Corporate Sustainability Reporting－Experience of China Steel Corporation

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1. Introduction

(1) Corporate Sustainability Report (CSR) is a voluntary report to illustrate the activities and performances in sustainable development of an enterprise.

(2) The information released can help achieve the transparency of a business, and therefore promote its mutual trust with the society and synchronized the pace in sustainable development.

(3) Some NGOs have developed CSR guidelines while others organized CSR contests, both contributing to the publication of high quality CSRs. The messages gathered from these efforts are presented in this report.

(4) The experiences and thoughts of China Steel Corp. in CSR publication are also briefly reported hereafter.

2. Main Issues

2.1 Incentives for Publishing a CSR

(1) **Environmental Responsibility**: The environmental burden incurred in the activities of an enterprise needs to be properly reduced. It will serve as a sound basis for wide recognition and business sustainability.

(2) **Responsibility to Employee and Society**: Employee safety and health as well as sponsorship and feedback to the society are also important issues for an enterprise pursuing economic profit and sustainability.

(3) **Promote Communication and Corporate Value**: Publishing a CSR is a good means to communicate with the society in sustainability issues. It can also help the corporate do self-diagnosis and continual improvement, improve public image and increase corporate value.

2.2 Audiences of CSR

The stakeholders of an enterprise are often interested in the efforts and performances of this enterprise in environmental, social and sustainability issues. These stakeholders, the anticipated audiences of CSR, include:

(1) Scholars and experts specializing in environmental protection, social affairs and sustainability.

(2) NGOs promoting corporate sustainability.

(3) Mnagement and professional staffs in the peer industry.

(4) Stockholders and potential investors.

(5) Governmental authorities and local law makers.

(6) Employees of the enterprise.

2.3 Starting from CSR Guidelines

(1) There are several international organizations devoted to the development and promotion of CSR. They have published "CSR Guidelines" for enterprises to follow and updated the versions from time to time.

(2) These Guidelines clearly demonstrate the expectations of specialists and stakeholders for the content and quality of CSR.

(3) For enterprises interested in publishing a CSR, these Guidelines (or their Chinese versions, if available) and relevant publications are important source documents at the initial and planning stage.

2.4 Collect More Information

(1) In order to promote CSR towards better transparency and higher quality some NGOs in advanced countries have organized contests in CSR periodically.

(2) In addition to presenting judging criteria and winners of CSR, Judges Reports were also prepared to make clear the comments and suggestions of specialists as well as the opinions in future trend.

(3) With these information as well as the papers/reports in CSR, the practical issues and evolution of CSR can be better illustrated and understood.

2.5 Formulating CSR Guiding Principles and Plans

(1) The size and nature of enterprises are different from one another. Moreover, they may have different local conditions and with diversified status in sustainable development. These factors need to be considered when formulating CSR guiding principles and working plans.

(2) Strictly follow extended CSR guidelines or resemble the CSRs of giant enterprises requires enormous manpower and resources. Nevertheless, the effectiveness may not be to the expectation of the publishing entity.

(3) It is more practical and long-lasting for an enterprise to grasp the key messages via guidelines, winning CSRs, judges reports etc, while formulating guiding principles and working plans according to its own status.

3. Guidelines and Judge's Opinion

3.1 Major Guidelines: The most popular Guidelines are:

(1) **GRI Sustainability Reporting (SR) Guidelines**：
GRI is an NGO associated with UNEP. In September 2006 it released a G3 version Guidelines which is somewhat condensed compared to the 2002 version. GRI also provides Sector Supplements for selected sectors. These Guidelines are the most commonly used.

(2) **CERES Environmental Guidance**: It is similar to the GRI Guidelines but simplified. Its 2001 version is more focused on environmental aspects.

(3) **CERES Guidance for SMEs and NGOs**：Its 2002 version is more condensed since they are designed for SMEs and NGOs.

(4) **<u>FRP Sustainability Reporting Guidance:</u>** Under the Facility Guidance Project (FRP), CERES published a Pilot Draft Guidance at the facility level in 2005. This Guidance has been applied to some examples in US.

(5) **<u>EU Guidance on EMAS Environmental Statement</u>**: Its 2004 version and the Guidance for SMEs are originated from "Eco Management and Audit Scheme (EMAS)". It is <u>very condensed</u> and mainly for environmental aspects.

(6) **<u>Japan Environmental Reporting Guidelines</u>**: Compiled by Japan government to promote the publication of environmental report, its 2004 version also discussed the main issues of social and sustainability reporting.

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3. Guidelines and Judge's Opinion (continued)

3.2 Messages from SR Guidelines: The above-mentioned SR Guidelines reflected the opinions and suggestions of experts and various stakeholders. These opinions and suggestions contain the following key messages:

(1) Basic concepts in CSR.

(2) Major principles for CSR and self-test means.

(3) Framework and format for CSR.

(4) Core and supplement indicators for CSR .

(5) Other relevant information such as source of data, data treatment, illustration, data quality and third party verification etc.

3.3 Major Principles of SR: Most of the SR Guidelines provided main principles that contain important steering information. Taking GRI 2006 G3 version as an example, the major principles for SR include:

(1) <u>Report Content</u> ：

(a)Materiality   (b)Stakeholders Inclusiveness

(c)Completeness   (d)Sustainability Context

(2) <u>Report Quality</u> ：

(a)Balance   (b)Comparability   (c)Accuracy

(d)Timeliness   (e)Clarity   (f)Reliability

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3.4 Major CSR Contests

(1) **<u>ESRA CSR Award</u>**: Each year, the winning reports from participating European national schemes may be submitted for the European Sustainability Reporting Award (ESRA). For 2005, the 1st prize went to Rabobank Group, the Netherlands, while the 2nd prize was awarded to BT Group, UK.

(2) **<u>ACCA CSR Award</u>**： Sponsored by ACCA mainly for individual British-related countries/regions. The judging criteria are common for these countries or regions. Hence this contest also has a wide influence. The 2005 Hong Kong CSR Awards was shared by Architectural Services Department and MRT Corp.

(3) <u>CERES-ACCA CSR Award</u>：This award is for CSR contest in North America. The judging criteria are similar to ACCA's but somewhat condensed. The 2005 co-winners were Hewlett-Packard and Nike Inc.

(4) <u>Japan Green Report Award</u>：Sponsored by Toyokeizai News Co. Its judging criteria are much more condensed compared to other contests. For 2005 the 1st prize was awarded to Ito-Yokado Co. (a chain department store), while Suntory and FujiFilm shared the 2nd prize.

(5) <u>Global Reporters' Survey and Ranking</u>: Co-sponsored by SustainAbility, UNEP and Standard and Poors. The 50 top CSRs are selected and analyzed each year. BT, Co-operative Financial Services and BP (all UK-based) were ranked the best three for 2005.

3.5 Judging Criteria of Major CSR Contests：The judging criteria of major institutions differ only slightly. The most popular ones are outlined as follows:

(1) ESRA Judging Criteria

(a) Content: 50% overall, distributed as:

-5% each for CEO statement, Executive summary and key Indicators, Profile, Reporting and accounting policies, Vision and strategy.

-10% for Governance structure and management systems.

-15% for Performance.

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(1) ESRA Judging Criteria (continued)

(b) <u>Reporting Principles</u>: 50% overall, distributed as:

-5% each for Relevance, Reliability, Clarity, Comparability, Timeliness, Completeness.

-10% for Variability.

-10% for Overall impression.

3.5 Judging Criteria of Major CSR Contests (continued)

(2) Judging Criteria of CERES-ACCA Award:

(a) <u>Completeness</u> : 40% overall, focusing on:

- Corporate context,
- Policy and commitment
- Scope
- Report and accounting policies

- Key impacts
- Targets and objectives
- Audience identified

(2) Judging Criteria of CERES-ACCA (continued)

(b) <u>**Credibility:**</u> 35% overall, focusing on:

-Contingency plan and risk-management

-Compliance/non-compliance record

-Impact data   -Financial information

-Stakeholder dialogue   -Third party statement

(c) <u>**Communication:**</u> 25% overall, focusing on:

-Layout and appearance   -Friendliness

-Innovative approaches   -Executive summary

-Proper illustrations and photos -Use internet

3. Guidelines and Judges' Opinion (continued)

3.6 Trend of CSR (as identified from available documents):

(1) Following CSR Guidelines is often evaluated favorably.

(2) CSR Guidelines tend to be simplified and differentiated for entities with different nature, while recommended indicators are somewhat less comprehensive.

(3) Open and balanced attitude, friendly and innovative style, reporting adopted principles and how to integrate sustainability with governance can improve appreciation.

(4) Reveal the interaction with stakeholders and third-party's opinion are highly recommended.

(5) Benchmarking for future improvement are encouraged.

(6) Increasing use of internet for more flexibility.

3.6 Trend of CSR (continued)

- **New Guidelines are somewhat simplified**: Taking GRI and FRP Guidelines as examples:

	GRI 2002 Version	GRI 2005 Sector Supplement for Mining and Metal	FRP 2005 Pilot Draft	GRI 2006 Version
Pages	**104**	**45**	**65**	**45**
Principles	**11**	**11**	**11**	**4+6**
Indicators				
Core	50	51	---	---
Additional	47	46	---	---
New	--	13	---	---
Total	**97**	**110**	**56**	**79**

4. Experiences of China Steel

4.1 Overview and Initial Planning

After the decision to publish CSR has been made, a task force was formed to gather information and opinions from various sources. Initial plans, made with open mind and thorough thinking, were focused on:

(1) Understanding major Guidelines, the suggestions of specialists as well as the future trend in CSR.

(2) Reading the benchmarking CSRs as well as the CSRs published by peer companies. Try to understand better about similar work.

(3) Setting guiding principles and working plans suitable to CSC after reaching internal consensus.

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4.2 Learning from Good Practices

From the benchmarking CSRs and peer's CSRs, some ideas and good practices could be noted for adoption, e.g.

(1) Present environmental data on the basis of site total as well as per ton of product.

(2) Cover current data and past trend (shown in %).

(3) Include "Interaction with Society" in report.

(4) Report future prospects and plans.

(5) European and US CSRs, often with elegant art design and overall expression, can serve as good examples.

4.3 Major Guiding Principles

(1) Report style should be consistent with the innovative and practical culture of CSC.

(2) Align the CSR activities based on eco-efficiency, producing more from less (the spirit of "light, thin, short and small yet more effective" can be properly applied).

(3) Content is sufficiently clear, complete but not overly documented. Try to integrate it with corporate governance (use suitable but not overly extensive indicators).

(4) Use concise and friendly writings and easy illustrations to fit stakeholders with various background.

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(5) Increase transparency gradually considering the current situation in Taiwan (to avoid problems due to improper interpretation of information).

(6) Due to insufficient experiences in CSR reporting, the 1st CSR of CSC was mainly for environmental issues (will expand to social and economic issues in future versions).

(7) Reasonable consistent with future versions (especially on data accuracy and display).

(8) Take high standard on art issues and overall expression, hoping to reach world class level gradually (select quality design firms, use good pictures and illustrations).

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4.4 **Framework of CSC 1st CER**

CSC published its 1st CSR (environment oriented) in 2002. The sections and key information are shown below:

| Section	Key Information
1. Messages from CEO	-Provide visions and directions using proper wording
2. Profile of CSC	-Brief introduction of corporate profile together with recent environmental emphasis -Provide annual production data over the years
3. Executive Summary	-To help grasp the key information of the CER report
4. Environmental Policy	-Based on formal corporate documents

4.4 Framework of CSC's 1st CSR (continued)

Section	Key Information
5.Environmental Management System	-Cover key items following ISO 14001.
6.Environmental Performance	-Release performance data on (1)Resource conservation, (2)Energy consumption and climate change, (3)Air pollution control, (4)Water pollution control and (5)Proper care of process residues. -Main countermeasures wee also outlined.
7.Product Performance	-Illustrate the environmental effect of major steel products and by-products.
8.Greening the site	-Demonstrate the efforts and achievement.

4.4 Framework of CSC 1st CSR (continued)

Section	Key Information
9.Interaction with society	-Show cooperative events with society and peer companies, efforts in environmental industry and other activities
10.Future prospects	-Outline the main issues and plans for future improvements
11.Chronology	-Briefly describe key environmental events
12.Awards received	-Outline the awards received in recent years
Glossary	-Explain main terminologies briefly
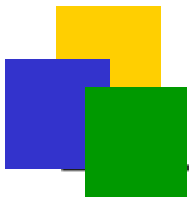
4.5 Second CSR Report

(1) China Steel published its 2nd CSR in 2005 (called SHE Report). The framework of this report was similar to the 2002 version except that safety and health issues were added to enrich the social content.

(2) In the 2005 version, new examples and measures were disclosed in addition to the updated data.

(3) Friendly, condensed and easy to understand were still the main elements for the style. As a result, large printing letters and a 40-page report was decided.

(4) Select a local design firm with proficiency, easy to communicate and work with, hoping to continue mutual collaboration and upgrade the design quality gradually.

4.6 Self-evaluation and Future Plans

(1)Properly Select Indicators: It is advisable not to use too many indicators or the indicators that are not yet mature or widely accepted.

(2)Room to Improve in Content and Quality: Mainly on

  (a)Transparency   (b) Interaction with stakeholders

  (c)Innovative ideas   (d) Risk management and prevention

  (e)Use of internet   (f)Third party opinion

(3)Room to Upgrade in Overall Impression: It is not easy to find high quality design firms for CSR, especially in Southern Taiwan. A learning process might be necessary.

(4)Future Plans: CSC will publish a new CSR in 2007. Besides the improvement arising from past experiences, social issues will be expanded for a better balance.

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5. Summary

(1) The incentives for publishing a CSR include: reveal transparent information in sustainability management and performance with a responsible attitude, enhance corporate governance in sustainability, and upgrade public image and corporate value.

(2) From various CSR Guidelines and CSR Contests, the expectation of specialists/stakeholders as well as the trend in CSR can be clearly captured. The outstanding CSRs and the CSRs of peer companies can provide more information on practical issues and set examples for learning.

5. Summary (continued)

(3) Before China Steel published its 1st CSR in 2002, extensive information was collected, followed by formulating major guiding principles according to the nature of steel business and the corporate status. These guiding principles, the framework and key information of the 1st CSR were briefly presented.

(4) Through the 2002 CER and 2005 SHE Report, China Steel has gathered experiences in sustainability reporting and allocated areas for future improvement. These experiences and findings not only could be shared with the public but also could serve as a basis to CSC in publishing more friendly and complete CSRs in future with an eco-efficient attitude.

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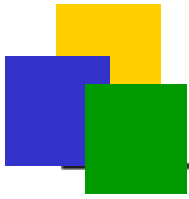
Thank you for Your Attention !