Corporate Responsibility:

Strategy, management and value – How PwC can help

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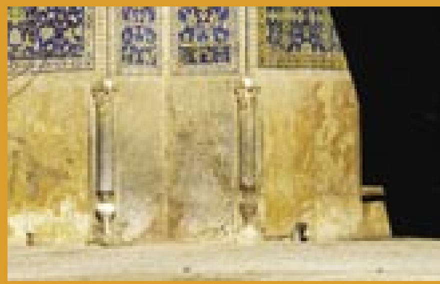


Foreword

By Samuel A. DiPiazza, Chief Executive Officer, PricewaterhouseCoopers LLP

With nearly 500 practitioners in over 40 countries, serving almost half the companies in the Fortune 100, the PricewaterhouseCoopers Sustainable Business Solutions (PwC SBS) practice is truly global. It helps clients develop in a sustainable manner and address their social responsibilities – and thus improve the effectiveness and efficiency of their strategies, processes, services and products with the larger needs of society in mind.

As a member of the Executive Committee of the World Business Council for Sustainable Development (WBCSD), a coalition of 175 international companies united by a shared commitment to sustainable development, I am personally committed to driving sustainable development and corporate responsibility into business thinking.

Eco-efficiency and awareness of the social and economic impacts of business operations are essential to business success in the 21st century. The 19th century invented large-scale industrial manufacturing. The 20th century converted it into an applied science and learned to control it from a keyboard and monitor. The 21st century will bring it to maturity by learning to integrate enterprise of all kinds – both manufacturing and services – with the needs of the natural environment and social enterprise.

Businesses that demonstrate environmental and social leadership, and share with their stakeholders the principles and practices they adopt, build public trust and strengthen their reputations and brands. While these intangibles are sometimes hard to quantify, forward thinkers understand their value. They recognise that a company's approach to sustainability and corporate responsibility mirrors its approach to business. Companies that postpone dealing with the challenges of sustainable business practice, or minimise the attention they accord such issues, put themselves at risk and lose opportunities.

The PwC SBS practice was created by business people for business people. It focuses on value creation and views sustainability strategically, as a way of doing business effectively. It includes a global network of multidisciplinary professionals with expertise in several industries, who team as necessary to help clients solve multi-faceted sustainability challenges. They know how to adapt global best practices to local conditions.

People often ask how PwC itself practises sustainability and corporate responsibility. With member firm offices in 769 cities in 144 countries, and an aggregate workforce of 120,000 people, we have a substantial duty to manage our operations with the values of sustainability and corporate responsibility in mind.

PwC has innovative programmes in many parts of the world. However, like other multinational organisations, we still have opportunities to do more. In the UK, for example, we operate a “go green” travel programme that applies a broad series of environmental measures. We are investing in videoconferencing as an alternative to travel; promoting a policy of “rail first”; taking steps to “carbon-neutralise” our air and highway travel through such compensatory measures as tree-planting; and examining our suppliers’ environmental credentials. We have also joined forces with The Prince’s Trust to assist 1,000 disadvantaged young people in setting up their own businesses. We have provided both start-up capital and volunteer mentoring for these young entrepreneurs.

Our member firms and people in the rest of the world engage in other environmental and corporate responsibility initiatives. Our global policy is to lead from our own professional strengths by helping to develop the employment or self-employment skills of young people; raising educational achievement through numeracy, literacy and citizenship programmes; and supporting strategic community regeneration initiatives. So, for example, PwC South Africa is deeply involved in the New Partnership for Africa’s Development, an African Union programme aimed at eradicating poverty and setting Africa on the path to sustainable development. Similarly, PwC US provides significant funding and volunteer support for Junior Achievement and Big Brothers and Sisters, which both focus on free enterprise training and mentoring. Investing in programmes like these is not just good for society but good for our business. As a professional services firm, we depend for our success on the pool of people from which we can recruit, as well as the effectiveness with which our people can train others.

We are also contributing to various important international efforts to set standards and document developments on a worldwide basis. In addition to being a member of the WBCSD, PwC is a signatory of the United Nations Global Compact, which sets voluntary standards for corporate reporting on environmental, social and economic issues. We are actively involved in the Global Reporting Initiative (GRI), which provides leading-edge thinking about corporate reporting, and have a partnership with Transparency International, the widely respected non-governmental organisation (NGO). We are currently working with Transparency International to develop the Integrity Code, a standard that will address bribery and corruption in the private sector.

Much still remains to be done, especially now that companies are expected, in their capacity as the creators of work and wealth, to assume a growing share of government’s traditional remit for fulfilling society’s needs. But one of the strengths of business is realism – the capacity to make realistic assessments of opportunities, challenges, risks, operating options and strategies. In a world that is more interdependent, in which public scrutiny of business is intensifying, and global ecological issues are driving public awareness, I believe there are numerous opportunities for companies to leverage their resources and expertise to make a difference.

The PwC SBS practice is dedicated to helping local and global businesses understand and respond strategically to sustainability issues. You will find in this Handbook the latest roadmap to a PwC practice that addresses some new and urgent business concerns of our time.

Preface

By Sunny Misser, Global Leader – Sustainable Business Solutions

When our hunter-gatherer forefathers started bartering goods and services, they could never have envisaged the radical transformation this would produce. Commerce is the glue that holds the world together, the source of the wealth that has made life in the 21st century easier for more people than ever before. It has given us access to greater options, better ways of communicating and higher living standards, as well as the advances with which to share the knowledge we acquire.

Activists and NGOs sometimes argue that the objectives of business are fundamentally self-serving – and the business sector often faces a reputational assault. The backlash against globalisation, disproportionate executive remuneration and misreporting of information, together with several corporate scandals and growing concern that the interests of shareholders have trumped those of other stakeholders, have all contributed to a breakdown in confidence and trust in the corporate model.

However, this does not mean that we need fewer businesses. It means, rather, that we need *better* businesses – businesses that are properly managed; businesses that behave in a socially, environmentally and economically responsible manner. We need businesses that are willing and able to operate according to a set of standards and subject themselves to unbiased public scrutiny.

In fact, there is mounting evidence that companies that act in a responsible manner consistently do better than others in the long run. People often blame capitalism for encouraging bad corporate behaviour. But the global capital markets are not immoral; they are merely amoral. The same market mechanisms apply whatever product or service a company sells. If it does the right things, it makes money. If it does the wrong things, it goes out of business. So it is unfair to blame the philosophy of capitalism for the wrongs that humans do.

We can start by asking: what is the purpose of business? Does it exist in order to make a profit? Or does it exist by making a profit? If the business sector stopped making money, our entire economic system would collapse. But the rationale for doing business is surely not just to make money; it is to make money do more for the betterment of life.

That leads to another question: what is the role of business in society? The last hundred years have seen a tremendous rise in the power of businesses in societies. Well-run corporate entities have become the primary motors not only of economic progress but also, increasingly, of social change. There are growing expectations that companies should use their significant power and influence for the common good. But how far should corporations go? Should they really be expected to address issues that have traditionally been the responsibility of governments – such as poverty, basic infrastructure, public health, corruption and social justice? Like it or not, many companies have had to begin addressing these issues in pursuit of their business objectives and in response to stakeholder pressures. However, most companies are still working – some may say struggling – to define how best to meet their business objectives while benefiting the common good.

So how should the business sector respond? I believe there are three key elements: *integration; action;* and *communication*. First, companies must formulate a clear strategy for behaving responsibly and integrate that strategy with their core business operations. In this way, corporate responsibility pervades their mainstream activities – like a gene that is encoded in their DNA and copied to each cell in the corporate body. Second, they must adhere to the values and standards they have articulated for themselves. Long-term sustainable performance does not come from proclaiming a code of conduct but from putting it into daily action. And last, they must tell the world clearly what they are doing – both their successes and their challenges. Only then can they close the gap in perceptions, maintain their reputations and act as an example to other organisations.

We have compiled this Handbook in the hope that it will help to illuminate the main issues that businesses operating in a variety of regions and industries are facing, and provide a useful guide to leading practices. It is not a magic bullet; there can be no such thing. But if it serves to promote an understanding of sustainable development and better business customs – both within our own organisation and within the global business community – it will have more than fulfilled its purpose.

Doing the right thing does not have to be an unprofitable or uncompetitive exercise. It is absolutely possible to be a decent human being and to pursue aggressive business growth. It's a matter of balance.

Sunil A. Misser
Global Leader - Sustainable Business Solutions

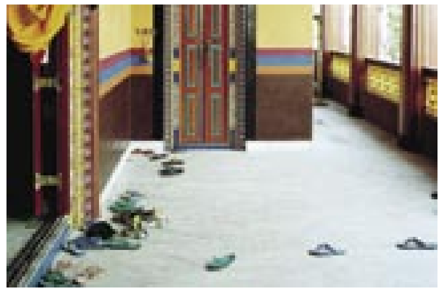
Acknowledgements

The conception and development of this Handbook were expertly led by Thierry Raes, formerly Global Leader of the PwC SBS practice, without whose vision, dedication and tireless exertions it would never have reached print. We are deeply indebted to Thierry and to the core team who structured and compiled the material: John Fillo, Marco Fujihara, Michael Sadowski, Sascha Sobek and Tina Trickett.

We also thank several members of our PwC Global Leadership team – Sam DiPiazza, Willem Bröcker, Richard Baird, Frank Brown and Alec Jones – for their enduring support and constant efforts to communicate the importance of corporate responsibility, both within and beyond PwC. It is this support that has been critical to the growth of our global SBS practice.

Further thanks are due to Helen Kay and Johanna Quintrell, who helped with the writing and editing of the Handbook. They responded with great speed, provided new insights and challenged us to lift the level of our thinking. Thanks also go to Artemis Zarifopoulos Drueke for her innovative contribution to the design and publication of this document.

Finally, a special thank you goes to all the members of our global SBS network, whose steadfast support and unwavering conviction have contributed so much to the ideas articulated here.



A Vision for Sustainability

Twenty years ago, environmental and social issues were for activists. Ten years from now, they are likely to be amongst the most critical factors shaping government policy and corporate strategy.

Twenty years ago, we were a series of local states and countries, national and regional businesses that were partially connected. Ten years from now, we will all be entirely globally interdependent as individuals and organisations.

Twenty years ago, our rate of growth seemed infinite. Ten years from now, it will be influenced by environmental factors beyond our control.

The human race currently faces one of the biggest challenges in its history: namely, the challenge to develop in a sustainable fashion that meets the needs of the present generation without sacrificing the needs of future generations. The rapidly expanding population, the drive for economic growth, the insatiable demand for resources, the speed and scale of globalisation, and increasing reliance on global supply chains all represent major obstacles to this goal.

At PwC, we do not oppose growth, progress and development; rather, we advise organisations on how to deliver a more sustainable performance that takes account of social and environmental issues and adheres to one simple rule: total demand must be balanced by total supply. This equation involves measures that are not solely financial measures. It also extends beyond the short-term perspective the markets have increasingly adopted. In brief, we aim to help organisations behave in a responsible manner and to encourage innovation, recognising that these factors will be a significant influence on the societies and markets of the future.

A matter for global concern

Sustainability is a matter for global concern on numerous counts. Take the growing amount of energy that is required to support our lifestyles and economies. Fossil fuel consumption has risen nearly 75% since 1970, although the population has increased by just 66% over the same period. Many industrial countries have seen their energy use soar, but consumption is rising even faster in the developing world.

Demand for other natural resources has also been climbing; indeed, during the 1990s, the world's forests were depleted at an average rate of 9.4 million hectares per annum. Yet deforestation and carbon emissions from fossil fuels are two of the main causes of climate change – and carbon dioxide concentrations in the atmosphere are now the highest in 160,000 years.

Environmental damage is only one of the problems mankind faces; there are some equally pressing social issues. Global poverty has halved in the past 25 years. Even so, more than four billion people still live on less than two dollars a day; more than one billion have no access to clean water; three billion have no access to proper sanitation; and two billion have no access to electricity.

The link between poverty and illness has long been recognised and, with greater mobility (of both people and products), diseases can be rapidly transmitted around the globe. But poverty is also closely aligned with poor governance. Research conducted by Transparency International shows, for example, that corruption is more prevalent in poor countries than in wealthy ones. Levels of disclosure and the attention that is paid to sustainable development are likewise often less in the developing world.

However, good governance is not just a matter of morality. The business case for sustainable development is also very strong. Research conducted by PwC shows, for example, that more than half of institutional investors and analysts think evidence of compliance with environmental protocols and compliance with health and safety regulations are critical indicators of a company's value, regardless of the sector in which it operates. They also believe that communicating more effectively with the financial markets improves a company's access to new capital, lowers its cost of capital and boosts its share price. In short, good governance and disclosure of information about sustainability can have a tangible impact on a company's financial performance.

The next decade

What, then, do we believe will drive sustainable development over the next decade and so shape the form it takes? We have drawn on our involvement in policy debates, working with the world's leaders in government and business, to consider some of the most likely trends – although we recognise that any discussion of such trends can be argued from different perspectives:

- Global market forces will play a much greater part than government policy in the decision-making process. The influence of the markets will grow, as they reflect rising demand, shrinking supplies and changing patterns of demand for natural resources; labour and distribution costs; environmental and health legacies; operating and product liabilities; the security of assets, including intellectual property; and the pressures for fairer trade and a more equal distribution of wealth across the global population.
- The financial model that currently forms the basis of all decision making (both governmental and organisational) will be revised to include new scenarios, new data and new risks. It will incorporate a growing number of intangibles and non-financial issues.
- The need to respond to, and overcome, a wide range of new challenges will create multiple opportunities for innovation, particularly in core industries such as engineering, agriculture and food, medicines and technology. The innovations we make will not only be technological; they will include changes in our behaviour, supply-chain models, geopolitical structures, product design and development. Mankind has only just begun to explore the potential for such innovations and, as economic conditions alter, it seems reasonable to assume that the rate of innovation, in all its forms, will increase exponentially.
- Globalisation will diminish the role of the state. International institutions will be responsible for formulating definitive global and regional policies, and local institutions for implementing them at national or local level. This transition is likely to be difficult, and sometimes disruptive, but a number of factors will ensure that it takes place. They include the increasing pressure on scarce resources; changing patterns of global demand; the trans-national impact of human activity and natural events; and growing awareness that we are both a single global community and a collection of local societies that need to remain effective.

- Our progress towards sustainable development will be largely incremental. It will be a process of evolution rather than revolution, since the barriers to rapid change – for example, the tendency to use short-term planning horizons and the difficulties in accommodating diverse global needs and perspectives – are unlikely to alter for many years yet. But specific catalysts, either global or local, may also cause sudden disruptions and spurts of great change.
- The global media could influence the areas on which governments and industries focus, and accelerate the speed with which shifts in policy making and practice occur.

The trends we have outlined above will not happen in isolation. They are all interlinked, a fact that adds to the complexity of the task we face in creating societies, economies, businesses and individual lives that are sustainable. The challenge is not a new one, but we are more aware of it today and our global footprint is bigger than ever before. The importance of translating words into deeds is thus far more compelling than it was for previous generations.

Recognising this, we at PwC will continue to develop our skills, progress with the integration of sustainable thinking in the advisory, tax and assurance services we offer, and make our contribution to global debate and the process of change. In the following pages, we have examined some of the most important issues pertaining to sustainability and corporate social responsibility (CSR) on a regional basis. We have also covered the key challenges facing the specific industries in which our clients operate. Lastly, we have outlined the solutions and services our SBS practice provides.

Regional Sustainability Issues

Europe

Europe is the world's second-smallest continent, with an area of just over four million square miles. It is highly industrialised and densely populated, with roughly 700 million inhabitants. Two-thirds of the population live in the 25 member states that currently constitute the European Union (EU) – the core body responsible for developing regional regulation. Romania and Bulgaria are expected to join the EU in 2007 or 2008.

The EU is relatively wealthy, with a gross domestic product (GDP) of $11.7 trillion in 2004 and an average per capita income of $26,900, although the new Central and Eastern European member states are much less affluent than their Western European neighbours. Global competition has seen the gradual erosion of the region's more traditional manufacturing industries and a corresponding increase in service-based industries. Even so, the EU still consumes more than 2.6 trillion kilowatts of electricity a year and 14.5 million barrels of oil per day (bbl/day). It also faces a number of social and economic challenges, as the population ages.

The key issues

- The mature, consumption-based economies of Europe are under increasing pressure to decouple growth and consumption – to achieve greater efficiencies, reduce their environmental impact and develop more sustainable policies and practices.
- To this end, many countries have introduced recycling requirements and are gradually expanding the responsibilities of producers throughout the supply chain. They have also established various market mechanisms, in particular, those relating to emissions trading, which are creating new costs.
- The EU shapes a considerable part of regional policy – especially for social issues such as welfare, health and labour standards – by framing directives that must then be enshrined in national law.
- The pressures to demonstrate good governance – ethical behaviour, sound risk management, personal accountability at board level and transparency – are increasing. These pressures are not restricted to the private sector; they include the public sector and apply especially to the management of supply chains and outsourcing arrangements.
- The influence of stakeholders is growing and has resulted in the development of stakeholder-oriented management models that include the interests of employees and customers.

- The infrastructure – particularly the transport, utilities and technological infrastructure – is improving, both to accommodate changing social demands and environmental requirements, and to remain competitive in a global product and labour market.
- Public-sector institutions, especially those that are regional and local, are under increasing pressure to demonstrate that their policies and programmes meet sustainable development criteria.
- Global requirements and standards are increasing the emphasis on environmental and social responsibility during mergers and acquisitions, and in brand management and value.

The key drivers

- The unification of Europe has increased the amount of regulation that is regional rather than national and resulted in greater legal harmonisation. One such instance is the EU greenhouse gas emissions (GhG) trading scheme.
- Numerous governance codes have established what is required or expected of companies and public-sector bodies, including extended corporate reporting and assurance on their environmental and social performance.
- Stakeholder activism has increased, necessitating the adoption of additional management controls to deal with the associated risk to companies' reputations.
- Many organisations are experiencing operational pressures to achieve cost savings or greater efficiencies and minimise their potential future liabilities.
- Public-policy requirements increasingly include socio-economic and environmental considerations in the assessment of the impact of projects.
- Globalisation has made the management and assurance of global supply chains more complex.
- The EU has committed to reducing its energy consumption, in conformance with the requirements of the Kyoto Protocol on Climate Change.

The implications

- Both private- and public-sector organisations must expand their internal governance arrangements to cover a wider spectrum of risk (including non-financial risks like loss of reputation or brand damage) and bring such risks within the scope of their internal controls and reporting systems.
- They must deliver compliance in a cost-effective manner, recognising the contribution that technology and changes in management conduct can make.
- They must improve their ability to anticipate statutory and voluntary developments by integrating non-financial considerations into their organisational strategies and planning.
- And they must develop new areas of knowledge and techniques for addressing complex environmental and social issues.

FRANCE

- Most French environmental laws stem from EU directives.
- The Law on New Economic Regulations, passed in 2001, requires all listed companies to report on their CSR performance in their annual reviews. The financial auditors verify this information.
- France adopted a National Sustainability Strategy in 2005.
- Rigorous labour laws strongly influence human resources policy and reporting.
- Most listed companies use sustainability-dedicated reporting tools.
- Sustainability is an important part of the Official Development Aid programmes that France sponsors.
- Socially responsible investment is growing, including in the context of the new pension funds (fonds de réserve des retraités).

GERMANY

- Many environmental laws result from EU directives, but they are often incorporated into national legislation in more stringent form.
- There are strict requirements for environmental reporting.
- Companies operating in industries that are exposed to criticism from stakeholders (such as chemicals and mining) typically adopt voluntary sustainability programmes rather than waiting for mandatory laws.
- Companies in less exposed industries are driven by compliance requirements.
- Labour laws set the framework for human resources management (for example, retirement, redundancies and working hours).
- Strong labour unions exercise significant political influence on companies and the workforce.

NETHERLANDS

- The influence of the EU dominates the shaping of national legislation.
- The government actively participates in the debate on sustainability and has created an independent benchmark of CSR performance.
- Many lobbying groups and associations track the CSR performance of listed companies and attend their annual general meetings.
- Sustainability is now a board-level concern and companies are under increasing pressure to publish sustainability reports that have been verified by an independent third party.
- These sustainability reports will eventually be expected to include information on companies' supply-chain responsibilities.

NORDIC COUNTRIES

- EU directives drive most legal initiatives, especially those that pertain to the environment.
- In Denmark, the annual report must address environmental issues and other non-financial information, if it is relevant to the business.
- Market-based instruments, such as greenhouse gas allowances/credits and green certificates for electricity, have created strategic challenges for several industries.
- In the private sector, sustainability issues now seem to be much more integrated into business processes rather than being handled as add-on considerations.

ROMANIA

- CSR is still in its infancy in Romania, and the immediate challenge is to ensure that the country can meet the requirements of the EU.
- Mandatory reporting of CSR performance is not required; verification of CSR performance or expenditure is not practised.
- Some companies (especially multinationals) have made tentative attempts to set up CSR programmes. But they have done so only within the limits of the Romanian Sponsorship Law and as necessary for marketing or advertising investment.

SPAIN

- Most environmental legislation originates from EU directives, although there may be additional local or regional laws.
- The Spanish parliament has set up a sub-committee, under the Labour Relations and Social Affairs Committee, to develop a set of recommendations on CSR by the end of 2005. It has also established a forum of experts on CSR, who will evaluate these recommendations and draft an action plan for Spain in 2006.
- Some listed companies have started publishing CSR reports and getting them independently verified.

SWITZERLAND

- Switzerland is not a member of the EU, so EU directives do not drive the development of regulation (although they may sometimes influence its direction).
- The Swiss stock exchange has issued guidelines on corporate governance.
- Many Swiss multinationals are also listed on US or UK stock exchanges, and are therefore subject to additional rules.
- The expectations of Swiss consumers and investors are rising with regard to CSR.
- Some Swiss companies have also been motivated to improve their CSR performance because they see it as a means of differentiating themselves from their peers.
- CSR is rising up the political agenda, and this will probably result in the development of new guidelines and laws on transparency.

UNITED KINGDOM

- The UK government has updated its sustainable development policy with a new strategy launched in March 2005. It will publish further plans in 2006.
- All aspects of sustainable development are attracting greater scrutiny, particularly in the assessment of public-sector policy and major projects.
- The key challenges laid out by the UK government for its comprehensive spending review in 2007 include specific references to climate change and the management of natural resources.
- From 2006, listed companies will be required to produce an Operating and Financial Review that includes social, environmental and ethical matters.
- Governance requirements are attracting more attention from top management.
- Business management processes are beginning to integrate considerations of “responsibility” with key business activities such as risk mapping, supply-chain management, internal audit and human resources.

North America

North America covers an area of 9.3 million square miles and has a population of 455 million. The United States (US) and Canada account for most of this land mass; Mexico, by contrast, is only about three times the size of Texas. The US and Canada also share many cultural and economic characteristics, whereas Mexico has more in common with Central and South America.

UNITED STATES

The regional context

The US is the third largest country in the world, measured by population and by size. Nearly 300 million people inhabit its 50 federal states and the District of Columbia – an area covering more than 3.5 million square miles. It accounts for roughly 30% of the world's economic activity (as measured by GDP), and almost 80% of this activity is derived from the services sector. The median income is over $40,000, although 12% of Americans live below the poverty line.

The country faces a number of challenges to its sustainable development. It is home to only 5% of the global population, for example, but its populace is forecast to increase by 40% over the next 45 years and it already consumes 24% of the world's energy. The US also emits a quarter of the world's greenhouse gas emissions; yet, as of October 2005, it has chosen not to enter into the Kyoto Protocol. In addition, it is wrestling with soaring healthcare costs. And corporate governance costs have risen sharply, after some highly publicised corporate scandals at the start of the decade. In 2004, US companies spent an estimated $5.5 billion addressing the requirements of the Sarbanes-Oxley Act of 2002.

The key issues

- Over 80% of the US's energy demand is met by fossil fuels, and it is highly dependent on foreign nations for its petroleum needs. This will continue to shape its attitude towards issues such as the securing of energy supplies, climate change, air pollution and exploration for oil in ecologically sensitive areas. While there is no federal mandate for increasing energy generated from renewable sources, at least 18 states have established minimum percentages of energy that must be derived from renewable sources.
- The absence of a national climate-change policy has prompted several states to develop their own regulatory frameworks for greenhouse gas management. In the light of this patchwork regulatory regime, as well as the belief that a national climate-change policy is on the horizon, many companies are beginning to make voluntary commitments to manage their carbon footprints.
- Nuclear power, which has not been a viable option for new power plants for the last few decades owing to concerns over safety and waste, is now being discussed as a serious option.

- Much of the improvement in air and water quality over the last few decades was driven by command and control regulation such as the Clear Air and Clean Water Acts of the 1970s. The US has also used market mechanisms (like the sulphur oxide cap-and-trade system of the early 1990s) to improve environmental quality. But the current political administration has modified certain environmental regulations (such as the New Source Review) to give businesses greater flexibility.
- Public health and its associated costs are a major concern for both the public and the private sectors. The US spent 15.3% of its GDP– over $5,600 per person – on healthcare in 2003. One particular problem is obesity: 60% of Americans are either overweight or obese, and the Center for Disease Control and Prevention calculates the costs at more than $117 billion per year. The expenses arising from the provision of employee healthcare have also reduced the competitiveness of some industries, like automotive manufacturing.
- Over the next few decades, the social security system will come under huge strain from a growing population of beneficiaries (people aged 65 and older). Fears that it will eventually become insolvent have prompted various efforts to revamp the system.
- After several high-profile cases of corporate malfeasance, new regulations have been introduced to improve corporate governance and financial reporting. The Sarbanes-Oxley Act is generally believed to be good for shareholders, but the time and costs involved in implementing it have been a considerable burden, especially for small- and medium-sized companies.

The key drivers

- The socially responsible investment (SRI) community screens companies and uses shareholder activism to pressurise corporations into changing their behaviour. Over $2 trillion was invested in SRI funds in 2003 – an 82% increase since 1997.
- The growing trend towards public corporate responsibility reporting is encouraging companies to be more transparent and increase their focus on non-financial matters. According to one study, 35% of the top 250 US companies produced a corporate responsibility report in 2005, up from 30% in 2002.
- NGOs continue to play a primary role in setting the sustainability agenda and working to effect change at the legislative, corporate and community levels.
- An increasing number of companies are doing more than is required to comply with the regulations on social and environmental issues for several reasons, including board-level commitment, the desire to protect their brands and reputation, and the opportunity to secure greater operational efficiencies.
- Government at all level plays a role in setting the sustainability agenda for the US, through activities such as legislation, purchasing, research, and cooperation with business and industry.
- Demand for more sustainable products and services is relatively small but rapidly expanding. For example, sales of organically grown food have grown 20% per year over the last decade.

The implications

- In the absence of national legislation on climate change, US companies have been slower to act than their European counterparts. However, with several states either enacting or planning legislation, and with the Senate proposing national legislation, several companies have called for national standards.
- US corporations typically lag behind their European counterparts when it comes to CSR for a variety of reasons, including the different regulatory environment in which they function.
- Many US companies have taken a reactive approach to CSR, leaving NGOs, SRI funds and other stakeholders to set the agenda. This has sometimes proved costly – with the development of CSR programmes that are not aligned with their core business operations.
- Since the market for more sustainable goods and services has historically been quite small, Fortune 500 companies have done little to develop and market such goods and services. However, with the expansion of the market, this is changing.

CANADA

The regional context

Canada is the second largest country in the world by size, but has a population of only 33 million – 90% of whom live within 100 miles of the US border. It closely resembles the US in its market-oriented economic system, pattern of production and affluent living standards. The growth of the manufacturing, technology and service sectors over the past 50 years has transformed the country into a primarily industrial and urban economy. The 1989 US-Canada Free Trade Agreement (FTA) and 1994 North American Free Trade Agreement (NAFTA) have also increased the volume of trade with the US; indeed, the US now purchases more than 85% of Canadian exports. Meanwhile, 15 years of relatively conservative fiscal management by the federal government have produced a long-term budget surplus, which is substantially reducing the national debt.

Canada has actively supported many international environmental and sustainable development agreements and initiatives, including the Montreal Protocol on Substances that Deplete the Ozone Layer and, more recently, the Kyoto Protocol. The federal government has also developed its own sustainable development policies and appointed a Commissioner of the Environment and Sustainable Development, whose mandate is to ensure that the federal government is accountable for "greening" its policies, operations and programmes. The Commissioner leads a specialised unit within the Office of the Auditor General of Canada that focuses on environmental and sustainable development issues and is devoted entirely to providing environmental audits of the government's activities.

The key issues

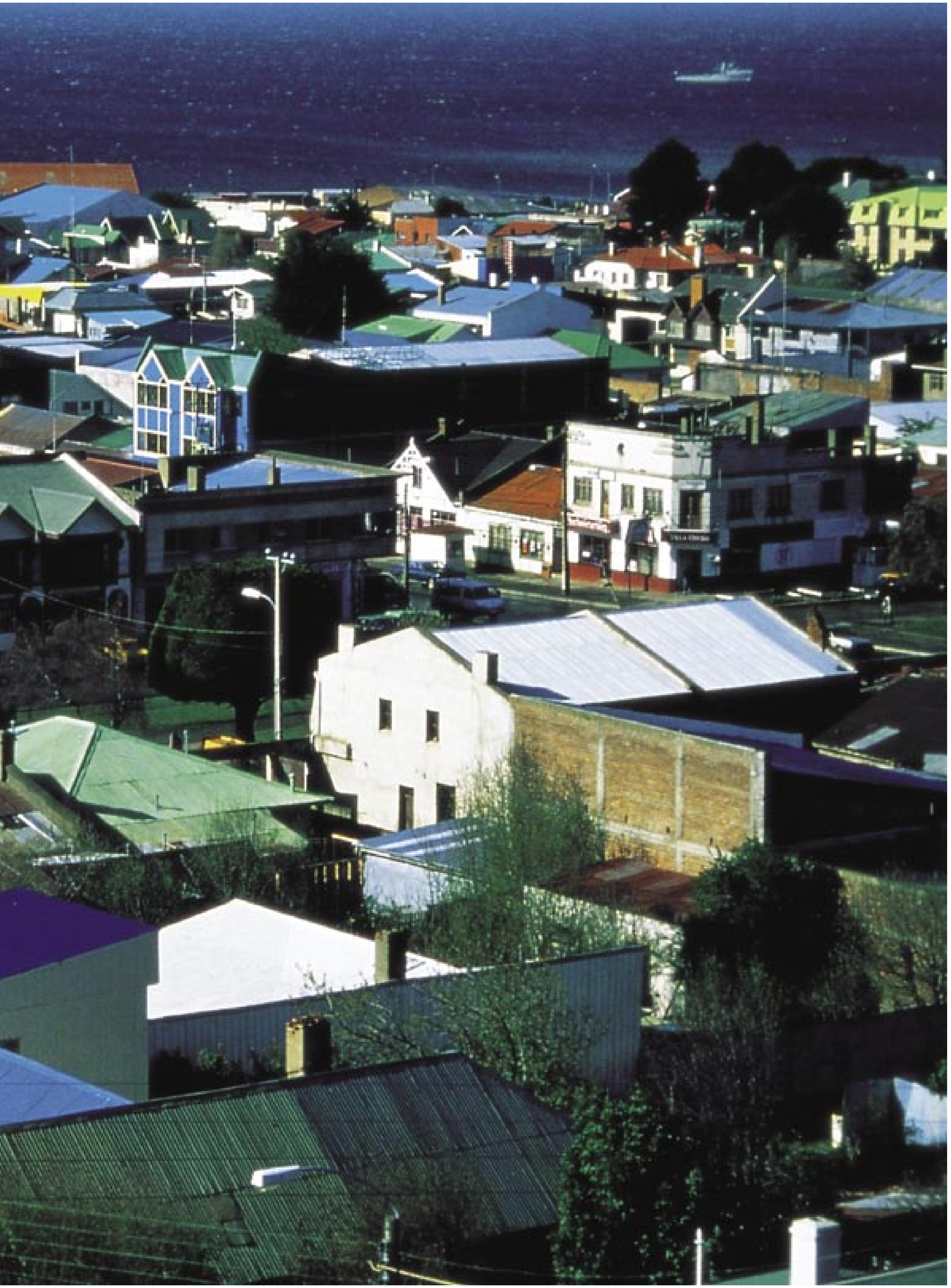
- The federal government has identified climate change as the most significant sustainability issue facing Canada today. Since 2000, it has spent, or committed to spending, more than $3.7 billion on climate-change-related initiatives. In 2004, Canada ratified the Kyoto Protocol and, in early 2005, the federal government released its long-awaited climate-change action plan ("Project Green"), which focuses on investment in technology research and improvements in energy efficiency. The federal government has also targeted large final emitters – primarily the oil and gas, thermal electricity, mining and manufacturing sectors – and has announced plans to cap greenhouse gas emissions. Companies within these sectors will be required to achieve in-house greenhouse gas emission reductions or purchase credits on an open-market system.
- In the early 1990s, the once lucrative cod-fishing industry on Canada's east coast collapsed as a result of over-harvesting. The region is still suffering economically. Canada has learned from this instance of unsustainable development and now devotes considerable attention to its natural resources, including the forest industry. It is, for example, the only nation in the world whose forest industry association has made third-party certification of sustainable forest management a condition of membership.
- Canada has a publicly-funded healthcare system that provides free medical care for all citizens. It is administered through a partnership between the federal government and the provinces, with the federal government providing the base funding and the provinces administering the funds as appropriate. Over the past decade, both the federal and provincial governments have become concerned about rising healthcare costs and have tried to trim their health budgets, increasing the pressure on hospitals and waiting lists for key medical services.

The key drivers

- Governments at all levels play a major role in setting the sustainability agenda in Canada through activities such as policy development, legislation, purchasing, research and cooperation with the business world. The provincial governments have constitutional responsibility for environmental matters, except for issues that cross provincial or international borders (such as climate change), which fall under federal government jurisdiction.
- NGOs also have a significant influence on the sustainability agenda, working to effect change at the legislative, corporate and community levels. In general, Canadian NGOs are more inclined to work directly with private industry than their US counterparts, and less likely to use the court system to challenge corporate behaviour.
- The SRI community screens companies and uses shareholder activism to pressurise Canadian corporations into delivering a more sustainable performance and being more receptive to stakeholder concerns. Shareholders are typically less activist in Canada than in the US, but there have been a number of high-profile cases.

The implications

- Canadian companies, especially those in the energy industry, are bracing themselves for tough new climate-change programmes and regulations from the federal government. Many companies have already begun measuring and reporting their greenhouse gas emissions and identifying opportunities to reduce them. Some have even purchased emission credits from domestic and foreign vendors.
- The federal government's focus on climate change is serving as an impetus for investment in technological research in the private sector. One example is Canada's rapidly growing fuel cell sector, much of the funding for which is provided by the federal government.
- Canadian companies lie somewhere between European and US companies in terms of their reporting on sustainability issues. Reporting is voluntary, but most large Canadian companies now issue annual sustainability reports that describe their environmental and social policies and performance, and some companies are recognised as world leaders in sustainability reporting. Third-party assurance of sustainability reports is also increasing.
- Canadian companies, especially those with international operations, have begun to view their sustainability performance and reputation for CSR as a competitive advantage. Many companies refer to good sustainability performance as part of a "Canadian brand".



Latin America

Latin America includes more than 40 countries and dependencies; has a population of about 560 million; and covers over 7.9 million square miles. Regional GDP rose by 4.7% in 2004, ending three years of low growth. It is forecast to fall back to 3.7% in 2006, and to average 3.6% a year for the next nine years, but this is still a relatively strong performance.

Latin America is the richest developing region, with an average per capita income of $3,700. The number of people in the region living on less than $1 per day is expected to halve, from eight million to four million people, by 2015. However, there are substantial discrepancies in wealth distribution both between and within countries. GDP per capita is just $510 in Nicaragua, for example, compared with nearly $4,600 in Chile. The median income of the most affluent 20% of the population of at least 11 countries is also nearly 14 times higher than that of the poorest 20%.

The key issues

- The income gap between the richest and poorest parts of the population has produced a desynchronised consumption pattern both within and between countries.
- Recycling policies exist, but recycling is still relatively rare. Although the collection of waste materials provides a source of income for the poverty-stricken, the cost of using recycled materials is often prohibitive.
- No formal obligations to reduce emissions exist, but the private sector has adopted a number of initiatives to cut the production of greenhouse gases.
- Corruption is endemic in large parts of Latin America, partly because it lacks consistent anti-corruption policies and strategies. Only Chile and Uruguay score more than five points (out of a possible 10) in the latest Transparency International Corruption Perceptions Index, which measures the level of corruption in 146 states.
- That said, the pressure to demonstrate good governance, greater transparency, sound risk management and accountability at executive level is increasing, in both the private and the public sectors.
- Additional investment in Latin America's infrastructure – particularly that relating to transport, utilities and technology – is essential, both to accommodate changing social demands and environmental requirements and to remain competitive in a global product and labour market. This has stimulated demand for public/private partnerships (PPPs).

The key drivers

- Both the public and the private sectors lack credibility.
- Private companies are concerned about catching up with the trend towards sustainable development elsewhere in the world, mainly in order to satisfy the requirements of the markets in which they participate and to remain competitive.
- Stakeholders are exerting more pressure in new infrastructure projects, in an effort to get certain social needs addressed.
- Greater social pressures are driving some major changes in regulation. The laws governing the development of water supplies, construction of pipelines and dams are one such instance.

The implications

- Many companies find it difficult to access credit and/or capital. They are also vulnerable to social pressures and economic uncertainty.
- Some opportunities are lost as a result of differences in the perspectives of stakeholders and private enterprises.
- Regulation needs to be centralised to avoid a plethora of regulators with different requirements.
- The historical lack of transparency in business and governmental activities has eroded the credibility of public- and private-sector organisations in many countries. That, in turn, has increased the need for certification and other forms of proof.
- Political and economic instability has created a weak long-term planning culture, thus impeding the development of sound sustainability strategies.

ARGENTINA

- CSR gained momentum in Argentina after the political, social and economic crisis of 2001-2002. There was considerable social pressure for different forms of aid, as a result of which many companies began developing a more systematic approach towards CSR.
- The Argentinean legal framework is fairly consistent, but neither enforcement of the laws nor the imposition of sanctions for regulatory violations is systematic.
- Public interest in CSR has been steadily increasing; however, Argentina has not yet adopted any national sustainability policies, although several national CSR research and advocacy initiatives exist.
- Mandatory disclosure of information regarding sustainability is limited to the payroll and provision of social security benefits by companies with over 300 employees.
- Most large companies focus on community work, philanthropy, corporate volunteering and cause-related marketing, with the focus gradually broadening to include employees, suppliers and clients. But there are substantial differences in the level of CSR they exhibit.
- Sustainability reporting practices are still incipient, although they are rapidly gaining visibility.

BRAZIL

- The CSR agenda has evolved to address a diverse economic base that includes agriculture, natural resources and heavy industry. The economic, environmental and social pressures on companies vary appreciably.
- Environmental laws and regulations are in place, as are the authorities to enforce them. However, Brazil lacks the resources and infrastructure to ensure that they are systematically enforced, and there are areas in which the laws are not yet well developed (for example, air emissions) or where they vary markedly between the different Brazilian states.
- Under the 1995 Environmental Crimes Law, the executives, officers and directors of a company can be sued in a criminal or civil court for failing to ensure that the company meets the necessary environmental, health and safety standards.
- Some cities (such as São Paulo) have passed local laws mandating the requirements for environmental due diligence and cleaning up of contaminated sites, when assets are divested or decommissioned.
- Many companies are also responding to market pressures to deliver a sustainable performance. Brazilians are increasingly aware of the environmental and social aspects of the goods and services they buy.

CHILE

- Chilean foreign private issuers are adopting the Sarbanes-Oxley requirements and the local capital market laws are being strengthened to emphasise controls, the protection of minority shareholders and good corporate governance.
- Environmental legislation has been in place since 1993 and is regularly updated, although companies do not always adhere to it. International NGOs are pressing for better compliance, particularly in key industries such as mining, salmon fishing and forestry.
- Foreign investors are increasingly insisting on environmental due diligence prior to making investments and requesting that their Chilean subsidiaries adopt global standards and practices.
- Clean Production Agreements have been established to improve the environmental performance of the public and private sectors.
- The opportunities for companies to sell emissions on the international greenhouse gas market are increasing.
- A growing number of large enterprises are reporting on social and environmental issues in their annual financial reviews or in separate sustainability reports.
- Countries participating in free trade agreements with Chile are pushing for better compliance and reporting on social and environmental standards.

Asia

Asia's boundaries are vaguely defined, but it is home to about 60% of the human population. The 40-odd countries of which it consists are incredibly diverse in terms of geography, climate, history, culture, ethnicity and politics. It has some of the fastest-growing economies in the world – regional GDP rose 7.3% in 2004 – together with some of the smallest and most stagnant. The income gap between wealthy and poor is also substantial. Despite a significant reduction in poverty levels over the past few years, almost half Asia's inhabitants still live on less than $2 a day.

Asia is rich in natural resources like oil and iron. Some countries, including China, Japan and Taiwan, also have strong manufacturing industries. However, economic development has taken its toll. Environmental degradation is a serious problem, as the region becomes more polluted, less forested and less ecologically diverse. The health risks – particularly from epidemic outbreaks such as the avian flu – are significant. The widening income gap and mass migration, as people move from rural areas to the cities in search of jobs, have also reduced the region's social stability.

Asia's great diversity means that the social and environmental challenges vary enormously from one country to another, as well as among provinces within countries. We have focused on the issues affecting four of the largest countries in the region.

CHINA

The regional context

China's economy is booming. GDP has increased more than 9% for the past few years and is expected to continue growing rapidly for the foreseeable future. Living standards have also risen; the annual per capita income is now about $1,200 a year, although those living in the rural western provinces are much less prosperous than those living in the industrialised eastern coastal areas.

China's economic expansion heralds a significant rise in demand for consumer and industrial goods, from today's already high levels. However, the downside is the surge in its use of natural resources and the impact on the environment. China is already the world's second largest consumer of energy; it uses more than 1.6 trillion kWh of electricity a year and about five million bbl/day. Even so, demand for oil is forecast to rise 250% by 2025. It also suffers from a chronic shortage of water. Half of China's nearly 1.3 billion citizens do not have access to clean water supplies, and it is less efficient in its use of water than most other nations, consuming an extra 135,000 cubic feet of water for every $10,000 it adds to its GDP.

The Chinese government is now strengthening the rule of law and taking steps to realise the opportunities for sustainable development – for example, by ratifying the Kyoto Protocol (although it has not committed to any reduction in emissions) and starting to develop a national approach to the Clean Development Mechanism (CDM) established under the protocol. It is also working with several Western governments on initiatives to promote CSR management and sustainable development. Meanwhile, the leading multinationals are raising local standards by adopting clean and safe technologies in their own Chinese operations and encouraging their Chinese suppliers to manage the supply chain more ethically. As a result, the most prominent Chinese companies are rapidly improving their behaviour and a growing number of them are disclosing environmental information.

The key issues

- China has stringent Environment, Health and Safety (EHS) laws. However, many companies do not comply with them and enforcement is sporadic. This is partly because the relevant authorities are inexperienced and sometimes lack sufficient resources, and partly because they often place greater priority on short-term economic growth than other considerations.
- The Chinese central government devolves power to the provinces, autonomous regions and municipalities to establish their own local standards where no national standards exist. The delegation of regulatory power to local authorities has produced a myriad of different (sometimes conflicting) standards and caused confusion.
- The business case for CSR and sustainability is not widely understood in either the private or the public sectors. In addition, senior executives often lack the necessary technical expertise to control the social and environmental impact of the operations they manage, and many workers are unaware of their rights.
- Multinationals with supply chains in China have been focusing on reducing their business costs and expanding their capabilities. However, many of them have difficulty managing their suppliers' adherence to social and environmental codes of conduct. Differences in culture and management styles also intrude.
- Socio-demographic issues such as the growing inequality between different regions, the need to reform the ailing social security system and the migration from rural to urban areas pose severe challenges to China's social stability.
- China's corporate governance standards are generally weak. But Chinese companies are under increasing pressure to adopt global best practices and become more transparent.

The key drivers

- Companies that violate their ethical and environmental responsibilities may incur significant consequences, including remediation costs, fines and penalties, unexpected capital requirements, occupational liabilities and reductions in the quality of their products and performance.
- The Chinese government is actively strengthening the labour and environmental laws as part of its Programme of Action for Sustainable Development in China in the Early 21st Century. It has formulated or revised over 120 laws, rules and regulations since 2003.
- NGOs, the global media and consumers are increasingly interested in the social and environmental performance of multinationals doing business in China. A growing number of NGOs have established a local presence to monitor conditions in factories owned by multinationals or from which they are sourcing. The media have also conducted various high-profile campaigns targeting companies that are allegedly performing poorly.
- Several investment firms are now screening companies on social and environmental criteria such as their efforts to address labour conditions in the supply chain and to maintain ethical and environmental standards in their overseas operations.

The implications

- Multinationals doing, or planning to do, business in China will have to inform themselves about the current regulatory requirements. They will also have to formulate a strategy and set up processes for identifying, analysing, responding to, monitoring and reporting on the ethical and environmental risks.
- They will need to address the lack of understanding of sustainability amongst local management, workers and government officials, as well as the scarcity of reliable information on environmental and labour issues.
- They will need to form strategic relationships with government authorities, suppliers and business partners.
- And they will need to manage their corporate reputations in their home markets, while operating in a country where environmental and labour standards are considered to be low.

INDIA

The regional context

India has 28 states and seven union territories covering an area of nearly 1.3 million square miles. Its four regions show pronounced cultural variations, and there are 15 official languages. Hindi is the national language and primary tongue of 30% of the population, but English is often used for political and commercial communications.

The Indian economy is worth about $515 billion and rapidly getting bigger. It grew 7% in 2004 and is forecast to increase by at least 5% a year for the next 45 years – thanks largely to a strong services sector, which contributes nearly half the country's GDP and has created a growing middle class. However, India is still a primarily agrarian society, characterised by considerable poverty. Seven hundred million of its almost 1.1 billion inhabitants live in the countryside; three hundred million live on less than $1 a day.

India's large and expanding population – it is projected to reach to 1.6 billion by 2050, a 37.5% increase that will see the country far outstrip China as the world's most populous state – has also contributed to the huge rise in its use of natural resources and massive environmental degradation. It already consumes more than 510 billion kWh of electricity a year and more than two million bbl/day, but domestic demand for energy is set to triple by 2020. Meanwhile, rapid industrial growth and streets choked with traffic have made the air in the largest cities more polluted than almost anywhere else in Asia.

The key issues

- There is a very wide income gap between the wealthy and the poor, with only 15% of the population reaping the benefits of India's economic growth and nearly 20% living below the poverty line. This has resulted in a desynchronised pattern of consumption.
- The emphasis is on achieving higher growth, and little effort has been made to decouple growth from consumption.
- Recycling is rare, even though recycling policies exist.
- India has launched an aggressive drive to invest in clean technology and reduce emissions in order to reap the benefits offered by the CDM included in the Kyoto Protocol.
- Bribery and corruption are rife in both the public and private sectors. India scores only 2.8 on the Transparency International Corruption Perceptions Index.
- Child labour is common, as are other human rights issues.
- Few market pressures exist to demonstrate good governance, sound risk management, greater transparency and personal liability at board level. The private sector is acting on these issues on a voluntary basis, but there is little evidence of such measures in the public sector.
- Infrastructure remains the main stumbling block to India's development and ability to attract foreign investment. It needs more mass transit systems, rural roads, new ports and power plants.

The key drivers

- Indians have little faith in the government and public sector.
- The private sector is keen to catch up with worldwide sustainability trends. This is especially true of Indian multinationals and companies wishing to raise funds via the European or US capital markets.
- The pressure from stakeholders is rising, particularly when it comes to the construction of new infrastructure projects.
- Companies are becoming increasingly aware that they must channel some of their profits into social development, since "islands of prosperity" cannot survive. They are also beginning to realise the importance of preserving the environment.

The implications

- Both public- and private-sector organisations must learn to separate economic growth from consumption. They must also take account of social pressures, if they are to avoid any disruption of their activities.
- The private sector needs better access to capital and credit, especially in the international markets.
- Closer alignment of the interests of private investors and other stakeholders is essential, as is better corporate governance.
- Parts of the public sector must be privatised. The remainder must be managed more effectively and made more accountable.
- Greater attention must be paid to the centralisation of regulatory power and formulation of public policies.

JAPAN

The regional context

Japan's geography has been a major influence on its development. This mountainous archipelago houses 127 million people, most of whom are crowded into a relatively small surface area. Lack of space also explains why much of the country's industry takes place in the cities – with predictable consequences for the environment and public health.

Japan has to import many of the resources it needs. It has almost no oil reserves of its own, for example, but it is the world's third largest oil consumer (after the US and China) – with consumption running at an estimated 5.6 million bbl/d in 2003. It also has to import substantial amounts of natural gas and other energy resources, including uranium for its nuclear power plants, which leaves it vulnerable to price fluctuations on the international markets. Even so, it is one of the wealthiest countries in the world, with a per capita income of $38, 201 – far higher than in most other parts of Asia.

Japanese industry is now undergoing some major changes: foreign companies are increasingly involved in the automotive sector; the number of employees in the electronics sector is falling dramatically; and traditional paternalism is waning (although supply-chain collaboration remains very strong). These changes, together with a more dynamic political leadership, should stimulate the economy and fuel further research into innovations that will help it to create a sustainable future.

The key issues

- Japan is heavily reliant on nuclear power for its electricity. It is therefore vulnerable to incidents such as the accident that occurred at the Mihama nuclear power plant in 2004 (although it has not suffered any radioactive leaks so far).
- Air pollution from power-plant emissions has caused acid rain and the acidification of some lakes and reservoirs, threatening aquatic life.
- Japan is one of the largest consumers of fish and tropical timber, contributing to the depletion of these resources in Asia and elsewhere. Its dependence on imports also has a substantial impact on its economy.
- Lack of space is a major problem, so the conservation of urban areas and minimisation of municipal waste is essential.
- Management of urban development is equally important to reduce the environmental damage from industry and construction, together with the impact on public health.
- Japan's future rests on the creation of efficient industrial practices, including recycling, zero emissions and industrial ecology (how different plants interact).

The key drivers

- Japan's formerly almost exclusive focus on economic development resulted in significant public health problems like "minimata" disease, which was caused by industrial emissions released in waste water. The social pressures to preserve the environment have increased significantly in the wake of such problems.
- The government now places great emphasis on protection of the environment. The Ministry of the Environment is the chief national authority for environmental matters, but other ministries also play a significant role. For example, the Ministry of International Trade and Industry funds a substantial amount of research, including research into global warming and the protection of the ozone layer.
- Japan was one of the foremost proponents of the Kyoto Protocol and has committed to reducing its total carbon emissions by 6%. This is a tough challenge, since it is the world's fourth largest producer of greenhouse gases – although it is also a leading developer of environmental technologies.
- Japanese industrialists recognise that if the country is to remain a powerful industrial force, it must develop in a sustainable way.

The implications

- Japan needs to protect itself from the transmission of foreign flora, fauna and germs (such as the avian flu) in order to preserve its biodiversity, health and agriculture. Various government bodies are actively involved in this effort.
- It also needs to improve its resource management in order to minimise its use of natural resources and reliance on imports, and to promote the 3R principle – reduce, re-use, recycle – in industry and local communities alike.
- Monitoring of environmental emissions is already common, but additional investment in research on zero-emission projects and other new technologies is essential to reduce the industrial output of greenhouse gases, as is evaluation of the remediation costs associated with restructuring companies and industries.
- Further collaboration between stakeholders at all levels is crucial – along the lines of the Life-Cycle Assessment (LCA) project administered by the Japanese Environmental Management Association for Industry, which involves 23 industry sectors. Its main mandate is to establish LCA tools for the whole of Japan; construct a public database; establish LCA application rules; and educate both the public and industries.

RUSSIA

The regional context

The Russian Federation is almost twice the size of the US but it has a population of just 144 million. Since the break-up of the Soviet Union in 1991, it has switched from a centrally planned economy to the relatively free-market situation that exists today. A frenetic period of privatisation in the early 1990s transferred whole towns and cities into private hands. Consequently, many "privatised" companies are effectively owned by one individual, with dire consequences for standards of corporate governance. However, an estimated 50% of all companies are still controlled by the state, either through share ownership or via political appointees – and concerns have recently been expressed at what some see as government attempts to reassert state control, the fate of Yukos being the most high-profile example.

Russia has enjoyed a period of strong growth since the economic crisis of 1998, with GDP rising at about 4.8% a year. Living standards have improved accordingly; typical salary levels in core industries are $300 per month and have increased 21% over the past seven years. But the economy is still largely based on extractive industries, often located in remote regions, and is currently buoyed up by the high price of oil. Most of these industries are located in towns where the local infrastructure was developed solely to support a mine, refinery or mill. With privatisation, they became the responsibility of their new owners, many of whom believe that they are already doing much more in terms of social responsibility than their counterparts in the West and that the current guidelines for reporting on sustainability may not be suitable for Russian companies.

The key issues

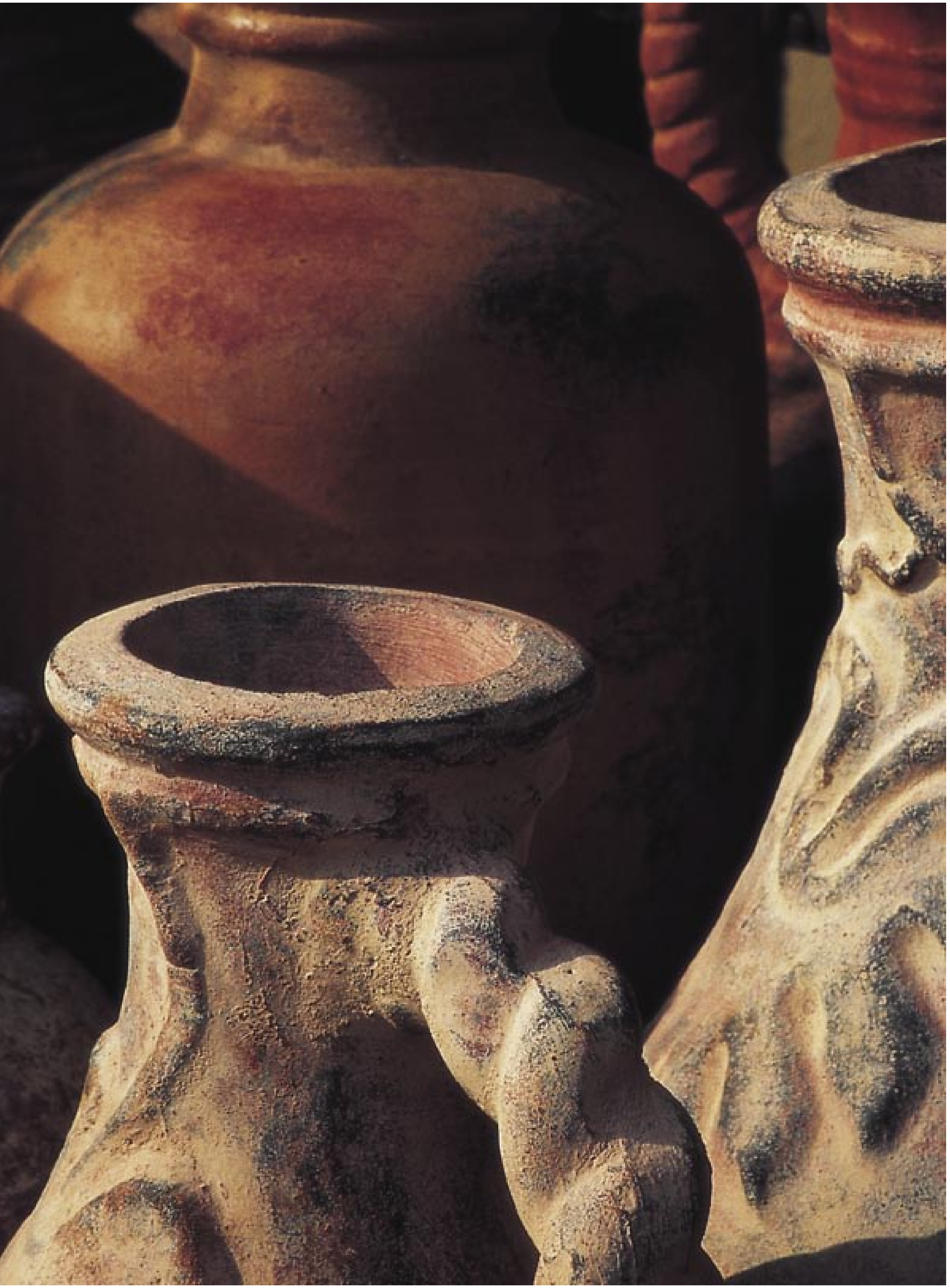
- Russia is over-reliant on extractive industries, like other oil-rich transitional economies.
- The gap between rich and poor is increasing.
- Corruption is rife. Taxes and salaries sometimes go unpaid and many Russian companies continue to fall below minimum standards of corporate governance.
- The media are restricted and civil society is relatively underdeveloped, with the result that there is very little domestic pressure for companies to demonstrate good governance, risk management, accountability and transparency.
- Emission control standards and requirements exist and are often stringent. However, enforcement is sporadic and penalties do not provide an effective deterrent.
- There is currently no reliable framework for linking Russia to greenhouse gas emission controls under the Kyoto Protocol.

The key drivers

- The public and private sectors are both characterised by lack of credibility, accountability and transparency.
- International perceptions of Russia are poor.
- Many Russian companies need better access to foreign capital and markets.
- The Russian government is putting political pressure on business and industry to meet the social needs of the population more effectively.

The implications

- Russian companies find it difficult to obtain credit and/or capital.
- They are also vulnerable to social pressures.
- They need to expand their internal governance arrangements to cover a wider risk spectrum, including non-financial risks, and set up appropriate internal controls and reporting mechanisms.
- Companies that aspire to act on the global stage must also pay specific attention to the management of their reputations, and the development of appropriate risk identification and management measures.



Africa

Africa is the world's second largest continent and the second most populous, with more than 800 million people living in 54 countries. It can be divided into several distinct cultural regions (including sub-Saharan Africa, East Africa and Francophone Africa) and can boast of at least 1,000 languages. However, it is also very poor – the United Nations reports that it includes the 24 poorest countries on the planet – and the HIV virus has wreaked havoc in many areas.

That said, various reforms are already underway. An increasing number of multinationals are looking to Africa for growth opportunities, products and services. Several new governments with reformist agendas have recently been elected. And some of the institutions on which Africa depends for donations are actively pushing the recipients of their support for better governance and more sustainable development.

The key issues

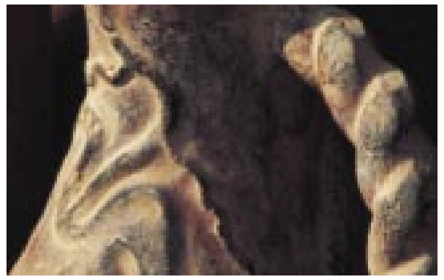
- Many parts of Africa suffer from great poverty and high unemployment levels. The annual gross national product per capita is just $90 in Burundi, $110 in Liberia and Ethiopia, and $120 in the Democratic Republic of the Congo, for example. This puts enormous pressure on what few social-support resources there are.
- HIV/AIDS is rampant. An estimated 24.5 million people are infected with the HIV virus; and nearly 19 million people have already died of AIDS – 3.8 million of them children under the age of 15. In Botswana, one of the worst affected states, the average life expectancy has fallen from 61 to 33 years.
- Many countries have borrowed extensively from wealthier nations and international institutions such as the World Bank. These debts have crippled their social development. Between 1970 and 2002, for example, African countries borrowed $540 billion. But even though they repaid $550 billion over the same period – $10 billion more than the original loans – at the end of 2002, they still owed another $293 billion.
- Corruption is rife as a result of fragile public institutions, weak civil/social organisations, lack of an independent judiciary and media, inadequately paid civil servants and hiring and promotion systems that are not merit-based. As a result, both institutional and corporate governance are often poor.
- Africa suffers from periodic regional conflicts, which have a deleterious effect on trade.

The key drivers

- Global concern about sub-Saharan Africa's development is rising. Hence, the fact that the G8 recently cancelled $40 billion of loans for the 18 countries that have completed the World Bank and International Monetary Fund's Highly Indebted Poor Countries Programme, on the understanding that the money these countries save will be channelled into poverty-reduction initiatives.
- Donor institutions (both governments and charities) are pressing for better corporate governance and more sustainable development in sub-Saharan Africa and Francophone Africa.
- CSR is still in its infancy in much of Africa, but a growing number of the companies that do business there are engaging in philanthropic activities.
- South Africa has a much more robust economy than many of its neighbours, as a result of which it has been able to fund many more programmes to mitigate poverty. One such instance is the programme implemented under the Broad-Based Black Economic Empowerment Act of 2003 to counter the effects of apartheid.
- Many South African companies run workplace HIV/AIDS awareness and prevention programmes.
- South Africa is also actively addressing the issue of climate change and participating in the carbon credits programme.

The implications

- South Africa already has numerous initiatives promoting sustainable development, but the rest of Africa is now waking up to this concept as well.
- Widespread dissemination of information about CSR and sustainable development is essential to promote understanding and best practice in both the public and the private sectors. This is especially the case in East Africa, where powerful stakeholders often have great influence over the activities of agricultural, mining and infrastructure operations.
- Corporate governance is becoming increasingly important, particularly in those countries that are making visible efforts to reduce or eradicate corruption. Senior management must thus be trained in the principles of good governance, and cross-industry initiatives to establish codes of conduct must be implemented.
- Companies that assume social responsibilities in the communities in which they operate will need to introduce proper CSR management and monitoring systems, risk controls and reporting mechanisms.
- Companies that trade in South Africa must also be able to demonstrate adherence to the various regulations established to rectify social and economic inequities. These include the Department of Trade and Industry's Draft Codes of Good Practice on Broad-Based Black Economic Empowerment; industry-specific Broad-Based Economic Charters and Scorecards; and the Minerals and Petroleum Resources Development Act of 2002, which aims to redress the imbalances of the past when black people could not own, or manage, mines.



EAST AFRICA

- The Kenyan government has made solid progress with its reformist agenda; Rwanda is slowly rebuilding itself under the leadership of President Paul Kagame; and the Ugandan movement system (which is associated with economic progress) is gradually increasing its political representation, although the government remains quite restrictive.
- However, East Africa is still characterised by high levels of crime, corruption, poverty and unemployment, as well as being burdened with large national debts.
- The labour force has been decimated by HIV/AIDS.
- East Africa has also suffered from a series of long-running conflicts, such as the war in the Democratic Republic of the Congo, which have impaired regional trade.
- Despite these problems, East Africa is regarded as more economically advanced than some other parts of the continent and leads the way in its understanding of the business case for sustainable development.
- Donors and external stakeholders are playing an increasingly influential role in shaping its progresses.

FRENCH-SPEAKING AFRICA

- Grants, aid and loans from international institutions and foreign donor governments are increasingly tied to good governance, as is debt relief.
- Most international institutions are now measuring and monitoring the impact of the projects they finance in terms of sustainable development.
- Some multinationals have begun implementing “minimum global” environmental standards within their subsidiaries, in anticipation of the introduction of local regulations.
- In February 2005, the Central African heads of state signed up to the development and use of a common sustainable forestry management policy during the Second Summit on Sustainable Management of the Eco Systems of the Congo Basin in Congo-Brazzaville.
- The privatisation of state-owned utilities is gaining momentum, although the difficulties associated with the process are growing.

SOUTH AFRICA

- Corporate South Africa voluntarily subscribes to the regulations on good governance laid down in the King Report on Corporate Governance.
- A number of multinationals based in South Africa are adopting global trends in best practice reporting, including the disclosure of information on material non-financial issues.
- Market pressures are enforcing compliance with the Broad-Based Black Economic Empowerment Act.
- South Africa is in the final stages of a programme to reform its environmental laws and improve the environmental performance of its industries.
- It is also a non-Annexe 1 signatory to the Kyoto Protocol, so interest in projects that will generate carbon credits is increasing.

Sustainable Industries

We have discussed the key social and environmental issues pertaining to each region. This section addresses the challenges with which different industries must contend. The overriding concerns of participants in each area of activity vary – and so, of course, do the kinds of projects they undertake. We have therefore included some case studies that show how PwC uses its global network, industry knowledge and business expertise to develop solutions that are tailored to the needs of individual clients.

Despite the different challenges they face, our clients agree on one thing: they recognise that profitability is no longer the only indicator of success. Sustainable organisations in the 21st century will be those that integrate social and environmental demands with the demands of the business.

Advanced Industrial Equipment/Aerospace

These industries must manage the environmental and social impacts associated with developing new products or technologies, and the growing need for energy and resource efficiency in their businesses. The aerospace and defence industry also faces huge cost pressures and the challenges of managing the social effects of arms exports.

Issues

- Finance for large projects
- Development of new products and technologies
- Resource efficiency and renewable resources
- Compliance with government requirements (such as export controls)
- Environmental impacts of operations and products
- Climate strategy and energy efficiency
- Social/community impact of products and operations
- Global sourcing, supply- and value-chain "traceability", and control of end-use

Client examples

International industrial equipment company

An international industrial equipment company asked us to help implement a rigorous sustainability reporting process in accordance with the guidelines set out in the GRI.

Technology manufacturing company

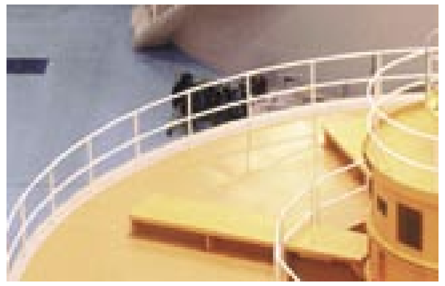
We carried out a comprehensive review of an in-house environmental management information system, including an evaluation of the design specifications relative to the needs of operating-group users. We provided an independent, critical assessment of the robustness of the system, including the identification of potential problems, to ensure that the proposed solutions would be as effective as possible.

Technology/industrial manufacturing company

We provided multi-disciplinary support for this organisation's acquisition of a Fortune 100 company's power-generation business. As integral members of the firm's transaction services team, we carried out a due-diligence review to identify potential environmental liabilities and to assess the adequacy of the records.

European Space Agency

We assessed the economic impact of a new satellite technology, establishing an environmental baseline as a reference point for future evaluation of its impact and scenario development across a range of environmental issues.



"…crucial to our perception of ourselves as a company is our ability to balance business success and benefits for society – benefits from the contributions made by our technologies and innovations towards meeting the world's challenges; benefits through education, training, knowledge transfer, and partnerships with schools and universities in many countries; and benefits through our citizenship activities in the social and cultural spheres."

Dr. Heinrich V. Pierer, President and Chief Executive Officer, Siemens AG

"Responsible corporate citizenship is an essential part of running a profitable business. We welcome the rigour of reporting and find it to be extremely useful to monitor and measure our progress. For me, responsible management is an intrinsic part of delivering on commitments to all stakeholders and I give it my full support."

Mike Turner, Chief Executive Officer, BAE Systems

Automotive

The automotive industry faces the challenge of providing mobility to an increasing number of global consumers in more environmentally and socially sustainable ways. Climate change and responsible supply-chain management (particularly in terms of product take-back requirements) are two of the sector's main concerns.

Issues

- Product quality/brand management and end-of-life issues
- Climate strategy, energy efficiency and vehicle emissions
- Energy security/petroleum dependency/carbon intensity
- Responsible supply-chain management (including human rights issues)
- Liveable cities (the role of the motor car in congested cities, for example)
- Customer safety

Client examples

Major US automotive parts supplier

We identified the objectives of the company's environmental function, reviewed the function's governance structure and design, and tested the effectiveness of the infrastructure and control systems for meeting management objectives. We identified many opportunities to strengthen environmental policies and procedures, including waste-disposal auditing, documentation and reporting practices, emergency-response procedures and community-stewardship efforts.

Major US automotive parts supplier

We reviewed the company's processes for managing potential environmental exposures and liabilities, from a financial accounting perspective, at its operating, idle, and former facilities. We also looked at third-party (off-site) liabilities, and reviewed the cost estimates on which site-specific accounting reserves were based. Through this review, we identified discrepancies in the methodologies and practices of the company's various businesses, and recommended steps for harmonisation.

Global automotive company

We identified opportunities to reduce internal emissions within the company's value chain and made a feasibility assessment of the legal and technical barriers to generating and using carbon credits.

Tier 1 automotive parts manufacturer

We assessed the company's practices with regard to importing and exporting from China, and helped it develop a programme that complies with the rules laid down by China Customs. Our multi-disciplinary team of international customs specialists and former China Customs officials identified areas of current non-compliance and suggested better practices. It also highlighted the existing risks, recommended strategies for mitigating those risks and created a Customs-compliance manual for use in all of the company's operations in China.

"…improved sustainability performance is not just a requirement, but a tremendous business opportunity. I want our company to be a leader in driving the transition and to be in a position to benefit from it."

Bill Ford, Chief Executive Officer,
Ford Motor Company

"Sustainable action is firmly anchored in the BMW Group's corporate management. The company's economic success and the efficient use of resources in the entire value-added chain depend on one another. In this respect, it is an economic necessity to use resources sparingly in a value cycle and to consider the later impact of this use… The company's future thus depends, in every respect, on responsible action."

Dr. Helmut Parke, Chairman of the Board of
Management, BMW

Chemicals

The chemicals industry has to meet the challenges of regional and global consolidation, and of reducing its environmental impact by using energy and resources more efficiently. It also needs to deal with issues of supply-chain management, particularly those relating to the distribution and use of products.

Issues

- Reputation management
- Supplier and vendor environmental and social responsibility
- Climate strategy, renewable energy and energy efficiency
- Environmental impacts of production operations
- Workforce health and safety
- High-production-volume, bio-accumulative and persistent chemicals in the environment
- Social/community impact

Client examples

Polyethylene and polypropylene manufacturer

We conducted a Carbon Health Check (CHC) for the client before the launch of the EU European Trading Scheme. We recommended that our client improve the organisational aspects of its carbon management, embedding the results of any carbon projects in the corporate organisation and mapping carbon management interactions with other key business processes to put risk management at the heart of its carbon management.

International specialty chemicals company

We evaluated opportunities to improve the EHS and product integrity/toxicology functions within the overall general and administrative infrastructure for North American and European operations in the client's corporate, regional, business and facility organisations. The work was extended to address the integration of EHS functions associated with the company's merger with another international specialty chemicals company and to provide the client with alternatives for the EHS organisation/function.

Indian chemicals company

We established a sell-side mandate to structure, market and sell the carbon credits generated from a large-scale industrial abatement project. The project has already received host government approval and should be registered later in 2005. This enabled PwC to start discussions with buyers on the terms of sale and purchase agreements for the carbon credits.

Japanese chemicals company

We analysed the environmental and social effects of all the life-cycle-stages of the client's environmentally conscious products. The analysis resulted in recommendations that helped the client use these products more strategically and as a marketing tool.

"DuPont is a science company that is focused on sustainable growth – creating shareholder and social value while decreasing our environmental footprint... Looking ahead: as we approach our 200th anniversary, we are dedicated to transforming DuPont into a sustainable growth company."

Charles O. Holliday Jr., CEO, Dupont

"In integrating social and environmental demands with business performance, we create an expanding circle that benefits our customers, our suppliers, our shareholders, our employees and society at large… Our dealings with all our stakeholders are characterised by trust, respect and integrity."

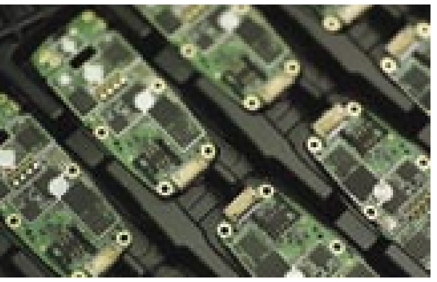
Heinz Imhoff, Chairman of the Board of Directors, and Michael Pragnell, CEO, Syngenta

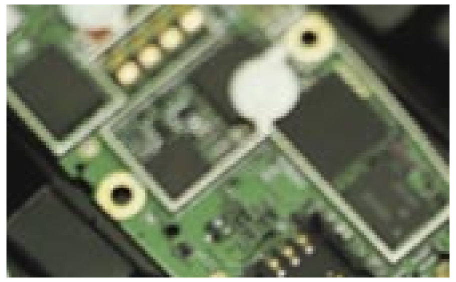
Electronics and Software

In both industries, innovation is critical for success. Since innovation is driven by human capital, managing this resource well is paramount. In software, the need to address intellectual property protection and piracy is also a prime concern, while sound environmental management of the entire product life cycle, including end-of-life considerations, will serve to distinguish companies in the electronics market.

Issues

- Brand/reputation management
- Responsible supply chain
- Management of human resources
- Intellectual property protection and piracy
- Outsourcing
- Accessibility/affordability (digital divide)
- Management of toxic substances and of energy and water consumption (electronics)
- Product stewardship





Client examples

Fortune 100 software and technology company

We assessed the client's policies, processes and metrics in preparation for its annual CSR report. We made an inventory of the company's worldwide CSR activities and conducted a gap analysis against company policies, CSR rating-agency criteria, voluntary reporting guidelines, peer company activities and CSR leading practice. We developed a CSR reporting framework which identified opportunities to showcase, integrate, document and systematically enhance the client's CSR- related policies, processes and performance.

South African electronics manufacturing company

PwC's accredited certification body was contracted to certify an electronics manufacturing company's operations to the ISO 14001 environmental management system standard.

Global electronics and entertainment company

We provided assurance for the company's EHS and sustainability reporting processes. The work identified the strengths and weaknesses of the current reporting processes and systems, and associated opportunities for improvement.

"Although Microsoft is well known as one of the world's leading software companies, our business is really about people. It's about our employees, who create innovative software that empowers millions of people around the world. It's about our customers, who do amazing things with the tools we provide, and our partners, who use our products and platforms to build their own successful businesses. And it's about our investors, who continue to put their faith in our company."

Microsoft 2004 Corporate Citizenship Report

"In the 21st century, global citizenship is not just a[bout] corporate responsibility, but also a prime business opportunity to grow our company in new ways."

Debra Dunn, Senior Vice President of
Corporate Affairs and Global Citizenship, HP

"Global enterprise requires a commitment to global citizenship, including strong organisational and personal commitments to integrity and ethical standards, cultural sensitivity and respect for stakeholders and the environment… Sound business practices and respect for our environment and stakeholders are all core Sony values. Supporting and advancing these values is a very high priority for all of Sony's senior management team."

Sir Howard Stringer, Chairman and CEO,
Sony Corporation

Engineering and Construction

The engineering and construction industry needs to develop and implement innovative design and construction methods, and to reduce the EHS and social effects of its business.

Issues

- Economic impact of sustainable project implementation
- Environmental and social impact of large-scale projects
- Resource conservation and resource efficiency
- Sustainable building design and materials
- Workforce health and safety
- Social/community impact

Client examples

Infrastructure projects

We have carried out audits of their environmental impact and produced sustainable development plans for several construction projects, including a major dam in Turkey, financed with the guarantee of several Export Credit Agencies, and a new deep-water harbour in Morocco.

International group of metals companies

We determined the environmental profile of copper and copper tube used for the supply of potable water in residential structures in North America, with a view to adapting the materials, if necessary, to optimise energy consumption.

Worldwide conglomerate

Our client was considering disposing of its water and waste management business, which had thousands of open contracts and facilities in four countries. A PwC team participated in the vendor due diligence. We designed a methodology and worked with the seller, the company's management, bank advisors, and other financial and legal specialists. We also responded to questions from specialists hired by six investment funds.

South American engineering and construction company

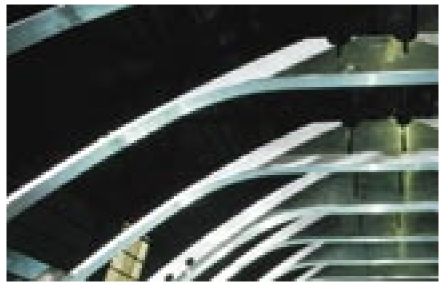
PwC is carrying out an independent verification of a Chilean client's sustainability report for the 2004–2005 reporting years. The work includes verification of the contents of the report and revision of the consolidated data. Our work is being performed in accordance with the ISAE 3000 standard for assurance engagements set out by the International Federation of Accountants.

"Our vision is for Skanska to outperform all the time, in every respect – in profitability as well as in sustainability… And now our goals are zero safety-accidents, zero environmental incidents and zero ethical breaches. This, in combination with the target of zero loss-making projects, will safeguard the profitable future of Skanska for many years to come."

Stuart E. Graham, President & CEO, Skanska

"In the corporate world, being sustainable means that our business is driven by all three of these (…people, planet, prosperity…) and not just by profitability. It means considering not just our obligation to create financial value for shareholders, but our obligation to create or protect value in a wider sense for all our stakeholders.

Sir Peter Mason KBE, Chief Executive, Amec plc



Financial Services

The impact of the financial services sector on society and the environment derives from the capital it employs – from financing infrastructure projects in developing nations to providing low-interest loans to small businesses – with effects that can change the risk profiles of borrowers and lenders.

Issues

- Brand/reputation management
- Environmental/social impacts of project financing (for example, the “Equator Principles”)
- Accessibility to services for under-served markets
- Environmental/social risk management in lending (due diligence)
- Climate change (impact on borrowers, insurers, financial markets)
- Socially responsible investment, lending and marketing
- Compliance with regulatory requirements (for example, anti-money-laundering)
- Environmental footprint of facilities (energy, materials, water)

Client examples

Leading UK alternative investment manager

We helped the company develop a long-term programme for ensuring responsible business. We are providing assistance at all stages in the development of a comprehensive response to corporate responsibility, including a strategic review to assess stakeholder expectations and risks to the business, development and implementation of a management system, and establishment of governance structures, delivery frameworks, tools and training requirements.

International financial institution

We have delivered environmental risk-management training to 80 financial intermediaries across Eastern European and Central Asia, working directly with banks, investment funds and insurance companies to analyse the environmental risks and to consider these risks in their investment and lending policies. The project also provides training in the ways in which the financial intermediaries can encourage their clients to improve environmental performance.

UK-based fund manager group

We worked with a group of UK-based fund managers to develop guidelines that articulate the expectations of fund managers for companies. These guidelines, subsequently adopted and launched by the Association of British Insurers, help companies to address the concerns and requirements of their shareholders in relation to social, environmental and ethical matters. We have also advised the group on its stakeholder-engagement programme.

Sustainability/CSR Index groups

We acted as the assurance providers to the Dow Jones Sustainability Group Index and are actively contributing to the development of the FTSE4Good Index. We were commissioned by Business in the Community (BITC) to conduct an independent evaluation of the CSR marketplace to help ground and inform development of a CSR Index, along the lines of the Business in the Environment (BiE) Index. This project assessed different approaches to CSR rating, risks and opportunities in bringing a new index to the market and outlined the strategic options for the BITC Index in terms of differentiation and/or collaboration.

“It is becoming increasingly clear that sustainable development will be one of the major drivers of industrial change over the next 50 years and that there is a growing demand from both companies and institutional investors to understand its financial impacts. It follows therefore that the successful brokers will be those that anticipate this demand, respond to it with robust financially relevant research and thereby differentiate themselves in an increasingly crowded marketplace.”

Colin Monks, Head of European Equity Research, HSBC

“We have a responsibility to our franchise – we must put Citigroup’s long-term interests ahead of each unit’s short-term gains and provide superior results for our shareholders. We must respect the local culture and take an active role in the communities where we work and live. We must honour those who came before us and extend our legacy for those who will come after us.”

Chuck Prince, CEO, and Bob Willumstead, President and Chief Operating Officer, Citigroup

“Responsible corporate behaviour means not only including, but sometimes moving beyond, purely profit-oriented or legal and regulatory considerations when doing business.”

Marcel Ospel, Chairman UBS AG

Food and Beverages

Declining land-based eco-systems and fisheries, as well as increasing water scarcity, will have an impact on the long-term operations and success of food and beverage companies. Obesity, the use of genetically modified organisms and food safety will affect the manner in which the industry conducts its business.

Issues

- Brand/reputation management
- Obesity and other nutritional conditions (alcohol consumption, poverty and lifestyle-related issues)
- Genetically modified organisms
- Environmentally sustainable production methods (such as organic production)
- Social conditions of production (working conditions, fair trade, occupational health and safety, for example)
- Eco-system degradation and resource depletion (such as over-fishing)
- Water scarcity
- Food/beverage safety and product recall
- Product labelling and packaging

Client examples

South African chicken producer

We helped a South African integrated chicken producer to develop a non-financial management and reporting framework. This involved defining the company's business principles, identifying its key material issues, and making recommendations for the management of these issues by defining key performance indicators, targets and benchmarks. We also supported the company in delivering its first sustainability report for the 2005 financial year.

Tea Sourcing Partnership

PwC is the appointed monitor of the Tea Sourcing Partnership, which is responsible for monitoring the compliance of 1,200 tea producers in Kenya, India, Sri Lanka, Malawi and Zimbabwe, with local labour laws over a four-year period. We have also facilitated stakeholder-engagement processes in each country, with stakeholders including major NGOs, trade unions, government and international agencies such as the United Nations Development Programme.

Global food and beverage manufacturer

A shareholder resolution required the company to report on its sustainability performance using the GRI guidelines. We worked with management to benchmark the company's existing practices against the GRI guidelines. We also provided recommendations for improving its internal and external sustainability-management systems and reporting. The company is now in a position to respond to shareholder concerns by including sustainability information in its annual report.

Russian beer manufacturer

We completed the registration of a brewery in the Russian Federation to ISO 9001 (quality) and ISO 14001 (environmental) standards. The registrations were completed in September 2004, and we will continue to provide annual surveillance audits. We have also provided training on several related issues, such as Hazard Analysis and Critical Control Point (HACCP), health and safety.

"We are wholeheartedly committed to corporate and social responsibility. From our key strategic goals to the individual actions of our people around the world every day, it is central to who we are, what we do and the way we do it."

Todd Stitzer, CEO, Cadbury-Schweppes

"PwC's image analysis has illustrated to us what Carlsberg's image consists of, not merely how high we score in the image surveys. This has provided us with insight into stakeholder concerns and the effects of our communication. Consequently, we are using the image analysis actively in our strategic development."

Anne-Marie Skov, Vice President,
Carlsberg Communications

Forest Products

The forest products industry, including the paper, wood products and packaging sectors, is faced with ensuring the sustainable management of forests, managing environmental impacts and improving energy and resource efficiency in manufacturing. It also needs to develop climate-change strategies and become more accountable with respect to fibre supply and value-chain traceability.

Issues

- Product demand linked to regional economic growth
- Climate strategy
- Resource efficiency and renewable resources
- Bio-diversity and habitat conservation
- Environmental impacts of operations
- Management of genetically modified organisms
- Supply- and value-chain traceability, and certification

Client examples

Paper and packaging company in southern Africa

We reviewed the company's existing sustainability practices and processes, including the areas of human rights, environmental management, reporting and stakeholder engagement across its diverse operations. We sought to develop its understanding of its competitive positioning with regard to sustainability, and to assess the sustainability risks and opportunities that would inform its business strategy.

North American pulp, paper and wood-products companies

We have helped various companies secure forest certification under sustainable-forest-management and ISO 14001 environmental-management-system standards. These projects provided the clients, customers and other stakeholders with assurance regarding their adherence to accepted standards and a means of achieving continuous improvement as a result of the management recommendations we provided.

Pulp and paper producer

We certified a chain-of-custody system to confirm that appropriate systems and controls were in place to support market claims with regard to certified and recycled wood-fibre content in paper. This was part of a corporate initiative to improve the environmental footprint of the firm's wood-supply and manufacturing operations.

Home-building company

We evaluated the sources of lumber and panel products used in house construction, as part of an internal assessment of this housebuilder's sustainable wood-sourcing policy.

"As a company, we are part of society; we have a certain privilege; we are educated; we have access to resources, so we also have a responsibility to do something good, to make the community around us prosper."

Julio Moura, CEO, GrupoNueva

"Stewardship – preserving and increasing the value of precious resources – is central to MeadWestvaco's vision. Sustainability is the natural consequence of effective stewardship – with respect for the human, natural, physical, financial and other resources entrusted to our care – in concert with a steadfast dedication to integrity and innovation in all we do."

John A Luke, Jr., Chairman & CEO, MeadWestvaco

Healthcare, Medical Products and Pharmaceuticals

Aging populations in an industrialised world and unmet healthcare needs in the developing world are key macro drivers for these industries. They must meet these needs while dealing with increasing cost, environmental and social pressures.

Issues

- Brand/reputation/relationship management
- Accessibility/affordability of healthcare
- Environmental footprint of facilities (hospitals, production facilities)
- Product stewardship/extended producer responsibility
- Responsible supply chain
- Management of product recall
- Sales and marketing practices
- Research and development, including protection of intellectual property (generics), match between global health needs and R&D focus (heart medications versus HIV medications), animal testing bio-ethics and genetic engineering
- Workforce health and safety – in particular, for the sales force
- Hazardous substances

Client examples

South African public health institution

We carried out occupational health and safety risk assessments at 16 public health facilities, including hospitals, clinics and industrial laundries, to help the facilities to implement sound occupational health and safety management systems.

Global medical products company

We conducted a global inventory and assessment of our client's corporate citizenship programmes relative to its employees, products, research and development, and supply-chain management. We made an inventory of its current activities and identified opportunities to showcase, integrate, document and enhance its corporate citizenship performance.

Global pharmaceuticals company

We provided independent assurance for the organisation's management system and external reporting on its global corporate citizenship programme and activities. Our approach included procedures at the group and country levels, analysis of documents and tests of internal management and reporting structures, as well as the gathering of evidence supporting Health, Safety and Environment (HSE) parameters at selected production sites. An Assurance Report was included in the company's annual corporate citizenship report and on its website.

US pharmaceuticals company

We assessed the company's activities, processes, systems and controls for selecting suppliers and business partners in China. We identified control risks, process issues and improvement opportunities, and compared the company's supply-chain-management activities with those of similar pharmaceutical companies and leading practices.

Global pharmaceuticals company

We conducted an assessment of the company's key compliance risks and the business impacts of those risks. We helped design key compliance processes and made recommendations on centralising its compliance requirements under one newly created management-compliance officer.

US-based global pharmaceuticals manufacturer

This Fortune 500 client sources key raw materials from Asia and was having problems with product quality and intellectual property protection. We assessed its supply-chain processes in the US and Asia and developed an improved risk-control framework for the four key sourcing activities – strategy development, set-up, execution and termination.

"As an innovator in healthcare, Abbott must be part of the solution that improves access to medicines. Our social obligations on this issue are tied directly to our long-term success as a company."

Miles D. White, Chairman and CEO,
Abbott Laboratories

"Corporate citizenship implies many things, but in a way describes the responsible behaviour of a company within society. In the end, doing the right thing also makes business sense."

Daniel Vasella, M.D., Chairman and CEO, Novartis

"Roche sees and has always seen itself primarily as a profit-oriented company and this will not change. This economic objective should not be achieved, however, on the basis of short-term profit maximisation. It should, rather, be considered from a long-term, sustainable point of view. Each and every employee in our company can and, indeed, must contribute to sustainable creation of value in his or her area."

Franz B. Humer, Chairman and Chief Executive Officer, Roche

Media and Entertainment

Given the increasing global reach of media and entertainment, and the industries' power to influence public opinion, transparency, accountability and independence are critical. The protection of intellectual property and customer privacy are also key challenges.

Issues

- Privacy and data protection
- Protection of intellectual property
- Freedom of expression/creative independence (or the reverse, censorship)
- Accountability and transparency of content (including editorial)
- Independence
- Advertising policy
- Responsibility for promoting social and environmental content

Client examples

Leading US media company

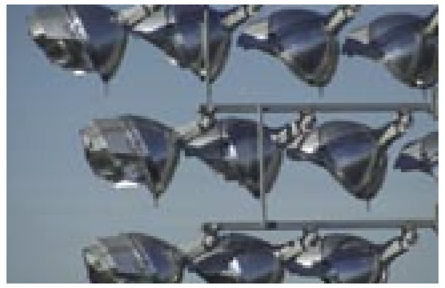
New questions about conflicts of interest arose when this media and education company adopted a strategy to examine potential acquisition targets in which board members and executives held an interest. The company was concerned about the potential application of differential conflict-related standards to executives and employees, as well as the possible corporate-governance implications of actual and apparent conflicts. We benchmarked its competitors' conflict-of-interest policies and practices and developed a set of policy recommendations for the company.

Global entertainment and media business

We helped the client improve an emerging CSR organisation and report. This included designing the reporting process and the reporting protocol, helping select key performance indicators and designing a ready-to-use information system in order to facilitate the collection of data from more than 25 countries and several divisions. We then supported the selection process for a more robust information system for subsequent years.

South American entertainment and leisure company

PwC made a socio-economic, environmental and tourism impact assessment of the installation of four entertainment resorts in Chile. Our assessment reports were included in the documentation that the client presented to the authorities to secure the concession contracts.



"Our position as the world's leading media and entertainment company could not have been reached – and could not have been sustained – solely from business success. It rests equally on our tradition of social responsibility and community involvement. At the core of this enterprise is the determination to make a difference as well as a profit."

Gerald Levin, Former Chairman & CEO,
Time Warner, Inc.

Mining and Metals

The mining and metals industry faces global consolidation and the need to reduce its environmental impact. It must address the potential for future resource depletion, incorporate life-cycle thinking into the development and closure of mines, and manage its reputation.

Issues

- Reputation management
- Depletion of natural resources
- Bio-diversity and environmental impacts of resource exploration, processing/production operations, and closure of mining operations
- Climate strategy and energy efficiency
- Workforce health and safety
- Sustainable project development and mine closure
- Community and NGO activism

Client examples

US-based mining company

We identified opportunities for improvement (and highlighted potential risks) in the company's EHS culture, work processes (including management systems), organisational structure, systems and resources.

Global mining company

We carried out a review of the client's existing health and safety management system at remote mining locations in south-east Asia, with a view to identifying potential performance improvements. We evaluated the effectiveness with which the system had been implemented, the health and safety department's progress in performing its duties according to the company's strategic plans, and the design and execution of selected health and safety programmes and processes (such as industrial-hygiene risk assessment and monitoring, occupational medical surveillance, injury and illness classification and reporting).

European Metals Association

We developed a framework for reporting and monitoring greenhouse gas emissions through a multi-client survey, providing recommendations for verification of emissions at corporate level. We helped to establish a steering committee for the effort and created a web-based reporting system to allow for company-specific reporting and regional and industry-sector-specific consolidation of data for this project.

South American mining subsidiary

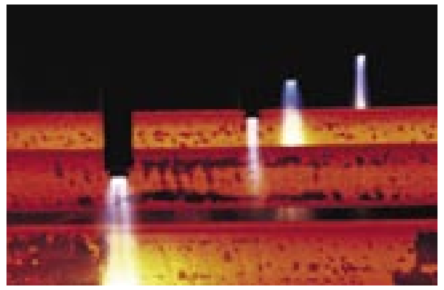
We provided project-management support to the preparation of our Chilean client's first sustainability report. We helped with the organisation of data reporting/collection of environmental, social, and economic information, and preparation of the report in accordance with the GRI standard, the UN Global Compact framework, guidelines from the International Council on Mining and Metals, and a model developed by PwC Chile.

"We know that the profitable growth of our company depends on the economic, environmental and social sustainability of our communities across the world. And we know it is in our best interests to contribute to the sustainability of those communities."

Travis Engen, CEO, Alcan

"Business has a duty, together with governments and society, to meet the needs of the current generation without endangering the ability of future generations to meet their own needs."

Paul Skinner, Chairman, Rio Tinto



Oil and Gas

The oil and gas industry faces global consolidation, as well as needing to reduce its environmental footprint, improve its social impact and reputation, and use energy and resources more efficiently.

Issues

- Reputation management
- Supplier and vendor environmental and social responsibility
- Climate strategy, renewable energy and clean fuels
- Bio-diversity and environmental impacts of resource exploration and operations, including depletion of natural resources
- Workforce health and safety
- Social/community impact

Client examples

US-based international petroleum company

We identified the EHS risks and risks to corporate reputation associated with a potential venture candidate with operations in Russia and Eastern Europe. This due diligence, combined with benchmarking of the candidate's performance and compliance management with major local/regional competitors, provided the client with insight into the sustainability risks associated with the envisaged business venture.

European-based multi-national petroleum, natural gas and petrochemical company

We developed and implemented a global assurance programme for reported EHS performance parameters (including greenhouse gases), together with assurance over specific areas of social management and aggregation of social data. This recurring engagement provides the client with an essential component of its overall EHS and social performance and reporting programme.

European-based multi-national petroleum, natural gas and chemical company

We advised the client on the design and implementation of its climate-change strategy. This included the design of an internal emissions-trading scheme and attendant guidelines for allowance allocation, reporting and defining internal emission-reduction projects, inclusion of credits from external projects and the treatment of external credits in corporate-level emission accounts.

Iberian petroleum, natural gas and chemical companies

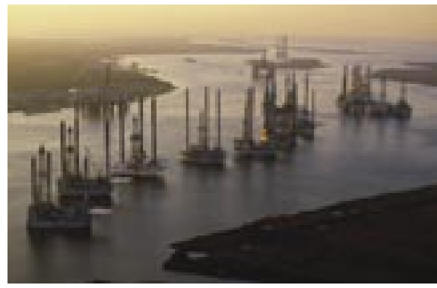
We have helped various clients build their greenhouse gases inventory, and developed a complex tool based on international guidelines for monitoring and reporting on these specific industrial processes.

"When tomorrow's leaders in the energy industry look back 30 or 40 years from now, will they view today's leaders as visionary, value-added contributors – or will they look at us as people who made some bad decisions for the future? I want to be viewed as a good manager 30 years from now."

Bob Ridge, VP of EHS, ConocoPhillips

"The time to consider the policy decisions of climate change is not when the link between greenhouse gases and climate change is conclusively proven, but when the possibility cannot be discounted by the society of which we are a part. We in BP have reached that point."

Lord Browne, Group Chief Executive, BP



Public Sector

The public sector (which consists of regional and local governments, central administrations and agencies, each with its own specific problems) faces increasing challenges to maintain and develop infrastructure, to dispose of and recycle waste, and to provide for basic human needs, especially in developing regions and countries.

Issues

- Ethics
- Compliance with government requirements
- Environmental footprint, including waste management/recycling
- Access to clean water supplies and financing
- Human rights
- Responsible supply chain and procurement
- Land use planning/management
- Resource and energy management – transparency, accountability

Client examples

Dutch Ministry of Economic Affairs

As part of a government-wide project to reduce the administrative burden for companies, we conducted an international survey of national regulations to identify points of improvement regarding permit-granting to Dutch entrepreneurs. We compared permit-granting for six common situations in The Netherlands, Denmark, England, Ireland, Spain and Germany.

Ebbw Vale

We prepared a master plan and regeneration strategy for the 200-acre former steelworks site in Ebbw Vale, South Wales. We were responsible for specific aspects of the study, including market demand, the stakeholder-engagement programme, sustainability appraisal, assessment of economic impact and development of a delivery strategy.

Waste Agency Portugal and Ecovidrio Spain

We conducted a series of projects to evaluate packaging-collection costs, using an activity-based costing tool. The purpose of these projects was to define the fee to be paid by waste producers, by type of material and by process of collection.

South American government resource administrator

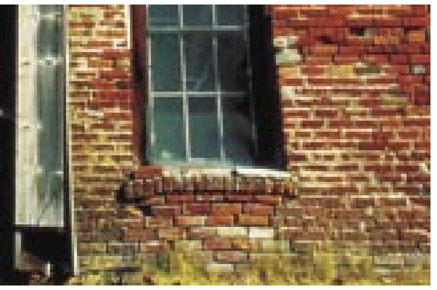
For the autonomous state entity responsible for resource-administration for disabled people, PwC Chile evaluated the social impact of three specific programmes, in terms of their primary objectives, the mission of the government institution and stakeholders' needs and expectations.

"The importance of achieving a balance between economic growth, social cohesion and sustainable development as a basis for competitiveness and higher productivity is eminent."

Karien van Gennip, Dutch Minister for Foreign Trade (Nov. 2004)

"We need a new system of values, a system of the organic unity between humankind and nature and the ethic of global responsibility."

Mikhail Gorbachev, President, Green Cross International



Retail and Consumer Goods (including textiles and apparel, and tobacco)

Retail and consumer goods companies face increasing demands regarding quality and/or price and, at the same time, growing social expectations for sourcing goods in a transparent and ethical manner. Brand and reputation are key drivers of sustainability efforts in this industry.

Issues

- Brand/reputation management
- Product stewardship, extended producer responsibility and traceability, and product safety
- Responsible supply chain (human rights, environmental performance of suppliers and so on)
- Environmental footprint of facilities
- Packaging/other life-cycle aspects, such as disposal

Client examples

Global consumer goods company

A global consumer goods company wanted to assess the risk of a new product launch, and the effectiveness of its marketing and communication strategy. We profiled stakeholders involved with the product launch and identified issues that could influence their support for, and attitude towards, the product. We formulated a strategy to mitigate the risks that could have the greatest impact on product sales. As a result of this project, the client elected not to launch the product, and has initiated a review of its processes to integrate similar assessments and procedures into the development of new brands.

Global home furnishing retailer

We carried out a risk evaluation of a global home furnishing retailer's social-compliance system, including 1,600 first-tier suppliers. We assessed the appropriateness of its policies and systems for managing social-compliance risks in the supply-chain, including third-party monitoring of randomly selected suppliers, and made recommendations for improving the management of those risks.

International industrial products federation

PwC developed Life Cycle Inventories (LCI) for some of the products manufactured by this federation's members to help them respond to their own customers' needs. By analysing the LCI results, one of the companies discovered that for one kind of emission, it was above the average and close to the maximum range value, whereas for most others, it was on the low-emission side. A detailed analysis revealed that one process step was causing most of the emissions and the company decided to invest in reducing emissions in this process.

High-end US retailer

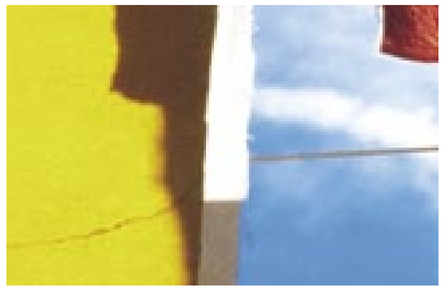
We assessed and benchmarked the environmental impact of a US retailer's footwear and apparel products, working with the company to develop an environmental strategy. This effort will enable the retailer to prioritise its environmental efforts, given limited resources. Implementation of the proposed initiatives is expected to reduce risk to the retailer's reputation and operating costs.

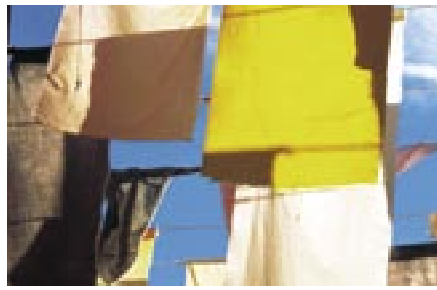
"Our goal in writing this [CSR] report has been to be as accurate, complete and honest as we can be about how Nike performs. Just producing this report proved to us that the value of reporting goes far beyond transparency. It becomes a tool for improving both our management of business and in giving us clues about what we need to do next."

Phil Knight, Chairman of the Board, Nike

"But there's no conflict between good business and good companies. By making demands on suppliers with regard to environmental and social responsibility and by helping them meet these demands, our business relationship contributes to a better everyday life for the people manufacturing IKEA products. Better working conditions lead to more efficient production and better productivity. In this way, suppliers can produce at a lower cost and IKEA can sell at lower prices in its stores."

Anders Dahlvig, President and CEO, IKEA Group





Telecommunications

The telecommunications industry must meet the growing global need for connectivity through product design, taking into account energy conservation, ergonomics and safety, responsible supply-chain management, extended producer responsibility and bridging of the digital divide.

Issues

- Brand/relationship management
- Digital divide
- Health impact of electromagnetic fields
- Product stewardship/extended producer responsibility
- Responsible supply chain and end-of-life for terminals
- Use of hazardous substances

Client examples

Global e-Sustainability Initiative

We worked with the Global e-Sustainability Initiative (GeSI) on its CSR supply-chain analysis project. GeSI consists of major international telecommunications companies such as BT, Deutsche Telekom, Vodafone and Bell Canada. We identified key supply-chain-related CSR impacts and developed an industry-specific best-practice framework for managing these risks. We assessed the member companies against this framework and developed an industry- and company-level roadmap for progressing CSR supply-chain management.

Provider of global telecommunications solutions

We assessed 15 operating locations on four continents for a global telecommunications, networks and IT solutions provider, in order to verify that the company was in compliance with the legal obligations and duties imposed by occupational HSE requirements in its principal territories of operation outside the UK; to ensure that company HSE policies, standards and procedures were consistently applied and understood throughout the organisation; and to ensure that the principal risks were accurately perceived throughout the organisation, and that appropriate and effective risk-control measures were in place.

Provider of global telecommunications solutions

We carried out a high-level review of occupational health and well being (OHW) for this client. The main objectives were to develop an understanding of OHW management practices; to identify corporate OHW leaders; to explore how such companies are measuring their OHW performance; and to help the client to determine how it can start to measure and manage its own OHW performance.

South American telecommunications subsidiary

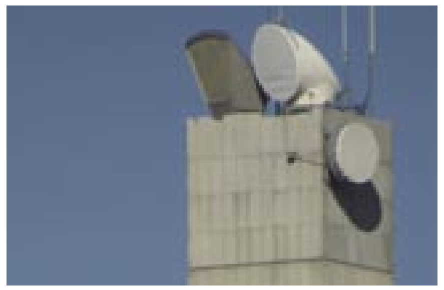
We supported this Chilean client in its stakeholder-engagement process, following the AA1000 guidelines. The work included development of the consultation process and of a set of key performance indicators in order to monitor the process and the company's planned activities.

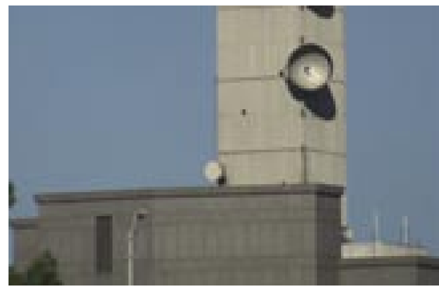
"AT&T understands the need for a global alliance of business, society and the environment. In the 21st century, the world won't tolerate businesses that don't take that partnership seriously, but it will eventually reward companies that do."

C. Michael Armstrong, CEO, AT&T

"Our corporate social responsibility programme has a key role to play in meeting our stakeholders' expectations and encouraging them to invest in us, buy from us or work for us. We endeavour to manage our social, ethical and environmental issues to grow shareholder value…"

Sir Christopher Bland, Chairman, BT Group





Transportation (airlines, trucking, rail)

Certain sectors in the transportation industry face global and regional consolidation. They also need to reduce their environmental and social impact; to use energy and resources more efficiently; and develop climate strategies.

Issues

- Reputation and brand management
- Customer-relationship management
- Climate strategy and fuel efficiency
- Environmental impact of operations
- Public health and safety

Client examples

US-based international airline company

We assessed the impact of initiatives to reduce greenhouse gases on the company's global aviation operations, and the potential competitive implications. We provided insight into specific approaches to reducing emissions, including emissions trading, and benchmarked pro-active approaches to reducing greenhouse gas emissions with a broad spectrum of industry and agency representatives, to provide our client with one basis for developing its overall strategy.

European railway company

We carried out due diligence associated with the acquisition of a rail-freight company. Potential EHS-related exposures, liabilities and compliance risks were identified as one basis for assessing deal risks and opportunities.

European airline manufacturer

We helped this client select a tool to manage environmental data and indicators, with the objective of facilitating both environmental reporting and ISO 14001 support. This effort built on previous assistance in selecting SAP EHS to track hazardous material and to support the client's continuous improvement efforts.

International European airport

We have provided valuation and assurance services for this client's environmental reports since 2000. The work comprises accounting analyses, testing of environmental data and internal control systems, verification of compliance with selected accounting policies and correlation between such policies and the company's activities, as a basis for validating the effectiveness of its internal control systems and the accuracy of the reported data.

"Despite their great impact on our company's economic development, we have overcome these challenges without neglecting our responsibilities toward people and the environment. In other words, no crisis management at the expense of our sustainability goals."

Wolfgang Mayrhuber, Chairman of the Executive Board & CEO, Lufthansa

"We recognise that we will only succeed in business in partnership with key stakeholders – our investors, our employees, our customers and the communities within which we operate… Taking a responsible approach to social and environmental issues remains crucial to our business performance and its future success."

Sir Rod Eddington, Chief Executive, British Airways

Utilities (electricity, gas, water)

The utility industry faces regional consolidation and calls for a reduction in its environmental impact. Companies in this sector also need to develop renewable sources of energy, improve their use of resources, develop climate strategies and manage their reputations.

Issues

- Reputation management, especially in the field of water
- Access to clean water supplies and financing of water and sanitation
- Climate strategy, and renewable energy and energy efficiency
- Bio-diversity and environmental impacts of operations
- Social/community impact
- Pricing (accessibility)

Client examples

Regional US public power authority

We assessed the effectiveness of the environmental compliance-management programme and code of conduct for a business that includes fossil fuel, wind and hydroelectric generation assets, as well as transmission and distribution operations. We benchmarked particular aspects of the authority's environmental compliance-management programmes with those of other regional electric utilities as a basis for identifying improvement opportunities, which included changes to its existing controls, processes and organisational structure.

European electricity-producer association

We helped establish a simulation of a carbon market system, before any such markets existed. This included the design of carbon-trading rules (which subsequently formed the basis for current systems), the use of a trading platform modified for the circumstances by our business partner, and training of more than 20 users from both trading and sustainability departments. We held various debriefing sessions with authorities in order to favour the emergence of such a platform and systems in Europe, responding to the needs of the industry and addressing NGOs' concerns.

Regional US gas/electric utility company

We identified opportunities for improvement and re-design of EHS-related functions for this client. EHS organisation and staffing levels were benchmarked to provide a basis for recommendations, which also addressed the potential merger with a national gas production/transmission company.

Regional European power company

We assessed the feasibility of upgrading the company's current EHS management system using SAP's EHS module as the platform. This involved examining the existing EHS management structure and system in order to identify the best fit between standard SAP R/3 functionality, SAP EH&S and existing EHS management packages.

"Every one of us at ScottishPower makes decisions, and it is the collective effect of every single decision that determines ScottishPower's impact on the environment and on society."

Ian Russell, Chief Executive, ScottishPower

"Our approach to the environment, the workplace and the communities in which we operate helps to shape our business strategy, which is based on the fundamental premise to maximise long-term shareholder value."

Robert Walker, Group Chief Executive, Severn Trent PLC

SBS Global Network and Solutions

Our Network

PwC is a global professional services firm with 120,000 partners and staff in 144 countries. Our global Sustainability Services network comprises almost 500 professional staff and spans over 40 countries (see Figure 1). We work closely with the firm's assurance, advisory, and tax and legal lines of service to bring integrated solutions to our clients on a local and global basis. The network functions effectively within and between territories and continents. This means that our partners and staff know each other and are used to working together to solve the cross-border issues of concern to our national and multi-national clients, both government bodies and public and private corporations.

Figure 1: PwC's Global Sustainability Services Network

Our Sustainability Services professionals have expertise in technical subjects, including corporate governance and business ethics, EHS compliance and risk management, climate change, CSR, stakeholder management, the supply chain and others. This expertise is supported by in-depth industry knowledge and business acumen in areas such as finance, tax, accounting, strategic planning, performance management and process improvement, enterprise-wide and compliance risk management, internal controls and Sarbanes-Oxley, assurance, supply-chain management and change management.

Our Solutions

PwC approaches the issues of sustainability and CSR in accordance with local conditions and requirements. However, we are aware that not all solutions can (or need to) be exclusively local; we support global convergence around standards of sustainable development. To this end, we have established relationships with other organisations, through which we hope to advance the field of sustainable business practice (see sidebar, Our partners in sustainable development).

The services we offer can be classified into three broad “families”. Together, these families provide the framework for our specific service offerings, five of which are discussed in detail in the rest of this section.

Our partners in sustainable development

- We have been a member of the World Business Council for Sustainable Development (WBCSD) since 2001.
- We became a signatory to the United Nations Global Compact in July 2002.
- We support the GRI in its efforts to develop guidelines for sustainability reporting.
- We are a board member of The Institute for Social and Ethical Accountability, which conducts consortium-based market research.
- We also operate in local partnerships with national NGOs and national bodies representing some of the organisations mentioned above, and our partners and directors often occupy positions on institutional bodies in their own countries.

Three Families of Services

In response to the demands of our government and corporate clients, PwC SBS offers three families of services:

- Contributing to sustainable development
- Improving performance; and
- Assuring published information on CSR

The particular service offerings that interest a client might include aspects of any (or all) of these families – for instance, a client investing in certification will, in the process, find ways of improving its operations and gain confidence that the information it publishes is independently assured. A client seeking technological assistance might also identify ways of contributing to its sustainable development and improving its business performance.

Contributing to sustainable development

We are committed to contributing to the achievement of millennium development goals and to the reduction of global threats. We concentrate on specific issues, sometimes with an increased focus on particular issues on a regional basis, including: public policies for sustainable development; relationships between sustainability and global trade; the identification of investment needs, financing and governance of, and access to, fresh water and sanitation; energy and climate-change issues; HIV; the alleviation of poverty; mobility; and agriculture (bio-products and bio-fuels).

Projects in these areas are primarily conducted on behalf of public authorities (global, national and regional), infrastructure managers or professional associations. They include the provision of support for policy-making; assessment and benchmarking of public policies; simulation of the impact of draft public policies on business; facilitation of stakeholder consultations; and design of PPPs (in the water sector, for example).

Improving performance

Companies request our help (such as policy formalisation, benchmarking, stakeholder dialogue, communication and reporting) to define their CSR- and industry-related strategic issues. These might include the empowerment of communities, the role of women in the workplace, energy- and carbon-related issues, the digital divide, the end of life of their products, Health & Safety and public health, access to drugs or water, mobility or other specific social challenges.

They will often seek assistance when they want to improve their performance by deploying their CSR policy on site (using key performance indicators, training, change management, balanced score cards, awareness-raising tools, certification and so on). Alternatively, they look for help when they are reconsidering their products and services portfolio (eco-design, life-cycle analysis of products and services and so on) or when they need to assess the impact of social expectations on their marketing, procurement and R&D functions and to deploy their CSR policies within these functions. The continuous process of improving business performance includes listening to clients and other stakeholders to win their commitment and define appropriate objectives; formulating a development strategy; and implementing that strategy throughout the organisation.

Assuring information on corporate social responsibility

Economic players increasingly communicate about their performance. In this context, we act as a trustworthy third party, enhancing the credibility of the information they publish. We provide independent assurance on the content of CSR reports, the results of voluntary engagements, various bases of environmental tax contributions, companies' attitudes to their employees or suppliers and the like. We believe that whatever matters should get measured, monitored and verified.

We also identify and quantify risks and non-compliance – in particular, in the context of due diligence and structured risk-management processes (such as Sarbanes-Oxley). We perform due diligence on both the buy and the sell side. On the buy side, for example, we assess and monetise the risks associated with a potential acquisition and propose ways of mitigating these risks. On the sell side, we assist in solving environmental issues before they destroy the deal. Last, we support the risk-management departments of our corporate clients by helping them to secure their processes and minimise the risks of reporting environmental information inaccurately.

Five Specific Services to Deliver Value to Clients

The three families of services described above represent the general themes of concern to companies serious about issues of CSR. Companies will, however, have very specific concerns – particularly about compliance and about the nature and the process of reporting – and their requests for assistance will vary, depending on their particular areas of business operations and their geographical locations. To respond to these concerns, PwC offers specific services in five main areas:

- CSR strategy design and deployment
- Reporting and assurance of non-financial information
- Climate-change audit and consulting, and emissions-trading services
- Transaction support on issues concerning environmental health and safety, and corporate reputation; and
- Supply-chain risk management.

Corporate social responsibility strategy design and deployment

How do I build a stronger business case to get executive management's attention?

Where are the potential gaps in our CSR strategy?

What are our biggest risks and how should we manage them?

How do we prioritise what we focus on and what considerations should we keep in mind?

What is the best way to implement our strategy?

How can we find state-of-the-art solutions?

Developing a well thought-out, credible and effective CSR strategy can be a daunting and timing-consuming task for organisations. It involves consulting numerous stakeholders and taking their views into account (see Figure 2).

Furthermore, since companies are typically in "reactive" mode when shaping their strategy, they frequently allocate resources ineffectively. PwC has a comprehensive service offering in the field of CSR strategy and stakeholder engagement that can be tailored to individual clients' requirements. It has five main elements:

Figure 2: The stakeholder community

Corporate responsibility and reputation: PwC helps clients to understand and prioritise the risks they should be managing (both strategic risks and risks to their reputation) as a result of their business practices and operations. Such risks might, for example, be ethical, social, environmental or regulatory and might include risks deriving from stakeholder pressures.

Programme development and implementation: We help our clients develop and implement a range of strategic programmes for the ongoing management of business conduct, risks to reputation and corporate responsibility. Specifically, we work with clients on the development and testing of codes of ethics and conduct; corporate responsibility, environmental, health and safety, and community management systems, controls, policies and procedures; internal audit; and performance and risk metrics.

We start by understanding the material risks for the organisation and developing tailored solutions, based on the areas of highest risk to a company's reputation and operations. We review all the relevant stakeholder concerns and ensure that they are taken into account, including stakeholder engagement, if appropriate.

Roadmap development: Organisations need a plan if they are going to make measurable progress in the area of corporate responsibility. While some organisations have initiated such plans, many have floundered and their plans remain incomplete. PwC helps clients to develop structured and robust plans, which include:

- A vision, goals and initiatives
- Governance
- Organisational, process, people and technology considerations
- A budget
- Timing
- Key stakeholders; and
- A communication plan.

Stakeholder engagement: Companies are no longer accountable only to shareholders and the investment community. They recognise that a broad and diverse group of constituents, including employees, activists, suppliers, consumers, regulators, communities and NGOs can have a significant impact on their reputation and business performance. Stakeholder engagement has therefore become a core requirement for maintaining competitive advantage.

PwC offers an integrated stakeholder-engagement service that identifies, assesses and engages stakeholders on issues ranging from developing a corporate responsibility strategy to non-financial reporting. We help clients develop engagement strategies that build commitment, not just compliance, and create a joint sense of ownership. This service yields significant business benefits, including:

- A better corporate brand and reputation
- Greater commitment and involvement from stakeholders
- A better understanding of customer segments; and
- Support for organisational change.

Operational solutions and support to decision making: Our consultants and project management staff support governments in evaluating national and international policy options, and help industry make informed decisions concerning corporate investment and strategic environmental management.

We adopt a pragmatic approach to the management of the earth's resources and apply our knowledge of life-cycle techniques to applications such as design for environment, life-cycle costing and sustainable technology. PwC is a leading provider of life-cycle-inventory-based products and services (including the PwC propriety software, Tool for Environmental Assessment and Management (TEAM™) and Life-Cycle Assessment, based on the ISO 14040 series of standards). PwC (and, in particular, Ecobilan, a business of PwC) helps companies to manufacture and distribute products in an environmentally and technically sustainable way; to make regulatory, market and competitive analyses; and to identify sources of recycling, potential disposal options and reverse/take-back logistics, with their associated costs/revenues and social performance. This includes such services as:

- Technology and product assessments
- Benchmarking
- Cost/benefit analysis
- Bills of substances
- Environmental product declaration; and
- Waste management decision-making support.

Reporting and assurance of non-financial information

Why should I report on anything other than economic value and financial results?

What should I report on and to whom should I report?

What benefits can I obtain from measuring social and environmental performance and how can I identify them?

What is the added value of obtaining external assurance on non-financial reporting?

Building on the firm's strong foundation in financial reporting and auditing, PwC's network has developed a comprehensive service offering in the field of reporting and assurance of non-financial information that may be tailored to individual clients' requirements. This service comprises four main offerings:

Reporting and communication planning and strategy: PwC helps both first-time and experienced reporters to define their aims, audiences and the information needs of readers in communicating non-financial information, internally and externally. We advise on the planning and development of a reporting framework and on the selection and development of key performance indicators to ensure that our clients effectively address stakeholder expectations in terms of transparency and accountability.

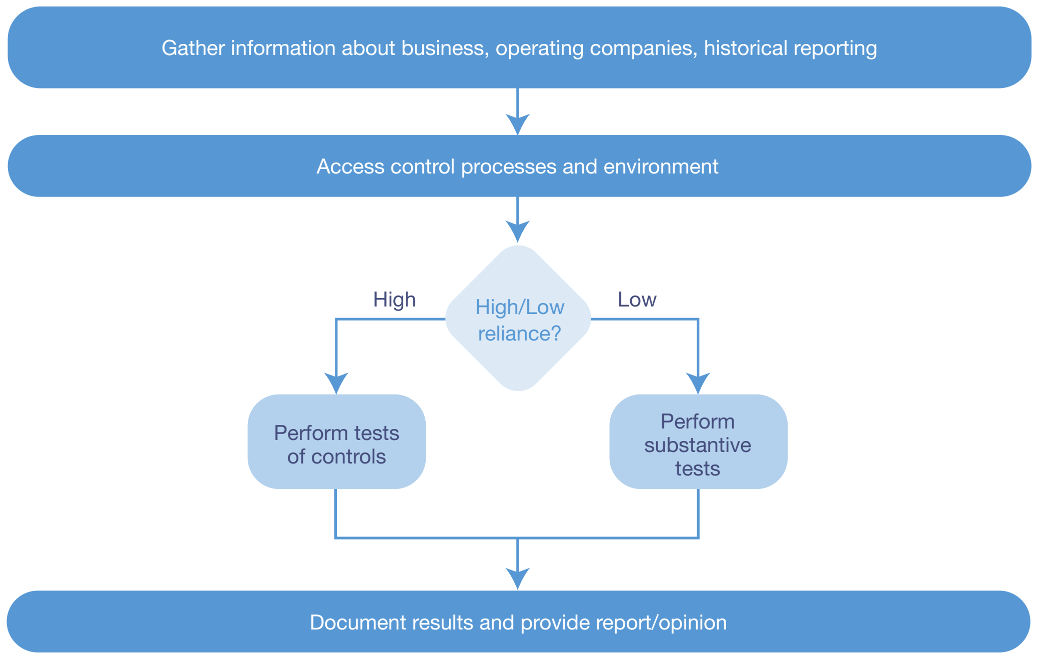
Review and improvement of governance, systems and reporting processes: PwC helps companies to review and establish optimal governance structures, appropriate management systems and formalised information-collection mechanisms and processes in order to facilitate the preparation, compilation and reporting of high-quality, non-financial data and information. Our services also include the assessment of system and process readiness and effectiveness. In addition to improved management and knowledge of non-financial performance, this helps our clients build a strong foundation for future potential assurance of reported information.

Obtaining external assurance of non-financial information: Independent assurance is an evaluation or measurement of the quality of an organisation's subject matter (such as data, systems and processes or behaviour) using specified principles or standards. A conclusion is expressed on the subject matter to enhance the confidence that intended users can place on the reported information (see Figure 3).

PwC boasts a solid reputation as an assurance provider with strong skills in applying assurance standards, developing assurance methodologies and applying non-financial content and industry-specific knowledge. We take a rigorous, ethical approach to assurance work. In addition to reinforcing the credibility of the subject matter in question, our approach covers the performance of existing management systems and controls. As a result, we can recommend improvements to reporting systems and processes, based on both proven expertise and best practice, and we can reduce the risk of reporting material mis-statements.

Reporting analysis and feedback: Analysis and feedback from different parties play an important part in the continuous evolution of reporting. Yet organisations are often disappointed in the amount and quality of feedback they receive from stakeholders on their reporting efforts. Combining our global reach with our experience in working with companies in the reporting of non-financial information, we offer reviews of reports and disclosures against peer-group and leading-practice reporting, which reflects current stakeholder concerns, and recommend short- and long-term improvements. We also help clients to obtain constructive and formalised feedback from different stakeholder groups, through surveys, focus groups, workshops and so on.

Figure 3: The general assurance process



Climate-change audit and consulting, and emissions trading services

How do I prepare for the carbon trading market?

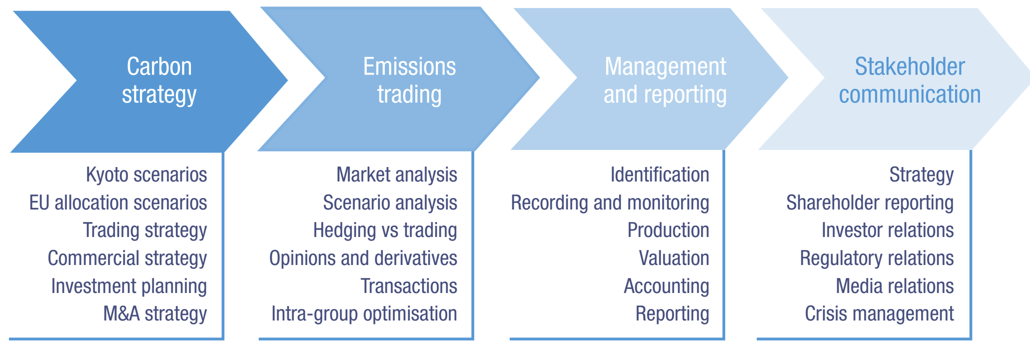
How do I develop CDM and Joint Implementation (JI) projects?

How do I get my emissions accounted for and verified?

As a country, how do I design and implement the legal basis for carbon compliance and trading mechanisms?

Climate change has emerged as one of the most important political and business issues of the new millennium. PwC has been working with policy makers and companies since 1997, helping to analyse issues and develop practical solutions for our clients (see Figure 4).

Figure 4: The key carbon trading processes



Source: PricewaterhouseCoopers, *Emission critical*, 2004

PwC has a network of more than 150 climate-change specialists across Europe, the Americas and Asia Pacific, offering a broad range of advisory, assurance and specialist services to address our clients' needs and priorities. There are six primary service offerings:

Strategy formulation: PwC helps clients analyse markets and policy developments and integrate climate-change challenges and opportunities into their corporate strategy and plans. We advise clients on their corporate, investment and emissions trading strategy, as well as on investor relations and wider stakeholder engagement. We offer expertise in renewable energy and retail carbon, as well as compliance markets and policy. We help with scenario planning, market analysis and commercial, regulatory and environmental strategy development.

Carbon finance and transactions: PwC works with both buyers and sellers of carbon credits in all the main carbon markets, offering a full range of transaction services. We also help clients to assess the climate-change risks and opportunities in corporate mergers and acquisitions and financing transactions and to understand the value implications.

We help project developers manage the entire emission-reduction project cycle in the CDM and JI markets, from asset generation to asset monetisation. We are able to integrate this work with corporate and project financing advice to help deliver the necessary investment. We also help developers realise value from non-compliance carbon or emission reductions. For buyers, we offer carbon credit due diligence services, as well as advice on transaction structuring, tax optimisation and accounting.

CDM and JI project design and development: It is likely that many countries in the EU and elsewhere will depend on emission reductions generated by projects developed under the CDM and JI schemes established under the Kyoto Protocol to meet their Kyoto targets. PwC is a leading adviser on CDM and JI project development. We cover all stages of the project cycle, helping clients to:

- Identify and assess potential projects
- Develop project plans
- Manage the approval and registration process
- Secure host government approval
- Demonstrate the “additionality” of emission reductions
- Produce the Project Design Document and other necessary documentation
- Secure project or other financing
- Market the carbon credits; and
- Negotiate and manage the sale of those credits.

Carbon risk management and health check: Climate change, emissions trading and other national and international policy responses to the climate-change issue present a whole new set of risks for companies. These span the strategic to the operational, include legal and financial risks and risks to reputation, and can have an impact on functions across the whole organisation, including production, the supply chain, EHS, public affairs, planning and strategy.

We help companies systematically to identify and evaluate the risks presented by climate change and emissions trading, and to develop effective risk management measures in the context of an often fluid and uncertain external environment. Our services range from a “PwC Carbon Health Check” (CHC) to more detailed reviews. The CHC consists of a high-level review of 12 focus areas (regulatory, accounting, tax, legal, monitoring and so on), with a view to:

- Assessing the level of preparation of operations
- Identifying strengths, weaknesses, risk and opportunities
- Defining corrective actions; and
- Planning for compliance (a road map for the start of the EU emissions-trading system).

Greenhouse gases data management and reporting: The design and implementation of robust data management systems and quality control over reported information are key challenges for organisations participating in emissions trading schemes or voluntary initiatives to address carbon emissions. We help our clients establish greenhouse gas inventories to meet emerging international best practice, advise them on the design and implementation of data gathering and reporting systems, and test the adequacy of their controls over the data.

In addition, we provide external assurance of the accuracy and reliability of greenhouse gas data, both within international emissions trading regimes and within the context of sustainability reporting. We also advise on accounting for, and taxation of, emissions trading. We produce guidance to small and medium-sized enterprises on the need to get prepared for forthcoming regulations and produce accounting and verification handbooks for them.

Public policy and delivery: We provide evidence-based policy advice to government and public-sector clients on climate change. We advise public-sector clients across national, regional and local government, the EU and international financial institutions such as the World Bank. Our services include advising on the design of market structures for emissions trading, helping organisations address their own carbon footprint and assessing the socio-economic impact of the physical effects of climate change.

Transaction support on issues concerning environmental health and safety, and corporate reputation

I represent an investment fund that will acquire a company whose activities probably involve environmental risks and risks to our reputation. How do I measure such risks and reflect them in my business plan and ROI calculations?

I am considering disposing of a segment of my business to an investment fund. How do I make sure that the environmental risks and future compliance costs are properly addressed and will not negatively affect my ability to sell this business?

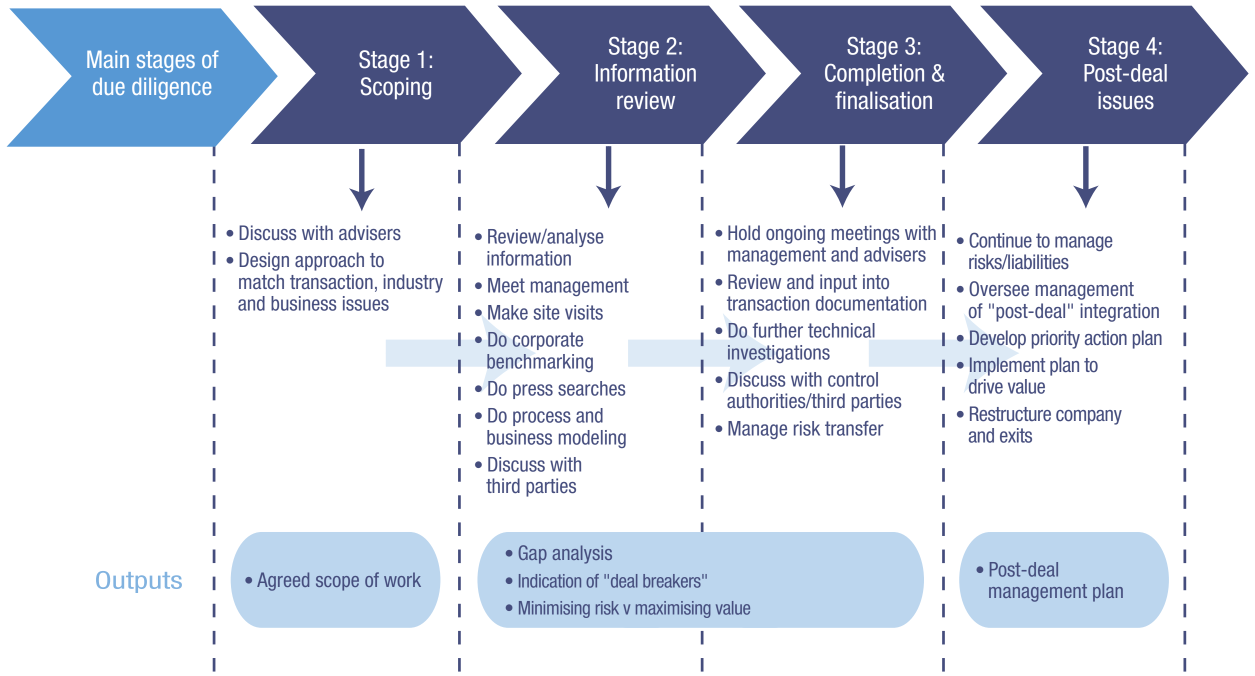
Corporations have to meet the increasing global demand for new resources, products, technologies, markets and strategies. Transactions within and between global and regional corporations have become more common, as have the complexities of these transactions and the associated opportunities and risks. Over the past decade, consideration of EHS opportunities and risks has evolved and become a standard consideration within the due diligence and transaction process, because:

- Major investment houses specify that EHS issues and risks must be considered, regardless of whether the proposed investment is in major infrastructure in China, a management buy-out of a light engineering firm in the UK or the merger of petroleum industry giants in the US;
- Business has recognised that good EHS risk management and sound business performance go hand in hand; and
- Tighter legislation in Europe, the US and other countries means that more consistent standards for EHS performance are required.

Globalisation is bringing convergence in many industries while simultaneously creating a greater demand for understanding of the issues relating to corporate reputation that are associated with transactions. Organisations in all sectors continue to search for innovative ways to increase shareholder value. Stakeholders are also demanding excellence in corporate governance – in particular, when it comes to managing the risks pertaining to reputation and ensuring transparent business practices.

Whether a company is completing an acquisition, turning around a business, restructuring or divesting itself of assets, PwC can help with the non-financial due diligence that is needed to protect and enhance shareholder value, recognising the importance of environmental and social issues in creating a sustainable business (see Figure 5). Our service offerings therefore relate to asset purchase (buy-side due diligence), asset structuring/integration (post-deal services) and asset sale (vendor due diligence).

Figure 5: The EHS due diligence approach



Buy-side due diligence: Consideration of environmental, health and safety and reputation (EHSR) risk is a fundamental element of the due diligence process across the majority of industry sectors. Failure to address these risks early on may hamper the timing of a deal, undermine the value of the asset being acquired, result in significant liabilities or damage an organisation's reputation. PwC's EHSR transaction support typically involves:

- Advising on the appropriate scoping of EHSR due diligence
- Reviewing available information, including data room material, undertaking site visits, holding management meetings and assessing information provided by third parties
- Identifying and characterising EHSR risks and liabilities and their effect on the business plan, purchase price, capital expenditure requirements and so on; and
- Advising on the use of risk-mitigation measures (for example, via sale and purchase agreements, environmental insurance policies or other risk-transfer mechanisms).

Post-deal services: Having developed an understanding of the EHSR risks attaching to a particular asset purchase via the due diligence process, the purchaser will need to ensure that identified (or subsequently identified) risks are appropriately managed after the deal is completed. This may involve:

- Intensive management of "hot" post-deal issues, including those risks or liabilities that may come to light following inadequate due diligence, or that were not managed appropriately through the sale and purchase agreement or other risk-transfer mechanisms
- Integration of EHSR management-system arrangements
- Development of appropriate capacity to generate EHSR management information to meet the disclosure requirements of the new owner
- Implementation of longer-term environmental improvement projects (for example, pollution abatement/clean technologies and remediation projects)
- Insurance recovery investigations to identify existing insurance policies that may cover historic and future liabilities; and
- Advising on the financial accounting implications of any acquired liabilities (for example, a review of provisioning models).

Vendor due diligence: In seeking to maximise the value of an asset sale, the vendor must be prepared to supply an appropriate level of credible information to prospective purchasers. The vendor must maintain control over the generation and management of EHSR risk information in order to:

- Ensure that it can respond robustly to the concerns of prospective purchasers
- Ensure that it can respond efficiently to requests for information from the purchaser; and
- Avoid generating information that provides the purchaser with an inaccurate picture of the situation and thus hampers the progress of the deal or has an adverse impact on the asset's value.

PwC's specialist transaction support team identifies the key sector risks relevant to a particular asset and initiates detailed investigations using proprietary data-gathering methodologies. We use our experience of working on the opposite side of deals to try to pre-empt challenges and information requests from prospective purchasers, in order to protect the progress and value of a deal.

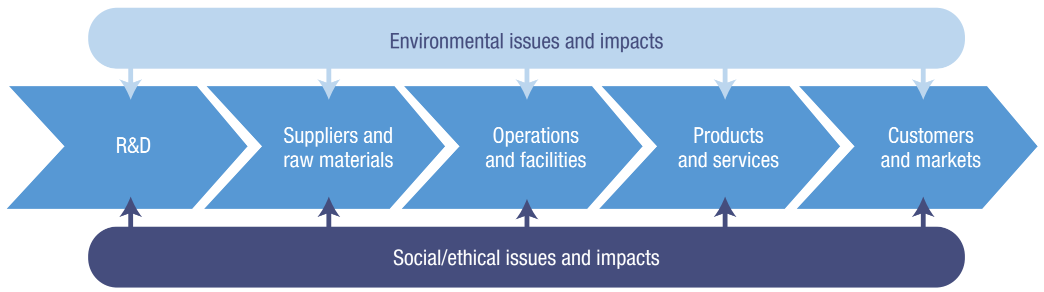
Supply-chain risk management

I am increasingly sourcing from countries and regions I am not familiar with and where social risks and risks relating to reputation are increasingly catching the attention of stakeholders. How do I make sure that this will not jeopardise my overall business objectives?

How can I be sure that my contractors will adhere to my code of conduct and CSR policy?

Over the last 10 to 15 years, companies have focused on reducing their business costs and expanding their capabilities by improving their supply chains. Low-cost country sourcing, multi-tiered supplier networks and business process outsourcing are just a few of the initiatives that companies, large and small, have deployed. The benefits of many of these initiatives are clear – reductions in the cost of goods, growth in new markets, the freeing-up of resources to focus on core value-adding activities, and the development of new partnerships, relationships and capabilities. However, these benefits are often accompanied by greater supply-chain complexity and exposure to risk (see Figure 6).

Figure 6: The risks associated with more complex supply chains



Companies with business-critical sourcing needs and complex supply chains are just starting to appreciate the risks involved. They realise that effective risk management depends on thinking about how to mitigate risks and putting contingency plans in place for the duration of their supply-chain activities. This involves:

- Developing a supply-chain strategy, bearing in mind the key risks and opportunities of the external environment while leveraging key business competencies
- Identifying strategic partners from the many thousands of potential and existing vendors able to satisfy their requirements for competitive cost, quality and delivery, and service
- Managing their suppliers' adherence to contractual requirements – a particular challenge where cultural differences, physical distance and local difficulties in enforcing the law apply

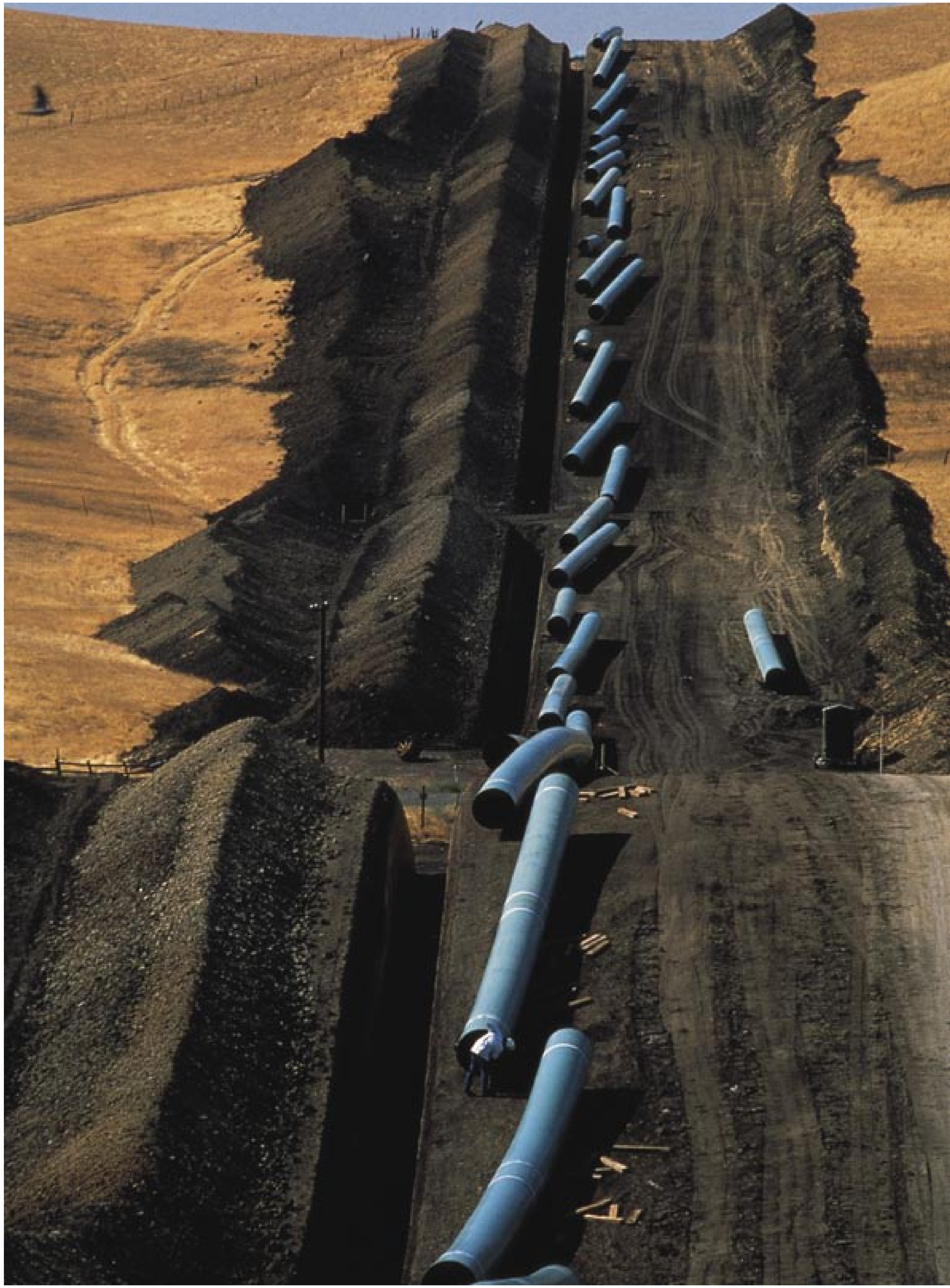
- Effectively managing inventory while dealing with long ocean-freight lead times and large volumes of product per shipment
- Protecting their reputation at home by ensuring that their supply chains adhere to social, ethical and environmental standards
- Understanding all the relevant tax costs that might be incurred overseas and at home before making an investment decision
- Maximising the effectiveness of the organisation's import/export compliance-management practices
- Planning, implementing and controlling logistics practices across their supply chains to achieve efficiency and conformity to their customers' requirements; and
- Making the people skills in the supply chain a sustainable source of competitive advantage.

To respond to these growing needs, PwC has developed an integrated set of diagnostic tools and related services to help clients identify, prioritise and address the key risks in their supply chains, particularly in three critical areas:

Supply-chain risk assessment: At every stage in the process – developing a sourcing and supply-chain strategy, selecting suppliers and partners, managing established relationships and processes, or even discontinuing a relationship or process – risks need to be acknowledged and effectively managed. PwC helps companies to make an inventory of these key risks; to evaluate their potential impact, using established and tested risk-quantification tools; and to assess the likelihood of their occurrence.

Design of frameworks for supply-chain risk management: PwC can help companies that have conducted an assessment of their supply-chain risks to design an appropriate risk-control framework. Our methodology, which is based on the enterprise risk-management framework developed by the Committee of Sponsoring Organisations of the Treadway Commission (COSO), systematically considers each of the components required for effective risk management – internal environment, business objectives, event identification, risk assessment, risk response, control activities, communications and monitoring procedures.

Supply-chain risk mitigation: One of the most challenging aspects of supply-chain risk management is ensuring the proper implementation and continued application of an effective risk-control framework – procedures, training, monitoring and reporting. Companies that have identified their key risks and defined the appropriate responses require adequate capabilities and the organisational discipline to implement the risk-control framework effectively. PwC helps clients to implement effective risk-mitigating activities and controls by providing training and monitoring services.



PwC Publications

CSR Strategy and Stakeholder Engagement

- Water – A World Financial Issue (March 2001)
- Sustaining Value Through People – Turning corporate responsibility into corporate opportunity (2003)
- Integral Business: Integrating Sustainability and Business Strategy (2003)
- CSR and the Financial Services Industry (2004)
- Total Tax Contribution Framework: what is your company's overall tax contribution? (March 2005)
- View from the Boardroom: The business community's response to HIV/AIDS in Kenya (April 2005)
- Communicating Successes of Public Private Partnerships (January 2005)

Reporting and Assurance of Non-Financial Information

- Building Public Trust: The Future of Corporate Reporting (2002)
- Social Report: The Fourth Basic Financial Statement – On the Social Dimension of Enterprises (2004)
- Nothing but the Truth: Best Practice Guide for Sustainability Reporting (2004)
- 2005 Practices in Corporate Reporting (2005)
- The Sustainability Yearbook 2005: Insights from SAM's Sustainability Research and PwC's Value Reporting (February 2005)

Climate Change and Emissions Trading Services

- Climate Change and the Power Industry: European Carbon Factors (November 2003)
- Carbon Market Vision (March 2003)
- Responding to a Changing Environment: Applying Emissions Trading Strategy to Industrial Companies (March 2005)
- Emission Critical: Connecting Carbon and Value Strategy in Utilities (March 2005)

Environmental, Health and Safety and Reputation Transaction Services

- Environmental, Health and Safety Due Diligence and Transaction Support (2003)
- Closing Gaps in Traditional Environmental Due Diligence: PwC Explores How Incorporating Environmental, Health and Safety and Corporate Responsibility Risks Can Achieve Business Goals (CR Report, August 2005)
- Environmental Shareholder: Understanding the value of environmental performance (2005)

Supply-Chain Risk Management

- Strengthening Implementation of Corporate Social Responsibility in Global Supply Chains (October 2003)
- Sourcing Overseas for the Retail Sector: CSR and the Ethical Supply Chain (March 2005)

Surveys/Overall Business Focus/Other

- Mining and Minerals Sustainability Survey 2001 (MMSD and PwC, 2001)
- Environmental, Health and Safety Management Information Systems – A Survey of Practices in U.S. Industry (April 2001)
- 2002 Sustainability Survey Report (August 2002)
- "Sustainability: at the Crossroads", Link Magazine (February 2004)
- "CSR: When doing the right thing provides a pay-off", Global Finance (August 2004)
- 8th Annual CEO Survey: Bold Ambitions, Careful Choices (2005)
- "Business Integrity: a foundation for rebuilding reputation", The Journal (August 2005)

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Checklist of Services

CSR strategy design and deployment

- Design, formalisation and assistance in the deployment of a national or regional sustainable development strategy, Agenda 21 and so on
- Integration of environmental and sustainable development ambitions into national, regional or local policies
- Development of national HIV policies
- Development of national fair-trade policies
- Design, formalisation and assistance regarding CSR strategy
- Provision of stakeholder-engagement support
- Stakeholder consultation in the context of public policy drafting, communication and information
- Deployment of a CSR corporate strategy and development of performance metrics
- Risk assessment in terms of sustainable development issues for the financing of large infrastructure projects
- Environmental risk assessment linked to large infrastructure projects
- Optimisation of waste management (WIZARD™)
- Life-cycle analysis (TEAM™)
- Eco-design of products or services
- Process and site benchmarking (TEAM™) and benchmarking of financial and operational performance
- Assessment of substances management (for example, WEEE and ELV directives)
- Use of methodology to assess investment needs for the provision of clean water and sanitation
- Provision of advice on the financing of investment in clean water and sanitation
- Institutional assistance in the implementation of PPPs
- Training and change-management assistance
- Assistance with environmental litigation

Reporting and assurance of non-financial information

- Training, assistance with implementation and audit of environmental management systems
- Diagnosis, design and implementation of CSR and environmental management information systems
- Development of product-oriented environmental management system (POEMS)
- Design of CSR rating-improvement programmes
- Design and improvement of sustainable-development and CSR reports
- Design and assistance in the deployment of social and environmental indicators

- Risk assessment and improvement of EHS and sustainability policies, procedures, controls, systems and associated compliance programmes
- Financial accounting related to the reporting and disclosure of EHS exposures and liabilities
- Ethical reviews, social standards compliance reviews (child labour, ILO 182, SA 8000, AA1000, ISAE 3000) and fair-trade reviews
- Third-party assurance of environmental, quality, sustainable forest management and occupational health and safety management systems
- Preparation of environmental product declarations
- Assurance of environmental and CSR reports
- Verification of voluntary agreements

Climate-change auditing and consulting, and emissions trading services

- Support in the design and deployment of national strategies on climate change and provision of advisory services to regulators for the implementation of climate policies and Kyoto flexibility mechanisms
- Carbon risk strategy and management
- Setting up of CDM and JI projects and emissions neutralisation programmes
- Establishment of emissions baseline and reporting management for third parties
- Emissions valuation and trading assistance
- Verification of emissions of greenhouse gases
- Verification of corporate environmental accruals

Transaction support on issues concerning EHS and corporate reputation

- Risk assessment of acquisition projects (vendor and buy-side due diligence)
- Post-merger integration and risk management related to EHS and sustainability, including organisational structure, staffing, management systems, policies or procedures, internal controls and programmes
- Financial accounting related to environmental exposures and liabilities for acquired or divested assets

Supply-chain risk management

- Analysis of value chain and supplier relationships and development of procurement policies (social and environmental specifications)
- Analysis of value-chain procurement policies and procedures
- Supply-chain assurance (chain of custody)

This Handbook is intended to provide an overview of sustainability and CSR issues, their relevance in a regional and industrial context, and an overview of our solutions and experience. The description of the various regions and their sustainability issues is not intended to compare respective government actions or policies, and should not be interpreted as such. Note that countries are grouped into regions for presentation purposes only, and that not all countries or regions are covered here.

The sustainability issues identified in the Sustainable Industries section of this publication are those generally recognised as important by stakeholders and sustainability rating indices, which does not necessarily imply that all companies in any given industry will experience every such issue. PwC does not express views on the specific ways in which individual companies address sustainable development. All quotes by senior management in particular industries have been taken from their companies' CSR/Sustainability reports or from other sources in the public domain.

Please note that all services described in this publication may not necessarily be offered to all companies, and that prior authorisation may be required from companies' Audit Committees before engaging PwC to perform certain services.

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