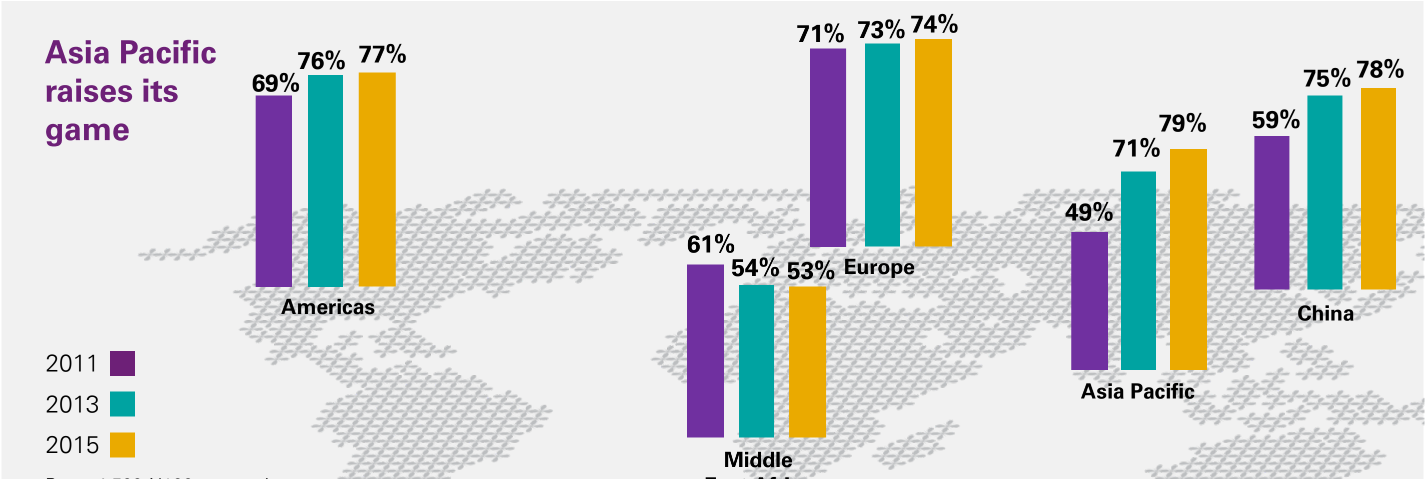
The KPMG Survey of Corporate Responsibility Reporting 2015: Chinese findings

Companies are facing ever-increasing expectations to provide non-financial information. To understand the current state of non-financial reporting worldwide, identify key trends and provide KPMG insights, KPMG have conducted a survey in 2015 analysing corporate responsibility reporting from 4,500 companies across 45 countries. **But what does this mean for companies in China, including Hong Kong?**

78% of China's top 100 companies report on corporate responsibility

Almost three-quarters (73 percent) of the top 100 companies by revenue (N100 companies) in 45 countries – a total of 4,500 companies – now report on corporate responsibility (CR), compared with 71 percent in 2013. More companies (79 percent) report on CR in Asia Pacific than in any other region, followed by the Americas (77 percent) and then Europe (74 percent), according to the ninth edition of the *KPMG Survey of Corporate Responsibility Reporting*.

In line with worldwide trends, 78 percent of N100 companies in China report on CR, increasing from 75 percent in 2013 and 59 percent in 2011.



Base: 4,500 N100 companies
Source: KPMG Survey of Corporate Responsibility Reporting 2015

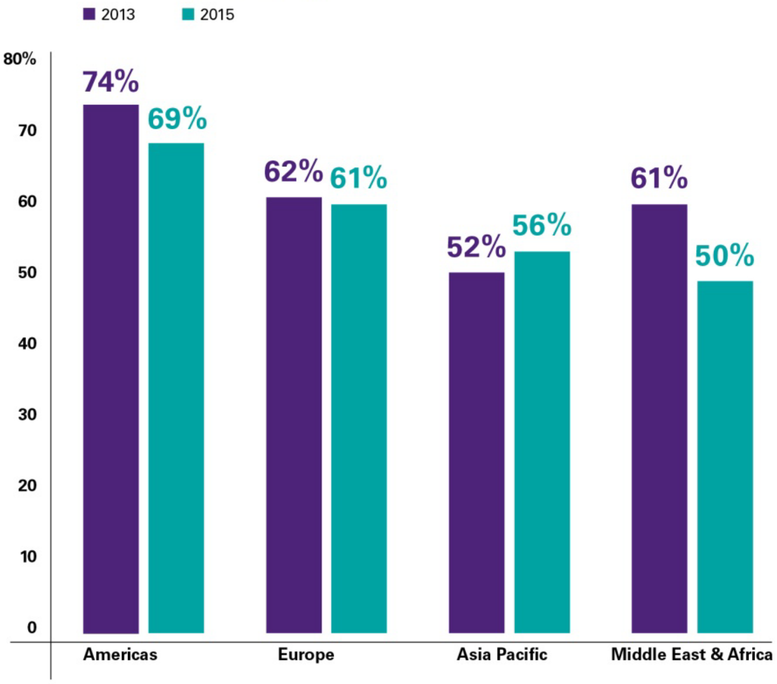
© 2015 KPMG Huazhen LLP — a People's Republic of China partnership, KPMG Advisory (China) Limited — a wholly foreign owned enterprise in China, and KPMG — a Hong Kong partnership, are member firms of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in Hong Kong.

Global Reporting Initiative remains the most popular

KPMG's research shows that the Global Reporting Initiative (GRI) remains the most popular voluntary reporting guideline worldwide, with 60 percent of CR reporters in the 45 countries surveyed referencing the GRI. This is similar to the 2013 rate (61percent).

In China, 81 percent of CR reporters made reference to GRI, representing an increase from 75 percent in 2013.

GRI in reports by region



Base: 3,267 N100 companies that report on CR
Source: KPMG Survey of Corporate Responsibility Reporting 2015

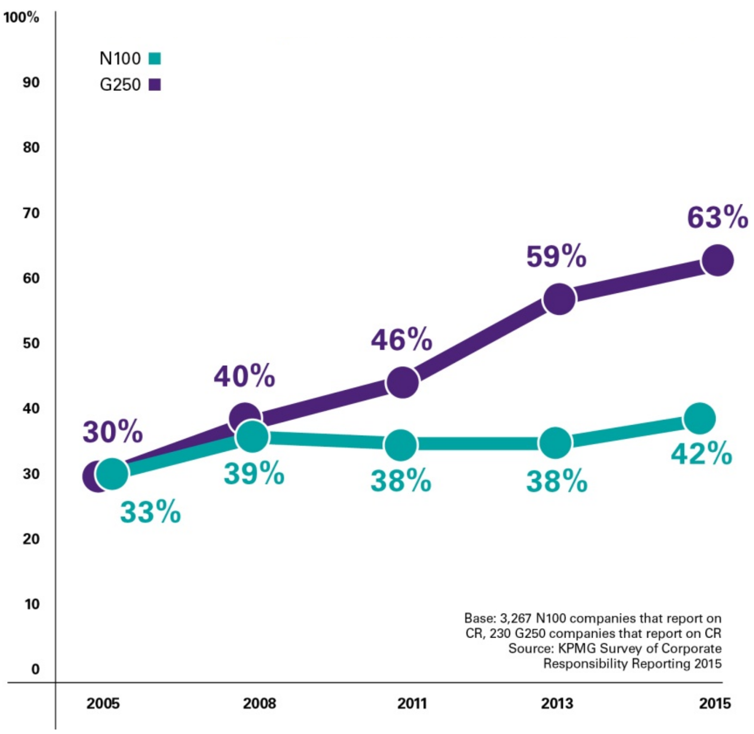
Almost half of China's top 100 companies seek external assurance

Third-party independent assurance of CR information is now firmly established as standard practice among the world's biggest companies, with almost two-thirds (63 percent) of the world's 250 largest companies by revenue (G250) now having their CR information assured. Assurance has also grown among N100 companies worldwide, from 38 percent in 2013 to 42 percent in 2015.

External assurance is voluntary in China. Despite this, almost half of the N100 companies which report on CR (46 percent, or 36 out of 78 companies with CR reporting) seek assurance to obtain credibility with external stakeholders and drive better quality, more reliable CR data, representing a slight increase from 43 percent in 2013. We expect the assurance rate to continue growing as more companies realise the value of assurance. South Korea is a good example, as although assurance is not compulsory in the country, 86 percent of CR reports are assured as companies seek greater credibility for CR information.

Among the G250 and N100 companies worldwide, major accountancy organisations dominate the market for third-party assurance, with 65 percent of companies with external assurance opting to engage these firms. In China, the use of accountancy firms increased by 9 percentage points from 2013.

Growth in independent assurance of CR information



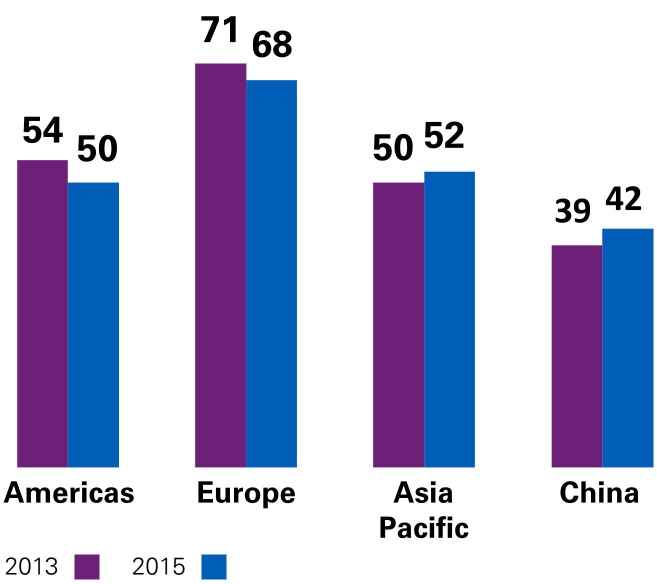
Base: 3,267 N100 companies that report on CR, 230 G250 companies that report on CR
Source: KPMG Survey of Corporate Responsibility Reporting 2015

© 2015 KPMG Huazhen LLP — a People's Republic of China partnership, KPMG Advisory (China) Limited — a wholly foreign owned enterprise in China, and KPMG — a Hong Kong partnership, are member firms of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in Hong Kong.

CR reporting quality in Asia Pacific is improving

For the second time, KPMG analysed the quality of CR reporting among the G250 companies worldwide. The quality of reports have been assessed using seven criteria: (i) stakeholder engagement, (ii) materiality, (iii) risk, opportunity and strategy, (iv) targets and indicators, (v) transparency and balance, (vi) suppliers and value chain, and (vii) corporate responsibility governance. Each G250 company was awarded a score out of a maximum of 100.

Overall quality scores by region - 2013 vs 2015



Base: 230 G250 companies that report on CR
Source: KPMG Survey of Corporate Responsibility Reporting 2015

The survey identifies the following key developments over the intervening two years:

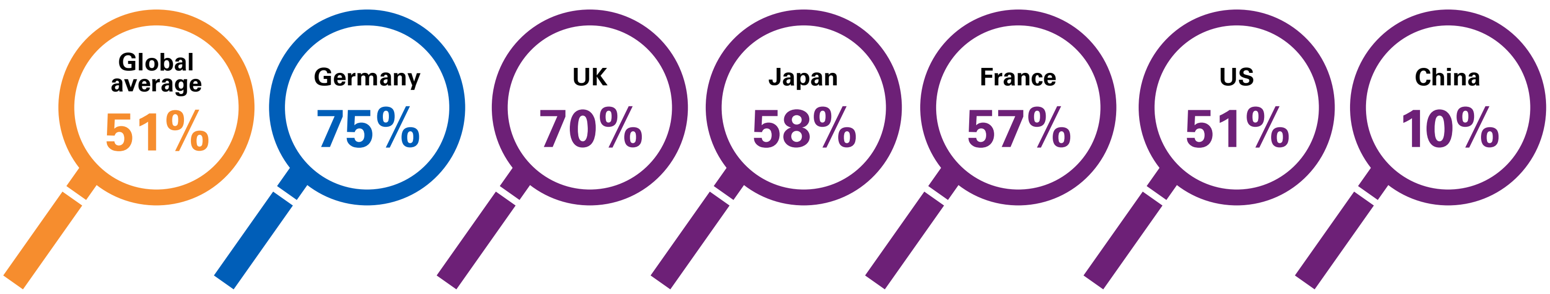
- The quality of CR reporting has improved slightly in Asia Pacific, but declined slightly elsewhere. In particular, more companies in Asia Pacific now clearly identify their stakeholders in their reporting, as well as explain how they engage with those stakeholders and what action they take in response to stakeholders' views.
- Companies are getting better at reporting the environmental and social trends and risks that affect their businesses.
- More companies are reporting that climate change affects their business.

© 2015 KPMG Huazhen LLP — a People's Republic of China partnership, KPMG Advisory (China) Limited — a wholly foreign owned enterprise in China, and KPMG — a Hong Kong partnership, are member firms of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in Hong Kong.

Chinese companies are significantly lagging behind in carbon reporting

Carbon reporting will become a higher priority because companies are facing ever-increasing expectations to provide clear, consistent and transparent information on their carbon emissions and the action they are taking to reduce these. In recognition of this trend, KPMG has analysed carbon information published by the G250 companies for the first time this year. The quality of carbon reporting has been assessed with reference to materiality and data, targets and performance, and communication. Each G250 company was awarded a score out of a maximum of 100.

Quality of carbon reporting

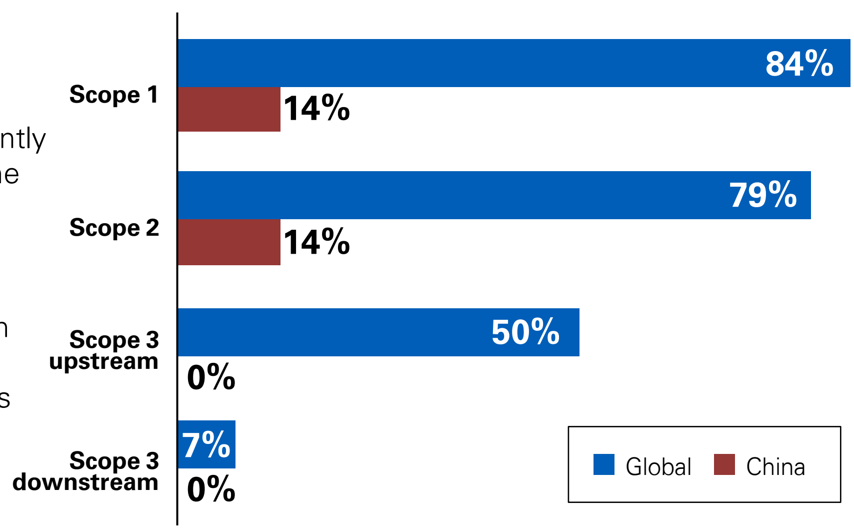


Base: G250 companies that report on carbon
Source: KPMG Survey of Corporate Responsibility Reporting 2015

The G250 companies include 39 companies in China. Those Chinese companies have significantly lower scores, at an average of 10 out of 100. The low rate is primarily attributable to the following deficiencies in carbon reporting:

- Far fewer Chinese G250 companies report on direct emissions (Scope 1) and emissions from purchased electricity (Scope 2) than the global average. None of the Chinese carbon reporters report on emissions in supply chain (Scope 3 upstream) or the carbon impact of using or disposing of products and services (Scope 3 downstream).

Emission scopes reported (Global average vs China)

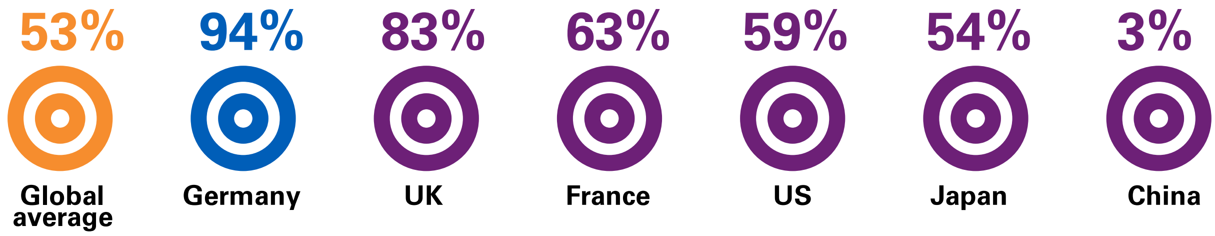


Base: 205 G250 companies that report on carbon
Source: KPMG Survey of Corporate Responsibility Reporting 2015

© 2015 KPMG Huazhen LLP — a People's Republic of China partnership, KPMG Advisory (China) Limited — a wholly foreign owned enterprise in China, and KPMG — a Hong Kong partnership, are member firms of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in Hong Kong.

- Only 3 percent of Chinese G250 companies have targets to reduce carbon emissions, compared with the global average of 53 percent. In comparison, the vast majority of companies in Germany (94 percent) and the UK (83 percent) have already set these goals.

Publishing of carbon targets

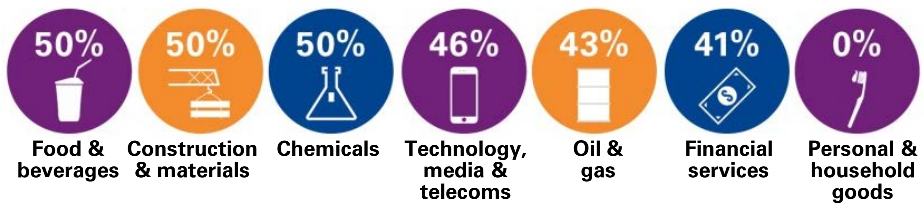


Base: All G250 companies
Source: KPMG Survey of Corporate Responsibility Reporting 2015

- Only 23 percent of Chinese G250 carbon reporters explain how the business benefits from reducing carbon emissions, whereas the global average stood at 51 percent. This might imply that Chinese companies do not realise the benefits of reducing carbon emissions. Globally, 25 percent of the G250 carbon reporters cited cost reductions as a benefit, 20 percent cited improved efficiency and 15 percent cited improved innovation.

Companies reporting benefits of carbon reduction activities by sector

Base: 205 G250 companies that report on carbon
Source: KPMG Survey of Corporate Responsibility Reporting 2015



The trend of carbon reporting and its implications for Chinese companies

As a developing country and the world's largest carbon emitter, China is committed to limiting its carbon emissions. These emissions will peak latest by 2030, and China has targeted cutting 60-65 percent of its carbon intensity (emissions per unit of GDP) in 2030 compared to 2005. Moreover, 20 percent of energy will come from non-fossil fuel sources within the next 15 years. China will also introduce a carbon trading system in 2017.

China has issued its first national standards for accounting and reporting greenhouse gas emissions in 10 key industries, including power generation, steel, chemical engineering and cement. As a result, it is expected that high-carbon activities will be more costly, and businesses will likely face tighter regulations, carbon pricing and more stringent targets for emissions cutting. The Chinese G250 companies' poor carbon reporting score implies that they have significant work to do to get ready for the more stringent carbon emissions and reporting requirements.

On the other hand, there will also be opportunities. For example, companies can identify growth strategies by developing low-carbon products in anticipation of customers' changing needs and appetites. In addition, green bonds have emerged as a new form of financing and become an increasingly attractive mechanism to raise fund for green projects, e.g. renewable energy projects. Given these developments, we expect that the case for becoming a low-carbon business will be stronger than ever, so companies will need to position themselves to profit from the growth of a low-carbon, sustainable economy.

© 2015 KPMG Huazhen LLP — a People's Republic of China partnership, KPMG Advisory (China) Limited — a wholly foreign owned enterprise in China, and KPMG — a Hong Kong partnership, are member firms of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in Hong Kong.

About the survey

KPMG's global survey on corporate responsibility reporting is one of the most comprehensive reports, providing a definitive snapshot of the current global trends in CR reporting. *The KPMG Survey of Corporate Responsibility Reporting 2015* is the ninth edition, and marks 22 years since the first survey was published in 1993.

This year, the research is more comprehensive than ever, covering the N100 companies across 45 countries – a total of 4,500 companies, including 100 from China. It also continues its qualitative analysis of CR reporting among the G250 companies, including 39 from China. For the first time, the survey also explores the quality of carbon reporting among the G250 companies.

About KPMG's sustainability team

Our Sustainability Services professionals around the world spend over 1 million hours every year helping hundreds of KPMG member firms' clients improve their environmental and social performance. This includes supporting them in measuring, reducing and reporting their carbon emissions.

KPMG also advocates business support for climate action through initiatives like the World Business Council for Sustainable Development. In terms of our own operations, our Global Green Initiative has significantly reduced the amount of energy member firms use and how much KPMG professionals travel. In the process, we have saved millions of dollars.

"With all these developments, it is important that the board reviews corporate strategy to position the company to grow, and at the same time reduce its carbon emissions."

– Maria Cheng, Partner and Head of Business Reporting and Sustainability

Contact us

Hong Kong
Maria Cheng
Partner
T: +852 2978 8153
E: maria.cheng@kpmg.com

Financial Services
Terence Fong
Partner
T: +852 2685 8953
E: terence.fong@kpmg.com

Northern China
Patrick Chu
Partner
T: +86 (10) 8508 5705
E: patrick.chu@kpmg.com

Central China
Brenda Wang
Partner
T: +86 (21) 2212 2468
E: brenda.wang@kpmg.com

Southern China
Anthony Ng
Partner
T: +86 (755) 2547 3318
E: anthony.ng@kpmg.com

kpmg.com/cn

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2015 KPMG Huazhen LLP — a People's Republic of China partnership, KPMG Advisory (China) Limited — a wholly foreign owned enterprise in China, and KPMG — a Hong Kong partnership, are member firms of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in Hong Kong. The KPMG name and logo are registered trademarks or trademarks of KPMG International.