

Why Sustainability

June 2016

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Agenda

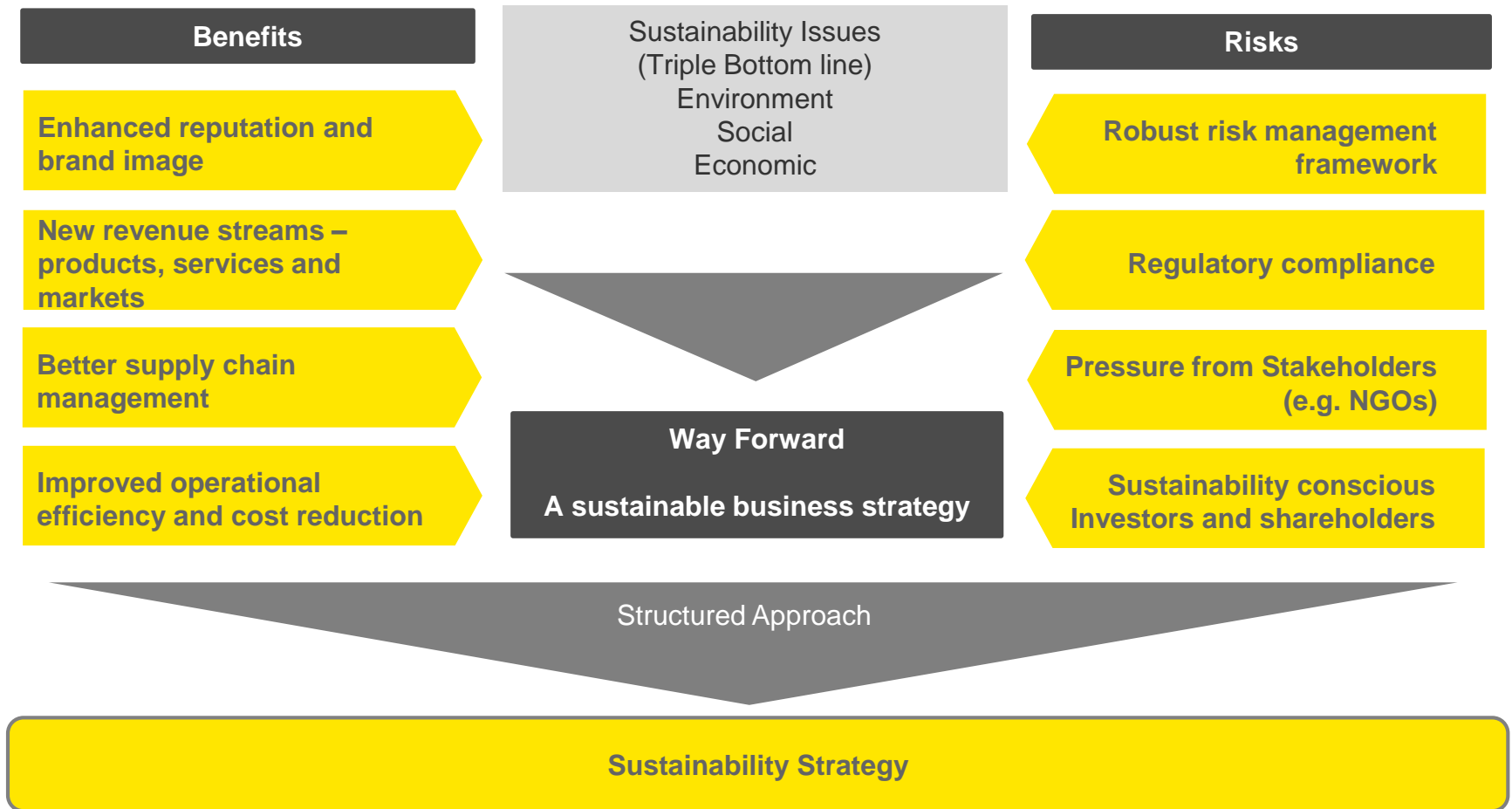
Introduction to sustainability

Global and European trends in non-financial reporting

Sustainability risks and opportunities



1. Why is sustainability important?



Based on Source: Leveraging value – Corporate response to sustainability challenge – EY-FICCI study

Global Context: a growing global trend

Number of Countries to commit to world's 1st ever Climate Change Agreement

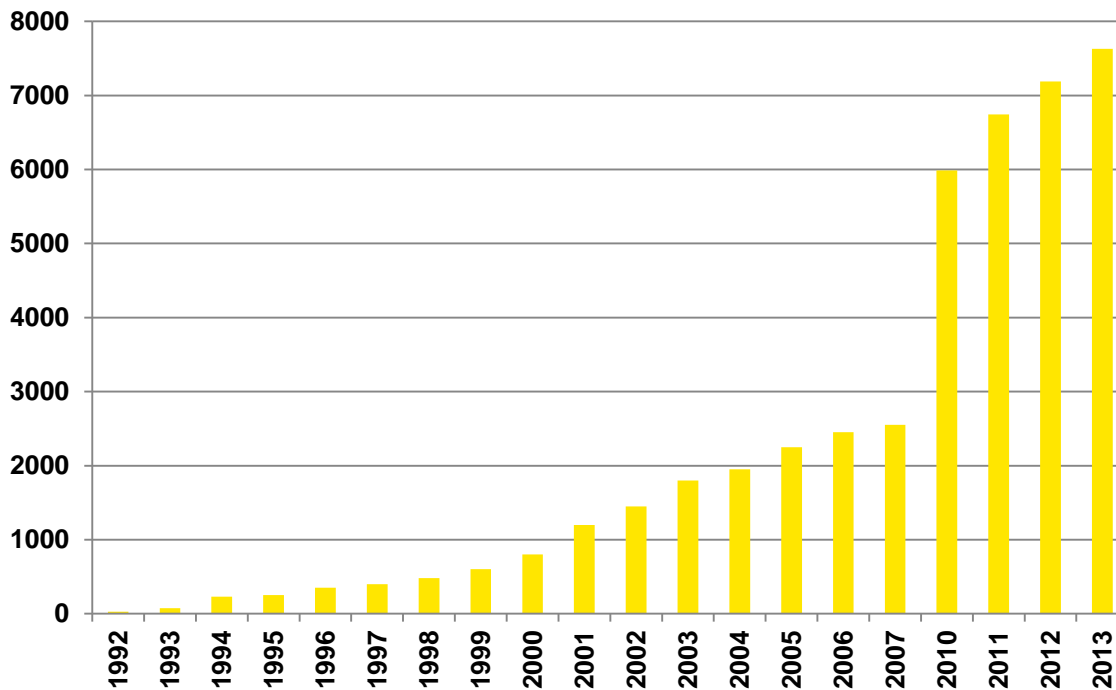
2015	>200	<p>At the Global Climate Change Conference in Paris ('COP 21') in December 2015, <u>195 countries committed to urgently work to fight Climate Change and greatly reduce their GHG Emissions.</u></p> <p>Though many details are yet to be agreed, as a long-term signal to business and investors as to the importance of climate change and sustainability to business this is exceptionally important.</p>
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Number of Companies publishing Sustainability Reports

1992	26	Companies in the world that published Sustainability Reports in the year.
2014	c. 12,000	

Sustainability Reporting: a growing trend

Sustainability Reporting at Global Level



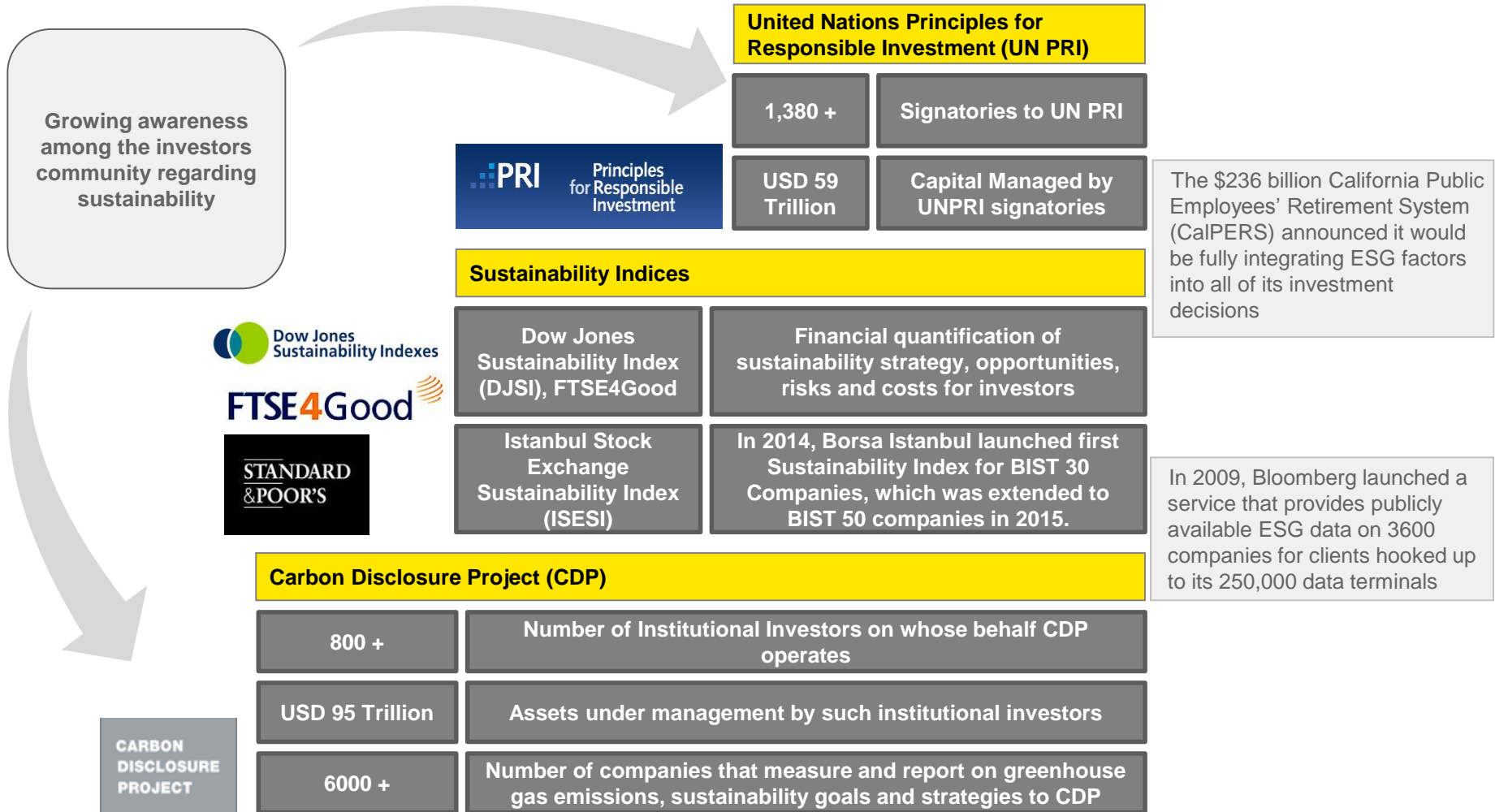
► In a recent survey, nearly 75% of companies use GRI guidelines for reporting.

-- Survey
Report: Six trends in corporate responsibility

- In 1992, the number of corporate responsibility reports worldwide were 26*
- By the end of 2014, c. 12,000 companies had reported*

*CorporateRegister.com

Global Context: Investor Demand

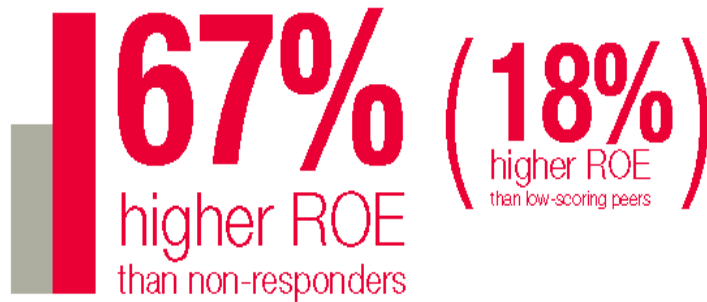


Global Context: Investor Demand

CDP Global 2014 Report: Key Findings:

S&P 500 INDUSTRY LEADERS:

Generate superior profitability



Enjoy more stability



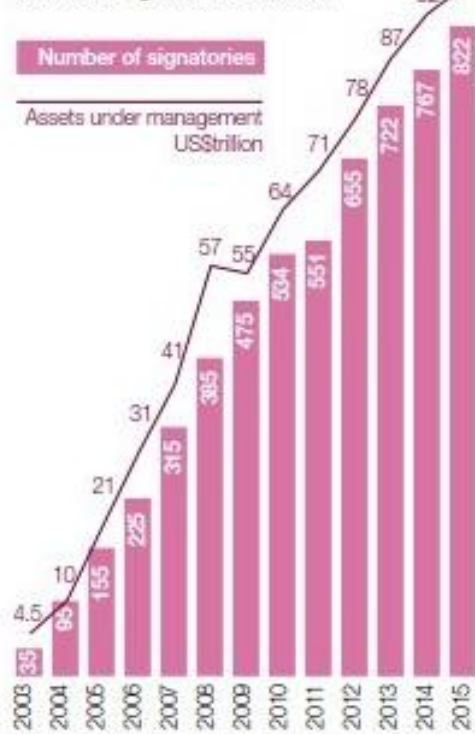
50% lower volatility of earnings over the past decade than low-scoring peers

Grow dividends to shareholders



Exhibit value attributes attractive to equity investors

3. Investor signatories over time



Note: These 822 investors represent more than a third of the world's invested capital.

'Norges Bank Pension Fund assets worth \$860 billion requires strategies for climate change risk mitigation and water management, divested from both timber and palm oil companies that did not meet their standards.'

Source: CDP Global 2014

Global Context: International Donor Funding

April, 2016

World Bank to spend 28% of investments on climate change projects

The world's biggest provider of public finance to developing countries will refocus its financing efforts towards tackling climate change, group said



Climate integrated into all EU spending areas

Climate action is a key priority for the EU. To respond to challenges and investment need related to climate change, the EU has agreed that at least 20% of its budget for 2014-2020 – as much as €180 billion – should be spent on climate change-related action.

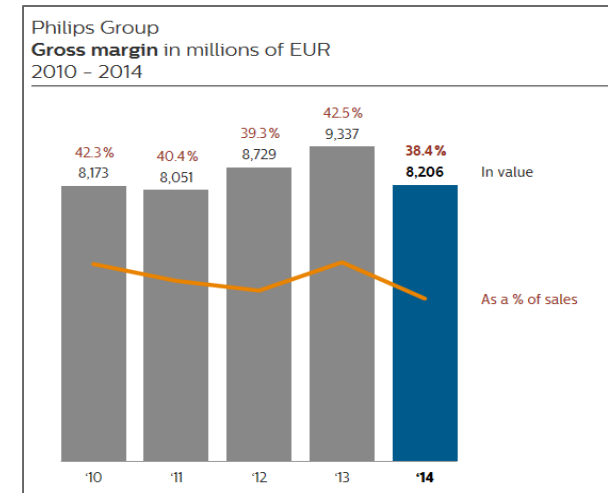
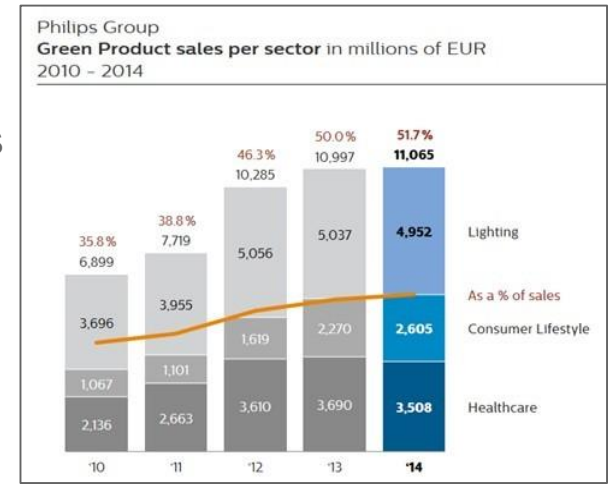
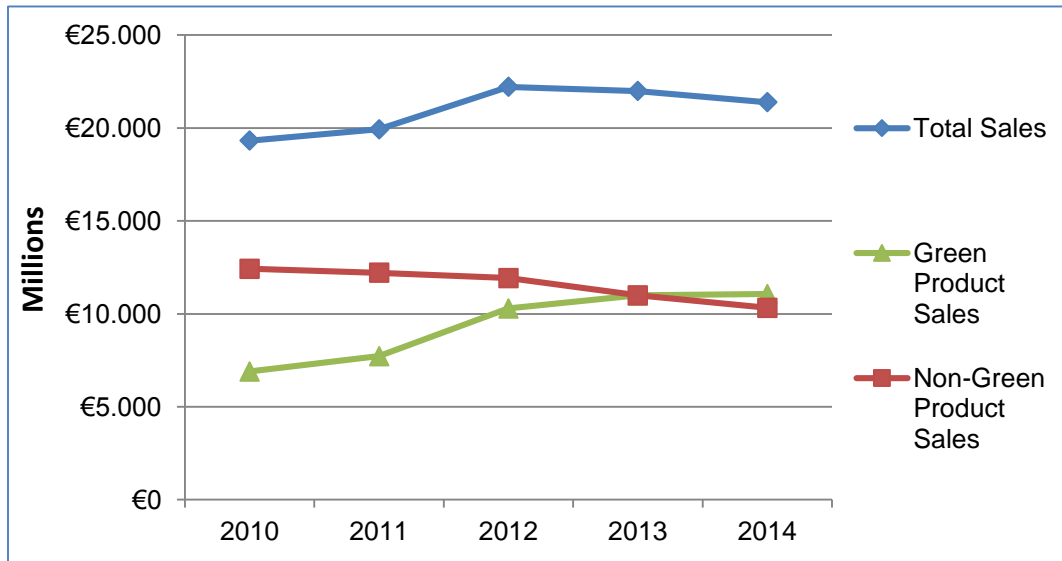
To achieve this increase, mitigation and adaptation actions will be integrated into all major EU spending programmes, in particular cohesion policy, regional development, energy transport, research and innovation and the Common Agricultural Policy. The EU's development policy will also contribute to achieving the 20% overall commitment, with an estimated €1.7bn in 2014-2015 and €14bn over the years 2014-2020 for climate spending in developing countries. For further details, see [An EU budget for low-carbon growth](#) (78 kB) .

<http://www.theguardian.com/environment/2016/apr/07/world-bank-investments-climate-change-environment>

http://ec.europa.eu/clima/policies/budget/index_en.htm

Global Context: Opportunities: Philips Group

- ▶ 2014: Green product sales: € 11.1 billion (52%).
- ▶ Green product sales increasing and other product sales decreasing in comparison to previous years.
- ▶ 55% of energy usage coming from renewable sources.



Reference: <http://www.2014.annualreport.philips.com/#!/performance-highlights/>

Global Context: Opportunities: Marks & Spencer



Sustainability Income:

- ▶ 'Net Plan A Benefit': 2014/15: £160m
- ▶ M&S products with a Plan A quality 64%

Sustainability Cost Savings since base-year (2006/07):

- ▶ UK and RoI energy efficiency for buildings: +36%
- ▶ Fuel efficiency of food delivery fleets + 33%
- ▶ Water efficiency +25%

Global Context: Risks



- ▶ Share price down 50% due to **child labour** scandal.



- ▶ Major bottling plant in India shut due to **water issues**.



- ▶ Largest accidental **oil spill** in history cost BP \$42.2 bn.

Global Context: Risks

the guardian

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Business > Tate and Lyle

Tate & Lyle sugar supplier accused over child labour

Thai firm KSL Group accused, along with Cambodian government, of land grabs, forced evictions, arson and theft

Kate Hodal in Koh Kong
The Guardian, Tuesday 9 July 2013 22.05 BST



9 September 2013

THE HUFFINGTON POST


UNITED KINGDOM

Edition: UK

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Primark Targeted By Protesters After Bangladesh Building Collapse


PA/The Huffington Post UK | Posted: 27/04/2013 16:13 BST | Updated: 27/04/2013 16:13 BST



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Sustainability Reporting: introducing GRI G4

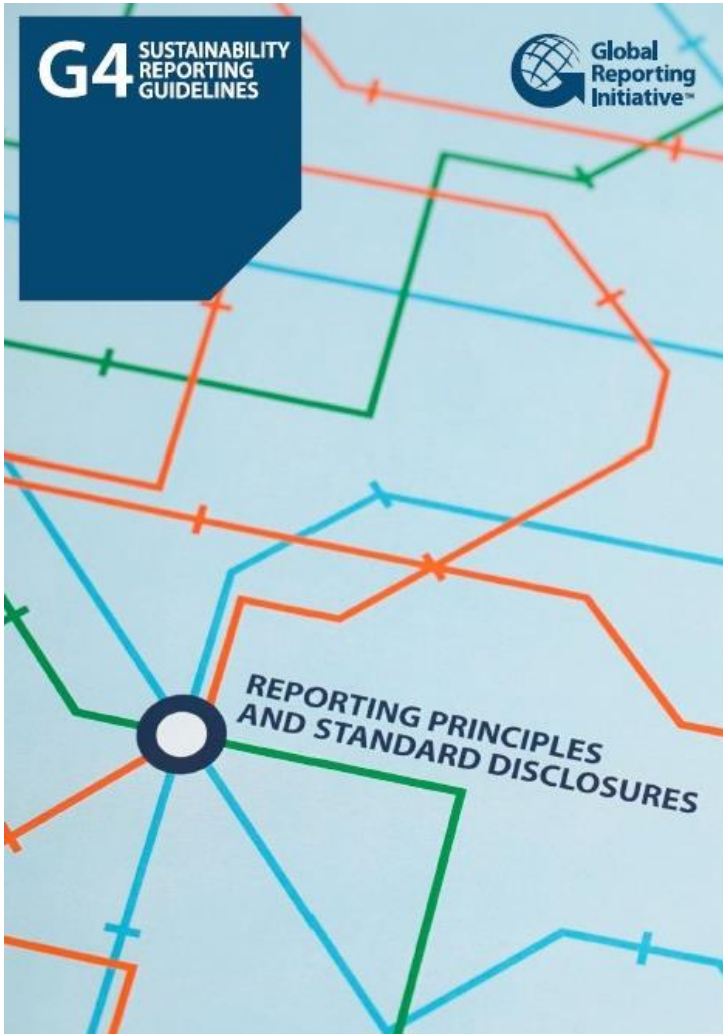


TABLE 1: CATEGORIES AND ASPECTS IN THE GUIDELINES

Category	Economic	Environmental			
Aspects ^{viii}	<ul style="list-style-type: none"> Economic Performance Market Presence Indirect Economic Impacts Procurement Practices 	<ul style="list-style-type: none"> Materials Energy Water Biodiversity Emissions Effluents and Waste Products and Services Compliance Transport Overall Supplier Environmental Assessment Environmental Grievance Mechanisms 			
Category	Social				
Sub-Categories	Labor Practices and Decent Work	Human Rights	Society	Product Responsibility	
Aspects ^{viii}	<ul style="list-style-type: none"> Employment Labor/Management Relations Occupational Health and Safety Training and Education Diversity and Equal Opportunity Equal Remuneration for Women and Men Supplier Assessment for Labor Practices Labor Practices Grievance Mechanisms 	<ul style="list-style-type: none"> Investment Non-discrimination Freedom of Association and Collective Bargaining Child Labor Forced or Compulsory Labor Security Practices Indigenous Rights Assessment Supplier Human Rights Assessment Human Rights Grievance Mechanisms 	<ul style="list-style-type: none"> Local Communities Anti-corruption Public Policy Anti-competitive Behavior Compliance Supplier Assessment for Impacts on Society Grievance Mechanisms for Impacts on Society 	<ul style="list-style-type: none"> Customer Health and Safety Product and Service Labeling Marketing Communications Customer Privacy Compliance 	

Sustainability Reporting: introducing GRI G4

GRI Report Principles

Report Content

Materiality

- In depth discussion on key issues
- Issues selected are an outcome of stakeholder concern and organizational effectiveness

Stakeholder inclusiveness

- Stakeholder identification and dialogue
- Outcome of engagement process and on addressing the sustainability issues raised

Completeness

- All identified indicators addressed and belongs to Economic Environment and Social dimensions; data from all sites covered etc.

Sustainability Context

- Describing the sustainability context of the organization, its strategy, challenges and path forward

Report Quality

Balance

Discusses both achievements, challenges, under performance

Clarity

Define report scope, boundary
Glossary and Diagrams

Accuracy

Inclusion of assumptions such as conversion factors, running hours of the plant, etc.

Reliability

Identify scope and extent of external assurance
Calculations are accessible

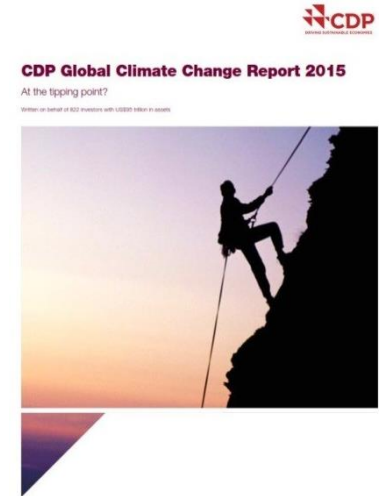
Comparability

Past performance, comparison with peers

Timeliness

Publishing of the report in a timely manner

Sustainability Reporting: Other Examples



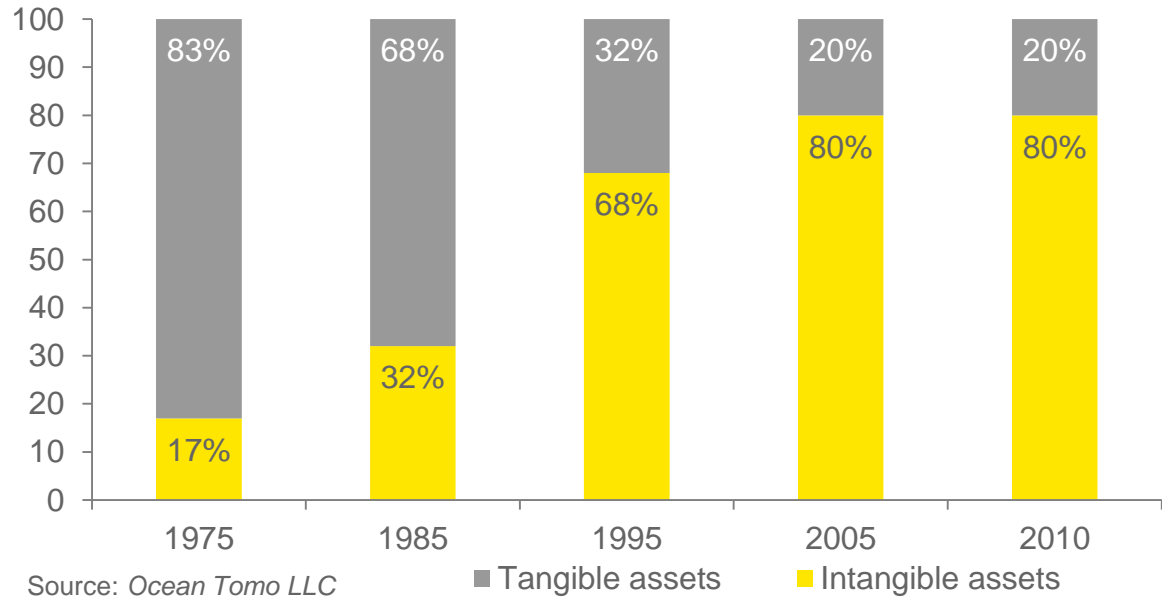
United Nations
Global Compact

Sustainability Reporting: IR

International Reporting (<IR>)

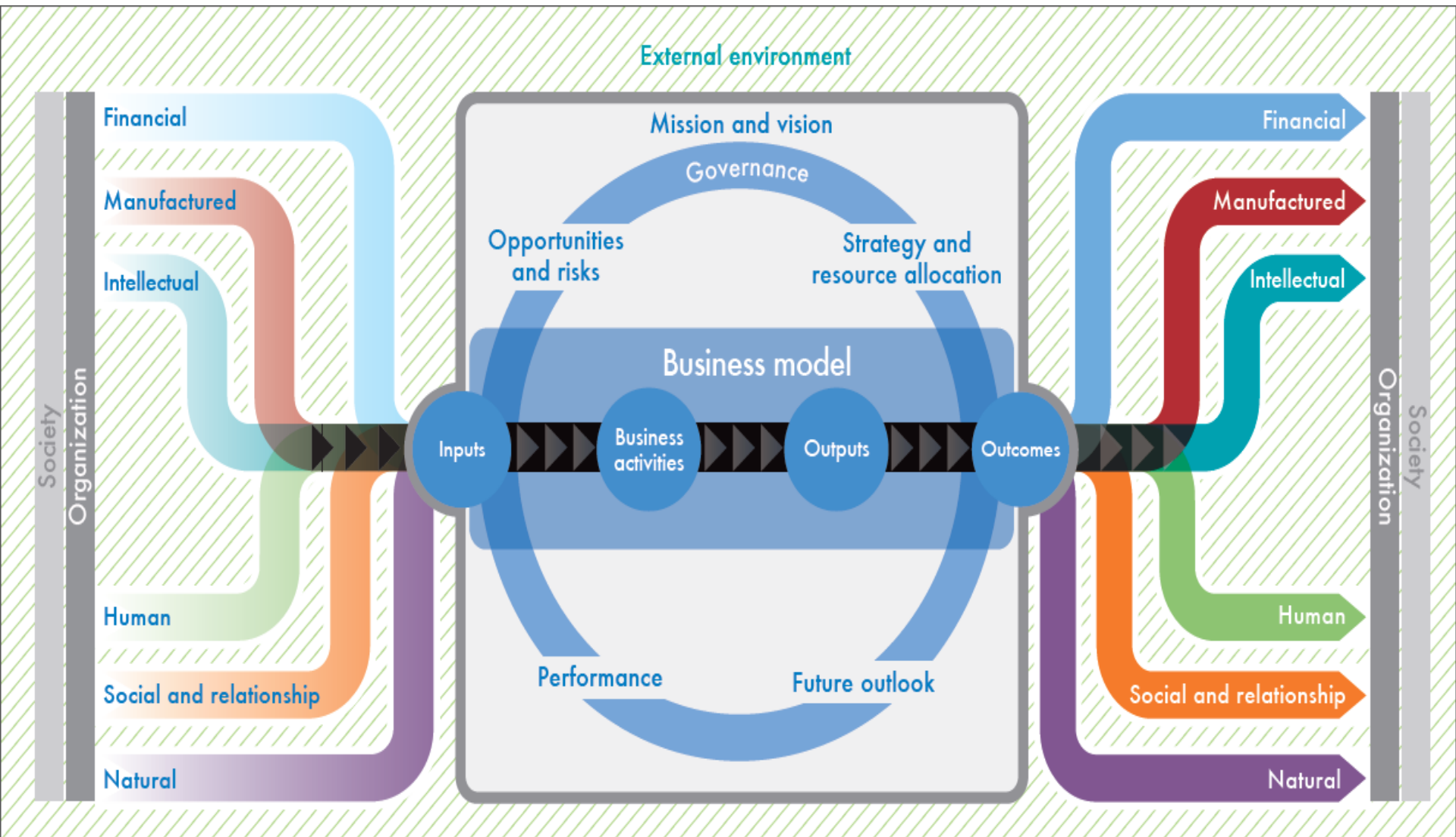


Components of S&P 500 market value



- ▶ There is a growing gap between market capitalization and book value.
- ▶ Investors know there is a “hidden value” not fully recognized in financial statements, that is, to a great extent, attributable to intangible assets.

IR Example: The business model



What is the EU Directive on Non-Financial Reporting?

The European Commission adopted a directive for **enhancing the transparency** of certain **large companies** on non-financial matters.

Companies concerned will need to disclose information on **policies, risks and results** as regards **environmental** matters, **social** and **employee-related** aspects, respect for **human rights, anti-corruption and bribery** issues, and **diversity**.

The European Member States were given couple of years to transpose the EU Directive into national legislation from 2014.

Expected Time-line: to come into force in **2017**.

Expected number of impacted EU companies: 15,500.

What to report?

- ▶ Focus on **materiality**:

- ▶ Concise information which is necessary for understanding a company's development, performance or position rather than a fully-fledged and detailed "sustainability" report.
- ▶ Disclosures may be provided at group level, rather than by each individual company within a group.

- ▶ **'Report or explain'**:

- ▶ If reporting in a specific area is not relevant for a company, it would not be obliged to report but only to explain why this is the case.

How should you report?

How should you report?

The non-financial statement must be part of the management report.

- ▶ A separate report will also suffice provided it is available on or no later than six months after the balance sheet date.

Recommendation to use international or national **standards**, e.g.

- ▶ Global Compact
- ▶ OECD guidelines
- ▶ ISO 26000
- ▶ Global Reporting Initiative
- ▶ Overlap with Integrated Reporting

Who does the Directive apply to?



Companies with

- ▶ An average number of employees exceeding 500 during the financial year,
- ▶ And exceeding either a balance sheet total of EUR 20 million or a net turnover of EUR 40 million

Exemption: subsidiaries may be consolidated in annual report of parent company. The consolidated annual report should fulfil the requirements of the EU directive.

It is expected that it is also appropriate for organizations that fall outside these criteria to comply with the Directive.

Thank you!



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