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ANNEX 1

ANNEX

to the

Commission Delegated Regulation (EU) .../...

supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards

ANNEX I

EUROPEAN SUSTAINABILITY REPORTING STANDARDS (ESRS)

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ESRS 1
GENERAL REQUIREMENTS

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Objective

1. The objective of European Sustainability Reporting Standards (ESRS) is to specify the sustainability information that an undertaking shall disclose in accordance with Directive 2013/34/EU of the European Parliament and of the Council[1], as amended by Directive (EU) 2022/2464 of the European Parliament and of the Council.[2] Reporting in accordance with ESRS does not exempt undertakings from other obligations laid down in Union law.

2. Specifically, ESRS specify the information that an undertaking shall disclose about its material ***impacts***, ***risks*** and ***opportunities*** in relation to environmental, social, and governance ***sustainability matters.*** ESRS do not require undertakings to disclose any information on environmental, social and governance topics covered by ESRS when the undertaking has assessed the topic in question as non-material (See Appendix E of this Standard "*Flowchart for determining disclosures to be included*").The information disclosed in accordance with ESRS enables ***users*** of the ***sustainability statement*** to understand the undertaking's material impacts on people and environment and the material effects of sustainability matters on the undertaking's development, performance and position.

3. The objective of this Standard (ESRS 1) is to provide an understanding of the architecture of ESRS, the drafting conventions and fundamental concepts used, and the general requirements for preparing and presenting sustainability information in accordance with Directive 2013/34/EU, as amended by Directive (EU) 2022/2464.

[1] Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ L 182, 29.6.2013, p. 19).
[2] Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting (OJ L 322, 16.12.2022, p. 15).

1. Categories of ESRS Standards, reporting areas and drafting conventions

1.1 Categories of ESRS standards

4. There are three categories of ESRS:

   (a) cross-cutting standards;

   (b) topical standards (Environmental, Social and Governance standards); and

   (c) sector-specific standards.

   Cross-cutting standards and topical standards are sector-agnostic, meaning that they apply to all undertakings regardless of which sector or sectors the undertaking operates in.

5. The cross-cutting standards ESRS 1 *General requirements* and ESRS 2 *General disclosures* apply to the ***sustainability matters*** covered by topical standards and sector-specific standards.

6. This standard (ESRS 1) describes the architecture of ESRS standards, explains drafting conventions and fundamental concepts, and sets out general requirements for preparing and presenting sustainability-related information.

7. ESRS 2 establishes Disclosure Requirements on the information that the undertaking shall provide at a general level across all material ***sustainability matters*** on the reporting areas governance***,*** strategy***, impact, risk*** and ***opportunity*** management, and ***metrics*** and ***targets***.

8. Topical ESRS cover a sustainability topic and are structured into topics and sub-topics, and where necessary sub-sub-topics. The table in Application Requirement 16 (AR 16) to this standard provides an overview of the sustainability topics, sub-topics and sub-sub-topics (collectively '***sustainability matters***') covered by topical ESRS.

9. Topical ESRS can include specific requirements that complement the general level Disclosure Requirements of ESRS 2. ESRS 2 Appendix C *Disclosure/Application Requirements in topical ESRS that are applicable jointly with ESRS 2 General Disclosures* provides a list of the additional requirements in topical ESRS that the undertaking shall apply in conjunction with the general level disclosure requirements of ESRS 2.

10. Sector-specific standards are applicable to all undertakings within a sector. They address ***impacts, risks*** and ***opportunities*** that are likely to be material for all undertakings in a specific sector and that are not covered, or not sufficiently covered, by topical standards. Sector-specific standards are multi-topical and cover the topics that are most relevant to the sector in question. Sector-specific standards achieve a high degree of comparability.

11. In addition to the disclosure requirements laid down in the three categories of ESRS, when an undertaking concludes that an impact, risk or opportunity is not covered or not covered with sufficient granularity by an ESRS but is material due to its specific facts and circumstances, it shall provide additional entity-specific disclosures to enable users to understand the undertaking's sustainability-related ***impacts, risks*** or ***opportunities***. Application requirements AR 1 to AR 5 provide further guidance regarding entity-specific disclosures.

1.2 Reporting areas and minimum content disclosure requirements on policies, actions, targets and metrics

12. The Disclosure Requirements in ESRS 2, in topical ESRS and in sector-specific ESRS are structured into the following reporting areas:

   (a) **Governance** (GOV): the governance processes, controls and procedures used to monitor, manage and oversee ***impacts, risks*** and ***opportunities*** (see ESRS 2, chapter 2 *Governance*);

   (b) **Strategy** (SBM): how the undertaking's strategy and ***business model*** interact with its material impacts, risks and opportunities, including how the undertaking addresses those impacts, risks and opportunities (see ESRS 2, chapter 3 *Strategy*);

   (c) **Impact, risk and opportunity management** (IRO): the process(es) by which the undertaking:

i. identifies impacts, risks and opportunities and assesses their ***materiality*** (see IRO-1 in section 4.1 of ESRS 2),

ii. manages material ***sustainability matters*** through ***policies*** and ***actions*** (see section 4.2 of ESRS 2).

(d) **Metrics and targets** (MT): the undertaking's performance, including targets it has set and progress towards meeting them (see ESRS 2, chapter 5 *Metrics and targets*).

13. ESRS 2 includes:

(a) in section 4.2 Minimum Disclosure Requirements regarding ***policies*** (MDR-P) and ***actions*** (MDR-A);

(b) in section 5 Minimum Disclosure Requirements regarding metrics (MDR-M) and ***targets*** (MDR-T).

The undertaking shall apply the ***minimum disclosure requirements*** regarding policies, actions, metrics and targets together with the corresponding Disclosure Requirements in topical and sector-specific ESRS.

1.3 Drafting conventions

14. In all ESRS:

(a) the term "***impacts***" refers to positive and negative sustainability-related impacts that are connected with the undertaking's business, as identified through an ***impact materiality*** assessment (see section 3.4 *Impact materiality*). It refers both to actual impacts and to potential future impacts.

(b) The term "***risks*** and ***opportunities***" refers to the undertaking's sustainability-related financial risks and opportunities, including those deriving from dependencies on natural, human and social resources, as identified through a ***financial materiality*** assessment (see section 3.5).

Collectively, these are referred to as "impacts, risks and opportunities" (IROs). They reflect the ***double materiality*** perspective of ESRS described in section 3.

15. Throughout ESRS, the terms that are defined in the glossary of definitions (Annex II) are put in ***bold italic***, except when a defined term is used more than once in the same paragraph.

16. ESRS structure the information to be disclosed under Disclosure Requirements. Each Disclosure Requirement consists of one or more distinct datapoints. The term "datapoint" can also refer to a narrative sub-element of a Disclosure Requirement.

17. In addition to Disclosure Requirements most ESRS also contain Application Requirements. Application Requirements support the application of Disclosure Requirements and have the same authority as other parts of an ESRS.

18. ESRS use the following terms to distinguish between different degrees of obligation on the undertaking to disclose information:

(a) "shall disclose" – indicates that the provision is prescribed by a Disclosure Requirement or datapoint;

(b) "may disclose" – indicates voluntary disclosure to encourage good practice.

In addition, ESRS use the term "shall consider" when referring to issues, resources or methodologies that the undertaking is expected to take into account or to use in the preparation of a given disclosure if applicable.

2. Qualitative characteristics of information

19. When preparing its ***sustainability statement***, the undertaking shall apply:

(a) the fundamental qualitative characteristics of information, i.e. relevance and faithful representation; and

(b) the enhancing qualitative characteristics of information, i.e. comparability, verifiability and understandability.

20. These qualitative characteristics of information are defined and described in Appendix B of this Standard.

3. Double materiality as the basis for sustainability disclosures

21. The undertaking shall report on ***sustainability matters*** based on the ***double materiality*** principle as defined and explained in this chapter.

3.1 Stakeholders and their relevance to the materiality assessment process

22. ***Stakeholders*** are those who can affect or be affected by the undertaking. There are two main groups of stakeholders:

(a) affected stakeholders: individuals or groups whose interests are affected or could be affected – positively or negatively – by the undertaking's activities and its direct and indirect ***business relationships*** across its ***value chain***; and

(b) users of ***sustainability statements***: primary users of general-purpose financial reporting (existing and potential investors, lenders and other creditors, including asset managers, credit institutions, insurance undertakings), and other users of sustainability statements, including the undertaking's business partners, trade unions and social partners, civil society and non-governmental organisations, governments, analysts and academics.

23. Some, but not all, ***stakeholders*** may belong to both groups referred to in paragraph 22.

24. Engagement with affected ***stakeholders*** is central to the undertaking's on-going due diligence process (see chapter 4 *Due diligence*) and sustainability ***materiality*** assessment. This includes its processes to identify and assess actual and potential negative impacts, which then inform the assessment process to identify the material impacts for the purposes of sustainability reporting (see section 3.4 of this Standard).

3.2 Material matters and materiality of information

25. Performing a ***materiality*** assessment (see sections 3.4 *Impact materiality* and 3.5 *Financial materiality*) is necessary for the undertaking to identify the material ***impacts, risks*** and ***opportunities*** to be reported.

26. ***Materiality*** assessment is the starting point for sustainability reporting under ESRS. IRO-1 in section 4.1 of ESRS 2, includes general disclosure requirements about the undertaking's process to identify ***impacts, risks*** and ***opportunities*** and assess their materiality. SBM-3 of ESRS 2 provides general disclosure requirements on the material impacts, risks and opportunities resulting from the undertaking's materiality assessment.

27. The Application Requirements in Appendix A of this Standard include a list of ***sustainability matters*** covered in topical ESRS, categorised by topics, sub-topics and sub-sub-topics, to support the ***materiality*** assessment. Appendix E *Flowchart for determining disclosures to be included* of this Standard provides an illustration of the materiality assessment described in this section.

28. A sustainability matter is "material" when it meets the criteria defined for ***impact materiality*** (see section 3.4 of this Standard) or ***financial materiality*** (see section 3.5 of this Standard), or both.

29. Irrespective of the outcome of its materiality assessment, the undertaking shall always disclose the information required by: ESRS 2 *General Disclosures* (i.e. all the Disclosure Requirements and data points specified in ESRS 2) and the Disclosure Requirements

(including their datapoints) in topical ESRS related to the Disclosure Requirement IRO-1 *Description of the process to identify and assess material impacts, risks and opportunities*, as listed in ESRS 2 Appendix C *Disclosure/Application Requirements in topical ESRS that are applicable jointly with ESRS 2 General Disclosures*.

30. When the undertaking concludes that a sustainability matter is material as a result of its ***materiality*** assessment, on which ESRS 2 IRO-1, IRO-2 and SBM-3 set disclosure requirements, it shall:

    (a) disclose information according to the Disclosure Requirements (including Application Requirements) related to that specific sustainability matter in the corresponding topical and sector-specific ESRS; and

    (b) disclose additional entity-specific disclosures (see paragraph 11 and AR 1 to AR 5 of this Standard) when the material sustainability matter is not covered by an ESRS or is covered with insufficient granularity.

31. The applicable information prescribed within a Disclosure Requirement, including its datapoints, or an entity-specific disclosure, shall be disclosed when the undertaking assesses, as part of its assessment of material information, that the information is relevant from one or more of the following perspectives:

    (a) the significance of the information in relation to the matter it purports to depict or explain; or

    (b) the capacity of such information to meet the users' decision-making needs, including the needs of primary users of general-purpose financial reporting described in paragraph 48 and/or the needs of users whose principal interest is in information about the undertaking's impacts.

32. If the undertaking concludes that climate change is not material and therefore omits all disclosure requirements in ESRS E1 *Climate change*, it shall disclose a detailed explanation of the conclusions of its ***materiality*** assessment with regard to climate change (see ESRS 2 IRO-2 *Disclosure Requirements in ESRS covered by the undertaking's sustainability statement*), including a forward-looking analysis of the conditions that could lead the undertaking to conclude that climate change is material in the future. If the undertaking concludes that a topic other than climate change is not material and therefore it omits all the Disclosure Requirements in the corresponding topical ESRS, it may briefly explain the conclusions of its materiality assessment for that topic.

33. When disclosing information on ***policies, actions*** and ***targets*** in relation to a ***sustainability matter*** that has been assessed to be material, the undertaking shall include the information prescribed by all the Disclosure Requirements and datapoints in the topical and sector-specific ESRS related to that matter and in the corresponding ***Minimum Disclosure Requirement*** on policies, actions, and targets required under ESRS 2. If the undertaking cannot disclose the information prescribed by either the Disclosure Requirements and datapoints in the topical or sector-specific ESRS, or the Minimum Disclosure Requirements in ESRS 2 on policies, actions and targets, because it has not adopted the respective policies, implemented the respective actions or set the respective targets, it shall disclose this to be the case and it may report a timeframe in which it aims to have these in place.

34. When disclosing information on ***metrics*** for a material ***sustainability matter*** according to the Metrics and Targets section of the relevant topical ESRS, the undertaking:

    (a) shall include the information prescribed by a Disclosure Requirement if it assesses such information to be material; and

    (b) may omit the information prescribed by a datapoint of a Disclosure Requirement if it assesses such information to be not material and concludes that such information is not needed to meet the objective of the Disclosure Requirement.

35. If the undertaking omits the information prescribed by a datapoint that derives from other EU legislation listed in Appendix B of ESRS 2, it shall explicitly state that the information in question is "not material".

36. The undertaking shall establish how it applies criteria, including appropriate thresholds, to determine:

(a) the information it discloses on ***metrics*** for a material sustainability matter according to the Metrics and Targets section of the relevant topical ESRS, in accordance with paragraph 34; and

(b) the information to be disclosed as entity-specific disclosures.

3.3 Double materiality

37. ***Double materiality*** has two dimensions, namely: ***impact materiality*** and ***financial materiality***. Unless specified otherwise, the terms “material” and “materiality” are used throughout ESRS to refer to double materiality.

38. ***Impact materiality*** and ***financial materiality*** assessments are inter-related and the interdependencies between these two dimensions shall be considered. In general, the starting point is the assessment of impacts, although there may also be material ***risks*** and ***opportunities*** that are not related to the undertaking’s ***impacts***. A sustainability impact may be financially material from inception or become financially material, when it could reasonably be expected to affect the undertaking’s financial position, financial performance, cash flows, its access to finance or cost of capital over the short-, medium- or long-term. Impacts are captured by the impact materiality perspective irrespective of whether or not they are financially material.

39. In identifying and assessing the ***impacts, risks*** and ***opportunities*** in the undertaking’s ***value chain*** to determine their ***materiality***, the undertaking shall focus on areas where impacts, risks and opportunities are deemed likely to arise, based on the nature of the activities, business relationships, geographies or other factors concerned.

40. The undertaking shall consider how it is affected by its ***dependencies*** on the availability of natural, human and social resources at appropriate prices and quality, irrespective of its potential ***impacts*** on those resources.

41. An undertaking’s principal ***impacts, risks*** and ***opportunities*** are understood to be the same as the material impacts, risks and opportunities identified under the ***double materiality*** principle and therefore reported on in its ***sustainability statement.***

42. The undertaking shall apply the criteria set under sections 3.4 and 3.5 in this Standard, using appropriate quantitative and/or qualitative thresholds. Appropriate thresholds are necessary to determine which ***impacts, risks*** and ***opportunities*** are identified and addressed by the undertaking as material and to determine which ***sustainability matters*** are material for reporting purposes. Some existing standards and frameworks use the term "most significant impacts” when referring to the threshold used to identify the impacts that are described in ESRS as "material impacts."

3.4 Impact materiality

43. A ***sustainability matter*** is material from an impact perspective when it pertains to the undertaking’s material actual or potential, positive or negative ***impacts*** on people or the environment over the short-, medium- or long-term. Impacts include those connected with the undertaking’s own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships. ***Business relationships*** include those in the undertaking’s upstream and downstream ***value chain*** and are not limited to direct contractual relationships.

44. In this context, impacts on people or the environment include impacts in relation to environmental, social and governance matters.

45. The ***materiality*** assessment of a negative impact is informed by the due diligence process defined in the international instruments of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises. For actual negative impacts,

materiality is based on the severity of the impact, while for potential negative impacts it is based on the severity and likelihood of the impact. Severity is based on the following factors:

(a) the scale;

(b) scope; and

(c) irremediable character of the impact.

In the case of a potential negative human rights impact, the severity of the impact takes precedence over its likelihood.

46. For positive impacts, ***materiality*** is based on:

(a) the scale and scope of the impact for actual impacts; and

(b) the scale, scope and likelihood of the impact for potential impacts.

3.5 Financial materiality

47. The scope of ***financial materiality*** for sustainability reporting is an expansion of the scope of materiality used in the process of determining which information should be included in the undertaking's financial statements.

48. The ***financial materiality*** assessment corresponds to the identification of information that is considered material for primary users of general-purpose financial reports in making decisions relating to providing resources to the entity. In particular, information is considered material for primary users of general-purpose financial reports if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that they make on the basis of the undertaking's ***sustainability statement***.

49. A sustainability matter is material from a financial perspective if it triggers or could reasonably be expected to trigger material ***financial effects*** on the undertaking. This is the case when a sustainability matter generates ***risks*** or ***opportunities*** that have a material influence, or could reasonably be expected to have a material influence, on the undertaking's development, financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term. Risks and opportunities may derive from past events or future events. The ***financial materiality*** of a sustainability matter is not constrained to matters that are within the control of the undertaking but includes information on material ***risks*** and ***opportunities*** attributable to ***business relationships*** beyond the scope of consolidation used in the preparation of financial statements.

50. ***Dependencies*** on natural, human and social resources can be sources of financial ***risks*** or ***opportunities***. Dependencies may trigger effects in two possible ways:

(a) they may influence the undertaking's ability to continue to use or obtain the resources needed in its business processes, as well as the quality and pricing of those resources; and

(b) they may affect the undertaking's ability to rely on relationships needed in its business processes on acceptable terms.

51. The ***materiality*** of ***risks*** and ***opportunities*** is assessed based on a combination of the likelihood of occurrence and the potential magnitude of the ***financial effects***.

3.6 Material impacts or risks arising from actions to address sustainability matters

52. The undertaking's ***materiality*** assessment may lead to the identification of situations in which its ***actions*** to address certain ***impacts*** or ***risks***, or to benefit from certain ***opportunities*** in relation to a sustainability matter, might have material negative impacts or cause material risks in relation to one or more other ***sustainability matters***. For example:

(a) an action plan to decarbonise production that involves abandoning certain products

might have material negative impacts on the undertaking's ***own workforce*** and result in material risks due to redundancy payments; or

(b) an action plan of an automotive ***supplier*** to focus on the supply of e-vehicles might lead to stranded assets for the production of supply parts for conventional vehicles.

53. In such situations, the undertaking shall:

(a) disclose the existence of material negative impacts or material risks together with the ***actions*** that generate them, with a cross-reference to the topic to which the impacts or risks relate; and

(b) provide a description of how the material negative impacts or material risks are addressed under the topic to which they relate.

3.7 Level of disaggregation

54. When needed for a proper understanding of its material ***impacts, risks*** and ***opportunities***, the undertaking shall disaggregate the reported information:

(a) by country, when there are significant variations of material impacts, risks and opportunities across countries and when presenting the information at a higher level of aggregation would obscure material information about impacts, risks or opportunities; or

(b) by significant ***site*** or by significant asset, when material impacts, risks and opportunities are highly dependent on a specific location or asset.

55. When defining the appropriate level of disaggregation for reporting, the undertaking shall consider the disaggregation adopted in its materiality assessment. Depending on the undertaking's specific facts and circumstances, a disaggregation by subsidiary may be necessary.

56. Where data from different levels, or multiple locations within a level, is aggregated, the undertaking shall ensure that this aggregation does not obscure the specificity and context necessary to interpret the information. The undertaking shall not aggregate material items that differ in nature.

57. When the undertaking presents information disaggregated by sectors, it shall adopt the ESRS sector classification to be specified in a delegated act adopted by the Commission pursuant to article 29b(1) third subparagraph, point (ii), of Directive 2013/34/EU. When a topical or sector-specific ESRS requires that a specific level of disaggregation is adopted in preparing a specific item of information, the requirement in the topical or sector-specific ESRS shall prevail.

4. Due diligence

58. The outcome of the undertaking's sustainability due diligence process (referred to as "due diligence" in the international instruments mentioned below) informs the undertaking's assessment of its material ***impacts, risks*** and ***opportunities***. ESRS do not impose any conduct requirements in relation to due diligence; nor do they extend or modify the role of the administrative, management or supervisory bodies of the undertaking with regard to the conduct of due diligence.

59. Due diligence is the process by which undertakings identify, prevent, mitigate and account for how they address the actual and potential negative ***impacts*** on the environment and people connected with their business. These include negative impacts connected with the undertaking's own operations and its upstream and downstream value chain, including through its products or services, as well as through its business relationships. Due diligence is an on-going practice that responds to and may trigger changes in the undertaking's strategy, business model, activities, business relationships, operating, sourcing and selling contexts. This process is described in the international instruments of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.

60. These international instruments identify a number of steps in the due diligence process,

including the identification and assessment of negative impacts connected with the undertaking's own operations and its upstream and downstream value chain, including through its products or services, as well as through its business relationships. Where the undertaking cannot address all impacts at once, the due diligence process allows for action to be prioritised based on the severity and likelihood of the impacts. It is this aspect of the due diligence process that informs the assessment of material impacts (see section 3.4 of this Standard). The identification of material impacts also supports the identification of material sustainability ***risks*** and ***opportunities***, which are often a product of such impacts.

61. The core elements of due diligence are reflected directly in Disclosure Requirements set out in ESRS 2 and in the topical ESRS, as illustrated below:

    (a) embedding due diligence in governance, strategy and business model[3]. This is addressed under:

        i. ESRS 2 GOV-2: *Information provided to and sustainability matters addressed by the undertaking's administrative, management and supervisory bodies*;

        ii. ESRS 2 GOV-3: *Integration of sustainability-related performance in incentive schemes*; and

        iii. ESRS 2 SBM-3: *Material impacts, risks and opportunities and their interaction with strategy and business model.*

    (b) engaging with affected ***stakeholders***[4]. This is addressed under:

        i. ESRS 2 GOV-2;

        ii. ESRS 2 SBM-2: *Interests and views of stakeholders*;

        iii. ESRS 2 IRO-1;

        iv. ESRS 2 MDR-P; and

        v. Topical ESRS: reflecting the different stages and purposes of stakeholder engagement throughout the due diligence process.

    (c) identifying and assessing negative impacts on people and the environment[5]. This is addressed under:

        i. ESRS 2 IRO-1 (including Application Requirements related to specific ***sustainability matters*** in the relevant ESRS); and

        ii. ESRS 2 SBM-3;

    (d) taking action to address negative impacts on people and the environment[6]. This is addressed under:

        i. ESRS 2 MDR-A; and

        ii. Topical ESRS: reflecting the range of ***actions***, including ***transition plans,*** through which impacts are addressed.

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[3] UN Guiding Principle 16 and its commentary; UN Interpretive Guide, Questions 21 and 25 as well as OECD Guidelines Chapter II on General Policies (paragraph A.10), and chapter IV on Human Rights (paragraph 4; and paragraph 44 of the Commentary); and OECD Due Diligence Guidance, Section II (1.1 and 1.2) and Annex, Questions 14 and 15.

[4] UN Guiding Principle 18 and its Commentary, UN Guiding Principle 20, Commentary to UN Guiding Principles 21 and 29, and UN Guiding Principle 31(h) and its Commentary; and the UN Interpretive Guide, Questions 30, 33, 42 and 76 as well as OECD Guidelines Chapter II on General Policies (paragraph A.14 and paragraph 25 of the Commentary); and OECD Due Diligence Guidance, Section II (2.1.c, 2.3. 2.4.a, 3.1.b and 3.1.f) and Annex Questions 8- 11.

[5] UN Guiding Principles 17, 18 and 24 and their Commentaries, and the Commentary to UN Guiding Principle 29; and the UN Interpretive Guide, Questions 9, 12-13, 27-28, 36-42, and 85-89 and OECD Guidelines Chapter II on General Policies (paragraphs A.10-11 and paragraph 14 of the Commentary), and Chapter IV on Human Rights (paragraphs 1-2 and paragraphs 41-43 of the Commentary); and OECD Due Diligence Guidance, Section II (2.1- 2.4) and Annex Questions 3-5, and 19-31).

[6] UN Guiding Principles 19, 22 and 23 and their Commentaries; and the UN Interpretive Guide, Questions 11, 32, 46-47, 64-68 and 82-83 and OECD Guidelines Chapter II on General Policies (paragraphs A.12 and paragraphs 18-22 of the Commentary), and Chapter IV on Human Rights (paragraphs 3 and 42-43 of the Commentary); and OECD Due Diligence Guidance, Section II (3.1-3.2) and Annex Questions 32-40).

(e) tracking the effectiveness of these efforts[7]. This is addressed under:

i. ESRS 2 MDR-M;

ii. ESRS 2 MDR-T; and

iii. Topical ESRS: regarding ***metrics*** and ***targets***.

5. Value chain

5.1 Reporting undertaking and value chain

62. The ***sustainability statement*** shall be for the same reporting undertaking as the financial statements. For example, if the reporting undertaking is a parent company required to prepare consolidated financial statements, the sustainability statement will be for the group. This requirement does not apply where the reporting undertaking is not required to draw-up financial statements or where the reporting undertaking is preparing consolidated sustainability reporting pursuant to Article 48i of Directive 2013/34/EU.

63. The information about the reporting undertaking provided in the ***sustainability statement*** shall be extended to include information on the material ***impacts, risks*** and ***opportunities*** connected with the undertaking through its direct and indirect ***business relationships*** in the upstream and/or downstream ***value chain*** ("value chain information"). In extending the information about the reporting undertaking, the undertaking shall include material impacts, risks and opportunities connected with its upstream and downstream value chain:

(a) following the outcome of its due diligence process and of its ***materiality*** assessment; and

(b) in accordance with any specific requirements related to the value chain in other ESRS.

64. Paragraph 63 does not require information on each and every ***actor in the value chain***, but only the inclusion of material upstream and downstream ***value chain*** information. Different ***sustainability matters*** can be material in relation to different parts of the undertaking's upstream and downstream value chain. The information shall be extended to include value chain information only in relation to the parts of the value chain for which the matter is material.

65. The undertaking shall include material ***value chain*** information when this is necessary to:

(a) allow users of ***sustainability statements*** to understand the undertaking's material ***impacts, risks*** and ***opportunities***; and/or

(b) produce a set of information that meets the qualitative characteristics of information (see Appendix B of this Standard).

66. When determining at which level within its own operations and its upstream and downstream value chain a material sustainability matter arises, the undertaking shall use its assessment of ***impacts, risks*** and ***opportunities*** following the ***double materiality*** principle (see chapter 3 of this Standard).

67. When associates or joint ventures, accounted for under the equity method or proportionally consolidated in the financial statements, are part of the undertaking's value chain, for example as suppliers, the undertaking shall include information related to those associates or joint ventures in accordance with paragraph 63 consistent with the approach adopted for the other ***business relationships*** in the value chain. In this case, when determining impact ***metrics***, the data of the associate or joint venture are not limited to the share of equity held, but shall be taken into account on the basis of the impacts that are connected with the undertaking's products and services through its business relationships.

[7] UN Guiding Principles 20 and 31(g) and their Commentaries; and the UN Interpretive Guide, Questions 49-53 and 80 and OECD Due Diligence Guidance, Section II (4.1 and 5.1) and Annex Questions 41-47.

5.2 Estimation using sector averages and proxies

68. The undertaking's ability to obtain the necessary upstream and downstream ***value chain*** information may vary depending on various factors, such as the undertaking's contractual arrangements, the level of control that it exercises on the operations outside the consolidation scope and its buying power. When the undertaking does not have the ability to control the activities of its upstream and/or downstream value chain and its business relationships, obtaining value chain information may be more challenging.

69. There are circumstances where the undertaking cannot collect the information about its upstream and downstream ***value chain*** as required by paragraph 63 after making reasonable efforts to do so. In these circumstances, the undertaking shall estimate the information to be reported about its upstream and downstream value chain, by using all reasonable and supportable information, such as sector-average data and other proxies.

70. Obtaining ***value chain*** information could also be challenging in the case of SMEs and other upstream and/or downstream value chain entities that are not in the scope of the sustainability reporting required by Articles 19a and 29a of Directive 2013/34/EU (see ESRS 2 BP-2 *Disclosures in relation to specific circumstances*).

71. With reference to ***policies, actions*** and ***targets,*** the undertaking's reporting shall include upstream and/or downstream ***value chain*** information to the extent that those policies, actions and targets involve ***actors in the value chain***. With reference to ***metrics***, in many cases, in particular for environmental matters for which proxies are available, the undertaking may be able to comply with the reporting requirements without collecting data from the actors in its upstream and downstream value chain, especially from SMEs, for example, when calculating the undertaking's GHG Scope 3 emissions.

72. The incorporation of estimates made using sector-average data or other proxies shall not result in information that does not meet the qualitative characteristics of information (see chapter 2 and section 7.2 *Sources of estimation and outcome uncertainty* of this Standard).

6. Time horizons

6.1 Reporting period

73. The reporting period for the undertaking's ***sustainability statement*** shall be consistent with that of its financial statements.

6.2 Linking past, present and future

74. The undertaking shall establish appropriate linkages in its ***sustainability statement*** between retrospective and forward-looking information, when relevant, to foster a clear understanding of how historical information relates to future-oriented information.

6.3 Reporting progress against the base year

75. A base year is the historical reference date or period for which information is available and against which subsequent information can be compared over time.

76. The undertaking shall present comparative information in respect of the base year for amounts reported in the current period when reporting the developments and progress towards a target, unless the relevant Disclosure Requirement already defines how to report progress. The undertaking may also include historical information about achieved milestones between the base year and the reporting period when this is relevant information.

6.4 Definition of short-, medium- and long-term for reporting purposes

77. When preparing its ***sustainability statement***, the undertaking shall adopt the following time intervals as of the end of the reporting period:

    (a) for the short-term time horizon: the period adopted by the undertaking as the reporting period in its financial statements;

    (b) for the medium-term time horizon: from the end of the short-term reporting period defined in (a) up to 5 years; and

    (c) for the long-term time horizon: more than 5 years.

78. The undertaking shall use an additional breakdown for the long-term time horizon when ***impacts*** or ***actions*** are expected in a period longer than 5 years if necessary to provide relevant information to users of ***sustainability statements***.

79. If different definitions of medium- or long-term time horizons are required for specific items of disclosure in other ESRS, the definitions in those ESRS shall prevail.

80. There may be circumstances where the use of the medium- or long-term time horizons defined in paragraph 77 results in non-relevant information, as the undertaking uses a different definition for (i) its processes of identification and management of material ***impacts, risks*** and ***opportunities*** or (ii) the definition of its ***actions*** and setting ***targets***. These circumstances may be due to industry-specific characteristics, such as cash flow and business cycles, the expected duration of capital investments, the time horizons over which the users of ***sustainability statements*** conduct their assessments or the planning horizons typically used in the undertaking's industry for decision-making. In these circumstances, the undertaking may adopt a different definition of medium- and/or long- term time horizons (see ESRS 2 BP–2, paragraph 9).

81. References to "short-term", "medium-term", and "long-term" in ESRS refer to the time horizon as determined by the undertaking according to the provisions in paragraphs 77 to 80.

7. Preparation and presentation of sustainability information

82. This chapter provides general requirements to be applied when preparing and presenting sustainability information.

7.1 Presenting comparative information

83. The undertaking shall disclose comparative information in respect of the previous period for all quantitative ***metrics*** and monetary amounts disclosed in the current period. When relevant to an understanding of the current period's ***sustainability statement***, the undertaking shall also disclose comparative information for narrative disclosures.

84. When the undertaking reports comparative information that differs from the information reported in the previous period it shall disclose:

    (a) the difference between the figure reported in the previous period and the revised comparative figure; and

    (b) the reasons for the revision of the figure.

85. Sometimes, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data might not have been collected in the prior period(s) in a way that allows either retrospective application of a new definition of a metric or target, or retrospective restatement to correct a prior period error, and it may be impracticable to recreate the information (see ESRS 2 BP-2). When it is impracticable to adjust comparative information for one or more prior periods, the undertaking shall disclose this fact.

86. When an ESRS requires the undertaking to present more than one comparative period for a metric or datapoint, the requirements of that ESRS shall prevail.

7.2 Sources of estimation and outcome uncertainty

87. When quantitative ***metrics*** and monetary amounts, including upstream and downstream ***value chain*** information (see chapter 5 of this Standard), cannot be measured directly and can only be estimated, measurement uncertainty may arise.

88. An undertaking shall disclose information to enable users to understand the most significant uncertainties affecting the quantitative metrics and monetary amounts reported in its sustainability statement.

89. The use of reasonable assumptions and estimates, including ***scenario*** or sensitivity analysis, is an essential part of preparing sustainability-related information and does not undermine the usefulness of that information, provided that the assumptions and estimates are accurately described and explained. Even a high level of measurement uncertainty would not necessarily prevent such an assumption or estimate from providing useful information or meeting the qualitative characteristics of information (see Appendix B of this Standard).

90. Data and assumptions used in preparing the sustainability statement shall be consistent to the extent possible with the corresponding financial data and assumptions used in the undertaking's financial statements.

91. Some ESRS require the disclosure of information such as explanations about possible future events that have uncertain outcomes. In judging whether information about such possible future events is material, the undertaking shall refer to the criteria in Chapter 3 of this Standard and consider:

    (a) the potential ***financial effects*** of the events (the possible outcome);

    (b) the severity and likelihood of the impacts on people or the environment resulting from the possible events, taking account of the factors of severity specified in paragraph 45; and

    (c) the full range of possible outcomes and the likelihood of the possible outcomes within that range.

92. When assessing the possible outcomes, the undertaking shall consider all relevant facts and circumstances, including information about low-probability and high-impact outcomes, which, when aggregated, could become material. For example, the undertaking might be exposed to several impacts or risks, each of which could cause the same type of disruption, such as disruptions to the undertaking's ***supply chain***. Information about an individual source of risk might not be material if disruption from that source is highly unlikely to occur. However, information about the aggregate risk of ***supply chain*** disruption from all sources might be material (see ESRS 2 BP-2).

7.3 Updating disclosures about events after the end of the reporting period

93. In some cases, the undertaking may receive information after the reporting period but before the management report is approved for issuance. If such information provides evidence or insights about conditions existing at period end, the undertaking shall, where appropriate, update estimates and sustainability disclosures, in the light of the new information.

94. When such information provides evidence or insights about material transactions, other events and conditions that arise after the end of the reporting period, the undertaking shall, where appropriate, provide narrative information indicating the existence, nature and potential consequences of these post-year end events.

7.4 Changes in preparation or presentation of sustainability information

95. The definition and calculation of ***metrics***, including metrics used to set ***targets*** and monitor progress towards them, shall be consistent over time. The undertaking shall provide restated comparative figures, unless it is impracticable to do so (see ESRS 2 BP-2), when it has:

(a) redefined or replaced a metric or target;

(b) identified new information in relation to the estimated figures disclosed in the preceding period and the new information provides evidence of circumstances that existed in that period.

7.5 Reporting errors in prior periods

96. The undertaking shall correct material prior period errors by restating the comparative amounts for the prior period(s) disclosed, unless it is impracticable to do so. This requirement does not extend to reporting periods before the first year of application of ESRS by the undertaking.

97. Prior period errors are omissions from, and misstatements in, the undertaking's ***sustainability statement*** for one or more prior periods. Such errors arise from a failure to use, or misuse of, reliable information that:

(a) was available when the management report that includes the sustainability statement for those periods was authorised for issuance; and

(b) could reasonably be expected to have been obtained and considered in the preparation of sustainability disclosures included in these reports.

98. Such errors include: the effects of mathematical mistakes, mistakes in applying the definitions for ***metrics*** or ***targets***, oversights or misinterpretations of facts, and fraud.

99. Potential errors in the current period discovered in that period are corrected before the management report is authorised for issuance. However, material errors are sometimes only discovered in a subsequent period.

100. When it is impracticable to determine the effect of an error on all prior periods presented, the undertaking shall restate the comparative information to correct the error from the earliest date practicable. When correcting disclosures for a prior period, the undertaking shall not use hindsight either in making assumptions about what the management's intentions would have been in a prior period or in estimating the amounts disclosed in a prior period. This requirement applies to correction of both backward-looking and forward- looking disclosures.

101. Corrections of errors are distinguished from changes in estimates. Estimates may need to be revised as additional information becomes known (see ESRS 2 BP-2).

7.6 Consolidated reporting and subsidiary exemption

102. When the undertaking is reporting at a consolidated level, it shall perform its assessment of material ***impacts, risks*** and ***opportunities*** for the entire consolidated group, regardless of its group legal structure. It shall ensure that all subsidiaries are covered in a way that allows for the unbiased identification of material impacts, risks and opportunities. Criteria and thresholds for assessing an impact, risk or opportunity as material shall be determined based on chapter 3 of this Standard.

103. Where the undertaking identifies significant differences between material ***impacts, risks*** or ***opportunities*** at group level and material impacts, risks or opportunities of one or more of its subsidiaries, the undertaking shall provide an adequate description of the impacts, risks and opportunities, as appropriate, of the subsidiary or subsidiaries concerned.

104. When assessing whether the differences between material ***impacts, risks*** or ***opportunities*** at group level and material impacts, risks or opportunities of one or more of its subsidiaries are significant, the undertaking may consider different circumstances, such as whether the subsidiary or subsidiaries operate in a different sector than the rest of the group or the

circumstances reflected in section 3.7 *Level of disaggregation*.

7.7 Classified and sensitive information, and information on intellectual property, know-how or results of innovation

105. The undertaking is not required to disclose ***classified information*** or ***sensitive information***, even if such information is considered material.

106. When disclosing information about its ***strategy, plans*** and ***actions***, where a specific piece of information corresponding to intellectual property, know-how or the results of innovation is relevant to meet the objective of a Disclosure Requirement, the undertaking may nevertheless omit that specific piece of information if it:

(a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;

(b) has commercial value because it is secret; and

(c) has been subject to reasonable steps by the undertaking to keep it secret.

107. If the undertaking omits ***classified information*** or ***sensitive information***, or a specific piece of information corresponding to intellectual property, know-how or the results of innovation because it meets the criteria established in the previous paragraph, it shall comply with the disclosure requirement in question by disclosing all other required information.

108. The undertaking shall make every reasonable effort to ensure that beyond the omission of the ***classified information*** or ***sensitive information***, or of the specific piece of information corresponding to intellectual property, know-how or the results of innovation, the overall relevance of the disclosure in question is not impaired.

7.8 Reporting on opportunities

109. When reporting on ***opportunities***, the disclosure should consist of descriptive information allowing the reader to understand the opportunity for the undertaking or the entire sector. When reporting on opportunities, the undertaking shall consider the ***materiality*** of the information to be disclosed. In this context, it shall consider, among other factors:

(a) whether the opportunity is currently being pursued and is incorporated in its general strategy, as opposed to a general opportunity for the undertaking or the sector; and

(b) whether the inclusion of quantitative measures of ***anticipated financial effects*** is appropriate, taking into account the number of assumptions that it could require and consequential uncertainty.

8. Structure of the sustainability statement

110. This chapter provides the basis for the presentation of the information about ***sustainability matters*** prepared in compliance with Articles 19a and 29a of Directive 2013/34/EU (i.e., the ***sustainability statement***) within the undertaking's management report. Such information is presented in a dedicated section of the management report identified as the sustainability statement. Appendix F *Example of structure of ESRS sustainability statement* of this Standard provides an illustrative example of a sustainability statement structured according to the requirements of this chapter.

8.1 General presentation requirement

111. Sustainability information shall be presented:

(a) in a way that allows a distinction between information required by disclosures in ESRS

and other information included in the management report; and

(b) under a structure that facilitates access to and understanding of the ***sustainability statement***, in a format that is both human-readable and machine-readable.

8.2 Content and structure of the sustainability statement

112. Except for the possibility to incorporate information by reference in accordance with section 9.1 *Incorporation by reference* of this Standard, the undertaking shall report all the applicable disclosures required by ESRS in accordance with chapter 1 of this Standard, within a dedicated section of the management report.

113. The undertaking shall include in its ***sustainability statement*** the disclosures pursuant to Article 8 of Regulation (EU) 2020/852 of the European Parliament and the Council[8] and to the Commission Delegated Regulations that specify the content and other modalities of those disclosures. The undertaking shall ensure that these disclosures are separately identifiable within the sustainability statement. The disclosures relating to each of the environmental objectives defined in the Taxonomy Regulation shall be presented together in a clearly identifiable part of the environmental section of the sustainability statement. These disclosures are not subject to the provisions of ESRS, with the exception of this paragraph and the first sentence of paragraph 115 of this standard.

114. When the undertaking includes in its ***sustainability statement*** additional disclosures stemming from (i) other legislation which requires the undertaking to disclose sustainability information, or (ii) generally accepted sustainability reporting standards and frameworks, including non-mandatory guidance and sector-specific guidance, published by other standard-setting bodies (such as technical material issued by the International Sustainability Standards Board or the Global Reporting Initiative), such disclosures shall:

(a) be clearly identified with an appropriate reference to the related legislation, standard or framework (see ESRS 2 BP-2, paragraph 15);

(b) meet the requirements for qualitative characteristics of information specified in chapter 2 and Appendix B of this standard.

115. The undertaking shall structure its ***sustainability statement*** in four parts, in the following order: general information, environmental information (including disclosures pursuant to Article 8 of Regulation (EU) 2020/852), social information and governance information. Respecting the provision in section 3.6 *Material impacts or risks arising from actions to address sustainability matters* of this Standard, when information provided in one part contains information to be reported in another part, the undertaking may refer in one part to information presented in another part, avoiding duplications. The undertaking may apply the detailed structure illustrated in Appendix F of this Standard.

116. The disclosures required by sector-specific ESRS shall be grouped by reporting area and, where applicable, by sustainability topic. They shall be presented alongside the disclosures required by ESRS 2 and the corresponding topical ESRS.

117. Where the undertaking develops material entity-specific disclosures in accordance with paragraph 11 it shall report those disclosures alongside the most relevant sector-agnostic and sector-specific disclosures.

9. Linkages with other parts of corporate reporting and connected information

118. The undertaking shall provide information that enables users of its ***sustainability statement*** to understand the connections between different pieces of information in the statement, and the connections between the information in the sustainability statement and other information that the undertaking discloses in other parts of its corporate reporting.

[8] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13).

9.1 Incorporation by reference

119. Provided that the conditions in paragraph 120 are met, information prescribed by a Disclosure Requirement of an ESRS, including a specific datapoint prescribed by a Disclosure Requirement, may be incorporated in the ***sustainability statement*** by reference to:

(a) another section of the management report;

(b) the financial statements;

(c) the corporate governance statement (if not part of the management report);

(d) the remuneration report required by Directive 2007/36/EC of the European Parliament and of the Council[9];

(e) the universal registration document, as referred to in Article 9 of Regulation (EU) 2017/1129[10]; and

(f) public disclosures under Regulation (EU) No 575/2013 of the European Parliament and of the Council (Pillar 3 disclosures)[11]. If the undertaking incorporates by reference information from Pillar 3 disclosures, it shall ensure that the information matches the scope of consolidation used for the ***sustainability statement*** by complementing the incorporated information with additional elements as necessary.

120. The undertaking may incorporate information by reference to the documents, or part of the documents, listed in paragraph 119, provided that the disclosures incorporated by reference:

(a) constitute a separate element of information and are clearly identified in the document concerned as addressing the relevant Disclosure Requirement, or the relevant specific datapoint prescribed by a Disclosure Requirement;

(b) are published before or at the same time as the management report;

(c) are in the same language as the ***sustainability statement;***

(d) are subject to at least the same level of assurance as the sustainability statement; and

(e) meet the same technical digitalisation requirements as the sustainability statement.

121. Provided that the conditions established in paragraph 120 are met, information prescribed by a Disclosure Requirement of an ESRS, including a specific datapoint prescribed by a Disclosure Requirement, may be incorporated in the ***sustainability statement*** by reference to the undertaking's report prepared according to EU Eco-Management and Audit Scheme (EMAS) Regulation (EU) No 1221/2009[12]. In this case, the undertaking shall ensure that the information incorporated by reference is produced using the same basis for preparation of ESRS information, including scope of consolidation and treatment of ***value chain*** information.

122. In the preparation of its ***sustainability statement*** using incorporation by reference, the undertaking shall consider the overall cohesiveness of the reported information and ensure that the incorporation by reference does not impair the readability of the sustainability statement. Appendix G *Example of incorporation by reference* of this Standard is an illustrative example of incorporation by reference (See ESRS 2 BP-2).

[9] Directive 2007/36/EC of the European Parliament and of the Council of 11 July 2007 on the exercise of certain rights of shareholders in listed companies (OJ L 184, 14.7.2007, p. 17).

[10] Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (OJ L 168, 30.6.2017, p. 12).

[11] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

[12] Regulation (EC) No 1221/2009 of the European Parliament and of the Council of 25 November 2009 on the voluntary participation by organisations in a Community eco-management and audit scheme (EMAS), repealing Regulation (EC) No 761/2001 and Commission Decisions 2001/681/EC and 2006/193/EC (OJ L 342, 22.12.2009, p. 1).

9.2 Connected information and connectivity with financial statements

123. The undertaking shall describe the relationships between different pieces of information. Doing so could require connecting narrative information on governance, strategy and risk management to related ***metrics*** and ***targets***. For example, in providing connected information, the undertaking may need to explain the effect or likely effect of its strategy on its financial statements or financial plans, or explain how its strategy relates to metrics and targets used to measure progress against performance. Furthermore, the undertaking may need to explain how its use of ***natural resources*** and changes within its ***supply chain*** could amplify, change or reduce its material ***impacts, risks*** and ***opportunities.*** It may need to link this information to information about current or anticipated financial effects on its production costs, to its strategic response to mitigate such impacts or risks, and to its related investment in new assets. The undertaking may also need to link narrative information to the related metrics and targets and to information in the financial statements. Information that describes connections shall be clear and concise.

124. When the ***sustainability statement*** includes monetary amounts or other quantitative data points that exceed a threshold of ***materiality*** and that are presented in the financial statements (direct connectivity between information disclosed in sustainability statement and information disclosed in financial statements), the undertaking shall include a reference to the relevant paragraph of its financial statements where the corresponding information can be found.

125. The ***sustainability statement*** may include monetary amounts or other quantitative datapoints that exceed a threshold of ***materiality*** and that are either an aggregation of, or a part of, monetary amounts or quantitative data presented in the undertaking's financial statements (indirect connectivity between information disclosed in sustainability statement and information disclosed in financial statements). If this is the case, the undertaking shall explain how these amounts or datapoints in the sustainability statement relate to the most relevant amounts presented in the financial statements. This disclosure shall include a reference to the line item and/or to the relevant paragraphs of its financial statements where the corresponding information can be found. Where appropriate, a reconciliation may be provided, and it may be presented in a tabular form.

126. In the case of information not covered by paragraphs 124 and 125, the undertaking shall explain, based on a threshold of materiality, the consistency of significant data, assumptions, and qualitative information included in its ***sustainability statement*** with the corresponding data, assumptions and qualitative information included in the financial statements. This may occur when the sustainability statement includes:

    (a) monetary amounts or other quantitative data linked to monetary amounts or other quantitative data presented in the financial statements; or

    (b) qualitative information linked to qualitative information presented in the financial statements.

127. Consistency as required by paragraph 126 shall be at the level of a single datapoint and shall include a reference to the relevant line item or paragraph of notes to the financial statements. When significant data, assumptions and qualitative information are not consistent, the undertaking shall state that fact and explain the reason.

128. Examples of items for which the explanation in paragraph 126 is required, are:

    (a) when the same metric is presented as of the reporting date in financial statements and as a forecast for future periods in the ***sustainability statement***; and

    (b) when macroeconomic or business projections are used to develop ***metrics*** in the ***sustainability statement*** and they are also relevant in estimating the recoverable amount of assets, the amount of liabilities or provisions in financial statements.

129. Topical and sector-specific ESRS may include requirements to include reconciliations or to illustrate consistency of data and assumptions for specific Disclosure Requirements. In such cases, the requirements in those ESRS shall prevail.

10 Transitional provisions

10.1 Transitional provision related to entity-specific disclosures

130. The extent to which ***sustainability matters*** are covered by ESRS is expected to evolve as further Disclosure Requirements are developed. Therefore, the need for entity-specific disclosures is likely to decrease over time, in particular as a result of the future adoption of sector specific standards.

131. When defining its entity-specific disclosures, the undertaking may adopt transitional measures for their preparation in the first three annual ***sustainability statements*** under which it may as a priority:

(a) introduce in its reporting those entity-specific disclosures that it reported in prior periods, if these disclosures meet or are adapted to meet the qualitative characteristics of information referred to under chapter 2 of this Standard; and

(b) complement its disclosures prepared on the basis of the topical ESRS with an appropriate set of additional disclosures to cover ***sustainability matters*** that are material for the undertaking in its sector(s), using available best practice and/or available frameworks or reporting standards, such as IFRS industry-based guidance and GRI Sector Standards.

10.2 Transitional provision related to chapter 5 Value chain

132. For the first 3 years of the undertaking's sustainability reporting under the ESRS, in the event that not all the necessary information regarding its upstream and downstream ***value chain*** is available, the undertaking shall explain the efforts made to obtain the necessary information about its upstream and downstream value chain, the reasons why not all of the necessary information could be obtained, and its plans to obtain the necessary information in the future.

133. For the first 3 years of its sustainability reporting under the ESRS, in order to take account of the difficulties that undertakings may encounter in gathering information from actors throughout their ***value chain*** and in order to limit the burden for SMEs in the value chain:

(a) when disclosing information on ***policies, actions*** and ***targets*** in accordance with ESRS2 and other ESRS, the undertaking may limit upstream and downstream value chain information to information available in-house, such as data already available to the undertaking and publicly available information; and

(b) when disclosing ***metrics***, the undertaking is not required to include upstream and downstream value chain information, except for datapoints derived from other EU legislation, as listed in ESRS 2 Appendix B.

134. Paragraphs 132 and 133 apply irrespective of whether or not the relevant ***actor in the value chain*** is an SME.

135. Starting from the fourth year of its reporting under the ESRS, the undertaking shall include upstream and/or downstream ***value chain*** information according to paragraph 63. In this context, the information required by ESRS to be obtained from SME undertakings in the undertaking's upstream and/or downstream value chain will not exceed the content of the future ESRS for listed SMEs.

10.3 Transitional provision related to section 7.1 Presenting comparative information

136. To ease the first-time application of this Standard, the undertaking is not required to disclose the comparative information required by section 7.1 *Presenting comparative information* in the first year of preparation of the ***sustainability statement*** under the ESRS. For disclosure

requirements listed in Appendix C *List of phased-in Disclosure Requirements*, this transitional provision applies with reference to the first year of mandatory application of the phased-in disclosure requirement.

10.4 Transitional provision: List of Disclosure Requirements that are phased-in

137. Appendix C *List of phased-in Disclosure Requirements* in this Standard sets phase-in provisions for the Disclosure Requirements or datapoints of Disclosure Requirements in ESRS that may be omitted or that are not applicable in the first year(s) of preparation of the ***sustainability statement*** under the ESRS.

Appendix A: Application Requirements

This appendix is an integral part of ESRS 1 and has the same authority as the other parts of the Standard.

Entity specific disclosures

AR 1. The entity-specific disclosures shall enable ***users*** to understand the undertaking's ***impacts, risks*** and ***opportunities*** in relation to environmental, social or governance matters.

AR 2. When developing entity-specific disclosures, the undertaking shall ensure that:

(a) the disclosures meet the qualitative characteristics of information as set out in chapter 2 *Qualitative characteristics of information*; and

(b) its disclosures include, where applicable, all material information related to the reporting areas of governance; strategy; ***impact, risk*** and ***opportunity*** management; and ***metrics*** and ***targets*** (see ESRS 2 chapters 2 to 5).

AR 3. When determining the usefulness of ***metrics*** for inclusion in its entity-specific disclosures, the undertaking shall consider whether:

(a) its chosen performance metrics provide insight into:

i. how effective its practices are in reducing negative outcomes and/or increasing positive outcomes for people and the environment (for impacts); and/or

ii. the likelihood that its practices result in ***financial effects*** on the undertaking (for ***risks*** and ***opportunities***);

(b) the measured outcomes are sufficiently reliable, meaning that they do not involve an excessive number of assumptions and unknowns that would render the metrics too arbitrary to provide a faithful representation; and

(c) it has provided sufficient contextual information to interpret performance metrics appropriately, and whether variations in such contextual information may impact the comparability of the metrics over time.

AR 4. When developing its entity-specific disclosures, the undertaking shall carefully consider:

(a) comparability between undertakings, while still ensuring relevance of the information provided, recognising that comparability may be limited for entity- specific disclosures. The undertaking shall consider whether the available and relevant frameworks, initiatives, reporting standards and benchmarks (such as technical material issued by the International Sustainability Standards Board or the Global Reporting Initiative) provide elements that can support comparability to the maximum extent possible; and

(b) comparability over time: consistency of methodologies and disclosures is a key factor for achieving comparability over time.

AR 5. Further guidance for developing entity-specific disclosures can be found by considering the information required under topical ESRS that addresses similar ***sustainability matters.***

Double materiality

Stakeholders and their relevance to the materiality assessment process

AR 6. In addition to the categories of stakeholder listed in paragraph 22, common categories of ***stakeholders*** are: ***employees*** and other workers, ***suppliers***, ***consumers***, customers, ***end-users***, local communities and persons in vulnerable situations, and public authorities, including regulators, supervisors and central banks.

AR 7. Nature may be considered as a silent ***stakeholder***. In this case, ecological data and data on the conservation of species may support the undertaking's ***materiality*** assessment.

AR 8. ***Materiality*** assessment is informed by dialogue with affected stakeholders. The undertaking may engage with affected ***stakeholders*** or their representatives (such as ***employees*** or trade unions), along with users of sustainability reporting and other experts, to provide inputs or feedback on its conclusions regarding its material ***impacts, risks*** and ***opportunities***.

Assessment of impact materiality

AR 9. In assessing ***impact materiality*** and determining the material matters to be reported, the undertaking shall consider the following three steps:

(a) understanding of the context in relation to its impacts including its activities, business relationships, and ***stakeholders***;

(b) identification of actual and potential impacts (both negative and positive), including through engaging with stakeholders and experts. In this step, the undertaking may rely on scientific and analytical research on impacts on ***sustainability matters***;

(c) assessment of the materiality of its actual and potential impacts and determination of the material matters. In this step, the undertaking shall adopt thresholds to determine which of the impacts will be covered in its ***sustainability statement***.

Characteristics of severity

AR 10. The severity is determined by the following factors:

(a) scale: how grave the negative impact is or how beneficial the positive impact is for people or the environment;

(b) scope: how widespread the negative or positive impacts are. In the case of environmental impacts, the scope may be understood as the extent of environmental damage or a geographical perimeter. In the case of impacts on people, the scope may be understood as the number of people adversely affected; and

(c) irremediable character: whether and to what extent the negative impacts could be remediated, i.e., restoring the environment or affected people to their prior state.

AR 11. Any of the three characteristics (scale, scope, and irremediable character) can make a negative impact severe. In the case of a potential negative human rights impact, the severity of the impact takes precedence over its likelihood.

Impacts connected with the undertaking

AR 12. As an illustration:

(a) if the undertaking uses cobalt in its products that is mined using child labour, the negative impact (i.e., child labour) is connected with the undertaking's products through the tiers of ***business relationships*** in its upstream value chain. These relationships include the smelter and minerals trader and the mining enterprise that

uses child labour; and

(b) if the undertaking provides financial loans to an enterprise for business activities that, in breach of agreed standards, result in the contamination of water and land surrounding the operations, this negative impact is connected with the undertaking through its relationship with the enterprise it provides the loans to.

Assessment of financial materiality

AR 13. The following are examples of how impacts and ***dependencies*** are sources of ***risks*** or ***opportunities***:

(a) when the undertaking's ***business model*** depends on a natural resource – for example water – it is likely to be affected by changes in the quality, availability and pricing of that resource;

(b) when the undertaking's activities result in negative impacts, e.g., on local communities, the activities could become subject to stricter government regulation and/or the impact could trigger consequences of a reputational nature. These might have negative effects on the undertaking's brand and higher recruitment costs might arise; and

(c) when the undertaking's business partners face material sustainability-related risks, the undertaking could be exposed to related consequences as well.

AR 14. The identification of ***risks*** and ***opportunities*** that affect or could reasonably be expected to affect the undertaking's financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term is the starting point for ***financial materiality*** assessment. In this context, the undertaking shall consider:

(a) the existence of ***dependencies*** on natural and social resources as sources of ***financial effects*** (see paragraph 50);

(b) their classification as sources of:

i. risks (contributing to negative deviation in future expected cash inflows or increase in deviation in future expected cash outflows and/or negative deviation from an expected change in capitals not recognised in the financial statements); or

ii. opportunities (contributing to positive deviation in future expected cash inflows or decrease in deviation in future cash outflows and/or positive deviation from expected change in capitals not recognised in financial statements).

AR 15. Once the undertaking has identified its ***risks*** and ***opportunities***, it shall determine which of them are material for reporting. This shall be based on a combination of (i) the likelihood of occurrence and (ii) the potential magnitude of ***financial effects*** determined on the basis of appropriate thresholds. In this step it shall consider the contribution of those risks and opportunities to financial effects in the short-, medium- and long-term based on:

(a) ***scenarios***/forecasts that are deemed likely to materialise; and

(b) potential financial effects related to ***sustainability matters*** deriving either from situations with a below the "more likely than not" threshold or assets/liabilities not, or not yet, reflected in financial statements. This includes:

i. potential situations that following the occurrence of future events may affect cash flow generation potential;

ii. capitals that are not recognised as assets from an accounting and financial reporting perspective but have a significant influence on financial performance, such as natural, intellectual (organisational), human, social and relationship capitals; and

iii. possible future events that may have an influence on the evolution of such capitals.

Sustainability matters to be included in the materiality assessment

AR 16. When performing its ***materiality*** assessment, the undertaking shall consider the following list of ***sustainability matters*** covered in the topical ESRS. When, as a result of the undertaking's materiality assessment (see ESRS 2 IRO-1), a given sustainability matter in this list is assessed to be material, the undertaking shall report according to the corresponding Disclosure Requirements of the relevant topical ESRS. Using this list is not a substitute for the process of determining material matters. This list is a tool to support the undertaking's materiality assessment. The undertaking still needs to consider its own specific circumstances when determining its material matters. The undertaking, where necessary, also shall develop entity-specific disclosures on material ***impacts***, ***risks*** and ***opportunities*** not covered by ESRS as described in paragraph 11 of this Standard.

Topical ESRS	**Sustainability matters covered in topical ESRS**		
	Topic	**Sub-topic**	**Sub-sub-topics**
ESRS E1	Climate change	• Climate change adaptation • Climate change mitigation • Energy	
ESRS E2	Pollution	• Pollution of air • Pollution of water • Pollution of soil • Pollution of living organisms and food resources • Substances of concern • Substances of very high concern • Microplastics	
ESRS E3	Water and marine resources	• Water • Marine resources	• Water consumption • Water withdrawals • Water discharges • Water discharges in the oceans • Extraction and use of marine resources
ESRS E4	Biodiversity and ecosystems	• Direct impact drivers of biodiversity loss	• Climate Change • Land-use change, fresh water-use change and sea-use change • Direct exploitation • Invasive alien species • Pollution • Others
		• Impacts on the state of species	Examples: • Species population size • Species global extinction risk
		• Impacts on the extent and condition of ecosystems	Examples: • Land degradation • Desertification • Soil sealing
		• Impacts and dependencies on ecosystem services	

Topical ESRS	Sustainability matters covered in topical ESRS		
	Topic	**Sub-topic**	**Sub-sub-topics**
ESRS E5	Circular economy	• Resources inflows, including resource use • Resource outflows related to products and services • Waste	
ESRS S1	Own workforce	• Working conditions	• Secure employment • Working time • Adequate wages • Social dialogue • Freedom of association, the existence of works councils and the information, consultation and participation rights of workers • Collective bargaining, including rate of workers covered by collective agreements • Work-life balance • Health and safety
		• Equal treatment and opportunities for all	• Gender equality and equal pay for work of equal value • Training and skills development • Employment and inclusion of persons with disabilities • Measures against violence and harassment in the workplace • Diversity
		• Other work-related rights	• Child labour • Forced labour • Adequate housing • Privacy
ESRS S2	Workers in the value chain	• Working conditions	• Secure employment • Working time • Adequate wages • Social dialogue • Freedom of association, including the existence of work councils • Collective bargaining • Work-life balance • Health and safety
		• Equal treatment and opportunities for all	• Gender equality and equal pay for work of equal value • Training and skills development • The employment and inclusion of persons with disabilities • Measures against violence and harassment in the workplace • Diversity
		• Other work-related rights	• Child labour • Forced labour • Adequate housing • Water and sanitation • Privacy

Topical ESRS	Sustainability matters covered in topical ESRS		
	Topic	**Sub-topic**	**Sub-sub-topics**
ESRS S3	Affected communities	• Communities' economic, social and cultural rights	• Adequate housing • Adequate food • Water and sanitation • Land-related impacts • Security-related impacts
		• Communities' civil and political rights	• Freedom of expression • Freedom of assembly • Impacts on human rights defenders
		• Rights of indigenous peoples	• Free, prior and informed consent • Self-determination • Cultural rights
ESRS S4	Consumers and end-users	• Information-related impacts for consumers and/or end-users	• Privacy • Freedom of expression • Access to (quality) information
		• Personal safety of consumers and/or end-users	• Health and safety • Security of a person • Protection of children
		• Social inclusion of consumers and/or end-users	• Non-discrimination • Access to products and services • Responsible marketing practices
ESRS G1	Business conduct	• Corporate culture • Protection of whistle-blowers • Animal welfare • Political engagement • Management of relationships with suppliers including payment practices	
		• Corruption and bribery	• Prevention and detection including training • Incidents

Estimation using sector averages and proxies

AR 17. When the undertaking cannot collect upstream and downstream ***value chain*** information as required by paragraph 63 after making reasonable efforts to do so, it shall estimate the information to be reported using all reasonable and supportable information that is available to the undertaking at the reporting date without undue cost or effort. This includes, but is not limited to, internal and external information, such as data from indirect sources, sector-average data, sample analyses, market and peer groups data, other proxies or spend-based data.

Content and structure of the sustainability statement

AR 18. As an illustration for paragraph 115 in section 8.2 *Content and structure of the sustainability statement* of this Standard, the undertaking that covers environmental and social matters in the same ***policy*** may cross-refer. That means that the undertaking may report on the policy in its environmental disclosures and cross-refer to it from the relevant social disclosures or vice

versa. Consolidated presentation of ***policies*** across topics is allowed.

Appendix B: Qualitative characteristics of information

This appendix is an integral part of ESRS 1 and has the same authority as the other parts of the Standard. This appendix defines the qualitative characteristics that the information presented in the ***sustainability statement*** prepared according to ESRS shall meet.

Relevance

QC 1. Sustainability information is relevant when it may make a difference in the decisions of users under a ***double materiality*** approach (see chapter 3 of this Standard).

QC 2. Information may make a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources. Sustainability information may impact decisions of users if it has predictive value, confirmatory value or both. Information has predictive value if it can be used as an input to processes employed by users to predict future outcomes. Sustainability information does not need to be a prediction or forecast to have predictive value, but rather has predictive value if employed by users in making their own predictions.

QC 3. Information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.

QC 4. Materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates, as assessed in the context of the undertaking's sustainability reporting (see chapter 3 of this Standard).

Faithful representation

QC 5. To be useful, the information must not only represent relevant phenomena, it must also faithfully represent the substance of the phenomena that it purports to represent. Faithful representation requires information to be (i) complete, (ii) neutral and (iii) accurate.

QC 6. A complete depiction of an impact, a risk or an opportunity includes all material information necessary for the users to understand that impact, risk or opportunity. This includes how the undertaking has adapted its strategy, risk management and governance in response to that impact, risk or opportunity, as well as the ***metrics*** identified to set ***targets*** and measure performance.

QC 7. A neutral depiction is without bias in its selection or disclosure of information. Information is neutral if it is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to make it more likely that the users will receive that information favourably or unfavourably. It shall be balanced, so as to cover favourable/positive and unfavourable/negative aspects. Both negative and positive material impacts from an ***impact materiality*** perspective as well as material ***risks*** and ***opportunities*** from a ***financial materiality*** perspective shall receive equal attention. Any aspirational sustainability information, for example ***targets*** or plans, shall cover both aspirations and factors that could prevent the undertaking from achieving these aspirations in order to have a neutral depiction.

QC 8. Neutrality is supported by the exercise of prudence which is the exercise of caution when making judgements under conditions of uncertainty. Information shall not be netted or compensated to be neutral. The exercise of prudence means that ***opportunities*** are not overstated and ***risks*** are not understated. Equally, the exercise of prudence does not allow for the understatement of opportunities or the overstatement of risks. The undertaking may present net information, in addition to gross values, if such presentation does not obscure relevant information and includes a clear explanation about the effects of the netting and the

reasons for the netting.

QC 9. Information can be accurate without being perfectly precise in all respects. Accurate information implies that the undertaking has implemented adequate processes and internal controls to avoid material errors or material misstatements. As such, estimates shall be presented with a clear emphasis on their possible limitations and associated uncertainty (see section 7.2 of this Standard). The amount of precision needed and attainable, and the factors that make information accurate, depend on the nature of the information and the nature of the matters it addresses. For example, accuracy requires that:

(a) factual information is free from material error;

(b) descriptions are precise;

(c) estimates, approximations and forecasts are clearly identified as such;

(d) no material errors have been made in selecting and applying an appropriate process for developing an estimate, approximation or forecast, and the inputs to that process are reasonable and supportable;

(e) assertions are reasonable and based on information of sufficient quality and quantity; and

(f) information about judgements about the future faithfully reflects both those judgements and the information on which they are based.

Comparability

QC 10. Sustainability information is comparable when it can be compared with information provided by the undertaking in previous periods and, can be compared with information provided by other undertakings, in particular those with similar activities or operating within the same industry. A point of reference for comparison can be a target, a baseline, an industry benchmark, comparable information from either other undertakings or from an internationally recognised organisation, etc.

QC 11. Consistency is related to, but is not the same as, comparability. Consistency refers to the use of the same approaches or methods for the same sustainability matter, from period to period by the undertaking and other undertakings. Consistency helps to achieve the goal of comparability.

QC 12. Comparability is not uniformity. For information to be comparable, like components shall look alike and different components shall look different. Comparability of sustainability information is not enhanced by making unlike things look alike any more than it is enhanced by making like things look different.

Verifiability

QC 13. Verifiability helps to give users confidence that information is complete, neutral and accurate. Sustainability information is verifiable if it is possible to corroborate the information itself or the inputs used to derive it.

QC 14. Verifiability means that various knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Sustainability information shall be provided in a way that enhances its verifiability, for example:

(a) including information that can be corroborated by comparing it with other information available to users about the undertaking's business, about other businesses or about the external environment;

(b) providing information about inputs and methods of calculation used to produce estimates or approximations; and

(c) providing information reviewed and agreed by the ***administrative, management and supervisory bodies*** or their committees.

QC 15. Some sustainability information will be in the form of explanations or forward-looking information. Those disclosures can be supportable by faithfully representing on a factual basis for example the strategies, plans and risk analyses of the undertaking. To help users decide whether to use such information, the undertaking shall describe the underlying assumptions and methods of producing the information, as well as other factors that provide evidence that it reflects the actual plans or decisions made by the undertaking.

Understandability

QC 16. Sustainability information is understandable when it is clear and concise. Understandable information enables any reasonably knowledgeable user to readily comprehend the information being communicated.

QC 17. For sustainability disclosures to be concise, they need to (a) avoid generic "boilerplate" information, which is not specific to the undertaking; (b) avoid unnecessary duplication of information, including information also provided in financial statements; and (c) use clear language and well-structured sentences and paragraphs. Concise disclosures shall only include material information. Complementary information presented pursuant to paragraph 113 shall be provided in a way that avoids obscuring material information.

QC 18. Clarity might be enhanced by distinguishing information about developments in the reporting period from "standing" information that remains relatively unchanged from one period to the next. This can be done, for example, by separately describing features of the undertaking's sustainability-related governance and risk management processes that have changed since the previous reporting period compared to those that remain unchanged.

QC 19. The completeness, clarity and comparability of sustainability disclosures all rely on information being presented as a coherent whole. For sustainability disclosures to be coherent, they shall be presented in a way that explains the context and the connections between the related information. Coherence also requires the undertaking to provide information in a way that allows users to relate information about its sustainability-related ***impacts, risks*** and ***opportunities*** to information in the undertaking's financial statements.

QC 20. If sustainability-related ***risks*** and ***opportunities*** discussed in the financial statements have implications for sustainability reporting, the undertaking shall include in the ***sustainability statement*** the information necessary for users to assess those implications and present appropriate links to the financial statements (see chapter 9 of this Standard). The level of information, granularity and technicality shall be aligned with the needs and expectations of users. Abbreviations shall be avoided and the units of measure shall be defined and disclosed.

Appendix C: List of phased-in Disclosure Requirements

This appendix is an integral part of ESRS 1 and has the same authority as the other parts of the Standard.

ESRS	Disclosure Requirement	Full name of the Disclosure Requirement	Phase-in or effective date (including the first year)
ESRS 2	SBM-1	Strategy, business model and value chain	The undertaking shall report the information prescribed by ESRS 2 SBM-1 paragraph 40(b) (breakdown of total revenue by significant ESRS sector) and 40(c) (list of additional significant ESRS sectors) starting from the application date specified in a Commission Delegated Act to be adopted pursuant to article 29b(1) third subparagraph,

ESRS	Disclosure Requirement	Full name of the Disclosure Requirement	Phase-in or effective date (including the first year)
			point (ii), of Directive 2013/34/EU.
ESRS 2	SBM-3	Material impacts, risks and opportunities and their interaction with strategy and business model	The undertaking may omit the information prescribed by ESRS 2 SBM-3 paragraph 48(e) (anticipated financial effects) for the first year of preparation of its sustainability statement. The undertaking may comply with ESRS 2 SBM-3 paragraph 48(e) by reporting only qualitative disclosures for the first 3 years of preparation of its sustainability statement, if it is impracticable to prepare quantitative disclosures.
ESRS E1	E1-6	Gross Scopes 1, 2, 3 and Total GHG emissions	Undertakings or groups not exceeding on their balance sheet dates the average number of 750 employees during the financial year (on a consolidated basis where applicable) may omit the datapoints on scope 3 emissions and total GHG emissions for the first year of preparation of their sustainability statement.
ESRS E1	E1-9	Anticipated financial effects from material physical and transition risks and potential climate-related opportunities	The undertaking may omit the information prescribed by ESRS E1-9 for the first year of preparation of its sustainability statement. The undertaking may comply with ESRS E1-9 by reporting only qualitative disclosures for the first 3 years of preparation of its sustainability statement, if it is impracticable to prepare quantitative disclosures.
ESRS E2	E2-6	Anticipated financial effects from pollution-related impacts, risks and opportunities	The undertaking may omit the information prescribed by ESRS E2-6 for the first year of preparation of its sustainability statement. Except for the information prescribed by paragraph 40 (b) on the operating and capital expenditures occurred in the reporting period in conjunction with major incidents and deposits, the undertaking may comply with ESRS E2-6 by reporting only qualitative disclosures, for the first 3 years of preparation of its sustainability statement.
ESRS E3	E3-5	Anticipated financial effects from water and marine resources-related impacts, risks and opportunities	The undertaking may omit the information prescribed by ESRS E3-5 for the first year of preparation of its sustainability statement.The undertaking may comply with ESRS E3-5 by reporting only qualitative disclosures, for the first 3 years of preparation of its sustainability statement.
ESRS E4	All disclosure requirements	All disclosure requirements	Undertakings or groups not exceeding on their balance sheet dates the average number of 750 employees during the financial year (on a consolidated basis where applicable) may omit the information specified in the disclosure requirements of ESRS E4 for the first 2 years of preparation of their sustainability statement.

ESRS	Disclosure Requirement	Full name of the Disclosure Requirement	Phase-in or effective date (including the first year)
ESRS E4	E4-6	Anticipated financial effects from biodiversity and ecosystem-related impacts, risks and opportunities	The undertaking may omit the information prescribed by ESRS E4-6 for the first year of preparation of its sustainability statement. The undertaking may comply with ESRS E4-6 by reporting only qualitative disclosures, for the first 3 years of preparation of its sustainability statement.
ESRS E5	E5-6	Anticipated financial effects from resource use and circular economy-related impacts, risks and opportunities	The undertaking may omit the information prescribed by ESRS E5-6 for the first year of preparation of its sustainability statement. The undertaking may comply with ESRS E5-6 by reporting only qualitative disclosures, for the first 3 years of preparation of its sustainability statement.
ESRS S1	All disclosure requirements	All disclosure requirements	Undertakings or groups not exceeding on their balance sheet dates the average number of 750 employees during the financial year (on a consolidated basis where applicable) may omit the information specified in the disclosure requirements of ESRS S1 for the first year of preparation of their sustainability statement.
ESRS S1	S1-7	Characteristics of non-employee workers in the undertaking's own workforce	The undertaking may omit reporting for all datapoints in this Disclosure Requirement for the first year of preparation of its sustainability statement.
ESRS S1	S1-8	Collective bargaining coverage and social dialogue	The undertaking may omit this Disclosure Requirement with regard to its own employees in non-EEA countries for the first year of preparation of its sustainability statement.
ESRS S1	S1-11	Social protection	The undertaking may omit the information prescribed by ESRS S1-11 for the first year of preparation of its sustainability statement.
ESRS S1	S1-12	Percentage of employees with disabilities	The undertaking may omit the information prescribed by ESRS S1-12 for the first year of preparation of its sustainability statement.
ESRS S1	S1-13	Training and skills development	The undertaking may omit the information prescribed by ESRS S1-13 for the first year of preparation of its sustainability statement.
ESRS S1	S1-14	Health and safety	The undertaking may omit the data points on cases of work-related ill-health and on number of days lost to injuries, accidents, fatalities and work-related ill health for the first year of preparation of its sustainability statement.
ESRS S1	S1-14	Health and safety	The undertaking may omit reporting on non-employees for the first year of preparation of its sustainability statement.
ESRS S1	S1-15	Work-life balance	The undertaking may omit the information prescribed by ESRS S1-15 for the first year of preparation of its sustainability statement.
ESRS S2	All disclosure requirements	All disclosure requirements	Undertakings or groups not exceeding on their balance sheet dates the average number of 750 employees during the financial year (on a consolidated basis where applicable) may omit the information specified in the disclosure requirements of ESRS S2 for the first 2 years of preparation of their sustainability statement.

ESRS	Disclosure Requirement	Full name of the Disclosure Requirement	Phase-in or effective date (including the first year)
ESRS S3	All disclosure requirements	All disclosure requirements	Undertakings or groups not exceeding on their balance sheet dates the average number of 750 employees during the financial year (on a consolidated basis where applicable) may omit the information specified in the disclosure requirements of ESRS S3 for the first 2 years of preparation of their sustainability statement.
ESRS S4	All disclosure requirements	All disclosure requirements	Undertakings or groups not exceeding on their balance sheet dates the average number of 750 employees during the financial year (on a consolidated basis where applicable) may omit the information specified in the disclosure requirements of ESRS S4 for the first 2 years of preparation of their sustainability statement.

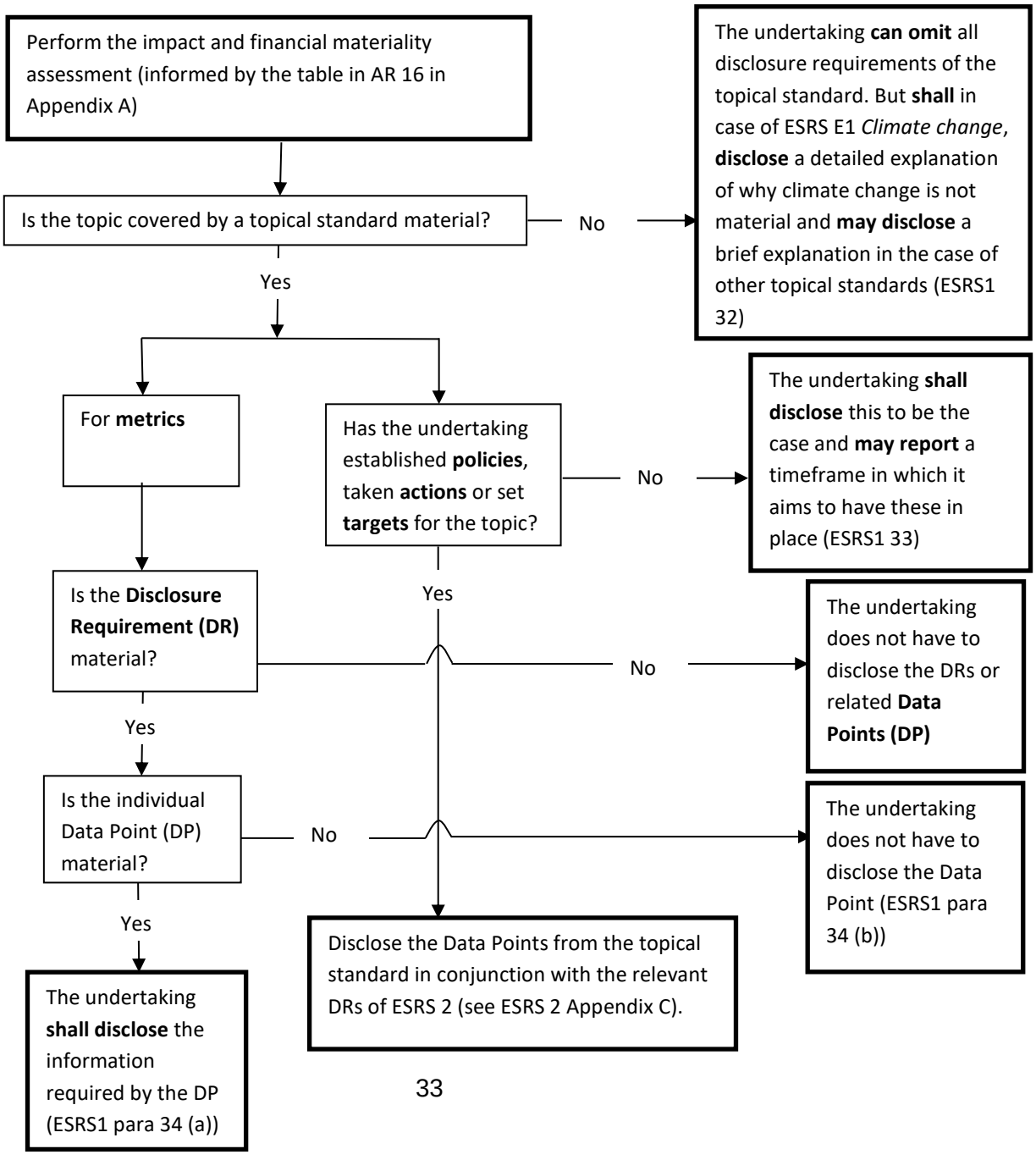
Appendix D: Structure of the ESRS sustainability statement

This appendix is an integral part of ESRS 1 and has the same authority as the other parts of the Standard with respect to reporting in four parts as outlined in paragraph 115.

Part of the management report	ESRS codification	Title
1. General information	ESRS 2	*General disclosures*, including information provided under the Application Requirements of topical ESRS listed in ESRS 2 Appendix C.
2. Environmental information	*Not applicable*	*Disclosures pursuant to Article 8 of Regulation (EU) 2020/852 (Taxonomy Regulation)*
	ESRS E1	*Climate change*
	ESRS E2	*Pollution*
	ESRS E3	*Water and marine resources*
	ESRS E4	*Biodiversity and ecosystems*
	ESRS E5	*Resource use and circular economy*
3. Social information	ESRS S1	*Own workforce*
	ESRS S2	*Workers in the value chain*
	ESRS S3	*Affected communities*
	ESRS S4	*Consumers and end-users*
4. Governance information	ESRS G1	*Business conduct*

Appendix E: Flowchart for determining disclosures under ESRS

Materiality assessment is the starting point for sustainability reporting under ESRS. This appendix provides a non-binding illustration of the impact- and financial materiality assessment outlined in chapter 3. IRO-1 in section 4.1 of ESRS 2 includes general disclosure requirements (DR) about the undertaking's process to identify impacts, risks and opportunities and assess their materiality. SBM-3 of ESRS 2 provides general disclosures requirements on the material impact, risks and opportunities resulting from the undertaking's materiality assessment. The undertaking can omit all disclosure requirements in a topical standard if it assessed that the topic in question is not material. In that case it may disclose a brief explanation of the conclusions of the materiality assessment for that topic but *shall* disclose a detailed explanation in the case of ESRS E1 climate change (IRO-2 ESRS 2). ESRS set disclosure requirements, not behavioral requirements. Disclosure requirements in relation to ***action plans***, ***targets***, ***policies***, ***scenario analysis*** and ***transition plans*** are proportionate because they are contingent on the undertaking having these, which may depend on the size, capacity, resources, and skills of the undertaking. *Note: The flowchart below does not cover the situation in which the undertaking assesses a sustainability matter as material but it is not covered by a topical standard, in which case the undertaking shall make additional entity specific disclosures (ESRS 1 (30 (b)).*

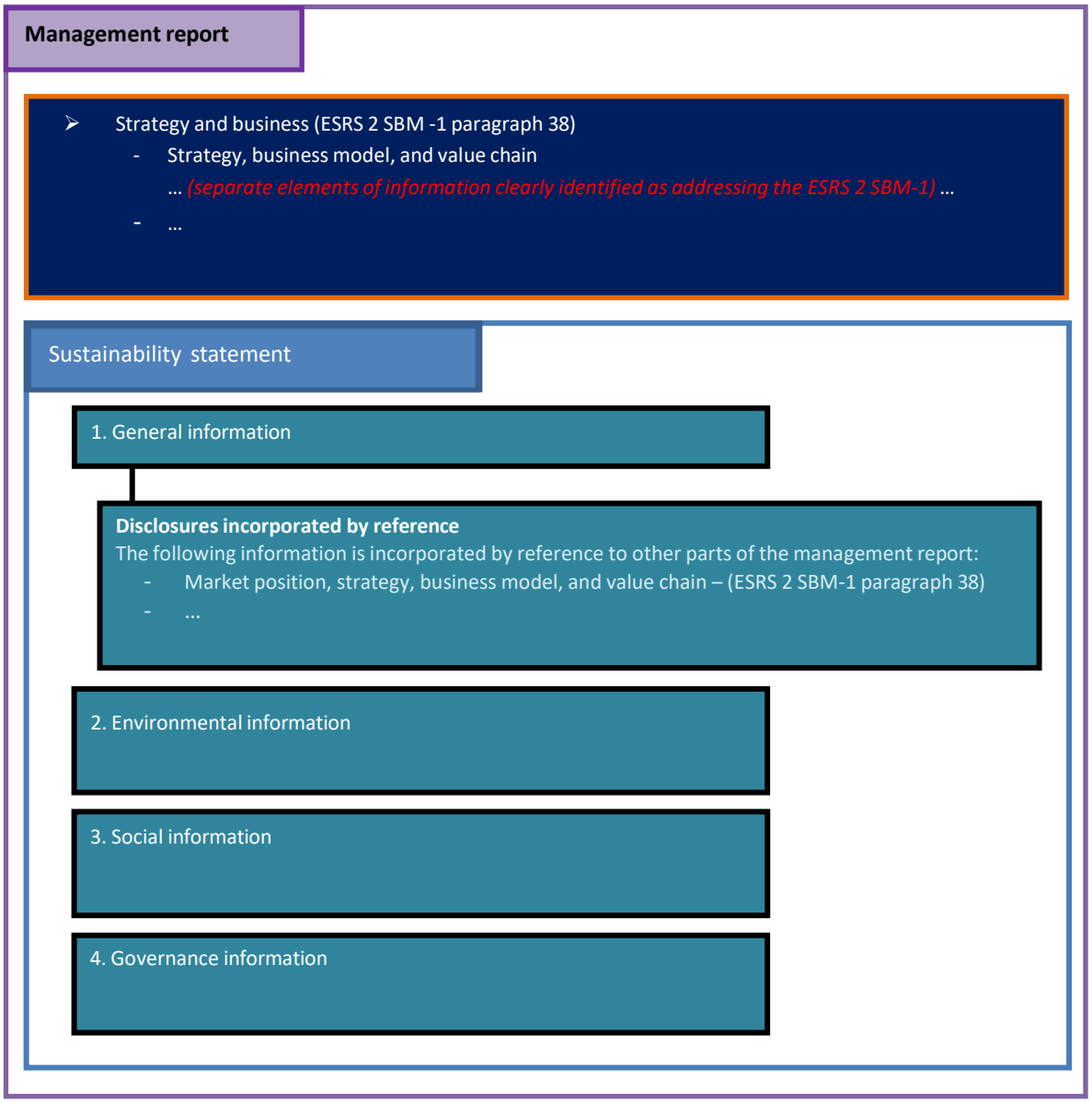


Appendix F: Example of structure of ESRS sustainability statement

This appendix complements ESRS 1. It provides a non-binding illustration of the structure of the ***sustainability statement*** outlined in section 8.2 of this Standard. In this illustration, the undertaking has concluded that biodiversity and ecosystems, pollution, and affected communities, are not material.

Appendix G: Example of incorporation by reference

This appendix complements ESRS 1. It provides non-binding illustrations of incorporation by reference of another section of the management report into the ***sustainability statement*** as outlined in section 9.1 of this Standard.



ESRS 2
GENERAL DISCLOSURES

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Appendix B: List of datapoints in cross-cutting and topical standards that derive from other EU legislation

Appendix C: Disclosure/Application Requirements in topical ESRS that are applicable jointly with ESRS 2 General Disclosures

Objective

1. This ESRS sets out the disclosure requirements that apply to all undertakings regardless of their sector of activity (i.e., sector agnostic) and apply across sustainability topics (i.e., cross-cutting). This ESRS covers the reporting areas defined in ESRS 1 *General requirements* section 1.2 *Cross-Cutting Standards and reporting areas*.

2. In the preparation of disclosures under this Standard, the undertaking shall apply the Disclosure Requirements (including their datapoints) set in topical ESRS, as listed in Appendix C of this Standard *Disclosure/Application Requirements in topical ESRS that are applicable jointly with ESRS 2 General Disclosures*. The undertaking shall apply the requirements listed in Appendix C:

   (a) in all instances for the requirements in topical standards related to Disclosure Requirement IRO-1 *Description of the processes to identify and assess material* ***impacts****,* ***risks*** *and* ***opportunities***; and

   (b) for all other requirements listed in appendix C, only if the sustainability topic is material based on the undertaking's ***materiality*** assessment (see ESRS 1 chapter 3 *Double materiality as the basis for sustainability disclosures*).

1. Basis for preparation

Disclosure Requirement BP-1 – General basis for preparation of the sustainability statement

3. **The undertaking shall disclose the general basis for preparation of its sustainability statement.**

4. The objective of this Disclosure Requirement is to provide an understanding of how the undertaking prepares its ***sustainability statement***, including the scope of consolidation, the upstream and downstream ***value chain*** information and, where relevant, whether the undertaking has used any of the options for omitting information referred to in points d) and e) in the following paragraph.

5. The undertaking shall disclose the following information:

   (a) whether the ***sustainability statement*** has been prepared on a consolidated or individual basis;

   (b) for consolidated sustainability statements:

      i. a confirmation that the scope of consolidation is the same as for the financial statements, or, where applicable, a declaration that the reporting undertaking is not required to draw-up financial statements or that the reporting undertaking is preparing consolidated sustainability reporting pursuant to Article 48i of Directive 2013/34/EU; and

      ii. where applicable, an indication of which subsidiary undertakings included in the

consolidation are exempted from individual or consolidated sustainability reporting pursuant to Articles 19a(9) or 29a(8) of Directive 2013/34/EU;

(c) to what extent the sustainability statement covers the undertaking's upstream and downstream ***value chain*** (see ESRS 1 section 5.1 *Reporting undertaking and value chain*);

(d) whether the undertaking has used the option to omit a specific piece of information corresponding to intellectual property, know-how or the results of innovation (see ESRS 1 section 7.7 *Classified and sensitive information and information on intellectual property, know-how or results of innovation*); and

(e) for undertakings based in an EU member state that allows for the exemption from disclosure of impending developments or matters in the course of negotiation, as provided for in articles 19a(3) and 29a(3) of Directive 2013/34/EU, whether the undertaking has used that exemption.

Disclosure Requirement BP-2 – Disclosures in relation to specific circumstances

6. **The undertaking shall provide disclosures in relation to specific circumstances.**

7. The objective of this Disclosure Requirement is to provide an understanding of the effect of these specific circumstances on the preparation of the ***sustainability statement***.

8. The undertaking may report this information alongside the disclosures to which they refer.

Time horizons

9. When the undertaking has deviated from the medium- or long-term time horizons defined by ESRS 1 section 6.4 *Definition of short-, medium- and long-term for reporting purposes*, it shall describe:

   (a) its definitions of medium- or long-term time horizons; and

   (b) the reasons for applying those definitions.

Value chain estimation

10. When ***metrics*** include upstream and/or downstream ***value chain*** data estimated using indirect sources, such as sector-average data or other proxies, the undertaking shall:

    (a) identify the metrics;

    (b) describe the basis for preparation;

    (c) describe the resulting level of accuracy; and

    (d) where applicable, describe the planned ***actions*** to improve the accuracy in the future (see ESRS 1 chapter 5 *Value chain*).

Sources of estimation and outcome uncertainty

11. In accordance with ESRS 1 section 7.2 *Sources of estimation and outcome uncertainty*, the undertaking shall:

    (a) identify the quantitative ***metrics*** and monetary amounts it has disclosed that are subject to a high level of measurement uncertainty;

    (b) in relation to each quantitative metric and monetary amount identified:

        i. disclose information about the sources of measurement uncertainty (for example, the dependence of the amount on the outcome of a future event, on a measurement technique or on the availability and quality of data from the entity's upstream and/or downstream value chain); and

ii. disclose the assumptions, approximations and judgements the entity has made in measuring it.

12. When disclosing forward-looking information, the undertaking may indicate that it considers such information to be uncertain.

Changes in preparation or presentation of sustainability information

13. When changes in the preparation and presentation of sustainability information occur compared to the previous reporting period(s), (see ESRS 1 section 7.4 *Changes in preparation or presentation in sustainability information*), the undertaking shall:

    (a) explain the changes and the reasons for them, including why the replaced metric provides more useful information;

    (b) disclose revised comparative figures, unless it is impracticable to do so. When it is impracticable to adjust comparative information for one or more prior periods, the undertaking shall disclose that fact; and

    (c) disclose the difference between the figure disclosed in the preceding period and the revised comparative figure.

Reporting errors in prior periods

14. When the undertaking identifies material prior period errors (see ESRS 1 section 7.5 *Reporting errors in prior periods*), it shall disclose:

    (a) the nature of the prior period material error;

    (b) to the extent practicable, the correction for each prior period included in the sustainability statement; and

    (c) if correction of the error is not practicable, the circumstances that led to the existence of that condition.

Disclosures stemming from other legislation or generally accepted sustainability reporting pronouncements

15. When the undertaking includes in its ***sustainability statement*** information stemming from other legislation which requires the undertaking to disclose sustainability information or from generally accepted sustainability reporting standards and frameworks (see ESRS 1 section 8.2 *Content and structure of the sustainability statement*), in addition to the information prescribed by ESRS, it shall disclose this fact. In case of partial application of other reporting standards or frameworks, the undertaking shall provide a precise reference to the paragraphs of the standard or framework applied.

Incorporation by reference

16. When the undertaking incorporates information by reference (see ESRS 1 section 9.1 *Incorporation by reference*), it shall disclose a list of the disclosure requirements of ESRS, or the specific datapoints mandated by a Disclosure Requirement, that have been incorporated by reference.

Use of phase-In provisions in accordance with Appendix C of ESRS 1

17. If an undertaking or group not exceeding on its balance sheet date the average number of 750 employees during the financial year decides to omit the information required by ESRS E4, ESRS S1, ESRS S2, ESRS S3 or ESRS S4 in accordance with Appendix C of ESRS 1, it shall nevertheless disclose whether the sustainability topics covered respectively by ESRS E4, ESRS S1, ESRS S2, ESRS S3 and ESRS S4 have been assessed to be material as a result of the undertaking's materiality assessment. In addition, if one or more of these topics has been

assessed to be material, the undertaking shall, for each material topic:

(a) disclose the list of matters (i.e. topic, sub-topic or sub-sub-topic) in AR 16 ESRS 1 Appendix A that are assessed to be material and briefly describe how the undertaking's ***business model*** and strategy take account of the impacts of the undertaking related to those matters. The undertaking may identify the matter at the level of topic, sub-topic or sub-sub-topic;

(b) briefly describe any time-bound ***targets*** it has set related to the matters in question, the progress it has made towards achieving those targets, and whether its targets related to ***biodiversity*** and ***ecosystems*** are based on conclusive scientific evidence;

(c) briefly describe its ***policies*** in relation to the matters in question;

(d) briefly describe ***actions*** it has taken to identify, monitor, prevent, mitigate, remediate or bring an end to actual or potential adverse impacts related to the matters in question, and the result of such actions; and

(e) disclose ***metrics*** relevant to the matters in question.

2. Governance

18. The objective of this chapter is to set disclosure requirements that enable an understanding of the governance processes, controls and procedures put in place to monitor, manage and oversee ***sustainability matters***.

Disclosure Requirement GOV-1 – The role of the administrative, management and supervisory bodies

19. **The undertaking shall disclose the composition of the administrative, management and supervisory bodies, their roles and responsibilities and access to expertise and skills with regard to sustainability matters**.

20. The objective of this Disclosure Requirement is to provide an understanding of:

(a) the composition and diversity of the ***administrative, management and supervisory bodies***;

(b) the roles and responsibilities of the ***administrative, management and supervisory bodies*** in exercising oversight of the process to manage material ***impacts, risks*** and ***opportunities***, including management's role in these processes; and

(c) the expertise and skills of its administrative, management and supervisory bodies on ***sustainability matters*** or access to such expertise and skills.

21. The undertaking shall disclose the following information about the composition and diversity of the members of the undertaking's administrative, management and supervisory bodies:

(a) the number of executive and non-executive members;

(b) representation of ***employees*** and other workers;

(c) experience relevant to the sectors, products and geographic locations of the undertaking;

(d) percentage by gender and other aspects of diversity that the undertaking considers. The board's gender diversity[13] shall be calculated as an average ratio of female to male board

[13] This information supports the information needs of: financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts set out by indicator #13 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to disclosures rules on sustainable investments ("Board gender diversity") and benchmark administrators to disclose ESG factors subject to Commission Delegated Regulation (EU) 2020/1816 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as set out by indicator "Weighted average ratio of female to male board members" in section 1 and 2 of Annex II.

members; and

(e) the percentage of ***independent board members***[14]. For undertakings with a unitary board, this corresponds to the percentage of independent non-executive board members. For undertakings with a dual board, it corresponds to the percentage of independent members of the supervisory body.

22. The undertaking shall disclose the following information about the roles and responsibilities of the ***administrative, management and supervisory bodies***:

    (a) the identity of the ***administrative, management and supervisory bodies*** (such as a board committee or similar) or individual(s) within a body responsible for oversight of ***impacts, risks*** and ***opportunities***;

    (b) how each body's or individual's responsibilities for impacts, risks and opportunities are reflected in the undertaking's terms of reference, board mandates and other related ***policies***;

    (c) a description of management's role in the governance processes, controls and procedures used to monitor, manage and oversee impacts, risks and opportunities, including:

        i. whether that role is delegated to a specific management-level position or committee and how oversight is exercised over that position or committee;

        ii. information about the reporting lines to the administrative, management and supervisory bodies;

        iii. whether dedicated controls and procedures are applied to the management of impacts, risks and opportunities and, if so, how they are integrated with other internal functions; and

    (d) how the administrative, management and supervisory bodies and senior executive management oversee the setting of ***targets*** related to material impacts, risks and opportunities, and how they monitor progress towards them.

23. The disclosure shall include a description of how the ***administrative, management and supervisory bodies*** determine whether appropriate skills and expertise are available or will be developed to oversee ***sustainability matters***, including:

    (a) the sustainability-related expertise that the bodies, as a whole, either directly possess or can leverage, for example through access to experts or training; and

    (b) how those skills and expertise relate to the undertaking's material impacts, risks and opportunities.

Disclosure Requirement GOV-2 – Information provided to and sustainability matters addressed by the undertaking's administrative, management and supervisory bodies

24. **The undertaking shall disclose how the administrative, management and supervisory bodies are informed about sustainability matters and how these matters were addressed during the reporting period.**

25. The objective of this Disclosure Requirement is to provide an understanding of how ***administrative, management and supervisory bodies*** are informed about ***sustainability matters***, as well as what information and matters they addressed during the reporting period. This in turn allows an understanding of whether the members of these bodies were adequately informed and whether they were able to fulfil their roles.

26. The undertaking shall disclose the following information:

[14]This information supports the information needs of benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator "Weighted average percentage of board members who are independent" in section I of Annex II.

(a) whether, by whom and how frequently the ***administrative, management and supervisory bodies***, including their relevant committees, are informed about material ***impacts, risks*** and ***opportunities*** (see Disclosure Requirement IRO–1 - *Description of the processes to identify and assess material impacts, risks and opportunities* of this Standard), the implementation of due diligence, and the results and effectiveness of ***policies, actions, metrics*** and ***targets*** adopted to address them;

(b) how the ***administrative, management and supervisory bodies*** consider impacts, risks and opportunities when overseeing the undertaking's strategy, its decisions on major transactions, and its risk management process, including whether they have considered trade-offs associated with those impacts, risks and opportunities; and

(c) a list of the material impacts, risks and opportunities addressed by the administrative, management and supervisory bodies, or their relevant committees during the reporting period.

Disclosure Requirement GOV-3 – Integration of sustainability-related performance in incentive schemes

27. **The undertaking shall disclose information about the integration of its sustainability-related performance in incentive schemes.**

28. The objective of this Disclosure Requirement is to provide an understanding of whether incentive schemes are offered to members of the ***administrative, management and supervisory bodies*** that are linked to ***sustainability matters***.

29. The undertaking shall disclose the following information about the incentive schemes and remuneration ***policies*** linked to ***sustainability matters*** for members of the undertaking's ***administrative, management and supervisory bodies***, where they exist:

    (a) a description of the key characteristics of the incentive schemes;

    (b) whether performance is being assessed against specific sustainability-related ***targets*** and/or impacts, and if so, which ones;

    (c) whether and how sustainability-related performance ***metrics*** are considered as performance benchmarks or included in remuneration policies;

    (d) the proportion of variable remuneration dependent on sustainability-related targets and/or impacts; and

    (e) the level in the undertaking at which the terms of incentive schemes are approved and updated.

Disclosure Requirement GOV–4 - Statement on due diligence

30. **The undertaking shall disclose a mapping of the information provided in its sustainability statement about the due diligence process.**

31. The objective of this Disclosure Requirement is to facilitate an understanding of the undertaking's due diligence process with regard to ***sustainability matters***.

32. The main aspects and steps of due diligence referred to under ESRS 1 chapter 4 *Due diligence* are related to a number of cross-cutting and topical Disclosure Requirements under the ESRS. The undertaking shall provide a mapping that explains how and where its application of the main aspects and steps of the due diligence process are reflected in its sustainability statement, to allow a depiction of the actual practices of the undertaking with regard to due diligence[15].

[15] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #10 in Table III

33. This disclosure requirement does not mandate any specific behavioural requirements with regard to due diligence ***actions*** and does not extend or modify the role of ***administrative, management and supervisory bodies*** as mandated by other legislation or regulation.

Disclosure Requirement GOV–5 - Risk management and internal controls over sustainability reporting

34. **The undertaking shall disclose the main features of its risk management and internal control system in relation to the sustainability reporting process.**

35. The objective of this Disclosure Requirement is to provide an understanding of the undertaking's risk management and internal control processes in relation to sustainability reporting.

36. The undertaking shall disclose the following information:

    (a) the scope, main features and components of the risk management and internal control processes and systems in relation to sustainability reporting;

    (b) the risk assessment approach followed, including the risk prioritisation methodology;

    (c) the main risks identified and their mitigation strategies including related controls;

    (d) a description of how the undertaking integrates the findings of its risk assessment and internal controls as regards the sustainability reporting process into relevant internal functions and processes; and

    (e) a description of the periodic reporting of the findings referred to in point (d) to the ***administrative, management and supervisory bodies***.

3. Strategy

37. This chapter sets disclosure requirements that enable an understanding of:

    (a) the elements of the undertaking's strategy that relate to or affect ***sustainability matters***, its ***business model*** and its ***value chain***;

    (b) how the interests and views of the undertaking's ***stakeholders*** are taken into account by the undertaking's strategy and business model; and

    (c) the outcome of the undertaking's assessment of material ***impacts, risks*** and ***opportunities***, including how they inform its strategy and business model.

Disclosure Requirement SBM-1 – Strategy, business model and value chain

38. **The undertaking shall disclose the elements of its strategy that relate to or impact sustainability matters, its business model and its value chain.**

39. The objective of this Disclosure Requirement is to describe the key elements of the undertaking's general strategy that relate to or affect ***sustainability matters***, and the key elements of the undertaking's ***business model*** and ***value chain***, in order to provide an understanding of its exposure to ***impacts, risks*** and ***opportunities*** and where they originate.

40. The undertaking shall disclose the following information about the key elements of its general strategy that relate to or affect ***sustainability matters***:

    (a) a description of:

        i. significant groups of products and/or services offered, including changes in the

of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Lack of due diligence").

reporting period (new/removed products and/or services);

ii. significant markets and/or customer groups served, including changes in the reporting period (new/removed markets and/or customer groups);

iii. headcount of ***employees*** by geographical areas; and

iv. where applicable and material, products and services that are banned in certain markets;

(b) a breakdown of total revenue, as included in its financial statements, by significant ESRS sectors. When the undertaking provides segment reporting as required by IFRS 8 *Operating segments* in its financial statements, this sector revenue information shall be, as far as possible, reconciled with IFRS 8 information;

(c) a list of the additional significant ESRS sectors beyond the ones reflected under paragraph 40(b), such as activities that give rise to intercompany revenues, in which the undertaking develops significant activities, or in which it is or may be connected to material impacts. The identification of these additional ESRS sectors shall be consistent with the way they have been considered by the undertaking when performing its ***materiality*** assessment and with the way it discloses material sector-specific information;

(d) where applicable, a statement indicating, together with the related revenues, that the undertaking is active in:

i. the ***fossil fuel*** (coal, oil and gas) sector[16], (i.e., it derives revenues from exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade, of fossil fuels as defined in Article 2, point (62), of Regulation (EU) 2018/1999 of the European Parliament and the Council[17]), including a disaggregation of revenues derived from coal, from oil and from gas, as well as the revenues derived from Taxonomy-aligned economic activities related to fossil gas as required under Article 8(7)(a) of Commission Delegated Regulation 2021/2178[18];

ii. chemicals production[19], i.e., its activities fall under Division 20.2 of Annex I to Regulation (EC) No 1893/2006;

iii. controversial weapons[20] (anti-personnel mines, cluster munitions, chemical weapons and biological weapons); and/or

iv. the cultivation and production of tobacco[21];

(e) its sustainability-related goals in terms of significant groups of products and services, customer categories, geographical areas and relationships with ***stakeholders***;

[16] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts set out by indicator #4 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosures rules on sustainable investments ("Exposure to companies active in the fossil fuel sector").

[17] Regulation (EU) 2018/1999 of the European Parliament and of the Council of 11 December 2018 on the Governance of the Energy Union and Climate Action, amending Regulations (EC) No 663/2009 and (EC) No 715/2009 of the European Parliament and of the Council, Directives 94/22/EC, 98/70/EC, 2009/31/EC, 2009/73/EC, 2010/31/EU, 2012/27/EU and 2013/30/EU of the European Parliament and of the Council, Council Directives 2009/119/EC and (EU) 2015/652 and repealing Regulation (EU) No 525/2013 of the European Parliament and of the Council (OJ L 328, 21.12.2018, p. 1).

[18] Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation (OJ L 443, 10.12.2021, p. 9).

[19] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts set out by indicator #9 in Table II of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosures rules on sustainable investments ("Investments in companies producing chemicals").

[20] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts set out by indicator #14 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosures rules on sustainable investments ("Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)").

[21] This information supports the needs of benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1818 as set out by paragraph b) of article 12.1.

(f) an assessment of its current significant products and/or services, and significant markets and customer groups, in relation to its sustainability-related goals; and

(g) the elements of the undertaking's strategy that relate to or impact sustainability matters, including the main challenges ahead, critical solutions or projects to be put in place, when relevant for sustainability reporting.

41. If the undertaking is based in an EU Member State that allows for an exemption from the disclosure of the information referred to in Article 18, paragraph 1, sub-point (a) of Directive 2013/34/EU[22], and if the undertaking has made use of that exemption, it may omit the breakdown of revenue by significant ESRS sector required by paragraph 40(b). In this case the undertaking shall nevertheless disclose the list of ESRS sectors that are significant for the undertaking.

42. The undertaking shall disclose a description of its ***business model*** and ***value chain***, including:

(a) its inputs and its approach to gathering, developing and securing those inputs;

(b) its outputs and outcomes in terms of current and expected benefits for customers, investors and other ***stakeholders***; and

(c) the main features of its upstream and downstream ***value chain*** and the undertaking's position in its value chain, including a description of the main business actors (such as key ***suppliers***, customers, distribution channels and ***end-users***) and their relationship to the undertaking. When the undertaking has multiple value chains, the disclosure shall cover the key value chains.

Disclosure Requirement SBM-2 – Interests and views of stakeholders

43. **The undertaking shall disclose how the interests and views of its stakeholders are taken into account by the undertaking's strategy and business model.**

44. The objective of this Disclosure Requirement is to provide an understanding of how ***stakeholders***' interests and views inform the undertaking's strategy and ***business model***.

45. The undertaking shall disclose a summarised description of:

(a) its stakeholder engagement, including:

i. the undertaking's key ***stakeholders***;

ii. whether engagement with them occurs and for which categories of stakeholders;

iii. how it is organised;

iv. its purpose; and

v. how its outcome is taken into account by the undertaking;

(b) the undertaking's understanding of the interests and views of its key ***stakeholders*** as they relate to the undertaking's strategy and ***business model,*** to the extent that these were analysed during the undertaking's due diligence process and/or ***materiality*** assessment process (see Disclosure Requirement IRO-1 of this Standard);

(c) where applicable, amendments to its strategy and/or business model, including:

i. how the undertaking has amended or expects to amend its strategy and/or business model to address the interests and views of its stakeholders;

ii. any further steps that are being planned and in what timeline; and

iii. whether these steps are likely to modify the relationship with and views of

[22] Article 18, paragraph 1, sub-point (a) of Directive 2013/34/EU: "*the net turnover broken down by categories of activity and into geographical markets, in so far as those categories and markets differ substantially from one another, taking account of the manner in which the sale of products and the provision of services are organised*."

stakeholders; and

(d) whether and how the ***administrative, management and supervisory bodies*** are informed about the views and interests of affected ***stakeholders*** with regard to the undertaking's sustainability-related impacts.

Disclosure Requirement SBM-3 - Material impacts, risks and opportunities and their interaction with strategy and business model

46. **The undertaking shall disclose its material impacts, risks and opportunities and how they interact with its strategy and business model.**

47. The objective of this Disclosure Requirement is to provide an understanding of the material ***impacts, risks*** and ***opportunities*** as they result from the undertaking's materiality assessment and how they originate from and trigger adaptation of the undertaking's strategy and ***business model*** including its resources allocation. The information to be disclosed about the management of the undertaking's material impacts, risks and opportunities is prescribed in topical ESRS and in sector-specific standards, which shall be applied in conjunction with the ***Minimum Disclosure Requirements*** on ***policies, actions*** and ***targets*** established in this Standard.

48. The undertaking shall disclose:

(a) a brief description of its material ***impacts, risks*** and ***opportunities*** resulting from its materiality assessment (see Disclosure Requirement IRO-1 of this standard), including a description of where in its ***business model***, its own operations and its upstream and downstream ***value chain*** these material impacts, risks and opportunities are concentrated;

(b) the current and anticipated effects of its material impacts, risks and opportunities on its business model, value chain, strategy and decision-making, and how it has responded or plans to respond to these effects, including any changes it has made or plans to make to its strategy or business model as part of its ***actions*** to address particular material impacts or risks, or to pursue particular material opportunities;

(c) with reference to the undertaking's material ***impacts***:

i. how the undertaking's material negative and positive impacts affect (or, in the case of potential impacts, are likely to affect) people or the environment;

ii. whether and how the impacts originate from or are connected to the undertaking's strategy and business model;

iii. the reasonably expected time horizons of the impacts; and

iv. whether the undertaking is involved with the material impacts through its activities or because of its ***business relationships***, describing the nature of the activities or business relationships concerned;

(d) the ***current financial effects*** of the undertaking's material risks and opportunities on its financial position, financial performance and cash flows and the material risks and opportunities for which there is a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the related financial statements;

(e) the ***anticipated financial effects*** of the undertaking's material risks and opportunities on its financial position, financial performance and cash flows over the short-, medium- and long-term, including the reasonably expected time horizons for those effects. This shall include how the undertaking expects its financial position, financial performance and cash flows to change over the short, medium- and long-term, given its strategy to manage risks and opportunities, taking into consideration:

i. its investment and disposal plans (for example, capital expenditure, major

acquisitions and divestments, joint ventures, business transformation, innovation, new business areas and asset retirements), including plans the undertaking is not contractually committed to; and

ii. its planned sources of funding to implement its strategy.

(f) information about the resilience of the undertaking's strategy and business model regarding its capacity to address its material impacts and risks and to take advantage of its material opportunities. The undertaking shall disclose a qualitative and, when applicable, a quantitative analysis of the resilience, including how the analysis was conducted and the time horizons that were applied as defined in ESRS 1 (see ESRS 1 chapter 6 *Time horizons*). When providing quantitative information, the undertaking may disclose single amounts or ranges;

(g) changes to the material impacts, risks and opportunities compared to the previous reporting period; and

(h) a specification of those impacts, risks and opportunities that are covered by ESRS Disclosure Requirements as opposed to those covered by the undertaking using additional entity-specific disclosures.

49. The undertaking may disclose the descriptive information required in paragraph 46 alongside the disclosures provided under the corresponding topical ESRS, in which case it shall still present a statement of its material ***impacts, risks*** and ***opportunities*** alongside its disclosures prepared under this chapter of ESRS 2.

4. Impact, risk and opportunity management

4.1 Disclosures on the materiality assessment process

50. This chapter sets disclosure requirements that enable an understanding of:

(a) the process to identify material ***impacts, risks*** and ***opportunities***; and

(b) the information that, as a result of its ***materiality*** assessment, the undertaking has included in its ***sustainability statement***.

Disclosure Requirement IRO-1 - Description of the process to identify and assess material impacts, risks and opportunities

51. **The undertaking shall disclose its process to identify its impacts, risks and opportunities and to assess which ones are material.**

52. The objective of this Disclosure Requirement is to provide an understanding of the process through which the undertaking identifies ***impacts, risks*** and ***opportunities*** and assesses their ***materiality,*** as the basis for determining the disclosures in its ***sustainability statement*** (see ESRS 1 chapter 3 and its related Application Requirements, which set out requirements and principles regarding the process to identify and assess material impacts, risks and opportunities based on the principle of double materiality).

53. The undertaking shall disclose the following information:

(a) a description of the methodologies and assumptions applied in the described process;

(b) an overview of the process to identify, assess, prioritise and monitor the undertaking’s potential and actual ***impacts*** on people and the environment, informed by the undertaking’s due diligence process, including an explanation of whether and how the process:

i. focusses on specific activities, business relationships, geographies or other factors that give rise to heightened risk of adverse impacts;

ii. considers the impacts with which the undertaking is involved through its own operations or as a result of its business relationships;

iii. includes consultation with affected ***stakeholders*** to understand how they may be impacted and with external experts;

iv. prioritises negative impacts based on their relative severity and likelihood, (see ESRS 1 section 3.4 *Impact materiality*) and, if applicable, positive impacts on their relative scale, scope and likelihood, and determines which sustainability matters are material for reporting purposes, including the qualitative or quantitative thresholds and other criteria used as prescribed by ESRS 1 section 3.4 *Impact materiality*;

(c) an overview of the process used to identify, assess, prioritise and monitor ***risks*** and ***opportunities*** that have or may have ***financial effects***. The disclosure shall include:

i. how the undertaking has considered the connections of its impacts and dependencies with the risks and opportunities that may arise from those impacts and dependencies;

ii. how the undertaking assesses the likelihood, magnitude, and nature of effects of the identified risk and opportunities (such as the qualitative or quantitative thresholds and other criteria used as prescribed by ESRS 1 section 3.3 *Financial materiality*);

iii. how the undertaking prioritises sustainability-related risks relative to other types of risks, including its use of risk-assessment tools;

(d) a description of the decision-making process and the related internal control procedures;

(e) the extent to which and how the process to identify, assess and manage impacts and risks is integrated into the undertaking's overall risk management process and used to evaluate the undertaking's overall risk profile and risk management processes;

(f) the extent to which and how the process to identify, assess and manage opportunities is integrated into the undertaking's overall management process where applicable;

(g) the input parameters it uses (for example, data sources, the scope of operations covered and the detail used in assumptions); and

(h) whether and how the process has changed compared to the prior reporting period, when the process was modified for the last time and future revision dates of the ***materiality*** assessment.

Disclosure Requirement IRO-2 – Disclosure Requirements in ESRS covered by the undertaking's sustainability statement

54. **The undertaking shall report on the Disclosure Requirements complied with in its sustainability statements.**

55. The objective of this Disclosure Requirement is to provide an understanding of the Disclosure Requirements included in the undertaking's sustainability statement and of the topics that have been omitted as not material, as a result of the ***materiality*** assessment.

56. The undertaking shall include a list of the Disclosure Requirements complied with in preparing the ***sustainability statement***, following the outcome of the ***materiality*** assessment (see ESRS 1 chapter 3), including the page numbers and/or paragraphs where the related disclosures are located in the sustainability statement. This may be presented as a content index. The undertaking shall also include a table of all the datapoints that derive from other EU legislation as listed in Appendix B of this standard, indicating where they can be found in the sustainability statement and including those that the undertaking has assessed as not material, in which case the undertaking shall indicate "Not material" in the table in accordance with ESRS 1 paragraph 35.

57. If the undertaking concludes that climate change is not material and therefore omits all disclosure requirements in ESRS E1 *Climate change*, it shall disclose a detailed explanation of the conclusions of its ***materiality*** assessment with regard to climate change (see ESRS 2 IRO-

2 *Disclosure Requirements in ESRS covered by the undertaking's sustainability statement*), including a forward-looking analysis of the conditions that could lead the undertaking to conclude that climate change is material in the future.

58. If the undertaking concludes that a topic other than climate change is not material and therefore omits all the Disclosure Requirements in the corresponding topical ESRS, it may provide a brief explanation of the conclusions of its ***materiality*** assessment for that topic.

59. The undertaking shall provide an explanation of how it has determined the material information to be disclosed in relation to the ***impacts, risks*** and ***opportunities*** that it has assessed to be material, including the use of thresholds and/or how it has implemented the criteria in ESRS 1 section 3.2 *Material matters and materiality of information.*

4.2 Minimum disclosure requirements on policies and actions

60. This section sets out ***minimum disclosure requirements*** to be included when the undertaking discloses information on its ***policies*** and ***actions*** to prevent, mitigate and remediate actual and potential material ***impacts***, to address material ***risks*** and/or to pursue material ***opportunities*** (collectively, to "manage material ***sustainability matters***"). They shall be applied together with the Disclosure Requirements, including Application Requirements, provided in the relevant topical and sector-specific ESRS. They shall also be applied when the undertaking prepares entity-specific disclosures.

61. The corresponding disclosures shall be located alongside disclosures prescribed by the relevant ESRS. When a single ***policy*** or same ***actions*** address several interconnected ***sustainability matters***, the undertaking may disclose the required information in its reporting under one topical ESRS and cross reference to it in its reporting under other topical ESRS.

62. If the undertaking cannot disclose the information on ***policies*** and ***actions*** required under relevant ESRS, because it has not adopted policies and/or actions with reference to the specific ***sustainability matter*** concerned, it shall disclose this to be the case, and provide reasons for not having adopted policies and/or actions. The undertaking may disclose a timeframe in which it aims to adopt them.

Minimum Disclosure Requirement – Policies MDR-P – Policies adopted to manage material sustainability matters

63. The undertaking shall apply the ***minimum disclosure requirements*** defined in this provision when it discloses the ***policies*** it has in place with regard to each ***sustainability matter*** identified as material.

64. The objective of this ***Minimum Disclosure Requirement*** is to provide an understanding of the ***policies*** that the undertaking has in place to prevent, mitigate and remediate actual and potential ***impacts***, to address ***risks*** and to pursue ***opportunities***.

65. The undertaking shall disclose information about ***policies*** adopted to manage material ***sustainability matters***. The disclosure shall include the following information:

    (a) a description of the key contents of the ***policy***, including its general objectives and which material ***impacts, risks*** or ***opportunities*** the policy relates to and the process for monitoring;

    (b) a description of the scope of the policy, or of its exclusions, in terms of activities, upstream and/or downstream ***value chain***, geographies and if relevant, affected ***stakeholder*** groups;

    (c) the most senior level in the undertaking's organisation that is accountable for the implementation of the policy;

    (d) a reference, if relevant, to the third-party standards or initiatives the undertaking commits to respect through the implementation of the policy;

    (e) if relevant, a description of the consideration given to the interests of key

stakeholders in setting the policy; and

(f) if relevant, whether and how the undertaking makes the policy available to potentially affected stakeholders, and stakeholders who need to help implement it.

Minimum Disclosure Requirement – Actions MDR-A – Actions and resources in relation to material sustainability matters

66. The undertaking shall apply the requirements for the content of disclosures in this provision when it describes the ***actions*** through which it manages each material **sustainability matter** including action plans and resources allocated and/or planned.

67. The objective of this ***Minimum Disclosure Requirement*** is to provide an understanding of the key ***actions*** taken and/or planned to prevent, mitigate and ***remediate*** actual and potential ***impacts***, and to address ***risks*** and ***opportunities***, and where applicable achieve the objectives and ***targets*** of related ***policies***.

68. Where the implementation of a ***policy*** requires ***actions***, or a comprehensive action plan, to achieve its objectives, as well as when actions are implemented without a specific policy, the undertaking shall disclose the following information:

    (a) the list of key actions taken in the reporting year and planned for the future, their expected outcomes and, where relevant, how their implementation contributes to the achievement of policy objectives and ***targets***;

    (b) the scope of the key actions (i.e., coverage in terms of activities, upstream and/or downstream ***value chain,*** geographies and, where applicable, affected ***stakeholder*** groups);

    (c) the time horizons under which the undertaking intends to complete each key action;

    (d) if applicable, key actions taken (along with results) to provide for and cooperate in or support the provision of ***remedy*** for those harmed by actual material impacts;

    (e) if applicable, quantitative and qualitative information regarding the progress of actions or action plans disclosed in prior periods.

69. Where the implementation of an action plan requires significant operational expenditures (Opex) and/or capital expenditures (Capex) the undertaking shall:

    (a) describe the type of current and future financial and other resources allocated to the action plan, including if applicable, the relevant terms of sustainable finance instruments, such as green bonds, social bonds and green loans, the environmental or social objectives, and whether the ability to implement the actions or action plan depends on specific preconditions, e.g., granting of financial support or public policy and market developments;

    (b) provide the amount of current financial resources and explain how they relate to the most relevant amounts presented in the financial statements; and

    (c) provide the amount of future financial resources.

5. Metrics and targets

70. This chapter sets out ***Minimum Disclosure Requirements*** that shall be included when the undertaking discloses information on its ***metrics*** and ***targets*** related to each material sustainability matter. They shall be applied together with the Disclosure Requirements, including Application Requirements, provided in the relevant topical ESRS. They shall also be applied when the undertaking prepares entity-specific disclosures.

71. The corresponding disclosures shall be located alongside disclosures prescribed by the topical ESRS.

72. If the undertaking cannot disclose the information on ***targets*** required under the relevant topical ESRS, because it has not set targets with reference to the specific sustainability matter concerned, it shall disclose this to be the case, and provide reasons for not having adopted targets. The undertaking may disclose a timeframe in which it aims to adopt them.

Minimum disclosure requirement – Metrics MDR-M – Metrics in relation to material sustainability matters

73. The undertaking shall apply the requirements for the content of disclosures in this provision when it discloses on the ***metrics*** it has in place with regard to each material ***sustainability matter***.

74. The objective of this ***Minimum Disclosure Requirement*** is to provide an understanding of the ***metrics*** the undertaking uses to track the effectiveness of its ***actions*** to manage material ***sustainability matters***.

75. The undertaking shall disclose any ***metrics*** that it uses to evaluate performance and effectiveness, in relation to a material ***impact, risk*** or ***opportunity.***

76. ***Metrics*** shall include those defined in ESRS, as well as metrics identified on an entity-specific basis, whether taken from other sources or developed by the undertaking itself.

77. For each ***metric***, the undertaking shall:

    (a) disclose the methodologies and significant assumptions behind the metric, including the limitations of the methodologies used;

    (b) disclose whether the measurement of the metric is validated by an external body other than the assurance provider and, if so, which body;

    (c) label and define the metric using meaningful, clear and precise names and descriptions;

    (d) when currency is specified as the unit of measure, use the presentation currency of its financial statements.

Minimum Disclosure Requirement – Targets MDR-T – Tracking effectiveness of policies and actions through targets

78. The undertaking shall apply the requirements for the content of disclosures in this provision when it discloses information about the ***targets*** it has set with regard to each material ***sustainability matter.***

79. The objective of this ***Minimum Disclosure Requirement*** is to provide for each material ***sustainability matter*** an understanding of:

    (a) whether and how the undertaking tracks the effectiveness of its ***actions*** to address material ***impacts, risks*** and ***opportunities***, including the ***metrics*** it uses to do so;

    (b) measurable time-bound outcome-oriented ***targets*** set by the undertaking to meet the ***policy***'s objectives, defined in terms of expected results for people, the environment or the undertaking regarding material impacts, risks and opportunities;

    (c) the overall progress towards the adopted targets over time;

    (d) in the case that the undertaking has not set measurable time-bound outcome-oriented targets, whether and how it nevertheless tracks the effectiveness of its actions to address material impacts, risks and opportunities and measures the progress in achieving its ***policy*** objectives; and

    (e) whether and how ***stakeholders*** have been involved in target setting for each material sustainability matter.

80. The undertaking shall disclose the measurable, outcome-oriented and time-bound ***targets*** on material ***sustainability matters*** it has set to assess progress. For each target, the disclosure

shall include the following information:

(a) a description of the relationship of the target to the ***policy*** objectives;

(b) the defined target level to be achieved, including, where applicable, whether the target is absolute or relative and in which unit it is measured;

(c) the scope of the target, including the undertaking's activities and/or its upstream and/or downstream ***value chain*** where applicable and geographical boundaries;

(d) the baseline value and base year from which progress is measured;

(e) the period to which the target applies and if applicable, any milestones or interim targets;

(f) the methodologies and significant assumptions used to define targets, including where applicable, the selected ***scenario***, data sources, alignment with national, EU or international policy goals and how the targets consider the wider context of sustainable development and/or local situation in which impacts take place;

(g) whether the undertaking's targets related to environmental matters are based on conclusive scientific evidence*;*

(h) whether and how ***stakeholders*** have been involved in target setting for each material sustainability matter;

(i) any changes in targets and corresponding ***metrics*** or underlying measurement methodologies, significant assumptions, limitations, sources and processes to collect data adopted within the defined time horizon. This includes an explanation of the rationale for those changes and their effect on comparability (see Disclosure Requirement BP-2 *Disclosures in relation to specific circumstances of this Standard*); and

(j) the performance against its disclosed targets, including information on how the target is monitored and reviewed and the metrics used, whether the progress is in line with what had been initially planned, and an analysis of trends or significant changes in the performance of the undertaking towards achieving the target.

81. If the undertaking has not set any measurable outcome-oriented ***targets***:

(a) it may disclose whether such targets will be set and the timeframe for setting them, or the reasons why the undertaking does not plan to set such targets;

(b) it shall disclose whether it nevertheless tracks the effectiveness of its ***policies*** and ***actions*** in relation to the material sustainability-related ***impact, risk*** and ***opportunity***, and if so:

i. any processes through which it does so;

ii. the defined level of ambition to be achieved and any qualitative or quantitative indicators it uses to evaluate progress, including the base period from which progress is measured.

Appendix A: Application Requirements

This appendix is an integral part of ESRS 2 and has the same authority as other parts of the Standard.

1. Basis for preparation

Disclosure Requirement BP-1 – General basis for preparation of sustainability statements

AR 1. When describing to what extent the ***sustainability statement*** covers the undertaking's

upstream and downstream ***value chain*** (see ESRS 1 section 5.1 *Reporting undertaking and value chain*), the undertaking may distinguish between:

(a) the extent to which its ***materiality*** assessment of ***impacts, risks*** and ***opportunities*** extends to its upstream and/or downstream value chain;

(b) the extent to which its ***policies, actions*** and ***targets*** extend to its value chain; and

(c) the extent to which it includes upstream and/or downstream value chain data when disclosing on ***metrics***.

Disclosure Requirement BP-2 – Disclosures in relation to specific circumstances

AR 2. The undertaking may disclose whether it relies on any European standards approved by the European Standardisation System (ISO/IEC or CEN/CENELEC standards), as well as the extent to which data and processes that are used for sustainability reporting purposes have been verified by an external assurance provider and found to conform to the corresponding ISO/IEC or CEN/CENELEC standard.

2. Governance

Disclosure Requirement GOV-1 – The role of the administrative, management and supervisory bodies

AR 3. In describing the role and responsibilities of the **administrative, management and supervisory bodies** with regard to ***sustainability matters***, the undertaking may specify:

(a) the aspects of sustainability over which oversight is exercised with regard to the environmental, social and governance matters the undertaking may be facing, including:

i. any assessment of and changes to sustainability-related aspects of the undertaking's strategy and ***business model***;

ii. the identification and assessment of material ***risks, opportunities*** and ***impacts***;

iii. related ***policies*** and ***targets***, action plans and dedicated resources; and

iv. sustainability reporting;

(b) the form such oversight takes for each of the above aspects: i.e., information, consultation or decision-making; and

(c) the way such oversight is organised and formalised, i.e., processes by which the administrative, management and supervisory bodies engage with these aspects of sustainability.

AR 4. In describing the undertaking's organisation of governance regarding ***sustainability matters***, a description of complex governance structure may be complemented by their presentation in the form of a diagram.

AR 5. The description of the level of expertise or access to expertise of the ***administrative, management and supervisory bodies*** may be substantiated by illustrating the composition of the bodies, including members on whom these bodies rely for expertise to oversee ***sustainability matters***, and how they leverage that expertise as a body. In the description, the undertaking shall consider how the expertise and skills are relevant to the undertaking's material ***impacts, risks*** and ***opportunities*** and whether the bodies and/or its members have access to other sources of expertise, such as specific experts and ***training*** and other educational initiatives to update and develop sustainability-related expertise within these bodies.

Disclosure Requirement GOV-2 – Information provided to and sustainability matters addressed by the undertaking's administrative, management and supervisory bodies

AR 6. Depending on the undertaking's structure, the ***administrative, management and supervisory bodies*** may focus on overarching ***targets***, while management focuses on the more detailed targets. In this case, the undertaking may disclose how the governance bodies ensure that an appropriate mechanism for performance monitoring is in place.

Disclosure Requirement GOV-3 – Integration of sustainability-related performance in incentive schemes

AR 7. For listed undertakings, this Disclosure Requirement should be consistent with the remuneration report prescribed in articles 9a and 9b of Directive 2007/36/EC on the exercise of certain rights of shareholders in listed companies. Subject to the provisions of ESRS 1, paragraphs 119, 120 and 122, a listed undertaking may make a reference to its remuneration report.

Disclosure Requirement GOV-4 – Statement on due diligence

AR 8. The mapping required by paragraph 30 may be presented in the form of a table, cross-referencing the core elements of due diligence, for impacts on people and the environment, to the relevant disclosures in the undertaking's ***sustainability statement***, as set out below.

AR 9. The undertaking may include additional columns to the table below to clearly identify those disclosures that relate to impacts on people and/or the environment given that, in some cases, more than one disclosure may provide information about the same due diligence step.

AR 10. The main references in the international instruments of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises to the core elements of the due diligence process are listed in ESRS 1 chapter 4.

CORE ELEMENTS OF DUE DILIGENCE	PARAGRAPHS IN THE SUSTAINABILITY STATEMENT
a) Embedding due diligence in governance, strategy and business model	
b) Engaging with affected stakeholders in all key steps of the due diligence	
c) Identifying and assessing adverse impacts	
d) Taking actions to address those adverse impacts	
e) Tracking the effectiveness of these efforts and communicating	

Disclosure Requirement GOV-5 – Risk management and internal controls over sustainability reporting

AR 11. This Disclosure Requirement focuses solely on the internal control processes over the

sustainability reporting process. The undertaking may consider risks such as the completeness and integrity of the data, the accuracy of estimation results, the availability of upstream and/or downstream ***value chain*** data, and the timing of the availability of the information.

3. Strategy

Disclosure Requirement SBM–1 Strategy, business model and value chain

AR 12. To provide the information on sectors required by paragraph 40, the undertaking shall map its significant activities in accordance with ESRS sectors. If a code for a sub-sector does not exist, the caption "others" shall be used.

AR 13. For the purposes of the disclosures required in paragraph 40, a group of products and/or services offered, a group of markets and/or customer groups served, or an ESRS sector, is significant for the undertaking if it meets one or both of the following criteria:

(a) it accounts for more than 10 per cent of the undertaking's revenue;

(b) it is connected with material actual impacts or material potential negative impacts of the undertaking.

AR 14. In preparing disclosures relating to its ***business model*** and ***value chain***, the undertaking shall consider:

(a) its key activities, resources, distribution channels and customer segments;

(b) its key ***business relationships*** and their key characteristics, including relationships with customers and ***suppliers***;

(c) the cost structure and revenue of its business segments, in line with IFRS 8 disclosure requirements in the financial statement, where applicable;

(d) the potential ***impacts, risks*** and ***opportunities*** in its significant sector(s) and their possible relationship to its own ***business model*** or ***value chain.***

AR 15. Contextual information may be particularly relevant for users of the undertaking's sustainability statement, to understand to what extent the disclosures include upstream and/or downstream ***value chain*** information. The description of the main features of the upstream and/or downstream value chain and where applicable the identification of key value chains should support an understanding of how the undertaking applies the requirements of ESRS 1 chapter 5 and the ***materiality*** assessment performed by the undertaking in line with ESRS 1 chapter 3. The description may provide a high-level overview of the key features of upstream and/or downstream value chain entities indicating their relative contribution to the undertaking's performance and position and explaining how they contribute to the value creation of the undertaking.

Disclosure Requirement SBM-2 – Interests and views of stakeholders

AR 16. The views and interests of ***stakeholders*** that are expressed as part of the undertaking's engagement with stakeholders through its due diligence process may be relevant to one or more aspects of its strategy or business model. As such, they may affect the undertaking's decisions regarding the future direction of the strategy or business model.

Disclosure Requirement SBM-3 – Material impacts, risks and opportunities and their interaction with strategy and business model

AR 17. When describing where in its upstream and/or downstream ***value chain*** material ***impacts,***

risks and ***opportunities*** are concentrated, the undertaking shall consider: geographical areas, facilities or types of assets, inputs, outputs and distribution channels.

AR 18. This disclosure may be expressed in terms of a single ***impact***, ***risk*** or ***opportunity*** by aggregating groups of material impacts, risks and opportunities, when this provides more relevant information and does not obscure material information.

4. Impact, risk and opportunity management

Disclosure Requirement IRO-2 – Disclosure Requirements in ESRS covered by the undertaking's sustainability statement

AR 19. Notwithstanding the basis for the presentation of the information about ***sustainability matters*** included in ESRS 1 chapter 8 *Structure of sustainability statement*, the undertaking may disclose the list of the Disclosure Requirements complied with in preparing the ***sustainability statement*** (see paragraph 54) in the general information part or in other parts of the sustainability statement as it deems appropriate. The undertaking may use a content index, i.e., a tabular list of the Disclosure Requirements included in the sustainability statement, with the indication of where they are located (page/paragraphs).

Minimum Disclosure Requirement – Policies MDR-P – Policies adopted to manage material sustainability matters

AR 20. Due to the interdependency between impacts on people and the environment, ***risks*** and ***opportunities***, a single ***policy*** may apply to several material ***sustainability matters***, including matters addressed by more than one topical ESRS. For example, if a single policy covers both an environmental matter and a social matter, the undertaking may report on the policy in the environmental section of its ***sustainability statement***. In this case, it should include in the social section a cross-reference to the environmental section where the policy is reported. Equally a policy may be reported in the social section with a cross-reference to it in the environmental section.

AR 21. The description of the scope of the ***policy*** may explain which activities and/or segments of the undertaking's own operations or upstream and downstream ***value chain*** it concerns. The description may also explain further boundaries relevant to the specific topic or the undertaking's circumstances, which may include geographies, life cycles, etc. In certain cases, such as if the policy does not cover the full value chain, the undertaking may provide clear information regarding the extent of the value chain covered by the policy.

Minimum disclosure requirement – Actions MDR-A – Actions and resources in relation to material sustainability matters

AR 22. Key ***actions*** in the context of this ***Minimum Disclosure Requirement*** are those actions that materially contribute to achieving the undertaking's objectives in addressing material ***impacts, risks*** and ***opportunities***. For reasons of understandability, key actions may be aggregated where appropriate.

AR 23. Information on resource allocation may be presented in the form of a table and broken down between capital expenditure and operating expenditure, and across the relevant time horizons, and between resources applied in the current reporting year and the planned allocation of resources over specific time horizons.

5. Metrics and targets

Minimum Disclosure Requirement – Targets MDR-T – Tracking effectiveness of

policies and actions through targets

AR 24. When disclosing ***targets*** related to the prevention or mitigation of environmental impacts, the undertaking shall prioritise targets related to the reduction of the impacts in absolute terms rather than in relative terms. When targets address the prevention or mitigation of social impacts, they may be specified in terms of the effects on human rights, welfare or positive outcomes for affected ***stakeholders***.

AR 25. The information on progress made towards achieving the ***targets*** may be presented in a comprehensive table, including information on the baseline and target value, milestones, and achieved performance over the prior periods.

AR 26. Where the undertaking describes progress in achieving the objectives of a ***policy*** in the absence of a measurable target, it may specify a baseline against which the progress is considered. For example, the undertaking may assess an increase of ***wages*** by a certain percentage for those below a fair wage; or may assess the quality of its relationships with local communities by reference to the proportion of issues raised by communities that were resolved to their satisfaction. The baseline and the assessment of the progress shall be related to the ***impacts, risks*** and ***opportunities*** which underpin the ***materiality*** of the matter addressed by the policy.

Appendix B: List of datapoints in cross-cutting and topical standards that derive from other EU legislation

This appendix is an integral part of the ESRS 2. The table below illustrates the datapoints in ESRS 2 and topical ESRS that derive from other EU legislation.

Disclosure Requirement and related datapoint	SFDR[23] reference	Pillar 3[24] reference	Benchmark Regulation[25] reference	EU Climate Law[26] reference
ESRS 2 GOV-1 Board's gender diversity paragraph 21 (d)	Indicator number 13 of Table #1 of Annex 1		Commission Delegated Regulation (EU) 2020/1816[27], Annex II	
ESRS 2 GOV-1 Percentage of board members who are independent paragraph 21 (e)			Delegated Regulation (EU) 2020/1816, Annex II	

[23] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (Sustainable Finance Disclosures Regulation) (OJ L 317, 9.12.2019, p. 1).
[24] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (Capital Requirements Regulation "CRR") (OJ L 176, 27.6.2013, p. 1).
[25] Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (OJ L 171, 29.6.2016, p. 1).
[26] Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law') (OJ L 243, 9.7.2021, p. 1).
[27] Commission Delegated Regulation (EU) 2020/1816 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the explanation in the benchmark statement of how environmental, social and governance factors are reflected in each benchmark provided and published (OJ L 406, 3.12.2020, p. 1).

Disclosure Requirement and related datapoint	SFDR[23] reference	Pillar 3[24] reference	Benchmark Regulation[25] reference	EU Climate Law[26] reference
ESRS 2 GOV-4 Statement on due diligence paragraph 30	Indicator number 10 Table #3 of Annex 1			
ESRS 2 SBM-1 Involvement in activities related to fossil fuel activities paragraph 40 (d) i	Indicators number 4 Table #1 of Annex 1	Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453[28]Table 1: Qualitative information on Environmental risk and Table 2: Qualitative information on Social risk	Delegated Regulation (EU) 2020/1816, Annex II	
ESRS 2 SBM-1 Involvement in activities related to chemical production paragraph 40 (d) ii	Indicator number 9 Table #2 of Annex 1		Delegated Regulation (EU) 2020/1816, Annex II	
ESRS 2 SBM-1 Involvement in activities related to controversial weapons paragraph 40 (d) iii	Indicator number 14 Table #1 of Annex 1		Delegated Regulation (EU) 2020/1818[29], Article 12(1) Delegated Regulation (EU) 2020/1816, Annex II	
ESRS 2 SBM-1 Involvement in activities related to cultivation and production of tobacco paragraph 40 (d) iv			Delegated Regulation (EU) 2020/1818, Article 12(1) Delegated Regulation (EU) 2020/1816, Annex II	
ESRS E1-1 Transition plan to reach climate neutrality by 2050 paragraph 14				Regulation (EU) 2021/1119, Article 2(1)
ESRS E1-1 Undertakings excluded from Paris-aligned		Article 449a Regulation (EU) No	Delegated Regulation (EU) 2020/1818,	

[28] Commission Implementing Regulation (EU) 2022/2453 of 30 November 2022 amending the implementing technical standards laid down in Implementing Regulation (EU) 2021/637 as regards the disclosure of environmental, social and governance risks (OJ L 324,19.12.2022, p.1.).

[29] Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks (OJ L 406, 3.12.2020, p. 17).

Disclosure Requirement and related datapoint	SFDR[23] reference	Pillar 3[24] reference	Benchmark Regulation[25] reference	EU Climate Law[26] reference
Benchmarks paragraph 16 (g)		575/2013; Commission Implementing Regulation (EU) 2022/2453 Template 1: Banking book- Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity	Article12.1 (d) to (g), and Article 12.2	
ESRS E1-4 GHG emission reduction targets paragraph 34	Indicator number 4 Table #2 of Annex 1	Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 Template 3: Banking book – Climate change transition risk: alignment metrics	Delegated Regulation (EU) 2020/1818, Article 6	
ESRS E1-5 Energy consumption from fossil sources disaggregated by sources (only high climate impact sectors) paragraph 38	Indicator number 5 Table #1 and Indicator n. 5 Table #2 of Annex 1			
ESRS E1-5 Energy consumption and mix paragraph 37	Indicator number 5 Table #1 of Annex 1			
ESRS E1-5 Energy intensity associated with activities in high climate impact sectors paragraphs 40 to 43	Indicator number 6 Table #1 of Annex 1			
ESRS E1-6 Gross Scope 1, 2, 3 and Total GHG emissions paragraph 44	Indicators number 1 and 2 Table #1 of Annex 1	Article 449a; Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 Template 1:	Delegated Regulation (EU) 2020/1818, Article 5(1), 6 and 8(1)	

Disclosure Requirement and related datapoint	SFDR[23] reference	Pillar 3[24] reference	Benchmark Regulation[25] reference	EU Climate Law[26] reference
		Banking book – Climate change transition risk: Credit quality of exposures by sector, emissions and residual maturity		
ESRS E1-6 Gross GHG emissions intensity paragraphs 53 to 55	Indicators number 3 Table #1 of Annex 1	Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 Template 3: Banking book – Climate change transition risk: alignment metrics	Delegated Regulation (EU) 2020/1818, Article 8(1)	
ESRS E1-7 GHG removals and carbon credits paragraph 56				Regulation (EU) 2021/1119, Article 2(1)
ESRS E1-9 Exposure of the benchmark portfolio to climate-related physical risks paragraph 66			Delegated Regulation (EU) 2020/1818, Annex II Delegated Regulation (EU) 2020/1816, Annex II	
ESRS E1-9 Disaggregation of monetary amounts by acute and chronic physical risk paragraph 66 (a) ESRS E1-9 Location of significant assets at material physical risk paragraph 66 (c).		Article 449a Regulation (EU) No 575/2013; Commission Implementing Regulation (EU) 2022/2453 paragraphs 46 and 47; Template 5: Banking book - Climate change physical risk: Exposures subject to physical risk.		
ESRS E1-9 Breakdown of the carrying value of its real estate assets		Article 449a Regulation (EU) No 575/2013;		

Disclosure Requirement and related datapoint	SFDR[23] reference	Pillar 3[24] reference	Benchmark Regulation[25] reference	EU Climate Law[26] reference
by energy-efficiency classes paragraph 67 (c).		Commission Implementing Regulation (EU) 2022/2453 paragraph 34;Template 2:Banking book -Climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral		
ESRS E1-9 Degree of exposure of the portfolio to climate-related opportunities paragraph 69			Delegated Regulation (EU) 2020/1818, Annex II	
ESRS E2-4 Amount of each pollutant listed in Annex II of the E-PRTR Regulation (European Pollutant Release and Transfer Register) emitted to air, water and soil, paragraph 28	Indicator number 8 Table #1 of Annex 1 Indicator number 2 Table #2 of Annex 1 Indicator number 1 Table #2 of Annex 1 Indicator number 3 Table #2 of Annex 1			
ESRS E3-1 Water and marine resources paragraph 9	Indicator number 7 Table #2 of Annex 1			
ESRS E3-1 Dedicated policy paragraph 13	Indicator number 8 Table 2 of Annex 1			
ESRS E3-1 Sustainable oceans and seas paragraph 14	Indicator number 12 Table #2 of Annex 1			
ESRS E3-4 Total water recycled and reused paragraph 28 (c)	Indicator number 6.2 Table #2 of Annex 1			
ESRS E3-4 Total water consumption in m^3 per net revenue on own operations paragraph 29	Indicator number 6.1 Table #2 of Annex 1			
ESRS 2- IRO 1 - E4 paragraph 16 (a) i	Indicator number 7 Table #1 of Annex 1			
ESRS 2- IRO 1 - E4 paragraph 16 (b)	Indicator number 10 Table #2 of Annex 1			

Disclosure Requirement and related datapoint	SFDR[23] reference	Pillar 3[24] reference	Benchmark Regulation[25] reference	EU Climate Law[26] reference
ESRS 2- IRO 1 - E4 paragraph 16 (c)	Indicator number 14 Table #2 of Annex 1			
ESRS E4-2 Sustainable land / agriculture practices or policies paragraph 24 (b)	Indicator number 11 Table #2 of Annex 1			
ESRS E4-2 Sustainable oceans / seas practices or policies paragraph 24 (c)	Indicator number 12 Table #2 of Annex 1			
ESRS E4-2 Policies to address deforestation paragraph 24 (d)	Indicator number 15 Table #2 of Annex 1			
ESRS E5-5 Non-recycled waste paragraph 37 (d)	Indicator number 13 Table #2 of Annex 1			
ESRS E5-5 Hazardous waste and radioactive waste paragraph 39	Indicator number 9 Table #1 of Annex 1			
ESRS 2- SBM3 - S1 Risk of incidents of forced labour paragraph 14 (f)	Indicator number 13 Table #3 of Annex I			
ESRS 2- SBM3 - S1 Risk of incidents of child labour paragraph 14 (g)	Indicator number 12 Table #3 of Annex I			
ESRS S1-1 Human rights policy commitments paragraph 20	Indicator number 9 Table #3 and Indicator number 11 Table #1 of Annex I			
ESRS S1-1 Due diligence policies on issues addressed by the fundamental International Labor Organisation Conventions 1 to 8, paragraph 21			Delegated Regulation (EU) 2020/1816, Annex II	
ESRS S1-1 processes and measures for preventing trafficking in human beings paragraph 22	Indicator number 11 Table #3 of Annex I			
ESRS S1-1 workplace accident prevention policy or management system paragraph 23	Indicator number 1 Table #3 of Annex I			

Disclosure Requirement and related datapoint	SFDR[23] reference	Pillar 3[24] reference	Benchmark Regulation[25] reference	EU Climate Law[26] reference
ESRS S1-3 grievance/complaints handling mechanisms paragraph 32 (c)	Indicator number 5 Table #3 of Annex I			
ESRS S1-14 Number of fatalities and number and rate of work-related accidents paragraph 88 (b) and (c)	Indicator number 2 Table #3 of Annex I		Delegated Regulation (EU) 2020/1816, Annex II	
ESRS S1-14 Number of days lost to injuries, accidents, fatalities or illness paragraph 88 (e)	Indicator number 3 Table #3 of Annex I			
ESRS S1-16 Unadjusted gender pay gap paragraph 97 (a)	Indicator number 12 Table #1 of Annex I		Delegated Regulation (EU) 2020/1816, Annex II	
ESRS S1-16 Excessive CEO pay ratio paragraph 97 (b)	Indicator number 8 Table #3 of Annex I			
ESRS S1-17 Incidents of discrimination paragraph 103 (a)	Indicator number 7 Table #3 of Annex I			
ESRS S1-17 Non-respect of UNGPs on Business and Human Rights and OECD paragraph 104 (a)	Indicator number 10 Table #1 and Indicator n. 14 Table #3 of Annex I		Delegated Regulation (EU) 2020/1816, Annex II Delegated Regulation (EU) 2020/1818 Art 12 (1)	
ESRS 2- SBM3 – S2 Significant risk of child labour or forced labour in the value chain paragraph 11 (b)	Indicators number 12 and n. 13 Table #3 of Annex I			
ESRS S2-1 Human rights policy commitments paragraph 17	Indicator number 9 Table #3 and Indicator n. 11 Table #1 of Annex 1			
ESRS S2-1 Policies related to value chain workers paragraph 18	Indicator number 11 and n. 4 Table #3 of Annex 1			
ESRS S2-1Non-respect of UNGPs on Business and Human Rights principles and OECD guidelines	Indicator number 10 Table #1 of Annex 1		Delegated Regulation (EU) 2020/1816, Annex II Delegated Regulation (EU) 2020/1818, Art	

Disclosure Requirement and related datapoint	SFDR[23] reference	Pillar 3[24] reference	Benchmark Regulation[25] reference	EU Climate Law[26] reference
paragraph 19			12 (1)	
ESRS S2-1 Due diligence policies on issues addressed by the fundamental International Labor Organisation Conventions 1 to 8, paragraph 19			Delegated Regulation (EU) 2020/1816, Annex II	
ESRS S2-4 Human rights issues and incidents connected to its upstream and downstream value chain paragraph 36	Indicator number 14 Table #3 of Annex 1			
ESRS S3-1 Human rights policy commitments paragraph 16	Indicator number 9 Table #3 of Annex 1 and Indicator number 11 Table #1 of Annex 1			
ESRS S3-1 non-respect of UNGPs on Business and Human Rights, ILO principles or and OECD guidelines paragraph 17	Indicator number 10 Table #1 Annex 1		Delegated Regulation (EU) 2020/1816, Annex II Delegated Regulation (EU) 2020/1818, Art 12 (1)	
ESRS S3-4 Human rights issues and incidents paragraph 36	Indicator number 14 Table #3 of Annex 1			
ESRS S4-1 Policies related to consumers and end-users paragraph 16	Indicator number 9 Table #3 and Indicator number 11 Table #1 of Annex 1			
ESRS S4-1 Non-respect of UNGPs on Business and Human Rights and OECD guidelines paragraph 17	Indicator number 10 Table #1 of Annex 1		Delegated Regulation (EU) 2020/1816, Annex II Delegated Regulation (EU) 2020/1818, Art 12 (1)	
ESRS S4-4 Human rights issues and incidents paragraph 35	Indicator number 14 Table #3 of Annex 1			
ESRS G1-1 United Nations Convention against	Indicator number 15 Table #3 of Annex 1			

Disclosure Requirement and related datapoint	SFDR[23] reference	Pillar 3[24] reference	Benchmark Regulation[25] reference	EU Climate Law[26] reference
Corruption paragraph 10 (b)				
ESRS G1-1 Protection of whistle-blowers paragraph 10 (d)	Indicator number 6 Table #3 of Annex 1			
ESRS G1-4 Fines for violation of anti-corruption and anti-bribery laws paragraph 24 (a)	Indicator number 17 Table #3 of Annex 1		Delegated Regulation (EU) 2020/1816, Annex II)	
ESRS G1-4 Standards of anti-corruption and anti- bribery paragraph 24 (b)	Indicator number 16 Table #3 of Annex 1			

Appendix C: Disclosure and Application Requirements in Topical ESRS that are applicable in conjunction with ESRS 2 General disclosures

This appendix is an integral part of ESRS 2 and has the same authority as the other parts of the standard. The following table outlines the requirements in topical ESRS that need to be taken into account when reporting against the Disclosure Requirements in ESRS 2.

ESRS 2 Disclosure Requirement	Related ESRS paragraph
GOV–1 The role of the administrative, management and supervisory bodies	ESRS G1 *Business conduct* (paragraph 5)
GOV–3 Integration of sustainability-related performance in incentive schemes	ESRS E1 *Climate change* (paragraph 13)
SBM–2 Interests and views of stakeholders	ESRS S1 *Own workforce* (paragraph 12) ESRS S2 *Workers in the value chain* (paragraph 9) ESRS S3 *Affected communities* (paragraph 7) ESRS S4 *Consumers and end-users* (paragraph 8)
SBM–3 Material impacts, risks and opportunities and their interaction with strategy and business model	ESRS E1 *Climate Change* (paragraphs 18 to 19) ESRS E4 *Biodiversity and ecosystems* (paragraph 16) ESRS S1 *Own workforce* (paragraph 13 to 16) ESRS S2 *Workers in the value chain* (paragraph 10 to 13) ESRS S3 *Affected communities* (paragraph 8 to 11) ESRS S4 Consumers and end-users (paragraph 9 to 12)

ESRS 2 Disclosure Requirement	Related ESRS paragraph
IRO-1 Description of the processes to identify and assess material impacts, risks and opportunities	ESRS E1 *Climate change* (paragraph 20 to 21) ESRS E2 *Pollution* (paragraph 11) ESRS E3 *Water and marine resources* (paragraph 8) ESRS E4 *Biodiversity and ecosystems* (paragraph 17 to 19) ESRS E5 *Resource use and circular economy* (paragraph 11) ESRS G1 *Business conduct* (paragraph 6)

ESRS E1
CLIMATE CHANGE

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Objective

1. The objective of this Standard is to specify Disclosure Requirements which will enable users of ***sustainability statements*** to understand:

   (a) how the undertaking affects climate change, in terms of material positive and negative actual and potential impacts;

   (b) the undertaking's past, current, and future mitigation efforts in line with the Paris Agreement (or an updated international agreement on climate change) and compatible with limiting global warming to 1.5°C;

   (c) the plans and capacity of the undertaking to adapt its strategy and business model, in line with the transition to a sustainable economy and to contribute to limiting global warming to 1.5°C;

   (d) any other ***actions*** taken by the undertaking, and the result of such actions to prevent, mitigate or remediate actual or potential negative impacts, and to address ***risks*** and ***opportunities***;

   (e) the nature, type and extent of the undertaking's material risks and opportunities arising from the undertaking's impacts and ***dependencies*** on climate change, and how the undertaking manages them; and

   (f) the ***financial effects*** on the undertaking over the short-, medium- and long-term of risks and opportunities arising from the undertaking's impacts and dependencies on climate change.

2. The Disclosure Requirements of this Standard take into account the requirements of related EU legislation and regulation (i.e., EU Climate Law[30], Climate Benchmark Standards Regulation[31], Sustainable Finance Disclosure Regulation (SFDR)[32], EU Taxonomy[33], and EBA Pillar 3 disclosure requirements[34]).

3. This Standard covers Disclosure Requirements related to the following ***sustainability matters:*** "***Climate change mitigation***" and "***Climate change adaptation***". It also covers energy-related matters, to the extent that they are relevant to climate change.

4. ***Climate change mitigation*** relates to the undertaking's endeavours to the general process of limiting the increase in the global average temperature to 1,5 °C above pre-industrial levels in line with the Paris Agreement. This Standard covers disclosure requirements related but

[30] Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law') (OJ L 243, 9.7.2021, p. 1).
[31] Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks (OJ L 406, 3.12.2020, p. 17).
[32] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (Sustainable Finance Disclosures Regulation) (OJ L 317, 9.12.2019, p. 1).
[33] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13).
[34] Commission Implementing Regulation (EU) 2022/2453 of 30 November 2022 amending the implementing technical standards laid down in Implementing Regulation (EU) 2021/637 as regards the disclosure of environmental, social and governance risks (OJ L 324,19.12.2022, p.1.).

not limited to the seven ***Greenhouse gases (GHG)*** carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF6) and nitrogen trifluoride (NF3). It also covers Disclosure Requirements on how the undertaking addresses its GHG ***emissions*** as well as the associated ***transition risks***.

5. ***Climate change adaptation*** relates to the undertaking's process of adjustment to actual and expected climate change.

6. This Standard covers Disclosure Requirements regarding climate-related hazards that can lead to physical climate risks for the undertaking and its adaptation solutions to reduce these risks. It also covers ***transition risks*** arising from the needed adaptation to climate- related hazards.

7. The Disclosure Requirements related to "Energy" cover all types of energy production and consumption.

Interactions with other ESRS

8. ***Ozone-depleting substances*** (ODS), nitrogen oxides (NOX) and sulphur oxides (SOX), among other air emissions, are connected to climate change but are covered under the reporting requirements in ESRS E2.

9. Impacts on people that may arise from the transition to a climate-neutral economy are covered under the ESRS S1 Own workforce, ESRS S2 Workers in the value chain, ESRS S3 Affected communities and ESRS S4 Consumers and end-users.

10. ***Climate change mitigation*** and ***adaptation*** are closely related to topics addressed in particular in ESRS E3 *Water and marine resources* and ESRS E4 *Biodiversity and ecosystems*. With regard to water and as illustrated in the table of climate-related hazards in AR 11, this standard addresses acute and chronic ***physical risks*** which arise from the water and ocean-related hazards. ***Biodiversity loss*** and ecosystem ***degradation*** that may be caused by climate change are addressed in ESRS E4 *Biodiversity and ecosystems*.

11. This Standard should be read and applied in conjunction with ESRS 1 *General requirements and ESRS 2 General disclosures.*

Disclosure Requirements

ESRS 2 General disclosures

12. The requirements of this section should be read and applied in conjunction with the disclosures required by ESRS 2 on Chapter 2 *Governance*, Chapter 3 *Strategy* and Chapter 4 *Impact, risk and opportunity management*. The resulting disclosures shall be presented in the ***sustainability statement*** alongside the disclosures required by ESRS 2, except for ESRS 2 SBM-3 *Material impacts, risks and opportunities and their interaction with strategy and business model*, for which the undertaking may, in accordance with ESRS2 paragraph 46, present the disclosures alongside the other disclosures required in this topical standard.

Governance

Disclosure requirement related to ESRS 2 GOV-3 Integration of sustainability-related performance in incentive schemes

13. The undertaking shall disclose whether and how climate-related considerations are factored into the remuneration of members of the ***administrative, management and supervisory bodies***, including if their performance has been assessed against the ***GHG emission reduction targets*** reported under Disclosure Requirement E1-4 and the percentage of the remuneration recognised in the current period that is linked to climate related considerations, with an explanation of what the climate considerations are.

Strategy

Disclosure Requirement E1-1 – Transition plan for climate change mitigation

14. **The undertaking shall disclose its *transition plan* for *climate change mitigation*[35].**

15. The objective of this Disclosure Requirement is to enable an understanding of the undertaking's past, current, and future mitigation efforts to ensure that its strategy and ***business model*** are compatible with the transition to a sustainable economy, and with the limiting of global warming to 1.5 °C in line with the Paris Agreement and with the objective of achieving climate neutrality by 2050 and, where relevant, the undertaking's exposure to coal, oil and gas-related activities.

16. The information required by paragraph 14 shall include:

    (a) by reference to ***GHG emission reduction targets*** (as required by Disclosure Requirement E1-4), an explanation of how the undertaking's targets are compatible with the limiting of global warming to 1.5°C in line with the Paris Agreement;

    (b) by reference to GHG emission reduction targets (as required by Disclosure Requirement E1-4) and the ***climate change mitigation actions*** (as required by Disclosure Requirement E1-3), an explanation of the ***decarbonisation levers*** identified, and key actions planned, including changes in the undertaking's product and service portfolio and the adoption of new technologies in its own operations, or the upstream and/or downstream value chain;

    (c) by reference to the ***climate change mitigation actions*** (as required by Disclosure Requirement E1-3), an explanation and quantification of the undertaking's investments and funding supporting the implementation of its ***transition plan,*** with a reference to the key performance indicators of taxonomy-aligned CapEx, and where relevant the CapEx plans, that the undertaking discloses in accordance with Commission Delegated Regulation (EU) 2021/2178;

    (d) a qualitative assessment of the potential ***locked-in GHG emissions*** from the undertaking's key assets and products. This shall include an explanation of if and how these ***emissions*** may jeopardise the achievement of the undertaking's ***GHG emission reduction targets*** and drive ***transition risk***, and if applicable, an explanation of the undertaking's plans to manage its GHG-intensive and energy-intensive assets and products;

    (e) for undertakings with economic activities that are covered by delegated regulations on climate adaptation or mitigation under the Taxonomy Regulation, an explanation of any objective or plans (CapEX, CapEx plans, OpEX) that the undertaking has for aligning its economic activities (revenues, CapEx, OpEx) with the criteria established in Commission Delegated Regulation 2021/2139[36];

    (f) if applicable, a disclosure of significant CapEx amounts invested during the reporting period related to coal, oil and gas-related economic activities;[37]

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[35] This information is aligned with the Regulation (EU) 2021/1119 of the European Parliament and of the Council (EU Climate Law), Article 2 (1); and with Commission Delegated Regulation (EU) 2020/1818 (Climate Benchmark Regulation), Article 2.

[36] Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives (OJ L 442, 9.12.2021, p. 1).

[37] The CapEx amounts considered are related to the following NACE codes:

(a) B.05 Mining of coal and lignite, B.06 Extraction of crude petroleum and natural gas (limited to crude petroleum), B.09.1 Support activities for petroleum and natural gas extraction (limited to crude petroleum),
(b) C.19 Manufacture of coke and refined petroleum products,
(c) D.35.1 - Electric power generation, transmission and distribution,
(d) D.35.3 - Steam and air conditioning supply (limited to coal-fired and oil-fired power and/or heat generation),
(e) G.46.71 - Wholesale of solid, liquid and gaseous fuels and related products (limited to solid and liquid fuels).

(g) a disclosure on whether or not the undertaking is excluded from the EU Paris-aligned Benchmarks;[38]

(h) an explanation of how the ***transition plan*** is embedded in and aligned with the undertaking's overall business strategy and financial planning;

(i) whether the transition plan is approved by the ***administrative, management and supervisory bodies***; and

(j) an explanation of the undertaking's progress in implementing the transition plan.

17. In case the undertaking does not have a ***transition plan*** in place, it shall indicate whether and, if so, when it will adopt a transition plan.

Disclosure Requirement related to ESRS 2 SBM-3 – Material impacts, risks and opportunities and their interaction with strategy and business model

18. The undertaking shall explain for each material climate-related risk it has identified, whether the entity considers the risk to be a ***climate-related physical risk*** or ***climate-related transition risk*****.**

19. The undertaking shall describe the resilience of its strategy and ***business model*** in relation to climate change. This description shall include:

(a) the scope of the resilience analysis;

(b) how and when the resilience analysis has been conducted, including the use of climate ***scenario analysis*** as referenced in the Disclosure Requirement related to ESRS 2 IRO-1 and the related application requirement paragraphs; and

(c) the results of the resilience analysis including the results from the use of scenario analysis.

Impact, risk and opportunity management

Disclosure requirement related to ESRS 2 IRO-1 – Description of the processes to identify and assess material climate-related impacts, risks and opportunities

20. The undertaking shall describe the process to identify and assess climate-related ***impacts, risks*** and ***opportunities***. This description shall include its process in relation to:

(a) impacts on climate change, in particular, the undertaking's ***GHG emissions*** (as required by Disclosure Requirement ESRS E1-6);

(b) ***climate-related physical risks*** in own operations and along the upstream and downstream ***value chain***, in particular:

i. the identification of climate-related hazards, considering at least high ***emission*** climate ***scenarios***; and

ii. the assessment of how its assets and business activities may be exposed and are sensitive to these climate-related hazards, creating gross ***physical risks*** for the undertaking.

For gas-related activities, the NACE code definition addresses activities with direct GHG emissions that are higher than 270 gCO2/KWh.

[38] This disclosure requirement is included consistent with the requirements in Commission Implementing Regulation (EU) 2022/2453 template I climate change transition risk; and is aligned with Commission Delegated Regulation (EU) 2020/1818 (Climate Benchmark Regulation), Articles 12.1 (d) to (g) and 12.2.

(c) ***climate-related transition risks*** and opportunities in own operations and along the upstream and downstream ***value chain***, in particular:

i. the identification of climate-related transition events, considering at least a climate scenario in line with limiting global warming to 1.5°C with no or limited overshoot; and

ii. the assessment of how its assets and business activities may be exposed to these climate-related transition events, creating gross ***transition risks*** or ***opportunities*** for the undertaking.

21. When disclosing the information required under paragraphs 20 (b)and 20 (c) the undertaking shall explain how it has used climate-related ***scenario analysis,*** including a range of climate scenarios, to inform the identification and assessment of ***physical risks*** and ***transition risks*** and opportunities over the short-, medium- and long-term.

Disclosure Requirement E1-2 – Policies related to climate change mitigation and adaptation

22. **The undertaking shall describe its *policies* adopted to manage its material *impacts*, *risks* and *opportunities* related to *climate change mitigation* and *adaptation*.**

23. The objective of this Disclosure Requirement is to enable an understanding of the extent to which the undertaking has ***policies*** that address the identification, assessment, management and/or ***remediation*** of its material ***climate change mitigation*** and ***adaptation impacts, risks*** and ***opportunities.***

24. The disclosure required by paragraph 22 shall contain the information on the ***policies*** the undertaking has in place to manage its material ***impacts, risks*** and ***opportunities*** related to ***climate change mitigation*** and ***adaptation*** in accordance with ESRS 2 MDR-P *Policies adopted to manage material sustainability matters*.

25. The undertaking shall indicate whether and how its ***policies*** address the following areas:

(a) ***climate change mitigation***;

(b) ***climate change adaptation***;

(c) energy efficiency;

(d) ***renewable energy*** deployment; and

(e) other

Disclosure Requirement E1-3 – Actions and resources in relation to climate change policies

26. **The undertaking shall disclose its *climate change mitigation* and *adaptation* actions and the resources allocated for their implementation.**

27. The objective of this Disclosure Requirement is to provide an understanding of the key ***actions*** taken and planned to achieve climate-related ***policy*** objectives and ***targets.***

28. The description of the ***actions*** and resources related to ***climate change mitigation*** and adaptation shall follow the principles stated in ESRS 2 MDR-A *Actions and resources in relation to material sustainability matters*.

29. In addition to ESRS 2 MDR-A, the undertaking shall:

(a) when listing key ***actions*** taken in the reporting year and planned for the future, present the ***climate change mitigation*** actions by decarbonisation lever including the nature-based solutions;

(b) when describing the outcome of the actions for climate change mitigation, include the achieved and expected ***GHG emission reductions***; and

(c) relate significant monetary amounts of CapEx and OpEx required to implement the actions taken or planned to:

i. the relevant line items or notes in the financial statements;

ii. the key performance indicators required under Commission Delegated Regulation (EU) 2021/2178; and

iii. if applicable, the CapEx plan required by Commission Delegated Regulation (EU) 2021/2178.

Metrics and targets

Disclosure Requirement E1-4 – Targets related to climate change mitigation and adaptation

30. **The undertaking shall disclose the climate-related targets it has set.**

31. The objective of this Disclosure Requirement is to enable an understanding of the ***targets*** the undertaking has set to support its ***climate change mitigation*** and ***adaptation policies*** and address its material climate-related ***impacts, risks*** and ***opportunities.***

32. The disclosure of the ***targets*** required in paragraph 30 shall contain the information required in ESRS 2 MDR-T *Tracking effectiveness of policies and actions through targets*.

33. For the disclosure required by paragraph 30, the undertaking shall disclose whether and how it has set ***GHG emissions reduction targets*** and/or any other targets to manage material climate-related ***impacts, risks*** and ***opportunities***, for example, ***renewable energy*** deployment, energy efficiency, ***climate change adaptation***, and ***physical*** or ***transition risk*** mitigation.

34. If the undertaking has set ***GHG emission reduction targets***[39], ESRS 2 MDR-T and the following requirements shall apply:

(a) GHG emission reduction targets shall be disclosed in absolute value (either in tonnes of CO2eq or as a percentage of the ***emissions*** of a base year) and, where relevant, in intensity value;

(b) GHG emission reduction targets shall be disclosed for ***Scope 1, 2***, and ***3 GHG emissions,*** either separately or combined. The undertaking shall specify, in case of combined ***GHG emission reduction targets***, which GHG emission Scopes (1, 2 and/or 3) are covered by the target, the share related to each respective GHG emission Scope and which GHGs are covered. The undertaking shall explain how the consistency of these targets with its GHG inventory boundaries is ensured (as required by Disclosure Requirement E1-6). The GHG emission reduction targets shall be gross targets, meaning that the undertaking shall not include GHG removals, ***carbon credits*** or avoided emissions as a means of achieving the GHG emission reduction targets;

(c) the undertaking shall disclose its current base year and baseline value, and from 2030 onwards, update the base year for its GHG emission reduction targets after every five-year period thereafter. The undertaking may disclose the past progress made in meeting its targets before its current base year provided that this information is consistent with the requirements of this Standard;

[39] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 (SFDR) because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #4 in Table II of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Investments in companies without carbon emission reduction initiatives"); and is aligned with the Commission Delegated Regulation (EU) 2020/1818 (Climate Benchmark Regulation), Article 6.

(d) GHG emission reduction targets shall at least include target values for the year 2030 and, if available, for the year 2050. From 2030, target values shall be set after every 5-year period thereafter;

(e) the undertaking shall state whether the GHG emission reduction targets are science-based and compatible with limiting global warming to 1.5°C. The undertaking shall state which framework and methodology has been used to determine these ***targets*** including whether they are derived using a sectoral decarbonisation pathway and what the underlying climate and ***policy scenarios*** are and whether the targets have been externally assured. As part of the critical assumptions for setting GHG emission reduction targets, the undertaking shall briefly explain how it has considered future developments (e.g., changes in sales volumes, shifts in customer preferences and demand, regulatory factors, and new technologies) and how these will potentially impact both its GHG emissions and emissions reductions; and

(f) the undertaking shall describe the expected ***decarbonisation levers*** and their overall quantitative contributions to achieve the GHG emission reduction targets (e.g., energy or material efficiency and consumption reduction, fuel switching, use of ***renewable energy***, phase out or substitution of product and process).

Disclosure Requirement E1-5 – Energy consumption and mix

35. **The undertaking shall provide information on its energy consumption and mix.**

36. The objective of this Disclosure Requirement is to provide an understanding of the undertaking's total energy consumption in absolute value, improvement in energy efficiency, exposure to coal, oil and gas-related activities, and the share of ***renewable energy*** in its overall energy mix.

37. The disclosure required by paragraph 35 shall include the total energy consumption in MWh related to own operations disaggregated by:

(a) total energy consumption from fossil sources[40];

(b) total energy consumption from nuclear sources;

(c) total energy consumption from renewable sources disaggregated by:

i. fuel consumption for renewable sources including biomass (also comprising industrial and municipal ***waste*** of biologic origin), biofuels, biogas, hydrogen from renewable sources[41], etc.;

ii. consumption of purchased or acquired electricity, heat, steam, and cooling from renewable sources; and

iii. consumption of self-generated non-fuel renewable energy.

38. The undertaking with operations in ***high climate impact sectors***[42] shall further disaggregate

[40] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory indicator related to principal adverse impacts as set out by indicator #5 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Share of non-renewable energy consumption and production"). The breakdown serves as a reference for an additional indicator related to principal adverse impacts as set out by indicator #5 in Table II of the same Annex ("Breakdown of energy consumption by type of non-renewable sources of energy").

[41] Compliant with the requirements in delegated acts for hydrogen from renewable sources: Commission Delegated Regulation of 10 February 2023 supplementing Directive (EU) 2018/2001 of the European Parliament and of the Council by establishing a Union methodology setting out detailed rules for the production of renewable liquid and gaseous transport fuels of non-biological origin; and Commission Delegated Regulation of 10 February 2023 supplementing Directive (EU) 2018/2001 of the European Parliament and of the Council by establishing a minimum threshold for greenhouse gas emissions savings of recycled carbon fuels and by specifying a methodology for assessing greenhouse gas emissions savings from renewable liquid and gaseous transport fuels of non-biological origin and from recycled carbon fuel.

[42] High climate impact sectors are those listed in NACE Sections A to H and Section L (as defined in Commission Delegated Regulation (EU) 2022/1288).

their total energy consumption from fossil sources by:

(a) fuel consumption from coal and coal products;

(b) fuel consumption from crude oil and petroleum products;

(c) fuel consumption from natural gas;

(d) fuel consumption from other fossil sources;

(e) consumption of ***purchased or acquired electricity, heat, steam, or cooling*** from fossil sources;

39. In addition, where applicable, the undertaking shall disaggregate and disclose separately its ***non-renewable energy*** production and ***renewable energy*** production in MWh.[43]

Energy intensity based on net revenue[44]

40. The undertaking shall provide information on the energy intensity (total energy consumption per net revenue) associated with activities in ***high climate impact sectors***.

41. The disclosure on energy intensity required by paragraph 40 shall only be derived from the total energy consumption and net revenue from activities in ***high climate impact sectors***.

42. The undertaking shall specify the ***high climate impact sectors*** that are used to determine the energy intensity required by paragraph 40.

43. The undertaking shall disclose the reconciliation to the relevant line item or notes in the financial statements of the net revenue amount from activities in ***high climate impact sectors*** (the denominator in the calculation of the energy intensity required by paragraph 40).

Disclosure Requirement E1-6 – Gross Scopes 1, 2, 3 and Total GHG emissions

44. **The undertaking shall disclose in metric tonnes of CO2eq its[45]:**

(a) **gross Scope 1 GHG emissions;**

(b) **gross Scope 2 GHG emissions;**

(c) **gross Scope 3 GHG emissions; and**

(d) **total GHG emissions.**

45. The objective of the Disclosure Requirement in paragraph 44 in respect of:

(a) gross ***Scope 1 GHG emissions*** as required by paragraph 44 (a) is to provide an understanding of the direct impacts of the undertaking on climate change and the proportion of its total GHG emissions that are regulated under emission trading schemes.

(b) gross ***Scope 2 GHG emissions*** as required by paragraph 44 (b) is to provide an

[43] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory indicator related to principal adverse impacts as set out by indicator #5 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Share of non-renewable energy consumption and production").

[44] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory indicator related to principal adverse impacts as set out by indicator #6 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Energy consumption intensity per high climate impact sector").

[45] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory indicator related to principal adverse impacts as set out by indicators #1 and #2 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("GHG emissions" and "Carbon footprint"). This information is aligned with Commission Delegated Regulation (EU) 2020/1818 (Climate Benchmark Regulation), Articles 5 (1), 6 and 8 (1).

understanding of the indirect impacts on climate change caused by the undertaking's consumed energy whether externally purchased or acquired.

(c) gross ***Scope 3 GHG emissions*** as required by paragraph 44 (c) is to provide an understanding of the GHG emissions that occur in the undertaking's upstream and downstream value chain beyond its Scope 1 and 2 GHG emissions. For many undertakings, Scope 3 GHG emissions may be the main component of their GHG inventory and are an important driver of the undertaking's ***transition risks***.

(d) total GHG ***emissions*** as required by paragraph 44 (d) is to provide an overall understanding of the undertaking's GHG emissions and whether they occur from its own operations or the usptream and donwstream value chain. This disclosure is a prerequisite for measuring progress towards reducing GHG emissions in accordance with the undertaking's climate-related ***targets*** and EU ***policy*** goals.

The information from this Disclosure Requirement is also needed to understand the undertaking's climate-related ***transition risks.***

46. When disclosing the information on ***GHG emissions*** required under paragraph 44, the undertaking shall refer to ESRS 1 paragraphs from 62 to 67. In principle, the data on GHG emissions of its associates or joint ventures that are part of the undertaking's upstream and downstream value chain (ESRS 1 Paragraph 67) are not limited to the share of equity held. For its associates, joint ventures, unconsolidated subsidiaries (investment entities) and contractual arrangements that are joint arrangements not structured through an entity (i.e., jointly controlled operations and assets), the undertaking shall include the GHG emissions in accordance with the extent of the undertaking's ***operational control*** over them.

47. In case of significant changes in the definition of what constitutes the reporting undertaking and its upstream and downstream ***value chain***, the undertaking shall disclose these changes and explain their effect on the year-to-year comparability of its reported GHG ***emissions*** (i.e., the effect on the comparability of current versus previous reporting period GHG emissions).

48. The disclosure on gross ***Scope 1 GHG emissions*** required by paragraph 44 (a) shall include:

(a) the gross Scope 1 GHG emissions in metric tonnes of CO2eq; and

(b) the percentage of Scope 1 GHG emissions from regulated emission trading schemes.

49. The disclosure on gross ***Scope 2 GHG emissions*** required by paragraph 44 (b) shall include:

(a) the gross location-based Scope 2 GHG emissions in metric tonnes of CO_2eq; and

(b) the gross market-based Scope 2 GHG emissions in metric tonnes of CO_2eq.

50. For ***Scope 1 and Scope 2 emissions*** disclosed as required by paragraphs 44 (a) and (b) the undertaking shall disaggregate the information, separately disclosing emissions from:

(a) the consolidated accounting group (the parent and subsidiaries); and

(b) investees such as associates, joint ventures, or unconsolidated subsidiaries that are not fully consolidated in the financial statements of the consolidated accounting group, as well as contractual arrangements that are joint arrangements not structured through an entity (i.e., jointly controlled operations and assets), for which it has operational control.

51. The disclosure of gross ***Scope 3 GHG emissions*** required by paragraph 44 (c) shall include GHG emissions in metric tonnes of CO2eq from each significant ***Scope 3 category*** (i.e. each Scope 3 category that is a priority for the undertaking) .

52. The disclosure of total ***GHG emissions*** required by paragraph 44 (d) shall be the sum of ***Scope 1, 2*** and ***3 GHG emissions*** required by paragraphs 44 (a) to (c). The total GHG emissions shall be disclosed with a disaggregation that makes a distinction of:

(a) the total GHG emissions derived from the underlying Scope 2 GHG emissions being measured using the location-based method; and

(b) the total GHG emissions derived from the underlying Scope 2 GHG emissions being measured using the market-based method.

GHG Intensity based on net revenue[46]

53. The undertaking shall disclose its GHG ***emissions*** intensity (total GHG emissions per net revenue).

54. The disclosure on GHG intensity required by paragraph 53 shall provide the total GHG ***emissions*** in metric tonnes of CO_2eq (required by paragraph 44 (d)) per net revenue.

55. The undertaking shall disclose the reconciliation to the relevant line item or notes in the financial statements of the net revenue amounts (the denominator in the calculation of the GHG ***emissions*** intensity required by paragraph 53).

Disclosure Requirement E1-7 – GHG removals and GHG mitigation projects financed through carbon credits

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56. **The undertaking shall disclose:**

(a) **GHG removals and storage in metric tonnes of CO2eq resulting from projects it may have developed in its own operations, or contributed to in its upstream and downstream value chain; and**

(b) **the amount of GHG emission reductions or removals from climate change mitigation projects outside its value chain it has financed or intends to finance through any purchase of carbon credits.**

57. The objective of this Disclosure Requirement is:

(a) to provide an understanding of the undertaking's ***actions*** to permanently remove or actively support the removal of GHG from the atmosphere, potentially for achieving ***net-zero targets*** (as stated in paragraph 60).

(b) to provide an understanding of the extent and quality of ***carbon credits*** the undertaking has purchased or intends to purchase from the voluntary market, potentially for supporting its GHG neutrality claims (as stated in paragraph 61).

58. The disclosure on ***GHG removals and storage*** required by paragraph 56 (a) shall include, if applicable:

(a) the total amount of GHG removals and storage in metric tonnes of CO2eq disaggregated and separately disclosed for the amount related to the undertaking's own operations and its upstream and donwstream value chain, and broken down by removal activity; and

(b) the calculation assumptions, methodologies and frameworks applied by the undertaking.

59. The disclosure on ***carbon credits*** required by paragraph 56 (b) shall include, if applicable:

(a) the total amount of carbon credits outside the undertaking's ***value chain*** in metric tonnes of CO2eq that are verified against recognised quality standards and cancelled in the reporting period; and

[46] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory indicator related to principal adverse impacts as set out by indicator #3 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("GHG intensity of investee companies"). This information is aligned with Commission Delegated Regulation (EU) 2020/1818 (Climate Benchmark Regulation), Article 8 (1).

(b) the total amount of carbon credits outside the undertaking's value chain in metric tonnes of CO2eq planned to be cancelled in the future and whether they are based on existing contractual agreements or not.

60. In the case where the undertaking discloses a ***net-zero target*** in addition to the gross ***GHG emission reduction targets*** in accordance with Disclosure Requirement E1-4, paragraph 30, it shall explain the scope, methodologies and frameworks applied and how the residual GHG ***emissions*** (after approximately 90-95% of GHG emission reduction with the possibility for justified sectoral variations in line with a recognised sectoral decarbonisation pathway) are intended to be neutralised by, for example, GHG removals in its own operations and upstream and donwstream value chain.

61. In the case where the undertaking may have made public claims of GHG neutrality that involve the use of ***carbon credits***, it shall explain:

(a) whether and how these claims are accompanied by GHG ***emission reduction targets*** as required by Disclosure requirement ESRS E1-4;

(b) whether and how these claims and the reliance on carbon credits neither impede nor reduce the achievement of its GHG emission reduction targets[47], or, if applicable, its net zero target; and

(c) the credibility and integrity of the carbon credits used, including by reference to recognised quality standards.

Disclosure Requirement E1-8 – Internal carbon pricing

62. **The undertaking shall disclose whether it applies *internal carbon pricing schemes*, and if so, how they support its decision making and incentivise the implementation of climate-related *policies* and *targets*.**

63. The information required in paragraph 62 shall include:

(a) the type of internal carbon pricing scheme, for example, the shadow prices applied for CapEX or research and development (R&D) investment decision making, internal carbon fees or internal carbon funds;

(b) the specific scope of application of the carbon pricing schemes (activities, geographies, entities, etc.);

(c) the carbon prices applied according to the type of scheme and critical assumptions made to determine the prices, including the source of the applied carbon prices and why these are deemed relevant for their chosen application. The undertaking may disclose the calculation methodology of the carbon prices including the extent to which these have been set using scientific guidance and how their future development is related to science-based carbon pricing trajectories; and

(d) the current year approximate gross GHG emission volumes by Scopes 1, 2 and, where applicable, Scope 3 in metric tonnes of CO_2eq covered by these schemes, as well as their share of the undertaking's overall GHG ***emissions*** for each respective Scope.

Disclosure Requirement E1-9 – Anticipated financial effects from material physical and transition risks and potential climate-related opportunities

64. **The undertaking shall disclose its:**

(a) **anticipated financial effects from material *physical risks*;**

[47] This information is aligned with Regulation (EU) 2021/1119 of the European Parliament and of the Council (EU Climate Law), Article 2 (1).

(b) **anticipated financial effects from material *transition risks*; and**

(c) **potential to benefit from material climate-related *opportunities*.**

65. The information required by paragraph 64 is in addition to the information on current ***financial effects*** required under ESRS 2 SBM-3 para 48 (d). The objective of this Disclosure Requirement related to:

(a) ***anticipated financial effects*** due to material ***physical risks*** and ***transition risks*** is to provide an understanding of how these risks have (or could reasonably be expected to have) a material influence on the undertaking's financial position, financial performance and cash flows, over the short-, medium- and long- term. The results of ***scenario analysis*** used to conduct resilience analysis as required under paragraphs AR 10 to AR 13 should inform the assessment of anticipated financial effects from material physical and transition risks.

(b) potential to pursue material climate-related ***opportunities*** is to enable an understanding of how the undertaking may financially benefit from material climate-related opportunities. This disclosure is complementary to the key performance indicators to be disclosed in accordance with Commission Delegated Regulation (EU) 2021/2178.

66. The disclosure of ***anticipated financial effects*** from material ***physical risks*** required by paragraph 64 (a) shall include[48]:

(a) the monetary amount and proportion (percentage) of assets at material physical risk over the short-, medium- and long-term before considering ***climate change adaptation actions***; with the monetary amounts of these assets disaggregated by acute and chronic physical risk[49];

(b) the proportion of assets at material physical risk addressed by the ***climate change adaptation actions***;

(c) the location of significant assets at material physical risk[50]; and

(d) the monetary amount and proportion (percentage) of net revenue from its business activities at material physical risk over the short-, medium- and long-term.

67. The disclosure of ***anticipated financial effects*** from material transition risks required by paragraph 64 (b) shall include:

(a) the monetary amount and proportion (percentage) of assets at material transition risk over the short-, medium- and long-term before considering ***climate mitigation actions***;

(b) the proportion of assets at material transition risk addressed by the ***climate change mitigation actions***;

(c) a breakdown of the carrying value of the undertaking's real estate assets by energy-efficiency classes[51];

(d) liabilities that may have to be recognised in financial statements over the short-, medium- and long-term; and

(e) the monetary amount and proportion (percentage) of net revenue from its business activities at material transition risk over the short-, medium- and long-term including,

[48] This information is aligned with Commission Delegated Regulation (EU) 2020/1818 (Climate Benchmark Regulation).
[49] This disclosure requirement is consistent with the requirements included in Commission Implementing Regulation (EU) 2022/2453 - Template 5: Banking book - Climate change physical risk: Exposures subject to physical risk.
[50] This disclosure requirement is consistent with the requirements included in Commission Implementing Regulation (EU) 2022/2453 - Template 5: Banking book - Climate change physical risk: Exposures subject to physical risk.
[51] This disclosure requirement is consistent with the requirements included in Commission Implementing Regulation (EU) 2022/2453- Template 2: Banking book - Climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral.

where relevant, the net revenue from the undertaking's customers operating in coal, oil and gas-related activities.

68. The undertaking shall disclose reconciliations to the relevant line items or notes in the financial statements of the following:

    (a) significant amounts of the assets and net revenue at material physical risk (as required by paragraph 66);

    (b) significant amounts of the assets, liabilities, and net revenue at material transition risk (as required by paragraph 67).

69. For the disclosure of the potential to pursue climate-related ***opportunities*** required by paragraph 64 (c) the undertaking shall consider[52]:

    (a) its expected cost savings from ***climate change mitigation*** and adaptation ***actions***; and

    (b) the potential market size or expected changes to net revenue from low-carbon products and services or adaptation solutions to which the undertaking has or may have access.

70. A quantification of the ***financial effects*** that arise from ***opportunities*** is not required if such a disclosure does not meet the qualitative characteristics of useful information included under ESRS 1 Appendix B *Qualitative characteristics of information*.

Appendix A: Application Requirements

This Appendix is an integral part of the ESRS E1. It supports the application of the disclosure requirements set out in this standard and has the same authority as the other parts of the Standard.

Strategy

Disclosure Requirement E1-1 – Transition plan for climate change mitigation

AR 1. A ***transition plan*** relates to the undertaking's efforts in ***climate change mitigation***. When disclosing its transition plan, the undertaking is expected to provide a high-level explanation of how it will adjust its strategy and ***business model*** to ensure compatibility with the transition to a sustainable economy and with the limiting of global warming to 1.5°C in line with the Paris Agreement (or an updated inter national agreement on climate change) and the objective of achieving climate neutrality by 2050 with no or limited overshoot as established in Regulation (EU) 2021/1119 (European Climate Law), and where applicable, how it will adjust its exposure to coal, and oil and gas-related activities.

AR 2. Sectoral pathways have not yet been defined by the public ***policies*** for all sectors. Hence, the disclosure under paragraph 16 (a) on the compatibility of the ***transition plan*** with the objective of limiting global warming to 1.5°C should be understood as the disclosure of the undertaking's GHG ***emissions reduction target***. The disclosure under paragraph 16 (a) shall be benchmarked in relation to a pathway to 1.5°C. This benchmark should be based on either a sectoral decarbonisation pathway if available for the undertaking's sector or an economy-wide scenario bearing in mind its limitations (i.e., it is a simple translation of ***emission reduction*** objectives from the state to undertaking level). This AR should be read also in conjunction with AR 26 and AR 27 and the sectoral decarbonisation pathways they refer to.

AR 3. When disclosing the information required under paragraph 16(d) the undertaking may consider:

    (a) the cumulative ***locked-in GHG emissions*** associated with key assets from the

[52]This information is aligned with Commission Delegated Regulation (EU) 2020/1818 (Climate Benchmark Regulation).

reporting year until 2030 and 2050 in tCO_2eq. This will be assessed as the sum of the estimated Scopes 1 and 2 GHG emissions over the operating lifetime of the active and firmly planned key assets. Key assets are those owned or controlled by the undertaking, and they consist of existing or planned assets (such as stationary or mobile ***installations,*** facilities, and equipment) that are sources of either significant direct or energy-indirect GHG emissions. Firmly planned key assets are those that the undertaking will most likely deploy within the next 5 years.

(b) the cumulative locked-in GHG emissions associated with the direct use-phase GHG emissions of sold products in tCO2eq, assessed as the sales volume of products in the reporting year multiplied by the sum of estimated direct use-phase GHG emissions over their expected lifetime. This requirement only applies if the undertaking has identified the ***Scope 3 category*** "use of sold products" as significant under Disclosure Requirement E1-6 paragraph 51; and

(c) an explanation of the plans to manage, i.e., to transform, decommission or phase out its GHG-intensive and energy-intensive assets and products.

AR 4. When disclosing the information required under paragraph 16 (e), the undertaking shall explain how the alignment of its economic activities with the provisions of Commission Delegated Regulation (EU) 2021/2139 is expected to evolve over time to support its transition to a sustainable economy. In doing so, the undertaking shall take account of the key performance indicators required to be disclosed under Article 8 of Regulation (EU) 2020/852 (in particular taxonomy-aligned revenue and CapEx and, if applicable, CapEx plans).

AR 5. When disclosing the information required under paragraph 16 (f), the undertaking shall state whether or not it is excluded from the EU Paris-aligned Benchmarks in accordance with the exclusion criteria stated in Articles 12.1 (d) to (g)[53] and 12.2 of Commission Delegated Regulation (EU) 2020/1818 (Climate Benchmark Standards Regulation)[54].

Disclosure Requirement related to ESRS 2 SBM-3 - Material impacts, risks and opportunities and their interaction with strategy and business model

AR 6. When disclosing the information on the scope of the resilience analysis as required under paragraph 19 (a), the undertaking shall explain which part of its own operations and upstream and downstream ***value chain*** as well as which material ***physical risks*** and ***transition risks*** may have been excluded from the analysis.

AR 7. When disclosing the information on how the resilience analysis has been conducted as required under paragraph 19 (b), the undertaking shall explain:

(a) the critical assumptions about how the transition to a lower-carbon and resilient economy will affect its surrounding macroeconomic trends, energy consumption and mix, and technology deployment assumptions;

(b) the time horizons applied and their alignment with the climate and business

[53]Article 12.1 of the Climate Benchmark Standards Regulation states that "*Administrators of EU Paris-aligned Benchmarks shall exclude the following companies:*

a) companies that derive 1% or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite; or

b) companies that derive 10% or more of their revenues from exploration, extraction, distribution or refining of oil fuels; or

c) companies that derive 50% or more of their revenues from exploration, extraction, manufacturing or distribution of gaseous fuels; or

d) companies that derive 50% or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/KWh."

Article 12.2 states that "*Administrators of EU Paris-aligned Benchmarks shall exclude from those benchmarks any companies that are found or estimated by them or by external data providers to significantly harm one or more of the environmental objectives referred to in Article 9 of Regulation (EU) 2020/852 of the European Parliament and of the Council, in accordance with the rules on estimations laid down in Article 13(2) of this Regulation*.".

[54]This disclosure requirement is consistent with the requirements in Commission Implementing Regulation (EU) 2022/2453 - template 1 climate change transition risk.

scenarios considered for determining material ***physical*** and ***transition risks*** (paragraphs AR 11to AR 12) and setting ***GHG emissions reduction targets*** (reported under Disclosure Requirement E1-4); and

(c) how the estimated ***anticipated financial effects*** from material ***physical*** and ***transition risks*** (as required by Disclosure Requirement E1-9) as well as the mitigation ***actions*** and resources (disclosed under Disclosure Requirement E1-3) were considered.

AR 8. When disclosing the information on the results of the resilience analysis as required under paragraph 19 (c), the undertaking shall explain:

(a) the areas of uncertainties of the resilience analysis and to what extent the assets and business activities at risk are considered within the definition of the undertaking's strategy, investment decisions, and current and planned mitigation ***actions***;

(b) the ability of the undertaking to adjust or adapt its strategy and ***business model*** to climate change over the short-, medium- and long-term, including securing ongoing access to finance at an affordable cost of capital, the ability to redeploy, upgrade or decommission existing assets, shifting its products and services portfolio, or reskilling its workforce.

Impact, risk and opportunity management

Disclosure Requirement related to ESRS 2 IRO-1 Description of the processes to identify and assess material climate-related impacts, risks and opportunities

AR 9. When disclosing the information on the processes to identify and assess climate impacts as required under paragraph 20 (a), the undertaking shall explain how it has:

(a) screened its activities and plans in order to identify actual and potential future GHG emission sources and, if applicable, drivers for other climate-related impacts (e.g., ***emissions*** of black carbon or tropospheric ozone or ***land-use change***) in own operations and along the value chain; and

(b) assessed its actual and potential impacts on climate change (i.e., its total GHG emissions).

AR 10. The undertaking may link the information disclosed under paragraphs 20 (a) and AR 9 to the information disclosed under the following Disclosure Requirements: Disclosure Requirement E1-1, paragraph 16 (d) on locked-in GHG emissions; Disclosure Requirement E1-4 and Disclosure Requirement E1-6.

AR 11. When disclosing the information on the processes to identify and assess ***physical risks*** as required under paragraph 20 (b), the undertaking shall explain whether and how:

(a) it has identified climate-related hazards (see table below) over the short-, medium- and long-term and screened whether its assets and business activities may be exposed to these hazards;

(b) it has defined short-, medium- and long-term time horizons and how these definitions are linked to the expected lifetime of its assets, strategic planning horizons and capital allocation plans;

(c) it has assessed the extent to which its assets and business activities may be exposed and are sensitive to the identified climate-related hazards, taking into consideration the likelihood, magnitude and duration of the hazards as well as the geospatial coordinates (such as Nomenclature of Territorial Units of Statistics-NUTS for the EU territory) specific to the undertaking's locations and ***supply chains***; and

(d) the identification of climate-related hazards and the assessment of exposure and sensitivity are informed by high ***emissions*** climate ***scenarios***, which may, for example, be based on IPCC SSP5-8.5, relevant regional climate projections based on these emission scenarios, or NGFS (Network for Greening the Financial

System) climate scenarios with high physical risk such as “Hot house world” or “Too little, too late”. For general requirements regarding climate-related ***scenario analysis*** see paragraphs 18, 19, AR 13 to AR 15.

Classification of climate-related hazards (Source: Commission delegated regulation (EU) 2021/2139)				
	Temperature-related	**Wind-related**	**Water-related**	**Solid mass-related**
Chronic	Changing temperature (air, freshwater, marine water)	Changing wind patterns	Changing precipitation patterns and types (rain, hail, snow/ice)	Coastal erosion
	Heat stress		Precipitation or hydrological variability	Soil degradation
	Temperature variability		Ocean acidification	Soil erosion
	Permafrost thawing		Saline intrusion	Solifluction
			Sea level rise	
			Water stress	
Acute	Heat wave	Cyclones, hurricanes, typhoons	Drought	Avalanche
	Cold wave/frost	Storms (including blizzards, dust, and sandstorms)	Heavy precipitation (rain, hail, snow/ice)	Landslide
	Wildfire	Tornado	Flood (coastal, fluvial, pluvial, ground water)	Subsidence
			Glacial lake outburst	

AR 12. When disclosing the information on the processes to identify ***transition risks*** and ***opportunities*** as required under paragraph 20 (c), the undertaking shall explain whether and how it has:

(a) identified transition events (see the table with examples below) over the short-, medium- and long-term and screened whether its assets and business activities may be exposed to these events. In case of transition risks and opportunities, what is considered long-term may cover more than 10 years and may be aligned with climate-related public ***policy*** goals;

(b) assessed the extent to which its assets and business activities may be exposed and are sensitive to the identified transition events, taking into consideration the likelihood, magnitude and duration of the transition events;

(c) informed the identification of transition events and the assessment of exposure by climate-related ***scenario analysis,*** considering at least a scenario consistent with the Paris Agreement and limiting climate change to 1.5°C, for example, based on scenarios of the International Energy Agency (Net zero Emissions by 2050, Sustainable Development Scenario, etc), or NGFS (Network for Greening the Financial System) climate scenarios. For the general requirements related to climate-related scenario analysis see paragraphs 18, 19, AR 13 to AR 15; and

(d) identified assets and business activities that are incompatible with or need significant efforts to be compatible with a transition to a climate-neutral economy (for example, due to significant ***locked-in GHG emissions*** or incompatibility with the requirements for Taxonomy-alignment under Commission Delegated Regulation (EU) 2021/2139).

Examples of climate-related transition events (examples based on TCFD classification)			
Policy and legal	**Technology**	**Market**	**Reputation**
Increased pricing of GHG emissions	Substitution of existing products and services with lower emissions options	Changing customer behaviour	Shifts in consumer preferences
Enhanced emissions- reporting obligations	successful investment in new technologies	Uncertainty in market signals	Stigmatization of sector
Mandates on and regulation of existing products and services	Costs of transition to lower emissions technology	Increased cost of raw materials	Increased stakeholder concern
Mandates on and regulation of existing production processes			Negative stakeholder feedback
Exposure to litigation			

Climate-related scenario analysis

AR 13. When disclosing the information required under paragraphs 19, 20, 21, AR 10 and AR 11, the undertaking shall explain how it has used climate-related ***scenario analysis*** that is commensurate to its circumstances to inform the identification and assessment of ***physical*** and ***transition risks*** and ***opportunities*** over the short-, medium- and long-term, including:

(a) which ***scenarios*** were used, their sources and alignment with state-of-the-art science;

(b) narratives, time horizons, and endpoints used with a discussion of why it believes the range of scenarios used covers its plausible risks and uncertainties;

(c) the key forces and drivers taken into consideration in each scenario and why these are relevant to the undertaking, for example, ***policy*** assumptions, macroeconomic trends, energy usage and mix, and technology assumptions; and

(d) key inputs and constraints of the scenarios, including their level of detail (e.g., whether the analysis of physical climate-related risks is based on geospatial coordinates specific to the undertaking's locations or national- or regional-level broad data).

AR 14. When conducting ***scenario analysis***, the undertaking may consider the following guidance: TCFD Technical Supplement on "The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities" (2017); TCFD "Guidance on Scenario Analysis for Non-Financial Companies" (2020); ISO 14091:2021 "Adaptation to climate change — Guidelines on vulnerability, impacts and risk assessment"; any other recognised industry standards such as NGFS (Network for Greening the Financial System); and EU, national, regional and local regulations.

AR 15. The undertaking shall briefly explain how the climate ***scenarios*** used are compatible with the critical climate-related assumptions made in the financial statements.

Disclosure Requirement E1-2 – Policies related to climate change mitigation and adaptation

AR 16. ***Policies*** related to either ***climate change mitigation*** or ***climate adaptation*** may be disclosed separately as their objectives, people involved, ***actions*** and resources needed to implement them are different.

AR 17. ***Policies*** related to ***climate change mitigation*** address the management of the undertaking's ***GHG emissions***, GHG removals and ***transition risks*** over different time horizons, in its own operations and/or in the upstream and downstream ***value chain***. The requirement under paragraph 14 may relate to stand-alone climate change mitigation policies as well as relevant policies on other matters that indirectly support climate change mitigation including ***training*** policies, procurement or ***supply chain*** policies, investment policies or product development policies.

AR 18. ***Policies*** related to ***climate change adaptation*** address the management of the undertaking's physical climate risks and of its ***transition risks*** related to climate change adaptation. The requirement under paragraphs 22 and 25 may relate to stand-alone climate change adaptation policies as well as relevant policies on other matters that indirectly support climate change adaptation including ***training*** policies, and emergency or health and safety policies.

Disclosure Requirements E1-3 – Actions and resources in relation to climate change policies

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AR 19. When disclosing the information on ***actions*** as required under paragraphs 29 (a) and 29 (b), the undertaking may:

(a) disclose its key actions taken and/or plans to implement ***climate change mitigation*** and ***adaptation policies*** in its single or separate actions;

(b) aggregate types of mitigation actions (decarbonisation levers) such as energy efficiency, electrification, fuel switching, use of ***renewable energy***, products change, and supply-chain decarbonisation that fit the undertakings' specific actions;

(c) disclose the list of key mitigation actions alongside the measurable ***targets*** (as required by Disclosure Requirement E1-4) with disaggregation by decarbonisation levers; and

(d) disclose the ***climate change adaptation*** actions by type of adaptation solution such as nature-based adaptation, engineering, or technological solutions.

AR 20. When disclosing the information on resources as required under paragraph 29 (c), the undertaking shall only disclose the significant OpEx and CapEx amounts required for the implementation of the ***actions*** as the purpose of this information is to demonstrate the credibility of its actions rather than to reconcile the disclosed amounts to the financial statements. The disclosed CapEx and OpEx amounts shall be the additions made to both tangible and intangible assets during the current financial year as well as the planned additions for future periods of implementing the actions. The disclosed amounts shall only be the incremental financial investments directly contributing to the achievement of the undertaking's ***targets.***

AR 21. In line with the requirements of ESRS 2 MDR-A, the undertaking shall explain if and to what extent its ability to implement the ***actions*** depends on the availability and allocation of resources. Ongoing access to finance at an affordable cost of capital can be critical for the implementation of the undertaking's actions, which include its adjustments to supply/demand changes or its related acquisitions and significant research and development (R&D) investments.

AR 22. The amounts of OpEx and CapEx required for the implementation of the ***actions*** disclosed under paragraph 29 (c) shall be consistent with the key performance indicators (CapEx and OpEx key performance indicators) and, if applicable, the CapEx plan required by Commission Delegated Regulation (EU) 2021/2178. The undertaking shall explain any potential differences between the significant OpEx and CapEx amounts disclosed under this Standard and the key performance indicators disclosed under Commission Delegated Regulation (EU) 2021/2178 due to, for instance, the disclosure of non-eligible economic activities as defined in that delegated regulation. The undertaking may structure its actions by economic activity to compare its OpEx and CapEx, and if applicable its OpEx and/or

CapEx plans to its Taxonomy-aligned key performance indicators.

Metrics and targets

Disclosure Requirement E1-4 – Targets related to climate change mitigation and adaptation

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AR 23. Under paragraph 34 (a), the undertaking may disclose ***GHG emission reduction*** targets in intensity value. Intensity targets are formulated as ratios of ***GHG emissions*** relative to a unit of physical activity or economic output. Relevant units of activity or output are referred to in ESRS sector-specific standards. In cases where the undertaking has only set a GHG intensity reduction target, it shall nevertheless disclose the associated absolute values for the target year and interim target year(s). This may result in a situation where an undertaking is required to disclose an increase of absolute GHG emissions for the target year and interim target year(s), for example because it anticipates organic growth of its business.

AR 24. When disclosing the information required under paragraph 34 (b), the undertaking shall specify the share of the target related to each respective ***GHG emission Scope (1, 2 or 3)***. The undertaking shall state the method used to calculate Scope 2 GHG ***emissions*** included in the target (i.e., either the location-based or market-based method). If the boundary of the GHG ***emission reduction target*** diverges from that of the GHG emissions reported under Disclosure Requirement E1-6, the undertaking shall disclose which gases are covered, the respective percentage of Scope 1, 2, 3 and total GHG emissions covered by the target. For the GHG emission reduction ***targets*** of its subsidiaries, the undertaking shall analogously apply these requirements at the level of the subsidiary.

AR 25. When disclosing the information required under paragraph 34(c) on base year and baseline value:

(a) the undertaking shall briefly explain how it has ensured that the baseline value against which the progress towards the target is measured is representative in terms of the activities covered and the influences from external factors (e.g., temperature anomalies in a certain year influencing the amount of energy consumption and related GHG emissions). This can be done by the normalisation of the baseline value, or, by using a baseline value that is derived from a 3-year average if this increases the representativeness and allows a more faithful representation;

(b) the baseline value and base year shall not be changed unless significant changes in either the target or reporting boundary occur. In such a case, the undertaking shall explain how the new baseline value affects the new target, its achievement and presentation of progress over time. To foster comparability, when setting new ***targets***, the undertaking shall select a recent base year that does not precede the first reporting year of the new target period by longer than 3 years. For example, for 2030 as the target year and a target period between 2025 and 2030, the base year shall be selected from the period between 2022 and 2025;

(c) the undertaking shall update its base year from 2030 and after every 5-year period thereafter. This means that before 2030, the base years chosen by undertakings' may be either the currently applied base year for existing targets or the first year of application of the sustainability reporting requirements as set out in Article 5(2) of Directive (EU) 2022/2464 (2024, 2025 or 2026) and, after 2030, every 5 years (2030, 2035, etc); and

(d) when presenting climate-related targets, the undertaking may disclose the progress in meeting these targets made before its current base year. In doing so, the undertaking shall, to the greatest extent possible, ensure that the information on past progress is consistent with the requirements of this Standard. In the case of

methodological differences, for example, regarding target boundaries, the undertaking shall provide a brief explanation for these differences.

AR 26. When disclosing the information required under paragraphs 34 (d) and 34 (e), the undertaking shall present the information over the target period with reference to a sector-specific, if available, or a cross-sector emission pathway compatible with limiting global warming to 1.5°C. For this purpose, the undertaking shall calculate a 1.5°C aligned reference target value for Scope 1 and 2 (and, if applicable, a separate one for Scope 3) against which its own GHG ***emission reduction targets*** or interim targets in the respective Scopes can be compared.

AR 27. The reference target value may be calculated by multiplying the GHG ***emissions*** in the base year with either a sector-specific (sectoral decarbonisation methodology) or cross-sector (contraction methodology) ***emission reduction*** factor. These emission reduction factors can be derived from different sources. The undertaking should ensure that the source used is based on an emission reduction pathway compatible with limiting global warming to 1.5°C.

AR 28. The ***emission reduction*** factors are subject to further development. Consequently, undertakings are encouraged to only use updated publicly available information.

	2030	2050
Cross-sector (ACA) reductions pathway based on the year 2020 as the reference year	-42%	-90%

Source: based on Pathways to Net-zero –SBTi Technical Summary (Version 1.0, October 2021)

AR 29. The reference target value is dependent on the base year and baseline ***emissions*** of the undertaking's GHG ***emission reduction*** target. As a result, the reference target value for undertakings with a recent base year or from higher baseline emissions may be less challenging to achieve than it will be for undertakings that have already taken ambitious past ***actions*** to reduce GHG emissions. Therefore, undertakings that have in the past achieved GHG emissions reductions compatible with either a 1.5°C-aligned cross-sector or sector-specific pathway, may adjust their baseline emissions accordingly to determine the reference target value. Accordingly, if the undertaking is adjusting the baseline emissions to determine the reference target value, it shall not consider GHG emission reductions that precede the year 2020 and it shall provide appropriate evidence of its past achieved GHG emission reduction.

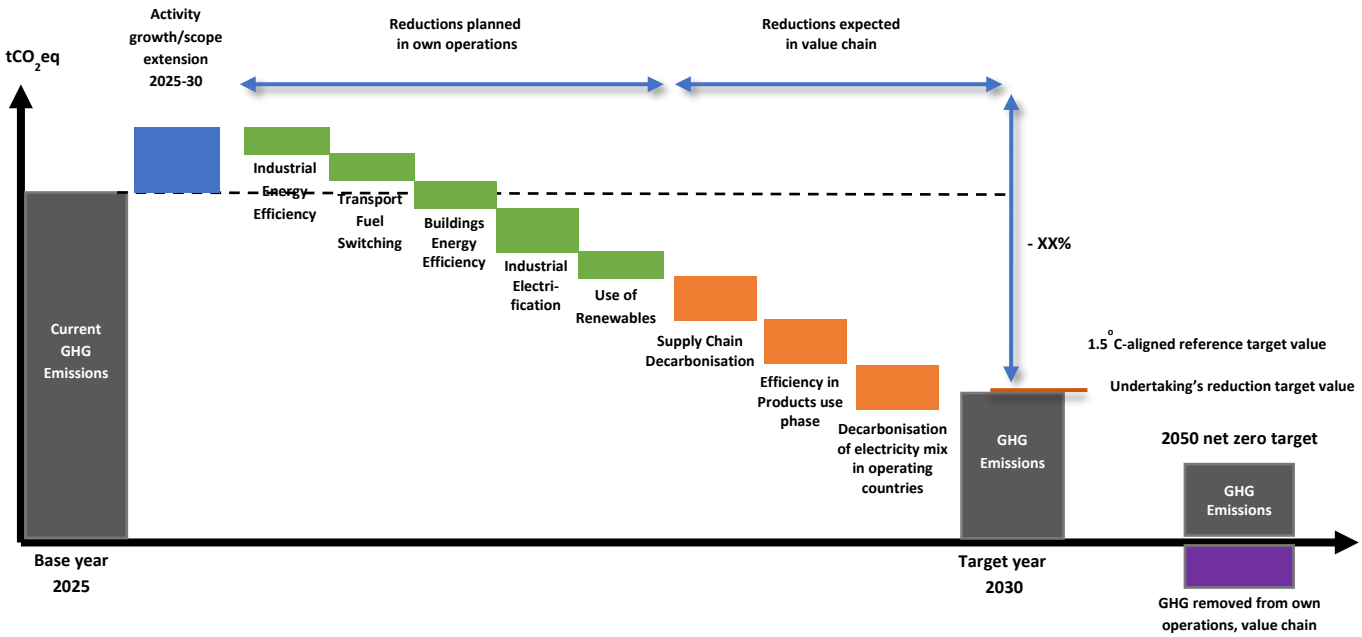
AR 30. When disclosing the information required under paragraph 34 (f), the undertaking shall explain:

(a) by reference to its ***climate change mitigation actions***, the ***decarbonisation levers*** and their estimated quantitative contributions to the achievement of its GHG ***emission reduction targets*** broken down by each Scope (1, 2 and 3);

(b) whether it plans to adopt new technologies and the role of these to achieve its GHG emission reduction targets; and

(c) whether and how it has considered a diverse range of climate ***scenarios***, at least including a climate scenario compatible with limiting global warming to 1.5°C, to detect relevant environmental-, societal-, technology-, market- and ***policy***-related developments and determine its decarbonisation levers.

AR 31. The undertaking may present its GHG ***emission reduction targets*** together with its ***climate change mitigation actions*** (see paragraph AR 19) as a table or graphical pathway showing developments over time. The following figure and table provide examples combining targets and decarbonisation levers:



	Base year (e.g., 2025)	2030 target	2035 target	…	Up to 2050 target
GHG emissions (ktCO2eq)	100	60	40		
Energy efficiency and consumption reduction	-	-10	-4		
Material efficiency and consumption reduction	-	-5	-		
Fuel switching	-	-2	-		
Electrification	-	-	-10		
Use of renewable energy	-	-10	-3		
Phase out, substitution or modification of product	-	-8	-		
Phase out, substitution or modification of process	-	-5	-3		
Other	-	-			

Disclosure Requirement E1-5 – Energy consumption and mix

Calculation guidance

AR 32. When preparing the information on energy consumption required under paragraph 35, the undertaking shall:

(a) only report energy consumed from processes owned or controlled by the undertaking applying the same perimeter applied for reporting GHG Scopes 1 and 2 emissions;

(b) exclude feedstocks and fuels that are not combusted for energy purposes. The undertaking that consumes fuel as feedstocks can disclose information on this consumption separately from the required disclosures;

(c) ensure all quantitative energy-related information is reported in either Mega-Watt-hours (MWh) in Lower Heating Value or net calorific value. If raw data of energy-related information is only available in energy units other than MWh (such as Giga-Joules (GJ) or British Thermal Units (Btu)), in volume units (such as cubic feet or gallons) or in mass units (such as kilograms or pounds), they shall be converted to MWh using suitable conversion factors (see for example Annex II of the Fifth Assessment IPCC report). Conversion factors for fuels shall be made transparent and applied in a consistent manner;

(d) ensure all quantitative energy-related information is reported as final energy consumption, referring to the amount of energy the undertaking actually consumes using for example the table in Annex IV of Directive 2012/27 of the European Parliament and of the Council[55] on energy efficiency;

(e) avoid double counting fuel consumption when disclosing self-generated energy consumption. If the undertaking generates electricity from either a non-renewable or renewable fuel source and then consumes the generated electricity, the energy consumption shall be counted only once under fuel consumption;

(f) not offset energy consumption even if on***site*** generated energy is sold to and used by a third party;

(g) not count energy that is sourced from within the organisational boundary under "purchased or acquired" energy;

(h) account for steam, heat or cooling received as "waste energy" from a third party's industrial processes under "purchased or acquired" energy;

(i) account for renewable hydrogen[56] as a renewable fuel. Hydrogen that is not completely derived from renewable sources shall be included under "fuel consumption from other non-renewable sources"; and

(j) adopt a conservative approach when splitting the electricity, steam, heat or cooling between renewable and non-renewable sources based on the approach applied to calculate market-based Scope 2 GHG emissions. The undertaking shall only consider these energy consumptions as deriving from renewable sources if the origin of the purchased energy is clearly defined in the contractual arrangements with its ***suppliers*** (renewable power purchasing agreement, standardised green electricity tariff, market instruments like Guarantee of Origin from renewable sources in Europe[57] or similar instruments like Renewable Energy Certificates in the US and Canada, etc.).

AR 33. The information required under paragraph 37 (a) is applicable if the undertaking is operating in at least one ***high climate impact sector***. The information required under paragraph 38 (a) to (e). shall also include energy from fossil sources consumed in operations that are not in high climate impact sectors.

AR 34. The information on Energy consumption and mix may be presented using the following tabular format for ***high climate impact sectors*** and for all other sector by omitting rows (1)

[55] Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC (OJ L 315, 14.11.2012, p. 1).

[56] Compliant with the requirements in delegated acts for hydrogen from renewable sources: Commission delegated regulation of 10 February 2023 supplementing Directive (EU) 2018/2001 of the European Parliament and of the Council by establishing a Union methodology setting out detailed rules for the production of renewable liquid and gaseous transport fuels of non-biological origin; and Commission delegated regulation of 10 February 2023 supplementing Directive (EU) 2018/2001 of the European Parliament and of the Council by establishing a minimum threshold for greenhouse gas emissions savings of recycled carbon fuels and by specifying a methodology for assessing greenhouse gas emissions savings from renewable liquid and gaseous transport fuels of non-biological origin and from recycled carbon fuel.

[57] Based on Directive (EU) 2018/2001 of the European Parliament and of the Council of 11 December 2018 on the promotion of the use of energy from renewable sources.

to (5).

Energy consumption and mix	Comparative	Year N
(1) Fuel consumption from coal and coal products (MWh)		
(2) Fuel consumption from crude oil and petroleum products (MWh)		
(3) Fuel consumption from natural gas (MWh)		
(4) Fuel consumption from other fossil sources (MWh)		
(5) Consumption of purchased or acquired electricity, heat, steam, and cooling from fossil sources (MWh)		
(6) Total fossil energy consumption (MWh) (calculated as the sum of lines 1 to 5)		
Share of fossil sources in total energy consumption (%)		
(7) Consumption from nuclear sources (MWh)		
Share of consumption from nuclear sources in total energy consumption (%)		
(8) Fuel consumption for renewable sources, including biomass (also comprising industrial and municipal waste of biologic origin, biogas, renewable hydrogen, etc.) (MWh)		
(9) Consumption of purchased or acquired electricity, heat, steam, and cooling from renewable sources (MWh)		
(10) The consumption of self-generated non-fuel renewable energy (MWh)		
(11) Total renewable energy consumption (MWh) (calculated as the sum of lines 8 to 10)		
Share of renewable sources in total energy consumption (%)		
Total energy consumption (MWh) (calculated as the sum of lines 6, and 11)		

AR 35. The total energy consumption with a distinction between fossil, nuclear and renewable energy consumption may be presented graphically in the ***sustainability statement*** showing developments over time (e.g., through a pie or bar chart).

Energy intensity based on net revenue

Calculation guidance

AR 36. When preparing the information on energy intensity required under paragraph 40, the undertaking shall:

(a) calculate the energy intensity ratio using the following formula:

$$\frac{Total\ energy\ consumption\ from\ activities\ in\ high\ climate\ impact\ sectors\ (MWh)}{Net\ revenue\ from\ activities\ in\ high\ climate\ impact\ sectors\ (Monetary\ unit)};$$

(b) express the total energy consumption in MWh and the net revenue in monetary units (e.g., Euros);

(c) the numerator and denominator shall only consist of the proportion of the total final energy consumption (in the numerator) and net revenue (in the denominator) that are attributable to activities in ***high climate impact sectors***. In effect, there should be consistency in the scope of both the numerator and denominator;

(d) calculate the total energy consumption in line with the requirement in paragraph 37;

(e) calculate the net revenue in line with the accounting standards requirements applicable for the financial statements, i.e., IFRS 15 *Revenue from Contracts with Customers* or local GAAP requirements.

AR 37. The quantitative information may be presented in the following table.

Energy intensity per net revenue	Comparative	N	% N / N-1
Total energy consumption from activities in high climate impact sectors per net revenue from activities in high climate impact sectors (MWh/Monetary unit)			

Connectivity of energy intensity based on net revenue with financial reporting information

AR 38. The reconciliation of net revenue from activities in ***high climate impact sectors*** to the relevant financial statements line item or disclosure (as required by paragraph 43) may be presented either:

(a) by a cross-reference to the related line item or disclosure in the financial statements; or

(b) If the net revenue cannot be directly cross-referenced to a line item or disclosure in the financial statements, by a quantitative reconciliation using the below tabular format.

Net revenue from activities in high climate impact sectors used to calculate energy intensity	
Net revenue (other)	
Total net revenue (Financial statements)	

Disclosure Requirements E1-6 – Gross Scopes 1, 2, 3 and Total GHG emissions

Calculation guidance

AR 39. When preparing the information for reporting GHG ***emissions*** as required by paragraph 44, the undertaking shall:

(a) consider the principles, requirements and guidance provided by the GHG Protocol Corporate Standard (version 2004). The undertaking may consider Commission Recommendation (EU) 2021/2279[58] or the requirements stipulated by EN ISO 14064-1:2018. If the undertaking already applies the GHG accounting methodology of ISO

[58] Commission Recommendation (EU) 2021/2279 of 15 December 2021 on the use of the Environmental Footprint methods to measure and communicate the life cycle environmental performance of products and organisations (OJ L 471, 30.12.2021, p. 1).

14064- 1: 2018, it shall nevertheless comply with the requirements of this standard (e.g., regarding reporting boundaries and the disclosure of market-based Scope 2 GHG emissions);

(b) disclose the methodologies, significant assumptions and emissions factors used to calculate or measure GHG emissions accompanied by the reasons why they were chosen, and provide a reference or link to any calculation tools used;

(c) include emissions of CO_2, CH_4, N_2O, HFCs, PFCs, SF_6, and NF_3. Additional GHG may be considered when significant; and

(d) use the most recent ***Global Warming Potential (GWP)*** values published by the IPCC based on a 100-year time horizon to calculate CO2eq emissions of non-CO2 gases.

AR 40. When preparing the information for reporting GHG emissions from its associates, joint ventures, unconsolidated subsidiaries (investment entities) and contractual arrangements as required by paragraph 50, the undertaking shall consolidate 100% of the GHG emissions of the entities it operationally controls. In practice, this happens when the undertakings holds the license - or permit - to operate the assets from these associates, joint ventures, unconsolidated subsidiaries (investment entities) and contractual arrangements. When the undertaking has a contractually defined part-time operational control, it shall consolidate 100% the GHG emitted during the time of its operational control.

AR 41. In line with ESRS 1 chapter 3.7, the undertaking shall disaggregate information on its GHG emissions as appropriate. For example, the undertaking may disaggregate its Scope 1, 2, 3, or total GHG ***emissions*** by country, operating segments, economic activity, subsidiary, GHG category (CO2, CH4, N2O, HFCs, PFCs, SF6, NF3, and other GHG considered by the undertaking) or source type (stationary combustion, mobile combustion, process emissions and fugitive emissions).

AR 42. An undertaking might have a different reporting period from some or all of the entities in its value chain. In such circumstances, the undertaking is permitted to measure its GHG emissions in accordance with paragraph 44 using information for reporting periods that are different from its own reporting period if that information is obtained from entities in its value chain with reporting periods that are different from the undertaking's reporting period, on the condition that:

(a) the undertaking uses the most recent data available from those entities in its value chain to measure and disclose its greenhouse gas emissions;

(b) the length of the reporting periods is the same; and

(c) the undertaking discloses the effects of significant events and changes in circumstances (relevant to its GHG emissions) that occur between the reporting dates of the entities in its value chain and the date of the undertaking's general purpose financial statements.

AR 43. When preparing the information on gross ***Scope 1 GHG emissions*** required under paragraph 48 (a), the undertaking shall:

(a) calculate or measure GHG emissions from stationary combustion, mobile combustion, process emissions and fugitive emissions; and use suitable activity data that include the non-renewable fuel consumption;

(b) use suitable and consistent emission factors;

(c) disclose biogenic emissions of CO_2 from the combustion or bio-degradation of biomass separately from the Scope 1 GHG emissions, but include emissions of other types of GHG (in particular CH_4 and N_2O);

(d) not include any removals, or any purchased, sold or transferred ***carbon credits*** or GHG allowances in the calculation of Scope 1 GHG emissions; and

(e) for activities reporting under the EU ETS, report on Scope 1 emissions following the EU ETS methodology. The EU ETS methodology may also be applied to activities in geographies and sectors that are not covered by the EU ETS.

AR 44. When preparing the information on the percentage of Scope 1 GHG ***emissions*** from regulated emission trading schemes required under paragraph 48 (b), the undertaking shall:

(a) consider GHG emissions from the ***installations*** it operates that are subject to regulated Emission Trading Schemes (ETS), including the EU-ETS, national ETS and non-EU ETS, if applicable;

(b) only include emissions of CO_2, CH_4, N_2O, HFCs, PFCs, SF_6, and NF_3;

(c) ensure the same accounting period for gross Scope 1 GHG emissions and GHG emissions regulated under the ETS; and

(d) calculate the share by using the following formula:

$$\frac{\text{GHG Emissions in (t } CO_2\text{eq) from EU ETS installations + national ETS installations + nonEU ETS installations}}{\text{Scope 1 GHG emissions (t } CO_2\text{eq)}}$$

AR 45. When preparing the information on gross Scope 2 GHG ***emissions*** required under paragraph 49, the undertaking shall:

(a) consider the principles and requirements of the GHG Protocol Scope 2 Guidance (version 2015, in particular the Scope 2 quality criteria in chapter 7.1 relating to contractual instruments); it may also consider Commission Recommendation (EU) 2021/2279 or the relevant requirements for the quantification of ***indirect GHG emissions*** from imported energy in EN ISO 14064-1:2018;

(b) include ***purchased or acquired electricity, steam, heat, and cooling*** consumed by the undertaking;

(c) avoid double counting of GHG emissions reported under Scope 1 or 3;

(d) apply the location-based and market-based methods to calculate Scope 2 GHG emissions and provide information on the share and types of contractual instruments. Location-based method quantifies Scope 2 GHG emissions based on average energy generation emission factors for defined locations, including local, subnational, or national boundaries (GHG Protocol, “Scope 2 Guidance”, Glossary, 2015). Market-based method quantifies Scope 2 GHG emissions based on GHG emissions emitted by the generators from which the reporting entity contractually purchases electricity bundled with instruments, or unbundled instruments on their own (GHG Protocol, “Scope 2 Guidance”, Glossary, 2015); in this case, the undertaking may disclose the share of market-based scope 2 GHG emissions linked to purchased electricity bundled with instruments such as Guarantee of Origins or Renewable Energy Certificates. The undertaking shall provide information about the share and types of contractual instruments used for the sale and purchase of energy bundled with attributes about the energy generation or for unbundled energy attribute claims.

(e) disclose biogenic emissions of CO2 carbon from the combustion or biodegradation of biomass separately from the Scope 2 GHG emissions but include emissions of other types of GHG (in particular CH4 and N2O). In case the emission factors applied do not separate the percentage of biomass or biogenic CO2, the undertaking shall disclose this. In case GHG emissions other than CO2 (particularly CH4 and N2O) are not available for, or excluded from, location-based grid average emissions factors or with the market-based method information, the undertaking shall disclose this.

(f) not include any removals, or any purchased, sold or transferred ***carbon credits*** or GHG allowances in the calculation of Scope 2 GHG emissions.

AR 46. When preparing the information on gross Scope 3 GHG ***emissions*** required under paragraph 51, the undertaking shall:

(a) consider the principles and provisions of the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (Version 2011); and it may consider Commission Recommendation (EU) 2021/2279 or the relevant requirements for the quantification of ***indirect GHG emissions*** from EN ISO 14064-1:2018;

(b) if it is a financial institution, consider the GHG Accounting and Reporting Standard for the

Financial Industry from the Partnership for Carbon Accounting Financial (PCAF), specifically part A “Financed Emissions” (version December 2022);

(c) screen its total Scope 3 GHG emissions based on the 15 Scope 3 categories identified by the GHG Protocol Corporate Standard and GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (Version 2011) using appropriate estimates. Alternatively, it may screen its ***indirect GHG emissions*** based on the categories provided by EN ISO 14064-1:2018 clause 5.2.4 (excluding indirect GHG emissions from imported energy);

(d) identify and disclose its significant Scope 3 categories based on the magnitude of their estimated GHG emissions and other criteria provided by GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (Version 2011, p. 61 and 65-68) or EN ISO 14064-1:2018 Annex H.3.2, such as financial spend, influence, related ***transition risks*** and ***opportunities*** or ***stakeholder*** views;

(e) calculate or estimate GHG emissions in significant Scope 3 categories using suitable emissions factors;

(f) update Scope 3 GHG emissions in each significant category every year on the basis of current activity data; update the full Scope 3 GHG inventory at least every 3 years or on the occurrence of a significant event or a significant change in circumstances (a significant event or significant change in circumstances can, for example, relate to changes in the undertaking’s activities or structure, changes in the activities or structure of its upstream and downstream value chain(s), a change in calculation methodology or in the discovery of errors);”);

(g) disclose the extent to which the undertaking’s Scope 3 GHG emissions are measured using inputs from specific activities within the entity’s upstream and downstream value chain, and disclose the percentage of emissions calculated using primary data obtained from ***suppliers*** or other ***value chain*** partners.

(h) for each significant Scope 3 GHG category, disclose the reporting boundaries considered, the calculation methods for estimating the GHG emissions as well as if and which calculation tools were applied. The Scope 3 categories should be consistent with the GHGP and include:

i. indirect Scope 3 GHG emissions from the consolidated accounting group (the parent and its subsidiaries),

ii. indirect Scope 3 GHG emissions from associates, joint ventures, and unconsolidated subsidiaries for which the undertaking has the ability to control the operational activities and relationships (i.e., operational control),

iii. Scope 1, 2 and 3 GHG emissions from associates, joint ventures, unconsolidated subsidiaries (investment entities) and joint arrangements for which the undertaking does not have ***operational control*** and when these entities are part of the undertaking’s upstream and dopwnstream value chain.

(i) disclose a list of Scope 3 GHG emissions categories included in and excluded from the inventory with a justification for excluded Scope 3 categories;

(j) disclose biogenic emissions of CO_2 from the combustion or biodegradation of biomass that occur in its upstream and downstream ***value chain*** separately from the gross Scope 3 GHG emissions, and include emissions of other types of GHG (such as CH_4 and N2O), and emissions of CO2 that occur in the life cycle of biomass other than from combustion or biodegradation (such as GHG emissions from processing or transporting biomass) in the calculation of Scope 3 GHG emissions;

(k) not include any removals, or any purchased, sold or transferred ***carbon credits*** or GHG allowances in the calculation of Scope 3 GHG emissions;

AR 47. When preparing the information on the total GHG ***emissions*** required under paragraph 52, the undertaking shall:

(a) apply the following formulas to calculate the total GHG emissions:

$$\text{Total GHG emissions}_{location-based}\ (\text{t CO}_2\text{eq})$$

$$= \text{Gross Scope 1} + \text{Gross Scope 2}_{location-based} + \text{Gross Scope 3 Total}$$

$$\text{GHG emissions}_{market-based}\ (\text{t CO}_2\text{eq})$$

$$= \text{Gross Scope 1} + \text{Gross Scope 2}_{market-based} + \text{Gross Scope 3}$$

(b) disclose total GHG emissions with a distinction between emissions derived from the location-based and market-based methods applied while measuring the underlying Scope 2 GHG emissions.

AR 48. The undertaking shall disclose its total GHG ***emissions*** disaggregated by Scopes 1 and 2 and significant Scope 3 in accordance with the table below.

	Retrospective				Milestones and target years			
	Base year	Compa-rative	N	% N / N-1	2025	2030	(2050)	Annual % target / Base year
Scope 1 GHG emissions								
Gross Scope 1 GHG emissions (tCO2eq)								
Percentage of Scope 1 GHG emissions from regulated emission trading schemes (%)								
Scope 2 GHG emissions								
Gross location-based Scope 2 GHG emissions (tCO2eq)								
Gross market-based Scope 2 GHG emissions (tCO2eq)								
Significant scope 3 GHG emissions								
Total Gross indirect (Scope 3) GHG emissions (tCO2eq)								
1 Purchased goods and services								
[Optional sub-category: Cloud computing and data centre services								
2 Capital goods								
3 Fuel and energy-related Activities (not included in Scope1 or Scope 2)								
4 Upstream transportation and distribution								
5 Waste generated in operations								
6 Business travelng								
7 Employee commuting								
8 Upstream leased assets								
9 Downstream transportation								
10 Processing of sold products								

11 Use of sold products								
12 End-of-life treatment of sold products								
13 Downstream leased assets								
14 Franchises								
15 Investments								
Total GHG emissions								
Total GHG emissions (location-based) (tCO_2eq)								
Total GHG emissions (market-based) (tCO_2eq)								

AR 49. To highlight potential ***transition risks***, the undertaking may disclose its total GHG ***emissions*** disaggregated by major countries and, if applicable, by operating segments (applying the same segments for the financial statements as required by the accounting standards, i.e., IFRS 8 *Operating Segments* or local GAAP). Scope 3 GHG emissions may be excluded from these breakdowns by country if the related data is not readily available.

AR 50. The Scope 3 GHG ***emissions*** may also be presented by according to the indirect emission categories defined in EN ISO 14064-1:2018.

AR 51. If it is material for the undertaking's Scope 3 emissions, it shall disclose the GHG ***emissions*** from purchased cloud computing and data centre services as a subset of the overarching ***Scope 3 category*** "upstream purchased goods and services".

AR 52. The total GHG ***emissions*** disaggregated by Scope 1, 2 and 3 GHG emissions may be graphically presented in the ***sustainability statement*** (e.g., as a bar or pie chart) showing the split of GHG emissions across the ***value chain*** (Upstream, Own operations, Transport, Downstream).

GHG intensity based on net revenue

Calculation guidance

AR 53. When disclosing the information on GHG intensity based on net revenue required under paragraph 53, the undertaking shall:

(a) calculate the GHG intensity ratio by the following formula:

$$\frac{Total\ GHG\ emissions\ (t\ CO2eq)}{Net\ revenue\ (Monetary\ unit)};$$

(b) express the total GHG ***emissions*** in metric tonnes of CO_2eq and the net revenue in monetary units (e.g., Euros) and present the results for the market-based and location-based method;

(c) include the total GHG emissions in the numerator and overall net revenue in the denominator;

(d) calculate the total GHG emissions as required by paragraphs 44 (d) and 52; and

(e) calculate the net revenue in line with the requirements in accounting standards applied for financial statements, i.e., IFRS 15 or local GAAP.

AR 54. The quantitative information may be presented in the following tabular format.

GHG intensity per net revenue	Comparative	N	% N / N-1
Total GHG emissions (location-based) per net revenue (tCO_2eq/Monetary unit)			
Total GHG emissions (market-based) per net revenue (tCO_2eq/Monetary unit)			

Connectivity of GHG intensity based on revenue with financial reporting information

AR 55. The reconciliation of the net revenue used to calculate GHG intensity to the relevant line item or notes in the financial statements (as required by paragraph 55) may be done by either:

(a) a cross-reference to the related line item or disclosure in the financial statements; or

(b) if the net revenue cannot be directly cross-referenced to a line item or disclosure in the financial statements, by a quantitative reconciliation using the below tabular format.

Net revenue used to calculate GHG intensity	
Net revenue (other)	
Total net revenue (in financial statements)	

Disclosure Requirement E1-7 – GHG removals and GHG mitigation projects financed through carbon credits

GHG removals and storage in own operations and the upstream and downstream value chain

AR 56. In addition to their GHG emission inventories, undertakings shall provide transparency on how and to what extent they either enhance natural sinks or apply technical solutions to remove GHGs from the atmosphere in their own operations and upstream and downstream value chain. While there are no generally accepted concepts and methodologies for accounting for GHG removals, this Standard aims to increase transparency on the undertaking's efforts to remove GHGs from the atmosphere (paragraphs 56 (a) and 58). The GHG removals outside the ***value chain*** that the undertaking supports through the purchase of ***carbon credits*** are to be disclosed separately as required by paragraphs 56 (b) and 59.

AR 57. When disclosing the information on ***GHG removals and storage*** from the undertaking's own operations and its upstream and donwstream ***value chain*** required under paragraphs 56 (a) and 58, for each removal and storage activity, the undertaking shall describe:

(a) the GHGs concerned;

(b) whether removal and storage are biogenic or from ***land-use change*** (e.g., afforestation, reforestation, forest restoration, urban tree planting, agroforestry, building ***soil*** carbon, etc.), technological (e.g., direct air capture), or hybrid (e.g., bioenergy with CO_2 capture and storage), and technological details about the removal, the type of storage and, if applicable, the transport of removed GHGs;

(c) if applicable, a brief explanation of whether the activity qualifies as a nature-based solution; and

(d) how the risk of non-permanence is managed, including determining and monitoring leakage and reversal events, as appropriate.

Calculation guidance

AR 58. When preparing the information on ***GHG removals and storage*** from the undertaking's own

operations and its upstream and donwstream ***value chain*** required under paragraphs 56 (a) and 58, the undertaking shall:

(a) consider, as far as applicable, the GHG Protocol Corporate Standard (version 2004), Product Standard (version 2011), Agriculture Guidance (version 2014), Land use, ***land-use change***, and forestry Guidance for GHG project accounting (version 2006);

(b) apply consensus methods on accounting for GHG removals as soon as they are available, notably the EU regulatory framework for the certification of CO2 removals;

(c) if applicable, explain the role of removals for its ***climate change mitigation policy***;

(d) include removals from operations that it owns, controls, or contributes to and that have not been sold to another party through carbon credits;

(e) if applicable, mark those GHG removal activities in own operations or the value chain that have been converted into carbon credits and sold on to other parties on the voluntary market;

(f) account for the GHG ***emissions*** associated with a removal activity, including transport and storage, under Disclosure Requirement E1-6 (Scopes 1, 2 or 3). To increase transparency on the efficiency of a removal activity, including transport and storage, the undertaking may disclose the GHG emissions associated with this activity (e.g., GHG emissions from electricity consumption of direct air capture technologies) alongside, but separately from, the amount of removed GHG emissions;

(g) in case of a reversal, account for the respective GHG emissions as an offset for the removals in the reporting period;

(h) use the most recent ***GWP*** values published by the IPCC based on a 100-year time horizon to calculate CO_2eq emissions of non-CO_2 gases and describe the assumptions made, methodologies and frameworks applied for calculation of the amount of GHG removals; and

(i) consider ***nature-based solutions.***

AR 59. The undertaking shall disaggregate and separately disclose the GHG removals that occur in its own operations and those that occur in its upstream and downstream value chain. GHG removal activities in the upstream and downstream ***value chain*** shall include those that the undertaking is actively supporting, for example, through a cooperation project with a ***supplier***. The undertaking is not expected to include any GHG removals that may occur in its upstream and downstream value chain that it is not aware of.

AR 60. The quantitative information on GHG removals may be presented by using the following tabular format.

Removals	Comparative	N	% N / N-1
GHG removal activity 1 (e.g.., forest restoration)	-		
GHG removal activity 2 (e.g.., direct air capture)	-		
…	-		
Total GHG removals from own operations (tCO_2eq)			
GHG removal activity 1 (e.g.., forest restoration)	-		

GHG removal activity 2 (e.g.., direct air capture)	-		
…	-		
Total GHG removals in the upstream and downstream value chain (tCO_2eq)			
Reversals (tCO_2eq)			

GHG mitigation projects financed through carbon credits

AR 61. Financing GHG ***emission reduction*** projects outside the undertaking's ***value chain*** through purchasing ***carbon credits*** that fulfil high-quality standards can be a useful contribution towards mitigating climate change. This Standard requires the undertaking to disclose whether it uses ***carbon credits*** separately from the GHG ***emissions*** (paragraphs 56 (b) and 59) and GHG ***emission reduction targets*** (Disclosure Requirement E1-4). It also requires the undertaking to show the extent of use and which quality criteria it uses for those carbon credits.

AR 62. When disclosing the information on ***carbon credits*** required under paragraphs 56 (b) and 59, the undertaking shall disclose the following disaggregation as applicable:

(a) the share (percentage of volume) of reduction projects and removal projects;

(b) for carbon credits from removal projects, an explanation whether they are from biogenic or technological sinks;

(c) the share (percentage of volume) for each recognised quality standard;

(d) the share (percentage of volume) issued from projects in the EU; and

(e) the share (percentage of volume) that qualifies as a corresponding adjustment under Article. 6 of the Paris Agreement.

Calculation guidance

AR 63. When preparing the information on ***carbon credits*** required under paragraphs 56 (b) and 59, the undertaking shall:

(a) Consider ***recognised quality standards;***.

(b) if applicable, explain the role of carbon credits in its ***climate change mitigation policy***;

(c) not include carbon credits issued from GHG ***emission reduction*** projects within its ***value chain*** as the respective GHG emission reductions shall already be disclosed under Disclosure Requirement E1-6 (Scope 2 or Scope 3) at the time they occur (i.e., double counting is avoided);

(d) not include carbon credits from GHG removal projects within its value chain as the respective GHG removals may already be accounted for under Disclosure Requirement E1-7 at the time they occur (i.e., double counting is avoided);

(e) not disclose carbon credits as an offset for its GHG ***emissions*** under Disclosure Requirement E1-6 on GHG emissions;

(f) not disclose carbon credits as a means to reach the GHG emission reduction targets disclosed under Disclosure Requirement E1-4; and

(g) calculate the amount of carbon credits to be cancelled in the future, as the sum of carbon credits in metric tonnes of CO_2eq over the duration of existing contractual agreements.

AR 64. The information on ***carbon credits*** cancelled in the reporting year and planned to be cancelled in the future may be presented using the following tabular formats.

Carbon credits cancelled in the reporting year	Comparative	N
Total (tCO_2eq)		
Share from removal projects (%)		
Share from reduction projects (%)		
Recognised quality standard 1 (%)		
Recognised quality standard 2 (%)		
Recognised quality standard 3 (%)		
…		
Share from projects within the EU (%)		
Share of carbon credits that qualify as corresponding adjustments (%)		

Carbon credits planned to be cancelled in the future	Amount until [period]
Total (tCO_2eq)	

Disclosure Requirement E1-8 – Internal carbon pricing

AR 65. When disclosing the information required under paragraphs 62 and 63, if applicable, the undertaking shall briefly explain whether and how the carbon prices used in internal carbon pricing schemes are consistent with those used in financial statements. This shall be done in respect of the internal carbon prices used for,

(a) the assessment of the useful life and residual value of its assets (intangibles, property, plant and equipment);

(b) the impairment of assets; and

(c) the fair value measurement of assets acquired through business acquisitions.

AR 66. The information may be presented by using the following table:

Types of internal carbon prices	Volume at stake (tCO_2eq)	Prices applied (€/tCO_2eq)	Perimeter description
CapEx shadow price			

Research and Development (R&D) investment shadow price			
Internal carbon fee or fund			
Carbon prices for impairment testing			
Etc.			

Disclosure Requirement E1-9 – Anticipated financial effects from material physical and transition risks and potential climate-related opportunities

Anticipated financial effects from material physical and transition risks

AR 67. Material climate-related ***physical risks*** and ***transition risks*** may affect the undertaking's financial position (e.g., owned assets, financially-controlled leased assets, and liabilities), performance (e.g., potential future increase/decrease in net revenue and costs due to business interruptions, increased supply prices resulting in potential margin erosions), and cash flows. The low probability, high severity and long-term time horizons of some climate-related physical risk exposures and the uncertainty arising from the transition to a sustainable economy mean that there will be associated material ***anticipated financial effects*** that are outside the scope of the requirements of applicable accounting standards.

AR 68. Currently, there is no commonly accepted methodology to assess or measure how material ***physical risks*** and ***transition risks*** may affect the undertaking's future financial position, financial, performance and cash flows. Therefore, the disclosure of the financial effects (as required by paragraphs 64, 66 and 67) will depend on the undertaking's internal methodology and the exercise of significant judgement in determining the inputs, and assumptions needed to quantify their ***anticipated financial effects.***

Calculation guidance - Anticipated financial effects from material physical risks

AR 69. When disclosing the information required under paragraphs 64 (a) and 66, the undertaking shall explain whether and how:

(a) it assessed the ***anticipated financial effects*** for assets and business activities at material physical risk, including the scope of application, time horizons, calculation methodology, critical assumptions and parameters and limitations of the assessment; and

(b) the assessment of assets and business activities considered to be at material ***physical risk*** relies on or is part of the process to determine material physical risk as required under paragraphs 20 (b) and AR 11 and to determine climate ***scenarios*** as required under paragraphs 19 and AR 13 to AR 14. In particular, it shall explain how it has defined medium- and long-term time horizons and how these definitions are linked to the expected lifetime of the undertaking's assets, strategic planning horizons and capital allocation plans.

AR 70. When preparing the information on assets at material physical risk that is required to be disclosed under paragraph 66 (a), the undertaking shall:

(a) Calculate the assets at material physical risk in terms of monetary amount and as a proportion (percentage) of total assets at the reporting date (i.e., the proportion is an estimate of the carrying value of assets at material physical risk divided by total carrying value as stated in the statement of financial position or balance sheet). The estimate of assets at material physical risk shall be derived starting from the assets recognised in the financial statements. The estimate of monetary amounts and proportion of assets at physical risk may be presented as either a single amount or range.

(b) All types of assets including finance-lease / right-of-use assets shall be considered when determining the assets at material physical risk.

(c) To contextualise this information, the undertaking shall:

i. disclose the location of its significant assets at material physical risk. Significant assets located[59] in the EU territory shall be aggregated by NUTS codes 3 level digits (Nomenclature of Territorial Units for Statistics). For significant assets located outside EU territory, the breakdown by NUTS code will only be provided where applicable.

ii. disaggregate the monetary amounts of assets at risk by acute and chronic physical risk[60].

(d) calculate the share of assets at material physical risk resulting from paragraph 66 (a) that is addressed by the ***climate change adaptation actions*** based on the information disclosed under Disclosure Requirement E1-3. This aims at approximating net risks.

AR 71. When preparing the information required under paragraph 64 (a) and 66 (d), the undertaking may assess and disclose the share of net revenue from business activities at physical risk. This disclosure

(a) shall be based on the net revenue in line with the requirements in accounting standards applied for financial statements, i.e., IFRS 15 or local GAAP.

(b) may include a breakdown of the undertaking's business activities with the corresponding details of the associated percentage of total net revenue, the risk factors (hazards, exposure and sensitivity) and, if possible, the magnitude of the ***anticipated financial effects*** in terms of margin erosion over the short-, medium- and long-term time horizons. The nature of business activities may also be disaggregated by operating segments if the undertaking has disclosed the contribution of margins by operational segments in its segment reporting in the financial statements.

Calculation guidance - Anticipated financial effects from transition risk

AR 72. When disclosing the information required under paragraphs 64 (b) and 67 (a), the undertaking shall explain whether and how:

(a) it has assessed the potential effects on future financial performance and position for assets and business activities at material transition risk, including the scope of application, calculation methodology, critical assumptions and parameters, and limitations of the assessment; and

(b) the assessment of assets and business activities considered to be at material transition risk relies on or is part of the process to determine material ***transition risks*** as described under paragraphs 20 (c) and AR 11 and to determine ***scenarios*** as required under paragraphs AR 12 to AR 13. In particular, it shall explain how it has defined medium- and long-term time horizons and how these definitions are linked to the expected lifetime of the undertaking's assets, strategic planning horizons and capital allocation plans.

AR 73. When disclosing the information on assets at material transition risk as required under paragraphs 67 (a) and (b):

(a) the undertaking shall at the very least include an estimate of the amount of potentially stranded assets (in monetary amounts and as a proportion/percentage) from the reporting year until 2030 and from 2030 to 2050. Stranded assets are understood as the active or firmly planned key assets of the undertaking with significant ***locked-in GHG emissions*** over their operating lifetime. Firmly planned key assets are those that the undertaking will most likely deploy within the next 5 years. The amount may be expressed as a range of asset values based on different climate and ***policy scenarios,*** including a scenario aligned with limiting climate change to 1.5°C.

[59] This disclosure requirement is consistent with the requirements of Commission Implementing Regulation (EU) 2022/2453 - Template 5 exposures subjects to physical risk.

[60] This disclosure requirement is consistent with the requirements of Commission Implementing Regulation (EU) 2022/2453 - Template 5 exposures subjects to physical risk.

(b) the undertaking shall disclose a breakdown of the carrying value of its real estate assets, including rights-of-use assets, by energy efficiency classes. The energy efficiency shall be represented in terms of either the ranges of energy consumption in kWh/m² or the EPC[61] (Energy Performance Certificate)[62] label class. If the undertaking cannot obtain this information on a best-effort basis, it shall disclose the total carrying amount of the real estate assets for which the energy consumption is based on internal estimates.

(c) the undertaking shall calculate the proportion (percentage) of total assets (including finance lease/right-of-use assets) at material transition risk addressed by the ***climate change mitigation actions*** based on the information disclosed under Disclosure Requirement E1-3. The total assets amount is the carrying amount on the balance sheet at the reporting date.

AR 74. When disclosing the information on potential liabilities from material ***transition risks*** required under paragraph 67(d):

(a) undertakings that operate ***installations*** regulated under an emission trading scheme may include a range of potential future liabilities originating from these schemes;

(b) undertakings subject to the EU ETS, may disclose the potential future liabilities that relate to their allocation plans for the period before and until 2030. The potential liability may be estimated on the basis of:

i. the number of allowances held by the undertaking at the beginning of the reporting period;

ii. the number of allowances to be purchased in the market yearly, i.e., before and until 2030;

iii. the gap between estimated future ***emissions*** under various transition ***scenarios*** and free allocations of allowances that are known for the period until 2030, and

iv. the estimated yearly cost per tonne of CO2 for which an allowance needs to be purchased;

(c) In assessing its potential future liabilities, the undertaking may consider and disclose the number of Scope 1 GHG emission allowances within regulated emission trading schemes and the cumulative number of emission allowances stored (from previous allowances) at the beginning of the reporting period;

(d) undertakings disclosing volumes of ***carbon credits*** planned to be cancelled in the near future (Disclosure Requirement E1-7) may disclose the potential future liabilities associated with those based on existing contractual agreements;

(e) the undertaking may also include its monetised gross Scope 1, 2 and total GHG ***emissions*** (in monetary units) calculated as follows:

i. monetised Scope 1 and 2 GHG emissions in the reporting year by the following formula:

(a) $$(gross\ Scope\ 1\ GHG\ emissions\ (t\ CO_2eq) + gross\ Scope\ 2\ GHG\ emission\ (t\ CO_2eq)) \times GHG\ emission\ cost\ rate\ (\frac{€}{t\ CO_2eq})$$

ii. monetised total GHG emissions in the reporting year by the following formula:

[61] Directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on the energy performance of buildings (OJ L 153, 18.6.2010, p. 13).

[62] This disclosure requirement is consistent with the requirements of Commission Implementing Regulation (EU) 2022/2453 - Template 2 immovable property, energy efficiency of the collateral.

(b) $Total\ GHG\ emissions\ (t\ CO_2eq) \times GHG\ emission\ cost\ rate\ (\frac{€}{t\ CO_2eq})$

iii. by use of a lower, middle and upper cost rate[63] for GHG emissions (e.g., market carbon price and different estimates for the societal costs of carbon) and reasons for selecting them.

AR 75. Other approaches and methodologies may be applied to assess how ***transition risks*** may affect the future financial position of the undertaking. In any case, the disclosure of ***anticipated financial effects*** shall include a description of the methodologies and definitions used by the undertaking.

AR 76. When preparing the information required under paragraph 67 (e), the undertaking may assess and disclose the share of net revenue from business activities at ***transition risks***. This disclosure:

(a) shall be based on the net revenue in line with the requirements in accounting standards applied for financial statements, i.e., IFRS 15 or local GAAP.

(b) may include a breakdown of the undertaking's business activities with the corresponding details of the associated percentage of current net revenue, risk factors (events and exposure), and when possible, the ***anticipated financial effects*** related to margin erosion over the short-, medium- and long-term. The nature of business activities may also be disaggregated by operating segments if the undertaking has disclosed the contribution of margins by operational segments in its segment reporting in the financial statements.

Connectivity with financial reporting information

AR 77. The reconciliation of the significant amount of assets, liabilities, and net revenue (vulnerable to either material ***physical risks*** or ***transition risks***) to the relevant line item or disclosure (e.g., in segment reporting) in the financial statements (as required by paragraph 68) may be presented by the undertaking as follows:

(a) as a cross-reference to the related line item or disclosure in the financial statements if these amounts are identifiable in the financial statements; or

(b) If these cannot be directly cross-referenced, as a quantitative reconciliation of each to the relevant line item or disclosure in the financial statement using the below tabular format:

Carrying amount of assets or liabilities or net revenue vulnerable to either material physical or transition risks	
Adjusting items	
Assets or liabilities or net revenue in the financial statements	

AR 78. The undertaking shall ensure the consistency of data and assumptions to assess and report the ***anticipated financial effects*** from material ***physical risks*** and ***transition risks*** in the sustainability statement with the corresponding data and assumptions used for the financial statements (e.g., carbon prices used for assessing impairment of assets, the useful life of assets, estimates and provisions). The undertaking shall explain the reasons for any inconsistencies (e.g., if the full financial implications of climate-related risks are still under assessment or are not deemed material in the financial statements).

AR 79. For potential future effects on liabilities (as required by paragraph 67 (d)), if applicable, the

[63] The cost rate is the factor used to convert non-monetary impacts like tonnes, hectares, m3 etc. into monetary units. Cost rates should be based on monetary valuation studies, need to be science-based and the methods used to obtain them transparent. Guidance on these methods can be obtained, e.g., from the EU-LIFE-funded TRANSPARENT project.

undertaking shall cross-reference the description of the emission trading schemes in the financial statements.

Climate-related opportunities

AR 80. When disclosing the information under paragraph 69 (a), the undertaking shall explain the nature of the cost savings (e.g., from reduced energy consumption), the time horizons and the methodology used, including the scope of the assessment, critical assumptions, and limitations, and whether and how ***scenario analysis*** was applied.

AR 81. When disclosing the information required under paragraph 69 (b), the undertaking shall explain how it has assessed the market size or any expected changes to net revenue from low-carbon products and services or adaptation solutions including the scope of the assessment, the time horizon, critical assumptions, and limitations and to what extent this market is accessible to the undertaking. The information on the market size may be put in perspective to the current taxonomy-aligned revenue disclosed under the provisions of Regulation (EU) 2020/852. The entity may also explain how it will pursue its climate-related ***opportunities*** and, where possible, this should be linked to the disclosures on ***policies, targets*** and ***actions*** under Disclosure Requirements E1-2, E1-3 and E1-4.

ESRS E2
POLLUTION

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Objective

1. The objective of this Standard is to specify Disclosure Requirements which will enable users of the ***sustainability statement*** to understand:

   (a) how the undertaking affects ***pollution*** of air, water and ***soil***, in terms of material positive and negative actual or potential ***impacts***;

   (b) any ***actions*** taken, and the result of such actions, to prevent or mitigate actual or potential negative impacts, and to address ***risks*** and ***opportunities***;

   (c) the plans and capacity of the undertaking to adapt its ***strategy*** and ***business model*** in line with the transition to a sustainable economy and with the need to prevent, control and eliminate pollution. This is to create a toxic-free environment with zero pollution also in support of the EU Action Plan "Towards a Zero Pollution for Air, Water and Soil";

   (d) the nature, type and extent of the undertaking's material risks and opportunities related to the undertaking's pollution-related impacts and ***dependencies***, as well as the prevention, control, elimination or reduction of pollution, including where this results from the application of regulations, and how the undertaking manages this; and

   (e) the ***financial effects*** on the undertaking over the short-, medium- and long-term of material risks and opportunities arising from the undertaking's pollution-related impacts and dependencies.

2. This Standard sets out Disclosure Requirements related to the following ***sustainability matters***: ***pollution*** of air, water, ***soil***, ***substances of concern***, including ***substances of very high concern***.

3. **"*Pollution*** of air" refers to the undertaking's ***emissions*** into air (both indoor and outdoor), and prevention, control and reduction of such emissions.

4. **"*Pollution*** of water" refers to the undertaking's ***emissions*** to water, and prevention, control and reduction of such emissions.

5. **"*Pollution of soil***" refers to the undertaking's ***emissions*** into soil and the prevention, control and reduction of such emissions.

6. With regard to "***substances of concern***", this standard covers the undertaking's production, use and/or distribution and commercialisation of substances of concern, including ***substances of very high concern***. Disclosure Requirements on substances of concern aim at providing users with an understanding of actual or potential impacts related to such substances, also taking account of possible restrictions on their use and/or distribution and commercialisation.

Interaction with other ESRS

7. The topic of ***pollution*** is closely connected to other environmental sub-topics such as climate change, water and ***marine resources***, ***biodiversity*** and ***circular economy***. Thus, to provide a comprehensive overview of what could be material to pollution, relevant Disclosure Requirements are covered in other environmental Standards as follows:

   (a) ESRS E1 *Climate change* which addresses the following seven ***greenhouse gases*** connected to air pollution: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF6) and nitrogen trifluoride (NF3).

   (b) ESRS E3 *Water and marine resources* which addresses ***water consumption,*** in particular in ***areas at water risk***, water ***recycling*** and storage. This also includes the

responsible management of marine resources, including the nature and quantity of marine resources-related commodities (such as gravels, deep-sea minerals, seafood) used by the undertaking. This Standard covers the negative impacts, in terms of pollution of water and marine resources, including microplastics, generated by such activities.

(c) ESRS E4 *Biodiversity and ecosystems* which addresses ***ecosystems*** and species. Pollution as a direct impact driver of ***biodiversity loss*** is addressed by this Standard.

(d) ESRS E5 *Resource use and circular economy* which addresses, in particular, the transition away from extraction of non-renewable resources and the implementation of practices that prevent ***waste*** generation, including pollution generated by waste.

8. The undertaking's ***pollution***-related impacts may affect people and communities. Material negative impacts on ***affected communities*** from pollution-related impacts attributable to the undertaking are covered in ESRS S3 *Affected communities*.

9. This Standard should be read in conjunction with ESRS 1 *General requirements* and ESRS 2 *General disclosures*.

Disclosure Requirements

ESRS 2 General disclosures

10. The requirements of this section should be read in conjunction with and reported alongside the disclosures required by ESRS 2 chapter 4 *Impact, risk and opportunity management*.

Impact, risk and opportunity management

Disclosure Requirement related to ESRS 2 IRO-1 – Description of the processes to identify and assess material pollution-related impacts, risks and opportunities

11. The undertaking shall describe the process to identify material ***impacts, risks*** and ***opportunities*** and shall provide information on:

(a) whether the undertaking has screened its ***site*** locations and business activities in order to identify its actual and potential ***pollution***-related ***impacts, risks*** and ***opportunities*** in its own operations and upstream and downstream ***value chain***, and if so, the methodologies, assumptions and tools used in the screening;

(b) whether and how the undertaking has conducted consultations, in particular with affected communities.

Disclosure Requirement E2-1 – Policies related to pollution

12. The undertaking shall describe its policies adopted to manage its material impacts, risks and opportunities related to pollution prevention and control.

13. The objective of this Disclosure Requirement is to enable an understanding of the extent to which the undertaking has ***policies*** that address the identification, assessment, management and/or ***remediation*** of material pollution-related ***impacts, risks*** and ***opportunities.***

14. The disclosure required by paragraph 12 shall contain the information on the ***policies*** the undertaking has in place to manage its material ***impacts, risks*** and ***opportunities*** related to ***pollution*** in accordance with ESRS 2 MDR-P *Policies adopted to manage material sustainability matters*.

15. The undertaking shall indicate, with regard to its own operations and its upstream and donwstream ***value chain***, whether and how its ***policies*** address the following areas where material:

(a) mitigating negative ***impacts*** related to ***pollution*** of air, water and ***soil*** including

prevention and control;

(b) substituting and minimising the use of ***substances of concern***, and phasing out ***substances of very high concern***, in particular for non-essential societal use and in ***consumer*** products; and

(c) avoiding ***incidents*** and emergency situations, and if and when they occur, controlling and limiting their impact on people and the environment.

Disclosure Requirement E2-2 – Actions and resources related to pollution

16. The undertaking shall disclose its pollution-related actions and the resources allocated to their implementation.

17. The objective of this Disclosure Requirement is to enable an understanding of the key actions taken and planned to achieve the ***pollution***-related ***policy*** objectives and ***targets*****.**

18. The description of the pollution-related action plans and resources shall contain the information prescribed in ESRS 2 MDR-A Actions and resources in relation to material sustainability matters.

19. In addition to ESRS 2 MDR-A, the undertaking may specify to which layer in the following mitigation hierarchy an action and resources can be allocated:

(a) avoid ***pollution*** including any phase out of materials or compounds that have a negative impact (prevention of pollution at source);

(b) reduce pollution, including: any phase-out of materials or compounds; meeting enforcement requirements such as ***Best Available Techniques (BAT)*** requirements; or meeting the ***Do No Significant Harm*** criteria for pollution prevention and control according to the EU Taxonomy Regulation and its Delegated Acts (minimisation of pollution); and

(c) restore, regenerate and transform ***ecosystems*** where pollution has occurred (control of the impacts both from regular activities and ***incidents***).

Metrics and targets

Disclosure Requirement E2-3 – Targets related to pollution

20. The undertaking shall disclose the pollution-related targets it has set.

21. The objective of this Disclosure Requirement is to enable an understanding of the ***targets*** the undertaking has set to support its ***pollution***-related ***policies*** and to address its material pollution-related ***impacts, risks*** and ***opportunities***.

22. The description of ***targets*** shall contain the information requirements defined in ESRS 2 MDR-T *Tracking effectiveness of policies and actions through targets*.

23. The disclosure required by paragraph 20 shall indicate whether and how its ***targets*** relate to the prevention and control of:

(a) air pollutants and respective ***specific loads***;

(b) ***emissions*** to water and respective specific loads;

(c) ***pollution*** to ***soil*** and respective specific loads; and

(d) ***substances of concern*** and ***substances of very high concern***.

24. In addition to ESRS 2 MDR-T, the undertaking may specify whether ***ecological thresholds*** (e.g., the ***biosphere integrity***, stratospheric ozone-depletion, atmospheric aerosol loading, soil depletion, ocean acidification) and entity-specific allocations were taken into consideration when setting targets. If so, the undertaking may specify:

(a) the ***ecological thresholds*** identified, and the methodology used to identify such thresholds;

(b) whether or not the thresholds are entity-specific and if so, how they were determined; and

(c) how responsibility for respecting identified ecological thresholds is allocated in the undertaking.

25. The undertaking shall specify as part of the contextual information, whether the ***targets*** that it has set and presented are mandatory (required by legislation) or voluntary.

Disclosure Requirement E2-4 – Pollution of air, water and soil

26. **The undertaking shall disclose the pollutants that it emits through its own operations, as well as the microplastics it generates or uses.**

27. The objective of this Disclosure Requirement is to provide an understanding of the ***emissions*** that the undertaking generates to air, water and ***soil*** in its own operations, and of its generation and use of microplastics.

28. The undertaking shall disclose the amounts of:

(a) each pollutant listed in Annex II of Regulation (EC) No 166/2006 of the European Parliament and of the Council[64] (European Pollutant Release and Transfer Register "E-PRTR Regulation")emitted to air, water and soil, with the exception of emissions of ***GHGs*** which are disclosed in accordance with ESRS E1 *Climate Change*[65];

(b) microplastics generated or used by the undertaking.

29. The amounts referred in paragraph 28 shall be consolidated amounts including the emissions from those facilities over which the undertaking has financial control and those over which it has operational control. The consolidation shall include only the emissions from facilities for which the applicable threshold value specified in Annex II of Regulation (EC) No 166/2006 is exceeded.

30. The undertaking shall put its disclosure into context and describe:

(a) the changes over time,

(b) the measurement methodologies; and

(c) the process(es) to collect data for ***pollution***-related accounting and reporting, including the type of data needed and the information sources.

31. When an inferior methodology compared to direct measurement of ***emissions*** is chosen to quantify emissions, the reasons for choosing this inferior methodology shall be outlined by the undertaking. If the undertaking uses estimates, it shall disclose the standard, sectoral study or sources which form the basis of its estimates, as well as the possible degree of uncertainty and the range of estimates reflecting the measurement uncertainty.

Disclosure Requirement E2-5 – Substances of concern and substances of very high concern

[64] Regulation (EC) No 166/2006 of the European Parliament and of the Council of 18 January 2006 concerning the establishment of a European Pollutant Release and Transfer Register and amending Council Directives 91/689/EEC and 96/61/EC (OJ L 033 4.2.2006, p. 1)

[65] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from: (a) an additional indicator related to principal adverse impacts as set out by indicator #2 in Table II of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Emissions of air pollutants"); (b) indicator #8 in Table I of Annex I ("Emissions to water); (c) indicator #1 in Table II of Annex I ("Emissions of inorganic pollutants"); and (d) indicator #3 in Table II of Annex I ("Emissions of ozone- depleting substances") .

32. **The undertaking shall disclose information on the production, use, distribution, commercialisation and import/export of substances of concern and substances of very high concern, on their own, in mixtures or in articles.**

33. The objective of this Disclosure Requirement is to enable an understanding of the impact of the undertaking on health and the environment through ***substances of concern*** and through ***substances of very high concern*** on their own. It is also to enable an understanding of the undertaking's material risks and ***opportunities***, including exposure to those substances and risks arising from changes in regulations.

34. The disclosure required by paragraph 32 shall include the total amounts of ***substances of concern*** that are generated or used during the production or that are procured, and the total amounts of substances of concern that leave its facilities as emissions, as products, or as part of products or services split into main hazard classes of substances of concern.

35. The undertaking shall present separately the information for ***substances of very high concern.***

Disclosure Requirement E2-6 – Anticipated financial effects from material pollution-related risks and opportunities

36. **The undertaking shall disclose the anticipated financial effects of material pollution-related risks and opportunities.**

37. The information required by paragraph 36 is in addition to the information on current financial effects on the undertaking's, financial position, financial performance and cash flows for the reporting period required under ESRS 2 SBM-3 para 48 (d).

38. The objective of this Disclosure Requirement is to provide an understanding of:

    (a) ***anticipated financial effects*** due to material risks arising from ***pollution***-related impacts and ***dependencies*** and how these risks have (or could reasonably be expected to have) a material influence on the undertaking's , financial position financial performance and cash flows, over the short-, medium- and long-term.

    (b) ***anticipated financial effects*** due to material ***opportunities*** related to ***pollution*** prevention and control.

39. The disclosure shall include:

    (a) a quantification of the ***anticipated financial effects*** in monetary terms before considering pollution-related actions, or where not possible without undue cost or effort, qualitative information. For ***financial effects*** arising from ***opportunities***, a quantification is not required if it would result in disclosure that does not meet the qualitative characteristics of information (see ESRS 1 Appendix B *Qualitative characteristics of information*);

    (b) a description of the effects considered, the related impacts and the time horizons in which they are likely to materialise; and

    (c) the critical assumptions used to quantify the ***anticipated financial effects***, as well as the sources and level of uncertainty of those assumptions.

40. The information provided under paragraph 38(a) shall include:

    (a) the share of net revenue made with products and services that are or that contain ***substances of concern***, and the share of net revenue made with products and services that are or that contain ***substances of very high concern***;

    (b) the operating and capital expenditures incurred in the reporting period in conjunction with major ***incidents*** and ***deposits***;

    (c) the provisions for environmental protection and ***remediation*** costs, e.g., for rehabilitating contaminated ***sites***, recultivating landfills, removal of environmental contamination at existing production or storage sites and similar measures.

41. The undertaking shall disclose any relevant contextual information including a description of material ***incidents*** and ***deposits*** whereby ***pollution*** had negative impacts on the environment and/or is expected to have negative effects on the undertaking's financial cash flows, financial position and financial performance with short-, medium- and long-term time horizons.

Appendix A: Application Requirements

This Appendix is an integral part of ESRS E2. It supports the application of the disclosure requirements set out in this standard and has the same authority as the other parts of the Standard.

ESRS 2 General disclosures

Impact, risk and opportunity management

Disclosure Requirement related to ESRS 2 IRO-1 – Description of the processes to identify and assess material pollution-related impacts, risks and opportunities

AR 1. When conducting a ***materiality*** assessment on environmental subtopics, the undertaking shall assess the materiality of pollution in its own operations and its upstream and downstream ***value chain***, and may consider the four phases below, also known as the LEAP approach:

(a) Phase 1: locate where in its own operations and its upstream and downstream ***value chain*** the interface with nature takes place;

(b) Phase 2: evaluate the ***pollution***-related ***dependencies*** and impacts;

(c) Phase 3: assess the material ***risks*** and ***opportunities***; and

(d) Phase 4: prepare and report the results of the materiality assessment.

AR 2. The ***materiality*** assessment for ESRS E2 corresponds to the first three phases of this LEAP approach. The fourth phase addresses the outcome of the process.

AR 3. The process to assess the ***materiality*** of ***impacts***, ***dependencies***, ***risks*** and ***opportunities*** shall consider the provisions in ESRS 2 IRO-1 *Description of the processes to identify and assess material impacts, risks and opportunities*, and IRO-2 *Disclosure Requirements in ESRS covered by the undertaking's sustainability statement*.

AR 4. The sub-topics covered by the ***materiality*** assessment under ESRS E2 include:

(a) ***pollution*** of air, water and ***soil*** (excluding GHG ***emissions*** and ***waste***), microplastics, and ***substances of concern***;

(b) ***dependencies*** on ***ecosystem services*** that help to mitigate pollution-related impacts.

AR 5. In Phase 1, to locate where in its own operations and its upstream and downstream ***value chain*** the interface with nature takes place, the undertaking may consider:

(a) the ***site*** locations of direct assets and operations and related upstream and downstream activities across the value chain;

(b) the site locations where ***emissions*** of water, ***soil*** and air pollutants occur; and

(c) the sectors or business units related to those emissions or to the production, use, distribution, commercialisation and import/export of microplastics, ***substances of concern***, and ***substances of very high concern***, on their own, in mixtures or in articles.

AR 6. Phase 2 relates to the evaluation of the undertaking's impacts and ***dependencies*** for each material ***site*** or sector/business unit including by assessing the severity and likelihood of impacts on the environment and human health.

AR 7. In Phase 3, to assess its material ***risks*** and ***opportunities*** based on the results of Phases 1

and 2, the undertaking may :

(a) identify ***transition risks*** and ***opportunities*** in its own operations and itsupstream and downstream ***value chain*** by the categories of:

i. ***policy*** and legal: e.g., introduction of regulation, exposure to sanctions and litigation (e.g., negligence towards ***ecosystems***), enhanced reporting obligations;

ii. technology: e.g., substitution of products or services by products or services with a lower impact,transition away from ***substances of concern;***

iii. market: e.g., shifting supply, demand and financing, volatility or increased costs of some substances; and

iv. reputation: e.g., changing societal, customer or community perceptions as a result of an organisation's role in ***pollution*** prevention and control;

(b) identify physical risks, e.g., sudden interruption of access to clean water, acid rain, or other pollution ***incidents*** that are likely to lead to or that have led to pollution with subsequent effects on the environment and society;

(c) identify opportunities related to pollution prevention and control categorised by:

i. resource efficiency: decrease quantities of substances used or improve efficiency of production process to minimise impacts;

ii. markets: e.g., diversification of business activities;

iii. financing: e.g., access to green funds, bonds or loans;

iv. resilience: e.g., diversification of substances used and control of emissions through innovation or technology; and

v. reputation: positive ***stakeholder*** relations as a result of a proactive stance on managing risks.

AR 8. In order to assess ***materiality***, the undertaking may consider Commission Recommendation (EU) 2021/2279 on the use of the Environmental Footprint methods to measure and communicate the life cycle environmental performance of products and organisations.

AR 9. When providing information on the outcome of its ***materiality*** assessment, the undertaking shall consider:

(a) a list of ***site*** locations where ***pollution*** is a material issue for the undertaking's own operations and its upstream and downstream value chain; and

(b) a list of business activities associated with pollution material impacts, risks and opportunities.

Disclosure Requirement E2-1 – Policies related to pollution

AR 10. The ***policies*** described under this Disclosure Requirement may be integrated in broader environmental or sustainability policies covering different subtopics.

AR 11. The description of the ***policies*** shall include information on the ***pollutant(s)*** or ***substance(s)*** covered.

AR 12. When disclosing information under paragraph 11, the undertaking may include contextual information on the relations between its policies implemented and how they may contribute to the EU Action Plan "Towards a Zero Pollution for Air, Water and Soil" with for instance elements on:

(a) how it is or may be affected by the ***targets*** and measures of the EU Action Plan and the revision of existing directives (e.g., the Industrial Emissions Directive);

(b) how it intends to reduce its ***pollution*** footprint to contribute to these targets.

Disclosure Requirement E2-2 – Actions and resources related to pollution

AR 13. Where ***actions*** extend to upstream or downstream ***value chain*** engagements, the undertaking shall provide information on the types of actions reflecting these engagements.

AR 14. When considering resources, examples of operational expenditures could be investments in research and development to innovate and develop safe and sustainable alternatives to the use of substances of concern or to decrease ***emissions*** in a production process.

AR 15. Where relevant to achieve its ***pollution***-related ***policy*** objectives and ***targets***, the undertaking may provide information on ***site***-level action plans.

Metrics and targets

Disclosure Requirement E2-3 – Targets related to pollution

AR 16. If the undertaking refers to ***ecological thresholds*** when setting ***targets***, it may refer to the guidance provided by the Science-Based Targets Initiative for Nature (SBTN) in its interim guidance (Initial Guidance for Business, September 2020), or any other guidance with a scientifically acknowledged methodology that allows setting of science-based targets by identifying ecological thresholds and, if applicable, entity-specific allocations. Ecological thresholds can be local, national and/or global.

AR 17. The undertaking may specify whether the ***target*** addresses shortcomings related to the Substantial Contribution criteria for Pollution Prevention and Control as defined in delegated acts adopted pursuant to Article 14(2) of Regulation (EU) 2020/852. Where the Do No Significant Harm (DNSH) criteria for Pollution Prevention and Control as defined in delegated acts adopted pursuant to Article 10(3), Article 11(3), Article 12(2), Article 13(2), and Article 15(2) of Regulation (EU) 2020/852 are not met, the undertaking may specify whether the target addresses shortcomings related those DNSH critera.

AR 18. Where relevant to support the ***policies*** it has adopted, the undertaking may provide information on the ***targets*** set at ***site*** level.

AR 19. The ***targets*** may cover the undertaking's own operations and/or the value chain.

Disclosure Requirement E2-4 – Pollution of air, water and soil

AR 20. The information to be provided on microplastics under paragraph 28(b) shall include microplastics that have been generated or used during production processes or that are procured, and that leave the undertaking's facilities as emissions, as products, or as part of products or services. Microplastics may be unintentionally produced when larger pieces of plastics like car tires or synthetic textiles wear and tear or may be deliberately manufactured and added to products for specific purposes (e.g., exfoliating beads in facial or body scrubs).

AR 21. The volume of ***pollutants*** shall be presented in appropriate mass units, for example tonnes or kilogrammes.

AR 22. The information required under this Disclosure Requirement shall be provided at the level of the reporting undertaking. However, the undertaking may disclose additional breakdown including information at ***site*** level or a breakdown of its ***emissions*** by type of source, by sector or by geographical area.

AR 23. When providing contextual information on the emissions, the undertaking may consider:

(a) the local air quality indices (AQI) for the area where the undertaking's air ***pollution*** occurs;

(b) the degree of urbanisation (DEGURBA)[66] for the area where air pollution occurs; and

[66] According to Eurostat, the Degree of urbanisation (DEGURBA) is a classification that indicates the character of an area. Based on the share of local population living in urban clusters and in urban centres, it classifies Local Administrative Units (LAU or communes) into three types of area: i) Cities (densely populated areas), ii) Towns and suburbs (intermediate density areas), and iii) Rural areas (thinly populated areas).

(c) the undertaking's percentage of the total ***emissions*** of ***pollutants*** to water and ***soil*** occurring in areas at water risk, including areas of high-water stress.

AR 24. The information provided under this Disclosure Requirement may refer to information the undertaking is already required to report under other existing legislation (i.e., IED, E- PRTR, etc.).

AR 25. Where the undertaking's activities are subject to Directive 2010/75/EU of the European Parliament and of the Council on industrial emissions (IED)[67] and relevant Best Available Techniques Reference Documents (***BREFs***), irrespective of whether the activity takes place within the European Union or not, the undertaking may disclose the following additional information:

(a) a list of ***installations*** operated by the undertaking that fall under the IED and EU-***BAT Conclusions***;

(b) a list of any non-compliance ***incidents*** or enforcement ***actions*** necessary to ensure compliance in case of breaches of permit conditions;

(c) the actual performance, as specified in the EU-***BAT conclusions*** for industrial ***installations,*** and comparison of the undertaking's environmental performance against "emission levels associated with the best available techniques" the ***(BAT-AEL)*** as described in EU-BAT conclusions;

(d) the actual performance of the undertaking against "environmental performance levels associated with the ***best available techniques***" ***(BAT-AEPLs)*** provided that they are applicable to the sector and ***installation***; and

(e) a list of any compliance schedules or derogations granted by competent authorities according to Art. 15(4) Directive 2010/75/EU that are associated with the implementation of ***BAT-AELs***.

Methodologies

AR 26. When providing information on ***pollutants***, the undertaking shall consider approaches for quantification in the following order of priority:

(a) direct measurement of emissions, effluents or other ***pollution*** through the use of recognised continuous monitoring systems (e.g., AMS Automated Measuring Systems);

(b) periodic measurements;

(c) calculation based on ***site***-specific data;

(d) calculation based on published pollution factors; and

(e) estimation.

AR 27. Regarding the disclosure of methodologies required by paragraph 30, the undertaking shall consider:

(a) whether its monitoring is carried out in accordance with EU ***BREF*** Standards or another relevant reference benchmark; and

(b) whether and how the calibration tests of the AMS were undertaken and the verification of periodic measurement by independent labs were ensured.

Disclosure Requirement E2-5 – Substances of concern and substances of very high concern

[67] Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions (integrated pollution prevention and control) (OJ L 334, 17.12.2010, p. 17).

List of substances to be considered

AR 28. In order for the information to be complete, ***substances*** in the undertaking's own operations and those procured shall be included (e.g., embedded in ingredients, semi- finished products, or the final product).

AR 29. The volume of ***pollutants*** shall be presented in mass units, for example tonnes or kilogrammes or other mass units appropriate for the volumes and type of pollutants being released.

Contextual information

AR 30. The information provided under this Disclosure Requirement may refer to information the undertaking is already required to report under other existing legislation (i.e., Directive 2010/75/EU, Regulation (EC) No 166/2006 "E-PRTR", etc.).

Disclosure Requirement E2-6 – Anticipated financial effects from material pollution-related risks and opportunities

AR 31. The operating and capital expenditures related to ***incidents*** and ***deposits*** may include for instance:

(a) cost for eliminating and remediating the respective ***pollution*** of air, water and ***soil*** including environmental protection;

(b) damage compensation costs including payment of fines and penalties imposed by regulators or government authorities.

AR 32. ***Incidents*** may include for instance interruptions of production, whether arising from the ***supply chain*** and/or from own operations, which resulted in ***pollution***.

AR 33. The undertaking may include an assessment of its related products and services at risk over the short-, medium- and long-term, explaining how these are defined, how financial amounts are estimated, and which critical assumptions are made.

AR 34. The quantification of the ***anticipated financial effects*** in monetary terms under paragraph 38(a) may be a single amount or a range.

ESRS E3
WATER AND MARINE RESOURCES

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Appendix A: Application Requirements

- **ESRS 2 General disclosures**

Impact, risk and opportunity management

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Objective

1. The objective of this Standard is to specify Disclosure Requirements which will enable users of the ***sustainability statement*** to understand:

   (a) how the undertaking affects water and ***marine resources***, in terms of material positive and negative actual or potential ***impacts***;

   (b) any ***actions*** taken, and the result of such actions to prevent or mitigate material actual or potential negative impacts, to protect water and marine resources, also with reference to reduction of ***water consumption***, and to address ***risks*** and ***opportunities***;

   (c) whether, how and to what extent the undertaking contributes to the European Green Deal's ambitions for fresh air, clean water, healthy ***soil*** and ***biodiversity***, as well as to the sustainability of the ***blue economy*** and fisheries sectors, taking account of the following: Directive 2000/60/EC of the European Parliament and of the Council[68] (EU Water Framework Directive), Directive 2008/56/EC of the European Parliament and of the Council[69] (EU Marine Strategy Framework Directive), Directive 2014/89/EU of the European Parliament and of the Council[70] (EU Maritime Spatial Planning Directive), the Sustainable Development Goals (in particular SDG 6 Clean water and sanitation and 14 Life below water), and respect of global environmental limits (e.g. ***biosphere integrity***, ocean acidification, ***freshwater*** use, and biogeochemical flows ***planetary boundaries***);

   (d) the plans and capacity of the undertaking to adapt its strategy and ***business model*** in line with the promotion of sustainable water use based on long-term protection of available water resources; protection of aquatic ***ecosystems*** and restoration of ***freshwater*** and marine ***habitats***;

   (e) the nature, type and extent of the undertaking's material ***risks*** and ***opportunities*** arising from the undertaking's ***impacts*** and ***dependencies*** on water and ***marine resources***, and how the undertaking manages them; and

[68] Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy (Water Framework Directive) (OJ L 327, 22.12.2000, p. 1).

[69] Directive 2008/56/EC of the European Parliament and of the Council of 17 June 2008 establishing a framework for community action in the field of marine environmental policy (Marine Strategy Framework Directive) (OJ L 164, 25.6.2008, p. 19).

[70] Directive 2014/89/EU of the European Parliament and of the Council of 23 July 2014 establishing a framework for maritime spatial planning (OJ L 257, 28.8.2014, p. 135).

(f) the ***financial effects*** on the undertaking over the short-, medium- and long-term of material risks and opportunities arising from the undertaking's impacts and ***dependencies*** on water and marine resources.

2. This Standard sets out Disclosure Requirements related to water and ***marine resources***. With regard to "water", this standard covers ***surface water*** and ***groundwater***. It includes disclosure requirements on ***water consumption*** in the undertaking's activities, products and services, as well as related information on ***water withdrawals*** and ***water discharges***.

3. With regard to "***marine resources***", this standard covers the extraction and use of such resources, and associated economic activities.

Interaction with other ESRS

4. The topic of water and ***marine resources*** is closely connected to other environmental sub-topics such as climate change, ***pollution***, ***biodiversity*** and circular economy. Thus, to provide a comprehensive overview of what could be material to water and marine resources, relevant Disclosure Requirements are covered in other environmental ESRS as follows:

   (a) ESRS E1 *Climate change*, which addresses, in particular, acute and chronic ***physical risks*** which arise from water and ocean-related hazards caused or exacerbated by climate change, including increasing water temperature, changing precipitation patterns and types (rain, hail, snow/ice), precipitation or hydrological variability, ocean acidification, saline intrusion, sea level rise, drought, high water stress, heavy precipitation, flood and glacial lake outbursts;

   (b) ESRS E2 *Pollution*, which addresses, in particular, the ***emissions*** to water, which includes emissions to oceans, and the use and generation of microplastics;

   (c) ESRS E4 *Biodiversity and ecosystems*, which addresses, in particular, the conservation and sustainable use of and impact on ***freshwater*** aquatic ***ecosystems*** as well as the oceans and seas; and

   (d) ESRS E5 *Resource use and circular economy* which addresses in particular ***waste management*** including plastic, and the transition towards the extraction of non-renewable resources of ***wastewater***; reduced use of plastic; and the ***recycling*** of wastewater.

5. The undertaking's impacts on water and ***marine resources*** affect people and communities. Material negative impacts on ***affected communities*** from water and ***marine resources***-related impacts attributable to the undertaking are covered in ESRS S3 *Affected communities*.

6. This Standard should be read in conjunction with ESRS 1 *General requirements* and ESRS 2 *General disclosures*.

Disclosure requirements

ESRS 2 General disclosures

7. The requirements of this section should be read in conjunction with and reported alongside the disclosures required by ESRS 2 chapter 4 *Impact, risk and opportunity management*.

Impact, risk and opportunity management

Disclosure Requirement related to ESRS 2 IRO-1 – Description of the processes to identify and assess material water and marine resources-related impacts, risks and opportunities

8. The undertaking shall describe the process to identify material impacts, risks and

opportunities and shall provide information on:

(a) whether and how the undertaking it has screened its assets and activities in order to identify its actual and potential water and ***marine resources***-related ***impacts, risks*** and ***opportunities*** in its own operations and its upstream and downstream ***value chain***, and if so the methodologies, assumptions and tools used in the screening;

(b) whether and how it has conducted consultations, in particular, with affected communities[71].

Disclosure Requirement E3-1 – Policies related to water and marine resources

9. **The undertaking shall describe its policies adopted to manage its material impacts, risks and opportunities related to water and marine resources[72].**

10. The objective of this Disclosure Requirement is to enable an understanding of the extent to which the undertaking has ***policies*** that address the identification, assessment, management and/or ***remediation*** of its material water and ***marine resources***-related ***impacts, risks*** and ***opportunities***.

11. The disclosure required by paragraph 9 shall contain the information on the ***policies*** the undertaking has in place to manage its material ***impacts, risks*** and ***opportunities*** related to water and ***marine resources*** in accordance with ESRS 2 MDR-P *Policies adopted to manage material sustainability matters*.

12. The undertaking shall indicate whether and how its ***policies*** address the following matters where material:

    (a) water management including:

        i. the use and sourcing of water and ***marine resources*** in its own operations;

        ii. water treatment as a step towards more sustainable sourcing of water; and

        iii. the prevention and abatement of water ***pollution*** resulting from its activities.

    (b) product and service design in view of addressing water-related issues and the preservation of marine resources; and

    (c) commitment to reduce material ***water consumption*** in ***areas at water risk*** in its own operations and along the upstream and downstream ***value chain.***

13. If at least one of the ***sites*** of the undertaking is located in an area of high-water stress and it is not covered by a ***policy***, the undertaking shall state this to be the case and provide reasons for not having adopted such a policy. The undertaking may disclose a timeframe in which it aims to adopt such a policy.[73]

14. The undertaking shall specify whether it has adopted ***policies*** or practices related to sustainable oceans and seas[74].

[71] Source: IFC Performance Standard 6, 2012.

[72] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #7 in Table II of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Investments in companies without water management policies").

[73] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #8 in Table II of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Exposure to areas of high water stress").

[74] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #12 in Table II of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Investments in companies without sustainable oceans/seas practices").

Disclosure Requirement E3-2 – Actions and resources related to water and marine resources

15. **The undertaking shall disclose its water and marine resources-related actions and the resources allocated to their implementation.**

16. The objective of this Disclosure Requirement is to enable an understanding of the key ***actions*** taken and planned to achieve the water and ***marine resources***-related ***policy*** objectives and ***targets***.

17. The description of the ***actions*** and resources shall follow the principles defined in ESRS 2 MDR-A *Actions and resources in relation to material sustainability matters*. In addition to ESRS 2 MDR-A, the undertaking may specify to which layer in the mitigation hierarchy an action and

18. Resources can be allocated to:

    (a) avoid the use of water and ***marine resources***;

    (b) reduce the use of water and marine resources such as through efficiency measures;

    (c) reclaiming and reuse of water; or

    (d) restoration and ***regeneration*** of aquatic ecosystem and water bodies.

19. The undertaking shall specify ***actions*** and resources in relation to ***areas at water risk***, including ***areas of high-water stress***.

Metrics and targets

Disclosure Requirement E3-3 – Targets related to water and marine resources

20. ***The undertaking shall disclose the water and marine resources-related targets it has set.***

21. The objective of this Disclosure Requirement is to enable an understanding of the targets the undertaking has adopted to support its water and marine resources-related policies and address its material water and marine resources-related impacts, risks and opportunities.

22. The description of the targets shall contain the information requirements defined in ESRS 2 MDR-T Tracking effectiveness of policies and actions through targets.

23. The disclosure required by paragraph 20 shall indicate whether and how its ***targets*** relate to:

    (a) the management of material ***impacts, risks*** and ***opportunities*** related to ***areas at water risk***, including improvement of the water quality;

    (b) the responsible management of ***marine resources*** impacts, risks and opportunities including the nature and quantity of marine resources-related commodities (such as gravels, deep-sea minerals, seafood) used by the undertaking; and

    (c) the reduction of ***water consumption***, including an explanation of how those targets relate to areas at water risk, including areas of high water-stress.

24. In addition to ESRS 2 MDR-T, the undertaking may specify whether ***ecological thresholds*** and entity-specific allocations were taken into consideration when setting ***targets***. If so, the undertaking may specify:

    (a) the ecological thresholds identified, and the methodology used to identify such thresholds;

    (b) whether or not the thresholds are entity-specific and if so, how they were determined; and

(c) how responsibility for respecting identified ecological thresholds is allocated in the undertaking.

25. The undertaking shall specify as part of the contextual information, whether the ***targets*** it has set and presented are mandatory (required by legislation) or voluntary.

Disclosure Requirement E3-4 – Water consumption

26. **The undertaking shall disclose information on its water consumption performance related to its material impacts, risks and opportunities.**

27. The objective of this Disclosure Requirement is to provide an understanding of the undertaking's water consumption and any progress by the undertaking in relation to its ***targets.***

28. The disclosure required by paragraph 26 relates to own operations and shall include:

(a) total ***water consumption*** in m^3;

(b) total water consumption in m^3 in areas at water risk, including ***areas of high-water stress***;

(c) total water recycled and reused in m^3;[75]

(d) total water stored and changes in storage in m^3; and

(e) any contextual information necessary regarding points (a) to (d), including the water basins' water quality and quantity, how the data have been compiled, such as any standards, methodologies, and assumptions used, including whether the information is calculated, estimated, modelled, or sourced from direct measurements, and the approach taken for this, such as the use of any sector-specific factors.

29. The undertaking shall provide information on its ***water intensity***: total ***water consumption*** in its own operations in m^3 per million EUR net revenue[76].

Disclosure Requirement E3-5 – Anticipated financial effects from material water and marine resources-related risks and opportunities

30. **The undertaking shall disclose the anticipated financial effects of material water and marine resources-related risks and opportunities.**

31. The information required by paragraph 30 is in addition to the information on current financial effects on the entity's financial position, financial performance and cash flows for the reporting period required under ESRS 2 SBM-3 para 48 (d).

32. The objective of this Disclosure Requirement is to provide an understanding of:

(a) ***anticipated financial effects*** due to material risks arising from water and ***marine resources***-related impacts and ***dependencies*** and how these risks have (or could reasonably be expected to have) a material influence on the undertaking's financial position, financial performance and cash flows, over the short-, medium- and long-term; and

[75] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #6.2 in Table II of Annex I of Commission Delegated Regulation (EU) 2022/1288 regarding disclosure rules on sustainable investments ("Water usage and recycling", 2. Weighted average percentage of water recycled and reused by investee companies).

[76] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #6.1 in Table II of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Water usage and recycling", 1. Average amount of water consumed by the investee companies (in cubic meters) per million EUR of revenue of investee companies).

(b) ***anticipated financial effects*** due to material opportunities related to water and marine resources.

33. The disclosure shall include:

(a) a quantification of the ***anticipated financial effects*** in monetary terms before considering water and marine resources-related actions or where not possible without undue cost or effort, qualitative information. For ***financial effects*** arising from opportunities, a quantification is not required if it would result in disclosure that does not meet the qualitative characteristics of information (see ESRS 1 Appendix B *Qualitative characteristics of information*);

(b) a description of the effects considered, the impacts and dependencies to which they relate, and the time horizons in which they are likely to materialise; and

(c) the critical assumptions used to quantify the anticipated financial effects, as well as the sources and level of uncertainty of those assumptions.

Appendix A: Application Requirements

This appendix is an integral part of the ESRS E3. It supports the application of the disclosure requirements set out in this standard and has the same authority as the other parts of the Standard.

ESRS 2 General disclosures

Impact, risk and opportunity management

Disclosure Requirement related to ESRS 2 IRO-1 – Description of the processes to identify and assess material water and marine resources-related impacts, risks and opportunities

AR 1. When conducting a ***materiality*** assessment on environmental subtopics, the undertaking shall assess the materiality of water and marine resources in its own operations and its upstream and downstream value chain, and may consider the four phases below, also known as the LEAP approach:

(a) Phase 1: locate where in its own operations and along the ***value chain*** the interface with nature takes place;

(b) Phase 2: evaluate the ***dependencies*** and ***impacts***;

(c) Phase 3: assess the material ***risks*** and ***opportunities***; and

(d) Phase 4: prepare and report the results of the materiality assessment.

AR 2. The ***materiality*** assessment for ESRS E3 corresponds to the first three phases of this LEAP approach, the fourth phase addresses the outcome of the process.

AR 3. The processes to assess the ***materiality*** of ***impacts, risks*** and ***opportunities*** shall consider the provisions in ESRS 2 IRO-1 *Description of the processes to identify and assess material impacts, risks and opportunities*, and IRO-2 *Disclosure Requirements in ESRS covered by the undertaking's sustainability statement*.

AR 4. The sub-topics related to water and marine resources covered by the ***materiality*** assessment include:

(a) water, which encompasses the consumption of ***surface water***, ***groundwater***, as well as withdrawals and ***discharges*** of water; and

(b) ***marine resources***, which encompasses the extraction and use of such resources and associated economic activities.

AR 5. In phase 1, to locate where there are areas at water risk, and areas where there is an interface with ***marine resources*** that could lead to material impacts and ***dependencies*** in its own operations and along its upstream and downstream value chain, the undertaking may consider:

(a) the locations of direct assets and operations and related upstream and downstream activities across the ***value chain***;

(b) the ***sites*** located in ***areas at water risk***, including areas of high-water stress; and

(c) the sectors or business units that are interfacing with water or marine resources in these priority locations.

AR 6. The undertaking shall consider river basins as the relevant level for assessment of locations and combine that approach with an operational risk assessment of its facilities and the facilities of ***suppliers*** with material impacts and risks.

AR 7. The undertaking shall consider the criteria for defining the status of water bodies according to the relevant Annexes of Directive 2000/60/EC (Water Framework Directive) as well as the guidance documents provided for implementation of the Water Framework Directive. The list of guidance documents can be accessed under the European Commission's Environment home page.

AR 8. In phase 2, to evaluate its impacts and ***dependencies*** for each priority location identified under AR 5, the undertaking may:

(a) identify business processes and activities that lead to impacts and dependencies on environmental assets and ***ecosystem services***;

(b) identify water and ***marine resources***-related impacts and dependencies across the undertaking's value chain; and

(c) assess the severity and likelihood of the positive and negative impacts on water and marine resources.

AR 9. For the identification of water and ***marine resources***-related ***dependencies***, the undertaking may rely on international classifications such as the Common International Classification of Ecosystem Services (CICES).

AR 10. When identifying its ***marine resources***-related ***dependencies***, the undertaking shall consider if it depends upon key marine resources-related commodities, including but not limited to gravels and seafood products.

AR 11. ***Marine resources*** are defined according to their use by human societies and must be considered in relation to the pressure they are subject to. Some of the pressure indicators are presented in other ESRS, namely microplastics and ***emissions*** to water in ESRS E2 and plastic ***waste*** in ESRS E5.

AR 12. Examples of ***marine resources dependencies*** which may be considered by the undertaking are:

(a) dependencies on commercially exploited fish and shellfish in its own operations and its upstream and downstream value chain; and

(b) fishing activity that involves mobile bottom trawling, which can also have negative impacts on the seabed.

AR 13. In Phase 3, to assess its material ***risks*** and ***opportunities*** based on the results of Phases 1 and 2, the undertaking may :

(a) identify ***transition risks*** and ***opportunities*** in its own operations and its ***value chain*** by the categories of:

i. ***policy*** and legal: e.g., introduction of regulation or policy (e.g., changes such as increased water protection, increased quality of water regulations, regulation of flows of water supply), ineffective governance of water bodies or ***marine***

resources, in particular across boundaries (e.g., transboundary governance and cooperation) resulting in water or oceans ***degradation***, exposure to sanctions and litigation (e.g., non-respect of permits or allocations; negligence towards or killing of threatened marine species), enhanced reporting obligations on marine ecosystems and related services;

ii. technology: e.g., substitution of products or services by products or services with a lower impact on water and marine resources, transition to more efficient and cleaner technologies (i.e., with lower impacts on oceans and water), new monitoring technologies (e.g., satellite), water purification, flood protection;

iii. market: e.g., shifting supply, demand and financing, volatility or increased costs of water or marine resources;

iv. reputation: e.g., changing societal, customer or community perceptions as a result of an organisation's impact on water and marine resources; and

v. contribution to ***systemic risks*** via its own operations and its upstream and downstream value chain, including the risks that a marine ecosystem collapses or the risks that a critical natural system no longer functions (e.g., tipping points are reached, summing physical risks);

(b) identify physical risk including water quantity (***water scarcity***, water stress), water quality, infrastructure decay or unavailability of some marine resources-related commodities (e.g. the rarefaction of some species of fish or other underwater marine living organisms sold as products by the undertaking) leading for instance to the impossibility of running operations in certain geographical areas;

(c) identify opportunities categorised by:

i. resource efficiency: e.g., transition to more efficient services and processes requiring less water and marine resources;

ii. markets: e.g., development of less resource-intense products and services, diversification of business activities;

iii. financing: e.g., access to green funds, bonds or loans;

iv. resilience: e.g., diversification of marine or water resources and business activities (e.g., starting a new business unit on ***ecosystem restoration***), investing in green infrastructures, ***nature-based solutions***, adopting ***recycling*** and circularity mechanisms that reduce the ***dependencies*** on water or marine resources; and

v. reputation: positive ***stakeholder engagement*** as a result of a proactive stance on managing nature-related risks (e.g., leading to preferred partner status).

AR 14. The undertaking may rely on primary, secondary or modelled data collection or other relevant approaches to assess material impacts, ***dependencies***, risks and opportunities, including Commission Recommendation 2021/2279 on the use of the Environmental Footprint methods to measure and communicate the life cycle environmental performance of products and organisations (Annex I – Product Environmental Footprint; Annex III – Organisation Environmental Footprint).

AR 15. When providing information on the outcome of the ***materiality*** assessment, the undertaking shall consider:

(a) a list of geographical areas where water is a material issue for the undertaking's own operations and its upstream and downstream value chain;

(b) a list of ***marine resources***-related commodities used by the undertaking which are material to the good environmental status of marine waters as well as for the protection of marine resources; and

(c) a list of sectors or segments associated with water and marine resources material impacts, risks and opportunities.

Disclosure Requirement E3-1 – Policies related to water and marine resources

AR 16. The ***policies*** described under this Disclosure Requirement may be integrated in broader environmental or sustainability policies covering different subtopics.

AR 17. When disclosing information under paragraph 9, the undertaking may disclose whether its ***policies*** :

(a) prevent further deterioration and protect and enhance the status of water bodies and aquatic ***ecosystems***;

(b) promote sustainable water use based on a long-term protection of available water resources;

(c) aim at enhanced protection and improvement of the aquatic environment;

(d) promote a good environmental status of marine water; and

(e) promote reduction of ***water withdrawals*** and ***water discharges***.

AR 18. The undertaking may also disclose information about ***policies*** which:

(a) contribute to good ecological and chemical quality of ***surface water*** bodies and good chemical quality and quantity of groundwater bodies, in order to protect human health, water supply, natural ***ecosystems*** and biodiversity, the good environmental status of marine waters and the protection of the resource base upon which marine related activities depend;

(b) minimise material ***impacts*** and ***risks*** and implement mitigation measures that aim to maintain the value and functionality of priority services and to increase resource efficiency on own operations; and

(c) avoid impacts on ***affected communities***.

Disclosure Requirement E3-2 – Actions and resources related to water and marine resources policies

AR 19. When disclosing information required under paragraph 15, the undertaking shall consider the ***actions***, or action plans, contributing to address the material impacts, risks and opportunities identified. Useful guidance is provided by the Alliance for Water Stewardship (AWS).

AR 20. Considering that water and ***marine resources*** are shared resources which may require collective ***actions***, or action plans, involving other ***stakeholders***, the undertaking may provide information on those specific collective actions, including information on other parties (competitors, ***suppliers***, retailers, customers, other business partners, local communities and authorities, government agencies…) and specific information on the project, its specific contribution, its sponsors and other participants.

AR 21. When providing information on capital expenditures, the undertaking may consider expenditures related, for example, to stormwater drain rehabilitation, pipelines, or machinery used to manufacture new low water-use products.

Metrics and targets

Disclosure Requirement E3-3 – Targets related to water and marine resources

AR 22. If the undertaking refers to ***ecological thresholds*** when setting ***targets***, it may refer to the guidance provided by the Science-Based Targets Initiative for Nature (SBTN) in its interim guidance (Initial Guidance for Business, September 2020). It may also refer to any other

guidance with a scientifically acknowledged methodology that enables the setting of science-based targets by identifying ecological thresholds and, if applicable, organisation-specific allocations. Ecological thresholds can be local, national and/or global.

AR 23. The undertaking may provide ***targets*** relating to:

(a) the reduction of ***water withdrawals***; and

(b) the reduction of ***water discharges***.

AR 24. If the undertaking provides ***targets*** on withdrawals, it may include ***water withdrawal*** from polluted ***soils*** and aquifers, and water withdrawn and treated for ***remediation*** purposes.

AR 25. If the undertaking provides ***targets*** on ***discharges***, it may include ***water discharges*** to ***groundwater*** such as reinjection to aquifers, or water returning to a groundwater source via a soakaway or a swale.

AR 26. The ***targets*** may cover its own operations and/or its upstream and downstream value chain.

AR 27. The undertaking may specify whether the ***target*** addresses shortcomings related to the Substantial Contribution criteria for Water and Marine Resources as defined in the Commission delegated acts adopted pursuant to Article 12(2) of Regulation (EU) 2020/852. Where the Do No Significant Harm (DNSH) criteria for Water and Marine Resources as defined in delegated acts adopted pursuant to Article 10(3), Article 11(3), Article 13(2), Article 14(2), and Article 15(2) of Regulation (EU) 2020/852 are not met, the undertaking may specify whether the target addresses shortcomings related those DNSH criteria.

Disclosure Requirement E3-4 – Water consumption

AR 28. The undertaking may operate in various ***areas at water risk***. When disclosing information under paragraph 28 (b), the undertaking shall include such information only for those areas that have been identified as material in accordance with ESRS2 IRO-1 and ESRS2 SBM-3.

AR 29. When disclosing contextual information on water consumption performance required by paragraph 26, the undertaking shall explain the calculation methodologies and more specifically the share of the measure obtained from direct measurement, from sampling and extrapolation, or from best estimates.

AR 30. The undertaking may provide information on other breakdowns (i.e., per sector or segments).

AR 31. When disclosing information required by paragraph 29 the undertaking may provide additional intensity ratios based on other denominators.

AR 32. The undertaking may also provide information on its ***water withdrawals*** and ***water discharges***.

Disclosure Requirement E3-5 – Anticipated financial effects from material water and marine resources-related risks and opportunities

AR 33. The undertaking may include an assessment of its related products and services at risk over the short-, medium- and long-term, explaining how these are defined, how financial amounts are estimated, and which critical assumptions are made.

AR 34. The quantification of the ***anticipated financial effects*** in monetary terms under paragraph 39(a) may be a single amount or a range.

ESRS E4

BIODIVERSITY AND ECOSYSTEMS

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Objective

1. The objective of this Standard is to specify Disclosure Requirements which will enable users of the ***sustainability statement*** to understand:

   (a) how the undertaking affects ***biodiversity*** and ***ecosystems***, in terms of material positive and negative, actual and potential impacts, including the extent to which it contributes to the drivers of biodiversity and ecosystem loss and degradation;

   (b) any ***actions*** taken, and the result of such actions, to prevent or mitigate material negative actual or potential impacts and to protect and restore biodiversity and ecosystems, and to address risks and opportunities; and

   (c) the plans and capacity of the undertaking to adapt its strategy and ***business model*** in

line with:

i. respecting ***planetary boundaries*** related to ***biosphere integrity*** and ***land-system change***;

ii. the vision of the Kunming-Montreal Global Biodiversity Framework and its relevant goals and ***targets***;

iii. relevant aspects of the EU Biodiversity Strategy for 2030[77];

iv. Directive 2009/147/EC of the European Parliament and of the Council and Council Directive 92/43/EEC (EU Birds and Habitats Directives)[78]; and

v. Directive 2008/56/EC of the European Parliament and of the Council (Marine Strategy Framework Directive[79] ;

(d) the nature, type and extent of the undertaking's material risks, dependencies and opportunities related to biodiversity and ecosystems, and how the undertaking manages them; and

(e) the ***financial effects*** on the undertaking over the short-, medium- and long-term of material risks and opportunities arising from the undertaking's impacts and dependencies on biodiversity and ecosystems.

2. This Standard sets out Disclosure Requirements related to the undertaking's relationship to terrestrial, ***freshwater*** and marine ***habitats, ecosystems*** and populations of related fauna and flora species, including diversity within species, between species and of ecosystems and their interrelation with ***indigenous peoples*** and other affected communities.

3. The terms "***biodiversity***" and "***biological diversity***" refer to the variability among living organisms from all sources including, inter alia, terrestrial, ***freshwater***, marine and other aquatic ***ecosystems*** and the ecological complexes of which they are part.

Interaction with other ESRS

4. '***Biodiversity*** and ***ecosystems***' are closely connected to other environmental matters. The main direct drivers of biodiversity and ecosystems change are climate change, ***pollution***, land-use change, ***freshwater***-use change and sea-use change, direct exploitation of organisms and invasive alien species. These drivers are covered in this standard, except for climate change (covered by ESRS E1) and pollution (covered by ESRS E2).

5. To obtain a comprehensive understanding of material ***impacts*** and ***dependencies*** on ***biodiversity*** and ***ecosystems***, the Disclosure Requirements of other environmental ESRS should be read and interpreted in conjunction with the specific disclosure requirements of this Standard. The relevant disclosure requirements covered in other environmental ESRS are:

(a) ESRS E1 *Climate change*, which addresses in particular GHG ***emissions*** and energy resources (energy consumption);

(b) ESRS E2 *Pollution*, which addresses ***pollution*** to air, water and ***soil***;

(c) ESRS E3 *Water and marine resources* which addresses in particular water resources (water consumption) and ***marine resources***;

(d) ESRS E5 *Resource use and circular economy* addresses in particular the transition

[77] EU Biodiversity Strategy for 2030- Bringing nature back into our lives, COM/2020/380 final.
[78] Directive 2009/147/EC of the European Parliament and of the Council of 30 November 2009 on the conservation of wild birds (*OJ L 20, 26.1.2010, p. 7)* and Council Directive 92/43/EEC of 21 May 1992 on the conservation of natural habitats and of wild fauna and flora *(OJ L 206, 22.7.1992, p. 7).*
[79] Directive 2008/56/EC of the European Parliament and of the Council of 17 June 2008 establishing a framework for community action in the field of marine environmental policy (Marine Strategy Framework Directive) (*OJ L 164, 25.6.2008, p. 19).*

away from extraction of non-renewable resources and the implementation of practices that prevent ***waste*** generation, including pollution generated by waste.

6. The undertaking's impacts on ***biodiversity*** and ***ecosystems*** affect people and communities. When reporting on material negative impacts on ***affected communities*** from biodiversity and ecosystem change under ESRS E4, the undertaking shall consider the requirements of ESRS S3 *Affected communities*.

7. This Standard should be read in conjunction with ESRS 1 *General requirements* and ESRS 2 *General disclosures*.

Disclosure Requirements

ESRS 2 General disclosures

8. The requirements of this section shall be read in conjunction with the disclosures required by ESRS 2 *Chapter 2 Governance, Chapter 3 Strategy and Chapter 4 Impact, risk and opportunity management*.

9. The resulting disclosures shall be presented alongside the disclosures required by ESRS 2, except for ESRS 2 SBM-3, for which the undertaking has an option to present the disclosures alongside the topical disclosures.

10. In addition to the requirements in ESRS 2, this Standard also includes the topic specific Disclosure Requirement E4-1 *Transition plan and consideration of biodiversity and ecosystems in strategy and business model*.

Strategy

Disclosure Requirement E4-1 – Transition plan and consideration of biodiversity and ecosystems in strategy and business model

11. **The undertaking shall disclose how its biodiversity and ecosystem impacts, dependencies, risks and opportunities originate from and trigger adaptation of its strategy and business model.**

12. The objective of this Disclosure Requirement is to enable an understanding of the resilience of the undertaking's strategy and ***business model*** in relation to ***biodiversity*** and ***ecosystems***, and of the compatibility of the undertaking's strategy and business model with regard to relevant local, national and global public policy ***targets*** related to biodiversity and ecosystems.

13. The undertaking shall describe the resilience of its strategy and ***business model*** in relation to ***biodiversity*** and ***ecosystems***. The description shall include:

    (a) an assessment of the resilience of the current business model and strategy to biodiversity and ecosystems-related physical, transition and systemic risks;

    (b) the scope of the resilience analysis in relation to the undertaking's own operations and its upstream and downstream value chain and in relation to the risks considered in that analysis;

    (c) the key assumptions made;

    (d) the time horizons used;

    (e) the results of the resilience analysis; and

    (f) the involvement of stakeholders, including, where appropriate, holders of indigenous and local knowledge.

14. If information specified in this disclosure requirement is disclosed by the undertaking as part of the information required under ESRS 2 SBM-3, the undertaking may refer to the

information it has disclosed under ESRS 2 SBM-3.

15. The undertaking may disclose its ***transition plan*** to improve and, ultimately, achieve alignment of its ***business model*** and strategy with the vision of the Kunming-Montreal Global Biodiversity Framework and its relevant goals and targets, the EU Biodiversity Strategy for 2030, and with respecting ***planetary boundaries*** related to biosphere integrity and ***land-system change***.

Disclosure Requirement SBM 3 – Material impacts, risks and opportunities and their interaction with strategy and business model

16. The undertaking shall disclose:

    (a) a list of material ***sites*** in its own operations, including sites under its operational control, based on the results of paragraph 17(a). The undertaking shall disclose these locations by:

        i. specifying the activities negatively affecting ***biodiversity sensitive areas***[80];

        ii. providing a breakdown of sites according to the ***impacts*** and ***dependencies*** identified, and to the ecological status of the areas (with reference to the specific ecosystem baseline level) where they are located; and

        iii. specifying the ***biodiversity-sensitive areas*** impacted, for users to be able to determine the location and the responsible competent authority with regards to the activities specified in paragraph 16(a) i.

    (b) whether it has identified material negative impacts with regards to ***land degradation***, ***desertification*** or ***soil sealing***[81]; and

    (c) whether it has operations that affect ***threatened species***[82].

Impact, risk and opportunity management

Disclosure Requirement related to ESRS 2 IRO-1 Description of processes to identify and assess material biodiversity and ecosystem-related impacts, risks, dependencies andopportunities

17. The undertaking shall describe its process to identify material impacts, risks, dependencies and opportunities. The description of the process shall include whether and how the undertaking:

    (a) identified and assessed actual and potential impacts on ***biodiversity*** and ***ecosystems*** at own ***site*** locations and in the upstream and downstream value chain, including assessment criteria applied;

    (b) identified and assessed ***dependencies*** on biodiversity and ecosystems and their

[80] This information supports the information needs of financial markets participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #7 in Table 1 Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments (“Activities negatively affecting biodiversity-sensitive areas”).

[81] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impact as set out by indicator #10 in Table 2 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments (“Land degradation, desertification, soil sealing”).

[82] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impact as set out by indicator #14 in Table 2 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments (“Natural species and protected areas”).

services at own site locations and in the upstream and downstream value chain, including assessment criteria applied, and, if this assessment includes ***ecosystem services*** that are disrupted orlikely to be;

(c) identified and assessed ***transition*** and ***physical risks*** and opportunities related to biodiversity and ecosystems, including assessment criteria applied based on its impacts and dependencies;

(d) considered ***systemic risks***;

(e) conducted consultations with ***affected communities*** on sustainability assessments of shared biological resources and ***ecosystems*** and, in particular:

i. when a site, a ***raw material*** production or sourcing is likely to negatively impact biodiversity and ecosystems, the identification of the specific sites, raw materials production or sourcing with negative or potentially negative impacts on affected communities;

ii. when affected communities are likely to be impacted, the undertaking, shall disclose how these communities were involved in the ***materiality*** assessment; and

iii. with respect to impacts on ***ecosystem services*** of relevance to affected communities in its own operations, the undertaking shall indicate how negative impacts may be avoided. If these impacts are unavoidable, the undertaking may indicate its plans to minimise them and implement mitigation measures that aim to maintain the value and functionality of priority services.

18. The undertaking may disclose whether and how it has used ***biodiversity*** and ***ecosystems scenario analysis*** to inform the identification and assessment of material risks and opportunities over short-, medium- and long-term time horizons. If the undertaking has used such scenario analysis, it may disclose the following information:

(a) why the considered ***scenarios*** were selected;

(b) how the considered scenarios are updated according to evolving conditions and emerging trends; and

(c) whether the scenarios are informed by expectations published by authoritative intergovernmental bodies, such as the Convention for Biological Diversity and, where relevant, by scientific consensus, such as that expressed by the Intergovernmental Science-policy Platform on Biodiversity and Ecosystem Services (IPBES).

19. The undertaking shall specifically disclose:

(a) whether or not it has ***sites*** located in or near ***biodiversity-sensitive areas*** and whether activities related to these sites negatively affect these areas by leading to the deterioration of natural ***habitats*** and the habitats of species and to the disturbance of the species for which a ***protected area*** has been designated; and

(b) whether it has been concluded that it is necessary to implement biodiversity mitigation measures, such as those identified in: Directive 2009/147/EC of the European Parliament and of the Council on the conservation of wild birds; Council Directive 92/43/EEC on the conservation of natural habitats and of wild fauna and flora; an Environmental Impact Assessment (EIA) as defined in Article 1(2), point (g), of Directive 2011/92/EU of the European Parliament and of the Council[83] on the assessment of the effects of certain public and private projects on the environment; and for activities located in third countries, in accordance with equivalent national provisions or international standards, such as the International Finance Corporation (IFC) Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources.

[83] Directive 2011/92/EU of the European Parliament and of the Council of 13 December 2011 on the assessment of the effects of certain public and private projects on the environment (OJ L 26, 28.1.2012, p. 1).

Disclosure Requirement E4-2 – Policies related to biodiversity and ecosystems

20. The undertaking shall describe its adopted policies to manage its material impacts, risks, dependencies, and opportunities related to biodiversity and ecosystems.

21. The objective of this Disclosure Requirement is to enable an understanding of the extent to which the undertaking has ***policies*** that address the identification, assessment, management and/or ***remediation*** of its material ***biodiversity*** and ***ecosystem***- related ***impacts***, ***dependencies***, ***risks*** and ***opportunities***.

22. The disclosure required by paragraph 20 shall contain the information on the ***policies*** the undertaking has in place to manage its material ***impacts, risks, dependencies*** and ***opportunities*** related to ***biodiversity*** and ***ecosystems*** in accordance with *ESRS 2 MDR-P Policies adopted to manage material sustainability matters*).

23. In addition to the provisions of ESRS 2 MDR-P the undertaking shall describe whether and how its ***biodiversity*** and ***ecosystems***-related ***policies***:

    (a) relate to the matters specified in ESRS E4 AR 4;

    (b) relate to its material biodiversity and ecosystems-related impacts;

    (c) relate to material dependencies and material physical and transition risks and opportunities;

    (d) support traceability of products, components and raw materials with material actual or potential impacts on biodiversity and ecosystems along the ***value chain***;

    (e) address production, sourcing or consumption from ecosystems that are managed to maintain or enhance conditions for biodiversity, as demonstrated by regular monitoring and reporting of biodiversity status and gains or losses; and

    (f) address social consequences of biodiversity and ecosystems-related impacts.

24. The undertaking shall specifically disclose whether it has adopted:

    (a) ***biodiversity*** and ***ecosystem*** protection ***policy*** covering operational ***sites*** owned, leased, or managed in or near a ***biodiversity sensitive area;***

    (b) sustainable land / agriculture practices or policies[84];

    (c) sustainable oceans / seas practices or policies[85]; and

    (d) policies to address ***deforestation***[86].

Disclosure Requirement E4-3 – Actions and resources related to biodiversity and ecosystems

[84] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impact as set out by indicator #11 in Table II of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Investments in companies without sustainable land/agriculture practices").

[85] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impact as set out by indicator #12 in Table II of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Investments in companies without sustainable oceans/seas practices").

[86] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impact as set out by indicator #15 in Table II of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Deforestation").

25. The undertaking shall disclose its biodiversity and ecosystems-related actions and the resources allocated to their implementation.

26. The objective of this Disclosure Requirement is to enable an understanding of the key ***actions*** taken and planned that significantly contribute to the achievement of ***biodiversity*** and ***ecosystems***-related ***policy*** objectives and ***targets***.

27. The description of key ***actions*** and resources shall follow the mandatory content defined in ESRS 2 MDR-A *Actions and resources in relation to material sustainability matters*.

28. In addition, the undertaking :

(a) may disclose how it has applied the mitigation hierarchy with regard to its actions (avoidance, minimisation, restoration/rehabilitation, and compensation or offsets);

(b) shall disclose whether it used ***biodiversity*** offsets in its action plans. If the ***actions*** contain biodiversity offsets, the undertaking shall include the following information:

i. the aim of the offset and key performance indicators used;

ii. the financing effects (direct and indirect costs) of biodiversity offsets in monetary terms; and;

iii. a description of offsets including area, type, the quality criteria applied and the standards that the biodiversity offsets comply with;

(c) shall describe whether and how it has incorporated local and indigenous knowledge and nature-based solutions into biodiversity and ***ecosystems***-related actions.

Metrics and targets

Disclosure Requirement E4-4 – Targets related to biodiversity and ecosystems

29. The undertaking shall disclose the biodiversity and ecosystem-related targets it has set.

30. The objective of this Disclosure Requirement is to allow an understanding of the ***targets*** the undertaking has adopted to support its ***biodiversity*** and ***ecosystems policies*** and address its material related ***impacts***, ***dependencies***, ***risks*** and ***opportunities***.

31. The description of the ***targets*** shall follow the mandatory content defined in ESRS 2 MDR-T *Tracking effectiveness of policies and actions through targets*.

32. The disclosure required by paragraph 29 shall include the following information:

(a) whether ***ecological thresholds*** and allocations of impacts to the undertaking were applied when setting ***targets.*** If so, the undertaking shall specify:

i. the ecological thresholds identified and the methodology used to identify such thresholds;

ii. whether or not the thresholds are entity-specific and if so, how they were determined; and

iii. how responsibility for respecting identified ecological thresholds is allocated in the undertaking;

(b) whether the targets are informed by, and/or aligned with the Kunming-Montreal Global Biodiversity Framework, relevant aspects of the EU Biodiversity Strategy for 2030 and other ***biodiversity*** and ***ecosystem***-related national ***policies*** and legislation;

(c) how the targets relate to the biodiversity and ecosystem impacts, dependencies, risks and opportunities identified by the undertaking in relation to its own operations and its upstream and downstream value chain;

(d) the geographical scope of the targets, if relevant;

(e) whether or not the undertaking used biodiversity offsets in setting its targets; and

(f) to which of the layers of the mitigation hierarchy the target can be allocated (i.e., avoidance, minimisation, restoration and rehabilitation, compensation or offsets).

Disclosure Requirement E4-5 – Impact metrics related to biodiversity and ecosystems change

33. The undertaking shall report metrics related to its material impacts on *biodiversity* and *ecosystems*.

34. The objective of this Disclosure Requirement is to enable an understanding of the performance of the undertaking against impacts identified as material in the ***materiality*** assessment on ***biodiversity*** and ***ecosystems*** change.

35. If the undertaking identified ***sites*** located in or near ***biodiversity-sensitive areas*** that it is negatively affecting (see paragraph 19(a)), the undertaking shall disclose the number and area (in hectares) of sites owned, leased or managed in or near these protected areas or key ***biodiversity*** areas.

36. If the undertaking has identified material impacts with regards to land-use change, or impacts on the extent and condition of ***ecosystems***, it may also disclose their land-use based on a Life Cycle Assessment.

37. For datapoints specified in paragraphs 38 to 41, the undertaking shall consider its own operations.

38. If the undertaking has concluded that it directly contributes to the ***impact drivers*** of ***land-use change***, ***freshwater***-use change and/or sea-use change, it shall report relevant ***metrics.*** The undertaking may disclose metrics that measure:

    (a) the conversion over time (e.g. 1 or 5 years) of land cover (e.g. ***deforestation*** or mining);

    (b) changes over time (e.g. 1 or 5 years) in the management of the ecosystem (e.g., through the intensification of agricultural management, or the application of better management practices or forestry harvesting);

    (c) changes in the spatial configuration of the landscape (e.g. fragmentation of ***habitats,*** changes in ecosystem connectivity);

    (d) changes in ecosystem structural connectivity (e.g. habitat permeability based on physical features and arrangements of habitat patches); and

    (e) the functional connectivity (e.g. how well genes or individuals move through land, freshwater and seascape).

39. If the undertaking concluded that it directly contributes to the accidental or voluntary introduction of invasive alien species, the undertaking may disclose the ***metrics*** it uses to manage pathways of introduction and spread of ***invasive alien species*** and the risks posed by invasive alien species.

40. If the undertaking identified material impacts related to the state of species, the undertaking may report ***metrics*** it considers relevant. The undertaking may:

    (a) refer to relevant disclosure requirements in ESRS E1, ESRS E2, ESRS E3, and ESRS E5;

    (b) consider population size, range within specific ***ecosystems*** as well as extinction risk. These aspects provide insight on the health of a single species' population and its relative resilience to human induced and naturally occurring change;

    (c) disclose metrics that measure changes in the number of individuals of a species within a specific area;

(d) disclose metrics on species at extinction risk[87] that measure:

i. the threat status of species and how activities/pressures may affect the threat status; or

ii. changes in the relevant ***habitat*** for a ***threatened species*** as a proxy for the undertaking's impact on the local population's extinction risk.

41. If the undertaking identified material impacts related to ecosystems, it may disclose:

(a) with regard to ecosystems extent, ***metrics*** that measure area coverage of a particular ecosystem without necessarily considering the quality of the area being assessed, such as ***habitat*** cover. For example, forest cover is a measure of the extent of a particular ecosystem type, without factoring in the condition of the ecosystem (e.g., provides the area without describing the species diversity within the forest).

(b) with regard to ecosystems condition:

i. metrics that measure the quality of ecosystems relative to a pre-determined reference state;

ii. metrics that measure multiple species within an ecosystem rather than the number of individuals within a single species within an ecosystem (for example: scientifically established species richness and abundance indicators that measure the development of (native) species composition within an ecosystem against the reference state at the beginning of the first reportingperiod as well as the targeted state outlined in the Kunming-Montreal Global Biodiversity Framework, or an aggregation of species' conservation statusif relevant); or

iii. metrics that reflect structural components of condition such as habitat connectivity (i.e., how linked habitats are to eachother).

Disclosure Requirement E4-6 – Anticipated financial effects from material biodiversity and ecosystem-related risks and opportunities

42. The undertaking shall disclose its anticipated financial effects of material biodiversity- and ecosystem-related risks and opportunities.

43. The information required by paragraph 42 is in addition to the information on current financial effects on the entity's financial position, financial performance and cash flows for the reporting period required under ESRS 2 SBM-3 para 48 (d).

44. The objective of this Disclosure Requirement is to provide an understanding of:

(a) ***anticipated financial effects*** due to material risks arising from biodiversity- and ecosystem-related impacts and ***dependencies*** and how these risks have (or could reasonably be expected to have) a material influence on the undertaking's financial position, financial performance and cash flows over the short-, medium- and long-term; and

(b) anticipated financial effects due to material opportunities related to biodiversity- and ecosystem.

45. The disclosure shall include:

(a) a quantification of the ***anticipated financial effects*** in monetary terms before considering ***biodiversity*** and ***ecosystems***-related actions or where not possible without undue cost or effort, qualitative information. For ***financial effects*** arising from material opportunities, a quantification is not required if it would result in disclosure

[87] As indicated in the IUCN Red List of Threatened Species and the European Red List published by the European Commission.

that does not meet the qualitative characteristics of information (see ESRS 1 Appendix B *Qualitative characteristics of information*). The quantification of the anticipated financial effects in monetary terms may be a single amount or a range;

(b) a description of the effects considered, the impacts and ***dependencies*** to which they relate and the time horizons in which they are likely to materialise; and

(c) the critical assumptions used to quantify the anticipated financial effects as well as the sources and the levelof uncertainty of those assumptions.

Appendix A: Application Requirements

This appendix is an integral part of the ESRS E4. It supports the application of the disclosure requirements set out in this standard and has the same authority as the other parts of the standard.

ESRS 2 General disclosures

Strategy

Disclosure Requirement E4-1 – Transition plan and consideration of biodiversity and ecosystems in strategy and business model

AR 1. If disclosing a transition plan, the undertaking may:

(a) explain how it will adjust its strategy and ***business model*** to improve and, ultimately, achieve alignment with relevant local, national and global public policy goals and ***targets*** related to ***biodiversity*** and ***ecosystems*** including the vision of the Kunming-Montreal Global Biodiversity Framework and its relevant goals and targets, the EU Biodiversity Strategy for 2030, and Directive 2009/147/EC Council Directive 92/43/EEC (the EU Birds and Habitats Directives) and, as appropriate, ***planetary boundaries*** related to biosphere integrity and ***land-system change***;

(b) include information about its own operations and also explain how it is responding to material impacts in its upstream and downstream value chain identified in its materiality assessment in accordance with ESRS 2 IRO-1 Description of the processes to identify and assess material impacts, risks and opportunities;

(c) explain how its strategy interacts with its transition plan;

(d) explain how it contributes to addressing biodiversity and ecosystem impact drivers and its possible mitigation actions following the mitigation hierarchy and the main path-dependencies and locked-in assets and resources (e.g., plants, raw materials) that are associated with biodiversity and ecosystems change;

(e) explain and quantify its investments and funding supporting the implementation of its transition plan, with a reference to the key performance indicators of taxonomy-aligned CapEx, and where relevant the CapEx plans, that the undertaking discloses in accordance with Commission Delegated Regulation (EU) 2021/2178;

(f) if it has economic activities that are covered by delegated regulations on biodiversity under the Taxonomy Regulation, explain any objective or plans (CapEX, CapEx plans) that it has for aligning its economic activities (revenues, CapEx) with the criteria established in those delegated regulations;

(g) explain how biodiversity offsets are used as part of the transition plan, and if so, where the offsets are planned to be used, the extent of use in relation to the overall transition plan, and whether the mitigation hierarchy was considered;

(h) explain how the process of implementing and updating the transition plan is managed;

(i) explain how it measures progress, namely indicate the metrics and methodologies it

uses for that purpose;

(j) indicate whether the administrative, management and supervisory bodies have approved the transition plan; and

(k) indicate current challenges and limitations to draft a plan in relation to areas of significant impact and how the company is addressing those challenges.

AR 2. If disclosing a transition plan, the undertaking may, for example, refer to the following ***targets*** from the EU Biodiversity Strategy for 2030:

(a) The decline of pollinators is reversed.

(b) The risk and use of chemical pesticides is reduced by 50%, and the use of more hazardous pesticides is reduced by 50%.

(c) At least 25% of agricultural land is under organic farming management, and the uptake of agro-ecological practices is significantly increased.

(d) Three billion additional trees are planted in the EU, in full respect of ecological principles.

(e) Significant progress in the ***remediation*** of contaminated ***soil sites***.

(f) At least 25,000 km of free-flowing rivers are restored.

(g) The losses of nutrients from fertilisers are reduced by 50%, resulting in the reduction of the use of fertilisers by at least 20%.

(h) The negative impacts on sensitive species and habitats, including on the seabed through fishing and extraction activities, are substantially reduced to achieve good environmental status.

AR 3. If disclosing a transition plan, the undertaking may also refer to the Sustainable Development Goals, in particular:

(a) SDG 2 - End hunger, achieve food security and improved nutrition and promote sustainable agriculture;

(b) SDG 6 - Ensure availability and sustainable management of water and sanitation for all;

(c) SDG 14 - Conserve and sustainably use the oceans, seas and ***marine resources*** for sustainable development; and

(d) SDG 15 - Protect, restore and promote sustainable use of terrestrial ***ecosystems***, sustainably manage forests, combat ***desertification***, and halt and reverse ***land degradation*** and halt ***biodiversity loss***.

Impact, risk and opportunity management

Disclosure requirements related to ESRS 2 IRO-1 – Description of the processes to identify and assess material biodiversity and ecosystem-related impacts, risks and opportunities

AR 4. The ***materiality*** assessment under ESRS E4 includes the undertaking's:

(a) contribution to direct ***impact drivers*** on ***biodiversity loss***[88]:

i. climate change;

ii. ***land-use change*** (e.g., land artificialisation), ***freshwater***-use change and sea-

[88] The direct driver climate change is to be reported under ESRS E1 Climate Change and pollution under ESRS E2 Pollution.

use change;

iii. direct exploitation;

iv. ***invasive alien species***;

v. ***pollution;*** and

vi. others.

(b) ***impacts*** on the state of species (i.e., species population size, species global extinction risk);

(c) impacts on the extent and condition of ***ecosystems*** including through ***land degradation***, ***desertification*** and ***soil sealing***); and

(d) impacts and ***dependencies*** on ***ecosystem services.***

AR 5. When assessing the ***materiality*** of ***impacts***, ***dependencies***, ***risks*** and ***opportunities*** the undertaking shall consider the provisions in ESRS 2 IRO-1 and ESRS 1 Chapter 3 *Double materiality as the basis for sustainability disclosures* and describe its considerations.

AR 6. The undertaking shall assess the materiality of biodiversity and ecosystems in its own operations and its upstream and downstream ***value chain***, and may conduct its ***materiality*** assessment in line with the first three phases of the LEAP approach: Locate (paragraph AR 7), Evaluate (paragraph AR 8) and Assess (paragraph AR 9).

AR 7. Phase 1 relates to the localisation of relevant ***sites*** regarding its interface with ***biodiversity*** and ***ecosystems***. To identify these relevant sites the undertaking may:

(a) develop a list of locations of direct assets and operations and related upstream and downstream ***value chain*** that are relevant to the undertakings business activities. Furthermore, the undertaking may provide information about sites for which future operations have been formally announced;

(b) list the biomes and ecosystems it is interfacing with based on the list of locations identified under paragraph AR 7(a);

(c) identify the current integrity and importance of biodiversity and ecosystem at each location taking into consideration the information provided in paragraphs 16 and 17;

(d) develop a list of locations where the undertaking is interfacing with locations in or near ***biodiversity-sensitive areas*** taking into consideration the information provided in paragraphs 16 and 17; and

(e) identify which sectors, business units, value chains or asset classes are interfacing with biodiversity and ecosystems in these material sites. Instead of identifying these interfaces per site, the undertaking may choose to identify them per ***raw material*** procured or sold by weight in tons, if such practice offers greater transparency.

AR 8. In Phase 2, to evaluate its actual or potential impacts and ***dependencies*** on ***biodiversity*** and ***ecosystems*** for relevant ***sites***, the undertaking may:

(a) identify business processes and activities that interface with biodiversity and ecosystems;

(b) identify actual and potential impacts and dependencies;

(c) indicate the size, scale, frequency of occurrence and timeframe of the impacts on biodiversity and ecosystems taking into consideration the disclosures under paragraphs 16 and 17. Furthermore, the undertaking may disclose:

i. the percentage of its ***suppliers***' facilities which are located in risk prone areas (with ***threatened species*** on the IUCN Red List of Species, the Birds and Habitats Directive or nationally list of threatened species, or in officially recognised Protected Areas, the Natura 2000 network of protected areas and Key Biodiversity Areas);

ii. the percentage of its procurement spend from suppliers with facilities which are located in risk prone areas (with threatened species on the IUCN Red List of

Species, the Birds and Habitats Directive or nationallylist of threatened species, or in officially recognised Protected Areas, the Natura 2000 network of protected areas and Key Biodiversity Areas); and

(d) indicate the size and scale of the dependencies on biodiversity and ecosystems, including on raw materials, ***natural resources*** and ***ecosystem services***. The undertaking may rely on the international classifications such as the Common International Classification of Ecosystem Services (CICES).

AR 9. In Phase 3, to assesses its material ***risks*** and ***opportunities*** based on the results of Phases 1 and 2, the undertaking may consider the following categories:

(a) ***physical risks***:

i. acute risks (e.g., natural disasters exacerbated by loss of coastal protection from ***ecosystems***, leading to costs of storm damage to coastal infrastructure, disease or pests affecting the species or variety of crop the undertaking relies on, especially in the case of no or low genetic diversity, species loss and ecosystem ***degradation***); and

ii. chronic risks (e.g., loss of crop yield due to decline in pollination services, increasing scarcity or variable production of key natural inputs, ecosystem degradation due to operations leading to, for example, coastal erosion and forest fragmentation, ocean acidification, land loss to ***desertification*** and ***soil degradation*** and consequent loss of soilfertility, species loss).

(b) ***transition risks***, including:

i. ***policy*** and legal: e.g. introduction of regulation or policy (e.g. changes such as increased land protection); exposure to sanctions and litigation (e.g. spills of polluting effluents that damage human and ecosystem health; or violation of biodiversity-related rights, permits or allocations; or negligence towards or killing of ***threatened species***); enhanced reporting obligations on biodiversity, ecosystems and related services;

ii. technology: e.g. substitution of products or services by products or services with a lower impacton ***biodiversity*** or dependence on ***ecosystem services***, lack of access to data or access to poor quality data that hamper biodiversity-related assessments, transition to more efficient and cleaner technologies (i.e. with lower impacts on biodiversity), new monitoring technologies (e.g. satellite), requirements to use certain technologies (e.g. climate resistant crops, mechanical pollinators, water purification, flood protection);

iii. market: e.g., shifting supply, demand and financing, volatility or increased costs of raw materials (e.g., biodiversity-intense inputs for which price has risen due to ecosystem ***degradation***);

iv. reputation: e.g., changing societal, customer or community perceptions as a result of an organisation's role in loss of biodiversity, violation of nature-related rights through operations, negative media coverage due to impacts on critical species and/or ecosystems, biodiversity-related social conflicts over endangered species, protected areas, resources or ***pollution***.

(c) ***systemic risks***, including:

i. ecosystem collapse risks that a critical natural system no longer functions, e.g., tipping points are reached and the collapse of ecosystems resulting in wholesale geographic or sector losses (summing physical risks);

ii. aggregated risk linked to fundamental impacts of ***biodiversity loss*** to levels of transition and physical risk across one or more sectors in a portfolio (corporate or financial); and

iii. contagion risks that financial difficulties of certain corporations or financial institutions linked to failure to account for exposure to biodiversity-related risks

spill over to the economic system as a whole.

(d) opportunities, including for example:

i. business performance categories: resource efficiency; products and services; markets; capital flow and financing; reputational capital; and

ii. sustainability performance categories: ecosystem protection, restoration and ***regeneration***; sustainability use of natural resources.

Presentation of information:

AR 10. The undertaking may consider the tables below to facilitate its ***materiality*** assessment of material ***sites*** identified under paragraph AR 7:

Ecosystem service…	**Actual or potential dependencies**	
...	Change of functionality	Financial loss
…	Limited, moderate or significant	Limited, moderate or significant
…	…	…

Site location	Threatened species, protected areas, key biodiversity areas	**Actual or potential impacts**			
…	…	Frequency of occurrence	Speed of impact	Severity of impact	Potential for mitigation
…	…	High, mediumor low	<1 year or 1-3 years or >3 years	High, medium or low	High, medium or low
…	…	…	…	…	…

With regard to AR 7(e), the undertaking may consider using the table below:

Where are the raw materials produced or sourced from?	**Absolute weight of raw materials (and percentage of the raw material weight)**
In areas with species listed on the IUCN Red List of Threatened Species, the Birds and Habitats Directive or on national lists of threated species	…
In officially recognised protected Areas	…
In other Key Biodiversity Areas	…

Disclosure Requirement E4-2 – Policies related to biodiversity and ecosystems

AR 11. The ***policies*** described under this Disclosure Requirement may be integrated in broader environmental or sustainability policies covering different subtopics.

AR 12. The undertaking may also provide information on how the ***policy*** refers to the production, sourcing or consumption of raw materials, and in particular how it:

(a) limits procurement from ***suppliers*** that cannot demonstrate that they are not contributing to significant damage to protected areas or key ***biodiversity*** areas (e.g., through certification);

(b) refers to recognised standards or third-party certifications overseen by regulators; and

(c) addresses raw materials originating from ***ecosystems*** that have been managed to maintain or enhance conditions for biodiversity, as demonstrated by regular monitoring and reporting of biodiversity status and gains or losses.

AR 13. The undertaking may disclose connections and alignment with other global goals and agreements such as the SDGs 2, 6, 14 and 15 or any other well established global convention related to biodiversity and ecosystems.

AR 14. When disclosing ***policies*** related to social consequences of ***biodiversity*** and ***ecosystems*** related ***dependencies*** and ***impacts*** under 23 (f), the undertaking may notably refer to the Nagoya Protocol and the Convention for Biological Diversity (CBD).

AR 15. When disclosing information about whether and how its ***policies*** address the social consequences of biodiversity and ecosystems-related ***impacts*** under paragraph 23(f), the undertaking may provide information in relation to:

(a) the fair and equitable sharing of the benefits arising from the utilisation of genetic resources; and

(b) the ***free, prior and informed consent*** for access to genetic resources.

AR 16. The undertaking may also explain how its ***policy*** enables it to:

(a) avoid negative impacts on ***biodiversity*** and ***ecosystems*** in its own operations and related upstream and downstream ***value chain***;

(b) reduce and minimise its negative impacts on biodiversity and ecosystems in its operations and throughout the upstream and downstream value chain that cannot be avoided;

(c) restore and rehabilitate degraded ecosystems or restore cleared ecosystems following exposure to impacts that cannot be completely avoided and/or minimised; and

(d) mitigate its contribution to material ***biodiversity loss*** drivers.

AR 17. When disclosing its ***policies***, if referring to third-party standards of conduct, the undertaking may disclose whether the standard used:

(a) is objective and achievable based on a scientific approach to identifying issues, and realistic in assessing how these issues can be addressed on the ground under a variety of practical circumstances;

(b) is developed or maintained through a process of ongoing consultation with ***stakeholders*** with balanced input from all relevant stakeholder groups, including producers, traders, processors, financiers, local people and communities, ***indigenous peoples,*** and civil society organisations representing ***consumer***, environmental and social interests, with no group holding undue authority or veto power over the content;

(c) encourages a step-wise approach and continuous improvement, both in the standard and its application of better management practices, and requires the establishment of meaningful ***targets*** and specific milestones to indicate progress against principles and criteria over time;

(d) is verifiable through independent certifying or verifying bodies, which have defined

and rigorous assessment procedures that avoid conflicts of interest, and are compliant with ISO guidance on accreditation and verification procedures or Article 5(2) of Regulation (EC) No 765/2008; and

(e) conforms to the ISEAL Code of Good Practice.

Disclosure Requirement E4-3 – Actions and resources related to biodiversity and ecosystems

AR 18. The undertaking may relate significant monetary amounts of CapEx and OpEx required to implement the actions taken or planned to:

(a) the relevant line items or notes in the financial statements;

(b) the key performance indicators required under article 8 of Regulation (EU) 2020/852 and under Commission Delegated Regulation (EU) 2021/2178; and

(c) if applicable, the CapEx plan required by Commission Delegated Regulation (EU) 2021/2178.

AR 19. The undertaking may disclose whether it considers an "avoidance" action plan, which prevents damaging ***actions*** before they take place. Avoidance often involves a decision to deviate from the business-as-usual project development path. An example of avoidance is altering the ***biodiversity*** and ecosystem footprint of a project to avoid destruction of natural ***habitat*** on the ***site*** and/or establishing set-asides where priority biodiversity values are present and will be conserved. At a minimum, avoidance should be considered where there are biodiversity and ecosystem-related values that are in one of the following categories: particularly vulnerable and irreplaceable, of particular concern to ***stakeholders***, or where a cautious approach is warranted due to uncertainty about impact assessment or about the efficacy of management measures. The three main types of avoidance are defined below:

(a) avoidance through site selection (Locate the entire project away from areas recognised for important biodiversity values);

(b) avoidance through project design (Configure infrastructure to preserve areas at the project site with important biodiversity values); and

(c) avoidance through scheduling (Time project activities to account for patterns of species behaviour (e.g., breeding, migration) or ecosystem functions (e.g., river dynamics).

AR 20. With regard to key ***actions***, the undertaking may disclose:

(a) a list of key ***stakeholders*** involved (e.g., competitors, suppliers, retailers, other business partners, affected communities and authorities, government agencies) and how they are involved, mentioning key stakeholders negatively or positively impacted by actions and how they are impacted, including impacts or benefits created for affected communities, smallholders, ***indigenous peoples*** or other persons in vulnerable situations;

(b) where applicable, an explanation of the need for appropriate consultations and the need to respect the decisions of affected communities;

(c) a brief assessment of whether the key actions may induce significant negative sustainability ***impacts***;

(d) an explanation of whether the key action is intended to be a one-time initiative or systematic practice;

(e) an explanation of whether the key action plan is carried out only by the undertaking, using the undertaking's resources, or whether it is part of a wider initiative to which the undertaking significantly contributes. If the key action plan is part of a wider initiative, the undertaking may provide more information on the project, its sponsors and other participants;

(f) a description of how it contributes to systemwide change, notably to alter the drivers

of biodiversity and ecosystem change, e.g., through technological, economic, institutional, and social factors and changes in underlying values and behaviours;

AR 21. In the context of this Disclosure Requirement, "local and indigenous knowledge" refer to the understandings, skills and philosophies developed by societies with long histories of interaction with their natural surroundings. For rural and ***indigenous peoples***, local knowledge informs decision-making about fundamental aspects of day-to-day life.

Metrics and targets

Disclosure Requirement E4-4 – Targets related to biodiversity and ecosystems

AR 22. The undertaking may specify whether the ***target*** addresses shortcomings related to the Substantial Contribution criteria for Biodiversity as defined in the delegated acts adopted pursuant to Article 15(2) of Regulation (EU) 2020/852. Where the Do No Significant Harm (DNSH) criteria for Biodiversity as defined in delegated acts adopted pursuant to Article 10(3), Article 11(3), Article 12(2), Article 13(2), and Article 14(2) of Regulation (EU) 2020/852 are not met, the undertaking may specify whether the target addresses shortcomings related those DNSH critera.

AR 23. When disclosing information required under paragraph 29 for the purpose of setting ***targets*** the undertaking shall consider the need for an informed and willing consent of local and ***indigenous peoples***, the need for appropriate consultations and the need to respect the decisions of these communities.

AR 24. The ***targets*** related to material impacts may be presented in a table as illustrated below:

Type of target according to mitigation hierarchy	Baseline value and base year	Target value and geographical scope			Connected policy or legislation if relevant
		2025	2030	Up to 2050	
Avoidance					
Minimisation					
Rehabilitation and restoration					
Compensation or offsets					

AR 25. The ***targets*** related to the potentially material sustainability matters listed in paragraph AR 4 of this Standard, may be presented in a table as illustrated below:

Type of target according to sustainability matter	Baseline value and base year	Target value and geographical scope			Connected policy or legislation if relevant
		2025	2030	Up to 2050	

AR 26. Measurable ***targets*** related to ***biodiversity*** and ***ecosystems*** may be expressed as:

(a) size and location of all ***habitat*** areas protected or restored, whether directly or indirectly controlled by the undertaking, and whether the success of the restoration measure was or is approved by independent external professionals;

(b) recreated surfaces (environments in which management initiatives are implemented so as to create a habitat on a ***site*** where it did not exist initially);or

(c) number or percentage of projects / sites whose ecological integrity was improved (e.g., installation of fish passes, wildlife corridors).

Disclosure Requirement E4-5 – Impact metrics related to biodiversity and ecosystems change

AR 27. When preparing the information required under this Disclosure Requirement, the undertaking shall consider and may describe:

(a) the methodologies and ***metrics*** used and an explanation for why these methodologies and metrics are selected, as well as their assumptions, limitations and uncertainties, and any changes in methodologies made over time and why they occurred;

(b) the scope of the metrics and methodologies, for example:

i. undertaking, ***site***, brand, commodity, corporate business unit, activity;

ii. aspects (as set out in paragraph AR 4) covered.

(c) the ***biodiversity*** components of the metrics: species specific, ecosystem specific;

(d) the geographies covered by the methodology and an explanation of why any relevant geographies were omitted;

(e) how the metrics integrate ***ecological thresholds*** (e.g., the ***biosphere integrity*** and ***land-system change, planetary boundaries***) and allocations;

(f) the frequency of monitoring, key metrics being monitored, and the baseline condition/value and baseline year/period, as well as the reference period;

(g) whether these metrics rely on primary data, secondary data, modelled data or on expert judgement, or a mixture of these;

(h) an indication of which action is measured and monitored via the metrics and how they relate to the achievement of ***targets***;

(i) whether metrics are mandatory (required by legislation) or voluntary. If they are mandatory, the undertaking may indicate the relevant legislation; if voluntary, the undertaking may refer to any voluntary standard or procedure used; and

(j) whether the metrics are informed by or correspond to expectations or recommendations of relevant and authoritative national, EU-level or intergovernmental guidelines, ***policies***, legislation or agreements, such as the Convention for Biological Diversity (CBD) or IPBES.

AR 28. The undertaking shall disclose ***metrics*** that are verifiable and that are technically and scientifically robust considering the appropriate time scales geographies, and may disclose how its selected metrics correspond to those criteria. To ensure that the metric is relevant there should be a clear relationship between the indicator and the purpose of the measurement. Uncertainties should be reduced as far as possible. Data or mechanisms used should be supported by well-established organisations and updated over time. Robust modelled data and expert judgment can be used where data gaps exist. The methodology shall be sufficiently detailed to allow for meaningful comparison of impacts and mitigation activities over time. Information gathering processes and definitions must be systematically applied. This enables a meaningful review of the undertaking's performance over time and helps internal and peer comparison.

AR 29. If a metric corresponds to a target, the baseline for both shall be aligned. The ***biodiversity*** baseline is an essential component of the larger biodiversity and ***ecosystems*** management process. The baseline is necessary to inform impact assessment and management planning, as well as monitoring and adaptive management.

AR 30. Methodologies available to collect data and measure the undertakings' impacts on ***biodiversity*** and ***ecosystems*** may be separated into three categories as follows:

(a) primary data: collected in-situ using on the ground surveys;

(b) secondary data: including geospatial data layers that are overlaid with geographic location data of business activities.

i. At the species level, data layers on the ranges of different species can be used to predict the species that may be present at different locations. This includes operation ***sites*** and sourcing locations. Different range layers will have different levels of accuracy depending on certain factors (e.g., whether species ranges have been refined based on availability of ***habitat***). Information on the threat status of the species, and the activities that threaten them, can provide an indication of the likely contribution that business activities may be having on driving population trends and threat status.

ii. At the ecosystem level, data layers reflecting change in the extent and condition of ecosystems can be applied, including levels of ***habitat fragmentation*** and connectivity.

(c) modelled biodiversity state data: Model-based approaches are commonly used for measuring ecosystem level indicators (e.g., extent, condition, or function). Models quantify how the magnitude of different pressures affects the state of biodiversity. These are referred to as pressure-state relationships and are based on globally collected data. Modelling results are applied locally to estimate how undertaking-level pressures will cause changes in ecosystem condition.An impact driver generally has three main characteristics: magnitude (e.g., amount of contaminant, noise intensity), spatial extent (e.g., area of land contaminated) and temporal extent (duration of persistence of contaminant).

AR 31. With regard to life cycle assessment for land-use, the undertaking may refer to the "Land-use related environmental indicators for Life Cycle Assessment" by the Joint Research Center.

AR 32. With regard to the introduction of invasive alien species, the undertaking may disclose the pathways and number of ***invasive alien species*** and the extent of surface covered by invasive alien species.

AR 33. With regard to metrics on the extent and condition of ***ecosystems***, useful guidance can be found in the work of the United Nations System of Environmental Economic Accounting Ecosystem Accounting (UN SEEA EA).

AR 34. The undertaking may disclose in units of area (e.g., m2 or ha) on land-use using guidance provided by the Eco-Management and Audit Scheme (EMAS)[89]:

(a) total use of land;

(b) total sealed area;

(c) total nature-oriented area on ***site***; and

(d) total nature-oriented area off site.

AR 35. The undertaking may disclose, for example, land cover change, which is the physical representation of the drivers "habitat modification" and "industrial and domestic activities", i.e., the man-made or natural change of the physical properties of the earth's surface at a specific location.

AR 36. Land cover is a typical variable that can be assessed with earth observation data.

AR 37. When reporting on material impacts related to the ***ecosystems***, the undertaking may, in addition to the extent and condition of ecosystems, also consider the functioning of ecosystems by using:

(a) a metric that measures a process or function that the ecosystem completes, or that reflects the ability of the ecosystem to undertake that specific process or function: e.g. net primary productivity, which is a measure of plant productivity based on the rate at which energy is stored by plants and made available to other species in the ecosystem. It is a core process that occurs for ecosystems to function. It is related to

[89] As proposed by Commission Regulation (EU) 2018/ 2026 of 19 December 2018 amending Annex IV to Regulation (EC) No 1221/2009 of the European Parliament and of the Council on the voluntary participation by organisations in a Community eco-management and audit scheme (EMAS) (OJ L 325, 20.12.2018, p. 18).

many factors, such as species diversity, but does not measure these factors directly; or

(b) A metric that measures changes to the population of scientifically identified species under threat.

AR 38. At the ecosystem level, data layers reflecting change in the extent and condition of ***ecosystems*** may be applied, including levels of ***habitat fragmentation*** and connectivity.

Disclosure Requirement E4-6 – Anticipated financial effects from material biodiversity and ecosystem-related risks and opportunities

AR 39. The undertaking may include an assessment of its related products and services at risk over the short-, medium- and long-term, explaining how these are defined, how financial amounts are estimated, and which critical assumptions are made.

AR 40. The quantification of the ***anticipated financial effects*** in monetary terms under paragraph 45(a) may be a single amount or a range.

ESRS E5
RESOUCE USE AND CIRCULAR ECONOMY

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Objective

1. The objective of this Standard is to specify Disclosure Requirements which will enable users of the ***sustainability statement*** to understand:

   (a) how the undertaking affects resource use, including resource efficiency, avoiding the depletion of resources and the sustainable sourcing and use of renewable resources (referred to in this Standard as "resource use and circular economy") in terms of material positive and negative actual or potential ***impacts***;

   (b) any ***actions*** taken, and the result of such actions, to prevent or mitigate actual or potential negative impacts arising from resource use, including its measures to help decoupling its economic growth from the use of materials, and to address risks and opportunities;

   (c) the plans and capacity of the undertaking to adapt its strategy and ***business model*** in line with ***circular economy principles*** including but not limited to minimising ***waste***, maintaining the value of products, materials and other resources at their highest value and enhancing their efficient use in production and consumption;

   (d) the nature, type and extent of the undertaking's material risks and opportunities related to the undertaking's impacts and ***dependencies***, arising from resource use and circular economy, and how the undertaking manages them; and

   (e) the ***financial effects*** on the undertaking over the short-, medium- and long-term of material risks and opportunities arising from the undertaking's impacts and dependencies on resource use and circular economy.

2. This Standard sets out Disclosure Requirements related to "resource use" and "circular economy" and in particular on:

   (a) ***resource inflows*** including the circularity of material resource inflows, considering renewable and non-renewable resources; and

   (b) ***resource outflows*** including information on products and materials; and

   (c) ***waste***.

3. ***Circular economy*** means an economic system in which the value of products, materials and other resources in the economy is maintained for as long as possible, enhancing their efficient use in production and consumption, thereby reducing the environmental impact of their use, minimising ***waste*** and the release of hazardous ***substances*** at all stages of their life cycle, including through the application of the ***waste hierarchy***. The goal is to maximise and maintain the value of the technical and biological resources, products and materials by creating a system that allows for ***durability***, optimal use or re-use, refurbishment, remanufacturing, ***recycling*** and nutrient cycling.

4. This Standard builds on relevant EU legislative frameworks and ***policies*** including the EU Circular Economy Action Plan, Directive 2008/98/EC of the European Parliament and of the Council[90] (Waste Framework Directive) and the EU industrial strategy.

5. To evaluate the transition from business as usual, meaning an economy in which finite

[90] Directive 2008/98/EC of the European Parliament and of the Council of 19 November 2008 on waste and repealing certain Directives (OJ L 312, 22.11.2008, p. 3).

resources are extracted to make products that are used and then thrown away ("take-make-waste"), to a circular economic system, this Standard relies on the identification of the physical flows of resources, materials and products used and generated by the undertaking through Disclosure Requirement E5-4 *Resource inflows* and Disclosure Requirement E5-5 *Resource outflows*.

Interactions with other ESRS

6. Resource use is a major driver of other environmental impacts such as climate change, ***pollution***, water and ***marine resources*** and biodiversity. A ***circular economy*** is a system that tends towards sustainable use of resources in extraction, processing, production, consumption and management of ***waste***. Such system brings multiple environmental benefits, in particular, the reduction of material and energy consumption and ***emissions*** into the air (greenhouse gas emissions or other pollution), the limitation of ***water withdrawals*** and ***discharges*** and the ***regeneration*** of nature limiting the impacton biodiversity.

7. To provide a comprehensive overview of which other environmental matters could be material to resource use and circular economy, relevant disclosure requirements are covered in other environmental ESRS as follows:

   (a) ESRS E1 *Climate change*, which addresses, in particular, GHG ***emissions*** and energy resources (energy consumption);

   (b) ESRS E2 *Pollution*, which addresses, in particular, emissions to water, air and ***soil*** as well as ***substances of concern***;

   (c) ESRS E3 *Water and marine resources*, which addresses, in particular, water resource (water consumption) and marine resources; and

   (d) ESRS E4 *Biodiversity and ecosystems*, which addresses, in particular, ecosystems, species and raw materials.

8. The undertaking's impacts related to resource use and circular economy, in particular impacts related to ***waste***, can affect people and communities. Material negative impacts on ***affected communities*** from resource use and ***circular economy*** attributable to the undertaking are covered in ESRS S3 *Affected communities*. The efficient and circular use of resources also benefits competitiveness and economic wellbeing

9. This Standard should be read in conjunction with ESRS 1 *General requirements* and ESRS 2 *General disclosures*.

Disclosure Requirements

ESRS 2 General disclosures

10. The requirements of this section should be read in conjunction with and reported alongside thedisclosures required by ESRS 2 chapter 4 *Impact, risk and opportunity management*.

Impact, risk and opportunity management

Disclosure Requirement related to ESRS 2 IRO-1 – Description of the processes to identify and assess material resource use and circular economy-related impacts, risksand opportunities

11. The undertaking shall describe the process to identify material ***impacts, risks*** and ***opportunities*** related to resource use and circular economy, in particular regarding ***resource inflows***, ***resource outflows*** and ***waste***, and shall provide information on:

   (a) whether the undertaking has screened its assets and activities in order to identify its actual and potential ***impacts, risks*** and ***opportunities*** in its own operations and its upstream and downstream value chain, and if so, the methodologies, assumptions and tools used in the screening;

(b) whether and how the undertaking has conducted consultations, in particular, with affected communities.

Disclosure Requirement E5-1 – Policies related to resource use and circular economy

12. The undertaking shall describe its policies adopted to manage its material impacts, risks and opportunities related to resource use and circular economy.

13. The objective of this Disclosure Requirement is to enable an understanding of the extent to which the undertaking has ***policies*** that address the identification, assessment, management and/or ***remediation*** of its material ***impacts, risks*** and ***opportunities*** related to resource use and ***circular economy***.

14. The disclosure required by paragraph 12 shall contain the information on the ***policies*** the undertaking has in place to manage its material ***impacts, risks*** and ***opportunities*** related to resource use and ***circular economy*** in accordance with ESRS 2 MDR-P *Policies adopted to manage material sustainability matters*.

15. In the summary, the undertaking shall indicate whether and how its policies address the following matters where material:

(a) transitioning away from use of virgin resources, including relative increases in use of secondary (recycled) resources;

(b) sustainable sourcing and use of renewable resources.

16. Policies shall address material impacts, risks and opportunities in its own operations and along its upstream and downstream value chain.

Disclosure Requirement E5-2 – Actions and resources related to resource use andcircular economy

17. The undertaking shall disclose its resource use and circular economy actions and the resources allocated to their implementation.

18. The objective of this Disclosure Requirement is to enable an understanding of the key ***actions*** taken and planned to achieve the resource use and circular economy-related ***policy*** objectives and ***targets***.

19. The description of the resource use and circular economy-related ***actions*** and resources allocated shall follow the principles defined in ESRS 2 MDR-A *Actions and resources in relation to material sustainability matters.*

20. In addition to ESRS 2 MDR-A, the undertaking may specify whether and how an action and resources cover:

(a) higher levels of resource efficiency in use of technical and biological materials and water, particularly in relation to critical raw materials and rare earths as listed in the Raw Materials Information System;

(b) higher rates of use of secondary raw materials (recyclates);

(c) application of circular design, leading to increased product ***durability*** and optimisation of use, and higher rates of: Reuse, Repair, Refurbishing, Remanufacture, Repurposing and Recycling.

(d) application of circular business practices such as (i) value retention ***actions*** (maintenance, repair, refurbishing, remanufacturing, component harvesting, upgrading and reverse logistics, closed loop systems, second-hand retailing), (ii) value maximisation actions (product-service systems, collaborative and sharing economy business models), (iii) end-of-life actions (***recycling***, upcycling, extended

producer responsibility), and (iv) systems efficiency actions (industrial symbiosis);

(e) actions taken to prevent ***waste*** generation in the undertaking's upstream and downstream value chain; and

(f) optimistation of ***waste management*** in line with the ***waste hierarchy***.

Metrics and targets

Disclosure Requirement E5-3 – Targets related to resource use and circular economy

21. The undertaking shall disclose the resource use and circular economy-related targets it has set.

22. The objective of this Disclosure Requirement is to enable an understanding of the ***targets*** the undertaking has adopted to support its resource use and ***circular economy policy*** and to addressits material impacts, risks and opportunities.

23. The description of the ***targets*** shall contain the information requirements defined in ESRS2 MDR-T *Tracking effectiveness of policies and actions through targets*.

24. The disclosure required by paragraph 21 shall indicate whether and how the undertaking's ***targets*** relate to ***resource inflows*** and ***resource outflows***, including ***waste*** and products and materials, and, more specifically to:

(a) the increase of circular product design (including for instance design for ***durability***, dismantling, reparability, recyclability etc);

(b) the increase of ***circular material use rate***;

(c) the minimisation of primary raw material;

(d) sustainable sourcing and use (in line with the cascading principle) of renewable resources;

(e) the ***waste management***, including preparation for proper treatment; and

(f) other matters related to resource use or circular economy.

25. The undertaking shall specify to which layer of the ***waste hierarchy*** the target relates.

26. In addition to ESRS 2 MDR-T, the undertaking may specify whether ***ecological thresholds*** and entity-specific allocations were taken into consideration when setting ***targets***. If so, the undertaking may specify:

(a) the ecological thresholds identified, and the methodology used to identify such thresholds;

(b) whether or not the thresholds are entity-specific and if so, how they were determined; and

(c) how responsibility for respecting identified ecological thresholds is allocated in the undertaking.

27. The undertaking shall specify as part of the contextual information, whether the ***targets*** it has set and presented are mandatory (required by legislation) or voluntary.

Disclosure Requirement E5-4 – Resource inflows

28. The undertaking shall disclose information on its resource inflows related to its material impacts, risks and opportunities.

29. The objective of this Disclosure Requirement is to enable an understanding of the resource usein the undertaking's own operations and its upstream value chain.

30. The disclosure required by paragraph 28 shall include a description of its ***resource inflows*** where material: products (including ***packaging***) and materials (specifying critical raw materials and rare earths), water and property, plant and equipment used in the undertaking's own operations and along its upstream value chain.

31. When an undertaking assesses that resource inflows is a material sustainability matter, it shall disclose the following information about the materials used to manufacture the undertaking's products and services during the reporting period, in tonnes or kilogrammes:

    (a) the overall total weight of products and technical and biological materials used during the reporting period;

    (b) the percentage of biological materials (and biofuels used for non-energy purposes) used to manufacture the undertaking's products and services (including ***packaging***) that is sustainably sourced, with the information on the certification scheme used and on the application of the cascading principle; and

    (c) the weight in both absolute value and percentage, of secondary reused or recycled components, secondary intermediary products and secondary materials used to manufacture the undertaking's products and services (including packaging).

32. The undertaking shall provide information on the methodologies used to calculate the data. It shall specify whether the data is sourced from direct measurement or estimations, and disclose the key assumptions used.

Disclosure Requirement E5-5 – Resource outflows

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33. The undertaking shall disclose information on its resource outflows, including waste, related to its material impacts, risks and opportunities.

34. The objective of this Disclosure Requirement is to provide an understanding of:

    (a) how the undertaking contributes to the ***circular economy*** by i) designing products and materials in line with ***circular economy principles*** and ii) increasing or maximising the extent to which products, materials and ***waste*** processing are recirculated in practice after first use; and

    (b) the undertaking's waste reduction and ***waste management*** strategy, the extent to which the undertaking knows how its pre-consumer waste is managed in its own activities.

Products and materials

35. The undertaking shall provide a description of the key products and materials that come out of the undertaking's production process and that are designed along circular principles, including ***durability***, reusability, repairability, disassembly, remanufacturing, refurbishment, ***recycling***, recirculation by the biological cycle, or optimisation of the use of the product or material through other circular business models.

36. Undertakings for which outflows are material shall disclose:

    (a) The expected ***durability*** of the products placed on the market by the undertaking, in relation to the industry average for each product group;

    (b) The reparability products, using an established rating system, where possible;

    (c) The rates of recyclable content in products and their ***packaging***.

Waste

37. The undertaking shall disclose the following information on its total amount of ***waste*** from its own operations, in tonnes or kilogrammes:

    (a) the total amount of waste generated ;

(b) the total amount by weight diverted from disposal, with a breakdown between ***hazardous waste*** and non-hazardous waste and a breakdown by the following ***recovery*** operation types:

i. preparation for reuse;

ii. ***recycling***; and

iii. other recovery operations.

(c) the amount by weight directed to disposal by waste treatment type and the total amount summing all three types, with a breakdown between ***hazardous waste*** and non-hazardous waste. The waste treatment types to be disclosed are:

i. ***incineration***;

ii. landfill; and

iii. other disposal operations;

(d) the total amount and percentage of non-recycled waste[91].

38. When disclosing the composition of the ***waste***, the undertaking shall specify:

(a) the waste streams relevant to its sector or activities (e.g. tailings for the undertaking inthe mining sector, electronic waste for the undertaking in the ***consumer*** electronics sector, or food waste for the undertaking in the agriculture or in the hospitality sector); and;

(b) the materials that are present in the waste (e.g. biomass, metals, non-metallic minerals, plastics, textiles, critical raw materials and rare earths).

39. The undertaking shall also disclose the total amount of ***hazardous waste*** and radioactive waste generated by the undertaking, where radioactive waste is defined in Article 3(7) of Council Directive 2011/70/Euratom[92].

40. The undertaking shall provide contextual information on the methodologies used to calculate the data and in particular the criteria and assumptions used to determine and classify products designed along circular principles under paragraph 35. It shall specify whether the data is sourced from direct measurement or estimations; and disclose the key assumptions used.

Disclosure Requirement E5-6 – Anticipated financial effects from material resource use and circular economy-related risks and opportunities

41. The undertaking shall disclose the anticipated financial effects of material risks and opportunities arising from resource use and circular economy-related impacts.

42. The information required by paragraph 41 is in addition the information on current financial effects on the entity's financial position, financial performance and cash flows for the reporting period required under ESRS 2 SBM-3 para 48 (d). The objective of this Disclosure Requirement is to provide an understanding of:

(a) ***anticipated financial effects*** due to material ***risks*** arising from material resource use and ***circular economy***-related impacts and ***dependencies*** and how these risks

[91] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #13 in Table II of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Non-recycled waste ratio").

[92] Council Directive 2011/70/Euratom of 19 July 2011 establishing a Community framework for the responsible and safe management of spent fuel and radioactive waste (OJ L 199, 2.8.2011, p. 48). This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory indicator related to principal adverse impacts as set out by indicator #9 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Hazardous waste and radioactive waste ratio").

have or could reasonably be expected to have) a material influence on the undertaking's financial position, financial performance performance, and cash flows over the short-, medium- and long-term; and

(b) anticipated financial effects due to material opportunities related to resource use and circular economy.

43. The disclosure shall include:

(a) a quantification of the ***anticipated financial effects*** in monetary terms before considering resource use and circular economy-related actions, or where not possible without undue cost or effort, qualitative information. For ***financial effects*** arising from material opportunities, a quantification is not required if it would result in disclosure that does notmeet the qualitative characteristics of information (see ESRS 1 Appendix B *Qualitative characteristics of information*);

(b) a description of the effects considered, the impacts and dependencies to which they relate and the time horizons in which they are likely to materialise;

(c) the critical assumptions used to quantify the ***anticipated financial effects***, as well as the sources and level of uncertainty of those assumptions.

Appendix A: Application Requirements

This appendix is an integral part of the ESRS E5. It supports the application of the disclosure requirements set out in this standard and has the same authority as the other parts of the standard.

ESRS 2 General disclosures

Impact, risk and opportunity management

Disclosure requirement related to ESRS 2 IRO-1 – Description of the processes to identify and assess material resource use and circular economy-related impacts, risksand opportunities

AR 1. When conducting a ***materiality*** assessment on environmental subtopics, the undertaking shall assess the materiality of resource use and circular economy in its own operations and its upstream and downstream value chain, and may consider the four phases below, also known as the LEAP approach:

(a) Phase 1: locate where in the undertaking's own operations and along its upstream and downstream ***value chain*** the interface with nature takes place;

(b) Phase 2: evaluate the ***dependencies*** and impacts;

(c) Phase 3: assess the material risks and opportunities;

(d) Phase 4: prepare and report the results of the materiality assessment.

AR 2. With regard to ESRS E5, phases 1 and 2 rely mainly on the ***materiality*** assessments conducted under ESRS E1 (including energy consumption), ESRS E2 (pollution), ESRS E3 (marine resources, water consumption) and ESRS E4 (biodiversity, ecosystems, raw materials). Indeed, ***circular economy*** eventually aims at reducing the environmental impact of the use of products, materials and other resources, minimizing ***waste*** and the release of hazardous ***substances*** and hence at reducing impacts on nature. This application requirement focuses mainly on the third phase of this LEAP approach, while the fourth phase addresses the outcome of the process.

AR 3. The process to assess the ***materiality*** of ***impacts***, ***dependencies***, ***risks*** and ***opportunities*** shall consider the provisions in ESRS 2 IRO-1 *Description of the processes to identify and assess material impacts, risks and opportunities* and IRO-2 *Disclosure Requirements in ESRS covered by the undertaking's sustainability statement*.

AR 4. The sub-topics related to resource use and ***circular economy*** covered by the ***materiality*** assessment include:

(a) ***resource inflows*** including the circularity of material resource inflows, considering resource use optimisation, intensity of materials and products and renewable and non-renewable resources;

(b) ***resource outflows*** related to products and services; and

(c) ***waste***, including ***hazardous waste*** and non-hazardous ***waste management.***

AR 5. In Phase 3, to assess its material ***risks*** and ***opportunities*** based on the results of Phases 1 and 2, the undertaking may:

(a) identify ***transition risks*** and opportunities in its own operations and its upstream and downstream ***value chain***, including the risk of staying in a business-as-usual ***scenario***:

i. ***policy*** and legal, e.g., bans on the extraction and use of non-renewable resources, regulations on ***waste*** treatment;

ii. technology, e.g., introduction on the market of new technologies to replace existing use of products and materials;

iii. market, e.g., shifting supply, demand and financing;

iv. reputation, e.g. changing societal, customer or community perceptions.

(b) identify ***physical risks*** including depletion of stock and use of virgin and non-virgin renewable resources, and of non-renewable resources;

(c) identify opportunities categorised by:

i. resource efficiency: e.g., transition to more efficient services and processes requiring less resources, eco-design for ***longevity***, repair, reuse, recycle, by-products, take-back systems, decoupling activity from extraction of materials, intensifying circular material use, creation of a system that allows for dematerialization (e.g., digitisation, improving utilisation rates, weight reduction); practices to ensure products and materials are collected, sorted, and reused, repaired, refurbished, remanufactured;

ii. markets: e.g., demand for less resource-intense products and services, and new consumption models such as product-as-a-service, pay-per-use, sharing, leasing;

iii. financing: e.g., access to green funds, bonds or loans;

iv. resilience: e.g., diversification of resources and business activities (e.g., start a new business unit to recycle new materials), investing in green infrastructures, adopting ***recycling*** and circularity mechanisms that reduce the***dependencies***, capability of the undertaking to safeguard future stocks and flows of resources; and

v. reputation.

AR 6. The undertaking may consider the following methodologies to assess its ***impacts, risks*** and ***opportunities*** in its own operations and along its upstream and downstream ***value chain***:

(a) Commission Recommendation 2021/2279 on the use of the Environmental Footprint methods to measure and communicate the life cycle environmental performance of products and organizations (Annex I – Product Environmental Footprint; Annex III – Organisation Environmental Footprint); and

(b) Material Flow Analysis (MFA) from the European Environment Agency.

AR 7. When providing information on the outcome of the ***materiality*** assessment, the undertaking shall consider:

(a) a list of business units associated to resource use and ***circular economy*** material

impacts, risks and opportunities in the context of the products and services of the undertaking and the ***waste*** it generates;

(b) a list and prioritisation of the material resources used by the undertaking;

(c) the material impacts and risks of staying in business as usual;

(d) the material opportunities related to a circular economy;

(e) the material impacts and risks of a transition to a circular economy; and

(f) the stages of the ***value chain*** where resource use, risks and negative impacts are concentrated.

Disclosure Requirement E5-1 – Policies related to resource use and circular economy

AR 8. The policies described under this Disclosure Requirement may be integrated in broader environmental or sustainability policies covering different subtopics.

AR 9. When providing information on its policies, the undertaking shall consider whether and how its policies address:

(a) the ***waste hierarchy***: (a) prevention; (b) preparing for re-use; (c) ***recycling***; (d) other ***recovery***, e.g., energy recovery; and (e) disposal. In this context, the ***waste*** treatment cannot be considered as a recovery;

(b) the prioritisation of the avoidance or minimisation waste (Re-use, Repair, Refurbish, Remanufacture and Repurpose) over waste treatment (Recycling). The concepts of eco-design[93], waste as a resource or post- consumer waste (at the end of a ***consumer***-product lifecycle), should also be taken into consideration.

AR 10. When defining its policies, the undertaking may consider the Paper on "Categorisation system for the circular economy", which describes circular design and production models, circular use models, circular value ***recovery*** models and circular support along the principles of the nine ***circular economy*** "R" strategies or principles: refuse, rethink, reduce, re-use, repair, refurbish, remanufacture, repurpose and recycle.

Disclosure Requirement E5-2 – Actions and resources in relation to resource use andcircular economy

AR 11. When providing information under paragraph 17 and considering that resources are shared and that ***circular economy*** strategies may require collective actions, the undertaking may specify the ***actions*** taken to engage with its upstream and downstream ***value chain*** and/or its local network on the development of collaborations or initiatives increasing the circularity of products and materials.

AR 12. In particular, the undertaking may specify the following:

(a) how it contributes to circular economy, including for instance smart ***waste*** collection systems;

(b) the other ***stakeholders*** involved in the collective ***actions***: competitors, ***suppliers***, retailers, customers, other business partners, local communities and authorities, government agencies;

(c) a description of the organisation of the collaboration or initiative, including the specific contribution of the undertaking and the roles of the different stakeholders in the project.

[93] As established by Directive 2009/125/EC.Directive 2009/125/EC of the European Parliament and of the Council of 21 October 2009 establishing a framework for the setting of ecodesign requirements for energy-related products (OJ L 285, 31.10.2009, p. 10).

AR 13. The ***actions*** may cover the undertaking's own operations and/or its upstream and downstream value chain.

Metrics and targets

Disclosure Requirement E5-3 - Targets related to resource use and circular economy

AR 14. If the undertaking refers to ***ecological thresholds*** to set ***targets***, it may refer to the guidance provided by the Science-Based Targets Initiative for Nature (SBTN) in its interim guidance (Initial Guidance for Business, September 2020) or any other guidance with a scientifically acknowledged methodology that allows to set science-based targets by identifying ecological thresholds and, if applicable, organisation-specific allocations. Ecological thresholds can be local, national and/or global.

AR 15. When providing information on ***targets***, the undertaking shall prioritise targets in absolute value.

AR 16. When providing information ***targets*** according to paragraph 24, the undertaking shall consider the production phase, the use phase, and the end of functional life of products and materials.

AR 17. When providing information on ***targets*** related to virgin renewable ***raw material*** under paragraph 24(c), the undertaking shall consider how those targets may impact ***biodiversity loss***, also in light of ESRS E4.

AR 18. The undertaking may disclose other ***targets*** under paragraph 24(f) including in relation to sustainable sourcing. If so, the undertaking shall explain the definition of sustainable sourcing it has adopted and how it relates to the objective set out in paragraph 22.

AR 19. The ***targets*** may cover the undertaking's own operations and/or its upstream and downstream value chain.

AR 20. The undertaking may specify whether the target addresses shortcomings related to the Substantial Contribution criteria for Circular Economy as defined in the delegated acts adopted pursuant to Article 13(2) of Regulation (EU) 2020/852. Where the Do No Significant Harm (DNSH) criteria for Circular Economy as defined in delegated acts adopted pursuant to Article 10(3), Article 11(3), Article 12(2), Article 14(2), and Article 15(2) of Regulation (EU) 2020/852 are not met, the undertaking may specify whether the target addresses shortcomings related those DNSH criteria.

Disclosure Requirement E5-4 - Resource inflows

AR 21. ***Resource inflows*** may cover the following categories: IT equipment, textiles, furniture, buildings, heavy machinery, mid-weight machinery, light machinery, heavy transport, mid-weight transport, light transport and warehousing equipment. With regard to materials, resource inflow indicators include raw materials, ***associated process materials***, and semi-manufactured goods or parts.

AR 22. When the undertaking is subject to paragraph 31, it may also provide transparency on the materials that are sourced from ***by-products***/***waste*** stream (e.g., offcuts of a material that has not previously been in a product).

AR 23. The denominator of the percentage indicator required under paragraphs 31(b) and 31(c) is theoverall total weight of materials used during the reporting period.

AR 24. The reported usage data are to reflect the material in its original state, and not to be presentedwith further data manipulation, such as reporting it as "dry weight".

AR 25. In cases where there is an overlap between categories of reused, recycled, the undertaking shall specify how double counting was avoided and the choices that were made.

Disclosure Requirement E5-5 - Resource outflows

AR 26. Products and materials information to be provided under paragraph 35 refers to all

materials and products that come out of the undertaking's production process and that a company puts on the market (including ***packaging***).

AR 27. When compiling the rate, the undertaking shall use as denominator the overalltotal weight of materials used during the reporting period.

AR 28. The undertaking may disclose its engagement in product end-of-life ***waste management***, for example through extended producer responsibility schemes or take-back schemes.

AR 29. Type of ***waste*** is to be understood as ***hazardous waste*** or non-hazardous waste. Some specific waste, such as radioactive waste, may also be presented as a separate type.

AR 30. When considering the ***waste*** streams relevant to its sectors or activities, the undertaking may consider the list of waste descriptions from the European Waste Catalogue.

AR 31. Examples of other types of ***recovery*** operations under paragraph 37(b)iii may be found in Annex II of Directive 2008/98/EC (Waste Framework Directive).

AR 32. Examples of other types of disposal operations under paragraph 37(c)iii may be found in Annex I of Directive 2008/98/EC (Waste Framework Directive).

AR 33. When providing contextual information under paragraph 40 the undertaking may:

(a) explain the reasons for high weights of ***waste*** directed to disposal (e.g., local regulations that prohibit landfill of specific types of waste);

(b) describe sector practices, sector standards, or external regulations that mandate a specific disposal operation; and

(c) specify whether the data has been modelled or sourced from direct measurements, such as waste transfer notes from contracted waste collectors.

Disclosure Requirement E5-6 – Anticipated financial effects from material resource use and circulareconomy-related risks and opportunities

AR 34. When providing information under paragraph 42(b), the undertaking may illustrate and describe how it intends to strengthen value retention.

AR 35. The undertaking may include an assessment of its related products and services at risk over the short-, medium- and long-term, explaining how these are defined, how financial amounts are estimated, and which critical assumptions are made.

AR 36. The quantification of the ***anticipated financial effects*** in monetary terms under paragraph 43(a) may be a range.

ESRS S1
OWN WORKFORCE

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Objective

1. The objective of this Standard is to specify disclosure requirements which will enable ***users*** of the ***sustainability statement*** to understand the undertaking's material ***impacts*** on its ***own workforce***, as well as related material ***risks*** and ***opportunities***, including:

   (a) how the undertaking affects its ***own workforce,*** in terms of material positive and negative actual or potential impacts;

   (b) any ***actions*** taken, and the result of such actions, to prevent, mitigate or remediate actual or potential negative impacts, and to address risks and opportunities;

   (c) the nature, type and extent of the undertaking's material risks and opportunities related to its impacts and ***dependencies*** on its own workforce, and how the undertaking manages them; and

   (d) the ***financial effects*** on the undertaking over the short-, medium- and long-term of material risks and opportunities arising from the undertaking's impacts and dependencies on its own workforce.

2. In order to meet the objective, this Standard also requires an explanation of the general approach the undertaking takes to identify and manage any material actual and potential ***impacts*** on its ***own workforce*** in relation to the following social, including human rights, factorsor matters:

   (a) working conditions, including:

      i. secure employment;

      ii. working time;

      iii. ***adequate wages***;

      iv. ***social dialogue***;

      v. freedom of association, the existence of works councils and the information, consultation and participation rights of workers;

      vi. ***collective bargaining***, including the rate of the undertaking's workforce covered by collectiveagreements;

      vii. work-life balance; and

      viii. health and safety.

   (b) ***equal treatment*** and ***opportunities*** for all, including:

      i. gender equality and equal ***pay*** for work of equal value;

      ii. ***training*** and skills ***development;***

      iii. employment and inclusion of ***persons with disabilities***;

      iv. measures against violence and ***harassment*** in the workplace; and

      v. diversity.

(c) other work-related rights, including those that relate to:

i. child labour;

ii. ***forced labour***;

iii. adequate housing; and

iv. privacy.

3. This Standard also requires an explanation of how such ***impacts***, as well as the undertaking's ***dependencies*** on its ***own workforce***, can create material ***risks*** or ***opportunities*** for the undertaking. For example, on the matter of equal opportunities, ***discrimination*** in hiring and promotion against women can reduce the undertaking's access to qualified labour and harm its reputation. Conversely, policies to increase the representation of women in the workforce and in upper levels of management can have positive effects, such as increasing the pool of qualified labour and improving the undertaking's reputation.

4. This Standard covers an undertaking's ***own workforce***, which is understood to include both people who are in an employment relationship with the undertaking ("***employees***") and ***non-employees*** who are either people with contracts with the undertaking to supply labour ("self-employed people") or people provided by undertakings primarily engaged in "employment activities" (NACE Code N78). See Application Requirement 3 for examples of who falls under own workforce. The information required to be disclosed with regard to non-employees shall not affect their status pursuant to applicable labour law.

5. This Standard does not cover workers in the undertaking's upstream or downstream ***value chain***; these categories of workers are covered in ESRS S2 *Workers in the value chain*.

6. The Standard requires undertakings to describe their ***own workforce***, including key characteristics of the ***employees*** and ***non-employees*** that are part of it. This description provides ***users*** with an understanding of the structure of the undertaking's ***own workforce*** and helps to contextualise information provided through other disclosures.

7. The objective of the Standard is also to enable ***users*** to understand the extent to which the undertaking aligns or complies with international and European human rights instruments and conventions, including the International Bill of Human Rights, the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work and ILO fundamental conventions, the UN Convention on Persons with Disabilities, the European Convention of Human Rights, the revised European Social Charter, the Charter of Fundamental Rights of the European Union, the EU ***policy*** priorities as set out by the European Pillar of Social Rights, and Union legislation, including the EU labour law acquis.

Interaction with other ESRS

8. This Standard shall be read in conjunction with ESRS 1 *General principles* and ESRS 2 *General requirements.*

9. This Standard shall be read in conjunction with ESRS S2 *Workers in the value chain*, ESRS S3 *Affected communities* and ESRS S4 *Consumers and end-users*.

10. The reporting under this Standard shall be consistent, coherent and where relevant clearly linked with reporting on the undertaking's ***own workforce*** under ESRS S2, in order to ensure effective reporting.

Disclosure requirements

ESRS 2 General disclosures

11. The requirements of this section should be read in conjunction with the disclosures required by ESRS 2 on Strategy (SBM). The resulting disclosures shall be presented alongside the disclosures required by ESRS 2, except for ESRS 2 SBM-3, for which the undertaking has

an option to present the disclosures alongside the topical disclosure.

Strategy

Disclosure Requirement related to ESRS 2 SBM-2 – Interests and views of stakeholders

12. When responding to ESRS 2 SBM-2, the undertaking shall disclose how the interests, views, and rights of people in its own workforce, including respect for their human rights, inform its strategy and ***business model.*** The undertaking's ***own workforce*** is a key group of affected ***stakeholders***.

Disclosure Requirement related to ESRS 2 SBM-3 – Material impacts, risks and opportunities and their interaction with strategy and business model

13. When responding to ESRS 2 SBM-3 paragraph 48, the undertaking shall disclose:

    (a) whether and how actual and potential ***impacts*** on its ***own workforce*** as identified in ESRS 2 IRO-1 *Description of the processes to identify and assess material impacts, risks and opportunities:* (i) originate from or are connected to the undertaking's strategy and ***business models***, and (ii) inform and contribute to adapting the undertaking's strategy and business model; and

    (b) the relationship between its material ***risks*** and ***opportunities*** arising from impacts and ***dependencies*** on own workforce and its strategy and business model.

14. When fulfilling the requirements of paragraph 48, the undertaking shall disclose whether all people in its ***own workforce*** who could be materially impacted by the undertaking are includedin the scope of its disclosure under ESRS 2. These material ***impacts*** shall include impacts that are connected with the undertaking's own operations and its ***value chain,*** including through its products or services, as well as through its business relationships. In addition, the undertaking shall provide the following information:

    (a) a brief description of the types of ***employees*** and ***non-employees*** in its own workforce subject to material impacts by its operations, and specify whether they are ***employees***, self- employed people, or people provided by third party undertakings primarily engaged in employment activities;

    (b) in the case of material negative impacts, whether they are either (i) widespread or systemic in contexts where the undertaking operates (for example, ***child labour*** or ***forced*** labour or compulsory labour in specific countries or regions outside the EU), or (ii) related to individual ***incidents*** (for example, an industrial accident or an oil spill);

    (c) in the case of material positive impacts, a brief description of the activities that result inthe positive impacts, the types of employees and non-employees in its own workforce that are positively affected or could be positively affected; the undertaking may also disclose whether the positive impacts occur in specific countries or regions;

    (d) any material ***risks*** and ***opportunities*** for the undertaking arising from impacts and ***dependencies*** on its own workforce;

    (e) any material impacts on its ***own workforce*** that may arise from ***transition plans*** for reducing negative impacts on the environment and achieving greener and climate-neutral operations, including information on the impacts on own workforce caused by the undertaking's plans and ***actions*** to reduce carbon ***emissions*** in line with international agreements. Impacts, risks and opportunities include restructuring and employment loss as well as opportunities arising from job creation and reskilling or upskilling;

(f) operations at significant risk of ***incidents*** of ***forced labour*** or compulsory labour[94] either in terms of:

i. type of operation (such as manufacturing plant); or

ii. countries or geographic areas with operations considered at risk;

(g) operations at significant risk of incidents of ***child labour***[95] either in terms of:

i. type of operation (such as manufacturing plant); or

ii. countries or geographic areas with operations considered at risk.

15. In describing the main types of people in its ***own workforce*** who are or could be negatively affected, based on the ***materiality*** assessment set out in ESRS 2 IRO 1, the undertaking shall disclose whether and how it has developed an understanding of how people with particular characteristics, those working in particular contexts, or those undertaking particular activities may be at greater risk of harm.

16. The undertaking shall disclose which, if any, of its material ***risks*** and ***opportunities*** arising from ***impacts*** and ***dependencies*** on people in its ***own workforce*** relate to specific groups of people (for example, particular age groups, or people working in a particular factory or country) rather than to all of its own workforce (for example, a general ***pay*** cut, or ***training*** offered to all people in its own workforce).

Impacts, risks and opportunities management

Disclosure Requirement S1-1 – Policies related to own workforce

17. **The undertaking shall describe its policies adopted to manage its material impacts on its own workforce, as well as associated material risks and opportunities.**

18. The objective of this Disclosure Requirement is to enable an understanding of the extent to which the undertaking has ***policies*** that address the identification, assessment, management and/or ***remediation*** of material ***impacts*** on the undertaking's ***own workforce*** specifically, as well as policies that cover material impacts, ***risks*** and ***opportunities*** related to its own workforce.

19. The disclosure required by paragraph 17 shall contain the information on the undertaking's policies to manage its material ***impacts, risks*** and ***opportunities*** related to its ***own workforce*** in accordance with ESRS 2 MDR-P *Policies adopted to manage material sustainability matters*. In addition, the undertaking shall specify if such policies cover specific groups within its own workforce or all of its own workforce.

20. The undertaking shall describe its human rights ***policy*** commitments[96] that are relevant to its ***own workforce***, including those processes and mechanisms to monitor compliance with the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work and the OECD Guidelines for Multinational Enterprises[97]. In its disclosure it shall focus on those matters that are material in relation to, as well as its general

[94] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from additional indicators related to principal adverse impacts as set out by indicator #13 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Operations and suppliers at significant risk of incidents of forced or compulsory labour").

[95] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from additional indicators related to principal adverse impacts as set out by indicator #12 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Operations and suppliers at significant risk of incidents of child labour").

[96] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #9 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Lack of a human rights policy").

[97] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory indicator related to principal adverse impacts as set out by indicator #11 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments.

approach to:

(a) respect for the human rights, including labour rights, of people in its own workforce;

(b) engagement with people in its ***own workforce;*** and

(c) measures to provide and/or enable ***remedy*** for human rights impacts.

21. The undertaking shall disclose whether and how its policies with regard to its own workforce are aligned with relevant internationally recognised instruments, including the UN Guiding Principles on Business and Human Rights[98].

22. The undertaking shall state whether its policies in relation to its ***own workforce*** explicitly address trafficking in human beings[99], ***forced labour*** or compulsory labour and ***child labour.***

23. The undertaking shall state whether it has a workplace accident prevention ***policy*** or management system[100].

24. The undertaking shall disclose:

(a) whether it has specific policies aimed at the elimination of ***discrimination***, including ***harassment***, promoting ***equal opportunities*** and other ways to advance diversity and inclusion;

(b) whether the following grounds for ***discrimination*** are specifically covered in the ***policy***: racial and ethnic origin, colour, sex, sexual orientation, gender identity, disability, age, religion, political opinion, national extraction or social origin, or other forms of discrimination covered by Union regulation and national law;

(c) whether the undertaking has specific ***policy*** commitments related to inclusion or positive action for people from groups at particular risk of vulnerability in its ***own workforce*** and, if so, what these commitments are; and

(d) whether and how these policies are implemented through specific procedures to ensure ***discrimination*** is prevented, mitigated and acted upon once detected, as well as to advance diversity and inclusion in general.

Disclosure Requirement S1-2 – Processes for engaging with own workforce and workers'representatives about impacts

25. **The undertaking shall disclose its general processes for engaging with people in its own workforce and workers' representatives about actual and potential impacts on its own workforce.**

26. The objective of this Disclosure Requirement is to enable an understanding of how the undertaking engages, as part of its ongoing due diligence process, with people in its ***own workforce*** and ***workers' representatives*** about material, actual and potential, positive and/or negative ***impacts*** that do or are likely to affect them, and whether and how perspectives of its own workforces are taken into account in the decision-making processes of the undertaking.

27. The undertaking shall disclose whether and how the perspectives of its ***own workforce*** inform its decisions or activities aimed at managing the actual and potential ***impacts*** on its own workforce. This shall include, where relevant, an explanation of:

[98] This information supports the needs of benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator "Exposure of the benchmark portfolio to companies without due diligence policies on issues addressed by the fundamental International Labour Organisation Conventions 1 to 8" in section 1 and 2 of Annex II.

[99] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #11 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Lack of processes and measures for preventing trafficking in human beings").

[100] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impact as set out by indicator #1 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Investments in companies without workplace accident prevention policies").

(a) whether engagement occurs directly with the undertaking's own workforce or workers' representatives;

(b) the stage(s) at which engagement occurs, the type of engagement and frequency of the engagement;

(c) the function and the most senior role within the undertaking that has operational responsibility for ensuring that this engagement happens and that the results inform the undertaking's approach;

(d) where applicable, a Global Framework Agreement or other agreements that the undertaking has with ***workers' representatives*** related to the respect of human rights of its ***own workforce***, including an explanation of how the agreement enables the undertaking to gain insight into the perspectives of its own workforce; and

(e) where applicable, how the undertaking assesses the effectiveness of its engagement with its own workforce, including, where relevant, any agreements or outcomes that result.

28. Where applicable, the undertaking shall disclose the steps it takes to gain insight into the perspectives of people in its ***own workforce*** who may be particularly vulnerable to impacts and/or marginalised (for example, women, migrants, people with disabilities).

29. If the undertaking cannot disclose the above required information because it has not adopted a general process to engage with its ***own workforce***, it shall disclose this to be the case. It may disclose a timeframe in which it aims to have such a process in place.

Disclosure Requirement S1-3 – Processes to remediate negative impacts and channels for own workforce to raise concerns

30. **The undertaking shall describe the processes it has in place to provide for or cooperate in the remediation of negative impacts on people in its own workforce that the undertaking is connected with, as well as channels available to its own workforce to raise concerns and have them addressed.**

31. The objective of this Disclosure Requirement is to enable an understanding of the formal means by which the undertaking's ***own workforce*** can make their concerns and needs known directly to the undertaking and/or through which the undertaking supports the availability of such channels (for example, ***grievance mechanisms***) in the workplace, and how follow up is carried out with the people concerned regarding the issues raised and the effectiveness of these channels.

32. The undertaking shall describe the processes in place to cover the matters defined within paragraph 2 of the Objective section by disclosing the following information:

(a) its general approach to and processes for providing or contributing to ***remedy*** where it has caused or contributed to a material negative ***impact*** on people in its ***own workforce***, including whether and how the undertaking assesses that the ***remedy*** provided is effective;

(b) any specific channels it has in place for its ***own workforce*** to raise their concerns or needs directly with the undertaking and have them addressed, including whether these are established by the undertaking itself and/or through participation in third-party mechanisms;

(c) whether or not the undertaking has a ***grievance***/complaints handling ***mechanism*** related to employee matters[101]; and

(d) the processes through which the undertaking supports the availability of such channels

[101] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #5 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Lack of grievance/complaints handling mechanisms related to employee matters).

in the workplace of its own workforce; and

(e) how it tracks and monitors issues raised and addressed, and, how it ensures the effectiveness of the channels, including through the involvement of ***stakeholders*** who are intended ***users***.

33. The undertaking shall disclose whether and how it assesses that people in its ***own workforce*** are aware of, and trust, these structures or processes as a way to raise their concerns or needs and have them addressed. In addition, the undertaking shall disclose whether it has policies in place regarding the protection of individuals that use them, including workers' representatives, against retaliation. If such information has been disclosed in accordance with ESRS G1-1, the undertaking may refer to that information.

34. If the undertaking cannot disclose the above required information because it has not adopted a channel for raising concerns and/or does not support the availability of such a channel in the workplace for its own workforce, it shall disclose this to be the case. It may disclose a timeframe in which it aims to have such a channel in place.

Disclosure Requirement S1-4 – Taking action on material impacts on own workforce, and approaches to managing material risks and pursuing material opportunities relatedto own workforce, and effectiveness of those actions

35. **The undertaking shall disclose how it takes action to address material negative and positive impacts, and to manage material risks and pursue material opportunities related to its own workforce, and the effectiveness of those actions.**

36. The objective of this Disclosure Requirement is twofold. Firstly, it is to enable an understandingof any ***actions*** and initiatives through which the undertaking seeks to:

(a) to prevent, mitigate and remediate negative material ***impacts*** on its ***own workforce***; and/or

(b) to achieve positive material impacts for its own workforce.

Secondly, it is to enable an understanding of the ways in which the undertaking is addressing the material ***risks*** and pursuing the material ***opportunities*** related to its own workforce.

37. The undertaking shall provide a summarised description of the action plans and resources to manage its material ***impacts, risks***, and ***opportunities*** related to its ***own workforce*** in accordance with ESRS 2 MDR-A *Actions and resources in relation to material sustainability matters*.

38. In relation to the material ***impacts*** related to its ***own workforce***, the undertaking shall describe:

(a) ***actions*** taken, planned or underway to prevent or mitigate material negative impacts on its own workforce;

(b) whether and how it has taken action to provide or enable ***remedy*** in relation to an actual material impact;

(c) any additional actions or initiatives it has in place with the primary purpose of delivering positive impacts for its own workforce; and

(d) how it tracks and assesses the effectiveness of these actions and initiatives in delivering outcomes for its own workforce.

39. In relation to paragraph 36, the undertaking shall describe the processes through which it identifies what action is needed and appropriate in response to a particular actual or potential negative ***impact*** on its ***own workforce***.

40. In relation to material ***risks*** and ***opportunities***, the undertaking shall describe:

(a) what action is planned or underway to mitigate material risks for the undertaking arising from its impacts and ***dependencies*** on its ***own workforce*** and how it tracks effectiveness in practice; and

(b) what action is planned or underway to pursue material opportunities for the undertaking in relation to its own workforce.

41. The undertaking shall disclose whether and how it ensures that its own practices do not cause or contribute to material negative impacts on ***own workforce***, including, where relevant, its practices in relation to procurement, sales and data use. This may include disclosing what approach is taken when tensions arise between the prevention or mitigation of material negative impacts and other business pressures.

42. When disclosing the information required under paragraph 40, the undertaking shall consider ESRS 2 MDR-T *Tracking effectiveness of policies and actions through targets* if it evaluates the effectiveness of an action by setting a target.

43. The undertaking shall disclose what resources are allocated to the management of its material impacts, with information that allows ***users*** to gain an understanding of how the material impacts are managed.

Metrics and targets

Disclosure Requirement S1-5 – Targets related to managing material negative impacts,advancing positive impacts, and managing material risks and opportunities

44. **The undertaking shall disclose the time-bound and outcome-oriented targets it may have set related to:**

    (a) **reducing negative impacts on its own workforce; and/or**

    (b) **advancing positive impacts on its own workforce; and/or**

    (c) **managing material risks and opportunities related to its own workforce.**

45. The objective of this Disclosure Requirement is to enable an understanding of the extent to which the undertaking is using outcome-oriented ***targets*** to drive and measure its progress in addressing its material negative ***impacts*** and/or advancing positive impacts on its ***own workforce***, and/or in managing material ***risks*** and ***opportunities*** related to its own workforce.

46. The summarised description of the ***targets*** set to manage its material ***impacts, risks*** and ***opportunities*** related to the undertaking's ***own workforce*** shall contain the information requirements defined in ESRS 2 MDR-T.

47. The undertaking shall disclose the process for setting the ***targets***, including whether and how the undertaking engaged directly with its ***own workforce*** or ***workers' representatives*** in:

    (a) setting any such targets;

    (b) tracking the undertaking's performance against them; and

    (c) identifying any lessons or improvements as a result of the undertaking's performance.

Disclosure Requirement S1-6 – Characteristics of the undertaking's employees

48. **The undertaking shall describe key characteristics of employees in its own workforce.**

49. The objective of this Disclosure Requirement is to provide insight into the undertaking's approach to employment, including the scope and nature of ***impacts*** arising from its employment practices, to provide contextual information that aids an understanding of the information reported in other disclosures, and to serve as the basis for calculation for quantitative ***metrics*** to be disclosed under other disclosure requirements in this Standard.

50. In addition to the information required by paragraph 40(a)iii of ESRS 2 *General Disclosures*, the undertaking shall disclose:

    (a) the total number of ***employees*** by head count, and breakdowns by gender and by

country for countries in which the undertaking has 50 or more employees representing at least 10% of its total number of employees;

(b) the total number by head count or full time equivalent (FTE) of:

i. permanent employees, and breakdown by gender;

ii. temporary employees, and breakdown by gender; and

iii. non-guaranteed hours employees, and breakdown by gender.

(c) the total number of employees who have left the undertaking during the reporting period and the rate of employee turnover in the reporting period.

(d) a description of the methodologies and assumptions used to compile the data, including whether the numbers are reported:

i. in head count or full-time equivalent (FTE) (including an explanation of how FTE is defined); and

ii. at the end of the reporting period, as an average across the reporting period, or using another methodology.

(e) where applicable, a provision of contextual information necessary to understand the data (for example, to understand fluctuations in number of employees during the reporting period); and

(f) a cross-reference of the information reported under (a) above to the most representative number in the financial statements.

51. For the information specified in point (b) of paragraph 50, the undertaking may in addition disclose the breakdown by region.

52. The undertaking may disclose by head count or full time equivalent (FTE) the following information:

(a) full-time ***employees***, and breakdowns by gender and by region; and

(b) part-time employees, and breakdowns by gender and by region.

Disclosure Requirement S1-7 – Characteristics of non-employees in the undertaking's own workforce

53. **The undertaking shall describe key characteristics of non-employees in its own workforce.**

54. The objective of this Disclosure Requirement is to provide insight into the undertaking's approach to employment, including the scope and nature of ***impacts*** arising from its employment practices, to provide contextual information that aids the understanding of the information reported in other disclosures, and to serve as the basis for calculation for quantitative ***metrics*** to be disclosed under other disclosure requirements in this Standard. It also allows an understanding of how much the undertaking relies on ***non-employees*** as part of its workforce.

55. The disclosure required by paragraph 53 shall include:

(a) a disclosure of the total number of ***non-employees*** in the undertaking's ***own workforce***, i.e., either people with contracts with the undertaking to supply labour ("self-employed people") or people provided by undertakings primarily engaged in "employment activities" (NACE Code N78).

(b) an explanation of the methodologies and assumptions used to compile the data, including whether the number of non-employees is reported:

i. in headcount or full-time equivalent (FTE) (including a definition of how FTE is defined); and

ii. at the end of the reporting period, as an average across the reporting period, or

using another methodology.

(c) where applicable, a provision of contextual information necessary to understand the data (for example, significant fluctuations in the number of non-employees in the undertaking's ***own workforce*** during the reporting period and between the current and the previous reporting period).

56. For the information specified in point (a) of paragraph 55, the undertaking may disclose the most common types of ***non-employees*** (for example, self-employed people, people provided by undertakings primarily engaged in employment activities, and other types relevant to the undertaking), their relationship with the undertaking, and the type of work that they perform.

57. Where data is not available, the undertaking shall estimate the number and state that it has done so. When the undertaking performs estimates, it shall describe the basis of preparation of this estimation.

Disclosure Requirement S1-8 – Collective bargaining coverage and social dialogue

58. **The undertaking shall disclose information on the extent to which the working conditions and terms of employment of its employees are determined or influenced by collective bargaining agreements and on the extent to which its employees are represented in social dialogue in the European Economic Area (EEA) at the establishment and European level.**

59. The objective of this Disclosure Requirement is to enable an understanding of the coverage of ***collective bargaining*** agreements and ***social dialogue*** for the undertaking's own ***employees***.

60. The undertaking shall disclose:

(a) the percentage of its total ***employees*** covered by ***collective bargaining*** agreements;

(b) in the EEA, whether it has one or more collective ***bargaining agreements*** and, if so, the overall percentage of its ***employees*** covered by such agreement(s) for each country in which it has significant employment, defined as at least 50 employees by head count representing at least 10% of its total number of employees; and

(c) outside the EEA, the percentage of its own employees covered by collective bargaining agreements by region.

61. For ***employees*** not covered by ***collective bargaining*** agreements, the undertaking may disclose whether it determines their working conditions and terms of employment based on collective bargaining agreements that cover its other employees or based on collective bargaining agreements from other undertakings.

62. The undertaking may disclose the extent to which the working conditions and terms of employment of ***non-employees*** in its ***own workforce*** are determined or influenced by ***collective bargaining*** agreements, including an estimate of the coverage rate.

63. The undertaking shall disclose the following information in relation to ***social dialogue***:

(a) the global percentage of ***employees*** covered by workers' representatives, reported at the country level for each EEA country in which the undertaking has significant employment; and

(b) the existence of any agreement with its employees for representation by a European Works Council (EWC), a Societas Europaea (SE) Works Council, or a Societas Cooperativa Europaea (SCE) Works Council.

Disclosure Requirement S1-9 – Diversity metrics

64. **The undertaking shall disclose the gender distribution at top management and the age distribution amongst its employees.**

65. The objective of this Disclosure Requirement is to enable an understanding of gender diversityat top management level and the age distribution of its ***employees***.

66. The undertaking shall disclose:

    (a) the gender distribution in number and percentage at top management level; and

    (b) the distribution of ***employees*** by age group: under 30 years old; 30-50 years old; over 50 years old.

Disclosure Requirement S1-10 – Adequate wages

67. **The undertaking shall disclose whether or not its employees are paid an adequate wage, and if they are not all paid an adequate wage, the countries and percentage of employees concerned.**

68. The objective of this Disclosure Requirement is to enable an understanding of whether or not all the undertaking's ***employees*** are paid an ***adequate wage***, in line with applicable benchmarks.

69. The undertaking shall disclose whether all its ***employees*** are paid an ***adequate wage***, in line with applicable benchmarks. If so, stating this will be sufficient to fulfil this disclosure requirement and no further information is needed.

70. If not all its ***employees*** are paid an ***adequate wage*** in line with applicable benchmarks, the undertaking shall disclose the countries where employees earn below the applicable adequate wage benchmark and the percentage of employees that earn below the applicable adequate wage benchmark for each of these countries.

71. The undertaking may also disclose the information specified in this disclosure requirement with regard to ***non-employees*** in its workforce.

Disclosure Requirement S1-11 – Social protection

72. **The undertaking shall disclose whether its employees are covered by social protection against loss of income due to major life events, and, if not, the countries where this is not the case.**

73. The objective of this Disclosure Requirement is to enable an understanding of whether the undertaking's ***employees*** are covered by ***social protection*** against loss of income due to majorlife events, and, if not, the countries where this is not the case.

74. The undertaking shall disclose whether all its ***employees*** are covered by ***social protection***, through public programs or through benefits offered by the undertaking, against loss of income due to any of the following major life events:

    (a) sickness;

    (b) unemployment starting from when the own worker is working for the undertaking;

    (c) employment injury and acquired disability;

    (d) parental leave; and

    (e) retirement.

    If so, stating this is sufficient to fulfil this disclosure requirement and no further informationis needed.

75. If not all of its ***employees*** are covered by ***social protection*** in accordance with paragraph 72, the undertaking shall in addition disclose the countries where employees do not have social protection with regard to one or more of the types of events listed in paragraph 72 and for each of those countries the types of employees who do not have social protection with regard to each applicable major life event.

76. The undertaking may also disclose the information specified in this disclosure requirement

with regard to ***non-employees*** in its workforce.

Disclosure Requirement S1-12– Persons with disabilities

77. **The undertaking shall disclose the percentage of its own employees with disabilities.**

78. The objective of this Disclosure Requirement is to enable an understanding of the extent to which ***persons with disabilities*** are included among the undertaking's ***employees***.

79. The undertaking shall disclose the percentage of ***persons with disabilities*** amongst its ***employees*** subject to legal restrictions on the collection of data.

80. The undertaking may disclose the percentage of ***employees*** with disabilities with a breakdownby gender.

Disclosure Requirement S1-13 – Training and skills development metrics

81. **The undertaking shall disclose the extent to which training and skills development is provided to its employees.**

82. The objective of this Disclosure Requirement is to enable an understanding of the ***training*** and skills ***development*** -related activities that have been offered to ***employees***, within the context of continuous professional growth, to upgrade employees' skills and facilitate continued employability.

83. The disclosure required by paragraph 81 shall include:

    (a) the percentage of ***employees*** that participated in regular performance and career ***development*** reviews; such information shall be broken down by gender;

    (b) the average number of ***training*** hours per employee and by gender.

84. The undertaking may disclose breakdowns by employee category for the percentage of employees that participated in regular performance and career development and for the average number of training hours per employee.

85. The undertaking may also disclose the information specified in this disclosure requirement with regard to ***non-employees*** in its workforce.

Disclosure Requirement S1-14 – Health and safety metrics

86. **The undertaking shall disclose information on the extent to which its own workforce is covered by its health and safety management system and the number of incidents associated with work-related injuries, ill health and fatalities of its own workforce. In addition, it shall disclose the number of fatalities as a result of work-related injuries andwork-related ill health of other workers working on the undertaking's sites.**

87. The objective of this Disclosure Requirement is to allow an understanding of the coverage, quality and performance of the health and safety management system established to prevent ***work-related injuries***.

88. The disclosure required by paragraph 86 shall include the following information, where applicable broken down between ***employees*** and ***non-employees*** in the undertaking's ***own workforce***:

    (a) the percentage of people in its own workforce who are covered by the undertaking's health and safetymanagement system based on legal requirements and/or recognised standards or guidelines;

    (b) the number of fatalities[102] as a result of ***work-related injuries*** and ***work-related ill***

[102] This information supports the information needs of benchmark administrators to disclose ESG factors subject to

health;

(c) the number and rate of recordable work-related accidents;

(d) with regard to the undertaking's employees, the number of cases of ***recordable work-related ill health***, subject to legal restrictions on the collection of data; and

(e) with regard to the undertaking's employees, the number of days lost to work-related injuries and fatalities from work-related accidents, work-related ill health and fatalities from ill health[103].

The information for (b) shall also be reported for other workers working on the undertaking's***sites***, such as ***value chain workers*** if they are working on the undertaking's sites.

89. The undertaking may also disclose the information specified in points (d) and (e) of paragraph 88 with regard to ***non-employees***.

90. In addition, the undertaking may include the following additional information on the health andsafety coverage: the percentage of its own workers covered by a health and safety management system which is based on legal requirements and/or recognised standards or guidelines and which has been internally audited and/or audited or certified by an external party.

Disclosure Requirement S1-15 – Work-life balance metrics

91. **The undertaking shall disclose the extent to which employees are entitled to and make use of family-related leave.**

92. The objective of this Disclosure Requirement is to provide an understanding of the entitlement and actual practices amongst the ***employees*** to take family-related leave in a gender equitablemanner, as it is one of the dimensions of ***work-life balance***.

93. The disclosure required by paragraph 91 shall include:

(a) the percentage of ***employees*** entitled to take family-related leave; and

(b) the percentage of entitled employees that took family-related leave, and a breakdown by gender.

94. If all of the undertaking's ***employees*** are entitled to family-related leave through social policy and/or ***collective bargaining*** agreements, it is sufficient to disclose this in order to meet the requirement of paragraph 93a.

Disclosure Requirement S1-16 – Remuneration metrics (pay gap and total remuneration)

95. **The undertaking shall disclose the percentage gap in pay between its female and male employees and the ratio between the remuneration of its highest paid individual and the median remuneration for its employees.**

96. The objective of this Disclosure Requirement is twofold: to allow an understanding of the extent of any gap in the ***pay*** between women and men amongst the undertaking's ***employees***; and to provide insight into the level of remuneration inequality inside the

Regulation (EU) 2020/1816 as set out by indicator "Weighted average ratio of accidents, injuries, fatalities" in section 1 and 2 of Annex II. This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #2 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Rate of accidents") and benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator "Weighted average ratio of accidents, injuries, fatalities" in section 1 and 2 of Annex II.

[103] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #3 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Number of days lost to injuries, accidents, fatalities or illness").

undertaking and whether wide pay disparities exist.

97. The disclosure required by paragraph 95 shall include:

    (a) the gender ***pay*** gap, defined as the difference of average pay levels between female and male employees, expressed as percentage of the average pay level of male employees[104];

    (b) the ***annual total remuneration*** ratio of the highest paid individual to the median annual total remuneration for all ***employees*** (excluding the highest-paid individual)[105]; and

    (c) where applicable, any contextual information necessary to understand the data and how the data has been compiled and other changes to the underlying data that are to be considered.

98. The undertaking may disclose a breakdown of the gender ***pay*** gap as defined in paragraph 97(a) by employee category and/or by country/segment. The undertaking may also disclose the gender pay gap between employees by categories of employees broken down by ordinary basic salary and complementary or variable components.

99. In relation to paragraph 97 (b), the undertaking may report this figure adjusted for purchasing power differences between countries, in which case it shall report the methodology used for thecalculation.

Disclosure Requirement S1-17 – Incidents, complaints and severe human rights impacts

100. **The undertaking shall disclose the number of work-related incidents and/or complaintsand severe human rights impacts within its own workforce, and any related material fines, sanctions or compensation for the reporting period.**

101. The objective of this Disclosure Requirement is to allow an understanding of the extent to which ***work-related incidents*** and severe cases of human rights ***impacts*** are affecting its ***own workforce***.

102. The disclosure required by paragraph 100 shall include, subject to the relevant privacy regulations, ***work-related incidents*** of ***discrimination*** on the grounds of gender, racial or ethnic origin, nationality, religion or belief, disability, age, sexual orientation, or other relevant forms of discrimination involving internal and/or external ***stakeholders*** across operations in the reporting period. This includes incidents of ***harassment*** as a specific form of discrimination.

103. The undertaking shall disclose:

    (a) the total number of ***incidents*** of ***discrimination***, including ***harassment***, reported in the reporting period[106];

    (b) the number of complaints filed through channels for people in the undertaking's ***own workforce*** to raise concerns (including ***grievance mechanisms)*** and, where applicable, to the National Contact Points for OECD Multinational Enterprises related

[104] This information supports the information needs of: financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory indicator related to principal adverse impacts as set out by indicator #12 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Unadjusted gender pay gap"); and benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator "Weighted average gender pay gap" in section 1 and 2 of Annex II.

[105] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #8 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Excessive CEO pay ratio").

[106] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #7 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Incidents of discrimination").

to the matters defined in paragraph 2 of this Standard, excluding those already reported in (a) above;

(c) the total amount of fines, penalties, and compensation for damages as a result of the ***incidents*** and complaints disclosed above, and a reconciliation of such monetary amounts disclosed with the most relevant amount presented in the financial statements; and

(d) where applicable, contextual information necessary to understand the data and how such data has been compiled.

104. The undertaking shall disclose the following information regarding identified cases of severe human rights ***incidents*** (e.g., ***forced labour***, human trafficking or ***child labour***):

(a) the number of severe human rights incidents connected to the undertaking's workforce in the reporting period, including an indication of how many of these are cases of non-respect of the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work or OECD Guidelines for Multinational Enterprises. If no such incidents have occurred, the undertaking shall state this[107]; and

(b) the total amount of fines, penalties and compensation for damages for the incidents described in (a) above, and a reconciliation of the monetary amounts disclosed in the most relevant amount in the financial statements.

Appendix A: Application Requirements

This appendix is an integral part of the ESRS S1 *Own workforce*. It supports the application of the disclosure requirements set out in this standard and has the same authority as the other parts of this Standard.

Objective

AR 1. In addition to the issues listed in paragraph 2, the undertaking may also consider disclosing information about other issues relevant to a material impact for a shorter period of time, for instance initiatives regarding the health and safety of its ***own workforce*** during a pandemic.

AR 2. The overview of social matters provided in paragraph 2 is not meant to imply that all of these issues should be reported on in each Disclosure Requirement in this Standard. Rather, they provide a list of matters derived from the sustainability reporting requirements set out in Directive 2013/34/EU that the undertaking shall consider for the ESRS 2 ***materiality*** assessment related to its ***own workforce*** and, as appropriate, report as material ***impacts, risks*** and ***opportunities*** within the scope of this Standard.

AR 3. Examples of people that fall within the scope of ***"Own workforce***" are:

(a) Examples of contractors (self-employed persons) in the undertaking's ***own workforce*** include:

i. Contractors hired by the undertaking to perform work that would otherwise be carried out by an ***employee***

ii. Contractors hired by the undertaking to perform work in a public area (e.g., on a

[107] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory and additional indicator related to principal adverse impacts as set out by indicator #10 in Table I of Annex I and by indicator #14 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Violations of UNGC principles and OECD Guidelines for Multinational Enterprises" and "Number of identified cases of severe human rights issues and incidents"); and the information needs of benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator "Number of benchmark constituents subject to social violations (absolute number and relative divided by all benchmark constituents), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law" in section 1 and 2 of Annex II.

road, on the street).

iii. Contractors hired by the undertaking to deliver the work/service directly at the workplace of a client of the undertaking.

(b) Examples of people employed by a third party engaged in 'employment activities' include people who perform the same work that employees carry out, such as:

i. people who fill in for employees who are temporarily absent (due to illness, holiday, parental leave, etc.);

ii. people performing work additional to regular employees;

iii. people who are dispatched temporarily from another EU member state towork for the undertaking ('posted workers').

ESRS 2 General Disclosures

Strategy

Disclosure Requirement related to ESRS 2 SBM-2 – Interests and views of stakeholders

AR 4. ESRS 2 SBM-2 requires the undertaking to provide an understanding of whether and how it considers the role that its strategy and ***business model*** may play in creating, exacerbating or mitigating significant material ***impacts*** on its ***own workforce***, and whether and howthe business model and strategy are adapted to address such material impacts.

AR 5. While the undertaking's ***own workforce*** may not be engaging with the undertaking at the level of its strategy or ***business model***, their views can inform the undertaking's assessment of its strategy and business model. The undertaking shall consider the views of ***workers' representatives*** when applicable to fulfil this disclosure.

Disclosure Requirement related to ESRS 2 SBM-3 – Material impacts, risks and opportunities and their interaction with strategy and business model

AR 6. ***Impacts*** on the undertaking's ***own workforce*** can originate in its strategy or ***business model*** in a number of different ways. For example, impacts may relate to the undertaking's value proposition (such as providing lowest cost products or services, or high-speed delivery, in ways that put pressure on labour rights in its own operations), or its cost structure and the revenue model (such as shifting inventory risk to ***suppliers***, with knock-on effects on the labour rights of people who work for them).

AR 7. Impacts on the undertaking's ***own workforce*** that originate in the strategy or ***business model*** can also bring material ***risks*** to the undertaking. For example, risks arise if some people in the workforce are at risk of ***forced labour***, and the undertaking is importing products into countries where the law allows for the confiscation of imported goods that are suspected of being made with forced labour. An example of ***opportunities*** for the undertaking may result from providing opportunities for the workforce such as job creation and upskilling in the context of a "just transition". Another example, in the context of a pandemic or other severe health crisis, relates to the undertaking potentially relying on contingent labour with little to no access to sick care and health benefitsthat may face severe operational and business continuity risks as workers have no choice but to keep working while sick, further exacerbating the spread of the disease and causing major ***supply chain*** breakdowns. Reputational and business opportunity risks linked to the exploitation of low-skilled, low-paid workers in sourcing geographies with minimal protections for them are also increasing with media backlash and ***consumer*** preferences moving to more ethically sourced or sustainable goods.

AR 8. Examples of particular characteristics of people in the undertaking's ***own workforce*** that may be considered by the undertaking when responding to paragraph 15 relate to young people that may be more susceptible to ***impacts*** on their physical and mental development,

or women in a context where women are routinely discriminated against in the terms and conditions of work, or migrants in a context where the market for the supply of labour is poorly regulated and workers are routinely charged recruitment fees. For some people in the workforce, the inherent nature of the activity that they are required to undertake may put them at risk (for example, people required to handle chemicals or operate certain equipment or low paid employees who are on “zero hours” contracts).

AR 9. With regard to paragraph 16, material ***risks*** could also arise because of the undertaking’s ***dependency*** on its ***own workforce*** where low-likelihood but high-impact events may trigger ***financial effects;*** for example, where a global pandemic leads to severe health impacts on the undertaking’s workforce resulting in major disruptions to production and distribution. Other examples of risk related to the undertaking’s dependency on its workforce include a shortage in skilled workers or political decisions or legislation affecting its own operations and ***own workforce***.

Impacts, risks and opportunities management

Disclosure Requirement S1-1 – Policies related to own workforce

AR 10. The undertaking shall consider whether explanations of significant changes to the policies adopted during the reporting year (for example, new expectations for foreign subsidiaries, new or additional approaches to due diligence and remedy) provide contextual information for users and may disclose such explanations. This includes policies and commitments of the undertaking to prevent or mitigate the ***risks*** and negative ***impacts*** on people in its ***own workforce*** of reducing carbon ***emissions*** and transitioning to greener and climate-neutral operations as well as to provide ***opportunities*** for the workforce such as job creation and upskilling, including explicitcommitments to a ‘just transition’.

AR 11. The ***policy*** may take the form of a stand-alone policy regarding the undertaking’s own workforce or be included in a broader document such as a code of ethics or a general sustainability policy that has alreadybeen disclosed by the undertaking as part of another ESRS. In those cases, the undertaking shall provide an accurate cross-reference to identify the aspects of the policy thatsatisfy the requirements of this Disclosure Requirement.

AR 12. When disclosing the alignment of its policies with the UN Guiding Principles on Business and Human Rights, the undertaking shall consider that the Guiding Principles refer to the International Bill of Human Rights, which consist of the Universal Declaration of Human Rights and the two Covenants that implement it, as well as the International Labour Organisation’s Declaration on Fundamental Rights and Principles at Work and the core conventions that underpin it, and may report on alignment with these instruments.

AR 13. When explaining how external-facing policies are embedded, the undertaking may, for example, consider internal policies of responsible sourcing, and alignment with other policies relevant to own workers, for example, regarding forced labour. With regard to supplier codes of conduct that the undertaking may have, it shall indicate whether they include provisions addressing the safety of workers, precarious work (i.e., use of workers on short-term or limited hours contracts, workers employed via third parties, sub-contracting to third parties or use of informal workers), human trafficking, the use of forced labour or child labour, and whether such provisions are fully in line with applicable ILO standards.

AR 14. The undertaking may provide an illustration of the types of communication of its policies to those individuals, group of individuals or entities for whom they are relevant, either because they are expected to implement them (for example, the undertaking’s ***employees***, contractors and ***suppliers***), or because they have a direct interest in their implementation (for example, people in its ***own workforce***, investors). It may disclose communication tools and channels (for example, flyers, newsletters, dedicated websites, social media, face to face interactions, workers’ representatives), aimed at ensuring that the ***policy*** is accessible and that different audiences understand its implications. The undertaking may also explain how it identifies and removes potential barriers for dissemination, such as through translation into relevant languages or the use of graphic depictions.

AR 15. ***Discrimination*** in employment and occupation occurs when someone is treated differently or

less favourably because of characteristics that are not related to merit or the inherent requirements of the job. These characteristics are commonly defined in national laws. Besides the grounds mentioned in the Disclosure Requirement, the undertaking shall consider other grounds for discrimination prohibited under national legislation.

AR 16. ***Discrimination*** can arise in a variety of work-related activities. These include access to employment, particular occupations, ***training*** and vocational guidance and social security. Moreover, it can occur with respect to the terms and conditions of employment, such as: recruitment, remuneration, hours of work and rest, paid holidays, maternity protection, security of tenure, job assignments, performance assessment and advancement, training opportunities, promotion prospects, occupational safety and health, termination of employment. The undertaking may address these areas specifically when disclosing its policies and underlying procedures to fulfil the disclosure requirement.

AR 17. The undertaking may disclose whether it:

(a) has policies and procedures which make qualifications, skills and experience the basis for the recruitment, placement, ***training*** and advancement at all levels, while accounting for the fact that some individuals may have more difficulty than others to acquire such qualifications, skills and experience;

(b) assigns responsibility at top management level for ***equal treatment*** and ***opportunities*** in employment, issue clear company-wide policies and procedures to guide equal employment practices, and link advancement to desired performance in this area;

(c) provides staff training on non***-discrimination*** policies and practices, with a particular focus on middle and upper management to raise awareness and address resolution strategies for preventing and addressing systemic and incidental discrimination;

(d) makes adjustments to the physical environment to ensure health and safety for workers, customers and other visitors with disabilities;

(e) evaluates whether job requirements have been defined in a way that could systematically disadvantage certain groups;

(f) keeps up-to-date records on recruitment, training and promotion that provide a transparent view of opportunities for ***employees*** and their progression within the undertaking;

(g) puts in place grievance procedures to address complaints, handle appeals and provide recourse for employees (especially in the context of negotiations and collective agreements) when discrimination is identified, and is alert to formal structures and informal cultural issues that can prevent employees from raising concerns and grievances; and

(h) has programs to promote access to skills ***development.***

Disclosure Requirement S1-2 – Processes for engaging with own workforce and workers'representatives about impacts

AR 18. When describing what function or role has operational responsibility for such engagement and/or ultimate accountability, the undertaking may disclose whether this is a dedicated role or function or part of a broader role or function, and whether any capacity building activities have been offered to support the staff to undertake engagement. If it cannot identify such a position or function, it may state that this is the case. This disclosure could also be fulfilled by making reference to information disclosed according to ESRS 2 GOV-1 *The role of the administrative, management and supervisory bodies*.

AR 19. When preparing the disclosures described in paragraph 27 b) and c), the following illustrations may be considered:

(a) examples of stages at which engagement occurs are i) determining the approach to mitigation and ii) evaluating the effectiveness of mitigation;

(b) for type of engagement, these could be participation, consultation and/or information;

(c) for the frequency of the engagement, information may be provided on whether engagement occurs on a regular basis, at certain points in a project or business process, (for example, when a new harvest season begins or a new production line is opened), as well as whether it occurs in response to legal requirements and/or in response to ***stakeholder*** requests and whether the result of the engagement is being integrated into the undertaking's decision-making processes; and

(d) for the role with operational responsibility, whether the undertaking requires relevant staff to have certain skills, or whether it provides ***training*** or capacity building to relevant staff to undertake engagement.

AR 20. Global Framework Agreements (GFA) serve to establish an ongoing relationship between a multinational enterprise and a Global Union Federation to ensure that the undertaking adheres to the same standards in every country in which it operates.

AR 21. To illustrate how the perspectives of its ***own workforce*** have informed specific decisions or activities, the undertaking may provide examples from the current reporting period.

AR 22. Where the undertaking has agreements with national, European or international trade unions or works councils related to the rights of people its own workforce, this can be disclosed to illustrate how the agreement enables the undertaking to gain insight into the perspectives of such people.

AR 23. Where possible, the undertaking may disclose examples from the reporting period to illustrate how the perspectives of its ***own workforce*** and ***workers' representatives*** have informed specific decisions or activities of the undertaking.

AR 24. The undertaking shall consider the following aspects when fulfilling this Disclosure Requirement:

(a) The type of engagement (for example, information, consultation or participation) and its frequency (for example, ongoing, quarterly, annually);

(b) how feedback is recorded and integrated into decision-making, and how people in the workforce are informed about the way in which their feedback has influenced decisions;

(c) whether engagement activities take place at the organisational level or at a lower level, such as at the ***site*** or project level, and in the latter case, how information from engagement activities is centralised;

(d) the resources (for example, financial or human resources) allocated to engagement; and

(e) how it engages with people in its workforce and ***workers' representatives*** on the impacts on its ***own workforce*** that may arise from reducing carbon ***emissions*** and transitioning to greener and climate-neutral operations, in particular restructuring, employment loss or creation, training and up/reskilling, gender and social equity, and health and safety.

AR 25. The undertaking may also disclose the following information in relation to paragraph 24 on diversity:

(a) how it engages with at-risk or persons in vulnerable situations (for example whether it takes specific approaches and gives special attention to potential barriers);

(b) how it takes into account potential barriers to engagement with people in its workforce (for example, language and cultural differences, gender and power imbalances, divisions within acommunity or group);

(c) how it provides people in its workforce with information that is understandable and accessible through appropriate communication channels;

(d) any conflicting interests that have arisen among its workforce and how the undertaking has resolved these conflicting interests; and

(e) how it seeks to respect the human rights of all stakeholders engaged, for example, their rights to privacy, freedom of expression, and peaceful assembly and protest.

AR 26. The undertaking may also report information about the effectiveness of processes for engaging with its ***own workforce*** from previous reporting periods. This applies in cases where the undertaking has assessed the effectiveness of these processes or derived lessons during the current reporting period. Processes used to track effectiveness can include internal or external auditing or verification, impact assessments, measurement systems, ***stakeholder*** feedback, ***grievance mechanisms***, external performance ratings, and benchmarking.

Disclosure Requirement S1-3 – Processes to remediate negative impacts and channelsfor own workers to raise concerns

AR 27. In fulfilling the requirements set out by the disclosure criteria of Disclosure Requirement ESRS S1-3, the undertaking may be guided by the content of the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance for Responsible Business Conduct focused on ***remediation*** and ***grievance mechanisms***.

AR 28. Channels for raising concerns or needs include ***grievance mechanisms***, hotlines, trade unions(where people in the workforce are unionised), works councils, dialogue processes or other means through which the undertaking's ***own workforce*** or ***workers' representatives*** can raise concerns about ***impacts*** or explain needs that they would like the undertaking to address. This could include both channels provided by the undertaking directly and channels provided by the entities where their own workforce is working, in addition to any other mechanisms an undertaking may use to gain insight into the management of impacts on its own workforce, such as compliance audits. Where the undertaking is relying solely on information about the existenceof such channels provided by its ***business relationships*** to answer this requirement, it may state that.

AR 29. Third party mechanisms could include those operated by the government, NGOs, industry associations and other collaborative initiatives. The undertaking may disclose whether these are accessible to all of its ***own workforce*** (or ***workers' representatives*** or,in their absence, individuals or organisations acting on their behalf or who are otherwise in a position to be aware of negative ***impacts***).

AR 30. The undertaking shall consider whether and how people in its ***own workforce*** that may be affected and their***workers' representatives*** are able to access channels at the level of the undertaking they are employed by, or contracted to work for, in relation to each material ***impact.*** Relevant channels may include hotlines, trade unions (where people in the workforce are unionised) or works councils, or other ***grievance mechanisms*** operated by the relevant undertaking or by a third party.

AR 31. In explaining whether and how the undertaking knows that people in its own workforce are aware of and trustany of these channels, the undertaking may provide relevant and reliable data about the effectiveness of these channels from the perspective of the people concerned. Examples of sources of information are surveys of people in the undertaking's workforce that have used such channels and their levelsof satisfaction with the process and outcomes.

AR 32. In describing the effectiveness of channels for its ***own workforce*** and ***workers' representatives*** to raise concerns, the undertaking may be guided by the following questions, based on the "effectiveness criteria for non-judicial ***grievance mechanisms"***, as laid out in the UN Guiding Principles on Business and Human Rights, in particular principle 31. The considerations below may be applied to individual channels or to a collective system of channels:

(a) do the channels have legitimacy by providing appropriate accountability for their fair conduct and building stakeholder trust?

(b) are the channels known and accessible to ***stakeholders***?

(c) do the channels have clear and known procedures, with indicative timeframes?

(d) do the channels ensure reasonable access for ***stakeholders*** to sources of information, advice and expertise?

(e) do the channels offer transparency by providing sufficient information both to

complainants and, where applicable, to meet any public interest?

(f) do outcomes achieved through the channels accord with internationally recognised human rights?

(g) does the undertaking identify insights from the channels that support continuous learning in both improving the channels and preventing future impacts?

(h) does the undertaking focus on dialogue with complainants as the means to reach agreed solutions, rather than seeking to unilaterally determine the outcome?

Disclosure Requirement S1-4 – Taking action on material impacts and approaches to mitigating material risks and pursuing material opportunities related to own workforce,and effectiveness of those actions and approaches

AR 33. It may take time to understand negative ***impacts*** and how the undertaking may be involved with them through its ***own workforce***, as well as to identify appropriate responses and put theminto practice). Therefore, the undertaking may disclose:

(a) its general and specific approaches to addressing material negative impacts;

(b) its initiatives aimed at contributing to additional material positive impacts;

(c) how far it has progressed in its efforts during the reporting period; and

(d) its aims for continued improvement.

AR 34. Appropriate action can vary according to whether the undertaking causes or contributes to a material ***impact***, or whether it is involved because the impact is directly linked to its operations, products or services by a business relationship.

AR 35. Given that material negative ***impacts*** affecting its ***own workforce*** that have occurred during the reporting period may also be connected with other entities or operations outside its direct control, the undertaking may disclose whether and how it seeks to use its leverage in its ***business relationships*** to manage those impacts. This may include using commercial ***leverage*** (for example, enforcing contractual requirements with business relationships or implementing incentives), other forms of leverage within the relationship (such as providing ***training*** or capacity-building on workers' rights to entities with which the undertaking has a business relationship) or collaborative leverage with peers or other actors (such as initiatives aimed at responsible recruitment or ensuring workers receive an ***adequate wage***).

AR 36. When the undertaking discloses its participation in an industry or multi-stakeholder initiative as part of its ***actions*** to address material negative impacts, the undertaking may disclose how the initiative, and its own involvement, is aiming to address the material impact concerned. It may report under ESRS S1-5 the relevant ***targets*** set by the initiative and progress towardsthem.

AR 37. When disclosing whether and how the undertaking considers actual and potential impacts on its ***own workforce*** in decisions to terminate ***business relationships*** and whether and how it seeks to address any negative impacts that may result from termination, the undertaking may include examples.

AR 38. Processes used to track the effectiveness of ***actions*** can include internal or external auditing or verification, court proceedings and/or related court decisions, impact assessments, measurement systems, stakeholder feedback, ***grievance mechanisms***, external performanceratings, and benchmarking.

AR 39. Reporting on effectiveness is aimed at enabling the understanding of the links between actions taken by an undertaking and the effective management of impacts. Additional information that the undertaking may provide includes data showing a decrease in the number of ***incidents*** identified.

AR 40. With regard to initiatives or processes whose primary aim is to deliver positive impacts for people in theundertaking's ***own workforce*** that are based on their needs, and with regard to progress in the implementation of such initiatives or processes, the undertaking may disclose:

(a) information about whether and how people in its own workforce and ***workers' representatives*** play a role in decisions regarding the design and implementation of these programmes or processes; and

(b) information about the intended or achieved positive outcomes for the undertaking's own workforce of these programmes or processes.

AR 41. The undertaking may explain whether any such initiatives are designed also to support the achievement of one or more Sustainable Development Goals. For example, an undertaking committing to SDG 8 to "promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all" may be actively working towards eliminating ***forced labour*** or compulsory labour or supporting higher levels of productivity on activities in developing countries through technological upgrades and ***training*** of local labour, which can benefit both the specific people in its ***own workforce*** targeted by the ***actions***, and also their local communities.

AR 42. When disclosing the intended or achieved positive outcomes of its ***actions*** for the undertaking's ***own workforce,*** a distinction is to be made between evidence of certain activities having occurred (for example, that x number of people have received financial literacy ***training***) from evidence of actual outcomes for the people concerned (for example, that x people report that they are able to better manage their pay and their household budgets).

AR 43. If the undertaking has taken measures to mitigate negative ***impacts*** on its ***own workforce*** that arise from the transition to a greener, climate-neutral economy, such as ***training*** and reskilling, employment guarantees, and in the case of downscaling or mass dismissal, measures such as job counselling, coaching, intra-company placements and early retirement plans, the undertaking shall disclose those measures. This includes measures to comply with prevailing regulation. The undertaking may highlight present and/or expected external developments that influence whether ***dependencies*** turn into ***risks***. This includes consideration of impacts that may arise from the transition to greener and climate-neutral operations.

AR 44. When disclosing the material ***risks*** and ***opportunities*** related to its ***impacts*** or ***dependencies*** on its ***own workforce***, the undertaking may consider the following:

(a) risks related to the undertaking's impacts on its own workforce may include the reputational or legal exposure where people in the undertaking's workforce are found to be subject to ***forced labour*** or ***child labour***;

(b) risks related to the undertaking's dependencies on its own workforce may include disruption of business operations where significant employee turnover or lack of skills/***training development*** threaten the undertaking's business; and

(c) opportunities related to the undertaking's impacts on its own workforce may include market differentiation and greater customer appeal from guaranteeing decent ***pay*** and conditions for non-employees.

AR 45. When explaining whether ***dependencies*** turn into ***risks***, the undertaking shall consider external developments.

AR 46. When disclosing ***policies***, ***actions*** and resources and ***targets*** related to the management of material ***risks*** and ***opportunities***, in cases where risks and opportunities arise from a material ***impact***, the undertaking may cross-reference its disclosures on policies, actions and resources and targets in relation to that impact.

AR 47. The undertaking shall consider whether and how its process(es) to manage material ***risks*** related to ***own workforce*** are integrated into its existing risk management process(es).

AR 48. When disclosing the resources allocated to the management of material impacts, the undertaking may explain which internal functions are involved in managing the impacts and what types of action they take to address negative and advance positive impacts.

Metrics and targets

Disclosure Requirement S1-5 – Targets related to managing material impacts, advancing positive impacts, as well as to risks and opportunities

AR 49. When disclosing information about ***targets*** in accordance with paragraph 46, the undertaking may disclose:

(a) the intended outcomes to be achieved in the lives of a certain number of people in its ***own workforce***;

(b) the stability of the ***targets*** over time in terms of definitions and methodologies to enable comparability over time; and/or

(c) the standards or commitments which the targets are based on (for instance codes of conduct, sourcing policies, global frameworks, or industry codes).

AR 50. ***Targets*** related to ***risks*** and ***opportunities*** may be the same as or distinct from targets related to ***impacts***. For example, a target to reach ***adequate wage***s for ***non-employees*** could both reduce impacts on those people and reduce associated risks in terms of the quality and reliability of their output.

AR 51. The undertaking may also distinguish between short-, medium- and long-term ***targets*** coveringthe same ***policy*** commitment. For example, the undertaking may have a long-term target to achieve an 80% reduction in health and safety ***incidents*** affecting its delivery drivers by 2030 and a near-term target to reduce the ***overtime*** hours of delivery drivers by x% while maintaining their income by 2024.

AR 52. When modifying or replacing a ***target*** in the reporting period, the undertaking may explain the change by cross-referencing it to significant changes in the ***business model*** or to broader changes in the accepted standard or legislation from which the target is derived to provide contextual information as per ESRS 2 BP-2 *Disclosures in relation to specific circumstances*.

Disclosure Requirement S1-6 – Characteristics of the Undertaking's Employees

AR 53. This Disclosure Requirement covers all ***employees*** who perform work for any of the undertaking's entities included in its sustainability reporting.

AR 54. Providing a breakdown of ***employees*** by country gives insight into the distribution of activity across countries. The number of employees in each country is also a key trigger for many information, consultation and participation rights for workers and workers' representatives, both in the Union labour law acquis (for example, Directive 2009/38/EC of the European Parliament and of the Council [108] "European Works Councils Directive" and Directive 2002/14/EC of the European Parliament and of the Council[109] "Information and Consultation Directive") and in national law (for example, rights to establish a works council or to have board level employee representation). Providing a breakdown of employees by gender and type of employment relationship gives insight into gender representation across the undertaking. Additionally, providing a breakdown of employees by region gives insight into regional variations. A region can refer to a country or other geographic locations, such as a region within a country or a world region.

AR 55. The undertaking shall disclose the requested disclosures in the following tabular formats:

Table 1: Template for presenting information on employee head count by gender

[108] Directive 2009/38/EC of the European Parliament and of the Council of 6 May 2009 on the establishment of a European Works Council or a procedure in Community-scale undertakings and Community-scale groups of undertakings for the purposes of informing and consulting employees (OJ L 122, 16.5.2009, p. 28).

[109] Directive 2002/14/EC of the European Parliament and of the Council of 11 March 2002 establishing a general framework for informing and consulting employees in the European Community - Joint declaration of the European Parliament, the Council and the Commission on employee representation (OJ L 80, 23.3.2002, p. 29).

Gender	Number of employees (head count)
Male	
Female	
Other	
Not reported	
Total Employees	

In some Member States it is possible for persons to legally register themselves as having a third, often neutral, gender, which is categorised as "other" in the table above. However, if the undertaking is disclosing data about ***employees*** where this is not possible, it may explain this and indicate that the "other" category is not applicable.

Table 2: Template for presenting employee head count in countries where the undertaking has at least 50 employees representing at least 10% of its total number of employees.

Country	Number of employees (head count)
Country A	
Country B	
Country C	
Country D	

Table 3: Template for presenting information on employees by contract type, broken down by gender (head count or FTE) (reporting on full-time and part-time employees is voluntary)

[Reporting period]				
FEMALE	**MALE**	**OTHER***	**NOT DISCLOSED**	**TOTAL**
Number of employees (head count / FTE)				
Number of permanent employees (head count / FTE)				
Number of temporary employees (head count / FTE)				
Number of non-guaranteed hours employees (head count / FTE)				
Number of full-time employees (head count / FTE)				
Number of part-time employees (head count / FTE)				

*** Gender as specified by the employees themselves.**

Table 4: Template for presenting information on employees by contract type, broken down byregion (head count or FTE) (reporting on full-time and part-time employees is voluntary)

[Reporting period]		
REGION A	**REGION B**	**TOTAL**
Number of employees (head count / FTE)		
Number of permanent employees (head count / FTE)		

Number of temporary employees (head count / FTE)		
Number of non-guaranteed hours employees (head count / FTE)		
Number of full-time employees (head count / FTE)		
Number of part-time employees (head count / FTE)		

AR 56. The definitions of permanent, temporary, non-guaranteed hours, full-time, and part-time ***employees*** differ between countries. If the undertaking has employees in more than one country, it shall use the definitions as per the national laws of the countries where the employees are based to calculate country-level data. The country-level data shall then be added up to calculate total numbers, disregarding differences in national legal definitions. Non-guaranteed hours employees are employed by the undertaking without a guarantee of a minimum or fixed number of working hours. The employee may need to make themselves available for work as required, but the undertaking is not contractually obliged to offer the employee a minimum or fixed number of working hours per day, week, or month. Casual employees, employees with zero-hour contracts, and on-call employees are examples that fallunder this category.

AR 57. Disclosing the number of ***employees*** at the end of the reporting period provides information forthat point in time, without capturing fluctuations during the reporting period. Disclosing these numbers in averages across the reporting period takes into account fluctuations during the reporting period.

AR 58. Quantitative data, such as the number of temporary or part-time ***employees***, is unlikely to be sufficient on its own. For example, a high proportion of temporary or part-time employees could indicate a lack of employment security for employees, but it could equally signal workplace flexibility when offered as a voluntary choice. For this reason, the undertaking is required to disclose contextual information to help information ***users*** interpret the data. The undertaking can explain the reasons for temporary employment. An example of such a reason is the recruitment of employees to undertake work on a temporary or seasonal project or event. Another example is the standard practice of offering a temporary contract (for example, six months) to new employees before an offer of permanent employment is made. The undertaking may also explain the reasons for non-guaranteed hours employment.

AR 59. For the own employee turnover calculation, the undertaking shall calculate the aggregate of the number of ***employees*** who leave voluntarily or due to dismissal, retirement, or death in service. The undertaking shall use this number for the numerator of the employee turnover rate and may determine the denominator used to calculate this rate and describe its methodology.

AR 60. Where data is not available for detailed information, the undertaking shall use an estimation of the employee number or ratios, in accordance with ESRS 1, and clearly identify where theuse of estimates has taken place.

Disclosure Requirement S1-7 – Characteristics of non-employees in the undertaking's own workforce

AR 61. This Disclosure Requirement provides insight into the undertaking's approach to employment, as well as the scope and nature of impacts arising from its employment practices. It also provides contextual information that aids an understanding of the information reported in otherdisclosures. This disclosure covers both individual contractors supplying labour to the undertaking ("self-employed people") and workers provided by

undertakings primarily engaged in "employment activities" (NACE Code N78). If all the people performing work for the undertaking are ***employees*** and the undertaking does not have any people in its workforce who are not employees, this Disclosure Requirement is not material for the undertaking; notwithstanding, the undertaking may state this fact when disclosing the information required by Disclosure Requirement S1-6 as contextual information as this information can be relevant for the ***users*** of the ***Sustainability Statement***.

AR 62. Examples of contractors (self-employed people) in the undertaking's ***own workforce*** include: contractors hired by the undertaking to perform work that would otherwise be carried out by an employee; contractors hired by the undertaking to perform work in a public area (for example, on a road, on the street); and contractors hired by the undertaking to deliver the work/service directly at the workplace of a client of the organization. Examples of people employed by a third party engaged in 'employment activities' whose work is under the direction of the undertaking include: people who perform the same work that ***employees*** carry out, such as people who fill in for employees who are temporarily absent (due to illness, holiday, parental leave, etc.); people performing regular work at the same ***site*** as employees; and workers who are dispatched temporarily from another EU member state to work for the undertaking ('posted workers'). Examples of ***value chain workers*** (and thus of workers not in the undertaking's own workforce and reported under the scope of ESRS S2) include: workers for a ***supplier*** contracted by the undertaking who work on the supplier's premises using the supplier's work methods; workers for a 'downstream' entity which purchases goods or services from the undertaking; and workers of an equipment supplier to the undertaking who, at one or more of the undertaking's workplaces, perform regular maintenance on the supplier's equipment (for example, photocopier) as stipulated in the contract between the equipment supplier and the undertaking.

AR 63. If the undertaking cannot report exact figures, it shall use estimates according to the provisions in ESRS 1 to disclose the number of people in its ***own workforce*** who are not ***employees*** to the nearest ten or, where the number of people in its own workforce who are not employees is greater than 1,000, to the nearest 100, and explain this. In addition, it shall clearly identify the information that derives from actual data and estimates.

AR 64. Disclosing the number of people in the undertaking's ***own workforce*** who are not ***employees*** at the end of the reporting period provides information for that point in time without capturing fluctuations during the reporting period. Disclosing this number as an average across the reporting period considers fluctuations during the reporting period and can provide more insightful and relevant information for ***users***.

AR 65. The information disclosed by the undertaking allows ***users*** to understand how the number of ***non-employees*** in the undertaking's ***own workforce*** varies during the reporting period or compared to the previous reporting period (i.e., whether the numbers have increased or decreased). The undertaking may also disclose the reasons for the fluctuations. For example, an increase in the number of non-employees during the reporting period could be due to a seasonal event. Conversely, a decrease in the number of non-employees compared to the previous reporting period could be due to the completion of a temporary project. If the undertaking discloses fluctuations, it shall also explain the criteria used to determine which fluctuations it discloses. If there are no significant fluctuations in the number of non-employees during the reporting period or between the current and previous reporting period, the undertaking may disclose this information.

Disclosure Requirement S1-8 – Collective bargaining coverage and social dialogue

Collective bargaining coverage

AR 66. The percentage of ***employees*** covered by ***collective bargaining*** agreements is calculated using the following formula:

$$\frac{Number\ of\ employees\ covered\ by\ collective\ bargaining\ agreements}{} \quad x\ 100$$

$$Number\ of\ employees$$

AR 67. The ***employees*** in the undertaking's ***own workforce*** covered by ***collective bargaining*** agreements are those individuals to whom the undertaking is obliged to apply the agreement. This means that if none of the employees are covered by a collective bargaining agreement, the percentage reported is zero. An employee in the undertaking's own workforce covered by more than one collective bargaining agreement only needs to be counted once.

AR 68. This requirement is not aimed at obtaining the percentage of ***employees*** represented by a works council or belonging to trade unions, which can be different. The percentage of employees covered by ***collective bargaining*** agreements can be higher than the percentage of unionised employees when the collective bargaining agreements apply to both union and non-union members. Alternatively, the percentage of employees covered by collective bargaining agreements can be lower than the percentage of unionised employees. This may be the case when there are no collective bargaining agreements available or when the collective bargaining agreements do not cover all unionised employees.

Social Dialogue

AR 69. For calculating the information required by paragraph 63(a), the undertaking shall identify in which European Economic Area (EEA) countries it has significant employment (i.e., at least 50 employees representing at least 10% of its total employees). For these countries it shall report the percentage of ***employees*** in that countrywhich are employed in establishments in which employees are represented by ***workers' representatives***. Establishment is defined as any place of operations where the undertaking carries out a non-transitory economic activity with human means and goods. Examples include: a factory, a branch of a retail chain, or an undertaking's headquarters. For countries in which there is only one establishment the percentage reportedshall be either 100% or 0%.

$$\frac{Number\ of\ employees\ working\ in\ establishments\ with\ workers'\ representatives}{Number\ of\ employees} \ x\ 100$$

AR 70. The information required by this Disclosure Requirement shall be reported as follows

Table 1: Reporting template for collective bargaining coverage and social dialogue

	Collective Bargaining Coverage		**Social dialogue**
Coverage Rate	Employees – EEA (for countries with >50 empl. representing >10% total empl.)	Employees – Non-EEA (estimate for regions with >50 empl. representing >10% total empl)	Workplace representation (EEA only) (for countries with >50 empl. representing >10% total empl)
0-19%		Region A	
20-39%	Country A	Region B	

40-59%	Country B		Country A
60-79%			Country B
80-100%			

Disclosure Requirement S1-9 – Diversity metrics

AR 71. In preparing the disclosure on gender at top management, the undertaking shall use the definition of top management as one and two levels below the administrative and supervisory bodies unless this concept has already been defined with the undertaking's operations and differs from the previous description. If this is the case, the undertaking can use its own definition for top management and disclose that fact and its own definition.

Disclosure Requirement S1-10 – Adequate Wages

AR 72. The lowest ***wage*** shall be calculated for the lowest ***pay*** category, excluding interns and apprentices. This is to be based on the basic wage plus any fixed additional payments that are guaranteed to all ***employees***. The lowest wage shall be considered separately for each country in which the undertaking has operations, except outside the EEA when the relevant adequate or minimum wage is defined at a sub national level.

AR 73. The ***adequate wage*** benchmark used for comparison with the lowest wage shall not be lowerthan:

(a) in the EEA: the minimum wage set in accordance with Directive (EU) 2022/2041 of the European Parliament and of the Council[110] on adequate minimum wages in the European Union. In the period until Directive (EU) 2022/2041 enters into application, where there is no applicable minimum ***wage*** determined by legislation or collective bargaining in an EEA country, the undertaking shall use an ***adequate wage*** benchmark that is either not lower than the minimum wage in a neighboring country with a similar socio-economic status or not lower than a commonly-referenced international norm such as 60% of the country's median wage and 50% of the gross average wage.

(b) outside of the EEA:

i. the wage level established in any existing international, national or sub-national legislation, official norms or collective agreements, based on an assessment of a wage level needed for a decent standard of living;

ii. if none of the instruments identified in (i) exist, any national or sub-national minimum wage established by legislation or ***collective bargaining***; or

iii. if none of the instruments identified in (i) or (ii) exist, any benchmark that meets the criteria set out by the Sustainable Trade Initiative (IDH) ('*Roadmap on Living Wages - A Platform to Secure Living Wages in Supply Chains*'), including applicable benchmarks aligned with the Anker methodology, or provided by the Wage Indicator Foundation or Fair Wage Network, provided the primacy of collective bargaining for the establishment of terms and conditions of employment is ensured.

AR 74. Directive (EU) 2022/2041 on adequate minimum ***wages*** in the European Union references both indicative reference values commonly used at international level such as 60 % of the gross median wage and 50 % of the gross average wage, and/or indicative reference values used at national level. Data for the indicative values of 60% of the national median gross wage or 50% of the national average gross wage can be obtained from the European Labour Force Survey.

[110] Directive (EU) 2022/2041 of the European Parliament and of the Council of 19 October 2022 on adequate minimum wages in the European Union (OJ L 275, 25.10.2022, p. 33).

Disclosure Requirement S1-11 – Social protection

AR 75. ***Social protection*** refers to all the measures that provide access to health care and income supportin cases of challenging life events such as the loss of a job, being sick and in need of medicalcare, giving birth and raising a child, or retiring and in need of a pension.

Disclosure Requirement S1-12 – Persons with disabilities

AR 76. When disclosing the information required in paragraph 77 regarding ***persons with disabilities***, the undertaking shall provide any contextual information necessary to understand the data and how the data has been compiled (methodology). For example, information about the impact of different legal definitions of persons with disabilities in the different countries in whichthe undertaking has operations.

Disclosure Requirement S1-13 – Training and Skills Development metrics

AR 77. A regular performance review is defined as a review based on criteria known to the employee and his or her superior undertaken with the knowledge of the employee at least once per year. The review can include an evaluation by the worker's direct superior, peers, or a wider range of ***employees***. The review can also involve the human resources department. In order to disclose the information required by paragraph 83 (a), the undertaking shall use the employee headcount figures provided in Disclosure Requirement ESRS S1-6 in the denominator to calculate the:

(a) number/proportion of performance reviews per employee; and

(b) number of reviews in proportion to the agreed number of reviews by themanagement.

AR 78. To disclose the average required per paragraph 83 (b), the undertaking shall perform the following calculation: total number of ***training*** hours offered to and completed by ***employees*** per gender category divided by the total number of employees per gender category. For the total training average and the average by gender, the head count figures for total employment and employment by gender reported in Disclosure Requirement ESRS S1-6 shall be used.

AR 79. Employee categories are a breakdown of ***employees*** by level (such as senior management, middle management) or function (such as technical, administrative, production). This information is derived from the undertaking's own human resources system. In categorising the workforce, the undertaking shall define reasonable and meaningful employee categories which enable ***users*** of the information to understand different performance measures between the categories. The undertaking may present a category for executive and non-executive employees.

Disclosure Requirement S1-14 – Health and safety metrics

AR 80. In relation to paragraph 88 (a), the percentage of its ***own workforce*** who are covered by the undertaking's health and safety management system shall be disclosed on a head count basis rather than a full-time equivalent basis.

AR 81. With regard to paragraph 90, when the undertaking's health and safety management system, or certain parts thereof, has been subject to an internal audit or external certification, the undertaking may state this fact, or absence thereof, and the underlying standards for such audits/certifications, as applicable.

AR 82. Fatalities may be reported separately for those resulting from ***work-related injuries*** and thoseresulting from ***work-related ill health***.

Guidance on "work-related"

AR 83. ***Work-related injuries*** and ***work-related ill health*** arise from exposure to hazards at work. Notwithstanding, other types of ***incidents*** can occur that are not connected with the work

itself. For example, the following incidents are generally not considered to be work-related, unless otherwise specified in applicable national legislation:

(a) a person in the workforce suffers a heart attack while at work that it is not connected with work;

(b) a person in the workforce driving to or from work is injured in a car accident (when driving is not part of the work and where the transport has not been organised by the undertaking); and

(c) a person in the workforce with epilepsy has a seizure at work that is not connected with work.

AR 84. With regard to travelling for work purposes, injuries and ill health that occur while a person is travelling are work-related if, at the time of the injury or ill health, the person was engaged in work activities "in the interest of the employer". Examples of such activities include travelling to and from customer contacts; conducting job tasks; and entertaining or being entertained to transact, discuss, or promote business (at the direction of the employer). If the undertaking is responsible for the transport commuting, ***incidents*** occurred while commuting are considered to be work-related. Nonetheless, incidents which arise during travel, outside of the undertaking's responsibility (i.e., regular commuting to and from work), may be reported separately provided that the undertaking has such data available across the undertaking.

AR 85. With regard to working from home, injuries and ill health that occur when working from home are work-related, if the injury or ill health occurs while the person is performing work from home; and the injury or ill health is directly related to the performance of work rather than the general home environment or setting.

AR 86. With regard to mental illness, it is considered to be work-related, if it has been notified voluntarily by the person concerned and it is supported by an opinion from a licensed healthcare professional with appropriate ***training*** and experience; and if such opinion states that the illness is work-related.

AR 87. Health issues resulting, for example, from smoking, drug and alcohol abuse, physical inactivity, unhealthy diets, and psychosocial factors unrelated to work are not considered work-related.

AR 88. Occupational diseases are not considered ***work-related injuries*** but are covered under ***work-related ill health.***

Guidance on computing the rate of work-related injuries

AR 89. In computing the rate of work-related injuries, the undertaking shall divide the respective number of cases by the number of total hours worked by people in its ***own workforce*** and multiplied by 1,000,000. Thereby, these rates represent the number of respective cases per one million hours worked. A rate based on 1,000,000 hours worked indicates the number of work-related injuries per 500 full time people in the workforce over a 1-year timeframe. For comparability purposes a rate based on 1,000,000 hours worked shall be used also for undertakings with less than 500 people in the workforce.

AR 90. If the undertaking cannot directly calculate the number of hours worked, it may estimate this on the basis of normal or standard hours of work, taking into account entitlements to periods of paid leave of absence from work (for example, paid vacations, paid sick leave, public holidays) and explain this in its disclosures.

AR 91. An undertaking shall include fatalities as a result of work-related injury in the calculation of the number and rate of recordable work-related injuries.

Guidance on recordable work-related ill health

AR 92. Work-related ill health can include acute, recurring, and chronic health problems caused or aggravated by work conditions or practices. These include musculoskeletal disorders, skin and respiratory diseases, malignant cancers, diseases caused by physical agents (for example, noise-induced hearing loss, vibration-caused diseases), and mental illnesses (for example, anxiety, post-traumatic stress disorder). For the purpose of the required

disclosures, the undertaking shall, at a minimum, include in its disclosure those cases outlined in the ILO List of Occupational Diseases.

AR 93. In the context of this Standard, work-related musculoskeletal disorders are covered under work-related ill health (and not injuries).

AR 94. The cases to be disclosed in paragraph 88(d) relate to cases of work-related ill health notified to the undertaking or identified by the undertaking through medical surveillance, during the reporting period. The undertaking might be notified of cases of work-related ill health through reports by affected people, compensation agencies, or healthcare professionals. The disclosure may include cases of work-related ill health that were detected during the reporting period among people who were formerly in the undertaking's workforce.

Guidance on the number of days lost

AR 95. The undertaking shall count the number of days lost such that the first full day and last day of absence shall be included. Calendar days should be considered for the calculation, thus days on which the affected individual is not scheduled for work (for example, weekends, public holidays) will count as lost days.

Disclosure Requirement S1-15 – Work-life balance

AR 96. Family-related leave include maternity leave, paternity leave, parental leave, and carers' leave that is available under national law or collective agreements. For the purpose of this Standard, these concepts are defined as:

(a) maternity leave (also called pregnancy leave): employment-protected leave of absence for employed women directly around the time of childbirth (or, in some countries, adoption);

(b) paternity leave: leave from work for fathers or, where and in so far as recognised by national law, for equivalent second parents, on the occasion of the birth or adoption of a child for the purposes of providing care;

(c) parental leave: leave from work for parents on the grounds of the birth or adoption of a child to take care of that child, as defined by each Member State;

(d) carers' leave from work: leave for workers to provide personal care or support to a relative, or a person who lives in the same household, in need of significant care or support for a serious medical reason, as defined by each Member State.

AR 97. With regard to paragraph 93 (a), employees entitled to family-related leave are those who are covered by regulations, organisational policies, agreements, contracts or ***collective bargaining*** agreements that contain family-related leave entitlements and have reported their entitlement to the undertaking or the undertaking is aware of the entitlement.

Disclosure Requirement S1-16 – Remuneration metrics (pay gap and total remuneration)

Pay gap

AR 98. When compiling the information required under paragraph 97 (a) for the gap in ***pay*** between its female and male employees (also known as the "gender pay gap") the undertaking shall use the following methodology:

(a) include all ***employees***' gross hourly pay level; and

(b) apply the following formula to calculate the gender pay gap:

$$(Average\ gross\ hourly\ \text{pay level}\ of\ male\ employees\ -\ average\ gross\ hourly\ \text{pay level}\ of\ female\ employees)$$

$$\frac{}{\text{Average gross hourly pay level of male employees}} \; x\ 100$$

AR 99. When disclosing the information required under paragraph 97 (a), the undertaking shall provide any contextual information necessary to understand the data and how the data has been compiled (methodology). Information regarding how objective factors such as type of work and country of employment influence the gender ***pay*** gap may be reported.

AR 100. The measure of the undertaking's gender ***pay*** gap shall be reported for the current reporting period and, if reported in previous sustainability reports, for the previous two reporting periods.

Total remuneration Ratio

AR 101. When compiling the information required by paragraph 97 (b), the undertaking shall:

(a) include all ***employees***;

(b) consider, depending on the undertaking's remuneration policies, all of thefollowing:

i. base salary, which is the sum of guaranteed, short-term, and non-variable cash compensation;

ii. benefits in cash, which is the sum of the base salary and cash allowances, bonuses, commissions, cash profit-sharing, and other forms of variable cash payments;

iii. benefits in kind, such as cars, private health insurance, life insurance, wellness programs; and

iv. direct remuneration, which is the sum of benefits in cash, benefits in kind and total fair value of all annual long-term incentives (for example, stock option awards, restricted stock shares or units, performance stock shares or units, phantom stock shares, stock appreciation rights, and long-term cash awards).

(c) apply the following formula for the ***annual total remuneration*** ratio:

$$\frac{\text{Annual total remuneration for the undertaking's highest paid individual}}{\text{Median employee annual total remuneration (excluding the highest} - \text{paid individual)}}$$

AR 102. To illustrate the contextual information, the undertaking may provide an explanation to understand the data and how the data has been compiled (methodology). Quantitative data, such as the ***annual total remuneration*** ratio, may not be sufficient on its own to understand ***pay*** disparity and its drivers. For example, pay ratios can be influenced by the size of the undertaking (for example, revenue, number of ***employees***), its sector, its employment strategy (for example, reliance on outsourced workers or part-time employees, a high degree of automation), or currency volatility.

Disclosure Requirement S1-17 –Incidents, complaints and severe human rights impacts

AR 103. In addition to the information required by paragraphs 103 and 104, the undertaking may disclose the status of ***incidents*** and/or complaints and actions taken with reference to the following:

(a) incidents reviewed by the undertaking;

(b) remediation plans being implemented;

(c) remediation plans that have been implemented, with results reviewed through routine internal management review processes; and

(d) incidents no longer subject to action.

AR 104. If the undertaking compiles the information described in AR 105, it shall consider the following:

(a) an ***incident*** is no longer subject to action if it is resolved, the case is completed, or no further action is required by the undertaking. For example, an incident for whichno further action is required can include cases that are withdrawn or where the underlying circumstances that led to the incident no longer exist;

(b) remedial action is directed toward the alleged harasser and the alleged victim. Remedial action toward the victim may include offering to pay his/her expenses for counselling sessions, offering the victim some paid time off, offering to reinstate sick/vacation days if the victim has incurred any expenses due to the ***harassment*** (such as having used sick or vacation days); and

(c) remedial action toward the harasser may include giving the harasser a verbal and/or written warning, mandating anti-harassment counselling or sending the harasser to an appropriate seminar, harassment awareness and prevention ***training***. A suspension without ***pay*** may also be an option. If the harasser has been disciplined earlier but his/her harassment does not cease, then more serious discipline may be required.

AR 105. Severe human rights ***incidents*** include instances of lawsuits, formal complaints through the undertaking or third-party complaint mechanisms, serious allegations in public reports or the media, where these are connected to the undertaking's ***own workforce***, and thefact of the incidents is not disputed by the undertaking, as well as any other severe impacts of which the undertaking is aware.

AR 106. In addition to the information required by paragraph 104 above, the undertaking may disclose the number of severe human rights ***incidents*** where the undertaking played a role securing ***remedy*** for those affected during the reporting period.

Appendix A.1: Application Requirements for ESRS 2 related disclosures

This appendix is an integral part of ESRS S1 *Own workforce*. It supports the application of the disclosure requirements from ESRS 2 set out in this standard and has the same authority as the other parts of this Standard. It provides a non-exhaustive list of the factors to be considered by the undertaking when complying with ESRS 2 SBM-2 and ESRS 2 SBM-3. This appendix does not provide definitions of the terms mentioned below. All defined terms can be found in Annex II: Acronyms and Glossary of Terms.

Social and human rights matters	Non-exhaustive list of factors to consider inMateriality Assessment
Secure employment	% of employees with temporary contracts, ratio ofnon-employees to employees, social protection
Working time	% of employees with part time or zero-hour contracts,employee satisfaction with working time
Adequate wages	EU, national or local legal definitions of adequatewages, fair wages, and minimum wages

Social dialogue / existence of work councils / information, consultation andparticipation rights of workers	Extent of workplace, cross-border and board-level representation through trade unions and/or workscouncils
Freedom of association/Collective bargaining including the rate of workforcecovered by collective agreements	% of own workforce covered by collective bargainingagreements, work stoppages
Work-life balance	Family-related leave, flexible working hours, accessto childcare
Health and safety	Coverage by H&S system, rate of fatalities, non-fatalaccidents, work-related ill health, work days lost
Gender equality and equal pay for workof equal value	% of women in top management and workforce,male-female wage gap
Training and skills development	Amount and distribution of training, % of employeeswith regular performance and development reviews
The employment and inclusion of peoplewith disabilities	% employment and accessibility measures foremployees with disabilities
Measures against violence and harassment in the workplace	Prevalence of violence and harassment
Diversity	Representation of women and /or ethnic groups or minorities in own workforce. Age distribution in ownworkforce. Percentage of persons with disabilities within the own workforce.
Child labour	Type of operations and geographical areas at risk ofchild labour
Forced labour	Type of operations and geographical areas at risk offorced labour

Appendix A.2: Application Requirements for ESRS S1-1 Policies related to own workforce

This appendix is an integral part of the ESRS S1 *Own workforce* and has the same authority as the other parts of this Standard. It supports the application of the requirements for Disclosure Requirement ESRS S1-1 for social and human rights matters with examples of disclosures.

Social and human rights matters	Examples of policies:
Secure employment	No-layoff policy, limits on renewing temporary contracts,employer provision of social protection where state provision is lacking
Working time	Limitations on overtime, long and split shifts, and night andweekend work, adequate scheduling of lead times
Adequate wages	Policy to ensure all people in own workforce receive

	an adequate wage
Social dialogue / existence of work councils / information, consultation and participation rights of workers	Policy to encourage institutions for social dialogue, regularinformation and consultation with worker representatives, consultation before final decisions on employment-relatedissues are reached
Freedom of association/Collective bargaining including the rate of workers covered by collective agreements	Non-interference in trade union formation and recruitment(including trade union access to undertakings), bargainingin good faith, adequate time off for workers' representatives to carry out their duties, facilities and dismissal protection for workers' representatives, no discrimination of trade union membersand workers' representatives
Work-life balance	Provision of family leave, flexible working time, access today care facilities for all employees
Health and safety	Coverage of all own workforce in H&S management system
Gender equality and equal workfor equal pay	Policy for gender equality and equal pay for equal work
Training and skills development	Policy for enhancing skills and career prospects foremployees
The employment and inclusion of people with disabilities	Policy for making workplaces accessible to persons withdisabilities
Measures against violence and harassment in the workplace	Zero tolerance policy for violence and harassment atworkplace
Diversity	Policy for inclusiveness (i.e., ethnic diversity or minoritygroups) and positive action.
Child labour	Policy for identifying where child labour occurs, identifyingwhere exposure of young workers to hazardous work occurs and preventing risk of exposure
Forced labour	Policy for identifying where forced labour occurs andreducing risk of forced labour

Appendix A.3: Application Requirements for ESRS S1–4 Taking action on material impacts on own workforce, and approaches to mitigating material risks and pursuing material opportunities related to own workforce, and effectiveness of those actions

This appendix is an integral part of the ESRS S1 *Own workforce* and has the same authority as the other parts of this Standard. It supports the application of the requirements for Disclosure Requirement ESRS S1-4 for social and human rights matters with examples of disclosures:

Social and human rights matters	Examples of actions:
Secure employment	Offer permanent contracts to employees with temporary contracts, implement plans for social protection where state provision is lacking

Working time	Shift work rotation, extend advance notice of scheduling, reduction of excessive overtime
Adequate wages	Negotiation of fair wages in collective bargaining agreements, verification that employment agencies pay a fair wage
Social dialogue / existence of work councils / information, consultation and participation rights of workers	Expansion of sustainability issues dealt with in social dialogue, increase in number of meetings, increase in resources for works councils
Freedom of association/Collective bargaining including the rate of workers covered by collective agreements	Expansion of sustainability issues dealt with in collective bargaining, increase in resources for workers' representatives
Work-life balance	Expand family leave eligibility and flexible workingtime arrangements, increasing provision of day care
Health and safety	Increase health & safety training, investment in saferequipment
Gender equality and equal work for equal pay	Targeted recruitment and promotion of women, reduction in pay gap through negotiation of collectivebargaining agreements
Training and skills development	Skills audits, training to fill skills gaps
The employment and inclusion of people with disabilities	Increasing accessibility measures
Measures against violence and harassment in the workplace	Improving complaint mechanisms, increasing sanctions against violence and harassment, providing training for prevention to management
Diversity	Training on diversity and inclusion (including ethnicity considerations), targeted recruitment of underrepresented groups
Child labour	Age verification measures, partnerships with organizations to eliminate child labour, measures against worst forms of child labour
Forced labour	Measures ensuring free consent to employment without threat of penalty, contracts in understandable language, freedom to terminate employment without penalty, disciplinary measures should not obligate labour, free consent to overtime, freedom of movement (including to exit workplace), fair treatment for migrant workers, monitoring employment agencies.

Appendix A.4: Application Requirements for ESRS S1–5 Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities

This appendix is an integral part of the ESRS S1 *Own workforce* and has the same authority as the

other parts of this Standard. It supports the application of the requirements for Disclosure Requirement ESRS S1-5 for social and human rights matters with examples of disclosures:

Social and human rights matters	Examples of targets:
Secure employment	Increasing the % of workforce with employment contracts (especially permanent contracts) and social protection
Working time	Increasing the % of workforce with flexible workingtime arrangements
Adequate wages	Ensuring that all people in own workforce receive an adequate wage
Social dialogue / existence of work councils / information, consultation andparticipation rights of workers	Extending social dialogue to more establishmentsand/or countries
Freedom of association/Collective bargaining including the rate of workerscovered by collective agreements	Increasing the % of own workforce covered by collective bargaining, negotiating collective bargaining agreements over sustainability issues
Work-life balance	Extending work-life measures to a greater % of own workforce
Health and safety	Reducing the rate of injuries and worktime lost dueto injuries
Gender equality and equal work for equalpay	Increasing the % of women in the workforce and top management, reducing the male-female wage gap
Training and skills development	Increasing the % of employees receiving trainingand regular skills development reviews
The employment and inclusion of peoplewith disabilities	Increasing the % of persons with disabilities in ownworkforce
Measures against violence and harassmentin the workplace	Extending measures to all workplaces
Diversity	Increasing the % of underrepresented groups inown workforce and top management
Child labour	Extending measures for preventing exposure of young persons to hazardous work to a greater % ofoperations
Forced labour	Extending measures for preventing forced labour toa greater number of operations

ESRS S2
WORKERS IN THE VALUE CHAIN

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Objective

1. The objective of this Standard is to specify disclosure requirements which will enable ***users*** of the ***sustainability statement*** to understand material ***impacts*** on ***value chain workers*** connected with the undertaking's own operations and value chain, including through its products or services, as well as through its business relationships, and its related material risks and opportunities, including:

   (a) how the undertaking affects workers in its value chain, in terms of material positive and negative actual or potential impacts;

   (b) any ***actions*** taken, and the result of such actions, to prevent, mitigate or remediate actual or potential negative impacts, and to address risks and opportunities;

   (c) the nature, type and extent of the undertaking's material risks and opportunities,

including those related to its impacts and ***dependencies*** on workers in the value chain, and how the undertaking manages them; and

(d) the ***financial effects*** on the undertaking over the short-, medium- and long-term of material risks and opportunities, including those arising from the undertaking's impacts and dependencies on workers in the value chain.

2. In order to meet the objective, this Standard requires an explanation of the general approach the undertaking takes to identify and manage any material actual and potential ***impacts*** on ***value chain*** workers in relation to:

(a) working conditions (for example, secure employment, working time, ***adequate wage***, ***social dialogue***, freedom of association, including the existence of work councils, ***collective bargaining***, ***work-life balance*** and health and safety);

(b) ***equal treatment*** and ***opportunities*** for all (for example, gender equality and equal ***pay*** for work of equal value, ***training*** and skills ***development,*** the employment and inclusion of ***persons withdisabilities***, measures against violence and ***harassment*** in the workplace, and diversity);

(c) other work-related rights (for example, ***child labour***, ***forced labour***, adequate housing, water and sanitation and privacy).

3. This Standard also requires an explanation of how such impacts, as well as the undertaking's ***dependencies*** on ***value chain workers***, can create material risks or opportunities for the undertaking.For example, negative impacts on value chain workers may disrupt the undertaking's operations (through customers refusing to buy its products or state agencies impounding its goods) and harm its reputation. Conversely, respect for workers' rights and active support programmes (for example through financial literacy initiatives) can bring business opportunities, such as more reliable supply or widening of the future ***consumer*** base.

4. This Standard covers all workers in the undertaking's upstream and downstream ***value chain*** who are or can be materially impacted by the undertaking, including impacts that are connected with the undertaking's own operations and value chain, including through its productsor services, as well as through its business relationships. This includes all workers who are not included in the scope of ***"own workforce***" ("own workforce" includes ***employees***, individual contractors, i.e., self- employed workers, and workers provided by third party undertakings primarily engaged in 'employment activities'). ***Own workforce*** is covered in ESRS S1 *Own workforce*. See AR 3 for examples of what is included in the scope of this Standard.

Interaction with other ESRS

5. This Standard applies when material ***impacts*** on and/or material ***risks*** and ***opportunities*** related to ***value chain workers*** have been identified through the ***materiality*** assessment process laid outin ESRS 2 *General disclosures*.

6. This Standard shall be read in conjunction with ESRS 1 *General requirements*, and ESRS 2, as well as the ESRS S1, ESRS S3 *Affected communities* and ESRS S4 *Consumers and end-users*.

7. The reporting under this Standard shall be consistent, coherent and where relevant clearly linked with reporting on the undertaking's ***own workforce*** under ESRS S1, in order to ensure effectivereporting.

Disclosure Requirements

ESRS 2 General disclosures

8. The requirements of this section should be read in conjunction with the disclosures required by ESRS 2 on Strategy (SBM). The resulting disclosures shall be presented alongside the disclosures required by ESRS 2, except for SBM-3 *Material impacts, risks and opportunities*

and their interaction with strategy and business model, for which the undertaking has an option to present thedisclosures alongside the topical disclosure.

Strategy

Disclosure Requirement related to ESRS 2 SBM-2 Interests and views of stakeholders

9. When responding to ESRS 2 SBM-2 paragraph 43, the undertaking shall disclose how the interests, views, and rights of its ***value chain workers*** could be materially impacted by the undertaking, including respect for their human rights, inform its strategy and business model. Value chain workers are a key group of affected ***stakeholders***.

Disclosure Requirement related to ESRS 2 SBM-3 Material impacts, risks and opportunitiesand their interaction with strategy and business model

10. When responding to ESRS 2 SBM-3 paragraph 48, the undertaking shall disclose:

    (a) whether and how actual and potential impacts on ***value chain workers***, as identified in ESRS 2 IRO-1 *Description of the processes to identify and assess material impacts, risks andopportunities*: (i) originate from or are connected to the undertaking's strategy and business models, and (ii) inform and contribute to adapting the undertaking's strategy and business model; and

    (b) the relationship between on the one hand its material risks and opportunities arising from impacts and ***dependencies*** on ***value chain*** workers, and on the other hand its strategy and business model.

11. When fulfilling the requirements of paragraph ESRS 2 SBM-3 paragraph 48, the undertaking shall disclose whether all ***value chain workers*** who are likely to be materially impacted by the undertaking, including impacts that are connected with the undertaking's own operations and value chain, including through its products or services , as well as through its business relationships, are included in the scope of its disclosure under ESRS 2. In addition, the undertaking shall provide the following information:

    (a) a brief description of the types of value chain workers who could be materially impacted by the undertaking, including impacts that connected with the undertaking's own operations and value chain, including through its products or services, as well as through its business relationships, and specify whether they are:

        i. workers working on the undertaking ***site*** but who are not part of ***own workforce***, i.e., who are not self-employed workers or workers provided by third party undertakings primarilyengaged in employment activities (covered through ESRS S1);

        ii. workers working for entities in the undertaking's upstream value chain (e.g., those involved in the extraction of metals or minerals or harvesting of commodities, in refining,manufacturing or other forms of processing);

        iii. workers working for entities in the undertaking's downstream value chain (e.g., those involved in the activities of logistics or distribution providers, franchisees, retailers);

        iv. workers working in the operations of a joint venture or special purpose vehicle involvingthe reporting undertaking;

        v. workers who (within the prior categories or additionally) are particularly vulnerable to negative impacts whether due to their inherent characteristics or to the particular context, such as trade unionists, migrant workers, home workers, women or young workers.

    (b) any geographies, at country level or other levels, or commodities for which there is a

significant risk of ***child labour***, or of ***forced labour*** or compulsory labour, among workers in the undertaking's value chain[111];

(c) in the case of material negative impacts, whether they are either (i) widespread or systemic in contexts where the undertaking operates or has sourcing or other ***business relationships*** (e.g., ***child labour*** or ***forced labour*** in particular commodity ***supply chains*** in specific countries or regions), or (ii) related to individual ***incidents*** (e.g., an industrial accident or an oil spill) or to specific business relationships. This includes consideration of impacts on ***value chain workers*** that may arise from the transition to greener and climate-neutral operations. Potential impacts include impacts associated with innovation and restructuring, closure of mines, increased mining of minerals needed for the transition to a sustainable economy, and solar panel production;

(d) in the case of material positive impacts, a brief description of the activities that result in the positive impacts (e.g., updated purchasing practices, capacity-building to supply chain workers), including providing opportunities for the workforce such as job creation and upskilling in the context of a 'just transition', and the types of value chain workers that are positively affected or could be positively affected; the undertaking may also disclose whether the positive impacts occur in specific countries or regions; and

(e) any material risks and opportunities for the undertaking arising from impacts and ***dependencies*** on value chain workers.

12. In describing the main types of ***value chain workers*** who are or could be negatively affected, based on the ***materiality*** assessment set out in ESRS 2 IRO-1, the undertaking shall disclose whether and how it has developed an understanding of how workers with particular characteristics, those working in particular contexts, or those undertaking particular activities may be at greater risk of harm.

13. The undertaking shall disclose which, if any, of its material ***risks*** and ***opportunities*** arising from ***impacts*** and ***dependencies*** on its ***value chain workers*** relate to specific groups of value chain workers (for example, particular age groups, workers in a particular factory or country) rather than to all of the value chain workers.

Impact, risk and opportunity management

Disclosure Requirement S2-1 – Policies related to value chain workers

14. **The undertaking shall describe its policies adopted to manage its material impacts on value chain workers, as well as associated material risks and opportunities.**

15. The objective of this Disclosure Requirement is to enable an understanding of the extent to which the undertaking has ***policies*** that address the identification, assessment, management and/or ***remediation*** of material ***impacts*** on ***value chain workers*** specifically, as well as policies that cover material ***risks*** or ***opportunities*** related to value chain workers.

16. The disclosure required by paragraph 14 shall contain the information on the undertaking's policies to manage its material impacts, risks and opportunities related to ***value chain workers*** in accordance with ESRS 2 MDR-P *Policies adopted to manage material sustainability matters*. In addition, the undertaking shall specify whether such policies cover specific groups of ***value chain workers*** or all value chain workers.

17. The undertaking shall describe its human rights ***policy*** commitments[112] that are relevant to

[111] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from additional indicators related to principal adverse impacts as set out by indicators number 12 and number 13 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Operations and suppliers at significant risk of incidents of child labour" and "Operations and suppliers at significant risk of incidents of forced or compulsory labour").

[112] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #9 in Table III of

value chain workers, including those processes and mechanisms to monitor compliance with the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work or OECD Guidelines for Multinational Enterprises[113]. In its disclosure, it shall focus on those matters that are material in relation to, as well as the general approach to:

(a) respect for the human rights, including labour rights, of workers;

(b) engagement with value chain workers; and

(c) measures to provide and/or enable ***remedy*** for human rights impacts.

18. The undertaking shall state whether its policies in relation to ***value chain workers*** explicitly address trafficking in human beings[114], ***forced labour*** or compulsory labour and ***child labour.*** It shall also statewhether the undertaking has a ***supplier*** code of conduct[115].

19. The undertaking shall disclose whether and how its policies with regard to ***value chain workers*** are aligned with internationally recognised instruments relevant to value chain workers, including the United Nations (UN) Guiding Principles on Business and Human Rights[116]. The undertaking shall alsodisclose the extent to which cases of non-respect of the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work or OECD Guidelines for Multinational Enterprises that involve value chain workers have been reported in its upstream and downstream value chain and, if applicable, an indication of the nature of such cases[117].

Disclosure Requirement S2-2 – Processes for engaging with value chain workers aboutimpacts

20. **The undertaking shall disclose its general processes for engaging with value chain workers and their representatives about actual and potential impacts on them.**

21. The objective of this Disclosure Requirement is to enable an understanding of whether and how the undertaking engages, as part of its ongoing due diligence process, with ***value chain workers*** and their legitimate representatives, or with ***credible proxies***, about material actual and potential positive and/or negative impacts that do or are likely to affect them, and whether and how perspectives of value chain workers are taken into account in the decision-making processes of theundertaking.

22. The undertaking shall disclose whether and how the perspectives of ***value chain workers*** inform its decisions or activities aimed at managing the actual and potential impacts on value

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Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Lack of a human rights policy").

[113] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory indicator related to principal adverse impacts as set out by indicator #11 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ('Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises').

[114] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #11 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Lack of processes and measures for preventing trafficking in human beings").

[115] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #4 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Lack of a supplier code of conduct").

[116] This information supports the needs of benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator "Exposure of the benchmark portfolio to companies without due diligence policies on issues addressed by the fundamental International Labour Organisation Conventions 1 to 8" in section 1 and 2 of Annex II.

[117] This information supports the information needs of: financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory indicator related to principal adverse impacts as set out by indicator #10 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments; and benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicators "Number of benchmark constituents subject to social violations (absolute number and relative divided by all benchmark constituents), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law" and "Exposure of the benchmark portfolio to companies without due diligence policies on issues addressed by the fundamental International Labour Organisation Conventions 1 to 8" in section 1 and 2 of Annex II.

chain workers. This shall include, where relevant, an explanation of:

(a) whether engagement occurs with value chain workers or their ***legitimate representatives*** directly, or with ***credible proxies*** that have insight into their situation;

(b) the stage(s) at which engagement occurs, the type of engagement, and the frequency of the engagement;

(c) the function and the most senior role within the undertaking that has operational responsibility for ensuring that this engagement happens, and that the results inform the undertaking's approach;

(d) where applicable, Global Framework Agreements or for agreements that the undertaking has with global union federations related to respect of human rights of workers in the value chain, including their right to bargain collectively, and including an explanation of how the agreement enables the undertaking to gain insight into those workers' perspectives; and

(e) where applicable, how the undertaking assesses the effectiveness of its engagement with workers in the value chain, including, where relevant, any agreements or outcomes that result.

23. Where applicable, the undertaking shall disclose the steps it takes to gain insight into the perspectives of workers that may be particularly vulnerable to impacts and/or marginalised (for example, women workers, migrant workers, workers with disabilities).

24. If the undertaking cannot disclose the above required information because it has not adopted a general process to engage with workers in the value chain, it shall disclose this to be the case. It maydisclose a timeframe in which it aims to have such a process in place.

Disclosure Requirement S2-3 – Processes to remediate negative impacts and channels forvalue chain workers to raise concerns

25. **The undertaking shall describe the processes it has in place to provide for or cooperate in the remediation of negative impacts on value chain workers that the undertaking is connected with, as well as channels available to value chain workersto raise concerns and have them addressed.**

26. The objective of this Disclosure Requirement is to enable an understanding of the formal means by which ***value chain workers*** can make their concerns and needs known directly to the undertaking and/or through which the undertaking supports the availability of such channels (for example, ***grievance mechanisms***) in the workplace of value chain workers, how follow up is carried out with these workers regarding the issues raised, and the effectiveness of these channels.

27. The undertaking shall describe:

(a) its general approach to and processes for providing or contributing to ***remedy*** where it has caused or contributed to a material negative impact on ***value chain workers***, including whether and how the undertaking assesses that the remedy provided is effective;

(b) any specific channels it has in place for value chain workers to raise their concerns or needsdirectly with the undertaking and have them addressed, including whether these are established by the undertaking itself and/or whether they are third-party mechanisms;

(c) the processes through which it supports or requires the availability of such channels in the workplace of value chain workers; and

(d) how it tracks and monitors issues raised and addressed, and how it ensures the effectivenessof the channels, including through involvement of ***stakeholders*** who are the intended ***users***.

28. The undertaking shall disclose whether and how it assesses that ***value chain workers*** are aware of and trust these structures or processes as a way to raise their concerns or needs and have them addressed. In addition, the undertaking shall disclose whether it has policies in place regarding the protection of individuals that use them against retaliation. If such information has been disclosed in accordance with ESRS G1-1, the undertaking may refer to that information.

29. If the undertaking cannot disclose the above required information because it has not adopted a channel for raising concerns and/or does not support the availability of such a channel in the workplaceof ***value chain workers,*** it shall disclose this to be the case. It may disclose a timeframe in which it aims to have such a channel or processes in place.

Disclosure Requirement S2-4 – Taking action on material impacts on value chain workers, and approaches to managing material risks and pursuing material opportunities related to value chain workers, and effectiveness of those actions

30. **The undertaking shall disclose how it takes action to address material impacts on value chain workers, and to manage material risks and pursue material opportunities related tovalue chain workers and the effectiveness of those actions.**

31. The objective of this Disclosure Requirement is twofold. Firstly, it is to enable an understanding of any actions or initiatives through which the undertaking seeks to:

    (a) prevent, mitigate and ***remediate*** the negative material ***impacts*** on ***value chain workers***; and/or

    (b) achieve positive material impacts for value chain workers.

    Secondly, it is to enable an understanding of the ways in which the undertaking is addressing the material ***risks*** and pursuing the material ***opportunities*** related to ***workers in the value chain***.

    The undertaking shall provide a summarised description of the action plans and resources to manage its material impacts, risks, and opportunities related to ***value chain workers*** as per ESRS 2 MDR-A *Actions and resources in relation to material sustainability matters*.

32. In relation to material ***impacts***, the undertaking shall describe:

    (a) actions taken, planned or underway to prevent or mitigate material negative impacts on ***value chain workers***;

    (b) whether and how it has taken action to provide or enable ***remedy*** in relation to an actual material impact;

    (c) any additional ***actions*** or initiatives it has in place with the primary purpose of delivering positive impacts for value chain workers; and

    (d) how it tracks and assesses the effectiveness of such ***actions*** and initiatives in delivering intended outcomes for value chain workers.

33. In relation to paragraph 30, the undertaking shall describe:

    (a) the processes through which it identifies what action is needed and appropriate in response to a particular actual or potentialnegative impact on ***value chain workers***;

    (b) its approach to taking action in relation to specific material negative impacts on value chain workers, including any action in relation to its own purchasing or other internal practices, as well as capacity- building or other forms of engagement with entities in the value chain, or forms of collaborative action with industry peers or other relevant parties; and

    (c) how it ensures that processes to provide or enable ***remedy*** in the event of material negative impacts are available and effective in their implementation and outcomes.

34. In relation to material risks and opportunities, the undertaking shall describe:

(a) what action is planned or underway to mitigate material risks for the undertaking arising fromits impacts and ***dependencies*** on ***value chain workers*** and how it tracks effectiveness in practice; and

(b) what action is planned or underway to pursue material opportunities for the undertaking in relation to value chain workers.

35. The undertaking shall disclose whether and how it takes action to avoid causing or contributing to material negative impacts on ***value chain*** workers through its own practices, including, where relevant, in relation to procurement, sales and data use. This may include disclosing what approach is taken when tensions arise between the prevention or mitigation of material negative impacts and other business pressures.

36. The undertaking shall also disclose whether severe human rights issues and ***incidents*** connected to its upstream and downstream ***value chain*** have been reported and, if applicable, disclose these[118].

37. When disclosing the information required under paragraph 32 (c), the undertaking shall consider ESRS 2 (see ESRS 2 MDR-T Tracking effectiveness of policies and ***actions*** through ***targets***) if it evaluates the effectiveness of an action by setting a target.

38. The undertaking shall disclose what resources are allocated to the management of its material impacts, with information that enables ***users*** to gain an understanding of how the material impacts are managed.

Metrics and targets

Disclosure Requirement S2-5 – Targets related to managing material negative impacts,advancing positive impacts, and managing material risks and opportunities

39. **The undertaking shall disclose the time-bound and outcome-oriented targets it may have set related to:**

(a) reducing negative impacts on value chain workers; and/or

(b) advancing positive impacts on value chain workers; and/or

(c) managing material risks and opportunities related to value chain workers.

40. The objective of this Disclosure Requirement is to enable an understanding of the extent to which the undertaking is using time-bound and outcome-oriented ***targets*** to drive and measure its progress in addressing material negative impacts, and/or advancing positive impacts on ***value chain*** workers, and/or in managing material risks and opportunities related to value chain workers.

41. The summarised description of the ***targets*** to manage its material impacts, risks and opportunities related to ***value chain workers*** shall contain the information requirements defined in ESRS 2 MDR-T.

42. The undertaking shall disclose the process for setting the ***targets***, including whether and how the undertaking engaged directly with workers in the value chain, their legitimate representatives, or with***credible proxies*** that have insight into their situation in:

(a) setting any such targets;

(b) tracking the undertaking's performance against them; and

(c) identifying any lessons or improvements as a result of the undertaking's performance.

[118] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #14 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Number of identified cases of severe human rights issues and incidents").

Appendix A: Application Requirements

This appendix is an integral part of the ESRS S2 *Workers in the value chain*. It supports the application of the disclosure requirements set out in this standard and has the same authority as the other parts of ESRS S2.

Objective

AR 1. In addition to the issues listed in paragraph 2, the undertaking may also consider disclosing information about other issues relevant to a material impact for a shorter period of time, for instance initiatives regarding the health and safety of ***value chain workers*** during a pandemic.

AR 2. The overview of social and human rights matters provided in paragraph 2 is not meant to imply that all of these issues should be disclosed in each Disclosure Requirement in this Standard. Rather, it provides a list of matters that the undertaking shall consider in its ***materiality*** assessment (ref. to ESRS 1 chapter 3 *Double materiality as the basis for sustainability disclosures* and ESRS 2 IRO-1) related to ***value chain workers*** and, as appropriate, disclose as material impacts, risks and opportunities within the scope of this Standard.

AR 3. Examples of workers that fall within the scope of this Standard are:

(a) workers of outsourced services working in the workplace of the undertaking (e.g., third party catering or security workers);

(b) workers of a ***supplier*** contracted by the undertaking who work on the supplier's premises using the supplier's work methods;

(c) workers for a 'downstream' entity which purchases goods or services from the undertaking;

(d) workers of an equipment supplier to the undertaking who, at a workplace controlled by the undertaking, perform regular maintenance on the supplier's equipment (e.g., photocopier) as stipulated in the contract between the equipment supplier and the undertaking; and

(e) workers deeper in the ***supply chain*** who are extracting commodities that are then processed into components that go in the undertaking's products.

ESRS 2 General disclosures

Strategy

Disclosure Requirement related to ESRS 2 SBM-2 - Interests and views of stakeholders

AR 4. Disclosure Requirement ESRS 2 SBM-2 requires the undertaking to provide an understanding of whether and how it considers the role that its strategy and ***business model*** may play in creating, exacerbating or mitigating significant material ***impacts*** on ***value chain*** workers, and whether and how the business model and strategy are adapted to address such material impacts.

AR 5. While ***value chain*** workers may not be engaging with the undertaking at the level of its strategy or business model, their views can inform the undertaking's assessment of its strategy and business model. The undertaking may disclose the views of the value chain workers and value chain workers' representatives.

Disclosure Requirement related to ESRS 2 SBM-3 - Material impacts, risks and

opportunitiesand their interaction with strategy and business model

AR 6. ***Impacts*** on ***value chain*** workers can originate in the undertaking's strategy or ***business model*** in a number of different ways. For example, impacts may relate to the undertaking's value proposition(such as providing lowest cost products or services, or high-speed delivery, in ways that put pressure on labour rights in the upstream and downstream value chains), its ***value chain*** (such as relying on commodities of unclear provenance, without visibility on impacts on workers), or its cost structure and the revenue model (e.g. shifting inventory risk to suppliers, with knock-on effects on the labour rights of their workers).

AR 7. Impacts on ***value chain workers*** that originate in the strategy or the ***business model*** can also bring material ***risks*** to the undertaking. For example, in the context of a pandemic or other severe health crisis, undertakings that rely on contingent labour with little to no access to sick care and health benefits may face severe operational and business continuity risks as workers have no choice but to keep working while sick, further exacerbating the spread of the disease and causing major ***supplychain*** breakdowns. Another example is where selling goods premised on cheapest prices for customers create operational risks as ***suppliers*** under extreme price pressure may sub-contract production, leading to lower quality, and a longer, less transparent, and less controllable supply chain. Reputational and business opportunity risks linked to the exploitation of low-skilled, low-paid workers in sourcing geographies with minimal protections for them are also increasing with media backlash and ***consumer*** preferences moving to more ethically sourced or sustainable goods.

AR 8. Examples of particular characteristics of ***value chain workers*** that may be considered by the undertaking when responding to paragraph 12 relate to young workers that may be more susceptible to ***impacts*** on their physical and mental development, or women workers in a context where womenare routinely discriminated against in the terms and conditions of work, or migrant workers in a context where the market for the supply of labour is poorly regulated and workers are routinely charged recruitment fees. For some workers, the inherent nature of the activity that they are requiredto undertake may put them at risk (e.g., workers required to handle chemicals or operate certain equipment or low paid workers who are on "zero hours" contracts).

AR 9. With regard to paragraph 13, material risks could also arise because of the undertaking's dependency on ***value chain workers*** where low likelihood but high impact events may trigger ***financial effects;*** for example, where a global pandemic leads to severe health impacts on workers at all stages of the value chain resulting in major disruptions to production and distribution. Other examples of risk related to the undertaking's dependency on value chain workers include a shortage in skilled workers or political decisions or legislation affecting value chain workers working for logistics providers. For example, if some workers in the undertaking's value chain are at risk of ***forced labour***, and the undertaking is importing products into countries where the law allows for the confiscation of imported goods that are suspected of being made with forced labour.

Impact, risk and opportunity management

Disclosure Requirement S2-1 – Policies related to value chain workers

AR 10. If the policies are limited to the undertaking's ***own workforce*** and do not cover workers in upstream and downstream entities and relationships, they shall be disclosed under ESRS S1 and not in relation to this requirement.

AR 11. If the disclosures under ESRS S1 include information relevant for workers in the value chain, a reference to this can be made here; disclosures on the remaining elements shall then be fulfilled under this Disclosure Requirement.

AR 12. The undertaking may disclose explanations of significant changes to the policies adopted during the reporting year (e.g., new expectations for ***suppliers***, new or additional approaches to due diligence and remedy).

AR 13. The ***policy*** may take the form of a stand-alone policy regarding ***value chain*** workers or be included in a broader document such as a code of ethics or a general sustainability policy that has already been disclosed by the undertaking as part of another ESRS. In those cases, the undertaking shall provide an accurate cross-reference to identify the aspects of the policy that satisfy the requirements of this Disclosure Requirement.

AR 14. When disclosing the alignment of its policies with the UN Guiding Principles on Business and Human Rights, the undertaking shall consider that the Guiding Principles refer to the International Bill of Rights, which consist of the Universal Declaration of Human Rights and the two Covenants that implement it, as well as the International Labour Organisation's Declaration on Fundamental Rights and Principles at Work and the core conventions that underpin it, and may disclose its alignment with these instruments.

AR 15. When disclosing how external-facing policies are embedded, the undertaking may, for example, consider internal policies of responsible sourcing, and alignment with other policies relevant to ***value chain*** workers, for example, regarding ***forced labour***. With regard to ***supplier*** codes of conduct that the undertaking may have, the summary shall indicate whether they include provisions addressing the safety of workers, precarious work (for example, the use of workers on short-term or limited hours contracts, workers employed via third parties, sub-contracting to third parties or use of informal workers), human trafficking, the use of forced labour or ***child labour***, and whether such provisions are fully in line with applicable ILO standards.

AR 16. The undertaking may provide an illustration of the types of communication of its policies to those individuals, group of individuals or entities for whom they are relevant, either because they are expected to implement them (for example, the undertaking's ***employees***, contractors and ***suppliers***), or because they have a direct interest in their implementation (for example, own workers, investors). It may disclose communication tools and channels (for example, flyers, newsletters, dedicated websites, social media, face to face interactions, workers' representatives), aimed at ensuring that the ***policy*** is accessible and that different audiences understand its implications. The undertaking may also explain how it identifies and removes potential barriers for dissemination, such as through translation into relevant languages or the use of graphic depictions.

Disclosure Requirement S2-2 – Processes for engaging with value chain workers about impacts

AR 17. When describing which function or role has operational responsibility for such engagement and/or ultimate accountability, the undertaking may disclose whether this is a dedicated role or function or part of a broader role or function, and whether any capacity building activities have been offered to support the staff to undertake engagement. If it cannot identify such a position or function, it may state that this is the case. This disclosure could also be fulfilled by making reference to information disclosed according to ESRS 2 GOV-1 *The role of the administrative, management and supervisory bodies*.

AR 18. When preparing the disclosures described in paragraph 22 b) and c), the following illustrations maybe considered:

(a) examples of stages at which engagement occurs are i) determining the approach to mitigation and ii) evaluation the effectiveness of mitigation;

(b) for type of engagement, these could be participation, consultation and/or information;

(c) for the frequency of the engagement, information may be provided on whether engagement occurs on a regular basis, at certain points in a project or business process, for example, when a new harvest season begins or a new production line is opened, as well as whether it occurs in response to legal requirements and/or in response to stakeholder requests and whether the result of the engagement is being integrated into the undertaking's decision- making processes; and

(d) for the role with operational responsibility, whether the undertaking requires relevant staff to have certain skills, or whether it provides ***training*** or capacity building to relevant staff to undertake engagement.

AR 19. Global Framework Agreements (GFA) serve to establish an ongoing relationship between a multinational enterprise and a Global Union Federation to ensure that the undertaking adheres to the same standards in every country in which it operates.

AR 20. To illustrate how the perspectives of ***value chain*** workers have informed specific decisions or activities of the undertaking, the undertaking may provide examples from the current reporting period.

Disclosure Requirement S2-3 – Processes to remediate negative impacts and channels forvalue chain workers to raise concerns

AR 21. In fulfilling the requirements set out by Disclosure Requirement ESRS S2-3, the undertaking may beguided by the content of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises focused on ***remediation*** and ***grievance mechanisms.***

AR 22. Channels for raising concerns or needs include ***grievance mechanisms,*** hotlines, trade unions (where workers are unionised), dialogue processes or other means through which ***value chain*** workers or their ***legitimate representatives*** can raise concerns about impacts or explain needs that they would like the undertaking to address. This could include both channels provided by the undertaking directly and channels provided by the entities where the value chain workers are working, in addition to any other mechanisms the undertaking may use to gain insight into the management of impacts on workers, such as compliance audits. Where the undertaking is relying solely on information about the existence of such channels provided by its ***business relationships*** to answer this requirement, it may state that.

AR 23. To provide greater insight into the information covered in Disclosure Requirement ESRS S2-3, the undertaking may explain whether and how ***value chain*** workers that may be affected areable to access channels at the level of the undertaking they are employed by, or contracted to workfor, in relation to each material impact.

AR 24. Third party mechanisms could include those operated by the government, NGOs, industry associations and other collaborative initiatives. The undertaking may disclose whether these are accessible to all workers who may be potentially or actually materially impacted by the undertaking, or individuals or organisations acting on their behalf or who are otherwise in a position to be aware of negative impacts.

AR 25. In relation to the protection of individuals that use the mechanisms against the retaliation, the undertaking may describe whether it treats grievances confidentially and with respect to the rights ofprivacy and data protection; and whether the mechanisms allow for workers to use them anonymously (for example, through representation by a third party).

AR 26. In disclosing whether and how the undertaking knows that ***value chain*** workers are aware of and trust any of these channels, the undertaking may provide relevant and reliable data about the effectiveness of these channels from the perspective of value chain workers themselves. Examples of sources of information are surveys of workers that have used such channels and their levels of satisfaction with the process and outcomes.

AR 27. In describing the effectiveness of channels for ***value chain*** workers to raise concerns, the undertaking may be guided by the following questions, based on the "effectiveness criteria for non-judicial ***grievance mechanisms"***, as laid out in the UN Guiding Principles on Business and Human Rights, in particular Principle 31. The below considerations may be applied to individual channels or to a collective system of channels:

(a) do the channels hold legitimacy by providing appropriate accountability for their fair conduct and building stakeholder trust?

(b) are the channels known and accessible to ***stakeholders***?

(c) do the channels have clear and known procedures, with indicative timeframes?

(d) do the channels ensure reasonable access for ***stakeholders*** to sources of information,advice and expertise?

(e) do the channels offer transparency by providing sufficient information both to complainantsand, where applicable, to meet any public interest?

(f) do outcomes achieved through the channels accord with internationally recognised humanrights?

(g) does the undertaking identify insights from the channels that support continuous learningin both improving the channels and preventing future impacts?

(h) does the undertaking focus on dialogue with complainants as the means to reach agreedsolutions, rather than seeking to unilaterally determine the outcome?

Disclosure Requirement S2-4 – Taking action on material impacts on value chain workers, and approaches to managing material risks and pursuing material opportunities related to value chain workers, and effectiveness of those actions

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AR 28. It may take time to understand negative impacts and how the undertaking may be involved with themthrough its value chain, as well as to identify appropriate responses and put them into practice. Therefore, the undertaking shall consider:

(a) its general and specific approaches to addressing material negative impacts;

(b) its initiatives aimed at contributing to additional material positive impacts;

(c) how far it has progressed in its efforts during the reporting period; and

(d) its aims for continued improvement.

AR 29. Appropriate action can vary according to whether the undertaking causes or contributes to a material impact or whether the material impact is directly linked to its own operations, products or services through a business relationship.

AR 30. Given that material negative impacts affecting ***value chain*** workers that have occurred during the reporting period may also be linked to entities or operations outside its direct control, the undertaking may disclose whether and how it seeks to use its leverage in its ***business relationships*** to manage those impacts. This may include using commercial ***leverage*** (for example, enforcing contractual requirements with business relationships or implementing incentives), other forms of leverage within the relationship (such as providing ***training*** or capacity-building on workers' rights to entities with which the undertaking has a business relationships) or collaborative leverage with peers or other actors (such as initiatives aimed at responsible recruitment or ensuring workers receive an ***adequate wage***).

AR 31. When the undertaking discloses its participation in an industry or multi-stakeholder initiative as part of its ***actions*** to address material negative impacts, the undertaking may disclose how the initiative, and its own involvement, is aiming to address the material impact concerned. It may disclose under ESRS S2-5 the relevant ***targets*** set by the initiative and progress towards them.

AR 32. When disclosing whether and how the undertaking considers actual and potential impacts on ***value chain*** workers in decisions to terminate ***business relationships*** and whether and how it seeks to address any negative impacts that may result from termination, the undertaking may include examples.

AR 33. In disclosing how it tracks the effectiveness of its ***actions*** to manage material impacts during the reporting period, the undertaking may disclose any lessons learned from the previous and current reporting periods.

AR 34. Processes used to track the effectiveness of ***actions*** can include internal or external auditing or verification, court proceedings and/or related court decisions, impact assessments, measurement systems, stakeholder feedback, ***grievance mechanisms***, external performance ratings, and benchmarking.

AR 35. Reporting on effectiveness is aimed at enabling the understanding of the links between

actions taken by the undertaking and the effective management of impacts. For example, to show the effectiveness of its ***actions*** to support its ***suppliers*** with improving their working conditions, the undertaking may disclose survey feedback from the suppliers' workers showing that working conditions have improved since the time the undertaking began working with those suppliers. Additional information that the undertaking may provide includes data showing a decrease in the number of ***incidents*** identified through for instance, independent audits.

AR 36. With regard to initiatives or processes the undertaking has in place that are based on affected workers' needs and with regard to progress in the implementation of such initiatives or processes, the undertaking may disclose:

(a) information about whether and how ***value chain*** workers and ***legitimate representatives*** or their ***credible proxies*** play a role in decisions regarding the design and implementation of these programmes or processes; and

(b) information about the intended or achieved positive outcomes for value chain workers of these initiatives or processes.

AR 37. The undertaking may disclose whether any initiatives or processes whose primary aim is to deliver positive impacts for ***value chain*** workers are designed also to support the achievement of one or more of the UN Sustainable Development Goals (SDGs). For example, through a commitment to advance UN SDG 8 to "promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all" the undertaking may be providing capacity-building to smallholders in its ***supply chain***, resulting in increases in their income; or it may be supporting ***training*** to increase the proportion of women able to take delivery jobs in its downstream value chain.

AR 38. When disclosing the intended or achieved positive outcomes of its ***actions*** for ***value chain*** workers a distinction is to be made between evidence of certain activities having occurred (e.g., that x number of workers have received financial literacy ***training***) from evidence of actual outcomes for workers (e.g., that x workers report that they are able to better manage their household budgets so as to meet their savings goals).

AR 39. When disclosing whether initiatives or processes also play a role in mitigating material negative impacts, the undertaking may e.g., consider programmes that aim to advance women workers' financial literacy that have resulted in more women being promoted as well as in reports of reduced sexual ***harassment*** in the workplace.

AR 40. When disclosing the material risks and opportunities related to the undertaking's impacts or ***dependencies*** on ***value chain*** workers, the undertaking may consider the following:

(a) risks related to the undertaking's impacts on value chain workers may include the reputational or legal exposure where value chain workers are found to be subject to ***forced labour*** or ***child labour***;

(b) risks related to the undertaking's dependencies on value chain workers may include disruption of business operations where a pandemic closes significant parts of its ***supply chain*** or distribution network;

(c) opportunities related to the undertaking's impacts on value chain workers may include market differentiation and greater customer appeal from guaranteeing decent ***pay*** and conditions for non-employee workers; and

(d) business opportunities related to the undertaking's dependencies on value chain workers might include the achievement of a future sustainable supply of a commodity by ensuring smallholder farmers earn enough to persuade future generations to keep farming that crop.

AR 41. When disclosing whether ***dependencies*** turn into risks, the undertaking shall consider external developments.

AR 42. When disclosing policies, ***actions*** and resources and ***targets*** related to the management of material ***risks*** and ***opportunities***, in cases where risks and opportunities arise from a material ***impact***, the undertaking may cross-reference its disclosures on policies, action and resources and targets in relation to that impact.

AR 43. The undertaking shall consider whether and how its process(es) to manage material risks related to ***value chain*** workers are integrated into its existing risk management process(es).

AR 44. When disclosing the resources allocated to the management of material impacts, the undertaking may disclose which internal functions are involved in managing the impacts and what types of actionthey take to address negative and advance positive impacts.

Metrics and targets

Disclosure Requirement S2-5 – Targets related to managing material negative impacts,advancing positive impacts, and managing material risks and opportunities

AR 45. When disclosing information about ***targets*** in accordance with paragraph 39, the undertaking may disclose:

(a) the intended outcomes to be achieved in the lives of ***value chain*** workers, being as specific as possible;

(b) the stability of the targets over time in terms of definitions and methodologies to enable comparabilityover time;

(c) the standards or commitments on which the targets are based (for instance codesof conduct, sourcing policies, global frameworks or industry codes).

AR 46. ***Targets*** related to material ***risks*** and ***opportunities*** may be the same as or distinct from targets related to material ***impacts***. For example, a target to reachliving ***wages*** for ***supply chain*** workers could both reduce impacts on those workers and reduce associated risks in terms of the quality and reliability of supply.

AR 47. The undertaking may also distinguish between short-, medium- and long-term ***targets*** covering the same ***policy*** commitment. For example, the undertaking may have a long-term target to achieve an 80% reduction in health and safety ***incidents*** affecting the workers of a given ***supplier*** by 2030 and a near-term target to reduce their ***overtime*** hours of delivery drivers by x% while maintaining their income by 2024.

AR 48. When modifying or replacing a ***target*** in the reporting period, the undertaking may explain the change by cross-referencing it to significant changes in the ***business model*** or to broader changes in theaccepted standard or legislation from which the target is derived to provide contextual information, as per ESRS 2 BP-2 *Disclosures in relation to specific circumstances.*

ESRS S3
AFFECTED COMMUNITIES

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Objective

1. The objective of this Standard is to specify disclosure requirements which will enable ***users*** of the ***sustainability statement*** to understand material impacts on ***affected communities*** connected with the undertaking's own operations and value chain, including through its products or services, as well as through its ***business relationships***, and its related material risks and opportunities, including:

   (a) how the undertaking affects communities, in areas where impacts are most likely to be present and severe, in terms of material positive and negative actual or potential impacts;

   (b) any ***actions*** taken, and the result of such actions, to prevent, mitigate or remediate actual or potential negative impacts, and to address risks and opportunities;

   (c) the nature, type and extent of the undertaking's material risks and opportunities related to its impacts and ***dependencies*** on ***affected communities***, and how the undertaking manages them; and

   (d) the ***financial effects*** on the undertaking over the short-, medium- and long-term of material risks and opportunities arising from the undertaking's impacts and dependencies on affected communities.

2. In order to meet the objective, this Standard requires an explanation of the general approach the undertaking takes to identify and manage any material actual and potential impacts on

affected communities in relation to:

(a) communities' economic, social and cultural rights (for example, adequate housing, adequatefood, water and sanitation, land-related and security-related impacts);

(b) communities' civil and political rights (for example, freedom of expression, freedom of assembly, impacts on human rights defenders); and

(c) particular rights of ***indigenous peoples*** (for example, free, prior and informed consent, self-determination, cultural rights).

3. This Standard also requires an explanation of how such impacts, as well as the undertaking's ***dependencies*** on affected communities, can create material risks or opportunities for the undertaking. For example, negative relationships with ***affected communities*** may disrupt the undertaking's own operations or harm its reputation, while constructive relationships can bring business benefits, such as stable and conflict-free operations and a greater ease of recruiting locally.

Interaction with other ESRS

4. This standard applies when material impacts on and/or material risks and opportunities related to ***affected communities*** have been identified through the ***materiality*** assessment process laid out in ESRS 2 *General disclosures*.

5. This Standard shall be read in conjunction with ESRS 1 *General requirements*, and ESRS 2, as well as the ESRS S1 *Own workforce*, ESRS S2 *Workers in the value chain* and ESRS S4 *Consumers and end-users*.

Disclosure Requirements

ESRS 2 General disclosures

6. The requirements of this section should be read in conjunction with the disclosures required by ESRS 2 on Strategy (SBM). The resulting disclosures shall be presented alongside the disclosures required by ESRS 2, except for SBM-3 *Material impacts, risks and opportunities and their interaction with strategy and business model*, for which the undertaking has an option to present the disclosures alongside the topical disclosure.

Strategy

Disclosure Requirement related to ESRS 2 SBM-2 – Interests and views of stakeholders

7. When responding to ESRS 2 SBM-2, paragraph 43, the undertaking shall disclose how the views, interests, and rights of ***affected communities***, including respect for their human rights (and their rights as ***indigenous peoples***, where applicable), inform its strategy and business model. ***Affected communities*** are a key group of affected ***stakeholders***.

Disclosure Requirement related to ESRS 2 SBM-3 – Material impacts, risks and opportunitiesand their interaction with strategy and business model

8. When responding to ESRS 2 SBM-3 paragraph 48, the undertaking shall disclose:

(a) whether and how actual and potential impacts on ***affected communities*** as identified in ESRS2 IRO-1 *Description of the processes to identify and assess material impacts, risks and opportunities*: (i) originate from or are connected to the undertaking's strategy and business models, and (ii) inform and contribute to adapting the undertaking's strategy and business model; and

(b) the relationship between its material risks and opportunities arising from impacts and ***dependencies*** on affected communities and its strategy and business model.

9. When fulfilling the requirements of paragraph 48, the undertaking shall disclose whether all ***affected communities*** who are likely to be materially impacted by the undertaking, including impacts that are connected with the undertaking's own operations and ***value chain***, including through its products or services, as well as through its ***business relationships***, are included in the scope of its disclosure under ESRS 2. In addition, the undertaking shall provide the following information:

   (a) a brief description of the types of communities subject to material impacts by its own operations or through its upstream and downstream value chain, and specify whether they are:

      i. communities living or working around the undertaking's operating ***sites***, factories, facilities or other physical operations, or more remote communities affected by activities at those sites (for example by downstream water ***pollution***);

      ii. communities along the undertaking's value chain (for example, those affected by the operations of ***suppliers***' facilities or by the activities of logistics or distribution providers);

      iii. communities at one or both endpoints of the value chain (for example, at the point of extraction of metals or minerals or harvesting of commodities, or communities around ***waste*** or ***recycling*** sites);

      iv. communities of ***indigenous peoples***.

   (b) in the case of material negative impacts, whether they are either (i) widespread or systemic in contexts where the undertaking operates or has sourcing or other business relationships (for example, marginalised populations suffering impacts on their health and quality of life in a highly industrialised area), or (ii) related to individual ***incidents*** in the undertaking's own operations (e.g., a toxic ***waste*** spill affecting a community's access to clean drinking water) or in a specific business relationship (e.g., a peaceful protest by communities against business operations that was met with a violent response from the undertaking's security services). This includes consideration of impacts on affected communities that may arise from the transition to greener and climate- neutral operations. Potential impacts include impacts associated with innovation and restructuring, closure of mines, increased mining of minerals needed for the transition to a sustainable economy and solar panel production;

   (c) in the case of material positive impacts, a brief description of the activities that result in the positive impacts (for example, capacity-building to support more and new forms of local livelihoods) and the types of communities that are positively affected or could be positively affected; the undertaking may also disclose whether the positive impacts occur in specific countries or regions; and

   (d) any material risks and opportunities for the business arising from impacts and ***dependencies*** on affected communities.

10. In describing the main types of communities who are or could be negatively affected, based on the ***materiality*** assessment set out in Disclosure Requirement ESRS 2 IRO-1, the undertaking shall disclose whether and how it has developed an understanding of how ***affected communities*** with particular characteristics or those living in particular contexts, or those undertaking particular activities may be at greater risk of harm.

11. The undertaking shall disclose which, if any, of its material risks and opportunities arising from impacts and ***dependencies*** on affected communities relate to specific groups of ***affected communities*** rather than to all affected communities.

Impact, risk and opportunity management

Disclosure Requirement S3-1 – Policies related to affected communities

12. **The undertaking shall describe its policies adopted to manage its material impacts on affected communities, as well as associated material risks and opportunities.**

13. The objective of this Disclosure Requirement is to enable an understanding of the extent to which the undertaking has policies that address the identification, assessment, management and/or ***remediation*** of material impacts on ***affected communities*** specifically, as well as policies that cover material risks or opportunities related to affected communities.

14. The disclosure required by paragraph 12 shall contain the information on the undertaking's policies to manage its material impacts, risks and opportunities related to ***affected communities*** in accordance with ESRS 2 MDR-P *Policies adopted to manage material sustainability matters*. In addition, the undertaking shall specify if such policies cover specific affected communities or all affected communities.

15. The undertaking shall disclose any particular ***policy*** provisions for preventing and addressing impacts on ***indigenous peoples***.

16. The undertaking shall describe its human rights ***policy*** commitments[119] that are relevant to affected communities, including those processes and mechanisms to monitor compliance with the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work or OECD Guidelines for Multinational Enterprises. In its disclosure it shall focus on those matters that are material in relation to[120], as well as its general approach to:

    (a) respect for the human rights of communities, and ***indigenous peoples*** specifically;

    (b) engagement with affected communities; and

    (c) measures to provide and/or enable ***remedy*** for human rights impacts.

17. The undertaking shall disclose whether and how its policies with regard to ***affected communities*** are aligned with internationally recognised standards relevant to communities and ***indigenous peoples*** specifically, including the United Nations (UN) Guiding Principles on Business and Human Rights. The undertaking shall also disclose the extent to which cases of non-respect of the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work or OECD Guidelines for Multinational Enterprises that involve affected communities have been reported in its own operations or in its upstream and downstream ***value chain*** and, if applicable, an indication of the nature of such cases[121].

18. The ***policy*** may take the form of a stand-alone policy regarding communities or be included in a broader document such as a code of ethics or a general sustainability policy that has already been disclosed by the undertaking as part of another ESRS. In those cases, the undertaking shall provide an accurate cross-reference to identify the aspects of the policy that satisfy the requirements of this Disclosure Requirement.

[119] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #9 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Lack of a human rights policy").

[120] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory indicator related to principal adverse impacts as set out by indicator #11 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises").

[121] This information supports the information needs of: financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory indicator related to principal adverse impacts as set out by indicator #10 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises"); and benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator "Number of benchmark constituents subject to social violations (absolute number and relative divided by all benchmark constituents), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law" in section 1 and 2 of Annex II.

Disclosure Requirement S3-2 – Processes for engaging with affected communities about impacts

19. **The undertaking shall disclose its general processes for engaging with affected communities and their representatives about actual and potential impacts on them.**

20. The objective of this Disclosure Requirement is to enable an understanding of whether and how the undertaking engages, as part of its ongoing due diligence process, with affected communities, their legitimate representatives, or with ***credible proxies***, about material actual and potential positive and/or negative impacts that do or are likely to affect them, and whether and how perspectives of ***affected communities*** are taken into account in the decision-making processes of theundertaking.

21. The undertaking shall disclose whether and how the perspectives of ***affected communities*** inform its decisions or activities aimed at managing actual and potential impacts on communities. This shall include, where relevant, an explanation of:

    (a) whether engagement occurs with affected communities or their ***legitimate representatives*** directly, or with ***credible proxies*** that have insight into their situation;

    (b) the stage(s) at which engagement occurs, the type of engagement, and the frequency of theengagement;

    (c) the function and the most senior role within the undertaking that has operational responsibility for ensuring this engagement happens, and that the results inform the undertaking's approach;

    (d) where applicable, how the undertaking assesses the effectiveness of its engagement withaffected communities, including, where relevant, any agreements or outcomes that result.

22. Where applicable, the undertaking shall disclose the steps it takes to gain insight into the perspectives of ***affected communities*** that may be particularly vulnerable to impacts and/or marginalised, and into the perspective of specific groups within the affected communities, such as women and girls.

23. Where ***affected communities*** are ***indigenous peoples***, the undertaking shall also disclose how it takes into account and ensures respect of their particular rights in its ***stakeholder engagement*** approach, including their right to ***free, prior and informed consent*** with regard to: (i) their cultural, intellectual, religious and spiritual property; (ii) activities affecting their lands and territories; and (iii) legislative or administrative measures that affect them. In particular, where engagement occurs with indigenous peoples, the undertaking shall also disclose whether and how ***indigenous peoples*** have been consulted on the mode and parameters of the engagement (for example, in designing the agenda, nature, and timeliness of the engagement).

24. If the undertaking cannot disclose the above required information because it has not adopted a general process to engage with affected communities, it shall disclose this to be the case. It may disclose a timeframe in which it aims to have such a process in place.

Disclosure Requirement S3-3 – Processes to remediate negative impacts and channels for affected communities to raise concerns

25. **The undertaking shall describe the processes it has in place to provide for or cooperate in theremediation of negative impacts on affected communities that the undertaking is connected with, as well as channels available to affected communities to raiseconcerns and have them addressed.**

26. The objective of this Disclosure Requirement is to enable an understanding of the formal means by which ***affected communities*** can make their concerns and needs known directly to the undertaking, and/or through which the undertaking supports the availability of such channels (for example,***grievance mechanisms***) by its business relationships, how follow up

is performed with these communities regarding the issues raised, and the effectiveness of these channels.

27. The undertaking shall describe:

    (a) its general approach to and processes for providing or contributing to ***remedy*** where it has identified that it has caused or contributed to a material negative ***impact*** on affected communities, including whether and how the undertaking assesses that the remedy provided is effective;

    (b) any specific channels it has in place for ***affected communities*** to raise their concerns or needs directly with the undertaking and have them addressed, including whether these are established by the undertaking itself and/or through participation in third-party mechanisms;

    (c) its processes through which the undertaking supports the availability of such channels by its business relationships; and

    (d) how it tracks and monitors issues raised and addressed, and how it ensures the effectiveness of the channels, including through involvement of ***stakeholders*** who are the intended ***users*** of those channels.

28. The undertaking shall disclose whether and how it assesses that ***affected communities*** are aware of and trust these structures or processes as a way to raise their concerns or needs and have them addressed. In addition, the undertaking shall disclose whether it has policies in place regarding the protection of individuals that use them against retaliation. If such information has been disclosed in accordance with ESRS G1-1, the undertaking may refer to that information.

29. If the undertaking cannot disclose the above required information because it has not adopted a channel for raising concerns and/or does not support the availability of such a channel by its business relationships, it shall disclose this to be the case. It may disclose a timeframe in which it aims to havesuch a channel or processes in place.

Disclosure Requirement S3-4 – Taking action on material impacts on affected communities, and approaches to managing material risks and pursuing material opportunities related to affected communities, and effectiveness of those actions

30. **The undertaking shall disclose how it takes action to address material impacts on affected communities, and to manage material risks and pursue material opportunities related to affected communities and the effectiveness of those actions.**

31. The objective of this Disclosure Requirement is twofold. Firstly, it is to provide an understanding of any ***actions*** and initiatives through which the undertaking seeks to:

    (a) prevent, mitigate and remediate the negative material ***impacts*** on affected communities; and/or

    (b) achieve positive material impacts for affected communities.

    Secondly, it is to enable an understanding of the ways in which the undertaking is addressing the material ***risks*** and pursuing the material opportunities related to affected communities.

    The undertaking shall provide a summarised description of the action plans and resources to manage its material impacts, risks, and opportunities related to affected communities as per *ESRS 2 MDR-A Actions and resources in relation to material sustainability matters.*

32. In relation to material impacts, the undertaking shall describe:

    (a) actions taken, planned or underway to prevent or mitigate material negative impacts on affected communities;

    (b) whether and how it has taken action to provide or enable ***remedy*** in relation to an actual material impact;

(c) any additional ***actions*** or initiatives it has in place with the primary purpose of delivering positive impacts for affected communities; and

(d) how it tracks and assesses the effectiveness of these ***actions*** and intiativesin delivering intended outcomes for affected communities.

33. In relation to paragraph 29, the undertaking shall describe:

(a) the processes through which it identifies what action is needed and appropriate in response to a particular actual or potentialnegative impact on affected communities;

(b) its approach to taking action in relation to specific material negative impacts on communities, including any action in relation to its own practices regarding land acquisition, planning and construction, operation or closure practices, as well as whether wider industry or collaborative action with other relevant parties will be required; and

(c) how it ensures that processes to provide or enable ***remedy*** in the event of material negative impactsare available and effective in their implementation and outcomes.

34. In relation to material risks and opportunities, the undertaking shall describe:

(a) what action is planned or underway to mitigate material risks for the undertaking arising from its impacts and ***dependencies*** on ***affected communities*** and how it tracks effectiveness in practice; and

(b) what action is planned or underway to pursue material opportunities for the undertaking in relation to affected communities.

35. The undertaking shall disclose whether and how it takes action to avoid causing or contributing to material negative impacts on ***affected communities*** through its own practices, including, where relevant, in relation to planning, land acquisition and exploitation, finance, extraction or production ofraw materials, use of natural resources, and management of environmental impacts. This may includedisclosing what approach is taken when tensions arise between the prevention or mitigation of material negative impacts and other business pressures.

36. The undertaking shall also disclose whether severe human rights issues and ***incidents*** connected to ***affected communities*** have been reported and, if applicable, disclose these[122].

37. When disclosing the information required under paragraph 31 (c), the undertaking shall consider ESRS 2 MDR-T *Tracking effectiveness of policies and actions through targets* if it evaluates the effectiveness of an action by setting a target.

38. The undertaking shall disclose what resources are allocated to the management of its material impacts, with information that enables ***users*** to gain an understanding of how the material impacts are managed.

Metrics and targets

Disclosure Requirement S3-5 – Targets related to managing material negative impacts,advancing positive impacts, and managing material risks and opportunities

39. **The undertaking shall disclose the time-bound and outcome-oriented targets it may have set related to:**

[122] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #14 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Number of identified cases of severe human rights issues and incidents").

(a) **reducing negative impacts on affected communities; and/or**

(b) **advancing positive impacts on affected communities; and/or**

(c) **managing material risks and opportunities related to affected communities.**

40. The objective of this Disclosure Requirement is to enable an understanding of the extent to which theundertaking is using time-bound and outcome-oriented ***targets*** to drive and measure its progress in addressing material negative impacts, and/or advancing positive impacts on affected communities, and/or in managing material risks and opportunities related to affected communities.

41. The summarised description of the ***targets*** to manage its material impacts, risks and opportunities related to ***affected communities*** shall contain the information requirements defined in ESRS 2 MDR-T.

42. The undertaking shall disclose the process for setting the ***targets***, including whether and how the undertaking engaged directly with affected communities, their legitimate representatives, or with ***credible proxies*** that have insight into their situation in:

(a) setting any such targets;

(b) tracking the undertaking's performance against them; and

(c) identifying, any, lessons or improvements as a result of the undertaking's performance.

Appendix A: Application Requirements

This appendix is an integral part of the ESRS S3 *Affected communities*. It supports the application of the disclosure requirements set out in this standard and has the same authority as the other parts of the standard.

Objective

AR 1. The overview of social and human rights matters provided in paragraph 2 is not meant to imply that all of these issues should be disclosed in each Disclosure Requirement in this Standard. Rather, it provides a list of matters that the undertaking shall consider in its ***materiality*** assessment (ref. to ESRS 1 chapter 3 *Double materiality as the basis for sustainability disclosures* and ESRS 2 IRO-1) related to ***affected communities*** and, as appropriate, disclose as material impacts, risks and opportunities within the scope of this Standard.

AR 2. In addition to the issues listed in paragraph 2, the undertaking may also consider disclosing information about other issues relevant to a material impact for a shorter period of time, for instance initiatives regarding the impacts on communities related to the undertaking's operations due to extreme and sudden weather conditions.

ESRS 2 General Disclosures

Strategy

Disclosure Requirement related to ESRS 2 SBM-2 – Interests and views of stakeholders

AR 3. Disclosure Requirement ESRS 2 SBM-2 requires the undertaking to provide an understanding of if and how it considers the role that its strategy and ***business model*** may play in creating, exacerbating or mitigating significant material ***impacts*** on ***affected communities***, and whether and how the business model and strategy are adapted to address such material impacts.

AR 4. While ***affected communities*** may not be engaging with the undertaking at the level of its strategy or ***business model***, their views can inform the undertaking's assessment of its strategy and business model. The undertaking may disclose the views of affected

communities and affected communities' representatives.

Disclosure Requirement related to ESRS 2 SBM-3 - Material impacts, risks and opportunitiesand their interaction with strategy and business model

AR 5. ***Impacts*** on ***affected communities*** can originate in the undertaking's strategy or ***business model*** ina number of different ways. For example, impacts may relate to the undertaking's value proposition(such as, construction or commencement of projects with timelines that do not allow sufficient time for consultation with groups affected by the projects), its ***value chain*** (for example, ***land-use*** in countries in which ownership is often contested or records are unreliable or in which land-users such as ***indigenous peoples*** are unrecognised), or its cost structure and the revenue model (such as, aggressive strategies to minimise taxation, particularly with respect to operations in developing countries).

AR 6. Impacts on ***affected communities*** that originate in the strategy or business model can also bring material risks to the undertaking. For example, where the undertaking's strategy involves moving into higher risk geographies in pursuit of certain commodities, and if affected communities resist its presenceor object to its local practices, this may create extensive and costly delays, and affect the undertaking's ability to secure future land concessions or permits. Similarly, if the undertaking's business model relies on intensive water extraction at its plants, to the extent that it affects accessto water for communities' consumption, hygiene and livelihoods, this may result in reputationally-damaging boycotts, complaints and lawsuits.

AR 7. Examples of particular characteristics of ***affected communities*** that may be considered by the undertaking when responding to paragraph 10 may be an affected community that is physically or economically isolated and is particularly susceptible to introduced diseases or has limited access to social services and therefore relies on infrastructure set up by the undertaking. It may be because where land worked by women is purchased by the undertaking and payments go to male heads of households, women become further disenfranchised in the community. It may also be because the community is indigenous, and its members seek to exercise cultural or economic rights to the land owned or used by the undertaking – or by one of the entities with which it has a business relationship – in a context where their rights are not protected by the state. In addition, the undertaking shall consider whether different characteristics overlap. For example, characteristics such as ethnicity, socioeconomic status, migrant status and gender may create overlapping risks of harm for certain affected communities, or for distinct parts of those affected communities, since affected communities are often heterogeneous in nature.

AR 8. With regard to paragraph 11, material risks could also arise because of the undertaking's dependency on ***affected communities*** where low likelihood but high impact events may trigger ***financial effects;*** for example, where a natural disaster leads to a catastrophic industrial accident involving the undertaking's operations, resulting in severe harm to affected communities.

Impact, risk and opportunity management

Disclosure Requirement S3-1 – Policies related to affected communities

AR 9. The description shall include the key information necessary to ensure a faithful representation of the policies in relation to ***affected communities*** and, therefore, the undertaking shall consider explanations of significant changes to the policies adopted during the reporting year (for example, new or additional approaches to engagement, due diligence and remedy).

AR 10. When disclosing the alignment of its policies with the UN Guiding Principles on Business and Human Rights, the undertaking shall consider that the Guiding Principles refer to the International Bill of Rights, which consists of the Universal Declaration of Human Rights and the two Covenants that implement it, as well as the UN Declaration on the Rights of Indigenous Peoples, the International Labour Organisation's Convention concerning Indigenous and Tribal Peoples (ILO No. 169) and the core conventions that underpin it, and

may disclose its alignment with these instruments.

AR 11. The undertaking may provide an illustration of the types of communication of its policies to those individuals, group of individuals or entities for whom they are relevant, either because they are expected to implement them (for example, the undertaking's ***employees***, contractors and ***suppliers***), or because they have a direct interest in their implementation (for example, own workers, investors). It may disclose communication tools and channels (for example, flyers, newsletters, dedicated websites, social media, face to face interactions, workers' representatives), aimed at ensuring that the ***policy*** is accessible and that different audiences understand its implications. The undertaking may also explain how it identifies and removes potential barriers for dissemination, such as through translation into relevant languages or the use of graphic depictions.

AR 12. When disclosing severe human rights issues and ***incidents*** connected to affected communities, the undertaking shall consider any legal disputes related to land rights and to the ***free, prior and informed consent*** of ***indigenous peoples***.

Disclosure Requirement S3-2 – Processes for engaging with affected communities aboutimpacts

AR 13. Explanations of how the undertaking takes into account and ensures respect of the right of indigenous peoples to ***free, prior and informed consent*** may include information about processes to consult with indigenous peoples to obtain such consent. The undertaking shall consider how the consultation includes a good faith negotiation with affected ***indigenous peoples*** to obtain their free, prior and informed consent where the undertaking affects the lands, territories or resources that indigenous peoples customarily own, occupy or otherwise use; or relocates them from land or territories subject to traditional ownership or under customary use or occupation; or affects or exploits their cultural, intellectual, religious and spiritual property.

AR 14. When describing which function or role has operational responsibility for such engagement and/or ultimate accountability, the undertaking may disclose whether this is a dedicated role or function or part of a broader role or function, and whether any capacity building activities have been offered to support the staff to undertake engagement. If it cannot identify such a position orfunction, it may state that this is the case. This disclosure could also be fulfilled by making reference to information disclosed according to ESRS 2 GOV-1 *The role of the administrative, management and supervisory bodies*.

AR 15. When preparing the disclosures described in paragraph 20 b) and c), the following illustrations maybe considered:

(a) examples of stages at which engagement occurs are i) determining the approach to mitigation and ii) evaluating the effectiveness of mitigation;

(b) for type of engagement, these could be participation, consultation and/or information;

(c) for the frequency of the engagement, information may be provided on whether engagement occurs on a regular basis, at certain points in a project or business process;and

(d) for the role with operational responsibility, whether the undertaking requires relevant staff to have certain skills, or whether it provides ***training*** or capacity building to relevant staff to undertake engagement. In the case of material impacts, risks and opportunities related to ***indigenous peoples***, this includes training on indigenous people's rights, including on free, prior and informed consent.

AR 16. To illustrate how the perspectives of communities have informed specific decisions or activities of the undertaking, the undertaking may provide examples from the current reporting period.

Disclosure Requirement S3-3 – Processes to remediate negative impacts and channels foraffected communities to raise concerns

AR 17. In fulfilling the requirements set out by Disclosure Requirement ESRS S3-3, the undertaking may beguided by the content of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises focused on ***remediation*** and ***grievance mechanisms.***

AR 18. Channels for raising concerns or needs, include ***grievance mechanisms,*** hotlines, dialogue processes or other means through which ***affected communities*** or their ***legitimate representatives*** can raise concerns about impacts or explain needs that they would like the undertaking to address. This could include channels provided by the undertaking directly, in addition to any other mechanisms the undertaking may use to gain insight into the management of impacts on communities, such as compliance audits. Where the undertaking is relying solely on information about the existence of such channels provided by its ***business relationships*** to answer this requirement, it may state that.

AR 19. To provide greater insight into the information covered in ESRS S3-3, the undertaking may explain whether and how communities that may be affected are able to access channels at the level of the undertaking they are affected by, in relation to each material impact. Relevant insights include information on whether ***affected communities*** can access channels in a language they understand, and whether they have been consulted in the design of such channels.

AR 20. Third party mechanisms could include those operated by the government, NGOs, industry associations and other collaborative initiatives. The undertaking may disclose whether these are accessible to all ***affected communities*** who may be potentially or actually materially impacted by the undertaking, or individuals or organisations acting on their behalf or who are otherwise in a position to be aware of negative impacts.

AR 21. In relation to the protection of individuals that use the mechanisms against retaliation, the undertaking may describe whether it treats grievances confidentially and with respect to the rights of privacy and data protection; and whether to the mechanisms can be used anonymously (forexample, through representation by a third party).

AR 22. When disclosing processes related to providing and enabling ***remedy*** for ***indigenous peoples***, relevant information includes whether and how the undertaking has considered their customs, traditions, rules and legal systems.

AR 23. In disclosing whether and how the undertaking knows that ***affected communities*** are aware of and trust any of these channels, the undertaking may provide relevant and reliable data about the effectiveness of these channels from the perspective of affected communities themselves. Examples of sources of information are surveys of community members that have used such channels and their levels of satisfaction with the process and outcomes.

AR 24. In describing the effectiveness of channels for ***affected communities*** to raise concerns, the undertaking may be guided by the following questions, based on the "effectiveness criteria for non- judicial ***grievance mechanisms"***, as laid out in the UN Guiding Principles on Business and Human Rights, in particular Principle 31. The below considerations may be applied on an individual channel basis or for the collectivesystem of channels:

(a) do the channels hold legitimacy by providing appropriate accountability for their fair conduct and building stakeholder trust?

(b) are the channels known and accessible to stakeholders?

(c) do the channels have clear and known procedures, set timeframes and clarity on theprocesses?

(d) do the channels ensure reasonable access to sources of information, advice and expertise?

(e) do the channels offer transparency by providing sufficient information both to complainantsand, where applicable, to meet any public interest at stake?

(f) do the outcomes achieved through the channels accord with internationally recognisedhuman rights?

(g) does the undertaking identify insights from the channels that support continuous learningin both improving the channels and preventing future impacts?

(h) does the undertaking focus on dialogue with complainants as the means to reach agreedsolutions, rather than seeking to unilaterally determine the outcome?

Disclosure Requirement S3-4 – Taking action on material impacts on affected communities, and approaches to managing material risks and pursuing material opportunities related to affected communities, and effectiveness of those actions

AR 25. It may take time to understand negative impacts and how the undertaking may be involved with themthrough its value chain, as well as to identify appropriate responses and put them into practice. Therefore, the undertaking shall consider:

(a) its general and specific approaches to addressing material negative impacts;

(b) its social investment or other ***development*** programmes aimed at contributing to additional material positive impacts;

(c) how far it has progressed in its efforts during the reporting period; and

(d) its aims for continued improvement.

AR 26. Appropriate action can vary according to whether the undertaking causes or contributes to a material impact, or whether the material impact is directly linked to its own operations, products or services through a business relationship.

AR 27. Given that material negative impacts affecting communities that have occurred during the reporting period may also be linked to entities or operations outside its direct control, the undertaking may disclose whether and how it seeks to use its leverage in its business ***relationships*** to manage those impacts. This may include using commercial ***leverage*** (for example, enforcing contractual requirements with business relationships or implementing incentives), other forms of leverage within the relationship (such as providing ***training*** or capacity-building on the rights of indigenous peoples to entities with which the undertaking has a business relationships) or collaborative leverage with peers or other actors (such as initiatives aimed at minimising security-related impacts on communities or participating in company-community partnerships).

AR 28. Impacts on communities may stem from environmental matters which are disclosed by the undertaking under the ESRS E1 to E5. Examples include:

(a) ESRS E1 *Climate Change*: The implementation of ***climate change mitigation*** plans may require the undertaking to invest in ***renewable energy*** projects that may affect the lands, territories and ***natural resources*** of ***indigenous peoples***. If the undertaking does not consult with the affected indigenous peoples , it could negatively impact the affected communities' right to ***free, prior and informed consent***;

(b) ESRS E2 *Pollution*: The undertaking may negatively impact ***affected communities*** by failing to protect them from ***pollution*** from a particular production facility that causes them health-related issues;

(c) ESRS E3 *Water and marine sources*: The undertaking may negatively impact the access to clean drinking water of communities when withdrawing water in water stressed areas;

(d) ESRS E4 *Biodiversity and ecosystems*: The undertaking may negatively affect the livelihood of local farmers through operations that contaminate ***soil***. Additional examples include the sealing of land through building new infrastructure, which can eradicate plant species that are critical for, for example, local ***biodiversity*** or to filter water for communities; or the introduction of ***invasive species*** (whether plants or animals)that can impact ***ecosystems*** and cause subsequent harm;

(e) ESRS E5 *Resource use and circular economy*: The undertaking may negatively impact the lives of communities by affecting their health through the mismanagement of ***hazardous waste.***

Where the connection between environmental impacts and local communities is addressed in the disclosures within the Disclosure Requirements ESRS E1-E5, the undertaking may cross-referenceto those and clearly identify such disclosures.

AR 29. When the undertaking discloses its participation in an industry or multi-stakeholder initiative as part of its ***actions*** to address material negative impacts, the undertaking may disclose how the initiative, and its own involvement, is aiming to address the material impact concerned. It may disclose under ESRS S3-5 the relevant ***targets*** set by the initiative and progress towards them.

AR 30. When disclosing whether and how the undertaking considers actual and potential impacts on ***affected communities*** in decisions to terminate ***business relationships*** and whether and how it seeks to address any negative impacts that may result from termination, the undertaking may include examples.

AR 31. In disclosing how it tracks the effectiveness of ***actions*** to manage material impacts during the reporting period, the undertaking may disclose any lessons learned from the previous and current reporting periods.

AR 32. Processes used to track the effectiveness of ***actions*** can include internal or external auditing or verification, court proceedings and/or related court decisions, impact assessments, measurement systems, stakeholder feedback, ***grievance mechanisms,*** external performance ratings, and benchmarking.

AR 33. Reporting on effectiveness is aimed at enabling the understanding of the links between ***actions*** takenby an undertaking and the effective management of impacts.

AR 34. With regard to initiatives or processes whose primary aim is to deliver positive impacts for affected communities that are based on affected communities' needs, and with regard to progress in the implementation of such initiatives or processes, the undertaking may disclose:

(a) information about whether and how ***affected communities*** and ***legitimate representatives*** or their ***credible proxies*** play a role in decisions regarding the design and implementation of these investments or programmes; and

(b) information about the intended or achieved positive outcomes for ***affected communities*** ofthese investments or programmes.

(c) an explanation of the approximate scope of ***affected communities*** covered by the described social investment or ***development*** programmes, and, where applicable, the rationale for why selected communities were chosen for a given social investment or development programme's implementation.

AR 35. The undertaking may disclose whether any initiatives or processes whose primary aim is to deliver positive impacts for ***affected communities*** are designed also to support the achievement of one or more of the UN Sustainable Development Goals (SDGs). For example, through a commitment to advance UN SDG 5 to "achieve gender equality and empower all women and girls" the undertakingmay be taking thoughtful measures to include women in the consultation process with an affected community to meet standards of effective ***stakeholder engagement***, which can help empower the women in the process itself, but potentially also in their daily lives.

AR 36. When disclosing the intended or achieved positive outcomes of its ***actions*** for ***affected communities*** a distinction is to be made between evidence of certain activities having occurred (for example, that x number of women community members have been provided with ***training*** on how to become local ***suppliers*** to the undertaking) from evidence of actual outcomes for affected communities (for example, that x women community members have set up small businesses and have had their contracts with the undertaking renewed year-on-year).

AR 37. When disclosing whether initiatives or processes also play a role in mitigating material negative impacts, the undertaking may for example consider programmes that aim to improve local infrastructure surrounding an undertaking's operations, such as improvements in roads leading to a reduction in the number of severe traffic accidents involving community

members.

AR 38. When disclosing the material risks and opportunities related to the undertaking's impacts or ***dependencies*** on affected communities, the undertaking may consider the following:

(a) risks related to the undertaking's impacts on ***affected communities*** may include the reputational or legal exposure, as well as operational risks, where affected communities protest against resettlements or the loss of access to lands, leading to costly delays, boycotts, or lawsuits;

(b) risks related to the undertaking's dependencies on ***affected communities*** may include disruption of business operations where ***indigenous peoples*** decide to withdraw their consent to a project on their lands, forcing the undertaking to significantly modify or abandon the project;

(c) business opportunities related to the undertaking's impacts on ***affected communities*** may include more easily financing projects and being a partner of choice for communities, governments and other businesses; and

(d) opportunities related to the undertaking's dependencies on ***affected communities*** may include the development of positive relationships between the undertaking and indigenous peoples that enable existing projects to expand with strong support.

AR 39. In disclosing the information in AR 41, the undertaking may consider explanations of risks and opportunities stemming from environmental impacts or ***dependencies*** (please refer to AR 31 for further details), including related human rights (or social) impacts. Examples include reputational risks stemming from the impact on the health of communities of unmanaged polluting ***discharges***; or the ***financial effects*** of protests that may disrupt or interrupt an undertaking's activities, for example, in response to operations in water stressed areas that may impact the lives of affected communities.

AR 40. When disclosing whether ***dependencies*** turn into risks, the undertaking shall consider external developments.

AR 41. When disclosing policies, action and resources and ***targets*** related to the management of material risks and opportunities, in cases where risks and opportunities arise from a material impact, the undertaking may cross-reference its disclosures on policies, actions and resources and targets in relation to that impact.

AR 42. The undertaking shall consider whether and how its processes to manage material risks related to ***affected communities*** are integrated into its existing risk management processes.

AR 43. When disclosing the resources allocated to the management of material impacts, the undertaking may disclose which internal functions are involved in managing the impacts and what types of action they take to address negative and advance positive impacts.

Metrics and targets

Disclosure Requirement S3-5 – Targets related to managing material negative impacts,advancing positive impacts, and managing material risks and opportunities

AR 44. When disclosing information about ***targets*** in accordance with paragraph 38, the undertaking may disclose:

(a) the intended outcomes to be achieved in the lives of affected communities, being as specific as possible;

(b) the stability of the ***targets*** over time in terms of definitions and methodologies to enable comparability over time;

(c) the standards or commitments which the targets are based on (for instance codes of conduct, sourcing policies, global frameworks or industry codes).

AR 45. ***Targets*** related to material ***risks*** and ***opportunities*** may be the same as or distinct from targets related to material impacts. For example, a target to fully restore livelihoods of

affected communities following resettlement could both reduce impacts on those communities and reduce associated risks such as community protests.

AR 46. The undertaking may also distinguish between short-, medium- and long-term ***targets*** covering the same ***policy*** commitment. For example, the undertaking may have as a main objective to employ community members at a local mining ***site***, with the long-term goal of staffing 100% locally by 2025, and with the short-term objective of adding x percent of local ***employees*** every year up and until 2025.

AR 47. When modifying or replacing a target in the reporting period, the undertaking may explain the change by linking it to significant changes in the business model or to broader changes in the accepted standard or legislation from which the target is derived to provide contextual information as per ESRS 2 BP-2 *Disclosures in relation to specific circumstances*.

ESRS S4
CONSUMERS AND END-USERS

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Objective

1. The objective of this Standard is to specify disclosure requirements which will enable ***users*** of the ***sustainability statement*** to understand material ***impacts*** on ***consumers*** and ***end-users*** connected with the undertaking's own operations and ***value chain***, including through its products or services, as well as through its ***business relationships***, and its related material ***risks*** and ***opportunities***, including:

   (a) how the undertaking affects the consumers and/or end-users of its products and/or services (referred to in this Standard as "consumers and end-users"), in terms of material positiveand negative actual or potential impacts;

   (b) any ***actions*** taken, and the result of such actions, to prevent, mitigate or remediate actual or potential negative impacts, and to address risks and opportunities;

   (c) the nature, type and extent of the undertaking's material risks and opportunities related to its impacts and ***dependencies*** on consumers and end-users, and how the undertaking manages such risks and opportunities; and

   (d) the ***financial effects*** on the undertaking over the short-, medium- and long-term of material risks and opportunities arising from the undertaking's impacts and dependencies on consumers and/or end-users.

2. In order to meet the objective, this Standard requires an explanation of the general approach the undertaking takes to identify and manage any material actual and potential ***impacts*** on the ***consumers*** and/or ***end-users*** related to its products and/or services in relation to:

   (a) information-related impacts on consumers and/or end-users (for example, privacy, freedom of expression and access to (quality) information;

   (b) personal safety of consumers and/or end-users (for example, health and safety, security of aperson and protection of children);

   (c) social inclusion of consumers and/or end-users (for example, non-***discrimination***, access to products and services and responsible marketing practices).

3. This Standard also requires an explanation of how such impacts, as well as the undertaking's ***dependencies*** on ***consumers*** and/or ***end-users,*** can create material ***risks*** or ***opportunities*** for the undertaking. For example, negative impacts on the reputation of the undertaking's products and/or services can be detrimental to its business performance, while trust in products and/or services can bring business benefits, such as increased sales or widening of the future consumer base.

4. The unlawful use or misuse of the undertaking's products and services by ***consumers*** and ***end-users*** fall outside the scope of this standard.

Interaction with other ESRS

5. This standard applies when material ***impacts*** on and/or material ***risks*** and ***opportunities*** related to ***consumers*** and/or ***end-users*** have been identified through the ***materiality*** assessment process laidout in ESRS 2 *General disclosures*.

6. This Standard shall be read in conjunction with ESRS 1 *General requirements*, and ESRS 2,

as well as ESRS S1 *Own workforce*, ESRS S2 *Workers in the value chain* and ESRS S3 *Affected communities*.

Disclosure Requirements

ESRS 2 General Disclosures

7. The requirements of this section should be read in conjunction with the disclosures required by ESRS 2 on Strategy (SBM). The resulting disclosures shall be presented alongside the disclosures required by ESRS 2, except for SBM-3 *Material impacts, risks and opportunities and their interaction with strategy and business model*, for which the undertaking has an option to present thedisclosures alongside the topical disclosure.

Strategy

Disclosure Requirement related to ESRS 2 SBM-2 – Interests and views of stakeholders

8. When responding to ESRS 2 SBM-2, paragraph 43, the undertaking shall disclose how the interests, views and rights of its ***consumers*** and/or ***end-users,*** including respect for their human rights, inform its strategy and business model. Consumers and/orend-users are a key group of affected ***stakeholders***.

Disclosure Requirement related to ESRS 2 SBM-3 – Material impacts, risks and opportunitiesand their interaction with strategy and business model

9. When responding to ESRS 2 SBM-3 paragraph 48, the undertaking shall disclose:

   (a) whether and how actual and potential ***impacts*** on ***consumers*** and/or ***end-users*** as identified in Disclosure Requirements ESRS 2 IRO-1 *Description of the processes to identify and assess material impacts, risks and opportunities*: (i) originate from or are connected to the undertaking's strategy and ***business model***, and (ii) inform and contribute to adapting the undertaking's strategy and business model, and

   (b) the relationship between its material risks and opportunities arising from impacts and ***dependencies*** on consumers and/or end-users and its strategy and business model.

10. When fulfilling the requirements of paragraph 48, the undertaking shall disclose whether all ***consumers*** and/or ***end-users*** who are likely to be materially impacted by the undertaking, including ***impacts*** connected with the undertaking's own operations and ***value chain***, including through its products or services, as well as through its ***business relationships***, are included in the scope of its disclosure under ESRS 2. In addition, the undertaking shall disclose the following information:

    (a) a brief description of the types of consumers and/or end-users subject to material impacts byits own operations or through its value chain, and specify whether they are:

        i. consumers and/or end-users of products that are inherently harmful to people and/or increase risks for chronic disease;

        ii. consumers and/or end-users of services that potentially negatively impact their rights to privacy, to have their personal data protected, to freedom of expression and to non- ***discrimination***;

        iii. consumers and/or end-users who are dependent on accurate and accessible product- or service- related information, such as manuals and product labels, to avoid potentiallydamaging use of a product or service;

        iv. consumers and/or end-users who are particularly vulnerable to health or privacy impacts or impacts from marketing and sales strategies, such as children or financiallyvulnerable individuals;

(b) in the case of material negative impacts, whether they are either (i) widespread or systemic in contexts where the undertaking sells or provides its products or services (for example, state surveillance that affects the privacy of service users), or (ii) related to individual ***incidents*** (for example, a defect linked to a particular product) or to specific business relationships (for example, a business partner uses marketing that inappropriately targets young ***consumers***);

(c) in the case of material positive impacts, a brief description of the activities that result in the positive impacts (for example, product design that improves its accessibility for persons with disabilities) and the types of consumers and/or end-users that are positively affected or could be positively affected; the undertaking may also disclose whether the positive impacts occur in specific countries or regions; and

(d) any material risks and opportunities for the business arising from impacts and dependencies on consumers and/or end-users.

11. In describing the main types of ***consumers*** and/or ***end-users*** who are or could be negatively affected, based on the ***materiality*** assessment set out in ESRS 2 IRO-1, the undertaking shall disclose whether and how it has developed an understanding of how consumers and/or end-users with particular characteristics, or those using particular products or services, may be at greater risk of harm.

12. The undertaking shall disclose which, if any, of its material risks and opportunities arising from impacts and ***dependencies*** on ***consumers*** and/or ***end-users,*** relate to specific groups of consumers and/or end-users (for example, particular age groups) rather than to all consumers and/or end-users.

Impact, risk and opportunity management

Disclosure Requirement S4-1 – Policies related to consumers and end-users

13. The undertaking shall describe its policies adopted to manage its material impacts of its products and/or services on consumers and end-users, as well as associated material risks and opportunities.

14. The objective of this Disclosure Requirement is to enable an understanding of the extent to which the undertaking has policies that address the identification, assessment, management and/or ***remediation*** of material ***impacts*** on ***consumers*** and/or ***end-users*** specifically, as well as policies that cover materialrisks or opportunities related to consumers and/or end-users.

15. The disclosure required by paragraph 13 shall contain the information on the undertaking's policies to manage its material impacts, risks and opportunities related to ***consumers*** and/or ***end-users*** in accordance with *ESRS 2 MDR-P Policies adopted to manage material sustainability matters*. In addition, the undertaking shall specify if such policies cover specific groupsor all consumers and/or end-users.

16. The undertaking shall describe its human rights ***policy*** commitments[123] that are relevant to ***consumers*** and/or ***end-users,*** including those processes and mechanisms to monitor compliance with the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work or OECD Guidelines for Multinational Enterprises. In its disclosure itshall focus on those matters that are material, as well as the general approach in relation to[124]:

(a) respect for the human rights of consumers and/or end-users;

[123] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #9 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Lack of a human rights policy").

[124] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory indicator related to principal adverse impacts as set out by indicator #11 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments.

(b) engagement with consumers and/or end-users; and

(c) measures to provide and/or enable ***remedy*** for human rights impacts.

17. The undertaking shall disclose whether and how its policies with regard to ***consumers*** and/or ***end-users*** are aligned with internationally recognised instruments relevant to consumers and/or end-users, including United Nations (UN) Guiding Principles on Business and Human Rights. The undertaking shall also disclose the extent to which cases of non-respect of the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work or OECD Guidelines for Multinational Enterprises that involve consumers and/or end-users have been reported in its downstream ***value chain*** and, if applicable, an indication of the nature of such cases[125].

Disclosure Requirement S4-2 – Processes for engaging with consumers and end-users about impacts

18. The undertaking shall disclose its general processes for engaging with consumers and end-users and their representatives about actual and potential impacts on them.

19. The objective of this Disclosure Requirement is to enable an understanding of whether and how the undertaking engages, as part of its ongoing due diligence process, with ***consumers*** and/or ***end-users***, their legitimate representatives, or with ***credible proxies***, about material actual and potential positive and/or negative impacts that do or are likely to affect them, and whether and how perspectives of consumers and/or end-users are taken into account in the decision-making processes of the undertaking.

20. The undertaking shall disclose whether and how the perspectives of ***consumers*** and/or ***end-users*** inform its decisions or activities aimed at managing actual and potential impacts on consumers and/or end-users. This shall include, where relevant, an explanation of:

(a) whether engagement occurs with affected consumers and/or end-users or their ***legitimate representatives*** directly, or with ***credible proxies*** that have insight into their situation;

(b) the stage(s) at which engagement occurs, the type of engagement, and the frequency of the engagement;

(c) the function and the most senior role within the undertaking that has operational responsibility for ensuring this engagement happens and that the results inform the undertaking's approach; and

(d) where applicable, how the undertaking assesses the effectiveness of its engagement with consumers and/or end-users, and, where relevant, any agreements or outcomes that result from such engagement.

21. Where applicable, the undertaking shall disclose the steps it takes to gain insight into the perspectives of ***consumers*** and/or ***end-users*** that may be particularly vulnerable to impacts and/or marginalised (for example, people with disabilities, children, etc.).

22. If the undertaking cannot disclose the above required information because it has not adopted a general process to engage with ***consumers*** and/or ***end-users***, it shall disclose this to be the case. It may disclose a timeframe in which it aims to have such a process in place.

Disclosure Requirement S4-3 – Processes to remediate negative impacts and

[125] This information supports the information needs of: financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory indicator related to principal adverse impacts as set out by indicator #10 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises"); and benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator "Number of benchmark constituents subject to social violations (absolute number and relative divided by all benchmark constituents), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law" in section 1 and 2 of Annex II.

channels forconsumers and end-users to raise concerns

23. The undertaking shall describe the processes it has in place to provide for or cooperate in theremediation of negative impacts on consumers and end-users that the undertaking is connected with, as well as channels available to consumers and end-users to raise concerns and have them addressed.

24. The objective of this Disclosure Requirement is to enable an understanding of the formal means by which ***consumers*** and/or ***end-users*** can make their concerns and needs known directly to the undertaking, and/or through which the undertaking supports the availability of such channels (for example, ***grievance mechanisms***) by its business relationships, how follow up is performed with these consumers and/or end-users regarding the issues raised, and the effectiveness of these channels.

25. The undertaking shall describe:

(a) its general approach to and processes for providing or contributing to ***remedy*** where it has identified that it has caused or contributed to a material negative impact on ***consumers*** and/or ***end-users,*** including whether and how the undertaking assesses that the remedy provided is effective;

(b) any specific channels it has in place for consumers and/or end-users to raise their concerns or needs directly with the undertaking and have them addressed, including whether these are established by the undertaking itself and/or through participation in third-party mechanisms;

(c) the processes through which the undertaking supports or requires the availability of such channels by its business relationships; and

(d) how it tracks and monitors issues raised and addressed, and how it ensures the effectiveness of the channels, including through involvement of ***stakeholders*** who are the intended users.

26. The undertaking shall disclose whether and how it assesses that ***consumers*** and/or ***end-users*** are aware of and trust these structures or processes as a way to raise their concerns or needs and havethem addressed. In addition, the undertaking shall disclose whether it has policies in place to protect individuals from retaliation when they use such structures or processes. If such information has been disclosed in accordance with ESRS G1-1, the undertaking may refer to that information.

27. If the undertaking cannot disclose the above required information because it has not adopted a channel for raising concerns and/or does not support the availability of mechanisms by its business relationships, it shall disclose this to be the case. It may disclose a timeframe in which it aims to havesuch a channel or processes in place.

Disclosure Requirement S4-4 – Taking action on material impacts on consumers and end- users, and approaches to managing material risks and pursuing material opportunities related to consumers and end-users, and effectiveness of those actions

28. The undertaking shall disclose how it takes action to address material impacts on consumers and end-users, and to manage material risks and pursue material opportunities related to consumers and end-users, and effectiveness of those actions.

29. The objective of this Disclosure Requirement is twofold. Firstly, it is to provide an understanding of any ***actions*** and initiatives through which the undertaking seeks to:

(a) prevent, mitigate and remediate the negative material impacts on ***consumers*** and/or ***end-users***, and/or

(b) achieve positive material impacts for consumers and/or end-users.

Secondly, it is to enable an understanding of the ways in which the undertaking is addressing the material risks and pursuing the material opportunities related to consumers and/or end-

users.

30. The undertaking shall provide a summarised description of the action plans and resources to manage its material impacts, risks, and opportunities related to ***consumers*** and ***end-users*** as per ESRS 2 MDR-A *Actions and resources in relation to material sustainability matters*.

31. In relation to material impacts, the undertaking shall describe:

    (a) ***actions*** taken, planned or underway to prevent, mitigate or remediate material negative impacts on ***consumers*** and/or ***end-users;***

    (b) whether and how it has taken action to provide or enable ***remedy*** in relation to an actual material impact;

    (c) any additional actions or initiatives it has in place with the primary purpose of positively contributing to improved social outcomes for consumers and/or end-users; and

    (d) how it tracks and assesses the effectiveness of these ***actions*** and initiatives in delivering intended outcomes for consumers and/or end-users.

32. In relation to paragraph 28, the undertaking shall describe:

    (a) the processes through which it identifies what action is needed and appropriate in response to a particular actual or potential negative impact on ***consumers*** and/or ***end-users;***

    (b) its approaches to taking action in relation to specific material negative impacts on consumers and/or end-users, including any action in relation to its own practices regarding product design, marketing or sales, as well as whether wider industry or collaborative action with other relevant parties willbe required; and

    (c) how it ensures that processes to provide or enable ***remedy*** in the event of material negative impactsare available and effective in their implementation and outcomes.

33. In relation to material risks and opportunities, the undertaking shall describe:

    (a) what action is planned or underway to mitigate material risks for the undertaking arising fromits impacts and ***dependencies*** on ***consumers*** and/or ***end-users*** and how it tracks effectivenessin practice; and

    (b) what action is planned or underway to pursue material opportunities for the undertaking in relation to consumers and/or end-users.

34. The undertaking shall disclose whether and how it takes action to avoid causing or contributing to material negative impacts on ***consumers*** and/or ***end-users through*** its own practices, including, where relevant, in relation to marketing, sales and data use. This may include disclosing what approach is taken when tensions arise between the prevention or mitigation of material negative impacts and other business pressures.

35. When preparing this disclosure, the undertaking shall consider whether severe human rights issues and ***incidents*** connected to its ***consumers*** and/or ***end-users*** have been reported and, if applicable, disclose these[126].

36. Where the undertaking evaluates the effectiveness of an action by setting a target, in disclosing the information required under paragraph 32 (c), the undertaking shall consider ESRS 2 MDR-T *Tracking effectiveness of policies and actions through targets*.

37. The undertaking shall disclose what resources are allocated to the management of its material impacts with information that enables ***users*** to gain an understanding of how the material impacts are managed.

[126] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #14 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Number of identified cases of severe human rights issues and incidents").

Metrics and targets

Disclosure Requirement S4-5 – Targets related to managing material negative impacts,advancing positive impacts, and managing material risks and opportunities

38. The undertaking shall disclose the time-bound and outcome-oriented targets it may have set related to:

(a) reducing negative impacts on consumers and/or end-users; and/or

(b) advancing positive impacts on consumers and/or end-users; and/or

(c) managing material risks and opportunities related to consumers and/or end-users.

39. The objective of this Disclosure Requirement is to enable an understanding of the extent to which the undertaking is using time-bound and outcome-oriented ***targets*** to drive and measure progress in addressing material negative impacts, and/or advancing positive impacts on ***consumers*** and/or ***end-users***, and/or in managing material risks and opportunities related to consumers and/or ***end-users*** .

40. The summarised description of the ***targets*** to manage its material ***impacts, risks*** and ***opportunities*** related to ***consumers*** and/or ***end-users*** shall contain the information requirements defined in ESRS 2 MDR-T.

41. The undertaking shall disclose the process for setting the ***targets***, including whether and how the undertaking engaged directly with ***consumers*** and/or ***end-users***, their legitimate representatives, or with ***credible proxies*** that have insight into their situation in:

(a) setting any such targets;

(b) tracking the undertaking's performance against them; and

(c) identifying, if any, lessons or improvements as a result of the undertaking's performance.

Appendix A: Application Requirements

This appendix is an integral part of the ESRS S4 *Consumers and end-users*. It supports the application of the requirements set out in this standard and has the same authority as the other parts of the standard.

Objective

AR 1. The undertaking may highlight special issues relevant to a material impact for a shorter period of time, for instance initiatives regarding the health and safety of ***consumers*** and/or ***end-users*** in relation to contamination of a product or severe breach of privacy due to a massive data leak.

AR 2. The overview of social and human rights matters provided in paragraph 2 is not meant to imply that all of these issues should be disclosed in each Disclosure Requirement in this Standard. Rather, it provides a list of matters that the undertaking shall consider in its ***materiality*** assessment (ref. to ESRS 1 chapter 3 *Double materiality as the basis for sustainability disclosures* and ESRS 2 IRO-1) related to ***consumers*** and/or ***end-users*** and, subsequently, disclose as material impacts, risks and opportunities within the scope of this Standard.

ESRS 2 General disclosures

Strategy

Disclosure Requirement related to ESRS 2 SBM-2 – Interests and views of stakeholders

AR 3. ESRS 2 SBM-2 requires the undertaking to provide an understanding of if and how it considers whether its strategy and business model play a role in creating, exacerbating or (conversely) mitigating significant material impacts on ***consumers*** and/or ***end-users,*** and whether and how the business model and strategy are adapted to address such material impacts.

AR 4. While ***consumers*** and/or ***end-users*** may not be engaging with the undertaking at the level of its strategy or business model, their views can inform the undertaking's assessment of its strategy and business model. The undertaking may disclose the views of the (actual or potential) materially affected consumers and/or end-users' ***legitimate representatives*** or those of ***credible proxies*** that have insight into their situation.

Disclosure Requirement related to ESRS 2 SBM-3 – Material impacts, risks and opportunitiesand their interaction with strategy and business model

AR 5. Impacts on ***consumers*** and/or ***end-users*** can originate in the undertaking's business model or strategy in a number of different ways. For example, impacts may relate to the undertaking's value proposition (for example, providing online platforms with potential for online and offline harm), its ***value chain*** (for example, speed in developing products or services, or delivering projects, with risks to health and safety), or its cost structure and the revenue model (for example, sales-maximising incentives that put consumers at risk).

AR 6. Impacts on ***consumers*** and/or ***end-users*** that originate in the strategy or business model can also bring material risks to the undertaking. For example, if the undertaking's business model is premised on incentivising its sales force to sell high volumes of a product or service (for example, credit cards or pain medicine) at speed, and this results in large-scale harm to consumers, the undertaking may face lawsuits and reputational damage affecting its future business and credibility.

AR 7. Examples of particular characteristics of ***consumers*** and/or ***end-users*** that may be considered by the undertaking when responding to paragraph 11 include young consumers and/or end-users who may be more susceptible to impacts on their physical and mental development, or who lack financial literacy and may be more susceptible to exploitative sales or marketing practices. They may also include women in a context where women are routinely discriminated against in their access to particular services or in the marketing of particular products.

AR 8. With regard to paragraph 12, the ***risks*** could arise because of the undertaking's dependency on ***consumers*** and/or ***end-users*** where low likelihood but high impact events may trigger ***financial effects,*** for example, where a global pandemic leads to severe impacts on certain consumers' livelihoods resulting in major changes in patterns of consumption.

Impact, risk and opportunity management

Disclosure Requirement S4-1 – Policies related to consumers and end-users

AR 9. The description shall include the key information necessary to ensure a faithful representation of the policies in relation to ***consumers*** and ***end-users,*** and therefore, the undertaking shall consider explanations of significant changes to the policies adopted during the reporting year (for example, new expectations for business customers, new or additional approaches to due diligence and remedy).

AR 10. The ***policy*** may take the form of a stand-alone policy regarding ***consumer***s and/or ***end-users*** or be included in a broader document such as a code of ethics or a general sustainability policy that has already been disclosed by the undertaking as part of another

ESRS. In those cases, the undertaking shall provide an accurate cross-reference to identify the aspects of the policy that satisfythe requirements of this Disclosure Requirement.

AR 11. In disclosing its alignment of its policies with the UN Guiding Principles on Business and Human Rights, the undertaking shall consider that the Guiding Principles refer to the International Bill of Human Rights, which consists of the Universal Declaration of Human Rights and the two Covenantsthat implement it, and may disclose its alignment with these instruments.

AR 12. When disclosing how external facing policies are embedded, the undertaking may, for example, consider internal-facing sales and distribution policies and alignment with other policies relevant to ***consumer***s and/or ***end-users***. The undertaking shall also consider its policies for safeguarding the veracity and usefulness of information provided to potential and actual consumers and/or end-users, both before and after sale.

AR 13. The undertaking may provide an illustration of the types of communication of its policies to those individuals, group of individuals or entities for whom they are relevant, either because they are expected to implement them (for example, the undertaking's ***employees***, contractors and ***suppliers***), or because they have a direct interest in their implementation (for example, own workers, investors). It may disclose communication tools and channels (for example, flyers, newsletters, dedicated websites, social media, face to face interactions, workers' representatives), aimed at ensuring that the ***policy*** is accessible and that different audiences understand its implications. The undertaking may also explain how it identifies and removes potential barriers for dissemination, such as through translation into relevant languages or the use of graphic depictions.

Disclosure Requirement S4-2 – Processes for engaging with consumers and end-users about impacts

AR 14. ***Credible proxies*** who have knowledge of the interests, experiences or perspectives of ***consumer*s** and ***end-users*** could include national consumer protection bodies for some consumers.

AR 15. When describing which function or role has operational responsibility for such engagement and/or ultimate accountability, the undertaking may disclose whether this is a dedicated role or function or part of a broader role or function, and whether any capacity building activities have been offered to support the staff to undertake engagement. If it cannot identify such a position or function, it may state that this is the case. This disclosure could also be fulfilled by making reference to information disclosed according to ESRS 2 GOV-1 *The role of the administrative, management and supervisory bodies*.

AR 16. When preparing the disclosures described in paragraph 20 b) and c), the following illustrations may be considered:

(a) for stage(s) at which engagement occurs, examples could be in determining mitigationapproaches or in evaluating their effectiveness;

(b) for type of engagement, these could be participation, consultation and/or information;

(c) for the frequency of the engagement, information may be provided on whether engagement occurs on a regular basis, at certain points in a project or business process, as well as whether it occurs in response to legal requirements and/or in response to stakeholder requests and whether the result of the engagement is being integrated into the undertaking's decision-making processes; and

(d) for the role with operational responsibility, whether the undertaking requires relevant staff to have certain skills, or whether it provides ***training*** or capacity building to relevant staff to undertake engagement.

AR 17. To illustrate how the perspectives of ***consumers*** and/or ***end-users*** have informed specific decisions or activities of the undertaking, the undertaking may provide examples from the current reporting period.

Disclosure Requirement S4-3 – Processes to remediate negative impacts and

channels forconsumers and end-users to raise concerns

AR 18. In fulfilling the requirements set out by the disclosure criteria of ESRS S4-3, the undertaking may beguided by the content of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises focused on ***remediation*** and ***grievance mechanisms.***

AR 19. Channels for raising concerns or needs, include ***grievance mechanisms,*** hotlines, dialogue processes or other means through which ***consumers*** and/or ***end-users or*** their ***legitimate representatives*** can raise concerns about impacts or explain needs that they would like the undertaking to address. This could include channels provided by the undertaking directly and is to be disclosed in addition to any other mechanisms the undertaking may use to gain insight into the management of impacts on consumers and/or end-users, such as compliance audits. Where the undertaking is relying solely on information about the existence of such channels provided by its ***business relationships*** to answer this requirement, it may state that.

AR 20. To provide greater insight into the information covered in ESRS S4-3, the undertaking may provide insight into whether and how ***consumers*** and/or ***end-users*** that may be affected are able to access channels at the level of the undertaking they are affected by, in relation to each material impact.

AR 21. Third party mechanisms could include those operated by the government, NGOs, industry associations and other collaborative initiatives. With regard to the scope of these mechanisms, the undertaking may disclose whether these are accessible to all ***consumer***s and/or ***end-users*** who may be potentially or actually materially impacted by the undertaking, or individuals or organisations acting on their behalf or who are otherwise in a position to be aware of negative impacts, and throughwhich consumers and/or end-users (or individuals or organisations acting on their behalf or who are otherwise in a position to be aware of negative impacts), can raise complaints or concerns related to the undertaking's own activities.

AR 22. In relation to the protection of individuals that use the mechanisms against the retaliation, the undertaking may describe whether it treats grievances confidentially and with respect to the rights ofprivacy and data protection; and whether they allow for ***consumer*** and/or ***end-users*** to use them anonymously (for example, through representation by a third party).

AR 23. In disclosing whether and how the undertaking knows that ***consumer***s and/or ***end-users*** are aware of and trust any of these channels, the undertaking may provide relevant and reliable data about the effectiveness of these channels from the perspective of consumers and/or end-users themselves. Examples of sources of information are surveys of consumers and/or end-users that have used such channels and their levels of satisfaction with the process and outcomes. To illustrate the usage level of such channels, the undertaking may disclose the number of complaints received from consumers and/or end-users during the reporting period.

AR 24. In describing the effectiveness of channels for ***consumer***s and/or ***end-users*** to raise concerns, the undertaking may be guided by the following questions, based on the "effectiveness criteria for nonjudicial ***grievance mechanisms***", as laid out in the UN Guiding Principles on Business and Human Rights. The below considerations may be applied on an individual channel basis or for the collectivesystem of channels:

(a) do the channels hold legitimacy by providing appropriate accountability for their fair conductand building stakeholder trust?

(b) are the channels known and accessible to ***stakeholders***?

(c) do the channels have known procedures, set timeframes and clarity on the processes?

(d) do the channels ensure reasonable access to sources of information, advice and expertise?

(e) do the channels offer transparency by providing sufficient information both to complainantsand where applicable, to meet any public interest at stake?

(f) do the outcomes achieved from the channels accord with internationally recognised human rights?

(g) does the undertaking identify insights from the channels that support continuous learningin both improving the channels and preventing future impacts?

(h) does the undertaking focus on dialogue with complainants as the means to reach agreedsolutions, rather than seeking to unilaterally determine the outcome?

For more information, see Principle 31 of the UN Guiding Principles on Business and Human Rights.

Disclosure Requirement S4-4 – Taking action on material impacts on consumers and end- users, and approaches to managing material risks and pursuing material opportunities related to consumers and end-users, and effectiveness of those actions

AR 25. It may take time to understand negative impacts and how the undertaking may be involved with themthrough its downstream value chain, as well as to identify appropriate responses and put them into practice). Therefore, the undertaking shall consider:

(a) Its general and specific approaches to addressing material negative impacts;

(b) its initiatives aimed at contributing to additional material positive impacts;

(c) how far it has progressed in its efforts during the reporting period; and

(d) its aims for continued improvement.

AR 26. Appropriate action can vary according to whether the undertaking causes or contributes to a material impact, or whether the material impact is directly linked to its own operations, products or services through a business relationship.

AR 27. Given that material negative impacts affecting ***consumers*** and/or ***end-users*** that have occurred during the reporting period may also belinked to entities or operations outside its direct control, the undertaking may disclose whether and how it seeks to use leverage with relevant ***business relationships*** to manage those impacts. This may include using commercial ***leverage*** (for example, enforcing contractual requirements with business relationships or implementing incentives), other forms of leverage within the relationship (such as providing ***training*** or capacity-building on proper product use or sale practices to business relationships) or collaborative leverage with peers or other actors (such as initiatives aimed at responsible marketing or product safety).

AR 28. When the undertaking discloses its participation in an industry or multi-stakeholder initiative as part of its ***actions*** to address material negative impacts, the undertaking may disclose how the initiative, and its own involvement, is aiming to address the material impact concerned. It may disclose under ESRS S4-5 the relevant ***targets*** set by the initiative and progress towards them.

AR 29. When disclosing whether and how it considers actual and potential impacts on ***consumers*** and/or ***end-users*** in decisions to terminate ***business relationships*** and whether and how it seeks to addressany negative impacts that may result from termination, the undertaking may include examples.

AR 30. In disclosing how it tracks the effectiveness of ***actions*** to manage material impacts during the reporting period, the undertaking may disclose any lessons learned from the previous and current reporting periods.

AR 31. Processes used to track the effectiveness of ***actions*** can include internal or external auditing or verification, court proceedings and/or related court decisions, impact assessments, measurement systems, stakeholder feedback, ***grievance mechanisms,*** external performance ratings, and benchmarking.

AR 32. Reporting on effectiveness is aimed at enabling the understanding of the links between ***actions*** takenby the undertaking and the effective management of impacts.

AR 33. With regard to initiatives or processes the undertaking has in place that are based on affected ***consumers*** and/or ***end-users'*** needs and their level of implementation, the undertaking may disclose:

(a) information about whether and how consumers and/or end-users and ***legitimate representatives*** or their ***credible proxies*** play a role in decisions regarding the design andimplementation of these programmes or processes; and

(b) information about the intended or achieved positive outcomes for consumers and/or end-users of these programmes or processes.

AR 34. The undertaking may disclose whether any initiatives or processes whose primary aim is to deliver positive impacts for ***consumer***s and/or ***end-users*** are designed to also support the achievement of one or more of the UN Sustainable Development Goals (SDGs). For example, through a commitment to advance UN SDG 3 to "ensure healthy lives and promote well-being for all at all ages" the undertaking may be actively working to make its products less addictive and harmful to physical andpsychological health.

AR 35. When disclosing the intended positive outcomes of its ***actions*** for ***consumers*** and/or ***end-users*** a distinction is to be made between evidence of certain activities having occurred (for example, that xnumber of consumers have received information about healthy eating habits) from evidence of actual outcomes for consumers and/or end-users (for example, that x number of consumers have adopted healthier eating habits).

AR 36. When disclosing whether initiatives or processes also play a role in mitigating material negative impacts, the undertaking may, for example, consider programmes that aim to support heightened awareness of the risk of online scams, leading to a reduction in the number of cases of ***end-users*** experiencing breaches of data privacy.

AR 37. When disclosing the material risks and opportunities related to the undertaking's impacts or ***dependencies*** on ***consumers*** and/or ***end-users***, the undertaking may consider the following:

(a) risks related to the undertaking's impacts on consumers and/or end-users may include reputational or legal exposure where poorly designed or defective products result in injuries or deaths;

(b) risks related to the undertaking's dependencies on consumers and/or end-usersmay include the loss of business continuity where an economic crisis makes consumers unable to afford certain products or services;

(c) business opportunities related to the undertaking's impacts on consumers and/or end- users may include market differentiation and greater customer appeal from offering safe products or privacy-respecting services; and

(d) business opportunities related to the undertaking's dependencies on consumers and/or end-users may include the achievement of a loyal future consumer base by ensuring, forexample, that LGBTQI people are respected and that the undertaking's selling practices do not exclude such people from the products or services it offers.

AR 38. When disclosing whether ***dependencies*** turn into risks, the undertaking shall consider external developments.

AR 39. When disclosing policies, action and resources and ***targets*** related to the management of material risks and opportunities, in cases where risks and opportunities arise from a material impact, the undertaking may cross-reference its disclosures on policies, action and resources and ***targets*** inrelation to that impact.

AR 40. The undertaking shall consider the extent to which its processes to manage material risks related to***consumers*** and/or ***end-users*** are integrated into its existing risk management processes and how.

AR 41. When disclosing the resources allocated to the management of material impacts, the undertaking may disclose which internal functions are involved in managing the impacts and what types of actionthey take to address negative and advance positive impacts.

Metrics and targets

Disclosure Requirement S4-5 – Targets related to managing material negative impacts,advancing positive impacts, and managing material risks and opportunities

AR 42. When disclosing ***targets*** in relation to ***consumers*** and/or ***end-users***, the undertaking may disclose:

(a) the intended outcomes to be achieved in the lives of consumers and/or end-users, being as specific as possible;

(b) their stability over time in terms of definitions and methodologies to enable comparability; and/or

(c) references standards or commitments on which the ***targets*** are based are to be clearly defined in the reporting (for instance codes of conduct, sourcing policies, global frameworks or industry codes).

AR 43. ***Targets*** related to material ***risks*** and ***opportunities*** may be the same as or distinct from targets tied to material ***impacts***. For example, a target to ensure equal access to finance for underserved ***consumers*** could both reduce ***discrimination*** impacts on those consumers and enlarge the undertaking's pool of customers.

AR 44. The undertaking may also distinguish between short, medium and long-term ***targets*** covering the same ***policy*** commitment. For example, the undertaking may have as a main objective to make its online services accessible to people with disabilities, with the long-term goal of having adapted 100% of its online services by 2025, and with the short-term objective of adding x number of accessible features every year up and until 2025.

AR 45. When modifying or replacing a target in the reporting period, the undertaking may explain the change by cross-referencing it to significant changes in the business model or to broader changes in the accepted standard or legislation from which the target is derived to provide contextual information as per ESRS 2 BP-2 *Disclosures in relation to specific circumstances.*

ESRS G1
BUSINESS CONDUCT

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Objective

1. The objective of this Standard is to specify disclosure requirements which will enable users of the undertaking's ***sustainability statements*** to understand the undertaking's strategy and approach, processes and procedures as well as its performance in respect of business conduct.

2. This Standard focusses on the following matters, collectively referred to in this Standard as 'business conduct or business conduct matters':

   (a) business ethics and ***corporate culture***, including anti-***corruption*** and anti-***bribery***, the protection of whistleblowers, and animal welfare;

   (b) the management of relationships with ***suppliers***, including payment practices, especially with regard to late payment to small and medium-sized undertakings.

   (c) activities and commitments of the undertaking related to exerting its political influence, including its ***lobbying activities***;

Interaction with other ESRS

3. The content of this Standard on general disclosures as well as impact, risk and opportunity management and ***metrics*** and ***targets*** shall be read in conjunction respectively with ESRS 1 *General principles* and ESRS 2 *General requirements*.

Disclosure Requirements

ESRS 2 General disclosures

4. The requirements of this section should be read in conjunction with and reported alongside the disclosures required by ESRS 2 on Governance (GOV), Strategy (SBM) and Management of impacts, risks and opportunities (IRO).

Governance

Disclosure Requirement related to ESRS 2 GOV-1 – The role of the administrative, management and supervisory bodies

5. When disclosing information about the role of the ***administrative, management and supervisory bodies***, the undertaking shall cover the following aspects:

   (a) the role of the ***administrative, management and supervisory bodies*** related to businessconduct; and

   (b) the expertise of the administrative, management and supervisory bodies on business conduct matters.

Impact, risk and opportunity management

Disclosure Requirement related to ESRS 2 IRO-1 – Description of the processes to identifyand assess material impacts, risks and opportunities

6. When describing the process to identify material impacts, risks and opportunities in relation to business conduct matters, the undertaking shall disclose all relevant criteria used in the process, including location,activity, sector and the structure of the transaction.

Disclosure Requirement G1-1– Business conduct policies and corporate culture

7. **The undertaking shall disclose its policies with respect to business conduct matters and how it fosters its corporate culture.**

8. The objective of this Disclosure Requirement is to enable an understanding of the extent to which the undertaking has policies that address the identification, assessment, management and/or ***remediation*** of its material ***impacts, risks*** and ***opportunities*** related to business conduct matters. It also aims to provide an understanding of the undertaking's approach to ***corporate culture***.

9. The disclosures required under paragraph 7 shall include how the undertaking establishes, develops, promotes and evaluates its ***corporate culture.***

10. The disclosures in paragraph 7 shall cover the following aspects related to the undertaking's policies on business conduct matters:

    (a) a description of the mechanisms for identifying, reporting and investigating concerns about unlawful behaviour or behaviour in contradiction of its code of conduct or similar internal rules; and whether it accommodates reporting from internal and/or external ***stakeholders***;

    (b) where the undertaking has no policies on anti-***corruption*** or anti-***bribery*** consistent with the United Nations Convention against Corruption[127], it shall state this and whether it has plansto implement them and the timetable for implementation;

    (c) how the undertaking protects whistleblowers, including:

        i. details on the establishment of internal whistleblower reporting channels, including whether the undertaking provides for information and ***training*** to its own workers and information about the designation and training of staff receiving reports; and

        ii. measures to protect against retaliation its own workers who are whistleblowers in accordance with the applicable law transposing Directive (EU) 2019/1937 of the European Parliament and of the Council[128];

    (d) where the undertaking has no policies on the protection of whistle-blowers[129], it shall state this and whether it has plans to implement them and the timetable for implementation;

    (e) beyond the procedures to follow-up on reports by whistleblowers in accordance with the applicable law transposing Directive (EU) 2019/1937, whether the undertaking has procedures to investigate business conduct ***incidents***, including incidents of ***corruption*** and ***bribery***, promptly, independently and objectively;

    (f) where applicable, whether the undertaking has in place policies with respect to animal

[127] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #15 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosures rules on sustainable investments ("Lack of anti-corruption and anti-bribery policies").

[128] Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law (OJ L 305, 26.11.2019, p. 17).

[129] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #6 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosures rules on sustainable investments ("Insufficient whistleblower protection").

welfare;

(g) the undertaking's ***policy*** for ***training*** within the organisation on business conduct, including target audience, frequency and depth of coverage; and

(h) the functions within the undertaking that are most at risk in respect of ***corruption*** and ***bribery***.

11. Undertakings that are subject to legal requirements under national law transposing Directive (EU) 2019/1937, or to equivalent legal requirements with regard to the protection of whistle-blowers, may comply with the disclosure specified in paragraph 10 (d) by stating that they are subject to those legal requirements.

Disclosure Requirement G1-2 – Management of relationships with suppliers

12. **The undertaking shall provide information about the management of its relationships withits suppliers and its impacts on its supply chain.**

13. The objective of this Disclosure Requirement is to provide an understanding of the undertaking'smanagement of its procurement process including fair behaviour with ***suppliers***.

14. The undertaking shall provide a description of its ***policy*** to prevent late payments, specifically to SMEs.

15. The disclosure required under paragraph 12 shall include the following information:

(a) the undertaking's approach to its relationships with its ***suppliers***, taking account of risks to the undertaking related to its ***supply chain*** and of ***impacts*** on ***sustainability matters***; and

(b) whether and how it takes into account social and environmental criteria for the selectionof its suppliers.

Disclosure Requirement G1-3 – Prevention and detection of corruption and bribery

16. **The undertaking shall provide information about its system to prevent and detect, investigate, and respond to allegations or incidents relating to corruption and bribery including the related training.**

17. The objective of this Disclosure Requirement is to provide transparency on the key procedures ofthe undertaking to prevent, detect, and address allegations about ***corruption*** and ***bribery***. Thisincludes the training provided to own workers and/or information provided internally or to ***suppliers***.

18. The disclosure required under paragraph 16 shall include the following information:

(a) a description of the procedures in place to prevent, detect, and address allegations or ***incidents*** of ***corruption*** and ***bribery***;

(b) whether the investigators or investigating committee are separate from the chain ofmanagement involved in the matter; and

(c) the process, if any, to report outcomes to the ***administrative, management and supervisory bodies***.

19. Where the undertaking has no such procedures in place, it shall disclose this fact and, where applicable, its plans to adopt them.

20. The disclosures required by paragraph 16 shall include information about how the undertaking communicates its policies to those for whom they are relevant to ensure that the ***policy*** is accessible and that they understand its implications.

21. The disclosure required by paragraph 16 shall include information about the following with respectto training:

(a) the nature, scope and depth of anti-***corruption*** and anti-***bribery*** training programmes

offered orrequired by the undertaking;

(b) the percentage of functions-at-risk covered by training programmes; and

(c) the extent to which training is given to members of the administrative, management and supervisory bodies.

Metrics and targets

Disclosure Requirement G1-4 – Incidents of corruption or bribery

22. **The undertaking shall provide information on incidents of corruption or briberyduring the reporting period.**

23. The objective of this Disclosure Requirement is to provide transparency on the incidents relating to ***corruption*** or ***bribery*** during the reporting period and the related outcomes.

24. The undertaking shall disclose:
    (a) the number of convictions and the amount of fines for violation of anti-corruption and anti-bribery laws[130]; and

    (b) any actions taken to address breaches in procedures and standards of anti-corruption and anti-bribery[131].

25. The undertaking may disclose:

    (a) the total number and nature of ***confirmed incidents*** of corruption or bribery;

    (b) the number of ***confirmed incidents*** in which own workers were dismissed or disciplined for corruption or bribery-related incidents;

    (c) the number of ***confirmed incidents*** relating to contracts with business partners that were terminated or not renewed due to violations related to corruption or bribery; and

    (d) details of public legal cases regarding ***corruption*** or ***bribery*** brought against the undertaking and its own workers during the reporting period and the outcomes of such cases. This includes cases that were initiated in previous years where the outcome was only established in the current reporting period.

26. The disclosures required shall include ***incidents*** involving actors in its ***value chain*** only where the undertaking or its ***employees*** are directly involved.

Disclosure Requirement G1-5 – Political influence and lobbying activities

27. **The undertaking shall provide information on the activities and commitments related to exerting its political influence, including its lobbying activities related to its material impacts, risks and opportunities.**

28. The objective of this Disclosure Requirement is to provide transparency on the undertaking's activities and commitments related to exerting its political influence with political contributions, including the types and purpose of ***lobbying activities***.

29. The disclosure required by paragraph 27 shall include:

[130] This information supports the information needs of: financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts set out in indicator #17 of Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosures rules on sustainable investments ("Number of convictions and amount of fines for violation of anti-corruption and anti-bribery laws"); and benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator "Numbers of convictions and amount of fines for violations of anti-corruption and anti-bribery laws" in section 1 and 2 of Annex II.

[131] This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts set out in in indicator #16 of Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosures rules on sustainable investments ("Cases of insufficient action taken to address breaches of standards of anti-corruption and anti-bribery").

(a) if applicable, the representative(s) responsible in the ***administrative, management and supervisory bodies*** for the oversight of these activities;

(b) for financial or in-kind political contributions:

i. the total monetary value of financial and in-kind political contributions made directly and indirectly by the undertaking aggregated by country or geographical area where relevant, as well as type of recipient/beneficiary; and

ii. where appropriate, how the monetary value of in-kind contributions is estimated.

(c) the main topics covered by its ***lobbying activities*** and the undertaking's main positions on these in brief. This shall include explanations on how this interacts with its material impacts, risks and opportunities identified in its ***materiality*** assessment per ESRS 2; and

(d) if the undertaking is registered in the EU Transparency Register or in an equivalent transparency register in a Member State, the name of any such register and its identification number in the register.

30. The disclosure shall also include information about the appointment of any members of the ***administrative, management and supervisory bodies*** who held a comparable position in public administration (including regulators) in the 2 years preceding such appointment in the current reporting period.

Disclosure Requirement G1-6 – Payment practices

31. **The undertaking shall provide information on its payment practices, especially with respect to late payments to small and medium enterprises (SMEs).**

32. The objective of this Disclosure Requirement is to provide insights on the contractual payment terms and on its performance with regard to payment, especially as to how these impact SMEs and specifically with respect to late payments to SMEs.

33. The disclosure under paragraph 31 shall include:

(a) the average time the undertaking takes to pay an invoice from the date when the contractual or statutory term of payment starts to be calculated, in number of days;

(b) a description of the undertaking's standard payment terms in number of days by main category of ***suppliers*** and the percentage of its payments aligned with these standard terms;

(c) the number of legal proceedings currently outstanding for latepayments; and

(d) complementary information necessary to provide sufficient context. If the undertaking has used representative sampling to calculate the information required under point (a), it shall state that fact and briefly describe the methodology used.

Appendix A: Application Requirements

This appendix is an integral part of the ESRS G1 *Business conduct*. It supports the application of the disclosure requirements set out in this standard and has the same authority as the other parts of the Standard.

Impact, risk and opportunity management

Disclosure Requirement G1-1 – Business conduct policies and corporate culture

AR 1. The undertaking may consider the following aspects when determining its disclosure under

paragraph 7:

(a) the aspects of ***corporate culture*** that are taken into consideration and discussed by the***administrative, management and supervisory bodies*** and with which frequency;

(b) the principal themes that are promoted and communicated as part of the corporate culture;

(c) how the members of the undertaking's administrative, management and supervisory bodies provide direction to promote a corporate culture; and

(d) specific incentives or tools for its own workers to foster and encourage its corporate culture.

Disclosure Requirement G1-2 – Management of relationships with suppliers

AR 2. For purposes of this standard, management of relationships with the undertaking's ***suppliers*** may include the following:

(a) how the undertaking's practices, including activities to avoid or minimise the impacts of disruptions to its***supply chain***, support its strategy and risk management;

(b) training of the undertaking's procurement/supply chain workforce on engagement and dialogue with ***suppliers*** as well as incentives of its procurement workforce including whether such incentives refer toprice, quality or sustainability factors;

(c) the screening and evaluation of social and environmental performance of suppliers;

(d) the inclusion of locally based suppliers in its supply chain and/or suppliers with certification;

(e) how the undertaking's practices deal with vulnerable suppliers;

(f) the undertaking's ***targets*** and ***actions*** with regard to communication and management of relationships with suppliers; and

(g) how the outcomes of these practices are evaluated, including supplier visits, audits or surveys.

AR 3. 'Vulnerable suppliers' includes ***suppliers*** that are exposed to significant economic, environmental and/or social risks.

Disclosure Requirement G1-3 – Prevention and detection of corruption and bribery

AR 4. 'Functions-at-risk' means those functions deemed to be at risk of ***corruption*** and ***bribery*** as a result of its tasks and responsibilities.

AR 5. Disclosures may include details about the risk assessments and/or mapping, as well as monitoring programmes and/or internal control procedures performed by the undertaking to detect ***corruption*** and ***bribery***.

AR 6. The undertaking's policies on ***corruption*** and ***bribery*** may be relevant to specific groups of people, either because they are expected to implement them (for example, the undertaking's ***employees***, contractors and ***suppliers***), or because they have a direct interest in their implementation (for example, ***value chain*** workers, investors). The undertaking may disclose the communication tools and channels (e.g., flyers, newsletters, dedicated websites, social media, face to face interactions, unions and/or workers representatives) to communicate policies to such groups. This may also include the identification and/or removal of potential barriers to dissemination, such as through translation into relevant languages or the use of graphic depictions.

AR 7. The undertaking may disclose an analysis of its training activities by, for example, region of training or category of ***own workforce*** where its programmes differ significantly based on such factors and such information would be useful to users.

AR 8. The undertaking may present the required information about training using the following table:

Anti-corruption and bribery training illustrative example

During the 20XY financial year ABC provided training to its at-risk own workers in terms of its policy (see note x). For those at-risk functions the training is mandatory, but ABC also made available voluntary training for other own workers. Details of its training during the year is as follows:

	At-risk functions	***Managers***	***AMSB[132]***	***Other own workers***
Training coverage				
Total	*20,000*	*200*	*16*	*70,000*
Total receiving training	*19,500*	*150*	*8*	*5,000*
Delivery method and duration				
Classroom training	*5 hours*			
Computer-based training	*1 hour*	*2 hours*	*1 hour*	
Voluntary computer-based training				*1 hour*
Frequency				
How often training is required	*Annually*	*Annually*	*Bi-annually*	*-*
Topics covered				
Definition of corruption	*X*	*X*	*X*	*X*
Policy	*X*	*X*	*X*	*X*
Procedures on suspicion/detection	*X*	*X*		
Etc.	*X*			

Metrics and targets

Disclosure Requirement G1-5 – Political influence and lobbying activities

AR 9. For purposes of this Standard 'political contribution' means financial or in-kind support provided directly to political parties, their elected representatives or persons seeking political office. Financial contributions can include donations, loans, sponsorships, advance payments for services, or the purchase of tickets for fundraising events and other similar practices. In-kind contributions can include advertising, use of facilities, design and printing, donation of equipment, provision of board membership, employment or consultancy work for elected politicians or candidates for office.

AR 10. 'Indirect political contribution' refers to those political contributions made through an intermediaryorganisation such as a lobbyist or charity, or support given to an organisation such as a think tank or trade association linked to or supporting particular political parties or causes.

AR 11. When determining 'comparable position' in this standard, the undertaking shall consider variousfactors, including level of responsibility and scope of activities undertaken.

AR 12. The undertaking may provide the following information on its financial or in-kind contributions with regard to its lobbying expenses:

[132] Administrative, management and supervisory bodies.

(a) the total monetary amount of such internal and external expenses; and

(b) the total amount paid for membership to lobbying associations.

AR 13. If the undertaking is legally obliged to be a member of a chamber of commerce or other organisation that represents its interests, it may disclose that this is the case.

AR 14. In meeting the requirement in paragraph 29(c) the undertaking shall consider the alignment between its public statements on its material impacts, risks and opportunities and its ***lobbying activities.***

AR 15. An example of what such disclosures could look like:

Political engagement (including lobbying activities) illustrative example

During the 20XY financial year ABC was involved in activities around the proposed regulation XXX which could have significant negative impacts on its ***business model*** *if implemented in the current format. ABC's considers that while the proposed regulation will realise some improvements to the regulatory regime such as xxx, in its current format the costs relating to xxx will outweigh the benefits. ABC and its peers continue to work with XXX (the regulator) to improve this balance.*

ABC also supported the QRP political party in Country X and EFG party in Country Y as both …. ABC is registered in its local transparency register, i.e., XYZ, and its registration number is 987234.

Amounts in € thousands.

	2023	***2022 [TBC]***
Political funding provided	*100*	
Funding to QRP	*75*	
Funding to EFG	*25*	
	100	

Disclosure Requirement G1-6 – Payment practices

AR 16. In some cases, the undertaking's standard contractual payment terms may differ significantly depending on country or type of ***supplier***. In such cases, information about the standard terms per main categories of suppliers or country or geographical region could be examples of additional contextual information to explain the disclosures in paragraph 33(b).

AR 17. An example of what the description of standard contract term disclosures in paragraph 33(b) could look like:

ABC's standard contract payment terms are payment on receipt of invoice for wholesalers which encompass approximately 80% of its annual invoices by value. It pays for services received within 30 days after receipt of the invoice which are about 5% of its annual invoices. The remainder of its invoices are paid within 60 days of receipt except for those in country X which in accordance with the marketplace standards are paid within 90 days of receipt.