Siemens Energy AG

Germany, Engineering

Accounting		Climate Assumptions		Audit		Date of analysis: Feb 19 2021
Judgements	Consistency with other reporting	Visibility	Paris alignment	Visibility in KAMs	Consistency check	Year end: September 2020 Report date: December 7 2020 AGM: February 10 2021
Some concerns	Significant concerns	Significant concerns	Significant concerns	Significant concerns	Some concerns	CA 100+ company, so seen by investors as key to driving global net zero emissions

Summary view:

- The company has significant and ongoing exposures to coal-fired power generation, in spite of a decision not to bid for new contracts. Nowhere is the ongoing exposure, nor possible consequences from scenarios that might require earlier than anticipated decommissioning of such power plants, quantified.
- Investors would welcome greater transparency of this quantification and of climate-related assumptions.

Background

The Business.

- Siemens Energy, recently spun out of engineering giant Siemens, provides power generation technology (mainly gas turbines but also wind turbines), transmission and industrial efficiency technologies.
- It recently decided to cease tendering for contracts to create new purely coal-fired generation nor supply components for them, though it will complete existing commitments (the proportion of coal projects in the €32B generation segment order backlog does not seem to be disclosed anywhere). Its service business to coal power stations will continue.

Approach to climate change.

- Siemens Energy has committed to net zero greenhouse gas emissions from its own operations by 2030. It provides no substance to its associated target of assisting customers towards climate neutrality by 2030 as well, though clearly the reduction in its coal business (which will take some time fully to unwind) will assist in this regard.
- The company's risk disclosures acknowledge that should decarbonisation policies accelerate, the exposure of its power generation business to fossil fuel generation will lead to negative financial impacts. There is no quantification of this.

Accounting: judgements and consistency with other reporting

Accounting judgements		Some concerns

- Applicable standards: IFRS as adopted by EU
- There is no explicit reference to climate change in the notes to the financial statements. It is not apparent that any considerations of climate have been built into the numbers at all.
- There is no clear disclosure of any costs in relation to the decision not to pursue coal-fired power station opportunities in the future; while the terminal value growth rate assumed for the gas and power business overall has been markedly reduced in the year, from 1.7% to 1.3%, there has been no goodwill impairment as a result, perhaps because the expected growth rates in the five-year planning period have been increased.
- The company bases its goodwill expectations on the assumption that it will successfully navigate the rapidly transforming business environment, "in particular for large gas turbines".

Consistency with other reporting		Significant concerns

- Alongside the Annual Report was published both a Sustainability and a Non-financial Report.
- The term climate change appears a dozen times in the Annual Report, though only in narrative reporting, not at all in the financials. The issue is central in other reporting.

- The exit from bidding for new solely coal-fired power is repeated, but the costs of the decision are not clear. The proportion of the €32B order backlog that is coal plants is not disclosed, and nor is coal servicing as a proportion of the overall service revenues.
- TCFD reporting is limited, but discusses scenarios including IEA SDS. No financial implications of any of the scenarios are disclosed.

Climate assumptions: visibility and Paris alignment

Visibility of climate assumptions		Significant concerns

- There are no disclosed assumptions that seem relevant to climate change considerations.
- The sensitivity analyses discussed do not include factors specific to climate change considerations.

Paris alignment		Significant concerns

- With no visibility, there can be no alignment with the goals of the Paris Agreement.

Audit: visibility in KAMs and consistency check

Audit firm: Ernst & Young GmbH	Responsible partner: Thomas Spannagl
Audit standards: German standards, EU Audit Regulation, and ISAs	

Visibility in Key Audit Matters		Significant concerns

- There is no explicit reference to climate change in the auditor's report.
- There are 3 Key Audit Matters discussed: impairment of goodwill and other intangible assets; revenue recognition on construction contracts; and tax including deferred taxes.
- While there is no specific reference to climate change, all three of these KAMs depends to a significant extent on assumptions regarding future revenues and profits from projects, including gas and power projects. There is detailed discussion of the testing of management assumptions and, in the case of goodwill impairment, of sensitivity analysis.
- The multiple references to the use of advice from specialists do not include references to specialists in climate change or CO2 markets.
- There is no discussion of climate change considerations by the Audit Committee.

Consistency check		Some concerns

- Audit covers financial statements and confirms the management report (the narrative report, excluding governance statement) is consistent with them and complies with regulation, including appropriately presenting future opportunities and risks.
- The lack of detail around the implications of climate change for the business in the narrative reporting, and of timelines for phasing out exposure to thermal coal power generation activities, make it difficult to assess whether the financials are fully consistent with statements elsewhere in reporting.
- The Sustainability and Non-financial Reports are both assured by Ernst & Young and signed off by the same lead partner as the audit.

The Climate Accounting Project is an independent investor-led project to reinforce the statements of the IASB and IAASB that material climate change issues are incorporated within their standards. This analysis seeks to understand the extent to which companies and auditors are delivering against this aspect of these standards and similar local standards.		**Key**
		Good practice
		Few concerns
		Some concerns
		Significant concerns

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