PwC's quarterly ESG webcast

First quarter 2022

pwc

Scope of CSRD

- All companies listed on EU-regulated markets (with limited exceptions) and,
- All large* EU companies (irrespective of listings)
- Subsidiaries/subgroups that are EU-listed or large, under parent companies outside the EU
- All EU parent companies of large groups should prepare sustainability reporting at group level

For US companies this means…

- All US subsidiaries or subgroups established outside the EU, but listed on EU-regulated markets, regardless of size (exception: micro-undertakings)
- Large* US subsidiaries or subgroups registered in the EU that are not listed

Exceptions

- SMEs may use separate SME sustainability reporting standards and do not have to start reporting until 3 years after the effective date (i.e. 01/01/26)
- **Possibility to exempt subsidiaries/subgroups** if
  - they are included in the consolidated management report of their parent company **and**,
  - that report is drawn up under regulation that is considered equivalent to the manner required by the sustainability reporting standards.

*Large is defined by the CSRD as exceeding at least two of the following on two consecutive balance sheet dates:

Total assets
€20m
(about $22.6m as of 12/31/21)

Net revenue
€40m
(about $45.3m as of 12/31/21)

Average number of employees during fiscal year
250

Future of ESG reporting in the EU

Key aspects (tentative)

Scope and first-time application	Sustainability reporting	Assurance and supervision
• **All large undertakings/large groups and all listed** (via debt or equity) undertakings on regulated EU markets • **Includes EU subsidiaries/subgroups of parent companies outside the EU.** • **First-time application on or after 1.1.2023***	• Double materiality principle (considering enterprise and societal value) • **Sustainability Reporting Standards** being developed with EFRAG; aligning with existing frameworks and regulations • Becomes a **mandatory** part of the (consolidated) management report	• **Limited assurance obligation.** Goal to move to reasonable by 2026 • Audit committee responsibility extended to monitoring the sustainability reporting process **including the effectiveness of internal quality control and risk management systems**

US impact - Is SEC filing enough for equivalence?

- **US entities with EU subsidiaries are in scope**
- Current **US reports fulfilling SEC requirements are unlikely to be sufficient for equivalence** in the EU in their current state. These standards will require much more **granular** reporting and there is a requirement to get **assurance** over the sustainability information.

*The full information on timing of the CSRD is subject to change as member countries and the European Parliament are still discussing - it is very likely to be postponed to 01.01.2024. The final decision on the CSRD is expected March 2022 (Council and EP).

What is still to come?

Sustainability Reporting Standards are being developed with EFRAG:

- The first set of sustainability reporting standards to be adopted in Oct 2022.
- The second set are to be adopted by Oct 2023.
- Implementation to bring the CSRD into national law of the member states must be completed by the end of 2022

In January 2022 the first batch of working papers on the European Sustainability Reporting Standards (PTF-ESRS) were released. **Proposal for a detailed structure for sustainability reporting topics**:

Proposed topics for standards
Strategy, governance, impacts, risks, opportunities (e.g., Sustainability material impacts, risks and opportunities)
Sector-specific standards (e.g., sector classification)
Presentation (e.g., Sustainability statements)
Conceptual guidelines (e.g., Double materiality)
Sector-agnostic standards (e.g., Environmental: Climate change)

Scope and quality of information in the coming standards

What kind of information has to be disclosed?	• **Qualitative and quantitative** information • **Forward-looking** (particularly concerning targets and target achievements) and **retrospective** information
On which time horizons has to be reported?	Information on all **time horizons**: Short-term, medium-term and long-term
What is the scope of the information?	Information on the whole **value chain**: • Own operations, products and services • business relationships • Supply chain

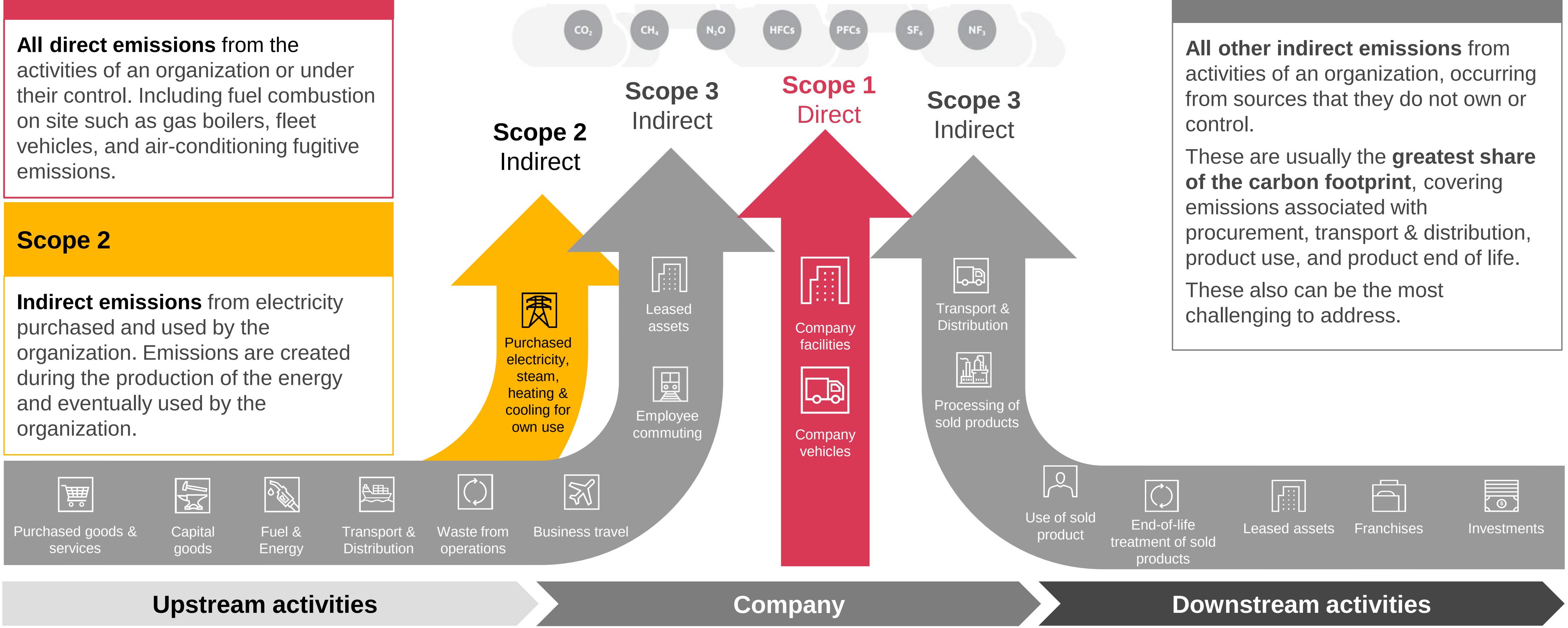
An overview of GHG emissions

Scope 1

All direct emissions from the activities of an organization or under their control. Including fuel combustion on site such as gas boilers, fleet vehicles, and air-conditioning fugitive emissions.

Scope 2

Indirect emissions from electricity purchased and used by the organization. Emissions are created during the production of the energy and eventually used by the organization.



Scope 3

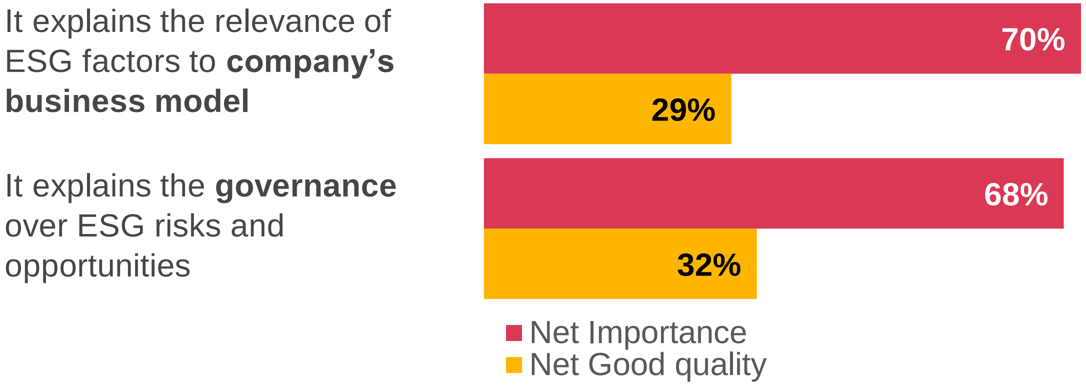
All other indirect emissions from activities of an organization, occurring from sources that they do not own or control.

These are usually the **greatest share of the carbon footprint**, covering emissions associated with procurement, transport & distribution, product use, and product end of life.

These also can be the most challenging to address.

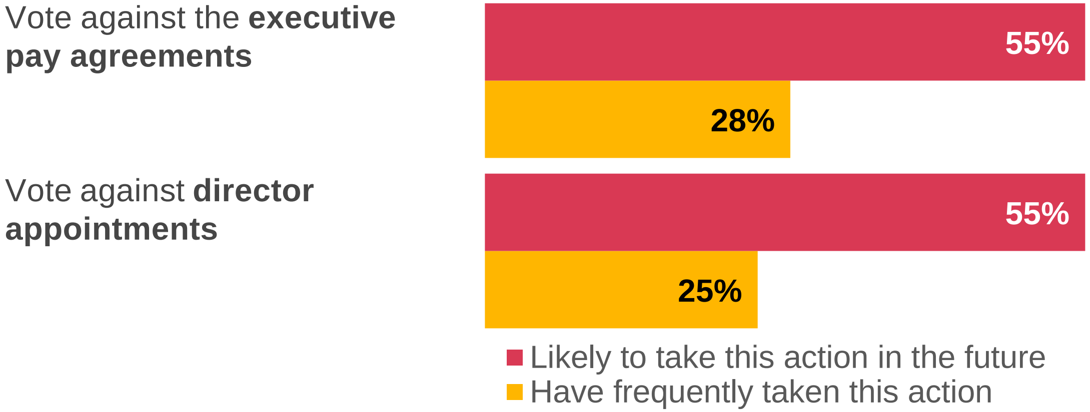
Here's what we're hearing on ESG

Importance of the following characteristics and how would you describe the current quality of ESG reporting in each?



Source: [PwC's US investor survey: The economic realities of ESG]

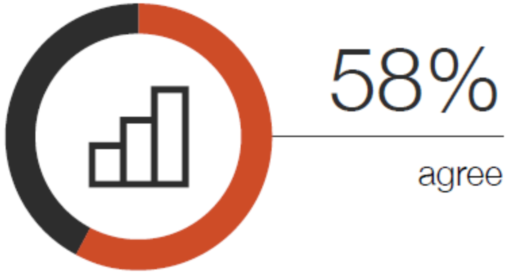
US investors will take action if they think a company is not doing enough to address ESG issues



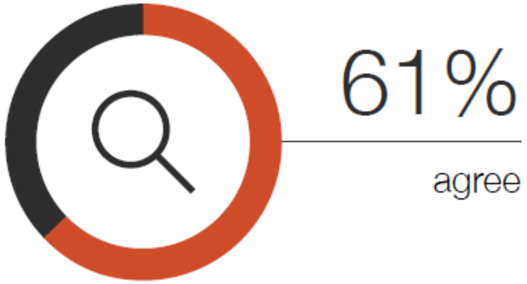
Source: [PwC's US investor survey: The economic realities of ESG]

ESG is becoming a critical component of investment decision making

How a company **manages ESG risks and opportunities** is an important factor in my investment decision making



I consider a **company's exposure to ESG risks and opportunities** when screening potential investment opportunities



Source: [PwC's US investor survey: The economic realities of ESG]

Here's what we're hearing on ESG

CFOs shift into action on ESG

We **have not started developing** our net zero/carbon reduction strategy

We're acting on the net zero/ carbon reduction strategies we've identified

Source: PwC Pulse Survey: CFO and finance leaders

Why your company has not made a carbon-neutral or net-zero commitment

My company **does not produce** a meaningful amount of GHG emissions

My company **does not currently have the capability to measure** its GHG emissions

Source: PwC's 25th Annual Global CEO Survey

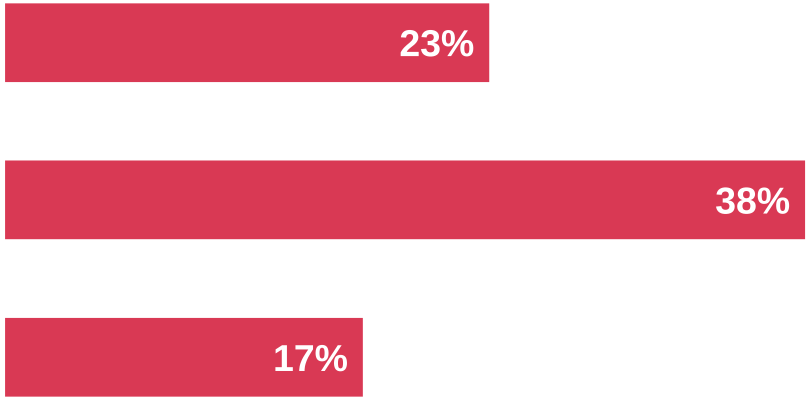
Here's what we're hearing on ESG

In our recent Pulse survey 60% of executives believed ESG and sustainability will be integral to longer-term planning at the end of 2022. However, they don't see it as near a growth driver or priority with only 43% seeing ESG as a very important factor for 2022 growth.

Only 23% of CFOs in the Pulse survey cited enhancing ESG reporting as one of their top 3 priorities

Only 38% of CROs reported that their company's were investing a lot in championing ESG issues.

Only 17% of COOs see reducing their carbon footprint as their biggest operating challenge in 2022.

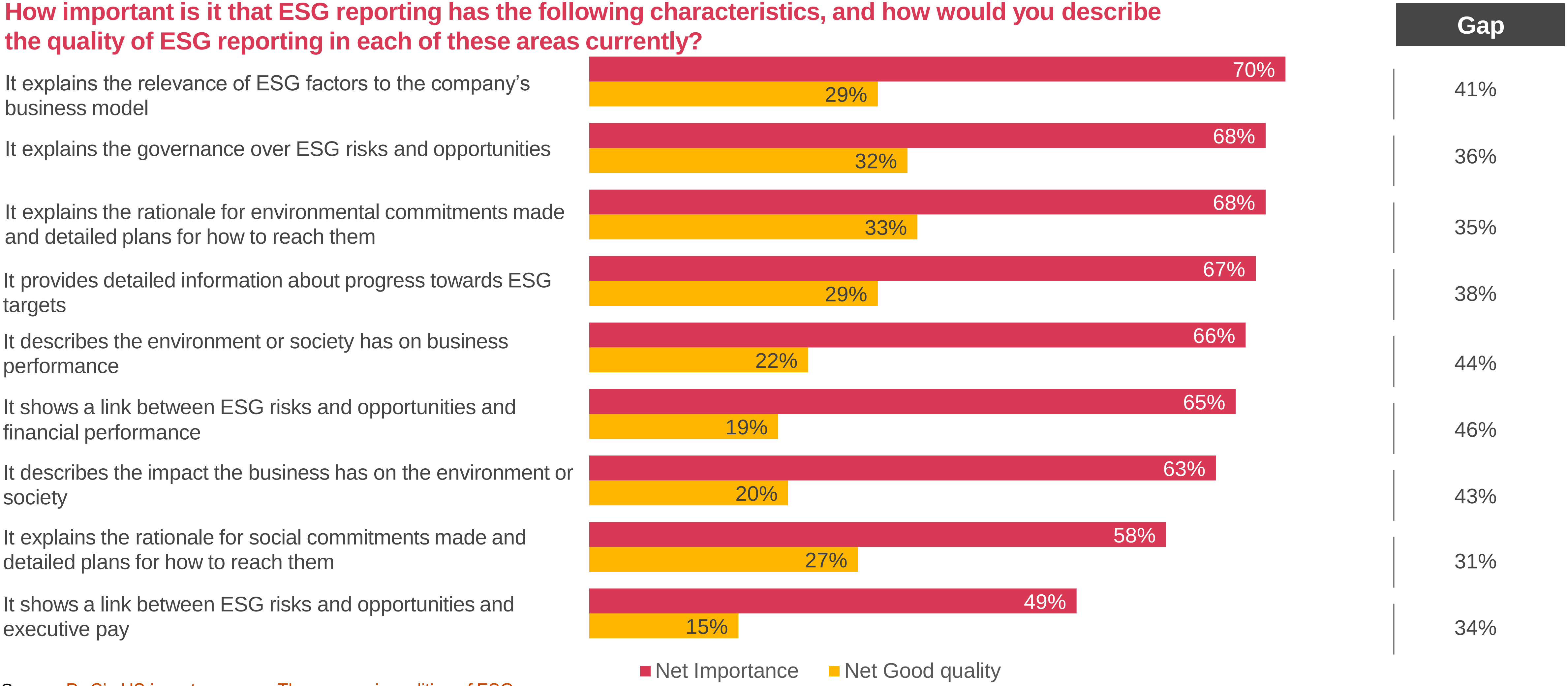


Source: PwC Pulse Survey: CFO and finance leaders

Appendix

PwC ESG US investor survey

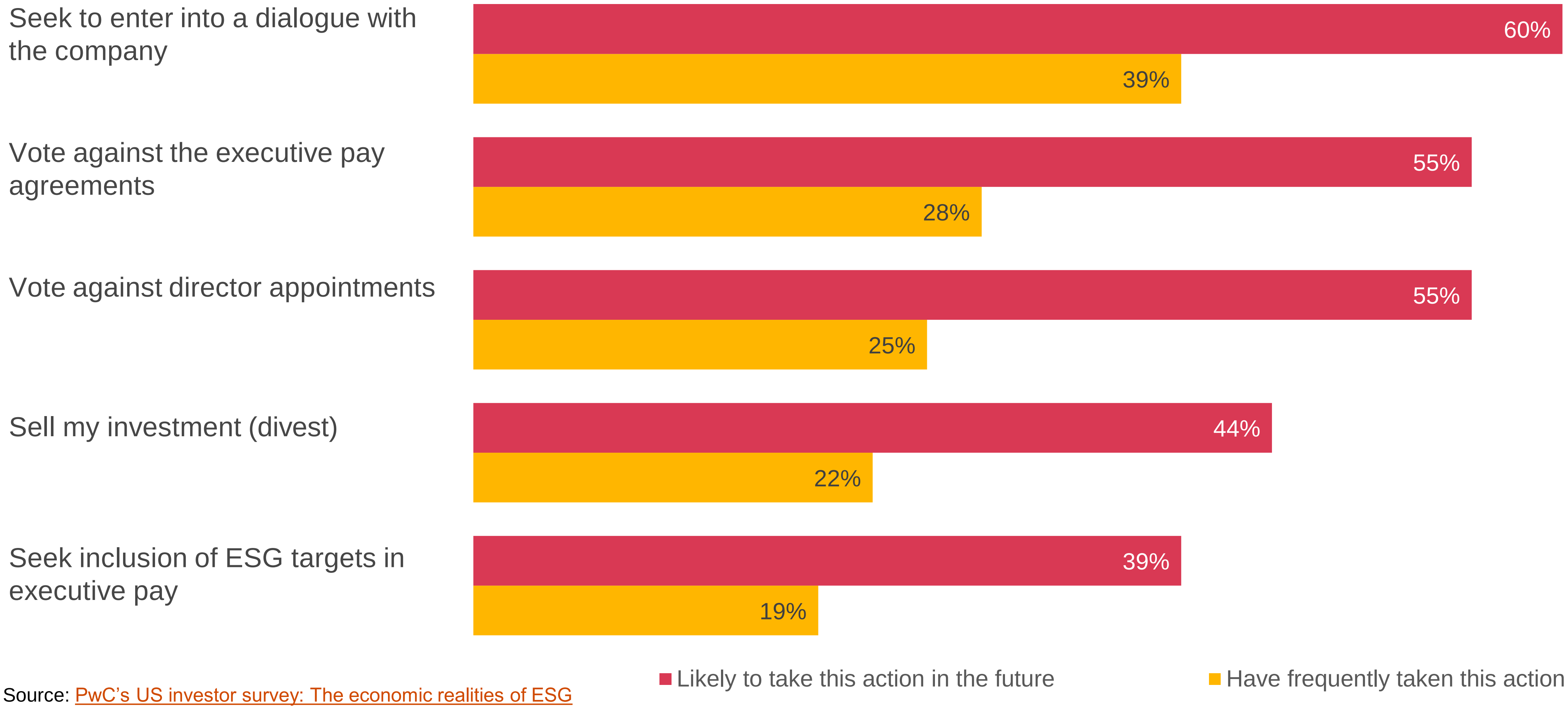
How important is it that ESG reporting has the following characteristics, and how would you describe the quality of ESG reporting in each of these areas currently?



Source: PwC's US investor survey: The economic realities of ESG

PwC ESG US investor survey

US investors will take action if they think a company is not doing enough to address ESG issues



Source: [PwC's US investor survey: The economic realities of ESG]

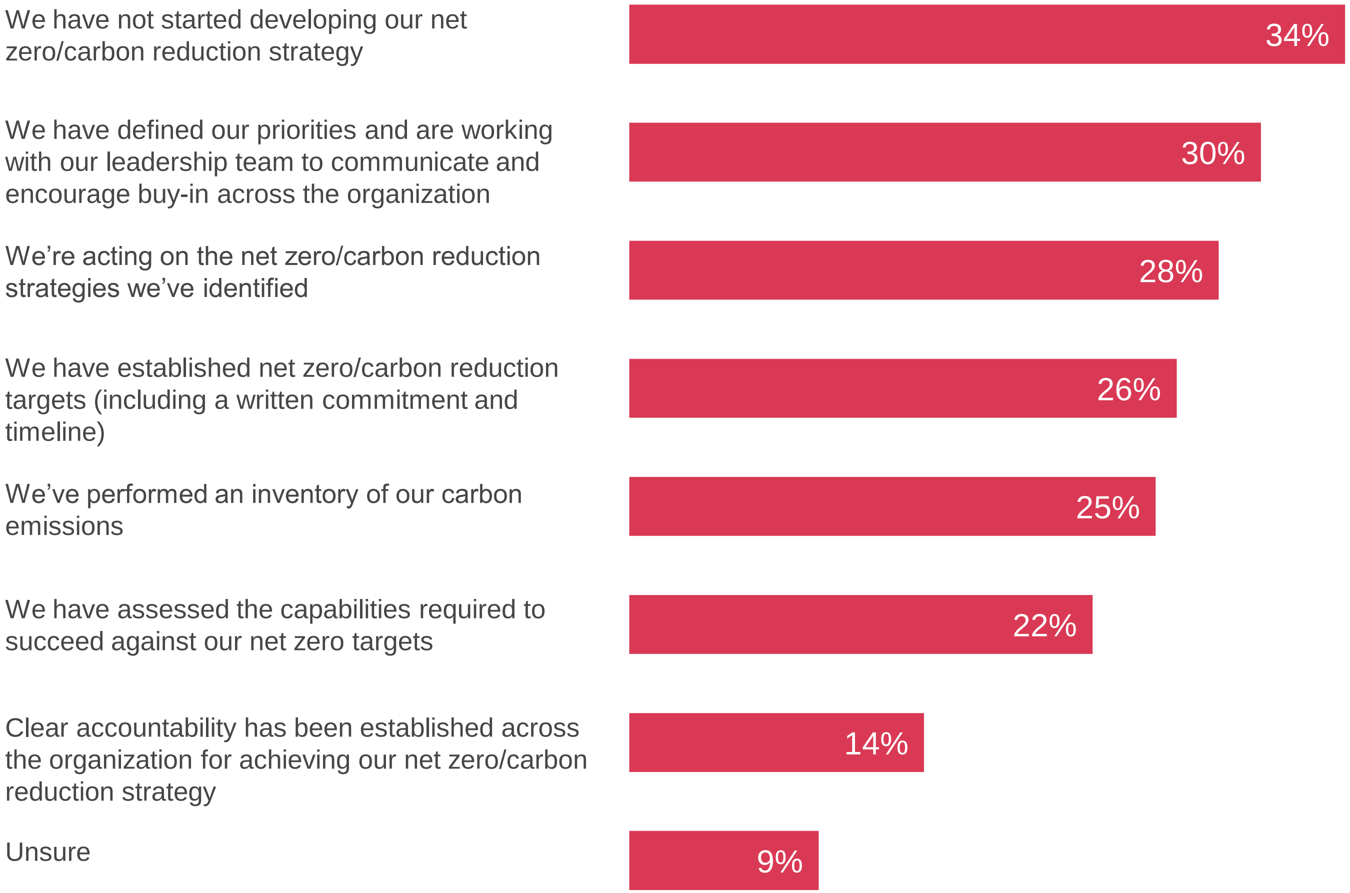
PwC pulse survey

Building momentum on the journey to net zero

While demonstrating measurable progress on ESG issues has become more important than ever to the C-suite, CFOs report that their companies are at mixed stages of operationalizing their ESG plans. A quarter say their organizations have performed an inventory of their carbon emissions and another 30% have set their sustainability priorities, but a third say they haven't started developing their strategy at all.

In fact, only 34% of CFOs said that championing ESG issues is very important to their company's ability to grow this year, compared with 43% of all executives. This disconnect may reflect the competing priorities finance chiefs face as they juggle near-term cost and talent pressures before tackling longer-term strategies like ESG.

CFOs shift into action on ESG



Q: At what stage is your company in its pursuit of a commitment to net zero/reducing carbon emissions?Source: PwC Pulse Survey, January 27, 2022: base of 678, CFO base of 128

Source: PwC Pulse Survey: CFO and finance leaders

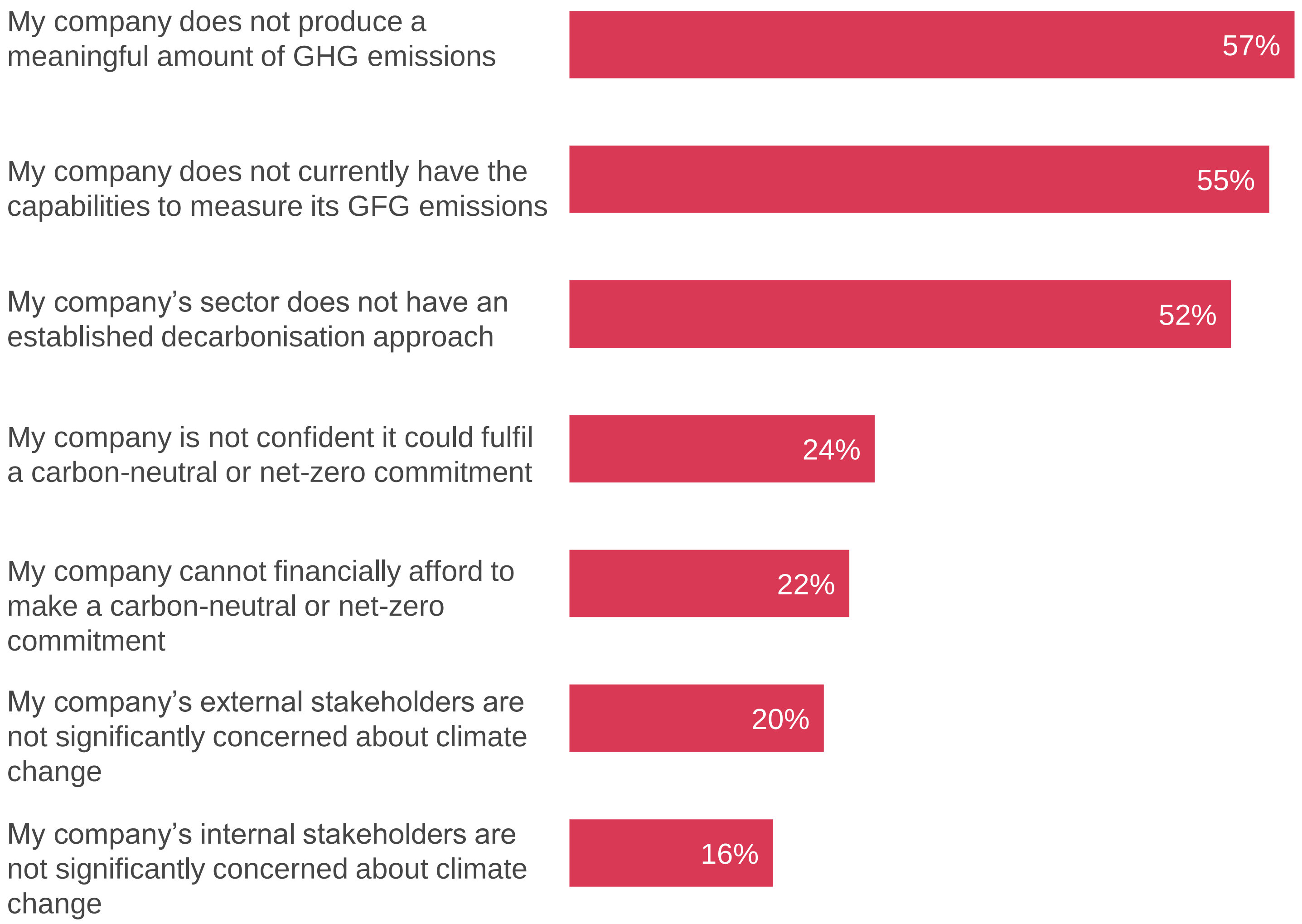
PwC CEO survey

Firms without decarbonisation commitments cite lack of emissions—and capabilities

Q11. How accurate are the following statements regarding why your company has not made a carbon-neutral or net-zero commitment?

(Showing only ‘very’ and ‘extremely accurate’ responses)

Notes:
Base: Those whose company have not made a carbon-neutral or net-zero commitment (1591)



Source: [PwC's 25th Annual Global CEO Survey] pwc.com

© 2022 PwC. All rights reserved. PwC refers to the US member firm or one of its subsidiaries or affiliates, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.