DIRSE Toolkit

HOW TO APPROACH DOUBLE MATERIALITY IN BUSINESS

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Foreword

A double materiality approach is a major step forward in terms of how companies should address and report their financial and sustainability aspects. By considering all of them, companies can better manage environmental, social and governance (ESG) impacts, risks and opportunities, be conscious of stakeholder expectations and contribute more effectively to sustainable development. The European Corporate Sustainability Reporting Directive (CSRD), by incorporating this approach, encourages companies to adopt more comprehensive and responsible practices with a view to optimising their performance.

Double materiality, which is now a regulatory obligation, should be viewed as a process that helps to effectively integrate sustainability within an organisation. Through the efforts to address both outward and inward impacts, the company obtains a 360-degree view of all the ESG aspects that need to be addressed in order to prioritise them in line with its corporate strategy.

There are two important aspects to consider in this process: the comprehensive and exhaustive knowledge of each company's value chain and the involvement of stakeholders and users of sustainability statements. Until now, these concepts were handled separately, but thanks to double materiality and its regulatory requirements, they must now form part of reporting.

Well-implemented materiality not only enhances transparency and corporate responsibility but also helps mitigate risks, fosters innovation and strengthens trust and reputation. Adopting a double materiality approach ultimately helps companies to be more resilient, competitive and sustainable in the long term.

This report is a joint initiative between Telefónica and DIRSE – Spanish Association of Sustainability Managers(ESG) and is divided into three main sections. The first section explains the contextual framework. The second section deals with how to implement double materiality in the company's ESG reporting processes. The third section contains case studies of companies that have already implemented a double materiality approach and the challenges and benefits that arose during its implementation.

This document is part of the DIRSE Toolkit series, which aims to provide sustainability managers with tools and case studies on a fundamental management issue for them.
We hope that this toolkit will contribute to strengthening the advancement, defence and recognition of sustainability professionals and to enhancing their influence so as to create value in organisations.

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Module 1: Context

1.1. Regulatory framework on sustainability reporting.
1.2. Development of the double materiality process.
1.3. Link with strategy and reporting.

Module 1
Context

The concept of materiality relates to the importance of an environmental, social or governance issue or impact for an organisation and its stakeholders. It is assessed to determine which aspects should be included in an organisation's sustainability reporting.

This process involves identifying and prioritising issues that are significant for the organisation's sustainability and that have a material impact on its operations, performance and stakeholder relations. Assessing materiality helps organisations to understand what may impact their strategy and non-financial risks.

The first reference to materiality in the field of sustainability appeared in 1999 in AA1000, a sustainability accounting standard developed by AccountAbility. Taking materiality into account is essential to ensure that sustainability reporting accurately and meaningfully reflects an organisation's impacts.

The concept of double materiality was first formally proposed by the European Commission in 2019[1], which encouraged companies to assess materiality from both financial and impact perspectives.

Key factors in the context of double materiality:

1. Climate crisis and the environment: The urgent need to address the climate emergency has been key to the emergence of the concept of double materiality. The growing scientific evidence on the climate crisis has prompted governments, organisations and civil society to propose regulatory pathways requiring companies to disclose the impact of their operations on global warming.

2. Government regulations and policies: Governments and regulators, especially in the EU, have begun to implement policies aimed at greater transparency on how companies manage their ESG risks. The Non-Financial Reporting Directive (NFRD) and its successor, the Corporate Sustainability Reporting Directive (CSRD), are clear examples of these regulations.

3. Investor and consumer expectations: Institutional investors are increasingly demanding more information on ESG risks that may affect the long-term financial value of companies. Meanwhile, consumers are also demanding that brands be socially and environmentally responsible.

4. Activism and social justice movements: Concern for social justice, equity and human rights has led to growing corporate responsibility on issues such as labour conditions, diversity, equity and inclusion. Business activities cannot be isolated from their social context. Reputational risks and public trust come into play.

5. Global challenges and interdependence: The interdependence between economic, social and environmental systems generates disruptions in companies' supply chains, affecting their economic performance. The link between financial performance and social and environmental well-being was clear to see during the pandemic.

6. International initiatives and standardisation: The Task Force on Climate-related Financial Disclosures (TCFD) and the International Sustainability Standards Board (ISSB) initiated the creation of global standards setting out how to consistently and comparably report ESG risks and opportunities. The aim is to provide a clear picture of both the company's financial and its external impacts.

Source: Prepared in-house for this toolkit.

1. Cf. "Guidelines on non-financial reporting", European Commission, June 2019.

This led to the proposed European CSRD, published on 21 April 2021, which set out how companies should carry out reporting and with what assurances.

The aim was to ensure that companies publicly provide sufficient and appropriate information on their risks and opportunities, as well as their impacts on people and the environment.

The double materiality process emerged amid growing concern about the impact of business activities on the environment, society and the global economy.

The double materiality framework reflects the convergence of social, regulatory and financial demands for greater corporate transparency and accountability. It allows companies to show:

- How their activities affect or may affect society and the environment.
- How ESG factors affect or may affect companies financially, in terms of risks and opportunities.

This dual perspective marks a major shift not only in terms of reporting but also with regard to management and decision making.

Criteria, business perspectives and reporting approaches

Criteria	Business model perspective		
Financial materiality	Risks and opportunities in business activities: Impacts on external financial activities (risks and opportunities for the business).	**Financial reporting**	*Focused on owners/shareholders, investors and other financial entities*
Impact materiality	Impacts of activities on society and the environment, of business operations throughout the value chain.	**Sustainability reporting**	*Focused on different stakeholders*
Double materiality	How the company is affected externally, how it impacts society, the environment and governance, and the strategies to mitigate and prevent negative impacts and risks, promote positive impacts and harness opportunities.	**CSRD reporting**	*Focused on affected stakeholders and users of sustainability statements*

Actions in accordance with the principles of due diligence
- Double materiality assessment by identifying and assessing IROs.
- Metrics and targets, including a transition to minimise IROs.
- Performance management of the effectiveness of responses to impacts and risks.
- Oversight of processes to prevent negative impacts.
- Public communication on IROs that promote transparency.

Source: Amanda Koefoed Simonsen, 2024.

1.1. Regulatory framework on sustainability reporting

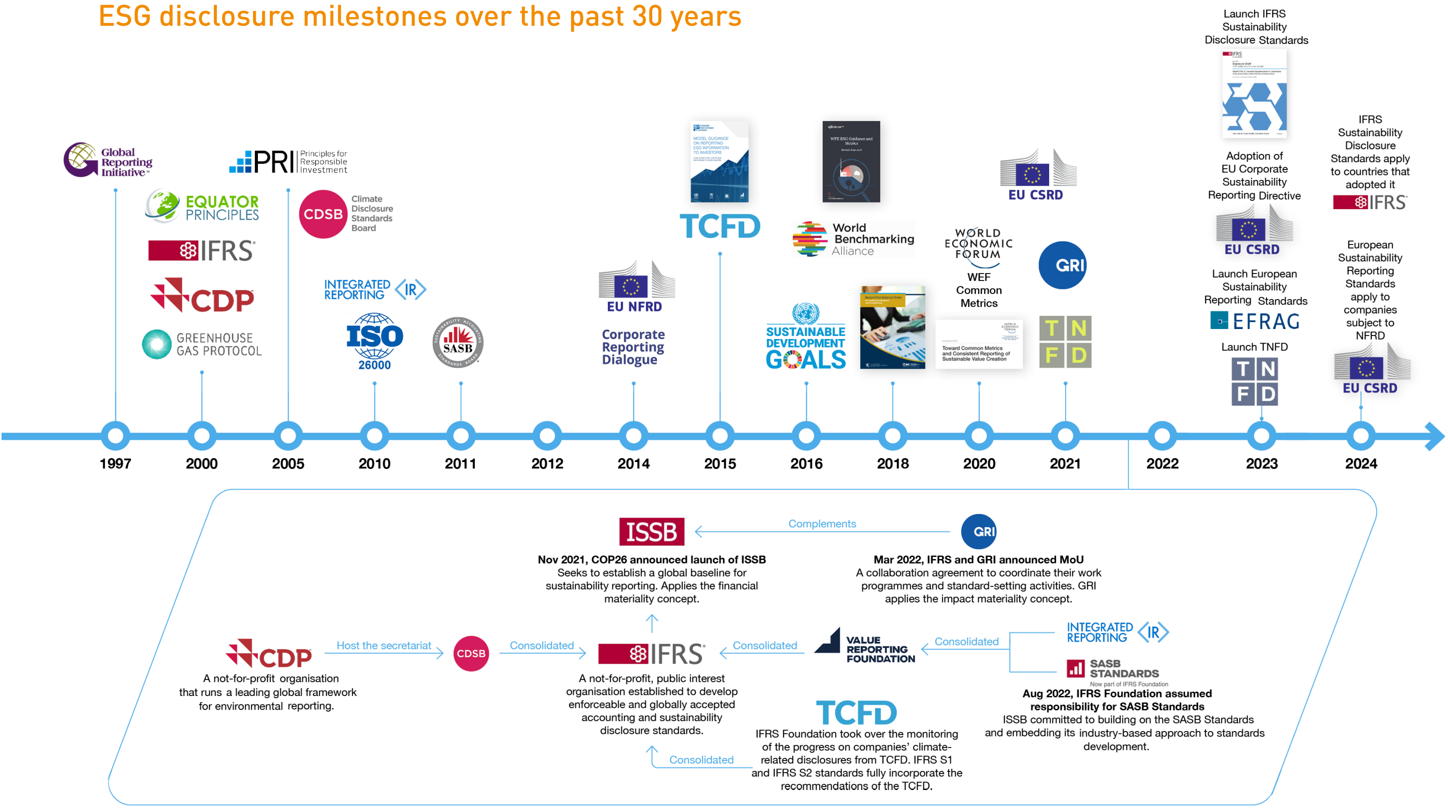
The double materiality regulatory framework is led by the European Union in the form of the CSRD and the Sustainable Finance Disclosure Regulation (SFDR), and its influence is spreading globally through initiatives such as the TCFD, the Global Reporting Initiative (GRI) and emerging regulations in countries such as the US, Canada, Japan and Brazil.

The CSRD stems from other voluntary standards, which contributed to the emergence of regulations for non-financial indicators.

Viewed from a market perspective, 71 stock exchanges around the world (more than half) currently have ESG disclosure guidance (compared to only 13 in 2015). Mandatory standards apply in 27 markets, of which 16 are emerging markets, according to the Sustainable Stock Exchanges database[2].

The initiative to standardise ESG disclosure standards has laid the foundations for promoting the publication of reliable and comparable ESG data and disclosures.

ESG disclosure milestones over the past 30 years



Source: IFC, 2023.

2. Cf. "Sustainable Stock Exchanges Initiative", UN, 2024.

A positive step towards the alignment of different standards and frameworks is the new sustainability and climate reporting standards of the IFRS Foundation and the European Sustainability Reporting Standards.

In terms of global standards, seven regulatory frameworks implement double materiality:

- European Union: Corporate Sustainability Reporting Directive (CSRD).
- Global level: Task Force on Climate-related Financial Disclosures (TCFD).
- Global level: Global Reporting Initiative (GRI).
- European Union: Sustainable Finance Disclosure Regulation (SFDR).
- United States: SEC proposals on climate risks.
- Canada and Japan: Adoption of TCFD recommendations.
- Brazil: Towards more transparent reporting of sustainability information.

1.1.1. European Union: Corporate Sustainability Reporting Directive (CSRD)

The CSRD was adopted by the European Union as an update of the Non-Financial Reporting Directive (NFRD) in order to enhance and expand sustainability disclosure requirements.

Double materiality and the CSRD are closely related, as the CSRD establishes the regulatory framework that requires companies to carry out reporting under a double materiality approach. The main aim of the directive is to ensure that companies provide clear, comparable and reliable information on their sustainability performance.

Its implementation will affect more companies in the EU and will require companies to disclose both the risks and opportunities associated with ESG factors and their impacts on society and the environment.

The CSRD also seeks to:

- Increase the transparency and comparability of sustainability information.
- Enable investors and other stakeholders to accurately assess how companies are managing sustainability-related Impacts, Risks and Opportunities (IROs).
- Encourage companies to adopt a more holistic and responsible approach to their operations.

This directive obliges companies to carry out reporting under a double materiality approach, meaning that two key aspects must be addressed:

- Financial materiality: How environmental, social and governance factors affect the financial performance, stability and value of a company over time. This includes risks such as exposure to stricter environmental regulations, scarcity of natural resources or changes in consumer expectations.
- Impact materiality: How the company's activities affect the environment, society and people, regardless of whether these impacts have a direct financial effect on the company. This includes the carbon footprint, use of natural resources, labour conditions in the supply chain, etc.

The CSRD introduces a number of important requirements and changes compared to the previous directive (the NFRD):

- Increased coverage: It extends the scope to more companies, including small and medium-sized companies as well as listed ones. It will affect an estimated 50,000 companies in the EU, compared to the 11,600 that were subject to the NFRD.
- Mandatory auditing: Sustainability reports will have to be audited and certified, just like financial reports, with the aim of increasing the reliability of the information disclosed.
- Common standards: The CSRD introduces a set of European Sustainability Reporting Standards (ESRS) that will align reporting with globally recognised standards, such as those developed by the GRI and the TCFD.
- Digital reports: Sustainability information should be provided in digital format to facilitate comparability and accessibility.

The CSRD encourages companies to take a more holistic view of their impact and how this relates to ESG factors.

To do so, companies should review their internal data collection systems (ICFR and ICSR) to ensure that they are able to report on their social, environmental and governance impacts.

Furthermore, organisations will need to develop new capabilities within their management and sustainability teams to properly assess risks and opportunities and, in turn, interact more closely with their stakeholders (especially investors, consumers and regulators). This will ensure that they meet the growing expectations of stakeholders on sustainability issues.

Double materiality and CSRD are intertwined to promote a more holistic view of corporate sustainability. This represents a major shift in the way companies are assessed and how they should manage their role in the world.

1.1.2. Global level: Task Force on Climate-related Financial Disclosures (TCFD)

The TCFD is a global initiative that promotes the disclosure of risks and opportunities related to climate change. Although its initial focus was on financial materiality, the implementation of the TCFD has paved the way for the adoption of double materiality in many companies and regions.

The TCFD, through its climate materiality approach, focuses on how climate change affects finance and, by extension, how businesses decisions influence the climate.

At the global level, although not a mandatory regulatory framework, the TCFD has been voluntarily adopted by many companies around the world and is supported by governments such as those of the UK, Japan and Canada, as well as the EU.

In terms of regulatory adoption, several countries and regions have begun to integrate TCFD recommendations into their regulatory frameworks, leading to a more holistic approach that encompasses double materiality aspects.

1.1.3. Global level: Global Reporting Initiative (GRI):

The GRI is an internationally recognised standard for sustainability disclosure. It has been a key proponent of double materiality, encouraging companies to report not only the financial impacts of ESG factors, but also how their operations affect the environment and society.

The GRI requires companies to consider their environmental and social impacts as part of their disclosure strategy. Many companies around the world (especially those in emerging markets) use the GRI as the basis for their ESG reporting, contributing to the global expansion of the double materiality approach.

This approach requires companies to assess both the financial risks arising from ESG factors and the external impacts of their activities, resulting in more comprehensive and transparent reporting, thereby integrating sustainability into corporate strategies.

1.1.4. European Union: Sustainable Finance Disclosure Regulation (SFDR)

The SFDR is a key European regulation that aligns with the concept of double materiality, focusing primarily on financial institutions and their disclosure of ESG risks. In terms of sustainability disclosures, under the SFDR asset managers and institutional investors must disclose how they factor ESG risks into their investment decisions. The SFDR requires financial institutions to assess and disclose the adverse impacts of their investment decisions on sustainability factors, in line with the impact materiality approach.

1.1.5. United States: SEC proposals on climate risks

In the US, the Securities and Exchange Commission (SEC), the US government organisation that regulates markets and protects investors there, has proposed regulations which, while not fully embracing double materiality, represent a move towards an approach that takes into account both financial materiality and the need to disclose certain ESG impacts. The SEC now proposes that companies disclose how risks related to climate change may affect their financial situation. In their reporting, companies are expected to include verifiable data on their greenhouse gas emissions, through the measurement of Scopes 1 and 2, and Scope 3 in some cases. In terms of financial materiality, although the proposal is more focused on how ESG risks affect the company, increased sustainability disclosure is driving companies to consider their external impact, opening the door to greater adoption of double materiality in the US.

1.1.6. Canada and Japan: Adoption of TCFD recommendations

Both Canada and Japan have integrated TCFD recommendations into their regulatory frameworks, meaning that companies must disclose how climate risks impact their financial performance. Although their approach is more limited than the approach under the CSRD, these countries are moving towards the adoption of double materiality:

- Japan: The Tokyo Stock Exchange (TSE) requires listed companies to adopt TCFD-based disclosure practices.

- Canada: The government has adopted TCFD recommendations and is working to develop stricter ESG disclosure regulations for companies.

1.1.7. Brazil: Towards more transparent reporting of sustainability information

In Brazil, although the main focus remains on financial materiality, the Brazilian Securities and Exchange Commission (CVM) is developing guidelines for companies to enable them to disclose ESG information in a more transparent manner. While there is no formal adoption of double materiality as of yet, regulations are moving in that direction.

1.2. Concept of double materiality in the context of the CSRD

The concepts of financial and impact materiality have been brought together through the double materiality approach, which recognises the links between ESG factors and financial performance, as well as considering the impacts that business activities have on the environment, society and other key stakeholders. This multidimensional framework has gained ground because it represents a more holistic view of sustainability, recognising that the interrelationship between companies and their environment is complex and that both types of materiality must be connected.

Among other factors, the combination of financial and impact materiality has been driven by the integration into the GRI reporting standards and TCFD recommendations that led to the amalgamation of the two approaches. The aims of the CSRD with regard to double materiality are to:

- Determine which standards are material and the issues associated with those standards that have become material and therefore have to be reported.
- Ensure that the policies, actions, targets and indicators to be covered are linked to the IROs that have been identified as material.

The EU Directive on the disclosure of non-financial and diversity information, adopted in 2014, was one of the first important steps for large European companies towards disclosing how their activities affect the environment, human rights and labour conditions. From this point onwards, the importance of measuring impacts beyond the financial ones began to be recognised. In 2019, the European Commission made use of the term “double materiality” for the first time, upon incorporating how a company impacts its environment. The European Commission subsequently (in 2021) introduced the CSRD, posing challenges regarding double materiality that include:

- The standardisation of double materiality reporting.
- The need for clear and objective indicators to measure social and environmental impacts.
- Striking a balance between meeting investors’ expectations and the demands of society.

The link between CSRD and double materiality is provided through ESRS for the disclosure of material financial and impact issues:

CSRD: ESRS disclosure requirements and their link to double materiality

ESRS 2 (16)	BP-1	BP-2	GOV-1	GOV-2	GOV-3	GOV-4	GOV-5	SBM-1	SBM-2	SBM-3	IRO-1	IRO-2	MDR-P	MDR-A	MDR-M	MDR-T
General disclosures	General basis for preparation	Specific circumstances for preparation	The composition and role of management	Sustainability information provided to management	Incentive schemes	Statement on due diligence	Risk management and internal controls	Strategy, business model and value chain	Stakeholder views and interests	Material impacts in relation to strategy	Materiality assessment process	Material topics included and omitted	Policies for managing material matters	Actions and resources related to material matters	Metrics related to material matters	Tracking effectiveness of policies and actions
										DMA - IDENTIFYING IMPACTS			MANAGING IMPACTS			

E1	E1-1	E1-2	E1-3	E1-4	E1-5	E1-6	E1-7	E1-8	E1-9
Climate change	Transition plan	Policies	Actions & resources	Targets	Energy consumption and mix	GHG scope 1-2-3 emission	GHG removal through carbon credits	Internal carbon pricing	Financial effects

E2	E2-1	E2-2	E2-3	E2-4	E2-5	E2-6
Pollution	Policies	Actions & resources	Targets	Pollution of air, water and soil	Substances of concern	Financial effects

E3	E3-1	E3-2	E3-3	E3-4	E3-5
Water and marine resources	Policies	Actions & resources	Targets	Water consumption	Financial effects

E4	E4-1	E4-2	E4-3	E4-4	E4-5	E4-6
Biodiversity and ecosystems	Transition plan	Policies	Action & resources	Targets	Biodiversity metrics	Financial effects

E5	E5-1	E5-2	E5-3	E5-4	E5-5	E5-6
Resource use and circular economy	Policies	Action & resources	Targets	Resource inflows	Resource outflows	Financial effects

S1	S1-1	S1-2	S1-3	S1-4	S1-5	S1-6	S1-7	S1-8	S1-9	S1-10	S1-11	S1-12	S1-13	S1-14	S1-15	S1-16	S1-17
Own workforce	Policies	Process: Worker engagement	Process: Remediate impacts	Taking action on impacts	Targets	Employee characteristics	Non-employee characteristics	Collective bargaining	Diversity metrics	Adequate wages	Social protection	Persons with disabilities	Training and skills	Health and safety	Work-life balance	Compensation metrics	Human rights incidents

S2	S2-1	S2-2	S2-3	S2-4	S2-5
Workers in the value chain	Policies	Process: Engagement with value chain workers	Process: Remediate impacts	Taking action on impacts	Targets

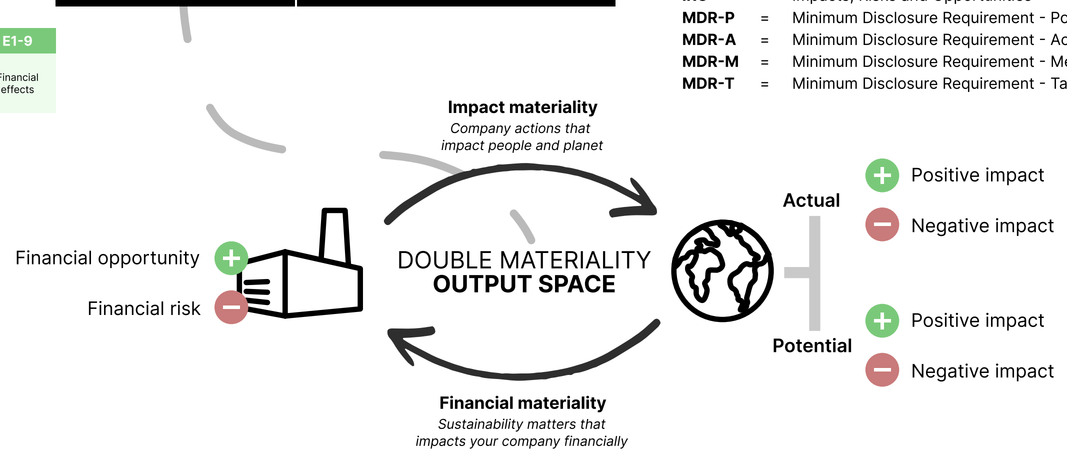
S3	S3-1	S3-2	S3-3	S3-4	S3-5
Affected communities	Policies	Process: Community engagement	Process: Remediate impacts	Taking action on impacts	Targets

S4	S4-1	S4-2	S4-3	S4-4	S4-5
Consumers and end-users	Policies	Process: Consumer engagement	Process: Remediate impacts	Taking action on impacts	Targets

G1	G1-1	G1-2	G1-3	G1-4	G1-5	G1-6
Business conduct	Corporate culture	Supplier relationship	Corruption & bribery detection	Corruption & bribery incidents	Political influence activity	Payment practices

ABBREVIATIONS

BP	=	Basis Preparation
GOV	=	Governance
SBM	=	Strategy and Business Model
IRO	=	Impacts, Risks and Opportunities
MDR-P	=	Minimum Disclosure Requirement - Policies
MDR-A	=	Minimum Disclosure Requirement - Actions
MDR-M	=	Minimum Disclosure Requirement - Metrics
MDR-T	=	Minimum Disclosure Requirement - Targets



ESRS LEADS TOWARDS ACTION

Different types of Disclosure Requirements leads you to form a sustainability strategy

Policies
How you identify, address and manage material impacts

Metrics
Topical parameters that convey the current state of your company

Actions
The concrete actions that move your company towards your goals

Targets
The future state that will put your company in a better position

Financial effects
How your state and actions will affect your company in monetary terms

Source: Bo Carlsson, ESRS-Reporter.eu, 2024.

1.3. Link with strategy and reporting

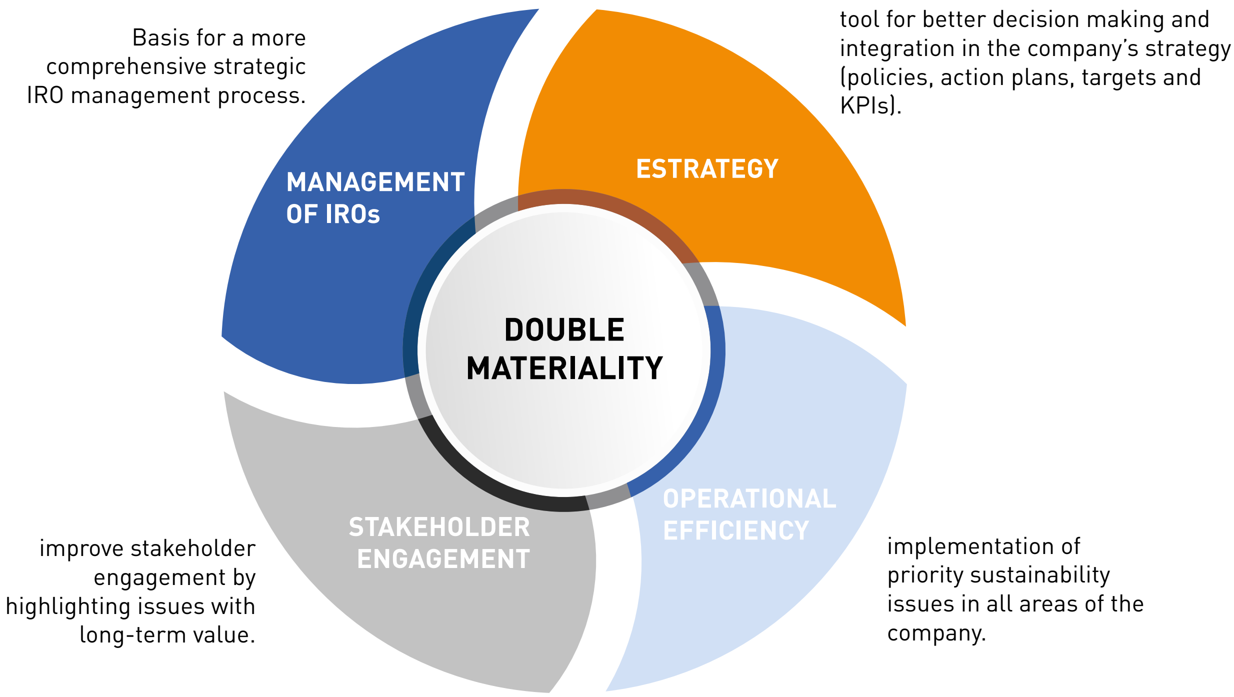
To incorporate double materiality into their operations, companies must take into account all stages of their value chain, including all activities as well as the actors involved in all stages of the process.

In this way, the results of the double materiality process link the company's strategy and its reporting or disclosures by:

- Making it easier to identify the types of impacts that may occur on society and the environment, which activity produces them and which stakeholders are involved in them.
- Facilitating the management of impacts and the company's strategy, in order to mitigate negative impacts and encourage positive ones.

This approach influences the subsequent management of IROs, improves the business's operational efficiency and enhances stakeholder engagement.

Double materiality beyond reporting



Source: Telefónica, 2024.

Module 2:
How to address double materiality

2.1. Context analysis.

2.2. Identifying and assessing Impacts, Risks and Opportunities – IROs.

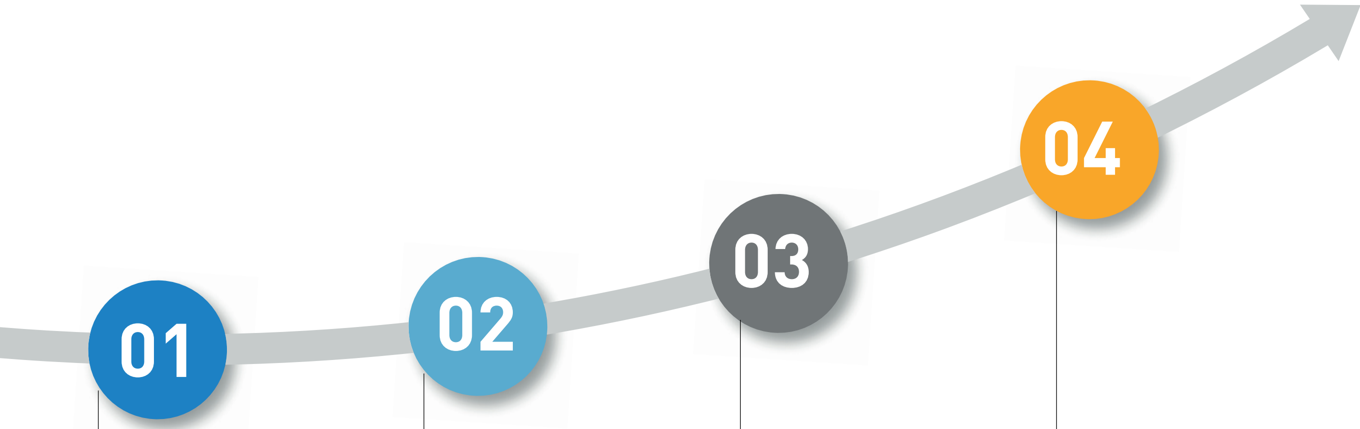
2.3. Consolidation of key topics.

2.4. Validation and reporting of results.

2.5. Aspects to consider for the double materiality process.

Module 2
How to address double materiality

Double materiality is a process rather than a concept. Both the Corporate Sustainability Reporting Directive (CSRD) regulation and the EFRAG IG 1: Materiality Assessment Implementation Guidance[3] set out mandatory application requirements that apply the double materiality process. The process can be summarised as follows:



01 – CONTEXT ANALYSIS: in order to determine which sustainability issues should be taken into account for the IRO identification and assessment phase.

02 – IDENTIFICATION AND ASSESSMENT OF IMPACTS, RISKS AND OPPORTUNITIES – IROs: the company's IROs will be identified based on the preliminary list of potentially material issues.

03 – CONSOLIDATION OF RESULTS: after the identification and assessment of all IROs, the results will be consolidated and the materiality threshold will be determined to obtain the results of the material issues.

04 – VALIDATION AND REPORTING OF RESULTS: ensuring the commitment and approval of both the areas and people responsible for the management of IROs and the company's senior management.

3. Cf. "EFRAG IG 1: Materiality Assessment Implementation Guidance" EFRAG, 2022.

2.1. Context analysis

The process should start with an analysis of the company's context. This analysis seeks to understand and evaluate the internal and external factors that may affect the organisation. It is carried out in order to have a clear picture of the environment in which the company operates and will serve as a starting point to discover which company sustainability issues should be taken into account when identifying IROs.

The guidance recommends starting from the requirement of ESRS 2 AR 16: "sustainability matters to be included in the materiality assessment". This is a list of the minimum topics, sub-topics and sub-sub-topics that companies should consider in the materiality assessment[4].

Based on this requirement in the context analysis, the company should collect information on:

- The business model.
- Company strategy.
- Business activities and relations.
- Upstream and/or downstream value chain activities.
- Identification of stakeholders and users of sustainability statements and the issues that are relevant to each of them.

An initial and important aspect to consider when starting a context analysis is the value chain. EFRAG has published guidance to explain what requirements should be taken into account when implementing the value chain[5] according to the requirements of the EU directive.

Developing the value chain is a key step in the context analysis as well as throughout all phases of the double materiality process. It allows the company to break down all its relevant activities, resources and business relationships and therefore to have an initial understanding of and insight into the issues and affected stakeholders that the company needs to consider.

It is also necessary for the company to have full detail on the value chain as this is a mandatory requirement in Phase 2 of the "identification and assessment of IROs" and for the reporting of material information.

Another significant input is the identification of stakeholders and users of sustainability statements to identify the issues that are important for their interests and decision making.

4. Details of the topics, sub-topics and sub-sub-topics of the requirement or of ESRS 2 AR 16 can be found in Appendix I of the document.
5. Cf. "EFRAG IG 2: Value Chain Implementation Guidance" EFRAG, May 2024.

The regulation defines them as follows:

- Affected stakeholders: Individuals or groups whose interests are affected or could be affected – positively or negatively – by the undertaking's activities and its direct and indirect business relationships across its value chain.
- Users of sustainability statements: Primary users of general purpose financial reporting (existing and potential investors, lenders and other creditors including asset managers, credit institutions, insurance undertakings). Other users should also be included, such as the company's business partners, trade unions, social partners, civil society and non-governmental organisations, governments, analysts and academics.

Involving stakeholders in the whole process is an important theme throughout the regulation. The aims in this regard are as follows:

- To understand which stakeholders are or may be affected by the company's own operations and the upstream and downstream value chains.
- How their expectations around sustainability issues are included.

It is advisable to identify, map, and categorise both individually and collectively the stakeholders affected by all the company's activities and business relationships.

A plan must be developed which will set out how to involve stakeholders in each phase of the process, identifying the relationship and communication channels, the frequency of contact and, ultimately, defining the strategies and synergies to ensure their involvement.

By analysing this aspect, important issues for the company's stakeholders will not be overlooked, and it will help clarify how they can be involved throughout the entire process.

Based on these two inputs, the next steps will be to analyse internal and external sources and follow a structured approach to identify how the company manages and responds to sustainability-related challenges and opportunities. This may be viewed as follows:

- Internal sources: Analysis of policies, sustainability reports, human rights and environmental due diligence reports, natural capital reports, SDG contribution and positive impact reports, climate action plans, company risk mapping, strategic plans and any other source documenting sustainability management from within the company.
- External sources: Factors and trends in the environment that affect the company in terms of sustainability. This can take into account environmental and labour legislation and regulations, international trends and standards such as Sustainability Accounting Standards Board (SASB), GRI, scientific studies on ESG issues, sustainability benchmarking and the expectations of the company's stakeholders.

Inputs: Value chain

Definition:
The entire set of activities, resources and relationships involved in the company's business model and the external environment in which it operates. A value chain encompasses the activities, resources and relationships that the company uses and leverages to create its products or services, from conception to delivery, consumption and end-of-life.

It includes both upstream actors, who provide products or services, and downstream actors, who use them. The value chain approach and related information should focus on regions where the company has a serious negative impact on both people and the environment. Activities, resources and relationships include:

- Those that form part of the company's own activities such as HR.
- The financing, geographic, geopolitical and regulatory contexts in which it operates.
- All those throughout the channels of supply, marketing, distribution, sourcing, sales and delivery of the company's products and services.

Process for analysing the context in which the company operates

UPSTREAM	OPERATIONS	DOWNSTREAM
Activities, resources and relationships that the company uses and leverages to create products or services. These include the direct or indirect commercial relationships used for the development and production of the company's own products or services.	Activities, resources and relationships pursued by the company to carry out its activity and its products and services.	Activities, resources and relationships necessary for the marketing, use and end of life of the company's products and services. These include direct or indirect business relationships and/or the customers who receive the company's products and services.

Categories of value chain actors

According to the CSRD, upstream actors are those who provide products or services that are used to develop the company's products or services.	Operational stakeholders are those who provide activities, resources and relationships pursued by the company to operate its business and provide its products and services.	According to the CSRD, downstream stakeholders are those who receive the company's products or services or manage its waste from customers or end-users.
For example: **suppliers.**	For example: **own workforce.**	For example: **customers.**

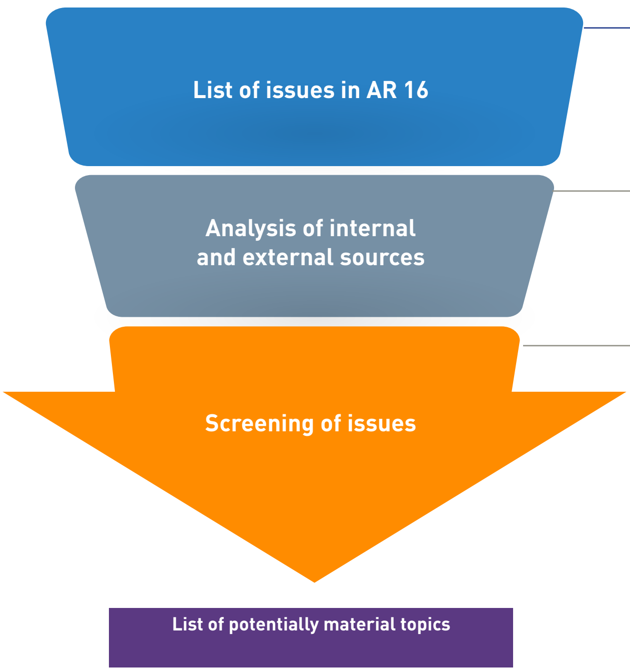
Source: Telefónica, 2024.

Thanks to all this analysis, the company will be able to carry out an initial screening of topics:

- The AR 16 topics to be considered and analysed by the company when identifying and assessing IROs.
- The AR 16 topics that have been discarded because they are not applicable due to the company's strategy, business model, value chain and stakeholder expectations.
- The sector-specific topics included by the company and not initially covered by AR 16.

Based on this initial screening process, the company can start the second phase of identifying and assessing IROs, starting with a list of topics, sub-topics and sub-sub-topics, including a definition to clearly understand what is being considered within each topic. This should be based on the definitions that the CSRD itself establishes for each topic. Those not considered are recommended to be defined according to the UN's fundamental rights, if applicable, and others according to the definitions established within the sector.

Process for analysing the context in which the company operates



List of issues in AR 16:
The analysis should be carried out using as a starting point what is established by AR 16 of appendix A: "ESRS 1 application requirements", which lists the generic sustainability issues to be taken into account by the company.

ANALYSIS OF INTERNAL AND EXTERNAL SOURCES:
Starting from the list of issues in AR 16, different sources, both internal and external, are analysed in order to gain a thorough understanding of the company's context. This analysis is then used as a basis to be able to identify the issues that could be considered significant.

SCREENING OF ISSUES:
After analysing the different sources, the issues to be analysed are identified, selected and filtered through three possible scenarios:

- AR 16 topics to be considered and analysed.
- AR 16 topics that have been discarded because they are not applicable due to the company's strategy, business model, value chain and stakeholder expectations.
- Sector-specific issues not initially covered by AR 16.

Source: Telefónica, 2024.

2.2. Identifying and assessing Impacts, Risks and Opportunities – IROs

With the preliminary list of potentially material topics, sub-topics and sub-sub-topics for the company, it will proceed to identify its IROs, at the most detailed level and usually taking into account sub-sub-topics, and if it does not have that level of detail, at the sub-topic level.

It is vital to involve all the relevant areas of the company in this step, identifying internal roles and responsibilities for identifying and assessing IROs, considering the entire value chain and taking into account all the specific requirements detailed in the standard.

The recommended starting point is the identification and assessment of impacts, both positive and negative, and the subsequent identification of risks and opportunities arising from them.

2.2.1. Negative and positive impacts

"ESRS 2: General Disclosures" defines impact as: "the effect the undertaking has or could have on the environment and people, including effects on their human rights [...] including through its products and services, as well as through its business relationships. [...] Impacts indicate the undertaking's contribution, negative or positive, to sustainable development."

The standard differentiates between types of impacts:

- Actual: Impacts that the company currently has on society and the environment.
- Potential: Impacts that are not currently occurring but could in the future.

For identification purposes, it is recommended that the information be consistent with the company's existing impact reports, such as the due diligence report, contribution to the SDGs, and environmental and natural capital impact studies, among others.

An initial screening can also be carried out and validated with the company's internal managers who have been assigned a role at this stage.

During the identification phase, consideration should be given to which stage of the value chain the impact occurs, in which activity, which actors are involved, which stakeholders are affected and which regions will be affected when the impact occurs. The time horizon should be identified for potential impacts.

Once the impacts have been identified, they should be assessed considering the metrics developed in the standard and also in the EFRAG guidance, as follows:

For negative impacts, both actual and potential, the metrics will be:

- Actual impact: measurement of severity of the impact, using the following formula: scale, scope and irremediability.
- Potential impact: measurement of the severity and its likelihood, using the following formula: (scale, scope and irremediability) x likelihood.

For the actual and potential positive impacts, on the other hand, the metrics will be:

- Actual impact: scale and scope
- Potential Impact: (scale and scope) x likelihood.

It is important to note two scenarios where severity overrides the likelihood of the impact occurring and should therefore be weighted more heavily:

- In terms of negative human rights impacts, paragraph 45 of ESRS 1 specifies that severity takes precedence over likelihood when assessing material impacts.
- For impacts that are of an irremediable nature, high scores should be given and therefore severity takes precedence over likelihood.

In addition, the time horizon should be included when the impact is potential:

- Short term: the reference period in the company's financial statements.
- Medium term: from the end of the defined reference period, in the short term, up to five years later.
- Long term: to be considered from five years onwards.

Variables to be considered as a minimum requirement in the impact assessment

Scale	Determines the size of the impact. May be determined by how severe the impact is for negative impacts and how beneficial it is or could be for positive impacts. May be assessed by the degree to which one or more fundamental rights are violated or impacted positively, e.g. by affecting basic necessities of life or freedoms (e.g. education, livelihoods, etc.). May also be determined by the degree of significance that the affected stakeholder group attaches to this type of impact.
Scope	This is the extent of the impact. This may be determined either by the number of people affected or the magnitude of the environmental damage, or whether it affects a specific area, whether regional, local or global.
Irremediable nature	For negative impacts only, the extent to which the impact can be remedied (e.g. through compensation or restitution; whether the affected people can be restored the right in question, etc.). This can be assessed with the areas in terms of the company's existing remediation mechanisms and whether or not it is remediable and the justification for the response.
Likelihood	For potential impacts only. How likely the impact is to occur. Qualitative information can be used for assessment purposes. For example, whether it has already occurred in the company or in the sector, the company's policies and processes, targets and strategy, etc. Scales ranging from unlikely to very likely can be used for this variable, defining each one and providing justification for the assessment of each response

Source: Telefónica, 2024.

2.2.2 Risks and Opportunities

Material risks and opportunities for the company are generally derived from impacts, dependencies or other factors, such as exposure to climate risks or regulatory changes that address systemic risks. Once the impacts have been identified, it is necessary to understand how negative impacts may pose risks to the company and positive impacts may provide opportunities.

For risks and opportunities that do not derive from impacts, consider whether any sustainability issues may be a natural resource dependency risk– for example, dependence on water or social resources, such as specific hiring guidelines or key suppliers.

Companies should conduct this exercise with the risk and strategy areas together with the areas responsible for the issues to be assessed and take into account the overall process and the organisation's risk map.

The assessment should take into consideration the potential magnitude of the effects in the short, medium and long term and the likelihood of them occurring. Appropriate quantitative and/or qualitative thresholds are used to assess materiality.

These thresholds are based on financial effects in terms of performance, financial position, cash flows and the availability and cost of capital. The list of risks and opportunities should be cross-checked with the responsible areas.

2.3. Consolidation of key topics

After the identification and assessment of all IROs, the results of each IRO (negative impacts, positive impacts, risks and opportunities) will be consolidated and the materiality threshold will be determined. In other words, the point at which each IRO and issue should be considered material will be determined.

Regarding the threshold, the standard does not establish a criterion on how to implement it; this is left to the company's discretion and judgement, and it must adopt qualitative or quantitative thresholds with the appropriate criteria in each instance.

However, the directive stipulates that negative impacts and risks should not be underestimated in relation to positive impacts and opportunities.

This process makes it possible to obtain the list of material issues for the company and the significant IROs to be disclosed. As a result, the company will obtain:

- The list of information requirements that the company must report.
- A detailed list of IROs identified and assessed as significant.

For example, within the materiality threshold, all those issues that obtain an assessment higher than a percentage of the maximum value of the set of issues assessed in any of the impact and/or financial perspectives might be considered material.

2.4. Validation and reporting of results

The result of the analysis must be validated, ensuring the commitment and approval of the areas responsible for the management of the IROs and senior management for the implementation and reporting of the issues identified.

Consideration is given to conducting the validation process with the areas that participated in the process, and with the internal bodies and responsible parties, such as the Executive Committee and the Sustainability Committee.

Process for the consolidation and validation of results

CONSOLIDATION OF IROs

If there is separate information, the tools for identification and assessment of impacts (positive and negative) as well as risks and opportunities should be consolidated into a single tool, in order to be able to analyse the data obtained jointly and to have an overall overview of the IROs.

STANDARDISATION OF ASSESSMENTS

The values obtained from the assessments of the IROs should be standardised to ensure that they are comparable with each other.

This comparison should be carried out for each of the inputs. They can be standardised into values (on a scale of 1 to 5).

Therefore, the lowest risk becomes a 1 and the highest a 5, in the same way for all impacts and opportunities. This step ensures that negative impacts or risks are not underestimated and positive impacts or opportunities are not overly favoured.

ESTABLISHING MATERIALITY THRESHOLDS

Materiality thresholds are established using the consolidated and standardised information, in order to determine at what score an issue or IRO will be considered material for the company:

- Impact materiality threshold: includes positive and negative impacts.
- Financial materiality threshold: includes risks and opportunities.

It is recommended that after consolidation, the scores are analysed and a threshold is incorporated that reflects the majority of the established IROs.

OBTAINING RESULTS: TOPICS AND IROs

Once the thresholds are established, materiality is applied to both issues and IROs.

In this step, a criterion should be defined, e.g. one of them may be that an issue will be material for the company if it exceeds the threshold of either impact materiality or financial materiality, or both.

The final materiality results will be obtained after this analysis.

VALIDATION OF THE PROCESS AND RESULTS

Internal Validation: This will be conducted with the areas responsible for the identification and management of IROs, as well as with the management bodies and Board Committees.

External Validation: This can be carried out with representatives of the main affected stakeholders, as well as with the external verifying body.

Source: Telefónica, 2024.

2.5. Aspects to consider for the double materiality process

The main aspects to take into account for the double materiality process are the following:

- The double materiality analysis is crucial to be able to determine the sustainability information to be disclosed. It should be comprehensive, involve all relevant areas of the company's sustainability management and be based on reliable sources, both internal and external.

- A good understanding of the value chain will allow for IROs to be correctly identified at each stage of the process.

- Leveraging existing information is useful to help identify IROs. For example, a company with a due diligence report can use it to identify negative impacts and improve the consistency of sustainability reporting.

- Integrating the risks identified during the double materiality analysis into the corporate risk management model is essential to ensure a comprehensive and consistent insight into risks, allowing all sustainability aspects to be taken into account in the company's overall strategy and aligned with corporate risk management practices.

- Balancing financial and sustainability perspectives ensures that both aspects are fairly and evenly taken into account in the materiality analysis and therefore in strategic decision making.

- When assessing financial materiality, as part of double materiality, the thresholds set should be in line with the materiality thresholds set in the organisation's financial statements. In other words, it is advisable that when assessing risks and opportunities, the potential impact of both current and expected financial effects should be taken into account.

- Identifying stakeholders is key to assessing the adequacy of communication channels and to encourage participation and engagement, from shareholders to the local community, in the implementation of the double materiality analysis.

- Regularly reviewing and updating the double materiality analysis ensures that the company keeps up with changes in its operating environment and promotes continuous improvement in sustainability management. It is important to align this analysis with any changes in the sustainability scope and value chain.

Module 3
Case studies

3.1. **Telefónica:** Development of the analysis, identification of IROs and criteria for determining the materiality threshold.
3.2. **Repsol:** The double materiality process poses challenges as regards continuing to define targets on material issues for the company.
3.3. **Agbar:** Approaching the double materiality process as a starting point for ESG decision making and reporting.
3.4. **Club Atlético de Madrid:** Double materiality as a tool to embed the risk management culture in all areas of the club.
3.5. **Alier:** Definition of processes and criteria for the organisation and implementation of the double materiality reporting process for 2026.
3.6. **Accenture:** Lessons learned by Accenture on double materiality matrices.

Modulo 3
Case Studies

This last section shows a number of different approaches and uses that companies found during the double materiality process and its capacity to comply with the Corporate Sustainability Reporting Directive (CSRD) regulation.

The aim has been to present a variety of companies with different sizes, sectors and types of business in order to demonstrate management diversity, highlighting the experiences of the managers in tackling a project of this size and magnitude.

The following companies have participated and collaborated in the preparation of this toolkit: Telefónica, Repsol, Agbar, Club Atlético de Madrid, Alier and Accenture.

Telefónica

3.1. TELEFÓNICA: Development of the analysis, identification of IROs and criteria for determining the materiality threshold

ADAPTATION OF DOUBLE MATERIALITY IN ACCORDANCE WITH THE CSRD

Telefónica has been applying the double materiality methodology since 2021.

This approach has allowed sustainability to be included as a decisive factor in its strategy and decision making within the company.

In addition, double materiality allows the company to ensure that its policies, action plans, metrics and targets are aligned with its critical issues from a dual perspective:

- Impacts on the company's value, such as financial materiality.
- Impacts of the company's activity on society and the environment.

In 2023, Telefónica updated its double materiality approach, taking into account the CSRD and ESRS, and further developed the identification and comprehensive assessment of its IROs and the incorporation of the expectations of its stakeholders, under the concept of dynamic materiality.

CONTEXT ANALYSIS

Telefónica analysed its external and internal sustainability situation, taking into account its business model, its value chain and its stakeholders. The main aim of this analysis is to identify the most important ESG issues for Telefónica and to understand the socio-economic environment in which the company operates, in order to identify and assess the main IROs.

IDENTIFYING IROs: NEGATIVE AND POSITIVE IMPACTS

The result of the context analysis together with the 2022 double materiality analysis allowed the company to obtain a preliminary list of potentially material topics and sub-topics. This outline was validated by the areas involved; and, similarly, a set of IROs linked to each of the identified topics and sub-topics were established.

ASSESSMENT OF POTENTIALLY MATERIAL IROs

The identified IROs were assessed from an impact perspective (positive and/or negative) and from a financial perspective. The company used quantitative scales to do so, for characteristics such as:

- The potential magnitude of financial effects: when the impact stems from financial or reputational risks.
- The probability of occurrence: the likelihood of the risk and opportunity materialising.

DETERMINATION OF MATERIAL ISSUES

The assessment of topics and sub-topics is determined by the assessments of each of the IROs. The final determination is made by comparing these evaluations with the materiality thresholds set for this purpose.

Impact, risk and opportunity (IRO) assessment criteria

Impact perspective	Positive Impact	Actual	Scale + Scope + Economic assessment
		Potential	(Scale + Scope + Economic assessment) x Likelihood
	Negative Impact	Actual	Scale + Scope + Remediability
		Potential	(Scale + Range + Remediability) x Likelihood
Financial perspective	Risks	Escale + Economic Assessment X Likelihood for potential	
	Oportunities		

Source: Telefónica, Consolidated Management Report 2023

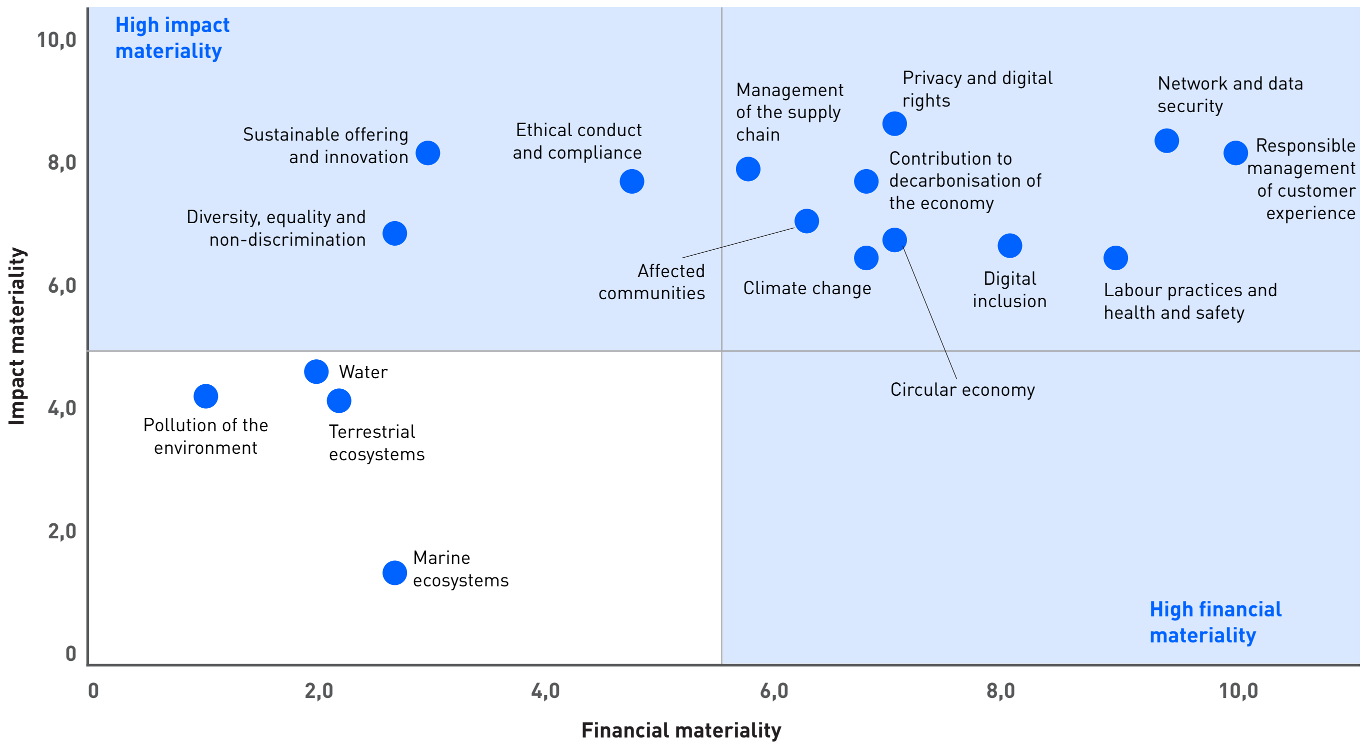
In this way, all those topics which obtain a score of over 60% of the maximum value of the topics evaluated in either of the two perspectives (impact and financial) are deemed to be material.

OVERSIGHT AND VALIDATION OF MATERIALITY
In this phase, the results obtained are presented and verified with the global areas that participate in the process, as well as with the various responsible parties and internal bodies, such as the Executive Committee and the Sustainability and Regulatory Committee.

DOUBLE MATERIALITY MATRIX
The consolidation of the steps described above results in a comprehensive double materiality matrix based on the impact that ESG issues have on Telefónica's value and its impact on society and the environment. The outcome provided the basis for the Consolidated Management Report for 2023.

This analysis is incorporated into the sustainability strategy, facilitates the establishment of targets, policies and action plans, and serves as a tool that contributes to internal sustainability management operations.

Telefónica's Double Materiality Matrix 2023



Source: Telefónica, Consolidated Management Report 2023.

3.2. REPSOL: The double materiality process poses challenges as regards continuing to define targets on material issues for the company

VALUE CHAIN, BUSINESS UNITS AND MULTIPLE STAKEHOLDERS

Repsol is an international, multi-energy company present throughout the value chain. It has been working to tackle climate change for over 20 years.

However, for the last five years, the company has been engaged in the energy transition to provide sustainable energy to society and to reach net zero emissions by 2050.

As an energy provider, the double materiality analysis poses the challenge of dealing with a complex value chain with multiple businesses integrated with each other and with diverse and varied stakeholders (customers, partners, suppliers, etc.).

The double materiality analysis for Repsol, as well as having the aim of complying with the regulation, reaffirms the company's strategic plan because it highlights which ESG issues are the most important.

CHALLENGES WITH THE CSRD

Although the company has been carrying out the materiality analysis specifically for the last two years from a dual perspective, the incorporation of the methodology proposed by the CSRD has entailed a major change in terms of carrying out an in-depth identification of IROs.

For the company, it has been a major challenge to carry out a complete assessment of IROs, taking into account all of Repsol's businesses. This posed an added challenge in terms of ESG issues, as the company had to measure all the qualitative aspects that are not easily comparable with each other.

VARIABLES USED FOR IMPACT ANALYSIS AND ASSESSMENT

In order to identify and assess impacts, all operational activity was taken into account, as well as the environmental and social impacts generated throughout the value chain. When assessing impacts, the following has been taken into account:

- Environmental impacts: such as those related to climate change.
- Those related to the impact: for example, on pollution, water, biodiversity, use of resources and circular economy.

Also, in social matters, the impacts on the company's people have been assessed, such as talent management, diversity, occupational health and safety, as well as the assessment of the impact on people within the value chain, namely suppliers and partners.

In assessing the impacts, the company has followed the calculation methodology provided by the CSRD regulations, based on:

- Qualitative and expert assessment of the scope.
- Remediability.
- Likelihood of occurrence of the impacts.

In turn, the scale or magnitude of the impact is assessed by stakeholders, through active listening, using online questionnaires, interviews or focus groups.

Financial impacts are mainly based on the company's risk map and many of these risks are rooted in potential sanctions, regulatory changes, competition and reputational risks.

Repsol's Double Materiality Matrix 2023

Natural capital

1 Air quality
2 Water management
3 Circular economy
4 Biodiversity and ecosystems

Climate change

5 Energy transition and decarbonization technologies
6 Adaptation to climate change

Human capital

7 Labor rights and employee satisfaction
8 Accident rate and health
9 Attacks on facilities and employees
10 Diversity and equal opportunity
11 Talent attraction, retention, and development

Commitment to society

12 Human rights
13 Social commitment and community relations

Managing the value chain

14 Sustainability in the value chain
15 Customer satisfaction and safety

Ethics and transparency

16 Integrity
17 Responsible tax policy
18 Regulatory compliance
19 Good governance and responsible leadership
20 Responsible communication with stakeholders
21 Cybersecurity

Source: Repsol, Integrated Management Report, 2023.

OVERSIGHT AND PROGRESS REPORTING

Repsol has a Sustainability Committee as part of the Board of Directors, which is made up of external and independent directors.

Among other functions, this committee is responsible for understanding and guiding the group's policy, targets and guidelines in the environmental, safety and social responsibility spheres.

The results of the double materiality process are among the topics reviewed by the committee, along with other issues related to:

- The energy transition.
- The drafting of sustainability plans.
- The proposal of sustainability targets.
- The review of sustainability, human rights and environmental policies.

3.3. AGBAR: Approaching the double materiality process as a starting point for sustainability decision making and reporting

ADAPTING THE MATERIALITY APPROACH

Due to its nature and connection with water, Agbar's activity has always been linked to major transformations in society, such as public hygiene and urban development.

At present, the company seeks to be a catalyst for change towards the new regenerative and collaborative revolution.

Agbar has been carrying out a double materiality process for three consecutive years, identifying new ways to delve deeper into the regulations and calling for general standards for the assessment of financial impacts, which are common to all organisations.

For Agbar, materiality analysis is used strategically, as a starting point in decision making using ESG criteria that go beyond reporting and regulatory compliance.

WATER STRESS AND STAKEHOLDERS

For Agbar, water stress is a material and vitally important issue within the company, as it manages water resources in over 1,000 municipalities in Spain and also manages this resource in Latin American countries.

Due to the coverage, redistribution and its connection with other sectors, as the majority of them depend on water as a resource, dialogue with stakeholders is key for the company's material assessment.

Global water use is divided into 70% for agriculture, 20% for the industrial sector and, finally, 10% for domestic use.

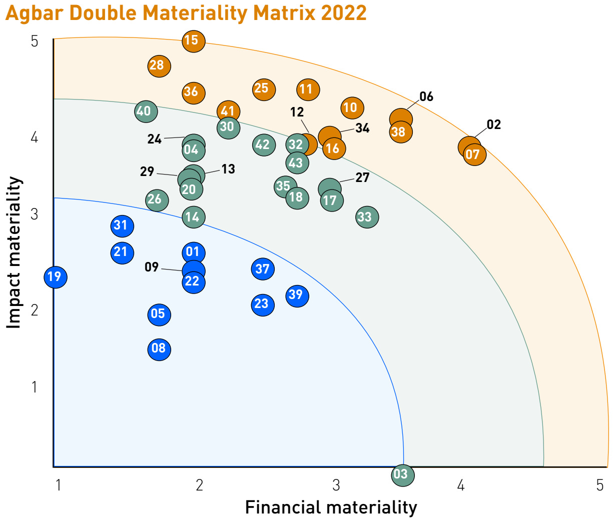
Social entities and companies are included in the stakeholder dialogue process because of their dependence on and use of water.

Banking entities, insurance companies and organisations with which they collaborate in terms of innovation are also considered.

From a continent-wide perspective, Spain, Italy and Greece are the most water-stressed countries in Southern Europe.

This situation requires the entire sector to establish mitigation, emission reduction and climate change adaptation plans and policies with other sectors and their stakeholders.

Agbar Double Materiality Matrix 2022



To visually separate the topics in the matrix, three segments of topics have been plotted with different radii:

- Topics for which the distance is equal to or greater than the radius of the outer circumference.
- Topics for which the distance is equal to or greater than the radius of the inner circumference, but less than the radius of the outer circumference.
- Topics for which the distance is less than the radius of the inner circumference.

Source: Agbar, Non-financial Information Statement for the 2022 financial year.

Agbar

Material issues for 2022 according to the level of importance

High Importance

- 02. Public-private partnerships.
- 07. Innovation and use of smart technologies.
- 15. Quality of service.
- 06. Digitalisation.
- 38. Water reuse.
- 10. Interaction with stakeholders.
- 11. Incorporating sustainability into the business model.
- 28. Health and safety.
- 25. Employee compensation and benefits.
- 34. Adaptation to water scarcity.
- 36. Responsible resource management.
- 16. Organoleptic water quality.
- 41. Treated water quality.
- 12. Responsible purchasing management.

Medium/High Importance

- 32. Energy efficiency.
- 30. Greenhouse gas emissions.
- 40. Management of untreated water discharges.
- 42. Aquifer management.
- 43. Efficiency in water distribution networks and ecodesign.
- 27. Dialogue and relationship with employees.
- 33. Renewable energy investment and generation.
- 17. Customer service.
- 04. Transparency.
- 24. Employee training and development.
- 35. Adaptation to extreme weather events and sea level rise.
- 18. Guaranteeing the supply of water services to users in vulnerable situations.
- 13. Evaluation of suppliers based on ESG criteria.
- 29. Biodiversity and ecosystems.
- 20. Awareness raising and promotion of sustainable water use.
- 26. Work-life balance measures for employees and flexible working hours.
- 14. Clarity of pricing.
- 03. Financial and non-financial risk management.

Medium Importance

- 37. Recovery of sludge and other waste.
- 39. Water pollution.
- 31. CO^2 capture and carbon footprint offsetting.
- 01. Diversity of governing bodies.
- 23. Accessibility for people with disabilities.
- 09. Cybersecurity.
- 21. Gender equality.
- 22. Diversity.
- 19. Development of local communities.
- 05. Ethics and compliance.
- 08. Data management.

Source: Agbar, Non-financial Information Statement for the 2022 financial year.

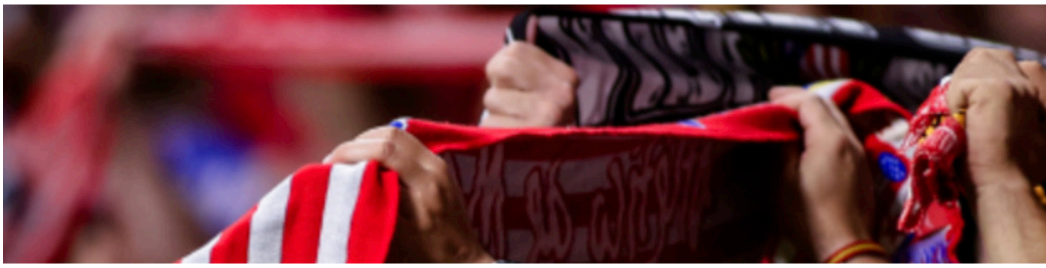
DOUBLE MATERIALITY FOR DECISION MAKING

The dual perspective of the process is based on the premise that the materiality matrix cannot be static but must provide a dynamic overview of the company. After completing the double materiality process, the topics that relate to the company's IROs in its environment, especially the environment and people, are obtained. This facilitates the company's decision making.

CHALLENGES ENCOUNTERED

Among the challenges encountered, the following stand out:

- Difficulties in aligning the value scales used for the risk matrix. One important line of work involves understanding the different scales for measuring risks within the company and matching them so that they can contribute to the strategy.
- Determining the numerical values for the IROs of the ESG aspects (positive or negative) of some of the important issues due to these not belonging to areas that the company does not measure from an ESG perspective.
- Working together at the sectoral level to improve the quality of standardisation so that the references are uniform for everyone when carrying out reporting.
- At an internal level, another challenge is to reach a consensus between the company's areas in order to define and agree on the same language when carrying out the double materiality process, as each stakeholder has a view of their own area.



3.4. Club Atlético de Madrid: Double materiality as a tool to embed the risk management culture in all areas of the club

ALIGNMENT FOR THE DIFFERENT LINES OF BUSINESS

The organisation's corporate purpose is to participate in official professional sports competitions. Although Club Atlético de Madrid has a sports-related focus, it has other lines of business, such as:

- The development of corporate and cultural events focusing on the fight against violence and racism.
- Training through its football academy, which welcomes over 1,400 children each year.

The organisation seeks to integrate the sustainability strategy in the business and in the effective management of ESG risks with the aim of generating value for all stakeholders in the long term.

One of the tasks of the Sustainability Committee has been to identify and assess impacts in order to determine the material issues for the club.

PRIOR MATERIALITY ANALYSIS

In 2020, the club carried out a materiality analysis centring on 13 stakeholders, analysing 47 material issues. Based on this assessment, for the 2022-23 financial year, the material topics were reassessed in order to prioritise the action areas on which the organisation's 2022-25 Sustainability Plan would be based.

IMPACT IDENTIFICATION AND ASSESSMENT

The results obtained from the previous analyses and the evaluation for the 2023-24 financial year have made it possible to identify the material, actual or potential, positive or negative impacts of the company on people or the environment in the short, medium and long term.

This exercise has focused on the club's own operations and has also been extended to its entire upstream and downstream value chain.

For the determination of materiality, the club has drawn on the EFRAG guidelines for the implementation of the new CSRD, in anticipation of its application, taking into account:

- The material impacts generated.
- The material risks and opportunities associated with these impacts.

RISK AND IMPACT MANAGEMENT

To incorporate ESG aspects into decision making processes, the club identified, analysed and proposed mitigation actions for potential negative material impacts across all areas of its activity.

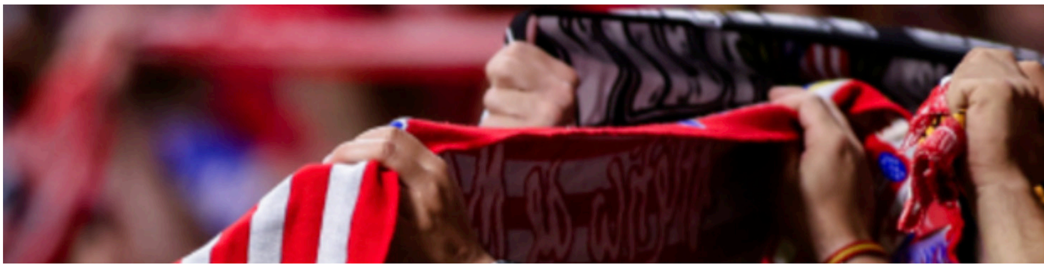
Following the double materiality exercise, the organisation identified a link between risk management and business strategy, through the promotion of its culture.

The risk management culture has been embedded in all areas of the club, with a special focus on the assessment of criminal risks, which allows them to establish measures aimed at their prevention and mitigation, depending on their nature.

The club has defined four types of risks:

- Business risks: related to the club's activity and the sector.
- Financial risks: derived from the macroeconomic environment and the management of financial and fiscal variables.
- Legal risks: associated with compliance and litigation in all matters, including ESG issues.
- Operational risks: relating to the club's own operations.

The procedures and policies established within the club include preventive measures for these types of risks that allow for the prioritisation and



Medidas de mitigación según el tipo de riesgos

Type	Medidas de mitigación y control
General	• Code of Ethics • Sustainability Policy • Disciplinary System
Financial	• Third Party Due Diligence Procedure • Foundation Money Laundering Manual • Travel and Representation Expenses Policy • Oracle (ERP) • Contract Authorisation, Drafting and Signing Procedure • Procedure for the Collection and Closing of Cash Desks in Shops • Procedure for the Free Delivery of Goods
Social	• Human Rights Policy • Child and Adolescent Protection Policy • Third Party Code of Ethics • Business Activity Coordination Procedure • Privacy Policy • Criminal Compliance Policy • Codes of Conduct (including the Online Code) • Data Protection and Confidentiality Manual
Environmental	• Environmental Protection Policy • Third Party Code of Ethics • Clauses in tenders • Contract clauses
Employees	• Salary Management Guide • Online Conduct Policy • Occupational Hazard Prevention Policy • Equality Plan • Workplace and Sexual Harassment Protocol • Procedure for negotiating and the execution of sports contracts
Governance	• Whistle blower mailbox • Code of Conduct B (Academy) • Code of Conduct C (Employees) • Code of Conduct D (Executives) • Code of Conduct G (Foundation) • Criminal Compliance Policy • Code of Online Conduct • Data Protection and Confidentiality Manual • Internal Information System Policy • Information Security Policy

Source: Club Atlético de Madrid, Non-financial Information Statement, 2023/24.

development of specific actions to address these risks, including sustainability risks. The policies establish the lines of action with regard to stakeholders, in particular the policies on Sustainability, Human Rights, the Code of Ethics, the Code of Conduct and the Third Party Code of Ethics.

COMMUNICATION OF MITIGATION POLICIES AND MEASURES TO EMPLOYEES

As part of the impact identification and materiality assessment exercise, the main risks and opportunities associated with these impacts have been determined.

With what has been achieved, the club will seek to:

- Strengthen a culture and governance approach based on risk management.
- Develop a strategy associated with each of them.
- Measure performance, setting indicators and targets.
- Review and monitor.
- Communicate and report.

After the double materiality exercise, the organisation provides its employees (one of its main stakeholders) with all the information on the policies and procedures adopted in the club through its Employee Portal and internal information memos for review and reference.

3.5. ALIER: Definition of processes and criteria for the organisation and implementation of the double materiality reporting process for 2026

PREPARATION FOR 2026 REPORTING

Due to the timetable for the implementation of the requirements of the new European CSRD, the company has begun to carry out a materiality analysis with a view to preparing the 2026 report concerning the results for 2025.

Therefore, the company is engaged in the organisation and planning of an implementation process for the fulfilment of this regulatory requirement.

Alier has a Sustainability Committee, which was approved by the Board of Directors, and one of its priorities will be focusing on the company's organisation and planning in order to carry out the materiality analysis.

ORGANISATIONAL CONTEXT:

Alier is a paper company that seeks to move towards comprehensive waste recovery, providing innovative solutions and using only recovered raw materials. The company has a materiality matrix, using the ISO 26000 standard as a reference guide for identifying the material aspects of the organisation.

BEYOND REGULATORY COMPLIANCE

Through double materiality, the company focuses on the suitability of the strategic targets set out in its Sustainability Master Plan, to ensure that it addresses the material issues assessed as being significant, namely those relating to financial and impact materiality.

The change from a traditional materiality matrix to a double materiality matrix requires a comprehensive review of the company's management area, including a review of its current circumstances, in which the requirements of the new CSRD directive are incorporated.

For Alier, the expansion of data collection, especially external and value chain data, is one of the major challenges and tasks to be addressed. The fact that the company has been certified as meeting the ISO standards for quality, environmental and energy efficiency management systems, as well as its calculation and verification of GHG emissions of Scopes 1, 2 and 3, is facilitating compliance with the requirements of the environmental aspects of sustainability.

PRELIMINARY ORGANISATION FOR THE DOUBLE MATERIALITY ANALYSIS

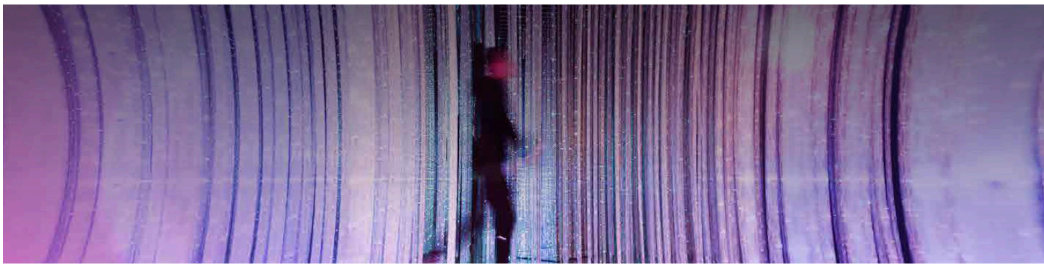
In this process, the following will be reviewed in advance:

- The organisational context.
- The analysis of risks and opportunities, already worked on in the ISO management system standards, which will be enhanced from a social and governance perspective.
- Identifying stakeholders throughout the value chain and determining how to engage with them.
- Establishing the methods for compiling the supply chain information to be reported in the following years.

DEFINITION OF PROCESSES AND CRITERIA

Once the preliminary work has been carried out, Alier defines its procedures and criteria for carrying out the double materiality assessment, in accordance with the following:

- The review of the Master Plan approved by senior management.
- The identification of the ESRS indicators to be reported for the aspects considered to be significant.
- Generation of information to be included in the reports in accordance with the requirements of the CSRD directive through its ESRS.



3.6. Accenture: Lessons learned by Accenture on double materiality matrices

ACCENTURE AND THE DEVELOPMENT OF DOUBLE MATERIALITY

The double materiality assessment leads the way to the standardisation of corporate reporting, and creates value in terms of a company's profitability and financial stability.

Accenture seeks to contribute to the double materiality process through its expertise in ESG materiality analysis, access to tools and its multi-sector approach, which provides companies with a wealth of information.

From its experience, Accenture has learned valuable lessons and gained insights with the aim of helping companies that are undergoing the process or are about to embark on it.

IMPORTANCE OF DOUBLE MATERIALITY IN SUSTAINABILITY AND BUSINESS STRATEGIES

Accenture has developed a number of double materiality matrices across different sectors, identifying several key lessons that optimise the process and outcomes. These lessons highlight the importance of collaboration, customisation and the use of technology, as well as the need for a clear narrative to turn analysis into strategic action.

1. Stakeholder collaboration and engagement

Involving all parties from the outset ensures that key priorities and concerns are addressed properly.

Stakeholder mapping should involve organising collaborative working sessions to gather diverse opinions. Without this collaboration, the matrix may not accurately capture all key risks and opportunities.

2. The identification of impacts must be put into context

Each client has its own sectoral, geographic and regulatory context, meaning that the material impacts faced can vary considerably. There is no single or standard solution; it is essential to customise the approach according to the business's sector, location and goals.

This requires tailoring the methodology to the company's specific circumstances, such as local regulations, its business model or the expectations of its specific stakeholders, to ensure that the matrix is useful and applicable.

3. A robust and structured data collection process

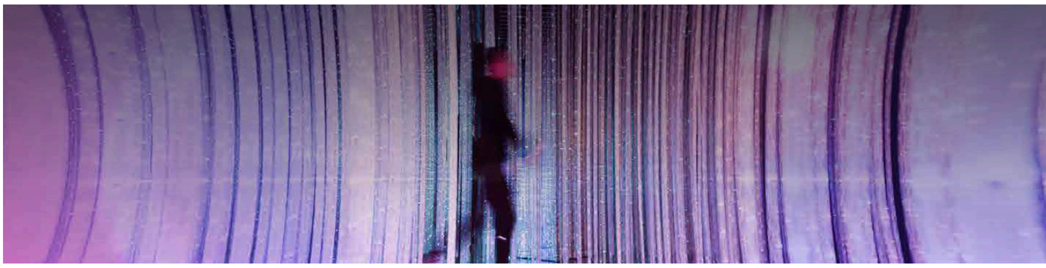
Clear and efficient processes for collecting, verifying and analysing internal and external data should be established to avoid rework and ensure robustness of results.

Supply chain data is essential in the assessment as the greatest ESG impacts come from the supply chain. Technology and AI tools can be implemented to facilitate access to key data in real time and collaborate with external experts to establish meaningful metrics.

4. An iterative and flexible approach

Materiality priorities may vary over time due to regulatory changes, stakeholder expectations or technological advances. Double materiality is not a static exercise and should be updated regularly.

To this end, an iterative approach should be pursued to review and adjust the matrix as circumstances change. Having access to tools and methodologies that facilitate regular reviews is considered good practice.



5. The balance between financial and impact materiality
There is a trade-off between immediate financial risks and long-term social and environmental impacts.

Balancing financial and impact aspects is a complex task that requires a thorough understanding of the company's strategic priorities.

6. The value of a coherent and convincing narrative
It is not enough to just get the double materiality right; the findings must be communicated clearly and consistently to internal and external stakeholders.

The ability to use the matrix results to tell a story makes it easier to gain the support of management and investors. The narrative should connect the matrix results to the sustainability strategy and targets.

7. Integrating materiality into a business strategy
A double materiality matrix is only useful if it is incorporated into the company's strategic decision making. For the matrix to have a genuine impact, it must be used as a tool to align sustainability, strategy and risk and opportunity management.

Approaches need to be developed to translate the matrix results into action plans that impact the organisation's different areas.

8. Aligning ESG reporting with the double materiality matrix
If the material issues identified are not aligned with what is publicly reported, the company's credibility will suffer. To this end, sustainability reporting should be framed around the materiality matrix.

9. The significance of internal education and awareness-raising
A common challenge is the lack of internal understanding of the value of the matrix and its use in decision making. To address this, actions should be implemented to train employees and leaders at all levels, explaining how the matrix relates to their roles and decisions.

10. Interdepartmental collaboration
Communication and collaboration between different areas within the organisation should be encouraged to ensure that the matrix captures a 360° perspective of risks and opportunities.

11. The importance of technology in data collection and analysis
The use of technology for data collection, analysis and presentation is essential to create an accurate and efficient matrix. Integrating the use of advanced technologies improves the efficiency and accuracy of the process, allowing access to up-to-date and reliable information for decision making.

Annexes

I. Appendix C of Delegated Regulation 2023/2772: AR 16 of ESRS 1

The 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 rules emphasises the presentation of topics, sub-topics and sub-sub-topics to be assessed and reported:

Environmental criteria

	Topic	Sub-topic	Sub-sub-topic
ESRS E1	Climate change	• Climate change adaptation • Climate change mitigation • Energy	
ESRS E2	Pollution	• Pollution of air • Pollution of water • Pollution of soil • Pollution of living organisms and food resources • Substances of concern • Substances of very high concern • Microplastics.	
ESRS E3	Water and marine resources	• Water • Marine resources	• Water consumption • Water withdrawals • Water discharges • Water discharges in the oceans • Extraction and use of marine resources
ESRS E4	Biodiversity and ecosystems	• Direct impact drivers of biodiversity loss	• Climate change • Land-use change, fresh water-use change and sea-use change • Direct exploitation • Invasive alien species • Pollution • Others
		• Impacts on the state of species	• Species population size • Species global extinction risk
		• Impacts on the extent and condition of ecosystems	• Land degradation • Desertification • Soil sealing
		• Impacts and dependencies on ecosystem services	
ESRS E5	Circular economy	• Resources inflows, including resource use • Resource outflows related to products and services • Waste	

Social criteria

	Topic	Sub-topic	Sub-sub-topic
ESRS S1	Own workforce	• Working conditions	• Secure employment • Working time • Adequate wages • Social dialogue • Freedom of association, the existence of works councils and the information, consultation and participation rights of workers • Collective bargaining, including rate of workers covered by collective agreements • Work-life balance • Health and safety
		• Equal treatment and opportunities for all	• Gender equality and equal pay for work of equal value. • Training and skills development • Employment and inclusion of persons with disabilities • Measures against violence and harassment in the workplace • Diversity
		• Other work-related rights	• Child labour • Forced labour • Adequate housing • Privacy
ESRS S2	Trabajadores de la cadena de valor	• Working conditions	• Secure employment • Working time • Adequate wages • Social dialogue • Freedom of association, including the existence of work councils • Collective bargaining • Work-life balance • Health and safety
		• Equal treatment and opportunities for all	• Gender equality and equal pay for work of equal value. • Training and skills development • Employment and inclusion of persons with disabilities • Measures against violence and harassment in the workplace • Diversity
		• Other work-related rights	• Child labour • Forced labour • Adequate housing • Privacy
ESRS S3	Affected communities	• Communities' economic, social and cultural rights	• Adequate housing • Adequate housing • Water and sanitation • Land-related impacts • Security-related impacts
		• Communities' civil and political rights	• Freedom of expression • Freedom of assembly • Impacts on human rights defenders
		• Rights of indigenous peoples	• Free, prior and informed consent • Self-determination • Cultural rights
ESRS S4	Consumers and end-users	• Information-related impacts for consumers and/or end-users	• Privacy • Freedom of expression • Access to (quality) information
		• Personal safety of consumers and/or end-users	• Health and safety • Security of a person • Protection of children
		• Social inclusion of consumers and/or end-users	• Non-discrimination • Access to products and services • Responsible marketing practices

Sobre el criterio de Gobernanza

	Topic	Sub-topic	Sub-sub-topic
ESRS G1	Business conduct	• Corporate culture • Protection of whistleblowers • Animal welfare • Political engagement and lobbying activities • Management of relationships with suppliers including payment practices	
		• Corruption and bribery	• Prevention and detection including training • Incidents

II. Glossary

- **AEICSR:** Achieving Effective Internal Control over Sustainability Reporting (ICSR).
- **AR:** European Sustainability Reporting Standards Application Requirements
- **CSRD:** Corporate Sustainability Reporting Directive.
- **CVM:** Brazilian Securities and Exchange Commission.
- **DMA:** Double Materiality Analysis.
- **EFRAG:** European Financial Reporting Advisory Group.
- **ERM:** Enterprise Risk Management.
- **ESRS:** European Sustainability Reporting Standards issued by EFRAG.
- **FIFA:** Fédération Internationale de Football Association.
- **GRI:** Global Reporting Initiative.
- **Hum. Rights:** Human Rights.
- **HR:** Human Resources.
- **IASB:** International Accounting Standards Board.
- **ICFR:** Internal Control over Financial Reporting.
- **ICSR:** Internal Control over Sustainability Reporting.
- **IFRS:** International Financial Reporting Standards.
- **ISO:** International Organization for Standardization.
- **ISSB:** International Sustainability Standards Board.
- **IR:** Integrated Reporting
- **IROs:** Impacts, Risks and Opportunities.
- **KPIs:** Key Performance Indicators
- **NFIS:** Non-financial Information Statement.
- **NFRD:** Non-financial Reporting Directive.
- **SASB:** Sustainability Accounting Standards Board.
- **SDGs:** Sustainable Development Goals.
- **SEC:** Securities and Exchange Commission.
- **SFRD:** Sustainable Finance Disclosure Regulation.
- **SH:** Stakeholders.
- **TCFD:** Task Force on Climate-related Financial Disclosures.
- **TNFD:** Task Force on Nature-related Financial Disclosures.
- **UEFA:** Union Européenne de Football Association.
- **WEF:** World Economic Forum.

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DIRSE Toolkit

HOW TO APPROACH DOUBLE MATERIALITY IN BUSINESS

TOOLKITS

DIRSE

Telefónica

Telefónica is one of the world's leading telecommunications service providers. The company offers fixed and mobile connectivity services, as well as a wide range of digital services for individuals and businesses. It is present in Europe and Latin America, where it has 392 million customers. It is a 100% listed company whose shares are listed on the Spanish stock exchanges and on the New York and Lima stock exchanges.

For Telefónica, sustainability means thinking about people, and it focuses its activity on being part of the solution to the challenges facing humanity, thanks to the power of connectivity and digitalisation. It also believes that being a sustainable company is essential for the future of the business. In particular, the multinational wants to build a greener future, help society thrive and lead by example. To achieve this, among other things, it has pledged that around 40% of its financing will meet sustainable criteria by 2026 and that it will have zero net emissions by 2040.

DIRSE

Founded in 2013, DIRSE is the Spanish association for sustainability and ESG professionals, which works to advance, defend and achieve the recognition of those who play this specific role in all types of entities thus contributing to enhancing their influence so as to create value in organisations.

With the aim of reinforcing this role, the association focuses its activity on four work areas– Training, Resources, Networking and Advocacy– with a special focus on creating tools that facilitate the work of these professionals.

In the 11 years since its creation, DIRSE has united over 900 individual members and is represented throughout Spain by its territorial delegations. Together with its counterparts in Italy, the UK and Germany, it has formed the European Association of Sustainability Professionals (EASP).