



Sustainable Finance

ICV Arbeitskreis

Christian Huck
Martin Becker
Andrea Kämmler-Burra

April 2024

Content

1. Welcome and Introduction

2. CSRD Reporting

3. Steering & Performance Management

4. Q&A and Closing



We look forward to discuss CSRD reporting and ESG steering with you today!



Christian Huck

Partner
Controlling & Finance

Horváth & Partner GmbH
Rotebühlstraße 100
D-70178 Stuttgart

Mobil: +49 162 278 6284
CHuck@horvath-partners.com



Andrea Kämmler-Burraek

Principal
Sustainable Finance

Horváth & Partner GmbH
Ganghoferstraße 39
80339 München

Mobile: +49 172 629 729 8
akaemmlerburrak@horvath-partners.com



Martin Becker

Managing Consultant
Sustainable Finance





Horváth & Partner GmbH
Cecilienallee 10
40474 Dusseldorf

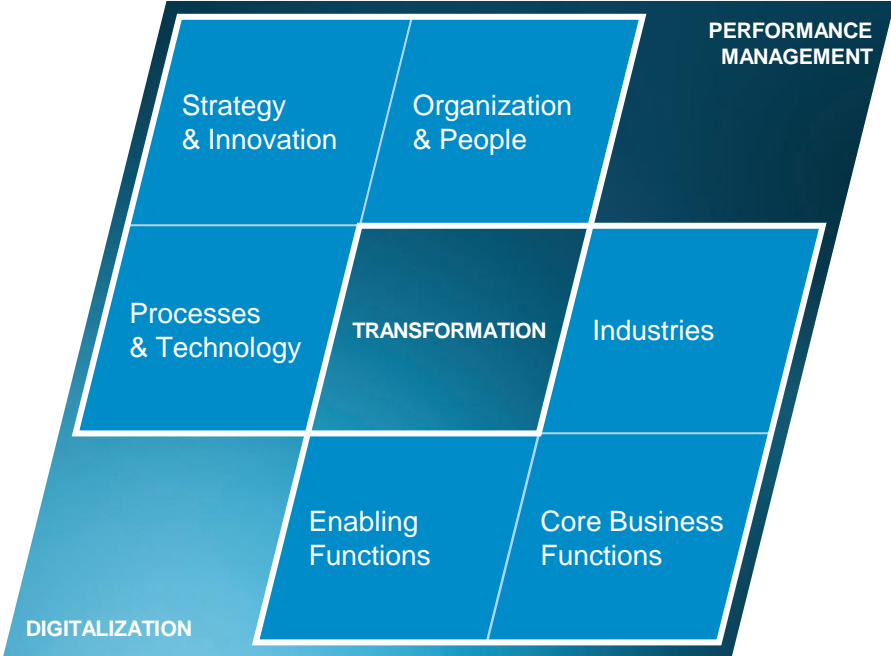
Mobile: +49 1523 8844175
MBecker@horvath-partners.com

Horváth: “Is this the company of that controlling guy?”

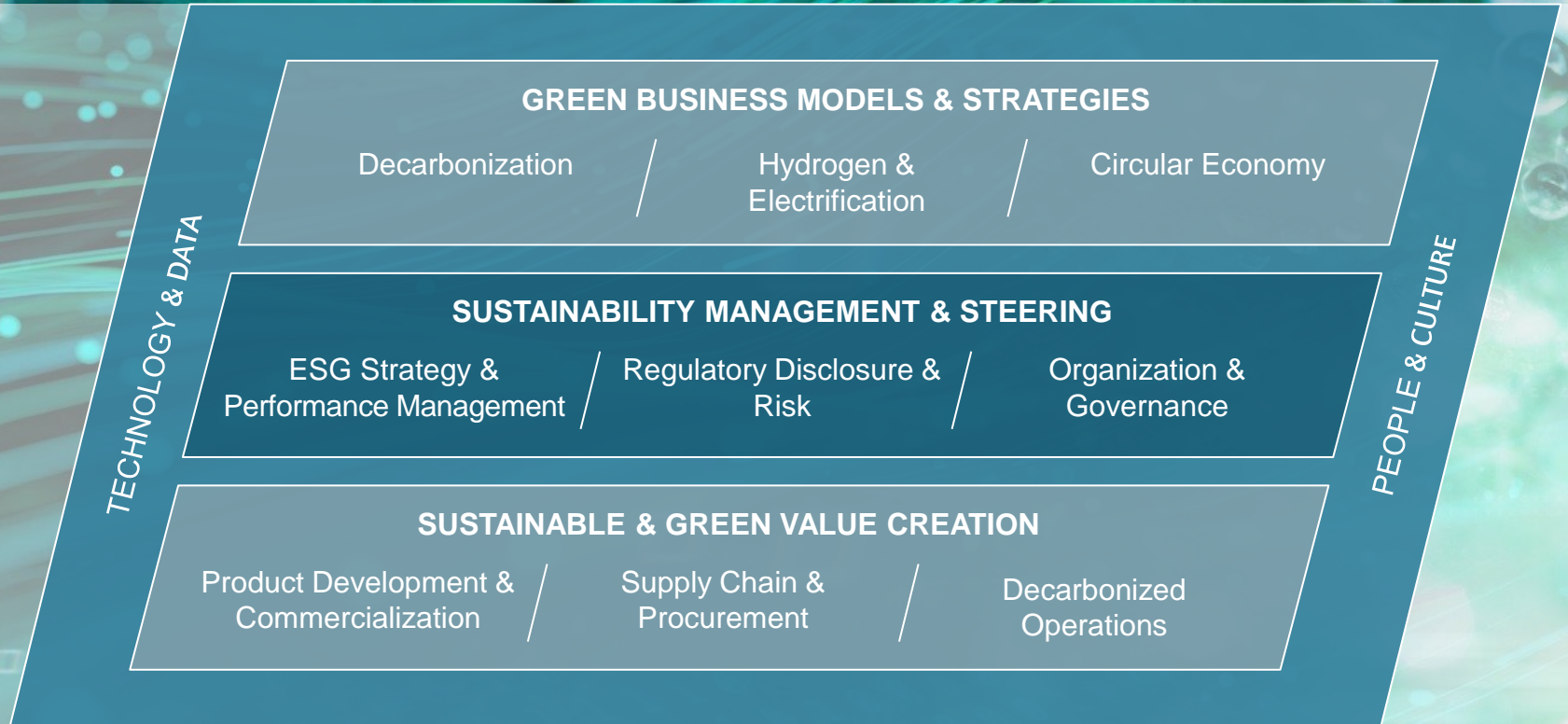


Horváth – Your consulting partner for sustainable value leveraging our DNA in performance management

- 
Clients Large and medium-sized companies from the industry, service and retailing sectors, as well as public organizations
- 
Employees 1,400+
- 
Global Delivery Competence Cordence Worldwide Alliance with 4,000+ consultants
- 
Offices Abu Dhabi, Atlanta, Berlin, Bucharest, Budapest, Chicago, Copenhagen, Dubai, Düsseldorf, Frankfurt, Hamburg, Milan, Munich, New York, Riyadh, Rome, Stuttgart, Vienna, Zurich



Sustainability & Green Transformation Offering: Sustainable Finance Solutions build the “core” ...



1

Öffnen des Link:

www.menti.com

2

Eingabe des Code:

2790 8125

or

Scan des QR Code:



Join at [menti.com](https://www.menti.com) use code 2790 8125



Wie sehen Sie Nachhaltigkeit – Eher lästige Pflicht oder Kür?





Welche Nachhaltigkeitsanforderungen haben für Sie Relevanz und mit welchen haben Sie sich bereits befasst?



Corporate Sustainability Reporting Directive (CSRD)



Lieferkettensorgfaltspflichtengesetz



EU-Taxonomie Verordnung



Carbon Management



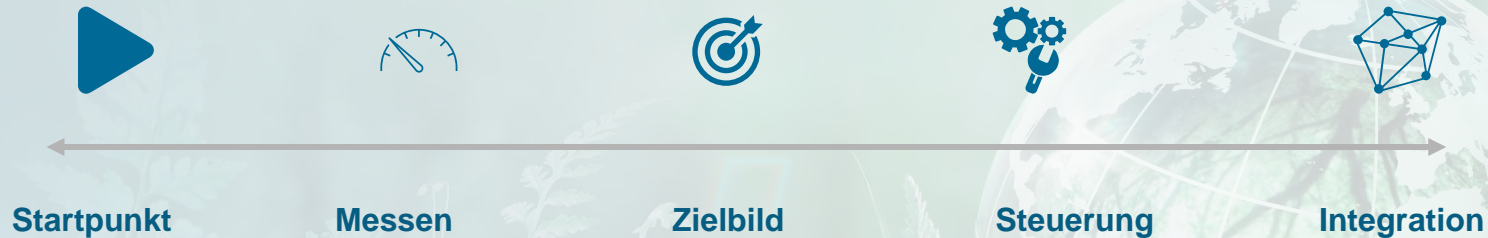
Andere



IFRS - ISSB



Wie würden Sie den Status Quo von Nachhaltigkeit in Ihrem Unternehmen beschreiben?





Welche Herausforderungen sehen Sie bei der Integration von Nachhaltigkeit?

Mangel an Kompetenzen und Fähigkeiten von Mitarbeitenden

Fehlende oder unzureichende IT-Unterstützung

Fehlender von Fokus und Uneinigkeit über relevante KPIs

Unklare Rollen und Verantwortlichkeiten

Unzureichende Umsetzung des Themas in der Organisation

Unzureichende Strategie und Vision mit Blick auf die zukünftige strategische Ausrichtung sowie fehlende Zielpfade

Unzureichend etablierte Prozesse und Berichterstattung für den neuen Themenbereich

Join at menti.com use code 2790 8125



Wie schätzen Sie Ihre eigene Expertise im Bereich CRSD Reporting ein?

CONFUSED



ON MY WAY

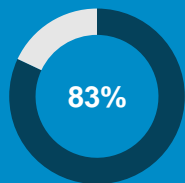


CSRD PROFESSOR



Sustainability is a top strategic priority for CxOs across all industries, with a wide spread of maturity in ESG management

The importance of sustainability as a strategic priority is steadily increasing



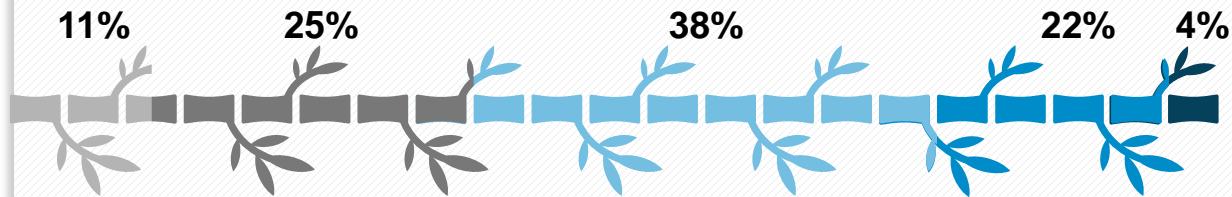
... of all CxOs see the integration of environmental sustainability into the corporate strategy as an important topic



... environmental sustainability has become increasingly important and has moved up to number 5 of strategic priorities in 2023 (out of 13)

So far, only 64% of all companies have developed a target image for sustainability, others should act at the latest now, as stakeholders will continue to increase their pressure

Status quo of study participants



Beginning

No steps have yet been taken to address sustainability

Measurement

We already have transparency about the current state of sustainability (e.g. the CO2 footprint of your own products/company is known)

Target Picture

We have defined a clear target image for environmental sustainability as well as for measures to meet the requirements of the target image

Steering

We actively steer our business towards the defined target image

Integration

We have aligned our entire business and operating model with our goal of environmental sustainability

Sustainable management becomes a critical success factor to mitigate risks and realize future opportunities

MITIGATE RISKS


- Maintain social license to operate

 **People & Reputation**

- Create a resilient value chain

 **Markets & Resources**

- Avoid market constraints and costs through regulatory restrictions

 **Regulatory Requirements**

- Avoid losing private and institutional investors

 **Valuation & Capital Costs**

- Decrease financing costs from debt and equity providers

REALIZE OPPORTUNITIES

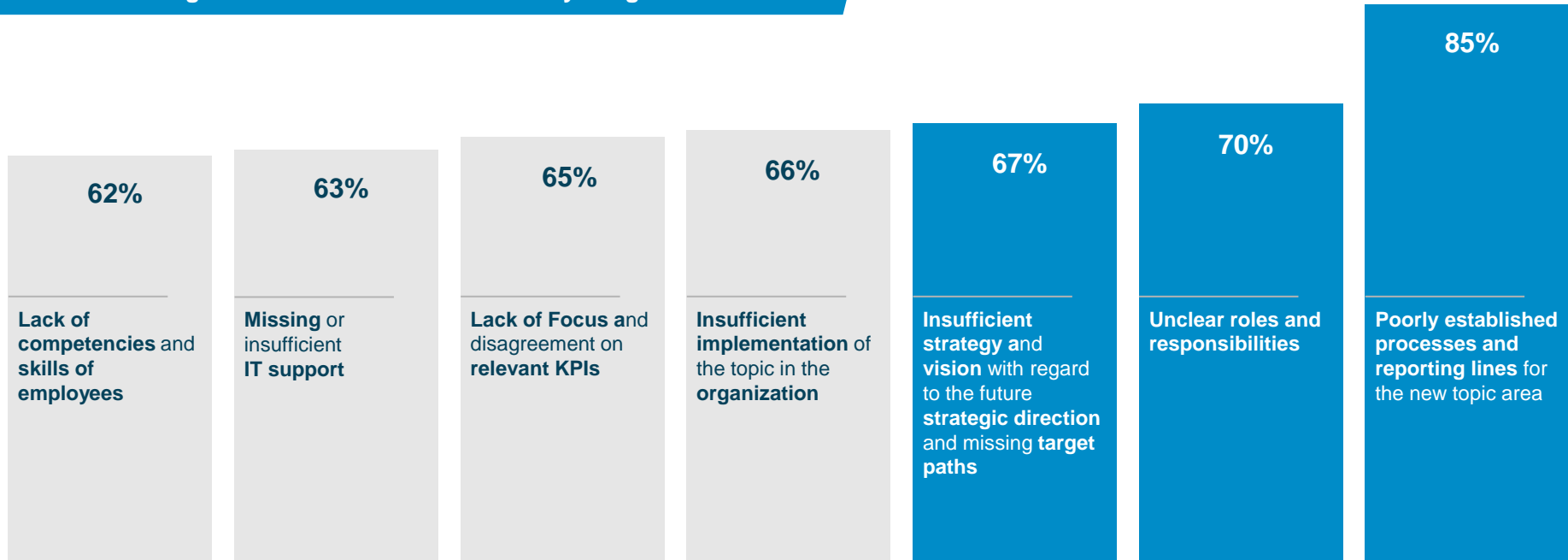
- Enhance value proposition & employer attractiveness

- Capitalize on new market opportunities
- Use sustainability as a success factor
- Improve competitive position through rethink, reduce, reuse and recycling

- Be prepared for short-term but significant changes in the regulatory environment

Along the way of Sustainability Transformation companies are facing major challenges

Current Challenges in the context of sustainability integration



Data: approval in per cent (multiple answers possible)

Participants: n= 206

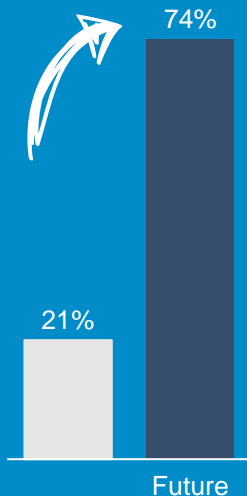
■ Top 3 Challenges according to participants

■ Further major Challenges

The CFO area is required to take an active role in the sustainability transformation










Future role of the CFO area

The importance of sustainability for the CFO area will increase significantly



Three quarters of all CFOs believe that sustainability will be of great importance for their department in the future

The role of the CFO area will expand in the area of sustainability by taking an active role in shaping the sustainability transformation

Possible roles for the CFO area	Active Design	Current Role (%)	Future Role (%)
 Sustainability avoiders No active participation in the design		9%	 4%
 Sustainability Reporter Transparency and compliance with standards		41%	 16%
 Sustainability Controller Risk management and initiatives		31%	 28%
 Sustainability Performance Manager Integration into Performance Management		8%	 50%

Compliance with sustainability reporting lays the foundation, however, performance mgmt. requirements must be considered from the start

Horváth Framework for Integrated Performance Management and Sustainability Reporting



Content

1. Welcome and Introduction

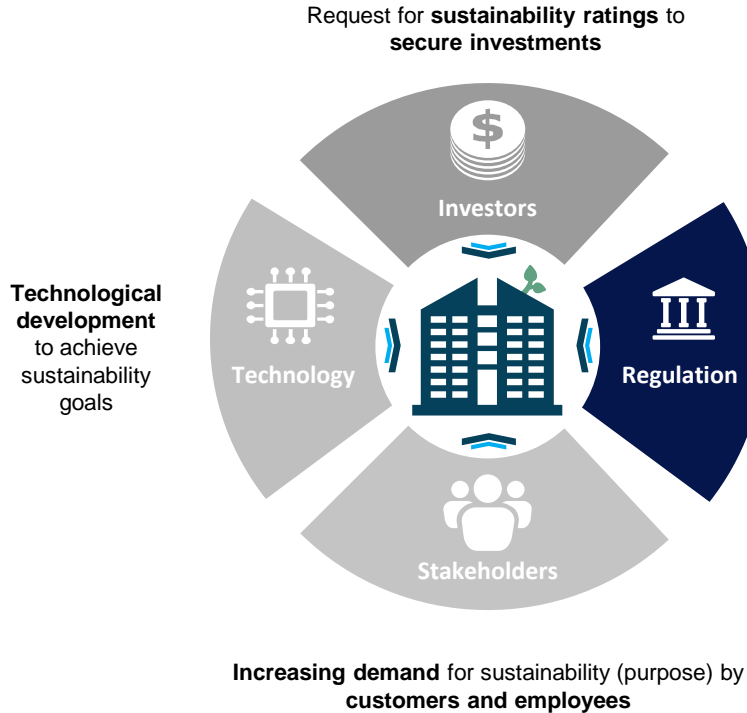
2. CSRD Reporting

3. Steering & Performance Management

4. Q&A and Closing



CSRD in Context - New regulatory and capital market requirements drive our ESG strategy and management and demand significantly enhanced reporting



Regulatory Requirements (Extract)

-Global-

- Paris Climate Agreement
- UN Guiding Principles for Human Rights
- UN Sustainable Development Goals
- OECD Guidelines for Multinational Enterprises
- ISSB Standards for Financial-related Sustainability Disclosures
- SEC Climate Disclosure Requirements















-EU-

- EU Action Plan on Sustainable Finance / European Green Deal
- EU Due Diligence Legislation (EU CSDDD)
- EU Taxonomy (EUT)
- EU Corporate Sustainability Reporting Directive (CSRD) + EU Sustainability Reporting Standards (ESRS)

-Germany-

- German Supply Chain Act (LkSG)
- German Corporate Governance Code (§161 AktG)
- CSR-RUG „CSR-Richtlinienumsetzungsgesetz“

Adaption of reporting obligations - Compared to status quo of the NFRD, the introduction of the CSRD significantly expands sustainability reporting scope

	NFRD status quo (2017-2023)		CSRD
 Companies in scope	<ul style="list-style-type: none"> Large public interest entities with size > 500 employees 		<ul style="list-style-type: none"> All large companies 2026+ also small capital market-oriented companies with > 10 employees
 Content	<ul style="list-style-type: none"> Focus on qualitative concepts/due diligence with regards to information regarding environmental, social and employee issues, respect for human rights, fight against corruption and bribery Focus on historic information Limitation of materiality to the company 	 	<ul style="list-style-type: none"> Strengthening quantitative information Content is framed by EU reporting standards (ESRS) in all ESG dimensions and includes EU Taxonomy Reporting Additional mandatory forward looking information Specification and clarification of double materiality
 Audit	<ul style="list-style-type: none"> Audit not mandatory 		<ul style="list-style-type: none"> Mandatory audit with limited assurance as a first step, perspective with reasonable assurance Board oversight
 Format	<ul style="list-style-type: none"> Free choice of presentation No obligation to provide electronic information 		<ul style="list-style-type: none"> Mandatory integration in the management report Obligation to provide ESEF data format
 Alongside further frameworks and initiatives	   		

Corporate Sustainability Reporting Directive (CSRD) – Entering a new era of non-financial reporting

New era for Accounting & Standardisation

“Not only in terms of content, but also for the accounting the new disclosure requirements mark the beginning of a turning point.”

“Far reaching impacts of the new era of standardisation”

Mairead McGuinness 2023

Strategy Integration

“Extended Integration into Strategy and Enterprise Risk Management”

Handelsblatt 2023

Transition costs, intensive work and competitive advantages

“There will certainly be transition costs and intensive work. But a company entering into the new with a positive mindset has little to fear.”

“Competitive advantages can be achieved by Integration of relevant ESG aspects into a coherent, company-specific and authentic strategy.”

Rethinking Finance 2023, Handelsblatt 2023



Capital market Issue

“Whatever the debates about going beyond financial materiality, there is no doubt that ESG is now a capital market issue”

Reuters 2023

Joint responsibility & collaboration

“Just under half of the DAX 40 companies (19) have placed the project to implement the ESRS in the area of responsibility of the CFO or the finance department. In some companies (7), various departments are jointly responsible”

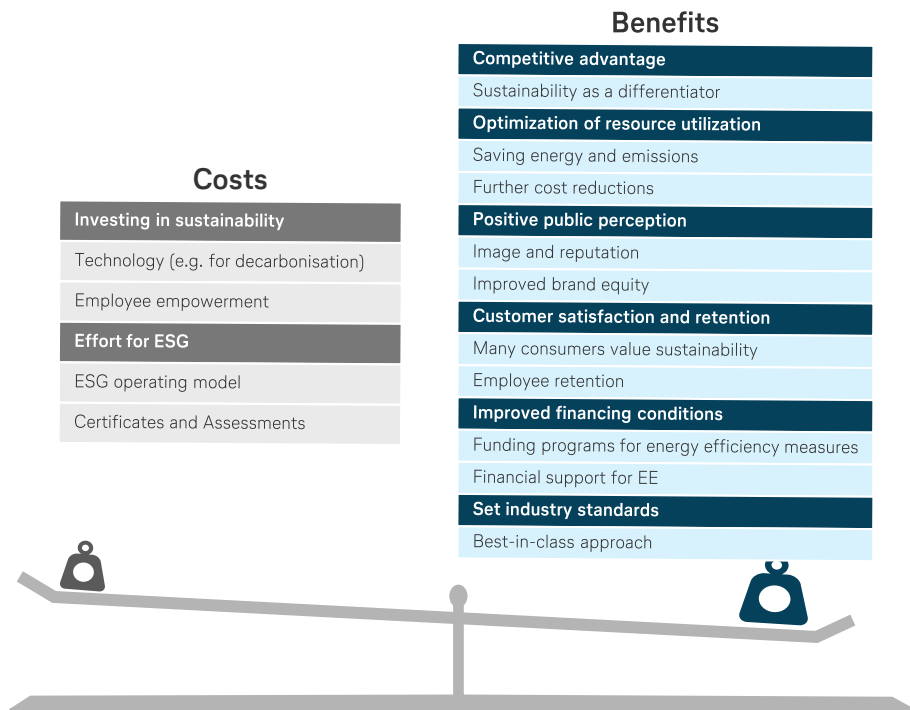
DRSC Survey 2023

International Topic - European Sustainability Reporting Standards (ESRS) along other Standards

“Almost all DAX 40 companies deal with (at least two) other reporting requirements in addition to the ESRS.(at least two) other reporting standards.”

DRSC Survey 2023

The CSRD goes along with significant efforts and challenges, but can also unlock opportunities



Benefits for frontrunners: Shaping an industry view and improving brand image

»» The new “Spotlight” and improved clarity and transparency, will be used for positioning and strengthening brand image. Springer 2021

90% see reporting capabilities as a competitive advantage

»» With robust ESG reporting by the CSRD, 90% of respondents see a clear competitive advantage in the coming years in terms of capital market interests

Workiva 2023

75% use ESG KPIs in risk assessment

»» More than 75% of investors explicitly include ESG risks in their investment decisions

PwC 2023

66 Basis points more favorable interest rate conditions

»» Possibility of cheaper financing through the inclusion of ESG criteria
Saïd Business School 2019

58% see ESG as a purchase criterion

»» For more than 58%, sustainability was an important or rather highly important purchase criterion

Simon & Kucher / Statista 2024

2045 Climate neutrale

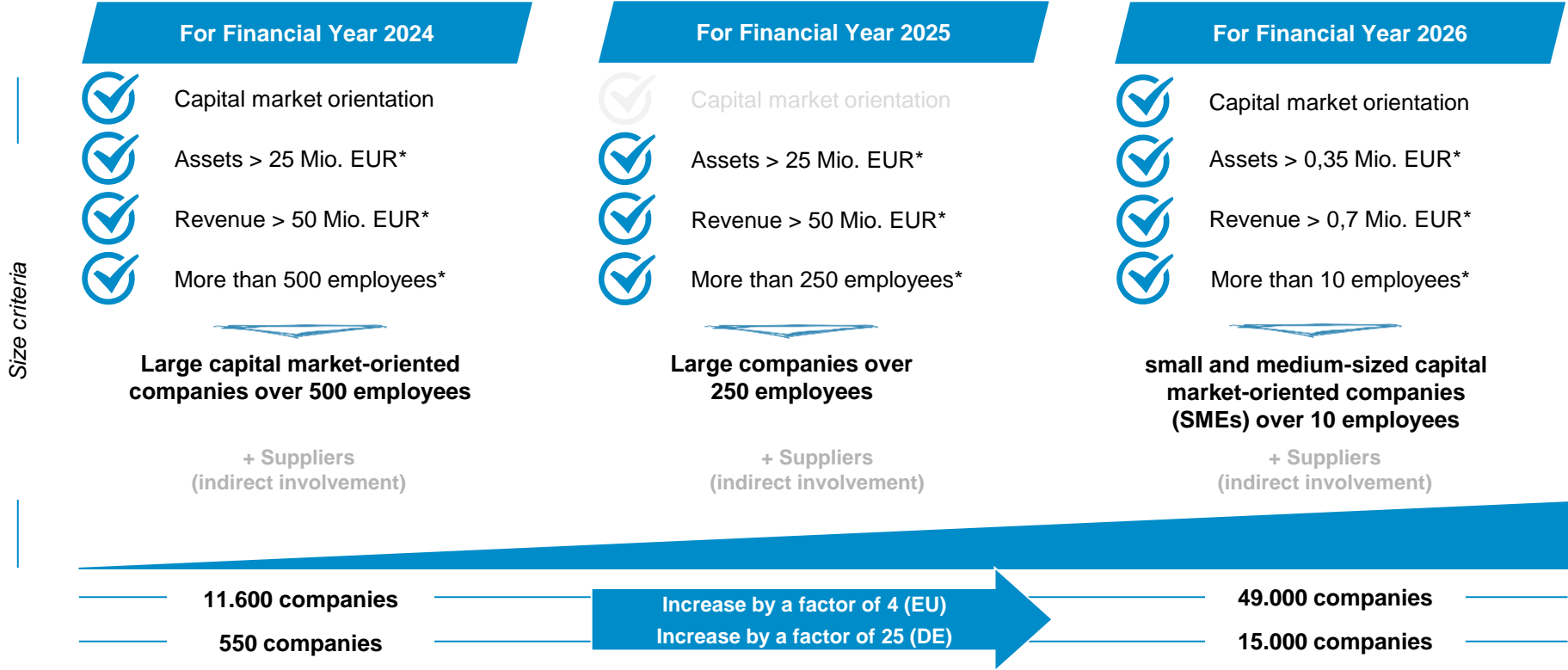
»» Germany's goal is to be climate-neutral by 2045 at the latest

The German Government 2021



What is new about „CSRD“?

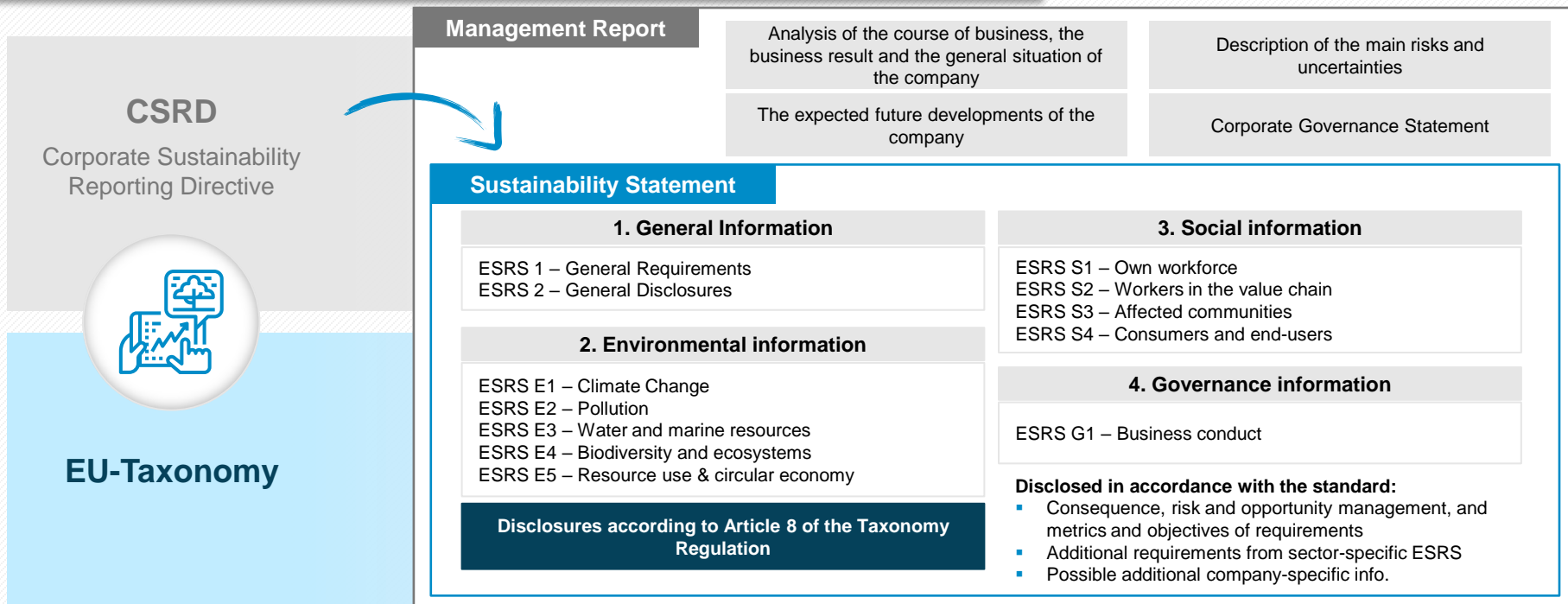
The new CSRD & EUT is obligatory for many companies, within the current applicable size criteria framework incl. SME's



* two of the 3 criteria must be met on two consecutive balance sheet dates

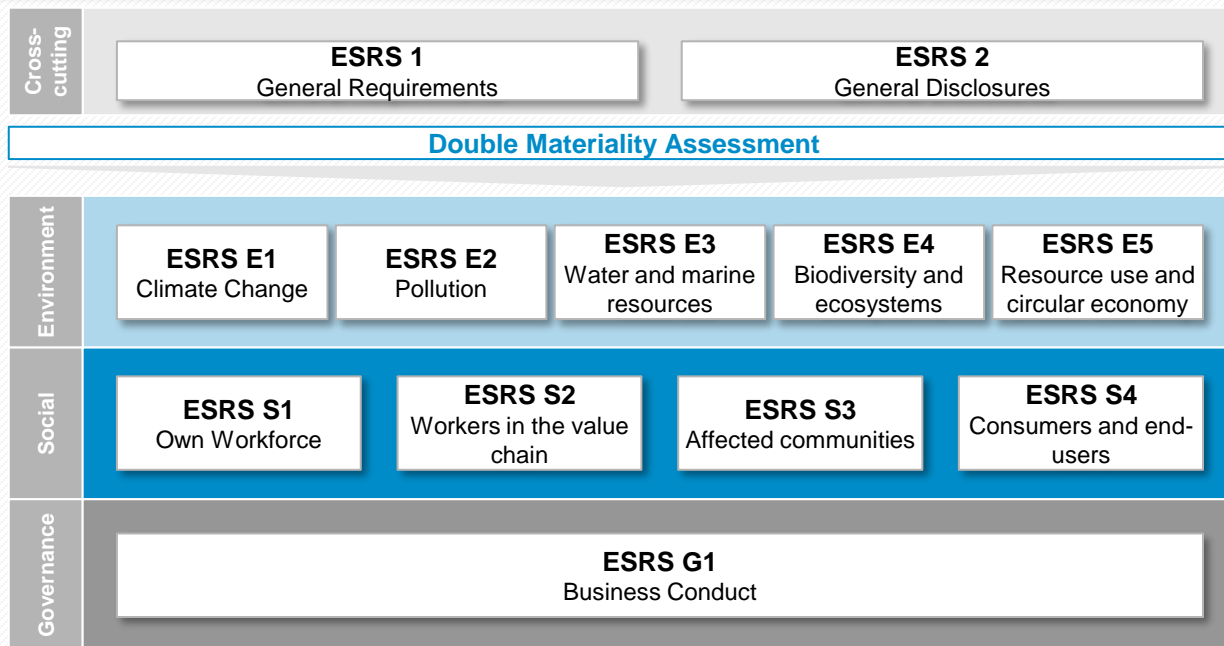
CSRD and EU Taxonomy must be included in a combined sustainability section in the management report


Sustainability section of the management report



The CSRD consists of 12 European Sustainability Reporting Standards (ESRS) that cover the 3 ESG areas

Structure of the ESRS



-  **12 „ESG“ Standards:**
5 „ENV“, 4 „SOC“, 1 „GOV“
-  **86 Disclosure Requirements**
(qualitative or quantitative information)
-  **>1,000 Datapoints**
-  **Double Materiality**
 - Financial materiality
 - Impact Materiality
-  **4 reporting areas:**
 - Governance
 - Strategy
 - Impact, Risk & Opportunity Management
 - Metrics & Targets

While the CSRD Directive is not directly national law - the ESRS are directly applicable law

The double materiality analysis is the basis for a company's further sustainability efforts by prioritizing the most important issues

Materiality analysis (according to CSRD)

Concept of double materiality

Inside-out perspective Impact Materiality



Reflects the organization's significant economic, environmental, and social impacts

Outside-in perspective Financial Materiality

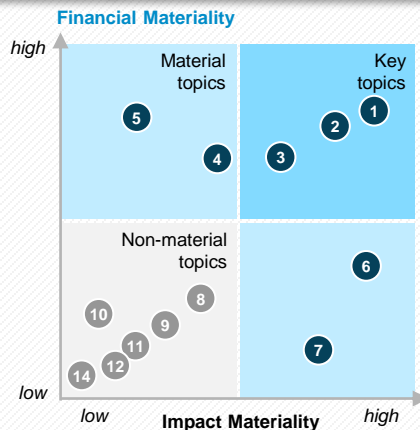


Likely to impact an organization's ability to create value over the long-term (financially-oriented definition)

Concept of double materiality



Materiality assessment (illustrative)



Identified key and material topics:

- | | |
|---------------------------------|-------------------------------|
| 1 Climate change mitigation | 5 Risk management |
| 2 Data governance & security | 6 Employee health & wellbeing |
| 3 Biodiversity & ecosystems | 7 Corporate citizenship |
| 4 Diversity, equity & inclusion | |

The **double materiality** approach is mandatory in CSRD and supports to...

- ...prioritize the **central fields of action** in sustainability area
- ...enable companies to **focus resources**
- ...companies to identify the **right measures** and inform stakeholders

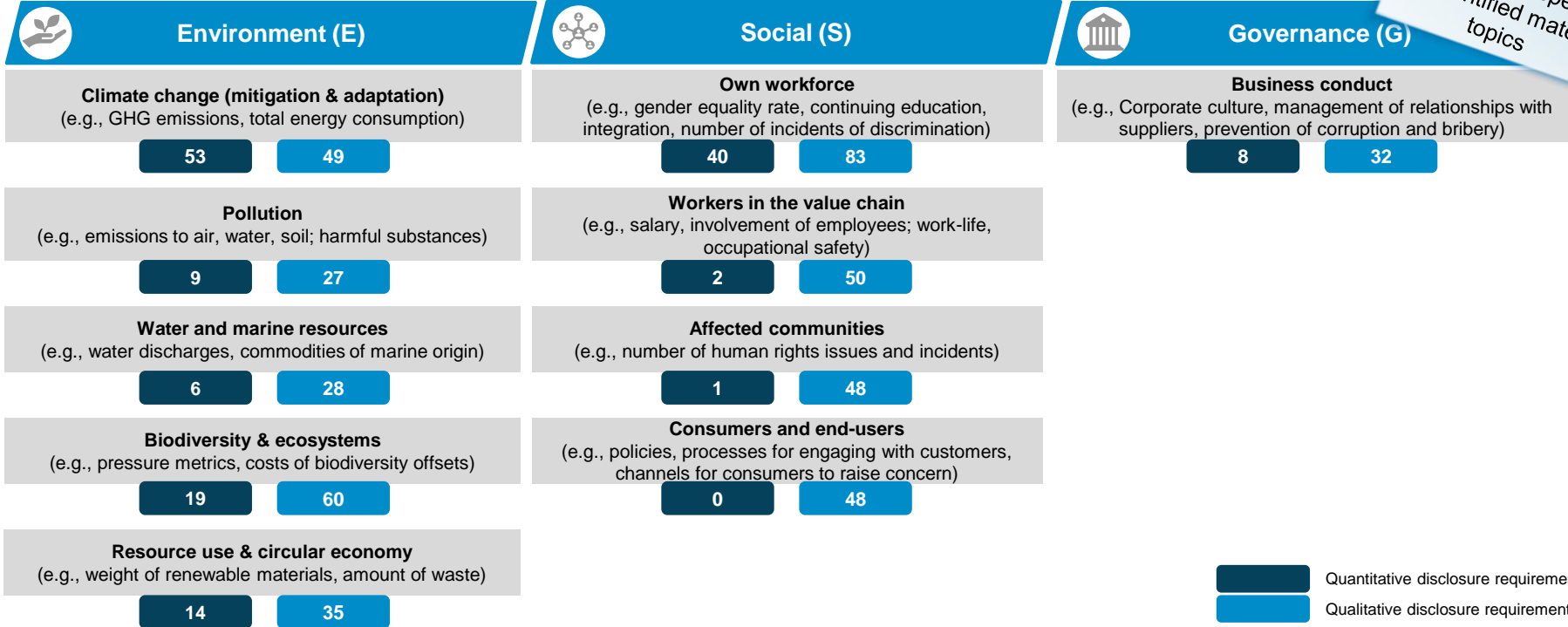
Every new materiality assessment should consider CSRD requirements to identify the material topics that are relevant for the next 5-10 years

Double materiality combines the **inside-out** (= assessing the **impact the company's actions have on the environment and the society**, i.e. CO2 emissions) and the **outside-in** (= assessing the **impact the environment and society potentially have on the company**, i.e. increased possibility of floodings due to global warming) **perspective**

The CSRD/ ESRS address numerous datapoints and establish a new form of transparency and standardization

A company's disclosure depends on identified material topics

Report topics



Quantitative disclosure requirements*
 Qualitative disclosure requirements*

* KPIs from Delegated ESRS (July 2023); own classification

The CSRD interlinks multiple topics, sub-topics and reporting areas – This leads to a high complexity that needs to be tackled



ESRS - Topics, Sub-topics, sub-sub-topics	E1 – Climate Change	E2 - Pollution	E3 – Water & Marine Resources	E4 – Biodiversity	E5 – Resource & circular economy	S1 – Own Workforce	S2 – Workers in the Value chain	S3 – Affected Communities	S4 – End users & consumers	G1 – Business Conduct
	<ul style="list-style-type: none"> Adaptation Mitigation Energy consumption 	<ul style="list-style-type: none"> Air Water Soil Food Sustance of (very high) concern Microplastic 	<ul style="list-style-type: none"> Water Marine resources 	<ul style="list-style-type: none"> Direct drivers of loss Species Ecosystems Ecosystems services 	<ul style="list-style-type: none"> Inflows Outflows Waste 	<ul style="list-style-type: none"> Working conditions Equal treatment Other work-related rights 	<ul style="list-style-type: none"> Economic, social, cultural rights Civil, political rights Indigenous peoples 	<ul style="list-style-type: none"> Information -related Personal safety Social inclusion 	<ul style="list-style-type: none"> Corporate culture Whistle-blowers Animal welfare Political engagement and lobbying Suppliers Corruption & bribery 	
			5 sub-sub-topics	11 sub-sub-topics		17 sub-sub-topics		11 sub-sub-topics	9 sub-sub-topics	

Reporting areas	Governance
	Strategy
	Impact, Risks and Opportunities (IROs)
	Metrics and targets

Deep-Dive: In topic S1 – own workforce - various sub-topics need to be addressed

Exemplary

	Topic	Sub-topic	Sub-sub-topic	Contents of the disclosure requirements
ESRS S1	Own Workforce	Working conditions	Secure employment	<ul style="list-style-type: none"> ▪ Policies ▪ Processes for engaging with workforce and remediate negative impacts ▪ Actions and targets on material impacts ▪ Characteristics of employees and non-employees ▪ Collective bargaining ▪ Diversity metrics ▪ Adequate wages and social protection ▪ Persons with disabilities ▪ Training and skill development ▪ Health and safety ▪ Work-life balance ▪ Remuneration metrics ▪ Human rights impacts
			Working time	
			Adequate wages	
			Social dialogue	
			Freedom of association	
			Collective bargaining	
			Work-life balance	
			Health and safety	
			Gender equality	
		Equal treatment and opportunities for all	Training & skill development	
		Persons with disabilities		
		Violence and harassment		
		Diversity		
		Other work-related rights	Child labour	
		Forced labour		
Adequate housing				
Privacy				

 <p>2 General strategy-related disclosure requirements related to stakeholders and IROs</p> <p>5 Disclosure requirements regarding policies, processes, actions and targets in relation to the undertaking's own workforce</p>	 <p>123 total data points</p>	<p>82 qualitative data points</p>

Deep Dive:

Example 1- Characteristics of the undertaking's employees is the disclosure requirement and 50a is one of the datapoints

ESRS standard: S1 – Own workforce

Disclosure Requirement S1-6 – Characteristics of the undertaking's employees

48. **The undertaking shall describe key characteristics of employees in its own workforce.**
49. The objective of this Disclosure Requirement is to provide insight into the undertaking's approach to employment, including the scope and nature of **impacts** arising from its employment practices, to provide contextual information that aids an understanding of the information reported in other disclosures, and to serve as the basis for calculation for quantitative **metrics** to be disclosed under other disclosure requirements in this Standard.
50. In addition to the information required by paragraph 40(a)iii of ESRS 2 *General Disclosures*, the undertaking shall disclose:
- (a) the total number of **employees** by head count, and breakdowns by gender and by country for countries in which the undertaking has 50 or more employees representing at least 10% of its total number of employees;
 - (b) the total number by head count or full time equivalent (FTE) of:
 - i. permanent employees, and breakdown by gender;
 - ii. temporary employees, and breakdown by gender; and
 - iii. non-guaranteed hours employees, and breakdown by gender.

Quantitative
Datapoint

Disclosure
Requirement

Example 2: Processes for engaging with own workforce and worker's representatives about impacts is the disclosure requirement and 27a one of the datapoints

ESRS standard: S1 – Own workforce

Disclosure Requirement S1-2 – Processes for engaging with own workforce and workers' representatives about impacts

25. **The undertaking shall disclose its general processes for engaging with people in its own workforce and workers' representatives about actual and potential impacts on its own workforce.**
26. The objective of this Disclosure Requirement is to enable an understanding of how the undertaking engages, as part of its ongoing due diligence process, with people in its **own workforce** and **workers' representatives** about material, actual and potential, positive and/or negative **impacts** that do or are likely to affect them, and whether and how perspectives of its own workforces are taken into account in the decision-making processes of the undertaking.
27. The undertaking shall disclose whether and how the perspectives of its **own workforce** inform its decisions or activities aimed at managing the actual and potential **impacts** on its own workforce. This shall include, where relevant, an explanation of:
 - (a) whether engagement occurs directly with the undertaking's own workforce or workers' representatives;
 - (b) the stage(s) at which engagement occurs, the type of engagement and frequency of the engagement;
 - (c) the function and the most senior role within the undertaking that has operational responsibility for ensuring that this engagement happens and that the results inform the undertaking's approach;

Qualitative
Datapoint

Disclosure
Requirement

Deep Dive: In each Appendix you can find the application requirements which have to be considered alongside the disclosure requirements

Disclosure Requirements

Disclosure requirements	4
ESRS 1 General disclosures	7
Disclosure Requirement related to ESRS 2 2000-2 - Interests and views of stakeholders	7
Disclosure Requirement related to ESRS 2 2000-3 - Material impacts, risks and opportunities and their interaction with strategy and business model(s)	7
Impacts, risks and opportunities management	8
Disclosure Requirement 10-1 - Policies related to own workforce	9
Disclosure Requirement 10-2 - Processes for engaging with own workers and workers' representatives about impacts	10
Disclosure Requirement 10-3 - Processes to remediate negative impacts and channels for own workers to raise concerns	10
Disclosure Requirement 10-4 - Taking action on material impacts on own workforce, and approaches to mitigating material risks and pursuing material opportunities related to own workforce, and effectiveness of these actions	11
Metrics and targets	12
Disclosure Requirement 10-5 - Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities	13
Disclosure Requirement 10-6 - Characteristics of the undertaking's employees	13
Disclosure Requirement 10-7 - Characteristics of non-employee workers in the undertaking's own workforce	14
Disclosure Requirement 10-8 - Collective bargaining coverage and social dialogue	14
Disclosure Requirement 10-9 - Diversity indicators	15
Disclosure Requirement 10-10 - Adequate wages	15
Disclosure Requirement 10-11 - Social protection	16
Disclosure Requirement 10-12 - Person with disabilities	16
Disclosure Requirement 10-13 - Training and skills development indicators	17
Disclosure Requirement 10-14 - Health and safety indicators	17
Disclosure Requirement 10-15 - Work-life balance indicators	18
Disclosure Requirement 10-16 - Compensation indicators (pay gap and total compensation)	18
Disclosure Requirement 10-17 - Incidents, complaints and severe human rights incidents and incidents	19

← 1:1 →

Concrete **information requirements** are referred to as **datapoints**. These can refer to **strategies, policies, targets, metrics**, etc. In addition, these can be **quantitative and/or qualitative**

Application Requirements

Appendix A: Application Requirements

This appendix is an integral part of the ESRS S1 Own workforce. It supports the application of the disclosure requirements set out in this standard and has the same authority as the other parts of the Standard.

Objective

- AR 1. In addition to the issues listed in paragraph 2, the information about other issues relevant to a material impact initiative regarding the health and safety of the own view of social matters provided in paragraph 2. The overview of social matters provided in paragraph 2. The overview of social matters provided in paragraph 2. The overview of social matters provided in paragraph 2.
- AR 2. The overview of social matters provided in paragraph 2. The overview of social matters provided in paragraph 2. The overview of social matters provided in paragraph 2. The overview of social matters provided in paragraph 2.
- AR 3. The overview of social matters provided in paragraph 2. The overview of social matters provided in paragraph 2. The overview of social matters provided in paragraph 2. The overview of social matters provided in paragraph 2.
- (i) Contractors hired by the undertaking to be carried out by an employee
- (ii) Contractors hired by the undertaking to be carried out by a client of the undertaking
- (iii) Contractors hired by the undertaking to be carried out by a third party or people who perform the same work that employee

Disclosure Requirement 10-5 - Targets related to managing material impacts, advancing positive impacts, as well as to risks and opportunities

- AR 40. When disclosing information about **targets** in accordance with paragraph 46, the undertaking may disclose:
- (a) the intended outcomes to be achieved in the lives of a certain number of people in its **own workforce**;
- (b) the stability of the **targets** over time in terms of definitions and methodologies to enable comparability over time; and/or
- (c) the standards or commitments which the targets are based on (for instance codes of conduct, sourcing policies, global frameworks, or industry codes).
- AR 50. **Targets** related to **risks and opportunities** may be the same as or distinct from targets related to **impacts**. For example, a target to reach **adequate wages** for non-employee could both reduce impacts on those people and reduce associated risks in terms of the quality and reliability of their output!
- AR 51. The undertaking may also distinguish between short-, medium- and long-term **targets** covering the same **policy** commitment. For example, the undertaking may have a long-term target to achieve an 80% reduction in health and safety incidents affecting its delivery drivers by 2030 and a near-term target to reduce the **overtime** hours of delivery drivers by 1% while maintaining their income by 2024.
- AR 52. When modifying or replacing a **target** in the reporting period, the undertaking may explain the change by cross-referencing it to significant changes in the **business model** or to broader changes in the accepted standard or legislation from which the target is derived to provide contextual information as per ESRS 2 2000-2. Disclosures in relation to specific circumstances.

For each disclosure requirement there are **additional application requirements** that need to be considered. **Application requirements** can be **definitions, descriptions, formulas, illustrations**, etc.

Deep Dive:

Example - The application requirements contain additional specifications for disclosing information about collective bargaining

Disclosure Requirement S1-8 – Collective bargaining coverage and social dialogue

Collective bargaining coverage

AR 66. The percentage of **employees** covered by **collective bargaining** agreements is calculated using the following formula:

$$\frac{\text{Number of employees covered by collective bargaining agreements}}{\text{Number of employees}} \times 100$$

AR 67. The **employees** in the undertaking's **own workforce** covered by **collective bargaining** agreements are those individuals to whom the undertaking is obliged to apply the agreement. This means that if none of the employees are covered by a collective bargaining agreement, the percentage reported is zero. An employee in the undertaking's own workforce covered by more than one collective bargaining agreement only needs to be counted once.

Important factors to look out for when reading

- To **which datapoint(s)** is the application requirement referring?
- What are the **implications** of the application requirements?
 - Definition
 - Calculation (as shown in the example)
 - Illustration
 - Clarification
 - ...

The introduction of the CSRD leads to substantial changes in non-financial reporting...

Impact of CSRD on companies



New processes

New & integrated reporting processes

Audit trail: Audit processes including financial & non-financial data

Anchoring in Risk Management, Compliance & Strategy



Increased reporting volume

Increase in the areas of ESG (environmental, social and governance)

Reporting in the areas of strategy, risk, organization

Consideration of a higher number of data points with higher granularity



Integrated reporting

Linking financial and non-financial issues

Mandatory integration into management report



Documentation

Detailed and audit-proof documentation required

From FY2023 Limited Assurance required

Perspectively: Reasonable Assurance required

Similar importance of financial and non-financial reporting expected



How to implement „CSRD“?

The CSRD phased model gradually transitions requirements from materiality to gap analysis and finally to implementation

CSRD: Horváth-5-Phase-Model

Status Quo & Requirements Analysis

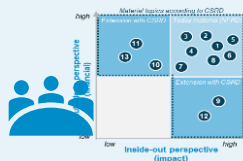
Jointly with EUT

- Content-based **requirements analysis** for each topic block
- Impact analysis** per topic block in terms of qualitative and quantitative content and processes



Materiality Assessment

- Identification of **relevant internal and external stakeholders**
- Determination of the **financial and impact materiality** of each topic
- Creation of a **materiality matrix ("double materiality")**



Gap Analysis

- Data availability assessment** with business units for material topics
- Identification of gaps** between information that is already available and information to be reported



Derivation of measures

- Detailing of **quantitative ESG targets and ambition levels**
- Structuring of the **data model**

Zielwerte: Die zu definierenden Ziele haben umfangreichen Vorgaben zu erfüllen & müssen daher plausibilisiert werden

Maßnahmen	Zielwert		Maßnahmen	Maßnahmen	Maßnahmen	Maßnahmen	Maßnahmen	Maßnahmen
	Maßnahmen	Maßnahmen						
Maßnahmen	Maßnahmen	Maßnahmen	Maßnahmen	Maßnahmen	Maßnahmen	Maßnahmen	Maßnahmen	Maßnahmen

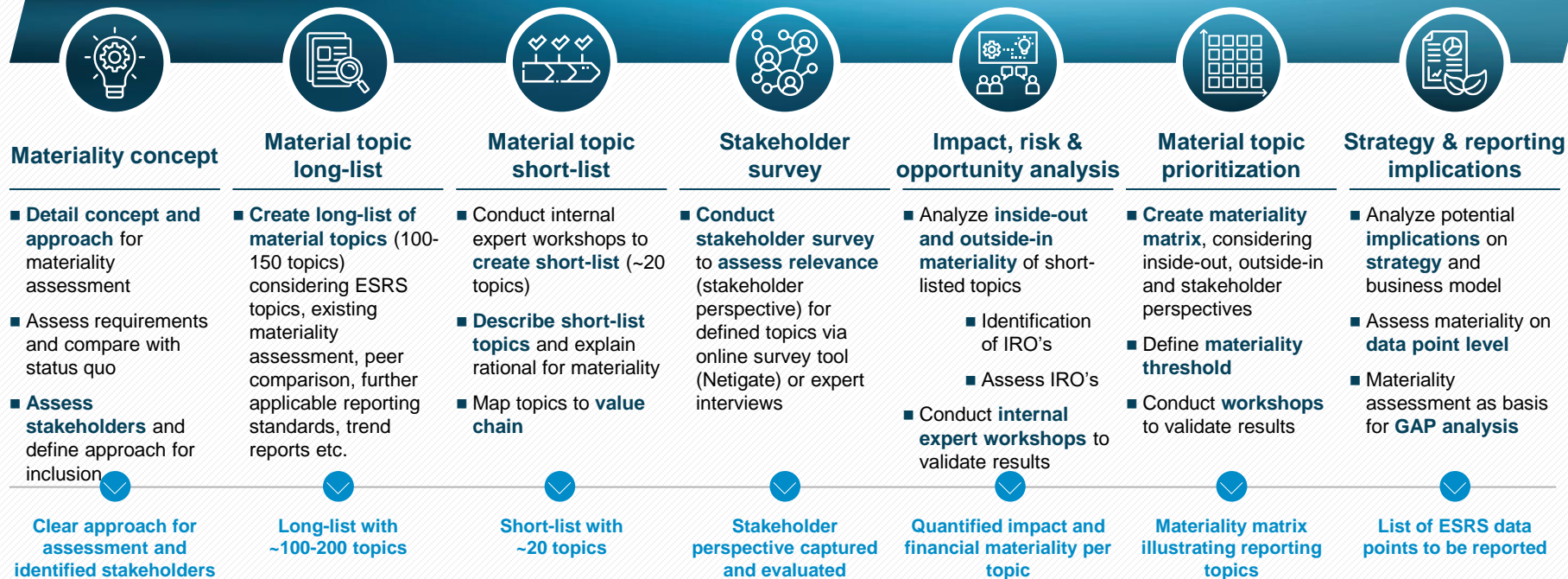
Integration into control process and systems

Jointly with EUT



Double Materiality defines reporting content - The materiality assessment follows a structured approach to ensure audit compliance

Horváth Materiality Assessment Approach



Outcome

Based on the list of material issues the gap analysis is conducted using detailed CSRD checklists at ESRS data point level

Schematic structure of the Horváth CSRD checklist

ESRS Checklist - Environment
Standard auf dem neuesten Stand mit 31.07.2023

Legende

- ESRS Standard (Level 1)
- Reporting Area (Level 2)
- Offenlegungspflichtigkeit (Level 3)
- Offenlegungspflichtigkeit (Level 4)
- Referenz zu ESRS 2 (Level 5)
- Inhalt der Offenlegungspflichtigkeit
- Charakter der Offenlegungspflichtigkeit
- Charakteristika (qualitativ)
- GAP-Analyse (quantitativ)

1 Identifizierung der Offenlegungspflichten

2 Charakter der Offenlegungspflichtigkeit

3 Materialitätsanalyse

4 GAP-Analyse

Wesentlichkeit		Status Quo		Evaluation			Verantwortlichkeit				
Wesentlich	Potenziell wesentlich	Information verfügbar?	Berichtsverfahren vorhanden?	Anforderung erfüllt?	Geschätzter Aufwand	Priorisierung	Zeitkritische Gap	Verantwortliche Person	Abteilung	Weitere Kontakte	Kommentare/Anmerkungen

■ Prefilled columns
■ To be completed in the materiality and GAP analysis

Checklist differentiable per dimension for each segment / each location

- Content** of the respective disclosure requirement with detailed reference to the standard (incl. methodological definition)
- Character of the disclosure requirement:** References to other standards, type of disclosure (mandatory, optional, phase-in), scope of application (own company, upstream/downstream value chain)
- Materiality:** Results of the materiality analysis
- GAP analysis:** Status quo of the reporting capability, Evaluation of the estimated effort, prioritization and responsibility

	Seg. 1	Seg. ...	Location n 1	Place...
Cross-cutting	☑	☑	☑	☑
Environmental	☑	☑	☑	☑
Social	☑	☑	☑	☑
Governance	☑	☑	☑	☑

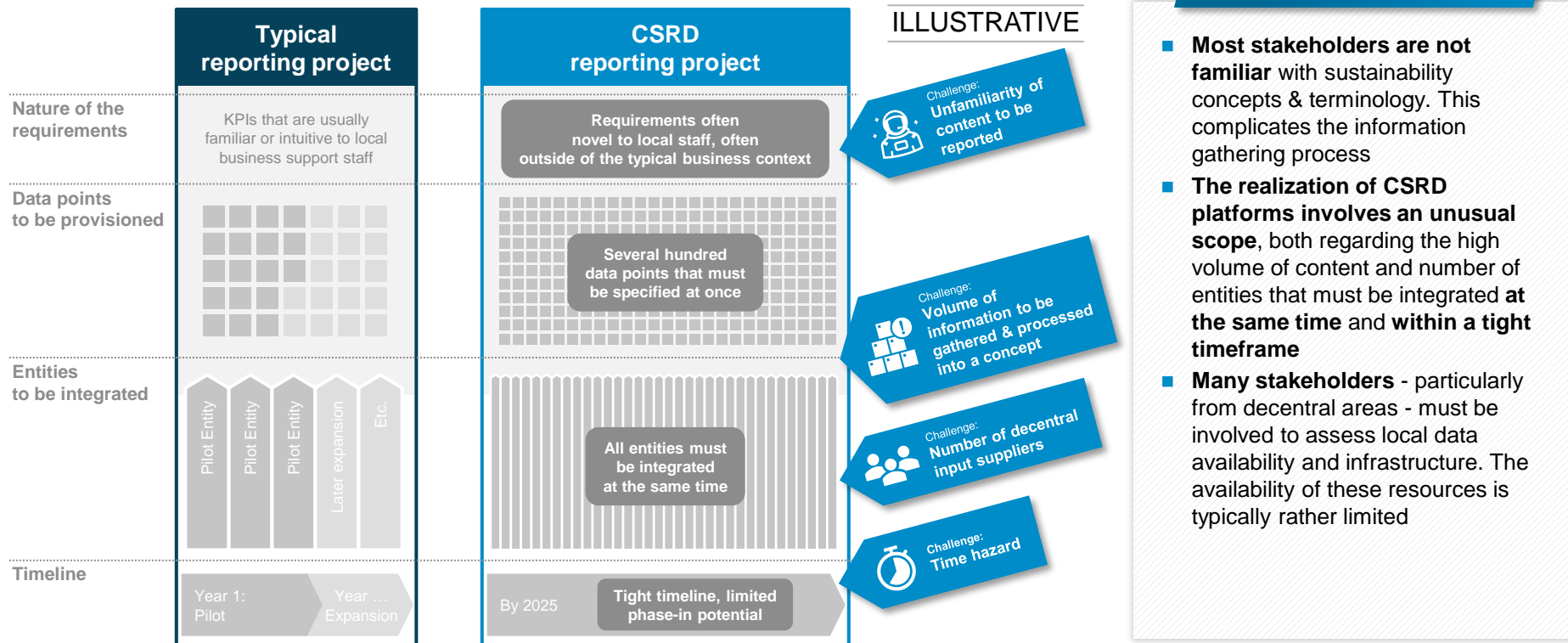
Remarks

- The **GAP analysis** is carried out using proven **checklists** to identify relevant disclosure obligations and assess the status quo (KPI availability incl. process and source system)
- Clustering and prioritization** of "unavailable" data points enables your company to close time **gaps** for the reporting obligation

Recommendation:

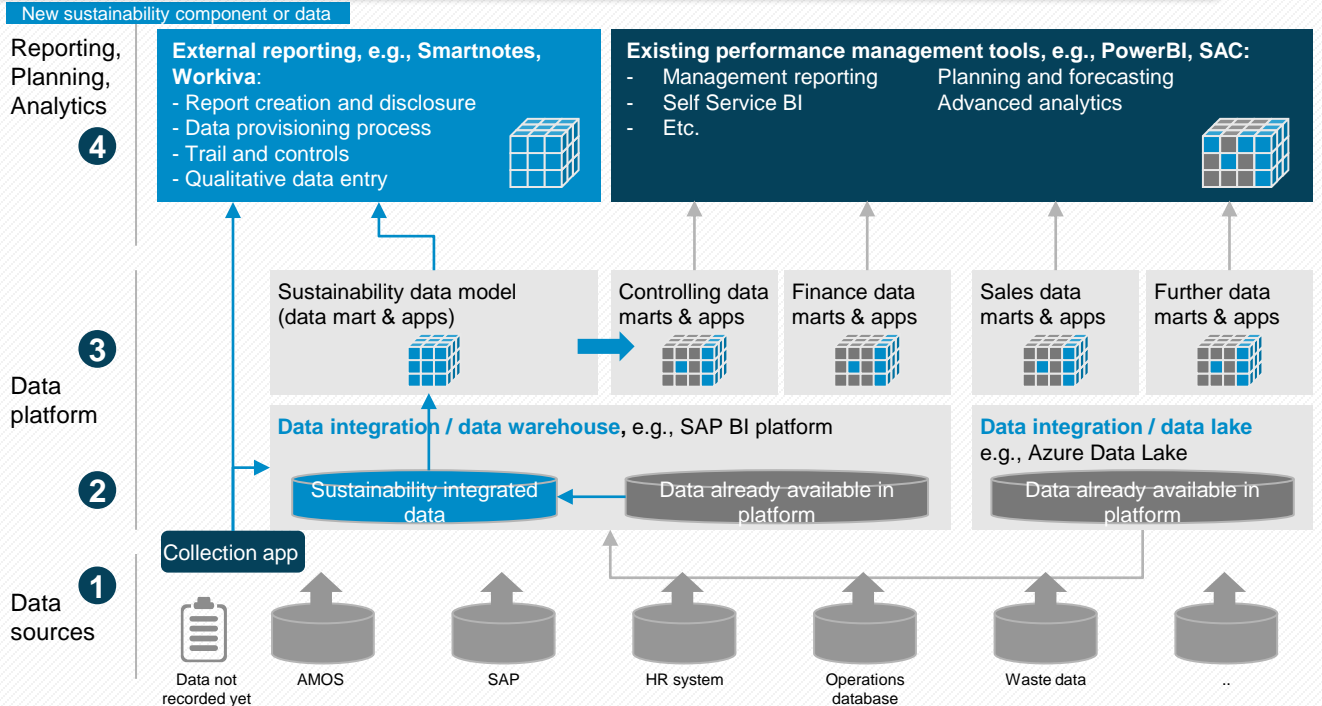
- Structured tools** (such as the checklist) are crucial to document data availability and sources
- Create **audit-proof documentation** of the results and assign clear **responsibilities** per data point

We know - devising & implementing the data strategy for a CSRD reporting poses an unconventional set of challenges



IT as key facilitator - Four decision categories are key to develop a customized and flexible IT architecture with focus on data collection

Potential IT target picture for ESG data



Key design options

- How to load which type of data source?**
 - Automated interface via platform
 - Flat file upload / data entry (e.g., SAC, Workiva)

→ Decide per data source via effort / benefit
- Where to store sustainability data?**
 - Existing data platform (*recommended*)
 - New platform (e.g., Workiva)
- Where to combine sustainability and performance mgmt. data models?**
 - In CSRD data model
 - In performance mgmt. data model (*recommended*)
- Which tool for disclosure and reporting, incl. process mgmt., ICS controls, security?**
 - E.g. .Smartnotes, Workiva

There are numerous challenges that need to be systematically addressed in projects...

We are faced with unique challenges...



Ambiguities in the regulatory framework



"Maximum Scope": Contents and Entities



Various interfaces within project setup



Needs of various stakeholder groups



Required key persons with low availability

...which we counter with a systematic approach!



Maximum compression of Disclosure requirements before implementation



Definition of specifications and working hypotheses



Use of existing processes and organizational structures



Provision of required knowledge



Knowledge building and Backfill

Key challenge data availability and quality: companies often have significant gaps to fill for sustainability reporting and management

Data availability and quality in green controlling

Data availability is a key challenge for sustainability

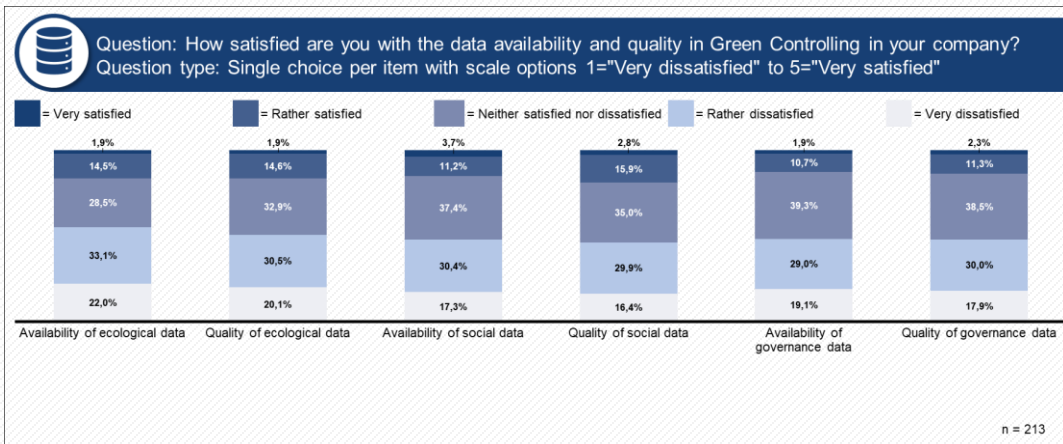


... of respondents are currently dissatisfied with **data availability and quality of sustainability information**



In particular with regard to **environmental information**, the future need for action is assessed as **particularly high**

The lack of data availability and quality exists across all sustainability dimensions



The current CSRD projects illustrate the enormous implementation effort and resource requirements for regular operation

First Experiences in the framework of the CSRD Implementation

Numerous reporting and control requirements in the future



>600 qualitative and quantitative CSRD KPIs, >1000 data points



Linking retrospective and future-oriented data

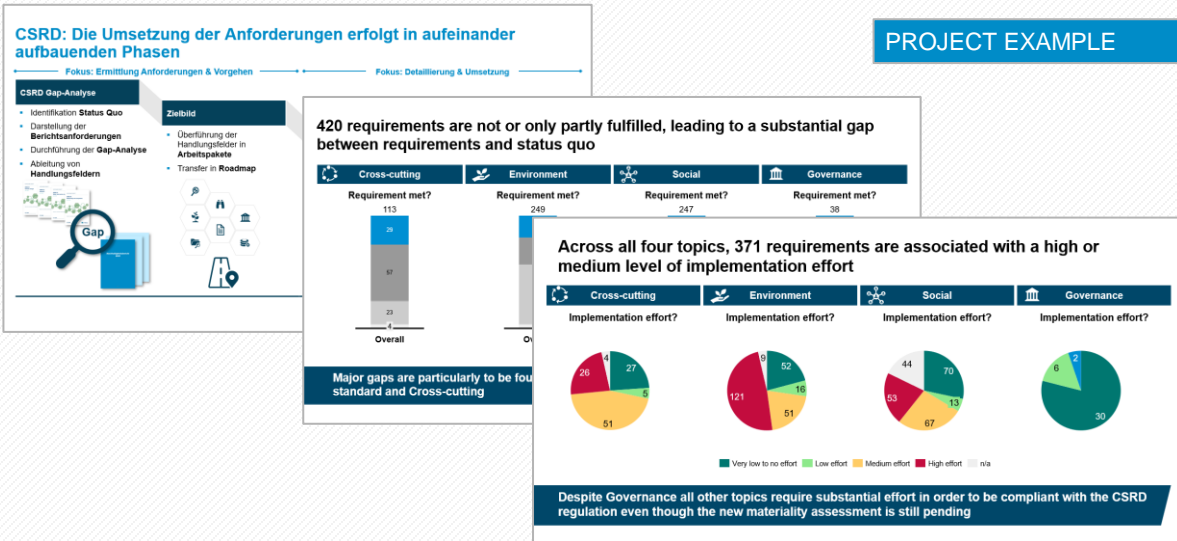


Reconciliation of financial and non-financial KPIs



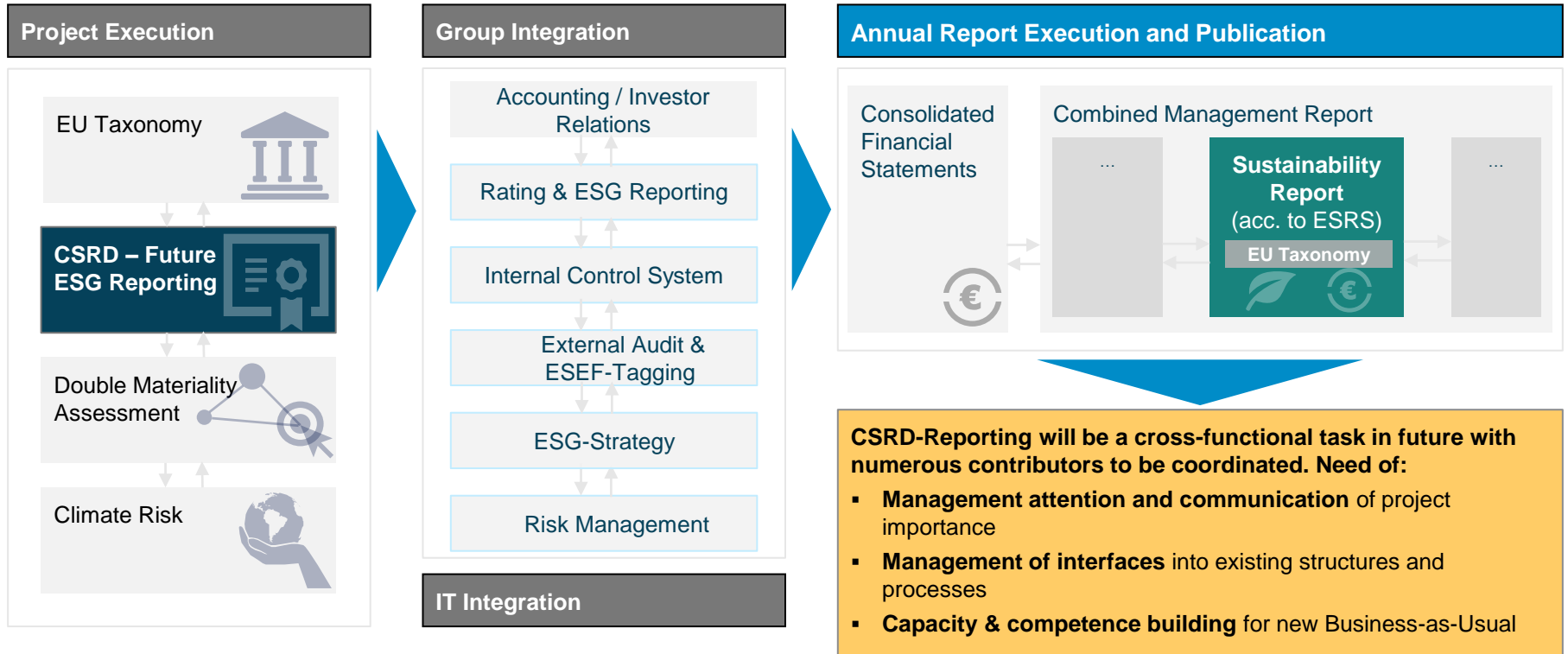
IT is a key success factor for efficient reporting and control

Even well-positioned companies will have to invest a great deal of effort to ensure that the requirements are met in a timely manner



* Based on own breakdown of disclosure obligations. Depending on individual materiality considerations by phase-in-period.

Future ESG-Reporting projects need group-wide support, require cross-functional collaboration and will lead to new Business-as-Usuals



CSRD-Reporting will be a cross-functional task in future with numerous contributors to be coordinated. Need of:

- **Management attention and communication** of project importance
- **Management of interfaces** into existing structures and processes
- **Capacity & competence building** for new Business-as-Usual

Content

1. Welcome and Introduction

2. CSRD Reporting

3. Steering & Performance Management

4. Q&A and Closing



The sustainability strategy must impact a company's service offering as well as the value creation

Core elements of a sustainability strategy



Sustainability ambition



Material topics

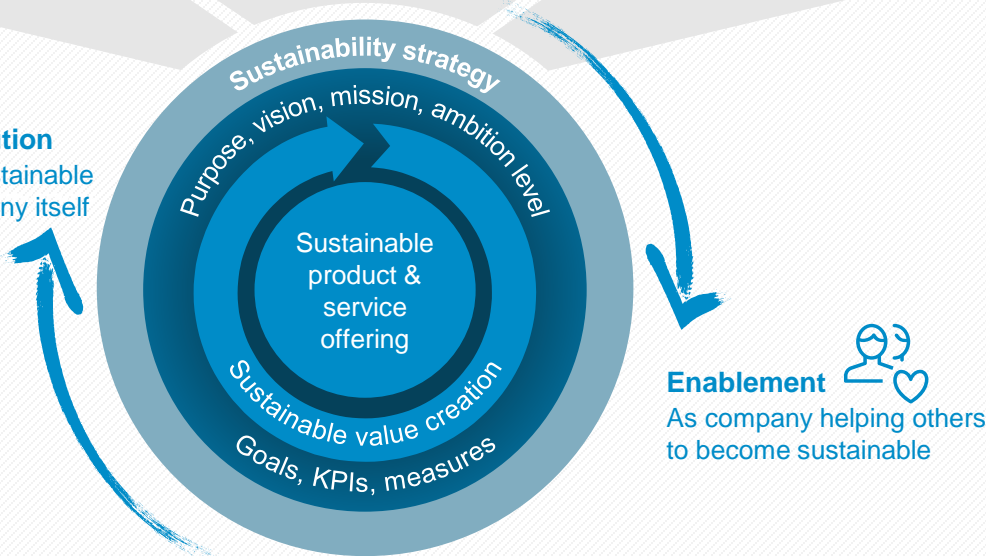


Regulatory requirements



Contribution

Being sustainable as company itself



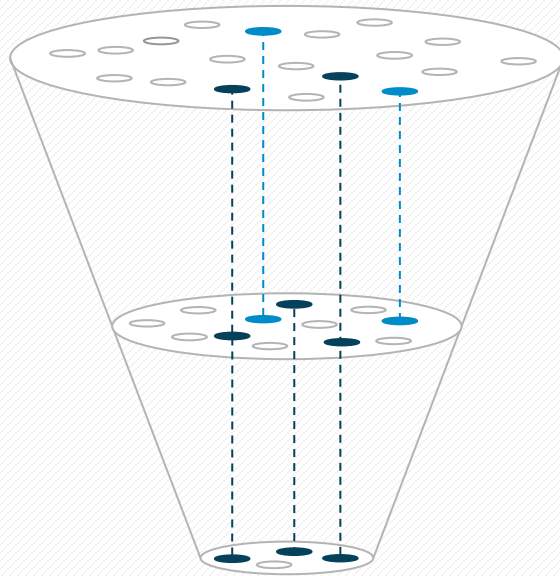
Enablement

As company helping others to become sustainable

- Sustainability needs to be understood holistically as **driver for competitive advantage and innovation**
- The strategy builds on the company ambition towards sustainability, its material topics and regulatory requirements
- The sustainability strategy needs to cover two perspectives:
 - **Contribution:** How the company will become sustainable (based on its own value creation)
 - **Enablement:** How the company supports others in becoming sustainable (based on its product and service offering)
- To ensure focus for implementation, the ESG strategy needs to be entirely integrated in the corporate strategy

An internal and external perspective needs to be considered, ideally with jointly used KPIs (one definition)

Overview disclosure and steering KPIs



Mandatory & voluntary ESG disclosure KPIs

>100 KPIs
e.g. Loss time injury rate
Total GHG emissions



Supporting ESG steering KPIs

>20 KPIs
e.g. Energy consumption
Gender pay gap



Top ESG steering KPIs

Approx. 10 KPIs
e.g. Total GHG emissions
Women in leadership



- The ESG KPI set reflects the required internal and external stakeholder requirements
- Whenever possible, steering and disclosure should be based on the same KPI definitions (incl. anticipation of future requirements)

Disclosure KPIs

- Covering current and future requirements (incl. CSRD, EU taxonomy) and voluntary disclosure (e.g., EcoVadis)

Steering KPIs

- Enabling the implementation of the corporate and ESG strategy
- Selection to reflect the prioritized material topics

Selection of KPIs for performance management follows a clear set of criteria – not everything that gets measured should get managed

Anchoring of sustainability in Audi's steering

EXCERPT

Based on the Audi AG 2022 Sustainability Report



Environmental

Material core topics for steering

- Emissions and energy along the value chain
- Alternative drive technologies and vehicle emissions
- Circular economy and sustainable materials

Further material disclosure topics

- Nature conservation and biodiversity

Strategic sustainability goals

- Carbon neutral plants by 2025
- -40% GHG vehicle life cycle emissions by 2030
- >20 e-models by 2027
- -10% waste per vehicle by 2025

Steering KPIs

- 1 GHG emissions (Scope 1-2)
- 2 Vehicle lifecycle emissions
- 3 Number of e-vehicle models
- 4 Tons waste per ton vehicle

Additional disclosure KPIs

- Biodiversity index
- Water consumption
- Wastewater disposal

Function Break-down & Measure integration in steering processes

- **Production** 1 4
 - Eliminating usage of fossil fuel in production sites
 - Review production processes that generate the highest volume of waste to identify opportunities for reduction
- **Procurement** 1 2 4
 - Sourcing of renewable energies for factories
 - Integrate Scope 3 Upstream as criteria for sourcing decisions
 - Sourcing of recycled materials for production
- **R&D** 2 3
 - Developing lower- and zero-emission vehicles



Social

- Occupational health and safety
- Corporate culture, inclusion and diversity

- Fair working conditions and modern working forms

- Minimize work-related accidents
- Promote employee health
- >12% women in tier n-1 and >20% in tier n-2 management

- 5 Work-related injuries by type
- 6 LTI rate: Lost Time Incidence per million working hours
- 7 Share of women in management

- Share of hybrid working agreements
- Training hours per employee

- **Production (incl. occupational health & safety)** 5 6
 - Global roll-out of an occupational health and safety management system (e.g. in line with the requirements of ISO 45001)
- **HR** 7
 - Establish female leadership programs



Governance

- Vehicle safety
- Sustainable corporate governance

- New mobility concepts
- Stakeholder focus and long-term customer relationships
- Responsible digitalization
- Corporate citizenship

- Provide highest possible safety standards
- Establishment of a new, integrity-based understanding of leadership

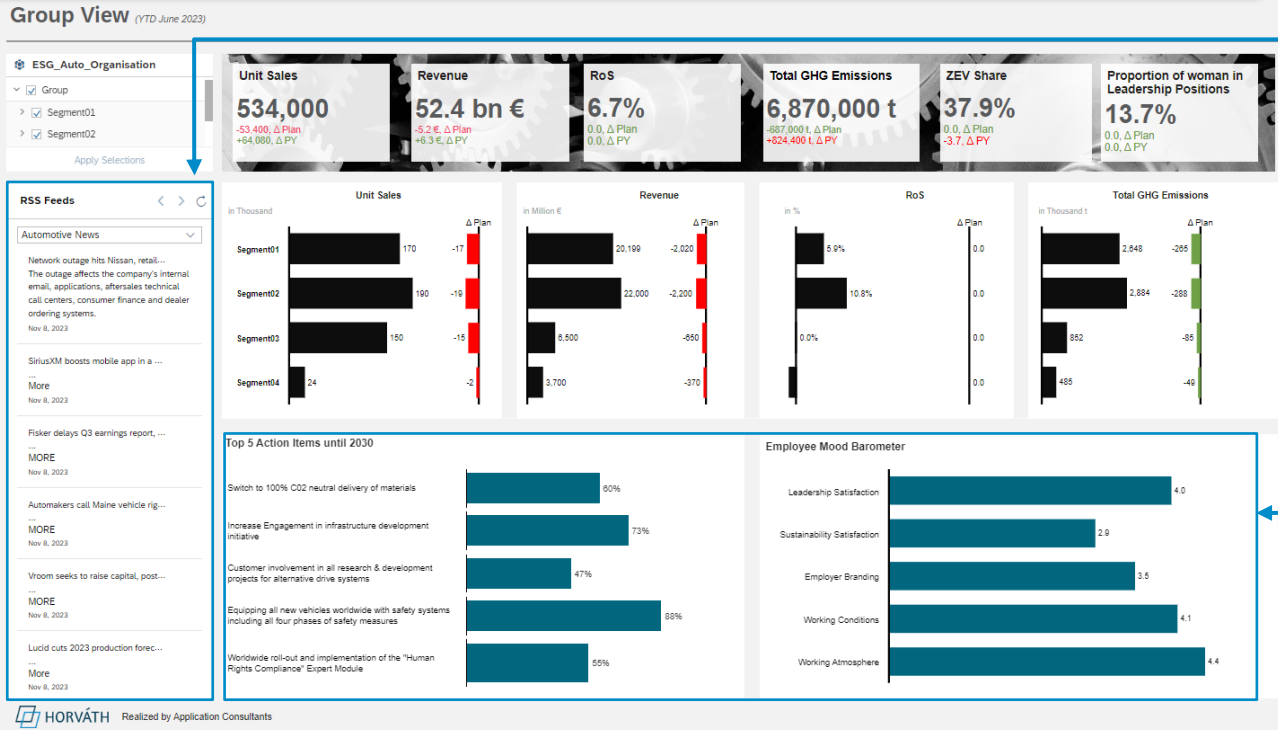
- 8 NCAP crash test rating for new models
- 9 Confirmed incidents of bribery or corruption

- Number and percentage of employees that received compliance training
- Number of supplier audits conducted

- **R&D** 8
 - Development of safety requirements in alignment with procurement
- **Legal & Compliance** 9
 - Provide regular training for employees on business ethics and compliance

Major sustainability KPIs must become a central element of regular performance management and reporting

Integrated sustainability showcase



Description

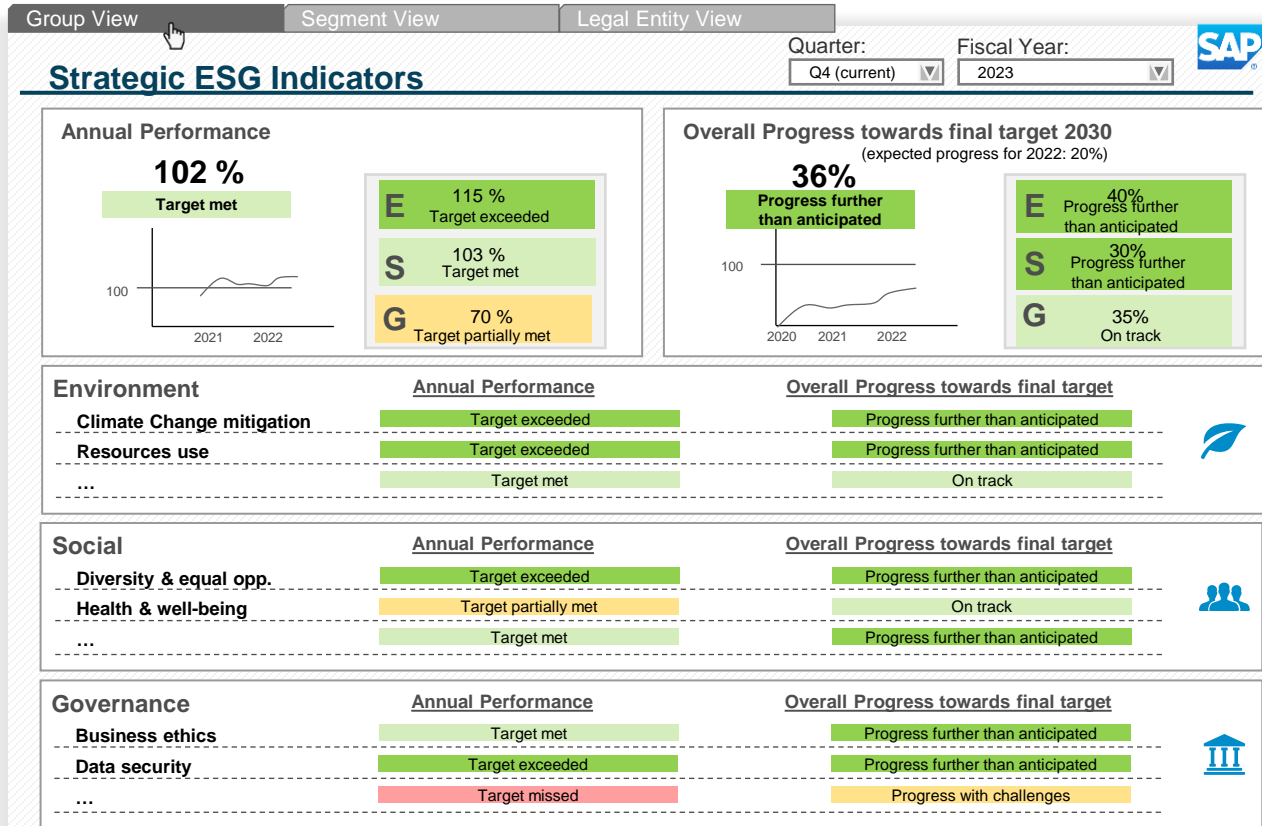
RSS feeds

- Real-time news on current developments in the automotive industry

Measure tracking

- Degree of target achievement of the top action items

The ESG performance can finally be displayed in a dashboard

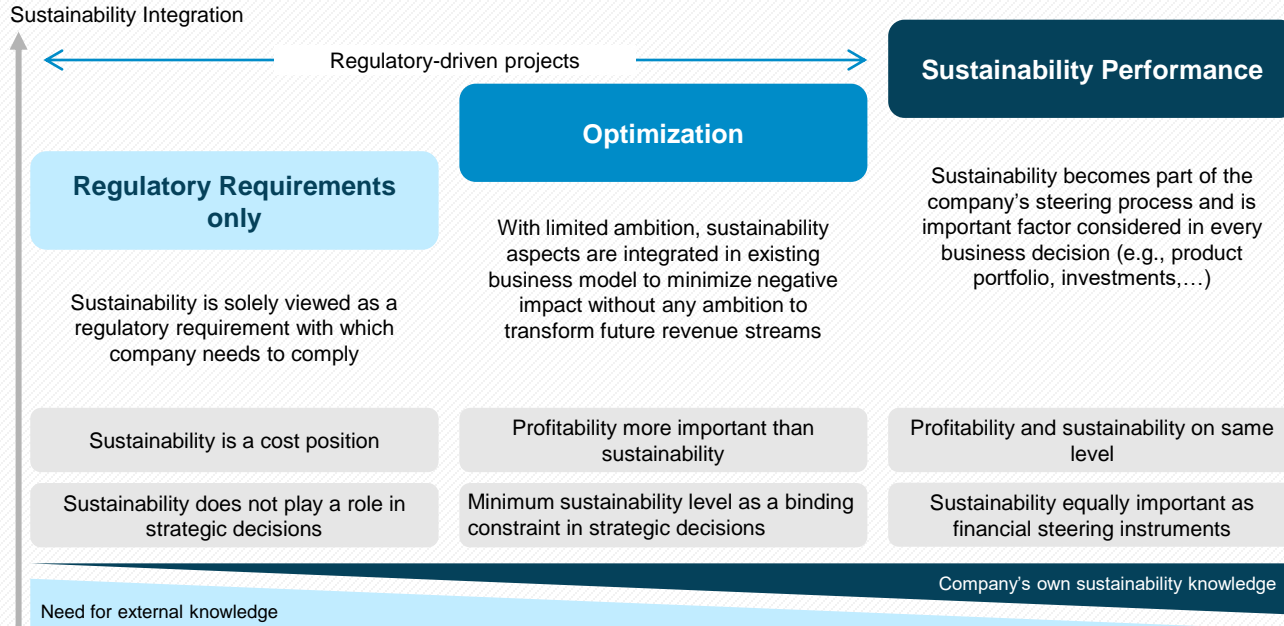


Description

- The degree of **target achievement** is reported on a **quarterly basis**
- The overall ESG performance and the respective performance of the sub-dimensions **E**, **S** and **G** are presented as an **aggregated index** value
- In addition to the index values, the performance of the individual ESG topics is clearly presented in order to ensure **transparency** and **enhance interpretability**
- Limitations:** An aggregated presentation of ESG performance can support management, but actual **steering is only possible at the level of individual KPIs**

Defining the own sustainability ambition, gives the strategic direction and cornerstones for regulatory and performance mgmt. activities

Different levels of integration to consider regarding sustainability



- **Starting point** of the sustainable finance transformation should be defining the own **sustainability ambition**
- Handling sustainability as **only regulatory effort** is the **leanest option** with **minimum short-term cost**
- Integrating sustainability fully into **performance management processes** is often accompanied with high costs but enables company to **create sustainable value** and build up **competitive advantage**
- When higher level of integration is desired at a later point in time, **cost and efforts will increase** as well **as long term-demand for external expertise** compared to including sustainability performance in ambition early on

Depending on the defined steering ambition, the steering model can be developed in different ways

Mapping of sustainability aspects in steering – three stages

1 Separate steering

Sustainability and financial KPIs are separately steered. Separate steering is the current state-of-the-art in sustainability steering. However, separate management does not provide a connection to the financial impact of ESG measures

	Material core topics for steering	Strategic sustainability goals	Steering KPIs
Environmental	■ Climate Change	■ Carbon Neutrality by 2025	■ GHG Emission Scope 1-3
Social	■ Occupational Health & Safety	■ Improve Safety at Work by 2025	■ Lost Time Incident Rate

Instruments:
 ESG Steering KPIs
 ESG performance index
 Driver trees to identify measures

2 Integrated steering

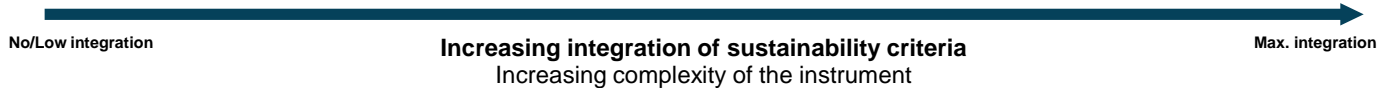
Financial and sustainability KPIs are intertwined. The aim is to create transparency regarding the financial impact of sustainability measures. However, in case of ambiguities decisions need to be made individually.

Instruments:
 Integrated steering map
 Integrated ESG performance index
 Integrated driver trees

3 Impact steering

Extension of the financial effects through the additional inclusion of external effects as a monetary value (via "conversion factor"). The aim is to optimize impact rather than just financial success.

Instruments:
 Net impact to society
 SROI



Depending on the defined steering ambition, the steering model can be developed in different ways

Mapping of sustainability aspects in steering – three stages

1 Separate steering

Sustainability and financial KPIs are separately steered. Separate steering is the current state-of-the-art in sustainability steering. However, separate management does not provide a connection to the financial impact of ESG measures

	Material core topics for steering	Strategic sustainability goals	Steering KPIs
Environmental	Climate Change	Carbon Neutrality by 2025	GHG Emission Scope 1-3
Social	Occupational Health & Safety	Improve Safety at Work by 2025	Lost Time Incident Rate

Instruments:
 ESG Steering KPIs
 ESG performance index
 Driver trees to identify measures

2 Integrated steering

Financial and sustainability KPIs are intertwined. The aim is to create transparency regarding the financial impact of sustainability measures. However, in case of ambiguities decisions need to be made individually.

Instruments:
 Integrated steering map
 Integrated ESG performance index
 Integrated driver trees

3 Impact steering

Extension of the financial effects through the additional inclusion of external effects as a monetary value (via "conversion factor"). The aim is to optimize impact rather than just financial success.


Instruments:
 Net impact to society
 SROI

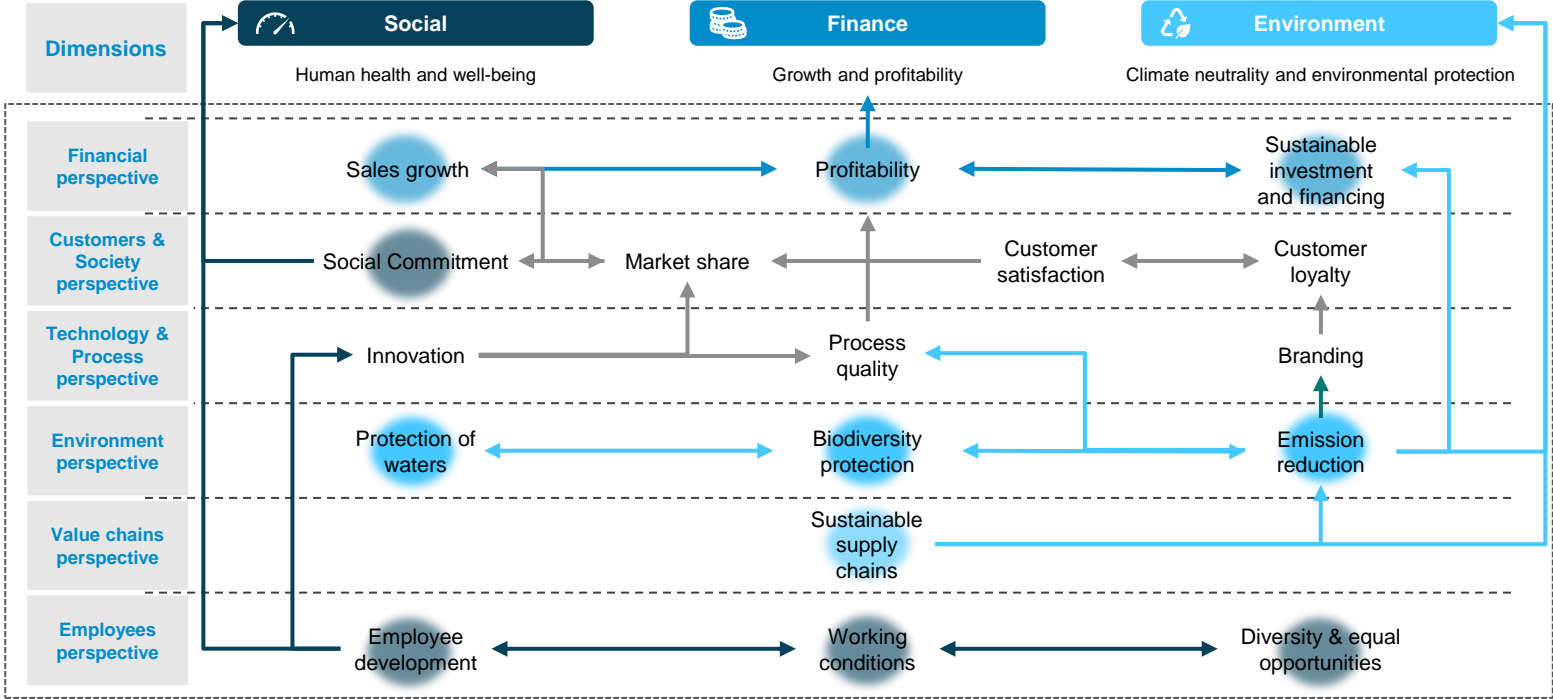
No/Low integration

Increasing integration of sustainability criteria
 Increasing complexity of the instrument

Max. integration

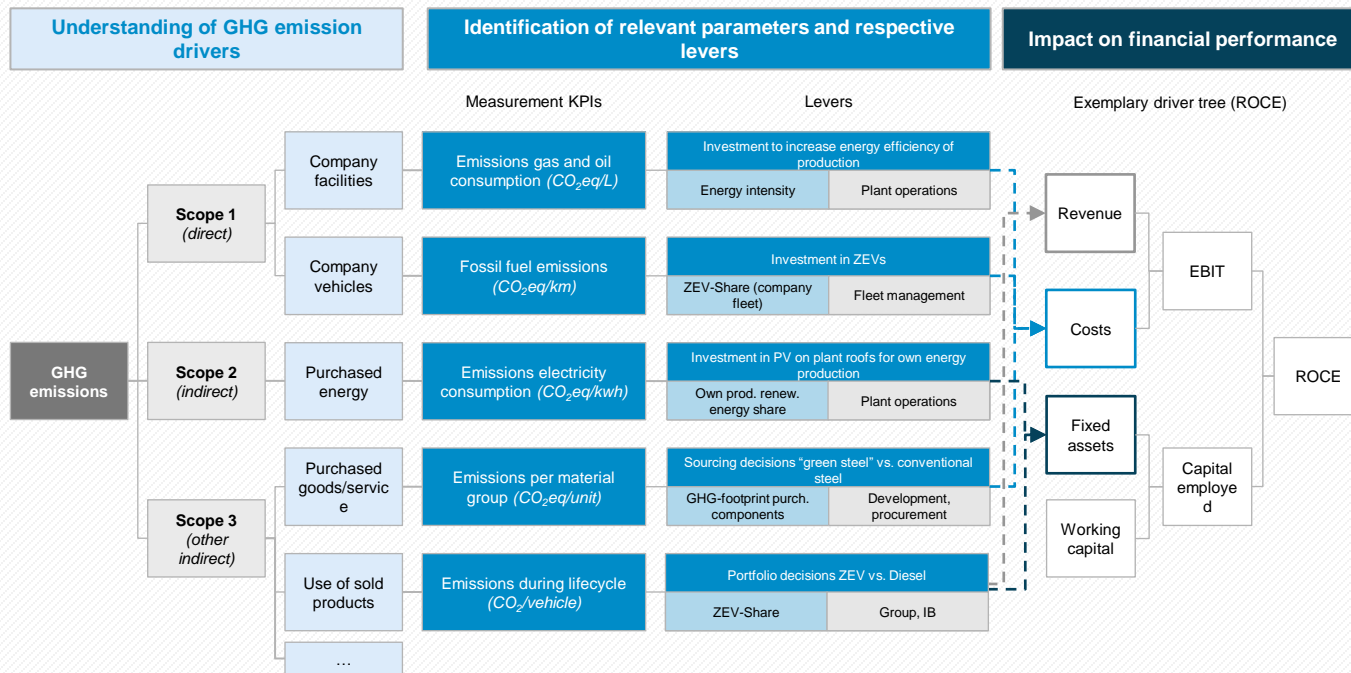
Case in Practice – Sustainability Steering Map

 Contribution to business, society and the environment



“Driver trees” are the tool of choice to make interdependencies transparent, define levers, and assign responsibilities

Exemplary integrated driver tree for GHG emissions



- An **integrated driver tree** makes interdependencies between sustainability and financial performance visible and is a **crucial instrument for integrated steering**
- The **GHG emission driver tree** indicates which levers are needed to **reduce GHG emissions**. In addition, responsibilities and relevant sustainability KPIs can be defined
- By linking the **GHG emission driver tree** to **financial steering**, **financial impacts** due to changes in **respective levers** can quickly be assessed

Depending on the defined steering ambition, the steering model can be developed in different ways

Mapping of sustainability aspects in steering – three stages

1 Separate steering

Sustainability and financial KPIs are separately steered. Separate steering is the current state-of-the-art in sustainability steering. However, separate management does not provide a connection to the financial impact of ESG measures

	Material core topics for steering	Strategic sustainability goals	Steering KPIs
Environmental	Climate Change	Carbon Neutrality by 2025	GHG Emission Scope 1-3
Social	Occupational Health & Safety	Improve Safety at Work by 2025	Lost Time Incident Rate

Instruments:
 ESG Steering KPIs
 ESG performance index
 Driver trees to identify measures

2 Integrated steering

Financial and sustainability KPIs are intertwined. The aim is to create transparency regarding the financial impact of sustainability measures. However, in case of ambiguities decisions need to be made individually.

Instruments:
 Integrated steering map
 Integrated ESG performance index
 Integrated driver trees

3 Impact steering

Extension of the financial effects through the additional inclusion of external effects as a monetary value (via "conversion factor"). The aim is to optimize impact rather than just financial success.

Instruments:
 Net impact to society
 SROI

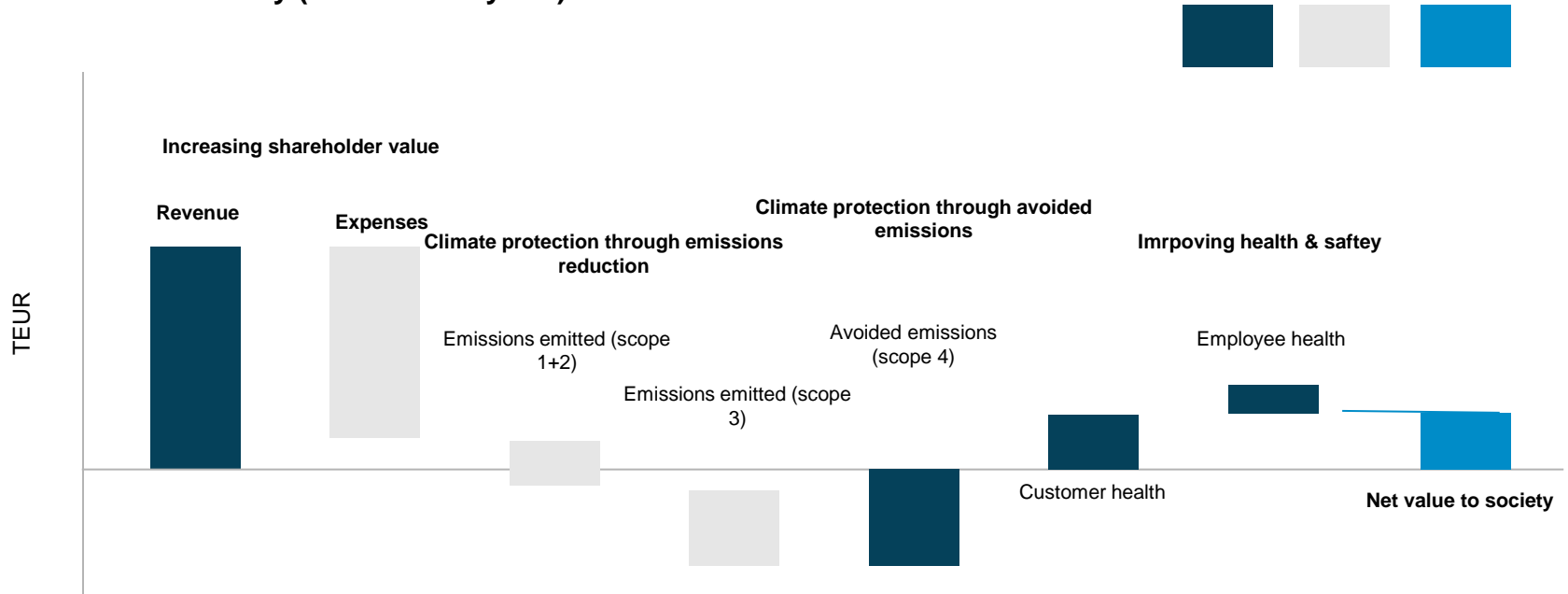
No/Low integration

Increasing integration of sustainability criteria
 Increasing complexity of the instrument

Max. integration

Net impact reports can be used to increase transparency towards a company's overall impact by illustrating the positive and negative impacts

Net value to society (Sustainability P/L)



Comparison of the value created with input and alternatives

USE CASE

The SROI puts the input in relation to the value created

Social Return on Investment:

- Was **originally developed for non-profit organizations** based on the return on investment (ROI)
- Should show how great the **social added value** of a **social measure** is compared to the input

$$\text{SROI} = \frac{\text{Output}}{\text{Input}} = \frac{\text{Value of Impact}}{\text{Financial Contribution}} = \frac{1.200.000 \text{ EUR}}{90.000 \text{ EUR}} = \sim 13,3^*$$

Illustrative

Procedure:

- Calculation of the SROI for the project to be **analyzed and for alternative projects**
- Selection of the project or projects with **the highest SROI (if >1)**

* A project is considered useful if the SROI is > 1

Depending on the defined steering purpose, the investment evaluation can be developed in different ways

Mapping of sustainability aspects in investment appraisal – three stages

1 Addition of sustainability aspects

Addition of selected sustainability aspects to the economic consideration, e.g., by means of exclusion lists

Example

Investment alternatives after reviewing the exclusion lists

A B C D

2 Quantitative

Integration of a quantitative assessment of selected sustainability aspects, e.g., by means of a value-benefit analysis or a two-dimensional matrix

Example

Existing evaluation criteria (e.g., profitability)

high medium low

negative neutral positive

„Sustainability Impact“

3 Monetization

Extension of the economic investment calculation through the additional inclusion of external effects as a monetary value (via "conversion factor")

Example

	A	B	C	D
Investment				
Costs – Financial				
Costs – external effects				
Benefit				
...				
...				
Investment calculation				
Net Cash Flow				
....				

Increasing integration of sustainability criteria
Increasing complexity of the instrument

An imputed CO₂ price leads to significant additional costs if taken into consideration

Purchasing decision: "Green" steel?

Calculation


- Quantity needed: 100 tons of steel
- Internal CO₂ price 2022: **55 € / tCO₂e**

Purchasing costs	Material price
-------------------------	----------------

CO₂-emissions	Scope 1
	Scope 2
	Scope 3
	Sum

Total [€]	AC incl. CO₂ costs
------------------	--------------------------------------

Purchasing alternatives

Variant A "Dirty" steel		Variant B "Green" steel		Deviation Var. A vs. Var. B
Amount [t]	Costs [€]	Amount [t]	Costs [€]	
100	100,000	100	105,000	5,000
				
t CO ₂	€	t CO ₂	€	Actual impact on profitability if B is chosen
-	-	-	-	
-	-	-	-	
150	8,250*	25	1,375**	
150	8,250*	25	1,375**	- 6,875
	108,250		106,375	- 1,875

*150 x 55; **25 x 55



Content

1. Welcome and Introduction

2. CSRD Reporting

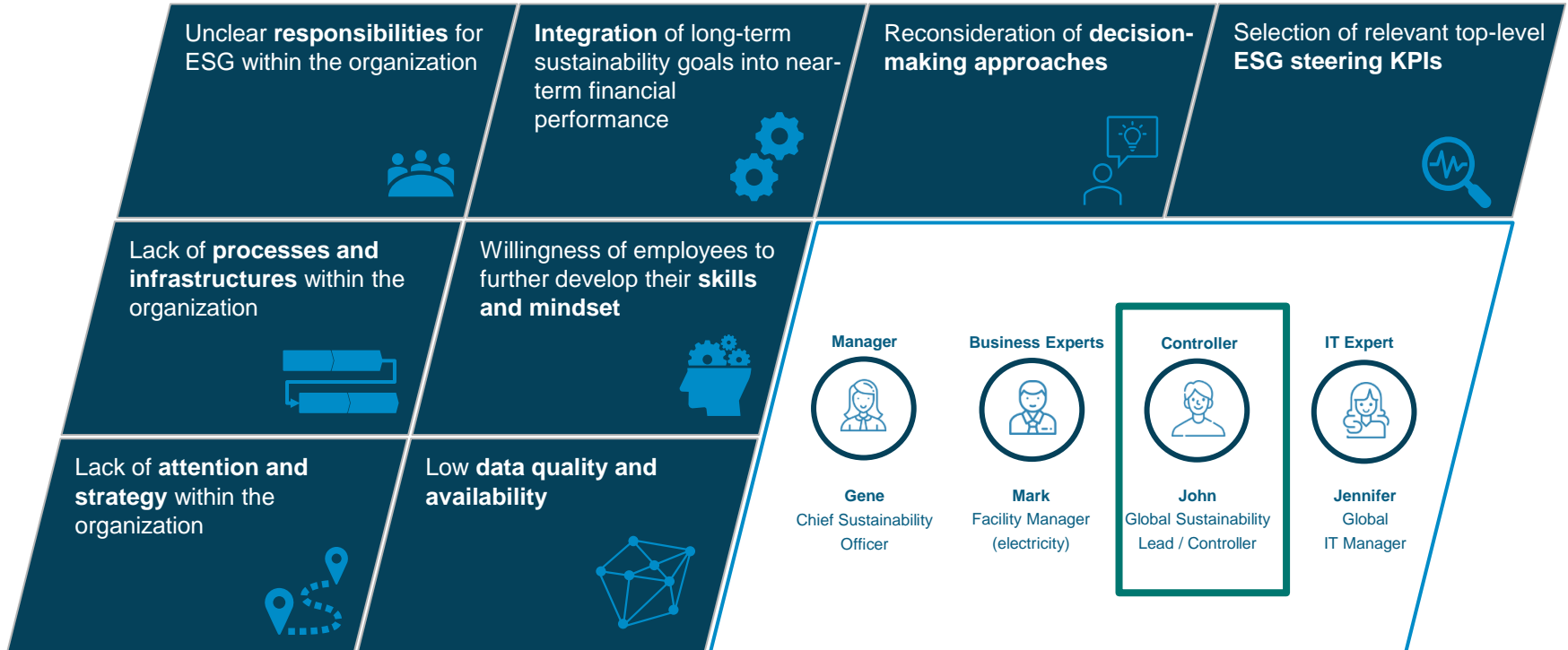
3. Steering & Performance Management

4. Q&A and Closing



Sustainability performance management brings major challenges with it and requires innovations in company-wide processes

Challenges for sustainability performance management

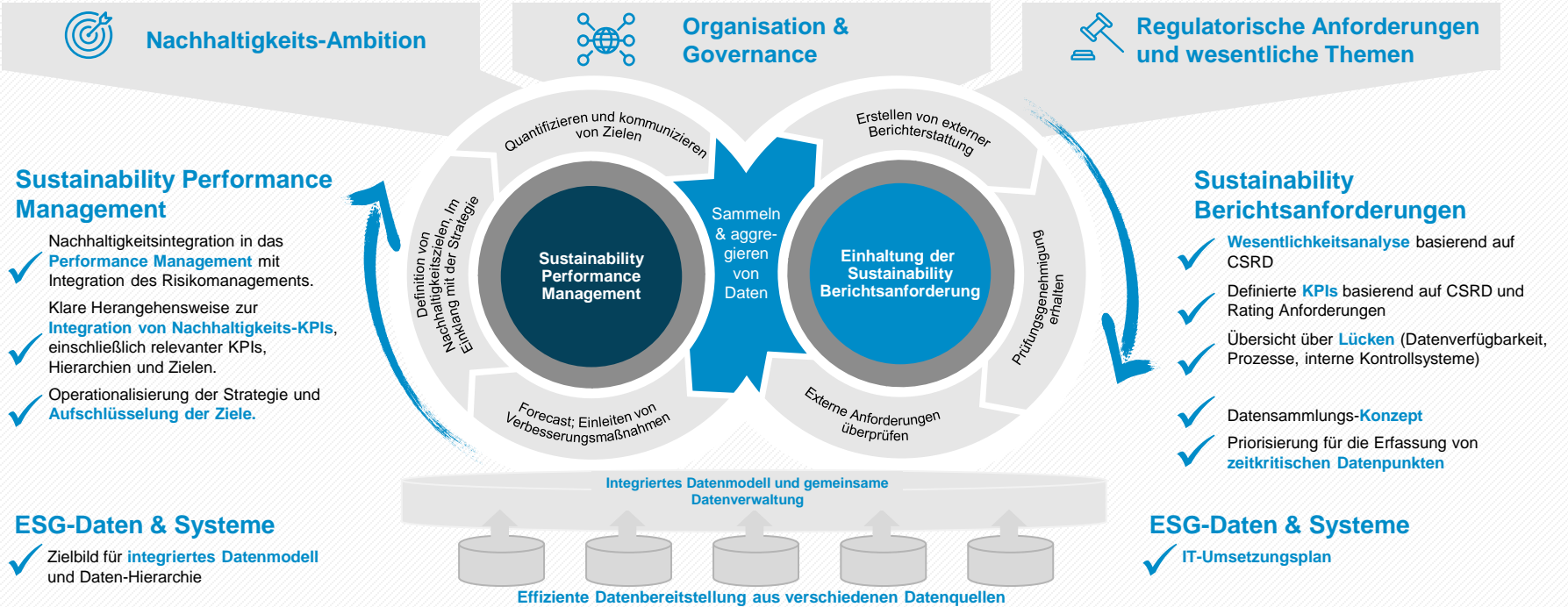


The background is a vibrant teal color with a complex, abstract pattern. It features numerous thin, glowing lines that resemble fiber optic cables or data streams, flowing across the frame. Interspersed among these lines are various bokeh effects, including soft, out-of-focus circles and squares in shades of teal and white. The overall aesthetic is modern and technological.

Key Take Aways

Einhaltung der Berichterstattung als Grundlage - Anforderungen an das Performance Management sind von Anfang an zu berücksichtigen

Horváth-Rahmenwerk für integriertes Performance Management und Nachhaltigkeitsberichterstattung



Wrap Up – Sustainability and finance performance cannot be separated but must be addressed integrated

Sustainability goes Finance

The topic of sustainability is of **high importance for the CFO area**, especially in the future

Stepwise Integration

From Compliance towards **Business Impact**

Consideration in decision making systematically

ESG KPIs must be linked to strategic goals and steering processes

Keep the focus

The integration of **sustainability criteria** into the **decision-making** increases **complexity and requires clear priorities**

Overcome barriers

Numerous challenges provide **new opportunities**

Further questions?



Is there anything that has remained unanswered?

Please do not hesitate to get in touch



Christian Huck

Partner
Controlling & Finance

Horváth & Partner GmbH
Rotebühlstraße 100
D-70178 Stuttgart

Mobil: +49 162 278 6284
CHuck@horvath-partners.com



Andrea Kämmler-BurraK

Principal
Sustainable Finance

Horváth & Partner GmbH
Ganghoferstraße 39
80339 München

Mobile: +49 172 629 729 8
akaemmlerburrak@horvath-partners.com



Dr. Martin Becker

Managing Consultant
Sustainable Finance

Horváth & Partner GmbH
Cecilienallee 10
40474 Dusseldorf

Mobile: +49 1523 8844175
MBecker@horvath-partners.com

