Appendix A:

Detailed guidance on developing a reporting boundary

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As noted in Section 3, detailed guidance is provided here to encourage companies to set a clear, consistent reporting boundary. The guidance below is based on three basic steps to determine which parts of the company's organization will provide data, and how this data will be consolidated for each selected indicator:

1. Define the **reporting boundary** based on how the company is organized, including a list of every **reporting unit** within the company from which data will be requested related to its assets, people, processes or activities.
2. For each indicator, determine whether an **operational**, **equity share**, **workforce** or **corporate** approach will be applied to consolidate data within the reporting boundary.
3. For each indicator, collect data at the local, national or global level based on the **scope** of the indicator and the applicable reporting elements.

The description of the reporting boundary process is deliberately generic and aims to help any company to develop its sustainability reporting. A company will normally develop its reporting boundary to reflect its own specific system and organizational nomenclature, and to ensure internal clarity on reporting requirements. In addition, more detailed industry guidance may be available and referenced for specific indicators, particularly if the intent is to use the data for other purposes, including comparisons within or between companies, or to consolidate sector data.

Step 1: Define the reporting boundary for the company

The starting point for setting the reporting boundary is to identify and list all of the **reporting units** that are part of the company for the purposes of sustainability reporting. Reporting units should be selected to represent the smallest practical building blocks reflecting the internal management of the company, and to allow data to be reported at local, country, region or global levels, as appropriate. A reporting unit can be all or part of a subsidiary company, joint venture, investment, facility, plant, office or business location, depending on what works best for the company given the way in which it is organized and managed.

Within the oil and gas industry, reporting units are generally grouped by types of upstream and downstream **activities**, such as exploration, production, drilling, refining, chemical manufacturing and marketing. A company's reporting units manage **assets** that provide benefits to stakeholders and have intrinsic financial value to the company, but also have associated risks of environmental, social or economic impact. Assets may be **operated** and/or **owned** by the reporting company. A company will already be organized into groups of activities and assets for financial accounting and this provides a useful starting point to define the list of reporting units for sustainability reporting.

In the oil and gas industry, ensuring that the company's reporting boundary is correctly described in terms of reporting units can be complex because two or more companies are often commercially involved in an asset, such as in a joint venture, and work together under a variety of legal forms. In order to facilitate consolidation of data (Step 2), typically, each reporting unit:

- represents a discrete piece of business that is unlikely to be split during internal restructuring or portfolio change (acquisition or divestments);
- manages assets operated by a single company (i.e. the operator of the reporting unit's assets is either the reporting company itself or another company, so that there is not a mix of different companies' operating assets within the reporting unit);
- manages assets which have the same reporting company ownership (i.e. try to avoid creating reporting units that comprise assets with different percentage equity share); and

- covers a narrow range of related business activities located within one country.

The manager for the reporting unit is generally responsible for providing complete and accurate indicator data as appropriate and relevant to the reporting unit's activities and assets. It is good practice to check that the list of reporting units is sufficiently inclusive to ensure that the consolidated data will adequately address the material issues to be reported. This helps to ensure that the sustainability report provides a complete picture of performance (see Section 2, General Reporting Principle on Completeness). For example, this check could confirm that the reporting units collectively represent the company's most significant emissions, employee and contractor numbers, supply-chain expenditure, or customer base.

Step 2: Data consolidation within the reporting boundary

The indicators in the *Guidance* are generally intended to provide consolidated data which is representative of the benefits and impacts of the company as a whole. There are a number of approaches to consolidating the data within the reporting boundary depending on the purpose and scope of each indicator. Four approaches are described which are applicable for this *Guidance*.

The application of the four consolidation approaches can be illustrated by considering a company that decides to collect the following data from each reporting unit in its reporting boundary:

a) *Direct GHG emissions* (E1) data from significant stationary and mobile sources are collected and then consolidated based on all emissions from assets **operated** by the reporting company, to demonstrate its management performance to reduce emissions—an example of the **operational** approach.
b) *Direct GHG emissions* (E1) data from significant stationary and mobile sources are collected and then consolidated in proportion to the reporting company's percentage share of emissions from its **partly or wholly owned** assets (both operated and non-operated), because the company wishes to provide information on the significance of its emissions in a manner more aligned with its financial reporting—an example of the **equity share** approach.
c) Data on numbers of injuries, illnesses and hours worked (HS3) are collected and consolidated for each reporting unit's employees and contractors because the company recognizes its responsibility to manage occupational safety and health risks—an example of the **workforce** approach.
d) The company provides a description of the company's corporate policies and practices for *Local content* (SE5) supported by case studies collected from reporting units to illustrate how it applies consistent policies in host countries where it operates—an example of the **corporate** approach.

Table 5 (page 121) has been provided to suggest likely data consolidation approaches for each indicator in the *Guidance*. It should be noted that more than one approach may be applicable for any indicator depending on the reporting elements selected.

When normalized quantities are calculated (see Section 3), for example when reporting injury or illness rates, or reporting emissions per unit production, it is important to ensure that the reporting boundary and consolidation approach is consistent for both the indicator data and the normalization factor.

In some cases, particularly when applying the **corporate** approach, a data consolidation step is not required. For example, if the indicator information needed was, 'Describe policies, programmes and/or procedures related to security and human rights' (SE10), there may be no need to consolidate reporting unit data as the company may have a standardized policy across the entire organization. However, a company may have an internal process to check policy implementation within its reporting units and may choose to apply the **operational** approach to consolidate the verification data within the reporting boundary.

Four approaches for consolidating data within the reporting boundary

Operational approach: The most common method, especially for environmental data, is the operational approach (sometimes referred to as operational control), which consolidates data about the activities of assets managed by a reporting unit. This approach reflects legal and contractual requirements, as well as internal policies, to manage potential health, safety, environment and social impacts, and benefits. Data are collected from each reporting unit about assets operated by the reporting company, including those assets partly owned by other companies (i.e. an operated joint-venture). Conversely this approach excludes data from assets which are partly owned by the reporting unit but operated by another company (i.e. a non-operated joint venture). The operated approach is thus generally defined to collect and consolidate all data or information from assets which meet either of the following criteria:

- the asset is operated by the company, whether for itself, or under a contractual obligation to other owners or participants in the asset (for example, in a joint venture or other such commercial arrangement); or
- the asset is operated by a joint venture (or equivalent commercial arrangement), in respect of which the company has the ability to determine management and board level operational decisions of the joint venture.

Given the complexity of the industry, sometimes uncertainty occurs at the detailed level over which physical assets should be included or excluded as 'operated' when consolidating data. One area which frequently causes dilemmas involves mobile assets, such as vehicles or ships. Such assets are clearly included in the consolidation when owned and operated by the reporting unit, but often such assets may be owned by others and leased or chartered to the reporting unit. In such cases, the following guidance may be useful:

- Vehicles, aircraft or rail rolling stock not owned by the company but contractually dedicated for exclusive business use by the reporting unit are generally included as operated assets for reporting. (This excludes 'spot' charters that are available for regular business use by other parties.)
- Many forms of contractual mechanisms exist for marine vessels, but a useful criterion for inclusion as operated assets is when the reporting unit holds the International Safety Management Code Document of Compliance (DOC). (This would typically exclude time chartered vessels, spot chartered vessels, or vessels that are owned but not managed by the reporting unit and where the reporting unit would not hold the Document of Compliance.)

Alternative criteria to the above may apply for consolidation of GHG emission or other data if a company is reporting to an external regulated or voluntary scheme.

The operational approach for consolidating data within the reporting boundary helps describe a company's performance in addressing sustainability issues through application of its HSE integrated management system, which generally has an equivalent boundary applied to operated assets and activities. When applying the operated approach, it is important that 100% of the data from the operated assets is included. Thus, even when an operated asset is not wholly owned, all data collected by each reporting unit should represent 100% of the impact or benefit of its operated assets because the reporting unit has sole responsibility for management of these assets. The reported data should not be reduced in proportion to a reporting company's share of the activity (i.e. percentage ownership).

Equity share approach: This approach is based on asset ownership (or share of financial benefits) and in this *Guidance* is primarily associated with consolidating GHG emission data (see E1) collected from reporting units. The approach is generally applied by consolidating data from all assets owned, or partly owned, by the reporting company in proportion to its percentage share of equity in (or benefits from) the assets. In contrast to the operational approach, this means data are consolidated from assets partially owned, but not operated by, the reporting company, as well as from operated assets that are wholly or partially owned—thus, irrespective of who the operator is, data are consolidated but only in proportion to the reporting company's ownership of each asset. The equity share approach is therefore aligned closely with financial reporting and is intended to provide a more complete picture of potential responsibilities. More detail is provided on this approach in the companion IPIECA/API/OGP document *Petroleum Industry Guidelines for Reporting Greenhouse Gas Emissions*, which also provides information on an alternative but similar approach known as the Financial Control Approach.

Workforce approach: This approach aims to consolidate data related to activities that impact or benefit employees of the reporting unit's operated assets. Depending on the indicator scope, the approach may also be used to consolidate data related to contractors whose work is managed by the reporting unit, or third parties impacted by the activities. The data are generally limited to occupational (work-related) activities that take place in the work environment and, in this regard, the workforce approach builds on the operational approach but is focused on management of people rather than assets. The work environment may include not only workplaces within a physical asset, such as production plant or offices, but any other places where work is undertaken by the reporting unit, such as road vehicles, aircraft, ships, survey locations, community property, supplier depots or customer premises. The *Scope* sections of indicators in the *Guidance* may also define specific activities of employees or contractors that are excluded, such as commuting from home to work, or voluntary participation in fitness programmes. This approach is commonly used for indicators that aim to measure actions, events or incidents resulting in actual or potential harm to people caused by the activities of operated assets, and may also be applied to other workforce measures, such as training.

Corporate approach: Processes, such as implementation of policies, procedures, programmes, practices or systems, may be applied consistently across all of a reporting unit's assets or activities, and also across groups of reporting units up to and including the corporate level of a company. Such processes can apply to functional activities such as marketing, product stewardship, research and development, lobbying, staff hiring practices, or social investment. These activities may be carried out at a local, national, regional or international level, often in partnership with others. The corporate approach, which is commonly applied for social and economic indicators, is used to consolidate data or information about processes typically generated centrally at the reporting unit level or above, including the corporate level. The corporate approach may be supported by case study or other local information to demonstrate process implementation at the asset level.

Step 3: Collect data within the indicator scope

It is important to distinguish the company's activities and assets managed by its reporting units that constitute the company's reporting boundary, from the **indicator scope**. The 'scope' of each indicator in the *Guidance* helps limit the applicability of reporting elements to ensure that collected data are relevant and focused on how the company has managed an issue sustainably. The scope, supported by definitions of terms, provides guidance on the extent and limitations of the indicator to reflect potential impacts of the company's activities. The indicator scope aims to provide specificity, applicability, consistency, comparability and relevance for each indicator, and it is therefore not necessary to detail the people, part of the environment or 'value-chain' included in a company's overall reporting boundary (beyond its activities, assets and workforce).

Depending on the materiality of an issue and the extent of any impact, a company needs to ensure that a complete set of relevant data is collected for each selected indicator. Relevance and completeness will vary for different issues and, therefore, each *Scope* section contains specific guidance for the respective indicator. Various options to report relevant data or information for the indicator are then provided as **reporting elements**.

The indicator scope includes potential impacts, or benefits, to parties not directly managed by the company. For example the scope of indicators may be inclusive of contractors or other suppliers, customers, local communities or governments. Examples follow on how indicators provide options to increase the scope to report on impacts or benefits from assets and activities beyond those related to a reporting company's directly managed operations and employees:

- The scope of the *GHG emissions* (E1) indicator provides the option for a company to report 'indirect' emission data related to power supplied by generating plants owned or operated by others, as well as reporting their own 'direct' emissions from combustion of fossil fuel within the reporting company's owned or operated assets.
- As well as an indicator to report on how a company might address *Human rights due diligence* (SE8), a separate indicator provides scope to report on *Human rights and suppliers* (SE9). Similarly, another indicator addresses *Local procurement and supplier development* (SE7).
- The health and safety indicator on *Occupational injury and illness incidents* (HS3) applies to contractors as well as employees, while the *Product stewardship* (HS4) indicator includes scope to address how a company communicates product risks to customers.

Reporting beyond the defined boundary

A company may choose to extend its collection and consolidation of data beyond its defined reporting boundary. This may apply only to certain indicators, where an issue is particularly material. This could include, for example:

- Large joint ventures where the company is not the operator but has a substantial equity share. While *GHG emissions* (E1) suggests that data can be consolidated using both equity share and operational approaches, the company may wish to further describe a specific joint venture's performance related to other environmental, safety or social responsibility issues, supported by any available data from the joint venture.
- Some contracted activities, such as road transport, construction projects or shipping, may be partially excluded from the consolidated data because certain assets are non-operated or the activities are outside the indicator scope. The company may wish to expand its description of risks or incidents, or other potentially significant impacts, and discuss mitigation measures, supported by any available data.

In such cases, companies may wish to include relevant data in their report, acknowledging the data source, as appropriate. However, such data should be reported separately so that base comparability is maintained for the data consolidated within the company's reporting boundary.

Table 5 *Typical use of consolidation approaches within the reporting boundary*

Issue category	Indicator	Data consolidation approach: Operational	Equity share	Workforce	Corporate
Climate change and energy	E1: Greenhouse gas emissions	●	●		
	E2: Energy use	●			
	E3: Alternative energy sources				●
	E4: Flared gas	●			
Ecosystem resources	E5: Biodiversity and ecosystem services				●
	E6: Fresh water	●			
Local environmental impacts	E7: Other air emissions	●			
	E8: Spills to the environment	●			
	E9: Discharges to water	●			
	E10: Waste	●			
Workforce protection	HS1: Workforce participation			●	
	HS2: Workforce health			●	
	HS3: Occupational injury and illness incidents			●	
Product health, safety and environmental risks	HS4: Product stewardship				●
Process safety and asset integrity	HS5: Process safety	●			
Community and society	SE1: Local community impacts and engagement	●			●
	SE2: Indigenous peoples				●
	SE3: Involuntary resettlement				●
	SE4: Social investment				●
Local content	SE5: Local content practices				●
	SE6: Local hiring practices			●	●
	SE7: Local procurement and supplier development				●
Human rights	SE8: Human rights due diligence				●
	SE9: Human rights and suppliers				●
	SE10: Security and human rights				●
Business ethics and transparency	SE11: Preventing corruption				●
	SE12: Preventing corruption involving business partners				●
	SE13: Transparency of payments to host governments				●
	SE14: Public advocacy and lobbying				●
Labour practices	SE15: Workforce diversity and inclusion			●	
	SE16: Workforce engagement			●	
	SE17: Workforce training and development			●	
	SE18: Non-retaliation and grievance system			●	