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## Book

### Overview of disclosure of non-financial information of the companies listed on Nasdaq Vilnius

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# **Overview of Disclosure of Non-Financial Information of the Companies Listed on *Nasdaq Vilnius***

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# Overview of Disclosure of Non-Financial Information of the Companies Listed on *Nasdaq* Vilnius

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## SUMMARY

The objective of disclosing non-financial information is to create a reliable, transparent and responsible environment and to contribute to long-term sustainable business. This will also contribute to faster economic growth and greater public involvement.

In recent years, with fast climate change and changes in people's lives, the themes of ecology and sustainability have become increasingly more important, with all institutions concerned and investors looking for investments in a cleaner and more transparent environment, even if this reduces their return.

Assessing and improving the sustainability factors – environmental, social and governance (ESG) – is an inseparable part of every company's operations. ESG principles are gradually becoming mandatory. Companies that comply with ESG principles get comprehensive benefits as they are important for all stakeholders: employees, customers, suppliers, investors, etc. In this Overview, the Bank of Lithuania seeks to assess how companies disclose information in their social responsibility reports. In accordance with the Republic of Lithuania Law on Financial Reporting by Undertakings and the Republic of Lithuania Law on Consolidated Financial Reporting by Groups of Undertakings, large public interest undertakings or public interest undertakings – large groups of undertakings, whose average annual number of employees exceeds 500 as of the last day of the reporting financial year, are required to include the report on social responsibility in the annual report or to prepare a separate report.

In addition, an assessment was made of how companies took into account the 2020 enforcement priorities for financial statements published by the European Securities and Markets Authority (ESMA) related to the disclosure of non-financial information and alternative performance measures (APMs) related to the COVID-19 pandemic.

This Overview assesses the disclosures in the annual reports and corporate social responsibility reports, if any, of the 21 companies listed on the regulated market of AB *Nasdaq* Vilnius. The scope and specifics of these companies' activities often determine the peculiarities of disclosures (indicators, risks, solutions, etc.). Most companies indicated which European Union (EU) or international frameworks or methodologies they followed. The companies state that they consider themselves to be compliant with the guidelines on sustainable business and that they follow them.

## OBJECTIVE AND SCOPE OF THE OVERVIEW

The objective of the Non-Financial Information Overview is to provide, based on the assessment of the information and documents below, summary conclusions on the disclosure of compliance with ESG principles in the annual reports or corporate social responsibility reports of companies whose shares are admitted to the trading lists of *Nasdaq* Vilnius, AB on a regulated market (hereinafter – the companies) and to provide the companies with relevant recommendations.

In conducting the overview, the Bank of Lithuania has assessed the information provided by the 21 listed companies in their 2020 annual reports and social responsibility reports.

It assessed the regulatory requirements and the European Commission (EC) recommendations, as well as ESMA's 2020 European Common Enforcement Priorities for non-financial information and disclosure of APMs related to the COVID-19 pandemic:

- how the companies comply with the provisions of the Law on Financial Reporting by Undertakings of the Republic of Lithuania on disclosure of information in the corporate social responsibility report;
- how large groups of companies that consolidate their financial statements comply with the provisions of the Law on Consolidated Financial Reporting by Groups of Undertakings of the Republic of Lithuania on disclosures in the consolidated corporate social responsibility report;
- how the companies follow the Guidelines on Non-Financial Reporting (Methodology for Reporting Non-Financial Information) issued by the EC (2017/C 215/01), which outline the methods for non-financial information reporting, including the non-financial key performance indicators, and the EC's updated guidelines on reporting climate-related information (Guidelines on Non-Financial Reporting. Supplement on reporting climate-related information (2019/C 209/01));
- how the companies have taken into account the 2020 enforcement priorities released by ESMA for the disclosure of non-financial information and APMs related to the COVID-19 pandemic.

For the purposes of the Overview of Non-Financial Information Disclosure, the following companies whose shares were admitted to trading on the main and secondary trading lists of *Nasdaq* Vilnius, AB as at 31 December 2020 were analysed<sup>1</sup>:

1. AMG1L AB Amber Grid (hereinafter – **Amber Grid**);
2. APG1L Akcinė prekybos bendrovė APRANGA (hereinafter – **Apranga**);
3. AUG1L AUGA group, AB (hereinafter – **AUGA group**);
4. GRG1L Grigeo AB (hereinafter – **Grigeo**);
5. IGN1L AB Ignitis grupė (hereinafter – **Ignitis grupė**);
6. IVL1L Akcinė bendrovė Invalda INVL (hereinafter – **Invalda INVL**);
7. KNF1L Akcinė bendrovė Klaipėdos nafta (hereinafter – **Klaipėdos nafta**);
8. KNR1L Akcinė bendrovė Kauno energija (hereinafter – **Kauno energija**);
9. LGD1L LITGRID AB (hereinafter – **Litgrid**);
10. LNA1L AB Linas Agro Group (hereinafter – **Linas Agro Group**);
11. NTU1L Akcinė bendrovė Novaturas (hereinafter – **Novaturas**);
12. PTR1L Akcinė bendrovė PANEVĖŽIO STATYBOS TRESTAS (hereinafter – **PST**);
13. PZV1L Akcinė bendrovė Pieno žvaigždės (hereinafter – **Pieno žvaigždės**);
14. RSU1L Akcinė bendrovė ROKIŠKIO SŪRIS (hereinafter – **Rokiškio sūris**);
15. SAB1L Akcinė bendrovė Šiaulių bankas (hereinafter – **Šiaulių bankas**);
16. SNG1L Akcinė bendrovė Snaigė ( hereinafter – **Snaigė**);
17. TEL1L Telia Lietuva, AB (hereinafter – **Telia Lietuva**);
18. UTR1L Akcinė bendrovė UTENOS TRIKOTAŽAS (hereinafter – **Utenos trikotažas**);

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<sup>1</sup> The financial year of AB Vilniaus baldai ends on 31 August 2020, and the financial year of AB Linas Agro Group ends on 30 June 2020.

19. VBL1L Akcinė bendrovė Vilniaus baldai (hereinafter – **Vilniaus baldai**);
20. VLP1L AB VILKYŠKIŲ PIENINĖ ( hereinafter – **Vilkyškių pieninė**);
21. ZMP1L Akcinė bendrovė ŽEMAITIJOS PIENAS (hereinafter – **Žemaitijos pienas**).

## EXISTING LEGAL REGULATION AND CURRENT DEVELOPMENTS

- Directive 2014/95/EU of the European Parliament and of the Council amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (NFRD) was adopted on 22 October 2014. In order to improve the consistency and comparability of non-financial information disclosures, the NFRD requires certain large public interest entities and groups to prepare a non-financial report, which includes information on environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters. The auditor or audit firm must verify that a non-financial report has been submitted.
- The provisions of the NFRD were transposed into Lithuanian law in 2016 with the adoption of the relevant amendments to the Law on Financial Reporting by Undertakings of the Republic of Lithuania and the Law on Consolidated Financial Reporting by Groups of Undertakings of the Republic of Lithuania.
- Article 23(5) of the Law on Financial Reporting by Undertakings of the Republic of Lithuania stipulates that a large public-interest entity with an average annual number of payroll employees exceeding 500 on the last day of the reporting financial year shall, in addition to the other information referred to in this Article, include in its annual report a corporate social responsibility report, unless a separate corporate social responsibility report is prepared.
- The corporate social responsibility report provides information on environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters.
- The information is provided to the extent necessary to understand the company's development, performance, condition and the impact of its activities and includes: (1) a brief description of the company's business model; (2) a description of the company's policies on environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, including the monitoring of the implementation of those policies; (3) the results of the company's policy on the matters referred to in paragraph 1 of this Article; (4) information on the principal risks related to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters associated with the company's activities, in relation to the company's business relationships, products or services, which may lead to adverse consequences, and how the company manages those risks; (5) non-financial key performance indicators relating to the company's specific activities.
- If a company does not comply with its policies on environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, the social responsibility report should contain provide a clear and reasoned explanation. Where necessary, references to the data presented in the annual financial statements and additional explanations of these data must be provided.
- In making these disclosures, companies may refer to EU or international frameworks or methodologies that set out disclosure requirements. The corporate social responsibility report indicates which frameworks or methodologies have been followed.
- A company that has prepared a separate report containing the information required to be provided in the corporate social responsibility report (hereinafter – the separate corporate social responsibility report) may exclude the corporate social responsibility report from the annual report if the separate corporate social responsibility report is made publicly available on the company's website within a period of no more than three months after the last day of the financial year, and a reference to it is included in the annual report.
- The auditor or audit firm verifies whether a corporate social responsibility report or a separate corporate social responsibility report has been submitted and states this in the auditor's report.



- Article 10(4) of the Law on Consolidated Financial Statements by Groups of Undertakings of the Republic of Lithuania stipulates that the parent companies of public interest undertakings which are large groups of undertakings, the average annual number of payroll employees of which exceeds 500 on the last day of the reporting financial year, must include in the consolidated annual report, in addition to the other information referred to in this Article, a consolidated corporate social responsibility report, except where a separate consolidated corporate social responsibility report is prepared.
- In June 2017, **in order to implement** the requirements of Article 2 of the NFRD and to facilitate the disclosure of relevant, valuable and comparable non-financial information to companies, the EC published the non-binding guidelines, namely, the Non-Binding Guidelines on Non-Financial Reporting (Methodology for Reporting Non-Financial Information) (2017/C 215/01)). They specify the methods of non-financial information reporting, including non-financial key performance indicators (KPIs). In June 2019, the EC supplemented these Guidelines with the guidelines on reporting climate-related information (Guidelines on Non-Financial Reporting. Supplement on reporting climate-related information (2019/C 209/01)) (hereinafter – the EC Guidelines).
- Proposed amendments.** On 21 April 2021, the EC adopted a proposal for a Corporate Sustainability Reporting Directive (CSRD), which would replace the current NFRD reporting requirements. The CSRD proposes to amend the four effective legal acts: the Accounting Directive (2013/34/EU), by clarifying the existing requirements to include provisions relating to the provision of sustainability information; the Audit Directive (2006/43/EU) and the Audit Regulation (537/2014), by regulating the audit/assurance of sustainability information; and the Transparency Directive (2004/109/EU), by clarifying the provisions to extend the scope of the sustainability reporting requirements for companies with securities traded on regulated markets, excluding micro-enterprises.

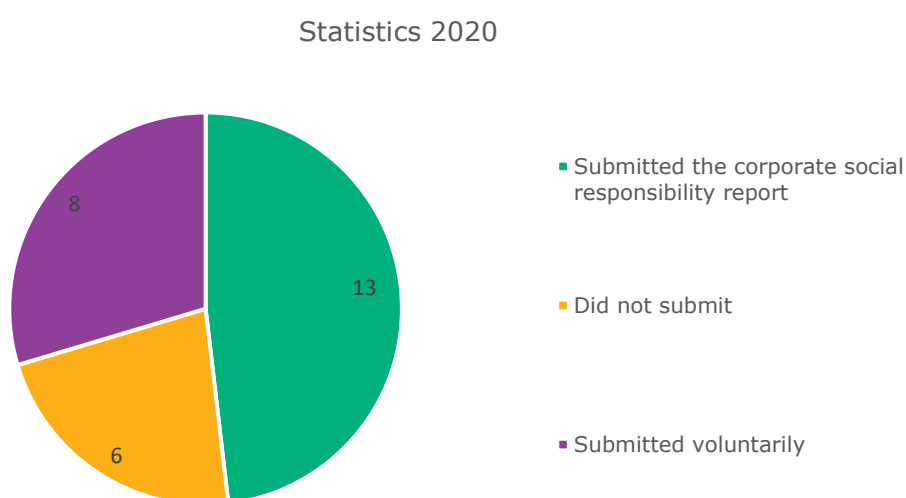
• **Proposed amendments to the CSRD**

|                      | Provisions in force in the NFRD   | CSRD proposals   |
|----------------------|---|--|
| Scope                | Large public-interest entities with more than 500 employees   | All large and all listed companies, (except micro-enterprises)   |
| Double materiality   | Some uncertainty  | It explains that the two perspectives - environmental and social materiality and financial materiality - must be considered separately                               |
| Topics               | Environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters | Environmental, social and governance issues  |
| Areas for disclosure | Restricted list   | A more comprehensive and expanded list   |
| Standards            | The companies must disclose whether they have followed methodologies                                      | Mandatory EU standards for large companies. Simplified standards for small and medium-sized enterprises (SMEs) (mandatory for listed SMEs, voluntary for other SMEs) |
| Disclosure           | In the Annual Report, but can be prepared and published separately  | Annual report  |
| Assurance            | Existence check only  | Reasonable assurance. Appropriate assurance standards should be adopted  |
| Digitalisation       | No requirements   | Mark-up sustainability information   |
| Supervision          | Lack of clarity about the role of the national supervisory authority                                      | Clear functions of the national supervisory authority and ESMA guidelines for supervisory authorities  |

## DISCLOSURE OF NON-FINANCIAL INFORMATION IN ANNUAL REPORTS

In accordance with the requirements of the Law on Financial Reporting by Undertakings of the Republic of Lithuania and the Law on Consolidated Financial Reporting by Groups of Undertakings of the Republic of Lithuania and the data of the annual financial statements prepared for 2020, the non-financial information issues related to sustainability (environmental, social and governance) factors were required to be disclosed and were disclosed in the annual reports or in the separately prepared corporate social responsibility reports of thirteen companies whose securities are traded on regulated markets. Eight companies prepared corporate social responsibility reports and disclosed sustainability-related information voluntarily, even though there was no legal obligation to do so. Six companies took advantage of the applicable exemption and did not publish a social responsibility report. Most companies took the opportunity to disclose sustainability-related information in separate corporate social responsibility reports.

Figure 1. Corporate social responsibility reports submitted



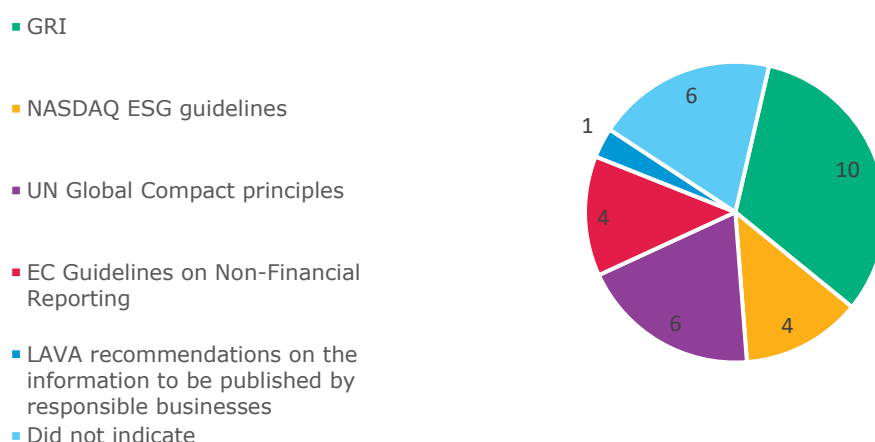
In making these non-financial information disclosures, companies may refer to EU or international frameworks or methodologies that set out disclosure requirements. The corporate social responsibility report should indicate which frameworks or methodologies have been followed. It should be noted that companies may follow more than one methodology but must disclose this. The most popular methodologies used was the information based on the *Global Reporting Initiative* (GRI). As many as ten companies indicated in their reports that the disclosures were made on the basis of the GRI. Six companies reported that they had taken into account the United Nations (UN) *Global Compact* principles, four referred to the *Nasdaq* ESG (Environmental, Social and Governance) Guidelines and another four relied on the Communication from the Commission Guidelines on Non-Financial Reporting (2017/C215/01).

Some companies indicated that they used several systems or methodologies to disclose sustainability-related information. For example, **Vilkyškių pieninė** indicated that it referred to the NASDAQ ESG Guidelines, the UN Global Compact and the Communication from the Commission Guidelines on Non-Financial Reporting (2017/C215/01), while **Invalda INVL** reported that it took into account the Communication from the Commission Guidelines on Non-Financial Reporting (2017/C215/01) in its disclosures, and that it followed the UN Global Compact's ten principles of corporate responsibility in the areas of human rights, employees' rights, the environment and anti-corruption. **Telia Lietuva** stated that it prepared its sustainability report in accordance with the GRI G4 guidelines and the requirements applicable to telecommunications companies, and also took into account the recommendations of the Sustainable Business Association of Lithuania (LAVA) on the information that should be published by responsible businesses. Six companies (**Grigeo**, **Litgrid**, **Novaturas**,

**PST, Utenos trikotažas and Vilniaus baldai**) that provided the information did not indicate the methodologies applied or disclosed that they followed the legislation of the Republic of Lithuania.

The Bank of Lithuania has informed about the supplementary document to the EC Guidelines on Non-Financial Reporting for reporting climate-related information, namely, the Supplement on reporting climate-related information (2019/C 209/01)) released in June 2019. Unfortunately, no company indicated that it had followed this document in its annual disclosures.

Figure 2. Global systems and methodologies applied by the companies



## 1. DISCLOSURE OF THE BUSINESS MODEL AND STRATEGY FOR VALUE CREATION AND SUSTAINABILITY. RISK ASSESSMENT AND DISCLOSURE

In accordance with the NFRD and the provisions of the Law on Financial Reporting by Undertakings of the Republic of Lithuania and the Law on Consolidated Financial Reporting by Groups of Undertakings of the Republic of Lithuania implementing its requirements, a brief description of the business model, as well as information on the policies in place regarding sustainability issues and the results of these policies must be provided.

The EC Guidelines provide additional information and examples, stating that the company is expected to describe its business model in a clear, understandable and factual manner. Companies should avoid immaterial disclosures of promotional or aspirational nature which distract attention from material information expected to explain changes to their business model.

The company should outline its policies and objectives in relation to sustainability matters and disclose how it plans to meet these objectives. The company must describe the control processes implemented and material changes to policies and due diligence processes. If the company does not have a policy on sustainability matters, this should be disclosed.

The company should provide the users of the reports with a useful, fair view and balanced outcome of its policies and, where appropriate, explain the relationship between financial and non-financial performance. The company should include and explain the relevant KPIs specific to the company in its analysis of the results.

A clear and understandable description of the company's business model would allow stakeholders to independently assess social responsibility/sustainability reporting. To understand the company's sustainability policy and the results of this work, stakeholders also need information on the company's sustainability strategy. The description should explain how the business is organised to implement the sustainability strategy. The strategy and the business model can help one understand how a company is run. To be effective, a sustainability strategy should be an integral part of the company's operations. Clear policies and procedures are therefore an important management tool in a company's efforts to implement its strategy. To ensure that sustainability reporting is useful to its stakeholders, a company should report the results of its sustainability work in a transparent, relevant, consistent and balanced manner.

The EC Guidelines state that a company should provide information on its principal risks and how they are managed and mitigated in the short, medium and long term. A company is expected to explain how the risks may affect its business model, operations and financial performance, and to provide material information, whether arising from its own decisions or actions or from external factors, and to explain the processes used to identify and assess such risks, including key information about supply and subcontracting chains. A company should explain all material risks and the ways in which they are managed and changes to them.

To properly manage the risks it faces, a company should have good processes in place to identify, manage and monitor sustainability risks. It is important that this work is endorsed by the Supervisory Board or the Executive Board, which is responsible for the overall strategy of the company. Sustainability risk can have a direct impact on a company's financial position in the short and long term, as it determines a company's access to finance, cost of capital, market access, brand value, reputation and the authorisations under which it operates.

The analysis of the disclosure of the business model and sustainability strategy has focused on the following questions, whether:

- a description of the company's sustainability strategy is provided;
- the sustainability strategy is linked to the company's business model;
- policies and procedures are in place to integrate sustainability into the business;
- due account is taken of the results of the company's work on sustainability.

The overview of risk assessment and disclosures examined whether information was provided on the principal risks associated with the company's activities, including business relationships, products or services, that could adversely affect the company or its environment, and how the company manages and controls those risks.

Almost half (43%) of all the companies surveyed said they have policies and procedures in place to integrate sustainability into the business and have a sustainability strategy. However, few companies link their sustainability strategy to their business model and take the results of the strategy into account. Nine companies (**Amber grid, Apranga, AUGA group, Grigeo, Ignitis grupė, LITGRID, Rokiškio sūris, Telia Lietuva, and Vilniaus baldai**) identified in their reports the policies, strategies, operational risks, and the processes for managing them. The other seven companies (**Kauno energija, Klaipėdos nafta, Pieno žvaigždės, Šiaulių bankas, Vilkyškių pieninė, Utenos trikotažas and Žemaitijos pienas**) disclosed the risks, but did not indicate what actions they had taken to mitigate or manage them. However, five companies (**Invalda INVL, Linas Agro Group, Novaturas, Panevėžio statybos trestas and Snaigė**) did not specify and did not describe their business model, strategies and risks in detail in their social responsibility reports or annual report, but only referred to the notes to the financial statements or other paragraphs of the annual report, where the business model is described in summary.

In terms of disclosure of business model, sustainability strategy, risks, their assessment and control, less than half (43 %) of the companies comply with the disclosure requirements of the legislation of the Republic of

Lithuania and the EC Guidelines, but it should be noted that it is not enough to disclose the policy, the company's or group's strategy and the principal risks. It is important for the users of the reports to understand how the approved strategy is linked to the business model, what the results of the policies are, and how the management engages in and monitors these processes.

#### RECOMMENDATIONS OF THE BANK OF LITHUANIA FOR COMPANIES

1. Companies should focus on the following issues when disclosing their business model and sustainability strategy:

- a description of the company's sustainability strategy;
- whether the sustainability strategy is linked to the company's business model;
- whether policies and procedures are in place to integrate sustainability into the business;
- the outcomes of the company's work on sustainability.

2. Companies should also disclose how they manage and control those risks when disclosing the principal risks relating to environmental, employee and social factors, corruption and bribery and the company's activities, including business relationships, products or services, that may adversely affect the company or its environment.

3. Information on the management of principal risks should be evaluated and cover several periods: short, medium and long term. Companies should explain how risks may affect the company's business model, operations and financial performance.

## 2. MATERIALITY IN THE CONTEXT OF SUSTAINABILITY

In accordance with the NFRD and its provisions as transposed into the Law on Financial Reporting by Undertakings of the Republic of Lithuania and the Law on Consolidated Financial Reporting by Groups of Undertakings of the Republic of Lithuania, the non-financial report must disclose the information necessary to understand the undertaking's development, performance, position and impact of its activity.

The principle of "materiality" is one of the six guiding principles in the EC Guidelines. The Guidelines underline that the NFRD introduces a new element in the assessment of materiality, namely the impact of the company on society and the environment. A company's impact can be both positive and negative, and sustainability reporting should be clear and balanced. Materiality should be assessed in a context, incorporating both company-specific and sector-specific information. The assessment of the company's materiality should be based on the extent to which the information is relevant to understanding its development, performance, position and impact, taking into account internal and external factors.

Companies are recommended to carry out a detailed assessment of materiality to ensure that the information contained in sustainability reports is relevant to the company and all stakeholders. The assessment of materiality should be transparent and take into account the sustainability risks identified by the company. The materiality matrix can be an effective tool for collecting the results of a company's materiality assessment. In such matrix, companies tend to map risks along the y-axis (important for stakeholder assessments and decision-making) and the x-axis (impact on economic, environmental and social factors), with materiality increasing with each axis.

For example, **AUGA group** mapped a sustainability matrix in its annual report, taking into account its own activities, including environmental, social responsibility and sustainable corporate governance criteria, business impact and the importance for stakeholder assessment and decision-making.

Figure 3. Sustainability criteria materiality matrix



Source: Annual Report 2020 of **AUGA group**.

Assessing and disclosing sustainability risks involves making sure whether:

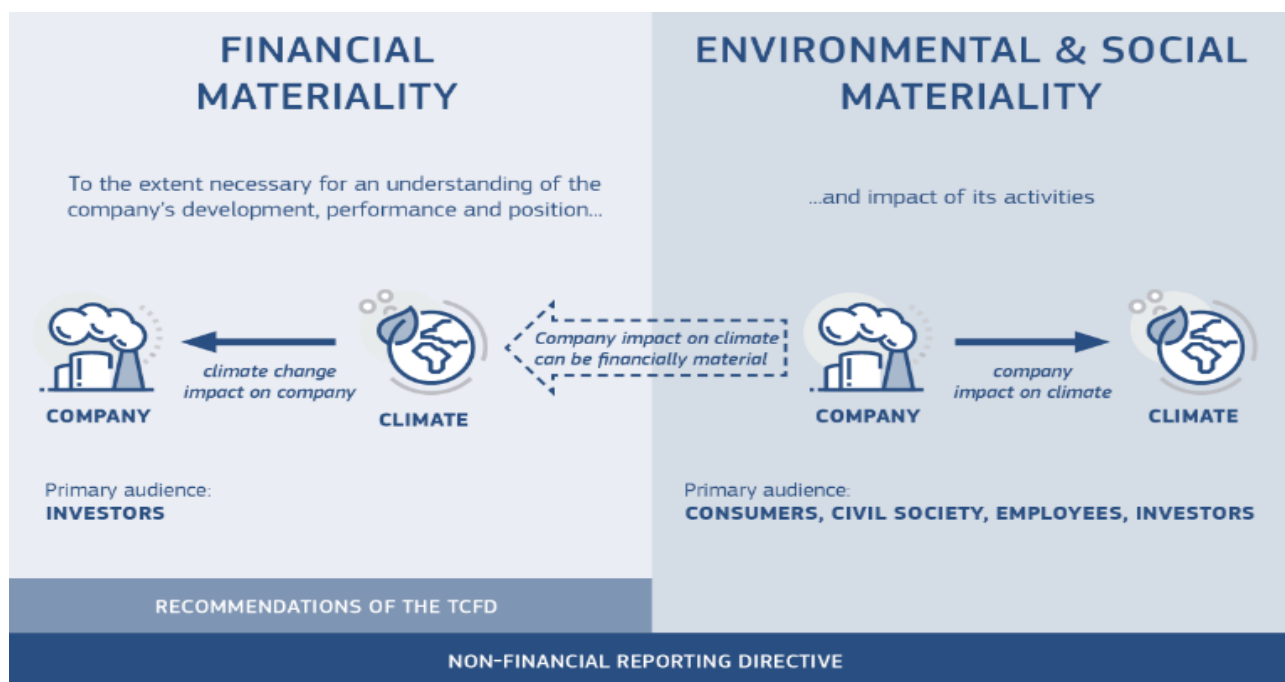
- the processes for identifying, managing and monitoring sustainability risks are defined;
- the supervisory board or the management board and/or the management has been involved in the process of identifying, managing and monitoring sustainability risks;
- sustainability risks identified as relevant to the company has been considered, and how they are managed and monitored;
- due account has been taken of how the identified sustainability risks affect or may affect the company's business model, operations, performance and financial position;
- sustainability risks have been identified in the short, medium and long term.

In assessing sustainability issues, a company should take into account both the financial materiality and the environmental and social impact of its activities. Thus, the materiality associated with sustainability information has a broader scope than the financial materiality known from the financial statements. The two perspectives

on materiality should overlap, as positive or negative impacts may, over time, create business opportunities or risks that have financial implications for the company.

The following framework diagram from the EC Guidelines on Non-Financial Reporting. Supplement on reporting climate-related information (2019/C 209/01) can help illustrate the double materiality perspective. This is the so-called double materiality approach under the NFRD for climate-related information. The term 'financial materiality' is used in a general sense and refers to the effect on the value of the company, not just the effect on financial instruments recognised in the financial statements.

Figure 4. Double materiality perspective



\* Financial materiality is used here in the broad sense of affecting the value of the company, not just in the sense of affecting financial measures recognised in the financial statements.

Source: EC Guidelines on Non-Financial Reporting. Supplement on reporting climate-related information (2019/C 209/01).

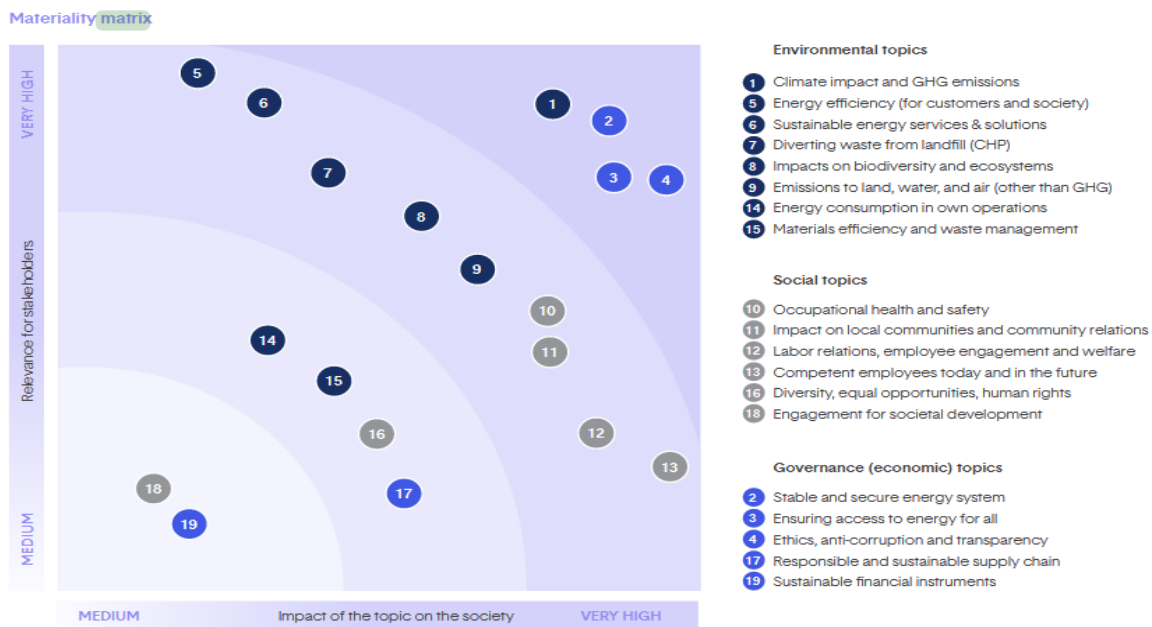
When assessing the principle of materiality in the context of sustainability, it is important to consider whether the company:

- has carried out a materiality assessment of the identified sustainability risks;
- has based its risk assessment on financial, environmental and social materiality;
- has disclosed how materiality is assessed;
- has taken account of financial materiality;
- has applied the materiality matrix.

For example, **Ignitis grupė**, when providing the materiality matrix in the 2020 annual report, revealed that, while all the topics presented were significant, they were ranked in terms of their relevance to the stakeholders and their actual or potential impact on society. The report identified the topics of relevance to the stakeholders

and societal impacts across the group for each area separately (environmental, social and governance/economic) and the main topics according to the stakeholder opinion.

Figure 5. Materiality matrix



Source: Annual Report 2020 of **Ignitis grupė**.

A review of the 2020 annual information shows that only two companies (**AUGA group, Ignitis grupė**) took into account the double materiality perspective and linked sustainability to financial materiality. This shows that materiality is still not sufficiently integrated into the sustainability risk assessment processes.

It should be noted that the provisions of both the Law on Financial Reporting by Undertakings of the Republic of Lithuania and the Law on Consolidated Financial Reporting by Groups of Undertakings of the Republic of Lithuania stipulate that the information provided must be material. The EC Guidelines further state that not only the company's environmental impact should be disclosed, but also the impact of climate change on the company and its value, and companies are therefore advised to follow the interpretations of the EC Guidelines, identify the key topics and criteria and disclose them.



### 3. NON-FINANCIAL KEY PERFORMANCE INDICATORS

In accordance with the NFRD and the legislation of the Republic of Lithuania, non-financial KPIs relevant to the company must be disclosed in relation to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters.

The EC Guidelines recommend that the KPIs should be identical to those used internally by the management to ensure that the information provided is relevant and useful, transparent and comparable. The company should provide the KPIs that give a fair understanding of the company's development, performance and the environmental impact of its activities. The company is expected to use generic, sectoral and company-specific KPIs in its reporting. These indicators should be used consistently from one reporting period to the next, and if they are changed for any reason, the reasons should be disclosed and an explanation should be given.

The use of KPIs can help quantify the sustainability objectives and link them to financial results. These indicators should be linked to the company's objectives and compared to the previous year's performance. It is also important that KPIs are transparent and that stakeholders can clearly understand how they are achieved. The company should provide a definition of KPIs, explain to the users of the reports why the selected KPIs are relevant to the company, disclosing the calculation method and underlying assumptions, and describing which part of the business is covered by the specific KPI.

The majority, i.e. 16 (76 %) out of the 21 companies, used KPIs in their reporting. Five companies (**Grigeo**, **Invalda INVL**, **Linas Agro Group**, **PST** and **Utenos trikotažas**) did not disclose non-financial performance indicators in their annual reports, or reported only indicators related to a specific area (e.g. employees). Ten companies, almost half of the companies surveyed, disclosed their KPIs in detail, covering almost all areas related to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters.

Unfortunately, some companies (e.g., **Kauno energija**, **Snaigė**) still used KPIs in their sustainability reports, but did not provide the KPIs for comparison with previous reporting periods or did not provide all of them, and did not explain why the KPIs presented differed from the previous periods (e.g., **Amber grid** in its Corporate Social Responsibility report, under Key Performance Indicators, stated that 58.0 TWh of natural gas were transported in 2020, which is a 4.5% increase compared to 2019 (55.5 TWh)). Or the reports contained a large number of KPIs but no summary conclusions on environmental impacts, etc. It should be noted that the specifics of the company/sector should also be taken into account when comparing KPIs, as some companies' KPIs are very specific and difficult to compare with other companies due to the specifics of their activities. For example, **Klaipėda nafta** reported that the total waste generated by the terminals in Lithuania in 2020 was 627,000 tonnes, 98% of which was recycled. Most of the hazardous waste generated is recycled. The higher amount of waste generated at the oil terminals in 2020 was due to the greater variety of petroleum products handled and the corresponding technological processes involved in the installation of storage tanks.

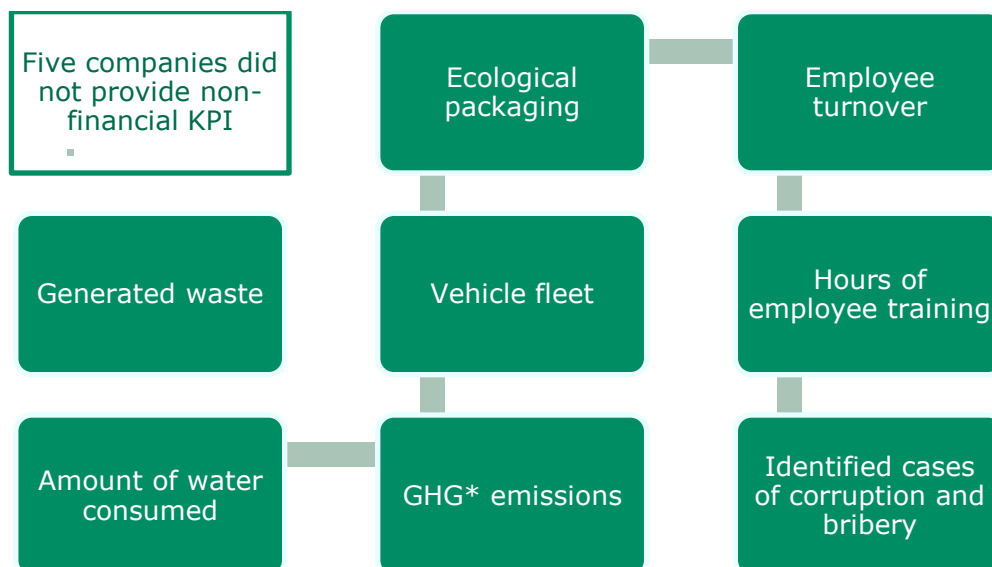
When the companies provide information on waste management, they very often report on how wastewater is treated, and how many tonnes of paper and plastic waste have been recycled. However, some of them only provide descriptive information on waste management, but no specific indicators. For example, **Linas Agro Group** disclosed that the group's companies are reducing the amount of paper they use - they are moving away from paper documents and materials used for advertising to customers, choosing more products without packaging or with recycled packaging, sorting paper, plastics, glass, metal, hazardous waste, and handing over these recyclable materials to the organisations that handle them. **Grigeo** stated that it chooses and uses raw materials and energy sources responsibly, adopts environmentally friendly technologies and manages its production waste, but did not provide any concrete evidence to that effect. The company provides links to the monitoring platforms of AB **Grigeo** and AB **Grigeo** Klaipėda, but they lack explanations and do not contain any historical data for comparison. It should be stressed that such statistics are very useful for the users of the reports. It is also recommended to provide comparative historical data and an explanation. For example, **Amber**

**grid**, while reporting an increase in the amount of waste transferred, also disclosed that the higher amount of hazardous waste and plastics was due to the increased amount of repair and reconstruction work on the gas system in 2020. **Auga group** pointed out that the increase in water consumption (71.2 thousand<sup>m3</sup>) in 2020 was due to the increase in production and the acquisition of KB Grybai LT, while the increase in waste metal and tyres was due to the recovery in 2020 of waste accumulated in agricultural companies in the previous years.

When providing information on the vehicle fleet, the companies indicated the number and type of vehicles in operation and the types of fuel used. There is a trend towards the companies setting targets for fleet renewal by expanding the fleet of electric vehicles. For example, **Ignitis grupė** adopted the decision to increase the number of electric cars from 2% (2020) to at least 8% (at the end of 2024).

During the course of the overview, it was noted that the companies (e.g. **Apranga, Grigeo**), while providing the key performance indicators related to specific activities, include the indicators related to social and employee matters but do not give any explanation. For example, the employee turnover rate could represent employees' trust in their employer and their satisfaction with the working conditions. In their disclosures, the companies provided a lot of descriptive information on social and employee matters, such as what precautionary measures have been taken to mitigate the impact of the COVID-19 pandemic, such as testing of employees, use of protective equipment, and regulation of employee flows, but only a few companies (e.g., **Amber Grid, Klaipėdos nafta, Šiaulių bankas, Vilkyškių pieninė, Žemaitijos pienas**) disclosed the information on staff training time or calculated the average training time per employee.

Figure 6. Non-financial KPIs



\*GHG – greenhouse gas.

It should be noted that the companies still provide very few ESG non-financial performance indicators and do not structure them, which is why it is likely that publicly reported information on Lithuanian companies is biased, including through the *Bloomberg* information system, with the indicators of only two companies (**Šiaulių bankas, Telia Lietuva**) being listed. We therefore encourage companies to make efforts to provide more objective market disclosures and ESG information and KPIs through publicly available information portals.

However, it can be concluded that, although the companies usually provided KPIs, they did not specify and explain the method of calculating the KPIs and the assumptions underlying the selection of the KPIs, nor did they indicate how each KPI was linked to the company's objectives.

When submitting KPIs related to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, companies should focus on the following issues:

1. which KPIs have been used by the companies in their sustainability reporting and an explanation of why the KPIs used are relevant;
- 2) a description of the methods used to calculate the KPIs and the assumptions underlying the selection of KPIs;
- 3) a description of how each KPI is linked to the company's objectives;
- 4) a description of the historical evolution of KPIs and disclosure of the changes in the calculation and the assumptions underlying the selection of KPIs;
- 5) linking KPIs to international, national, sectoral and/or company-specific targets and making them comparable.

#### **4. DISCLOSURE OF CLIMATE-RELATED RISKS AND MATERIALITY ASSESSMENT**

In line with the EC Guidelines, i.e. the Guidelines on Non-Financial Reporting – Supplement on reporting climate-related information (2019/C 209/01), a major focus is placed on appropriate disclosure of climate-related information. Proper disclosure of climate-related information enables a company's stakeholders to understand the risks and opportunities faced by the company. The stated objective of reducing the company's carbon footprint and communicating this properly can help reduce the company's cost of capital and attract a wider range of investors. As climate change is gaining more and more attention around the world, provision of appropriate information in this area is crucial for a successful transition to a low-carbon society.

To understand the risks they face, companies should define the processes for identifying, managing and monitoring climate risks. As for sustainability reporting in general, it is important that these endeavours are endorsed by the company's management.

The analysis of the non-financial information described above shows that less than half of the companies have developed processes to identify, manage and monitor climate risks. Around half of them took into account the climate change risks they identified as important. Far fewer have considered how the identified risks are managed and monitored, and few have addressed how the climate risks may affect the company's business model, operations, performance and financial position. Assessing the financial implications of climate change appears to be the most challenging aspect of climate risk reporting, and only less than 20% of the companies (e.g. **AUGA group**, **Ignitis grupė**, **Telia Lietuva** and **Vilkyškių pieninė**) disclosed the assessment of climate change implications in their reports.

In assessing the materiality of climate-related information, a company should use a longer time horizon than the traditional period of financial statements. The company should not assume that the effects of climate change are not significant, as climate change is considered to be of a long-term nature. Measures taken to combat climate change also have consequences. Technological developments, carbon pricing and regulations can change the global market conditions for carbon- and fossil fuel-intensive goods and services. The transition from fossil fuels to renewable energy can reduce the value of fossil fuel assets and stocks, which can cause problems for businesses. Given the far-reaching consequences of climate change and the transition to a low-carbon society, the vast majority of businesses are likely to be exposed to climate risks.

#### **5. DISCLOSURE OF GHG EMISSIONS**

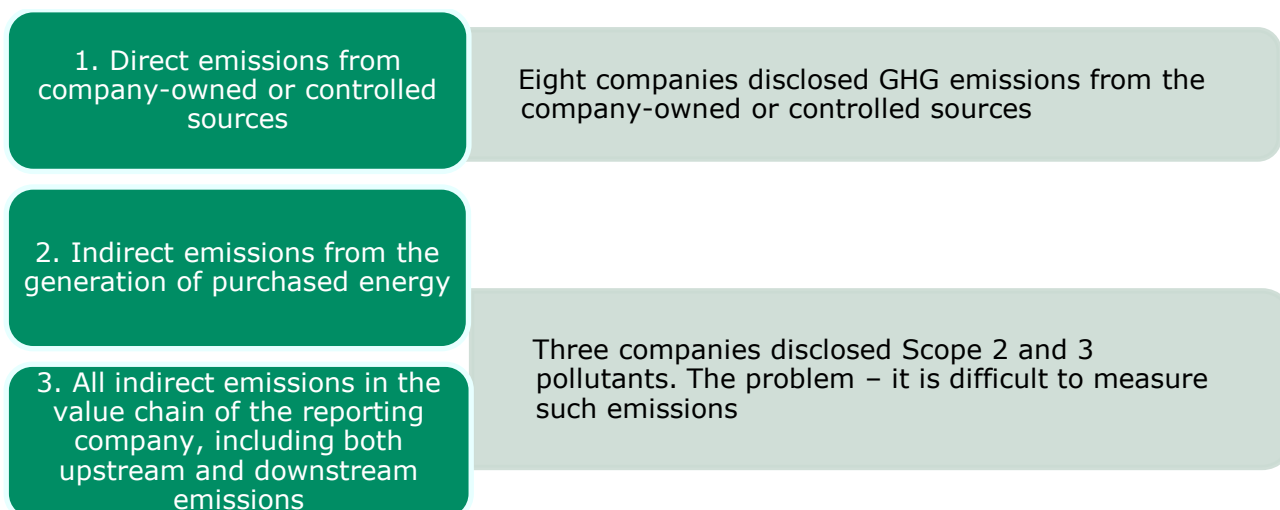
The World Resources Institute developed the GHG Protocol, which aims to establish internationally recognised standards for reporting GHG emissions. The Protocol classifies GHG emissions (pollutants) into the following three 'scopes':

- 1) direct emissions from sources owned or controlled by the company;

- 2) energy-related, indirect GHG emissions from energy sources purchased and used by the company;
- 3) all other indirect emissions arising in the company's business chain, including both upstream and downstream emissions. These emissions are a consequence of the company's activities, but they come from any sources outside the company's control or influence.

GHG emission reports can be useful for the company's stakeholders because they are measurable and specific. They also allow for comparisons between companies and sectors. About one third of the companies, i.e. 8 companies (**Amber Grid, AUGA group, Ignitis grupė, Kauno energija, Klaipėdos nafta, Novaturas, Telia Lietuva** and **Vilkyškių pieninė**) out of the 21 companies disclosed in their reports the GHG emissions from the sources owned or operated by the companies, i.e. they only disclosed Scope 1 emissions. Only 3 companies (**AUGA group, Ignitis grupė** and **Klaipėdos nafta**) disclosed Scope 2 and 3 emissions. The low percentage of the companies that were able to provide the information could perhaps be explained by the difficulty for the companies to measure such emissions. Only about a quarter of the companies (**AUGA group, Ignitis grupė, Telia Lietuva, Vilniaus baldai** and **Žemaitijos pienas**) indicated that they have specific GHG reduction targets. For example, **Telia Lietuva** has the target of zero carbon pollution and zero waste by 2030. **AUGA group** announced a five-year strategy to reduce 1) 50% of emissions from fossil fuels used in farm operations, 2) 50 % of bovine methane emissions per tonne of cow's milk produced, and 3) 30 % of emissions per tonne of dry matter of crop production.

Figure 7. GHG emissions by scope



## 6. ENFORCEMENT PRIORITIES FOR DISCLOSURE OF NON-FINANCIAL INFORMATION PUBLISHED BY ESMA IN 2020

In October 2020, ESMA published the common enforcement priorities for 2020 annual reports. These priorities are set with the aim of consistent application of international financial reporting standards and disclosure of non-financial information across the EU market. Companies listed on regulated markets were required to pay attention when preparing their 2020 annual disclosures, and auditors were required to review the disclosures during the course of the review. The review also included a review of how the companies disclosed this non-financial information.

### **6.1. DISCLOSURE OF THE IMPACT OF THE COVID-19 PANDEMIC**

The majority of companies (13 out of 21, or 62%) reported that they did not experience any significant impact on their performance as a result of the pandemic caused by the COVID-19 virus, and that the risks were managed by individual management decisions. Most companies have remained stable. To prevent the spread of the virus and to protect employees, remote work was organised. The companies reported that their management had taken all possible steps to control the processes and mitigate the risks, and that efforts were made to provide employees with the opportunities for testing or to avoid contacts by working remotely. The companies that could not operate remotely took all measures to protect their employees and minimise the risk of infection and prevent the spread of the virus.

However, as many as eight (38%) companies indicated that the COVID-19 pandemic had affected their operations and financial performance: revenues and the result of the reporting period were reduced, the companies were listed for tax assistance measures, impairment of assets was assessed and calculated, and credit risk increased which led to an increase in the companies' expected credit losses. At the same time, while underlining the uncertainty regarding the spread of the COVID-19 pandemic, the companies indicated that, even with the curtailment of activities and the reduction of revenues and profits in the current period, the management is optimistic about the current situation in the light of the decisions already taken, and anticipates that the impact of COVID-19 on the economy and the companies' operations will diminish in the long term.

### **6.2. DISCLOSURE OF SOCIAL AND EMPLOYEE MATTERS RELATED TO THE INTENSIVE USE OF REMOTE WORK TOOLS AND COMPLIANCE WITH THE HEALTH AND SAFETY RULES**

Despite the significant changes in the operating environment as a result of the COVID-19 pandemic, the majority of the companies reported that they had continued to operate smoothly in a stable and profitable manner. More than 60 % of the companies reported that the prolonged quarantine due to the COVID-19 pandemic in 2020 did not have a significant impact on their business continuity, implementation of strategic projects and financial results.

In 2020, in the face of the COVID-19 pandemic, most companies made every effort to ensure both remote work and that employees could work in safe and healthy conditions in the office or in production/operating premises: they managed employee flows as far as possible, especially in the common areas (rest areas, eating areas), provided their employees with protective equipment, and ensured that the premises are ventilated and that surfaces are disinfected. Almost all companies indicated that they had adopted updated rules of procedure defining the conditions for remote work, revised the office procedures to take account of the conditions resulting from COVID-19, as well as tightened the rules on the treatment of employees who have shown signs of illness or who have been in contact with persons showing signs of illness, the procedures for dealing with clients/partners, security measures in the office, and rules on the security of information and the protection of personal data.

Staff training, business trips and new product launches at trade fairs were cancelled or postponed and organised virtually.

At the same time, it should be noted that additional material resources were needed to provide new working conditions and to purchase protective equipment (the companies made efforts to provide their employees with disinfectants and protective equipment).

### 6.3. APPLICATION OF THE ESMA GUIDELINES ON ALTERNATIVE PERFORMANCE MEASURES IN THE CONTEXT OF THE COVID-19 PANDEMIC

In accordance with the Guidelines on Alternative Performance Measures adopted by ESMA, companies that report the financial ratios should define the APMs and their components and the basis of calculation used, including details of the material assumptions or hypotheses applied. Issuers should explain the benefits of APMs so that the users of the reports understand their importance and reliability. ESMA supplemented the Q&A document (ESMA32-51-370) on the application of the APM Guidelines when disclosing APMs related to the COVID-19 pandemic. Issuers were encouraged to be consistent in their disclosures, i.e. not to adjust existing APMs or add new APMs to improve their disclosures, but rather to provide analytical textual information explaining how COVID-19 has affected and/or is expected to affect their operations and performance, the level of uncertainty, and the measures that have been taken or are anticipated to be taken in response to the COVID-19 pandemic outbreak. These explanations could include details of how the specific circumstances surrounding the COVID-19 pandemic affected assumptions and estimates such as impairment losses, expected rent reductions or determination of grants received.

The review of the companies' reports did not reveal any new changes in the presentation of APMs or in the calculation methodologies related to the impact of the COVID-19 pandemic in any of them.

## CONCLUSIONS AND SUMMARY OF RESULTS

### Visibility of sustainability-related information disclosed by the companies

It should be noted that although the companies try to disclose as much information as possible in their annual reports, there is still very little public disclosures of ESG non-financial performance indicators and a lot of biased information about Lithuanian companies in the public domain. For example, only two companies (**Šiaulių bankas** and **Telia Lietuva**) have their ESG indicators reported via the *Bloomberg* information system. We therefore encourage all companies to make efforts to provide more objective market disclosures and ESG information and KPIs through publicly available information portals.

The companies try to comply with ESG requirements, disclose their policies, decisions and results, and seek to have their performance assessed by independent international assessors to increase their visibility among investors. For example, **AUGA group** stated in its annual report that it communicates openly and actively about its ESG actions, and in 2020 it became the first Lithuanian company to provide sustainability data to the NASDAQ Sustainability Data Portal. As a result, the company has been certified as a *NASDAQ ESG Transparency Partner*. Also in 2020, ISS ESG, a research and consulting firm, conducted a sustainability assessment of the company and awarded it the Prime status, which places it among the top 10% of the companies in the food and beverage sector worldwide. **Ignitis grupė** disclosed in its 2020 annual report that *Sustainalytics*, an independent leader in ESG and corporate governance ratings, research and analysis, carried out a risk assessment of the Group and gave it a risk rating of 26.5, placing it in the top 20 % of companies in the industry: the risk of the group being financially impacted by ESG-related factors is assessed as medium and the management of the most important ESG drivers is strong. Furthermore, in 2020, **Ignitis grupė** received a rating of AA (on a scale of CCC-AAA) in the MSCI ESG Ratings. In 2020, **Utena Trikotažas** became the first company in the world to comply with the Greenpeace Textile Production Standard.

### In terms of disclosure of non-financial information by companies, general recommendations on the form of disclosure would be as follows:

1. When disclosing their business model and sustainability strategy, companies should focus on describing their sustainability strategy, how it is linked to the company's business model, whether policies and procedures are in place, and how the management is involved and measures performance.

2. Disclosure of the principal risks associated with the company's activities, including business relationships, products or services, that may adversely affect the company or its environment should include how the company manages and controls those risks.
3. Information on the management of principal risks should be evaluated and cover several periods: short, medium and long term. Companies should explain how risks may affect the company's business model, activities and financial results.
4. Companies should disclose how they have assessed materiality in relation to the identified sustainability risks, using the concept of financial materiality and the materiality matrix.
5. For non-financial disclosures, EU or international frameworks or methodologies for disclosure requirements should be followed, and companies should indicate which frameworks or methodologies have been followed.
6. Companies should explain the KPIs used, why the KPIs used are relevant to the company, complete the description of the methods used to calculate the KPIs and the assumptions underlying the selection of indicators, i.e., how each KPI is linked to the company's objectives, provide the historical evolution of the indicators and the changes in the calculations and the assumptions underlying the selection of the KPIs, link the KPIs where possible to international, national, sectoral and/or company-specific objectives in order to increase their comparability.
7. Companies should take into account the enforcement priorities for disclosure of non-financial information released by ESMA each year.

#### **FOLLOW-UP ACTIONS BY THE BANK OF LITHUANIA**

1. The Bank of Lithuania intends to make this review publicly available and publish it on its website.
2. Taking into account the importance of non-financial information, the Bank of Lithuania plans to regularly analyse the information provided by these companies either in its entirety or on a selective basis, taking into account the increased relevance of certain aspects (principles).