

ESG – a chance for strategic change

Results of an opinion survey conducted among listed companies

Financial Year 2021



Table of contents

- 1 Introduction
- 2 ESG topics
- 3 ESG challenges
- 4 ESG (Sustainability) data reporting
 - 4.1 General information about the respondents
 - 4.2 ESG reporting - general
 - 4.3 ESG reporting practice
- 5 Conclusions and Recommendations from experts
- 6 Glossary of terms



Key



General information about the company



Non-financial reporting - general questions



Areas of non-financial reporting

Introduction

The Romanian capital market, and even more broadly Romanian economy, are now facing the challenge of embarking on the path of sustainability. This multifaceted challenge entails numerous systemic, legal, strategic, and operational changes.

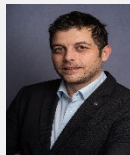
Market expectations and necessary compliance with regulatory requirements in the field of ESG (environmental, social & governance) as well as the opportunities brought by these new trends appear to hold the key to broader transformation and change in corporate strategies.

How prepared are Romanian companies and investors for these upcoming changes? How can they best ready themselves to navigate ESG-related risks and apply the principles of sustainability? How should they start their transformation?

These questions are here addressed in depth.



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ESG topics



Environmental

- > Climate and environmental policy
- > Amount of greenhouse gas emissions
- > Amount of energy consumed
- > Amount of water consumed
- > Amount of waste produced



Social

- > Anti-human trafficking policy
- > Remuneration policy
- > Diversity policy
- > Code of ethics
- > Accident ratios



Governance

- > Risk management
- > Anti-corruption policy
- > Anti-corruption incidents
- > Whistleblower protection policy
- > Cybersecurity
- > Suppliers' code of conduct and management policy
- > Suppliers' audits

ESG challenges

- > Organizations around the world must prepare for the upcoming changes by investing in sustainability and long-term value creation. The risks and opportunities associated with ESG issues have a real and measurable impact on businesses, which cannot miss the attention of investors, private equity funds, and financial institutions. Regulatory and market pressure as well as pressure from capital owners are meant to gradually lead to the transformation of global economies and business organizations.
- > The impulse for actual economic change is expected to come from the financial sector, as one of the areas on which the European Union (EU) focuses its activities. Their purpose is to redirect funding towards sustainable business activity and create new conditions for raising capital. Financial institutions will have to incorporate non-financial opportunities and risks into their investment and financing process.
- > In our survey, we asked listed companies a range of questions, including if they felt they were prepared for the upcoming changes, how they have prepared, to what extent these changes are already factored into their strategy and the tools used to assess performance from the perspective of ESG, and how the situation looks in terms of ESG information disclosed by companies and the quality of that information.



Companies must adapt to meet ESG reporting requirements by 2023 – under the new proposed CSR Directive.

The next two years should be marked by intensive efforts and changes, not only in terms of compliance but above all in terms of strategy and transformation, in order to harness the ESG potential and create long term value.



ESG (Sustainability) data reporting

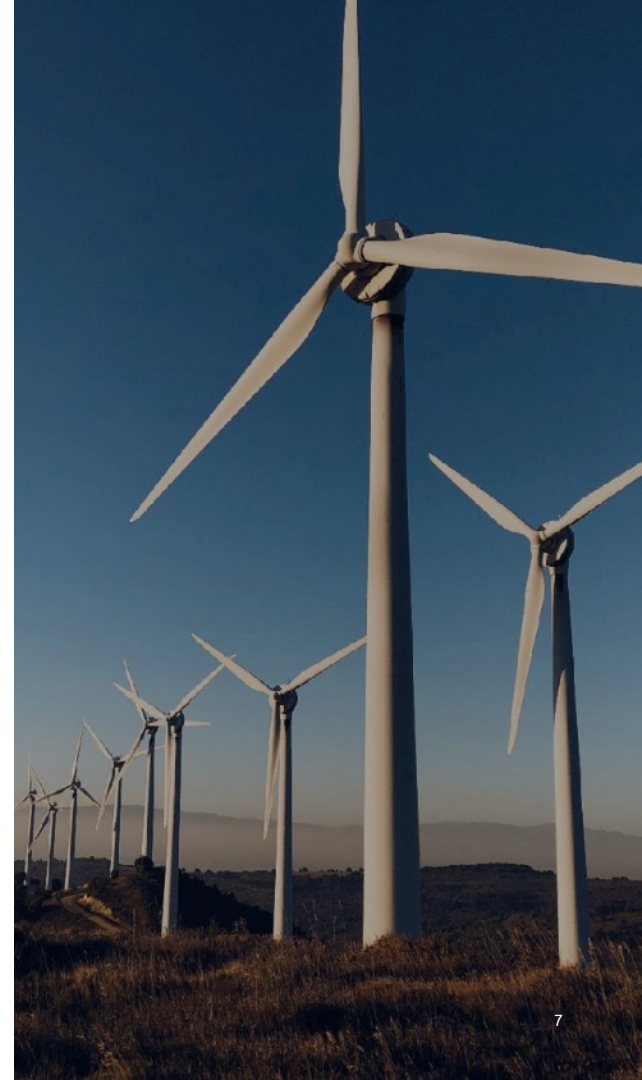
Significant regulatory changes and the transition towards sustainable long-term operating models currently pose a major challenge for business organizations.

The pace and direction set by the European Commission as well as international organizations and global initiatives, including the United Nations and the World Economic Forum, leave no doubt: businesses around the globe must pursue responsible development, taking into account not only growth in revenues but also the impact of their activities on the environment in which they function. In addition, there is pressure from business stakeholders, including customers and employees, who are increasingly sensitive to corporate social responsibility issues.

In 2015 the United Nations set up 17 Sustainable Development Goals (SDGs). Businesses are free to choose which of these goals they want to integrate into their corporate strategies.

Simultaneously, we can observe advancing regulatory changes aimed at helping companies to achieve these goals. European funds and private capital will support changes in this area.

Sustainability may act as a catalyst for long-term growth, and ESG challenges may turn into real and significant benefits.



Companies should now consider the following questions:

- > What are the most significant risks and green transformation areas facing the company?
- > What investments and resources will be needed in this field in the coming years?
- > How to integrate the ESG goals into the business strategy?
- > How to identify ESG benchmarks and sector trends?
- > How to develop solutions to create long-term value in harmony with sustainable development?
- > How to effectively use the resources that are available to boost the value of the company in the eyes of customers and investors?
- > What expectations do the company's stakeholders have in the area of ESG, and how should they be met?



Key findings



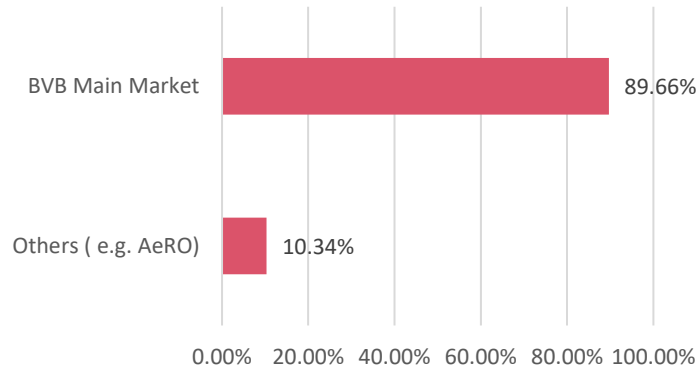
- Only 30% of companies have an implementation plan developed for ESG, while 40% of the respondents have ESG KPIs in place and 40% also report to have ESG responsibilities assigned. 50% report to have only a business strategy, with 10% reporting to have an integrated business and sustainability strategy.
- The majority of respondents (72.22%) have their non-financial reports examined by external auditors.
- ESG standards used currently include GRI, ISO 14001- EMS, EU Guidelines, TCFD, while 50% use no standard at all. In 82% of the cases, ESG decisions are taken at Board level.
- Among the ESG issues included in the risk management process in companies, listed companies indicated: cybersecurity, climate and the environment, employee matters, corporate governance and the related area of anti-corruption activities, social issues and human rights.
- The changes applied by Companies to implement the strategy and achieve the planned ESG targets vary from independent dedicated ESG structures or task forces at Executive Board level, to tangential ESG target issues included in internal procedures or no changes at all.
- Currently, an increasing percentage of listed companies declare that they take a systematic approach to climate and environmental issues 53% say they already have an environmental and climate policy (with 12% working on one).
- Companies are a lot better prepared to address social, employee, and human rights issues. They declare that they have codes of ethics (82%), remuneration policies for all employees (71%), whistleblower protection policies (65%), diversity policies (47%), and ILO standards (24%)
- 47% of the respondents declare that they have no specific human rights policy in place, while 71% of the respondents declare that they have an anti-corruption and anti- bribery policy.
- Just under 6% of listed companies declare that they perform audits to assess suppliers' performance. In addition to audits, the respondents indicated other methods they use to evaluate suppliers, including assessment based on publicly available information as well as certificates and documents provided by suppliers.



General information

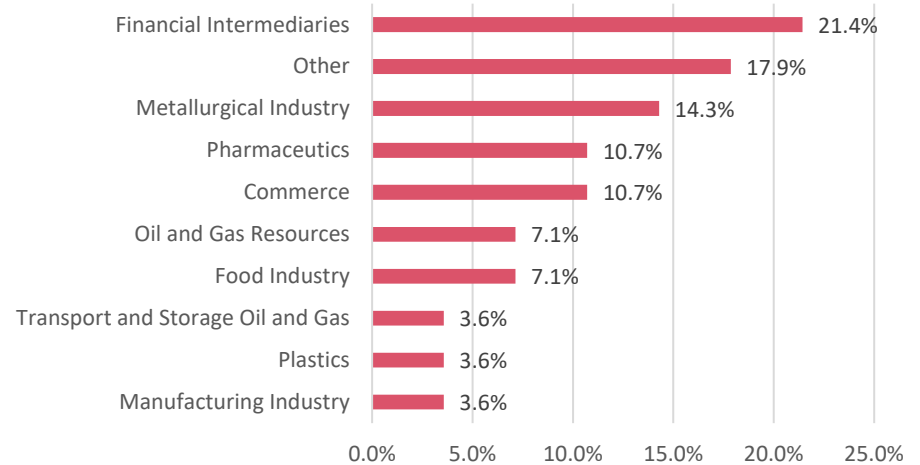
More than 89% of the respondents are listed on BVB Main Market.

General information about the companies



Question: Where are the shares of your Company listed?

Industries of the companies



The answers listed as "other" included:

- Aviation Industry,
- Manages and operates the electricity transmission.



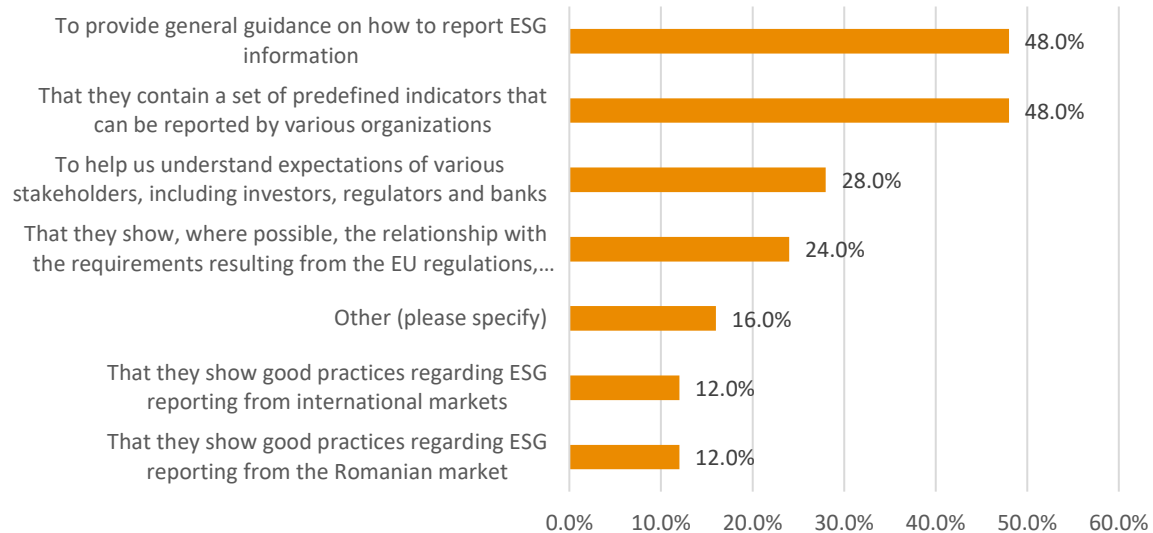
Question: To which sector, according to the BVB/ classification, do the shares of the Company belong?



ESG reporting - general

Key findings

Expectations on the coming ESG Reporting Guidelines



The answers listed as “other” included:

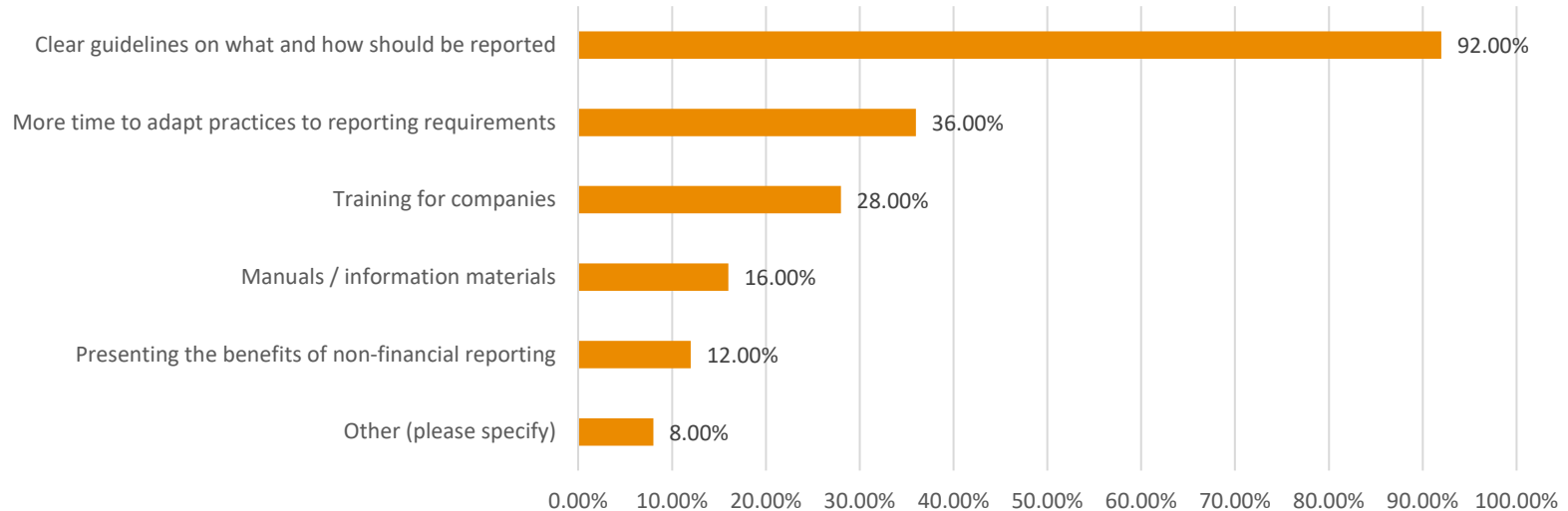
- To incorporate the ESG indicators required by the different rating agencies, explain how to tackle them, and comply with these various methodologies assessments,
- To present minimal requirements vs best practices in ESG reporting; to present main issues to be approached and a recommended reporting structure,
- To incorporate the ESG indicators required by the different rating agencies, explain how to tackle them, and comply with these various methodologies assessments.



Question: What would you expect from the ESG reporting guidelines? (please choose max. two answers)

Key findings

Expectations on the coming ESG Reporting Guidelines



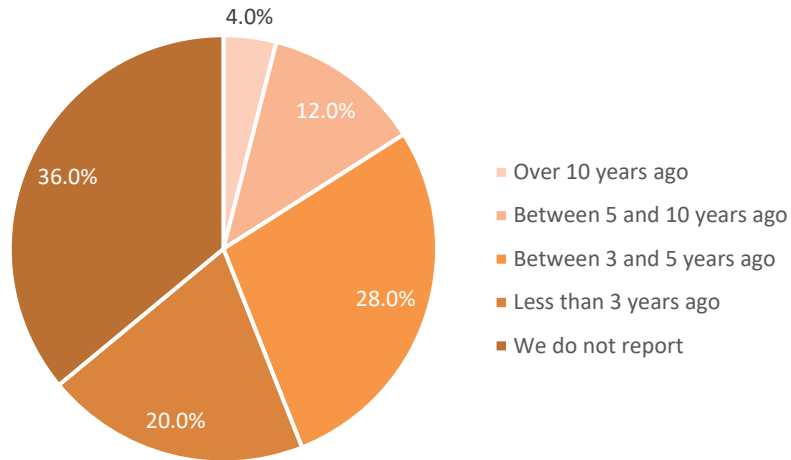
Question: What is needed to increase the popularity and improve the quality of ESG reporting in Romania?
(please choose max. two answers)

The answers listed as "other" included:

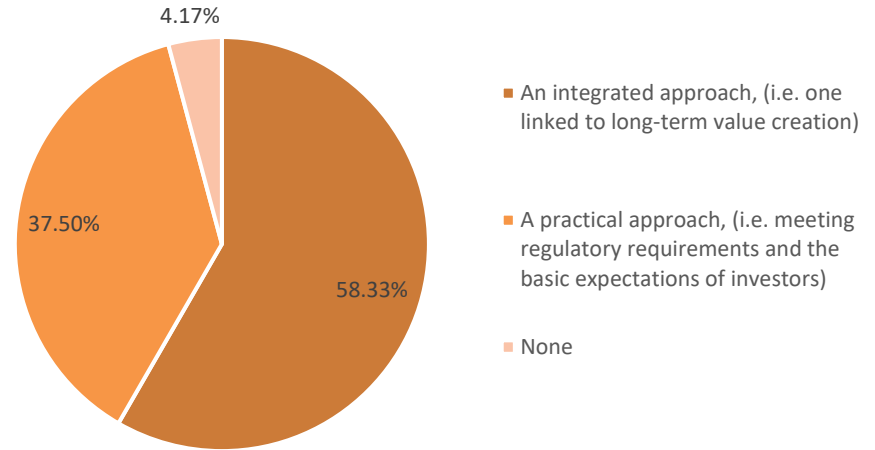
- presenting the benefits of ESG initiatives, opportunities,
- better enforcement of regulations from authorities

Key findings

ESG (Sustainability) reporting - general questions

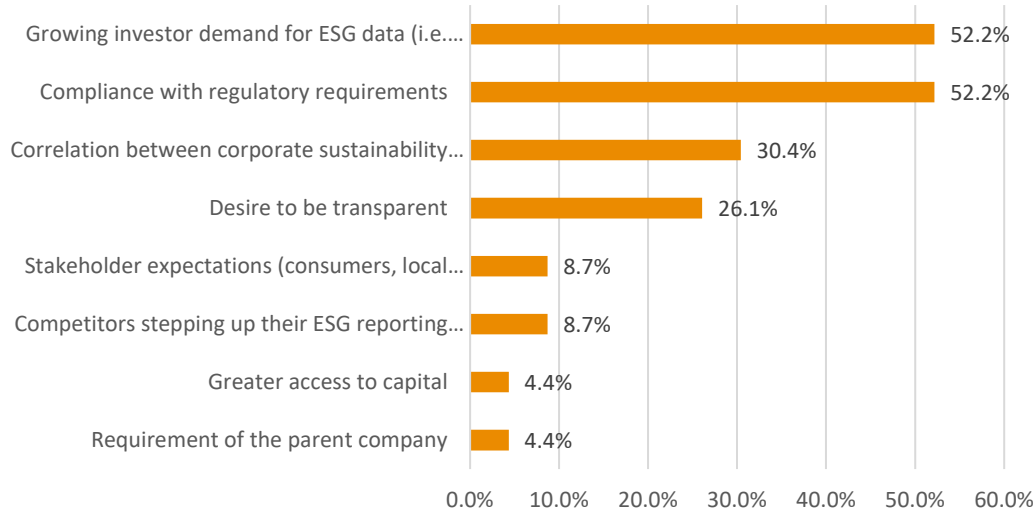


Question: When did you start the process of ESG (sustainability) reporting?

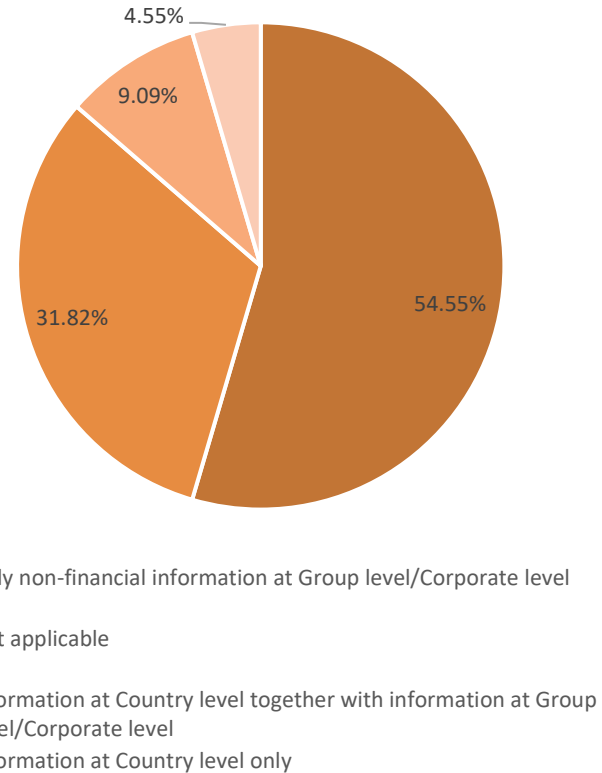


Question: What is your company's approach to ESG (sustainability)? (please choose one answer)

Motivating factor for ESG report



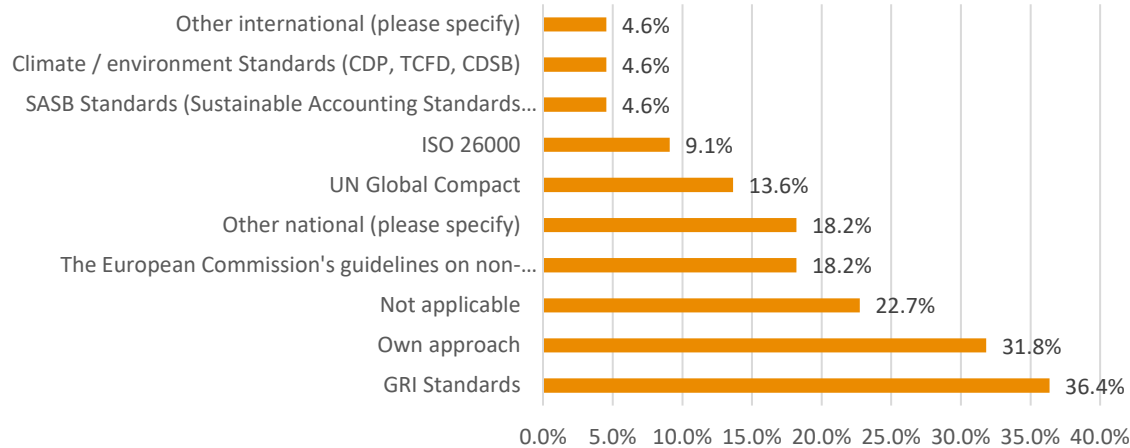
Question: What is the most motivating factor for your company to report on ESG issues? (please choose max two answers)



Question: Which entities were included in the ESG (sustainability) information reported in 2020? (please choose one answer)

Among Romanian listed companies, the prevalent approach to ESG reporting is based on the GRI Standards (36.4%). Companies also use their own approach (31.8%).

Guidelines



The answers listed as “Other national” included:

- ASF Norm no. 39/2015 Chapter 2, section 2, Chapter 3, section 2,
- Legislative requirements No. 1938/2016, respectively No. 2844/2016, provided by the Orders of the Ministry of Public Finance ,
- Orders of the Ministry of Finance no.1938/2016 and no. 3456/2018,

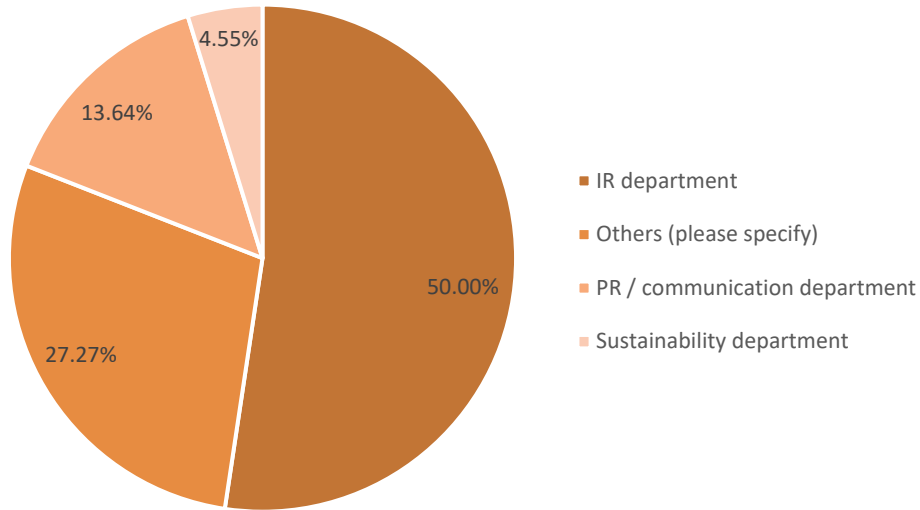
The answers listed as “Other international” included:

- provisions of Directive 2014/95/EU.



Question: Which national and/ or international non-financial reporting standards and guidelines did you use in 2020? (choose all that apply)

Compiling **ESG** information is most commonly the responsibility of the IR Department (50%), followed by the PR/ communication department (13.64%).



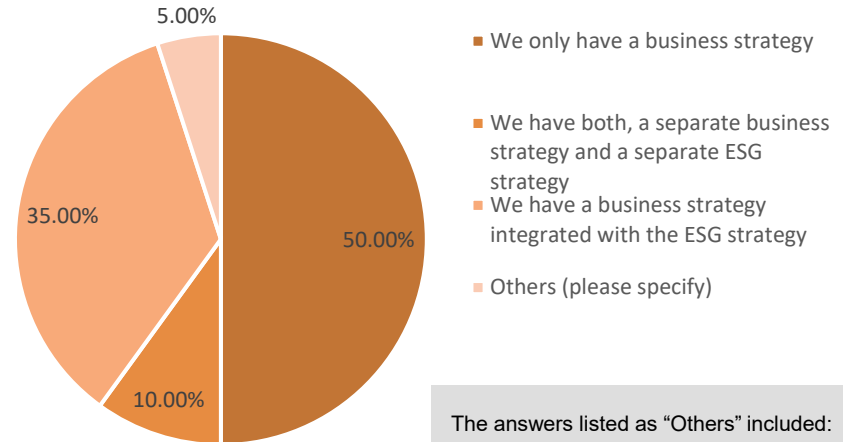
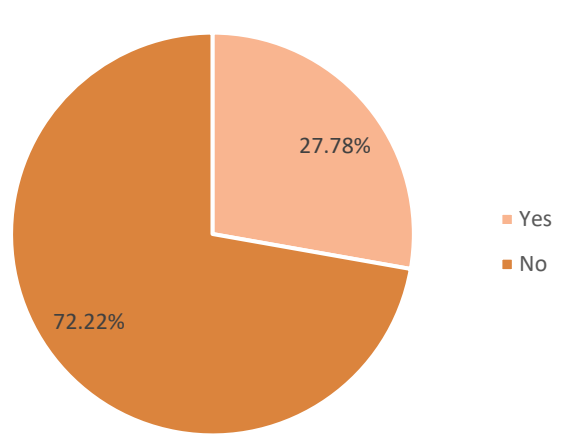
The answers listed as “Others” included:

- CEO
- Strategy and Corporate Management Division
- Secretary General
- Working group consisting of Controlling/Finance Department, Environment Department, PR/Communication Department, IR Department, HR Department
- Corporate Governance Department
- RA, Quality, Logistics, HR, IR, Financial



Question: Which department(s) are responsible for compiling ESG (Sustainability) information for reporting purposes in your company? (please choose one answer)

The majority of respondents (72.22%) have their non-financial reports examined by external auditors.



The answers listed as "Others" included:

- we are in a phase in which we take small steps in the direction of convergence with the ESG area without actually talking about a strategy

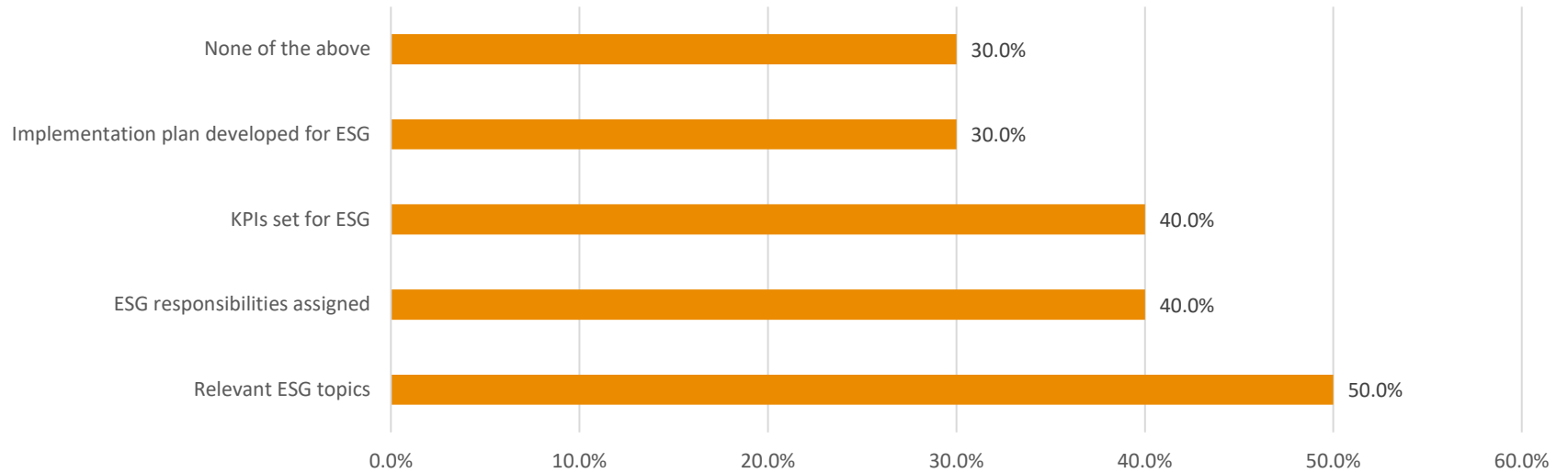


Question: Have your ESG (Sustainability) reports been verified by an independent third party (assurance performed)?



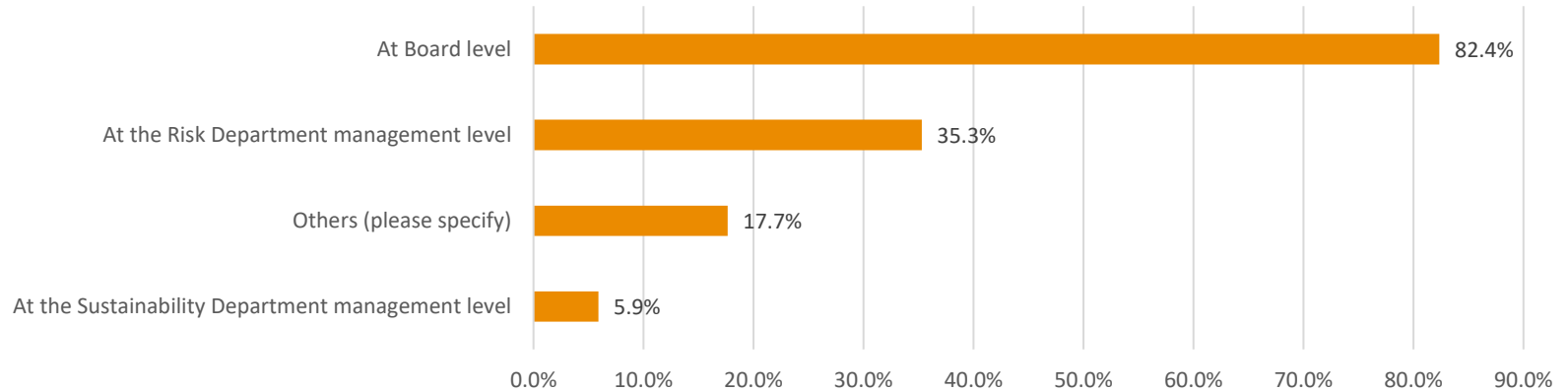
Question: Which statement best describes the relationship between your company's business strategy and sustainability strategy (ESG strategy)?

Key findings



Question: Do you have (you can choose more than one answer) in your company's strategy:

Key findings

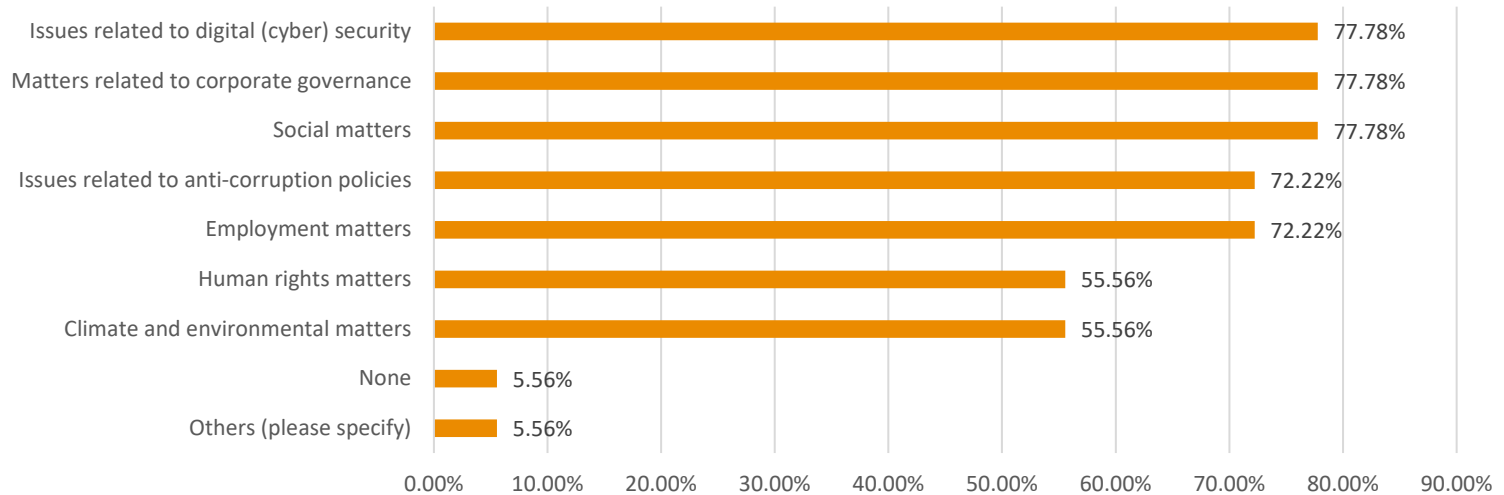


Question: At what organizational level are decisions regarding ESG risks taken?

The answers listed as "Others" included:

- At Committees and Top Management level
- CEO
- Three lines of defence: LOD 1 business (direct contact with clients) LOD 2 compliance and risk, and LOD audit

Key findings



Question: Which of the following areas are included in the risk management process in your company? (choose all that apply)

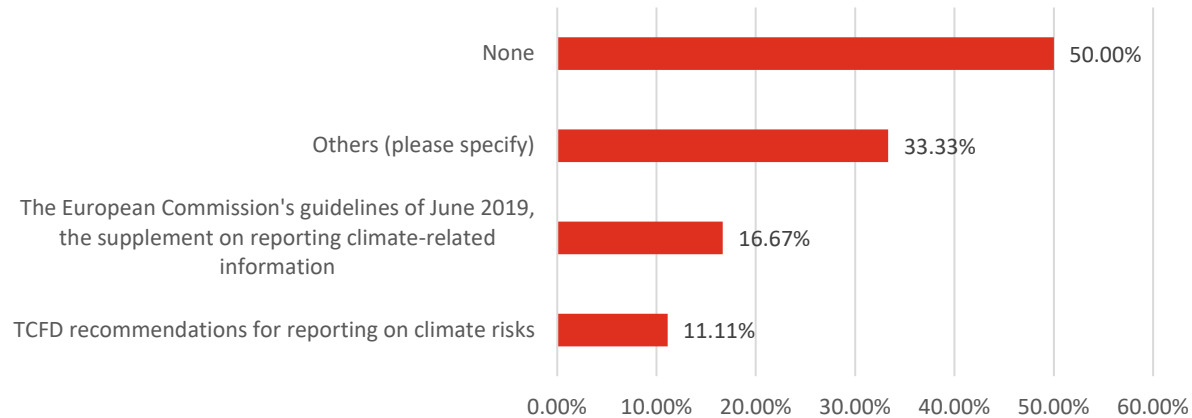
The answers listed as “Others” included:

- Cybersecurity



ESG reporting practice

Key findings



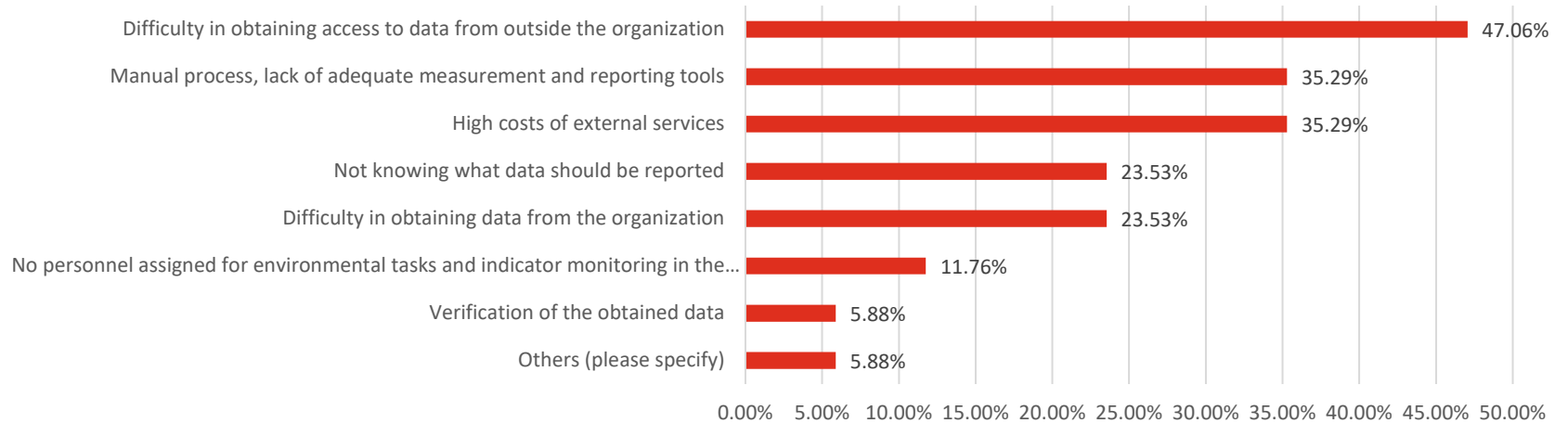
The answers listed as "Others" included:

- GRI Standards
- Environmental compliance management system requirements of ISO 14001: 2015
- ISO 14001:2015



Question: Which standards or guidelines for reporting on environmental and climate issues did you use when compiling information for 2020? (choose all that apply)

Key findings

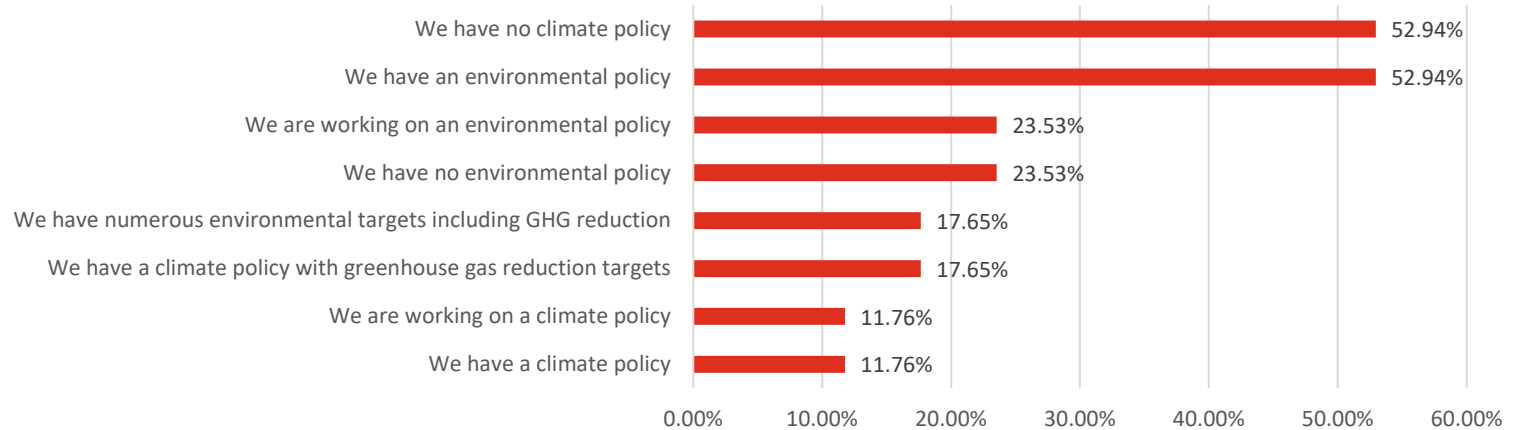


Question: Please indicate the most difficult aspects related to environmental and climate indicators)

The answers listed as “Others” included:

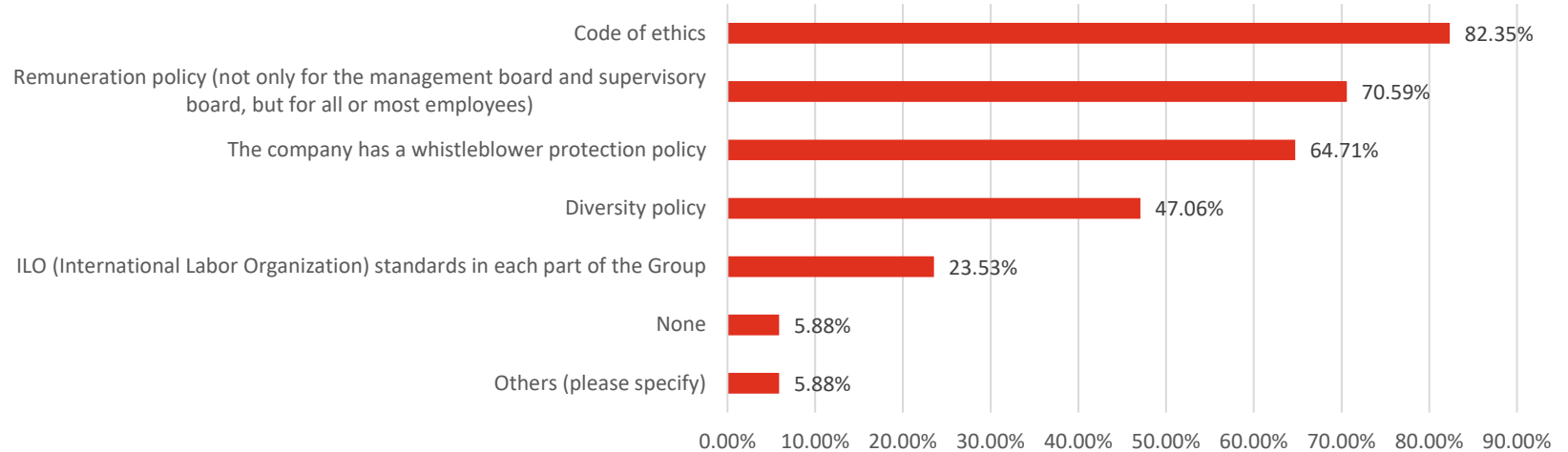
- We are a company that provides financial services with a low degree of pollution. As such, we cannot answer this question, as we do not have difficult issues.

Key findings



Question: Which statement best describes your readiness for reporting on environmental and climate issues? (choose all that apply)

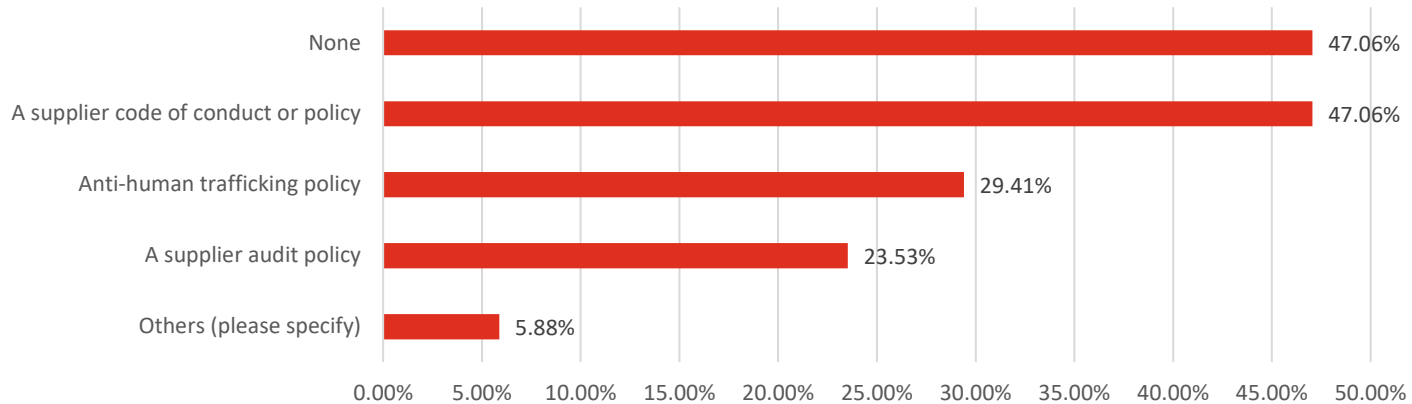
Key findings



Question: Which of the following has your company implemented to address social and employee issues? (choose all that apply)

- The answers listed as "Others" included:
- Internal Regulations, Anti-corruption policies and procedures

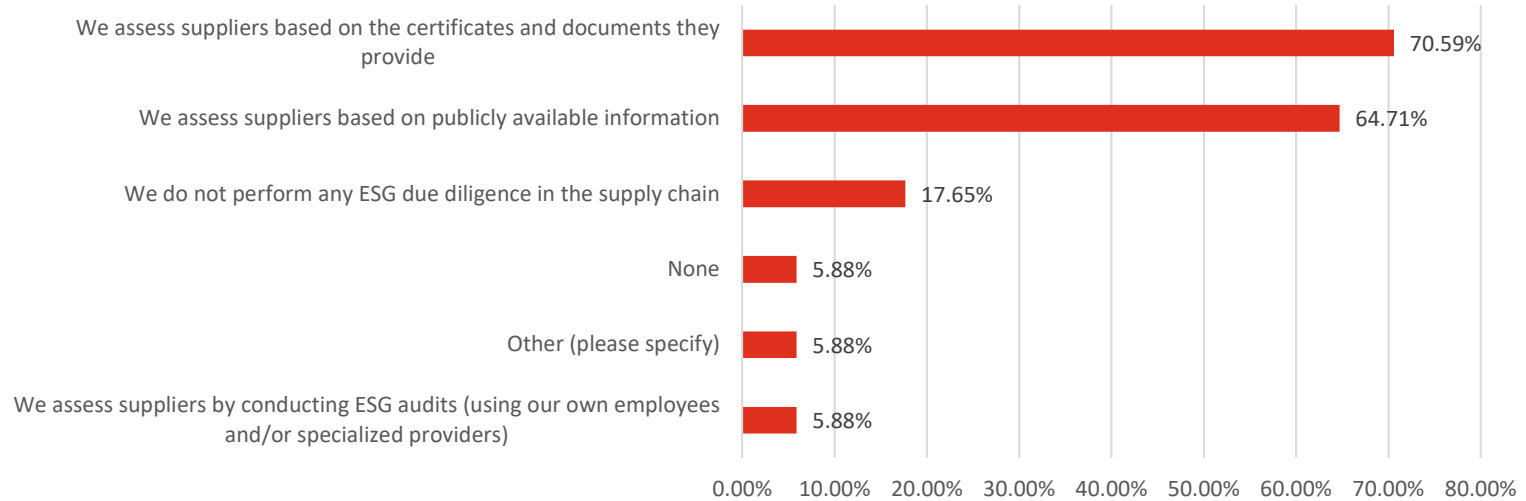
Key findings



Question: In the area of human rights, which of the following policies do you have?
(choose all that apply)

The answers listed as “Others” included:

- N/A - the company is a services provider

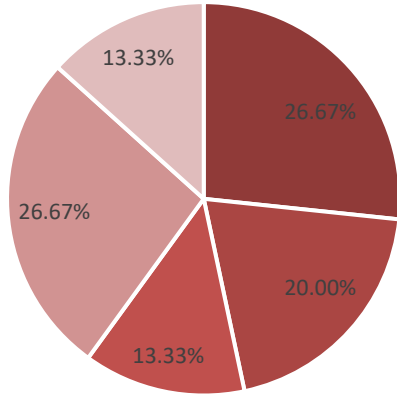


Question: What measures does your company take with respect to suppliers? (please choose max. two answers)

The answers listed as "Others" included:

- N/A

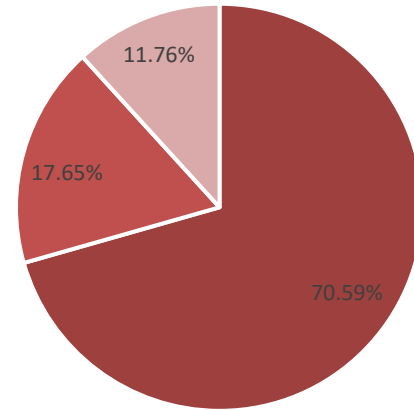
Key findings



■ Competencies ■ Experience ■ Age ■ Gender ■ Other (please specify)



Question: In the area of ensuring diversity in management positions, which of the following aspect is the biggest difficulty for your Company?



■ Yes, we have such a policy ■ No, we do not have such a policy ■ I don't know



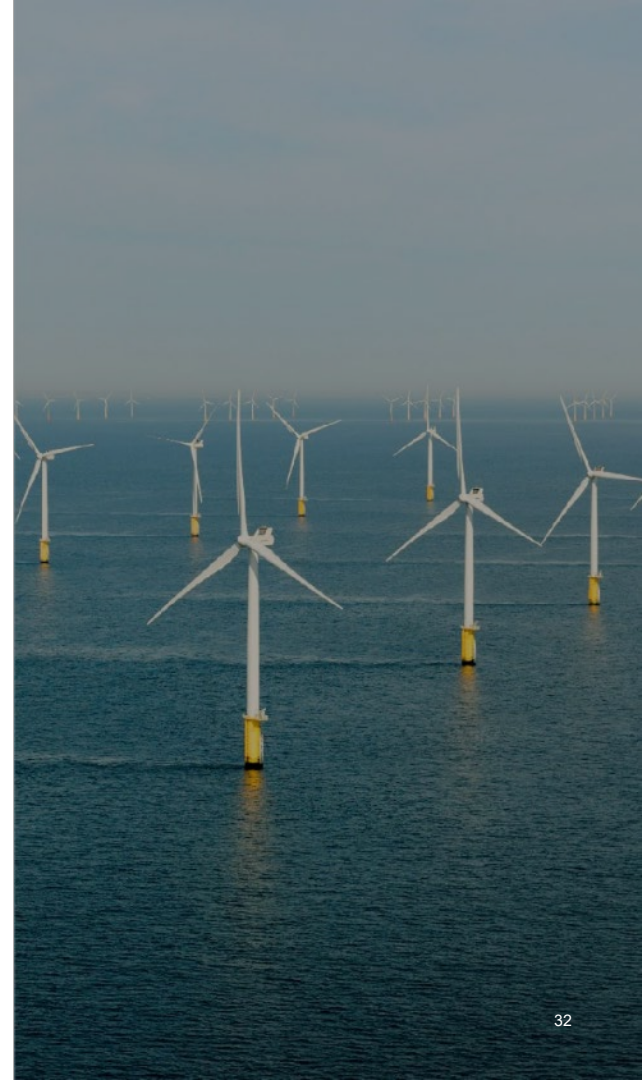
Question: Do you have an anti-corruption and anti-bribery policy?



**Conclusions and
Recommendations
from experts**

Conclusions

- In addition to providing an overview of the present situation, this analysis allows us to see and define the needs that listed companies, and other market participants in Romania have in the area of pursuing sustainability and meeting regulatory requirements.
- Companies need knowledge and practical guidelines and often new competencies to help them embark on their own ESG journey, define the goals and activities that it will cover, and understand new regulations and the extent to which these regulations will apply to their situation.
- Clear guidelines and tools are also needed to assess if a given company addresses ESG issues in the correct way, if the risks in this area are an element of the risk management system, and if the opportunities in this area are integrated into the company's business strategy.
- Companies must adapt to ESG reporting requirements by 2023. The next two years should be a time of intensive efforts and changes in the areas of not only compliance, but above all strategy and transformation.



Sustainability can pay



The title of our report mentions “The Sword of Damocles.” As we have repeatedly indicated, such a sword – in the form of regulatory requirements – is now hanging over companies, meaning that they will have to adapt to the changes by 2023. But shouldn’t this situation be viewed as an impulse for strategic change that may translate into a business success, rather than as just a set of compliance tasks that only generate costs?

Since the adoption of the Paris Agreement in 2015, the co-responsibility for adverse climate impacts and the obligation to take action to mitigate them have been shared by all market participants, the public sector and the private sector. As part of the European recovery fund, financial resources will be allocated to transition projects in this area, and companies meeting specific conditions will be able to apply for funding. Consequently, it is worth preparing to apply already at the level of strategy and reporting.

In order to do so, businesses need two things:

- 1 to understand the economic benefits of the ESG transformations. This means debunking the commonly-held belief that measures taken in this area, treated as a matter of compliance with regulatory requirements that only creates costs, are associated with the erosion of shareholder value.
- 2 to prepare measurable business cases for projects in the ESG area.

This situation is reminiscent of an issue that now appears obvious to many companies in developed markets, namely the question of whether it is worth investing in occupational safety and why. Training and other activities in this area generate costs. Simultaneously, however, they lead to fewer accidents and less downtime, lower staff turnover rates, and a higher level of employee satisfaction, with the company enjoying a good reputation in the job market. Bringing this back to financial factors, investments in safety of work translate into lower costs, higher productivity, and greater shareholder value.

Expert commentary



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The investor push



ESG is a concept that mainly originated in the capital markets and the large international institutional investors were the primary driving force for ESG integration in the last decade. From the investor perspective, ESG implementation at corporate level is seen as a requirement for better risk management, improved operations and sustainable growth.

Bucharest Stock Exchange has recognized the importance of this topic and the need of the local market participants to join the trend in order to maintain the competitiveness and the attractiveness of the local assets in the fierce global competition for capital.

The projects we initiated, namely the ESG coverage and ESG ratings for main-market listed companies as well as the publication of our ESG guidelines, aimed to improve the understanding and the capacity of the local issuers, mainly in relation with the expectations of the institutional investors. Also, our desire to make these indicators public via our dedicated portal BVB Research brings additional transparency for all types of investors and stakeholders and also raises the awareness on this topic.

Looking ahead at the ESG landscape, certainly the ride hasn't been smooth until now and it might become even more complex ahead of the expected regulatory involvement in the space. We do hope that all relevant players, regulators, issuers, investors and specialized ESG organizations will be able to find a balanced approach to tackle the current ESG shortcomings and to increase the reliability and trust in the ESG data in the future.

Expert commentary



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Glossary of terms

- **SFDR, Sustainable Finance Disclosure Regulation** – Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector
- **CSRD, Corporate Sustainability Reporting Directive (proposal)**
- **GRI Standards** – guidelines on sustainability reporting drafted by the Global Reporting Initiative
- **NFRD, Non-Financial Reporting Directive** – Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups
- **TCFD Recommendations** – recommendations on climate reporting drafted by the Task Force on Climate-Related Financial Disclosures
- **CDSB Framework** – Climate Disclosure Standards Board Framework for reporting environmental and climate change information
- **The Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (Revised Edition)** – an international standard created by the GHG Protocol to measure greenhouse gas emissions
- **IR – investor relations**
- **SASB Standards** – non-financial reporting standards created by the Sustainability Accounting Standards Board
- **IIRF** – the International Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC)
- **SDGs** – the Sustainable Development Goals set up by the United Nations in 2015