VINDELICI ADVISORS

# The end of the Green Guessing Game

## How EU legislation on sustainability reporting supports corporate strategy and success

Vindelici Advisors AG
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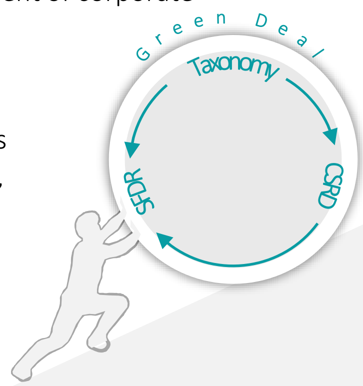
# The Fast-Track to Business Sustainability

## Management Summary

**Profound change is pending**, and companies will have to adapt. Calls for more decisive action, to mitigate climate change and digitalize faster, are growing louder. Accelerating the transformation of our societies and economies. As these issues have moved to the center of public discourse, legislators have started to follow suit.
In 2018, the EU commission passed the "**Green Deal**" putting the ambitious goal of reaching **climate neutrality by 2050** on the top of their agenda. One of the key pillars of the underlying strategy is the **redirection of private capital** into more **sustainable investments,** motivating green innovation and supporting sustainable business. The commission plans to facilitate this shift in investments by imposing strict and thorough reporting standards and requirements on both financial markets and companies.
These standards are designed to allow investors to accurately **compare companies according to their material ESG impact** and therefore base their investment decisions on facts. As a result, companies will be held under close scrutiny and financial market participants will be able to direct their investments precisely to where they will have the most **positive impact**. **Reporting directives lie at the core** of the commission's plans. **Financial institutions** will have to disclose information under the **SFDR** (Sustainable finance disclosure regulation). For **nonfinancial businesses**, disclosures are regulated through the **Nonfinancial Reporting Directive** (NFRD), which will be replaced by the "**Corporate Sustainability Reporting Directive**". The **EU Taxonomy** is a precise tool for the measurement of corporate sustainability. Taxonomy disclosures will make the sustainability of a company's economic activities **quantifiable** and **tangible**.

This **publication** on the topic of **sustainability reporting**, provides an overview of new EU legal requirements. From January 1, 2025 onward, these will affect a large number of businesses both directly and indirectly. With **our approach** we offer the most **efficient way to comply** with new regulations while fostering success sustainably.




## Content



*According to the EU Commission's proposal for CSRD published 21.04.2021*

# Taxonomy – The Green Filter

### What is the EU-Taxonomy?

- A **system** for **classifying** the **sustainability** of **economic activities.**
- A **tool for benchmarking** a businesses' **sustainability** against **industry peers.**
- Taxonomy disclosures will be **mandatory** for **all businesses** obliged to **nonfinancial reporting**. The first relevant reporting period will be the **financial year of 2022.**[1]

### How does the Taxonomy work?

- **Revenues** and **investments** will have to be **attributed** to **economic activities.**
- To be classified as sustainable, an economic activity must **make a significant contribution** to one of the EUs six **climate goals**, **not negatively affect** any **of the other goals**, and **adhere** to **minimum social requirements.**
- **Compliance criteria** are **specific to economic activities** and **defined in Delegated Acts.**
- **Taxonomy alignment** is reached by **satisfying all** three **compliance criteria.**
- **Investors** have **no legal obligation** to **invest** in **taxonomy aligned** economic **activities.**

Affected companies allocate relative **sales** and **capital costs (CAPEX)** and, when applicable, **operating expenses (OPEX)** to economic activities using NACE codes. For the economic activities with the highest emissions or those leading to the **largest CO2 savings**, specific guidelines and indicators define taxonomy compliance. **All other activities cannot be classified**. For an activity to be classified as taxonomy compliant, **three conditions must be met**:

i. There must be a **significant contribution** to one of the **six defined sustainability goals**.
ii. There must be **no significant impairment of the other sustainability goals** as a result.
iii. The activity must comply with the so-called **minimum social requirements** (e.g. UNGP, OECD guidelines) of the taxonomy.

CRITERIA

In effect the Taxonomy functions as a Green Filter for economic activities.

GOALS

- Fighting climate change
- Adaption to climate change
- Transition to a circular economy
- Pollution prevention and control
- Sustainable use and protection of water and marine resources
- Protection and restoration of biodiversity and ecosystems

FOCUS INDUSTRIES

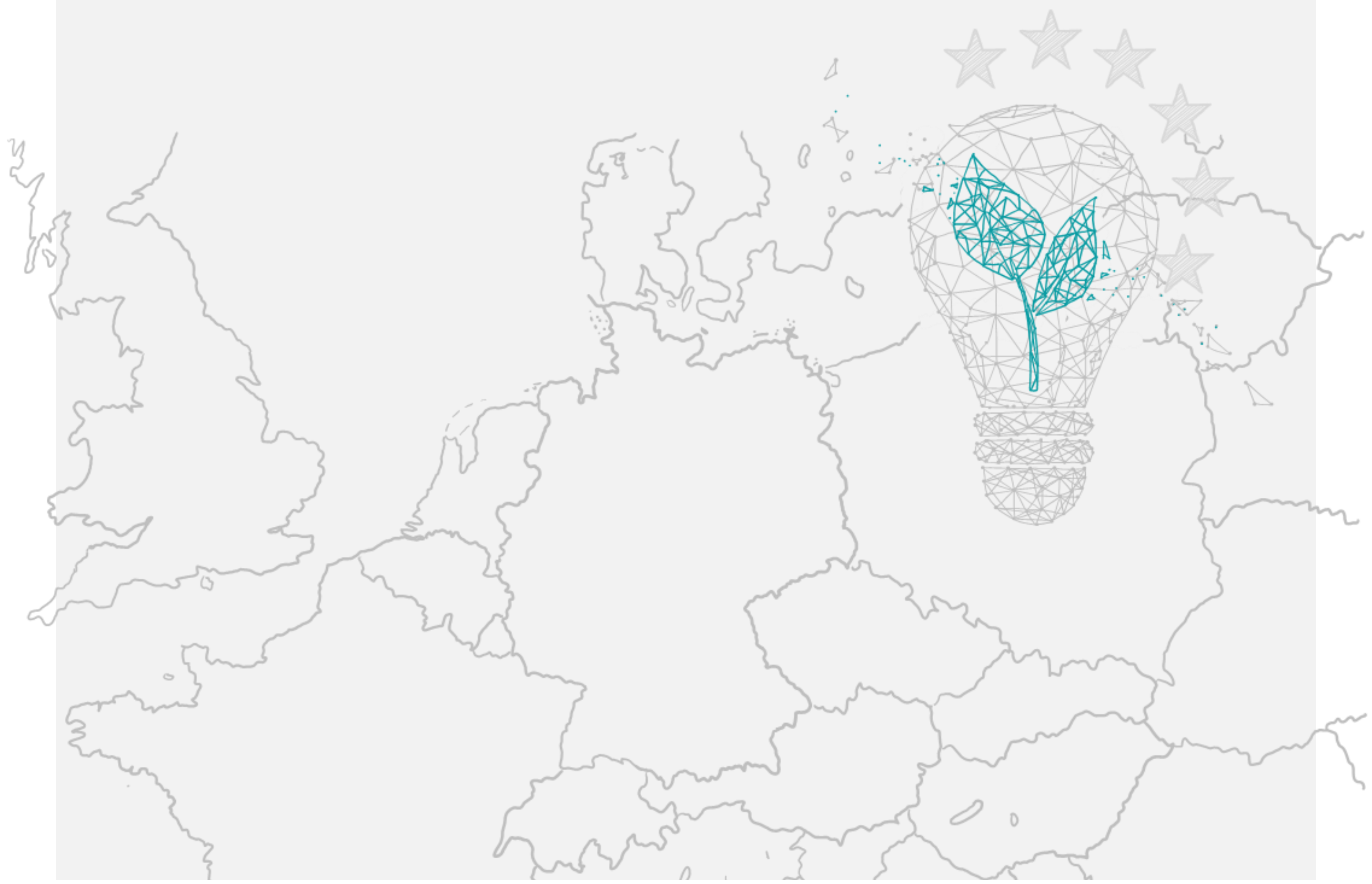
- Manufacturing sector
- Agriculture and forestry
- Energy supply
- Water, sewerage and waste management
- Information and communication technologies
- Facility management

*[1] With the coming into effect of the CSRD, the obligation for non-financial reporting is significantly expanded.*

# Taxonomy – The Green Filter

- The criteria for meeting these conditions are set out in delegated acts for **each activity and sector** and are being continuously expanded. Initially, the focus will be on sectors with particularly high emissions, such as the construction and logistics sectors.
- It should be emphasized that the taxonomy refers to the "**how**" and not the "**what**" of an **economic activity**. Thus, even companies within high-emitting industries can become taxonomy-compliant by reducing their emissions and taking active climate protection initiatives.
- The taxonomy does **not constitute an investment** obligation for capital market participants. Companies whose activities are not taxonomy-relevant should therefore not be directly disadvantaged when it comes to investors. The taxonomy is rather intended to act as a comparative instrument within industries affected by the taxonomy and to ensure that **capital for green transformation is deployed in a targeted manner**.

The taxonomy is set to become the central and holistic "green comparison tool" for the capital market. In the manufacturing sector, mainly companies involved in the **primary production** of **materials** such as plastics or metals are obliged to provide information on taxonomy compliance, while **companies that process these materials are not**. Companies that do not belong to a relevant industry yet or do not generate sales with taxonomy-relevant activities can still achieve taxonomy compliance by investing in "green activities".



# CSRD – Why late starters are ahead

## What is CSRD?

- CSRD is a directive on uniform **non-financial, integrated reporting** which will become **mandatory …**
- … for all large companies already underlying the Non-Financial Reporting Directive (**NFRD**) from business year **2024** onwards
- … for all companies with an annual average of **250 or more employees** and **revenues of over €40 million** from business year **2025** onwards,
- **…** for **stock-listed SME** companies as well as non-complex financial institutions and captive insurers from business year **2026** onwards

## What is disclosed?

- The **company's overall sustainability structure, including a precise presentation of targets, indicators and action plans**, as well as an overview of their **implementation** and **progress**, must be disclosed.
- The necessary standardized indicators are currently being developed by the European Financial Reporting Advisory Group (EFRAG)
- The report must be **integrated** into the **management report** and **audited by external agencies**.

Comprehensive reporting obligations in the areas of **environmental** (E), **social** (S) and **responsible corporate governance** (G), or "ESG" for short, have already been applied since the NFRD (Non Financial Reporting Directive) has come into effect for large companies since 2018. CSRD tightens these disclosure requirements. As part of the integrated reporting, affected companies must comment on **resilience** and implicit **opportunities** of the **business model and strategy** in **connection** with the **transition to a climate-friendly economy**. Similarly, consideration of key **stakeholders** in strategy development must also be disclosed. CSRD strives to define clear **sustainability goals**.

Disclosed are action plans and:

| | | | | |
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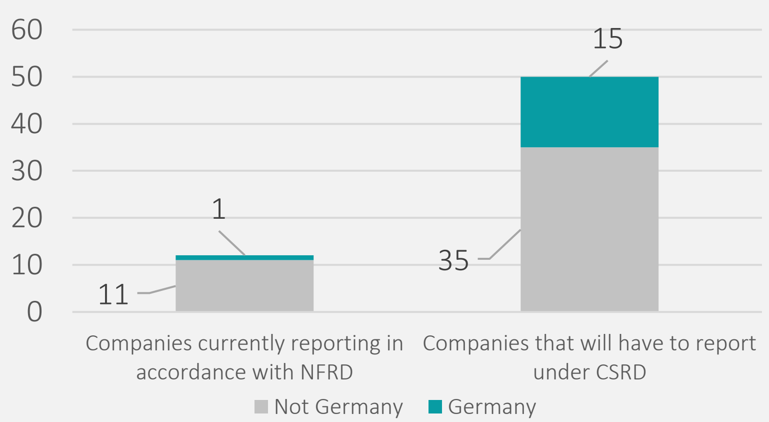
| Implementation progress | Due-Diligence processes | Sustainability risk | Governance structure | Supply chain |

Under CSRD, approximately 5 times more companies will be required to report on sustainability than today




*Data based on the proposal of the EU Commission dated 21.04.2021*

*[2] Current proposal of the Council of the European Union (18.02.2022), provisionally as of reporting year 2023*

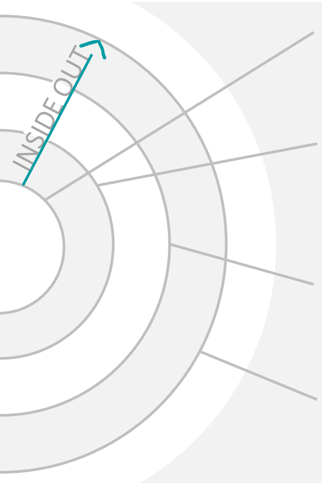
# CSRD – Why late starters are ahead

- All disclosed information must be both **retrospective** and **foward-looking**, as well as **quantitatively** and **qualitatively** measurable using standardized indicators. In addition, the principle of **double materiality** applies: the company‘s impact on sustainability (**inside-out**, e.g. CO2 emissions during production) and the impact of sustainability on the company (**outside-in**, e.g. temperature fluctuations caused by climate change and their impact on production) must be reported.
- CSRD requires presentation in the company‘s statutory annual report in an **integrated form**. Separate sustainability reports are no longer permitted. **Uniform reporting standards**, for example based on existing standards such as the International Financial Reporting Standards (IFRS) or the Global Reporting Initiative (GRI), are currently being developed by the European Financial Reporting Advisory Group (EFRAG) appointed by the EU Commission and are expected to be published **by the end of 2022**.

CSRD poses **significant challenges** for all directly and indirectly affected companies. The reporting obligations are far-reaching and require a **thorough sustainability strategy orientation** as well as the creation of clear **reporting** and **governance structures**.
With CSRD, uniform standards that require fully **integrated structures** to be established in concerned companies, apply. Separate and competing responsibilities from the environmental, quality, human resources or legal departments, brought together in a separate sustainability report are outdated. **Late starters** who commence straightaway with the establishment of integrated and uniform structures **are ahead**.

# Creating sustainability structures – integrated and efficiently

The **complexity** of **regulatory requirements** through the introduction of taxonomy and CSRD and the associated **organizational changes** can overwhelm companies. Lack of structure and strategy in the implementation can lead to significant **additional work**. The approach developed by Vindelici aims to **integrate the guidelines into existing corporate structures without detours**. Sustainability management can become a **strategic task** of the CFO and be firmly anchored in the area of **responsibility** of Accounting and Finance in the future.




### VALUES | VISION | GOALS

What are the **key sustainability issues influencing** the company? How can **companies** materialize **sustainability opportunities** through concrete objectives?

### INFORMATION

What information is needed to achieve your goals? What is already collected, what is not? **Which KPIs, (due diligence) processes and concrete measures** can ensure the achievement of these goals?

### ORGANISATION

Which **internal structures** ensure **continuity** and **responsibility**? How can new requirements be **integrated into existing structures without detours**?

### SYSTEMS

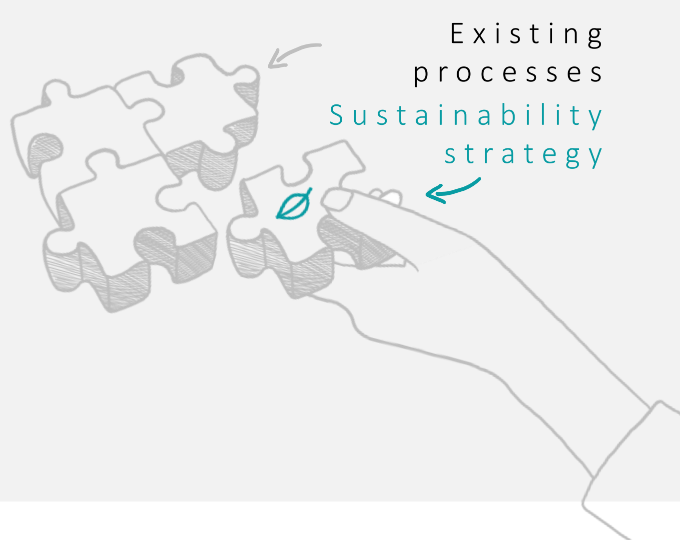
Which **systems** are used in **existing reporting**? How can **sustainability requirements** be **integrated** into them?

Our approach aims at **using** and **integrating** as well as **promoting already existing structures and processes**. **Reducing time**, **personnel** and **system expenses**. Within the framework of holistic structuring, the ongoing **interaction** between **technical-operational** and **commercial-reporting processes** is ensured.

Our **approach** leads to a continuous expansion of the **scope** and **impact** of defined sustainability measures. A **cyclical approach** enables step-by-step **target achievement** on the way to **holistic sustainability management**.

Together with you, we design and build your sustainability reporting structures.

- **+** Integrates **existing processes** and **structures**
- **+** Continuously and **gradually expands** the **scope** and **impact** of the **measures**
- **+** Enables to follow regulatory standards **without additional long-term expense**
- **+** Allows a **forward-looking** and **positive corporate development**



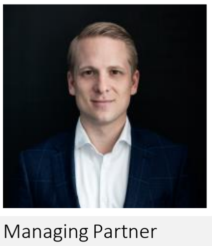
# Creating sustainability structures – integrated and efficiently

Together with you, we design and build your sustainability reporting structures.

## HOW WE PROCEED

- We identify and **consolidate** all internal sustainability activities and applicable sustainability requirements.
- We **work** with you to develop a sustainability strategy that suits your company and follows the concept of dual materiality.
- We **implement** systems for your sustainability reporting, from the definition of KPIs to the representation and monitoring using relevant technologies, e.g. dashboards.
- We **support** the creation of integrated sustainability reporting and ensure compliance with legal and customer-relevant criteria (e.g. taxonomy, supply chains, etc.)
- We **train** your employees and upgrade the processes in the overall responsible area to perform these tasks permanently and efficiently.


LEONIS PETSCHMANN



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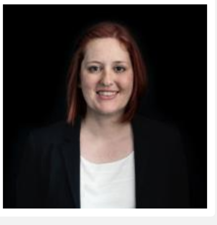

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