Definitions for the ESG Toolkit

Air Pollution/Pollutants. Referring to the presence of substances in the atmosphere that have a detrimental effect on humans and other living organisms. Most common forms include Carbon Monoxide (CO), Lead (Pb), Nitrogen Oxides (NOx), Ozone (O3), Particulate Matter (PM), Sulfur Dioxide (SOx), Volatile Organic Compounds (VOCs).

Avoided Emissions. Avoided emissions are emissions that didn't get generated. For example, some companies may track not only the emissions that arise from the use of their products, but also the avoided emissions in society that result from the use of their products and solutions compared to alternative products and solutions. These are sometimes referred to as Scope 4 Emissions or Avoided Emissions. Avoided emissions may also arise when accounting for the emissions impacts of using recycled rather than virgin materials, or from activities in other scope 3 categories. Accounting for avoided emissions occurs outside of a company's scope 1, scope 2, and scope 3 inventories and is not part of its emissions calculations.

Carbon credits. Instruments that give the right to emit carbon into the atmosphere and result in a reduction in greenhouse gas emissions released to the atmosphere.

Carbon offset. Projects that cancel out carbon produced from the removal of greenhouse gas emissions from the atmosphere.

ESG. An acronym standing for "Environmental, Social, Governance," was originally coined by the finance industry as a way to describe the non-financial risks they were assessing. Despite the association between ESG and climate change, there are a range of ESG issues that contribute to a company's overall strength and health:

- **Environmental – Air Pollution; Greenhouse Gas, Carbon Emissions; Energy; Water; Waste and Biodiversity.** These make up a company's environmental footprint, including greenhouse gas emissions, and other environmental impacts.
- **Social - Employee relations and development; Diversity and inclusion; Occupational health and safety; Community relations; Human rights; Forced labor; Privacy; and Data Security.** The social category covers the ways your company impacts people: your employees, your customers and suppliers, and the communities you operate in.
- **Governance - Board oversight; Board diversity; Risk management; Shareholder rights; and Anti-corruption**. Governance can be understood as "the system by which companies are directed and controlled." It includes the oversight structures and processes that set company objectives, measure progress and evaluate results.[4]

Global Warming Potentials (GWP). A measure of how much heat a gas can trap in the atmosphere over a certain period of time. The most common measure is the amount of heat trapped over a 100-year period, expressed as a "carbon dioxide equivalent." Each Greenhouse Gas has a different Global Warming Potential value, acting as a "multiplier" in calculating total emissions in terms of carbon dioxide equivalent (CO2e). For example, Carbon Dioxide (CO2) has a GWP of 1; Methane (CH4) has a GWP of 28; Nitrous Oxide (N2O) has a GWP of 265.[5]

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[4] WEF_Defining_the_G_in_ESG_2022.pdf (weforum.org)

[5] Source: https://www.ghgprotocol.org/sites/default/files/ghgp/Global-Warming-Potential-Values%20%28Feb%2016%202016%29_1.pdf

Greenhouse Gas. A greenhouse gas (GHG) is a gas that absorbs and emits radiant energy within the thermal infrared range, trapping of the sun's warmth in the planet's lower atmosphere. The primary greenhouse gases in Earth's atmosphere are water vapor ((H2O), carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), and ozone (O_3). Without greenhouse gases, the average temperature of Earth's surface would be about −18 °C (0 °F),[6] rather than the present average of 15 °C (59 °F).[7] The atmospheres of Venus, Mars and Saturn's moon Titan also contain greenhouse gases.[8]

Scope 1, 2 and 3 Emissions. Scope 1, 2, and 3 emissions are the three categories of greenhouse gas emissions that are commonly reported by businesses. These categories of greenhouse gas emissions, which were established by the World Resources Institute's Greenhouse Gas Protocol (GHG Protocol), are used to help organizations track and manage their greenhouse gas emissions in a consistent and transparent manner.

- **Scope 1 Emissions.** Scope 1 emissions are direct emissions from sources that are owned or controlled by an organization. Examples of scope 1 emissions could be emissions from on-site fossil fuel combustion, including process emissions and those from industrial processes, refrigeration, heating, air conditioning, electricity generation, and emissions from company-owned vehicles.
- **Scope 2 Emissions.** Scope 2 emissions are indirect emissions from the consumption of purchased electricity, heat, or steam. These emissions are not directly controlled by the reporting entity. Rather, they are a result of its activities and can be influenced by purchasing decisions. For example, if a company purchases electricity from a power plant that generates electricity from coal, the emissions from the power plant are considered scope 2 emissions for the company.
- **Scope 3 Emissions.** Scope 3 emissions are all other indirect emissions that are a result of the activities of an organization but are not included in scope 2. Examples of scope 3 emissions include emissions from employee commuting and business travel, waste disposal, and the use of purchased goods and services throughout an organization's supply chain/value chain.

Materiality. Before a company can begin to think about its ESG strategy, program and performance, it needs to determine which **ESG issues are relevant and significant to it** and how these issues fit into its overall business strategy. Some companies conduct a formal assessment of these issues, either by external discussions with shareholders and other stakeholders, or internally by looking at ESG issues already on the board's agenda or included in the company's business plan or risk management program. Some companies may decide to not conduct a formal assessment, and instead report on ESG issues that their industry peers report on or ESG issues their stakeholders most commonly inquire about. Regardless, companies should be able to answer the question: how do the specific ESG issues that the company has chosen to focus on contribute to its impact on stakeholders, short-term financial performance and/or long-term value creation?

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[6]World 101, by the Council on Foreign Relations. The Greenhouse Effect: https://world101.cfr.org/global-era-issues/climate-change/greenhouse-effect

[7] NASA, Solar System Temperatures: https://science.nasa.gov/resource/solar-system-temperatures/

[8] European Space Agency, Climate Change on Other Planets: https://www.esa.int/Science_Exploration/Space_Science/Space_for_you/Climate_change_on_other_planets

Please refer to the **Strategy, Goals and Materiality** section of the toolkit for more information about assessing topics that are material to a company.

Material topics. Topics that represent the organization's most **significant** impacts on the economy, environment, and people, including impacts on human rights, data privacy, political influence, and community reputation.

Renewable energy credits (REC). A form of tradable certificates that represent the renewable attributes of electricity generated from a renewable energy source. Each REC represents 1 megawatt-hour (MWh) of renewable electricity. RECs are sold separately from the electricity itself, allowing businesses and consumers to purchase renewable energy even if they have limited access to it in their immediate area.

Supplier. Entity upstream from the organization (i.e., in the organization's supply chain), which provides a product or service that is used in the development of the organization's own products or services. Examples include brokers, consultants, contractors, distributors, franchisees, home workers, independent contractors, licensees, manufacturers, primary producers, subcontractors, and wholesalers. Note: A supplier can have a direct business relationship with the organization (often referred to as a tier 1 supplier) or an indirect business relationship (supplied through another supplier, often referred to as a "non-tier 1" supplier).

Supply Chain. The range of activities carried out by entities upstream from the organization, which provide products or services that are used in the development of the organization's own products or services.

Sustainable development / sustainability. Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Source: World Commission on Environment and Development, Our Common Future, 1987
Note: The terms 'sustainability' and 'sustainable development' are used interchangeably in the GRI Standards.