Climate Disclosure Standards Board

CDP DRIVING SUSTAINABLE ECONOMIES

EU environmental reporting handbook

What could environmental reporting in line with the Non-Financial Reporting Directive look like?

v1.0, September 2016
www.cdsb.net/NFR

About the Climate Disclosure Standards Board & CDP

CDSB is an international consortium of business and environmental NGOs. We are committed to advancing and aligning the global mainstream corporate reporting model to equate the relevance of information about business' use of and effect on natural capital with the relevance of information about financial capital for understanding corporate performance.

We do this by offering companies a framework for reporting environmental information with the same rigour as financial information. In turn this helps them to provide investors with decision-useful environmental information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready reporting materials.

Recognising that information about natural capital and financial capital is equally essential for an understanding of corporate performance, our work builds the trust and transparency needed to foster resilient capital markets. Collectively, we aim to contribute to more sustainable economic, social and environmental systems.

For more information, visit cdsb.net or follow us @CDSBGlobal.

We welcome your input and discussions.
If you would like to comment on this document, please contact us at info@cdsb.net.

CDP, formerly Carbon Disclosure Project, is an international, not-for-profit organization providing the global system for companies, cities, states and regions to measure, disclose, manage and share vital environmental information.

CDP, voted number one climate research provider by investors, works with 827 institutional investors with assets of US$100 trillion, to motivate companies to disclose their impacts on the environment and natural resources and take action to reduce them. More than 5,600 companies disclosed environmental information through CDP in 2015, of which nearly 1,800 companies disclosed to CDP Europe, part of the CDP worldwide network.

CDP now holds the most comprehensive collection globally of primary corporate environmental data and puts these insights at the heart of strategic business, investment and policy decisions.

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Chapter 1

The Directive

The Directive 2014/95/EU on the disclosure of non-financial and diversity information (NFR Directive), amends the Accounting Directive 2013/34/EU to require certain large companies to disclose information on policies, risks and outcomes as regards environmental matters, social and employee aspects, respect for human rights, anticorruption and bribery issues, and diversity in their board of directors.

Following its adoption by the European Parliament and the Council in 2014, EU Member States are required to transpose the NFR Directive into national legislation by 6th of December 2016.

As governments work on the transposition of the directive, this document sets out a series of examples from annual reports of European companies to show how companies could respond to these upcoming requirements.

The CDSB Framework sets out an approach for reporting environmental information through mainstream reporting channels, such as the management report referenced in the NFR Directive. We have therefore used the CDSB Framework's reporting requirements and principles as criteria for identifying examples of reporting practice that meet the environmental reporting requirements of the NFR Directive. For each example, we identify helpful characteristics and also areas for improvement to increase the consistency, comparability and clarity of the reported information.

About the Non-Financial Reporting Directive

Where to report?

Affected companies have to include a consolidated non-financial statement in the management report or the consolidated management report for corporate groups. This shall also, where appropriate, include references to, and additional explanations of, amounts reported in the consolidated financial statements.

There is no specific requirement on whether to report this information in a separate section in, or throughout the annual report. The Directive states that if companies prepare a separate report corresponding to the same financial year, Member States may exempt the undertaking from reporting this information in their annual report. We encourage companies to report non-financial information in their annual reports, as this allows investors to assess the relationships between specific non-financial matters and an organization's overall strategy, performance and prospects, providing a more holistic picture of the relationships between factors that affect their ability to create value.

What to report?

"Information to the extent necessary for an understanding of the group's development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, including:

(a) a brief description of the group's business model;

(b) a description of the policies pursued by the group in relation to those matters, including due diligence processes implemented;

(c) the outcome of those policies;

(d) the principal risks related to those matters linked to the group's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the group manages those risks;

(e) non-financial key performance indicators relevant to the particular business.

Where the group does not pursue policies in relation to one or more of those matters, the consolidated non-financial statement shall provide a clear and reasoned explanation for not doing so." [1]

Which companies will be included?

The NFR Directive applies to *"large undertakings or parent undertakings of a group exceeding on their balance sheet … [an] … average number of 500 employees during the financial year"*.[2]

Article 19a of the amended Accounting Directive applies to large undertakings and Article 29a corresponds to parent undertakings of large groups.

Public-interest entities are "entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State"[3]

The Directive states however that this categorisation should not prevent organisations that are not subject to this directive.

Timeline

Member States will have to transpose the directive by 6th December 2016 and introduce legislation that applies to relevant companies for the financial year starting on 1st January 2017, or during the calendar year 2017.

A report by 6th December 2018 will review the effectiveness of the Directive and may be accompanied by legislative proposals.

1 European Parliament & Council 2014, Directive 2014/95/*Eu Of The European Parliament And Of The Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups*. Available at: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095

2 ibid.

3 European Parliament & Council 2006, *Directive 2006/43/Ec Of The European Parliament And Of The Council Of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC*. Available at: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32006L0043

Chapter 2

Case studies

The following examples are for illustrative purposes only. They are designed to help companies develop their reporting practice in line with the expectations of the NFR Directive. However, local implementation of the Directive might introduce variations at national level. Companies must comply with applicable legislation.

Background

Given that the transposed requirements of the NFR Directive are not yet in force in most EU Member States, these examples may not comply with the eventual requirements in each EU Member State once implemented. They are however appropriate examples to highlight certain elements that may be useful for effective reporting under the Directive. Recommendations throughout the report provide additional tips and highlight examples that are especially useful in providing decision-useful information. The examples below are focused solely on environmental matters, but some recommendations may also be useful for reporting other non-financial information.

The requirements of the NFR Directive are mapped to the corresponding requirements and principles of the CDSB Framework, as well as the corresponding questions of the CDP Climate, Forest and Water Information Requests to help companies reduce the reporting burden and ensure that information is connected across various reporting channels.

Each section corresponds to a requirement outlined in Article 19a and its equivalent in Article 29a of the Accounting Directive (2013/34/EU).

Key

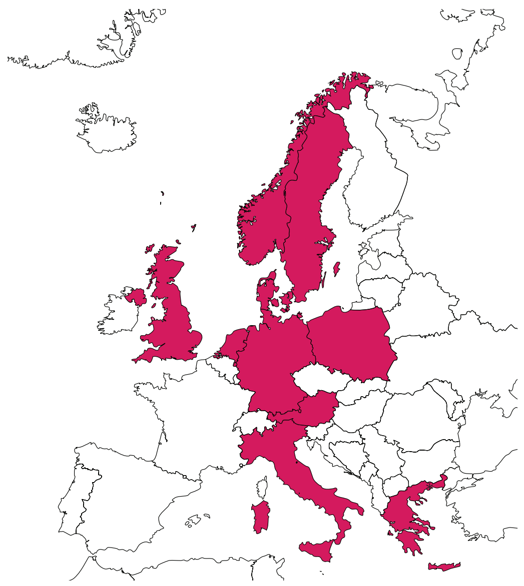
Each example contains notes to highlight areas of good practice for reporting in line with the requirements of the NFR Directive, as well as some areas that may benefit from further improvement. These are denoted as below:

+ Example of good practice
– Area for improvement

Examples used

The sample used contains mostly EU incorporated companies (with the exception of Norsk Hydro, Norway) from a broad range of Member States with diverse policy frameworks.

Report examples used	Country of origin
AB Volvo, 2015	Sweden
Eni S.p.A, 2015	Italy
Norsk Hydro ASA, 2014 & 2015	Norway*
Mondi Plc, 2015	Austria
PostNord AB, 2015	Sweden/Denmark
Titan Cement Company SA, 2014	Greece
BP Plc, 2015	United Kingdom
Daimler AG, 2015	Germany
BHP Billiton Plc, 2015	United Kingdom
Pennon Group Plc, 2015	United Kingdom
Marks and Spencer Plc, 2015	United Kingdom
PKN Orlen SA, 2014	Poland
AkzoNobel N.V., 2014	Netherlands



* Not an EU Member State, but Norsk Hydro's Annual Report presents useful examples for this report.

(a) A brief description of the undertaking's business model

In the following examples, we illustrate the way in which some businesses expressed and communicated their business model. Many of these descriptions are in line with the International Integrated Reporting Framework's input, activities, output, outcome model, describing how various capitals are transformed by the business. It is clear from the variation of approaches that there are different ways to approach this.

NFR Directive	CDSB requirements	CDP questionnaires
Brief description of the undertaking's business model	REQ 6 – Outlook	CC0.1, F0.1, F0.2, W0.1
Good practice examples		
• The use of the International <IR> Framework guidance and structure to include the different capitals as inputs and outputs (Eni S.p.A); • Inputs, outputs and outcomes to the model are included (Eni S.p.A); and • The model links with the corporate strategy and includes the value chain (AB Volvo) to demonstrate connectivity. This can either be presented through the model, or as part of an accompanying narrative as shown in the Volvo example.		
Recommendations		
• We recommend using the IIRC's guidance on the business model; and • Link your business model to the company's strategy and policies.		

AB Volvo 2015

+ The role of the value chain within the business model is described in the previous section, as well as linked to specific outcomes.

+ The narrative in the section that follows, describes this diagram in more detail and relates each element of the business model to environmental matters to provide a complete picture.

+ Pages 18-23 outline some of the company's strategies which are situated within the global context.

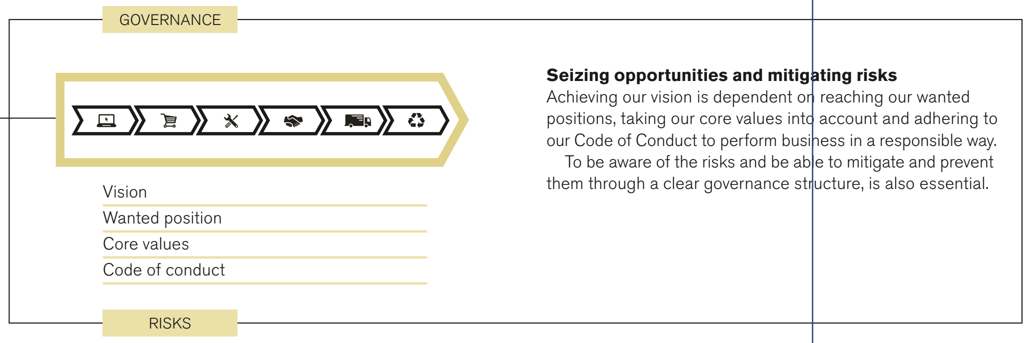
A GLOBAL GROUP >> BUSINESS MODEL

VALUE CREATION

CREATING ECONOMIC, SOCIAL AND ENVIRONMENTAL VALUE

The Volvo Group's future success depends on our ability to deliver efficient, innovative and sustainable transport solutions that are converted into positive financial performance. Close collaboration with our key stakeholders enables us to create shared value over time.

A GLOBAL GROUP >> BUSINESS MODEL >> VALUE CREATION



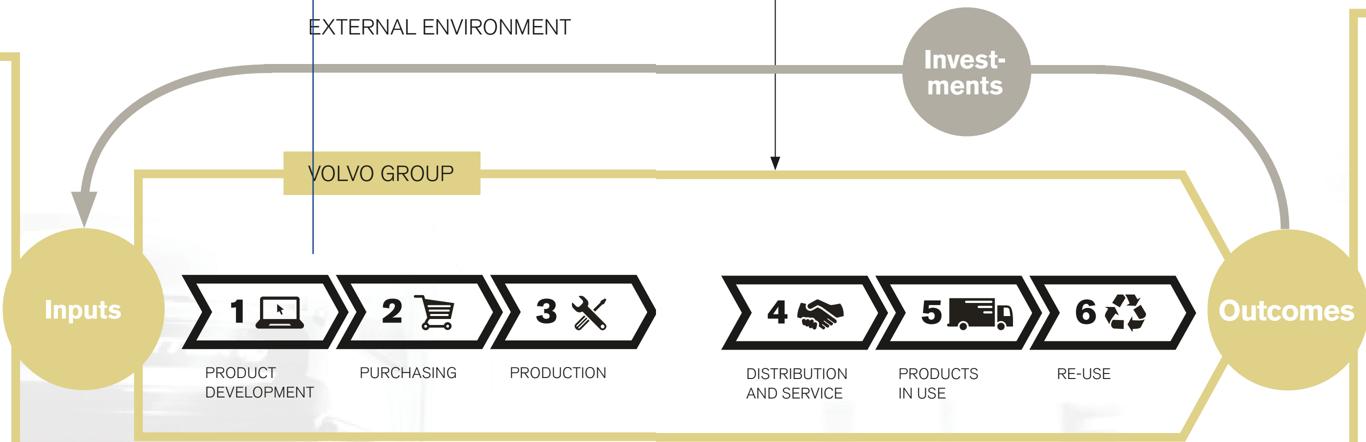
Seizing opportunities and mitigating risks
Achieving our vision is dependent on reaching our wanted positions, taking our core values into account and adhering to our Code of Conduct to perform business in a responsible way.
To be aware of the risks and be able to mitigate and prevent them through a clear governance structure, is also essential.

EXTERNAL ENVIRONMENT

Economic
Our financial capital consists of funds derived from net operating profits, share capital, and credit and loan facilities from financial institutions. We procure close to 2 billion components for use in automotive production. Steel is the manufactured resource that we procure in greatest quantity.

Social
Our intellectual assets include our brands and patents, and our R&D organization, systems and processes. Our skilled, engaged, diverse workforce of almost 100,000 employees represents our human capital. Our relationships include long-term partnerships with labor representatives, academic and research organizations, policy makers, development organizations and Non Governmental Organizations (NGOs) as well as local communities in the countries where we operate.

Environmental
Our production involves the use of various materials, including metals, such as iron, steel and aluminium. The additional materials are mainly plastic, rubber and electronics components. Our energy sources include renewable energy from wind and hydro generation.



Economic
Our reliable, quality products and services satisfy the needs of customers in the transport and infrastructure industry for fuel efficiency that reduces operating costs, and increases uptime. Strong sales coupled with strategic efficiencies enable us to deliver sustainable returns to financial stakeholders and to reinvest in the development of improved products and services for customers. Our remanufacturing and recycling operations contribute towards the circular economy and reduce the need for raw materials.

Social
Our intellectual assets enable us to offer safer and economically efficient products and services to our customers with lower environmental impact. Our products and services enable the safe and efficient distribution of goods and movement of people.
Investing in the health, safety, wellbeing and development of our employees results in qualitative output with low absence and no fatal accidents. Our societal engagement activities create shared value for our company and for society.

Environmental
We are actively reducing the environmental footprint of our global manufacturing, distribution and operations. Our products and services reduce the impacts of the transport and construction industry on the environment. Our leadership encourages more people and organizations to contribute towards environmental sustainability and thereby reduced costs.

Stakeholders

Through stakeholder dialogue we understand the internal and external expectations of the Volvo Group, and how we ensure that our business operations build value both for the company and for society. Our most important stakeholders are our customers, suppliers, investors, employees, trade unions and the local and global community where we operate. How we engage with and create value for our stakeholders is described in the shared value section on page 64.

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– Narrative provides detailed information. However, this report may benefit from a summary to make the information more accessible to the user.

– Could benefit from linking KPIs to the business model.

+ Evidence and summary of materiality assessment is provided.

Eni S.p.A 2015

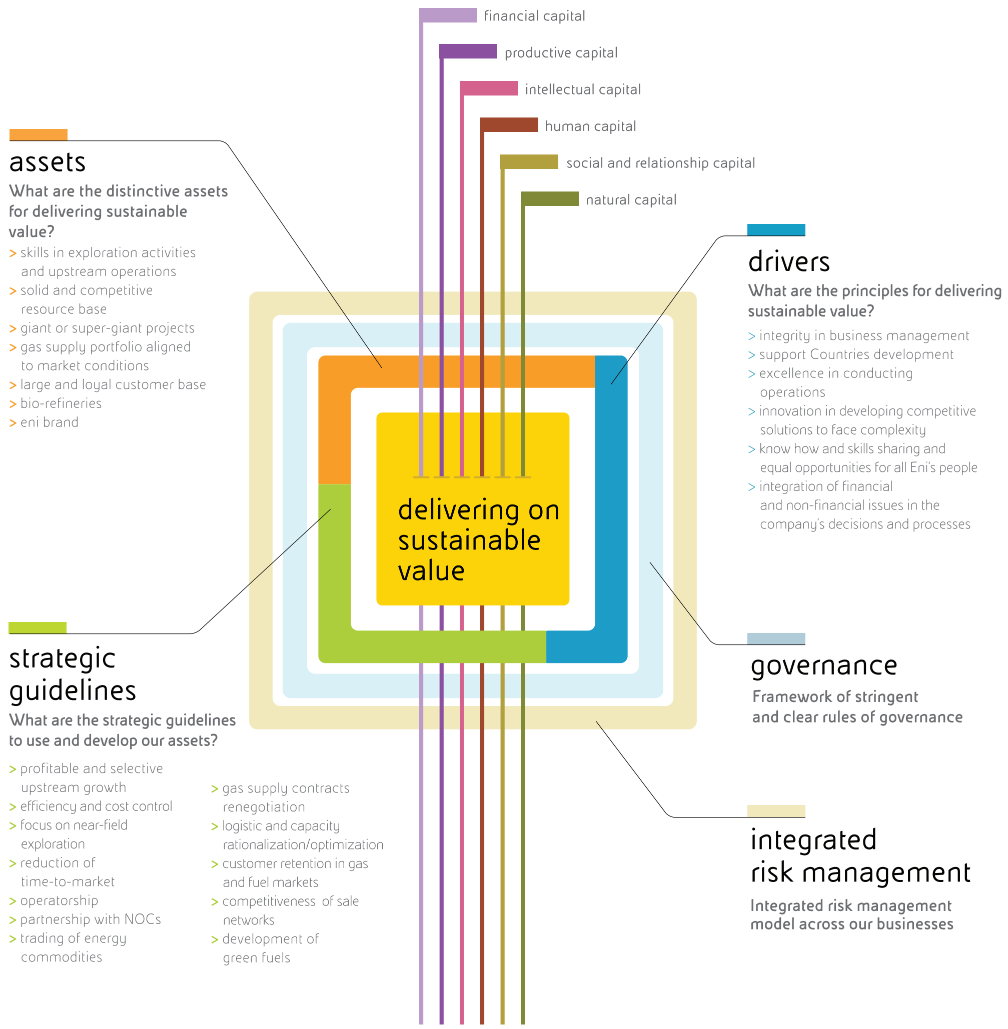
+ Simple diagram and colours allow the reader to follow various capitals and content elements.

+ Outlines stocks and flows of capitals and how business activities are distinct to Eni.

+ Could benefit from using standard terms such as inputs, activities, outputs and outcomes.

Business model

Eni's business model targets long-term value creation for its stakeholders by delivering on profitability and growth, efficiency and operational excellence and handling operational risks of its businesses, as well as environmental conservation, and local communities relationships, preserving health and safety of people working in Eni and with Eni, in respect of human rights, ethics and transparency. The main capitals used by Eni (financial capital, productive capital, intellectual capital, natural capital, human capital, social and relationship capital) are classified in accordance with the criteria included in the "International IR Framework" published by the International Integrated Reporting Council (IIRC). Robust 2015 financial results and sustainability performance, notwithstanding a weak scenario for commodities prices, rely on the responsible and efficient use of our capitals.
Hereunder is articulated the map of the main capitals exploited by Eni and actions positively effecting on their quality and availability.
At the same time, the scheme evidences how the efficient use of capitals and related connections create value for the company and its stakeholders.
For detailed information on results associated to each capital and to the way by which each strategic target is achieved see this Integrated Annual Report and the Integrated Performance tables.



	stock of capital	Eni's main actions	value creation for Eni	value creation for Eni's stakeholders
financial capital	- Financial structure - Liquidity reserves	- Cash flow from operations - Bank loans - Bonds - Maintaining strategic liquidity - Hedging - Dividends - Working capital optimization	- Going concern - Lower cost of capital - Reduction of working capital - Leverage optimization - M&A opportunities - Mitigation of market volatility - Credit worthiness	- Yields - Share price appreciation - Social and economical growth - Satellite activities
productive capital	- Onshore and offshore plants - Pipelines and storage plants - Liquefaction plants - Refineries - Distribution networks - Power plants - Buildings and other equipment - Hydrocarbon reserves (Oil and gas)	- Technological upgrade - Process upgrade - Investment in new businesses (biorefinery, car sharing) - Maintenance and development activities - Increase environment Certifications (ISO 14001, ISO 50001, EMAS, etc.)	- Returns - Enlarging asset portfolio - Increase assets value - Reduction of operational risk - Energy and operational efficiency - Reputation - Hydrocarbon reserves growth	- Availability of energy sources and green products - Employment - Satellite activities - Reduction of direct GHG emissions and responsible use of resources
intellectual capital	- Technologies and intellectual property - Corporate internal procedures - Corporate governance system - Integrated risk management - Management and control systems - Knowledge management - ICT (Green Data Center)	- Research and development expenditures - Partnership with centres of excellence - Development of proprietary technologies and patents - Application of procedures and systems - Audit	- Competitive advantage - Risk mitigation - Transparency - Performance - License to operate - Stakeholders' acceptability	- Reduction of environmental and social impacts - Transfer of best available technologies and know-how to host Countries - Contribution to the fight against corruption - Green products
human capital	- Health and safety of people - Know-how and skills - Experience - Engagement - Diversity (gender, seniority, geographical) - Eni's thinking	- Safety at work - Recruiting, education and training on the job - Promotion of human rights - Eni's people engagement - Knowledge management - Welfare - Leveraging on diversity - Enhancing individual talents and remuneration in accordance to a merit system	- Performance - Efficiency - Competitiveness - Innovation - Risk mitigation - Reputation - Talent attraction - Job enhancement - Career development	- Create employment and preserve jobs - Job enhancement - Wellness of Eni's people and local communities - Increase and transfer know-how
social and relationship capital	- Relationship with stakeholders (institutions, governments, communities, associations, customers, suppliers, industrial partners, NGO, universities, trade unions) - Eni brand	- Stakeholders' Engagement - MoU with Governments and local authorities - Projects for local development and Local content - Strategic partnerships - Involvement in international panel discussion - Development of programmes on research and training - Partnerships with trade unions - Quality of services rendered - Brand management	- Operational & social licence - Reduction of time-to-market - Country risk reduction - Market share - Alignment to international best practices - Reputation - Competitive advantage - Suppliers reliability - Customers retention	- Local socio-economical development - Customers and suppliers satisfaction - Share of expertise with territories and communities - Satisfaction and incentive of people - Promoting respect for workers' rights
natural capital	- Oil and gas reserves - Water - Biodiversity and ecosystems - Air - Soil	- Exploration, production, transporting, refining and distributing hydrocarbons - Investment in new businesses (biorefinery, car sharing) - Investment in technological and process upgrade - Remediation activities - Investment in alternative energy sources	- Hydrocarbon reserves growth - Opex reduction - Mitigation of operational risk (asset integrity) - Reputation - License to operate - Stakeholders' recognition	- Reduction of gas flared - Reduction of oil spill - Reduction of blow out risk - Preservation of biodiversity - Green products - Containment of water consumption (reinjection and water reuse) - Energy efficiency

– Little distinction between different time horizons (short, medium, long term). This is partly addressed in the "Outlook" section, but further clarification could be made.

– Innovation and adaptability could be developed further.

– Limited discussion on materiality determination process.

+ Identifies inputs, business activities, outputs and outcomes through description of stocks, actions and value creation.

(b) A description of the policies pursued by the group in relation to those matters, including due diligence processes implemented

To provide clarity on the information that may be reported in accordance with this requirement, the recommendations and guidance from the CDSB Framework were explored. Information reported according to this requirement may include, for example, strategies to respond to risks and opportunities, as well as policies and strategies supported through participation in, or endorsement of, sustainability initiatives, regulatory or voluntary schemes. Due diligence could relate to processes adopted by the company, showing its viability and governance.

NFR Directive	CDSB requirements	CDP questionnaires
A description of the policies pursued by the group in relation to those matters, including due diligence processes implemented	REQ 1 – Policy, strategy and targets REQ 6 – Outlook	CC2.2, CC2.3, CC3.1, CC3.2 F8.1, F8.2, F8.3, F8.4, F9.5, F9.6, F10.2, F10.5 W6.2, W6.3, W8.1, W9.1

Good practice examples

- Policy, strategy and targets are clearly stated and explained (Norsk Hyrdo ASA/PostNord AB);
- A separate section dedicated to a viability statement, with clearly defined strategies and targets is also connected to other content elements (Norsk Hydro ASA);
- Materiality assessments and stakeholder engagement provides rationale for the policies and strategies (Norsk Hydro ASA/Mondi Plc);
- The inclusion of the supply chain within policies and strategies demonstrates management beyond the financial reporting entity (Norsk Hydro ASA); and
- Communicating targets, including science-based targets, and outcomes alongside strategy (Mondi Plc/PostNord AB) demons trates not only performance and progress, but also the criteria and context against which this is assessed.

Recommendations

- Outline policies clearly and provide a forward-looking statement with rationale. This should include how environmental policies and strategies relate to, or support, the organisation's overall policies and strategies, and also demonstrate due diligence; and
- Clear targets, timeline and key performance indicators should be outlined alongside the environmental strategy to demonstrate how it is measured and resourced.

Nosrk Hydro ASA (2015, non-EU example)

Viability - The Hydro Way

The Hydro Way is our approach to business. It's an approach that has lived within Hydro since 1905 and guided our development over the years. The Hydro Way originates from our company's identity - our unique set of characteristics - and constitutes a way of doing things that differentiates us from other companies.

The Hydro Way explains how we run our business through:

- Our mission
- Our values
- Our talents
- Our operating model

These principles help us set priorities and serve as a reference point when questions arise. Our mission describes our higher purpose and is supported by our values and our talents, which define how we conduct our business:

Hydro's mission is to create a more viable society by developing natural resources and products in innovative and efficient ways.

In order to ensure a uniform high standard, Hydro's global directives lay down requirements for our operations, see page 164.

All elements of Hydro's viability performance are integrated in Hydro's overall group strategy. In addition, we have specific support strategies e.g. on climate change, environment and people - as described in this section.

Hydro has been listed on the Dow Jones Sustainability Indices (DJSI) each year since the index series started in 1999. We are also listed on the corresponding UK index, FTSE4Good and the UN Global Compact 100 stock index.

Our reporting approach

We have based our viability reporting on The Hydro Way since 2004. This, together with risk analyzes and an extensive stakeholder dialogue, has, over many years, guided us in defining the main elements of our reporting:

- Energy and climate change
- Resource management
- Integrity and human rights
- Community impact
- Organization and work environment
- Innovation

In connection with transition to the Global Reporting Initiative's (GRI) G4 protocol in 2013, we reviewed our reporting strategy. The main elements are unchanged, but through a thorough review of our materiality analysis we have identified which GRI aspects that are most material to report on as well as other material indicators. The analysis as shown on the next page is based on the continuous stakeholder dialogue performed by Hydro with its key stakeholders, and collected and evaluated by relevant specialists and leaders. The materiality analysis is updated annually and approved by Hydro's Corporate Management Board. The most material aspects related to our viability performance are all included in the board of directors' report, which gives a high-level overview of Hydro's strategic direction, strengths and challenges. This information is further elaborated in other parts of this annual report and in the GRI index at www.hydro.com/gri

The information has been reviewed by Hydro's Corporate Management Board who has also approved this annual report. The board of directors has approved the complete board of directors' report including the country by country report on page 122. Read more about our reporting principles and materiality process on page 94.

The Viability performance section should be read in context with the other parts of the annual report, and in particular with

- Letter to shareholders on page 6
- Board of directors' report on page 10
- Business description on page 29, including Hydro's value chain, strategic targets and business area specific issues related to technology and innovation, environment and society
- Risk factors on page 149
- Corporate governance on page 163

The underlying details in the reporting are based on different reporting frameworks that are important to us, including the UN Global Compact, the Global Reporting Initiative (GRI), the International Council on Mining and Metals' (ICMM) 10 principles and Position Statements and the Aluminium Stewardship Intitiative's (ASI) 11 principles and underlying criteria. The GRI index at www.hydro.com/gri also shows Hydro's adherence with the UN Global Compact, ICMM and how we relate to ASI, UN Sustainability Goals and UN Business Principles on Human Rights - and shows how the different frameworks connect with each other.

+ A statement of Norsk Hydro's viability is integrated within the annual report, which linked with other sections of the report.

+ Overall vision & strategy of the company is outlined within the CEO's letter to shareholders. This is also described in more detail throughout the report.

+ Details about governance demonstrates internal due diligence, detailed on p.171.

Resource management

Hydro's bauxite mining and alumina refining activities in Pará in Brazil include open pit mining and the handling of significant amounts of tailings and bauxite residue, the latter also known as red mud. Biodiversity is important related to Hydro's activities in Pará and to the water reservoirs for our hydropower production in Norway (see page 60). Hydro has primary aluminium production in Australia, Brazil, Canada, Germany, Norway, Slovakia and Qatar.

In addition to the existing climate and recycling strategies, we prioritize the following areas:

- Ecosystems and biodiversity
- Water use
- Waste and efficient resource use
- Product stewardship

In addition to the corporate environmental ambitions, we have performance indicators for our production plants. The indicators vary between plants due to the inherent differences between, for example, large primary aluminium production plants and small remelters. They help us measure status and improvements, and enable us to concentrate on the most important issues.

2015 target
- Complete an ecosystem services assessment for Hydro

2015 result
- A pilot ecosystem services assessment of Hydro's Paragominas mine in Brazil completed by the Norwegian University of Science and Technology (NTNU)

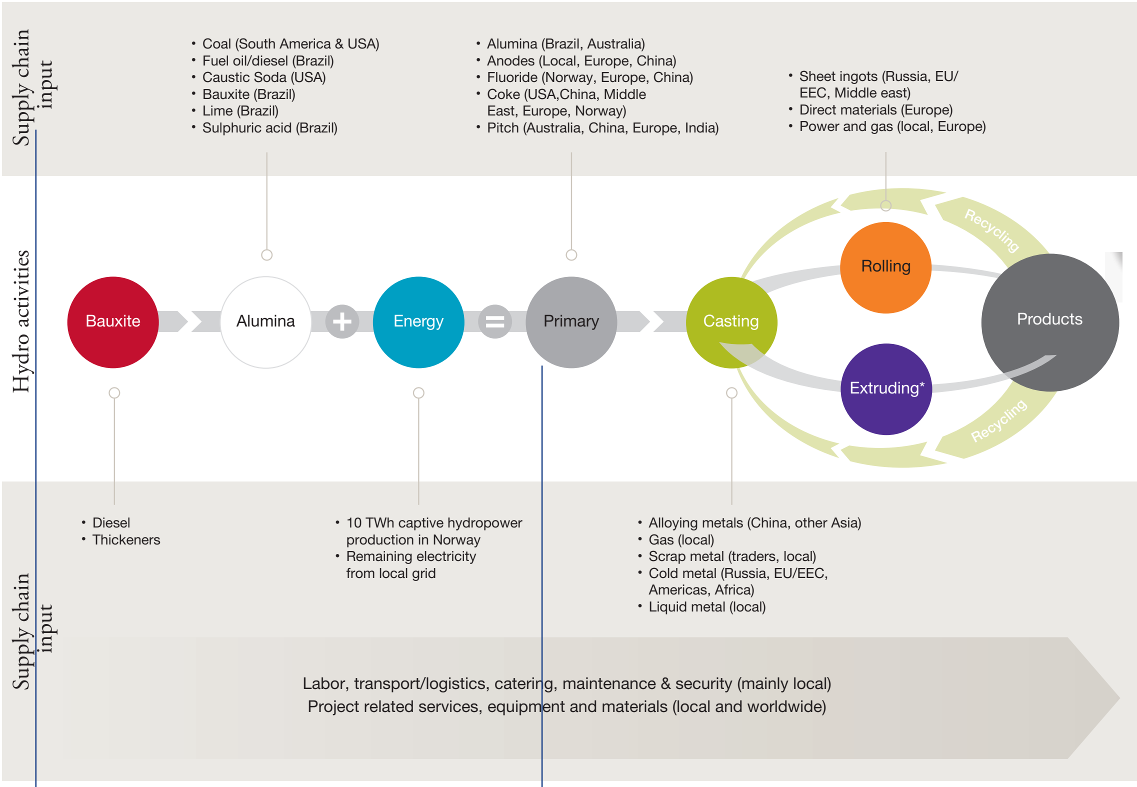
2016 target
- Achieve targeted rehabilitation area for Paragominas mining operations of 325 hectares

Strategic mid-term goals 2020
- Achieve a ratio of 1:1 of mined areas to rehabilitated areas (2017) and eliminate the reforestation gap (2020)
- Best Available Technology or similar implemented for treatment, storage and use of bauxite residue
- 60 percent reduction in land-filled waste (excluding tailings, boiler ash and bauxite residue) compared to a 2010 baseline
- Increase water efficiency by 15 percent in water-stressed areas, compared with a 2010 baseline

+ Policies are outlined alongside targets and results, followed by detailed information about how the company plans to fulfil these.

Nosrk Hydro ASA (2015) – continued

Hydro's supply chain



* Hydro produces extrusion profiles through the 50/50 joint venture Sapa

The figure shows Hydro's supply chain related to its value chain, and does not reflect the current organizational structure

Hydro's procedure for integrity risk management of its business partners includes agents, strategic business partners, suppliers and customers and sets requirements for integrity due diligence. Implementation is risk based and takes into consideration contractual value, country risk, etc. According to Hydro policy, new suppliers shall be screened. In 2015, we achieved this for about 90 percent of new suppliers.

The business areas have different systems in place - based on their different business needs - to comply with the corporate requirements. This also includes formal processes for identifying critical suppliers. A critical supplier delivers products with high consequence or risk for our production, projects and/or company.

All suppliers in consolidated activities are checked routinely against the UN sanction list for matters related to anti-terror and money laundering. Furthermore, audits and site visits are performed by Hydro personnel based on risk analysis. Audit findings and corrective action plans are reported and handed over to the visited site. Proposed corrective actions are then checked in connection with the next audit performed at the site in question. Suppliers who fail to implement corrective actions in relation to identified child, forced or compulsory labor will be excluded. In 2015, we entered into dialogue with a number of suppliers about possible inconsistencies with certain Hydro standards. This mostly related to needs for policies and procedures in important areas as well as more practical recommendations with regard to HSE improvements.

– Little distinction between different time horizons (short, medium, long term). This is partly addressed in the "Outlook" section, but further clarification could be made.

– Innovation and adaptability could be developed further.

+ Consideration of supply chain risk with policies outlined, although predominantly focused on social issues. More environmental risks associated with the supply chain could be stated.

Mondi Plc (2015)

+ Provides clear description of material issues and how they respond through targets & plans.

+ Shows interaction/partnership and participation in initiatives that support policies and strategy.

Looking back

Progress against our 2015 commitments

In 2011 we defined 35[1] sustainable development commitments to be achieved by 2015[2].

Achieved / Progress made / Not achieved

Material issue	Progress against a selection of commitments	Overall progress
Securing access to sustainable fibre in the short, medium and long term Wood is one of our most important raw materials and sustainable forestry practices are fundamental to our success. We focus on improving certification systems, procuring wood from responsible sources and increasing sustainable fibre in the supply chain.	• 100% of owned and leased land FSC-certified • 66% of wood CoC-certified with the balance meeting our company minimum wood standard that complies with the standard for Controlled Wood (FSC-STD-40-005)	5 commitments
Maintaining our licence to trade by making a real and lasting contribution to the communities in which we operate We believe in transparency, engagement and partnerships to succeed as a business, and seek to make a genuine contribution to our communities. We're a member of the UNGC and work with WBCSD and WWF among others to promote responsible business conduct and contribute to solutions to global sustainability challenges.	• Advanced Level reporter at the UNGC, and active member of WBCSD • 100% of forestry operations and all but three of our smaller pulp and paper mills have community engagement plans (CEPs) in place. Socio-economic assessment toolbox (SEAT) reviews were conducted at Merebank mill (South Africa) and Syktyvkar logging operations (Russia) in 2015. SEAT reviews were carried out regularly at our mills and forestry operations in the 2011-2015 period, as appropriate.	10 commitments
Understanding and minimising our contribution to climate change Climate change is a pressing global challenge, and we believe our industry has a role to play in reducing emissions and mitigating its impact. We're committed to reducing our emissions by improving energy efficiency and self-sufficiency, and replacing fossil fuels with renewable energy sources where feasible. We also promote the role of sustainable forests in mitigating climate change.	• 103% electricity self-sufficiency across our pulp and paper mills • 59% of fuel consumed by our pulp and paper mills from renewable energy sources	2 commitments
Operating in a world of constrained resources and recognising concerns regarding biodiversity, forests, water and ecosystem services Safeguarding the health of freshwater ecosystems, maintaining water security and preserving the biodiversity of landscapes are significant global challenges. We're working in partnership with stakeholders to preserve the natural resources on which we all depend.	• 524,000 hectares of HCV areas identified • 25% of managed land set aside for conservation • Launched our global partnership with WWF in 2014 and continued support of WWF-Mondi Wetlands Programme (WWF-MWP) and WWF's New Generation Plantations (NGP) platform • Continued to co-chair the HCV Resource Network	7 commitments
Safeguarding the wellbeing of employees and contractors and securing key talent and skills We need a skilled and diverse workforce and a safe workplace for a successful business, and we invest in our people's development and training. Our goal is zero harm. We believe all incidents are preventable and that everyone must learn from them.	• 0.70 TRCR (however one fatality and three life-altering injuries in 2015)	5 commitments
Increasing the eco-efficiency of our products We develop sustainable products that use material, water and energy efficiently. This is achieved through innovation and working together with partners to reduce the environmental footprint of our production processes, such as emissions and waste. Developing smart packaging and paper products can help address global challenges such as climate change and food waste.	• 22% reduction of waste to landfill[3] • 5% reduction of specific contact water consumption[3] • 33% reduction of TRS emissions[3]	6 commitments

– Content related to governance and due diligence limited.

+ Clear indication of progress against commitments in an easy to understand diagram.

+ Relationship between policies and specific risks is presented further within the report.

+ Risk disclosure identifies cost and availability of responsibly produced wood, pulp and paper for recycling compliance, clean production, energy efficiency, & responsible management of forests.

+ Beginning to identify how environmental policies, strategy and objective relate to overall policies, strategies and performance. All of these are cross-referenced with the business model, value creation, growth and external context.

PostNord AB (2015)

+ Policies, targets and strategies are clearly presented.

+ Developed science-based target, which covers scope 1,2 & 3 emissions.

+ Forward-looking disclosure shows what further action the company will take to achieve its target.

Initiatives to reduce climate impact are delivering results

Being one of the Nordic region's foremost suppliers of communications and logistics solutions, PostNord is associated with environmental impact, mainly in the form of carbon dioxide emissions from road transport. Through its focus on reducing its energy consumption and cutting its emissions, PostNord is clearing the way to becoming a more environmentally sound company.

As a transportation company, emissions of carbon dioxide from PostNord's own vehicles and outsourced transportation services represent the largest environmental impact. The Group uses all types of transportation in its business – from airplanes and trucks to mopeds and bicycles. Reducing the Group's carbon dioxide emissions is one of the key areas in sustainability. The Group's long-term environmental targets require a reduction of 40% in carbon dioxide emissions by 2020, compared to the level in 2009.

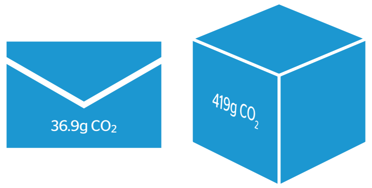
We have made good progress on the way

Since 2009, PostNord has cut its carbon dioxide emissions by around 23%. During 2015, the reduction was nearly 8%. This was achieved through actions in several areas, including purchasing green electricity in more parts of the organization, raising the biofuel content of diesel and merging operations. The introduction of the integrated production model (see page 11), in which letter and logistics operations are merged and vehicle management is coordinated, has already helped to reduce carbon dioxide emissions. In Sweden, the launch of Koncept Utdelning (Concept Distribution), which introduced changes in delivery routines, also contributed to the reduction in 2015 (see page 17).

How PostNord is continuing to cut its carbon dioxide emissions

In 2015, an in-depth analysis was carried out to identify what further measures would be required to achieve the target of lower carbon dioxide emissions. The analysis took accounts of external factors, developments and conditions in the market and PostNord's strategic direction. The conclusion was that the target will be achieved via initiatives in seven principal areas: capacity utilization, use of fuels, biofuels, electric vehicles, increased use of rail and less use of air transport, building-related and other.

Carbon dioxide emissions per item, 2015



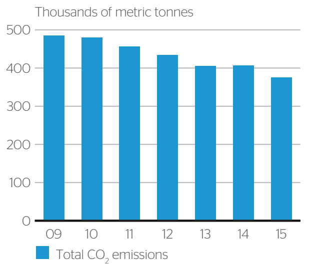
Emissions per letter increased slightly in 2015, while emissions per parcel declined.

Emissions

(tonnes unless otherwise stated)	2015	2014[1]	2013[1]
Fossil carbon dioxide emissions, total	**375,810**	**407,138**	**405,377**
Direct carbon dioxide emissions (EN15, Scope 1)	**129,084**	**141,960**	**165,774**
Own transportation			
Fossil fuels	127,853	140,237	163,937
Renewable fuels	24,290	15,636	11,458
Direct heat consumption (gas and oil)	1,230	1,722	1,837
Indirect carbon dioxide emissions (EN16, Scope 2)	**24,521**	**46,606**	**37,469**
Heat and electricity	81,386	112,346	82,563
Purchase of eco-labeled electricity (EN19)	-56,865	-65,741	-45,094
Other indirect carbon dioxide emissions (EN17, Scope 3)	**222,206**	**218,573**	**202,134**
Subcontractors, transportation (road, rail, air and sea)			
Fossil fuels	217,255	212,853	195,415
Renewable fuels	22,514	9,883	10,889
Business travel, EN17	4,951	5,720	6,720
Other emissions to air through transportation (EN21)			
Carbon monoxide	362	607	596
Nitrogen oxides	1,674	2,854	1,767
Hydrocarbons (VOC)	300	287	216
Particulates	63	122	57

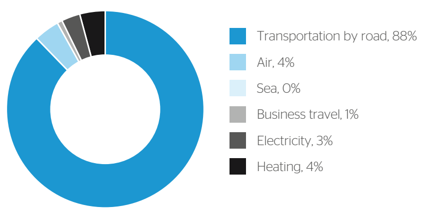
1) Emissions data includes completed acquisitions. Previously reported emissions have been adjusted.

Carbon dioxide emissions, 2009–2015[1]



1) Emissions data includes completed acquisitions. Previously reported emissions have been adjusted.

Distribution of total carbon dioxide emissions per category



+ In relation to scope 3, p.36 explains how they have adjusted their long-term sustainability target for their supply chain.

(c) The outcome of those policies

NFR Directive	CDSB requirements	CDP questionnaires
The outcome of those policies (outlined in 19 (b))	REQ-01 – Policy, strategy and targets REQ-05 – Performance and comparative analysis REQ-06 – Outlook	CC3.4, CC12.1, CC12.2, CC12.3, CC12.4, CC14.3 W5.1, W5.2, W5.3, W6.4, W7.1

Good practice examples

- Performance is compared to previous years, and relates to targets. This allows for comparative analysis (Titan Cement Company SA).
- Methodologies on how data has been collected are stated, with details about any changes for calculating results (BP Plc).
- Outcomes to inform future actions are presented which demonstrates forward looking disclosure (Titan Cement Company SA/Daimler AG).

Recommendations

- Consider including visuals (i.e.: graphs, charts, diagrams) in reports that would otherwise be text-heavy to make information clear and concise.
- Provide a clear link to overall policy, strategy and targets to allow for an assessment of your performance.
- Provide explanations of any significant changes in results, including those resulting from changes in strategy, governance, KPIs, acquisitions, divestments or other factors. Explain and justify the reason for any missing data.

Titan Cement Company SA (2014)

Improving our environmental performance

+ Presents environmental performance over a range of environmental impacts.

Our efforts to address environmental concerns such as water and energy use, biodiversity, CO_2 emissions and waste management are not add-ons to our business, but are central to what we do. They underpin both our operational efficiency and our focus on sustainability. They also help us secure the permits we need to run our business.

Performance summary

- Specific CO_2 emissions of 676.3 kg/t$_{Product}$ in regards to the Group target were virtually unchanged compared to 2013
- Specific dust emissions around 60% less than the Group target
- Percentage of alternative fuels used up to 6.9%$_{Thermal\ basis}$ against our target of 10%
- Water consumption reduced to 311 lt/t$_{Cement}$ more than 10% below the Group target
- Environmental expenditure was €30.1 million

Management review

Compliance and best practice
Compliance with environmental regulations and best practice is a material concern for our business, as it is part of our license to operate. We devote large amounts of human resources and environmental expenditure across the Group to improve and maintain our performance in this area, ensuring we meet local regulations and our own targets, which are often more demanding.

Internal and external audits are carried out to monitor our progress and, where issues are identified, we plan new initiatives and programs, in conjunction with local stakeholders to meet their needs. The total amount of significant fines paid by the Group in 2014 in relation to noncompliance with environmental laws and regulations was $10.509. There were no non-monetary sanctions or environmental cases brought against the Group in 2014.

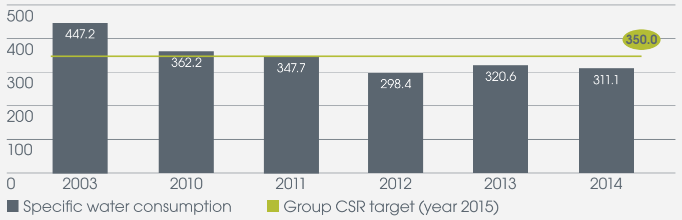
Environmental performance
Our five-year environmental performance improvement plan continued in 2014 and we are making good progress toward our targets for 2015/2017. In 2014, the external verification of our performance was extended to cover emissions of dust, NOx and SOx. In addition, following the revised CSI guidance on air emissions reporting, this year for the first time we provide information regarding our performance on Hg, PCDD/F and heavy metals emissions as well as the overall and specific coverage rates.

Group environmental performance

Key environmental measures		2014 performance	2015/2017 Group Target
Gross direct specific **CO_2** emissions	kg/t$_{Product}$	676.3	**628.0**
Specific **dust** emissions	g/t$_{Clinker}$	37.3	**95.0**
Specific **NOx** emissions	g/t$_{Clinker}$	1,612.1	**1,670.0**
Specific **SOx** emissions	g/t$_{Clinker}$	273.8	**240.0**
Specific **water** consumption	lt/t$_{Cement}$	311.1	**350.0**
Use of **alternative fuels**	%$_{Thermal\ basis}$	6.9	**10.0**

+ Data is cross-referenced with corresponding target set by the company.

TITAN Group cement production and grinding plants
Specific water consumption[1,2] (lt/t Cement)



(1) Specific water consumption in each year is calculated based on the equity held by TITAN Group in 2009.
(2) Group target was calculated based on the equity held by TITAN Group in 2009.

Outlook for 2015

We will continue to minimize our overall environmental impact through:

- Increased use of alternative fuels;
- Installation of bag filters to reduce dust emissions to a minimum;
- Installation of new equipment to reduce NOx emissions, enabling us to comply with stricter limits on emission levels;
- Development and implementation of QRPs and BMPs according to local conditions and in line with CSI Guidelines;
- Implementation of best-practices through our participation in the Biodiversity and Land Stewardship Task Force and the Water Task Force of the WBCSD/CSI;
- Improvement of our water performance through efficient water management and the assessment of water-related risks for our operations.

+ Environmental results are compared over time and performance against group target is clear.

+ Presents future outlook for the following year, demonstrating forward looking disclosure.

BP Plc (2015)

+ Indicators are consistent over successive periods and aligned with management practice (mtCO2e and internal carbon price).

+ Methodology and tools are industry specific standards.

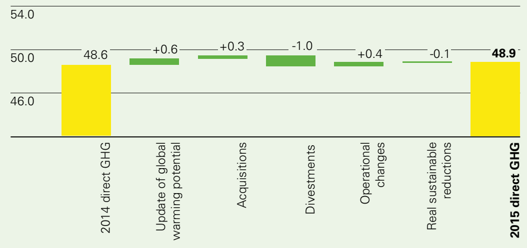
+ GHG emission reporting is split through two boundaries and methodological approaches, demonstrating the changes due to acquisitions and divestments etc.

Environment and society

Throughout the life cycle of our projects and operations, we aim to manage the environmental and social impacts of our presence.

- BP is helping to meet the demands of a lower-carbon future and collaborating with others on climate change issues.
- BP-operated businesses with the potential to spill oil are on track to complete updates to spill planning scenarios and response strategies by the end of 2016.
- We are progressing towards alignment with the United Nations Guiding Principles on Business and Human Rights.

Greenhouse gas emissions[abc]
($MteCO_2$ equivalent)



[a] This is based on BP's equity share basis (excluding BP's share of Rosneft).
[b] The 2015 figure reflects our update of the global warming potential for methane from 21 to 25, in line with IPIECA's guidelines.
[c] Because of rounding, some totals may not agree exactly with the sum of their counterparts.

Managing our impacts

We review our management of material issues such as climate change, water, how we work with communities and human rights. This includes examining emerging risks and actions taken to mitigate them. We identify areas for improvement and work to address these where appropriate.

Our operating sites can have a lifespan of several decades and our operations are expected to work to reduce their impacts and risks. This starts in early project planning and continues through operations and decommissioning.

Our operating management system (OMS) includes practices that set out requirements and guidance for how we identify and manage environmental and social impacts. The practices apply to our major projects★, projects that involve new access and those that could affect an international protected area.

In the planning stages of these projects we complete a screening process to identify the most significant potential environmental and social impacts. We completed this process for five projects in 2015. Following screening, projects are required to carry out impact assessments, identify mitigation measures and implement these in project design, construction and operations.

BP's environmental expenditure in 2015 totalled $8,017 million (2014 $4,024 million, 2013 $4,288 million), including charges related to the Gulf of Mexico oil spill. For a breakdown of environmental expenditure see page 233.

Climate change

Meeting the climate challenge requires efforts by all – governments, companies and consumers. We believe governments must lead by providing a clear, stable and effective climate policy framework, including putting a price on carbon – one that treats all carbon equally.

We expect that greenhouse gas (GHG) policy will have an increasing impact on our businesses, operating costs and strategic planning, but may also offer opportunities for the development of lower-carbon technologies and businesses. There is a growing number of emission pricing schemes globally, including in Europe, California and China, additional monitoring regulations in the US, and more focus on reducing flaring and methane emissions in many jurisdictions.

We are focusing on ways to reduce GHG emissions, including working to improve the energy efficiency of our operations and our products. Around half of our current upstream portfolio is natural gas, which produces about half as much carbon dioxide (CO_2) as coal per unit of power generated, and we operate renewable businesses in biofuels and onshore wind.

We currently require larger projects, and those for which emissions costs would be a material part of the project, to apply a standard carbon cost to the projected GHG emissions over the life of the project. In industrialized countries, our standard cost assumption is currently $40 per tonne of CO_2 equivalent. We use this cost as part of the economic evaluation of the investment.

We seek to address potential climate change impacts on our new projects in the design phase. We have guidance for existing operations and projects on how to assess potential climate risks and impacts – to enable mitigation steps to be incorporated into project planning, design and operations.

We are also working with our peers. For example, we are an active participant in the Oil and Gas Climate Initiative, a voluntary, CEO-led industry initiative that aims to catalyse meaningful action on climate change through best practice sharing and collaboration. We also joined with seven other oil and gas companies calling on the UN and governments to put a price on carbon.

See *bp.com/climatechange* for more information about our activities.

Greenhouse gas emissions
We report on direct and indirect GHG emissions on a carbon dioxide-equivalent (CO_2e) basis. Direct emissions include CO_2 and methane from the combustion of fuel and the operation of facilities, and indirect emissions include those resulting from the purchase of electricity, heat, steam or cooling.

Our approach to reporting GHG emissions broadly follows the IPIECA/API/IOGP Petroleum Industry Guidelines for Reporting GHG Emissions. We calculate emissions based on the fuel consumption and fuel properties for major sources rather than the use of generic emission factors. We do not include nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride as they are not material and it is not practical to collect this data.

Greenhouse gas emissions ($MteCO_2e$)

	2015	2014	2013
Operational control[a]			
Direct emissions	**51.4**[c]	54.1	–
Indirect emissions	**7.0**	7.5[d]	–
BP equity share[b]			
Direct emissions	**48.9**[c]	48.6	50.3
Indirect emissions	**6.9**	6.8[e]	6.7[f]

[a] Operational control data comprises 100% of emissions from activities that are operated by BP, going beyond the IPIECA guidelines by including emissions from certain other activities such as contracted drilling activities. Data for emissions on an operational control basis was not available prior to 2014. In 2014 we changed our GHG reporting boundary from a BP equity-share basis to an operational control basis.
[b] BP equity share comprises our share of BP's consolidated entities and equity accounted entities, other than BP's share of TNK-BP and Rosneft.
[c] The 2015 figure reflects our update of the global warming potential for methane from 21 to 25, in line with IPIECA's guidelines.
[d] The reported 2014 figure of 7.2Mte has been amended to 7.5Mte.
[e] The reported 2014 figure of 6.6Mte has been amended to 6.8Mte.
[f] The reported 2013 figure of 6.6Mte has been amended to 6.7Mte.

In 2015 we updated the global warming potential for methane from 21 to 25. Without this update, our reported direct emissions would have been lower, primarily due to divestments in Alaska.

The ratio of our total GHG emissions reported on an operational control basis to gross production was 0.24teCO_2e/te production in 2015 (2014 0.25teCO_2e/te). Gross production comprises upstream production, refining throughput and petrochemicals produced.

See *bp.com/greenhousegas* for more information about our GHG management and performance.

+ Clear process for managing impacts and policies including impact assessments, mitigation measures, design and operations.

+ Provides clarification on restatements and omissions.

Daimler AG (2015)

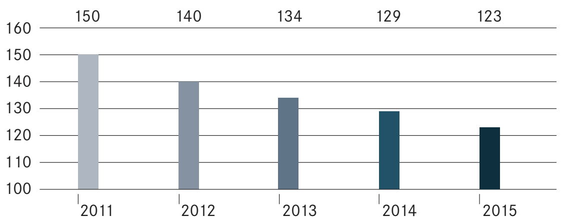
+ Demonstrates action taken to lower carbon emissions; and
+ Also states further action Daimler plans to take to further reduce emissions.

Environmental protection

A comprehensive approach to environmental protection
Protecting the environment is a primary corporate objective of the Daimler Group. Environmental protection is not separate from other objectives at Daimler; instead, it is an integral component of a corporate strategy aimed at long-term value creation. Our measures for manufacturing environmentally friendly products take the entire product lifecycle into account – from design, production and product use all the way to disposal and recycling. The environmental and energy-related guidelines approved by the Board of Management define the environmental and energy-related policy of the Daimler Group. This expresses our commitment to integrated environmental protection that begins with the underlying factors that have an impact on the environment, assesses the environmental effects of production processes and products in advance, and takes these findings into account in corporate decision-making.

€2.8 billion for environmental protection
In 2015, we continued to energetically pursue the goal of conserving resources and reducing all relevant emissions. We kept a close eye on the impact of all our processes, ranging from vehicle development and production to recycling and environmentally friendly disposal. Our expenditure for environmental protection remained nearly unchanged at €2.8 billion.

B.41
Average CO_2 emissions of the new car fleet of Mercedes-Benz Cars in the EU
g/km



+ Shows performance over 5 years.

– No clear link to targets or policies stated.

– Narrative is quite detailed, which makes it hard to follow and assess performance. The report could benefit from more graphs and other visuals.

Environmentally responsible product development
A vehicle's environmental impact is largely predetermined in the first stages of development. The earlier that environmentally responsible product development (design for environment, DfE) is integrated into the development process, the more efficiently it can help minimize the impact on the environment. The continual improvement of our products' environmental compatibility is therefore a major requirement when setting product specifications. Our DfE experts are involved in all stages of the vehicle development process as a cross-functional team. We also systematically integrate our product design processes into our environmental and quality management systems in accordance with ISO 14001 and ISO 9001. Mercedes-Benz has been in full compliance with the relevant standard – ISO 14006 – since 2012. Mercedes-Benz has also been certified according to ISO TR 14062, the standard for environmentally oriented product development, since 2005. It was the first automaker in the world to achieve this certification.

Further reductions in cars' CO_2 emissions
Daimler makes great efforts to reduce the fuel consumption of its vehicles while enhancing their performance – and thus increasing driving enjoyment and safety reserves. With a fleet average of 123 g/km (2014: 129 g/km), we once again significantly reduced the average CO_2 emissions of the cars we sell in the European Union in 2015. We were thus ahead of schedule in achieving our goal of reducing the CO_2 emissions of our new-vehicle fleet in the European Union to 125 g/km by 2016. Our achievements here were due to the further optimization of our BlueEFFICIENCY measures and the success of our efficient hybrid drive systems and extremely fuel-efficient new models. We have reduced the CO_2 emissions of our cars by 18% since 2011 – and by 40% within just two vehicle generations. More than 68 Mercedes-Benz models emit less than 120 g CO_2/km and more than 108 models have received A+ or A energy efficiency labels. ↗ B.41

We plan to use innovative technologies for locally emission-free mobility, and in particular new hybrid models, in order to further reduce the fuel consumption and CO_2 emissions of our cars. We have also continuously reduced the pollutant emissions of our cars in recent years and have been able to meet new emission requirements in advance – and ahead of our competitors. At Mercedes-Benz, we were one of the first manufacturers to begin in 2009 with the introduction of the EURO 6 technology, which was not obligatory until September 2015. Our BLUETEC technology and sustainable SCR exhaust treatment technology make us a world leader for reducing diesel-vehicle emissions. The cars with this equipment already comply with the strictest emission standards. In addition, we are continually further developing our emission control systems. The next generation of cutting-edge diesel engines will soon be launched and will be pioneers by fulfilling new legislative requirements in advance in Europe.

(d) The principal risks related to those matters linked to the group's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the group manages those risks

NFR Directive	CDSB requirements	CDP questionnaires
The principal risks related to those matters linked to the group's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the group manages those risks	REQ-02 – Risks and opportunities REQ-06 – Outlook	CC2.1, CC5.1, CC6.1 F2.1, F2.2, F3.1, F3.2, F3.3, F3.4, F4.1, F4.2, F4.3, F7.2 W2.1, W2.2, W2.3, W2.4, W2.6, W2.7

Good practice examples

- An overview is provided of risk management approach (BHP Billiton Plc);
- Description of both legislative and operational risks are included (BHP Billiton Plc); and
- The physical risks associated with climate change are described to an extent. This could be improved with specific detail and mitigation strategies (PKN Orlen SA).

Recommendations

- Provide a comprehensive set of environmental risks, including regulatory, physical, reputational, transition and litigation risk;
- Explain how the reported risks impact operations, supply chain, business model, financial performance and all other material implications;
- Provide the causes and sources of these risks. This could inform your mitigation strategies;
- Include timeframes for the risks to take effect, in addition to the mitigation strategies; and
- Link risks to policies and strategies where appropriate, to demonstrate due diligence.

PKN Orlen SA (2014)

+ Presents risks considering both impact and measures undertaken.
+ Layout easy to read.

Risks

KEY RISKS	RISK SCOPE / IMPACT	MEASURES UNDERTAKEN
CO_2 emission allowances	On February 26th 2014, the European Commission approved a draft list of installations eligible to receive free CO2 emission allowances and the initial allocations. As the emission allowances allocated to the ORLEN Group free of charge may be insufficient to meet its regulatory obligations, it may be necessary for the Group to purchase additional emission allowances at market prices or to limit production.	• Annual monitoring of CO_2 emissions and the balancing of any deficit/surplus through intragroup transactions or transactions on the forward and spot markets
Industrial emissions	Risk of exceeding the applicable sulfur dioxide, nitrogen oxides and dust emission standards. The Industrial Emissions Directive has introduced more stringent sulfur dioxide, nitrogen oxides and dust emission requirements as of 2016.	• Building flue gas desulfurisation, denitrification and dust removal units, which will reduce emissions of sulfur dioxide and nitrogen oxides by more than 90%

– Limited coverage of environmental risks described, predominantly regulatory risk. Would improve with inclusion of physical, transition and reputational risks.

BHP Billiton Plc (2015)

1 Strategic Report continued

1.7.2 Risk factors continued

Sustainability risks continued

+ Outlines actual and potential causes, scope, source showing links between climate change, valuation, operations and markets.

Climate change may impact the value of our Company, and our operations and markets

The physical impacts of climate change and various regulations that seek to address climate change may negatively affect our operations, productivity and the markets in which we sell our products. Fossil fuel-related emissions are a significant source of greenhouse gases contributing to climate change. We produce fossil fuels such as coal, oil and gas for sale to customers, and we use fossil fuels in our mining and processing operations either directly or through the purchase of fossil fuel-based electricity.

A number of national governments have already introduced, or are contemplating the introduction of, regulatory responses to greenhouse gas emissions from the combustion of fossil fuels to address the impacts of climate change. This includes countries where we have operations such as Australia, the United States and Chile, as well as customer markets such as China, India and Europe. In addition, the international community aims to complete a new global climate agreement at the 21st Conference of the Parties (COP21) in Paris in December 2015. The absence of regulatory certainty, global policy inconsistencies and the challenges presented by managing our portfolio across a variety of regulatory frameworks has the potential to adversely impact our operations and supply chain. From a medium to long-term perspective, we are likely to see some adverse changes in the cost position of our greenhouse gas-intensive assets and energy-intensive assets as a result of regulatory impacts in the countries where we operate. These proposed regulatory mechanisms may impact our operations directly or indirectly through our suppliers and customers. Assessments of the potential impact of future climate change regulation are uncertain given the wide scope of potential regulatory change in the many countries in which we operate. For example, the Australian Government repealed a carbon tax in 2014 and carbon pricing is being discussed as part of a broader tax reform package in Chile.

There is a potential gap between the current valuation of fossil fuel reserves on the balance sheets of companies and in global equities markets and the reduced value that could result if a significant proportion of reserves were rendered incapable of extraction in an economically viable fashion due to technology, regulatory or market responses to climate change. In such a scenario, stranded reserve assets held on our balance sheet may need to be impaired or written off and our inability to make productive use of such assets may also negatively impact our financial condition and results.

The growth of alternative energy supply options, such as renewables and nuclear, could also present a change to the energy mix that may impact on fossil fuel markets.

The physical effects of climate change on our operations may include changes in rainfall patterns, water shortages, rising sea levels, increased storm intensities and higher temperatures. These effects may adversely impact the financial performance of our operations.

A breach of our governance processes may lead to regulatory penalties and loss of reputation

We operate in a global environment that encompasses multiple jurisdictions and complex regulatory frameworks. Our governance and compliance processes, which include the review of internal controls over financial reporting and specific internal controls in relation to trade and financial sanctions, and offers of things of value to government officials and representatives of state-owned enterprises, may not prevent future potential breaches of law, accounting or governance practice. Our *Code of Business Conduct*, together with our mandatory policies, such as the anti-corruption, trade and financial sanctions and competition policies, may not prevent instances of fraudulent behaviour and dishonesty nor guarantee compliance with legal or regulatory requirements. This may lead to regulatory fines, disgorgement of profits, litigation, loss of operating licences and/or reputational damage.

1.7.3 Management of principal risks

The scope of our operations and the number of industries in which we operate and engage mean that a range of factors may impact our results. Material risks that could negatively affect our results and performance are described in section 1.7.2 of this Annual Report. Our approach to managing these risks is outlined below.

Principal risk area	Risk management approach
Sustainability risks HSEC incidents or accidents may adversely affect our people or neighbouring communities, operations and reputation or licence to operate. The potential physical impacts and related responses to climate change may impact the value of our Company, and operations and markets. Given we operate in a challenging global environment straddling multiple jurisdictions, a breach of our governance processes may lead to regulatory penalties and loss of reputation.	Our approach to sustainability risks is reflected in *Our Charter* and described in section 1.14, including a Company-level safety intervention that was initiated in FY2015. A comprehensive set of Group Level Documents (GLDs) set out Group-wide HSEC-related performance requirements designed to ensure effective management control of these risks. Our approach to corporate planning, investment decision-making and portfolio management provides a focus on the identification, assessment and management of climate change risks. We have been applying an internal price on carbon in our investment decisions for more than a decade. Through a comprehensive and strategic approach to corporate planning, we work with a broad range of scenarios to assess our portfolio, including consideration of a broad range of potential policy responses to and impacts from climate change. Our models suggest that BHP Billiton's portfolio diversification results in the resilience of our overall asset valuation through all these scenarios. Our approach to engagement with community stakeholders is outlined in our *Community* GLD. Businesses are also required to undertake social impact opportunity assessments to identify, mitigate or manage key potential social and human rights risks. As with our other risks, for climate change risk our *Risk Management* GLD provides the framework for risk management. Internal audits are conducted to test compliance with GLD requirements and action plans are developed to address any gaps. Key findings are reported to senior management and reports are considered by relevant Board committees. Our *Code of Business Conduct* sets out requirements related to working with integrity, including dealings with government officials and third parties. Processes and controls are in place for the internal control over financial reporting, including under Sarbanes-Oxley. We have established anti-corruption and antitrust related performance requirements, which are overseen by the Legal and Compliance function as described in section 3.17. Additionally, the Disclosure Committee oversees our compliance with securities dealing obligations and continuous and periodic disclosure obligations as described in sections 3.15 and 3.18.

+ Identifies implications for the organisation i.e. how they respond with an internal carbon price, portfolio analysis, modelling, policy planning.

+ The report outlines internal controls and risk management procedures, including board involvement, control and monitoring; and

+ Provides a clear overview of the approach to risk management taken through identification, assessment, control and monitoring.

(e) Non-financial key performance indicators relevant to the particular business.

NFR Directive	CDSB requirements	CDP questionnaires
Non-financial key performance indicators relevant to the particular business	REQ-01 – Policy, strategy and targets REQ-04 – Sources of environmental impact REQ-06 – Outlook	CC1.2a, CC7.1, CC8.2, CC8.3a, CC9.2a, CC9.2b, CC9.2c, CC9.2d, CC10.1a, CC10.2a, CC10.2b, CC10.2c, CC11.2, CC11.3, CC11.5, CC14.1 F0.5, F0.6, F1.1, F5.1, F5.2 W1.2, W1.2a, W1.2b, W1.2c, W5.1, W5.1a, W5.2, W5.2a

Good practice examples

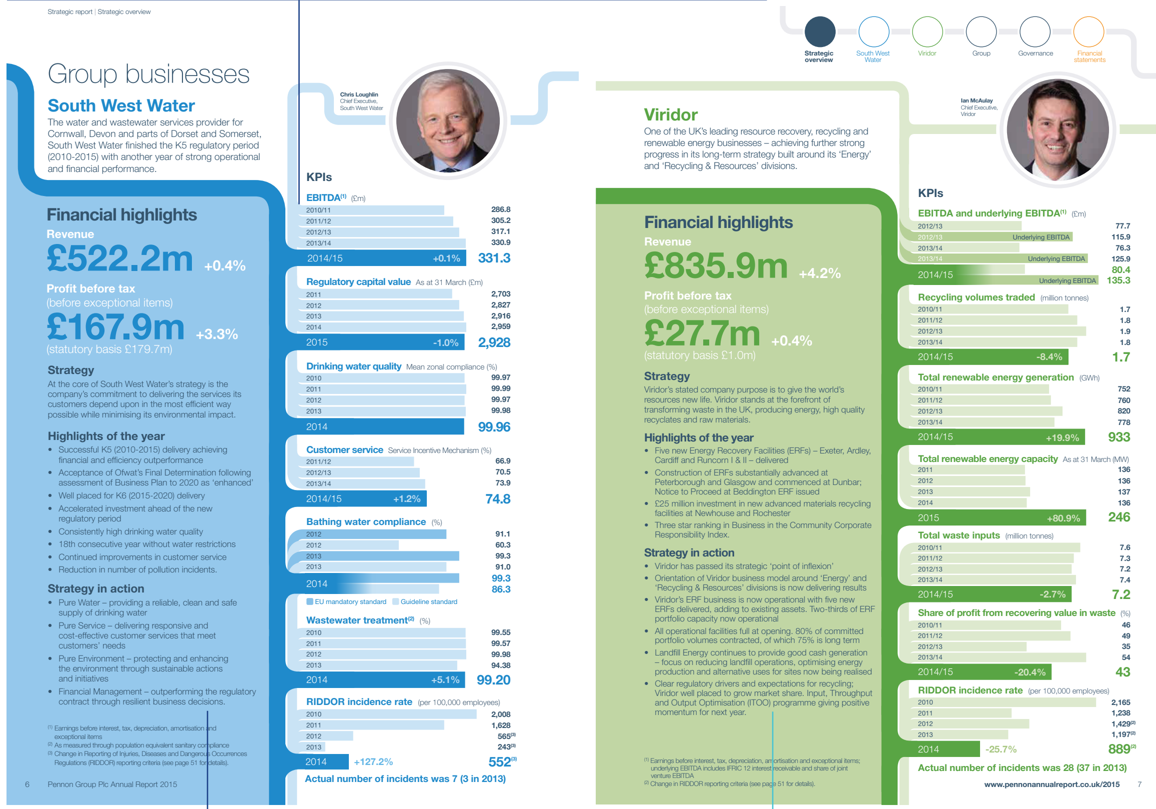
- Indicators reflect business activities, vision and strategy (AkzoNobel N.V./Pennon Group Plc/Marks and Spencer Plc.).
- Connect strategy to qualitative and quantitative information and explains how the targets are to be assessed (AkzoNobel N.V.).
- The KPIs that are used are relevant and material to individual companies (Pennon Group Plc).

Recommendations

- Communicate relevant and material KPIs. Ensure that these are accompanied by short/medium/long term forecasts.
- Connect KPIs with other information in the mainstream report, such as overall organisational strategy, performance and prospects.
- To demonstrate how the KPIs are used to assess the progress against targets, provide baselines and consistent year on year disclosures.
- Differentiate KPIs and other performance indicators.

Pennon Group PLC (2015)

+ KPIs include both financial and non-financial information that is material to the individual company.



+ Consistent year on year disclosure over more than 4 years.

+ Strategic and operational priorities are connected to non-financial KPIs.

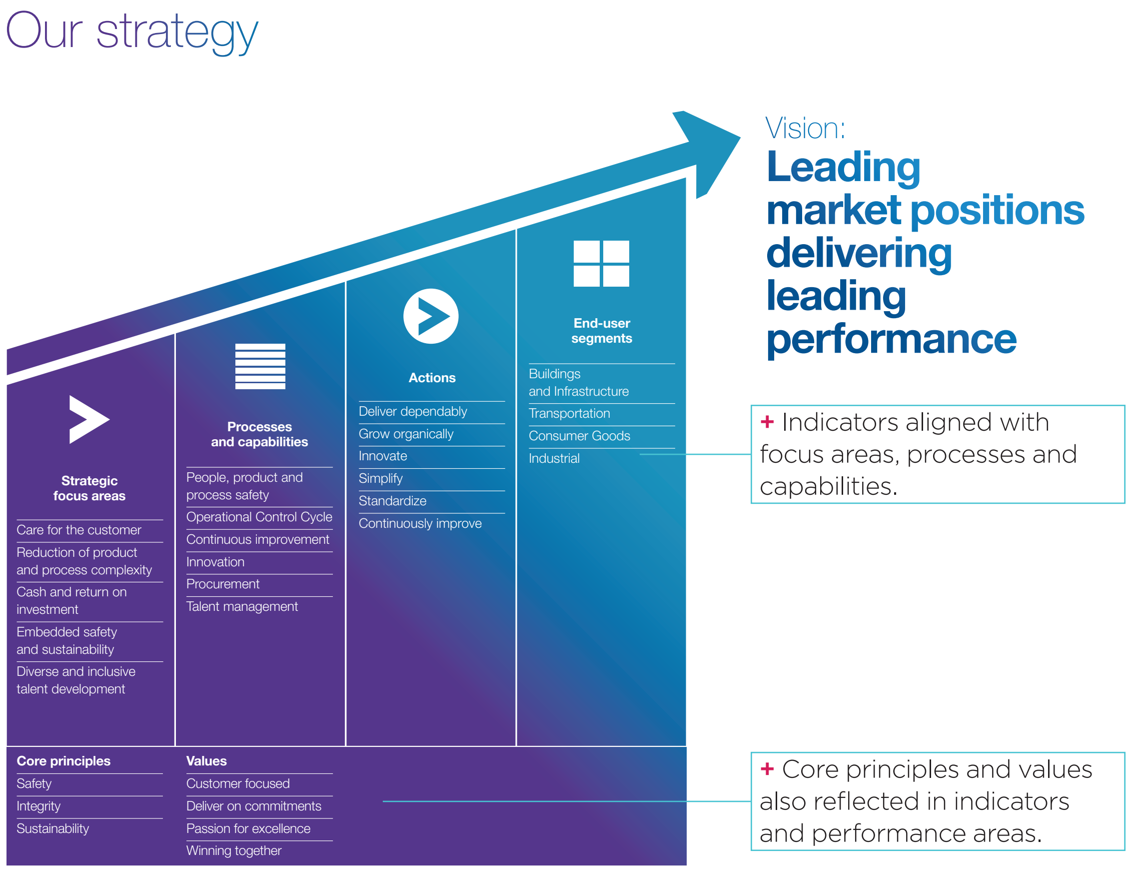
Marks and Spencer Plc (2015)

+ Non-financial KPIs are included as strategic and management priorities.

Strong cash generation	FREE CASH FLOW (PRE DIVIDEND) S	Free cash flow is the net cash generated by the business in the period before dividend payment. Improvement was driven by better working capital management and improvements in underlying EBITDA.	£524.2m +22.5%	13/14 £427.9m 12/13 £204.1m 11/12 £385.2m
NON-FINANCIAL MEASURES				
Improve product sustainability	PRODUCTS WITH A PLAN A QUALITY A	A quality or feature regarded as a characteristic or inherent part of a product which has a demonstrable positive or significantly lower environmental and/or social impact during its sourcing, production, supply, use and/or disposal.	64% +7%	M&S products 2013/14 57% 2020 target 100% 64% Plan A quality
Reduce impact	GROSS GREENHOUSE GAS EMISSIONS A	Total gross CO_2e emissions resulting from M&S operated activities worldwide. We continue to offset emissions to a net figure of zero (carbon neutrality).	592,000 CO_2e +4.4%[2]	Looking ahead Our aim is for all M&S products to have at least one Plan A quality by 2020. We have targets to improve energy efficiency by 50% and reduce refrigeration gas emissions by 80% by 2020. We also plan to continue to offset our gross greenhouse gas emissions to zero (carbon neutral).
	GROSS GREENHOUSE GAS EMISSIONS PER 1,000 SQ FT A	Total gross CO_2e emissions per 1,000 sq ft resulting from M&S operated activities worldwide.	30 tCO_2e/1,000sq ft Level	

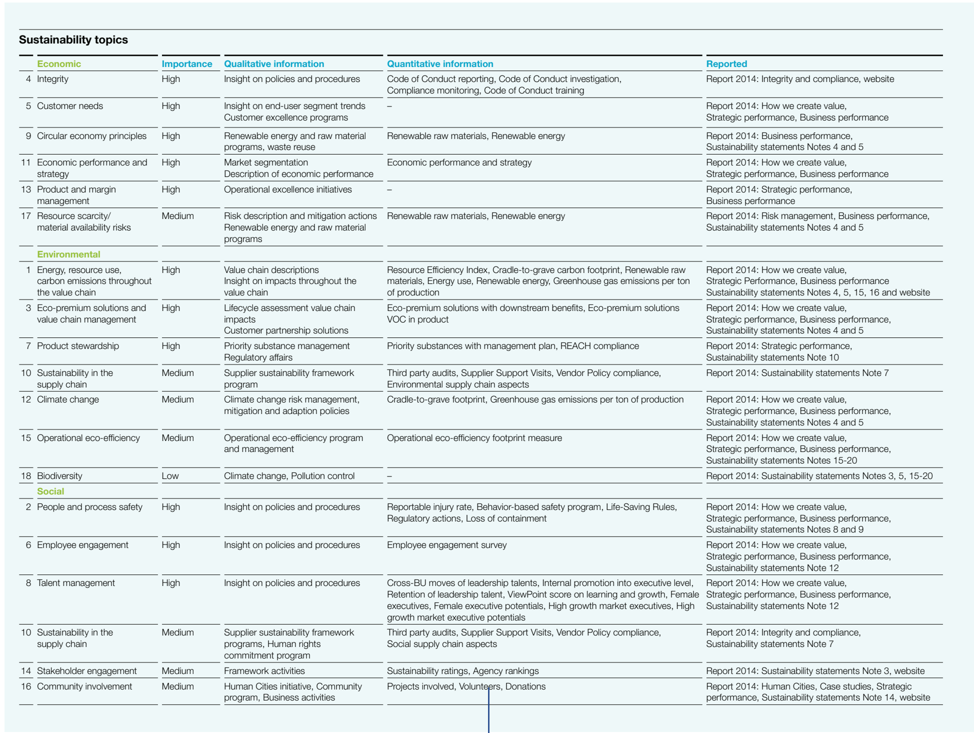
– Use their own strategy and criteria (Plan A), rather than an industry defined KPI which would improve comparability between companies.

AkzoNobel N.V. (2014)



+ Indicators aligned with focus areas, processes and capabilities.

+ Core principles and values also reflected in indicators and performance areas.



+ Connects strategy to sustainability topics; and

+ Importance, quantitative and qualitative information outlined.

Chapter 3

Next steps

Recommendations for best practice

1. Connectivity and coherence - strengthen the relationship between environmental matters and overall corporate strategy, performance and prospects

Leading companies are beginning to present and describe the relationship between environmental matters and their overall corporate strategy, performance and prospects. Applying the concept of connectivity helps to show a holistic picture of the factors and relationships that affect an organisation's ability to create value over time.

Many annual reports lack this much needed connectivity. For example, a report may describe environmental policies, without explaining the company's strategies to implement them. Similarly, in some cases environmental targets/goals lack corresponding KPIs to show performance and progress towards them. Coherent and connected reporting demonstrates the relationships between vision, mission, risks, policies, strategies, targets and KPIs.

2. Ensure that your report is clear and concise

Ensuring your reporting is easy to navigate, read and search is important to aid user understanding. To achieve this, reports should be clear and straightforward, using plain language and consistent terminology, avoiding jargon and boilerplate text and, where necessary, providing definitions for technical terms. Data and narrative should be presented clearly and concisely in an easy to follow structure, using appropriate signposts and labelling. Illustrations, graphs and charts also make reports easy to read.

3. Go beyond climate change - environmental reporting is more than emissions reporting

Under the requirements for reporting environmental matters, the directive refers to "details of the current and foreseeable impacts of the undertaking's operations on the environment, and, as appropriate, on... the use of renewable and/or non-renewable energy, greenhouse gas emissions, water use and air pollution."

Significant progress has been made in reporting climate change-related information, identifying emissions, methodologies, boundaries, omissions, but disclosure related to other environmental matters is limited and restricted to specialist companies such as water utilities or paper and timber companies. Some leading companies are however beginning to communicate material risks and opportunities associated with waste, air pollutants, water and commodities.

4. Apply guiding principles

Guiding principles are designed to ensure that environmental information in mainstream annual report is useful, correct and complete and is based on criteria that are suitable for conducting assurance activities. The guiding principles shall be applied in determining, preparing and presenting environmental information. The CDSB Framework introduces the following guiding principles:

1. Relevant and material - environmental information shall be prepared applying the principles of relevance and materiality.
2. Faithfully represented - to ensure that information is complete, neutral and free from error in order to be useful.
3. Connected - disclosures shall be connected with other information in the mainstream report.
4. Consistent and comparable - to elicit information of value to investors in a way that is consistent so as to enable a level of comparability between similar organisations, reporting periods and sectors.
5. Clear and understandable - to aid understanding by ensuring that disclosures are easy to navigate, read and search.
6. Verifiable - to ensure information that forms the basis for disclosures is verifiable.
7. Forward looking - To ensure that historic information in the mainstream report is complemented with narrative on its influence on future performance of environmental information.

Further guidance

Framework for reporting environmental information & natural capital

The CDSB Framework sets out an approach to reporting environmental information & natural capital in mainstream reports, such as the annual report, 10-K filing or integrated report. View Framework.Leading companies are beginning to present and describe the relationship between environmental matters and their overall corporate strategy, performance and prospects. Applying the concept of connectivity helps to show a holistic picture of the factors and relationships that affect an organisation's ability to create value over time.

cdsb.net/Framework

CDP's position regarding the Directive 2014/95/EU on disclosure of non-financial and diversity information (NFR Directive)

This position paper identifies 4 key themes to coordinate at the European level to support the optimal outcome of the NFR Directive:

• **Coordination** of the development of non-financial reporting standards as a parallel to their financial equivalent;

• **Accessibility** – where not included in the non-financial reporting as envisaged by the Directive, • companies should, at a minimum, state where the information can be found;

• **Comparability** – a standard to align the reporting of environmental & natural capital information and disclosure of solid, substantial information is crucial for efficient financial assessment; and

• **Verifiability** – non-financial information must be "assurable" as companies will need to mve this forward over time in order to provide confidence in reported information.

Comply or explain: A review of FTSE 350 companies' environmental reporting and greenhouse gas emission disclosures in annual reports

CDSB has comprehensively reviewed the annual reports of the FTSE 350 listed companies in the report. This review discusses the disclosure of environmental information in the annual reports of FTSE350 companies following the implementation of mandatory greenhouse gas reporting in the UK (updates to the Companies Act 2006).

Comply or explain focuses on comparative sector analysis and uses illustrative examples to provide evidence of current practice following the policy revision. The report proposes steps that could be taken by regulators to enhance the enabling environment for disclosure. It was reviewed by Oxford University's Saïd Business School.

cdsb.net/FTSE350

Making the connections – showing alignment in non-financial reporting approaches

Driving consistency sits at the core of everything we do. To help you navigate the different codes, frameworks and standards that inform corporate non-financial reporting practice, we have prepared a table showing how some of the most widely used reporting approaches align with each other and with CDSB's reporting principles and requirements on environmental information and natural capital.

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