

# EFRAG State of Play 2025: Critical Analysis and Executive Recommendations

Made by: GJ  
July 2025



Sustainability  
Report 2024

# Agenda

## Introduction

Overview of the EFRAG State of Play 2025 findings based on 656 ESRS-aligned sustainability reports

## Materiality

Analysis of substance over structure in materiality assessments

## Transition Plans

Evaluation of commitments versus capital allocation

## Assurance

Examination of the trust differential in sustainability reporting



# Introduction

This presentation provides a critical expert analysis of the 'EFRAG State of Play 2025' findings, based on the first 656 ESRS-aligned sustainability reports.

We will examine:

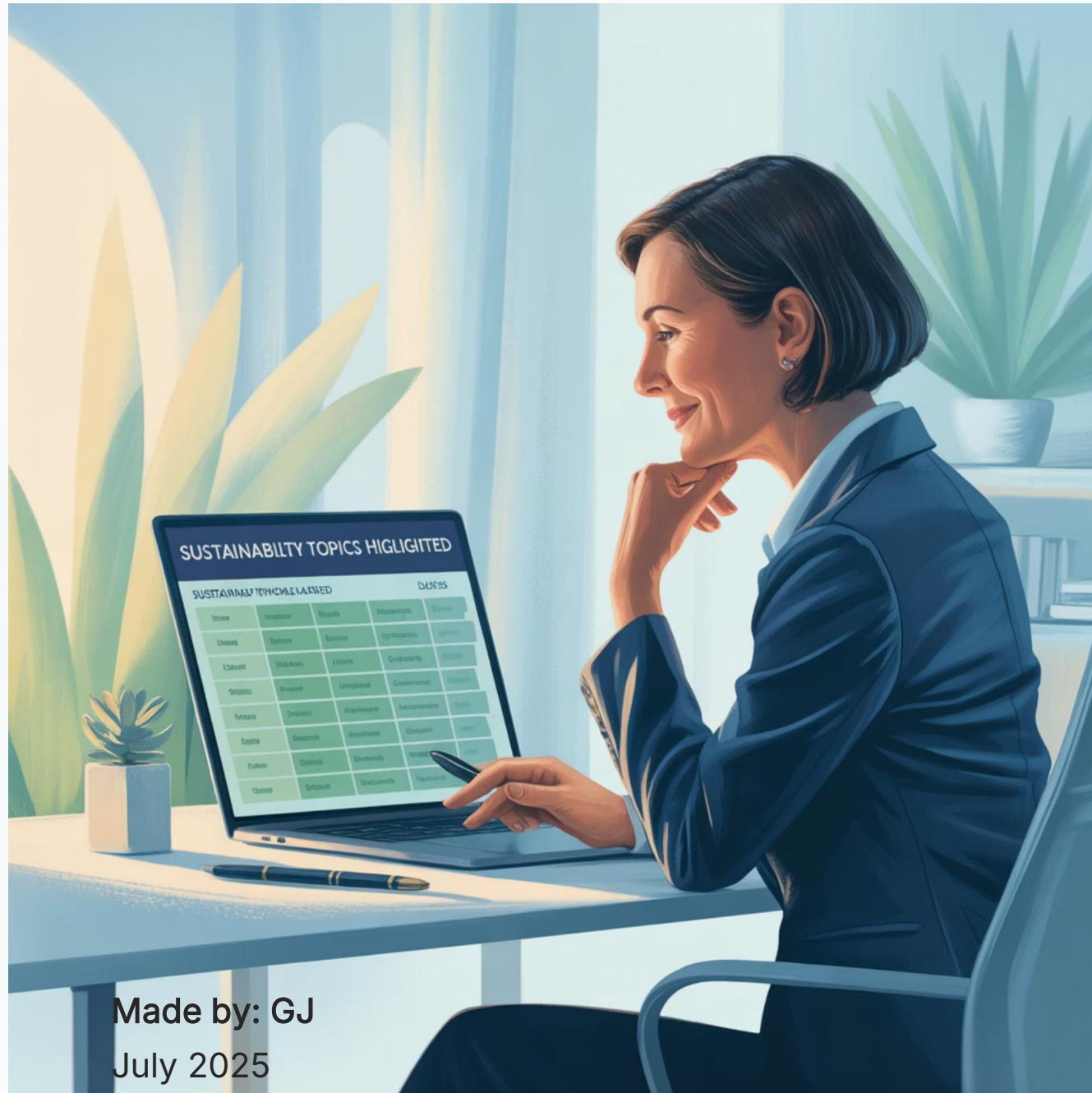
- Leading and lagging practices in materiality assessments
- The gap between transition planning commitments and financial strategy
- The current state of assurance in sustainability reporting

Each section contrasts best-in-class approaches with notable shortcomings, followed by strategic recommendations tailored for executive leadership and boards.

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# Materiality: Key Findings



Only 10% of companies declared all 10 ESRS topical standards as material.

Commonly excluded topics without proper justification:

- Biodiversity (E4)
- Value Chain Workers (S2)
- Affected Communities (S3)
- Consumers and End-users (S4)

This trend reflects a formalistic approach that undermines the spirit of double materiality.

# Materiality: Leading Examples

1

## Neste (Finland)

Identified E4 Biodiversity as material, mapped palm oil exposure, and disclosed stakeholder input that informed their assessment.

Provided clear rationale for inclusion based on operational footprint and value chain impacts.

2

## Airbus (France)

Acknowledged S3 (Affected Communities) and E3 (Water) as 'emerging material' topics with a stated intent to revisit annually.

Demonstrated forward-thinking approach to evolving sustainability risks.



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# Materiality: Laggard Examples

1

## Heidelberg Materials (Germany)

Excluded E4 Biodiversity despite high land use risk in quarrying operations.

No explanation provided for this significant omission, undermining transparency.

2

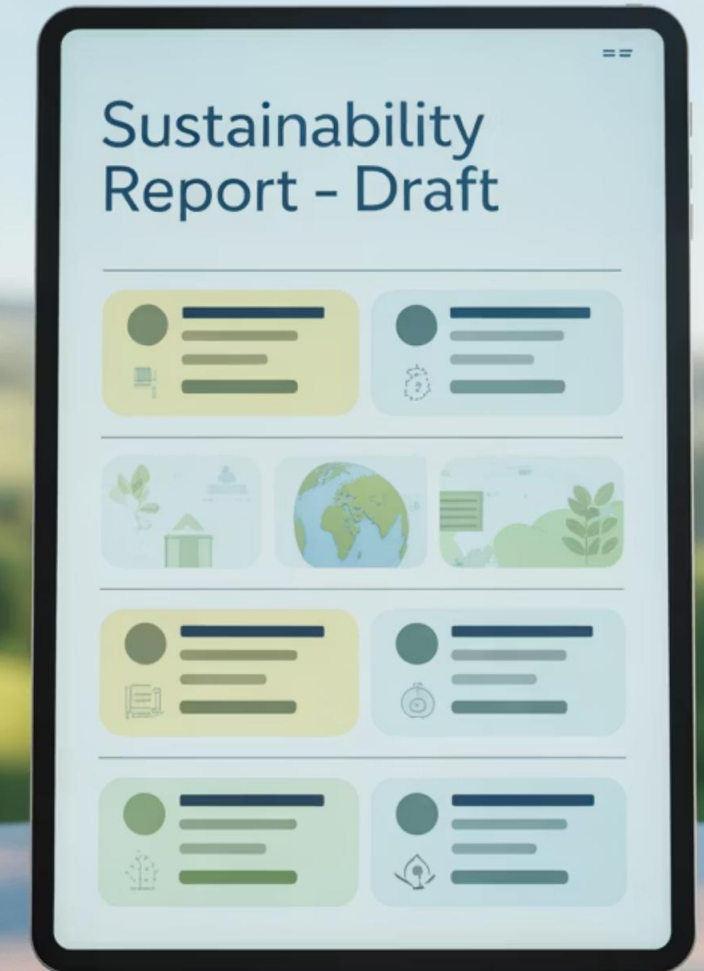
## LVMH (France)

Excluded S2 (Value Chain Workers) and S3 (Affected Communities) despite significant supplier risk exposure in multiple countries.

Missed opportunity to address known industry challenges in luxury goods manufacturing.

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# Materiality: Executive Recommendations



## Develop Documented Methodology

Create a robust materiality assessment process using stakeholder feedback and comprehensive value chain mapping.



## Justify Exclusions

Provide clear rationale for any exclusion of high-risk ESRS standards directly in your disclosures.



## Annual Reassessment

Implement a formal annual review process to capture evolving risks and impacts in your materiality assessment.

# Transition Plans: Key Findings

Although 55% of companies disclosed some form of transition plan, few linked it to financial strategy:

- 12% had SBTi-approved targets
- Less than 5% used internal carbon pricing
- CAPEX alignment with climate goals was rare

Most transition plans lacked concrete financial commitments and implementation timelines.

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# Transition Plans: Leading Examples

## Siemens AG

Implemented €120/tCO<sub>2</sub> internal carbon pricing

Allocated €3.2B in CAPEX specifically for transition initiatives

Included comprehensive Scope 1–3 emissions in planning

Linked executive compensation to climate targets

## EDF (France)

Integrated €100/tCO<sub>2</sub> carbon price into long-term investment strategies

Developed scenario-based financial modeling for climate risks

Created clear timeline for fossil fuel phase-out with financial implications

# Transition Plans: Laggard Examples

## Volkswagen (Germany)

Presented disconnected transition narrative with ambitious targets

No CO<sub>2</sub> pricing mechanism disclosed

Lacked specific budget commitments for climate initiatives

Failed to integrate transition planning into financial strategy

## Saint-Gobain (France)

Provided high-level climate goals without clear implementation timeline

No internal carbon pricing mechanism disclosed

Absence of CAPEX disclosure related to transition initiatives

Limited connection between sustainability goals and financial planning



# Transition Plans: Executive Recommendations

## **Implement Carbon Pricing**

Introduce internal carbon pricing into project appraisals (even €30–50/t has a meaningful impact on investment decisions).

## **Align CAPEX Planning**

Explicitly connect capital expenditure planning with transition milestones and develop risk-adjusted return frameworks.

## **Address Scope 3 Emissions**

Review Scope 3 inclusion and develop robust supplier engagement strategies in climate roadmaps.

# Transition Plan Implementation Framework

1

## Year 1: Foundation

- Establish internal carbon pricing mechanism
- Develop initial CAPEX allocation framework
- Begin Scope 3 emissions mapping

2

## Year 2: Integration

- Integrate carbon pricing into all investment decisions
- Align executive compensation with transition goals
- Implement supplier engagement program

3

## Year 3: Optimization

- Refine carbon pricing based on market developments
- Scale successful transition initiatives with increased CAPEX
- Expand Scope 3 reduction strategies

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# Carbon Pricing: Business Case

## Benefits of Internal Carbon Pricing

- Drives innovation in low-carbon technologies
- Prepares for future regulatory carbon taxes
- Improves investment decision-making
- Demonstrates leadership to investors
- Creates competitive advantage in carbon-constrained economy

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Even modest carbon prices (€30-50/tCO<sub>2</sub>) can significantly impact investment decisions

# Assurance: Key Findings



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89% of companies limited their assurance to the required minimum level.

Key observations:

- Reasonable assurance remains rare, despite investor demands for credible, verifiable ESG data
- Many reports included unaudited disclosures in high-risk areas like GHG emissions
- Workforce impacts frequently lack verification
- Assurance scope often unclear or limited

# Assurance: Leading Examples

1

## DSM-Firmenich

Implemented full report under limited assurance

Published clear roadmap for full reasonable assurance by 2025

Engaged multiple assurance providers for specialized topics

Disclosed assurance methodology and limitations transparently

2

## SAP (Germany)

Developed topic-by-topic assurance approach aligned with risk materiality

Prioritized business-relevant metrics for higher assurance levels

Integrated internal and external assurance processes

Clear disclosure of assurance boundaries and methodologies



# Assurance: Laggard Examples

1

## **LVMH (France)**

No assurance declared across any sustainability topic or metric

Absence of verification for material environmental claims

No timeline provided for future assurance implementation

Missed opportunity to build credibility with investors

2

## **Orange (France)**

No verification for major workforce disclosures despite their materiality

Limited assurance scope without clear explanation

Inconsistent approach to data verification across report

Lack of assurance roadmap for future reporting cycles

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# Assurance: Executive Recommendations

## Prioritize Critical Datapoints

Begin with reasonable assurance on high-impact metrics such as Scope 1+2 GHG emissions, human rights indicators, and water usage.

## Develop Assurance Roadmap

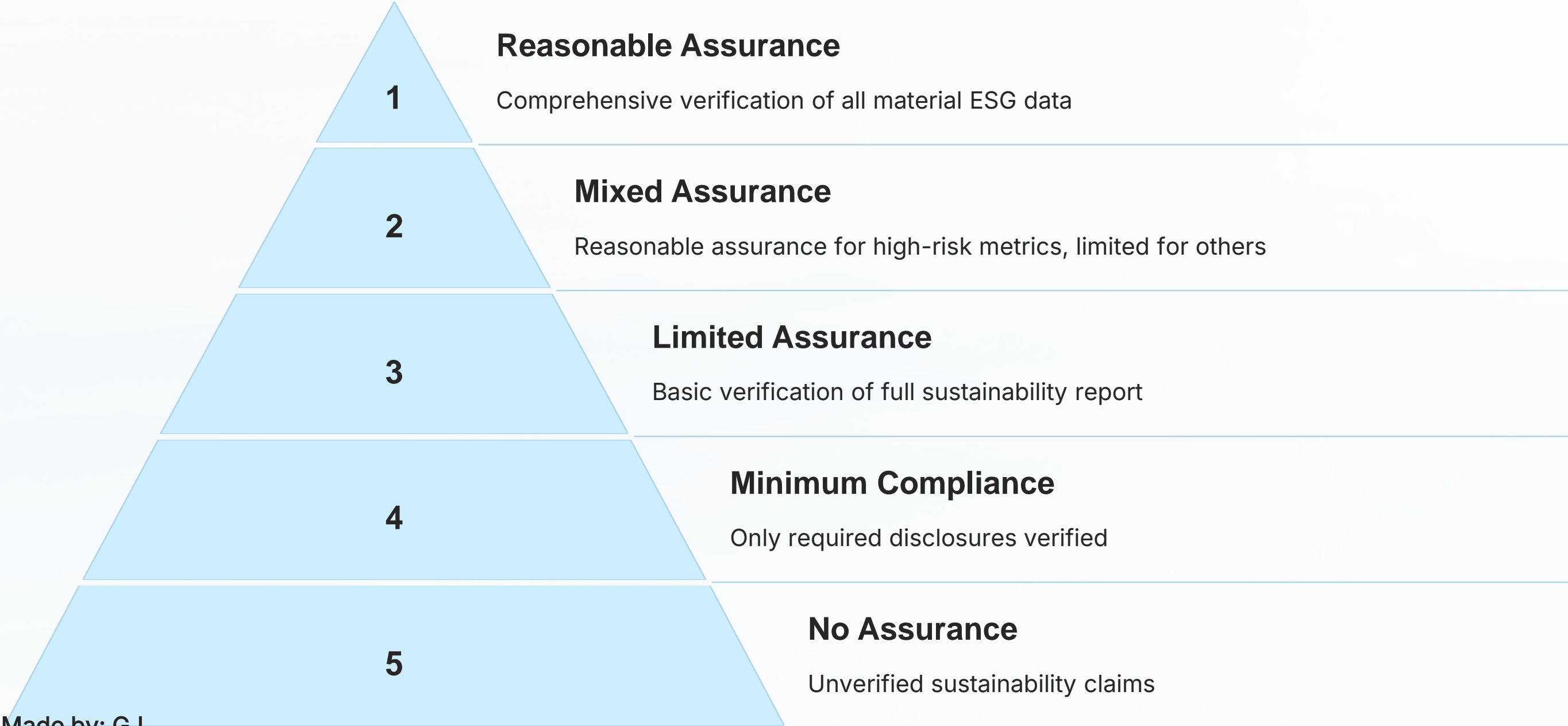
Publish a 2–3 year assurance implementation plan, prioritizing high-risk ESG areas based on materiality assessment.

## Engage Internal Audit

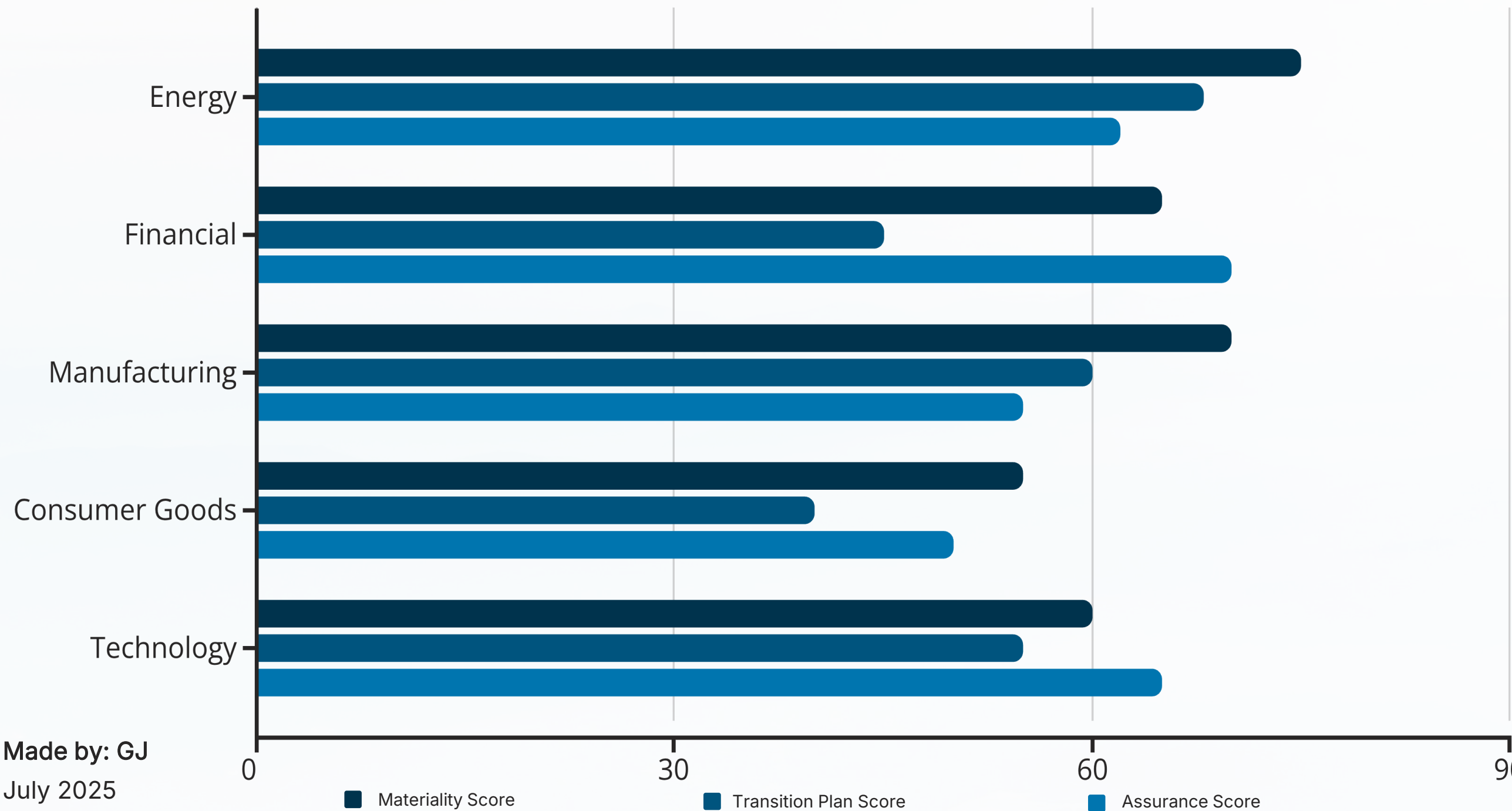
Leverage internal audit teams to scope ESG-related control environments and prepare for external assurance.



# Assurance Maturity Model



# Cross-Cutting Insights: Sector Analysis





# Cross-Cutting Insights: Company Size Impact

## Large Cap Companies (€10B+)

- More comprehensive materiality assessments
- Higher likelihood of SBTi-approved targets
- Greater assurance coverage
- More detailed transition plans

## Mid & Small Cap Companies

- More focused materiality assessments
- Less likely to use internal carbon pricing
- Minimal assurance beyond requirements
- Less detailed transition planning

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# Cross-Cutting Insights: Geographic Trends

## France

Strong on transition planning but inconsistent assurance practices



## Germany

Detailed materiality assessments but gaps in financial integration



## Southern Europe

Strong on social topics but weaker on transition plan financials



## Nordic Countries

Leaders in biodiversity materiality and comprehensive assurance



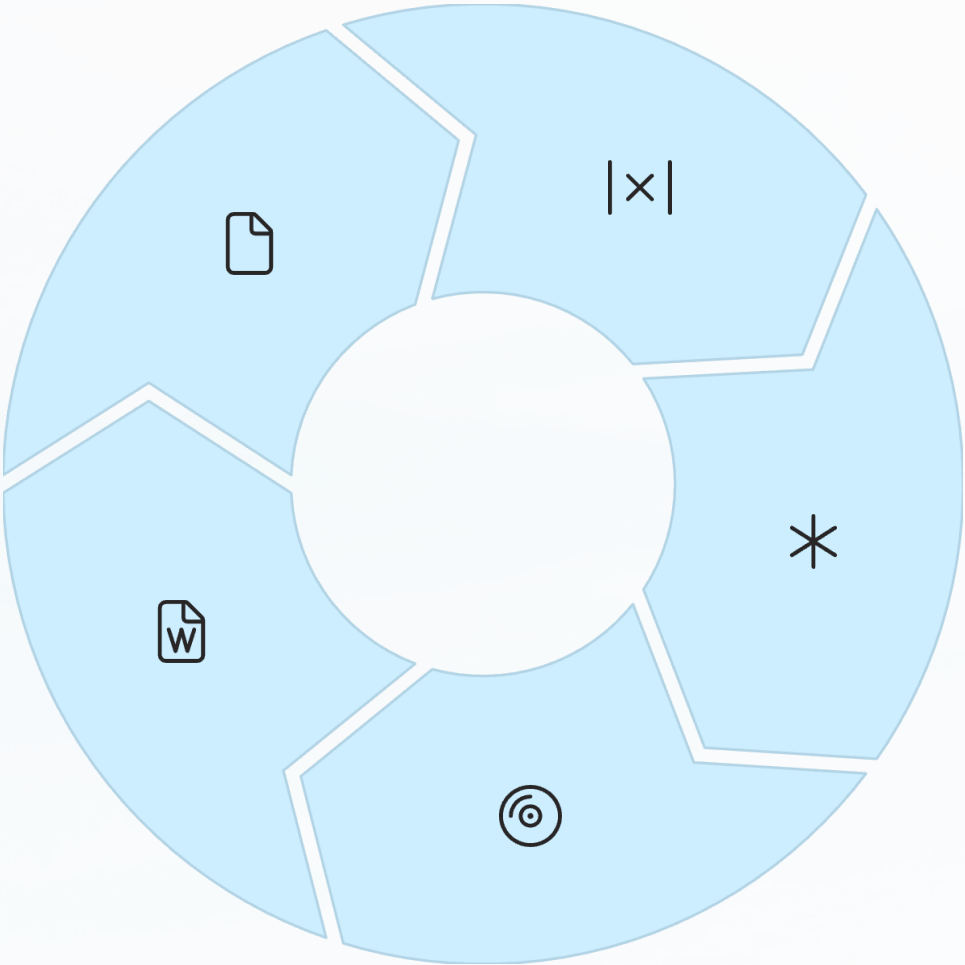
# Materiality Assessment Best Practices

## Stakeholder Engagement

Consult diverse stakeholders including investors, employees, communities, and NGOs

## Documentation

Maintain transparent record of methodology and decision-making process



## Value Chain Mapping

Analyze impacts across entire value chain from suppliers to end-of-life

## Risk Assessment

Evaluate financial materiality through risk lens with scenario analysis

## Impact Analysis

Assess environmental and social impacts on people and planet

# Transition Plan Financial Integration

## Carbon Pricing

Implement internal carbon price of at least €30-50/tCO<sub>2</sub> in all investment decisions

## CAPEX Allocation

Dedicate specific percentage of capital expenditure to transition initiatives with clear metrics

## Financial Modeling

Develop scenario-based financial projections incorporating climate risks and opportunities


## Executive Compensation

Link executive remuneration to achievement of transition plan milestones



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sustainable  
future,  
together

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Phase 1  
Strategy

Phase 3  
Implementation

# Assurance Strategy Development

## Step 1: Assess Current State

- Inventory current controls and data quality
- Identify gaps in ESG data collection processes
- Evaluate internal verification capabilities

## Step 2: Prioritize Critical Metrics

- Focus on high-risk, high-impact disclosures
- Consider investor and stakeholder priorities
- Align with materiality assessment

## Step 3: Develop Roadmap

- Create phased approach to expanding assurance
- Set clear timeline for implementation
- Allocate necessary resources

## Step 4: Implementation

- Engage assurance providers early
- Strengthen internal controls
- Document methodologies and assumptions

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# Board Oversight Recommendations

## Materiality Governance

Establish board-level review of materiality assessment methodology and outcomes. Challenge exclusions of ESRS standards and require documented justification.

## Transition Plan Oversight

Require management to present transition plans with specific financial commitments and timelines. Review carbon pricing implementation and CAPEX alignment quarterly.

## Assurance Committee

Create dedicated committee or expand audit committee scope to oversee ESG assurance strategy. Review assurance provider selection and scope definition.

# Investor Expectations



Investors are increasingly focused on the quality and credibility of sustainability reporting:

- 78% of institutional investors cite poor ESG data quality as a major barrier to sustainable investing
- 65% prefer companies with reasonable assurance on key metrics
- 82% want to see clear financial commitments in transition plans
- 90% consider materiality assessment transparency in investment decisions



# Regulatory Horizon

1

## 2025-2026

- Expanded ESRS implementation for non-listed companies
- Increased scrutiny of materiality justifications
- Limited assurance requirements for all in-scope entities

2

## 2027-2028

- Reasonable assurance requirements for climate metrics
- Mandatory transition plan disclosures with financial elements
- Expanded value chain reporting requirements

3

## 2029-2030

- Full reasonable assurance across all material topics
- Mandatory internal carbon pricing disclosure
- Comprehensive CAPEX alignment reporting



ESG Performance Index

# Competitive Advantage

**68%**

## Investor Preference

Percentage of investors who prefer companies with high-quality sustainability reporting when making investment decisions

**3.2x**

## Valuation Premium

Companies with best-in-class sustainability reporting trade at higher multiples than industry peers with poor disclosure

**45%**

## Cost of Capital

Reduction in financing costs for companies with credible transition plans and robust assurance

# Key Takeaways

## 1 Materiality Requires Substance

Move beyond compliance to meaningful materiality assessments that capture true impact and risk. Justify exclusions with transparent methodology.

## 2 Transition Plans Need Financial Backing

Connect climate commitments to capital allocation through internal carbon pricing and dedicated CAPEX. Make the financial case for transition.

## 3 Assurance Builds Credibility

Implement a strategic approach to assurance that prioritizes high-risk areas and builds toward reasonable assurance of critical metrics.

# Next Steps

## Short-Term Actions

1. Conduct gap analysis of current reporting against leading practices
2. Develop board-level ESG reporting governance structure
3. Begin internal carbon pricing feasibility assessment
4. Initiate discussions with assurance providers

## Medium-Term Implementation

1. Revise materiality assessment methodology
2. Develop transition plan with financial commitments
3. Create 3-year assurance roadmap
4. Implement ESG data management system

