SUSTAINABILITY AT A GLANCE
EUROPEAN SUSTAINABILITY REPORTING STANDARDS (ESRS)
[DRAFT] E1 – CLIMATE CHANGE

BDO

Effective Date
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DEFINITIONS AND ACRONYMS (see Appendix A of [Draft] ESRS E1 for a complete list)

- Carbon dioxide (CO2) equivalent (eq): The amount of carbon dioxide (CO_2) emission that would cause the same integrated radiative forcing or temperature change, over a given time horizon, as an emitted amount of a greenhouse gas (GHG) or a mixture of GHGs.
- Climate change mitigation: the process of reducing GHG emissions and holding the increase in the global average temperature to well below 2˚C and pursuing efforts to limit it to 1.5˚C above pre-industrial levels, as laid down in the Paris Agreement.
- Decarbonisation levers: aggregated types of mitigation actions such as energy efficiency, electrification, fuel switching, use of renewable energy, products change, and supply-chain decarbonisation that fit with undertakings' specific actions.
- DR: disclosure requirement.
- GOV (governance): the governance processes, controls and procedures used to monitor and manage impacts, risks and opportunities.
- Greenhouse Gases (GHG): those gaseous constituents of the atmosphere, both natural and anthropogenic, that absorb and emit radiation at specific wavelengths within the spectrum of terrestrial radiation emitted by the Earth's surface, the atmosphere itself and by clouds.
- IRO (impact, risk and opportunity management): the process(es) by which impacts, risks and opportunities are identified, assessed and managed through policies and actions.
- SBM (strategy and business model): how the undertaking's strategy and business model(s) interact with its material impacts, risks and opportunities, including the strategy for addressing them.
- Scenario: a plausible description of how the future may develop based on a coherent and internally consistent set of assumptions about key driving forces (e.g., rate of technological change, prices) and relationships. Note that scenarios are neither predictions nor forecasts but are used to provide a view of the implications of developments and actions.
- Scenario analysis: a process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty.
- Scope 1 emissions (direct GHG emissions): GHG emissions from sources owned or controlled by the undertaking.
- Scope 2 emissions (indirect GHG emissions): a consequence of the operations of the undertaking but which occur at sources owned or controlled by another company. Scope 2 GHG emissions are indirect emissions from the generation of purchased or acquired electricity, steam, heat, or cooling consumed by the undertaking.
- Scope 3 emissions (indirect GHG emissions): Indirect GHG emissions are a consequence of the operations of the undertaking but occur at sources owned or controlled by another company. Scope 3 GHG emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

MANDATORY DISCLOSURES VS. DISCLOSURES SUBJECT TO MATERIALITY ASSESSMENT

[Draft] ESRS 1.32(a) requires that all disclosure requirements in [Draft] ESRS E1 *Climate Change* be made irrespective of the outcome of a materiality assessment. Therefore, all disclosures and datapoints in [Draft] ESRS E1 are mandatory.

CONSISTENCY WITH EU REGULATIONS AND LAW

Several of the disclosure requirements in [Draft] ESRS E1 take into account the requirements of related European Union legislation and regulation. For example, disclosure of Scope 1, 2 and 3 emissions is required by E1-6, and also by Regulation (EU) 2019/2088 and the associated delegated regulation, which is applicable to the financial services sector.

OBJECTIVE OF [Draft] ESRS E1

To specify DRs which will enable users of sustainability statements to understand:

- How the undertaking affects climate change, in terms of material positive and negative actual and potential impacts;
- The undertaking's past, current, and future mitigation efforts in line with the Paris Agreement (or an updated international agreement on climate change) and limiting global warming to 1.5˚C;
- The plans and capacity of the undertaking to adapt its strategy business model(s) and in line with the transition to a sustainable economy and to contribute to limiting global warming to 1.5˚C;
- Any other actions taken by the undertaking, and the result of such actions to prevent, mitigate or remediate actual or potential negative impacts;
- The nature, type and extent of the undertaking's material risks and opportunities arising from the undertaking's impacts and dependencies on climate change, and how the undertaking manages them; and
- The financial effects on the undertaking over the short-, medium- and long-term time horizons of risks and opportunities arising from the undertaking's impacts and dependencies on climate change.

STATUS OF STANDARD

This publication has been prepared based on the [Draft] ESRSs published by EFRAG in November 2022. The European Commission will consult EU bodies and Member States on the draft standards, before adopting the final standards as delegated acts in June 2023, followed by a scrutiny period by the European Parliament and Council. The full [Draft] ESRS and other ESRSs may be obtained on EFRAG's website.

INTERACTION WITH OTHER [Draft] ESRSs

Certain DRs in [Draft] ESRS E1 relate to DRs in [Draft] ESRS 2 *General Disclosures*. For example, ESRS 2 GOV-3 requires disclosure of the integration of sustainability-related performance in incentive schemes, and [Draft] ESRS E1 requires specific disclosure relating to how performance of members of the administrative, management and supervisory bodies have been assessed against the GHG emission reduction targets, as disclosed in E1-4.

Where a set of DRs relates to a DR from another [Draft] ESRS, that DR's heading is in blue. All other DR headings are grey.

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GOVERNANCE

DR RELATED TO ESRS 2 GOV-3

- Disclose whether the performance of members of the administrative, management and supervisory bodies has been assessed against the GHG emission reduction targets reported under DR E1-4.

STRATEGY

E1-1 TRANSITION PLAN FOR CLIMATE CHANGE MITIGATION

Disclose the transition plan for climate change mitigation.

The objective of this DR is to enable an understanding of the undertaking's past, current and future mitigation efforts and how they are aligned with a 1.5°C scenario as set out in the Paris Agreement including achieving climate neutrality by 2050.

This disclosure shall include:

- The plan by reference to GGH emission reduction targets (as required by DR E1-4) and how target is compatible with limiting global warming to 1.5°C in line with the Paris Agreement;
- By reference to GHG emission reduction targets (as required by DR E1-4) and the climate change mitigation actions (as required by DR E1-3) an explanation of decarbonisation levers identified and key actions planned;
- By reference to the climate change mitigation actions (as required by DR E1-3), an explanation of the undertaking's investments and funding supporting the implementation of the transition plan;
- A qualitative assessment of the potential locked-in GHG emissions from the undertaking's key assets and products;
- If applicable, an explanation of the undertaking's objective for aligning its activities (revenue) with the Taxonomy Regulation (EU) 2020/852 and any delegated regulations related to climate change, and its plan for future Taxonomy alignment (revenues, CapEx and OpEx plans);
- A disclosure on whether or not the undertaking is excluded from the EU Paris-aligned Benchmarks;
- An explanation of how the transition plan is embedded in and aligned with the undertaking's overall business strategy and financial planning and whether it is approved by its administrative, management and supervisory bodies; and
- An explanation of the undertaking's progress in implementing the transition plan.

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

DR RELATED TO ESRS 2 SBM-3

Disclose the resilience of strategy and business model(s) in relation to climate change. This description shall include:

- The scope of the resilience analysis;
- How the resilience analysis has been conducted, including the use of climate scenario analysis as referenced in the Disclosure Requirement related to ESRS 2 IRO-1 (see next page) and the related application requirement paragraphs; and
- The results of the resilience analysis including the results from the use of scenario analysis.

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IMPACT, RISK AND OPPORTUNITY MANAGEMENT

DR RELATED TO ESRS 2 IRO-1

Describe the process to identify and assess climate-related IRO. This description shall include:

- Impacts on climate change, in particular, the undertaking's GHG emissions (as required by DR ESRS E1-6);
- Climate-related physical risks in own operations and along the value chain, in particular, climate-related hazards and an assessment of how its assets and business may be exposed to climate-related hazards (i.e. gross physical risks).
- Climate-related transition risks and opportunities in own operations and along the value chain, in particular, :
  - The identification of climate-related transition events, considering at least a climate scenario in line with limiting global warming to 1.5°C; and
  - The assessment of how its assets and business activities may be exposed to these climate-related transition events, creating gross transition risks.

Disclosure is required of how climate-related scenario analysis was used to inform the above disclosures.

E1-2 POLICIES RELATED TO CLIMATE CHANGE MITIGATION AND ADAPTATION

Disclose the policies adopted to manage material IRO related to climate change mitigation and adaptation, including summarised information on the policies implemented to manage them.

The DR should enable an understanding of the extent to which the undertaking has policies that address the identification, assessment, management and/or remediation of its material climate change mitigation and adaptation IRO.

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

- Climate change mitigation;
- Climate change adaptation;
- Energy efficiency;
- Renewable energy deployment; and
- Other.

E1-3 ACTIONS AND RESOURCES IN RELATION TO CLIMATE CHANGE POLICIES

Disclose climate change mitigation and adaptation actions and the resources allocated for their implementation in order to provide an understanding of the key actions taken and planned to achieve climate-related policy objectives and targets.

Disclosure should:

- Follow the principles in ESRS 2 DC-A *Actions and Resources in Relation to Material Sustainability Matters*;
- Present the climate change mitigation actions by decarbonisation lever including the nature-based solutions;
- When describing the outcome of the actions for climate change mitigation, include the achieved and expected GHG emission reductions; and
- Relate significant monetary amounts of CapEx and OpEx required to implement the actions to:
  - The relevant line items or notes in the financial statements;
  - The key performance indicators required under article 8 of Taxonomy Regulation (EU) 2020/852; and
  - If applicable, the CapEx plan required by Commission delegated regulation (EU) 2021/2178.

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METRICS AND TARGETS

E1-4 TARGETS RELATED TO CLIMATE CHANGE MITIGATION AND ADAPTATION

Disclose the climate-related targets adopted, which have been set to support climate change mitigation and adaptation policies and address material climate-related IRO. Disclosure must contain the information required by ESRS 2 DC-T *Tracking Effectiveness of Policies and Actions through Targets*.

An undertaking shall disclose:

- Whether and how it has set GHG emissions reduction targets and/or any other targets to manage material climate-related IRO;
- If an undertaking has set GHG emission reduction targets, ESRS 2 DC-T and the following DRs apply:
  - GHG emission reduction targets in absolute value and, if deemed meaningful, in intensity value;
  - GHG emission reduction targets for Scope 1, 2, and 3 GHG emissions;
  - Current base year and baseline value, and from 2030 onwards, update the base year for its GHG emission reduction targets after every five-year period thereafter;
  - GHG emission reduction targets shall at least include target values for the year 2030 and, if available, for the year 2050. From 2030, target values shall be set after every five-year period thereafter;
  - Whether the GHG emission reduction targets are science-based and compatible with limiting global warming to 1.5°C, and which guidance or framework has been used to determine these targets;
  - The expected decarbonisation levers and their overall quantitative contributions to achieve the GHG emission reduction targets.

E1-5 ENERGY CONSUMPTION AND MIX

Disclose information on energy consumption and mix to provide an understanding of the undertaking's total energy consumption in absolute value, improvement in energy efficiency, exposure to coal, oil and gas-related activities, and the share of renewable energy in its overall energy mix.

Disclosure shall include total energy consumption in megawatt hours (MWh) as follows:

- Total energy consumption from non-renewable sources for high climate impact sectors (see explanation to the right) disaggregated by:
  - Fuel consumption from coal and coal products;
  - Fuel consumption from crude oil and petroleum products;
  - Fuel consumption from natural gas;
  - Fuel consumption from other non-renewable sources;
  - Consumption from nuclear products; and
  - Consumption of purchased or acquired electricity, heat, steam, and cooling from non-renewable sources.
- Total energy consumption from renewable sources disaggregated by:
  - Fuel consumption for renewable sources (including biomass, biogas, non-fossil fuel waste, hydrogen from renewable sources, etc.);
  - Consumption of purchased or acquired electricity, heat, steam, and cooling from renewable sources; and
  - Consumption of self-generated non-fuel renewable energy.

Where applicable, the undertaking shall disaggregate and disclose separately its non-renewable energy production and renewable energy production in MWh.

E1-5 ENERGY CONSUMPTION AND MIX (ENERGY INTENSITY BASED ON NET REVENUE)

For undertakings with activities in high climate impact sectors (see explanation to the right), information on the energy intensity associated with those activities (total energy consumption per net revenue) shall be calculated and disclosed:

$$\text{Energy intensity} = \frac{\text{total energy consumption from activities in high climate impact sectors (MWh)}}{\text{Net revenue from activities in high climate impact sectors (monetary unit)}}$$

HIGH CLIMATE IMPACT SECTORS

High climate impact sectors are defined in Regulation 2019/2088 as NACE Sections A to H and L. They are summarised as:

- Agriculture, forestry and fishing;
- Mining and quarrying;
- Manufacturing;
- Electricity, gas, steam and air conditioning supply;
- Water supply, sewerage, waste management and remediation activities;
- Construction;
- Wholesome and retail trade, repair of motor vehicles and motorcycles;
- Transportation and storage; and
- Real estate activities.

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METRICS AND TARGETS (continued)

E1-6 GROSS SCOPES 1, 2 AND 3 AND TOTAL GHG EMISSIONS

DISCLOSURE OBJECTIVE

Disclose gross Scope 1, 2 and 3 emissions and total GHG emissions.

These disclosures are required to be consistent with the requirements of defining the reporting undertaking and its value chain under [Draft] ESRS 1 section 5.1.

DEFINING THE VALUE CHAIN

If the undertaking has operational control of associates, joint ventures (accounted for under either the equity method or proportionally consolidated in the undertaking's group financial statements), and unconsolidated subsidiaries (investment entities), the following requirements apply:

- Include their full (Scope 1 and 2) GHG emissions in its reported GHG Emissions, (primarily as Scope 1 and 2 for non-financial corporations, and as Scope 3 GHG emissions under the financial investments category particularly for financial institutions).
- The undertaking shall not apply the share of equity held in these entities to limit the proportion of their GHG emissions that it includes in its reported GHG emissions.

If the undertaking has operational control of contractual arrangements in joint arrangements that are not structured through an entity, it shall include their full (Scope 1 and 2) GHG emissions in its reported GHG emissions.

The undertaking shall not include any (Scope 1 and 2) GHG emissions from the entities (i.e., associates, joint ventures and, unconsolidated subsidiaries) and contractual arrangements in jointly controlled operations where it does not have operational control. However, when these entities and contractual arrangements are part of the undertaking's value chain, their Scope 1, 2 and 3 GHG emissions shall be accounted for as part of the undertaking's Scope 3 GHG emissions.

SCOPE 1

Disclosure shall include:

- The gross Scope 1 GHG emissions in metric tonnes of CO_2eq; and
- The percentage of Scope 1 GHG emissions from regulated emission trading schemes.

SCOPE 2

Disclosure shall include:

- The gross location-based Scope 2 GHG emissions in metric tonnes of CO_2eq; and
- The gross market-based Scope 2 GHG emissions in metric tonnes of CO_2eq.

SCOPE 3

Disclosure shall include GHG emissions in metric tonnes of CO_2eq from each significant Scope 3 category (15 categories in total - see BDO's Sustainability At a Glance - GHG Protocols).

DISAGGREGATION OF SCOPE 1 AND 2 EMISSIONS

Separate disclosure of emissions from:

- The consolidated accounting group entities (i.e., the parent and subsidiaries for which it has financial control) that are subject to full consolidation in the group financial statements; and
- Associates, joint ventures, unconsolidated subsidiaries, and jointly controlled operations and assets that are not subject to full consolidation in the group financial statements but for which the undertaking has operational control (i.e., the ability to control the operational activities and relationships).

CALCULATION GUIDANCE - SCOPES 1, 2 AND 3

Undertakings shall:

- Consider the principles, requirements and guidance provided by the GHG Protocol Corporate Standard (see BDO's Sustainability At a Glance - GHG Protocols) and GRI 305. The undertaking may consider the requirements stipulated by ISO 14064-1:2018;
- Disclose the methodologies and emissions factors used to calculate or measure GHG emissions, and provide a reference or link to any calculation tools used;
- Include emissions of CO_2, CH_4, N_2O, HFCs, PFCs, SF_6, and NF_3. Additional GHG may be considered when significant;
- Use the most recent Global Warming Potential values published by the IPCC based on a 100-year time horizon to calculate CO_2eq emissions of non-CO_2 gases; and
- Disclose the methodologies and emissions factors used to calculate or measure GHG emissions, and provide a reference or link to any calculation tools used.

GHG INTENSITY BASED ON NET REVENUE

Disclose its GHG emissions intensity =

$$\frac{\text{Total GHG emissions } (CO_2eq)}{\text{Net revenue (monetary unit)}}$$

The undertaking shall reconcile the net revenue in the calculation to the relevant line item or notes in the financial statements.

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METRICS AND TARGETS (continued)

E1-7 GHG REMOVALS AND GHG MITIGATION PROJECTS FINANCED THROUGH CARBON CREDITS

Disclosure of:

- GHG removals and storage from own operations and upstream and downstream value chain it may have developed in metric tonnes of CO_2eq; and
- the amount of GHG emission reductions or removals from climate change mitigation projects outside its value chain it has financed through any purchase of carbon credits.

GHG REMOVALS AND STORAGE

Disclosure of:

- The total amount of GHG removals and storage in metric tonnes of CO_2eq disaggregated and separately disclosed for the amount related to the undertaking's own operations and its value chain, and broken down by removal activity; and
- The calculation assumptions, methodologies and frameworks applied by the undertaking.

GHG EMISSIONS REDUCTIONS - CARBON CREDITS

Disclosure of:

- The total amount of carbon credits outside the undertaking's value chain in metric tonnes of CO_2eq that are verified against recognised national or international quality standards and cancelled in the reporting period; and
- The total amount of carbon credits outside the undertaking's value chain in metric tonnes of CO_2eq planned to be cancelled in the future based on existing contractual agreements.

NET-ZERO TARGETS

If the undertaking has disclosed a net-zero target, it shall explain the scope, methodologies and frameworks applied and how the residual GHG emissions (after approximately 90-95% of GHG emission reduction) are intended to be neutralised by GHG removals in its own operations and value chain.

GHG NEUTRALITY

If the undertaking has made public claims of GHG neutrality that involve the use of carbon credits, the undertaking shall explain the credibility and integrity of the carbon credits used, and whether and how its claims of GHG neutrality neither impede nor reduce the achievement of its GHG emission reduction targets.

E1-8 INTERNAL CARBON PRICING

Disclose whether internal carbon pricing schemes are applied and, if so, how these support its decision making and incentivise the implementation of climate-related policies and targets, including:

- The type of internal carbon pricing scheme, for example, the shadow prices applied for CapEX or research and development (R&D) investment decision making, internal carbon fees or internal carbon funds;
- The specific scope of application of the carbon pricing schemes (activities, geographies, entities, etc.);
- The carbon prices applied according to the type of scheme and critical assumptions made to determine the prices, including the source of the applied carbon prices and why they are deemed relevant; and
- The current year approximate gross GHG emission volumes by Scopes 1, 2 and 3 in metric tonnes of CO_2eq covered by these schemes, as well as their share of the undertaking's overall GHG emissions for each respective Scope.

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METRICS AND TARGETS (continued)

E1-9 POTENTIAL FINANCIAL EFFECTS FROM MATERIAL PHYSICAL AND TRANSITION RISKS AND POTENTIAL CLIMATE-RELATED OPPORTUNITIES

Disclose the following to provide an understanding of how these risks and opportunities have (or are likely to have) a material influence on cash flows, performance, position, development, cost of capital or access to finance over the short-, medium- and long-term time horizons. Financial effects extend beyond amounts reported in financial statements.

- Potential financial effects from material physical risks;
- Potential financial effects from material transition risks; and
- Potential to pursue material climate-related opportunities.

POTENTIAL FINANCIAL EFFECTS FROM MATERIAL PHYSICAL RISKS

Disclosure of:
- The monetary amount and proportion (percentage) of assets at material physical risk over the short-, medium- and long-term time horizons; with the monetary amounts of these assets disaggregated by acute and chronic physical risk;
- The proportion of assets at material physical risk addressed by the climate change adaptation actions;
- The location of significant assets at material physical risk; and
- The monetary amount and proportion (percentage) of net revenue from its business activities at material physical risk over the short-, medium- and long-term time horizons.

POTENTIAL FINANCIAL EFFECTS FROM MATERIAL TRANSITION RISKS

Disclosure of:
- The monetary amount and proportion (percentage) of assets at material transition risk over the short-, medium- and long-term time horizons;
- The proportion of assets at material transition risk addressed by the climate change mitigation actions;
- A breakdown of the carrying value of its real estate assets by energy-efficiency classes;
- Liabilities that may have to be recognised in financial statements over the short-, medium- and long-term time horizons; and
- The monetary amount and proportion (percentage) of net revenue from its business activities at material transition risk over the short-, medium- and long-term time horizons including, where relevant, the net revenue from the undertaking's customers operating in coal, oil and gas-related activities.

POTENTIAL TO PURSUE MATERIAL CLIMATE-RELATED OPPORTUNITIES

Disclosure of:
- Its expected cost savings from climate change mitigation and adaptation actions; and
- The potential market size or expected changes to net revenue from low-carbon products and services or adaptation solutions to which the undertaking has or may have access.

Quantification of the financial effects is not required if such a disclosure does not meet the qualitative characteristics of useful information in [Draft] ESRS 1 Appendix C *Qualitative Characteristics of Information*.

RECONCILIATION TO LINE ITEMS OR NOTES IN FINANCIAL STATEMENTS

Reconcile to the relevant line items or notes the significant amounts of the assets and net revenue at material physical risk.

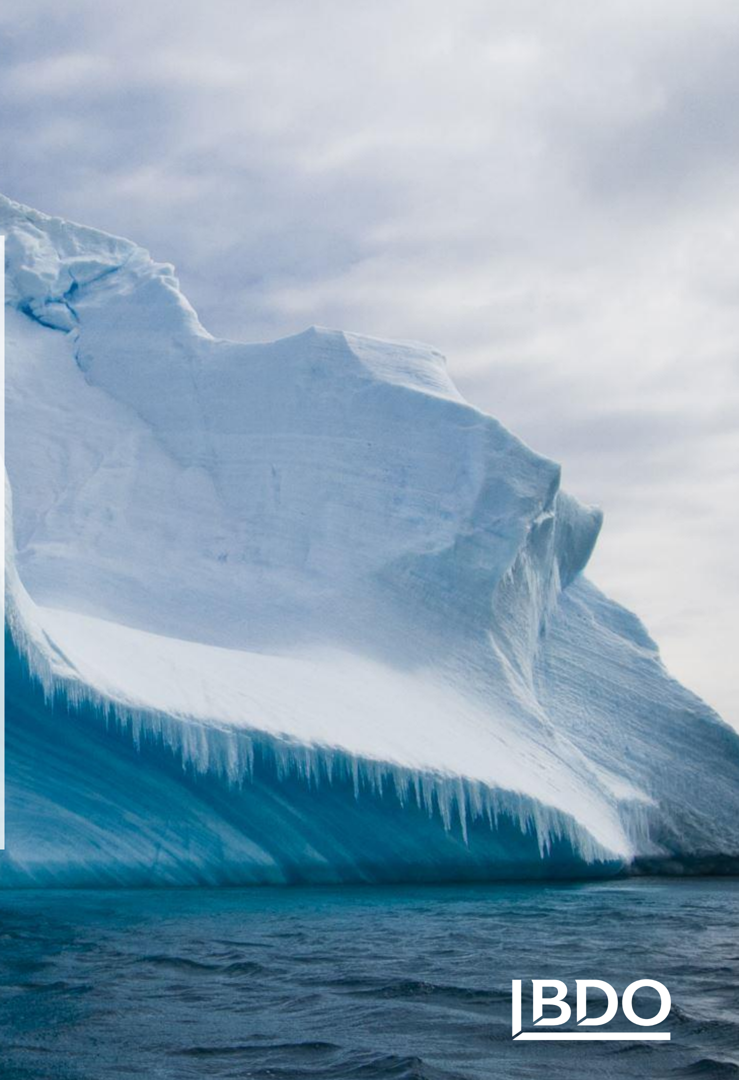
Reconcile to the relevant line items or notes the significant amounts of the assets, liabilities, and net revenue at material transition risk.

CONTACT

For further information about how BDO can assist you and your organisation, please get in touch with us.

For a list of contacts from BDO firms represented on BDO’s Global Sustainability Reporting Policy Committee (SRPC), please visit our SRPC contacts page.

Alternatively, please visit www.bdo.global where you may contact sustainability reporting experts at all BDO firms.



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