جائزة الملك خالد

KING KHALID AWARD

Sustainability Award

Capacity Building

Governance Workshop 2022

Advanced

Toolkit

Contents

Letter to Participants

The King Khalid Foundation (KKF) is pleased to publish, in partnership with AccountAbility, this practical and insightful Sustainability Award Capacity Building Toolkit on Environmental, Social, and Governance (ESG) for companies in the Kingdom of Saudi Arabia.

The King Khalid Foundation continues to advance the sustainability agenda by collaborating to deliver impactful sustainability programs and support the growth of responsible business practices. The Foundation has worked and partnered with the corporate sector in the country for the past thirteen years. The Capacity Building Toolkit builds upon years of experience, feedback, questions, and concerns that KSA companies have shared with KKF during the past thirteen years and during each annual King Khalid Award process. The Toolkit supports the Capacity Building Program by outlining trends and challenges and providing specific sustainability solutions for companies throughout the Kingdom.

The Toolkit introduces the ESG sustainability in a broad sense, highlights its importance, its relevance, and how it impacts organizations both globally and in the Kingdom. It sets a foundation for a deeper discussion of selected governance themes that are material to companies in Saudi Arabia.

Governance Training

The Governance Workshop is intended to provide an introduction to these concepts and methodologies, and highlight the relevance to your company. The workshop includes lectures, discussions, and practical learning activities.

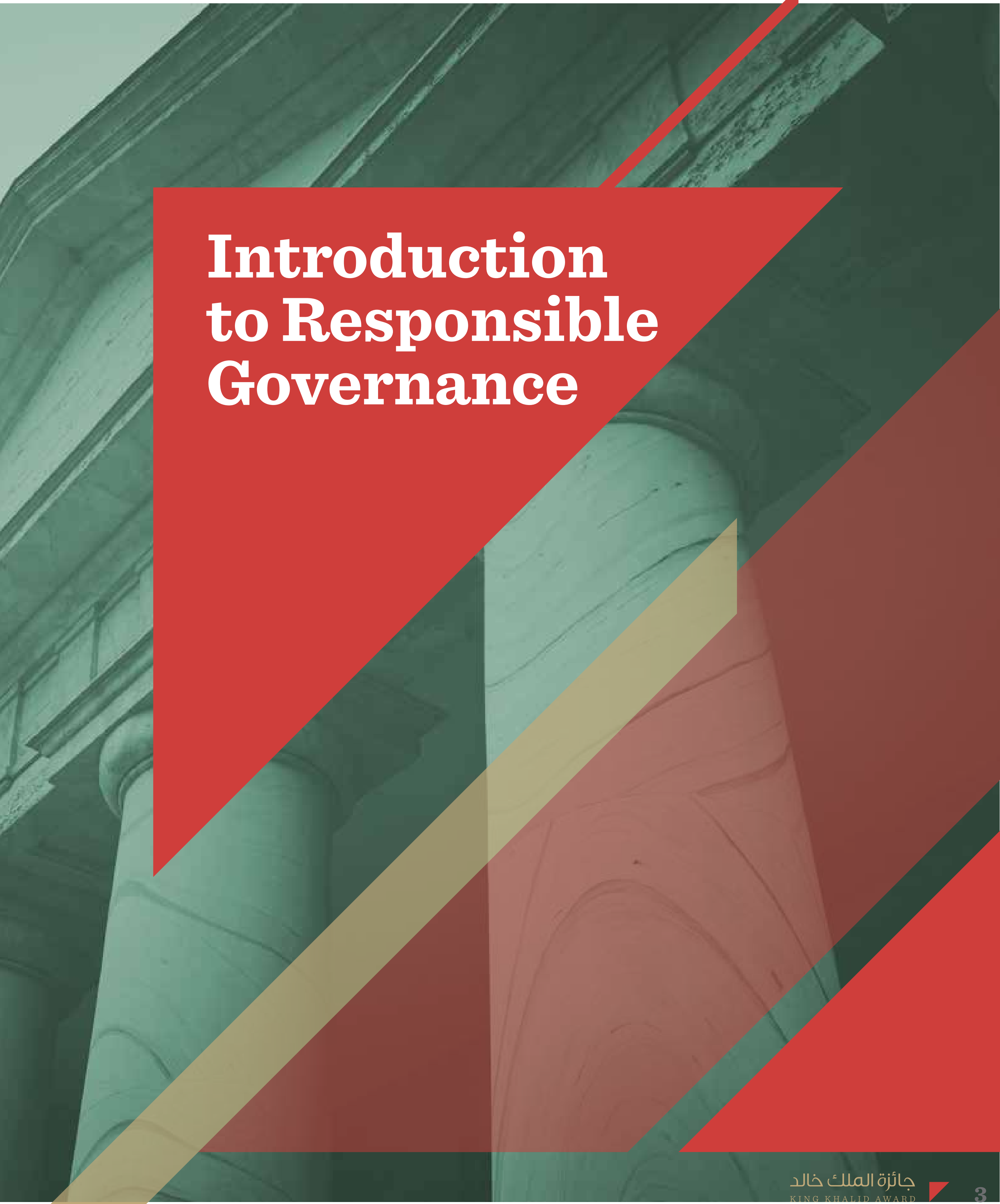
The content of the Capacity Building training and this Toolkit is tailored to the needs identified based on 13 years of Award participant feedback and needs.

This Toolkit contains explanatory content, relevant case studies, and discussion questions to complement the Workshop materials. We hope it will be a useful reference tool for the implementation of Workshop learnings in the future.

The Toolkit contains the following governance focus area chapters:

- **Advanced Materiality Assessment**
- **Advanced ESG Reporting**
- **Responsible Supply Chain Management**
- **ESG Risk Identification, Mitigation and Management**

Upon completion of the Training, you will have the basic tools necessary to implement responsible governance in your organization and support your company's ESG and sustainability journey.



Introduction to Responsible Governance

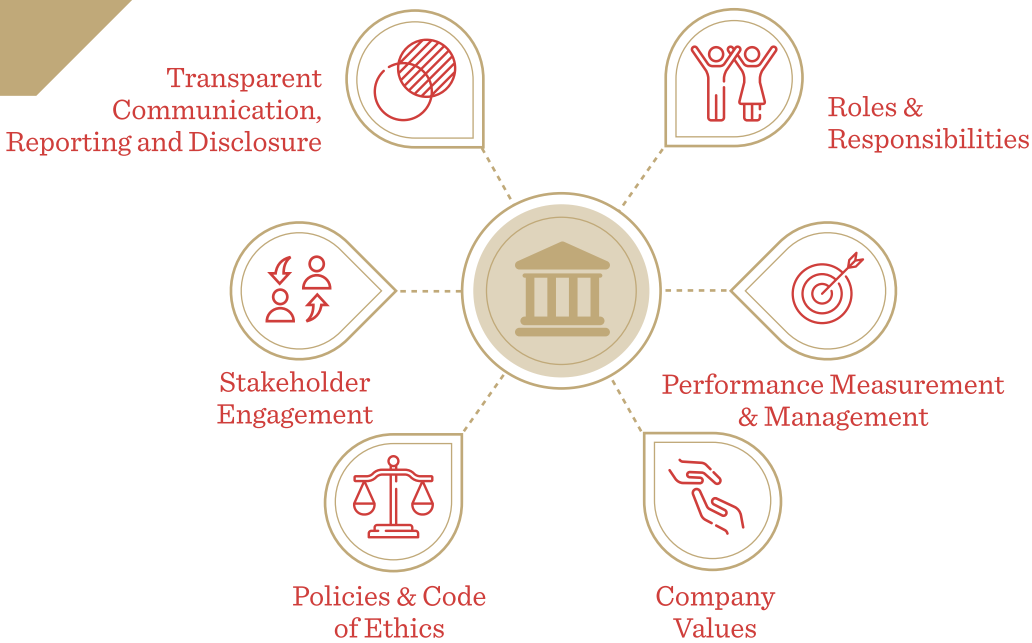
Responsible Governance

Governance refers to the structure, protocols, and systems that an organization uses to manage its processes and procedures.

Responsible Governance ensures accountability, fairness, and transparency across the organization with all stakeholders.

Elements of Responsible Governance include:

- Organizational structure
- Roles and responsibilities of employees
- Policies, protocols, and codes of conduct
- Company values, mission, vision, goals, and targets
- Anti-corruption processes and controls
- Grievance mechanisms
- Commitment to established internal and external standards, frameworks, and initiatives
- Stakeholder engagement management
- Focus on material topics
- Performance and impact measurement and management
- Transparent communication, disclosure, and reporting
- Risk, quality, and operations management
- Responsible supply chain management



* non-exhaustive list at the bottom right corner of the graph

Benefits

By having Responsible Governance policies and practices in place, companies can gain benefits, such as:

- Better strategic planning
- Improved top-level decision-making
- Risk avoidance and mitigation
- Increased success rate for financial performance and enhanced sustainability
- Reduced cost of capital
- Encouraged positive behavior
- Assured internal controls
- Greater ability to attract and retain talent
- Attracting talented senior management

Discussion Prompt: Which areas of Responsible Governance you are most familiar with? What are some of the governance-related practices you think your company does well? Which areas you think could be improved?

Implementation Steps

The steps required to implement Responsible Governance include:

1. Create a clear company vision, mission, and values and develop mechanisms to track progress on goals
2. Introduce policies and processes for:
   - Ethics
   - Employee conduct
   - Anti-corruption and anti-bribery
   - Legal compliance
3. Assign clear roles and responsibilities to employees for:
   - Quality assurance
   - Stakeholder communications
   - Sustainability performance and impact management
4. Practice transparency by disclosing key information on material issues to your company's stakeholders through globally accepted reporting frameworks
5. Establish stakeholder participation in the decision-making processes
6. Commit to internal and external audits using globally accepted assurance standards.

Advanced Materiality Assessment

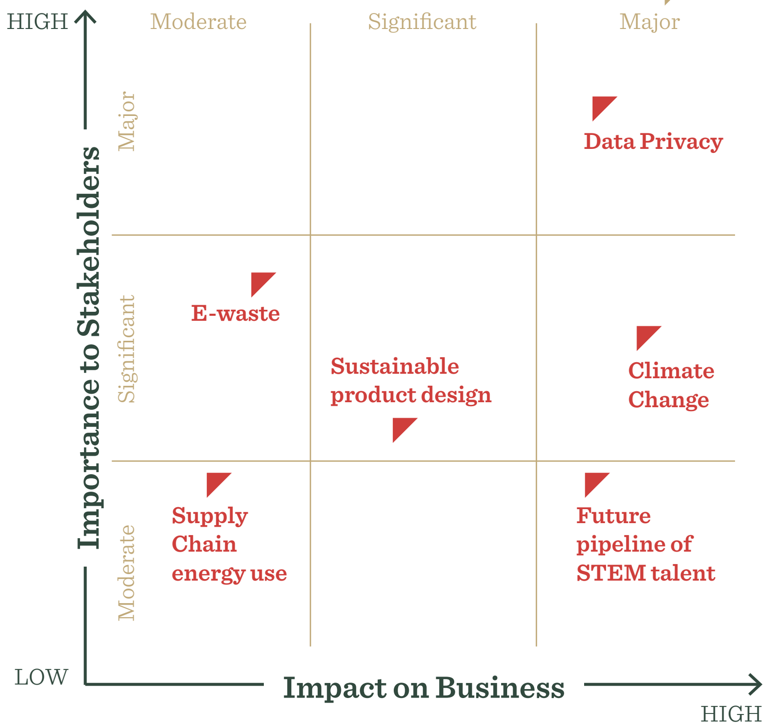
What is a Materiality Assessment?

Materiality Assessment is the process by which organizations identify and prioritize the ESG matters (both risks and opportunities) that are most important to their stakeholders and the business.

A material topic is something that can meaningfully influence and impact the assessments, decisions, actions, and performance of an organization and/or its stakeholders in the short, medium, and/or long term.

An illustrative Materiality Assessment result of a company in the IT sector is presented below, with the most material ESG topics:

MATERIALITY MATRIX (Illustrative Example)



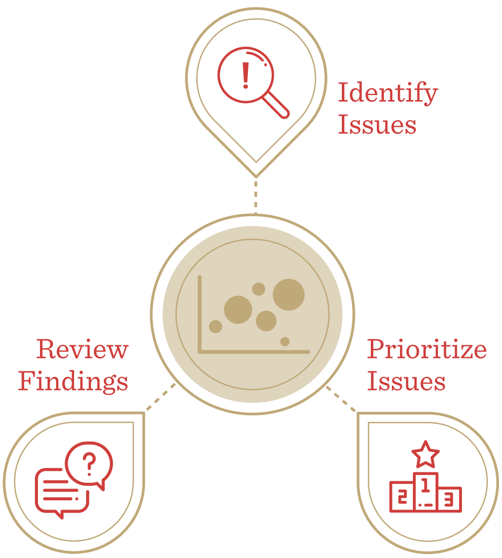
Discussion Prompt:
What makes an issue "material" to an organization? In what different ways can issues be material, and how does that affect their importance to an organization?

Insight: Leading practice mandates that material issues are not identified solely by the organization but needs to involve the participation of key external stakeholders. Materiality Assessment can be designed to inform both Sustainability Reporting and Strategy development.
The stakeholders involved and questions asked in a Materiality Assessment vary to meet the needs of the following two objectives:

- a backward-looking assessment to determine what to disclose in a Report
- a forward-looking assessment to inform the focus areas of a Sustainability Strategy

Elements of a successful materiality assessment include:

- Identification of Issues
- Prioritization of Issues
- Review of Materiality Assessment & Findings



Materiality Assessment in Action

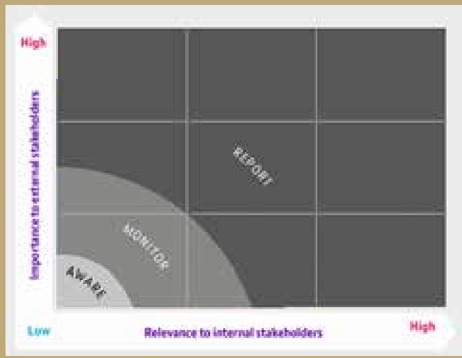
BT regularly undertakes a Materiality Assessment and gathers qualitative and quantitative data for this assessment **throughout the year.**

The company has developed a **robust Materiality Mapping** and **Assessment process,** which includes **input** from **internal** and **external stakeholders,** such as social media, senior BT colleagues, several surveys, reports and studies.

The process helps to identify critical economic, environmental, social, and governance trends and issues that may have a material impact on the company's business performance or fundamentally influence its stakeholders.

Material topics are **ranked** according to **impact to business** and **significance to stakeholders.**

The results are used to inform the Strategy and reporting for the year ahead.



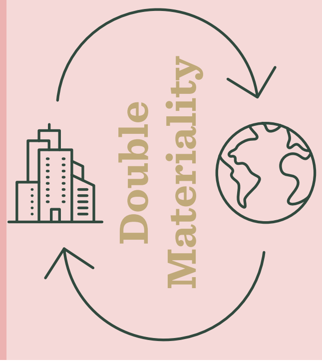
Discussion Prompt: What factors would you include (market size, geographies, regulatory environment, future growth plans, etc.) when thinking about material issues for your organization? How would the materiality of these issues change with time?

Spotlight: Double Materiality

The concept of **"Double Materiality"** was first formally proposed by the European Commission in its Guidelines on Non-financial Reporting: Supplement on Reporting Climate-related Information published in June 2019. It ensures a comprehensive approach to the identification of relevant ESG risks and opportunities, emphasizing the interconnectivity of external impacts on the environment and society with impacts to a company's financial performance and its stakeholders.

"Financial Materiality" or "Outside-In"

The potential or actual impacts of ESG-related risks and opportunities on the performance, development and position of the company with an investor audience.



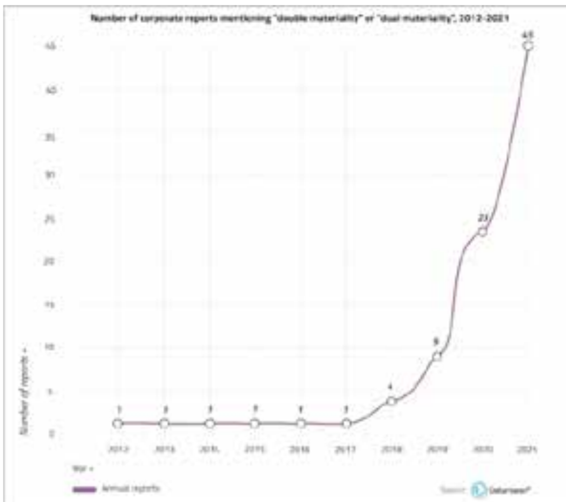
"Environmental & Social Materiality" or "Inside-Out"

The external impacts of the company's activities whose audience consists of consumers, civil society, employees, and investors too.

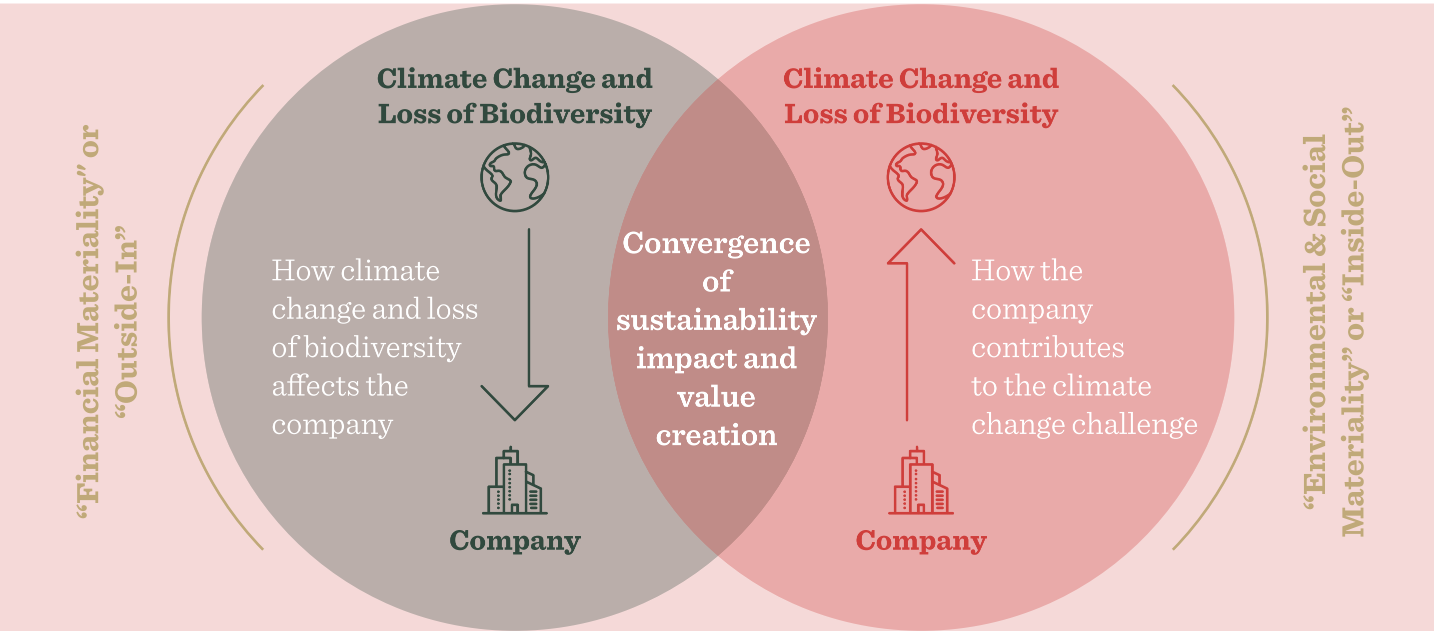
Double Materiality acknowledges that a company should report simultaneously on ESG matters that are:

- financially material in influencing business value and;
- material to the market, the environment and people.

While the idea of Double Materiality is not yet widely used, some companies are already implementing this perspective in their assessments and referring to it in their annual reports. Considering the requirements introduced with the Corporate Sustainability Reporting Directive (CSRD) in the European Union (EU), this trend will likely increase in the coming years.



In the example presented below, "Outside-In" refers to the impacts of climate change to the company. This includes the physical and financial impacts climate change causes. "Inside-Out" refers to the impacts (such as greenhouse gas emissions) to the environment and society caused by company's activities.



Benefits

By applying the lens of Double Materiality, companies have the opportunity to gain benefits, such as:

- Increased understanding of outward impacts and inward dependencies
- Comprehensive picture to identify priorities, critical vulnerabilities, and emerging risks and opportunities
- Improved financial performance though better-informed investment decision-making
- Improved understanding of the continuously evolving nature of stakeholder and regulatory compliance on ESG issues
- Broadened Board oversight of the most pressing emerging ESG risks
- Strengthened business strategy by using assessment input to reflect new business risks and opportunities

Steps to Implementation

When considering conducting a Double Materiality Assessment, the following key steps should be part of the process:

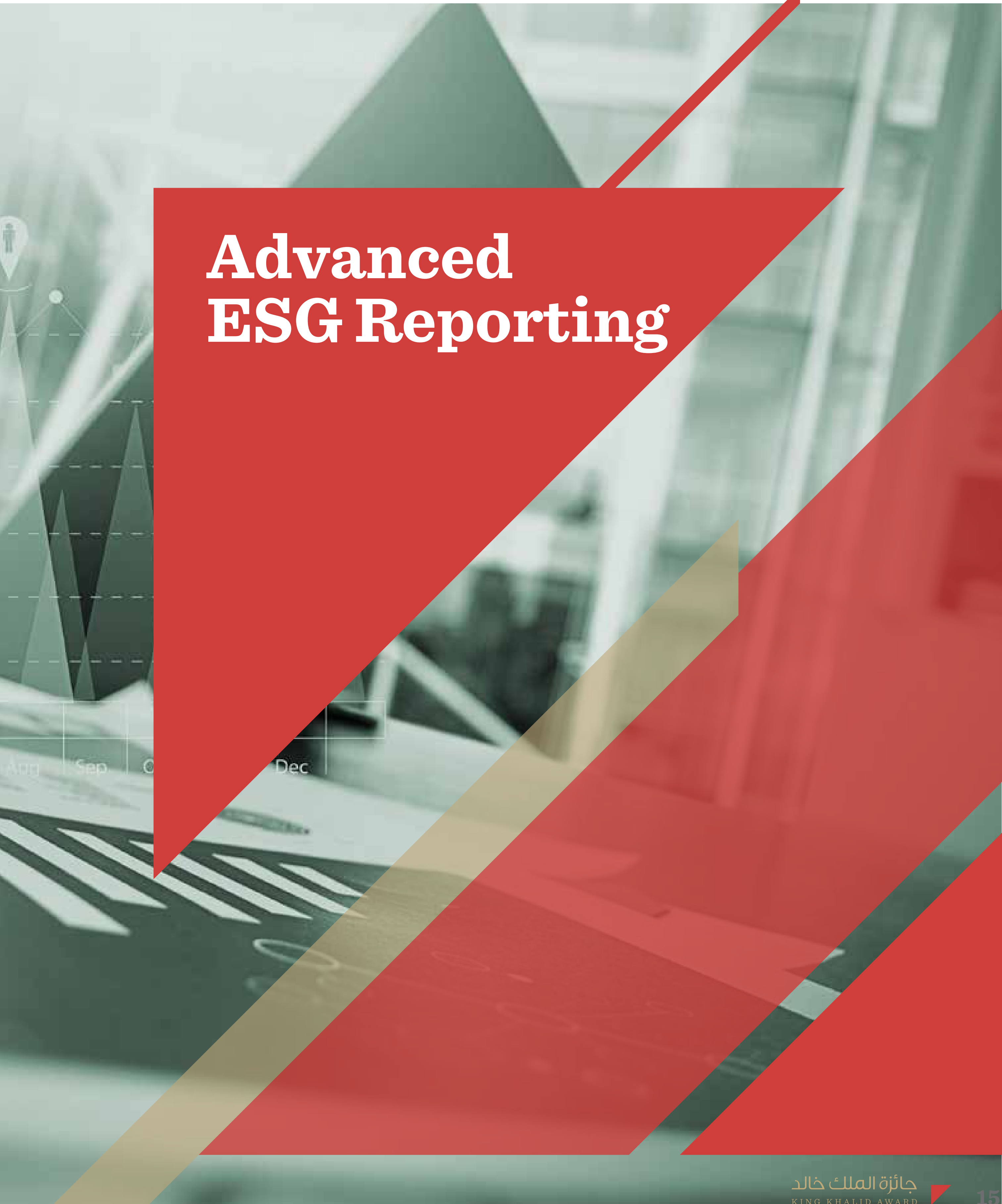
1. Identify the potential material ESG matters that are financially material in influencing the business value and material to the market, the environment, and people
2. Assess each issue, both from outside-in and inside-out inward perspectives
3. Engage internal stakeholders, board members, and executives to make materiality judgements. Use Stakeholder Engagement to support results of data-backed analysis
4. Disclose results and a systematic and documented assessment process. To visualize a double materiality assessment, you do not need to draw two different matrices but you are required to give an explanation demonstrating the materiality of issues from each perspective
5. Build a structured process to track how materiality dynamically evolves over time. Given that sustainability issues are not static and new risks can quickly emerge and become financially material, using technology (such as Artificial Intelligence) is a good avenue to ensure a quick and ongoing identification of emerging issues.

Insight: The concept of "Dynamic Materiality" acknowledges that the economic materiality of an issue can shift based on expected or unexpected circumstances. Thus, issues might become financially material either across an entire industry or for a specific company. What is financially immaterial today can become material tomorrow.

It is possible to conduct a Materiality Assessment with research-based future forecasting, allowing companies to review the materiality of issues as they stand today as well as how they are predicted to change in the future. The outcomes allow companies to conduct enhanced risk assessments, scenario planning, resource allocation, strategy design, and disclosure in alignment with standards and frameworks.


100000
10000
8000
6000
4000
2000
Jan
Feb
Mar
Apr
May
Jun
Jul

Advanced ESG Reporting



ESG Reporting

Reporting is a formal disclosure mechanism, often involving the use of written statements and reports, to share key company information to stakeholders. Reporting can be either financial or non-financial.

Financial reporting typically takes the form of annual reports and other disclosures based on regulatory requirements.

Non-financial reporting can take different forms, based on the industry and regulatory environment in which a company operates. An important type of non-financial reporting is ESG (or Sustainability) reporting.

ESG Reporting refers to the disclosure of data covering the company's operations in three areas: environmental, social, and governance. It presents a snapshot of the business's impact (negative and positive) in these areas.

Effective reporting conveys information about an organization's performance, practices, and initiatives in areas that are of material concern to the organization's stakeholders. ESG Reports—the most common form of non-financial company disclosure—are often published annually with the goal of highlighting material ESG issues and the actions, success stories, targets, and goals for advancing organizational growth and sustainability.

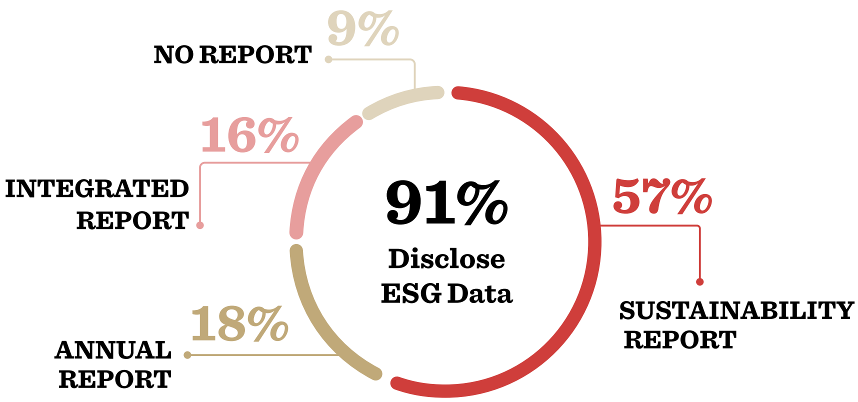
ESG reporting requires both intention and action. Effective disclosure includes and requires:

- Embedding a culture of transparency within the organization
- Tracking and measuring key performance indicators (KPIs)
- Releasing relevant information externally that provides stakeholders with a comprehensive and meaningful picture of the performance of a company relative to its peers
- Communicating both positive and negative information, and communicating financial, non-financial, historic, and future-projected information

Insight: Non-financial disclosures bring immense value to an organization, helping to increase brand value and reputation, revenue growth, and company investment.

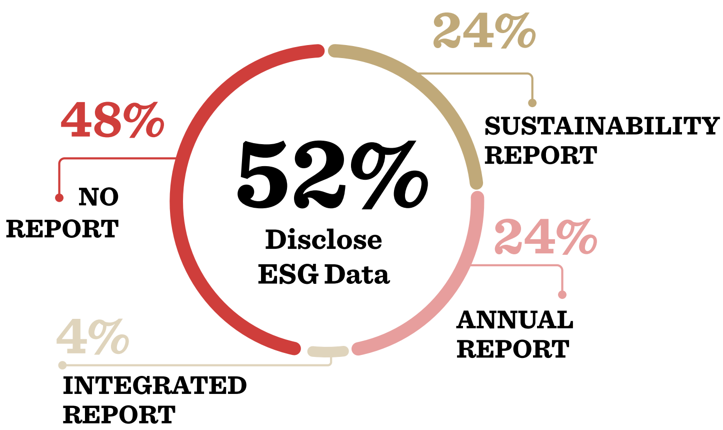
The demand for transparency on sustainable and socially responsible practices is on the rise. While ESG Reporting is still voluntarily for most countries, there are increasing global regulations regarding corporate ESG data reporting. Currently, more than ninety percent of the largest companies in the world report their ESG data.

1,269 of 1,400 of the largest global companies by market capitalization, measured over 22 jurisdictions, reported ESG data

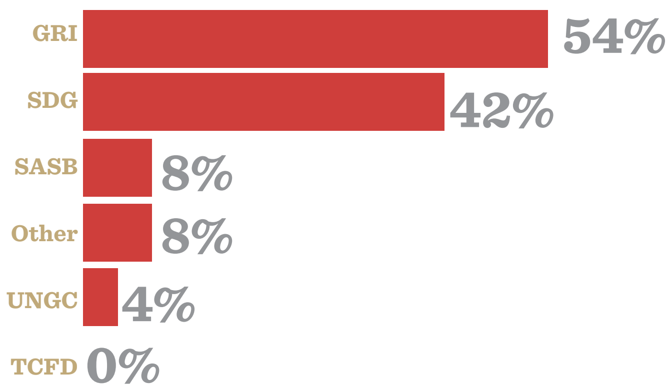


ESG Reporting is on rise in Saudi Arabia. More than half of the 50 largest companies in KSA disclose their ESG data already. Most of the companies disclosing ESG data in KSA have adhered to the Global Reporting Framework (GRI), which is the leading international ESG reporting framework. GRI and the other key reporting frameworks are presented below.

ESG DISCLOSURE METHODS FOR THE 50 LARGEST COMPANIES IN THE KINGDOM OF SAUDI ARABIA



52% (26) of the companies reviewed for the KSA provided ESG Disclosures using the following ESG Reporting Framework/Standards*:



* Source: AICPA, The State of Play in Sustainability Assurance

Evolution of ESG Reporting

ESG Reporting is constantly evolving. Non-financial reporting first started as a compliance and risk management practice back in the 1990s and early 2000s. then evolved into a process of creating competitive advantage through voluntary reporting, using frameworks and standards such as the Global Reporting Initiative (GRI).

The future of ESG Reporting is going to mean more standardization, simplification, consolidating, and integration of the existing reporting frameworks and standards, as well as the convergence of ESG and financial materiality.

SYSTEMIC APPROACH TO IMPACT MEASUREMENT
ALIGNED TO GLOBAL AGENDA

2015

The Paris Agreement (COP 21)

Science-Based Target Initiative (SBTi)

Convergence of ESG & Financial Materiality

2017

Taskforce on Climate-related Financial Disclosures (TCFD)

2021

Value Reporting Foundation (VRF)

2022

Taskforce on Nature-related Financial Disclosures (TNFD)

IFRS by June 2022

FUTURE?

Increasing shift in the ESG Reporting and Metrics landscape toward simplification, consolidation, standardization, and integration

Spotlight: Reporting Frameworks and Standards

Disclosure of comprehensive ESG information to stakeholders should usually occur annually and be guided by widely accepted frameworks and/or standards, communicating financial, non-financial, historic, and future-projected data.

Sustainability Standards and Frameworks are internationally accepted and recognized tools that facilitate strategy development and standardized non-financial Sustainability reporting on environmental, social, and governance topics.

ESG reports often follow widely accepted frameworks or protocols such as the Global Reporting Initiative (GRI) and the Sustainability Account Standards Board (SASB), and may use other recognized initiatives, such as the UN Sustainable Development Goals (SDGs). Advanced ESG Reporting Frameworks include the Task Force on Climate-related Financial Disclosures (TCFD) and the Taskforce on Nature-related Financial Disclosures (TNFD), among others.

International ESG Reporting Frameworks and Standards

Global Reporting Initiative (GRI)

The Global Reporting Initiative (GRI) Standards are the most globally recognized framework for Sustainability Reporting. GRI provides standardized management and performance disclosure guidelines for all environmental, social, and economic topics that might be material to an organization. GRI offers a global common language for organizations to report their impacts, enabling informed dialogue and decision making around those impacts.

To find out more about the GRI, please visit:
www.globalreporting.org/

Sustainability Accounting Standards Board (SASB)

The Sustainability Accounting Standards Board (SASB) has emerged as one of the leading frameworks used by publicly listed companies. SASB connects businesses and investors on the financial impacts of sustainability by guiding the disclosure of financially material sustainability information. SASB Standards are industry-specific and available for 77 industries. The Standards identify the subset of ESG issues most relevant to financial performance in each industry. They are designed to guide investors' decisions and be cost-effective for companies.

To find out more about the SASB, please visit:
www.sasb.org/

United Nations Sustainable Development Goals (SDGs)

Launched by the United Nations (UN), the Sustainable Development Goals (SDGs) cover a broad range of sustainable development issues, from poverty and inequality to climate change. The framework includes 17 goals with 169 targets. SDGs are a primary intergovernmental roadmap for the Post2015-Development Agenda and a blueprint to identify sustainable development issues aligned to a company's core business model. The framework helps design sustainability strategies with the maximum potential impact. The KSA has begun voluntary annual reporting against the SDGs (which overlaps with objectives of the Vision 2030), which serve as the international guide for sustainable development.

To find out more about the UN SDGs, please visit:
sdgs.un.org/goals

Saudi ESG Related Frameworks and Standards

Vision 2030

Vision 2030 comprises a set of initiatives developed by the Saudi government to pursue a bright future for the Kingdom. It is built around three themes – A Vibrant Society; A Thriving Economy; An Ambitious Nation, with the following priorities:

- Global Competitiveness
- Long-Term Economic Sustainability
- Citizen Wellbeing
- Strong National Identity
- Drive International Trade

The Vision provides all sectors with a framework for reaching the Kingdom's economic and sustainability goals.

To find out more about the Saudi Vision 2030, please visit:
www.vision2030.gov.sa/

The National Standards for Sustainability

The KSA National Standards for Sustainability Reporting guide Saudi corporations in issuing sustainability reports, to advance national reporting against the SDGs. The criteria for disclosure under the National Standards have been selected to support the monitoring of progress against the Vision 2030 and enhance the role of the SDGs at the local level.

To find out more about the Saudi National Standards for Sustainability Reporting, please visit:
saudisustainability.org/

Advanced International ESG Reporting Frameworks and Standards

The Task Force on Climate-related Financial Disclosures

The goal of the Task Force on Climate-related Financial Disclosures (TCFD) is to improve and increase reporting of climate-related financial information.

This can, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks. The recommendations are organized around four areas that represent core elements of how organizations operate:

Governance: Disclose the organization's governance around climate-related risks and opportunities.

Strategy: Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning where such information is material.

Risk Management: Disclose how the organization identifies, assesses and manages climate-related risks.

Metrics and Targets: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

To find out more about the TCFD, please visit:
www.fsb-tcfd.org/

The Taskforce on Nature-related Financial Disclosures

The mission of the Taskforce on Nature-related Financial Disclosures (TNFD) is to develop and deliver a risk management and disclosure framework for organizations to report and act on evolving nature-related risks, supporting a shift in global financial flows away from nature negative outcomes and toward nature-positive outcomes.

The taskforce was launched in 2021 and tasked with developing a framework to guide nature-related financial disclosure by the end of 2022.

To find out more about the TNFD, please visit:
tnfd.global/

* The TCFD and TNFD frameworks will be covered in more detail during the Environmental Workshop in June 2022

The Value Reporting Foundation

The Value Reporting Foundation is a global nonprofit organization that offers resources designed to help businesses and investors develop a shared understanding of enterprise value—how it is created, preserved and eroded. The purpose of the Foundation is to merge the Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council (IIRS), into a credible, international organization that maintains the integrated reporting framework, advocates integrated thinking, and sets sustainability disclosure standards for enterprise value creation.

To find out more about the Value Reporting Foundation, please visit:
www.valuereportingfoundation.org/

The International Financial Reporting Standards (IFRS) Foundation

The International Financial Reporting Standards (IFRS) Foundation is a not-for-profit international organization established to develop a single set of high-quality, understandable, enforceable and globally accepted accounting and sustainability disclosure standards —IFRS Standards— and to promote and facilitate adoption of the standards.

To find out more about the IFRS, please visit:
www.ifrs.org/

Spotlight:
ESG Reporting Assurance

Many key reporting frameworks recommend that ESG Reports undergo independent assurance to improve transparency and accountability of sustainability related claims and data. External third-party assurance is the practice of verifying and validating an organization›s performance disclosed in its reports. The assurance can provide both report readers and internal managers with increased confidence in the quality of the company's sustainability performance data. An example assurance standard is presented below.

One example of a globally accepted assurance standard is the AA1000 Assurance Standard (AA1000AS v(3 2020)). It is a next generation standard for sustainability assurance that offers principles-based guidance, rooted in the AA1000 Accountability Principles (2018).

The Standard incorporates a wide-angle, integrated, and forward-looking view of a company's overall sustainability management, performance, and reporting practices. It also ensures flexibility, accessibility, and applicability by any organization, of any size, in any industry, anywhere in the world.

www.accountability.org/standards/aa-1000assurance-standard/

Benefits

By reporting ESG performance and adhering to leading international and local ESG standards and frameworks, companies have the opportunity to gain benefits, such as:

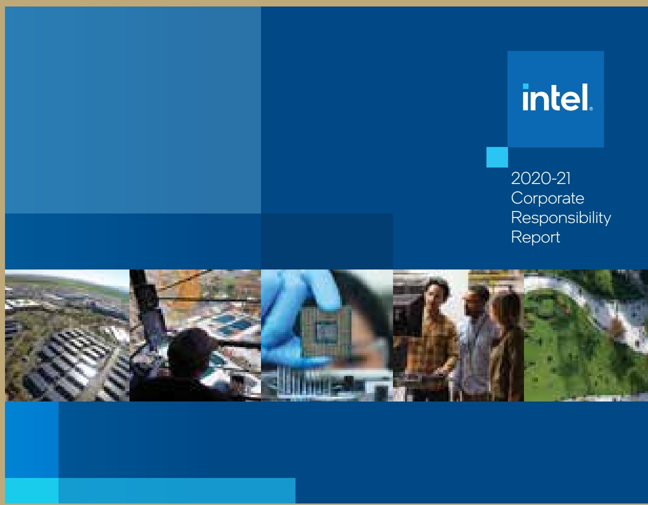
- Increased accountability to internal and external stakeholders
- Enabled comparison
- Improved risk management
- Increased access to capital due to increased transparency with investors and lenders
- Enhanced relationship with regulatory bodies and trust with stakeholders
- Enhanced reputation
- Measures for long-term profitability
- Increased consumer and employee loyalty
- Reduced compliance costs

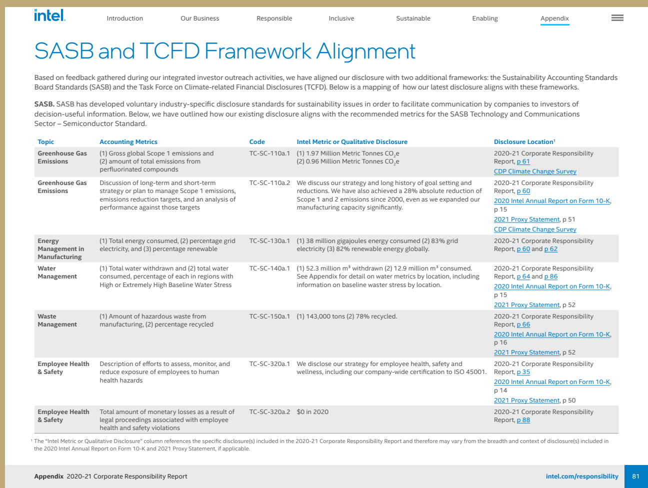
Discussion Prompt: Why do you think reporting assurance is important?

Intel's Report

Intel has publicly **committed** to strategic **goals** in ESG areas relevant to material topics identified. The company **communicates progress** against these targets.

In addition to the most common ESG reporting frameworks, Intel has also aligned its 2020-21 Corporate responsibility Report with **SASB** and **TCFD.**





intel Introduction Our Business Responsible Inclusive Sustainable Enabling Appendix

SASB and TCFD Framework Alignment

Based on feedback gathered during our integrated investor outreach activities, we have aligned our disclosure with two additional frameworks: the Sustainability Accounting Standards Board Standards (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD). Below is a mapping of how our latest disclosure aligns with these frameworks.

SASB. SASB has developed voluntary industry-specific disclosure standards for sustainability issues in order to facilitate communication by companies to investors of decision-useful information. Below, we have outlined how our existing disclosure aligns with the recommended metrics for the SASB Technology and Communications Sector – Semiconductor Standard.

Topic	Accounting Metrics	Code	Intel Metric or Qualitative Disclosure	Disclosure Location[1]
Greenhouse Gas Emissions	(1) Gross global Scope 1 emissions and (2) amount of total emissions from perfluorinated compounds	TC-SC-110a.1	(1) 1.97 Million Metric Tonnes CO_2e (2) 0.96 Million Metric Tonnes CO_2e	2020-21 Corporate Responsibility Report, p 61 CDP Climate Change Survey
Greenhouse Gas Emissions	Discussion of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets	TC-SC-110a.2	We discuss our strategy and long history of goal setting and reductions. We have also achieved a 28% absolute reduction of Scope 1 and 2 emissions since 2000, even as we expanded our manufacturing capacity significantly.	2020-21 Corporate Responsibility Report, p 60 2020 Intel Annual Report on Form 10-K, p 15 2021 Proxy Statement, p 51 CDP Climate Change Survey
Energy Management in Manufacturing	(1) Total energy consumed, (2) percentage grid electricity, and (3) percentage renewable	TC-SC-130a.1	(1) 38 million gigajoules energy consumed (2) 83% grid electricity (3) 82% renewable energy globally.	2020-21 Corporate Responsibility Report, p 60 and p 62
Water Management	(1) Total water withdrawn and (2) total water consumed, percentage of each in regions with High or Extremely High Baseline Water Stress	TC-SC-140a.1	(1) 52.3 million m^3 withdrawn (2) 12.9 million m^3 consumed. See Appendix for detail on water metrics by location, including information on baseline waster stress by location.	2020-21 Corporate Responsibility Report, p 64 and p 86 2020 Intel Annual Report on Form 10-K, p 15 2021 Proxy Statement, p 52
Waste Management	(1) Amount of hazardous waste from manufacturing, (2) percentage recycled	TC-SC-150a.1	(1) 143,000 tons (2) 78% recycled.	2020-21 Corporate Responsibility Report, p 66 2020 Intel Annual Report on Form 10-K, p 16 2021 Proxy Statement, p 52
Employee Health & Safety	Description of efforts to assess, monitor, and reduce exposure of employees to human health hazards	TC-SC-320a.1	We disclose our strategy for employee health, safety and wellness, including our company-wide certification to ISO 45001.	2020-21 Corporate Responsibility Report, p 35 2020 Intel Annual Report on Form 10-K, p 14 2021 Proxy Statement, p 50
Employee Health & Safety	Total amount of monetary losses as a result of legal proceedings associated with employee health and safety violations	TC-SC-320a.2	$0 in 2020	2020-21 Corporate Responsibility Report, p 88

[1] The "Intel Metric or Qualitative Disclosure" column references the specific disclosure(s) included in the 2020-21 Corporate Responsibility Report and therefore may vary from the breadth and context of disclosure(s) included in the 2020 Intel Annual Report on Form 10-K and 2021 Proxy Statement, if applicable.

Appendix 2020-21 Corporate Responsibility Report intel.com/responsibility 81

Steps to Implementation

A robust reporting and disclosure process requires several key steps be taken prior to the final publishing of a Report:

1. Assess reporting needs within the context of business goals, the Sustainability Strategy, and key audiences. Additionally, establish clear communication objectives
2. Develop a reporting strategy, review and data collection cycle, and monitoring systems
3. Develop the relevant skills to help you get the most out of the reporting process
4. Create a strategic engagement process to determine what issues are material and facilitate ongoing stakeholder dialogue
5. Prioritize the issues for reporting which are the most important to stakeholders and have the most impact on the business
6. Identify the most relevant reporting frameworks from the multitude of voluntary and mandated options available. For this, consider your company's readiness to report on these frameworks, the added value of these, as well as what leading practice looks like in your industry
7. Manage qualitative and quantitative data collection, and support the draft, design, and production phases of the report
8. Identify appropriate assurance providers and evaluate the quality and usefulness of assurance process once completed
9. Review and benchmark existing reports and recommend actions to improve your organization's next report, and decide the reporting cycle cadence

KKF Sustainability Award Focus on Governance, Strategy, and ESG Reporting

Improving sustainability performance and impact requires good governance, a relevant strategy, and accountability to stakeholders through regular standardized reporting. The Award seeks to support participants in developing these essential building blocks of good practice and advancing the Kingdom's collective sustainability reporting and performance objectives.

"G" Governance

- Strategy
- Materiality & Stakeholders
- Reporting & Disclosure
- Ethics
- Responsible Supply Chain Management
- Risk, Quality & Operations Management

Reporting Readiness

How To Activity

This activity will deepen your understanding on ESG Reporting. With your group:

- Review the ESG "Reporting Steps to Implementation" presented in the Toolkit.
- Consider your organization's previous and current ESG Reporting and Disclosure practices and processes and fill out the table.
- Discuss the results with your group.

Sustainability Reporting Implementation Step	To what extent has your organization effectively conducted this step before? (If not, leave blank and describe future plans in the next column)	What could your organization do in the future to more effectively conduct this step?
Assess reporting readiness and needs		
Develop reporting roadmap and systems		
Develop internal capacity		
Map and engage stakeholders		
Determine material issues		
Select reporting framework		
Produce report		
Assurance preparation and evaluation		
Review past reports		

Responsible Supply Chain Management

Responsible Supply Chain Management

A Supply Chain is defined as the entire process of making and selling commercial goods, including every stage from the supply of materials and the manufacture of the goods through to their distribution and sale.

Responsible Supply Chain Management refers to a commitment by companies to take into account ESG considerations when managing their supplier protocols, policies, qualifications, and relationships.

Managing supply chains has become more critical than ever before. The supply chain landscape has been undergoing enormous changes, creating new complexities and risks for companies. Today's supply chain risks are much more diverse and include suppliers' ESG responsibilities such as working conditions, child labor or the usage of harmful chemicals during the manufacturing process. Building and implementing a sustainable and responsible supply chain and establishing a robust relationship with suppliers has become a vital practice for companies across industries and geographies.

Insight: Some recent trends in Responsible Supply Chain Management include:

- Increased standardization and use of social and environmental product certifications (e.g., Global Good Agricultural Practices (GAP), Fairtrade, organic, etc.).
- Greater focus on alignment with leading human rights standards and regulations (e.g., UN Guiding Principles on Business & Human Rights, ILO Conventions, etc.).
- Development of public-private partnerships and industry associations to support implementation of supply chain frameworks and strategies.
- Increased number of company-led initiatives focused on individuals affected by business operations, aimed at strengthening local communities, advancing economic development through entrepreneurship, and supporting female empowerment.
- Prioritization of the use of technology through digitization (e.g., apps, tools, supplier-tracking software) with the objective of increasing transparency and enhancing responsiveness.

Benefits

By using Responsible Supply Chain Management practices, companies have the opportunity to gain benefits, such as:

- Potential for new partnerships
- Winning more contracts
- Improve continuity of supply
- Reduced costs
- Greater efficiency
- Improved reputation
- Innovation
- Better risk management and mitigation
- Greater social and environmental impacts

Steps to Implementation

When considering improving your Responsible Supply Chain Management practices, the following key steps should be part of the process:

1. Develop a comprehensive understanding of the entire supply chain. Identify and assess all critical social and environmental challenges and risks in the supply chain
2. Use benchmarking questionnaires and/or self-assessment surveys to learn about the current state of different suppliers. Use the results as an overall starting point to see what needs to be improved
3. Set your expectations and inform suppliers about these expectations. Use compliance standards and supplier Codes of Conduct
4. Conduct training and capacity building for suppliers' development and improvement
5. Use assessments and audits to monitor performance and see the improvement. Create incentives that reward sustainability performance, for example, by giving more business to suppliers with better sustainability performance
6. Join forces with industry peers so that common standards can be set, and best practices shared when addressing complex supply chain sustainability challenges.

Spotlight: ISO 20400

The ISO 20400 provides standardized guidance to organizations, of all types and sizes, on integrating sustainability within procurement process. It is an international guidance standard, and not a requirements standard. The standard's main guidelines include key sustainability considerations, integrating sustainability into the company's procurement strategy and policy, managing risks and opportunities, planning, and integrating sustainability into the procurement processes, and monitoring and improving the sustainable procurement performance

Integrating sustainability into the organization's supply change management policy and strategy

- Committing to sustainable supply change management
- Clarifying accountability
- Aligning supply change management with organizational objective and goals
- Understanding supply change management practices and supply chains
- Managing implementation

Integrating sustainability into the supply change management process

- Building on the existing process
- Planning
- Integrating sustainability requirements into the specifications
- Selecting suppliers
- Managing the contract
- Reviewing and learning from the contract

Organizing the supply change management function towards sustainability

- Governing supply change management
- Enabling people
- Identifying and engaging stakeholders
- Setting sustainable supply change management priorities
- Measuring and improving performance
- Establishing a grievance mechanism

Having an ISO 20400 certification shows that a company has the necessary capabilities to make sustainable procurement decisions in a way that is more sustainable socially, environmentally, and economically.

Patagonia's Responsibility Efforts

patagonia

Patagonia is known for its **transparent supply chain.** The company shares information about its own factories and its suppliers across the supply chain, so customers know where and how the clothes are made.

A **Code of Conduct** applies to every level of supply chain from farm to garment factory.

The company has a **formal system to prescreen** factories **before placing orders.** Audits are made to 100% of **Tier 1** suppliers (finished-goods factories) for social and environmental issues. Patagonia's supply chain responsibility practices also cover **Tier 2** activities, and the **company continuously** monitors these raw material suppliers.

Discussion Activity

This activity will deepen your understanding on Responsible Supply Chain Management. With your group:

- Familiarize yourself with the case study that is provided to your group
- Brainstorm and develop suggestions for actions the company could be taking to address the challenges (e.g., build the capacity of its suppliers)
- Discuss the possible benefits that the company could realize if it implemented the suggested actions

ESG Risk Identification, Mitigation and Management

ESG Risk Identification, Mitigation and Management

ESG-related risks can be detrimental to an organization if not properly identified and managed. **ESG Risk Management,** which includes identifying, managing and mitigating ESG risks, is becoming increasingly important and urgent for companies.

Certain aspects of ESG risks are emerging with unique characteristics. An example is climate change-related risks that do not have relevant historical data associated with it and tend to be non-linear in nature.

ESG Risk Examples

ENVIRONMENT

- Climate Change
- Water Security
- Waste
- Deforestation
- Pollution
- Loss of Biodiversity

SOCIAL

- Inequalities
- Diversity & Inclusion
- Employee Relations
- Health & Safety Issues
- Working Conditions
- Human Rights in the Supply Chain

GOVERNANCE

- Executive Remuneration
- Board Diversity & Structure
- Donations & Political Lobbying
- Bribery & Corruption
- Policies & Standards

BP and the Deepwater Horizon Oil Spill

The Deepwater Horizon oil spill (also known as the Gulf of Mexico oil spill), is the largest marine oil spill in history, caused by an explosion on BP's Deepwater Horizon oil rig located in the Gulf of Mexico on April 20, 2010.

This disaster created an environmental emergency and caused immense ecological damage, negatively impacting marine biodiversity.

The total costs are estimated to be **$65** billion between fines and cleanup costs


ANIMALS | NEWS

Ten years later, BP oil spill continues to harm wildlife—especially dolphins

Some species, such as brown pelicans, have rebounded, while long-lived species have been hindered for generations. Still, data is scarce.


Deepwater Horizon disaster altered building blocks of ocean life

Oil spill disaster reduced biodiversity in sites closest to spill, report finds, as White House rolls back conservation measures

Flint's Water Crisis

In 2014, drinking water in Flint, Michigan (USA) was found to contain dangerous levels of lead, a dangerous chemical. Officials failed to apply corrosion inhibitors to the water, which resulted in lead from aging pipes leaking into the water supply.

This event exposed around 100,000 residents to elevated lead levels, causing people to suffer from several illnesses related to contaminated water.

The estimated costs were **$1.5 billion.** The State of Michigan agreed to pay **$600 million** in settlement to the victims of the crisis.

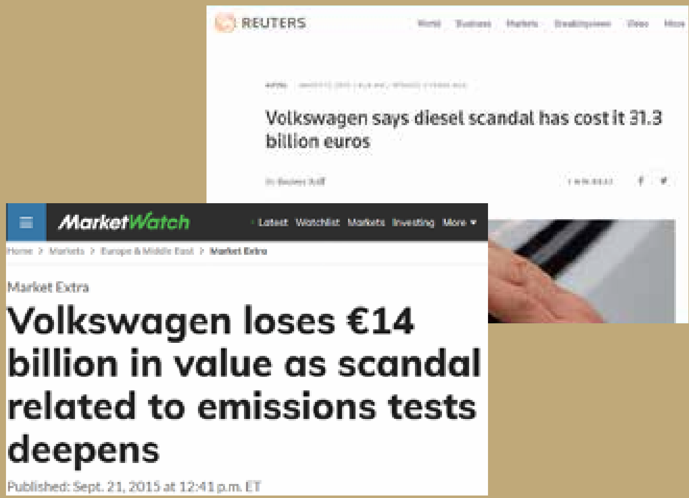

Flint's water crisis: what went wrong

After the water supply was found to contain high levels of lead, evidence is mounting that officials ignored or neglected indicators of a growing crisis

Volkswagen (VW) and Bad Governance

Poor governance resulted in millions of Volkswagen (VW) cars recalled after the German car giant admitted to cheating emissions tests conducted in their manufactured cars.

The scandal has cost the company more than **$33.3 billion** in fines, penalties, financial settlements, and buyback costs. Additionally, it has severely damaged the reputation of VW globally.



Benefits

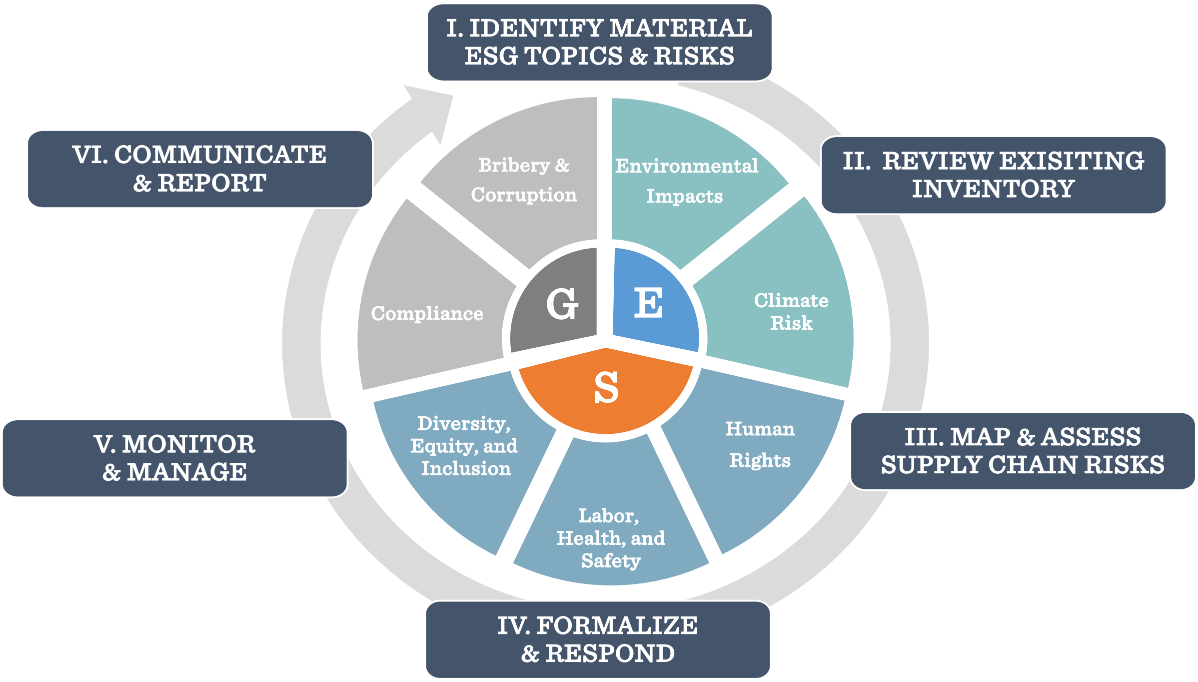
By having a clear ESG Risk Identification, Mitigation, and Management Process in place, companies have the opportunity to gain benefits, such as:

- Greater percentage of eliminated risks
- Clear goals and objectives
- Informed decision-making
- Reduced operational losses
- Prepared for broader areas of risk
- More efficient and consistent operations
- Improved readiness for changes
- Lowered cost of capital
- Better quality data for decision making

Steps to Implementation

When identifying ESG risks, the following key steps should be part of the process:

1. Identify material ESG topics and risks by thinking the questions of what, where, when and why
2. Review existing inventory and analyze different risks and their probabilities. Compare the magnitude of each risk and rank them according to consequence and significance
3. Map and assess also supply chain risks
4. Formalize and respond to risks by using risk mitigation strategies, preventative care, and contingency plans
5. Monitor and manage risks continuously
6. Communicate and report your ESG risk related processes.



جائزة الملك خالد للاستدامة
KING KHALID SUSTAINABILITY AWARD

kka.kkf.org.sa

KKFoundation