

RECOMMENDATIONS

for **GREEN REPORTING**

*Make reporting a
strategic tool, not just
a means of communication*



FONDAZIONE
PER LO SVILUPPO
SOSTENIBILE

Sustainable Development Foundation

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FNM is the leading group operating in the sector of rail and road transport in Lombardy and Northern Italy and, together with Trenord, the second largest railway operator in the country. The Group, through its subsidiaries, is also active in the sector of engineering, infrastructural planning, logistics, electrical mobility, energy, and ICT systems. FNM SpA holding company is a joint stock company listed on the Milano Stock Exchange. The majority shareholder is the Lombardy Region.

6 RECOMMENDATIONS FOR GREEN REPORTING

***Make reporting a strategic tool, not just a
means of communication***

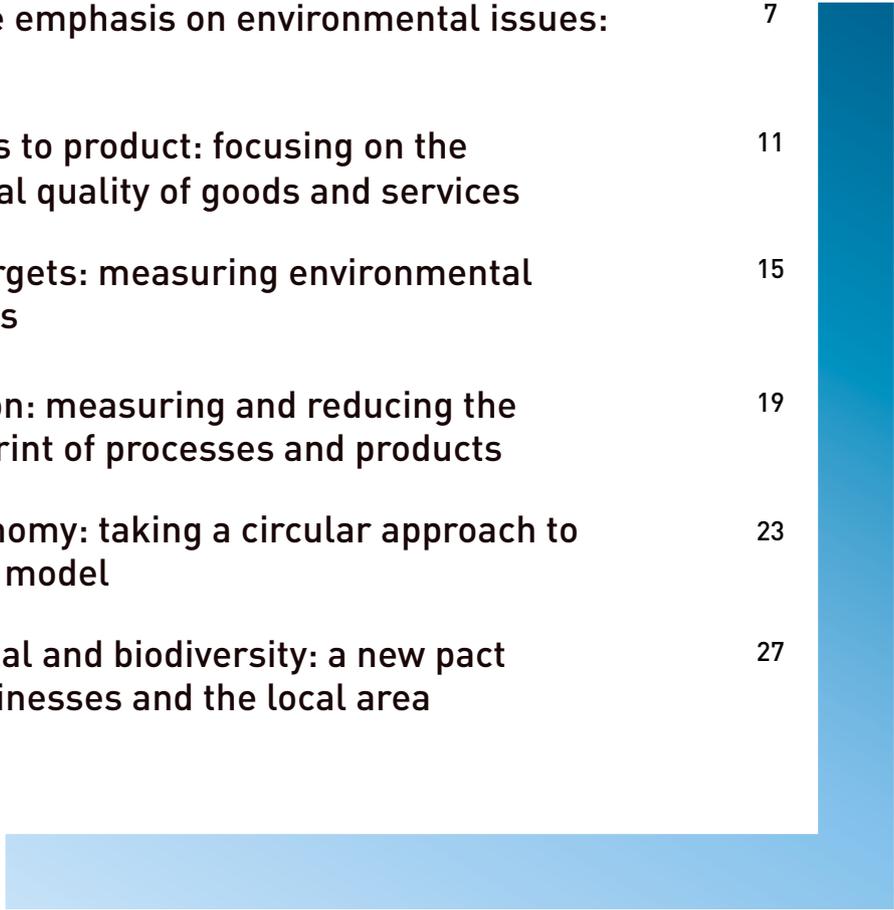
The recommendations contained in this report are based on the results of the “GREEN ECONOMY IN NON-FINANCIAL REPORTING” survey. The survey was carried out by the Sustainable Development Foundation with the support of Itelyum, applying a grid of 86 key indicators on a sample of 130 non-financial statements published by Italian companies in the second year of reporting in compliance with Legislative Decree 254 of 2016 (implementing Directive 2014/95/EU).

The survey aims to take stock of the state of non-financial reporting in Italy, observing the subject in particular from the point of view of the green economy, with a specific focus on reporting methods and quality of companies’ environmental performances and commitments.

The full version of the survey can be downloaded for free from the Foundation’s website www.fondazioneperlosvilupposostenibile.org in the publications area.



6 Recommendations for green reporting

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**PLACING MORE
EMPHASIS ON
ENVIRONMENTAL
ISSUES**

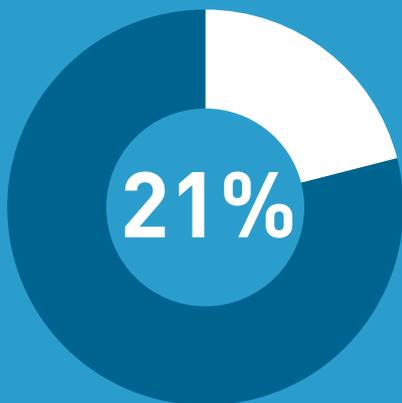
**PLANET
FIRST!**

Preserving natural capital, stopping climate change, developing circular economy models and, more generally, preserving our planet's vitality and liveability are not just some of the many desirable goals that we must impose in order to talk about sustainable development, they represent, indeed, the basic condition that must be guaranteed "regardless": without preserving the "life support systems", as they were once called, of our "Spaceship Earth", we simply will not have development models to choose from.

A company wanting to demonstrate its contribution to green economy must first of all start from its commitment and results achieved in terms of maintaining the functionality of the global ecosystem.

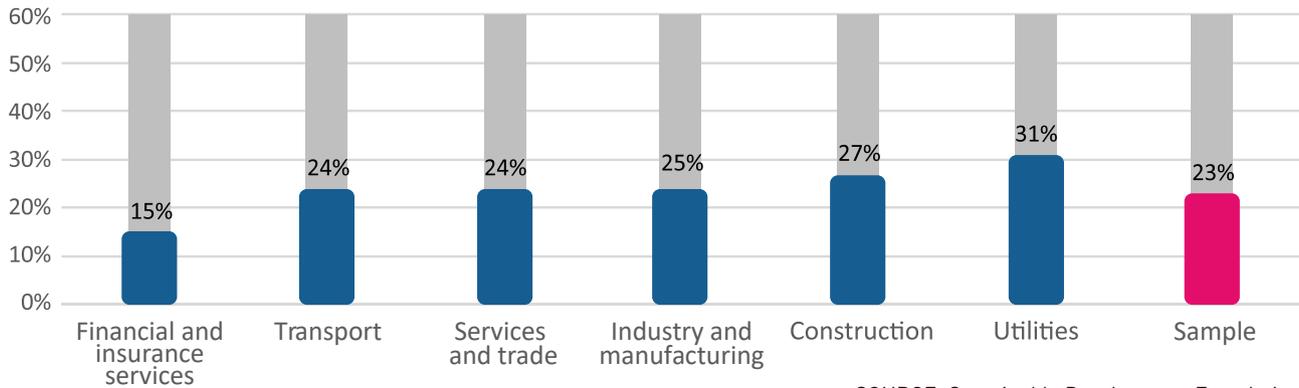
Obviously, environmental aspects are always

present in non-financial or sustainability reporting tools, but they rarely are represented adequately. It is not easy to quantify the weight that can be attributed to environmental aspects within a document, a weight that is also often strongly influenced by qualitative elements, linked, for example, to the way in which a certain topic is treated. In the survey on non-financial statements (NFS) we necessarily had to focus on particular quantitative aspects, which are certainly not enough to describe a comprehensive picture of the subject, but are nevertheless indicative of a trend and an approach that are very widespread today.



Materiality analysis is an important strategic tool for companies. Through it, starting from an observation of their own impact on the environment and community, the most relevant issues for stakeholders are identified, in order for companies to address their own activities and to guide their decision-making processes. The survey shows that 21% of the topics identified in the materiality matrices or lists in the analysed reports can be attributed to environmental aspects.

Pages dedicated to environmental issues compared to the total number of pages dealing with environmental, social and economic performances



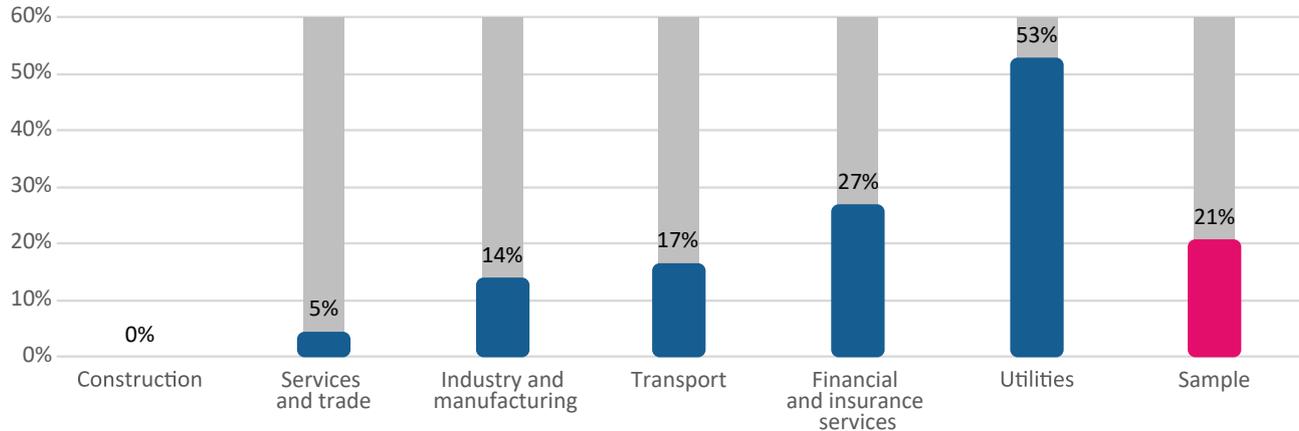
SOURCE: Sustainable Development Foundation

The number of pages dedicated to a topic is certainly only a partial criterion, but it is nonetheless indicative of the emphasis placed on a certain theme within a report. The study of the NFSs in the analysed sample reveals that, on average, 23% of the pages dedicated to companies' environmental, social and economic performances are dedicated to environmental issues. The figures are slightly higher for the utilities and construction sectors, although variability between the sectors remains low.

41% share of total pages in the reports dedicated to analysis of the company's environmental, social and economic performance.

33% environmental indicators reported on average, compared to the total environmental, social and economic indicators present in the reports: the highest figure is for the social indicators, which account for an average of 50%.

Companies that report on environmental investments



SOURCE: Sustainable Development Foundation

A company's reporting on its investments in environmental improvements can be considered a useful criterion for assessing its commitment to this topic. The survey reveals that 21% of the analysed companies report data on direct investments in projects and activities benefitting the environment. The results are quite variable among different sectors. The figures are obviously considerably higher for the utilities sector, as environmental investments directly relate to its core business.

26%

share of companies whose reports declare environmental investments, comparing them to total investments made or to other financial parameters (EBITDA, VA, etc.), thus making it possible to understand the importance of environmental aspects within company policies.

28%

companies whose reports include environmental criteria used to assess their suppliers. 67% of these companies require suppliers to obtain ISO 14001 or ISO 50001 certifications or EMAS registration.

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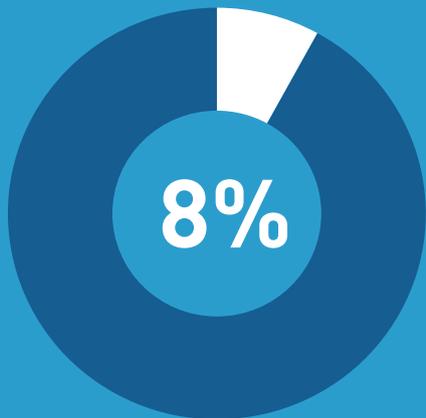
FROM PROCESS TO PRODUCT

**FOCUSING ON THE
ENVIRONMENTAL QUALITY
OF GOODS AND SERVICES**

Companies are now increasingly aware of the importance of measuring, monitoring and controlling potential environmental impact factors associated with their activities. However, these measurements are often limited to analysis of the performance of their offices or production processes and only in certain cases (although it is in fact becoming more common) they include other important links in their own value chain, such as the supply chain.

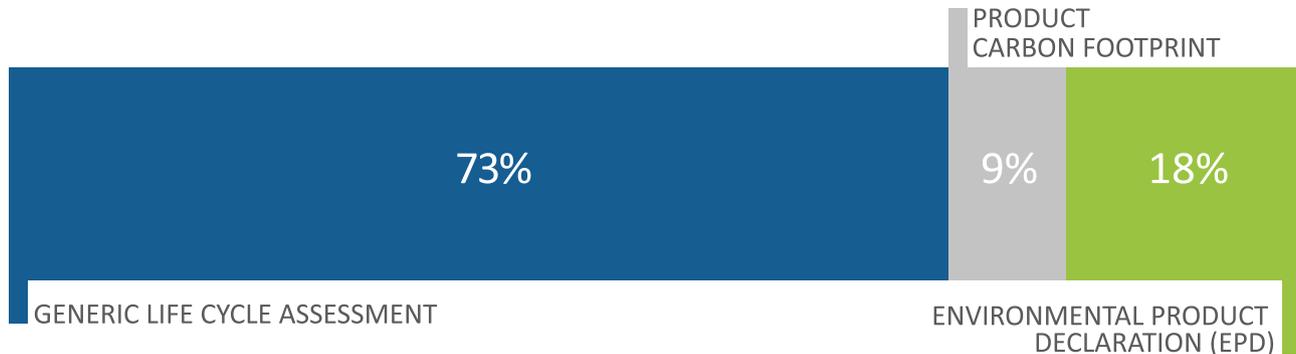
Nonetheless, the product (good or service) offered by the organization is excluded from all of this. This is an objective and evident limitation in all the cases in which the use of the product itself that is responsible for most of the negative impact on the environment (think, for example, of cars or

traditional manufacturing plants). Indeed, the product is of central importance even when this is not the case, since encouraging a company to report and therefore reflect on the performance of its goods and services means transforming reporting from a pure communication tool into an activity designed to support the direction of its business models, taking on an active role in the green transition process. To some extent, it is the difference between an organization that approaches environmental issues in a defensive manner, striving to limit the collateral damage of its activities and defending its reputation, and an organization that views this area as a modern-day strategic tool to develop innovation and competitiveness.



In recent years companies have started to introduce assessments relating to their products' environmental performance in their reporting tools. However, this practice is still in its early days, as evidenced by the fact that less than one out of ten companies has included some form of environmental product assessment in their report. This practice is most widespread in the construction and utilities sectors, in which 20% and 18% of companies, respectively, adopt it.

Standards adopted by companies that report on the performance of their products



SOURCE: Sustainable Development Foundation

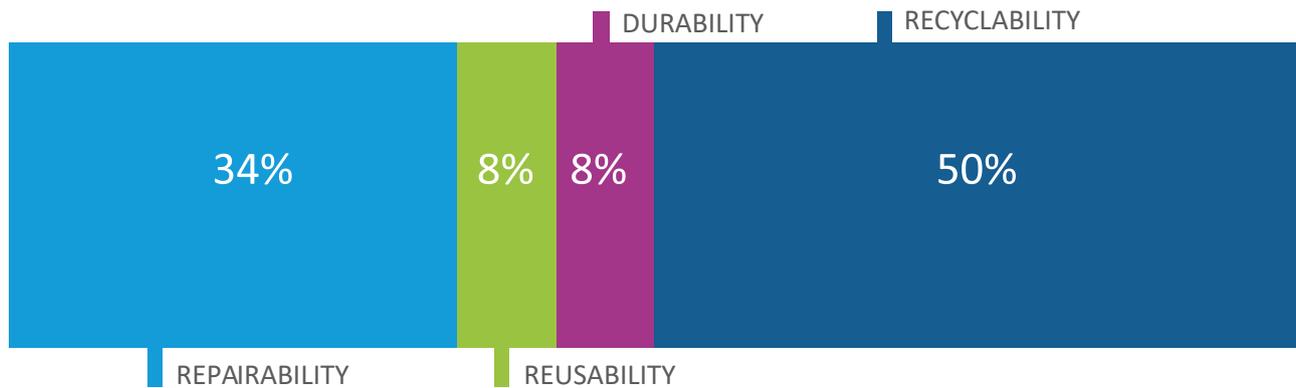
There are several ways to include the performance of a product, good or service within the scope of reporting, but generally the natural approach is that attributable to life cycle analysis. Of the companies that carried out some form of product environmental performance analysis, only 18% stated that they followed the Environmental Product Declaration (EPD) methodology and 9% indicated a carbon footprint: most of them made a generic reference to life cycle analysis without further specification.

18% companies whose reports include measures to contain the energy needs of their goods and services.

2% companies whose reports include an assessment of their products' environmental performance, not limited to a specific eco-friendly line, but of all products supplied or at least the company's core product.

1% companies that carry out an evaluation of their products' environmental performance on a recurring, rather than occasional, basis.

Type of actions taken by companies to improve their products' circularity performance (eco-design)



SOURCE: Sustainable Development Foundation

Some companies' reports include information about actions taken to improve their products' environmental performance. Half of these put in place measures to increase recyclability and around a third have taken actions to facilitate their products' repairability. In both cases, the remaining share relates to measures designed to somehow increase the products' useful life (either by making them easier to reuse or by working on their actual longevity).

11% companies whose reports include measures to improve the circularity performance of their product design or business model.

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GOALS

AND TARGETS

**MEASURING
ENVIRONMENTAL
PERFORMANCES**

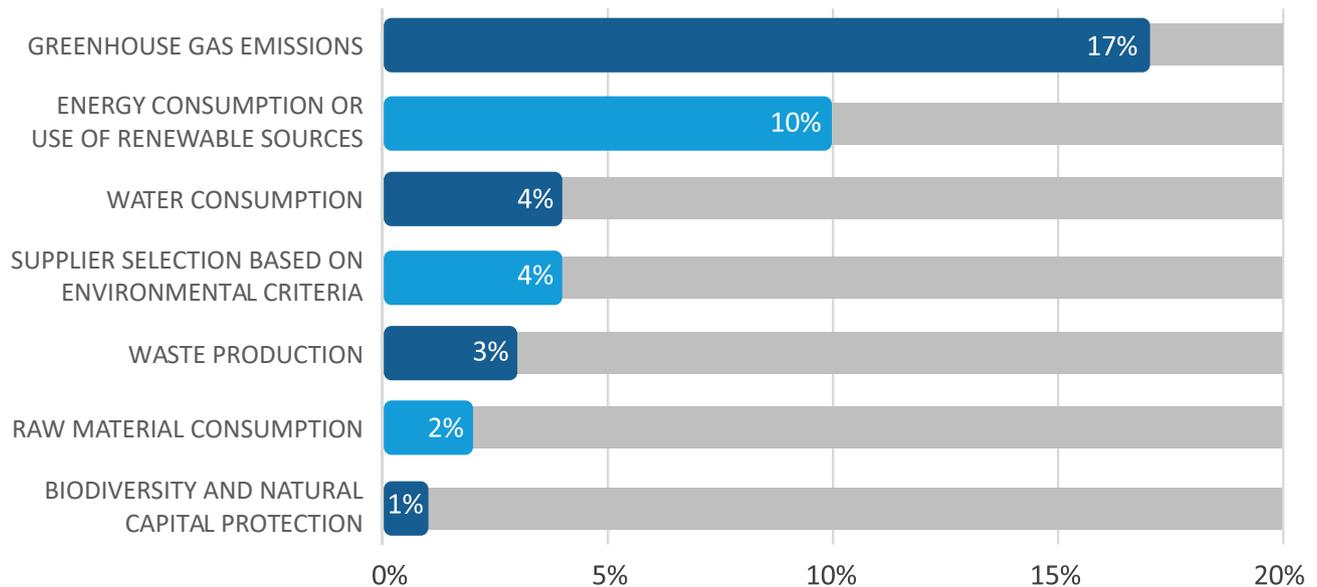
A large number of companies devote most of their reporting documents to describing various activities carried out and the related results achieved. However, with this approach, such documents only partially fulfil their primary function: demonstrating through data the effectiveness of their commitment to continuous improvement. Indeed, indicating the values of the generated pollutant emissions or the quantities of raw materials consumed or waste produced is not enough. Nor it is sufficient, although recommendable, to illustrate how these variables change over time. Without clear objectives defined in the medium-long term, i.e. targets, it is not possible to

understand and make people understand the extent to which actions undertaken by an organization to protect the environment (although this obviously applies to every other aspect of sustainability) have been truly effective. Today, we can draw on a long tradition of approaches and methods to identify specific objectives and targets for environmental improvement and we could even consider reference values derived, for example, from industry best practices. Also for this reason we may be ready to move from reports based on a purely descriptive approach to new tools that are more geared around performance analysis.



Companies adopting and reporting a greenhouse gas emissions reduction target in line with the Paris Agreement's objectives – somehow consistent, therefore, with a commitment to carbon neutrality by 2050 – account for just 5% of the analysed sample of companies.

Companies that report improvement targets for the most relevant environmental issues



SOURCE: Sustainable Development Foundation

The survey's results clearly show that only a very limited number of companies identify improvement targets in their own reports and measure their performance on this basis. The highest figure is for the targets for reducing greenhouse gas emissions (regardless of the set reduction level, whether or not compliant with the Paris Agreement) applied by 17% of the analysed companies; the lowest figure is for targets related to biodiversity protection, adopted by as few as 1% of the sample; however, data related to waste production or raw material consumption are also alarming.

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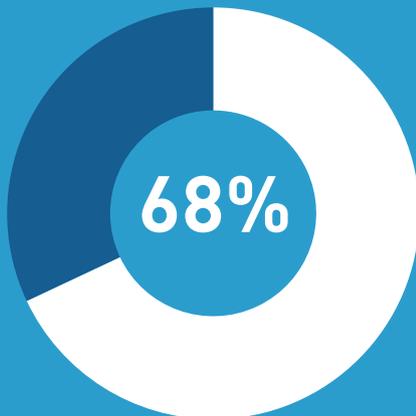
CLIMATE ACTION

**MEASURING AND REDUCING
THE CARBON FOOTPRINT
OF PROCESSES
AND PRODUCTS**

It is now essential for every organization to report commitments against climate change. Indicators connected to energy and climate aspects are, in fact, among the most widespread within the reporting tools and it is very rare for a document to exclude these issues (also due to the requests in the Directive on non-financial reporting).

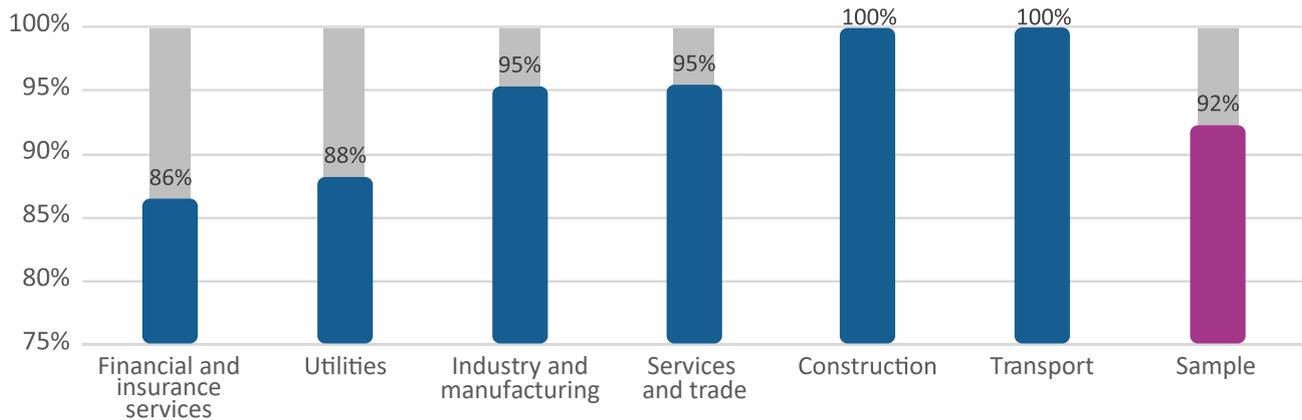
It is important to work on quality of information in this regard. First of all, by maintaining a sufficiently large reporting scope to include all greenhouse gas emissions that an organization is directly or indirectly responsible for. As mentioned earlier, this may mean, in many cases, also accounting for the impacts associated with goods and services offered by the

organization, adopting analytical life cycle approaches. But, perhaps more importantly, care must be taken to avoid falling into the trap of easy shortcuts. In this sense, companies must commit to distinguishing between improvements in terms of reduced consumption and greenhouse gas emissions connected to the real progress of their process or product performance and those deriving, for example, from compensation measures which, although legitimate, can, if not considered residual, diminish the company's responsibility and weaken more structural measures.



The energy and climate area is undoubtedly the environmental aspect that receives the most coverage in companies' reports. Climate change is a material issue for 68% of the analysed companies. There remains a high variability between sectors: in the case of construction, transport and utilities, the figure is 100%, while on the other hand only 22% of operators in the financial and insurance services sector include climate (including terms such as emissions and energy) among the material aspects, often adopting very generic terms (such as environmental impact or similar).

Companies that report on their own greenhouse gas emissions, monitoring them over time



SOURCE: Sustainable Development Foundation

The number of companies reporting their historical greenhouse gas emissions (either as an absolute value or in terms of intensity) is very high and is higher than the percentage of companies that consider the material issue, since the scope covered by indicators is generally wider than that defined by material issues. The variability between different sectors is significantly lower than that of materiality, even though financial and insurance services show the worst performance, with 86% of analysed reports containing historical series of CO₂ or other greenhouse gas emissions.

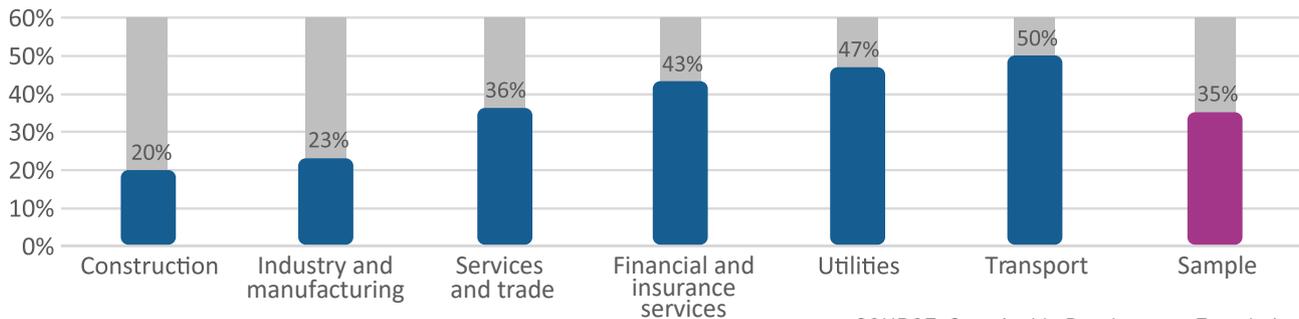
79%

companies whose reports include energy efficiency measures: 45% of measures are limited to offices, 35% to production processes and the remaining 20% to mobility and logistics.

50%

companies whose reports declare the “independent” creation of plants powered by renewable energy (almost 90% being photovoltaic plants).

Companies that report on their greenhouse gas emissions within the broad boundaries of scope 3



99% of companies analysed report scope 1, i.e. direct emissions from their offices and activities, and 96% report scope 2, which also includes indirect emissions related, for example, to electricity consumption. The number of companies that report their emissions within the bounds of scope 3, which includes, for example, the emissions of the supply chain and even those connected to the product's use and end life, dramatically falls to 35%. In this case too, the figures for utilities and transport companies, followed by financial and insurance services, are significantly above average.

96%

companies which, among those adopting scope 2 and declaring their reporting approach (80% of the sample), use at least the location-based method, while just 4% exclusively use the market-based approach.

9%

companies that adopt compensation mechanisms in their emissions reporting system (67% planting trees and 33% buying carbon credits).

32%

companies whose reports refer to the use of Guarantees of Origin or other forms of "eco-friendly" energy certification.

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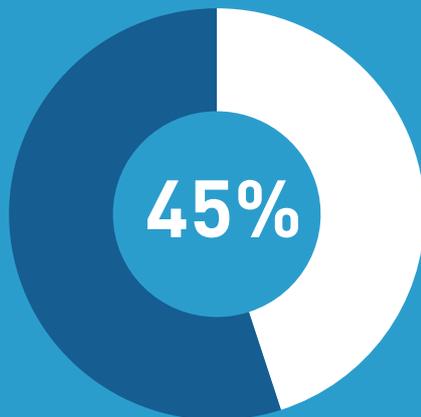
CIRCULAR ECONOMY

**TAKING A CIRCULAR
APPROACH TO THE
BUSINESS MODEL**

Efficient use of resources, effective waste management and development of eco-design strategies and innovative business models are elements that play a crucial role in guiding companies towards circular economy criteria. To this end, it is first necessary to set up a monitoring and control system capable of reconstructing material flows connected to the process and the product, similarly to greenhouse gas emissions (when possible), using life-cycle approaches.

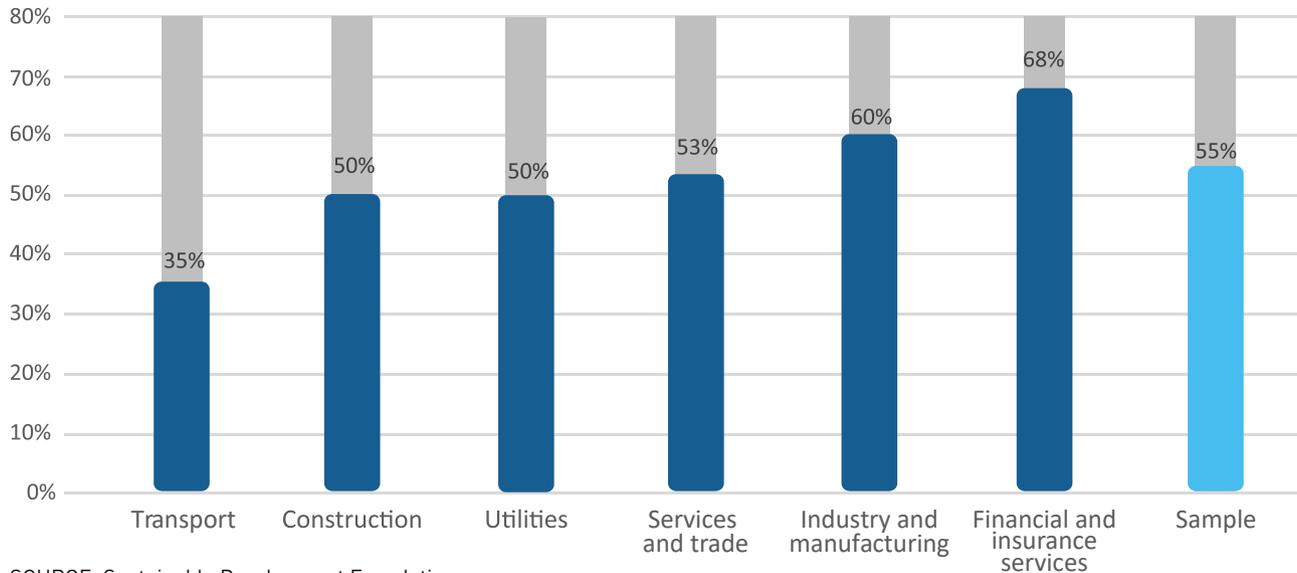
A growing number of companies have started to move in this direction, but we are still far from being able to consider it an established standard. In terms of output, data and information on waste management

are now fairly widespread with a progressive focus on forms of recycling and recovery. In terms of input, we are somewhat further behind: companies that have a reliable and comprehensive picture of material consumption, distinguished by type and connected to the entire cycle of their activities, are still a minority. However, in this case too, the real challenge that we face is that of expanding reporting systems to include the same business models, enabling report users to evaluate a company's actual performance, turning these systems into truly effective tools for guiding company strategies.



After energy and climate issues, circular economy issues receive the most coverage in companies' reporting tools. 45% of the analysed companies include waste management among the material issues and 32% include raw material management. In this case too, the figure varies considerably between the different sectors, while the construction and transport sectors offer the greatest coverage of these issues.

Companies that report on raw material consumption

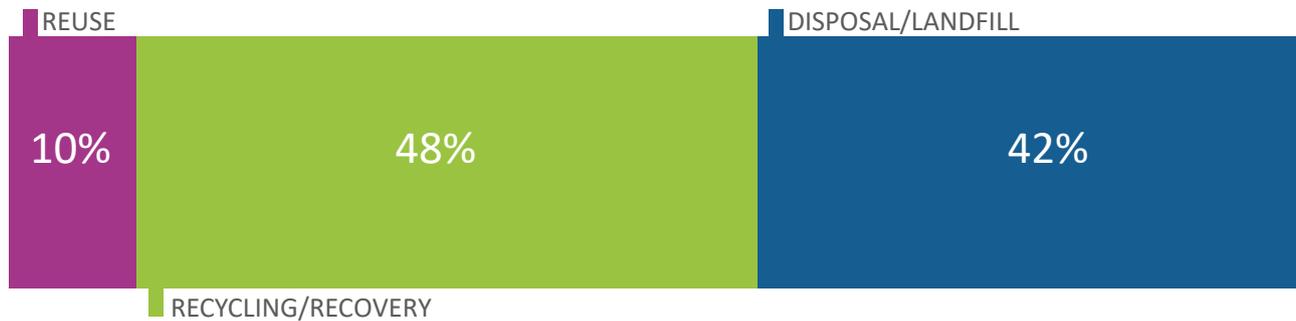


Quantification of raw material consumption is perhaps less widespread than one might think, often due to objective difficulties in organizing data collection. Over half of the analysed companies include a measurement of raw material consumption in their report. However, 46% only include consumption that can be defined as “office consumption” and do not report on much more relevant consumption connected to core activities and production processes.

28% companies whose reports declare the amount of recycled material in relation to the total material input.

31% companies whose reports include actions to reduce virgin raw material consumption. 67% of these companies report measures to save raw material, 23% report measures to use recycled material and the remaining 10% report both.

Final destination of waste produced by companies



SOURCE: Sustainable Development Foundation

A large share of companies report on the final destination of its waste. Over half of them recover their waste in some form, whether through reuse or energy recycling/recovery activities. The data is fairly uniform among the various sectors, with utilities and construction companies showing a slightly better performance than average: in all sectors, the prevailing form of waste management is material and energy recovery.

64%

companies whose reports declare how waste produced is managed, distinguishing between the different types of final destination. Figures range from 100% in the case of transport and construction companies to 38% in the case of financial and insurance services.

15%

companies whose reports include actions that have been planned or implemented to reduce waste. For transport companies, this figure is 50%.

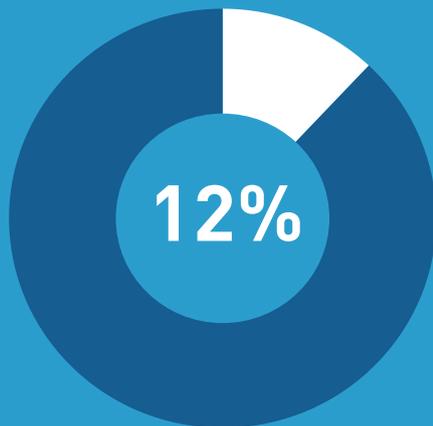
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NATURAL CAPITAL AND BIODIVERSITY

**A NEW PACT BETWEEN
BUSINESSES AND
THE LOCAL AREA**

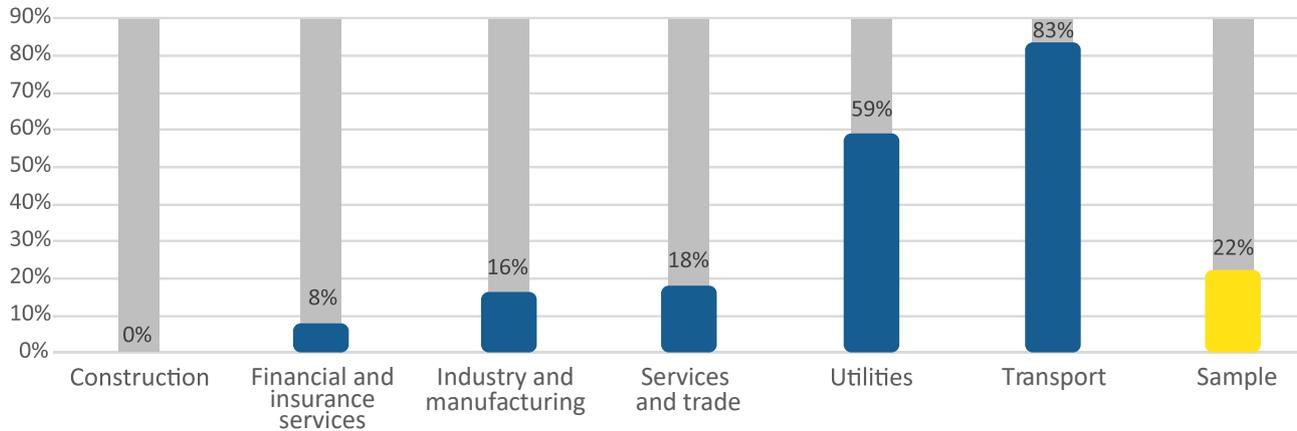
Natural capital is the first real capital behind every business venture. Without a set of ecosystem services, from the supply of essential raw materials to the purification processes for environmental matrices, no economic activity would be possible. And biodiversity is an indicator that informs us about this capital's state of conservation. Unfortunately, it is giving us increasingly alarming signals, as evidenced by the most recent studies and research. There are objective difficulties, also of a methodological nature, which sometimes make it difficult for an organization to measure its impact on natural capital. However, an important first step is to recognize the link between a company's activities and the goods and services provided by ecosystems, which fuel the production processes.

This necessarily hinges on a rapprochement between the company and the local area. Loss of biodiversity, reduced functionality of ecosystems and decreased ecological resilience may otherwise negatively impact companies and technological-production chains, generating new risks and requiring different strategies and actions. Contrary to what we may have been led to think, in an age of augmented reality and delocalization, the relationship between a company and the local area, or rather the areas that support it (which may even be thousands of miles away from offices or production sites e.g. in raw material supply chains) is anything but virtual. The challenge for future reporting models in this field is to shed light on the physical bond that unites these two inseparable entities.



Although the subject of biodiversity is referred to in 45% of the analysed reports, a figure that is perhaps only superficially positive, as few as 12% of the sample companies consider this issue to be material. While this figure is as high as 35-40% in the utilities and construction sectors, in other companies in the tertiary, trade and financial services sector the figures are considerably lower.

Companies whose reports describe the local context in which they operate



SOURCE: Sustainable Development Foundation

Placing emphasis, in the reporting stage, on the local context the company operates in testifies the attention to those environments directly affected by the impact the activities. Only 22% of the analysed reports include a description, at least in mere qualitative terms, of the local contexts the companies operate in. In this case too, the data is very variable, with utilities and transport companies paying more attention to this aspect.

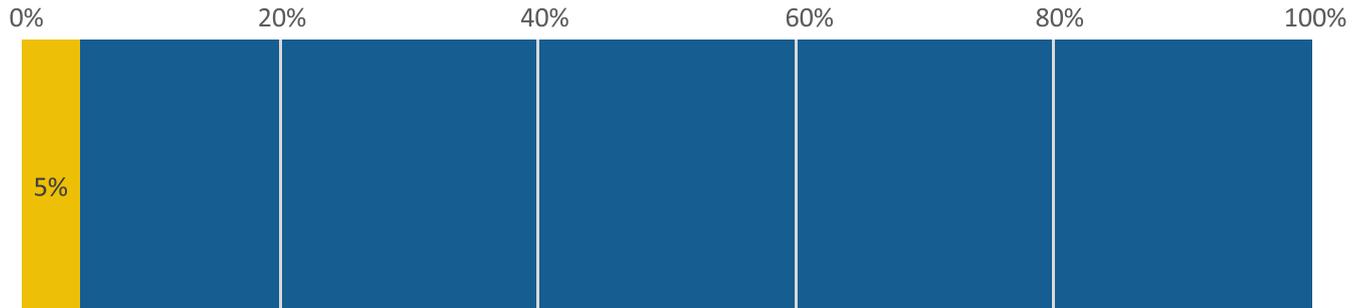
28%

companies whose reports include specific activities/initiatives to protect the local area they operate in. Of these, the majority directly promote improvement measures, without entrusting them to third parties.

31%

companies whose reports include a qualitative-quantitative description of potential impact factors on the local context. The most frequent impact factors are polluting emissions (77% of cases), followed by waste and emissions of harmful substances (44% of cases); impact on local biodiversity accounts for just 8% of analysed cases.

Companies whose reports explicitly describe their activities' dependence on ecosystem services provided by the natural environment



SOURCE: Sustainable Development Foundation

All economic activities are based on the availability of a series of ecosystem services – from raw materials to water resources to purification capacity – which the environment can provide. Recognizing this relationship means acknowledging the role that the environment plays in a country's economic development. Yet, as few as 5% of the analysed reports contain an analysis, at least in mere qualitative terms, of business activities' dependence on the availability of ecosystem services.

8% companies whose reports declare the impact of their activities, considering the relationship between this impact and biodiversity loss.

5% companies whose reports declare their participation in national or international biodiversity protection programs.

14% companies whose reports declare data on the status of the water resource that supplies the organization.



The Sustainable Development Foundation, chaired by Edo Ronchi, was founded in 2008 by companies, business associations and experts in the various sectors of the green economy with the mission of promoting Italy's transition to a green economy, a key pillar of sustainable development. This entails a search for joint solutions to the climate and economic crises, focusing on better-quality and more inclusive well-being, while protecting natural capital and ecosystem services.

For over 10 years, the Foundation has been working alongside administrations and companies, as well as their organizations and associations, guiding their development processes focused on the green economy and spreading the best results, good practices and the best technologies available. This is achieved through: the publication of reports and research; the organization of workshops, seminars and meetings; the creation and management of Observatories, portals and databases; the identification and dissemination of Italian and international good practices. The Foundation's main areas of activity are: Energy and Climate; Waste and Circular Economy; Sustainable Mobility; Reporting, Green Strategies, Eco-innovation; Natural Capital, Green Infrastructures and Agriculture; Green Cities.

To date, the Foundation, which has 127 associated companies, 45 expert members and a qualified staff of around 30 people, has produced over 145 studies and publications, organized 250 conferences and workshops, carried out 182 technical projects and collaboration agreements with public bodies and set up 10 observatories and networks.

The Foundation, in addition to being a partner of the Ministry of the Environment in numerous initiatives, is a member of the Gold Community of the Global Reporting Initiative and of the Global Compact Network Italia, an Italian member of Transport and Environment, a partner of the International Union of Railways (UIC) and of the International Energy Agency (IEA).



Itelyum, a national leader and international player in the management and efficient use of industrial waste, focuses on sustainability through the provision of integrated environmental services:

- **regeneration** is the high-tech production process that best enhances collected used lubricating oil, regenerating it into new lubricant bases. The final product, used in the industrial and automotive sectors, has similar qualities to those of oils directly produced from crude oil processing. In addition, regeneration of the lubricant bases results in CO2 emissions that are at least 50% lower than those of primary production.
- **purification** of wastewater from the chemical and pharmaceutical industry recreates value through the recovery of solvents, which are then used in the same markets of origin or in other industrial sectors. This process results in CO2 emissions that are at least 80% lower than those of primary production. The distillation of virgin oil fractions and the synthesis of pharmaceutical starting materials complete the offer for customers, resulting in significant quantities of wastewater collected for enhancement.
- **integrated management of industrial waste** ensures an active role in the waste collection, transport and pre-treatment phases, while also offering consulting, brokerage and chemical analysis services and providing access to industrial water treatment plants. These interconnected activities reduce the spatial and temporal distances between waste production and the reuse destination.

Itelyum is a participant in the United Nations Global Compact and a founding member of the Sustainable Development Foundation.

Local and global presence

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