LUXEMBOURG SUSTAINABLE BUSINESS PRINCIPLES

OUR COMMON 2030 GOAL

CHAMBER OF COMMERCE LUXEMBOURG

June 2021

Luxembourg Sustainable Business Principles

Our common 2030 GOAL

to put sustainability at the heart of corporate strategy in Luxembourg

For several years now, countries all over the world and the vast majority of their institutions, citizens and entrepreneurs have been aware of the vital and urgent need to address the many social and environmental challenges posed by the impact of human activity on the planet. Since economic activities create value and wealth, they are an engine of prosperity and social progress. So as not to jeopardise the very ecosystem in which companies operate, it is therefore evident: economic development must be sustainable.

Sustainable development[1] was first defined in the Brundtland Report of 1987 as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". This is truly an issue facing the entire planet, and even if the repercussions manifest themselves differently on a local scale, global mobilisation is required. In 2015, the UN rallied the entire international community around 17 Sustainable Development Goals (SDGs) resulting in a historic agreement that same year: the Paris Agreement on climate change. The third version of the National Plan for Sustainable Development (PNDD) launched in December 2019 is a key tool for the implementation of Luxembourg's 2030 Agenda for the SDGs.

It is therefore evident: economic development must be sustainable.

Notwithstanding the urgency of the situation given the challenges above, and the need for immediate action, sustainable development must be founded on an environmentally friendly and responsible[2] economic model that relies on necessary profitability and:

- contributes to the provision of effective long-term solutions to manage, mitigate and reduce environmental and societal impacts[3],
- balances the needs of society with the limits of the earth's resources and their regenerative capacity.

1 Sustainable development definition: see glossary page 39

2 As early as 2016, strategic work on the "Third Industrial Revolution" set the objective of driving the country's transition to new production and consumption models that would enable a shift to qualitative growth contributing to a better quality of life and consuming fewer resources (the decoupling of economic growth and resource consumption being a key point).

3 Impact definition: see glossary page 46

Luxembourg Sustainable Business Principles

Our common 2030 GOAL

to put sustainability at the heart of corporate strategy in Luxembourg

The long-term and the impacts of economic activities on all stakeholders must be taken into account alongside the need for shorter-term gains.

For companies, the challenges of sustainable development require simultaneous and aligned consideration of the needs of business, the environment and society. By generating added value, companies contribute to technical progress, the transition to a green economy, the implementation of innovative and efficient solutions, job creation and the development of society's well-being. All of these elements are key to the long-term success of businesses, social cohesion and environmental protection.

Companies are key to providing answers and operational solutions to societal and environmental challenges.

Throughout its history, the Grand Duchy has drawn its economic and social strength from a working model based on openness, an international setting, a pro-business spirit and a capacity for multi-cultural affiliation. These factors place it at the forefront of progress and well-being.

Companies are key to providing answers and operational solutions to societal and environmental challenges.

Luxembourg Sustainable Business Principles

Our common 2030 GOAL

to put sustainability at the heart of corporate strategy in Luxembourg

In keeping with this agility, Luxembourg companies are a real force for seizing the opportunities arising from sustainable development by reconciling economic growth with societal and environmental challenges.

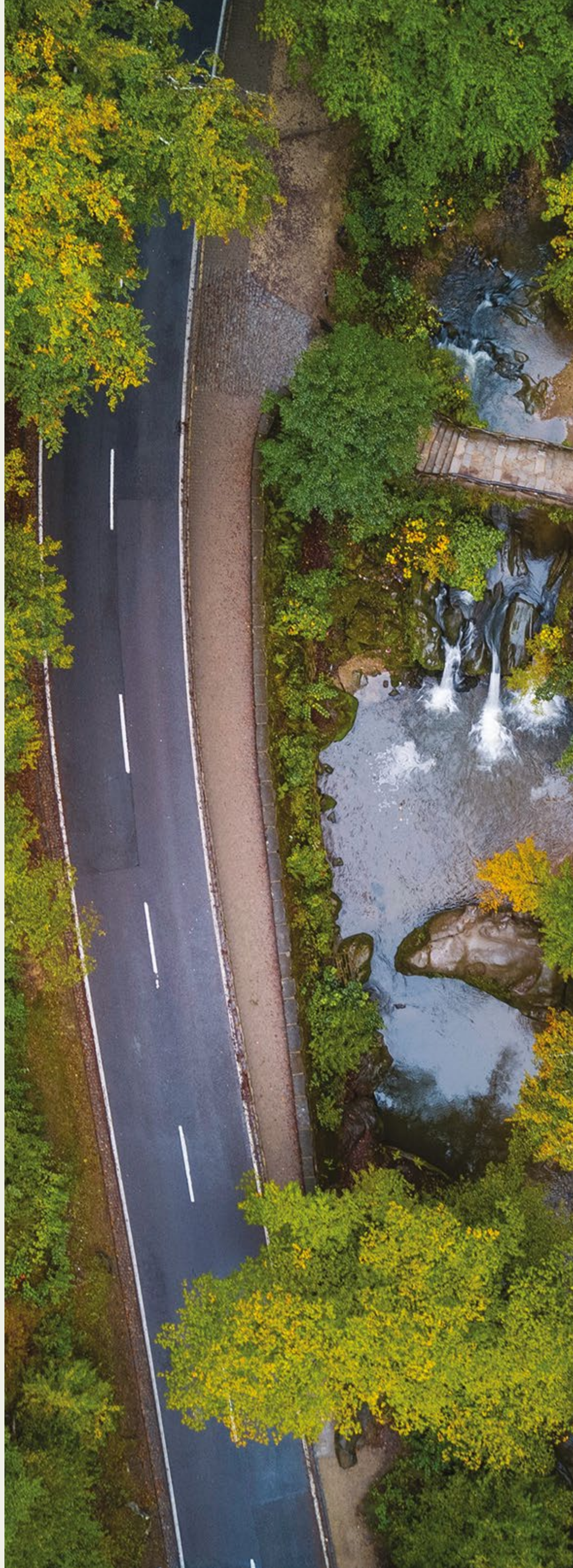
With this document, the Chamber of Commerce of the Grand Duchy of Luxembourg is putting forward 10 guiding principles for the business community to adapt their business models by integrating the challenges of sustainable development into the core of their strategy in a more systematic manner.

These principles form a compass that sets a course for each company in its transformation towards long-term value creation in line with the foundations of sustainable development. Whether they are small, medium or large, companies can contribute to the socio-economic prosperity of the country and play their part in achieving the PNDD goals.

Together, Luxembourg companies are striving for qualitative and inclusive growth and to become an inspiring and attractive model for sustainable development, located at the crossroads of Europe.

This document will sit alongside national ambitions underpinned by an operational action plan, broken down by sector and implemented in collaboration with the national partner organisations.

Together, Luxembourg companies are striving for qualitative[4] and inclusive[5] growth and to become an inspiring and attractive model for sustainable development, located at the crossroads of Europe.



4 Qualitative growth definition: see glossary page 37
5 Inclusive growth definition: see glossary page 38

As of 2021 and for the next decade, the Luxembourg Chamber of Commerce and its members, with the support of its partners, is assisting each company in implementing the following **10 interconnected guiding principles:**

10 principles

#1 Define and publish a **purpose** that is compatible with sustainable development

#2 Integrate **environmental, social and governance (ESG)**[6] **criteria**[7] **into the corporate strategy** and business model

#3 Reinforce **corporate governance** to ensure that ESG criteria are factored into corporate strategy and navigate its progress

#4 Assess the company's performance through both **financial and non-financial indicators**[8]

#5 **Innovate and invest responsibly** to develop growth opportunities

#6 Drive **value creation** for all stakeholders

#7 Contribute to the **decarbonisation of the economy** by developing a net zero emissions trajectory[9]

#8 Embed the **circular economy principle**[10] in the business model

#9 Perform **due diligence** on human rights and environmental impacts throughout the **value chain** of the company

#10 **Include and position employee stakeholders** in the sustainable development process and foster their engagement

Chart: People, Principles of Governance, Planet, Prosperity: The four pillars of the World Economic Forum – Measuring Stakeholder Capitalism)

6 ESG definition: see glossary page 43
7 Criteria definition: see glossary page 37
8 Indicator definition: see glossary page 47
9 Net zero emissions target definition: see glossary page 48
10 Circular economy definition : see glossary page 41

DEFINE AND PUBLISH A PURPOSE THAT IS COMPATIBLE WITH SUSTAINABLE DEVELOPMENT

FROM: **WHAT WE ARE DOING** → TO: **WHY WE ARE DOING IT**

01

Guiding principle 01

1 - DEFINE AND PUBLISH A PURPOSE THAT IS COMPATIBLE WITH SUSTAINABLE DEVELOPMENT

CHALLENGES

The place of companies, their role in 21st century society, and their ability to act and have an impact on societal and environmental issues are key to meeting the challenges of sustainable development. To this end and to underpin their positioning, companies are being encouraged to share their mission and commitment to society, and to define their purpose.

A purpose gives meaning. It defines the role that a company intends to play and its responsibilities beyond mere business activity, drawing on a vision and a long-term development strategy. It reflects the company's ambition and highlights its intention to identify concerns that contribute to both financial and non-financial performance. The purpose ensures the consistency of the company's strategy over the long term.

REGULATIONS AT EUROPEAN LEVEL:

- France: Law of 22 May 2019 on the growth and transformation of companies (PACTE law), to improve the performance of French companies and to reconsider companies' place in society

NATIONAL REFERENCES:

- The INDR's Guide ESR

INTERNATIONAL REFERENCES:

- World Economic Forum: Measuring Stakeholder Capitalism
- Bcorp Declaration of Interdependence

PARTNERSHIPS:

- INDR

01

guiding principle 01

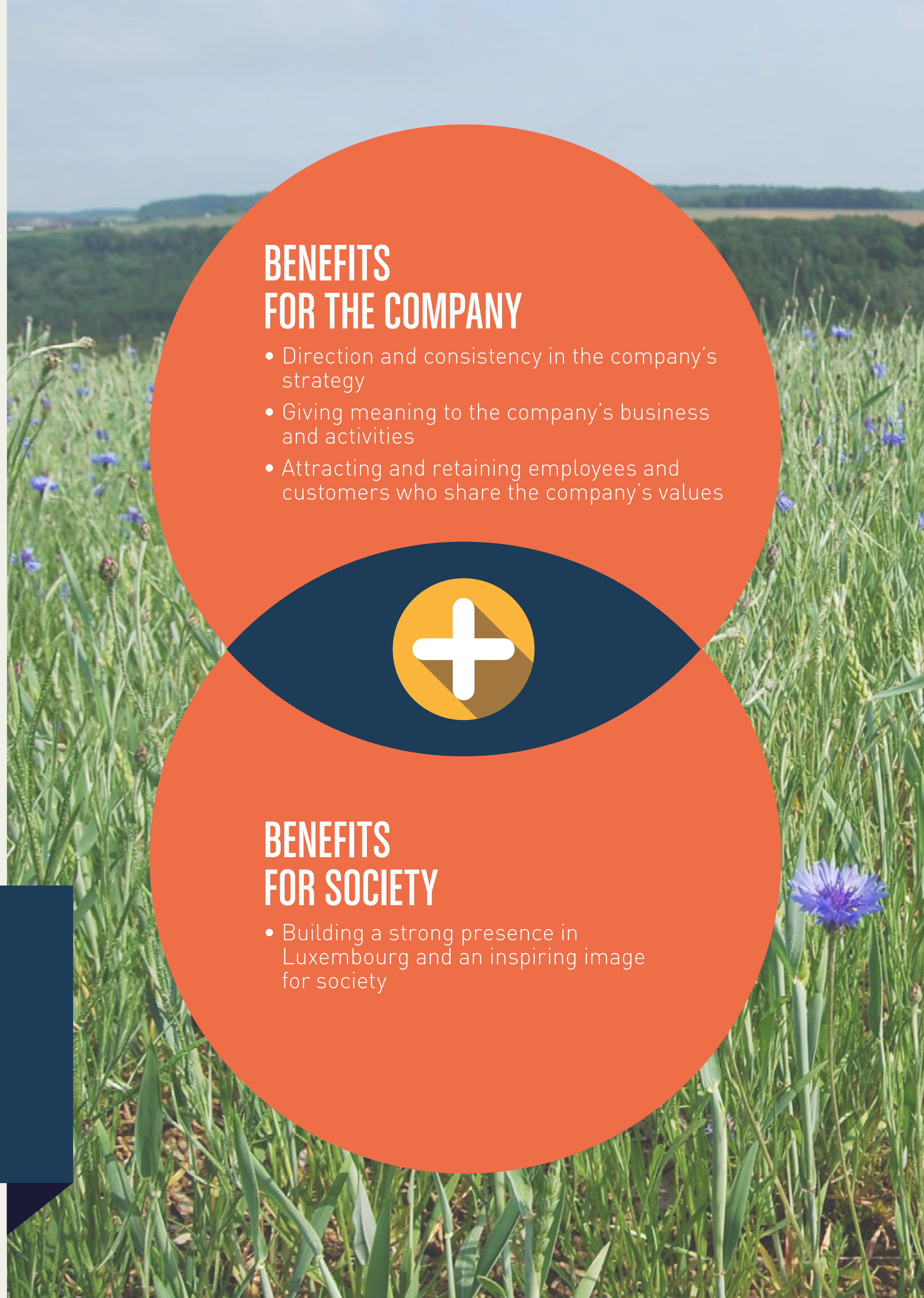
1 - DEFINE AND PUBLISH A PURPOSE THAT IS COMPATIBLE WITH SUSTAINABLE DEVELOPMENT

REASONS FOR TAKING ACTION

Companies that define their business's purpose position themselves strategically and open up new growth opportunities*. This improves the perception of a company among its stakeholders; this is especially true of younger generations, who will be the entrepreneurs, producers, investors, employers and consumers of tomorrow. Finally, by setting new objectives in terms of a positive impact on society or the environment, companies are identifying new areas for innovation.

GET STARTED IN 2021

Hold a brainstorming session on the company's purpose among the management team and the various departments, ensuring that all employees are included.



BENEFITS FOR THE COMPANY

- Direction and consistency in the company's strategy
- Giving meaning to the company's business and activities
- Attracting and retaining employees and customers who share the company's values

BENEFITS FOR SOCIETY

- Building a strong presence in Luxembourg and an inspiring image for society

*Harvard Business Review study, 2019, "Put Purpose at the Core of Your Strategy"

INTEGRATE ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) CRITERIA INTO THE CORPORATE STRATEGY AND BUSINESS MODEL

02

Guiding principle 02

FROM: **STRATEGY BASED ON FINANCIAL IMPACTS (ROI)**
TO: **STRATEGY BASED ON FINANCIAL AND NON-FINANCIAL IMPACTS (ESG)**

2 - INTEGRATE ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) CRITERIA INTO THE CORPORATE STRATEGY AND BUSINESS MODEL

CHALLENGES

Energy, digital and societal transitions are increasingly shaping the context in which companies operate today. These developments are profoundly changing society's expectations as regards the role of companies.

To remain successful and competitive, companies need to understand the related impacts and assess the risks[11] including ESG criteria in order to adapt their business models.

To this end, companies need to adapt their goods and services through innovative solutions and the use of new technologies (especially digital solutions), and to identify new needs and markets. This will enable them to mitigate their risks and develop new revenue streams.

Corporate social responsibility[12] (CSR) is integral to and underpins any business strategy. CSR is integrated throughout the value chain, e.g. supply, production, distribution, and support. Depending on its stage of maturity, each company can progressively improve its ESG performance by integrating eco-design[13] practices into its manufacturing of products or services. Similarly, due diligence is inherent to the management of its supply and distribution chains.

EUROPEAN REGULATIONS:

- Sustainable Finance Disclosure Regulation (SFDR)
- Corporate Sustainability Reporting Directive (CSRD)
- EU Taxonomy Regulation

NATIONAL REFERENCES:

- The INDR's Guide ESR (strategic chapter)

INTERNATIONAL REFERENCES:

- GRI Sustainability Reporting Standards
- SASB framework (sectoral)

PARTNERSHIPS:

- Abbl, ACA, clc, Fedil, INDR, IMS

11 Risk definition: see glossary page 49
12 Corporate social responsibility (CSR) definition: see glossary page 40
13 Eco-design definition: see page 41

2 - INTEGRATE ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) CRITERIA INTO THE CORPORATE STRATEGY AND BUSINESS MODEL

REASONS FOR TAKING ACTION

By integrating ESG criteria into its strategy, the company mitigates the risks and seizes the opportunities associated with sustainable development issues. It improves the company's performance and productivity through better service quality, ensures easier access to financing and makes it more attractive to its employees and customers.

From a regulatory point of view, integrating ESG criteria meets the new legal requirements and anticipates potential future constraints.

GET STARTED IN 2021

Identify and analyse the material impacts of your company according to ESG criteria

REINFORCE CORPORATE GOVERNANCE TO ENSURE THAT ESG CRITERIA ARE FACTORED INTO CORPORATE STRATEGY AND NAVIGATE ITS PROGRESS

Guiding principle 03

03

FROM: **APPOINT A CSR MANAGER** → TO: **INVOLVE SHAREHOLDERS, PARTNERS, MANAGEMENT AND THE VARIOUS DEPARTMENTS IN PUSHING FORWARD A STRATEGY INTEGRATING ESG CHALLENGES**

3 - REINFORCE CORPORATE GOVERNANCE TO ENSURE THAT ESG CRITERIA ARE FACTORED INTO CORPORATE STRATEGY AND NAVIGATE ITS PROGRESS

CHALLENGES

The basic principles of governance – responsibility, control and transparency – are key to ensuring that the interests of all stakeholders in every company are safeguarded. Companies are increasingly incentivised to place ESG criteria at the core of their strategy. Their governance plays an instrumental role in leading the company towards an ESG strategy and enabling it to develop both financial and non-financial performance in the long-term.

To achieve this, shareholders, partners and the management team must agree on a strategy integrating ESG issues. They validate its objectives and the roadmap and follow up regularly with management.

The company defines and applies material[14] ESG criteria as part of its management and decision-making processes. This also leads to the adoption of a comprehensive an interdependent stakeholder management (customers, intermediaries, suppliers, employees, shareholders, local communities, etc.)

Sustainable development – as well as its interdependence with digitalisation – favours a significant transformation in how organisations work. They become more agile, transversal and interconnected. These organisational changes can also drive new and innovative governance and decision-making schemes.

EUROPEAN REGULATIONS:

- Shareholder Rights Directive II (SRD II)
- Sustainable Corporate Governance Directive (in the pipeline)

INTERNATIONAL REFERENCES:

- UNEP FI Principles for Responsible Banking
- UNEP FI Principles for Sustainable Insurance

NATIONAL REFERENCES:

- The Ten Principles of Corporate Governance of LuxSE

PARTERNARIAS :

- ILA, LuxSE, INDR

03

Guiding principle 03

14 Materiality definition: see glossary page 47

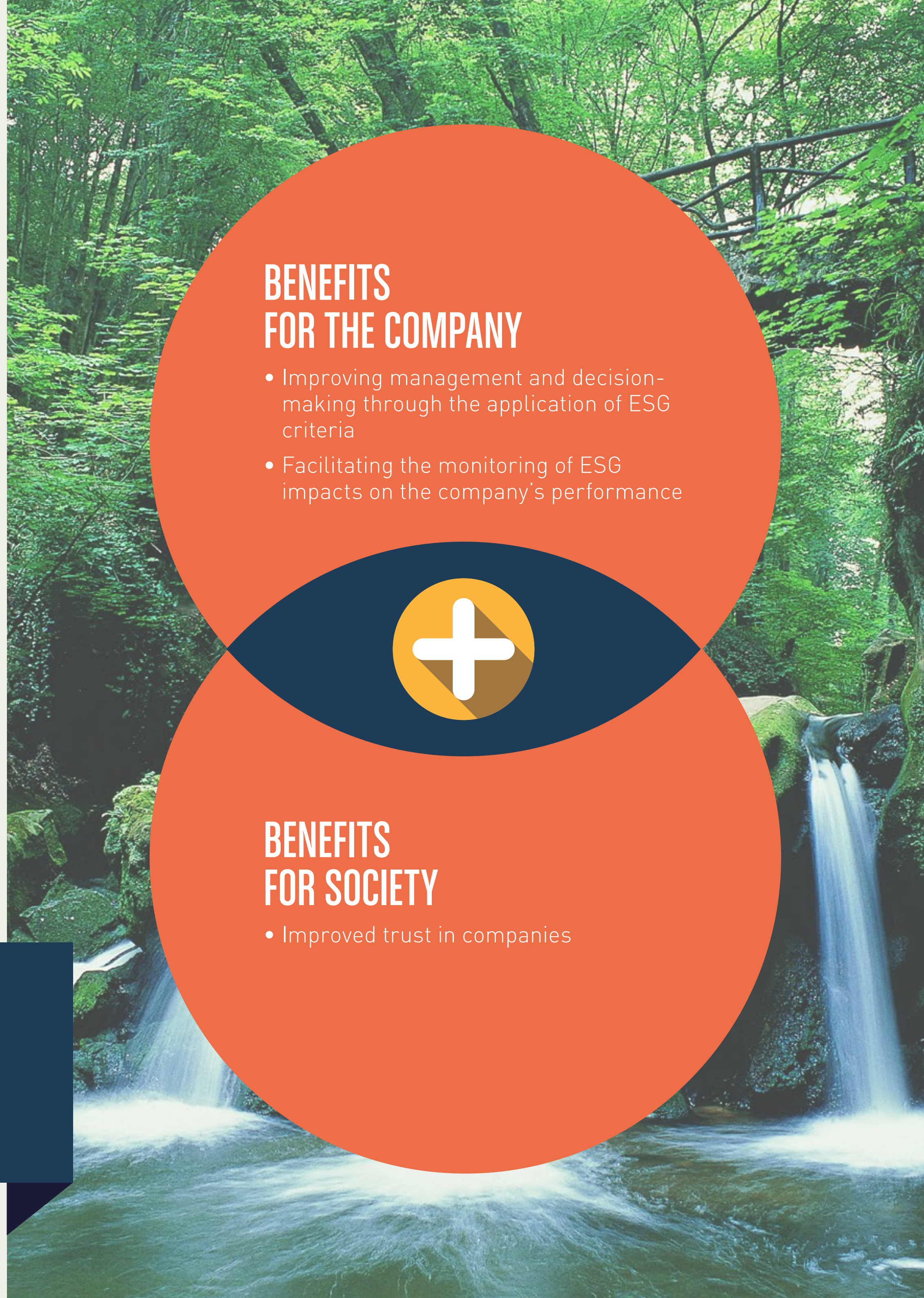
3 - REINFORCE CORPORATE GOVERNANCE TO ENSURE THAT ESG CRITERIA ARE FACTORED INTO CORPORATE STRATEGY AND NAVIGATE ITS PROGRESS

REASONS FOR TAKING ACTION

Good corporate governance ensures that the ESG strategy is followed over the long term. ESG impacts are analysed and monitored by shareholders and employees alike, supporting strategic decision-making.

GET STARTED IN 2021

Train all board members in ESG criteria and future regulatory changes



BENEFITS FOR THE COMPANY

- Improving management and decision-making through the application of ESG criteria
- Facilitating the monitoring of ESG impacts on the company's performance

BENEFITS FOR SOCIETY

- Improved trust in companies

ASSESS THE COMPANY'S PERFORMANCE THROUGH BOTH FINANCIAL AND NON-FINANCIAL INDICATORS

FROM: **REPORTING FINANCIAL INDICATORS** →
TO: **EXPAND REPORTING TO INCLUDE NON-FINANCIAL INDICATORS AND MAKE THEM INDICATORS OF THE COMPANY'S PERFORMANCE**

04

Guiding principle 04

4 - ASSESS THE COMPANY'S PERFORMANCE THROUGH BOTH FINANCIAL AND NON-FINANCIAL INDICATORS

CHALLENGES

In addition to its capacity to create value, employment and profit, a company's sustainability is also dependent on the skills and well-being of its staff, and on all the positive-impact solutions that its value chain brings to the ecosystem in which it operates.

Stakeholders, including shareholders, need transparent information on financial performance but also on what could ultimately put profitability at risk. Communicating the financial and operational performance of a business strategy is no longer enough.

In response to the expectations of customers, investors and regulators, each company is encouraged to assess and monitor its performance by adding non-financial indicators (ESG) to ensure complete coverage of its actions and impacts.

EUROPEAN REGULATIONS:

- Non-Financial Reporting Directive (NFRD)
- Corporate Sustainability Reporting Directive (CSRD)
- Sustainable Finance Disclosure Regulation (SFDR)
- EU Taxonomy Regulation

INTERNATIONAL REFERENCES:

- World Economic Forum (WEF): Towards Common Metrics and Consistent Reporting of Sustainable Value Creation
- UN Global Compact
- OECD guidelines for multinational enterprises
- ISO 26000

NATIONAL REFERENCES:

- The INDR's Guide ESR

PARTNERSHIPS:

- House of Training

04

Guiding principle 04

4 - ASSESS THE COMPANY'S PERFORMANCE THROUGH BOTH FINANCIAL AND NON-FINANCIAL INDICATORS

REASONS FOR TAKING ACTION

Measuring non-financial data allows the company to monitor its performance and identify areas for improvement. By being transparent in how it reports to and communicates with all stakeholders, each company brings credibility and meaning to its strategy, reinforces the operational commitment to its approach, improves the attractiveness of its products and services for clients and its overall attractiveness for new talent.

GET STARTED IN 2021

Set up a dashboard with financial and non-financial indicators, e.g. based on the 21 common metrics proposed by the WEF

BENEFITS FOR THE COMPANY

- Highlighting areas for improvement
- Improving management and decision-making through material* ESG impact criteria
- Securing access to financing and meeting investor demand

BENEFITS FOR SOCIETY

- Reputation as a strong marketplace
- Transparency and trust

Materiality definition: see glossary page 47

INNOVATE AND INVEST RESPONSIBLY TO DEVELOP GROWTH OPPORTUNITIES

05

Guiding principle 05

FROM: DEVELOPING NEW PRODUCTS AND SERVICES → TO: INTEGRATING SUSTAINABLE DEVELOPMENT CRITERIA INTO THE DEVELOPMENT OF NEW PRODUCTS AND SERVICES

5 - INNOVATE AND INVEST RESPONSIBLY TO DEVELOP GROWTH OPPORTUNITIES

CHALLENGES

The ability of companies to invest and innovate reinforces their growth potential, productivity, and agility. By integrating sustainable development criteria into their innovation and investment process, companies are better able to adapt to changes in their environment.

A responsible company must devote an increasing share of R&D to innovation and other responsible solutions. This allows it to more easily comply with increasingly stringent regulations. By drawing on the principles of precaution, ethics and transparency, the company's responsible products and services meet the new expectations of customers. The latter are increasingly concerned about the supply chain, traceability, human rights, fair prices, employee remuneration, product characteristics and their environmental and social impacts. Factoring environmental and ethical matters into companies' digital transition is also of paramount importance. Technological innovations such as blockchain and artificial intelligence are high-potential levers for companies in their sustainable transition.

MULTILATERAL AGREEMENTS:

- UN Sustainable Development Goals (SDGs 9 on Industry, Innovation and Infrastructure, 12 on Responsible Consumption and Production, 13 on Climate Action)

EUROPEAN REGULATIONS:

- Sustainable Finance Disclosure Reporting (SFDR)

EUROPEAN REFERENCES:

- EU Industrial Strategy and EU Green Transition Plan
- EU Eco-innovation Action Plan
- RRI Tools (Responsible Research and Innovation)

NATIONAL REFERENCES:

- "Third Industrial Revolution" Luxembourg (2016)

PARTNERSHIPS:

- House of Startups and LCI, LIST, LOIC, Luxinnovation

05

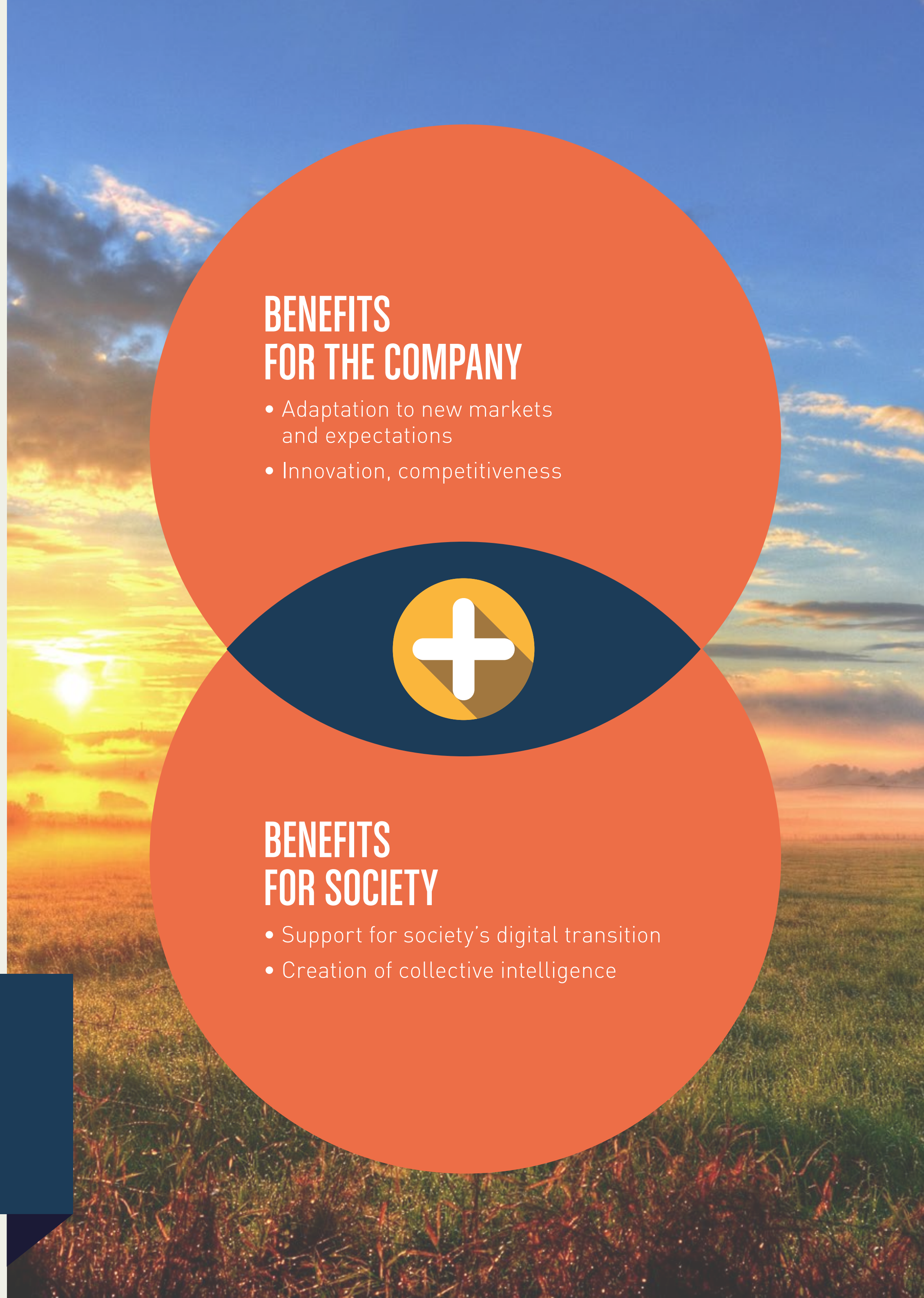
Guiding principle 05

REASONS FOR TAKING ACTION

The spirit of innovation, the stimulation of internal creativity and the promotion of intrapreneurship within a company are powerful factors in employee performance, productivity, and well-being. Companies that innovate have the advantage of seizing opportunities linked to market developments and new technologies. They anticipate changes and adapt to ever-evolving markets in order to gain a competitive edge. These innovations can have an impact on a larger scale through partnerships and sharing of best practices. Agile, high-performing, and competitive companies are genuine catalysts for social change.

GET STARTED IN 2021

Integrate ESG criteria into the design of new products or services



BENEFITS FOR THE COMPANY

- Adaptation to new markets and expectations
- Innovation, competitiveness

BENEFITS FOR SOCIETY

- Support for society's digital transition
- Creation of collective intelligence

DRIVE VALUE CREATION FOR ALL STAKEHOLDERS

FROM: SHAREHOLDER CAPITALISM
→ TO: STAKEHOLDER CAPITALISM

06

Guiding principle 06

CHALLENGES

Companies are part of an ecosystem made up of many interdependent stakeholders with intersecting interests, including shareholders, employees, customers, subcontractors, local communities, and public stakeholders.

The forthcoming Sustainable Corporate Governance Directive and Corporate Sustainability Reporting Directive strengthen the requirement for stakeholder management by the company in order to better understand the impacts of the company on its ecosystem. They support the United Nations 2030 Agenda for sustainable development that identifies prosperity for all as a crucial issue.

For companies, it is an opportunity to measure and value the creation of value with respect to various stakeholders and to manage the consistent and positive development of this value over time. Beyond the economic implications in terms of direct employment or the added value of the balance sheet, the company is also a vector for the creation of multiple values, i.e. financial value, human capital, knowledge and intangible capital and processes as well as value that is perceived by customers.

By developing a model of inclusive growth[15], the company contributes to the prosperity of its environment reflecting a win-win approach.

EUROPEAN REGULATIONS:

- Sustainable Corporate Governance Directive (in the pipeline)
- Corporate Sustainability Reporting Directive (CSRD)

NATIONAL REFERENCES:

- INDR Value creation model

INTERNATIONAL REFERENCES:

- World Economic Forum Initiative on Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation
- Balanced Scorecard Framework, Robert S. Kaplan AND David Norton (1992)

PARTNERSHIPS:

- INDR, IMS, WEF

06

guiding principle 06

15 Inclusive growth definition: see glossary page 38

REASONS FOR TAKING ACTION

As advocated by the World Economic Forum, business is moving towards stakeholder capitalism. Through responsible management of value creation in the short, medium and long term, the company aims to produce sustainable value for shareholders and its other stakeholders, e.g. customers, employees, subcontractors, local communities, public service providers, etc., consistent with inclusive growth.

GET STARTED IN 2021

Identify all stakeholders able to benefit from the value created, and assess the starting point

BENEFITS FOR THE COMPANY

- Better management of value creation and resilience
- Attracting and retaining talent
- Development of a company's human capital
- Enhanced leadership, reputation and attractiveness

BENEFITS FOR SOCIETY

- Contribution to the prosperity of the local community
- Positive impact on the social climate and on the environment

CONTRIBUTE TO THE DECARBONISATION OF THE ECONOMY BY DEVELOPING A NET ZERO EMISSIONS TRAJECTORY*

07

Guiding principle 07

FROM: **REDUCING ENERGY CONSUMPTION →**
TO: **CONTRIBUTING TO THE DECARBONISATION OF THE ECONOMY BY DEVELOPING A NET ZERO EMISSIONS TRAJECTORY**

** Net zero emissions definition: see glossary page 48*

7 - CONTRIBUTE TO THE DECARBONISATION OF THE ECONOMY BY DEVELOPING A NET ZERO EMISSIONS TRAJECTORY

CHALLENGES

Aware of the climate emergency and the need to act at all levels during this decisive decade, companies are factoring climate change and the associated risks into their business strategies. They are aligning themselves with national, European and international climate objectives, as specified in the PNEC (Integrated national energy and climate plan), the Green Deal and the Paris Agreement, which aim to achieve climate neutrality[16] by 2050, reduce GHG[17] emission by at least 55% by 2030, and keep global warming below the 1.5 °C threshold.

In addition to incremental GHG[17] emission reduction measures, companies are making the management of climate-related risks and opportunities an integral part of their strategy and develop ambitious decarbonisation plans and net zero emissions[18] trajectories in line with climate science and underpinned by appropriate public support. Companies can support these trajectories by measures such as redirecting their investments towards innovative new solutions.

16 Carbon neutrality definition: see glossary page 48
17 GHG definition: see glossary page 46
18 Net zero emissions definition: see glossary page 48

MULTILATERAL AGREEMENTS:

- Paris Agreement (COP21, 2015)
- UN Sustainable Development Goals (SDGs on climate action, affordable and clean energy))

EUROPEAN REGULATIONS:

- European Green Deal roadmap and associated regulations

NATIONAL REGULATIONS:

- Climate Law
- Integrated national energy and climate plan (PNEC)

INTERNATIONAL REFERENCES:

- Task Force on Climate-related Financial Disclosures (TCFD)
- Science Based Target Initiative
- Climate Scenario Analysis Program (PACTA)
- EU Industrial Strategy and EU Green Transition Plan

NATIONAL REFERENCES:

- "Third Industrial Revolution" Luxembourg (2016)

PARTNERSHIPS:

- IMS, LIST, Luxinnovation, Cluster for Logistics, MyEnergy, CSDD, Luxembourg Sustainable Finance Initiative

7 - CONTRIBUTE TO THE DECARBONISATION OF THE ECONOMY BY DEVELOPING A NET ZERO EMISSIONS TRAJECTORY

REASONS FOR TAKING ACTION

Faced with increasingly stringent regulations and growing demand from investors and civil society, companies that adopt a net zero emission trajectory are more competitive in the long term and able to secure access to future investment. Beyond regulatory compliance, factoring climate-related risks and opportunities into their strategy boosts companies' resilience, innovation, and attractiveness.

GET STARTED IN 2021

Measuring greenhouse gas (GHG) emissions[19] resulting from a business activity via the carbon footprint report/GHG Protocol

BENEFITS FOR THE COMPANY

- Regulatory compliance
- Attracting investors and gaining market share
- Managing supply chains with exposure to climate risks
- Upgrading of infrastructure
- Economic energy gain

BENEFITS FOR SOCIETY

- Adapting the country to climate change
- Positive impact on the environment
- Attractiveness and competitiveness of the Luxembourg marketplace
- Innovation

19 GHG definition: see glossary page 46

EMBED THE CIRCULAR ECONOMY PRINCIPLE IN THE BUSINESS MODEL

FROM: APPLYING A LINEAR "EXTRACT-MAKE-DISCARD" MODEL → TO: MOVING TO A CIRCULAR USE OF RESOURCES

08

Guiding principle 08

8 - EMBED THE CIRCULAR ECONOMY PRINCIPLE IN THE BUSINESS MODEL

CHALLENGES

To address the ever-increasing strain placed on the planet's resources and environment by production and consumption, companies are anticipating future changes to their business models and committing to defining and implementing strategies to ensure that resources are used more efficiently.

They are moving from the linear "extract-make-discard" model to a circular model, which aims to produce goods and services in a sustainable way. This circular approach includes new business models that focus on use (i.e. functionality economy) rather than ownership. This virtuous cycle[20] makes it possible to limit the consumption and wastage of resources (raw materials, water, and energy), while reducing the production of waste materials.

The circular economy constitutes an important lever in the fight against climate change and biodiversity loss in that it aims to reuse, repair, renovate and recycle existing materials and products: what we once considered "waste" can now be turned into a resource.

MULTILATERAL AGREEMENTS:

- UN Sustainable Development Goals (SDG 12 on Responsible Consumption and Production)

EUROPEAN REGULATIONS:

- European Green Deal roadmap and associated regulations

INTERNATIONAL REFERENCES:

- Action plan for a circular economy: for a cleaner and more competitive Europe (2020)

NATIONAL REFERENCES:

- Strategy for a circular economy Luxembourg (February 2021)
- "Null Offall Lëtzebuerg" strategy
- "Third Industrial Revolution" Luxembourg (2016)

PARTNERSHIPS:

- LIST, CSDD, Luxinnovation

08

Guiding principle 08

20 Lifecycle definition: see glossary page 38

8 - EMBED THE CIRCULAR ECONOMY PRINCIPLE IN THE BUSINESS MODEL

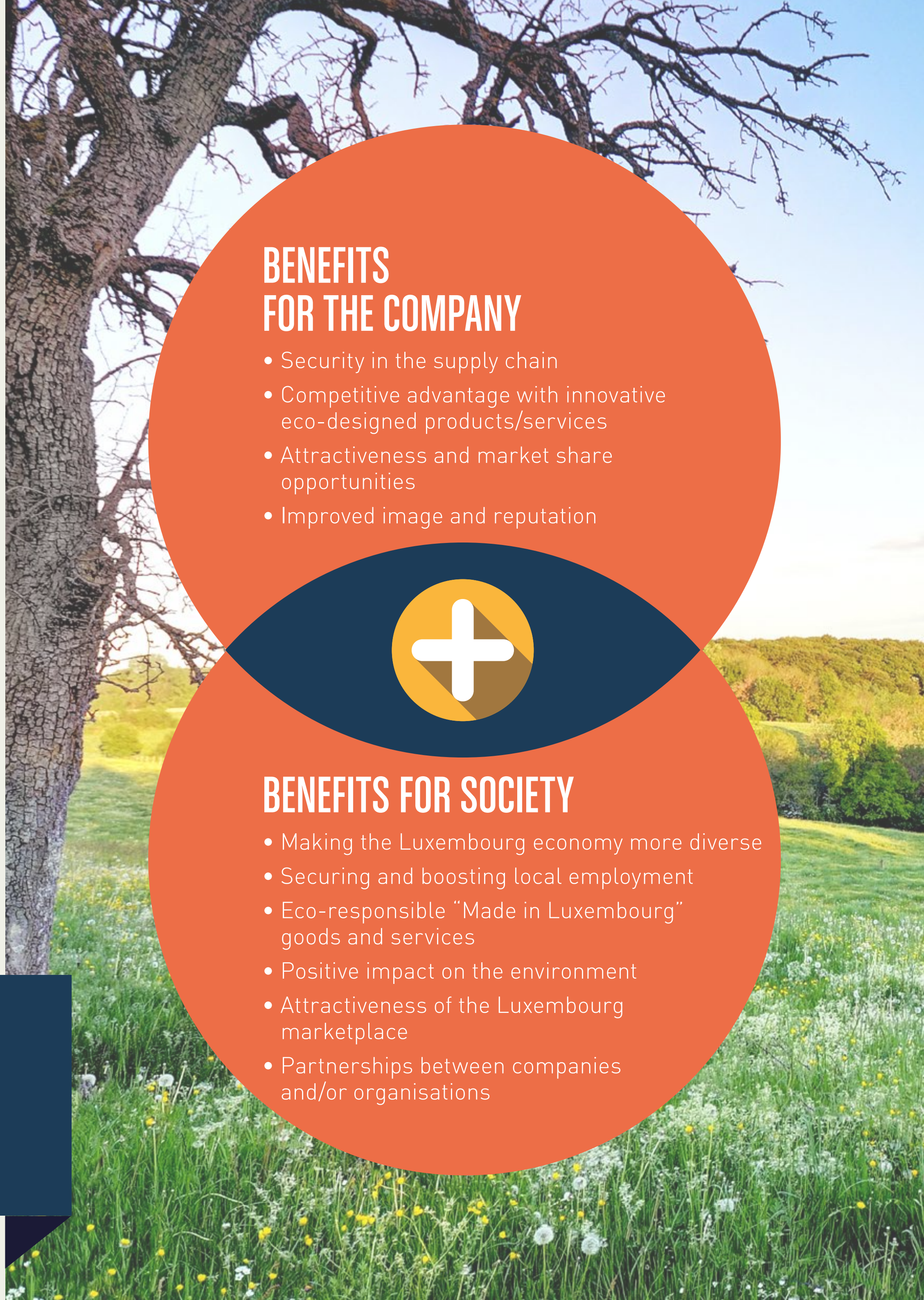
REASONS FOR TAKING ACTION

A circular model has a positive impact by generating jobs – a large proportion of which are local – by stimulating innovation and the development of new business models. It helps to secure flows and supply costs, as it promotes the reuse of more "secondary raw materials" from recycling and is a response to growing consumer demand for eco-designed products.

With this circular model, growth can be decoupled from its negative impacts on society, resources, and the environment.

GET STARTED IN 2021

Conduct a Life Cycle Assessment (LCA)[21] of new products or services



BENEFITS FOR THE COMPANY

- Security in the supply chain
- Competitive advantage with innovative eco-designed products/services
- Attractiveness and market share opportunities
- Improved image and reputation

BENEFITS FOR SOCIETY

- Making the Luxembourg economy more diverse
- Securing and boosting local employment
- Eco-responsible "Made in Luxembourg" goods and services
- Positive impact on the environment
- Attractiveness of the Luxembourg marketplace
- Partnerships between companies and/or organisations

21 Lifecycle definition: see glossary page 38

PERFORM DUE DILIGENCE ON HUMAN RIGHTS AND ENVIRONMENTAL IMPACTS THROUGHOUT THE COMPANY'S VALUE CHAIN

Guiding principle 09

09

FROM: **ENSURING RESPONSIBLE CONDUCT** →
TO: **INTEGRATING RISK MANAGEMENT OF HUMAN RIGHTS AND ENVIRONMENTAL IMPACTS INTO THE STRATEGIC AND OPERATIONAL PROCESS**

9 - PERFORM DUE DILIGENCE ON HUMAN RIGHTS AND ENVIRONMENTAL IMPACTS THROUGHOUT THE COMPANY'S VALUE CHAIN

CHALLENGES

Within the framework of the new Sustainable Corporate Governance Directive, the European Union is working on a regulation aimed at encouraging European companies to implement due diligence with their subcontractors. Companies will be required to introduce mechanisms to prevent human rights infringement and environmental damage throughout their value chain.

By adopting risk management at the level of business activities, supply chains and business relations, a company can avoid and address the risks of negative impacts on workers, human rights, the environment, corruption, consumers and corporate governance.

EUROPEAN REGULATIONS:

- European Directive Sustainable Corporate Governance and Due Diligence (in the pipeline)
- France: " loi sur le devoir de vigilance »
- Germany: "Lieferkettengesetz"

INTERNATIONAL REFERENCES:

- OECD Due Diligence Guide for Responsible Business Conduct (2011)
- United Nations Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises

NATIONAL REFERENCES:

- National Action Plan "Business and Human Rights"

PARTNERSHIPS:

- INDR, IMS, Fedil

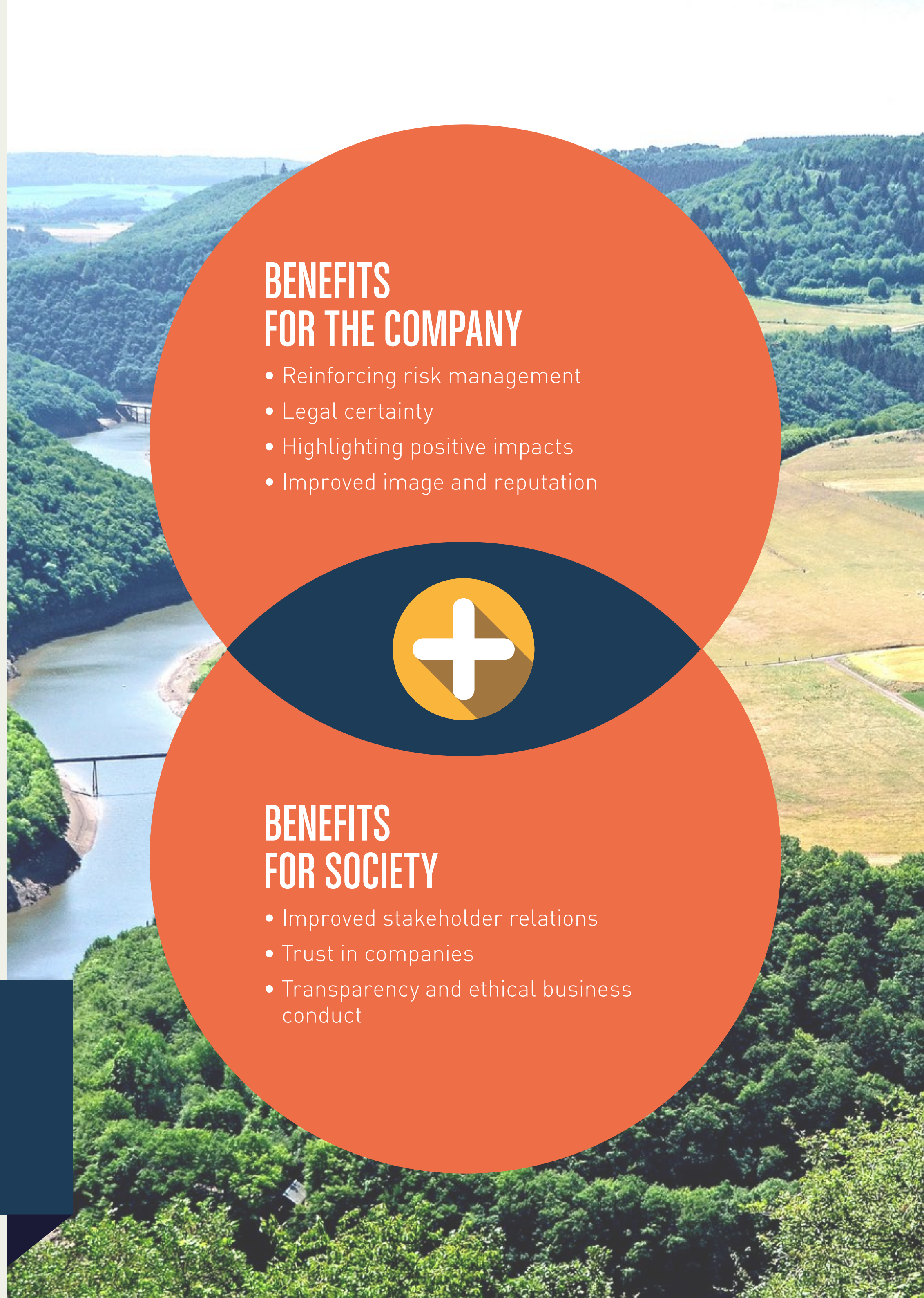
09

Guiding principle 09

9 - PERFORM DUE DILIGENCE ON HUMAN RIGHTS AND ENVIRONMENTAL IMPACTS THROUGHOUT THE COMPANY'S VALUE CHAIN

REASONS FOR TAKING ACTION

By adopting responsible business conduct, companies make a positive contribution to society by improving stakeholder relations, increasing trust in business, and boosting transparency and ethical business conduct. Internally, companies have greater knowledge and control of the value chain, strengthening their risk management.



BENEFITS FOR THE COMPANY

- Reinforcing risk management
- Legal certainty
- Highlighting positive impacts
- Improved image and reputation

BENEFITS FOR SOCIETY

- Improved stakeholder relations
- Trust in companies
- Transparency and ethical business conduct

GET STARTED IN 2021

Sign the "Business and Human Rights" pact and become familiar with the dedicated toolbox

INCLUDE AND POSITION EMPLOYEE STAKEHOLDERS IN THE SUSTAINABLE DEVELOPMENT PROCESS AND FOSTER THEIR ENGAGEMENT

10

Guiding principle 10

FROM: PROMOTING A CULTURE OF SUSTAINABILITY AT ALL LEVELS OF A COMPANY → TO: ENSURING EMPLOYEES PLAY A DECISIVE ROLE IN THE COMPANY'S SUSTAINABLE TRANSFORMATION

10 - INCLUDE AND POSITION EMPLOYEE STAKEHOLDERS IN THE SUSTAINABLE DEVELOPMENT PROCESS AND FOSTER THEIR ENGAGEMENT

CHALLENGES

An integral part of strategy, sustainable development affects the entire organisation and all of the company's functions and processes, necessitating collective understanding and mobilisation around the material impacts caused by the company's activities. In this context, employees are key players in the transition to sustainability. They draw on powerful levers such as innovation, new technologies and digitalisation, develop new sustainable products and services, make management processes work well and evolve in an organisational environment which becomes more agile and interconnected.

To foster employee engagement, companies are deploying responsible human resources policies that promote shared values, such as diversity, inclusion as well as incentive schemes. The collective implementation of these policies also requires the development of new expertise and knowledge and the implementation of training around sustainability issues at all levels of the company.

Employees integrate a company's strategic objectives and understand how their role and involvement contributes to the overall strategy, and consequently, to the company's purpose.

NATIONAL REFERENCES:

- Diversity Charter (IMS)

PARTNERSHIPS:

- INDR, IMS, House of Training

10

Guiding principle 10

10 - INCLUDE AND POSITION EMPLOYEE STAKEHOLDERS IN THE SUSTAINABLE DEVELOPMENT PROCESS AND FOSTER THEIR ENGAGEMENT

REASONS FOR TAKING ACTION

The purpose, the values of the company and their real application in the business model become unifying factors and sources of motivation for employees. They are also levers for attracting new talent from a generation that is particularly sensitive to the challenges of sustainable development.

With the active involvement of management to ensure these values are lived out in practice, a company can create an attractive and virtuous climate focused on the development of its human capital as well as on well-being, and health and safety in the workplace.

GET STARTED IN 2021

Train all employees on the fundamentals of sustainable economic development

BENEFITS FOR THE COMPANY

- Attracting talent
- Employee engagement, motivation, and productivity
- Collective ability to manage crises without affecting the business model
- Creating a community of responsible employees
- Cohesion and innovation within a company
- Employee skills development
- Impact on customer satisfaction

BENEFITS FOR SOCIETY

- Raised awareness on sustainable development among employees
- Employability
- Innovation

glossary

CRITERIA

Criteria are reference points against which something may be judged, evaluated or decided. In general, several criteria are used to assess the full scope of any given assessment issue.

GOOD TO KNOW:

WHAT IS THE DIFFERENCE BETWEEN CRITERIA AND INDICATORS?

- Criteria are reference points against which something may be judged, evaluated or decided.
- Indicators provide measurement information (and are therefore linked to a source of information) to support a given criteria.
- To be effective, an indicator must meet several criteria

Source: https://evaluation7etapes.fr/les-etapes/etape-2-les-criteres-et-indicateurs/

GLOSSARY

QUALITATIVE GROWTH

Qualitative growth aims to generate economic growth while decoupling it from the linear use of additional resources (extensive growth) and improving the efficiency of the economy. It results in improved productivity and sustainable development, i.e. development which meets the needs of the present without compromising the ability of future generations to meet their own needs. This means that economic players can succeed in producing more wealth while consuming proportionately fewer resources, relying in particular on technical progress. The mechanisms used to facilitate and promote qualitative growth must allow economic growth to be sustained over the long term. It contributes to a better quality of life, while at the same time reducing resource consumption.

In the shorter term, the challenges associated with qualitative growth cross over with those of both the digital and environmental transitions.

Source: Chamber of Commerce

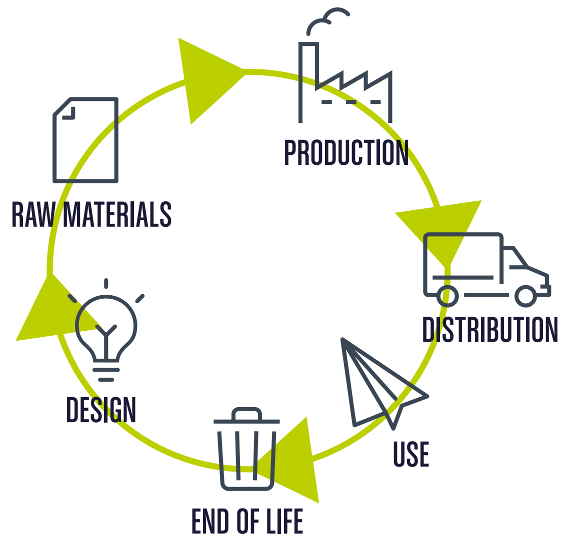
INCLUSIVE GROWTH

Inclusive growth is economic growth that is distributed fairly across society and creates opportunities for all.

Source: OECD

LIFE CYCLE

A life cycle analysis looks at the costs and impacts of a product (investment, activity, good, service) over its entire life cycle for a company and for society as a whole. With this approach, it is possible to assess the total cost of ownership, as well as the monetary and non-monetary externalities of a product (i.e. issues) during extraction (depletion of non-renewable resources, human rights, etc.), transformation (pollution during refining), manufacturing (energy, pollution), use (consumption, pollution, nuisance) and end of life (collection, treatment, recovery, reuse, disposal, etc.).



Source: Glossary of the INDR's Guide to ESR

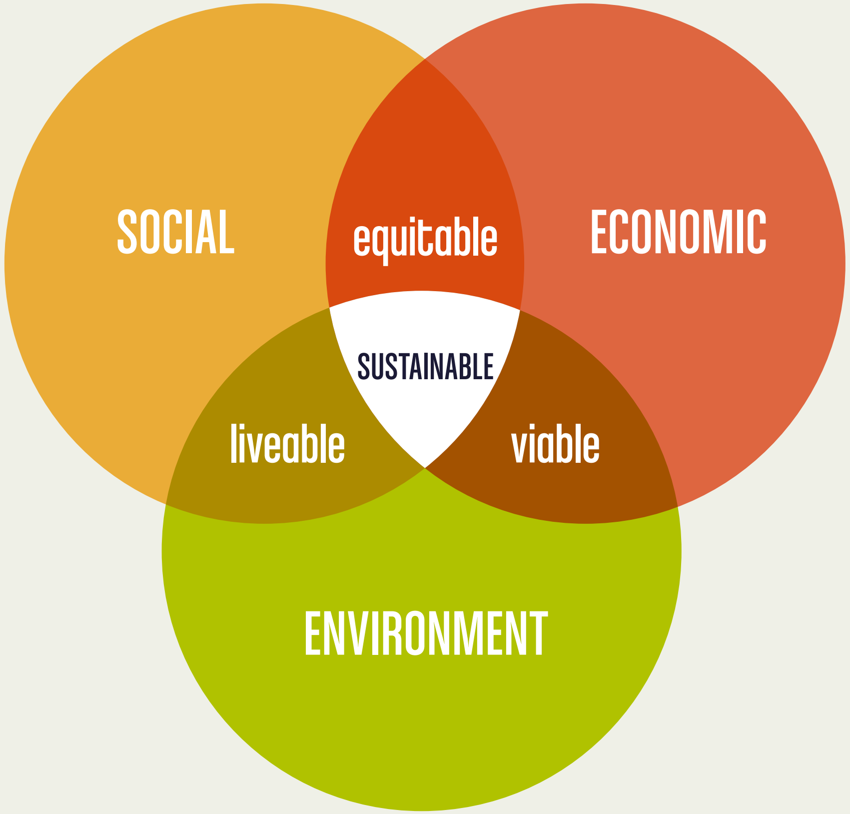
SUSTAINABLE DEVELOPMENT

Sustainable development is defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

It is a principle of organisation of human society that takes into account the finite resources of the planet and acts on three interdependent dimensions:

- the environmental dimension. The development of human activities must be conducted in such a way as not to harm the capacity for renewal of natural resources or the proper functioning of ecosystem services.
- the social dimension. The harmonious development of human society goes through social cohesion guaranteeing everyone access to basic resources and services (health, education);
- the economic dimension. Economic development must ensure that extreme poverty is reduced and that as many people as possible are able to engage in economic activity with a decent income.

In the long term, development is not possible unless it is economically profitable, socially equitable and environmentally sustainable.



Source: French Environment and Energy Management Agency (ADEME)

CORPORATE SOCIAL RESPONSIBILITY (CSR)

BUSINESS CONTRIBUTION TO SUSTAINABLE DEVELOPMENT

Corporate Social Responsibility (CSR) is a voluntary approach to doing business that reflects companies' contribution to sustainable development. ISO 26000, published in 2010, is the non-certifiable guidance standard on CSR.

Strategic in nature, CSR is a new support function (HR, purchasing, IT, for example), one which helps organisations adapt to their social, economic and environmental context, while creating shared value.

Source: INDR

CSR ACTION

A set of tasks performed by a company to address a CSR issue and contribute to sustainable development (see Process). Ideally this means implementing an existing solution: best practice, CSR initiative, participation in an award, certification, etc. Objective: to reduce, mitigate or compensate for a negative impact or generate a positive impact. Each CSR action needs to be properly coordinated and resourced and should be developed as a business case. The CSR action plan comprises CSR actions that contribute to the implementation of the CSR strategy.

Source: Glossary of the INDR's Guide to ESR

ECODESIGN

The concepts of ecodesign were set out at international level in 2002 with the publication of the ISO/TR 14062 standard. This standard describes ecodesign in terms of its aim to "integrate environmental aspects into product design and development".

Subsequently, in 2009, Directive 2009/125/EC, which established a framework setting out ecodesign requirements for energy-related products, defines ecodesign as "the integration of environmental aspects into product design with the aim of improving the environmental performance of the product throughout its whole life cycle".

Source: ADEME

CIRCULAR ECONOMY 1/2

A circular economy is an economic model designed to minimise resource input and to encourage local and solidarity-based solutions. A circular economy is an economic model that also aims to increase resilience.

1 | Value creation

2 | Systemic and holistic

3 | Two cycles

4 | Health, well-being and positive impacts

5 | Restorative and regenerative

6 | Diversity first

7 | Local and solidarity-based

Source: Luxembourg's circular economy principles, as defined by the High Council for Sustainable Development (CSDD)

CIRCULAR ECONOMY 2/2

VALUE CREATION

A circular economy is a disruptive economic model for creating and sharing economic value, which by its nature creates economic value but also ecological and social value.

SYSTEMIC AND HOLISTIC

A circular economy is based on an interdisciplinary, systemic, holistic and collaborative approach.

TWO CYCLES: BIOLOGICAL CYCLE AND TECHNICAL CYCLE

A circular economy is an economic system that eliminates waste by relying on two cycles: the biological cycle and the technical cycle. Each product must be designed or programmed to move through one of these cycles, but some materials or products can move from one to the other.

HEALTH, WELL-BEING AND POSITIVE IMPACTS

Health and well-being are an integral part of a circular economy. A circular economy focuses on creating positive impacts on both people and nature alike. Reducing negative impacts alone is not considered sufficient for sustainable development.

RESTORATIVE AND REGENERATIVE

A circular economy is restorative and regenerative by design. It preserves and enhances ecosystem services and promotes biodiversity.

The design of the technical life cycle must maintain and even increase the quality of the resources and products used.

DIVERSITY FIRST

In a circular economy, a diversity of solutions is encouraged across all aspects: technical, economic, environmental and socio-cultural.

LOCAL AND SOLIDARITY-BASED

In Luxembourg, the circular economy encourages local and solidarity-based solutions and promotes cycles in close proximity.

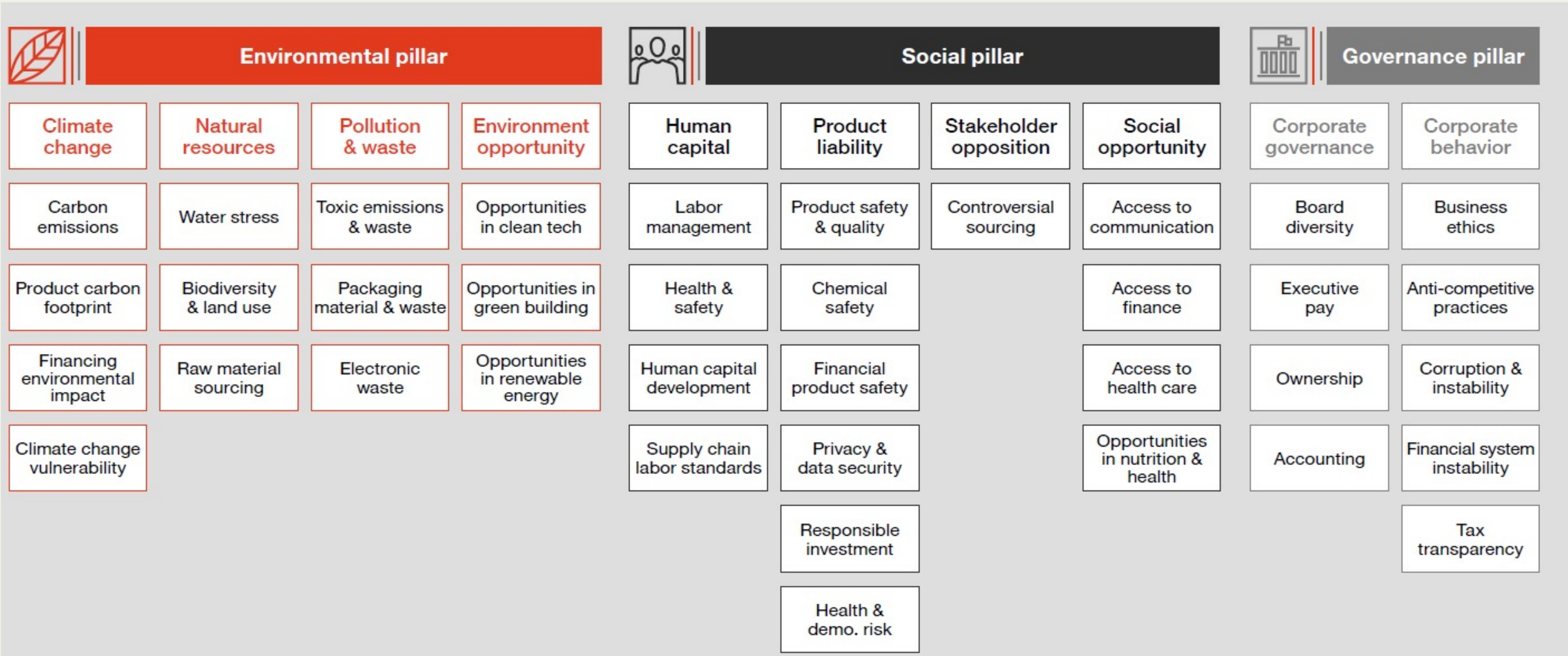
Source: Luxembourg's circular economy principles, as defined by the High Council for Sustainable Development (CSDD)

ESG

ESG is the international acronym used to designate the **Environmental, Social and Governance (ESG)** criteria that generally constitute the three pillars of **non-financial** performance. ESG criteria make it possible to assess a company's responsibility towards the environment and its stakeholders, including its employees, suppliers, clients and the communities in which it operates.

ESG performance forms the basis of the main non-financial reporting frameworks and benchmarks (GRI, SASB, CDP, sector standards, 17 SDGs, European taxonomy, TCFD, UNGC, World Economic Forum, ESR Guide).

ESG UNIVERSE



Source: ESG oversight: the corporate director's guide, November 2020, PWC

ESG

The three traditional dimensions of sustainability "People, Planet, Profit" can be expressed in terms of three main categories of requirements for organisations: to ensure good governance and to manage social and environmental impacts. These expectations are summarised under ESG. A due diligence or responsible purchasing process can use these **ESG criteria** to select responsible goods and services (see **Impact**):

- **ENVIRONMENT:** restriction of the use of certain hazardous substances, reduction of non-renewable raw materials, reduction of transport-related emissions, reduction in and recycling of waste, protection of biodiversity, energy efficiency, use of renewable energies, reduction of greenhouse gases, etc.
- **SOCIAL:** respect for human rights, health and safety in the workplace, non-discrimination, decent working conditions and wages, professional development, social dialogue, etc.
- **GOVERNANCE:** resource efficiency, due diligence, transparency, responsible goods and services, waste prevention, responsible stakeholder management, etc.

The **purpose of ESG** performance is to assess whether a company's behaviour is responsible and forms the basis of the main non-financial reporting frameworks and benchmarks: Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), CDP, sector standards, 17 SDGs, the new European taxonomy, TCFD, UNGC, as well as the ESR Guide.

Source: Glossary of the INDR's Guide to ESR

ESG

PRINCIPLES OF GOVERNANCE

- **Governing Purpose**
- **Quality of governing** body (Composition, Remuneration,...)
- **Stakeholder Engagement**
- **Ethical behaviour** (anti-corruption,...)
- **Risk and Opportunity oversight**

PLANET

- **Climate Change** (GHG Emissions, TCFD, Paris-aligned GHG emissions targets)
- **Nature loss**
- **Freshwater availability**
- **Air and water pollution**
- **Solid Waste** (single-use plastics, impact of solid waste disposal)
- **Resource availability**

PEOPLE

- **Dignity and Equality** (Diversity, inclusion, pay equality, wage level, pay gap, risk for incidents of child, forced labor)
- **Health and Well-being** (health and safety)
- **Skills for the Future** (Training provided)

PROSPERITY

- **Employment and wealth generation** (employment, economic contribution, financial investment, indirect economic impacts)
- **Innovation of better products and services** (R&D)
- **Community and Social Vitality**

Source : ESG Framework by the World Economic Forum – Measuring Stakeholder Capitalism : Towards Common Metrics and Consistent Reporting of Sustainable Value Creation (Sept.2020)

GHG

A number of volatile substances emitted into the atmosphere called **greenhouse gases** (GHGs) absorb solar energy in the form of heat. CO_2 and other gases generated by human activity (methane, nitrous oxide, ozone, etc.) are the cause of climate change. Although 38 industrialised countries committed to reducing the emissions of six GHGs (CO_2, CH_4, N_2O, HFC, PFC, SF_6) when they signed the Kyoto Protocol, the concentration of CO_2 in the atmosphere has exceeded the critical threshold of 350 ppm, the level necessary to **limit warming to 1.5 degrees Celsius**, resulting in potentially disastrous consequences: extreme weather events (heatwaves, storms), polar ice caps melting (flooding due to rising sea levels), ecosystem destruction (loss of biodiversity and ecological services), etc.).

A **carbon footprint** (sources of emissions, types, volumes, etc.) and analysis of direct and indirect emissions reveal the risks and challenges, and allow us to explore opportunities for improvement.

Source: Glossary of the INDR's Guide to ESR

IMPACT

The actions and decisions taken by a company lead to desirable or undesirable consequences for itself and for society as a whole. They can directly or indirectly influence or impact stakeholders. They can directly or indirectly influence or impact stakeholders. Beyond internal value creation, a company has the capacity to preserve, create or destroy financial, economic, human and environmental value, also known as the footprint. These impacts or externalities can be generated by any process carried out by the company and at each stage of the life cycle (see **Life cycle**). The purpose of a CSR action is either to limit undesirable impacts or externalities or to generate a positive impact for society.

Source: Glossary of the INDR's Guide to ESR

INDICATOR

According to the Organisation for Economic Co-operation and Development's definition (OECD, 2002a, p. 25), an indicator is "a quantitative or qualitative factor or variable that provides a simple and reliable means to measure achievement, to reflect changes connected to an intervention, or to help assess the performance of a development actor." In short, an indicator is a collection of raw or processed data that helps measure and quantify a given phenomenon and helps us understand complex realities. It is not just about basic information, but rather the development of this basic information that can be used to describe or assess a given issue. For example, the number of literate adults in absolute terms has no analytical value unless it is used to create an indicator, for example to calculate the proportion of literate adults in relation to the total adult population of a country.

Source: www.etf.europa.eu

MATERIALITY

The INDR defines a CSR issue as relevant or material to a company if there is a clear impact on society or if internal or external stakeholders consider it important (significant impacts, need for information, performance requirements, etc.). In this case, the CSR topic must be incorporated into the company's CSR strategy and managed through a CSR initiative. According to ISO 26000, the criteria for defining the **relevance and importance** of an issue are the extent of the impact, the potential effect of an action, the level of stakeholder engagement, the degree of urgency and the expectations of society as a whole. According to ISO 26000, **priority areas for action** are determined by the company's current performance (legal compliance, international standards, best practice), effectiveness (ability to achieve objectives), efficiency (effect in relation to resources needed), duration, urgency (reduced cost if handled quickly), ease of implementation, and planned decisions and activities. **Important** areas for action include: legislation (compliance), international standards, human rights, threat to health or life, serious environmental impacts.

According to GRI, **materiality** is the «principle that determines which relevant issues are significant enough to require coverage in the report» (GRI Standards, 101: General Principles, 1.3 Materiality). A **materiality threshold** is used to select the most relevant, significant or legitimate needs, expectations and interests according to the criteria of importance, risk, impact, reversibility, urgency, influence, etc.

Source: Glossary of the INDR's Guide to ESR

CARBON NEUTRALITY

Carbon neutrality means having a balance between emitting carbon and absorbing carbon from the atmosphere in carbon sinks. To achieve zero net emissions, all greenhouse gas emissions globally will have to be offset by carbon sequestration.

A carbon sink is any system that absorbs more carbon than it emits. Soil, forests and oceans are the main natural carbon sinks. It is estimated that natural sinks remove between 9.5 and 11 gigatonnes of CO_2 per year. Annual global CO_2 emissions reached 38.0 gigatonnes in 2019.

To date, no artificial carbon sink can remove carbon from the atmosphere on a scale sufficient to combat global warming.

Carbon stored in natural sinks, such as forests, is released into the atmosphere through forest fires, land use changes and logging. This is why it is vital that carbon emissions are reduced to achieve climate neutrality.

Source: European Parliament

ZERO NET EMISSIONS TARGET

For organisations, setting a net zero emissions target means committing to drastically reducing their GHG emissions to as close to zero as possible and offsetting the remaining emissions by removing and/or sequestering an equivalent amount in carbon sinks (forest, mangrove, ocean, wetlands, soil, etc.). For example, if a company, which measures and reduces its emissions, offsets its residual emissions through a renewable energy investment project, it can achieve carbon neutrality by avoiding generating the equivalent amount of emissions. If the same company wants to go further and aim for net zero emissions, it will have to reduce its emissions as much as possible and fund emission sequestration projects, such as forest planting or mangrove preservation, which will effectively offset all its emissions. Carbon neutrality is therefore a key step towards achieving net zero emissions.

Source: EcoAct

RISK

Risk is defined as the likelihood that an internal hazard or external threat will materialise in a scenario which leads to potentially damaging consequences (see **Impact**). According to ISO, risk is the combination of the probability or frequency of occurrence of a hazard and the magnitude of the consequences of its occurrence, and represents the effect of uncertainty on whether the organisation will achieve its objectives or not.

Risk management seeks to identify, assess and prioritise the risks to a company's financial and non-financial assets in order to act on these potential or actual risks according to different objectives: prevent, avoid, control, accept, reduce, transfer, treat, rectify, etc. It helps to prepare a company for risks that could affect its future and ensures that the organisation is able to deal with the "material" risks to minimise any adverse effects.

Source: Glossary of the INDR's Guide to ESR

LUXEMBOURG SUSTAINABLE BUSINESS PRINCIPLES

OUR COMMON 2030 GOAL

CHAMBER OF COMMERCE LUXEMBOURG

GO CSR