

UNCLASSIFIED (PUBLIC)

INTEGRATED CONTROLLING

ESG REPORTING AT DEUTSCHE POST DHL GROUP

CPD Lecture, March 4, 2022

Dr. Klaus Hufschlag

**SVP CREST Finance Business Intelligence & Analytics,
Head of Department „ESG Reporting & Controlling“**

**Deutsche Post DHL
Group**

Who we are: A Global Company with a Unique Portfolio

Germany's No. 1 mail and parcel provider



Global E-Commerce enabler



Deutsche Post DHL
Group

No. 1 in international express delivery



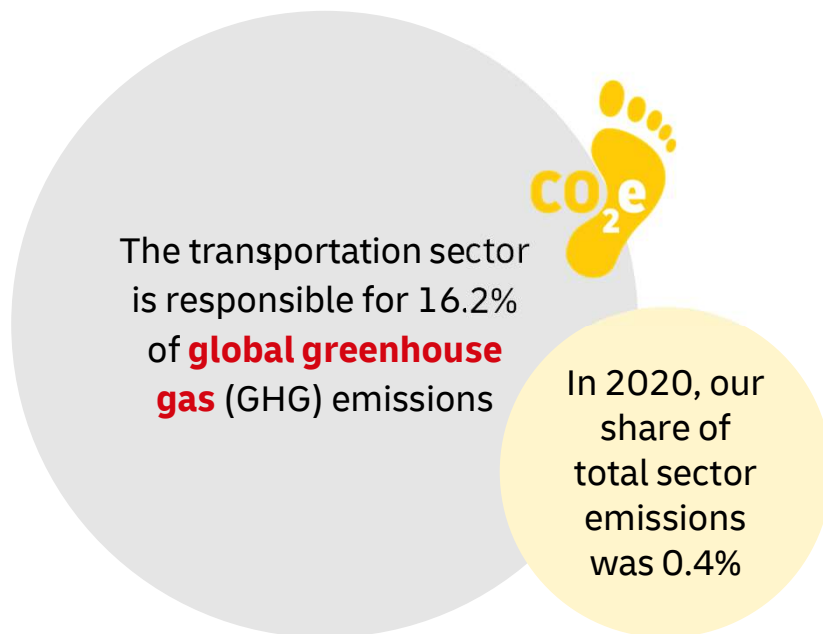
Leader in the forwarding business



No. 1 in contract logistics



Our Sustainability agenda is derived from **who we are and what we do**



Source: Climate Watch, WRI (2020)





Our Sustainability Roadmap: Targets along 3 core commitments

CONNECTING PEOPLE, IMPROVING LIVES

Clean operations for climate protection



- Reduce emissions to <29m tonnes CO₂e by 2030 (SBTi); no offsetting included
- Supported by targets on sustainable fuel, electrification and carbon neutral design
- Mission 2050: Zero emissions

Great company to work for all



- Consistent >80% score on Employee Engagement in employee opinion survey (EOS)
- Reduce LTIFR to <3.1 by 2025
- Increase share of women in management to 30% by 2025

Highly trusted company



- ESG roadmap supported by stringent internal reporting, training measures and policies
- External reporting in line with core standards
- 30% weight for ESG targets in board annual variable pay

Pledge to **invest 1% of our net profit** each year into creating social impact, for example through our **GO Programs**

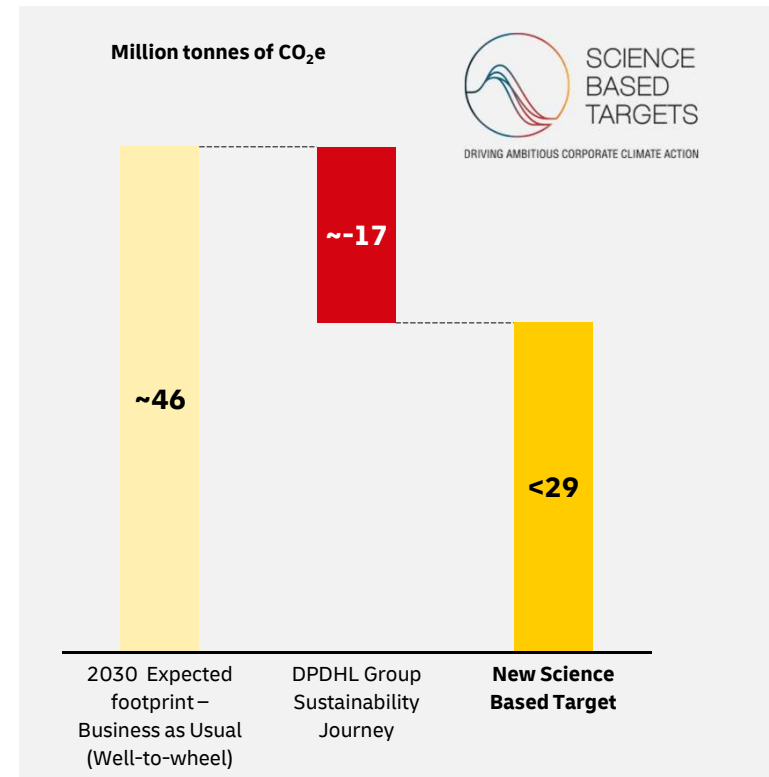
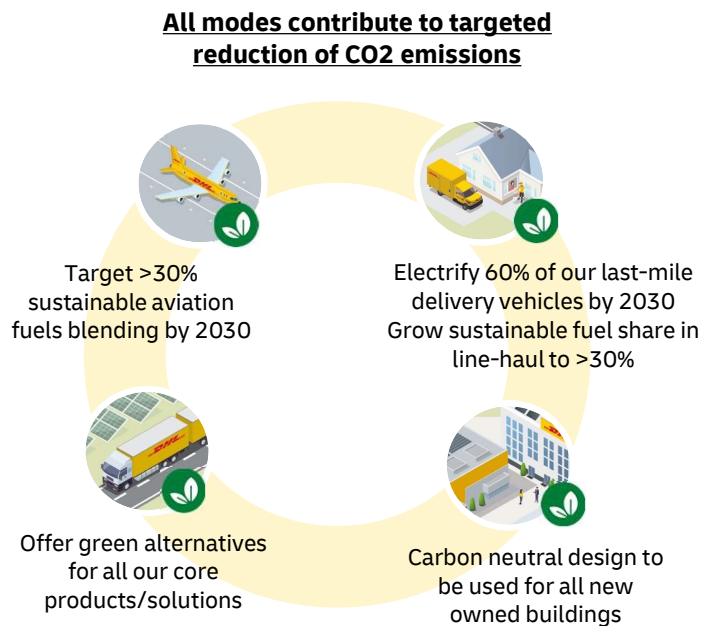
GOGREEN

GOTRADE

GOHELP

GOTEACH

Long-term challenging commitment: Reduction of greenhouse gas (GHG) emissions to under 29m tonnes CO₂e by 2030



Background:

What is a ,Science-Based Target' ?

- ,Science-Based Targets Initiative' (SBTi) is a cooperation of United Nations Global Compact, World Resource Institute (WRI), CDP and World Wide Fund for Nature (WWF)
- Supports companies defining targets compliant to Paris agreement's 1.5°C decarbonisation target
- Goals are derived starting from today's emissions, service volumes and sector specific decarbonization pathways

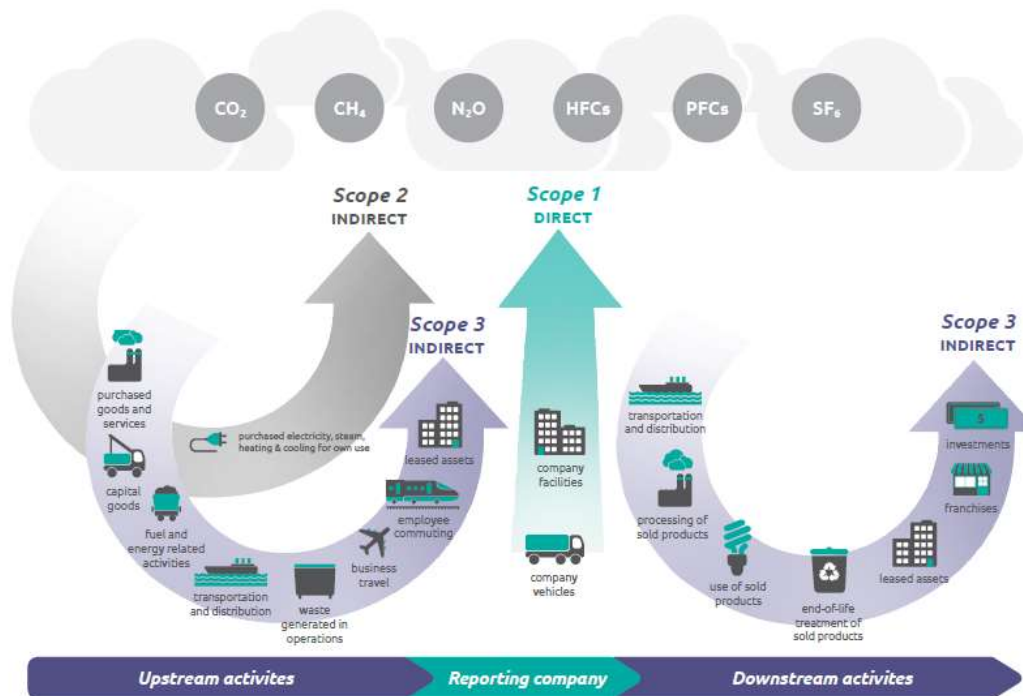


<https://sciencebasedtargets.org/>

HOW TO CALCULATE CO₂?

THE CARBON ACCOUNTING CHALLENGE

Greenhouse Gas Protocol: Reporting Emissions along the Value Chain



Source: WRI/WBCSD (2013): Corporate Value Chain (Scope 3) Accounting and Reporting Standard, p. 37

Examples

Scope 1:

- GHG from own consumption of fossil fuels for vehicles, company cars, aircraft and ships as well as for heating, cooling or powering owned/leased buildings/facilities

Scope 2:

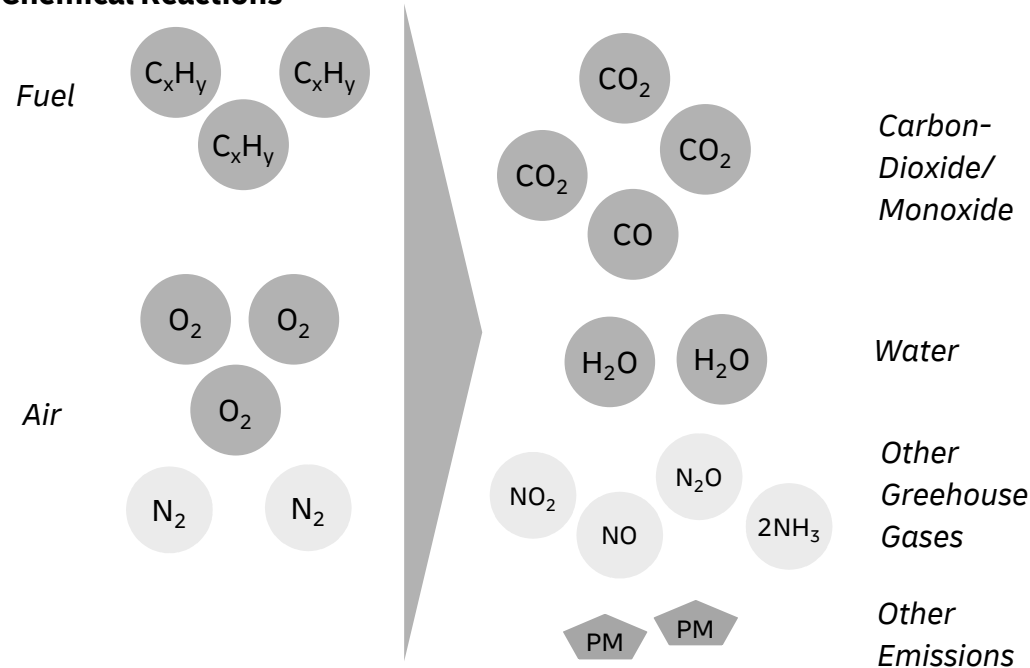
- GHG from electricity bought from external suppliers for all application
- GHG from district heating or cooling

Scope 3:

- GHG from transportation services of business partners (e.g. subcontracted pick up and delivery, purchased air freight, purchased space on container ships, trains, trucks etc.).
- GHG from business travel

Fundamentals: Burning fuels (simplified, for non-chemists)

Chemical Reactions



See also: <https://www.welt.de/motor/news/article147006432/Schadstoffe-im-Autoabgas.html>

DPDHL Group | ESG Reporting & Controlling | CPD Lecture | March 4, 2022

Emission Factors (Exemplaric)

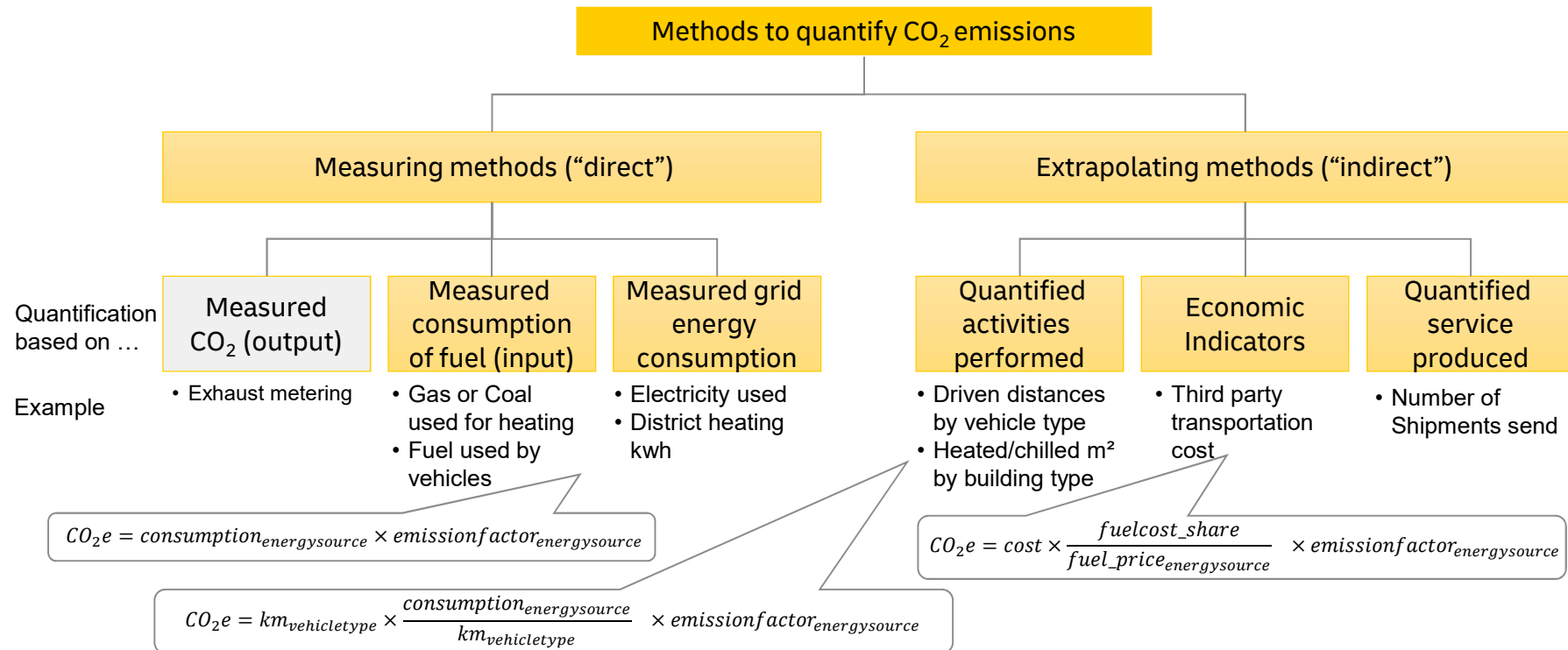
Fuel	UoM	CO ₂ (kg) TTW	oGHG (kg) TTW	CO ₂ e (kg) TTW	CO ₂ e (kg) WTW
Diesel (DE)	l	2,495	0,043	2,538	3,176
Jet Fuel (Kerosine)	kg	3,150	0,027	3,177	3,879
Fuel Oil	l	2,627	0,045	2,672	3,243
Heavy Fuel Oil	l	3,021	0,03	3,051	3,312
Petrol	l	2,362	0,058	2,420	2,877
Natural Gas	kWh	0,202	0,011	0,213	0,237
CNG	kg	2,536	0,144	2,680	3,072
LNG	kg	2,720	0,006	2,726	3,734
Coal	kg	2,485	0,087	2,572	3,000

WTW: Whell-to-Wheel, Emissions incl. Upstream

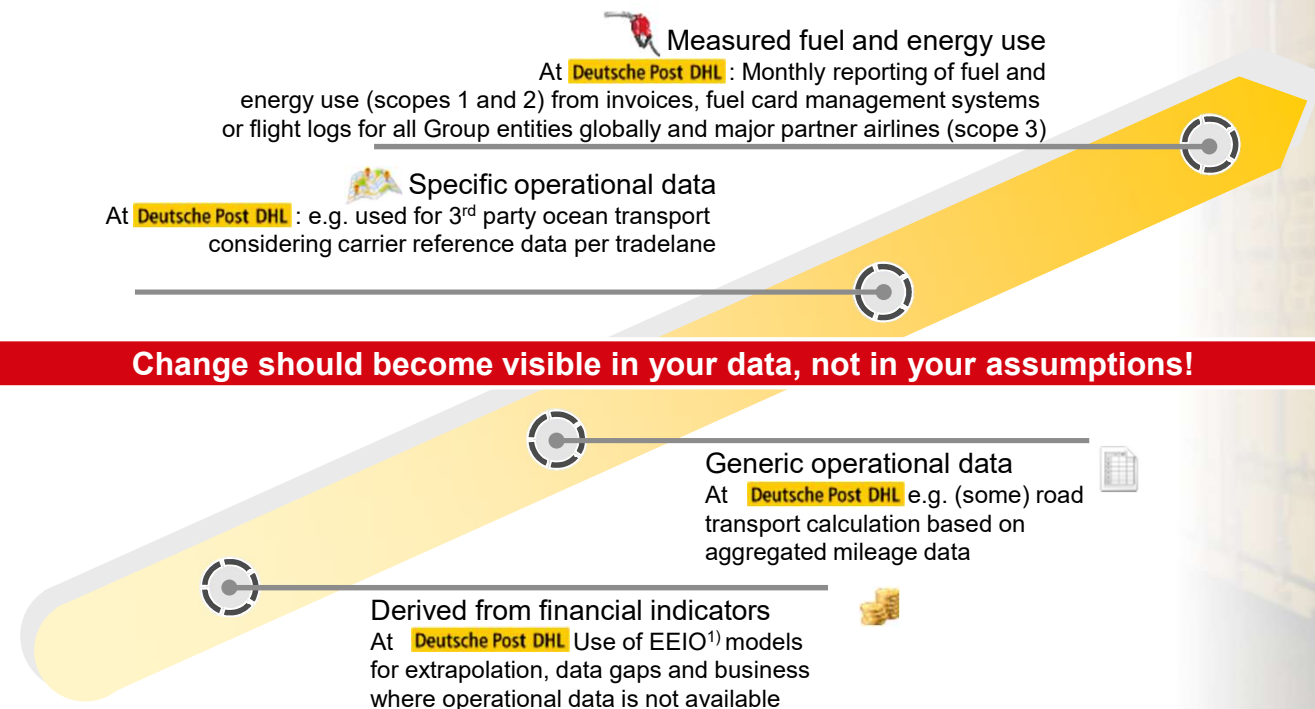
Where to find emission factors:

- Industry-Standards, like GLEC Framework
- International Norms, like EN 16258
- International Energy Agency
- Governmental Authorities, e.g. UK DEFRA

Approaches: Calculation Methods Overview

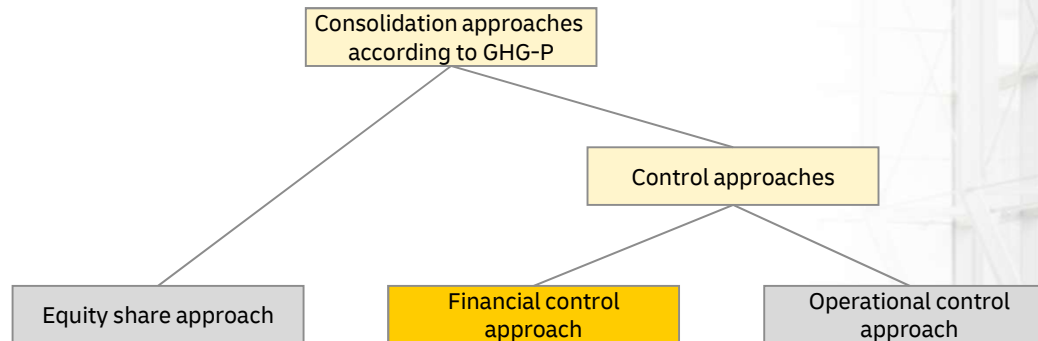


Reporting Strategy: Make sure to measure what you want to manage!



GHG-Protocol: Organizational Boundaries

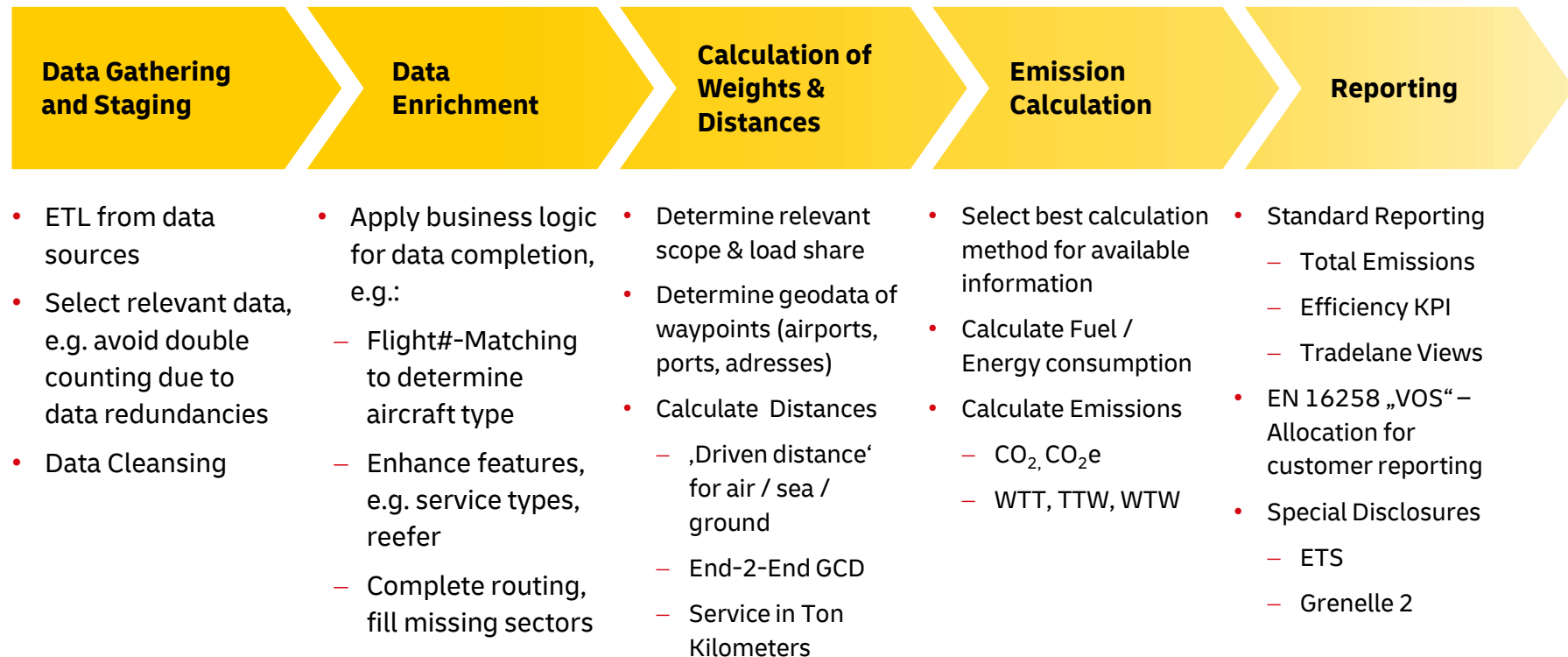
Ensure to align with the boundaries of your financial reporting / scope of consolidation to ensure meaningful KPI relations!



Subsidiaries	Inclusion according to equity share	100 % included	if operationally controlled: 100%, otherwise: 0 %
Joint Ventures		Apportioned inclusion	
Associated companies		No inclusion. (Some emissions may be scope 3 for other group companies)	

Example:

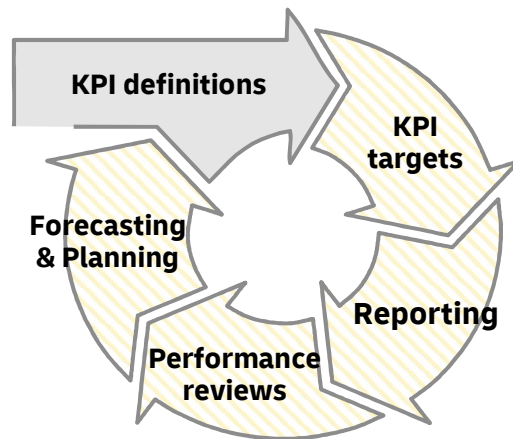
Carbon Calculation Process for Air, Sea & Ground-Transport



CONTROLLING ESG

CONTROLLING EMISSIONS

Steering of Sustainability performance: Guiding principles

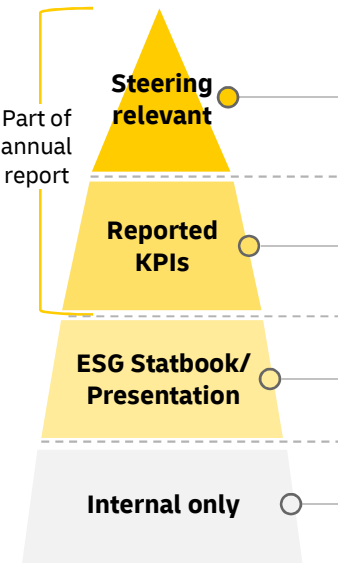


- Meaningful, practical and auditable KPIs
- Partially very long-term challenging commitments translated into feasible operational targets
- ESG targets fully integrated into management remuneration
- Comprehensive Sustainability reporting to all internal and external stakeholders based on high quality of data
- Sustainability included in business reviews at all decision levels with the same high focus as financials
- Strong forward-looking disclosure but monitoring of performance remains important, including investments
- Investment process aiming at highest Sustainability standards in all ESG dimensions
- Consistent approach over time: Are today's sustainable measures also tomorrow's sustainable measures?






ESG Reporting and Disclosure:

KPIs across different documents address different requirements

	Description	Conditions	Implications
 <p>Part of annual report</p> <p>Steering relevant</p>	<ul style="list-style-type: none"> KPIs used for steering of DPDHL Group by Top Management 	<ul style="list-style-type: none"> Paramount business importance "Mgmt. approach" - criterion 	<ul style="list-style-type: none"> Mandatory disclosure of definition, calculation, targets and progress in Mgmt. Report (audit with reasonable assurance) Mandatory tracking in internal reporting and integrated in top management remuneration
Reported KPIs	<ul style="list-style-type: none"> Annual progress on relevant and mandatory topics 	<ul style="list-style-type: none"> Business importance <i>or</i> Legal requirement (e.g. NFRD and Taxonomy) 	<ul style="list-style-type: none"> Reporting changes year-on-year require explanation Audit with reasonable assurance (Mgmt. Report) or with limited assurance (Non-financial Statement)
ESG Statbook/Presentation	<ul style="list-style-type: none"> Addressing requirements of ratings and voluntary standards (esp. GRI) 	<ul style="list-style-type: none"> Materiality analysis (GRI) Targeted communication 	<ul style="list-style-type: none"> Regular external disclosure in ESG Statbook/Presentation in parallel with Annual Report
Internal only	<ul style="list-style-type: none"> Tracking of DPDHL Group relevant internal initiatives 	<ul style="list-style-type: none"> Internal needs and goals of divisions 	<ul style="list-style-type: none"> Currently no external disclosure

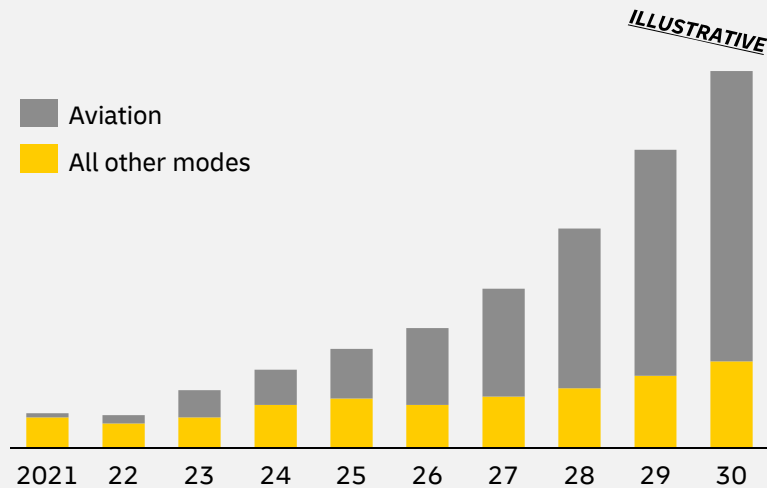
ESG Reporting and Disclosure:

KPI reflect the Goals of our Sustainability Roadmap

	Environment 	Social 	Governance 
steering relevant	<ul style="list-style-type: none"> Carbon efficiency index Absolute decarbonization target 	<ul style="list-style-type: none"> Employee engagement Lost time incident frequency rate Women in management 	<ul style="list-style-type: none"> Mandatory compliance & data privacy policy trainings coverage
reported KPIs (add. ~40 KPIs)	<p><i>examples</i></p> <ul style="list-style-type: none"> Absolute energy consumption of fleet and facilities Share of “green” electricity Electric delivery vehicles EU taxonomy (Capex, Opex, Revenue) 	<ul style="list-style-type: none"> FTE & headcount Staff cost Number of countries within Human Rights reviews Gender pay equality (<i>qualitative</i>) 	<ul style="list-style-type: none"> Information security awareness training coverage Number of internal audits Data protection (<i>qualitative</i>) Risk Management (<i>qualitative</i>)
	We offer sustainable products to our customers through clean operations to achieve the goal of net zero emissions by 2050	We take action to provide a safe, inclusive and engaging working environment for all our employees	We take action to ensure trusted, transparent and compliant business practices in all communities we operate in







Our Sustainability Roadmap: Tracking the Investment

Investment of €7 billion in Clean Operations until 2030
to reduce emissions to under 29m tonnes CO₂e



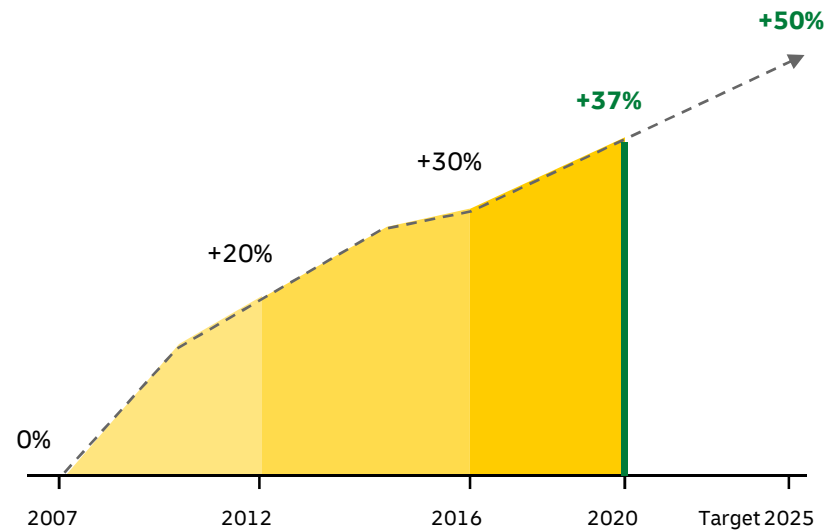
Calculation of incremental CAPEX/OPEX for de-carbonization measures



 Sustainable fuels (OPEX)	<ul style="list-style-type: none"> Sustainable aviation / maritime fuel Bio diesel 	-	 Conventional fuels (OPEX)	<ul style="list-style-type: none"> Kerosene Petrol
 Zero / low emission vehicles (CAPEX)	<ul style="list-style-type: none"> Fully electric Charging infrastructure 	-	 Conventional vehicles (CAPEX)	<ul style="list-style-type: none"> Cars, vans Trucks
 Sustainable real estate (CAPEX, OPEX)	<ul style="list-style-type: none"> Carbon neutral facilities Green power 	-	 Baseline real estate (CAPEX, OPEX)	<ul style="list-style-type: none"> Legal standard building

Planning & Forecasting: Connecting the dots

CEX (Carbon Efficiency Index):



DPDHL Group Target
2025: 50 ip improvement
compared to 2007 baseline

Figures Source: DPDHL ESG Presentation

DPDHL Group | ESG Reporting & Controlling | CPD Lecture | March 4, 2022

- Reliable capturing of actual baseline
- Modelling of roadmap scenarios
- Detailed planning of abatement measures
- Definition of annual targets for all related KPIs
- What do the measures cost? (link to financials)

CONFLICT:
Growth versus Emission Reduction



Decision Making (1/2): Strengthening of ESG components in investment evaluation

Financial Criteria and Risk Assessment

- **Financial**
 - NPV
 - Payback
 - Return on Capital Employed
 - EBIT/EBIT margin
- **Risk quantification**

Investment Decision and Monitoring

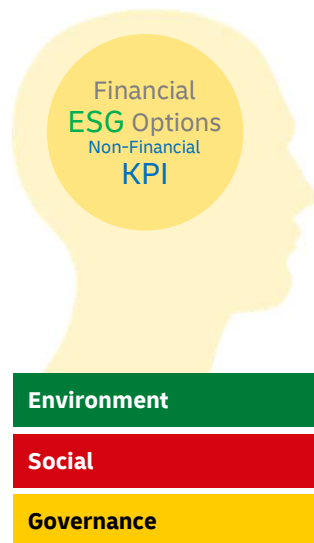
Steering relevant KPIs



ESG Assessment

- **Environment**
 - High compulsory standards
 - Options and advanced levers
- **Social**
 - High minimum standards
 - Extraordinary aspects
- **Governance**
 - Compliance
 - Supplier code of conduct

Decision Making (2/2): An enhanced role for Controlling



- Align investment proposal with strategic ESG targets and planning
- Create transparency and analyze, challenge and assess financial and non-financial aspects of a business case application by using comparable KPIs
- Assess options of different environmental alternatives to allocate resources based on a balanced mix of best financial and best non-financial returns (benefit-effort-analysis)
- Coordinate with advisory units (e.g. Real Estate, Procurement, Legal) and divisions to set minimum standards for all three dimensions of ESG
- Provide training material and manuals to ensure high business case quality
- Share best practices and lessons learned across the organization
- Monitor financial and non-financial KPIs and re-submit business cases also if ESG KPIs will not be achieved



Sustainability Controlling: Reporting, Management and Decision Making



ESG KPIs enhancement & integration

- Full transparency on ESG KPIs based on core financial consolidation system
- Audit of ESG related quality controls down to local entities
- Inclusion of ESG KPIs into management reporting



ESG performance review

- ESG performance reviews on corporate, divisional and local level, including implementation of performance measures
- Planning of ESG KPIs integrated into standard planning process



ESG in investment evaluation & risk reporting

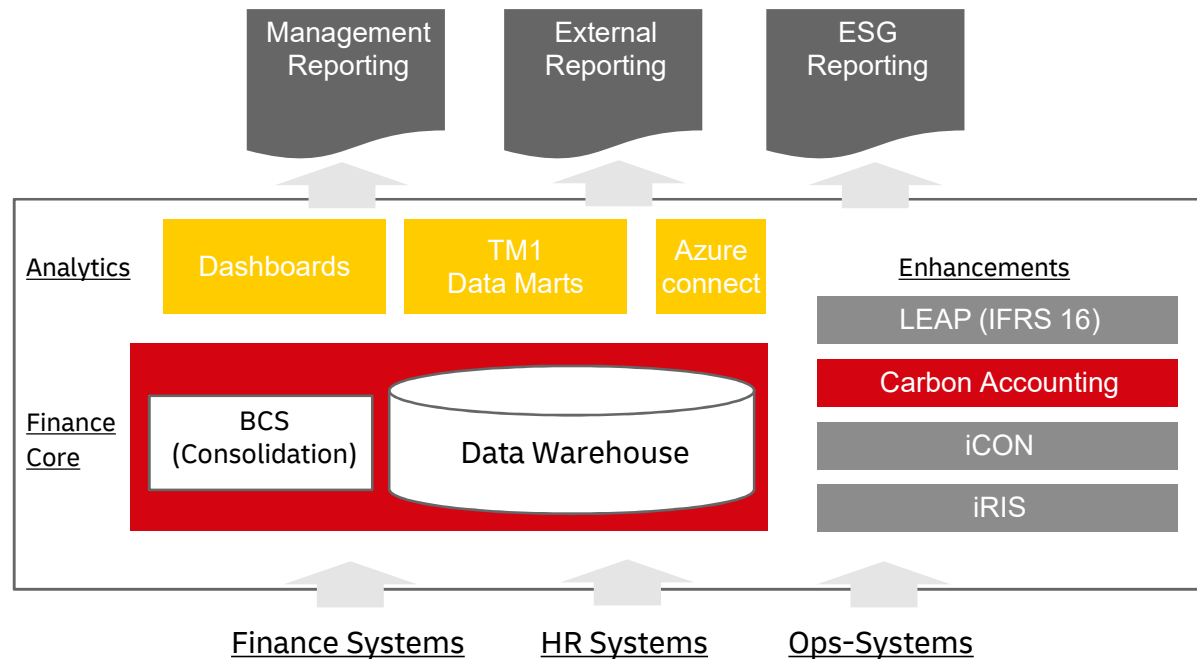
- Strengthening of ESG components in business case evaluation and monitoring
- Reflection of ESG risks and opportunities in DPDHL risk reporting

INTEGRATED @ FINANCE

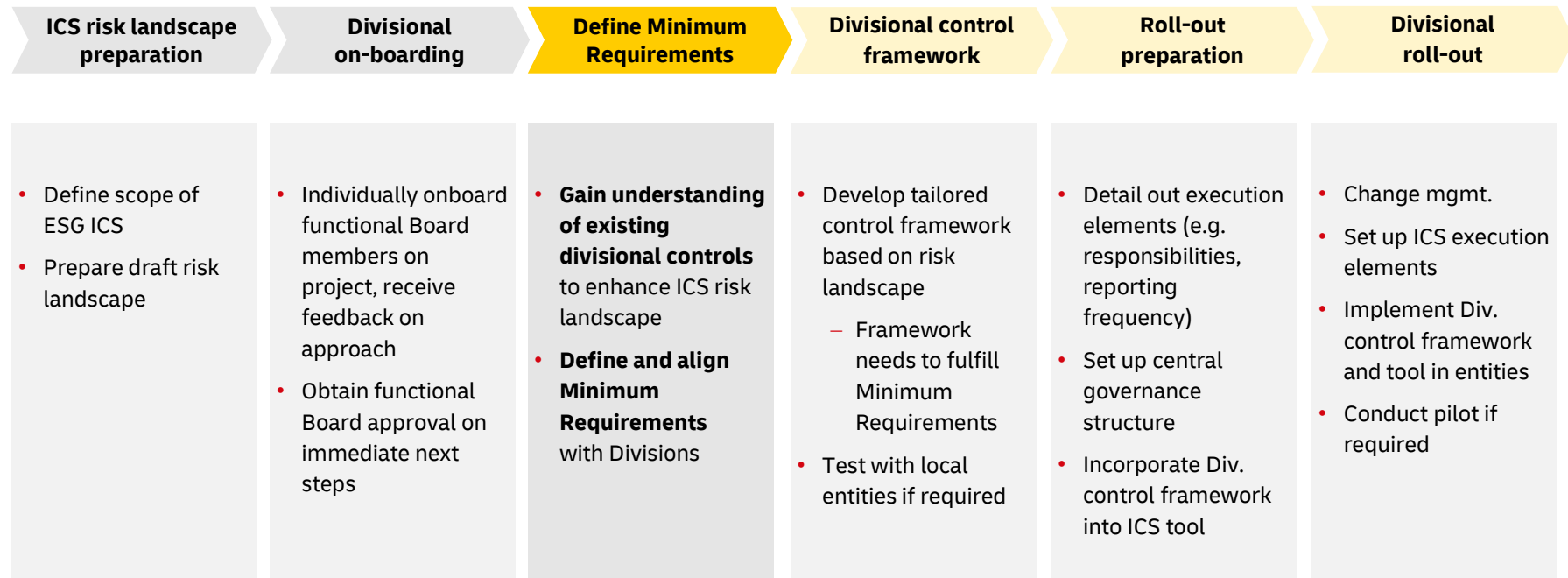
INTEGRATED SOLUTIONS FOR INTEGRATED REPORTING

CREST, our Integrated Reporting System: Backbone of our Financial and Non-Financial Reporting

- System run by Finance
- „Single source of truth“ for all financials
- Special modules for
 - IFRS 16 (Leasing)
 - Carbon Accounting
 - Internal Controls
 - Risk Reporting
- > 100 Source systems
- large toolset for dashboarding, BI and advanced analytics



Internal Control System: Implementation pathway for ESG Controls



Current Topics:

Main focus areas in the ESG implementation phase

Regulation & Standards	Reporting & Controlling		Commercial	
EU Taxonomy	TCFD Risk Reporting	Data quality and auditability	ESG Steering	Customer Carbon Reporting
Implementation of Taxonomy reporting requirements for 2021 and going forward	Inclusion of TCFD requirements into risk management process and risk reporting	Implementation of new ESG KPI Extension of ICS minimum requirements to ensure data quality and auditability of ESG KPIs	Integration of ESG in decision making, planning and controlling	Digital solution for customer carbon footprint reporting, supporting the sale of green alternatives

EVOLVING LANDSCAPES

CHANGES TO STANDARDS AND THE ROLE OF FINANCE

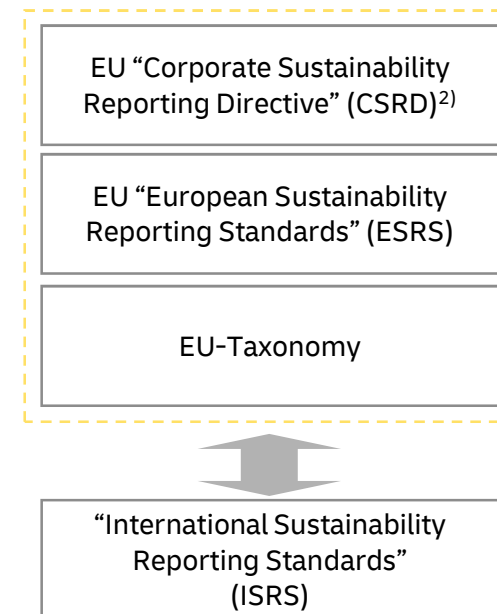
Evolving Standards:

Upcoming EU legislation on sustainability reporting and global standards

Today:

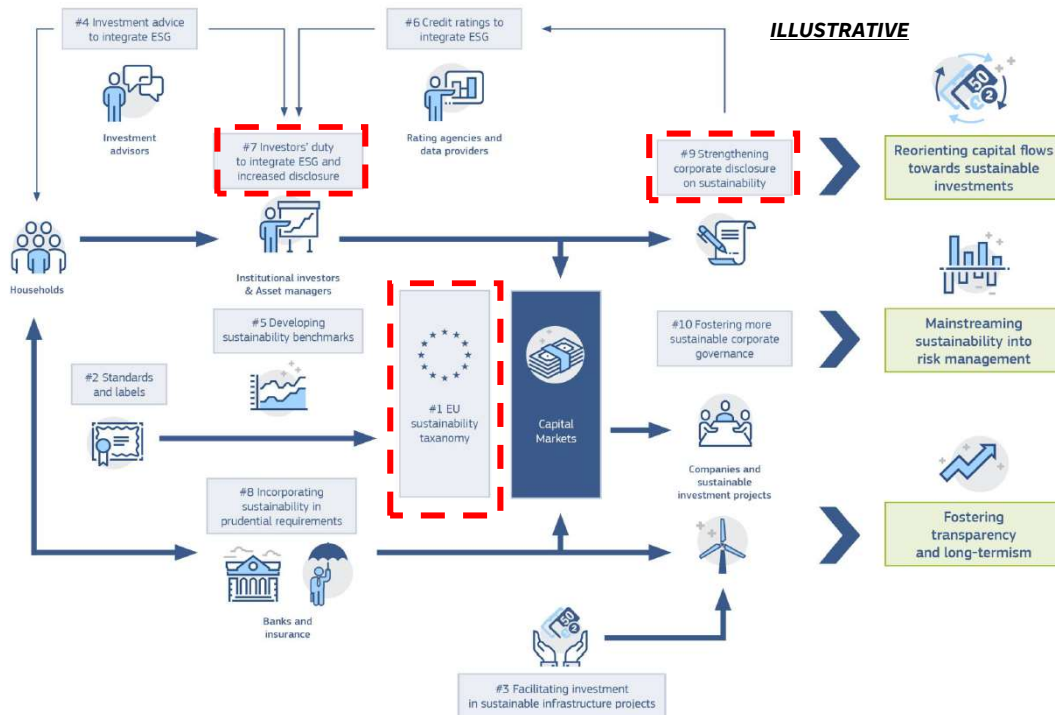


Coming up:



1) Directive 2014/95/EU 2) Commission proposal

Green Deal: EU Sustainable Finance Action Plan



Source: European Commission (2018): Action Plan: Financing Sustainable Growth, Brussels, 8.3.2018 COM(2018) 97 final, Annex IV

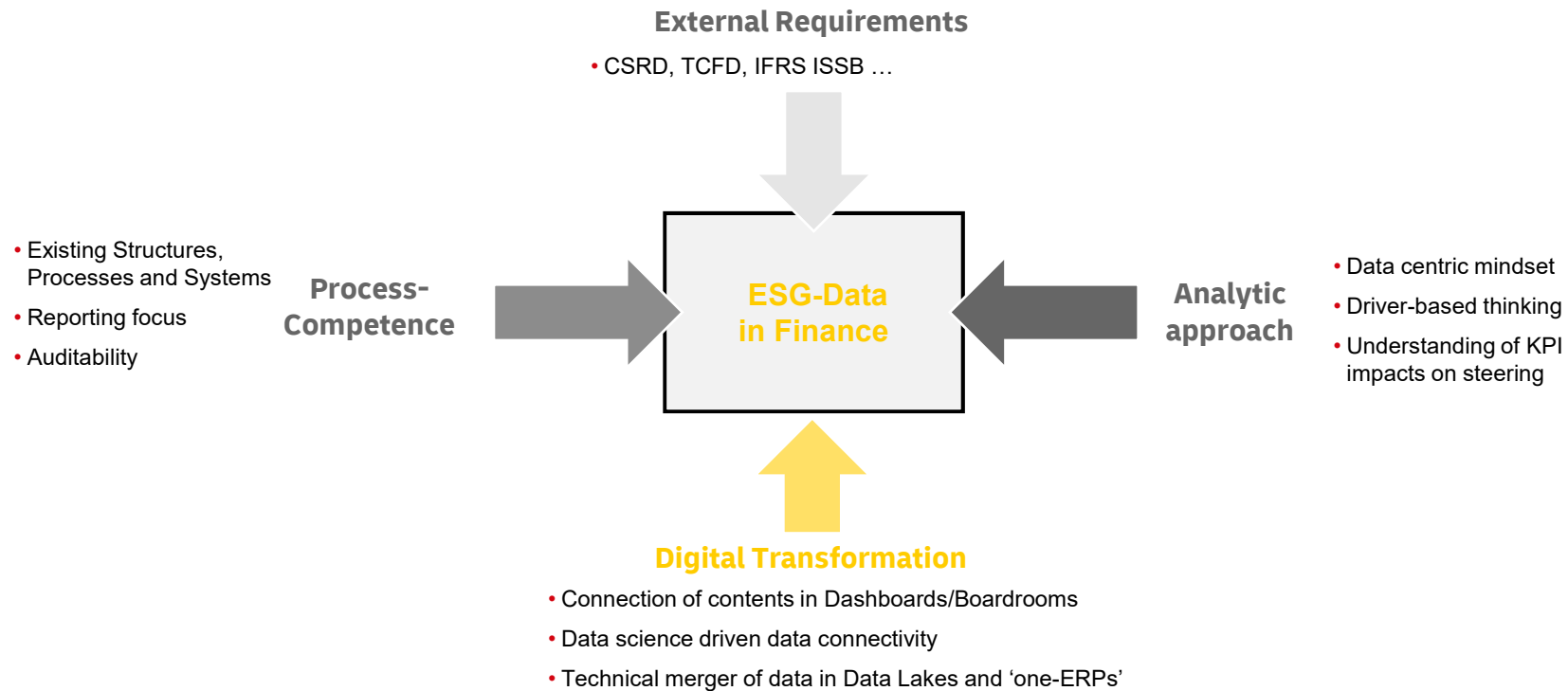
DPDHL Group | ESG Reporting & Controlling | CPD Lecture | March 4, 2022

EU Regulation 2020/852: “Framework to facilitate sustainable investment”

- Taxonomy defines criteria for substantial contribution to one of 6 Targets (w/o harming another):
 - climate change mitigation
 - climate change adaptation
 - the sustainable use and protection of water and marine resources
 - the transition to a circular economy
 - pollution prevention and control
 - the protection and restoration of biodiversity and ecosystems
- Mandatory disclosure of share of Revenue, CapEx, OpEx meeting criteria in Non-financial Statements as of Jan 1, 2022
- Disclosure of share for sustainable finance products

Outlook:

Drivers for ESG Integration in Finance



A DHL cargo plane is parked on a tarmac. In front of the plane is a DHL truck with a worker in a yellow uniform standing next to it. In the background, a large cargo ship is visible, loaded with yellow DHL containers. The sky is blue and the tarmac is dark.

THANK YOU!