Executive summary

Sustainability reporting in the extractives sector in Australia continues to increase but further uptake is required. As new sustainability issues emerge in the sector reporting will need to evolve to maintain its value.

The purpose of this research, undertaken on behalf of GRI, was to:
► Assess the state of reporting in the extractives sector
► Identify emerging material sustainability issues and stakeholder priorities
► Identify options to increase the number of reporters and the value obtained from reporting.

The research draws on:
► Analysis of sustainability reporting from an initial list of 119 mining & metals and oil & gas companies*
► Stakeholder feedback from a roundtable process
► Emerging issues identified from a synthesis of industry-relevant frameworks, NGOs and media
► EY’s own thought leadership on those issues.

The analysis of reports identified that 28 per cent (33 out of 119) mining & metals and oil & gas companies produced a stand-alone GRI sustainability report prior to December 2015. Nineteen of these had adopted the G4 framework.

Australian extractive companies operate in a number of countries globally. Neighbouring developing countries look to Australia for leading practice, and Australia may also be directly active in these countries. This research surveys key sustainability issues for the extractive sector in neighbouring countries Papua New Guinea, Indonesia and the Philippines.

The report highlights the following opportunities to extract further value from reporting across the sector:
► There is a need to address barriers to reporting and encourage more first-time reporters
► As a globally accepted framework, GRI G4 offers a useful tool for comparability across the sector
► Disclosure on Management Approach (DMA) goes beyond reporting policies to demonstrating the efficacy of management approach
► Case studies are a highly effective tool when balanced and outcomes-focused
► Mapping boundaries provides stakeholders with greater transparency regarding where impacts occur and how they are managed.

GRI G4 provides a valuable framework for companies to manage issues proactively. However, the emerging issues identified through this research are challenging both to report and to manage.

Emerging sustainability issues identified through the research:
► Climate change financial risk
► Human rights – particularly in the workforce and suppliers
► Tax transparency
► Methodologies for measuring community impact

*see methodology p. 5
About this report

Global Reporting Initiative (GRI)
This report was commissioned by GRI as part of its wider global engagement with the extractives sector. GRI is an international independent organisation that helps businesses, governments and other organisations understand and communicate the impact of business on critical sustainability issues such as climate change, human rights, corruption and many others. GRI has pioneered sustainability reporting since the late 1990s, transforming it from a niche practice to one now adopted by a growing majority of organisations.

Department of Foreign Affairs and Trade (DFAT)
In 2015 the Department of Foreign Affairs and Trade (DFAT) entered into a partnership with GRI, which will contribute to sustainable and inclusive economic development and facilitate trade and investment in the Indo-Pacific. This will be achieved through assisting businesses in their efforts to improve reporting on social and environmental issues in Indonesia, Philippines, Sri Lanka, and Papua New Guinea. One element among the three main program components is to improve sustainability and transparency in the extractives sector, which this research supports.

EY
EY undertook the analysis and reporting of this research, in close consultation with GRI.
Overview of the extractives sector in Australia

Australia has abundant resources and is a major producer of a range of mineral and energy commodities. There are around 300 mines across Australia and a large number of oil and gas basins.

The extractives sector is a major contributor to exports, gross domestic product (GDP), employment, government revenue, investment and new project development. The sector has additionally enabled significant benefits such as rural and regional development, innovation and environmental research.

Many of the world’s largest mining and metals and oil and gas exploration and production companies (and service providers) have representation in Australia. In Australia, the oil and gas extraction sector is dominated by six companies: Woodside Petroleum, BHP Billiton Limited, Santos Ltd, Chevron Australia Holdings Pty Ltd, ExxonMobil Australia Pty Ltd and Shell Holdings Australia Ltd. The mining and metals sector has two large players in Australia, BHP Billiton Limited and Rio Tinto Plc.*

The extractives sector has become an increasingly large component of the listed equity market in Australia over the past decade.

Australian extractive companies operate in a number of countries globally. Neighbouring developing countries look to Australia for ‘leading practice’, and Australia may also be directly active in these countries. This research surveys key sustainability issues for the extractive sector in neighbouring countries Papua New Guinea, Indonesia and the Philippines.

Key statistics

- The extractives industry continues to be one of Australia’s largest economic contributors although its total workforce size is slightly less than two percent of the total Australian workforce
- In 2013-14 minerals and oil and gas exports accounted for 52 percent of Australia’s total goods and services exports
- The extractives sector is the largest employer of environmental professionals in Australia

*IBISWorld, accessed 22 July 2016
Research aims and methodology

This report explores sustainability disclosures of the Australian extractives sector, with a focus on reporters using GRI’s G4 Guidelines.

This report was commissioned by GRI as part of its wider global engagement with the extractives sector. GRI sought to take stock of the state of reporting in the Australian extractives sector, and explore how it could increase the value of reporting for the sector and its stakeholders.

The research draws on:

► Analysis of sustainability reporting from an initial list of 119 mining & metals and oil & gas companies
► Stakeholder feedback from a roundtable process
► Emerging issues identified from a synthesis of industry-relevant frameworks, NGOs and media
► EY’s own thought leadership on those issues

The research focuses on the ‘leading edge’ of reporting in the sector; it analyses how leading reporters are disclosing key emerging issues, and suggests options to extract further value from reporting.

The research sample

EY analysed an initial list of 119 organisations meeting the following criteria:

► Organisations whose core business is mining and metals (M&M), or oil and gas (O&G) operations, excluding service providers
► Organisations with significant operations in Australia, or headquartered in Australia

A subset of 33 organisations produced stand-alone sustainability reports, and 19 of these were produced in accordance with GRI G4. These 19 formed the sample for detailed analysis against the emerging issues identified (see opposite).

The reports are from the years 2013 to 2015. Seventeen are from the mining and metals sector, two from the oil and gas sector, and one that operates in both sectors.

The roundtable

To provide context to the research, a roundtable was held with key extractive stakeholders in Australia in order to discuss the state of reporting, including possible barriers for reporters. It also focused on the opportunities including how GRI could work with organisations to enhance the value of reporting in the sector.

The issues

The set of aspects analysed in this report were identified by synthesising four reporting frameworks, which provide a valuable lens on issues material to the extractives sector (see p. 11-12).

This report also draws on EY’s own recent research and experience in the extractives sector.

Limitations

EY used publically available data to undertake this research and did not speak directly with all of the companies listed in this research report to obtain feedback.

EY did not evaluate the quality of the sustainability content included in annual reports or websites.
Background: Sustainability reporting and GRI

GRI defines a sustainability report as a report published by an organisation about the economic, environmental and social impacts caused by its everyday activities. A sustainability report should also present the organisation's values and governance model, and demonstrate the link between its strategy and its commitment to a sustainable global economy.

GRI does not mandate the look and feel of a sustainability report. Stand-alone sustainability reports are common, but some organisations include sustainability content in their annual report – from a minimal addition to a fully integrated report – while others provide interactive sustainability data on their websites.

GRI provides a framework to drive the content of a sustainability report. GRI’s G4 Guidelines have elevated the importance of materiality, representing a significant shift to reporting what matters to an organisation and its stakeholders, and where it matters. This emphasis on materiality helps to make sustainability reports more strategic, focussed, credible and easier to navigate.

In Australia, a parallel driver for reporting has been the release of version three of the ASX Corporate Governance Principles and Recommendations, applicable to all ASX-listed entities. Recommendation 7.4 requires listed entities to disclose whether they have any material exposure to economic, environment and social sustainability risks and, if they do, how they manage or intend to manage those risks.

Compared to other sectors, the mining sector has been a leader in sustainability reporting, both in adopting frameworks such as GRI and in disclosing material issues. The sector has been steadily moving from compliance-based environmental and health and safety reporting towards more holistic sustainability reporting, and in the last financial year some extractive organisations have become early adopters of the ASX’s Recommendation 7.4.

The Minerals Council of Australia’s (MCA) Enduring Value Framework, which is based on the International Council on Mining and Metals’ (ICMM) 10 principles of sustainable development, does not mandate a particular reporting framework for its member companies. The ICMM requires member companies to produce a ‘core’ GRI G4 report.
State of extractives industry reporting

Twenty-nine percent of the Australian extractives sector publishes a stand-alone sustainability report.

The research revealed a range of maturity levels in sustainability reporting by the extractives sector. This report focuses on leading reporters: 19 organisations that produced stand-alone GRI G4 sustainability reports. A further 14 organisations produced stand-alone reports in accordance with earlier versions of GRI, or referenced to GRI. Previous versions of the GRI framework became redundant at the end of 2015; we anticipate that future reports from these organisations will transition to G4 in the next reporting period.

The majority of the GRI G4 reporters chose ‘Core’ reporting as their in accordance option, with just one opting for ‘Comprehensive’.

The G4 reports were from the years 2013 (two companies), 2014 (seven companies) and 2015 (ten companies).

- 19 out of 33 companies reporting publish a GRI G4 report
- A majority of GRI G4 reporters (95 percent) are reporting in accordance with ‘Core’ requirements
- Uptake of GRI G4 has been higher for the mining and metals (87%) sector compared to oil and gas (13%)
G4 reporters in the Australian extractives sector

A majority of the G4 reporters obtain external stakeholder input into materiality determination, disclose boundaries of material issues and seek external assurance.

G4 requires organisations to engage with external stakeholders as part of the materiality assessment process, to help prepare a report which reflects the needs of its stakeholders. All but one of the 19 companies reported having engaged with external stakeholders in determining what is material to the company. Additionally, organisations are required to disclose the boundaries for where material impacts occur; 79 percent of the sample included this information in the reports we reviewed.

Over half sought external assurance for their reports. Although assurance is not mandated, investors and analysts tend to consider external assurance a vital part of a company's sustainability reporting process.*

All but one reporter explicitly made use of the GRI Sector Disclosures. G4 requires companies to consult the Sector Disclosure documents if they are available for the company's sector and they are material. It is considered that the supplements identify sector-specific material aspects and related indicators.

*Accounting for Sustainability; GRI; Radley Yeldar, 2011.
Mature reporters: characteristics and barriers

A roundtable of key stakeholders* identified characteristics of mature reporters, as well as areas that present new or continuing challenges.

Characteristics of mature reporters

The roundtable identified that mature reports and reporters:

- Are clear about the audience and purpose of their report – with investors increasingly being the primary audience
- Contain forward-looking statements, with a focus on value creation
- Release reports that are interactive and engaging; they do not repeat content from year to year but consider issues afresh
- Have consistent messaging
- Understand how GRI relates to other frameworks (such as SASB, ICMM, IPIECA); and are strategic about how each adds value
- Have well developed internal understanding and engagement on sustainability across the business and sites
- Have reporting processes that are incorporated into continuous improvement
- Have robust processes and data systems in place
- Use the sustainability data to inform other communications
- Actively engage on issues, presenting a point of view and educating readers
- Include clear targets
- Include historical comparisons and trends

Remaining barriers

Mature reporters still face the following barriers:

- Tension between offering consistency and comparability by using standardised GRI terminology, and telling a value creation story that is specific to the organisation
- Working with a framework that can be limiting and lacking in flexibility in tackling a complex industry
- Tension between an increasing focus on forward-looking value creation reporting, and concerns that directors may be exposed to liabilities by including forward-looking information
- Boards, executives and investors who may need further education on the value of sustainability reporting and the link to lasting value
- Providing a link between reporting and action
- Inadequate internal systems & processes to collect data
- Finding the balance between Comprehensive and Core reporting. (While G4 Comprehensive is a significant undertaking, companies need to find the right balance of information such that G4 Core reports are not overly simplistic.)
- Good reporting takes significant resources and requires engagement across the organisation
- Teams responsible for reporting may not have a good understanding of investor needs

*see p. 5
Materiality: leading practices and challenges

The roundtable discussion identified leading practices in stakeholder engagement and the materiality process, along with process challenges.

**Leading practices in materiality**

Leading reporters consider one or more of the following when approaching materiality:

- Involving leadership and the board from the earliest stages and secure approval for the overall reporting framework and content
- Matching the process to the available resources
- Obtaining the right feedback from the right stakeholders, and mapping stakeholders according to their level of influence and interest.
- Supporting vulnerable stakeholders, where significant, to have a voice
- Having stakeholder engagement that is independent and free from bias
- Recognising that the opportunity to engage with stakeholders is seen as a beneficial process in itself
- Including disclosure of the materiality and stakeholder engagement processes undertaken
- Understanding that a robust materiality process goes beyond reporting and includes embedding material issues in risk management and strategy development

**Challenges in materiality**

Challenges in the materiality process include:

- The requirement that large companies may need to balance global and local material issues
- Balancing issues for the sector with issues for the company
- Balancing ongoing issues with ‘hot topics’ that may have media attention
- Issue definition
- Balancing disclosure with commercial confidentiality
- Issues overlap, so that it can be difficult to avoid repetition
- The prioritisation of issues which remains a fairly subjective process
- Uncertainty over how many material issues is too few or too many

The roundtable discussion identified leading practices in stakeholder engagement and the materiality process, along with process challenges.
Emerging issues: framework comparison

In order to identify a set of material issues that could be applicable to the extractives sector as a whole, we reviewed the following reporting frameworks:

- GRI G4 M&M and O&G Sector Disclosures
- Mineral Council of Australia (MCA) Enduring Value Framework
- IPIECA Industry Guidance on Voluntary Sustainability Reporting
- Sustainable Development Goals (as mapped to mining)*

Most of these frameworks have been developed with considerable input from relevant stakeholders. While most are global, the MCA’s framework has been developed specifically for the Australian context.

A survey of issues raised in the media and by NGOs did not identify any additional issues, further validating the frameworks analysed.

We then grouped and synthesised similar issues. In order to focus our research on emerging issues, we excluded from analysis common areas of reporting as shown on the next slide. The final set of aspects is as follows:

Having identified the set of issues, we then assessed disclosure using the following criteria: basic (brief mention) or detailed (including discussion and data).

It should be noted that, although these aspects have been identified as material to the sector as a whole, they will not necessarily be material to each individual company. Therefore, the pattern of disclosure across the sample could be expected to reflect the set of aspects, but non-disclosure by individual companies should not be seen as a shortcoming.

<table>
<thead>
<tr>
<th>Human rights in the workforce</th>
<th>Climate change financial risk</th>
<th>Human rights grievance mechanisms</th>
<th>Anti-corruption and Bribery</th>
<th>Transparency (Tax disclosures &amp; public advocacy)</th>
<th>Supplier human rights assessment</th>
<th>Biodiversity and integrated land use planning</th>
<th>Product stewardship</th>
<th>Supplier environmental assessment</th>
<th>Human Rights in local communities</th>
<th>Community impacts</th>
<th>Workforce diversity and inclusion</th>
</tr>
</thead>
</table>

*World Economic Forum, Mapping Mining to the Sustainable Development Goals: A Preliminary Atlas, Executive Summary, Draft for Comment
Common issues: globally

Recent research by GRI identified the most commonly reported GRI aspects in the extractives sector globally.

OHS is by far the most frequently reported topic, followed by economic performance and local communities.

Reporting of common issues: extractives sector overall

<table>
<thead>
<tr>
<th>Topic</th>
<th>Oil &amp; Gas</th>
<th>Mining</th>
<th>Metals</th>
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<tbody>
<tr>
<td>OHS</td>
<td>69</td>
<td>89</td>
<td>44</td>
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<tr>
<td>Training and education</td>
<td>51</td>
<td>71</td>
<td>27</td>
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<tr>
<td>Economic performance</td>
<td>50</td>
<td>56</td>
<td>34</td>
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<tr>
<td>Emissions</td>
<td>49</td>
<td>53</td>
<td>34</td>
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<tr>
<td>Energy</td>
<td>40</td>
<td>46</td>
<td>34</td>
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<tr>
<td>Local communities</td>
<td>40</td>
<td>33</td>
<td>24</td>
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<tr>
<td>Effluents and waste</td>
<td>38</td>
<td>51</td>
<td>25</td>
</tr>
<tr>
<td>Employment</td>
<td>33</td>
<td>41</td>
<td>24</td>
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<tr>
<td>Compliance</td>
<td>27</td>
<td>40</td>
<td>24</td>
</tr>
<tr>
<td>Water</td>
<td>24</td>
<td>36</td>
<td>18</td>
</tr>
</tbody>
</table>

Sample comprised 155 reports: 72 mining, 25 metals and 58 O&G. Numbers represent how many times the related topics are listed as material.

Source: GRI. Reports published worldwide in 2014 and 2015 by organisations in the mining, metals and oil & gas sectors, based on the GRI G4 Guidelines and present in the GRI's Sustainability Disclosure Database.
Emerging areas of disclosure

Extractives sector organisations demonstrate mature reporting of workforce diversity and inclusion, while detailed disclosure is still developing in emerging areas of interest such as human rights and climate change financial risk.

Mapping the emerging material issues (see p. 11) against the GRI G4 reports reveals that some issues are already well covered, and all are being addressed in depth by at least a third of the reporters.

There were detailed disclosures for workplace diversity and inclusion, community impacts and human rights in local communities. The inclusion of diversity strategies and targets within the ASX Corporate Governance Principles and Recommendations has been successful in promoting systematic disclosure in both annual and sustainability reports. Product stewardship, biodiversity and integrated land use planning, and tax transparency were also the subject of detailed disclosures from a majority of reporters.

Environmental and human rights assessment of suppliers was widespread, though over half of these were disclosed at a basic level with fewer reporters offered detailed disclosures. Human rights in the workforce and climate change financial risk were less widely disclosed, but were nevertheless being disclosed to some extent in over two-thirds of reports analysed.

► Over the last few years, with increasing public attention on diversity, community impacts and human rights, the extractives sector has increased its focus on these areas.
► Higher quality reporting on these topics has included references to policies and procedures, established targets, quantitative performance data and case studies.
Tax transparency

The changing risk landscape - disclosing payments to governments

Our research identified that a majority of GRI reporters are already making detailed disclosures on tax transparency. However, it is an issue with a changing landscape.

EY has been assessing the risk priorities of the mining and metals sector since 2008, the peak of the super-cycle. At that time, the priority risks were related to constraints on growth, and strategies were aligned to maximising production to take advantage of the record price stimulus.

Today, the focus is on those risks that are impacting and restricting the opportunity to maximise return on capital or increasing margins, such as improving productivity, allocating capital more effectively and managing volatility. EY’s report ‘Independent directors cut – business risks facing mining and metals, 2015-2016’ ranks resource nationalism as the fourth largest business risk facing the mining and metals sector.

The loss of investment in the developing world, and consequent loss of tax revenue, has resulted in higher royalty demands, while OECD countries have seen base erosion and profit shifting (tax planning strategies that exploit gaps and mismatches in tax rules of different countries). There has also been increased disclosure regulation around payments to governments to promote the payment of a fair share of taxes. The political appeal of mandated beneficiation continues to rise without a test of the economic benefits of such requirements.

According to EY’s report on ‘Disclosing payments to governments – mining and metals in an era of transparency’, the reporting of government payments will pose a significant challenge for many M&M companies, while also creating an opportunity to better communicate the contributions that are being made to the countries in which these companies operate.

Increased transparency by extractive companies can only help to enhance investor confidence and generate trust with stakeholders. Improving transparency can also help companies show their social contribution – providing local communities with greater access to information and in turn helping to refute claims of not paying fair share.

Towards leading practice

Reporters should identify the level of disclosure and reporting that will satisfy all standards to which they may be subject.

Establishing processes to gather data and assemble it for proper reporting is also crucial. For example, reporters should consider their ability to compile the right information through:

- A systems review to check that all required detail for disclosing payments to governments can be captured, remembering this will include details outside of tax
- Determining the accessibility and availability of data required to be disclosed
- Assessing the reliability of available data
- Understanding the potential to create a standardised profile of payment information to disclose, even though the rules are still under development and countries may have unique requirements

How prepared is your company for the increased reporting requirement around government payments?

41% We are just beginning to focus on this and have a long way to go.

29% We have not focused on this in any meaningful way and are not ready to report under these standards.

30% We have been focusing on this for some time and regularly provide information to stakeholders.

Source: Disclosing payments to governments - mining and metals in an era of transparency
Country highlight: Papua New Guinea

Papua New Guinea: grappling with transparency

The extractive industry plays an important role in Papua New Guinea's (PNG) economy, representing 80 percent of export revenue and 13 percent of GDP. However, the country’s reputation for corruption* is a barrier to foreign investment.

In an effort to overcome this, PNG has become a candidate country for the Extractive Industries Transparency Initiative (EITI), with its first report on the 2013 financial year, published in February 2016. The report confirms that, while the regulatory framework is robust, government agencies lack the capability and capacity to implement and police compliance. The onus is therefore on companies to self-regulate and provide transparency. Oil Search, for example, has taken the initiative to publish its own Transparency Report on payments made to governments.

While EITI reports are centred on government payments, they also cover a wide range of contextual information such as production data, licence holdings, beneficial ownership and social payments. Leading reporters should consider disclosure of all this data.

Sustainability reporting by companies (both Australian and otherwise) active in PNG ranges from scant to detailed. Additionally, while some companies are making significant community investments, reporting is often at the level of inputs rather than outcomes. The social impacts of operations can be complex, bringing both benefits and challenges. As an example, the extractives industry is a significant employment provider in PNG. However, in-migration to operations areas can lead to social tensions and puts pressure on local infrastructure such as education and healthcare. Reporting of community impacts is discussed further on p. 19.

* PNG ranked 139 out of 168 countries in Transparency International’s Corruption Perception Index in 2015.
Climate change financial risk

Assessing financial risks related to climate change

In 2014, EY published *Tomorrow's Investment Rules*, a survey of institutional investors' views regarding non-financial reporting by issuers (publicly traded companies). The report showed that investors were progressively incorporating environmental, social and governance (ESG) analysis, along with other nonfinancial elements, into their decision making.

The 2015 follow-up study revealed even greater reliance on non-financial information, and a more structured, measurement-oriented approach to using this information.

Stranded assets

A key finding of the report was a sharpened focus on stranded assets (assets that lose their value prematurely due to environmental, social or other external factors). Thirty-six percent of respondents had cut holdings in the past year due to the risk of stranded assets, while another 27 percent planned to monitor this risk closely in the future. The Paris COP (post-dating the reports analysed), and the expectation of further legislation to meet international obligations, can be expected to drive further scrutiny of this risk, which is of particular relevance to the extractives industry.

While investors are increasingly reliant on ESG information, the report found that they do not believe they receive enough accurate, standardised information relevant to risk and performance assessment. Nearly two-thirds of respondents believed companies do not adequately disclose ESG risks.

Adaptation

Extractive industry assets and operations may also face risks in relation to climate impacts such as extreme weather events, droughts and floods. Some of these impacts are already being felt as illustrated by mine closures which have occurred as a result of drought and lack of access to water.

Reporters should consider climate risks to which they are exposed, and their response plan.

As owners of physical assets, reporters will need to collaborate with governments to engage in adaptation planning and implementation. This collaboration extends to governments in developing countries, where opportunities exist to provide innovative adaptation solutions.

Towards leading practice

Our research found that, while a number of companies are actively engaging with climate change financial risk, it is an emerging area for the sector. Considerations to moving to leading practice include:

- Broadening the reporting methodology to show the implications of climate change scenarios on an organisation’s portfolio and the corresponding exposure to risk
- Proactively identifying, assessing and monitoring ESG risks within an organisation’s operations (specific due diligence) and providing transparent disclosures to stakeholders
- Understanding country commitments under the Intended Nationally Determined Commitments (INDCs) as agreed at COP21 and aligning climate action and reporting so as to assist the accomplishment of these
- Applying a 2 degree or 1.5 degree* stress test to the business model to understand the risks and opportunities within the organisation’s boundaries, and broader forces affecting supply chains and customers
- Undertaking a public commitment to support science-based targets, for example a reduction in scope one and two greenhouse gas emissions reduction by 2020 aligned to a 2 degree or 1.5 degree scenario
- Adopting established commitment frameworks such as that of the We Mean Business coalition.

* Climate negotiations have predominantly focused on limiting the increase in global temperature to 2 degrees Celsius, but the Paris agreement opens the door to a 1.5 degrees scenario.
Human rights

Human rights: an emerging area of reporting

The United Nations Guiding Principles on Business and Human Rights (the GPs) were adopted in 2011, and have since gained broad acceptance, with large institutions such as the OECD, International Finance Corporation and European Union incorporating them into their frameworks and guidance. The GPs Reporting Framework was adopted in February 2015.

Our analysis of reports found strong reporting of human rights in local communities, and emerging reporting in human rights in the workforce, human rights grievance mechanisms, and supplier human rights assessment.

The roundtable confirmed that the emergence of human rights as an area of focus in the corporate context means that both measurement frameworks and management processes are still maturing. NGOs and the media have focused public attention on human rights issues; however, roundtable participants reflected that they are not readily linked to the bottom line and therefore may not be on the radar of executives, except when a significant event occurs, so are not being considered material.

There was an apparent disconnect between participants’ ready agreement that human rights are a material issue for the extractives sector as a whole and the low level of materiality reported by individual companies. One reason may be the perception that human rights are not an issue within Australia but are relevant only to supply chains or offshore operations. It was acknowledged that assessing human rights through the supply chain is complex and costly. Other contributors felt that human rights issues were being covered but may not be labelled or recognised as such, for example in labour conditions.

Different cultural perspectives on rights were also identified a challenge in the region.

Human rights in GRI G4

The GRI G4 Guidelines largely reflect the GPs, with a linkage document available between the two. Roundtable participants suggested that the indicators available in the GRI framework did not capture the richness of the topic, and were weighted towards the negative (non-compliance, incidents). This was particularly highlighted in relation to Indigenous issues. There is an opportunity for companies to also share positive stories of how value is added.

The analysis of G4 reports indicates that reporting on human rights in local communities is relatively mature, while human rights in the workforce, and grievance mechanisms, are emerging areas for disclosure.

Leading examples of reporting human rights in local communities included specific mention of free prior informed consent, described how the company engaged with local communities, and discussed cultural competence/ sensitivity and educating their workforce around this concept.

In the case of grievance mechanisms, this included:

- Specific mention of grievance procedures/mechanisms for different stakeholder groups e.g., Indigenous groups, providing culturally sensitive avenues of communication
- Targets for grievance mechanism improvement
- Methods to decrease grievance

The most frequently used human rights indicator is G4-HR2 on employee training in human rights. Reporting on this indicator could be bolstered by additional context such as the percentage of employees trained, how employees were assessed for their learning outcomes, and what systems are in place to allow employees to flag violations without fear of retribution. This would give comfort that the training will translate into behaviour change.
Human rights (continued)

Towards leading practice

Leading practice reporting on human rights will provide a meaningful picture of risks to rights holders as well as risks to the business. Through close consultation with affected rights holders, companies can establish the most salient potential human rights impacts of their operations or supply chain, and how these can be mitigated.

Leading practice reporting will provide a level of disclosure that satisfies the standards set by the GPs, providing sufficient breadth and detail for investors, rights holders and their advocates to form an informed and meaningful opinion of the company's active human rights due diligence.

For example, reporters could:

- Supplement information on policies with data and targets that reflect implementation.
- Survey and report on management systems in place for checking that human rights due diligence is systematically carried out and that grievance mechanisms exist and are accessible to all those who might need them.
- Include information on specific actions taken to entrench respect for human rights across a company's value chain and how these have applied to the company's operations as well as its suppliers and other business partners.
- Consider how sector-specific frameworks influence matters reported on (e.g., Voluntary Principles on Security and Human Rights).

- Cross-reference human rights reporting with indicators on labour rights, community engagement, diversity and inclusion, etc.
- Put in place strong stakeholder consultation to help reflect the issues considered most salient by rights holders.

A framework for human rights
Community impact

Community impact reporting requirements are generally well implemented across the extractives industry. GRI G4 includes a number of aspects that relate to social impact - either economic or cultural impact.

Many of the economic aspects are straightforward for companies to report and represent sound business practices, and are therefore well reported. Social aspects are also widely reported. Reporters should continue to disclose community/social impacts in a balanced and transparent way to promote trust within the local and investment communities.

Better reporters in this area included discussion of:

- Community impacts at large as well as Indigenous community impact
- Techniques used to minimise negative impacts
- Techniques used to maximise positive impact
- Performance data
- Targets for next reporting period
- Gender impacts

This area of reporting could be further improved by moving towards reporting of outcomes and net impacts.

Negative impacts on local communities are typically reported through the number of complaints received, and/or a description of grievance mechanisms. A richer picture would be provided by quantifying the magnitude of the impacts; do they relate to noise disturbance or destruction of livelihood?

Positive impacts are typically reported through inputs - particularly money going to specific initiatives - and through case studies. Tracing money spent through to outcomes achieved would give comfort both to stakeholders and to companies themselves that their community investment is having the intended impact.

Case studies are an effective communication tool that provide rich detail. However, case studies are best used not as isolated examples, but as illustrations of a systematic social impact approach throughout the business.

**Net impact: a richer approach to reporting community impact**

A ‘net impact’ approach to reporting would acknowledge the complexity and interrelationships of both positive and negative impacts to give a picture of the net resulting impact on communities.

This approach would lead to companies distributing resources in the areas that create the most value for the company and community alike. This will enable investors and affected communities to better understand to what extent companies are acting as responsible corporate citizens.

**Impacts through the supply chain**

As with human rights (see p. 17), assessing community impact through the supply chain is complex and costly. However, there is an increasing focus on companies upstream and downstream impacts, both through GRI G4 and ISO 14001:2015. Companies should consider how they can identify and assess key impacts beyond their own operations.
Country highlight: The Philippines

Philippines: Distribution of benefits

The extractive industries provide a substantial economic contribution to the Philippines, a country with an estimated $1 trillion in mineral wealth. While mining, oil and gas companies can produce positive outcomes for communities, they can also produce significant negative environmental and social impacts if not regulated and monitored properly. The consequences of degraded environments tend to affect those most vulnerable, who at the same time often receive the least benefits from extractive operations.

The Philippines government has pushed for programs such as the Extractive Industries Transparency Initiative and the Philippines Poverty-Environment Initiative to prevent and remedy the adverse impacts of the extractive industries. These initiatives also work to reduce corruption and contribute to revenue from the sector being equitably shared by communities and re-invested to preserve social and natural capital.

Transparent and accurate sustainability reporting plays a crucial role in supporting inclusive and sustainable national development. Reporting on relevant environmental metrics helps support both monitoring and mitigation of impacts. A key focus for social impact reporting is local communities. Companies should consider how they can demonstrate their:

- Engagement with local stakeholders throughout the project lifecycle
- Contribution to local employment and local enterprise
- Collaboration to build the capacity of local organisations, including local governments
Country highlight: Indonesia

Indonesia: Regulation and governance

The extractive industry plays a vital role in the Indonesian economy. The sector makes a significant contribution to Indonesia’s overall GDP and particularly to the economic development of regions where mining operations are located. While oil production has declined significantly over the last decade, the wider extractives sector has been expanding rapidly. According to the World Bank, total mineral export value more than tripled from US $3 billion to US $11.2 billion between 2001 and 2013, with copper, nickel, tin, iron and bauxite as the largest contributors.

This expansion in the industry has contributed to environmental impacts (e.g., the use of mercury in gold mining in Aceh), social impacts (e.g., disused mining holes affecting the life of local citizens in Balikpapan) and corruption issues in Indonesia*, alongside the economic gain.

The Government of Indonesia, a member of EITI, has sought to enhance the regulatory requirements to reduce the environmental and social impacts and enforce sustainability. For example, companies are required to obtain environmental approvals as well as an environmental ‘licence’ as part of the environmental impact assessment process. Social and environmental responsibility is also mandated, with extractive companies required to conduct CSR and community development activities. This has so far had mixed outcomes in its implementation. Companies are also required to report on their CSR activities, particularly the financial aspects, in their annual reports.

*Indonesia scored 36 out of 100 on Transparency International Corruption Index, where 0 is highly corrupt (2015)
Extracting further value from reporting

This research highlighted a number of strengths in reporting by the Australian extractives sector:

- The sector includes a number of mature reporters who are adopting GRI G4 and demonstrating detailed disclosures across a number of emerging issues as well as mature issues
- The sector is responding to changing stakeholder priorities, with increased reporting in the areas of diversity and inclusion, human rights, and community impacts
- Reporting on these topics is often detailed, including relevant metrics and targets.

Outlined below are some options to extract further value from reporting across the sector.

- Barriers to reporting need to be addressed. G4 is a more approachable framework than its predecessors, particularly for new reporters who may have found the previous disclosure expectations challenging or unrealistic. Reports that adopt GRI G4 should be simple, succinct and meet stakeholder needs. Organisations transitioning or adopting G4 should be able to do so without major impact to their business.
- The fact that GRI G4 is a globally accepted framework with a set of indicators and an index facilitates comparability, unlike other reporting frameworks that are principles based. Comparability enables reporters and other stakeholders – particularly investors – to assess relative sustainability performance across the sector.
- A common approach to reporting on the management of material aspects is to describe relevant policies. The G4 Disclosure on Management Approach (DMA) requires companies to go further by demonstrating the efficacy of their management approach.

- Case studies are very effective and show social value added over and above GRI indicator requirements. Of particular value are case studies that highlight and measure the outcomes achieved from a particular social investment or project. This is particularly useful where the company is involved in community engagement work. However, case studies should not be ‘cherry-picked’ and need to provide balanced representation of a company’s impacts.
- Extractives organisations should continue to disclose the boundaries of their identified material aspects. This provides stakeholders with transparency regarding where impacts occur and what strategies the organisation has in place, through disclosures on management approach, to managing those impacts.
- Emerging issues are by their nature more challenging to report than established ones, as both indicators and management approaches are still developing. G4 provides a valuable framework for companies to examine their approach to these issues, and manage them proactively.
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