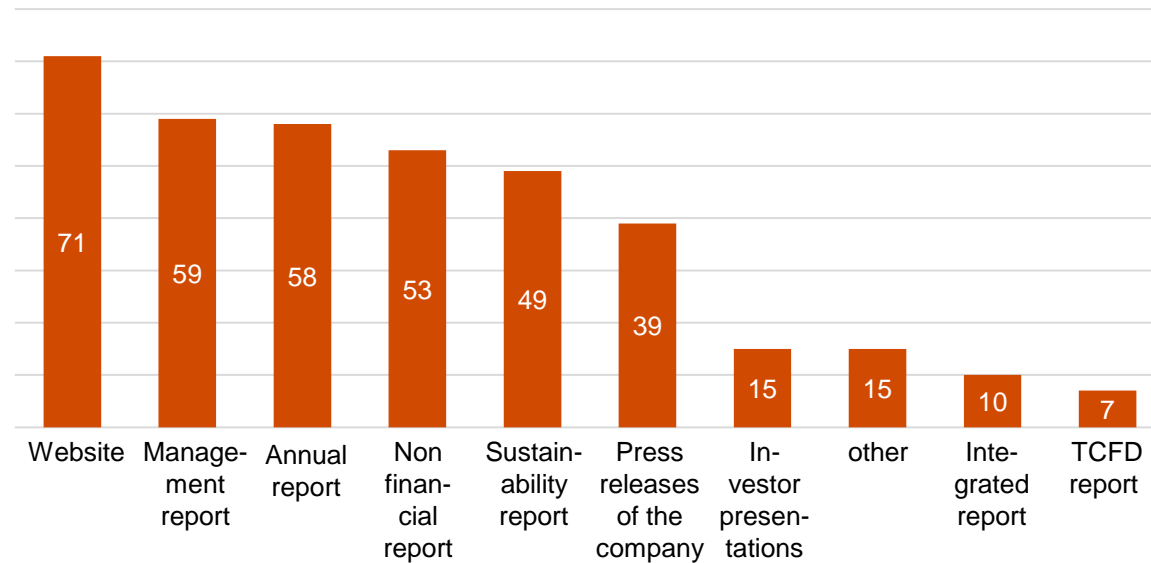
Results in detail

Publication and communication of climate-related information – Communication channels

Percentage of used communication channels for climate-related reporting

Which tools do companies use for the reporting of climate-related information?

Multiple answers possible
in percent



Source: PwC (2020), Klimaberichterstattung bei börsennotierten Unternehmen, Abb. 1, S.13

Results

- Companies use a **variety of communication channels**.
- More than **95%** of the companies analysed publish their climate reporting via **at least one** of the communication channels in scope.
- Compared to 2017, the proportion of companies that publish part of their environmental information **within the management report** has risen from 27% to **59%**.
- 90% of DAX 30 companies and only 55% of ATX 20 companies report on climate issues on their websites.
- Only about **15%** of the companies **use the investor presentation** to communicate climate-related core contents to investors.

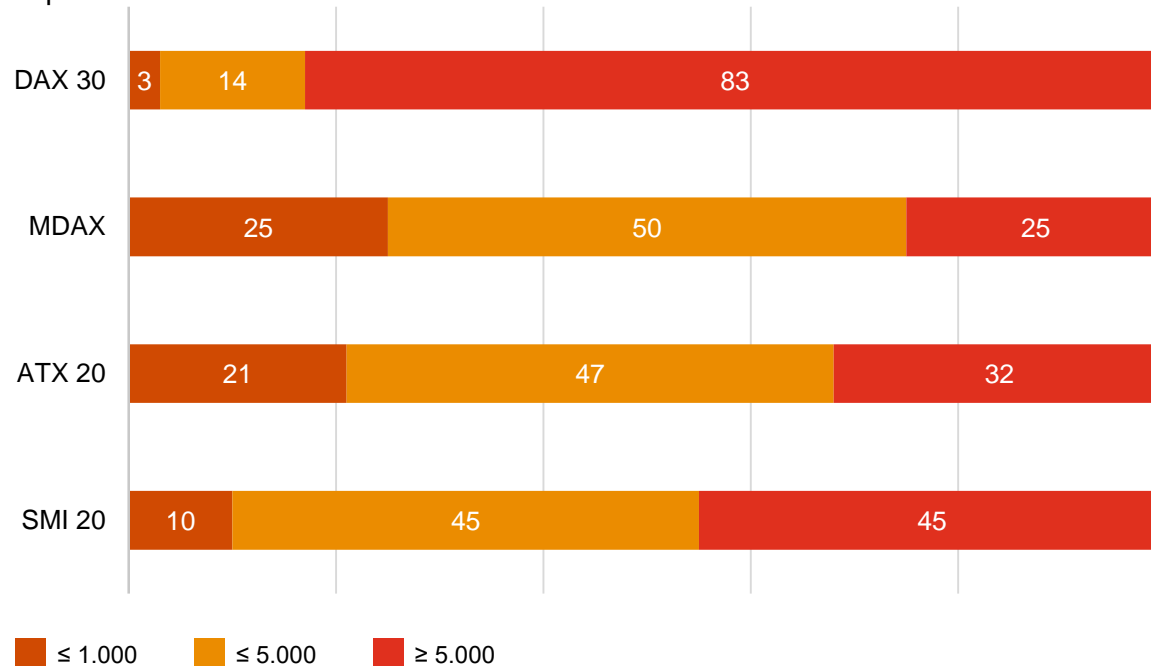


Results in detail

Publication and communication of climate-related information – Length

Length of climate-related reporting

Count in words, by index
in percent



Source: PwC (2020), Klimaberichterstattung bei börsennotierten Unternehmen, Abb. 3, S.15

Results

- The **length** of climate reporting **varies extremely**.
- The **DAX 30** has the **most comprehensive coverage** with over 5,000 words.
- In the SMI 20, reports counting more and less than 5,000 words reach the same share.
- A weak, but nevertheless significant **correlation** between the **turnover-related size of the companies and the length** of reporting was found.
- No other conceivable relations, such as between the quality and length of reporting, were found.

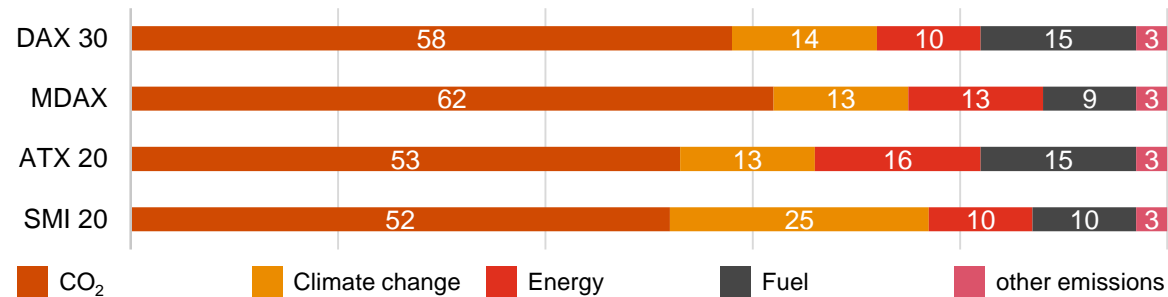


Results in detail

Text analysis

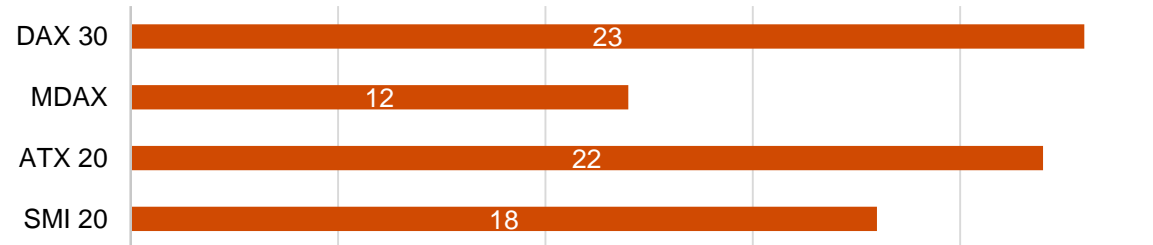
Prominent word categories

by index
in percent



Average integration

by index



Source: PwC (2020), Klimaberichterstattung bei börsennotierten Unternehmen, Abb. 10 und 11, S.21f.

Results

- The **AI-assisted text analysis** from the University of Hamburg confirmed and reinforced the results of the content analysis with regards to the report quality.
- Terms from the category 'CO₂' were used most frequently right across the evidence looked at.
- Relative to the overall report, climate issues occur **significantly more frequently** in the reporting of companies listed on the **DAX 30 and ATX 20**, which suggests a more **advanced integration** of climate information.
- **Climate reporting in the sustainability reports** of DAX 30 and SMI 20 companies is about **three times as extensive** as in annual reports.

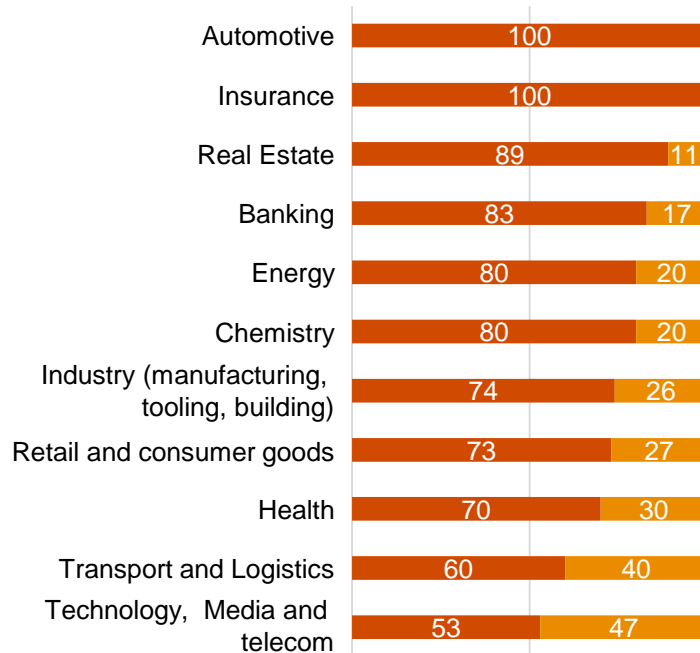


Results in detail

Corporate strategy: Goals, climate risks and opportunities – Risks and opportunities by sector

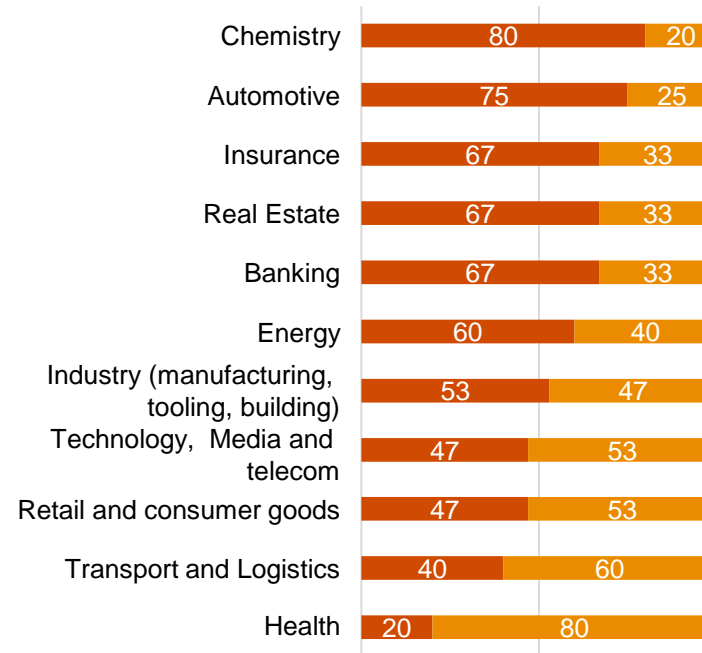
Identification of climate-related risks

in percent, by sector



Identification of climate-related opportunities

in percent, by sector



■ used ■ not used

Source: PwC (2020), Klimaberichterstattung bei börsennotierten Unternehmen, Abb. 22 und 23, S.33 und 34

Results

- Of the approximately 68% of companies that report climate-related risks, about **47% distinguish between transitory and physical risks.**
- Around **39%** of the **climate opportunities** identified by companies **relate to innovations of products and services.**
- **Especially companies in CO₂-regulated industries communicate climate-related risks** and, to a large extent, the corresponding opportunities.

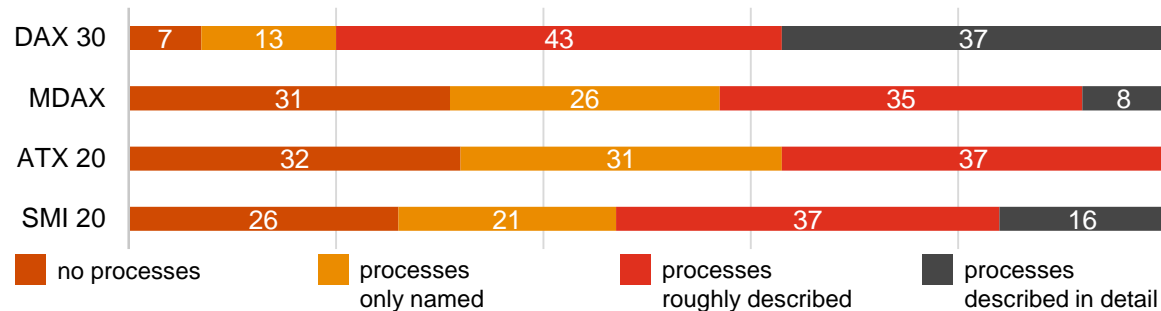


Results in detail

Corporate strategy: Goals, climate risks and opportunities – Process description and climate scenarios

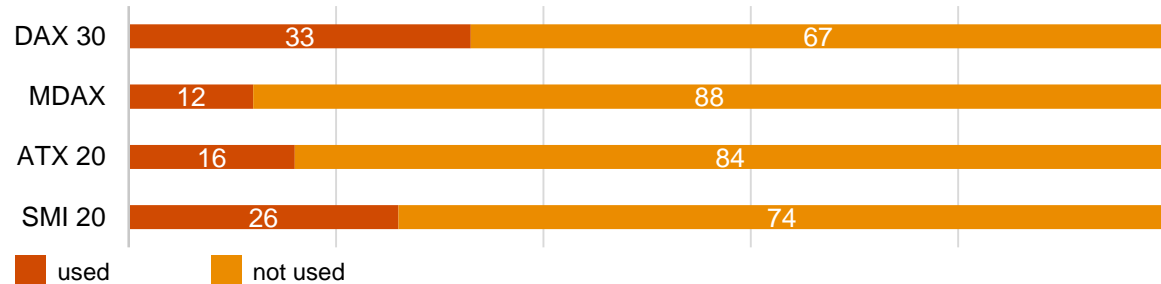
Level of detail of the process description for managing climate-related topics

in percent, by index



Usage of climate scenario analysis

in percent, by index



Source: PwC (2020), Klimaberichterstattung bei börsennotierten Unternehmen, Abb. 24 und 31, S.35 und 41

Results

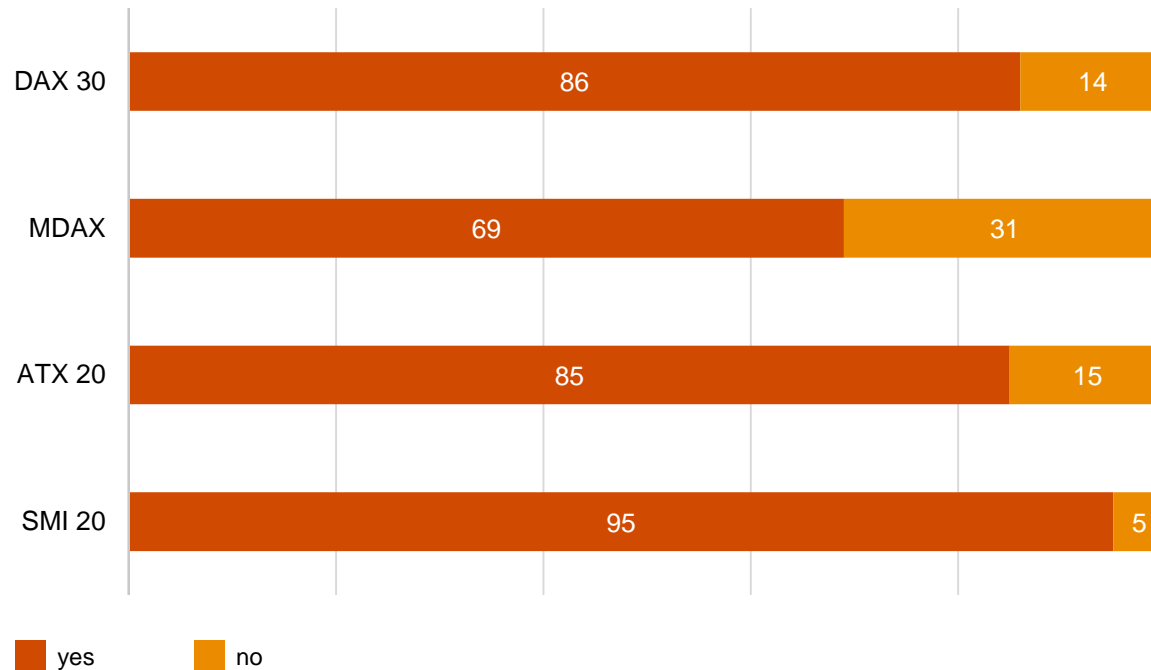
- The reporting of the management of climate-related risks and opportunities is often rather superficial.
- **Orientation towards the TCFD recommendations** goes hand in hand with a **more detailed description of the corporate processes** for managing climate-related risks and opportunities.
- All companies that presented a TCFD report incorporate details on their processes for identifying and assessing climate-related risks as required by TCFD.
- **Only 18%** of the companies analysed **communicate the use of climate scenario analysis** to identify and manage climate-related risks and opportunities, most of them in the DAX 30.



Results in detail

Reported operational objectives on climate-related issues – Climate-related targets by index

Percentage of companies reporting about climate-related targets
in percent, by index



Source: PwC (2020), Klimaberichterstattung bei börsennotierten Unternehmen, Abb. 39, S.49

Results

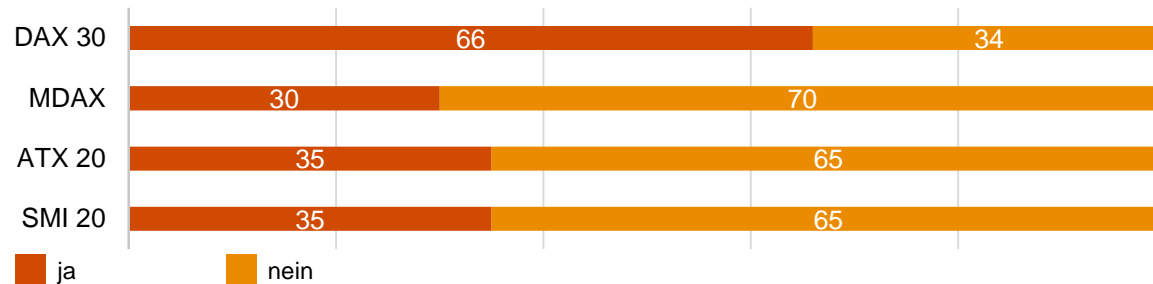
- Overall, **almost 79%** of the companies analysed report **climate-related targets**.
- **Almost 80%** of companies that communicate climate-related targets explicitly set themselves **Scope 1 and Scope 2 emission targets**. About **half of those** companies also report **targets in selected categories of their Scope 3 emissions**.
- Companies from sectors with a significant impact on climate change, such as energy or automotive, have consistently set targets concerning climate-related indicators.



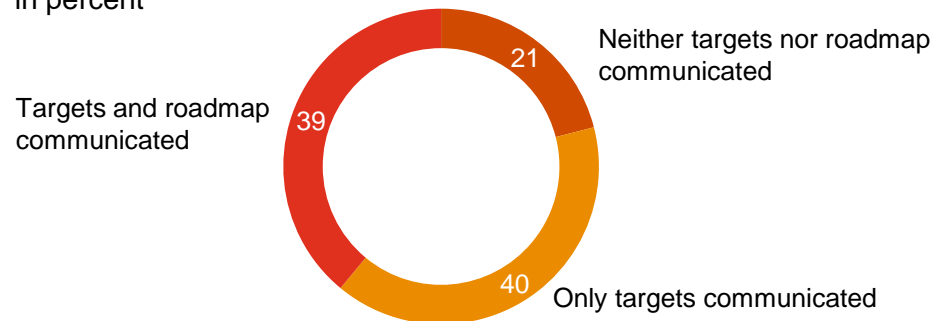
Results in detail

Reported operational objectives on climate-related issues – Roadmap by index

Percentage of companies reporting a roadmap
in percent, by index



Climate-related targets – percentages of roadmaps used and target setting
in percent



Source: PwC (2020), Klimaberichterstattung bei börsennotierten Unternehmen, Abb. 42 und 43, S.52

Results

- **Only 50%** of all companies that report on targets **have linked their climate goals to a specific roadmap** that sets out clear milestones, intermediate targets and measures, which corresponds to 39% of all companies analysed.
- The MDAX in particular has a high potential for improvement in that area.
- There is a **large gap between the commitment to goals and a concretization of the steps on the way to achieving them.**
- The **time periods** communicated in the existing roadmaps usually refer to **five to ten years.**
- There is a lack of clarity about which indicators should be used and reported in order to measure progress in terms of climate reporting.

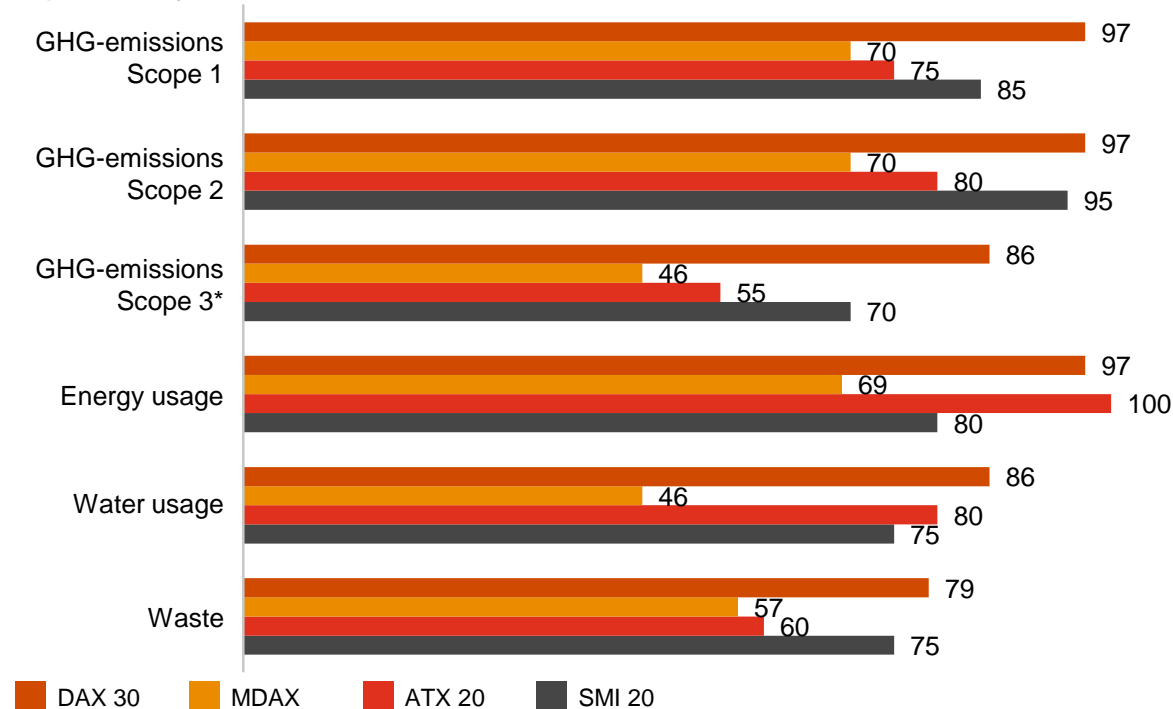


Results in detail

Key indicators and their integration into climate reporting

Percentage of reported indicators

in percent, by index



* Mostly, companies report only about single categories within their Scope-3-Emissions.

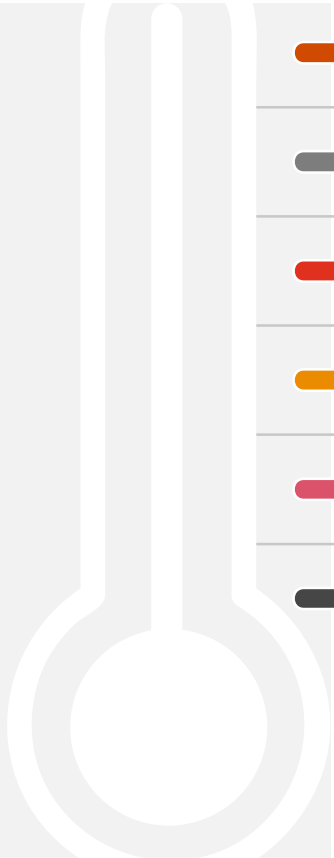
Source: PwC (2020), Klimaberichterstattung bei börsennotierten Unternehmen, Abb. 49, S.59

Results

- **90%** of the companies analysed **report climate-related indicators**.
- About **82%** of companies report on their **energy consumption**.
- 80% of companies report on either Scope 1 or Scope 2 emissions; **60% on selected categories of Scope 3 emissions**.
- **Indirect indicators such as waste quantities or water consumption**, which are also part of the TCFD recommendations, are **reported less frequently**.
- All companies in energy-intensive sectors such as the energy or automotive sector report climate-related key indicators.



Recommendations for a credible and consistent climate reporting

- 
- Greater **integration** of climate-relevant core information in the **management report** and **more intensive use of investor presentations** to convey climate-related content
 - Connection of the climate strategy** with strategic goals, a **clearly defined roadmap** and **climate-related key indicators** for measuring, internal steering and external communication of progress
 - Use and communication of **climate scenario analyses** for a reliable risk and opportunity assessment
 - Specific reporting on **climate risks and opportunities** and greater **disclosure of the processes** for identifying, assessing and managing climate-related risks and opportunities
 - Improved **climate governance** with the help of clearly defined management functions, supported by embedding climate targets and appropriate KPIs as part of the executive board remuneration
 - Higher degree of reliability through increased auditing of information with **reasonable assurance**

Outlook

Increased mandatory reporting on climate issues expected

The **increasing transparency requirements** resulting from current regulatory developments point towards a **transforming access to capital market** depending on the extent of "green economic activity" and the corresponding reporting.

Increasingly standardized and mandatory reporting, particularly on climate issues, is expected from capital market-oriented companies.



Regulatory developments Relevance for reporting

EU Action Plan on Sustainable Finance

- The European Commission is working on a common framework for sustainability in the financial sector. The **TCFD requirements are essential to achieve the three ambitious climate and energy targets by 2030**, in line with the requirements of the *Guide on climate-related and environmental risks* and other expectations of the European Central Bank.

EU Taxonomy Regulation

- The taxonomy **provides common definitions and criteria** for sustainable economic activities. It is a **classification system** for economic activities that are considered to be environmentally sustainable (taxonomy-aligned) in relation to **six environmental objectives**. In a first step, the EU taxonomy deals with the first two objectives on *Climate Change Adaptation* and *Mitigation*.
- **Reporting on green revenues, investment and operating expenditure for reports published in 2022.**

Revision of the CSR Directive (NFRD)

- **Possible extension of the mandatory content of non-financial reporting**, e.g. through detailed disclosure of climate-relevant information (see also non-binding guidelines).

NBGL, Supplement on reporting climate-related information

- These guidelines aim at an integrated reporting and **support the disclosure of non-financial information** in a relevant, useful, consistent and comparable manner (including explicit climate change considerations). The climate related supplement of the NBGL has incorporated the TCFD recommendations while linking them to non-financial reporting requirements.

Disclosure regulation (sustainability-related disclosure obligation in the financial sector)

- From March 2021, it must be reported whether **adverse impacts** on financial returns resulting from **sustainability risks** are integrated into the risk specifications.
- In the case of investment products, it must be made clear which sustainability features or objectives are being achieved.

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