Get ready for the next wave of ESG reporting

KPMG International

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Administration

Polling questions

- Polling questions will appear as we proceed through the presentation.
- As mentioned, in order to receive the certificate of attendance, we require participants to take part in at least four of the six polling questions.
- If you qualify for the certificate of attendance, it will be sent to you following the webcast.

Attendee questions

- You may submit questions in the *Ask a question* button on the left. We will answer as many questions as we can during Q&A. If we are unable to answer your question during the webcast, someone from KPMG may reply via phone or email following the webcast.
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Your feedback

- When the webcast is over, the webcast player will automatically refresh to display an exit survey. Feel free to complete the survey, as your comments are very valuable to us.

Speakers

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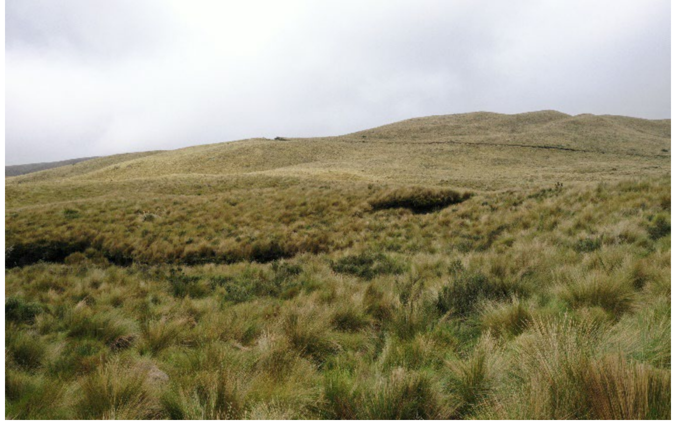
01

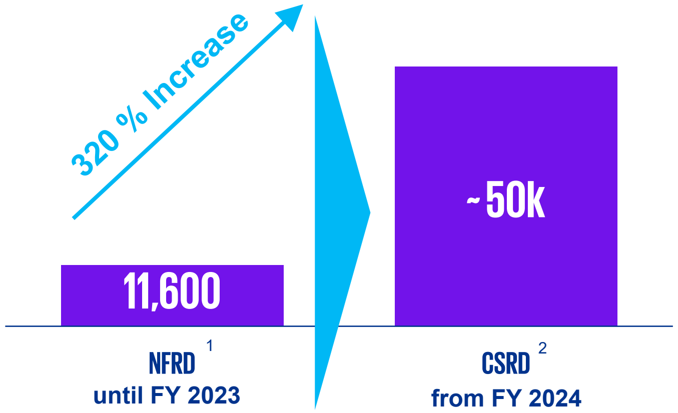
Intro to CSRD — what it means for European companies

The CSRD revolutionizes ESG Reporting in the EU

Today



Captured companies in EU



2024/2025

NFRD 1)
Non-Financial Reporting Directive

- **Free choice** of sustainability reporting frameworks, standards (e.g., GRI, SASB), and non-financial KPIs
- Management report **OR** as separate report
- **No assurance requirements**, only whether non-financial information has been provided
- **Financial materiality** defines reporting content

13 months preparatory phase

2022-2023

!

Companies meeting at least two of the following:
- > 250 employees (annual average)
- > €40M in net turnover
- > €20M in total assets

Listed SMEs from 2026 onwards, with deferral option

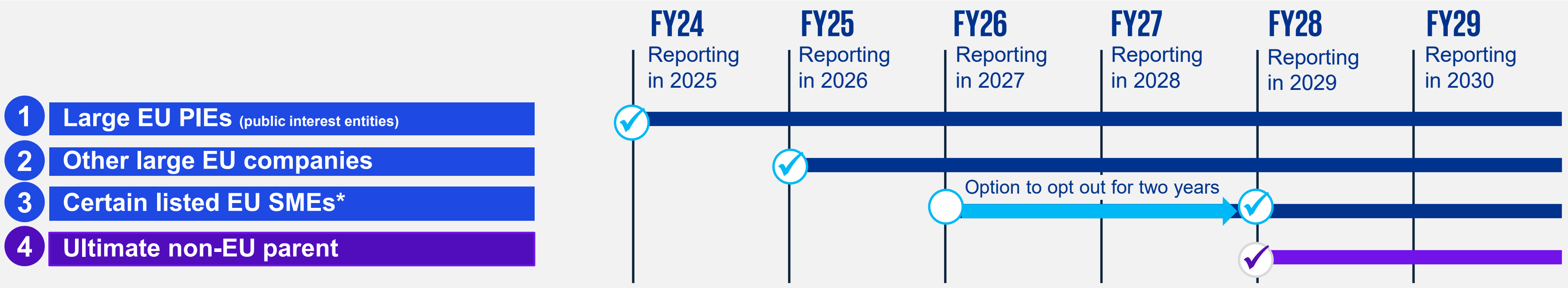
CSRD 2)
Corporate Sustainability Reporting Directive

- 12 new binding **European Sustainability Reporting Standards** (ESRSs) with up to **120 mandatory non-financial KPIs** and additional qualitative disclosures
- Reporting as **part of the management report**
- **Mandatory limited assurance** required
- **Mandatory double materiality** assessment (financial materiality + impact materiality)

1) Non-Financial Reporting Directive 2014/95/EU
2) Corporate Sustainability Reporting Directive 2022/2464/EU entered into force at 5 January 2023

Who is in scope of CSRD?

The scope of reporting entities over the years



EU-based companies (general scoping)

1 Companies **subject to** the existing **Non-Financial Reporting Directive** (NFRD)

i.e. large public-interest companies with more than 500 employees

2 **All large** companies not currently subject to the NFRD

Meeting at least two of the following:

- > 250 employees (annual average)
- > €40M in net turnover
- > €20M in total assets

3 Certain listed SMEs* and small and non-complex institutions and captive insurers

***Option to opt out until FY29 (effective date of FY28)**

Meeting at least two of the following:

- > 10 employees (annual average)
- > €700K in net turnover
- > €350K in total assets

Non-EU parent scoping

4 Large subsidiaries of non-EU parents with substantial activity in the EU report for the complete Group

Reporting regulations in accordance with slightly **reduced ESRS** (anticipated separate disclosure standard)

An ultimate non-EU parent company would be subject to the CSRD if it has:

- Substantial activity in the EU — i.e. it generated net turnover > €150M in the EU for each of the last two consecutive years; and
- at least:
  - one subsidiary that meets the general scoping of the CSRD; or
  - one branch (in general, a physical presence) that generated net turnover > €40M in the preceding year

The CSRD transforms ESG reporting on two levels

Scope of application (slide before)

- Large EU-PIEs
- Other large EU companies
- Certain listed EU SMEs*
- Ultimate NON EU-Parents

Reporting

Reporting in the **Management Report**

Digital reporting of sustainability information in line with the **European Single Electronic Format (ESEF)**

EU-Taxonomy

Assurance Obligation

Limited Assurance according to ISAE 3000 or a comparable standard will be mandatory

Reasonable Assurance possibly the next step

Topics of CSRD

- Cross-cutting
- Environmental
- Social
- Governance

Reporting Levels of the Corporate Sustainability Reporting Directive (CSRD)

Sector-agnostic Standards

ESRS 1 — General Requirements **ESRS 2** — General Disclosures	**ESRS E1** — Climate change **ESRS E2** — Pollution **ESRS E3** — Water & marine resources **ESRS E4** — Biodiversity & ecosystems **ESRS E5** — Resource use & circular economy	**ESRS S1** — Own workforce **ESRS S2** — Workers in the value chain **ESRS S3** — Affected communities **ESRS S4** — Consumers & end-users	**ESRS G1** — Business Conduct

Sector-specific Standards (Set 2,3,4) to come

Reporting Areas

- Governance
- Strategy
- Implementation
- Metrics & Targets

Organizing ESG reporting: Improving Governance Systems

Governing Body (Supervisory)

Management (Implementation)

Sustainability Management

Leads and directs actions (including managing risk) and application of resources to achieve the objectives of the organization

Implementation of measures and operational controls, reporting, monitoring requirements

Systems, processes and organization for the preparation of reporting data

Risk Management

Management of **operational and strategic Risks**

- Integrate ESG risks into the risk inventory
- Embed climate-related risks and chances in ERM to fulfill TCFD

Compliance

Management of **Compliance risks**

- Integrate due diligence act requirements
- Integrate Minimum Social Safeguards (EU Taxonomy)

Internal Controls

Management of **process risks**

- Non-financial ICS (nICS):
- Determine relevant non-financial KPIs
- Identify relevant processes involved to calculate KPI

Internal Audit

Controlling of process- and control-effectivity on all levels

Expansion of the Internal Audit activities to ESG

Assurance

02

What does CSRD mean for non-European companies/subsidiaries

How Non—EU subsidiaries of EU parent company are involved

Scenario 1 — EU Parent Company with Non-EU Subsidiary (Not Operating in the EU)

	General Scoping (first at the stand alone level, then at the group level)	Consequence
[Ultimate] EU Parent	• … is subject to CSRD if 2 out of 3 criteria are fulfilled: • Minimum of **250 employees** • a turnover of >**€40 million** or • balance sheet total of >**€20 million** [2 of 3].	• Perform materiality analysis on **group level** • Disclose sustainability information according to CSRD/ EFRAG in management report on **group level** • Mandatory limited assurance
Non-EU Subsidiary	… is not subject to CSRD on a stand alone basis **as long as it is not incorporated or listed** in the EU … **included in the parent company's group report** if parent has control	If included in the EU parent company's sustainability reporting, certain new data elements may be required to provide to the parent company to meet their group reporting needs

How Non-EU parent companies with EU subsidiaries are involved

Scenario 2 — Non-Parent Company with EU-Subsidiary

[Ultimate] Non-EU Parent

Non-EU Parent Scoping

An ultimate non-EU parent company would be subject to the CSRD on consolidated level from 2028 onwards if it has:

- Substantial activity in the EU — i.e., it generated net turnover **> €150M in the EU** for each of the last two consecutive years; **and**
- at least:
  - one **subsidiary** that meets the general scoping of the CSRD; or
  - one **branch** (in general, a physical presence) that generated net turnover > €40M in the preceding year

Consequence

- Reporting regulations in accordance with **slightly reduced ESRS** (anticipated separate disclosure standard)

EU Subsidiary

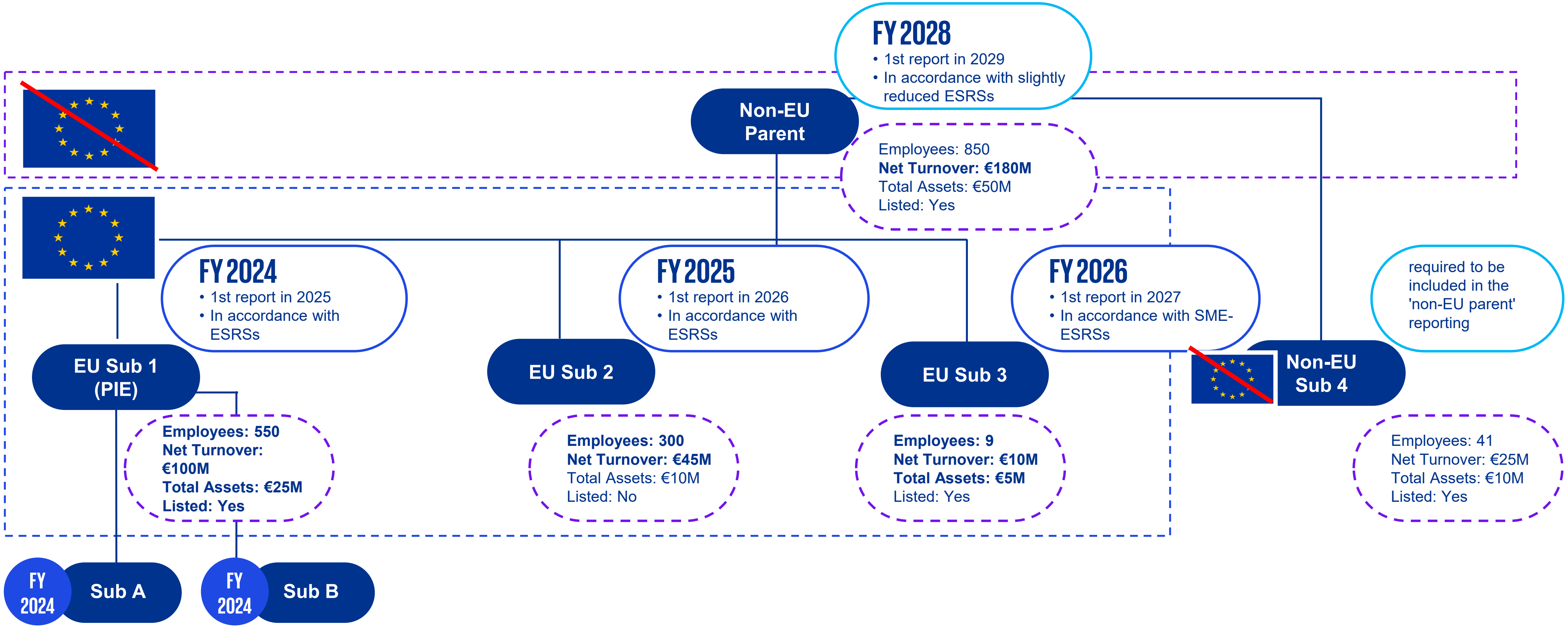
General Scoping

- … is subject to CSRD if 2 out of 3 criteria are fulfilled:
  - a Ø-number of employees of >**250**,
  - a turnover of >**€40 million** or
  - balance sheet total of >**€20 million** [2 of 3].

- The EU subsidiary would have to consider whether it meets the CSRD scoping requirements for EU companies on a stand alone basis.
- EU subsdiaries may be exempted from its own reporting requirements if they are included in a consolidated report prepared in accordance with full scope CSRD/ESRS or equivalent reporting standards.
- It is still unclear whether the Non-EU Parent consolidated report in accordance with reduced ESRS will exempt EU subsidiaries from its own reporting requirements.

Use case: Reporting Requirements based on Scoping

Example:



03

Global reporting requirements outside of CSRD

Comparison of ESG Reporting Standards proposals

Two ISSB proposals

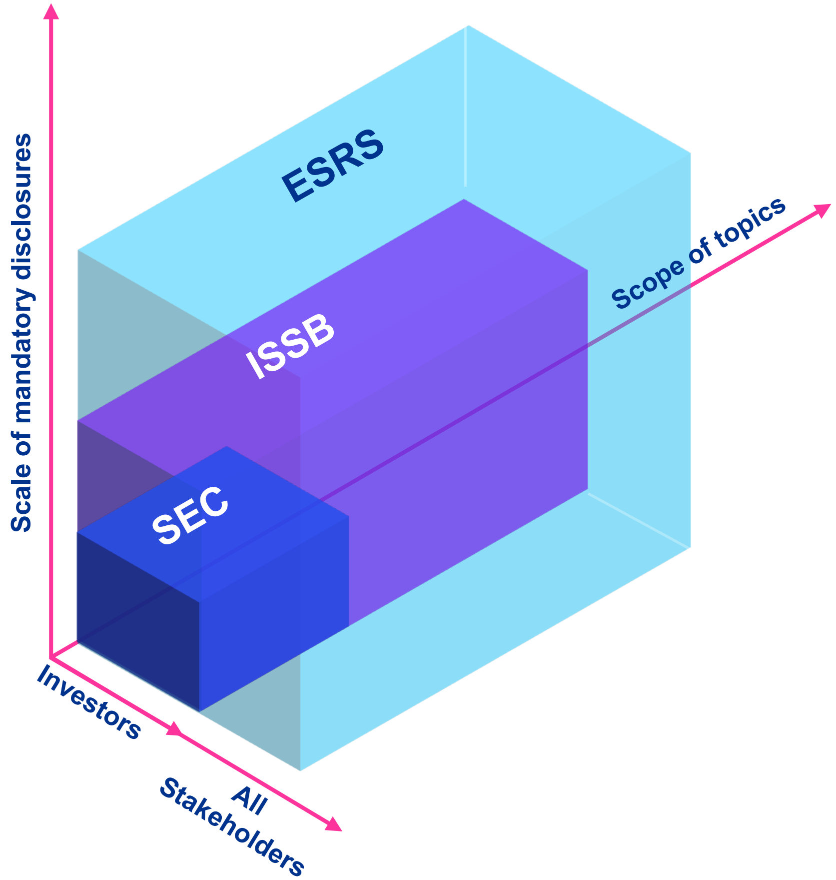
- Investor focus
- General principles, including proposed requirement to report across all sustainability-related risks and opportunities (not just climate)
- To date, detailed guidance on climate only[1]

Twelve draft ESRS

- Multi-stakeholder focus, including investors
- Core principles for disclosure
- To date, granular requirements published for sustainability impacts, risks and opportunities
- Broad ESG view, e.g. biodiversity, circular economy, social aspects etc.

One SEC climate proposal

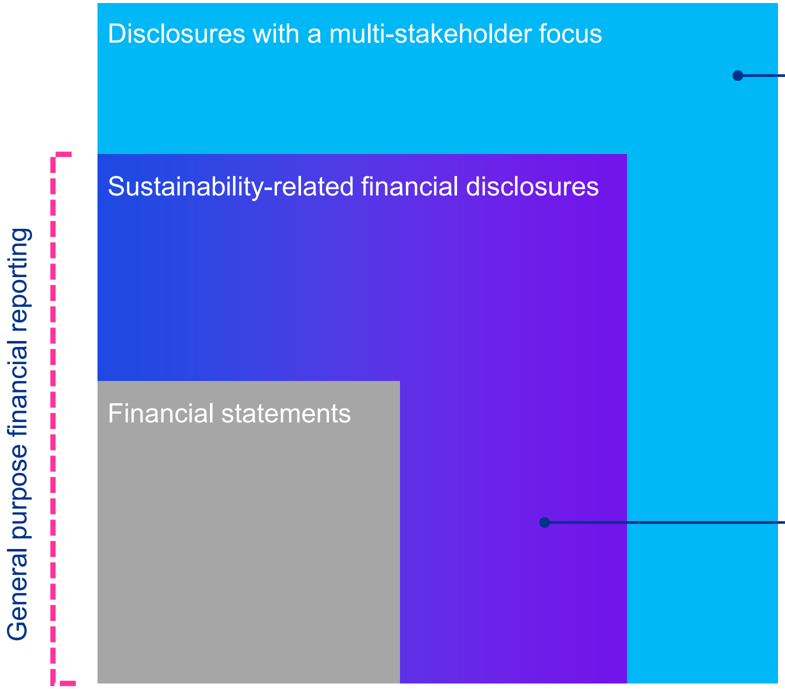
- Investor focus
- Detailed requirements to report on climate only



[1] Additional detailed guidance on other topics is planned for the future.

Interoperability of the frameworks: The Materiality Concept

The needs of users of sustainability reporting information may differ. Materiality provides the filter that helps companies focus on what matters to users.



Impact materiality (required by ESRS)

Impact materiality requires disclosures about sustainability matters that relate to a company's actual or potential, positive or negative impacts on people or the environment.

Some of these disclosures may also be financially material.

The principles are consistent with reporting under GRI standards.

Financial materiality (required by all)

Information that would influence an investor's decisions — e.g. by affecting their assessment of the company's cashflow prospects.

Double materiality

ESRS adopt 'double materiality' principles — aiming to report on all significant impacts by considering both the investor and wider stakeholder lenses.

Interoperability of the frameworks: Disclosure of information

	ISSB	ESRS	SEC
Required in the audited financial statements?	No, but permitted via cross-referencing	No	Yes, for financial impact and expenditure metrics, plus financial estimates and assumptions
Required in the annual report?	Yes, with flexible location requirements	Yes, in the management report	Yes, in a separate section or by reference from another section (e.g. MD&A)
Cross-referencing permitted?	Yes, to documents outside general-purpose financial reporting, subject to conditions	Yes to a limited extent, within specific locations and subject to conditions	Yes, within the annual report
At the same time as the financial statements?	Yes, subject to short term transition relief	Yes	Yes

Interoperability of the frameworks: Alignment with the TCFD

TCFD	Governance Strategy Risk management		Metrics and targets	
ISSB	Governance Strategy Risk management	Most aligned. Builds on TCFD — including descriptions of transition plans and requiring scenario analysis.	Metrics and targets	Most aligned because it directly reflects the seven categories of cross-industry metrics included in the TCFD 2021 update. Builds on TCFD with industry-specific metrics.
SEC	Governance Strategy Risk management	Broadly aligned — differences arise where disclosure is required only if the company uses the item (e.g. scenario analysis); and optional reporting of climate-related opportunities.	Metrics and targets	More granular financial impacts than the TCFD. Broadly aligned on the disclosure of targets, but with optional reporting of climate-related opportunities.
ESRS	Governance Strategy Impact, risk and opportunity management	Largely aligned — differences arise because ESRSs use double materiality principles	Metrics and targets	Split between policies, actions, metrics and targets. The requirements are significantly more prescriptive and address EU policy objectives, including alignment with the Paris Agreement.

Interoperability of the frameworks: Reporting requirement of GHG emissions

	ISSB	ESRS	SEC
Scopes 1 and 2?	Yes	Yes	Yes
Scope 3?	Yes, with transition option*	Yes	Yes, if material or included in targets
Basis for organisational boundaries	GHG Protocol options — operational or financial control, or equity share	Operational control	Based on control and share of equity-method investees (associates) — consistent with the financial statements
Intensity metrics?	No*	Yes, based on net revenue for the *total* of Scopes 1, 2 and 3 emissions	Yes, based on revenue and a unit of production for the *total* of Scopes 1 and 2, and separately for Scope 3 (if included)
Disclose targets?	Yes, if used	Yes, based on Paris Agreement	Yes, if used

* In December 2022, the ISSB tentatively decided to allow a one year delay in reporting of Scope 3 GHG emissions and to remove requirements to report GHG intensity metrics.

04

CSRD readiness assessment & how to organize a preparedness project

CSRD Project Approach

1. Impact Analysis & Reporting Strategy
- CSRD scoping of legal entities
- Groupwide reporting strategy

2. Materiality Navigator (according to ESRS)
- Definition of material sustainability matters (sub-topics) as defined per sector within the ESRS
- Delimitation of non-material disclosure and data requirements to be analyzed

3. Materiality Analysis (according to CSRD)
- Conducting a materiality analysis (ESRSs requirements)
- Delimitation of non-material report contents to reduce future reporting efforts

4. Readiness Assessment
Gap assessment regarding CSRD requirements considering the results of the materiality analysis

5. Governance & Resources
- Holistic further development of governance structures (Governance Systems)
- Creation of a resource plan for the fulfilment of the upcoming reporting requirement

6. Survey & frameworks
- Setting up a process to collect the qualitative/quantitative information
- Consideration of relevant frameworks for the further development of non-financial reporting (GRI, TCFD, SASB, etc.)

7a. Audit readiness
Preparation of an external audit of the non-financial reporting, e.g. by conducting an assurance readiness assessment

7b. Integration of the management report
Preparation of the integration of reporting into the management report, especially with regard to the time perspective

KPMG CSRD Readiness Assessment

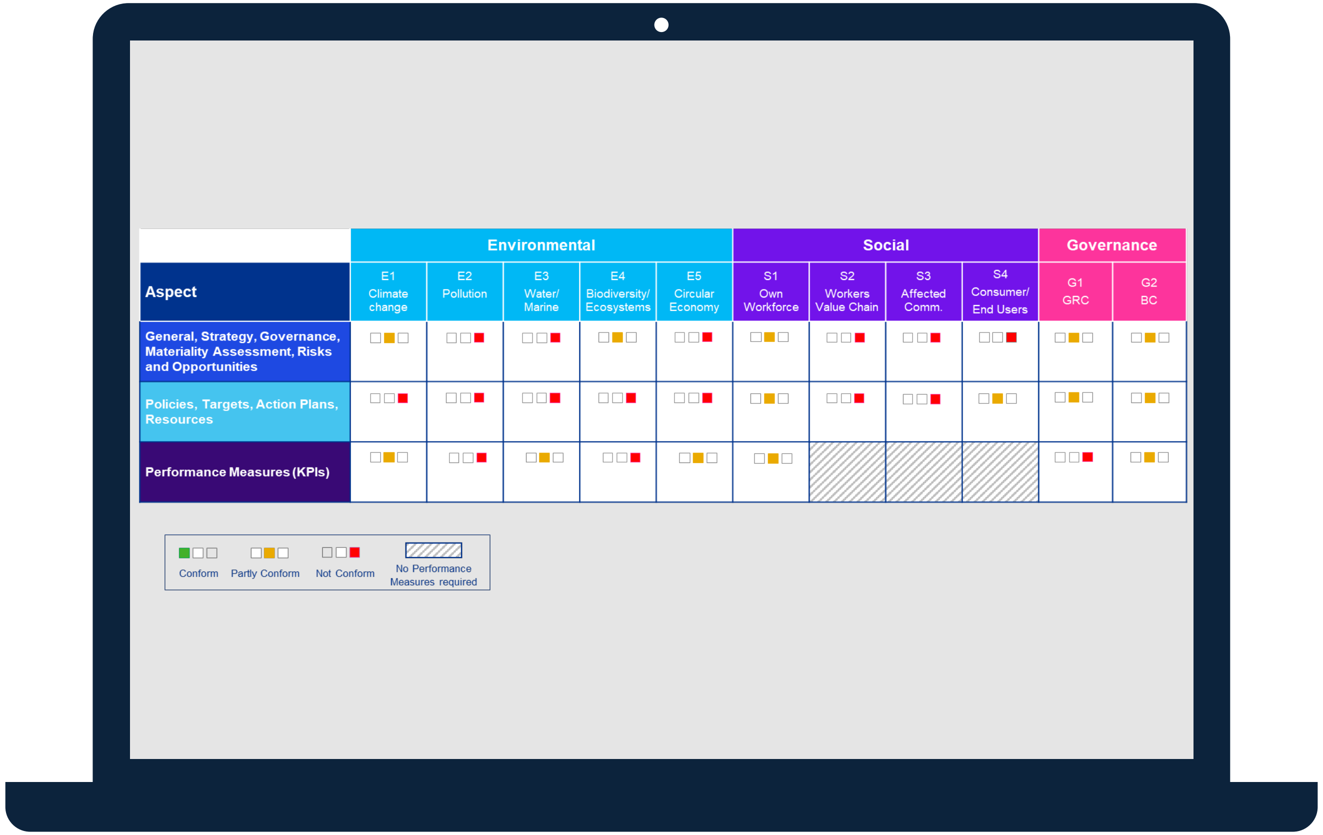
What you need

Overview of the implementation status of CSRD in your company

What KPMG delivers

Standardized and field-tested approach:

- Review as-is status
- Comparing the current reporting with ESRSs requirements
- Formulation of recommendations for future reporting
- CSRD roadmap to efficiently close gaps



How KPMG can support

Knowledge provider & enabler

Team composition with EFRAG members

Helping hands for ramp-up phase

Consideration of ESG frameworks overlaps

Reasonable assurance preparation

Outside-in perspectives from DAX mandates

Questions

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