

Interreg
Baltic Sea Region



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RESPONSIVE PUBLIC SERVICES

RESIST

Practical aspects of ESG in the private sector

Principles, standards, reporting and real-life examples

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Maciej Boryń

interreg-baltic.eu/project/resist



RESIST: Regional Ecosystems for Social Innovation and Social Transformation

In the project RESIST, regional authorities, business support organisations and sectoral agencies develop a model of how to open up existing regional innovation ecosystems for social innovations and social entrepreneurs tackling societal and environmental challenges.

Implementation: November 2023 – October 2026



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RESPONSIVE PUBLIC SERVICES

RESIST

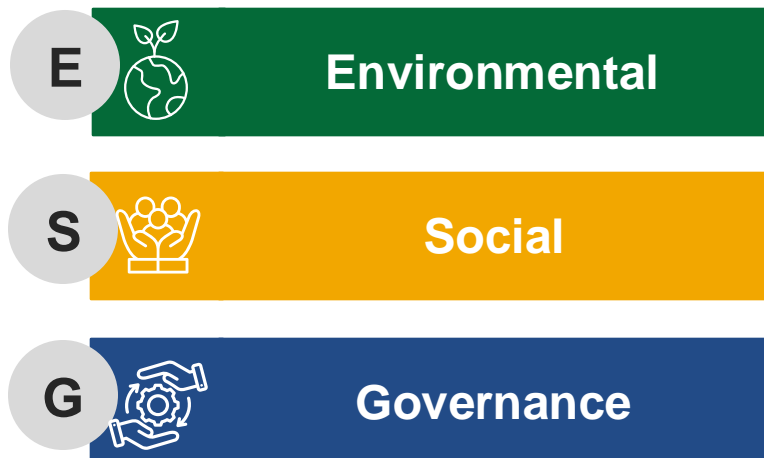
Agenda

1. ESG in shortcut
2. Key regulations
3. Double materiality
4. ESRS
5. EU Taxonomy
6. Other standards and ratings

ESG in shortcut

Sustainability, ESG and non-financial disclosures. Are they the same?

The term ESG refers to a range of non-financial factors that companies are increasingly taking into account when making decisions:



While the term “ESG” is usually used by investors, companies are more likely to use the term “sustainability”.

Sustainability is no longer a topic where companies can limit themselves to declarations without taking action.

Managers today must find an effective way to quantify the effects of their companies' actions in relation to established ESG criteria.





There is doubt about referring to ESG factors as “non-financial” because it implies that the information is not financially significant.

Meanwhile, ESG issues can actually have a direct impact on a company's financial performance

What is ESG and what is not?

MSCI ESG Score									
Environment Pillar				Social Pillar				Governance Pillar	
Climate Change	Natural Capital	Pollution & Waste	Env. Opportunities	Human Capital	Product Liability	Stakeholder Opposition	Social Opportunities	Corporate Governance	Corporate Behavior
Carbon Emissions	Water Stress	Toxic Emissions & Waste	Clean Tech	Labor Management	Product Safety & Quality	Controversial Sourcing	Access to Communication	Board	Business Ethics
Product Carbon Footprint	Biodiversity & Land Use	Packaging Material & Waste	Green Building	Health & Safety	Chemical Safety	Community Relations	Access to Finance	Pay	Tax Transparency
Financing Environmental Impact	Raw Material Sourcing	Electronic Waste	Renewable Energy	Human Capital Development	Consumer Financial Protection		Access to Health Care	Ownership	
Climate Change Vulnerability				Supply Chain Labor Standards	Privacy & Data Security		Opportunities in Nutrition & Health	Accounting	
					Responsible Investment				
					Insuring Health & Demographic Risk				

 Key Issues selected for the Soft Drinks Sub Industry (e.g. Coca Cola)
  Universal Key Issues applicable to all industries

Profit at any cost leads to... even higher costs

From ESG negligence to life imprisonment – Lafarge story

Serious violation of the "G" issue – Governance

- Bribery as a "tax";
- unethical elimination of competition;
- payment to an entity that is not a legitimate government;
- cooperation with a terrorist organization;
- ignoring a crime against humanity committed by a partner;
- indirect financing of a crime.

These are all huge "red flags" for any ESG manager.



Tesla story

Automotive Company or... an ESG Optimization Company?

Tesla started as an environmental cost optimization company.

Tesla not only avoided regulatory costs but turned ESG regulations into a major revenue stream.

This allowed the company to accelerate growth and gain a competitive edge over traditional automakers.

Competitors like Ford and Volkswagen were forced to invest billions of dollars to catch up in the EV space.



Why disclose non-financial information?

There are more reasons than one might expect



Regulations

Sustainability and decarbonization regulations determining the Energy transition:

- Green deal
- FitFor55 package (EU EGTS, RED III, others)
- **Regulations unifying sustainability issues:**
 - EU Taxonomy
 - CSRD (ESRS)
 - CSDDD
- **Global guidelines**
 - Paris Agreement (UNFCCC)
 - UN Sustainable Development Goals (UN SDGs)
 - TNFD Guidelines



Financial market

- Obtaining external financing for the implementation of investments is dependent on - increasingly specific - requirements for sustainable development activities.
- This is a global trend, although it is particularly present in the approach of European and US banks. However, in recent weeks we have seen a particular development of these issues among Chinese companies.



Competitors

- Various companies have placed a high value on sustainability strategy and reporting for years. This means that a company can build competitive advantages in this area.
- Symptomatic in them is also the high anchoring of sustainability issues at the management level and the importance these entities place on public communication of their own sustainability activities



Customers and Stakeholders

- Pressure from customers, business partners and stakeholders for “sustainability” has clearly increased.
- It is particularly clear in the questions from partners in the B2B area.
- Increasingly, meeting specific sustainability conditions is required for cooperation.



ESG Ratings

- Positive rating allows for better access to financing and provides lower costs through better financing terms
- Ratings influence perceptions of a company, but increasingly, meeting specific ESG conditions is a prerequisite for working with external partners

3 key EU regulations for companies

EU Taxonomy, CSRD, CSDD – understading the differences

SCOPE

IMPACT

EU Taxonomy

The taxonomy is a tool for identifying activities and investments that support sustainability, which increases the transparency of these aspects in the financial sector.

It defines the conditions that an economic activity must meet in order to qualify as environmentally sustainable.

- Obligation to publish financial data on sustainable operations (%revenue, %OPEX, %CAPEX)

Low share of taxonomy-compliant investments can significantly narrow access to capital!

CSRD

The CSRD expands the reporting of sustainability issues and introduces more detailed and ambitious reporting requirements compared to NFRD.

The goal is to harmonize sustainability reporting with financial reporting and monitor progress. Sustainability reporting will be equal to financial reporting.

- Sustainability reporting according to mandatory ESRS standards.
- Obligation of auditor attestation of the report.
- Inclusion of the score of IR reporting in the responsibility of the Audit Committee.

CSDDD

The Directive on Corporate Sustainability Due Diligence, places an obligation on companies to address the negative impacts of their activities on the environment and human rights.

The directive will require companies to put in place a comprehensive due diligence system, including identifying and mitigating any potential negative impacts in their own operation, the operations of their subsidiaries and others in their value chains, monitoring and communicating actions accordingly.

- Implement due diligence policies and update them annually.
- Adjust policies to reflect due diligence requirements and regulatory monitor the need for any changes.
- Establish and maintain a complaint procedure.
- Liability – possibility of a fine up to 5% of annual net revenues to a non-compliant company.

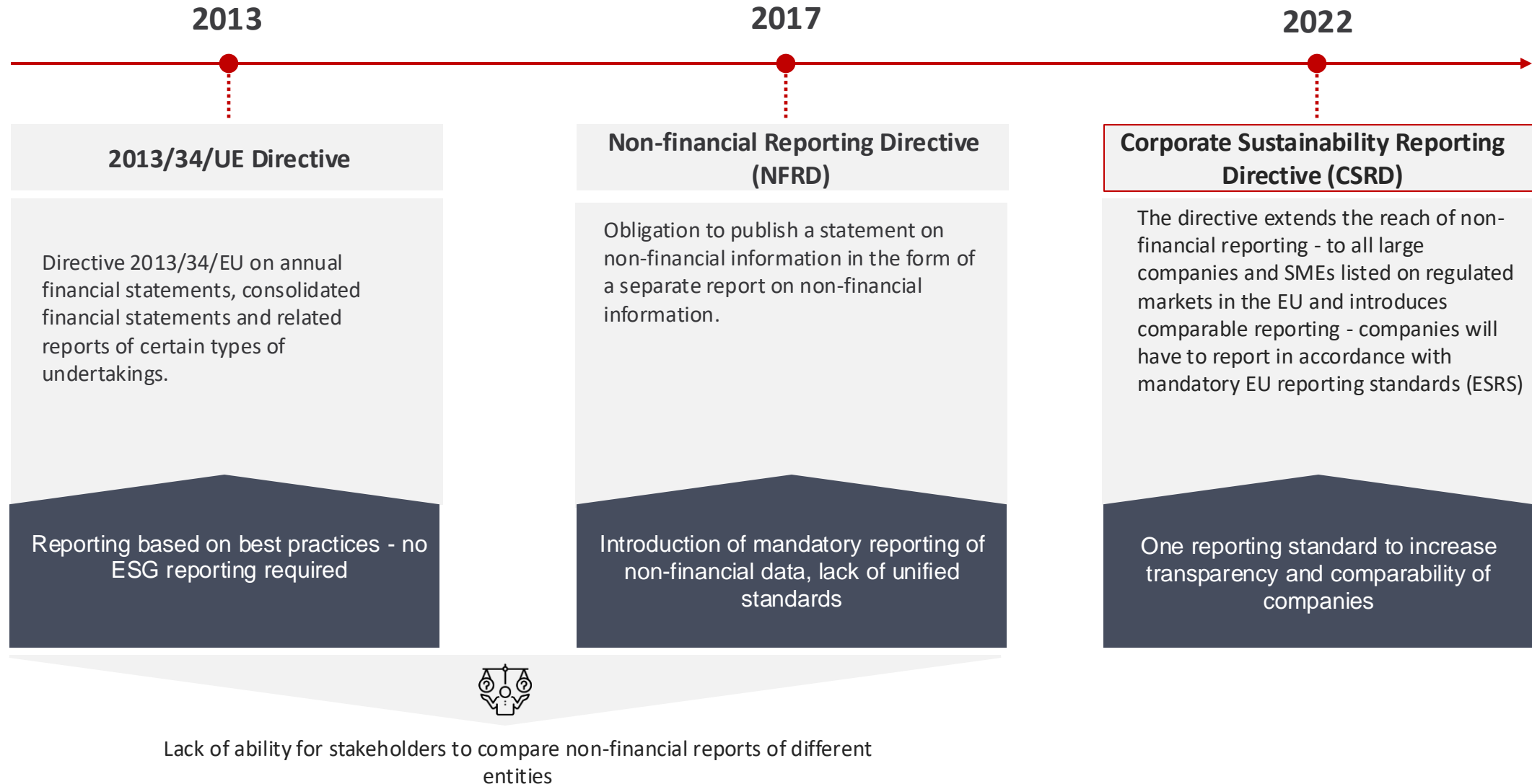
The best way to predict future is to create it.

Abraham Lincoln



Evolution of non-financial reporting

The trend is to deepen ESG information



What is CSRD?

Background

- CSRD amends Directive 2013/34 (Accounting Directive “AD”), Directive 2004/109/EC (Transparency Directive “TD”), Directive 2006/43/EU (Audit Directive “AuD”), and Regulation (EU) No 537/2014 (Audit Regulation)
- CSRD revises and strengthens sustainability reporting requirements for companies introduced by Directive 2014/95 (Non-Financial Reporting Directive “NFRD”) into the Accounting Directive

Key element of the EU Green Deal

Objective: to put Sustainability Reporting in equal footing with Financial Reporting

Publication in Official Journal in December 2022 (Directive 2022/2464)

Transposition deadline: 6 July 2024

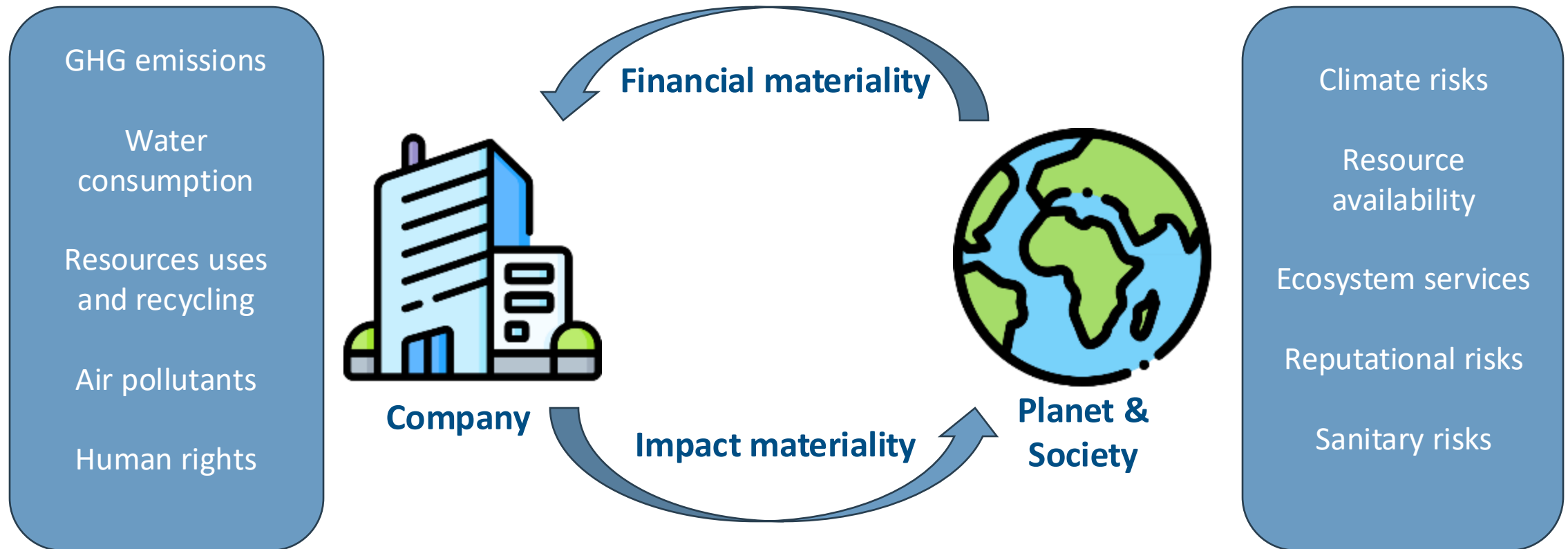
Old vs. New regulations

Evolution of the EU corporate reporting framework: NFRD (2014) vs. CSRD (2024)

	Previous framework NFRD	New framework CSRD
Scope	11600 companies Listed firms, banks, insurance companies of 500+ employees	49000 companies Including some non-European companies and listed SMEs
Content	Basic disclosure Regular environmental, social and governance information	Extended disclosure Additional information (forward-looking, double materiality, EU Taxonomy)
Format	Non standardized data format	Standardized data format (ESRS)
Audit	Non mandatory	Mandatory Audit by accredited independent certifier
Impact	Affect EU & non-EU companie operation within EU	
Fines	Financial penalties for non-compliance	

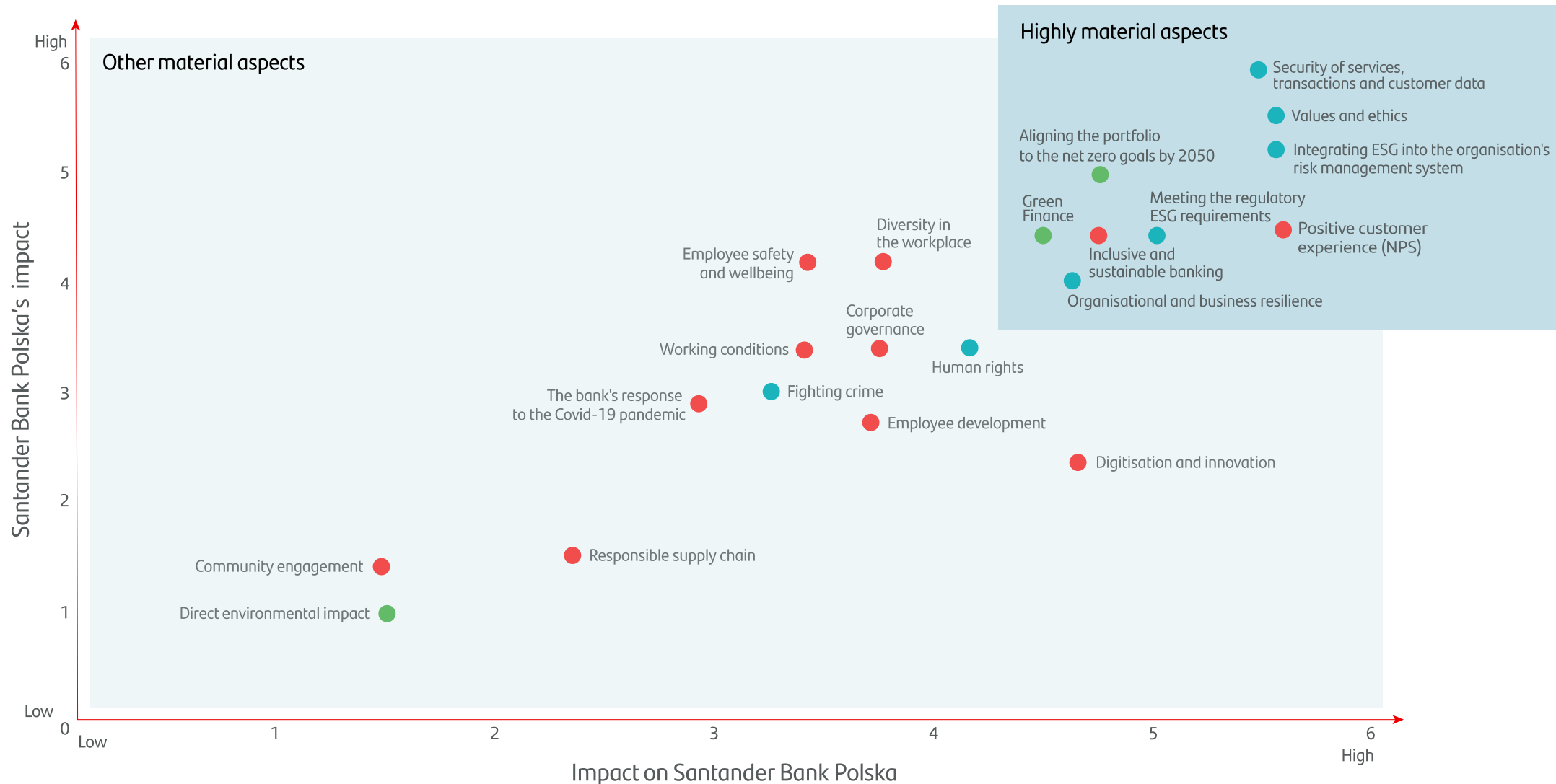
Double materiality

An approach to understanding interactions



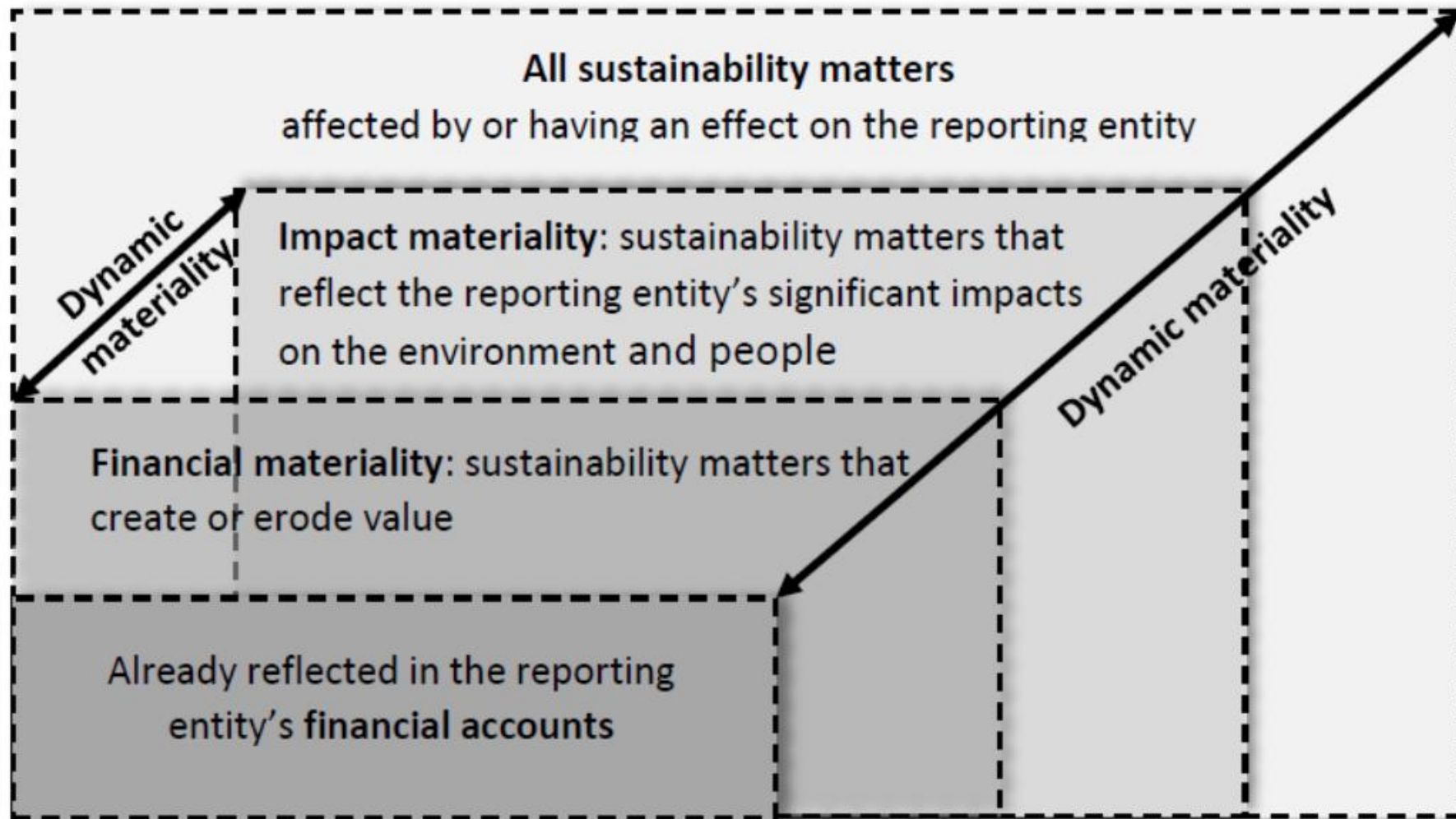
Business case – Santander Bank Polska

Materiality matrix of ESG aspects. Result of the assessment process.



Materiality matrix

What companies show and what they don't show after the assessment. And why.



The EFRAG's approach to double materiality: a schematization.

A paradise for watchdogs

Deep-dive into ESRS Standard 1/3



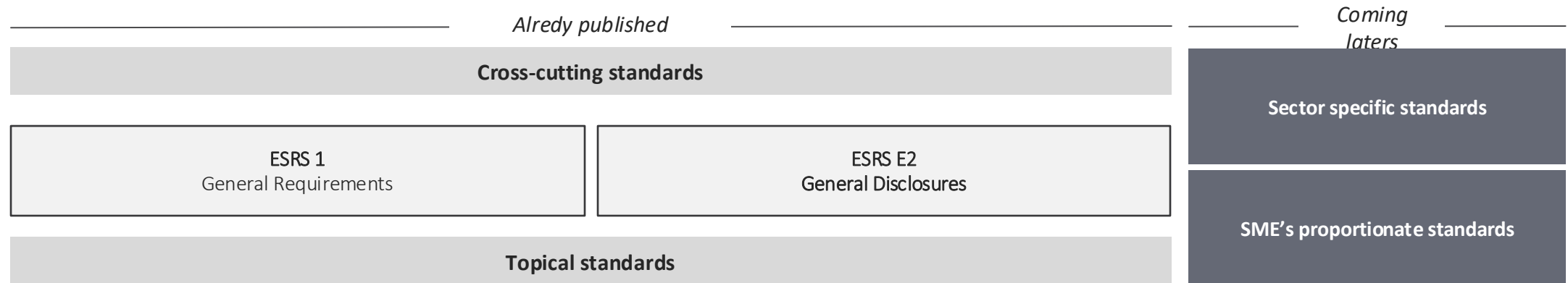
Key characteristics:




1. Mandatory under CSRD
2. Comprehensive Coverage of ESG Factors
3. Double Materiality Principle
4. Sector-Agnostic and Sector-Specific Standards
5. Alignment with International Standards
6. Detailed Disclosure Requirements
7. Phased Implementation
8. Assurance and Audit Requirements.

A paradise for watchdogs

Deep-dive into ESRS Standard 2/3

European Sustainability Reporting Standards – ESRS



	Topical standards				
E 	ESRS E1 Climate Change	ESRS E2 Pollution	ESRS E3 Water and marine resources	ESRS E4 Biodiversity and ecosystems	ESRS E5 Resource use and circular economy
S 	ESRS S1 Own workforce	ESRS S2 Workers in the value chain	ESRS S3 Affected communities	ESRS S4 Consumers and end-users	
G 	ESRS G1 Business conduct				

A paradise for watchdogs

Deep-dive into ESRS Standard 3/3

S1	S1-5	46	AR 50-AR52	Targets set to manage material impacts, risks and opportunities related to own workforce [see ESRS 2 - MDR-T]	MDR-T
S1	S1-5	47a		Disclosure of whether and how own workforce or workforce' representatives were engaged directly in setting targets	narrative
S1	S1-5	47b		Disclosure of whether and how own workforce or workforce' representatives were engaged directly in tracking performance against targets	narrative
S1	S1-5	47c		Disclosure of whether and how own workforce or workforce' representatives were engaged directly in identifying lessons or improvements	narrative
S1	S1-5	AR 49 a		Disclosure of intended outcomes to be achieved in lives of people in its own workforce	narrative
S1	S1-5	AR 49 b		Information about stability over time of target in terms of definitions and methodologies to enable comparability	semi-narrative
S1	S1-5	AR 49 c		Disclosure of references to standards or commitments which targets are based on	narrative
ESRS 2		81		Disclosures to be reported if the undertaking has not adopted targets	
S1	S1-6	50a		Characteristics of undertaking's employees - number of employees by gender [table]	Table A
S1	S1-6	50a	AR 57	Number of employees (head count)	Table A/Decimal
S1	S1-6	50a	AR 57	Average number of employees (head count)	Table A/Decimal
S1	S1-6	50a		Characteristics of undertaking's employees - number of employees in countries with 50 or more employees representing at least 10% of total number of employees [table]	Table B
S1	S1-6	50a	AR 57	Number of employees in countries with 50 or more employees representing at least 10% of total number of employees	Table B/Decimal
S1	S1-6	50a	AR 57	Average number of employees in countries with 50 or more employees representing at least 10% of total number of employees	Table B/Decimal
S1	S1-6	50b		Characteristics of undertaking's employees - information on employees by contract type and gender [table]	Table C
S1	S1-6	51		Characteristics of undertaking's employees - information on employees by region [table]	Table C
S1	S1-6	50b + 51		Number of employees (head count or full-time equivalent)	Table C/Decimal
S1	S1-6	50b + 51		Average number of employees (head count or full-time equivalent)	Table C/Decimal
S1	S1-6	50c	AR 59	Number of employee who have left undertaking	Decimal
S1	S1-6	50c		Percentage of employee turnover	Percent
S1	S1-6	50d	AR 60	Description of methodologies and assumptions used to compile data (employees)	narrative
S1	S1-6	50 d (i)		Employees numbers are reported in head count or full-time equivalent	semi-narrative
S1	S1-6	50 d (ii)		Employees numbers are reported at end of reporting period/average/other methodology	semi-narrative
S1	S1-6	50e	AR 58	Disclosure of contextual information necessary to understand data (employees)	narrative


Green, greener, the greenest


How to understand basic concept of EU Taxonomy





Only if the above three conditions were met during the year can the activity be shown as an activity carried out in accordance with the Taxonomy


6 EU environmental goals:


- 

Climate change mitigation
- 

Transition to a circular economy
- 

Sustainable use and protection of water and marine resources
- 

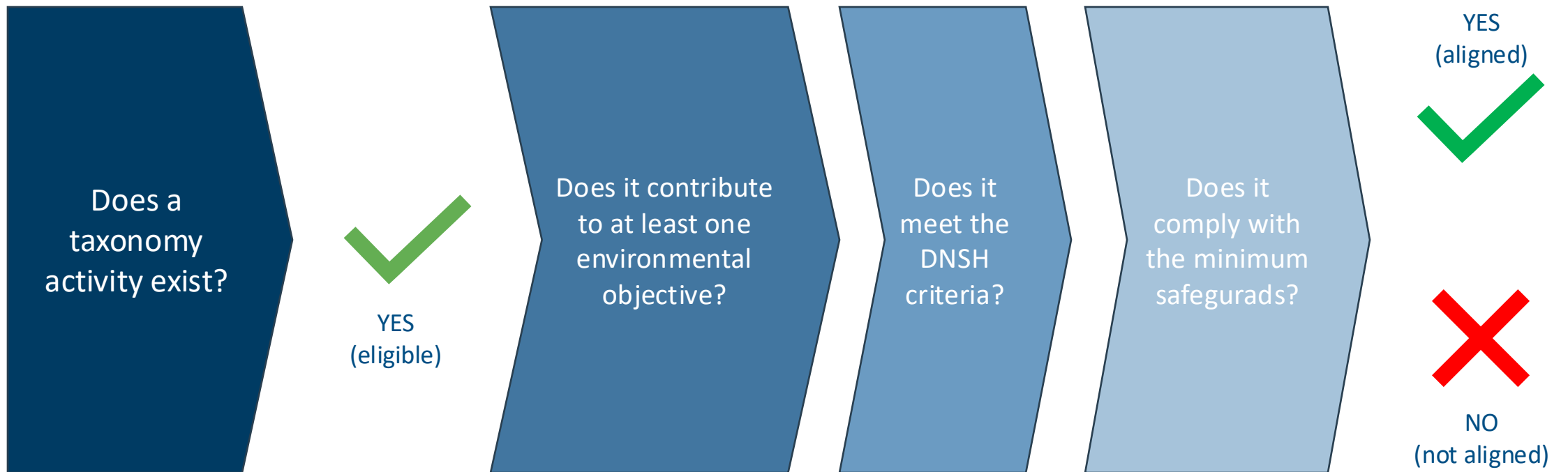
Climate change adaptation
- 

Pollution prevention and control
- 

Protection and restoration of biodiversity and ecosystems

EU Taxonomy in practice

Taxonomy eligible vs. Taxonomy aligned



Source: Envoria

EU Taxonomy in practice

How to understand what companies disclose



Indicator	Unit	2022	2021	Δ
Revenue¹	DKKm	132,277	77,673	70%
Taxonomy-aligned revenue (turnover)	%	73	66 ⁴	7%p
Taxonomy-aligned revenue (turnover) adjusted for green bond financing	%	71	-	-
Taxonomy-non-eligible revenue (turnover)	%	27	34	(7%p)
– Gas sales	%	16	21	(5%p)
– Coal-based generation	%	4	2	2%p
– Other activities ²	%	7	11	(4%p)
CAPEX¹	DKKm	35,595	49,618⁵	(28%)
Taxonomy-aligned CAPEX	%	99 ³	99 ⁴	0%p
Taxonomy-aligned CAPEX adjusted for green bond financing	%	99	-	-
Taxonomy-non-eligible CAPEX	%	1	1	0%p
OPEX¹	DKKm	7,049	5,760	22%
Taxonomy-aligned OPEX	%	80	80 ⁴	0%p
Taxonomy-non-eligible OPEX	%	20	20	0%p
EBITDA¹	DKKm	32,057	24,296	32%
Taxonomy-aligned EBITDA (voluntary)	%	85	90 ⁴	(5%p)
– Electricity generation using solar PV technology (4.1) and storage of electricity (4.10)	%	2	1 ⁴	1%p
– Electricity generation from wind power (4.3)	%	71	79 ⁴	(8%p)
– Cogeneration of heat and power from bioenergy (4.20)	%	12	10 ⁴	2%p
Taxonomy-non-eligible EBITDA (voluntary)	%	15	10	5%p

1 Revenue, CAPEX (including carbon emission allowances and goodwill), OPEX, and EBITDA have been included in the audited financial statements for 2022.

2 'Other activities' primarily consist of non-eligible power sales (incl. end customer sales), gas- and oil-based generation at the CHP plants, oil distribution, and gas trading.

3 This ratio is applied to gross investments (DKK 37,447 million – see the annual report 2022, p. 93) to calculate taxonomy-aligned gross investments.

4 These 2021 numbers are taxonomy-eligible proportions.

5 The total CAPEX amount for 2021 has been restated with an adjustment for carbon emission allowances.

EU Taxonomy in practice

How to understand what companies disclose



EU taxonomy eligibility and alignment 2023

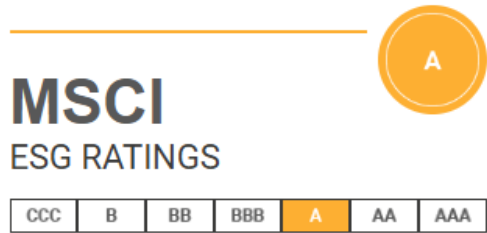
\$ million, except where indicated

	2023			2022		
	Turnover	Capex	Opex	Turnover	Capex	Opex
Aligned	542	4,173	30	–	–	–
Eligible	8,445	6,032	1,382	11,986	6,744	796
Non-eligible	308,175	25,440	3,951	369,328	25,556	4,138
Total	316,620	31,472	5,333	381,314	32,300	4,934
Aligned % of total	0.2%	13.3%	0.6%	–%	–%	–%
Eligible % of total	2.7%	19.2%	25.9%	3.1%	20.9%	16.1%
Non-eligible % of total	97.3%	80.8%	74.1%	96.9%	79.1%	83.9%

Source: Shell Annual Report 2023

Beyond the standards

ESG Ratings

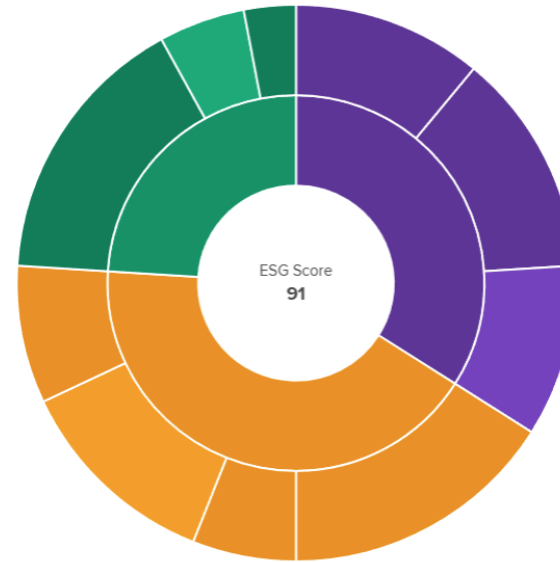


Shell is **average** among 33 companies in the **integrated oil & gas industry**.

Shell PLC ESG score:
91/100

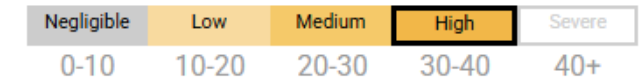
Based on Shell PLC's self-reported FY 2023 data

Environment ⓘ	90
Emissions	98
Resource Use	96
Innovation	75
Social ⓘ	92
Human Rights	91
Product Responsibility	99
Workforce	88
Community	97
Governance ⓘ	88
Management	91
Shareholders	70
CSR Strategy	99



ESG Risk Rating **COMPREHENSIVE** ⓘ

36.8 High Risk



Last Full Update: **Feb 7, 2025** ⓘ

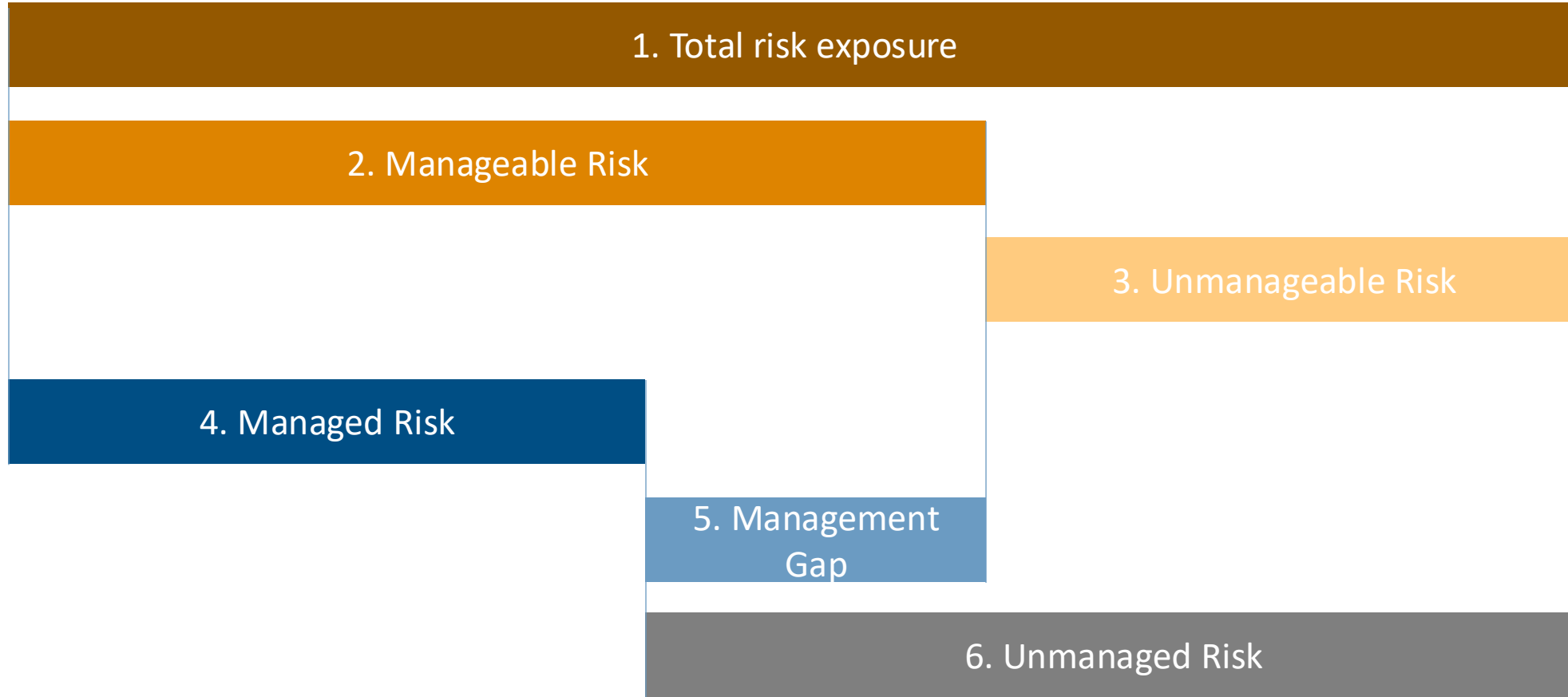
Last Update: **Feb 8, 2025** ⓘ

1. <https://www.msci.com/our-solutions/esg-investing/esg-ratings-climate-search-tool>
2. <https://www.sustainalytics.com/esg-ratings>
3. <https://www.lseg.com/en/data-analytics/sustainable-finance/esg-scores>

ONE RULE THAT APPLIES TO EVERY RATING: The one who does not develop – is going backwards.

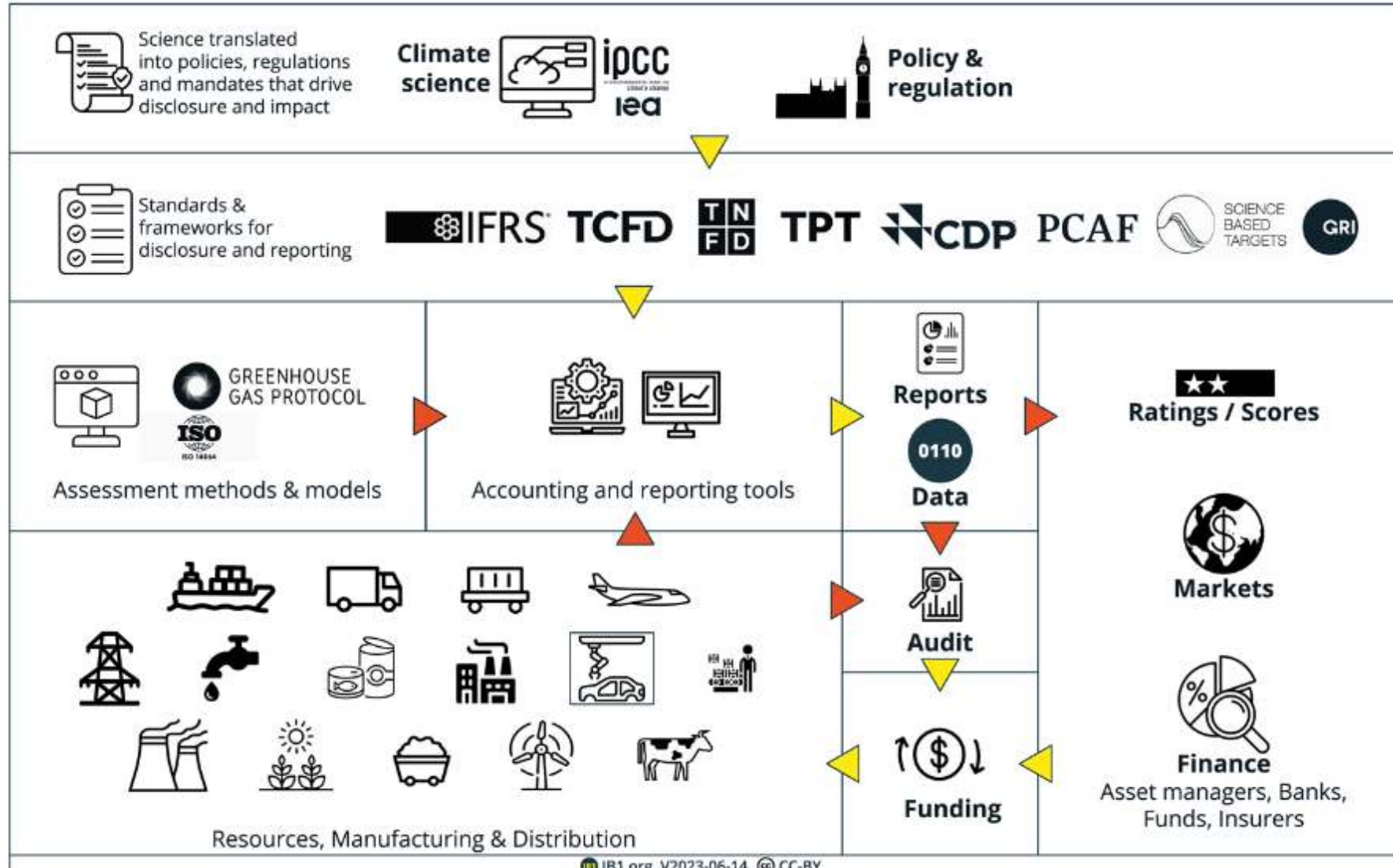
Understanding the ESG Risks

Morningstar Sustainalytics approach



Its all about the data

How sustainability data flows and where it goes



It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently.

Warren Buffet





Contacts

Maciej Boryń

maciej.boryn@gmail.com

www.linkedin.com/in/maciej-boryń-a28bb71b6