



ESG ANALYSIS OF COMPANIES IN POLAND



Non-financial data reporting Value for companies and investors

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Non-financial data reporting. Value for companies and investors

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Introduction

Five years ago, when we launched the project “ESG analysis of companies in Poland” our main goal was to increase the transparency level of non-financial reporting by companies listed on the Warsaw Stock Exchange. By observing global trends, we learnt that non-financial data was becoming more and more essential for investors and analysts in their investment decision making. That is why we wanted to provide credible knowledge about the quality of non-financial data reporting on the Polish capital market.

However, at that time we did not know that the European Commission was working on a non-financial reporting directive that would be reflected in national accounting acts and would require large public-interest entities to increase transparency in this area. We hope that Polish companies will be better prepared to meet the requirement thanks to this enormous educational effort.

The report contains a comprehensive analysis of how well listed companies report on environmental, social, labour and corporate governance-related issues in 2016. The five years of the analysis have enabled us to show the change in the level of non-financial data disclosure between 2012 and 2016. An increased reporting of social, labour and environmental data is certainly a positive development. However, a decrease of transparency in corporate governance reporting, referring to over 50 percent of analysed companies at the Main Market, has come as an unpleasant surprise.

Non-financial data reporting has become more and more professional. Reporting on CSR activities, which in reality are reduced to philanthropy or sponsoring, is not enough nowadays. It is now more crucial to present a link between reported data and the company's results and business impacts. This is why this report shows the most important challenges in the environment, labour, social, corporate governance and human rights areas. The practitioners and experts' views on these topics enable companies to take a closer look on their own practices taking into account these challenges. The outline of key challenges is also a tip for companies which wonder what kind of information is important for stakeholders and how to report it.

We hope that not only regulatory requirements but also business benefits linked to attracting capital, more effective management as well as increased client and business partner trust will be a driving force behind an increased non-financial data transparency at the companies listed on the Warsaw Stock Exchange.

We also hope that this report and the whole cooperation within the “ESG analysis of companies in Poland” project will serve a useful tool in further building of the company's value and will help to effectively increase the trust among shareholders and stakeholders.



Mirosław Kachniewski



Marcin Pitura



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Non-financial information reporting: (R)evolution

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The Directive 2014/95/EU on reporting of non-financial information (the so-called NFID, Non-Financial Information Directive) introduces a change that is revolutionary for a number of companies listed on the Warsaw Stock Exchange. At the same time, due to different reason, a group of companies will not even notice that such a directive is in force. Nevertheless, all issuers should be aware of the fact that NFID is another step in the increase in reporting requirements that cannot be stopped.

So far, several dozen companies in Poland, including most of those listed in the WIG20 index, have published reports with non-financial information every year. The reports have been published in different forms and under different titles, e.g. CSR report, corporate responsibility report. Additionally, the GRI G4 reporting standards have become most often used standards that facilitate comparability of reports. Only few companies have recently started to publish integrated reports - reports that combine the content of financial statements, management board reports on the company's activities and non-financial statements. By looking at older and more developed capital markets, we can predict that the integrated reporting will develop in Poland as well. However, that day is still to come.

In 2014, the EU legislator decided to unify the way a certain group of entities report non-financial information. We can say that the requirement has been introduced in a relatively soft way as it has been presented in a form of a directive (not a regulation, as in the case of, for example, the Market Abuse Regulation that defines everyday information obligations of listed companies). Under the directive, the Member States remain free to determine a number of issues, such as where a statement with non-financial information should be published (whether there should be a separate document or whether it should constitute a

part of a management board report on the company's activities) or whether or not it should be audited (Member States are not obliged to introduce such a requirement).

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The final version of the new provisions of the Accounting Act, which implemented NFID, entered into force on 26 January 2017. The provisions proposed by the Polish regulator not to impose additional responsibilities and burdens on issuers that exceed the minimum imposed by the Union.

NFID accounts for reporting requirements which will be applicable to two groups of entities. One of them is wider and covers the majority of companies listed on a regulated market. Such entities will be obliged to add a description of their diversity policy that applies to their administrative, management and supervisory bodies, to their corporate governance statements.

The second group, which is narrower, includes large public-interest entities 500+, namely each entity that fulfils all of the following conditions:

- ▶ the entity is an issuer whose financial instruments are listed on a regulated market or a credit institution or an insurance agency or any other institution considered as a public-interest unit by the state;
- ▶ it has a balance sheet total of at least EUR 20 million or sales revenue of at least EUR 40 million (on the balance day or for the previous financial year);
- ▶ it employs, on average, at least 500 persons per financial year.

These entities will have to prepare an extended statement with non-financial information. The requirement will first pertain to the financial year starting in 2017 and will cover the whole year. This means that most companies will be preparing such a statement in the first weeks of 2018.

The statement has to include information that is essential to understand the company's development, results and standing as well as its environmental, social and labour-related impacts, so it will include the so-called ESG (Environment, Social, and Governance) factors. It should consist of a short description of the company's business model, a description of its policies covering particular ESG areas, results of policy implementation, main risks linked to the above-mentioned issues and management of such risks, together with key non-financial indicators.

The requirement of non-financial information disclosure will apply to about 150 companies listed on the regulated market. This means that the issue of ESG reporting will be something new for probably over 100 companies. A sound preparation to fulfill the requirement is crucial as it relates to many aspects of the company's operations and cannot be carried out by only one dedicated organisational unit. In

order to be able to present a good level of reporting covering the year 2017 in 2018, we should already in 2016 know what data to collect, how to collect it and what departments should be involved in the data collection process and how. As per the draft of the act transposing the directive, if the company adopts a policy related to a particular area during the financial year, it is obliged to report the results of such a policy after a full year has passed. The beginners will find that useful but this does not change the fact that all other information in the particular area (e.g. risks) has to be described in a sound manner.

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Unfortunately, as of today, we do not know how the statements with non-financial information should look like. We need to wait for the European Commission to issue non-binding guidelines regarding chosen reportable indicators. The ongoing legislative work shows that although the guidelines are not binding, they might include many other tips that will specify the way of work with reports. So far it seems that the companies will remain relatively free to choose the reporting standard they want to use.

The GRI G4 guidelines are the most popular standards used among the largest companies that report non-financial information. These recognised international standards have been available in the Polish language since the mid 2016. They are an excellent choice especially for companies that want their reports to be prepared in accordance with a globally-recognised standard. The Polish capital market environment has prepared a self-regulatory Non-financial Information Standard (Standard Informacji Niefinansowych, SIN) for companies that have just begun to report non-financial information.

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SIN, that has been developed since the spring of 2016 on the initiative of the Polish Association of Listed Companies and the Foundation for Reporting Standards, aims to be a transparent, specific and clear standard that helps companies to meet the requirements that are today included in the directive and those that will be included in the Accounting Act in the future. It also enables companies to learn how to report non-financial information from scratch. The standard has been created by a group of experts, consulted with the issuer environment, and then forwarded to a number of institutions and organisations gathering different capital market stakeholders for their feedback and approval. SIN, now publicly available in the project phase, is planned to become an official standard approved by the aforementioned institutions and organisations when the directive is transposed to the Polish law.

SIN consists of two parts:

- ▶ the main part with rules of preparing statements on non-financial information and descriptions of three areas (management, environment, society) complemented by indicators;
- ▶ several appendices with more detailed descriptions and explanations of particular parts of the standard.

The form of SIN makes it easier to navigate through for both those experienced in ESG topics and those who have just begun to prepare to report non-financial information.

It is worth mentioning that no matter which standard the issuer chooses, they will not be exempt from carrying out thorough analytical work in order to determine materiality of particular areas for both the company and its stakeholders. Differences between companies are not only visible between sectors of the economy and industries but they can also be observed within one particular industry. Thanks to a proper materiality assessment, the company is well prepared to collect non-financial data and then report not only information that merely meets the generally imposed reporting requirement but also information that has a real value for stakeholders.

The appeal of non-financial information disclosure lies in the fact that there is no universal set of data and information that each company has to report on. It is not a case of each and every company reporting everything on each and every possible topic. The coverage, content and form of the report are a result of the analytical work carried out by the company, and partially depend on the chosen reporting standard.

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For a few years now, legislative processes have shown a tendency to shift the responsibility for determining the reporting scope to companies. This is the case of the aforementioned MAR and NFID. We may expect the regulator to impose the requirement of non-financial information disclosure on a wider group of companies and introduce the requirement of integrated reporting, starting with larger entities, in the future. The latter is clearly mentioned in the directive's preamble and, although it is not obligatory at the Union level as of today, it may become a reality for compliance and reporting departments of each company on the continent in a few years.

Non-financial reporting by listed companies in 2016

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The level of non-financial data reporting of companies listed on the Warsaw Stock Exchange has been analysed for the fifth time. The analysis covers the companies listed on the Main Market of the Warsaw Stock Exchange as of June 30, 2016. Altogether, 483 business entities have been analysed.

This year's analysis, as in previous years, is based on the GES Risk Rating model.

GES RISK RATING methodology

The GES Risk Rating analysis evaluates the company's environmental, social and corporate governance management systems. It is based on international norms pertaining to sustainable development and the

Principles for Responsible Investment (PRI). GES Risk Rating evaluates both the company's preparedness and performance by using a set of criteria and the final score is calculated as an average from applicable criteria. The criteria are based on sub-criteria which reflect the quality of information the company discloses in relation to given issues.

The main source of the GES Risk Rating analysis is the company's Annual Report, other official documents and website. Additionally, other GES services: Alert and Global Ethical Standard, monitor news coming from financial and business sources, governmental/regulatory and non-governmental organisations, press agencies, trade journals as well as on-line information providers.

Table 1. Methodology of company evaluation

Point range in the environmental area (E)	Point range in the social and corporate governance areas (S and CG)	Score	Level	Description
0 – 0,29 pts.	0 – 0,19 pts.	c	Low/No information disclosure	No information or total failure
0,3 – 0,74 pts.	0,2 – 0,49 pts.	c+	Relatively low	Indications of a corporate strategy
0,75 – 1,19 pts.	0,5 – 0,79 pts.	b-	Medium	Detailed policy in place
1,2 – 1,79 pts.	0,8 – 1,19 pts.	b	Medium	Policy + programme or policy + management system
1,8 – 2,24 pts.	1,2 – 1,49 pts.	b+	Relatively high	Policy + programme + management system
2,25 – 2,69 pts.	1,5 – 1,79 pts.	a-	Relatively high	Progress evaluation
2,7 – 3 pts.	1,8 – 2 pts.	a	High	External verification mechanism

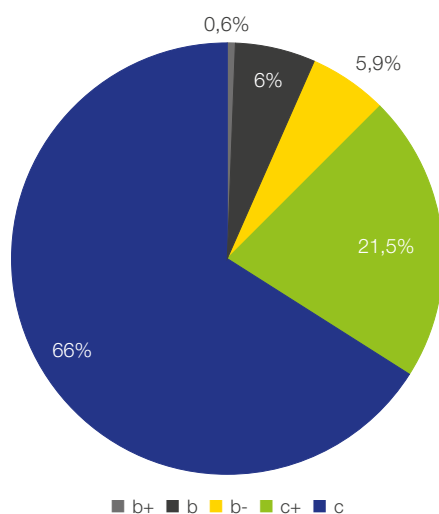
I Summary of the results for the Main Market of the WSE

The results of the analysis for 483 companies in relation to the environmental, social and corporate governance areas are presented below.

Table 2. Quantitative and percentage breakdown of companies according to their total scores in each of the ESG category

Level	Environmental management (E)		Social responsibility (S)		Corporate Governance (CG)	
a	0	0%	0	0%	1	0,2%
a-	0	0%	0	0%	39	8,1%
b+	3	0,6%	3	0,6%	212	43,9%
b	29	6%	17	3,5%	202	41,8%
b-	28	5,9%	32	6,6%	16	3,3%
c+	104	21,5%	77	16%	4	0,8%
c	319	66%	354	73,3%	9	1,9%

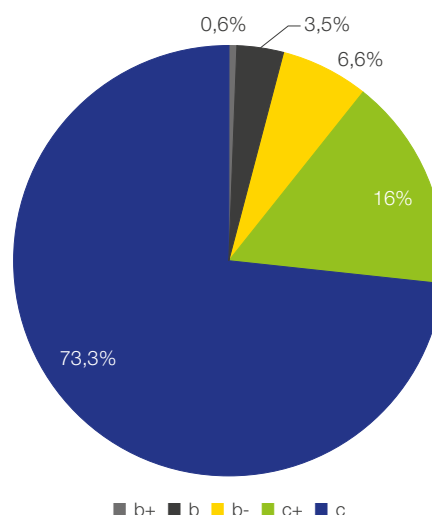
I. Environmental management results:



None of the analysed companies scored 'a' or 'a-' for their environmental management, which means that none of the companies presents a high or a relatively high level of reporting in this area. 3 companies, representing 0.6% of the analysed group, achieved the satisfactory score 'b+'. 6% of companies scored 'b' and 5.9% received the score 'b-'. Moreover, the reporting level of 21.5% of companies was assessed as 'c+'. 319 companies, 66% of the total, were given the lowest score 'c', which means that these companies either disclose little information

on environmental management or do not disclose any information in this area at all. 32.3% of these 319 companies publish little information while the rest disclose no information on their environmental management.

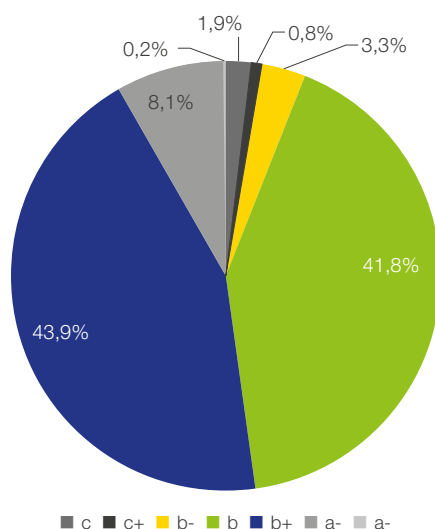
II. Social responsibility results:



As in the case of the environmental area, none of the companies scored 'a' or 'a-' in the social part of the analysis, which means that none of the companies shows a high or a relatively high level of reporting in this area. 3 companies, representing 0.6% of the

total, were given the satisfactory score 'b+'. 3.5% of companies received the score 'b', while further 6.6% achieved the score 'b-'. 16% of companies were given the score 'c+'. 354 companies, representing 73.3% of the total, received the lowest score 'c', which means that the companies either present little information or do not disclose any information in the area of social responsibility at all. Regarding these 354 companies, 57% of them revealed little information and 43% disclosed no information on social responsibility.

III. Corporate governance results:



When it comes to corporate governance reporting, only one company (0.2% of the total) presents a high level of information disclosure and was awarded the score 'a'. 52% of the analysed companies show a relatively high level of reporting and scored 'a-' and 'b+'. 41.8% of companies were given the score 'b' and 3.3% the score 'b-'. Only as few as 13 companies received the score 'c+' or 'c', which means that only 2.7% of companies publish little or no corporate governance information.

Average sector scores against sector risks

Taking into account the results of all three parts of the analysis, the utilities and energy sectors should be distinguished. 90% and 87% of companies in these sectors respectively report on environmental issues, and 90% and 93% disclose information on social responsibility. Moreover, all companies in these sectors publish corporate governance information. However, only a small part of the analysed companies belong to these sectors. The textiles sector, covering more companies in the analysis, gained relatively good scores as well. The ESG reporting level by companies in the sector reached 86%, 98% and 100% for each of the respective part of the analysis. The results in other sectors remain on a low level in relation to ES reporting and a medium level in terms of CG reporting.

The utilities and energy sectors should be distinguished. 90% and 87% of companies in these sectors respectively report on environmental issues, and 90% and 93% disclose information on social responsibility.

The lowest level of environmental reporting is presented by companies in the telecommunication services, healthcare, IT, consumer discretionary and financial sectors. Only 38.3% of companies in these sectors disclose any information on environmental aspects. When it comes to social responsibility reporting, the situation looks similar. Only 36.6% of companies from the telecommunication services, IT and financial sectors publish information on this topic.

Table 3. Non-financial data reporting level by sectors

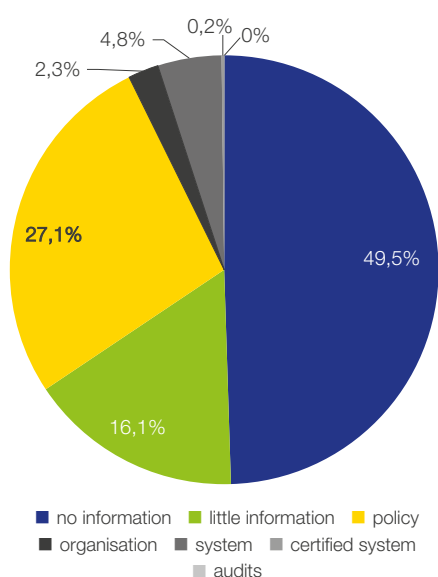
Sector	Total number of analysed companies	Number of companies reporting in the E part	Number of companies reporting in the S part	Number of companies reporting in the CG part	Average scores of companies reporting in the E part	Average scores of companies reporting in the S part	Average scores of companies reporting in the CG part
Energy	10	9	9	10	b-	b-	b+
Telecommunication services	7	3	4	7	c+	c+	b
Utilities	15	13	14	15	b-	c+	b+
Healthcare	20	9	15	20	c	c	b
Consumer staples	37	23	31	37	c	c	b
Textiles	51	44	50	51	c+	c+	b+
Information Technology	56	23	29	56	c	c	b
Consumer discretionary	77	31	55	74	c	c	b
Financial	101	34	27	99	c	c	b+
Industrial	109	78	97	108	c+	c	b

Risk Rating analysis results in particular areas

The Risk Rating analysis consists of 30 environmental, 13 social and 11 corporate governance criteria. The final score given to the company is calculated as an average score of applicable criteria which are based on sub-criteria. All criteria and sub-criteria have a specific value. The criteria in the environmental and social parts of the analysis are divided into basic (taken into account in the evaluation of companies in all sectors) and sector-specific (characteristic for particular sectors). The corporate governance criteria are the same for all sectors. As in previous editions, all companies have been analysed against both basic and sector-specific criteria.

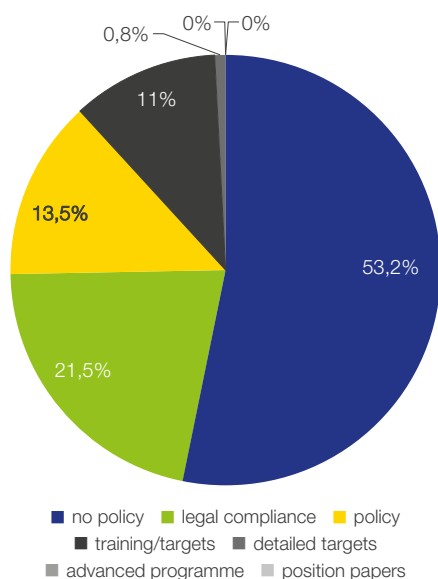
Analysis results of basic environmental criteria:

1. Does the company describe its organisational structure and environmental routines?



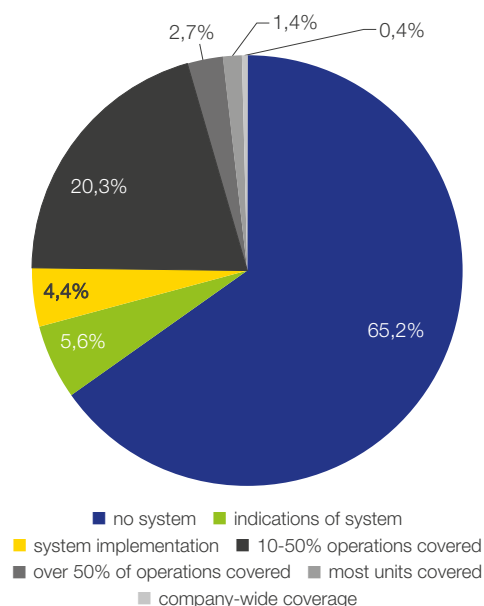
49.5% of the analysed companies (239) do not publish any information on environmental routines. Further 16.1% (78) of companies state in their reporting that environmental issues are taken into account in their business activities only to a minimal extent. 27.1% (131) of companies have an environmental policy, another 2.3% disclose information about an organisational structure responsible for the implementation of such a policy (see chart on organisation). 4.8% (23) of companies have implemented an environmental management system based on the ISO 14001 norm or presented a detailed description of applied environmental routines. Only one company (0.2%) conducts over 80% of its business operations based on a certified environmental management system or publishes the results of environmental audits. None of the analysed companies discloses environmental audit results for all of its units.

2. How well does the company describe its environmental policy and targets?



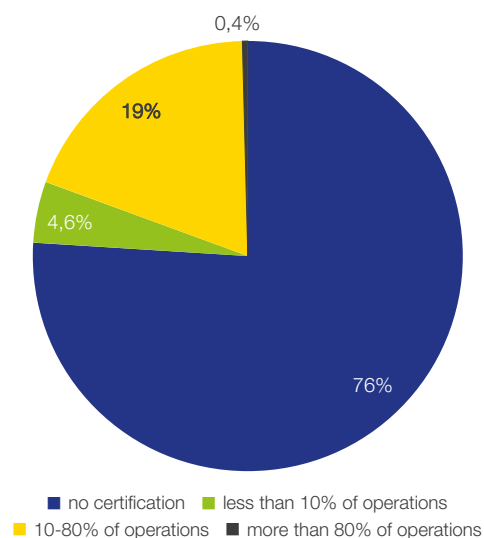
53.2% of companies (257) do not have an environmental policy. 21.5% of companies (104) state that they comply with environmental laws or regulations and further 13.5% (65) have implemented an environmental policy that follows international norms. 11% of companies (53) disclose information about environmental training for employees or present their environmental targets. In case of further 0.8% of companies (4), such targets are described in detail. None of the analysed companies publishes information indicating that an advanced environmental programme has been implemented or disclose position papers on major environmental aspects, such as global warming or water management.

3. The scope of the environmental management system implementation



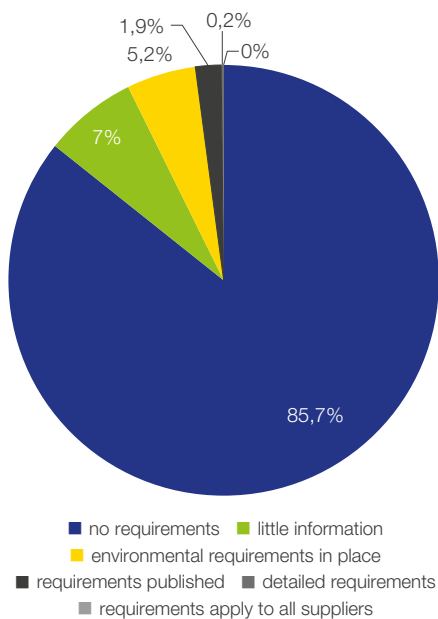
65.2% (315) of companies do not implement an environmental management system. In the case of further 5.6% of companies (27), there are indications of an environmental management system being implemented, e.g. the company monitors compliance with environmental regulations. 4.4% of companies (21) report on their work to implement a management system. 20.3% of companies (98) have implemented such a system which covers 10-50% of their operations. Over 50% of operations are covered by an environmental management system at 2.7% of analysed companies (13). 1.4% of companies (7) have implemented such a system at most of its units and only 0.4% (2) report a company-wide implementation of the system.

4. What is the scope of the ISO 14001 and/or EMAS standard implementation?



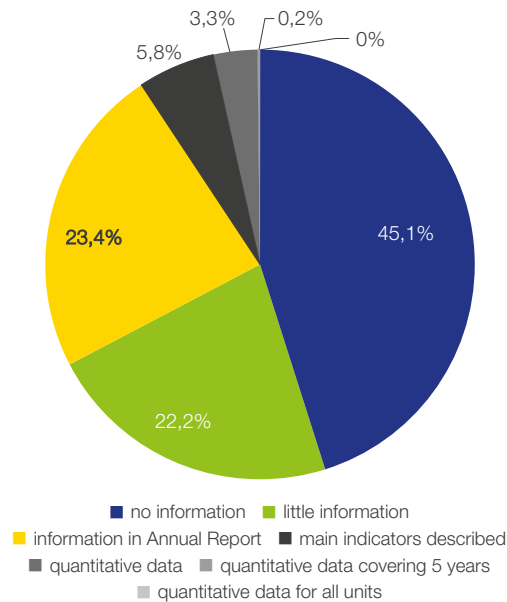
76% of companies (367) have not implemented the ISO 14001 or EMAS system or does not disclose any information on that. Less than 10% of operations are certified at 4.6% of the analysed companies (22). In case of further 19% of companies (92), 10-80% of operations are certified. 0.4% of companies (2) have an environmental management system covering over 80% of their operations.

5. Environmental requirements towards suppliers



Most of the analysed companies, 85.7% (414), do not have environmental requirements towards suppliers. 7% of companies (34) briefly describe their environmental requirements. Further 5.2% of companies (12) state that environmental aspects are considered in their choice of suppliers. 1.9% of companies (9) publish information on what environmental aspects are taken into account when choosing suppliers, and 0.2% of companies (1) present specific environmental requirements towards suppliers. None of the companies imposes environmental requirements on all of its suppliers or the aspect is omitted in promoting more environmentally-friendly solutions.

6. What is the scope and quality of environmental information published by the company?

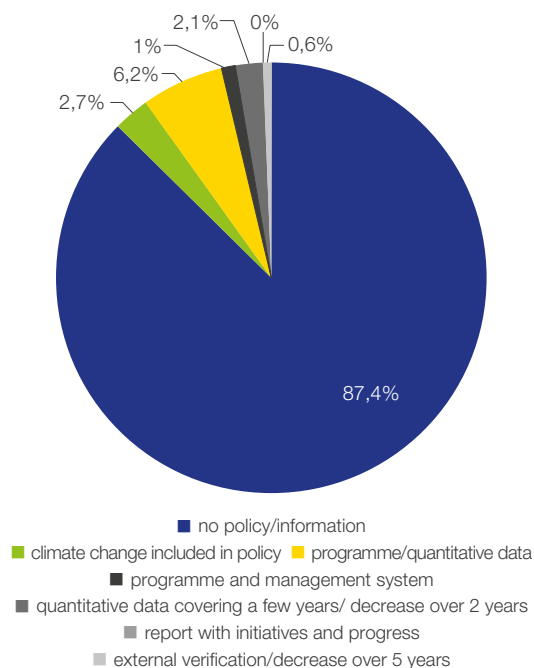


Respectively, 45.1% (218) and 22.2% of companies (107) do not publish any information or publish only little information on environmental issues. 23.4% of companies (113) present statements on environmental protection in their Annual Reports. 5.8% of companies (28) disclose information about significant environmental indicators that are linked to their operations and further 3.3% of (16) present quantitative data on such indicators covering a few years. Only one company, constituting 0.2% of the total, presents data for all significant indicators covering the last five years. None of the companies publishes quantitative environmental data for all units covering the last five years.

7. How have the company's greenhouse gases emissions changed over time?

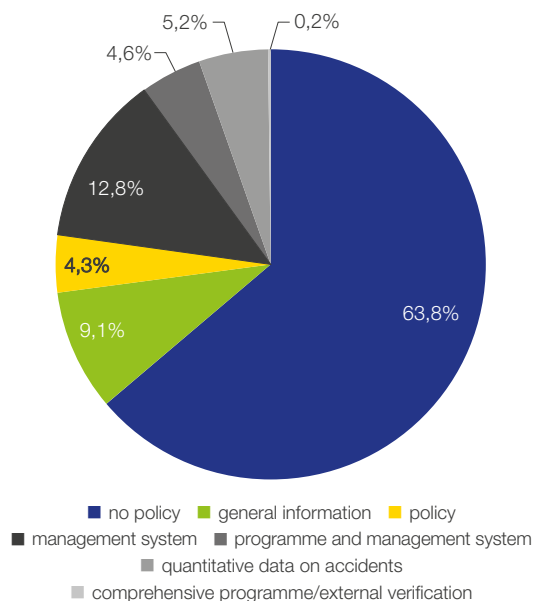
The vast majority of the analysed companies, namely 87.4% (422), do not have an environmental policy that includes greenhouse gases emissions or do not disclose any information on this aspect and further 2.7% of companies (13) only mentions the issue in their environmental policy. 6.2% of companies (30) have implemented a programme or guidelines aiming to reduce the emissions or present quantitative data on CO₂ emissions. 1% of companies (5) have a programme and management system implemented to decrease their greenhouse gases emissions. 2.1% of companies publish quantitative data for the past few years or present a decrease in their greenhouse gases emissions over the past two years. None of

the company publishes a report showing initiatives and progress in their greenhouse gases emissions reduction. 0.6% of companies (3) have had their quantitative data verified by an external auditor or their emissions have decreased over the last five years.



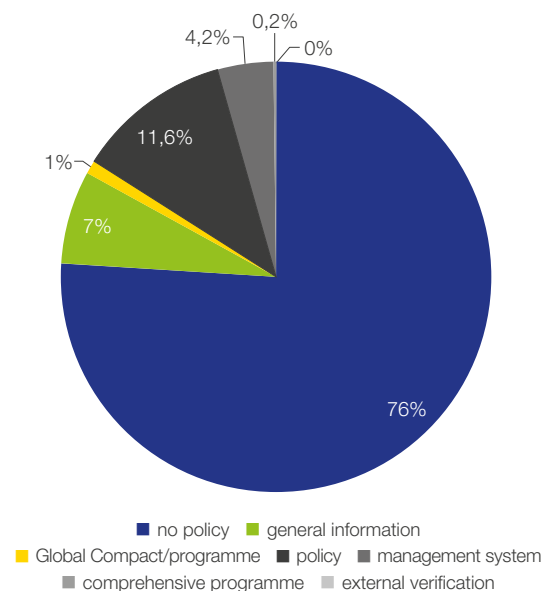
Analysis results of basic social responsibility criteria:

1. How detailed is the company's reporting on its health and safety policy and management system?



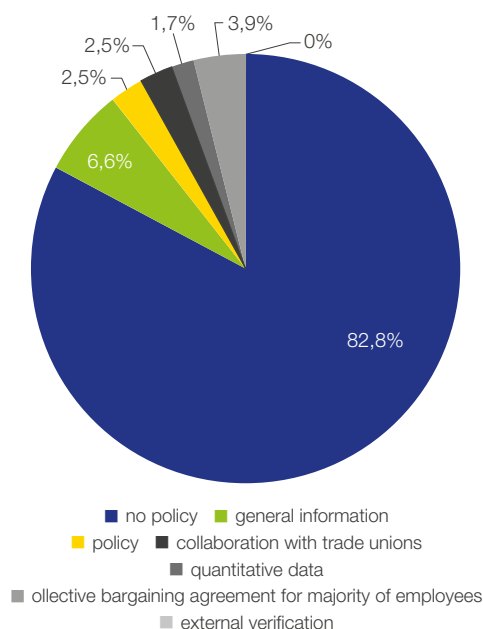
63.8% of companies (308) do not have a health and safety policy and further 9.1% (44) publish very general information about this aspect. 4.3% of companies (21) disclose their health and safety policy and further 12.8% (62) have a health and safety management system in place. 4.6% of companies (22) have implemented a health and safety management system based on a programme and further 5.2% (25) disclose quantitative data on accidents. Only 0.2% of companies (1) have a comprehensive health and safety programme or a programme that has been externally verified.

2. The company's approach to diversity and discrimination among employees



76% of companies (367) do not have an anti-discrimination policy and only 7% (34) state that they take action against discrimination or publish general information indicating that a policy covering this aspect exists within their organisation. 1% of companies (5) are a signatory to the UN Global Compact or have a programme on diversity. 11.6% of companies (56) publish a diversity policy and further 4.2% (20) implement a relevant management system. Only 0.2% of companies (1) implement a comprehensive anti-discrimination programme. None of the analysed companies has had its anti-discrimination programme externally verified.

3. Does the company publish information on freedom of association and collective bargaining?

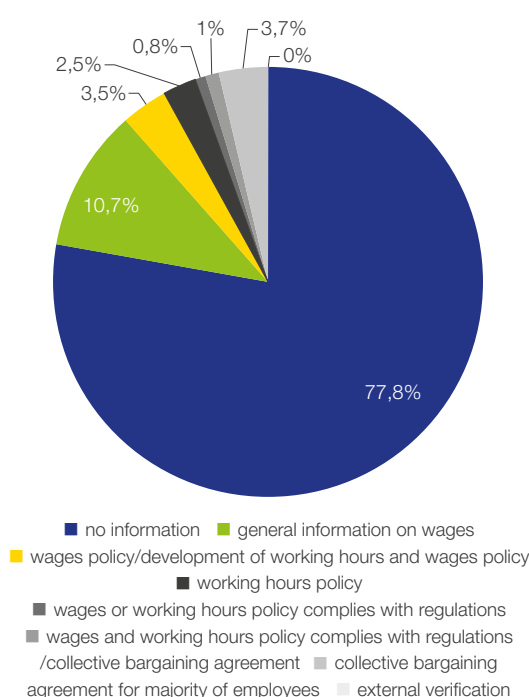


The vast majority of companies, namely 82.8% (400), do not have a policy in relation to the freedom of association. Further 6.6% (32) present rather general information, declaring their respect towards employees' right to associate. In turn, 2.5% of companies (12) have a policy on this aspect. Further 2.5% (12) publish information indicating that a relevant policy has been implemented as they report on a collaboration with trade unions. 1.7% of companies (8) publish the number of employees covered by collective bargaining agreements. In case of 3.9% of companies (19), such agreements cover the majority of employees. None of the companies has had its policy and management system or the number of employees covered by collective agreements externally certified.

4. Does the company have a policy on working hours and wages?

77.8% of companies (376) do not disclose any information on working hours or wages. There are indications of a wage system having been implemented at 10.7% of companies (51). 3.5% of companies (17) have a policy on wages or works on developing a policy for both wages and working hours. 2.5% of companies (12) disclose information on working hours or their reporting indicates that they have implemented a policy on working hours and wages. 0.8% of companies (4) have a policy on

wages or working hours that complies with applicable regulations. 1% of companies (5) have implemented policies in accordance with relevant norms for both aspects or have a collective bargaining agreement in place to regulate these matters. 3.7% of companies (18) have implemented a management system that supports the implementation of the policy or the majority of their employees are covered by a bargaining collective agreement. None of the companies has obtained an external verification of the implemented systems or presents information that the policies apply to all employees and contract workers.

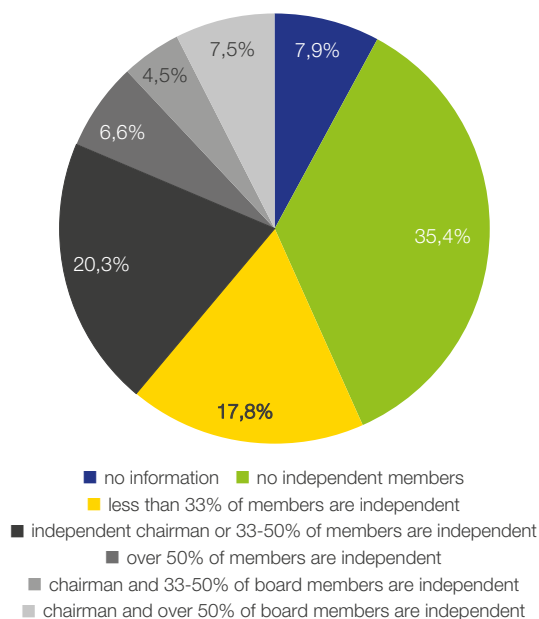


Analysis results of basic corporate governance criteria:

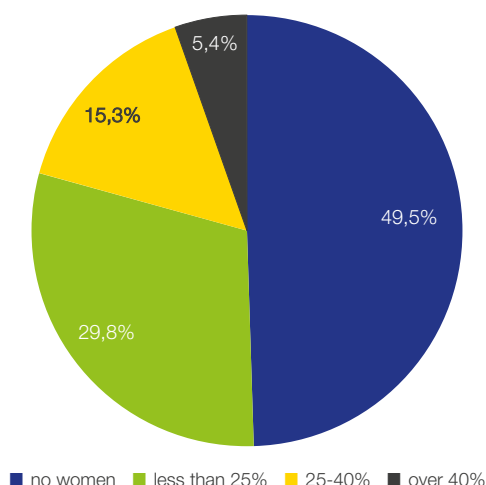
1. What is the level of independence of the Supervisory Board members?

7.9% of companies (38) do not disclose any information about independence of their Supervisory Board members. In case of further 35.4% of companies (171) no board member is independent or there are only indications of independence among the board members. 17.8% of companies state that less than 33% of their board members fulfil the independence criteria or that there are independent board members without disclosing their names. At 20.3% of companies (98) the chairman is independent or 33-50% of the board members are independent. More than 50% of the

board members fulfil the independence criteria at 6.6% of the analysed companies (32). 4.5% of companies (22) state that the chairman and 33-50% of the board members are independent. 7.5% of companies (2) fulfil the independence criteria in relation to the chairman and more than half of the board members.

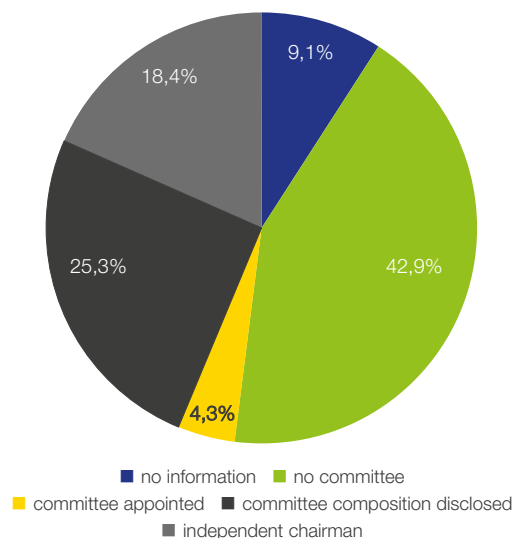


2. What is the percentage of women among Supervisory Board members?



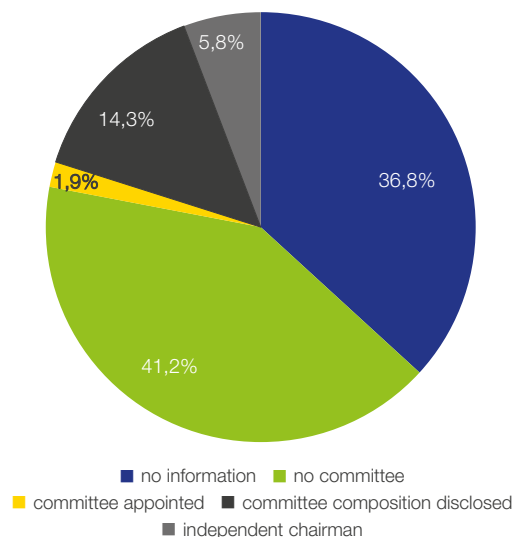
Nearly a half of the analysed companies (49.5%) do not have any women at their Supervisory Board. At 29.8 % of companies (144), women constitute less than 25% of the whole board, while in case of further 15.3% (74) the ratio equals 25-40%. More than 40% of female board members exist at only 5.4% of the analysed companies (26).

3. Audit committee appointment, composition and chairman independence



9.1% of companies (44) do not disclose any information and 42.9% (207) state that they have not appointed an audit committee. 4.3% of companies (21) report only that they have appointed an audit committee but further 25.3% of companies (122) publish information about the committee composition. Finally, 18.4% of companies (89) report that the chairman of the committee is independent.

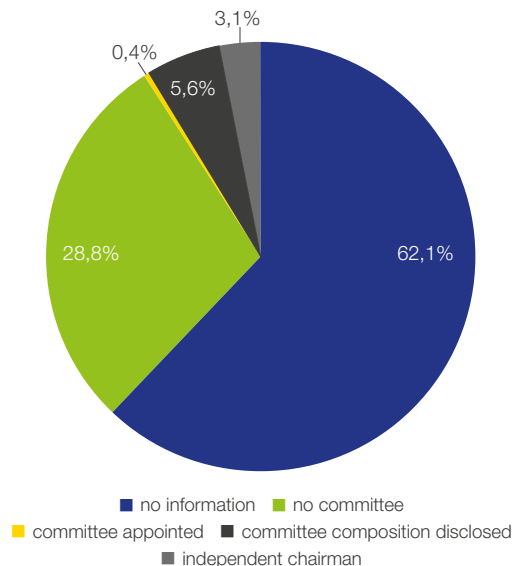
4. Remuneration committee appointment, composition and chairman independence



36.8% of companies (178) do not disclose any information and 41.2% (199) state that they have not appointed a remuneration committee. 1.9% of companies (9) inform only that they have appointed a remuneration committee but further 14.3% (69)

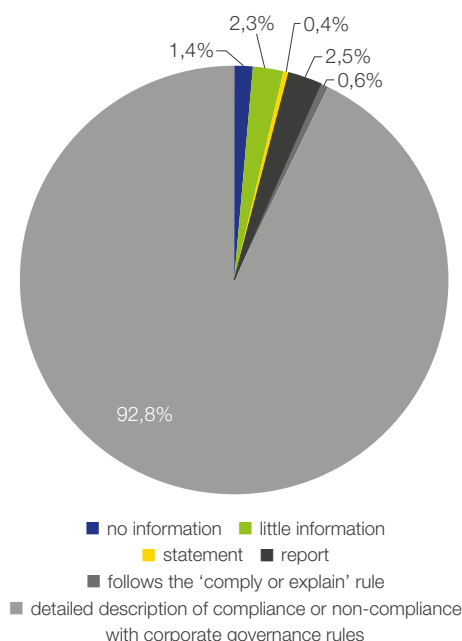
publish information about the committee composition. 5.8% of companies (28) report that the chairman of the committee is independent.

5. Nomination committee appointment, composition and chairman independence



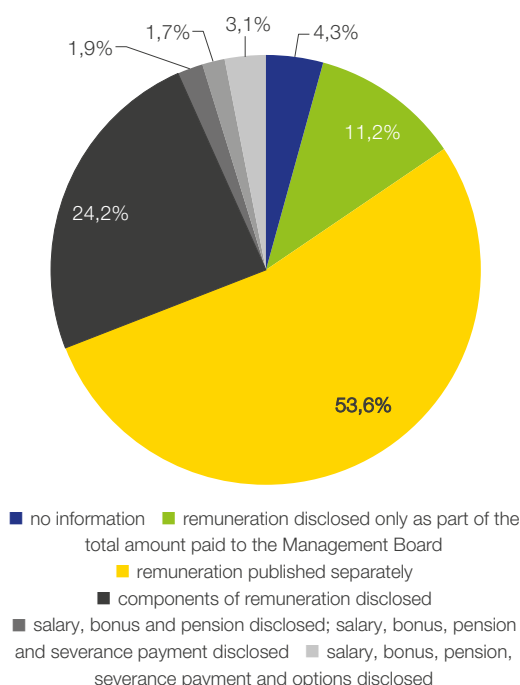
62.1% of companies (300) do not disclose any information and 28.8% (139) state that they have not appointed a nomination committee. 0.4% of companies (2) report only that they have appointed a nomination committee but further 5.6% (27) publish information about the committee composition. 3.1% of companies (15) report that the chairman of the committee is independent.

6. Does the company refer to and comply with the existing corporate governance regulations?



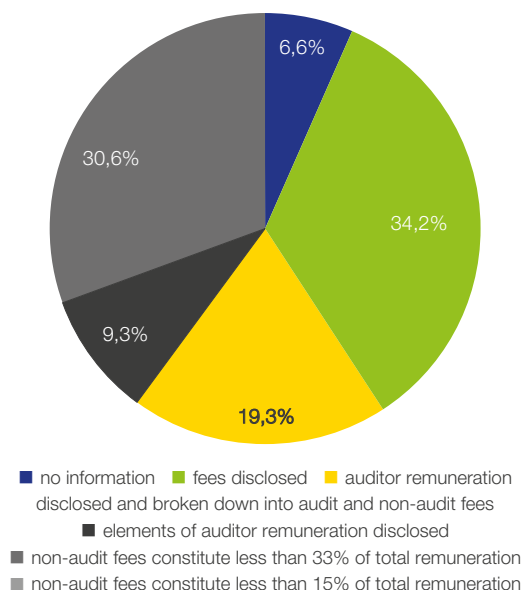
Only 1.4% of companies disclose no information about corporate governance at all. 2.3% of companies (11) publish little information and further 0.4% (2) present only a corporate governance statement. 2.5% of companies (12) publish a report on their application of the corporate governance rules. 0.6% of companies (3) inform that they follow the 'comply or explain' rule, while 92.8% (448) present detailed explanations regarding compliance or non-compliance with the corporate governance rules.

7. What information about the remuneration of the president of the Management Board is disclosed?



4.3% of companies (21) publish no information about the president's remuneration. 11.2% of companies (54) disclose information about that but only as part of remuneration to the whole Management Board. Separate information about the president's remuneration is disclosed by 53.6% of companies (259). Moreover, 24.2% of companies (117) report on particular elements of the remuneration. 1.9% of companies (9) break down the remuneration into fixed salary, bonus and pension. Further 1.7% of companies add also information about severance payment. 3.1% of companies (15) report on salary, bonus, pension as well as terms for options, contract termination and severance payment.

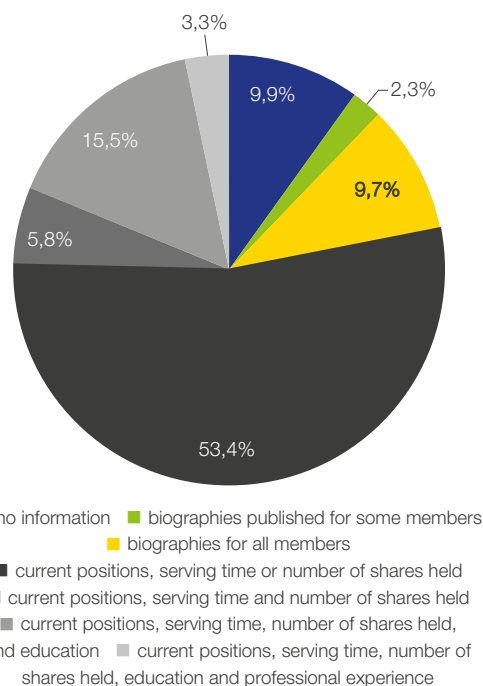
8. What information about audit fees is disclosed?



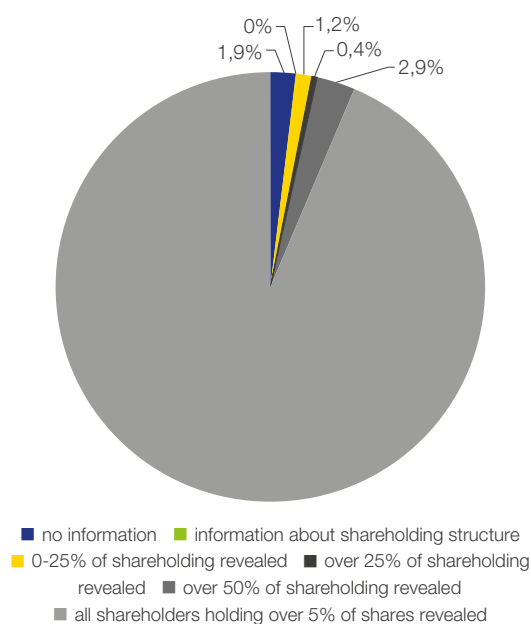
6.6% of companies (32) do not disclose information about their auditors' remuneration. 34.2% of companies (165) publish such information without specifying the amount of audit and non-audit fees. 19.3% of companies (93) report on auditors' remuneration, breaking it down into audit and non-audit fees. Furthermore, non-audit costs constitute less than 33% and 15% of total remuneration at 9.3% (45) and 30.6% (148) of companies respectively.

9. How detailed is the information about the Supervisory Board?

9.9% of companies (48) publish no information about their Supervisory Board members. While 2.3% of companies (11) publish information only about some of the members, 9.7% disclose biographies for all members. 53.4% of companies (258) provide information on current positions, number of shares held or serving time of the members. 5.8% of companies (28) disclose current positions, number of shares held and serving time. Moreover, 15.5% of companies (75) report on the members' age and employment history covering the last ten years.

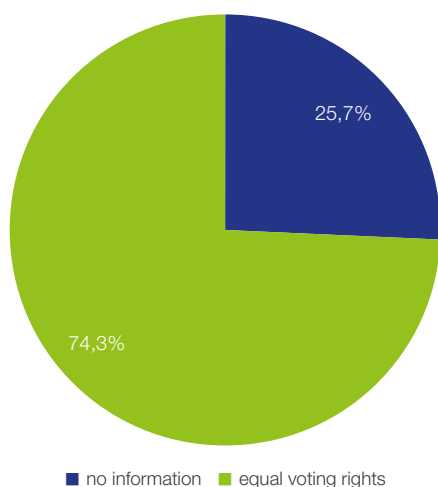


10. How detailed is the information about the shareholder structure?



1.9% of companies (9) do not report any information on their shareholder structure. 1.2% of companies (6) publish information about shareholders holding 0-25% of shares and/or voting rights. 0.4% (2) and 2.9% of companies (14) respectively reveal shareholders with over 25% and 50% of shares and voting rights. 93.6% of companies (452) publish information on all shareholders holding more than 5% of shares.

11. Are shareholders' voting rights equal?



25.7% of companies do not disclose information on voting rights or do not provide equal voting rights for all shareholders. 74.3% of companies (359) publish information on equal voting rights.

Sector-specific criteria used in the analysis

Apart from basic (general) criteria, the Risk Rating analysis covers also sector-specific issues. Therefore, the companies have also been evaluated against additional criteria that are key for given sectors. It should be noted that the corporate governance part of the analysis does not include sector-specific criteria – all the criteria in this part are applicable to all analysed companies, regardless of sectors.

Table 4. Sector-specific criteria

		energy	financials	textiles	healthcare	consumer staples	industrials	information technology	telecommunication services	utilities	consumer discretionary
Sector-specific environmental indicators											
1	Does the company have a programme to improve energy performance of its products? The indicator shows whether the company has a programme on eco-design (including energy efficiency), e.g. Green Range, Green Fleet, Energy Star, TCO.	x			x		x	x			x
2	How has the amount of generated waste changed over time? The indicator shows whether the amount of generated waste is under permanent control and whether the company has specific targets on waste reduction.	x	x	x	x	x	x	x			x
3	How has the amount of hazardous waste changed over time? The indicator shows whether the amount of generated waste is under permanent control and whether the company has specific targets on hazardous waste reduction.	x		x	x	x	x			x	x
4	How has the level of air emissions other than greenhouse gases changed over time? The indicator shows whether the company has a policy on air emissions other than greenhouse gases, whether their level is under permanent control, and whether the company has specific targets to reduce such emissions.	x		x	x	x	x	x		x	x

		energy	financials	textiles	healthcare	consumer staples	industrials	information technology	telecommunication services	utilities	consumer discretionary
5	How has the company's energy consumption changed over time? The indicator shows whether the company has a policy on energy consumption, whether the level of energy use is under permanent control, and whether the company has specific targets on energy use reduction.	x	x	x	x	x		x	x	x	x
6	How has the company's water consumption changed over time? The indicator shows whether the company has a policy on water consumption, whether the level of used water is under permanent control, and whether the company has specific targets on water use reduction.	x	x	x	x	x		x		x	x
7	How does the company manage hazardous substances? The indicator shows whether the company abides by regulations on hazardous substances management, implements a policy on a gradual phase-out of hazardous substances from its production or declares compliance with relevant directives, such as RoHS.	x	x		x		x	x			x
8	Does the company have a strategy to develop its operations towards using renewable energy sources? The indicator shows whether, and to what extent, the company supplies energy from renewable energy sources or whether it conducts research in this area.	x								x	
9	Does the company take responsibility for restoring the environment? The indicator shows whether the company has a policy on restoring the environment after its projects are completed and whether examples of such initiatives are published.	x		x			x			x	x
10	Does the company conduct the Environmental Impact Assessment in the development phase of its projects? The indicator shows whether the company considers environmental measures and conducts Environmental Impact Assessments during the project development phase.	x	x	x			x			x	
11	What part of the forests owned by the company is certified by the Forest Stewardship Council (FSC)?			x							
12	What part of the purchased raw material has the FSC Chain of Custody certificate? The indicator shows how much of purchased wood has been certified to the FSC Chain of Custody.			x							
13	To what extent does the company conduct risk assessments of new chemicals and products? The indicator shows whether the company carries out risk assessments when developing new products.			x							

		energy	financials	textiles	healthcare	consumer staples	industrials	information technology	telecommunication services	utilities	consumer discretionary
14	How has the amount of building/industrial waste changed over time? The indicator shows whether the company has a policy on reducing building/industrial waste, whether the level of generated waste is under permanent control, and whether the company has specific targets on reduction of such waste?						x				
15	How has the company's fuel consumption changed over time? The indicator shows whether the company has a policy on fuel consumption, whether the level of fuel consumption is under permanent control, whether the company has specific targets on transportation rationalisation.						x				
16	How has the need for heating in newly constructed buildings changed per one square metre? The indicator shows whether the company is able to reduce the need for heating by using modern energy-saving technologies.						x				
17	Does the company have an environmental management programme for logistics and transportation? The indicator shows whether the company describes how it minimises its impact on the environment in this area.				x	x	x		x		x
18	Does the company have a programme for recycling of used equipment? The indicator shows whether the company takes responsibility for taking back and recycling used equipment and on what scale.				x			x			x
19	Does the company have a policy on business travel? The indicator shows whether the company uses modern video and teleconferencing technology to implement its policy to rationalise business travel.		x		x			x	x		x
20	Does the company offer environmentally beneficial products? The indicator shows whether the company offers eco-products or products that have a positive impact on the environment.					x					x
21	Does the company have a storage and utilisation system for computer equipment? The indicator shows whether the company implements a system to store and utilise computer equipment and on what scale.				x			x			
22	Does the company have routines for considering environmental criteria in project finance?		x								
23	Does the company act as a responsible investor when it comes to environmental matters? The indicator shows whether the company considers environmental aspects in planned investments and/or is a signatory to the Principles for Responsible Investment (PRI).		x								

	energy	financials	textiles	healthcare	consumer staples	industrials	information technology	telecommunication services	utilities	consumer discretionary
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Sector-specific social responsibility indicators

1	How detailed is the company's reporting on forced labour standards? The indicator shows whether the company has a policy on forced labour (e.g. signed the UN Global Compact, follows other standards or norms).	x		x	x	x	x	x	x	x
2	Does the company report on community involvement initiatives? The indicator shows the company's relations with local communities and what specific actions are taken to establish or improve the dialogue with stakeholders.	x		x	x	x	x	x	x	x
3	Does the company guarantee that security personnel abide by human rights standards? The indicator shows what actions the company takes to guarantee that security personnel abide by human rights (e.g. conducts training, signed the UN Global Compact, follows other standards or norms).	x		x		x				x
4	How detailed is the company's reporting on corruption? The indicator shows whether the company has a policy on fighting corruption, signed the UN Global Compact, and follows other standards or norms.	x	x	x	x	x	x	x	x	x
5	Human rights policy in the supply chain. The indicator shows the company's relations with suppliers in terms of social responsibility and whether it publishes specific requirements in this area.	x		x	x	x	x	x	x	x
6	Human rights programme and management system in the supply chain. The indicator shows the scope of a programme and management system implementation in relation to human rights compliance in the supply chain.	x		x	x	x	x	x	x	x
7	Reporting and evaluation of actions related to human rights in the supply chain. The indicator shows whether the company publishes reports with an external and/or independent verification of its actions and results of supply chain audits carried out by external auditors.	x		x	x	x	x	x	x	x
8	How detailed is the company's reporting on child labour? The indicator shows whether the company has a policy on fighting child labour (e.g. signed the UN Global Compact, follows other standards or norms).				x					x
9	Investments. The indicator shows whether the company includes social responsibility rules in its investment management and decision-making process.		x							

2016 conclusions

The results of 2016 analysis show that the level of environmental and social data reporting is still low.

In most cases, the companies limit their reporting to statements on compliance with laws and regulations, information about the ISO 14001 certification, environmental policy and implementation of an environmental management system. The information about the company's actual impact on the environment, the so-called environmental performance, is published rarely. Among the companies in case of which the analysis covered criteria¹ related to greenhouse gases emission, energy use, water consumption and waste generation, respectively only 12.6% (61 out of 483 companies), 20.9% (99 out of 473), 24.1% (37 out of 153) and 19.3% (54 out of 280) report the required information. Only 14.3% of the analysed companies (69 out of 483) publish information on their environmental requirements towards suppliers.

When it comes to social responsibility reporting, the companies most often describe their occupational health and safety activities as well as community involvement initiatives. 36.2% (175 out of 483) and 45% of companies (141 out of 312) report on these aspects respectively.

The companies also occasionally publish information on replace fighting discrimination. The issue is covered by only 24% of the analysed companies (116 out of 483). Even fewer companies report on corruption or social requirements towards suppliers, respectively 17.9% (77 out of 431) and 13.8% of companies (44 out of 320) publish information relevant in these areas.

A high level of non-financial data reporting is visible only in the corporate governance area. As many as 470 companies, out of 483, representing 97.3% of

the total, have a medium, relatively high or high level of corporate governance information disclosure, while only 2.7% (13 out of 483) show a low or relatively low level of reporting. This may be due to the fact the companies are required to abide by the corporate governance guidelines included in the Code of Best Practice GPW (Warsaw Stock Exchange). The lack of similar regulations for environmental and social aspects results in a low level of reporting in these areas.

However, it should be noticed that documents such as Codes of Ethics, Codes of Ethics for Suppliers or CSR Reports, that previously were not available, have been published more often.

The quality of data disclosed by the companies has once again been the main inconvenience in the analysis process. The companies very often publish scanned and illegible reports. In order to increase the transparency of reported data, the companies are advised to publish reports in one file and present the same information in Polish and English, if both language versions are available. It is also crucial that one kind of wording is used so that it is easier for analysts to identify key information.

The lack of date of website information update is also problematic. However, it should be noticed that documents such as Codes of Ethics, Codes of Ethics for Suppliers or CSR Reports, that previously were not available, have been published more often.

¹ The criteria in the environmental and social parts of the analysis are divided into basic (included in the analysis of all sectors) and sector-specific (taken into account in the analysis of particular sectors only). The corporate governance criteria are the same for all sectors.

Five years of analysis of non-financial data reporting by listed companies – changes in practices

ROBERT SROKA, PHD, MANAGER ► EY
MAGDALENA SZCZEPANIK, SENIOR CONSULTANT ► EY

It has been five years since we started to measure the level of non-financial data reporting by companies listed on the Warsaw Stock Exchange (WSE) within the project 'ESG analysis of companies in Poland'.

By applying the same evaluation method we are able to make comparisons and draw conclusions. That is why we have decided to present some trends that we think should be considered when evaluating how mature the companies are in their non-financial data reporting.

Since the number of the companies listed on the WSE varies, we have decided to choose two groups of companies in our comparative analysis:

- companies listed on the Main Market – the group consists of companies that were analysed in both 2012 and 2016, which is 408 companies altogether.
- companies that employ over 500 employees – the group consists of companies which, under the changes in the Accounting Act, will be obliged to report non-financial data from next year. It includes 128 companies that fulfilled the criterion in 2015 and were listed in both 2012 and 2016. The number of companies is sufficient to draw conclusions, considering the fact that there were 144 companies of this kind in 2015.

What about corporate governance?

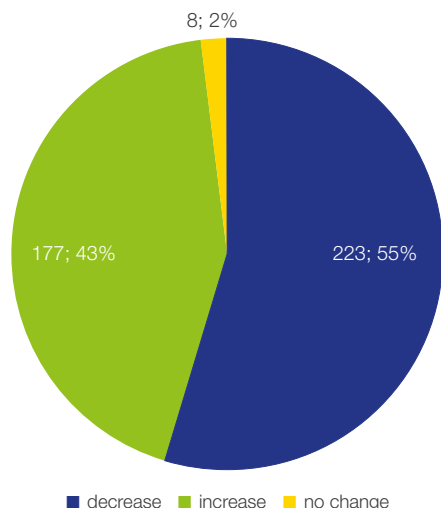
In every edition of the project 'ESG analysis of companies in Poland' we have praised the companies listed on the WSE for a high level of corporate governance reporting. When compared to the environmental and social reporting, the level of information disclosed in the corporate governance area is still definitely higher.

The level of corporate governance reporting worsened at 55% of companies between 2012 and 2016.

Corporate governance, being the backbone of the company, should guarantee a stable and responsible management. Therefore, a decreasing trend in the transparency level in this area that we can observe is worrying. According to the analysis results, the level of corporate governance reporting worsened at 55% of companies between 2012 and 2016.

The trend is even worse among companies that employ over 500 companies (128 companies analysed) where the results are poorer at 66% of companies. The companies are less transparent in their corporate governance reporting and this is mainly linked to the lack of consistency in their reporting about Supervisory Board members' independence and failure to publish biographies for Management Board members.

Corporate governance reporting level at the Main Market of WSE – comparison of results from 2012 and 2016



However, 50% of the analysed 408 companies did not change their approach towards environmental data reporting between 2012 and 2016. In 2016, less information was available about the environmental management at 14% of companies than it was five years ago. During the same period of time, 36% of companies improved the level of informing their stakeholders on how they manage environmental matters.

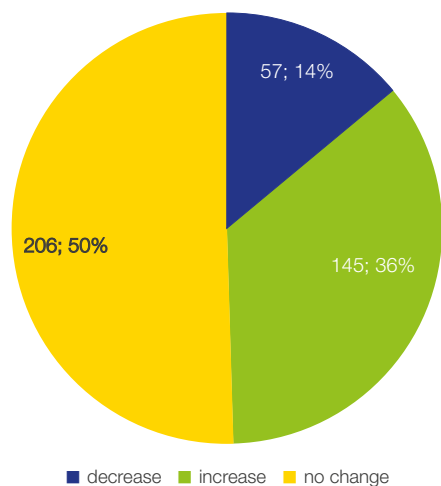
Social and labour matters gain importance

So far, the listed companies have not been legally required to disclose social and labour-related data. With the upcoming changes, the requirement will apply to only one third of the companies listed on the Main Market. Although the level of social data reporting is still very low, 63% of companies publish more information on these aspects than they did in 2012.

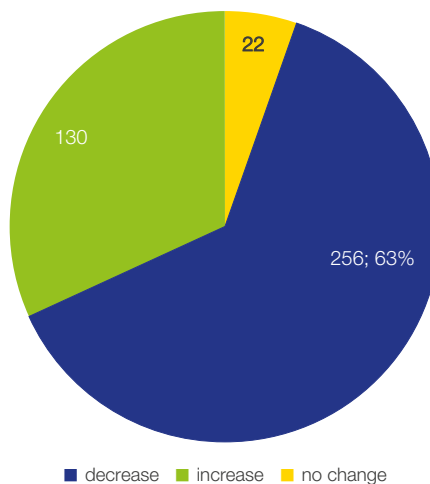
Environmental data – higher expectations, level unchanged

It might be assumed that the high pressure on environmental matters by the regulator and international organisations, the increase of raw material prices or divestments made by investors are factors that would influence the companies' level of environmental reporting.

Environmental data reporting level at the Main Market of WSE – comparison of results from 2012 and 2016



Social and labour data reporting level at the Main Market of WSE – comparison of results from 2012 and 2016

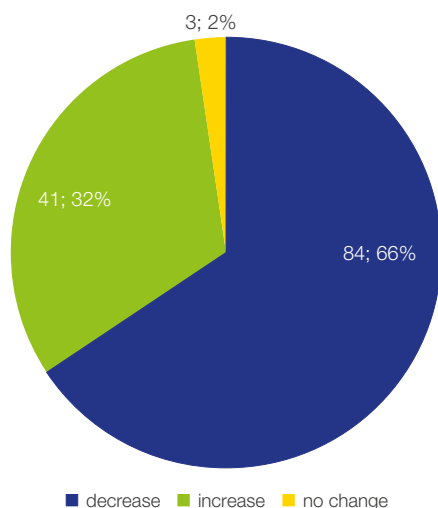


In the spotlight – results for the analysed companies subject to the new non-financial data reporting requirements

Let us have a closer look at the companies which will be required to disclose non-financial data from next year. The project 'ESG analysis of companies in Poland' gathered information about 128 companies which employed over 500 employees in 2015.

As already mentioned, the level of corporate governance reporting decreased at 66% of companies which will be required to report non-financial data.

Corporate governance reporting level at companies employing over 500 employees – comparison of results from 2012 and 2016

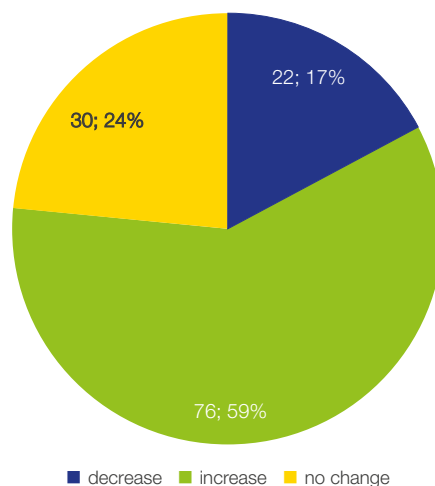


One of the issues required to be reported under the new provisions of the Accounting Act is corruption and bribery. Among the companies analysed in 2016, there were only 14 that reported on their policy, programme and management system that govern these material risks. The rest of companies face the task of either implementing relevant measures, if no measures have yet been implemented, or reporting on taken actions, if internal actions have already been taken.

Communicating environmental matters

The companies that will be required to disclose non-financial information have to a greater extent improved their environmental data reporting. Between 2012 and 2016, 59% of companies improved their reporting in this area. However, if we look at the results from the perspective of the new regulations, only 20% of them disclose environmental information that fulfils the new requirements.

Environmental data reporting level at companies employing over 500 employees – comparison of results from 2012 and 2016



67% of the analysed companies present information about their approach to environmental matters. 56% of companies show a satisfactory level of reporting related to their environmental policies and targets. 27% of companies inform how their consumption of energy changed over time.

Social and labour data reporting

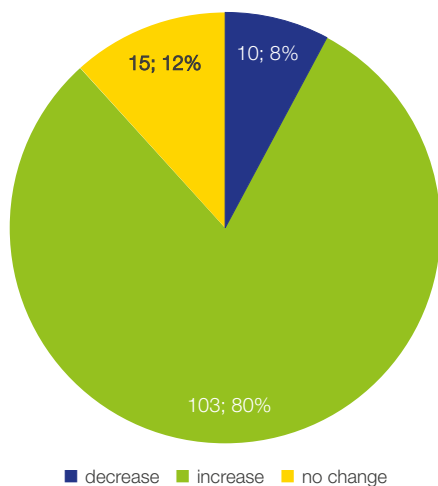
Although 80% of companies improved their reporting of social data between 2012 and 2016, 97% of companies still do not publish enough social and labour-related data to fulfil the new requirements of the Accounting Act in this area.

The publication of the EU Non-Financial Information Directive in October 2014 might have contributed to

the increase in the level of such information reporting. It is enough to mention that after the publication, the results of environmental and social data disclosure went up by 64% between 2014 and 2015.

About 42% of the analysed companies reported health and safety issues at a satisfactory level, meaning that they showed indications of relevant policies and management systems being in place. On the other hand, the same level of reporting in relation to freedom of association is shown by only 18% of companies. Finally, only 13% of companies employing over 500 employees reveal information about their wages policy.

Social and labour data reporting level at companies employing over 500 employees – comparison of results from 2012 and 2016



Human rights – terra incognita for Polish companies

Only over a dozen of companies published information on human rights on a level that would fulfil the requirements of the new provisions of the Accounting Act. Among them, there were eleven companies that had a policy on human rights and two companies that described a management system, but none of them presented a satisfactory level of reporting when it comes to indicators showing the results of their human rights policy implementation. Only one of the analysed companies published information about risk management in relation to preventing child labour, while there were 72 companies that showed a satisfactory or high level of reporting on how they manage risks linked to forced labour.

Non-financial data reporting on environmental aspects – challenges in the evolving legal reality

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Non-financial data reporting on environmental aspects often includes issues that are already regulated by environmental protection laws. It thus enables interested parties to provide credible information on their compliance with specific regulatory requirements. The situation is useful from the perspective of particular sectors, as it allows a comparison of compliance levels among peers, as well as of employers and legislative bodies. In any case, it serves as a verification tool of business partners' environmental impacts. In this context, the Union-wide tendency to change the character of data reporting, including environmental reporting, from non-compulsory (driven by corporate social responsibility motives) to compulsory (based on legal regulation) seems to be particularly essential. Due to liberal provisions regarding the choice of environmental data reporting method and the fact that regulations fail to specify the exact scope of data to be reported, entities subject to reporting obligations may choose themselves what tools to use. Special attention should be paid to the methodology proposed by the Global Reporting Initiative.

Non-financial data reporting serves as a verification tool of business partners' environmental impacts.

Environmental data disclosure requirement; methodology choice

The Directive 2014/95/EU of the European Parliament and the Council of 22 October 2014, amending the Directive 2013/34/EU with regards to non-financial information disclosure and disclosure of information regarding diversity by certain large entities and groups¹, that introduces the requirement of reporting non-financial data for some entities, does not provide specific rules on how to report environmental data. This allows the Commission to develop guidelines in this respect².

However, the preamble to the Directive includes tips regarding data that should be reported as non-financial environmental information. As per the Article 7 of the preamble, non-financial data statement should include detailed information on the existing and anticipated environmental impacts linked to the entity's operations. Where appropriate, it should also cover impacts on health and safety, the use of renewable or non-renewable energy, greenhouse gases emissions, water consumption and air pollution.

¹ EU Official Journal L 330 of 15.11. 2014, p. 1.

² As of the day of preparing this study, the project with guidelines has not yet been published; only a consultative document that includes questions towards interested entities is available.

In order for the company to choose methodology for preparing a report with non-financial data on environmental aspects that would fully reflect its approach to environmental matters, the following aspects should be considered:

- ▶ What, apart from complying with legal regulations, does the company want to achieve by measuring non-financial environmental data?
- ▶ Which of the reported environmental issues show the greatest value for the company and its partners?
- ▶ What groups of entities will be interested in the reported environmental data?

At the same time, the directive allows a significant freedom when it comes to choosing a method of reporting environmental data. Under the Article 9 of the preamble, by disclosing such information, entities that are covered by the directive may rely on national framework, EU framework, such as Eco-Management Audit Scheme (EMAS), or international framework, such as the UN Global Compact initiative, the UN Guiding Principles on Business and Human Rights implementing the UN 'Protect, Respect and Remedy' framework, the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, the International Standards Organisation norm ISO 26000, the Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy issued by the International Labour Organisation, the Global Reporting Initiative or any other renowned international framework. This indicates that the level of freedom to choose environmental indicators to be reported is very high. The EU legislator does not create a compulsory set of methods to be used when reporting environmental information. However, in order to facilitate the interpretation of the directive's

provisions, it refers to the existing methodologies and guidelines.

The expected scope of data to be reported covers a brief description of the company's business model, key non-financial efficiency indicators linked to its operations, a description of policies applied by the entity on, for example, environmental matters and due diligence procedures, if the company uses them, and a description of risks linked to its operations that might negatively impact the environment, including risks linked to the company's products or its relations with the external environment and a description of its management of these risks. Such a broad and general phrasing requires an application of credible reporting methodology. When it comes to the environmental area, where often the business profile determines specific factors, the most often used non-financial data reporting model prepared by the Global Reporting Initiative definitely deserves attention as it allows for a clear arrangement of expected information, taking into account the specificity of operations in a given sector.

Nevertheless, in order for the company to choose methodology for preparing a report with non-financial data on environmental aspects that would fully reflect its approach to environmental matters, the following aspects should be considered:

- ▶ What, apart from complying with legal regulations, does the company want to achieve by measuring non-financial environmental data?
- ▶ Which of the reported environmental issues show the greatest value for the company and its partners?
- ▶ What groups of entities will be interested in the reported environmental data?

Benefits of reporting non-financial environmental data

It should first be stated that environmental issues do have an enormous impact on the company's operations in a number of sectors. The impact is both negative and positive. On the one hand, by adjusting the company to environmental requirements, the potential risks that could create a negative impact, both in terms of legal compliance and investor relations, should be avoided. On the other hand, the company should also gain additional benefits through, for example, costs rationalisation.

A verification of the reported non-financial data is an opportunity for the company to check whether it meets all legal environmental requirements.

Managing a company is subject to a number of regulatory obligations that also cover environmental aspects. A verification of the reported non-financial data is an opportunity for the company to check if it meets all legal environmental requirements. Such an action is extremely crucial as it helps to avoid a situation in which the conditions for safe business operations are breached, which in turn is linked to environmental risks. The effects of such a breach might be particularly wide and might have devastating effects on both the environment and the company itself. This is well illustrated by an incident of polluting the Warta River with an insecticide (Transfluthrin). In this case, in May 2016, the Regional Prosecutor in Poznań charged four people with causing substantial damage to fauna and flora and they now face 3 months to 5 years in prison, as per the Article 182.1 of the Penal Code³.

Moreover, such activities might result in explanatory proceedings being commenced against the company

that could end with high fines. Any information on such proceedings might negatively affect the way in which the company is perceived by potential contractual partners or investors. A good example is the recent high-profile case of a leading car maker manipulating car emission levels. The incident has not only received a great deal of publicity in the media, among consumers and business partners, but also triggered proceedings on breaches of the environmental norms in many countries, including the United States. As a result, multi-billion dollar fines have been imposed on the company. What is more, the Polish Competition and Consumer Protection Office has also commenced proceedings related to the infringement on collective consumer interest.

It is therefore correct to state that a regular verification of environmental data as part of non-financial information reporting can help the company to avoid wide risks linked to non-compliance with relevant environmental standards.

As the studies carried out so far show, there is a positive correlation between the company's financial results and its industry classification that considers environmental impacts. It is natural that companies with a greater environmental impact have limited chances to avoid a negative opinion from the society, which demands improvements in their social responsibility strategy in this area. A clear negative impact on the environment might also affect the actions of investors and shareholders. It might also have serious effects on the company's performance and results on the capital market. An additional variable that has been considered in the studies is also the company size⁴.

The companies with a greater environmental impact have limited chances to avoid a negative opinion from the society, which demands improvements in their social responsibility strategy in this area.

³ The Act of 6 June 1997, Penal Code consolidated text of 5 July 2016 (Journal of Laws of 2016, item 1137).

⁴ See more in, e.g., H. Sikacz 'Wpływ CSR na sytuację finansową przedsiębiorstw – przegląd badań. Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu' (nr 436/2016).

Notwithstanding the legal obligations of non-financial information disclosure in the environmental area imposed on companies, these indicators have an essential impact on business operations, thus efforts to lessen negative impacts on the environment should be a vital part of corporate actions. The legal regulations in this respect should not only be treated as a burdening obligation but rather as a potential help to reach the company's environmental goals, which, without a doubt, might positively affect the company's financial and business standing. Since the regulations are obligatory, all companies obliged to report environmental data make such information available to a wide group of entities, including existing and potential contractual partners. In other words, the companies that already take or will take these actions, may gain competitive advantage and thus be more often chosen by business partners.

Another positive aspect linked to the imposed environmental information disclosure requirement is an enhanced comparability of data that has an influence on the company's financial results. In other words, imposing the discussed requirements on companies allows for a comparison among particular entities to learn in what areas their solutions are ineffectively costly or whether the technologies they use are old. It also allows for flattening the cost structures basing on data published by other entities. This could be illustrated by the company's energy consumption. First of all, the structure of energy purchases of a large customer has a huge impact on the environment. Moreover, there are many ways to optimise related costs, e.g. by making investments in efficient energy use, modernisation of installations to reduce emissions, or by gaining partial exemption of charges levied on the price of electricity. The comparison of information gathered by particular companies in their non-financial data reporting procedures might be an important incentive when making decisions aiming at lowering the costs of business operations. It also builds up companies' awareness on potential challenges that they still face on their way to ensure a competitive position in the market.

We also have to mention global trends in environmental actions, including pro-ecological activities carried out by companies. An example of such trends is the current change in the climate policy. As of the day of preparing this study, the ratification procedure of the climate agreement concluded during the COP 21 in Paris in 2015 by particular countries⁵ is ongoing. Recently, the agreement has been ratified by the United States and China, among others, so countries that are responsible for a significant part of the global greenhouse gases emissions. The ratification of the agreement by a sufficient number of countries might mean, in the European context, e.g. the development of the Land Use, Land-Use Change and Forestry (LULUCF) system. The system accounts for the company to consider its environmental impacts, particularly afforestation, to fulfil its duties of reducing greenhouse gases emissions. Even though the European Union regulations have not given such a possibility so far, a part of companies have included such investments in their corporate social responsibility projects. In case the Paris agreement enters into force, it may impact the possibility of implementing the described scheme to the EU law. The companies that have already taken actions in this respect will reach a privileged position as they will already be familiar with the rules of the mechanism work. Their actions will also prove to be in line with the regulatory trends, which might be considered an additional positive indicator for investors. The development of the mechanism would also result in lowering costs linked to the company's emissions, especially under the Emissions Trading Scheme (ETS). This is particularly essential in terms of forecasts, according to which emissions trading allowances will become more expensive in the coming years as a result of the implementation of mechanisms that limit the supply of emission allowances.

⁵ The agreement is published on the following website: <https://unfccc.int/resource/docs/2015/cop21/eng/109r01.pdf>

Imposing the discussed requirements on companies allows for a comparison among particular entities to learn in what areas their solutions are ineffectively costly or whether the technologies they use are old. It also allows for flattening the cost structures basing on data published by other entities.

Despite the undeniable benefits resulting from the implementation and compliance with social responsibility policies that cover the environmental aspects, as the results of the 'ESG analysis of companies in Poland' show, such actions are a significant challenge for Polish companies. Let us recall that none of the analysed companies scored 'a' or 'a-', which means that none of them showed a high or a relatively high level of reporting. Only 3 companies, constituting 0.6% of the total, achieved the satisfactory score 'b+'. 6% of the companies scored 'b', while 5.9% reached the score 'b-'. Moreover, 21.5% of the companies were given the score 'c+'. 319 companies, accounting for 66% of the total, received the lowest score 'c', which means that they either published little information on their environmental management or did not disclose any information at all. Out of these 319 companies, 32.3% published little information and the rest did not disclose any information on their environmental management.

The Global Reporting Initiative methodology

The impact which business operations have on the environment, health and safety, the use of renewable or non-renewable energy, greenhouse gases emissions, water consumption and air pollution depends on a number of factors, such as the kind of business operations, the use of raw materials and also the national energy mix. A factor that might be decisive in case of one company might not play any role for a different company that is also obliged to report non-financial data on environmental aspects.

The GRI sustainable development reporting guidelines are a method of data reporting that considers both the sector specificity and additional factors that influence the materiality of particular indicators in the company's operations. The guidelines are based on renowned international standards and a process of ongoing consultations with interested parties.

One of the main rules in the GRI methodology is the materiality rule, thus, a focus on reporting these indicators that fully match the specificity of business operations. The GRI has developed profile indicators that allow for an inclusion of the industry specificity. Basing on the selection of the profile indicators, it is further determined which indicators are applicable to a given company and which are not material. Additionally, the form of the report allows an inclusion of information that is considered crucial by the given organisation and not explicitly outlined by the GRI indicators. Reports can also be presented in a basic or extended form.

The flexible form of the guidelines makes it possible to apply the GRI method partly so that not all aspects stemming from the guidelines are fully covered, provided that the method applied by the company is based on the indicators covered by the GRI guidelines for sustainability reports, which may facilitate non-financial data reporting for entities that report such information for the first time.

Regarding the environmental area, the following aspects need to be considered in order for the report to be prepared in accordance with the GRI guidelines:

- ▶ Materials
- ▶ Energy
- ▶ Water
- ▶ Biodiversity
- ▶ Emissions
- ▶ Effluents and waste
- ▶ Products and services
- ▶ Compliance
- ▶ Transport
- ▶ Overall
- ▶ Supplier Environmental Assessment
- ▶ Environmental Grievance Mechanisms

The GRI G4 Guidelines further identify criteria that are used to evaluate specified environmental impacts and provide an explanation regarding their application. For example, in the case of energy use, energy consumption within and outside the organisation, energy intensity, reductions of energy consumption and reductions in energy requirements of products and services (or as it can be defined in the light of the binding national regulations – increasing energy efficiency) are assessed. The guidelines further present a possible way of verifying whether the criteria are met as well as potential synergies that may result from reporting additional non-financial information.

As it is stated in the introduction to the reporting guidelines, preparing sustainability reports in accordance with the GRI G4 method helps companies to define goals, measure results and manage changes on their way to sustainable development. Apart from social benefits, which result from reporting in line with the GRI guidelines (an evaluation of the company done by clients, stakeholders, corporate founding entities and organisations), a clear advantage is the fact that the collection of non-financial data allows companies to verify whether their business operations comply with law in the area that is subject to ongoing transformations, namely the environmental protection and climate regulations as well as promotion of renewable energy.

Changing legal environment related to environmental protection and renewable energy – examples of correlations and challenges linked to non-financial data reporting

Environmental regulations are without a doubt one of the most changing areas of law. In the case of the national law, only in 2015, there were a number of changes of regulations on renewable

energy sources (an act entered into force⁶ and was amended⁷), provisions on the recycling of end-of-life vehicles⁸, management of waste electrical and electronic equipment⁹, regulations on manufacturing and making available on the market of active substances and biocidal products¹⁰, the Environmental Protection Law Act and the Act on the Greenhouse Gases and Other Substances Emissions Management System¹¹, or the Anti-Smog Act¹².

As already mentioned, one of the assumptions of preparing the report is to follow the data materiality rule. In practice this means that the statement or report prepared in accordance with the GRI guidelines should cover issues that can rationally be considered important, taking into account the company's environmental perspective. Therefore, one kind of indicators will be considered by a financial institution, while a different kind will be applied by a large industrial company.

A significant part of areas that the new regulations cover overlaps with indicators that are used in the evaluation of particular aspects within specific categories. For example, the environmental category includes the 'Energy' aspect which encompasses a few indicators related to energy consumption. The 'energy consumption within the organisation' indicator requires the amount of energy used presented in joules and description of fuel types. Moreover, it should be specified what part of energy consumed comes from renewable energy sources. Additionally, the 'energy intensity' indicator requires the energy intensity ratio, interpreted in a similar way as in the national legislation but also including additional types of energy. And finally, the 'reductions of energy consumption' requires the amount of reductions in energy consumption achieved as a direct result of conservation and efficiency initiatives. It is not hard to notice that the GRI indicators correspond with data that already is collected in line with the provisions of the Energy

⁶ The Renewable Energy Sources Act of 20 February 2015 (Journal of Laws of 2015, item 478) as amended.

⁷ The Act of 29 December 2015 Amending the Renewable Energy Sources Act and the Energy Law Act (Journal of Laws of 2015, item 2365).

⁸ The Act of 27 May 2015 on Amending the Recycling of End-of-Life Vehicles Act and other acts (Journal of Laws of 2015, item 933).

⁹ The Act of 11 September 2015 on the Waste Electrical and Electronic Equipment (Journal of Laws of 2015, item 1688).

¹⁰ The Biocidal Products Act of 9 October 2015 (Journal of Laws of 2015, item 1926).

¹¹ The Act of 16 December 2016 Amending the Environmental Protection Act and the Act on the Greenhouse Gases and Other Substances Emissions Management System (Journal of Laws of 2015, item. 2278).

¹² The Act of 10 September 2015 Amending the Environmental Protection Law Act (Journal of Laws of 2015, item 1593).

Law¹³, the Renewable Energy Sources Law¹⁴ or the Energy Efficiency Act¹⁵. However, we should keep in mind certain conceptual differences that should be taken into account when reporting such data according to the GRI guidelines.

When it comes to reporting energy consumption within the organisation, the total amount of energy used should be specified, including electricity, heating, cooling and steam. Moreover, the energy generated by own sources, which as such is subject to very few legal obligations (e.g. the regulations on obligations linked to supporting renewable energy and high-efficiency cogeneration do not apply in such cases), should also be taken into account. It means that compliance with the standard requires more data to be collected, if compared to the current state of legal and energy regulations, and this might turn out to be a real challenge, especially in the case of companies that prepare such reports for the first time.

The GRI indicators correspond with data that already is collected in line with the provisions of the Energy Law, the Renewable Energy Sources Law or the Energy Efficiency Act.

Some doubts regarding interpretation might appear when specifying the amount of renewable energy consumption because energy from all sources is taken to the national electricity system. In this system energy from one source flows together with energy from all other sources within the unified “copper plate” system, and the properties of energy, regardless its source, are identical. What can be helpful in this situation is the level of obligation of renewable energy support defined in the Renewable Energy Sources Act as there is a legal assumption that the energy for which the obligation has been fulfilled comes from renewable sources. The only difference that needs to be borne

in mind is the case of generating electricity for own industrial purposes. In such a case, depending on the applied generation technology, the energy in whole must be considered conventional or renewable.

There are additional aspects of non-financial data reporting and the company's responsibility management in the environmental area: firstly, an opportunity to verify the company's compliance with related legal regulations, and secondly, an opportunity to reach benefits linked to environmental management (including benefits resulting from statutory motivational instruments), which often can be measured financially.

When it comes to the indicator on energy intensity, the use of the ratio defined under the act on renewable energy sources for the purposes linked to applying deductions for industrial consumers seems to be permitted, especially because the GRI guidelines allow for a certain level of freedom regarding the company's choice of metric used to calculate the ratio. A limitation to the use of this method appears when the company uses not only electricity but also fuel, energy for heating and cooling as well as steam. However, it also seems permitted to use the gross value added to calculate the ratio, as it is stated in the act.

The application of the “reductions of energy consumption” ratio requires the reductions of energy use to be reported in physical units and thus the company is motivated to increase its energy efficiency. Investments in energy efficiency may, in turn, lead to specific and measurable financial benefits linked to achieving energy performance certificates for each investment made, as per the Energy Efficiency Act¹⁶.

¹³ The Act of 10 April 1997, Energy Law consolidated text of 15 June 2012 (Journal of Laws of 2012, item 1059) as amended.

¹⁴ Op. cit.

¹⁵ The Energy Efficiency Act of 15 April 2011, consolidated text of 27 November 2015 (Journal of Laws of 2015, item 2167) as amended; Op. cit.

¹⁶ Op. cit.

Similar synergies can be observed in the aspect related to emissions – the indicator requires the company to present data that already is required to be reported under the Act of Greenhouse Gases Emissions Trading Scheme¹⁷ and the Environmental Protection Law Act¹⁸.

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Summary

Following socially responsible business policy brings essential benefits and helps to avoid certain risk which, when materialised, may significantly impact the company's financial results and its share performance on the capital market.

¹⁷ The Act of 12 June 2015 on Greenhouse Gases Emissions Trading Scheme (Journal of Laws of 2015, item 1223) as amended.

¹⁸ The Act of 27 April 2001 on Environmental Protection Law, consolidated text of 19 April 2016 (Journal of Laws of 2016, item 672).

HR area – which indicators to report and why

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Taking into account the current economic challenges, the focus only on financial indicators might not be sufficient for the company to be successful on the market. It is widely known that employees' knowledge, experience and involvement significantly impact the company's success. But do companies know how to monitor and control these aspects?

Current challenges for companies

Although Polish legal acts have for many years regulated the relation between the employee and employer in quite a detailed way, an increasing importance of positive employee relations that go beyond plain compliance with law have recently been observed. The company that wants to establish a strong position needs to take care of its own reputation and strengthen it both through the quality of rendered services and observance of relevant standards. In case any infringement is found, the companies risk not only financial penalties but also their image of a credible business partner, customer or employer (the so-called employer branding). The ability to get and retain talented personnel becomes crucial, especially in the context of increasing competition and changing labour market.

Employers will soon have to face a number of challenges, thus a well-organised system of monitoring, controlling and reporting non-financial factors may be their chance for 'a leap into the future'.

Growing predominance of employees on the labour market

Poland will face a significant decline in the population in the coming years. By 2020, the population will

decrease by about 280,000 as compared to 2015, and by almost one million (!) by 2030. As a result, the number of people in the working age will also fall down. According to studies by the Central Statistical Office, in June 2016 alone, employers submitted 146,000 job offers to employment offices, which is 21.7% more than in June 2015. The gross remuneration in the corporate sector was 5.3% higher than in the previous year. This was the strongest position held by employees since 2008.

According to studies by the Central Statistical Office, in June 2016 alone, employers submitted 146,000 job offers to employment offices, which is 21.7% more than in June 2015.

The recent studies clearly show that the employees' situation on the labour market has improved and we are getting closer to an 'employee market' rather than an 'employer market'. The stable growth of Polish economy or emigration are only some of the factors that contribute to the increasing competition among companies that want to employ qualified personnel and retain them for a longer period of time.

The labour shortage will not only affect sectors that employ unskilled workers on a mass scale. The issue is exacerbated by a failure to adjust education to the needs of the labour market, namely, the so-called structural unemployment. In 2015, over 40% of the surveyed companies declared that they had problems with staffing. This accounts for an 8% increase in comparison to 2014. The reason behind this trend is emigration abroad and a low mobility

level of employees with rare qualifications. According to a study by Millward Brown, as much as 53% of Poles do not occupy positions that are in line with their education. Over a half of the surveyed said they would have changed their education line if they could, and 75% of the respondents think that professional education helps in finding a job.

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Motivation redefined – work-life balance as one of factors determining employer's attractiveness

Managers gaining their experience in the transformation period often think that a good employee is the one who spends a lot of time at the office. Meanwhile, the time spent at the desk is not at core of work but it is rather an efficient delivery of tasks that is pivotal. Employees who do not have time for their private lives due to piling up duties are distracted and tired. As a result, the efficiency of their work remains at a relatively low level. According to a report by OECD Better Life Index Policy, Poles are one of the nations that work the longest hours in Europe. Over 7.4% of Poles spend over 50 hours per week at work. This is confirmed by data collected by Eurostat, according to which our nation ranked 6th among the most hard-working nations in Europe.

The latest studies also show that the opportunity to keep work-life balance gains more and more importance for employees (especially those born after 1984). The modern employee more often requires work flexibility through facilitating working from home, working shorter hours or planning days off in advance. While the motivational importance of remuneration level is slightly lowering, more and more respondents think that remote working or possibility to combine professional and family duties are important.

Ability to be innovative – growth potential

In the current economy, innovation is a necessary condition to build the market position and maintain competitive advantage. Technology and methodology development becomes more and

more dynamic and there are only few companies on the market that are able to run their business in a way that has not been changed even for a decade. It is important to note that the only asset the company has that is able to be innovative is its personnel. Even though many companies still perceive innovation in terms of establishing research and development departments, in practice this often (or even always) means the organisation's ability to constantly improve its function, never-ending internal transformation and flexible adjustment to the market, clients, investors and best practices. The ability to be innovative does not determine which company is the industry leader today but which company has a chance to become one in the coming years.

This potential is a chance to attract external investors and the best employees. The culture of innovation is built on a multi-level structure – from the recruitment of the right talents, through ensuring appropriate internal platforms and tools enhancing improvements, to remuneration and motivation systems.

What actions should the companies take to meet the requirements?

Companies face a number of challenges every day. New requirements of HR data disclosure seem to be yet another one. As long as the company takes care of its employees' motivation, monitors indicators related to personnel or health and safety, or shows genuine interest towards using human potential of its organisation, the imposed obligations might become its ally. The very phase of reporting is just one element of a wider process of growth.

One of the aspects building the employer's image is cohesion. Without a solid base – a well-developed HR unit that is aware of partners who influence the company's interests and the importance of involving people in the reporting process, the company cannot establish an image of a credible employer. Thus, the whole adventure with the new obligations should start with laying the foundations.

As long as the company takes care of its employees' motivation, monitors indicators related to personnel or health and safety, or shows genuine interest towards using human potential of its organisation, the imposed obligations might become its ally. The very phase of reporting is just one element of a wider process of growth.

It is obvious that companies want to show areas in which they are the best and where they have competitive advantage. Unfortunately, as the results of the 'ESG analysis of companies in Poland' show, employers tend to underestimate the benefits resulting from measuring, analysing and disclosing labour-related data or even drafting a related policy or strategy.

What non-financial indicators should the company report and how?

Building competitive advantage, attracting and motivating employees in the time of labour shortage or ensuring the culture of innovation are quite complex processes. At the same time, to reach wider strategic goals it is most often necessary to carry out tactical or operational tasks. Here the non-financial reporting standards are a tool that may help the company to define key HR measures and targets.

Attractive employer

In order to attract the most talented candidates, employers should present a cohesive image of an attractive workplace. The promises of 'competitive benefit package', 'development opportunities' or 'dynamic work environment' that are included in a job offer might be disappointing unless they really translate into actual benefits for employees (the so-called Employee Value Proposition). There are many aspects that create an attractive employer image, however, the most basic ones are linked to ensuring safety, opportunities to increase competence through training, or possibilities to return to work after maternity leave. Data related to these areas is covered by the GRI G4 reporting standards and companies which are good at managing these aspects should boast about it.

The data analysed shows that companies only to a low extent include these aspects in their reports.

Diversity as a way to achieve better results

Diversity in relation to age, gender or interests leads to a clash and an exchange of opinions which are a driving force for new ideas and the company's development. Let us consider gender diversity as an example. It can be observed that the increase in the number of women among leaders from 0 to 30% statistically translates into a 15% increase in the net revenue margin. At the same time, according to the 'Women in Business 2015' study, only 37% of women in companies in Poland hold managerial positions and only 5% work as presidents of management boards.

Ensuring diversity is not only about employing people from different backgrounds, it is also about promoting and remunerating different work models. The key element is to ensure cohesion and justice in the internal remuneration system. In the recent years, some European countries have introduced an obligation of a regular analysis of remuneration data against gender equality. In Poland, such an analysis is not yet a standard but it might be considered a positive distinctive factor, especially in the eyes of Western European investors.

Companies very rarely disclose statistics on diversity. The analysis shows that only one in four companies that were analysed report data related to this aspect. The remaining 75% of companies do not disclose any information on how they manage diversity or do not have a relevant strategy in this area. The share is quite high taking into account the global trends that focus more and more on promoting gender, ethnic origin or religion equality.

Choosing the right indicators for sectors

Before the company chooses HR indicators, it should consider the following questions:

- ▶ What do we want to achieve by studying the HR area?
- ▶ What goals are most important to us in the reporting process?
- ▶ What target group will be interested in the indicators we report?

A part of general indicators will be shared by all companies as they present universal data, such as labour turnover and retention indicator – a good employer can retain employees, which confirms their general satisfaction with working conditions.

The answers to these questions will help to choose data that will provide the company with most valuable information on HR matters and will be a credible and useful source of knowledge for the company's stakeholders.

A part of general indicators will be shared by all companies as they present universal data, such as labour turnover and retention indicator – a good employer can retain employees, which confirms their general satisfaction with working conditions.

However, one kind of data is important for an IT company, another one for a company in the manufacturing industry and even different information will be crucial for the financial sector. This quite directly translates into decisions regarding the choice of indicators covered in annual reports.

Taking the occupational safety indicator as an example, we can clearly observe how the industry in which the company operates influences the scope of its reporting. Only 20% of companies in the construction and engineering sector fail to present health and safety indicators in their reporting, thus the sector ranks highest in terms of most detailed reporting among all other industries. At the same time, most of the companies in the IT or hotel sector do not disclose any information in this area.

An important indicator for the heavy industry is the accident rate, so the occupational health and safety area. The data does not only inform about the employer's care over its employees' well being and safety, but it also informs about additional costs directly and indirectly linked to accidents, such as replacements and overtime costs, increases in social security contributions or material losses. The employer that makes every effort to care about its employees' development and safety is perceived as a responsible employer that can assure a stable and friendly workplace. The guiding principle for a socially responsible employer should be a constant strive to improve health and safety levels through, for example, training programmes, modernisation of machines and devices, appropriate organisation of work and its ergonomics. Assuring good and safety work environment does not only mean physical safety but also an appropriate management of work, ensuring comfort conditions for rest and regeneration as well as supporting work-life balance.

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I Summary

The current labour market is full of diverse challenges for employers. The way how the company is perceived translates into its attractiveness among stakeholders – clients, trading partners or work candidates. A proper management and use of human resources potential may be a relevant factor for determining the company's future potential and thus considered crucial by potential investors.

Unfortunately, as the research shows, companies definitely pay too little attention to reporting non-financial HR data. In order to strengthen their market position and meet the new reporting obligations, companies should build a solid system, based on specific criteria, that is controlled and disclose control results in professional reports. The process of creating the system from scratch may seem time-consuming and complex but thanks to an appropriate approach and effective implementation the company may benefit a lot, and the very phase of reporting will simply become a result of everyday actions.

In order to strengthen their market position and meet the new reporting obligations, companies should build a solid system, based on specific criteria, that is controlled and disclose control results in professional reports.

Corporate governance: reporting corruption risks and human rights

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The results of this year's edition of the 'ESG analysis of companies in Poland' project were not a breakthrough in the corporate governance area. Over a half of the analysed companies received lower scores in this area which is a result of a rather selective approach to fulfilling disclosure obligations and a lack of consistency in the completeness of reported information over years. All in all, the companies manage their corporate governance issues pretty well when compared to the environmental or social area. This is the outcome of quite strong regulations, legislative requirements imposed and enforced by the legislator as well as market expectations. However, there are two topics that should be underlined as they will be challenging for companies in the light of the changes in the company's reporting and management. These topics are linked to a new understanding of corporate governance that is combined with compliance and ethics which refer to fighting corruption and bribery as well as the necessity to manage human rights.

Legislative challenges

2016 and 2017 are the years that bring changes to the corporate governance area and approach to reporting.

The Accounting Act has been amended to comply with the provisions of the Directive 2014/95/EU of the European Parliament and the Council of 22 October 2014 on non-financial information disclosure. At the beginning of the year, the amended Good Practices of Companies Listed on the WSE entered into force. Additionally, since 3 July 2016, new requirements of the Market Abuse Regulation (MAR) have been

applied, which has significantly influenced the existing reporting rules for listed companies. The above changes alone might be challenging for managers. Companies have to conduct a thorough analysis of the surrounding environment and its own operations to report the required information in a correct way. The responsibility for identifying which information is material, price-forming and valuable for the stakeholders and regulator is shifted on companies. This is a great challenge if we consider how the Polish entities have been engaged in non-financial data reporting and sustainable development so far. The challenge can be illustrated with statistics prepared by the Global Reporting Initiative (GRI). GRI is a leading promoter of the non-financial data reporting idea that actively supports organisations in this respect by providing them with ready-to-use solutions for sustainable development. The GRI database currently gathers almost 35,000 social responsibility reports, of which over 24,000 have been prepared in line with the GRI reporting guidelines. The reports have been submitted by about 9,500 organisations from all over the world. It is enough to mention that currently there are only 184 reports registered by companies from Poland.

Market challenges

Recently, we have observed more and more changes on labour and consumer markets as well as in investor's expectations.

Consumers are more active in their search for products and services that are in line with the sustainable development philosophy. These actions are not limited to their own purchasing decisions

that are made in line with their own beliefs. Social media enable consumers to share information with hundreds or even thousands of other people just within a few seconds and websites often feature pictures of rotten food, low-quality products or descriptions of unethical business practices by different service providers. Consumers take action and express their protest on the streets. The negotiations related to the planned signing of trade agreements between Europe and Canada as well as the US (respectively CETA and TTIP) mobilised hundreds of people to take to the streets to fight, as it was expressed during the protests in Hanover in April 2016, for fair global trade. Additionally, students of the Cambridge University protested against their university's investments in companies from the oil and gas sector.

The companies themselves boost their actions in the non-financial area and raise the bar for their competitors, distinguishing themselves by taking more creative and unexpected CSR initiatives.

Finally, the companies themselves boost their actions in the non-financial area and raise the bar for their competitors, distinguishing themselves by taking more creative and unexpected CSR initiatives. One example is offering an additional day off to employees whose children go to school for the first time or preparing social responsibility reports that cover a wide range of issues, such as the impact of the latest legislative changes on the whole financial sector.

Business challenges – corruption and bribery

Apart from legislative challenges, companies still face challenges linked to business and management. A good example is the issue of corruption and bribery which falls within the new information disclosure regulations.

Fighting corruption and bribery is one of integral elements of corporate governance and the compliance system. The company's management team should aim at determining framework for countering corruption and bribery in a form of independent documents or through implementing a cohesive system of interconnected regulations and actions. At first glance, one may doubt whether corruption is still an important issue in Poland. After all, according to the report prepared by Transparency International every year, Poland ranks 30th among the least corrupt countries (169 countries are assessed). The situation is constantly improving, Poland's ranking in 2015 was a bit better than in 2014 (climbed one position). There are, for sure, many countries whose level of corruption in the public sector is significantly higher than ours. However, it is worth noticing that still many companies think the issue of corruption is common in their everyday operations. According to the 14th Global Fraud Survey 'Corporate misconduct – individual consequences' carried out by EY, 34% of Polish respondents think that corruption practices are widely spread in the Polish business. Additionally, 26% of respondents are of an opinion that offering gifts, entertainment or money can be justified if it aims at helping the company to survive in the economic crisis. Thus, it seems that creating an effective anti-corruption policy and its implementation will still be a challenge for management teams for some time. In practice, anti-corruption measures should not be bare internal instructions, but rather an active support and promotion of ethical behaviour and transparency in the company's actions and its internal structure. The company's demonstration of responsibility and its consistent approach will surely translate into increased stakeholders' confidence.

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Business challenges – human rights

Another challenge for companies may be linked to ethical business practices, namely compliance with human rights. The most important aspect that we consider here is the issue of forced and child labour. This year, another edition of the Walk Free Foundation study has been published, presenting a number of modern slaves basing on geographical distribution. The modern definition of the notion 'slave' is a bit different than the one defined in history books. In the 21st century, forced labour is not only about human trafficking but also unfair wages, excessive work, employee harassment, mobbing, physical or psychological violence to prevent employees from resigning from work. Modern slaves do not trust public administration bodies which, in their opinion, are often ineffective and powerless. According to the Walk Free Foundation study, as many as two thirds of modern slavery prevails in Asian countries, which is not surprising for many people. However, what can be surprising is the estimation that in Poland there are about as many as 180,000 slaves. This is the worst score in the whole European Union and it places our country on the 24th position in the ranking that shows an estimated proportion of slaves against the total population.

Ethical standards

There is no doubt that international ethical standards are one of the useful tools that companies may employ to create policies and prepare reports on the issues of corruption and bribery as well as human rights. However, the standards should not be considered as an inconvenient requirement that is very often imposed by international clients but rather as an opportunity for development, a starting point to implement a compliance management system and create one complete management system for dealing with ethical requirements.

Ethical audits are carried out in hundreds of Polish companies every year. They are usually commissioned by international corporations which in this way verify the quality of management of ethical issues in their supply chains. The aspects that are verified include product quality, efficiency of logistics and, primarily, responsibility for working

conditions, wages and occupational health and safety. A reference point for these kinds of ethical audits are international and widely accepted standards and ethical tools, such as SA8000, EcoVadis, SMETA, BSCI.

Renowned international guidelines are without a doubt a good and comparable benchmark that provides information about the quality of internal procedures at suppliers. They comprehensively handle ethical management by covering a wide spectrum of issues – from human rights, forced and child labour, through occupational health and safety, HR policy, to management systems. Their implementation is voluntary but applying for an external certification according to one or a few standards brings a number of benefits. First of all, it increases competitiveness towards suppliers and exporters. It is not only an asset but even a pass to establishing cooperation with big players on the market that more often include compliance with ethical standards among their supplier requirements. One certified ethical standard may substitute a number of separate ethical audits carried out at the company by its clients.

The certification positively affects the reputation and brand image, improves the company's relations with stakeholders and its closest surroundings. It also increases the company's value on the labour market, both in the eyes of existing and potential employees who can more easily identify themselves with the company's strategy and operations if they see a cohesive approach towards ethical matters in practice. We should also mention the chance companies get to effectively prepare themselves for crisis situations as they learn how to manage them more efficiently thanks to the above-mentioned tools. Finally, there are also more obvious benefits, such as compliance with changing law, including accounting regulations that are being amended or public procurement rules that gradually cover more and more aspects linked to ethical business practices.

Ethical standards – support in reporting

Ethical standards are a good starting point to conduct an analysis of operations and identify key non-financial areas, namely, the areas that companies should report to their stakeholders. It should be underlined that the essence of reporting is not about reporting each and every aspect but reporting only this information that is material to us and our stakeholders. Thus, in order to properly identify the material aspects, the company should carry out a thorough analysis of particular areas of its operations and its relations with the surrounding environment to look for risks of negative impact on people and environment.

Ethical standards are a good starting point for the company to conduct an analysis of its operations and identify key non-financial areas, namely, the areas that it should report to its stakeholders.

The media regularly report about a factory being shut down because it polluted local groundwater, accidents at drilling platforms or a sharp decrease in share value due to forced or child labour incidents in supply chains. Actions that may seem insignificant and that often are less important than everyday operations that can be measured in financial results may result in severe consequences for the company and its shareholders.

One question appears: how to conduct an efficient analysis? The first step should be to identify market trends, the direction in which the non-financial data reporting is heading. What is the market benchmark? What actions are taken by our competitors and the market? Is this a good reference point? Special attention should also be paid to the company's regulatory environment. The definition of 'regulatory environment' covers not only provisions of law but also norms and good practices outlined by international organisations and authorities, good practices for listed companies, specific industry standards. The market analysis will perhaps show that we cannot really increase our sales without implementing ethical standards

that are required by our potential clients. Perhaps our sector lags way behind other sectors and our company has a chance to become the sector leader in terms of sustainable development and positively distinguish itself by creating strategies and social initiatives. And what about our stakeholders? What are their expectations? Firstly, it is really beneficial to determine, during an external analysis, what parties affect our organisation and what parties are affected by us. Secondly, it is also useful to communicate with our stakeholders and such communication should be conducted in a form adjusted to the category of people with whom we want to communicate (e.g. clients, investors, local communities). We can organise workshops or dialogue sessions, distribute materials or conduct direct and individual talks with stakeholders. All methods are good as long as they lead to effective communication, exchange of ideas and expectations. The external analysis is the first step to outline non-financial areas that are material to our company.

The next step is to conduct an internal analysis. Its priority is to understand the way in which the company functions, its internal specificity, strategy and long-term targets. The best source to gain this knowledge is to conduct talks with internal stakeholders of the company, namely, employees who are responsible for specific non-financial areas, including the environment, HR, procurement and supply chain management, health and safety, compliance and internal communication, that are material.

It is crucial to understand processes that take place within the company from the regulatory perspective as well. To look at the implemented documents as well as the organisational and capital structure of the company through the prism of the already identified relations with the surrounding environment. In this way we are able to identify gaps in our current operations that should be taken care of, in terms of potential risks, weakened elements that are not efficiently controlled.

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Non-financial indicators, for example those covered by the GRI standard, are a kind of a general set of rules that should be applied globally by all companies in all sectors, regardless the company's size or character. This should be borne in mind while defining a catalogue of indicators that we decide to use in our reporting. Our final choice may be affected by a number of factors that might make it impossible to create a limited set of indicators. That is why it is so crucial to conduct a thorough analysis of the company and consider all aspects of its operations. Does the company have an extensive supply chain? Does it use a large group of sub-suppliers and subcontractors located in high-risk countries? Does it operate in an industry that is particularly exposed to contact with public entities and take part in many public tenders? Is the safety of employees at risk due to the specificity of work? Has the company implemented material ethical tools, such as a code of ethics or whistle-blowing channels to report non-compliance? These and other questions need to be answered before we make the next step – reporting these issues to our stakeholders.

Summary

The legislative changes introduced this year, increasing regulatory pressure as well as global political and social attitudes are new challenges for companies. This means that they have an increased responsibility for actions they take and information they publish. It is not possible to completely eliminate the risk of non-compliance but if the company stands on a strong ethical foundation that is supported by comprehensive corporate governance, it can quite effectively manage this risk. Not all situations can be anticipated but it is possible to be prepared for at least some scenarios in order to more effectively manage crisis situations when they appear. Corporate governance and ethical standards it covers are the key tools which make facing new challenges a bit easier. But what is important, in accordance to this year's analysis results, they should be used in a consequent and credible way.

The legislative changes introduced this year, increasing regulatory pressure as well as global political and social attitudes are new challenges for companies.

Importance of non-financial data for investors and analysts

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How to effectively communicate non-financial data to analysts and investors - tips

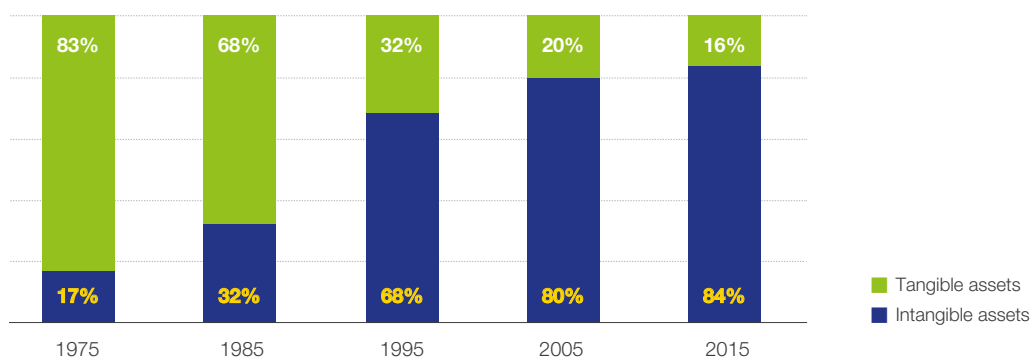
It is quite obvious that modern business models are considerably different from those prevailing in the 1970s, '80s or even '90s when the rules of financial reporting were shaped. This obviousness, which we tend to forget, is a foundation of the changes in the current approach to non-financial data reporting that we witness and participate in today.

It is often repeated that business models undergo significant changes and this can be confirmed by a distribution of components that determine the company's value. For example, studies that have been carried out for years by Ocean Tomo LLC explicitly show this process. In 1975, the value

of the S&P 500 index was in 83% determined by tangible assets. In 2015, the value of the index was in 84% determined by intangible assets. The fact that reporting on non-tangible areas is different from reporting tangible assets and requires a different quality approach is challenging for many.

Reporting on non-tangible areas is different from reporting tangible assets and requires a different quality approach.

Changes in components proportion of S&P 500



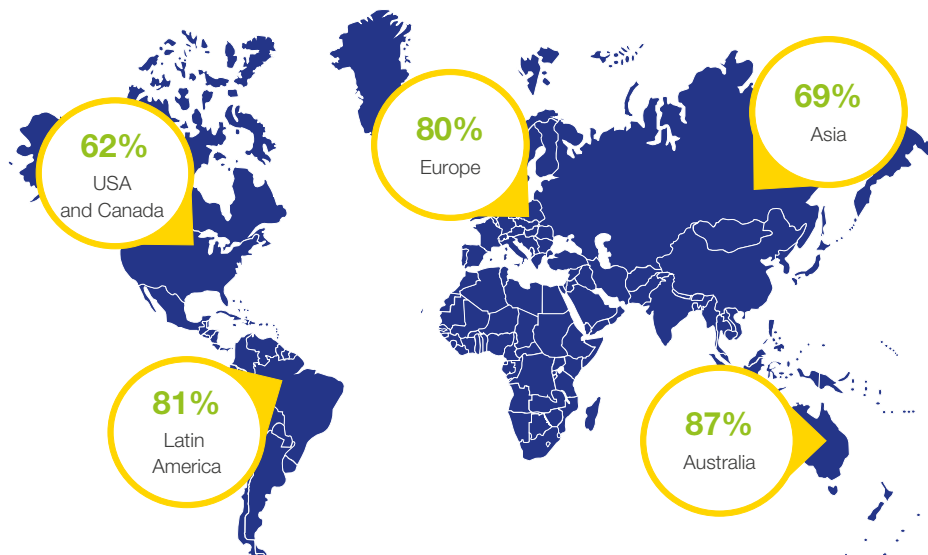
Importance of non-financial data for investors and analysts

The change of components determining the value of present-day companies has not been unnoticed by investors and analysts. In the US and Western Europe it is already a standard for investors to include non-financial data in investment processes. Hence, more and more companies decide to publish reports with non-financial data or integrated reports that cover both financial and non-financial information. According to the report Tomorrow's Investment Rules 2.0 by EY from 2015, on average, 70% of global and 80% of

European investors consider integrated reports to be essential or important in making investment decisions.

80% of investors in Europe consider integrated reports, that cover financial and non-financial information, to be essential or important in making investment decisions.

Proportion of investors that use non-financial information

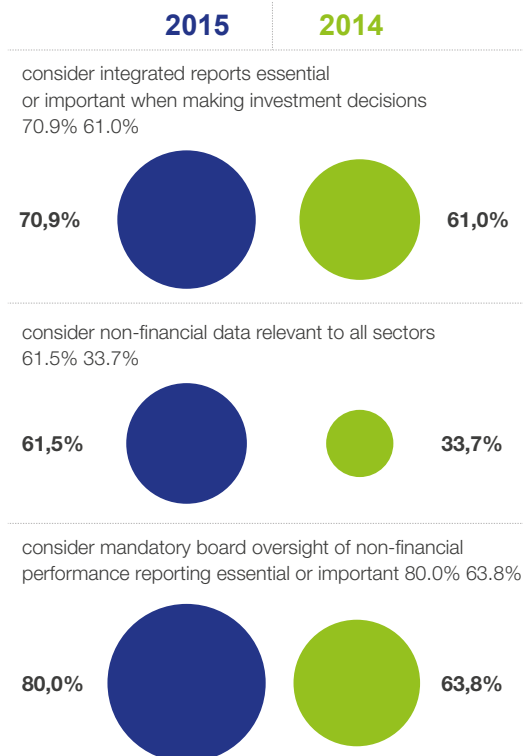


Source: EY Tomorrow's Investment Rules 2.0, 2015. The study was carried out among 211 institutional investors of which over 70% manage assets worth over USD 10 billion.

It is worth mentioning that in 2015 the percentage of investors who considered integrated reports to be a key source for making investment decisions increased by 10% as compared to 2014. It is also significant to note that the number of investors who think that non-financial data is important regardless the sector has risen by 50% and now reaches over 61%.

Understanding this trend helps us to learn more about investors' approach to non-financial data while making investment decisions on the operational level. The latest report published by Eurosif (2016), an organisation that analyses the socially responsible investment market, shows that investors in Europe most often use a strategy of excluding companies from industries that do not fulfill basic ethical criteria from their investment portfolios.

Proportion of investors that...

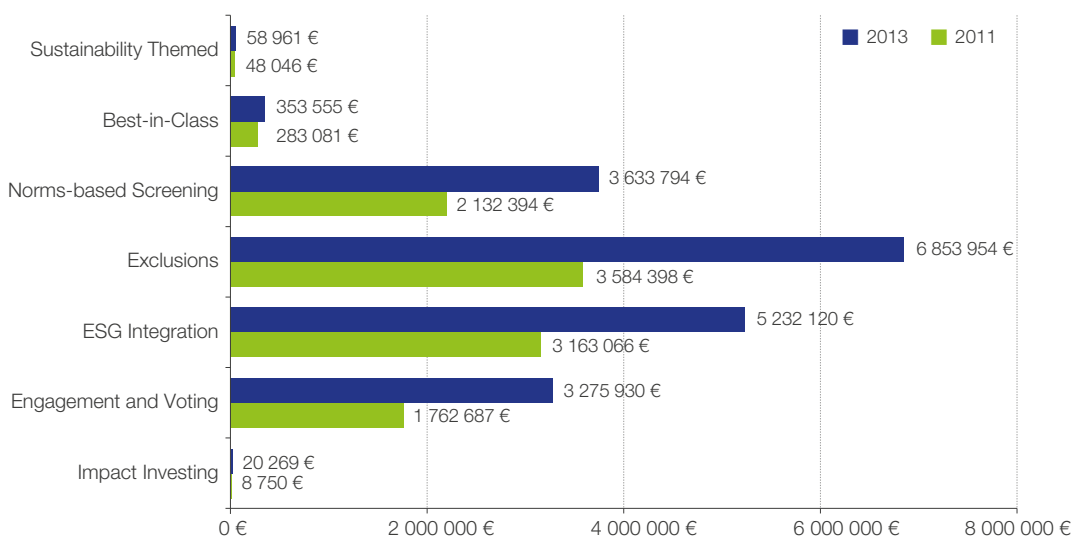


Source: EY Tomorrow's Investment Rules 2.0, 2015, survey on 211 respondents

However, it should also be noted that the value of assets managed in accordance with the ESG integration strategy is increasing dynamically. The abbreviation ESG comes from English and stands for the following: E – environment, S – social and G – governance. The very strategy is about considering both financial and non-financial data before making investment decisions. Analysts assign appropriate value to both types of data and then make final investment decisions.

Another strategy is investing in companies that meet international ethical standards, such as Global Compact, ISO 26000, OECD Guidelines for Multinational Enterprises or SA800, BSCI, EcoVadis, SMETA. Basing on the above-mentioned norms and standards, investors can create risk assessment models for non-financial areas of their investments.

Investment strategies based on non-financial data in Europe



Source: European SRI Study 2014, Eurosif

Let us take a closer look at non-financial factors that, according to investors, might impact investment stalling or withdrawals. In the first place, the respondents to the study presented in the EY report Tomorrow's Investment Rules 2.0 indicate that there is no clear value-building strategy. What

is important to investors is the approach to risk management, especially in terms of supply chain and environmental risks management. Currently, nearly 82% of investors are willing to exclude a company from their investment portfolio or reevaluate it if they see a risk of breaching human rights.

Non-financial data impact on investment stalling

How would the following disclosures about a prospective investment affect your investment decision?



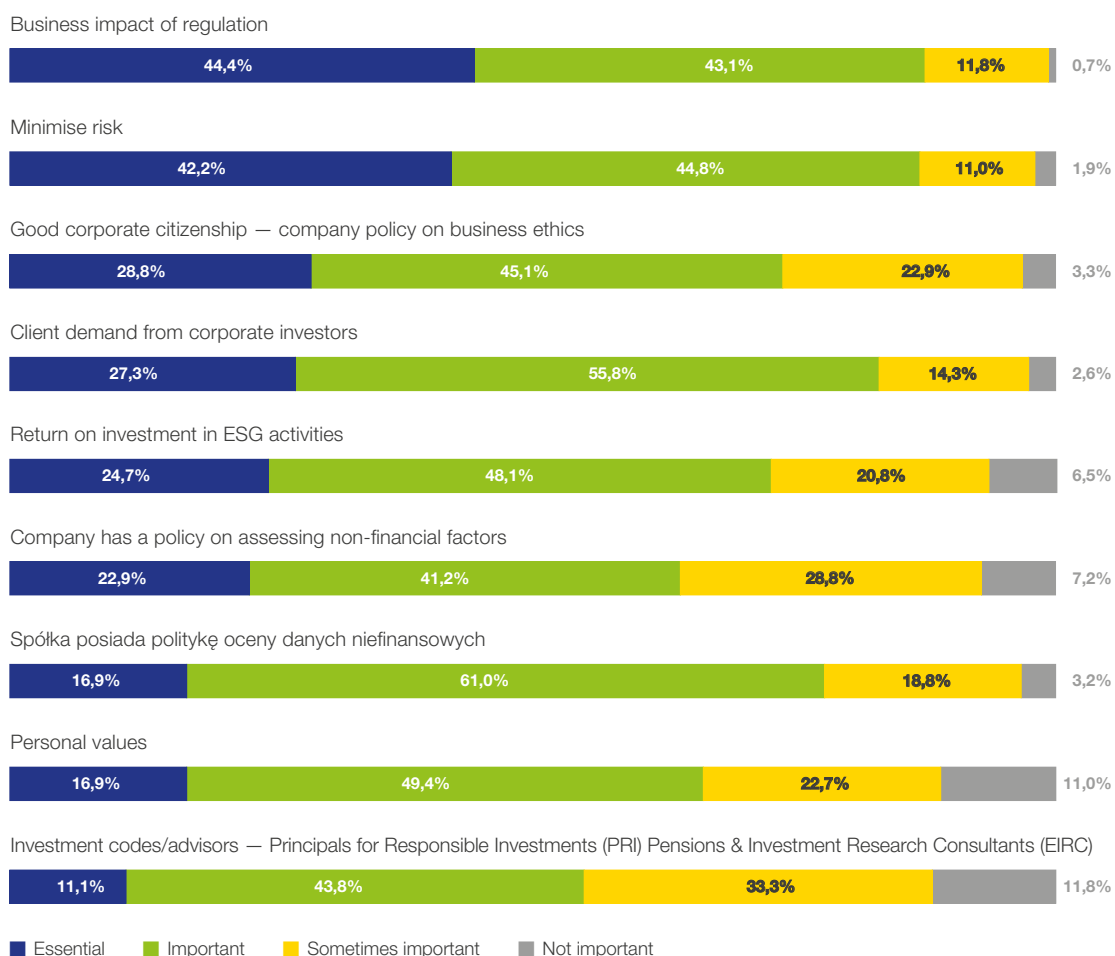
Source: EY Tomorrow's Investment Rules 2.0, 2015, survey on 211 respondents

What are the reasons why investors consider non-financial data in their investments? The first and the most obvious reason is related to regulatory impacts. 87% of investors consider non-financial data to be essential or important information to

estimate the company's future performance. 75% of investors think that it is essential or important to include the company's approach to social responsibility, especially business ethics, in their analysis processes.

Non-financial issues – impact on performance

How important are each of the following non-financial issues to you as an investor?



Source: EY Tomorrow's Investment Rules 2.0, 2015, survey on 211 respondents

The study clearly shows that investors' expectation towards companies taking high-level responsibility for non-financial data rises together with the increasing importance of such data. 80% of investors expect the management board to assume formal and real responsibility for non-financial data

reporting. In the opinion of over 78% of respondents, it is essential or important that the audit committee takes responsibility for non-financial data reporting and that disclosed data undergoes independent verification before it is published.

Investors expect top management oversight over non-financial data

How important are the following levels of accountability in non-financial performance reporting?

Mandatory board oversight



Audit committee oversight with independent verification



Audit committee oversight



Shareholder approval at a company's annual meeting



■ Essential ■ Important ■ Useful ■ Not important

Source: EY Tomorrow's Investment Rules 2.0, 2015, survey on 211 respondents

80% of investors expect the board to assume formal and real responsibility for non-financial data reporting.

Responsible investment market

Not only percentages but also asset value plays an important role in investments, and the value of assets managed with consideration of non-financial data increases every year. According to the Global Sustainable Investment Review covering data for 2014, the value of assets managed

with consideration of non-financial data was USD 21 trillion. The number accounted for over 30% of all professionally managed assets worldwide. Investors from Western Europe are the leaders in this kind of investments. Additionally, the Principles for Responsible Investment (PRI) organisation, integrating financial institutions that follow responsible investment strategies, shows in its Principles to Performance report how dynamic the responsible investment trend is. In 2006, PRI gathered 100 members who managed assets worth USD 7 trillion. Currently, it has over 1,500 members that manage assets worth over USD 60 trillion.

Tips for companies

As shown above, investors' growing interest in non-financial data is specific and business-related. That is why the key challenge that companies face when preparing reports with non-financial data is, firstly, to identify material non-financial indicators and, secondly, to show how non-financial indicators resulting from the company's actions in these areas impact the company's value.

Many companies in Poland have just begun their adventure with non-financial data reporting. Below we provide some tips on how to start and improve non-financial data reporting process.

Tips for companies that communicate non-financial information to investors and analysts:

- 1 **DO NOT GROPE YOUR WAY.** Ask investors and analyst what non-financial information they expect. In this way you will avoid spending your time and money on reports that will not be of any use for that particular recipient group.
- 2 **BE SPECIFIC.** It is a myth that investors do not care about non-financial data. It is true that they are not interested in pictures taken during team-building events and, in most cases, in the company's charitable activities. They are, however, interested in the company's employee turnover rate, number of accidents, reductions in emissions, number of hours spent on anti-corruption and anti-bribery training, percentage of suppliers screened for risks of breaching human rights.
- 3 **SHOW LINKS TO YOUR STRATEGY.** Your investors will surely be interested in learning how non-financial areas influence your company's value and how they support the implementation of your business strategy.
- 4 **INTEGRITY BUILDS TRUST.** By giving colour to non-financial parts of your report, you will lose credibility and your investors' trust. It is worth to consider tips on the quality of defining data to be reported that have been created by the Global Reporting Initiative guidelines. They are as follows:
 - ▶ **Balance** – the report should reflect positive and negative aspects of your organisation's operations and thus enable an accurate valuation of your overall performance.
 - ▶ **Comparability** – the information included in the report should be presented in a way that enables stakeholders to analyse changes in the company's performance over several years and compare them with your peers' results.
 - ▶ **Accuracy** – the reported data should be adequately precise and detailed, considering both the qualitative and quantitative nature of information.
 - ▶ **Timeliness** – reports should be prepared in appropriate time that is linked either to the reporting cycle or legal obligations.
 - ▶ **Transparency** – information should be presented in a way that is easy to understand. An advanced technical language used to describe environmental or HR issues might be discouraging for analysts or investors.
 - ▶ **Credibility** – the organisation should collect, register, compile, analyse and disclose both information and processes used when making the report in a way that facilitates their verification and ensures a high quality and materiality of presented information.
- 5 **EDUCATE YOUR INVESTORS.** It is beneficial to find time and way to explain to investors and analysts, when they first come across non-financial data, how important non-financial data reporting is to the company's current and future values. Such investments may bring quick returns.
- 6 **LEARN THROUGH FEEDBACK.** The market, just like your company, learns how to disclose non-financial data effectively. Collecting feedback from analysts and investors is priceless and it is currently an underestimated tool for improving disclosure of non-financial data. By spending time on asking investors about their opinions, you will receive valuable tips and maintain good relations with that particular group of recipients.

Benefits of non-financial data verification

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Basing on the global studies by EY we may conclude that about 3/4 of institutional investors use non-financial data when making investment decisions. Investment institutions create their own risk assessment models for this area and establish minimal requirements regarding the entities they invest in. A lack of an active risk management strategy is more often a factor that leads to disinvestment. Furthermore, internal procedures may not allow capital involvement in shares of companies that do not communicate their strategies. Numerous international companies that want to maintain their reputation and implement their own sustainability development strategy accept only socially responsible companies as their suppliers.

Taking into account the increasing importance of non-financial data in investment decisions, verification of reports containing such data, carried out by a qualified independent party, significantly increases the quality and reliability of presented data.

It has previously happened that companies, by reporting only selected and non-verified data, tried to use this form of communication as a promotion tool that focused only on positive aspects and was not fully reliable. However, stakeholders need real and complete information related to areas that are material for the company. These areas may differ among companies. The choice of the most material areas requires some experience and it should also facilitate the comparison of the company's performance with the one of its peers. A verification process carried out by an external auditor makes such a comparison significantly easier. Non-financial reports can be a perfect complement to financial statements. Many people think that obligatory disclosure requirements, unified reporting standards and independent verification could influence the rank of such reports and put non-financial data on an equal position to financial data.

Stakeholders need real and complete information related to areas that are material for the company.

Disclosure requirements have been imposed on larger entities by the EU 2014/95 Directive. The coming months and years will determine whether the requirements will turn into common practice for most of the entities that compete with each other on the market. Only unified standards that specify the scope and way of data disclosure, such as IFRS financial reporting standards, can allow for comparability of companies. One example of such standards for non-financial data reporting is the GRI G4 standard created by Global Reporting Initiative.

Verification of reports assures both the data and compliance with the applied reporting standards, such as GRI G4. These well-thought-out standards present guidelines on the content of the report, way of disclosing data, identification of material areas and other issues that facilitate publication of a useful and valuable report. Using unified standards significantly increases the information value of reports and makes them a tool for accurate reporting of material issues. Only independent verification of such reports can ensure that they have been prepared in accordance with the GRI guidelines or other standards and fulfill readers' expectations by presenting actual risk areas as well as both positive and negative impacts on the surrounding environment.

Large audit firms follow a methodology of financial and non-financial data verification, developed by experts and continuously updated, that is based on international standards with regards to the rendered services, such as ISAE 3000. Thus, they are able to offer comprehensive services of auditing financial statements and verifying non-financial data, which gains importance with integrated reporting and disclosure requirements imposed on public interest entities by the EU 2014/95 Directive. A financial statements auditor, who knows a lot about the company's operations, its industry and main risk areas, is often the best candidate for non-financial reports verification, especially since financial and non-financial information is more and more interrelated and influence each other.

Non-financial data verification process

Non-financial data verification process is largely analogous to financial report auditing. It emphasises the identification of risk areas and appropriate management of such issues. It is important to get familiar with the company, understand its key business goals, stakeholders and events occurring under the analysed period, and determine how these factors may impact non-financial data reporting. The analysis may include the following aspects:

- ▶ significant changes in the scale and areas of operations or the company's structure – this might impact the reporting scope;
- ▶ evaluation of motivation of the company's leaders to influence what data to be reported (for example, inclusion of certain factors in remuneration and bonus system and how this issue might impact credibility of reported data);
- ▶ personnel changes within key positions responsible for non-financial data reporting (verifying whether essential knowledge has been passed on, the reasons behind such changes and main goals established by the new persons responsible for reporting);
- ▶ determination of main indicators that are analysed in a particular industry and used when comparing peer performance, together with areas where the

company might want to show its advantage (or might not want to show its shortcomings) – such areas often overlap material aspects of the audit;

- ▶ identification of material reporting areas and determination of their materiality level.

Non-financial data verification process is largely analogous to financial report auditing. It emphasises the identification of risk areas and appropriate management of such issues.

The next step is to learn about the process of collecting, aggregating and reporting non-financial data and applied control measures that ensure completeness and correctness of data, keeping in mind the key rule of non-financial reporting – reporting on what matters and where it matters. By studying the company's reporting processes, strategies, main goals and risks as well as the company itself, an independent party may objectively verify whether the report focuses on material aspects. The auditor should check if the company has a clearly defined process of choosing material aspects, reported Key Performance Indicators or factors that influence the choice of particular areas and indicators to be reported. It is a good practice to implement such a process of gathering appropriate data which ensures that such data is collected in a structured and consistent way. If there are changes in the process, the auditor needs to understand them and receive explanations from the company regarding the reasons behind and aims of such changes and how they have been communicated internally and externally.

During the analysis, the auditor also evaluates the involvement of relevant governing bodies (including management and supervisory boards) in the reporting process as well as support and promotion of the sustainable development strategy.

Then, basing on gathered samples, the information is being verified through comparison with source

documentation, analysis of the whole process of data collection and transfer from people who measure the impact of a particular issue to those responsible for data aggregating and preparing the report. After the valuation of data collection and aggregation processes as well as other risk factors that may impact the quality and reliability of the reported data, some of which are mentioned above, the auditor determines the scope and size of document test sample and the areas that require closer attention. Verification of areas that are considered more risky has to include a review of a wider sample of documents and interviews with employees of different levels that are conducted to check cohesion of transferred information.

Readers of non-financial reports are not as homogenous a group as readers of financial statements. They might be with a wide group of stakeholders whose members might have slightly different expectations towards information presented in the report and use it for quite different purposes.

Thus, it is equally important to observe, during the non-financial data verification process, how engaged the company is in its dialogue with stakeholders. Information that objectively reflects the company's actual impact on its surrounding environment that comes from a third-party is essential for non-financial data reporting. It is a good practice to organise stakeholder workshops that will present the company's clients and suppliers, local councils, regulators as well as other natural and legal persons that impact the company's operations or are impacted by them in a material way. The auditor should participate in such workshops or go through documentation that was prepared during such events. Moreover, it is also the auditor's duty to evaluate the company's selection of stakeholders with whom it communicates through its reporting.

Value of non-financial data verification

Non-financial data reporting can and should have a strategic importance for the company. Each non-financial area, i.e. environmental, social and labour-related, is usually full of business risks. The issue of how well, in comparison with its competition, the company can manage these risks or minimise their

impacts and effectively communicate with the market will translate into its success (or problems) and financial results.

According to a study carried out by Boston College and EY, over 3 out of 4 investors and analysts consider independent verification of non-financial data important or very important. Investment in verification of non-financial data may significantly contribute to building competitive advantage, for example, through:

- ▶ increased credibility among investors and easier access to stable and cheaper source of funding. A good example is a policy of investment funds that rule out investments in companies whose environmental and social impact is not verified, or companies that had their interest rate margin lowered after they provided their banks with the reports;
- ▶ increased credibility among business partners. International corporations more often require certain environmental and social criteria to be fulfilled within their supply chain as part of their reputational risk management. Verification of data may facilitate contract retention as well as contribute to gaining new ones and enhance the company's negotiating position;
- ▶ the fact that companies that report non-financial data and verify their reports reach better results, perform better on financial markets and are less susceptible to overall market declining trends. Thanks to accurate and truthful disclosure of material data, all the information needed is already discounted and reflected in the share market price. An increased price stability is observed in charts such as the Respect Index or Dow Jones Sustainability Index;
- ▶ the fact that companies that report non-financial data usually attract investors with a long-term approach. It happens so because, through reporting its strategies and goals (and not only already achieved financial results), the company provides its investors with comprehensive information that enables them to estimate the company's chance for future success;
- ▶ the fact that socially responsible and transparent companies attract the best employees and solid business partners.

When summing up all the benefits, it should also be added that the auditor's opinion about the company's processes and all recommendations they issue are equally important as assurance of data credibility. Just like in the case of financial reporting audits, as part of concluding non-financial reporting verification work, the auditor issues a letter to the management board with a summary their findings and recommendations with possible improvements of the reporting process. The auditor has a chance to observe the process of collecting and reporting data

in a number of companies and thus is able to identify the areas in which particular company should be more effective, which usually constitutes an added value for the entity that is audited. It should be noted that verification of data has a much wider scope than services linked to determining sustainable development strategy, communicating such a strategy and preparing systems and processes for reporting non-financial data. However, the first step to improve the actual situation is to identify areas that need improvements.

Five years of building transparency

PIOTR KAŻMIERKIEWICZ ANALYST ► CENTRALNY DOM MAKLESKI PEKAO

Covering the gap

The fifth edition of the transparency study carried out among Polish listed companies is a good opportunity to draw conclusions. First of all, an information gap, especially related to environmental and human rights areas, has been gradually decreasing among 128 companies that participated in all five editions of the project. In 2016, only 18% and 10% of the analysed companies respectively do not publish any material non-financial environmental data or human rights

information (social and labour-related matters). For comparison, during the first edition of the project, the information gap in the environmental and human rights area was visible at 34% and 41% of companies respectively.

The overall level of corporate reporting increases every year. The percentage of companies that receive the score B (from 1 to 2 points) or higher in particular reporting areas goes up.

Chart 1. Information gap at WSE (N=128)

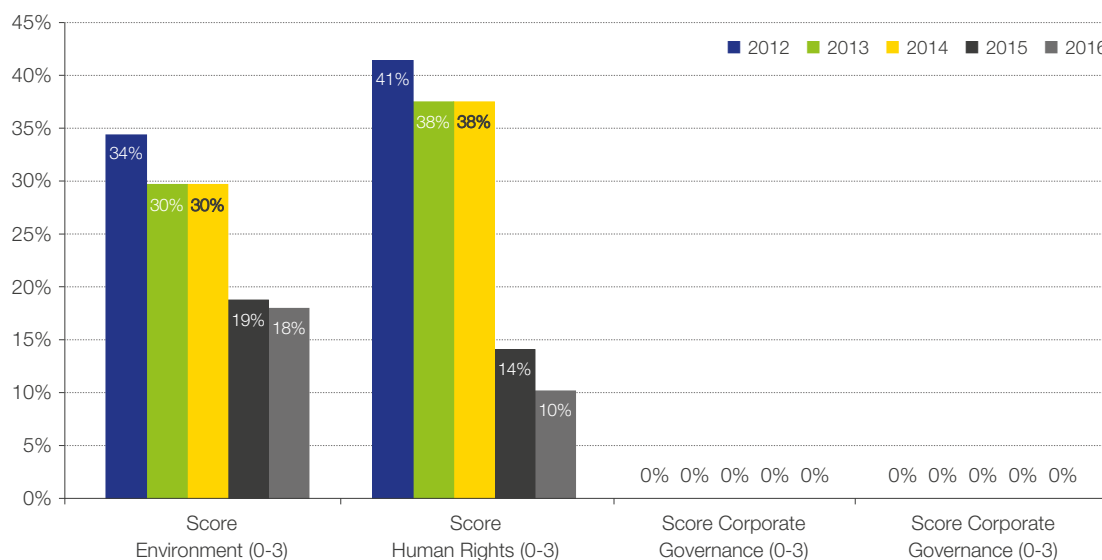
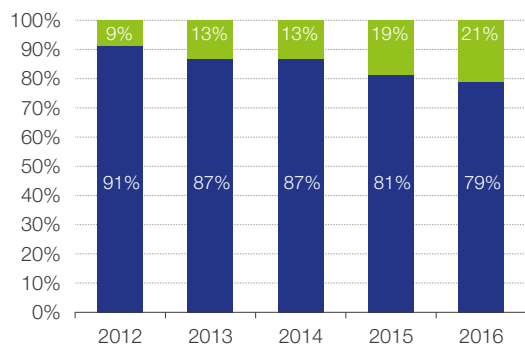
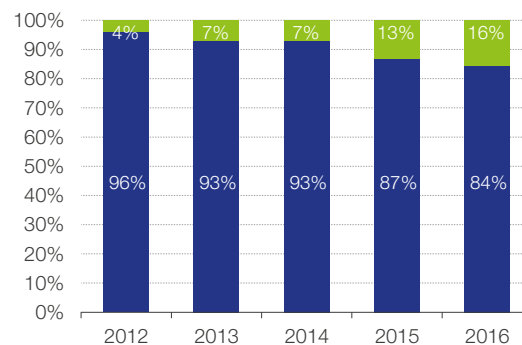


Chart 2. Scores in particular reporting areas (N=128)**Environmental reporting score**

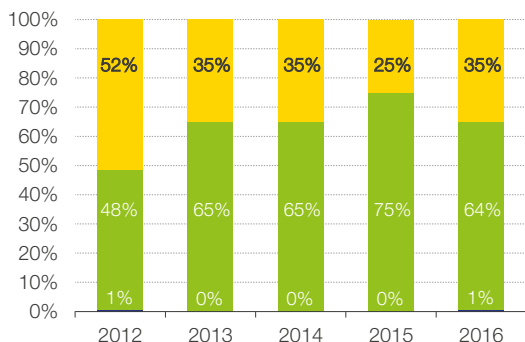
■ Score from 0 to 1 ■ Score from 1 to 2 ■ Score from 2 to 3

**Human rights reporting score**

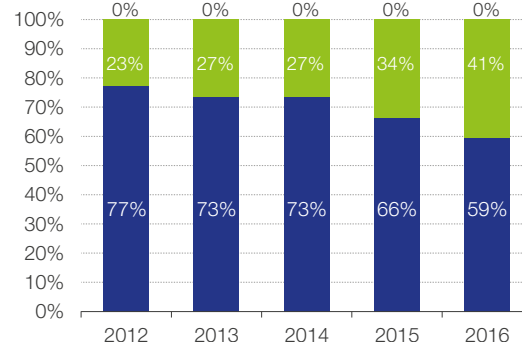
■ Score from 0 to 1 ■ Score from 1 to 2 ■ Score from 2 to 3

**Corporate governance reporting score**

■ Score from 0 to 1 ■ Score from 1 to 2 ■ Score from 2 to 3

**Total ESG reporting score**

■ Score from 0 to 1 ■ Score from 1 to 2 ■ Score from 2 to 3

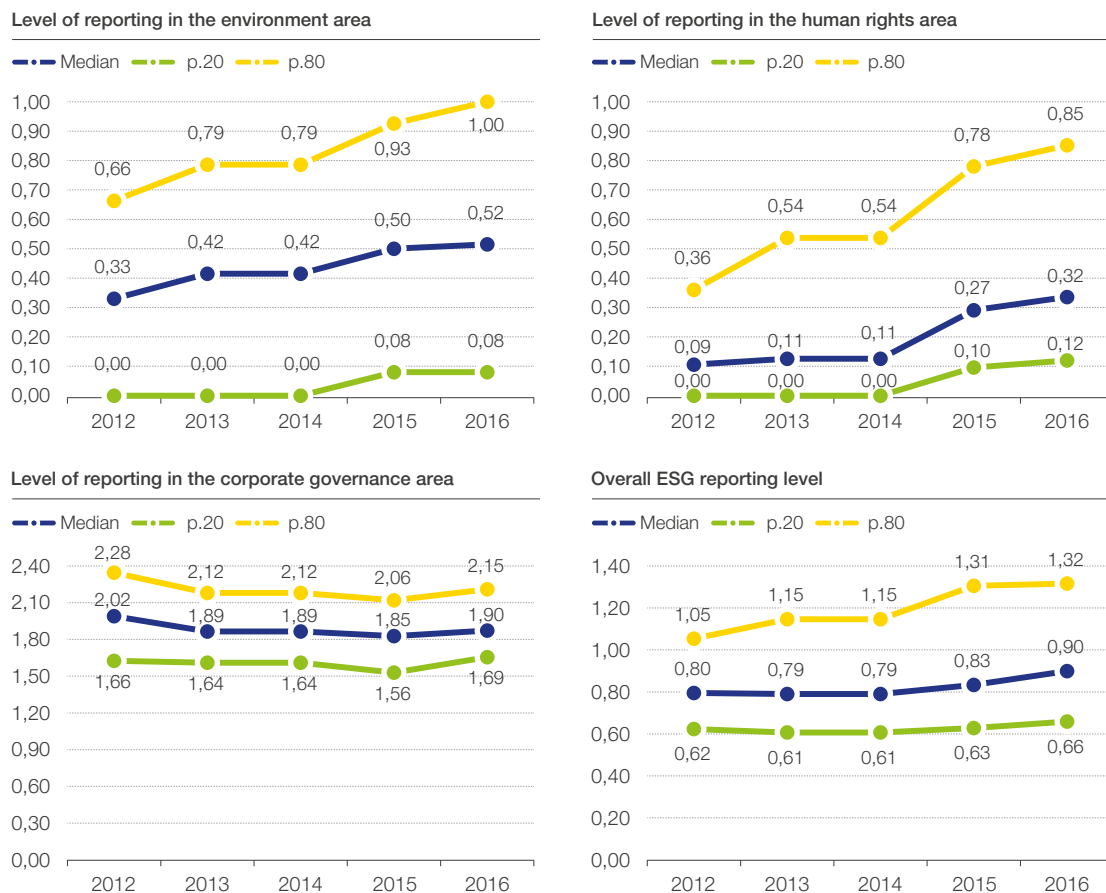


In terms of measures of location – during the five editions of the project focusing on ESG data disclosure by Polish companies, the median of the analysed sample as well as the 20th and 80th percentile values, that have later been used in an analysis based on the Fama and French (FF) model, have risen.

It is worth noticing that since 2015 the 20th percentile of scores in the environmental and human rights areas was above zero. This indicates that companies which have regularly been included in the study have every year improved the quality of their communication

with the market, also within topics that have been neglected so far. What is interesting, in 2016, the decreasing trend in corporate governance data disclosure has been stopped (previously, the median in G area for the analysed companies was decreasing over four consecutive editions of the project). This, together with improved reporting in the two remaining areas, resulted in the highest median of the overall ESG score since 2012, that is, in the whole history of the project.

Chart 3. Median and percentiles of scores in the analysed sample (N=128)



How non-financial data influences portfolio results

The whole period of the project (five editions, four years) has been taken into account to analyse the effect of ESG criteria inclusion in investment processes. Continuity of the study applies to 128 companies that have been covered by each edition of the project. This number is considered a sufficient sample. The companies also present a high average capitalisation and liquidity so a satisfactory quality of achieved scores could be ensured. Designated measures (including risk measure – standard deviation of return rates) have been based on monthly logarithmic return rates, including dividends due in the analysed period.

In the first phase of the analysis, which aimed at determining the influence of non-financial data disclosure on investment portfolio parameters, the analysed companies were ranked according to their overall ESG reporting scores. Two portfolios were

created from this list: the first one covered 20% of companies with the highest ESG scores (transparency portfolio), the second one covered 20% of companies with the lowest scores (non-transparency portfolio). These two opposing portfolios were used to verify the effectiveness of Long/Short strategies that base on an assumption of having long position in the transparency portfolio and short position in companies with low ESG scores. This approach, consistent with studies by Gompers and others (2003) as well as Drobetz and others (2004), required determination of regression of return rates difference in portfolios based on the ESG ranking in accordance with the Fama-French three-factor model (Fama & French, 1992, 1993). According to the model, systematic risk can be explained using three factors: excess return of market portfolio over risk-free rate, SMB and HML components. The first component (SMB – small minus big) explains the difference between return rate of portfolios with companies having low and high capitalisation. For the purpose of this study, at the beginning of each month, the companies were differentiated assuming that the

large companies group consists of 30% of companies that have the highest capitalisation level in the whole sample, while the small companies portfolio consists of 30% of companies with the lowest market value as of a particular day. The second variable introduced by Fama and French (HML – high minus low) describes the difference between return rates of companies with high and low book value to market value ratio (MV/BV).

For the purpose of this study, at the beginning of each month, the companies were differentiated assuming that the group of companies with high MV/BV ratio comprises of 30% of companies with the highest indicator value in the sample, while the portfolio of companies with low MV/BV ratio will comprise of 30% of companies with the lowest level of the parameter as of a particular day. The return rates of the WIG index were used as benchmark. The period of the study spanned over 4 years (48 months), from 1 July 2012 until 30 June 2016. Eventually, the regression analysis looked as follows:

$$TMNT_t = \alpha + \beta_1 \times RMRF_t + \beta_2 \times SMB_t + \beta_3 \times HML_t + \varepsilon_t$$

The dependent variable is the monthly excess returns of the transparency portfolio over return rates of the non-transparency portfolio (transparency minus non-transparency; TMNT_t). RMRF_t is the monthly rate of return weighted by capitalisation of market portfolio (WIG index) less risk-free rate; SMB_t (small minus big) and HML_t (high minus low) are the monthly return rates of portfolios created to include the influence of the company size and MV/BV ratio.

Basing on the analysed sample and the above-mentioned guidelines, two portfolios were created: portfolio of companies considered as transparent (the highest 20% of ESG scores) and portfolio of non-transparent companies (the lowest 20% of ESG scores). The division of companies was made basing on the average ESG score received by companies over the five editions of the project. The characteristics of such portfolios are presented in Table 1:

Table 1. Characteristics of the 'transparency' and 'no-transparency' portfolios for average ESG scores in 2012-2015

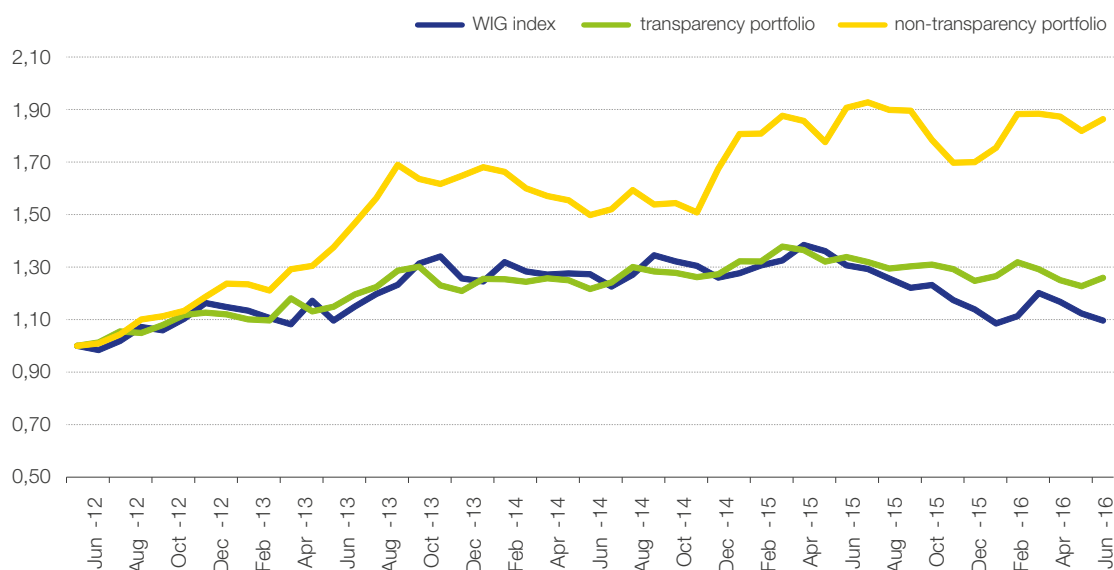
	Transparency portfolio	Non-transparency portfolio	Difference between portfolios	Statistical relevance of difference between portfolios
N	26	26	0	n/a
Average ESG score in 2012-2016	1,437	0,568	0,869	<0,01
Average monthly return rate	0,52%	1,38%	-0,86%	0,3700
Standard deviation of monthly return rates	2,75%	3,95%	-1,20%	0,0380
Average capitalisation (mln PLN)	10290,8	530,2	9760,6	<0,01
Standard deviation of capitalisation (mln PLN)	11090,9	1185,0	9905,9	<0,01
Average MV/BV ratio (market-to-book)	2,465	1,575	0,889	0,4485
Standard deviation of MV/BV ratio	5,611	1,813	3,798	<0,01

* The portfolios consist of 80% of shares and 20% of non-interest risk-free assets

The analysis of results shows that the transparency portfolio reached lower average monthly return rates, although the advantage of non-transparency portfolio was not statistically significant. What was significant (on the alpha level = 0.05), was the volatility variation of the monthly return rates of the portfolios (the transparency portfolio showed a monthly volatility that was lower by 1.2 pp). Additionally, the transparency portfolio

included companies that were significantly larger. This indicates that it is possible to diversify portfolio risk basing on the level of non-financial data disclosure. However, the dispersal of portfolio risk may lead to deterioration of expected return rate. This dependence is consistent with the portfolio theory, according to which portfolio with lower risk should be characterised by a lower return rate.

Chart 4. Portfolio results compared to WIG index record



The cumulative return rate of the portfolio comprising companies with the highest ESG scores in 2012-2016 was lower than the one of non-transparent portfolio. Interestingly enough, both return rates of the transparency and non-transparency portfolios were at the same time higher than return rates of the WIG index. The advantage of the wide market was mixing with its weakness up until the second half of 2015, when the companies with high ESG scores more visibly started to establish their advantage over the WIG index. The final difference between the transparent portfolio and the WIG index over four years was 16.2 pp (3.6 pp on an annual average), and this difference is statistically relevant. It shows that the so-called transparency cost, a decrease in return rates of companies with high quality of non-financial data disclosure, is not present on the Polish market.

The so-called transparency cost, a decrease in return rates of companies with high quality of non-financial data disclosure, is not present on the Polish market.

The analysis of the Fama and French model leads to similar conclusions. Overall, only one parameter of the FF equation is important. In this equation, the excess of return rates of the non-transparent portfolio over the transparent portfolio is thus explained not by the MV/BV ratio level or transparency of companies but by the size of particular entities (their capitalisation). Large companies had considerably worse investment results in the analysed period of time than companies with low capitalisation, which influenced the poorer results of the transparency portfolio in comparison to the non-transparency portfolio.

Table 2. FF model for differences in return rates of the 'transparency' and 'non-transparency' portfolios

	Parameter value	Standard error of parameter estimation	Value of student's t-test	Relevance level
Intercept (α)	-0,0013	0,0034	-0,3830	0,7031
RMRF	0,1337	0,0899	1,4860	0,1428
HML	-0,0643	0,1216	-0,5286	0,5992
BMS	0,6580	0,0988	6,6608	<0,01
R2	52,24%			

This is reflected in the most important, from investor's perspective, component of the equation – the alpha parameter. Its value is both close to zero and statistically not relevant, which confirms the lack of transparency cost on WSE among the analysed companies.

Conclusion

The results of this year's edition of the project confirm indications from the previous years that information asymmetry on the capital market depends largely on the level of non-financial data reporting. Regulations existing on the developed markets are drafted for the purpose of increasing transparency and thus decreasing share price volatility by avoiding price shocks that result from sudden events that cannot be captured during analysis of data coming from companies' financial statements. In the EU member states ESG reporting is becoming, at least to a certain degree, a part of disclosure requirement for companies listed on that markets. The analysis of the five editions of non-financial data reporting on the Polish capital market seems to confirm the legitimacy of such actions.

Considering the issue from WSE perspective, it may seem to be beneficial for investors operating on our stock exchange to follow this path. The analysis of non-financial data allows for a more accurate investment risk assessment and thus a better valuation of a given company. The carried out studies support this conclusion, showing also that:

Regulations existing on the developed markets are drafted for the purpose of increasing transparency and thus decreasing share price volatility by avoiding price shocks that result from sudden events that cannot be captured during analysis of data coming from companies' financial statements.

- ▶ there is still a huge information gap on the Polish capital market, especially in the reporting of environment and human rights-related data;
- ▶ the overall level of ESG data reporting by companies gradually increases, although there are still entities that do not report any material environmental and/or human rights-related data at all;
- ▶ the lack of information gap in the corporate governance area has to be assigned to the code of best practice that is applicable on WSE;
- ▶ the level of ESG data reporting is highly dependent on the company's capitalisation (higher transparency goes together with increased capitalisation);

- ▶ companies with higher transparency level are characterised by a lower investment risk measured by volatility of return rates.
- ▶ Considering the horizon of the analysis which is wider and wider (as this is already the fifth edition of the project), we slowly start to claim the right to generalise the above conclusions. The dependencies observed so far have prevailed in all editions of the study, which makes us expect that negative correlations between the company's transparency and investment risk level in the future

will be maintained. Next editions of the study should thus confirm the results gained so far and should form a basis for an attempt to estimate the value of a 'market premium for transparency'.

The analysis of non-financial data allows for a more accurate investment risk assessment and thus a better valuation of a given company

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Organisers



EY is a global leader of professional services that cover assurance, tax, business and transaction advisory. EY employs over 212,000 employees worldwide. Its mission is to constantly improve the reality and this is expressed in the motto “Building a Better Working World”.

EY had offices in over 150 countries, thus it is able to support clients in nearly each part of the world. In Poland, there are about 2,500 specialists working in 7 offices: in Warsaw, Cracow, Gdańsk, Katowice, Łódź, Poznań and Wrocław.

EY engages itself in actions promoting entrepreneurship. For 14 years, it has organised the Polish edition of the Entrepreneur of the Year contest, winners of which represent our country during the international final, World Entrepreneur of the Year, that takes place in Monte Carlo every year.

One of the social commitments made by EY is its innovative Corporate Social Citizenship project called Efficient State. The aim of the programme is to increase the effectiveness and improve efficiency of public administration in Poland.

More information: www.ey.com/pl



GES established in 1992, is a leader of Responsible Investment research and services on the North European market. Analyses conducted by the company are based on international norms for environment, social responsibility and corporate governance. The amount of assets managed by its clients, including pension funds, banks and other investors, is estimated at about EUR 1 trillion.

More information: www.ges-invest.com



Polish Association of Listed Companies (SEG) is an expert organisation that has been active since 1993. The main purpose of SEG is to provide companies with support in terms of information (dissemination of information about legislative changes), education (organisation of seminars and conferences) and legal counselling (drafting legal opinions, recommendations and interpretation of new laws and regulations). SEG works to develop the Polish capital market and represents the interests of companies listed on the Warsaw Stock Exchange in Poland. Currently, the association gathers over 270 companies listed on the Warsaw Stock Exchange and the alternative market New Connect, which represents nearly 80 per cent of capitalisation of domestic issuers.

More information: www.seg.org.pl

Honorary patronage:



The Ministry of Finance is an office of governmental administration that serves the competent minister in charge of the state budget, public finance and financial institutions.

One of the basic tasks of the Ministry is to prepare, execute and control the state budget. Furthermore, the Ministry handles the local government financing system, budget zone and state security as well as manages the public debt.

The Ministry is responsible for the implementation of the revenue and expenditure of the budget as well as for financial, credit and payment co-operation with foreign countries, implementation of customs regulations and treasury control.

It also performs tasks related to the functioning of the financial market, including banks, insurance agencies and investment funds, and tasks linked to securities trade.

The competent minister in charge of governmental administration departments: budget, public finance and financial institutions, via the Ministry, exercises supervision over the General Inspector of Financial Information, the General Inspector of Treasury Control and directors of chambers and heads of tax and customs offices.



Polish Financial Supervision Authority (*Komisja Nadzoru Finansowego, KNF*) oversees the banking sector as well as capital, insurance and pension markets. It also supervises payment institutions and offices, electronic money institutions as well as cooperative savings and credit unions. The purpose of the financial market supervision is to ensure that it functions properly in a stable, safe and transparent way as well as to ensure trust towards the financial market and protection of interests of the market participants.



Chamber of Funds and Asset Management (*Izba Zarządzających Funduszami i Aktywami, IZFiA*) is a statutory organisation that associates, on a voluntary basis, investment fund companies operating in Poland. Its statutory objectives include representing the investment fund companies' environment, supporting their development in Poland, promoting knowledge about investment funds, and drafting standards for investment fund operations. At the end of September, investment funds in Poland held over PLN 266 billion.

The largest and most prominent fund managers in the country, that represent the most valued Polish and foreign financial brands, are members of the chamber. It also gathers the largest entities that render outsourcing services for investment fund companies, pension fund management companies and insurance companies that include, for example, management of investment and open ended pension funds. The managers associated in the chamber form the most select group of decision-makers and employees of the asset management market.



Stowarzyszenie
Inwestorów
Indywidualnych

Association of Individual Investors (*Stowarzyszenie Inwestorów Indywidualnych, SII*) is the largest organisation of stock investors in Poland. It has been active since 1999 and it is a member of the European investor organisations EuroFinuse and Euroinvestors as well as the World Federation of Investors Corporation (WFIC).

The association has currently over 12,000 members and the number constantly increases due to continued investors' need for support in their functioning on the capital market.

The association focuses its activities on a comprehensive support for investors, basing on three main pillars:

- ▶ **Education and analysis:** conferences and workshops (including Wal-IStreet Conference, which is the largest of its kind in the industry in Poland, and free-of-charge series of training sessions Capital Formation Academy that is organised twice a year), publications (bimonthly magazine *Akcjonariusz*), stock exchange analyses (e.g. „Portfel SII”, *Atrakcyjne Spółki*, *Interesting Company Reports*, *Investor Sentiments Index*) and a number of webinars.
- ▶ **Protection of rights:** protection of investor rights, current interventions, legal support, participation in Annual General Meetings of listed companies, opinion-forming activities and influencing the legislative process.
- ▶ **Discounts:** offered by our partners to members of the Association (including stock exchange fees, publications, training sessions, health insurance, Multisport cards, financial press, information services, software for technical and market analysis).
- ▶ **So far, we have managed to:**
 - ▶ offer legal advice in several thousand cases,
 - ▶ (electronically and via e-mail),
 - ▶ participate in over 450 Annual General Meetings,
 - ▶ actively work towards changes in the way the market functions,
 - ▶ block a number of unfavourable resolutions of AGMs, by means of litigation,
 - ▶ support investors in judicial and administrative proceedings.

More information: www.sii.org.pl



Association of Brokers and Investment Advisors (Związek Maklerów i Doradców, ZMiD) has been operating since 24 August 1991. It associates licensed securities brokers and investment advisors. Additionally, the association has a group of supporting members who do not have licences but are active on the capital market. Altogether, there are nearly 1,600 members.

The association has been active since the very beginning of the capital market in Poland. It represents people working in the financial industry. Since 1999, it has organised a number of courses and workshops, promoting knowledge about capital markets and data analysis, as well as training courses preparing for Licensed Securities Broker and Investment Advisor exams.

The objectives of ZMiD focus on Integration, Career and Education. The association integrates the financial environment by organising integration meetings and conferences that allow for establishing contacts and maintaining relations among participants. The Career Office, which is operated by the association, makes it easier for employers who seek professionals to establish contact with members of the association who look for new challenges. As part of our educational mission, we offer a wide-range of training sessions that are targeted at all people interested in the capital market and those who want to learn about the topic from scratch.

More information about our current activities can be found on the website: www.zmid.org.pl.

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