



CLUB DE EXCELENCIA EN
SOSTENIBILIDAD

Corporate Sustainability Due Diligence Guide



With the support of





This Guide has been prepared by the Club de Excelencia en Sostenibilidad with the collaboration of PwC and its Foundation and the support of the Ministry of Labour and Social Economy, whose purpose is to provide a practical and strategic tool that helps companies lay the foundations to implement and maintain effective due diligence systems.

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Prologue

In an increasingly interconnected world, where awareness of global challenges is growing, sustainability has become a central pillar of both business and regulatory strategies—an imperative for ensuring the future success of organisations. Against this backdrop, companies are undergoing a profound transformation in their management models. Sustainability due diligence is emerging as a key tool not only for managing risks but also for identifying opportunities and generating a positive impact on the communities and ecosystems in which they operate.

This form of due diligence marks a significant shift in the approach to corporate sustainability, providing companies with a strategic opportunity to operate responsibly and with a long-term vision. It is no longer simply a matter of avoiding harm or complying with rules and regulations; rather, it is about adopting a proactive management model that integrates sustainability into every aspect of operations.

In Europe, the Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024, on corporate sustainability due diligence—commonly referred to as the “CSDDD”—has marked a significant milestone in this field. The directive introduces specific obligations for companies to identify, prevent, mitigate, and remedy adverse impacts that their business activities may have on human rights, the environment, and society. Once national legislation transposing the directive comes into force, companies will be required to comply with these provisions.



With the transposition of the Directive into the Spanish legal system, these obligations will not only affect large corporations but also small and medium-sized enterprises that are part of the global supply chain (thus forming part of a broader business ecosystem that demands responsibility and high standards), increasingly being subject to the requirements set by their trading partners and the financial markets in which they operate.

Furthermore, the approval of the Omnibus Law has created certain legal uncertainties regarding possible future changes in the application of current regulations. Regardless of the pace at which the regulatory framework evolves, robust and responsible management of human rights and environmental issues in the supply chain is critical to optimizing business risk management.

At the same time, in Latin America, the growing commitment to the Sustainable Development Goals and the adoption of sustainable standards are driving a significant change in business practices, in addition to the extension of the



obligations of European companies with business in the region.

With this Guide to Corporate Due Diligence on Sustainability (hereinafter, “the Guide”), the Club de Excelencia en Sostenibilidad in collaboration with PwC and with the support of the Ministry of Labour and Social Economy, aims to offer a practical and strategic tool to support companies in establishing and maintaining effective due diligence systems. The Guide is designed to address the specific challenges faced by organisations in a globalized environment, providing not only a clear and practical methodology for integrating sustainability into both operational and strategic processes, but also an adaptive framework that supports continuous improvement.

Through this Guide, the conceptual foundations of due diligence, its historical evolution and its relevance in the current corporate landscape are presented; highlighting the importance of due diligence as a continuous process that must be evaluated and adjusted over time. It also provides a practical framework of recommendations,

methodologies, and best practices to support the design and implementation of an effective due diligence system. This system is intended to help users not only identify actual and potential risks, but also detect possible adverse impacts and define objectives for monitoring and improving implemented processes. All of this is grounded in a prior analysis of the applicable regulatory framework, with a particular focus on Europe and Latin America, and is complemented by real-world examples that inspire action in today’s context.

This document not only aims to support regulatory compliance, but also seeks to inspire companies to take an active role in mitigating climate change, protecting human rights, and promoting sound governance practices. We firmly believe that the effective integration of corporate due diligence not only strengthens an organisation’s competitive position, but also contributes to sustainable development and the well-being of future generations.



02

About This Guide

2.1. Objectives

The aim of this Guide is to provide companies with a clear and practical framework for implementing a sustainability due diligence system—enabling them to manage risks, comply with applicable regulations, and generate a positive impact across their operations and supply chains. Beyond regulatory compliance, the Guide is designed to help organisations adopt a sustainable management model that enhances their competitiveness and resilience in an increasingly dynamic and demanding global environment.

These elements are structured into a series of phases that together form a sustainability management process focused on continuous improvement, generally aligned with the

components of Deming’s “PDCA” cycle (“Plan, Do, Check, Act”)—also referred to by its Spanish acronym “PHVA” (“Planificar, Hacer, Verificar, Actuar”).

In addition, this Guide pursues a series of specific objectives that can be summarised as:

- **Promote the integration of sustainability into business strategy.** Support organisations in identifying, managing, and mitigating sustainability risks throughout their operations and value chains.
- **Facilitate regulatory compliance.** Provide detailed information on the regulatory framework in Europe and Latin America, enabling companies to adapt to current and future legal requirements.

- **Promote the creation of sustainable value.** Inspire companies to adopt a proactive approach that not only minimizes negative impacts, but also generates tangible benefits for society, the environment, and stakeholders.
- **Offer practical tools.** Provide methodologies, case studies, and best practices to enable organisations to implement due diligence systems effectively and sustainably.
- **Encourage informed decision-making.** Deliver a framework for identifying risks and opportunities in the field of sustainability, empowering companies to become more resilient and competitive in a constantly evolving global environment.

2.2. Application

This Guide has been developed as a practical and flexible reference tool, intended for use by companies of any size, sector, or level of maturity in sustainability matters. Its structure enables organisations to implement a sustainability due diligence system that is aligned with international regulatory frameworks and best practices, while adapting to their specific needs and the unique characteristics of their operations and value chain.

The Guide covers the main phases required to implement due diligence systems—from risk identification through to continuous improvement—providing a structured perspective and practical tools to support the integration of sustainability considerations into both operational and strategic processes. These phases may be applied either comprehensively or independently, depending on the specific priorities of each organisation.

The Guide is especially aimed at the following groups:

- **Internal sustainability and compliance teams:** As a tool to assess the impacts, risks, and opportunities related to sustainability issues, design strategies, and ensure the implementation of systems aligned with international standards.
- **Boards of directors and senior management:** To understand the strategic benefits of sustainability due diligence and explore how to integrate them into corporate governance.
- **Procurement and supply chain managers:** As a resource for managing impacts on suppliers and business partners, promoting ethical and sustainable standards throughout the value chain.

In addition, the Guide has been developed with the diversity of business and regulatory contexts in mind. As such, it offers the flexibility needed to be applied by companies operating locally as well as those with international activities, enabling the identification of specific risks, the design of mitigation measures, and effective communication with stakeholders.





Due Diligence

3.1. Concept, evolution and key considerations in due diligence

3.1.1. Due diligence: concept and evolution

Sustainability due diligence can be defined as a process aimed at identifying, preventing, mitigating, and taking responsibility for adverse impacts that a company may cause in the areas of environment, society, and corporate governance (hereinafter, “sustainability issues”). It represents

a proactive approach, encouraging organisations to assess and manage the inherent risks throughout their chain of activities—not only to comply with regulatory requirements and obligations, but also to enhance their sustainability and competitiveness.

Every due diligence process involves putting in place mechanisms that enable companies to take the necessary actions to identify their actual and potential risks. The objective is to ensure that companies are aware of and comply with their legal and ethical obligations, thereby avoiding potential negative impacts—or, where such

impacts do occur, minimizing them through effective processes for identification, mitigation and remediation.

Broadly speaking, the concept of due diligence has its origins in commercial law, where it traditionally referred to the responsibility of directors and managers to act with due care in the management of business affairs. Over time, evolving regulations extended this principle to other areas—such as investment law and financial regulation—establishing the obligation for those responsible to carry out an assessment before making strategic decisions.

In particular, the practice of due diligence began to take shape in the United States during the 1930s. Initially, it focused on conducting thorough reviews of financial statements and assessing companies' legal risks, ensuring there were no hidden issues that could jeopardize a transaction. This approach was further reinforced by the enactment of the "Securities Act of 1933"¹, which established a regulatory framework that helped formalize the practice. The Securities Act introduced disclosure requirements for issuers of securities and required companies to thoroughly investigate their activities and assets before releasing information to the public.

In the 1970s and 1980s, as markets became increasingly globalized and companies expanded internationally, the need arose to evaluate not only the financial aspects of a transaction but also its societal and environmental impacts. During this period, international organisations began developing governance and corporate responsibility principles that incorporated elements of due diligence.

In the late 20th and early 21st centuries, the concept of due diligence evolved to encompass areas such as human rights and sustainability. Some of the most significant milestones in this evolution include:

- **Universal Declaration of Human Rights (adopted by the UN in 1948)**, which sets out the basic rights and freedoms that must be protected for all individuals, establishing a global standard of dignity and justice.
- **International Covenants on Economic, Social and Cultural Rights and on Civil and Political Rights** (UN treaties from 1966), which require States to protect and promote fundamental rights, ensuring social justice and civil liberties at the international level.
- **The 10 Principles of the United Nations Global Compact**, which provide voluntary guidelines encouraging companies to adopt responsible practices in the areas of human rights, labour standards, environment, and anti-corruption, thereby promoting corporate sustainability.
- **The United Nations Guiding Principles on Business and Human Rights (2011)**, which establish a global framework for companies—not only to identify, prevent, and mitigate negative impacts on human rights, but also to be held accountable for their actions. These principles also, for the first time, distinguish the roles of governments and companies with respect to human rights, emphasizing the need for collaboration and commitment from both, and representing a decisive step toward corporate responsibility in this area.

¹ U.S. Securities Act (May 27, 1933).

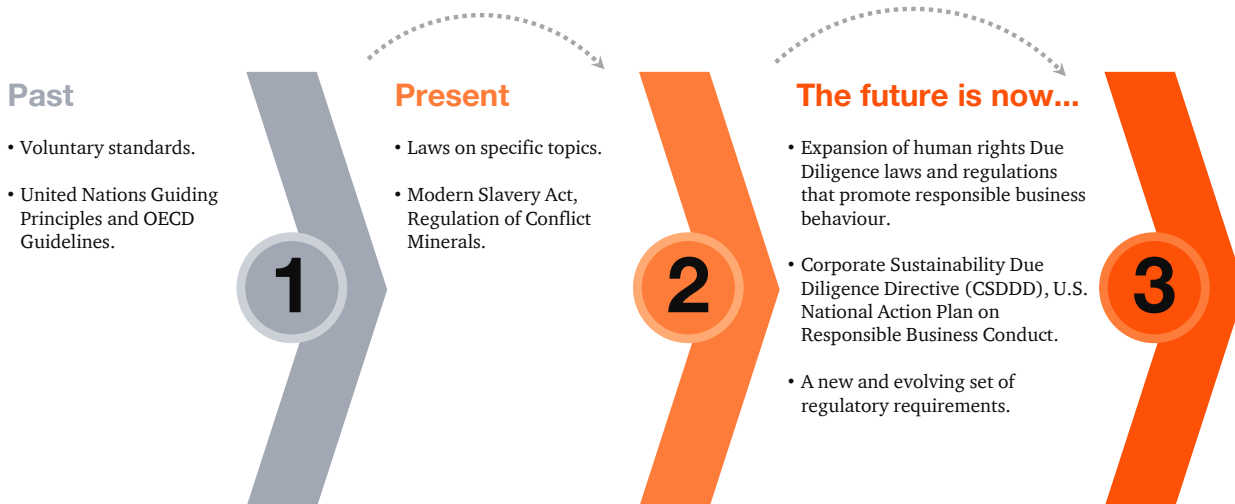
Figure 1. At a glance: UN Guiding Principles on Business and Human Rights



Source: PwC.

- **The 2030 Agenda**, adopted by the UN in 2015, which establishes a global framework to address the world’s most urgent challenges, including poverty, hunger, inequality, climate change, and environmental protection.
 - **Regulation (EU) 2017/821 of the European Parliament and of the Council**, enacted on 17 May 2017, establishing supply chain due diligence obligations for European Union importers of tin, tantalum, tungsten and gold from conflict-affected or high-risk areas. This regulation requires mineral importers to implement due diligence measures to prevent the financing of armed conflicts.
 - **OECD Due Diligence Guidance for Responsible Business Conduct (2018)**, a set of voluntary recommendations aimed at ensuring responsible business conduct, including due diligence throughout the global supply chain.
- These instruments have laid the groundwork for making due diligence mandatory within the legal framework, both at the European and global levels. As a result, over the past decade, due diligence has shifted from being a voluntary practice to becoming a regulatory requirement in many jurisdictions.

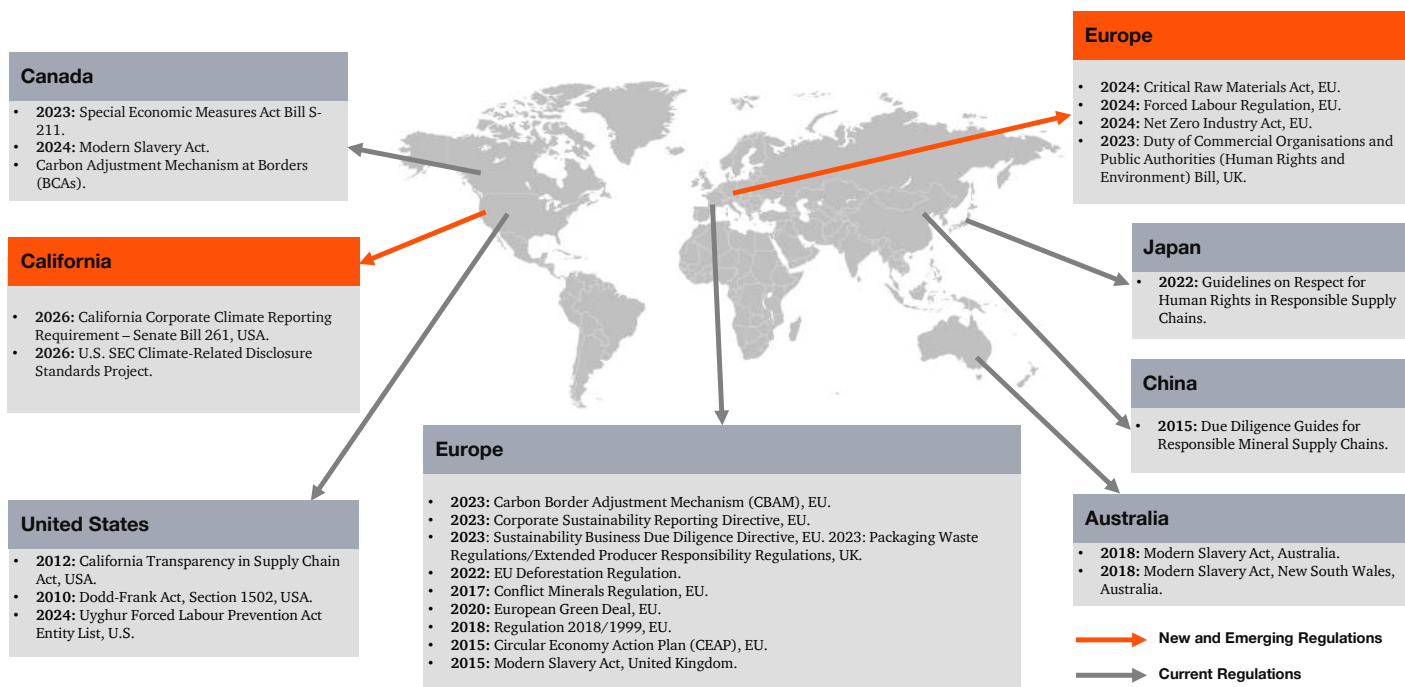
Figure 2. The Evolution of Human Rights: Past, Present and Future – A Developing Business Environment



Source: PwC.

Previous regulatory developments have paved the way for a more structured approach to due diligence within international legal frameworks. As regulation becomes more stringent, the business environment is facing new demands aimed at ensuring responsible and sustainable practices.

Figure 3. A set of new and evolving regulatory requirements: illustrative representation of global requirements



Source: PwC.

In this context, the CSDDD has emerged as a central element in European normative developments. This Directive represents a **fundamental shift**² in the conception of corporate responsibility, introducing a series of specific obligations designed to ensure that large companies identify, prevent, mitigate, and remedy adverse impacts on human rights and the environment. Although the regulation has been in force since July 2024, it is still pending transposition into national law. Its scope covers both companies' own operations and their entire value chain³, marking a turning point toward greater corporate responsibility and transparency.

Additionally, the CSDDD requires companies to implement a climate transition plan that aligns their business strategy with the goal of limiting global warming to 1.5°C, as set out in the Paris Agreement. It should also be noted that the approval of the Omnibus package revises and amends the regulation, placing emphasis on the regular updating and supervision of these plans rather than mandating their full implementation.

In this way, the due diligence process takes on a **comprehensive approach**, with its main objective being to promote responsible practices among large companies and across various sectors. This will enable companies to identify, prevent, mitigate, correct, eliminate, and remedy human rights and environmental risks—both actual and potential—in their own operations, as well as in those of their subsidiaries and business partners throughout the entire business chain.

Through this new European regulation, a substantial change is brought about compared to

the previous approach based solely on self-regulation and good practices. It established a **legal duty of due diligence** and reinforcing legal certainty and creating a level playing field for companies across the European Union.

Broadly speaking, due diligence under the CSDDD involves several **key elements**:

- 1. Identification of risks and opportunities.** Companies are required to carry out a prior assessment of possible negative impacts on the environment and human rights that may arise throughout their chain of activities.
- 2. Prevention and mitigation.** This entails implementing measures to minimize or eliminate the identified risks.
- 3. Monitoring and evaluation.** This allows for continuous oversight of the actions taken and assessment of their effectiveness.
- 4. Transparency and accountability.** These are ensured through the communication of results and the adoption of corrective measures by the companies involved.

This approach aims to ensure responsible and sustainable conduct, aligned with legal and ethical standards. Notably, the CSDDD stands out for:

- **Broadening its scope.** The national laws implementing the Directive will apply not only to large companies, but also to medium-sized and small companies that are part of the activity chain of obliged entities.

² In the European Union, the Corporate Sustainability Due Diligence Directive represents the central pillar of the regulatory framework. In addition, regulations such as the Sustainable Finance Disclosure Regulation ("SFDR") and the Corporate Sustainability Reporting Directive ("CSRD") reinforce transparency and corporate responsibility in sustainability matters.

³ In terms of its scope, the CSDDD will be applied in a phased manner to EU companies with more than 1,000 employees and €450 million in turnover (and to non-EU companies with equivalent economic activity in Europe). First, in 2027 it will cover large companies (≥5,000 employees, >€1,500 million in turnover), extending in 2028 (≥3,000 employees, >€900 million) and reaching the rest in 2029 with more than 1,000 employees and €450 million. SMEs are out of direct scope, although they may be impacted by being part of the value chain of the large companies covered.

- **Comprehensive approach.** The Directive does not restrict itself to assessing financial risks, but extends the duty of assessment to include environmental and social dimensions.
- **Penalties for non-compliance.** It establishes supervisory mechanisms that allow for the imposition of sanctions and the enforcement of legal responsibility on obligated entities.

This regulatory framework has prompted companies to integrate robust sustainability management systems—not only to ensure legal compliance, but also to strengthen their reputation and secure their long-term sustainability.



Figure 4. What are the CSDD obligations for companies?

What are the obligations of companies?

CSDDD sets out basic requirements, in the form of **obligations**, for companies to develop and implement measures to carry out due diligence to the best of their ability:

1. **Integrate** due diligence into risk management policies and systems, and implement a climate transition plan that aligns the business model and strategy with limiting global warming to 1.5°C, in accordance with the Paris Agreement.
2. **Identify** and assess actual and potential adverse impacts on human rights and the environment and, where necessary, prioritise those impacts.
3. **Prevent or mitigate** potential adverse impacts and put an end to identified adverse impacts.
4. **Establish** a notification mechanism and grievance procedure, covering own operations, those of subsidiaries, and those of business partners across the chain of activities.
5. **Monitor** the implementation, adequacy and effectiveness of the policy and due diligence measures.
6. **Disclose** and publicly communicate the efforts to comply with the Directive.

Companies must ensure responsible conduct by considering the following elements:

- **Broader scope:** The expansion of scope means that national laws implementing the Directive will not only apply to large companies, but may also affect medium-sized and small enterprises involved in the chain of activities.
- **Comprehensive approach:** The Directive does not focus solely on financial risks; it also incorporates the assessment of environmental and social risks.
- **Penalties for non-compliance:** It defines due diligence obligations and establishes monitoring mechanisms that allow for the application of sanctions and the enforcement of legal accountability for non-compliant parties.

1. Due diligence

Companies should conduct risk-based human rights and environmental matters to identify and assess actual and potential adverse impacts arising from their own operations and those of their subsidiaries and, where related to their business chains, those of their business partners. To do this, they should **map** all relevant business relationships to identify the general areas in which adverse impacts are most likely to occur and are most severe, conducting an **in-depth assessment** of the areas where adverse impacts were identified as most likely to occur and are most severe.

2. Prevent and end, or mitigate risk and provide redress

Companies should strive to prevent and eliminate all identified risks. Where it is not feasible to address all risks simultaneously or completely, companies should prioritise **adverse impacts** according to their severity and likelihood. Appropriate measures should be taken to address adverse impacts, with the aim of preventing and eliminating them, and, where this is not possible, adequately mitigating them, in accordance with the requirements set out by the Directive. Where a company jointly causes or contributes to actual adverse impacts, it must provide **redress**.

3. Monitor and evaluate

Companies should conduct **periodic evaluations** of their own operations and measures, those of their subsidiaries, and—where related to their **chain of activities**—those of their business partners, to assess implementation and monitor the adequacy and effectiveness of the identification, prevention, mitigation, termination, or minimisation of adverse impacts. These assessments, along with the obligations covered by the Directive, should be **disclosed at least annually**.

4. Transparency and accountability

This must be ensured through the **communication of results and the establishment of corrective measures** by the companies involved.

Source: PwC.

Recent changes proposed by the European Commission: Omnibus Proposal

On 26 February 2025, the European Commission presented the “**Omnibus Proposal I**”, a regulatory package whose main objective is to harmonise regulations between Member States (“EEMM”) in order to avoid regulatory divergences that could hinder the functioning of the Single Market.

In this context, Directive (EU) 2025/794 of the European Parliament and of the Council of 14 April 2025 amending Directives (EU) 2022/2464 and (EU) 2024/1760 regarding the dates from which Member States must apply certain sustainability reporting and due diligence requirements by companies, has already been approved. This directive is colloquially known as “Stop the clock”, as its main feature is the extension of the deadline for transposition of the CSDDD, as well as the postponement of the application of both this regulation and the CSRD. Apart from the above, the rest of the Omnibus I proposal—which extends the scope of “maximum harmonisation” to certain obligations—is still under negotiation. This means that Member States will not be able to establish requirements stricter than those set at the European level. This approach seeks to eliminate regulatory differences that, in practice, have made it difficult to apply legislation uniformly across the various countries of the European Union.

By establishing a harmonised framework, the proposal aims to reduce regulatory fragmentation and facilitate cross-border operations, providing greater legal certainty for both businesses and consumers. This strategy also contributes to ensuring that the implementation of EU rules is carried out in a consistent manner across all Member States, avoiding divergent interpretations and ensuring that, once the new regulation enters into force, its application is more consistent throughout the EU territory.

In short, the Omnibus Proposal I represents a significant step towards greater integration of the European regulatory framework, promoting regulatory coherence and predictability, both of which are fundamental aspects for the proper functioning of the Single Market.

Annex I of this Guide provides a detailed analysis of the evolution of due diligence, as well as the main regulatory provisions that must be taken into account as established in the CSDDD, including the most relevant modifications introduced by the Omnibus I Proposal.

3.1.2 Benefits and relevance of implementing a due diligence system

The implementation of effective due diligence mechanisms in companies not only responds to a legal obligation imposed by the CSDDD, but also provides multiple benefits—both tangible and intangible—that impact corporate operations, reputation, and the social and environmental footprint of organisations.

From the perspective of **tangible benefits**, it is worth highlighting those that have a direct and measurable impact on the company’s operations and profitability. Among them are the following:

- **Compliance with the obligations established at the regulatory level and reduction of the risk.** Meeting the obligations established by law reduces the risk associated with possible breaches—whether due to willful misconduct, fault, or negligence—such as the potential for economic sanctions, market restrictions, or litigation. This takes into account the obligation under the CSDDD for covered entities to identify, prevent, mitigate, and remedy adverse impacts on human rights and the environment throughout their chain of activities.

- **Legal security and economic stability.** Ensuring that the systems adopted by companies are aligned with applicable regulations helps minimize regulatory and financial risks, enabling companies to operate with greater legal certainty and economic stability in the market.
- **Access to finance and sustainable investment.** Companies that implement robust environmental and social sustainability practices can access capital on better terms than other market players, benefiting from green finance (such as sustainable loans and funding from European green transition initiatives) and responsible investment funds.
- **Value chain efficiency.** A robust due diligence system reduces the risk of supply disruptions, ensuring more efficient operations.
- **Optimization of operating costs associated with the company.** Reducing waste, saving energy, and optimizing resource use can significantly lower operating costs.

On the other hand, regarding **intangible benefits**, there are mainly related to the **company's reputation**, **business culture**, and **brand perception** in the market. A correct application of due diligence **added value** that contributes to **market differentiation in comparison to competitors**, enhancing the company's reputation and stakeholder confidence in its performance and evolution.

The rigorous implementation of these processes **strengthens the confidence of investors, customers, business partners**, who increasingly prioritise relationships with responsible companies committed to sustainability—or even consider it a *sine qua non condition* for establishing a business relationship. Organisations that not only comply with regulations but also proactively integrate due diligence into their corporate strategy will achieve a competitive advantage and a positive reinforcement of their brand, positioning themselves as attractive destinations for talent seeking to work in environments committed to ethical and sustainable values.

It is important to note that the impact of effective due diligence goes beyond the business sphere, having a direct effect on society as a whole. Proper identification and mitigation of environmental and social risks improve working conditions within the supply chain and reduce the ecological footprint of operations. In this way, companies not only protect their financial and reputational interests but also actively contribute to building a fairer and more sustainable economy.





In conclusion, the start of the implementation of due diligence in accordance with the provisions set out in the CSDDD is not only a regulatory obligation, but also a key strategy to ensure the sustainability, competitiveness, and long-term success of companies.

As the environment continues to evolve, those companies that prioritise due diligence across their business chains will be better positioned to face the challenges of an increasingly complex regulatory landscape, and will be able to seize the opportunities that come with the transition to a more responsible economic model.

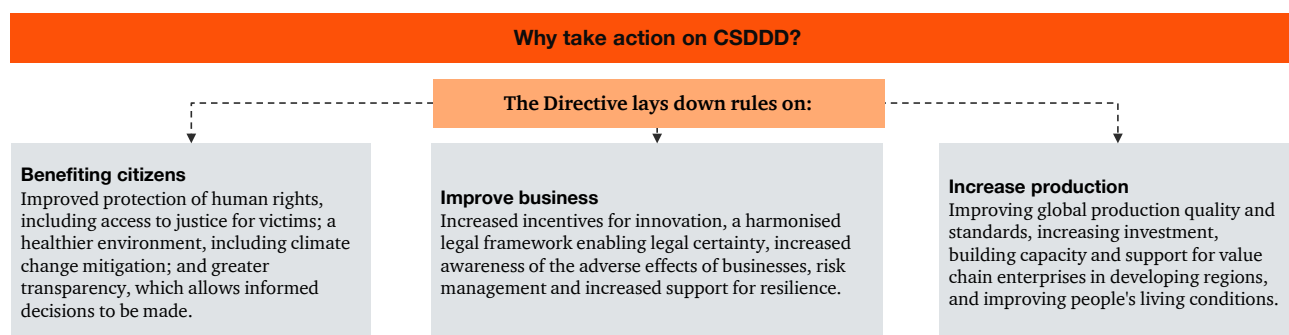
3.2. Regulatory framework in Europe, in other countries of the European Union, outside the European Union and in Latin America

3.2.1. Regulatory framework in Europe⁴

Prior to the publication and entry into force of the CSDDD, several European countries had already enacted pioneering due diligence laws. These national regulations serve both as complements to and precursors of the European Directive.

In 2017, **France** marked a milestone with the enactment of Law No. 2017-399 of 27 March 2017 on the Duty of Vigilance. This law obliges large French companies (those with more than 5,000

Figure 5. Why take action?



⁴ Information updated in May 2025.

employees in France or 10,000 at the global level) to implement an annual surveillance plan. This plan must identify and prevent human rights violations and environmental damage arising from the activities of the company, its subsidiaries, and its suppliers or contractors with whom it maintains an established business relationship. The French law was the first in Europe to establish the legal responsibility of companies over their supply chain.

Germany followed suit with the Act on Corporate Due Diligence Obligations for the Prevention of Human Rights Violations in the Supply Chain (LkSG), applicable since January 2023. This law obliges German companies to manage the associated human rights and environmental risks throughout their supply chain. It establishes a hierarchical system of responsibilities that ranges from the operation itself and direct suppliers, to indirect suppliers in certain cases. Specific obligations include the implementation of risk management and analysis systems, the adoption of internal human rights policies, the implementation of preventive and corrective measures to address identified risks or non-compliances, and the creation of an accessible mechanism for filing complaints.

It should be noted that, in a momentous change for business and human rights policy in Europe, Germany has chosen to immediately repeal the LkSG, in force since 2023. This national regulatory framework is intended to be replaced by new legislation designed to align with the CSDDD.

In the **Netherlands**, an anti-child labour law was passed in 2019 and more comprehensive legislation on responsible business conduct is currently in the pipeline. This new legislation will impose human rights and environmental due diligence obligations on Dutch companies.

Outside the European Union, other countries have also made progress in the development of similar normative texts. In this regard, **Norway** enacted the Transparency Act in 2021, which imposes an obligation on large companies to implement

human rights due diligence. Since 2022, **Switzerland**, has incorporated due diligence and transparency requirements in specific areas such as minerals and metals from conflict zones and child labour, following a popular initiative.

These national legal frameworks, although they vary in scope, have served as a starting point and pressure for the implementation of a robust due diligence system at European level that, with high probability, will converge with the CSDDD once transposed, complementing its provisions according to the terms and scope ultimately established in the final version of the text..

3.2.2. Regulatory framework in Latin America

In contrast to a proactive and binding European system that i) is supported by pressure from civil society and court cases that have allowed European legislators to move from soft law to enforceable rules and ii) aims at the harmonization of the different regulations of European countries through the configuration of a mandatory due diligence system with public oversight and sanctions in case of non-compliance, the focus in Latin America on due diligence would be gradually moving towards a more mature regulatory model.

In Latin America, the incorporation of sustainability due diligence into business dynamics is still in its early stages, gradually gaining relevance due to the influence of international regulations and global market pressures, especially the European one, which requires companies to monitor not only their direct operations, but also those of their suppliers and subsidiaries (the latter, in the case of multinationals) around the world. This aspect is particularly relevant for Latin America, considering that total merchandise trade to Europe represents more than 290 billion euros per year in revenue.⁵

⁵ Europe's interests in Latin America and the Caribbean (2023). Caf.com. <https://www.caf.com/es/actualidad/noticias/5-intereses-de-europa-en-america-latina-y-el-caribe/>



In this sense, and although Latin America is characterized by more dispersed regulations and, in many cases, voluntary or limited compliance, the trend points to a growing convergence and harmonization with European standards motivated by international pressure and the demand for greater guarantees from the markets.

This regulatory convergence is largely attributable to the fact that both approaches share the inspiration of common global frameworks: the UN Guiding Principles and the OECD Guidelines. The fundamental difference lies in the fact that Europe has legislated to make this standard enforceable, while Latin America is still moving in the field of persuasion, soft regulation and corporate preparedness.

Although there are currently no national laws comparable to those cited from Europe on sustainability due diligence, the region has rules that regulate operations in social and environmental matters and that promote transparency in sustainability in various sectors of the economy, with an emphasis, for example, on the energy and extractive sectors, as well as in companies listed on local stock exchanges.

Significant efforts have also been made to promote responsible business conduct, with mechanisms such as the initiative known as Responsible Business Conduct in Latin America and the Caribbean (CERALC). This programme represents a strategic partnership between the International Labour Organisation (ILO), the Organisation for Economic Cooperation and Development (OECD) and the Office of the United Nations High Commissioner for Human Rights (OHCHR).

This includes details applicable to businesses operating in the Amazon, which holds at least a quarter of the world's reserves of some strategic metals such as lithium, copper, silver and tin, 12% of the planet's arable land and 30% of the world's water resources.⁶

For example, the Escazú Agreement, adopted by 24 countries in 2018, has emerged as an important regional environmental agreement in Latin America and the Caribbean, and the first in the world to contain specific provisions for the protection of human rights defenders in environmental matters.

⁶ Business for Life: Human Development and Nature Conservation. The role of the private sector in Latin America. PwC. 2024: <https://www.pwc.com/co/es/prensa/Articulos/negocios-por-la-vida.pdf>



However, some countries have begun to implement more advanced frameworks. First and foremost, **Brazil**, stands out as a regional leader in regulation on sustainability issues. Through Circular 3,978/20 of the Brazilian Central Bank, it introduced the obligation of financial institutions to carry out a customer due diligence system at different stages, both in the onboarding of customers and throughout the business relationship, requiring the application of different due diligence measures depending on the risk associated with the customer.

The Brazilian Securities Commission (CVM) issued Resolution 59/2021 which, after a period of adaptation, has made it mandatory from January 2023 the disclosure of information on detailed sustainability issues by listed companies on their environmental, social and governance performance in line with international standards and the UN Sustainable Development Goals.

At the same time, the Central Bank of Brazil has incorporated ESG criteria into the regulation of the financial sector (e.g., socio-environmental and climate risk management requirements for banks, encouraging the integration of sustainability into financial decision-making). At the legislative level, Brazil is discussing the adoption of a

national law on due diligence in human rights was presented in 2022, aimed at creating a National Framework on Business and Human Rights. Through this initiative, which is still being processed, it seeks to go beyond voluntary guidelines, thereby establishing legal obligations aimed at requiring companies to identify, prevent and repair human rights violations in their operations and value chains.

Although the project still needs to be approved, its mere introduction reflects the influence of international and European trends on the Brazilian corporate sustainability agenda.

In terms of transparency, Brazil has Resolution BC No. 139/2021 and Normative Instruction BCB No. 153/2021 that establish the requirements for disclosure on sustainability issues. Along with these regulatory advances, it is important to mention that companies in the region already have a corporate reporting culture, which is useful for third-party decision-making: 83% of companies listed on capital markets in the region prepare their reports using the Global Reporting Initiative (GRI) standards.

Chile has significantly strengthened its environmental, social and corporate governance framework. The Financial Market Commission (CMF, the Chilean securities regulator) issued General Rule No. 461 in 2021, which requires most public limited companies to report information on sustainability issues in their annual reports. Through this initiative, it is required to disclose, in accordance with international standards, data on corporate governance, risk management of sustainability issues, labour practices (e.g., diversity, wage gaps), environmental performance, relations with communities, among other aspects. This regulatory step seeks to promote a sustainable financial market in Chile, improving the quality of information available to investors and stakeholders, and integrating environmental and social risks into the internal management of companies.

Similarly, **Argentina** has also implemented implemented a National Action Plan (NAP) in 2023, that promotes corporate responsibility in these areas.

For its part, **Colombia** stands out for initiatives in sustainable finance and governance on sustainability issues. In 2022, it enacted Law 2195 of 2022, by which the Government of Colombia adopted new measures for transparency, prevention and anti-corruption, which aimed to prevent acts of corruption, strengthen the articulation and coordination of State entities and recover the damages caused by such acts in order to ensure the promotion of the culture of legality and integrity and recover citizen trust and respect for the public.

In addition, Colombia was one of the first countries in the region to adopt a National Plan for Human Rights and Business in 2015, which was updated in 2020⁷. Similarly, Chile and Argentina in 2017 and 2023, respectively, have also implemented a NAP that promotes corporate responsibility in these areas.

Additionally, Colombia was the first country in the Americas to develop a national Green Taxonomy, launched in April 2022. This Colombian taxonomy, recognised by the World Bank as a pioneer in the region, defines criteria to classify economic activities according to their environmental contribution, guiding investors and companies in what constitutes a “green” project.

In **Mexico**, although there is no federal law on mandatory due diligence, the authorities and the market have taken steps towards transparency in

sustainability issues. The bag Mexicana de Valores has been promoting the Sustainability Index and voluntary guidelines for sustainability reporting for years; in addition, the National Banking and Securities Commission (CNBV) published provisions in 2022 that encourage issuers to disclose information on climate risks and sustainable performance in their annual reports. In Mexico, there is a bill for the creation of a General Law on Corporate Responsibility and Due Diligence, presented in 2020 as a result of General Recommendation No. 37 of the country’s National Human Rights Council in the previous year.

Peru, for its part, issued voluntary corporate sustainability reporting guidelines and has promoted the adherence of Peruvian companies to global standards (such as GRI). **Argentina** and other countries in the region are incorporating ESG criteria into corporate governance codes and requirements for listed companies, although mostly on a “comply or explain” basis rather than strict mandates.

In addition, since 2014, Ecuador has led the creation of the Working Group on Transnational Corporations and Human Rights, whose objective is to develop a legally binding international instrument to regulate companies in this area. This negotiation process addresses key issues such as the obligations of transnational corporations in the region, their legal responsibility, and access to justice for victims of human rights violations related to corporate operations.⁸

With respect to prior consultation with indigenous and black communities for the exploitation of natural resources within their territories,

⁷ National Action Plans on Business and Human Rights. (2016). OHCHR. <https://www.ohchr.org/es/business/state-national-action-plans-business-and-human-rights>

⁸ Human rights first. (2024). Sowing: https://www.centrosiembra.org/wp-content/uploads/2024/06/Siembra_tratado-vinculante_v05_DIGITAL-1.pdf



Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominica, Ecuador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru and Venezuela⁹ are the countries that have ratified Convention 169 of the International Labour Organisation (ILO) and some of them have established laws and/or procedures for its implementation.

Likewise, some countries, including Ecuador, Uruguay and Argentina, have ratified ILO Convention 190 that seeks to eliminate gender-based violence and harassment in the world of work, both in the physical space and also in its communications, with a special focus on combating discrimination, promoting training,

monitoring, prevention and assistance. Also, the generation of opportunities for professional development for all people, that is, the fundamental right to work, within the framework of a work environment where not only physical safety but also psychological safety is guaranteed.

In conclusion, it can be observed that the Latin American region is moving towards more robust sustainability frameworks. This process is gradual and requires disclosure and the adoption of voluntary best practices predominate, rather than binding due diligence obligations comparable to those in Europe.

⁹ Indigenous peoples, Afro-descendant communities and extractive industries. (2016). CIDH: <https://www.oas.org/es/cidh/informes/pdfs/industrialsextractivas2016.pdf>



Process of implementation and maintenance of the Due Diligence Systems

A due diligence system is a structured and dynamic framework that enables companies to identify, prevent, mitigate and remediate risks of various natures. In particular, focusing the system on risks related to human rights, the environment and governance responds not only to regulatory requirements, such as those established in the CSDDD, but also contributes to the creation of long-term value, by reinforcing sustainability and stakeholder trust. With growing global pressure towards more accountable and transparent governance, companies that adopt strong due diligence practices will not only ensure regulatory compliance but also gain a competitive edge,

positioning themselves as leaders in sustainability and good governance.

To ensure the effectiveness of a due diligence system, it is essential to develop a framework that incorporates both preventive measures and responsive capabilities to address emerging risks. This framework should be flexible and adaptable, allowing the company to adjust its strategies based on changes in the operational, regulatory, or social environment. In addition, the implementation of technologies Advanced data monitoring and analysis can significantly improve the ability to anticipate and react to these risks.

4.1. Process Phases

A well-structured implementation process must include a series of key phases, distinct from those required to maintain ongoing operations, which are listed below:

1. Context evaluation.
2. Analysis of the starting point and background.
3. Definition of objectives and scope.
4. Identification of participants.
5. Design of the operating model.
6. Implementation.
7. Continuous monitoring and improvement.
8. Communication.

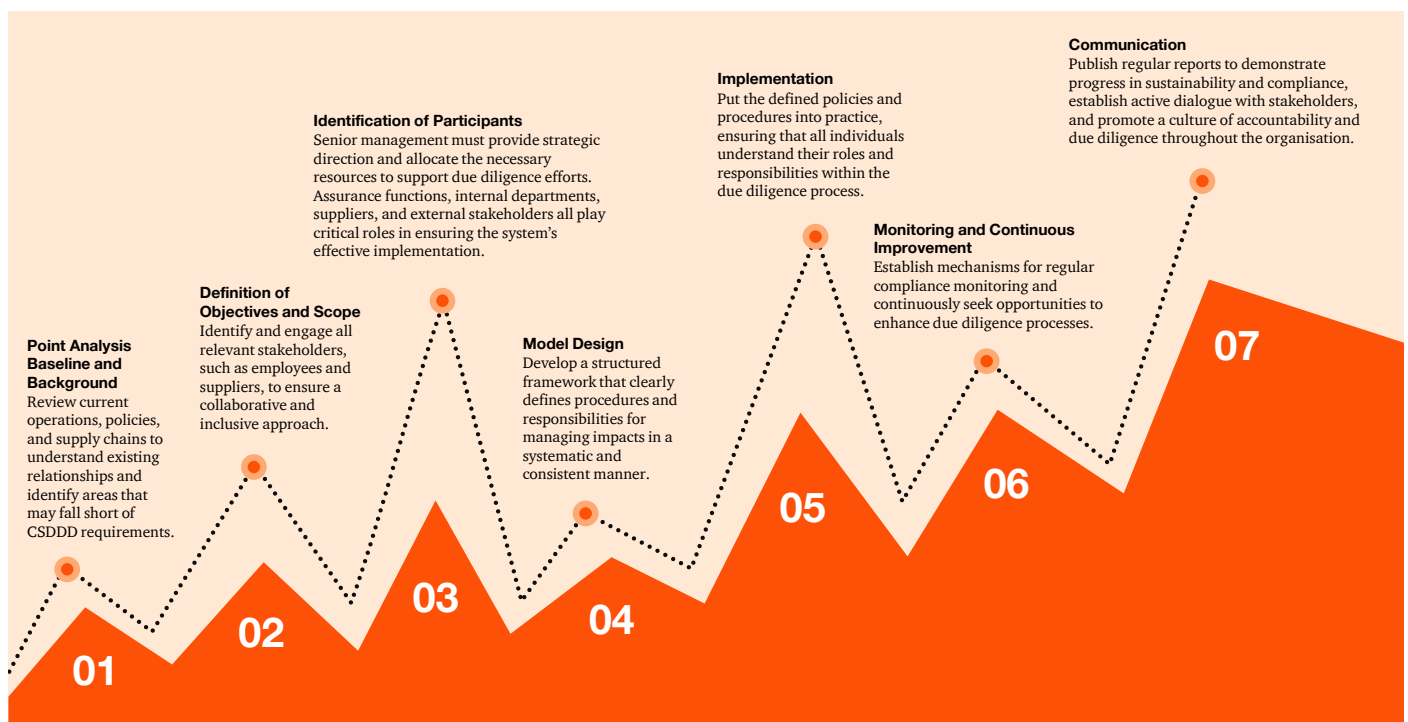
These activities must not only ensure regulatory compliance, but also establish a solid foundation for continuous monitoring and improvement of the system over time.

The following pages provide a detailed description of each phase, highlighting their main characteristics and their importance within the overall due diligence process.

4.1.1. Context evaluation

The first step is the evaluation of the operating context, which consists of a preliminary analysis focused on understanding the specific environment in which the company operates, considering factors such as the sector of activity, applicable regulations, and market dynamics. By focusing on the context and sector of activity, the assessment enables practices to be tailored to the unique circumstances of each company, thereby enhancing the effectiveness of the measures implemented for regulatory compliance.

Figure 6. Roadmap for responding to CSDDD. From inception to continuous value creation



Source: PwC.

4.1.2. Starting Point Analysis

The next step in implementing a due diligence system is to conduct a detailed diagnosis of the organisation's current situation. The objective is to have sufficient information on the level of maturity of the company in relation to the main elements that it should have and to be able to prioritise the actions to be carried out. In many cases, companies have not carried out this process, but either due to other applicable regulations¹⁰ or as a result of corporate culture, they may already have some of the necessary elements.

Among other things, this analysis should consider:

- The maturity of the internal control, auditing and compliance systems and mechanisms, as well as the related policies and procedures, whistleblowing channel, etc. While these systems and mechanisms are not mandatory for a due diligence system, their mere existence implies concern for fostering an appropriate control environment. In addition, the results of analyses or audits, periodic reports, etc. carried out by these functions can be a very useful source of information.
- The critical areas within companies and the complexity of their value chain, without forgetting that the CSDDD (in its current wording and without prejudice to possible modifications) encompasses the entire production and service delivery process of goods and provision, both the upstream phases and the subsequent distribution, transport and storage (downstream) phases. With this, indirectly, the potential risks associated with the business activity can be considered, from the point of view of the number of participants, the geographical areas where they are located, the type of related products or services, etc.

- Certifications issued by third parties in connection with health and safety audits, product certifications, etc.
- Alignment with international normative frameworks and standards (e.g. those of the UN, OECD, ILO).
- Areas not covered or compliance gaps with applicable regulatory frameworks, depending on the countries in which the company operates.
- Integration with strategic sustainability and corporate governance plans.
- Constant review of these plans to ensure that effective improvements are being made in the implementation of sustainable practices.
- The incorporation of transparency and accountability criteria.

To carry out this analysis effectively, it is advisable to use tools such as risk and control matrices, have the internal audit function, where appropriate, and consult with sustainability and compliance experts. In addition, it is useful to review previous reports on environmental and social impact, as well as collect relevant data on past incidents related to suppliers or the value chain in general. Where appropriate, considering the CSRD materiality analysis can also be a useful source of information.

4.1.3. Definition of objectives and scope

Once the starting point has been understood, in order to define and prioritise the actions to be carried out, companies must define the "level of ambition". It is a matter of evaluating how far they want to go with the system and what regulations it intends to respond to. This assessment should reflect the company's vision and mission,

¹⁰ In Spain, the Penal Code in relation to the liability of the legal person, the Law on Capital Companies, etc.

ensuring that each objective not only complies with regulations but also supports the sustainable and responsible development of the business. This, in turn, must be translated into clear and realistic objectives, which must be specific, measurable, achievable, relevant and time-bound (known as “SMART”). Figure 7 shows the key aspects to consider.



Figure 7. Definition of objectives and scope

Assessing the level of ambition	Establish objectives aligned with vision, mission and regulations.
Identification of critical areas	Include the entire value chain, covering both upstream and downstream phases of operations.
Prioritisation of high-risk areas	Prioritise high-risk areas to prevent and correct both functional and geographic areas.
Alignment with regulations and standards	Align with key regulatory frameworks and standards.
Integration with strategic plans	Incorporate sustainability and corporate governance plans.
Constant review	Continuously evaluate to ensure effective improvements.
Transparency	Incorporate transparency and accountability criteria.

Source: PwC.

In addition, it is critical to establish the scope of the system, determining which activities, geographic locations, and business partners are currently subject (or will be subject) to due diligence assessments. This involves establishing specific processes to assess and monitor the compliance of these business partners against due diligence objectives, ensuring effective collaboration and shared responsibility across the value chain.



4.1.4. Identification of Involved parties

The success of the process depends largely on the collaboration and commitment of multiple actors inside and outside the organisation. These actors not only ensure the effective system implementation, but also foster a culture of accountability and transparency that can positively transform corporate perception. Among these participants the following stand out:

- **Senior management:** Their support is key to resource allocation and system integration into business strategy.
- **Assurance functions:** internal audit, internal control, or compliance, if any, are areas that have great knowledge of the company, its risks, and the applicable regulations.
- **Internal departments:** regardless of the involvement of the different areas of the entities, areas such as sustainability, legal, purchasing or human resources play an essential role in the execution of the process. These departments must be trained and aligned with due diligence objectives to ensure consistent and effective implementation.

- **Suppliers and business partners:** Since risks arise not only within the company, but also throughout the supply chain, it is crucial to involve these in the implementation of due diligence standards.
- **External stakeholders:** NGOs, investors, regulators, independent experts and affected communities can provide a critical and constructive vision to strengthen the effectiveness of the system. Even effective stakeholder collaboration can be mandated by regulation, as is the case in the CSDDD. Therefore, considering the double materiality analysis under the CSRD is highly recommended.

The integration of due diligence into companies' policies and management systems is crucial to comply with the provisions of the CSDDD. This implies not only adopting measures that prevent and mitigate possible negative impacts, but also promoting a culture of where sustainability and respect for human rights are at the centre of decision-making. Companies must ensure that these practices are reflected throughout the entire organisation, from senior management to frontline employees, and across the full value chain.

Figure 8. Actors inside and outside the organisation

Senior Management	Key to resource allocation and strategy.
Assurance Functions	They provide knowledge of risks and regulations.
Internal Departments	Essential in the execution of the process.
Suppliers and business partners	Implementation of standards in the supply chain.
External stakeholders	They provide a critical and constructive vision.

Source: PwC.

4.1.5. Operating model design

All company operating models, while sharing common elements, must be tailored to the specific circumstances of each organisation, as described above. These circumstances include the level of ambition, the complexity of the operations, the industry to which it belongs, and the regulations to which it wishes to respond. In general terms, at least, the following elements should be considered:

- **Protocols for detecting, identifying and assessing actual and potential risks and adverse impacts.** It is essential to implement appropriate measures to detect, evaluate and prioritise actual and potential adverse effects in areas such as human rights, the environment, and corporate governance. These may arise from the company's own operations, those of its subsidiaries, or those of its business partners within the value chain. In this regard, it is beneficial to rely on the company's internal assurance functions, which can contribute risk assessment methodologies and ensure consistency and alignment with other internal models.
- **Mechanisms for the prevention, mitigation, elimination and reparation of adverse effects.** Action plans should be developed to prevent or, where this is not possible, sufficiently mitigate or even eliminate potential adverse effects that have been identified or should have been identified

To determine the appropriate measures, the following must be taken into account:

- Who causes the adverse effect (the company itself; the company as a whole) with its subsidiaries and business partners; or solely by business partners) and
- The company's ability to influence the business partner causing the adverse effect.

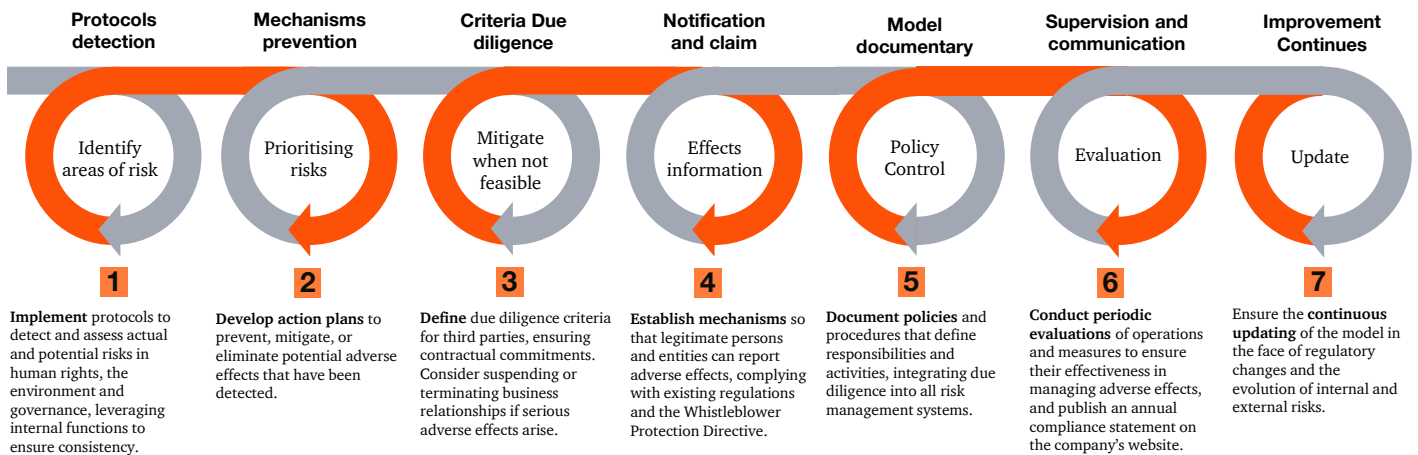
Appropriate measures may include, but are not limited to:

- Development and implementation of a preventive action plan. This plan must be adaptive, able to evolve with the changing risk landscape.
- Contractual guarantees. These must be clearly defined and ensure the effective application of the relevant regulatory frameworks or standards.
- Financial or non-financial investments. Such investments must align with the company's strategic and sustainability objectives.
- Adjustments to the business plan, strategies, and operations.
- Support for small and medium-sized enterprises (SMEs) that are business partners of the company when necessary. Support may include training, technical resources or access to finance, thus strengthening the entire value chain.
- Collaboration with other companies or entities.
- Establishment of open lines of communication with stakeholders.
- Continuous monitoring and evaluation.

In the event that an undertaking directly (by itself or jointly) causes an actual adverse effect, it shall be obliged to remedy it. However, if the adverse effect is caused indirectly (i.e., solely by a business partner), the company may choose to remedy it voluntarily, using its influence over the business partner responsible to facilitate the resolution.

Figure 9. The design of the operating model in the CSDDD
The Due Diligence Process

Due diligence relates to the practices of the buyer and to the existence of sound and appropriate systems, as required by Article 7. Human rights and environmental due diligence should ensure that companies identify, assess, prioritise, and prevent, or bring to an end existing and emerging, potential and actual adverse impacts across the entire chain of activities, providing remediation where appropriate. To be truly effective and robust, the CSDDD calls for due diligence to be continuous, proportionate, and dynamic, with solutions specifically designed to meet the needs of each challenge and context.



Source: PwC.

- Establishment of due diligence criteria for third parties.** Selection, evaluation, and ongoing monitoring of those involved in the chain of activities of companies. The priority is to try to reach commitments with business partners, ideally, contractually shielded with the support of the companies' legal department. However, as a last resort, the following are contemplated:
 - Refraining from entering into new agreements with the trading partner or renewing existing ones.
 - The temporary suspension of trade relations and the implementation without delay, as appropriate, an enhanced preventive or corrective action plan.
 - Terminating the business relationship concerning activities, if the potential or actual adverse effect is considered to be serious.
- Notification mechanisms and complaint procedure.** Companies should establish mechanisms that enable legitimate individuals and entities to submit complaints when they have reasonable grounds to believe that the company's operations—or those of its subsidiaries or business partners—are causing or could cause adverse impacts. In this area, existing channels should be considered, as well as the provisions of the Whistleblowing Protection Directive ¹¹.
- Documentary model.** All of the above should be reflected in policies and procedures that define the responsibilities of the participants, the operation of the system, the activities to be carried out, etc.; including a risk-based due diligence policy. Furthermore, due diligence should be integrated into all risk management policies and systems.

¹¹ Directive (EU) 2019/1937 on the protection of persons who report breaches of Union Law.

- **Supervision and communication.** Companies should carry out regular evaluations of their own operations and measures, those of their subsidiaries and, where related to the company's chain of activities, those of their business partners. The purpose of these evaluations shall be to verify the implementation, adequacy, and effectiveness of measures designed to detect, prevent, mitigate, eliminate, and minimize the extent of adverse effects. In addition, in relation to the CSDDD in particular, companies must report on the regulated aspects by publishing an annual report on their website.
- **Continuous updating and improvement.** Finally, companies must ensure ongoing relevance of the model through updating activities in response to regulatory changes and to the evolving risk landscape, whether due to internal developments (e.g., new subsidiaries, activities) or external factors changes (changes in partners, materialised adverse effects, etc.).

4.1.6. Implementation

The effective implementation of the due diligence system requires a phased approach, starting from the designed model and including all those involved in the system, through the following activities:

- **Definition of the implementation and deployment plan:** outlining the lines of action, the necessary resources, etc.
- **Training and awareness-raising:** Ongoing training for employees, suppliers, and strategic partners on due diligence principles and procedures.
- **Technological integration:** use of digital tools for real-time risk management and monitoring.
- **Pilots and initial tests:** implementation of pilot projects in key areas to assess the practicality and effectiveness of the adopted before their full deployment.
- **Change management:** developing strategies to minimise organisational resistance and ensure system adoption at all levels.



4.1.7. Monitoring and continuous improvement

In line with the design of the operating model described above, the proper functioning of the due diligence system depends to a large extent on its capacity for adaptation and continuous enhancement. In accordance with the CSDDD, this requires establishing internal audit and review procedures that allow organisations to identify areas for improvement and assess compliance with set objectives. In addition, it is advisable to implement an action plan that contemplates the participation of all stakeholders, thus facilitating opportunities for improvement through constant feedback. To do this, mechanisms such as:

- **Internal and external audits.** Carry out periodic evaluations to ensure compliance with procedures and the effectiveness of the system, allowing areas for improvement to be identified.

- **Performance indicators (KPIs).** Define and monitor key metrics to measure the impact and evolution of the system, facilitating an objective assessment of its performance.
- **Periodic review of policies and processes.** Continuously adjust strategies in response to regulatory changes and the adoption of international best practices, ensuring that the system is kept up to date.

4.1.8. Communication

Transparency in the due diligence process is essential to strengthen stakeholder trust and minimise reputational risks. Companies must develop communication strategies that include regular reporting on progress, challenges, and achieved outcomes. This will not only strengthen the confidence of customers, business partners and investors but also ensures regulatory compliance by providing evidence of efforts made



and progress made in implementing sustainable practices. In some cases, the following actions are recommended, or even mandatory in some cases:

- **Publish sustainability and compliance reports and human rights reports:** Disseminate progress and results through periodic reports that reflect the progress made.
- **Establish mechanisms for dialogue with stakeholders:** Actively participate in forums, consultations, and working groups with investors, communities, and regulators to foster communication and collaboration.
- **Promote a culture of compliance:** Encourage organisation-wide accountability and commitment to due diligence principles.

In conclusion, an effective due diligence system not only ensures compliance with regulations but also contributes to building more resilient, ethical, and sustainable businesses. Its correct implementation requires a comprehensive approach, based on the identification of risks, collaboration between key actors and a firm commitment to continuous improvement.





Annexes

5.1. Annex I: Evolution of due diligence and main forecasts to be taken into account on the current regulations

5.1.1. Due diligence developments

Nineteenth and early twentieth centuries: Origins of corporate responsibility

- **Second half of the nineteenth century:** The first labour laws (such as those limiting the working day or prohibiting child labour) appear in Europe and the United States, reflecting concern for the well-being of workers.

- **1919:** After World War I, the International Labour Organisation (“ILO”) is created, which adopts its first conventions on working hours, minimum age, maternity protection, establishing **international labour standards**.
- **1933:** The United States enacts the Securities Act, which introduces the concept of “due diligence” into the issuers and intermediaries are required to investigate information before selling securities as a measure of investor protection. This is how the concept of acting with due diligence in financial transactions arises, aimed at preventing fraud and promoting transparency.

Twentieth century: Human rights and environmental understanding. From corporate social responsibility to sustainability

- **1948:** The United Nations adopts the Universal Declaration of Human Rights, recognising basic standards of rights and freedoms.
- **1972:** The Stockholm Conference on the Human Environment is held, the first major global meeting that places the environment at the centre of the international agenda.
- **1976:** The OECD adopts for the first time the Guidelines for Multinational Enterprises, a code of conduct voluntary in areas such as labour, human rights, the environment, and the fight against corruption. That same year, the UN adopted the International Covenant on Economic, Social and Cultural Rights and the International Covenant on Civil and Political Rights (in force since 1976), reinforcing the human rights framework that companies must respect.
- **1977 - 1978:** International instruments against corruption and for labour rights are approved. The United States enacts the **Foreign Corrupt Practices Act (FCPA)** of 1977 that prohibits transnational bribery, promoting due diligence in governance (anti-corruption compliance). In 1977 the ILO adopts the **Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy**, which urges companies to respect labour standards in all their operations. Through these initiatives, the concept of due diligence is extended beyond the financial sector, encompassing ethical behaviour aimed at respect for work.
- **1997 - 1999:** In 1998 the ILO adopts the **Declaration of Fundamental Principles and Rights at Work**, which reaffirms four basic categories (elimination of child and forced labour, non-discrimination and freedom of association). On the other hand, in 1999 The UN announces the future United Nations Global Compact, inviting companies to align its operations with universal principles in human rights, labour, environment and anti-corruption. This is how the largest voluntary corporate social responsibility network in the world is conceived, formally launched the following year.

XXI Century: 2000 – 2010. Emergence of the ESG concept

- **2000 - 2004:** Official launch of the UN Global Compact with 10 Principles on human rights, labour standards, environment and anti-corruption, to which companies adhere globally.
- **2003 - 2006:** The term ESG (Environmental, Social, Governance) is gaining importance in the financial sector. In 2004, a report entitled “Who Cares Wins” (an initiative of the Global Compact) uses ESG for the first time to refer to the integration of environmental, social and governance factors into investments. In 2006, the UN launched the **Principles for Responsible Investment (PRI)**, which urge investors to consider ESG criteria in their decisions. These initiatives demonstrate an evolution of due diligence from a financial practice to a broader analysis of ESG risks in business and investment activities.
- **2008 - 2010:** Development of the “Protect, Respect and Remedy” framework on business and human rights. At the same time, some countries are beginning to legislate specific aspects of ESG diligence. As an example, the United States includes in the Dodd-Frank Act (2010) Section 1502 on “conflict minerals”, requiring listed companies to conduct due diligence on their supply chain of tantalum, tin, tungsten and gold to avoid financing armed conflicts.

Additionally, in 2010, the International Organisation for Standardization (ISO) launched the ISO 26000 Social Responsibility Guide, a non-certifiable document whose purpose is to guide organisations in the implementation of corporate responsibility practices. This guide highlights seven fundamental principles that companies and organisations should consider in order to perform responsibly in the social sphere.

XXI Century: 2011-2019. First international standards and national due diligence laws

- **2011:** In 2011 the OECD updates its Guidelines for Multinational Enterprises, a set of recommendations for promote responsible business conduct in various areas, including human rights, environment, transparency and anti-corruption. These guidelines were updated in 2011 to include a new chapter on **human rights**, aligned with the UN Guiding Principles. The UN Human Rights Council endorses the Guiding Principles on Business and Human Rights (Ruggie Principles). These establish that companies have a responsibility to respect human rights human rights and must conduct human rights due diligence to identify, prevent, and mitigate negative impacts.
- **2015:** The United Nations approves the **Sustainable Development Goals (SDGs)**¹², an agenda with a horizon that reaches 2030 that reinforces the integration of ESG factors in business strategy (decent work, climate action, gender equality). On the legal front, the United Kingdom adopted the 2015 Modern Slavery Act, which requires large companies to report annually on steps taken to prevent forced labour in their supply chains.
- **2017:** France enacts the Loi de Devoir de Vigilance (Duty of Vigilance) which obliges large French companies to implement a vigilance plan to identify and prevent serious human rights violations and environmental damage, both in their operations and in subsidiaries, subcontractors and suppliers. It is the first historical milestone that imposes, at the regulatory level, a comprehensive due diligence in human rights and the environment, under the risk of civil sanctions. France thus inaugurates a mandatory national framework for corporate sustainability.
- **2018 - 2019:** In 2018 it is approved, by the Council at ministerial level, the Organisation for Economic Co-operation and Development (OECD) Due Diligence Guidance for Responsible Business Conduct; a key document that provides Businesses with practical tools to implement due diligence processes throughout their supply chain. This guidance has been adopted by multiple countries and organisations as a standard to ensure that companies operate ethically and sustainably and has served as the basis for the CSDDD. In addition, the EU adopts transparency measures through the entry into force of the Directive of Non-Financial Information (2014/95/EU) that obliges large companies, since 2018, to report on environmental, social, labour, human rights and anticorruption. The Netherlands passes the Child Labour Due Diligence Act (2019), which requires companies to assess whether there is child labour in their chain and act on it.

21st century: 2020 - 2025: Rise of regulation and mandatory sustainability standards

- **2021:** National laws inspired by the UN Guiding Principles are passed. In **Germany**, Parliament approves the Supply Chain Due Diligence Act, which requires from 2023 that large German companies establish risk management systems, assessments and preventive actions to protect human rights and the environment in their supply chain. Norway adopts the Transparency Act (June 2021), in force since 2022, which binds medium and large companies operating in **Norway** to conduct due diligence on human rights and decent working conditions throughout its operations and business chain.

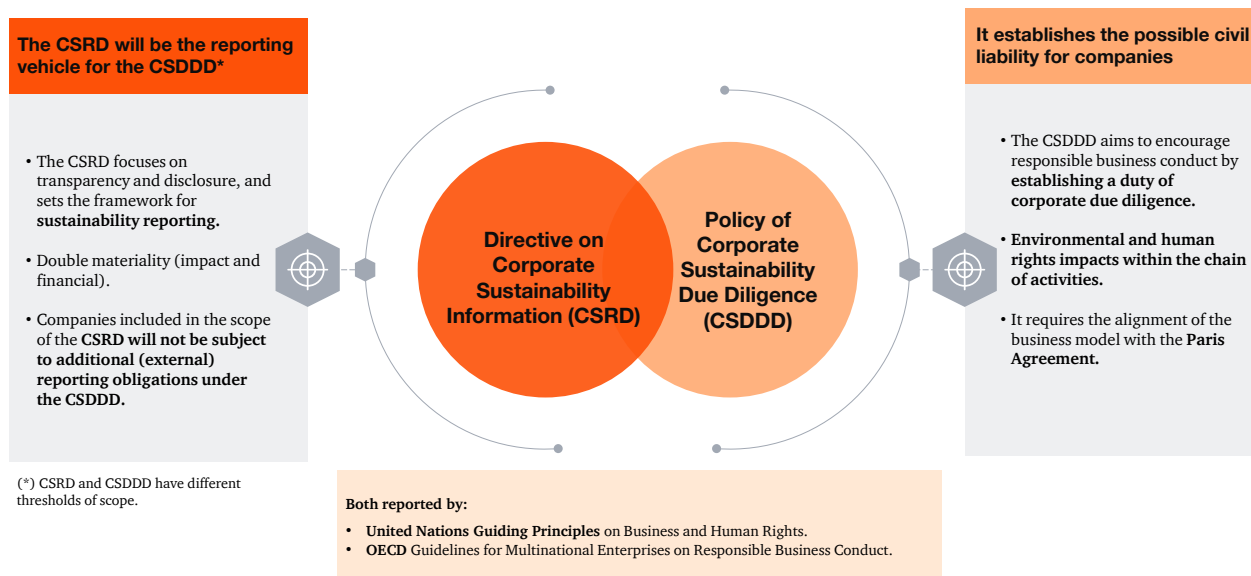
¹² The Sustainable Development Goals (SDGs) replaced the Millennium Development Goals (MDGs). The SDGs, adopted in 2015, mark a continuation and expansion of the MDGs, with a new target of 2030 and a broader, more global perspective for development.

- **2022:** In February, the European Commission presents **the proposal for a Corporate Sustainability Due Diligence Directive (CSDDD)** which obliges large companies to identify and address adverse human rights and environmental impacts in their own operations, subsidiaries and value chains. The EU approves sectoral regulations. Proof of this is the **entry into force of Regulation (EU) 2017/821 on conflict minerals**, obliging importers of certain minerals to carry out responsible due diligence, complementing the Dodd-Frank law. The **Zero Deforestation Law**, adopted in 2023, is agreed, banning imports of commodities linked to deforestation, requiring importers to demonstrate environmental due diligence.
- **2023 - 2024:** In January 2023, the new **Corporate Sustainability Reporting Directive (CSRD)** comes into force, which expands the number of companies obliged to report information on sustainability, with detailed standards (ESRS). In 2023, the EU agreed on a **Regulation on a ban on products manufactured with forced labour**, which, once in force, will prevent the sale on the European market of goods

linked to forced labour, complementing due diligence obligations. Outside Europe, other countries tend to strengthen their regulatory frameworks. For example, Canada adopts, in 2023, a law on reporting forced labour in the supply chain. Entry into force in July 2024 of the CSDDD Directive.

- **2025:** As a global trend, sustainability due diligence has evolved from a voluntary practice into a legal obligation in multiple jurisdictions, setting the standard for the duty to ensure responsible business conduct. Although, as mentioned, due diligence is gaining more and more strength, it is worth mentioning the regulatory uncertainty that is currently being suffered. While some jurisdictions have made progress on specific regulations, the landscape remains fragmented, creating challenges for companies in terms of compliance and uniformity of practices.

Figure 10. How does CSDDD relate to CSRD?



Source: PwC.

5.1.2. Main regulatory provisions on due diligence: CSDDD

The main regulatory provisions that must be considered in accordance with the provisions of the CSDDD are presented below. In addition, reference is made to the most relevant modifications introduced by Omnibus Proposal I by means of footnotes.

Entry into force, transposition and scope of the CSDDD

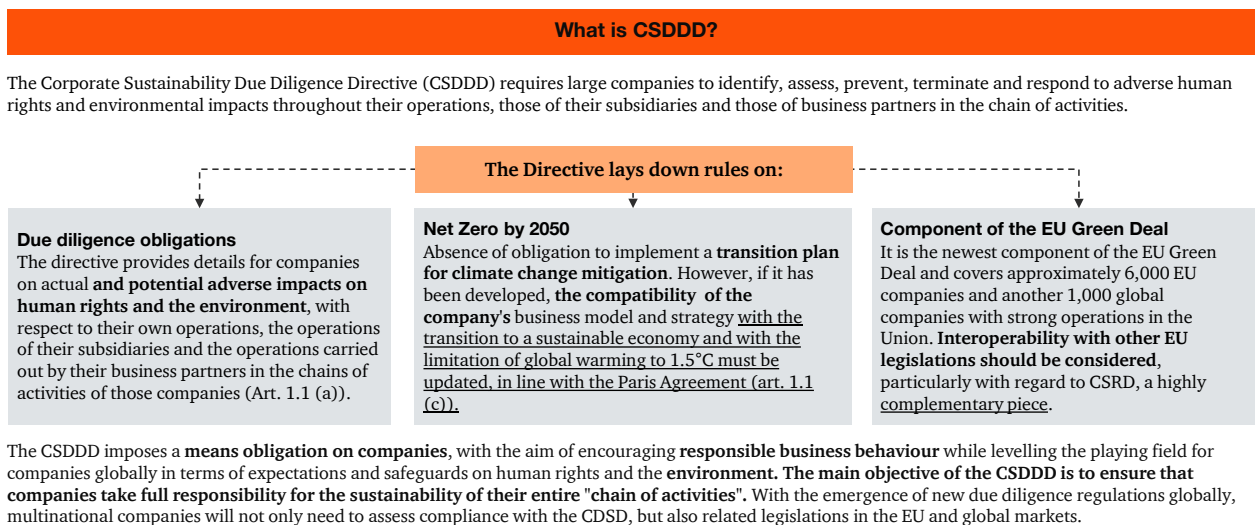
Entry into force. The CSDDD entered into force in July 2024, 20 days after its publication in the Official Journal of the EU (see Article 32).

Transposition. Member States must transpose the Directive into their national legal systems within 2 years of its entry into force¹³ (see Article 37).

Scope of application. It applies to companies in the EU and third countries that meet certain turnover and employee thresholds (see Article 2) under the terms set out below:

- **Enterprises incorporated under the law of a Member State:**
 - Companies with **more than 1,000 employees** and a net global turnover of more than **€450 million**; as well as those companies that have not reached these thresholds are **ultimate matrix of a group**

Figure 11. CSDDD at a glance



Source: PwC.

¹³ Currently, the maximum transposition period is set until 26 July 2026. However, in accordance with the provisions of the wording of the new text proposed in the Omnibus I Package, the transposition deadline would be postponed by one year until 26 July 2027 (see Article 2). In this regard, the deadlines for the application of these measures are also amended and worded as follows: "The measures shall apply as follows: (a) From 26 July 2028, in respect of the undertakings referred to in Article 2(1)(a) and (b), which have been incorporated in accordance with the law of the Member State and which have had more than of 3,000 employees on average and generated a worldwide net turnover of more than EUR 900,000,000 in the last financial year prior to 26 July 2028, for which the annual financial statements have been adopted or should have been adopted, with the exception of the measures necessary to comply with Article 16, which Member States shall apply to such companies for the financial year that begin on or after January 1, 2029; (b) From 26 July 2028, in respect of the undertakings referred to in points (a) and (b) of Article 2(2), which have been incorporated in accordance with the law of a third country and which have generated a net turnover of more than EUR 900 000 000 in the Union, in the financial year preceding the last financial year preceding 26 July 2028, with the exception of the measures necessary to comply with Article 16, which Member States shall apply to such undertakings for financial years beginning on or after 1 January 2029; (c) From 26 July 2029, in respect of all other undertakings referred to in Article 2(1)(a) and (b) and in Article 2(2)(a) and (b) and the undertakings referred to in Article 2(1)(c) and Article 2(2), point (c), with the exception of measures necessary to comply with Article 16, which Member States shall apply to such undertakings for financial years beginning on or after 1 January 2030.

that at a consolidated level exceeds the previous values.

- Companies that have entered into, or are the ultimate parent company of, a group that has entered into **franchise or licensing** agreements in the EU with higher revenues to **€22.5 million in royalties** and a net worldwide turnover of more than **€80 million**.
- **Third-country companies** that meet any of the following requirements:
 - Net turnover in the EU **more than 450 million euros**.
 - Be an ultimate parent company of a group that at a consolidated level reaches these thresholds, and/or
 - Have entered into or be the ultimate parent company of a group that has entered into franchise or licensing agreements in the EU with revenues in excess of €22.5 million in royalties and a net worldwide turnover of more than €80 million.

- **Exclusions:** Collective investment undertakings (“AIFs”), as described in the CSDDD, are excluded from the scope of the CSDDD defined in Article 4(1)(a) of Directive 2011/61/EU of the European Parliament and of the Council, and undertakings for collective investment in transferable securities (“UCITS”) within the meaning of Article 1(2) of Directive 2009/65/EC of the European Parliament and of the Council.

The CSDDD Directive will only be applicable when the conditions set out in the preceding points have been met for two consecutive years.



Figure 12. Scope of application

Scope of companies				
European Companies UE companies with more than 1,000 employees and a net turnover of more than €450 million; implemented in 3 phases.		Non-European companies Non-UE companies with a net turnover of more than €450 million generated in the EU; implemented in 3 phases.		Parent companies of large groups The ultimate matrix of a group that reached the threshold for Group 1 or Group 2 on a consolidated basis; implemented in 3 phases.
Franchises Franchise agreements in the EU with a net turnover of more than €80 million where €22.5 million are generated by royalties.				
Thresholds (must be met for two consecutive years)		2027	2028	2029
Phased approach European Companies	>5,000 employees and >€1,500M global turnover			
	>3,000 employees and >€900M global turnover			
	>1,000 employees and >€450M global turnover			
Thresholds (must be met for two consecutive years)		2027	2028	2029
Non-European Companies	>€1,500M turnover in the EU			
	>€900M turnover in the EU			
	>€450M turnover in the EU			

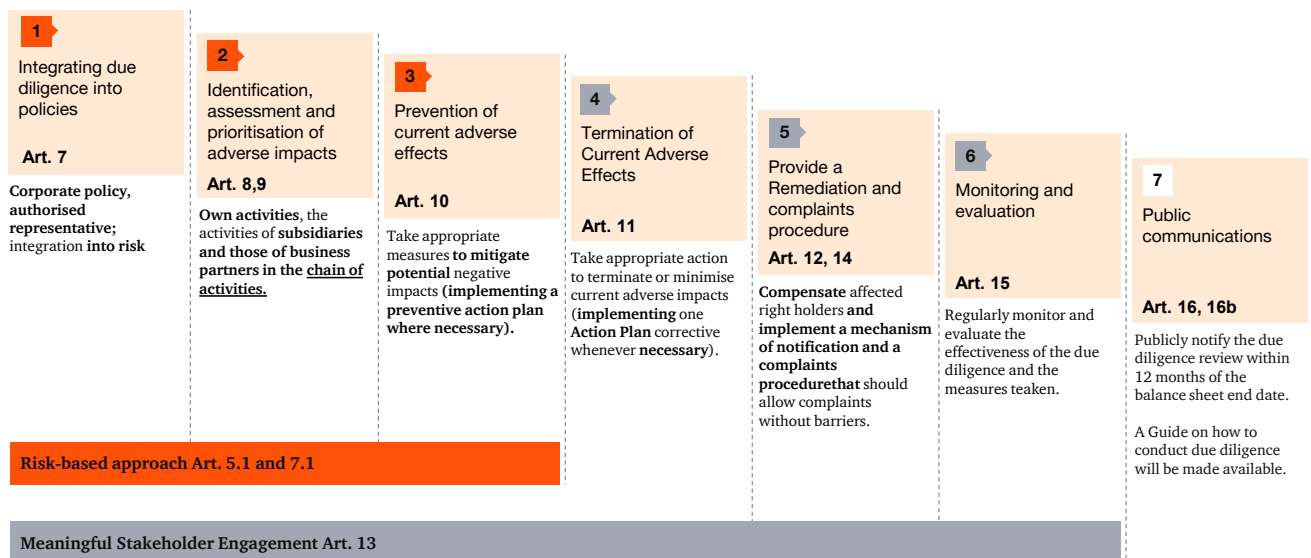
Source: PwC.

5.1.3. Main obligations of the CSDDD

Companies should implement a due diligence process that includes:

- Integrate due diligence into the company’s risk management policies and systems (see Article 7).
- Identify, assess and prioritise actual and potential adverse human rights and environmental impacts arising from its own operations or those of its subsidiaries and, where related to its business chains, its business partners¹⁴ (see, Articles 8 and 9).
- Prevent, mitigate and remedy adverse effects on human rights and the environment (see, Articles 10, 11 and 12).
- Publicly communicate the actions taken (see, Article 9).
- Implement a reporting mechanism and a complaint procedure to allow interested parties to complain about possible actual or potential adverse effects with respect to the undertakings’ own operations, the operations of their subsidiaries or the operations of their business partners within the value chain (see, Article 14).
- Engage constructively with stakeholders¹⁵ during all phases of due diligence.

Figure 13. The 7-step due diligence process
Main obligations to meet the expectations of the CSDDD



Source: PwC.

¹⁴ As regards the due diligence measures that undertakings are required to take, Omnibus Proposal I limits the application of those measures to undertakings’ own operations, to those of their subsidiaries and, where they are related to their business chains, to those of their direct business partners, leaving indirect business partners out of the way (see, Article 3). In addition, the information that companies, in order to comply with their due diligence obligations, may request from their SME and small and medium-sized enterprises (companies with up to 500 employees) business partners is limited (see, Article 4).

¹⁵ Another of the most significant changes included in Omnibus Proposal I is the change in the definition of the concept of “stakeholders”, eliminating from it consumers, employees of business partners, their unions and workers’ representatives, as well as national human rights and environmental institutions and civil society organisations (see, Article 3).

5.1.4. Governance and accountability

Companies should develop a risk-based due diligence policy with the following minimum content (see Article 7):

- Description of the company’s approach to due diligence.
- A code of conduct applicable to all of its operations and subsidiaries, as well as to the company’s direct or indirect partners.
- Description of the processes in place to integrate due diligence into company policies.

Parent companies are jointly and severally liable with their subsidiaries and business partners where the damage has been caused jointly (see Article 29.5).

5.1.5. Human rights and the environment

Human Rights: Companies must respect the provisions of other applicable human rights regulations and international treaties (see Annex I, Part I).

Environment: Companies must respect the obligations arising from other international instruments such as the prohibition of activities that cause deforestation, water, air and soil pollution or destroy ecosystems, among others (see, Annex I, part II).

Climate Change: Companies must adopt and implement a transition plan to mitigate climate change¹⁶ (see, Article 1.c).



¹⁶ With the new Omnibus Package I proposal, undertakings are only obliged to adopt a transition plan, and the duty to implement it is abolished (see Article 4).



5.1.6. Impact on the chain of activity

Due diligence obligations extend to the entire chain of business activities¹⁷ including activities carried out in:

- **Upstream part:** activities related to the production of goods or the provision of services including the design, extraction, supply, manufacture, transportation, storage, and supply of materials, products, and product/service development (see, Article 3.g.i).
- **Downstream part:** activities related to the distribution, transport and storage of products, when business partners carry out those activities for or on behalf of the business, excluding the distribution, transport and storage of a product that is subject to export control because of its relationship with Regulation (EU) 2021/821, arms, ammunition, or war materials (see, Article 3.g.ii).

In order to prevent potential adverse effects and eliminate actual adverse effects, the CSDDD requires companies to use or strengthen their influence over business partners, including, when necessary, the temporary suspension of business relationships related to the activities causing such impacts. As a last resort, companies are obliged to terminate the commercial relationship¹⁸ (see Articles 10.6.a and 11.7.b).

A distinction should be made between the concepts of “value chain” and “chain of activities”. As for the value chain, it is a concept used within the framework of the CSRD to describe all the phases that a product or service goes through from its conception until it reaches the final consumer. This includes everything from product design and development, through material extraction and manufacturing, to distribution logistics and customer delivery.

The chain of activities, within the framework of the CSDDD, focuses specifically on the parts in the value chain on which the company has direct

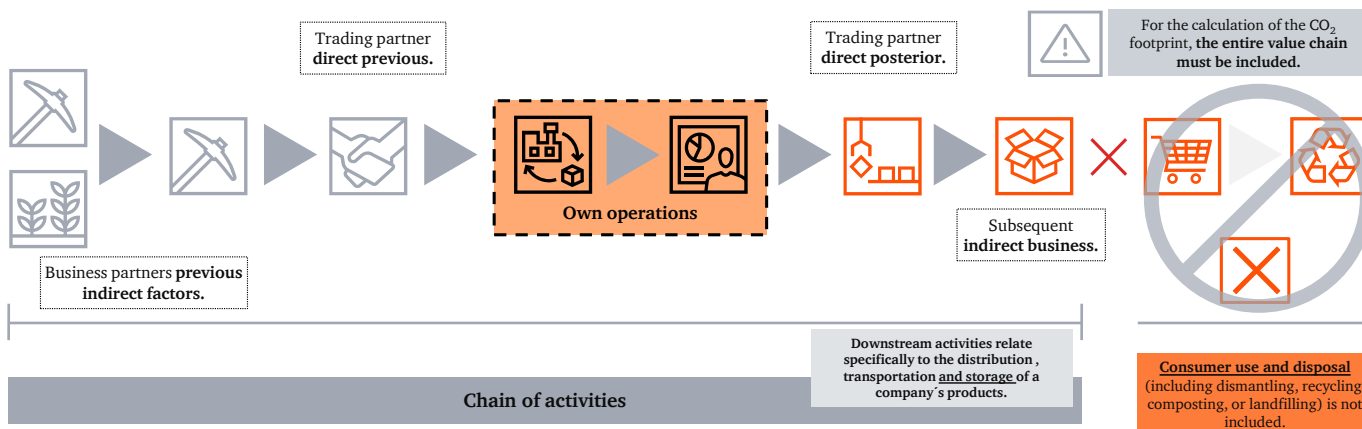
¹⁷ As set out in footnote 6, by means of Omnibus Proposal I, the due diligence obligations to be carried out throughout the business chain of undertakings are limited to the transactions carried out by the undertaking itself, its subsidiaries and those of its direct business partners, excluding, as a general rule, its application with respect to indirect trading partners (see, Article 3).

¹⁸ Omnibus Proposal I softens those obligations: (i) first, by requiring the undertaking to assess, prior to the suspension of the business relationship, whether the adverse impacts of doing so can be expected to be manifestly more serious than the adverse impact that could not be adequately prevented or mitigated. In that case, the undertaking shall not be obliged to suspend the business relationship, without prejudice to its duty to inform the competent supervisory authority of the reasons for its decision; and, (ii) on the other hand, by removing the obligation to terminate a business relationship contained in the original version.

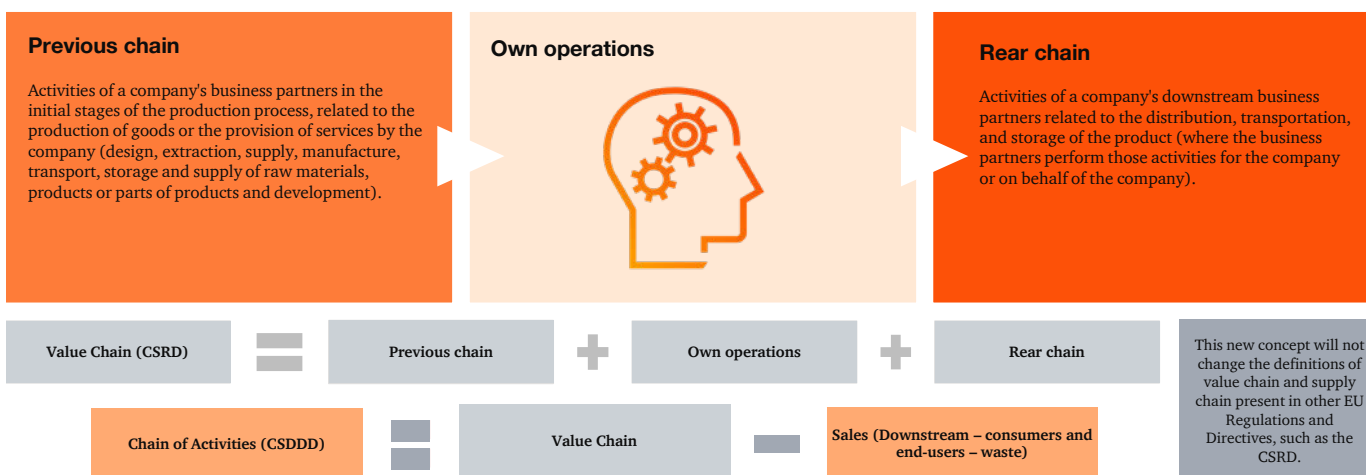
Figure 14. The chain of activities

Explanation of the chain of activities. Article 3.1 (g)

The responsibility for conducting due diligence extends to the entire **chain of business of the company**, encompassing upstream and downstream business partners related to the distribution, transportation, and storage of a product. Companies may be directly affected if they meet **the thresholds described above**, or they may also be indirectly affected by the **Sustainability Corporate Due Diligence Directive (CSDDD)**, if their **products or services** are part of the activities of another entity that is within the scope.



New concept: The chain of activities. Article 3.1 (g)



Source: PwC

or indirect control. This includes the upstream parts such as designing, extracting, sourcing, manufacturing, and supplying raw materials, products, or parts of products, as well as storing and developing the product or service. This approach focuses on those activities related to the production and provision of services that are operated by the company or through its business partners.

In addition, although the chain of activities also includes downstream parts, its application is limited to activities related to the transport, distribution and storage of the product as long as these activities are carried out by the company itself or by a business partner on its behalf. This marks a key difference with the value chain, which encompasses a wider spectrum of activities, including additional phases that are not necessarily under the direct control of the company.

5.1.7. Penalties and civil liability

Sanctions

Failure to comply with due diligence obligations may result in the imposition of sanctions, including financial penalties, by national authorities (see Article 27). These sanctions must be effective, proportionate and dissuasive, and their imposition will take into account the nature, seriousness and duration of the infringement, as well as the effects derived from it, the investments made and the support provided, the collaboration with other entities to deal with the effects, the prioritisation decisions adopted, the previous infringements that may have been committed by the company, as well as the economic benefits obtained and/or the losses avoided by the company due to the infringement, among other aspects.

Likewise, after the approval of Omnibus, the power to set sanctions is delegated to the States, granting them autonomy to determine the consequences of non-compliance within their respective jurisdictions. In addition, the legislative package introduces significant changes by eliminating the lower limit of 5% of global turnover as the basis for sanctions. This gives States greater flexibility to adapt sanctioning measures to local economic and operational realities.

Liability

Companies may be liable for damage caused to a natural or legal person by the breach, whether deliberately or negligently, of the obligations to (i) prevent potential adverse effects and (ii) elimination of actual adverse effects (see Section 29¹⁹).

5.1.8. Proposal for a directive amending the CSDDD: Omnibus proposal

From the Omnibus I proposal, the Directive known as Stop the clock (Directive (EU) 2025/794 of the European Parliament and of the Council of 14 April 2025 amending Directives (EU) 2022/2464 and (EU) 2024/1760 as regards the dates from which Member States must apply certain sustainability reporting and due diligence requirements by companies). It gives Member States one more year (until July 2027) to undertake transposition. In addition, the date from which the first set of companies falling within the scope of the CSDDD is obliged to comply with its requirements is postponed by one year (until July 2028), in order to allow these companies more time to prepare for the requirements of the Directive and to give them the opportunity to take into account the guidelines to be published by the Commission on how to deliver compliance with due diligence obligations in a practical manner.

In addition, among the main **modifications** proposed by Omnibus Proposal I to the text of the **CSDDD** are the following:

- Extension of the deadline for adaptation to the CSDDD until 26 July 2028 for the largest companies (more than 3,000 employees on average and a global net turnover of more than €900 million), while the adoption of the guidelines by the European Commission for the implementation of the Directive is brought forward by one year, to July 2026.
- Duty to update the due diligence process every five years, with specific assessments where necessary. In addition, the due diligence is now limited to direct business partners (the text of the CSDDD also extends this obligation to indirect partners), except in those cases where there is information that suggests that the activity of indirect trading partners may have actual or potential adverse effects on the environment or human rights.

¹⁹ The Omnibus I Proposal eliminates the unification of the civil liability system at European level in the field of due diligence, referring the civil liability regime to the provisions of national legislation, with the sole requirement of guaranteeing the right of the persons concerned to be fully compensated for the breach of the obligations of the directive.



- The possibility for Member States to establish stricter due diligence standards in relation to the main obligations through which such diligence is carried out is eliminated.
- The amount of information that large companies can request from SMEs that are direct (and indirect, where applicable) trading partners is limited.
- In relation to stakeholders, companies should only involve employees and the communities and people directly affected. At this point, the concept of “stakeholders” is limited to the company’s employees, the employees of its subsidiaries and its business partners, as well as its trade unions and workers’ representatives, as well as the persons or communities **whose rights or interests may be directly affected** by the products, services, and operations of the Company, its affiliates, and its business partners, as well as its legitimate representatives.
- The obligation to terminate the relationship with a business partner in the event of negative effects on the environment and human rights is qualified.
- Companies subject to the CSDDD will continue to be obliged to adopt a transition plan to mitigate climate change. Although the above, the Omnibus Proposal proposes to eliminate the obligation to put it into practice, that is, it does not oblige its implementation. Through this modification, it is intended to clarify the wording of the CSDDD, establishing. To this end, the obligation that the transition plan contains concrete implementation measures and that the adoption of the plan and its updating are subject to administrative supervision.
- Modification on penalties by eliminating the minimum lower limit of 3% of global turnover as the basis for calculating penalties.



Annex II: Good Business Practices

This Annex to the Guide aims to show some examples of good practices by companies²⁰ in due diligence-related activities.



Utilities & Energy

Due diligence in commercial relationships at Naturgy

Duration

Initiated over 10 years ago; ongoing with indefinite duration.

Location

Across all geographies where the company has subsidiaries under its operational control.

Context

Naturgy has always been committed to the application of sustainable principles in its business strategy. As a result of the company's own commitments made in 2011 following the approval of its Human Rights policy, Naturgy decided to deepen and expand the application of its sustainability principles to the supply chain and other business relationships. In addition, a change in trend was already being observed in terms of sustainability. On the one hand, there was growing interest from analysts and investors; on the other hand, it was beginning to be internalised that integrating environmental, social and governance issues into supply chain management and strengthen risk management.

Objectives

Naturgy's overall objective is to extend and integrate its sustainability commitments across its business relationships. To do this, it seeks to transmit its corporate culture by promoting excellence in service, efficiency

in the use of resources and the adoption of sustainability criteria in the daily management of its partners and suppliers. In addition, it promotes compliance with its codes and policies, especially in human rights, ethics, safety, health and the environment, ensuring commercial relations aligned with its principles of responsible action.

Naturgy also promotes the hiring of local suppliers in the regions where it operates, provided they demonstrate a level of competitiveness comparable to that of other locations, in order to generate a positive social impact. Finally, it focuses on the identification and mitigation of risks associated with sustainability in its supply chain and commercial relationships, ensuring responsible management aligned with its environmental, social and governance commitments.

Description of Good Practice. Activities Implemented

Naturgy has implemented several activities to integrate sustainability into its supply chain and business relationships. Its approach is based on a solid regulatory framework that includes the Code of Ethics, the Corporate Responsibility Policy, the Human Rights Policy and the Due Diligence Procedure Counterparty Diligence. Among its key initiatives is supply chain risk assessment, analysing

²⁰ PwC nor the PwC Foundation have audited or verified the good practices of Club members that are set out in this aloof.

348 procurement categories across 50 countries to assign risk levels and make strategic decisions. In addition, it has developed a two-tier supplier classification model, differentiating between those of medium and low risk, which must adhere to the company's ethical principles, and those of high risk, which must comply with additional requirements in sustainability, safety and compliance.

As part of its commitment to responsible governance, Naturgy has implemented a system for approving and conducting ESG audits of critical suppliers, ensuring compliance with specific requirements through inspections and improvement plans. Likewise, its due diligence procedure allows the assessment of corruption and reputational risks among third parties, complemented by a predictive evaluation of ESG risk. In environmental matters, it has incorporated carbon footprint assessment in bidding processes and supplier performance, requiring certificates in services and products with a high climate impact. In addition, it promotes the training of its suppliers through its Extended Academy and the "Sustainable Suppliers" programme in collaboration with the Spanish Network of the United Nations Global Compact.

From an innovative perspective, Naturgy has been a pioneer in implementing the of human rights policies aligned with the United Nations Guiding Principles as well as in the definition of a risk assessment model, developed with the participation of various areas of the company. Its transversal and collaborative approach has made it possible to consolidate a robust system to integrate sustainability into its commercial management, ensuring regulatory compliance while promoting a positive impact on its value chain.

Collaborations

The company collaborates with the Global Compact by supporting the SME training programme led by the organisation. In addition, it leverages a range of reputable technological tools to implement the actions described.

Impacts and Results

Naturgy has developed an effective system for mitigating ESG risks, promoting best practices among suppliers and business partners, reducing supply chain impacts and anticipating new regulations. Its approach guarantees that business activities are carried out under principles of ethics, respect for rights human rights and environmental protection. As part of its 2021-2025 Sustainability Plan, Naturgy measures the ESG audit coverage on high-risk purchases, the rate of Code of Ethics acceptance by suppliers, evaluation of counterparties based on their ESG risk and the volume of purchases awarded to local suppliers.

In 2023, the company evaluated 5,837 suppliers, classifying them according to their risk in sustainability, compliance and cybersecurity, with ESG criteria accounting for 67.3% of the overall weighting. Audits were conducted on 68 suppliers, covering 84.4% of the ESG high risk purchasing volume, and corrective action plans in case of critical findings.

Additionally, 96.4% of the purchase volume included acceptance of the supplier's Code of Ethics. In terms of training, its Extended University trained 14,945 participants with more than 37,468 hours of training, reaching 7,923 unique participants in 2023. In the long term, Naturgy seeks to consolidate risk mitigation in its business relationships and support adaptation to future regulations, such as the European Sustainability Information Directive.

Challenges and Lessons Learned

Naturgy has consolidated a mature and well-structured process for managing sustainability of sustainability in its supply chain. However, in its initial phases, it faced difficulties related to the system adaptation and the development of an efficient risk assessment methodology. Currently, the main challenges are found in smaller suppliers and in regions outside Europe, where the implementing of ESG standards is more complex.

To address these challenges, the company has adopted top-notch technological solutions, strengthened supplier training and fostered collaboration with other entities and companies. In addition, the commitment of the purchasing teams has been key to ensuring the success of the process. Looking ahead, Naturgy stresses the importance of conducting a solid initial analysis, setting ambitious but achievable targets and relying on leading market tools. It also highlights the need for progressive implementation in geographies with greater regulatory differences and continuous disclosure to ensure alignment of all parties involved.

Additional Materials

- Sustainability and State of Information Report Non-financial 2023. Pages: 151 to 165.
- Naturgy website: [Responsible supply chain - Supplier code of ethics](#).



THE ADECCO GROUP

Human Resources Services
& Consulting

Human Rights Policy

Duration

January 1, 2023 - indefinite.

Location

Adecco Group worldwide.

Context

The policy replaces the guidelines on human and labour rights that were already in place.

Objectives

The Adecco Group maintaining the highest standards of responsible business conduct and to constantly incorporating sustainability issues into its business operations. The objective of this Policy is to articulate and formalise Adecco Group's commitment and approach specifically related to the respect, defence and promotion of internationally recognised human and labour rights. The Policy sets out the Group's commitments and global minimum standards in this area and describes the responsibilities and the processes by which they implement them.

In addition, the Policy reflects its commitment to respect national labour and employment laws, as well as general and sector-specific international standards and to contribute to the United Nations Sustainable Development Agenda.

Description of good practice. Activities implemented

The policy sets out in detail the purpose of the policy, the general principles that govern it, the risk assessment process and the procedure for addressing potential violations.

Collaborations

The policy itself details all the international organisations whose guidelines they follow, such as the United Nations Global Compact to which they are a part of.

Report on Human Rights Management at Endesa

Duration

Preparation of the Report in 2024, covering information until 2023.

Location

Spain and Portugal.

Context

Endesa, a pioneer in adopting a Human Rights Policy in 2013 (updated in 2021), is prepared to face the growing regulation in this area, such as the European Directive on Sustainability Due Diligence.

Thanks to its previous work, the company has policies, procedures and tools to promote respect for human rights throughout its operations. In its publication, it details the steps taken to manage its impacts and the due diligence exercises carried out in 2017, 2020 and 2023.

Objectives

The overall objective is to highlight Endesa's formal commitment to human rights through its Human Rights Policy and a strong governance system that ensures its effective implementation. This system involves all areas of the company and ensures the oversight of human rights issues by the Board of Directors, through the Sustainability and Corporate Governance Committee. In terms of specific objectives, the company seeks to describe the due diligence exercises carried out in the past, detailing in particular the process carried out in 2023, its methodology, scope and results. Additionally, information is provided on the measures implemented to guarantee respect for human rights in relation to employees, customers, the value chain, communities and society in general. Key cross-cutting themes for its activities are also addressed, in line with the United Nations Guiding Principles on Business and Human Rights.

Description of good practice. Activities implemented

The report begins with a statement by Endesa's CEO reaffirming his commitment to human rights. An overview of the company in figures and its value chain is presented, highlighting its adherence to the Spanish Global Compact Network since 2002, the approval of its Human Rights Policy in 2013 (updated in 2021) and its Code of Ethics, in effect since 2002 and updated in 2021. In addition, the structure of governance in human rights, its functions and governing bodies are described, along with the main external recognitions and positions in sustainability rankings related to this field.

The report details the human rights due diligence processes implemented in the company since 2007, with special emphasis on the process carried out in 2023. Mitigation and prevention measures aimed at the different stakeholders are also presented, evidencing Endesa's solid and mature level of management in respect of human rights. It also specifies the channels for reporting, grievance and consultation available to stakeholders, along with the mechanism for managing and monitoring submitted complaints.

As a pioneering initiative, this verified report seeks to anticipate the transposition of the new European Sustainability Due Diligence Directive, the European Commission's Omnibus Proposal and align with emerging regulatory requirements. In Spain, the independent preparation and verification of human rights reports remains uncommon, positioning Endesa leader in this area.

Collaborations

Both for the drafting of the report and in 2023 Due Diligence process, Endesa has relied on BHR (Business and Human Rights) and for the report verification process on Forvis – Mazars.

Impacts and Results

Endesa's reputational impact is expected to be positive and reinforced by its transparency in the management of human rights operations and value chain, becoming a benchmark for the business sector in the preparation of this type of report. Success indicators include its positioning in sustainability indices and scores in ESG ratings, such as its 100% in the Human Rights criterion in the Dow Jones Sustainability Index, achieved thanks to its public information on this matter. This positive reputational impact could translate into a greater sense of belonging and pride among its employees, greater social acceptance that facilitates new projects or collaborations and a possible attraction of ESG investors. In the long term, this exercise is expected to be

repeated periodically and to become a reference practice for SMEs and suppliers, as well as a source of consultation for all Endesa stakeholders.

Challenges and Lessons Learned

One of the main difficulties encountered was the absence of a European reference standard for reporting on human rights, unlike other directives such as the CSRD, which was a challenge as it is a voluntary practice and seeks verification by an independent external party. As a solution, with the support of BHR and Forvis-Mazars, it was decided to adopt the "UN Guiding Principles Reporting Framework" as a basis for verification, since, although it is not an official standard, it provides sufficiently robust requirements and principles to report on this matter. Looking ahead, it is expected that more companies, including smaller ones, will start reporting on human rights, which will contribute to building more transparent value chains and allow large companies to improve the definition and reporting of information regarding their management in this area.

Human rights due diligence, focused on in-house activities and relationships with third parties

Duration

2013 - indefinite.

Location

In all the territories where Redeia, or its investee companies, carry out their activity.

Context

Respect for human rights is one of the ten principles on which Redeia's 2030 Sustainability Commitment is based. Therefore, it is necessary to identify any potential risks violations that derives from the direct and indirect activity of the company.

Objectives

- Identify any possible risks or violations of human rights that the company's direct or indirect activity may generate in its stakeholders.
- Implement prevention, mitigation and remediation measures if necessary and monitor them until issue is eliminated.

Description of Good Practice.

Implemented Activities

1. Approval of Redeia's Commitment to the Promotion and Respect of Human Rights: 10 Principles that integrate traditional and emerging human rights with particular attention to freedoms and rights of vulnerable groups. This also promotes the extension of human rights respect to relationships with third parties.
2. Development of Redeia's Human Rights Risk Map: the company annually prioritises and evaluates both potential and actual negative impacts on human rights, using its own methodology based on likelihood of occurrence and severity

of impact. With an eye on the main risks of breaches, the company systematically analyses and strengthens its policies, commitments and control mechanisms to minimise its occurrence.

3. Implementation of risk prevention, mitigation, and remediation measures: the conclusions of the Human Rights Risk Map are integrated into the company's functions and processes and, if necessary, prevention, mitigation, and/or remediation measures are implemented for the identified risks, with specific objectives for improvement.
4. Monitoring of the implemented measures: the performance of these measures is evaluated on a semi-annual basis. In case of not obtaining the desired results, corrective plans would be established.
5. Transfer to third parties: in addition, the company transfers its commitment to human rights to third parties with whom it maintains or intends to maintain relationships of any nature and applies due diligence measures depending on the risk of the third party. Redeia carries out an analysis prior to the formalisation of relations with third parties to gather information on their integrity and respect for human rights, focusing on previously identified right holders. This process is carried out whenever a new relationship with third parties is initiated.

Impacts and Results

Since 2013, Redeia has conducted annual due diligence analyses in all the group's companies (including investees) to identify possible risks or violations of human rights, arising from its direct and indirect activity.

The due diligence process has shown, year after year, that the company has a low level of risk and applies the appropriate control measures, ensuring that no violations have not materialised to date, no human rights have been violated. Therefore, to date it has not been necessary.

In general, it is evident that the risks with the greatest impact are those related to corruption, child labour or human trafficking, but the company has excellent mitigation coverage thanks to the multiple internal procedures that minimise their possibility of occurrence. On the other hand, the risk referred to the violation of working conditions (psychosocial risks, excessive workloads or lack of digital disconnection) is the one that is identified as more likely throughout the company, but

it is in a very low range since it presents a very high degree of prevention, thanks to internal regulations and standardised controls around this field.

New mitigation measures are studied and implemented annually in the risks with the highest probability of occurrence that seek to continue reducing this possibility.

Challenges and Lessons Learned

Human rights management must be carried out from a continuous improvement approach, periodically evaluating the company's performance and updating its policies and commitments whenever new principles of respect for human rights emerge or new vulnerable groups appear.



Retail

Corporate Responsibility Supplier Evaluation (CRSE) for fish and seafood suppliers

Duration

Second quarter 2023 - present.

Location

Countries at risk of origin of their products.

Context

This is a process already implemented at the ALDI North Group level for international purchases in product categories such as textiles, footwear, bananas, and pineapples. It was later decided to extend the process to national purchases, starting with high-risk supply chains such as fisheries and aquaculture, which often lack traceability and transparency due to their length and complexity.

Objectives

Ensure that suppliers of product families identified as high-risk implement corporate responsibility requirements at production sites .

Description of good practice. Activities implemented

Within the purchasing process, all items whose main ingredient is fish or shellfish and whose final production process is carried out in a risk country according to amfori BSCI must demonstrate that the supplier is a member of an organisation such as AMFORI or SEDEX and they must provide certification proving that the production facilities comply with protocols such as BSCI, SMETA or SA80000, among others, and that they have been audited in situ by an external, independent and accredited auditor.

Once the documentation and results are verified as compliant, the supplier enters the annual CRSE programme.

The programme begins with an initial self-assessment questionnaire on corporate responsibility and how it addresses the requirements that ALDI poses.

Subsequently, an additional audit is carried out by ALDI (ALDI Sustainability Assessment, ASA) at one of the production sites where the supplier works, to ensure that the information provided is true to reality. The audit is carried out by the ALDI Asia Unit, the CR International team and an external auditor.

With the information obtained, the supplier is given a score (from A - meets and exceeds the corporate responsibility requirements set by ALDI - to D - does not meet or improve the requirements set) and is trained and helped to improve in those aspects that have been lower. This assessment is conducted once a year and providers have the opportunity to improve their score annually.

Collaborations

Although this is an ALDI-led project, it is clear that suppliers collaborate and are directly involved in it.

Impacts and Results

ALDI is currently in the on-boarding phase of the CSRD for the category fish category and national purchasing suppliers of ALDI Spain. Providers are training and completing self-assessment questionnaires.

On previous occasions and for suppliers of international products, the purchase of products manufactured in production sites that have been considered not to meet the minimum standards set by ALDI in terms of corporate responsibility in the supply chain has been blocked.

If a supplier receives a score D two cycles in a row, it will be blocked in terms of commercial relationship with ALDI, thus being excluded from being able to participate in the tenders.

To date, ALDI has already been able to identify positive impacts of this project for international purchasing suppliers, such as the improvement of product traceability, the implementation of supplier led monitoring systems, the not only dependence on third-party audits such as BSCI or SMETA or even the guarantee compliance with relevant legislation. These actions, among others, generate a positive and direct impact on aspects such as the working conditions in ALDI's supply chains in areas such as: minimum wage guarantee, access to grievance mechanisms or the improvement of safety and health conditions at work. With the launch of the CRSE in ALDI Spain's fish suppliers, the company aims to be able to extend this type of good practice to national purchasing supply chains.

Challenges and Lessons Learned

ALDI's goal with this supplier assessment project is to achieve ethical, transparent and responsible supply chains, as well as to strengthen their relationships with our suppliers.

ALDI set a target of ensuring 80% of its purchasing volume comes from 2030.

Additional information

More information on the implementation of the CRSE can be found in the Sustainability Reports, the last one published at the end of October 2024, with information from 2023 [ALDI Nord Sustainability Report 2023 EN.pdf](#)

For many years in fish products, the company has been working with sustainability certificates for fish and seafood, both from the sea (Marine Stewardship Council, MSC) and from aquaculture, such as the Aquaculture Stewardship Council (ASC), the EU Ecolabel and the GLOBAL G.A.P. standard of good agricultural practice.

Programa de capacitación: Proveedores sostenibles

Duration

2023 - 2024.

Location

In Spain with global reach.

Context

Strategic risks in the procurement of goods and services are a key concern to BASF, as they can affect the company's competitiveness and long-term positioning. Strategic risks include structural changes in global markets, climate change, and political developments. The security of supply of raw materials, energy and services is increasingly affected by trade disputes, protectionism, sanctions and geopolitical conflicts. To address these risks, BASF relies on close cooperation with strategic suppliers and continuous monitoring of markets and trends.

Objectives

The Global Compact supplier training programme aims to bring the concepts of sustainability, the ten principles of the Global Compact and the SDGs closer to the entire business fabric, and, specially, to SMEs, which are the ones that have the greatest difficulties. The aim is for suppliers, including the smallest ones, to accompany them on the sustainability journey, and for this, training is essential. Thanks to the Global Compact programme, the company has been able to strengthen relationships with a multitude of suppliers and also bring sustainability closer to its business strategies, which will undoubtedly result in mutual benefit.

Description of good practice. Activities implemented

The objective of this good practice was to train and inform more than 300 BASF suppliers on sustainability principles supply chains under the frameworks of the ten principles and the 2030 Agenda. With a duration of five months, the programme focuses on sustainability training, to achieve a real change in the business models of the participating SMEs and includes general aspects of sustainability, the Sustainable Development Goals (SDGs) and the topics integrated in the four blocks of Principles of the Global Compact (human rights, labour standards, environment and the fight against corruption) and, finally, internationalisation of the company, incentives and reporting of non-financial information.

Collaborations

The project has been carried out thanks to the realisation and coordination of the UN Global Compact in Spain, ICEX and the ICO Function.

Impacts and Results

As a result, more than 300 BASF suppliers in Spain completed the training programme. The initiative focused on laying the foundations. Information and training are two essential aspects to achieve sustainability that ends up permeating all parts in the supply chain. A sustainable value chain must share the commitment to sustainability, understand its implications, and identifying how to contribute to it fostering a culture of

sustainability throughout the supply chain, where suppliers play a fundamental role seed, watering the crop and letting it grow in the culture of all the organisations that make up the supply chain, in which suppliers play a fundamental role. It is true that change is slow because it is structural, but progress cannot be made without starting to walk. This is what BASF aims to do by participating in the supplier training programme and they are proud to have done it with the UN Global Compact Spain. More than 300 BASF suppliers signed up for free and the experience has been very positive for them and for the company.

Challenges and lessons learned

The biggest challenge has been to permeate and make SMEs aware that sustainability has and should be a priority. Identify key people in organisations and start working together. This is not just about setting goals. It is about creating together, because the benefit or the need is shared. In addition, the challenge is greater when we talk about small and medium-sized companies and organisations, where they may not have specific teams in the field.

They are aware that the objectives set in the company (climate neutrality, circularity, etc.) cannot be achieved alone, so it is essential to generate alliances, also with suppliers.



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(*) We are also grateful for the contribution of **Margarita Casas** and **Diego Hernán**, PwC partners responsible for sustainability in Colombia and Argentina, respectively.



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