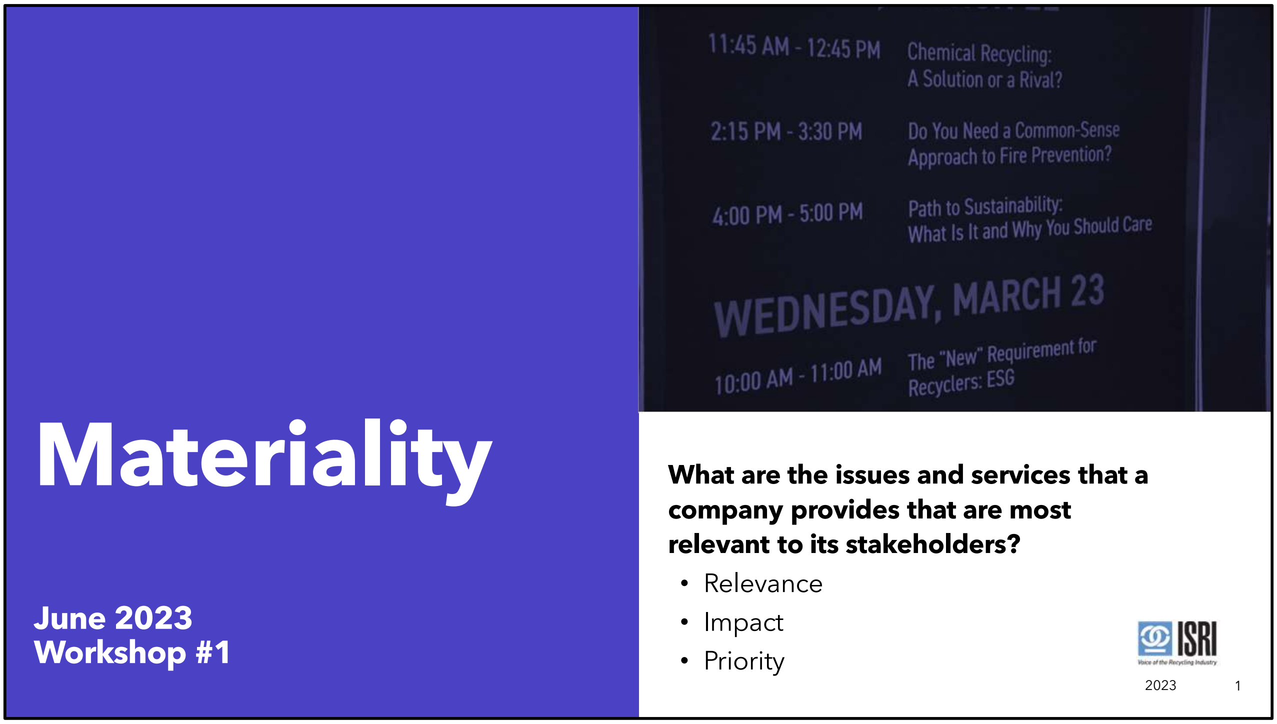


First - Materiality.

When I first was asked to complete a Materiality review, I didn't understand what was meant by "materiality". Material, or materiality in this context, is a term often used by accountants to identify relevant, or material, topics.

According to the Global Reporting Initiative, when applied to sustainability, **materialit**y is an organization's significant economic, environmental and social impacts, or issues, that substantively influence the assessments and decisions of stakeholders.

Why is a Materiality Review important?
In order to effectively develop an ESG strategy and program, a company needs to identify and prioritize the issues and services that it provides that are most material, or relevant & significant to its stakeholders.

In other words, a materiality assessment identifies what is important about your company **to not only your team,** but to your customers, employees, regulators, communities, and shareholders.

So – How do we do this?

Materiality Review Process

Part 1: Context
- Identify your stakeholders
- Consider business relationships
- Engage on impacts

Part 2: Assess & Prioritize
- Use diverse information sources
- Consider your impact on the economy, environment, people, and human rights.
- Include both positive and negative impacts
- Assess each impact's significance: consider severity & likelihood
- Prioritize

- **Part 3: Approval**

Materiality is not about what your company believes is important. It's about the concerns of all your stakeholder groups.

Lets' start with "context". What do we mean by this?
The basic idea is to identify activities and business relationships and the sustainability context in which these occur.

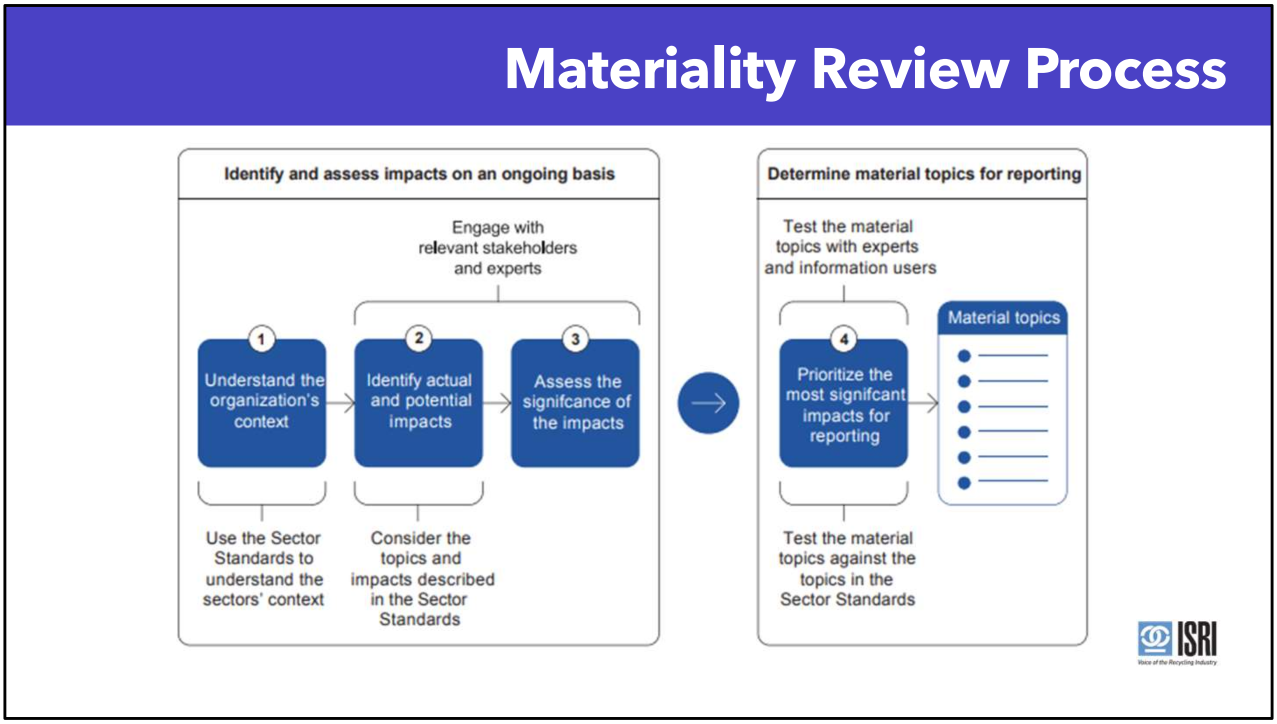
- ✓ Start by considering the business relationships the organization has, and the nature of these relationships.
- ✓ Then identify the company's stakeholders across its activities and business relationships and engage wit them on its impacts. Draw a full list of individuals and groups whose interests are affected or could be affected by the organization's activities, including employees, customers, regulators, investors, and community stakeholders.

- Make sure to include individuals or groups without direct relationships with but who could be affected by t organization's activities.

There is no need to make it complicated!
It all boils down to using information from diverse sources to consider the company's impact on the economy, environment, people, and communities. The point is for the company to understand the concerns of its stakeholders:

Part 1 : Engage with relevant stakeholders and identifying the impact of the company – both positive and negations.

Part 2: Assess the significance of the impacts and prioritizing the most significant topics. This prioritization process is key for developing a robust, ESG strategy that is relevant to your company and your stakeholders.



Here is a diagram outlining the Process:

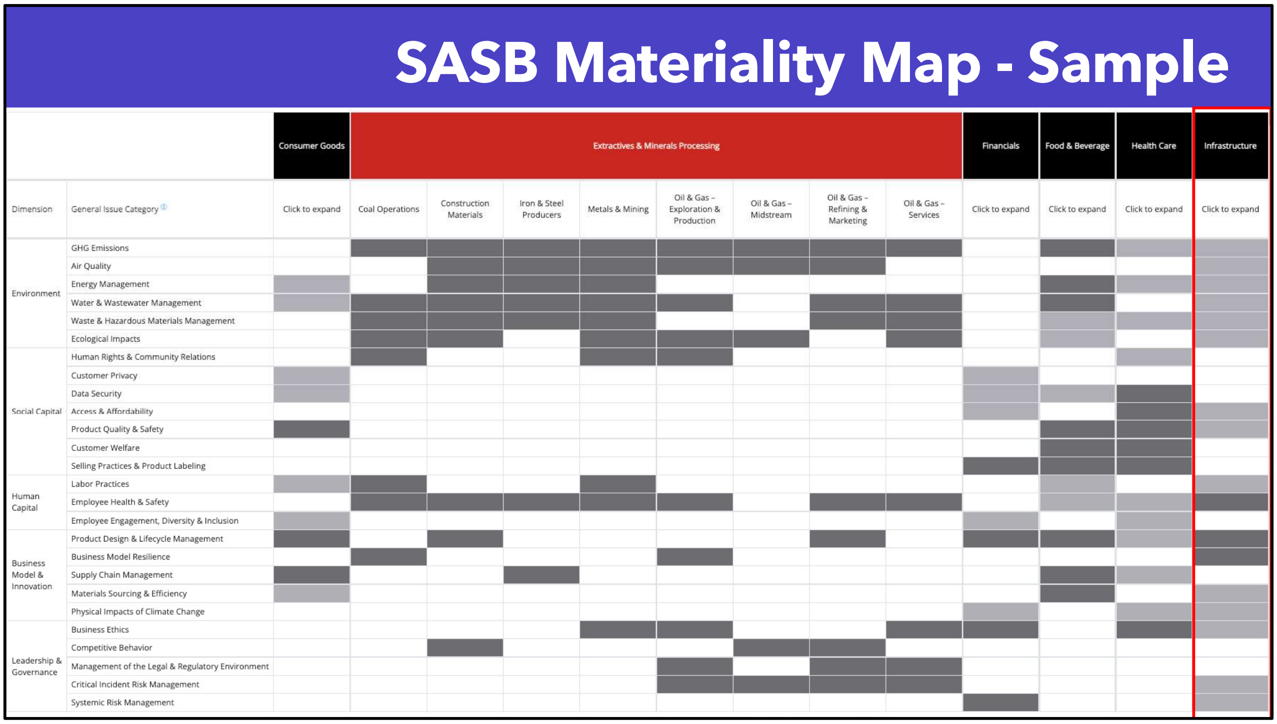
1. Understand the organizations context. What are your activities and business relationship as relevant to sustainability

2. Then, by engaging with stakeholders and experts, consider your organization's actual and potential impact and assess their significance.

Once you have this information, you can determine your company's **material topics** for reporting, and/or to u: for this information to develop sustainability goals and a strategy for achieving your goals.

For example, an organization might determine that 'water and effluents' is a material topic based on the impacts its water use has on the ecosystem and local communities' access to water.

Various impacts are grouped into categories.



SASB is a very influential global reporting framework organization that works with other organizations and focuses on reporting details by specific types of industries –

This sample materiality map from SASB helps identify the topics that apply to various sectors.

Note the Infrastructure sector - most of us fall into that column. It identifies the topics that ar important for our industry.

Examples range from GHG emissions to energy management, to data security, labor practices, Health and Safety, Business Ethis Risk, etc…… This list goes on.

Our Industry's Material Topics

Relevant Issues

Environment	Social Capital	Human Capital	Business Model & Innovation	Leadership & Governance
GHG Emissions	Human Rights & Community Relations	Employee Health & Safety	Product Design & Lifecycle Management	Systemic Risk Management
Air Quality	Customer Privacy	Labor Practices	Business Model Resilience	Critical Incidence Risk Management
Water & Wastewater Management	Product Quality & Safety	Employee Engagement, Diversity & Inclusion	Physical Impacts of Climate Change	Management of the Legal & Regulatory Environment
Energy Management	Access & Affordability	Customer Welfare	Supply Chain Management	
Ecological Impacts	Data Security		Materials Sourcing & Efficiency	
	Selling Practices & Product Labelling		Business Ethics	
			Competitive Behavior	

June 2023 5

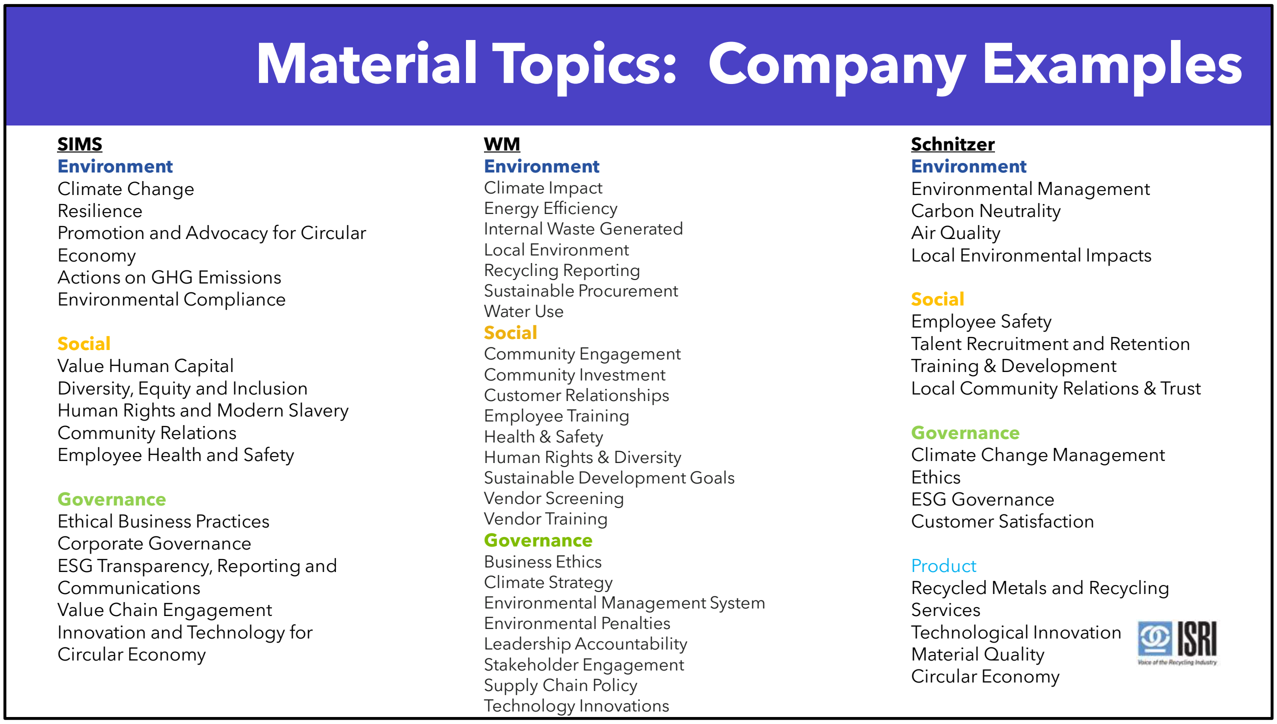
https://www.sasb.org/standards/materiality-finder/find/?industry%5B0%5D=IF-WM

Here are those topics identified for the waste and recycling industry. This will look different fo equipment manufacturers and it is not meant to be a complete list. You very will thing of othe issues that are relevant to your business.

NOTES:

SASB's definition of The Waste Management industry. It includes companies that collect, store, dispose of, recycle, or treat various forms of waste from residential, commercial, and industrial clients.

Types of waste include municipal solid waste, hazardous waste, recyclable materials, and compostable or organic materials. Major companies are commonly vertically integrated, providing a range of services from waste collection to landfilling and recycling, while others provide specialized services such as treating medical and industrial wastes. Waste-to-energy operations are a distinct industry segment. Certain industry players als provide environmental engineering and consulting services, mostly to large industrial clients.



Here are the material issues that there ISRI companies identified in their materiality review. You'll notice that the words may vary, but the concepts are very similar across the 3 companies.

WM's list is longer due to its broader service offering.

But what does a company do with this? How is the list used?

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FOR THE TOOLKIT ONLY NOTES from GRI 3 Material Topics 2021 (8).pdf
These notes provide more detailed information materiality reporting. Please use the link above for a full reference.
Step 1. Understand the organization's context In this step, the organization creates an initial high-level overvie of its activities and business relationships, the sustainability context in which these occur, and an overview of stakeholders. this provides the organization with critical information for identifying its actual and potential impacts. The organization should consider the activities, business relationships, stakeholders, and sustainabilit context of all the entities it controls or has an interest in (e.g., subsidiaries, joint ventures, affiliates), including minority interests.
Activities. The organization should consider the following in relation to its activities: Business relationships Th organization's business relationships include relationships with business partners, entities in its value chain (including entities beyond the first tier), and any other entities directly linked to its operations, products, or services. The organization should consider the following in relation to its business relationships: • The organization's purpose, value or mission statements, business model, and strategies. The types of activities it carries out (e.g., sales, marketing, manufacturing, distribution) and the geographic locations of these activities • The types of products and services it offers and the markets it serves (i.e., the types of customers and beneficiaries targeted, and the geographic locations where products and services are offered). • The sectors ir which the organization is active and their characteristics (e.g., whether they involve informal work, whether they are labor or resource intensive). • The number of employees, including whether they are full-time, part-

time, non-guaranteed hours, permanent or temporary, and their demographic characteristics (e.g., age, gender, geographic location). • The number of workers who are not employees and whose work is controlled by the organization, including the types of worker (e.g., agency workers, contractors, self-employed persons, volunteers), their contractual relationship with the organization (i.e., whether the organization engages these workers directly or indirectly through a third party), and the work they perform. • • The types of business relationships it has (e.g., joint ventures, suppliers, franchisees).

• The nature of the business relationships (e.g., whether they are based on a long-term or short-term contract, whether they are based on a specific project or event). • • The geographic locations where the activities of the business relationships take place. Economic, environmental, human rights, and other societal challenges at local, regional, and global levels related to the organization's sectors and the geographic location of its activities and business relationships (e.g., climate change, lack of law enforcement, poverty, political conflict, water stress). • The organization's responsibility regarding the authoritative intergovernmental instruments with which it is expected to comply. Examples include the International Labour Organization (ILO) Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy [1]; the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises [3]; the United Nations (UN) Framework Convention on Climate Change (FCCC) Paris Agreement [4]; the UN Guiding Principles on Business and Human Rights [5]; and the UN International Bill of Human Rights [6]. • • The organization's responsibility regarding the laws and regulations with which it is expected to comply

Stakeholders The organization should identify who its stakeholders are across its activities and business relationships and engage with them to help identify its impacts. The organization should draw a full list of individuals and groups whose interests are affected or could be affected by the organization's activities. Common categories of stakeholders for organizations are business partners, civil society organizations, consumers, customers, employees and other workers, governments, local communities, nongovernmental organizations, shareholders and other investors, suppliers, trade unions, and vulnerable groups. The organization can further distinguish between individuals and g

Step 2. Identify actual and potential impacts In this step, the organization identifies its actual and potential impacts on the economy, environment, and people, including impacts on their human rights, across the organization's activities and business relationships. Actual impacts are those that have already occurred, and potential impacts are those that could occur but have not yet occurred. These impacts include negative and positive impacts, short-term and long-term impacts, intended and unintended impacts, and reversible and irreversible impacts. To identify its impacts, the organization can use information from diverse sources. It can use information from its own or third-party assessments of impacts on the economy, environment, and people, including impacts on their human rights. It can also use information from legal reviews, anti-corruption compliance management systems, financial audits, occupational health and safety inspections, and shareholder filings. It can also use information from any other relevant assessments of business relationships carried out by the organization or by industry or multi-stakeholder initiatives

Step 3. Assess the significance of the impacts The organization may identify many actual and potential impacts. In this step, the organization assesses the significance of its identified impacts to prioritize them. Prioritization enables the organization to take action to address the impacts and also to determine its material topics for reporting. **Prioritizing impacts for action is relevant where it is not feasible to address all impacts at once.** Assessing the significance of the impacts involves quantitative and qualitative analysis. How significant an impact is will be specific to the organization and will be influenced by the sectors in which it operates, and its business relationships, among other factors. In some instances, this may need a subjective decision. The organization should consult with relevant stakeholders (see Box 2 in this Standard) and business relationships to assess the significance of its impacts. The organization should also consult relevant internal or external exp

The combination of the severity and the likelihood of a negative impact can be referred to as 'risk'. The assessment of the significance of the impacts can be included within broader enterprise risk management systems, provided that these systems assess the impacts the organization has on the economy, the environment, and people, in addition to assessing risks for the organization itself.

Stakeholder Survey & Assessment

Create preliminary list of material topics

Survey stakeholders

Quantitative rating – for feedback from a large number of stakeholders

Qualitative interviews –more nuanced feedback, smaller group of stakeholders

Weight topics based on expert feedback.

A well-done materiality assessment links the business of the company to its significant ESG impacts.

ISRI

Once you have your preliminary list of material topics and your list of stakeholders, you will **survey your stakeholders** as to their view of the importance of each material topic to the company.

You'll need to determine your feedback methodology:

- **Quantitative rating** – for feedback from a large number of stakeholders (survey monkey)
- **Qualitative interviews** – for more nuanced feedback from a smaller group of stakeholders

The combination of both can help in the prioritization process. At WM, we used a combination of botl numeric ratings and some in depth interview for qualitative feedback, as well.

1. **Then, you might decide to assign weights to the topics** based on expert feedback. Your team may deci that <u>safety rates higher than vendor training</u>. Or that <u>air emissions is more important that water use </u>in your business. They can be assigned different weights which will influence their position on the final matrix.

A well-done materiality assessment is critical for the development of a company's ESG strategy and program <u>**because it links the business of the company to the significant ESG impacts of the organization**</u>.

The ideas is to enlist your stakeholders in identifying what is important to <u>THEM</u> about your company from this list.

Assessing and prioritizing these impacts will help in the development of your ESG strategy, goals, and program as well as how and what it reports on its ESG progress.

Materiality Examples: Casella and Schnitzer

Casella

- Sustainability reporting enables the company to tell its story in a clear and credible way
- It provides a framework for considering various non-financial impacts of their business
- Their audience: Six key stakeholder groups (employees, customers, communities, investors, government, supply chain)

Schnitzer Steel

MATERIALITY ASSESSMENT

In fiscal 2021 we conducted a materiality assessment to identify the issues that matter most to our business and our stakeholders. Having most recently performed a similar assessment in 2018, these results establish the updated material topics and priorities for our sustainability strategy going forward, and inform the way we set goals and report on our sustainability achievements.

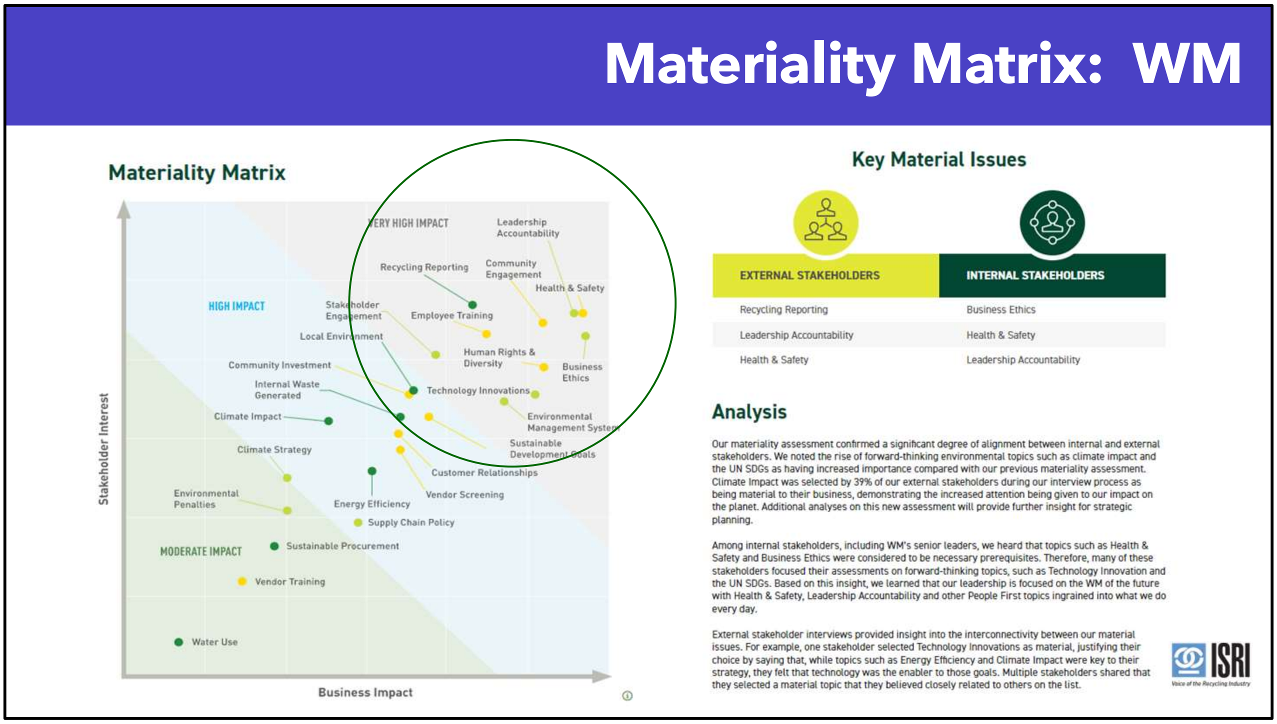
Updates from the 2018 assessment largely represent changes in nomenclature and an evolving understanding of societal and environmental impact. As an example, emphasis on energy consumption and reduction has transformed into a focus on the ultimate effect: climate change.

The materiality assessment identified Schnitzer's top issues and priorities as:

Here are some examples from ISRI members:

Casella's materiality work is very high level but was is used to identify key areas of focus for its stakeholders, which ultimately translated into new sustainability goals, which drivers the company's strategy.

Schnitzer is more details in their materiality assessment, which a large list of issues that they used to priority topics from their stakeholders.



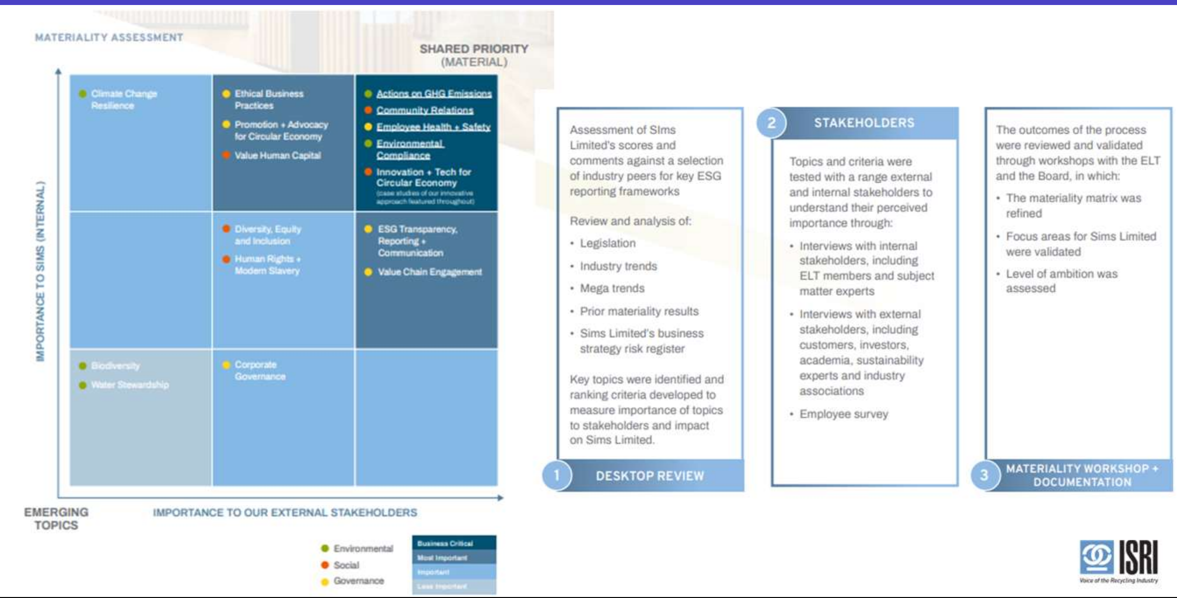
WM includes their materiality analysis on their sustainability reporting website.

You can see that WM looked at their external stakeholders and internal stakeholders on the x and y axis here.

They found that the was overlap by both in highlighting the importance of Health and Safety, and Leadership Accountability. But their external stakeholder rated Recycling Strategy as most important while their internal stakeholders rated Business Ethics highly.

The company is on its 3rd generation of materiality reporting, so it has evolved into a full matrix with weighting and analysis of the results. Ultimately, this drives the type of information that the company talks about and considers for its sustainability strategy.

Materiality Process: SIMS



SIMS includes their <u>stakeholder work </u>and their <u>Materiality matrix</u>, highlighting their highest priorities for material issues.

I like how this is a snapshot from their sustainability report, includes their process for research, surveying and uniquely they notes that their Senior Leadership Team and Board had held a workshop to review the results ar discuss how to use them.

Goal Development: Casella

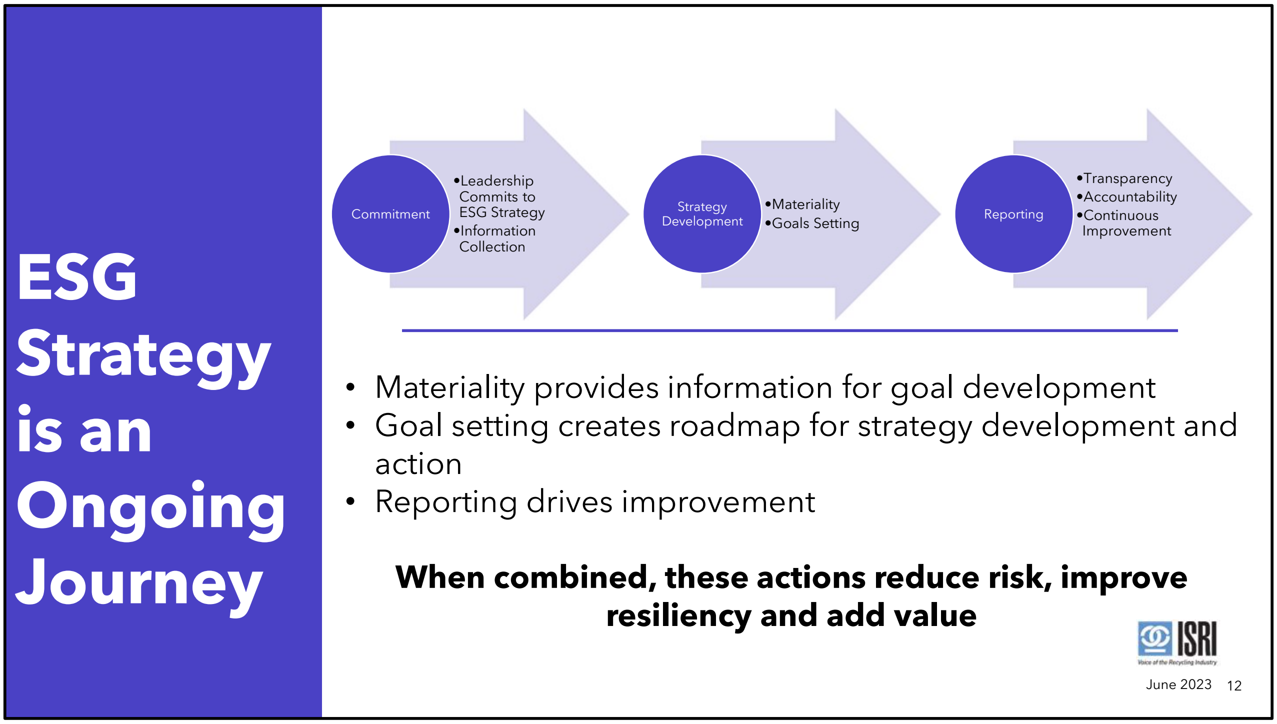
- Casella's sustainability program is built around 5 primary goals for the year 2030
- Each was selected via their Materiality Assessment process and is aligned with the Company's core business strengths and financial goals
- They are all consistent with the goals of their customers and communities.

Back to Casella:

This snapshot from Casella's sustainability report makes the connection between Materiality, goals and the development of their sustainability strategy.

We will talk more about **the connection between Materiality, goals and strategy.** in July, but hopefully this is starting point to think about before then.

It all starts with what issues are material, or important, about your company to your stakeholders.



To wrap up this section, this conceptual diagram helps put materiality into context for the entire process.

A materiality assessment helps with an understanding of what your stakeholders consider to be material topics for your company. This should be helpful in the development of sustainability goals, and for strategy development.

And, finally, because reporting helps drive improvement, when this is all combined, the process can ultimately help reduce risk, improve resilience and add value.