



Regional webinars for Latin America: introduction to sustainability reporting

Materiality assessment:

Introduction and essential steps in producing your sustainability report

29 October 2024



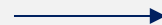
Regional webinars on sustainability reporting



Latin America webinars
co-hosted by



ASSOCIATION OF OIL, GAS AND RENEWABLE ENERGY
COMPANIES OF LATIN AMERICA AND THE CARIBBEAN



Introduction to sustainability reporting

17 October 2024

Materiality assessments

29 October 2024

Speakers:

- Beatrix Wiczorek, Shell Senior Sustainability Reporting Adviser and Ipieca Reporting Working Group Chair
- Monica Tangarife, Ecopetrol Corporate Responsibility Manager

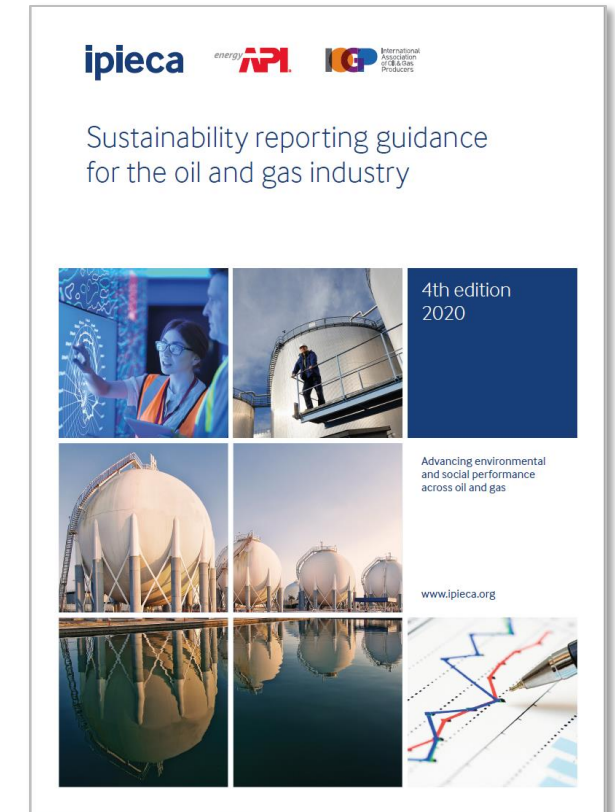


Ipieca-API-IOGP Sustainability reporting guidance

'Make the case and start the race'

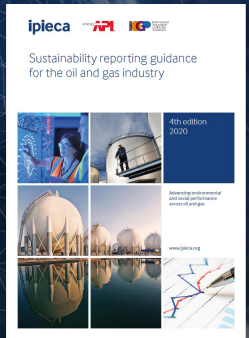
- Ipieca, API and IOGP have been working in partnership on enhancing industry's sustainability reporting since 2005.
- The latest edition was launched in 2020 and endorsed by the 4 associations and their members all around the globe.
 - It provides comprehensive guidance for companies in the oil and gas sector to develop sustainability reports.
 - It covers **21 sustainability issues** and **43 indicator categories** – each with two revised tiers of reporting elements, *Core* and *Additional*
 - It includes six modules
 - Reporting process
 - Governance and business ethics
 - Climate change and energy
 - Environment
 - Safety, health and security
 - Social

Visit www.sustainability-reporting.org



Ipieca-API-IOGP Sustainability reporting guidance

Guidance structure



MODULE 1

Reporting process



Module 1 provides an overview on how to report.

MODULE 2

Governance and business ethics



MODULE 5

Safety, health and security



MODULE 3

Climate change and energy



MODULE 6

Social



MODULE 4

Environment



INTRODUCTION

Brings all issues together within the scope of the module. Provides useful context for all reporters, but especially first-time reporters. Includes useful facts and figures for mature reporters.

KEY POINTS TO ADDRESS

Provides recommendations on content you may choose to include in your narrative that conveys your company's values and stance on these issues, and how you address impacts and contribute to sustainability.

INDICATORS

Supports your narrative by providing quantitative and qualitative information, including your approach and performance. Sets out why each indicator matters, its scope, and reporting elements – and aims to drive consistent reporting across the industry.

REFERENCES AND LINKS

Provides information on useful references and online sources.

MODULE INTRODUCTION

YOUR NARRATIVE ON ISSUE A:

SUPPORTED BY:
INDICATOR A1
INDICATOR A2

REFERENCES & LINKS

YOUR NARRATIVE ON ISSUE B:

SUPPORTED BY:
INDICATOR B1

REFERENCES & LINKS

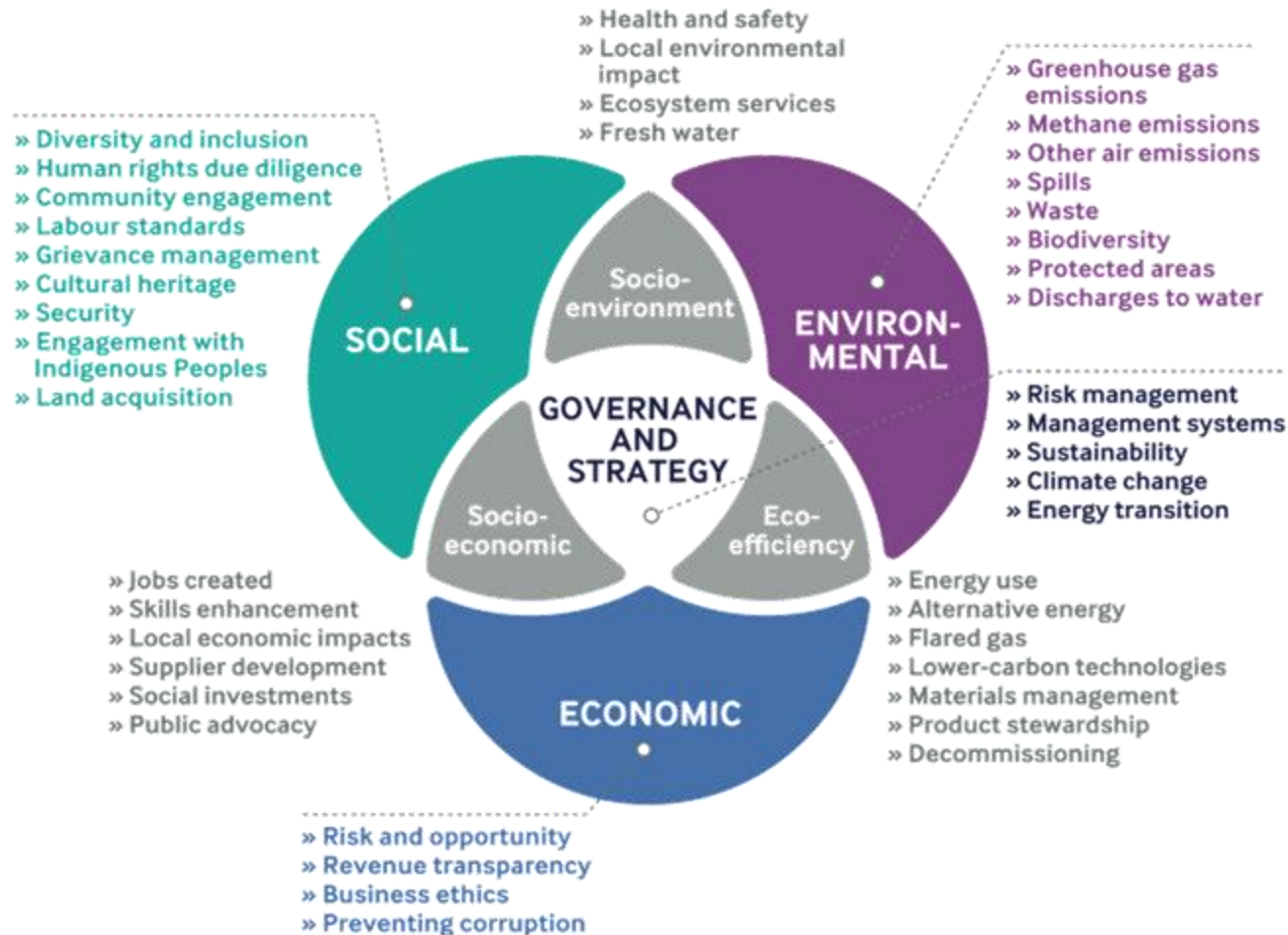
YOUR NARRATIVE ON ISSUE C:

SUPPORTED BY:
INDICATOR C1
INDICATOR C2
INDICATOR C3
INDICATOR C4

REFERENCES & LINKS

What is included in a sustainability report?

Typical sustainability matters identified in the oil and gas industry



Qualitative information: Explanations of company strategy and priorities, narrative stories and case studies, and descriptions of business processes or operations.

Quantitative metrics: Key data indicators, including corporate targets and measurements of progress.

Definition of materiality

- **Note: there is no ‘THE ONE’ definition!**
- Origin of the concept is from financial reporting: ‘material issues’ are often described as **risks that could have a material adverse effect** on the financial situation of a company
- Investors and other stakeholders (have a right to) **expect a company's communication** on these potential impacts through their reporting
- The Ipieca-API-IOGP *SUSTAINABILITY REPORTING GUIDANCE* defines materiality as ‘a principle and management process that determines which issues should be covered and their priority within a report’

WHAT is relevant to KNOW about YOUR company to invest with CONFIDENCE?



What to report on: focus on material issues

Decision-useful information for stakeholders



‘Material’ issues are those issues that have the potential to significantly affect a company’s performance and financial value from the perspective of the company management and external stakeholders.

‘Double materiality’* introduces a new dimension:

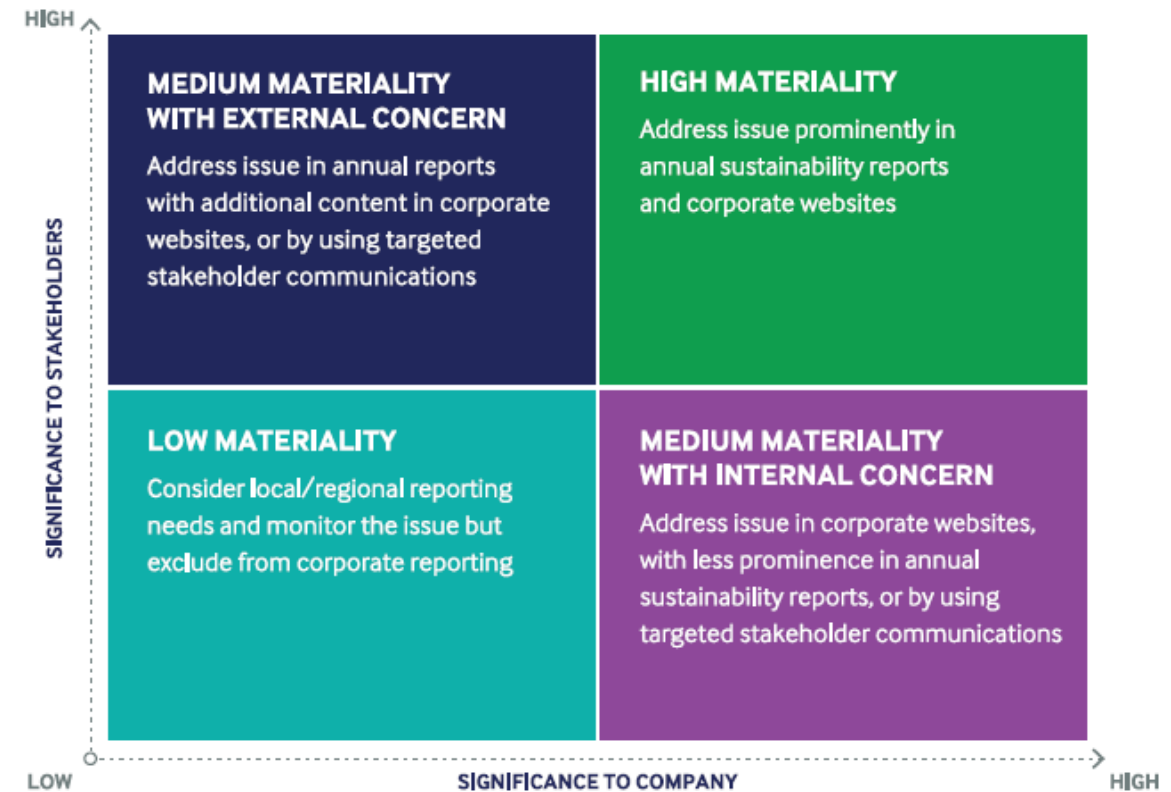
It looks at how a company impacts environment and society (*‘impact materiality’*) **and** how sustainability issues influence the company's performance and value.

*see EU regulation "Corporate Sustainability Reporting Directive"

Materiality process and outcome

‘Engage - analyse - communicate’

- Your company's **risk and opportunity management teams** should monitor the economic and sustainability environment: engage with them
- Your **company's stakeholders** will tell you what they want to know about your company: engage with them
- Be informed by what **acknowledged sustainability frameworks** are asking from companies
- Evaluate what you found: **focus on the biggest impact areas** based on the evidence (!) that you have
- Determine the best channels and formats for your **communication with your stakeholders** beyond any regulatory requirements
- *...AND: continue to manage the risks and opportunities!*



Sustainability reporting is a company-wide effort



Reporting on sustainability matters

... is not a task to leave with the reporting team!

It is essential that the relevance of sustainable operations is understood across the company, in headquarter offices and on sites so that the reporting team can provide their delivery.

ESG Materiality

Double Materiality Assessment
Ecopetrol S.A.



What is materiality?



Prioritize



Measure



Communicate

In the context of sustainability, materiality is a principle for **prioritising** the environmental, social and governance issues that are most relevant to a company, on which it should **measure** its management and **communicate** its performance.

What it is used for?



Strategy



Report

With materiality, organisations can leverage their corporate **strategy**, focus their efforts and resources on managing priority (material) issues and be effectively **accountable** to stakeholders.



Materiality at Ecopetrol

2020

Latest Materiality Update for Ecopetrol.

Twenty-eight ESG issues were identified, segmented into four (4) management approaches, as follows:

Exceptional: Climate Change, Integrated Water Management and Local Development.

Highlights: Process health and safety; Biodiversity and ecosystem services; Attracting, developing and retaining human talent; Circular economy; Air quality; Fuel quality; Energy use and alternative sources; Incident prevention and management in operations.

Differentiated: Corporate governance; Diversity and inclusion; Business ethics and risk culture; Business continuity system.

Compliance: 13 additional issues.

2023

Methodology with a Double Materiality

It involves both financial and impact perspectives.

Four transversal ESG issues were identified

14 ESG issues were prioritized

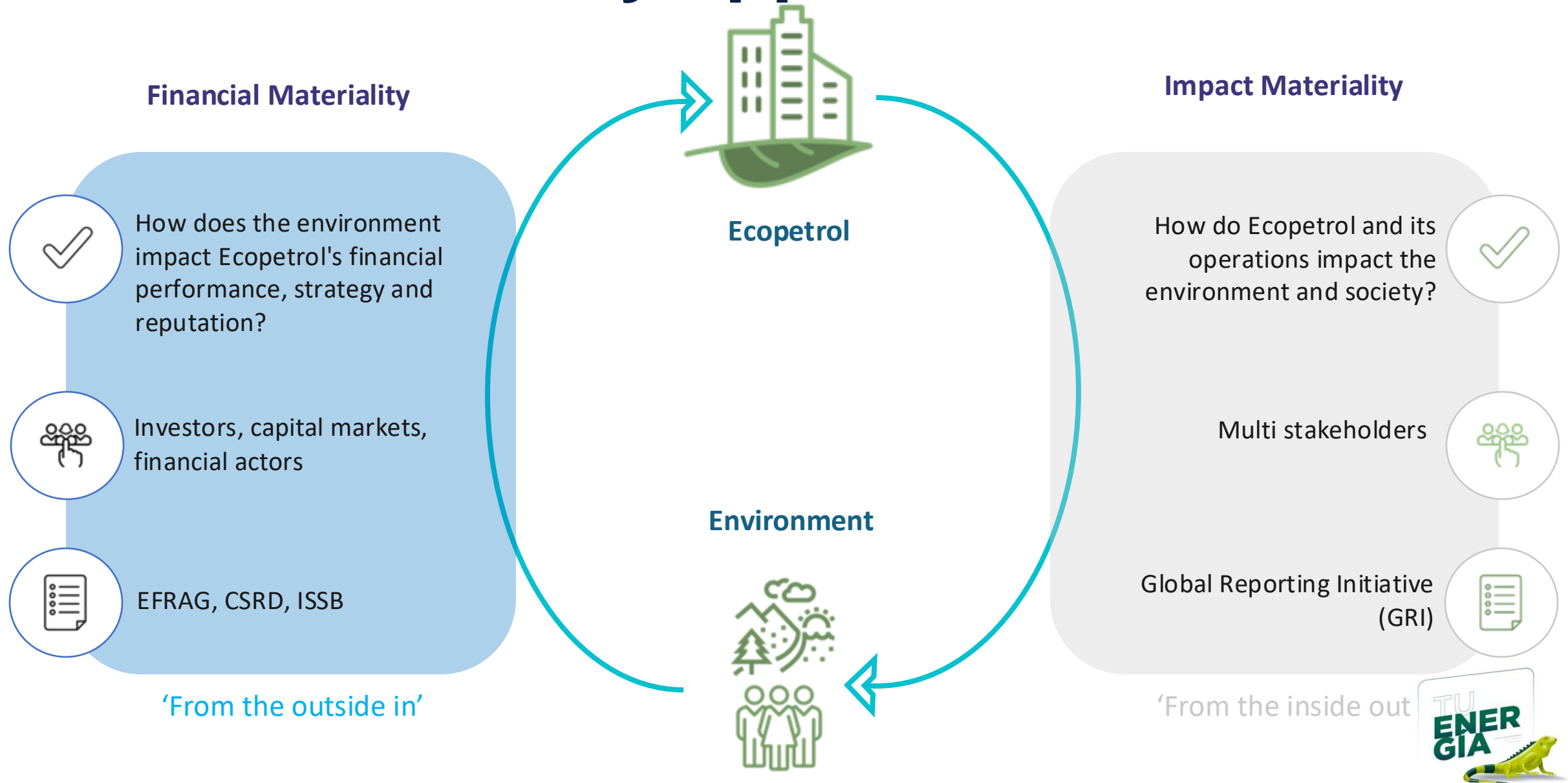
Leverages the Generate Value with T ESG pillar of Strategy 2040.

Enables the revision, updating and ratification of ESG roadmaps.

Complies with financial and non-financial reporting requirements.



Double materiality approach



Data of the process

- 1 Alignment of the context
- 2 Identification and classification of Impacts and Risks
- 3 Definition of preliminary ESG issues
- 4 Financial Materiality
- 5 Impact Materiality
- 6 Definition of Double Materiality



Transversal Issues



Just energy transition



Human Rights



Corporate Governance



Circular Economy

Material Issues



Climate Change



Air Quality



Water



Biodiversity and
Ecosystem
Services



Materials and
Waste



Responsible
supply chain



Financial
sustainability



Occupational
Health



Industrial
and Process
Safety



Human
Talent



Sustainable
Territories



Cybersecurity and
Information Security



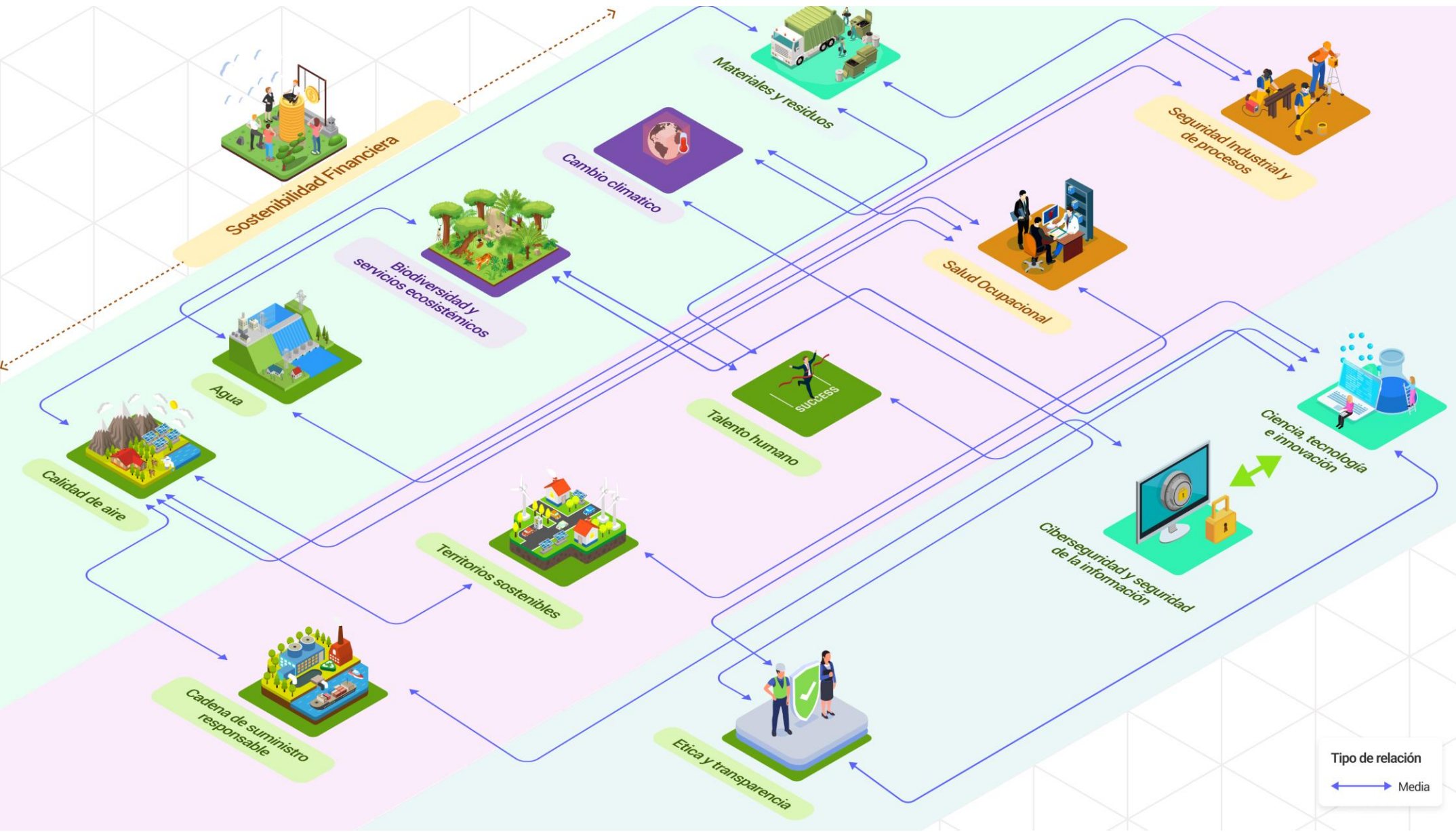
Innovation,
science and
technology



Ethics and
Transparency



Interrelation between material elements (medium)

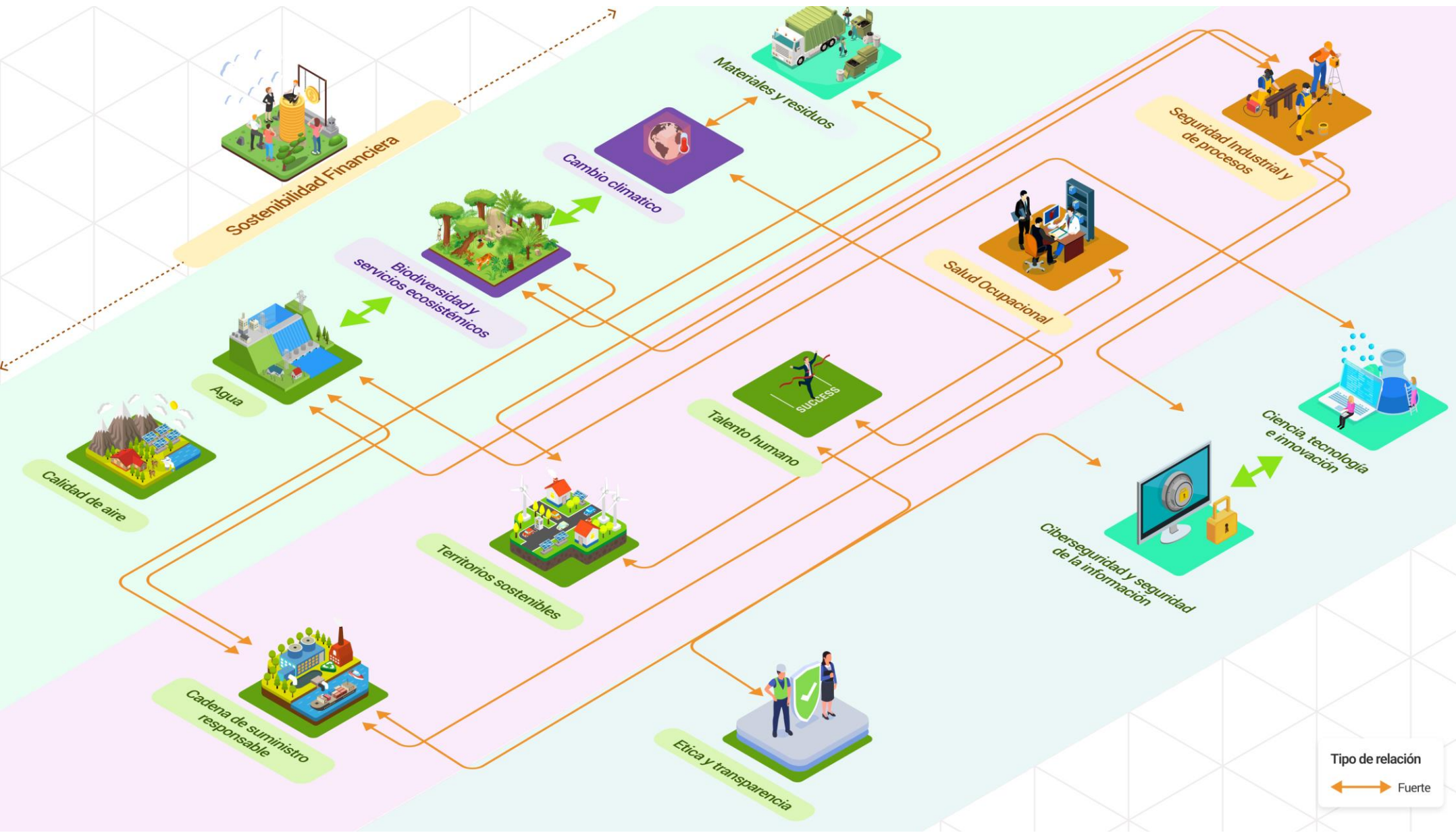


Ecopetrol's materiality matrix conceives material issues in a flat hierarchy; all issues have the same level of importance.

Material issues are interconnected in three types of relationships: very strong, strong and medium. This indicates that the management of one issue influences the outcomes of the others.



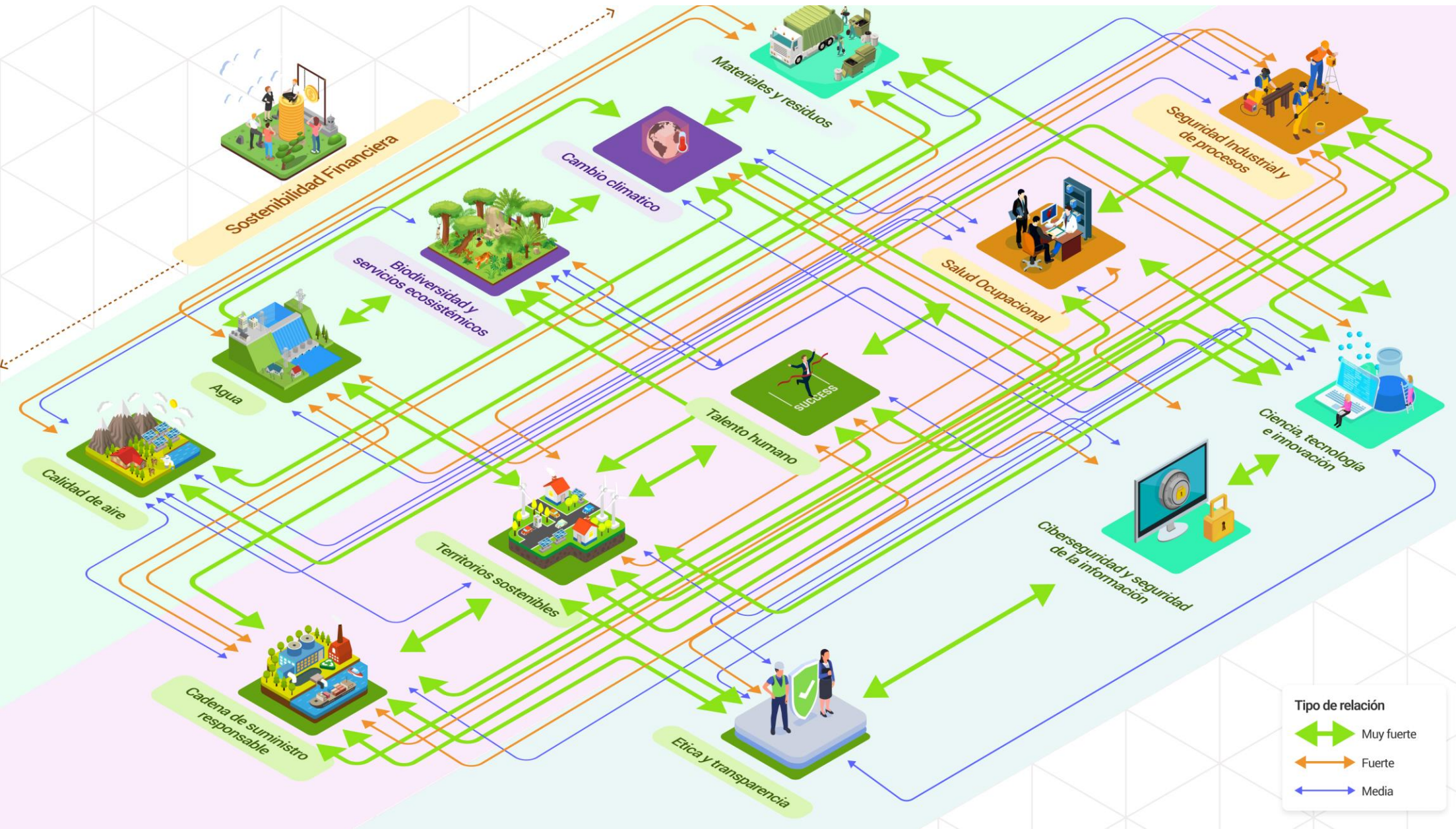
Interrelation between material elements (strong)



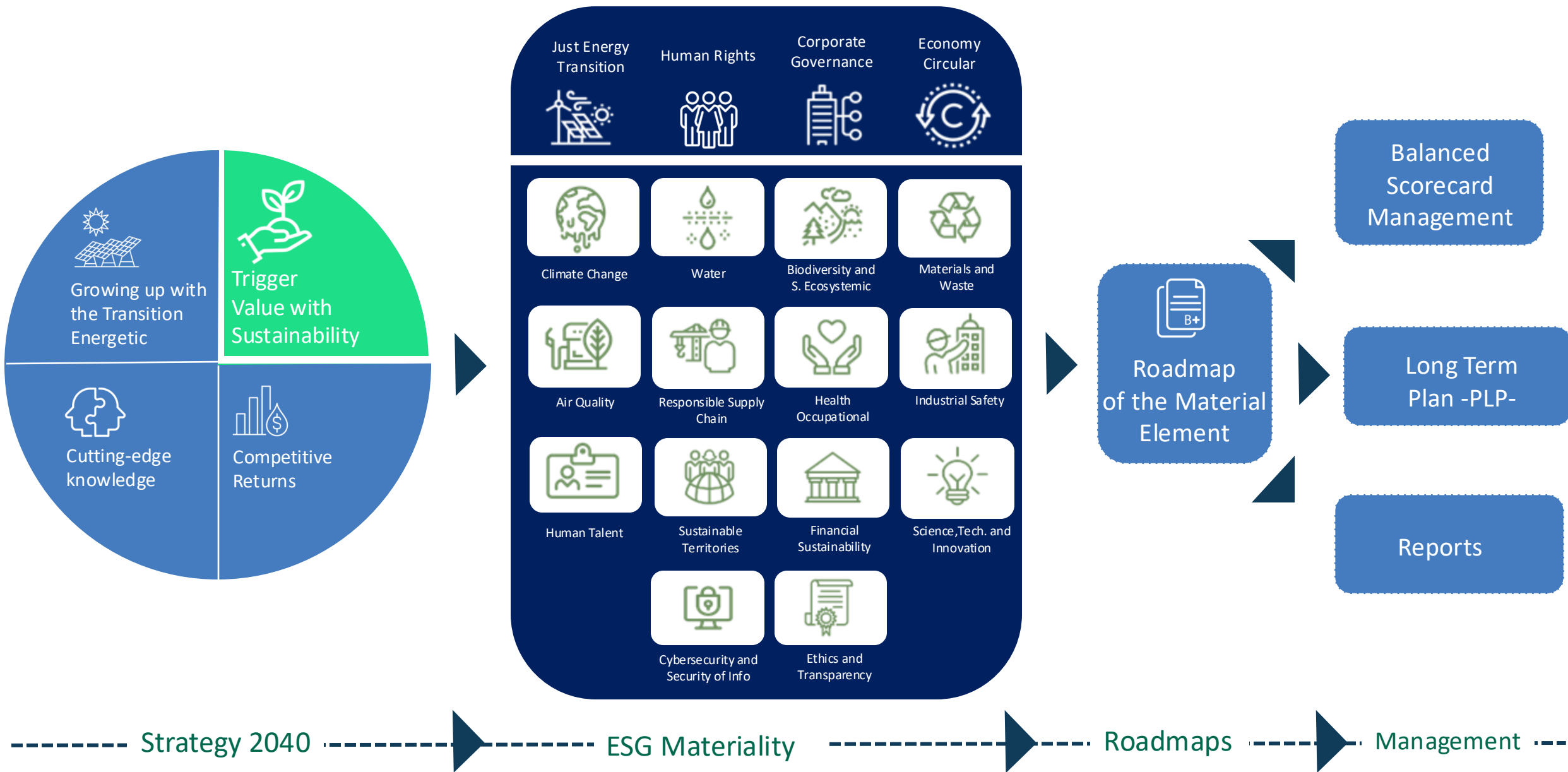
Interrelation between material elements (very strong)



Interrelation between material elements (complete)



Connection with the Corporate Strategy



Key take-aways



A materiality assessment is a method that **allows companies to understand and prioritize their sustainability issues better**, incorporating stakeholder views on their products or services



It forms the foundation for companies to develop effective sustainability strategies, but there is ***no "one size fits all"***: every company has its own structure, priorities, business model etc...



Identifying and prioritizing **material issues is crucial** to the success and effectiveness of a sustainability report.



Materiality connects directly to a company's corporate strategy by highlighting the ESG issues most relevant to its financial performance and long-term sustainability.



A robust materiality assessment attracts investors by demonstrating proactive management of ESG risks and aligning corporate strategy with long-term sustainable finance goals.



Don't be afraid to start small – you will have the opportunity to reassess regularly and adapt.



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Thank you

