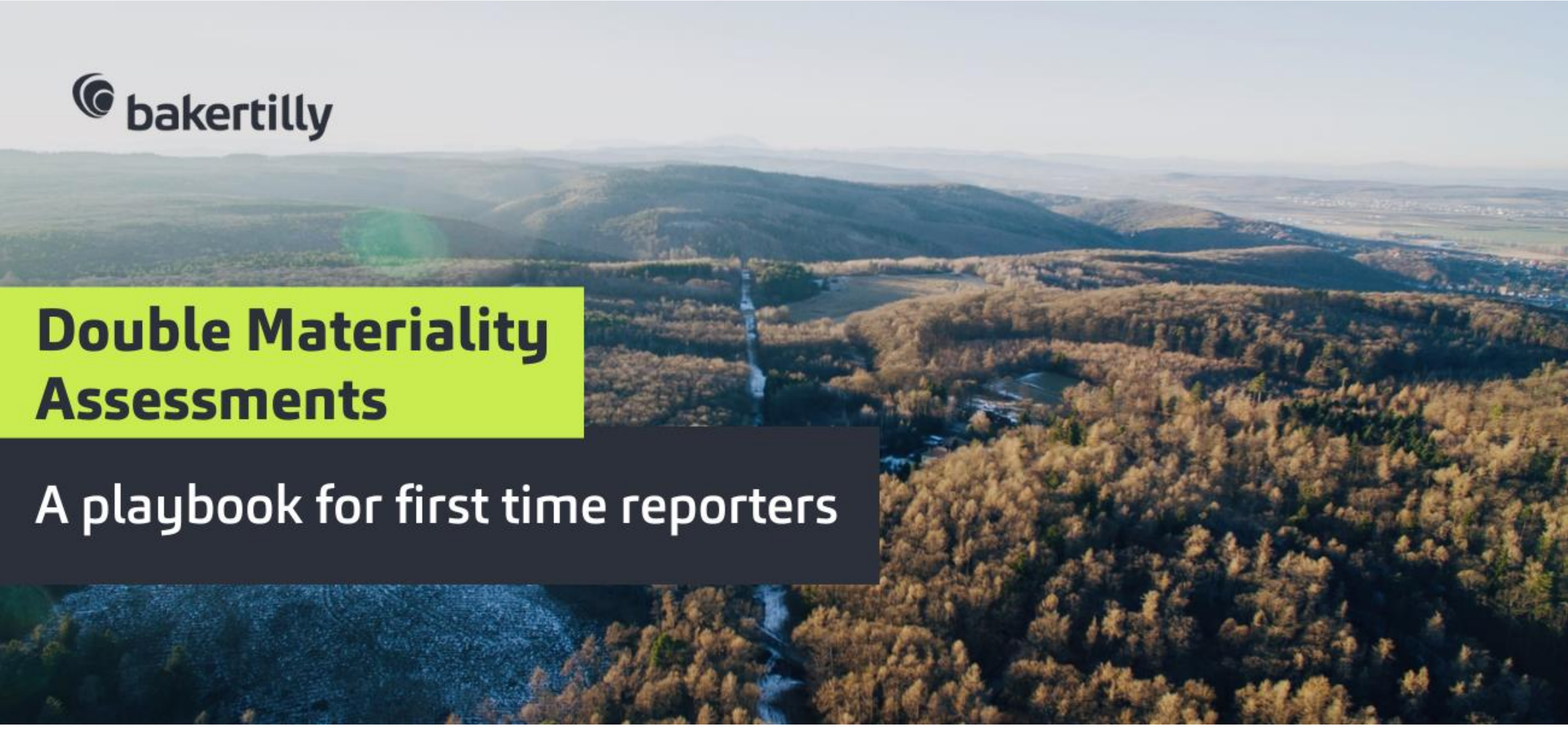


Double Materiality Assessments

A playbook for first time reporters

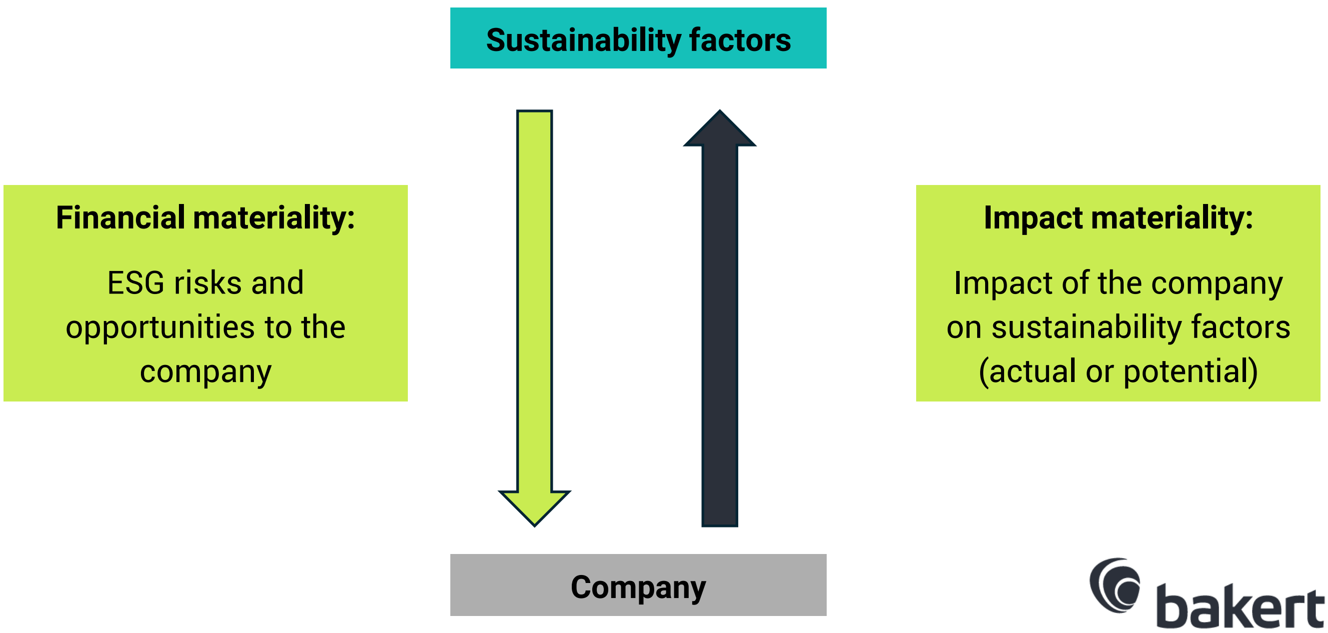
A double materiality assessment is the cornerstone for determining a company's ESG strategy and it is one of the main requirements of the Corporate Sustainability Reporting Directive (CSRD). Beyond ticking boxes though, this process can reveal sustainability-linked risks and opportunities for the company's business model, that could have otherwise been ignored.

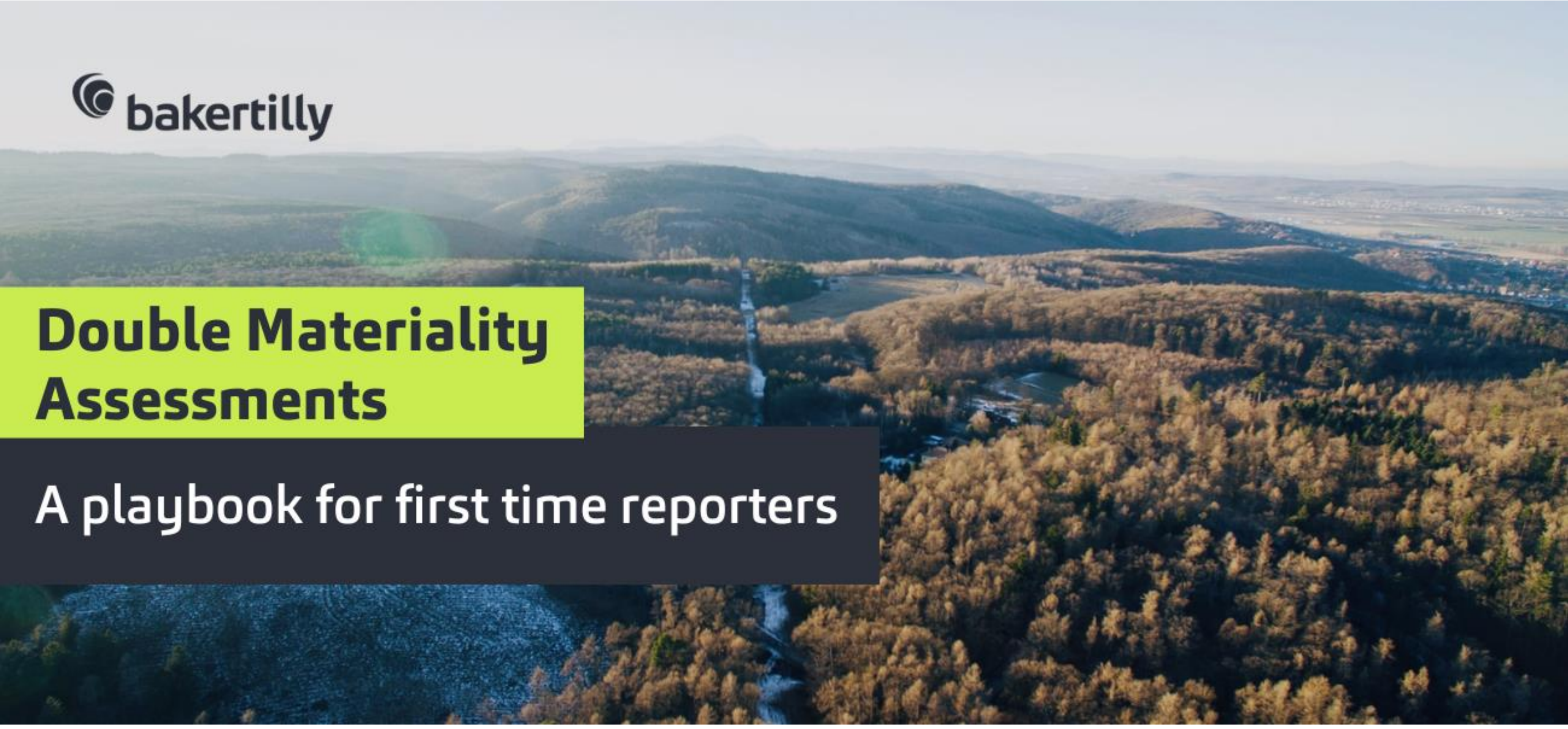
What is a double materiality assessment?

A double materiality assessment is a process identifying how the company in question is affecting and is being affected by people and the planet. The process reveals how external factors such as climate change are likely to impact a company's bottom line and vice versa, how a company's products and operations are having a social or environmental impact, for instance through its labor practices and emissions. The materiality assessment examines both positive opportunities and negative risks, and both actual and potential threats.

What is a material issue?

An issue is considered material, if omitting, obscuring or misstating it could influence decisions of investors, lenders and creditors, according to the ACCA. For example, while cybersecurity is a material issue for most software companies, biodiversity is not.

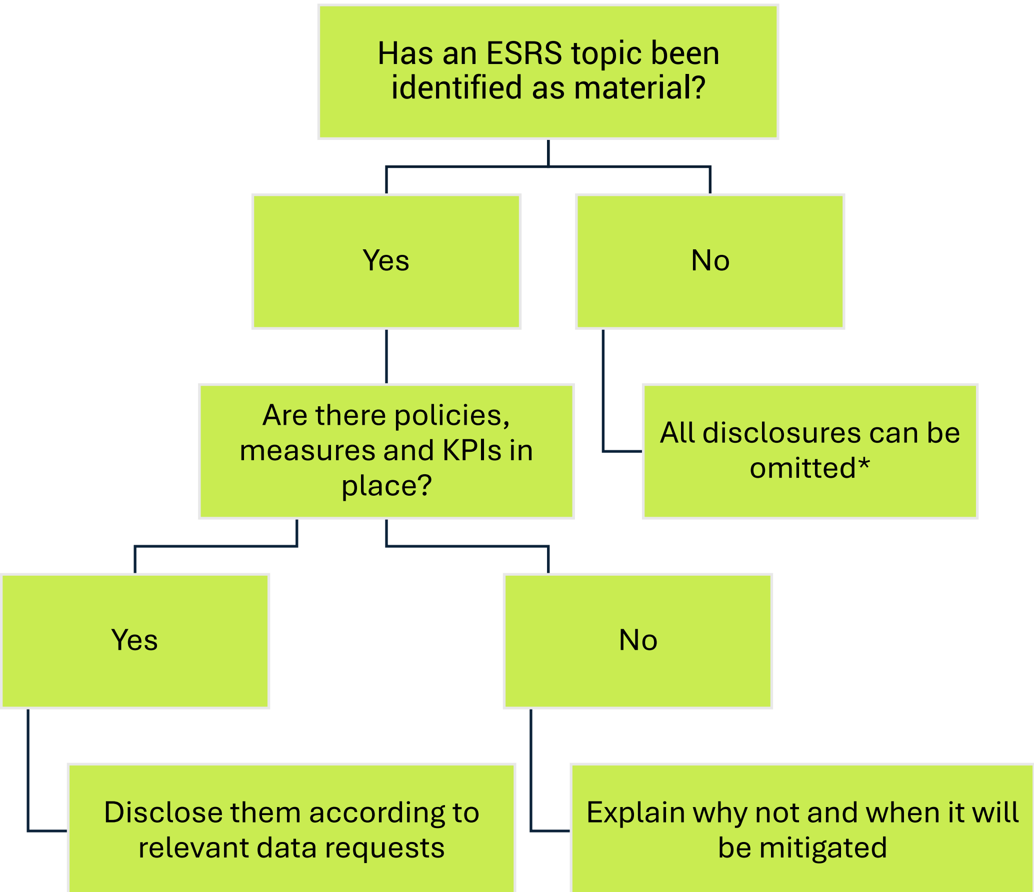


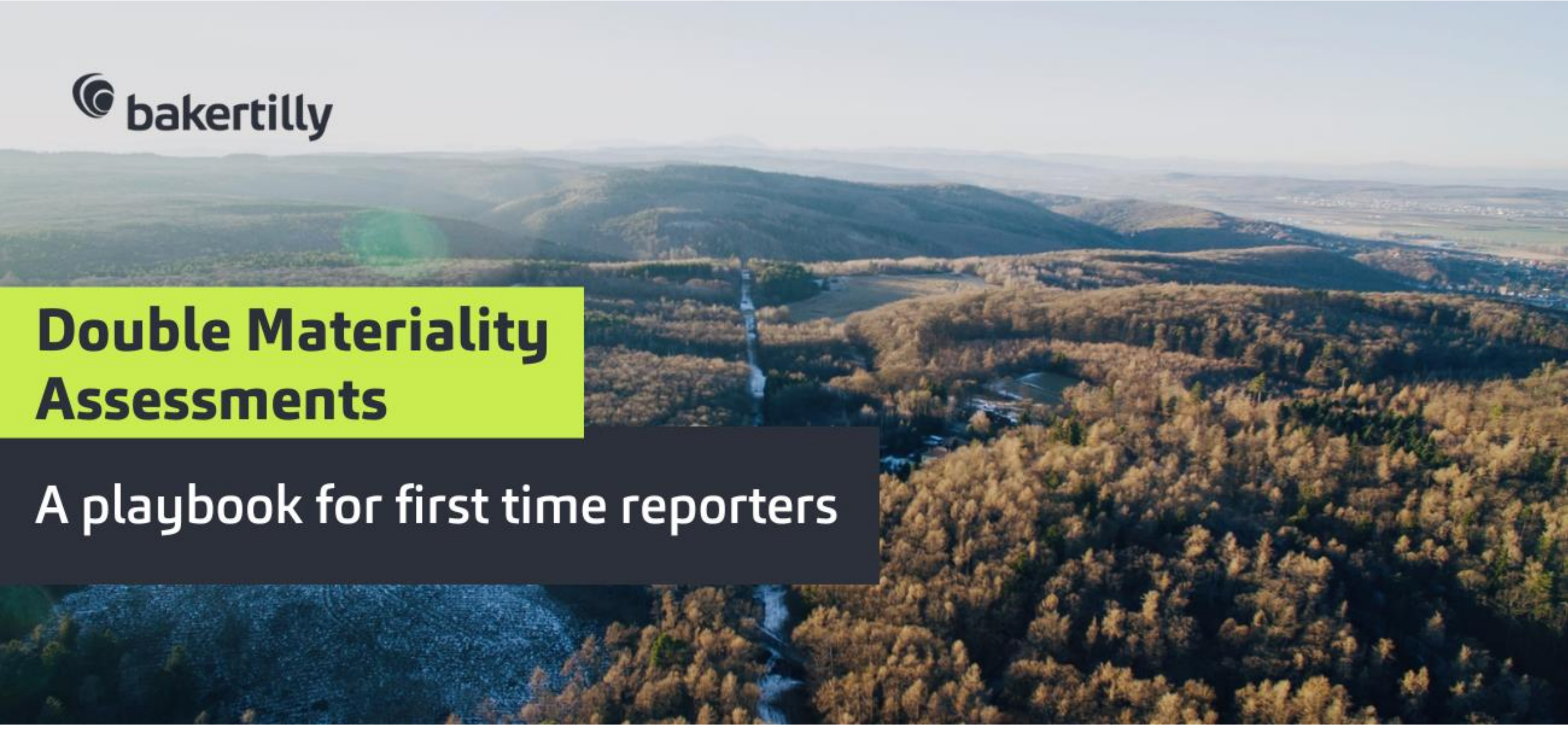


Double Materiality Assessments

A playbook for first time reporters

Why is the double materiality assessment important for companies reporting under the CSRD?
Under the CSRD, the double materiality assessment forms the basis for corporate reporting, as companies are required to disclose information on topics that are material to their business. In this way, only if a topic from the 21 European Sustainability Reporting Standards (ESRS) has been identified in the materiality assessment, then the said company needs to report on its policies and practices for that topic.





Double Materiality Assessments

A playbook for first time reporters

What is the process for conducting a DMA?

Step 1: Identifying potential topics – The longlist

The first step requires a deep understanding of the organization's business activities and value chain and research potential material topics. The research can be done through ESG frameworks and standards, scientific articles and benchmarking against peers. A good starting point is looking at the topics and subtopics of the ESRS, the UN Sustainable Development Goals and the industry standards of SASB.

Question to ask: What are the potential ESG impacts, risks and opportunities for my business?

Step 2: Stakeholder engagement

Engaging stakeholders will refine the list of potential topics, contributing perspectives from both inside and outside the company. To maximize the benefits of this process, it is important to involve stakeholders representing different interest groups such as senior management, key divisions within the company, employees and trade unions, customers, suppliers and subject matter experts. Along with identifying the number and type of stakeholders that will participate in the process, companies must determine the way each stakeholder will be engaged and determine the weights of answers for each stakeholder group. Typically, this step includes questionnaires, interviews and focus groups.

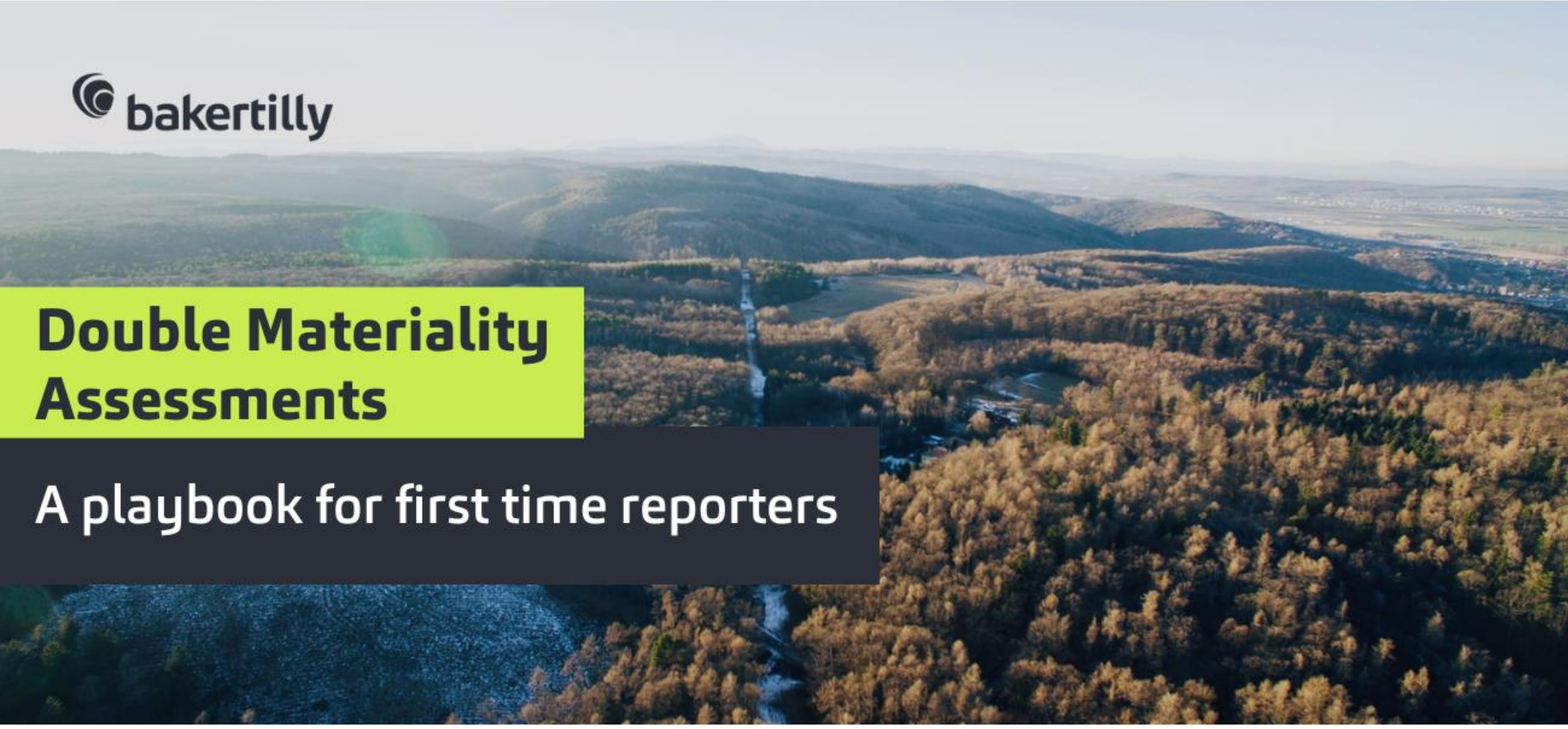
Question to ask: Who can provide insights on what could be material for my company?

Step 3: The shortlist and ranking

After the information has been collected from quantitative and qualitative sources, the next step is shortlisting the most important material topics considering the following factors, according to ESRS 1:

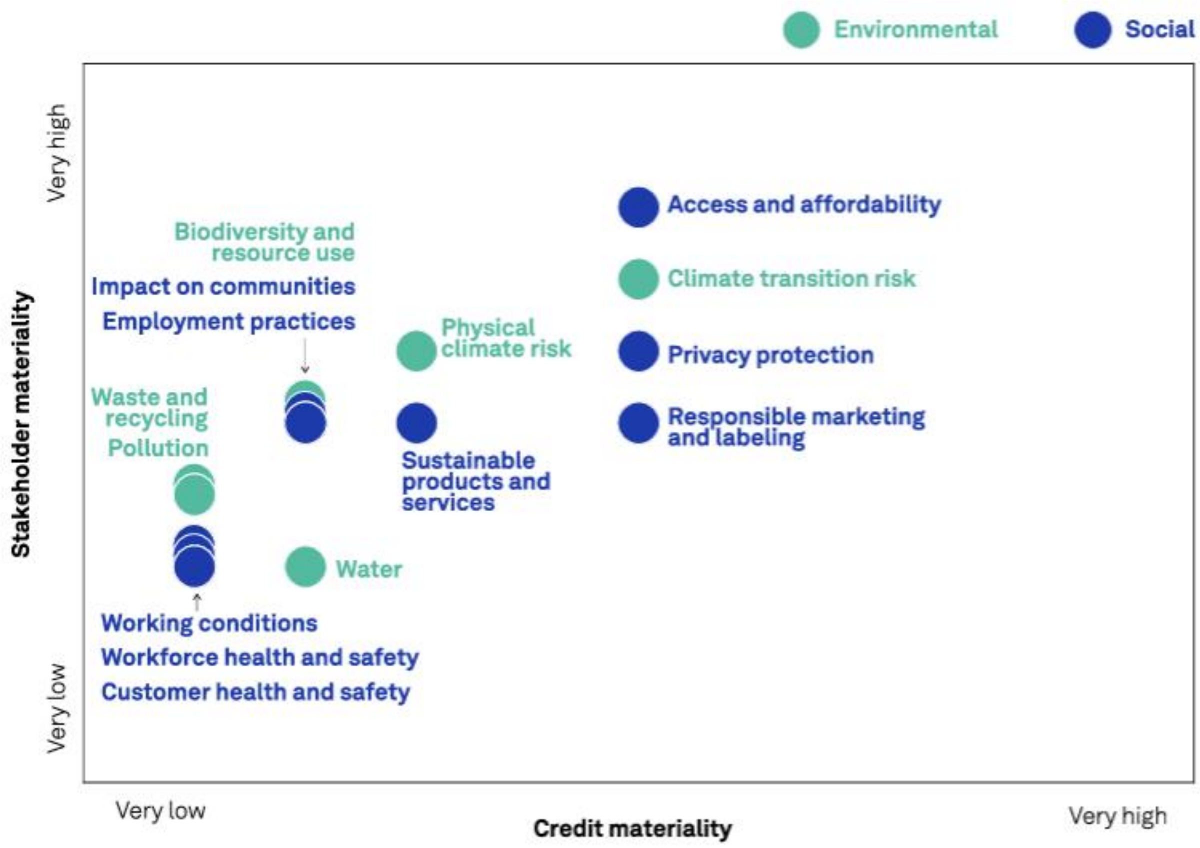
1. Scale: how grave the negative impact is or how beneficial the positive impact is for people or the environment;
2. Scope: how widespread the negative or positive impacts are. In the case of environmental impacts, the scope may be understood as the extent of environmental damage or a geographical perimeter. In the case of impacts on people, the scope may be understood as the number of people adversely affected;
3. Irremediability: whether and to what extent the negative impacts could be remediated, i.e., restoring the environment or affected people to their prior state
4. Likelihood: how likely it is for this impact or opportunity to occur

Question to ask: Which of the potentially material topics have the biggest impact on my company and vice versa?



Step 4: Finetuning and visualization

The end of the process is a list of material impacts, risks and opportunities. While the visual presentation of the materiality end product is not mandated by the ESRS, it is nonetheless a useful communication tool for internal and external audiences. Below is the materiality matrix for the banking sector, as published by S&P Global ratings.



Who to contact:

Maria Christofide
Senior Manager, Environmental, Social & Governance
p: +357 22 458500
e: m.christofide@bakertilly.com.cy