ESG Webinar

Anticipating changes to EU regulations
instead of
constantly revising them

Part 2: Action opportunities for companies

Inhalt: Environment Social Governance – Webinar, Part 2

Action opportunities for companies

1. Follow-up to ESG webinar, part 1: Political framework - EU enforcement options
2. Repetition of ESG areas
3. Companies of what size are affected by ESG?
4. Each fulfilment of ESG rules works individually
5. ESG standards, certifications and forms of reports
6. Fulfilment of main ESG obligations - Methodical approach
7. Decision matrix for anticipatory action
8. Expectations of companies towards ESG interim managers
9. Our two tandems: EU monitoring insider + ESG interim manager = your "ESG guides"

1. Follow-up to ESG webinar, part 1

Political framework – EU enforcement options

1. Who we are, our background experience
2. What ESG is supposed to achieve
3. How EU legislation works
4. The six key pieces of ESG legislation
5. "Salami tactics" of EU legislation on ESG, taking the example of supply chain monitoring
6. What ESG also enables
7. Anticipatory approach to EU regulatory changes
8. Our two tandems: EU monitoring insider + ESG interim manager = your "ESG guides"
9. Outlook on ESG webinar, part 2: Action opportunities for companies

2. Repetition of ESG areas

Environment	Social	Governance
➢ Waste & Pollution ➢ Energy Management ➢ Opportunities in environmental management ➢ Climate strategy (!) ➢ Emissions (!) ➢ Decarbonisation (!) ➢ Water management ➢ Circular economy	➢ Human Capital ➢ Supply chain (!) ➢ Product quality and safety ➢ Stakeholder relationships ➢ Internal co-determination and transparency ➢ Meaning and social impact of products (!) ➢ Employee safety ➢ Diversity management (!) ➢ Consumer protection and customer safety ➢ Contribution to the common good (!) ➢ Health	➢ Corporate governance ➢ Transparency in the remuneration of executives ➢ Business ethics (!) ➢ Compliance (!) ➢ Risk management (!) ➢ Ethical handling of funds (!) ➢ Competitive behaviour

Depending on the company (industry, size) different „Materialities“ /KPIs

Source: According to Steinbeiss Augsburg Business School

3. Companies of what size are affected by ESG? – (a)

German Legislation:

*Lieferkettensorgfaltspflichtengesetz

**German Corporate Governance Kodex

- Ex. for E – Environmental regulations: all companies
- Ex. for S - Occupational health & safety: all companies; LKSG*: 2023 > **3,000 EE** (employees), since 2024 > **1,000 EE**
- Ex. for G – Commercial law: all companies; Stock corporation law and DCGK**: listed companies

EU legislation regulates ESG in <u>interlinked</u> sets of rules, not separately: *(see ESG webinar, part 1)*

- TR (taxonomy regulation): since 2022, public interest entities > **500 EE**
- CSRD (sustainability reports): from 2025, companies > **250 EE, turnover > €50 mio or balance sheet total > €25 mio**
- CSDDD (supply chain): from 2027, companies > **5000 EE, turnover > €1.5 billion,** from 2029 >**1000 EE, turnover > €450 million**

What should affected companies do?

- Define sustainability KPIs (Key Performance Indicators) according to the double materiality.
- Fill sustainability KPIs with content + appoint responsible persons in the company.
- Create comprehensive reports + send them in time to the right place, otherwise risk of horrendous penalties.

3. Companies of what size are affected by ESG? – (b)

Reporting and implementation obligations from TR

- Definition of taxonomy-compliant management: contributes to at least one of six environmental goals without significantly harming any of the others + social guarantees on human rights and labour standards.
- Financial companies only report for one KPI, the Green Asset Ratio (taxonomy-compliant/total investment).
- Real economy companies for sales KPI, CapEx KPI and OpEx KPI (taxonomy-compliant/total activity).

Reporting and implementation obligations from CSRD

- In accordance with sustainability objectives set out in the ESRS standard.
- The company's principal adverse impacts on people and the environment.
- Adoption of the climate plan for CSDDD reporting.

Delay in some EU states: Despite the validity of CSRD, implementation law still missing at the beginning of 2025

Reporting and implementation obligations from CSDDD

- Not only actual but also <u>potential</u> impacts on the environment and human rights must be identified, prevented or mitigated.
- In-house, at subsidiaries, along the entire value chain: i.e. including suppliers and customers.
- In extension of the LKSG also civil liability.

3. Companies of what size are affected by ESG? – (c)

Question: Are only companies affected that exceed the above-mentioned sizes?

Answer: No!

Reasons

- Large companies that are directly affected pass on the pressure for regulation and reporting from the top down, e.g. manufacturers to their suppliers. Small companies are therefore indirectly affected.
- Specifically, this affects the current ESG and former CSR ratings of large companies which depend not only on their own actions, but also on the input of small suppliers.
- Banks are subject to informal pressure to restrict financing options for small companies, too, if their business model is not ESG-compliant and this problem can have an impact on their large customers. Financing options there are dependent on ESG or CSR ratings anyway.

Metrics and financing requirements are specified by the following EU ESG regulations *(see ESG webinar, part 1)*: CBR (ESG metric), SFDR (Sustainable Finance) and EU-GBR (Green Bonds).

Conclusion: fulfilment of ESG requirements affects virtually all companies. If not directly, then indirectly!

4. Each fulfilment of ESG rules works individually

Every company has an individual need for customisation, depending on

- Product or service that it manufactures.
- Manufacturing process typical for its industry which requires specific KPIs in Environment, Social, Governance.
- Company size (turnover, number of employees). Caution! Inconsistent differentiation between large companies and SME (small and medium-sized enterprises), see above under 3.-(a).

Examples: Energy-intensive production (chemicals, steel) must fulfil different requirements than CO2-intensive production (cement); logistics companies or wholesalers must fulfil different requirements than service providers.

Conclusion: there are no standardised templates for determining the ESG obligations of companies!

Double materiality in accordance with the ESRS reporting standard is always determined individually.

Further Problems:

- The rules are relatively new and often vague. This leads to time-consuming and costly definition work.
- Authorities usually interpret differences in definition against companies: fines of thousands to millions of euros.
- Companies are held liable for actions beyond their control: especially in Scope 3 for emissions/supply chain.

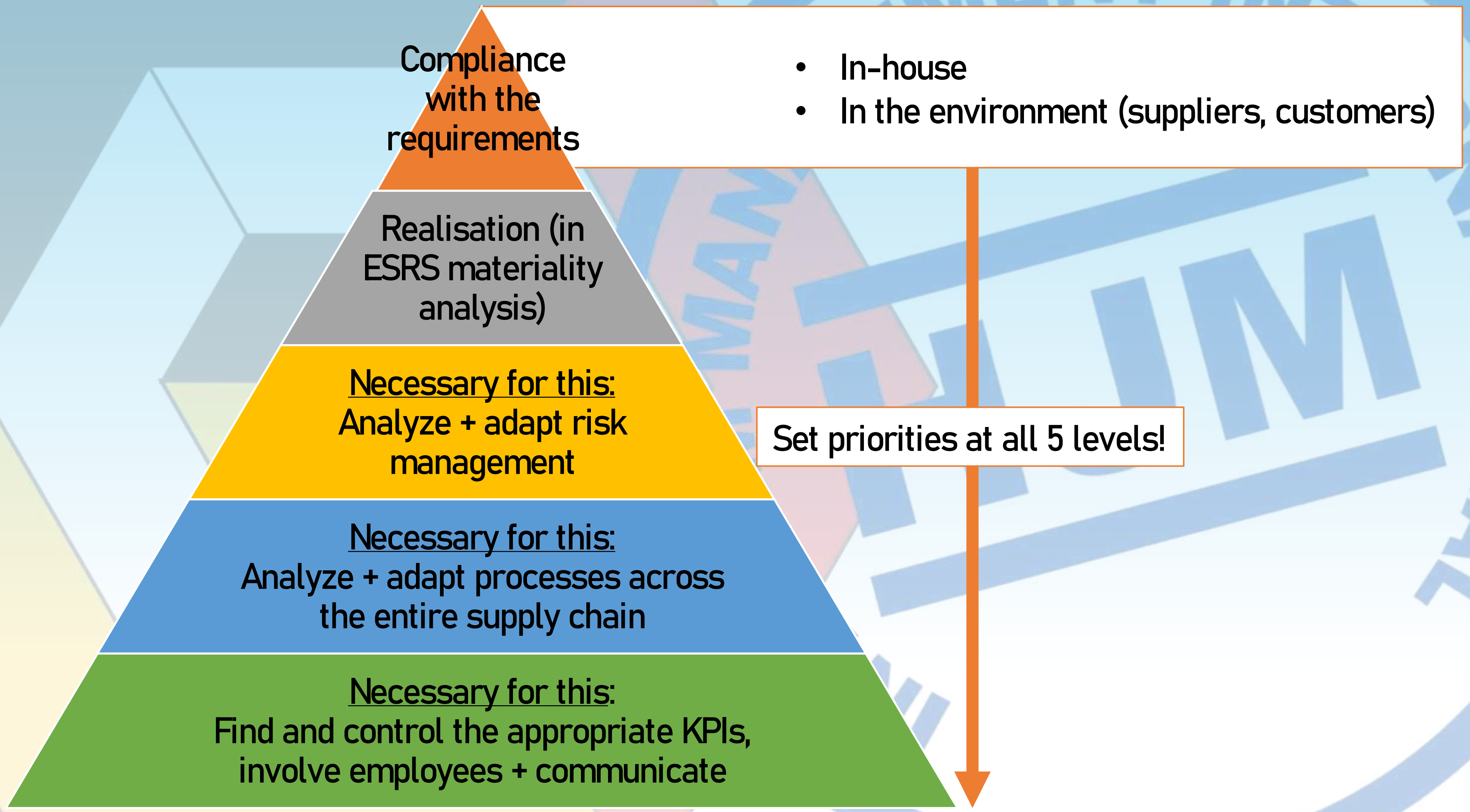
5. ESG standards, certifications and forms of reports

'The' comprehensive ESG reporting standard "for all" now exists in the EU: the ESRS in accordance with the CSRD. But, depending on the business activity and international interdependencies, others can also be selected, see table

ESRS – European Sustainability Reporting Standard: *developed into a central EU standard*
GHG – Green House Gas Protocol
GRI – Global Reporting Initiative: *traditional standard across economic areas*
HSE – Health Safety Environment
ISCC – International Sustainability and Carbon Certification
ISO 14001, ISO 14064, ISO 14067, ISO 14068, as well as PAS 2050, PAS 2060
Sustainability reports: Former CSR (Corporate Social Responsibility) and SDR (Sustainable Development Report) reports are converted into these ESG standards
ISSB – International Sustainability Standards Board
PRI – Principles for Responsible Investment
SBTI – Science Based Targets

The EU monitoring insider in our tandem will inform the ESG interim manager in good time, before the reporting rules for companies are changed again. In 2025 threatens softening of CSRD (ESRS).

6. Fulfilment of main ESG obligations – Methodical approach



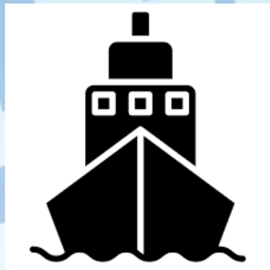
7. Decision matrix for anticipatory action – (a)

ESG creates a completely new form of economic governance. Companies must adapt to this <u>new economic system</u> = much-discussed "game changer"

- In the past, only financial KPIs had to be defined, managed and reported.
- Today, this also applies to non-financial sustainability KPIs: equivalent on paper but probably more important, due to political requirements: under permanent changes of the EU regulations!

The efficient practical solution consists of a <u>tandem</u>: *(see ESG webinar, part 1)*

<u>ESG interim manager</u> in the client company: process reorganisation incl. reports ≙ <u>Captain</u>
+ <u>EU monitoring insider</u>, our analyst: anticipates EU regulatory changes ≙ Navigator



Course knowledge vs. practical experience

- Certification courses ("ESG Expert" e.g. via Steinbeiss Augsburg Business School, "Carbon Footprint Management" e.g. via GTEC) are useful for imparting initial knowledge.
- Courses are <u>no</u> substitute for practical ESG implementation by an experienced tandem!

7. Decision matrix for anticipatory action – (b)

Derive recommendations for action today, with regard to future EU regulatory changes

The EU monitoring insider, our analyst, tracks emerging changes and forwards them to the ESG interim manager in the company before they come into force. In doing so, he utilises his understanding of the "EU speech" in EU documents and announcements. He knows what makes the regulatory authorities tick *(see ESG webinar, part 1).*

	EU rule change clearly visible	EU rule change well predictable	EU rule change poorly predictable
Current workload: low	**Solution 1**	**Solution 1**	**Solution 2 or 3**
Current workload: medium	**Solution 1**	**Solution 1 or 2**	**Solution 3**
Current workload: high	**Solution 1**	**Solution 2 or 3**	**Solution 3**

Solution 1: Include future changes in today's adjustments.
Solution 2: When making adjustments today, prepare the starting point for future changes.
Solution 3: Only do what is required today.

8. Expectations of companies towards ESG interim managers

- Comply with the law.
- Creative implementation: utilise legal room for manoeuvre to reduce costs and bureaucracy.
- Stakeholder management: hold responsible employees, financiers, authorities, suppliers and customers.
- Reduce CO2 in the supply chain and make it fit in all three ESG areas across all three Scopes: 1/value creation in the company, 2/energy procurement, 3/purchasing and sales logistics.
- A major lever of Scope 3 lies in purchasing: implementation through transparency requirements and consistent contract management ("educating suppliers").
- Select the appropriate certification standard for sustainability reports.
- Select the right software for sustainability reports, ESG ratings, CO2 footprint calculations including connection to the ERP system (e.g. SAP).
- After conducting the materiality analysis: define suitable KPIs and steer them in risk management.
- Turn client companies into sustainability champions without forgetting about the underlying business purpose!

<u>Methodical</u> approach according to the <u>pyramid</u> (see 6)
<u>Anticipatory</u> approach according to the <u>decision matrix</u> (see 7)

9. Our two tandems = your "ESG guides"

www.esg-guides.com

EU monitoring insiders our analysts	ESG interim managers in the company
Donald Greiner +	Hansjörg Müller
Julian Kopetzky +	Karlheinz Zuerl

Contact: **Greiner/Müller**

E-Mail info@hjminterimmanagement.com
Mobile +79854109924
Whatsapp +491728443414
Telegram @HansjoergMueller

https://hjminterimmanagement.com

Contact: **Kopetzky/Zuerl**

E-Mail karlheinz.zuerl@gtec.asia
Mobile +8612382438080
Whatsapp +8612382438080
Wechat +8612382438080

https://gtec.asia