

The State of Sustainability Reporting in the Visegrad Region



Disclaimer

A majority of sustainability-related disclosures require predominantly a qualitative assessment which is inherently subjective. Furthermore, despite the project's rigorous review mechanism, the complexity of the research implies inevitable errors and oversights. The scale of the research ensures that such errors do not significantly affect the aggregated data, but we do not recommend the use of assessment of individual companies to inform the decision-making of any stakeholders other than the companies themselves. The research has not been designed for this purpose.

Frank Bold Society takes responsibility for any error or inaccuracy in the presentation of the research results. The information and views expressed in this report are solely of the authors.

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This report is part of the Alliance for Corporate Transparency project, an initiative led by Frank Bold.

The project is co-financed by the Governments of Czechia, Hungary, Poland and Slovakia through Visegrad Grants from [International Visegrad Fund](#)³. The mission of the fund is to advance ideas for sustainable regional cooperation in Central Europe.



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INTRODUCTION

This report presents the results of the assessment of the quality of sustainability reports of companies based in Visegrad countries and their comparison with the results of similar assessments in other European Union Member States.

This research was implemented in the framework of the Alliance for Corporate Transparency project, an initiative of Frank Bold, which brings together leading European civil society organisations and experts with the aim of analysing the corporate disclosure on sustainability issues by the 1000 largest companies operating in the EU and providing evidence-based recommendations for legislative changes.

The project is framed within the [EU Non-Financial Reporting \(NFR\) Directive](#)¹, which came into effect in 2018 and requires large listed companies and financial corporations to disclose information necessary for understanding their impacts on society and the environment, as well as sustainability-related financial risks. The Directive requires companies to provide information on their business models, policies and due diligence processes, principal risks, and key performance indicators relating, at a minimum, to environmental matters, employee and social matters, respect for human rights, and anti-corruption and bribery matters.

The purpose of the Directive is to guide companies to properly consider their impacts and risks posed by sustainability challenges. This is particularly critical with respect to climate change and the decarbonisation of the economy.

Clear and comparable corporate sustainability disclosure is intended to allow stakeholders, especially investors and banks, to understand the impacts, risks and sustainability plans of companies they invest in. This way investors can assess whether the companies' actions are aligned with their own investing preferences or not. Ensuring high-quality corporate sustainability disclosures is considered a cornerstone of the [European Commission's Action Plan on Financing Sustainable Growth](#)². Recognizing the current shortcomings of the implementation of the NFR Directive, Executive Vice-President Valdis Dombrovskis announced that by the end of 2020 the European Commission will present a proposal for the reform of the Directive with the aim of specifying corporate sustainability reporting requirements.

The analysis of corporate sustainability reports in Visegrad countries has been implemented by Frank Bold Society and Frank Bold Foundation, the Environmental Management and Law Association, and the Faculty of Law of the Comenius University in Bratislava.

All research data, including the full country breakdown of results for every issue and all criteria, is available to the public in an [online database](#).

COMPANIES INCLUDED IN THE RESEARCH

The NFR Directive applies to large companies with over 500 employees, whose securities are admitted to trading on stock exchanges, as well as credit institutions, insurance undertakings, and any other company designated as a public interest entity by Member States.

The research includes a majority of companies in Visegrad countries that fall under the scope of the NFR Directive. In total, 95 companies are included. The majority of these companies (64) come

¹ 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 Text with EEA relevance available here: https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en

² Action Plan: Financing Sustainable Growth (COM(2018) 97 final, Brussels, 8.3.2018) available here: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en

³ The website of the Visegrad Fund is available here: <https://www.visegradfund.org>

⁴ The ACT research online database is available here: <http://bit.ly/2HmYt3i>

from Poland, which reflects the differences in size and relative importance of stock exchanges in Visegrad countries. The selection of Czech companies included two businesses whose bonds rather than equity were traded on the local stock exchange. Among the banks which were included in the research from the Czech Republic and Slovakia, several were subsidiaries of foreign banks, and chose to refer to consolidated non-financial reports issued by their parents. In these cases, both their own reports as well as those of their parent companies were analysed. In Slovakia, two companies designated by law as a public interest entity were included in the selection.

The table below provides a detailed sectoral breakdown of the analysed companies. The full list of companies from the Visegrad region is included in Annex.

Country Sectors	Poland	Czech Republic	Hungary	Slovakia	Rest of Europe	Total
Apparel & Textiles	11	0	0	0	99	110
Consumer goods	4	0	0	0	64	68
Energy & Resource Extraction	11	2	2	2	115	132
Financials	2	5	4	6	110	127
Food & Beverages	8	1	0	0	86	95
Health Care	3	0	1	0	69	73
Hospitality & Recreation	1	0	0	1	40	42
Infrastructure	8	0	1	1	66	76
Resource Transformation	7	0	0	0	90	97
Technology & Communications	4	1	1	0	69	75
Transportation	5	1	2	0	97	105
Total	64	10	11	10	905	1000

DISCLOSURES OF POLICIES, RISKS AND OUTCOMES

The NFR Directive requires disclosure of information related to, at a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, including:

- a description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented;
- the outcome of those policies;
- the principal risks related to those matters [...] and how the undertaking manages those risks;
- non-financial key performance indicators relevant to the particular business⁵.

For the four broad sustainability areas outlined in the Directive, our research methodology identified concrete sustainability issues reflected in leading international standards. The research methodology applied a materiality matrix to connect these issues to specific industrial sectors. Certain issues, such

⁵ Article 19a of the NFR Directive (2014/95/EU) available here: https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en

as climate change, employee matters, or human rights general criteria are relevant to all companies. However, many other important sustainability issues are not equally relevant to all companies even within a single sector, either because the materiality of the issue depends on individual circumstances (for example, not all companies are linked to high-risk areas for civil and political rights) or because of the diversity of sub-sectors included in the main sector.

In this report we present research findings concerning generally or nearly generally material topics of climate change, employee matters, tax disclosure, respect for human rights and anti-corruption matters. We also provide information on one issue whose materiality is not as universal - biodiversity and ecosystem conservation.

For each separate issue, the research assessed whether and in what detail companies from concerned sectors reported on policies, their outcomes and risks. The results of this analysis are visualised and explained in this section.

The research further examined company reports against non-financial key performance indicators commonly associated with given issues, as well as additional qualitative criteria derived from leading standards for sustainability, including in particular the Global Reporting Initiative, Sustainability Accounting Standards Board, the recommendations of the Task Force on Climate-related Financial Disclosures and the UN Guiding Principles on Business and Human Rights Reporting Framework. These results are presented in the next sections, alongside the explanation of the criteria used.

Policies and Procedures

	Poland	Czech Republic	Hungary	Slovakia	Rest of Europe
Climate change					
No information provided	54.69	30	81.82	70	13.7
Policy is described or referenced	40.63	60	0	20	48.95
Policy description specifies key issues and objectives	4.69	10	18.18	10	37.35
Biodiversity					
No information provided	70.32	80	100	80	71.05
Policy is described or referenced	29.69	10	0	20	21.99
Policy description specifies key issues and objectives	0	10	0	0	6.96
Employee matters					
No information provided	10.94	0	36.36	50	3.2
Policy is described or referenced	59.38	90	36.36	20	52.04
Policy description specifies key issues and objectives	29.69	10	27.27	30	44.75
Human rights					
No information provided	23.44	50	54.55	70	16.02
Policy is described or referenced	60.94	50	45.45	30	60.88
Policy description specifies key issues and objectives	15.63	0	0	0	23.09
Anticorruption					
No information provided	21.88	10	36.36	50	10.13
Policy is described or referenced	57.81	80	54.55	40	69.5
Policy description specifies key issues and objectives	20.31	10	9.09	10	20

The results point at heterogenous reporting practices with respect to different sustainability issues. Nevertheless, it is possible to make one overarching observation.

In particular in the areas of climate change and human rights, companies from the Visegrad region tend to disclose their policies less often than companies from other European regions. With regard to employee matters and anti-corruption matters, the gap is smaller. Czech and Polish companies disclose policies in these areas as often as companies from other European regions, while Hungarian and Slovak companies show slightly worse results.

Data further shows that of those reporting on policies only a small minority of companies provide information specific enough to understand such policies. This is a problem all across Europe, but the gap is more profound in the Visegrad region than in the rest of Europe.

Data on biodiversity is roughly in line with the rest of Europe, which may be due to two reasons. Firstly, reporting in this area is very poor all across Europe. Secondly, the materiality of biodiversity and ecosystem conservation topics is more dependent on the operational context of individual companies.

Risks Management

Climate change	Poland	Czech Republic	Hungary	Slovakia	Rest of Europe
No risks identification	75.01	80	81.82	100	42.76
Vague risks identification	17.19	20	0	0	32.15
Description of specific risks	7.81	0	18.18	0	25.08
Biodiversity					
No risks identification	81.25	90	100	100	81.22
Vague risks identification	14.06	10	0	0	11.16
Description of specific risks	4.69	0	0	0	7.62
Employee matters					
No risks identification	12.51	30	45.45	90	28.62
Vague risks identification	29.69	40	36.36	10	33.26
Description of specific risks	57.81	30	18.18	0	38.12
Human rights					
No risks identification	48.44	70	63.63	90	41.88
Vague risks identification	39.06	20	18.18	10	31.05
Description of specific risks	12.5	10	9.09	0	27.07
Anticorruption					
No risks identification	39.07	40	54.54	40	34.47
Vague risks identification	32.81	60	36.36	50	45.08
Description of specific risks	28.13	0	9.09	10	20.44

As in other European regions, these numbers drop in the analysis of quality of disclosure of risks as well as policy outcomes. Disclosure of policy outcomes in terms of meeting policy objectives is extremely rare among companies in the Visegrad region.

This suggests firstly that while many companies, albeit still a minority in Europe and an even smaller fraction in the Visegrad region, disclose fairly detailed policies, significantly fewer businesses provide information which is necessary to understand their situation and future development.

Secondly, it is worth noting that for each category the number of companies reporting on individual sustainability issues is significantly higher than that of companies providing specific information on risks and implementation of their policies. This implies that the topic is either not material, and thus should ideally not be included in the disclosures, or that it is indeed material, but companies fail to provide relevant information.

Thirdly, the results imply poor connectivity between the disclosures of individual categories of information.

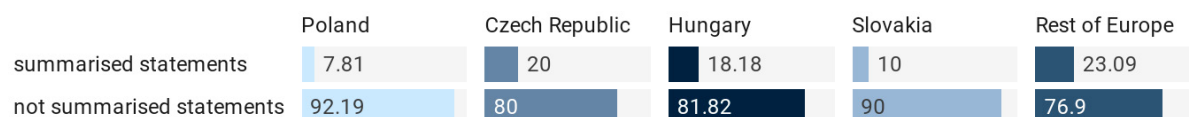
Outcomes

	Poland	Czech Republic	Hungary	Slovakia	Rest of Europe
Climate change					
No description	82.82	60	81.82	100	23.43
Description provided	15.63	40	9.09	0	46.19
Outcomes in terms of meeting policy targets	1.56	0	9.09	0	30.39
Biodiversity					
No description	96.88	90	100	100	81.22
Description provided	3.13	10	0	0	15.47
Outcomes in terms of meeting policy targets	0	0	0	0	3.31
Employee matters					
No description	62.51	70	63.63	80	19.45
Description provided	34.38	20	27.27	0	52.82
Outcomes in terms of meeting policy targets	3.13	10	9.09	20	27.73
Human rights					
No description	82.81	80	90.91	100	58.34
Description provided	15.63	20	0	0	35.03
Outcomes in terms of meeting policy targets	1.56	0	9.09	0	6.63
Anticorruption					
No description	60.94	80	81.82	80	52.59
Description provided	35.94	20	18.18	20	41.1
Outcomes in terms of meeting policy targets	3.13	0	0	0	6.3

PRESENTATION OF KEY PERFORMANCE INDICATORS

Irrespective of the content of the key performance indicators ("KPIs") disclosed by companies, analysed in the following chapter, it is worth noting that very few companies presented their KPIs in summarised statements as is commonly the case in financial reporting, which ultimately undermines the usefulness of companies' reports for their users.

KPIs presentation



QUALITATIVE CRITERIA AND SPECIFIC KEY PERFORMANCE INDICATORS

For each issue and category of information, the research methodology provided additional qualitative assessment criteria and KPIs commonly associated with such issues and derived from leading reporting standards.

Below, we provide a commentary on some of the key findings for the most important thematic areas.

CLIMATE CHANGE

Targets

In addition to the examination of the specificity of company climate change policies, we assessed whether a company reports on concrete targets related to climate change mitigation.

We took into account only targets linked to the primary impacts companies can effectively mitigate, such as emissions from energy production for companies in the Energy sector, or negative and positive impacts of financial companies' investments (rather than for example their own energy consumption).

The data below is provided in an aggregate way for all sectors, and separately for the Energy and Finance sectors, as the two most important industries for the decarbonisation of the economy.

These results indicate a worrying unpreparedness of companies in the Visegrad region to adapt their business models. Of 17 Energy companies analysed, only 1 disclosed such targets, while no Financial companies in the region disclosed meaningful plans. The only Visegrad Energy company reporting on climate targets is from the Czech Republic. This is reflected in similarly poor results concerning their reporting on risks, which suggests vulnerability of these companies to the expected changes, with potentially significant impacts on the economies of Visegrad countries as a whole.

Climate Target

All sectors	Visegrad countries	Rest of Europe
The Company has a climate target	4.21	39.56
Actions taken to achieve the climate target	3.16	33.26
Outcomes in terms of meeting the climate target	2.11	30.17
Company's climate target is science-based / aligned with the Paris Agreement	2.11	15.14
Board oversight of climate-related risks and opportunities	1.05	19.89
Engagement with upstream & downstream value chain to reduce impacts described	1.05	21.99
Energy & Resource Extraction		
The Company has a climate target	5.56	41.38
Actions taken to achieve the climate target	5.56	36.21
Outcomes in terms of meeting the climate target	0	35.34
Company's climate target is science-based / aligned with the Paris Agreement	5.56	26.72
Board oversight of climate-related risks and opportunities	5.56	34.48
Engagement with upstream & downstream value chain to reduce impacts described	0	28.45
Financials		
The Company has a climate target	0	23.64
Actions taken to achieve the climate target	0	20
Outcomes in terms of meeting the climate target	0	14.55
Company's climate target is science-based / aligned with the Paris Agreement	0	11.82
Board oversight of climate-related risks and opportunities	0	20
Engagement with upstream & downstream value chain to reduce impacts described	0	13.64

Risks

We examined the extent to which companies from the most exposed sectors report information corresponding to specific criteria set by the [Financial Stability Board's Task Force on Climate-related Financial Disclosures](#)⁶, as integrated in the [European Commission's Guidelines on Climate-Related Reporting](#)⁷. These sectors are Energy & Resource Extraction, Financials and Infrastructure.

As in the previous section, below, we provide aggregate data for all sectors.

The results reflect a general lack of maturity all across Europe, and nearly absolute failure among Visegrad companies to consider climate-related risks to their future performance.

⁶ TCFD website is available here: <https://www.fsb-tcfd.org>

⁷ EC Guidelines on reporting climate-related information are available here: https://ec.europa.eu/finance/docs/policy/190618-climate-related-information-reporting-guidelines_en.pdf

Climate-related Risks

All sectors

	Visegrad countries	Rest of Europe
Risks & opportunities are provided for each time horizon	0	6.52
Physical risks are addressed	2.11	24.42
Transition to a low-carbon economy risks are addressed	7.37	17.35
Effects of climate-related risks/opportunities on strategy, financial planning & performance	4.21	22.32
Description of climate scenarios applied	1.05	7.85
Climate-related scenarios include a 1.5°C/well below 2° scenario	1.05	7.18
Breakdown of risks by activity or region	0	4.09
Risks in value chains	1.05	11.82
Organization's strategy to manage the identified risks and impact	8.42	33.92

Energy & Resource Extraction

Risks & opportunities are provided for each time horizon	0	23.28
Physical risks are addressed	0	39.66
Transition to a low-carbon economy risks are addressed	16.67	41.38
Effects of climate-related risks/opportunities on strategy, financial planning & performance	11.11	50.86
Description of climate scenarios applied	0	27.59
Climate-related scenarios include a 1.5°C/well below 2° scenario	0	25
Breakdown of risks by activity or region	0	12.07
Risks in value chains	5.56	12.07
Organization's strategy to manage the identified risks and impact	27.78	56.9

Financials

Risks & opportunities are provided for each time horizon	0	4.55
Physical risks are addressed	5.88	31.82
Transition to a low-carbon economy risks are addressed	0	24.55
Effects of climate-related risks/opportunities on strategy, financial planning & performance	5.88	27.27
Description of climate scenarios applied	0	15.45
Climate-related scenarios include a 1.5°C/well below 2° scenario	0	8.18
Breakdown of risks by activity or region	0	5.45
Risks in value chains	0	14.55
Organization's strategy to manage the identified risks and impact	5.88	28.18

Infrastructure

Risks & opportunities are provided for each time horizon	0	7.25
Physical risks are addressed	0	43.48
Transition to a low-carbon economy risks are addressed	0	10.14
Effects of climate-related risks/opportunities on strategy, financial planning & performance	0	20.29
Description of climate scenarios applied	0	4.35
Climate-related scenarios include a 1.5°C/well below 2° scenario	0	4.35
Breakdown of risks by activity or region	0	1.45
Risks in value chains	0	7.25
Organization's strategy to manage the identified risks and impact	0	46.38

This is particularly problematic in the case of the Finance sector, given its widely recognised exposure to transition risks affecting the value of assets, and efforts of the European Commission and Member States to address this systemic problem. Only 1 out of 5 Czech Finance companies reports more detailed information on climate-related risks and 0 out of 12 in other Visegrad countries.

In the Visegrad region, essentially only companies from the Energy sector report on the criteria above. They most frequently disclose their strategies (in the meaning of management approach) to manage the identified risks. However, still more than two-thirds of Energy companies in the Visegrad region do not include any such information. Furthermore, only 3 out of 17 Energy companies consider transition risks, and no company reflects in its risk assessment either short-, mid-, and long-term horizons, or actual climate scenarios, which puts the value of the information they do disclose into question.

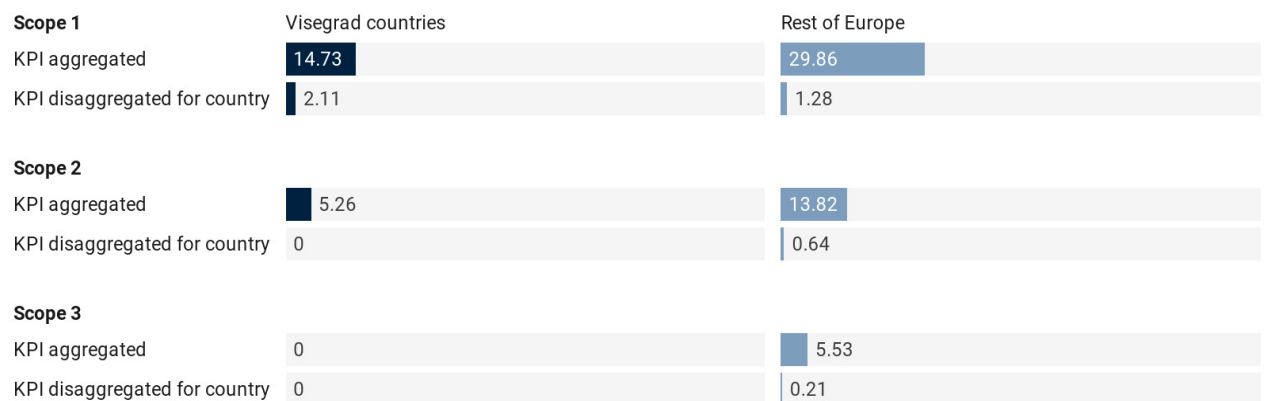
Key Performance Indicators

The metrics for climate change performance are fairly well standardised, at least as far as emissions are concerned. In the graphs, we provide aggregate results, and in the commentary we highlight specific results for key industries not included in the graphs.

GHG emission total



GHG emission intensity



The data shows that on average companies in the Visegrad region are about twice less likely to disclose their Scope 1 emissions than the rest of Europe.

A better image is obtained when taking into account the disclosure of only highly polluting sectors, that is, where Scope 1 emissions matter most. In the Energy & Resource Extraction sector, Scope 1 GHG emissions are disclosed by almost 64% of companies from Visegrad countries compared to 76% in the rest of Europe. With all sectors combined, approx. 44% of Polish, 40% of Czech, 27% of Hungarian and 10% of Slovakian companies provide this information.

Lower values are observed in the case of Scope 2 emissions, where data from the Visegrad region shows that local companies disclose this information a lot less frequently. While approximately 1 in 5 Polish, Czech and Hungarian companies (22%, 20% and 18% respectively) reported this data, no company in Slovakia did. These relatively low numbers can be partly explained by the fact that the selected companies from the Visegrad countries included a higher proportion of companies from the Energy and Finance sectors, for where Scope 2 emissions don't represent the main impact. Nevertheless, the results still indicate a significant gap even if these companies are excluded.

As regards Scope 3 emissions, even in a high-impact sector such as Apparel & Textiles, a majority of companies do not provide this information (only 27% from Visegrad countries and 44% from the rest of Europe provide some information about this Scope). This constitutes 2 out of 11 Apparel companies (all Polish) included in the research. In all sectors combined, approx. 9% of Polish companies (i.e. 6) and 18% of Hungarian companies (i.e. 2) reported Scope 3 emissions, although some of them only in a limited way.

Please note that the figures above combine results for aggregated and disaggregated ways of reporting KPIs.

EMPLOYEE MATTERS

Disclosures relating to employee matters are more extensive and common than other analysed issues. The rate of disclosure of policies and risks among Visegrad companies is similar to their counterparts in the rest of the EU, which is not surprising taking into account that employee matters play a key role in the management of any company. However, Visegrad companies provide less frequently information on the outcomes of their policies, ranging between 38% in Poland and 20% in Slovakia, which can be compared with nearly 81% of companies reporting such information elsewhere in Europe.

With regard to KPIs, we examined whether companies disclose basic information on the composition of their workforce and remuneration.

Reporting on specific KPIs in the Visegrad region is comparable to other European regions. However, there is an interesting disparity between Visegrad countries themselves. The percentage is highest in Poland (over 95%), decreases in the Czech Republic (80%) and falls further in Slovakia and Hungary (60% and 45% respectively).

Numbers decrease when it comes to gender diversity. While more than 70% of Polish companies report on this issue, only 40% do so in the Czech Republic, followed by 36% in Hungary and only 20% in Slovakia. In the rest of Europe, the ratio is 64% of the companies, taking into account both aggregated and disaggregated ways of reporting KPIs.

The data shows that in general, companies do not disclose information on outsourced workers and on living wage matters, that is concerning the most vulnerable part of their workforce. Similarly, the gender pay gap is very often not addressed. In the Visegrad region, only 27% of Hungarian and 17%

of Polish companies reported on this matter, while no company at all addressed this issue in the Czech Republic and Slovakia. For the rest of Europe, the average does not get much higher - only 27% of companies reported a pay difference between women and men.

This is interesting to compare with the relative readiness of companies to report on their policies in this area.

Employee matters KPIs

Development of number of employees

KPI aggregated

Visegrad countries

70.53

Rest of Europe

58.55

KPI disaggregated for country

13.68

29.65

Development of number of outsourced workers

KPI aggregated

6.32

5.63

KPI disaggregated for country

2.11

2.02

Gender diversity by job category

KPI aggregated

51.58

55.9

KPI disaggregated for country

6.32

7.76

Living wage

KPI aggregated

4.21

1.59

KPI disaggregated for country

2.11

1.06

Gender pay gap

Data provided on pay difference between women and men

14.74

26.74

SOCIAL MATTERS - TAX KPIs

The NFR Directive requires reporting on social matters alongside employee matters; however, this category is not well defined. Furthermore, few if any social matters can be standardized by means of disclosure criteria. Therefore, below, we present only information on corporate tax transparency.

A vast majority of companies do not report on specific tax issues. Interestingly, while companies from other European regions speak more often of their commitments in this area, the actual rate of disclosing country-by-country tax information is comparably low.

Social matters - tax KPIs

Commitment to pay taxes where the profit is generated

Visegrad countries

4.21

Rest of Europe

21.33

Income taxes paid - KPI disaggregated by country

9.47

8.71

Profit before tax - KPI disaggregated by country

8.42

6.91

Tax-related policies are described more often than specific issues. In the Visegrad region, policies are included in the reports of 86% Polish, 55% Hungarian and 30% Czech companies, while specific matters such as commitments to pay taxes where profit is generated, KPIs on profit before tax

and income tax disaggregated by country are covered by less than 10% of companies from these countries. The only exception to this rule is Slovakia, where interestingly 60% of companies reported on these KPIs, but only 20% of companies disclosed any tax policies, while no company published a commitment to pay taxes in the country where profit was generated.

RESPECT FOR HUMAN RIGHTS

Corporate disclosure on human rights is often narrative and case-specific. Methodologies that allow to report on human rights in quantitative terms are not common, which in broad terms can be explained by the nature of the matter, namely, that quantifying human rights issues and impacts is at best challenging.

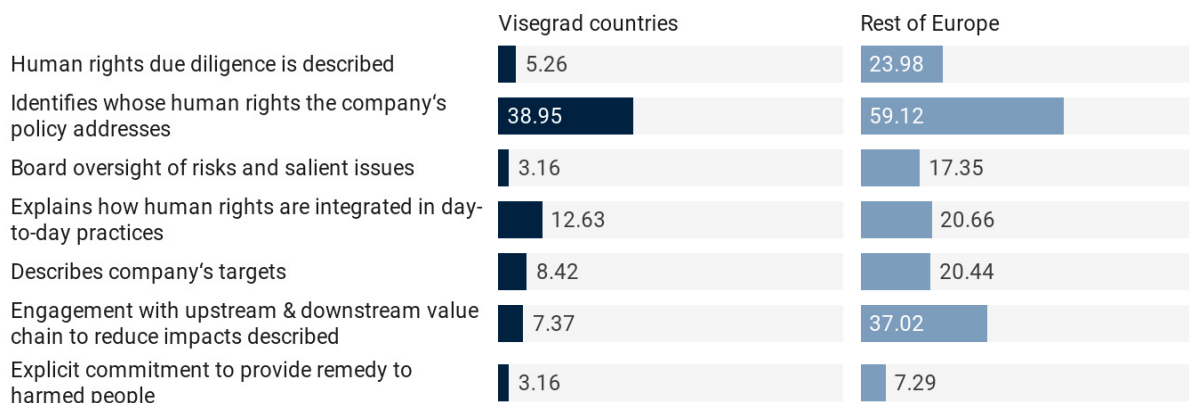
The methodology we adopted to assess human rights related disclosures focused on general criteria derived from the UN Guiding Principles on Business and Human Rights Reporting Framework, concerning the identification of salient human rights issues by companies and their management.

Policies and processes

The relatively high percentage of companies reporting on human rights policies (77% from Poland, 50% from the Czech Republic, 45% from Hungary, 30% from Slovakia and 84% from the rest of Europe) is in contrast with a much lower share describing policy outcomes (between 0% in Slovakia and 20% in the Czech Republic) and almost no companies providing this information in terms of meeting policy objectives.

We have examined the following additional criteria for disclosure of policies:

Human rights policies



The most important finding concerns disclosure on human rights due diligence, that is, the process of identifying and addressing human rights issues. Over 5% of companies from Visegrad countries and 24% from the rest of Europe report on such due diligence processes. Human rights due diligence is suggested in the [UN Guiding Principles on Business and Human Rights](https://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf)⁸ as an operational means for business enterprises to respect human rights. It is the core element of all benchmarks that assess how companies implement their responsibility, ranging from the Corporate Human Rights Benchmark, to the recent survey of the German Federal government, to the French vigilance law, which actually mandates large French companies to carry it out. Disclosure of due diligence processes is also explicitly required by the NFR Directive.

⁸ UN Guiding Principles on Business and Human Rights are available here: https://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

Only slightly over 3% of companies from Visegrad countries and over 7% of other European companies indicate their explicit commitment to provide remedy to harmed people, another key element of corporate responsibility to respect human rights

Risks

The most important element of human rights disclosure is reporting on risks, or - in business and human rights terminology - salient human rights issues.

A key finding of the research is the gap identified between company disclosure of human rights risks and reporting on what companies do about such risks, as documented by the following results.

Human Rights Risks Management

	Visegrad countries	Rest of Europe
Determination of salient issues is explained	3.16	25.08
Includes description of most significant human rights impacts	3.16	15.8
Explanation of which focal geographies were selected and why	2.11	9.72
Covers use of products or services	3.16	9.06
Identification of concrete business operations / business partners associated with salient issues & impacts	2.11	10.5
Description of which stakeholders were engaged	2.11	10.06
Integration of stakeholder feedback in company's decisionmaking	0	5.19
Covers business partners / supply chain	13.68	45.75
Company's policy	7.37	28.73
Changes in the nature of each salient human rights issue over time	0	1.44
Actions that company has taken to prevent or mitigate impacts related to each salient issue	7.37	20.66
Requirements placed on business partners, if appropriate (incl. supply chain)	7.37	26.52
Specific examples and appropriate indicators illustrate each salient issue is being managed effectively	1.05	3.87
Indicators of company's efforts to address each salient issue at systemic level	1.05	8.51
Indicates a number of incidents	4.21	13.15
Grievance mechanism and its application	3.16	11.82

While, human rights risks were identified by 52% of Polish, 30% of Czech, 27% of Hungarian and 10% of Slovakian companies, compared to over 58% from the rest of Europe, only 7% of the companies from Visegrad countries disclose specific policies and their implementation they have developed for the identified salient issues, which is significantly less than in the rest of Europe (29% and 21% respectively). Numbers reach very low levels when it comes to corporate disclosure of examples or indicators that illustrate effective management of salient issues, irrespective of origin of the companies (just 1 company in all Visegrad countries and less than 4% in the rest of Europe).

Human Rights In Supply Chains

In most sectors, human rights risks are concentrated in supply chains. Companies in the Apparel & Textiles sector face particularly high risks in this regard, due to the industry's practice of outsourcing production to countries in Southeast Asia, where systemic abuse of labour rights is common. Below we provide results of the assessment of supply chain transparency in this sector. The disclosure of the identity of suppliers is a prerequisite for any external check on the effectiveness of a company's supply chain due diligence. The absence of such information makes it impossible to guarantee that a company's disclosure is not misleading.

Supply Chain Transparency in Apparel & Textiles Industry

Supply chain description (single choice menu)	Visegrad countries	Rest of Europe
No information on the structure of the supply chain	90.91	45.1
General description of high-risk supply chains	9.09	39.22
List of suppliers in high-risk supply chains was shared with an external actor	0	1.96
List of suppliers in high-risk supply chains was published	0	1.96
List of individual ultimate factories is available for download	0	11.76
Specific issues (tick boxes)		
Information on the traceability of company's products and services	0	28.43
% of materials or products that are linked to high risk supply chains	0	6.86
% of certified social purchases (e.g. Fair Trade)	0	8.82
Description of supply chains with high risks of harm for small-scale suppliers/farmers	0	3.92

The data shows general absence of such disclosures by Visegrad companies. An overwhelming majority of Visegrad companies (over 90%) do not provide even generalised information of their supply chains.

On the other hand, results from the rest of Europe show an emerging practice of disclosure (in some form) of data on concrete suppliers (almost 15% if all three examined options are added up).

ANTI-CORRUPTION AND BRIBERY MATTERS

A majority of companies in the Visegrad region describe anti-corruption policies in their reports. Below we provide a closer analysis of the main components of these disclosures, based on the [Global Reporting Initiative](#)⁹ standards, and the recommendations of [Transparency International](#)¹⁰ and of the [UN Global Compact](#)¹¹.

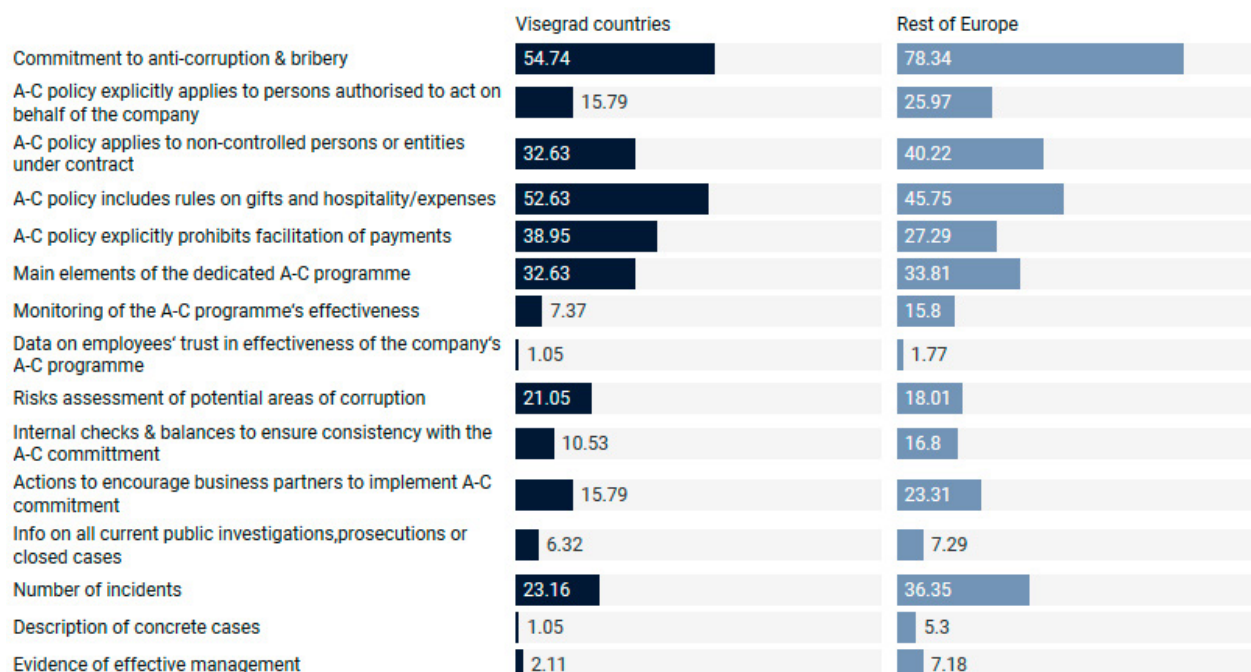
The data does not show any substantial difference between the Visegrad region and the rest of Europe, which may suggest that companies in Visegrad countries are sensitive to corruption risks due to the specifics of the region and liability risks.

⁹ GRI 205: Anti-corruption 2016 Standard is available here: <https://www.globalreporting.org/standards/gri-standards-download-center/gri-205-anti-corruption-2016/>

¹⁰ TI anti-corruption principles are available here: https://www.transparency.org/whatwedo/tools/business_principles_for_countering_bribery/1

¹¹ Reporting Guidance on the 10th Principle Against Corruption is available here: <https://www.unglobalcompact.org/library/154>

Anti-Corruption and Bribery Matters



Nevertheless, the findings show two major shortcomings. Firstly, only approximately 1 in 3 companies explains the main elements of its anti-corruption programme. This information is necessary to enable readers to understand how the company's policy is actually implemented. Even fewer companies (over 7% in the Visegrad region) provide information on the monitoring of their anti-corruption programme effectiveness.

Secondly, only 1 in 5 companies (21%) provides information on whether they conducted risk assessment of potential areas of corruption.

All these three elements could be considered as essential to understand a company's exposure to risks and their management, as in principle required by the NFR Directive.

In Visegrad countries, the difference between a high number of companies disclosing their anti-corruption policies and a much smaller segment reporting on specific issues prevails. This discrepancy is most visible in the case of the Czech Republic, where 9 in 10 companies describe the policy but only 1 explains main elements of the related programme, 2 companies explain how they are monitoring such programmes and no company carries out a risk assessment of potential areas of corruption.

POSITIVE IMPACTS BY PRODUCTS AND SERVICES AND SOURCES OF OPPORTUNITY

In this section, we provide insights into corporate reporting on initiatives and strategies around the sustainable activities companies are engaged in, and whether the information they provide is specific. Please note that when using the expression 'positive impact', we do not refer to charity, philanthropy or corporate social responsibility. Instead, we refer to sustainable activities as understood in the [European Commission's strategy on Taxonomy for Sustainable Activities](https://ec.europa.eu/info/publications/sustainable-finance-teg-taxonomy_en)¹². This means that we examined disclosures on commercial business activities, products and services that

¹² EU taxonomy for sustainable activities is available here: https://ec.europa.eu/info/publications/sustainable-finance-teg-taxonomy_en

are designed to have specific positive impact on sustainability. Examples include renewable energy systems, transition to ecological transportation, green buildings or sustainability certified products.

The two most important criteria for this type of disclosure are the information on turnover from sustainable activities, and investments in such activities in the meaning of capital expenditures. This information is essential for growing numbers of investors seeking to maximise the positive impact of their investments on addressing sustainability challenges.

Positive Impacts by Products / Sources of Opportunity

Turnover	Visegrad countries	Rest of Europe
Climate change mitigation and adaptation	0	6.41
Other Environmental issues	2.11	5.19
Social / Community	1.05	3.2
Investment		
Climate change mitigation and adaptation	2.11	10.17
Other Environmental issues	9.47	6.96
Social / Community	5.26	8.18

As the overview shows, this type of disclosure is not common anywhere in Europe. While many companies provide narrative information on their sustainability activities, very few substantiate with economic figures, which are necessary for decision making by impact investors.

Nevertheless, there is a noticeable gap between companies in the Visegrad region and elsewhere, in particular with regard to climate change mitigation and adaptation activities. Only 2 of 95 Visegrad companies address this issue. Unlike their counterparts in Western Europe, Visegrad companies do not try to attract this class of investors.

With the exception of one Czech company reporting on investment related to climate change mitigation and one Hungarian entity disclosing turnover in social and community areas, all other companies reporting on all three kinds of positive impacts by their products are from Poland.

Aside from potentially missed opportunities, it is worth noting that this type of reporting will be made mandatory by the Sustainable Taxonomy Regulation, which is expected to enter into force by the end of the year 2021¹³.

CONCLUSION

The results of the research show that even though non-financial reporting practices are heterogeneous, the quality of corporate sustainability disclosures in the Visegrad region in general lags behind other European countries. This observation is already visible with regards to general disclosures on policies, risks and outcomes. Especially Hungarian and Slovak companies address the key issues of climate change and human rights at rates far below the European average.

The data also shows that from companies disclosing policies, risks and outcomes, only a minority provides disclosures specific enough to understand their position, performance and development, as expected by the legislation. While this is a common problem in all European regions, it is extremely rare to see sufficiently detailed disclosures in Visegrad countries.

¹³ Taxonomy: Final report of the Technical Expert Group on Sustainable Finance from March 2020, page 10, available here: https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf

The usefulness of sustainability disclosures for investors and analysts is further reduced by the fact that only 1 in 4 European and less than 1 in 5 Visegrad companies disclose KPIs in summarised statements.

Considering different thematic areas, results regarding climate-related disclosures in the Visegrad region are very concerning. Of 17 Energy and 17 Finance companies, only 1 disclosed a climate target. Furthermore, only 2 Financial companies, both Czech, disclosed some details on climate-related risks. In the Energy sector, more than two thirds of Visegrad companies do not describe their strategies on managing climate risks. These results are all the more surprising in such industries considering their exposure to great risks of stranded assets and having such a central role in the decarbonisation of the economy.

Throughout Europe, including in the Visegrad region, more extensive disclosures are provided by companies on employee matters. Nevertheless, gaps are identified when looking into more detailed information. While the majority of the companies describe their policies, only a minority discloses information on outsourced workers and living wages. Gender pay gap is not reported by any company in the Czech Republic and Slovakia, while Poland and Hungary are closer to the European average where one quarter of companies disclose this information.

Also specific tax issues are very often not addressed. Most companies describe tax-related policies but do not disclose specific information. The only exception from this rule is Slovakia, where interestingly 20% of companies disclose tax policies and 60% of companies report on tax-related KPIs.

In the area of human rights, the most important finding concerns disclosure on human rights due diligence, which is explicitly mentioned in the NFR Directive. Only 5% of companies from Visegrad countries and 24% from the rest of Europe report on such due diligence processes. Concerning is also the overall gap between the number of companies describing salient human rights issues and the much lower number of companies reporting on what they do about such risks.

Interestingly, the difference between the Visegrad region and the rest of Europe becomes lower with regards to anti-corruption matters, which can be due to either a specific disclosure tradition in Visegrad countries or a result of recognition of higher corruption risks combined with legal liability risks. But again, while the majority of companies reports on policies, only a very few companies explain specific issues that are essential to understand a company's policies and risk management.

The gap between companies in the Visegrad region and elsewhere reappears when it comes to commercial business activities targeted to have specific positive impact on climate change mitigation and adaptation. Only 2 of 95 Visegrad companies addressed this issue. Considering the above-mentioned lack of reporting on climate-related risks and targets, the Visegrad region misses opportunities to attract investors interested in sustainable investments.

In summary, on average the non-financial statements of companies in the Visegrad region don't provide decision-useful information for investors, other stakeholders and the companies themselves. Below, we list several recommendations for companies on how to improve their practice:

1. Companies should report on issues that are material. This means that companies should first qualify what their impacts, risks and opportunities are and explain how they determined their materiality before providing information on their strategies in these areas.
2. Conversely, disclosure of immaterial information should be avoided. This means primarily that companies should not include information on their strategies and actions that are not connected to the identified impacts or risks.
3. Disclosure of policies should include measurable objectives, where possible expressed in quantitative terms, and description of outcomes in terms of meeting these objectives.

4. All targets and KPIs should be presented in a summarised form with information on past, present and future (i.e. targeted) performance.
5. Companies in the Finance and Energy sectors should provide extensive information on their climate risks for short, mid and long-term horizons, and their management, in line with the European Commission's Guidelines on Climate-Related Reporting.
6. Reporting on sustainable activities should be supported by disclosure of turnover and capital expenditure related to each disclosed activity.

ANNEX: LIST OF COMPANIES INCLUDED IN THE RESEARCH

Poland

GK LPP SA
GK Wojas S.A.
Grupa Kapitałowa CCC S.A.
Grupa Kapitałowa CDRL S.A.
Grupa Kapitałowa Gino Rossi S.A.
Grupa Kapitałowa MONNARI TRADE S.A.
Grupa Kapitałowa Protektor
Grupa Kapitałowa Redan
Grupa Kapitałowa VRG S.A.
Grupa Kapitałowa Wittchen S.A.
Lubawa Group
Amica S.A.
Grupa Kapitałowa Delko S.A.
Grupa Kapitałowa Fabryk Mebli „FORTE” S.A.
Grupa Kapitałowa Śnieżka
GRUPA KAPITAŁOWA ENEA
Grupa Kapitałowa ENERGA S.A.
Grupa Kapitałowa Jastrzębskiej Spółki Węglowej S.A.
Grupa Kapitałowa KGHM Polska Miedź S.A.
Grupa Kapitałowa LOTOS
Grupa Kapitałowa LW Bogdanka
Grupa Kapitałowa PGNiG
Grupa Kapitałowa Polska Grupa Energetyczna
Grupa Kapitałowa TAURON Polska Energia S.A.
Grupa Kapitałowa Zespołu Elektryczni Pątnów - Adamów - Konin SA
Grupa Orlen
Grupa Kapitałowa Bank Pekao S.A.
Grupa mBank S.A.
AmRest Holdings SE
Grupa Kapitałowa Dino Polska S.A.
Grupa kapitałowa Indykpol S.A.
Grupa Kapitałowa TARCZYŃSKI S.A.
Grupa Kapitałowa Żywiec S.A.
Pamapol S.A.
Seko S.A.
ZM Henryk Kania S.A.
BIOTON S.A.
Grupa Kapitałowa ENEL-MED
NEUCA S.A.
Grupa Kapitałowa Rainbow Tours
Grupa Budimex
Grupa Kapitałowa Erbud
Grupa Kapitałowa MIRBUD
Grupa Kapitałowa Polimex Mostostal
Grupa Kapitałowa ZUE
Grupa UNIBEP
J.W. Construction Holding S.A.
Mostostal Warszawa S.A.
GK Grupa Azoty
Grupa Ciech S.A.
Grupa Kapitałowa FAMUR
Grupa Kapitałowa NEWAG
Grupa Kapitałowa RAFAKO

GRUPA KAPITAŁOWA ZPUE S.A.
Zamet S.A.
Grupa Kapitałowa Asseco
Grupa Kapitałowa Comarch
GRUPA KAPITAŁOWA ORANGE POLSKA
Grupa Kapitałowa WP
Grupa Kapitałowa Groclin
Grupa Kapitałowa PKP CARGO S.A.
Grupa Kapitałowa TORPOL
Grupa Kapitałowa Wielton S.A.
OT Logistics S.A.

Czech Republic

CEZ A.S.
Energetický a průmyslový holding, a.s.
AIR BANK
ČESKA SPORITELNA A.S.
EQUA BANK
KOMERCNI BANKA
MONETA MONEY BANK, A.S.
KOFOLA ČESKOSLOVENSKO A.S.
O2 Czech Republic a.s.
ŠKODA

Slovakia

Slovenský plynárenský priemysel, a.s.
SLOVNAFT, a.s.
Dôvera zdravotná poisťovňa, a.s.
Poštová banka a.s.
Prima banka a.s.
Slovenská sporiteľňa, a.s.
Tatra banka a. s.
VÚB a.s.
Tatry mountain resorts, a.s.
Národná diaľničná spoločnosť, a.s.

Hungary

EMASZ Nyrt.
MOL Nyrt.
Budapest Bank Zrt.
MKB Bank Nyrt.
Opus Global Nyrt.
OTP Bank Nyrt.
Richter Gedeon Nyrt.
Masterplast Group
MAGYAR TELEKOM TAVKOZLESI RT.
RABA Jár್ಮűipari Holding Nyrt.
Waberer's International Nyrt.