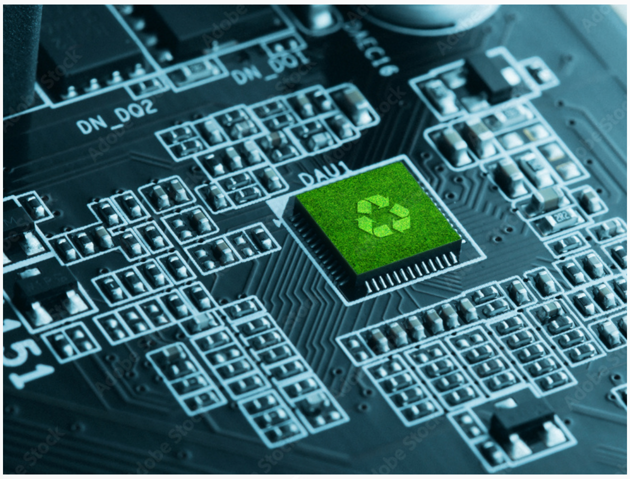
ESG MATERIALITY

A Comprehensive Guide



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DISCLAIMER

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The author has made reasonable efforts to ensure that the information in this article is accurate and up-to-date, but does not guarantee completeness if the data gets changed at its source after the publishing of this article.

Readers are advised to consult with a qualified professional for specific advice on materiality in ESG and sustainability.

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UNDERSTANDING MATERIALITY

Materiality is a key concept in ESG and sustainability. It refers to the environmental, social, and governance (ESG) issues that are most important and relevant to a company or organization and its stakeholders based on their business or operational activities. Materiality analysis is the process of identifying and prioritizing these issues.

Materiality is important for ESG and sustainability because it helps companies and organizations to focus on the ESG issues that have the greatest impact on their business and stakeholders.

By understanding which Key performance indicators are material to their business and stakeholders, companies can develop more effective ESG strategies and initiatives.

Let's try to understand it with an example. Data security and the percentage of female employees would be relevant indicators for a bank or a service oriented company but not for a power generation company. Similarly, employee injury rate or amount of GHG emission will be important for the power sector company

Once an organization has identified its material ESG issues, it can use this information to develop ESG strategies and initiatives to address these issues. For example, if an organization identifies climate change as a material ESG issue, it may develop a strategy to reduce its greenhouse gas emissions.

Organizations can use information about their material ESG issues to improve the quality and relevance of their ESG reporting. For example, an organization may choose to focus on its material ESG issues in its sustainability report.

Organizations can use information about their material ESG issues to communicate with stakeholders about their ESG performance. For example, an organization may publish a statement on its website about its material ESG issues and how it is addressing them.

Finally, materiality helps companies and organizations to demonstrate their commitment to ESG and sustainability to stakeholders. Companies and organizations can build trust and credibility with these groups by showing that they are focusing on the ESG issues that are most important to their business and stakeholders.

Key Performance Indicators

Key Performance Indicators (KPIs) in a sustainability report are specific metrics or measurements used to assess and communicate an organization's performance in various areas of sustainability. These indicators are crucial for evaluating how well a company is meeting its sustainability goals and commitments. KPIs help stakeholders, such as investors, customers, employees, and the general public, understand the organization's sustainability efforts and track progress over time.

Here are some common categories of KPIs found in sustainability reports:

Environmental KPIs:

Carbon emissions: Metrics related to greenhouse gas emissions, such as CO_2 emissions per unit of production or emissions reduction targets.
Energy consumption: Measures of energy use and efficiency, like energy intensity or the use of renewable energy sources.
Water usage: Metrics that quantify water consumption, conservation efforts, and water recycling rates.
Waste management: KPIs related to waste reduction, recycling rates, and hazardous waste disposal.

Social KPIs:

Employee diversity: Metrics on workforce diversity, including gender, ethnicity, and age.
Health and safety: Measures of workplace safety, accident rates, and occupational health programs.
Community engagement: Indicators assessing a company's involvement in local communities, charitable contributions, and community development initiatives.
Employee satisfaction: Surveys or assessments of employee well-being and job satisfaction.

Governance KPIs:

Board diversity: Metrics on the diversity of the board of directors and its committees.
Ethics and compliance: Indicators related to the organization's adherence to ethical standards, codes of conduct, and legal compliance.
Anti-corruption efforts: Measures to assess and report on anti-corruption policies, training, and incidents.
Shareholder engagement: KPIs tracking interactions and engagement with shareholders on ESG matters.

The specific KPIs included in a sustainability report can vary from one organization to another, depending on their industry, size, and sustainability priorities. These indicators are typically quantifiable and are often accompanied by data, targets, and contextual information to provide a comprehensive picture of the organization's sustainability performance.
By reporting on KPIs, organizations demonstrate their commitment to transparency and accountability in their sustainability efforts, allowing stakeholders to make informed decisions and hold the company accountable for its environmental and social impact.

MATERIALITY MAPPING

In this segment, we will see how the industry leaders are disclosing their Materiality

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Materiality matrix of Wipro extracted from their Sustainability Report

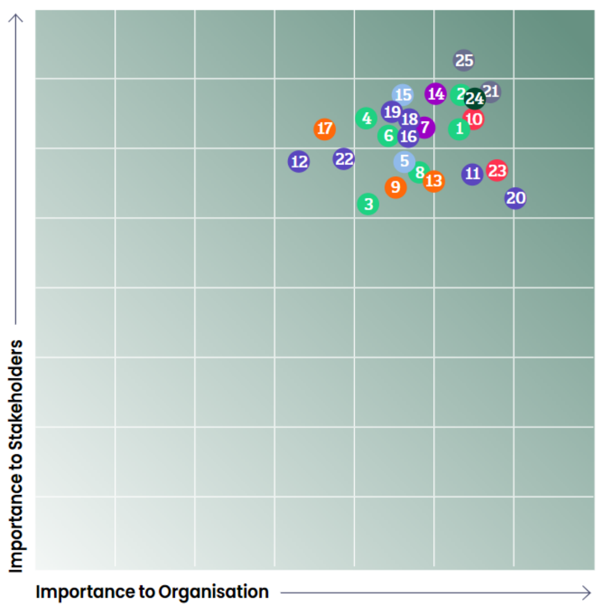
Materiality Map

PEOPLE, EMPLOYEES AND COMMUNITIES	ENVIRONMENT AND ECOLOGY
Corporate Citizenship and Philanthropy	Biodiversity
Knowledge and Skills development	Climate Change
Human Rights – Freedom of Association, Non-Discrimination, Forced Labor, Child Labor, etc.	Waste
Diversity	Energy
Employee Health, Safety and Wellbeing	
	Urban resilience
Fair Labor Practice	Water
Talent Attraction, Development and retention	Energy
	Natural and man-made catastrophes
CORPORATE GOVERNANCE AND ETHICAL BUSINESS CONDUCT	
Competition	Open Source
Data Privacy	IT system security and operational resilience
Operational efficiency & speed	Accounting for externalities
Corporate Governance	Economic performance
Corruption, Bribery, Corporate Fraud	Regulatory compliance
Customer Satisfaction	Supply chain management
Intellectual Property Rights	Innovation
Transparency and disclosure	Service Delivery
Outsourcing related issues	Data Security
Tax strategy	Stakeholder communication
Management Vision and Leadership	

Materiality matrix of Reliance Industries Limited extracted from their Integrated Annual Report

Through the focused materiality assessment process, RIL has identified the following key issues that are material to the growth of the Company and the well-being of all its stakeholders.

Matrix



- Natural Capital
- Human Capital
- Manufactured Capital
- Intellectual Capital
- Financial Capital
- Social and Relationship Capital
- Risk Management
- Governance

1. Climate change
2. Managing Environmental Impacts
3. Energy Efficiency of operations
4. Water and effluent management
5. Raw material security
6. Ecosystem and biodiversity
7. Innovation and Technology
8. Waste management & Circular economy
9. Sustainable supply chain management
10. Disaster Preparedness and Management
11. Health, safety and employee well-being
12. Diversity and inclusion
13. Customer Satisfaction
14. Data privacy and cybersecurity
15. Security and Asset management
16. Talent Management
17. Community Development
18. Labour Management
19. Human Rights
20. Business Ethics, Integrity and Transparency
21. Regulatory issues and compliance
22. Grievance Redressal Mechanisms
23. Risk Management
24. Economic Performance
25. Code of conduct

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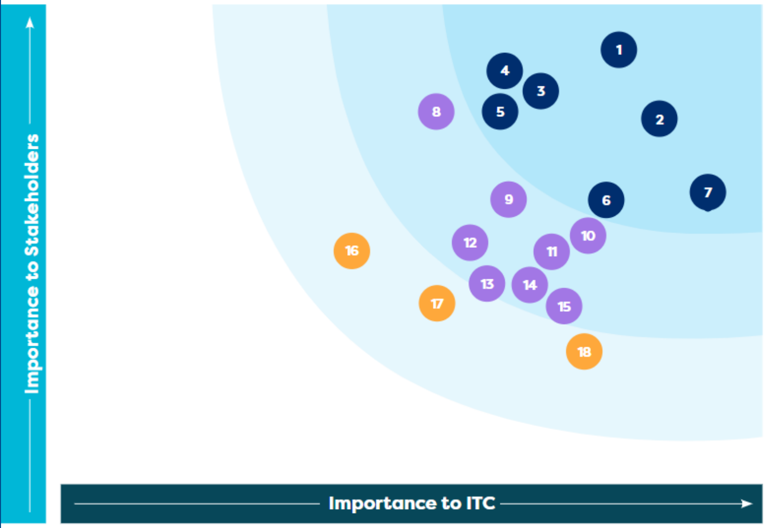
Materiality matrix of ITC Limited extracted from their Sustainability & Integrated Report



Disclosure on Material Topics

Material issues are one of the inputs for medium and long-term planning. The sensitivity of an issue to stakeholders and to ITC, in terms of importance, forms the basis of the materiality analysis, which in turn guides the processes for identifying, managing and devising specific action plans for addressing them. ITC's approach towards managing each material issue has been presented throughout this report. A mapping of all the material issues with respective sections of the report is available in the table below:

1. Consumer Experience — *Product Sustainability*
2. Ethics and Governance — *Governance*
3. Water Security for all — *Towards Water Security for All*
4. Climate Resilient Agriculture — *Next-Generation Agriculture*
5. Sustainable Livelihoods — *Mission Sunehra Kal for Sustainable & Inclusive Growth*
6. Sustainable Packaging — *Sustainably Managing Waste*
7. Business Success — *ITC's Approach to Value-creation*
8. Health and Safety — *Workforce of Tomorrow*
9. Climate Resilient Operations — *Building Climate Resilience*
10. Human Rights — *Workforce of Tomorrow*
11. Innovation — *ITC's Approach to Value-creation, Product Sustainability*
12. Sustainable Products & Brands — *Product Sustainability*
13. Responsible Marketing — *Product Sustainability*
14. ESG Risk Management — *Strategic Risk Management*
15. Diversity and Inclusion — *Workforce of Tomorrow*
16. Biodiversity management — *Biodiversity Management*
17. Responsible Sourcing Practices — *Inclusive Value Chain*
18. Learning and Development — *Workforce of Tomorrow*

● High Importance ● Medium Importance ● Low Importance

Materiality matrix of HDFC Bank extracted from their Integrated Annual Report

HDFC Bank's Materiality Map (Internal Stakeholders)

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Double Materiality

Double materiality is a concept that refers to the importance of disclosing both the financial and the non-financial impacts of a company's activities. Financial impacts are those that affect the company's value, performance, and risk profile, while non-financial impacts are those that affect the environment, society, and stakeholders. Double materiality is relevant for investors, regulators, and other users of corporate information, as it provides a more comprehensive and balanced view of a company's sustainability performance and strategy.

Some examples of double materiality from the industry are:

A pharmaceutical company that discloses not only its revenues and profits, but also its research and development activities, its access to medicines initiatives, its environmental footprint, and its social contributions.

A mining company that discloses not only its reserves and production, but also its health and safety practices, its human rights policies, its community engagement, and its greenhouse gas emissions.

The main difference between materiality and double materiality is that double materiality takes into account the ESG issues that have a material impact on a company or organization and its stakeholders, as well as the ESG issues that the company or organization has a material impact on. Materiality, on the other hand, only takes into account the ESG issues that have a material impact on a company or organization and its stakeholders.

In other words, double materiality is a more comprehensive approach to ESG than materiality

Double materiality is becoming increasingly relevant in the context of sustainability-related financial disclosure, as regulators and standard-setters are developing frameworks and requirements that incorporate this concept. For example, the European Union's Corporate Sustainability Reporting Directive (CSRD) mandates companies to report on both financial and non-financial materiality aspects using common standards. Similarly, the Global Reporting Initiative (GRI) Standards use double materiality as a guiding principle for determining the content of sustainability reports.

FUTURE PROSPECT

The future of ESG materiality is likely to be characterized by the following trends:

Greater focus on financial materiality: Investors are increasingly demanding that companies disclose and manage ESG factors that are financially material, meaning that they have a significant impact on the company's financial performance. This is being driven by a growing body of evidence that shows that ESG factors can have a positive impact on stock returns, reduce risk, and improve access to capital.

More dynamic materiality assessments: Companies will need to update their materiality assessments more frequently to keep up with the rapidly changing ESG landscape. This is because new ESG risks and opportunities are emerging all the time, driven by factors such as climate change, technological innovation, and social movements.

Greater alignment with global standards: There is a growing movement to develop global standards for ESG reporting and disclosure. This will make it easier for investors and other stakeholders to compare companies' ESG performance across different sectors and regions.

Increased use of technology: Technology is playing an increasingly important role in ESG management. For example, companies are using data analytics to identify and assess ESG risks and opportunities, and to track their progress on ESG goals.

THANK YOU.!

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