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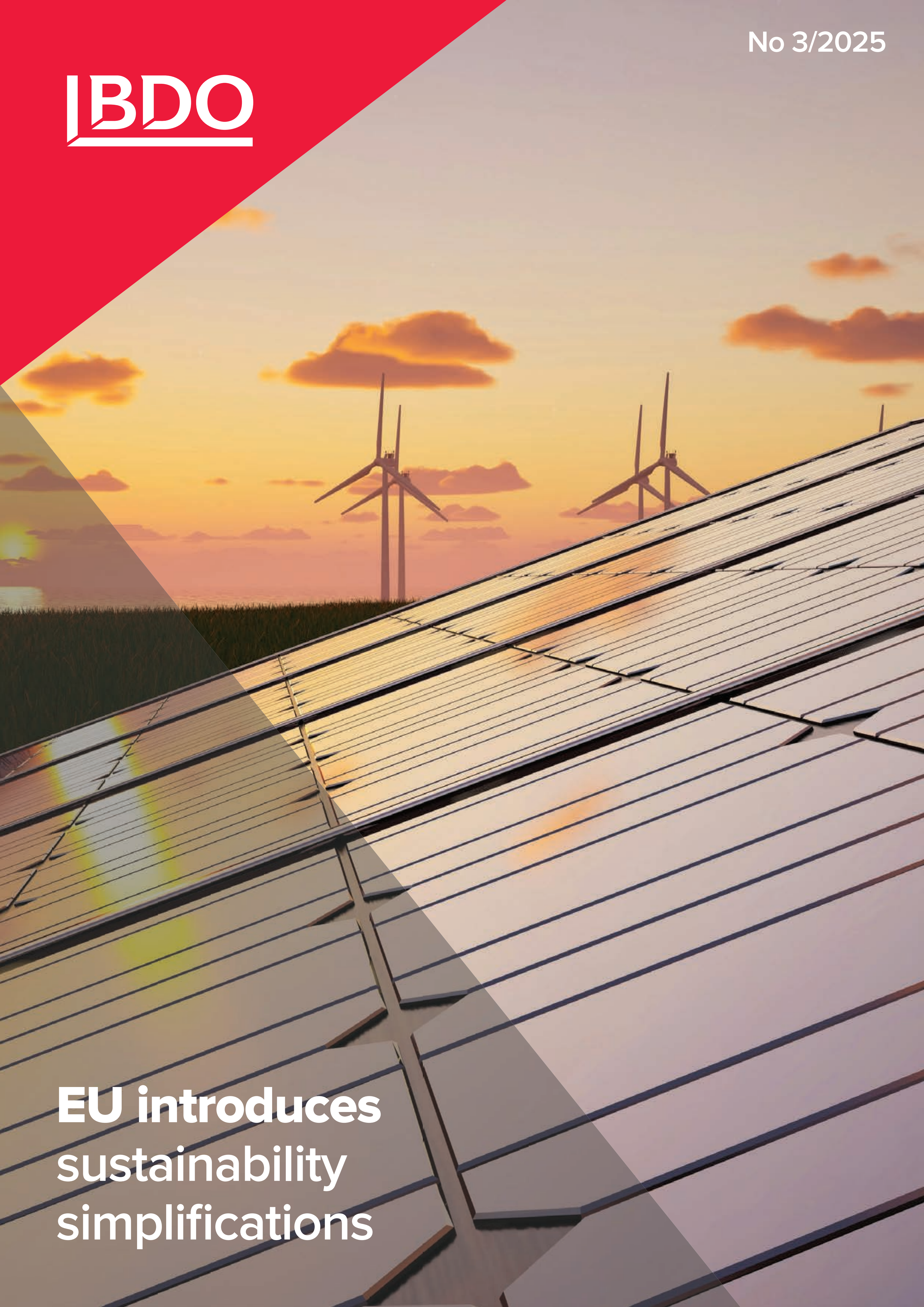

EU introduces sustainability simplifications

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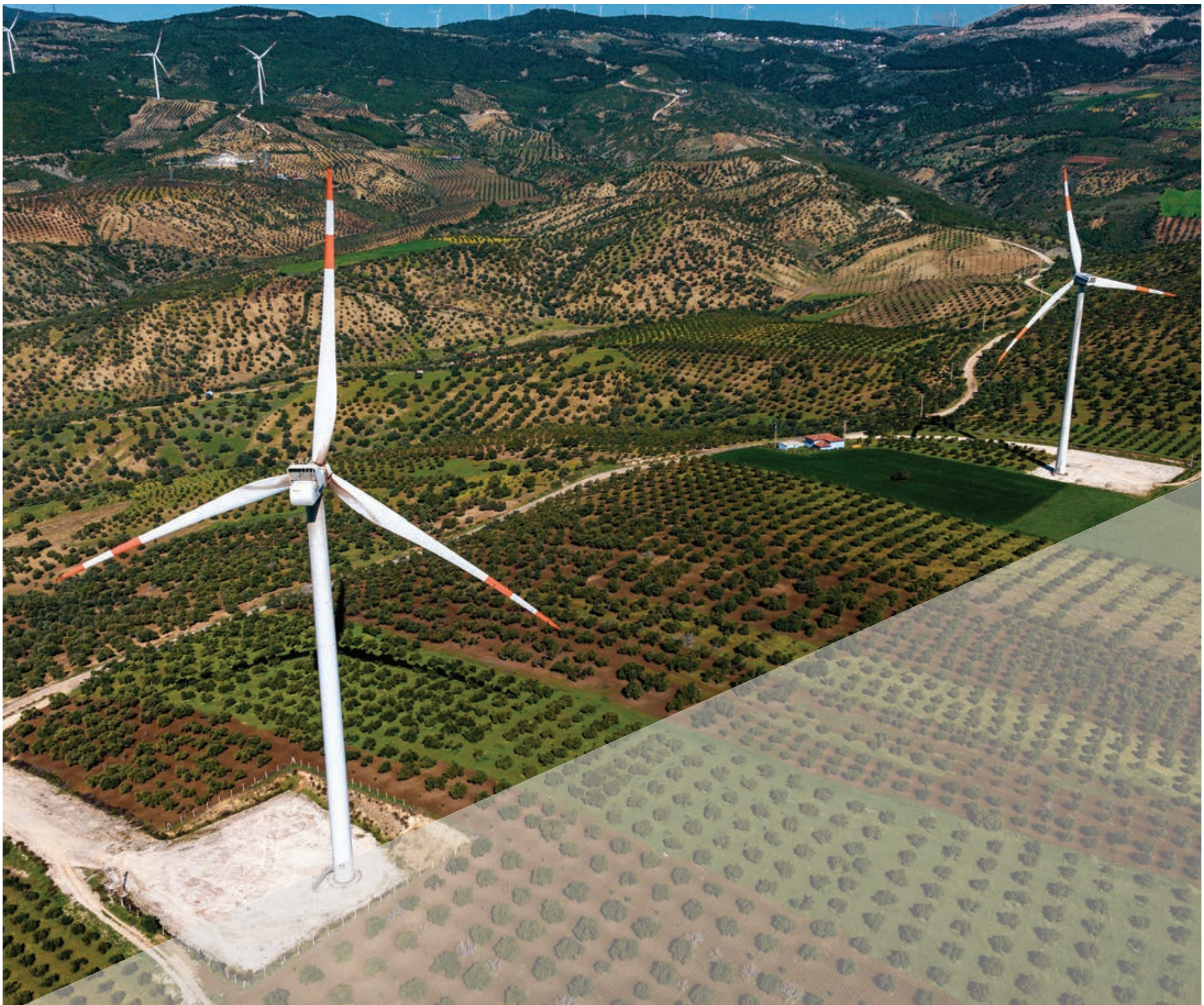
The European Commission has adopted the "Omnibus" package of simplifications, which is to considerably reduce the number of entities covered by mandatory ESG reporting by raising employment thresholds to 1000 employees. The changes also provide for postponing the implementation dates, simplifying taxonomy, as well as reducing monitoring in the supply chain, while at the same time maintaining the primary objectives of the European Green Deal.

I. ESG still key element of EU strategy

The Omnibus simplification package announced by the European Commission on 26 February 2025 is not a departure from the principles of ESG (Environmental, Social, Governance), but rather only a technical adjustment to reporting. The main objectives of the European Union, including climate neutrality by 2050, remain unchanged. The Clean Industrial Deal of which Omnibus is a part, continues to focus on decarbonization and reducing the prices of energy through the use of renewable energy sources as the key pillars of competitiveness. Environmental, social and governance regulations will still continue to apply to businesses through other legal acts, such as the Building Directive, SFDR or anti-greenwashing regulations. Above all, the simplification is meant to reduce the administrative burden and make the process of reporting more efficient, while at the same time maintaining high sustainability standards. In consequence, businesses should continue to treat ESG aspects as a significant element of their business strategy.

II. Significant increase in CSRD reporting thresholds

The most notable change proposed as part of the package is increasing the mandatory sustainability reporting threshold from the current 250 to 1000 employees while at the same time meeting the financial criterion of 450 million in turnover or adequate total assets. This modification of the CSRD will radically reduce the number of entities covered by the reporting requirement – from around 50 000 to just 7000



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across the European Union. In Poland the number of reporting companies could drop from more than 3000 to around 300.
The European Commission has argued that this approach will focus on the largest entities with the greatest environmental and social impact. Smaller firms will be exempted from the reporting obligation, which will contribute to reducing the administrative burden by 25% by the middle of 2025, as per the provisions of the Budapest Declaration.

III. Simplifications for companies in the value chain

Omnibus introduces significant changes to value chain information reporting. Directly reporting entities will not be able to request from entities in the value chain ESG information that exceeds the scope set by the European Commission in the voluntary Sustainability Reporting Standard. The standard will constitute the limit of requested information, which is to reduce the domino effect and protect smaller entities from excessive information requirements from large business partners. The Due Diligence Directive (CSDDD) proposes reducing monitoring from the entire value chain to only direct suppliers (so-called tier 1) and changing the frequency of monitoring from yearly to every five years. Companies will be able to extend monitoring onto additional links if business considerations make it necessary.

IV. Changes in assurance and transition plans

The package also provides for simplifications in the costs of ESG reporting assurance. The European Commission has proposed that assurance by certified auditors should ultimately consist only of limited assurance rather than reasonable assurance, which should considerably reduce the costs of verifying reports.
In the Due Diligence Directive (CSDDD) the requirement to “adopt and implement” climate transition plans was changed to a requirement to simply “adopt” such plans. This means that companies will have to create transition plans, but their implementation will not have to take place until later, at the right time and under the right conditions. This affords businesses more flexibility in planning their climate impact reduction efforts.

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V. Deferral of deadlines to better prepare businesses

An important element of the "Omnibus" package is the deferral by two years (until 2028) of the sustainability reporting requirement for the second and third group of entities, which under the CSRD are obligated to report for the first time for 2025 or 2026. In addition, the sustainability due diligence requirements for the largest companies have been postponed by a year (until 26 July 2028), while the adoption of the related guidelines has been accelerated by a year (until July 2026). These changes are intended to give companies more time to prepare for the new obligations and allow for smoother implementation of such demanding regulations. The European Commission assumes quick processing of the proposal to postpone the deadlines, as it considers it a priority.

VI. EU taxonomy simplifications

"Omnibus" introduces significant changes in the area of the EU taxonomy, which classifies sustainable economic activities. The proposed modifications include limiting the taxonomy reporting obligations to the largest companies (corresponding to the scope of the CSDDD), while keeping the possibility to report voluntarily for the other large companies covered by the CSRD. The option of reporting on activities that are partially aligned with the taxonomy has also been introduced to support a gradual environmental transition of activities and scale up transition finance. An important change is the introduction of a financial materiality threshold for the taxonomy reporting and a reduction in the reporting templates by around 70%. The most complex "Do No Significant Harm" criteria for preventing pollution related to the use and presence of chemicals has also been simplified – as a first step in revising and simplifying all such criteria.

VII. Changes to border price adjustment mechanism

The package also includes simplifications to the Carbon Border Adjustment Mechanism (CBAM). The main changes consist of exempting small importers, mostly SMEs and individuals, from CBAM obligations by introducing a new cumulative annual threshold of 50 tons per importer. This eliminates CBAM obligations for about 90% of importers, while covering more than 99% of emissions. The rules for companies

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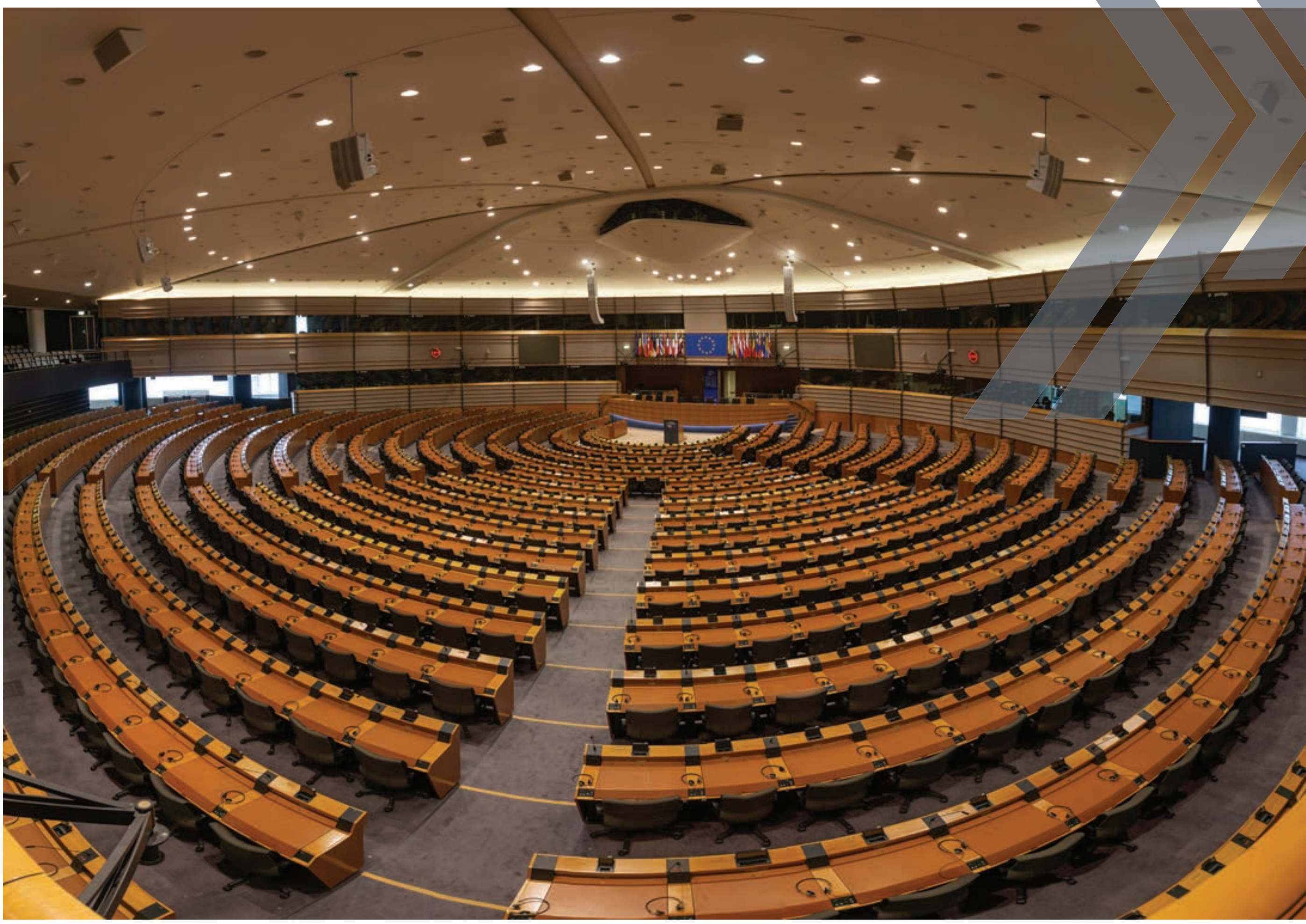
that remain in CBAM scope on the authorization of CBAM declarants have also been simplified, as have the rules related to the calculation of embedded emissions and reporting requirements. In addition, the rules that aim to avoid circumvention and abuse have been strengthened. This simplification precedes a future extension of CBAM to other sectors and processed goods, to be followed by a new legislative proposal to extend the scope of CBAM in early 2026.

VIII. Continued legislative process and practical consequences for businesses

The European Commission's legislative proposals will now be submitted to the European Parliament and to the Council for consideration and adoption. Changes to the CSRD, CSDDD and CBAM will go into effect after the co-legislators reach agreement and after publication in the EU Official Journal. The process could take many months or even years, and its outcome is not certain. Debates in the European Parliament lack unanimity, with green and left-wing parties opposing some of the changes. Until national law is formally amended, companies must comply with current regulations. Entities that are to report for 2025 are advised to start preparing to avoid liability risks. Irrespective of regulatory changes, the process of collecting and analyzing ESG data provides companies with valuable insights into their operations and helps them better manage their business risks.



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