KPMG

# ESRS handbook

## European Sustainability Reporting Standards



November 2026

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**Tell your own story and focus on what matters** d

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# Tell your own story and focus on what matters

Companies are operating in an increasingly complex environment shaped by geopolitical uncertainty, economic volatility, climate-related disruption and changing stakeholder expectations. Against this backdrop, they need to explain how they affect people and the environment, the sustainability-related risks and opportunities they face, and how these connect with their strategy, resilience and value creation over time.

Revised European Sustainability Reporting Standards (ESRS) encourage more focused and proportionate reporting while retaining the ambition of providing decision-useful sustainability-related information. Whether refining an existing reporting process or applying ESRS for the first time, companies now have an opportunity to move beyond individual disclosures, prioritise quality over quantity and focus on what matters.

This publication can help you make the most of this opportunity. It brings together our insights, practical guidance and examples to support consistent, high-quality application of ESRS. As part of our ESRS toolkit, it sits alongside our *Materiality for sustainability reporting – How-to guide* and *GHG emissions reporting handbook*. It can help you navigate the requirements with confidence and tell your company's own sustainability-related story.

Ramon Jubels

Marco Schuit

Tomokazu Sekiguchi

**KPMG global IFRS corporate and sustainability reporting leadership team**

**KPMG International Standards Group**

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# 1.1 Using this handbook

This handbook provides guidance on applying ESRS. It is organised around the structure of the standards and brings together guidance on foundational concepts, core content requirements, general disclosure requirements (GDR) and topic-specific requirements. Using illustrative examples and practical insights, it can help companies navigate and apply the standards. It builds on, and is designed to be read alongside, the standards.

**Apply foundational concepts in ESRS 1**

- Identify the reporting entity and understand the upstream and downstream value chain (see Chapter 2.1)
- Identify material sustainability-related impacts, risks and opportunities (IROs) and material information (see Chapter 2.2)
- Apply other foundational concepts (see Chapter 2.3)

↓

**Provide the information required by ESRS 2 and topic-specific standards**

**Core content requirements (see Chapter 3.1)**

- Basis for preparation (see 3.1.40)
- Governance (see 3.1.50)
- Strategy (see 3.1.90)
- IRO management (see 3.1.230)

**General disclosure requirements (see Chapter 3.2)**

- Policies and actions (see 3.2.10)
- Metrics and targets (see 3.2.40)

**Topic-specific standards**

- Climate change (see Chapter 4.1)
- Other environmental (see Chapters 4.2–4.6)
- Social (see Chapter 4.7)
- Governance (see Chapter 4.8)

↓

**Use supplemental guidance**

- Transition plans (see Chapter 5.1)
- Scenario analysis (see Chapter 5.2)

↓

**Prepare and present disclosures**

- Presentation and connectivity (see Chapter 6.1)
- Effective date and transition (see Chapters 6.2–6.2A)

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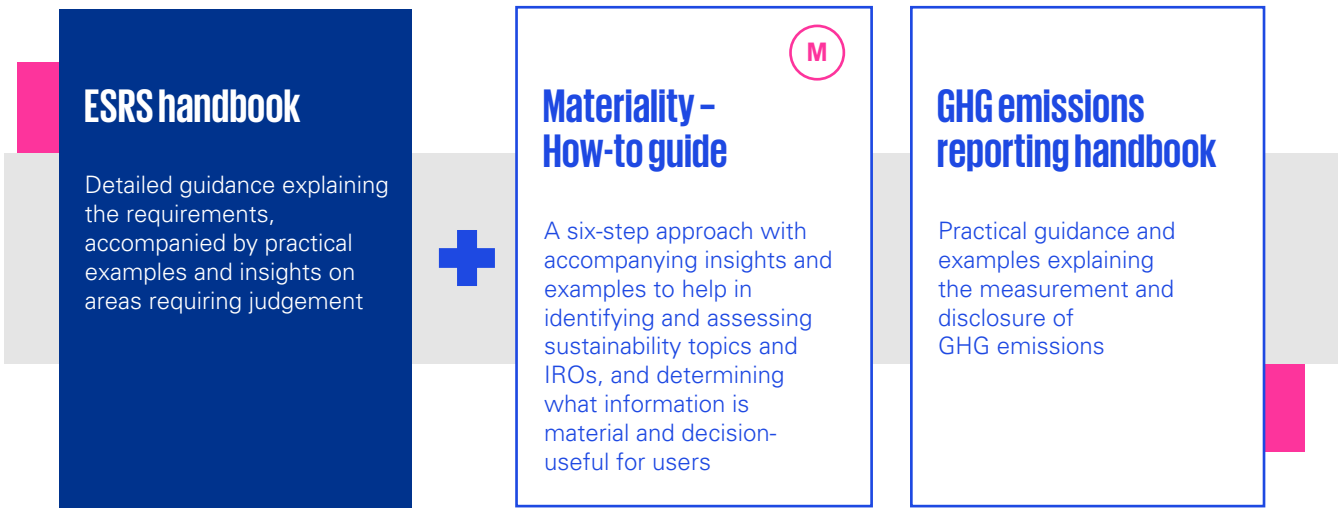
This handbook is designed to be read in conjunction with the following resources in our ESRS toolkit.

**See it brought to life: Your ESRS toolkit**




Together, our toolkit resources provide:

- interpretative guidance;
- examples on how to apply the requirements; and
- insights on questions that may arise in practice.

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# 1.2 About the standards

ESRS comprise 12 standards:

- ***two cross-cutting standards:*** ESRS 1 *General requirements* and ESRS 2 *General disclosures*;
- ***five environmental standards:*** ESRS E1 *Climate change*, ESRS E2 *Pollution*, ESRS E3 *Water*, ESRS E4 *Biodiversity and ecosystems* and ESRS E5 *Resource use and circular economy*;
- ***four social standards:*** ESRS S1 *Own workforce*, ESRS S2 *Workers in the value chain*, ESRS S3 *Affected communities* and ESRS S4 *Consumers and end-users*; and
- ***one governance standard:*** ESRS G1 *Business conduct*.

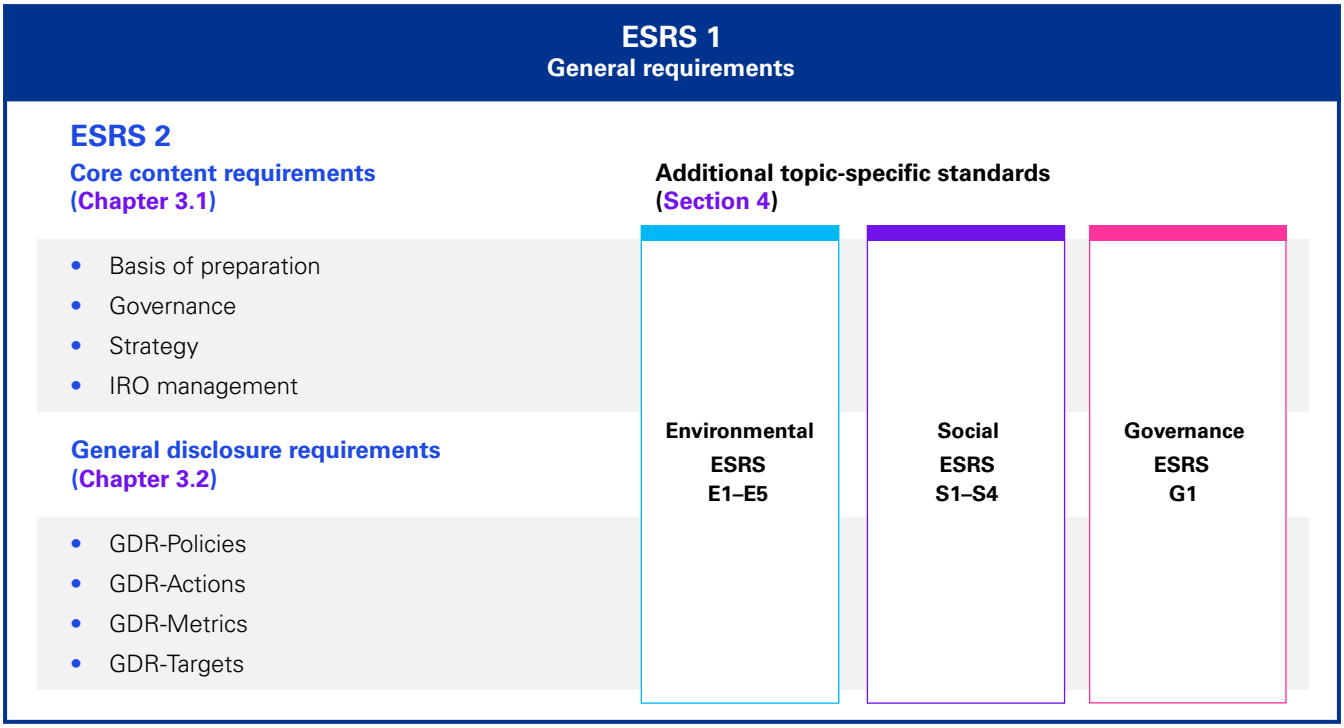
The standards are designed to be applied together. ESRS 1 establishes the general requirements for preparing sustainability statements, including double materiality, the boundary of the reporting entity, the value chain, due diligence, time horizons, presentation and preparation principles. ESRS 2 contains general disclosures that apply across sustainability topics.

The topic-specific standards supplement ESRS 1 and ESRS 2 with requirements for environmental, social and governance topics. Except where the standards specify otherwise, a company reports information under a topic-specific standard only when the related impacts, risks and opportunities (IROs), and the information about them, are material.

ESRS are adopted by the European Commission through delegated acts under the Corporate Sustainability Reporting Directive (CSRD)[1]. The references to 'CSRD' in this handbook are to the CSRD as amended, including by the Omnibus Directive[2].

A company applies the standards together with the relevant requirements of the CSRD as transposed into national law. EFRAG, the EU advisory body on corporate reporting, develops technical advice and supporting implementation materials but does not issue authoritative interpretations of EU law.

The following diagram shows the relationship between the standards.




1. 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 (Text with EEA relevance), OJ L 322, 16.12.2022, p. 15.
2. Directive (EU) 2026/470 of the European Parliament and of the Council of 24 February 2026 amending Directives 2006/43/EC, 2013/34/EU, (EU) 2022/2464 and (EU) 2024/1760 as regards certain corporate sustainability reporting requirements and certain corporate sustainability due diligence requirements (Text with EEA relevance), OJ L, 2026/470, 26.2.2026).

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## 1.2.10 Requirements reflected in this handbook

This handbook is based on the revised ESRS[3] adopted by the European Commission in July 2026 and published in the *Official Journal of the European Union* in September 2026. The revised standards apply to financial years beginning on or after 1 January 2027, including the financial year ending 31 December 2027 for a calendar-year company.

In this handbook, 'revised ESRS' is used only when distinguishing the revised standards from 'ESRS Set 1'[4].

For financial years beginning between 1 January and 31 December 2026, a wave-one company[5] may choose from three transitional reporting options (see Chapter 6.2A).

References to requirements in ESRS are included at the end of paragraphs.

[ESRS 1.23] Paragraph 23 of ESRS 1.

[Annex II] Annex II: Acronyms and glossary of terms.

## 1.2.20 Forthcoming requirements

This handbook assumes revised ESRS are currently effective requirements (see 1.2.10). There are no forthcoming requirements.

## 1.2.30 Future developments

EFRAG and the European Commission may issue amendments to the standards, additional guidance and supporting materials over time.

The CSRD requires certain non-EU companies to publish a sustainability report covering their group-wide impacts. This applies when the group generates more than EUR 450m of net turnover in the EU and has either a subsidiary or branch in the EU with a net turnover of at least EUR 200m. In July 2026, EFRAG published proposals for ESRS for certain non-EU companies (ESRS-40a). The comment period closed on 31 October 2026.

For the latest updates, refer to our ESRS page.

3. Commission Delegated Regulation (EU) 2026/1563 of 3 July 2026 amending Delegated Regulation (EU) 2023/2772 as regards the simplification of certain sustainability reporting standards, OJ L, 2026/1563, 21 September 2026, ELI: http://data.europa.eu/eli/reg_del/2026/1563/oj.
4. Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards, OJ L, 2023/2772, 22 December 2023, ELI: http://data.europa.eu/eli/reg_del/2023/2772/oj, as corrected by Corrigendum, OJ L, 2024/90241, 19 April 2024, ELI: http://data.europa.eu/eli/reg_del/2023/2772/corrigendum/2024-04-19/oj, and amended by Commission Delegated Regulation (EU) 2025/1416 of 11 July 2025 amending Delegated Regulation (EU) 2023/2772 as regards the postponement of the date of application of the disclosure requirements for certain undertakings, OJ L, 2025/1416, 10 November 2025, ELI: http://data.europa.eu/eli/reg_del/2025/1416/oj.
5. A wave-one company is required to report under ESRS for financial years starting on or after 1 January 2024 irrespective of whether the CSRD has been transposed into national law – i.e. all large public-interest entities (PIEs) with more than 500 employees. PIEs are defined in Article 2(1) of the Accounting Directive. They include companies with securities listed on an EU-regulated market, credit institutions, insurance undertakings and companies designated as PIEs by a member state. PIEs are in scope of wave-one if on a standalone or consolidated basis they exceed net turnover of EUR 50m and/or total assets of EUR 25m. Non-EU companies are treated in the same way as EU companies if they have securities listed on an EU-regulated market.

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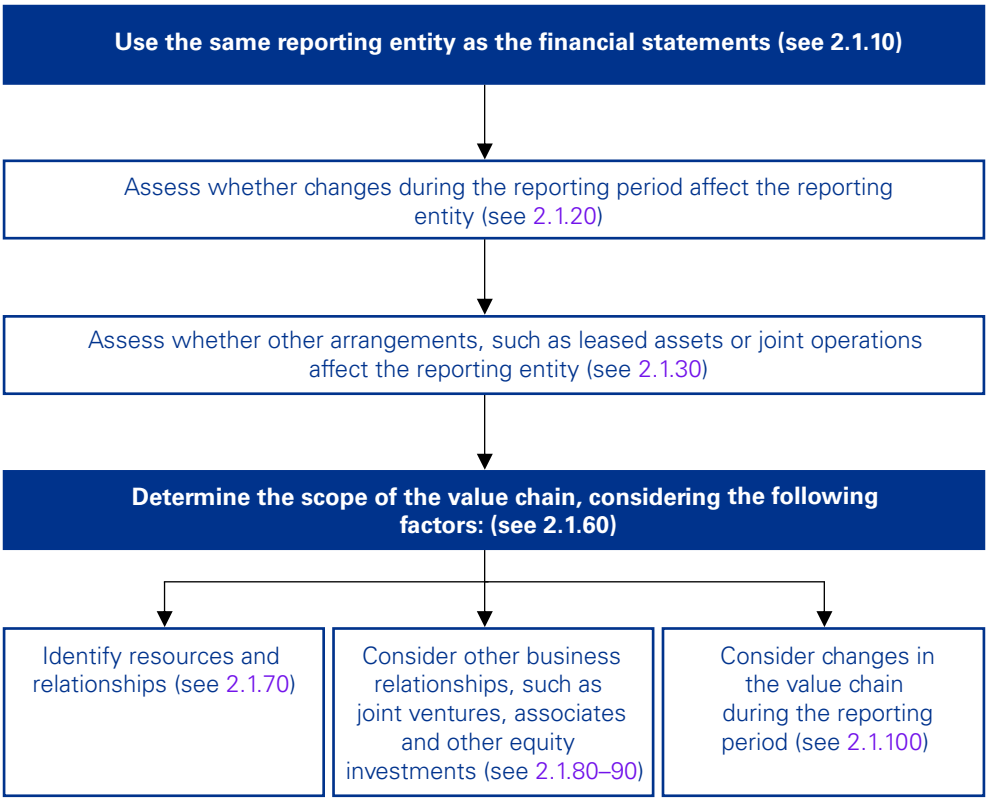
# 2.1 Reporting entity and value chain

A company reports material information about its material IROs. A company's sustainability statement includes information about the reporting entity and its value chain because IROs arise from both the company's own operations and the activities across its upstream and downstream value chain. As a result, the sustainability statement provides broader information than the financial statements. In reporting IROs under ESRS, a company needs to:

- identify the reporting entity (see 2.1.10); and
- determine the scope of its upstream and downstream value chain (see 2.1.60). [ESRS 1.62]

Whether an activity, resource or relationship is considered part of the reporting entity (e.g. a subsidiary) or the upstream or downstream value chain (e.g. an associate) can influence the type and nature of information a company discloses about it.

The following diagram outlines how a company applies the ESRS requirements on the reporting entity and its upstream and downstream value chain.




In this handbook, 'own operations' refers to the reporting entity's activities, generally encompassing the activities of the entities included in its consolidated financial statements, except where ESRS specify otherwise, such as for leases (see 2.1.40) and employee-benefit-scheme assets (see 2.1.90). [ESRS 1.61]

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## 2.1.10 Reporting entity

A company prepares its sustainability statement for the same reporting entity as its financial statements. For example, consolidated financial statements prepared in accordance with IFRS® Accounting Standards provide information about the parent and its subsidiaries as a single reporting entity. This means that each element of a company's general purpose financial reports (which include both the financial statements and the sustainability statement) provides information about the same consolidated group or reporting entity. [ESRS 1.60, IFRS 10.A]

A company determines the boundary of the reporting entity for its sustainability statement based on its specific facts and circumstances, including whether:

- there are changes to the reporting entity during the reporting period – e.g. acquisitions or disposals of subsidiaries (see 2.1.20); and
- other arrangements affect the reporting entity (see 2.1.30).

However, the boundary of the reporting entity may differ when calculating certain metrics – e.g. greenhouse gas (GHG) emissions, which can be measured using an equity share, financial control or operational control approach (see 4.1.120).

**Insight 2.1.10**
**Does a company need to include the same group of companies in its sustainability statement as in its financial statements?**

Yes. A company prepares its consolidated sustainability statement for the same reporting entity as its consolidated financial statements: the parent company and its subsidiaries, regardless of where they operate. For example, a subsidiary located in another jurisdiction forms part of the reporting entity for both statements. This does not mean that all sustainability-related information is presented at an aggregated group level (see 2.2.170). [ESRS 1.55, 60–61]

**Insight 2.1.20**
**Can subsidiaries that are immaterial for financial reporting still be relevant for sustainability reporting?**

Yes. If a subsidiary's specific facts and circumstances expose the group to material impacts, then the company includes information about those impacts as part of its own operations rather than as part of its upstream and downstream value chain. In addition, a company is required to consider risks and opportunities associated with the subsidiary when identifying material risks and opportunities and information in its DMA. [ESRS 1.47, 61]

**Insight 2.1.30**
**What is a financial holding undertaking and does it need to prepare a consolidated sustainability statement?**

The Accounting Directive defines a 'financial holding undertaking' as an entity whose sole object is to acquire holdings in other entities and manage those holdings for profit, without involving itself directly or indirectly in the management of those entities, except through the exercise of its rights as a shareholder. [Article 2 paragraph 15 of 2013/34 EU Directive]

A financial holding undertaking may be exempt from preparing a consolidated sustainability statement if both conditions are met.

- The parent company meets the definition of a financial holding undertaking as defined in the Accounting Directive.
- Its subsidiaries' business models and operations are independent.

This exemption applies only to the company meeting the definition of financial holding undertaking and it does not affect the reporting obligations of other companies in the group. A company carefully assesses whether it meets the conditions for applying this exemption. For example, a subsidiary may still need to provide sustainability-related information if it is in the scope of the CSRD in its own right. [Paragraph 17 of 2026/470 EU Directive]

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## 2.1.20 Changes during the reporting period

The boundary of the reporting entity may change following transactions or events that result in the acquisition or disposal of a subsidiary. A company aligns the boundary of the reporting entity with that of the financial statements when accounting for these types of transactions in its sustainability statement. [ESRS 1.60]

Consistent with the treatment in the financial statements under IFRS Accounting Standards, a company consolidates a subsidiary from the date on which it obtains control; similarly, it stops consolidating a subsidiary on the date it loses control. Accordingly, the company reports information about IROs associated with the subsidiary only for the period during which it forms part of the boundary of the reporting entity. Similar considerations apply when a company obtains control of a business that is not a subsidiary – i.e. not a legal entity. [ESRS 1.60]

However, when a company acquires a subsidiary in the current reporting period, a relief exists under ESRS to defer the inclusion of the subsidiary in the DMA and in the sustainability statement until the following reporting period. Conversely, if a company disposes of a subsidiary during the current reporting period, it may adjust the scope of the DMA and the boundary of the reporting entity from the start of the current reporting period.

Excluding an acquired subsidiary or removing a disposed subsidiary from the scope of the DMA does not necessarily mean that information relating to that subsidiary becomes irrelevant for sustainability reporting. In both cases, a company applying this relief uses available information to disclose significant events affecting the acquired or disposed subsidiary during the reporting period, since the acquisition or until the disposal, when those events influence the company's exposure to IROs. [ESRS 1.74–75]

Acquisitions and disposals that occur during the reporting period may affect several aspects of a company's sustainability statement, including the following areas.

| Area | Effect of changes during the reporting period |
|---|---|
| **Materiality assessment** | The scope of a company's material IROs, and the material information disclosed, may differ before and after the acquisition or disposal, and may require reassessment (see 2.2.150). [ESRS 1.34] |
| **Current-period information** | Metrics and other quantitative or qualitative information reflect the revised reporting entity from the date control is obtained or lost. This applies unless the company is applying the relief to defer inclusion or accelerate exclusion of the subsidiary from the sustainability statement. [ESRS 1.60, 74–75] |
| **Comparative information** | Comparative information is not adjusted; however, it may need to be explained to remain meaningful and consistent, depending on the nature of the change (see 2.3.110). |
| **Base years** | The base year or a baseline amount used for metrics or targets may need updating, depending on the nature of the change – e.g. when key changes occur in a GHG emissions reduction target or the reporting entity. [ESRS 1.77, ESRS 2.51, ESRS E1.AR14] |
| **Aggregation and disaggregation of information** | The level at which information is aggregated or disaggregated may change – e.g. if newly acquired activities differ materially from existing operations (see 2.2.170). [ESRS 1.52–55] |
| **Targets, policies and strategies** | The scope, achievability or relevance of existing targets and related policies or transition strategies and plans may be affected and require explanation or updating (see Chapter 3.2). If necessary to understand progress towards a target following a major acquisition or disposal, the company explains how the transaction affects its progress against that target. [ESRS 1.87(c), ESRS 2.51, AR45] |

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### Example 2.1.10
### Acquisition of a subsidiary during the reporting period

Company X acquired a controlling interest in Company Y during the reporting period on 1 July – the 'date of acquisition' for the purposes of the financial statements. X decided not to apply the relief on reporting information about acquisitions and disposals of subsidiaries. From 1 July, Y became part of the reporting entity for X's sustainability statement.

As part of its DMA, X considers whether impacts and dependencies from Y's activities and upstream and downstream value chain give rise to material IROs for the period that Y is part of X. X assesses whether the acquisition results in it identifying new IROs or changes the materiality of IROs it has already identified. This does not require X to reperform its entire DMA. X focuses its reassessment on Y and the related IROs, unless the acquisition could also affect existing materiality conclusions for other parts of the business.

In its sustainability statement, X includes information relating to Y from the date it acquired Y, consistent with the financial statements. X discloses information about IROs associated with Y's activities for the period from 1 July to 31 December (the reporting date).

X provides information about the effect of the acquisition in its sustainability statement to help users understand changes in the nature and extent of disclosures, including explaining any effects on current-period information, comparative information, targets, policies and strategies.

### Example 2.1.20
### Deferring the inclusion of a newly acquired subsidiary

Modifying Example 2.1.10, Company X applies the relief under ESRS to defer the inclusion of Company Y's activities, operations and exposures in its DMA and sustainability statement until the next reporting period.

Between 1 July and 31 December (the reporting date), Y identifies significant water stress affecting the region in which its main manufacturing facilities are located. This development is significant because it could influence the group's material IROs.

Consistent with the requirements of applying the relief in paragraph 75 of ESRS 1, X provides information about this significant event in its current-period sustainability statement to give users information about how X's material IROs may change in future periods.

### Example 2.1.30
### Disposal of a subsidiary during the reporting period

Modifying Example 2.1.10, Company X lost control of its wholly owned subsidiary, Company Z, on 30 September. From that date, Z ceased to form part of the reporting entity.

As part of its DMA for the year ended 31 December, X reassesses how its disposal of Z affects the IROs and the material information it identifies. This does not require X to reperform its entire DMA. X focuses its reassessment on Z and the related IROs, unless the disposal could also affect existing materiality conclusions for other parts of the business.

When preparing its sustainability statement, X includes information about IROs associated with Z's activities and upstream and downstream value chain up until 30 September.

X provides information about the effect of the disposal in its sustainability statement to help users understand changes in the nature and extent of disclosures, as well as how the disposal affects current-period information (including the period before the disposal of Z), comparative information, targets, policies and strategies.

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### Example 2.1.40
### Applying the relief for disposals to exclude a disposed subsidiary

Modifying Example 2.1.30, Company X applies the relief available in ESRS to exclude Company Z's activities, operations and exposures from its DMA and sustainability statement from the start of the current reporting period.

Before the disposal, X had identified water-related impacts and risks associated with Z's main manufacturing facility, which is located in an area of high water stress. During the period before disposal, local restrictions on water withdrawals affected Z's production and increased the significance of those water-related impacts and risks. This information was available to X as part of its management of Z before disposal and as part of the disposal process.

Although X applies the relief and excludes Z from the scope of its DMA and sustainability statement from the start of the current reporting period, X considers whether information about the disposal and the related change in its water-related IRO profile is material to users. If it is material, then X discloses information to help users understand that Z is no longer included in X's reported sustainability-related information and that explains the effect of the disposal on X's current-period disclosures, comparative information, targets, policies and strategies.

### Example 2.1.50
### Demerger of a business during the reporting period

Company P is a logistics company. On 31 October, P completed the demerger of its refrigerated transport business. P classified the demerged business as a discontinued operation under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and presents it separately in its financial statements. P elects not to apply the relief for acquisitions and disposals in paragraph 74 of ESRS 1.

The following table lists some of the areas P assesses when evaluating how the presentation of the demerged business as a discontinued operation in its financial statements affects the information in its sustainability statement. It is not a complete depiction of all potential effects on P's sustainability reporting.

| Area | Considerations for P's sustainability reporting |
|---|---|
| **Reporting entity and scope** | P's sustainability statement includes information for the discontinued operation up to the date control is lost – i.e. 31 October. |
| **IROs** | P evaluates how the demerger affects its exposure to material IROs; for example, climate-related transition risks associated with energy-intensive cold-chain logistics. P considers how its exposure to these transition risks is expected to change following completion of the demerger.<br><br>For example, P might:<br><br>• identify that the demerger reduces its exposure to climate-related transition risks related to energy-intensive cold-chain logistics; and<br><br>• conclude that, following completion of the demerger, it expects its exposure to these transition risks to decrease, reflecting the removal of the associated activities from its business. |
| **Effects on strategy and business model** | P considers whether the demerger significantly affects its overall strategy and business model.<br><br>P reassesses the scope of its value chain and whether the previously identified IROs remain material following the transaction (see 2.1.100). |

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| Area | Considerations for P's sustainability reporting |
|---|---|
| **Metrics** | P considers how the demerger affects the scope and comparability of metrics reported for the period, and whether historical baselines need to be adjusted to reflect the change in the business. This includes evaluating whether disaggregating metrics for the discontinued business would be material and decision-useful for users. |
| **Targets** | P reassesses whether existing targets continue to align with its strategy and business model following the demerger and revises them – including adjusting the baseline – as necessary. P distinguishes between performance against its existing targets, which include the discontinued operation, and performance against its revised targets, which relate to continuing operations (see Insight 3.2.160). |
| **Connectivity with the financial statements** | P considers how to facilitate connectivity between the sustainability statement and the financial statements in presenting the discontinued operation. This includes assessing whether the classification, timing (i.e. up to the loss of control) and scope of activities align across both financial and sustainability reporting, and whether any differences are clearly explained and appropriately cross-referenced. |

## 2.1.30 Other arrangements to consider

A company's own operations are not limited to the parent and its subsidiaries. A company needs to consider other arrangements, such as:

- leases (see 2.1.40); and
- joint operations (see 2.1.50). [ESRS 1.71, AR36, AR39]

These arrangements play an important role in defining the scope of the reporting entity because they may expose the company to material IROs.

Some contractual arrangements may not be recognised in a company's financial statements. However, it may still need to disclose material information about IROs arising from those arrangements because disclosure does not depend on whether they give rise to a recognised asset or liability in the financial statements. [ESRS 1.39, 46]

### 2.1.40 Leased assets

When determining the boundary of the reporting entity for the sustainability statement, a company considers leased assets, including those that it does not recognise as assets in its financial statements.

Under a lease, a company typically has the right to use an asset for a period of time in exchange for consideration. A company needs to consider leased assets because both using and owning them can give rise to IROs.

When assessing leases from an impact materiality perspective, the lessee treats impacts from the use of the asset as part of its own operations. For example, if a company leases a fleet of refrigerated trucks, then it includes the impacts of fuel use within its own operations. In contrast, the lessor reports impacts linked to the use of the leased asset as part of its downstream value chain. [ESRS 1.71, AR39]

How a lessee and lessor treat other impacts unconnected to the use of a leased asset depends on the lease terms and the facts and circumstances of the arrangement. A company considers which party is responsible for the activity or obligation that gives rise to the impact. For example, impacts from removing leasehold improvements, restoring the asset or remediating contamination may be part of the lessee's own operations if the lessee is responsible for those activities under the lease. [ESRS 1.71]

When identifying risks and opportunities related to a lease, both the lessee and the lessor consider the lease terms and related facts and circumstances to determine whether those risks and opportunities are part of their own operations or their upstream and downstream value chain. For example, if there is a risk of the asset becoming stranded after the lease term ends, then the lessor assesses this risk as part of its own operations. [ESRS 1.71]

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### Example 2.1.60
### Determining which leased-asset IROs form part of a lessee's own operations

Company G is a food and beverage manufacturer that leases a large distribution centre located in a coastal region. The facility is central to G's operations and supports the storage and distribution of finished products to major retail customers. G is the lessee and controls how the facility is used during the lease term. G has modified the facility by installing racking, cold storage rooms and conveyor systems.

G first assesses impacts arising from its use of the distribution centre. These include impacts from electricity consumption, refrigeration, fuel use, waste generation and workforce health and safety at the facility. Because G controls the use of the facility during the lease term, these impacts are treated as part of G's own operations, even though G does not legally own the asset.

G then considers whether other IROs arise from the lease that are unconnected to its use of the facility. To do this, G assesses the lease terms and the facts and circumstances of the arrangement.

The lease requires G to remove its leasehold improvements and restore the facility at the end of the lease term. Therefore, G considers whether impacts from dismantling racking, removing cold storage equipment, disposing of materials and managing related contractor health and safety are part of its own operations. These impacts arise from G's lease obligations in the lease rather than from the use of the asset.

By contrast, the lease specifies that the lessor is responsible for structural flood resilience works. The lessor bears the risk of costs for such works, as well as the risk that the facility becomes difficult to re-let after the lease term because of increased coastal flooding. Therefore, G does not treat those lessor-retained risks as part of its own operations.

However, G considers whether disruption to its use of the distribution centre during the lease term due to flooding gives rise to climate-related physical risks for its own operations, such as interruption to product distribution or increased operating costs.

### Example 2.1.70
### Lessor treatment of use-related impacts and ownership-related risks and opportunities

Company H owns a portfolio of factories, one of which it leases to an industrial client (the lessee).

The lessee treats impacts related to the use of the factory as part of its own operations. H considers those use-related impacts as part of its downstream value chain.

However, H remains the owner of the factory and is exposed to risks and opportunities associated with its ownership. These may include location-specific physical risks to the property, changes in building or environmental regulation, or the need to fund upgrades to keep the factory lettable.

H assesses whether those ownership-related risks and opportunities could affect its financial performance, financial position, cash flows, access to finance or cost of capital over the short, medium or long term. For example, they may affect expected lease payments, the factory's market value, re-letting prospects, or the timing and cost of maintenance or upgrades.

H treats the leased factory as part of its own operations only for the risks and opportunities that arise from H's ownership of, and continuing exposure to, the asset.

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### 2.1.50 Joint operations

Under IFRS Accounting Standards, a joint operation exists when two or more parties jointly control an arrangement in which each party has the rights to the assets and obligations for the liabilities relating to the arrangement. Common examples include a jointly controlled oil or gas field, manufacturing facility or an infrastructure project. [IFRS 11.A]

A company that is a joint operator accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation, including its share of those incurred jointly in its financial statements. [IFRS 11.20–21]

For the sustainability statement, a company treats the IROs associated with the assets, liabilities, revenues and expenses relating to its recognised interest in the joint operation as part of its own operations. [ESRS 1.AR36]

ESRS 1 provides a relief from reporting certain metrics from a joint operation – i.e. a company may exclude environmental metrics other than those required under ESRS E1 for a joint operation that it does not operationally control. This relief in ESRS 1 affects only the scope of those metrics and does not:

- change the reporting entity or the classification of the company's interest as part of its own operations;
- remove the requirement to identify and assess material IROs associated with the joint operation; or
- exempt the company from providing other material information, including narrative disclosures.

The relief reflects the practical challenges of obtaining information for joint operations that the company does not operationally control (see 2.3.200). [ESRS 1.92]



**Example 2.1.80**
**Relief from reporting environmental metrics for a joint operation without operational control**

Company Q holds a 50% interest in a manufacturing facility that it accounts for as a joint operation in its financial statements. Q recognises the assets, liabilities, revenues and expenses relating to its interest in the facility, and therefore treats the associated IROs as arising from its own operations.

Q concludes that it does not have operational control of the joint operation.

Q identifies material climate-, pollution- and water-related IROs associated with the facility. Applying the relief in ESRS 1 to exclude certain environmental metrics, it excludes data relating to the joint operation from pollution metrics under ESRS E2 and water metrics under ESRS E3. Q then explains:

- which metrics exclude information relating to the joint operation;
- the nature and extent of the resulting scope limitation; and
- how the exclusion affects users' understanding of the reported metrics.

Although Q excludes data from the specified metrics, it continues to provide narrative information about the facility's material pollution- and water-related IROs. It also explains that it is working with the other operator to obtain reliable site-level environmental data and to introduce sustainability-related data-sharing requirements into the joint operation's governance arrangements. In subsequent periods, Q reports its progress in improving data coverage and quality.

The relief does not apply to the climate-related requirements in ESRS E1. Therefore, Q applies the measurement boundaries and requirements in ESRS E1 when determining how to report the facility's GHG emissions in its sustainability statement. Q discloses GHG emissions arising from the manufacturing facility in its scope 1 and scope 2 emissions (see 4.1.120 and Insight 4.1.70).

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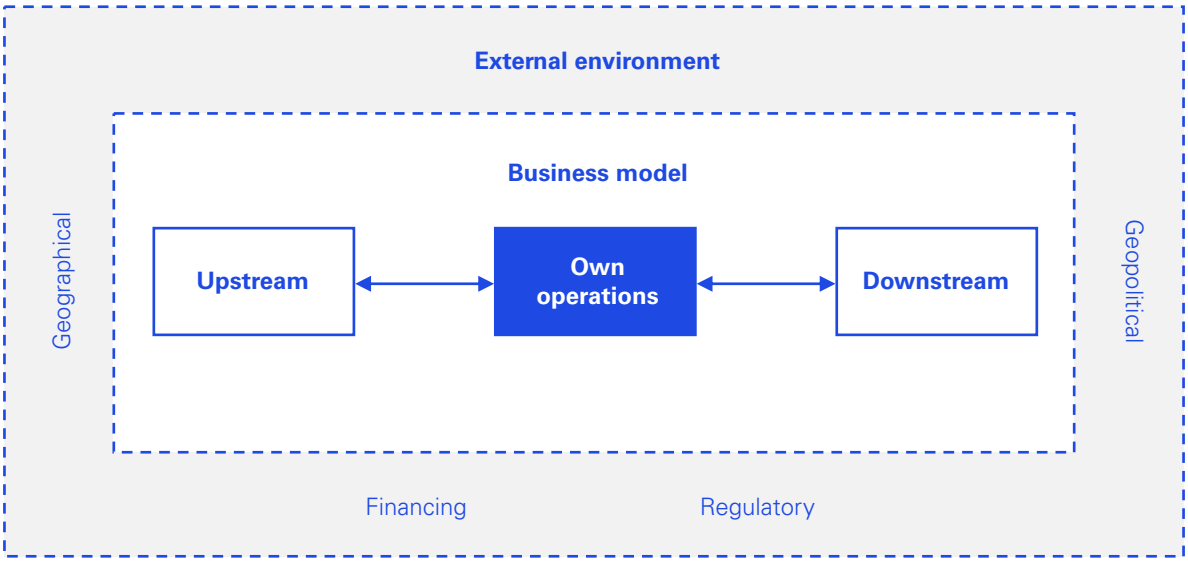
## 2.1.60 Value chain

A company's value chain comprises the activities, resources and relationships related to its business model and the external environment in which it operates. It encompasses everything that the company uses and relies on to create, consume and dispose of its products or services. [Annex II]

The value chain may include activities, resources and relationships:

- within own operations – e.g. production activities or relationships with the workforce;
- upstream – e.g. with raw material manufacturers, service providers or suppliers;
- downstream – e.g. with distributors or customers; and
- with the broader external environment – e.g. financing, geographical, geopolitical or regulatory environments.

**Who and what is in the value chain?**




IROs can arise within the reporting entity and across its value chain. As a result, when identifying what to include in its sustainability statement, a company considers both its own operations and the upstream and downstream value chain (see 2.2.10).

To understand its value chain, a company needs to consider the full life cycle of its products and services so that it can:

- identify the activities, resources and relationships in its own operations and along its supply, marketing and distribution channels (see 2.1.70); and
- understand where and how it is exposed to different financing, geographical, geopolitical and regulatory environments.

A company is not expected to identify every actor, supplier or customer in its value chain (see Insight 2.1.40). Instead, a company uses all reasonable and supportable information available to it at the reporting date without undue cost or effort (see 2.3.170) to identify the parts of its upstream and downstream value chain in which IROs may arise. This assessment involves judgement. For example, a company includes information on policies, actions and targets associated with material IROs only to the extent that they relate to parts of the value chain covered by those policies, actions and targets. [ESRS 1.62–64, 67–68, 93(b)]

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Obtaining information about the upstream and downstream value chain may involve the use of estimates. To identify IROs connected with its value chain, a company may use information obtained directly from its counterparties. However, it may develop estimates when direct data is impracticable or unreliable. When preparing these estimates, a company can use reasonable and supportable information from internal and external sources – e.g. indirect data, sector-average information, sample analyses, market or peer group data, spend-based data or other relevant proxies – and apply them consistently (see 2.3.170). [ESRS 1.65, 84]

A company is required to provide only limited information about its upstream and downstream value chain in its first three years of reporting, if that information is not available and certain conditions apply (see 6.2.20). [ESRS 1.123]

M For further guidance see Chapter 2.2 and Step 1 of our Materiality for sustainability reporting – How-to guide.

**Example 2.1.90**
**Assessing the value chain of a financial institution**

Bank E is a diversified banking group providing retail banking, commercial banking and capital markets services. As a financial institution, E considers its value chain from the context of how it sources capital, runs its operations and allocates finance.

The following table illustrates activities and relationships that E considers when identifying where IROs may arise across its value chain.

| Value chain stage | Activities and value chain partners |
|---|---|
| **Upstream** – E considers the resources, relationships and external conditions that enable the bank to operate and deploy capital | • Access to funding and capital that provide the financial resources used to support lending and investment activities, including retail and corporate depositors, wholesale funding markets, bondholders and shareholders.<br>• Financial market infrastructure that enables transactions and liquidity management, including payment, clearing and settlement systems, and banking networks.<br>• Key suppliers and service providers that support core banking, risk management and reporting processes, including technology platforms, data and analytics providers and outsourced service partners.<br>• The regulatory and macroeconomic environment that influences E's operating model, risk profile and access to capital, including central banks, supervisors and broad market conditions. |
| **E's operations** – E considers the activities and processes it controls that transform upstream resources into financial products and services | • Core banking activities, such as originating and servicing loans, deposit taking, payments, treasury and capital management, and the provision of advisory and transactional services.<br>• Risk management and control functions, including credit, market and liquidity risk management, climate-related risk assessment, compliance, internal audit and regulatory reporting.<br>• Product development and innovation, including the design of sustainability-linked products, green finance offerings and client solutions that respond to emerging IROs.<br>• Operational footprint and enabling functions, such as branches, offices, data centres, procurement, IT systems and workforce management.<br>• Business conduct and governance activities, including anti-bribery and corruption controls, whistleblowing and investigation processes, responsible payment practices of E, and oversight of compliance with laws and internal policies. |

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| Value chain stage | Activities and value chain partners |
|---|---|
| **Downstream** – E considers how it deploys capital and services to clients and markets | • Financing and investment activities that contribute to environmental and social impacts through E's portfolios. These include financed emissions from lending and investment exposures, and impacts linked to clients' activities – e.g. environmental degradation, human rights impacts and access to essential services – to which E contributes or is directly linked through providing capital.<br>• Financing and investment activities that expose E to sectoral, geographical and counterparty risks. These include lending, project finance, underwriting and investment portfolios – e.g. exposure to climate-related transition risk through loans to oil and gas companies (carbon policies) and to physical risks through investments in agricultural companies (drought, floods).<br>• Client and counterparty relationships that use E's products and services. These include retail and corporate customers, borrowers, investees and market counterparties. E may also consider clients of its counterparties, including retail clients who may be indirectly impacted by E.<br>• Ongoing portfolio management and stewardship, such as post-disbursement monitoring, engagement with clients on risk management and transition strategies, and credit or investment decision-making over time. |

E understands that for many financial institutions, IROs such as financed emissions and exposure to climate-related physical and transition risks and opportunities are concentrated downstream.

In assessing its downstream investment activities, E considers whether it retains risks or rewards of ownership of investments or whether it manages them on behalf of clients.

E uses the understanding of its operating context, including its value chain, to identify where IROs may arise and to determine the level of detail needed to provide decision-useful information to users.



**Example 2.1.100**
**Assessing the value chain of an automotive manufacturer**

Company B is a global automotive manufacturer that designs, manufactures and sells passenger and commercial vehicles. As an automotive company, B considers its value chain in the context of how it sources components and materials, operates its manufacturing processes and delivers vehicles and services to customers.

| Value chain stage | Activities and value chain partners |
|---|---|
| **Upstream** – B considers the resources, relationships and external conditions that enable it to design and manufacture vehicles | • Raw material extraction and processing that provide critical inputs for vehicle production, including steel, aluminium, plastics and critical minerals such as lithium, cobalt and nickel used in batteries. These activities may contribute to associated environmental and social impacts (e.g. biodiversity loss, water use and labour conditions).<br>• Suppliers of components and systems that are integrated into vehicles, including battery suppliers, semiconductor providers and electronic system manufacturers.<br>• Logistics and transportation providers that enable the movement of materials and components across supply chains and may generate transport-related GHG emissions and fuel consumption that contribute to B's value chain footprint.<br>• Key suppliers and strategic partners that support innovation and product development, including joint ventures for battery technology, software providers and engineering partners.<br>• The regulatory, geopolitical and market environment affecting supply chain resilience, input costs and sourcing decisions, including trade policies, environmental regulations and resource availability. |

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| Value chain stage | Activities and value chain partners |
|---|---|
| **B's own operations** – B considers the activities and processes it controls to design, manufacture and assemble vehicles | • Core vehicle production activities, including engine and powertrain manufacturing, vehicle assembly, machining, painting and quality control processes, which may generate direct emissions (scope 1), air pollutants and waste.<br>• Research and development, including the design of internal combustion engine vehicles, electric vehicles and alternative fuel technologies.<br>• Operational footprint and enabling functions, such as manufacturing plants, testing facilities, warehouses, procurement functions, IT systems and workforce management. These activities may cause impacts related to labour practices, occupational health and safety, and energy efficiency.<br>• Energy and resource use within own operations, including electricity consumption, water use, waste management and emissions from manufacturing processes.<br>• Risk management and compliance processes, including product safety, environmental management, regulatory reporting and climate-related risk assessment. |
| **Downstream** – B considers how it sells, distributes and services vehicles and how its products are used | • Distribution networks and sales channels through which vehicles are delivered to customers, including dealerships, fleet sales, digital platforms and intermediaries.<br>• Customers and end-users, including individual consumers, commercial fleet operators and leasing companies that use B's vehicles.<br>• Use-phase impacts of vehicles, including fuel or electricity consumption, emissions, maintenance requirements and performance over the vehicle life cycle.<br>• After-sales services and support, including maintenance, repairs, spare parts, financing and insurance services.<br>• End-of-life management and circular economy activities, such as vehicle recycling, battery reuse and recovery of critical materials. |

B uses this understanding of its value chain to identify where IROs may arise and to determine the level of detail needed to provide decision-useful information to users.



**Insight 2.1.40**
**What is an 'actor' in the value chain?**

An actor in the value chain is an individual or a company in the upstream or downstream value chain. For example, in the downstream value chain an actor might be a distributor or customer; in the upstream value chain, an actor might be a supplier. [Annex II]

A company does not need to consider every value chain actor individually. Instead, it focuses on the parts of the value chain, and the actors or groups of actors within them, where material IROs are likely to arise (see Insight 2.1.70). For example, a clothing company might focus on working conditions of textile workers in particular sourcing regions, while a food retailer might focus on working conditions for farm workers supplying produce. [ESRS 1.32, AR13]

This requires judgement to reflect the specific circumstances of the company's value chain.

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**Insight 2.1.50**
**At what level does a company need to understand its value chain?**

When identifying IROs, a company may need to analyse its business model and value chain at different levels to reflect differences across its activities, products and services, geographies or business relationships. If these differences could affect the identification of IROs, then a company considers whether it needs to analyse the relevant parts of the business separately before consolidating the results at group level. [ESRS 1.32(b), AR16]

Legal entities, reporting segments or other organisational structures may provide a useful starting point. Financial statements and management information analysed by geography, product or service, and major customer may also inform the analysis. For example, management reporting may indicate that certain geographies, products or customer groups warrant separate consideration when identifying IROs. However, these are only indicators and do not, on their own, determine the appropriate level of analysis.

The level at which this analysis is performed is separate from the level of aggregation or disaggregation of material information in a company's sustainability statement.

**Insight 2.1.60**
**Is there a limit on how much information can be obtained from companies in the upstream or downstream value chain?**

Yes. A company in the upstream and downstream value chain is not required to provide information beyond the limits set by EU law.

The 'value chain cap' limits the information that a company can obtain from certain value chain companies. Specifically, value chain companies with up to 1,000 employees may refuse requests that go beyond the datapoints listed in Annex II in the voluntary sustainability reporting standard adopted by the European Commission. The cap applies equally to value chain companies located outside the EU. [ESRS 1.66]

## 2.1.70 Identifying resources and relationships

Identifying activities, resources and relationships is a key part of determining the value chain. A company needs to understand the stages of its value chain and the activities that are part of each stage (see Example 2.1.90 and 2.1.100). It then connects its business activities to the relevant resources and relationships across its value chain.

Business relationships extend beyond direct contractual arrangements. They also include indirect relationships across the company's value chain, as well as shareholdings in joint ventures, associates and other forms of investment. [Annex II]

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Resources and relationships may relate to a company's own operations, upstream or downstream value chain and may include the following.

| Type | Resources and relationships | Type | Resources and relationships |
|---|---|---|---|
| **Human**  | • Company's workforce<br>• Workers in the value chain | **Natural**  | • Land<br>• Water<br>• Minerals |
| **Intellectual**  | • Patents<br>• Copyrights<br>• Trademarks | **Manufactured**  | • Machinery<br>• Equipment<br>• Buildings<br>• Infrastructure |
| **Financial**  | • Cash<br>• Investments<br>• Access to financial resources<br>• Shareholdings in joint ventures, associates and other equity investees | **Social and relationship**  | • Stakeholder relationships<br>• Contractual relationships (e.g. with customers)<br>• Indirect business relationships, such as with indirect suppliers or end-users<br>• Indigenous communities |

**Example 2.1.110**
**Identifying activities, resources and relationships across the value chain**

Company Z is a construction company that specialises in the design and construction of commercial buildings. Z operates within a single jurisdiction but has several sites under development across the country.

Z considers its operations in the pre-construction, construction and post-construction stages of its value chain, the key activities it performs in each stage and the resources and relationships on which it relies in each stage.

| Value chain stage | Pre-construction | Construction | Post-construction |
|---|---|---|---|
| **Key activities** | Contracting<br>Raw materials sourcing<br>Supplier engagement<br>Design and planning<br>Permitting and regulatory compliance | Project management and logistics<br>On-site construction<br>Health, safety and environmental controls<br>Quality assurance and compliance monitoring | Handover and commissioning<br>Post-sale service and maintenance<br>Client support and warranty management |

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| Value chain stage | Pre-construction | Construction | Post-construction |
|---|---|---|---|
| **Resources and relationships** | ***Human:***<br>• Engineering and construction workforce<br>***Social and relationship:***<br>• Customer contracts<br>• Supplier relationships<br>• Relationships with local and indigenous communities<br>• Relationships with government agencies issuing construction permits | ***Human:***<br>• Engineering and construction workforce<br>***Social and relationship:***<br>• Relationships with trade unions<br>• Relationships with local and indigenous communities<br>***Natural:***<br>• Land and water use<br>***Natural and manufactured:***<br>• High-quality building materials, including various metal, cement and lumber products<br>***Manufactured:***<br>• Machinery and equipment<br>***Financial:***<br>Access to financing | ***Human:***<br>• Engineering and construction workforce<br>***Social and relationship:***<br>• Customer contracts<br>• Relationships with government agencies issuing construction permits |

**Insight 2.1.70**
**Does a company need to assess every direct and indirect supplier in its value chain?**

No. A company considers direct and indirect suppliers and other upstream relationships to the extent necessary to identify IROs that might be material, using reasonable and supportable information available without undue cost or effort (see 2.3.170). There is no predetermined number of direct and indirect suppliers that a company is required to assess. [ESRS 1.32(b), 64]

Depending on the facts and circumstances, this may require a company to consider indirect suppliers and other upstream relationships. For example, material IROs may arise through indirect suppliers, including those involved in raw material extraction, manufacturing activities or product use.

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**Example 2.1.120**
**Considering indirect suppliers in the value chain**

Company V manufactures electric vehicles and sources lithium-ion battery cells from a direct supplier. That supplier relies on entities further upstream in its own value chain to extract and process lithium, cobalt and other minerals.

Based on information from internal and external sources (e.g. its due diligence processes and sector data), V is aware that extracting and processing battery minerals is associated with known environmental and social impacts in certain sourcing geographies, including impacts on workers and local communities, water resources and biodiversity. V identifies that these impacts could give rise to sustainability-related risks arising from potential supply disruptions, regulatory changes, reputational effects and changes in stakeholder behaviour. Because these activities take place beyond its direct supplier, V extends its understanding of the value chain to the relevant extraction and processing activities, even though it has no direct relationship with the entities involved.

When identifying IROs, V considers relevant parts of its value chain beyond its direct suppliers, including indirect suppliers, where material IROs are likely to arise (see Chapter 2.2). V does not need to perform an exhaustive search for information when identifying material IROs (see 2.3.160).

## 2.1.80 Joint ventures, associates and other equity investments

A company may have interests in joint ventures, associates and other equity investments (e.g. financial assets under IFRS 9 *Financial Instruments*). Although these investees are not part of the reporting entity – because they are not consolidated in the company's financial statements – they can still be relevant for sustainability reporting. This is because these relationships can give rise to material IROs.

Joint ventures, associates and other equity investments may form part of the company's value chain – e.g. when they act as suppliers, customers or strategic partners.

When considering joint ventures, associates and other equity investments for sustainability reporting purposes, a company:

- identifies such interests;
- considers whether each investee forms part of the company's upstream or downstream value chain – e.g. supplier or customer; and
- assesses whether material IROs arise through these relationships.

Investments – including any shareholdings – are treated as a business relationship. If the associate or joint venture is also part of the company's upstream or downstream value chain (e.g. as a supplier or customer), then material information is included in the same way as for other value chain business partners. In these cases, a company considers the full impacts connected through the investee when reporting metrics; the impacts are not limited to the extent of its ownership share. [ESRS 1.69–70]

If a company only manages investments on behalf of clients (i.e. under a fiduciary duty) and does not own those investments or retain the related risks or rewards, then it is not expected to provide data on those investments. [ESRS 1.AR37]

**Example 2.1.130**
**Transactions with associates and joint ventures in the value chain**

Company O is a manufacturing company that buys specialised components from Associate D and sells finished products to Joint Venture J.

In assessing IROs across its value chain, O identifies that relying on D exposes it to climate-related transition and physical risks associated with D's manufacturing operations. Increased energy costs, climate-related disruption at D's production facilities and regulatory changes affecting emissions-intensive processes could result in supply delays or increased input costs. The supply delays or increased costs could affect O's ability to meet customer demand and maintain its margins.

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O also identifies impacts connected with the business relationships it has with D and J. D's emissions-intensive manufacturing contributes to GHG emissions and local air pollution, creating negative environmental impacts linked to O through its purchasing relationship. O also considers whether J's use of its finished products contributes to positive environmental impacts by helping customers reduce emissions or use resources more efficiently.

O also identifies an opportunity arising from its sales to J, which is expanding operations in a new market with increasing demand for products that support customers' decarbonisation and resource-efficiency goals. Growth in J's activities could increase demand for O's products.

When identifying material IROs, O treats D and J in the same way as any other supplier or customer in its upstream or downstream value chain. For example, O's disclosures and metrics reflect the material impacts connected with its purchasing and sales relationships, as well as supply concentration, customer dependency and exposure to climate-related risks and opportunities. O reflects the full extent of those relationships, rather than limiting its assessment to its equity ownership interests in D and J.

## 2.1.90 Employee benefits

When determining the boundary of the reporting entity, a company considers its long-term employee benefit arrangements. Such arrangements are typically recognised in a company's financial statements and often include long-term investments – e.g. portfolios of equities, bonds or other financial instruments – built up over time to fund retirement entitlements.

The performance, investment strategy and exposure of a company's employee benefit arrangements can introduce or contribute to material IROs. For example, scheme assets may be exposed to climate-related transition or physical risks, social or governance risks associated with investee entities or changes in regulation affecting investment strategy and funding requirements.

A company considers whether the portfolios of investments held by its long-term employee benefit schemes give rise to material IROs. If so, the company includes material information about those IROs in its sustainability statement. It treats them as arising through its upstream and downstream value chain because the scheme's investments connect the company to the investees. [ESRS 1.72]

## 2.1.100 Changes in value chain

Changes in a company's value chain can influence how it identifies and reports its material IROs. These changes may result from the company's own decisions or from external developments. Changes in a company's value chain may arise from:

- transactions and events within the reporting entity (e.g. acquisitions, disposals or restructurings);
- changes in suppliers, customers or other value chain partners;
- changes in geography, sourcing locations or logistics routes; and/or
- regulatory changes, technological disruptions or shifts in the market or consumer behaviour.

These changes can alter the resources and relationships on which a company relies and, therefore, its exposure to material IROs.

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Understanding how the value chain evolves is important because these developments can affect what information a company discloses.

| Area | A company needs to: |
|---|---|
| **Changes in the reporting entity** | Assess whether changes in its structure (e.g. as a result of an acquisition or disposal of a subsidiary) result in changes to the value chain (see 2.1.20). |
| **Reassessment of IROs** | Reassess the scope of IROs that are affected by changes in the company's activities and value chain (see 2.2.150). |
| **Current-period and comparative information** | Apply judgement to ensure that information remains decision-useful and that material changes are explained, when relevant.<br>• Current-period information needs to reflect the company's value chain during the reporting period.<br>• Comparative information is not restated (see 2.3.110).<br>• Base years may need updating to remain meaningful and consistent, depending on the nature of the change (see 3.2.60). |
| **Information availability** | Consider how changes in its value chain may create practical challenges in obtaining information – e.g. from new suppliers or when activities shift to new jurisdictions.<br>Assess the information available at the reporting date without incurring undue cost or effort (see 2.3.170).<br>Determine whether the three-year transition relief on value chain information might apply (see 6.2.20).<br>Consider the relief available for partial reporting of own operations and value chain information if information is not available without undue cost or effort (see 2.3.200). [ESRS 1.91, 123] |
| **Disclosure of judgements** | Consider whether significant judgements were made in determining the scope or scale of changes in its value chain and whether information about those judgements would be material to users (see 2.3.80). |

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# 2.2 Materiality

Materiality determines the information a company reports, and at what level of detail, by focusing on what is decision-useful to users. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence users' decisions. This includes decisions by primary users[1] about providing resources to the company and by other users[2] of the company's material IROs and how they are managed. [ESRS 1.23]

Materiality acts as a filter on reported information, and therefore affects the volume, nature and precision of the information disclosed. Determining what information is material requires judgement, taking into account both quantitative and qualitative factors that reflect the company's specific circumstances and the information needs of its users.

Under ESRS 1, a company:

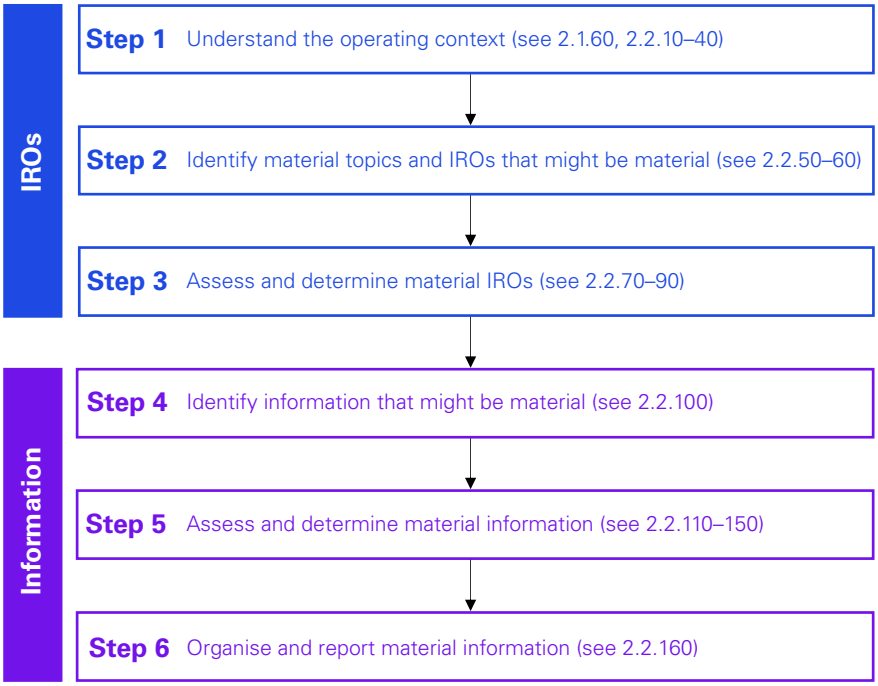
- identifies its IROs and the related reportable topics and subtopics (see 2.2.50);
- assesses which IROs are material from an impact perspective, a financial perspective or both (see 2.2.70); and
- discloses material information about those IROs (see 2.2.100).

To identify and assess its material IROs, the company performs a DMA. It considers both:

- its impacts on people and the environment, including through its value chain; and
- how sustainability topics may affect its development, financial position, financial performance, cash flows, access to finance or cost of capital.

M For further guidance on performing a DMA, see our Materiality for sustainability reporting – How-to guide.

The How-to guide expands on the guidance in this chapter, providing interpretative guidance and a practical six-step approach to performing a DMA.




1. Primary users are existing and potential investors, lenders and other creditors, including asset managers, credit institutions and insurance companies.
2. Other users are business partners, social partners (trade unions and employer organisations), civil society and non-governmental organisations.

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## 2.2.10 Understanding the operating context

To identify material IROs, a company first develops an understanding of the context in which it operates. This includes its:

- ***value chain:*** the company's business model, strategy, activities and upstream and downstream value chain (see 2.1.60–70);
- ***affected stakeholders:*** the individuals and groups that may be affected by those activities (see 2.2.20); and
- ***environment:*** the natural, human and social resources on which it depends, and the wider environmental, social and economic factors that may give rise to sustainability topics (see 2.2.60).

This understanding provides the foundation for identifying the impacts, dependencies and other factors that may give rise to IROs (see 2.2.70).

### 2.2.20 Affected stakeholders

Affected stakeholders are those whose interests are, or could be, affected by the company's activities and business relationships – in its own operations or as part of its value chain – and may include the following categories:

- ***own workforce:*** workers in the company's own operations and their representatives;
- ***value-chain workers:*** workers upstream and downstream (e.g. in suppliers or distributors);
- ***affected communities:*** communities affected by the company's operations or value chain activities;
- ***consumers and end-users:*** people who use the company's products or services; and
- ***nature:*** a silent stakeholder. [ESRS 1.42, AR23]

Identifying affected stakeholders can help a company understand who may be affected by its activities and business relationships. It can also help a company validate whether it has identified the full range of impacts on people and the environment. [ESRS 1.AR23]

A company may also consider the perspectives of other stakeholders that can help identify sustainability topics relevant to the reporting entity.

Affected stakeholder groups may differ across locations, business units or parts of the value chain. A company also considers whether certain individuals or sub-groups are particularly vulnerable and need to be identified separately – e.g. indigenous peoples, migrant workers or children. [ESRS 1.42, AR23]

When relevant, a company considers the perspectives of legitimate stakeholder representatives or proxies – e.g. employee representatives, trade unions, local community organisations, environmental specialists, non-governmental organisations (NGOs) or other representatives of affected groups. [ESRS 1.42, AR23–24]

### 2.2.30 Internal and external sources

A company draws on relevant internal and external sources to develop its understanding of the topics that could give rise to material IROs. These may include information from its sustainability-related due diligence[3] and risk management processes, stakeholder engagement, internal functions and specialists, as well as peer and sector information, reports, statistics, scientific evidence and media screening, including adverse media coverage. [ESRS 1.AR14]

3. Sustainability-related due diligence is an ongoing process through which a company identifies, prevents, mitigates, brings to an end, minimises and remediates actual and potential negative impacts on people and the environment connected with its business. [ESRS 1.56]

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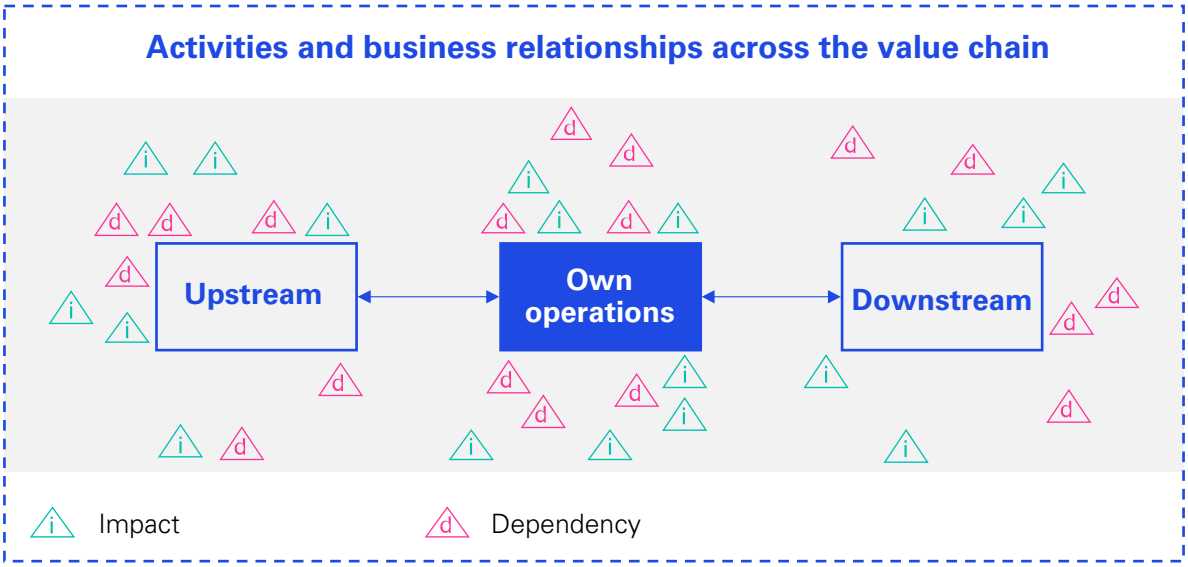
## 2.2.40 Impacts and dependencies

Resources and relationships, and therefore impacts and dependencies, exist within the reporting entity and across its value chain, including upstream and downstream activities. Drawing on relevant internal and external sources (see 2.2.30), a company develops an understanding of its value chain (see 2.1.60) and identifies its affected stakeholders (see 2.2.20).




When identifying material IROs, a company considers:

- its impacts on people and the environment through its activities, products and services; and
- its dependencies on the resources and relationships needed to operate and create value.

In doing so, a company works through its value chain in a structured way, focusing its efforts on the parts of the value chain where material IROs are most likely to occur. It uses relevant internal and external sources and draws on information already available to it without undue cost or effort (see 2.3.170).

Impacts and dependencies do not arise in isolation. They may be influenced by other factors, such as the company's value chain, geographical footprint and regulatory environment. As a result, the same activity may give rise to different IROs in different circumstances. [ESRS 1.32, AR16]

The following considerations may help a company identify whether an impact or dependency gives rise to an IRO.

- ***Impacts:*** arising from a company's effects on people or the environment through its operations or value chain. Impacts may be positive or negative and may have already occurred (actual impacts) or could occur in the future (potential impacts). [ESRS 1.38–41]
- ***Risks and opportunities:*** arising when sustainability topics affect the company's development, financial position, financial performance, cash flows, access to finance or cost of capital over the short, medium or long term. Negative impacts may result in risks; positive impacts may create opportunities. [ESRS 1.47]

The outcome of the company's due diligence informs its assessment of material negative impacts connected with its own operations, products and services, and business relationships across its upstream and downstream value chain. [ESRS 1.58–59]

Existing risk management processes often provide a useful starting point for identifying risks and opportunities. These may be complemented with external sources – e.g. sector benchmarks, market data and peer experience. [ESRS 1.AR29, ESRS 2.AR22]

A company is not expected to identify every actor (e.g. supplier, distributor or customer) in its value chain at the same level of detail (see Insight 2.1.40).

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### Example 2.2.10
### Identifying impacts and dependencies across the value chain

Continuing Example 2.1.110, Company Z's management uses its understanding of Z's value chain and business model to identify how Z depends on the resources and relationships identified and how its activities affect people and the environment.

| **Resources and relationships** (continued from Example 2.1.110) | **Example dependencies** | **Example impacts** |
|---|---|---|
| **Engineering and construction workforce** (human) | Availability of its skilled workforce in multiple locations (direct) | Health, safety and wellbeing of employees at work (direct) |
| **Relationships with trade unions** (social and relationship) | Constructive labour relations to maintain operations and avoid disruption (direct) | Employees' ability to exercise their rights to freedom of association and collective bargaining (direct) |
| **High-quality building materials, including various metal, cement and lumber products** (natural and manufactured) | Timely access to materials and products to maintain operations (direct)<br>Raw material supplier working practices relating to their workforce, local communities and environmental protection (indirect) | Damage to natural environment in source locations for lumber and mining, quarrying and processing sites for metals and cement (indirect) |
| **Machinery and equipment** (manufactured) | Availability and reliability of plant and equipment to carry out construction (direct) | Emissions, noise and waste arising from equipment use on site (direct) |
| **Land and water use** (natural) | Access to land and water needed for site development (direct) | Land degradation and water consumption at development sites constraining access to land and water (direct) |
| **Supplier relationships** (social and relationship) | Continuity and reliability of supply to maintain operations (direct) | Influence on suppliers' labour and environmental practices through procurement (indirect) |
| **Relationships with local and indigenous communities** (social and relationship) | A social licence to operate at development sites (direct) | Disruption to, or displacement of, local and indigenous communities near sites (direct) |
| **Customer contracts** (social and relationship) | Profitability of operations (direct) | – |
| **Relationships with government agencies issuing construction permits** (social and relationship) | Availability of permits issued by the government (direct)<br>Relevant construction standards set by the government (direct) | Ability of the government to meet regeneration targets in key locations (indirect) |
| **Access to financing** (financial) | Adequate cash flow to operate (direct) | – |

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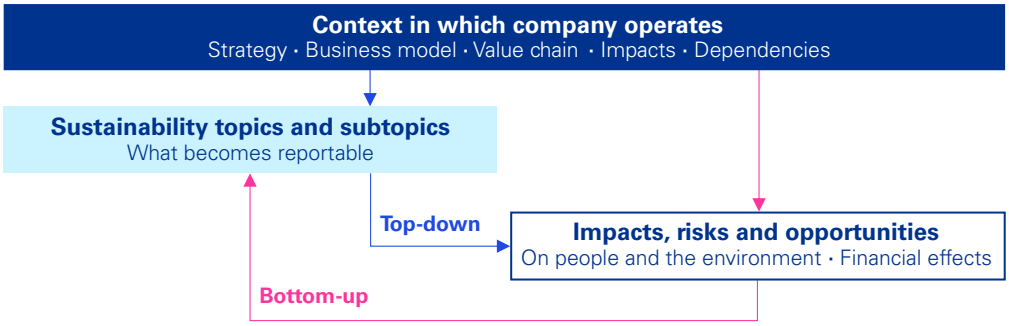
## 2.2.50 Sustainability-related impacts, risks and opportunities

Once a company has established the boundary of the reporting entity (see 2.1.10) and formed an understanding of the context in which it operates – including its business model, value chain, broader environment and affected stakeholders (see 2.2.10–40) – it identifies its material IROs.

A company may approach its DMA by identifying material topics and subtopics and their related IROs (top-down approach) (see 2.2.60), or by identifying individual IROs that might be material (bottom-up approach) (see 2.2.70), or a combination of both. Although the approaches have different starting points and may involve different levels of granularity, both support the identification of material IROs and, ultimately, the information to be reported under ESRS. [ESRS 1.27–28, AR10]

**How topics, IROs and the company's operating context are connected**




Under a *top-down approach*, a company starts with topics and subtopics and analyses its strategy and business model, including its sector(s) of operations, its geographies and the features of its upstream and downstream value chain, to identify which are clearly material or clearly not material. Topics and subtopics that are assessed as clearly material are taken forward to identify the related IROs; topics and subtopics that are clearly not material require no further analysis. [ESRS 1.27, AR11]

Under ESRS 1, the company is not generally required to reach a separate materiality conclusion for each individual IRO. Instead, it may reach a materiality conclusion at topic or subtopic level for related IROs considered together, provided that the conclusion is consistent with the relevant impact and financial materiality criteria.

In general, a high-level assessment based on qualitative considerations may be sufficient to conclude whether a topic or subtopic is material or not material. However, a more granular assessment may be needed when one or more related IROs could reasonably be expected to change that conclusion. For example, many IROs related to the 'water' topic may be clearly not material, but some water withdrawals at a site in a water-stressed area could be, and therefore require separate assessment. [ESRS 1.AR9, AR19]

Under a *bottom-up approach*, a company draws on its understanding of its operating context and relevant internal and external sources to identify impacts, dependencies and other factors that may give rise to IROs that might be material. It conducts the materiality assessment at the individual IRO level. In doing so, it uses qualitative considerations or quantitative thresholds, depending on the nature of the IRO, available data and other circumstances, and then assigns IROs to topics and subtopics. [ESRS 1.28, AR19]

In applying either approach, a company considers its specific facts and circumstances and other relevant sources of information (e.g. due diligence activities, stakeholder engagement and internal risk management processes).

M For further guidance, see Steps 2 and 3 of our Materiality for sustainability reporting – How-to guide.

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## 2.2.60 Material topics and subtopics

When identifying material topics and subtopics, a company considers its operating context together with the topics and subtopics included in Appendix A of ESRS 1. Appendix A provides a useful starting point; however, it is not binding guidance and does not replace the company's judgement. [ESRS 1.10]

A company draws on a range of sources to identify material topics and subtopics. These sources may also help it identify entity-specific topics that are not explicitly reflected in the list in Appendix A. [ESRS 1.11, AR2, AR14]

The company weighs the available evidence and applies judgement to determine whether a topic or subtopic is material, is not material or requires further assessment. For topics and subtopics that require further assessment, the company considers the related IROs to reach a materiality conclusion (see 2.2.70). [ESRS 1.27]



**Example 2.2.20**
**Identifying antimicrobial resistance as a material entity-specific topic**

Company S is a food manufacturer that sources dairy and meat through an agricultural supply chain across several countries. Starting with Appendix A of ESRS 1, S identifies the topics that are clearly material, considering its business model and value chain – i.e. climate change, water, biodiversity, its own workforce, workers in the value chain, consumers and end-users, and business conduct.

Working through its due diligence records and engaging with its procurement team and supply chain NGOs, S finds the routine use of antimicrobials in livestock production surfacing repeatedly. Audit findings identify widespread antimicrobial use among key suppliers. Stakeholders raise concerns about the resulting public health risks, and several sector peers identify antimicrobial resistance as a key sustainability-related issue and report related mitigation measures.

Based on this information, S concludes that antimicrobial resistance is clearly material because of its significant impacts on consumers and public health. As a result, S adds antimicrobial resistance to its list of material topics and identifies the related IROs.

Antimicrobial resistance is not an ESRS topic, and no ESRS subtopic captures it with sufficient granularity. Therefore, S considers antimicrobial resistance an entity-specific topic.



**Insight 2.2.10**
**When might a materiality conclusion at topic level be insufficient?**

A materiality conclusion may not always be possible at topic or subtopic level. This may occur when materiality varies across parts of the business, value chain or geographies. For example, a company may operate in regions with significantly different levels of water stress. Water-related topics may appear material in some locations, but may not be material in others. Therefore, the company may need to assess the related IROs before concluding whether the topic is material. [ESRS 1.AR9]

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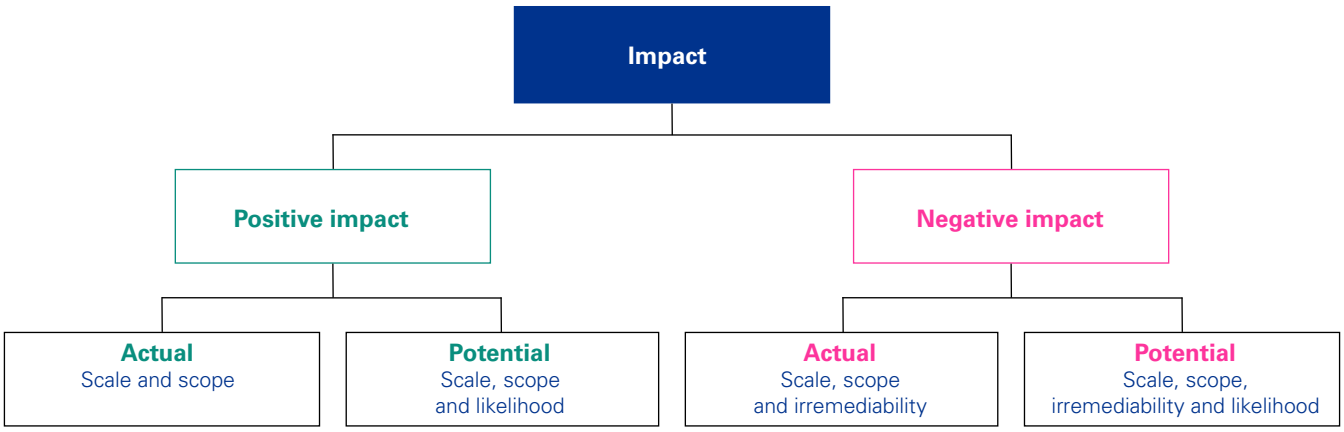
## 2.2.70 Identifying material IROs

Under a bottom-up approach, or when a top-down approach is inconclusive, a company identifies IROs to determine whether a topic or subtopic is material. It does this based on the impacts, dependencies and other factors identified using relevant internal and external information (see 2.2.30–40). [ESRS 1.27, 48, AR14]

The company then assesses the identified IROs for materiality.

- ***Impacts:*** are assessed based on their scale and scope. A company assesses irremediable character together with scale and scope to determine the severity of a negative impact, and assesses likelihood when evaluating potential impacts. [ESRS 1.40–41, AR22]




- ***Risks and opportunities:*** are assessed based on their likelihood of occurrence and the potential magnitude of the resulting financial effects over the short, medium or long term, as illustrated below. These factors are considered together to determine whether the risk or opportunity is material. [ESRS 1.49–50]

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**Insight 2.2.20**
**Can a company use materiality assessments prepared under other frameworks when identifying IROs?**

Yes. Existing assessments, analyses and reporting processes may be useful inputs, provided the company considers whether they remain relevant to its own facts and circumstances. Therefore, a company may draw on work performed under other sustainability reporting frameworks, internal risk management processes, due diligence activities or previous DMAs. [ESRS 1.32, AR13–AR14]

When using existing assessments, a company considers whether these inputs:

- cover relevant parts of its value chain;
- address the sustainability topics relevant to its activities and business relationships; and
- were prepared under appropriate governance and controls and can be supported by appropriate evidence.

Although existing assessments can be a valuable starting point, a company needs to ensure that other IROs that might be material are not overlooked. Therefore, it needs to complement those assessments if they do not sufficiently cover the company's own facts and circumstances, relevant parts of its value chain, or topics that may give rise to material IROs. [ESRS 1.AR14, AR29]

## 2.2.80 Key considerations when identifying material IROs

When identifying material IROs, a company considers the following concepts. Some of these concepts are also relevant when identifying material information (see 2.2.100).

- ***Thresholds:*** Using thresholds and scoring can be useful when determining material IROs; however, a company needs to ensure that any threshold or scoring system used does not result in material information being excluded. [ESRS 1.23, 37]
- ***Time horizons:*** A company allocates IROs to appropriate time horizons based on when impacts exist or could occur, or when risks and opportunities could reasonably be expected to trigger material financial effects (see 2.3.70). [ESRS 1.39, 47, 79–81]
- ***Reasonable and supportable information:*** A company uses all reasonable and supportable information available at the reporting date without undue cost or effort when identifying IROs (see 2.3.170). [ESRS 1.32, 93(a)]
- ***Mitigation activities:*** A company may undertake mitigation activities to prevent, reduce, minimise and bring to an end negative impacts. [ESRS 1.43]

M For further guidance on mitigation activities, see Step 3 of our Materiality for sustainability reporting – How-to guide.

**Example 2.2.30**
**Using internal and external sources to identify IROs that might be material**

Company H owns and operates hotels across multiple jurisdictions.

After mapping its value chain, H identifies impacts and dependencies connected to its workforce, suppliers, guests, local communities, water resources and energy supply.

To identify IROs that might be material, H uses all reasonable and supportable information available at the reporting date without undue cost or effort. It considers:

- activities and business relationships, impacts and dependencies identified through its value chain mapping;
- existing due diligence activities and grievance mechanisms;
- risks monitored through its risk management processes;
- engagement with affected stakeholders, including employees and local communities;
- peer reporting and sector guidance; and
- scientific evidence relating to water stress and climate-related hazards in the regions where it operates.

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As part of its risk management processes, H performs peer benchmarking, reviews incidents and complaints, analyses regulatory trends and conducts risk-identification workshops internally.

Based on the activities performed, H identifies additional IROs that might be material, which were not immediately apparent from the value chain mapping alone. These include water-related impacts in water-stressed regions and risks arising from increasing regulatory requirements relating to energy efficiency.

The output of this exercise is a list of IROs that might be material. H documents the process it followed.

The list and process documentation are reviewed by an internal specialist committee, including the Chief Financial Officer, who is responsible for H's sustainability reporting.

H decides not to refer to additional sources of guidance beyond those identified above, because the specialist committee is satisfied that the list is sufficiently complete to proceed with determining which IROs are material.



**Insight 2.2.30**
**Does a material impact always give rise to a material risk or opportunity?**

No. A material impact may give rise to a material risk or opportunity, but this is not always the case. Conversely, a risk or opportunity may be material even if no material impact has been identified.

This is because impact materiality and financial materiality are assessed through different lenses. Impact materiality focuses on the severity of a company's impacts on people and the environment, whereas financial materiality focuses on whether risks and opportunities could reasonably be expected to trigger material financial effects for the company. [ESRS 1.38, 47–51]

The two perspectives are often interconnected and may overlap, but neither determines the materiality of the other. The extent of overlap between impacts and risks and opportunities differs between companies and may change over time. Therefore, a company needs to assess each perspective independently. Over time, a material impact may give rise to a related risk or opportunity, and a risk or opportunity may in turn lead a company to identify impacts that were not previously considered material.



**Insight 2.2.40**
**Can a risk be material if a company determines that it has no or low exposure to it?**

Yes. A risk may be material if primary users' perception of the company's exposure could reasonably be expected to trigger material financial effects. [ESRS 1.47, 50]

For example, a company may have operations located in an area prone to flooding – i.e. companies in the area are generally exposed to flood risk. Because the company is located on higher ground, it has never experienced any flooding and has obtained specialist opinions that the flood risk is minimal across its sites and key access routes.

However, the company considers whether primary users' perception of the company's exposure to flood risk could affect its access to finance or cost of capital. If those effects could reasonably be expected to be material, then the risk may be material.

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## 2.2.90 Using judgement when identifying material IROs

A company does not need to report on all IROs that it identifies. Instead, it reports information about the sustainability topics related to IROs that are material from an impact perspective, a financial perspective or both. [ESRS 1.26, 35]

A company applies judgement when determining whether an IRO is material.

- ***For impacts:*** A company generally considers the perspectives of the people and environment affected, using appropriate evidence. Stakeholder engagement from ongoing due diligence activities can be a key input when considering these perspectives. [ESRS 1.42]
- ***For risks and opportunities:*** A company generally considers the perspective of the primary users of general purpose financial reports (investors, lenders and other creditors). To reflect this perspective, it needs to assess whether a primary user would reasonably expect a risk or opportunity to have a material financial effect on the company. [ESRS 1.45, 47]

In making these judgements, a company considers the available evidence and its specific facts and circumstances.

At each reporting date, a company considers whether significant changes could affect its previous conclusions about the materiality of its IROs or related information. If so, it revisits the affected parts of the assessment (see 2.2.150). [ESRS 1.34]

See 3.1.240 for guidance on the disclosures required relating to the DMA process. See 2.3.80–90 for guidance on significant judgements affecting the information reported.



**Example 2.2.40**
**Assessing the materiality of an impact on agency workers**

Company L is a logistics company that relies on many agency workers to manage fluctuating demand at a key hub.

When considering its IROs across the value chain, L identifies an impact on the working conditions of those workers that might be material – i.e. loss of earnings resulting from short-notice shift cancellations. The impact is negative, actual and ongoing. Because L sets the shift patterns at the hub, it contributes to the impact through its own operations.

L identified the concern through engagement with worker representatives and corroborated it with the relevant employment agencies.

It assesses the impact from the perspective of the workers affected, not its own. These workers are low-paid, on non-guaranteed hours and depend on the agency for future shifts. As a result, they have limited capacity to absorb a sudden loss of income, which increases the gravity of the impact.

When assessing the scale of the impact, L considers the workers' vulnerability. These workers are vulnerable because they have limited capacity to absorb a sudden loss of income and the resulting loss of earnings may have significant consequences for them. It is common to rely on agency labour to manage demand peaks in the logistics sector, but L remains connected to the impact at the hub.

L assesses the severity of the negative and actual impact as follows.

- ***Scale is high:*** The loss of earnings materially affects the workers' capacity to provide for themselves or for their families.
- ***Scope is wide:*** It affects most of the several hundred agency workers at the hub.
- ***Irremediable character is low:*** The loss of earnings can be remedied through full and timely compensation.

L concludes that the impact is material based on qualitative considerations alone; no quantitative considerations are needed to form the conclusion.

This example continues in Example 2.2.50, when L assesses the same topic from a financial perspective.

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**Example 2.2.50**
**Assessing the materiality of a risk arising from a dependency on agency labour**

Continuing the assessment in Example 2.2.40, Company L now considers the same reliance on agency workers from a financial perspective.

L's dependency on the availability of agency labour is a source of risk in its own right, regardless of the impact on the workforce.

L identifies a risk arising from its dependency on agency labour, which could result in higher labour costs due to a sharp increase in competition for the same pool of agency workers following the recent relocation of major employers to the local area. The risk could also result in reduced revenue if L is unable to meet customer demand, particularly because flexibility in meeting unpredictable demand is a key differentiator between L and its competitors. L already tracks the availability and cost of labour through its risk management system.

L determines that the risk arising from its dependency on agency labour is material. In making this judgement, it draws on its existing risk management processes to assess the financial effects over the short, medium and long term – i.e. the likelihood of higher labour costs and reduced capacity is high, given the confirmed relocation of major employers, and the potential magnitude is significant relative to L's cost base and revenue.

L also considers that the risk:

- is connected to one of the company's principal risks and is already monitored through its risk management system;
- could affect a key value driver of the business – its ability to respond flexibly to demand – and, if it requires L to reconsider its reliance on agency workers, could significantly affect its business model and strategy;
- is prevalent across its industry and may arise at other locations where L relies on agency labour; and
- arises from a dependency on labour, which can generate financial effects independently of the impact on workers.

As a result, L concludes that the same sustainability topic is material from both perspectives. It has identified two separate material IROs related to that topic: a material negative impact on agency workers' working conditions (see Example 2.2.40) and a material risk arising from its dependency on agency labour.

L reviews its conclusion and the significant judgements supporting it through its established DMA governance process.

## 2.2.100 Material information

A company needs to disclose material information about its material IROs. This does not mean that all information about these IROs needs to be reported. Some information may faithfully represent a company's facts and circumstances related to a relevant IRO but may not influence users' decisions.

In the context of a company's sustainability statement, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions of:

- ***primary users of general purpose financial reports:*** whose decisions relate to providing resources to the company (e.g. buying, holding or selling the company's equity shares, or providing or selling loans and other forms of credit); or
- ***other users of sustainability statements:*** whose decisions may be informed by the company's material IROs and how they are managed. [ESRS 1.23]

When assessing whether information is material, a company considers the common information needs of these user groups, rather than the preferences of individual users. [ESRS 1.AR8]

M For further guidance on identifying and assessing material information, see Steps 4 and 5 of our Materiality for sustainability reporting – How-to guide.

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## 2.2.110 Identifying material information

Having determined material IROs, a company identifies the related material information it needs to disclose.

It first considers whether the topics or subtopics related to its material IROs are covered by a specific ESRS with sufficient granularity. If they are, then the company identifies the applicable disclosure requirements and datapoints. When identifying the information to be reported, a company also considers the disclosure requirements in ESRS 2. These disclosure requirements apply across all sustainability topics, and therefore are likely to result in material information for all companies. [ESRS 1.11, 29(a)–(b), AR12]

If a material IRO is not covered, or is not covered with sufficient granularity, then the company determines what material information is needed to meet users' information needs and provides entity-specific disclosures accordingly (see 2.3.40). [ESRS 1.11, 20(b), 29(c)]

**Insight 2.2.50**
**How does a company determine whether ESRS cover a topic with sufficient granularity?**

A company considers whether disclosing information required by ESRS provides all the material information its users need to understand a specific IRO and how the company manages it. If this information does not meet users' needs, then the company provides entity-specific disclosures.

This is not simply about providing more information. The company provides the entity-specific information that is needed for a complete and faithful depiction of the IRO, which may include information on an additional aspect or at a more appropriate level of disaggregation. [ESRS 1.11, 20(b), 52–53, AR3, QC6]

**Example 2.2.60**
**Identifying material information for a clothing retailer**

Company R is a clothing retailer and identifies material IROs relating to:

- climate- and water-related impacts and risks in its supply chain;
- labour conditions in its supply chain; and
- the management of chemical products.

For each material IRO, R first determines whether it is covered by a specific ESRS and, if so, whether that ESRS covers the IRO with sufficient granularity.

R determines that these topics are addressed by ESRS E1, ESRS E2, ESRS E3 and ESRS S2. R applies those standards together with ESRS 2.

R considers whether the ESRS requirements are sufficiently granular to provide material information about its circumstances. As a clothing retailer with an extensive global supply chain, R determines that certain features of the apparel supply chain are not covered, or not covered with sufficient granularity, by the sector-agnostic standards. For those topics, R provides entity-specific disclosures.

R draws on the *Apparel, Accessories & Footwear* SASB Standard to develop additional entity-specific disclosures (see Insight 2.2.160). It considers the disclosure topics and metrics within that standard and uses judgement to identify information that is relevant to users and faithfully represents its circumstances.

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## 2.2.120 Key considerations when identifying whether information is material

When determining whether information is material, a company considers the following concepts.

- ***Aggregation:*** Aggregation and disaggregation are important factors when determining how to present material information (see 2.2.170). [ESRS 1.52–55, QC6]
- ***Common information needs:*** When assessing whether information is material, a company considers the common information needs of different groups of users. It is not required to consider the needs of individual users. [ESRS 1.AR8]
- ***Mitigation activities:*** Information about mitigation activities may be material if users need it to understand an impact or risk, the company's response or its materiality conclusion. Effective mitigation of an impact or regulation of the related sustainability topic does not, on its own, make information about a material impact immaterial. See 2.2.80 for how mitigation activities are considered when determining material IROs. [ESRS 1.23, 43(c), AR28]

M For further guidance on mitigation activities, see Step 3 of our Materiality for sustainability reporting – How-to guide.

**Example 2.2.70**
**Determining that information about an effectively mitigated impact remains material**

Company T operates a facility that discharges treated effluent into a nearby river. T has determined that the resulting actual negative impact on the river is material.

T complies with applicable discharge limits and has implemented measures that effectively reduce the discharge's adverse impacts.

When assessing what information is material, T concludes that users need information about the impact and the related mitigation activities to understand the effect of its operations on the river and how T is addressing it. Therefore, T discloses material information about the impact and the mitigation activities.

## 2.2.130 Assessing whether information is material

To determine whether the information identified is material, a company considers whether it could influence users' understanding of:

- the company's material impacts on people and the environment;
- the financial effects of its material risks and opportunities; or
- how the company manages its material IROs.

The assessment considers quantitative and qualitative factors, including whether the nature or magnitude – or both – of the item to which the information relates, could influence users' decisions. Information may be material from an impact perspective, a financial perspective or both. [ESRS 1.23, QC4]

A company needs to filter out any information that it believes would not influence users' decision-making, based on its specific facts and circumstances. It uses judgement to determine whether a potentially material piece of information is, in fact, material individually and in combination with other information.

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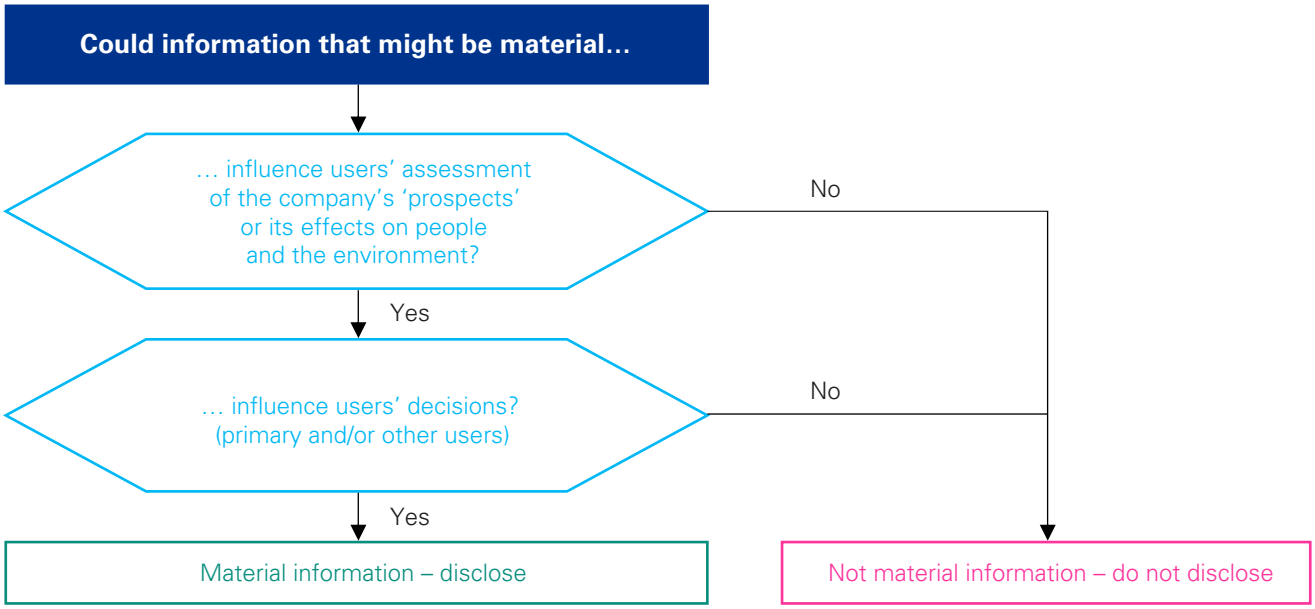


**Insight 2.2.60**
**Does identifying a material IRO mean all related information is material?**

No. Identifying an IRO as material makes the related topic or subtopic reportable, but it does not make every disclosure about it material. Materiality is assessed at two levels: first at the level of IROs to determine what is reportable, and then at the level of information to determine what needs to be disclosed. A company considers the disclosure requirements and applies the materiality filter to determine what to disclose.

Information is not material simply because it is prescribed by ESRS. A company does not disclose a prescribed disclosure requirement or datapoint if the information is not material. However, ESRS 2 disclosure requirements are fundamental in nature and are therefore likely to result in material information for all companies. The same applies to entity-specific information. [ESRS 1.23–24, AR12]

**Insight 2.2.70**
**Can the nature of an item make related information material regardless of its magnitude?**

Yes. Information may be material because of its nature, even when the related effects are quantitatively small or expected only over the longer term. The materiality of information is assessed based on the nature or magnitude of the item to which the information relates – or both. [ESRS 1.23, QC4]

For example, a company may determine that a quantitatively small metric is material because the nature of the related IRO makes the information important to users' decisions. Without that information, users may not be able to make an informed assessment of that IRO.

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### Example 2.2.80
### Determining when a quantitatively small metric provides material information

Company Q has information about a large increase in water consumption at a site where water is readily available and associated costs are insignificant. Q concludes that this information is not material because the level of water consumed at the site could not reasonably be expected to influence users' decisions.

Q also has information about a quantitatively small increase in water consumption at a location where the water supply is severely restricted and costly. Q concludes that this information is material. This is because it could affect users' assessments of Q's impact on water availability for local communities and the site's ability to continue operating, and therefore influence their decisions.

### Insight 2.2.80
### Can information be material if complete or precise data is not available?

Yes. The absence of complete or precise data does not, by itself, make information immaterial. A company assesses whether information is material based on whether omitting, misstating or obscuring it could reasonably be expected to influence users' decisions. [ESRS 1.23–24]

If the information is material, then the company considers how best to report it despite the data limitations. It may use reasonable estimates to explain any significant measurement uncertainty, including the significant assumptions and limitations involved. Even a high level of measurement uncertainty does not necessarily prevent an estimate from providing useful information (see 2.3.90–100). [ESRS 1.88–89, AR42]

The company uses the best information available at the reporting date without undue cost or effort, including estimates and information obtained from indirect sources when necessary. [ESRS 1.65, 93–95, AR45]

### Example 2.2.90
### Estimating scope 3 purchased goods and services emissions using supplier data

Company X purchases and receives delivery of raw materials on a quarterly basis from Company Y. X determines its scope 3 category 1 emissions purchased goods and services for the purchased raw materials based on supplier-specific emissions data provided by Y. X determines that this information is material.

Y has provided emissions data for the first three-quarters of the year; however, the Q4 data will not be available before the date the management report is authorised for issue.

In the absence of supplier-specific data, X estimates its Q4 emissions using an average emissions-per-unit rate based on the supplier-specific data available and the amount purchased in Q4.

X considers the effectiveness of its inventory controls and the reliability of Y's data for the periods used in the estimate. It also considers whether there have been any significant changes in Y's production facilities, production methods or other circumstances that could affect the Q4 emissions-per-unit rate. It determines that the assumptions used in the calculation are reasonable and supportable, and that the resulting information is free from material error.

X also considers whether information about the estimation method, assumptions and resulting measurement uncertainty is material.

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**Example 2.2.100**
**Updating estimated scope 3 emissions when supplier-specific data becomes available**

Continuing Example 2.2.90, in the absence of supplier-specific emissions data, Company X uses the average-data method to calculate its Q4 emissions.

Before the date the management report was authorised for issue, X obtained the supplier-specific emissions data from Company Y for Q4.

This supplier-specific data provides evidence about conditions that existed during the reporting period. X recalculates its Q4 emissions data using the new information and assesses the effect on its reported GHG emissions metrics. X determines that the resulting difference from the original estimate is small, does not change the reported emissions trend and could not reasonably be expected to influence users' decisions. Therefore, no update to the reported GHG emissions metrics is required.

**Insight 2.2.90**
**Can a company omit material information?**

It depends. In limited circumstances, ESRS permit a company to omit material information that is commercially sensitive or otherwise protected (see 2.3.190).

A company may consider information to be commercially sensitive if disclosing it would seriously prejudice the company's commercial position. In applying this exemption, a company considers whether the information can be disclosed in another way (e.g. by providing less granular information) and whether its omission would prevent users from obtaining a fair and balanced understanding of the company's specific facts and circumstances. [ESRS 1.100(a)]

Otherwise, protected information may comprise:

- intellectual capital, intellectual property, know-how, technological information or trade secrets;
- classified information; or
- information whose disclosure would breach legal confidentiality, privacy or protection requirements, or compromise the privacy or security of a person or company.

For each piece of information omitted, the company discloses that it has applied the exemption and reassesses at each reporting date whether the exemption remains appropriate. [ESRS 1.100]

## 2.2.140 Considering information that may influence users' assessments

Users' assessments of the company's prospects or its effects on people and the environment may be influenced by the timing and duration of material IROs, including when and for how long an impact exists or could occur, and when a risk or opportunity could give rise to financial effects. Related impacts and financial effects may arise over different time horizons. [ESRS 1.23, 39, 47]

Users' assessments may also be influenced by information about how the company manages its material IROs, including its policies and actions. [ESRS 1.23, 43(c)]

**Insight 2.2.100**
**Can information about the absence of an impact or a risk be material?**

Yes. Information explaining why a company is not exposed to an impact or risk may be material if users would reasonably expect the company to be exposed (see Insight 2.2.40). For example, if a particular risk is common in the industry, users may need to understand the company's circumstances that lead to a different conclusion. Omitting that information could reasonably be expected to influence users' decisions. [ESRS 1.23]

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### Example 2.2.110
### Assessing material information about potential human rights incidents in the supply chain

Company N has identified a material potential negative impact relating to human rights incidents in its supply chain and a related risk. Although N has not identified any such incidents in its own supply chain, they are prevalent in its industry and reported by several peers. Therefore, N concludes that users may reasonably expect the impact and related risk to be relevant to its circumstances.

N assesses the list of information that might be material as follows.

| Information that might be material | Could the information influence users' assessment of… | | Could it influence users' decisions? | Conclusion: Is the information material? |
|---|---|---|---|---|
| | …the company's 'prospects'?[4] | …the company's effects on people and the environment? | | |
| **Policies to address human rights impacts on value-chain workers** | Yes | Yes | Yes | Yes |
| **Actions and due diligence processes to identify, prevent and remediate the impact** | Yes | Yes | Yes | Yes |
| **Channels for value-chain workers to raise their concerns and the company's approach to remediation** | No | Yes | Yes | Yes |
| **Contractual and operational details of the grievance mechanism (e.g. the external provider selected, set-up cost, IT architecture)** | No | No | No | No |

Therefore, N discloses material information about its policies, due diligence processes and channels for value-chain workers to raise concerns.

N does not disclose detailed operational information about its grievance mechanism (e.g. the external provider selected, set-up costs or IT architecture), because it concluded that this information would not influence users' assessments.

4. The company's development, financial position, financial performance, cash flows, access to finance or cost of capital over the short, medium or long term.

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## 2.2.150 Reassessing materiality judgements

At each reporting date, a company considers whether significant changes in facts and circumstances have occurred that could affect the conclusions from its previous materiality assessment. If so, it reassesses the materiality of the related IROs and information. It does not need to repeat a full materiality assessment. Instead, it focuses only on the parts of the materiality assessment affected by the changes.

A change in facts and circumstances may mean that:

- an IRO has become material or is no longer material; or
- information previously assessed as immaterial has become material, or information previously assessed as material is no longer material.

Relevant changes may relate to the company's:

- value chain or business relationships – e.g. the introduction of a major new supplier or a significant change in a supplier's production methods;
- business model, activities or corporate structure – e.g. a major acquisition or the development of a new product type; or
- operating environment, methodologies or understanding of its IROs, including new regulation, geopolitical developments, due diligence findings, incidents, new scientific evidence or new input from affected stakeholders. [ESRS 1.34]

Information that becomes available after the reporting date may influence users' decisions. Therefore, a company assesses whether its sustainability statement requires updating (see 2.3.60).

See 2.1.20 and 2.1.100 for further guidance on changes to the reporting entity and the value chain respectively.



**Example 2.2.120**
**Reassessing material IROs after a significant acquisition**

During the reporting period, Company G acquires a new subsidiary that operates in a different geographical region. Management assesses whether this acquisition represents a significant change in circumstances that requires it to reassess IROs across the value chain.

G's management uses judgement to determine that the acquisition is significant enough to require a reassessment of previously identified IROs and the scope of its value chain.

G discloses:

- that it assessed the acquisition for its effect on material IROs;
- the factors considered in determining the reassessment scope; and
- how this judgement affected the sustainability statement – e.g. inclusion of new risks related to labour practices in the new region.

See 2.1.20 and 2.3.80 for further guidance on changes to the reporting entity and a company's use of judgement, respectively.

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**Insight 2.2.110**
**Does a change in facts and circumstances require a company to reperform its entire DMA?**

No. A company does not reperform its entire DMA at each reporting date. Instead, it considers whether changes in facts and circumstances could affect its previous conclusions and updates the assessment as necessary. [ESRS 1.34]

The reassessment focuses on the areas affected by the change. For example, a significant new supplier may require the company to reassess the relevant part of its value chain and reconsider the related IROs and materiality conclusions.

The company also considers whether the change has broader implications for the assessment. For example, identifying a new IRO in relation to a significant new supplier may indicate similar IROs elsewhere in the value chain that require consideration when reassessing materiality conclusions.

## 2.2.160 Reporting material information

A company provides information about its DMA process (see 3.1.240) and the judgements that shape the resulting sustainability statement (see 2.3.80). This enables users to understand the basis for the company's materiality conclusions and the information reported. [ESRS 1.88–89, ESRS 2.34, AR24]

In doing so, it determines the appropriate level of aggregation or disaggregation and ensures that material information is not omitted or obscured by immaterial information. [ESRS 1.52–53, AR34]

M For further guidance on reporting material information, see Step 6 of our Materiality for sustainability reporting – How-to guide.

**Insight 2.2.120**
**Does a company need to document its materiality assessment?**

Yes. As facts and circumstances can change, materiality judgements may be vulnerable to a hindsight challenge if they are not subject to due process and properly documented. Therefore, a company needs to ensure that its materiality assessment – including the process followed, the judgements made and the basis for those judgements – is properly documented for governance and/or assurance purposes.

See 3.1.240 for further guidance on documenting the DMA process.

### 2.2.170 Aggregating information

A company aggregates or disaggregates information at the level needed to faithfully represent its material IROs without obscuring material information.

A company considers whether:

- information that is not material individually may be material in aggregate; or
- aggregated information may obscure material variations between topics, sectors, subsidiaries, geographies, sites or assets. [ESRS 1.52–54]

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### Example 2.2.130
### Presenting aggregated sustainability-related information

Company U is a food manufacturer with a diverse supply chain comprising many small producers across several sourcing regions. U identifies multiple location-specific negative impacts on biodiversity and related risks affecting the resilience of its supply chain.

Each impact and related risk is limited when considered separately. However, U concludes that they are material when considered together, as they are widespread across its sourcing regions and could have a significant combined effect on biodiversity and the resilience of its supply chain.

Therefore, U presents aggregated information about the nature and extent of the impacts and related risks, together with its actions to address the impacts on affected ecosystems and strengthen the resilience of its supply chain.

Because the severity of the impacts varies significantly across sourcing regions, U also disaggregates the information by geography so that users can understand those differences.

### Example 2.2.140
### Presenting disaggregated sustainability-related information

Company W determines that water is a critical part of its operations. The availability of water varies between sites, one of which is water-stressed. W concludes that reporting its aggregated water usage is not a useful metric because it obscures the location-specific risk.

Therefore, W provides disaggregated information about water usage only for the water-stressed site; it does not provide this information for other sites where water supply is plentiful.

### Insight 2.2.130
### Can information become material when considered in aggregate?

Yes. Information that is not material when considered individually may become material when considered in aggregate if, together, it helps users understand material IROs. For example, biodiversity impacts across several sourcing regions may be individually limited but material when considered together, because of their combined effect on ecosystems and supply chain resilience. [ESRS 1.52, AR33]

### Insight 2.2.140
### Can a subsidiary use information disclosed by a parent company when preparing its own sustainability-related disclosures?

It depends. A subsidiary may leverage information prepared at a group level in preparing its own disclosures. However, it needs to apply judgement to ensure that information disclosed in its sustainability statement faithfully represents its own facts and circumstances, meets the common information needs of its users and provides material information about its material IROs (see 2.3.80).

In some cases, sustainability-related processes may be designed at a parent level and applied consistently across a group. A subsidiary may provide information about these processes because they relate to its material IROs, including how it applies them to its own activities. However, if a subsidiary supplements these processes or applies its own processes, then it considers whether group-level information alone remains sufficient or whether additional information is necessary to ensure its disclosures faithfully represent its facts and circumstances. [ESRS 1.19, 55]

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**Insight 2.2.150**
**Does a group need to disaggregate information by subsidiary when preparing its sustainability-related disclosures?**

It depends. A group disaggregates sustainability-related information by subsidiary when doing so is necessary to provide material information to users.

The group needs to exercise judgement about the appropriate level of aggregation, assessing whether information about how its subsidiaries govern, manage, monitor and measure IROs would be material for the group-level IROs, and whether it could influence users' decision-making (see 2.3.80).

The group also considers whether aggregation could obscure material information – e.g. when subsidiaries differ in their exposure to IROs such that clarity or decision-usefulness would be reduced. In this case, the group may disaggregate information by subsidiary or supplement group-level disclosures, as necessary, to ensure its sustainability-related disclosures faithfully represent how IROs are managed across the group. [ESRS 1.55]

## 2.2.180 Ensuring material information is not obscured

A company presents material information so that users can readily identify and understand it. Information is obscured if its presentation has an effect similar to omitting or misstating it. [ESRS 1.23]

Material information may be obscured if:

- related information is scattered throughout the sustainability statement;
- inappropriate aggregation or disaggregation hides material IROs or significant variations;
- material information is hidden by immaterial information; or
- unnecessary repetition makes material information difficult to identify or understand. [ESRS 1.53, 113, AR34]

When information is relevant to more than one disclosure requirement, the company presents it where it is most relevant and cross-refers to that information rather than repeating it. It clearly identifies any supplementary information and presents it in a way that does not obscure material information. [ESRS 1.107, 109(c), 113]

**Insight 2.2.160**
**Can a company include information that is not material in its sustainability statement?**

Yes. A company may include supplementary information in its sustainability statement even if that information is not material. This may include information:

- required by other legislation or based on generally accepted reporting standards or frameworks, including non-mandatory or sector-specific guidance; or
- provided to meet the data demands of a specific user.

Information based on other legislation, standards or frameworks is clearly identified by referring to the relevant source.

In all cases, the company:

- clearly identifies the information as not resulting from its DMA;
- ensures that it faithfully represents what it purports to represent; and
- presents it in a way that does not obscure material information. [ESRS 1.107–109]

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**Insight 2.2.170**
**Can aggregation obscure material information?**

Yes. Information may need to be disaggregated if presenting it in aggregate would hide significant differences in material IROs – e.g. a company reports water-related impacts at group level, but only a small number of sites operate in water-stressed regions. Presenting only group-level information may obscure the significance of those impacts, making disaggregation by geography necessary. [ESRS 1.52, AR33]

## 2.2.190 Reporting information on material opportunities

When assessing the materiality of information related to opportunities, a company considers:

- whether the opportunity is currently being pursued and is part of the company's general strategy, as opposed to being a general opportunity for the company or the sector it operates in; and
- whether it is appropriate to include quantitative information in disclosures about the anticipated financial effects of an opportunity. This includes considering the inherent level of uncertainty and the number of assumptions involved in providing that information.

A company does not report general opportunities that exist for its sector. It reports only opportunities that it is currently pursuing or that are incorporated in its general strategy. For example, a steel manufacturer does not describe the general growth in demand for lower-carbon steel across the industry. Instead, it describes its own opportunity to supply lower-carbon steel, if pursuing that opportunity forms part of its transition strategy (see Example 6.1.10). [ESRS 1.102]

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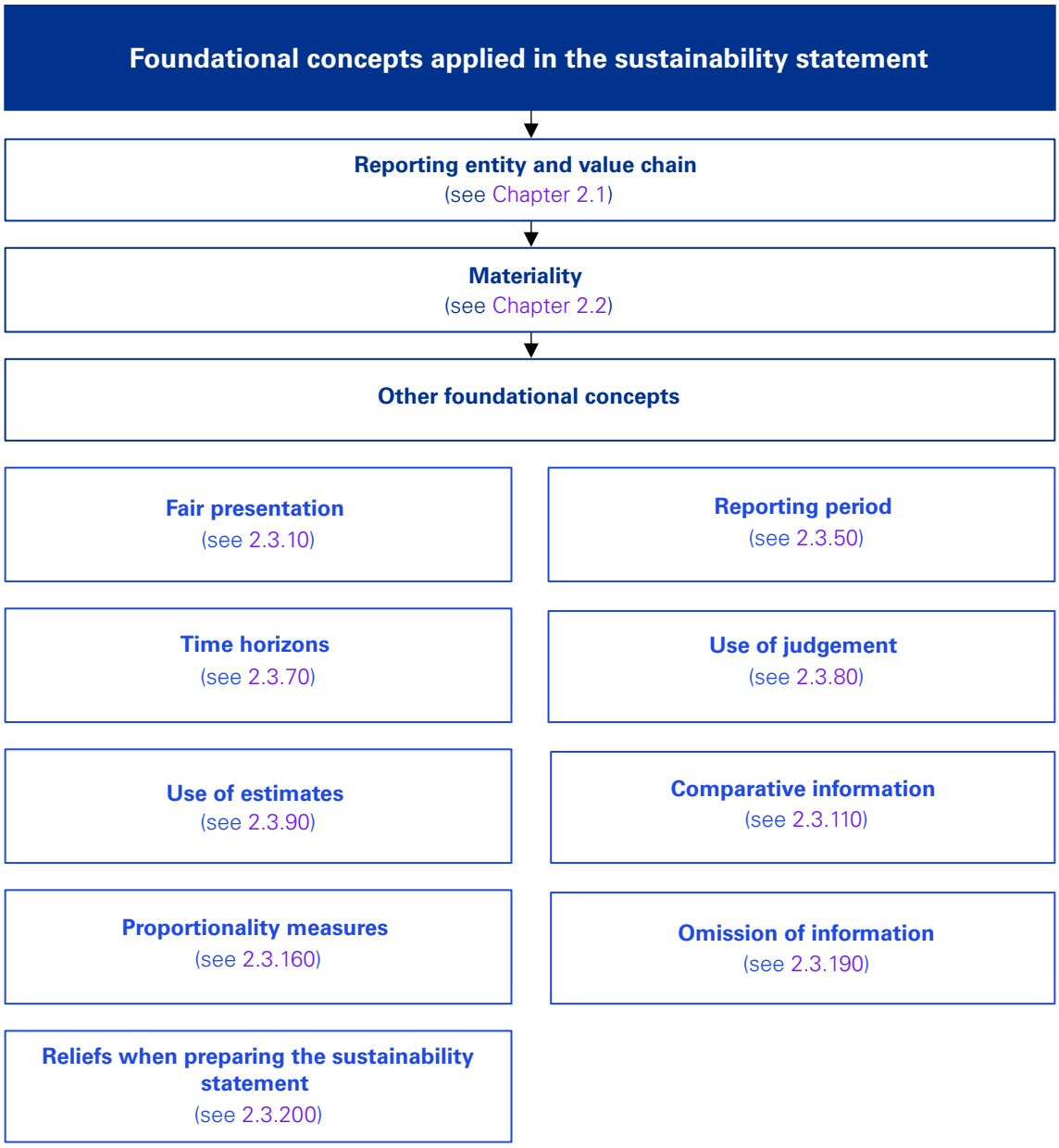
# 2.3 Other foundational concepts

A company applies the following foundational concepts in ESRS when preparing its sustainability statement to help it determine:

- which IROs and related topics are material;
- what material information to provide about them; and
- how to present that information so that it is useful for users.

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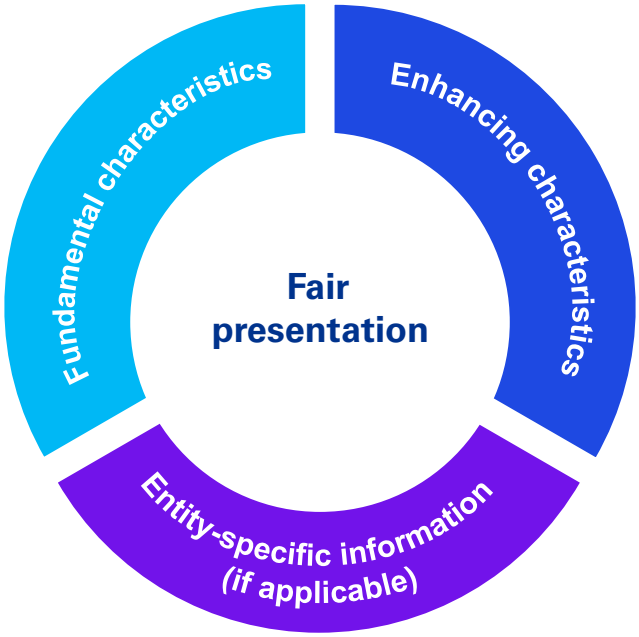
## 2.3.10 Fair presentation

Fair presentation requires a company to consider whether its sustainability statement provides information that faithfully depicts the material IROs arising from the reporting entity and its upstream and downstream value chain. A company considers the entirety of its sustainability statement, rather than focusing solely on compliance with individual disclosure requirements. [ESRS 1.AR6]

Determining whether information is fairly presented requires an overall assessment of the extent to which the disclosed information meets the fundamental and enhancing qualitative characteristics of information (see 2.3.20 and 2.3.30, respectively). [ESRS 1.3, 19–20(a)]

Achieving fair presentation requires not only meeting these qualitative characteristics but also, when necessary, providing additional entity-specific information to enable users to understand the material IROs and how the company manages them. This additional information is relevant to the company's particular facts and circumstances (see 2.3.40). [ESRS 1.11, 20(b), 21]




### 2.3.20 Fundamental qualitative characteristics of information

Information meets the fundamental qualitative characteristics when it is:

- ***relevant:*** capable of influencing users' decisions; and
- ***faithfully represented:*** providing a complete, neutral and accurate depiction of the IROs it purports to represent. [ESRS 1.19, QC1–QC9]

Information that does not meet these fundamental qualitative characteristics may fail to provide decision-useful information to users and may undermine the objective of reporting under the standards.

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**Insight 2.3.10**
**Does providing an accurate depiction of an IRO mean that the information needs to be precise?**

No. Information does not need to be precise in all respects. The level of precision depends on the nature of the information and the matters to which it relates. Accuracy means that:

- there are no material errors in:
  - factual information; or
  - selecting and applying the process for developing a forecast, estimate or approximation;
- forecasts, estimates and approximations are clearly identified as such;
- descriptions are precise;
- assertions and inputs used in developing estimates are reasonable and based on information of sufficient quality and quantity; and
- information on judgements about the future faithfully reflects the information on which those judgements are based and the judgements themselves (see 2.3.80). [ESRS 1.QC5–QC9]

## 2.3.30 Enhancing qualitative characteristics of information

Fair presentation also requires a company to provide information that meets all of the following enhancing qualitative characteristics:

- ***comparable:*** can be compared to prior periods' disclosures and with other companies' disclosures;
- ***verifiable:*** possible for a knowledgeable and independent observer to come to a similar conclusion; and
- ***understandable:*** clear and concise. [ESRS 1.20(a), QC10–QC20]

Providing information that meets these characteristics enhances the usefulness of a company's sustainability statement.

**Insight 2.3.20**
**Is comparability the same as consistency?**

No. Comparability and consistency are related; however, they are not the same. Comparability enables users to identify similarities and differences in information across reporting periods and between companies. Information is more useful when it allows comparison over time and, when relevant, with other companies – particularly within the same industry.

Consistency refers to using the same approaches or methodologies over time and supports comparability. However, a company may need to revise its methodologies when its circumstances change.

For example, if a company updates its GHG emissions calculation method due to improved data availability, then this may reduce comparability between reporting periods. In these cases, the company helps users understand and assess the impact on comparability by:

- revising the previously reported figures; and
- disclosing the change, the reasons for that change and its effect on the previously reported figures (see 2.3.110). [ESRS 1.83–87, QC10–QC12]

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### Insight 2.3.30
### Does information need to be supported by evidence to be verifiable?

Yes. Information is verifiable when it is supported by evidence, either through the information itself or through the inputs and methods used to produce it. Under ESRS, information is considered verifiable when independent and well-informed observers reviewing the same evidence are likely to reach similar conclusions on whether that evidence faithfully reflects the underlying matter.

To facilitate verification, a company presents information in a way that:

- allows it to be corroborated;
- explains estimates or approximations; and
- includes information that has been reviewed and agreed by its administrative, management and supervisory bodies, or their committees. [ESRS 1.QC13–QC15]

### Insight 2.3.40
### Can forward-looking information be verifiable?

Yes. Forward-looking information can be verifiable for the purpose of applying ESRS when it faithfully represents fact-based strategies, plans or risk analyses, and when the company clearly explains the assumptions, inputs and methodologies used. Verifiability does not require certainty about future outcomes, but it does require that the information is transparently described. [ESRS 1.QC15]

### Insight 2.3.50
### Does understandability require omitting complex or technical information?

No. Information is understandable when it is clear, concise, entity-specific and presented as a coherent whole.

For example, when disclosing a biodiversity-related risk, a company may accompany technical ecosystem metrics with a clear explanation of how local ecosystem degradation could affect water availability, regulatory constraints, operating costs and the long-term viability of the site.

Further ways in which a company can ensure that information is understandable include the following. [ESRS 1.QC16–QC20]

| Improving understandability | How a company achieves this in its disclosures |
|---|---|
| **Focuses on material information** | • Includes information that is material to users' understanding and avoids including immaterial detail that could obscure what is important. |
| **Avoids boilerplate language** | • Uses entity-specific language that reflects its own circumstances and IROs, rather than generic or standardised wording. |
| **Minimises unnecessary duplication** | • Avoids repeating the same information within the sustainability statement, or duplicating information already provided elsewhere in the management report or general purpose financial reports, unless doing so improves clarity. |
| **Uses clear language and logical structure** | • Organises disclosures using clear, well-structured sentences and paragraphs that guide the reader through the information. |
| **Uses the most appropriate format** | • Presents information in the form that best supports understanding – e.g. narrative text, tables, graphs or diagrams – and provides additional explanation when necessary to avoid obscuring material information. |

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| Improving understandability | How a company achieves this in its disclosures |
|---|---|
| **Is coherent and connected** | • Explains the context and relationships between related disclosures and clearly links IROs to the financial statements, when relevant. |
| **Clearly distinguishes new developments from standing information** | • Identifies what has changed during the reporting period and what information remains largely unchanged from prior periods. |
| **Includes complex information clearly, rather than omitting it** | • Includes material complex or technical information, but explains it as clearly as possible instead of omitting it to simplify disclosures. |

## 2.3.40 Entity-specific information

Entity-specific information may include entity-specific metrics and other information needed to explain a company's specific facts and circumstances. When preparing its sustainability statement, a company applies judgement to determine whether this information is needed to provide a faithful representation of its IROs. Entity-specific information may be necessary when:

- a standard addresses an IRO, but does not cover all aspects relevant to the company's facts and circumstances (see Insight 2.2.50);
- the company identifies a material IRO for which no specific ESRS applies;
- the company identifies a material IRO arising in its upstream or downstream value chain and entity-specific information is necessary to provide material information about that IRO, including when the metrics prescribed by ESRS address only own operations;
- the company uses entity-specific metrics to measure and monitor IROs; or
- additional entity-specific information is required to explain a metric or a disclosure and to ensure that it is complete, neutral and accurate. [ESRS 1.11, 20(b), AR2, AR38]

Entity-specific information needs to be comparable, so that users can evaluate developments over time and compare the company's performance to other companies operating within the same sector. Entity-specific disclosures need to meet the qualitative characteristics of information (see 2.3.20–30) and include the material information necessary for reporting on governance, strategy, IRO management, policies, actions and metrics and targets. [ESRS 1.12, AR3]

**Insight 2.3.60**
**How does a company determine which metrics to include in its entity-specific disclosures?**

A company applies judgement to ensure that any entity-specific metrics included are useful and provide meaningful insight into its material IROs.

In doing so, it considers whether the metrics:

- provide relevant information about material IROs;
- faithfully represent those IROs, based on information and assumptions that are reasonable, supportable and verifiable; and
- are accompanied by sufficient context to enable users to understand and interpret the metrics, including how changes in assumptions or methodologies may affect comparability over time. [ESRS 1.AR4]

A company may also consider whether the metrics are used internally to monitor, manage or assess material IROs, including through key performance indicators, targets, strategy execution or risk management processes. However, ESRS do not require entity-specific metrics to be based on metrics used by management. When developing these entity-specific disclosures, a company may also draw on recognised best practice, including established frameworks and other reporting standards such as GRI Standards or the ISSB's industry-based guidance. [ESRS 1.AR3–AR5]

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**Insight 2.3.70**
**Do companies in the same industry provide the same entity-specific disclosures under ESRS?**

No. Companies provide information that is specific to their facts and circumstances. Although information may be comparable with that provided by industry peers, a company does not align its disclosures with peers if doing so would make the information less relevant or less useful to users. [ESRS 1.QC12]

For example, companies in a particular industry may provide information on global water usage. However, if one company has a specific risk affecting a water-stressed site, then it would provide additional material information about that site, even if other companies in the industry do not provide similar site-specific information.

**Insight 2.3.80**
**Are entity-specific disclosures required for material IROs arising in the value chain, even if the applicable standard or guidance refers only to a company's own operations?**

Yes. When material IROs arise in the value chain, a company may need to provide entity-specific metrics if this is necessary to provide material information about that IRO. This may be the case when the metrics prescribed by ESRS cover only own operations. [ESRS 1.11, AR38]

For example, a company may identify a material human rights-related risk affecting the workers in its supply chain. Although ESRS S2 addresses workers in the value chain, it does not prescribe a specific metric that enables the company to monitor and manage this particular risk. In this case, the company might disclose entity-specific metrics – e.g. the percentage of suppliers assessed for human rights-related risks or the number of supplier audits conducted to monitor and manage that risk.

## 2.3.50 Reporting period

A company prepares its sustainability statement for the same period as its annual financial statements. [ESRS 1.76]




**Insight 2.3.90**
**Can a company use estimates in place of directly measuring information for a portion of the reporting period?**

It depends. ESRS 1 does not explicitly allow a company to default to estimated information for a portion of the reporting period (e.g. fourth-quarter information). However, estimates are an important part of sustainability reporting and reasonable assumptions and estimates do not undermine the usefulness of information.

A company may use reasonable estimates when preparing its sustainability statement, including when complete actual data is not available on a timely basis, provided that significant assumptions and estimates are explained (see 2.3.90).

For example, a company disclosing its water consumption based on actual data may be unable to collate Q4 information before publishing its sustainability statement. In this situation, the company can estimate the missing data if this is necessary to provide material information to users, provided that it explains the estimation method and any related limitations. [ESRS 1.88, AR42]

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**Insight 2.3.100**
**Can a company use data from a subsidiary with a different reporting period to measure its metrics?**

Yes. ESRS 1 permits a company to apply accounting requirements that deal with circumstances in which a subsidiary has a different reporting period to the parent. [ESRS 1.AR35]

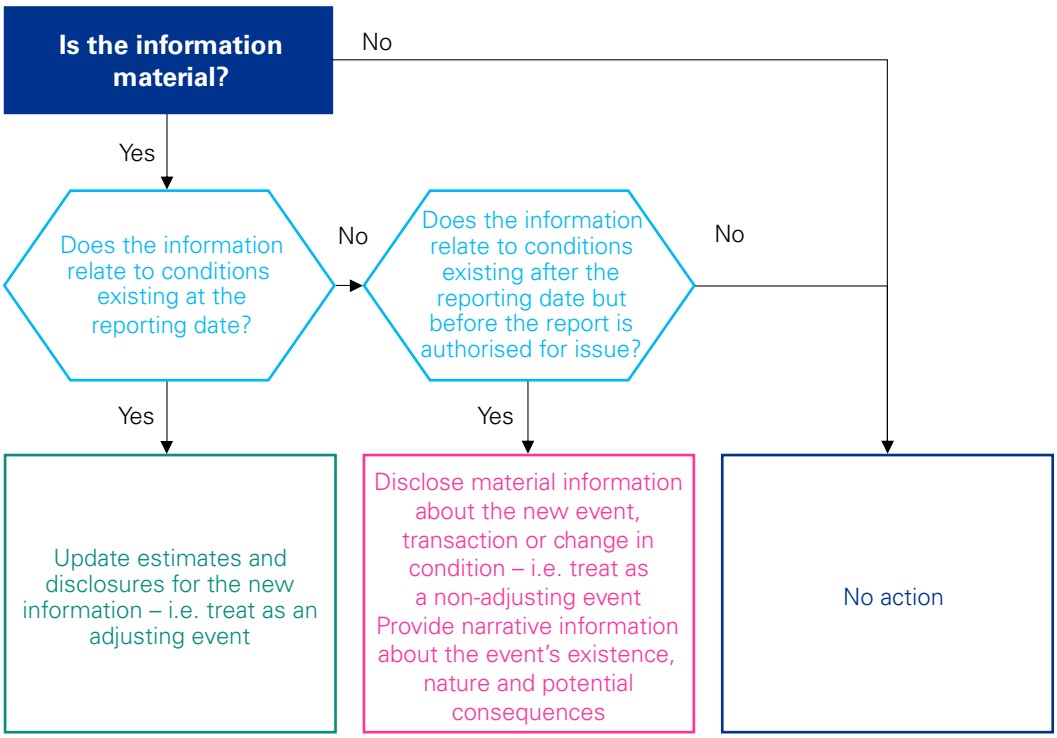
For example, IFRS 10 *Consolidated Financial Statements* requires that the financial statements of the parent and its subsidiaries are prepared for the same reporting period. If the companies have different reporting periods, then the subsidiary prepares additional financial statements as at the parent's reporting date unless it is impracticable to do so. Under IFRS 10, the year ends of the parent and subsidiary cannot differ by more than three months and adjustments are required for the effects of significant transactions and events in that period. [IFRS 10.B92–B93]

Therefore, when preparing its sustainability statement, a company may apply this approach to subsidiary information used in its sustainability-related metrics. If this information relates to a different reporting period, then the company considers whether it needs to adjust for significant transactions or events up to its reporting date.

## 2.3.60 Subsequent events

Information that becomes available after the reporting date may influence users' decisions. Therefore, a company needs to assess any information obtained between the reporting date and the date on which the management report (including the sustainability statement) is authorised for issue. This is consistent with the approach followed for adjusting and non-adjusting events under IFRS Accounting Standards. [ESRS 1.96–97]

If a company obtains material information after the reporting date relating to conditions that existed at that date, then it updates its estimates and disclosures (adjusting event). If this information relates to conditions arising after the reporting date but before the sustainability statement is authorised for issue, then it discloses the information as a non-adjusting event. [ESRS 1.96–97]

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A company needs to disclose the following information.

| Information | What to disclose |
|---|---|
| **Adjusting events** | • Update the disclosures for the new information – i.e. treat as an adjusting event. [ESRS 1.96] |
| **Non-adjusting events** | • Material information about the new event, transaction or change in condition that occurred after the reporting date but before the sustainability statement is authorised for issue – i.e. treat as a non-adjusting event. [ESRS 1.97]<br>• Narrative information about the event's existence, nature and potential consequences. [ESRS 1.97] |



**Insight 2.3.110**
**Do updates to third-party data received after the reporting date need to be reflected in reported metrics?**

It depends. Updates to third-party data constitute new information that a company may need to reflect in its sustainability statement if the updates are material and relate to conditions that existed at the reporting date. In these circumstances, the company recalculates the affected metrics and updates the related disclosures. [ESRS 1.96–97]

For example, a company reports scope 3 emissions based on data provided by a key supplier. After the reporting date but before the sustainability statement is authorised for issue, the supplier informs the company that it changed its energy mix during the year, resulting in previously reported emissions being understated.

Because the revised data relates to conditions that existed at the reporting date, it constitutes new information. If the effect is material, then the company recalculates the affected scope 3 emissions metrics and updates the related disclosures.



**Example 2.3.10**
**Events after the reporting date**

Company D is a beverage manufacturer. It relies on a third-party company to bottle its product before it sells it on to consumers. After the reporting date, D identifies new information from the outcome of an audit at this supplier.

The new information shows that the supplier had switched its energy provider during the year, which impacted the GHG emissions of the bottles produced. The information is identified before D's sustainability statement is authorised for issue.

Although the information provides evidence of conditions existing at the reporting date (i.e. the supplier switched energy providers during the year), in this case, D determines that the metrics disclosed would not materially change based on the new information provided. Therefore, D makes no adjustment to the related metrics and disclosures in its sustainability statement.

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**Example 2.3.20**
**Adjusting vs non-adjusting event**

Company P prepares its sustainability statement using water withdrawal data obtained from an external utility provider. After the reporting date but before the authorisation of the sustainability statement, P receives updated information from the utility provider following the identification of an error in the water withdrawal data during the reporting period. The error materially changes the water consumption data.

P adjusts its water withdrawal metrics because the updated data:

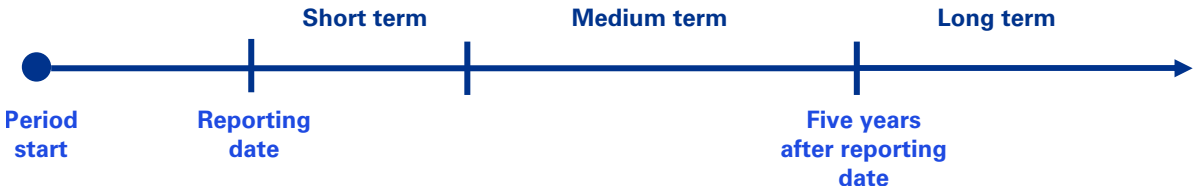
- provides evidence about conditions that existed at the reporting date; and
- would result in a material change to the information disclosed.

After the reporting date, P implemented new technology that is expected to materially reduce future water consumption. P does not adjust its metrics for the reporting period because the change did not exist at the reporting date. Instead, P discloses information about the change that it judges to be material. P also explains the event's existence, nature and potential consequences.

## 2.3.70 Time horizons

IROs can arise over the short, medium or long term. Providing information across these time horizons can help users understand when IROs could reasonably be expected to affect people and the environment, as well as the company's development, financial position, financial performance, cash flows, access to finance or cost of capital.

Generally, a company uses the time horizons specified in ESRS 1 when preparing its sustainability statement. Using standardised time horizons in sustainability statements enhances comparability across companies. These time horizons are defined as follows. [ESRS 1.79–82]




The definition of the short-term time horizon aligns with the reporting period of the financial statements to facilitate connectivity between the sustainability and financial reporting.

In some cases, the time horizons defined in ESRS 1 may not result in a company providing relevant information to users. This could be due to industry-specific characteristics, such as cash flow and business cycles, or the expected duration of capital investments and other factors, including the company's internal planning horizons. In these cases, a company may use its own definitions for medium- and long-term time horizons for identifying and managing its material IROs, or for its actions and targets. [ESRS 1.81]

When a company deviates from the time horizons defined in ESRS 1, it discloses the following information required by ESRS 2 (see 3.1.40):

- its definitions of medium- or long-term time horizons; and
- the reasons for using those definitions. [ESRS 2.6, AR2(b)]

When impacts or actions are expected over a period longer than five years, a company discloses additional breakdowns for the long-term time horizon if this provides relevant information to users. [ESRS 1.80]

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**Example 2.3.30**
**Aligning defined time horizons with internal planning**

Company V, a manufacturer, uses time horizons that differ from those defined in ESRS 1 because they are aligned with the time horizons used in its internal planning and decision-making processes.

V defines:

- short term as one-year, aligning with the length of its financial reporting period;
- medium term as the period after the short term up to three years; and
- long term as more than three years after the reporting date.

V explains that it uses these time horizons because its annual budgeting and operational planning focus on the next 12 months, while its strategic planning, capital allocation and performance targets are developed over a three-year period. Longer-term changes affecting its products, supply chain and business model are generally considered beyond this three-year strategic planning horizon.

In its sustainability statement, V discloses these definitions and explains how they are linked to the time horizons used in its strategic planning and decision-making processes.

**Insight 2.3.120**
**Do short-, medium- and long-term time horizons need to be the same for climate-related scenarios and climate-related risks and opportunities?**

No. For example, a company may use 2030, 2040 and 2050 time horizons in its climate-related scenario analysis to assess transition pathways under different temperature outcomes, while using different time horizons for sustainability reporting (see 4.1.60). This is acceptable if the company clearly explains how these timeframes relate to each other. [ESRS 1.81–82, ESRS 2.6, AR2(b)]

## 2.3.80 Use of judgement

A company uses judgement in preparing its sustainability statement. It needs to provide disclosures about these judgements to help users understand their impact on the information presented in the company's sustainability statement. This includes judgements relating to estimates (see 2.3.90 and Example 2.3.40) and judgements the company makes when, for example, it:

- identifies material IROs and links them to relevant topic(s);
- determines whether an update of the materiality assessment is required; and
- identifies material information to be disclosed. [ESRS 1.88–89, AR41]

| Information | What to disclose |
|---|---|
| **Judgements** | • The judgements that have affected the information reported most significantly. [ESRS 1.88(a)]<br>• Other specific information that ESRS require a company to disclose. [ESRS 1.89] |

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**Example 2.3.40**
**Applying judgement when using industry-average data as proxy data**

Diversified financial institution G reports financed emissions under scope 3 category 15. Its business loan portfolio covers several industries, including manufacturing, real estate, transport and services. G collects borrower-specific GHG emissions data for approximately 90% of its outstanding business loan exposure.

The remaining 10% of borrowers do not report emissions and cannot provide reliable estimates. These borrowers operate across several industries and represent a significant source of financed emissions. Therefore, the approach used to estimate their emissions has a significant effect on the information reported in G's sustainability statement.

Management considers various approaches to estimating the missing emissions data. G identifies that, for each major industry segment, these borrowers have business activities, operating scale and geographical profiles that compare to those of reporting borrowers in the same segment.

Based on this analysis, G uses industry segment-specific average emissions intensity factors, derived from reporting borrowers within each segment, as a proxy for the missing data.

G discloses this approach, including:

- the proportion of the loan portfolio for which it uses proxy data;
- the assumptions and methodology used to estimate missing emissions data, including the use of industry segment-specific average emissions intensity factors; and
- key limitations and sources of estimation uncertainty associated with the use of proxy data.

**Insight 2.3.130**
**Does a company need to provide disclosures describing all judgements made?**

No. ESRS 1 includes a threshold to focus on judgements with 'the most significant effect'. This is intended to support users' understanding of the information presented in the company's sustainability statement. [ESRS 1.88(a), AR41]

## 2.3.90 Use of estimates

Estimates are an inherent part of preparing a sustainability statement. They are used throughout a sustainability statement to disclose information when a company cannot measure amounts directly – e.g. when information is forward-looking and when relevant data or measurement techniques are unavailable. 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 2.3.20–30 and Insight 2.3.10). Information derived from estimates can be accurate without being perfectly precise in all respects. Using estimates requires management judgement and often involves difficult, subjective or complex assessments. [ESRS 1.89, AR41–AR43, QC9]

### 2.3.100 Measurement uncertainty

Measurement uncertainty arises when amounts cannot be measured directly, either when presenting historical information or when predicting future outcomes. However, the disclosures may still provide useful information when a company clearly discloses the key assumptions and sources of uncertainty. Sources of measurement uncertainty can include:

- measurement techniques;
- dependence on future events; and
- the quality or availability of data from the value chain.

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A company needs to disclose the following information.

| Information | What to disclose |
|---|---|
| **Measurement uncertainty** | • The significant uncertainties affecting the information presented, including whether the information relies on estimates that require the most difficult, subjective or complex judgements. [ESRS 1.88(b), AR43]<br>• Significant assumptions and limitations underlying those estimates. [ESRS 1.88(c)] |



**Example 2.3.50**
**Estimating value chain information**

Company C is a clothing manufacturer. It encounters significant difficulties when collecting data from suppliers in its value chain to calculate its scope 3 category 1 purchased goods and services emissions. Scope 3 category 1 emissions account for the majority of C's emissions.

C's internal purchasing records include the volumes and weights of the raw materials purchased during the period. However, C is unable to obtain emissions data from its suppliers due to availability reasons and because some suppliers are subject to the value chain cap (see Insight 2.1.60), and therefore decides to estimate the relevant emissions.

The absence of supplier-specific emissions data is not a timing issue arising because information for part of the reporting period is unavailable. Rather, the suppliers do not provide emissions information that C can use to measure emissions directly. Therefore, estimating emissions using an alternative measurement methodology forms part of C's measurement process.

C obtains sector-specific economic input-output model emissions factors and applies these to convert the volumes and weights purchased into reportable GHG emissions. As part of its disclosures, C provides information about:

- the scope 3 category 1 emissions metric, including the unit of measure, calculation methodology and sources used to calculate the metric;
- the estimation methodology used, including the application of sector-specific economic input-output model emissions factors and the significant assumptions and limitations underlying the estimate;
- its reliance on proxy data and indirect sources obtained from sector-specific emissions factors because supplier-specific emissions data is unavailable, together with any planned actions to improve data quality in future reporting periods;
- contextual information explaining the challenges in obtaining supplier-specific emissions data and the resulting measurement uncertainty; and
- the significant judgements management made in developing the estimate.



**Example 2.3.60**
**Disclosing measurement uncertainty**

Company Z discloses information about the exposure of its biological assets to flooding risk, which it describes as climate-related physical risk. Because the extent of the risk depends on the expected severity of flooding in the future – and the possible outcomes vary significantly – Z needs to estimate the level of its exposure. It also determines that it needs to provide disclosures about its high level of measurement uncertainty.

Z discloses the source of the measurement uncertainty. Z also discloses the sensitivity of the disclosed amount, illustrating the impact from changing key inputs by a certain percentage.

Despite the uncertainty inherent in these estimates, clear disclosure of the assumptions and sources of uncertainty enables users to understand the reported amounts and their possible variability.

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**Insight 2.3.140**
**Can measurement uncertainty affect information other than metrics?**

Yes. Measurement uncertainty is not limited to metrics and may also affect other information presented in the sustainability statement – e.g. when a company discloses how climate-related risks could affect its development, financial position, financial performance, access to finance, cost of capital and cash flows. [ESRS 1.89, AR41]

For example, a company operating coastal facilities may disclose that rising sea levels and increased storm intensity could disrupt operations, shorten assets' useful lives or require significant adaptation investments in future periods. Because these disclosures rely on assumptions about future environmental conditions and economic responses, they are subject to measurement uncertainty.

## 2.3.110 Comparative information

Comparative information can help users understand changes in a company's sustainability-related performance, assess trends over time and understand the significance of current-period information. It can also help them distinguish genuine changes in sustainability-related performance and position from changes arising from updated estimates or methodologies.

A company generally provides comparative information for current-period disclosures. However, under ESRS:

- it is not required to provide comparative information in the first year it applies ESRS (see 6.2.20); and
- it is not required to provide comparative information when it reports on a topic or material IRO for the first time, because the information was not reported in the previous sustainability statement. [ESRS 1.124, 87(b)]

| Information | What to disclose |
|---|---|
| **Comparative information** | • Comparative information for the previous period for all metrics and amounts disclosed in the current reporting period (unless ESRS permit or requires otherwise). [ESRS 1.83]<br>• Comparative information for narrative and descriptive disclosures when the information is useful to users' understanding of current-period disclosures. [ESRS 1.83]<br>• A description, when necessary, to enable an understanding of how acquisitions or disposals affect progress towards meeting a target. [ESRS 1.87(c)] |

### 2.3.120 Revising comparative information

A company revises comparative information, unless it is impracticable to do so, when it:

- revises estimates based on new information that relates to a previous reporting period (see 2.3.130);
- redefines or replaces a metric or target (see 2.3.140); or
- corrects material prior-period errors (see 2.3.150). [ESRS 1.84, 87, 98]

### 2.3.130 Revising comparative information for estimates

Estimates are a fundamental part of sustainability reporting (see 2.3.90). They are used in forward-looking information (e.g. forecasts about future planned capital investments to mitigate risks) as well as in data that is primarily historical (e.g. metrics).

ESRS 1 requires comparative information to reflect updated estimates. If a company identifies new information about circumstances that existed in the previous reporting period and that would affect an estimated metric disclosed in the previous period, then it may need to revise the comparative amount. [ESRS 1.84]

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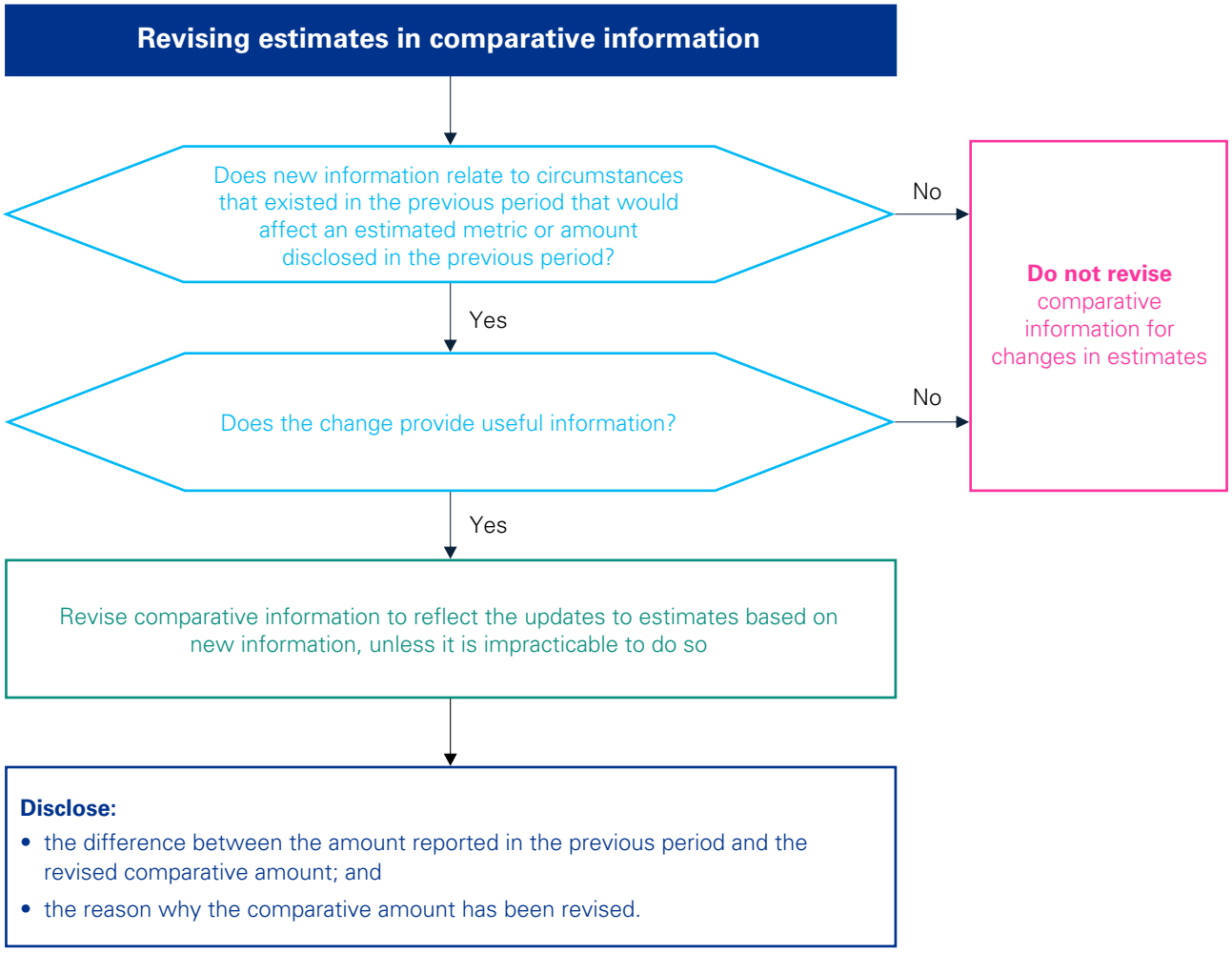
A company may need to update its estimates as a result of:

- changes in calculation methodology;
- changes in inputs used; or
- availability of new data sources.

This requirement applies only when the new information provides evidence of circumstances that existed in the previous reporting period and the change is material. It does not apply if revising the comparative information would not provide useful information or is impracticable. [ESRS 1.84–87, AR40]

| Information | What to disclose |
|---|---|
| **Updated prior-period estimates** | • Revised comparative amount.<br>• The difference between the amount reported in the previous period and the revised comparative amount.<br>• An explanation of why the comparative amount has been revised. [ESRS 1.84, 87(a), ESRS 2.6, AR2] |
| **Impracticable to revise a comparative** | • An explanation that revising a comparative amount is impracticable. [ESRS 1.85] |

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### Example 2.3.70
### Disclosing comparative information when measurement data improves

Company W is a retailer. It discloses metrics based on average hourly wages by location for certain low-paid employee groups to illustrate its sustainability-related risk of financial penalties from minimum-wage legislation breaches.

W estimates its average hourly wage figures for the lowest pay grades at each of its locations and compares them to minimum wages in that location. It does this by dividing the total wages paid to these employees (excluding overtime pay) by their actual working hours (excluding overtime). For Year 2, W obtained actual employee working hour data from the working time management system, which records information only for completed hours.

An inspection in late Year 2 identified potential breaches of minimum-wage legislation caused by poor record-keeping.

In Year 2, following the inspection, management estimated that the fine for breaches of minimum-wage legislation could be 3,000 and obtained initial estimates of 4,000 for the new system's required capital expenditure (capex).

In Year 3, W implemented a new working time management system to record working time data by minute. Also in Year 3, a fine of 2,000 was imposed and W incurred expenses of 4,500 to purchase and implement the new system.

In its sustainability statement in Year 2 and Year 3, W discloses the items as follows.

**Year 2 sustainability statement**

| Current period – Year 2 | Comparative period – Year 1 |
|---|---|
| • Reports the Year 2 average hourly wage figures derived from the original working hour data system and compares them to minimum wages by location.<br>• Discusses the results of the inspection and planned response, including the planned future capex of 4,000.<br>• Cross-refers to the financial statements, in which a provision for the fine of 3,000 was discussed. | • Reports the Year 1 average hourly wage figures derived from the original working hour data system and compares them to minimum wages by location. |

**Year 3 sustainability statement**

| Current period – Year 3 | Comparative period – Year 2 |
|---|---|
| • Reports the Year 3 average hourly wage figures derived from the new working time system and compares them to minimum wages by location.<br>• Discusses the response to the Year 2 inspection, including the incurred expenditure on the new system of 4,500, and noting that this had risen compared with the prior-year estimate of 4,000.<br>• Cross-refers to the financial statements in which the imposed fine of 2,000 was recorded as paid and the related provision released. | • Reports the Year 2 average hourly wage figures derived from the original working hour data system and compares them to minimum wages by location.<br>• Explains that, in Year 3, it was discovered that the Year 2 estimate was understated compared with that under the new methodology. However, it was impracticable to update the estimate because updated data for Year 2 had not been recorded at the time.<br>• Reports the planned future capex of 4,000.<br>• Cross-refers to the financial statements in which the comparatives include a provision of 3,000 for the potential fine (not revised). |

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### Example 2.3.80
### Revising comparative information is impracticable

Company T changes its methodology for measuring a sustainability-related metric during the current reporting period. When assessing whether it can revise comparative amounts, T identifies that it did not collect the data required under the new methodology in prior periods. T is unable to recreate this data in the current period.

In this situation, it is impracticable for T to revise comparative amounts. Therefore, T discloses:

- that it has not restated comparative information; and
- the reasons why it was unable to restate the comparatives.

### Insight 2.3.150
### Can a company use hindsight judgement when revising comparative information?

No. A company revises comparative information for a forward-looking metric only if doing so does not involve using hindsight. [ESRS 1.84(b)]

For example, a company disclosed in Year 1 that it expected carbon prices to increase moderately over the medium term based on information available at that date. The company included information about sources of measurement uncertainty and assumptions made relating to the forward-looking carbon prices.

In Year 2, significant regulatory changes resulted in carbon prices increasing more rapidly than previously expected. The company does not revise the prior-period forward-looking disclosures solely to reflect information that became available after the prior-period reporting date, because doing so would involve using hindsight.

In this case, the comparative information remains unchanged and the effects of the new regulation are reflected only in information reported for the current period.

### Insight 2.3.160
### Does a company need to revise comparative information when updated value chain data becomes available?

It depends. Under ESRS 1, a company revises comparative information for estimated metrics when new information becomes available that provides evidence of conditions that existed in the previous reporting period. This includes estimates that use information obtained from the company's value chain – e.g. scope 3 category 15 financed emissions disclosed under ESRS E1 (see 4.1.120).

However, this does not mean comparative information is revised in every case. It is revised only if the effect of the change is material and provides useful information; it need not be revised if doing so is impracticable. This assessment is particularly relevant when a company applies a systematic lagged-data methodology. For example, a financial institution may estimate financed emissions using investee data it receives at a one year lag. When more current data subsequently becomes available, the company does not automatically revise comparatives. Instead, it assesses whether revision would provide useful information to users (see Example 2.3.90). [ESRS 1.84, AR40]

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### Insight 2.3.170
### Is revising comparative information impracticable simply because obtaining updated data is difficult?

No. Impracticability is a high threshold concept and is not triggered merely because retrospective application or revision is difficult, costly or time-consuming (see 2.3.170). Rather, impracticability applies only when the requirement cannot be met after all reasonable efforts to do so (see Example 2.3.80). [Annex II]

### Example 2.3.90
### Revising comparative financed emissions information

Financial institution F discloses scope 3 category 15 financed emissions associated with its investments. F calculates financed emissions using investees' reported scope 1 and 2 emissions data, combined with information about its exposure to those investees.

Emissions data from investees is generally available with a one-year lag. Consequently, at each reporting date F estimates its financed emissions using the most recent emissions data that is reasonably available without undue cost or effort. For each investee, F determines the share of the investee's emissions attributable to F based on its economic exposure and then aggregates these amounts to calculate its total financed emissions. For simplicity, this example expresses the resulting financed emissions as a blended attribution factor, representing the amount of financed emissions attributed to F per million of exposure.

Financed emissions for the year ended 31 December of Year 2 (estimated) are as follows.

| Period | 31 December of Year 2 (estimated) |
|---|---|
| Blended attribution factor ($tCO_2e$ per million of exposure) | 5 |
| Investment value (m) | 10 |
| **Total scope 3 category 15 financed emissions ($tCO_2e$)** | **50** |

The attribution factor used for the current year ended 31 December of Year 2 is based on investees' most recently available reported emissions data for Year 1 – i.e. a one-year lag.

*New information obtained during Year 3*

During Year 3, F obtains actual Year 2 emissions data from a significant portion of its investees. This information provides evidence of conditions that existed in the previous reporting period, and therefore constitutes new information under ESRS 1.

If the newly available data were applied to F's Year 2 portfolio, then the attribution factor would be lower. F considers whether it is required to revise its comparative financed emissions disclosure for Year 2 when preparing its sustainability statement for the year ended 31 December of Year 3. If F were to revise the Year 2 comparative and continue to apply its established estimation methodology for Year 3, then both periods would be based on the same underlying investee emissions data.

| Period (31 December) | Year 2 (estimated) | Year 2 (revised) | Year 3 (estimated) |
|---|---|---|---|
| Blended attribution factor ($tCO_2e$ per million of exposure) | 5 | 4 | 4 |
| Investment value (m) | 10 | 10 | 11 |
| **Total scope 3 category 15 financed emissions ($tCO_2e$)** | **50** | **40** | **44** |

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F assesses whether revising the comparative financed emissions information would be material and provide useful information for users.

In assessing materiality, F considers whether omitting the revised information could reasonably be expected to influence:

- primary users' decisions relating to providing resources to F, including their assessments of F's climate-related transition risks, strategy and progress against its financed emissions target; or
- other users' decisions regarding F's material climate-related impacts and how F manages them, including their assessment of the financed emissions associated with F's investment activities.

F considers both quantitative and qualitative factors.

- From an impact perspective, F considers whether the revision changes users' understanding of the scale or direction of the GHG emissions connected with F through its investment activities, its management of those impacts or progress against its financed emissions target.
- From a financial perspective, F considers whether the revision changes primary users' understanding of F's exposure to climate-related transition risks, strategy or development, financial performance, position, cash flows, its access to finance or cost of capital.

F concludes that, based on its specific facts and circumstances, the revised Year 2 amount would not provide material information. Although the revised amount is quantitatively different from the amount originally reported, it would not change users' understanding of the scale or direction of F's material climate-related impacts, how F manages those impacts, its progress against its financed emissions target or its climate-related transition risks and portfolio strategy.

F also assesses whether revising the comparative would provide useful information. F notes that ESRS explain that revised comparative information may not provide useful information when the estimation methodology for the relevant metric systematically relies at the reporting date on an input from the previous period.

F's established methodology systematically uses investee emissions data with a one-year lag. If F revised the Year 2 comparative using subsequently available Year 2 investee emissions data, both the revised Year 2 comparative and the Year 3 estimate would use Year 2 investee emissions data.

F concludes that revising the comparative information would not improve users' understanding of changes between the periods under its consistently applied lagged-data methodology.

F does not revise its comparative financed emissions information and instead:

- explains why it has not revised comparative figures;
- discloses information about data limitations and the estimation methodology used;
- describes the materiality and other judgements applied; and
- provides contextual information to support users' understanding of year-on-year movements and performance against its scope 3 category 15 target.

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## 2.3.140 Updating or replacing a metric or target

Defining and calculating metrics – including metrics used to set targets and monitor progress towards them – needs to be consistent over time. [ESRS 1.84]

When a company changes, replaces or stops disclosing a metric, or revises a target that was disclosed in the previous period, it provides information about the change. Specifically, it needs to disclose the following information. [ESRS 1.84, 87(a), ESRS 2.6]

| Information | What to disclose |
|---|---|
| **Redefined or replaced metric or target** | • An explanation of the change.<br>• The reason for the change, including why the updated metric or target is more useful.<br>• Revised comparative information for the new metric or target, unless impracticable to disclose. [ESRS 1.84, 87(a), ESRS 2.6, AR2] |
| **Impracticable to revise comparative** | • An explanation that revising a comparative amount is impracticable. [ESRS 1.85] |

## 2.3.150 Errors in prior-period information

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

- was available when the management report (including the sustainability statement) for those periods was authorised for issue; and
- the company could reasonably have obtained and considered in preparing those disclosures. [ESRS 1.AR46]

Errors include mathematical mistakes, mistakes in applying the definitions of metrics or targets, oversights and misinterpretations of facts and fraud. [ESRS 1.AR46]

When a company identifies a material error in its sustainability statement from a previous period, it restates the comparative amounts for the previous period, unless it is impracticable to do so. It is not required to provide this information for reporting periods before it first applies ESRS. In addition, it needs to disclose the following information. [ESRS 1.98, ESRS 2.6, AR2(l)]

| Information | What to disclose |
|---|---|
| **Material error in prior period(s)** | • The correction, to the extent practicable, for each prior period disclosed. [ESRS 1.98]<br>• If correction is impracticable for all periods presented, a restated comparative from the earliest date practicable. [ESRS 1.99] |

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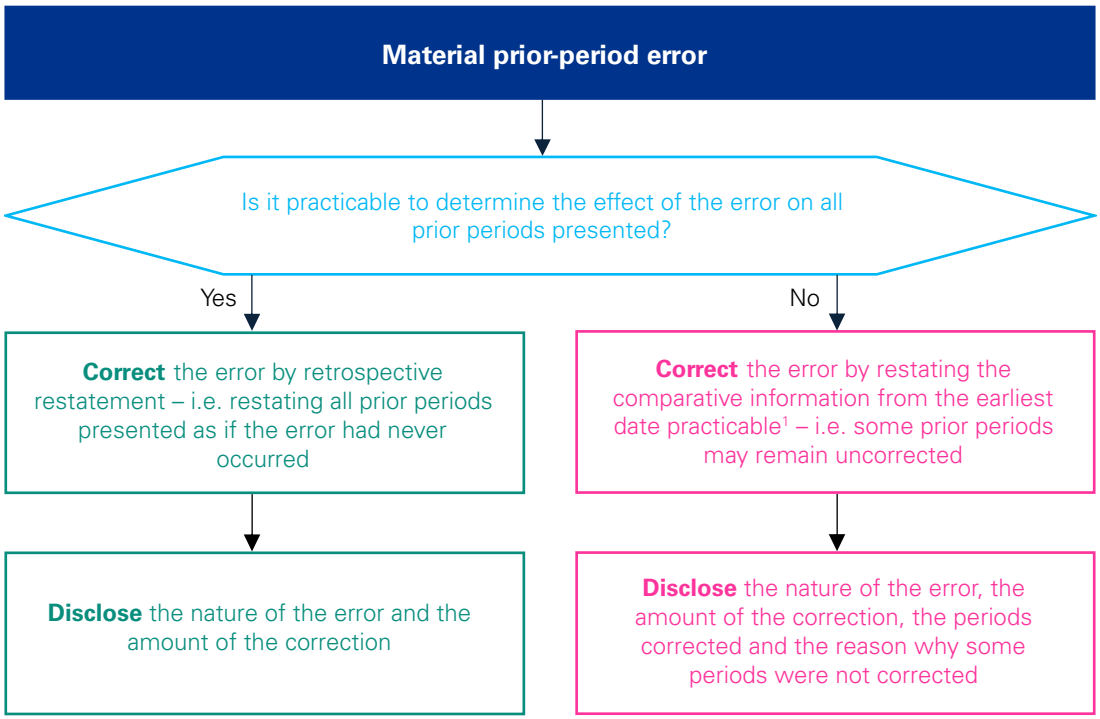


[1] Although the requirement refers to restatement from the earliest date practicable, a company generally presents only one comparative period. As a result, restatement will typically relate to one period of comparative information presented.

## 2.3.160 Proportionality measures

Proportionality measures help a company apply the standards in a practical way, taking account of differences in resources and data availability. They allow a company to balance providing decision-useful information with the practical challenges of applying the standards. [ESRS 1.94]

Proportionality measures do not override disclosure requirements; instead, they define the boundaries of the effort expected for certain requirements.

Proportionality measures differ from transition reliefs (see 6.2.20), which apply only during initial application and are often common to all companies. Proportionality measures are specific to each company's circumstances. They are not time-limited, but their application may diminish as reporting maturity evolves. [ESRS 1.94–95]

The two proportionality measures – 'reasonable and supportable information that is available to the company at the reporting date without undue cost or effort' and 'skills, capabilities and resources' – apply in the following circumstances. [ESRS 1.93, AR45, ESRS 2.29]

| Circumstance | Reasonable and supportable information (see 2.3.170) | Skills, capabilities and resources (see 2.3.180) |
|---|---|---|
| Identifying and assessing IROs | Yes (see 2.2.50) | |
| Determining the scope of the value chain | Yes (see 2.1.60) | |
| Anticipated financial effects | Yes (see 3.1.180) | Yes (see 3.1.180 and 4.1.150) |
| Metrics | Yes (see 3.2.50) | |

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**Insight 2.3.180**
**Do proportionality measures applied in the current period continue to automatically apply in future reporting periods?**

No. A company needs to reassess whether proportionality measures remain applicable at each reporting date. As its systems, data, skills and capabilities develop, information that was previously not obtainable without undue cost or effort may become available, supporting more robust and decision-useful disclosures. [ESRS 1.95]

## 2.3.170 Reasonable and supportable information

To understand the appropriate types and sources of inputs for its disclosures, a company applies the reasonable and supportable information concept – i.e. it assesses the information available to it at the reporting date without incurring undue cost or effort. This allows the company to report less-than-perfect information that results from 'best efforts' endeavours, while making an effort to use the information to which it reasonably has access. [ESRS 1.94–95, AR45]

The concepts can be explained as follows.

| Concept | What it means |
|---|---|
| **Reasonable and supportable information** | A company needs to have a reasonable basis for using the information and that information needs to be relevant to what is being reported.<br><br>Appropriate governance and controls need to be in place to ensure that the information is supportable. |
| **Available without undue cost or effort** | A company needs to consider all information that is 'reasonably available' to it.<br><br>This means that it could not disregard any information it already has or knows about – e.g. if a company is aware of an IRO that could materially affect its development, financial performance and position, cash flows, or access to finance or cost of capital, then it is likely that some disclosure of information would be required.<br><br>However, a company does not need to undertake an exhaustive search for information – i.e. it is not expected to source information beyond what can be obtained without undue cost and effort. 'Undue cost or effort' weighs the costs and benefits of information and is proportional to the company, considering the:<br><br>• degree of the company's exposure to IROs;<br>• complexity of its upstream and downstream value chain;<br>• skills, capabilities and resources available to the company;<br>• availability of tools to access and share information, including digital tools; and<br>• benefits of the resulting information for users.<br><br>This assessment can change over time as the company's circumstances change and as its systems, data, skills and capabilities improve. |
| **At the reporting date** | When relevant, a company considers information about past events, current conditions and forecasts of future conditions as at the reporting date.<br><br>The information available, particularly forward-looking information, will change over time and may differ at subsequent reporting dates.<br><br>When necessary for an understanding of a company's material IROs, the reported information extends beyond the company's own operations to include material IROs in the value chain. |

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### Example 2.3.100
### Applying the reasonable and supportable information proportionality measure on scope 3 emissions

Company N is an agricultural producer. Approximately 30% of its supply chain consists of hundreds of small producers which do not track or report their own emissions. Collecting producer-specific data from all of them would require significant time, resources and cost, particularly in the first year of reporting.

In applying the reasonable and supportable information concept, N considers the following.

| Consideration | N's actions |
|---|---|
| **Prioritising key suppliers** | Prioritises collecting primary emissions data from its largest suppliers, representing more than two-thirds of its procurement spend. |
| **Using the most recent available data** | Uses the most recent emissions data available from these key suppliers. |
| **Estimates for smaller suppliers** | Estimates emissions for smaller suppliers using industry-average emissions factors, sector data and information from comparable suppliers. N cannot obtain data from smaller suppliers without disproportionate effort because the data is unavailable.<br><br>Explains that the value chain cap applies when necessary and does not seek information beyond that outlined by the value chain cap (see Insight 2.1.60). |
| **Clearly disclosing methods and limitations** | Discloses its mixed-data approach, including the estimation methods applied, data sources used and key limitations in data quality.<br><br>Explains any significant changes in supplier activity that could materially affect reported emissions. |
| **Ongoing improvement plan** | Describes ongoing efforts to improve scope 3 data quality, including engagement with key suppliers and enhancements to data collection processes.<br><br>Indicates that it may continue to use estimates and proxy data when obtaining supplier-specific data would involve undue cost or effort, and that what constitutes undue cost or effort may change as its capabilities develop. |

### Insight 2.3.190
### Is information used for other purposes considered to be available without undue cost or effort?

Yes. Information from existing systems or information that is otherwise available for financial reporting, business operations, strategy setting, due diligence and risk management purposes is considered available without undue cost or effort.

In some instances, a company will need to source additional information reasonably available to it for its sustainability statement. This information may be internal or external and can include materiality assessments, sustainability reporting prepared under a different framework, due diligence, external ratings, reports and statistics, and industry and peer group experience. [ESRS 1.AR45]

## 2.3.180 Skills, capabilities and resources

ESRS permit a company to apply an approach commensurate with its internal and external skills, capabilities and available resources when disclosing quantitative anticipated financial effects (see 3.1.180 and 4.1.150). [ESRS 2.29]

The level of sophistication expected depends on the company's specific circumstances, including its exposure to IROs, industry practice and the maturity of its internal processes. Simpler or more qualitative approaches may be appropriate initially, particularly where analysis is resource-intensive or capabilities are still developing. However, companies are expected to improve their approach over time as capabilities and available information evolve.

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## 2.3.190 Omission of information

ESRS 1 includes a number of exemptions that permit the omission of certain information from the sustainability statement, even if that information is material. However, apart from the specific information omitted, a company needs to ensure that the omission does not impair the overall disclosure. [ESRS 1.100–101]

| Exemptions | How it applies |
|---|---|
| **Commercially sensitive information** | • A company may omit information that would seriously harm its commercial position, provided that users are not prevented from obtaining a fair and balanced understanding of the company's development, financial performance, financial position or material risks and impacts.<br>• Information cannot be omitted simply because it is sensitive. Omission is appropriate only when the information could not be disclosed – even at a more aggregated level – without causing serious prejudice to the company's commercial position. [ESRS 1.100(a)]<br>• A company is not permitted to omit required information solely because companies outside the EU are not required to report the same information. [ESRS 1.AR47] |
| **Intellectual capital, intellectual property, know-how, technological information and trade secrets** | • A company may omit information that falls under the definition of 'trade secret'[1]. [ESRS 1.100(b)] |
| **Classified information** | • A company may omit information that falls under the definition of 'classified information'[2]. [ESRS 1.100(c)] |
| **Disclosure that would breach legal confidentiality, privacy or security** | • A company may omit information when its disclosure would breach protections required under EU laws and regulations, or national law, or would undermine the privacy or security of an individual person or the security of a company. [ESRS 1.100(d)] |

To apply the exemption, a company is required to first consider if it could resolve the issue by disclosing the information in a different way – e.g. providing less granular information. If it cannot achieve this, then it could exclude the information, provided that it:

- discloses that it has applied the exemption for that piece of information; and
- reassesses at each reporting date whether the exemption remains appropriate. [ESRS 1.100]

A company is not required to explain the reason for omitting commercially sensitive information. This is because the explanation itself could risk revealing the commercially sensitive details that the exemption is designed to protect.

1. As defined in Article 2(1) of Directive (EU) 2016/943 (Trade Secrets Directive).
2. As defined in Article 2, point (7), of Regulation (EU) 2023/2418.

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**Example 2.3.110**
**Omission of commercially sensitive information**

Company M is a car manufacturer. As part of its strategy to transition to a lower-carbon economy, M has invested and developed a new technology that improves the performance of its electric vehicles, while reducing carbon emissions from the vehicles.

This technology uses hydrogen to produce electricity and is in the early stages of development. Although the information about M's strategy to transition to electric vehicles is market knowledge, the information about the exact technology under development is secret in nature and has high commercial value. M has taken steps to ensure the technology remains a secret.

M has omitted information about the technology from its disclosures, because the information is not publicly available and could seriously harm its commercial position. However, M is still required to disclose information about its climate-related transition plan and discloses the fact that it has taken the exemption to omit certain information about its proprietary technology.

At each reporting date, M reassesses whether the exemption remains appropriate.

## 2.3.200 Reliefs when preparing the sustainability statement

ESRS include specific reliefs for companies that face challenges in collecting data. These reliefs are not time-bound.

| Relief | How it applies |
|---|---|
| **'No significant driver' – i.e. metrics relating to non-significant activities** | • When calculating metrics, a company may exclude certain activities:<br>– that are not a significant driver of the IROs that the metric purports to represent; and<br>– when their exclusion does not impair the relevance and faithful representation of the metric. [ESRS 1.90]<br>• If a company uses this relief, then it discloses this fact and includes any relevant information to help users understand the scope limitations resulting from the relief. [ESRS 1.90] |
| **Partial own operations and value chain reporting** | • Except when reporting GHG emissions under ESRS E1, a company may exclude parts of its own operations or value chain from a metric when it cannot obtain reliable direct or estimated data without undue cost or effort. In these circumstances, it discloses that it has identified a material IRO but reports the corresponding metric using the information available for the operations or value chain activities. [ESRS 1.91]<br>• In doing so, a company discloses how it plans to expand coverage over time and explains the progress made since the previous reporting period. [ESRS 1.91] |
| **Exclusion of joint operations** | • A company may exclude from environmental metric calculations any joint operations over which it does not have operational control (except where required by ESRS E1) (see 2.1.50). [ESRS 1.92]<br>• The company discloses:<br>– whether it has applied this relief;<br>– relevant information to enable users to understand the resulting scope limitations; and<br>– the actions it is taking to improve the completeness and quality of its reporting in future periods. [ESRS 1.92] |

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### Example 2.3.120
### Applying the 'no significant driver' relief

Company R manufactures a range of industrial products, including cement and speciality chemicals.

Based on its DMA, it identifies a material actual negative impact relating to water use – i.e. high water consumption arising from the production of cement at specific manufacturing sites located in water-stressed regions.

The impact is concentrated in a subset of R's own operations (i.e. production facilities dedicated to cement). It does not arise to the same extent in other parts of the business, because speciality chemicals manufacturing is primarily conducted at sites that are not located in water-stressed regions.

When determining the metrics to disclose, R assesses whether all water-related metrics across the group provide insight into this impact. It concludes that water consumption in offices and in those production sites manufacturing speciality chemicals does not represent a significant driver of the identified impact.

Accordingly, R applies the 'no significant driver' relief and limits disclosure of its water-related metrics to those production sites manufacturing cement. This enables R to provide information that is focused on the activities driving the impact and relevant to users' understanding of its environmental impacts and the associated risks.

R provides a clear and specific description of the underlying impact, including the activity, product, location and source. This allows it to demonstrate that other activities within the group are not significant drivers of the impact, and therefore are excluded from the metrics disclosed.

### Example 2.3.130
### Applying the 'partial own operations and value chain reporting' relief to pollution metrics

Company G is a multinational manufacturing company with operations in the EU and in several non-EU jurisdictions.

G identifies pollution as a material topic and discloses information under ESRS E2, including metrics on emissions to air, water and soil (see 4.3.60).

G operates production sites in jurisdictions with varying regulatory requirements. For its EU sites, G has established measurement systems that capture pollutant emissions in line with ESRS requirements. However, G has no such measurement systems in place for certain non-EU sites. It also lacks comparable sites with similar processes and reliable measurement data that it could use to develop robust estimates without incurring significant time and cost.

G applies the partial own operations and value chain reporting relief in ESRS 1 and limits its disclosure of pollution-related metrics to locations where reliable data is available. Accordingly, in the current reporting period, G discloses its ESRS E2-4 metrics based on its EU operations only.

G explains this approach in its sustainability statement by disclosing:

- that certain non-EU sites may represent significant sources of pollution-related impacts, but are excluded because reliable data is not currently available;
- details of its programme to extend measurement systems to its non-EU operations, including the phased implementation plan and expected milestones; and
- the progress made since the previous reporting period, including pilot data collection initiatives at selected non-EU sites.

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**Example 2.3.140**
**Applying the partial own operations and value chain reporting relief when a company is unable to obtain data**

Company H manufactures consumer products through subsidiaries located in multiple jurisdictions.

During its DMA, H identifies pollution-related impacts associated with using certain chemicals in its manufacturing processes. Accordingly, ESRS require H to disclose the amount of substances of very high concern used in its own operations.

In one jurisdiction in which H operates, recently introduced regulations restrict the collection, transfer and disclosure of certain supply chain and environmental information to foreign entities. As a result, H is unable to obtain reliable data from local operations or suppliers. H also concludes that reliable estimates cannot be developed using alternative sources without incurring undue cost or effort, because the available information is incomplete and cannot be independently validated.

H applies the partial own operations and value chain reporting relief in ESRS 1. Therefore, H reports the metric for the parts of its operations for which reliable direct or estimated information is available. It discloses that the metric excludes operations in the affected jurisdiction and explains that it has nevertheless identified material pollution-related impacts associated with those operations.

H also discloses:

- the nature of the limitation affecting data collection;
- the percentage of own operations covered by the reported metric;
- the actions it is taking to improve data availability and quality, such as engaging with local management, assessing alternative information sources and monitoring regulatory developments; and
- progress made since the previous reporting period.

H expects coverage of the metric to increase in future reporting periods if reliable information becomes available.

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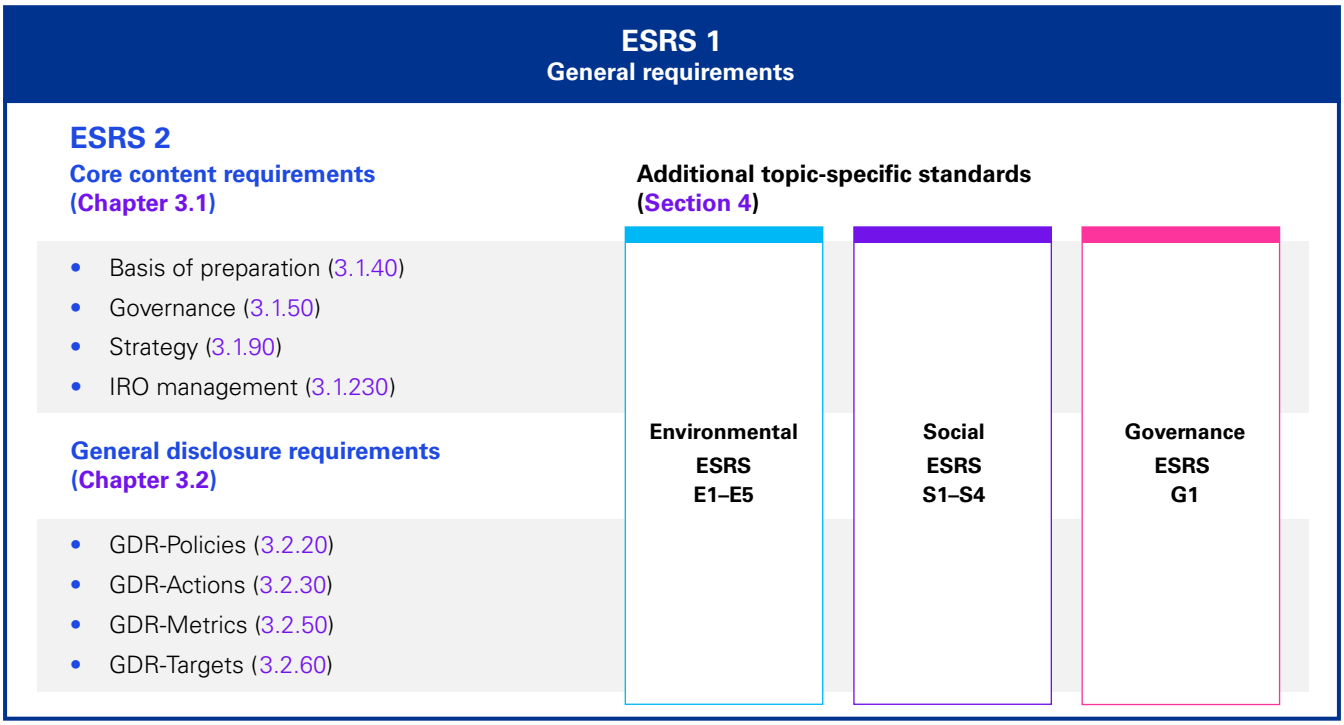
# 3.1 Core content requirements

## 3.1.10 Core content in sustainability reporting

To provide decision-useful information for users, a company discloses clear information about its governance, strategy, risk management, metrics and targets. These core content areas can help users understand how the company identifies, assesses, manages and monitors its material IROs. Accordingly, ESRS 2 requires a company to disclose material information about these areas for all of its IROs.

### 3.1.20 How the standard works

ESRS 2 sets out the disclosure requirements that apply to all material IROs and the related topics. To report on them, a company determines what information is material for each core content area and the level of (dis)aggregation that provides users with the most relevant information. GDR in ESRS 2 provide the framework for disclosing policies, actions, metrics and targets (see Chapter 3.2) and are applied together with the relevant GDR in the topic-specific standards. [ESRS 1.54, ESRS 2.2]




For further guidance on applying ESRS requirements, see the following.

- **Transition plans** (Chapter 5.1)
- **Scenario analysis** (Chapter 5.2)

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A company generally presents its sustainability statement in four sections, in the following order: general information, environmental information, social information and governance information (see 6.1.10). [ESRS 1.5, 105, ESRS 2.1]

Some information provided as part of a company's core content disclosures may overlap with information provided elsewhere in the sustainability statement or general purpose financial reports. A company avoids unnecessary duplication by providing information once, in a clear and appropriate location, and cross-referring to it when relevant (see 6.1.50).

### 3.1.30 Interaction with other ESRS

Topic-specific standards build on the disclosure requirements in ESRS 1 and ESRS 2. In some cases, they include requirements beyond those in ESRS 2 for a particular reporting area. For example, ESRS E1 includes climate change resilience disclosures that complement the strategy disclosures in ESRS 2 SBM-3 (see 3.1.220). In other cases, the overarching requirements in ESRS 2 are sufficient and the topic-specific standards introduce no additional requirements – e.g. governance disclosures.

Disclosure requirements included in each topic-specific standard on policies, actions, metrics and targets are applied together with the relevant GDR in ESRS 2 (see Chapter 3.2).

## 3.1.40 Basis of preparation

Providing information about the basis on which a sustainability statement is prepared can help users:

- understand the scope, assumptions, limitations and specific circumstances that underpin a company's disclosures; and
- assess their consistency with other information included in the general purpose financial reports. [ESRS 2.3–4]

A company discloses the general basis of preparation of its sustainability statement, including the scope of consolidation (see Chapter 2.1) and the inclusion of value chain information.

Specifically, it discloses the following information.

| Information | What to disclose |
|---|---|
| **Statement of compliance** | • A confirmation that the sustainability statement has been prepared in accordance with ESRS applicable at the reporting date. [ESRS 2.5] |
| **Reporting entity** | • Whether the sustainability statement is prepared on a consolidated or an individual basis. [ESRS 2.4(a)]<br>• A description of, and reasons for, differences in the reporting boundary between the sustainability statement and the consolidated financial statements – e.g. when a subsidiary generates material impacts but is excluded from the consolidated financial statements because it is not material for financial reporting purposes (see 2.1.20 and Insight 2.1.20). [ESRS 2.4(a), AR1] |
| **Value chain** | • An overview of the parts of the value chain covered by the sustainability statement (see 2.1.60 and Insight 2.1.40). [ESRS 2.4(b)] |
| **Scope adjustments and applied reliefs** | • Reliefs that have been applied in preparing the sustainability statement, including:<br>– relief for acquisitions and disposals (see 2.1.20); [ESRS 2.AR2(a)]<br>– relief for excluding joint operations that are not operationally controlled from environmental metrics (see 2.3.200); [ESRS 2.AR2(i)]<br>– exclusion of activities that are not significant drivers of IROs (see 2.3.200); and [ESRS 2.AR2(g)]<br>– partial own operations and value chain reporting (see 2.3.200). [ESRS 2.AR2(h)] |

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| Information | What to disclose |
|---|---|
| **Estimates and judgements** | • Estimates and judgements made in preparing the sustainability statement, including:<br>– deviation from predefined time horizons (see 2.3.70); [ESRS 2.AR2(b)]<br>– material judgements and significant uncertainties (see 2.3.80–100); and [ESRS 2.AR2(e)]<br>– significant limitations affecting the reported information due to applying the 'reasonable and supportable information' proportionality measure (see 2.3.170). [ESRS 2.AR2(j)] |
| **Changes compared with the previous reporting period** | • Changes in the preparation or presentation of information (see 2.3.130 and 3.2.50). [ESRS 2.AR2(c)]<br>• Adjustments to comparative information (see 2.3.110). [ESRS 2.AR2(d)] |
| **Completeness and correction of information** | • Events after the reporting period (see 2.3.60). [ESRS 2.AR2(k)]<br>• Prior-period errors (see 2.3.150). [ESRS 2.AR2(l)]<br>• Omission of information (see 2.3.190). [ESRS 2.AR2(f)] |
| **Phased-in disclosure relief** | • Information on phased-in disclosure relief the company has used (see Chapter 6.2). [ESRS 2.7]<br>• Whether the company's DMA concluded that material IROs exist for topics covered by a phased-in disclosure relief applied to an entire topic-specific standard (i.e. standard-level phased-in relief). [ESRS 1.125(a), 126(a), 127(a), ESRS 2.8]<br>• A list of material topics or subtopics when a standard-level phased-in relief is applied to a topic-specific standard for which material IROs have been identified. This list is provided together with:<br>– a brief description of how these are reflected in the company's business model and strategy;<br>– any time-bound targets it has set, and progress towards achieving them;<br>– a statement whether its targets related to biodiversity and ecosystems are based on conclusive scientific evidence;<br>– the relevant policies;<br>– a description of actions taken; and<br>– metrics used to monitor performance. [ESRS 2.9]<br>• A statement that the company has omitted datapoints using datapoint-level phased-in disclosure relief. [ESRS 1.125(b)–(e), 126(b)–(e), 127(b)–(e), ESRS 2.10]<br>A company can disclose:<br>– information on standard-level phased-in relief in the general information section of its sustainability statement or alongside relevant information from topic-specific standards; and<br>– information on datapoint-level phased-in relief in the general information section of its sustainability statement or in the content index. [ESRS 2.AR3–AR4] |

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**Insight 3.1.10**
**Can a company apply only some of the requirements in ESRS but make a statement of compliance?**

No. A company discloses a statement of compliance with ESRS only if its sustainability statement complies with all applicable ESRS requirements, subject to any reliefs or exemptions permitted by the standards or its local jurisdiction. [ESRS 2.5–6]

A company may apply ESRS voluntarily without complying with all of the requirements. However, in these circumstances it does not assert compliance with ESRS.

The same principle applies to a non-EU parent that prepares a sustainability statement voluntarily to provide its EU subsidiaries with an exemption from preparing their own sustainability statements. The parent asserts compliance with ESRS only if its sustainability statement complies with all applicable ESRS requirements.

**Insight 3.1.20**
**Can a company still state compliance when applying transition relief, such as phased-in disclosure relief?**

Yes. Applying transition relief that is expressly permitted by ESRS (see 6.2.20) does not prevent a company from stating compliance, provided it meets all other applicable requirements and discloses its use of those reliefs (see 3.1.40).

For example, a company may still state compliance with ESRS when applying the phased-in disclosure relief that permits the omission of all ESRS E4 disclosures in the first two years of reporting.

**Insight 3.1.30**
**Can a company state compliance with ESRS when applying multiple sustainability reporting frameworks?**

Yes. A company can state compliance with ESRS while applying multiple frameworks, provided that it complies with all applicable ESRS requirements.

A company may use other frameworks – e.g. SASB and GRI Standards – when providing entity-specific disclosures. In this case, the resulting disclosures comply with ESRS. [ESRS 1.AR5]

A company may also provide supplementary information based on other frameworks – e.g. to meet local jurisdictional requirements or the needs of other stakeholders – provided that it clearly identifies the information as not resulting from its DMA, ensures that the information faithfully represents what it purports to represent and presents it in a way that does not obscure material information. Where different frameworks require different measurements, methodologies or reporting boundaries, the company clearly explains these differences and distinguishes the information from that prepared in accordance with ESRS (see Insight 2.2.160). [ESRS 1.107–109]

## 3.1.50 Governance

A company discloses information about its governance to help users understand the processes, controls and procedures it uses to monitor, manage and oversee IROs, including how it allocates responsibilities between oversight and management roles. [ESRS 2.11]

Administrative, management and supervisory bodies are collectively referred to as ‘governing bodies’ or ‘the board’ in this handbook.

The governance reporting area in ESRS 2 focuses on the processes, controls and procedures a company uses to monitor, manage and oversee material IROs. This is distinct from ESRS G1, which addresses governance topics such as business ethics, corporate culture, supplier relationships and political activities.

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ESRS 2 does not prescribe how a company structures its governance arrangements. Instead, it requires the company to disclose and explain how governance processes, controls and procedures operate in practice. [ESRS 1.6, ESRS 2.11]

Topic-specific standards do not contain additional disclosure requirements under governance; however, some disclosures may require information about governance arrangements relevant to a specific topic.

**ESRS 1**
**General requirements**

| ESRS 2<br>Core content requirements (Chapter 3.1) | Additional requirements under topic-specific standards (Section 4) |
|---|---|
| **Governance**<br>• The role of governing bodies (3.1.60)<br>• Integration of sustainability-related performance into incentive schemes (3.1.70)<br>• Other disclosures on governance (3.1.80) | No additional requirements |

### Insight 3.1.40
### Do ESRS require a company to change its governance structures or activities?

No. The standards do not prescribe how a company organises or operates its governance arrangements; rather, a company needs to provide information about how its existing structures and activities are intended to function, including the role of management and those charged with governance.

For example, a company is required to disclose whether and how IROs are taken into account in remuneration decisions, but is not required to establish a direct, measurable link between sustainability-related performance and remuneration.

The nature of these disclosure requirements, and the potential scale of changes to existing reporting practices for some companies, may trigger additional scrutiny. As a result, management may reconsider the governance structures it has in place, as well as the related processes, controls and procedures over the company's sustainability reporting. This may present an opportunity for a company to integrate sustainability reporting with financial reporting and other operational processes.

### Insight 3.1.50
### Do governance arrangements need to be in place throughout the reporting period?

Not necessarily. ESRS 2 requires a company to disclose its governance processes, controls and procedures in place as at the reporting date. Governance arrangements do not need to be in place throughout the reporting period. [ESRS 2.12]

However, a company explains how the governance processes, controls and procedures for monitoring and overseeing IROs functioned during the period. This could include clearly stating the date on which governance structures were implemented during the reporting period and whether any arrangements were changed, if that information is material to users' understanding of the company's oversight of its IROs.

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**Insight 3.1.60**
**Is disclosure required if governance arrangements are changed after the reporting date?**

It depends. If changes to governance processes implemented after the reporting date but before the sustainability statement is authorised for issue are material to users' understanding of how IROs are monitored, managed and overseen, then a company needs to disclose that information. This is consistent with the approach for subsequent events in general, whereby a company would disclose information about this new condition if it could reasonably be expected to influence the decisions that users make (see 2.3.60). [ESRS 1.97]

When disclosing this information, a company clearly indicates that the changes occurred after the reporting date and ensures that the information does not obscure or mislead users about the governance arrangements that existed during the reporting period.

## 3.1.60 The role of governing bodies

Monitoring, management and oversight of IROs is typically exercised by the board or equivalent governance bodies, often supported by specialised committees or designated individuals.

This role extends beyond the formal allocation of responsibilities and reflects how IROs are considered within a company's governance structure. Information about how these structures operate may be relevant for users seeking to understand whether material IROs receive appropriate attention at the highest levels of the organisation.

A company explains how the governing bodies define and carry out their roles and responsibilities, and how the related processes, controls and procedures support the monitoring, management and oversight of material IROs, including the due diligence process in place. Specifically, a company discloses the following information. [ESRS 2.12, AR5]

| Information | What to disclose |
|---|---|
| **Diversity and composition** | • The percentage of independent board members. [ESRS 2.12(a)]<br>• Whether employees and other workers are represented on the governing body. [ESRS 2.12(a)]<br>• The gender distribution of governing body members, expressed as a percentage of female and male members, and other aspects of diversity that the company considers. [ESRS 2.12(a), AR6] |
| **Roles and responsibilities** | • The identity of the governing bodies (i.e. board or committees) or individuals responsible for managing and overseeing material IROs, including how those responsibilities for material IROs and related topics are reflected in the company's terms of reference, board mandates or other related policies. [ESRS 2.12(c), AR8]<br>• The IROs that are directly addressed by the governing bodies without delegating key decisions to other bodies or management. [ESRS 2.12(c)]<br>• How the governing bodies consider material IROs when overseeing the company's strategy, decisions on major transactions and its risk management process – e.g. whether the company has considered any trade-offs associated with IROs. [ESRS 2.12(e)]<br>• How the governing bodies and management oversee how the company sets and monitors progress on sustainability-related targets. [ESRS 2.12(d)] |

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| Information | What to disclose |
|---|---|
| **Expertise and skills** | • The expertise that the governing bodies either possess directly or can leverage – e.g. through access to training, subject-matter experts and other educational initiatives – in relation to supervising and managing material IROs. [ESRS 2.12(b), AR7]<br>• How the governing bodies determine whether the company has access to the appropriate skills and expertise to manage or oversee the company's strategies and other measures to respond to material IROs, or how those skills and expertise will be developed. [ESRS 2.12(b)] |

### Example 3.1.10
### Disclosing governance information for a subsidiary

Company C owns and operates a seafood processing plant that produces canned goods for wholesale food retailers. C's wholly owned Subsidiary F owns and operates a fish farm.

When preparing its sustainability statement, C considers its governance arrangements in determining material information to report. C's governance structure is designed to have direct oversight of IROs associated with the processing operations. F has its own governance arrangements overseeing IROs related to fish farming activities. As part of the group's governance processes, F's board reports quarterly to C's board on farming-related IROs.

C concludes that information about the governance of F's operations is material to users, given its focus on sustainable seafood production and the company's management of marine operations.

Accordingly, C discloses information about its own governance structure and oversight of IROs, as well as the governance arrangements in place at F. This includes disclosure of the relevant processes, controls and procedures that operate at a group level, including how information about the oversight of F's IROs is reported to and overseen by C.

### Example 3.1.20
### Disclosing information about the governing bodies' skills and competencies

During the reporting period, Company J performed a capability assessment that:

- defined the skills needed for oversight and delivery of its sustainability-related strategy (e.g. scenario analysis, emissions accounting, climate-related risk and regulatory reporting);
- mapped organisational capability, including that of the board and management, using a skills matrix and performance/effectiveness reviews; and
- assessed resourcing and controls for sustainability reporting, including data systems and internal control activities.

Management performs this assessment to support governance oversight.

J discloses the outcomes of this assessment, explaining how the skills identified are covered by individuals in oversight and key management roles. It also discloses any gaps identified and the actions being taken in response, including targeted training, recruitment of specialists and enhancements to data governance and reporting controls. J further explains that progress is monitored through committee reporting and periodic reassessment.

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### Insight 3.1.70
### What are considered to be governing bodies under ESRS?

ESRS use the term 'administrative, management and supervisory bodies' when referring to a company's governing bodies – i.e. those responsible for decision-making, including their committees. [Annex II]

Although the exact composition and terminology can vary by jurisdiction and legal form, these bodies correspond to the highest decision-making authority in the company. Depending on the governance structure, they may include:

- a board of directors (one-tier system); or
- a management board and a supervisory board (two-tier system).

If no separate governing bodies exist, then the most senior executive roles (e.g. chief executive officer and, if applicable, deputy roles) may be considered as the governing bodies. [Annex II]

A company ensures that governing bodies are described consistently in its sustainability statement and other corporate communications and reports – e.g. a corporate governance statement. [ESRS 1.112]

### Insight 3.1.80
### When are board members considered to be independent under ESRS?

Under ESRS, an independent board member is one who exercises independent judgement free from external influence or conflicts of interest. Independence generally means the ability to exercise objective, unfettered judgement. [Annex II]

In applying this definition, a company assesses whether a board member has any interest, position, association or relationship that, from the perspective of a reasonable and informed third party, is likely to unduly influence, or cause bias in, their decision-making. This assessment considers both actual independence and the appearance of independence.

### Insight 3.1.90
### Does a company need to report if it does not have separate committees and processes devoted to sustainability topics?

Yes. IROs are often managed within existing governance structures, regardless of whether there are separate committees or processes for specific matters.

A company is required to disclose how it manages material IROs, enabling users to understand the governance processes, controls and procedures used to monitor, manage and oversee material IROs. This may include clearly stating when no dedicated committees or processes exist, together with an explanation of how material IROs are managed within existing governance structures. [ESRS 2.11]

A company that does not have dedicated sustainability-related governance structures is not relieved of the requirement to disclose governance information.

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## 3.1.70 Integrating sustainability-related performance into incentive schemes

Under ESRS 2, a company explains the incentive schemes it has in place for the members of the governing bodies that are linked to sustainability topics, including the key features of those incentive schemes. Specifically, a company discloses the following. [ESRS 2.13]

| Information | What to disclose |
|---|---|
| **Incentive schemes in place** | • The key characteristics of the incentive scheme. [ESRS 2.14(a)]<br>• The targets or metrics used when performance is assessed against specific sustainability-related outcomes. [ESRS 2.14(b)]<br>• The proportion of variable remuneration that depends on sustainability-related targets or metrics. [ESRS 2.14(c)] |

**Insight 3.1.100**
**Is a company required to include sustainability-related performance measures in incentive schemes?**

No. ESRS do not require a company to introduce performance incentives that link sustainability-related performance to remuneration. Instead, they require transparent disclosures on whether such incentives exist and, if so, how they link to sustainability-related performance. [ESRS 1.6]

**Insight 3.1.110**
**Can a company provide disclosures on performance incentive schemes outside the sustainability statement?**

Yes. A company is permitted to incorporate information by reference from outside the sustainability statement if all of the specific criteria for cross-referencing are met (see 6.1.50). It could provide the required information in another section of the management report, the financial statements or another report listed in ESRS 1 (e.g. its remuneration report). [ESRS 1.117–118]

For example, a listed company is typically required to disclose information on performance incentive schemes under applicable EU or local remuneration reporting regulations. It may include these disclosures within the management report or present them in a separate remuneration report.

When a company incorporates this information by reference from outside the sustainability statement, it ensures that the information disclosed on performance incentive schemes linked to sustainability topics is consistent with the remuneration report required by EU[1] or local laws.

1. Shareholder Rights Directive (Directive 2007/36/EU).

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### Insight 3.1.120
### Do ESRS define when remuneration is 'sustainability-related'?

No. ESRS do not define when remuneration is sustainability-related.

A company needs to be transparent on how it has determined whether its remuneration policies are linked to material IROs for the purposes of the disclosures. In doing so, in our experience, companies typically consider remuneration to be sustainability-related when incentive outcomes depend on:

- specific sustainability-related objectives, metrics or targets;
- the successful implementation of sustainability-related actions or policies; or
- performance related to material IROs.

When a company includes sustainability-related elements in its incentive schemes, this generally indicates a linkage to its material IROs, which the company explains consistently in its sustainability statement. [ESRS 1.112]

### Example 3.1.30
### Disclosing information about sustainability-related remuneration

When preparing its sustainability statement, Company U assesses whether and how remuneration is linked to sustainability topics. It determines remuneration to be sustainability-related when incentive outcomes are linked to specific sustainability-related objectives, metrics or targets.

U identifies the following key components of its incentive scheme as sustainability-related.

- Workforce health and safety metrics are included on the annual scorecard for all employees and affect annual incentive outcomes.
- For executives, reducing environmental incidents and achieving environmental performance targets are bonus multipliers that are factored into the annual bonus pool.
- For selected senior leaders, achieving supplier standards (e.g. completion of due diligence and corrective action plans for high-risk suppliers) is a funded component of the annual scorecard.

U explains which parts of its pay are linked to managing material IROs and how those links work in practice – e.g. how, and by how much, sustainability-related performance can increase or reduce incentive payments. U also explains how these sustainability-related measures align with its strategy and targets.

When relevant, U connects the information disclosed in its sustainability statement with other aspects of its general purpose financial reports, including the notes to the financial statements and management discussion and analysis (MD&A) (see Insight 3.1.110).

### Insight 3.1.130
### Is information about sustainability-related incentives for a company's employees required?

It depends. ESRS 2 only requires a company to disclose information on incentive schemes in place for members of the governing bodies linked to the sustainability topics. However, a company considers whether sustainability-related incentives for employees are material information requiring entity-specific disclosure (see 2.3.40). [ESRS 2.14]

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### 3.1.80 Other disclosures on governance

Preparing a sustainability statement requires processes and systems that help a company identify material IROs and ensure that information is identified, managed and reported in a controlled, reliable and transparent manner. For example, a company's due diligence process informs its DMA by helping it identify and assess actual and potential impacts connected with its own operations and value chain, and in identifying affected stakeholders (see 2.2.20). [ESRS 1.58–59]

A company discloses information that helps users understand the robustness of these processes and systems. In particular, it explains how it ensures the completeness, integrity and accuracy of information, particularly when it sources data from the value chain, and how due diligence informs the identification of material issues.

Specifically, a company discloses the following information. [ESRS 2.15–18]

| Information | What to disclose |
|---|---|
| **Statement on due diligence** | • Where the main aspects and steps of the company's due diligence process are reflected in its sustainability statement.<br><br>The company may present this information in a table that cross-references the main steps of the due diligence process to the relevant disclosures in its sustainability statement. [ESRS 2.15–16, AR9] |
| **Risk management and internal controls over sustainability reporting** | • The scope and main features of the company's risk management and internal controls over sustainability reporting, including:<br><br>– the completeness and integrity of data; and<br><br>– the accuracy of estimation results. [ESRS 2.18, AR10] |

## 3.1.90 Strategy

Strategy disclosures enable users to understand how a company's strategy, business model, value chain and stakeholder engagement affect, and are affected by, its IROs. They also explain the interactions between these IROs and the related financial effects. [ESRS 2.19, 21, 23]

In ESRS 2, these disclosures include requirements to:

- describe the key elements of the company's strategy that relate to, or affect, sustainability topics, its business model and its value chain (see 3.1.100);
- explain how the company considers its stakeholders in its strategy and business model (see 3.1.110);
- provide information that enables users to understand the effects of the IROs on:
  - the business model and value chain over time (see 3.1.130–140);
  - strategy and decision-making (see 3.1.150); and
  - the current and anticipated financial effects on financial position, performance and cash flows (see 3.1.160); and
- explain the resilience of the strategy and business model to the identified risks (see 3.1.220). [ESRS 2.19, 21, 23, 33]

Many of the requirements in this section are forward-looking and ask for information to 'enable users to understand' a particular point – e.g. the anticipated financial effects of risks and opportunities. The objective of providing such forward-looking information is to help users form their own assessments of the company's development, financial position, financial performance and cash flows. Therefore, although management may disclose its own expectations, it needs to ensure that disclosures provide a fair representation – i.e. they are complete, neutral and accurate. This then provides a clear basis for users to make their own decisions.

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The strategy disclosure requirements in ESRS 2 are relevant for all material IROs and are supplemented by more specific requirements in:

- ***ESRS E1:*** on climate-related risks and disclosures about their effects on strategy and decision-making (including transition plans) and scenario analysis (see 4.1.10);
- ***ESRS E4:*** on the company's response and contribution to biodiversity transition, if it has a biodiversity and ecosystems transition plan in place (see 4.5.40); and
- ***ESRS S1–S4:*** on engagement with social stakeholders and grievance channels (see 4.7.70).

**ESRS 1**
**General requirements**

**ESRS 2**

**Core content requirements (Chapter 3.1)**

**Strategy**

- Elements of the strategy, business model and value chain (3.1.100)
- Interests and views of stakeholders (3.1.110)
- Interaction of material IROs with strategy, business model and financial effects (3.1.120)
- Current and anticipated financial effects (3.1.160–210)
- Resilience of the strategy (3.1.220)

**Additional requirements under topic-specific standards (Section 4)**

**Environmental**

- Transition plan for climate change mitigation (4.1.50)
- Identifying climate-related risks and scenario analysis (4.1.60)
- Climate resilience (4.1.70)
- Transition planning related to biodiversity and ecosystems (4.5.40)

**Social**

- Engagement with social stakeholders and grievance channels (4.7.70)

**Insight 3.1.140**
**Does a company need to connect sustainability-related strategy disclosures to information about its overall business model or strategy?**

Yes. Information about the company's overall business model and strategy typically provides essential context for understanding the effect of material IROs on specific features of a company's business model or strategy. [ESRS 2.19–20]

Many companies are already required under local legislation to provide this information within the general purpose financial reports.

A company already disclosing its overall business model or strategy needs to:

- check that the overall descriptions provide sufficient context for the sustainability-related features to be understood; and
- consider how to present sustainability-related information and other information as an integrated whole, considering the requirements on incorporating by reference (see 6.1.50).

If a company is not already providing this information, then it needs to provide additional context within the sustainability statement.

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## 3.1.100 Elements of the strategy, business model and value chain

Disclosures on the strategy, business model and value chain can help users understand how a company's identified material IROs relate to each of these aspects, where those IROs arise and how the company is exposed to them. A company focuses on significant products, services, markets and sectors, including those commonly associated with the sector and any entity-specific topics. [ESRS 2.19–20, AR11]

Under ESRS, a sector or a group of products, services or consumers is significant if it affects more than 10 percent of the company's revenue or if it is connected to actual or potential material impacts. [ESRS 2.AR13]

A company may present information about its general strategy, business model and value chain in another part of the management report that also includes the sustainability statement. It considers how to avoid unnecessary duplication while maintaining understandability across sections. If the company incorporates information by reference, then those references need to comply with the applicable requirements in ESRS 1 (see 6.1.50). [ESRS 1.117(a), 118, QC17(b)]

A company discloses the following information. [ESRS 2.20]

| Information | What to disclose |
|---|---|
| **Business model and value chain** | • A description of the company's business model and value chain, including the company's position in its value chain – i.e. where the company sits within the broader chain of economic activities.<br><br>For example, a company may operate primarily as a manufacturer purchasing inputs from suppliers and selling products through distributors to end customers, or as a retailer positioned closer to end consumers. [ESRS 2.20(a)] |
| **Elements of general strategy** | • A description of the company's products and services, including:<br>– information about significant groups of products and/or services – e.g. how they contribute to the company's sustainability-related objectives, and any significant changes occurring during the period; and<br>– those that are banned in certain markets, if applicable and significant. [ESRS 2.20(b)]<br>• A description of the company's markets and customers, including information about significant markets and/or customer groups it serves – e.g. how they contribute to its sustainability-related objectives and any significant changes occurring during the period. [ESRS 2.20(b)] |
| **Significant sectors** | • A description of the significant sectors in which the company operates, including internal group activities if they are significant or are, or may be, connected to material IROs. [ESRS 2.20(c)] |
| **Revenues for specific sectors** | • If applicable, a statement that the company is active in the following sectors, along with the related revenues:<br>– fossil fuels – disaggregated by coal, oil and gas, as well as revenues from EU Taxonomy-aligned economic activities related to fossil fuels;<br>– chemical production;<br>– controversial weapons; and<br>– the cultivation and production of tobacco. [ESRS 2.20(d)]<br><br>A company is deemed 'active' in sectors if it carries out the respective activities in its own operations. [ESRS 2.AR12] |

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**Insight 3.1.150**
**Do ESRS require a specific approach for identifying significant sectors?**

No. ESRS 2 does not require a company to use a specific classification system for its business activities. When identifying its significant sectors, a company may use:

- the NACE[2] classification system;
- the reportable segments disclosed in the financial statements under IFRS 8 *Operating Segments* or local GAAP; or
- recognised reporting frameworks, such as GRI Standards or industry-based guidance under IFRS Sustainability Disclosure Standards. [ESRS 2.AR13]

**Insight 3.1.160**
**When assessing whether a sector or a group of products, services or consumers is significant, how does a company determine revenue?**

ESRS do not define 'revenue' for the purpose of assessing whether a sector or a group of products, services or consumers is significant. Under ESRS, they are significant if they account for more than 10% of the company's revenue or are connected with actual or potential material impacts. [ESRS 2.AR13]

ESRS do not specify how a company determines revenue for this 10% threshold. However, when determining revenues from fossil fuel activities, a company bases the calculation on revenues from the exploration, mining, extraction, production, processing, storage, refining or distribution of fossil fuels, including their transportation, storage and trade, as defined in Regulation (EU) 2018/1999. [ESRS 2.20(d)(i), ESRS 2.AR14]

## 3.1.110 Interests and views of stakeholders

Information about the interests and views of stakeholders can help users connect a company's strategic direction with the impacts the company has on those stakeholders. It can also help users understand how the company engages with key stakeholders and incorporates their perspectives into governance discussions.

Stakeholder engagement generally forms a key input into the DMA process (see 2.2.30). Although ESRS do not prescribe engagement with specific stakeholder groups, this is often an important source of input for identifying impacts and assessing materiality. [ESRS 2.21]

If a company does engage with affected stakeholders, then it discloses information about that engagement as part of its strategy, risk management or alongside information from topic-specific standards. In doing so, it avoids duplication or potential overlap between those disclosures (see Insight 3.1.350).

2. NACE (for the French term *Nomenclature statistique des activités économiques dans la Communauté européenne*) is the standard industry classification system used in the EU.

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A company discloses the following information.

| Information | What to disclose |
|---|---|
| **Stakeholder engagement** | • A summary of the stakeholder engagement performed, including which categories of stakeholders (including affected stakeholders) the company consulted.<br>Affected stakeholders include:<br>– workers and workers' representatives in the company's own workforce and value chain;<br>– communities affected by the company's own operations and activities in the value chain;<br>– consumers and end-users of its products and services; and<br>– nature, as a silent stakeholder, for which NGOs can serve as a proxy stakeholder. [ESRS 2.22(a), ESRS 1.42, AR23] |
| **Interests and views of stakeholders** | • The company's understanding of key stakeholders' interests and views about its strategy and business model. [ESRS 2.22(b)]<br>• How the governing bodies are informed about these interests and views on the company's material IROs (see 3.1.60). [ESRS 2.22(c)] |

## 3.1.120 Interaction of material IROs with strategy, business model and financial effects

A company's business model and its strategy for managing its material IROs drive its current and anticipated financial effects, as well as its resilience as a business. In turn, the resulting financial effects and the level of business resilience achieved will influence the company's strategy and future business model.

Disclosures about how material IROs interact with the company's strategy and business model – as well as its development, financial position, financial performance and cash flows – can help users understand how the business is affected by material IROs. They can also help users understand both how the company is responding now and how it might respond in the future. [ESRS 2.23]

Under ESRS 2, these disclosures:

- explain how impacts arise from, or are shaped by, the company's strategy and business model (see 3.1.130);
- describe where and how IROs affect the business model and value chain (see 3.1.140);
- provide information on how IROs affect strategy and decision-making (see 3.1.150);
- identify the current and anticipated financial effects (see 3.1.160–210); and
- explain how the combined effects of the company's IROs, strategy and business model inform its long-term resilience (see 3.1.220).

These disclosures complement the description of a company's material IROs (see 3.1.250). A company may connect the information in these disclosures to avoid duplication and to improve clarity and connectivity. [ESRS 2.AR15]

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**Insight 3.1.170**
**Do ESRS specify where a company provides information on the interaction of material IROs with its strategy?**

No. When a company describes its material IROs, including how they are likely to affect people and the environment, it reports this information under ESRS 2 IRO-2 (see 3.1.250). However, a company needs to consider how those descriptions connect with its strategy and business model disclosures. This can help avoid duplication and improve the clarity and connectivity of disclosures. [ESRS 2.AR15]

Therefore, a company has flexibility in how it structures the information. For example, it may:

- present material IRO descriptions together with related strategy and business model information;
- present its strategy and business model information together with the policies, actions, metrics and targets used to manage each IRO; or
- organise disclosures by IRO, combining the description of the IRO, its effects on the strategy and business model and related management information.

### 3.1.130 Connecting impacts to the strategy and business model

A company's strategy and business model drive how its activities create impacts. Understanding this linkage can help users assess where impacts arise and how they relate to the company's core operations and approach to value creation.

These disclosures draw on the company's understanding of its business model and value chain and information gathered via the due diligence process and DMA (see Chapter 2.2).

A company discloses the following information.

| Information | What to disclose |
|---|---|
| **Connection of impacts to strategy and business model** | • A description of how material impacts originate from a company's strategy and business model. [ESRS 2.24] |

**Example 3.1.40**
**Disclosing information on impacts originating from a company's strategy and business model**

Company O is a consumer goods manufacturer. Its business model focuses on large-scale production and a cost-efficiency strategy based on high production volumes and globally sourced inputs from lower-cost regions.

O operates energy-intensive manufacturing facilities that predominantly rely on fossil fuel-based electricity, resulting in significant GHG emissions. In its upstream value chain, O outsources labour-intensive activities to suppliers in emerging markets. These sourcing decisions are primarily driven by cost considerations and involve impacts related to lower wages and weaker labour protection frameworks.

O's pricing strategy emphasises affordability through high production volumes and low unit costs. In addition, certain product lines are specifically designed to meet accessibility needs – e.g. products that improve usability for individuals with physical impairment.

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This strategy gives rise to the following impacts.

| Impact | Impact description | How the impact originates from O's strategy and business model |
|---|---|---|
| **Significant GHG emissions** | A material actual negative impact arising from O's energy-intensive production processes and its reliance on fossil fuel-based electricity in its own operations. | Originates from O's production model, in particular its focus on large-scale manufacturing and cost-efficient energy sourcing decisions. |
| **Low wages and insufficient labour protection that adversely affect working conditions** | A material actual negative impact in O's upstream value chain caused by the outsourcing of labour-intensive activities to suppliers in emerging markets. | Originates from O's sourcing strategy, including its reliance on globally sourced inputs from lower-cost regions and its supplier selection practices. |
| **Products that enhance accessibility** | A material actual positive impact arising from products designed to improve usability for individuals with disabilities and support their participation in daily life. | Originates from elements of O's strategy and business model that include the design and development of products with enhanced accessibility features, reflecting targeted product design choices beyond general affordability. |

These impacts are directly connected to specific elements of O's strategy and business model and are concentrated in its own operations and upstream value chain.

### 3.1.140 Effects on the business model and value chain

A company explains where and how its risks and opportunities have affected its business model and the value chain, and the changes it anticipates in the future. In doing so, it builds on its disclosures on identifying material IROs (see 3.1.240). [ESRS 2.24]

This information explains how material risks and opportunities influence, or are influenced by, key activities, resources and relationships across the value chain. This can help users evaluate where material IROs arise and how they affect strategic positioning. It also provides context to allow users to assess the company's long-term resilience (see 3.1.220) and how it will create value and manage its operations over time.

These disclosures draw on the company's understanding of its business model and value chain and information gathered when performing the DMA (see Chapter 2.2).

A company discloses the following information.

| Information | What to disclose |
|---|---|
| **Current and anticipated effects** | • A description of the current and anticipated effects of risks and opportunities on the company's business model and value chain. [ESRS 2.24] |

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**Example 3.1.50**
**Disclosing the effects of material impacts and risks across the value chain**

Company E is an electronics manufacturer. Its value chain includes, among other resources and relationships:

- raw material mining and processing companies;
- component suppliers;
- its own workforce, know-how and production capabilities; and
- distributors and retailers.

In identifying its IROs, E identifies unsafe working conditions affecting workers at upstream mining suppliers as a material negative impact. E also identifies a related material risk because disruption, supplier restrictions or remediation requirements could affect access to key minerals used in its electronic components. When disclosing information about how the material risk affects its business model and value chain, E explains that:

- the risk is currently concentrated among suppliers with mining operations where working conditions may not meet its supplier standards;
- its products depend on key minerals from a limited number of suppliers;
- alternative sources of supply are currently limited, meaning the risk could affect production continuity, procurement costs and supply chain resilience in the short to medium term; and
- its strategy includes significant research and development activities to reduce dependency on the minerals currently used and identify alternative materials.

E provides information about its strategy for managing the related risk and its actions to assess, monitor and address unsafe working conditions in its upstream supply chain, including:

- the policies applied; and
- actions taken to assess, monitor and address the identified impact and related risk, both globally and in high-risk locations (see Chapter 3.2).

### 3.1.150 Strategy and decision-making

A company discloses information about how IROs have affected its strategy and decision-making, building on its description of its material IROs (see 3.1.250). [ESRS 2.24]

To do this, a company identifies the individual aspects of its overall strategy that are directly or indirectly related to sustainability topics. Because different aspects of the strategy are interconnected, it may be challenging to isolate sustainability topics not only from each other but also from other matters. For example, a strategy to diversify the supply chain may have benefits for business continuity in addition to supporting climate-related objectives.

ESRS E1 builds on the requirements in ESRS 2 by requiring more granular disclosures, explicitly linking disclosure about changes in strategy and decision-making to a company's transition plan (see 4.1.50). [ESRS E1.11, 18]

A company discloses the following information.

| Information | What to disclose |
|---|---|
| **Strategic response** | • Information on how the company has addressed, and plans to address, its IROs in its strategy and decision-making. [ESRS 2.24] |

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**Insight 3.1.180**
**Does a company disclose information about its resource allocation when explaining its strategic response to its identified IROs?**

Yes, when it has allocated or expects to allocate significant financial resources to implementing its key actions.

Information about resource allocations is explicitly required under ESRS 2 GDR-Actions. [ESRS 2.46, AR39]

For example, if a company decides to respond to water-related risks by investing in new technologies, adapting infrastructure or changing production processes, then it typically reflects those actions in planned capex or investment programmes. The financial amounts associated with these plans – e.g. expected investment levels, implementation costs and changes in operating costs – can help users understand how the company expects its development, financial position, financial performance or cash flows to be affected.

Information about resource allocations is important to help users understand the feasibility of a company's strategy and its effect on the company's future development, financial position, financial performance and cash flows. Information about the company's plans, including its resource allocations, complements and may form part of disclosures about the anticipated financial effects of the company's IROs.

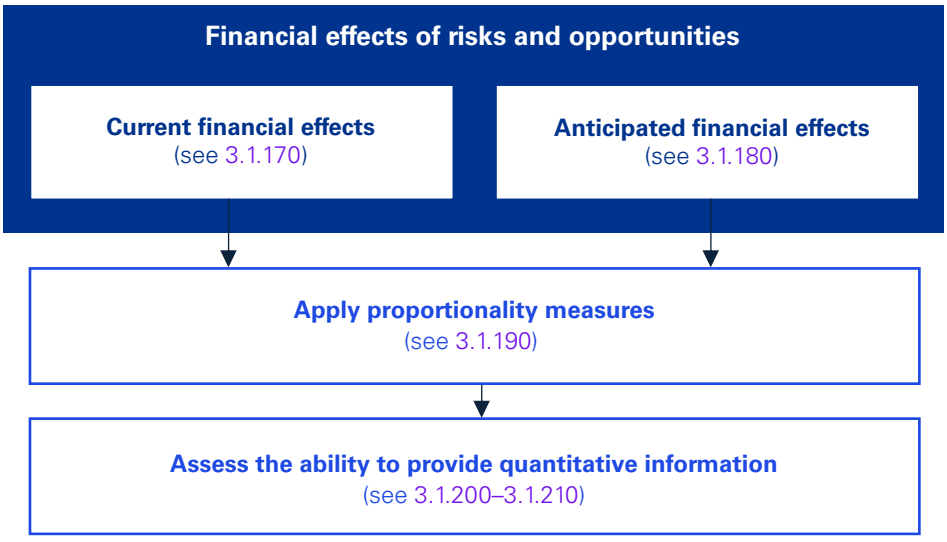
When IROs are incorporated into strategic planning and financial decision-making, a company commonly approves actions (e.g. capex, investments, restructuring programmes and operational changes) to execute its strategy.

## 3.1.160 Current and anticipated financial effects

Users need to understand how material risks and opportunities – and the strategies used to manage them – may affect a company's financial position, performance and cash flows.

ESRS 2 requires a company to disclose both qualitative and quantitative information about current and anticipated financial effects (see 3.1.170 and 3.1.180 respectively).

Due to the potential complexity in providing this information, ESRS 2 includes proportionality measures that permit a company to use reasonable and supportable information available without undue cost or effort when disclosing current and anticipated financial effects (see 2.3.170 and 3.1.190) and provides exceptions from requirements to quantify those effects (see 3.1.200–210). ESRS also include phased-in disclosure relief that applies specifically to anticipated financial effects disclosures (see 6.2.30).

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The disclosures can help users understand the financial effects arising from a company's business model, including its reliance on supply chains and other key resources and relationships.

Reporting information on current and anticipated financial effects provides an important connection between the sustainability statement and the financial statements, because disclosures identify and explain the links between material risks and opportunities and the amounts recognised or disclosed in the financial statements.

The assessment of anticipated financial effects is also closely linked to related analyses and disclosures, including:

- identifying material risks and opportunities (see 2.2.40);
- assessing materiality of information (see 2.2.100);
- setting strategy and the business model (see 3.1.150); and
- assessing resilience and scenario analysis (see 3.1.220).

## 3.1.170 Current financial effects

Disclosures about current financial effects support users in understanding how material risks and opportunities have affected the company's financial position, performance and cash flows in the current reporting period, and how these effects are reflected in the financial statements. [ESRS 2.25]

Current financial effects are typically reflected in the financial statements through recognised transactions and events – e.g. costs for more energy-efficient equipment or losses from extreme weather events. They may affect one or multiple line items in the financial statements. Alternatively, they may result from impairments or relate to amounts that are disclosed but not recognised in the financial statements (e.g. contingent liabilities). [ESRS 2.25–26]

These impacts may originate from different types of drivers, including physical events, transition-related changes, regulatory developments, legal exposures or operational disruptions.

A company provides both qualitative and quantitative information on current financial effects, unless specific reliefs apply (see 3.1.200). [ESRS 2.28]

A company discloses the following information.

| Information | What to disclose |
|---|---|
| **Current financial effects reflected in the financial statements** | • The effects of material risks and opportunities on the company's most recent financial performance, position and cash flows. [ESRS 2.25]<br>• Quantitative information (either a single amount or a range) about current financial effects. [ESRS 2.32] |



**Example 3.1.60**
**Current financial effects of a transition risk disclosed in the financial statements**

Company M is a vehicle rental agency. Its existing fleet includes only internal combustion engine (ICE) vehicles. To meet zero-emissions vehicle legislation introduced during the reporting period, M decides to phase out its existing fleet within three years. As a result, the useful life of the fleet decreases from six years to three.

M identifies the following potentially relevant information in its financial statements:

- the ICE vehicle fleet as a separate class within property, plant and equipment;
- the reduction in the useful life and residual value of the fleet following the regulatory change;
- an explanation of the resulting increase in depreciation expense;

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- information about the revised useful life as a key estimate and judgement, including the assumptions made about the timing and impact of the regulatory phase-out; and
- information about the regulatory change as a potential indicator of impairment under IAS 36 *Impairment of Assets*, with the conclusion that no impairment is needed following the reduction in the fleet's useful life.

M then considers what additional information is required to meet the objectives of ESRS 2. It notes that:

- the sustainability statement already includes a qualitative explanation of the transition risk created by the zero-emissions vehicle mandate; and
- it can identify no other effects in the financial statements – e.g. material increases in pricing or rental revenue driven by changes in customer demand for electric vehicles.

M concludes that the information in the financial statements described above is sufficient to meet the objectives of ESRS 2, because it adequately explains the current financial effects it identified, including the revised useful lives, the resulting increase in depreciation expense and the assessment of potential impairment effects. Therefore, M cross-refers to the relevant notes in the financial statements.



**Insight 3.1.190**
**Does a company need to duplicate information included in the financial statements when disclosing current financial effects?**

No. Information on current financial effects in the sustainability statement complements the financial statements but does not duplicate information.

If the financial statements, including the notes, already provide adequate information about the effects on the company's financial position, performance and cash flows, then the company does not need to repeat that information in the sustainability statement. Instead, it may cross-refer to the relevant information in the financial statements (see 6.1.50). [ESRS 1.117, ESRS 2.AR16]

When doing so, the company applies judgement in determining which information is appropriate to incorporate by reference and whether additional information is needed in the sustainability statement to provide a complete picture of those financial effects.

Cross-referencing may not, on its own, always be sufficient because materiality judgements in the sustainability statement may differ from those applied in preparing the financial statements, including broader time horizons and effects across the value chain. [ESRS 1.46, 116]



**Insight 3.1.200**
**Can a current financial effect that is not material for the financial statements be material for the sustainability statement?**

Yes. Although materiality judgements under ESRS and IFRS Accounting Standards are made on a similar basis – i.e. by considering the information's ability to influence users' decisions – the types of information required to meet the objectives of each set of standards differ. The sustainability statement provides information about material IROs. Financial statements provide information about a company's assets, liabilities, equity, income and expenses. Information may be material to the sustainability statement without giving rise to a material current-period accounting impact in the financial statements. [ESRS 1.46]

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For example, a company may incur research and development expenditure as part of its climate-related transition plan in response to a climate-related transition risk. That expenditure may not meet asset recognition criteria and may be expensed. It may also not be material – quantitatively or qualitatively – in the context of the financial statements. However, information about the company's activities and spending relating to the transition plan may still be material to the sustainability statement because it provides decision-useful information about how management is responding to a risk and executing its transition plan (see Chapter 5.1).

In this instance, the company may also need to connect these pieces of relevant information for users' understanding. [ESRS 1.112]



**Example 3.1.70**
**Current financial effects reflected through additional disaggregation in the sustainability statement**

Company R is a beverage company. It identifies a risk relating to the environmental impact of its packaging waste. Unless it incurs costs to change its packaging, R anticipates a fall in demand for its products due to reputational concerns and potential penalties from regulators looking to decrease non-recyclable plastic waste. To mitigate the risk, R incurs research expenditure during the reporting period and receives tax incentives from the government for a portion of this expenditure.

In the financial statements, the packaging research expenditure is aggregated with other product-related research expenditure within operating expenses; the tax incentives received are aggregated within other operating income.

However, management determines that additional disaggregation is needed in the sustainability statement to explain the financial effects of the risk. Therefore, the sustainability statement:

- discloses the packaging-related research expenditure and tax incentives separately and where these amounts are included in the financial statements;
- reflects the current-period costs incurred to mitigate the identified risk; and
- provides context for related anticipated financial effects.

R concludes that this additional disaggregation, together with the cross-references to where the operating expenses and other operating income is included in the financial statements, provide sufficient information about the current financial effects of the identified risk.

## 3.1.180 Anticipated financial effects

A company provides qualitative and quantitative information to enable users to understand the expected future effects of material risks and opportunities on its financial position, performance and cash flows over the short, medium and long term – i.e. the anticipated financial effects. The requirement to provide quantitative information is subject to phased-in disclosure relief (see 6.2.30 and 6.2A.30).

Disclosures on anticipated financial effects are useful because they help users link material risks and opportunities to expected future financial consequences, including effects not yet reflected in the financial statements. This enables users to assess the impacts on business model resilience and the credibility of transition strategies.

Anticipated financial effects represent the expected future financial consequences of material risks and opportunities, showing how a company's actions and plans may influence its future financial outcomes. These effects are forward-looking and arise from how risks and opportunities, and the company's responses to them, are expected to affect the company's financial position, performance and cash flows. Accordingly, reporting on anticipated financial effects is likely to involve estimates and assumptions given the inherent uncertainty associated with future outcomes. [ESRS 2.27, AR17(c)]

The information disclosed about anticipated financial effects needs to be consistent with, and supported by, the company's overall strategy. A company explains these effects by linking them to its strategy for managing material risks and opportunities and providing context for how it expects these risks and opportunities to affect its future financial position, performance and cash flows.

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Information that is forward-looking and strategic in nature may also be sensitive. Therefore, it is important that a company considers what material information it can provide to give a complete, neutral and accurate depiction. ESRS 1 does not include a general exemption from disclosing commercially sensitive information, but does provide some relief in certain circumstances (see 2.3.190). [ESRS 2.AR17(d)]

In addition, in some cases a company does not need to provide quantitative information about the anticipated financial effects of individual risks and opportunities (see 3.1.200, 6.2.30 and 6.2A.30). [ESRS 1.125–127, ESRS 2.28–29]

A company needs to disclose the following.

| Information | What to disclose |
|---|---|
| **Potential material adjustments in the next financial year** | • Information about the material risks and opportunities identified by management that pose a significant risk of material adjustment to the carrying amounts of assets and liabilities reported in the financial statements in the next financial year. [ESRS 2.26] |
| **Changes in financial position** | • How management expects the financial position to change over time, in line with the strategy, including the related effects on financial performance and cash flows. To do this, the company considers:<br>– investment and disposal plans (e.g. major acquisitions or divestments, business transformations or innovations, and joint ventures to support sustainability-related strategies), including plans that are not contractually committed; and<br>– planned sources of funding to implement strategies that address the company's material risks and opportunities – e.g. sustainability-linked debt, green bonds and equity financing arrangements. [ESRS 2.27, AR17(a)(b)] |
| **Changes in financial performance and cash flows** | • How investment and disposal plans, and planned sources of funding described above, together with other aspects of the strategy, are expected to affect the company's financial performance and cash flows over time. [ESRS 2.27]<br>For example, a company might provide insight into:<br>– its exposure to changes in revenue or expenses from products and services that management plans to introduce in support of its lower-carbon economy strategy;<br>– the size of an alternative market the company is entering into, that market's industry margins and the company's current and target market share;<br>– costs and anticipated savings from business transformation projects to support workforce retention strategies; and<br>– current and anticipated costs of identified climate-related adaptation or mitigation activities. [ESRS 2.AR17(a)(b)] |
| **Quantitative disclosures** | • Quantified anticipated financial effects, presented as either a single amount or a range, as appropriate. [ESRS 2.32] |

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### Example 3.1.80
### Disclosing anticipated financial effects for early-stage projects when quantification is only partially available

Continuing Example 3.1.60, Company M's management assesses the anticipated financial effects from the phase-out of its ICE vehicle fleet. It determines the following effects from its planned response to the regulatory change.

- Lower running costs of 5–10% are expected over the life of the newly acquired electric vehicles, compared with the estimated costs of operating an equivalent ICE fleet over the same period.
- The planned investment for purchasing the new vehicles will amount to 15–20% of total capex over the next three years.
- Depreciation expense will increase for future periods on ICE vehicles (consistent with Example 3.1.60).

M provides the qualitative and quantitative information on the anticipated financial effects in its sustainability statement. This includes quantifying the expected 5–10% reduction in running costs and explaining the assumptions used (e.g. the expected increase in fuel prices), because this information is not available in the financial statements.

M also provides information in its sustainability statement about the planned transition to an electric vehicle fleet and the related anticipated financial effects, including the expected capital investments and associated changes in future depreciation expense. M cross-refers to information in the financial statements that explains current financial effects already recognised in the reporting period.

### Insight 3.1.210
### Can the extent to which a material risk or opportunity is considered in the company's strategy influence the nature and level of detail of the disclosures on its anticipated financial effects?

Yes. When a material risk and opportunity is considered in a company's strategy and related decision-making processes – e.g. budgeting, forecasting, capital allocation decisions and impairment testing – the company is more likely to be able to provide useful and, in some cases, quantitative information, about the anticipated financial effects. This is because information that management relies on when making strategic decisions is more likely to be sufficiently developed to support more detailed and, in some cases, quantitative disclosures about anticipated financial effects.

However, ESRS do not require anticipated financial effects to be disclosed only when precise quantitative information or estimates are available. Whether a material risk or opportunity is reflected in strategic decision-making processes is not used as a threshold for disclosure. Information about the anticipated financial effects of an identified risk or opportunity may in some cases be known, even if not directly considered in the company's strategy.

For example, if a company has already analysed its climate-related investments or cost impacts as part of its capital allocation processes or internal strategic assessments, then it may be able to describe the nature and range of those expected financial effects. Conversely, if it is still evaluating potential strategic responses, then it may only be in a position to outline the likely direction of impacts and the main sources of uncertainty. [ESRS 2.27, 30, AR21]

### Insight 3.1.220
### Do companies need to create quantitative forecasts solely for disclosing anticipated financial effects?

No. Relevant information may come from a range of sources, including those already used by management (e.g. budgets, planning analyses, exposure metrics) and, when available and relevant, quantified outputs from scenario analysis.

As part of its risk management processes, a company may find scenario analysis or other methods useful to develop forecasts that incorporate the anticipated financial effects of material risks or opportunities.

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However, it appears that a company does not need to produce new forecasts purely to comply with ESRS. It needs to clearly communicate information that enables a user to understand the anticipated financial effects of material IROs. It uses information that it already has available or could obtain without undue cost or effort (see 2.3.170). The absence of forecasts does not, in itself, mean that quantitative information is unavailable.

It is important to distinguish between the role of scenario analysis (and resilience assessments) and the disclosure of anticipated financial effects. Scenario analysis is intended to assess plausible future states and resilience, rather than to produce detailed financial forecasts or a single 'anticipated' outcome (see 5.2.20). If a company generates credible and relevant outputs, then it may use these to support disclosures on anticipated financial effects.

In the absence of forecasts, other forms of quantitative information may be available or could be obtained without undue cost or effort to help users understand the anticipated financial effects of a material risk or opportunity. This is because sustainability-related information can have predictive value without constituting a formal forecast. [ESRS 1.QC2]



**Insight 3.1.230**
**What types of quantitative information can help users understand anticipated financial effects?**

A company can use a range of types of quantitative information to help users understand the anticipated financial effects of material risks and opportunities. 'Quantitative information' is neither limited to, nor necessarily a forecast quantifying, the future impact on a company's financial position, financial performance or cash flows, or any single type of quantitative information. The most useful quantitative information will depend on the company's specific facts and circumstances.

A company's forecast of future financial impacts may provide decision-useful information in some cases. However, the following types of quantitative information or approaches may also be useful for users.

- ***Market data and trends:*** Quantified trends (e.g. carbon pricing, commodity prices, demand forecasts and benchmarks) may provide useful context if they are linked to the company's strategy and exposure. Generic data alone is unlikely to be decision-useful.
- ***Historical information with predictive value:*** Quantified impacts of past events (e.g. regulatory changes and disruptions) may provide insight into future financial effects when appropriately contextualised.
- ***Strategy-linked financial information:*** Capex, planned investments, restructuring costs or cost structures linked to strategic decisions may illustrate expected financial consequences, depending on the robustness and maturity of the strategy. [ESRS 2.27, 46, ESRS E1.21]
- ***Exposure metrics:*** Metrics such as assets in high-risk areas or revenue exposed to climate-related transition risk may explain current vulnerability. However, they do not, on their own, show how financial performance or cash flows are expected to change over time. [ESRS E1.39(a)–(c), 40(a)–(e), 42, AR29–AR32]
- ***Scenario analysis outputs:*** Quantified results from scenario analysis that are relevant to management assumptions and integrated into the company's strategy may illustrate anticipated financial effects if they are considered credible and decision-useful.
- ***Sensitivity analysis:*** Quantified sensitivities (e.g. changes in key assumptions) may inform financial effects, but typically reflect conditional outcomes rather than expected financial trajectories.

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## 3.1.190 Applying proportionality measures

When providing information about current and anticipated financial effects, a company uses reasonable and supportable information available at the reporting date without undue cost or effort (see 2.3.170) to identify what type of information is available. This differs from the relief that permits a company to omit disclosing certain quantitative information (see 3.1.200). [ESRS 2.30]

The nature and extent of information available may vary depending on how material risks and opportunities are integrated into the company's strategic decision-making processes (see Insight 3.1.210).



**Insight 3.1.240**
**What factors might companies consider when assessing whether decision-useful information is available on anticipated financial effects?**

When providing disclosures on anticipated financial effects, a company uses reasonable and supportable information available at the reporting date without undue cost or effort (see 2.3.170). [ESRS 2.30]

A company can use the following factors as part of assessing the information on the anticipated financial effects of a material risk or opportunity that may be useful for users.

- ***Degree of integration into strategy:*** whether the risk or opportunity is reflected in budgeting, forecasting, cash flow projections, impairment testing, capital allocation models or scenario analysis.
- ***Consideration in management decisions and approved plans:*** whether the anticipated financial effects have already influenced management decisions or are reflected in approved business plans, board-reviewed forecasts or strategic plans.
- ***Alignment of timing and strategic planning horizon:*** whether the anticipated financial effects are expected to arise within or beyond the company's strategic planning horizon. Effects arising beyond that horizon may be less certain or not yet sufficiently analysed.

These factors may also help a company assess the nature and level of detail of information that would be useful to provide about an identified material risk or opportunity. This information may be qualitative only (if quantitative information cannot be provided) or quantitative with qualitative explanations.

If a company determines that it cannot provide quantitative disclosure (see 3.1.200), then it considers what qualitative information may be necessary to help users understand the anticipated financial effects of the material risk or opportunity. [ESRS 2.28–29, 31(b), AR21]

## 3.1.200 Assessing the ability to provide quantitative information

Based on the information available to estimate current and anticipated financial effects, a company assesses whether it can provide quantitative information for a material risk or opportunity.

A company is permitted to apply the following specific reliefs, which allow it to omit quantitative information about current or anticipated financial effects.

| Relief | Applies for | When applied |
|---|---|---|
| **Separately identifiable** | Current and anticipated financial effects | The financial effects of a specific material risk or opportunity cannot be distinguished from other factors affecting the company's financial performance, position or cash flows. [ESRS 2.28(a)] |
| **Measurement uncertainty** | Current and anticipated financial effects | Assumptions and inputs required to estimate the financial effects of a specific material risk or opportunity are so uncertain (e.g. data limitations, external developments or lack of methodologies) that any quantitative information would not be decision-useful. [ESRS 2.28(b)] |
| **Skills, capabilities and resources** | Anticipated financial effects | The company does not have the necessary skills, capabilities or resources to provide the quantitative financial effects (see Insight 3.1.270). [ESRS 2.29] |

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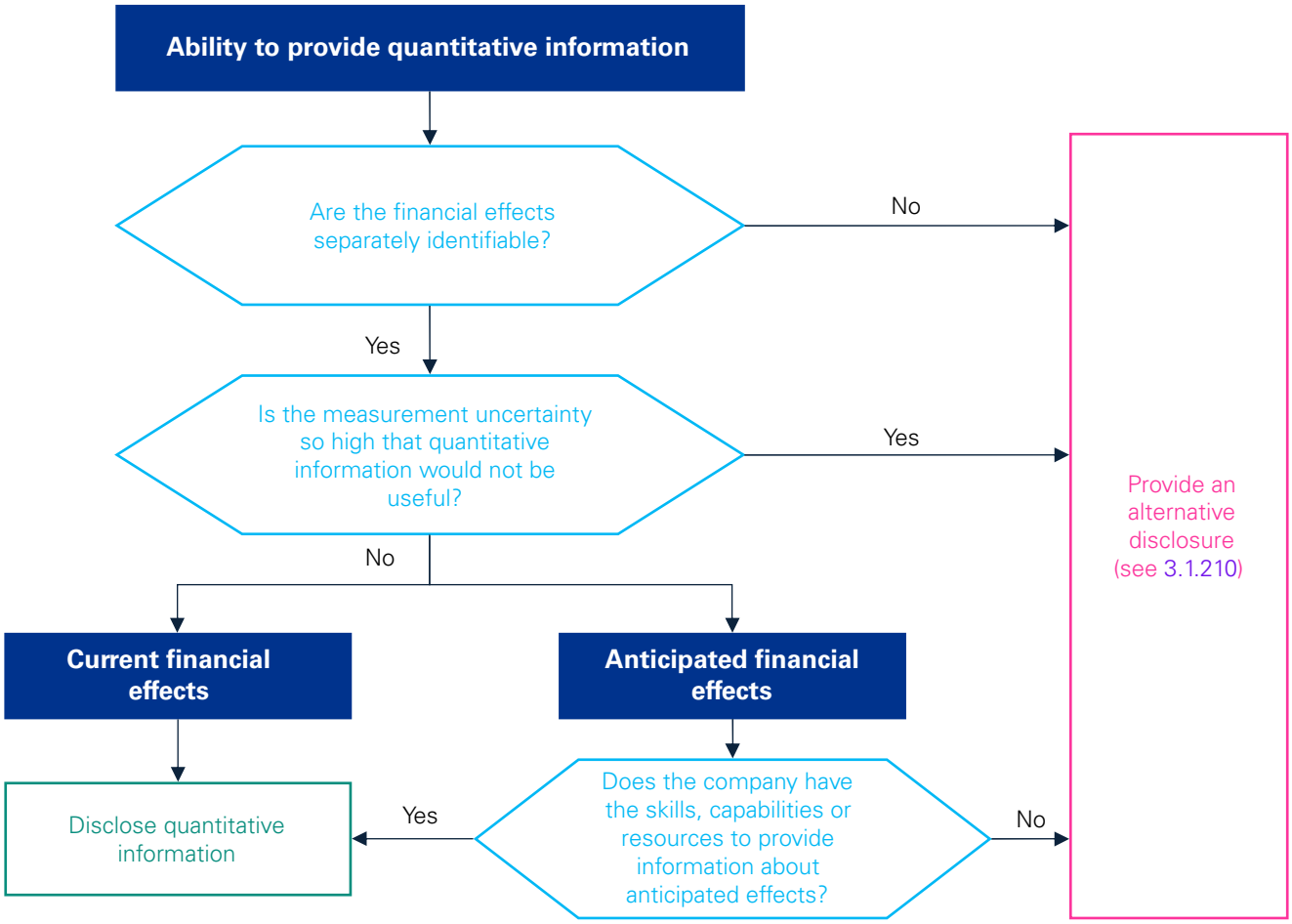
These reliefs are applied in assessing whether quantitative information can be provided for an individual risk or opportunity. If, as a result of applying the reliefs, a company cannot provide quantitative information, then it provides alternative disclosures based on the information available (see 3.1.210). The diagram below illustrates how it performs this assessment.




Any information needs to provide a faithful representation. For example, a neutral depiction may not be achieved if management presents anticipated financial effects based on assumptions that all costs are borne by the company, rather than considering that some costs may be passed on to customers. [ESRS 1.QC7]

**Example 3.1.90**
**Assessing whether to disclose quantitative information on anticipated financial effects**

Company Z is a large industrial company exposed to higher energy costs due to its reliance on electricity and heat generated from fossil fuel sources. To reduce its exposure to these costs and support its decarbonisation strategy, it has approved a multi-year initiative to install on-site solar and wind generation.

Management anticipates financial effects in the form of capex for renewable energy assets, reductions in purchased energy costs once the assets become operational, and changes in operating costs associated with maintaining and operating the new infrastructure. Some financial effects are part of approved budgets and contractual commitments; others are less certain and depend on forward-looking assumptions, such as energy prices and asset performance.

At the reporting date, management assesses whether it can provide quantitative information based on available internal information, including approved budgets, supplier quotes and modelled energy savings.

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**Management's assessment**

| Consideration | Conclusion |
|---|---|
| **Is there a reasonable and supportable basis for quantification?** | Approved budgets, supplier quotes, modelled energy savings and scenario analysis provide a reasonable basis for quantification. |
| **Is the financial effect separately identifiable?** | The renewable energy project is approved and the related financial effects are identifiable. These effects can be reasonably linked to this specific initiative, even though the investment decision may also reflect broader operational or strategic considerations. |
| **Can the measurement uncertainty be appropriately assessed and explained?** | Some financial effects can be quantified directly (e.g. committed capex); others depend on assumptions such as weather variability and energy prices, and require judgement. This uncertainty can be reflected using ranges and sensitivities. |
| **Are sufficient skills, capabilities and resources available?** | The company has access to internal and external expertise that provides sufficient engineering input, project management capacity and modelling systems to support reliable estimation. |

Management concludes that quantitative disclosure of anticipated financial effects is appropriate. Z provides quantitative information, supported by qualitative explanations of key assumptions and remaining uncertainties. Z assesses that this information provides a faithful representation.



**Example 3.1.100**
**Anticipated financial effects not separately identifiable**

Company L operates in the consumer electronics sector and relies on key components. The cost of, and demand for, those components are influenced by both:

- sustainability-related factors – e.g. environmental regulations and customer preferences for lower-impact products; and
- broader market factors, including commodity price volatility and competitive pricing pressures.

These factors affect the same inputs and outcomes simultaneously, including revenue, cost of sales and margins.

At the reporting date, management identifies a risk associated with increasing pressure to reduce the environmental footprint of these components. However, the financial effects of this risk cannot be separately identified because they are inherently intertwined with broader market dynamics affecting the same components.

Accordingly, L concludes that it is unable to separately identify the anticipated financial effects of this risk on a standalone basis and instead provides alternative disclosures.

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### Example 3.1.110
### Quantitative information on anticipated financial effects not disclosed due to high measurement uncertainty

Company K is a technology company that is rapidly integrating artificial intelligence (AI) into its operations, including replacing certain manual and routine roles with automated systems. K's increasing use of technology could displace employees. Management identifies this as a sustainability-related risk because K could be exposed to litigation related to labour regulations.

Management determines that the technologies are developing quickly and it is not yet clear how significant the impact on the workforce will be. For example, the extent to which employees can be retrained or redeployed rather than displaced is unclear.

Labour regulations are also being amended in key jurisdictions, increasing uncertainty regarding the company's potential obligations and resulting in limited legal precedent. The combination of these factors makes the assumptions highly uncertain when estimating the likelihood, timing and magnitude of any potential litigation. These assumptions include:

- the final scope and timing of incoming regulations;
- the pace and scope of AI and other technology adoption;
- the proportion of roles that might be affected by automation; and
- the expected effectiveness and cost of potential mitigation actions – e.g. reskilling or redeployment of affected employees.

K also has limited historical experience with adopting AI, reducing the usefulness of historical data and preventing management from forming a reliable forecast of the anticipated financial effects.

Management concludes that, although some estimation is possible, the level of measurement uncertainty is too high for any quantitative information to be decision-useful. Accordingly, K provides qualitative disclosures to explain the nature of the risk and its anticipated financial effects.

### Insight 3.1.250
### Can a company combine anticipated financial effects when they cannot be separately identified?

Yes. If financial effects cannot be isolated on a standalone basis, then a company does not need to disaggregate them artificially. [ESRS 2.28(a), 31(c)]

Presenting information combined with other financial effects may be more decision-useful, for example, when:

- financial effects are closely linked to broader economic or business drivers and cannot be meaningfully separated (e.g. general market or input cost pressures);
- multiple risks or opportunities affect the same financial line item in similar ways (e.g. several drivers impacting the same cost base); or
- financial effects are inter-related, including when they have offsetting impacts (e.g. one driver increases costs but another reduces them).

Combining financial effects needs to be consistent with how management views these effects and not obscure meaningful information. For example, a company may disclose combined information about the financial effects on relevant financial statement line items, cost categories, margins or cash flows, together with qualitative explanations describing how sustainability-related and other business factors jointly influence those effects.

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### Insight 3.1.260
### Can information be considered 'reasonable and supportable' even if it is subject to a high degree of measurement uncertainty?

It depends. A high degree of measurement uncertainty does not, on its own, prevent information from being considered reasonable and supportable. The key consideration is whether the information provides a meaningful and decision-useful view of the anticipated financial effects, based on the information available. [ESRS 1.AR42]

Information may still be reasonable and supportable when:

- estimates are based on internally approved forecasts, scenario analysis and assumptions consistent with strategic planning, even if outcomes depend on uncertain future conditions;
- a range of possible outcomes is provided, supported by sensitivity analysis and transparent assumptions; or
- uncertainty is clearly explained, including the main drivers of variability.

In contrast, information may not be reasonable and supportable when:

- outcomes are highly sensitive to assumptions and the company does not have a reasonable basis for assessing the appropriateness of those assumptions;
- a reasonable range of outcomes cannot be defined without relying on highly speculative inputs; or
- different assumptions lead to significantly different results without a clear basis for selecting among them.

The distinction is not whether uncertainty exists, but whether the information provides a sufficiently stable, explainable and decision-useful view of the anticipated financial effects.

### Insight 3.1.270
### Can a company avoid providing quantitative information if it has limited skills, capabilities or resources?

No. Limited skills, capabilities or resources do not, on their own, justify excluding quantitative information. Quantitative information is not limited to detailed or highly complex estimates; it may include simple information a company already has or can obtain without undue cost or effort – e.g. ranges of possible outcomes, exposure data and other quantitative indicators of financial effects.

A company is expected to use the information it has available to provide decision-useful insight into financial effects. In many cases, this may involve applying simple approaches using available data, even if the resulting information is less detailed or subject to uncertainty.

However, if limited skills, capabilities or resources prevent the company from developing quantitative information that is sufficiently reliable or supportable to be decision-useful, then it may be more appropriate to provide clear qualitative information explaining the expected financial effects. [ESRS 2.28–31]

The level of sophistication of quantitative information needs to reflect the company's capabilities, resources and level of exposure, as well as the availability of reasonable and supportable information without undue cost or effort (see 2.3.170).

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## 3.1.210 Alternative disclosures

When a company determines that it is not required to provide quantitative information about the current or anticipated financial effects of an individual material risk or opportunity, it provides alternative disclosures that enable users to understand the financial implications of that risk or opportunity.

Specifically, a company needs to disclose the following information.

| Information | What to disclose |
|---|---|
| **Reason for not providing quantitative information** | • A clear explanation of why quantitative information about the financial effects has not been provided, reflecting the specific reason (e.g. lack of separate identifiability, high measurement uncertainty or insufficient skills, capabilities or resources). [ESRS 2.31(a)] |
| **Qualitative information on financial effects** | • A description of the financial effects, including identification of the line items, totals and subtotals in the financial statements that have been, or are likely to be, affected. [ESRS 2.31(b)] |
| **Combined quantitative information (if useful)** | • Quantitative information about the combined financial effects of the material risk or opportunity with other such risks or opportunities and other factors, unless this information would not be useful (see Insight 3.1.250). [ESRS 2.31(c)] |



**Example 3.1.120**
**Disclosing anticipated financial effects for early-stage projects when quantification is not yet possible**

Company N is an industrial company. N relies heavily on conventional energy sources in its production processes and is therefore exposed to increases in energy and regulatory costs. It has considered a range of possible energy prices and regulatory cost scenarios for continuing to rely on conventional energy sources. These analyses indicate that, in the absence of mitigation actions, N may face increasing cost pressures and regulatory exposure over time.

In response, N's management began considering on-site solar and wind generation to supplement its energy needs and is currently at an early feasibility stage.

At this stage, management has only high-level concept designs, indicative technology options and preliminary scoping information. Key drivers of any anticipated financial effects – including capital cost ranges, expected generation output, site suitability, grid connection requirements and eligibility for incentives – have not yet been analysed in detail and significant data gaps remain.

At the reporting date, N's management:

- uses the outputs of its scenario analysis, together with current energy consumption and relevant market data, to identify its current exposure to energy price increases and regulatory costs; and
- identifies the financial statement line items currently exposed to these risks (e.g. operating costs and cost of sales).

Although management uses scenario analysis and market data to assess its current exposure to energy price and regulatory cost changes, the early stage of its strategic response and significant uncertainties around key inputs mean that it does not have reasonable and supportable information to quantify the anticipated financial effects of potential renewable energy investments.

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Accordingly, N provides the available quantitative information about past events and its current exposure, together with qualitative information that:

- explains the nature and purpose of the potential renewable energy investment (to reduce exposure to increased energy and regulatory costs);
- describes the financial statement line items through which potential future financial effects may arise;
- explains how energy price and regulatory cost scenarios inform its assessment of its current exposure; and
- sets out the key assumptions, unknowns and information gaps that currently prevent quantification of future financial effects.



**Example 3.1.130**
**Alternative disclosures when anticipated financial effects are not separately identifiable**

Continuing Example 3.1.100, Company L concludes that the anticipated financial effects cannot be quantified because it could not separately identify those effects. Therefore, it provides the following alternative disclosures:

- a description of how sustainability-related factors and broader market drivers jointly affect financial performance, including revenue, cost structures and margins;
- a clear explanation of why the financial effects cannot be separately identified, reflecting the interdependency of underlying drivers; and
- combined quantitative information on anticipated procurement-related costs (within cost of sales) and inventory values over the next five years, presented at an appropriate level of aggregation to provide decision-useful information, taking into account the commercial sensitivity of the underlying information.



**Example 3.1.140**
**Alternative disclosures when anticipated financial effects are not quantifiable due to measurement uncertainty**

Continuing Example 3.1.110, Company K concludes that it cannot quantify the anticipated financial effects due to a high level of measurement uncertainty. Therefore, it provides the following alternative disclosures.

- A clear explanation of why quantitative information has not been provided. This includes explaining that the level of measurement uncertainty associated with AI-related workforce displacement is too high for any quantitative estimate to be decision-useful because of the evolving nature of legal, regulatory and labour-market frameworks governing AI use in the workplace.
- A description of the key sources of measurement uncertainty, including:
  - the absence of mature and consistent laws, regulations and enforcement practices related to AI implementation, workforce consultation and redeployment obligations;
  - limited legal precedent affecting the estimation of potential future obligations (e.g. redundancy, retraining and litigation-related costs); and
  - uncertainty about the pace and scope of AI adoption, the resulting scale and timing of workforce displacement and the associated financial effects.

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- The information and assumptions used in the assessment, including internal workforce and skills analyses, scenario analysis related to AI deployment and historical restructuring or retraining experience.
- A description of the financial statement line items likely to be affected, including employee benefits expenses, restructuring costs, operating expenses and, when relevant, provisions or other liabilities recognised in the financial statements.
- Qualitative information about the anticipated financial effects, including potential increases in operating costs related to workforce transition, retraining or redeployment, potential litigation-related costs, potential short-term productivity impacts, and longer-term implications for access to skilled labour and execution of K's strategy.



**Insight 3.1.280**
**What factors does a company consider when deciding the appropriate balance between quantitative and qualitative information?**

A company provides the combination of quantitative and qualitative information that best explains the anticipated financial effects of material risks and opportunities. Quantitative information on its own is rarely sufficient, particularly when uncertainty or complexity is high. It needs to be supported by clear qualitative context.

In assessing the appropriate balance between quantitative and qualitative information, a company could consider the following factors.

| Factor | Implication for disclosures |
|---|---|
| **Nature of the risk or opportunity** | More complex or less understood matters may require additional qualitative explanation, particularly when underlying drivers are difficult to assess. |
| **Separability of the financial effects** | When financial effects cannot be clearly isolated from other business drivers, additional information may be needed to explain the combined effects. |
| **Measurement uncertainty** | Higher uncertainty may require a clearer explanation of key assumptions and potential variability in outcomes. |
| **Availability of information** | Limited or evolving data may constrain quantification and increase reliance on qualitative disclosures. |
| **Maturity of internal capabilities** | More developed systems and processes may enable a shift from qualitative explanation to more robust quantification. |
| **Time horizon** | Longer-term effects may be more uncertain and may require more qualitative description. |
| **Scale and materiality** | More significant effects may require clearer and more comprehensive disclosure, both quantitative and qualitative. |

## 3.1.220 Resilience of the strategy

Disclosing an analysis of resilience can help users understand a company's business model flexibility and its ability to respond to uncertain future events. Providing details about the company's modelling and results can help users to compare management's assumptions and plans with their own analysis.

ESRS 2 requires a company to assess resilience of its strategy and business model but does not require it to use any particular methods or specify the type of information it needs to provide. If a company uses scenario analysis to assess resilience under ESRS E1, then it needs to include more granular disclosures about both the analysis performed and the outcomes (see 4.1.60–70). [ESRS 2.33]

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A company needs to disclose the following information.

| Information | What to disclose |
|---|---|
| **Resilience of the strategy and business model** | Qualitative information that enables users to understand the resilience of the strategy and business model to material risks. This includes how the analysis was completed and the time horizon. [ESRS 2.33] |

### Insight 3.1.290
### What methods can a company use to support its resilience assessment?

Scenario analysis is one method that can be effective in providing information to enable a company to assess its resilience. A scenario analysis is a 'what-if' analysis of the potential impacts from risks and assumptions. A resilience assessment builds on this to explain the 'so what' – considering the implications of the analysis for the company's strategy and its capacity to respond. [ESRS E1.AR7]

However, other methods can also support resilience assessments. These can either complement the scenario analysis or be standalone tools, depending on the nature of the risks and the availability of data. These methods may be particularly useful for topics other than climate, for which the scenario analysis method is more mature.

Other methods could include the following.

| Method | When the method might apply | How the method is applied |
|---|---|---|
| **Stress testing** | To help identify vulnerabilities in liquidity, capital adequacy, operational capacity or access to critical inputs. | Stress tests examine the impacts of a severe but plausible shock and are typically more extreme than base case assumptions. |
| **Reverse stress testing** | To highlight previously unconsidered risk combinations, tipping points or dependencies that could threaten the company's ability to continue operating. | Reverse stress testing works backwards to identify the conditions under which the business model would no longer be viable. |
| **Sensitivity testing** | To help management understand which assumptions are most critical to outcomes and where risk mitigation efforts may be most effective. | Sensitivity testing evaluates how changes in a single variable (e.g. interest rates, commodity prices, demand levels and input costs) affect financial position, performance or cash flows. |
| **Dependency/ concentration analysis** | To help identify concentrations that could amplify risk and inform diversification, contingency planning or investment decisions. | This analysis assesses reliance on specific resources, relationships, suppliers, customers, geographies or infrastructure. |

A company may use a combination of these methods to develop a more comprehensive view of resilience.

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### Insight 3.1.300
### Is a quantitative assessment required under ESRS when conducting a resilience analysis?

No. A company is not required to carry out a quantitative assessment when conducting a resilience analysis. However, performing such an assessment may provide useful and also generate relevant information, including to support an understanding of the anticipated financial effects of material risks or opportunities (see 3.1.180).

ESRS 2 includes only high-level requirements for disclosures about the resilience of a company's strategy. In contrast, ESRS E1 includes more detailed requirements (see 4.1.70). Therefore, it will be important for a company to use its judgement to assess the level of detail required to satisfy the disclosure requirements for topics other than climate. [ESRS 2.33, ESRS E1.19]

Generally, companies might often begin with a qualitative resilience assessment and add quantitative elements only when the underlying data, methodologies and internal capabilities are sufficiently robust to produce decision-useful information.

### Insight 3.1.310
### Does a company consider impacts and opportunities in its resilience assessment?

Generally, no. The requirements in ESRS 2 on the resilience assessment refer only to risks, and not impacts or opportunities. In addition, ESRS E1 refers to the strategy and business model's resilience to climate-related risks only (see 4.1.70). [ESRS 2.33, ESRS E1.18]

Resilience is generally understood as the ability to adapt to, or to withstand and recover from, difficulties. In this context, the resilience assessment focuses on material risks – including impacts that give rise to those risks. Impacts that do not lead to material risks do not affect a company's resilience. This aligns with Articles 19a and 29a of the Accounting Directive, which require disclosure of the resilience of the business model and strategy in relation to risks linked to sustainability topics.

### Insight 3.1.320
### Does a company need to reassess resilience on an annual basis?

It depends. There is no requirement in ESRS 2 to reassess resilience to all relevant risks annually.

In the absence of a specific requirement, a company uses judgement to determine how often to perform its assessment of resilience. Sustainability-related risks are often interdependent with, or affected by, other risks. Risks may also affect the same financial statement items in different ways, making the outcomes interdependent. Therefore, it may be necessary to perform a resilience assessment for multiple risks at the same time to generate useful information. Accordingly, the frequency of reassessment depends on the company's facts and circumstances, including whether there have been significant changes in the risks considered, the strategy, the business model or the assumptions underlying the assessment.

For example, a company may be exposed to climate-related risks that increase the costs of raw materials for its products from a particular division. An unrelated social risk – e.g. a shortage of technical skills – could also impact the costs of the same product. A resilience assessment of the climate-related risk alone, without considering the broader impacts from other risks, would not provide users with the information required to understand the impact of both sets of risks on the resilience of the business model and strategy.

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## 3.1.230 IRO management

IRO management disclosures are designed to help users understand how a company identifies, assesses and reports material IROs, and how those outcomes are reflected in the sustainability statement. These disclosures provide information about a company's DMA process (see Chapter 2.2) for identifying material IROs. [ESRS 2.34, 36]

Under ESRS 2, a company discloses:

- its process for identifying IROs and assessing which are material, including the use of thresholds (see 2.2.50 and 3.1.240);
- the list of disclosure requirements complied with in preparing the sustainability statement (see 3.1.250);
- an explanation of how it has determined the material information to be disclosed (see 2.2.100); and
- a detailed explanation of how it concluded that climate change is not material, when applicable. [ESRS 2.35, 37]

In addition, a company discloses information about policies, actions, metrics and targets it applies to manage its material IROs (see 3.2.10 and 3.2.40). [ESRS 2.38]

**ESRS 1**
**General requirements**

**ESRS 2**

| Core content requirements (Chapter 3.1) | Additional requirements under topic-specific standards (Section 4) |
|---|---|
| **IRO management**<br>• Identifying and assessing material IROs and material information to be reported (3.1.240)<br>• Material IROs and disclosure requirements (3.1.250) | **Social**<br>• Engagement with social stakeholders and grievance channels (4.7.70) |

**Example 3.1.150**
**Interaction between a company's risk management processes and its DMA**

Company T has a comprehensive risk management process that it uses to track and respond to business risks in its risk database. T is performing a DMA for the first time and considers its existing risk management process to help it identify IROs.

In addition to the existing risk register, T's DMA includes value-chain mapping. T identifies a number of material IROs that were not previously captured in its risk register. T also uses information already captured within its risk management process as an input into its DMA.

T then considers its population of material IROs – those already captured in the risk register and those incrementally identified through its DMA process – and determines what information is material.

T's risk management team adds the newly identified IROs into the corporate risk register and incorporates them into the existing risk management process going forward. This is because material impacts identified through the DMA can also act as early warning indicators of material risks.

Because risk assessment generally encompasses the process of prioritising risks, T considers how its DMA process and risk management process are distinct yet complementary and incorporates regular cross-functional meetings between its sustainability and risk management teams going forward.

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**Insight 3.1.330**
**Do IROs need to be integrated into the company's overall risk management framework?**

No. ESRS 2 requires a company only to explain the process through which it identifies IROs and related topics and how it assesses their materiality. A company may provide insight into whether IROs are managed:

- as part of the same processes and systems used for other risks; or
- through separate but connected processes, and how these interact. [ESRS 2.35, AR22]

ESRS do not mandate a single approach. In our experience, many companies are moving towards greater integration, embedding sustainability-related considerations within existing enterprise risk management frameworks, rather than managing them in isolation. When this is the case, disclosures need to address how a company evaluates IROs alongside other risks, and how it addresses any differences in approach.

**Insight 3.1.340**
**Is a company required to use scenario analysis in its risk assessment processes?**

No. Under ESRS 2, a company is required to disclose the processes it uses to identify and assess material IROs. This includes explaining the tools and methodologies applied. However, the standard does not prescribe specific techniques (e.g. scenario analysis) for all companies or all types of IROs. [ESRS 2.35]

ESRS E1 includes specific disclosure requirements about climate-related scenario analysis (see 4.1.60); however, it does not require a company to use scenario analysis as part of its DMA or risk identification processes.

If a company uses scenario analysis in assessing climate-related risks or resilience, then it is required to disclose information about how it has applied that analysis (see 4.1.60–70). [ESRS E1.17]

## 3.1.240 Identifying and assessing material IROs and material information to be reported

Disclosing information about the DMA can help users understand the process through which a company identifies IROs and the related topics and assesses their materiality. [ESRS 2.34]

When providing these disclosures, a company describes its own specific process. It avoids generic or standardised descriptions – e.g. restating the ESRS 1 criteria or the recommended DMA steps. [ESRS 2.AR24]

Specifically, a company discloses the following information.

| Information | What to disclose |
|---|---|
| **Overall process and methodology** | • The process to identify the company's IROs and the related topics, and to assess their materiality. This includes:<br>– the steps used to analyse its own operations and its upstream and downstream value chain;<br>– explaining the key methodologies, inputs and assumptions applied; and<br>– highlighting any qualitative factors or quantitative thresholds used in the DMA. [ESRS 2.35(a), AR23] |

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| Information | What to disclose |
|---|---|
| | Inputs may include:<br>– due diligence processes that informed the assessment;<br>– specific data sources;<br>– sector benchmark analysis and risk management processes;<br>– engagement with affected stakeholders and experts;<br>– industry and peer group experience; and<br>– reports, statistics and scientific data. [ESRS 2.AR22] |
| **Process for identifying impacts** | • How the company assesses and prioritises impacts based on their severity and likelihood. [ESRS 2.35(b)]<br>• How the company takes into account actions to prevent, mitigate, bring to an end, minimise and remediate negative impacts when assessing impact materiality. [ESRS 2.35(b)]<br>• How the company considers areas with heightened risks of negative impacts related to specific activities, business relationships or geographies. [ESRS 2.35(b), AR26] |
| **Interaction with the due diligence process** | • Whether the company's due diligence process informed the DMA and, if relevant, how it leverages consultation with affected stakeholders and external experts to understand the impacts. [ESRS 2.35(c)] |
| **Changes in the process** | • Whether and how the process has significantly changed compared with the prior reporting period. [ESRS 2.35(d)]<br>• When the company last updated its DMA. [ESRS 2.35(e)] |

### Insight 3.1.350
### How does a company disclose information on engagement with affected stakeholders?

ESRS require a company to disclose information on its engagement with affected stakeholders across several disclosure requirements – e.g. ESRS 2 IRO-1, ESRS 2 SBM-2 and ESRS S1–ESRS S4. A company may present the different types of information as follows. [ESRS 2.AR25]

| Area | Information disclosed |
|---|---|
| **Disclosing how consultation informs the DMA process** (ESRS 2 IRO-1) | A company explains that its DMA includes consultation with affected stakeholders and external experts. It describes the methods used – e.g. interviews and multi-stakeholder workshops – and summarises how these consultations helped it identify material IROs to report. |
| **Explaining ongoing engagement** | When providing information under ESRS S1–ESRS S4, a company discloses:<br>• how it maintains ongoing engagement with affected workers, communities and other groups;<br>• the types of engagement used, including regular meetings with workers' representatives and community liaison groups; and<br>• how it responds to concerns and monitors follow-up actions. |

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| Area | Information disclosed |
|---|---|
| **Connecting stakeholder views to the company's governing bodies** (ESRS 2 SBM-2) | A company outlines how insights from affected stakeholders are brought to its governing bodies and how these insights influence strategic decisions.<br><br>For example, it explains that summaries of stakeholder feedback are shared with the board's sustainability committee, and describes the decisions made in response – e.g. changes to sourcing practices and enhancements to due diligence procedures. |

**Insight 3.1.360**
**Does a company need to use similar processes to identify, assess, prioritise and monitor IROs?**

No. ESRS do not require a company to use similar processes to identify, assess, prioritise and monitor its IROs.

A company discloses information that can help users understand how its process is designed and how it works in practice. [ESRS 2.34–35]

If a company does have the same process to identify, assess, prioritise and monitor its IROs, then it would explain this and describe the process. However, if processes differ, then a company describes each process separately.

## 3.1.250 Material IROs and related disclosure requirements

Providing information that describes the material IROs can provide users with the context they need to understand the related disclosures on strategy, IRO management, metrics and targets, as well as the sustainability statement as a whole.

The following disclosure requirements can help users understand the outcome of the DMA process, including the material IROs and the related material information reported under ESRS. [ESRS 2.36]

| Information | What to disclose |
|---|---|
| **Material IROs** | • A concise description of the company's positive and negative impacts (actual and potential), and risks and opportunities that are material (including the dependencies, if applicable), together with the related sustainability topics, including:<br>– how they affect or are likely to affect people and the environment; and<br>– where these are concentrated in its own operations and value chain. [ESRS 2.37(a), AR27]<br>• Changes in its material IROs compared with the previous reporting period. [ESRS 2.37(c)] |
| **List of disclosure requirements** | • The list of disclosure requirements the company has complied with in its sustainability statement.<br>This list can help users identify where the disclosures are located in the sustainability statement and identify those incorporated by cross-reference. [ESRS 2.37(d)] |
| **Datapoints derived from other EU laws** | • A table of the datapoints listed in Appendix A of ESRS 2 (List of datapoints derived from other EU legislation), indicating where they can be found in the sustainability statement. [ESRS 2.37(g)]<br>If a company assesses that a datapoint is not material, then it indicates this in the table. [ESRS 2.37(g)] |

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| Information | What to disclose |
|---|---|
| **Climate change** | • A detailed explanation of the conclusions of the company's DMA on climate change if the company concludes that climate change is not material and omits all disclosure requirements in ESRS E1 as a result. [ESRS 2.37(b)] |
| **Heightened risk of incidents** | • A breakdown of the exposure to incidents related to forced or compulsory labour, or child labour, by type of operations or by country or geographies.<br><br>A company need only provide this disclosure if it is exposed to material negative impacts from these incidents through its own operations or value chain. [ESRS 2.37(f)] |
| **Supplementary information** | • A list of supplementary information (see 6.1.10), included either in the content index together with the list of disclosure requirements, or in a separate section of the sustainability statement. In all cases, the company clearly distinguishes supplementary information from that required by ESRS. [ESRS 2.37(e), AR29] |



**Insight 3.1.370**
**Does a company need to present granular information on each of its identified IROs?**

No. A company does not need to present granular information on each individual IRO. The level of detail depends on the outcome of the DMA (see Chapter 2.2) and the objective of providing relevant, faithful and understandable information (see 2.3.20).

A company determines the appropriate level of aggregation by considering the nature of the IROs and whether aggregation would obscure material information. For example, it considers whether:

- individually immaterial IROs are material when considered together and therefore disclosed in aggregate;
- some IROs are better understood at a group level (e.g. energy-related transition risks); and
- others require disaggregation because they are location- or context-specific (e.g. water stress or biodiversity impacts).

When material IROs are concentrated in specific locations or parts of the value chain, the company provides more granular, location-specific information. [ESRS 1.52]

Although a company determines the level of aggregation at which to present its information, this does not mean it offsets IROs with other IROs. [ESRS 1.44, QC8]



**Insight 3.1.380**
**Does a consolidated group and a subsidiary reporting in its own right disclose information about the same IROs?**

Not necessarily. Materiality is assessed from the different perspectives of a consolidated group and a subsidiary that is also required to report in its own right. Information about an IRO that is needed to understand a subsidiary's impacts on people, the environment and/or future cash flows might not be material from the perspective of the group (see Insight 2.2.140). [ESRS 1.55]

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### Example 3.1.160
### Aggregating and disaggregating IROs across a group and its subsidiaries

Company G produces consumer goods and operates through several subsidiaries with similar production and distribution activities. It also owns Subsidiary H, an agricultural company that supplies key raw materials.

G sets its sustainability-related strategy through group-level policies approved by the board when risks are common across the group. Subsidiaries' boards review the group policies and develop their own specific strategies, subject to group oversight, when risks arise from distinct activities or operating contexts.

G identifies a risk associated with ethical procurement practices. The risk is relevant across all subsidiaries and is addressed through group-level policies that are implemented consistently across subsidiaries. The risk is managed through group-wide risk management and due diligence processes, and monitored using group-wide metrics and targets. Subsidiaries implement the policies in accordance with their local regulatory and operating requirements.

Management concludes that disclosing information about this risk at the group level provides a faithful representation of how the risk is governed, managed and monitored and enables users to assess its effect on G's financial position, performance and cash flows.

The risk affects H and the other subsidiaries differently. As well as the ethical procurement risk from the raw materials it buys, H is directly exposed to risks from breaching local environmental and social regulations in its own operations. The other subsidiaries are exposed only indirectly via their procurement practices. The potential impact on the group is more immediate and severe for H – management's strategy for mitigating H's additional risk includes incremental policies and actions compared with the rest of the group. Given these differences, G provides disaggregated information about H's risk, making the connection to the group-wide risk but clearly highlighting how it differs from it.

### Example 3.1.170
### Different IROs within a group and subsidiary

Company D operates a portfolio of hotels through several subsidiaries, including Subsidiary B. Both B and the group prepare sustainability statements.

Most of the group's hotels are located in areas with sufficient water availability. However, hotels operated by B are located in a water-stressed region where water availability is limited and subject to increasing regulatory restrictions.

B's hotel operations place additional demand on scarce local water resources through water-intensive activities such as swimming pools, guest facilities, laundry and cleaning. This gives rise to a material actual negative impact on local water availability in the region.

Management also identifies a related material risk for B. Because water availability is limited and subject to increasing regulatory restrictions, the hotels may be unable to draw the water needed to maintain all operations. This could result in restrictions on certain services, higher operating costs or reduced operating capacity.

At the group level, D discloses the water-related impact and the related risk because B represents a significant portion of the group's operations. D's report clearly explains that the impact and risk relate specifically to B. To ensure information is not obscured, D provides relevant water metrics for B only. Presenting only aggregated group-level water metrics could dilute or obscure the severity of the local impact and the related risk because most of D's other hotels operate in areas with sufficient water availability.

B also discloses information about the impact and the related risk in its own sustainability statement. [ESRS 1.52–55]

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### Insight 3.1.390
### Do ESRS specify where companies present descriptions of material IROs?

No. The company may present detailed descriptions of its material IROs either alongside its ESRS 2 IRO-2 disclosures or in the same location as the disclosures on the related policies, actions, metrics and targets it uses to manage them (see Chapter 6.1). However, if it uses the latter option, it still presents a concise description of its material IROs alongside its ESRS 2 IRO-2 disclosures. This can help users identify the material IROs covered by the sustainability statement and navigate to the related detailed disclosures. [ESRS 2.AR28, AR33]

### Insight 3.1.400
### Do ESRS prescribe how to present the list of disclosure requirements reported in the sustainability statement?

No. A company can use a content index – i.e. a tabular list of the disclosure requirements included in the sustainability statement or incorporated by reference, along with the relevant paragraph reference or page number. It may also present a list of information incorporated by reference in an appendix, subject to certain conditions (see 6.1.50).

A company might find it useful to use a format and structure similar to the digital ESRS XBRL Taxonomy. [ESRS 2.AR29]

### Insight 3.1.410
### Is disclosure of trade-offs between different IROs required under ESRS?

Yes. A company discloses information about trade-offs between IROs that have been considered by the governing bodies in decision-making, if that information is material.

Under ESRS 2, a company explains whether governing bodies have evaluated trade-offs between IROs when shaping strategy, major transactions and risk management policies (see 3.1.60). Accordingly, it discloses material trade-offs when they are relevant for a user to understand the decisions it made. [ESRS 2.12(e)]

For example, a social risk (e.g. workforce shortages) may affect a climate-related risk by delaying emissions reduction initiatives. In this case, explaining this interaction can help users understand the connectivity between different IROs and how the company manages its IROs in practice.

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### Insight 3.1.420
### Does a company need to disclose where in its value chain each material IRO occurs?

ESRS 2 requires a company to provide a concise description of:

- its material impacts, including:
  - actual and potential impacts;
  - positive and negative impacts; and
  - how those impacts affect, or are likely to affect, people or the environment;
- its material risks and opportunities;
- the sustainability topics those material IROs relate to; and
- how and where those IROs connect to:
  - the company's own operations;
  - its upstream value chain; and
  - its downstream value chain.

In addition, a company describes the key elements of its strategy, business model and value chain that relate to or affect material IROs.

A company does not necessarily need to provide a separate location disclosure for each individual IRO. A company applies judgement to determine whether to present the information at topic level, for a group of related IROs or for an individual IRO. The level of aggregation needs to reflect significant variations and not obscure material information (see 2.2.170). [ESRS 1.52, ESRS 2.19, 37(a)]

### Insight 3.1.430
### Are companies allowed to omit those datapoints in Appendix A of ESRS 2 that are derived from other EU laws?

Yes. The datapoints that are derived from other EU laws are subject to materiality, irrespective of any related requirement in ESRS 2, or in topic-specific standards.

The datapoints in Appendix A of ESRS 2 are a mapping tool and aim to help a company understand when information reported under ESRS can also be used by other parties to meet their own reporting regulations – e.g. to help financial market participants meet their obligations under other regulations. For example, the EU Sustainable Finance Disclosure Regulation (SFDR[3]) sets requirements for asset managers and other financial market participants to provide increased transparency in relation to sustainability-related risks and impacts.

A company presents the datapoints derived from other EU laws in a table, specifying where this information is located in the sustainability statement, or indicating that it is not material. [ESRS 2.A, 37(g)]

3. 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.

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# 3.2 General disclosure requirements

## 3.2.10 General disclosure requirements on policies and actions

A company provides information on policies and actions to help users understand the level at which it manages its material IROs. When a company has adopted policies or put actions in place only for certain aspects of a topic, it reflects this in its disclosures. [ESRS 2.38]

ESRS do not require a company to set policies or put in place actions to manage its material IROs. Instead, it requires a company to provide information on the policies and actions it has in place already. If a company has not adopted policies or actions for a topic linked to material IROs, then it states this fact. [ESRS 2.39]

When reporting on policies and actions, a company focuses on information that is relevant to the reporting period and provides meaningful insight into the management of material IROs. The level of detail reflects the nature of the IRO and the company's approach to managing the related IROs. It avoids boilerplate or immaterial detail that obscures material information. Disclosures are proportionate to the severity of impacts, the magnitude of the risks or opportunities, and their significance to the company's business model and strategy. [ESRS 2.AR32]

When a company prepares entity-specific disclosures, it applies both:

- GDR on policies and actions in ESRS 2; and
- the disclosure requirements in the relevant topic-specific standard.

A company presents the information on policies and actions under ESRS 2 alongside disclosures required by the relevant topic-specific standard. [ESRS 2.40(a)]

**Insight 3.2.10**
**Does a company need to repeat information on policies and actions if it relates to more than one IRO or topic?**

No. A company does not need to repeat the same information when a policy or an action relates to multiple IROs or topics. Instead, it may disclose the information once and explains the scope and the level at which it is managed. In doing so, the company may cross-refer to other sections for which the information is relevant and explain how the policy or action applies across different IROs or topics. This is because a company structures its disclosures in a way that reflects its managerial approach and aligns with its strategy and business model, rather than duplicating the same information. [ESRS 2.AR30]

For example, when a human rights policy applies to the company's own workforce, workers in the value chain and affected communities, and includes environmental due diligence requirements, a company may describe the policy once and cross-refer to it elsewhere in the sustainability statement.

**Insight 3.2.20**
**Do ESRS prescribe where a company discloses that it has not adopted policies or actions for its material IROs and the related topics?**

No. If the company presents its material IROs and the related topics in a tabular form (see Insight 3.1.390), then it may indicate, in the same table, those IROs for which it has no policies or actions in place by marking them accordingly.

Irrespective of where the information is presented, the company ensures that the disclosure is coherent and connected with its identified material IROs and the related policies, actions, metrics and targets. This includes making clear which material IROs are not covered by policies or actions and avoiding any inconsistency with related disclosures elsewhere in the sustainability statement. [ESRS 1.AR49, QC19, ESRS 2.AR31, AR33]

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## 3.2.20 General disclosure requirements on policies (GDR-Policies)

A company applies GDR-Policies when it discloses the policies it has in place for IROs it assesses as material.

Disclosing information on these policies can help users understand the company's approach to preventing, mitigating, bringing to an end, minimising or remediating its actual and potential negative impacts, managing material risks and pursuing material opportunities or positive impacts. [ESRS 2.41]

**ESRS 1**
**General requirements**

**ESRS 2**
**General disclosure requirements (Chapter 3.2)**

**Additional requirements under topic-specific standards (Section 4)**

**GDR-Policies** (3.2.20)

**Environmental**

Policies related to:

- Water (4.4.40)
- Biodiversity and ecosystems (4.5.50)
- Resource use and circular economy (4.6.40)

**Social**

- Social stakeholders (4.7.60)

**Governance**

- Anti-corruption and bribery (4.8.40)

A company discloses the following information.

| Information | What to disclose |
|---|---|
| **Policies adopted to manage material IROs** | • The key contents of the policy, including its general objectives, the IROs addressed and a description of any changes adopted during the reporting period. [ESRS 2.42(a)]<br>• The scope of the policy, or of its exclusions, in terms of own operations, the value chain, geographies and, if relevant, affected stakeholder groups. [ESRS 2.42(b)]<br>• A reference, if relevant, to the third-party standards or initiatives to which the company has committed in implementing the policy. [ESRS 2.42(c)]<br>• Whether and how the company considered the interest of affected stakeholders in setting the policy for social topics, if relevant. [ESRS 2.42(d)] |
| **Human rights policies** | • Information on whether the company has an overarching human rights policy that commits to implementing:<br>– the UN Guiding Principles on Business and Human Rights;<br>– the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work; and<br>– the OECD Guidelines for Multinational Enterprises. [ESRS 2.43, AR34]<br>• The key contents of that policy, including the groups of affected stakeholders it covers, when relevant. [ESRS 2.43] |

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## 3.2.30 General disclosure requirements on actions (GDR-Actions)

A company discloses information to help users understand its key actions planned or taken to manage its material IROs and, if applicable, to achieve the objectives of the related policies. [ESRS 2.44]

Key actions are those that play a significant role in managing a company's material IROs. They include actions that support remediation of impacts and that are part of the company's business practices, due diligence and overall business and risk management. Key actions include those taken during the current reporting period that may have been initiated in prior reporting periods. [ESRS 2.AR35]

A company may aggregate information about key actions to provide useful information to users. When a key action addresses more than one material IRO, the company may disclose it once and cross-refer to this disclosure when discussing other relevant IROs. When relevant under the environmental standards, a company may explain key actions by reference to the mitigation hierarchy. For example, for biodiversity and ecosystems, this may involve describing whether actions are intended to avoid, minimise, restore or compensate for impacts (see Insight 4.5.130). [ESRS 2.AR35, AR37]

A company applies GDR-Actions when it describes the actions through which it manages its material IROs, including action plans and resources allocated and/or planned.

**ESRS 1**
**General requirements**

**ESRS 2**
**General disclosure requirements (Chapter 3.2)**

**Additional requirements under topic-specific standards (Section 4)**

**GDR-Actions** (3.2.30)

| Environmental | Social | Governance |
|---|---|---|
| Actions and resorces related to:<br>• Climate change (4.1.90)<br>• Water (4.4.50)<br>• Biodiversity and ecosystems (4.5.60) | • Social stakeholders (4.7.80) | • Business conduct (4.8.50) |

A company discloses the following information.

| Information | What to disclose |
|---|---|
| **Key actions to manage material IROs** | • When a company implements key actions, it discloses:<br>– a description of the key actions taken in the current reporting period and those planned for the future;<br>– the scope of the key actions – i.e. coverage in terms of own operations, the value chain, geographies and, if applicable, affected stakeholder groups;<br>– the time horizons under which the company intends to complete each key action; and<br>– their expected outcomes and, when relevant, how implementing them contributes to achieving policy objectives. [ESRS 2.45, AR38] |

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| Information | What to disclose |
|---|---|
| | A company may implement an action individually or in collaboration with other companies, especially if actual impacts or potential impacts are systemic or widespread in nature and cannot be addressed by the company alone. In this case, information on whether a key action is collaborative may be useful to users. [ESRS 2.AR36] |
| **Resource allocation** | • When implementing an action plan requires, or is expected to require, significant opex and/or capex, a company discloses:<br>– the type of current and future financial resources allocated to the key action plan, including whether the ability to implement the actions or action plan depends on specific preconditions – e.g. granting of financial support or public policy developments and market developments;<br>– the amount of significant opex and capex allocated in the current reporting period and an explanation of how these amounts relate to the most relevant amounts presented in the financial statements; and<br>– an indicative range of future financial resources needed to implement the action plan. [ESRS 2.46] |

**Insight 3.2.30**
**What information does a company provide on resources allocated to key actions?**

A company may need to disclose capex and opex when it allocates significant resources to key action plans. It may present information on its resource allocation in a table, split between capex and opex and between resources applied in the current reporting period and planned allocations over specific time horizons. [ESRS 2.46(b), AR39]

A company may also present significant non-financial resources as non-monetary quantities – e.g. full-time equivalent resources. [ESRS 2.AR40]

In addition, a company may limit its disclosures to the approved and announced key actions and action plans, as well as its planned sources of funding for those key actions. [ESRS 2.AR41]

## 3.2.40 General disclosure requirements on metrics and targets

A company provides information on metrics and targets that can help users understand the performance of, and the level at which it manages, its material IROs. This includes progress towards any targets it has set or is required to meet by law or regulation. When a company has set targets or uses metrics only for certain aspects of a topic, it reflects this in its disclosures. [ESRS 2.38, Annex II]

It discloses the metrics required by the topic-specific standards in relation to its material IROs, as well as any necessary entity-specific metrics. [ESRS 2.AR42]

ESRS do not require a company to set targets to manage its material IROs. Instead, a company provides information on the targets it has already set. If it does not have targets for a topic linked to material IROs, then it states this fact. [ESRS 2.39]

When reporting on metrics and targets, a company focuses on information that is relevant to the reporting period and provides meaningful insight into its management of material IROs. The level of detail reflects the nature of the IRO and the company's approach to managing the related IROs. It avoids boilerplate or immaterial detail that obscures material information. Disclosures are proportionate to the severity of impacts, the magnitude of risks or opportunities, and their significance for the company's business model and strategy. [ESRS 2.AR32]

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The GDR on metrics and targets in ESRS 2 are applied together with the disclosure requirements provided in the relevant topic-specific standard or on an entity-specific basis. [ESRS 2.40(b)]

**ESRS 1**
**General requirements**

**ESRS 2**
**General disclosure requirements (Chapter 3.2)**

**Additional requirements under topic-specific standards (Section 4)**

**GDR-Metrics** (3.2.50)

| Environmental | Social | Governance |
|---|---|---|
| Metrics related to:<br>• Climate (4.1.100)<br>• Pollution (4.3.60–70)<br>• Water (4.4.70)<br>• Biodiversity and ecosystems (4.5.80)<br>• Resource inflows and outflows (4.6.70–80) | • Social stakeholders (4.7.90) | • Business conduct (4.8.70–90) |

**GDR-Targets** (3.2.60)

| Environmental | Social | Governance |
|---|---|---|
| Targets related to:<br>• Climate (4.1.160)<br>• Water (4.4.80)<br>• Biodiversity and ecosystems (4.5.90) | • Social stakeholders (4.7.220) | • Business conduct (4.8.100) |

## 3.2.50 General disclosure requirements on metrics (GDR-Metrics)

A company discloses metrics that can help users evaluate its performance and track the effectiveness of its actions in managing its material IROs. [ESRS 2.48, Annex II]

It uses the topic-specific standards to identify relevant metrics to disclose. In some cases, a company also discloses entity-specific metrics, such as those it uses to measure and monitor IROs or those that are not defined in a standard – e.g. for topics under ESRS S2–ESRS S4. ESRS 1 includes guidance on disclosing entity-specific metrics to help a company provide information that is most relevant to its business, while also enhancing consistency and comparability (see 2.3.40). [ESRS 2.AR42]

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Metrics need to be defined and calculated consistently over time. When a metric is redefined or replaced, a company explains the change and discloses restated comparative information (see 2.3.140). Specifically, it discloses the following information.

| Information | What to disclose |
|---|---|
| **Methodologies and measurement** | • The metric and its unit of measurement. [ESRS 2.49(a)]<br>• The calculation methodology, sources (e.g. input parameters) and estimation methodology, including significant assumptions used and limitations of those methodologies. [ESRS 2.49(a)] |
| **Value chain data** | • The reliance on data from indirect sources or proxies and the planned actions to improve data quality in the future, if applicable. [ESRS 2.49(b)] |
| **Contextual information** | • Contextual information that can help users understand the metric, which may include:<br>– the reasons for applying a particular measurement approach;<br>– the reasons for inputs and assumptions used; and<br>– for environmental metrics, the specific environmental conditions and characteristics of the area where the impact occurs, if necessary to understand the metric. [ESRS 2.49(c), AR44] |
| **Significant changes** | • Significant changes in the performance compared with the previous reporting periods, including progress in achieving the targets set and, if applicable, how major acquisitions and disposals affected that progress. [ESRS 2.49(d)] |

**Insight 3.2.40**
**Do ESRS prescribe the currency and units of measurement used to present monetary amounts and metrics?**

Yes. A company uses the presentation currency of its financial statements for monetary amounts. In addition, it applies the units specified in the relevant topic-specific standards. These units align with the European system of units of measurement, based on the International System of Units (SI). SI prefixes may be used when this provides clearer information. For example, a company may present 1,200,000 $tCO_2e$ as 1.2 $MtCO_2e$ to improve readability and clarity. [ESRS 1.AR50, ESRS 2.AR43]

**Insight 3.2.50**
**Can a company omit a required metric if it cannot report the metric for all activities, entities or value chain components?**

No. If a metric is required because it provides material information about a material IRO, then a company discloses that metric. In doing so, it uses all reasonable and supportable information available at the reporting date without incurring undue cost or effort (see 2.3.170).

However, this does not mean that every activity, entity or value chain component always needs to be included in calculating the metric. A company may exclude activities from the calculation when they are not significant drivers of the relevant IROs and the exclusion does not impair relevance or faithful representation of the metric. A company may also exclude joint operations for which it does not have operational control from the scope of its environmental metrics (except for ESRS E1 metrics) (see 2.3.200). [ESRS 1.90, 92]

If a company has reliable direct or estimated data for only part of its own operations or value chain, then it discloses the metric based on that data and explains the limitation, and discloses actions taken to expand coverage and the progress made since the previous period. This does not apply to GHG emissions. [ESRS 1.91]

In addition, phased-in disclosure relief exists for certain topic-specific standards and metrics (see 6.2.30 and 6.2A.30).

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### Insight 3.2.60
### Does a company need to disclose metrics associated with the industry in which it operates?

No. ESRS do not require a company to disclose industry-specific metrics. Under ESRS, metrics may include those defined in topic-specific standards, as well as those the company identifies or develops itself – i.e. entity-specific metrics (see 2.3.40). However, a company may use industry frameworks or standards when developing entity-specific metrics. In doing so, it may draw on available best practices, including industry-based guidance under IFRS Sustainability Disclosure Standards and GRI Standards. [ESRS 1.AR5, ESRS 2.AR42]

### Insight 3.2.70
### Does a company need to disclose metrics for every IRO?

No. Under ESRS 2, a company is required to disclose metrics only for material IROs (see 2.2.100). [ESRS 2.48]

These metrics include those:

- specifically required by ESRS; and
- disclosed as entity-specific metrics. [ESRS 1.11, AR38, ESRS 2.48]

The disclosure of metrics is driven by materiality and management's approach to monitoring and managing IROs, rather than by a requirement to provide a metric for every identified IRO.

For example, a company that uses entity-specific metrics to actively monitor workforce safety as a relevant risk and has set a target to reduce workplace incidents would disclose those metrics and its performance against the target.

### Insight 3.2.80
### Does a company need to disaggregate its metrics?

It depends. A company disaggregates metrics if their aggregation obscures material information about IROs (see 2.2.170). However, a company may continue to present metrics on an aggregated basis if disaggregation does not provide additional decision-useful information. [ESRS 1.52]

The appropriate level of disaggregation will depend on the facts and circumstances, but may be necessary if:

- IROs vary across geographies (e.g. climate-related physical risks concentrated in specific regions);
- different business units or activities are exposed to different IROs; or
- effects of IROs occur at different points in the value chain.

For example, a global manufacturing company is exposed to water stress risks, but these risks are concentrated in specific regions. Disclosing a single group-wide water metric could mask this concentration. In this case, the company may disaggregate its water usage metrics by region to highlight where risks are most significant.

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### Insight 3.2.90
### Can a company use estimates and proxies for metrics?

Yes. A company may use estimates and proxies when necessary to identify and disclose metrics for its material IROs in its upstream and downstream value chain (see 2.3.90). [ESRS 1.65]

Typically, using estimates and proxies may be appropriate when:

- data is not directly available in the value chain;
- measurement processes are still developing (e.g. in emerging areas of sustainability reporting); or
- reasonable and supportable information can be used to approximate a metric – e.g. scope 3 emissions.

However, a company is expected to ensure that estimates and proxies are:

- based on reasonable and supportable assumptions;
- applied on a consistent basis over time (unless improved methodologies are introduced); and
- clearly explained, including key methodologies, assumptions and sources of uncertainty.

If more precise data becomes available, then it is expected that companies will refine or replace estimates and proxies to improve the quality of information over time.

### Insight 3.2.100
### Does a company need to revise comparative information for metrics?

Yes. A company revises comparative information for metrics, unless it is impracticable to do so, when it:

- revises estimates based on new information that relates to a prior period (see 2.3.130);
- redefines or replaces a metric or target (see 2.3.140); or
- corrects material prior-period errors (see 2.3.150). [ESRS 1.84, 98]

### Insight 3.2.110
### Do metrics need to be consistent from period to period?

Yes. A company is required to use a consistent methodology for metrics over time to enable users to understand trends and assess performance. [ESRS 1.84, QC10–QC12]

Under ESRS, consistency is important in ensuring that disclosures are comparable from period to period. Typically, this means that a company needs to:

- use consistent definitions and calculation methodologies;
- apply metrics to the same scope and boundaries (including the value chain, when relevant); and
- avoid unnecessary changes in metrics or measurement approaches.

However, a company may refine its metrics when improved data, methodologies or practices become available. If a company changes its metrics or methodologies, then it is expected to:

- explain the nature and reason for the change; and
- provide comparative information on a consistent basis, unless it is impracticable to do so. [ESRS 1.85, 87(a)]

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### 3.2.60 General disclosure requirements on targets (GDR-Targets)

A company provides information on targets that can help users understand:

- how it sets its targets, including the expected results for people, the environment or the company;
- how it tracks the effectiveness of its policies and actions in relation to its material IROs;
- the overall progress against targets over time; and
- alignment with any related action plan, when applicable. [ESRS 2.50]

A company explains if significant facts or circumstances arise that could affect its achievement of a target. It discloses information on progress and effectiveness over time under GDR-Metrics. [ESRS 2.50, AR45]

If a company has not set any measurable outcome-oriented targets, it states this fact and explains whether, and how, it tracks the effectiveness of its policies and actions for its material IROs. [ESRS 2.52]

There is no prescribed format for presenting this information. However, clear connectivity of disclosures between strategy and the related metrics and targets is important.

A company discloses information on how targets interact with its overall strategy, including its climate-related transition plans (see 4.1.10).

The table below summarises the required disclosures for each target the company has set or is required to meet by law or regulation.

| Information | What to disclose |
|---|---|
| **Targets set** | • The relationship of the target to the policy objectives and actions. [ESRS 2.51(a)]<br>• The defined target value or level (if the target is qualitative) to be achieved including – if applicable – whether the target is absolute or relative and the unit of measurement. [ESRS 2.51(b)]<br>• The scope of the target, including the company's activities, its value chain (if applicable) and geographical boundaries. [ESRS 2.51(c)]<br>• The baseline value or level (if the target is qualitative) and base year from which progress is measured, if defined by the company. [ESRS 2.51(d)] |
| **Time period** | • The target year or period to which the target applies and, if applicable, any milestones or interim targets. [ESRS 2.51(e)] |
| **Measurement methodology** | • The methodology and significant assumptions used to define the target, including whether it is required by law. [ESRS 2.51(f)–(g)]<br>• The selected scenarios, data sources and alignment with jurisdictional, EU or international policy goals, if applicable. [ESRS 2.51(h)]<br>• For targets related to environmental topics, whether the targets are based on conclusive scientific evidence. [ESRS 2.51(i)] |

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| Information | What to disclose |
|---|---|
| **Base year comparative** | • Base year comparative information for metrics reported in the current period on progress towards a target, unless the relevant disclosure requirement specifically requires otherwise (see 2.3.110). [ESRS 1.78]<br>• Milestones achieved between the base year and the reporting period, when relevant. [ESRS 1.78]<br>For example, if a company has set a target to reduce GHG emissions by 42% by 2030 from a 2021 base year, it presents the 2021 baseline value together with the current-period and preceding-period values and may also disclose that it achieved an interim 2025 milestone of a 25% reduction.<br>For more guidance on selecting and changing the base year for GHG emissions reduction targets, see Insight 4.1.240 and Example 4.1.130. [ESRS E1.AR14] |
| **Major acquisition or disposal** | • If necessary to understand its targets, a company describes how a major acquisition or disposal during the reporting period affects its progress towards meeting them (see 2.1.20). [ESRS 1.87(c)] |

### Example 3.2.10
### Assessing whether a target is based on conclusive scientific evidence

Company R operates large-scale agricultural farms in a region experiencing accelerated soil degradation and declining biodiversity. R has identified biodiversity and ecosystems as a material topic but applies the ESRS E4 phased-in disclosure relief. Because R has set a biodiversity-related target, it needs to disclose whether that target is based on conclusive scientific evidence.

R sets a target to increase soil organic carbon by 0.4% per year until 2032, using 2024 as its baseline. Management assesses whether the target is supported by scientific evidence that is current, consistent, specific to the affected region and relevant to the restoration pathway needed to improve soil function.

Management considers peer-reviewed regional agronomy studies, global assessments published by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) and site-level soil sampling data. It concludes that the evidence is conclusive for this purpose because it supports the baseline condition of the affected soils, the selected annual rate of improvement and the indicators used to monitor progress.

R discloses that the target is based on conclusive scientific evidence and explains the evidence considered, the basis for management's conclusion, how progress will be monitored and any key assumptions or limitations. [ESRS 2.9, AR47]

### Insight 3.2.120
### Do ESRS provide specific guidance on the target level for any metric?

No. ESRS provide conceptual guidance on when to disclose a target but do not specify the target level for any metric. ESRS E1 provides detail about specific metrics that may be material, but no related thresholds.

Although ESRS E1 does not prescribe a target level, it requires a company to disclose whether its GHG emissions reduction targets are science-based and compatible with limiting global warming to 1.5°C (see 4.1.160). [ESRS E1.24(c)]

However, local jurisdictions or regulators may set target levels to meet public policy objectives – e.g. a commitment to align with the Paris Agreement.

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### Insight 3.2.130
### When does a subsidiary disclose information about a group-level target or transition plan?

It depends. A subsidiary considers whether a target or transition plan set at group level is material to its own sustainability statement, based on its specific facts and circumstances. [ESRS 1.23, 55]

A group-level target or transition plan may be relevant to the subsidiary if, for example, the subsidiary has adopted the target, contributes to its achievement, is subject to actions or restrictions under the transition plan, or is otherwise affected by it. In these cases, the subsidiary discloses material information about the target or plan in its own sustainability statement, together with any material targets or plans it has set for itself.

If a subsidiary discloses information about targets or plans set by its parent, then it needs to ensure that its disclosures are transparent and allow users to understand the nature of the target or plan, as well as the implications for the subsidiary.

### Insight 3.2.140
### Does a group need to disclose information about targets that are set at a subsidiary level?

It depends. A group discloses information about the targets that it has set. This may include targets that affect only certain subsidiaries or activities, but only if the information is material at the group level. [ESRS 1.55, ESRS 2.50]

Whether subsidiary-level targets need to be disclosed at a group level depends on numerous factors, including the following.

- ***Role in the group's strategy and risk management:*** When subsidiary-level targets are a key mechanism through which the group manages or monitors material IROs (e.g. emissions reduction targets for high-emitting subsidiaries), they form part of the group's overall approach, and are therefore considered as part of the group's disclosures.
- ***Integration into group targets:*** If subsidiary-level targets are aggregated into, or underpin, group-wide targets, then disclosure will typically focus on the group target, with subsidiary-level information (i.e. disaggregation) provided when necessary to understand how the target is achieved.
- ***Link to a concentrated IRO:*** If a material IRO is concentrated in a particular subsidiary, a related subsidiary-level target may be material at the group level.

### Insight 3.2.150
### Does a company need to disclose its performance against targets?

Yes. If a company has set a target, then ESRS 2 requires disclosure of the company's performance against that target. [ESRS 2.49(d), AR45]

Such disclosures are not limited to favourable outcomes. If a company has not met a target, or if performance has deteriorated, it is still required to provide information about the underperformance to ensure faithful representation of its facts and circumstances. [ESRS 1.QC7]

For example, a company that has set a target to reduce scope 1 and scope 2 emissions by 20% by a certain date, but has achieved a reduction of only 5%, needs to disclose the emissions metric, its target and its current level of performance. It may provide additional information about its emissions reduction efforts, including contributing factors towards the underperformance, if material.

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More broadly, ESRS 2 requires a company to disclose the metrics it uses to:

- track the effectiveness of its actions to manage its material IROs; and
- evaluate its performance. [ESRS 2.48–49]

Therefore, even in the absence of formal targets, a company may need to explain trends and outcomes reflected in its metrics. This may include situations in which performance has worsened, or improvements are slower than anticipated.

Overall, the objective of metric and target disclosures in ESRS is to provide decision-useful information to users, which requires balanced disclosure of both favourable and unfavourable developments.



**Insight 3.2.160**
**Do ESRS provide specific guidance on how a company establishes a base period or when updates to the base period are required?**

No. ESRS 2 requires a company to disclose the base period used as the point of comparison for measuring progress against its targets. However, it does not provide guidance on how a company selects that base period. [ESRS 2.51(d)]

Additionally, the standards provide no general requirements for assessing whether a company needs to update its base period (e.g. to reflect changes in a company's structure through an acquisition or disposal). However, ESRS E1 includes specific requirements for the base year and baseline value of GHG emissions reduction targets (see Insight 4.1.240). [ESRS E1.AR14]

In the absence of specific requirements, a company needs to consider its facts and circumstances when establishing a base period for a specific target and when determining whether it needs to update the base period. A base period needs to faithfully represent a company's facts and circumstances at the reporting date so that users can understand and evaluate progress towards the related target.

A company may reassess its targets due to a significant acquisition or disposal. In these cases and when relevant, it considers whether the base period is still representative given the change in the group's composition.

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# 4.1 Climate change

## 4.1.10 Climate in sustainability reporting

Climate change is widely recognised as a significant environmental, social and financial issue. It gives rise to IROs that can affect a company's own operations, value chain and financial performance.

In our experience, many companies identify at least one climate-related IRO. As the impacts of climate change intensify, so too does the demand from users for clear, consistent and comparable information about how a company affects the climate, as well as whether and how climate change affects the company.

Reporting on climate-related IROs can help users understand how a company affects, and is affected by, climate change through its operations and value chain – including the potential implications for its financial performance. Understanding how the company identifies and manages these climate-related IROs – and how its strategy, policies, actions, metrics and targets respond to them, can help users assess the effectiveness and resilience of its strategy, as well as its contribution to the transition to a lower-carbon economy.

### 4.1.20 How the standard works

ESRS E1 supplements the disclosure requirements in ESRS 2 by setting out additional climate-specific reporting requirements. These requirements:

- build on the strategy and IRO management disclosure requirements in ESRS 2 (see 3.1.90 and 3.1.230), including disclosures about transition plans, scenario analysis and resilience (see 4.1.40); and
- specify the climate-related information to disclose when applying the general disclosure requirements for reporting on policies, actions, metrics and targets in ESRS 2 (GDR-Policies, GDR-Actions, GDR-Metrics and GDR-Targets) (see Chapter 3.2 and 4.1.80–160). [ESRS E1.3–4]

A company discloses information under ESRS E1 when it assesses climate change to be a material topic. However, given the pervasive nature of climate-related IROs, a company that concludes that climate change is not material discloses the basis for that conclusion (see 3.1.250). [ESRS 2.37(b)]

ESRS E1 includes disclosure requirements relating to the following subtopics:

- climate change mitigation – i.e. a company's efforts to reduce its GHG emissions and manage related transition risks to support limiting global warming to 1.5°C in line with the Paris Agreement and EU Climate Law;
- climate change adaptation – i.e. a company's efforts to adjust to the actual and expected impacts of climate change, reduce associated physical and transition risks, and enhance the resilience of its strategy, operations and value chain; and
- energy – i.e. a company's energy production and consumption. [ESRS E1.6–9]

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| ESRS 1<br>General requirements | |
|---|---|
| **ESRS 2**<br>**Core content requirements (Chapter 3.1)** | **ESRS E1**<br>**Climate-related requirements (Chapter 4.1)** |
| **Governance**<br>(3.1.60–80) | No additional requirements |
| **Strategy**<br>(3.1.100–220) | • Transition plans for climate change mitigation (4.1.50)<br>• Identifying climate-related risks and scenario analysis (4.1.60)<br>• Resilience (4.1.70) |
| **IRO management**<br>(3.1.240–250) | No additional requirements |
| **General disclosure requirements (Chapter 3.2)** | |
| **GDR-Policies**<br>(3.2.20) | No additional requirements |
| **GDR-Actions**<br>(3.2.30) | • Actions and resources related to climate change (4.1.90) |
| **GDR-Metrics**<br>(3.2.50) | • Metrics related to:<br>– Energy consumption and mix (4.1.110)<br>– GHG emissions (4.1.120)<br>– GHG removals and mitigation projects financed through carbon credits (4.1.130)<br>– Internal carbon pricing (4.1.140)<br>– Climate-related anticipated financial effects (4.1.150) |
| **GDR-Targets**<br>(3.2.60) | • Climate-related targets (4.1.160) |

For further guidance on applying ESRS requirements, see the following.

- **Transition plans** (Chapter 5.1)
- **Scenario analysis** (Chapter 5.2)

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### 4.1.30 Connecting to other topics

Climate change can give rise to IROs that are interconnected with other sustainability topics. These interdependencies may involve environmental or social aspects. A company may identify IROs across several sustainability topics that arise from one dependency or event. [ESRS E1.10]

Given these connections, a company can disclose information where it considers it to be most relevant within the sustainability statement and can cross-refer to other sections of the sustainability statement (see 6.1.30). For example, in either its climate- or strategy-related disclosures, a company may disclose progress in implementing its transition plan, or how that plan aligns with its overall business strategy. [ESRS 1.113]

The requirements in ESRS E1 focus on topics such as GHG emissions and physical climate-related risks. However, climate-related topics may also give rise to other environmental or social aspects under other topic-specific standards, for example:

- A company may address the broader relationship between climate change mitigation and adaptation and water resources in ESRS E3 (see Chapter 4.4), even though ESRS E1 addresses acute and chronic physical risks arising from water and ocean-related hazards.
- A company may disclose information about a climate-related transition plan under ESRS E1, but apply the requirements in the social standards to provide information about the social consequences of implementing that plan. For example, a manufacturer may phase out a carbon-intensive production process and introduce lower-emissions technologies, resulting in changes to workforce skills requirements, retraining needs or employment conditions. [ESRS E1.10]



**Example 4.1.10**
**Reporting on a climate-related heatwave risk with interconnected environmental and social IROs**

Company N operates food manufacturing facilities that rely on sourcing local ingredients. It identifies a climate-related risk arising from the increased frequency and intensity of heatwaves, which falls in the scope of ESRS E1 because it relates to physical climate-related hazards.

The climate-related risk gives rise to increased costs of raw materials, supply chain disruptions and increased wastage in N's own operations and its upstream and downstream value chain.

N identifies that the climate-related risk arising from the heatwaves is interconnected with environmental and social IROs, including:

- increased water stress and reduced water availability affecting the supply chain (ESRS E3);
- heat- and drought-triggered damage to natural ecosystems that provide important ecosystem services on which the company depends (ESRS E4);
- unsafe working conditions that threaten employee health and safety (ESRS S1); and
- unsafe conditions and disruption to working arrangements for workers in the value chain (ESRS S2).

N identifies and presents integrated material information about the interconnected IROs in an environmental section of its sustainability statement, incorporating the relevant disclosures under ESRS E1, ESRS E3, ESRS E4, ESRS S1 and ESRS S2. This is because it manages the different IROs using the same heatwave-related policies, actions and entity-specific metrics and targets. It does not duplicate the information. Instead, it can help users to find related information by cross-referencing between the climate section of its sustainability statement and sections covering other requirements in ESRS E3, ESRS E4, ESRS S1 and ESRS S2.

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**Example 4.1.20**
**Reporting on a transition risk with links to pollution and workforce impacts**

Company F is a chemicals producer. It identifies a transition risk arising from stricter climate-related regulation that limit GHG emissions and require changes to production processes. Its actions to mitigate the risk include installing new combustion equipment.

Because the transition risk has implications beyond climate change, F considers which reporting requirements are relevant to the interconnected impacts, as follows.

| Topics identified beyond climate change | Reporting implication |
|---|---|
| A transition risk and related mitigation actions arise from the transition to lower-carbon economy. | Report under ESRS E1. |
| Actions taken to reduce emissions may lead to emissions of NOx. | Consider impacts and disclosures from other air emissions under ESRS E2 – e.g. nitrogen oxides (NOx). |
| The transition may also give rise to workforce-related impacts – e.g. reskilling needs and changes in working conditions. | Consider impacts and disclosures under ESRS S1. |

F reports the climate-related transition risk and related actions in the climate section of its sustainability statement under ESRS E1. It reports the associated pollution-related and workforce-related impacts in separate sections on pollution and social topics under ESRS E2 and ESRS S1 respectively. However, it explains the connections between the IROs and provides cross-references to support users in making these connections.

## 4.1.40 Climate-related strategy

Under ESRS E1, a company discloses information to help users understand how material climate-related IROs relate to the company's strategy, business model and value chain. These climate-specific requirements build on the more general requirements under ESRS 2. [ESRS E1.3, ESRS 2.19–20, AR11–AR14]

Together, the general and climate-specific information disclosed can help users understand how climate-related IROs influence the company's strategic decisions and how these are reflected in its policies, actions, metrics and targets.

This section explains the climate-specific disclosure requirements that build on the strategy content area (see 3.1.90), including how a company discloses information about:

- transition plans for climate change mitigation (see 4.1.50);
- identifying climate-related risks and scenario analysis (see 4.1.60); and
- resilience in relation to climate change (see 4.1.70).

### 4.1.50 Transition plans for climate change mitigation

Under ESRS E1, a company provides information about its past, current and planned mitigation efforts in its transition plan to help users understand whether, and the extent to which, its strategy and business model are compatible with:

- the transition to a sustainable economy;
- limiting global warming to 1.5°C, as set out in the Paris Agreement and EU Climate Law; and
- achieving climate neutrality by 2050. [ESRS E1.11]

These disclosures complement and connect with information on policies, actions, metrics and targets.

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A company reporting under ESRS is not required to have a climate-related transition plan. If it does not have one, then it discloses that fact and indicates whether and, if so, when it expects to develop one. A company that has a transition plan, or is in the process of developing or implementing one, discloses information about the plan, including progress made to date. [ESRS E1.12–13]

This section explains the transition plan disclosure requirements for climate change mitigation. However, a company's transition plan may form part of a broader plan that also covers climate-related adaptation actions or wider topics (e.g. nature) (see 4.5.40).

For further guidance on transition plans and their content, see Chapter 5.1.

Under ESRS E1-1, a company discloses the following information.

| Information | What to disclose |
|---|---|
| **Transition plan key features** | • GHG emissions reduction targets included in the plan and a statement explaining that the targets are either:<br>– science-based and compatible with limiting global warming to 1.5°C; or<br>– not compatible with limiting global warming to 1.5°C. [ESRS E1.12(a)]<br>• How these targets compare with other reference values, when they are not compatible with limiting global warming to 1.5°C and how the company considers future developments. [ESRS E1.AR2(a)]<br>• The company's decarbonisation levers (see Insight 4.1.10), including how they drive changes in the company's product and service portfolio, and its plans to adopt new technologies in its own operations or upstream or downstream value chain. [ESRS E1.12(a), AR2(b)]<br>• Key actions, investment and funding needed to support implementation of the plan, including significant amounts of operational or capex allocated (or expected to be allocated) to implementing the transition plan. The disclosure can be limited to approved and announced key actions and action plans, and planned funding sources for implementing those actions. [ESRS E1.12(a), AR2]<br>• Whether and how the plan was reviewed or approved by the administrative, management and supervisory bodies. [ESRS E1.12(a)]<br>• How the plan is embedded in and aligned with the company's overall business strategy. [ESRS E1.12(a)] |
| **Investment related to coal, oil and gas** | • Any capex investment during the reporting period in economic activities involving coal, oil and gas. [ESRS E1.12(b)] |
| **Assumptions and dependencies** | • Information about assumptions used and dependencies on which the plan relies, including:<br>– how dependencies on future financial or other resources could constrain the actions needed to implement the plan; and<br>– assumptions relating to future regulatory requirements or the company's ability to implement changes within the value chain. [ESRS E1.12(c), AR3] |
| **Locked-in emissions** | • Information about how potential locked-in GHG emissions from key physical assets and products may affect whether the company achieves the plan and create transition risks and, when disclosed qualitatively, how the magnitude of those locked-in emissions could jeopardise implementation of the transition plan. [ESRS E1.12(d), AR4] |

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| Information | What to disclose |
|---|---|
| **Progress of transition plan implementation** | • Information about progress made in implementing the transition plan, if applicable. [ESRS E1.12(e), AR5] |
| **Disclosure of no transition plan** | • The fact that the company does not have a transition plan, if applicable. [ESRS E1.13]<br>• An explanation of whether and, if so, when it expects to develop a transition plan. [ESRS E1.13] |
| **Information about climate-related adaptation** | • The fact that the transition plan also covers climate-related adaptation, if applicable, and – if so – a cross-reference to information about climate resilience (see 4.1.70) and actions and resources in relation to climate-related adaptation (see 4.1.90). [ESRS E1.AR1] |



### Insight 4.1.10
### What are decarbonisation levers?

Decarbonisation levers are categories of mitigation actions that a company plans to use to achieve emissions reductions over a target period. They are not limited to a company's own operations and may relate to activities affecting its upstream and downstream value chain. [Annex II]

Decarbonisation levers are entity-specific because the actions available to a company depend on its activities, business model and industry.

They are often differentiated between the short, medium and long term to reflect how the mix of mitigation actions may change over time. This enables a company to demonstrate how and when planned actions are expected to contribute to emissions reductions.

Examples of decarbonisation levers include:

- process optimisation (e.g. modifying a process so that it requires less energy or fuel);
- fuel switching and electrification of operations;
- shifts in the product and service portfolio (e.g. developing lower-carbon offerings);
- changes in sourcing and procurement (e.g. requiring suppliers to meet emissions standards); and
- for financial institutions: portfolio reallocation, engagement with high-emitting investees and changes to lending criteria.

Some decarbonisation levers may also contribute to circular economy objectives (see Chapter 4.6).



### Example 4.1.30
### Transition plan under development

Company Z provides warehousing and road-based distribution services across multiple regions. Z has identified climate-related transition risks arising from tightening emissions regulations, fuel-efficiency standards and increasing customer demand for lower-emissions logistics solutions.

Z does not yet have a formal transition plan in place; however, it has established a strategic goal to reduce the carbon intensity of its operations over the medium to long term. To support this goal, Z is in the process of developing a transition plan.

In its sustainability statement, Z explains that a transition plan is not yet in place and outlines the steps it is taking to prepare for its development. These include assessing its emissions baseline, evaluating fleet decarbonisation options and establishing executive- and board-level accountability for climate-related topics. Together, these disclosures help explain Z's intent and current stage of transition planning, without implying that a formal transition plan has already been adopted.

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### Insight 4.1.20
### How does disclosing information about a climate-related transition plan connect to other information about climate-related policies, actions, metrics and targets?

A company presents a coherent description of its transition plan, including its policies, actions, metrics and targets for climate change mitigation (see 4.1.80–160), in its sustainability statement, if it has one.

However, it does not duplicate information about these areas within the sustainability statement. Instead, if a company presents this information elsewhere in the sustainability statement, then it cross-refers to the more detailed disclosures. [ESRS E1.AR2]

A company may also choose to publish its transition plan separately, outside the sustainability statement – e.g. when it provides additional granular detail that is not material for users and could therefore obscure material information if included in the sustainability statement. However, it can only incorporate information required by ESRS E1 by reference to a separate transition plan published outside the sustainability statement in limited circumstances (see 6.1.50). [ESRS 1.117–118]

### Example 4.1.40
### Linking transition plan disclosure with targets, actions and resources

Company T operates in the manufacturing sector and in Year 1 published its plan for transitioning to a lower-carbon economy. T's sustainability statement explains the key features of the plan and discloses its progress and all other material information related to the plan. The plan covers climate change mitigation only.

T's transition plan includes a mix of short- and long-term actions, prioritising direct emissions reductions over using market-based instruments (e.g. purchasing carbon credits). Key information disclosed about the targets, in addition to their quantitative amounts, includes that they:

- are science-based and aligned with a 1.5°C pathway;
- apply to all of T's operations and value chain;
- are externally validated by the Science Based Targets initiative (SBTi) Corporate Net-Zero Standard (Version 1);
- use scenarios aligned with the latest international agreement on climate change;
- use a base year of Year 1; and
- use a reduction period of Year 1 to Year 4.

T also explains that the main objectives of its transition plan are to mitigate the worst impacts of climate change and conform to expected future government energy and construction regulations. The plan and targets are supported by T's transition plan working group and include the following decarbonisation levers, which are connected to its climate change mitigation actions:

- electrifying production processes and sourcing renewable energy to reduce emissions from its own operations;
- shifting its product portfolio towards low-carbon alternatives to reduce its downstream emissions; and
- collaborating with suppliers to reduce upstream emissions through technology innovation.

T has allocated financial resources to implement its key actions and decarbonisation levers. It discloses:

- the approved capex for energy-efficiency upgrades and new technologies;
- an indicative range of future investment required; and
- planned funding sources, including internal cash flows and green financing instruments.

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T explains how its identified decarbonisation levers are expected to contribute to achieving its GHG emissions reduction targets and to limiting global warming to 1.5°C, together with the key assumptions, dependencies and uncertainties that it relies on.

It also describes how its actions and financial resources align with this pathway, including how it allocates capex, operating budgets and financing arrangements to support implementation of these initiatives. This provides users with an understanding of how T expects to execute its transition plan over time and the extent to which its allocated resources are sufficient to support delivery.

T discloses both its performance against targets annually and management's trend analysis, concluding that improvements since the Year 1 base year relate primarily to its shift to low-carbon alternatives and transition to renewable energy sources.

T expects reducing scope 3 emissions to pose a significant challenge because it relies on suppliers' decarbonisation actions; currently, there are also few competitive low-carbon alternatives. T is working with suppliers to identify low-carbon alternatives and piloting certain alternatives on new products. The success of low-carbon alternatives is considered a critical dependency for achieving T's scope 3 emissions-related targets.

T includes disclosures on its process to review its transition plan, together with its overall governance and risk management disclosures.

## 4.1.60 Identifying climate-related risks and scenario analysis

Under ESRS 2, a company discloses information about its process to identify material IROs, and the IROs identified by that process, as part of its general disclosures (see 3.1.230).

ESRS E1 requires additional information, specifically about a company's climate-related risks and opportunities, as well as its approach to identifying and assessing them.

A company may use scenario analysis or other approaches to identify and assess climate-related risks and opportunities. If it uses scenario analysis, then it provides information about the analysis performed as part of this disclosure. [ESRS E1.14–17]

Climate-related scenarios can help a company understand how its identified risks and opportunities could affect its business, strategy and financial performance over time. Management may use scenario analysis to identify and assess uncertain outcomes across a range of hypothetical situations, based on those risks and opportunities (see Chapter 5.2). [ESRS E1.17]

The table below summarises the disclosure requirements under ESRS E1-2 relating to identification of climate-related risks and scenario analysis.

| Information | What to disclose |
|---|---|
| **Categorisation of climate-related risks** | • Whether each material climate-related risk is a physical risk or transition risk. [ESRS E1.15] |
| **Climate-related risk analysis process** | • The process for assessing whether assets and activities in the company's own operations and value chain are exposed or sensitive to:<br>– climate-related hazards; and<br>– climate-related transition events and trends. [ESRS E1.16]<br>In conducting this process, a company:<br>– screens its assets and business activities to identify whether, and the degree to which, they are exposed or sensitive to climate-related hazards and transition events in the short, medium and long term; and<br>– considers the likelihood, magnitude and duration of the climate-related hazards and transition events, considering the location of assets and value chain dependencies that are exposed to climate-related hazards. [ESRS E1.AR6] |

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| Information | What to disclose |
|---|---|
| **Scenario analysis** | • If a company uses scenario analysis to identify climate-related risks or assess resilience:<br>– the range of scenarios applied, including:<br>- whether at least one high-emissions scenario was used to identify physical risks;<br>- whether at least one scenario in line with the 1.5°C target with no or limited overshooting was used to identify transition risks; and<br>- an explanation of the associated global average temperature projection and its relevance; [ESRS E1.17(a), AR7]<br>– the scope of operations included in the analysis; [ESRS E1.17(b)]<br>– the key assumptions made (e.g. relevant policies, macroeconomic trends, regional variables, energy use and mix, and technology developments); and [ESRS E1.17(c)]<br>– the time period of the analysis. [ESRS E1.17(d)] |



**Example 4.1.50**
**Disclosing the climate-related risk identification methodology when scenario analysis has not been performed**

Company D has a transport logistics business. D has assessed climate change as material but has not performed a formal scenario analysis. It discloses the methodology it used to identify its climate-related risks: a desktop assessment of its fleet and infrastructure against publicly available hazard maps for its operating regions, combined with a qualitative review of transition risks based on announced national transport decarbonisation policies.

D explains the scope and limitations of its approach, noting that it has not used climate-related scenario analysis. For transparency, D states that it plans to conduct a scenario-based assessment in the following reporting period once it has established the necessary internal capabilities and data.



**Insight 4.1.30**
**Is a company required to include all of its operations in its scenario analysis?**

Not necessarily. When reporting information about the inputs it used, a company discloses the scope of operations (e.g. the facilities, business activities and operating locations) included in its analysis. [ESRS E1.17]

A company selects an approach to scenario analysis that best supports its reporting obligations and decision-making. This may involve focusing on parts of its operations that are more exposed to climate-related risks.

## 4.1.70 Resilience

Under ESRS E1, a company explains the resilience of its strategy and business model to its identified climate-related risks. This can help users understand whether and how the business is able to adapt.

These disclosure requirements build on the more general disclosures on resilience in ESRS 2 (see 3.1.220), which explain how the company would respond to climate-related risks and its capacity to adjust or adapt over the short, medium and long term, as well as any significant uncertainties. [ESRS E1.18–19]

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A company applies the same scope in performing its resilience analysis as that for identifying its climate-related risks. The process of assessing resilience (and therefore the related disclosures) is highly inter-related with disclosures about anticipated financial effects (see 3.1.180 and 4.1.150), information about strategy (see 3.1.90 and 4.1.40) and identified risks (see 3.1.230 and 4.1.60). [ESRS E1.AR7]

A company discloses the following information.

| Information | What to disclose |
|---|---|
| **How the assessment was performed** | • How any anticipated financial effects identified (see 4.1.150) have informed the resilience assessment. [ESRS E1.AR8]<br>• Whether and how the effects identified in any scenario analysis informed the company's response to climate-related risks. This is only relevant if the company used scenario analysis. [ESRS E1.19(a), AR7–AR8]<br>• How the transition plan, if relevant, and a company's current and planned mitigation and adaptation actions contribute to its resilience to climate-related risks. [ESRS E1.19(a), AR8] |
| **Results of the resilience assessment** | • The results of the company's resilience assessment as at the reporting date. [ESRS E1.19(a), AR9]<br>• How the resilience assessment, scenario analysis (if performed), climate-related IRO identification process and assessment of anticipated financial effects affect the company's strategy and business model. [ESRS E1.19(a)] |
| **Areas of uncertainty** | • Significant uncertainties in the company's assessment of its resilience to climate-related risks. [ESRS E1.19(b)] |
| **Capacity to adjust the strategy and business model** | • An explanation of the company's capacity to adjust or adapt its strategy and business model over the short, medium and long term. [ESRS E1.19(c)]<br>In disclosing this information, the company considers:<br>– the extent to which its existing financial resources allow it to manage the potential financial effects of climate-related risks and to pursue climate-related opportunities;<br>– the extent to which it can redeploy, upgrade, repurpose or retire assets as climate-related conditions evolve;<br>– how current and planned investments aimed at mitigation, adaptation or transition activities support climate resilience; and<br>– how these factors relate to the company's climate-related mitigation and adaptation actions. [ESRS E1.AR10] |
| **Financial institutions** | • Financial institutions that are required to conduct resilience or scenario analysis under prudential regulatory frameworks (e.g. sustainability-related risk planning requirements) may leverage the output of those analyses when preparing resilience disclosures under ESRS E1. [ESRS E1.AR9] |

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### Example 4.1.60
### Disclosing capacity to adjust or adapt the strategy and business model to climate-related risks

Company E operates cement plants and quarries across six EU member states. It identifies the following material climate-related risks:

- transition risks from increased costs due to incoming legislation, including the EU Emissions Trading System (EU ETS); and
- physical risks from water scarcity at two production sites.

In disclosing its capacity to adjust or adapt, E addresses the following considerations set out in ESRS E1.

- ***Financial resources:*** E explains that it has access to a 500 million sustainability-linked revolving credit facility with drawdown conditions tied to its emissions reduction targets. It notes that its current debt-to-equity ratio and investment-grade credit rating provide the flexibility to fund adaptation investments without materially constraining its financial position.
- ***Ability to redeploy, repurpose, upgrade or decommission assets:*** E explains that two of its older kiln lines are approaching the end of their useful life within the next five years and are scheduled for replacement with electric or hydrogen-ready kilns as part of its transition plan. For its two water-scarce sites, E describes its plan to retrofit closed-loop water recycling systems, which it expects to reduce freshwater consumption by 40% by Year 5. E notes that its quarry assets have limited alternative use and that it recognises provisions in its financial statements for its site restoration obligations.
- ***Effect of current and planned investments:*** E describes how its planned capex of 120 million over the next four years in kiln replacement and water recycling directly strengthens its resilience to both transition and physical risks. It explains that the kiln investments reduce its exposure to carbon cost increases under EU ETS, and that the water recycling programme reduces its sensitivity to drought conditions at the two sites. E connects its disclosure to additional information on climate-related actions, disclosed under ESRS E1-5 and the related GDR-Actions. [ESRS E1.19(c), AR10]

### Insight 4.1.40
### Is a company required to perform a separate climate resilience assessment under ESRS E1?

No. ESRS E1 requires a company to disclose the results of its climate resilience analysis but does not prescribe that a company performs this analysis as a standalone exercise.

The resilience assessment builds on identifying climate-related risks under ESRS E1-2 and aligns with the company's material climate-related risks. If a company performs climate-related scenario analysis, then it uses that analysis to inform its resilience assessment.

A company that has carried out a thorough risk identification under ESRS E1-2 may be able to draw its resilience conclusions directly from that process without performing a separate exercise.

If a company uses scenario analysis specifically to assess climate resilience, then it provides the disclosures required by paragraphs 17 and 19 of ESRS E1. [ESRS E1.AR7]

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**Insight 4.1.50**
**Is a company required to reassess its climate resilience at each reporting date?**

No. A company updates its resilience analysis when its assessment of climate-related IROs changes (see 2.2.150). This may coincide with the reporting date.

However, the resilience assessment disclosed needs to reflect the conditions at the reporting date. Therefore, the company considers whether the underlying analysis remains appropriate at each reporting date and updates it if necessary. [ESRS E1.AR9]

**Insight 4.1.60**
**Does the climate resilience disclosure need to be quantified?**

No. ESRS E1 requires the company to disclose the results of its resilience analysis, significant areas of uncertainty and its capacity to adjust or adapt. However, it does not prescribe quantification. [ESRS E1.19]

A company may present its resilience assessment qualitatively, drawing on its scenario analysis and risk identification. If a company discloses quantified anticipated financial effects, then it may cross-refer to those figures to support its resilience narrative, but it is not required to do so.

## 4.1.80 Policies related to climate change

ESRS E1-4 contains no incremental climate-specific requirements relating to policies on climate change. Therefore, a company discloses all policies, including those related to climate change mitigation and climate change adaptation, under GDR-Policies in ESRS 2. [ESRS E1.20]

A company might establish specific climate-related policies for several reasons. It may be subject to regulatory obligations that require structured internal governance, such as participation in emissions trading schemes (e.g. EU ETS) or compliance with national climate legislation. Users (e.g. lenders, insurers, investors and counterparties) may also expect a company to demonstrate how it manages climate-related risks and opportunities through formal policies and processes.

## 4.1.90 Actions and resources related to climate change

Under ESRS E1, a company discloses information about its climate-related actions and the resources allocated to them to help users understand how it is responding to its material climate-related IROs. These disclosures build on a company's assessment of its climate-related IROs by explaining how its planned and ongoing actions address those IROs and contribute to achieving its targets and, when applicable, its transition plan. [ESRS E1.21]

A company's actions and related resources show how it responds to its material climate-related IROs and how this contributes to progress against its climate-related commitments. If the company has adopted a transition plan (see 4.1.50), then these actions typically form a central part of its plan, explaining how it implements its decarbonisation levers (see Insight 4.1.10). However, actions such as reducing GHG emissions, improving energy efficiency and managing physical climate-related risks remain relevant even if the company has not developed a transition plan.

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A company discloses all climate change mitigation and climate change adaptation actions under GDR-Actions in ESRS 2 (see 3.2.30). ESRS E1-5 supplements the general disclosure requirements with additional requirements for disclosing climate-related actions, as set out in the table below. [ESRS E1.22]

| Information | What to disclose |
|---|---|
| **Climate change mitigation actions** | • Key climate change mitigation actions, by decarbonisation lever. [ESRS E1.22(a)] |
| **GHG emissions reduction** | • GHG emissions reductions achieved and expected, by decarbonisation lever. [ESRS E1.22(b)] |

**Example 4.1.70**
**Disclosing climate change mitigation actions by decarbonisation lever**

Company M is a manufacturing company that identifies three decarbonisation levers:

- electrifying heat processes;
- improving energy efficiency; and
- engaging suppliers on raw material emissions.

For each lever, M describes the associated actions, including installing industrial heat pumps at two facilities, upgrading lighting and building management systems, and introducing a supplier code that requires scope 1 and scope 2 emissions reporting by Year 3.

M also discloses its committed capex of 12 million over the next three years for electrification and capital investments under the efficiency programme, and annual opex of 1.5 million for other activities of the efficiency programme. It explains that supplier engagement activities are delivered using existing staff resources.

## 4.1.100 Climate-related metrics

Under ESRS E1, a company discloses information about climate-related metrics to help users understand its performance and progress in responding to material climate-related IROs.

These disclosures translate the company's strategy and actions into measurable information about its emissions profile, resource use and financial exposure to climate-related risks and opportunities, and how these evolve over time. They also support users in assessing how the company is progressing towards its climate-related targets and how these align with its overall strategy and transition planning.

A company applies GDR-Metrics in ESRS 2 (see 3.2.50) to disclose the following metrics introduced in ESRS E1:

- energy consumption and mix (see 4.1.110);
- GHG emissions (see 4.1.120);
- carbon credits and internal carbon pricing (see 4.1.130–140); and
- the anticipated financial effects of material climate-related risks and opportunities (see 4.1.150).

These disclosures can help users compare information across companies and over time, as well as assess whether companies are progressing against their climate-related commitments and where exposures remain.

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## 4.1.110 Energy consumption and mix

Under ESRS E1, a company discloses information about its energy consumption and mix to help users understand how energy use contributes to its GHG emissions and progress in its energy transition. [ESRS E1.25]

These disclosures provide insight into the company's energy intensity, its reliance on different energy sources and the extent to which it is shifting towards lower-carbon or renewable energy[1]. They also help users assess how energy-related actions contribute to the company's decarbonisation strategy.

The table below summarises the disclosures required under ESRS E1-7 on all types of energy production and consumption. [ESRS E1.9]

| Information | What to disclose |
|---|---|
| **Total energy consumption** | • Information about the company's total energy consumption in its own operations, disclosed in MWh and disaggregated by source, including by:<br>– fossil sources;<br>– nuclear sources; and<br>– renewable sources [ESRS E1.26]<br>• A statement on whether the methodology used is market-based or location-based. [ESRS E1.AR18(i)]<br>A methodology is 'location-based' when it reflects the emissions intensity of physical sources of energy consumed by the company, or of the electricity grid where it operates. Market-based methodologies include contractual instruments that a company has purchased (e.g. renewable energy certificates). |
| **Disaggregation of energy consumption from fossil sources** | • Energy consumption from the following fossil sources when a company operates in a high-climate impact sector[2]:<br>– coal and coal products;<br>– crude oil and petroleum products;<br>– natural gas;<br>– other fossil sources; and<br>– purchased or acquired electricity, heat, steam or cooling from fossil sources. [ESRS E1.27] |
| **Energy production** | • Disaggregation of renewable and non-renewable energy production, in MWh, when applicable. [ESRS E1.28] |

1. Energy from renewable, non-fossil sources, including wind, solar (solar thermal and photovoltaic), geothermal, ambient energy, tide, wave and other ocean energy, hydropower, biomass, landfill gas, sewage treatment plant gas and biogas, as defined in Directive (EU) 2018/2001, which promotes the use of energy from renewable sources.
2. Sectors that are listed in Sections A–H and L of Annex I to the NACE Regulation (as defined in the SFDR Regulatory Technical Standards).

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### Insight 4.1.70
### When reporting metrics for its energy consumption and its GHG emissions, does a company apply the same reporting boundary?

It depends. For most metrics, including energy consumption, ESRS 1 uses the same reporting boundary as the company's financial statements. Limited exceptions apply when determining what is included in a company's own operations, such as for leases (see 2.1.40–50 and Example 2.1.80).

However, a company has greater choice over how it measures GHG emissions compared to energy consumption, because it can elect to measure emissions using any of the organisational boundary approaches from the GHG Protocol Corporate Accounting and Reporting Standard (2004) (GHG Protocol Corporate Standard). [ESRS 1.60, ESRS E1.AR19]

If a company elects to use the operational control or equity share approach for its GHG emissions, then the reporting boundary may differ from that used for its energy consumption disclosures. This may occur despite energy consumption being closely related to GHG emissions and often based on the same source data.

### Insight 4.1.80
### Do ESRS prescribe a method for calculating energy consumption?

Yes. A company applies defined calculation approaches to ensure that energy consumption information is consistent, comparable and free from double counting.

Specifically, a company:

- excludes fuels and feedstocks when they are not combusted for energy purposes – when the company consumes fuel as feedstocks, it may disclose this consumption separately;
- measures combustion-related energy in MWh using lower heating value or net calorific value;
- reports energy on the basis of final energy consumption, reflecting the energy it actually consumes;
- avoids double counting when consuming self-generated energy by reporting it only once under fuel consumption;
- does not offset energy consumption, including when it sells onsite-generated energy to third parties;
- excludes energy sourced within its organisational boundary from 'purchased or acquired' energy;
- includes waste energy received from third parties (e.g. steam, heat or cooling) within 'purchased or acquired' energy; and
- classifies renewable hydrogen as a renewable fuel but includes other hydrogen under non-renewable fuel consumption. [ESRS E1.AR18(a)–(h)]

When splitting electricity, steam, heat or cooling between renewable and non-renewable sources, a company adopts a conservative approach and clearly states whether it uses a market-based or location-based method. For market-based reporting, it treats energy as renewable only if contractual instruments clearly support this classification. [ESRS E1.AR18(i)]

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**Insight 4.1.90**
**What are high-climate impact sectors, as defined in ESRS E1?**

High-climate impact sectors are those listed in the following sections of the NACE Regulation as defined in the EU SFDR Regulatory Technical Standards. Although ESRS E1 is silent on the version of NACE a company uses, the SFDR Regulatory Technical Standards refers to NACE Revision 2:

- Section A: Agriculture, forestry and fishing (NACE Divisions 01–03);
- Section B: Mining and quarrying (NACE Divisions 05–09);
- Section C: Manufacturing (NACE Divisions 10–33);
- Section D: Electricity, gas, steam and air conditioning supply (NACE Division 35);
- Section E: Water supply; sewerage, waste management and remediation activities (NACE Divisions 36–39);
- Section F: Construction (NACE Divisions 41–43);
- Section G: Wholesale and retail trade; repair of motor vehicles and motorcycles (NACE Divisions 45–47);
- Section H: Transportation and storage (NACE Divisions 49–53); and
- Section L: Real estate activities (NACE Division 68).

## 4.1.120 GHG emissions

Under ESRS E1, a company discloses information about its gross scope 1, scope 2 and scope 3 GHG emissions (as defined in the standard and reproduced in the glossary) to help users understand its direct and indirect impacts on climate change. [ESRS E1.29]

The table below summarises the disclosures on GHG emissions under ESRS E1-8.

| Information | What to disclose |
|---|---|
| **Scope 1 emissions** | • Gross scope 1 emissions in metric tonnes of $CO_2e$, with direct biogenic $CO_2$ emissions disclosed separately. [ESRS E1.30(a)(i), 31]<br>• Percentage of scope 1 emissions from activities covered by the EU ETS, if applicable. [ESRS E1.30(a)(i)] |
| **Scope 2 emissions** | • Gross location-based scope 2 emissions in metric tonnes of $CO_2e$. [ESRS E1.30(a)(ii)]<br>• Gross market-based scope 2 emissions in metric tonnes of $CO_2e$. [ESRS E1.30(a)(ii)]<br>• Information about any contractual instruments to allow users to understand the company's scope 2 market-based GHG emissions. [ESRS E1.AR23(b)] |
| **Scope 3 emissions** | • Gross scope 3 emissions in metric tonnes of $CO_2e$ as a total and for each significant scope 3 category. [ESRS E1.30(a)(iii)]<br>• Significant scope 3 categories are identified based on the magnitude of estimated emissions and criteria – e.g. financial spend, influence, sustainability-related transition risks and opportunities, or stakeholder views. [ESRS E1.AR24(c)]<br>• GHG emissions from purchased cloud-computing and data-centre services, when applicable, as a subset of scope 3 category 1 emissions from upstream purchased goods and services. [ESRS E1.AR24(g)] |

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| Information | What to disclose |
|---|---|
| **Disaggregation of scope 1 and 2 emissions** | • Scope 1 and scope 2 emissions disaggregated between:<br>– the consolidated accounting group (e.g. for a company applying IFRS Accounting Standards, this includes the parent company and its consolidated subsidiaries); and [ESRS E1.30(c)]<br>– other emissions excluded from the consolidated accounting group (e.g. for a company applying IFRS Accounting Standards, this includes emissions from associates, joint ventures and unconsolidated subsidiaries). [ESRS E1.30(c)] |
| **Measurement methodology** | • The approach used to measure GHG emissions. [ESRS E1.30(b)] |

The following table summarises the calculation and measurement requirements in ESRS E1 that apply when preparing GHG emissions disclosures under ESRS.

| Item | Calculation requirements |
|---|---|
| **Reporting boundaries for GHG emissions** | • ESRS allow a choice between the organisational boundary approaches available under the GHG Protocol Corporate Standard: either a control approach (financial or operational) or an equity share approach. [ESRS E1.AR19]<br>• Irrespective of the method applied, ESRS 1 contains exceptions that affect the reporting boundary, including for:<br>– ***leased assets:*** where impacts from using the assets, including emissions, are included within scope 1 and 2 for the lessee, and scope 3 category 13 for the lessor (see 2.1.40);<br>– ***long-term employee benefit schemes:*** which are included as scope 3 category 15; and<br>– ***joint operations:*** which are included based on the share of assets, liabilities, revenues and expenses recognised in the financial statements (see 2.1.50). [ESRS 1.61, 71–72, AR36, ESRS E1.AR19] |
| **GHG Protocol Standards** | • When preparing information on GHG emissions, a company:<br>– considers the GHG Protocol Corporate Standard, the GHG Protocol Scope 2 guidance (2015) and the GHG Protocol Corporate Value Chain (Scope 3) Standard (2011);<br>– applies the ESRS requirements if they differ from those in the GHG Protocol Standards – e.g. the exceptions listed above in ESRS 1 affecting reporting boundaries; and<br>– may also consider the EU Environmental Footprint Method (based on Commission Recommendation (EU) 2021/2279) or EN ISO 14064-1:2018. [ESRS E1.AR20(a), AR23, AR24] |
| **GHGs included** | • Include all seven gases under the Kyoto Protocol – i.e. $CO_2$, $CH_4$, $N_2O$, HFCs, PFCs, $SF_6$ and $NF_3$.<br>A company may include additional GHGs when they are significant. For example, emissions of CFCs may be significant for a company disposing of legacy refrigerant systems. [ESRS E1.AR20(b)] |
| **Global warming potentials (GWPs)** | • Use the most recent GWP values published by the Intergovernmental Panel on Climate Change (IPCC) based on a 100-year time horizon.<br>A company may use emissions factors based on older GWP values when they are the most suitable or available. It then explains which GWPs its GHG inventory uses. [ESRS E1.AR20(c)] |
| **Accounting for removals and carbon credits** | • Exclude removals and any purchased, sold or transferred carbon credits, or any GHG allowances, from the calculation of GHG emissions.<br>• Present information about removals and carbon credits separately (see 4.1.130). [ESRS E1.AR20(d)] |

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| Item | Calculation requirements |
|---|---|
| **Biogenic emissions** | • Exclude biogenic $CO_2$ emissions from gross scope 1, scope 2 and scope 3 emissions, disclosing any direct biogenic $CO_2$ emissions separately. [ESRS E1.31, AR20(e)]<br>• Include any non-$CO_2$ biogenic emissions (e.g. $CH_4$ and $N_2O$) in the relevant scope. [ESRS E1.31, AR20(e)] |
| **Scope 1 covered by EU ETS** | • Report scope 1 emissions under EU ETS methodology for those activities it covers. [ESRS E1.AR21]<br>• Can opt to use this methodology for geographies and sectors that are not in the scope of EU ETS, provided it is relevant and aligns with local jurisdictional rules. [ESRS E1.AR21]<br>• Calculate the percentage subject to EU ETS by dividing the GHG emissions ($tCO_2e$) from emissions sources subject to EU ETS by the scope 1 GHG emissions ($tCO_2e$).<br>In this calculation:<br>– ensure that the accounting period is the same for both the gross scope 1 emissions and emissions regulated under the ETS; and<br>– consider GHG emissions from sources that are subject to EU ETS. [ESRS E1.AR22] |
| **Scope 3 methodology** | • In disclosing its scope 3 emissions, a company:<br>– screens its total scope 3 emissions based on the 15 categories identified by the GHG Protocol Standards, using relevant estimates, or alternatively screens indirect GHG emissions using the categories in EN ISO 14064-1:2018, Clause 5.2.4 (excluding indirect emissions from imported energy);<br>– prioritises inputs and assumptions based on the characteristics of the underlying data (e.g. specificity to the activity, timeliness, relevance to the jurisdiction and technology used, and verification status);<br>– updates scope 3 emissions annually for each significant category and updates the full scope 3 inventory at least every three years, or when a significant event or change in circumstances occurs; and<br>– considers the Partnership for Carbon Accounting Financials (PCAF) Part A when it is a financial institution. [ESRS E1.AR24] |

### Insight 4.1.100
### Do ESRS prescribe how a company disaggregates GHG emissions?

No. A company disaggregates its GHG emissions in a way that provides the most relevant information to users (see 2.2.170). For example, it could disaggregate its emissions by:

- country or geography;
- operating segment;
- economic activity;
- subsidiary;
- GHG; or
- source type. [ESRS E1.AR25]

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**Insight 4.1.110**
**Do ESRS require a company to present its GHG disclosures in a specific way?**

No. However, ESRS E1 provides guidance on how to present certain GHG emissions disclosures.

A company can follow the format of the table in Example 4.1.80, populating rows that are relevant to its disclosures. Using the table could help demonstrate changes in its GHG emissions from the previous period as required by the general disclosure requirements in ESRS 2. [ESRS 2.49(d)]

Regardless of the format a company uses to present the information, it disaggregates its GHG emissions in accordance with the requirements in ESRS 1. [ESRS E1.AR25–26]

**Example 4.1.80**
**Presenting scope 1, 2 and 3 emissions with comparatives**

Company H operates owned, leased and managed hotels. Significant emissions arise from hotel energy use, purchased goods and services (including food, beverages and guest amenities), capex on hotel development and refurbishment, employee travel and commuting, waste and leased properties. H does not have emissions in scope of the EU-ETS.

H selects its base year (Year 1) and presents its current-year emissions, the relevant reference value from the base year and the percentage change as follows.

| GHG emissions | Year 1 (base year), in $tCO_2e$ | Year 6 (prior year), in $tCO_2e$ | Year 7 (current year), in $tCO_2e$ | Percentage change from base year |
|---|---|---|---|---|
| **Scope 1 gross GHG emissions** | 30,200 | 29,900 | 28,500 | (5.6%) |
| **Scope 2 gross GHG emissions – location-based** | 44,000 | 43,490 | 41,800 | (5.0%) |
| **Scope 2 gross GHG emissions – market-based** | 14,100 | 12,430 | 12,400 | (12.1%) |
| **Significant scope 3 gross GHG emissions** | 253,300 | 240,500 | 240,600 | (5.0%) |
| Purchased goods and services | 144,500 | 140,240 | 138,000 | (4.5%) |
| Capital goods | 58,100 | 50,300 | 54,200 | (6.7%) |
| Fuel- and energy-related activities | 23,400 | 23,000 | 22,500 | (3.8%) |
| Waste generated in operations | 9,200 | 9,010 | 8,900 | (3.3%) |
| Business travel | 7,100 | 7,050 | 6,400 | (9.9%) |
| Employee commuting | 11,000 | 10,900 | 10,600 | (3.6%) |
| **Direct biogenic $CO_2$ emissions** | 1,100 | 1,210 | 1,200 | 9.1% |

## 4.1.130 GHG removals and mitigation projects financed through carbon credits

Under ESRS E1, a company discloses information to help users understand:

- its actions to permanently remove or actively support the removal of GHGs from the atmosphere; and
- the extent and quality of carbon credits it has purchased or intends to purchase from the voluntary market. [ESRS E1.32]

GHG removals are activities in a company's own operations to remove GHGs from the atmosphere. These activities can include both nature-based solutions and technological removals and storage. GHG removals can also refer to situations where a company influences activities in its value chain.

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This contrasts with mitigation projects financed through carbon credits which are generally outside a company's operations and value chain. These projects may involve either reducing GHG emissions or removing GHGs from the atmosphere. A company typically supports these projects by purchasing carbon credits.

A carbon credit is a transferable or tradable instrument that represents one metric tonne of $CO_2e$ emissions reduction or removal and is issued and verified according to recognised quality standards.

A company reports its GHG removals and mitigation projects financed through carbon credits separately. Neither can be netted against its gross GHG emissions (see 4.1.120 and Insight 4.1.140). [ESRS E1.AR20(d)]

The table below summarises the disclosures under ESRS E1-9 on GHG removals and carbon credits.

| Information | What to disclose |
|---|---|
| **GHG removals** | • A brief description of each GHG removal and storage project implemented in the company's own operations or within its value chain. [ESRS E1.33(a)]<br>• Amount of GHG removals and storage per project. [ESRS E1.33(b)]<br>• How the company manages the risk of non-permanence (including leakage and reversal). [ESRS E1.33(c)]<br>• Reversals that have occurred in the reporting period, with a corresponding reduction of the reported amount of $CO_2$ removed and stored. [ESRS E1.33(d)] |
| **Carbon credits** | • The amount of carbon credits ($tCO_2e$) that are verified against recognised quality standards for carbon credits and cancelled in the reporting period (e.g. credits certified by Verra (the Verified Carbon Standard) or Gold Standard[3]). [ESRS E1.34(a), AR28(a)]<br>• The amount of carbon credits ($tCO_2e$) purchased in the reporting period but not yet cancelled. This is calculated as the sum of carbon credits, in metric tonnes of $CO_2$-equivalent, over the duration of existing contractual agreements. [ESRS E1.34(b), AR28(c)]<br>• The share (percentage of total volume) of carbon credits from removal projects, including whether they come from nature-based or technological sinks. [ESRS E1.34, AR28]<br>• For public claims of GHG neutrality that rely on carbon credits, an explanation of:<br>– whether and how these claims, and the use of carbon credits, do not hinder or undermine the company's ability to achieve its GHG emissions reduction targets; and<br>– the credibility and integrity of the carbon credits used, by reference to recognised quality standards and any other relevant factors. [ESRS E1.35]<br>For this disclosure, a company excludes carbon credits issued from GHG emissions reduction or removal projects within its own operations or the value chain (see Insight 4.1.160). |

3. Verra (which issues the Verified Carbon Standard) and Gold Standard are both independent organisations that administer voluntary carbon crediting standards, under which GHG reductions and removals are independently verified and issued as carbon credits.

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### Example 4.1.90
### Disclosing carbon credit use

Company X has set a target to achieve net-zero emissions by Year 19, relative to a Year 1 baseline of 450,890 $tCO_2e$. To support this objective, it aims to reduce its gross GHG emissions by at least 95% from the Year 1 baseline by expanding its use of renewable energy, adopting more sustainable building materials and transitioning to a fully electric vehicle fleet.

It plans to neutralise residual emissions that are hard to abate using carbon credits, capped at a maximum of 5% of baseline emissions. To support this approach, Company X has entered into forward purchase agreements for 75,000 $tCO_2e$ of carbon credits, which is sufficient to meet its planned neutralisation requirements for the first three years from Year 19.

All of X's carbon credits are nature-based removals sourced from projects with a minimum permanence period of 50 years. Verification is conducted annually by recognised third-party schemes, including Verra and Gold Standard, to ensure alignment with internationally accepted quality criteria. It also assesses credit permanence based on project type and location, with buffer reserves maintained in accordance with certifier requirements.

Company X discloses its planned use of carbon credits as part of its sustainability reporting, providing transparency on how these instruments contribute to the achievement of its net-zero target. [Annex II]

### Insight 4.1.120
### How are carbon credits generated?

Carbon credits generally fall into two categories: emissions reduction credits and removal credits. Emissions reduction credits are generated from activities that avoid or reduce GHG emissions relative to a baseline (e.g. through renewable energy projects). Removal credits are generated from activities that remove GHG emissions from the atmosphere and store them, either through nature-based solutions (e.g. planting trees) or technological approaches (e.g. direct air capture with storage).

### Insight 4.1.130
### Is a carbon credit the same as a carbon offset?

No. The terms 'carbon credit' and 'carbon offset' are sometimes used interchangeably, but they are not the same thing.

A carbon credit refers to a specific, tradable instrument that can be purchased or generated, representing one tonne of $CO_2$-equivalent emissions reduction or removal. It is issued and verified against recognised quality standards.

ESRS provide a definition and requirements specific to carbon credits. Under ESRS, a company discloses any GHG emissions reduction targets before taking into account the effect of carbon credits. [ESRS E1.AR12, Annex II]

By contrast, a carbon offset refers to the underlying reduction, removal or avoidance of GHG emissions from a specific project that is used to offset emissions occurring elsewhere. ESRS do not refer to carbon offsets.

When a carbon credit is cancelled or retired to compensate for the company's own GHG emissions, it functions as a carbon offset.

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### Insight 4.1.140
### Why do ESRS require gross presentation of carbon credits and removals?

Carbon credits represent emissions reductions or removals that are outside a company's operations and value chain. Under ESRS, a company presents carbon credits separately from its scope 1, 2 and 3 emissions so that users can understand its actual emissions performance and its reliance on other measures to achieve its climate-related objectives. [ESRS E1.AR20(d)]

This approach reflects the fact that, even when using high-quality carbon credits, uncertainties remain over their credibility. Carbon credits can vary in quality and uncertainty may arise over whether the underlying emissions reductions or removals will be achieved and maintained over time. As a result, offsetting gross emissions against carbon credits could obscure information that users consider relevant.

GHG removals can relate to activities within the company's operations and value chain that remove GHGs from the atmosphere. For example, a cement manufacturer may install a direct air capture unit to remove $CO_2$ from the atmosphere.

A company reports GHG removals within its own operations and value chain separately from its scope 1, 2 and 3 emissions because there is often uncertainty around whether the removal is permanent. Nature-based solutions in particular carry risks of reversal (e.g. forests destroyed by wildfire, soil carbon released through land use change). To manage this uncertainty, ESRS E1 requires a company to explain how it manages the risk of non-permanence. [ESRS E1.32–33, AR27]

### Insight 4.1.150
### Do ESRS prescribe a method for determining GHG removals?

No. However, ESRS E1 sets expectations that guide how a company determines and reports removals. In particular, a company:

- applies recognised or emerging consensus methodologies – e.g. those developed under the EU Carbon Removals and Carbon Farming Certification Regulation – as they become available;
- includes only removals from activities it owns, controls or to which it actively contributes;
- excludes removals that have been sold as carbon credits and ensures removals are not double counted or reported;
- accounts for GHG emissions associated with removal activities under ESRS E1-8 (see 4.1.120), including transport and storage; and
- includes relevant value chain removal activities when it actively contributes to these.

These requirements support consistency, transparency and faithful representation in reporting GHG removals. [ESRS E1.AR27]

### Insight 4.1.160
### Can a company report carbon credits for GHG reductions or removals within its own operations or value chain?

No. A company only reports carbon credits for GHG reductions or removals relating to projects outside its own operations or value chain. Otherwise, the same benefit could be recognised as part of the company's emissions reduction performance or as a removal – and as a carbon credit – resulting in double counting. [ESRS E1.AR28(b)]

For example, a company funds a reforestation project in its value chain that removes GHG emissions and generates carbon credits. The company reports the GHG removal separately from its gross GHG emissions but does not report the associated carbon credits, because doing so would represent double counting of the same climate-related benefit.

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## 4.1.140 Internal carbon pricing

Under ESRS E1, a company discloses information about internal carbon pricing to help users understand how these schemes support decision-making. However, the standard does not require a company to establish or use an internal carbon price. [ESRS E1.36–37]

An internal carbon price is the monetary amount a company allocates to each unit of carbon emitted, or forecast to be emitted, within its management accounts or financial planning. It supports decision-making by helping a company to quantify the potential cost of emissions across its activities.

Internal carbon prices can help a company assess the:

- financial implications of changes in investment, production and consumption patterns;
- potential effects of technological developments; and
- expected costs associated with future emissions reduction initiatives.

Information about using an internal carbon price can help users assess a company's governance and how management is encouraging behavioural change to reduce GHG emissions.

A company commonly uses two types of internal carbon prices:

- ***shadow price:*** a theoretical or notional amount that a company uses to assess the economic implications or trade-offs associated with climate-related decisions. For example, a company might apply a shadow price to procurement choices to compare the cost of higher- vs lower-emissions suppliers and incentivise the procurement of lower-carbon materials; and
- ***internal tax or fee:*** a carbon charge applied in the management accounts to specific activities, product lines or business units, based on emissions associated with that activity. For example, a company might apply an internal carbon price to business travel to encourage lower-carbon travel choices and generate funds for climate-related initiatives, helping employees better understand and reduce the environmental impact of their travel decisions. [Annex II]

The table below summarises the disclosures required on internal carbon pricing under E1-10.

| Information | What to disclose |
|---|---|
| **Internal carbon pricing** | • Whether and how the company applies internal carbon pricing in its decision-making (e.g. investment decisions, transfer pricing and scenario analysis). [ESRS E1.37(a)]<br>• Whether and how the carbon prices used are consistent with those applied in financial statement processes – e.g. impairment testing (see Insight 4.1.170). [ESRS E1.37(a)]<br>• The average carbon price per metric tonne of GHG emissions applied in each internal carbon pricing scheme. [ESRS E1.37(b)] |



**Example 4.1.100**
**Disclosing internal carbon prices used to influence business travel decisions**

Company Y has established an internal carbon price to accelerate decarbonisation and fund emissions reduction activities.

Y discloses that it applies a carbon price of 88 per $tCO_2e$ to scope 3 emissions associated with business air travel. Y explains that the carbon price is designed to encourage lower-emissions travel choices and promote the use of virtual meetings when appropriate.

Y also discloses that intracompany revenue generated from its carbon price is put towards energy-efficiency improvements at its facilities to reduce emissions.

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**Insight 4.1.170**
**Can a company use an internal carbon price to support impairment testing?**

It depends. A company may use an internal carbon price to support impairment testing if the basis for determining the internal carbon price meets the requirements of the applicable accounting standards.

If it meets these requirements, then a company may use an internal carbon price in projected cash flows to model the impact from:

- carbon taxes or emissions trading schemes that require it to pay for its GHG emissions;
- costs of purchasing emissions allowances or carbon credits, if the company expects they are necessary to continue operations; and
- additional opex or capex required to reduce emissions and avoid future carbon-related charges.

For further guidance on internal carbon prices in impairment testing, see our Climate change and impairment: How-to guide.

## 4.1.150 Climate-related anticipated financial effects

Under ESRS E1, a company discloses information about the anticipated financial effects of climate-related risks and opportunities to help users understand how these may affect its financial position, performance and cash flows over the short, medium and long term. [ESRS E1.38]

These disclosures add topic-specific requirements and form part of the information on current and anticipated financial effects provided under ESRS 2 (see 3.1.160). [ESRS E1.38, 39(a)–(b), 40(a)–(b)]

The table below summarises the disclosures about climate-related anticipated financial effects required under ESRS E1-11.

| Information | What to disclose |
|---|---|
| **Climate-related physical risks** | • The carrying amount of assets exposed to material physical risk before taking adaptation actions, including the relevant time horizons. [ESRS E1.39(a)]<br>• The percentage of assets exposed to material physical risk (based on their carrying amount) that are addressed by adaptation actions. [ESRS E1.39(b)]<br>• The monetary amount of net revenue from business activities that are subject to material physical risk, including the relevant time horizons and whether that amount is assessed before or after mitigation actions. [ESRS E1.39(c), AR30] |
| **Climate-related transition risks** | • The carrying amount of assets subject to material transition risk, including the relevant time horizons, and whether the amount is assessed before or after mitigation actions. [ESRS E1.40(a), AR30]<br>• A range of estimated potential stranded asset values in the medium and long term, based on a scenario aligned with limiting climate change to 1.5°C, including whether the amount is assessed before or after mitigation actions. [ESRS E1.40(a), AR30]<br>• The percentage of assets exposed to material transition risk (based on their carrying amount) that are addressed by mitigation actions. [ESRS E1.40(b)]<br>• A breakdown of the carrying amount of real estate assets used as loan collateral, by energy-efficiency class, with the class presented either as ranges of energy consumption in kWh/m² or as an Energy Performance Certificate (EPC) label. If the company cannot obtain this information without undue cost or effort, then it discloses the total carrying amount of real estate assets for which the energy-efficiency information is based on internal estimates. [ESRS E1.40(c), AR29(e)] |

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| Information | What to disclose |
|---|---|
| | • Estimated potential liabilities connected to climate-related transition that do not meet accounting recognition criteria but may need to be recognised in future reporting periods. If this information is disclosed in the financial statements, then the company cross-refers to the related item (see 6.1.30 and 6.1.40). [ESRS E1.40(d), AR31]<br>• The monetary amount of net revenue from business activities that are subject to material transition risk, including whether the amount is assessed before or after mitigation actions. [ESRS E1.40(e), AR30]<br>• The net revenue from customers operating in coal-, oil- and gas-related activities, including the relevant time horizons, when applicable. [ESRS E1.40(e), AR30] |
| **Methodology** | • The methodology applied to quantify the amounts disclosed for physical and transition risks, including:<br>– the scope of the calculations;<br>– critical assumptions, parameters and limitations; and<br>– whether the calculation leverages on the process used to identify and assess transition risks. [ESRS E1.41]<br>• The location of assets exposed to material physical risks, when relevant, aggregated in a manner that supports a faithful representation of those risks. [ESRS E1.AR32] |
| **Climate-related opportunities** | • The amount of assets or net revenue from business activities that are related to climate-related opportunities, including the relevant time horizons. [ESRS E1.42] |

### Insight 4.1.180
### Do specific requirements apply when preparing climate-related anticipated financial effects disclosures under ESRS E1?

Yes. When preparing anticipated financial effects disclosures under ESRS E1-11, a company:

- considers the time horizons over which climate-related effects could reasonably arise, covering short-, medium- and long-term periods;
- includes all of its own physical assets, including those recognised under finance leases and right-of-use assets (see 2.1.40);
- presents monetary information as either a single amount or a range, including percentages where relevant; and
- presents net revenue for the reporting period and the carrying amount of assets as at the reporting date, consistent with the financial statements. [ESRS E1.AR29(a)–(d), (f)]

### Insight 4.1.190
### Do the anticipated financial effects metrics in ESRS E1 require disclosure of forecast information?

No. The metrics for anticipated financial effects in ESRS E1 can help users understand which recognised assets, liabilities, income and expenses could be affected in the future. Estimated potential liabilities connected to climate-related transition will not necessarily be recognised as liabilities, but may be disclosed as contingent liabilities in the financial statements. [ESRS E1.38–40, AR29(d)]

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A company reports information that is consistent with the financial statements – i.e. information that is aligned with the items, amounts and explanations presented in the financial statements. This information may have predictive value without being a prediction or forecast. [ESRS E1.AR29(f), ESRS 1.QC2]

However, to meet the broader requirements for anticipated financial effects in ESRS 2, a company may use forward-looking information from a range of sources (see 3.1.180). This does not mean that it needs to prepare new forecasts solely for this purpose. Relevant information may draw on existing analyses, assumptions and estimates already used for financial reporting or risk assessment purposes. Examples may include:

- the inputs to its asset impairment testing for financial reporting purposes; and
- the output of its scenario or sensitivity analysis, if performed.

For further guidance on reflecting climate-related risks in impairment testing, see our Climate change and impairment: How-to guide.



**Insight 4.1.200**
**Is 'material physical risk' or 'material transition risk' defined under ESRS?**

No. When determining whether a climate-related physical or transition risk is material, a company:

- considers the definitions of those risks; and
- applies the concept of financial materiality (see Chapter 2.2).

Therefore, a climate-related physical or transition risk is material if it has, or could reasonably be expected to have, a material influence on the company's development, financial position, financial performance, cash flows, access to finance or cost of capital over the short, medium or long term. [ESRS 1.47]



**Insight 4.1.210**
**When disclosing the percentage of assets exposed to material physical risk, do ESRS specify when an asset is 'addressed by adaptation actions'?**

No. ESRS E1 requires a company to disclose the percentage of assets exposed to material physical risk that are addressed by adaptation actions, but it does not define when an asset is 'addressed by adaptation actions' and sets no explicit criteria for making this assessment. [ESRS E1.39(b)]

Climate-related adaptation relates to a company's process for adjusting to actual and expected consequences of climate-related impacts and includes adaptation actions to reduce physical risks arising from climate-related hazards. [ESRS E1.8]

A company applies judgement in determining whether an asset is 'addressed' by adaptation actions. For example, it may need to define criteria, including:

- the types of adaptation actions it considers relevant (e.g. physical retrofitting, relocation or operational changes);
- the level at which adaptation actions need to be implemented for an asset to be considered 'addressed' (e.g. asset-level vs site-level measures);
- whether or when to include actions that only partially mitigate or reduce a risk; and
- whether or when to include adaptation actions that are in progress or only at planning stage.

In applying this judgement, a company may also consider the extent to which an adaptation action reduces the underlying exposure or vulnerability of the asset.

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## 4.1.160 Climate-related targets

Under ESRS E1, a company discloses information about the climate-related targets it has set to help users understand how it intends to respond to its material climate-related IROs over time. [ESRS E1.24]

These disclosures provide insight into how a company's targets support its climate change mitigation and adaptation efforts, as well as how they align with its overall strategy and, when applicable, its transition plan.

A company applies GDR-Targets in ESRS 2 to all disclosures on climate-related targets (see 3.2.60). ESRS E1 builds on these requirements by specifying additional disclosures that can help users assess whether targets are robust, measurable and appropriately linked to the company's identified climate-related IROs. [ESRS E1.23]

When a company has adopted a transition plan, its climate-related targets will typically be a key feature of that plan (see Chapter 5.1).

A company discloses the following about the targets it has set.

| Information | What to disclose |
|---|---|
| **GHG emissions reduction targets** | • Absolute gross reduction targets for scope 1, 2 and 3 GHG emissions, either separately or combined. [ESRS E1.24(a)]<br>• For combined targets, details of:<br>– which GHG emissions scopes are covered; and<br>– the share for each respective scope. [ESRS E1.24(a)]<br>A company provides its gross targets without the actual or expected effects of GHG removals, carbon credits or avoided emissions (see 4.1.130). [ESRS E1.AR12]<br>Further, it may provide information about GHG emissions reduction targets together with climate change mitigation actions to show how decarbonisation levers contribute to achieving the targets (see 4.1.90). |
| **Scope of GHG emissions reduction targets – i.e. what is included** | • When the scope of the company's GHG emissions reduction targets differs from the scope of the reported amounts, disclose:<br>– the GHGs covered by the target; and<br>– the percentage of the company's scope 1, 2 and 3 emissions covered by the target. [ESRS E1.24(b)]<br>The reporting boundary for targets is consistent with the ESRS E1-8 disclosures (see 4.1.120). [ESRS E1.AR16] |
| **Methodology and assumptions used for GHG emissions reduction targets** | • Information about the scope and methodologies used to define the target, including:<br>– whether scope 2 emissions have been calculated using the location-based or market-based method; and<br>– any framework used to set the target, including any sectoral decarbonisation pathway and underlying climate-related scenarios used. [ESRS E1.24(c), AR12, AR17]<br>• Whether and how the company's greenhouse-gas reduction targets are science-based and align with limiting global warming to 1.5°C. This includes, if relevant, how its target compares with a sector-specific (if available) or cross-sector emissions pathway compatible with limiting global warming to 1.5°C. [ESRS E1.24(c), AR17]<br>• The key assumptions used in setting the targets, including how future developments (e.g. changes in demand, regulation and technology) may affect the company's GHG emissions and emissions reduction. [ESRS E1.24(c), AR17] |

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| Information | What to disclose |
|---|---|
| **Intensity targets** | • Intensity targets, presented as ratios of GHG emissions relative to a physical activity or economic output. [ESRS E1.AR13]<br>• Absolute emissions values for the target year and interim years, if the company has set only an intensity target. [ESRS E1.AR13]<br>A financial institution is exempt from disclosing absolute emissions values for scope 3 category 15 emissions, if it:<br>– uses physical or financial measures as denominators for its intensity targets and consistently discloses the related absolute financed emissions;<br>– explains the key drivers of expected changes in absolute financed emissions over time; and<br>– demonstrates how these factors compare to trends observed during the previous three to five years. [ESRS E1.AR13] |
| **Net-zero targets** | • An explanation of how a company intends to permanently neutralise any residual GHG emissions, if it discloses a net-zero target. [ESRS E1.AR11, Annex II] |

### Insight 4.1.220
### What is the difference between an absolute target and an intensity target?

An absolute target sets a goal to change the total level of a metric, regardless of how other factors may change. For example, a company may set a target to reduce its gross scope 1 and scope 2 GHG emissions by 50% by Year 11 from a Year 1 baseline.

An intensity target sets a goal to change a climate-related measure relative to another factor – e.g. operational output, revenue or production levels. For example, a company may set a target to reduce GHG emissions per tonne of product produced by 30% by Year 11, regardless of whether total gross emissions increases or decreases.

### Example 4.1.110
### Disclosing absolute GHG emissions when using an intensity-based target

Company K, an airline, sets a GHG intensity reduction target for Year 5, expressed as emissions per passenger kilometre. It does not set a separate absolute GHG emissions reduction target. Because it has set only an intensity target, it discloses the associated absolute GHG emissions values for the target year and any interim target years.

K expects passenger demand to grow steadily over the period, increasing the total number of passenger kilometres flown. Therefore, it projects its absolute GHG emissions to increase in both the interim and target years, despite a decline in its emissions per passenger kilometre.

K discloses these absolute values so that users can assess both the expected efficiency improvement and the anticipated increase in total emissions resulting from business growth.

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### Insight 4.1.230
### Can a company include purchased or planned carbon credits in its GHG emissions reduction targets disclosed under ESRS E1?

No. A company cannot use GHG removals, carbon credits or avoided emissions to meet its gross GHG emissions reduction targets, as defined by and disclosed under ESRS E1. [ESRS E1.AR12]

When a company monitors a net target, it separates the gross emissions reduction element of the target for disclosure under ESRS and presents information about any planned use of carbon credits separately (see 4.1.130).

Therefore, in disclosing progress against its gross GHG emissions reduction targets, a company reflects only actual reductions in its gross scope 1, scope 2 and scope 3 emissions. It does not include purchased or planned carbon credits, whether from emissions reduction projects (e.g. renewable energy and avoided deforestation) or from removal projects (e.g. direct air capture and nature-based removals).

### Example 4.1.120
### Separately presenting information about carbon credits and GHG emissions reduction targets under ESRS E1

Company C, a logistics business, sets a gross scope 1 and scope 2 emissions reduction target of 50% by Year 9. In parallel, it has made a promotional claim to become climate-neutral within its own operations by Year 6.

To support this claim, C has purchased carbon credits from a verified reforestation project, but does not use them to contribute towards its 50% gross reduction target disclosed in its sustainability statement.

For its 50% gross reduction target, C:

- explains that this covers scope 1 and scope 2 emissions only, indicating their respective shares;
- identifies that its base year is Year 1 and states the baseline emissions against which it measures progress;
- explains that this target has been validated by the SBTi as science-based and aligned with a 1.5°C pathway (including the methodology and assumptions used and the reference decarbonisation trajectory applied);
- describes the link between the target and its decarbonisation actions linked to fleet electrification, route optimisation and transition to renewable energy at its facilities, with cross-references to its disclosures on policies, actions and its transition plan; and
- explains how it measures and reports progress over time.

Separately, C discloses information about its use of carbon credits, including the volume of credits cancelled in the reporting period, the volume purchased but not yet cancelled and the share from removal projects.

Because it has made a public claim of carbon neutrality, C also explains how using credits does not hinder or undermine it achieving its 50% gross reduction target. It also describes the credibility and integrity of the credits used by reference to recognised quality standards.

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### Insight 4.1.240
### Is a company permitted to change its baseline value or base year?

It depends. ESRS E1 sets more explicit requirements for changing the baseline value or base year than the general requirements on base periods (see 3.2.60 and Insight 3.2.160). A company may change its baseline value or base year only when:

- a significant change occurs in either the target or the reporting boundary – e.g. as a result of an acquisition or disposal (see 2.1.20); and
- the updated base year is recent and representative – i.e. it is either the currently applied base year for existing targets or is the year the company first applies ESRS. [ESRS E1.AR14]

### Example 4.1.130
### Updating the base year or baseline value when the scope of a GHG emissions reduction target changes

Company R sets a combined scope 1 and scope 2 GHG emissions reduction target in Year 1 of 42% by Year 6, which aligns with a cross-sector 1.5°C pathway. In Year 4, it expands the target to include its scope 3 emissions.

Because the original base year data covered only scope 1 and scope 2 emissions, it no longer represents the scope of the revised target (see Insight 3.2.160). Therefore, R selects a new base year for which it has reliable scope 1, scope 2 and scope 3 emissions data so that the baseline aligns with what the target now measures.

### Insight 4.1.250
### Does a company need to benchmark its GHG emissions reduction targets against a 1.5°C-aligned reference target?

Yes. Under ESRS E1, a company explains whether and how its targets are compatible with limiting global warming to 1.5°C by:

- calculating 1.5°C-aligned reference target values separately for scope 1 and scope 2 emissions, and for scope 3 emissions if it has scope 3 emissions reduction targets;
- benchmarking its own targets against these reference values; and
- using this benchmarking to explain whether and how its targets align with limiting global warming to 1.5°C.

A company may also include information about:

- the validation provider, if the targets have been validated by an independent third party;
- the methodology applied; and
- the decarbonisation trajectory it used to assess alignment. [ESRS E1.AR17]

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# 4.2 Other environmental standards

## 4.2.10 Common requirements

Environmental topics other than climate give rise to IROs that may affect people or the environment, or a company's development, financial performance, financial position, cash flows, access to finance or cost of capital.

Under ESRS E2–ESRS E5, a company discloses material information about pollution (see Chapter 4.3), water (see Chapter 4.4), biodiversity and ecosystems (see Chapter 4.5), and resource use and circular economy (see Chapter 4.6) when it identifies material IROs related to these topics. These disclosures can help users understand how other environmental topics affect the company, people and the environment.

Because the requirements on context-specific considerations and connecting to other topics are substantively the same across ESRS E2–ESRS E5, this chapter addresses them once, in a consolidated section, rather than repeating similar guidance for each standard.

### 4.2.20 Context-specific considerations

Context is particularly important for other environmental IROs because their significance often depends on the specific conditions in which a company's activities or value chain interactions occur. These conditions differ by topic. Therefore, a company considers whether information needs to be aggregated or disaggregated at a level that reflects material differences in context. This may be by site, basin, ecosystem, biodiversity-sensitive area, pollutant, receiving medium, resource or material type, waste stream or another appropriate level.

The objective is to avoid aggregating information in a way that obscures material differences in the nature, severity, likelihood or financial effects of IROs. These considerations may apply across a company's own operations and its upstream and downstream value chain. [ESRS 1.AR16, AR33, ESRS E2.9, ESRS E3.8, ESRS E4.8]

The following table provides examples of context-specific considerations by topic.

| Topic | What 'context-specific consideration' means | Why it matters |
|---|---|---|
| **Pollution** (see Chapter 4.3) | • Pollutant type, toxicity, receiving medium, existing environmental quality, affected population or ecosystem, cumulative exposure, exposure pathway. | • The same volume of emissions can differ in significance depending on where the emissions are released and who or what is exposed to them. |
| **Water** (see Chapter 4.4) | • Basin condition, water stress, scarcity, quality, access, competing users, seasonality, source or receiving water body. | • The same water withdrawal or consumption can be more significant in a stressed basin than in a water-abundant area. |
| **Biodiversity and ecosystems** (see Chapter 4.5) | • Ecosystem type, habitat condition, species affected, conservation status, proximity to sensitive areas, existing pressures. | • The significance of the same activity can vary depending on the condition and sensitivity of the affected ecosystem – e.g. whether it is a degraded or protected area, or a habitat for threatened species. |
| **Resource use and circular economy** (see Chapter 4.6) | • Resource or material type, source and origin, scarcity or criticality, whether virgin or secondary, renewable or non-renewable, product or material characteristics, potential for reuse, repair, refurbishment, remanufacturing or recycling, and waste type and treatment route. | • The significance of the same quantity of resource use or waste can differ depending on the resource or material involved, how it is sourced and used, and the options available for retaining its value or treating it at end of life. |

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**Insight 4.2.10**
**Do ESRS prescribe a methodology for considering location-specific factors when identifying and assessing environmental IROs?**

No. ESRS do not prescribe a specific methodology for identifying and assessing environmental IROs. However, they refer to the Locate, Evaluate, Assess and Prepare (LEAP) approach as a useful reference. The Taskforce on Nature-related Financial Disclosures (TNFD) developed the LEAP approach to support companies in identifying and assessing environmental IROs. A company may find this approach useful because it provides a clear and systematic way to analyse how its activities interact with nature across locations and across its value chain. [ESRS 1.AR16]

The LEAP approach is organised into the following four steps. ESRS 1 refers to the first three steps.

1. ***Locate*** where interactions with nature occur across the company's own operations and upstream and downstream value chain.
2. ***Evaluate*** the related effects and dependencies.
3. ***Assess*** the associated risks and opportunities.
4. ***Prepare*** a response (e.g. through strategy, policies or targets).

Applying a location-based approach (e.g. LEAP) can help a company reflect the context-specific nature of pollution-, water-, and biodiversity- and ecosystem-related IROs. A company may also use other frameworks, tools, datasets, internal risk assessment processes, site-level studies, regulatory information, specialist judgement or stakeholder input – e.g. Integrated Biodiversity Assessment Tool (IBAT) or Science Based Targets Network (SBTN) guidance.

## 4.2.30 Connecting to other topics

Environmental IROs may arise across multiple topics when they stem from the same underlying activity or dependency. A company considers these interactions when identifying, assessing and managing its IROs.

Environmental topics influence each other, for example:

- Pollution may affect water quality and ecosystems, giving rise to both pollution- and biodiversity-related impacts.
- Water use may affect biodiversity and ecosystem services, creating water- and biodiversity-related risks and opportunities.
- Climate change may intensify water stress, biodiversity loss and pollution-related impacts, such as when drought increases pressure on water resources or extreme weather increases the risk of pollutant releases. Climate mitigation and adaptation actions may also create or reduce IROs across other environmental topics – e.g. through land use, resource demand or waste generation.
- Resource use and waste management may contribute to or mitigate pollution and biodiversity impacts. [ESRS E2.10, ESRS E3.9, ESRS E4.9, ESRS E5.7]

Environmental topics also interact with social and governance topics. For example, environmental impacts may affect people, including affected communities and consumers.

A company does not necessarily need to duplicate disclosure of the same underlying matter under each environmental topic. However, if an activity, dependency or event gives rise to material IROs across more than one topic, then the company considers which topic-specific requirements apply to each material IRO. It may present connected IROs together or use cross-references to avoid repetition, provided that the disclosures still address the relevant requirements and do not obscure material information (see 6.1.30). [ESRS 1.112–113]

For example, discharges from a production site may give rise to a material pollution-related impact and – if they affect the condition of a water body or ecosystem – material water- or biodiversity-related impacts. In this case, a company may explain the connected impacts together, but it considers whether the pollution, water and biodiversity disclosure requirements each require information about the related material IROs.

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# 4.3 Pollution

Additional requirements: Chapter 4.2

## 4.3.10 Pollution in sustainability reporting

Pollution can affect air, water, soil, ecosystems and human health. These effects may arise from a company's emissions, use of substances, release of microplastics, waste management practices or environmental accidents across its own operations and upstream and downstream value chain. A company may also be exposed to pollution-related conditions caused by others, such as contaminated land, poor ambient air quality, polluted water bodies, restrictions on pollutant releases and changes in regulation affecting substances used in its products or processes. [ESRS E2.7]

These pollution-related conditions can affect a company's own operations, upstream and downstream value chain and performance. For example, they may result in remediation obligations, operational restrictions, permitting constraints, litigation or fines, increased compliance costs, supply chain disruption, reduced access to sites or markets, or reputational effects.

As a result, users need information to understand a company's material pollution-related IROs, including its emissions of pollutants to air, water and soil, as well as the company's manufacture, use and release into the environment of microplastics. This includes information about how those IROs affect people and the environment, and how they may affect the company's performance and resilience.

Whether pollution-related IROs are material depends on a company's specific activities, exposures and context. A company assesses these IROs through its materiality assessment, considering its own operations and upstream and downstream value chain (see 4.2.20 and Chapter 2.2).

### 4.3.20 How the standard works

ESRS E2 expands on ESRS 2 by setting out topic-specific requirements on pollution.

The standard covers the following subtopics:

- pollution of air, water and soil;
- microplastics; and
- substances of concern (SoC), including substances of very high concern (SVHC). [ESRS E2.6]

ESRS 2 provides the general structure for disclosures, including strategy, governance and the management of IROs. Accordingly, a company provides information on its policies, actions, metrics and targets in accordance with the general disclosure requirements in ESRS 2 (GDR-Policies, GDR-Actions, GDR-Metrics and GDR-Targets) (see Chapter 3.2). [ESRS E2.4]

ESRS E2 supplements these requirements with more detailed, topic-specific information on material pollution-related IROs across a company's operations and value chain. [ESRS E2.3]

ESRS E2 does not cover GHG emissions. Instead, ESRS E1 covers emissions to air from GHGs (see Chapter 4.1). [ESRS E2.10(a)]

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| ESRS 1<br>General requirements | |
|---|---|
| **ESRS 2**<br>**Core content requirements (Chapter 3.1)** | **ESRS E2**<br>**Pollution-related requirements (Chapters 4.2 and 4.3)** |
| **Governance**<br>(3.1.60–80) | No additional requirements |
| **Strategy**<br>(3.1.100–220) | No additional requirements |
| **IRO management**<br>(3.1.240–250) | No additional requirements |
| **General disclosure requirements (Chapter 3.2)** | |
| **GDR-Policies**<br>(3.2.20) | No additional requirements |
| **GDR-Actions**<br>(3.2.30) | No additional requirements |
| **GDR-Metrics**<br>(3.2.50) | • Metrics related to:<br>– Pollution of air, water and soil (4.3.60)<br>– SOC and SVHC (4.3.70) |
| **GDR-Targets**<br>(3.2.60) | No additional requirements |

## 4.3.30 Interaction with existing legislation

ESRS E2 does not replace or duplicate existing environmental legislation. Instead, the disclosure requirements reference the following existing pollution-focused EU and international regulatory frameworks, and may align with data that companies already collect under those frameworks:

- EU Action Plan 'Towards Zero Pollution for Air, Water and Soil';
- Chemicals Strategy for Sustainability 'Towards a Toxic-Free Environment';
- Kyiv Protocol on Pollutant Release and Transfer Registers;
- European Pollutant Release and Transfer Register (E-PRTR) and the Industrial Emissions Portal Regulation (IEPR) amendments (Regulation (EU) 2024/1244 on the Industrial Emissions Portal);
- Industrial Emissions Directive (IED) and IED 2.0 amendments (Directive (EU) 2024/1785 on Industrial and Livestock Rearing Emissions);

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- Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), managed by the European Chemicals Agency (ECHA), including the Candidate List of Substances of Very High Concern and REACH-SPM amendments (Commission Regulation (EU) 2023/2055 on Synthetic Polymer Microparticles); and
- Regulation (EC) No 1272/2008 on the Classification, Labelling and Packaging of Substances and Mixtures (EU CLP Regulation).

## 4.3.40 Policies and actions related to pollution

ESRS E2 does not contain specific pollution-related disclosure requirements on policies or actions. Instead, under ESRS E2-1 and E2-2, if a company has material pollution-related policies or actions, then it discloses them in accordance with the requirements of GDR-Policies and GDR-Actions, respectively (see 3.2.20–30). [ESRS E2.11–12]

## 4.3.50 Metrics and targets related to pollution

Disclosures on metrics and targets can help users understand a company's performance in managing its material pollution-related IROs. The objective of these disclosures is to provide transparency on how a company tracks progress and performance in line with its policies, actions and targets. [ESRS E2.13–20]

### 4.3.60 Pollution of air, water and soil

Under ESRS E2-4, a company discloses information about its emissions of pollutants to air, water and soil, along with information on the manufacture, use and release of microplastics. [ESRS E2.14–16]

Pollution may arise from routine operations or from environmental accidents. An environmental accident is an unexpected event – e.g. a major emission, fire or explosion – resulting from uncontrolled developments during operations and leading to potential or actual negative impacts on human health or the environment. [Annex II]

Management identifies material emissions of pollutants by assessing which pollutants are relevant to a company's activities and sector. The E-PRTR and IEPR, together with other pollutants the company measures or monitors, can provide valuable inputs to this assessment. When determining whether emissions of a pollutant are material, the company can consider the thresholds for releases in the IEPR (see Insight 4.3.20). [ESRS E2.AR2]

E-PRTR is an EU regulation and system that creates a public database of environmental data from industrial facilities. It provides public access to data on emissions from industrial sites across Europe and covers releases of pollutants to air, water and soil, as well as off-site transfers of waste and wastewater. It also includes data for approximately 90 pollutants – e.g. GHGs and heavy metals – and applies to major industrial sectors such as energy, chemicals, metals and agriculture.

IEPR is the new EU regulation (Regulation (EU) 2024/1244) that establishes the Industrial Emissions Portal and will replace E-PRTR. This broader environmental reporting system will require operators to report pollutant releases and transfers along with resource use. It covers around 60,000 industrial facilities and provides a public online portal with searchable environmental data. First reporting under IEPR will apply to data from 2027 (with data published in 2028).

The pollution of air, water and soil includes the release of microplastics. Primary microplastics are synthetic polymer microparticles[1] that are intentionally manufactured or used and may be released into the environment during use or at end of life. Secondary microplastics are those that derive from the breakdown of larger plastic pieces (e.g. plastic waste, such as packaging and fishing nets) from products in the downstream value chain or unintentionally released through the product life cycle. [Annex II]

1. Synthetic polymer microparticles are solid particles that contain at least 1% by weight of synthetic polymer, or have a continuous synthetic polymer surface coating, and where at least 1% by weight of those particles either have all dimensions of 5 mm or less, or have a length of 15 mm or less and a length-to-diameter ratio greater than 3. The designation excludes certain naturally occurring, degradable, soluble and carbon-free polymers. See Commission Regulation (EU) 2023/2055 for the detailed definition, exclusions and derogations.

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A company discloses the following information.

| Information | What to disclose |
|---|---|
| **Pollutants** | • The amount of each material pollutant in relevant mass (e.g. kilograms or tonnes) emitted to air, water and soil from own operations, including due to environmental accidents. The amount is disclosed separately for each environmental medium – i.e. air, water and soil rather than as a combined total across all media. [ESRS E2.15, AR1] |
| **Microplastics** | • The amount of primary microplastics in relevant mass (e.g. kilograms or tonnes) manufactured or used in the company's products, disaggregated by the amount directly released into the environment. [ESRS E2.16, AR1] |
| **Transfers of water pollutants to external treatment plants** | • The amount of transfers of water pollutants to external treatment plants as an entity-specific disclosure, when material (see 2.3.40). [ESRS E2.AR3] |

### Example 4.3.10
### Disclosing material transfers of water pollutants to external treatment plants

Company B is a manufacturing company that generates wastewater containing pollutants and process residues. The majority of its wastewater is treated on site before discharge; however, a portion requires specialised treatment by a third-party wastewater facility. As such, B regularly transfers a portion of its wastewater off-site to the third-party facility.

During its materiality assessment, B determined that the wastewater transferred to the third-party facility represents a material pollution impact within its downstream value chain. B applies GDR-Metrics and reports the amount of wastewater transferred to the third-party facility as entity-specific information.

### Example 4.3.20
### Disclosing amounts of microplastics manufactured or used under ESRS E2

Company C manufactures personal care products and uses primary microplastic particles as inputs in some formulations. During the reporting period, it produces and uses a volume of microplastics. Some are incorporated into finished products and sold, some are released into the environment, and the remainder stays in storage or is reused internally.

When preparing its sustainability statement, C applies ESRS E2-4 by disclosing the amounts of primary microplastics manufactured or used in its products, disaggregated by the amount directly released into the environment. Microplastics that remain on site at the reporting date are not treated as directly released into the environment during the reporting period.

C has not identified a material pollution-related IRO arising from the microplastics retained on site, including through storage, handling, future use, waste management or accidental release. If such an IRO were material, then C would consider whether it needs to provide additional entity-specific disclosures.

### Insight 4.3.10
### Can a company exclude joint operations that it does not operationally control from its pollution-related metrics?

Yes. A company may exclude joint operations for which it does not have operational control when calculating its pollution-related metrics (see 2.3.200). [ESRS 1.92]

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**Insight 4.3.20**
**Is a company required to use the E-PRTR register when reporting on material pollutants under ESRS E2?**

No. E-PRTR and IEPR references are considered only as methodological guidance when applying ESRS E2. ESRS E2 focuses on material pollutants rather than requiring disclosure of all substances listed under E-PRTR and IEPR. [ESRS E2.AR2]

## 4.3.70 Substances of concern and substances of very high concern

Under ESRS E2-5, a company provides information to help users understand its material IROs linked to manufacturing, trading or using SoC and SVHC[2], including risks relating to changes in regulations. [ESRS E2.17]

Information provided may refer to information that the company is already required to report under other legislation. For example, releases of pollutants may already be reported under the EU's framework for regulating pollution from industrial activities (Directive 2010/75/EU–IED) or E-PRTR. Other disclosures, such as those relating to SoC or SVHC, may be subject to separate regulatory requirements. [ESRS E2.AR7]

Disclosure requirements relating to SoC and SVHC apply only for certain types of companies and products, including manufacturers, formulators, importers or users of substances, and manufacturers, importers or users of articles (i.e. physical items or components) containing SVHC.

An article is an object whose function is determined mainly by its shape, surface or design, rather than by its chemical composition. For example, a plastic casing, textile, screw or component part may be an article if its function depends mainly on its physical form. By contrast, a substance or mixture, such as a paint, adhesive or cleaning product, performs its function mainly through its chemical composition. [Annex II]

A company discloses the following information.

| Type of company | What to disclose |
|---|---|
| **Manufacturers, formulators or importers of substances operating in the chemical sector[3]** | • The total weight in relevant mass (e.g. kilograms or tonnes) of SoC and, separately, SVHC, whether produced as substances on their own or as components of mixtures, that the company:<br>– procured as substances;<br>– manufactured as substances;<br>– placed on the market as substances; and<br>– directly released into the environment (air, water or soil), including unintentional releases from leaks or spills. [ESRS E2.18, AR6]<br>• The SVHC grouped by hazard class as per CLP Regulation 1272/2008/EC.<br>When providing information about SVHC by hazard class, a company counts a substance under all applicable hazard classes but needs to avoid double counting the same substance in the total amounts of SVHC procured, manufactured, sold and released. For example, if one SVHC falls within two hazard classes, then it is reported under both hazard classes. However, the same quantity is included only once in the total amount of SVHC. [ESRS E2.AR5] |

2. A company can consult the Candidate List to identify SVHC. This list is managed by the ECHA.
3. A company that, based on its Statistical Classification of Economic Activities in the European Community codes (also known as 'NACE' codes), operates in the chemical sector and manufactures chemical substances, formulates chemical mixtures or operates in the wholesale of chemical substances. [ESRS E2.AR4]

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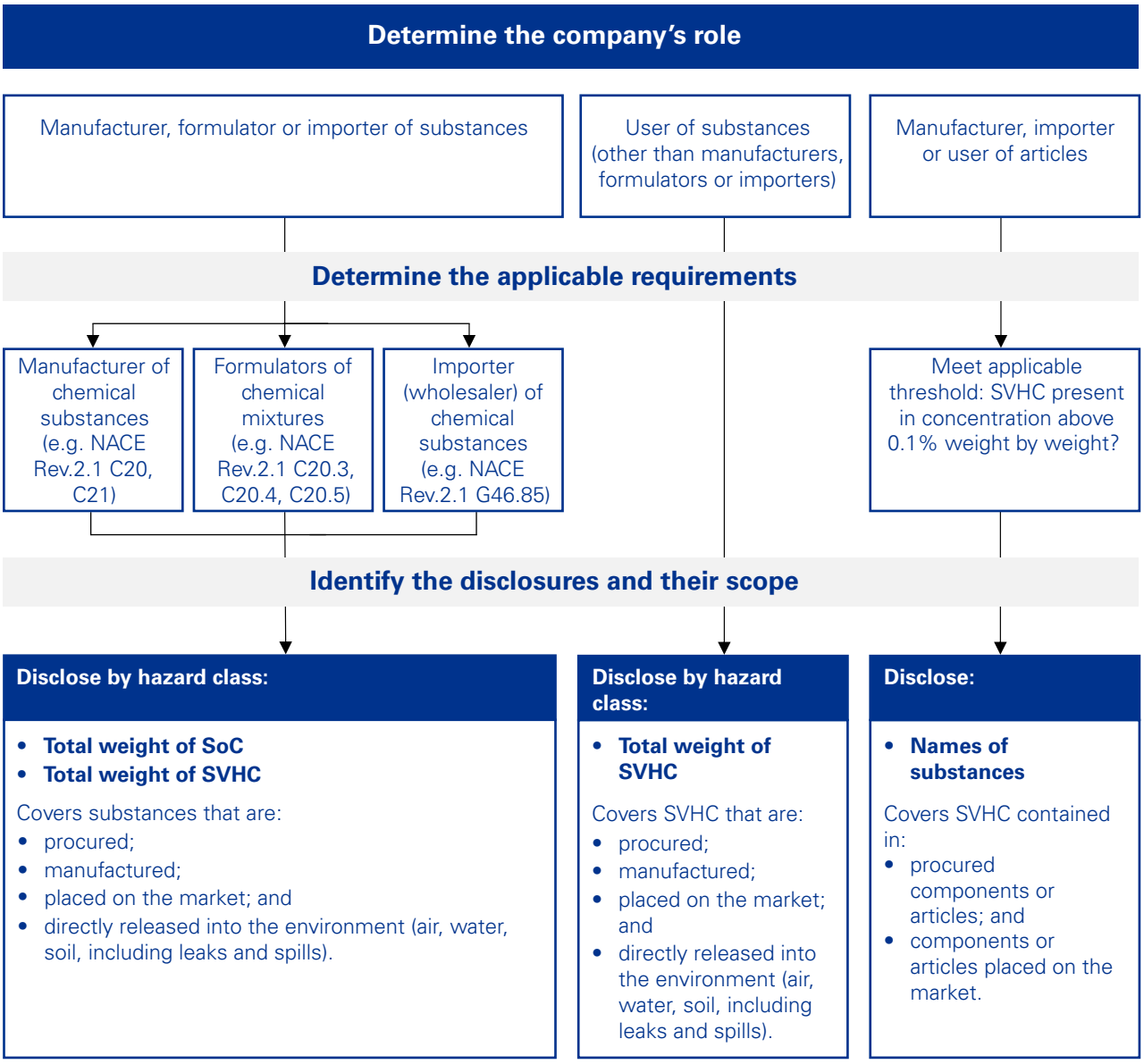
| Type of company | What to disclose |
|---|---|
| **Users of substances** | • The total weight of SVHC (on their own or in mixtures) in relevant mass (e.g. kilograms or tonnes) and grouped by hazard class:<br>– used during production and delivery of services; and<br>– directly released into the environment. [ESRS E2.19, AR5–AR6]<br>This does not apply for companies that are manufacturers, formulators or importers of substances. [ESRS E2.AR4] |
| **Manufacturers, importers or users of articles that contain SVHC** | • The names of SVHC that are present at concentrations above 0.1% weight by weight (w/w) in line with Article 33 of the REACH Regulation (EC No 1907/2006).<br>This applies only for substances contained in components or articles that are procured and/or placed on the market. [ESRS E2.20] |

The requirements for providing information about SoC and SVHC can be summarised as follows.

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**Example 4.3.30**
**Classifying a non-chemical manufacturer that imports substances for its own use**

Company N manufactures fire extinguishers using substances that contain SoC and SVHC. To manufacture its products, N purchases these substances, either on their own or in mixtures, from suppliers located outside Jurisdiction P (the relevant customs territory) and physically introduces those substances into that territory. The substances are not imported for resale or wholesale distribution as chemical substances. Instead, they are used as inputs in N's manufacturing process and become part of the finished fire extinguishers.

Although N physically introduces substances into the customs territory, N's main activity is the manufacture of fire extinguishers, and therefore the manufacture of non-chemical products. It does not manufacture chemical substances, formulate chemical mixtures or operate in the wholesale distribution of chemical substances.

Accordingly, N determines that it is a user of substances and discloses:

- the total weight of SVHC used during the production and delivery of its services; and
- the total weight of SVHC directly released into the environment.

As a user of substances, N is not required to disclose the total weight of SoC, even though the substances used in its fire extinguishers include SoC.

**Insight 4.3.30**
**Do the requirements for disclosing SoC in ESRS E2 apply to manufacturers of non-chemical products?**

No. As set out in ESRS E2, the disclosure requirements for SoC apply to companies operating in the chemicals sector, including manufacturers, formulators and importers. They do not apply to a company whose main activity is the manufacturing of non-chemical products. [ESRS E2.AR4]

## 4.3.80 Targets related to pollution

Under ESRS E2-3, a company discloses its pollution-related targets in accordance with the general disclosure requirements in ESRS 2, GDR-Targets (see 3.2.60). [ESRS E2.13]

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# 4.4 Water

Additional requirements: Chapter 4.2

## 4.4.10 Water in sustainability reporting

Water is a shared resource that supports ecosystems, communities and economic activities. It includes freshwater and other types of water, such as brackish water and seawater. Sources of water include surface water, groundwater, produced water and third-party water. [ESRS E3.7]

A company can affect water resources through its activities, while water-related conditions can give rise to IROs across its own operations and upstream and downstream value chain. At the same time, water-related issues (e.g. flooding, droughts and water pollution) can directly affect a company's ability to operate, maintain production and create value.

As a result, users need information to understand how the company's actions affect water resources, and how water-related issues affect its performance and resilience.

Water-related IROs typically relate to either:

- water quantity – e.g. insufficient water availability or excess water, including flooding; or
- water quality – which relates to the chemical, physical and ecological condition of water bodies.

Water-related IROs are often context-specific and may be linked to a particular site, river basin or area exposed to water stress. This affects how a company aggregates or disaggregates information when assessing materiality and disclosing water-related information (see 4.2.20 and Chapter 2.2). [ESRS E3.8]

### 4.4.20 How the standard works

ESRS E3 sets out topic-specific reporting requirements for water, which covers water use (including water withdrawal, consumption, discharge and storage). [ESRS E3.6]

A company provides information about its material water-related IROs across its own operations and upstream and downstream value chain, including information on policies, actions, metrics and targets in accordance with the general disclosure requirements in ESRS 2 (GDR-Policies, GDR-Actions, GDR-Metrics and GDR-Targets) (see Chapter 3.2). [ESRS E3.3–4]

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| ESRS 1<br>General requirements | |
|---|---|
| **ESRS 2**<br>**Core content requirements (Chapter 3.1)** | **ESRS E3**<br>**Water-related requirements (Chapters 4.2 and 4.4)** |
| **Governance**<br>(3.1.60–80) | No additional requirements |
| **Strategy**<br>(3.1.100–220) | No additional requirements |
| **IRO management**<br>(3.1.240–250) | No additional requirements |
| **General disclosure requirements (Chapter 3.2)** | |
| **GDR-Policies**<br>(3.2.20) | • Policies related to water (4.4.40) |
| **GDR-Actions**<br>(3.2.30) | • Actions and resources related to water (4.4.50) |
| **GDR-Metrics**<br>(3.2.50) | • Metrics related to water (4.4.70) |
| **GDR-Targets**<br>(3.2.60) | • Targets related to water (4.4.80) |

## 4.4.30 Interaction with existing legislation

ESRS E3 does not replace or duplicate existing environmental legislation. Instead, the disclosure requirements refer to EU and international frameworks on water management, water quality and water use. The frameworks referenced in ESRS E3 include the:

- EU Water Framework Directive (Directive 2000/60/EC);
- EU Drinking Water Directive (Directive 2020/2184/EU);
- Industrial Emissions Directive (Directive 2010/75/EU);
- EU Water Resilience Strategy;
- Eco-Management and Audit Scheme (EMAS) Regulation (Regulation 1221/2009/EC);
- UN Watercourses Convention (1997); and
- UNECE Water Convention (1992). [ESRS E3.5]

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## 4.4.40 Policies related to water

Under ESRS E3-1, a company discloses information about its water-related policies in accordance with ESRS 2 GDR-Policies (see 3.2.20). Disclosures on these policies can help users understand how the company identifies, assesses and manages its material water-related IROs in its own operations and across its upstream and downstream value chain. [ESRS E3.10]

Water-related policies typically explain how a company manages its dependence on water resources and how it works to reduce its water consumption.

ESRS E3 specifically requires information about sites in areas exposed to water stress. Water stress reflects pressures within a basin by considering water quantity, quality, availability and accessibility. Water stress is one component of physical water-related risks, alongside other factors such as flooding and drought. A comprehensive assessment of water-related risks considers all physical risks, as well as regulatory and reputational risks linked to water. [ESRS E3.AR1]

A company discloses the following information.

| Information | What to disclose |
|---|---|
| **Policies related to water** | • Sites in areas exposed to water stress that are not covered by the company's water-related policies. [ESRS E3.11] |

**Insight 4.4.10**
**Which indicators can a company use to assess whether an area is exposed to water stress?**

Water stress is typically measured using indicators that express, as percentages, the relationship between water demand and available water resources. These indicators use defined thresholds to indicate the level of water stress.

Examples of global indicators that a company can use to determine if an area is subject to water stress include:

- baseline water stress – equal to or greater than 40–80% (high or above);
- water depletion – greater than 25–75% on a seasonal basis (high or above);
- baseline water depletion – equal to or greater than 50–75% (high or above); and
- water exploitation index plus (WEI+) – equal to or greater than 40%. [ESRS E3.AR2]

These indicators primarily assess water stress based on water availability. A comprehensive assessment also considers water quality and access to water.

A company typically assesses whether an area is subject to water stress at least at river basin level, but can use tailored methodologies, including local data and expertise, to assess water stress more accurately. [ESRS E3.AR2]

## 4.4.50 Actions and resources related to water

Under ESRS E3-2, a company discloses its key water-related actions and the resources allocated to implement them in accordance with ESRS 2 GDR-Actions (see 3.2.30). [ESRS E3.12]

Disclosures on actions and resources can help users understand how the company implements its water-related actions in practice and how it plans to achieve its water-related targets, including in areas exposed to water stress.

As water is a shared resource, addressing material negative water-related impacts or preventing risks often requires collaboration between different water users. When disclosing information about key water-related actions, a company explains those actions involving collaboration with other water users if it considers this information to be useful for users. [ESRS 2.AR36]

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A company discloses the following information.

| Information | What to disclose |
|---|---|
| **Actions related to water** | • Key actions taken in areas exposed to water stress and the resources allocated to implement these actions. [ESRS E3.13] |



**Example 4.4.10**
**Disclosing water-related actions and resources in areas exposed to water stress**

Company E operates manufacturing sites in several water-stressed regions. It identifies an actual material negative impact on local water users (e.g. other companies and the local community) arising from its high withdrawals of freshwater. These withdrawals contribute to increased pressure on already scarce water supplies.

To address this impact, E installs water recycling systems, including recirculation and filtration, at the sites with the highest withdrawals. These systems allow treated process wastewater to be reused on-site and reduce freshwater withdrawals. E prioritises the sites located in the most water-stressed basins and implements the systems over a three-year period.

E allocates capex to purchase and install the equipment, opex to maintain and monitor it, and internal engineering resources to manage its implementation. E also engages local water specialists to assess basin conditions and confirm that its actions are targeted at the sites expected to reduce pressure on local water resources most effectively.

In its sustainability statement, E describes:

- these actions;
- the sites and basins covered;
- the implementation timeframe;
- the expected reduction in freshwater withdrawals; and
- the resources allocated.

This can help users understand both how E is responding to its material water-related impact in areas exposed to water stress and how it is resourcing that response.



**Example 4.4.20**
**Disclosing value chain actions to reduce water-related risks**

Company F operates a clothing manufacturing business. It identifies a material water-related risk linked to high dependence on water use in its upstream value chain. In particular, water-intensive production processes increase F's exposure to water scarcity in certain regions, which could disrupt production or limit its suppliers' ability to operate.

During the reporting period, F takes action to reduce water-related risks in its upstream value chain. It works with a group of strategic suppliers located in water-stressed basins to develop site-specific water roadmaps. These roadmaps include actions to measure water withdrawals, identify opportunities to reduce water use, improve wastewater management and prioritise lower-water production processes.

F also participates in an industry pilot to test lower-water dyeing technologies. The pilot is intended to assess whether these technologies can be scaled across suppliers that manufacture high-volume product lines and operate in regions exposed to water stress.

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F allocates opex to fund external water assessments, supplier training and technical support. It also allocates internal procurement and specialist resources to integrate water-related criteria into supplier engagement and sourcing decisions. When suppliers need to make site-level investments, F provides technical guidance and may support access to preferred financing arrangements. However, the suppliers remain responsible for implementing the agreed site-level actions.

In its sustainability statement, F describes the nature of the value chain actions, the supplier groups and basins covered, the implementation timeframe and the resources allocated. It also explains how it expects these actions to reduce its exposure to water-related risks in the upstream value chain, including disruption to production in water-stressed regions.

# 4.4.60 Metrics and targets related to water

Disclosures on water-related metrics and targets can help users understand a company's performance in managing its water-related IROs and how it uses targets to guide and tracks progress. [ESRS E3.14–15]

## 4.4.70 Metrics related to water

Under ESRS E3-4, a company discloses water-related metrics to help users understand its performance in managing its water-related IROs. These metrics can also help users assess the pressure the company's activities place on water resources. A company reports all water-related metrics in cubic metres ($m^3$) or in multiples thereof. [ESRS E3.15, AR5]

Water consumption can be measured directly, modelled, estimated or calculated by subtracting total water discharge from total water withdrawal during the reporting period. [ESRS E3.AR4]

A company discloses the following information.

| Information | What to disclose |
|---|---|
| **Total water consumption** | The total amount of water consumed, determined by:<br>• direct measurement;<br>• modelling or estimation; or<br>• the difference between total water withdrawal and total water discharge during the reporting period. [ESRS E3.16(a), AR4] |
| **Total water consumption in areas with water stress** | • The total amount of water consumed in areas with water stress. [ESRS E3.16(b)] |
| **Total water withdrawal** | • The total water drawn into the boundaries of a company from all sources and for all uses during the reporting period. [ESRS E3.16(c), Annex II] |
| **Total water discharge** | • The total amount of water discharged. [ESRS E3.16(d), Annex II] |
| **Total water recycled and reused** | • The total amount of water and wastewater that a company uses more than once before it discharges it outside its boundaries, regardless of whether the water is treated or untreated. [ESRS E3.16(e)] |
| **Total water stored** | • The total volume of water that a company holds in water storage facilities or reservoirs at the reporting date. [ESRS E3.16(f), Annex II] |

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### Insight 4.4.20
### Can a company exclude certain manufacturing facilities from its ESRS E3 water consumption metric?

It depends. A company considers all sites when identifying and assessing water-related IROs. However, this does not mean that it includes every facility in calculating its water consumption metric. The reporting scope for a metric depends on whether the resulting information is relevant, faithfully represents the related IROs and meets the disclosure objective (see 2.2.100).

For example, a company with several manufacturing facilities in different water basins considers all facilities when assessing whether water consumption gives rise to material IROs. If the material IROs are relevant only to certain facilities, basins or parts of the group, then the company may disaggregate the information only for the relevant facilities, basins or parts of the group. It may also exclude activities that are not significant drivers of the underlying IROs, if they do not impair relevance or faithful representation of the metric. If the company can report the metric only for part of its own operations because data for some facilities is unavailable, then it explains the partial scope, the basis for preparing the metric and any limitations on the information provided (see 2.3.200 and 2.2.170). [ESRS 1.55, 90–91, 93]

### Insight 4.4.30
### When does a company disclose water-related metrics for value chain IROs under ESRS E3?

If a company identifies material water-related IROs in its upstream or downstream value chain, then it provides entity-specific information appropriate for those IROs. This does not mean that the requirement to report water consumption under ESRS E3-4 automatically extends to the value chain; a company considers the nature of the IRO when selecting appropriate entity-specific metric to use.

Examples of water-related entity specific metrics include:

- suppliers' exposure to water stress;
- the proportion of suppliers covered by water-related policies or stewardship programmes;
- supplier engagement coverage; or
- another metric that can help users understand how the company manages the material value chain IRO (see 2.3.40). [ESRS 1.11]

When developing a value chain metric for a material water-related IRO, the company applies GDR-Metrics. It may exclude activities that are not significant drivers of the underlying IROs, provided that relevance and faithful representation of the metric are not impaired. If the company can report a metric only for part of the value chain because data is unavailable, then it explains the partial scope, the basis for preparing the metric and any limitations on the information provided (see 2.3.200). [ESRS 1.90–91, 93]

### Insight 4.4.40
### Can a company exclude joint operations that it does not operationally control from water-related metrics?

Yes. A company may exclude joint operations for which it does not have operational control when calculating water-related metrics (see 2.3.200). [ESRS 1.92]

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## 4.4.80 Targets related to water

Under ESRS E3-3, a company discloses its water-related targets in accordance with ESRS 2 GDR-Targets (see 3.2.60). When relevant, it provides specific geographical context for these targets – e.g. areas exposed to water stress. [ESRS E3.14, AR3]



**Insight 4.4.50**
**Does a company align its water-related targets with EU regulatory water frameworks?**

No. ESRS E3 does not require a company to align its water-related targets with EU water legislation or regulatory water frameworks. [ESRS E3.5]

Under the standard, a company discloses water-related targets only if it has set them or is required to meet them, and explains how those targets address its material water-related IROs.

When describing these targets, a company may provide additional context, including references to relevant EU or international frameworks, such as the Water Framework Directive or basin-level objectives.

A company may set targets voluntarily or use those resulting from legal or regulatory requirements.

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# 4.5 Biodiversity and ecosystems

Additional requirements: Chapter 4.2

## 4.5.10 Biodiversity and ecosystems in sustainability reporting

Biodiversity means the variety of living organisms and ecosystems. It includes diversity within species, between species and across terrestrial, freshwater and marine ecosystems. These systems cover essential ecosystem services, such as water provision, soil fertility and pollination, on which a company may depend across its operations and upstream and downstream value chain. [ESRS E4.7, Annex II]

A company can affect biodiversity and ecosystems through its activities – e.g. contributing to their degradation or, in some cases, their protection and restoration. Changes in biodiversity and ecosystems can also create risks or opportunities that affect the company's performance and resilience.

Therefore, users need information to understand how a company's activities affect biodiversity and ecosystems, and how these effects and dependencies influence its performance and resilience.

Biodiversity and ecosystems are highly location-specific and often already degraded. This can make it difficult to establish meaningful baselines and assess changes over time (see 4.2.20 and Chapter 2.2). [ESRS E4.8]

### 4.5.20 How the standard works

ESRS E4 sets out topic-specific requirements on biodiversity and ecosystems, covering:

- drivers of biodiversity and ecosystem change;
- the state of species;
- the condition and extent of terrestrial, freshwater and marine ecosystems; and
- ecosystem services. [ESRS E4.3, 6]

A company provides information about its material biodiversity-related IROs across its own operations and upstream and downstream value chain, including information on policies, actions, metrics and targets in accordance with the general disclosure requirements in ESRS 2 (GDR-Policies, GDR-Actions, GDR-Metrics and GDR-Targets) (see Chapter 3.2). [ESRS E4.3–4]

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| ESRS 1<br>General requirements | |
|---|---|
| **ESRS 2**<br>**Core content requirements (Chapter 3.1)** | **ESRS E4**<br>**Biodiversity- and ecosystem-related requirements (Chapters 4.2 and 4.5)** |
| **Governance**<br>(3.1.60–80) | No additional requirements |
| **Strategy**<br>(3.1.100–220) | • Transition planning related to biodiversity and ecosystems (4.5.40) |
| **IRO management**<br>(3.1.240–250) | No additional requirements |
| **General disclosure requirements (Chapter 3.2)** | |
| **GDR-Policies**<br>(3.2.20) | • Policies related to biodiversity and ecosystems (4.5.50) |
| **GDR-Actions**<br>(3.2.30) | • Actions and resources related to biodiversity and ecosystems (4.5.60) |
| **GDR-Metrics**<br>(3.2.50) | • Metrics related to biodiversity and ecosystems change (4.5.80) |
| **GDR-Targets**<br>(3.2.60) | • Targets related to biodiversity and ecosystems (4.5.90) |

## 4.5.30 Interaction with existing legislation

ESRS E4 does not replace or duplicate existing environmental legislation. ESRS E4 refers to the Kunming–Montreal Global Biodiversity Framework (GBF) and its relevant goals and targets. It also references relevant EU and international frameworks on biodiversity and ecosystems. [ESRS E4.5]

Other frameworks referenced in ESRS E4 include the:

- EU Biodiversity Strategy for 2030;
- EU Birds and Habitats Directives (Directive 2009/147/EC of the European Parliament and of the Council and Council Directive 92/43/EEC);
- EU Marine Strategy Framework Directive (Directive 2008/56/EC of the European Parliament and of the Council);
- 2023 EU Marine Action Plan;
- EU Water Framework Directive (Directive 2000/60/EC of the European Parliament); and
- Nature Restoration Regulation (Regulation (EU) 2024/1991 of the European Parliament and of the Council). [ESRS E4.5]

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## 4.5.40 Transition planning related to biodiversity and ecosystems

A transition plan for biodiversity and ecosystems describes how a company intends to adapt its strategy and business model in response to biodiversity loss and ecosystem degradation, in line with the objectives of the GBF. It sets out the planned changes to reduce negative impacts, address dependencies and support the protection, restoration or sustainable use of biodiversity and ecosystems. [Annex II]

Under ESRS E4-1, providing information about transition planning can help users understand whether a company's strategy and actions align with the objective of halting or reversing biodiversity loss, and how it contributes to that objective by linking identified IROs to its strategic responses and planned actions. [ESRS E4.10]

A company discloses the following information.

| Information | What to disclose |
|---|---|
| **Transition plan** | • Key features of a biodiversity and ecosystems transition plan, if that plan is made public. [ESRS E4.11] |

**Insight 4.5.10**
**Can biodiversity be included in a company's broader transition plan?**

Yes. A transition plan typically sets out targets, key actions, financial planning and governance. In the context of biodiversity and ecosystems, a transition plan outlines how a company expects to transform its business model and strategy to contribute to the objective of halting or reversing biodiversity loss set out in the GBF. [Annex II]

Transition planning typically impacts different areas of a company's operations (see Chapter 5.1). Therefore, a company might find it beneficial to have a holistic transition plan covering biodiversity and ecosystems together with other topics (e.g. climate). [ESRS E4.AR1]

**Insight 4.5.20**
**Is a company required to disclose information about a biodiversity and ecosystems transition plan it publishes after the reporting date?**

No. ESRS E4 requires a company to disclose key features of a biodiversity and ecosystems transition plan that it has made public. This means that the company has made the transition plan available through accessible public channels (e.g. a website or annual report) before or at the same time as it releases its sustainability statement. [ESRS E4.AR2]

However, if a company publishes a transition plan after the reporting date but before the management report is authorised for issue, then it considers whether disclosure is required as a subsequent event (see 2.3.60). In this case, the company does not describe the plan as having been made public during the reporting period, but it may need to explain the publication of the transition plan and its potential consequences.

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## 4.5.50 Policies related to biodiversity and ecosystems

Under ESRS E4-2, a company discloses information about its policies relating to biodiversity and ecosystems in accordance with ESRS 2 GDR-Policies (see 3.2.20). Disclosures on policies can help users understand how the company identifies, assesses and manages its material biodiversity- and ecosystem-related IROs in its own operations and across its value chain. [ESRS E4.12]

Biodiversity-sensitive areas comprise:

- protected areas designated through legal or other effective means, including Natura 2000, UNESCO Natural World Heritage Sites, Ramsar sites and other protected areas such as those defined by national legislation; and
- areas included under key biodiversity areas (KBAs), Ecologically or Biologically Significant Marine Areas, the International Union for Conservation of Nature (IUCN) Red List of Ecosystems or habitats of species listed in the IUCN Red List of Threatened Species (which are scientifically recognised for their importance for biodiversity). [Annex II]

KBAs are sites that contribute significantly to the global persistence of biodiversity, identified using globally defined criteria across terrestrial, freshwater and marine ecosystems. Sites qualify as global KBAs if they meet one or more of 11 criteria, clustered into five categories:

- threatened biodiversity;
- geographically restricted biodiversity;
- ecological integrity;
- biological processes; and
- irreplaceability.

The World Database of KBAs is managed by BirdLife International on behalf of the KBA Partnership. KBAs are a subset of biodiversity-sensitive areas. [Annex II]

A company discloses the following information.

| Information | What to disclose |
|---|---|
| **Content of policies** | • A description of the content of the company's policies for supporting traceability of products, components and raw materials associated with actual or potential material impacts on biodiversity and ecosystems across the value chain. [ESRS E4.13(a)]<br>• Information about whether the company's policies cover:<br>– sustainable land-use and agricultural practices;<br>– sustainable ocean or sea practices; and<br>– deforestation. [ESRS E4.AR3]<br>• The scope of the company's policies in relation to any sites in its own operations that are located in or near biodiversity-sensitive areas. [ESRS E4.13(b)] |



**Insight 4.5.30**
**Can a company leverage its scenario analysis when disclosing its policies, actions and targets for biodiversity and ecosystems?**

Yes. Scenario analysis can support a company in identifying, assessing and managing material biodiversity- and ecosystem-related risks and opportunities over the short, medium and long term. The company can use these insights to make its policies clearer, prioritise actions and set targets that remain robust under different future conditions (see Chapter 5.2). [ESRS E4.AR4]

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**Insight 4.5.40**
**Can a site outside a biodiversity-sensitive area still have material impacts on that area?**

Yes. A site does not need to be located within a biodiversity-sensitive area for it to have material negative impacts on that site. If a site is in or near such an area, then a company considers the area of influence of the site's activities in determining whether they relate to material impacts – e.g. water discharge at the site polluting a river downstream.

Considering a site's area of influence can help a company design its biodiversity- and ecosystem-related policies – e.g. setting clear policy commitments on how it identifies sites requiring attention, applies appropriate buffer distances and manages potential impacts. In doing so, the company can align its policies with regulatory requirements, science-based recommendations and industry best practice. [ESRS E4.AR5]

## 4.5.60 Actions and resources related to biodiversity and ecosystems

Under ESRS E4-3, a company describes the actions it takes, and the resources it allocates, to manage its material biodiversity- and ecosystem-related IROs in accordance with ESRS 2 GDR-Actions (see 3.2.30). Disclosures on actions and resources can help users understand how the company implements its policies in practice. [ESRS E4.14]

When planning or taking actions, a company considers the right of indigenous peoples to free, prior and informed consent (see 4.7.80). [ESRS E4.AR6]

In disclosing its actions, a company includes any biodiversity offsets it uses. Biodiversity offsets are conservation outcomes designed to compensate for adverse and unavoidable impacts on biodiversity after prevention and mitigation, and are applied as a measure of last resort within the mitigation hierarchy (see Insight 4.5.130). [Annex II]

Biodiversity offsets are intended to address residual impacts after a company has considered its actions to avoid, minimise and restore biodiversity impacts. They can be complex because they seek to compensate for impacts on specific species, habitats or ecosystems that may be difficult to replace on a like-for-like basis. Their effectiveness depends on factors such as ecological equivalence, location, timing, duration and the quality criteria applied. Clear disclosure can help users understand the extent to which the company relies on offsets, the residual impacts being addressed and whether the offsets are expected to deliver measurable biodiversity outcomes.

A company discloses the following information.

| Information | What to disclose |
|---|---|
| **Biodiversity offsets** | • A description and the aim of any biodiversity offsets a company uses.<br>• The financing effects of the offsets, expressed in monetary terms.<br>• Characteristics of the biodiversity offsets, including the area covered (e.g. the number of hectares covered by the project), the type of offset and the quality criteria applied.<br>• The standards with which the biodiversity offsets comply. [ESRS E4.15] |

**Insight 4.5.50**
**Are biodiversity offsets a substitute for preventing and mitigating impacts on biodiversity?**

No. Biodiversity offsets can be applied in addition to, but do not replace, prevention and mitigation measures already implemented. A company may use the mitigation hierarchy to structure its environmental actions – i.e. avoid, minimise, restore and, when necessary, compensate for adverse impacts on biodiversity and ecosystem services (see Insight 4.5.130). Biodiversity offsets apply at the final stage of the hierarchy – i.e. only after identifying biodiversity-related impacts and after considering avoidance, minimisation and restoration measures – and typically represent a measure of last resort. [Annex II, ESRS 2.AR37]

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# 4.5.70 Metrics and targets related to biodiversity and ecosystems

Disclosures on metrics and targets can help users understand a company's performance in managing its material biodiversity- and ecosystem-related IROs, as well as the outcomes it aims to achieve over time. These disclosures explain how a company measures its interactions with biodiversity and ecosystems, including its dependencies, and how it uses targets to guide and track progress. [ESRS E4.18]

Biodiversity- and ecosystem-related targets typically address both the drivers of biodiversity loss and the condition of nature. They aim to reduce pressures on ecosystems by tackling key drivers of change – e.g. avoiding changes in land use resulting from conversion of forest land. They also aim to improve the 'state of nature' by enhancing the extent and condition of species and ecosystems – e.g. by increasing the population size of species at risk of extinction or by restoring landscape conditions relative to a defined baseline. [ESRS E4.AR7(a)]

## 4.5.80 Metrics related to biodiversity and ecosystems change

A company discloses material metrics in accordance with GDR-Metrics in ESRS 2 (see 3.2.50) that can help users understand its performance in relation to its biodiversity- and ecosystem-related IROs and any related targets.

A company discloses the following information.

| Information | What to disclose |
|---|---|
| **Locations and biodiversity-sensitive areas** | • Locations in a company's own operations to which its material biodiversity- and ecosystem-related IROs relate.<br>• The name and type of any biodiversity-sensitive areas to which the company's material negative impacts relate.<br>• Any activities that are related to material negative impacts on those biodiversity-sensitive areas. [ESRS E4.19(a)–(c)] |
| **Material impacts** | • An indication of which material impacts identified under ESRS 2 IRO-2 relate to land degradation, desertification or soil sealing. [ESRS E4.AR9]<br>• A description of the company's operations that affect threatened species or ecosystems.<br>• Entity-specific metrics in relation to any material impacts relevant to ESRS E4, as necessary. [ESRS E4.20] |
| **Material subtopics** | • Metrics in relation to the following material subtopics in ESRS E4, as applicable:<br>– drivers of biodiversity and ecosystems change;<br>– the state of species, including extinction risk;<br>– the condition and extent of terrestrial, freshwater and marine ecosystems, including site and landscape condition; and<br>– ecosystem services. [ESRS E4.AR10] |

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### Insight 4.5.60
### Can a company aggregate biodiversity-related information across multiple sites?

Yes. A company is neither required to provide an exhaustive list of all individual sites or locations where its own operations interact with biodiversity-sensitive areas, nor to disclose information separately for each site. It can aggregate information across multiple sites provided that aggregation does not obscure material information (see 2.2.170–180). A company can aggregate information across sites that share similar characteristics – e.g. sites:

- located within the same biodiversity-sensitive area;
- affecting a common ecosystem or habitat type; or
- that give rise to similar biodiversity-related IROs.

This is consistent with the requirements in ESRS 1 for aggregation to reflect the level at which significant variations in IROs arise. [ESRS E4.AR8]

### Insight 4.5.70
### Does ESRS E4 prescribe the metrics a company uses to report on biodiversity and ecosystems change?

No. ESRS E4 includes specific disclosure requirements; however, it does not prescribe a single set of biodiversity and ecosystems change metrics for all companies to report.

Therefore, a company develops entity-specific metrics to address material IROs, depending on which subtopics in ESRS E4 it determines to be material. The company reports any metrics it identifies in accordance with GDR-Metrics in ESRS 2 (see 3.2.50).

ESRS E4 also requires a company to disclose specific information about the locations and biodiversity-sensitive areas to which its material IROs relate.

A company can use available best practices, frameworks or reporting standards when developing entity-specific metrics. Therefore, it can refer to other frameworks in identifying relevant metrics – e.g. the TNFD core global and sector metrics or metrics included in the GRI 101: Biodiversity (2024) standard. [ESRS 1.AR5, ESRS E4.19–20, AR10]

### Insight 4.5.80
### How does a company select biodiversity- and ecosystem-related metrics under ESRS E4?

A company selects metrics under ESRS E4 that can help users understand its material biodiversity- and ecosystem-related IROs. Because biodiversity- and ecosystems-related metrics provide limited information without a reference point, a company also considers the baseline condition or value, the baseline year or period and frequency of monitoring for each metric. [ESRS E4.AR12]

Different aspects of biodiversity and ecosystems require different indicators and baselines to assess and measure historical biodiversity loss. For example, a company can use IBAT[1] to check whether a site is in or near a protected area or another area of biodiversity importance, and which threatened species may be present. It can also assess other biodiversity aspects – e.g. ecosystem integrity using the Biodiversity Intactness Index (BII) – and land cover and habitat change using remote-sensing datasets.

1. IBAT is a global online platform that brings together three established biodiversity datasets – the World Database on Protected Areas, the World Database of Key Biodiversity Areas and the IUCN Red List of Threatened Species. It provides a documented, point-in-time reference that a company can revisit in later reporting periods.

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### Insight 4.5.90
### Is a company required to use a specific ecosystem baseline?

No. ESRS E4 does not require a company to use a specific ecosystem baseline.

A baseline provides a reference point for measuring changes in biodiversity and ecosystem conditions over time. It can help analyse trends and assess the effects of different drivers, such as change in land use or climate change. [ESRS E4.AR12]

There is currently no single, internationally agreed baseline for measuring historical biodiversity loss. Biodiversity and ecosystem conditions are highly location-specific and multidimensional and, unlike GHG emissions, cannot be reduced to one universally accepted unit of measurement.

Therefore, a company selects a baseline appropriate to the specific context, considering factors such as the ecosystem type, species or habitats affected, local ecological condition, the pressures already present and the purpose of the assessment. It can use available tools (e.g. IBAT), datasets, expert judgement or site-level information to support its assessment.

### Insight 4.5.100
### Does ESRS E4 require a company to use primary data for metrics related to biodiversity and ecosystems?

No. ESRS E4 does not require a company to use primary data for metrics related to biodiversity and ecosystems. However, primary data collected at location level or through remote sensing may be needed for metrics related to 'state of nature', particularly when a company's sites are in or near biodiversity-sensitive areas.

When primary data is not available, a company may estimate its impacts using data on impact drivers or secondary data (see 2.3.90). [ESRS E4.AR11]

### Insight 4.5.110
### Is 'state of nature' a defined term in ESRS E4?

No. ESRS E4 does not provide an explicit definition of 'state of nature'.

It generally refers to the condition and extent of ecosystems and species, expressed in physical, chemical or biological terms.

The concept reflects a common structure used across nature-related frameworks (e.g. the Nature Positive Initiative (NPI), SBTN, TNFD and GRI) where impacts are understood through a sequence of drivers of change, changes in the state of nature and effects on ecosystem services. ESRS E4 applies a similar logic, including distinguishing between measuring impacts directly using data on the state of nature and estimating impacts using data on impact drivers. [ESRS E4.AR11]

### Insight 4.5.120
### Can a company exclude joint operations that it does not operationally control from biodiversity- and ecosystem-related metrics?

Yes. A company may exclude joint operations for which it does not have operational control when calculating biodiversity- and ecosystem-related metrics (see 2.3.200). [ESRS 1.92]

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## 4.5.90 Targets related to biodiversity and ecosystems

Under ESRS E4-4, a company discloses its biodiversity- and ecosystem-related targets in accordance with ESRS 2 GDR-Targets (see 3.2.60). Disclosures on these targets can help users understand how the company intends to manage its material biodiversity- and ecosystem-related IROs over time. [ESRS E4.16]

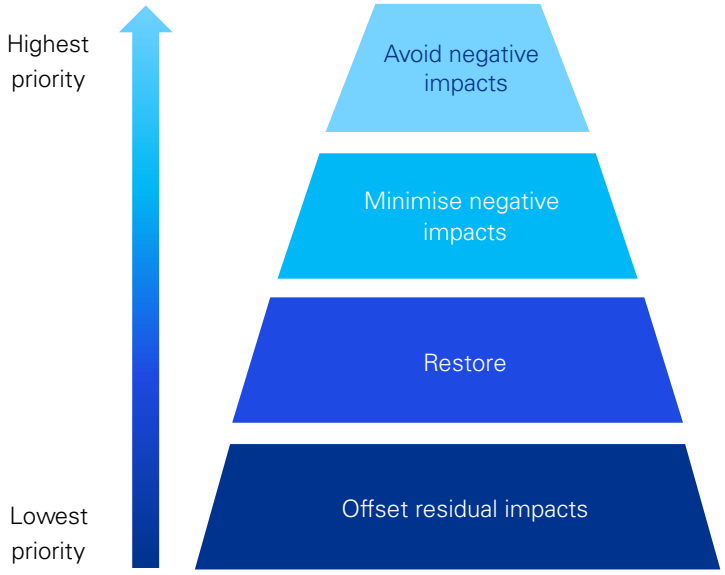
Biodiversity- and ecosystem-related targets are most effective when they are science-based, aligned with ecological thresholds and contribute to the objectives of the GBF. They typically address the pressures on nature that drive biodiversity and ecosystem change, such as avoiding change in land use from the conversion of forest land, and the state of nature. They also aim to improve the extent and condition of species and ecosystems – e.g. increase populations of species at risk of extinction or restore ecosystem conditions relative to a baseline. A company may set these targets at different levels (e.g. site, landscape, company or upstream value chain level) depending on the target's objective and its ability to influence the outcome. Targets are often implemented in line with the mitigation hierarchy, which prioritises avoidance, followed by minimisation, restoration and, when relevant, compensation (e.g. biodiversity offsets). [ESRS E4.AR7]

A company discloses the following information.

| Information | What to disclose |
|---|---|
| **Biodiversity offsets** | • How biodiversity offsets are used in setting biodiversity- and ecosystem-related targets, if any. [ESRS E4.17] |

**Insight 4.5.130**
**Is a company required to apply the mitigation hierarchy when implementing targets under ESRS E4?**

No. ESRS E4 does not require a company to apply the mitigation hierarchy when implementing biodiversity- and ecosystems-related targets under ESRS E4. However, a company typically implements it in setting these targets or in prioritising actions to address impacts on biodiversity (see Insight 4.5.50). [ESRS E4.AR7(d)]

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# 4.6 Resource use and circular economy

Additional requirements: Chapter 4.2

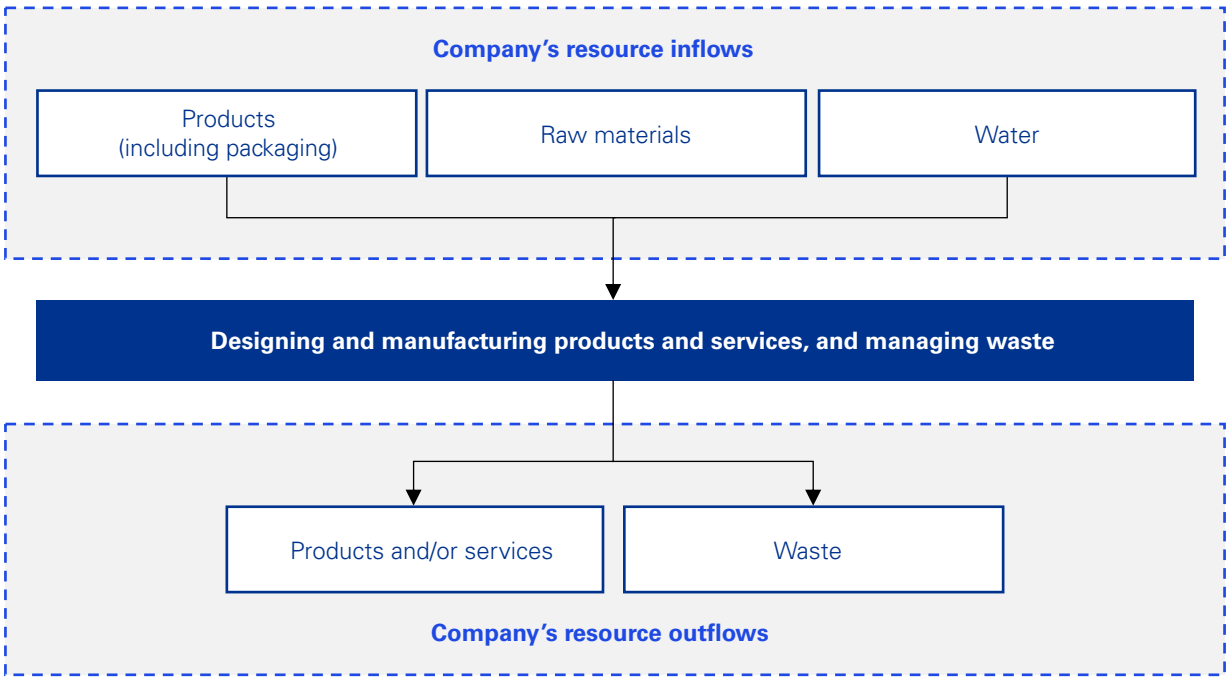
## 4.6.10 Resource use and circular economy in sustainability reporting

Resource use and circular economy can give rise to IROs through a company's environmental effects, as well as its dependencies on material resources needed to operate and create value across its own operations and upstream and downstream value chain. These interactions can influence a company's long-term resilience, performance and ability to create value.

A company's activities affect resource use through extraction, consumption and waste generation. Dependencies on natural resources and exposure to waste-related constraints may also create risks and opportunities for the company that affect its performance and resilience.

As a result, users need information to understand how a company's use of resources affects the environment and how those effects and dependencies impact its performance and resilience.

Under ESRS E5, a company discloses how resources entering its operations (e.g. raw materials, water and products) are transformed through its activities and leave its operations as products, services or waste streams. ESRS E3 focuses on water as a natural resource and environmental medium, whereas ESRS E5 focuses on water as a resource inflow or material input in products, production processes or circularity strategies. The same water-related activity may therefore give rise to disclosures under both standards, but for different reporting objectives. [ESRS E5.7]

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## 4.6.20 How the standard works

ESRS E5 sets out topic-specific reporting requirements for resource use and circular economy, covering:

- resource inflows;
- resource outflows; and
- waste. [ESRS E5.6]

ESRS 2 provides the general structure for disclosures, including strategy, governance and the management of IROs. ESRS E5 builds on ESRS 2 by requiring more detailed information.

A company provides information on its material resource use and circular economy-related IROs across its own operations and upstream and downstream value chain. [ESRS E5.3]

It applies the general disclosure requirements in ESRS 2 when providing information on related policies, actions, metrics and targets (GDR-Policies, GDR-Actions, GDR-Metrics and GDR-Targets) (see Chapter 3.2). [ESRS E5.3–4]

**ESRS 1**
**General requirements**

| **ESRS 2**<br>**Core content requirements (Chapter 3.1)** | **ESRS E5**<br>**Resource use and circular economy-related requirements (Chapters 4.2 and 4.6)** |
|---|---|
| **Governance**<br>(3.1.60–80) | No additional requirements |
| **Strategy**<br>(3.1.100–220) | No additional requirements |
| **IRO management**<br>(3.1.240–250) | No additional requirements |
| **General disclosure requirements (Chapter 3.2)** | |
| **GDR-Policies**<br>(3.2.20) | • Policies related to resource use and circular economy (4.6.40) |
| **GDR-Actions**<br>(3.2.30) | • Actions and resources related to resource use and circular economy (4.6.50) |
| **GDR-Metrics**<br>(3.2.50) | • Metrics related to:<br>– Resource inflows (4.6.70)<br>– Resource outflows (4.6.80) |
| **GDR-Targets**<br>(3.2.60) | No additional requirements |

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### 4.6.30 Interaction with existing legislation

ESRS E5 does not replace existing EU legislation. Instead, it references relevant EU frameworks on resource use and circular economy and requires a company to consider applicable regulations when disclosing resource-related information. The circular economy is a key element of the EU's policy framework, including the European Clean Industrial Deal, which sets objectives to increase the EU's circular material use rate by 2030.

ESRS E5 refers to several EU and international frameworks related to resource use and circular economy, including the:

- EU Circular Economy Action Plan (2020);
- European Clean Industrial Deal (2025);
- Ecodesign for Sustainable Products Regulation (Regulation (EU) 2024/1781);
- Waste Framework Directive (Directive 2008/98/EC);
- Right to Repair Directive ((EU) 2024/1799); and
- Critical Raw Materials Act (Regulation (EU) 2024/1252). [ESRS E5.5]

## 4.6.40 Policies related to resource use and circular economy

Under ESRS E5-1, a company discloses information about its policies related to resource use and circular economy, including integration of eco-design requirements, in accordance with ESRS 2 GDR-Policies (see 3.2.20). These disclosures can help users understand the company's approach to resource use and waste management. [ESRS E5.8–9]

Eco-design requirements stem from the EU Ecodesign for Sustainable Products Regulation (ESPR), aiming to reduce the negative environmental impact of products placed on the EU market throughout the product life cycle. They include performance requirements such as durability, reusability and repairability, and information requirements on product performance and treatment. The full list of requirements is set out in Regulation (EU) 2024/1781.[1]

A company discloses the following information.

| Information | What to disclose |
|---|---|
| **Eco-design requirements** | • Information on how a company applies eco-design requirements or circular economy principles in key products or services, when relevant. [ESRS E5.9] |

## 4.6.50 Actions and resources related to resource use and circular economy

Under ESRS E5-2, a company discloses its key actions in accordance with ESRS 2 GDR-Actions (see 3.2.30). Disclosures on actions and resources can help users understand how the company implements its actions to meet its targets for resource efficiency and support its transition to a circular economy. [ESRS E5.10]

When describing actions, a company may refer to the waste hierarchy[2] to explain how it considers resource efficiency in its decision-making. For example, this may include explaining how it considers waste prevention and preparation for reuse when designing products and processes, and how it applies recycling, other recovery options or disposal when higher-priority options are not feasible.

The ability to reduce resource use and integrate circular economy principles in key products and services often depends on collaboration with other actors – e.g. key suppliers. When relevant, a company may explain how it has involved other actors in the actions it has taken. [ESRS 2.AR36]

1. https://eur-lex.europa.eu/eli/reg/2024/1781/oj/
2. https://eur-lex.europa.eu/EN/legal-content/glossary/waste-hierarchy.html

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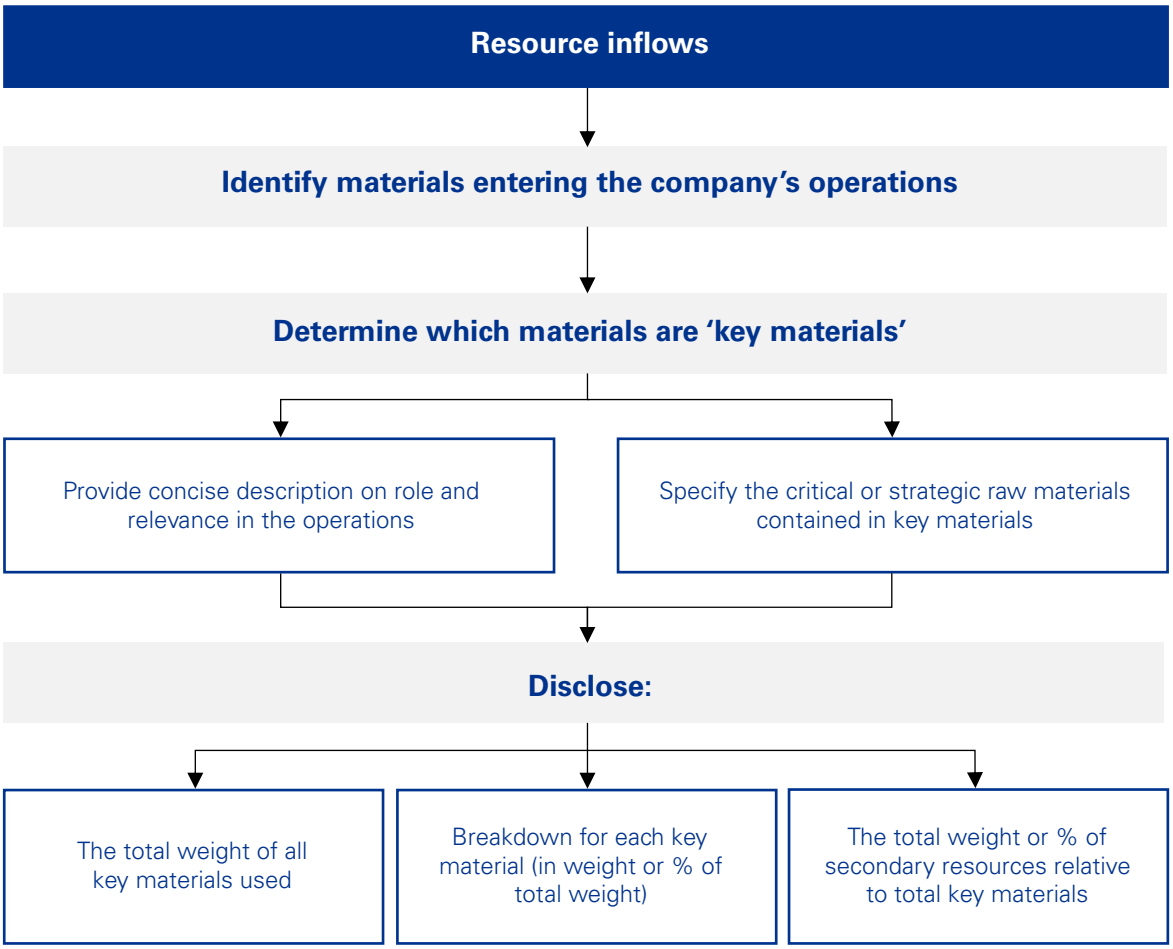
# 4.6.60 Metrics and targets related to resource use and circular economy

Disclosures on metrics and targets related to resource use and circular economy can help users understand a company's performance in managing its material resource use and circular economy-related IROs, as well as the outcomes it aims to achieve over time. [ESRS E5.11–12]

## 4.6.70 Metrics related to resource inflows

Under ESRS E5-4, a company discloses metrics on the total amount and composition of resources entering its operations, including key materials, in accordance with GDR-Metrics (see 3.2.50). [ESRS E5.13]

Resource inflows are resources that enter a company's operations for use in its activities – e.g. raw materials, components and other inputs used for production, maintenance or delivering a service. This includes virgin and non-virgin raw materials, semi-finished goods and components, regardless of whether they are purchased, reused or internally recovered. [Annex II]




Critical raw materials are materials that have high economic importance and are subject to supply risk, due to factors such as geographical concentration, economic or geopolitical limitations, low end-of-life recycling input rates and substitution difficulties. Critical raw materials are those listed in Annex II, Section 1 in the Critical Raw Materials Act (2023). Strategic raw materials are a subset of critical raw materials that are essential for green and digital technologies, defence and space. [Annex II]

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A company discloses the following information.

| Information | What to disclose |
|---|---|
| **Resource inflows** | • Key materials used, including:<br>– a description of each key material and its role in the company's operations;<br>– any critical raw materials and strategic raw materials that the key materials contain; and<br>– the role of the distinction between technical material and biological material, when relevant. [ESRS E5.13(a), AR1]<br>• The total weight of all key materials. [ESRS E5.13(b)]<br>• A breakdown of each key material, expressed in weight or as a percentage of total key materials. [ESRS E5.13(c)]<br>• The secondary resources used, expressed in weight or as a percentage of total key materials. [ESRS E5.13(d)] |



**Example 4.6.10**
**Identifying and disclosing key materials, including critical and strategic raw materials**

Company X is a global sportswear and footwear group that produces clothing, footwear and connected sports gear, including fitness trackers and other sports wearables.

It identifies material risks arising from its dependence on key materials used in producing these goods. X discloses its key materials, including cotton, wool and electronic components, and identifies the critical and strategic raw materials they contain – e.g. lithium used in fitness tracker batteries.

Because these key materials are exposed to different types of risks, X's disclosures distinguish between the biological and technical materials it uses. Biological materials (e.g. cotton and wool) face sourcing risks linked to water availability and climate-related pressures. Technical materials, including electronic components and battery metals used in wearable devices, face recirculation risks and related costs due to limited recycling infrastructure and tightening waste regulation. [ESRS E5.AR1(b)]



**Example 4.6.20**
**Identifying third-party products as resource inflows for a retailer**

Company Y is a retailer of bicycles and cycling equipment. It purchases finished bicycles, e-bikes, helmets and accessories from third-party suppliers for resale to customers.

Y identifies these products as resource inflows because they enter its operations as inventory before being sold to customers. Y's disclosures on resource inflows explain that bicycles and e-bikes represent a significant proportion of the products entering the business and describe how product sourcing, durability, repairability and end-of-life management influence its circular economy performance. Y also explains how supplier selection and product design characteristics affect resource use and circularity outcomes across the value chain.

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### 4.6.80 Metrics related to resource outflows

Under ESRS E5-5, a company discloses metrics on the durability, repairability and recyclability of its products, as well as on its waste streams, in accordance with ESRS 2 GDR-Metrics (see 3.2.50). [ESRS E5.14–17]

Resource outflows are resources that leave a company's operations as a result of its activities, including products, by-products, waste, emissions and materials for reuse, recycling or disposal. [Annex II]

A company provides the designed recyclability rate of its key products and their packaging. This rate measures the proportion of a resource outflow that is designed and manufactured to be processed into recycled material through an existing recycling scheme. It indicates whether the product and its materials are recyclable, assuming that use of the product does not significantly reduce its recyclability – e.g. through contamination. [Annex II]

ESRS E5 requires waste to be reported in its original-state weight; it is not adjusted, such as to 'dry' weight. [ESRS E5.AR5]

A company discloses the following information.

| Information | What to disclose |
|---|---|
| **Resource outflows – products** | • A description of the durability of key products, using qualitative or quantitative information. [ESRS E5.15(a)]<br>• A description of the extent to which key products are repairable, using qualitative or quantitative information. [ESRS E5.15(b)]<br>• The designed recyclability rate of key products and their packaging. [ESRS E5.15(c)] |
| **Resource outflows – waste** | • A description of a company's waste streams. [ESRS E5.16(a)]<br>• The total weight of waste generated. [ESRS E5.16(b)] |
| **Resource outflows – waste diverted from disposal** | • The proportion of waste diverted from disposal, expressed as a percentage of total waste generated, including a breakdown between:<br>– hazardous waste; and<br>– non-hazardous waste.<br>For each type of waste, a breakdown by the following types of recovery operation:<br>– preparation for reuse;<br>– recycling; and<br>– other recovery operations, including specifying what these are. [ESRS E5.16(c), AR6] |
| **Resource outflows – waste directed to disposal** | • The proportion of waste directed to disposal, expressed as a percentage of total waste generated, including a breakdown between:<br>– hazardous waste; and<br>– non-hazardous waste.<br>For each type of waste, a breakdown between the following disposal methods:<br>– incineration;<br>– landfill; and<br>– other disposal operations. [ESRS E5.16(d)] |

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| Information | What to disclose |
|---|---|
| **Resource outflows – other disclosures on waste** | • The proportion of waste with an unknown final destination, expressed as a percentage of total waste generated. [ESRS E5.16(e)]<br>• The total amount of radioactive waste generated[3], when applicable. [ESRS E5.17] |

### Example 4.6.30
### Disclosing construction waste streams and treatment routes

Company G is a construction company and identifies a material negative impact from construction and demolition waste, because landfilling recoverable materials such as concrete and metals depletes resources and consumes landfill capacity.

G discloses its main waste streams, including mineral waste (e.g. concrete and asphalt), metals, wood and a smaller hazardous stream, which it splits between hazardous and non-hazardous. It provides a breakdown of treatment routes and explains that most waste is diverted from disposal through recycling and other recovery operations – e.g. crushing concrete into recycled material, recovering scrap metal and backfilling with inert material. G discloses that it sends the remainder to landfill and that a small share of the total waste has an unknown final destination.

G describes actions to improve traceability, including requiring contractors to confirm final treatment routes and auditing downstream facilities. G also discloses that it does not generate radioactive waste.

### Insight 4.6.10
### Does ESRS E5 require key products' durability to be measured in a specific way?

No. ESRS provide no specific methodology for measuring product durability, and the information provided can be qualitative or quantitative. A company may apply different approaches – e.g. using indicators such as warranty periods, expected product lifetime or obsolescence.

Regardless of the methodology it applies, a company is required to disclose contextual information about the methodologies, criteria and key assumptions used. These disclosures need to meet the qualitative characteristics of information in ESRS 1 (see 2.3.20 and 2.3.30). [ESRS E5.15(a), ESRS 2.49(a)]

### Insight 4.6.20
### Is a company required to use a specific formula when calculating the designed recyclability rate?

Yes. A company calculates the designed recyclability rate of key products and their packaging using the methodology set out in ESRS E5. This includes assessing the share of material designed and manufactured so it can be processed into recycled material. The designed recyclability rate is expressed as a proportion of material that is designed to be recyclable relative to the total weight of the item, as follows:

- ***for products:*** the total weight of recyclable materials in the product divided by the total weight of the product and multiplied by 100, expressed as a percentage.
- ***for packaging:*** the total weight of recyclable materials in the packaging divided by the total weight of the packaging and multiplied by 100, expressed as a percentage.

The rate reflects recyclability based on existing recycling schemes and assumes that a product's use phase does not significantly reduce its recyclability – e.g. due to contamination. A company could obtain relevant information about the proportion of recyclable material from its bill of materials. [ESRS E5.AR3, Annex II]

3. The amount of radioactive waste is determined in accordance with the definition of radioactive waste in Article 3(7) of Council Directive 2011/70/Euratom.

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### Insight 4.6.30
### How does a company classify different waste recovery and disposal operations?

A company classifies waste treatment operations using the definitions in Annex I (disposal) and Annex II (recovery) of the Waste Framework Directive and maps them to the categories required by ESRS E5. Each treatment route is reported as either:

- waste diverted from disposal – e.g. preparation for reuse, recycling or other recovery; or
- waste directed to disposal – e.g. incineration, landfill or other disposal.

For example, a company can report composting or fermentation of organic waste as recycling, because it is classified as such under the Waste Framework Directive. Recycling is where waste materials are reprocessed into products, materials or substances. Under ESRS, it includes reprocessing of organic material but does not include energy recovery or reprocessing into materials used as fuels. [Annex II]

If the final treatment route cannot be determined, then a company reports this separately as waste with an unknown destination. [ESRS E5.16(e)]

### Insight 4.6.40
### Do ESRS define how detailed a company's description of waste streams needs to be?

No. ESRS do not define the level of detail for a company's description of waste streams. Instead, a company describes its waste streams at a level that can help users understand their composition and relevance, which may include identifying the type of waste stream and the key materials it contains. [ESRS E5.AR4]

### Insight 4.6.50
### Is incineration with energy recovery always considered an 'other recovery operation' under ESRS E5?

No. Incineration with energy recovery is not always considered as an 'other recovery operation'. It is classified as such only if it meets the conditions of point R1 in Annex II (recovery) of the Waste Framework Directive[4]. Otherwise, it is classified as a disposal operation. [ESRS E5.AR6]

Incineration with energy recovery involves burning waste and using the resulting energy – e.g. to generate electricity, steam or heat.

However, to qualify under R1, an incinerator facility needs to meet specified energy efficiency criteria. The R1 formula is used to determine whether the facility meets the applicable energy efficiency threshold.

This distinction determines how the waste is reported under ESRS E5. Qualifying energy recovery is reported as an 'other recovery operation', whereas incineration that does not qualify as recovery is reported as a 'disposal operation'.

4. Directive 2008/98/EC of the European Parliament and of the Council.

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**Insight 4.6.60**
**Can a company exclude joint operations that it does not operationally control from resource use and circular economy metrics?**

Yes. A company may exclude joint operations for which it does not have operational control when calculating resource use and circular economy metrics (see 2.3.200). [ESRS 1.92]

## 4.6.90 Targets related to resource use and circular economy

Under ESRS E5-3, a company discloses information about any targets related to resource use and circular economy in accordance with ESRS 2 GDR-Targets (see 3.2.60). Disclosures on these targets can help users understand the targets a company has set to manage its resource use and support its transition to a circular economy. ESRS E5 does not contain specific disclosure requirements for targets. [ESRS E5.11]

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# 4.7 Social

## 4.7.10 Social standards in sustainability reporting

Strong management of social issues can help a company identify and address potential adverse impacts on people, and creates opportunities related to workforce and customers, while also managing related legal, operational and reputational risks. Conversely, weak oversight may result in issues such as unsafe working conditions, discrimination, human rights violations or harmful effects on communities and consumers.

Social standards under ESRS focus on how a company affects individuals through its activities and its value chain, and how these interactions create IROs. They cover relationships with social stakeholders, including workers, communities, consumers and end-users.

Typically, the social standards require a company to:

- identify how its activities affect different social stakeholders, both directly and through the value chain;
- assess which IROs are material; and
- explain how these are managed through policies, actions, metrics and targets.

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## 4.7.20 How the social standards work

A company applies the social standards together with ESRS 1 and ESRS 2. ESRS 2 provides the general structure for disclosures, including strategy, governance and the management of IROs. Requirements in the social standards build on ESRS 2 by providing more detailed information on material social IROs across the company's own operations and value chain. [ESRS S1.3, ESRS S2.3, ESRS S3.3, ESRS S4.3]

**ESRS 1**
**General requirements**

| **ESRS 2**<br>**Core content requirements (Chapter 3.1)** | **ESRS S1–S4**<br>**Social requirements (Chapter 4.7)** |
|---|---|
| **Governance** (3.1.60–80) | No additional requirements |
| **Strategy** (3.1.100–220) | No additional requirements |
| **IRO management** (3.1.240–250) | • Engagement with social stakeholders and grievance channels (4.7.70) |
| **General disclosure requirements (Chapter 3.2)** | |
| **GDR-Policies** (3.2.20) | • Policies related to social stakeholders (4.7.60) |
| **GDR-Actions** (3.2.30) | • Actions and resources related to social stakeholders (4.7.80) |
| **GDR-Metrics** (3.2.50) | • Metrics related to:<br>– Employees (4.7.100)<br>– Non-employees (4.7.110)<br>– Collective bargaining coverage and social dialogue (4.7.120)<br>– Gender diversity in top management (4.7.130)<br>– Adequate wages (4.7.140)<br>– Social protection (4.7.150)<br>– Persons with disabilities (4.7.160)<br>– Training and skills (4.7.170)<br>– Health and safety (4.7.180)<br>– Work-life balance (4.7.190)<br>– Remuneration (4.7.200)<br>– Incidents of discrimination and other human rights (4.7.210) |
| **GDR-Targets** (3.2.60) | No additional requirements |

The four social standards are designed to operate as a coherent set. Each standard focuses on a different social stakeholder group, but they are closely aligned in structure and content.

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In particular, the disclosure requirements relating to IRO management and targets are largely consistent across all four standards. Because these requirements are substantively the same, this chapter addresses them once, in a consolidated section, rather than repeating similar guidance for each standard.

When specific nuances arise for a particular social stakeholder group, these are addressed separately in the relevant sections of this chapter.

The social standards cover the following scope and subtopics.

| Standard | Social stakeholders covered | Key subtopics |
|---|---|---|
| **ESRS S1** | Own workforce, including employees and non-employees.<br><br>Employees are defined based on national law or practice.<br><br>Non-employees are defined in ESRS to foster comparability across companies in different countries (see 4.7.50). [ESRS S1.7, Annex II] | Working conditions; social dialogue; health and safety; training and skills development; diversity and equal treatment; and other labour-related human rights. [ESRS S1.6, ESRS S2.6] |
| **ESRS S2** | Workers in the upstream and downstream value chain, including individuals with no contractual relationship with the company.<br><br>Excludes a company's own workforce, including non-employees. [ESRS S2.7, Annex II] | Consistent with ESRS S1. |
| **ESRS S3** | Affected communities, including those affected through the value chain. [ESRS S3.2, Annex II] | Economic, social and cultural rights; civil and political rights; and rights of indigenous peoples. [ESRS S3.6] |
| **ESRS S4** | Consumers and end-users.<br><br>Excludes individuals purchasing goods or services for resale or other commercial purposes. [ESRS S4.2, Annex II] | Information-related impacts; personal safety; and social inclusion. [ESRS S4.6] |

If a company identifies a material IRO related to a subtopic for a social stakeholder group, then it reports the material information for that subtopic and stakeholder group only, rather than information for the entire topic and all social stakeholder groups. Metrics related to employees (see 4.7.100) and non-employees in the company's own workforce (see 4.7.110) are reported when the company concludes that its own workforce is connected to material IROs and the information is material. [ESRS 1.30, ESRS S1.1, ESRS S2.1, ESRS S3.1, ESRS S4.1]

A company provides information on policies, actions, metrics and targets in accordance with the general disclosure requirements in ESRS 2 (GDR-Policies, GDR-Actions, GDR-Metrics and GDR-Targets) (see Chapter 3.2). [ESRS S1.4, ESRS S2.4, ESRS S3.4, ESRS S4.4]

## 4.7.30 Connecting to other topics

Given the breadth of topics covered – ranging from working conditions and human rights to consumer protection and community impacts – providing information under the social standards is inherently interconnected with other sustainability topics, including environmental and governance topics.

When identifying and assessing material IROs, a company considers these interactions to identify related effects across relevant topics and avoid assessing them in isolation.

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The social standards interact with a range of environmental standards, although the nature and extent of those interactions vary across the social topics. Environmental topics may create IROs for each different category of social stakeholders. [ESRS S1.9, ESRS S2.9, ESRS S3.7, ESRS S4.8]

| Environmental topic | Social stakeholder category | Example IROs |
|---|---|---|
| **Transition to a low-carbon and climate-resilient economy** | • Own workforce<br>• Workers in the value chain | • Job displacement or reskilling needs as high-emissions activities are phased out<br>• Skills shortages in emerging green roles<br>• Labour disputes linked to transition plans |
| **Pollution** | • Own workforce<br>• Workers in the value chain | • Health and safety for own workforce and workers |
| **Water** | • Affected communities, consumers and end-users | • Effects on health, livelihoods, wellbeing, access to water |
| **Biodiversity** | • Affected communities, consumers and end-users | • Effects on health, livelihoods, wellbeing, access to resources and human rights |

## 4.7.40 Interaction with existing legislation

ESRS take into account various existing regulatory frameworks, including the:

- International Bill of Human Rights;
- UN Guiding Principles on Business and Human Rights;
- OECD Guidelines for Multinational Enterprises;
- ILO's Declaration on Fundamental Principles and Rights at Work and ILO fundamental conventions;
- UN Convention on the Rights of Persons with Disabilities;
- European Convention on Human Rights;
- Revised European Social Charter;
- Charter of Fundamental Rights of the European Union; and
- UN Declaration on the Rights of Indigenous Peoples. [ESRS S1.5, ESRS S2.5, ESRS S3.5, ESRS S4.5]

ESRS do not require a company to comply with these regulatory frameworks. Instead, it uses common concepts derived from these frameworks and, in some cases, requires a company to disclose whether and how it applies them.

## 4.7.50 Scope of 'own workforce'

ESRS S1 focuses on a company's own workforce – i.e. its employees and non-employees – and explains how the company identifies, manages and reports material IROs relating to those individuals.

A key judgement when applying ESRS S1 is distinguishing between a company's own workforce and workers in the value chain. This can be challenging because labour laws differ across jurisdictions, meaning that the same individuals may be classified differently across various countries.

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The distinction between a company's own workforce and workers in the value chain can be illustrated as follows. The examples in the table are not exhaustive.

| Category | Included in own workforce? | Examples |
|---|---|---|
| **Employees** | Yes | • Individuals in an employment relationship with the company based on national law or practice. |
| **Non-employees – i.e. individuals who provide labour to the company outside an employment relationship** | Yes | • Self-employed individuals engaged to perform work on behalf of the company:<br>– that would otherwise be carried out by employees;<br>– in public spaces (e.g. on the street); or<br>– to deliver services directly at a client's workplace.<br>• Individuals provided by third parties engaged in employment activities – e.g. workers:<br>– performing roles similar to those of employees (e.g. temporary cover for absences); or<br>– temporarily assigned from another EU member state (e.g. posted workers). [ESRS S1.8] |
| **Workers in the value chain** | No | • Workers employed by suppliers to which the company has outsourced certain activities, even if these activities are carried out at the company's premises (e.g. canteen or cleaning services).<br>• Workers providing maintenance work on behalf of an equipment supplier on the equipment supplied. |

Assessing whether an individual employed by a third party or a self-employed individual providing services to the company qualifies as a non-employee or a worker in the value chain requires judgement. [ESRS S2.8]

**Insight 4.7.10**
**Employee threshold: Which definition of an employee applies?**

A company determines whether it falls in the scope of the CSRD using the employee threshold in the Accounting Directive (Directive 2013/34/EU); it does not use the definition in ESRS S1. This threshold refers to the average number of employees during the financial year, which may be measured differently across jurisdictions – e.g. using average headcount or, in some cases, full-time equivalents (FTEs).

Because the Accounting Directive is implemented through national law, the detailed calculation (including who is counted as an employee) follows national definitions and practices.

By contrast, the definition of 'employee' (and more broadly 'own workforce') in ESRS S1 applies in the context of sustainability reporting and may differ from national legal definitions.

Therefore, a company:

- determines whether it meets the CSRD employee threshold under national law (transposing the Accounting Directive); and
- when in scope, applies ESRS definitions in preparing its sustainability statement.

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## 4.7.60 Policies related to social stakeholders

Under the social standards, a company discloses its policies for managing material IROs related to its social stakeholders. This can help users understand the extent to which the company has policies addressing how it identifies, assesses, manages and/or remediates its material social IROs.

In describing its policies, a company applies GDR-Policies (see 3.2.20). In addition, it discloses the specific information required by ESRS S1, ESRS S2, ESRS S3 and ESRS S4. [ESRS S1.10, ESRS S2.10, ESRS S3.8, ESRS S4.9]

| Information | What to disclose |
|---|---|
| **Policies** | • Information about the company's policies for managing material social IROs.<br>• An explanation of whether the policies apply to all social stakeholders or only specific groups – e.g. a community of indigenous peoples, particular age groups or employees working in a particular factory or location. [ESRS S1.10, ESRS S2.10, ESRS S3.8, ESRS S4.9]<br>For example, a company may disclose how it communicates its policies to the people or organisations that are expected to comply with, or are directly affected by, those policies. [ESRS S1.AR1, ESRS S2.AR1, ESRS S3.AR1, ESRS S4.AR1] |
| **Forced and child labour** | • Whether the company's policies explicitly address trafficking of human beings, forced labour, compulsory labour and child labour. [ESRS S1.11, ESRS S2.11] |
| **Supplier code of conduct** | • Whether the company has a supplier code of conduct. [ESRS S2.12] |
| **Impact on indigenous peoples** | • Whether the company has a policy for preventing and addressing impacts on indigenous peoples. [ESRS S3.9] |

## 4.7.70 Engagement with social stakeholders and grievance channels

Under the social standards, a company discloses information on its general approach for engaging with social stakeholders, including whether channels exist for them to raise concerns or express their needs (e.g. grievance mechanisms), and its approach to remedy. [ESRS S1.12, ESRS S2.13, ESRS S3.10, ESRS S4.10]

A company discloses the following information.

| Information | What to disclose |
|---|---|
| **Engagement with social stakeholders** | • How the company engages directly with social stakeholders and how their perspectives inform its decisions or activities aimed at managing the actual and potential impacts. This includes:<br>– the ways in which the company obtains insight into the perspectives of social stakeholders who may be particularly vulnerable to impacts and/or marginalised (e.g. women, migrants or persons with disabilities); and<br>– the specific steps the company takes to understand those perspectives. [ESRS S1.13(a), ESRS S2.14(a), ESRS S3.11, ESRS S4.11]<br>Engagement with the company's social stakeholders may occur in various forms – e.g. information sessions, consultations or participatory processes – and may take place at different times and with varying levels of regularity. [ESRS S1.AR2, ESRS S2.AR2, ESRS S3.AR2, ESRS S4.AR2] |

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| Information | What to disclose |
|---|---|
| **Agreements with workers' representatives** | • The Global Framework Agreement (GFA)[1] or other agreements with workers' representatives relating to human rights. [ESRS S1.13(b), ESRS S2.14(b)] |
| **Engagement with indigenous peoples** | • If affected communities include indigenous peoples, then a description of how the company respects their particular rights in its engagement approach. This includes recognising their right to free, prior and informed consent (FPIC) in relation to their cultural heritage, lands and territories, and any legislative or administrative measures that affect them. [ESRS S3.12]<br>• An explanation of whether, and how, indigenous peoples have been involved in determining the agenda, nature and timing of the engagement process (e.g. the process for obtaining consent and ensuring good-faith negotiations). [ESRS S3.12, AR3] |
| **Channels to raise concerns** | • A description of the ways in which relevant social stakeholders can bring concerns or needs to the company's attention and have them addressed, including whether a grievance mechanism exists. [ESRS S1.14, ESRS S2.15, ESRS S3.13, ESRS S4.12]<br>• An explanation of how the company monitors whether these channels are working effectively. [ESRS S1.14, ESRS S2.15, ESRS S3.13, ESRS S4.12]<br>• Whether the company has policies in place to protect individuals using these channels from retaliation – e.g. providing workers' representatives. If a company has disclosed this information under ESRS G1-1 *Policies related to business conduct*, then it may refer to that disclosure (see 4.8.40). [ESRS S1.AR3, ESRS S2.AR3, ESRS S3.AR4, ESRS S4.AR3] |
| **General approach to remedying negative impacts** | • An explanation of how it provides or works with others to provide remediation when it has caused or contributed to material negative impacts. [ESRS S1.15, ESRS S2.16, ESRS S3.14, ESRS S4.13] |

1. GFAs serve to establish an ongoing relationship between a multinational enterprise and a global union federation to ensure that a company adheres to the same standards in every country in which it operates.

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# 4.7.80 Actions and resources related to social stakeholders

Similar to the approach for disclosing information about policies, a company is required to describe the actions it takes in relation to IROs, applying GDR-Actions (see 3.2.30). In addition, a company needs to provide further information for material negative impacts. [ESRS S1.16, ESRS S2.17, ESRS S3.15, ESRS S4.14]

Specifically, a company is required to disclose the following information.

| Information | What to disclose |
|---|---|
| **Actions and remedies** | • Key actions taken, planned or underway to prevent, mitigate, bring to an end, minimise and remediate material negative impacts, including how the company balances these measures against competing business priorities. [ESRS S1.17(a), ESRS S2.18(a), ESRS S3.16(a), ESRS S4.15(a)]<br><br>Actions vary based on the company's relationship to the impact (cause, contribution or direct linkage) and its assessment of appropriate responses. [ESRS S1.AR4, ESRS S2.AR4, ESRS S3.AR5, ESRS S4.AR4] |
| **Tracking** | • How the company tracks and assesses the effectiveness of its actions and related resources in delivering outcomes. If it has disclosed this information under GDR-Targets or GDR-Metrics, then it may cross-refer to that information. [ESRS S1.17(b), ESRS S2.18(b), ESRS S3.16(b), ESRS S4.15(b)] |
| **Climate-related transition** | • Actions presented in a manner that enables users to understand the interconnections between different topics. This includes measures to mitigate negative impacts arising from the transition to a low-carbon and climate-resilient economy. [ESRS S1.AR5, ESRS S2.AR5, ESRS S3.AR6] |
| **Human rights incidents** | • Human rights incidents identified during the reporting period that relate to workers in the value chain, affected communities, or consumers and end-users. This covers substantiated cases where internationally recognised human rights have not been respected, including ongoing legal or non-legal proceedings (e.g. court cases, mediation or OECD National Contact Point complaints), and incidents captured through internal reporting or monitoring mechanisms. [ESRS S2.19, AR6, ESRS S3.17, AR7, ESRS S4.16, AR5, Annex II]<br><br>A company is not required to disclose a detailed list of individual human rights incidents. It may present the information in aggregated form (e.g. by type of incident and/or by communities, workers in the value chain, consumers and end-users affected). [ESRS S2.AR8, ESRS S3.AR10, ESRS S4.AR7]<br><br>In assessing whether information about human rights incidents is material, the company focuses primarily on the severity of the impacts on workers in the value chain, affected communities, and consumers and end-users. [ESRS S2.AR7, ESRS S3.AR9, ESRS S4.AR6]<br><br>In determining human rights incidents connected to affected communities, a company takes into account any legal disputes related to land rights and the FPIC of indigenous peoples. [ESRS S3.AR8] |
| **Cross-referencing** | • If changes in human rights incidents are relevant to understanding the effectiveness and availability of grievance channels, then a company may cross-refer to the respective disclosure requirement.<br><br>• A company may cross-reference actions taken and/or tracks and assessment of the effectiveness when describing how it has addressed, or is addressing, human rights incidents. [ESRS S2.AR9, ESRS S3.AR11, ESRS S4.AR8] |

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# 4.7.90 Metrics and targets related to social stakeholders

Disclosures on metrics and targets help users understand a company's performance in managing its material social IROs, including any targets it has set or is required to meet by law or regulation.

Unlike ESRS S1, ESRS S2–S4 do not require disclosing specific metrics for affected communities, workers in the value chain or consumers and end-users. However, a company may need to disclose entity-specific metrics and apply GDR-Metrics where these are necessary to provide material information about its social IROs (see 2.3.40 and 3.2.50).

## 4.7.100 Metrics related to a company's employees (ESRS S1)

Under ESRS S1-5, a company discloses information on its approach to employment, including security of employment and the key characteristics of employees in its own workforce. This information provides context for understanding disclosures in other sections and forms the basis for calculating quantitative metrics disclosed under other requirements in ESRS S1. [ESRS S1.19]

A company discloses the following information on the characteristics of its employees.

| Information | What to disclose |
|---|---|
| **Total employees** | • Total number of employees by headcount with a breakdown by gender. [ESRS S1.20(a)]<br>• Headcount by country for countries in which the company has 50 or more employees, limited to the 10 countries with the highest number of employees. [ESRS S1.20(b)]<br>• The total number by headcount or FTE of:<br>– permanent employees with breakdown by gender;<br>– temporary employees with breakdown by gender; and<br>– non-guaranteed hours employees. [ESRS S1.20(c)]<br>The company may choose to disclose this information in a narrative or tabular format. [ESRS S1.AR9–10] |
| **Employee turnover** | • The permanent employee turnover rate during the reporting period. [ESRS S1.20(d)]<br>The company calculates the rate by dividing the number of permanent employees who leave due to voluntary resignation, dismissal, retirement or death in service by the average employee headcount. [ESRS S1.AR11] |
| **Methodologies and contextual information** | • The methodologies and assumptions used to compile the data, including whether the numbers are reported at the reporting date, as an average across the reporting period or using another methodology. [ESRS S1.AR8] |
| **Connectivity with the financial statements** | • Any differences in the calculation basis of the total headcount or gender breakdown, if the methodology used to calculate the headcount differs between that used in the notes to the financial statements and that under ESRS S1-5 (e.g. reporting period average for the former and reporting date for the latter). [ESRS S1.20(e)] |

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### Example 4.7.10
### ESRS S1-5 employee headcount disclosures by gender, country and contract type

Company B operates in three different countries (Country C, D and E) and has 177 employees. B is preparing its disclosures under ESRS S1-5 and discloses headcount as at the reporting date. B has no employees with non-guaranteed hours; therefore, this category is not included in the tables.

***B's raw data***

| | Male | Female | Other | Not reported | Year 2 total employees by country | Year 1 |
|---|---|---|---|---|---|---|
| Permanent | 30 | 33 | 1 | - | **64** | |
| Temporary | 4 | 3 | - | 1 | **8** | |
| **Country C** | | | | | **72** | 70 |
| Permanent | 18 | 20 | 1 | - | **39** | |
| Temporary | 2 | 2 | - | 1 | **5** | |
| **Country D** | | | | | **44** | 46 |
| Permanent | 26 | 28 | 1 | - | **55** | |
| Temporary | 2 | 2 | 1 | 1 | **6** | |
| **Country E** | | | | | **61** | 58 |
| **Year 2 total number of employees** | **82** | **88** | **4** | **3** | **177** | |
| **Year 1** | 81 | 85 | 4 | 4 | **-** | 174 |

B discloses gender-related information based on data provided by employees, presenting employees who choose not to disclose their gender as 'not reported' in the gender breakdown. B chooses to present the information in tabular format at the current reporting date (Year 2) as follows.

***Table 1 – Employee headcount by gender***

| Gender | Number of employees (headcount) – Current reporting date (Year 2) | Number of employees (headcount) – Previous reporting date (Year 1) |
|---|---|---|
| Male | 82 | 81 |
| Female | 88 | 85 |
| Other | 4 | 4 |
| Not reported | 3 | 4 |
| **Total employees** | **177** | 174 |

***Table 2 – Employee headcount in the largest countries (only countries ≥ 50 employees)***

| Country | Number of employees (headcount) – Current reporting date (Year 2) | Number of employees (headcount) – Previous reporting date (Year 1) |
|---|---|---|
| Country C | 72 | 70 |
| Country E | 61 | 58 |

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***Table 3 – Employees by contract type, broken down by gender (headcount or FTE)***

| Male | Female | Other | Not reported | Total |
|---|---|---|---|---|
| **Number of permanent employees – Current reporting date (Year 2)** | | | | |
| 74 | 81 | 2 | 2 | **159** |
| Number of permanent employees – Previous reporting date (Year 1) | | | | |
| 73 | 79 | 3 | 2 | 157 |
| **Number of temporary employees – Current reporting date (Year 2)** | | | | |
| 8 | 7 | 2 | 1 | **18** |
| Number of temporary employees – Previous reporting date (Year 1) | | | | |
| 8 | 6 | 1 | 2 | 17 |



**Insight 4.7.20**
**Does ESRS S1 require a company to disclose total employees by both FTE and headcount?**

No. A company discloses the total number of employees by headcount, including part-time employees, because the requirement specifically refers to headcount as the metric. There is no option to report this metric by FTE.

However, a company can choose to disclose its breakdown between permanent employees, temporary employees and non-guaranteed hour employees either by headcount or by FTE, because some countries commonly report detailed employee information on an FTE basis. Where the breakdown is reported on an FTE basis, the sum of the categories may differ from the total number of employees reported in headcount. [ESRS S1.20(c)]



**Insight 4.7.30**
**Does a company adjust for differences in local employment definitions when aggregating employee data across countries with different employment definitions?**

No. If a company has employees in more than one country, then it calculates the country-level data using the definitions of permanent employees, temporary employees and non-guaranteed hour employees as set out in the legislation of the countries in which the employees are based. The resulting country-level data is then aggregated to calculate total numbers – no adjustments are made for differences in the definitions between countries. [ESRS S1.20(a)–(c), AR7]



**Insight 4.7.40**
**What genders are included in disclosures under ESRS S1?**

Gender is not explicitly defined under ESRS, but ESRS S1 refers to three gender categories: female, male and other. Unless otherwise stated, when information is disaggregated by gender, a company discloses all three gender categories, except where the country of the company responsible for preparing the sustainability statement legally recognises only two genders. [ESRS S1.AR9]

When disclosing the gender pay gap under ESRS S1-15 *Metrics related to remuneration*, only male and female genders are used in the calculation; 'other' genders are excluded. When material, the company provides additional information to help users understand the pay gap in relation to 'other' genders. [ESRS S1.41, AR31]

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**Insight 4.7.50**
**What does a company disclose if national regulation prohibits collecting information relating to employees, or if this information is unavailable?**

In some countries, national legislation may restrict collection of certain employee information, such as information on disabilities. In these circumstances, information required by ESRS S1-11 *Merics related to persons with disabilities* and ESRS S1-13 *Metrics related to health and safety* can be omitted if the data cannot lawfully be collected. [ESRS S1.33, 37]

This legal restriction is distinct from the situation where detailed information on employees is unavailable for other reasons. In these cases, a company estimates the employee numbers or ratios to provide the information required by ESRS S1, provided the estimates meet the qualitative characteristics of information in ESRS 1 (see 2.3.20–30).

ESRS 2 requires a company to disclose information about the judgements made in estimating quantitative metrics and monetary amounts that are subject to a high level of measurement uncertainty (see 2.3.90).

## 4.7.110 Metrics related to a company's non-employees (ESRS S1)

Under ESRS S1-6, a company discloses information that enables users to understand its reliance on non-employees within its own workforce. [ESRS S1.21]

A company discloses information on non-employees if they are linked to material IROs. This may occur when non-employees are integral to the business model, such as providing flexible labour or supporting core processes. Increasing reliance on non-employees may create risks, while significant presence or exposure to material negative impacts may result in material impacts. [ESRS S1.AR12]

When data about non-employees is not available, a company applies ESRS 1 in estimating non-employee numbers or ratios for disclosure under ESRS S1. [ESRS S1.AR13]

A company discloses the following information.

| Information | What to disclose |
|---|---|
| **Non-employees** | • Total number of non-employees in the company's own workforce expressed:<br>– in headcount or FTE; and<br>– at the reporting date or as an average over the reporting period. [ESRS S1.22, AR13]<br>Depending on the national definition of employees, non-employees may contain individuals that count as employees in other countries. Additionally, it includes people contracted to supply labour to the company (self-employed) or people provided by companies primarily engaged in employment activities – e.g. employment agencies[2]. [ESRS S1.7]<br>• An explanation of the methodology used, if relevant. [ESRS S1.AR13] |

2. NACE Code 78.

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## 4.7.120 Metrics related to collective bargaining coverage and social dialogue (ESRS S1)

Under ESRS S1-7, a company discloses information that enables users to understand the coverage of collective bargaining agreements and social dialogue for its own employees. [ESRS S1.23]

Collective bargaining comprises negotiations between an employer, a group of employers or one or more employers' organisations and one or more trade unions or, in their absence, workers' representatives to:

- determine working conditions and terms of employment;
- regulate relations between employers and workers; or
- regulate relations between employers or their organisations and workers' organisations. [Annex II]

ESRS S1 specifies the format of the disclosure and provides guidance on its preparation. [ESRS S1.AR14–AR16]

A company discloses the following information.

| Information | What to disclose |
|---|---|
| **Collective bargaining** | • The percentage of the company's total employees covered by collective bargaining agreements, presented in a narrative or tabular format. [ESRS S1.24(a), AR15]<br>• Whether the company has one or more collective bargaining agreements:<br>– ***in the European Economic Area (EEA):*** The percentage of employees covered by these agreement(s) in each country with 'significant employment'. A country is considered to have significant employment if it has at least 50 employees by headcount and is among the 10 largest countries in terms of employee numbers.<br>– ***outside the EEA:*** The percentage of its employees covered by collective bargaining agreements by region. [ESRS S1.20(b), 24(b)–(c)] |
| **Social dialogue** | • The percentage of employees covered by workers' representatives, presented in a narrative or tabular format. This is reported at the country level for each EEA country in which the company has significant employment. [ESRS S1.25(a)]<br>• The existence of any agreement with the company's employees for representation by a European Works Council (EWC), a Societas Europaea (SE) Works Council or a Societas Cooperativa Europaea (SCE) Works Council. [ESRS S1.25(b), AR15–16] |

**Example 4.7.20**
**Calculating collective bargaining coverage without double counting**

Company C has 1,000 employees in its own workforce.

- 600 employees are covered by a national collective bargaining agreement.
- 150 employees are covered by a company-level collective bargaining agreement.
- 50 employees are covered by both agreements.

Because employees covered by more than one agreement are counted only once, C calculates the total number of employees covered by collective bargaining agreements as:

600 + 150 – 50 = 700 employees.

C discloses that 70% (700 / 1,000 x 100) of its employees are covered by collective bargaining agreements.

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### Example 4.7.30
### Providing collective bargaining and social dialogue disclosures by EEA country and non-EEA region

Continuing Example 4.7.20, Company C discloses collective bargaining coverage separately for:

- EEA countries (with more than 50 employees included among the 10 largest countries); and
- non-EEA regions.

C has workplace representation arrangements only in Country X and Country Y for its EEA employees.

***Table 1 – Collective bargaining coverage and social dialogue***

| Collective bargaining coverage | | | Social dialogue |
|---|---|---|---|
| Coverage rate | Employees – EEA | Employees – non-EEA | Workplace representation (EEA only) |
| 0–19% | | Region D | |
| 20–39% | | | |
| 40–59% | | | Country X |
| 60–79% | | | Country Y |
| 80–100% | Countries X and Y | Region E | |

| Region | Total employees | Employees covered by CBA | Coverage rate |
|---|---|---|---|
| Region D | 250 | 25 | 10% |
| Region E | 250 | 225 | 90% |

| Country | Total employees | Employees covered by CBA | Coverage rate |
|---|---|---|---|
| Country X | 300 | 250 | 83% |
| Country Y | 200 | 200 | 100% |

### Example 4.7.40
### Calculating employee coverage by workers' representatives

Company D has 500 employees in two EEA countries, Country X and Country Y.

In Country X, D operates three sites. Workers' representatives are present in the manufacturing plant and distribution centre but not in the sales office, as follows.

| Establishments in Country X | Employees | Workers' representatives present? |
|---|---|---|
| Manufacturing plant | 180 | Yes |
| Distribution centre | 70 | Yes |
| Sales office | 50 | No |
| **Total** | **300** | |

D calculates that 250 (180 + 70) of the 300 employees in Country X work in establishments with workers' representatives. D reports that 83% (250 / 300 x 100) of its workers in Country X are covered by workers' representatives.

In Country Y, all employees work in a single establishment (regional headquarters) where workers' representatives are present. Therefore, for Country Y, D discloses a coverage rate of 100%.

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## 4.7.130 Metrics related to gender diversity in top management (ESRS S1)

Under ESRS S1-8, a company discloses information to enable users to understand its gender diversity at top management level, by disclosing the gender distribution in both number and percentage. [ESRS S1.26–27]

A company is required to disclose the following information.

| Information | What to disclose |
|---|---|
| **Gender diversity** | • Gender distribution in the two levels below the administrative and supervisory bodies. If the company already has a definition of 'top management', then it is permitted to use its own definition and discloses this fact alongside its own definition. [ESRS S1.AR17] |

## 4.7.140 Metrics related to adequate wages (ESRS S1)

Under ESRS S1-9, a company discloses information that enables users to understand whether its employees are paid an adequate wage and the benchmark it uses to assess this. [ESRS S1.28]

Adequate wage is a wage that provides for the satisfaction of a worker's needs and those of their family given national economic and social conditions. [Annex II]

A company is required to disclose the following information.

| Information | What to disclose |
|---|---|
| **Adequate wage** | • Whether all of the company's employees are paid an adequate wage and the benchmarks it uses to define adequate wages with country-level context. [ESRS S1.29]<br><br>If all employees are paid an adequate wage, then the company discloses this fact, together with the benchmarks it uses for assessment. [ESRS S1.AR18]<br><br>• When not all employees are paid an adequate wage, the company discloses the countries and the percentage of employees affected. [ESRS S1.29] |



**Insight 4.7.60**
**Does ESRS S1 provide guidance on how to benchmark adequate wages?**

Yes. ESRS S1 sets different expectations for benchmarking adequate wages in EU and non-EU countries.

The benchmark used for comparing adequate wages cannot be lower than the following.

| Jurisdiction | Minimum benchmark |
|---|---|
| **EU** | Wage established through collective bargaining or the minimum wage set by the EU Directive on Adequate Minimum Wages.[3] |
| **Outside the EU** | Wages established in any existing international, national or sub-national legislation, official norms or collective agreements, based on an assessment of wages needed for a decent standard of living under ILO principles. |

3. 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). The EU Directive on adequate minimum wages seeks to reduce working poverty and inequality by improving the adequacy of statutory minimum wages, promoting collective bargaining and improving the enforcement and monitoring of the minimum wage protection established in each EU member state.

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| Jurisdiction | Minimum benchmark |
|---|---|
| | Any living wage estimate, including those issued by a publicly mandated institution in the country where the workers are based, that aligns with ILO principles for estimating a living wage. [ESRS S1.AR20] |

For the lowest pay category, a company calculates the lowest wage based on the basic wage plus any fixed additional payments that it guarantees for all employees, excluding interns and apprentices. It considers the lowest wage separately for each country in which it operates, except when the relevant adequate minimum wage is defined at sub-national level. [ESRS S1.AR19]

## 4.7.150 Metrics related to social protection (ESRS S1)

Under ESRS S1-10, a company discloses information that enables users to understand whether its employees are covered by social protection against loss of income from major life events and, if not, the countries where they are not covered. [ESRS S1.30]

A company is required to disclose the following information.

| Information | What to disclose |
|---|---|
| **Social protection** | • Whether the company's employees are covered by social protection through public schemes or employer-provided benefits and, if not, the countries of operation in which coverage is unavailable for the following major life events:<br>– sickness;<br>– unemployment (starting from when the employee begins working for the company);<br>– employment injury and acquired disability; and<br>– maternity leave. [ESRS S1.31] |

## 4.7.160 Metrics related to persons with disabilities (ESRS S1)

Under ESRS S1-11, a company discloses information that enables users to understand the number of persons it employs with disabilities. [ESRS S1.32]

Persons with disabilities are those who have long-term physical, mental, intellectual or sensory impairments, which may hinder their full and effective participation in society on an equal basis with others. If definitions by country differ according to national legislation, then ESRS S1 requires contextual information, including explaining those differences, in accordance with GDR-Metrics. [Annex II]

A company is required to disclose the following information.

| Information | What to disclose |
|---|---|
| **Persons with disabilities** | • The percentage of the company's own employees with disabilities. [ESRS S1.33] |
| **Data collection** | • The calculation methodology, data types and sources used to calculate the disability metric (e.g. voluntary employee surveys or information derived from mandatory disability quota reporting). [ESRS S1.AR21]<br>Data collection applies only to data that can be lawfully collected. Although disability status is defined by national legislation, the company may apply either a consistent definition across countries or the relevant national definitions. Depending on users' information needs, the company may provide this information on an aggregated or disaggregated basis. |

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## 4.7.170 Metrics related to training and skills development (ESRS S1)

Under ESRS S1-12, a company discloses information that enables users to understand the training and skills development-related activities that it provides for employees. [ESRS S1.34]

Training comprises initiatives aimed at maintaining and/or improving the skills and knowledge of a company's own workforces. It can be delivered via different methods, such as on-site and online training. [Annex II]

A company is required to disclose the following information.

| Information | What to disclose |
|---|---|
| **Performance and career development reviews** | • The percentage of employees that participated in formalised performance and career development reviews using the employee headcount figures provided in ESRS S1-5 (see 4.7.100). [ESRS S1.35(a)]<br><br>This is calculated by dividing the total number of employees that participated in formalised performance and career development by the total number of employees. [ESRS S1.AR22] |
| **Average number of training hours** | • The average number of training hours per employee using the employee headcount figures provided in ESRS S1-5. [ESRS S1.35(b)]<br><br>This is calculated by dividing the total number of training hours offered to and completed by employees by the total number of employees. Training hours provided to non-employees or other individuals outside that headcount are excluded from the calculation. [ESRS S1.AR23] |

**Insight 4.7.70**
**What qualifies as a regular performance and career development review under ESRS S1?**

A regular performance review is defined in ESRS S1 as a review based on criteria that are known to both the employee and their superior, and that is undertaken with the employee's knowledge at least once a year. The review can include evaluation by the employee's direct superior, peers or a wider range of employees. It can also involve the company's HR department. [ESRS S1.AR22]

## 4.7.180 Metrics related to health and safety (ESRS S1)

Under ESRS S1-13, a company discloses information that enables users to understand the coverage, quality and performance of its health and safety management system established to prevent work-related accidents, ill health and fatalities. [ESRS S1.36]

A company is required to disclose the following information.

| Information | What to disclose |
|---|---|
| **Covered by occupational health and safety management system** | • The percentage of the company's own workforce (based on headcount) covered by its health and safety management system, based on legal requirements and/or recognised standards or guidelines. [ESRS S1.37(a), AR24] |
| **Fatalities** | • The total number of fatalities resulting from recordable work-related:<br>– accidents among the company's own workforce and people working on the company's sites who are not part of its own workforce (including non-employees when material); and<br>– ill health. [ESRS S1.37(b)] |

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| Information | What to disclose |
|---|---|
| **Work-related accidents** | • The number and rate of recordable work-related accidents (including related fatalities). When non-employees are assessed as material, this disclosure also covers non-employees. [ESRS S1.37(c), AR26] |
| **Work-related ill health** | • The number of cases of recordable work-related ill health among the company's employees, subject to legal restrictions on data collection. [ESRS S1.37(d)] |
| **Days lost** | • The number of employee days lost to accidents and ill health resulting from recordable work-related incidents. [ESRS S1.37(e)] |

### Insight 4.7.80
### How does a company calculate the recordable work-related accidents rate?

A work-related accident is a distinct event that occurs during the course of work and causes physical or mental harm. A company records a work-related accident when it results in a fatality or causes an individual to be absent from work for more than three consecutive days. [Annex II]

A company calculates the recordable work-related accidents rate as follows:

$$\frac{\text{Number of cases}}{\text{Number of total hours worked by people in the company's own workforce}} \times 1{,}000{,}000$$

This represents the number of cases per one million hours worked, which roughly corresponds to the annual hours worked by 500 full-time workers.

National laws may differ in their definition of a work-related accident. For example, some countries treat accidents occurring on an employee's commute to work as work-related accidents. When the definition of 'work-related accidents' differs between national law and ESRS, the company may use the local definition. If it does, it discloses that fact.

If the company uses estimates, then it uses normal or standard working hours, taking account of paid leave entitlements (e.g. paid holiday, paid sick leave and public holidays), and explains this in its disclosures. [ESRS S1.AR25]

### Insight 4.7.90
### How are cases of 'recordable work-related ill health' identified?

Work-related ill health is any illness caused or made worse by workplace factors or caused primarily by exposure at work to a physical, organisational, chemical or biological risk factor or to a combination of these factors. Such a case is recordable if it results in death or absence from work. [Annex II]

Cases of recordable work-related ill health include cases reported to the company by affected individuals, compensation bodies or healthcare professionals, as well as cases identified through medical surveillance during the reporting period.

Work-related musculoskeletal disorders are classified as work-related ill health rather than work-related accidents. [ESRS S1.AR27]

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**Insight 4.7.100**
**How are 'days lost' calculated?**

The number of days lost includes the first full day and the last day of absence – i.e. until the employee returns to work, even if part-time. The calculation is based on calendar days. Therefore, all days during the absence period count as days lost, including days on which the worker is not scheduled for work (e.g. weekends and public holidays). [ESRS S1.AR28]

**Insight 4.7.110**
**Does a company only report instances of work-related ill health that have occurred during the reporting period?**

Not necessarily. Instances of work-related ill health are those cases notified to the company during the reporting period. Therefore, the disclosure may include cases of work-related ill health detected during the reporting period but relating to previous periods. It may also include cases relating to former employees if the company is notified during the reporting period. [ESRS S1.AR27]

**Insight 4.7.120**
**Do ESRS prescribe how to calculate days lost to fatalities?**

No. ESRS S1 requires a company to use calendar days when measuring days lost due to work-related injuries and ill health, but it does not prescribe how fatalities are treated. A company applies a consistent methodology over time, discloses clearly whether and how fatalities are included and explains any assumptions or changes in the methodology. [ESRS S1.AR28, ESRS 2.49(a)]

In our experience, a company may:

- report fatalities separately;
- assign a predefined fixed number of days per fatality;
- calculate the remaining working life of the deceased in days; or
- apply a 'zero days' approach.

## 4.7.190 Metrics related to work-life balance (ESRS S1)

Under ESRS S1-14, a company discloses information that enables users to understand the extent to which employees can take family-related leave, including maternity leave, paternity leave, parental leave and carers' leave. [ESRS S1.38]

A company is required to disclose the following information.

| Information | What to disclose |
|---|---|
| **Family-related leave – full employee entitlement** | • The overall percentage when all employees are entitled to all four types of family-related leave through social policy and/or collective bargaining agreements.<br>• Under GDR-Metrics (see 2.3.40), a company can provide contextual information to address the types of family-related leave entitlements – e.g. when its employees are entitled to only two of the four types of leave. [ESRS S1.AR29] |
| **Family-related leave – partial employee entitlement** | • The percentage of employees entitled to take family-related leave – i.e. those covered by regulations, organisational policies, agreements, contracts or collective bargaining agreements that contain family-related leave entitlements. [ESRS S1.39, AR30] |

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**Insight 4.7.130**
**Does an employee need to be entitled to all types of relevant family leave to be considered within the family-related leave metric?**

No. Family-related leave includes maternity leave, paternity leave, parental leave and carers' leave. A company discloses whether employees are entitled to all types of family-related leave or only some. [ESRS S1.38]

Further contextual information may be relevant to users if the scope of family leave varies across countries. For example, employees in a particular country may be entitled to maternity leave but not paternity leave. [ESRS S1.AR29]

## 4.7.200 Metrics related to remuneration (ESRS S1)

Under ESRS S1-15, a company is required to disclose information that enables users to understand:

- the extent of any gap between a female employee's and a male employee's pay; and
- the level of remuneration inequality. [ESRS S1.40]

Specifically, a company is required to disclose the following information.

| Information | What to disclose |
|---|---|
| **Gender pay gap** | • The difference between the average pay levels for female and male employees, expressed as a percentage of the average pay level for male employees. This is calculated as the difference between the average gross hourly pay levels of male and female employees, divided by the average gross hourly pay level of male employees and multiplied by 100.<br><br>In the calculation, a company includes:<br><br>– all male and female employees;<br><br>– the ordinary basic salary; and<br><br>– any additional remuneration provided to all employees, whether in cash or in kind, and that the employee receives directly or indirectly from the company (including complementary or variable components) in connection with their employment. [ESRS S1.41(a), AR31–AR32] |
| **Unadjusted gender pay gap** | • The difference in average pay between male and female employees without controlling for explanatory factors.<br><br>An adjusted gender pay gap, by employee category and/or country, may provide additional contextual insight. [ESRS S1.AR33] |
| **Remuneration ratio** | • The annual total remuneration ratio of the highest-paid individual to the median annual total remuneration for all employees (excluding the highest-paid individual). [ESRS S1.41(b), AR35] |
| **Methodology** | • The methodology used by the company to compile the data and/or how it has compiled the data. [ESRS S1.AR34] |

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### Example 4.7.50
### Calculating the gender pay gap

Company E has the following employees and related remuneration.

| Gender | Number of employees (A) | Total annual remuneration (B) | Average annual remuneration (B/A) |
|---|---|---|---|
| Male | 60 | 3,600,000 | 60,000 |
| Female | 40 | 2,000,000 | 50,000 |

It calculates the gender pay gap as a percentage of the average income of male employees to be 16.7% – i.e. (60,000 – 50,000) / 60,000 x 100).

### Insight 4.7.140
### What types of remuneration does a company consider when calculating the annual total remuneration?

Annual total remuneration includes more than base salary. A company generally includes:

- ***base salary:*** the sum of guaranteed, short-term and non-variable cash compensation;
- ***cash benefits and variable pay:*** such as cash allowances, bonuses, commissions, cash profit-sharing and other forms of variable cash payments;
- ***benefits in kind:*** such as company cars, private health insurance, life insurance and wellness programmes; and
- ***long-term incentives:*** measured at the total fair value of annual awards – e.g. stock options, restricted shares or units, performance shares or units, phantom shares, stock appreciation rights and long-term cash awards.

For example, if an employee receives a fixed salary, an annual bonus, private health insurance and a share-based award, then the company generally considers all of these elements when determining the annual total remuneration. [ESRS S1.AR35(a)–(c)]

### Example 4.7.60
### Annual total remuneration ratio: highest-paid individual to median employee

Company F identifies its highest-paid individual with an annual total remuneration as follows.

| Component | Amount |
|---|---|
| Base salary | 500,000 |
| Annual cash bonus | 200,000 |
| Benefits in kind | 30,000 |
| Fair value of long-term incentives | 270,000 |
| **Annual total remuneration** | **1,000,000** |

To calculate the annual total remuneration ratio, F identifies the median employee remuneration, which lies exactly in the middle of the income distribution – i.e. 50% of employees earn more; 50% earn less. The median is usually lower than the average.

Assuming the median income is 55,000, F calculates the ratio to be 18.18 – i.e. (1,000,000 / 55,000).

F reports an annual total remuneration ratio of 18, indicating that the highest-paid individual earns approximately 18 times that of a standard employee in the middle of the income pyramid.

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### 4.7.210 Metrics related to incidents of discrimination and other human rights impacts (ESRS S1)

Under ESRS S1-16, a company discloses information that enables users to understand the extent to which substantiated work-related incidents of discrimination and other substantiated human rights incidents affect its own workforce. [ESRS S1.42]

Subject to the relevant privacy regulations, the disclosure includes work-related incidents of discrimination based on gender, racial or ethnic origin, nationality, religion or belief, disability, age, sexual orientation or other relevant forms of discrimination during the reporting period. Incidents of harassment are a specific form of discrimination. [ESRS S1.43(a)]

When applying the information materiality filter under ESRS 1 (see Chapter 2.2), a company primarily considers the severity of the impacts on its own workforce. [ESRS S1.AR38]

A company is required to disclose the following information.

| Information | What to disclose |
|---|---|
| **Work-related incidents of discrimination** | • The total number of substantiated and verified incidents of discrimination, including harassment, reported during the reporting period. [ESRS S1.43(a), AR37]<br>• The total amount of fines, penalties and compensation for damages as a result of the incidents and complaints listed above. [ESRS S1.43(c)] |
| **Human rights incidents – e.g. forced labour, human trafficking or child labour** | • The number of substantiated and verified human rights incidents relating to the company's workforce during the reporting period, including incidents identified through its internal processes and subject to ongoing judicial and non-judicial proceedings. [ESRS S1.43(b), AR36]<br>• The total amount of fines, penalties and compensation for damages for those incidents. [ESRS S1.43(c)] |
| **Methodology** | • The methodology used for compiling the data on discrimination and human rights incidents. [ESRS S1.AR39]<br>When the company considers that changes in human rights and discrimination incidents are relevant to understanding the effectiveness and availability of channels to raise concerns or needs, including grievance mechanisms, it may cross-refer to its disclosure of the number of substantiated incidents of discrimination and information about the channels available to its own workforce or workers' representatives to raise concerns or needs. [ESRS S1.43(b), 14, 43(b), AR39] |
| **Remediation or actions** | • How the company has addressed or is addressing work-related incidents of discrimination and human rights incidents.<br>A company may cross-refer to information provided about actions and resources under ESRS S1-3 disclosures (see 4.7.80). [ESRS S1.AR40] |
| **Connectivity with financial statements** | • Fines, penalties and compensation for damages.<br>These derive from the monetary amounts recognised in the financial statements and are disclosed in accordance with the connected information requirements in ESRS 1 (see 6.1.30) [ESRS S1.AR41, ESRS 1.115–116] |

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### 4.7.220 Targets related to social stakeholders

GDR-Targets in ESRS 2 sets out the baseline disclosure requirements on targets. If a company has targets relating to social stakeholders, then it discloses them in accordance with the requirements of GDR-Targets (see 3.2.60). [ESRS S1.18, ESRS S2.20, ESRS S3.18, ESRS S4.17]

Engagement with the company's social stakeholders or their representatives can contribute to assessing the effectiveness of:

- the actions disclosed, including the development of metrics and target-setting;
- performance monitoring, including how effectively material negative impacts are managed; and
- identifying lessons learned or improvements resulting from the company's performance. [ESRS S1.AR6, ESRS S2.AR10, ESRS S3.AR12, ESRS S4.AR9]

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# 4.8 Governance

## 4.8.10 Business conduct in sustainability reporting

ESRS G1 is the only governance standard in ESRS. Although governance is one of the core content reporting areas (see 3.1.50), ESRS G1 focuses specifically on business conduct as a sustainability topic. It contains the following subtopics:

- corporate culture, including anti-corruption and anti-bribery, the protection of whistleblowers and animal welfare;
- the management of relationships with suppliers, including payment practices; and
- political influence, including lobbying activities. [ESRS G1.5]

Business conduct refers to how a company governs and manages behaviours and practices that create IROs across its activities and value chain.

Strong governance and sound business conduct can help a company manage its impacts and risks across its activities and value chain. Weak governance not only exposes companies to legal, operational and reputational risks, but also can lead to negative impacts on people and the environment. Examples include the following.

| Subtopic | Example IROs |
|---|---|
| Corporate culture | Weak anti-corruption and anti-bribery practices, ineffective whistleblower protection or poor ethical oversight can result in harm to people, including workers and affected communities. |
| Relationships with suppliers | Poor governance can lead to negative impacts on small- and medium-sized entities (SMEs) and cause wider economic instability across the value chain. |
| Political influence | Opaque lobbying activities or political contributions can undermine market integrity and public trust. |

### 4.8.20 How the standard works

ESRS G1 expands on the disclosure requirements in ESRS 2 by setting out topic-specific requirements on business conduct. Under ESRS G1, a company discloses how it prevents corruption and bribery, protects whistleblowers, manages supplier relationships – including late payments to SMEs – and exerts political influence through lobbying and contributions. It does this by disclosing information in accordance with general disclosure requirements for policies, actions, metrics and targets, respectively (see Chapter 3.2). [ESRS G1.4]

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| ESRS 1<br>General requirements | |
|---|---|
| **ESRS 2**<br>**Core content requirements (Chapter 3.1)** | **ESRS G1**<br>**Business conduct-related requirements (Chapter 4.8)** |
| **Governance**<br>(3.1.60–80) | No additional requirements |
| **Strategy**<br>(3.1.100–220) | No additional requirements |
| **IRO management**<br>(3.1.240–250) | No additional requirements |
| **General disclosure requirements (Chapter 3.2)** | |
| **GDR-Policies**<br>(3.2.20) | • Policies related to business conduct (4.8.40) |
| **GDR-Actions**<br>(3.2.30) | • Actions and resources related to business conduct (4.8.50) |
| **GDR-Metrics**<br>(3.2.50) | • Metrics related to:<br>– Corruption and bribery (4.8.70)<br>– Political influence, including lobbying activities (4.8.80)<br>– Payment practices (4.8.90) |
| **GDR-Targets**<br>(3.2.60) | No additional requirements |

### 4.8.30 Connecting to other topics

Business conduct is a broad topic and can affect several other sustainability topics. Depending on its materiality assessment, a company may also need to disclose information about business conduct-related impacts – e.g. payment practices and bribery risks – when applying the requirements in other topic-specific standards (e.g. ESRS S2 and ESRS S3).

## 4.8.40 Policies related to business conduct

Under ESRS G1-1, a company discloses its policies on business conduct and how it fosters its corporate culture. This can help users understand the extent to which the company has policies addressing how it identifies, assesses, manages and/or remediates its material business conduct-related IROs.

In describing its policies, a company applies GDR-Policies (see 3.2.20). In addition, it discloses the specific information required by ESRS G1, as follows. [ESRS G1.6]

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| Information | What to disclose |
|---|---|
| **Anti-corruption and anti-bribery** | • Existence of policies on anti-corruption and anti-bribery consistent with the UN Convention against Corruption. [ESRS G1.7(a)]<br>• Functions or roles within the company most at risk in respect of corruption and bribery (see 4.8.50 and Examples 4.8.10 and 4.8.20). [ESRS G1.7(c)] |
| **Whistleblowers** | • Either:<br>– existence of policies on whistleblower protection [ESRS G1.7(b)]; or<br>– a statement that the company is subject to national legal requirements regarding whistleblower protection that are equivalent to the Whistleblower Directive[1]. [ESRS G1.AR2] |

**Example 4.8.10**
**Identifying functions most exposed to corruption or bribery risk**

Company C operates a clothing manufacturing business with activities in Country D and Country V.

It has identified a material impact and a material risk relating to bribery because Country V ranks low on international corruption indices such as the Corruption Perceptions Index[2].

Departments dealing with operations in Country V face greater exposure to requests for facilitation payments or other improper practices due to the country's low ranking. Therefore, C considers these functions most at risk because their responsibilities involve interactions with public authorities in a high-risk jurisdiction. It reports information about them under ESRS G1-1.

**Example 4.8.20**
**Identifying roles most exposed to bribery risk**

Company B provides advisory and transaction services to large, listed clients.

Teams working on specific engagements may be exposed to attempts to influence their decisions or behaviour because they handle confidential information, including material non-public information (also referred to as 'insider information' in some jurisdictions).

Because of this exposure, B considers its client-facing staff to be most at risk of bribery-related impacts and risks, and reports information about these roles under ESRS G1-1.

## 4.8.50 Actions related to business conduct

Under ESRS G1-2, a company describes the actions it takes in relation to business conduct in accordance with GDR-Actions (see 3.2.30). In addition, it provides further information on two key areas under ESRS G1:

- management of relationships with suppliers; and
- anti-corruption and anti-bribery procedures. [ESRS G1.8–9]

Corruption occurs when a person offers or accepts money, gifts or other benefits to influence someone to act improperly in the conduct of a company's business. Benefits may be financial or non-financial and can include gifts, free goods, holidays or personal services, with the purpose of obtaining an unfair advantage or place inappropriate pressure on the recipient. [Annex II]

1. Directive (EU) 2019/1937.
2. Transparency International: Corruption Perception Index 2025.

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In disclosing the information required by ESRS G1, a company may refer to information disclosed about its supplier code of conduct, if applicable (see 3.1.50 and 4.7.60).

The table below summarises the disclosure requirements regarding relationships with suppliers and anti-corruption and anti-bribery procedures.

| Information | What to disclose |
|---|---|
| **Relationships with suppliers** | • The approach to managing supplier relationships, including:<br>– consideration of sustainability-related performance factors in supplier selection;<br>– type of training provided to the procurement team on sustainability-related matters; and<br>– engagement with suppliers to improve sustainability-related performance. [ESRS G1.9(a), AR4] |
| **Anti-corruption and anti-bribery procedures** | • Procedures to prevent, detect, investigate and respond to allegations or incidents related to corruption or bribery, including:<br>– training provided to the functions or roles most at risk of corruption or bribery, including any members of the governing bodies; and<br>– actions taken to address breaches of procedures or standards on anti-corruption and anti-bribery. [ESRS G1.9(b)] |



**Insight 4.8.10**
**What does 'management of supplier relationships' mean?**

The management of supplier relationships may include the processes and controls a company uses to influence and monitor supplier behaviour and performance. Depending on its facts and circumstances, this could include:

- a supplier code of conduct;
- responsible sourcing expectations;
- supplier monitoring and assessment activities;
- sustainability-related requirements in supplier contracts; and
- supplier grievance or escalation mechanisms.

A company may also cross-refer to information about the existence of a supplier code of conduct disclosed under ESRS S2, when relevant. [ESRS G1.9(a), AR4]

## 4.8.60 Metrics and targets related to business conduct

Disclosures on metrics and targets can help users understand a company's performance in managing its material business conduct-related IROs, including any targets it has set or is required to meet by law or regulation. A company discloses any metrics and targets it reports under ESRS G1 in accordance with GDR-Metrics and GDR-Targets respectively (see 3.2.50 and 3.2.60).

### 4.8.70 Metrics related to corruption or bribery

Under ESRS G1-4, a company discloses metrics about corruption or bribery during the reporting period and their outcomes. This means reporting information about convictions, sanctions and fines. [ESRS G1.11–12]

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The table below summarises the disclosure requirements regarding convictions, sanctions and fines.

| Information | What to disclose |
|---|---|
| **Convictions** | • Number of convictions for violating anti-corruption or anti-bribery laws during the reporting period. [ESRS G1.12, AR5] |
| **Sanctions** | • Number of sanctions for violating anti-corruption or anti-bribery laws during the reporting period. [ESRS G1.12] |
| **Fines** | • Total amount of any fines issued in relation to convictions or sanctions related to corruption or bribery. [ESRS G1.12] |

**Insight 4.8.20**
**Does a company disclose information about corruption or bribery cases that do not result in a conviction?**

It depends. A company discloses information about such cases only when they result in a conviction or sanction. Therefore, if an employee has been prosecuted for a corruption or bribery offence but ultimately not convicted or sanctioned, then the company is not required to disclose information about the incident under ESRS G1.

Convictions for the violation of anti-corruption and anti-bribery laws refer to final decisions issued by a criminal court. Similarly, sanctions refer to final decisions issued by administrative or regulatory authorities. Therefore, a company considers the status of legal proceedings, including any pending appeals, when determining whether a conviction or sanction falls in the scope of the disclosure requirements.

A company also discloses the total amount of fines arising from violations of anti-corruption and anti-bribery laws that are recognised in its financial statements during the reporting period. [ESRS G1.AR5–6]

## 4.8.80 Metrics related to political influence, including lobbying activities

Under ESRS G1-5, a company provides metrics on how it exerts its political influence, including its political contributions and lobbying activities. [ESRS G1.13]

Lobbying activities include:

- organising or participating in meetings, conferences or events;
- contributing to or participating in public consultations, hearings or similar initiatives;
- organising communication campaigns, platforms, networks or grassroots initiatives; and
- preparing or commissioning policy and position papers, opinion polls, surveys, open letters or research work in line with the activities covered by the EU Transparency Register rules. [Annex II]

The table below summarises the disclosure requirements regarding political influence.

| Information | What to disclose |
|---|---|
| **Political contributions** | • The total monetary value of financial and in-kind political contributions made directly and indirectly by the company during the reporting period, disaggregated by:<br>– country or geographical area, when relevant; and<br>– type of recipient/beneficiary. [ESRS G1.14] |

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| Information | What to disclose |
|---|---|
| **Lobbying activities** | • The main issues covered by the company's lobbying activities. [ESRS G1.15]<br>• The company's main positions taken on the lobbying activities – i.e. the views the company supports. [ESRS G1.15]<br>• An explanation of the interaction between the company's lobbying activities and its material IROs. [ESRS G1.15] |
| **Governing bodies – i.e. administrative, management, and supervisory bodies** | • Information on members appointed to the company's governing bodies during the reporting period who, in the preceding two years:<br>– held positions in public administration; and<br>– in that role, had responsibilities and a scope of activities comparable to those of their role within the company. [ESRS G1.16, AR9] |



**Example 4.8.30**
**Disclosing indirect political contributions**

Company W made a large donation during the reporting period to a lobbying organisation that supports an initiative to reduce the corporate tax rate. In addition, it permits its employees to volunteer as speakers at events organised by the lobbying organisation promoting the initiative.

W reports both the monetary amount of the donation and the value of the employee's time contribution as indirect political contributions. The lobbying organisation is the recipient/beneficiary of these contributions.

W also considers the requirement to disaggregate political contributions by geographical area and recipient/beneficiary type when preparing its disclosure.



**Example 4.8.40**
**Disclosing information about a Political Action Committee (PAC)**

Company R has set up a system that enables employees to make contributions and donations to a PAC.

A PAC is an organisation that pools campaign contributions and donates funds to campaigns for – or against – candidates, ballot initiatives or legislation. R itself does not engage with the PAC and its activities.

R is not required to disclose the monetary amount of contributions and donations made by its employees to the PAC. However, it might determine that providing the PAC contribution scheme for employees is material information and therefore disclose that it operates a PAC scheme for employees but does not contribute to the scheme itself.



**Example 4.8.50**
**Disclosing information about lobbying activities linked to IROs**

Company K operates in a sector with high carbon emissions.

It identifies a material transition risk related to current and expected tightening of regulation on GHG emissions. Therefore, K engages in lobbying against the proposed tightening of these regulations.

When disclosing information about its lobbying activities, K explains that its position on the proposed regulation is directly connected to its identified transition risk relating to GHG emissions (see 4.1.60).

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**Insight 4.8.30**
**Does a company report membership of all organisations as a political contribution?**

It depends. Being a member of an organisation may result in an indirect political contribution. Therefore, a company needs to understand the nature and activities of each organisation of which it is a member. The following examples illustrate when a company may need to disclose information about its membership. [ESRS G1.AR8]

| Examples of organisations | Disclose membership? |
|---|---|
| Trade association that engages in political lobbying or supports a political party | Yes, if the membership is material from a qualitative or quantitative perspective.<br>For example, if the association lobbies for significant legislative or regulatory change, then membership may be relevant to users even if the membership fees themselves are not quantitatively material. |
| Charitable organisation | No, provided the organisation does not engage in political activities. In this case, membership fees paid would not normally constitute an indirect political contribution.<br>However, depending on the company's materiality assessment and the nature of the membership, a company may need to provide an entity-specific disclosure under another topic such as ESRS S3. |

## 4.8.90 Metrics related to payment practices

Under ESRS G1-6, a company provides metrics on its payment practices to enable users to understand its standard payment terms and payment performance, and, in particular, how these impact SMEs. [ESRS G1.17–18]

The table below summarises the disclosure requirements regarding payment terms, legal proceedings and late payments to SMEs.

| Information | What to disclose |
|---|---|
| **Payment terms** | • The company's standard payment terms (in days), broken down by the main categories of suppliers. [ESRS G1.18(a)]<br>• Any payment terms that apply to SMEs, if these differ from those applied to other suppliers. [ESRS G1.18(a)]<br>• Percentage of payments aligned with the company's standard terms. [ESRS G1.18(b)] |
| **Legal proceedings** | • The number of legal proceedings currently outstanding for late payments. [ESRS G1.18(c)] |
| **Late payments to SMEs** | • An entity-specific metric relating to late payments to SMEs when these are assessed as a material topic and the metric provides material information. [ESRS G1.AR10] |

## 4.8.100 Targets related to business conduct

ESRS G1 does not contain specific requirements for disclosing business conduct-related targets. Instead, if a company has targets relating to business conduct, then it discloses them in accordance with the requirements of GDR-Targets (see 3.2.60). [ESRS G1.10]

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## 4.8.110 Entity-specific disclosures on business conduct

Entity-specific disclosures are important in enabling users to understand a company's material business conduct-related IROs when these are not fully addressed by the requirements of ESRS G1. In our experience, companies disclose entity-specific information because practices relating to corporate culture, ethics, anti-corruption, whistleblowing and political influence can vary substantially across industries and jurisdictions.

When a company's risk profile or operating context raises further business conduct-related IROs that are not fully covered by ESRS G1 (e.g. sector-specific integrity risks and unique governance vulnerabilities), entity-specific disclosures provide the necessary additional transparency. Common examples of entity-specific disclosures under ESRS G1 include:

- ethical use of AI and technology and business continuity;
- cybersecurity;
- innovation and digital transformation; and
- tax matters relating to business conduct.

In some cases, a company may identify information that does not fit within the ESRS topic structure. For example, it may determine that tax warrants its own topic rather than being treated as additional information under business conduct. It presents all information in its sustainability statement in accordance with the presentation requirements in ESRS 1 (see 6.1.10). [ESRS 1.105]

In developing entity-specific disclosures, a company is permitted to draw on best practices, frameworks or reporting standards (e.g. GRI topic and sector standards, as well as industry-based guidance under IFRS Sustainability Disclosure Standards) to help identify additional business conduct-related topics and metrics (see 2.3.40). [ESRS 1.AR5]



**Example 4.8.60**
**Disclosing information about a tax strategy**

Bank M has identified potential negative IROs, based on users' expectations about its tax strategy.

Therefore, M discloses information about its tax strategy, including its policy in accordance with GDR in ESRS 2. In addition, it discloses the following entity-specific metrics.

- ***Presence in tax havens or non-cooperative jurisdictions:*** This metric provides information about M's exposure to the identified reputational risk associated with its tax strategy.
- ***Tax contributions per jurisdiction during the reporting period:*** This metric provides information about how M's tax practices align with its tax strategy to support users' assessment of the identified reputational risk.

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### Example 4.8.70
### Disclosing information about cybersecurity

Continuing Example 4.8.60, Bank M has also identified the following IROs relating to cybersecurity:

- a risk of theft via a cyberattack against the bank; and
- a potential negative impact of financial losses to clients in the event of a cyberattack.

M discloses information about its policies, actions, metrics and targets in relation to cybersecurity in accordance with GDR in ESRS 2. In addition, M discloses the following entity-specific metrics:

- the number of successful cyberattacks that resulted in unauthorised access to systems, data or assets during the reporting period;
- the number of cyberattacks that resulted in financial losses for clients during the reporting period;
- the number of penetration tests carried out during the reporting period, including the number of weaknesses identified; and
- the percentage of employees who have completed all IT security training.

These metrics help users understand the bank's exposure to cybersecurity-related risks and impacts, assess the effectiveness of actions taken to manage those risks and impacts, and evaluate progress against related cybersecurity targets.

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# 5.1 Transition plans

## 5.1.10 Introducing transition planning and transition plans

Transition planning is a strategic process and is widely recognised as an important element of the global transition to a more sustainable, lower-carbon economy. Users are increasingly focused on a company's transition plans[1] and emissions reduction targets.

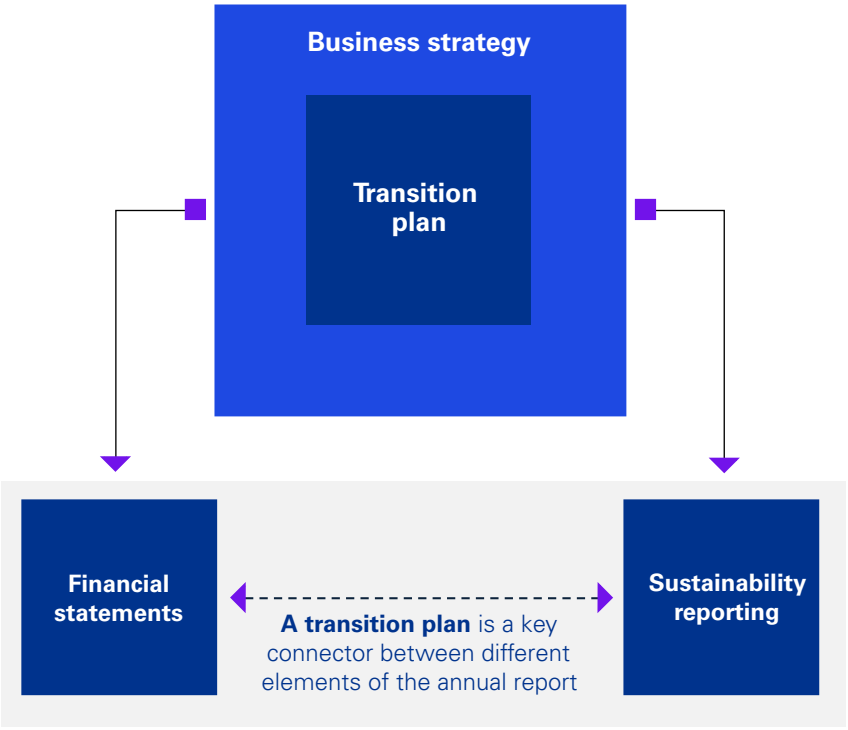
A transition plan is an aspect of a company's overall business strategy. It outlines the company's targets, actions and resources for responding to changing internal or external conditions (e.g. climate change and biodiversity loss).

A common type of transition plan is a climate-related transition plan. Nature-related transition planning is also becoming more common – such as a biodiversity and ecosystems transition plan.

A climate-related transition plan describes the steps a company will take to transform its strategy and business model so that they are compatible with the transition to a lower-carbon economy. A biodiversity and ecosystems transition plan might explain how a company's strategy and business model will evolve to contribute to the global goal of halting and reversing global biodiversity loss.

A company reporting under ESRS is not required to develop a transition plan. However, topic-specific standards include requirements as follows for a company reporting under:

- ***ESRS E1:*** a company provides disclosures about its climate-related transition plan if it has one. If it has no such plan, then it discloses this fact and indicates whether and, if so, when it expects to adopt one (see 4.1.50); and [ESRS E1.12–13]
- ***ESRS E4:*** a company discloses information about the key features of its biodiversity and ecosystem transition plan if it has such a plan and has made the plan's key features public (see 4.5.40). [ESRS E4.11]




1. ESRS specifically uses the term 'transition plan for climate change mitigation'. In this handbook, we refer to this as a 'climate-related transition plan'.

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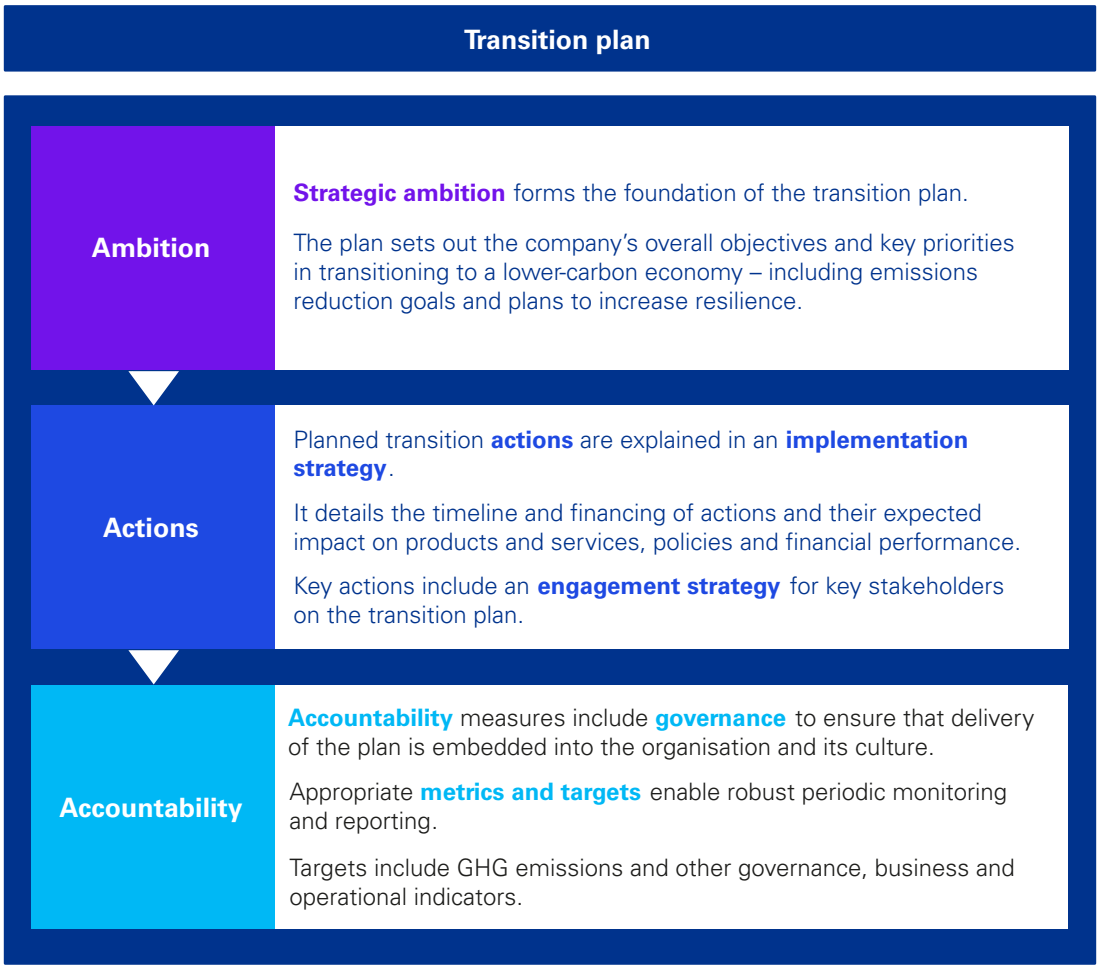
A company may address both climate change mitigation and biodiversity and ecosystems within a single integrated transition plan, or develop separate transition plans for each area.

Preparing a transition plan is an opportunity for a company to assess its strategy and business plan and outline how it can approach the transition to a more sustainable or lower-carbon economy. Having a clear transition plan can help build users' confidence in a company's understanding of its IROs and its ability to manage a successful transition.

## 5.1.20 Elements of a company's transition plan

A transition plan is a strategic document that connects a company's climate- or nature-related ambitions to the actions, financial resources and governance structures required to deliver them. In other words, it brings together information about the company's goals, actions and accountability mechanisms.




A transition plan is forward-looking – so information may be inherently uncertain or sensitive. When developing a transition plan, a company relies on assumptions about future conditions that could shape its actions and influence its ability to meet its targets. For example, a company may assume that the cost of renewable electricity will continue to decline over the next decade, enabling it to meet its decarbonisation targets based on projected investment in renewable energy.

In addition, a transition plan relies on certain conditions or factors being in place. These are referred to as dependencies. For example, a company may depend on the timely availability of low-carbon technologies or supporting infrastructure to achieve its emissions reduction activities.

For further guidance about the scope of a company's transition plan, see 5.1.30.

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**Insight 5.1.10**
**Do transition plans vary across companies?**

Yes. Companies' transition plans vary significantly depending on a range of factors, including:

- the industry;
- exposure to IROs;
- the extent to which transition actions interact with other sustainability topics; and
- the maturity of the company's transition planning.

For some companies, transition planning may focus initially on setting strategic goals, establishing baselines and identifying priority actions. Others may have progressed to more detailed plans that integrate targets, capital allocation, governance and delivery mechanisms.

The maturity and level of sophistication of a transition plan can also be influenced by factors such as the:

- scale and geographical spread of operations;
- structure and complexity of the value chain;
- availability and quality of data; and
- resources and capabilities available to design, implement and oversee transition actions.

The regulatory and policy environment, the time horizons of key assets and investments, and the readiness of relevant technologies may further shape how specific, quantified or time-bound a plan can be. In addition, the need to consider workforce impacts, community engagement or dependencies on natural resources may affect the scope, sequencing and feasibility of transition actions.

Collectively, these factors mean that transition plans will not follow a single, uniform model. Instead, differences in maturity and complexity can reflect varying circumstances, priorities and constraints. As transition planning practices, data and capabilities develop over time, many companies' transition plans might be expected to evolve as their understanding of climate-related IROs deepens and implementation progresses, such that their plans become more detailed, integrated and robust.

## 5.1.30 Scope of a company's transition plan

A company sets its own scope for a transition plan because the plan forms part of its strategy. A company needs to decide, for example, whether to:

- focus on climate mitigation or also include climate-related adaptation;
- include nature-related topics in either a single integrated plan or a separate plan (see 4.5.40);
- focus on a particular business activity or product line, or its entire own operations; and
- include significant activity to influence the value chain.

Even if the scope of a company's transition plan is climate mitigation only, then elements of this plan may affect, or be affected by, sustainability topics beyond climate, including social and nature-related topics. Actions taken to reduce emissions, adapt operations or reconfigure value chains can have social implications – e.g. impacts on workers, communities, customers or suppliers – and may create both risks and opportunities related to employment, skills, health and safety or affordability.

A key social aspect often considered in a transition plan is the concept of a just transition. A just transition involves anticipating, assessing and responding to the social risks and opportunities associated with the transition to a lower-carbon and/or a climate-resilient economy, while ensuring meaningful dialogue and participation for affected groups. These groups may include employees and workers in the value chain, communities and consumers whose interests and circumstances could be influenced by transition-related decisions and actions.

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Similarly, transition plan actions may interact with nature-related topics – e.g. when changes in land use, sourcing of raw materials, infrastructure development or deployment of new technologies affect biodiversity, ecosystems, water resources or other natural capital. In some cases, these dependencies on nature may influence the feasibility, cost or timing of transition actions; a company may also need to consider related risks to ensure that climate-related actions do not undermine broader sustainability-related outcomes.

For example, a company might consider how:

- switching to lower-carbon raw materials may impact workers in its supply chain;
- increasing water scarcity may affect its water-dependent operating assets; and
- its remuneration structures can effectively incentivise delivery of its transition plan.

As a result, a company may need to consider these interdependencies when developing and disclosing transition plan information, particularly when social or nature-related impacts could reasonably be expected to influence the execution, resilience or credibility of its transition. Explaining these linkages can help users understand how a company's climate-related transition fits within its broader strategy and risk management approach.

**Insight 5.1.20**
**Does a transition plan under ESRS E1 include climate change adaptation?**

It depends. The disclosures under ESRS E1-1 only require information about climate change mitigation. A company explains how it intends to transform its strategy and business model to ensure compatibility with the transition to a sustainable economy (see 4.1.50). [ESRS E1.11]

However, a company's transition plan may also cover climate change adaptation and resilience aspects. When it does so, it clearly identifies this and cross-refers to the related disclosures on climate change adaptation (see 4.1.90) and resilience (see 4.1.70). [ESRS E1.AR1]

**Example 5.1.10**
**Considering social- and nature-related impacts and dependencies in climate-related transition planning**

Company X operates in the mining and metals industry, in which transition planning has implications for both social and nature-related topics. In developing its transition plan, X has identified that certain transition actions may depend on, impact and be influenced by social and environmental considerations.

From a social perspective, X considers how transition actions – e.g. changes to operating methods and the phased closure of higher-emissions assets – may affect workers and local communities. These actions could influence employment levels, skills requirements and community outcomes in regions where X has a significant presence. Therefore, X considers workforce transition measures and ongoing engagement with affected communities as part of its transition planning.

X also considers nature-related impacts and dependencies associated with its transition plan. For example, investments in new infrastructure or changes in site operations may affect land use, water resources or local ecosystems. X assesses how these nature-related factors could influence the feasibility, cost or timing of its transition actions and seeks to align its climate-related transition with existing environmental management practices.

In its sustainability statement, X discloses that it has considered interactions between social, climate- and nature-related topics in developing its transition plan. It summarises key transition actions, explains at a high level how it has considered social and nature-related impacts in decision-making, and describes how these factors support the credibility and resilience of its overall transition strategy. It also discloses any material information relating to other sustainability topics in accordance with the respective topic-specific standard.

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# 5.2 Scenario analysis

## 5.2.10 Introducing scenario analysis

Scenario analysis is a tool a company uses to understand how its strategy and business model might perform under selected future scenarios. Through scenario analysis, a company can explore how different risks – both physical and transition – and opportunities may affect its business, strategy and financial performance over time. [Annex II]

A climate-related scenario (scenario) is a structured, forward-looking description of how climate-related conditions and related socio-economic factors could evolve over time, based on a set of clearly defined assumptions. The scenario includes both the future outcome and the pathway to reaching that outcome. When selecting scenarios, a company makes assumptions about a range of factors, including climate-related policies, macroeconomic trends, national- or regional-level variables, energy usage and mix, and developments in technology.

A company may also use scenario analysis for topics other than climate, such as nature. Nature-related scenario analysis is an emerging practice and is less mature than climate-related scenario analysis. Despite this, a company may use nature-related scenarios to assess the potential effects of nature loss, ecosystem degradation and related transition developments on its strategy, business model and resilience (see Insight 4.5.30).

Scenario analysis can range from qualitative scenario narratives to more detailed quantitative modelling (see 5.2.30). Scenario analysis is not mandatory, and therefore a company can decide what type to use based on its specific circumstances.



**Insight 5.2.10**
**Is there a difference between forecasting and scenario analysis?**

Yes. Forecasting and scenario analysis can be complementary processes, but they do differ.

Forecasting considers how a business is expected to perform during a future reporting period. It is based on historical information and forward-looking trends.

Although scenario analysis typically uses forecasts and other data to simulate how the business would perform if certain events occurred, it represents an analysis of 'what-if' questions, rather than a forecast of what is expected to happen.

## 5.2.20 The role of scenario analysis in ESRS

Under ESRS, a company is not required to use climate-related scenario analysis, but when it does, it discloses certain information about it (see 4.1.60).

A company may use scenario analysis to:

- identify and assess IROs (see 4.1.60);
- develop its strategy and set targets – e.g. develop a transition plan (see 3.1.90, 4.1.40, 4.1.50 and 4.1.160);
- assess the effect of carbon pricing (see 4.1.140);

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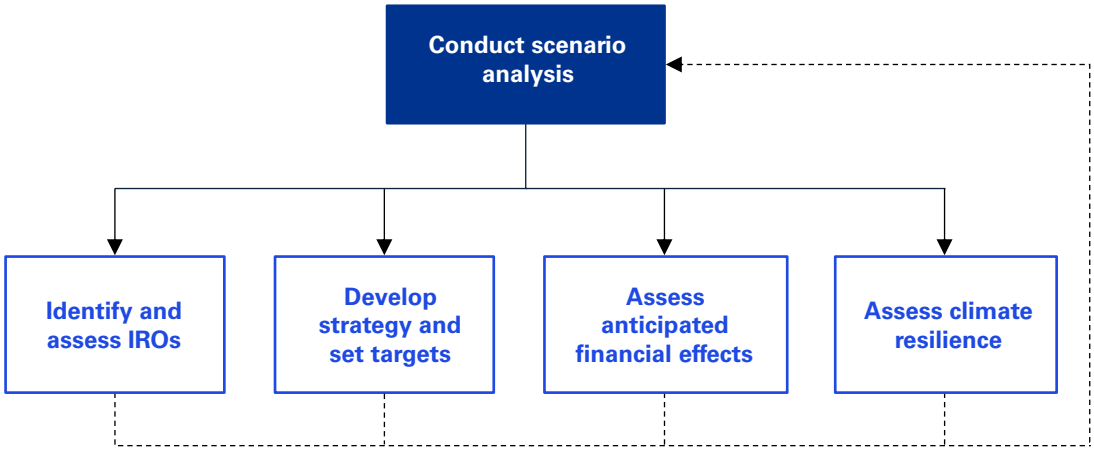
- assess climate resilience (see 4.1.70); and
- assess the anticipated financial effects of risks and opportunities (see 4.1.150).




*Inform the inputs and analytical choices used in scenario analysis*

This section focuses on climate-related scenario analysis, referred to as 'scenario analysis'. For further guidance on the disclosure requirements in ESRS E1 about climate resilience and scenario analysis, see 4.1.60 and 4.1.70.

**Insight 5.2.20**
**Is scenario analysis used to identify or assess impacts?**

It depends. Scenario analysis is principally a tool to give a company relevant information about the risks and opportunities to which it is exposed, so that it can set its strategy and targets and enhance its resilience. By investigating different scenarios, a company considers how it is affected by climate change, rather than how it impacts the environment and people.

However, a company could also use scenario analysis to help in identifying potential impacts and understanding their severity or likelihood. By analysing scenarios, a company may also identify impacts that arise as a result of an identified risk – e.g. if the company's actions to respond to a climate-related transition risk would have a material impact on employees and local communities.

**Insight 5.2.30**
**Is a company required to use scenario analysis in identifying its IROs or assessing resilience?**

No. A company may use scenario analysis or tools such as forecasts to investigate the financial effects of potentially material IROs as part of its materiality assessment (see Chapter 2.2). [ESRS 1.AR31]

Scenario analysis is a useful tool for assessing resilience, but other techniques (e.g. sensitivity testing and stress testing) can also be used. If a company uses scenario analysis to assess climate resilience, then it discloses information about the analysis performed (see 4.1.60). [ESRS E1.17, 19, AR7]

Scenario analysis enables a company to detect policy, technological, market and environmental developments that could materially affect its business over the short, medium and long term – thereby strengthening the robustness and completeness of its risk and opportunity identification process.

It also supports the assessment of resilience by helping to identify how different plausible future climate-related pathways could change the nature, magnitude and timing of both climate-related physical and transition risks, as well as surface potential opportunities that may not be apparent under a single expected future.

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**Insight 5.2.40**
**Is a company required to use scenario analysis in identifying anticipated financial effects?**

No. Scenario analysis is a useful tool that can provide relevant insights into the financial implications of identified risks and opportunities, but a company is not required to use it to understand its anticipated financial effects.

For example, a company may use scenario analysis to model how changes in key assumptions – e.g. policy, technology, market dynamics or physical conditions – could affect its financial position, performance and cash flows. This analysis may represent reasonable and supportable information (see 2.3.170) that informs its anticipated financial effects disclosures. However, the company also considers a variety of other factors – e.g. the level of measurement uncertainty – when deciding what information is useful to disclose about the anticipated financial effects (see 3.1.180).

Even if a company does not use scenario analysis, it estimates – using a scenario aligned with limiting climate change to 1.5°C – the carrying amount and range of assets that could become stranded between the reporting year until the medium- and long-term time horizons due to material transition risk. [ESRS E1.40(a)]

## 5.2.30 Conducting scenario analysis

ESRS do not provide guidance on how to conduct scenario analysis. If a company chooses to use scenario analysis, then the type of analysis will depend on its specific circumstances – e.g. its exposure to climate-related risks, as well as the resources it has available.

Understanding its exposure to climate-related risks enables a company to determine the potential benefits of choosing a particular approach. For example, a company with a high degree of exposure to climate-related risks may benefit from a more technical approach (e.g. using quantitative information or modelling). This can provide a more robust basis for understanding its climate resilience. Alternatively, if a company has a lower exposure to climate-related risks, then it might determine that a simpler approach is sufficient.

A company's approach may evolve as its exposure and capabilities change over time. Because the process can be resource-intensive, methods are typically refined over successive planning cycles, with companies new to scenario analysis needing more time to develop competence; those in industries with established practice may advance more quickly.

The following external resources may provide useful guidance on conducting scenario analysis:

- TCFD Guidance on Scenario Analysis for Non-Financial Companies;
- NGFS[1] Guide to climate scenario analysis; and
- TNFD Guidance on scenario analysis – guidance on nature-related scenario analysis.

**Insight 5.2.50**
**How often does a company perform scenario analysis?**

A company can perform scenario analysis as and when it finds it most useful – e.g. in line with its strategic planning cycle. That cycle may be yearly or may be a multi-year planning cycle (e.g. three to five years). Alternatively, it could choose to update its scenario analysis only when its circumstances change.

Therefore, disclosures on how a company performed its scenario analysis may stay the same from year to year. However, a company's disclosures about how it identified climate-related IROs need to be updated to reflect conditions as at the reporting date – e.g. changes to legislation, carbon prices and any related government announcements.

When a company uses scenario analysis to support its resilience assessment, it may decide to update its scenario analysis when it updates its assessment of climate-related IROs (part of its DMA). This is because ESRS require that a company updates its resilience analysis and assessment of climate-related IROs at the same time. [ESRS E1.AR9]

1. Network for Greening the Financial System.

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## 5.2.40 Selecting inputs

A company selects the inputs it uses in its scenario analysis – e.g. scenarios, variables and assumptions. These inputs may be qualitative or quantitative, derived from internal or external sources, and may relate to past, current or future conditions and events.

ESRS E1 does not prescribe which scenarios a company uses. However, it requires a company to explain whether it has used at least one scenario in line with limiting global warming to 1.5°C with no or limited overshooting. [ESRS E1.17(a)(ii)]

In performing scenario analysis, a company selects scenarios that are relevant to its circumstances. It may consider factors such as the nature and location of its operations, its industry and business activities, its exposure to climate-related physical and transition risks and the jurisdictions in which it operates.

A company makes assumptions about the scenarios it uses, including:

- climate-related policies in the jurisdictions in which it operates;
- broader macroeconomic trends;
- national or regional conditions (including weather patterns, demographics, land use and infrastructure);
- expected energy usage and mix; and
- the pace of technological developments.

Because each assumption carries inherent uncertainty, a company applies judgement – both in selecting the assumptions and in interpreting the potential effects on its IROs.

## 5.2.50 Making analytical choices

A company's climate resilience assessment is informed not only by the individual inputs used in its scenario analysis, but also by analytical choices about how those inputs are combined and applied in carrying out the analysis. For example, a company makes an analytical choice when it decides whether to use qualitative narratives or quantitative modelling, or a combination of both, weighing up the relative costs and benefits of different approaches.

Quantitative information will often support a more robust assessment of climate resilience by enabling clearer analysis of potential impacts and sensitivities. However, qualitative information, including scenario narratives, can also provide a reasonable and supportable basis for the assessment (see 2.3.170), either on its own or when used alongside quantitative data.



**Insight 5.2.60**
**Can a company use or adapt publicly available climate-related scenarios?**

Yes. Under ESRS, a company may use or adapt publicly available scenarios, or develop its own, provided it has a reasonable and supportable basis for its selection. [ESRS 1.AR42]

Publicly available scenarios are often developed by authoritative international organisations or industry bodies and describe plausible future climate-related outcomes, trends or transition pathways. Some align with jurisdictional commitments to international climate-related agreements, while others reflect region- or industry-specific considerations. Using these scenarios can support comparability and alignment with widely recognised external references, while allowing a company to select those most relevant to its business and exposures.

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Examples of publicly available scenarios include:

- the Shared Socioeconomic Pathways (SSPs) and Representative Concentration Pathways (RCPs) developed by the IPCC;
- the energy system transition pathways developed by the International Energy Agency (IEA); and
- the scenarios developed by the NGFS for financial institutions.

However, some companies – particularly those with more advanced scenario analysis capabilities or higher exposure to climate-related risks – may find that publicly available scenarios lack sufficient granularity or company-specific insight, and may therefore choose to develop their own scenarios.

### Insight 5.2.70
### Why might a company choose to use more than one climate-related scenario?

Using multiple scenarios can help a company assess the resilience of its strategy and business model under different plausible climate-related conditions, particularly if its exposure to climate-related risks is significant. For example, a company might compare orderly and disorderly transition scenarios to assess how different policy pathways could affect demand for its products, asset values or capital allocation decisions.

In addition, some jurisdictions have specific requirements or guidance that influence a company's choice of scenarios, assumptions, methodologies or level of detail applied – e.g. a company may have a subsidiary reporting under the Corporations Act 2001 in Australia that is required to use a low (1.5°C) and a high (2.5°C or higher) warming scenario.

If a company uses scenario analysis to identify climate-related risks or assess resilience, then it discloses the range of scenarios applied. This includes whether it used at least one high-emissions scenario to identify physical risks and at least one scenario aligned with the 1.5°C target, with no or limited overshoot, to identify transition risks. [ESRS E1.17(a)]

### Insight 5.2.80
### Do climate-related scenarios focus solely on climate-related physical risks?

No. Scenarios can be aligned to climate-related physical and/or transition risks.

Scenarios aligned to physical risks explore the potential financial effects of acute weather-related events and chronic long-term climatic shifts. Scenarios aligned to transition risks focus on policy, legal, technological and market changes associated with moving to a lower-carbon economy. These categories differ because they may arise from different drivers, unfold over different time horizons and create different types of financial exposure for a company (e.g. direct asset damage compared with regulatory or market shifts).

Depending on its identified IROs, a company may choose to use scenarios that align more closely to physical or transition risks. For example, a company with asset-intensive operations in climate-exposed geographies may place greater emphasis on physical-risk-aligned scenarios to assess potential impacts on asset resilience and insurance costs. Alternatively, a company operating in emissions-intensive sectors may prioritise transition-risk-aligned scenarios to understand the effects of carbon pricing, regulation or changes in market demand.

However, considering both types of scenarios can support a more complete assessment of how IROs could affect a company's strategy, business model and cash flows.

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### Example 5.2.10
### Selecting a qualitative climate-related scenario analysis approach using publicly available scenarios

Company R is a mid-sized manufacturing company. It assesses its exposure to climate-related risks as moderate, primarily driven by physical events such as water scarcity and frequent storms that could disrupt the availability and cost of key production inputs.

R determines that it currently does not have the capabilities to undertake a highly sophisticated or quantitative scenario analysis, but it considers scenario analysis a beneficial tool in assessing its climate-related risks and their effects on the company's strategy and business model.

When determining its approach, R selects three publicly available scenarios from authoritative external sources that together represent a range of plausible climate-related outcomes. It uses qualitative scenario narratives to assess how its identified risks could affect its operations, strategy and business model, focusing on the nature, direction and relative severity of potential effects rather than precise quantification. This helps R assess which of the risks are material and develop actions to address them.

R conducts its scenario analysis once every three years, aligned with its business planning cycle. Given its moderate exposure to climate-related physical risks, R includes targeted investment in its next three-year business plan to build its capabilities in climate-related risk modelling.

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# 6.1 Presentation

To present its sustainability statement appropriately within the management report, a company:

- determines the location and structure of the sustainability statement (see 6.1.10 and 6.1.20);
- provides connected information within the sustainability statement and across its corporate reporting, including the financial statements (see 6.1.30); and
- uses cross-referencing[1], when permitted, to avoid unnecessary duplication of information (see 6.1.50).

In addition, a company provides information about the basis of preparation of its sustainability statement (see 3.1.40).

## 6.1.10 Presentation structure of the sustainability statement

A company presents all information required by ESRS in a dedicated section of its management report, identified as its sustainability statement. The sustainability statement also includes cross-referenced information (see 6.1.50). [ESRS 1.103]

A company presents its sustainability statement such that:

- information required by ESRS is clearly distinguishable from other information included in the management report; and
- its structure facilitates access to and understanding of the information, in a format that is both human- and machine-readable. [ESRS 1.104]

A company structures its sustainability statement in the following order, but may use a different structure if it provides a reasoned explanation for doing so and complies with the other presentation requirements in ESRS 1. [ESRS 1.105]

1. General information
2. Environmental information
3. Social information
4. Governance information [ESRS 1.105]

A company includes information required by the EU Taxonomy (Article 8 of the Taxonomy Regulation) in its sustainability statement. It may present this information in a separate appendix within the management report. EU Taxonomy disclosures are not subject to the provisions of ESRS other than this requirement and therefore are not explained in this handbook. [ESRS 1.106]

In addition to required information, a company may include supplementary information in its sustainability statement – e.g. information required by other legislation, information prepared under generally accepted reporting standards or frameworks, or information to meet the data demands of a specific user. [ESRS 1.107–108]

In presenting supplementary information, a company:

- clearly identifies that the information does not result from its materiality assessment (see Chapter 2.2);
- ensures the information provides a faithful representation (see 2.3.10); and
- presents the information so that it does not obscure material information (see 2.2.180). [ESRS 1.109]

1. 'Incorporation by reference' is the term used in ESRS to indicate that cross-referenced material is treated as part of the primary document – i.e. the sustainability statement – even if the information is not reproduced or is presented outside the sustainability statement. This is different to internal references that connect different parts of the sustainability statement. [ESRS 1.113, 117]

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**Insight 6.1.10**
**Does a company need to follow the order of the disclosure requirements in ESRS when preparing its sustainability statement?**

No. A company presents its sustainability statement in four parts: general, environmental, social and governance – but it does not need to present its disclosures in a specific order within these sections. [ESRS 1.105]

Therefore, a company may organise its disclosures by topic or theme rather than following the order in which disclosure requirements appear in the topic-specific standards, provided that the information is presented in a clear and concise manner. [ESRS 1.104]

For example, a company might present all applicable disclosures relating to health and safety together, including its policies, actions, targets and metrics, rather than following the order in which these disclosure requirements appear in ESRS S1.

## 6.1.20 Organising information within the sustainability statement

Within the overall presentation requirements described in 6.1.10, ESRS provide flexibility in how a company organises information in its sustainability statement.

A company may:

- include an executive summary setting out the key messages about its material IROs and their management;
- use appendices or separate subparts to present more detailed information, facilitate readability or present supplementary information;
- use content indices, mapping tables or cross-reference tables to facilitate navigation; and
- use internal references between different parts, subparts or appendices of the sustainability statement to help users connect related information. [ESRS 1.110–111, 113, AR48]

An executive summary that is included in the sustainability statement forms part of that statement and therefore, it is required to meet the qualitative characteristics of information (see 2.3.20–30). Alternatively, a company may present an executive summary outside the sustainability statement, such as in another section of the management report, and incorporate it by reference, provided that it meets the conditions for doing so (see 6.1.50). [ESRS 1.110]

Internal references within the sustainability statement differ from incorporation by reference. Internal references connect information already presented within the sustainability statement and may help avoid unnecessary duplication or help users understand relationships between different disclosures. [ESRS 1.113, AR48]

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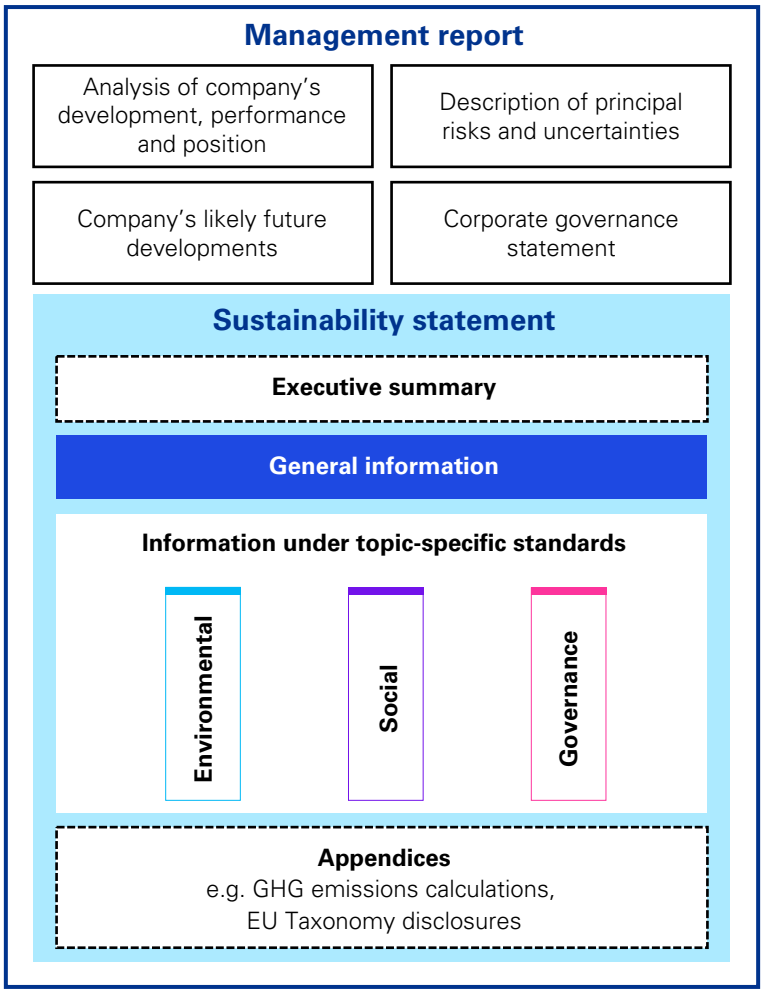


**Insight 6.1.20**
**Can a company use the same information to comply with both ESRS and IFRS Sustainability Disclosure Standards?**

Potentially, yes. IFRS Sustainability Disclosure Standards and ESRS have a high degree of alignment and interoperability, particularly for climate-related disclosures. Therefore, a company reporting under IFRS Sustainability Disclosure Standards may be able to use some of the same information when preparing its ESRS sustainability statement.

However, compliance with IFRS Sustainability Disclosure Standards does not automatically result in compliance with ESRS. A company reporting under both frameworks needs to consider the requirements of each and identify any additional information or presentation needed to comply with both.

Joint interoperability guidance published by the ISSB and EFRAG describes the alignment between IFRS Sustainability Disclosure Standards and the original ESRS Set 1[2]. However, the guidance has not been updated for revised ESRS adopted in 2026. Therefore, a company may find the guidance useful in identifying information that could be used for both frameworks, but needs to consider whether its conclusions remain applicable under revised ESRS.

A company also considers the location and presentation requirements of each framework when determining how to present information. It could use the ESRS requirements as a starting point and assess whether the resulting presentation also meets the requirements in IFRS Sustainability Disclosure Standards, or vice versa.

2. ESRS Set 1 refers to the first set of ESRS adopted by the European Commission in 2023 and set out in Annexes I and II to Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023, which supplements Directive 2013/34/EU as regards sustainability reporting standards. The Quick Fix Delegated Regulation, adopted by the European Commission on 11 July 2025, extended certain transition reliefs in ESRS Set 1. Note that references to ESRS Set 1 within this handbook refer to ESRS Set 1 as amended by the Quick Fix Delegated Regulation.

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# 6.1.30 Connected information

Connected information can help users understand the relationships between information:

- within the sustainability statement; and
- between the sustainability statement and other corporate reporting documents published by the company, including its financial statements. [ESRS 1.112]

A company avoids unnecessary repetition that could obscure material information or impair its understandability. If information is relevant to more than one disclosure requirement, then the company may present the information where it considers it to be most relevant and cross-refer to that location as appropriate. [ESRS 1.113]

A company discloses the following information.

| Information | What to disclose |
|---|---|
| **Connections within the sustainability statement and with other corporate reporting** | • Information that enables users to understand the connections:<br>– within the sustainability statement; and<br>– between the sustainability statement and other corporate reporting documents published by the company, including its financial statements. [ESRS 1.112]<br>For example, this may include connections between:<br>– general disclosures on governance and strategy, and information from topic-specific standards; and<br>– information about material IROs under ESRS 2 and the related policies, actions, targets and metrics. [ESRS 1.112(a), AR49] |



**Example 6.1.10**
**Connectivity in the sustainability statement**

Company Q is a steel manufacturer. Q has identified a material risk arising from the transition to lower-carbon steelmaking and changing customer, policy and market expectations. These changes may reduce the competitiveness of higher-emissions production routes, while creating opportunities in lower-carbon steel, electrical steels and other materials and solutions that support the energy transition.

In response to this risk, Q explains how the material risk and related opportunities connect across its governance, strategy and management of IROs, metrics and targets.

Q presents the related information across its sustainability statement as follows.

| Section | Disclosure area | Content |
|---|---|---|
| **General information: Governance** | ESRS 2 GOV-1 | How Q's governing bodies oversee the material climate-related IROs and Q's response to them, such as oversight of the climate-related transition strategy, including review and approval of decarbonisation priorities, major capital investment decisions, GHG emissions reduction targets and progress against implementation. |
| **General information: Strategy** | ESRS 2 SBM-1, SBM-3 | How the transition to lower-carbon steelmaking relates to Q's strategy and business model, including the material IROs and their effects. This includes Q's transition strategy to transform production routes, reduce the carbon intensity of steelmaking and secure lower-carbon materials in response to the identified IROs, together with the current and anticipated financial effects of that strategy. |

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| Section | Disclosure area | Content |
|---|---|---|
| **General information: IRO management** | ESRS 2 IRO-1, IRO-2 | How Q identifies and assesses its material climate-related IROs and identifies the material information to report. |
| **Environmental information: Climate change** | Relevant ESRS E1 disclosures | Q's climate-related policies and actions, GHG emissions reduction targets, GHG emissions and other material metrics used to monitor its response to the identified IROs.<br><br>This includes scope 1, scope 2 and scope 3 emissions metrics and comparison against a defined base period, together with selected indicators used to monitor progress against the approved GHG emissions reduction targets and implementation of its transition strategy. |

Q connects the disclosures by explaining their relationships and cross-referring between them. This helps users understand how its material climate-related IROs connect with its governance, strategy and management of IROs, including its related policies, actions, targets and metrics.



**Insight 6.1.30**
**Can a lack of connectivity between the sustainability-related information indicate missing disclosures?**

It depends. When a company's disclosures do not clearly connect governance, strategy and management of IROs, including policies, actions, metrics and targets, this may suggest potential gaps in the disclosures or in how information is presented.

For example, this may arise when a company:

- identifies material IROs but does not reflect them in its strategy;
- discloses targets without clearly linking them to the plans or strategic approaches supporting them; or
- discloses metrics without connecting them clearly to the related financial impacts.

However, a lack of connectivity does not necessarily indicate missing disclosures and may instead reflect differences in the maturity of a company's reporting, how it structures information or its materiality judgements. What matters is whether the disclosures as a whole provide a coherent and understandable picture of material IROs and how it responds to them.

Specifically, the company discloses the following information on direct and indirect connectivity between the sustainability statement and the financial statements.

| Type of connection | What to disclose |
|---|---|
| **Direct** | • For monetary amounts or other quantitative information presented in both the sustainability statement and the financial statements, a cross-reference to the relevant location in the financial statements. [ESRS 1.114]<br><br>A company uses the same currency for monetary amounts in its sustainability statement and its financial statements. [ESRS 1.AR50] |
| **Indirect** | • An explanation of how amounts in the sustainability statement that are aggregated into, or form part of, amounts presented in the financial statements relate to the most relevant amounts presented in the financial statements. [ESRS 1.115] |

These disclosures can help users identify where financial effects are reflected (see Example 6.1.20) and understand any significant differences between the assumptions used in the sustainability statement and the financial statements (see 6.1.40). [ESRS 1.116]

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### Example 6.1.20
### Direct and indirect connectivity with the financial statements

Continuing Example 6.1.10, Company Q provides the following information in its general purpose financial reports.

| General purpose financial reports | Information provided |
|---|---|
| **Sustainability statement** | Q discloses information about the material risk arising from the transition to lower-carbon steelmaking and changing customer, policy and market expectations, together with related opportunities in lower-carbon steel products.<br><br>Q explains its transition strategy, including GHG emissions reduction targets, planned actions to progressively transform production routes and reduce emissions intensity, and ongoing evaluation of investments and operational changes that may support the transition over time.<br><br>Q also discloses the current and anticipated financial effects of that strategy, including the expected effects on capital allocation, operations and future financial performance. |
| **Management report** | Q describes how the transition strategy is incorporated into its business plan and broader corporate strategy.<br><br>Q's disclosures explain the main strategic actions to implement the transition plan, including:<br><br>• decisions on investing in lower-carbon production methods;<br><br>• assessment of how existing production facilities fit in the long-term transition; and<br><br>• the way changing market demand, policy measures and technological developments may affect the business over time.<br><br>Q also explains that financial implications of the transition may arise in different ways, including through changes in expected cash flows, capex, opex and the timing of asset replacement and decommissioning. |
| **Financial statements** | Q discloses that it considered the material risk in assessing the accounting estimates and balances that may be affected by its transition plan, including:<br><br>• impairment, useful lives and residual values reviews of relevant property, plant and equipment; and<br><br>• decommissioning liabilities associated with existing production facilities.<br><br>Q discloses the following specific information in the relevant notes about the changes in its accounting estimate of the useful life of its relevant property, plant and equipment. It also discloses the expected effect of the resulting higher depreciation in current and future periods.<br><br>• Q has depreciated the related property, plant and equipment over an estimated useful life of 25 years on a straight-line basis.<br><br>• Having reviewed its forward-looking business plan, Q reduces the useful life of its relevant property, plant and equipment from 25 years to 15 years, which is when it expects its new production facilities and equipment to be ready for use.<br><br>Q also tests its relevant property, plant and equipment for impairment, given the indicators of impairment at the reporting date. Q determines that no impairment loss exists.<br><br>Q assesses whether its transition plan affects the expected timing of decommissioning existing production facilities and determines that the strategy has not yet resulted in adjustment to existing provisions in the current reporting period. |

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Q ensure its disclosures are connected throughout its corporate reporting by explaining connections between:

- the material IROs disclosed in the sustainability statement and the related accounting estimates reflected in the financial statements;
- the transition plan and management's strategy;
- the current and anticipated financial effects reported in the sustainability statement and the related financial statement disclosures, if applicable; and
- management's strategy and the assumptions used in the financial statements – e.g. the useful lives and residual values applied in depreciation and the estimates and assumptions used in calculating the recoverable amount and decommissioning activities.

## 6.1.40 Consistency of data and assumptions

Achieving connectivity between the sustainability statement and the financial statements is important.

To the extent possible, a company uses data and assumptions in preparing the sustainability statement that are consistent with the corresponding data and assumptions used in preparing the financial statements. For example, when assessing indicators of impairment or estimating the useful lives and residual values of non-current assets or cash-generating units, a company considers whether it uses consistent data and assumptions in both its sustainability statement and, to the extent possible, in its financial statements. [ESRS 1.116]

A company discloses the following information.

| Information | What to disclose |
|---|---|
| **Differences in assumptions** | • Information that enables users to understand significant differences between assumptions used in the sustainability statement and those used in the related financial statements. [ESRS 1.116] |

The table below provides further examples of disclosures for which connectivity between the sustainability statement and the financial statements is important. A company assesses materiality separately for each statement. Therefore, the financial statements do not necessarily contain information about every IRO described in the sustainability statement.

| Content area | Illustrative connections between | |
|---|---|---|
| | Sustainability statement | Financial statements |
| **Governance** | Whether and how metrics are included in remuneration policies disclosed in the remuneration report – e.g. long-term incentive plans. | Measurement and disclosures for share-based payment arrangements, including relevant terms and conditions. |
| **Strategy** | Anticipated effects of IROs on the company's development, financial position, financial performance and cash flows. | The approach and assumptions used for future cash flow projections in asset impairment analysis. |
| **IRO management** | How the company identifies, assesses and manages IROs. | How the company manages risks arising from financial instruments (e.g. credit risk arising from climate-related risks). |
| **Metrics and targets** | The sources and nature of estimation uncertainty affecting disclosed GHG emissions. | For a cap-and-trade emissions scheme, an indication of the uncertainties about a provision's amount in relation to $CO_2e$ emitted above the limit in the reporting period. |

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### Example 6.1.30
### Consistency of data and assumptions with the financial statements

Company P has committed to reducing its GHG emissions and replacing carbon-intensive assets as part of its transition plan. In March Year 2, P publicly states in its annual shareholder meeting and on its website that it commits to:

- reducing its future annual scope 1 and 2 emissions by 75% of Year 1 levels by Year 8; and
- purchasing carbon credits for use as offsets against its residual emissions produced in Year 8 and thereafter.

To support its statement, P publishes its transition plan, which includes:

- planned steps to meet its scope 1 and scope 2 emissions targets, and to help reduce its scope 3 emissions;
- the actions it has taken to date to support its plan; and
- its plan to report its progress annually on its website.

P discloses in its sustainability statement that, as part of its transition plan, it intends to replace carbon-intensive items of property, plant and equipment (e.g. its forklifts). P also discloses in its sustainability statement a scenario analysis that uses cash flow assumptions that differ from those used in the impairment assessment in the financial statements.

To explain how these sustainability disclosures relate to the assumptions and conclusions reflected in the financial statements, P also explains in its sustainability statement:

- that the useful lives of the forklifts recognised in its related financial statements are consistent with the timing of the plan to replace its carbon-intensive assets;
- how the assumptions used for the impairment assessment in the financial statements differ from those used in preparing the scenario analysis, cross-referring to any disclosures of those assumptions in the financial statements, if applicable; and
- that the commitment to purchase and retire carbon credits from Year 8 may create potential liabilities under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* when those future emissions arise.

### Example 6.1.40
### Connecting information in the sustainability statement and financial statements

Company B helps users understand and connect information between its sustainability statement and financial statements as follows.

| Method | How B connects information |
|---|---|
| Consistent terminology | B aligns the terminology used in the sustainability statement with that used in the financial statements, including consistent references to financial statement line items when describing current and anticipated financial effects. |
| Cross-referencing | B uses cross-references to connect related information across reports and avoid duplication. It clearly specifies the references to direct users to the exact location of the relevant information, which is available on the same terms and at the same time. |
| Connecting sustainability statement amounts to financial statement amounts (indirect connectivity) | B describes how amounts disclosed in the sustainability statement that are aggregated into, or form part of, financial statement amounts relate to the most relevant amounts in the financial statements (see Example 6.1.20). |

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| Method | How B connects information |
|---|---|
| Signposting and navigation | B uses a content index to help users navigate the sustainability statement and identify the location of specific disclosures. |
| Coherent narratives across reports | B provides a coherent, connected and integrated picture across its financial statements, MD&A in the management report and sustainability statement. |
| Explanation of differences in data and assumptions | B explains significant differences between the assumptions used in preparing the sustainability statement and those used in preparing the financial statements. |

### Insight 6.1.40
### Can data and assumptions used in the sustainability statement differ from those used in the financial statements and remain appropriate?

Yes. The sustainability statement and financial statements may use different data and assumptions because they are prepared for different purposes and under different measurement requirements. However, a company needs to understand and explain material differences between the assumptions used in the two statements. [ESRS 1.116]

For example, a company may use climate-related scenario analysis to assess the resilience of its strategy under different climate-related pathways. Performing this analysis may involve making assumptions about uncertain future outcomes and long-term time horizons extending decades into the future. [ESRS 2.33, ESRS E1.17, 19]

Financial statements may also reflect management's assessment of IROs. For example, under IAS 36 *Impairment of Assets*, when estimating the value in use of an asset (or cash-generating unit), a company typically uses cash flow projections based on its most recent financial budgets or forecasts for a maximum of five years before extrapolating them. It may use a longer period if it can justify doing so – e.g. past experience in forecasting reliable projections over a longer period.

A company may use a longer explicit forecasting period before any extrapolation in preparing its sustainability statement. In this case, it would need to disclose information about the differences between assumptions used in the sustainability statement and those in the financial statements.

Differences in assumptions do not necessarily indicate inconsistency. However, when the differences are material, a company needs to explain the reason for those differences and how they affect the information provided to users. [ESRS 1.116]

For further guidance on climate-related impairment, see our Climate change and impairment: How-to guide.

### Insight 6.1.50
### Do ESRS require changes in accounting policies to ensure consistency in data and assumptions?

No. ESRS neither require a company to change its accounting policies, nor to provide disclosures in its financial statements. However, a company needs to ensure that it tells a connected story – i.e. it needs to provide a coherent and connected picture across its financial statements, sustainability statement and other areas of its corporate reporting.

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## 6.1.50 Cross-referencing

A company may cross-refer from its sustainability statement to certain other corporate reporting documents. When permitted, the information included by cross-reference forms part of the sustainability statement. Subject to the conditions below, a company may cross-refer to information in:

- the financial statements;
- another section of the management report;
- the corporate governance statement;
- the remuneration report (required by the Shareholder Rights Directive);
- the universal registration document (as referred to in Article 9 of the Prospectus Regulation); and
- Pillar 3 disclosures (as set out in public disclosures under the Capital Requirements Regulation). In this case, the company ensures that the information matches the scope of consolidation used for the sustainability statement and supplements it with additional information as necessary. [ESRS 1.117–118]

When cross-referring to another corporate reporting document(s) (or part of the document(s)), all of the following conditions apply.

- The information constitutes a separate element of information that is clearly identified in the source document as addressing the relevant disclosure requirement or specific datapoint.
- The relevant corporate report is in the same language as the sustainability statement and released at the same time as, or before, the management report.
- The cross-referenced information is subject to at least the same level of assurance as the rest of the sustainability statement. The entire source document does not need to be subject to assurance.
- The technical requirements for digitalisation are the same for both the cross-referenced information and the sustainability statement. [ESRS 1.118]

A company also considers the overall cohesiveness of its reported information and ensures that cross-referencing does not impair the readability of the sustainability statement. In doing so, it applies judgement to determine whether to provide additional explanation that ensures the information is complete and understandable. [ESRS 1.120]

When a company includes information in its sustainability statement by cross-reference, then it discloses a list of the ESRS disclosure requirements addressed in this way. [ESRS 2.37(d)]



**Insight 6.1.60**
**Can a company cross-refer to a separate sustainability report?**

No. A company cross-refers only to specific corporate reporting documents permitted by ESRS and only when the relevant conditions are met. A separate sustainability report is not one of those documents. [ESRS 1.117]

If a company currently publishes a separate sustainability report, then it may need to reconsider how it presents information required under ESRS.



**Insight 6.1.70**
**Can a company cross-refer to its EU Eco-Management and Audit Scheme (EMAS) report?**

Yes. A company is permitted to cross-refer to its EMAS report when providing information required by ESRS, subject to the general conditions for cross-referencing (see 6.1.50). In addition, a company ensures that the information included by reference is prepared using the same basis for preparation as that required under ESRS – e.g. the same scope of consolidation and treatment of value chain information. [ESRS 1.119]

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# 6.2 Effective date and transition

This chapter applies to a company for which mandatory reporting under ESRS is required for financial years beginning on or after 1 January 2027. For a company that was previously in scope as a wave-one company, see Chapter 6.2A.

This chapter explains:

- when a company is required to apply ESRS (see 6.2.10); and
- the transition relief available when a company first applies ESRS, including phased-in disclosure relief (see 6.2.20 and 6.2.30).

This chapter focuses on ESRS requirements and needs to be read in the context of applicable laws and regulations applicable for the company.

## 6.2.10 Effective date

The CSRD determines whether and when a company is required to apply ESRS. For a company in the scope of this chapter, the first financial year for which mandatory reporting is required begins on or after 1 January 2027. The applicable start date is determined under the CSRD and applicable national law.

Under the revised CSRD, a company is in scope if it meets both of the following scoping thresholds introduced by the Omnibus Directive:

- more than 1,000 employees on average during the financial year; and
- more than EUR 450m of net turnover.

These thresholds are assessed at the individual company level for individual reporting and at the consolidated group level for consolidated reporting. A company also considers the other applicable CSRD scoping provisions and exemptions when determining whether it is required to report. [Directive 2013/34/EU, Articles 19a(1) and 29a(1), as amended by Directive (EU) 2026/470]

A company may apply ESRS voluntarily before mandatory reporting begins, including applying transition relief. This does not change the mandatory effective date. The relief periods described in 6.2.20 and 6.2.30 start from the first financial year for which the company is required to report under ESRS. [ESRS 1.121]

## 6.2.20 Transition relief

A company may apply available transition relief when reporting before mandatory reporting begins (see 6.2.10). The relief periods are counted from the first financial year for which mandatory reporting is required. [ESRS 1.121–122]

Some transition relief applies only in that first financial year of mandatory reporting; other relief applies for a specified number of financial years.

The table below sets out the transition relief available, its duration and how it applies. The first financial year for which mandatory reporting is required is referred to as 'Year 1'.

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| Relief | Period available | How it applies |
|---|---|---|
| **Comparative information** (see 2.3.110) | Year 1 | Comparative information is not required in the first financial year for which mandatory reporting is required. [ESRS 1.124]<br>For further guidance, see Insight 6.2.10 and Examples 6.2.10 and 6.2.20. |
| **Value chain information** (see 2.1.60) | Years 1–3 | If information about the value chain is not available, then a company explains:<br>• the efforts made to obtain the necessary information about its value chain;<br>• the reasons why it could not obtain all of the necessary information; and<br>• its plans to obtain the information in the future. [ESRS 1.123] |
| **Phased-in disclosure relief** (see 6.2.30) | Various | Certain disclosure requirements may be omitted temporarily. [ESRS 1.127] |

**Insight 6.2.10**
**Can a company choosing to apply the comparative information relief provide prior-year information that does not comply with ESRS?**

Yes. It appears that a company applying the first-year transition relief from presenting comparative information may provide supplementary prior-year information that does not comply with ESRS. Such information does not constitute comparative information prepared in accordance with ESRS.

We believe that a company should:

- clearly distinguish the supplementary information from information prepared in accordance with ESRS;
- identify that it has not been prepared in accordance with ESRS; and
- explain the basis on which it was prepared and, when relevant, why it has been provided.

If the company presents supplementary prior-year information that does not comply with ESRS alongside current-year information prepared in accordance with ESRS, then it should not imply that the two periods are directly comparable.

A company may also provide supplementary current-year information prepared on the same basis as the supplementary prior-year information to show a trend on a consistent basis. In such cases, it should clearly distinguish the supplementary information for both periods from information prepared in accordance with ESRS.

The supplementary information is also required to meet the qualitative characteristics of information, including faithful representation, and to not obscure other material information (see 2.3.20 and 2.3.30 respectively). [ESRS 1.20(a), B]

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### Example 6.2.10
### Disclosing prior-year information based on a reporting boundary that differs from ESRS

Company B is in its first financial year of mandatory reporting under ESRS, having previously reported sustainability-related information voluntarily. It prepared its prior-year information using the same methodology required by ESRS but excluded certain subsidiaries from the required reporting boundary.

For the current year, B provides information prepared in accordance with ESRS, including those subsidiaries. It applies the first-year transition relief, and therefore does not provide comparative information prepared in accordance with ESRS.

B determines that providing supplementary current-year information and prior-year information – both prepared using the narrower reporting boundary applied in prior years – would provide material information about its performance over time. Therefore, it provides the following to show the trend on a consistent basis:

- current-year information prepared in accordance with ESRS using the reporting boundary required by ESRS; and
- supplementary current-year and corresponding prior-year information prepared using the narrower reporting boundary applied in prior years.

B determines that presenting the supplementary information meets the qualitative characteristics of information and does not obscure other material information.

B clearly distinguishes the supplementary information for both periods from information prepared in accordance with ESRS and identifies it as not having been prepared in accordance with ESRS. It discloses sufficient information to help users understand the basis on which it prepares the supplementary information.

### Example 6.2.20
### Disclosing prior-year information for a metric not measured in accordance with ESRS

Company C is in its first financial year of mandatory reporting under ESRS, having previously disclosed sustainability-related information voluntarily. In prior years, it reported Metric K using a methodology from a widely accepted and reputable source.

For the current year, C reports Metric L under ESRS S1, which is similar to Metric K but uses a slightly different methodology.

C does not adjust prior-year Metric K using the methodology required for Metric L. C applies the first-year transition relief, and therefore does not prepare comparative information in accordance with ESRS for Metric L.

C determines that providing supplementary current-year and prior-year information – both prepared using the methodology previously applied to Metric K – would provide material information for users. Therefore, it provides the following to show the trend on a consistent basis:

- current-year Metric L prepared in accordance with ESRS; and
- supplementary current-year and corresponding prior-year Metric K prepared using the methodology applied in prior years.

C determines that presenting supplementary information meets the qualitative characteristics of information and does not obscure other material information.

C clearly distinguishes the supplementary Metric K information for both periods from Metric L and identifies it as not having been prepared in accordance with ESRS. It explains how it prepared Metric K and the difference between the methodologies used for Metrics K and L.

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## 6.2.30 Phased-in disclosure relief

Phased-in disclosure relief permits a company to omit specified ESRS disclosure requirements or datapoints temporarily, subject to the conditions set out below.

The applicable relief period is counted from the first financial year for which mandatory reporting under ESRS is required (see 6.2.10).

The table below sets out the phased-in disclosure relief available, its duration and how it applies. The first financial year for which mandatory reporting is required is referred to as 'Year 1'. [ESRS 1.121, 127, ESRS 2.7–10]

| Phased-in disclosure relief | Period available | How it applies |
|---|---|---|
| **Complete topic-specific standards** | Years 1–2 | May omit all disclosure requirements in:<br>• ESRS E4;<br>• ESRS S2;<br>• ESRS S3; and<br>• ESRS S4. [ESRS 1.127(a)]<br>The company discloses whether it has identified material IROs relating to topics covered by each omitted standard. If it has, then it provides the reduced disclosures required by ESRS 2 (see Insight 6.2.20). [ESRS 2.7–9] |
| **Anticipated financial effects: subject to specified exceptions** | Years 1–2 | May omit information required by paragraph 27 of ESRS 2 and ESRS E1-11 *Anticipated financial effects from material physical and transition risks and material climate-related opportunities*.<br>The relief does not apply to information required by paragraphs 39(a)–(b) and 40(a)–(b) of ESRS E1. [ESRS 1.127(b)]<br>The company discloses that it has applied the relief. [ESRS 2.10] |
| **Anticipated financial effects: quantitative information** | Years 1–4 | May omit quantitative information required by paragraph 27 of ESRS 2 and ESRS E1-11. However, the company continues to provide qualitative information:<br>• if it does not apply the broader anticipated financial effects relief described in the preceding row; or<br>• when that broader relief expires. [ESRS 1.127(c)]<br>The relief does not apply to information required by paragraphs 39(a)–(b) and 40(a)–(b) of ESRS E1. [ESRS 1.127(c)]<br>The company discloses that it has applied the relief. [ESRS 2.10] |
| **SoC: quantitative information** | Years 1–3 | May omit quantitative information about SoC required by ESRS E2-5 *Substances of concern and substances of very high concern*. [ESRS 1.127(d)]<br>The company discloses that it has applied the relief. [ESRS 2.10] |
| **SVHC in articles: all information** | Year 1 | May omit the information required by ESRS E2-5 relating to SVHC contained in articles that the company uses (see 4.3.70). [ESRS 1.127(e)]<br>The company discloses that it has applied the relief. [ESRS 2.10] |

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| Phased-in disclosure relief | Period available | How it applies |
|---|---|---|
| **Specified own-workforce disclosures** | Year 1 | May omit information required by:<br>• ESRS S1-6 *Metrics related to a company's non-employees* and ESRS S1-7 *Metrics related to collective bargaining coverage and social dialogue* for own employees in non-EEA countries;<br>• ESRS S1-10 *Metrics related to social protection*;<br>• ESRS S1-11 *Metrics related to persons with disabilities*;<br>• ESRS S1-12 *Metrics related to training and skills development*;<br>• paragraphs 37(d)–(e) in ESRS S1 and non-employee datapoints in ESRS S1-13 *Metrics related to health and safety*; and<br>• ESRS S1-14 *Metrics related to work-life balance*. [ESRS 1.127(f)]<br>The company discloses that it has applied the relief. [ESRS 2.10] |



**Insight 6.2.20**
**Under the phased-in disclosure relief, can a company simply omit the disclosures without providing other information?**

No. The information that a company provides depends on the type of phased-in disclosure relief specified in ESRS. Some relief applies at the level of an entire topic-specific standard, whereas other relief applies only to specified disclosure requirements or datapoints within a standard. [ESRS 2.7]

| Type of relief applied | What to disclose |
|---|---|
| **Standard-level relief** | • If a company omits all disclosure requirements in a topic-specific standard, then it discloses whether it has identified material IROs in its DMA relating to topics covered by that standard.<br>• When this is the case, it provides the reduced disclosures required by ESRS 2 (see 3.1.40). [ESRS 1.127(a), ESRS 2.8–9] |
| **Datapoint-level relief** | • If a company omits specified disclosure requirements or datapoints within a standard, then it discloses that it has applied the relief.<br>• This includes relief relating to anticipated financial effects, SoC, SVHC and specified own-workforce disclosures. The relief does not exempt the company from the other applicable disclosure requirements in that standard. [ESRS 1.127(b)–(f), ESRS 2.10] |

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# 6.2A Transition for wave-one companies

The guidance that applies to a wave-one company depends on whether it remains subject to mandatory ESRS reporting for financial years beginning on or after 1 January 2027. In making that assessment, a company considers the revised CSRD scoping thresholds (more than 1,000 employees on average during the financial year and more than EUR 450m of net turnover) and the other applicable scoping provisions and exemptions.

The table below sets out the relevant guidance in this chapter depending on whether a wave-one company remains subject to mandatory reporting for financial years beginning on or after 1 January 2027.

| Wave-one company | Relevant guidance |
|---|---|
| No longer subject to mandatory ESRS reporting | • See 6.2A.05. |
| Remains subject to mandatory ESRS reporting | • See 6.2A.10 for the reporting choices available for financial years beginning in 2026.<br>• See 6.2A.20 for transition relief under revised ESRS.<br>• See 6.2A.30 for phased-in disclosure relief under revised ESRS. |

This handbook focuses on revised ESRS and needs to be read in the context of applicable laws and regulations. This chapter does not provide guidance on ESRS Set 1. References to ESRS Set 1 are limited to where an explicit distinction is required.

## 6.2A.05 Wave-one company no longer subject to mandatory ESRS reporting

A wave-one company that is no longer subject to mandatory ESRS reporting from 1 January 2027 is required to continue reporting for financial years beginning between 1 January 2025 and 31 December 2026, unless the applicable member state has exempted it from reporting. [Directive (EU) 2022/2464, Article 5]

If reporting is still required, a company follows one of three options, as shown in 6.2A.10.

## 6.2A.10 Wave-one company that remains subject to mandatory ESRS reporting

Revised ESRS apply for financial years beginning on or after 1 January 2027, with earlier application permitted. For financial years beginning between 1 January 2025 and 31 December 2026, a wave-one company that remains subject to mandatory ESRS reporting has three options. It may:

- continue to apply ESRS Set 1 as amended by the 'quick fix' amendments;
- apply revised ESRS early (see 6.2A.20 and 6.2A.30); or
- continue to apply ESRS Set 1 as amended by the quick fix amendments with specified revised ESRS reliefs outlined below. [Commission Delegated Regulation (EU) 2026/1563, Article 2(1)]

A company states clearly which version of ESRS it has applied and, if it uses the third option, identifies the relief(s) applied. [Commission Delegated Regulation (EU) 2026/1563, Article 2]

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| Relief in revised ESRS | How it applies |
|---|---|
| Top-down materiality assessment (see 2.2.50) | Permits a company to start by understanding its business and context and then focus its assessment on where material IROs are likely to arise. [ESRS 1.27] |
| Undue cost or effort in the materiality assessment (see 2.1.60 and 2.2.40) | Permits a company to limit its efforts in obtaining value chain information for its DMA to reasonable and supportable information available without undue cost or effort. [ESRS 1.32–33] |
| Acquisitions and disposals (see 2.1.20) | Permits a company to defer including a newly acquired subsidiary or excluding a disposed subsidiary in its sustainability statement until the next reporting period. [ESRS 1.74–75] |
| Metrics relating to non-significant activities (see 2.3.200) | Permits a company to omit activities that are not significant drivers of material IROs in calculating a metric, subject to the conditions in ESRS 1. [ESRS 1.90] |
| Partial own operations and value chain reporting (see 2.3.200) | Permits a company to limit a metric (except GHG emissions) to information from part of its own operations or value chain when it cannot obtain the information without undue cost or effort. [ESRS 1.91] |
| Exclusion of joint operations (see 2.3.200) | Permits a company to exclude joint operations without operational control from environmental metrics other than ESRS E1 metrics. [ESRS 1.92] |
| EU Taxonomy appendix (see 6.1.10) | Permits a company to present its EU Taxonomy disclosures in a separate appendix to the sustainability statement. [ESRS 1.106] |
| Executive summary (see 6.1.20) | Permits a company to include an executive summary in its sustainability statement or elsewhere in the management report. [ESRS 1.110] |

## 6.2A.20 Transition relief

This section sets out the transition relief available to a wave-one company that remains subject to mandatory ESRS reporting and applies revised ESRS, including through early application for financial years beginning in 2026. Phased-in disclosure relief is set out in 6.2A.30. [ESRS 1.122–125]

The table below sets out the transition relief available, the period(s) for which it is available and how it applies.

| Relief | Period available | How it applies |
|---|---|---|
| **Comparative information** (see 2.3.110) | First financial year reporting under revised ESRS | A company does not need to provide comparative information for metrics and amounts that were not required under ESRS Set 1. [ESRS 1.124]<br>This means that comparative information is treated differently for existing and newly introduced metrics and amounts. |
| **Value chain information** (see 2.1.60) | First three financial years for which mandatory ESRS reporting is required: financial years beginning in 2024, 2025 and 2026 | If information about the value chain is not available, then a company explains:<br>• the efforts made to obtain the necessary information about its value chain;<br>• the reasons why it could not obtain all of the necessary information; and<br>• its plans to obtain the information in the future. [ESRS 1.123] |
| **Phased-in disclosure relief** (see 6.2A.30) | Various | Certain disclosure requirements may be omitted temporarily. [ESRS 1.125] |

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## 6.2A.30 Phased-in disclosure relief

This section sets out the phased-in disclosure relief available to a wave-one company that applies revised ESRS (see 6.2A.20). The relief is available for specified financial years; the dates do not change depending on when the company first applies revised ESRS. [ESRS 1.122, 125–126]

| Phased-in disclosure relief | Period available | How it applies |
|---|---|---|
| **Complete topic-specific standards** | Financial years prior to financial year 2027 | May omit all disclosure requirements in ESRS E4 and ESRS S2–ESRS S4. [ESRS 1.125(a)]<br>The company discloses whether it has identified material IROs relating to topics covered by each omitted standard. If it has, then it provides the reduced disclosures required by ESRS 2 (see Insight 6.2.20). [ESRS 2.7–9] |
| **Anticipated financial effects: subject to specified exceptions** | Financial years prior to financial year 2028 | May omit information required by paragraph 27 of ESRS 2 and ESRS E1-11. [ESRS 1.125(b)]<br>The relief does not apply to information required by paragraphs 39(a)–(b) and 40(a)–(b) of ESRS E1. [ESRS 1.125(b)]<br>The company discloses that it has applied the relief. [ESRS 2.10] |
| **Anticipated financial effects: quantitative information** | Financial years prior to financial year 2030 | May omit quantitative information required by paragraph 27 of ESRS 2 and ESRS E1-11. However, it continues to provide qualitative information:<br>• if it does not apply the broader anticipated financial effects relief described in the preceding row; or<br>• when that broader relief expires. [ESRS 1.125(c)]<br>The relief does not apply to information required by paragraphs 39(a)–(b) and 40(a)–(b) of ESRS E1. [ESRS 1.125(c)]<br>The company discloses that it has applied the relief. [ESRS 2.10] |
| **SoC: quantitative information** | Financial years prior to financial year 2030 | May omit quantitative information about SoC required by ESRS E2-5 [ESRS 1.125(d)]<br>The company discloses that it has applied the relief. [ESRS 2.10] |
| **SVHC in articles: all information** | Financial years prior to financial year 2028 | May omit the information required by ESRS E2-5 relating to SVHC contained in articles that the company uses (see 4.3.70). [ESRS 1.125(e)]<br>The company discloses that it has applied the relief. [ESRS 2.10] |
| **Specified own-workforce disclosures** | Financial years prior to financial year 2027 | May omit information required by:<br>• ESRS S1-6 and ESRS S1-7 for own employees in non-EEA countries;<br>• ESRS S1-10;<br>• ESRS S1-11;<br>• ESRS S1-12;<br>• paragraph 37(d)–(e) of ESRS S1 and non-employee datapoints in ESRS S1-13; and<br>• ESRS S1-14. [ESRS 1.125(f)]<br>The company discloses that it has applied the relief. [ESRS 2.10] |

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# Glossary

## Key terminology

This glossary does not reproduce all terms defined in Annex II to ESRS and should therefore be read together with that glossary. Terms that are explained in individual chapters of this handbook by reference to Annex II are not repeated here.

| Term | Description |
|---|---|
| **Administrative, management and supervisory bodies** | Administrative, management and supervisory bodies are a company's highest governance bodies responsible for oversight, decision-making and management. This may include one-tier or two-tier board structures. When a company's administrative, management or supervisory bodies have no members, its CEO and, if such a function exists, deputy CEO are included as members. [Annex II] |
| **Biodiversity loss** | Biodiversity loss is the reduction of any aspect of biological diversity (i.e. diversity at the genetic, species and ecosystem levels) in a particular area through death (including extinction), destruction or physical removal. It can occur at different scales, from global extinction to population extinction, resulting in a reduction in total diversity at the same scale. |
| **Biogenic $CO_2$ emissions** | Biogenic $CO_2$ emissions arise from the combustion or decomposition of biomass.<br>Direct biogenic $CO_2$ emissions arise from the combustion or biodegradation of biomass from sources owned or controlled by a company. |
| **Biological materials** | Biological materials are derived from living organisms such as plants, animals or micro-organisms that can safely return to the biosphere after use without causing harm to the environment. They include both living and dead organic materials, such as trees, crops, grasses, algae and animals, as well as biological waste like manure.<br>Biological materials can be virgin or non-virgin and renewable or non-renewable. Virgin biological material is obtained directly from primary sources and has not previously been used (e.g. newly harvested timber or cotton).<br>Materials of biological origin that are embedded in geological formations or transformed into fossilised material are not considered biological materials (e.g. fossil fuels). |
| **Bribery** | Bribery is the offering, giving or provision of something of value to improperly influence another person's actions or decisions. [Annex II] |
| **Business relationships** | Business relationships are relationships a company has with suppliers, customers, business partners and other entities connected to its operations, products or services. [Annex II] |
| **Carbon credit** | A carbon credit is a transferable or tradable instrument that represents one metric tonne of $CO_2e$ emissions reduction or removal and is issued and verified according to recognised quality standards. [Annex II] |
| **Carbon dioxide equivalent ($CO_2e$)** | $CO_2e$ is the universal unit of measurement used to express the global warming potential of different greenhouse gases relative to that of carbon dioxide. [Annex II] |
| **Climate change adaptation** | Climate change adaptation is the process of adjusting to actual and expected climate change and its impacts. [Annex II] |

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| Term | Description |
|---|---|
| **Climate change mitigation** | Climate change mitigation is the process of reducing GHG emissions in line with holding the increase in global average temperature to 1.5°C above pre-industrial levels, consistent with the Paris Agreement. In a company context, this may include measures such as energy efficiency, electrification, renewable energy, low-carbon technologies and value chain decarbonisation. [Annex II] |
| **Climate resilience** | Climate resilience is the capacity of a company to adjust to climate change and to developments or uncertainties related to climate change. It includes the capacity to manage climate-related risks and benefit from climate-related opportunities, including the ability to respond and adapt to transition risks and physical risks. It covers both strategic resilience and operational resilience. [Annex II] |
| **Climate-related hazard** | A climate-related hazard is a physical climate event or trend that could affect a company, its assets or its value chain. Examples include flooding, heatwaves, drought, storms, rising temperatures and rising sea levels. |
| **Climate-related opportunities** | Climate-related opportunities are the potential positive effects for a company arising from climate change. They can arise from efforts to mitigate or adapt to climate change and will vary depending on the region, market and industry in which a company operates. |
| **Climate-related physical risks** | Climate-related physical risks arise from the physical effects of climate change. They could be:<br>• acute risks that relate to more frequent or more severe event-driven disruptions to a company from extreme weather events (e.g. floods and cyclones); or<br>• chronic risks that stem from climatic pattern changes in the longer term, such as increases in average temperatures that can lead to rising sea levels, reduced water availability, biodiversity loss and changes in land and soil productivity. [Annex II] |
| **Climate-related transition risks** | Climate-related transition risks arise from the transition to a lower-carbon and climate-resilient economy. They are commonly categorised as:<br>• legal and policy (e.g. stricter regulations);<br>• reputational (e.g. brand damage from a company's response being deemed insufficient);<br>• technological (e.g. accelerated obsolescence); or<br>• market (e.g. supply and demand shifts). [Annex II] |
| **Corporate culture** | Corporate culture is the shared values, behaviours and expectations that influence how people within a company make decisions and conduct business. [Annex II] |
| **Corruption** | Corruption is the abuse of entrusted power for private gain. It can involve individuals or organisations and includes practices such as facilitation payments, fraud, extortion, collusion and money laundering. It also includes offering or receiving a gift, loan, fee, reward or other advantage as an inducement to act dishonestly, illegally or in breach of trust when conducting a company's business. [Annex II] |
| **Critical raw materials** | Critical raw materials are economically important materials whose supply is at risk – e.g. when production is concentrated in only a few places, substitution is difficult or recycling rates are low. [Annex II] |
| **Decarbonisation lever** | Decarbonisation levers are categories of mitigation actions that a company plans to use to achieve emissions reductions over a target period. They are not limited to a company's own activities and may relate to activities affecting its upstream and downstream value chain. Examples of decarbonisation levers include:<br>• process optimisation (e.g. modifying a process so that it requires less energy or fuel);<br>• fuel switching and electrification of operations;<br>• shifts in the product and service portfolio (e.g. developing lower-carbon offerings); and<br>• changes in sourcing and procurement (e.g. requiring suppliers to meet emissions standards). [Annex II] |

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| Term | Description |
|---|---|
| **Desertification** | Desertification is land degradation in arid, semi-arid and dry sub-humid areas caused by various factors, including climatic variations and human activities. It does not include the natural expansion of existing deserts. [Annex II] |
| **Ecological threshold** | An ecological threshold is the point at which a relatively small change in external conditions causes a rapid change in an ecosystem. Once an ecosystem passes an ecological threshold, its inherent resilience may no longer enable it to return to its previous equilibrium state. [Annex II] |
| **Ecosystem** | An ecosystem is a community of plants, animals and micro-organisms interacting with each other and with their non-living environment as one functioning system. [Annex II] |
| **Ecosystem services** | Ecosystem services are the benefits that ecosystems contribute to economic and other human activities, particularly the benefits people obtain from ecosystems. The Millennium Ecosystem Assessment divides ecosystem services into supporting, regulating, provisioning and cultural services. The Common International Classification of Ecosystem Services also classifies types of ecosystem services. [Annex II] |
| **Equal treatment** | Equal treatment is a general principle of European law under which comparable situations or parties in comparable situations are treated in the same way. In ESRS S1, equal treatment also includes the principle of non-discrimination, which prohibits direct or indirect discrimination based on grounds such as sex, race, colour, ethnic or social origin, genetic features, language, religion or belief, political or other opinion, membership of a national minority, property, birth, disability, age or sexual orientation. [Annex II] |
| **Facilitation payment** | A facilitation payment is a payment made to secure or speed up a routine governmental or administrative action to which the payer is already entitled. |
| **Family-related leave** | Family-related leave includes maternity leave, paternity leave, parental leave and carers' leave available under national law or collective agreements. For the purposes of ESRS:<br>• maternity leave is an employment-protected leave of absence for employed women directly around the birth or, in some countries, adoption of a child;<br>• paternity leave is leave from work for fathers or, when recognised by national law, equivalent second parents on the birth or adoption of a child for the purpose of providing childcare;<br>• parental leave is leave from work for parents following the birth or adoption of a child to take care of that child, as defined by each EU member state; and<br>• carers' leave is leave from work for workers to provide personal care or support to a relative or person living in the same household that needs significant care or support for a serious medical reason, as defined by each member state. [Annex II] |
| **Forced labour** | Forced labour is work or a service that a person performs under the threat of penalty and has not offered to perform voluntarily. It includes situations in which a person is coerced to work, including traditional 'slave-like' practices and contemporary forms of coercion involving labour exploitation, which may include human trafficking and modern slavery. [Annex II] |
| **Freshwater** | Freshwater is groundwater and surface water with a mean annual salinity of less than 0.5‰, as specified in Annex II to the Water Framework Directive (Directive 2000/60/EC). [Annex II] |
| **General purpose financial reports** | General purpose financial reports are designed for users who have a reasonable knowledge of the general subject matter. They focus on decision-useful information that groups of users need, without aiming to meet all the specific information needs of each individual user. [ESRS 1.AR1] |

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| Term | Description |
|---|---|
| **GHG emissions reduction target** | A GHG emissions reduction target is a measurable, outcome-oriented and time-bound target to decrease a company's scope 1, scope 2, scope 3 or total GHG emissions relative to emissions in the base year. It relates to reductions achieved within the company's own operations and upstream and downstream value chain; removals and avoided emissions are not counted as emissions reductions. [Annex II] |
| **Global warming potential** | Global warming potential is a factor that describes the radiative forcing impact of one unit of a greenhouse gas relative to one unit of $CO_2$. [Annex II] |
| **Grievance mechanism** | A grievance mechanism is a formal state- or non-state-based, judicial or non-judicial process through which stakeholders can raise grievances and seek remedy.<br><br>They include mechanisms administered by public bodies, companies, industry associations, international organisations, civil society organisations or multi-stakeholder groups. Operational-level grievance mechanisms are directly accessible to a company's stakeholders and allow grievances to be identified and addressed early. [Annex II] |
| **Groundwater** | Groundwater is water below the ground surface in the saturation zone and in direct contact with the ground or subsoil. It includes water held in, and recoverable from, an underground formation. [Annex II] |
| **Importer** | An importer is a natural or legal person responsible for physically introducing substances into the customs territory. Imports of substances, either on their own or in mixtures, include the wholesale distribution of chemical substances under NACE code G46.85. [Annex II] |
| **Indirect political contribution** | An indirect political contribution is political support provided through an intermediary organisation, third-party arrangement or other indirect mechanism, rather than directly by a company. [ESRS G1.AR8] |
| **Internal carbon price** | An internal carbon price is used by a company to assess the financial implications of changes to investment, production and consumption patterns, potential technological progress and future emissions abatement costs. [Annex II] |
| **Key materials** | Key materials are materials, substances, components or products that are essential to a company's products, services or operations. Factors that may make them essential include volume, cost, operational importance, strategy, environmental or social impacts, regulation or reputation. [Annex II] |
| **Key product** | A key product is a product that is central to a company's value creation or strategic objectives. A company identifies these products through a management assessment, considering both internal and external factors. Internal factors may include their contribution to revenue, profitability, innovation or operational continuity. External factors may include environmental or social impacts, stakeholder perceptions, regulatory demands and reputational significance. [Annex II] |
| **Land degradation** | Land degradation is a process that causes the decline or loss of biodiversity, ecosystem functions or the benefits that ecosystems provide to people. It includes the degradation of all terrestrial ecosystems. [Annex II] |
| **Lobbying activity** | A lobbying activity is one intended to influence public policy, regulation, legislation or governmental decision-making, either directly or indirectly. [Annex II] |
| **Location-based approach** | The location-based approach is a method for calculating scope 2 emissions using average emissions factors for the electricity grid or energy system in the location where energy is consumed. |
| **Locked-in emissions** | Locked-in emissions are estimates of future GHG emissions likely to be caused by a company's key assets or products sold within their operating lifetime. [Annex II] |
| **Market-based approach** | The market-based approach is a method for calculating scope 2 GHG emissions using emissions factors that reflect contractual instruments, supplier-specific energy products or other market-based energy procurement choices. |

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| Term | Description |
|---|---|
| **Material information** | Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions of:<br>• ***primary users of general purpose financial reports:*** whose decisions relate to providing resources to the company; or<br>• ***other users of sustainability statements:*** whose decisions may be informed by the company's material IROs and how they are managed. [ESRS 1.23] |
| **Net-zero target** | A net-zero target is a company-level target to reduce value chain GHG emissions in line with the reductions needed to achieve global net zero under 1.5°C pathways and to permanently remove an equivalent amount of $CO_2$ to neutralise any residual emissions. Residual emissions generally remain after reducing GHG emissions by approximately 90–95%, subject to justified sectoral variations in line with a recognised sectoral pathway. [Annex II] |
| **Pay** | Pay is the ordinary basic or minimum wage or salary and any other remuneration that an employee receives directly or indirectly from their employer in cash or in kind. This includes complementary or variable components. [Annex II] |
| **Payment practices** | Payment practices are the terms, processes and behaviours a company applies when paying suppliers, including whether payments are made on time. |
| **Political contribution** | A political contribution is financial or non-financial support provided to political parties, politicians, campaigns or political causes. |
| **Pollutants** | Pollutants are substances, vibrations, heat, noise, light or other contaminants in air, water or soil that may harm human health or the environment, damage material property, or impair or interfere with amenities and other legitimate uses of the environment. [Annex II] |
| **Recognised quality standards for carbon credits** | Recognised quality standards for carbon credits are quality standards that can be verified by independent third parties and whose requirements and project reports are publicly available. At a minimum, they ensure additionality, permanence and the avoidance of double counting, and provide rules for calculating, monitoring and verifying the project's GHG emissions and removals. [Annex II] |
| **Reporting entity** | A reporting entity prepares general purpose financial statements and is the same for both the sustainability statement and the financial statements. [ESRS 1.60]<br>If the reporting entity is a group, then the sustainability statement covers the parent and its subsidiaries, consistent with the consolidated financial statements. |
| **Resource inflows** | Resource inflows are physical materials, substances, products and components entering a company's operations for production, use, maintenance or service delivery, whether newly sourced, reused or internally recovered. [Annex II] |
| **Resource outflows** | Resource outflows are physical materials, substances or products leaving a company's operations, including products sold, by-products, waste, emissions and materials sent for reuse, recycling or disposal. [Annex II] |
| **Scenario analysis** | Scenario analysis is a process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty, using one or more scenarios. [Annex II] |
| **Scope 1 emissions** | Scope 1 emissions are direct GHG emissions from sources that are owned or controlled by a company. [Annex II] |
| **Scope 2 emissions** | Scope 2 emissions are indirect emissions from the generation of purchased or acquired electricity, steam, heat or cooling consumed by a company. [Annex II] |

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| Term | Description |
|---|---|
| **Scope 3 emissions** | Scope 3 emissions are all indirect GHG emissions not included in scope 2 that occur in the reporting entity's value chain, including both upstream and downstream emissions. [Annex II] |
| **Secondary resources** | Secondary resources are previously used materials, products or components that are recovered and returned to production, such as recycled, reused, repaired, refurbished or remanufactured items. [Annex II] |
| **Shadow price** | A shadow price is a theoretical carbon price or notional cost that a company does not actually charge, but rather uses to assess economic implications or trade-offs, such as risk impacts, new investments, project economics or the cost-benefit of initiatives. [Annex II] |
| **Site** | A site is a physical location where a company or its value chain actors operate and where dependencies and impacts are likely to occur, such as factories, farms, mines, offices, service centres, infrastructure, facilities, fishing grounds, subsurface infrastructure and value chain nodes. Sites also include locations with a unique combination of soil, climate, topography, hydrology and other physical and biological factors. [Annex II] |
| **Soil sealing** | Soil sealing involves covering soil with an impermeable material, such as a road surface. This can result in environmental impacts as described in Commission Regulation (EU) 2018/2026. [Annex II] |
| **Stranded asset** | A stranded asset is an asset or investment that, at some time before the end of its economic life, is no longer able to earn an economic return. This may result from changes in regulation, market forces, technological innovation or environmental factors, including climate change and the transition to a low-carbon economy. The concept includes assets that have suffered, or are expected to suffer, unanticipated or premature write-downs, devaluations or conversion to liabilities, and assets with significant locked-in GHG emissions. [Annex II] |
| **Strategic raw materials** | Strategic raw materials are critical raw materials that are especially important for green and digital technologies, defence and space applications. [Annex II] |
| **Substances** | Substances are chemical elements and their compounds that occur naturally or result from a manufacturing process. They can exist on their own or as part of a mixture.<br><br>They include additives needed to preserve stability and impurities arising from the manufacturing process. They exclude solvents that can be separated without affecting the substance's stability or composition.<br><br>In accordance with Article 3(1) of Directive 2010/75/EU (Industrial Emissions Directive), the definition also excludes:<br><br>• radioactive substances referred to in Council Directive 96/29/Euratom;<br><br>• genetically modified micro-organisms as defined in Directive 2009/41/EC; and<br><br>• genetically modified organisms as defined in Directive 2001/18/EC. [Annex II] |
| **Substances of concern** | SoC are chemicals that have serious hazardous properties, such as causing cancer, genetic mutations, reproductive harm, hormone disruption, persistent pollution or damage to human health or the environment.<br><br>A substance is an SoC if it meets one or both of the following conditions.<br><br>• It meets the criteria in Article 57 of Regulation (EC) No 1907/2006 and is identified in accordance with Article 59(1) of that regulation.<br><br>• It falls within specified hazard classes or categories under Part 3 of Annex VI to Regulation (EC) No 1272/2008. [Annex II]<br><br>These specified hazard classes or categories include certain categories relating to carcinogenicity, mutagenicity, reproductive toxicity, endocrine disruption, persistence and bioaccumulation, sensitisation, aquatic and ozone-layer hazards, and specific target organ toxicity. [Annex II] |

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| Term | Description |
|---|---|
| **Substances of very high concern** | SVHC are chemicals with particularly serious effects, such as causing cancer, genetic mutations or reproductive harm, being persistent and accumulating in living organisms or giving rise to an equivalent level of concern.<br><br>A substance is an SVHC if it:<br><br>• meets the criteria in Article 57 of REACH, including certain substances that are carcinogenic, mutagenic or toxic for reproduction, persistent, bioaccumulative and toxic, very persistent and very bioaccumulative, or that give rise to an equivalent level of concern; and<br><br>• is identified in accordance with Article 59(1) of REACH. [Annex II] |
| **Supplier code of conduct** | A supplier code of conduct is a document that sets out the standards and expectations a company requires suppliers to follow, including ethical, social and environmental requirements. |
| **Surface water** | Surface water is water on the earth's surface, including inland waters other than groundwater, transitional waters and coastal waters. For chemical status, it also includes territorial waters. [Annex II] |
| **Sustainability statement** | The sustainability statement is a dedicated section of a company's management report that presents information about sustainability topics and subtopics prepared in accordance with ESRS. [Annex II] |
| **Sustainability topics** | Sustainability topics are the environmental, social and governance matters addressed by ESRS. ESRS structure these matters into topics and further disaggregate them into subtopics and, when necessary, sub-subtopics. A company considers these levels when identifying and assessing its material IROs. [Annex II]<br><br>ESRS use 'topic' and 'subtopic' synonymously with 'sustainability matters' and 'sustainability factors'. In this handbook, 'topic' refers to either a sustainability topic or a subtopic, depending on the level of detail relevant to the disclosure objective. |
| **Sustainability-related impacts (impacts)** | Sustainability-related impacts are the effects a company has or could have on people or the environment, including on human rights and through its own operations, its upstream and downstream value chain, its products and services or its business relationships. Impacts may be actual or potential, negative or positive, intended or unintended, and reversible or irreversible. They may arise over the short, medium or long term and indicate a company's positive or negative contribution to sustainable development. [Annex II] |
| **Sustainability-related opportunities (opportunities)** | Sustainability-related opportunities are uncertain sustainability-related events or conditions that, if they occur, could have a material positive effect on a company's business model or strategy, its ability to achieve its goals and targets or create value. Sustainability-related opportunities may therefore influence the decisions of a company and its business partners. Consistent with other opportunities, they are measured based on a combination of the magnitude and probability of occurrence. [Annex II] |
| **Sustainability-related risks (risks)** | Sustainability-related risks are uncertain sustainability-related events or conditions that, if they occur, could have a material negative effect on a company's business model or strategy, its ability to achieve its goals and targets or create value. Sustainability-related risks may therefore influence the decisions of a company and its business partners. Consistent with other risks, they are measured based on a combination of the magnitude and probability of occurrence. [Annex II] |
| **Users** | Users of a company's sustainability statement are:<br><br>• ***primary users:*** existing and potential investors, lenders and other creditors, including asset managers, credit institutions and insurance companies; and<br><br>• ***other users:*** business partners, social partners (trade unions and employer organisations), civil society and non-governmental organisations. [Annex II] |

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| Term | Description |
|---|---|
| **Waste streams** | Waste streams are identifiable flows or categories of waste from a process, activity, facility or industry, often grouped by material, source or whether they are hazardous. [Annex II] |
| **Water consumption** | Water consumption is water taken into a company that is not returned to the water environment or supplied to another party during the reporting period. [Annex II] |
| **Water recycled and reused** | Water recycled and reused is water and wastewater, whether treated or untreated, that a company uses more than once before discharging it from its boundary, thereby reducing water demand. Recycled water is used again in the same process. Reused water is used in a different process at the same facility, including a shared facility, or at another of the company's facilities. [Annex II] |
| **Water stress** | Water stress refers to the ability, or inability, to meet human and ecological demand for water. It considers water availability, quality and accessibility, including whether people can use physically available supplies, which often depends on adequate infrastructure, affordability and other factors. [Annex II] |
| **Whistleblower** | A whistleblower is an individual who reports suspected wrongdoing, misconduct, illegal conduct or unethical behaviour within or connected to an organisation. Whistleblower protection measures may exist to protect individuals who report misconduct from retaliation, discrimination or other adverse consequences. |

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# Key acronyms

| Acronym | Meaning |
|---|---|
| **AI** | Artificial intelligence |
| **BII** | Biodiversity Intact Index |
| **Capex** | Capital expenditure |
| **CLP** | Classification, Labelling and Packaging |
| **$CO_2e$** | Carbon dioxide equivalent |
| **ECHA** | European Chemicals Agency |
| **EEA** | European Economic Area |
| **EMAS** | Eco-Management and Audit Scheme |
| **E-PRTR** | European Pollutant Release and Transfer Register |
| **ESPR** | Ecodesign for Sustainable Products Regulation |
| **ESRS** | European Sustainability Reporting Standards |
| **EWC** | European Works Council |
| **FPIC** | Free, Prior and Informed Consent |
| **FTE** | Full-time equivalent |
| **GBF** | Kunming-Montreal Global Biodiversity Framework |
| **GHG** | Greenhouse gas |
| **GRI** | Global Reporting Initiative |
| **GWP** | Global warming potential |
| **IBAT** | Integrated Biodiversity Assessment Tool |
| **ICE** | Internal combustion engine |
| **IED** | Industrial Emissions Directive |
| **IEPR** | Industrial Emissions Portal Regulation |
| **ILO** | International Labour Organization |
| **IRO** | Impacts, risks and opportunities |
| **IUCN** | International Union for Conservation of Nature |
| **KBA** | Key biodiversity area |
| **LEAP** | Locate, Evaluate, Assess and Prepare |
| **NACE** | Statistical classification of economic activities in the European Community (from the French Nomenclature statistique des activités économiques dans la Communauté européenne) |
| **NGOs** | Non-governmental organisations |
| **NOX** | Nitrogen oxides |
| **NPI** | Nature Positive Initiative |

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| Acronym | Meaning |
|---|---|
| **OECD** | Organisation for Economic Co-operation and Development |
| **Opex** | Operating expenditure |
| **PAC** | Political Action Committee |
| **PCAF** | Partnership for Carbon Accounting Financials |
| **REACH** | Registration, Evaluation, Authorisation and Restriction of Chemicals |
| **SASB** | Sustainability Accounting Standards Board |
| **SBT** | Science-based target |
| **SBTi** | Science Based Targets initiative |
| **SBTN** | Science Based Targets Network |
| **SCE** | Societas Cooperativa Europaea |
| **SE** | Societas Europaea |
| **SMEs** | Small and medium-sized enterprises |
| **SoC** | Substances of concern |
| **SVHC** | Substances of very high concern |
| **SPM** | Synthetic polymer microparticles |
| **$tCO_2e$** | Tonnes of carbon dioxide equivalent |
| **TCFD** | Task Force on Climate-related Financial Disclosures |
| **TNFD** | Task Force on Nature-related Financial Disclosures |
| **UN** | United Nations |
| **UNECE** | United Nations Economic Commission for Europe |
| **UNESCO** | United Nations Educational, Scientific and Cultural Organization |
| **WEI+** | Water Exploitation Index Plus |

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# List of examples


| Example | Title |
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| Example | Title |
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| Example | Title |
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# List of insights


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| Insight | Title |
|---|---|
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| Insight | Title |
|---|---|
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| 3.1.360 | Does a company need to use similar processes to identify, assess, prioritise and monitor IROs? |
| 3.1.370 | Does a company need to present granular information on each of its identified IROs? |
| 3.1.380 | Does a consolidated group and a subsidiary reporting in its own right disclose information about the same IROs? |
| 3.1.390 | Do ESRS specify where companies present descriptions of material IROs? |
| 3.1.400 | Do ESRS prescribe how to present the list of disclosure requirements reported in the sustainability statement? |
| 3.1.410 | Is disclosure of trade-offs between different IROs required under ESRS? |

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| Insight | Title |
|---|---|
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| 3.1.430 | Are companies allowed to omit those datapoints in Appendix A of ESRS 2 that are derived from other EU laws? |
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| 3.2.40 | Do ESRS prescribe the currency and units of measurement used to present monetary amounts and metrics? |
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| 3.2.150 | Does a company need to disclose its performance against targets? |
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| 4.1.30 | Is a company required to include all of its operations in its scenario analysis? |
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| 4.1.50 | Is a company required to reassess its climate resilience at each reporting date? |
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| 4.1.70 | When reporting metrics for its energy consumption and its GHG emissions, does a company apply the same reporting boundary? |
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| | |
|---|---|
| Sarah Bagnon-Szkoda | France |
| Bryce Ehrhardt | US |
| Maura Hodge | US |
| Stefanie Jordan | Germany |
| Ramon Jubels (leader) | Netherlands |
| Jeff King | Canada |
| David Littleford | UK |
| Izabella Milhomem | Brazil |
| Eddie Ng | Hong Kong |
| Shaheed Osman | South Africa |
| Marco Schuit (deputy leader) | Netherlands |
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