Sustainability reporting – the time is now

Building a better working world

Global Reporting Initiative™

This report was produced by EY in association with the Global Reporting Initiative (GRI). The data included derives from the GRI Global Conference on Sustainability and Reporting 2013. Conference attendees had the opportunity to respond to several different polls and surveys by using the conference mobile application sponsored by EY.

Contents

Sustainability reporting is becoming a mainstream business practice

Sustainability reporting appears to be reaching a "tipping point," as it moves beyond the realm of the innovators and early adopters and into the mainstream. Failure to engage with the reporting process could have a negative impact on performance, reputation, and even the ability to raise capital.

This report is an assessment of the current status of sustainability reporting. The report features some of the insights and experiences of participants at the GRI's Global Conference on Sustainability and Reporting. A survey and live polling at the conference enabled EY and GRI to gather opinions on the changing nature of sustainability as it moves rapidly into the boardroom and the investment decision-making process — and into the minds of consumers.

There are two key aspects of sustainability in business: reporting and strategy. Reporting demands measurement of the different elements that are critical to effective sustainable business operations. Strategy helps to build on sustainability reporting as a tool to understand the internal and external impact on the business, using the data to help address the challenges of 21st-century business and create a competitive edge in a world increasingly shaped by the effects of resource scarcity and climate change.

Sustainability reporting is the critical first step in implementing a strategy that can help an organization understand the impact on its stakeholders, and ways in which it might mitigate a negative impact on the economy, society and the environment.

Once reporting has become standardized and easy to compare, there is little doubt that performance indicators on sustainability issues will become as important for business as financial performance. High quality and comparable data on sustainability performance and impacts will also be an essential requirement as the concept of integrated reporting develops and increases in popularity.

A number of trends emerged at the GRI Conference, and the polling results back up the premise that sustainability reporting is reaching a tipping point. These trends include:

- The key drivers of a sustainability strategy cited by conference participants were clients or consumers. This demonstrates that there is demand from organizations' key stakeholders, those that use their products or services, for responsible and ethical organizations.
- Business objectives, rather than ethical ones, are now the key reasons organizations implement a sustainability strategy, the poll results show. The most frequent reasons cited were "to add value" to their respective organizations and "to identify and mitigate risks."
- Given that business reasons — as opposed to ethical ones — are driving sustainability, the reason why sustainability reporting is moving into the mainstream and into the C-suite is increasingly clear. If a sustainability strategy is not already controlled at the highest level of governance in an organization, the majority of survey respondents believe it should be.

- The number of companies that have truly embedded sustainable practice into their operations may be small, but there is a revolution taking place — particularly with regard to the integration of financial and non-financial reporting. There was consensus that if a value were placed on sustainability it would push this issue into the boardroom and the mainstream.
- Previously seen as the exclusive domain of multinationals, there is a growing trend driving sustainability reporting throughout the supply chain. Despite a slow start, growth has been impressive, and there are a number of trends, from improvements and harmonization in reporting standards to a rapid growth in mandatory reporting legislation, that are supporting the growth in reporting.
- Just as financial reporting depends on reliable numbers, there is a growing demand for non-financial data to be equally competent and measurable to ensure maximum transparency and ease of comparison.

The GRI's Global Conference on Sustainability and Reporting from 22–24 May 2013 in Amsterdam saw the launch of the next generation of Sustainability Reporting Guidelines, G4. Of the 1,661 total registrants for the event, from 69 countries and more than 30 sectors, 1,400 downloaded the app and were therefore able to respond to both the pre-survey and the live-voting questions. Further information on methodology is on page 22.

Interviews with a number of experts have supplemented the survey results included in this report: Ernst Ligteringen, Chief Executive, GRI; Steve Waygood, Head of Sustainability Research & Engagement, Aviva Investors; Ian Wood, Vice President Community Relations and Sustainability, BHP Billiton; and Jeanne Chi Yun Ng, Director, Group Environmental Affairs, CLP.

Speakers at the conference also quoted include: Paul Druckman, Chief Executive, International Integrated Reporting Council (IIRC); Michel Barnier, EU Commissioner responsible for internal markets and services; and Paul Simpson, Chief Executive, Carbon Disclosure Project (CDP).

The drivers and benefits of sustainability reporting are increasing in prominence

To date, much reporting of non-financial information has been voluntary, or driven by increasing concerns within society as a whole.[1] As Ian Wood, Vice President, Community Relations and Sustainability, BHP Billiton, says, "As a natural resources company, we have exposure to the environmental agenda through our social license to operate — unless we're seen to be adding benefit, we're open to challenge. We need to minimize social impact and maximize social benefit to our stakeholders. And unless we're effective in communicating performance, we run the risk of losing our license to operate." He continues, "Sustainability is about having a license to enhance and grow the business — it's a dynamic process and it's important to maintain leadership on these issues."

One of the key drivers behind the increase in sustainability reporting has been the acknowledgment that to be meaningful, a sustainability strategy must be based on reliable, concrete data. This can only be the case once the mechanisms and systems for reporting the facts are put in place.

The process of reporting compels businesses to look at their value chains and disclose material information. Collecting and analyzing that data can help to identify risks, as well as the potential for improving efficiency and finding new markets. This can have a significant impact on overall performance, as well as investors' perceptions and access to capital.

There is clearly a wide range of benefits from reporting. Jeanne Chi Yun Ng, Director, Group Environmental Affairs, CLP, says that sustainability reporting has provided multiple benefits for the company. She says, "While these include a greater understanding of the group as a whole, it also drives performance, as publication of targets means we have a requirement to honor public accountability … The process is helping companies to reshape the way they think about a number of issues in the economy and the way they operate. The debate about the interaction between financial and non-financial issues (such as environmental, social and governance risks) is changing thinking about the meaning of value in the 21st-century economy."

[1] For example, in the extractives sector, with increasing public attention over mineral extraction, child labor and human rights.

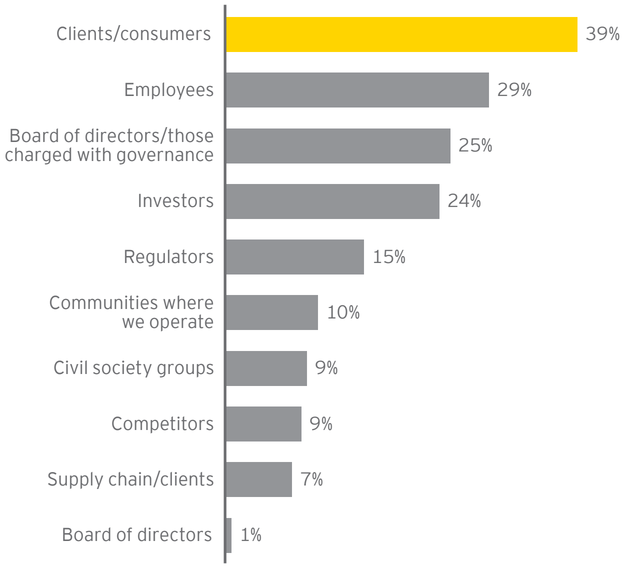
A range of stakeholders is driving organizations to implement a more sustainable strategy

Expectations that a company should have a sustainability strategy come from a number of different places. The need for reporting to support a sustainability strategy is driven by the divergent needs and interests of an increasing number of stakeholders, both internal and external. Ernst Ligteringen, Chief Executive of GRI, says, "In today's economy there's a whole range of changing expectations from stakeholders — be they investors, employees or wider society. Different users look at sustainability information from different perspectives, and therefore accrue different benefits and insights. Investors may, for example, focus on the cost of capital and brand value. When read by employees, the information may particularly influence their motivation and have an effect on retention rates. And wider society may look more at companies' license to operate. In this sense sustainability reporting is both comprehensive and flexible because it meets many needs, but without being rigid or prescriptive."

Polling showed that 39% of respondents saw clients and/or consumers as the group with the most influence on sustainability strategy, followed by employees at 29%, the board of directors/highest governance body at 25% and investors at 24%.[2] While clients and consumers are seen as the most influential, it is clear that concerns over the impact of human resource issues, compliance and operational performance are becoming more important.

[2] Respondents were able to select more than one response to this question.

Q1. Which group has the most influence on your organization's sustainability strategy?[3]

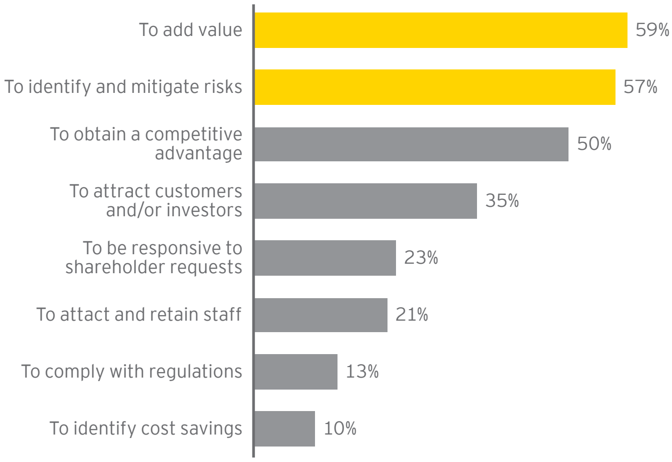


Sustainability decision-making is moving to the board

Research recently released by EY and Greenbiz suggests that the main drivers of a sustainability strategy are those individuals within the executive function.[4] The survey supports this perspective. The majority of respondents identified adding value and identifying and mitigating risks (at 59% and 57%, respectively) as the key benefits of an effective sustainability strategy.
In addition, half of the respondents said a sustainability strategy helped their organization to gain a competitive advantage.

Q2. What are the principal objectives of a sustainability strategy?[5]

Respondents were able to select more than one response to this question.



The majority of respondents said the mitigation of risks and the potential to add value were the key objectives of a sustainability strategy. This reflects why 42% of respondents also said the chief executive had overall responsibility.

[3] Respondents were able to select more than one response to this question.
[4] EY, "Six growing trends in corporate sustainability," 2013, © 2013 EY.

[5] Respondents were able to select more than one response to this question.

The drivers and benefits of sustainability reporting are increasing in prominence (continued)

One of the key insights from the poll was the growing recognition of where responsibility should lie within an organization. The response from a clear majority was with the chief executive officer. While in the pre-conference survey 42% of respondents said their CEO was responsible for sustainability strategy, by the end of the event 49% of respondents believed the CEO should be responsible. There was an even higher increase in the number of respondents who said responsibility should lie with the "highest governance body," from 11% pre-conference to 34% post-conference. Both responses recognize the critical importance of sustainability strategy in both governance and corporate performance.

Q3. Who has/should have overall responsibility for sustainability strategy? Pre-and post-conference responses.

Today a gap remains between the information provided by a sustainability report and the effective analysis of its business impact. What today's sustainability reporting provides is a means for stakeholders to develop an awareness of future performance trends. While financial reporting is very much about historical data, frameworks such as G4 allow organizations and their stakeholders to learn about where they stand in the present and dynamics that may shape their business in the future-factors of critical importance for risk management and strategic planning.

Steve Waygood, Head of Sustainability Research & Engagement, Aviva Investors, says that Aviva would like to see the chair and CEO comment on sustainability performance in reports and statements. He also says, "It's important whether directors' pay relates to performance of non-financial indicators — if it does, we know they're taking it seriously."

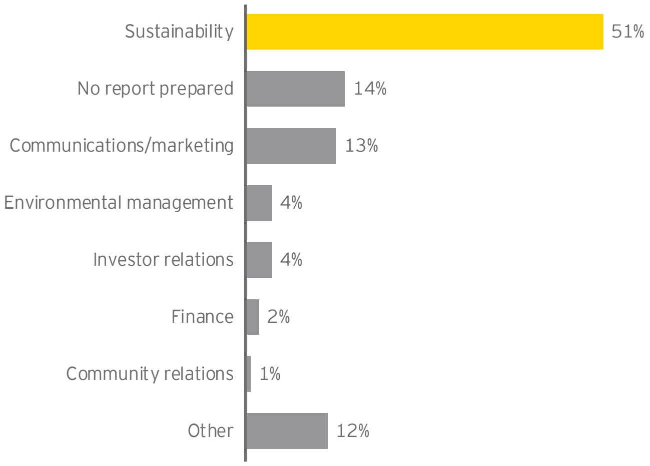
Sustainability creates an environment of accountability, and he argues the standards themselves are not the issue, but rather the thinking by the board and investors. He says, "The real question is whether or not you're changing your operational and strategic decisions to reflect the way operations exist today, and are set to evolve."

Responsibility for preparing the sustainability report is not yet completely aligned with the strategic or executive function

The majority of reporting organizations, 51%, have a specialized department responsible for producing the sustainability report. However there are still a number of organizations that prepare no report at all (14% of respondents) and for the remainder, sustainability reports were the responsibility of a mix of departments, from environmental management, investor relations, finance, community relations and others. This finding was reported across countries and regions, in addition to across organization type and sector. The result is that these differences in responsibility can lead to the creation of non-standardized approaches and a mix of different perspectives.

The drivers and benefits of sustainability reporting are increasing in prominence (continued)

Q4. Which group is responsible for the preparation of your organization's sustainability report?



The challenge lies in ensuring that reporting is done in conjunction with strategic decision-making. That means that whoever is responsible for preparing reports must ensure they align with the strategic direction of the business and the sustainability strategy, and that the CEO's office or the highest governance body has overall responsibility and sign-off. The long-term goal of reporting should be to allow comparability of performance, and to support the organization in understanding its risk-identification profile and ensure adequate disclosure and transparency.

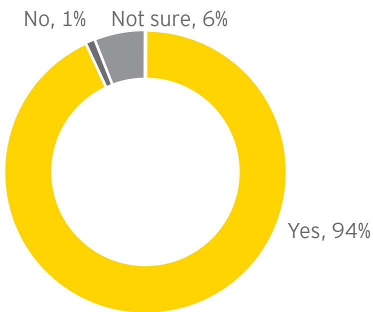
Valuation: a breakthrough for sustainability?

Today the financial system fails to effectively measure or value the use of public goods, and intangible value is not reflected in a system which calculates return on capital minus costs. By looking at pools of capital other than financial (natural, human, intellectual and social capital) we can gain a broader understanding of the long-term value of a company. Sustainability, and sustainability reporting, is an attempt to overcome this imbalance which affects the market, and the way in which we consume resources.

Part of the challenge is the investor mindset – time-investment horizons (a focus on short-term capital return), and the availability of tools to support decision-making and valuation methodologies in areas that can prove highly complex. There are, however, additional reasons for reporting non-financial factors. While valuation methodologies may not yet include intangibles, Waygood argues that sustainability reporting and targets are a useful proxy for investors. He says they can help investors analyze management's ability to execute the strategy and hit targets. He says, "If they can hit non-financial targets it tells you something useful about their ability to hit targets overall."

The majority of respondents polled believe the valuation of sustainability could be a driver of change in an organization, moving sustainability into the boardroom. Only 1% of respondents thought such valuation would have no impact, with 94% of respondents believing it would make a difference. Historically, the environmental and social impact has been viewed as external, but placing a value on such issues can transform thinking so they are no longer seen as burdens; but rather opportunities for value creation.

Q5. Would an understanding of the value and impact of sustainability strategy help move responsibility to the boardroom?



Respondents also said full monetization of the impact of sustainability may be difficult. While 24% of respondents believe the impact of sustainability can be effectively monetized, 43% believed it would not be possible, with a further 34% not sure. Today's valuation methodologies are predominantly focused on short-term capital return, so the majority of respondents are unclear about the extent to which the valuation of sustainability will result in its monetization.

Ligteringen says that we need to find an effective way of changing social systems, economic systems and ecosystems. He believes sustainability reporting will provide the tools for such change and will lead to "better business, for better markets, for a better world."

Sustainability: improving operational performance

Companies need to understand risks, opportunities and obligations over the short, medium and longer term as they affect future earnings and competitive positioning. To perform, they need to understand material issues for their business — those issues that significantly influence the decisions, actions and performance of an organization or its stakeholders. Embedding critical and pertinent sustainable issues into corporate strategy can help managers to meet non-financial performance objectives.

Research has shown a correlation between high performance in a range of environmental, social and governance (ESG) indices (including FTSE for Good, Dow Jones Sustainability Index, etc.) and high overall performance. A 2011 Harvard Business School paper reported that sustainability leaders are more likely to have a better stock performance due to superior governance structures and more constructive engagement with their stakeholders.[6] A 2013 study by EY and Boston College[7] reported that a large institutional shareholder's successful interventions in corporate social responsibility increased share price by an average of 4.4% a year. It also found that the most transparent companies tended to have higher cash flows, innovation in processes, reduction in waste and greater insight into where growth may come from.[8]

In addition, research from the Governance & Accountability Institute[9] revealed the number of S&P 500 and Fortune 500 companies managing and reporting performance on ESG issues more than doubled from 2010 to 2011. Growth in reporting has been driven in large part by the out-performance of those companies that do report.

These findings highlight the impact that sustainability reporting can have in terms of improving an organization's overall operational effectiveness. It also shows that companies with strong sustainability approaches are significantly outperforming their counterparts over the longer term, both in the stock market and in terms of accounting performance.[10]

[6] Eccles, Robert G.; Ioannou, Ioannis; Serafeim, George, "The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance," Harvard Business School Working Paper 12-035, 4 November 2011. www.hbs.edu/research/pdf/12-035.pdf
[7] Boston College, "Valuation of Sustainability Reporting," 2013.
[8] E. Dimson, O. Karakas and X. Li, "Active Ownership," Social Science Research Network, 2012.
[9] Governance & Accountability Institute, "2012 Corporate/ESG/Sustainability/Responsibility Reporting: Does it matter?," 2012.
[10] Eccles, Robert G.; Ioannou, Ioannis; Serafeim, George, "The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance," Harvard Business School Working Paper 12-035, 4 November 2011. www.hbs.edu/research/pdf/12-035.pdf

Standards, regulations and transparency are making sustainability practices more mainstream

A decade ago sustainability reporting was still in its infancy. Now, 95% of the largest 250 companies in the world produce a sustainability report.[11] As interest in corporate sustainability continues to grow, however, so do the number of standards, guidelines and frameworks.

While the growth in interest is positive, the proliferation of governmental, private, NGO and other frameworks has resulted in an international reporting landscape that is increasingly complex. There is also increasing evidence that regulators (governments and stock exchanges) are looking to mandatory reporting requirements to address heightened public and stakeholder concerns on environmental and social issues.

Sustainability frameworks and indicators

The GRI has identified 180 initiatives from 45 different countries and regions relating to sustainability reporting, and the Climate Disclosure Standards Board (CDSB) has to date identified 383 provisions that directly or indirectly affect the way in which companies prepare sustainability disclosures.[12] In the broadest view, the Global Initiative for Sustainability Ratings (GISR) has uncovered over 1500 indicators addressing almost 600 issues.[13]

Reporting frameworks can range from commonly used guidelines to specific disclosure frameworks that enable companies, public entities, cities, as well as other organizations, to share critical environmental information and build awareness on the reporting of carbon and climate risk.[14] There are private standards, accounting standards and frameworks for harmonization.[15]

[11] Ernst Ligteringen, keynote speech at the GRI Global Conference on Sustainability and Reporting, 22 May 2013.

[12] CDSB, "The Case for Consistency in Corporate Climate Change-Related Reporting 2012."

[13] White, Allan, "Swamped by sustainability indicators that fail to drive transformation," *Guardian Sustainable Business Blog,* 7 August 2013, via http://www.theguardian.com/sustainable-business/blog/sustainability-indicators-corporate-transformation.

[14] Such as the Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises, the UN Global Compact Principles or the UN Guiding Principles on Business and Human Rights, the Carbon Disclosure Project (CDP) and CDSB.

[15] Private standards such as ISO 26000 and 14000; accounting standards such as the SASB; and a framework for harmonization such as GRI.

The difficulty is that this can result in great variability in the quality, quantity, timeliness and relevance of information disclosed, which can be the cause of considerable confusion to reporters.

One of the drivers for increased specificity in reporting has been a growing need to effectively communicate the financial impact of sustainability. In late 2013, for example, the International Integrated Reporting Council (IIRC) will release its integrated reporting framework. In the US, the Sustainability Accounting Standards Board (SASB) is developing industry-specific sustainability accounting standards to fulfill the material information disclosure requirements of the Securities and Exchange Commission (SEC).[16]

The development of the SASB standards is part of a movement where more and more regulators, governments and stock exchanges understand the importance of corporate disclosure of information regarding their non-financial performance. This is part of a trend to move from voluntary disclosure to a more advanced "report or explain" approach, which, while still voluntary, gives an added incentive to organizations to be open and transparent about their sustainability performance and impacts.[17]

Growth of mandatory reporting

The growth of mandatory reporting can be been seen in a number of ways. Environmental impact reporting has been in place in many jurisdictions for some time, and increasingly governments are extending such reporting for state-owned companies. There is also a growing trend toward extending this to listed public companies, through the introduction of legislation to encourage non-financial reporting. Stock exchanges have an increasingly important role to play in this transition, as investor interest in material non-financial disclosures grows.

[16] SASB is modeled on the Financial Accounting Standards Board, which was set up in 1973 to establish and improve standards of financial accounting and reporting in the US.

[17] The GRI defines "report or explain" as an approach which requires companies to either report on their sustainability impacts or report why, if they do not.

Standards, regulations and transparency are making sustainability practices more mainstream (continued)

Denmark, Finland, Japan, Korea, France, Pakistan, US, UK, Malaysia and Canada, among other countries, have some form of mandatory environmental reporting in place. In some areas this has been extended to a more comprehensive sustainability reporting requirement.[18] The governments of Sweden and Russia have already implemented requirements for the mandatory reporting of environmental issues by state-owned enterprises. Norway meanwhile has passed legislation requiring large companies to report on how they integrate social responsibility into business strategy.[19]

In India, the Companies Act (2012) introduces new rules on boards, auditing and fraud specifically to address transparency issues, and mandates companies in India to spend 2% of net profit on corporate social responsibility (CSR) activities.[20] Affecting those companies above a certain value or turnover, the Companies Act is expected to cover around 9,000 Indian companies in total, each of which will have to set up a CSR Committee to recommend and oversee CSR policy and activities.[21]

Other geographies are also considering such action, and in Europe, the situation is under review. In April 2013, European Commissioner Michel Barnier proposed a new regulation on non-financial reporting which, if adopted, would affect 18,000 large companies in Europe.[22] This means that all companies with more than 500 employees and either a balance sheet that exceeds €20 million or a net turnover of over €40 million would be required to report on ESG, anti-corruption and human rights, while listed companies would also be required to report on diversity.[23]

[18] Sustainable Stock Exchanges Initiative, "Sustainability Reporting Policies," 2013, via http://www.sseinitiative.org/sustainability-reporting-policies/.

[19] Global Reporting Inititative, "Regulating for a more sustainable future: New Norwegian CSR regulation entered into force," 12 June 2013, via https://www.globalreporting.org/information/news-and-press-center/Pages/Regulating-for-a-more-sustainable-future-New-Norwegian-CSR-regulation-entered-into-force.aspx.

[20] Companies Bill 2012. mca.gov.in/Ministry/pdf/The_Companies_Bill_2012.pdf

[21] Zaman, Riaz, "Indian CSR Bill Promotes Environmental Management and Women's Safety in the Workplace," *Triple Pundit*, 6 June 2013, via http://www.triplepundit.com/2013/06/indian-corporate-social-responsibility-bill-promotes-environmental-management-safety-women-workplace/

[22] European Commission, "Accounting — Financial Reporting," 25 September 2013, via http://ec.europa.eu/internal_market/accounting/index_en.htm.

[23] There are many ways in which to define diversity, but a key element is the gender, age and race of employees. The EU regulation is focused on diversity at board level.

Stock exchanges are also responding to the growing importance of material non-financial impacts. The global financial crisis drew attention to sustainable business practices but there are a number of forces highlighting the need for long-term action. The confluence of resource constraint, climate change, and the importance of increased transparency and governance, means the investor community wants more information about material non-financial issues. Indeed, the issue of sustainability reporting has been added to the agenda at a meeting of the World Federation of Exchanges for discussion in October 2013.[24]

South Africa was the first country to require an integrated report from listed companies, when the Johannesburg Stock Exchange (JSE) introduced a "report or explain" approach, using guidelines based on the King Report III.[25] More than 90% of listed companies have provided a sustainability report following the introduction of this approach. Other countries have followed suit, and the São Paulo, Kuala Lumpur and Copenhagen exchanges now all require companies to report on ESG issues or explain why not.[26]

In Brazil, BM&F BOVESPA launched its policy just before the Rio+20 Conference, and the number of companies adhering to "report or explain" rose from just over 45% in May to almost 58% in October 2012. By May 2013, 253 companies published information in their Reference Form about social, environmental and corporate governance factors, or explained why they had not yet done so.

In the UK the government introduced new requirements for listed companies (on the London Stock Exchange) on disclosing greenhouse gases, and changes to the UK Company Act 2006 will require the disclosure of information regarding human rights, diversity and greenhouse gas emissions.

[24] Ceres, "Investors announce proposal for sustainability listing standard for global stock exchanges," 8 April 2013, via http://www.ceres.org/press/press-releases/investors-announce-proposal-for-sustainability-listing-standard-for-global-stock-exchanges.

[25] Institute of Directors Southern Africa, "King Code of Governance for South Africa 2009," 2009.

[26] EY, "Stock Exchanges and Sustainability," August 2012, ey.com/Publication/vwLUAssets/Stock_exchanges_and_sustainability_reporting/$FILE/Stock_exchanges_and_sustainability_reporting.pdf

Following the Rio+20 Conference, the Sustainable Stock Exchange Initiative (SSEI) was launched, "to enhance corporate transparency, and ultimately performance, on ESG issues and encourage responsible long-term approaches to investment."[27] NASDAQ OMX, which owns 24 stock exchanges across six continents, has already expressed support for the process. Vice Chairman for Nasdaq OMX, Meyer Frucher, said, "Creating a corporate sustainability reporting standard across all exchanges will encourage a shift in how companies assess the importance of their efforts in environmental, social and governance issues."[28]

While the majority of sustainability reporting to date has been under a CSR regime, investors are now increasingly accepting the need for non-financial disclosure. Many early reports were about communications to a range of stakeholders, rather than an analysis of material strategic issues. The proliferation of the enormous, and growing, range of standards, frameworks, guidelines makes assessing the right reporting approach for a particular company a significant challenge.

Harmonizing sustainability frameworks and standards is key

The growing number and complexity of disclosure requirements for business could prove a burden, but the process is important. Sustainability reporting is a two-way practice: it supports understanding of the impact of business on the wider societal and environmental stage; it also enables companies to appreciate the impact of society and the environment on business.

The complexity of the process has resulted in a range of approaches as the materiality of impacts in different geographies and industries are explored. There is, however, an increasing number of bodies recognizing that the harmonization and standardization of approaches will be key to increasing a universal acceptance of sustainability reporting. There will always be specific issues of material importance to different stakeholders. The critical point will be ensuring that the information is reported in a relevant, comparable and meaningful way.

Organizations such as GRI understand that harmonization is both a goal and a challenge, and have increased their focus on harmonizing standards. This activity has been reflected in the GRI G4 Guidelines, which has enhanced linkages between GRI and the CDP, the United Nations Global Compact and the forthcoming integrated reporting framework of the IIRC.[29] GRI's Framework is the most widely used and recognized multi-stakeholder approach to disclose economic, environmental, social and governance information about a company's performance and impacts. As the Framework is increasingly harmonized with other approaches, there should be an increase in the usability and comparability of sustainability information and reporting.

As there is an increase in the use of sustainability information, especially with regard to material issues for investors, there is going to be an increasing demand for the assurance of that information.

[27] Sustainable Stock Exchanges Initiative, "Home page" via http://www.sseinitiative.org/.
[28] Ceres, 2013.

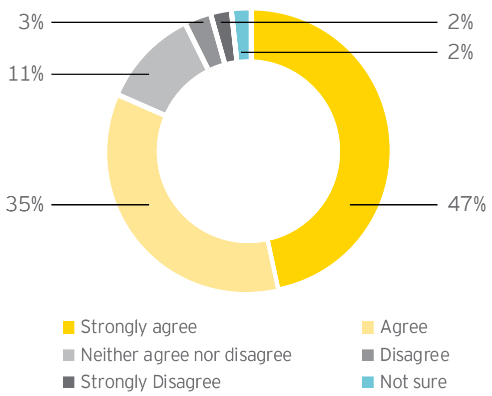
[29] Global Reporting Initiative, "GRI strengthens strategic partnerships," 12 June 2013, via https://www.globalreporting.org/information/news-and-press-center/Pages/GRI-strengthens-strategic-partnerships.aspx.

Standards, regulations and transparency are making sustainability practices more mainstream (continued)

The credibility of sustainability data is on the business agenda

The sustainability challenge of how to turn insight from reporting into practical action remains. To be effective, reporting should be a driver of change that takes robust, verifiable data and helps an organization implement sustainability practices to meet economic, natural and human challenges. The majority of survey respondents believe the assurance of data provided in a sustainability report adds credibility.

Q6. Do you think assurance adds credibility to a sustainability report?



While not all reports have assured data, a growing number of organizations gain assurance on sections of their sustainability report. The survey revealed that 82% of respondents either agreed or strongly agreed that assurance provided increased credibility to sustainability reports.

Ian Wood, Vice President Community Relations and Sustainability, BHP Billiton, agrees there is a trend toward increased assurance of data. There are two main levels of assurance: limited, where a conclusion is expressed in a negative form; and reasonable assurance, where the conclusion is expressed in a positive form. BHP Billiton has assured its data to a reasonable level. Wood says, "Our CEO was committed to ensuring that data was reliable. For example, changing pricing in the carbon markets makes it very important to get that right to ensure we're paying the right price. It can have a significant effect."

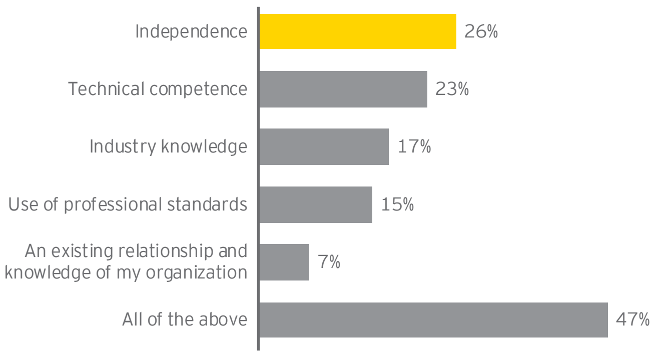
According to Waygood, it is important for the information to be verified externally, and, "that includes the process for getting the numbers and the numbers themselves. You'd never get away without the numbers in a financial report." While assurance is not yet a requirement for sustainability reporting, it not only adds credibility to the data that is being reported, but ultimately the sustainability initiatives of the organization, as the credibility that assurance provides transcends data.

According to GRI, 38% of reports internationally have some level of assurance, and 70% of those companies look to the major accounting firms for assurance. In the US only 10% of reports are assured, and of those that take that route, the results were split between 40% seeking assurance from accountants, 35% from engineering firms, and 25% from others.[30]

[30] Speech by Mike Wallace, Director, Focal Point USA, GRI, GRI Conference 22 May 2013.

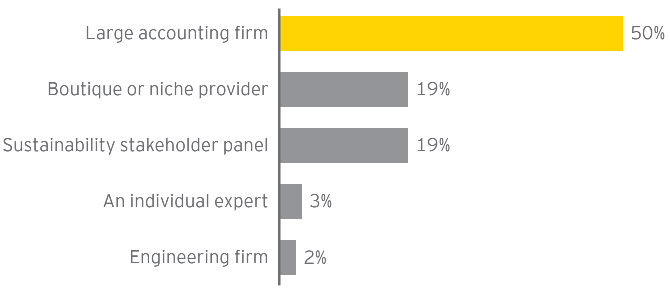
While independence of assurers is the single most important quality sought by an organization, the poll results show that a range of factors, including technical competence, industry knowledge, use of professional standards, and existing knowledge of the organization, are sought by almost half of respondents.

Q7. What is the most important quality you would like to see in an assurance provider?



These features are found in the larger assurance providers, as the poll reported that 50% of respondents use these organizations to act as assurance providers. Boutique specialists or sustainability stakeholder panels were both listed as the second-most preferred at 19% apiece.

Q8. What type of organization would you consider or prefer for providing assurance on a sustainability report?



Sustainability: the new "business as usual"

European Commissioner Michel Barnier said, "We can't afford to return to business as usual. We need to eliminate the short-termism that has dominated the corporate sector for too long."[31] He continued, "Most importantly, the way these commitments are met should be made public and transparent. Transparency is part of the solution, not the problem. That's why non-financial reporting is such an important issue … it serves the interests of investors, shareholders, employees and society at large."

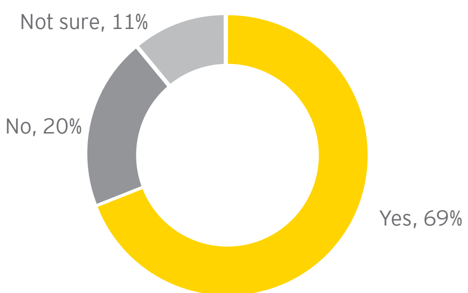
There is strong evidence in a wide variety of areas that the growth and reporting of sustainable practices is set to increase further. From regulation to investment decisions, to businesses driving sustainability into their supply chains – if an argument is made that sustainability has not yet reached the tipping point, these trends show that it is only a matter of time.

The policy shift of sustainability

There was a strong sense among those surveyed that policy frameworks are shifting toward mandatory reporting for non-financial information.

Two-thirds of survey respondents expect to see non-financial reporting regulated within their own countries.

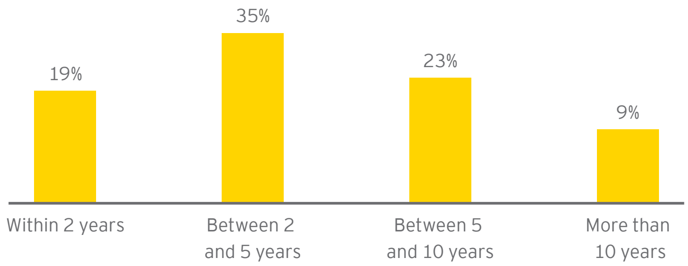
Q9. Would you expect sustainability reporting to become regulated in your country?



[31] EU Commissioner Michel Barnier, speech, GRI Conference, 23 May 2013.

In addition, it seems the trend is gaining pace. Of those respondents who believed that regulated reporting will be implemented, more than half expect to see this happening within five years.

Q10. If you expect sustainability reporting to be regulated in your country, what is the expected time frame?



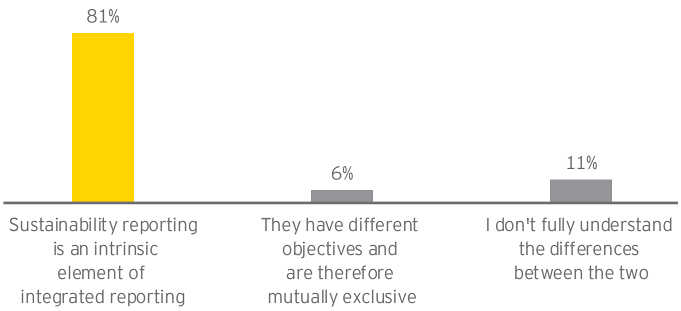
Sustainability reporting is an intrinsic element of integrated reporting

Another important development within the sustainability space is the much anticipated IIRC's Integrated Reporting Framework (IR Framework) due in December 2013.[32] Integrated reporting is expected to provide information on all aspects of a company's performance, highlighting the issues of most importance to providers of financial capital. Paul Druckman, Chief Executive of the IIRC, says, "The implementation of integrated reporting would be a powerful tool for investors and would instill a culture of transparency, reliability and stability so that investors can begin to trust their money to longer-term investments."

[32] Integrated reporting is about understanding a company in terms of its pools of capital: financial, manufactured, intellectual, human, natural (environment): social and relationship. It should communicate a company's performance in both financial and non-financial terms, focused on how a company's strategy, governance, performance and prospects lead to the creation of value over time.

While there has been a degree of confusion with regard to the relationship between sustainability reporting and integrated reporting, the survey revealed that the majority of respondents believe the two approaches are complementary. In fact, the survey showed that the majority of respondents (81%) believe that sustainability reporting is an intrinsic element of integrated reporting.

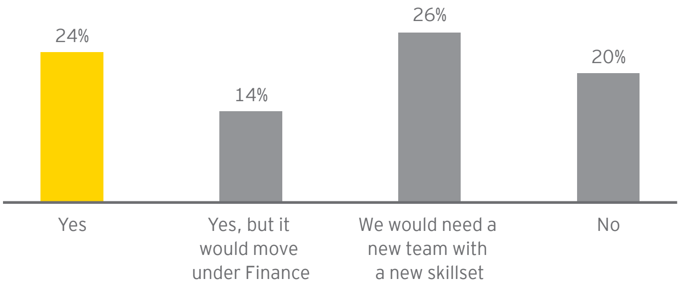
Q11. Where does sustainability reporting fit in the process of integrated reporting?



What sustainability reporting can do is provide a platform for gathering the sustainability data needed in an integrated report. Jeanne Ng of CLP said, "Having published a sustainability report for almost 10 years prior to our first attempt at an integrated annual report, it meant we have the systems and assurance processes in place to assure our senior management that we had robust data to support putting together an integrated report."

However, many respondents are concerned they do not yet have the skill set to deliver such a complex report. Less than 25% of respondents believe the department currently producing their sustainability report has the capacity or skills to deliver such a report. While this may be because the IR Framework is not yet publicly available, it may also be a lack of knowledge about the wider elements of financial reporting.

Q12. Could your current sustainability reporting team produce an integrated report?

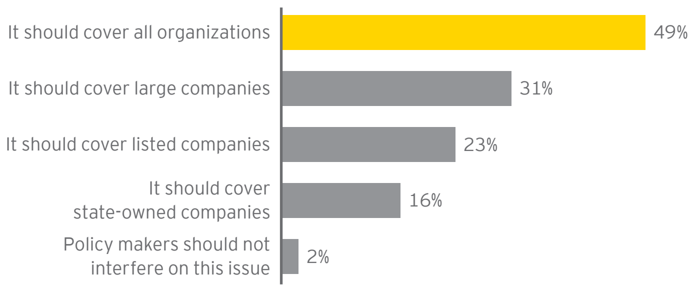


Sustainability: the new "business as usual" (continued)

The demand for reporting through the supply chain is on the rise

The supply chain for many major manufacturers is becoming globalized. Manufactured goods, especially complex products such as computers or cars, are collaborative efforts, involving numerous companies and are often cross-border projects with virtual teams. That, combined with the growth in the export of manufactured goods,[33] is likely to result in increased pressures for major corporations to address emissions in their supply chain.

Q13. What is your view on the scope of policy and market regulation of sustainability reporting?



The poll also showed that sustainability reporting is set to expand in scope, with regulation expected to drive reporting through the supply chain. Nearly 50% of respondents said reporting should cover all organizations.

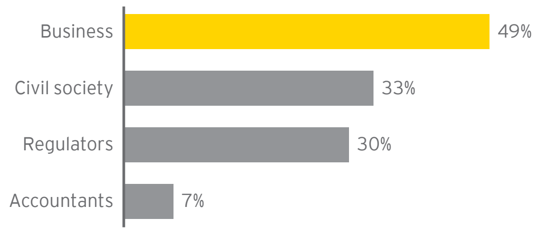
Globalization means companies can cut costs, outsourcing production or assembly to locations that are far cheaper than their home markets. But reputation and overall responsibility for products cannot be outsourced. The close interconnection between developed country brands and their developing nation suppliers creates leverage for consumers, governments and campaigners, who want to ensure that branded products are not tainted by human rights violations or environmental crimes in vulnerable countries.

Business: the main driver of sustainability action

Despite a growing consensus that global society should make the transition to a sustainable and renewable resource-based economy, there is a major gap between that consensus and action. Governments experiencing economic constraint are increasingly turning to the private sector for skills and investment. That leaves business to spearhead the move toward industrial growth through sustainable approaches.

Respondents to the survey certainly see business as having a significant role to play, with 49% of respondents believing that business will lead the transition to a sustainable global economy. However, civil society and regulators also featured significantly (at 33% and 30%, respectively) reflecting the importance of all three sections of a modern economy working together.

Q14. Who will be the leaders of the transition to a sustainable economy?



[33] In 2010, the latest year for which the World Trade Organization has calculated the data, world exports of manufactured goods were worth $9.96 trillion, 18% more than in 2009.

Conclusion

It is clear the need for transparency and the disclosure of sustainability information is high on the agenda, not just for business, but for a wide range of stakeholders including investors, governments and civil society. Nonetheless there is still a long way to go. There is increasing demand for sustainability reports to be not only credible, reliable and robust, but increasingly also relevant and strategic, which means they must contain the right information for the right people. Publishing such information in a sustainability report is only the start of a journey, and acting on its findings may require changes throughout the organization.

The importance of sustainability reporting as the first step in embedding sustainability strategy in operations remains critical. The survey highlights the importance of strong leadership, particularly from the business community and the leaders of individual organizations. Leadership is needed to support the sustainability strategy, embed it into the business and show that it can provide value to both the organization and wider society. Political leadership is also vital, as the increasing number of mandatory reporting requirements will have a hugely significant effect on the sustainability landscape.

Besides the business drivers, regulatory pressure is also growing. There is a gradual convergence of frameworks, with GRI Guidelines demonstrating how harmonization can be successful. The demand for credibility is driving sustainability assurance up the agenda, and business is finding that both sustainability and integrated reporting are needed simultaneously, while there is also increasing pressure through supply chains for sustainable performance.

There are also clear benefits to business by embedding sustainability within strategic operations, both in the short and long term. It is clear that increasing efficiency and cutting costs improve the bottom line. An understanding of the impact of ESG issues allows companies to anticipate market trends. The market is increasingly responding to concerns about ESG issues, and a strategic approach to managing these issues can give companies a competitive advantage.

The mainstreaming of sustainability and sustainability reporting is no longer in doubt. Perhaps Allen White, co-founder of the Global Reporting Initiative, said it best: "Sustainability reporting has gone from the extraordinary, to the ordinary, to the expected."

Methodology

The survey was undertaken before and during GRI's Global Conference on Sustainability and Reporting, held in Amsterdam, 22–24 May 2013. Out of an audience of 1,661 thought leaders and practitioners from around the world, 1,400 delegates downloaded the app containing the conference survey.

Different questions were asked at different points before and during the conference, which means the number of respondents per session and per survey question differed.

The breakdown of the number of respondents was as follows:

Survey and polls related to certain sessions at GRI's Global Conference on Sustainability and Reporting	Number of possible respondents	Number of actual respondents	Results of survey on page
Pre-conference survey	1,400 downloaded the app	374	Pages 7, 8, 10
Opening plenary	approximately 1,400 delegates in the auditorium	605	none featured
G4 launch	approximately 1,400 delegates in the auditorium	244	none featured
Plenary on G4 on Thursday morning	approximately 1,400 delegates in the auditorium	82	none featured

Survey and polls related to certain sessions at GRI's Global Conference on Sustainability and Reporting	Number of possible respondents	Number of actual respondents	Results of survey on page
The role of Assurance for Better Sustainability Reporting	219 pre-registered for this session	246	Pages 16 and 17
Sustainability Reporting Regulation Today and Tomorrow	251 pre-registered for this session	134	Pages 18 and 19
Sustainability Reporting and Integrated Reporting	541 pre-registered for this session	135	Page 19
Valuation of sustainability	approximately 1,400 delegates in the auditorium	182	Pages 10 and 11
Bloomberg Business week debate	approximately 1,400 delegates in the auditorium	575	Page 20
Closing plenary	approximately 1,400 delegates in the auditorium	212	none featured

Contacts

For further information on EY Sustainability Services, please contact:

Juan Costa Climent
Global, Europe, Middle East,
India and Africa (EMEIA)
T: + 34 9 1572 7381

Steve Starbuck
Americas
T: + 1 704 331 1980
E: stephen.starbuck02@ey.com

Mathew Nelson
Oceania and Far East
T: + 61 3 9288 8121
E: mathew.nelson@au.ey.com

Kenji Sawami
Japan
T: + 81 3 4582 6400

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

EYG no. AU2091

EMEIA Marketing Agency
1000536

ED None

In line with EY's commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

ey.com