



# Guidance for corporate disclosure pursuant to the EU Non-Financial Reporting Directive

This guidance explains how companies<sup>1</sup> can report in line with the requirements and spirit of the EU Non-Financial Reporting Directive (NFRD). It has been designed to assist experienced as well as starting preparers. **It has been developed by and it is a sole responsibility of Frank Bold.**

The recommendations included in this guidance build on the research of the [Alliance for Corporate Transparency](#), which has analysed the sustainability information disclosed by 1000 European companies following the requirements introduced by the NFRD. The results show that at large, quality and comparability of companies' sustainability reporting is not sufficient to understand their impacts, risks, or even their plans.

On this basis, the guidance integrates the most important elements of the guidelines provided by the European Commission, leading sustainability reporting standards, and the priorities emerging from the European Commission's sustainable finance strategy and regulations.

The guidance is presented in the form of a Reporting Template that greatly simplifies the reporting process, and ensures that information is presented in a connected, coherent and logical way that maximises usefulness for both the company and users. The Template further gives examples on which specific information is commonly understood as critical for the main thematic areas outlined in the Non-Financial Reporting Directive and industries. These examples are summarised from leading companies' practice. Finally, the Template indicates how various reporting standards, recommendations and norms may be best used by companies to find more detailed guidance on specific categories of disclosures within the structure and logic of the NFRD<sup>2</sup>.

The NFRD requires companies to prioritise topics and report on information which is relevant to their business model. This guidance has been designed to assist companies in identifying and reporting on such information, rather than to provide a static list of mandatory disclosures.

1. Companies required to publish a non-financial statement pursuant to the NFRD are large public-interest companies with more than 500 employees and revenue over 40 mEUR (see this [link](#)). Please note that it is possible for EU countries to implement stricter rules.
2. The standards referred to in this Guidance include the [International Integrated Reporting Framework](#), the [Recommendations of the Task Force for Climate-related Financial Disclosures](#) and the closely related [European Commission Guidelines on Climate Reporting](#), [UN Guiding Principles on Business and Human Rights Reporting Framework](#), and - specifically with regards to KPIs and identification of material issues - [GRI](#) and [SASB](#) standards.



This project is part of the European Climate Initiative (EUKI) of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU).

Supported by:



Federal Ministry  
for the Environment, Nature Conservation  
and Nuclear Safety



based on a decision of the German Bundestag

## HOW TO USE THIS GUIDANCE

NFRD requires companies to disclose the following categories of information:

- » **business model**
- » **policies**, including due diligence processes implemented, and **outcomes** of those policies
- » **principal risks** and how the company manages those risks
- » **key performance indicators**

The Template covers the above-mentioned categories, focusing on the four main mandatory areas identified in the NFRD - **environment, employee and social matters, respect for human rights, anti-corruption matters** - and additionally on **climate matters**, separately from other environmental issues.

In each area, the Template provides recommendations for the type of the information that companies are expected to disclose on policies, risks and KPIs (left column), supported by examples of information that are typically considered material in specific industry sectors (right column).

Recommendations for business model disclosures are provided in the first section of the Template jointly for all areas due to the cross-cutting nature of such information. This section also outlines how companies should explain which issues they consider material and why.

The NFRD requires that the company determines which issues are material, both from the perspective of adverse social and environmental impacts, as well as with regards to risks facing the company. Conversely, companies should avoid reporting information which is not related to company's principal impacts or risks (and opportunities).

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# BUSINESS MODEL



The first requirement of the NFRD is a brief description of the company's business model with respect to the four sustainability areas identified therein. Since a company's sustainability issues are typically interconnected, it is practical to provide this information for all these issues in one place at the start of the statement or integrated in the respective section of the annual report. In addition, by explaining the company's determination of materiality for reported topics, their effect on the business model and governance, and the company's strategy, this description should determine and provide context for the information on the company's policies, risk management and KPIs for individual topics.

Guidance on reporting on business models provided by reporting frameworks is diverse, and generally reflects the materiality approach (e.g. financial, or impact) or the topical focus adopted by the specific framework taken into consideration. For a conceptual framework of how sustainability issues are bound together with other aspects of business governance, it is recommended to consult the [International Integrated Reporting framework](#), or specifically for climate change matters the [Recommendations of the Task Force for Climate-related Financial Disclosures](#).

Below, we provide recommendations regarding the most important business-model information to ensure coherence and meaningfulness of the rest of the company's disclosures on its material topics.

Outline the **main elements of the company's business model** in order to allow understanding of its connection to sustainability issues. The following elements should be included, if relevant:

- » Main products and services and their impact;
- » Overview of the production process and associated natural capital needs and externalities;
- » General description of the supply chain;
- » Resources relied on and their origin;
- » Size, location and any special risk characteristics of the workforce (e.g. from a gender perspective, migrant workers), including concerning the workforce in the supply chains if the company relies on outsourced production.

## EXAMPLES

*Manufacturing and food & beverage companies (and other resource-intensive companies)* should include a description of their dependencies on natural capitals, such as water, land, ecosystems or biodiversity that are at risk because of climate change.

*Apparel and food & beverage companies (and other companies dependent on outsourced production in human rights high-risk regions)* should include details on the workforce in their supply chains (estimated numbers of workers per region, known risks of labour right violations in these regions, whether the workforce includes particularly vulnerable groups).

*Companies using high-risk commodities*, such as agricultural commodities linked to deforestation (palm oil, soil, biofuels) or conflict minerals should include details on their supply chain in this regard.

*Companies producing products with impacts on the environment or climate*, such as transportation and energy companies, should include a detailed breakdown of such products.

*Finance companies* should provide structured information on the sectoral and geographical focus and value of their investments, loans and insurance services, with an identification of high-risk sectors as well as sustainable investments.

Describe how the company assesses the **severity of impacts and level of risks for the company** that result from business activities and relationships, including:

- » Which environmental and social topics linked to the described elements of its business model the company considers a priority (using a simple low/medium/high/critical categorisation) distinguishing between (a) perceived level of risk facing the company and (b) the severity of actual or potential impacts on people and planet linked to the company;
- » Inputs and process through which the above-mentioned conclusions were established; and the frequency of reviews and analyses with regards to risk identification and assessment;
- » How processes for identifying, assessing, and managing identified risks are integrated into the company's overall risk management. This is particularly important if the company recognises that it is exposed to climate-related risks.

#### EXAMPLES

*All companies* should describe the ways in which their business model can impact climate, both positively and negatively (including from deforestation, forest degradation or land-use change) and human rights.

*Energy, transportation, agricultural and other companies from sectors highly exposed to climate risks* should describe the resilience of the company's business model and strategy to relevant long-term climate scenarios (as defined in Paris Goals and IPCC); and how the company determines the relative significance of climate-related risks in relation to other risks.

*Companies whose business models are linked to human right risks*, should describe the methodologies to assess each principal adverse impact, how they take into account probability of occurrence and severity of impacts, and if and how affected stakeholders were engaged.

*Finance companies* should describe methodologies to assess their exposure to high-risk sectors.

Explain the **governance of the identified material topics**. This should include information on:

- » Strategic targets and KPIs adopted in a summarised table and - if applicable - the effect of the adopted strategies on the company's business model;
- » Any business opportunities identified and pursued;
- » How these topics are integrated in the Board's and senior management operations, mandate, and compensation.

#### EXAMPLES

*It is recommended to:*

- » Explain the actions taken by the Board with respect to the review of the company's business model and strategy, approval and monitoring of high-level targets;
- » Describe how the Board and the management ensures access to expertise, in particular on climate-related issues, either from its own internal capacity and/or from external sources.



## 2.A CLIMATE CHANGE MITIGATION AND ADAPTATION:

Reporting on climate change differs from other environmental issues in several aspects. Firstly, it has a special prominence in the EU agenda on sustainable finance. Secondly, the financial risks facing companies in relation to climate change are relatively well understood. Thirdly, there is already a high degree of standardisation in this area.

To account for these differences, the recommendations for reporting on climate change matters are provided separately from other environmental issues. These recommendations outline the most important information that every company should consider. Companies with advanced climate reporting are advised to further consult the [European Commission's extensive guidance on climate reporting](#).

### Policies:

The company should demonstrate the purpose, objectives and consistency of its strategy, actions, and decisions related to climate change.

Describe any **company policies** related to climate. The description should include:

- » Explanation of the company's main areas of impact and/or opportunities, including impacts linked to the company's products and services or supply chains;
- » An overview of the company's overall priorities and reasoning behind them;
- » Allocation of responsibility for the implementation of the policies within organisational strategies and procedures.

### EXAMPLES

*Companies whose main impact lies in the use of the final product - such as automakers and oil & gas companies - should primarily report on the development of low-carbon alternatives and on strategic realignment of their product portfolios.*

*Energy companies and manufacturing companies with high energy consumption should report on phasing out production/ consumption of electricity from fossil fuels, and on energy efficiency.*

*Companies that deliver technological solutions to their customers should report on products facilitating energy savings and green technologies.*

*Companies that process high risk commodities (timber, palm oil, cotton) should report on their policies to eliminate deforestation and similar unsustainable activities contributing to climate change in their supply chains.*

*Finance companies should describe integration of climate-related issues in investment or lending policies; sector-specific policies to mitigate climate risks and strategy on engagement with investee companies on climate issues.*

<p>Describe any <b>climate-related targets</b> the company has set as part of its policies, especially:</p> <ul style="list-style-type: none"> <li>» A quantified, long-term company-wide climate change mitigation target linked to its main area of impact, or a clarification that the company does not have such target</li> <li>» Timeline to achieve it, including indicators and milestones;</li> <li>» How company targets are related to Paris Agreement goals. It is recommended to describe alignment with the <a href="#">Science-based Target initiative's methodology</a>.</li> </ul>	<p><b>EXAMPLES</b></p> <p><i>Energy producers</i> should disclose their targets concerning decarbonization by 2050 and objectives for short-, mid-, and long-term horizons.</p> <p><i>Manufacturing companies with high energy needs</i> are expected to provide targets concerning energy efficiency and - depending on their ability to influence it - use of renewable energy.</p> <p><i>Companies whose main impact lies in their supply chain</i> should describe targets to minimise this impact (such as deforestation).</p> <p><i>Finance companies</i> should describe objectives concerning investments in carbon-intensive sectors (and/or estimated carbon emissions) and green investments. See KPIs section below for further details.</p>
<p>Describe the <b>outcomes</b> of the company's policy, including:</p> <ul style="list-style-type: none"> <li>» The performance of the company against the climate targets alongside corresponding KPIs (see KPIs section below);</li> <li>» Specific actions, taken to achieve the objectives;</li> <li>» Recommended: Value of current and planned financial investments in climate change mitigation strategies that are described in the report.</li> </ul>	<p><b>EXAMPLES</b></p> <p><i>Energy producers and manufacturing companies</i>, in addition to annual progress on KPIs, should disclose changes in portfolio of energy sources, and technology modernisation projects implemented and planned.</p> <p><i>A company whose main impact (negative or positive) is linked to the use of its products</i> should explain the economic results of its business strategy for green products and/or R&amp;D achievements.</p> <p><i>Companies whose main impact lies in their supply chain</i> should explain concrete changes achieved through their sourcing strategies, ideally supported by the projected impact on their Scope 3 emissions.</p> <p><i>Finance companies</i> should describe the development of strategic asset allocation to reduce adverse impacts. It may also describe results of engagement with high-risks companies.</p>

**Principal risks and their management:**

Climate-related risks are understood as economic risks facing companies in relation to physical impacts of climate change (such as water scarcity) or transition risks (such new regulations). Energy, finance and transportation companies are particularly exposed to such risks, and therefore should provide robust information. Companies that don't face any significant risks should at least explain how they reach such a conclusion.

<p>Describe the <b>company's process for identifying and assessing climate-related risks</b>, including any thresholds applied.</p>	<p><b>EXAMPLES</b></p> <p><i>Every company</i> should describe their risk identification process (even if the conclusion of such a process is that the company is not exposed to any significant risk).</p>
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<p>Describe <b>significant physical</b> (extreme weather, dependencies on natural capital) and <b>transition</b> (policy, legal, technological, market and reputational) <b>risks</b> across the value chain identified <b>over the short, medium and long-term horizons</b>, with specification of these horizons in years, including:</p> <ul style="list-style-type: none"> <li>» Categorisation of these risks based on effect on financial performance;</li> <li>» Any assumptions that have been made when identifying these risks (e.g. carbon prices, regulatory developments, etc);</li> <li>» What climate change scenario has been used for the risk assessment (based on projections of <a href="#">United Nations Intergovernmental Panel on Climate Change</a> - it is recommended to include a <a href="#">1.5°C-consistent scenario</a>)</li> </ul>	<p><b>EXAMPLES</b></p> <p><i>Energy companies and companies with high energy needs</i> should provide an analysis of the financial impact of the projected development of energy prices, price of carbon (e.g. allowances), the dependency of their business model on non-renewable commodities, new technological requirements, as well as exposure to dangerous weather conditions.</p> <p><i>Finance companies</i> should describe the exposure to risks of stranded assets and impact of extreme weather on their insurance liabilities and collaterals on the basis of value at risk.</p> <p><i>Companies depending on agricultural and forestry commodities</i> should consider the impact of extreme and chronic weather events on their supply chains.</p>
<p>Describe <b>the management of the identified risks</b> including:</p> <ul style="list-style-type: none"> <li>» Strategy adopted to mitigate the identified risks;</li> <li>» Whether the management of identified risks has effects on the company's business model and financial planning;</li> <li>» Information on the extent to which the administrative, management or supervisory bodies of the company were involved in deciding on the adopted strategy.</li> </ul>	<p><b>EXAMPLES</b></p> <p>No examples are provided as appropriate disclosures differ from company to company depending on the nature and level of risks.</p> <p>Where risks and impacts are inherent to the company's business model, it should be clearly indicated whether the company aims to adjust its business model or accepts the level of risks.</p> <p>The description of strategies and policies may overlap, especially if strategies are provided for operational risks - the description of strategies should explain reasons for the policy decisions.</p>

## Key Performance Indicators (KPIs):

Companies should choose KPIs from the list below that correspond to their main impacts and risks. On top of that, companies need to disclose additional KPIs for their policy outcomes and targets that require idiosyncratic metrics. KPIs should be provided for past, current and targeted performance. Financial companies should report KPIs concerning primarily their investment, lending and insurance activities (see the last cell).

<p><b>GHG emissions</b> in million tonnes CO2 equivalent, including:</p> <ul style="list-style-type: none"> <li>» Explanation of methodology used. "Limited" disclosures that cover marginal impacts (such as Scope 3 emissions limited to business travel), should be avoided;</li> <li>» Commentary for any significant developments.</li> </ul>	<p><b>EXAMPLES</b></p> <p><i>Scope 1</i> (emissions directly emitted by the company) should be disclosed by all companies that produce a significant amount of their own energy;</p> <p><i>Scope 2</i> (emissions from acquired and consumed electricity) should be disclosed by companies with significant energy consumption;</p> <p><i>Scope 3</i> (emissions that occur in the value chain of the reporting company, including both upstream and downstream emissions) should be disclosed by companies whose main climate impact is in their value chain (industrial project finance; fossil fuels producers; dependency on commodities with high carbon footprint).</p>
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<p><b>Total Energy use and/or production from renewable and non-renewable sources</b> in million GWh.</p>	<p><b>EXAMPLES</b></p> <p>Energy production total (from renewable/non-renewable sources in million GWh)  2015: 160 (40/120)  2016: 165 (47/118)  2017: 168 (55/113)  2018: 180 (70/110)  2019 (reporting year): 180 (80/100)  target for 2020: 190 (95/95)  target for 2030: 200 (150/50)  target for 2040: 230 (230/0)</p>
<p><b>Energy efficiency</b> per unit of production</p>	<p><b>EXAMPLES</b></p> <p><i>13 GJ per tonne of iron produced</i> (companies should report the same way as above - for past (last five years), current (reporting year) and project performance (targets)).</p>
<p><b>Products and services</b> that significantly <b>positively contribute</b> to climate change mitigation or adaptation:</p> <p>» These KPIs will become mandatory pursuant to the <a href="#">EU taxonomy</a>.</p>	<p><b>EXAMPLES</b></p> <p>Companies should disclose absolute and relative quantifications of:</p> <ul style="list-style-type: none"> <li>» Turnover (renewable energy: 300 million EUR (85% of total turnover));</li> <li>» Capital Expenditures (renewable energy production: 150 million EUR (75% of total CapEx));</li> <li>» Operational Expenditures (renewable energy production: 2 million EUR (50% of total OpEx)).</li> </ul>
<p>Finance companies should report KPIs concerning their investment, lending, insurance underwriting and asset management activities.</p> <p>The company can choose corresponding indicators from the list on the right, and consult the <a href="#">European Commission Guidelines on climate reporting</a> for further details and explanations.</p> <p>Finance companies that are able to collect detailed information from their investee companies may consider following advanced metrics that are being considered for <a href="#">future EU reporting standards for investors</a>:</p> <ul style="list-style-type: none"> <li>» Total carbon emissions, footprint, and intensity based on value of investment and investee company's emissions;</li> <li>» Share of investee companies from high-carbon sectors that have developed transition plans;</li> <li>» Annual high-carbon revenues and low-carbon revenues from investee companies.</li> </ul>	<p><b>EXAMPLES</b></p> <p>Total exposure to high-carbon sectors and sectors highly exposed to climate risks (see specifications for investment, lending, insurance underwriting, and asset management activities in the <a href="#">EC Guidelines</a>);</p> <p>Degree of alignment of the different portfolios against the Paris Agreement target;</p> <p>Volume of financial assets funding sustainable economic activities contributing substantially to climate change mitigation and/or adaptation;</p> <p>Investment in (climate-related) Green bonds.</p>



## 2.B OTHER ENVIRONMENTAL ISSUES

The same categories of information as those outlined in section 2.A are required for other environmental issues, however it is up to the company to identify which particular environmental issues are material, and which specific information is relevant to be disclosed. The guidance and examples below describe what should trigger reporting on four environmental matters that are addressed in the EU sustainability taxonomy - use and protection of water, biodiversity and ecosystems conservation, pollution prevention and control, and transition to a circular economy. For further sectoral guidance on issues that are generally understood as material from investors' perspective, consult [GRI](#) and [SASB standards](#).

### Policies and due diligence processes:

Describe **company policies** related to the identified significant environmental risks, and impacts, and processes to identify and prioritise principal adverse human rights impacts. The description should include:

- » An overview of the company's overall priorities to address the identified issues and reasoning behind them;
- » Key elements of the due diligence process set up to identify and address risks of adverse impacts in the company's value chain (what environmental issues, activities, and business relationships the process covers, how risks are identified and assessed, how the decisions on actions to prevent or mitigate the risks are taken);
- » Business practices, products or services with significant positive impacts on the environment;
- » Allocation of responsibility for the implementation of the policies within organisational strategies and procedures.

### EXAMPLES

*Use and protection of water* should be reported by companies operating or investing in assets linked to high water use (such as production or energy plants) in water stressed areas.

*Biodiversity and ecosystems conservation* should be addressed by a company that causes or contributes to significant impacts (e.g. mining, large-scale greenfield direct investments, agricultural activities) or is connected to them by value chain (e.g. deforestation linked to agricultural commodities, operations in protected and valuable areas, other land-use change).

*Pollution prevention and control* should be disclosed if the company's operations generate significant pollution that is (or would be) subject to regulatory limits in the EU.

*Transition to circular economy* should be described by companies that generate significant amounts of recyclable or reusable waste or depend on significant amounts of raw natural resources.

*Finance companies* should explain how water and biodiversity risks are reflected in their investment or lending strategies, including any binding elements of those strategies to select investments.

*Use and protection of water* - a plant operator in a water stressed area should describe a target to minimise impact on water stress and its own exposure to water shortage.

*Biodiversity and ecosystems conservation* - for impacts that cannot be avoided because they are inherent to the company's business model, targets should be provided for their minimisation (e.g. recultivation after mining operations); for other impacts targets should clearly indicate whether the company aims to eliminate them (use of unsustainable commodities, harmful practices, investments in high biodiversity value areas).

*A polluting company* should explain targets in relation to the amount of pollution generated at asset level - with special regard to the areas where pollution limits are exceeded.

*Transition to circular economy* - targets should be provided primarily for the minimisation of raw material consumption. E.g. a furniture retailer can describe a goal to use only sustainably certified timber.

*Finance companies* should disclose targets concerning the elimination of exposure of their portfolios to unsustainable activities - especially water and biodiversity exposure - and optionally green investment targets.

Describe the **outcomes** of the company's policy, including:

- » Indicators of the company's performance in terms of meeting targets;
- » Specific actions, taken to achieve the objectives.

#### EXAMPLES

See also examples above and in the KPI section.

*A polluting company* should report on investments in new technologies and their quantified impact on emissions.

*Food & beverage and apparel companies* reporting on their sourcing practices to minimise unsustainable agricultural practices should specify the reduction in adverse impacts.

*An agricultural company* reporting on substituting pesticides with biocontrol mechanisms should quantify the results.

*A finance company* should report on the development of strategic asset allocation and related reduction in adverse impacts. It should also provide information on whether any investments were excluded due to their significant harm, and on engagement with investee companies, especially on water and biodiversity issues.

### Principal risks and their management:

The company should identify (1) *actual and potential significant adverse impacts* on the environment or human health caused, contributed to, or linked to the company (e.g. via its supply chain) and (2) risks for the company associated with environmental issues. Specification of environmental impacts and risks provides background for reporting on a company's policies. Absence of impacts and risks indicates that the particular issue is not material - in such case reporting on policies alone should be avoided. A company should declare if it has not identified any impacts or risks, and explain its due diligence and risk assessment process.

Describe in detail **environmental impacts and risks** identified by the company, including impacts linked to the company's **products and services or supply chains**. This information should cover:

- » Where in the value chain the impact occurs;
- » Likelihood and magnitude of adverse impacts;
- » Risks to company, and their nature (recommended: quantified information concerning financial risk exposures linked to their operations (value at risk)).

#### EXAMPLES

*Use and protection of water* - companies manufacturing products in or sourcing products or commodities from water scarce areas should estimate the level of risks for the environment and local communities and risks to the disruption of production.

*Biodiversity and ecosystem conservation* - a construction company implementing a project in specific areas or ecosystems of high conservation value should assess the level of impact and risks for the company in case potential impacts occur; an agricultural company should describe risks of adverse impacts on soil fertility; offshore oil & gas companies should assess and describe risks of marine biodiversity impacts; a company which depends on an agricultural commodity linked to land-use change or unsustainable agricultural practices, should quantify and localise the impact.

*Pollution prevention and control* - a polluting company should describe cases where its operations contribute to excessive pollution, and associated regulatory and reputational risks. This applies analogically to companies outsourcing their production and their supply chains.

<p>Describe the <b>management of the identified risks</b> including:</p> <ul style="list-style-type: none"> <li>» Strategy adopted to mitigate the identified risks;</li> <li>» Whether the management of identified risks has effects on the company's business model and financial planning;</li> <li>» Information on the extent to which the administrative, management or supervisory body of the company was involved in deciding on the adopted strategy.</li> </ul>	<p><b>EXAMPLES</b></p> <p>No examples are provided, as appropriate disclosures differ from company to company depending on the nature and level of risks.</p> <p>Where risks and impacts are inherent to the company's business model, it should be clearly indicated whether the company aims to adjust its business model or accepts the levels of risk.</p> <p>The description of strategies and policies may overlap, especially if strategies are provided for operational risks - the description of strategies should explain reasons for the policy decisions.</p>
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### Key Performance Indicators (KPIs):

Companies should choose the KPIs from the list below that correspond to their main impacts and risks. On top of that, companies need to disclose additional KPIs for their policy outcomes and targets that require idiosyncratic metrics. KPIs should be provided for past, current and targeted performance. Much more extensive lists of environmental KPIs are provided by [CDP](#) and [GRI](#). Financial companies should report KPIs concerning primarily their investment, lending and insurance activities.

<p><b>Water consumption in water stressed areas</b> broken down by source.</p>	<p><b>EXAMPLES</b></p> <p>Number and identification of concrete operations/facilities located in areas of high water stress;</p> <p>Groundwater/surface water withdrawal (and water discharge) in water stressed area XY in thousands cubic meters per year.</p>
<p><b>Operations in areas of high biodiversity value.</b></p>	<p><b>EXAMPLE</b></p> <p>Number and identify concrete operations with indication of whether the area is protected.</p>
<p><b>Total land-use change with adverse environmental impact (e.g. deforestation)</b> caused or contributed to by the company's direct investments (e.g. mine, plantation, building project).</p>	<p><b>EXAMPLE</b></p> <p>Total land-use change expressed in units of area per year (with indication of land area restored).</p>
<p><b>Total use of products and commodities linked to systemic problems concerning land use change,</b> and share that is sustainably sourced.</p>	<p><b>EXAMPLES</b></p> <p>Total volume of timber processed and share of sustainably certified timber;</p> <p>Total use of palm oil;</p> <p>Share of sustainably produced cotton.</p>

<p><b>Pollution</b> generated by the company's own <b>industrial processes</b> that meets (or -if located outside of the EU-) would have met thresholds provided in the EU law.</p>	<p><b>EXAMPLES</b></p> <p>Air emissions by type and metrics regulated by EU law by individual facilities;</p> <p>Discharges of pollutants to water by type and metrics regulated by EU law by individual facilities;</p> <p>Spills by type (freshwater, sea, soil etc.), area, substance, volume.</p>
<p><i>Finance companies</i> should report <b>KPIs concerning their investment, lending, insurance underwriting and asset management activities.</b></p>	<p><b>EXAMPLES</b></p> <p>Exposure to high-risk sectors in terms of biodiversity (agriculture and food, fisheries and aquaculture, forestry and pulp and paper, mining and extractives);</p> <p>Share of investee companies from high-risk sectors that have plans to mitigate their biodiversity-related financial risks and impacts;</p> <p>Existing and planned assets of investee companies that are located in World Heritage Sites and other environmentally protected areas (Ramsar, IUCN, Key Biodiversity Areas).</p>

# SOCIAL AND EMPLOYEE MATTERS



The NFRD explicitly requires disclosure of a company's policies, risks and KPIs on social and employee matters. The emphasis should be placed on explaining the company's approach to topics that are not regulated, rather than providing extensive information on the company's compliance strategies. Below we provide a list of recommended disclosures on employee matters that are addressed in international and EU frameworks. Further guidance is provided in particular in [GRI standards](#).

Companies may provide additional idiosyncratic information on issues that are important from the perspective of their business model and strategy, such as their social relations with local communities or how they pursue specific social or environmental objectives in society at large. This category of information depends on the company's unique social purpose and is not standardised. Information on purely charitable activities, such as engagement of employees in voluntary activities, is typically not material from the users' perspective.

In this section, employees are classified as direct employees and outsourced workers working on the company's facilities - that is workers whose relation to the company is regulated by labour law. Reporting on workforce issues in the company's supply chain requires a different approach, which is explained in the next section: 4 Human rights.

Unlike in environmental and human rights matters, finance companies should focus primarily on matters concerning their own operations, that is their own employees. Relevant information on the integration of workers' rights matters in their investment and lending policies is covered in section 4 Human Rights.

## Policy description and outcomes:

Describe **company policies** related to employee matters, with a focus on those that go beyond compliance with law. The description should include:

Explanation of the company's overall priorities and reasoning behind it;  
Allocation of responsibility for the implementation of the policies within organisational strategies and procedures;  
Information on the formal process of board-level engagement with workforce representatives.

### EXAMPLES

*These examples are applicable on cross-sectoral basis:*

Due diligence process concerning OHS risks (especially in case of companies exposed to significant OHS risks);

Organization of social dialogue within the company, in particular with respect to trade unions and collective bargaining;

Strategy on gender equality;

Arrangements supporting parental care, such as part time and flexible arrangements allowing mothers/fathers to work;

Whether the company has a strategy on living wage.

<p>Describe the <b>outcomes</b> of the company's policies, including:</p> <ul style="list-style-type: none"> <li>» Targets related directly to impacts or risk exposure (rather than the company's activities);</li> <li>» Indicators of the company's performance in terms of meeting targets;</li> <li>» Specific actions taken to achieve targets.</li> </ul>	<p><b>EXAMPLES</b></p> <p>Targets and indicators shall be set on the basis of commonly used KPIs (see the KPIs section below), where relevant, but more nuanced company strategies require idiosyncratic targets.</p>
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**Principal risks and their management:**

The company should identify material (1) risks for employees and (2) risks to the company associated with employee matters. Boilerplate disclosures should be avoided - the description should be concrete, concern only significant risks, and be supported by an explanation of what the company does to address those risks specifically. Below, we describe two main categories of risks that should be considered by every company, alongside information that should be disclosed if such risks are identified. A company should declare if it has not identified any significant risks.

<p>Every company exposed to <b>work-related hazards</b> should provide a clear statement of such hazards and their management, including:</p> <ul style="list-style-type: none"> <li>» Information on each salient work-related hazard, and which of these hazards contributed to injuries and ill health;</li> <li>» Actions taken to eliminate hazards and minimise risks;</li> <li>» Worker participation in the development, implementation and evaluation of OHS systems, and investigation of incidents.</li> </ul>	<p><b>EXAMPLES</b></p> <p><i>Manufacturing and mining companies facing significant risks of injuries or occupational diseases should describe the nature and scale of the risk, as well as indicators of its effective management and outcomes (number of injuries/fatalities/hazard-related illnesses).</i></p> <p><i>Companies whose workers are working long hours should describe how it cares about the mental health of these workers (workplace adjustments, overtime and holiday policies, psychological care etc.)</i></p>
<p>A company exposed to <b>specific human capital risks</b> should:</p> <p>Describe and categorise these risks according to their level;          Explain strategies to address them;          Provide information on the extent to which the administrative, management or supervisory bodies of the company were involved in deciding on the adopted strategy.</p>	<p><b>EXAMPLES</b></p> <p><i>Companies facing significant climate risks, such as energy and finance companies, should consider whether their employees have climate and technology related expertise necessary for the implementation of their climate strategies. This applies analogously to companies exposed to other types of environmental and human rights risks.</i></p> <p><i>Manufacturing companies should consider strategic risks concerning shortages of workers in Europe.</i></p> <p><i>All companies should monitor their employee turnover and describe strategies if the turnover is unusually high.</i></p>

## Key Performance Indicators (KPIs):

<p><b>Workforce composition</b></p>	<p><b>EXAMPLES</b></p> <p>Total number and distribution of workforce by sex, age, country and professional classification;</p> <p>Share of outsourced workers;</p> <p>Annual average of indefinite contracts, temporary contracts and part-time contracts by sex, age and professional classification;</p> <p>Turnover by sex, age and professional classification.</p>
<p><b>Wages</b></p>	<p><b>EXAMPLES</b></p> <p>Ratio of the average salary and remuneration of women to men for each employee/worker category (equal or average jobs in the undertaking), by significant locations of operation;</p> <p>Ratio of average and median wage to the highest remuneration in the undertaking;</p> <p>% of employees and workers whose basic salary is equal to the local minimum wage, by gender;</p> <p>% of employees and workers whose basic salary is below the local living wage, by gender, alongside a description of the methodology used to determine the living wage.</p>
<p><b>Health and safety</b></p>	<p><b>EXAMPLES</b></p> <p>Number and rate of work-related injuries and work-related ill health, broken down by types and severity of injury and ill health (OHS performance changes);</p> <p>% of workers not covered by OHS management system;</p>
<p><b>Collective employees' rights:</b></p>	<p><b>EXAMPLE</b></p> <p>% of employees covered by a collective agreement by country.</p>

# M HUMAN RIGHTS



The NFRD requires companies to disclose information relating to respect for human rights. This area differs from employee matters in two aspects. Firstly, it concerns the impact on external stakeholders of companies, such as (1) workers in supply chains or (2) local communities affected by the company's or its business partners' (suppliers, clients, etc.) operations. Secondly, it concerns all human rights, including, but not limited to labour rights.

Companies may be involved with adverse human rights impacts either through their own activities (that is, by causing or contributing to impacts directly) or as results of their business relationship with other parties (for example workers' rights may be abused in the company's supply chain). Therefore, the standards for reporting on human rights focus on transparency concerning a company's implementation of human rights due diligence - a process to identify, prevent and mitigate adverse impacts in the context of global value chains - and its results. In some specific cases, the companies may also describe positive impacts directly related to their business strategies (e.g. pharmaceutical companies addressing access to medicine). Unlike in other areas, KPIs are not easily standardisable. Companies are expected to develop specific targets and indicators that fit their human rights issues and their ability to influence them.

Extensive guidance for reporting on respect for human rights is provided in the [UN Guiding Principles on Business and Human Rights Reporting Framework](#), in the [OECD due diligence recommendations](#), and its specifications for [agricultural, garment, and \(conflict\) minerals](#) supply chains and for the [finance sector](#). The main recommendations are summarised below in a structure corresponding to the NFRD requirements.

## Policies and due diligence processes:

Describe a **company's policy** to respect human rights and **processes** to identify and prioritise principal adverse human rights impacts. The description should include:

- » Scope of the company's commitment, clarifying which categories of rights-holders it focuses on, and how the commitment is communicated to suppliers;
- » Key elements of the human rights due diligence process set up to identify and address risks of adverse impacts in the company's value chain (what activities and business relationships the process covers, how risks are identified and assessed, how the decisions

### EXAMPLES

*Retail companies sourcing production from high-risk countries (such as garment and food & beverage companies) should explain whether they have a policy to ensure respect for workers' rights in their supply chains and to which tier of the supply chain this policy extends; whether the policy goes beyond the code of conduct for suppliers; whether the company assesses if/how its own purchasing practices induce or reduce human rights risks; and if the company is committed to provide remedy to affected workers.*

*Mining companies should report on the extent of guarantees provided to local communities and individuals whose rights, such as access to natural resources, property rights, or health might be impaired as a result of their operations.*

*Automotive and IT companies should report on their targets and policy concerning sourcing of conflict minerals, and related targets (see [EU Conflict Minerals Regulation](#)).*



<p>on actions to prevent or mitigate the risks are taken; and whether the process addresses remedy);</p> <ul style="list-style-type: none"> <li>» Business practices with significantly positive impacts on human rights;</li> <li>» Allocation of responsibility for the implementation of the policies within organisational strategies and procedures.</li> </ul>	<p><i>Pharmaceutical companies</i> should report on their commitments concerning accessibility of their products.</p> <p>All companies operating in high risk areas for civil and political rights should explain in detail their commitments to ensure that public and private security providers do not harm local communities and human rights defenders with which the company may get into conflict (see <a href="#">Voluntary Principles on Security</a>). Finance companies should explain principles observed in their investment and lending policies to ensure that their investments have not contributed to human rights abuses or attain positive impact, and how the strategy is implemented in the investment process on a continuous basis.</p>
<p>Describe the <b>outcomes</b> of the company's policies, including:</p> <ul style="list-style-type: none"> <li>» High-level targets to reduce adverse impacts or risk exposure;</li> <li>» Indicators of the company's performance in terms of meeting targets.</li> </ul>	<p><b>EXAMPLE</b></p> <p>Strategic targets and indicators have to be determined by each individual company taking into account its circumstances, human rights issues (see below), and leverage over them. Specific actions and strategies should be then described below in connection to the management of the identified salient human rights issues.</p>

## Principal risks and their management:

The company should identify and disclose its salient human rights issues, that is risks of adverse impacts on people, including those both caused or contributed to by the actions of the company, as well as those that are linked to the the company by business relationships (business partners, entities in value chain, and any other entity directly linked to the company's operations, products or services). This would include primarily impacts in supply chains. Companies should prioritise issues according to the severity and likelihood of the impact. The [UN Guiding Principles on Business and Human Rights](#) and the [OECD standards](#) expect companies to take actions to address impacts. Where a company causes or may cause an adverse human rights impact, it should take the necessary steps to cease or prevent the impact. Similar expectations apply to a company's contribution to the impact; additionally, the company should use its leverage to mitigate any remaining impact. Where an impact is only linked to the company by its business relationship with another entity, an appropriate action will depend on the company's leverage over the entity concerned, on how crucial the relationship is to the company, the severity of the abuse, and whether terminating the relationship with the entity itself would have adverse human rights consequences.

However, the NFRD merely requires that a company describes what actions have been taken - if any - rather than prescribing a behavioural standard. In principle, the company should explain the application and outcomes of its due diligence process, which was described in the policy section.

<p>Description of the <b>high-risk areas</b> of operations and business relationships.</p>	<p><b>EXAMPLES</b></p> <p><i>Garment and food &amp; beverage companies</i> should identify any problematic areas they are sourcing from. Where possible, they should also disclose at least Tier 1 suppliers (factories, farms, mines) in these areas.</p> <p><i>Companies using conflict minerals (e.g. automotive and IT companies)</i> should identify smelters in their supply chain and whether they have been certified as conflict minerals risk free. All companies should indicate their direct operations in high-risk countries.</p> <p><i>Finance companies</i> should describe any high-risk geographical areas for their investments and lending.</p>
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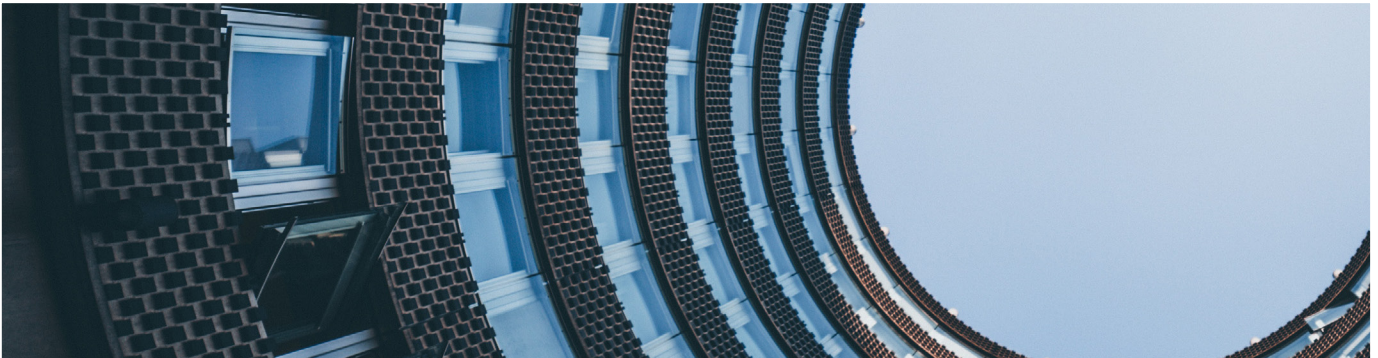
<p><b>Statement of salient human rights issues</b> identified through the company's human rights due diligence process, including:</p> <ul style="list-style-type: none"> <li>» Explanation of which focal geographies were selected and if applicable, why;</li> <li>» Explanation of why any human rights issues that are commonly associated with the types of activities the company carries out, or with the context in which these activities take place, have not been included;</li> <li>» Detailed description of any specific cases of actual or potential severe impacts on human rights identified. Recommended: a description of the methodologies to assess each principal adverse impact and, in particular, how those methodologies take into account the probability of occurrence and severity of adverse impacts, including their potentially irremediable character;</li> </ul> <p>If no risks have been identified, this needs to be clearly stated.</p>	<p><b>EXAMPLES</b></p> <p>Examples correspond with the examples provided in the policy description above.</p> <p>Garment or food &amp; beverage companies sourcing from less developed countries are likely exposed to risks of forced or child labour or other labour rights abuses in the respective parts of their supply chains.</p> <p>Companies operating in a high-risk environment should report on any cases of violations of civil and political rights linked to their operations, such as violence against communities and workers. Mining companies should report on any risks of adverse effects their operations may have on natural resources relied on by communities.</p> <p>Finance companies should report on any identified risks or severe impacts associated with the specific investment or loans.</p>
<p>Description of the <b>company's strategy to prevent or mitigate impacts</b> with respect to each identified salient issue, including:</p> <ul style="list-style-type: none"> <li>» Information on how feedback from affected stakeholders (e.g. workers, communities), has informed decisions taken by the company;</li> <li>» Examples or indicators that illustrate that each salient issue is being managed effectively in terms of reducing the impact;</li> <li>» Information on the extent to which the administrative, management or supervisory bodies of the company were involved in deciding on the adopted strategy.</li> </ul>	<p><b>EXAMPLES</b></p> <p>Appropriate disclosures differ from company to company depending on the nature and level of risks, and the company's leverage.</p> <p>For impacts in the company's value chain (such as those caused or contributed to by suppliers or by recipients of finance from the company's investment or a loan), companies should describe their engagement with such business partners, as well as whether any were excluded due to their significant harm.</p> <p>For impacts caused or contributed to by the company directly, the disclosure should include a description of operational-level grievance mechanisms and details of remediation in the previous 12 months.</p>

## Key Performance Indicators (KPIs):

KPIs for human rights reporting are not easily standardizable. Companies' strategies to prevent and mitigate risks typically require idiosyncratic indicators that reflect circumstances of the case and the company's position. In addition to these, companies may consider strategic indicators corresponding to the categories below.

<p>Estimation of <b>rights-holders at risk</b> in connection to the identified salient issues.</p>	<p><b>EXAMPLES</b></p> <p>% of workers in supply chains at risk of being subject to poverty wages, forced labour, child labour, prohibition of unions, etc.;</p> <p>Finance companies: Share of investee companies without a human rights policy and due diligence process or exposed to operations and suppliers with significant incidents of human rights violations.</p>
<p>Estimation/quantification of the <b>positive impact of the company's actions</b> taken to prevent or mitigate the identified issues. This type of indicators should not be used if the positive impact compensates adverse impact caused or contributed to by the company.</p>	<p><b>EXAMPLES</b></p> <p>Number of people who have access to health care (access to medicines due to a pharma company's pricing policy for vulnerable customers), clean energy/resources or education (programmes for agricultural workers/suppliers) as a result of the company's actions;</p> <p>% of unionised workers, workers receiving living wage, or benefitting from other conditions in the supply chain.</p>

# V ANTI-CORRUPTION



The last sustainability area on which the NFRD requires disclosure is anti-corruption. This area shares a similarity with human rights in the focus on the management system adopted to identify and address risks. However, unlike in the human rights area, the focus on risks is primarily on the company's own operations and entities under its control. Similarly, it is not realistic to provide information on impacts in this area. Therefore, reporting on outcomes and performance concerns mainly a company's systems and risk exposure.

No sectorial examples are provided, as details of reporting on anti-corruption matters depend primarily on the company's risks exposure, rather than on the sector.

## Policies and due diligence processes:

Describe the company's anti-corruption **policies**. The description should include:

- » Explanation to whom it applies (employees, administrative, management and supervisory bodies, third parties);
- » Rules on gifts and hospitality, facilitation payments, if any are available;
- » Whether the company has commitments against tax avoidance;
- » How the policy is implemented and monitored, including the description of the due diligence process focused on third parties (ie. agents, contractors, joint ventures, suppliers and intermediaries acting for or on behalf of a company);
- » Information on the disclosure systems (internal whistleblowing) set up in the company to detect illegal or unethical conduct, including their subject-matter scope and the extent to which they guarantee confidentiality, anonymity and protection against retaliation;

Finance companies should, in addition to the abovementioned, indicate if/how anti-corruption requirements are integrated in their investment and lending policies.

Describe the **outcomes** of the company's policies, including:

- » Achievement of any improvements in the reporting period;
- » Description of the resolution of the received complaints;
- » Indicators in terms of development of incidents.

### Principal risks and their management:

Describe the **company's main areas of risk**, supported by information on:

- » High-risk geographies, business activities, operating context, and business relationships;
- » The completion of the most recent risk assessment of potential areas of corruption;
- » Indication of specific risks or areas of risk identified through the risk assessment in the reporting period;
- » Actions taken with respect to the identified risks;
- » Any significant incidents that are being publicly investigated or reported on and the company's reaction to it;
- » Finance companies should provide the above information with respect to the risks of facilitating illicit money flows and money laundering.

Provide additional information to ensure **transparency on how the company avoids illicit money flows** through its business relationships

- » Beneficial ownership of the company's shares;
- » Structure and ownership of subsidiaries, affiliates, joint ventures and other controlled entities.

### Key Performance Indicators (KPIs):

**Total number and percentage of operations** assessed for risks related to corruption

All **current public investigations, prosecutions or closed cases**

Indicators concerning received **complaints via the disclosure systems and their resolutions** broken down into main categories

Information on the **application of the anti-corruption training programmes** for employees and directors

**Country by country data on taxes** (profit before tax, income tax and effective tax rate)

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## SUMMARY OF KPIs AND TARGETS

In non-financial statements, companies should include a table with all KPIs provided for the current and past (over 3-5 years) performance, as well as related targets. This information should be provided as a summary of the most important data included in the report that can be found in one place.

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