



CONNECTING THE DOTS WITH IMPACT PATHWAYS

Early reporting signals to help companies comply with and drive value from the EU's Corporate Sustainability Reporting Directive (CSRD)



# Introduction and contents



The CSRD is designed to accelerate progress towards a sustainable economy. The urgency of the climate crisis demands business must transform their business models and modernize their reporting of performance

## Early signals on CSRD reporting

We like to begin with the end in mind. Mandatory sustainability reporting is new for many companies, and determining best practices can be challenging. From our work preparing companies for these requirements and our experience in voluntary reporting, we offer insights based on initial reports and proven methodologies.

The first year of the EU's Corporate Sustainability Reporting Directive (CSRD) applicability is officially underway. Listed companies and those subject to the EU's Nonfinancial Reporting Directive (NFRD) begin reporting on FY2024, while most non-EU companies have an extra year to prepare. The typical company needs 18-months or more to prepare for this transformative disclosure regulation. At this stage, many companies have completed their applicability analysis, selected their reporting approach, and are wrapping up their double materiality assessment.

As companies plan the content and format of their CSRD reports, the 2023 reporting cycle sheds light on how to incorporate CSRD concepts, language, and formats into annual reporting on sustainability information. These examples can help bring CSRD to life for companies and management teams.

## CONTENTS

Overview of CSRD and EU Taxonomy: 3-4

Our take: leveraging CSRD to drive value and decision-making: 5

Early examples to prepare for CSRD reporting:

- Double materiality assessment: 6
- Value chain: 7
- Policies, actions, metrics and targets: 8
- EU Taxonomy: 9

How we can help: 10

About Impact Pathways : 11

# Overview of CSRD

## A transformative step towards regulated sustainability reporting

As part of the EU's broader Green Deal aimed at building a more equitable and sustainable society, the CSRD provides updated reporting rules concerning a corporate's environmental and social performance. The scope of companies required to report under CSRD is significantly expanded to include companies listed in, operating in or doing business in the EU.

### MANY COMPANIES TAKE 18+ MONTHS TO PREPARE, WITH THESE STEPS.

#### 01 APPLICABILITY ASSESSMENT AND REPORTING

- CSRD outlines criteria to determine if a legal entity is in scope for CSRD. Many scoped-in US companies which are not listed in the EU are determining CSRD is applicable based on the large undertaking criteria and required to report first in 2026 over fiscal year 2025 with additional parent-level reporting required starting in 2028.
- CSRD offers multiple reporting options for companies based on their legal-entity structure. For US companies, these include parent-level consolidated, EU large group, EU artificial consolidation and entity-level.

#### 02 DOUBLE MATERIALITY ASSESSMENT

- CSRD requires companies consider dual perspectives in assessing materiality of topics for reporting, including financial materiality, wherein a topic potentially triggers financial effects on the organization ("outside in") and impact materiality, wherein a topic is connected to actual or potential impacts on people or the environment ("inside out").

#### 03 PREPARE DISCLOSURES USING EUROPEAN SUSTAINABILITY REPORTING STANDARDS (ESRS)

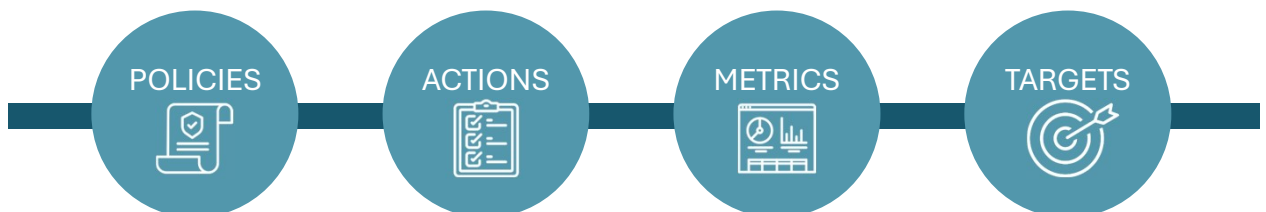
- The ESRS provide the cross-cutting and topical standards covering environmental, social and governance topics for company reporting. Companies are also expected to report on relevant sector and entity-level topics that are material.
- The ESRS cover topics, subtopics and sub-subtopics across ESG categories and include connected and extensive disclosure requirements and data points.

#### 04 REPORTING AND ASSURANCE

- CSRD reporting will be annual and needs to be tagged using the ESRS XBRL taxonomy. CSRD reports will require limited assurance and are expected to transition to reasonable assurance by 2028



The CSRD establishes a common framework for sustainability disclosures with four primary disclosure requirements:



# Overview of CSRD

A transformative step towards regulated sustainability reporting

## EU GREEN DEAL

Broad regulatory agenda aims to set the EU on the path to a green transition, with the ultimate goal of reaching climate neutrality by 2050

### OBJECTIVES

- Redirect capital flows towards sustainable companies
- Increase transparency
- Reduce greenwashing



**CSRD: CORPORATE SUSTAINABILITY REPORTING DIRECTIVE**  
Modernized reporting rules concerning a corporate's environmental and social performance



**EU TAXONOMY**  
Classification system that establishes a list of environmentally sustainable economic activities



**SFDR: SUSTAINABLE FINANCE DISCLOSURE REGULATION**  
Regulation to improve transparency in the capital markets for sustainable investment products



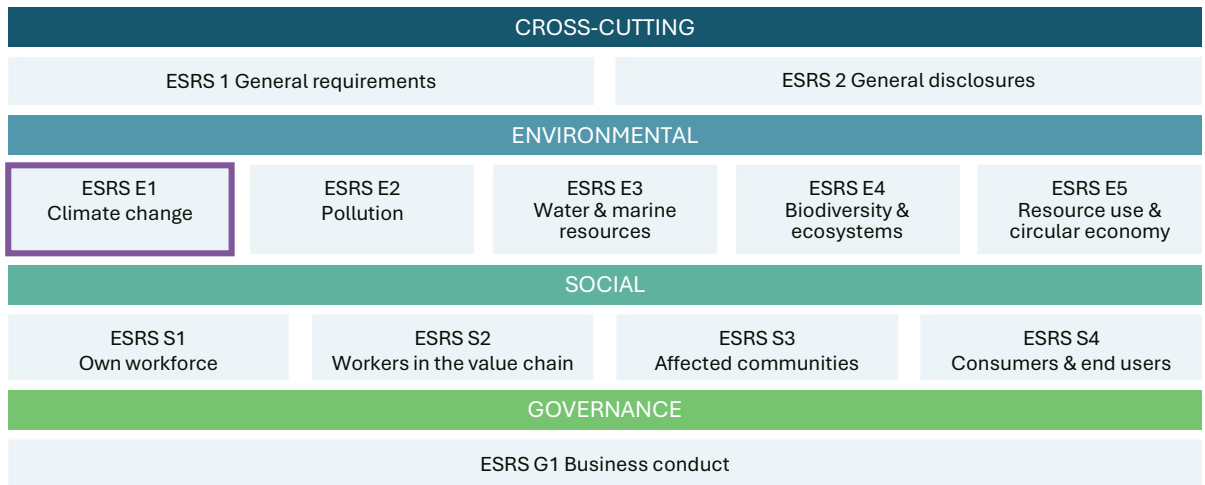
**EU GBS: EUROPEAN GREEN BOND STANDARD**  
Voluntary rules to improve the effectiveness, transparency, comparability & credibility of EU green bond market participants



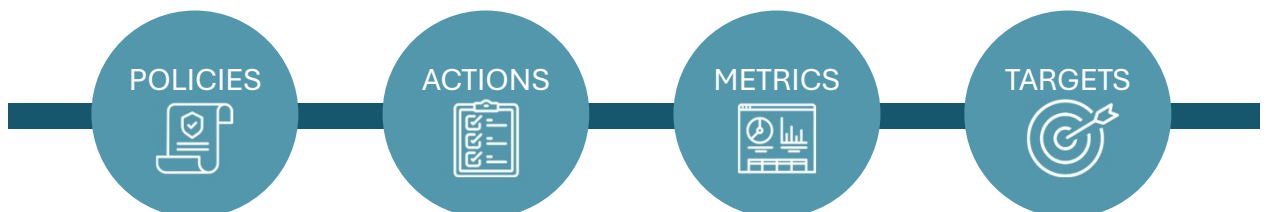
**CSDDD: CORPORATE SUSTAINABILITY DUE DILIGENCE DIRECTIVE**  
Rules to ensure that businesses address adverse impacts of their actions across their value chains inside and outside the EU

## WHAT DO I NEED TO REPORT ON?

The ESRS provide the cross-cutting and topical standards covering environmental, social and governance topics for company reporting. Companies are also expected to report on relevant sector and entity-level topics that are material.



The CSRD establishes a common framework for sustainability disclosures with four primary disclosure requirements:





# Overview of EU Taxonomy

A legal classification system for sustainable economic activities

To better understand a company's financial contributions toward environmental objectives, companies required to report under CSRD need to disclose economic activities based on the EU Taxonomy, a classification system of environmentally sustainable economic activities.

The EU Taxonomy has been phased in for companies already reporting under NFRD. Its application will be expanded to companies scoped into CSRD and will be subject to assurance.

## HOW ALIGNED IS YOUR BUSINESS TO THE TRANSITION?

The EU Taxonomy includes reporting on the share of *taxonomy-eligible* and *taxonomy-aligned activities* with the following KPIs. You will also report the relevant methodology, eligible activities considered, assessment conducted and contextual information on any changes.

- Turnover
- Capital expenditures (CapEx)
- Operating expenditures (OpEx)

Financial undertakings (e.g., loan or investment portfolios) will report on similar metrics but adjusted for their activities, for example based on share of investments and assets.

## HOW ARE ACTIVITIES DETERMINED? A TWO-PART TEST.

### ELIGIBLE ACTIVITIES

*Does my business contribute to the transition?*

An economic activity is eligible if it contributes to at least one of six environmental objectives:

- Climate change mitigation
- Climate change adaptation
- Sustainable protection of water and marine resources
- Transition to a circular economy
- Pollution prevention and control
- Protection and restoration of biodiversity and ecosystems

### ALIGNED ACTIVITIES

*Do we contribute in a sustainable manner?*

An eligible activity is considered aligned if it meets all three:

#### Technical Screening Criteria (TSC)

the activity makes a substantial contribution to at least one of the six objectives

#### Do No Significant Harm (DNSH)

the activity does not create a negative effect on any of the other five environmental objectives

#### Minimum Safeguards (MS)

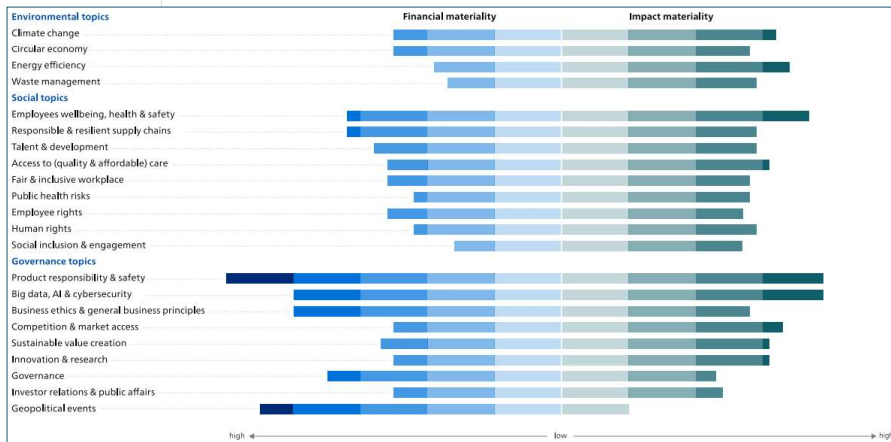
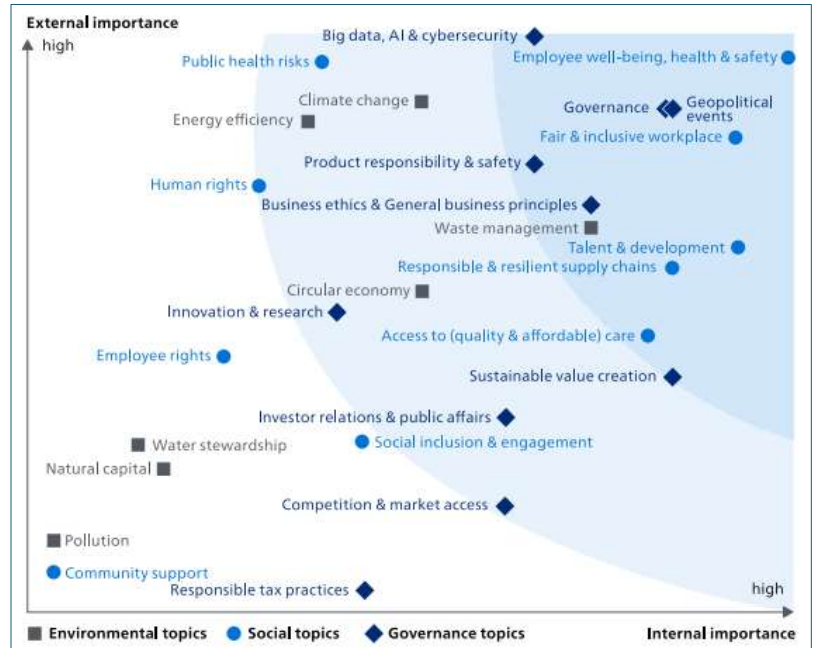
the activity adheres to minimum social safeguards for labor and human rights

# Early examples for CSRD: Double materiality assessment

Double materiality assessments have many inputs, making it difficult to present in a manner that is clear and easily understood. We like the example below where Royal Philips used multiple visuals to present its results.

## ROYAL PHILIPS

In its 2023 Annual Report, Philips presents an overall ranking of its environmental, social and governance topics in a 2x2 matrix based on external and internal importance to stakeholders. Although the process indicates the ESRS were used as an input, the topics included in the results do not strictly align with the ESRS.



Philips also summarizes results showing financial and impact materiality ratings at the overall topic level although ESRS also disaggregates information by sub topic and sub sub topic. We expect Philips may disclose more detail once CSRD is in force.

Philips provides information on its material topics and impacts, risks and opportunities throughout the report sharing relevant KPIs, boundaries and time horizon.

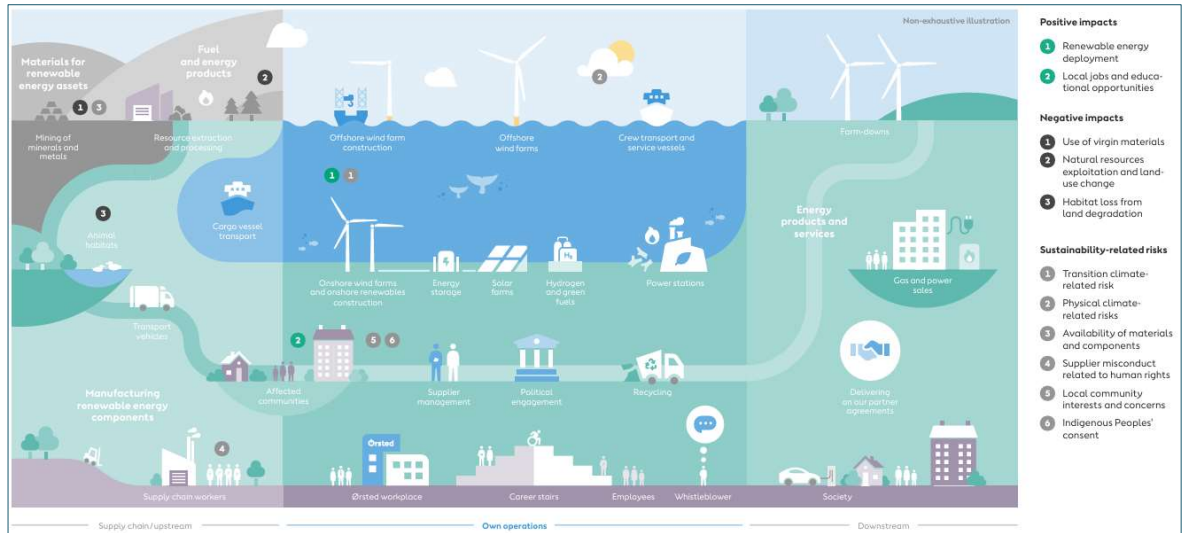
Key material topics				
	Reference	KPI	Boundaries	Time horizon
<b>Environmental</b> - Climate change	<b>Impacts, Risks and Opportunities</b> Message from the CEO, starting on page 5 Strategy and Businesses, starting on page 9 Environmental performance, starting on page 46 Environmental statements, starting on page 239 Strategic risks, starting on page 90 - ESG Operational risks, starting on page 93 - GBP and regulations	Operational Carbon Footprint, Green/ EcoDesigned Revenues	Supply chain, operations, use-phase	Short-, Medium-, and Long-term

# Early examples for CSRD: Visualizing the value chain

Reporting on CSRD requires consideration across the value chain. Each company defines and represents the interactions with their value chain differently. The following are examples of how some companies define their value chain.

## ORSTED

Orsted, a Danish multinational energy company, includes a value chain mapping in its 2023 Annual Report, though non-exhaustive, it shows material sustainability-related impacts and risks pictorially.



## SCHNEIDER ELECTRIC

In its 2023 Universal Registration Statement, Schneider Electric states that it performs its materiality assessment across its entire value chain of the Group and its stakeholders: suppliers and subcontractors, financial transactions, customers, as well as Schneider Electric's scope – on cross-functional, environmental, social, and societal topics. It then discloses the results of its risk analysis by stakeholder group and topic (non-ESRS) in a matrix format. Schneider Electric assesses risks and incorporates its value chain into relevant policies, actions and targets.

Schneider Electric 2023 vigilance risk matrix

The risk matrix below summarizes Schneider Electric's risk analysis:

- Very high risk
- High risk
- Medium risk
- Low risk

		Schneider Electric sites	Suppliers	Contractors	Communities												
	Offices	Travelers, sales forces	Factories low voltage and electronics	Factories medium voltage	Project centers	Field services	Travels and hospitality	Transportation and shipping	Raw materials	Metal transformation and treatment	Plastics	Batteries	Other components	On Schneider Electric sites	Off site and projects execution	Around Schneider Electric sites	Around customer's project sites
Human Rights	Decent workplace	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●
	Health and Safety	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●
Environment	Pollution and specific substances management	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●
	Waste, water, and circularity	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●
Business Ethics	Energy CO <sub>2</sub> and GHG	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●
	Ethical business conduct	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●
Offer safety and cybersecurity	Alert system, protection and non-retaliation	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●
	Offer safety	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●
	Cybersecurity and data privacy	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●	●●●●●

Sources: [Orsted Annual Report 2023](#)  
[Schneider Electric 2023 Universal Registration Statement](#)

# Early examples for CSRD: Policies, actions, metrics and targets

Although no company is claiming to report in full alignment with the CSRD, these company disclosures are starting to integrate some of these elements and can be used for inspiration.

## SCHNEIDER ELECTRIC

In its 2023 Universal Registration Statement, Schneider Electric lists its sustainability risks, opportunities and impacts. It identifies the relevant policies, systems, actions, 2023 performance and opportunity created. While Schneider Electric has begun its double materiality assessment, the following results are for its single materiality assessment.

Risk description and impact	Policies and systems	Main actions and 2023 performance	Opportunity created
<b>Ethical business conduct</b>			
<b>Competition law</b>			
<b>Non-compliance with competition laws and regulations</b> could result in: <ul style="list-style-type: none"> <li>Fines</li> <li>Brand and reputational impact</li> <li>Other consequences</li> </ul>	Trust Charter Competition Law Policy Competition Law Guidelines Channel Contract Review and Approval Policy Conflict of Interest Policy E-learning Trust Line whistleblowing system	<ul style="list-style-type: none"> <li>New Competition Law Guidelines and Processes issued</li> <li>Competition law e-learning issued</li> <li>Commercial Compliance Program</li> <li>Refreshed channel contract templates</li> <li>SSI #7: 82% achieved in 2023 (stable since 2022)</li> </ul>	Increase trust among our customers, partners and larger community Increase business opportunities Increase employee risk awareness

## AIRBUS

Although not stated as ESRS-aligned, components of Airbus's 2023 Annual Report are starting to follow the expectations of CSRD. For example, Airbus includes topics that are consistent with ESRS in its disclosures:

- Double materiality process
- Stakeholder engagement
- Remuneration
- Enterprise risk management and internal audit

Its climate KPIs also include some of the historical information required by the ESRS, such as target, baseline, prior year, current year and changes against prior year and the baseline.

KPIs	Target	2015 baseline	2022	2023	2023 vs. 2022	2023 vs. baseline
<b>CO<sub>2</sub>e Scope 1 &amp; 2<sup>(1)</sup> (ktons)</b>	<b>2030: -63% in line with 1.5°C pathway, and neutralising yearly residual emissions</b>	1,119	757	645	-14.8%	-42%
<b>Energy from stationary sources<sup>(2)</sup> (GWh)</b>	<b>2030: -20%</b>	3,103	2,584	2,534	-1.9%	-18.3%
<b>CO<sub>2</sub>e Scope 3 intensity</b> Delivered aircraft efficiency intensity (gCO <sub>2</sub> /km.pax)	<b>2035: -46%</b>	88.8	64.4	62.9	-2.4%	-29.2%
<b>Supply chain CDP engagement</b>	"Maintain at least 75% of sourcing volume of suppliers invited to CDP who have responded"		78%	80.1%	+2.1p.p	





# Early CSRD examples: EU Taxonomy activities

Companies have encountered challenges with the EU Taxonomy regulation, especially with the Technical Screening Criteria. However, NFRD reporters offer examples of the required tables for eligible and aligned turnover, CapEx, and OpEx.

Reporting on the EU Taxonomy can signal a company's commitment to sustainability, showcasing transparency and adherence to ESG standards, which can attract investors and stakeholders. Due to the complexity of the requirements, particularly in determining taxonomy alignment, it is advisable for companies to start early, create a reporting plan, and begin to address gaps. A proactive approach can turn EU Taxonomy reporting into a strategic advantage for attracting customers and investment.

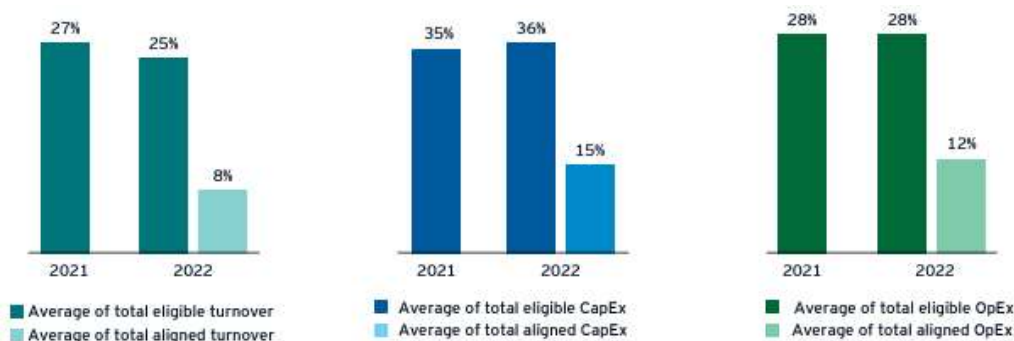
## ORSTED EU TAXONOMY KPIS

Orsted reports on the EU Taxonomy in its 2023 Annual Report following the mandatory template required by Article 8 of the Disclosures Delegated Act. Given the relative complexity of reporting templates, Orsted also translates the results for users stating:

- Taxonomy-aligned share of revenue in 2023 was 86%, up from 69% in 2022
- Taxonomy-aligned share of CapEx in 2023 stayed at 99%
- Taxonomy-aligned OpEx was 79%, a 1% decrease from 2022

Because Orsted's business is primarily developing renewable energy, it shows high percentages of alignment with the taxonomy.

An analysis performed by EY over EU Taxonomy disclosures for 277 nonfinancial entities indicates that companies are struggling to demonstrate aligned turnover, CapEx and OpEx, with average alignment at 8%, 15% and 12% respectively. According to the report, the reason for low alignment varies by sector and could be due to information availability at the level of detail required by the Technical Screen Criteria.



Sources: [Orsted Annual Report 2023](#)

[EY EU Taxonomy Barometer 2023 Fiscal year 2022 reporting practices and results](#)

# Capturing value and driving impact through your CSRD agenda



Preparing for CSRD is a resource-intensive exercise that requires input from across the organization to get it right. The short timeline to stand up this reporting process means that compliance alone can seem overwhelming. Our experience shows that companies can seize opportunities to create value for the organization and drive better decision making.



## CAN REPORTING FRAMEWORKS DRIVE IMPACT?

Increased transparency through corporate disclosure is one crucial action on the pathway to a more sustainable and regenerative future. When business activities are reported on, they are forced to be re-examined. Leading organizations will use these frameworks to re-evaluate their business models and reshape their strategy. As markets more accurately price risks from this increased transparency, the cost of capital will further accelerate impact at scale.

## QUESTIONS TO SUPPORT VALUE CREATION

### 01 ASSESS APPLICABILITY AND REPORTING APPROACH

- **Organizational model:** Is our current legal entity structure fit for purpose in today's environment? Was it built on value propositions that no longer make sense for our business?
- **Reporting:** How will the reporting approach we select help us better communicate our sustainability activities and progress? Where can this create a competitive advantage?

### 02 CONDUCT DOUBLE MATERIALITY ASSESSMENT

- **Resilience:** How can the double materiality assessment enhance your organization's enterprise risk management capabilities and build the resilience of your business?
- **Collaboration:** How can we use the double materiality assessment to engage with external stakeholders about sustainability and integrate the results into our operations?
- **Transformation:** How does our existing business model need to transform in the new economy? What signals can we take from the double materiality assessment results to harden our strategy?

### 03 ASSESS DISCLOSURE GAPS

- **Decision making:** Collecting data on new metrics is important, but how can we use this new data to improve decision making on business decisions within the organization?
- **Real action:** Metrics and policy can often be the focus, but what actions does our business need to take to drive meaningful impact on topics that are material to our business?

### 04 REMEDIATE GAPS AND PREPARE FOR ASSURANCE

- **Resource allocation:** How can identified disclosure gaps help us prioritize, formalize and effectively deploy resources for policies, action plans and targets related to material sustainability topics?
- **Communications:** How can assurance help us communicate our sustainability results in a more credible manner?

# Sustainable actions, communicated well, pay off in the capital markets.



## How Impact Pathways can support throughout your CSRD journey

### SUSTAINABLE ACTIONS

- **Double materiality assessment:** Assess company ESG impacts, risks and opportunities
- **Sustainability strategy:** Develop company-wide sustainability strategy
- **Material risk and opportunity deep dive:** Conduct ESG risk and impact assessments for material topics including climate, water, biodiversity, workforce
- **Target setting:** Create and disclose forward-looking sustainability ambitions and goals accretive to business strategy
- **Policy assessment:** Identify and support creating policies for management of material ESG topics

### COMMUNICATED WELL

- **Reporting and disclosure assessment:** Assess existing company ESG disclosures against ESRS
- **CSRD roadmap:** Develop actionable roadmap to prepare for CSRD requirements
- **PMO:** Manage initiatives to prepare for CSRD while building management capabilities
- **Communications review:** Review external communications for alignment in ESG value creation narrative across annual reports, investor presentations, proxy statement, website

### PAY OFF IN THE CAPITAL MARKETS

- **ESG capital targeting:** Understand how ESG is integrated by investors and target incremental pools of long-term capital
- **Stakeholder monitoring:** Monitor impact of ESG efforts and resulting shifts in perspective on prioritized stakeholders:
  - Investor engagement
  - ESG raters / credit agencies
  - Employees perception & engagement
  - Customer retention
- **Performance improvement:** Leverage increased ESG data to identify operational improvement opportunities and integrate learnings into decision making



# About Impact Pathways

Impact Pathways is helping accelerate the transition to a regenerative future.

We attract purpose-driven talent, provide authentic, evidence-based advice and invest in impact solutions.

Our global, impact-led consulting firm empowers organizations to create value for society while creating value for their business.



**Margaret Weidner**

DIRECTOR, Primary Report Author

Margaret.Weidner@impactpathways.com



**Chris Hagler**

CO-FOUNDER

Chris.Hager@impactpathways.com



**Sheffield Goodrich**

CO-FOUNDER

Sheffield.Goodrich@impactpathways.com



**IT'S JUST GOOD BUSINESS**

Value for business. Value for society.

