

Protecting shareholder and natural value



HBOS plc



2005 benchmark of biodiversity management practices in the extractive industry



Kerry ten Kate
Director, Investor Responsibility,
Insight Investment

Annelisa Grigg & Jack Foxall
Director of Corporate Affairs,
Fauna & Flora International

COP Side event: The role of the finance sector in protecting biodiversity 21st March 2006



HBOS plc



With thanks for their support to:

VBDO: the Dutch Association of Investors for Sustainable Development

VROM: the Dutch Ministry for Housing, Spatial Planning and the Environment

And for their comments on the draft report to:

Assheton Carter of Conservation International

Peter Coombes of Anglo American

Jonathan Dobson of United Utilities

Sarah Forrest of Goldman Sachs

Piet Sprengers of VBDO

Contents



HBOS plc

- **What is the biodiversity benchmark?**
- **What does it do and what does it cover?**
- **How was it developed and how is it done?**
- **What have been the results in 2004 - 2005?**

What is the biodiversity benchmark?



HBOS plc

- Framework describing best practice in the management of biodiversity by companies, produced by Insight and FFI.
- Based on business risk and opportunity.
- Includes 34 standard and 7 leadership aspects of management.
- Establishes criteria for different scores on each aspect, so each company can be marked on the quality of cradle to grave management of biodiversity.
- Allows the comparison of companies' risk management and performance.

What does the benchmark do?



HBOS plc

- Provides an **objective**, consistent basis for examining the comparative risk exposure and management of companies on biodiversity.
- Helps answer the question “how does the CBD translate into **specific responsibilities** for companies”.
- Reveals specific **strengths** and **weaknesses** of **companies** on biodiversity.
- Allows mainstream investors to consider biodiversity in their **investment decisions**.
- Offers companies **peer comparison**, a **framework** and specific suggestions for continual **improvement** on management of biodiversity.
- Transparency and **public visibility** of results offers companies incentive for further improvement.
- Provides detailed **information** to civil society on companies’ performance.

How does the benchmarking exercise take place?



HBOS plc

- Information from **publicly available** corporate **literature** matched against benchmark criteria for **initial results**.
- Initial results sent to each company for correction and addition of **supplementary information** which is not in the public domain.
- Discussions/meetings with companies for any necessary **clarification**.
- Benchmark **results finalised**. General **report published**.
- **Specific results sent to each company** together with “engagement” letter **requesting changes** in governance, policy/strategy, management and disclosure.

Biodiversity Benchmark



HBOS plc

Elements of the biodiversity benchmark:

- **Governance structures**
- **Policy and strategy**
- **Management and implementation**
- **Assurance and reporting**
- **Leadership**

How do the participants perform?



HBOS plc

| | Description | Mining and Minerals | Oil and Gas | Utilities |
|--|---|--|--|---|
| Companies engaged and actively managing (Score >66%) | <ul style="list-style-type: none"> Biodiversity is acknowledged as a potential business risk and opportunity Biodiversity risk has been formally assessed Specific related policy commitments and management tools in place | Rio Tinto Anglo American BHP Billiton Alcoa# | BG Group BP Shell Total# | Northumbrian Water* Severn Trent Water United Utilities |
| Companies aware and mobilising (Score 33% - 66%) | <ul style="list-style-type: none"> Awareness demonstrated through acknowledgement of company's impact on biodiversity, its inclusion within certain aspects of risk management and/or some reference within policy documents and/or management tools | CEMEX# Lafarge# Lonmin* Xstrata† | Cairn Energy*† ENI# Norsk Hydro# Premier Oil* Statoil# Venture*† | Centrica National Grid Scottish Power# Scottish & Southern# Kelda |
| Companies in early stages (Score < 33%) | <ul style="list-style-type: none"> Little or no evidence that potential risks relating to biodiversity have been formally assessed No publicly expressed rationale provided for any conclusion that biodiversity is not a business risk Policy for biodiversity risk management is limited in geographical and/or business function scope or does not exist at all | Alcan# Antofagasta Aquarius Platinum* Holcim# Vedanta*# | OMV# Soco*† Tullow*† | E.ON# Suez# |

* Companies with market capitalisation of £2 billion or less (source: Datastream, as at 31 December 2004)

Companies that are new to the benchmark of 2005

† Companies that improved their scores by more than 100% from the 2004 benchmark

Power for Change?

©Cartoonbank.com



"My question is: Are we making an impact?"

Encouraging change



HBOS plc

■ Average scores show overall trend of improvement

| | 2004 | 2005 |
|-------------------|------|------|
| Mining and metals | 48% | 56% |
| Oil and gas | 46% | 51% |
| Utilities | 62% | 66% |

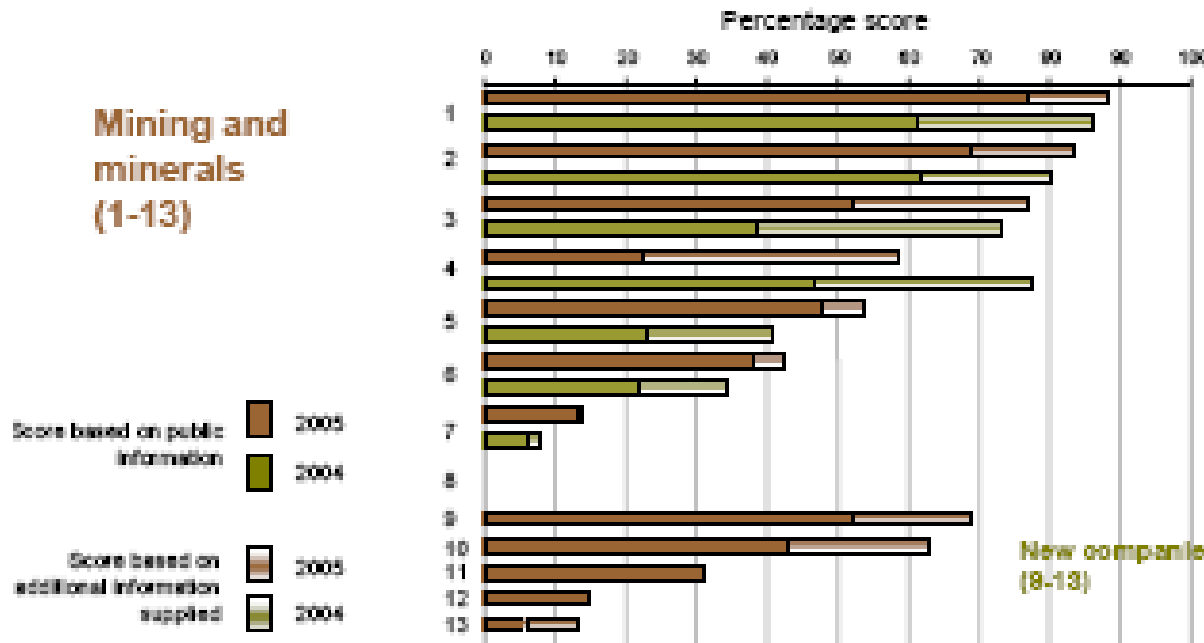
- Cairn Energy, Xstrata, Venture, Soco & Tullow more than doubled their performance
- Ongoing dialogue and key engagement points beginning to be addressed
- A number of companies actively tracking and participating in initiatives to address emerging issues e.g. offsets, landscape level planning
- Areas of significant weakness remain (risk evaluation, policy and strategy, assurance and reporting)

Mining and minerals sector



HBOS plc

Mining and minerals (1-13)



- Scored highest in stakeholder engagement, ESIA, training
- Lowest scores for corporate risk management, strategy, site level BAPs, reporting, assurance
- Largest score increase from 2004 in stakeholder engagement, policy and internal auditing
- Best practice examples:
 - Rio Tinto (strategy)
 - Anglo American (auditing)
 - Lafarge (toolkit)

Oil and gas sector



HBOS plc

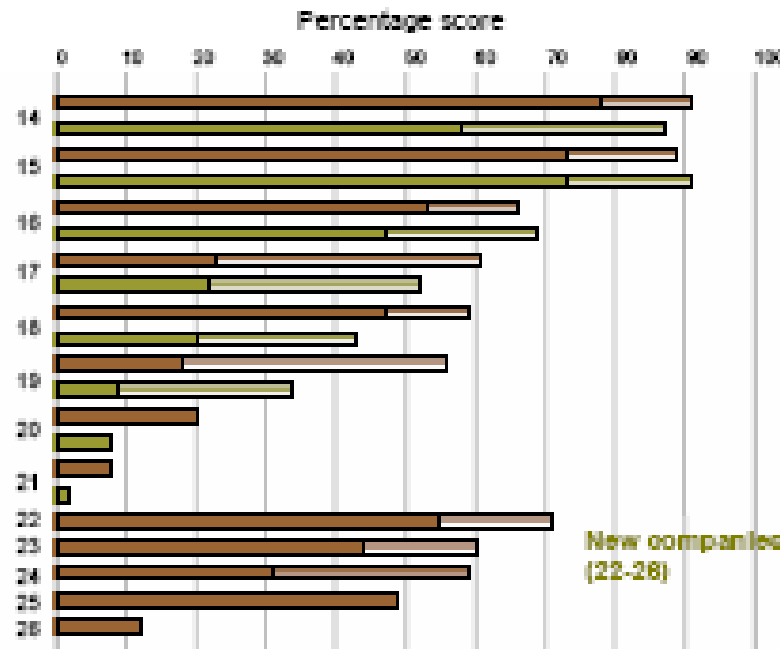
Oil and gas (14-26)

Score based on public information

- 2005
- 2004

Score based on additional information supplied

- 2005
- 2004



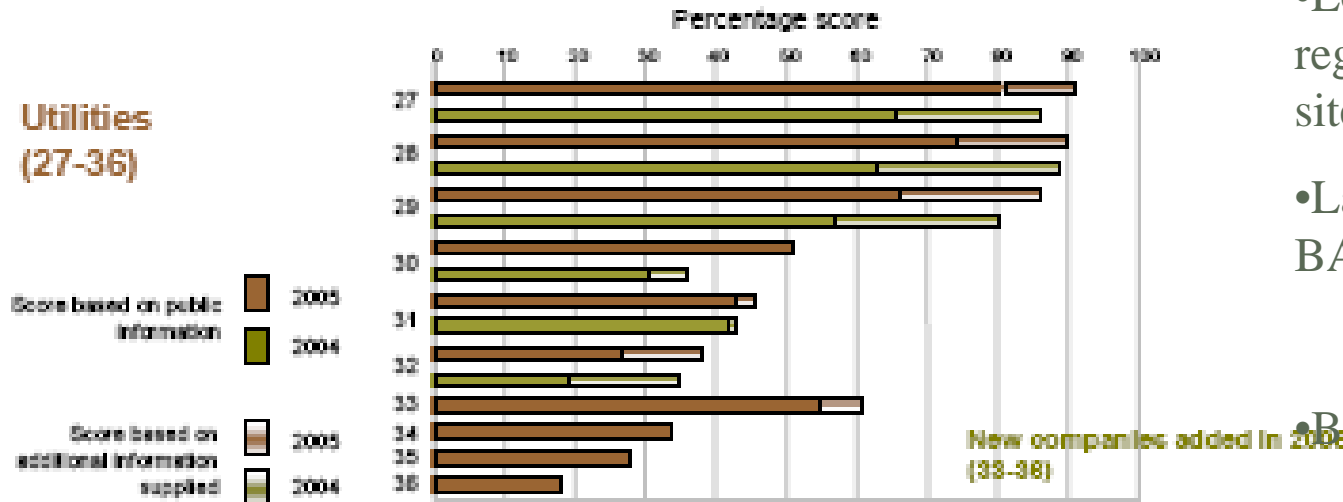
- Scored highest in assignment of responsibility for biodiversity risk management, ESIA, training
- Lowest scores for commitments regarding sensitive sites, strategy, site level BAPs, reporting, assurance
- Largest score increase from 2004 in risk management, policy & strategy and training
- Best practice examples:
 - Shell (training/ site selection)
 - BG (strategic risk review)
 - ENI (EBI)

Utilities sector



HBOS plc

Utilities (27-36)



- Scored highest in integration of biodiversity into business processes, KPIs, partnerships, ESIAs, policy

- Lowest scores for commitments regarding sensitive sites, strategy, site level BAPs, assurance

- Largest score increase from 2004 in BAP development

- Best practice examples:

- Kelda (policy)

- United Utilities (risk management)

Recommendations



HBOS plc

- **Report sets out series of minimum and best practice recommendations for biodiversity management**
- **As a minimum companies should report outcome of biodiversity risk evaluation, policy commitments and site level management activities**
- **Companies are encouraged to pay particular attention to**
 - Making clear policy and strategy commitments
 - Undergoing robust risk assessment processes and creating linked biodiversity management activities
 - Development of biodiversity performance indicators
 - Addressing gaps in assurance processes
 - Participating in effective integrated land use planning

What are the limitations of the benchmark?



HBOS plc

- So far, only designed for **direct footprint impacts**, not supply chain impacts.
- **Relies** largely on **corporate information** (eg existence of policies and management tools on biodiversity) and companies' statement on how these management tools are applied. (But does require some evidence to back up assertions.)
- Doesn't provide detailed, technical **“how to”** information, but points companies to examples of best practice.
- **Human and financial resources** required to do the analysis and communicate with companies.

Vision for the future



HBOS plc

- Wider uptake of benchmarking approach: finance sector, collaboration with NGOs and business schools
- Promote consistency of approach and enhance data quality
- Focus on sectors deemed material in terms of biodiversity impacts: design a supply-chain benchmark to complement this direct footprint one.
- Interest from CBD community, UNEPFI, NGOs and business schools.

Some responses to the benchmark



HBOS plc

- **Company use of the benchmark as a framework to audit approaches to biodiversity management**
- **Logical framework for approaching biodiversity management for small and large companies**
- **Means of securing senior attention on biodiversity, builds the internal business case**
- **Takes a significant amount of time to complete – resource intensive**

Over to our panel for their views

Additional information



HBOS plc

Governance structures



HBOS plc

- **Responsibilities** for biodiversity performance assigned at all levels including 1) Group / Divisional level and 2) Site level
- **Risk management** Implications of key biodiversity impacts and issues factored into risk evaluation within the lifecycle of operations and supply chain.
- **Stakeholder engagement** to inform understanding of biodiversity issues and impacts at local and global level.
- **Integration** biodiversity integrated into corporate decision-making.

Policy and strategy



HBOS plc

■ Policy commitment to:

- understand, avoid, minimise and mitigate impact throughout life cycle of operations (across value chain and temporally)
- contribute to legal & policy framework
- work in partnership
- offset impact
- integrate into core business processes
- monitor & report
- continuous improvement

■ Strategy to drive biodiversity performance:

- vision, SMART objectives and targets

Management and implementation



HBOS plc

- **Environmental management system** includes consideration of biodiversity
- **Site selection tool** to ensure biodiversity factored into initial decision on siting of new locations / activities
- **Environmental and social impact assessments (ESIA)** for any new capital project and any substantial modification of existing projects as early as possible in the project lifecycle and iterative
- **Biodiversity Action Plans** at site level for all sites of high biodiversity value or risk of significant impact on biodiversity. OR: **Integration of biodiversity into (other) site plans**, e.g. site management plans, community development plans, closure plans, water management plan, waste rock management plans etc.
- **Partnerships** partners involved in setting vision and goals; designed to support corporate goals and NBSAP and other national/ community biodiversity priorities; measurable outcomes are reported
- **Competency & Employee awareness** Key staff competency ensured by recruitment or training and mechanisms in place to raise awareness of employees in key positions on issues relating to biodiversity

Assurance and reporting



HBOS plc

Site level & corporate level audits

- Internal & external audits to determine extent policy and procedures at site and corporate level.
- Progress against BAPs or site management plans.

Management information

- Internal & external audits to determine whether information used is complete, accurate and reliable.
- External audits refer to report verification

Key performance indicators

- Qualitative indicators (measures effectiveness of management systems e.g. proportion of BAPs in place at high risk sites)
- quantitative/outcome indicators (for example catastrophic event recorded, reclassification of location as site of special conservation (e.g. SSSI, IUCN protected areas))
- Process indicators relate to management systems, outcome refer directly to performance

Sensitive sites

- Commitment to understand and manage impact on sensitive sites
- Acknowledgement of business risks
- Disclosure of key operations in/adjacent to sensitive sites

Leadership



HBOS plc

- **Level of conservation activity commensurate with risk exposure**
- **Activities address external underlying causes**
- **Clarity on third party involvement**
 - Are joint ventures influenced by company standards
 - Do contractors follow company standards
- **Closure or sale managed to protect reputation by ensuring biodiversity management continues**
- **Track emerging issues**
- **Share knowledge/information with conservation community**

Detailed results



HBOS plc

| Criteria | Mining and Minerals | Oil and Gas | Utilities |
|--|---------------------|-------------|------------|
| Strong risk assessment processes are in place at the site and the corporate level | 3/13 (23%) | 7/13 (54%) | 3/10 (30%) |
| Policy frameworks are strong and cover all types of business functions, containing specific biodiversity commitments | 3/13 (23%) | 3/13 (23%) | 4/10 (40%) |
| Biodiversity strategy in place or under development which covers all types of operations and business functions and includes a range of specific strategic commitments | 8/13 (61%) | 6/13 (46%) | 6/10 (60%) |
| Biodiversity Action Plans or equivalent site management plans in place for all high risk sites | 4/13 (31%) | 4 /13 (31%) | 4/10 (40%) |
| Internal and external assurance processes in place that cover biodiversity related management systems and all key risk areas | 0/13 (0%) | 2 /13 (15%) | 3/10 (30%) |
| Robust biodiversity performance indicators developed | 0/13 (0%) | 0/13 (0%) | 0/10 (0%) |
| Report on all operations which contain, are in or near sensitive sites, and the potential impacts and activities undertaken to manage those impacts | 2/13 (15%) | 3/13 (23%) | 1/10 (0%) |