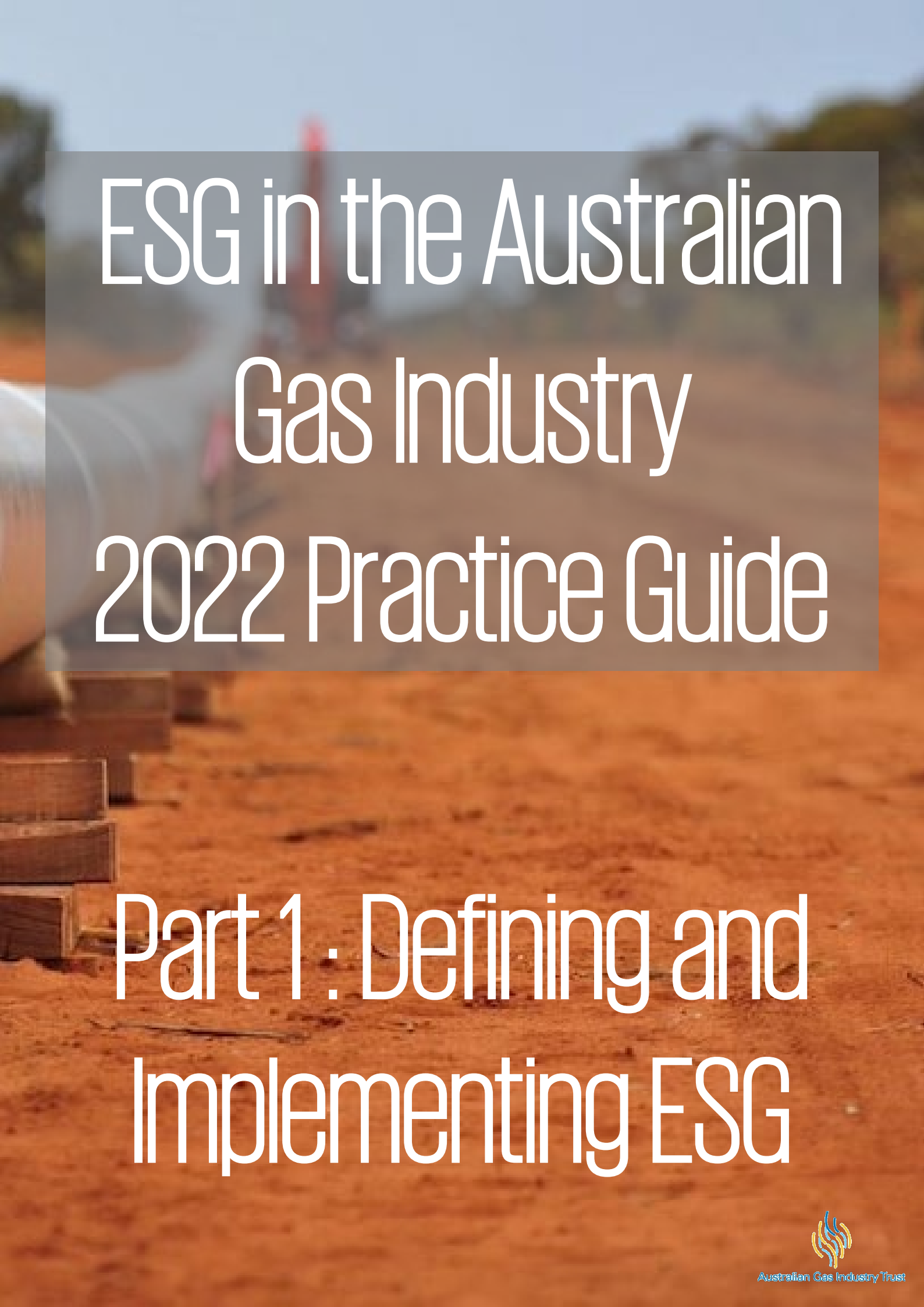


ESG in the Australian Gas Industry 2022 Practice Guide

Part 1 : Defining and Implementing ESG

Australian Gas Industry Trust

Introduction

Purpose of this Practice Guide

The Australian Gas Industry Trust (AGIT) works alongside industry partners to build a more secure and sustainable energy future for Australia.

The purpose of this Practice Guide is to provide an overview of ESG, and how it is understood and implemented across the Industry. This will ultimately help to define the parameters of ESG, through outlining its materiality, impacts, and opportunities. Further, it highlights what organisations should aim for to effectively respond and proactively align themselves with ESG.

This Practice Guide seeks to dissect ESG and distil:

- What is ESG?
- What are the dominant global and domestic ESG trends?
- Why is ESG important to the gas industry?
- How are Australian industry organisations responding to ESG?

This Practice Guide considers ESG in the context of the industry, and outlines case studies of industry performance. It also provides guidance and insights on ESG tracking and reporting, and details a high level framework to approach ESG in the context of the Australian Gas Industry.

What is ESG?

Environmental, Social, and Governance (ESG) is a framework for managing and reporting on an organisation's long term wider impact on its stakeholders and the environment in which it operates.

The components of ESG are broad, and cover every aspect of an organisation's interactions with employees, customers, communities, stakeholders, shareholders, and the environment.

Organisations that positively develop their environmental performance, social impact and governance practises are likely to perform better financially in the future. Because of this, they are becoming more attractive to investors due to their improved risk profile and ability to capitalise on emerging opportunities.[56]

ESG is a proactive and dynamic framework, with new and evolving components which are not always easily understood. There is no one-size-fits-all approach to ESG, and no set definition, resulting in approaches varying across sectors and organisations. Even within the industry, approaches to ESG accountability, reporting and compliance are varied and standardisation efforts are still progressing.

Environmental

Social

Governance

ESG Risks and Opportunities

ESG is a framework designed to consider the material topics which affect the operating environment of an organisation. By focussing on the topics of significance to an organisation and its stakeholders, organisations can drive growth and build resilience to future changes. Some of the major opportunities in ESG are outlined below.

Risks

- **Missed opportunities:** Organisations that do not engage with ESG as a framework for decision making and risk management may miss huge opportunities for growth and partnerships.
- **Reputational risk and social licence:** ESG is part of a wider public expectation of corporate citizenship and behaviour. Organisations that do not align with these public expectations may suffer reputational damage.
- **Loss of talent and skills:** Organisations that do not address the operationalisation of ESG performance indicators (such as diversity, safety, and environmental stewardship) may be less likely to attract top talent.
- **Reduced access to capital:** Lenders and investors may not provide access to capital for organisations that do not meet their ESG requirements.
- **Legal challenges and disruptions:** Increased risk of non-compliance, penalties and fines, as well as exposure to emerging geopolitical challenges if ESG is not considered in risk management.

Opportunities

- **Growth and customer attraction:** A good ESG strategy will help organisations to stay ahead of competitors, with industry leaders and first movers being rewarded with improved access to capital and new markets. There is also decreased risk across all aspects of ESG, which is especially prevalent in low carbon energy.
- **Attracting capital and finance:** Organisations that show a commitment to ESG matters and report on their performance against ESG indicators will likely have improved access to capital from lenders and investors.
- **Attracting talent and creating a more supportive workplace:** Creating a diverse, inclusive and respectful workplace is beneficial to employees' mental health, and also has downstream impacts that are good for business. Research indicates a significant correlation between diversity, inclusion and improved profits.
- **Increased outreach and impact in communities:** The gas industry has a responsibility to respect communities and Indigenous people in the areas it operates. Investment in communities provides organisations with the opportunity to bring economic benefits to regional areas, reducing project risk and improving social license to operate.

The 12 Pillars of ESG

ESG is a framework for managing the three major categories of corporate responsibility to ensure organisational longevity and sustainability. ESG is not just about reducing carbon emissions, but is also a mechanism for managing governance and social relations in a changing regulatory and geopolitical landscape. Below is a graphical representation of ESG across the three pillars: environmental, social, and governance. While ESG is becoming increasingly important across all industries, the gas industry is currently experiencing significant change in ESG, particularly with developments in the decarbonisation agenda.

A Framework for Comprehensive ESG Coverage

ESG is fast becoming a hugely important factor at every level of O&G organisations.

"Of the major Oil & Gas Operators surveyed, 78% were intending to incorporate ESG metrics into Executive rewards metrics."

- Bob Woods, **CNBC ESG Impact**

Environmental

The environmental aspect of ESG is currently the most prevalent and well understood. An organisation's environmental impact can differ depending on the organisation type, the phase of operation, and the nature of the environmental context. Social licence to operate is inextricably linked to environmental management.

This segment of ESG covers an organisation's management and impact on water resources, land and biodiversity, air quality, and consumption and waste management. It also covers an organisation's contribution to climate change.

Organisations are often measured solely on their environmental impact. Since the formation of the Environmental Protection Agency (**EPA**) in the United States in the 1970s, global equivalents have been established in many countries.[16]

Clean air and water Acts govern acceptable levels of toxic pollution and outline frameworks for water and land stewardship. These are integral parts of environmental permits and approvals.

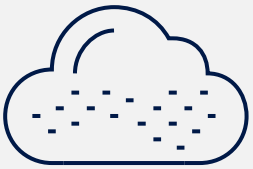
Considerations to environmental tracking and management are already prevalent in the industry. This is evidenced through Scope 1, 2 and 3 emission targets, which relate to emissions generated across different parts of the supply chain. Additionally, they are becoming more important within ESG reporting. Organisations will struggle with environmental permits and approvals if they do not meet State and Federal Government standards of environmental protection.

Now more than ever, organisations should be looking to ensure a positive environmental impact to prepare for a future where more stringent controls and regulation becomes normal.

The 4 Elements of Environmental Management

Consumption & Waste

Climate & Emissions



Land & Biodiversity

Water Stewardship

Organisations should consider the **opportunities** that mitigating environmental impact presents. Including:

- Clean Tech and Carbon Capture and Storage (**CCS**)
- Green Building, Infrastructure and Renewable Energy
- Harnessing Green investment trends with an improved environmental profile

This can lead to Improvements in

- Permitting and approval success rate
- Public perception
- Licences to operate

Climate & Emissions

The mandate to decarbonise is clear and the Australian Gas Industry has a role to play as organisations and Governments commit to the transition to net zero. There is increasing scrutiny on how gas companies adapt their business models to align with a low carbon energy transition.

Communities and customers expect commitment and transformation from organisations. Climate change is seen as the most material issue for the Australian Gas Industry. Accordingly, net zero ambitions have increased significantly in recent years, with a greater pace and scope for targets.

Customers are increasingly embracing new technologies, and are taking control of their energy use to support action on climate change. Governments are also shifting towards disincentivising fossil fuel production and promoting renewable energy development, including heavy investment in CCS and hydrogen technology.

Key Considerations

Targets and Commitments

- Tracking and reporting on carbon & climate impact.
- Ensuring that commitments to net zero or decarbonisation are achieved effectively.
- Emissions targets and commitments covering Scope 1, 2, and 3 emissions.

Aligning Strategy and Values

- Aligning an organisation's operational strategy and design with its climate ambitions.
- Operational shifts and new technology investments can be useful tools in harnessing the potential of net zero.

Materiality and Impacts

- Assessing the materiality of climate change impacts, and the risk and opportunities they present.
- Remaining alert to the shifting regulatory environment.
- Consistency in emissions reporting.
- Access to capital is becoming more linked to decarbonisation progress.

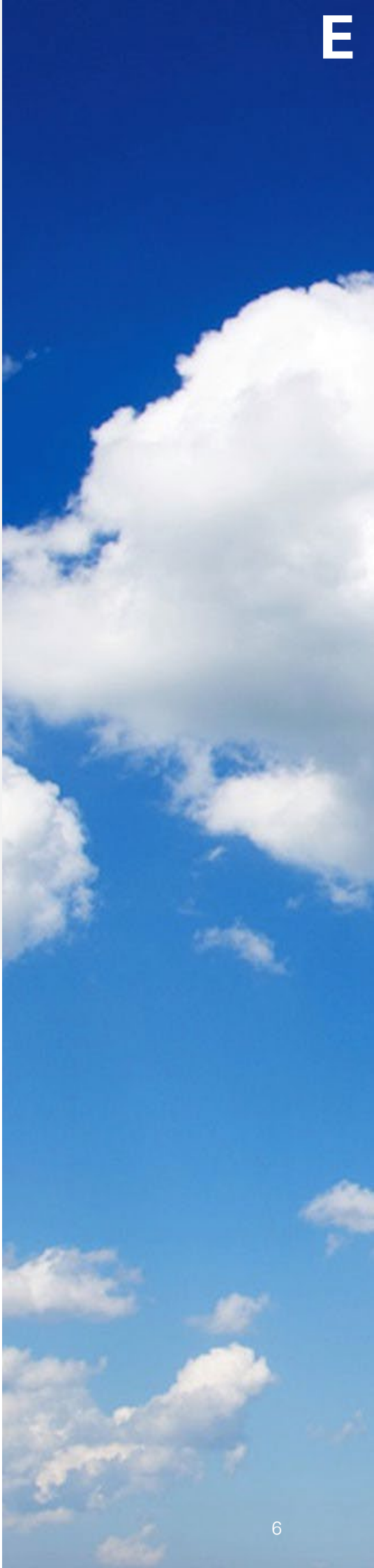
Case Study: Beach Energy – Emissions Reductions[17]

Ambition – Beach Energy has a purpose to provide energy to communities in a way that is sustainable for the long term. They have publicly committed to an ambitious 25 by 25 target, entailing a reduction of emissions by 25%, by 2025.

Action – Within the 2021 FY Sustainability Report, Beach Energy revealed three of their key emissions reduction projects to reach their 25 by 25 target. These include:

- **Bauer Hybrid Renewable Project**: Beach will be performing further study, design and construction to prepare for this project, which will deliver energy supply to the Bauer oil field through a combination of wind, solar, battery and diesel generation.
- **Flare & Vent Management**: Implementing initiatives to reduce the need for flaring across operational sites, including flare minimisation during shutdown and start-up.
- **Leak Detection & Repair Program**: Program to detect and eradicate potential leakage points across all gas assets using world class technology and equipment.

Impact – These initiatives will support Beach Energy in achieving their target emissions goal and highlight to other players in the Australian Gas Industry the different pathways available to work towards emission reduction.



Consumption & Waste

Consumption of resources and waste management are a key part of an organisation's obligations and practices. Management of tailings, production of toxic or environmentally damaging materials, sourcing materials in a sustainable fashion, and recycling are all aspects of consumption and waste.

There is a broad push to rationalise resource consumption by the Australian Gas Industry. Organisations are also becoming more accountable for their shared resource usage.

Similarly, the safe management and responsible generation of toxic by-products resulting from forms of gas extraction such as hydraulic fracturing, is a contentious issue and is increasingly being scrutinised by regulators and the public.

Ultimately, resource intensity and waste production of all types is a major environmental concern. Therefore, harnessing circular economies is a significant and important aspect of ESG.

Key Considerations

Pollution
- Output of emissions and pollutants.
- Management of residual material and by-products.
- Scope 1, 2 and 3 considerations for emissions waste management.

Circular Economy
- Production and type of waste generated, and processes to manage it.
- Waste from regular activities or projects.

Natural Capital
- Management of natural resources consumption.
- Ethical sourcing of raw materials and responsible self regulation to prevent overconsumption and depletion.

Recycling and Reuse
- Implementation of sustainability improving practices, such as recycling.
- Responsible sourcing, and supply chain consideration.

Case Study: Marathon Petroleum – Waste Recovery & Recycling[18]

Ambition – Marathon Petroleum recognise their business activities can influence the ecosystems and communities in which they operate, and therefore their impacts must be managed and mitigated.

Action – Marathon are actively invested in managing their hazardous and non-hazardous waste. A key initiative which has been implemented to reduce waste material impacting the environment, is the recovery of Marathon's refinery tanks' residual material. Marathon partnered with CIRCON Environmental to convert oil tank waste into an alternative fuel source for the cement industry. As tanks are cleaned, the residual material is trucked to a cement kiln for processing into a waste-derived fuel, avoiding approximately 230,000 tonnes of CO2e emissions. This also replaces coal as the historical primary fuel for cement kilns, reducing cement manufactures consumption of coal by over 60,000 tonnes.

Impact – In 2020, more than 2 million gallons of waste-derived fuel was sent to cement kilns. This reduced landfill volumes of waste by 5,650 tonnes and avoided approximately 27,000 tonnes of CO2e emissions that year. This data was recorded in Marathon's 2020 Sustainability Report.

Water Stewardship

Organisational management of water stewardship is a key environmental factor. Spills, leaks, contamination, and water utilisation can all have major impacts on licences to operate and environmental regulation.

Managing an organisation's water usage is also a critical aspect of environmental sustainability. This is especially relevant for Australian gas organisations due to the water implications arising from operations such as hydraulic fracturing.

The Australian Gas Industry are already dealing with substantial legislative changes currently implemented. In Australia, the Murray Darling water basin was a catalyst for the Government's Water Efficiency Program.

Globally, water consumption and contamination are increasingly prevalent issues. Firm regulation is being implemented to prevent damage to increasingly scare water sources.

Key Considerations

Contamination Management
- Ensuring the risk of water source contamination is minimised.
- One of the most vital elements of ESG.

Water Management
- Ensuring water usage is not disproportionate and detrimental to local communities is vitally important.

Aquatic Environment
- Dredging, construction, offshore drilling and other activities all impact aquatic environments.
- Managing an organisation's impacts on aquatic environments is key to reducing ecological impact.
- Important aspect in maintaining licence to operate aquatic operating environments.

Permitting and Regulations
- Water usage is highly regulated.
- Implementing good water stewardship across all operations helps ensure protection from legislative or environmental changes.

Case Study: Tourmaline Oil Corp – Fracking Water[19]

Ambition – Tourmaline is an industry leader in water management. They are dedicated to continuous improvement in environmental performance and to elevating the performance of the industry as a whole.

Action – Tourmaline was one of the first gas producers to receive regulatory approval to use recycled water in fracking operations by constructing an engineered containment facility. They are leading the industry with technology driven changes to reduce consumption of fresh water and volume of flowback water injected into disposal wells during fracking operations. The new water infrastructure was designed to increase the volume of recycled water used in fracking. They've reached a point where 100% of Tourmaline's frac flowback water in British Columbia is recycled, and 74% of their water used across all British Columbia operations is recycled. The infrastructure is now at a size to enable Tourmaline to recycle third party water from other producers, with over 50,000 cubic meters of third party recycling in 2019.

Impact – The impact of this initiative was recorded in Tourmaline's Sustainability Report, which highlighted their ESG materiality assessments. They were also an Environmental Excellence Finalist and received public recognition for the initiative. This exemplifies good water stewardship to other companies to promote change in their water management operations.

Energy Excellence Awards 2020 – Environmental Excellence Finalist

Land & Biodiversity

Reduction of impact to plant and animal life, and management of rehabilitation are key aspects of an organisation's leadership in environmental impact mitigation.

All Australian gas operators can benefit from strong environmental management plans with comprehensive coverage of land use and biodiversity before beginning operations.

Over the past few decades there has been an increasing focus on how organisations consume products and manage waste, and how they manage water and land beyond regulatory compliance.

It is crucial for members of Australian Gas Industry across the entire supply chain to take meaningful and effective measures to reduce their impact on all flora and fauna.

Key Considerations

Holistic Environmental Management
- Implementation of environmental management practices.
- Emphasis on practices that support biodiversity and ecosystem services.

Tracking and Reporting Impact
- Data is required to properly report and manage impact on land and biodiversity.
- Organisations may look to partner and share relevant environmental data with the public for research purposes (e.g. water levels, wildlife monitoring).

Decommissioning Assets
- Rehabilitation and long term environmental land impact must be considered in asset decommissioning.
- Organisations have the ability to leave land in a better state than originally found.
- Decommissioning is becoming a more important consideration for permits and approvals.

Case Study: Santos – Biodiversity Research[20]

Ambition – Santos committed to achieving a net zero environmental footprint, through implementing an Environment Strategic Framework to ensure the business aligns with its sustainability goals.

Action – Due to the nature of oil and gas exploration occurring in offshore environments, there is a potential risk for environmental impact. To understand and protect these ecosystems, Santos partnered with the Commonwealth Government's Australian Institute of Marine Science (AIMS), committing to funding A$14 million to undertake a 3 year North West Shoals to Shore Research Program. This industry-leading collaboration presents the opportunity to undertake a large scale series of scientific studies. The research includes seabed habitats, threatened species, biodiversity, and isolated coral reef atolls of the North West Shelf.

Impact – In 2020, a significant milestone was achieved with the last of the scientific studies within the Program being completed. This extensive research contributes to informing the continual sustainable development of Australia's North West marine estate for all stakeholders within the area.

2021 APPEA Environment Project Excellence Award Winner

Social

Social ESG considers the way in which business operations interact with and impact the community around them. Good social management is vital to any organisation wishing to establish or maintain their operations for an extended period of time. Organisations are increasingly being held accountable for their impact to communities, stakeholders and the general public.

Social aspects of ESG include a business's support and investment in the betterment of the communities in which it operates. This is done through infrastructure or provision of services, its relationships with particular groups, and interactions with key stakeholders. Whether it operates in a way that is ethical and transparent is also critical. Other considerations include the extent to which the business prioritises local recruitment and invests in local businesses.

Approaching these areas with respect and willingness to work with the community is essential to achieve social license to operate.

Businesses that are proactive in integrating social ESG put themselves in a stronger position regarding compliance. As social management expectations evolve and increase in public importance, they are also becoming legislated.

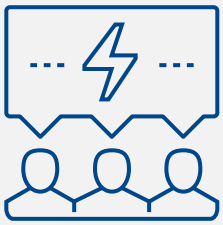
Businesses that can demonstrate existing targets and quotas for ESG improvement will be more prepared to meet new regulations.

The gas industry should prioritise the 'S' in ESG in order to ensure a positive impact on the communities in which they operate.

Organisations should take an ethical and sustainable approach in their work, and invest in their people and the environment.

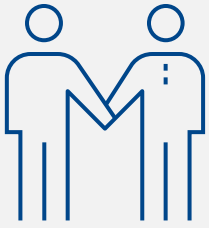
The 4 Elements of Strong Social Management

Community Alliance

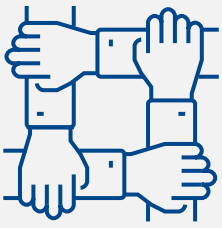


Responsible Production

Stakeholder Collaboration



People & Diversity



Consider the **opportunities** of proactive social engagement:

- Attraction and retention of talent
- Social licence to operate and reduced friction for permits and approvals
- Perception, public relations, and brand uplift
- Preferred partnership with socially conscious organisations
- Reduced regulatory scrutiny
- Positive social impact drives improved community support

Community Alliance

Community alliance is vital to maintaining social licence to operate as collaboration and cooperation with communities can often define the relationship. A lack of meaningful consultation and collaboration can lead to friction between the business and its community when citizens experience preventable negative impacts from business operations. Clashes with the community can also lead to operational disruption and legal challenges.

In recent years, companies globally have adapted their operations to include training for local community, hiring local staff, charitable contribution, building social infrastructure and COVID-19 support for local communities.

Involvement in local, regional and Indigenous communities contributes to positive engagements between multinational companies and individual people. In turn, this facilitates learning and provides an expanded perspective for all stakeholders on good practice and emerging issues.

Key Considerations

Sustaining Communities
- Gas companies are often located near to smaller, regional towns.
- They have an important role to play in building economic growth, sustaining local communities, and planning for life beyond decommissioning.

Essential Services Support
- Regional communities often have limited assets, especially in health care.
- Resourcing support from large gas companies for small heath facilities reduces stress placed on their local operations.

Access to Funding
- Investment in regional communities and social infrastructure can have lasting positive benefits and helps with accessing specific grants and regional subsidies.

Supporting Positive Change
- Organisations increasingly need to consider their contribution to communities through sponsorships and support for volunteering and charitable causes.

Case Study: BPH Energy – Community Protesting[21]

Ambition – BPH Energy attempted to extend their Petroleum Exploration Permit 11 (PEP-11) for exploration operations within the offshore Sydney Basin 4.5km off the coastline.

Action – Overwhelming negative opinion of this renewal was voiced in Byron Bay by local communities, politicians, and notable musicians to stop the permit. Environmental protests in the form of paddle outs, petitions and calls of action to all levels of Government resulted in cancelling of the permit.

Impact – Ultimately, the drilling permit was not approved, illustrating the importance of a strong community alliance.

Case Study: Woodside – Indigenous Community Partnerships[22]

Ambition – Woodside's interactions with communities where they are actively operating are guided by their Sustainability Communities Policy and Indigenous Communities Policy. As a large operator, Woodside seeks to better understand the expectations of the communities they work in.

Action – Woodside have worked and collaborated with Indigenous partners for over three decades on the Burrup Peninsula, also known as Murujuga. A key focus of Indigenous communities is heritage management input from Traditional Custodians of the land. This allows Woodside to implement comprehensive cultural heritage plans to monitor and manage all impacts in these areas.

Impact – Peer-reviewed research has not identified any impact to the region's rock art or other significant cultural heritage sites, from any Woodside operations.

Stakeholder Collaboration

Stakeholder collaboration is a critical component by which companies organise, foster, and improve their relationships with stakeholders across all levels of the gas supply chain.

Investing in and maintaining positive relationships with Governments, competitors, communities, traditional land owners, and employees requires trust, respect and understanding. This involves operating with transparency and open communication with stakeholders, to ensure mutually understood processes and clear objectives.

Open communication with stakeholders in the gas industry serves to deepen the understanding of what is important to individual parties, in addition to forming a key pillar of risk management. It also enables businesses to foster opportunities to collaborate on new solutions, working practices, investments and sustainable initiatives.

Key Considerations

Community Relations

- Engaging with communities and open communication between all stakeholders is vital to ensuring companies find a mutually beneficial collaboration with stakeholders.

Security and Privacy

- Managing how customer, community, employee and security information is used is a growing concern which is increasingly regulated.

Land Holder Rights

- Significant land use is required for gas operations. It is important for Indigenous and Aboriginal Traditional land owners and local land owners to be involved in the land access negotiations.

Stakeholder Alignment

- It is the responsibility of gas companies to ensure all their direct, indirect and supply chain stakeholders conduct themselves in an ESG compliant manner.

Case Study: INPEX – Aboriginal & Torres Strait Islander Relationships[23]

Ambition – Respecting and acknowledging diverse cultures forms the basis of INPEX's engagement with all internal and external stakeholders. INPEX is committed to building awareness and strengthening knowledge of Aboriginal and Torres Strait Islander cultures and traditions to create sustainable and mutually beneficial relationships.

Action – INPEX has significantly developed it's Reconciliation Action Plan (RAP) since its establishment in 2013. Guided by key themes and deliverables of relationships, education, respect, and communities, INPEX has increased meaningful engagement and collaboration with Aboriginal and Torres Strait Islander Peoples. In 2019, a A$24 million benefits packages was agreed to support a sustainable, long term relationship with the Larrakia Community in the Northern Territory over the next 40 years.

Impact – Through this RAP initiative, INPEX have laid the foundations for supporting sustainable, multi-generational economic participation opportunities for Aboriginal and Torres Strait Islander peoples and businesses. INPEX will continue to monitor and review all RAP involvements to further strengthen cultural awareness within the workforce.

Responsible Production

Responsible production refers to an organisation's obligations to manage the impact of their products on internal and external communities and consumers. This includes safety and quality, management of data, security of people, chemical safety, responsible investment, and usage.

This is increasingly relevant to the gas industry as scrutiny is placed on Scope 2 and 3 emissions, and the downstream impacts of products, services, and offerings. The social impact of a company's products and modus operandi is vital to maintaining strong social credentials. Being responsible for vital services, impactful end uses, and managing business partnership risk is important.

Financiers and shareholders often look to invest in companies that produce products which are designed and aligned with ethical principles in mind. Gas operators need to consider the social implications of their final products, who they are selling it to, and what they are being used for.

Key Considerations

Ethical Partnerships
- Working with, buying from, and selling to ethical partners is becoming a large component of ESG. Sourcing or providing products to or from unethical regimes is a significant risk and considered ethically unsound.

Ethically Conscious Sourcing
- Within the gas industry, responsible and ethical sourcing of materials and resources is important to ensure positive impact.

Supply Chain Integrity
- Providing a vital service such as heating, electricity, or transport presents the gas industry with concerns regarding social obligation and profit motive such as domestic vs international prices.

End Use Case
- The end use of products is becoming more prominent in regulation as Scope 3 emissions and other impacts are increasingly investigated.

Case Study: Enbridge – Supply Chain Management[24]

Ambition – Enbridge supports the need for a strong, diverse supplier community, as it is essential to the resiliency and agility of Enbridge's supply chain operations and diversifying risk.

Action – Enbridge aims to work with suppliers who strive for sustainability, upholding human rights, labour, health and safety, and ethical environmental business practices. One of their ESG goals is to increase procurement from businesses that are at least 51% owned, managed and controlled by a diverse person or group, and certified by a nationally or regionally recognised third party. In 2020, Enbridge directly spent US$335 million with 124 certified diverse suppliers. To support reporting across supplier diversity, they also implemented new reporting processes and tracking tools.

Impact – Valuing the importance of an ethical and diverse supply chain has resulted in Enbridge increasing their ESG focused information to standardise processes surrounding their supply chain stakeholders. This resulted in more regulation for ensuring their supply chain operates in an ethically conscious manner.

People & Diversity

People and diversity relates to an organisation's hiring processes and investment in making the workplace accessible to all employees. This relates to attraction, development, and retention of diverse talent in a changing social context as well as an organisation's approach to health and safety and management of their labour and workforce.

People and diversity is an opportunity to harness the value of being a force for positive change, a good employer, a good corporate citizen, and a positive ethical agent of change in communities. It is also important they ensure their employees demonstrate these positive values.

People and diversity is increasingly scrutinised as business partners seek to distance themselves from organisations with bad health and safety track records, or a lack of gender diversity on boards and in employee operations. Recently, corporate and executive remuneration has started to become more linked to metrics regarding gender diversity, inclusion, and achieving positive outcomes in this space.

Key Considerations

Diversity
- Using an organisation's capabilities and employment capacity to build positive change socio-economically and in diversity.

Health and Safety
- An organisation's responsibility to prioritise the health and safety of its workers, local communities, and others is a major ESG metric.
- Mental health support and measures to eliminate harassment in the workplace are principal to promote and sustain employee wellbeing.

Labour and Workforce
- Sourcing and supporting labour through ethical practices is a key concern in ESG. Supporting Australian communities rather than outsourcing to cheaper jurisdictions is an example of good ESG practices.

Talent Retention/Acquisition
- Attracting and retaining talent is a large concern for the gas industry as public perception becomes less favourable. Graduate programs in the industry are declining in popularity, and existing talent is leaving the industry.

Case Study: Blackrock – Gender Diversity[25]

Ambition – Blackrock is a vocal advocate for building, developing and retaining a diverse pipeline of talent and fostering a connected culture within a welcoming, inclusive and equitable environment. They are committed to diversity, equity and inclusion (DEI) across every level of the firm, within every region Blackrock operates.

Action – Blackrock have several concrete commitments to increase diversity across the company. They plan to increase representation of senior women to 32.5% globally by 2024 from 30%, increase representation of both U.S. Black and Latinx senior leaders to 6% from 3%, and double representation of U.S. Black and Latinx representation at all levels by 30% in 2024 from 5.6% and 6% respectively.

Impact – The diversity of Blackrock's employee composition fosters a positive future for continual improvement of gender and racial equality in the oil and gas industry.

Case Study: Arrow Energy – Safety[26]

Ambition – Safety is a number 1 priority at Arrow Energy, as strong safety is essential for a strong business. They also have a target net zero commitment; no harm to people and the environment.

Action – Arrow Energy's safety performance in 2020 was a QLD coal seam gas industry and company record, underpinned by a year without incident compared to industry average of 3.3 incidents. A key safety initiative was the development of the Safe Drive App to reduce road-related fatalities. It provides navigation assistance, voice alerts for upcoming road hazards, speed limit displays, land access conditions and weed hygiene conditions.

Impact – Over a 6-month trial period, there were 0 over-speed reports from the in-vehicle monitoring system (IVMS) or life saving rule breaches.

Governance

Governance is the foundation of strong ESG. The right governance structure ensures transparency, compliance, and reliability in reporting and disclosures.

The definition of governance is continually evolving, as organisations are increasingly expected to define and embed their purpose at the centre of their business. The principles of agency, accountability, and stewardship are vital for good governance. Ultimately, the governance element of ESG relate to how an organisation tracks, reports, manages, and enforces its behaviour and values. Governance is increasingly a source of scrutiny as global corruption indexes slowly climb and more ESG mandates are implemented. This drives further obligations requiring tracking, management, and action on the part of organisations.

In the gas sector, governance is largely relevant to the management of environmental and social obligations and the proper implementation of accountability frameworks and risk management methodologies. Investors and communities are increasingly hostile towards organisations with less rigorous governance controls. Therefore, ensuring strong governance practices is key to maintaining ESG leadership moving forwards.

Organisations are increasingly held accountable for their actions and criticised for governance failures such as improper management of indigenous heritage. There is a growing mandate to ensure strong and robust governance across the business. Procurement is becoming influenced by due diligence and governance requirements, and navigating this complex space can be a challenge for smaller players. Overall, governance is an organisation's greatest asset in becoming an agent of change.

The 4 Elements of Strong Governance

Risk Management

Ethical Practices

Reporting & Standards

Accountability

Consider the **opportunities** in which good governance can present to your organisation:

- Increased control of risk and reduced exposure
- Improved ability to act on changing regulatory context
- Improved ability to grasp opportunities
- Better management of people and improved ability to create change
- Heightened ability to achieve strategic ambition
- Enhanced compliance and perception as a safe investment partner

Reporting & Standards

G

The reporting of ESG metrics involves the disclosure of company performance in relation to material ESG risks and opportunities. These reporting metrics are both quantitative and qualitative to capture the full extent of a company's ESG initiatives, implementation, and progress.

Publicly reporting on these factors provides important sources of holistic and transparent information to assist investors and stakeholders in their decision making. It highlights and differentiates companies' commitment to fair, responsible and sustainable operation in the gas industry.

Standards and legislation provide a framework for ESG stakeholders to follow. However, the non-mandatory nature of many of these results in inconsistent reporting across the gas industry. Voluntary pieces of information are often omitted or unknown to be included for recognition, making it challenging to measure progress.

Significant development surrounding ESG reporting is still required before an accurate and standardised methodology can be established on the global scale.

Key Considerations

Alignment of Metrics

- ESG reporting is currently undertaken by several rating companies and institutions across the world. The guidelines and ESG factor weightings provide gas companies with an individual ESG rating score.
- However, these individual ratings have limited comparability across the industry due to the varying individual factors used for each rating.

Standardisation

- Reporting standards and compliance are becoming more complex and important as the ESG landscape matures. Ensuring accuracy and transparency is vital.

Harnessing Opportunities

- One of the driving forces behind ESG reporting materiality is to provide company transparency, clarity and information to current and future investors and stakeholders.
- The better the ESG rating, the more desirable a company is for financial investment.

Case Study: MSCI – ESG Reporting[27]

Ambition – MSCI is an ESG reporting service offering companies the opportunity to an easier, more comprehensive and more frequent method of calculating their ESG scores.

Action – MSCI offers a library of standard, best practice reporting templates designed by MSCI ESG experts to solve three common use cases including climate change and TCFD reporting, ESG integration reporting, and EU regulatory reporting. Due to the growing demand amongst investors for greater transparency, improved reporting capabilities are required. The metrics are designed to facilitate detailed reporting on the ESG characteristics across industry portfolios to meet the needs of companies seeking to better align themselves with regulatory requirements.

Impact – The impact of increased ESG reporting means companies who are not transparent in their ESG targets and commitments will be less desirable to investors. Therefore, whilst standardisation across rating companies is not wholly aligned, many companies in the Australian Gas Industry publish their ESG goals and achievements to support a transparent relationship with their stakeholders and industry sustainability requirements across all ESG pillars.

Ethical Practices

Inclusive behaviour, proactive health and safety considerations, transparent business practices, and dedication to human rights all come under the umbrella of solid ethical practices.

These factors are within the long term interests of companies as a means to ensure they are credible, trustworthy, and conduct operations as best practice for all stakeholders.

Companies are increasingly held accountable for both their achievements and downfalls. It is important for companies to rely on lessons learnt and strive for future improvements. The implementation of governance frameworks provides a baseline to abide by for employees and external stakeholders.

Constant vigilance and progressive steps towards a safe, ethical, inclusive, diverse, and proactive workplace will ultimately lead to more effective business practices.

Key Considerations

Human Rights

- Human rights are the standards aimed at ensuring security, dignity, equality, and fair treatment for all workers in the gas industry supply chain.

Health and Safety

- Due to working in challenging and often hazardous environments in the gas industry, health and safety is one of the most important factors for protecting and caring for employee and external stakeholder livelihoods.

Business Ethics

- Business ethics involves accurate public reporting, admittance of errors followed by lessons learned, and transparency of finances and employee operations.

Best Practice

- This aligns to companies investing in their business to create revenue through good business operation, and not through cutting costs to increase profits, at the expense of ethical business practices.

Case Study: Shell – Ethical Practices[28]

Ambition – Human rights are fundamental to Shell's core values of honesty, integrity, and respect for people. They are critical to being trusted, valued, and supported by society. Shell focuses on four areas where human rights are essential to work, and where they see the highest risk for a potential impact on human rights: communities, security, labour rights, and supply chains.

Action – Based on the Human Rights Policy under the UN Guiding principles on Business and Human Rights, Shell launched a Worker Welfare manual to help better identify and manage worker welfare risks faced in high-risk countries. They worked closely with Building Responsibly, a group of leading engineering and construction companies to promote worker welfare principles, standards, and guidance across the Shell business and with contractors. Additionally, the Voluntary Principles on Security and Human Rights (VPSHR) were implemented across Shell where there were identified risks of infraction. The VPSHR has been implemented for more than 20 years in Nigeria to help identify and address the security related human rights risks.

Communication – Yearly reporting on VPSHR and assurance reviews of the implementation are conducted and published in Shell's annual report. Training and awareness briefings are carried out with all security forces replied upon in the implementation countries to ensure human rights risks are mitigated.

Accountability

Accountability refers to an organisation's ability to develop strong frameworks for holding its people and itself accountable for ESG and ESG related concerns. This involves tracking and measuring ESG to targets and implementing tangible KPIs, organisational methodologies, and governance practices. This ensures ESG values are embedded and thoroughly adhered to at every level of the company.

Accountability is built on transparency. Hence, an organisation's ability to dissect internal lines of sight and develop comprehensive communication around ESG and values is a vital element of this category of governance. Good organisational design, clear roles, responsibilities, accountabilities, communication, and information flows are integral parts of this component.

Increasingly, ESG-centric leadership measurement is being employed in 75% of major oil and gas companies. This ties components of executive remuneration to ESG outcomes. Managing ESG data, information, and education is also relevant and important. However, these ESG issues may be novel and outside the experience of existing board members, senior management and company risk professionals.

Key Considerations

Rewards, Incentives, and Outcomes

- ESG metrics driving reward outcomes is an increasingly prevalent trend, especially among executives. Achieving real ESG outcomes relies on effective reward and consequence for key agents of change.

Transparency and Communication

- Lines of sight, tracking, reporting and metrics application is a vital component of accountability. Without oversight of progress there can be no accountability for outcomes. Organisations need to improve transparency internally and externally.

Organisational Design

- A well conceived organisational design with clearly defined ESG roles is vital.

Education and Uplift

- Managing an organisation's performance in ESG is closely related to helping employees of a company understand ESG and its components. Education is a key component of compliance.

Case Study: Oil Search – Transparency and Communication[29]

Ambition – Transparency has always been a central component to all Oil Search operations. They operate in a socially responsible manner with strong values and high standards of guiding effective and transparent working ways.

Action – Oil Search became a signatory to the United National Global Compact (UNGC) in 2011. They published their first Sustainability Data Book and Transparency Report in 2011 (annual activity), and are a proactive Extractive Industries Transparency Initiative (EITI) member in Papua New Guinea since 2013. They are also working with other Voluntary Principles Initiative (VPI) participants to provide a strong platform for multi-stakeholder dialogue and improve shared learning on security and human rights in extractive industries.

Communication – Oil Search's key sustainability performance and risks are reported annually in their Sustainability Report, which promotes benefits of participating in the VPI.

Risk Management

Risk management is central to ESG and is a major driver behind ESG being embedded within organisations. As new risks emerge, shareholders, stakeholders, financiers and consumers all have an interest in how these risks are managed.

It is critical for organisations to have the requisite capacity and capability to adequately identify, analyse and treat risks. Companies should also consider the strategic and operational aspects of risk management across all levels of the business.

This involves improving management of climate related-risks (physical/transition) and other relevant ESG issues. It also involves reporting progress with industry-agreed performance metrics / benchmarks including AASB/ materiality, APRA, TCFD, Insurability / access to finance / legal liability.

Risk management is not just about managing risks but also seizing opportunities. There are also substantial benefits for swift adoption of strong ESG practices, which can maintain / build social licences, and secure additional capital.

Key Considerations

Geopolitical Exposure

- The uncertain global geopolitical context evidenced by increased defence spending and trade tensions are mandates for organisations to consider their exposure to geopolitical risk and manage it accordingly.

Procurement and Partners

- This involves managing due diligence in procurement so it does not inhibit the flow of materials or overcomplicate the supply chain, while still maintaining ethical partnerships.

Long Term Strategy

- Organisations are increasingly expected to develop and communicate strategies incorporating ESG values into end goals and scenario planning.
- Corporations are being pressured by shareholders to deploy long term strategies to harness ESG tends.

Specific Governance and Controls

- Managing exposure to risk ultimately comes down to robust governance procedures around identified risks and controls within the business (e.g. security) and enabling effective proactive responses.

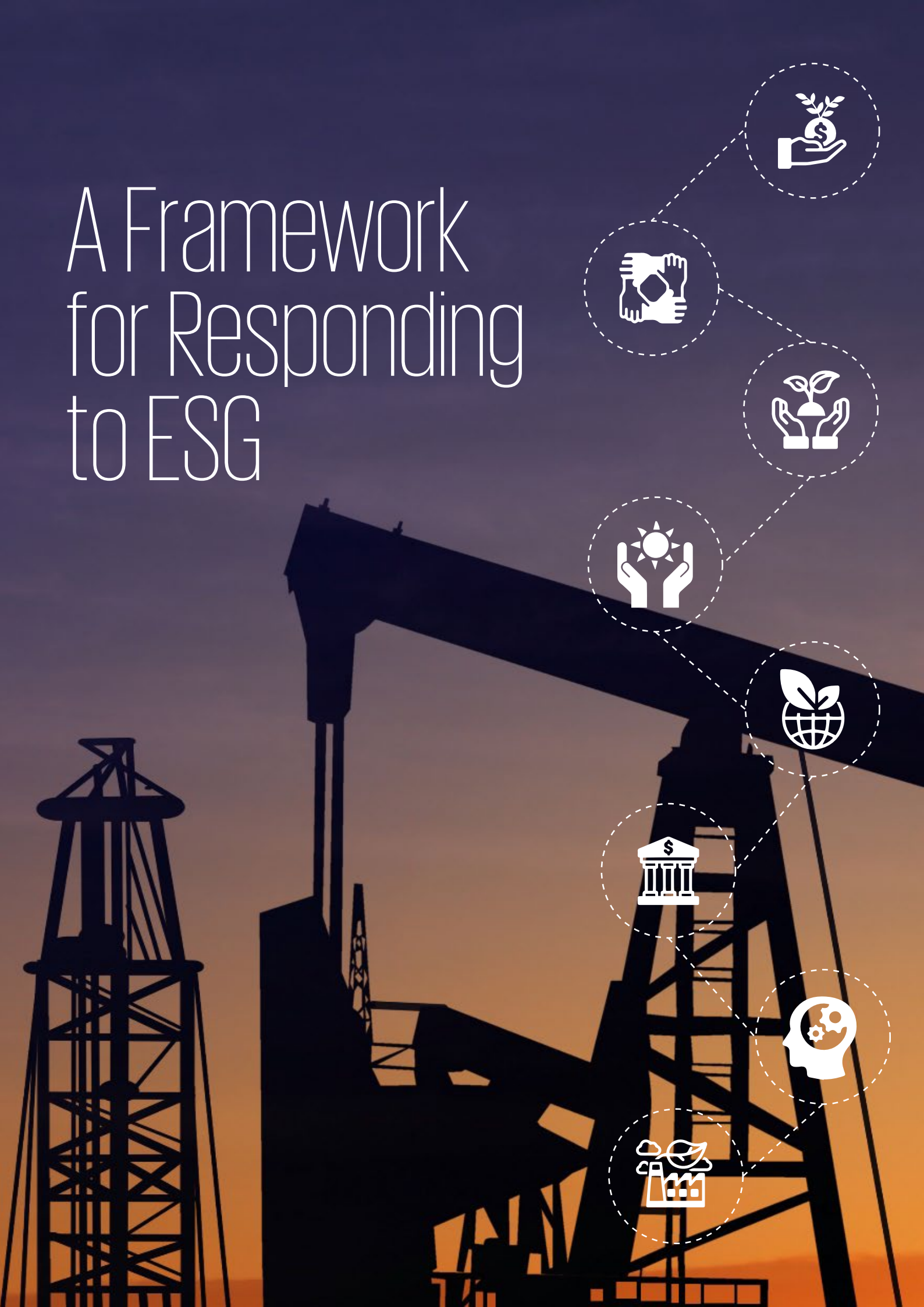
Case Study: Viva Energy Group – Risk Management[30]

Ambition – Viva are committed to observing the highest standards of corporate practice. Their values include integrity, responsibility, curiosity, commitment and respect. These reflect what Viva Energy stands for and underpin business principles and behaviours.

Action – In FY2020, Viva adopted a Human Rights Policy based on the UN Guiding Principles on Business and Human Rights. Together with the Business Principles and Code of Conduct, the policy guided Viva Energy's commitment to conduct business in a way that contributes to sustainable development. This is attained by respecting the human rights of all people, including their employees, the communities in which they operate, and customers and suppliers in Viva's supply chains.

Communication – Viva issued an inaugural statement in accordance with the Australian Modern Slavery Act 2018, providing awareness training and publishing the information in their Annual Report.

A Framework for Responding to ESG

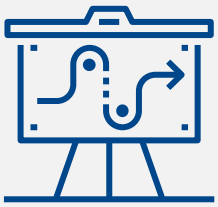


DART: A Framework for Hitting your ESG Targets

Building effective ESG strategies into your business can be challenging. However, the efficient management of sustainability issues can have immense value. The below 'DART' framework is a high-level pathway to building effective ESG governance into your business and translating your ESG strategy and ambitions into tangible outcomes with ESG impact.

Define Your Ambition

Define the materiality of key ESG considerations for your specific operating context. Develop a robust ambition for achieving specific ESG goals which align with broader societal objectives, SDGs and trends.



Align Your Strategy

Work to understand your current ESG context and the requirements of your partners and customers to develop a practical and actionable strategy and roadmap to achieve your specific ESG ambitions and goals.

Report & Communicate

Communicate your ESG action, impact, strategy, and ambition effectively through a reporting methodology which is aligned with appropriate global standards and metrics, and track your impact against peers.

Transform & Embed

Proactively and practically transform your business by embedding your ESG framework, and gain independent assurance. Actively engage and collaborate with the community to address and resolve concerns.

Summary of ESG Messages for the Gas Sector

The Opportunity for ESG Value

A proactive response to ESG can create long term value for organisations, their shareholders and stakeholders by reducing risk, seizing opportunities and optimising their response to the material impacts of sustainability. The Australian Gas Industry has an opportunity to leverage market leadership in ESG as a supplier of gas to global markets during the energy transition. The industry should be proactive in building businesses which harnesses the future value of ESG, including robust ESG strategies with the agility required to harness new opportunities.

Responding Effectively to ESG

The materiality of climate change and decarbonisation are driving strong ESG responses across the gas industry. However, the social and governance elements are becoming more prominent and are likely to become more material in the future. Decarbonisation is one of the most prominent issues with the most rigorous reporting. The legislative environment and increased activity by activist investors and other actors are increasing the importance of complying with Social and Governance elements of ESG.

The Globalisation of ESG

The Australian Gas Industry is a net exporter of gas and is therefore fundamentally linked to developments in the global market. Australia needs to respond to the global ESG context as well as domestic trends. Therefore, the Australian Gas Industry needs to be alert and responsive to global changes. Potential learnings from global peers in regions such as the EU is a window into how potential future ESG changes in Australia may manifest. Understanding the global market is also vital for navigating the volatility in prices which has significant impact on revenues for gas industry operators.

Defining the Future Role of Gas

The gas industry needs to define and communicate the future role of gas and how it aligns with global ESG goals. Decarbonisation commitments such as those made in the Paris Agreement do not align with the current and projected emissions trajectory. Therefore, although current IEA scenario modelling of future gas demand indicates a future for gas towards and beyond 2050, a course correction designed to achieve climate targets may result in significant changes to these forecasts. The industry should define where gas fits into future scenarios to define the materiality of decarbonisation and other ESG trends.

Standardising When No One Size Fits All

The gas industry would benefit from a greater alignment on key ESG targets topics and tracking. Noting that organisations across the value chain will have unique ESG priorities based on their operations, location and stakeholders, a unified understanding of ESG would empower small players with limited ESG capacity, and simplify partnerships and compliance down the supply chain. Reporting is currently not standardised and the industry would likely benefit from improved alignment on standards and methodologies to remain ahead of regulation in the future.

Emerging Trends in ESG

Companies across the gas industry need to navigate the rapidly changing ESG landscape of the future. Geopolitical considerations, new developments in technology, social media, trends in access to capital, and developments in activism by investors, board members, and customers are changing the way the gas industry does business. As ESG scrutiny impacts access to capital, and geopolitics impacts supply chains, the industry needs to maintain agility and build robust strategies in order to harness emerging opportunities and offset exposure to risks.