



The Corporate Sustainability Reporting Directive

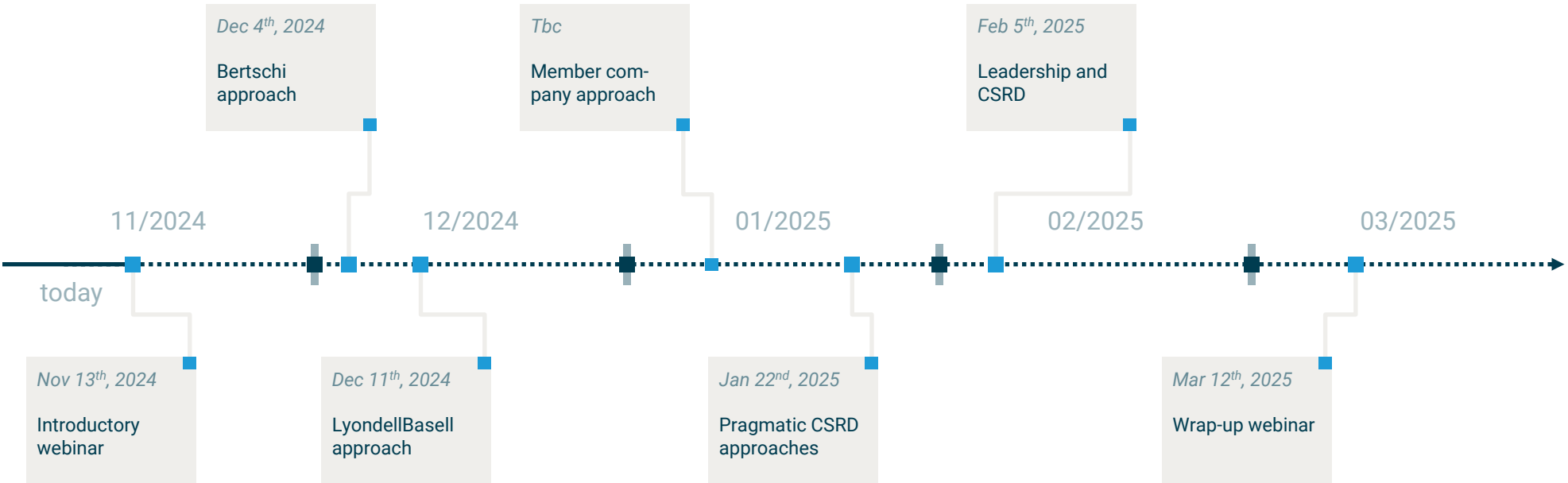
Setting the Stage
for ESG Reporting

November 13, 2024

d-fine

analytical. quantitative. tech.

Through a series of webinars, EPCA and d-fine will introduce CSRD, highlight special topics and give practical insights and suggestions



+ Webinar recordings, available to all EPCA members on request

+ Series of accompanying publications

▶ To tailor the webinar series to your needs, your active participation is requested.

Agenda

01	CSRD 101	04
02	Deep-Dives	09
02.01	Double materiality assessment	10
02.02	Sustainability Management	13
03	How to start	15

01

CSRD

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101

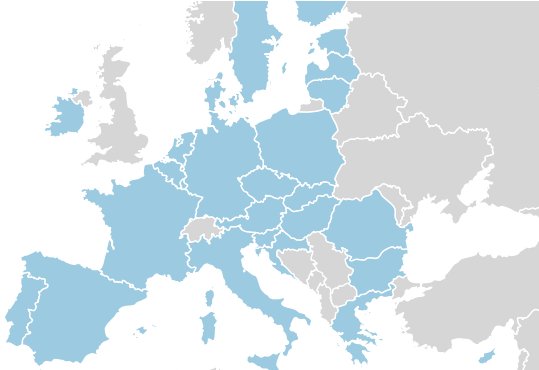


In a nutshell: CSRD imposes comprehensive sustainability reporting requirements for companies

Corporate Sustainability Reporting Directive (CSRD) imposes reporting requirements

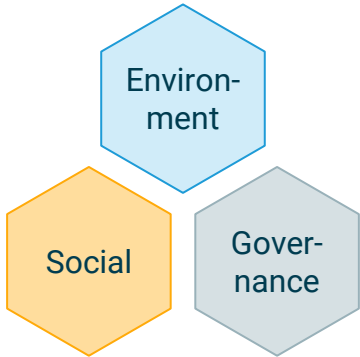
01 50,000+ companies in Europe will need a sustainability report

- First report for **fiscal years 2024-2028**, depending on company size, industry, capital market orientation and others
- Requirement for **inclusion of (non-)EU subsidiaries and – in some constellations – non-EU parents**



02 Sustainability report covers broad range of topics

- Coverage of **environmental, social and governance** topics
- **Qualitative and quantitative** disclosure requirements
- Overall **80+ disclosures** / 1.000+ data points with exact disclosure scope determined by double materiality assessment



03 Sustainability report is audited and published

- **Inclusion** of sustainability report in consolidated **annual report**



- Necessity for **auditing**
- Requirement for **publishing**

Depending on companies' size and capital market orientation, different timelines apply

First CSRD application for fiscal year⁰¹ ...

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2024

- Companies having at **least 500 employees**...
- ...and having more than **50m EUR turnover** or **25m EUR balance sheet sum**...
- ...and being **public-interest entities (PIE)**, i.e.:
 - **Banks and insurances**
 - **Publicly listed companies**
 - Companies **designated as PIE** by a member state

2025

- Large companies**, i.e. companies fulfilling at least two of three criteria:
- Number of employees > **250** and/or
 - Turnover > **50m EUR** and/or
 - Balance sheet total > **25m EUR**

2026

- **SME PIEs** that are not micro-undertakings⁰²
- Further non-complex **credit / insurance institutions** and captive **(re)insurance undertakings**⁰³
- Possibility to **defer sustainability reporting** for fiscal years starting before 2028 for SME PIEs

MISC

- **Ultimate parent companies in third countries** having subsidiaries in countries covered by CSRD that are either large or SME PIEs from FY 2028
- Possibility for disclosure according to **Voluntary SME (VSME)** standard⁰⁴:
 - Any company willing to disclose standardized sustainability information
 - Alignment with key CSRD requirements

01 - CSRD 101

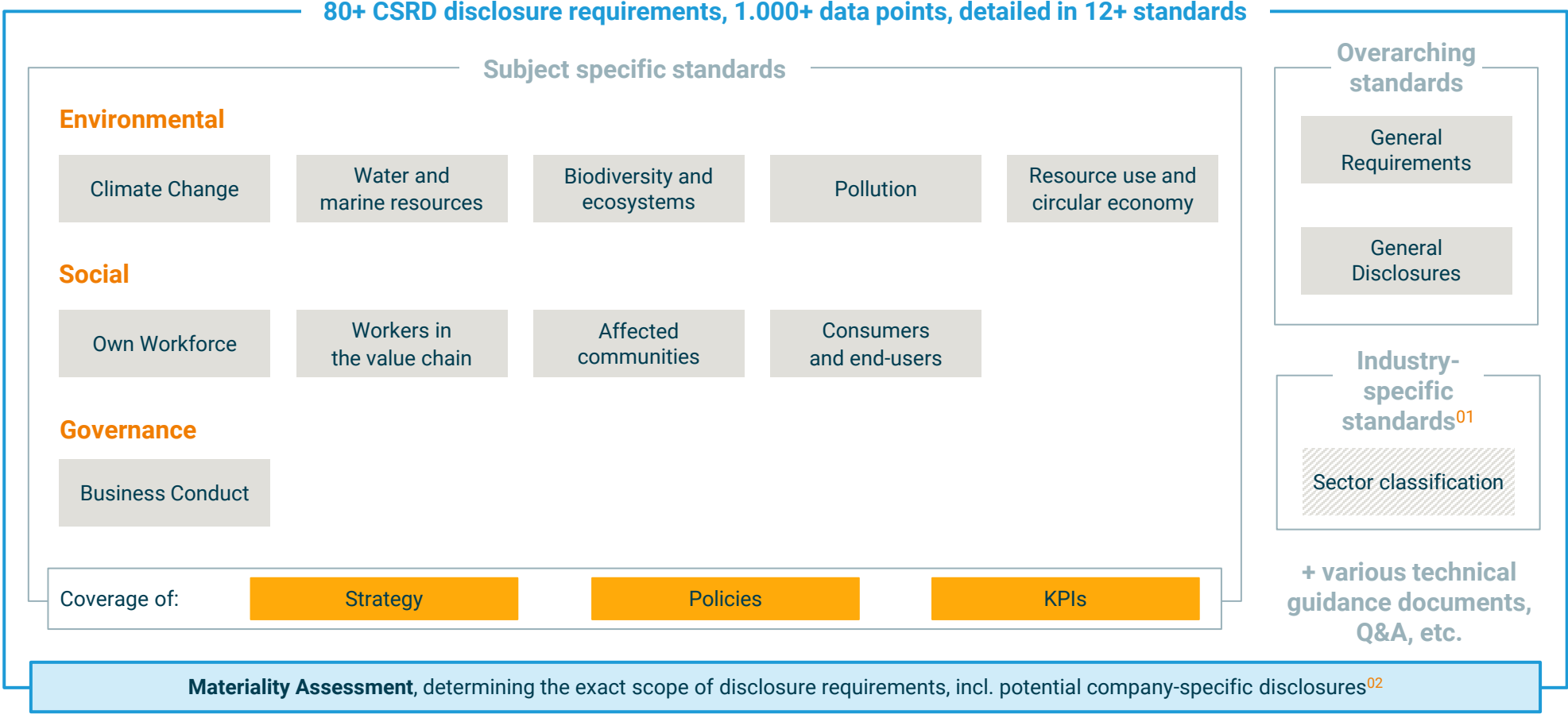


Data requests from value chain partners or parent companies for their sustainability reporting

⁰¹ Simplified representation ⁰² Micro undertakings do not exceed the limits of at least two of three criteria: balance sheet total 350 kEUR, net turnover 700 kEUR, 10 employees ⁰³ For details, please cf. Directive (EU) 2022/2464 of the European Parliament and of the Council and the final text of the Solvency II review soon published in the OJ ⁰⁴ Currently in draft status.

Even if a company is not directly affected by CSRD, it may be approached by its supply chain partners or parent companies with data requests or decide to implement voluntary standards like VSME.

12+ overarching and subject-specific standards define detailed disclosure requirements




⁰¹ So far only preliminary standard on sector classification available. Detailed standards on industry-specific disclosure requirements will follow 2024+. ⁰² See separate slide for details.

Subject specific CSRD requirements can be qualitative or quantitative and cover a broad range of different topics

Exemplary requirements


~40% of disclosure requirements⁰¹
high complexity


 Total **GHG⁰² emissions** (ESRS E1-6)

 Scope 3 emissions⁰³ with **breakdown by source** (ESRS E1-6)

 Implementation of **EU taxonomy**

~35% of disclosure requirements⁰¹
medium complexity


 Processes for value chain workers to **raise concerns** (ESRS S2-3)


 Significant environmental **incidents** and substance accumulations (ESRS E2-6)

 Financial **losses** and any necessary rehabilitation **costs for environmental incidents** (ESRS E2-6)


~25% of disclosure requirements⁰¹
Low complexity

 **Gender pay gap** (ESRS S1-16)

 Nature, purpose and costs of political **donations** and **lobbying** activities (ESRS G1-5)


 Total **payments** to professional and industry **associations** (ESRS G1-5)

Key drivers of complexity

 **Establishment of missing strategies and policies**

 **Availability of data for KPI calculation**

 **Need for involvement of all BUs and subsidiaries**

 **Limited established best practices and prescriptions**

⁰¹ according to d-fine analysis. The implementation complexity also depends on company-specific factors such as pre-existing work or the complexity of the company structure. ⁰² GHG = Greenhouse Gases ⁰³ Scope 3 emissions cover all emissions not directly produced by company operations or consumed power, such as transport, upstream goods etc.

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02 Deep-Dives



DEEP- DIVES

02.01

Double materiality assessment



Through the double materiality assessment (DMA), the scope of the CSRD report is determined

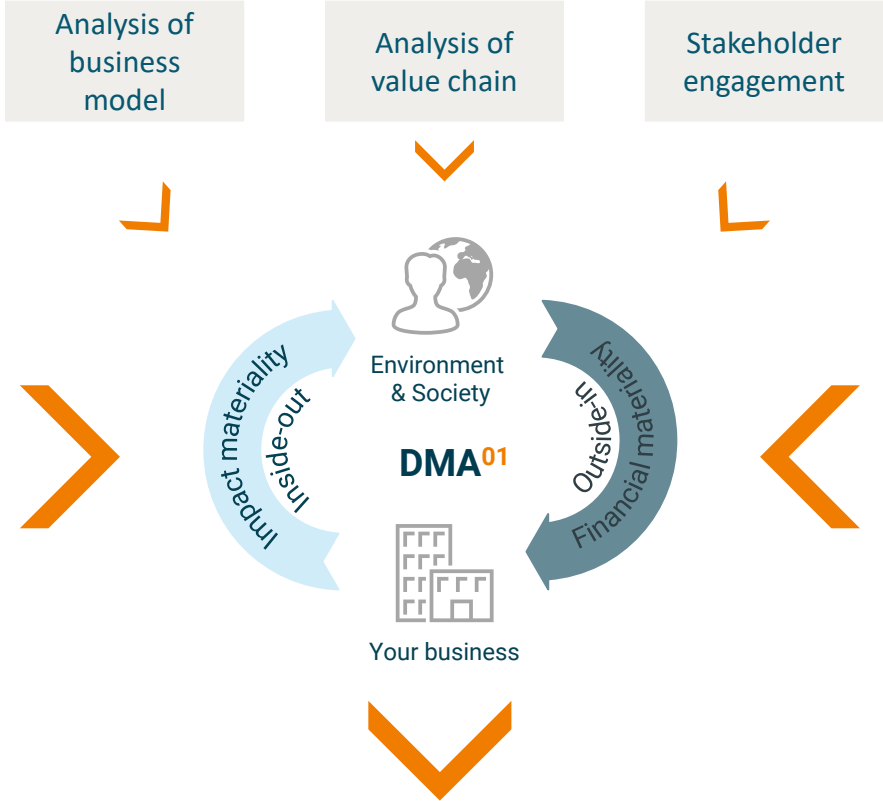
Impact materiality “inside out”

Description:

- **Impacts** of own activities on people or the environment
- Possibility for positive and negative impact

Examples:

- Company’s own CO₂e emissions, contributing to global warming
- Social and cultural engagement in local communities e.g. welfare-projects, engagement in sport clubs



Material impacts, risks and opportunities defining “sustainability matters” to be reported on

Financial materiality “outside in”

Description:

- Effect of sustainability matters on company’s financial performance
- Possibility for negative effects (**Risks**) and positive effects (**Opportunities**)

Examples:

- New business opportunities with circular / low CO₂e chemicals
- Risk of floods or low water on waterways, leading to supply chain disruptions

The double materiality assessment should be completed at an early stage since it determines the exact scope of the sustainability reporting according to CSRD.

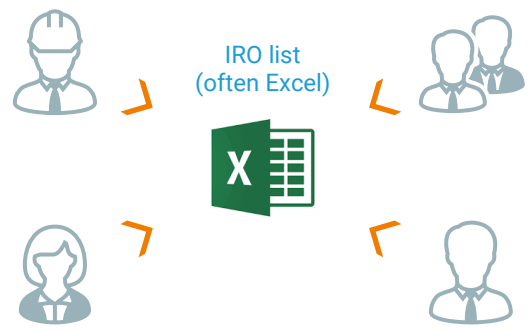
Impacts, risks and opportunities are to be gathered throughout the enterprise and evaluated according to a scorecard

1 Capturing of IROs 2 IRO scoring 3 Matrix & consistency checks

- Conduction of interviews, typically clustered by subject matter expertise
- Survey-based approach, especially for covering subsidiary companies
- Potentially inclusion of major stakeholders outside the company to include external view
- Inclusion of IRO meta data, e.g. value chain position and time horizon

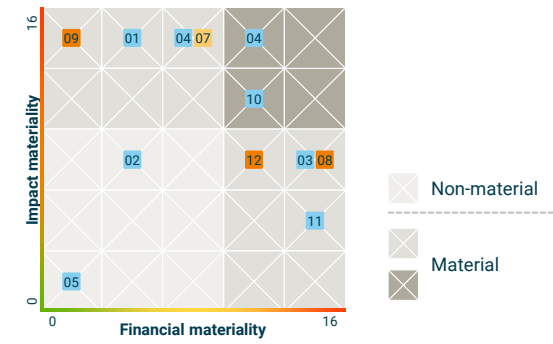
- Definition of criteria for probability and severity / effects of IROs, e.g. 4x4 matrix
- Different logic for severity of impacts and effects of risks / opportunities:
 - Impacts: severity based on scale, scope and irremediability
 - Risks / opportunities: financial effect
- Conduction of scoring with subject matter experts and definition of materiality threshold

- Plotting of IROs in materiality matrix; typically, representation of impact materiality and financial materiality
- Conduction of consistency checks, e.g. calculation of expectation values, plausibility across sustainability matters, etc.
- Documentation of material IROs; leading to materiality of underlying sustainability matter and respective disclosure requirements / data points



Illustrative example

	Probability	Financial effect (revenues)
1	Very rare or unlikely Event has not yet occurred or will occur in exceptional circumstances	1 < 250 kEUR
2	Possible Event is expected to occur under certain circumstances and / or occurs every now and then in the industry	2 250 kEUR to 10,000 kEUR
3	Likely Event is expected to occur in most circumstances and / or occurs multiple times per year	3 10,000 kEUR to 500,000 kEUR
4	Actual Event has occurred / will occur	4 > 500,000 kEUR



While CSRD gives guidance on the conduction of the double materiality assessment, the details can be adapted to a company's specifics.

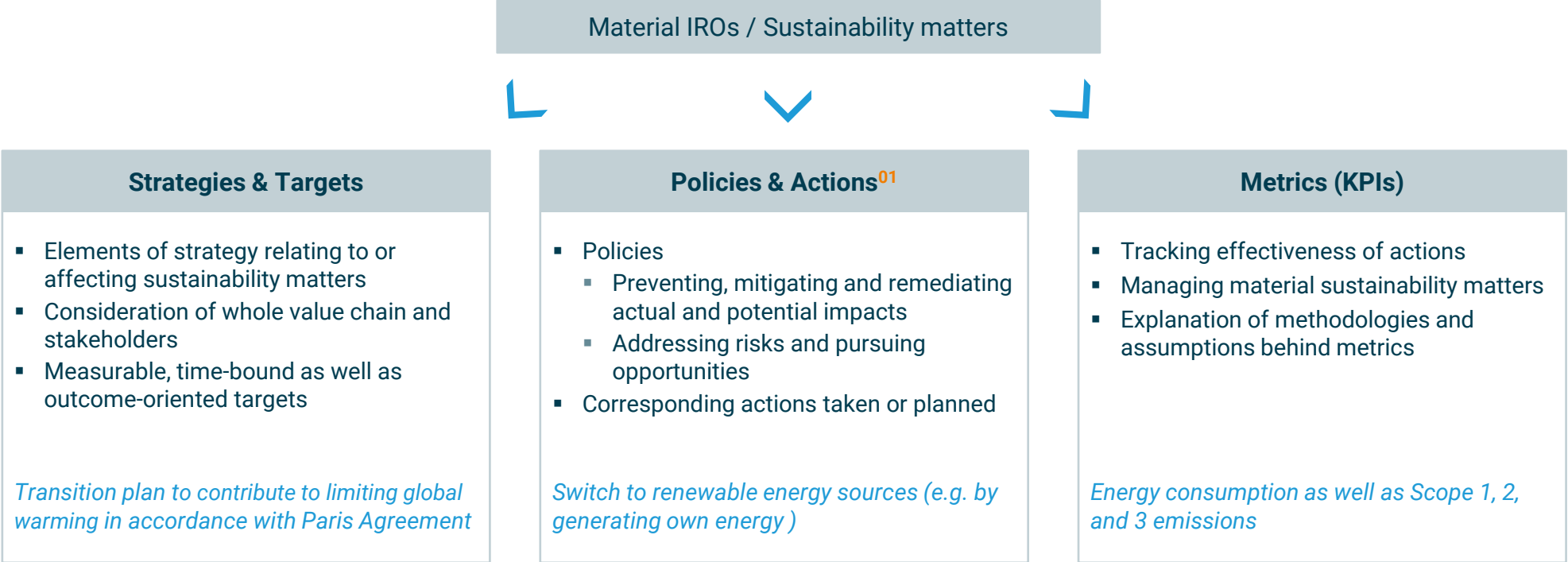
DEEP-DIVES

02.02

Sustainability Management



Effective sustainability management requires multiple inter-dependent components



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02 - Deep-Dives

02.02 - Sustainability Management

Governance

IT

In addition to imposing reporting requirements, CSRD also motivates the setup of a holistic sustainability management framework.

⁰¹ Also called "Impact, risk and opportunity management"

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03 How to start




To start the CSRD journey, we recommend conducting materiality and gap analyses

01 Materiality Assessment

- Identification of Impacts, Risks and Opportunities (IROs), e.g. through:
 - Subject matter expert interviews
 - Surveys among experts
 - Inclusion of (key) stakeholders outside the company
- Scoring of IROs, e.g. with the help of a scoring matrix
- Conduction of consistency checks




 Material sustainability matters that can be mapped to material disclosure requirements

02 Gap Analysis & Roadmap

- For relevant disclosure requirements, comparison of status quo with the standard
- Identification of steps for gap closure incl. effort estimate
- Prioritization of gaps, e.g. according to semi-quantitative scorecard
- Compilation and internal alignment of an implementation roadmap





 Plan for closure of gaps incl. estimate of effort

03 Operationalisation

- Implementation of CSRD work plan according to roadmap
- Continuous refinement of project plan, potentially using agile methods
- Recommendation for compilation of at least one test report to gain experience with CSRD reporting



 Sustainability report according to CSRD requirements

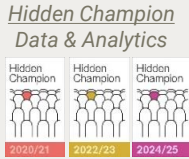
 In the course of this webinar series, we will also dedicate one session to pragmatic approaches for addressing CSRD.

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04 Defining d-fine



d-fine is a European consultancy focusing on analytical, quantitative and technological endeavours



Our DNA



- analytical.** We address your challenges in a structured manner and investigate key drivers using our extensive domain expertise.
- quantitative.** We leverage methods from Mathematics, Physics and Data Science to solve complex issues.
- tech.** We apply new and established technologies to support your business processes and ensure a dynamic and sustainable implementation into your IT ecosystem.

Our Team



- 50% Physics
- 35% Mathematics
- 15% Other STEM subjects & Business
- 50% PhD / doctorate

10+ Office locations 30+ Nationalities 100% climate neutral

Our industry expertise

- Banking & Capital Markets
- Insurance & Asset Management
- Energy & Industrials
- Healthcare
- Consumer & Services
- Technology
- Public Sector

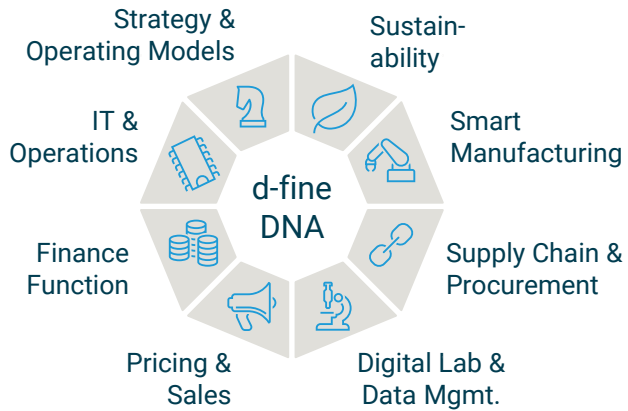
Together with our clients, we drive strategies, develop business designs and implement tailored IT solutions. A collaborative and trustworthy relationship is important to us.

CSRD

04 - Defining d-fine

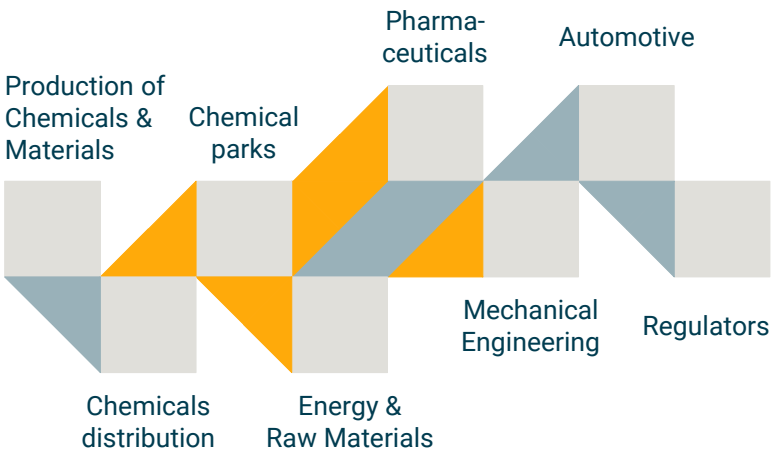
For the chemical industry, we offer a broad range of services covering digitalisation and sustainability

Our Services



- **Generation of client value** with analytically skilled consulting teams having in-depth technological know how and STEM training
- In-depth knowledge of **industry-specific processes**, e.g. covering supply chains, production, accounting and controlling
- **Modern technology and IT systems** – e.g. including IoT sensor technology, customising of SAP systems and engineering of custom software solutions
- **Highest quality standards** under consideration of applicable regulation and market standards

Clients in Chemical Industry & Beyond



250k *Delivered person days* **1.000+** *Projects* **50+** *Clients*

d-fine’s service offerings are always tailored to the concrete client requirements. In our consulting approach, we combine domain-specific expertise with in-depth technological know-how.

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