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KPMG International Survey of Corporate Responsibility Reporting 2008

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Contents

Foreword

Today we are in the midst of a rapid global transformation with increased demand on corporations to perform not only financially but to be good corporate citizens. One of the most important aspects of this transformation is the critical importance Corporate Social Responsibility (CSR) programs. Climate change; community health, education and development; and business sustainability are some of the most pressing issues of our time. Businesses are increasingly involved in these areas as are their clients and their people. This raises the importance of accurately and transparently accounting for and reporting these activities.

Auditors have long played an important role in the financial reporting process and we believe strongly in the strategic value of CSR reporting. We want use our leadership position in this area to help develop this field and promote best practices by highlighting current developments and historical trends.

KPMG conducts the International Survey of Corporate Responsibility Reporting every three years to gain insight into CSR reporting and to contribute to the evolving global dialogue on transparency and accountability. The 2008 survey was conducted in 22 countries and with more than 2200 businesses around the world.

As you will see in the results, there has been an important shift in this direction with CSR reporting becoming the norm instead of the exception within the world's largest companies. Three years ago only 50 percent of companies surveyed included CSR in their reporting, in this survey the number jumped to 80 percent. More companies report the information as it relates to specific objectives and more companies include this information in their annual reports.

Our goal is to further the ideal that corporate responsibility reporting and assurance practices become as commonplace as financial reporting and assurance. I believe you will find this report relevant to your business and that it will stimulate your ideas and help facilitate your move to include CSR in your overall reporting.

Lord Michael Hastings of Scarisbrick CBE
Global Head of Citizenship and Diversity, KPMG International

In a world of changing expectations, companies must account for the way they impact the communities and environments where they operate. It is encouraging to see that nearly 80 percent of the world's largest 250 companies are now doing precisely this - reporting on their social and environmental performance.

But would these reports pass the "greenwash" test? For the first time in the 15 years we have been doing this survey, we think they just might. Nearly all of the Global 250 companies that report also publish a corporate responsibility strategy with defined objectives. Our findings show that management systems are maturing, and that reporting is likely the result of a systematic approach to corporate responsibility that includes a strategy, management system, stakeholder engagement, reporting, and assurance.

But the true judges of a company's report quality are its readers - the company's stakeholders. The KPMG survey was expanded this year to probe the depth of stakeholder involvement in a company's corporate responsibility strategy and reporting. Although stakeholder engagement is becoming more formalized, there is still room for greater transparency about who stakeholders are and how companies are responding to their concerns.

In terms of report quality, there is also a growing trend in using outside views to confirm a company's account of its corporate responsibility performance. Third parties such as stakeholder panels, subject matter experts, and professional assurance providers all have a role to play in helping to ensure that credible information guides companies on progress toward what really matters: a more sustainable future.

Wim Bartels
Global Head, KPMG Sustainability Services
Partner, KPMG in the Netherlands

Executive Summary

The purpose of this survey was to track reporting trends in the world's largest companies. The sample of over 2200 companies includes the Global Fortune 250 (G250) and the 100 largest companies by revenue (N100) in 22 countries. The survey presents historical data where possible, drawing from five previous surveys conducted by KPMG firms since 1993. Only information available in the public domain was used for this survey, such as company websites, corporate responsibility reports, and annual reports issued in 2007-2008.

More details on the survey methodology and the context for corporate responsibility reporting can be found in Chapters 1 and 2.

The State of Corporate Responsibility Reporting in 2008

Chapter 3 provides an overview of the main trends in reporting.

One of the most significant findings of the 2008 survey is that corporate responsibility reporting has gone mainstream - nearly 80 percent of the largest 250 companies worldwide issued reports, up from about 50 percent in 2005.

National trends
National level companies trail the G250 with only 45 percent of the total sample issuing reports, but numbers vary from less than 20 percent in Mexico to more than 90 percent in Japan.

Drivers
Ethical considerations and innovation emerged as some of the most common drivers for reporting, while risk management fell in the G250 group.

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Reporting is now the norm, not the exception, among the world's largest companies. Since motivations for reporting have shifted away from reactive and risk management factors and toward aspirational and innovative ones, we expect reporting to become more common at the national level and in smaller companies in the near future.

Corporate Responsibility Strategy and Reporting Process

Chapter 4 looks at the process behind corporate responsibility reporting and how reporting fits into a company's overall strategy and management system.

Strategy
Three-quarters of G250 companies have a corporate responsibility strategy that includes defined objectives.

Stakeholders
Nearly two-thirds of G250 companies engage with their stakeholders in a structured way, up from 33 percent in 2005. However, most companies do not use existing channels like annual general meetings (AGMs) to engage analysts and investors about environmental and social issues.

Frameworks
More than three-quarters of the G250 and nearly 70 percent of the N100 use the GRI Guidelines for their reporting.

Value
More than half of the world's largest 250 companies publicly disclose new business growth opportunities and/or the financial value of corporate responsibility.

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Although the N100 companies are trailing their global counterparts, we are seeing a distinctive maturing of corporate responsibility management systems overall. Reporting is now more likely to occur within the context of an overarching strategy and management system. The use of the GRI Guidelines by the majority of G250 and N100 companies shows that this has become a leading standard for reporting. Stakeholder engagement is an area that could be strengthened - and included as part of a broad-ranging approach to corporate responsibility strategy and reporting. Now that some of the world's largest companies have been able to quantify the business case for corporate responsibility and reporting, it is likely that the practice will spread through countries and sectors to the smaller players.

Executive Summary continued

Topics in Corporate Responsibility Reporting

Chapter 5 looks inside reports to selected issues companies are disclosing information on: corporate governance, supply chain, and climate change.

Corporate governance
Although 92 percent of G250 companies disclose a corporate governance code of conduct or ethics, only 59 percent report on incidents of non-compliance with the code.

Supply chain
Nearly all G250 companies have a supply chain code of conduct, but only half disclose the details of how it is implemented and monitored.

Climate change
While 62 percent of G250 companies disclose information about climate risks, 69 percent of N100 companies do not. Whereas understanding the risks starts with understanding the footprint, a large part of the G250 (41 percent) need to develop this. Carbon footprint reporting is focused largely on the own operations.

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In theory the link between corporate governance and corporate responsibility seems clear, but in practice many companies do not appear to be making the connection and capitalizing on the potential benefits. Reporting on supply chain risk and reporting by suppliers both look set to increase as investors, and customers in particular, demand greater responsibility and transparency. Whereas carbon footprint reporting is not as common as might be expected, there are other indications that companies are taking the risks and opportunities associated with climate change seriously.

Assurance and Corporate Responsibility Reporting

Chapter 6 examines trends in assurance and reveals who is using it, how, and why.

Formal assurance
Formal third party assurance of G250 reports jumped from 30 percent to 40 percent in the past three years, and the trend is similar at the national level with 39 percent of N100 reports containing formal assurance.

Third party commentary
Twenty seven percent of reports included other types of third party commentary, such as stakeholder panels or subject matter expert statements.

Providers
Major accountancy organizations are the leading providers of assurance in corporate responsibility reporting.

Standards and quality
The consistency and quality of assurance approaches is demonstrated by an increase in the use of standards. G250 companies are less likely to ask for reasonable (positive) assurance than N100 companies.

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As stakeholders become more specific about the information they need and corporate responsibility management systems mature, combining comments from parties such as stakeholder panels with a systematic assurance process could provide the desired level of assurance about both report content and quality. With the N100 group at par with the G250 in terms of using formal assurance (40 percent), this may indicate that new reporting companies will adopt this practice as standard procedure over the next three years.

Quick Reference Guide

Use this navigator to jump quickly to topics in the report that interest you.

Chapter 1

Corporate Responsibility Reporting in Context

In a world of ever changing challenges companies are shifting away from risk management approaches and toward an approach that has learning and innovation at its heart. Reporting is necessity if companies are to know and understand their social and environmental impacts, and how to minimize the dangers and maximize the opportunities associated with new and emerging challenges.

Achieving robust economic growth and vitality in a way that does not hinder future generations from realizing these same goals is an urgent aspiration. Known as "sustainable development" this is possbily the main challenge of our times. Historically governments have taken a lead role in shaping future directions through policy making and incentives. However, due to the rise of economic power in the private sector over the past half century, and increased interconnectivity brought about by globalization over the past two decades, it has become clear that companies have a major role to play in the pursuit of a more sustainable future.

Companies can play a vital role by ensuring that the direct and indirect impacts caused in the normal course of business are positive for the environment and people, and by using their vast reserves of knowledge, innovation, creativity, and other resources to help find solutions to some of the social and environmental challenges we are facing as a global society today or in the future. This is known as corporate responsibility.

There are two issues in particular, however, that make it difficult for companies to know how they should act in the face of such challenges, thus making sustainable development a moving target:

- **Imperfect information**
  The complexities of physical, biological, and social systems, and how they interact and react under stress or changing conditions, are not fully known. Therefore companies may not know how they have impacted an ecosystem or community until long after the fact, or may not be able to predict how a new set of business activities may affect these systems.
- **Evolving expectations**
  There are constant and "real time" discussions underway at global and local levels about the roles governments, businesses, and citizens should play in the pursuit of a more sustainable future.

As new information about how we are impacting our social and ecological systems becomes available, and as dialogues between public, private, and third sectors mature, companies must continuously adjust and innovate to remain competitive.

Comparing results from the 2008 KPMG International Survey of Corporate Responsibility Reporting to findings from the same survey in 2005, it is clear that the rules of the sustainability game change fast.

1.1 Looking back

The first part of this decade was marred by corporate scandals, with companies coming under scrutiny for dubious accounting practices and corporate governance approaches. This caused regulators, shareholders, employees, and consumers to demand better ways of tracking the health and value of a company – ways that included a departure from the traditional financial report. Looking back, this permanently shaped the future of reporting, both financial and otherwise.

In the lead-up to the 2005 Survey, the context within which companies were reporting was being shaped by the following developments:

- Worldwide demand for transparency and accountability at an all time high.
- Expansion of corporate governance expectations and a renewed commitment to ethics.
- Demand for a more complete picture of the health and stability of a company, where not only financial results are considered but also risk management practices and value-creation in the environmental and social arena.
- Significant discussions around regulation and mandatory transparency on governance, ethics, and other non-financial issues.

Chapter 1

Corporate Responsibility Reporting in Context

1.2 Looking Ahead

The context in which companies operate evolves constantly as lessons are learned, new information becomes available, and dialogues about expectations mature. In the three years since KPMG's last survey release, much has happened to shape the landscape of corporate responsibility and reporting. Some of these issues and developments are discussed below.

Principal global frameworks

The dominant codes and standards guiding corporate responsibility practices are designed to improve continuously over time in order to capture lessons learned and new information, as well as reflect current views on the roles and expectations of companies. Developments in the past three years have affected the state of corporate responsibility reporting today.

Most significantly for reporting, the Global Reporting Initiative (GRI) released the third iteration of its Sustainability Reporting Guidelines (G3 Guidelines) in late 2006, after a two-year development process involving some 3000 stakeholders worldwide. By 2008 the majority of companies that had reported using the earlier version of GRI Guidelines, G2, had made the switch to the G3 version. With greater emphasis on the reporting process and further elaboration of methods for calculating indicators, this new version could help encourage greater comparability, materiality, and rigor with reporting.

The International Organization for Standardization (ISO) is developing the ISO 26000 Guidance Standard on Social Responsibility. Even though this is not going to be a certification standard, it is anticipated that it will impact corporate practice when it is released partly due to the dominant position ISO has already established via the widespread use of its 14001 environmental management standard.

The importance of transparency and accountability was magnified in 2008 when the United Nations Global Compact (UNGC) - whose framework guides corporate commitment to social and environmental issues in the form of 10 principles - marked nearly 1000 companies as inactive or delisted from their active pool of participants for not communicating on progress with the Compact.

Human rights have emerged as a fast-changing issue for businesses to watch. The UN "Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights" has been the subject of ongoing dialogue between business, governments, and civil society on the expectations of big business vis-à-vis human rights.

Assurance standards have also continued to evolve as a reflection of the changing landscape. In some countries the IAASB standard, ISAE3000, has been further iterated as a specific assurance standard for corporate responsibility reporting, while AccountAbility's AA1000AS is currently undergoing a major revision process and will be reissued in late 2008. The importance of reliable data on carbon emissions has also been recognized by the IAASB, which recently set up a working group to look at developing a specialized accounting standard. Issue-specific frameworks have been developed to fill gaps on emerging issues. Some key examples include the Equator Principles, Principles for Responsible Investment (PRI), and the Environment, Social, and Governance (ESG) framework issued by Goldman Sachs, all for use in the financial services sector. For climate change, the Carbon Principles help guide emerging carbon markets, while participation in the Carbon Disclosure Project has increased substantially, as has uptake of the Greenhouse Gas Protocol (GHG Protocol).

Climate change

After decades of scientific study and activism, the issue of climate change finally broke through into mainstream awareness, thanks in part to developments under the various UN climate directives, and the efforts of former US Vice President Al Gore and other advocates, who were awarded the Nobel Peace Prize in 2007.
The uptake of market-based mechanisms for emissions trading and carbon offset have witnessed significant growth. With climate change firmly on the political and consumer agendas, large companies worldwide have started to try and understand the risks and opportunities in a carbon-constrained world.

Supply chain

One of the challenging aspects of corporate responsibility management and reporting is that the boundary of responsibility often extends beyond the reach of a corporation's ownership and direct control. This was exemplified dramatically in 2007 when Mattel had to recall 20 million children's toys contaminated with lead and pet food makers had to recall 60 million tins of tainted food as a result of a lapse in quality control in Chinese factories which brought to light the difficulties companies have in ensuring their expectations are met.[1] Companies, especially in the retail sector, have been working for the best part of a decade

1 See "101 Dumbest Moments in Business", http://money.cnn.com/galleries/2007/fortune/0712/gallery.101_dumbest.fortune/index.html

to reinforce environmental and labor standards in the supply chain. After years of avoiding direct engagement, the company with the world's largest supply chain, WalMart, announced various environmental and social reforms and targets for its suppliers.These examples make it evident that companies are beginning to integrate corporate responsibility into supply chain management.

Corporate governance

Firmly on the agenda for most of this decade, the credit crisis that emerged in 2007-2008 has been a reminder that when navigating new or unregulated territory, companies should conduct themselves with the highest degree of ethics - or face tough consequences. Recognizing that corporate responsibility is able to inform, and manifest, good governance, companies have been experimenting with uniting these two concepts in order to strengthen strategy and risk management.

A new era for corporate responsibility reporting

As the rules of the game continue to change for companies, reporting is essential for understanding and tracking social and environmental impacts so that adjustments can be made to reduce negative and increase positive impacts. Reporting helps inform decisions by governing bodies, strengthen risk management systems, and point to new opportunities for innovation in products and services.

In addition to strengthening internal systems, reporting is helping companies manage external relationships as well.

The ability of a company to communicate its activities and performance effectively to its key stakeholders, such as customers, employees, investors, suppliers, and community groups, helps it to build trust and credibility among those groups that matter to a company most.[2] It can also be critical to a company's long-term success, viability, and growth.

Now firmly entrenched as a common practice among the world's biggest companies, corporate responsibility reporting is building value for companies in many ways. Some include:

- Differentiating the company in the marketplace based on its corporate responsibility strategy and commitments;
- Maintaining a license to operate with the public or specific stakeholders;
- Attracting favorable financing conditions as financial markets wake up to ESG (environmental, social, and governance) issues and demand better information on social and environmental performance;
- Encouraging innovation through a better understanding of stakeholder needs or future risks;
- Attracting and retaining workers in an era of high employee expectations and stiff competition for talent; and
- Enhancing reputation by providing truthful and robust information on tough issues.[3]

"There is recognition that all of us have a responsibility to contribute to sustainable development and to keep under scrutiny our respective actions, activities and choices, and their implications. As we find ourselves addressing global issues such as water, food security, climate change, and others, it is clear that the availability of basic social and environmental performance information is essential. Increasing comparability in reporting is necessary to improve our assessment of the sustainability trends that are unfolding rapidly before us, and to urgently move us from just thinking about these issues to really knowing how to respond to these issues.

We must deepen, widen, and accelerate the practice of sustainability reporting if we are to respond as a global society commensurate with the pace and direction of the changes around us, and if we are to succeed in sustaining our habitat and ourselves."

Angela Cropper
Deputy Executive Director, United Nations Environment Programme (UNEP), and Assistant Secretary General, United Nations

2 See the KPMG and SustainAbility report, "Count Me In: The Readers Take on Sustainability Reporting." www.kpmg.nl/sustainability
3 See KPMG in Australia's "Sustainability Reporting: A Guide." www.kpmg.au

Chapter 2
About the Survey

This survey was designed to examine reporting trends in the world's largest companies. The sample includes the global fortune 250, and the 100 largest companies in 22 countries. KPMG examined information disclosed publicly by these companies to discern historical and emerging trends in corporate responsibility reporting.

2.1 Objectives

This study was designed to examine reporting trends among the world's largest companies. It is the sixth in a series conducted by KPMG and various co-sponsors since 1993 and is issued every three years.[4] The goal of the study was to examine corporate responsibility-related information issued by hundreds of companies from every sector and region in order to distill historic trends in corporate responsibility reporting and uncover new issues and practices that are emerging.

2.2 Methodology

The basis of the study was a survey that captured over 50 data points about corporate responsibility information disclosed (or not) by each company in the sample. The survey allowed KPMG to compile data on historical trends by tracking the same issues that it had in previous surveys, such as reporting prevalence by sector and country, use of standards, role and use of assurance, and drivers for reporting. The survey was expanded this year to track emerging issues such as climate change, corporate responsibility strategy and management, and techniques used during the reporting process, such as materiality and stakeholder engagement.

The research sample included the top 250 companies listed on the Fortune Global 500[5] (G250) for the year 2007. In addition, the survey included the 100 largest companies by revenue (N100) from 22 countries, except in Sweden where the sample was limited to the largest 70. The 22 countries are listed in Table 2.1.[6]

The 100 largest companies in each of the 22 countries were identified using revenue rankings from a recognized national source. In some instances where a ranking was not available or was incomplete, substitutes such as market capitalization or other sector-appropriate measures were used to compile or complete the revenue ranking list. All corporations were eligible to be included regardless of their ownership structure (privately held, publicly traded) or operational structure (holding companies).

Since the purpose of the survey was to examine trends in public disclosure, only corporate responsibility information available in the public domain was used. Sources were limited to:

- Corporate responsibility or sustainability reports;
- Company websites; and
- Annual financial reports.

Corporate responsibility reports or similar information issued by companies between mid-2007 and mid-2008 were sought in the first instance. If the company did not issue a report in this time frame, 2006 reports were used. Information issued prior to 2006 was not included.

Table 2.1

Participating Countries 2008

Australia	Norway
Brazil	Portugal
Canada	Romania
Czech Republic	South Africa
Denmark	South Korea
Finland	Spain
France	Sweden
Hungary	Switzerland
Italy	The Netherlands
Japan	United Kingdom
Mexico	United States

KPMG has a worldwide network of national sustainability practices. Twenty-two volunteered to participate in this study.

Source: KPMG Global Sustainability Services, October 2008

A note on terminology

The term "corporate responsibility" is used throughout the survey to describe the ethical, economic, environmental, and social impacts and issues that concern the private sector. There are many different terms used to capture this concept, including sustainability, corporate social responsibility, corporate citizenship, ESG (environmental, social, and governance), and others.

4 For a catalogue of previous reports visit: www.kpmg.com/survey
5 Top 250 companies included in the Fortune Global 500 ranking 2007 – Link: http://money.cnn.com/magazines/fortune/global500/2007/full_list/index.html)
6 For a full list of contact details of participating KPMG member firms' Sustainability Practices worldwide see inside back cover. Of the 40 practices, 22 voluntarily contributed to this study.

Chapter 3

The State of Corporate Responsibility Reporting in 2008

Chapter highlights

- Corporate responsibility reporting has gone mainstream - nearly 80 percent of the largest 250 companies worldwide (G250) issued reports, and an additional four percent integrated corporate responsibility information into their annual reports.
- The rate of reporting among the largest 100 companies (N100) in 22 countries is 45 percent on average, with the highest numbers in Japan (88 percent) and the UK (84 percent).
- Integration of corporate responsibility information into annual reports is on the rise in France, Norway, Switzerland, Brazil, and South Africa.
- Ethical considerations and innovation increased as the most common reasons for reporting among both the G250 and N100, while risk management fell in the G250 group.

"In these challenging times it is now perhaps more crucial than ever for companies to show their commitment to transparency through sustainability reporting. Effective public disclosure of economic, environmental, and social performance can enable a company to rise above the rest and take advantage of the opportunity to position itself as a forward-thinking leader among an increasingly sophisticated constituency of stakeholders. No longer is publishing a sustainability report merely a matter of mitigating risk to reputation and costs. More than ever, employees, investors, and consumers are looking to the companies from which they buy, invest in, and work for to join them in addressing the critical sustainability issues of the day in innovative ways."

Judy Henderson
Board of Directors, Global Reporting Initiative

3.1 Corporate Responsibility Reporting at the Global Level

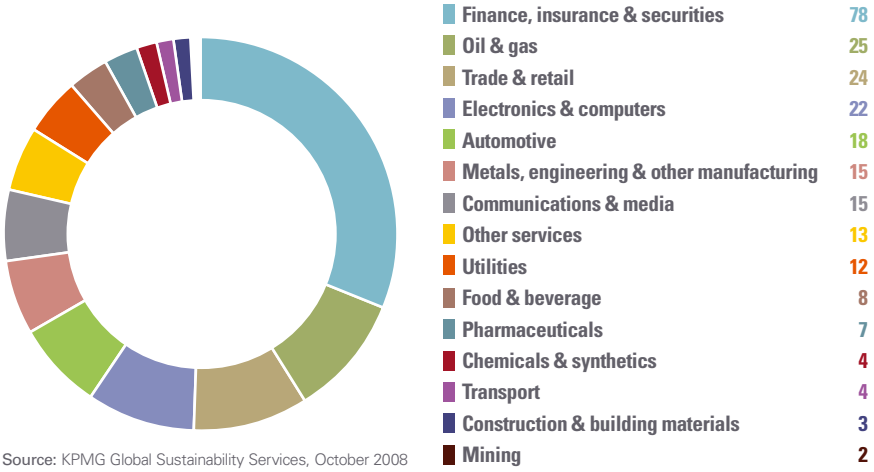
The G250 companies are drawn from the Fortune Global 500 List (2007) and represent over a dozen industry sectors (see Figure 3.1). Finance, insurance, and securities companies dominate the sample, followed by oil and gas, utilities, electronics and computers, and automotive. Two-hundred-and-eighteen of the 250 are publicly traded enterprises.

A dramatic rise in reporting has occurred in large global companies (G250) since the last KPMG survey in 2005.

Figure 3.2 shows that the number of G250 companies that issue stand-alone corporate responsibility reports has risen from 52 percent to 79 percent, or 197 of 250 companies in total.

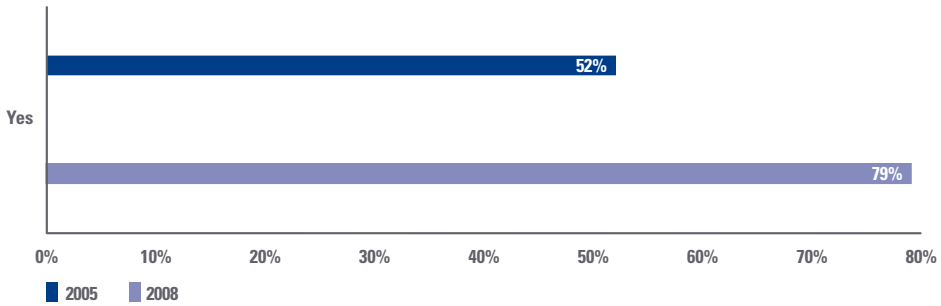
An additional four percent of companies in this sample do not issue stand-alone reports but do integrate corporate responsibility data into their annual financial reports, for a total of 207 companies. This is an astounding 30 percent jump in reporting over a three-year period.

Figure 3.1 Companies by sector (G250)



Source: KPMG Global Sustainability Services, October 2008

Figure 3.2 Companies with a stand-alone corporate responsibility report (G250)



Source: KPMG Global Sustainability Services, October 2008

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The question is no longer "Who is reporting?" but "Who is not?" Corporate responsibility reporting is now a mainstream expectation of companies. Since more than 80 percent of the world's 250 largest companies now report on corporate responsibility, we can expect this trend to roll out rapidly at the country and sector levels in the coming years.

Chapter 3

The State of Corporate Responsibility Reporting in 2008

3.2 A Closer Look at Reporting in 22 Countries

A closer look at trends in reporting from countries on every continent reveals the diversity of drivers, practices, and influences affecting a company's decision to report and how.

Nearing saturation

Companies in Japan and the United Kingdom (UK) have topped the tables in rates of corporate responsibility reporting over the last decade. Although there was not much room for growth, there were 8 and 13 percentage point increases in stand-alone reports in Japan and the UK respectively, and an additional 5 percent and 7 percent of companies that integrate their corporate responsibility and financial reporting. Reporting in these countries is now the norm for top companies, although for very different reasons. Companies listed on the Japanese stock exchange adhere to clear environmental performance and reporting regulations, and this is slowly expanding to include economic and social issues. In the UK, impending regulation via the Companies Act does simmer quietly in the background, but louder still are consumer, media, employee, and shareholder voices demanding greater accountability and transparency on key issues.

Accelerating growth

Extraordinary jumps in reporting since 2005 occurred in some countries, as shown in Figure 3.3. Companies based in the United States (US) are some of the largest and most influential in the world, so it is significant to find that 41 new US companies issued a corporate responsibility report since 2005, bringing the US N100 total to 73 percent. Although late to the game compared to other markets such as Japan and the UK, US companies are now becoming aware of their global reach and impacts on society, and have significantly increased their level of transparency on these topics.

As European countries continue to determine how to ensure or stimulate reporting on social and environmental issues in their countries, some companies are taking a "first to market" position. Spanish companies jumped to 59 percent from 25 percent, adding 34 new corporate reporters since 2005. This is a reflection of a strong sustainable development agenda pushed forward by government and civil society, and the leadership of some Spanish companies that embraced reporting early on. These influences may also explain the rapid rise of reporting in the Netherlands and Italy - both doubled reporting output in the past three years to land at about the 60 percent mark.

Canada added 19 new reporting companies to its tally, also arriving at the 60 percent mark. Many of the new entrants since 2005 are companies associated with the energy boom Canada has been experiencing. As the extractive and energy sectors grow, so do concerns about ensuring economic development in a way that leaves positive social and environmental legacies.

Swedish companies are staying one step ahead of regulation. New laws for reporting passed in late 2007 mandated all 55 state-owned companies to issue reports on their environmental, economic, and social performance by 2009. This may explain the tripling of reporting companies in Sweden over the past three years.

Increasing integration

Totals for stand-alone reports ticked upward in Australia (14 new reports), Norway (10), Finland (10), South Africa (8), and France (7), while there was no growth in Danish reporting, which held steady at 22 companies. However, companies in these countries are some of the first to integrate their corporate responsibility reports into annual reports - 12 percent of Norwegian and French companies are doing so, as are nearly 20 percent of South Africa's largest companies. Companies in some of these countries were early adopters of reporting, so this trend may indicate that integration of financial and non-financial information will become more widespread in the near future. In France it is common for companies that are part of international group structures to submit corporate responsibility data for aggregation at the global level in a stand-alone report, and then to include some corporate responsibility information in the country-level annual financial report as well.

Strong showing

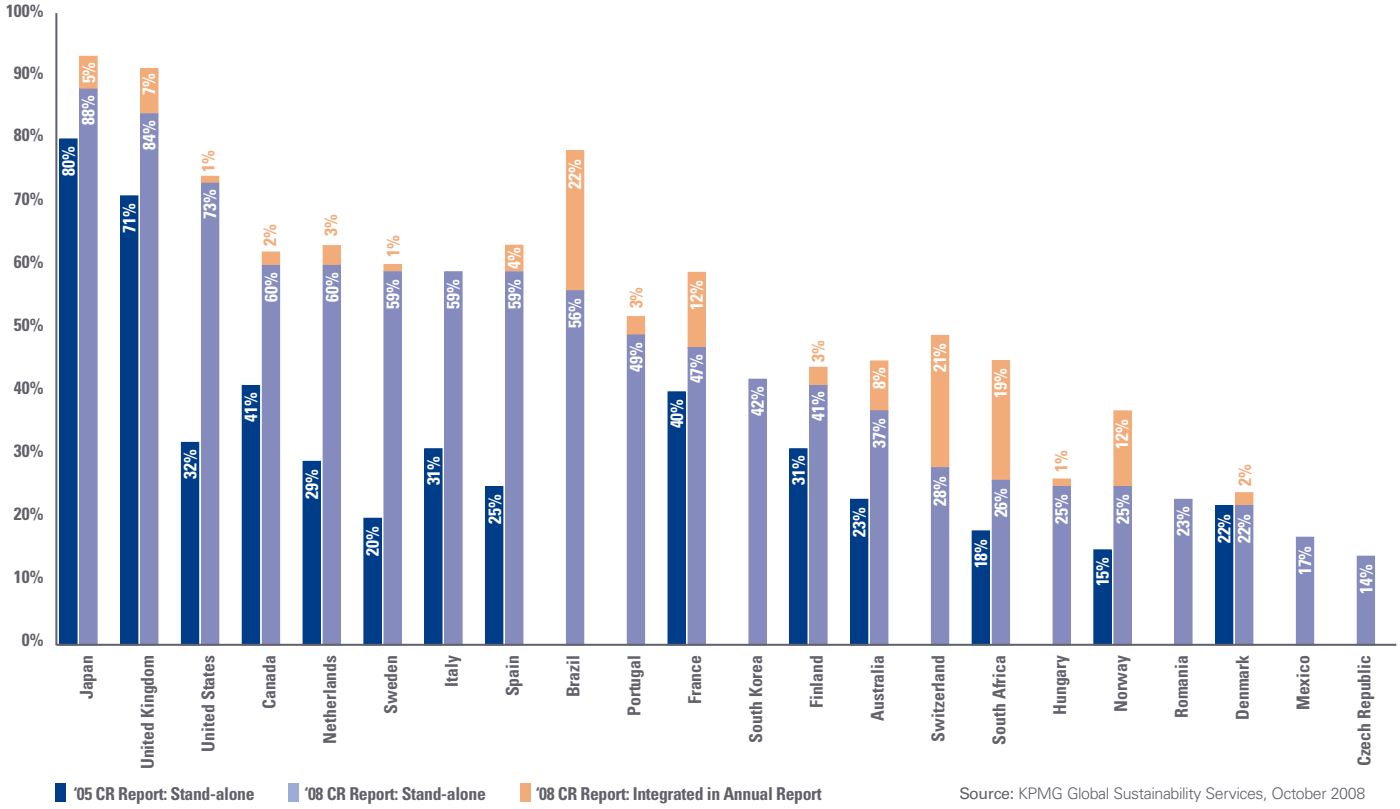
Brazil, Portugal, South Korea, and Switzerland joined the study for the first time this year and are clustered in the middle of the pack with 56, 49, 42, and 28 stand-alone reports respectively. Mexico is trailing with only 17 percent of N100 companies reporting, but it is significant for a first year entrant to have nearly one-fifth of its top companies. It is also a reflection of wider trends in corporate responsibility and reporting that are starting to take root in Mexico and elsewhere in Latin America.

Rising in the East

Although numbers are still comparatively low in Hungary, Romania, and Czech Republic, with a quarter or less of N100 companies reporting, KPMG believes this is the region to watch.

Companies are keen to show they are on par with Western European expectations on environment and human rights. First movers in this region are distinguishing themselves from competitors in the local and global marketplaces with corporate responsibility, and reporting is a channel they can use to showcase industry best practice.

Figure 3.3 Companies with stand-alone and integrated corporate responsibility reports, by country 2005-2008 (N100)



Source: KPMG Global Sustainability Services, October 2008

KPMG Insight

In the next several years we could expect reporting by companies in the US, Spain, the Netherlands, Italy, Canada, Sweden, and Brazil to track against the same trend line witnessed in Japan and the UK - toward the 100 percent mark. Brazilian companies will have an impact on their Latin American peers and competitors so we expect the practice to take hold in this region. As Central and Eastern European economies open and grow, so too will a commitment to corporate responsibility. As a result, the outlook for reporting looks positive in this region.

Time will tell whether or not corporate responsibility reporting will become integrated into annual reports, as seen in Brazil, Switzerland, South Africa, France, Norway, Australia and others, or if it will remain a stand-alone practice. We think that the potential of regulation, along with the tendency of economic stakeholders (investors, customers) to demand greater social and environmental information, could stimulate widespread integration of corporate responsibility information into annual reports.

However, if the trend toward integration does continue upward, companies would be wise to evolve their communications strategies in pace. Reporting is more than just a book, website, or data set. It is a continuous process that must involve and reflect the needs of its stakeholders. Integrating corporate responsibility information into annual reports may meet the needs of some stakeholders, but may exclude others. The challenge ahead will be to get the right information to the right stakeholders, and at the right time and in the right form.

Chapter 3

The State of Corporate Responsibility Reporting in 2008

3.3 Integration of Corporate Responsibility Information into Annual Reports

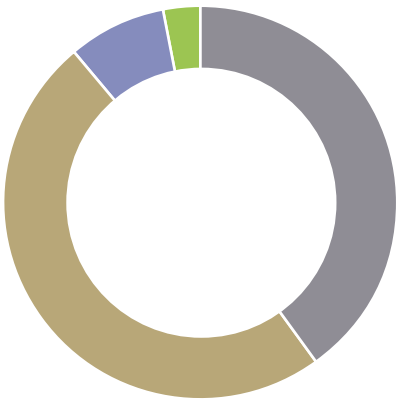
One of the most watched trends in reporting over the past 15 years has been the degree to which corporate responsibility information is presented in annual financial reports. Many advocates of corporate responsibility reporting contend that such data are helpful to analysts, investors, senior management, boards, and other users of annual reports because it helps to show a more three-dimensional view of the company's current value and future potential.

In the early part of this decade there were indications that a trend was developing toward full integration of economic, environmental, and social data in annual financial reports, as some early movers started experimenting with this technique. Results from this survey (see Figure 3.3) seem to show that significant progress is being made in this area, with 20 percent of N100 companies in Brazil and South Africa integrating their reports, and Switzerland, France, Australia, and Norway not far behind.

But overall, integration at both the G250 and N100 level remains the exception not the rule. Only a minority of N100 companies (nine percent) and even fewer G250 companies (eight percent) have taken up the practice to-date (see figures 3.4 and 3.5).

Despite lower levels of full integration, nearly half the G250 companies that issue stand-alone corporate responsibility reports are making reference to key environmental and social data in their annual reports, as are over 30 percent of N100 companies. This reflects the growing interest and demand for sustainability data from analysts, investors, and company leadership.

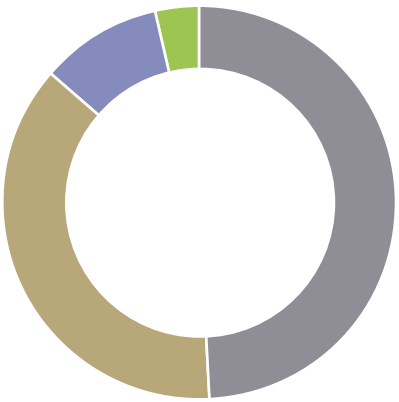
Figure 3.4 Level of integration of corporate responsibility information into annual reports (G250)



- **None** 40%
- **Limited** (CR section in the Annual Report only) 49%
- **Combined** (CR reporting combined with Annual Report) 8%
- **Fully integrated** (CR reporting fully integrated in the Annual Report) 3%

Source: KPMG Global Sustainability Services, October 2008

Figure 3.5 Level of integration of corporate responsibility information into annual reports (N100)



- **None** 55%
- **Limited** (CR section in the Annual Report only) 33%
- **Combined** (CR reporting combined with Annual Report) 9%
- **Fully integrated** (CR reporting fully integrated in the Annual Report) 3%

Source: KPMG Global Sustainability Services, October 2008

KPMG Insight

Although the growth in corporate responsibility references in annual reports is encouraging, the majority are still issued without any environmental and social information. As corporate responsibility reporting matures in the coming decade, we predict a greater demand and aptitude for environmental and social data by traditional financial report readers, such as the investor community. Necessary developments include standardization of reporting metrics, several years of comparable data for companies across countries and sectors, robust and trustworthy data, and a move towards eXtensive Business Reporting Language (XBRL) or other ways of transferring data in real-time to analysts.

3.4 Behind the Trend Line: Drivers for Reporting

The world's top performing companies would not engage in the practice of reporting unless they were benefiting from it. The trend lines would not be so distinctively on the rise unless there was a clear business case for reporting. This survey gathered the most-cited motivations for reporting as stated by the world's largest 250 companies in their reports or on their websites. (See results in Figure 3.6.)

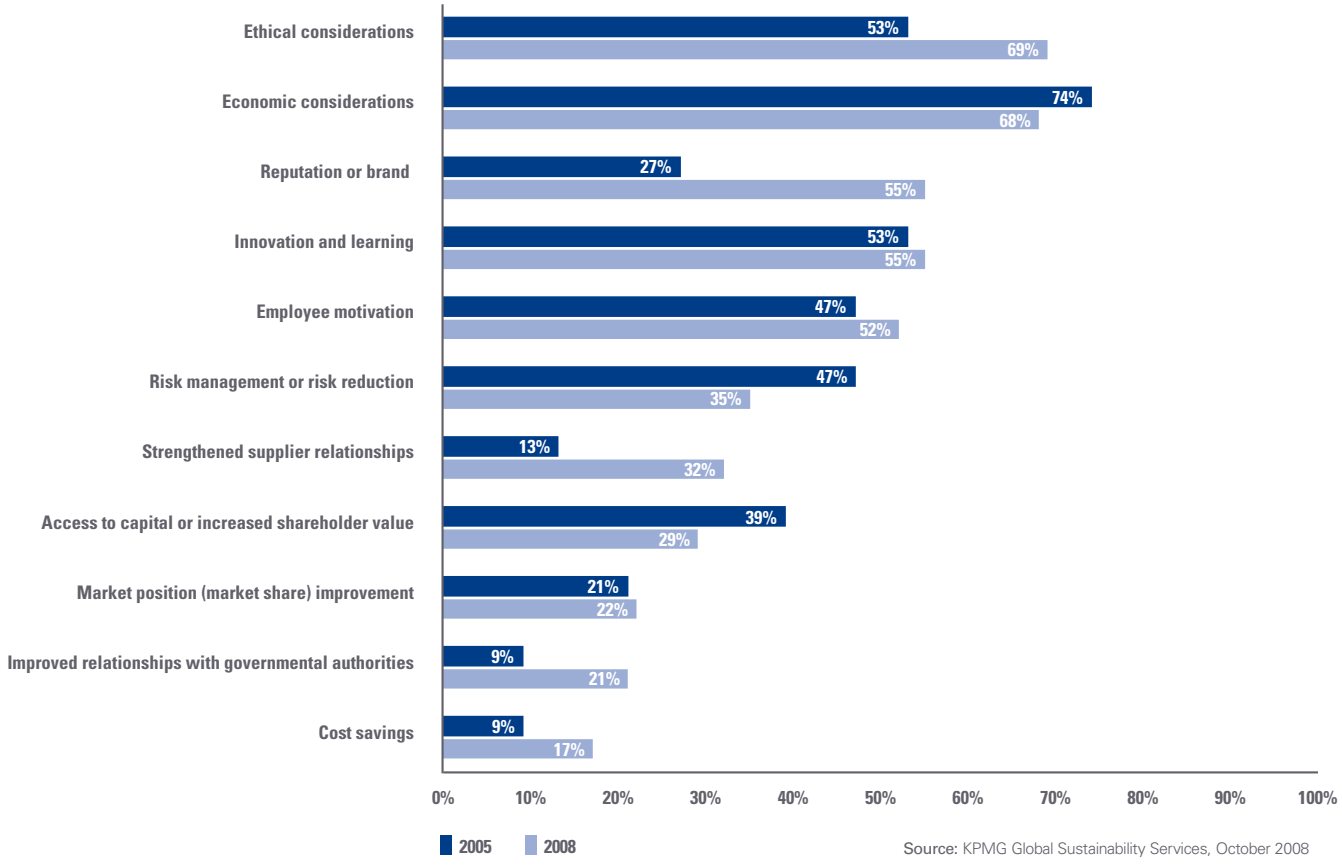
Ethics and economics

As in previous years, the overall drivers for reporting are ethical and economic considerations. Although these responses are fairly broad, they indicate that companies realize they operate in a context where they play key roles in contributing to healthy societies, ecosystems, and economies - and that it is in their best interest to maintain and improve these spheres.

Ethical considerations as a stated driver for reporting jumped up from 53 percent to nearly 70 percent since this study was last conducted. In the past three years there have been dozens of scandals in accounting, environment, governance, and human rights, and as a result business trust has been nudging lower[7] while the sustainable development agenda has been inching higher. Interestingly in this same time

7 See Edelman's Trust Barometer 2008, www.edelman.com/trust/2008/

Figure 3.6 Drivers for corporate responsibility reporting (G250)



Source: KPMG Global Sustainability Services, October 2008

Chapter 3

The State of Corporate Responsibility Reporting in 2008

period, risk management dropped 12 percentage points from 47 percent to 35 percent as a driver for G250 corporate reporting. Contrast this with the growth in responses on brand and reputation (nearly doubled from 27 percent to 55 percent) and the high score of learning and innovation (55 percent). This could indicate that companies are taking proactive steps to adjust to the social and economic challenges of our time. Brand and reputation are difficult to quantify or decipher, but these results seem to indicate that companies have determined that mishandling or avoiding their social and environmental responsibilities could be detrimental to their brand worth.

People in the driver's seat

Survey findings also indicated the importance of relationships that companies have with various stakeholder groups and how these relationships can be advanced with reporting. Consumers and employees top the list, and both became more important than in 2005 with over 50 percent of companies pointing to improving these relationships as reasons for reporting. Although only 21 percent of companies said governmental relationships were important, this is more than double than in 2005 and shows the higher priority governments are placing on sustainable development overall. A key change since 2005 is in supplier relationships as a driver for reporting, which jumped from 13 percent to 32 percent, and may reflect acknowledgment that companies have an expanded boundary of responsibility, especially among the world's largest 250 companies.

Investors as a key driver or audience for reporting have dropped 10 percentage points from 39 percent to 29 percent. This seems counterintuitive to the trends seen in Figure 3.3, which show a slow but steady increase in the appearance of corporate responsibility information in annual financial reports. Although cost savings are not often cited as a driver for reporting, this nearly doubled as a response in the past three years, showing that there are still bottom line savings associated with having management and measurement systems in place that support reporting.

National trends

For N100 companies the findings were generally similar to the G250 results. Companies in 16 out of the 22 countries all cited two of the three top drivers: ethical considerations, economic considerations, and reputation/brand. The only deviations were France, Norway, and Romania, which cited market position as one of their top two key drivers, while Japan, Mexico, and Portugal cited innovation and employee motivation as their top two drivers. It is interesting that in Norway, 40 out of the 100 companies cited government relations as a driver - a top three result for that country.

Less important to N100 companies was the opportunity to learn and innovate through their commitment to corporate responsibility and reporting. This scored 44 percent compared to the G250's 55 percent. Brand as a driver for reporting was much higher in the N100 population, with 70 percent citing it as a key reason for reporting. Risk management still comes in fairly high at 40 percent, indicating that, unlike companies in the G250 sample, N100 companies still perceive corporate responsibility and reporting as a risk management tool and not yet as a pathway to opportunity and innovation.

KPMG Insight

The reporting process remains an untapped opportunity to build key relationships and understand important constituencies better. We expect to see relationships continue to grow as a key motivation for reporting. One trend to watch is supply chain relationships. Early indications are that G250, and to some extent N100 companies, are demanding more information about the way their products and services are created in the supply chain.

With the trend lines tracking downward in the G250 sample for risk management as a key driver, we think it is no coincidence that learning and innovation is on the rise. Corporate responsibility can be of greatest value when it is a proactive, forward-looking, innovative approach.

"I am pleased to offer some brief thoughts about KPMG's latest detailed report on corporate responsibility reporting. We have certainly come a long way since the days when few companies were reporting and this is very gratifying. Indeed, sustainability reporting is an important prerequisite for becoming a member of the World Business Council for Sustainable Development.

Going forward, there are three important issues for sustainability reporting. Firstly, sustainability reporting must address the sustainability issues that are relevant to the company.

Secondly, sustainability reporting must be a part of the management of business performance. Increasingly this information should not be in separate sustainability reports but part of broader company annual performance reports.

Thirdly, we need to recognize that different stakeholders have different needs in relation to this information. Investors and financial analysts for example, will have different requirements to employees or local communities.

When these three steps happen consistently, sustainability reporting will truly be of benefit to both business and the broader community."

Bjorn Stigson
President, World Business Council for Sustainable Development

Chapter 4

Corporate Responsibility Strategy and Reporting Process

Chapter highlights

- Three-quarters of G250 companies have a corporate responsibility strategy that includes defined objectives.
- More than half of the world's largest 250 companies publicly disclose new business growth opportunities and/or the financial value of corporate responsibility.
- Sixty-three percent of G250 companies use a structured approach to stakeholder dialogue, up from 33 percent in 2005.
- More than three-quarters of the G250 and nearly 70 percent of the N100 apply the GRI Guidelines for their reporting.
- Most companies do not use existing channels such as AGMs and investor presentations to engage analysts and investors about environmental and social issues.
- Sixty percent of all companies surveyed consult with their stakeholders and/or use the GRI Guidelines as a basis for determining the content of their reports.

4.1 Strategy and Objectives

Reporting is just one component of a strategic approach to corporate responsibility management, which includes other essential elements such as defining strategy, developing and implementing policies and procedures, and evaluating performance.

Corporate responsibility reporting has been criticized over the years for being an exercise in public relations rather than a reflection of an actual commitment within the company. The survey was expanded this year to present a more nuanced analysis by looking beyond reporting as just a proxy for corporate commitment to social and environmental issues.

Instead, the survey assessed whether or not corporate responsibility reporting by leading companies is linked to broader corporate strategies and management approaches.

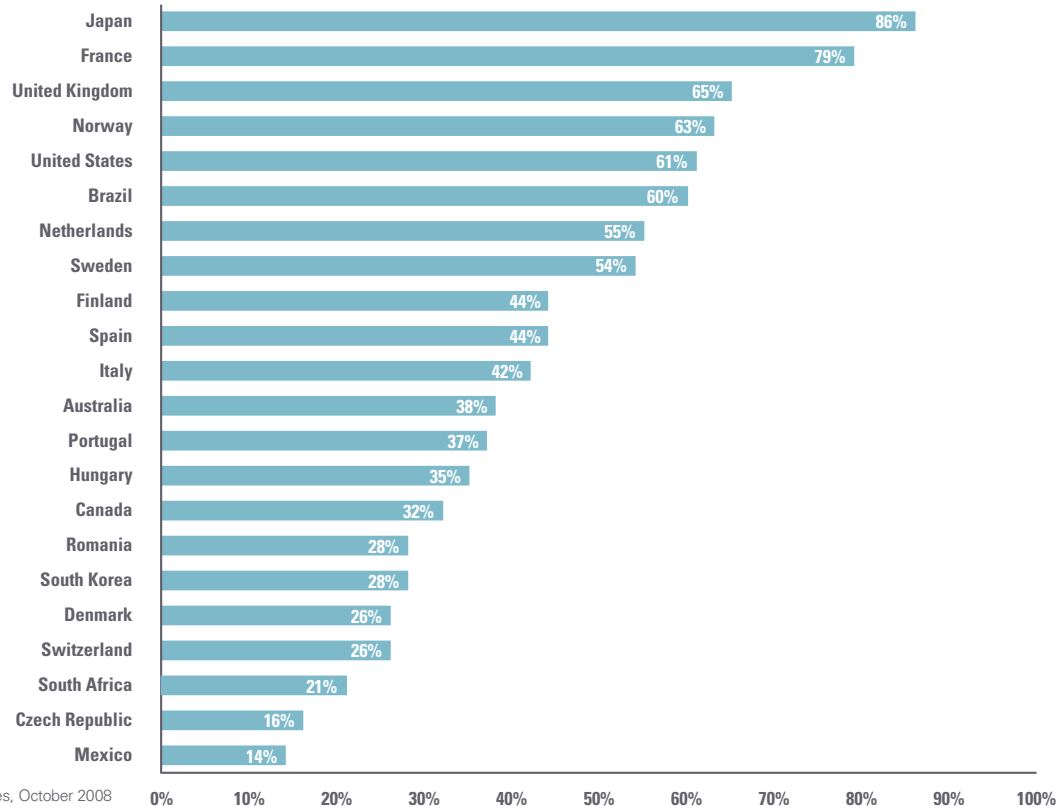
The Big Picture

About three-quarters of the Global 250 have a publicly communicated sustainability strategy in place that includes stated objectives (see Table 4.1). Most of these have also issued a corporate responsibility report, presumably under the umbrella of their overarching strategy. Survey results found that only 37 G250 companies that do issue a report do not have an overall corporate responsibility strategy.

Whereas only 13 of the companies that published a strategy did not publish a report.

The N100 companies as a group trail the G250 significantly when it comes to having corporate responsibility strategies in place. Just over 40 percent of the N100 companies surveyed reveal their corporate responsibility strategy and objectives. Three-hundred-and-two companies issue reports but do not have a strategy in place. Conversely, 145 do have a publicly communicated strategy but do not issue corporate responsibility reports.

Figure 4.1 Companies with a publicly available corporate responsibility strategy, by country (N100)



Source: KPMG Global Sustainability Services, October 2008

Chapter 4

Corporate Responsibility Strategy and Reporting Process

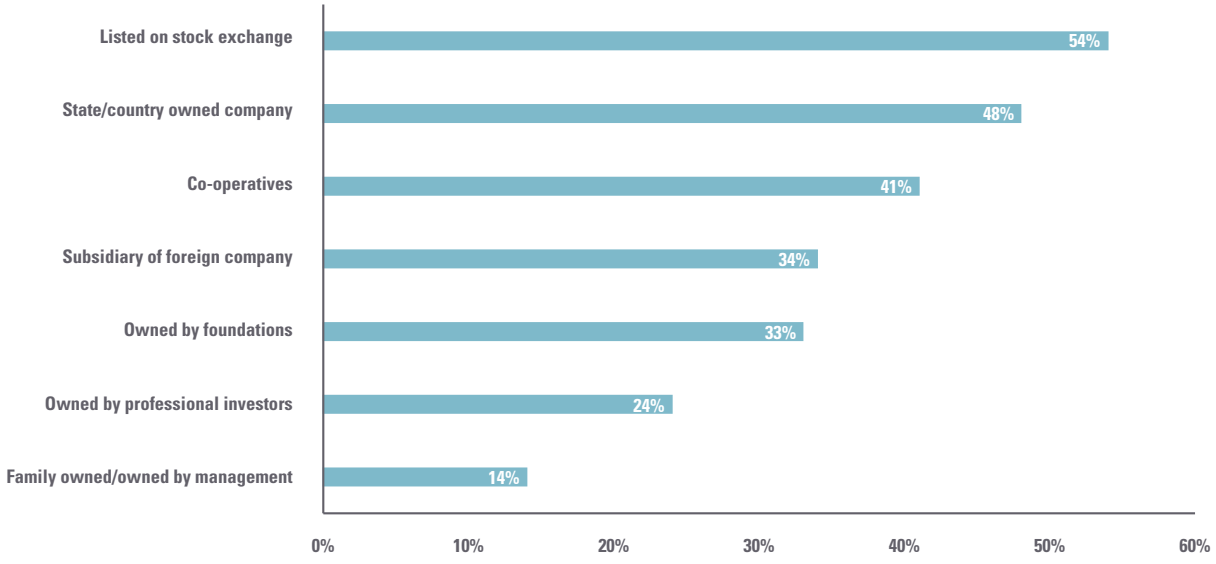
When the N100 sample is broken down by country, it is clear there are wide differences. Japan, also at the top of the reporting table (Figure 3.3), leads with 86 percent of companies utilizing a corporate responsibility strategy and objectives. However, its reporting peer, the UK, falls 20 points lower at only 65 percent. France is not far behind Japan, possibly indicating that the involvement of regulatory bodies or stock exchanges in encouraging disclosure of social and environmental data helps to accelerate development of a strategic approach to corporate responsibility.

About half of the companies in Sweden, the Netherlands, Brazil, US, and Norway issue reports in the context of an overall corporate responsibility strategy. Perhaps it is surprising to find some of the countries that topped the reporting tables (Figure 3.3) nearing the bottom of the strategy table—South Africa, Sweden, Canada, and Australia. This could indicate that although reporting has spread quickly through N100 companies in some countries, the development of a full corporate responsibility management system takes more time.

Keeping things private

Ownership type is a key variable affecting the prevalence of corporate responsibility strategies, particularly within the N100 group. Publicly traded companies and those owned by the state are the most likely to have strategies in place (54 percent and 48 percent respectively; see Figure 4.2). This could be due to impending regulation, high brand profiles, involvement of shareholders, and higher political awareness and commitment to corporate responsibility within these types of companies.

Figure 4.2 Companies with a publicly available corporate responsibility strategy, by ownership (N100)



Source: KPMG Global Sustainability Services, October 2008

Results for cooperatives and companies owned by foundations fell in the middle of the table at 41 percent and 33 percent respectively. Although this indicator has not been tracked historically, it may indicate that community-owned and -managed enterprises, and organizations with philanthropic missions, are more likely to embrace corporate responsibility and develop strategies around it. This could be explained by closer economic ties to local communities and a perception that business success is correlated to the success of the societies in which they operate.

Family-owned and private equity-owned enterprises do not have the same accountability to the broader public for their business activities, especially their financial results. This general lack of transparency and accountability may account for the relatively low prevalence of disclosed corporate responsibility strategies and objectives. This could be interpreted to mean they are simply not disclosing, or they might not consider corporate responsibility to be a key business issue.

Shallow promises or deep change

When weighing a company's commitment to its corporate responsibility strategy, this survey considered:

- Whether the strategy has stated objectives;
- Whether key performance indicators have been developed as a way to track performance against these objectives; and
- Whether data on these indicators are available.

See Table 4.1 below for survey findings.

Performance indicators are metrics by which a company can measure its progress against stated objectives. Of the 184 G250 companies that define corporate responsibility objectives, 89 percent disclosed performance indicators. Of this same number, 81 percent actually provide data on progress toward objectives.

In this respect, the N100 companies that have stated objectives are just as likely as G250 companies to track their performance. Eighty-eight percent of companies with objectives disclose performance indicators and 80 percent provide actual data on progress. This may indicate that companies inclined to develop specific objectives for corporate responsibility are also very likely to measure progress toward achieving them.

As seen in Figure 4.2, privately-owned enterprises are far less likely to have a corporate responsibility strategy in place. Not surprisingly, this group also lags behind others in identifying indicators and providing data.

Table 4.1 Companies with corporate responsibility strategy, objectives, indicators, and data (G250 and N100)

Population	Strategy with objectives identified	Performance indicators linked to objectives	Data provided for performance indicators
G250 (250 total)	73%	65%	60%
N100 (2170 total)	43%	38%	34%

Source: KPMG Global Sustainability Services, October 2008

Chapter 4

Corporate Responsibility Strategy and Reporting Process

Business case quantified
With corporate responsibility strategies in place, particularly in the G250 community where objectives are set and progress is measured by the majority, businesses should be able to quantify, at least roughly, the value of their strategic commitments.

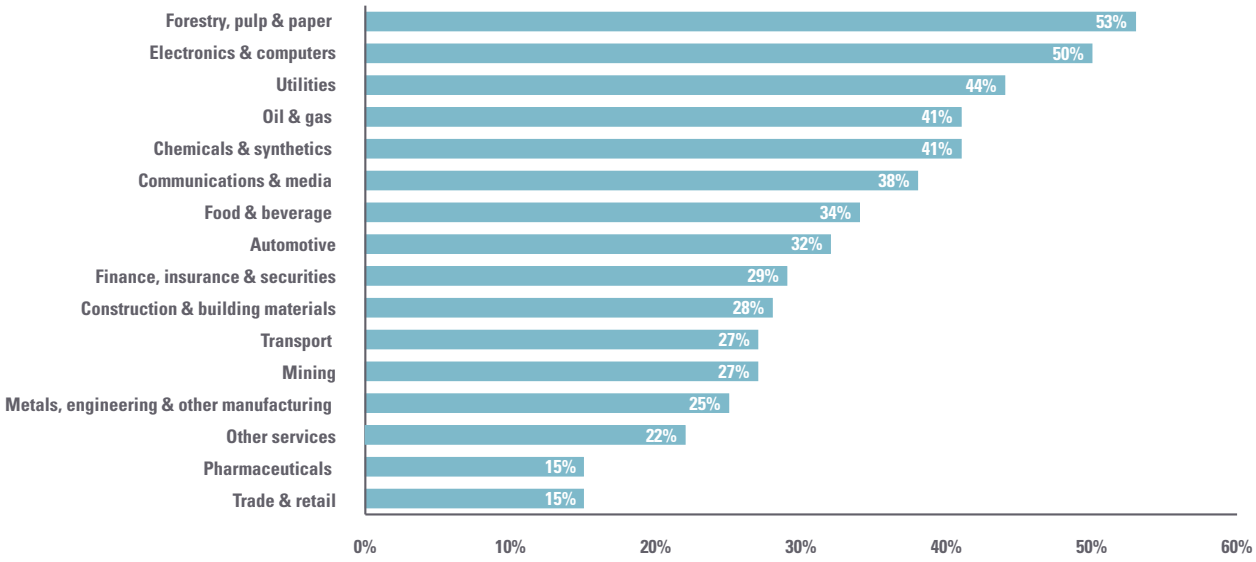
Indeed, 54 percent of the G250 have disclosed business opportunities and/or the financial value of corporate responsibility. This value could be in terms of bottom line savings due to efficiency or risk aversion, or top line growth due to new innovations in products and services as a direct response to social or environmental challenges.

The N100 companies are trailing, but not too far behind considering the overall pace of development of corporate responsibility management in this demographic. Thirty one percent of N100 companies are reporting the business opportunities or financial value of corporate responsibility.

Breaking this result down by sector at the N100 level reveals that more than 50 percent of forestry and electronics companies are reporting on business value (see Figure 4.3). It is interesting to see this top spot shared by sectors with such different risks, opportunities, and histories with corporate responsibility issues.

A second cluster of companies fall in the 40 percent range, including utilities, oil and gas, and chemicals.

Figure 4.3 Companies reporting on business opportunities/financial value of corporate responsibility, by sector (N100)



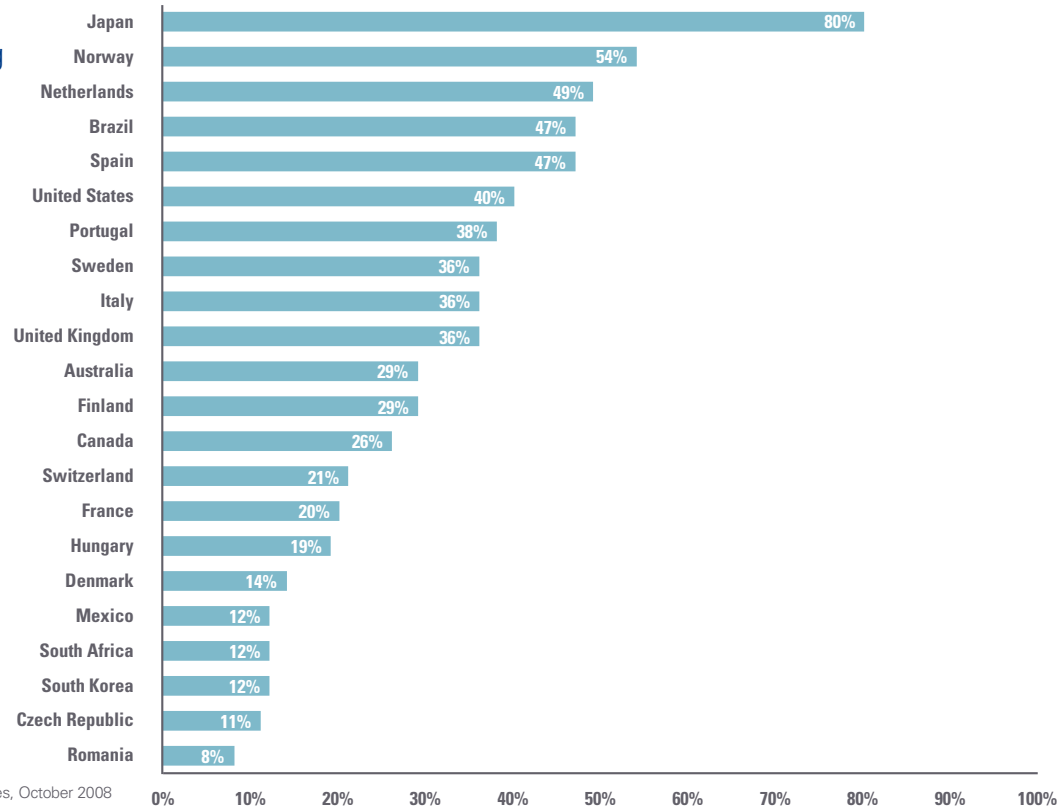
Source: KPMG Global Sustainability Services, October 2008

These are traditionally the hardest hit sectors on corporate responsibility issues, namely on environment and climate. This result may indicate that leaders in these industries are not only responding to, but also benefiting from, corporate responsibility initiatives.

Still, several high-impact and economically dominant industry sectors continue to have low prevalence, including the automotive sector in the 30 percent range, and financial, construction, transportation, mining, and metals, all below the 30 percent line. Most notably, pharmaceutical and retail sectors cluster around the 15 percent mark. Considering the high public visibility and prevalence of corporate responsibility issues such as supply chain labor and environmental issues, these results are discouraging.

With 80 percent of companies in Japan able to quantify the business case for corporate responsibility, it seems that companies have moved substantially away from a public relations and risk management approach to corporate responsibility toward one that is integrated deeply in their businesses.The UK, though keeping pace with Japan in terms of N100 reporting (Figure 3.3), falls behind more than 20 percentage points when it comes to quantifying the results of their corporate responsibility strategy (Figure 4.4).

Figure 4.4. Companies reporting on business opportunities/ financial value of corporate responsibility, by country (N100)



Source: KPMG Global Sustainability Services, October 2008

Chapter 4

Corporate Responsibility Strategy and Reporting Process

It is interesting to see that in powerhouse economies like Brazil, US, and Spain, only about 40 percent of companies are calculating financial value.

France and Switzerland, leaders in presenting corporate responsibility data alongside annual financial data to analysts and investors (Figure 3.3), lag in their ability to report on the business case for corporate responsibility.

Also interesting to note is that some countries with high rates of reporting are finding themselves at or below the one-third mark, notably Canada, Australia, Finland, and Sweden.

KPMG Insight

G250 companies have started to move beyond simply making public claims about their social and environmental issues and are implementing strategies that include detailed objectives, performance indicators, and reporting progress against their objectives. The growing use of assurance, as detailed in Chapter 6, also supports this trend. Very few G250 and even fewer N100 companies issue a sustainability report in the absence of an overall strategy with defined objectives. This increases the chances that reports are meaningful reflections of a company's corporate responsibility performance.

With just over half of the G250 now quantifying the business value of integrating corporate responsibility into their operations, we think a tipping point is near. Criticisms of the business case for corporate responsibility and reporting are being put to rest while implementing and committing to a corporate responsibility strategy appears to be paying off.

Breaking down the N100 sample by sector and country reveals that a move away from a reactive, risk management approach toward a proactive, strategic approach is underway. Companies in countries where reporting has accelerated over the past three years, such as France, Spain, Canada, Sweden and others, seem to have been responding to demand for disclosure, but they have not always been able to set overall strategies nor quantify the value of their commitment to corporate responsibility at the same pace. Japanese companies seem to be the most consistent; most report, the vast majority do so in the context of a sustainability strategy, and quantify the value of corporate responsibility. Companies in other countries would do well to follow suit and maximize the value of corporate responsibility commitments.

4.2 Management and Frameworks

The best strategies are ineffective unless robust and accountable management systems are in place to ensure they are implemented cohesively and consistently.

Table 4.2 reveals an interesting gap in the G250 group: 64 percent disclosed that they have established systems for managing, measuring, and reporting on corporate responsibility, yet Figure 3.2 revealed that 79 percent actually issue sustainability reports. This leaves about 35 companies reporting without a publicly disclosed system for managing, measuring, and reporting. Without a systematic approach to manage and monitor corporate responsibility initiatives, these companies are in danger of issuing reports that do not reflect their true performance.

The gap is narrower in the N100 group, where 45 percent issue a sustainability report and 41 percent disclose that they have a management, measurement, and reporting system in place.

Table 4.2: Elements of Corporate Responsibility Management Systems (G250 and N100)

Population	Strategy with objectives identified (From Table 4.1)	Management and measurement system	Corporate responsibility report (from Figures 3.2 and 3.3)
G250 (250 total)	73%	64%	79%
N100 (2170 total)	43%	41%	45%

Source: KPMG Global Sustainability Services, October 2008

Normative frameworks for corporate responsibility

Normative standards and codes for corporate responsibility, developed either by governments or in multi-stakeholder processes, can guide companies in their development of strategy and management systems. Some, such as the International Labour Organization (ILO) Core Conventions and the Universal Declaration of Human Rights, provide the foundations for social and environmental issues in international law.

Business use of these norms is increasing, most notably with the UN Global Compact (see Figure 4.5). In the G250 group, explicit use of the Universal Declaration of Human Rights, ILO Conventions, and the United Nations Global Compact (UNGC), all rose five percentage points from 2005 to reach 21 percent, 24 percent, and 40 percent respectively.

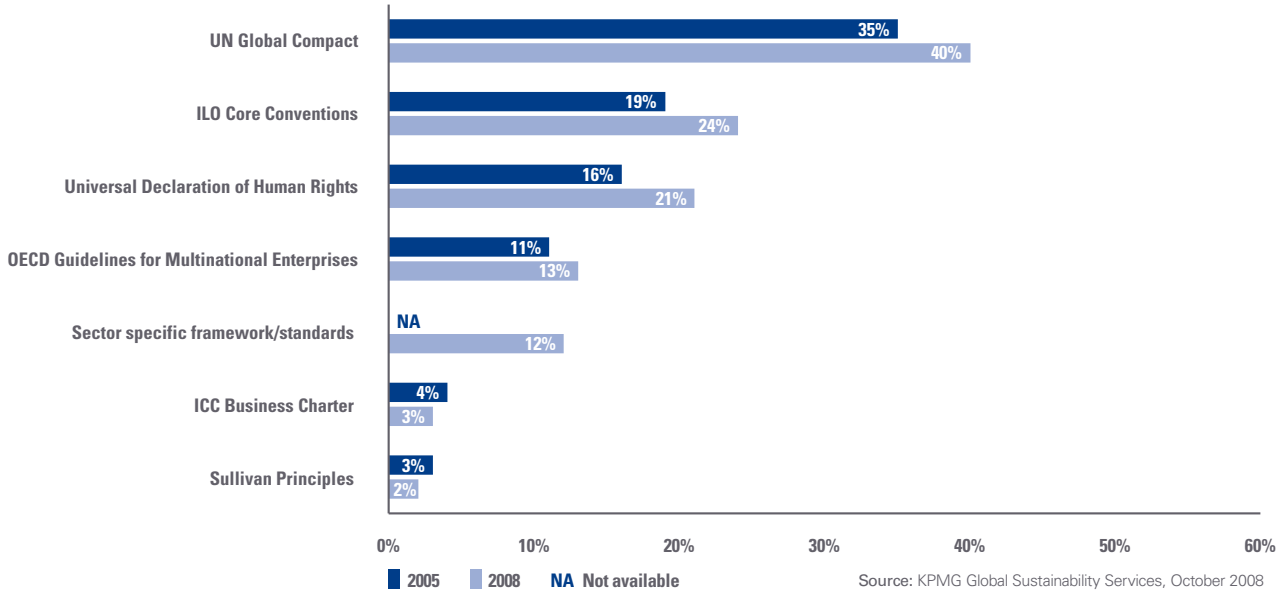
"As global integration moves ahead I am encouraged that a growing number of corporations realize that market success and the ability to proactively manage environmental, social, and governance issues are two sides of the same coin, and that relevant disclosure and reporting can be a driver to achieve greater sustainability. Just as the business case for sound strategies, good ethical behavior, and reporting becomes more apparent, much is yet to be done. Science tells us that major disruptions are ahead, while the political will for sustaining openness and nondiscrimination in trade and investment is weakening in many parts of the world. Clearly we need to redouble efforts so that good performance translates into greater market sustainability and inclusion of the poor."

Georg Kell
Executive Director,
United Nations Global Compact

Chapter 4

Corporate Responsibility Strategy and Reporting Process

Figure 4.5 International frameworks used by companies, 2005-2008 (G250)



Source: KPMG Global Sustainability Services, October 2008

Spotlight on Equator Principles

The Equator Principles is an industry-developed standard designed to help guide financial institutions in considering social and environmental issues when financing major projects such as dams, roads, and other infrastructure. This framework was cited by 42 percent of the financial institutions in the G250 group, and by 19 percent of those in the N100 group, as being influential in the design of their approval procedures for project financing.

More information:
www.equator-principles.com

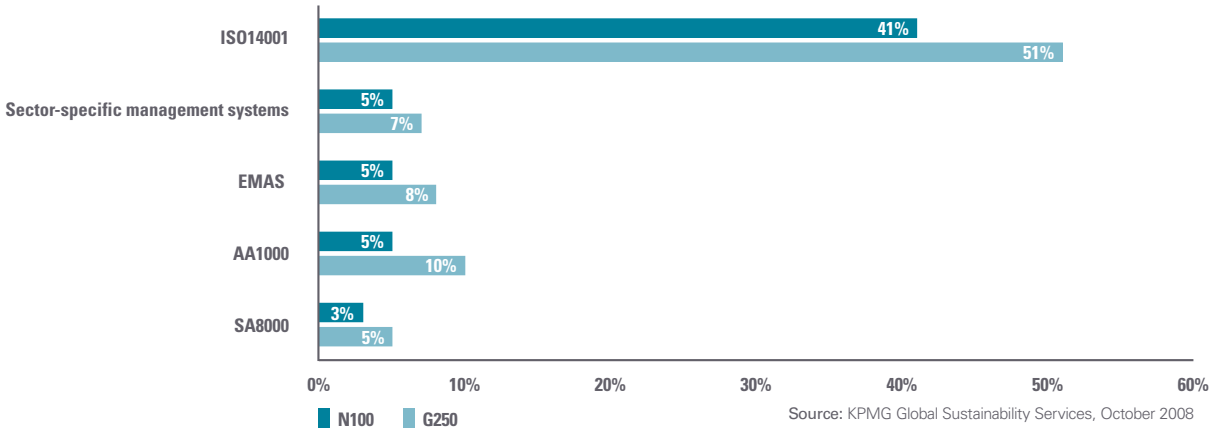
About one-fifth of N100 companies declared their participation in the UNGC, and even fewer (about 15 percent) cited the ILO Conventions and Universal Declaration of Human Rights as guiding sources for their systems. This could be a reflection of weaker linkages to the international community or it could indicate a preference for national- or industry-focused codes and frameworks.

A minority of G250 and N100 companies surveyed applied other codes such as the Organisation for Economic Co-Operation and Development (OECD) Guidelines for Multinational Enterprises, International Chamber of Commerce (ICC) Business Charter for Sustainable Development, and the Global Sullivan Principles of Social Responsibility (GSP).

Corporate responsibility management standards

The environmental management system issued by the International Organization for Standardization (ISO) known as ISO14001 is by far the most widely used system by corporations.

Figure 4.6 Management standards and guidelines used by companies (G250 and N100)



Source: KPMG Global Sustainability Services, October 2008

Over 50 percent of G250 (see Figure 4.6) and over 40 percent of N100 companies use it.

Various other voluntary standards for environmental management, human rights, and labor management are used on average by about five percent of G250 and N100 companies. The only notable change since 2005 is the use of the AccountAbility AA1000 series, cited by five percent of the G250 in 2005 and by 10 percent in 2008.

KPMG Insight

Although nearly all G250 companies that issued corporate responsibility reports had a strategy in place, fewer had an actual management and measurement system in place. This might indicate a gap between strategic aspirations and actual implementation, and increased chances of "greenwash" in reporting. This only applies to a minority of G250 companies and is one area where the N100 outperform their larger counterparts. We do think the trend is moving toward a maturing of management systems for corporate responsibility, in which all basic program elements are present (strategy, management, and reporting).

Chapter 4

Corporate Responsibility Strategy and Reporting Process

4.3 Stakeholder Engagement

Businesses are influenced by people within and outside their company, and they in turn influence the circumstances of people both inside and out. These are known as "stakeholders" and companies communicate with them on a daily basis through the normal course of business. Customers, suppliers, regulators, neighbors, employees, providers of capital, and many others, all have a stake in the way companies conduct themselves.

Understanding the way a company impacts the economic, environmental, and social circumstances of its stakeholders, and vice versa, is at the heart of corporate responsibility. In order to develop a proactive, strategic approach, and a workable management and reporting system that will help change circumstances for the better for all parties, stakeholders should be part of the process. Identifying and prioritizing stakeholders, and being transparent about which groups and individuals a company is engaging with, is a key part of building credibility and trust.

Serious engagement

Many G250 companies engage in both informal and structured forms of dialogue with stakeholders. Fifty four percent reported that they engaged in informal stakeholder dialogue, whereas 62 percent say they conduct formal or structured stakeholder engagement. This represents a doubling since 2005, up from 33 percent, of companies involved in formal engagements. The N100 are slightly less likely to engage, with 35 percent involved in informal dialogues and 42 percent taking structured approaches to stakeholder relations.

In their corporate responsibility reports, 65 percent of G250 companies disclose details of who their stakeholders are and how they are engaged. This trend is on the rise, up from 57 percent in 2005, indicating greater transparency and implying greater comfort in relation to stakeholders. Less than half of the N100 companies disclosed information about whom they considered to be their stakeholders in their corporate responsibility report (47 percent), leaving them well behind their larger counterparts.

Higher purpose

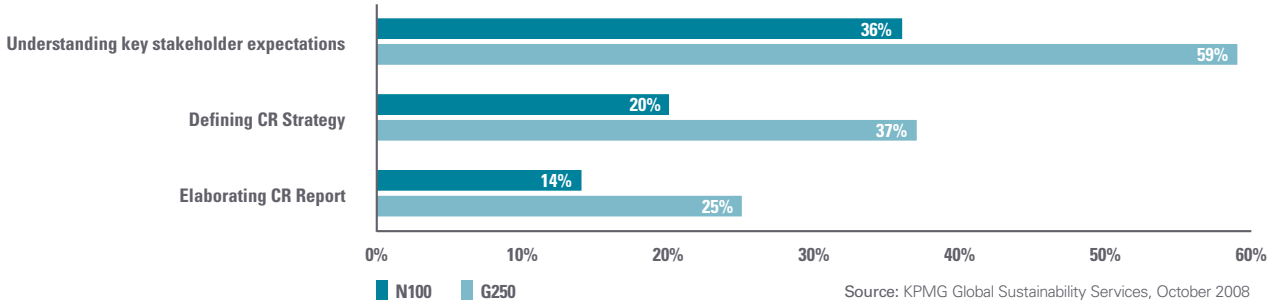
Of the G250 that utilize formal stakeholder engagement techniques, the majority (59 percent) say they do so to better understand stakeholder expectations (see Figure 4.7).

This is an important step in the right direction, considering that the historical data show structured stakeholder engagement to be a fairly new phenomenon and good stakeholder relationships are known to take time to forge.

Only 37 percent of the G250, and 20 percent of the N100, say they use stakeholder dialogue to help define their corporate responsibility strategy. Therein lies an enormous opportunity for companies to better harness the information and insights they gain from these dialogues, especially to seek to reduce risks and exploit new creative business opportunities with corporate responsibility.

Stakeholder dialogue is an important element in the elaboration of corporate responsibility reports. Twenty-five percent of G250 and 14 percent of N100 companies claim to use stakeholder feedback for reporting purposes. From one perspective these figures may be seen as positive, as they may indicate the company is engaging with a wider set of stakeholders for a wider set of purposes (i.e., not just for the preparation of a corporate responsibility report).

Figure 4.7 Stated purpose for conducting stakeholder engagement (G250 and N100)



Source: KPMG Global Sustainability Services, October 2008

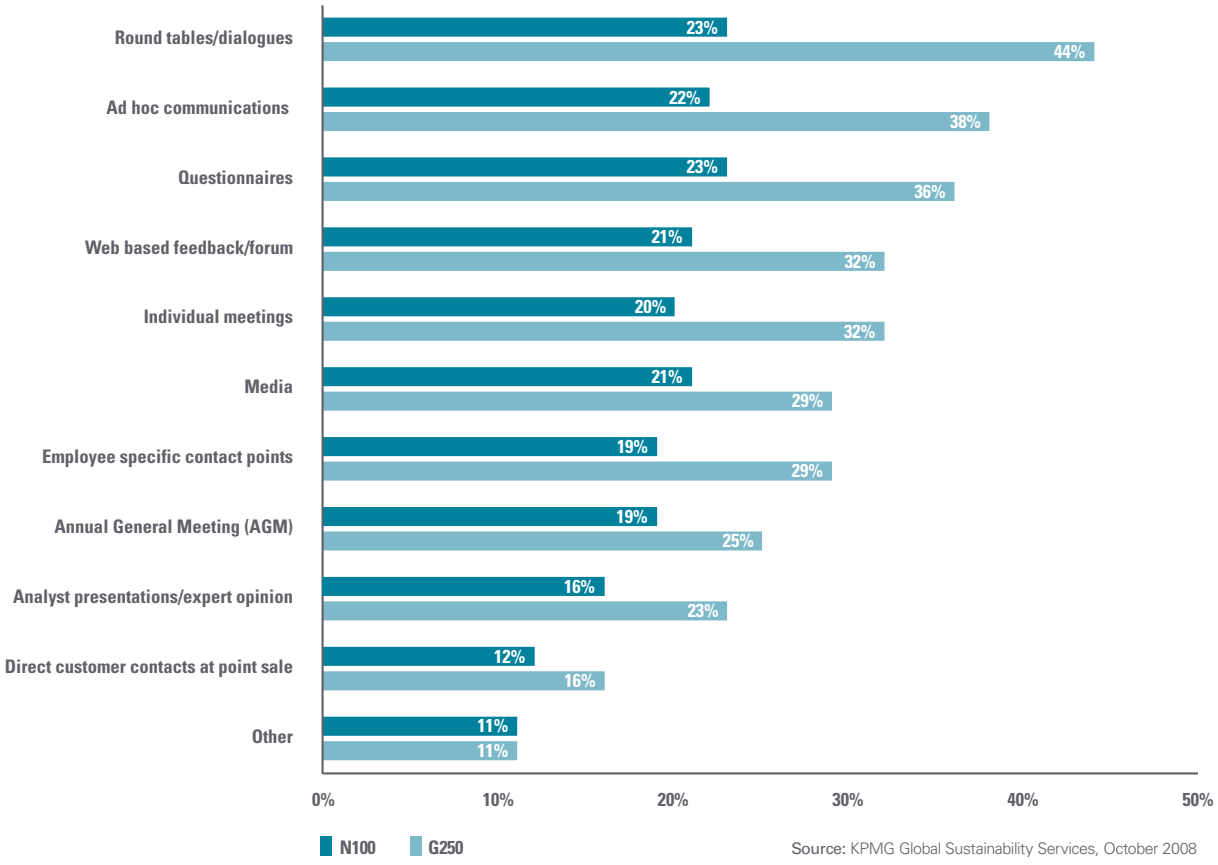
On the other hand, these figures may also be considered fairly low since without engaging directly with stakeholders, a company risks leaving key issues out of their reports.

Direct line

In terms of most-used channels and methods for engaging with stakeholders, the trends are similar in the G250 and N100 samples. Roundtables, questionnaires, and web-based feedback are common tools and show a good mix of in-person and anonymous channels for stakeholders, as shown in Figure 4.8. A trend toward a more personalized approach may be increasing as individual meetings and employee-specific contact points are on the rise as key channels of communication.

Some of the best-established forums for stakeholder communications include the least utilized for corporate responsibility issues: annual general meetings (AGMs), analyst presentations, and direct interactions with customers. This could be an indication that corporate responsibility is not fully integrated as a priority in a company's main operations. It may also be a reflection, especially in the G250 population, of a lack of attention paid to environmental risks and opportunities by investors and other providers of capital.

Figure 4.8 Means of engaging stakeholders (G250 and N100)



Source: KPMG Global Sustainability Services, October 2008

Special Focus

Investor Relations

Investors are a key driver for integrating corporate responsibility management into core business practice, and an important audience for reports. The niche responsible investment community is an active stakeholder with the world's top publicly traded companies. Nearly 90 percent of the G250 are listed on stock exchanges and about half report that they are also listed on a socially responsible index such as the FTSE4GOOD or the Dow Jones Sustainability Index. It has been estimated that just over 10 percent[8] of all funds invested in the US are subject to responsible investment criteria, but the majority of funds remain in mainstream portfolios.

Only a minority 16 percent of G250 companies quantified the value of corporate responsibility performance specifically for their analyst and investor stakeholders. These findings could suggest that companies are not yet capturing the attention of mainstream investors and analysts through their reporting.

In Chapter 3 it was found that about a third of companies cited shareholder value as a driver for reporting and that there was a trend toward including corporate responsibility information in annual reports. Yet the majority of companies do not appear to be using existing communications channels to reach out to investors with information and performance results about corporate responsibility. For example, less than half of G250 companies include corporate responsibility information in their annual report or a link to the full report on investor relations web pages.

Top management addressed investors about corporate responsibility issues in only 16 percent of G250 companies. There was little evidence that investors were an intended audience of corporate responsibility reports in 50 percent of G250 corporate responsibility reports.

8 Social Investment Forum (SIF) "2007 Report on Socially Responsible Investing Trends in the United States." www.socialinvest.org

"Asset owners and their managers need to be cognizant of how well companies are managing their environmental, social and governance (ESG) risks and opportunities in the ever-changing global economy. A full understanding of how well companies are tackling such challenges requires comprehensive reporting by companies guided by relevant legislation, as well as voluntary approaches such as GRI's Guidelines and the WRI/WBCSD Greenhouse Protocol. Investors will be expecting to see a full reporting of ESG issues that have a material impact on a company's long-term prospects.

Whereas until recently responsible investment was seen as a niche activity, a new understanding of fiduciary duty as evidenced in key developments such as the Principals for Responsible Investment and the Enhanced Analytics Initiative should stimulate the take up of responsible investment strategies by mainstream investors. The turmoil in financial markets this year underlines the need for transparency, accountability and responsible behavior by companies and investors. In its 25-year history EIRIS has seen responsible investment move from being something taken up by only a handful of concerned investors into a global and increasingly mainstream phenomenon."

Peter Webster
Executive Director, EIRIS

Talk back

Dialogue, by definition, involves a two-way conversation. However, even though 62 percent of the G250 engaged in structured stakeholder dialogues, less than half of these publicly respond to feedback (32 percent). The proportion is somewhat better in the N100 group, where 42 percent use structured dialogues and 26 percent respond in the public domain to stakeholder feedback.

Only a minority of companies used their corporate responsibility reports as a place to discuss stakeholder relations. Thirty-eight percent of the G250 published stakeholder feedback in their reports, which is up slightly from 32 percent in 2005. The N100 are on par with the G250 trend, with 35 percent publishing stakeholder comments and feedback in their reports.

The gap between the number of companies with a structured approach and those that actually respond in the public domain to stakeholder concerns could place trust and credibility at risk.

"Closing the loop" and being transparent about what the company is doing with stakeholder inputs is an important part of building relationships.

The 2008 survey aimed to discover how companies structure their corporate responsibility reports, the reporting standards they follow and the content they choose to include.

KPMG Insight

Stakeholder engagement is a key part of corporate responsibility activities and we were encouraged to see the growth in structured approaches in both the G250 and N100 groups. However, there is still a long way to go. Stakeholder engagement should be part of a comprehensive approach for every corporate responsibility strategy, management system, and report.

Companies could make inroads with stakeholders by simply responding publicly to stakeholder feedback. They could do this by including stakeholder feedback in their reports and by being more transparent about the identity of their stakeholders. In the past few years, companies have been rewarded with greater trust when disclosing who their stakeholders are, and what issues are of interest.

Beyond the proactive responsible investment community, analysts have not been systematically engaged as key stakeholders. There are a variety of reasons for this, but as businesses are beginning to quantify the value of corporate responsibility (Figure 4.3), they are speaking to investors. We expect this community to be better engaged through well-established channels (annual general meetings, investor relations communications) and as data become more credible (via assurance) and accessible via technology like eXtensible Business Reporting Language (XBRL).

Chapter 4

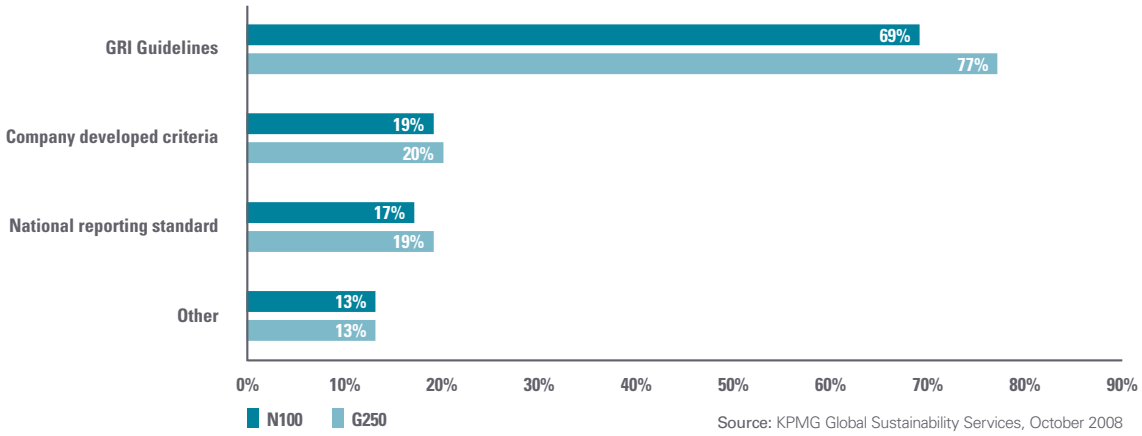
Corporate Responsibility Strategy and Reporting Process

4.4 Reporting and the Use of Standards

Reporting standards
More than three-quarters (77 percent) of the G250 and 69 percent of the N100 reporting companies follow the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines. About 20 percent of both cohorts use internally-developed company frameworks as the basis for reporting (see Figure 4.9). Even fewer use national standards, though the figure is slightly higher among the G250.

This is perhaps counterintuitive since most of these are multinational organizations, and it is somewhat surprising that a higher number of N100 companies do not use national standards for reporting. Instead, like their global counterparts, most look to the international GRI standard.

Figure 4.9 Reporting standards and guidelines used by companies (G250 and N100)



Source: KPMG Global Sustainability Services, October 2008

Special Focus
GRI Guidelines

The majority of companies surveyed now use the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines as the basis for their reporting. GRI develops these Reporting Guidelines using a global consensus-seeking process that involves reporting organizations such as companies, as well as report readers and users like employees, investors, and non-governmental organizations. GRI issued its first set of Guidelines in 2000, the second in 2002 (known as the G2 Guidelines) and the third in late 2006 (G3 Guidelines).

The Guidelines consist of two parts:

- **Reporting Principles:** these help guide the reporting process, such as engaging with stakeholders, selecting material indicators, and adhering to a high standard of report quality.
- **Reporting Indicators:** these form the basis of quantitative disclosure on economic, environmental, and social issues.

Complementing the Guidelines is a series of Sector Supplements. These are custom-built to reflect unique social and environmental issues and corresponding stakeholder needs in different industry sectors.

The Guidelines are designed to be applied flexibly by any type of organization and across all regions and sectors. Since it is up to each company (and its stakeholders) to decide which principles and indicators to use, the Guidelines contain a system for companies to declare the extent to which they actually apply the Guidelines. In the G2 version, a company could strive to be "In Accordance" with the Guidelines, which would indicate they applied them to the maximum extent. In the G3 version the system is known as "Application Levels." This allows companies to clearly state whether they used the Guidelines to the maximum extent (A level) or to lesser extents (B and C levels).

The lowest Application Level, C, was designed to make it easy for new reporting organizations to get started, and to provide a way for these organizations to improve year by year, increasing transparency and rising through the B and A levels. For a C Level application, the company must only report on 10 GRI indicators. At the B Level this moves up to 20, and at the A Level all 50 GRI "core" indicators must be represented, either with data or a valid explanation for why the indicator is not reported.

Application levels also require responses to a series of queries on "Strategy and Profile" as well as "Management Approach" so that readers can interpret performance results in context. Finally, a company can indicate they utilized third party assurance by adding a "+" to their declared level.

For more information on the G3 Guidelines: www.globalreporting.org

Chapter 4

Corporate Responsibility Strategy and Reporting Process

G2 Guidelines

The G2 Guidelines were in circulation from 2002-2006. Only 13 percent of the G250 companies that claim their reports are based on the GRI Guidelines are still using the G2 version. Half of these reports declared they were "In Accordance" with the G2 Guidelines (see GRI box for further explanation).

The proportions are similar in the N100 population. Twelve percent are still issuing reports based on the G2 Guidelines and half of these are "In Accordance"- level reports.

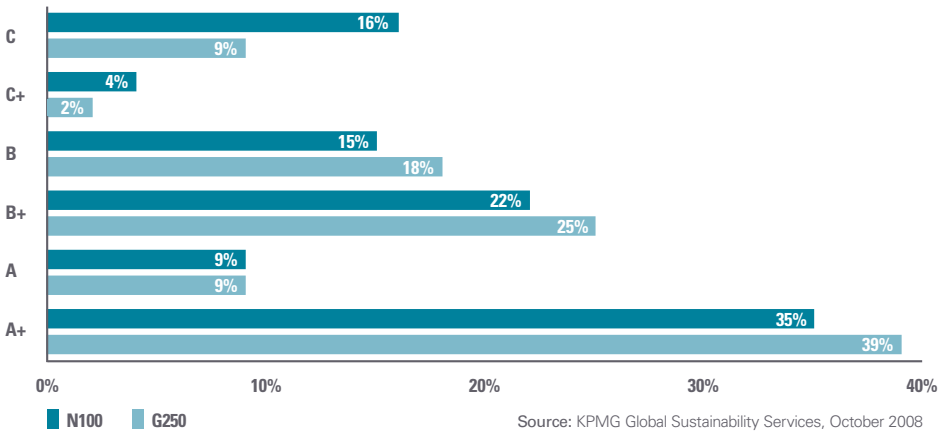
G3 Guidelines

The G3 Guidelines only became available in late 2006, and most of the reports analyzed in this survey cover the 2006-2007 performance period. To find that 160 companies claimed to use the G3 Guidelines shows a remarkably quick uptake of the new version.

This may indicate that there was a fairly easy transition between the two versions for experienced reporting companies. However, it also shows that new reporters are starting with G3 directly. Of the 160 G250 companies using the G3 Guidelines, 37 percent declared an Application Level, as did nearly half of the N100 (47 percent) companies that reported on the basis of the G3 Guidelines.

Of the companies that do declare an Application Level, 11 percent of the G250 and 20 percent of the N100 declared the C Level. It is clear from Figure 4.10 that assurance is not applied as often at this level. Of the G250, 43 percent and 37 percent of the N100 declared the B Application Level, and both are just slightly more likely to utilize assurance at this level. For the A Application Level, 48 percent of G250 and 44 percent of N100 have declared their use of it, and the majority is also using third party assurance. (Note: All percentages are based on the actual number of companies that do declare Application Levels: G250=98 and N100=336).

Figure 4.10 GRI Application Level declarations (G250 and N100)



Source: KPMG Global Sustainability Services, October 2008

Contentious content

KPMG believes that a good report is one that reflects the company's overall strategy and objectives, covers issues and topics that are material to the company and its stakeholders, and provides details on performance that does not leave out the "tough" topics.

In line with evidence pointing to a trend that reporting is happening as part of a broader corporate responsibility management system, Figure 4.11 shows that nearly 60 percent of all companies selected report content based on their own strategy and objectives.

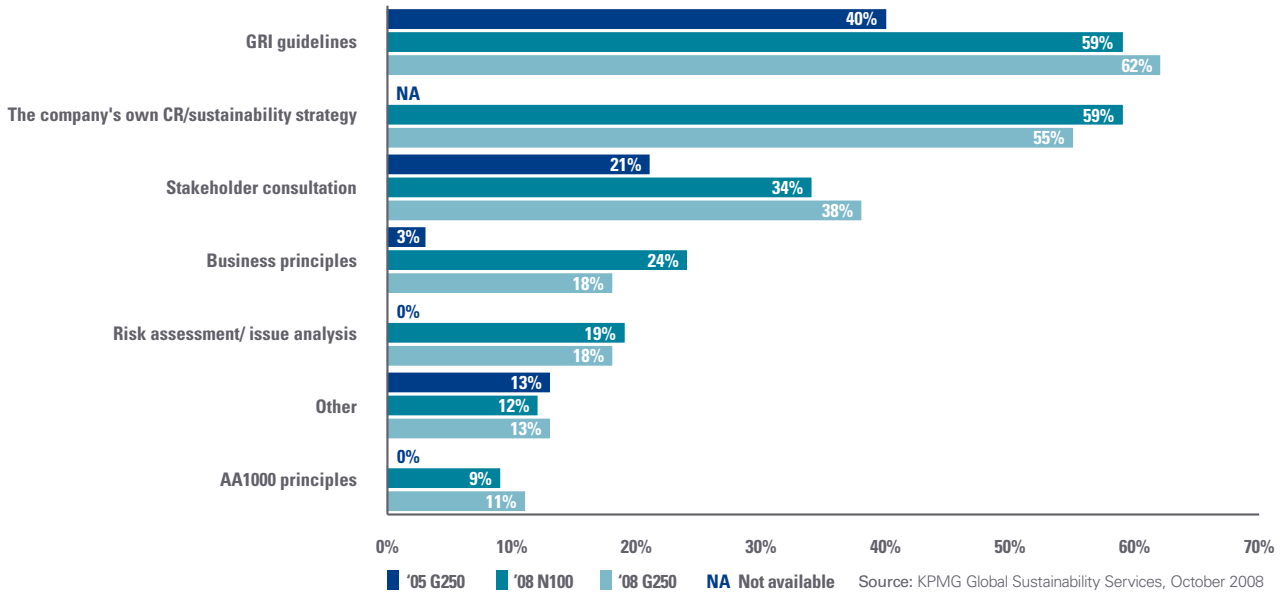
The number of companies citing stakeholder consultation as a key determinant for selecting indicators nearly doubled in the G250 category since 2005, up to nearly 40 percent. The trend is only slightly lower in the N100 group. Risk analysis declined as a technique for selecting indicators since 2005, in line with the lower score it also received as a driver for reporting (see Chapter 3).

About 60 percent of all companies cited the Global Reporting Initiative's Sustainability Reporting Guidelines as the framework they use to select report content. This is up from 40 percent in 2005.

Of the 77 percent of G250 companies that claim to use the GRI Guidelines, nearly half say they use the indicators as a starting point for deciding what content to include in reports whereas only one-third say they use GRI's reporting principles as a starting point.

The proportion of N100 companies using the GRI Guidelines is similar; nearly half (46 percent) use the indicators as a starting point for issues selection and 36 percent use the principles.

Figure 4.11 Methods used to select report content, 2005 (G250) and 2008 (G250 and N100)



Source: KPMG Global Sustainability Services, October 2008

Chapter 4

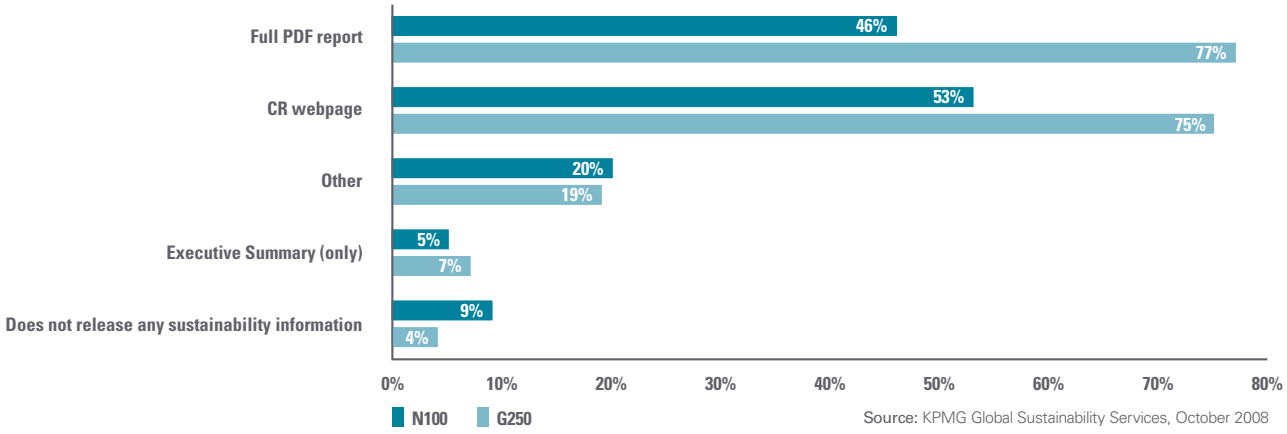
Corporate Responsibility Strategy and Reporting Process

Reporting format

One of the challenges companies face with reporting is determining how to put together a corporate responsibility report in a single printed or electronic document that reflects all the issues of importance to the company and its stakeholders, but is still easy to use and navigate for a wide variety of readers with very different needs and interests. Therefore, developing a clear reporting strategy with defined target group(s) and relevant content can assist in avoiding over-generalized, lengthy, or irrelevant content.

A majority of G250 companies that issue reports use a full PDF document, according to results presented in Figure 4.12. Seventy-five percent present corporate responsibility-related information on the company's website. This allows companies to utilize functionality for searching and customizing to better meet the needs of various stakeholders. N100 companies use similar methods, just on a smaller scale: 46 percent issue an PDF version and 53 percent present data online. Many companies use a combination of both PDF and web versions.

Figure 4.12 Reporting format (G250 and N100)



Source: KPMG Global Sustainability Services, October 2008

Chapter 5

Corporate Responsibility Reporting – Topics and Issues

Chapter highlights

- Although 92 percent of G250 companies disclose a code of conduct or ethics, only 59 percent report on non-compliance with the code.
- Sixty-eight percent of G250 companies have a corporate governance section in their reports, up from 61 percent in 2005. Publicly traded companies and cooperatives are more likely to report on corporate governance issues than other types of companies.
- Over 90 percent of G250 companies have a supply chain code of conduct, but only half disclose details of how it is implemented and monitored.
- Sixty-nine percent of N100 companies do not disclose any risks related to climate change.
- Sixty percent of G250 companies report on new business opportunities associated with climate change.

Each company has a unique set of corporate responsibility issues depending on the type of business it is as well as its location, size, and other factors. This distinctiveness is reflected in a company's report as it communicates performance on the economic, environmental, and social issues that concern them. For this survey, three key issues deemed relevant to most companies (and of interest to a majority of stakeholders) were selected for deeper research on disclosure trends: corporate governance, supply chain, and climate change. The survey examines the depth to which each is covered and reveals some insights into how companies are handling these important corporate responsibility issues.

5.1 Corporate Governance

Corporate governance has gained prominence as a key corporate responsibility issue over the course of this decade. This is for a variety of reasons, including higher expectations from stakeholders about company boundaries and responsibilities, high profile ethics-related scandals, and emerging national legislation and standards.

It seems most G250 companies have responded to these pressures, as 92 percent (or 229 out of 250) disclose a code of conduct or ethics. The N100 companies trail significantly with only 64 percent publishing a code of conduct or ethics. In terms of implementation, however, far fewer are willing to be transparent. Only 59 percent of G250 and 34 percent of N100 report on non-compliance incidents with their codes.

"In determining long-term business strategy today, a board cannot ignore sustainability issues that are pertinent to the business of the company. And if those issues can be turned from risks into business opportunities, the company will differentiate itself from its competitors.

One of the hallmarks of the G3 Guidelines from the Global Reporting Initiative is that the preparer of the annual report should be applying his or her mind to the indicators that are pertinent to the business of the company. By preparing a sustainability report, many factors are brought to the forefront of the board's mind in developing a long-term strategy. Thus, sustainability reporting improves the quality of long-term strategic planning.

Good governance, strategy, and sustainability have become inseparable. Mindless compliance with quantitative aspects of governance is not good governance. Instead, the development of a long-term strategy mindful of the sustainability issues pertinent to the company will constitute good quality governance."

Mervyn E King SC
Chairman of the United Nations Steering Committee on Corporate Governance and Oversight

Chapter 5

Corporate Responsibility Reporting – Topics and Issues

Reporting on governance

Sixty-eight percent of G250 companies have a section or chapter in their reports dedicated to corporate governance. Although this is up from 61 percent in 2005 and constitutes a solid majority, this number could have been expected to be much higher considering the focus from media and investors on this issue, especially in Europe and the US over the past few years.

Broken down by ownership it is clear that companies with more publicly accessible ownership structures are more accountable - over 70 percent of cooperatives and stock listed companies have a stand-alone section on corporate governance. In contrast, Figure 5.1 shows that only about 50 percent of family- and state-owned companies are transparent about corporate governance practices.

Only 42 percent (920) of the N100 have a corporate governance section - far fewer than the G250 population. By ownership, similar trends arise in this group, with stock listed companies nearing the 60 percent mark.

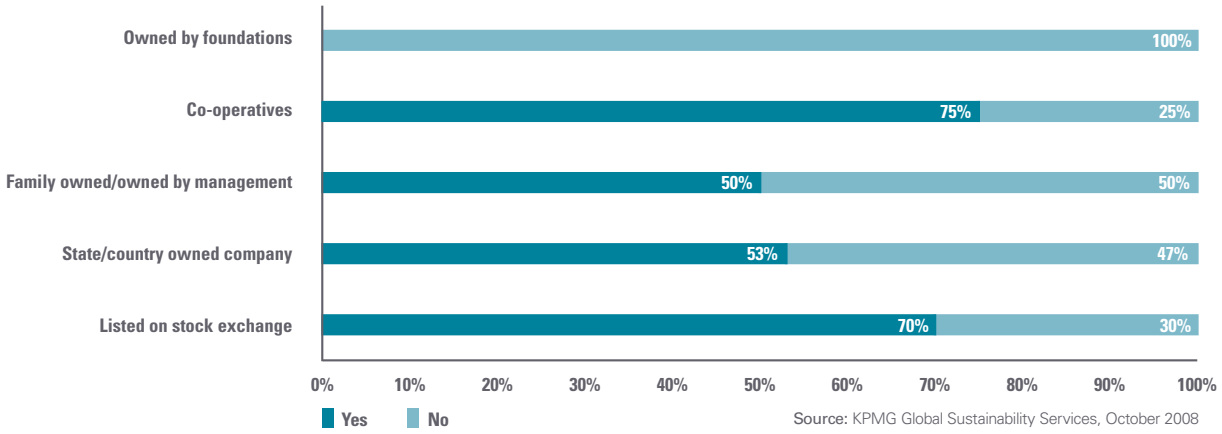
This could be attributable to legislation in countries such as France and South Africa where companies are required to follow a code of conduct - and be transparent about it - if they are listed on the stock exchange. Family-owned companies rate the lowest at only 14 percent, again highlighting the lack of transparency about corporate responsibility issues overall among this group (see Figure 5.2).

The missing link: governance and risk

According to Sir Adrian Cadbury, well-known pioneer of best practice in corporate governance, "Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The aim is to align as nearly as possible the interests of individuals, corporations and society."[9]

Therefore, the practice of corporate responsibility could be described as

Figure 5.1 Reports with a separate section on corporate governance, by ownership (G250)



Source: KPMG Global Sustainability Services, October 2008

9 Institute of Directors, South Africa, 2002. King II Report on Corporate Governance. www.iodsa.co.za

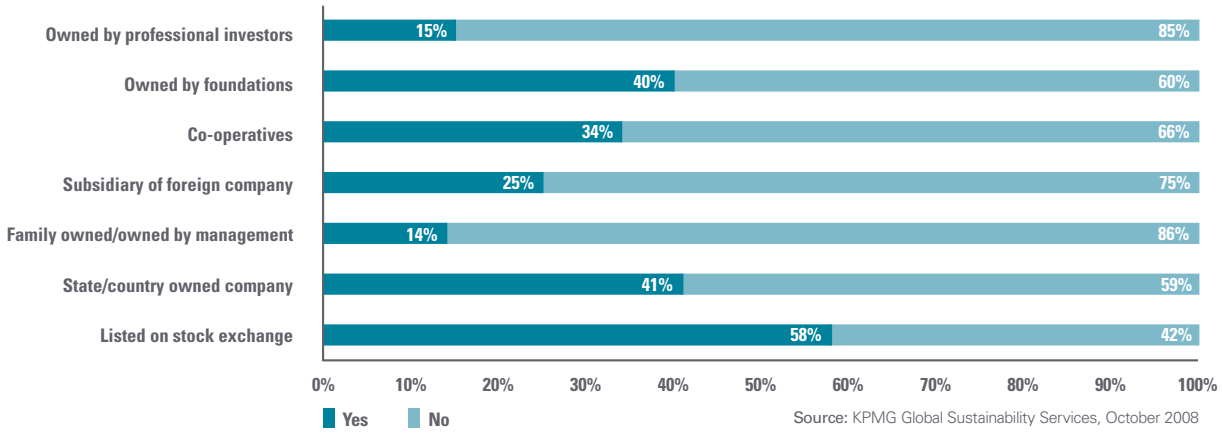
the practical day-to-day work of a visionary board upholding industry best practice in corporate governance.

Yet in their reports, only a minority of G250 and N100 companies described how good governance incorporated corporate responsibility - 43 percent and 27 percent respectively. This survey shows that although there seems to be an obvious link between corporate responsibility and good governance, in reality this is not widely recognized.

One essential element of corporate governance is to mitigate risks to the company by making decisions that take into account the full spectrum of information, unforeseen or future threats, and impacts or complications that may emerge in the long- and short-term. The theoretical link to corporate responsibility is clear here - by taking into account stakeholder views, and by better understanding economic, environmental, and social issues and complexities, a company can better manage its risks. Yet the figures once again prove that the theoretical is not yet widely practiced in reality. Only 43 percent of G250 and 29 percent of N100 companies make the link between risk management and corporate responsibility in their reports. This reflects earlier findings that risk reduction is not a dominant driver for reporting (see Figure 3.6).

The long-term sustainability of business depends on free and fair competition. Corruption in all its forms, such as extortion and bribery, not only undermine business success but also contribute directly to poverty, inequality, crime, and insecurity. Three-quarters of G250 companies disclose their codes and practices related to stamping out bribery and corruption, but only 44 percent of N100 companies publish their policies and procedures in this area.

Figure 5.2 Reports with a separate section on corporate governance, by ownership (N100)



Source: KPMG Global Sustainability Services, October 2008

Chapter 5

Corporate Responsibility Reporting – Topics and Issues

Who is in charge?
One way to assess the importance or priority a company places on corporate responsibility is to determine who is responsible for implementing it, and whether or not there is a direct line to the board of directors.

A minority of G250 (37 percent) and a majority of N100 (63 percent) do not disclose who is responsible for corporate responsibility. Of those that do disclose, over half have separate corporate responsibility departments, or utilize committees whose members represent the broad scope of corporate responsibility impacts and issues.

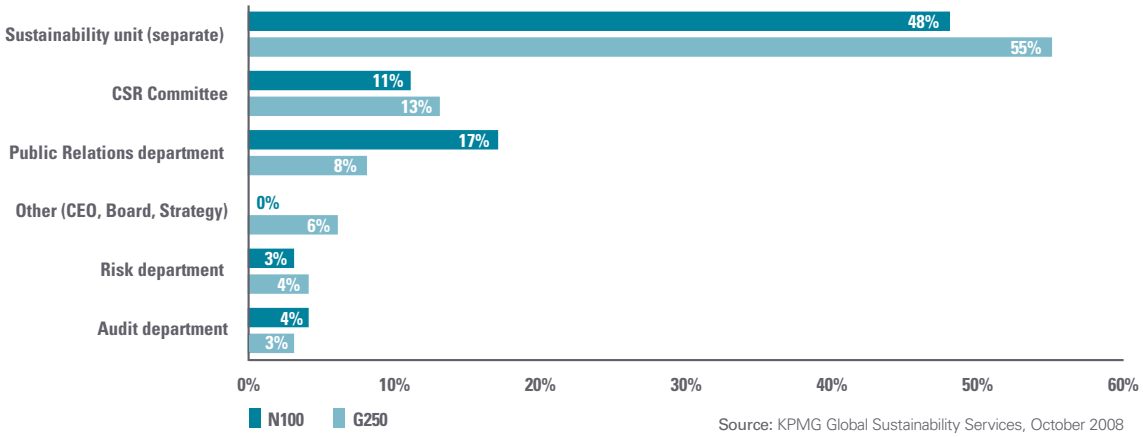
One trend to note is that corporate responsibility is primarily the domain of specialized sustainability units, rather than housed within a communications or public relations department. This is slightly more likely to be the case in the G250 group and may be the result of corporate responsibility becoming more ingrained as a strategic element of a company's management system (see Figure 5.3).

In terms of reporting, 62 percent of G250 and 35 percent of N100 companies describe how non-financial data are gathered and managed. This reinforces a trend toward having internal audit departments review and manage corporate responsibility data just as they do all other operational systems and controls. Internal audit departments typically have a direct line to the board.

KPMG Insight

Establishing a link between corporate responsibility and governance - and the link between corporate responsibility and risk management - can help to strengthen a company's management approach overall. Family-owned companies are not typically held to account in the public domain for financial or non-financial performance, but for those with a heavy social or environmental footprint, this may become unavoidable in the near future. We expect to see the role of public relations departments diminish as corporate responsibility is better integrated into governance and risk management functions or in specialized sustainability units.

Figure 5.3 Department where corporate responsibility is managed (G250 and N100)



Source: KPMG Global Sustainability Services, October 2008

5.2 Supply chain

In financial accounting, companies report on the entities they own. But in sustainability reporting, the boundary of responsibility for social and environmental impacts and performance may extend beyond these traditional lines. Today, companies are being held to account for actions taken by companies in their value chain that they may not own or control.[10]

Code of conduct

G250 companies are taking note of risks in the supply chain: 63 percent of them present data on this topic in their reports. Over the past several years some high profile environmental, quality, and human rights crises have put supply chain risk in the spotlight, so it is somewhat surprising that reporting on risk is down from 68 percent in 2005. Just 38 percent of N100 companies report on supply chain risk. This lower figure is consistent with general findings in this survey that put N100 companies behind the G250 in most aspects of corporate responsibility reporting, but this could also be attributed to the fact that many of these companies are suppliers themselves.

Of the G250 companies that do mention supply chain risk, 77 percent describe how their code of conduct is integrated into supply chain management. Of the 617 N100 companies that mention supply chain risk, 74 percent describe how the code of conduct is integrated into supply chain management, on par with the G250 level of transparency in this case.

"Working conditions in the global supply chain is an increasingly sensitive topic for retailers. We are aware of the challenges around human rights, social standards, and compliance in our supply chain. Carrefour has responded over the past decade by working with the International Federation for Human Rights (FIDH) to closely monitor working conditions within its supply chain, develop a Supplier Charter in 2000 signed by all its suppliers of controlled products, and implement voluntary monitoring systems. Although we strongly believe that a social audit is a necessary tool, it isn't sufficient on its own, so we supplement this process by partnering with local NGOs to train our suppliers' employees and managers on labor rights. This has been particularly successful in Bangladesh.

Failure to ensure decent working conditions is not an option. It is not a competitive issue either. This is why we took part in the creation of the Global Social Compliance Programme (GSCP) together with key retailers and manufacturers. GSCP offers a global platform to promote knowledge exchange and build consensus on best practices in order to increase comparability and transparency between existing standards and systems, whether individual or collaborative. One of the program's principles is to encourage key civil society stakeholders to join our efforts to guarantee integrity and inclusiveness. These experts sit on the Advisory Board, where their role is to advise and challenge us on the strategy, direction, and best practice for each step of the program and to help monitor and evaluate progress.

Our challenge today is to build upon our respective efforts to develop a clear and consistent global approach and message for our suppliers as well as for governments."

Véronique Discours-Buhot
Sustainability Director, Carrefour Group

10 Global Reporting Initiative (2007). "The GRI sustainability reporting cycle: A handbook for small and not-so-small organizations." And Global Reporting Initiative (2008). "Small, Smart and Sustainable: Experiences of SME reporting in Global Supply Chains." Both at www.globalreporting.org.

Chapter 5

Corporate Responsibility Reporting – Topics and Issues

Management and results

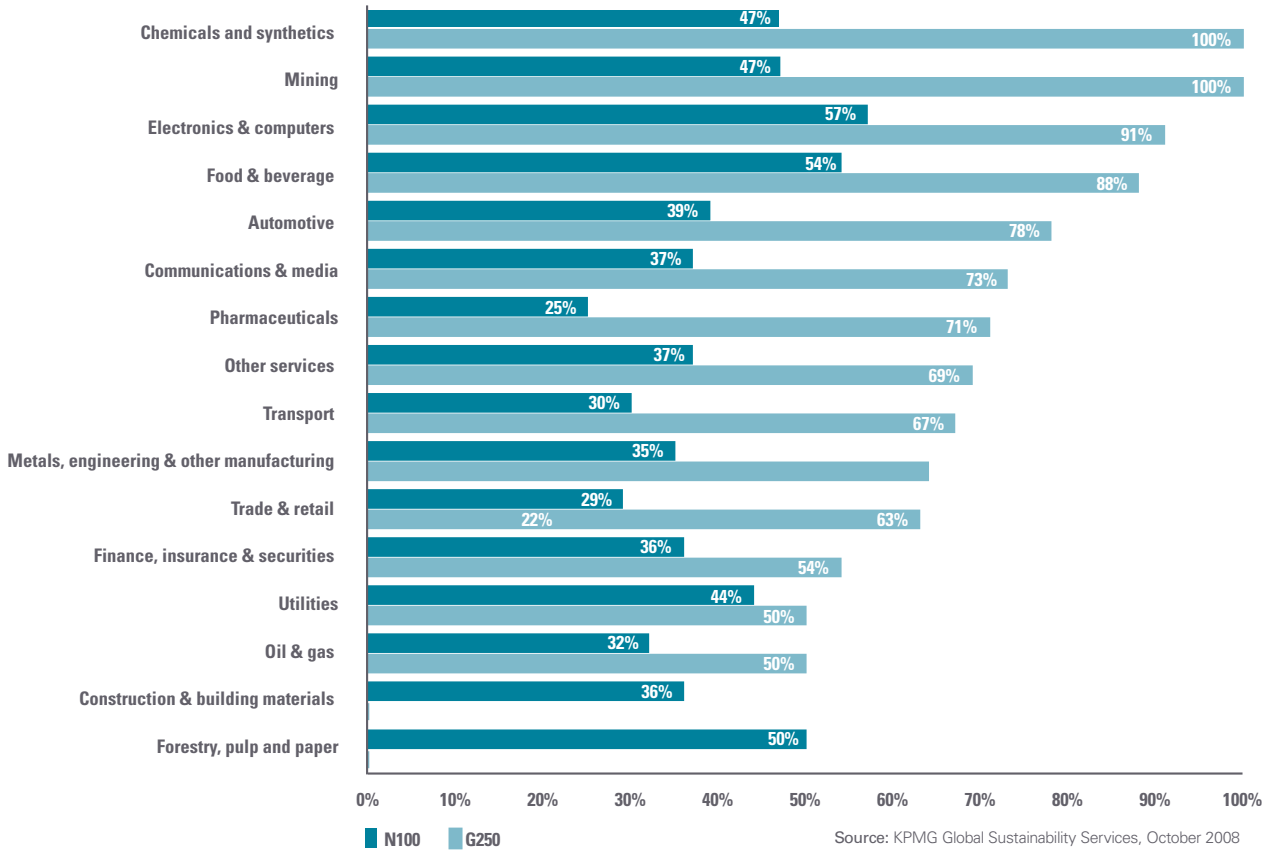
Reports revealed much about the depth to which corporate responsibility is integrated into supply chain management. See Table 5.1 for details on the type of information companies make available. It is interesting to note that in both G250 and N100 categories, companies were slightly better at disclosing results and policies than they were at disclosing strategy.

Disclosure by sector and country

G250 companies have a fairly good record on addressing supply chain issues in their reports, (see Figure 5.4.). All mining and chemical sector companies do so, and upward of two-thirds of pharmaceuticals, media, food, and electronics sectors disclose the basics of their supply chain. The only notable departures in the N100 group are forestry and automotive, which perform much better at the national level.

More details are revealed when the N100 sample is examined by country, (see Figure 5.5.). Companies in Japan, UK, Brazil, and the Netherlands, are ahead of the pack in disclosing supply chain risk. US, Spain, and South Africa are not far behind - at about the 50 percent mark - with high levels of disclosure on this topic possibly due to customer awareness and the very real threat of litigation. Perhaps surprising is the low level of disclosure from companies in Canada, Finland, Denmark, Australia, Switzerland, France, and South Korea - all typically home to large multinational companies with significant supply chains and relatively strong reporting practices overall.

Figure 5.4 Reports that address supply chain risks, by sector (G250 and N100)



Source: KPMG Global Sustainability Services, October 2008

KPMG Insight

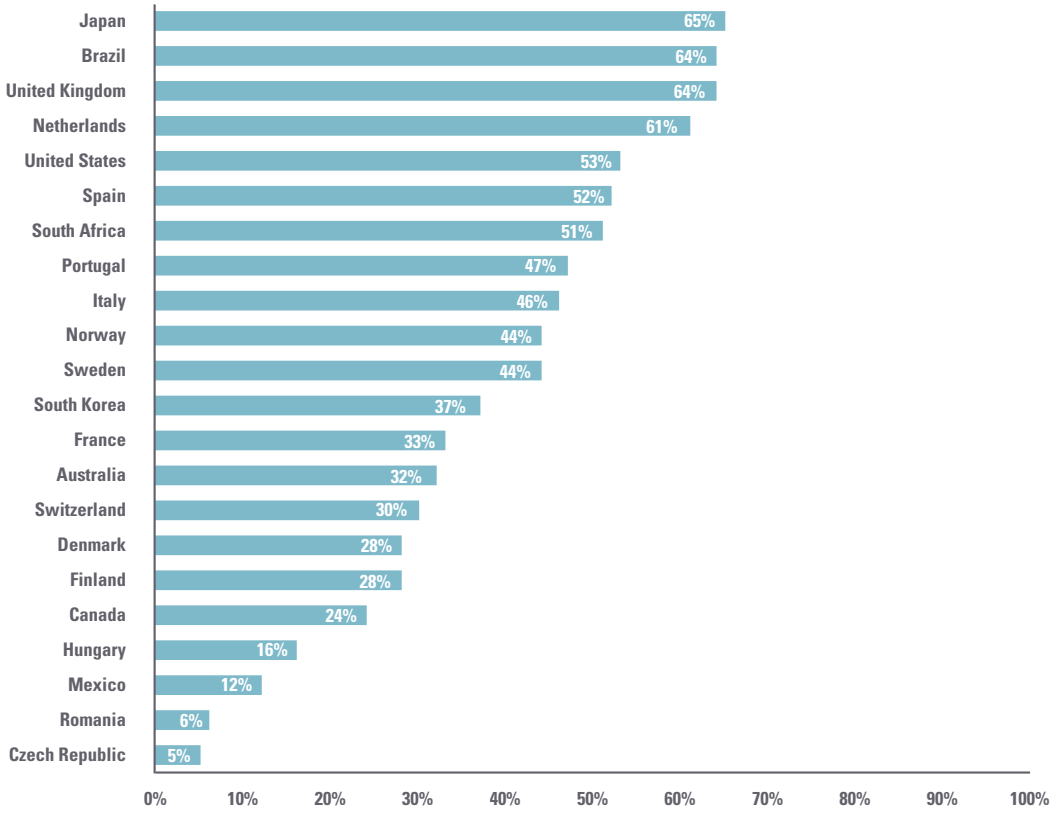
Companies are beginning to operationalize their codes of conduct for suppliers, for example by making environmental and social considerations a part of selection and integrated into supplier contracts. Many have a code in place, but this is not always linked to an overall strategy and management system for corporate responsibility in the supply chain. Aligning these can help companies and their suppliers achieve better results. Very few companies currently disclose the actual results of their corporate responsibility supplier audits, but this is an area that will grow as supply chain management systems mature.

Table 5.1 Level of disclosure on supply chain management systems (G250 and N100)

Aspect of supply chain management	G250 (Sample size: 250)	N100 (Sample size: 2170)
Strategy (mission, vision stated)	64%	40%
Tactical (policies in place)	68%	42%
Operational (procedures described)	66% (total: 164)	44% (total: 961)
Specific operational procedures described	**Sample size: 164**	**Sample size: 961**
• Code of conduct included in supplier selection	89%	74%
• Code of conduct included in supplier contracting	82%	68%
• Code of conduct included in regular supplier auditing	59%	38%
• Provides data on number of suppliers audited for code of conduct	15/250 (6%)	65/2170 (3%)

Source: KPMG Global Sustainability Services, October 2008

Figure 5.5 Reports that address supply chain risks, by country (N100)



Source: KPMG Global Sustainability Services, October 2008

Chapter 5

Corporate Responsibility Reporting – Topics and Issues

5.3 Climate change

Climate change has emerged as one of the most important and urgent corporate responsibility issues. Pressure from media, consumers, investors, NGOs, and governments has been brought to bear on companies around the world, but survey results show that corporate response and speed is mixed.

Business risks and opportunities

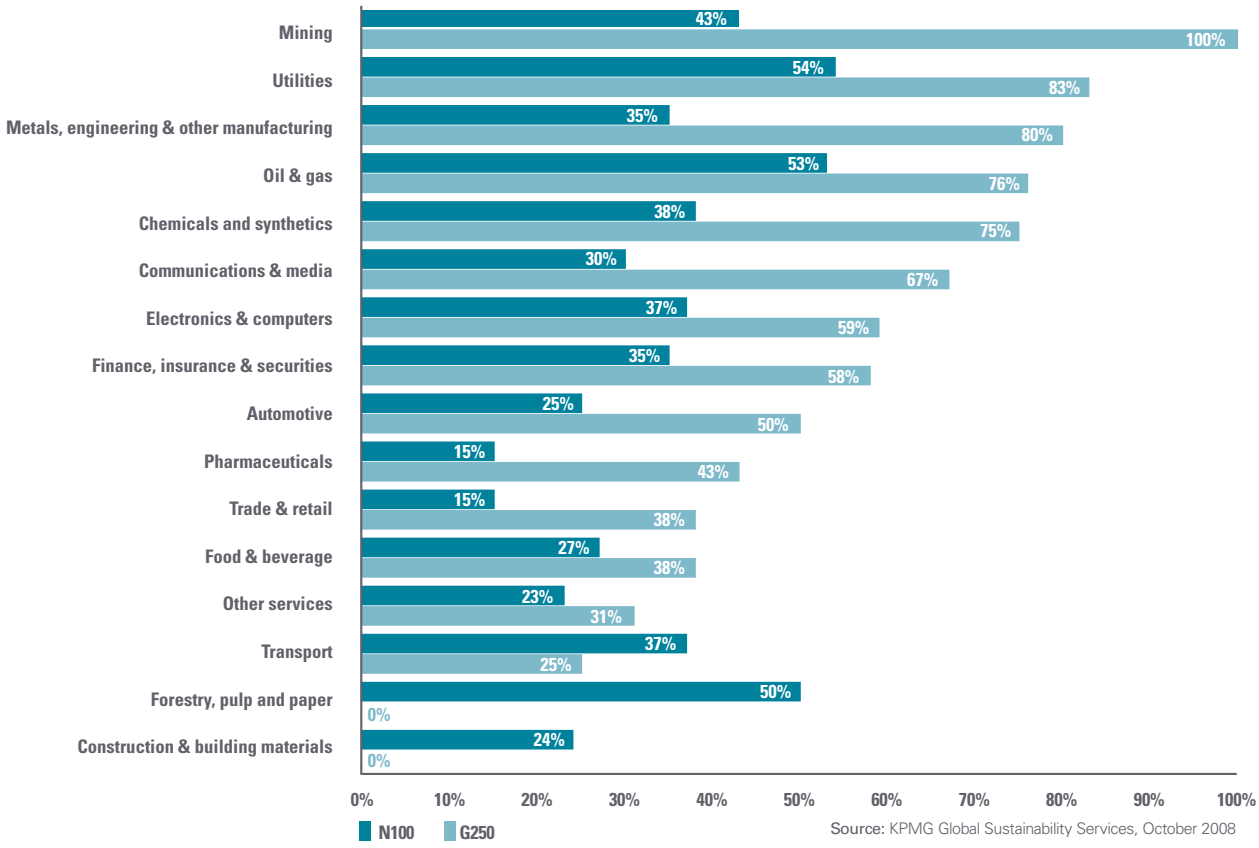
Climate change can pose various risks to companies, including physical, regulatory, litigation, or reputational. Of the G250, 57 percent address the business risk of climate change in their reports, but the majority of 68 percent (nearly 1500 companies) in the N100 do not, an astounding gap considering the social, economic, and political prominence of the issue today.

By sector, 100 percent of the mining companies in the G250 address the business risks of climate change, showing strong leadership. About three-quarters of utilities, metals, oil and gas, and chemicals are addressing these risks. The next cluster of sectors - communications, electronics, and finance - is not far behind, with about 60 percent disclosing.

As indicated in chapter 3 of this report, survey results found that some at-risk sectors are lagging in their disclosure about corporate responsibility issues in general. In this case the automotive, transport, and construction sectors are in danger of missing the chance to mitigate key climate change risks before they manifest.

The trends are similar for the N100 group but on a smaller magnitude, and mining companies do not have the track record at the national level that they do at the global level (see Figure 5.6).

Figure 5.6 Reports that address climate change risks, by sector (G250 and N100)



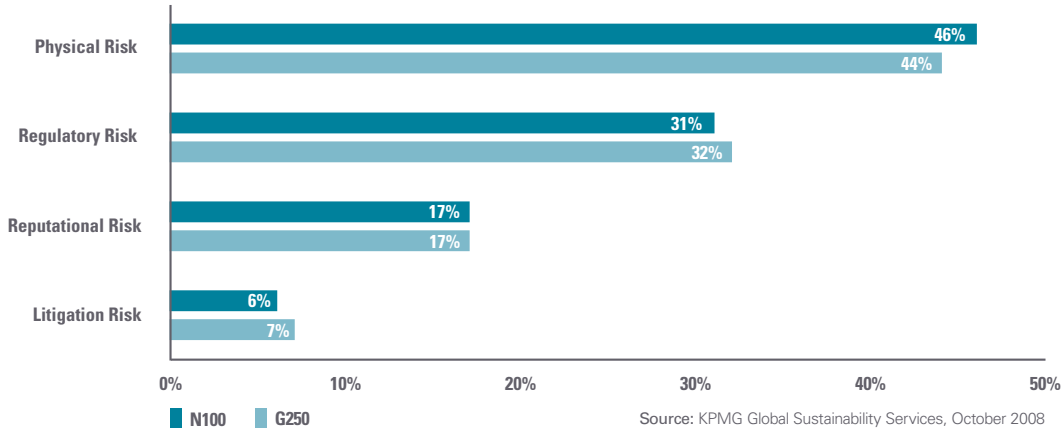
Source: KPMG Global Sustainability Services, October 2008

Going one step further, 64 percent of G250 companies and 34 percent of N100 companies describe how they are going to mitigate the business risks associated with climate change. With the majority of N100 companies not tracking risks and implementing mitigation programs, a major opportunity for better management of climate risk could be missed.

Nearly 60 percent of G250 companies also see the flipside and describe new business opportunities associated with climate risk. This is occurring in the N100 population but at a lower level with only 27 percent disclosing new business opportunities associated with climate change.

In terms of which risks pose the greatest threat, 44 percent of G250 companies fear the physical risks of climate change like extreme weather, changing agricultural patterns, flood risk, and ecology and biodiversity change. Although companies are not as concerned about the potential of litigation brought against them for their own contribution to the climate crisis, they are concerned that governments are starting to tighten up regulations such as on carbon emissions, and 17 percent are aware that their reputation is at stake as the climate crisis grows. Figures are remarkably similar for N100 companies, as seen in Figure 5.7.

Figure 5.7 Climate change risks, by type (G250 and N100)



Source: KPMG Global Sustainability Services, October 2008

Chapter 5

Corporate Responsibility Reporting – Topics and Issues

Carbon footprint
Nearly half the G250 cohort disclosed carbon emissions for its own operations, and an additional eight percent expanded this to include their value chain. But 41 percent of G250 and 62 percent of N100 did not report on their carbon footprint (see Figure 5.8).

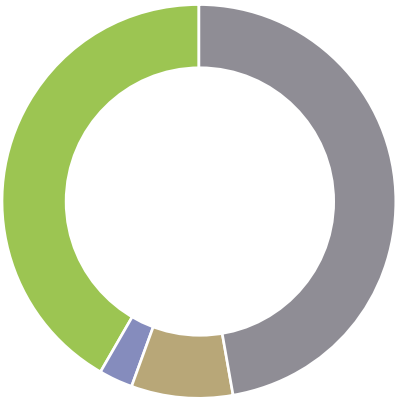
Further insight is gained by breaking results down by country. UK companies lead others rather significantly on the disclosure of their carbon footprint, and are well ahead of the curve. This could be due to the high profile this issue has gained in the country over the past several years.

A second cluster of companies from Europe come in around the 40 percent mark: Italy, Spain, France, and Sweden, but they are topped by Japanese companies, which near the 50 percent mark for carbon disclosure.

North America and Australia are often cited as having some of the heaviest carbon footprints, and their industrial sectors contribute significantly. Companies here do trail their European counterparts; only 32 percent of companies in the US and Australia disclose their carbon footprint in their reports, and 42 percent do so in Canada (See Figure 5.9).

An interesting finding is that Finnish and French companies are among the first to report on the carbon footprint of their entire value chains – these early movers may stimulate an upward trend among other nations such as Hungary, Portugal, Switzerland, Spain, Japan, and the UK, which are also starting to take steps in this direction.

Figure 5.8 Carbon footprint disclosure (G250)



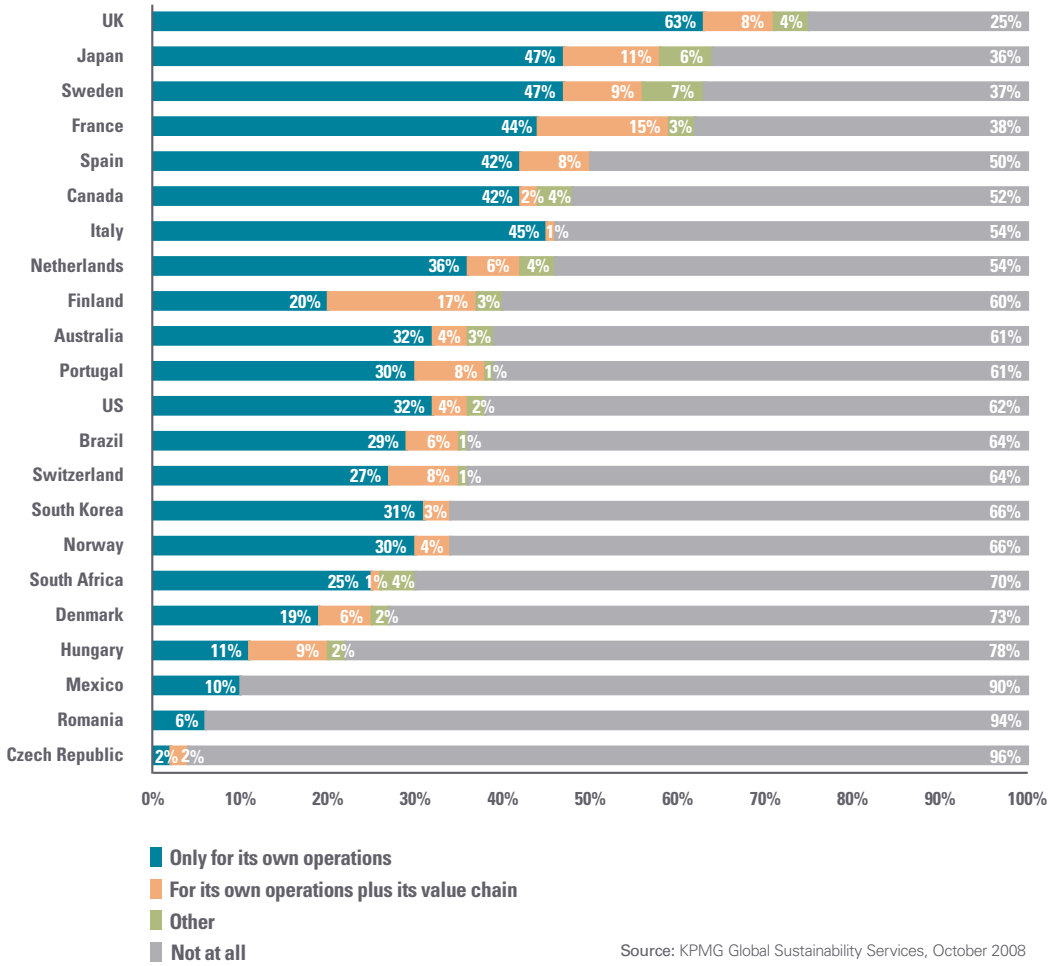
Only for its own operations	48%
For its own operations plus its value chain	8%
Other	3%
Not at all	41%

Source: KPMG Global Sustainability Services, October 2008

"For Global 500 companies a backdrop of regulatory uncertainty is delaying strategic investment decisions and senior management are calling for greater visibility on climate change related policy in order to better anticipate the impact of carbon markets and carbon prices. Despite the uncertainty with regard to regulation, 74% of Global 500 companies responding to CDP have put emissions reduction plans in place. We can see from 2008 responses to CDP an increase in levels of engagement from companies, with more companies reporting than ever before. Carbon disclosure and climate change reporting is becoming critical for investors to fully assess their risks, liabilities and opportunities across their portfolios and this information provides greater understanding of which companies will be the winners in the transition to a low carbon economy."

Paul Dickinson
Executive Director, Carbon Disclosure Project

Figure 5.9 Carbon footprint disclosure, by country (N100)



Source: KPMG Global Sustainability Services, October 2008

Chapter 5

Corporate Responsibility Reporting – Topics and Issues

The survey found that most G250 are taking measures to reduce their carbon footprint. One-fifth still report that they use carbon offsetting, which is by many different actors, including NGO's and governments, seen as a "band-aid" measure that does not get to the heart of the problem. But many are finding ways of incorporating renewable energy into their supply sources, and many are taking proactive steps to reduce energy consumption. The numbers were fairly similar for the G250 and N100 groups. See figures 5.10 for an overview of G250 results.

Spotlight on the Carbon Disclosure Project (CDP)

The Carbon Disclosure Project, founded in 2000, represents 385 global institutional investors, with more than $57 trillion in assets under management. As an independent not-for-profit organisation, CDP collects key climate change data from more than 1550 major corporations around the globe and has assembled the largest corporate greenhouse gas emissions database in the world. CDP also works with multinational corporations to facilitate the collection of climate change relevant data from their supply chain. Reports and company responses can be found at www.cdproject.net.

Figure 5.10 Measures taken to reduce carbon footprint (G250)

A reduction of energy consumption	42%
A replacement of fossil fuels with renewable energy	26%
Offsetting of emissions	18%
Other	13%

Source: KPMG Global Sustainability Services, October 2008

KPMG Insight

Companies are aware that real measures must be taken to address the problem of climate change, not just band-aid solutions. With the high profile that climate and carbon has presently - and with the shadow of regulation looming - we expected higher disclosure on carbon footprint and risk. But looking backward to see the emissions it has already produced and then taking steps to reduce them in the future is only the first step in a company's climate change management strategy. Companies must also cast their eyes forward and look into the future. What risks and opportunities await with greater regulation, a changing climate, and a carbon-constrained future? How will companies remain competitive when the rules of the game change? We think that an era of innovation is approaching in which companies will change and adapt their products and services to avert risks and to harness the opportunities presented by climate change in the near future.[11]

11 See KPMG International report on climate change risk, "Climate Changes Your Business." www.kpmg.nl

Chapter 6

Corporate Responsibility Reporting Assurance

Chapter highlights

- Formal assurance[12] increased from 30 percent to 40 percent in G250 reports, with a similar trend at the national level (39 percent).
- Twenty-seven percent of reports contained other types of third party commentary, with seven percent of these combining commentary with formal assurance.
- Major accountancy organizations are still leading the corporate responsibility reporting assurance field.
- Consistency and quality of assurance approach is demonstrated by an increase in the use of standards.
- G250 companies are less likely to ask for reasonable (positive) assurance than N100 companies.

There is a wide variety of approaches companies take when it comes to report assurance. This latest survey looked at several key aspects of assurance, including the type of assurance opinion provided, the choice of assurance provider, which parts of the report are assured, and why companies seek assurance.

12 Formal statement with conclusions issued by an independent professional assurance provider

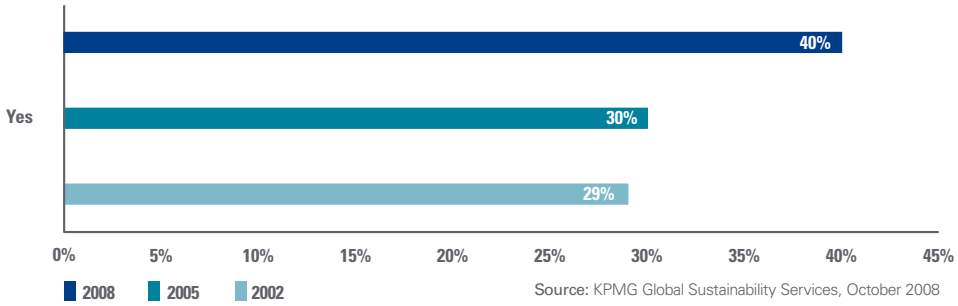
6.1 Global Trends in Assurance

Voluntarily including the views of a third party in corporate responsibility reports is a choice that an increasing number of companies are making. In this year's survey, 56 percent of G250 companies that issued a report included some form of third party commentary. Just under half of N100 companies (49 percent) did the same.

After remaining steady at about 30 percent in 2002 and 2005, the number of G250 companies that utilized formal assurance in their report jumped to 40 percent in 2008. The trend is similar in the N100, where 39 percent included a formal assurance statement in their report. See Figures 6.1 and 6.2.

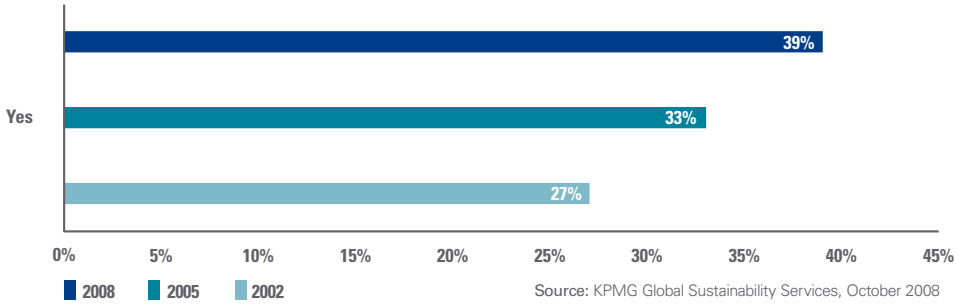
Even though stakeholders, including shareholders and consumers, show concern about the veracity of environmental and social claims by major companies - notably in public relations campaigns about the "greening" of business - formal assurance is still only undertaken by a minority of the companies in the survey, both in the G250 and N100 samples. This raises questions about what drives companies to seek assurance on corporate responsibility reports. See section 6.3 for further insight on this issue.

Figure 6.1 Reports that include a formal assurance statement (G250)



Source: KPMG Global Sustainability Services, October 2008

Figure 6.2 Reports that include a formal assurance statement (N100)



Source: KPMG Global Sustainability Services, October 2008

Chapter 6

Corporate Responsibility Reporting Assurance

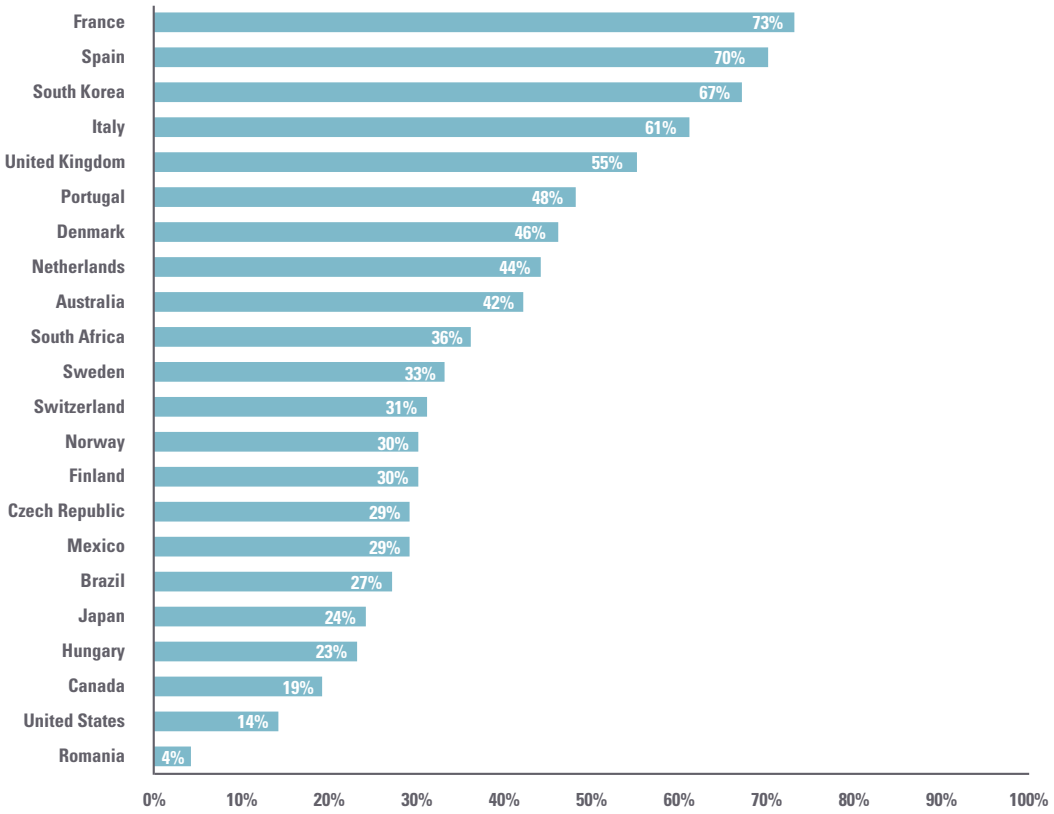
6.2 A Closer Look at Assurance by Country and Sector

The term "formal assurance" is used to describe formal statements issued by independent professional assurance providers, including accounting, certification, and technical firms. These statements are the result of a systematic, evidence-based process that allows the provider to draw conclusions on the quality of the report and its data and, in some cases, the underlying systems and processes used to gather and present the information.

Country trends in formal assurance

Over 60 percent of reports issued by companies in France, Spain, South Korea, and Italy, include a formal assurance statement, as seen in Figure 6.3. From Table 6.1 it is clear that the use of formal assurance in Spain and France has grown very quickly - both countries are up nearly 20 percentage points since 2005. It is also interesting to see that in countries like Japan and the UK where nearly all top 100 companies report, only about one-quarter and one-half of companies utilize a form of assurance, respectively.

Figure 6.3 Reports that include a formal assurance statement, by country (N100)



Source: KPMG Global Sustainability Services, October 2008

This is the first year that assurance trends have been tracked in Brazil, Mexico, Czech Republic, and Hungary, but it is evident that the use of assurance is growing as rapidly as the practice of reporting itself.

Although less than 20 percent of North American companies utilize formal assurance, this is growing significantly; Canada has doubled since the previous survey, and assurance in the US is up from three percent to 14 percent this year.

While the percentage of reports with assurance in many European countries has stayed relatively stable (UK, Netherlands, Italy, and Norway), we see a big jump in Denmark, Finland, and Sweden in this survey after an initial dip in 2005. Due to legislation, companies in Scandinavian countries were some of earliest with environmental reports and assurance, but some were slower to embrace broader corporate responsibility reporting and assurance covering economic and social issues.

This trend may indicate that as reporting practices mature there is a tendency to include formal assurance. In Sweden, new legislation on reporting for publicly owned companies, which includes a requirement on assurance, may be driving adherence to a more robust approach overall.

Table 6.1 Reports with formal assurance statement 2002-2008, by country (N100)

Country	2002 (percent)	2005 (percent)	2008 (percent)
France	14	40	73
Spain	27	44	70
Italy	66	70	61
UK	53	53	55
Denmark	45	31	46
Netherlands	38	40	44
Australia	42	43	42
South Africa	100*	22	36
Sweden	15	5	33
Finland	29	19	30
Norway	20	33	30
Japan	26	31	24
Canada	10	10	19
USA	2	3	14

(Selected countries where historical data are available)

*Only one report issued in 2002.

Source: KPMG Global Sustainability Services, October 2008

Chapter 6

Corporate Responsibility Reporting Assurance

Sector trends in formal assurance
In both the G250 and N100 samples, the mining, utilities, and oil and gas sectors hold the top three positions in terms of percentage of reports with formal assurance. Over half of companies in the G250 chemical, pharmaceutical, oil and gas, and utilities sectors use formal assurance. The mining sector has increased its commitment to assurance significantly since 2005, jumping from ninth position to the top of the table. There are many factors that may have influenced this result. One may be media scrutiny of this sector in recent years, especially its health, safety, and working conditions, and the environmental and community impacts of its operations.

National agreements such as the reporting and auditing requirements of the South African Mining Charter may also have influenced this result.

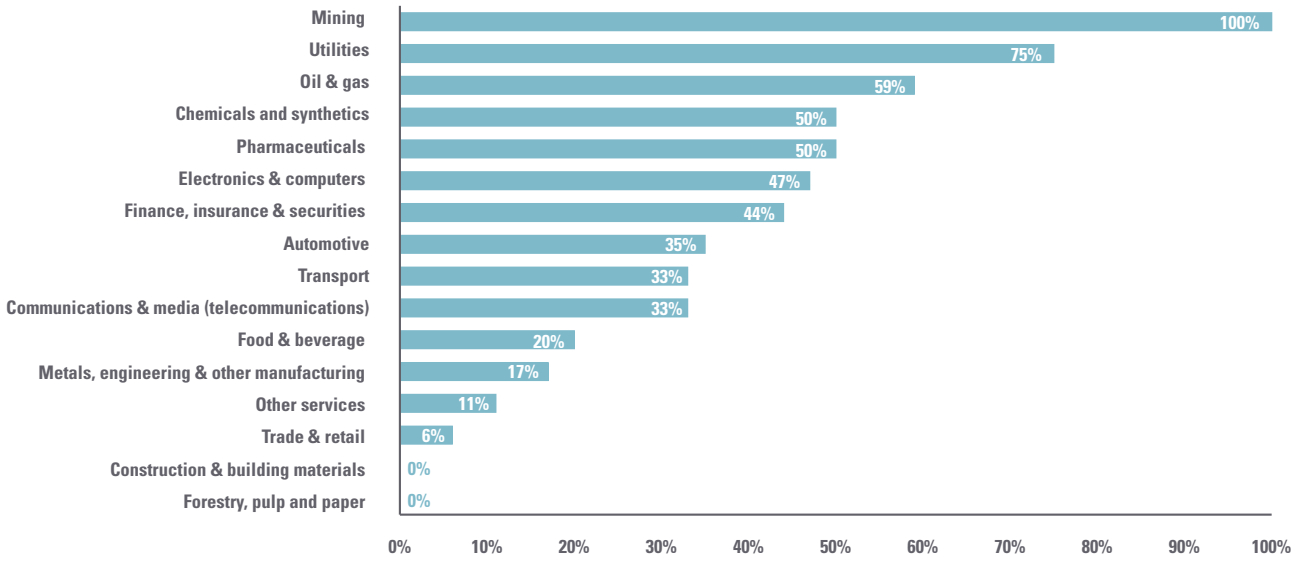
The finance sector, with the critical indirect impacts it exerts on the environment and communities through infrastructure project financing, credit, and investment, is also in the top half of the graph with 44 percent of reports including a formal assurance statement.

Sectors such as retail, forestry, and construction remain below the 10 percent mark despite growing concern about the economic, environmental, and social footprints of these companies.

This trend is in line with lower levels of reporting in these sectors as well (see chapter 3), but it is also important to consider that the complexity of operations, including supply chain and outsourcing models, tend to make assurance difficult and expensive. It could be that these companies prefer selective assurance, concentrating on those areas that stakeholders are most concerned about, but this survey did not investigate this angle.

The trend line is ticking upward in other key sectors such as transport, communications, and automotive, all with about one-third of reports including a formal assurance statement.

Figure 6.4 Reports that include a formal assurance statement, by sector (G250)



Source: KPMG Global Sustainability Services, October 2008

Third party commentary
Instead of a formal assurance statement, some companies opt to include the views or commentary of other external parties in their reports. The commentary may be from influential stakeholder groups or reputable experts in a specialist corporate responsibility field. Some companies opt for a panel of stakeholders or experts to provide broader insight into their activities and performance. The commentary often includes views on management, performance, and progress, as well as recommendations. It may also include comments on whether the report includes, in their view, all the relevant or material issues but does not (usually) provide formal conclusions on the quality of the reported information on these issues.

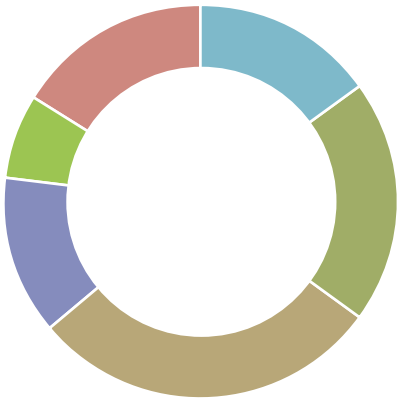
Of the G250, 27 percent make use of third party comments from people who are not professional assurance providers. Fewer N100 companies use this method (18 percent).

Only seven percent of G250 companies combine formal assurance with comments from others, which seems to indicate that G250 companies currently choose one technique or the other but rarely combine them.

Individual experts on issues or people knowledgeable in the sector or national context are most commonly engaged for third party comments from G250 companies. The trends are nearly identical in the N100 group.

Non-governmental organizations (NGOs), academics, and stakeholder panels are all engaged at fairly similar rates, percentage wise, for G250 and N100 companies. The category "Other" consists mainly of committees of experts (as opposed to individual experts) and rating agencies.

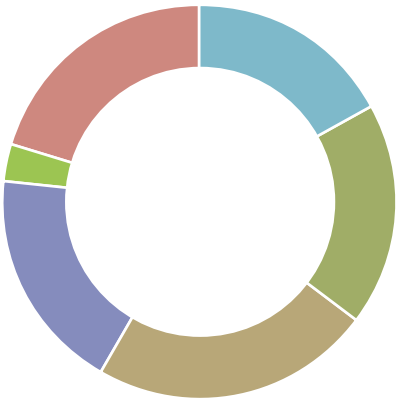
Figure 6.5 Reports that include third party commentary (other than formal assurance), by type (G250)



Stakeholder panel	15%
Academics	20%
Individual experts	29%
NGO	13%
Other stakeholder group (e.g. community)	7%
Other	16%

Source: KPMG Global Sustainability Services, October 2008

Figure 6.6 Reports that include third party commentary (other than formal assurance), by type (N100)



Stakeholder panel	17%
Academics	18%
Individual experts	23%
Non Governmental Organization (NGO)	18%
Other stakeholder group (e.g. community)	3%
Other	20%

Source: KPMG Global Sustainability Services, October 2008

Chapter 6

Corporate Responsibility Reporting Assurance

KPMG Insight

Sector results indicate an overall trend toward increasing demand for an independent third party opinion on corporate responsibility reports. The highest use of assurance still tends to be in sectors with known impacts and high media attention. However, the trend analysis indicates that other drivers for assurance are arising in different sectors. These may be legislative in countries that require assurance on environmental indicators for certain sectors, or it may be through healthy competition where competitors are catching up to the leaders in best practice.

Companies with consumers tend to have a more market-driven approach that includes providing assurance to their customers on claims about corporate responsibility. Increasingly, the large retail chains, especially supermarkets, are attracting more public attention as they branch out to a much wider range of products and make claims about product sourcing and packaging. Use of assurance in this sector is low, but this may change as customers start to seek better information in the future. On the other hand, business-to-business sectors such as metals, engineering, forestry, and construction, do not have a direct link to, and therefore have less pressure from, the end consumer.

Although China was not included in the survey, the first reports with formal assurance were issued in 2008. It will be interesting to watch developments there.

Alongside formal assurance, the inclusion of the views and commentary from other third parties seems to be increasing. From the survey it is difficult to say how effective these statements are in reassuring the users of the report, but if companies are looking for a way to bolster a report's credibility in the eyes of a specific stakeholder group, then this might be an effective approach. In particular, the use of stakeholder panels in 15 percent of cases seems positive. One area where these can add value is in the choice of issues addressed in the report—in other words, whether the report includes all the issues that are important to stakeholders. Combining this with a formal, systematic assurance process could provide a company with the level of assurance it wants, both in terms of report content and quality.

"Management and stakeholders alike are increasingly recognizing that assurance on corporate responsibility information enhances the credibility of a company's reporting. Providing assurance on corporate responsibility reporting requires that we find ways to determine the types of information that should be included in such reports, as well as the appropriate criteria on which assurance might be provided.

IAASB is actively working on this issue, focusing in particular on the growing volume of carbon trading. This work is a first step in the process to achieve greater consistency in providing assurance on corporate responsibility issues, and draws from the International Framework for Assurance Engagements and International Standards on Assurance Engagements 3000, "Assurance Engagements Other than Audits or Review of Historical Financial Information."

Research conducted by IFAC associated with the development of its Financial Reporting in Supply Chain report (2007), found that auditors are considering the overall risks that organizations face, including the sustainability risks, and that this was considered a welcome development.

As issues like environmental sustainability and social performance become vital business concepts, the accountancy profession will continue working to design and deliver the services necessary to report on and assure reports in this field."

Fermin Del Valle
President, International Federation of Accountants (IFAC)

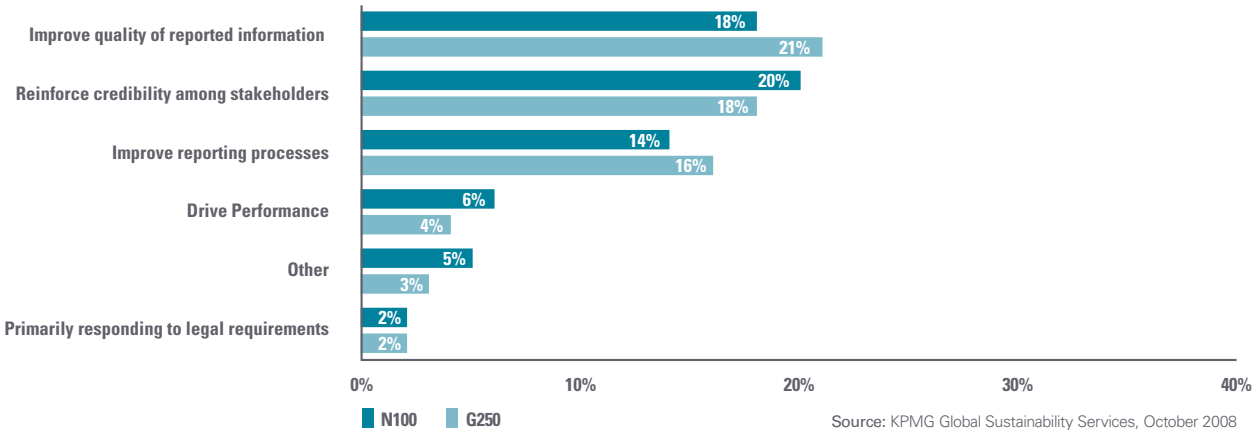
6.3 Assurance: Why, Who, and What

Why: Quality a key driver
Companies have many options when developing an assurance process to support their corporate responsibility management and reporting activities. Understanding what companies want to get out of assurance and why they use it can help explain their decisions, such as who to engage for assurance and what parts of the report or process to assure.

Both G250 and N100 companies state that the credibility of the report and the quality of the reported information are the main drivers for seeking assurance on a report (Figure 6.7). However, the contribution of assurance to improving and ensuring the quality and reliability of a company's underlying reporting processes is also appearing as one of the top drivers for using assurance.

Readers and users of reports need to be able to trust that what they are reading is true and accurate, and utilizing some form of assurance is one way that companies can improve the credibility of their report. This driver is cited by about one-fifth of N100 and G250 companies alike.

Figure 6.7 Drivers for assurance (G250 and N100)



Source: KPMG Global Sustainability Services, October 2008

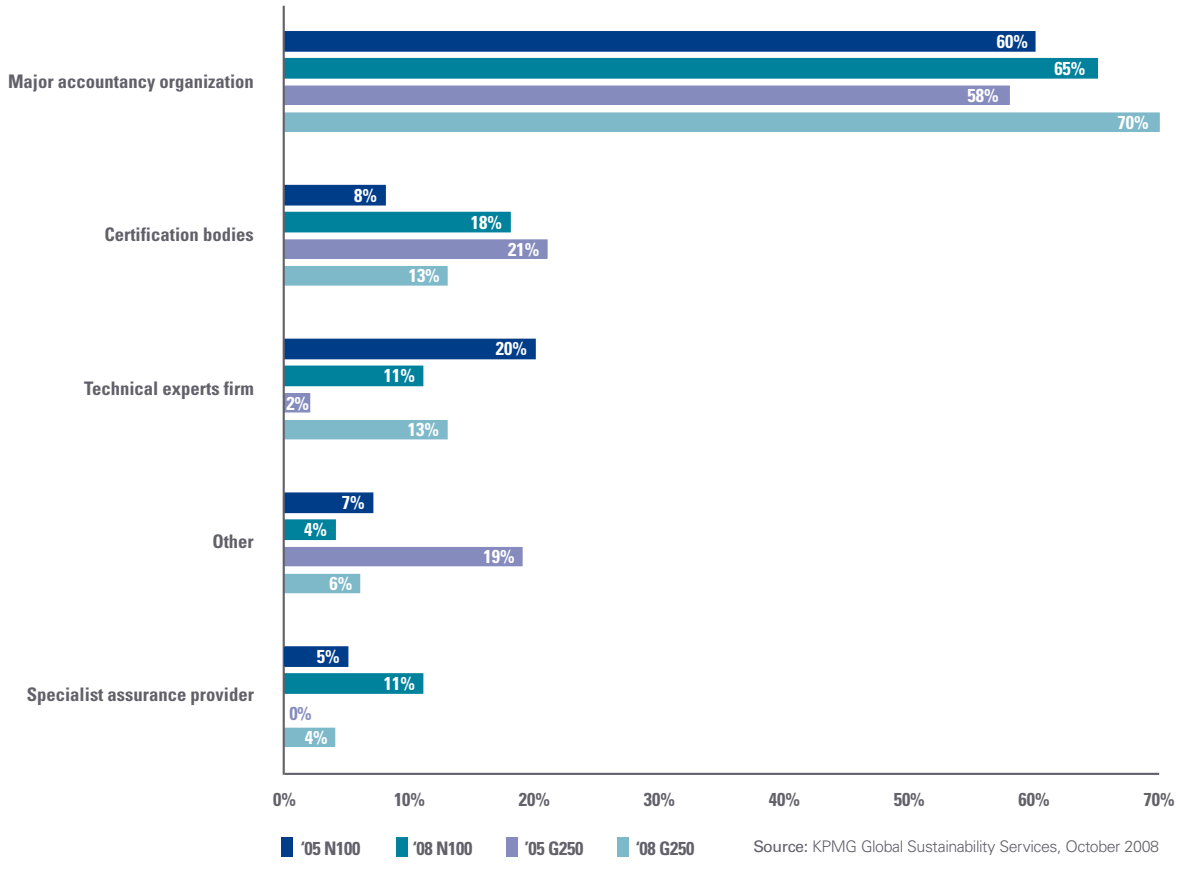
Chapter 6

Corporate Responsibility Reporting Assurance

Who: choice of assurance providers
The majority of G250 companies that engaged assurance providers selected major accountancy organizations. This could be due to the trend toward a more comprehensive approach to assurance that covers the full report and the process behind it, rather than just isolated sections such as environmental indicators. With investors starting to show interest in corporate responsibility data, and with regulation on the horizon in many countries, there is an increased focus on information systems and controls, which may lead companies seeking an assurance provider to opt for a major accountancy organization.

Specialist assurance providers and technical experts account for about 20 percent of total engagements among N100 companies. The use of certification bodies is on the rise at the country level but the G250 have notably moved away from this group. In both populations the use of technical or issue experts and specialist assurance provider firms is on the rise.

Figure 6.8 Choice of assurance provider, 2005-2008 (G250 and N100)



Source: KPMG Global Sustainability Services, October 2008

What: some or all

Companies can choose to have their entire report assured or they can identify parts of the report where it is especially important that the information (often specific data) be assured.

The G250 and the N100 are split right down the middle with about half requesting assurance on the full report and half seeking assurance on specific parts of the report.

Of those requesting assurance on only parts of the report, 74 percent of the G250 and 69 percent of the N100 identify specific indicators they want assured. Thirty-five percent of both G250 and N100 companies ask for assurance on report chapters or sections.

KPMG Insight

It is interesting that improving the quality of a report and the underlying systems both increased as stated drivers for assurance while adding credibility as a driver went down slightly. This may reflect the current stage or maturity of reporting in the companies covered by the survey. As companies progress toward integrating corporate responsibility into their overall business strategy and management, they will develop and implement internal systems, controls, and compliance mechanisms.

In terms of assurance scope, we know from our member firms' experience that indicator assurance is often driven by national legislative requirements on specific indicators and is also common in early stages of corporate responsibility reporting where companies only have reporting systems for a small number of indicators. Longer-term reporters and sector leaders with more mature reporting processes tend toward assurance that has a broader scope.

Few companies state that improving corporate responsibility performance is a direct driver for seeking assurance. However, our firms' experience shows that the assurance process can contribute indirectly to overall corporate responsibility performance by raising internal awareness, identifying areas for improvement (for example, making links to governance and management), and by ensuring that performance management and control is based on reliable information.

Chapter 6

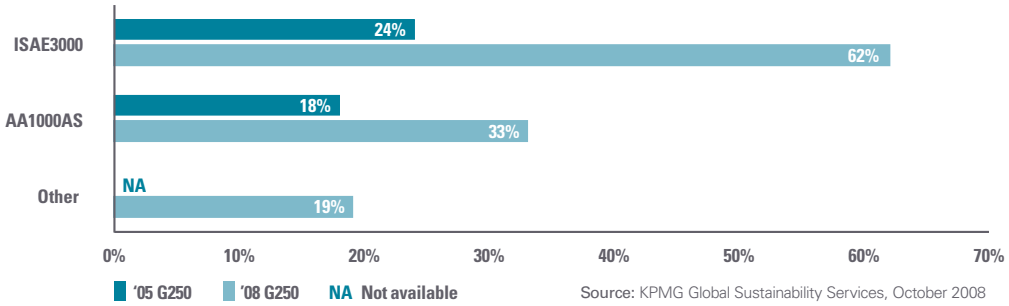
Corporate Responsibility Reporting Assurance

6.4 Assurance Standards and Opinions

Standards
Since the last survey, the use of the International Standard for Assurance Engagements (ISAE) 3000 has become obligatory for accounting firms doing corporate responsibility assurance if there is no national alternative. As a result, the use of this standard has increased considerably since 2005 and now reflects the strong position of the major accounting organizations in assuring reports.

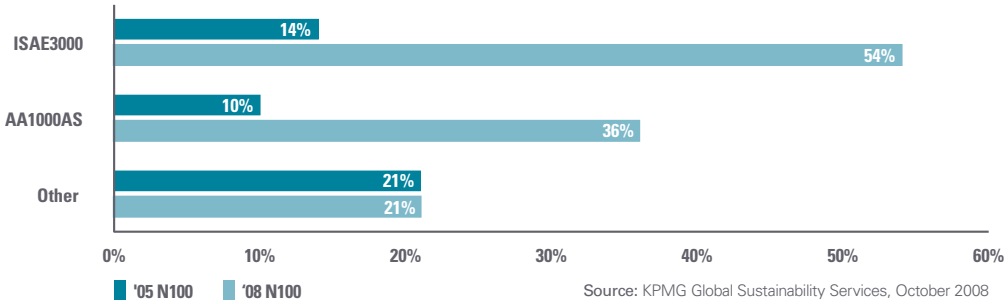
The corporate responsibility assurance standard AA1000AS, issued by the non-profit organization AccountAbility, has also increased in use since 2005, being referenced in 36 percent of assurance reports (up from 10 percent) among the N100.

Figure 6.9 Assurance standards used, 2005-2008 (G250)



Source: KPMG Global Sustainability Services, October 2008

Figure 6.10 Assurance standards used, 2005-2008 (N100)



Source: KPMG Global Sustainability Services, October 2008

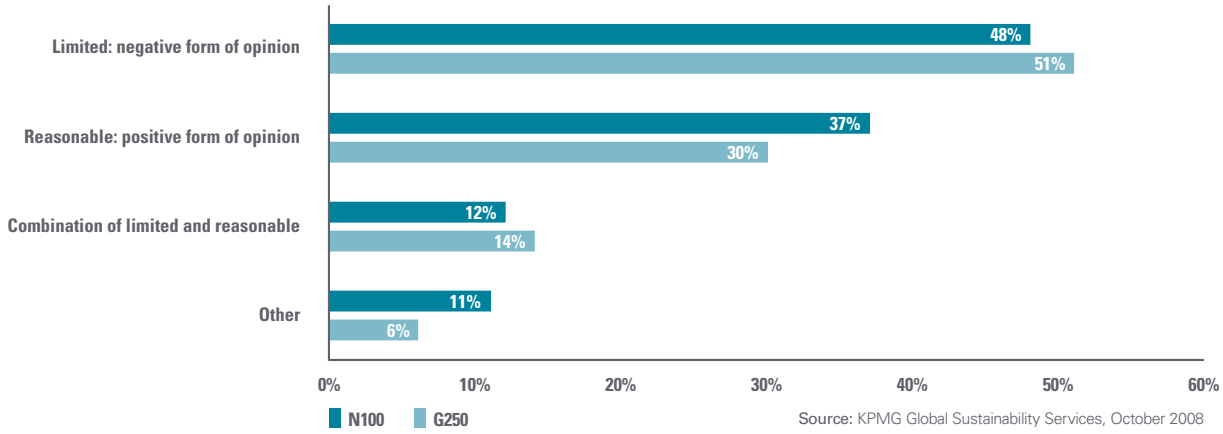
Level of assurance: reasonable versus limited

An area that has aroused much discussion over the last years among reporting organizations, assurance providers, as well as interested stakeholders, is the level of assurance that is appropriate. Financial accounts are subject to a vigorous process that results in a "reasonable level" of assurance with a positively stated conclusion.

The survey shows that the majority of the G250 (51 percent) obtain report assurance that is a "limited level" of assurance—a lower level that requires less work from the assurance provider and therefore lower costs. This results in a negatively stated conclusion, which perhaps does not adequately convey the considerable amount of work undertaken to assure the report and underlying processes. From a company perspective, choosing a limited level is not surprising since assurance on corporate responsibility information is mainly a voluntary activity.

Thirty percent of the G250 opt for positive (reasonable) assurance and 14 percent for a mixture of the two. Among the N100 the percentage seeking reasonable assurance is higher.

Figure 6.11 Level of assurance (G250 and N100)



Source: KPMG Global Sustainability Services, October 2008

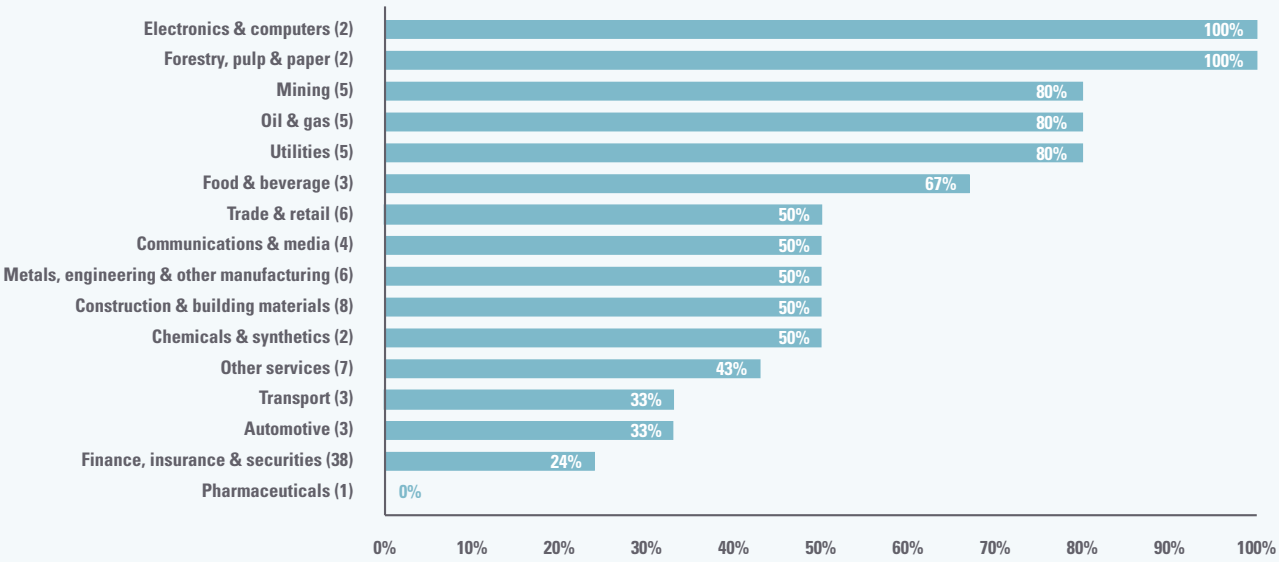
KPMG Insight

The move toward a corporate responsibility strategy with defined objectives, as well as increasing stakeholder interest in the reliability of information in reports, may lead to demands for reasonable assurance, especially on the performance data for strategic environmental and social indicators. To satisfy other stakeholders it is possible to combine this with limited assurance on the rest of the report. Further research would be needed to see whether, for example, there is already a link between the level of assurance and the scope of the assurance engagement (i.e., whether the engagement covers indicators only, or whole reports).

Spotlight
Australia

Public disclosure of sustainability-related information is increasingly on the agenda for Australian companies, with reports being developed with boardroom input and reviewed by mainstream analysts. Climate change has been a key driver of the sustainability agenda along with the introduction of the National Greenhouse and Energy Reporting System (NGER) and the Carbon Pollution Reduction Scheme (CPRS) by the Australian government and the revision of the Australian Securities Exchange (ASX) Principle 7, which now includes the consideration of sustainability-related issues as a material business risk.

Figure I CR reporting per sector



Source: KPMG Global Sustainability Services, October 2008

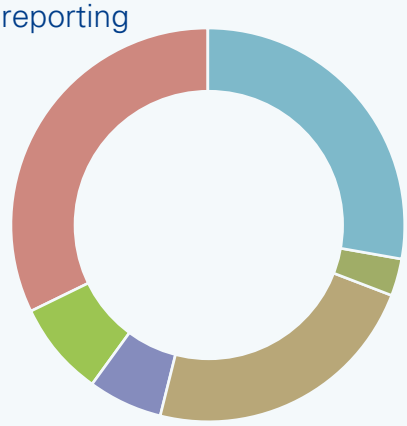
Analysis

At the time of this survey, based on numbers, the N100 in Australia is dominated by one industry sector: finance, insurance, and securities (38 percent). Our analysis indicates that this sector is not well represented in sustainability reporting. As sustainability-related issues, most notably climate change, increasingly permeate through the economy it will be interesting to observe changes in the levels of reporting in coming years.

In 2008, 68 percent of ASX N100 companies published information on sustainability. Although this level of reporting lags behind that observed in other developed countries around the world, it has more than doubled since 2005. It is also important to recognize that there are key differences between the Australian landscape and overseas markets, such as reporting requirements.

The increased number of reporting entities obtaining external verification indicates a growing recognition of the value provided by external assurance. Our survey findings indicate that 25 companies (37 percent of reporters) are currently seeking independent third party comments. Although this is not matching the uptake of sustainability reporting, this is explained by the fact that organizations may not seek assurance or other third party commentary in their first year of reporting.

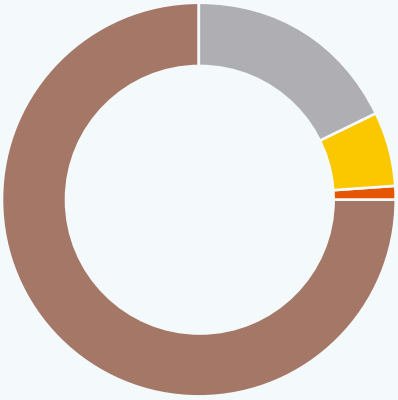
Figure II Integration level CR reporting



- **No integration** (separate CR report only) 28%
- **Partial** (CR report & CR section in the Annual Report) 3%
- **Limited** (CR section in the Annual Report only) 23%
- **Combined** (CR reporting combined with Annual Report) 6%
- **Fully integrated** (CR reporting fully integrated in the Annual Report) 8%
- **No CR reporting** 32%

Source: KPMG Global Sustainability Services, October 2008

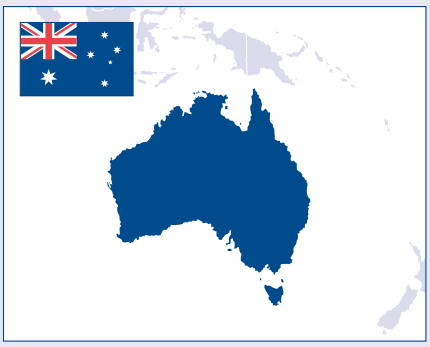
Figure III 3rd party comments



- **Only assurance** 18%
- **Only other 3rd party comments** 6%
- **Both assurance & 3rd party comments** 1%
- **No 3rd party comments** 75%

Source: KPMG Global Sustainability Services, October 2008

Highlight - Australia



68 report

8 fully integrate corporate responsibility reporting and annual reporting

24 utilize 3rd party comments

24 percent of the **38** financial institutions report

34 report on their own carbon footprint

Interview

Rob Kella - Chief Risk Officer, Qantas Airways Limited

What does sustainability mean in your business?
Sustainability is about creating long-term shareholder value by managing a range of complex issues, including the safety and security of our employees and customers, responding to climate change and reducing our environmental impact, creating and sustaining a diverse and talented workforce, and supporting socioeconomic development.

What do you see as the main business drivers to report on sustainability and to seek assurance on sustainability reports?
Reporting demonstrates how we manage our sustainability risks and impacts. It identifies areas for improvement and supports target-setting and performance management. Investors and other stakeholders seek greater transparency and consistency in reporting. External assurance enhances the credibility of reports, providing stakeholders with confidence that data and information are relevant, accurate, and complete, and it helps us to improve our reporting, management controls, and data capture systems.

What do you consider to be the key developments in Australia that have influenced the development of sustainability reporting in recent years?
In Australia, one of the biggest drivers has been regulatory and legislative changes, including the revision of our corporate governance principles to include the proposed consideration of sustainability risks and the introduction of a carbon reduction scheme (e.g. emissions trading).

How is sustainability reporting integrated into your company's management and accountability processes?
Sustainability is part of our risk management program and is governed by the Board. Performance against sustainability targets, which are linked to remuneration, is reported on a monthly basis to management and on a regular basis to Executive Management and Board committees. Sustainability considerations are included in business decisions to achieve integration.

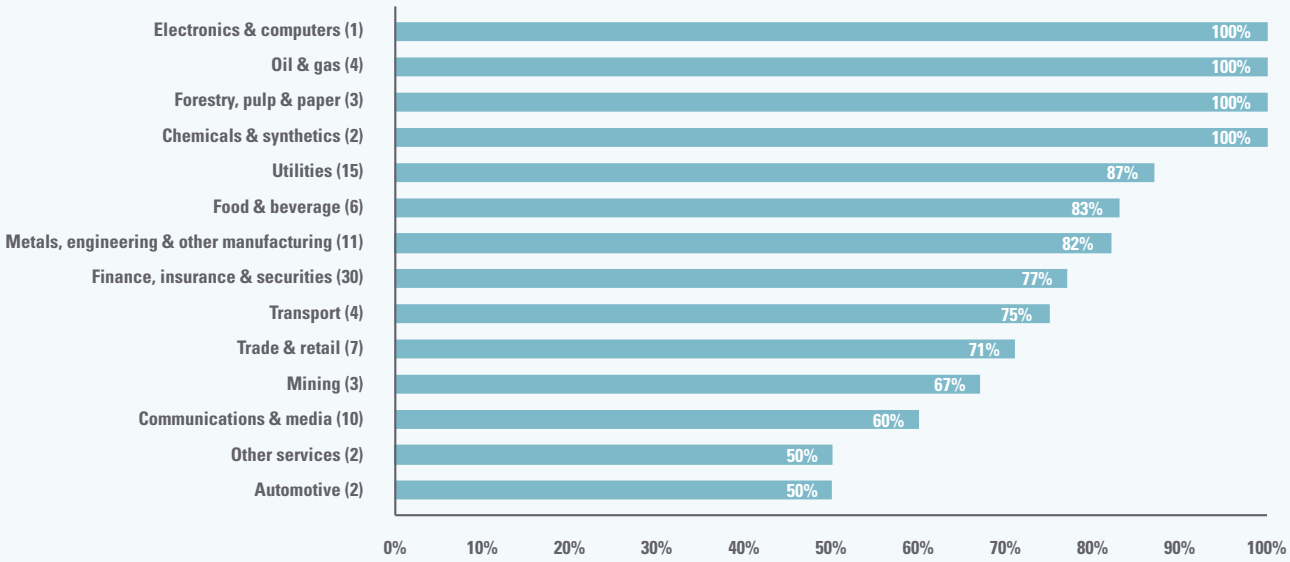
Sustainability Reporting: A Guide

KPMG in Australia and the Group of 100, representing the senior finance officers of Australia's leading enterprises, have developed a good practice guide for companies and organizations engaged in the preparation of sustainability reports. The publication, entitled "Sustainability Reporting: A Guide," will provide directors and senior executives with a timely and useful tool when addressing this rapidly evolving area of reporting.

Spotlight
Brazil

KPMG Brazil's sustainability team is proud to contribute to KPMG's sixth International Survey of Corporate Responsibility Reporting; as sustainability has become a major part of local discussions in this country. Brazil's industrial growth has had a profound impact on environmental and social infrastructure, and local companies are conscious that strong and transparent communication with their stakeholders is essential to sustainable development. We hope the results of the survey reflect this.

Figure I CR reporting per sector



Source: KPMG Global Sustainability Services, October 2008

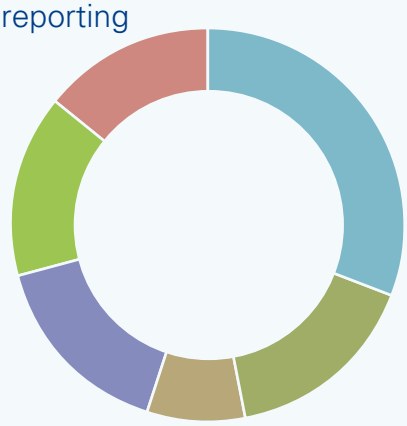
Analysis

In Brazil, corporate sustainability performance is now seen as an important driver of business. One of the key challenges for many companies is how to develop business strategies and transparent communication to enhance their economic, environmental, and social performance.

Figure I CR reporting per sector demonstrates that the adoption of this new approach still finds certain resistance from Brazilian companies (not all companies issue corporate responsibility reports) that see reporting as more of an additional cost than an opportunity to improve. On the other hand, we observed that 78 percent of all companies in the survey have a separate or fully integrated corporate responsibility report. In general, sectors with high impact on the environment, such as oil and gas or chemicals and synthetics, are better prepared to engage in dialogue with their stakeholders through their corporate responsibility reports. In contrast, sectors with a lower impact on the environment, such as communications and media or trade and retail, do not demonstrate a serious commitment.

Figure II demonstrates the number of Brazilian companies issuing separate, stand-alone CR reports.

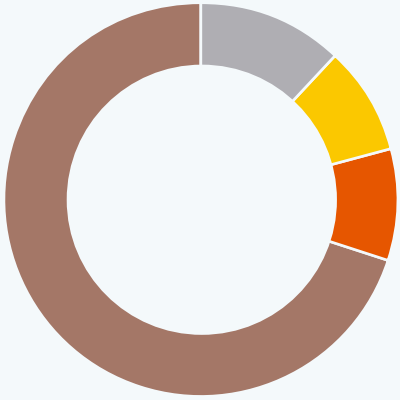
Figure II Integration level CR reporting



- **No integration** (separate CR report only) 31%
- **Partial** (CR report & CR section in the Annual Report) 16%
- **Limited** (CR section in the Annual Report only) 8%
- **Combined** (CR reporting combined with Annual Report) 16%
- **Fully integrated** (CR reporting fully integrated in the Annual Report) 15%
- **No CR reporting** 14%

Source: KPMG Global Sustainability Services, October 2008

Figure III 3rd party comments



- **Only assurance** 12%
- **Only other 3rd party comments** 9%
- **Both assurance & 3rd party comments** 9%
- **No 3rd party comments** 70%

Source: KPMG Global Sustainability Services, October 2008

We noted that companies with high impact on the environment, besides issuing a corporate responsibility report, have also opted to seek assurance (Figure III) to enhance the credibility of their reports. However, 70 percent of Brazilian companies still do not include any third party comments in their reports.

Highlight - Brazil

86 report

30 utilize 3rd party comments

100 percent of oil & gas, forestry, electronics, and chemicals sector report

60 have a corporate responsibility strategy

Interview

Alessandro Giuseppe Carlucci - CEO, Natura Cosméticos S.A.

What does corporate responsibility mean to your business?
Natura's growth was guided by an entrepreneurial approach that seeks to create value for society as a whole in a sustainable manner, valuing and respecting the interests and rights of our stakeholders.

What are the main business drivers to report and seek assurance on a corporate responsibility report?
We believe that transparent communication strengthens the company's connections with its stakeholders, contributing to brand recognition and efficient risk management. The need for transparency and credibility leads us to hire independent auditors to provide external verification of our corporate responsibility report.

Does your company address climate change risks and/or opportunities related to its product portfolio?
The crisis related to global warming requires an urgent change in consumption and production standards. We created the Carbon Neutral Program to offer our customers products with neutral greenhouse gases emissions - from the harvesting of raw materials to final disposal in the environment.

To what extent does corporate responsibility influence innovation in your products or services?
Working with socially diverse communities like farmers and Indians helps us to better protect biodiversity, as products are grown and harvested in different places and in different ways. This approach is a source of innovation that Natura strives to promote through an open scientific research model and partnerships with universities and institutes. Practicing corporate responsibility has therefore helped us to build technology innovation networks that bring together the scientific knowledge of universities and the knowledge of traditional communities.

Brazilian Green Ethanol

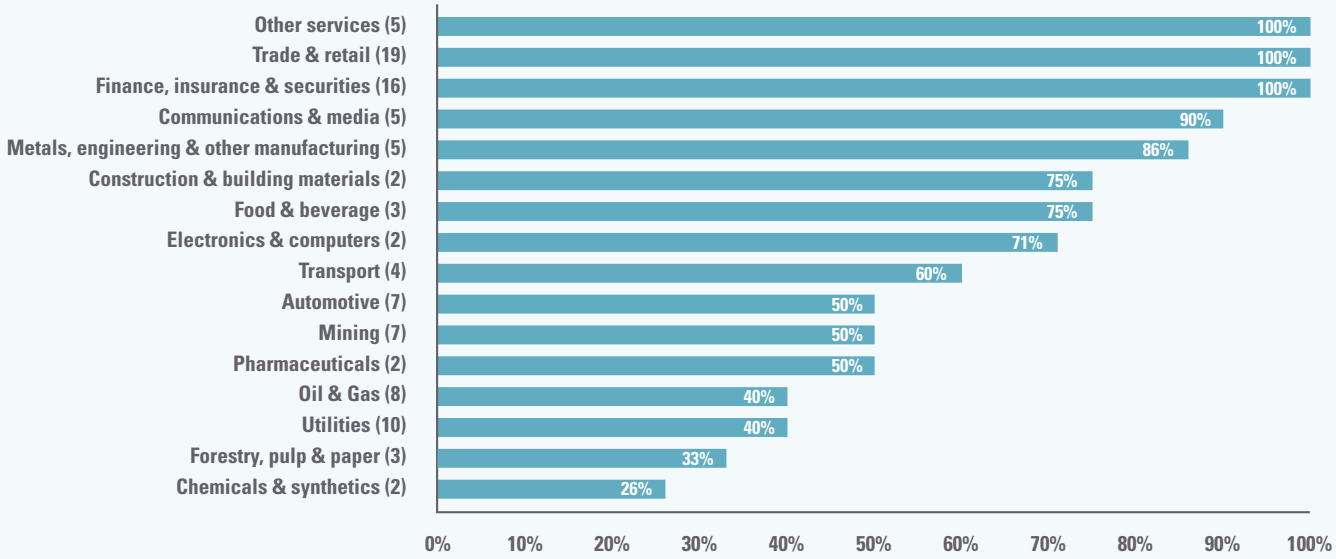
In June 2007, São Paulo state (responsible for nearly 25 percent of the world's ethanol) issued the Agro-environmental Protocol with the sugarcane sector to promote industry best practices that would move the industry beyond business-as-usual.

The Protocol has established goals for producers in an effort to phase out manual cutting. Over 130 plants have subscribed to a "Green Protocol" sponsored by UNICA and the São Paulo state government. This Protocol calls for the eradication of pre-harvest burning by 2014 in areas where harvesting can be mechanized and by 2017 where mechanization is currently not feasible.

Spotlight
Canada

In the past 18 months there has been an unprecedented increase in media attention focused on sustainability issues. Regulatory responses to climate change are a key topic in provincial and federal election campaigns. Securities regulators are also showing increased interest in the quality of disclosure on environmental risks. Within this context it is no surprise that the number of large Canadian companies preparing corporate responsibility reports has increased to 60 percent, up from 41 percent in 2005.

Figure I CR reporting per sector



Source: KPMG Global Sustainability Services, October 2008

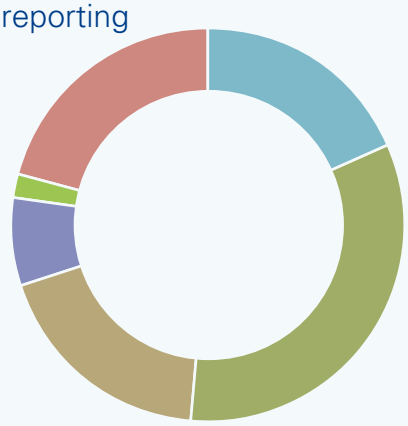
Analysis

The pattern of reporting by sector reflects differences in regulation, type of ownership, and reliance on voluntary standards. One-hundred percent of corporate responsibility reporting in the finance sector reflects regulations that require Canadian financial institutions with CAN$1 billion in equity to report on their contributions to Canadian society. Relatively low levels of corporate responsibility reporting in the utilities sector may reflect the fact that many provincial utilities are not publicly listed companies. Low levels of reporting within the forest and chemical industries likely reflect significant reliance on voluntary standards to demonstrate performance (e.g., Sustainable Forestry Initiative, Responsible Care).

Sixty-two percent of Canadian companies reported on social and environmental performance in their annual reports. This reflects growing demand from Canadian investors, particularly institutional investors, for non-financial information to be presented in conjunction with financial information. Only two percent of the companies surveyed have fully integrated corporate responsibility information into their annual reports, indicating the continuing challenge of reporting on a true "triple bottom line."

More Canadian companies are seeking assurance on corporate responsibility

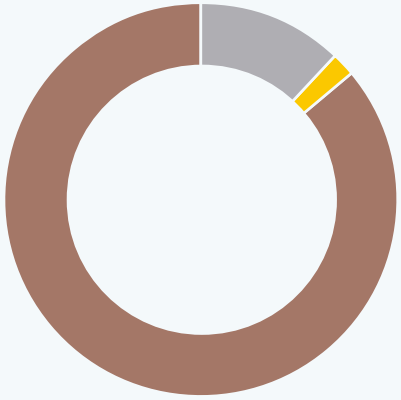
Figure II Integration level CR reporting



- **No integration** (separate CR report only) 18%
- **Partial** (CR report & CR section in the Annual Report) 35%
- **Limited** (CR section in the Annual Report only) 18%
- **Combined** (CR reporting combined with Annual Report) 7%
- **Fully integrated** (CR reporting fully integrated in the Annual Report) 2%
- **No CR reporting** 20%

Source: KPMG Global Sustainability Services, October 2008

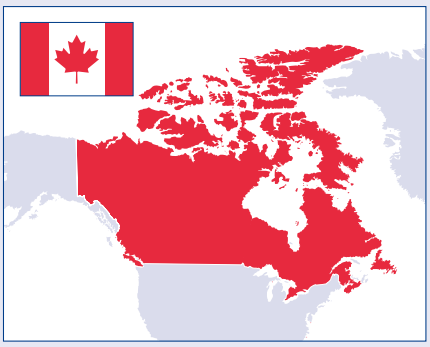
Figure III 3rd party comments



- **Only assurance** 12%
- **Only other 3rd party comments** 2%
- **No 3rd party comments** 86%

Source: KPMG Global Sustainability Services, October 2008

Highlight - Canada



80 report

14 utilize 3rd party comments

100% of trade & retail and financial services report

40% of oil & gas and utilities report

42 report on their carbon footprint

Interview

Ellen Pekeles - Senior VP Strategy, Vancity

What have been the key developments in corporate responsibility in the last few years?
There is increased consumer demand and stakeholder pressure for companies to behave responsibly. In turn, companies have begun to differentiate themselves and demonstrate leadership through corporate responsibility.

What major developments do you envision in the next few years?
Increasingly sophisticated consumers will distinguish between greenwashing and real environmental commitment, and exercise greater "green" buying power. At the same time, we expect a growing realization among reporters that the integration of corporate responsibility leads to a better-run business, including better management of enterprise risk.

How are the business drivers to report on corporate responsibility changing?
Reporting on corporate responsibility is seen as a way to build or rebuild stakeholder loyalty and trust and is increasingly viewed as an internal management tool for improving business performance.

What are the main drivers to seek assurance?
Assurance helps to meet stakeholder demands for accuracy and full disclosure of material issues, as well as driving internal system and process improvements. It enhances the credibility of our corporate responsibility report and indicates the importance management ascribes to non-financial information.

To what extent does corporate responsibility influence innovation in Vancity's products and services?
We have developed several products to support our community leadership focus areas: acting on climate change, facing poverty, and growing the social economy. We track the value of our community leadership portfolio monthly and set annual growth targets. Community leadership is integrated into our new strategic plans, which will further drive product and service innovation in the future.

reports but the number still trails many other countries in the survey by a considerable margin. Notably, the pattern of assurance in the US is similar to Canada.

The increasing need for more reliable and timely non-financial data for decision-making and for regulatory reporting is expected to drive demand for assurance in North America over the next few years.

Climate Change

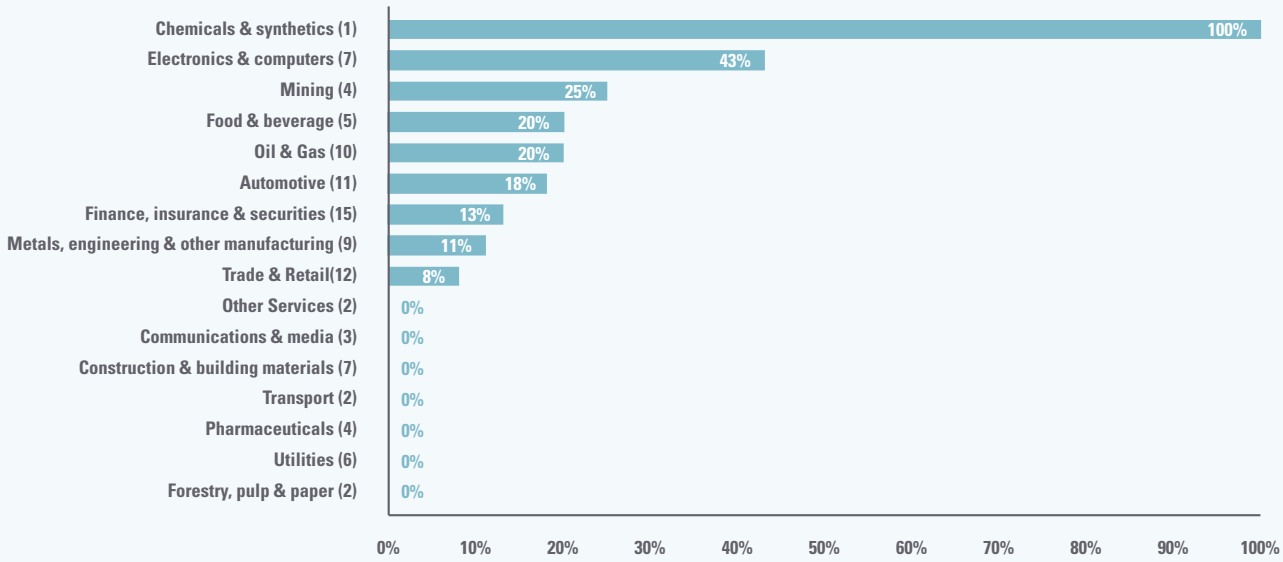
Climate change legislation is at varying degrees of development and implementation in a number of provinces and federally. It is also a very hot topic for Canadian media. Corporations are being asked to provide specific, measurable information about the environmental impact of their own operations and, increasingly, the impact of the supply chain as well.

For exporters, climate change performance could potentially act as a barrier to trade. Within this context, 35 percent of Canadian companies addressed the business risks associated with climate change, and 39 percent disclosed their carbon footprints in their corporate responsibility reports.

Spotlight
The Czech Republic

Although it may seem that corporate responsibility issues have not been a priority for companies in the Czech Republic, a growing awareness of the importance of corporate responsibility has been visible in the business community. There is enough awareness, so that the Czech Republic can, for the first time ever, contribute to KPMG's International Survey of Corporate Responsibility Reporting.

Figure I CR reporting per sector



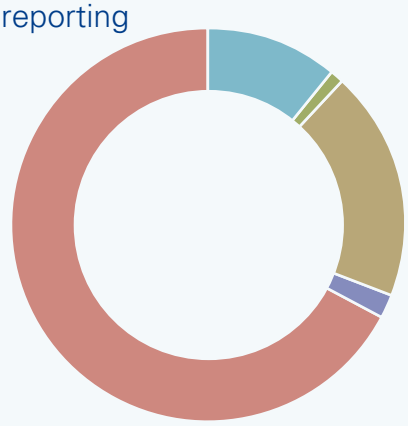
Source: KPMG Global Sustainability Services, October 2008

Analysis

Addressing corporate responsibility issues helps a business gain credibility among stakeholders and distinguish itself from competitors. The trend toward corporate citizenship is taking hold in a growing number of businesses, but for many companies, reporting on corporate responsibility is not a primary focus. Reporting on environmental and social impacts is not compulsory by law in the Czech Republic, so it is rather a matter of image and positive public perception that drives companies to report. As in other parts of the world, it is mainly companies in the industrial sector, followed by businesses in electronics and finance, that are pioneering reporting practices.

Sixty-seven percent of companies in the Czech Republic do not report on corporate responsibility issues at all. Companies that do report most often include corporate responsibility information in a separate section of their annual report, but 14 percent of companies issue a corporate responsibility report. The number of reports receiving third party assurance is still very low in the Czech Republic. Ninety-four percent of the companies surveyed do not include any third party comments in their reporting.

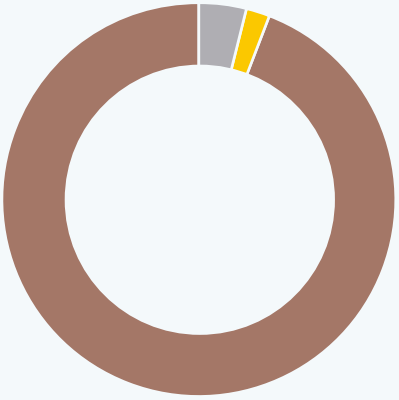
Figure II Integration level CR reporting



- **No integration** (separate CR report only) 11%
- **Partial** (CR report & CR section in the Annual Report) 1%
- **Limited** (CR section in the Annual Report only) 19%
- **Combined** (CR reporting combined with Annual Report) 2%
- **No CR reporting** 67%

Source: KPMG Global Sustainability Services, October 2008

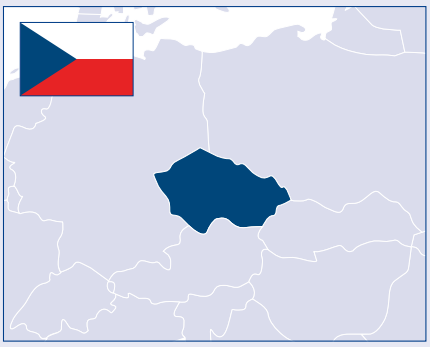
Figure III 3rd party comments



- **Only assurance** 4%
- **Only other 3rd party comments** 2%
- **No 3rd party comments** 94%

Source: KPMG Global Sustainability Services, October 2008

Highlight - The Czech Republic



33 report

6 utilize 3rd party comments

Reporting leaders include chemicals, electronics, mining, food & beverage sectors

2 report on their carbon footprint

Interview

Mr. Petr Pudil - Chairman and CEO, Czech Coal a.s.

What does corporate responsibility mean in your business?
Historically, the mining and utilities industries have been under considerable social pressure. The concept of corporate responsibility has thus penetrated into corporate strategies through various specific issues like the health and safety of miners, mass redundancies, or severe environmental impacts.

What do you consider to be the key developments that have influenced the growth of corporate responsibility and corporate responsibility reporting in recent years?
The dynamic development of corporate responsibility and corporate responsibility reporting is a sign of an era in which stakeholders want more than just a good product or a nice brand image. Moreover, the rising supply and demand for reporting is of the same nature as the rise of the information society: people want more and better information.

How is corporate responsibility reporting integrated into your company's processes?
Internal processes were the initial reason why we started our corporate responsibility reporting program. Later on we implemented external standards in our internal reporting activities – the GRI Guidelines. Nowadays, we aspire to have our management and accountability processes and our corporate responsibility reporting to be two equal sides of one corporate strategy.

How do you integrate corporate responsibility into your day-to-day management?
Corporate responsibility is a behavior integral to the day-to-day management of the Czech Coal Group. Providing relevant and truthful information, including negative information, to various stakeholder groups and getting their feedback is a daily activity and a natural part of every manager's job in the company.

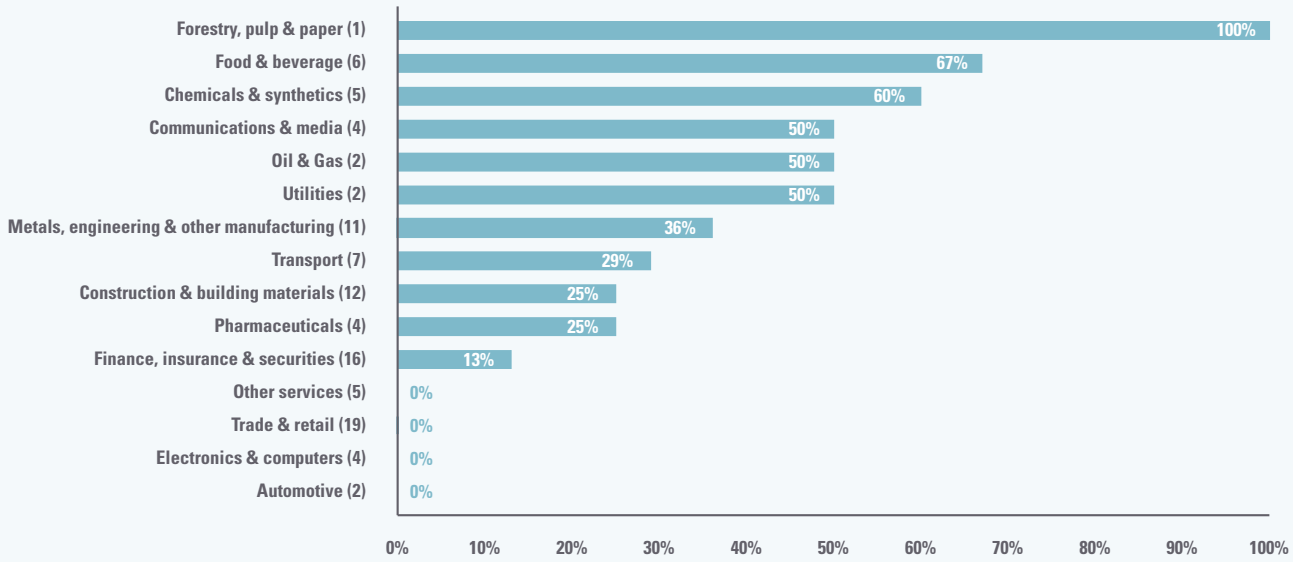
From exploitation to responsibility

Despite being in an early phase of reporting, lately there has been visible growth in the number of companies showing genuine interest in corporate responsibility. Reporting, methodologies, carbon footprint calculations, and restrictions will have no impact, however, without the personal commitment from people in a company. Although there is still much to improve, a socially and environmentally responsible approach to business in the Czech Republic has a good base on which to build. Therefore, a growing number and increased quality of corporate responsibility reports can be anticipated in the coming years.

Spotlight
Denmark

This is the analysis for Denmark as part of KPMG's sixth International Survey of Corporate Responsibility Reporting. The findings of the survey and the development of corporate responsibility reporting in Denmark are discussed below. Overall, the survey findings indicate that corporate responsibility reporting and a higher level of transparency is about to become best practice in many countries and sectors.

Figure I CR reporting per sector



Source: KPMG Global Sustainability Services, October 2008

Analysis

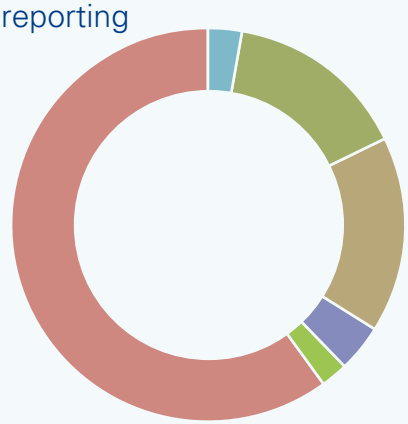
Denmark has a minimum of natural resources and heavy industry, focusing instead on light industry, trading, finance, and other non-industrial sectors. When companies started reporting on the environment and corporate responsibility 15-20 years ago, Denmark had some trendsetting companies in pharmaceuticals, metals, and building materials that were engaging in high-quality non-financial reporting.

Looking at reporting per sector in 2008, it is clear that sectors with environmental dilemmas still have the highest degree of reporting even though the number of companies in these sectors is rather limited.

Sectors such as trading, automotive, electronics, and other services have not yet started to report on corporate responsibility. The Danish financial sector has now started reporting on corporate responsibility; this was not the case in 2005.

Companies that started reporting years ago on corporate responsibility are moving rapidly toward different levels of integrated reporting. Only three companies that prepared corporate responsibility reports did not include corporate responsibility information in

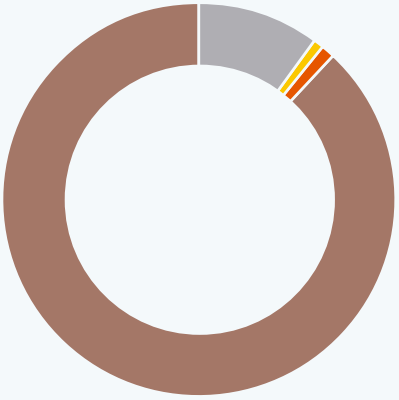
Figure II Integration level CR reporting



- **No integration** (separate CR report only) 3%
- **Partial** (CR report & CR section in the Annual Report) 15%
- **Limited** (CR section in the Annual Report only) 16%
- **Combined** (CR reporting combined with Annual Report) 4%
- **Fully integrated** (CR reporting fully integrated in the Annual Report) 2%
- **No CR reporting** 60%

Source: KPMG Global Sustainability Services, October 2008

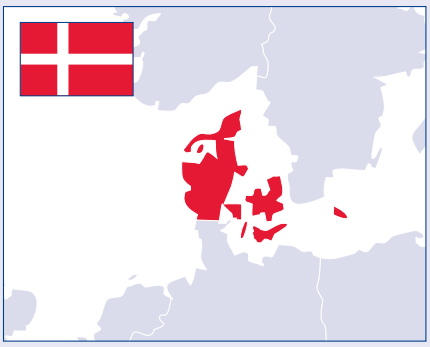
Figure III 3rd party comments



- **Only assurance** 10%
- **Only other 3rd party comments** 1%
- **Both assurance & 3rd party comments** 1%
- **No 3rd party comments** 88%

Source: KPMG Global Sustainability Services, October 2008

Highlight - Denmark



40 report

12 utilize 3rd party comments

Of the **19** trade & retail companies in the sample, none report

19 report on their carbon footprint

Interview

Preben Andreasen - Head of HSE Aalborg Portland

What does corporate responsibility mean in your business?
We produce cement and concrete, which is a very energy-intensive business, so our focus is mainly on energy and climate, including reducing CO2 emissions.

What do you consider to be the key developments outside Aalborg Portland that have influenced the development of corporate responsibility and corporate responsibility reporting in the last few years?
I think there has been an increased focus on the climate issue in most sectors, which means we have been looking at significant signs of climate change - these will change conditions for many business sectors, especially energy -intensive industries.

What is the main driver for Aalborg Portland to report on corporate responsibility?
For us, a main driver is to inform external stakeholders, including politicians, about our environmental performance. We are working internationally and it is important to us that local politicians understand our business challenges. We have for the same reason prepared high-quality environmental reports for many years, and we are very proud that we won the European award for best environmental reporting in 2004, and Danish reporting awards a number of times.

What are the main drivers to seek assurance on your environmental report?
Our production site in Aalborg has environmental certificates of ISO 14001, Energy, and EMAS-registration and therefore our management systems and reporting are verified by a Danish certification body. We have also had our environmental data verified to be sure that the quality of data is reliable and satisfactory. All in all, we use external verifiers to ensure the quality of our routines and data sampling, and to give credibility to the report.

their annual reports. Novo Nordisk and Novozymes have fully integrated reports.

We expect this development to continue, supported by legislation with requirements in respect of CR information in the Management's Review of the annual report.

The use of third party assurance has increased compared to 2005, as 11 percent of the companies included assurance opinions in their corporate responsibility reports in 2008.

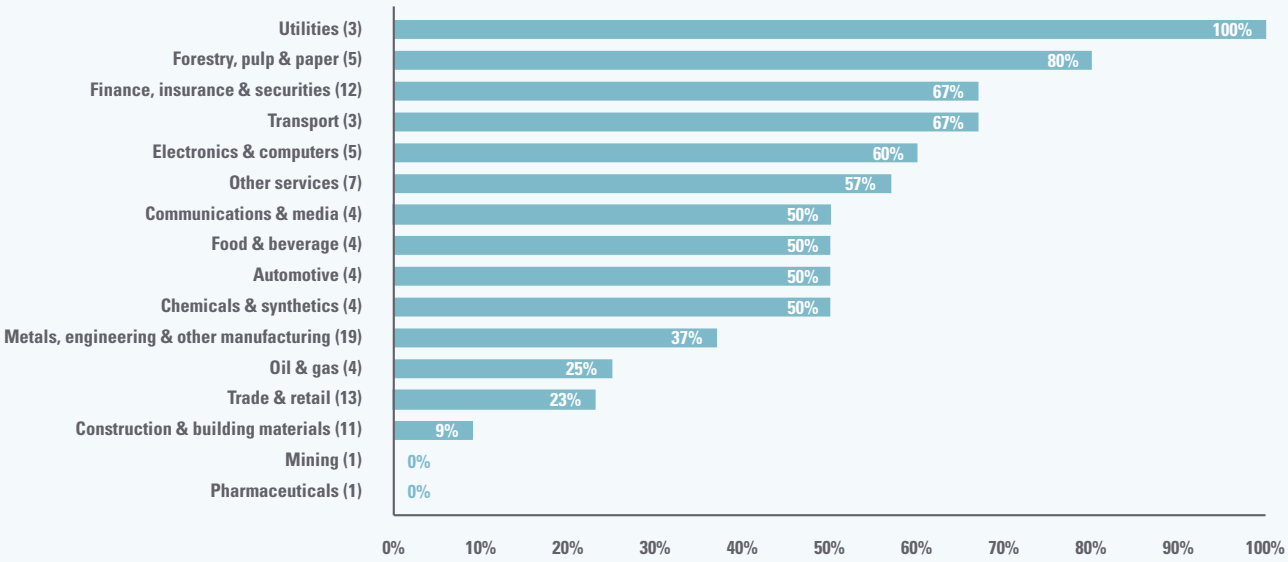
The survey indicates that the 'Big Four' audit firms carry out 9 of the 11 assurance engagements in Denmark; the certification bodies also carry out some assurance work on corporate responsibility reports.

Normally the assurance standard ISAE 3000, is used for verification, but in recent years the AA1000 standard has also been used.

Spotlight
Finland

The corporate responsibility reporting landscape in Finland has evolved over the past few years. Of the top 100 companies, based on revenue, the majority reports on corporate responsibility issues at least on some level. The eagerness of different sectors to report varies, as does the format of the reports. On the whole, a lot has been achieved, but as reporting practices and standards develop alongside growing expectations of stakeholders, it is important that Finnish companies make sure they keep up.

Figure I CR reporting per sector



Source: KPMG Global Sustainability Services, October 2008

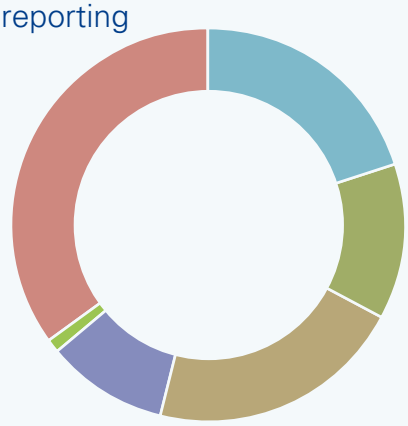
Analysis

When looking at corporate responsibility reporting by sector, the utilities (100 percent) and forestry, pulp, and paper (80 percent) sectors seem to be very diligent reporters. However, they are small sectors within this survey. The finance, insurance, and securities sector includes 12 companies, and the percentage that reports - 67 percent - is high. Metals, engineering, and other manufacturing industries represent the biggest sector in the survey (19 companies), but only 37 percent of its companies report on corporate responsibility issues.

According to the survey, 65 percent of companies report on corporate responsibility issues. Twenty-one percent of companies include a corporate responsibility section in their annual report, and about the same number (20 percent) produce a stand-alone corporate responsibility report. Only one percent of companies issue a fully integrated report whereas 35 percent do not report on corporate responsibility issues at all.

A vast majority (82 percent) of the top 100 companies in Finland do not include third party comments in their corporate responsibility reports, and only 13 percent have their reports assured by a third party.

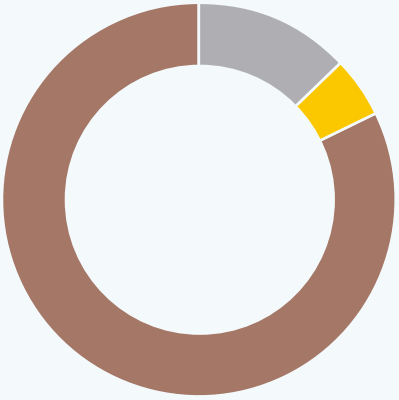
Figure II Integration level CR reporting



- **No integration** (separate CR report only) 20%
- **Partial** (CR report & CR section in the Annual Report) 13%
- **Limited** (CR section in the Annual Report only) 21%
- **Combined** (CR reporting combined with Annual Report) 10%
- **Fully integrated** (CR reporting fully integrated in the Annual Report) 1%
- **No CR reporting** 35%

Source: KPMG Global Sustainability Services, October 2008

Figure III 3rd party comments

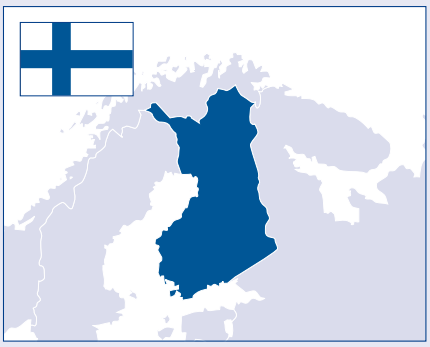


- **Only assurance** 13%
- **Only other 3rd party comments** 5%
- **No 3rd party comments** 82%

Source: KPMG Global Sustainability Services, October 2008

There is a growing trend globally to seek assurance and/or other third party comments to build trust among stakeholder groups. This practice is also expected to increase in Finland.

Highlight - Finland



65 report

18 utilize 3rd party comments

Reporting leaders include utilities, forestry, financial, and transport sectors

20 report on their carbon footprint

Interview

Susanna Monni - Executive Director, Finnish Business and Society

How do you view corporate responsibility in Finland at the moment?
It carries much more weight nowadays. We are especially good at data collection. The companies that have the best corporate responsibility reports in Finland are also top-notch globally. On the other hand, we need more focus on the business value of corporate responsibility because we tend to concentrate on only the ethical and moral aspects.

What do you consider to be the key developments that have influenced the development of corporate responsibility and corporate responsibility reporting in the last few years?
There is a GRI boom in Finland. Companies that are starting to develop their corporate responsibility strategy are adopting the GRI Guidelines for reporting. However, those who have been active in corporate responsibility for a number of years are reducing the number of indicators they report on and are starting to focus instead on material issues.

In your view, what are the main business drivers to report on corporate responsibility?
For some it is important to be able to participate in various indices or to project transparency. Excellent corporate responsibility reporting can also be a way for a company to differentiate itself from competitors when it comes to marketing, recruitment, and financing, for example.

In your opinion, what are the main reasons to seek assurance on corporate responsibility reports?
I think the main driver is being transparent and credible to stakeholders. Getting external assurance is also a learning and development process that gives a company the opportunity for dialogue with an expert.

Innovation

Susanna Monni, Executive Director FiBS, on corporate responsibility innovation in different sectors:

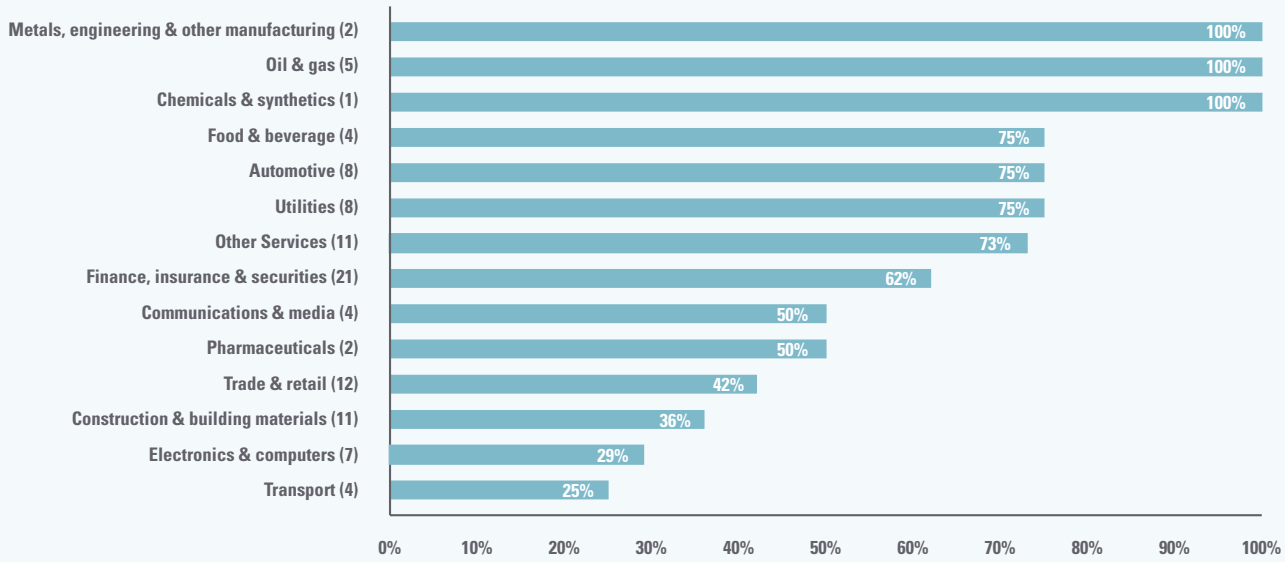
"In the forest industry corporate responsibility is at the heart of company strategy. Some ICT companies have been able to adopt innovative business approaches, such as Nokia's Village Phone program.

In the energy sector we have seen a few innovations, but the required investments are high and will probably need an incentive programme from the government before real progress is seen. Social innovations have not yet taken off, but there is big potential."

Spotlight
France

According to the 2008 KPMG International Survey of Corporate Responsibility, 83 percent of French N100 companies report on corporate responsibility. Although laws such as the New Economic Regulations Act (NRE 2001) require this information in the financial reports of listed companies, it is by choice that almost half of these companies issue the information in a separate report. It is in these reports that companies disclose their policy on corporate responsibility, the systems they have in place to implement it, as well as performance indicators for achieving their goals.

Figure I CR reporting per sector



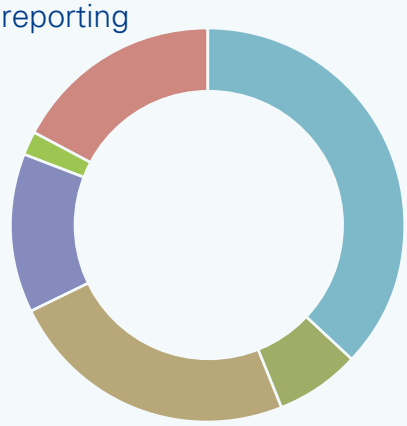
Source: KPMG Global Sustainability Services, October 2008

Analysis

The percentage of French N100 companies that issued a corporate responsibility report doubled to 83 percent in 2008. The percentage of companies issuing a corporate responsibility report separate from an annual report (47 percent) was similar in 2008 to what it was in 2005. Some companies combine information about their social and environmental performance with financial information in a single report, as a way to illustrate that corporate responsibility is becoming more fully integrated into operations. The level of detail disclosed in stand-alone reports is usually similar to the information provided in reports that are fully integrated. The integrated reports, however, rarely disclose information on commitments to performance.

Companies from all sectors issue corporate responsibility reports. Reporting is especially common in the oil and gas, metals and engineering, and chemicals and synthetics sectors, largely because of the pressure and high expectations of stakeholders and analysts. Two-thirds of companies from non-industrial sectors, such as finance, insurance, and securities, disclose on social and environmental performance. However, only 25 percent of companies from the transportation sector issue reports, even though their activities contribute to climate change and they share a similar obligation to corporate responsibility as other sectors.

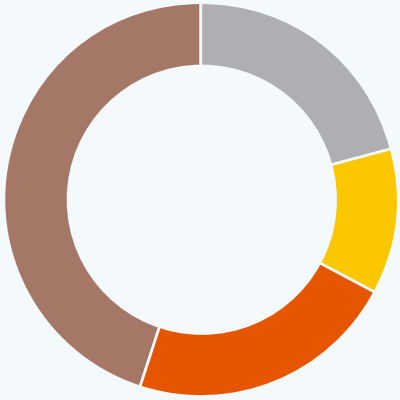
Figure II Integration level CR reporting



- **No integration** (separate CR report only) 37%
- **Partial** (CR report & CR section in the Annual Report) 7%
- **Limited** (CR section in the Annual Report only) 24%
- **Combined** (CR reporting combined with Annual Report) 13%
- **Fully integrated** (CR reporting fully integrated in the Annual Report) 2%
- **No CR reporting** 17%

Source: KPMG Global Sustainability Services, October 2008

Figure III 3rd party comments

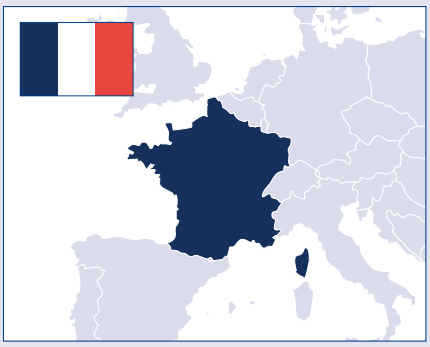


- **Only assurance** 21%
- **Only other 3rd party comments** 12%
- **Both assurance & 3rd party comments** 22%
- **No 3rd party comments** 45%

Source: KPMG Global Sustainability Services, October 2008

Today, 55 percent of French N100 companies include third party comments in their reports. These comments may be assurance statements, third party comments, or both. Increasingly, this type of opinion is expected by those in the French market, particularly analysts and stakeholders.

Highlight - France



83 report

55 utilize 3rd party comments

100% of chemicals, oil & gas, and metals & engineering companies report

79 have a corporate responsibility strategy in place

Interview

Claude Nahon - Director, Environment and Sustainability, EDF Group

What does corporate responsibility mean in your business?
Corporate responsibility and sustainable development concern every aspect of our business. At EDF we deal with the issue on two levels: in terms of our products and in terms of our industry. Electricity is an essential resource for individual development, so our aim at EDF is to make electricity available at a low cost. From our perspective, it is a question of access to energy worldwide. In terms of our industry, it means dealing with our environmental impact on both the global scale (such as climate change) and locally (such as the production of waste, water consumption, and local environmental concerns).

What do you consider to be the key developments influencing the development of corporate responsibility and corporate responsibility reporting in the last few years?
The key external factors that have influenced the development of corporate responsibility are crises such as the 2003 heat wave in Europe, as well as greater awareness of the carbon market and sustainable development. Over the last two years we have also witnessed a general awakening to climate change issues.

How is corporate responsibility reporting integrated into your company's management and accountability processes?
We have taken measures internally to make sustainable development an integral part of the group's strategic management systems. These include setting up sustainable development trophies and having our non-financial reporting verified externally by our auditors. Sustainable development strategy is also an integral part of our ISO 14001 approach and management training program.

Carrefour

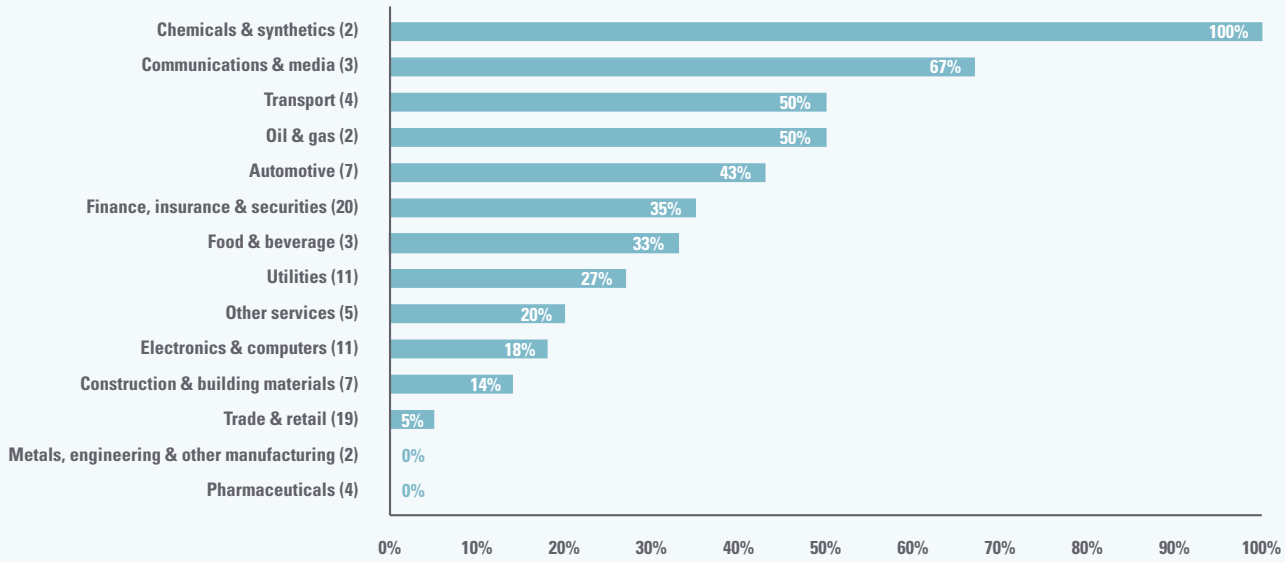
This year Group Carrefour issued a challenges booklet that sets out five issues they consider to be key Group challenges: a balanced diet, responsible consumption, the social conditions of manufacturing, being a responsible employer, and climate change. This guide sets out Carrefour's policy as well as practical solutions for meeting these five key economic, social, and environmental challenges.

The guide allows stakeholders to understand Group priorities easily and unambiguously. It also allows the Group to explain its main action plans in succinct detail.

Spotlight
Hungary

The growth of corporate responsibility in Hungary has accelerated significantly since the accession to the European Union in 2004. Companies with different corporate cultures, approaches, and drivers for reporting are more and more active in the field of corporate responsibility, but there is still room for improvement with local stakeholder engagement, integration, and transparency. Media, government, and civil society are generally speaking considered to be the key promoters of the development of corporate responsibility, both as a business ethic and a reporting practice.

Figure I CR reporting per sector



Source: KPMG Global Sustainability Services, October 2008

Analysis

Awareness in Hungary of corporate responsibility is relatively high, driven by multinational companies applying group level values, policies, and procedures, as well as corporate responsibility-related events, media coverage, and government initiatives.

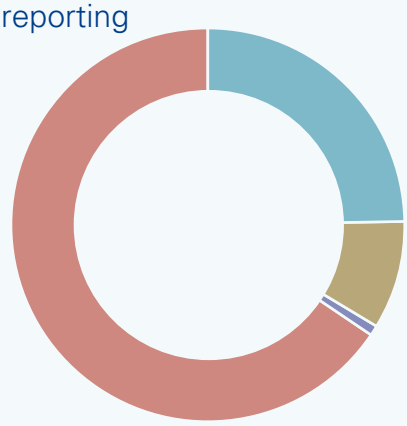
Sectors in the focus of the public interest are more likely to be involved in reporting (Figure I). The financial sector has made the most significant progress in reporting recently, with more than 50 percent of companies issuing reports.

Almost 60 percent of the surveyed companies are involved in sustainability reporting either at a group or local level. Of those that report locally, 25 companies prepare a separate report, and nine issue an annual report with a corporate responsibility section (Figure II).

Disclosed objectives, key performance indicators, impacts, and results achieved prove that reporting goes beyond a mere public relation exercise in most cases. However, the majority of reporting companies have not addressed the financial impact of sustainability.

Forty-one percent of companies apply GRI's G3 as a reporting standard and guideline, with the most widely-used application level being B/B+.

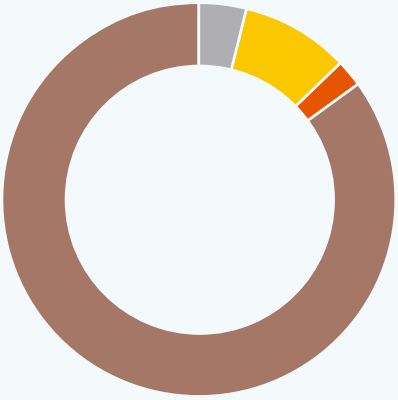
Figure II Integration level CR reporting



- **No integration** (separate CR report only) 25%
- **Limited** (CR section in the Annual Report only) 9%
- **Combined** (CR reporting combined with Annual Report) 1%
- **No CR reporting** 66%

Source: KPMG Global Sustainability Services, October 2008

Figure III 3rd party comments

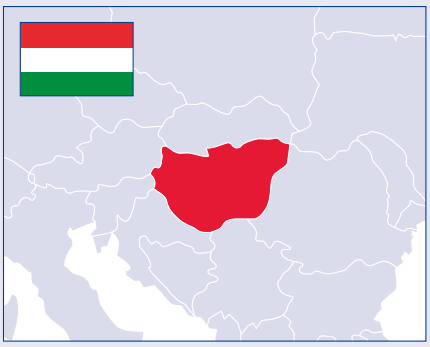


- **Only assurance** 4%
- **Only other 3rd party comments** 9%
- **Both assurance & 3rd party comments** 2%
- **No 3rd party comments** 85%

Source: KPMG Global Sustainability Services, October 2008

The importance of an external independent assurance provider has not yet been widely recognized. Only 15 percent of reporters included a third party opinion or a formal assurance statement (Figure III). However, assurance could assist in enhancing transparency and the accuracy of data presented in non-financial reports.

Highlight - Hungary



44 report (**25** stand-alone)

15 utilize 3rd party comments

Of the **19** trade & retail companies, **5%** report

11 report on their carbon footprint

Interview

Christopher Mattheisen - CEO, Magyar Telekom

What are the key factors that have influenced the development of corporate responsibility reporting in the last few years?
The Global Reporting Initiative (GRI) is one of the main driving forces in sustainability reporting. Since 2002 we have prepared our sustainability reports based on the GRI Guidelines (once "In Accordance With"). Hot topics have changed over time, but right now there is a strong focus on climate change and supply chain.

What are the main business drivers to report on corporate responsibility?
There are several reasons to report on economic, social, and environmental performance. First, you can only develop what you measure. Another reason is to promote accountability and to maintain trust and credibility among all stakeholders. Third party verification is also a tool for credibility.

How do you address conflicts between business strategy and corporate responsibility?
Magyar Telekom's business and sustainability strategies are harmonized. We create long-term shareholder value by embracing opportunities to provide services that can contribute to sustainable development.

Does your company address climate change risks and/or opportunities?
To avoid the risks arising from climate change, we regularly check and measure weather conditions at our base stations, for example. ICT holds real promise for reducing CO2 emissions for our company as it can help reduce or replace travel emissions, the need for real estate, the use of materials, and so on. Audio and video conferencing, online billing, telecommuting, intelligent buildings, e-learning, and remote health care are other examples. Climate change risks at the global level also depend on information and the speed of accessing this information, where again ICT plays an important role.

Areas for possible development

1. Sustainable strategies: corporate responsibility strategy, objectives, and key performance indicators that are in line with business strategy.

2. Stakeholder engagement: structured stakeholder dialogue system for defining key stakeholders, roles (expectation gathering, strategy development, report preparation), communication channels, forms, and frequency.

3. Report locally: companies reporting on group level are also to disclose information about its local impacts.

4. Report content: prepare more focused CR reports presenting objectives set, tangible impacts, results achieved, dilemmas, development areas, new objectives for the next reporting period according to the stakeholder expectations.

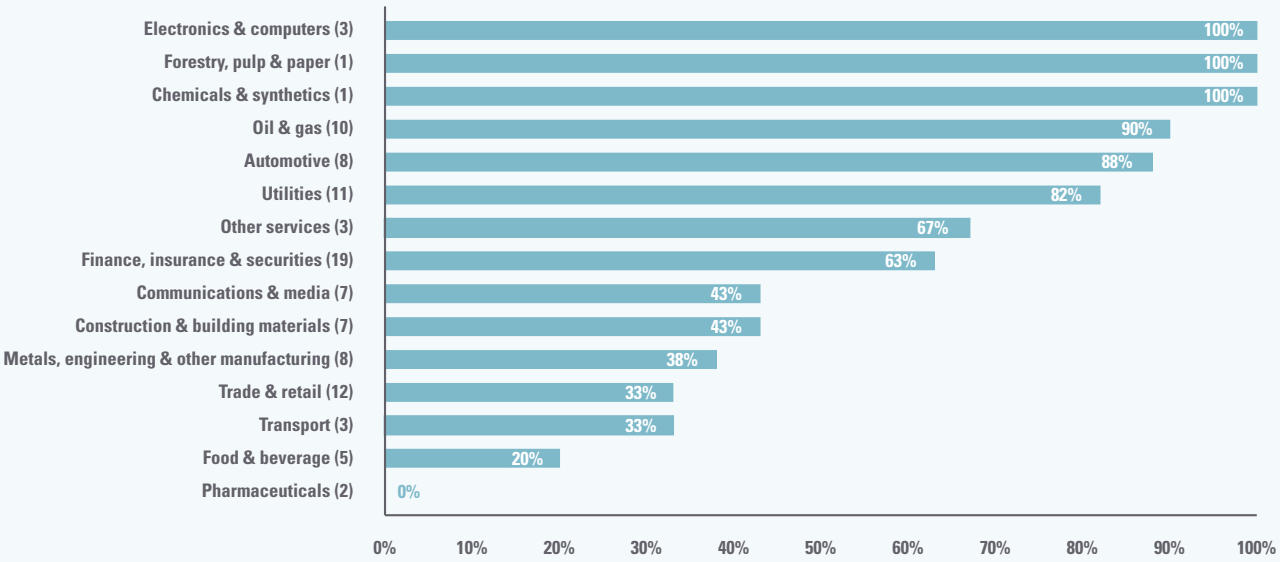
5. Financial impact assessment: analyze and report on risks and opportunities of sustainability with financial impact.

6. Assurance: include third party opinion and/or professional assurance statement enhancing credibility and accuracy.

Spotlight
Italy

During the last few years, Italian companies have paid increased attention to corporate responsibility issues. Italian companies have started to make the link between corporate responsibility and risk management, and to develop sustainability strategies aimed at avoiding different kinds of risks, especially reputational ones. On the flipside, they have also begun to find new opportunities through corporate responsibility. However, the road to full integration of corporate responsibility in business strategy is still long, and tools for incorporating it in business processes need improving.

Figure I CR reporting per sector



Source: KPMG Global Sustainability Services, October 2008

Analysis

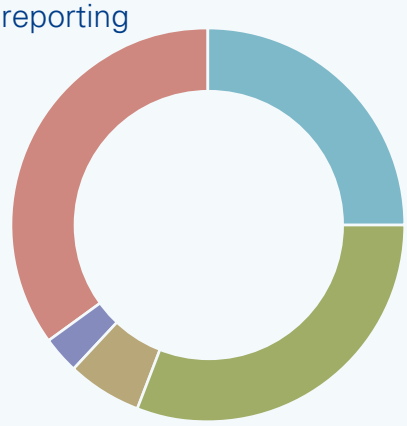
The large number of Italian companies reporting on social and environmental performance is proof of an increased interest in the business opportunities offered by corporate responsibility. The number of companies reporting on these issues increased to 65 percent. Of the companies that reported, 59 percent published a separate corporate responsibility report (up from 31 percent in 2005), and 33 disclosed information on corporate responsibility issues in their annual report - a positive trend over the last three years. Only three companies fully combined their corporate responsibility reports and annual reports.

Of 59 corporate responsibility reports issued, 12 are published by finance, insurance, and securities companies, nine each by oil and gas companies and by utilities companies, and seven by automotive companies.

Among these sectors the most active is the oil and gas sector, comprising 90 percent of companies reporting on corporate responsibility issues.

Forty of 65 companies reporting on corporate responsibility issues asked for a third party statement on their disclosures. Thirty-six companies sought formal assurance of their reports, mainly (56 percent) provided by major accountancy firms.

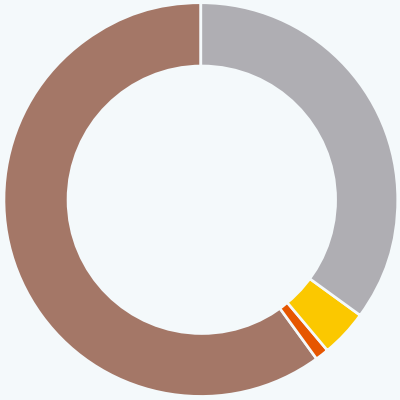
Figure II Integration level CR reporting



- **No integration** (separate CR report only) 25%
- **Partial** (CR report & CR section in the Annual Report) 31%
- **Limited** (CR section in the Annual Report only) 6%
- **Combined** (CR reporting combined with Annual Report) 3%
- **No CR reporting** 35%

Source: KPMG Global Sustainability Services, October 2008

Figure III 3rd party comments



- **Only assurance** 35%
- **Only other 3rd party comments** 4%
- **Both assurance & 3rd party comments** 1%
- **No 3rd party comments** 60%

Source: KPMG Global Sustainability Services, October 2008

Third party comments, which are not formal assurance statements, are rather unusual in Italy. In fact, only four reports contain this kind of statement and three of them are Italian branches of foreign companies.

Highlight - Italy

65 report

40 utilize 3rd party comments

100% of electronics, forestry, and chemicals companies report

42 have a corporate responsibility strategy

45 disclose their carbon footprint

Interview

Mario Boella - Chairman of ASSIREVI, Association of Italian Audit Firms

When should a company get its report assured?
Reporting companies in Italy are not likely to seek report assurance, but assurance can add value to a report. We have to remember that trust and transparency are the main pillars of a corporate responsibility report and that the primary aim of the assurance statement is to distinguish the report from all other kinds of communication on sustainability. However, when it comes to assurance we have to take into account the size of a company. Large companies certainly get the most value from assurance because they have different types of stakeholders, such as socially responsible investors.

What is ASSIREVI's role in promoting the assurance of corporate responsibility reports?
Our association has been working for several years to promote reporting on non-financial information, and in particular corporate responsibility reports.

We will be publishing a research document that provides guidelines on assuring corporate responsibility reports, related to the international standard, "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" (ISAE 3000).

Is ISAE 3000 the main assurance standard for corporate responsibility reports in Italy?
ISAE 3000 is the most diffused accountancy standard for non-financial information in Italy. This is because it is a generic standard that establishes basic procedures and essential procedures for reporting accountants. In its last revision, AccountAbility's standards, the AA1000, also became more compatible with ISAE 3000.

Climate Change

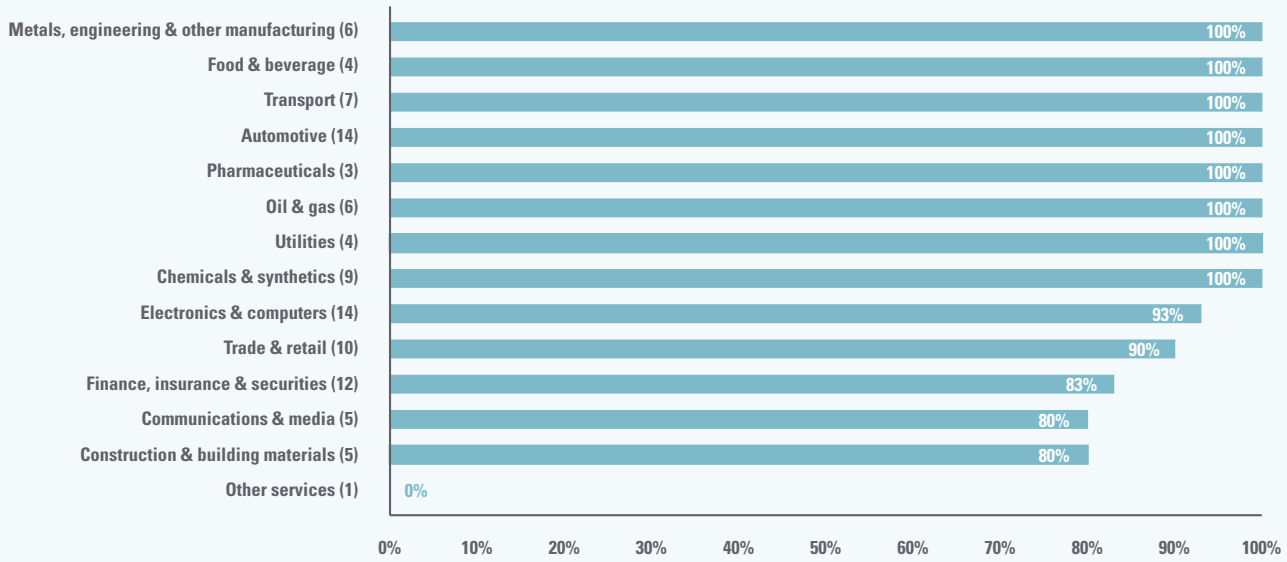
The corporate responsibility issue that is getting the most attention from major Italian companies is climate change. Italian companies take climate change into consideration when defining their sustainability policy and, above all, they try hard to set up tools to monitor their carbon footprint. Nevertheless, Italian companies are rarely aware of the business risks and opportunities related to climate change.

Many of them report on their carbon footprint and measures adopted to reduce emissions, but only a few companies implement an effective environmental strategy on climate change.

Spotlight
Japan

Companies in Japan are keenly aware of corporate responsibility, with 99 percent of its N100 companies reporting on corporate responsibility issues in either stand-alone reports or in annual reports. Regardless of sector, corporate responsibility reporting is an expected practice of any national or multinational company in Japan. However, external assurance has not yet taken hold in a significant way.

Figure I CR reporting per sector



Source: KPMG Global Sustainability Services, October 2008

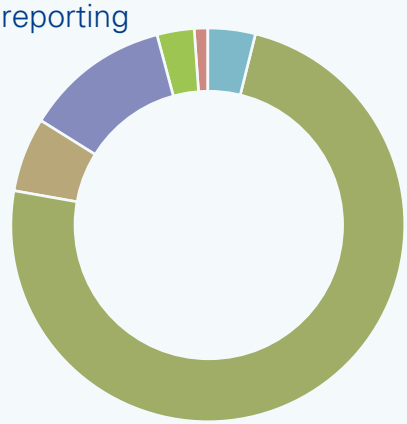
Analysis

Figure I shows corporate responsibility reporting by sector. Practically all companies whose business activities have a rather direct impact on the environment, such as the manufacturing, transport, and energy and utilities sectors, publish reports - nearly 100 percent. Companies whose business activities tend to have a more indirect effect on the environment, such as trade and retail, finance, insurance and securities, communications and media, and construction and building materials, issue fewer reports, although the rate is still high.

Figure II shows the integration level of corporate responsibility reporting. Seventy-four percent of the N100 companies publish separate reports while also dedicating a section of their annual report to corporate responsibility matters. Ninety-five percent of the N100 companies include some corporate responsibility information in their annual report. The result indicates that corporate responsibility is regarded as a key issue for shareholders, investors, and other stakeholders.

Figure III gives insight into the role of third party comments. More than half of the N100 companies receive third party opinion whereas only 22 of the

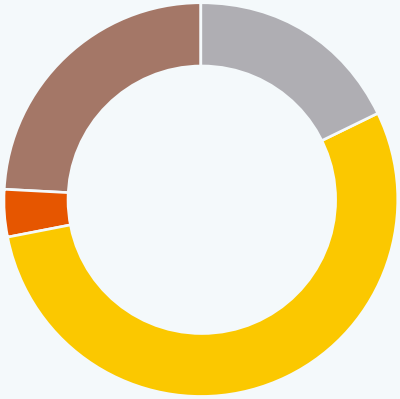
Figure II Integration level CR reporting



- **No integration** (separate CR report only) 4%
- **Partial** (CR report & CR section in the Annual Report) 74%
- **Limited** (CR section in the Annual Report only) 6%
- **Combined** (CR reporting combined with Annual Report) 12%
- **Fully integrated** (CR reporting fully integrated in the Annual Report) 3%
- **No CR reporting** 1%

Source: KPMG Global Sustainability Services, October 2008

Figure III 3rd party comments

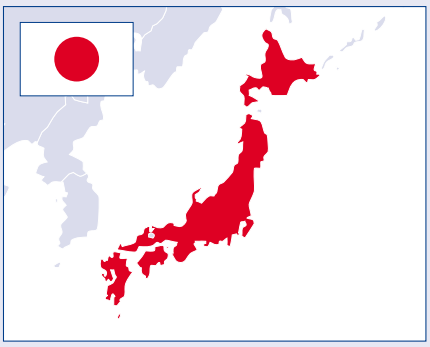


- **Only assurance** 18%
- **Only other 3rd party comments** 54%
- **Both assurance & 3rd party comments** 4%
- **No 3rd party comments** 24%

Source: KPMG Global Sustainability Services, October 2008

corporate responsibility reports received formal assurance. It seems that companies often deem third party comments and assurance to be somewhat interchangeable, as only four companies seek both opinion and assurance.

Highlight - Japan



99 report

74 utilize 3rd party comments

80 report on business opportunities or the value of corporate responsibility

Innovation and employee motivation are top reporting drivers

Case study

Sumitomo Chemical Co., Ltd

The corporate responsibility activities of Sumitomo Chemical Co., Ltd. are strongly linked to the various initiatives of the International Council of Chemical Associations (ICCA). ICCA's commitment to health, safety, and environmental performance is put into action via its Responsible Care, High Production Volume (HPV), Long-Range Research (LRI), and Global Product Strategy (GPS) initiatives.

The CEO of Sumitomo Chemical Co, Hiromasa Yonekura, serves as the chairperson of the global warming and energy policy working group at ICCA. Because of this involvement, Sumitomo Chemical sets strategies aiming to increase energy efficiency through the use of benchmarks. Sumitomo Chemical is also working on introducing climate-friendly chemical products to other markets such as automotive, electricity, and housing, by applying the LCA method and cooperating with other chemical companies.

Sumitomo Chemical has also introduced Olyset® net, a long-lasting insecticidal net that makes a significant contribution to the global fight against malaria. In recognition of this, TIME Magazine named the Olyset® mosquito net one of "The Most Amazing Inventions of 2004." To realize its ambition to manufacture Olyset® net locally, Sumitomo Chemical transferred its technology to a Tanzanian company, whose total production reaches 10 million units per year. This transfer has created more than 3,000 jobs in Tanzania, and the profits generated from the sale of Olyset® net are returned to the country in the form of school construction and other projects.

Kyoto Protocol commitment

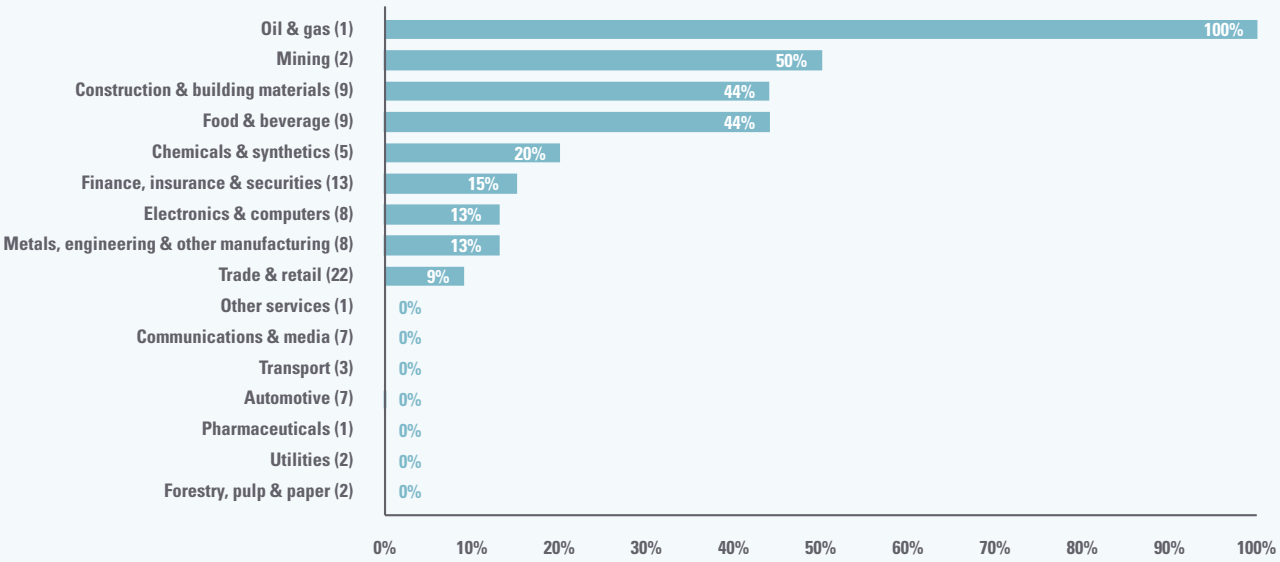
In 1997, Japan ratified the Kyoto Protocol and in doing so committed to reduce greenhouse gas (GHG) emissions by an average of six percent against 1990 levels over a five-year period (2008-2012). To achieve this target, Nippon Keidanren of the Japan Business Federation set a "Keidanren Voluntary Action Plan on the Environment" in 1997.

Thirty-four industries covering more than 80 percent of all CO_2 emissions from the industrial and energy sectors have participated. The plan determines numerical targets for CO_2 emissions reduction set by each industry.

Spotlight
Mexico

With almost two million square kilometers of territory and 110 million people, Mexico is the fifth largest country in the Americas and the 12th largest economy in the world, with strong commercial relations with the US. Corporate responsibility practices in Mexico are evolving from philanthropic efforts to standards-based reporting with corporate governance practices for stronger transparency and accountability to both shareholders and the wider community.

Figure I CR reporting per sector



Source: KPMG Global Sustainability Services, October 2008

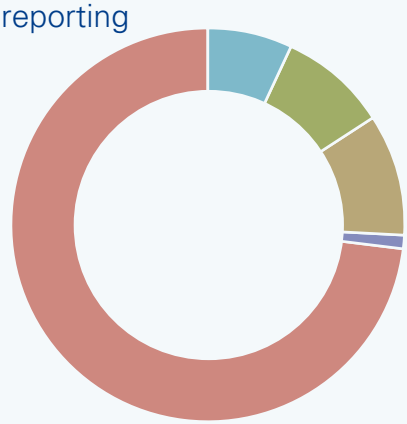
Analysis

Corporate responsibility reporting has made progress in the last few years with more companies developing a corporate responsibility performance strategy, especially in those industry sectors with higher impact. In reporting, these sectors have found a useful vehicle for both addressing stakeholders' concerns and managing exposure to risk. Reporting is still not a widespread practice across other industry sectors however, such as forestry, pulp and paper, automotive, and utilities.

Sustainable development has earned a strong position on the government agenda, with a section devoted to it in the 2007–2012 National Development Plan. Newcomers to reporting as well as other companies have followed the guidelines proposed by the CEMEFI (Mexican Philanthropy Center), which has gathered information on 273 companies as of 2008. Awareness of corporate responsibility is growing, and more sectors will join the effort in years to come.

The number of companies that report on corporate responsibility is only 27 percent of the total survey population. This indicates that there is a huge opportunity for companies

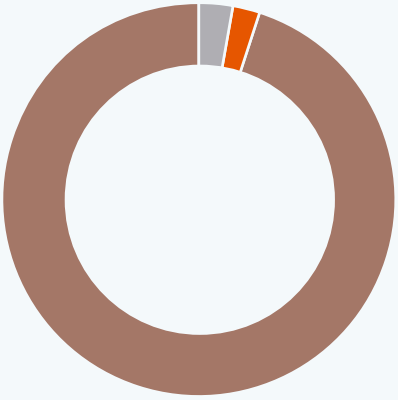
Figure II Integration level CR reporting



- **No integration** (separate CR report only) 7%
- **Partial** (CR report & CR section in the Annual Report) 9%
- **Limited** (CR section in the Annual Report only) 10%
- **Combined** (CR reporting combined with Annual Report) 1%
- **No CR reporting** 73%

Source: KPMG Global Sustainability Services, October 2008

Figure III 3rd party comments



- **Only assurance** 3%
- **Both assurance & 3rd party comments** 2%
- **No 3rd party comments** 95%

Source: KPMG Global Sustainability Services, October 2008

Highlight - Mexico

27 report

5 utilize 3rd party comments

Of the **22** trade & retail companies, nine percent report

Innovation and employee motivation are top reporting drivers

10 report their carbon footprint

Case study

Petróleos Mexicanos (PEMEX)

PEMEX is a government-controlled body that was created as a decentralized government agency of the Federal Public Administration. Its core purpose is to drive the nation's central and strategic development activities in the state's petroleum industry. PEMEX holds the number 11 position as a crude oil producer and is one of the three main suppliers of crude oil for the US market. In 2007, total sales amounted to approximately US$104.5 billion. Active personnel at PEMEX at the end of 2007 rose to 154,802 workers.

PEMEX has been publishing corporate responsibility reports since 1999.

The 2007 report complies with the indicators set forth in the Global Reporting Initiative (GRI) Guidelines and was the first Mexican GRI Application Level A+ report - the highest level. Moreover, the report meets the guidelines of the United Nations Global Compact for communication in progress. The report addressed the needs of a complex sector, including the national oil and gas Industry, a vast list of stakeholders, and a citizen participation group comprised of highly renowned specialists to address citizens' concerns.

to identify the benefits of corporate responsibility and align them to their business strategy. Ten percent of the Mexican N100 dedicate a separate section to corporate responsibility in their annual report, and seven percent issue only a separate report.

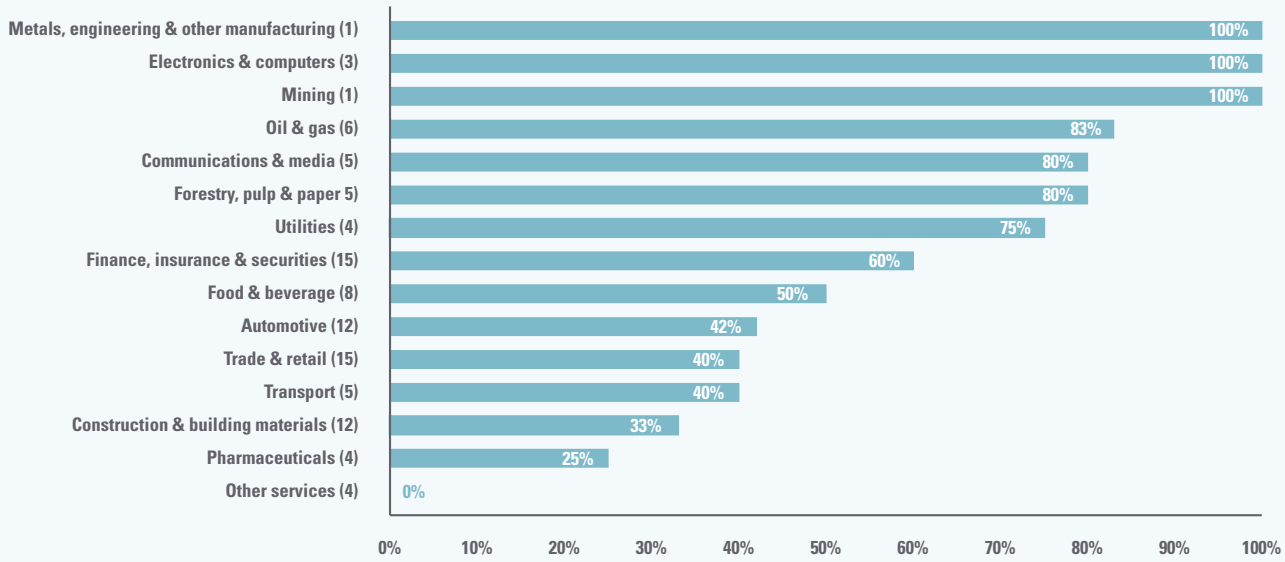
Regarding third party comments and external assurance, only five companies used external sources to comment or verify the contents of their reports, therefore relying on the internal knowledge of the company as the only source for assurance. This is due to the low penetration of international standards in the reports and the use of informal practices developed in-house.

These tend to be refined as stakeholders demand more objectivity and transparency in how the report was produced.

Spotlight
Portugal

The results show a significant increase in reporting from the Portuguese N100 companies compared to 2006, when a similar study was performed by KPMG in Portugal. At that time, 10 percent of N100 issued either a sustainability report or a chapter in the annual report, a much lower number than today. This increase in reporting is a result of the growing awareness of, and commitment, to sustainability issues among Portuguese companies.

Figure I CR reporting per sector



Source: KPMG Global Sustainability Services, October 2008

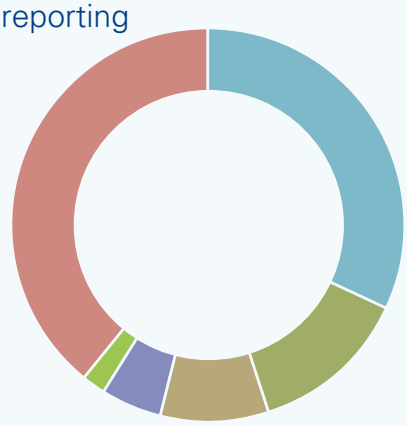
Analysis

Since 2005 there has been a significant increase in reporting among N100 companies operating in Portugal. The leading sectors include companies with high environmental impact, with more than 50 percent of companies reporting information about performance on sustainability issues. Another remarkable change is that the finance, insurance, and securities sector have more than 60 percent of companies reporting on sustainability.

Half of the 61 N100 companies that report do not only issue a separate corporate responsibility report. Integrating information into annual reports is often a preferred option due to a lack of resources for reporting and the perception among companies that the effort is not worth the cost of issuing a separate report. Nevertheless, reporting is still considered relevant to these companies.

Few corporate responsibility reports in Portugal contain third party comments. This is consistent with the low percentage of reporting companies that have their report externally assured. Although report assurance in Portugal is increasing, companies need to understand the benefits of this process and kind of analysis, especially with regard to materiality.

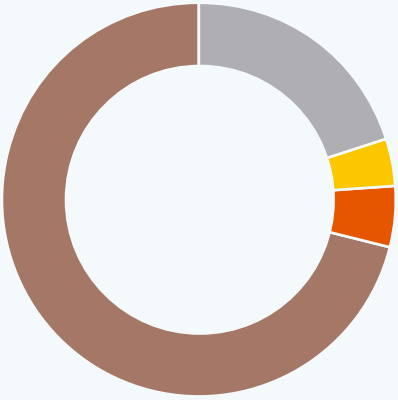
Figure II Integration level CR reporting



- **No integration** (separate CR report only) 32%
- **Partial** (CR report & CR section in the Annual Report) 13%
- **Limited** (CR section in the Annual Report only) 9%
- **Combined** (CR reporting combined with Annual Report) 5%
- **Fully integrated** (CR reporting fully integrated in the Annual Report) 2%
- **No CR reporting** 39%

Source: KPMG Global Sustainability Services, October 2008

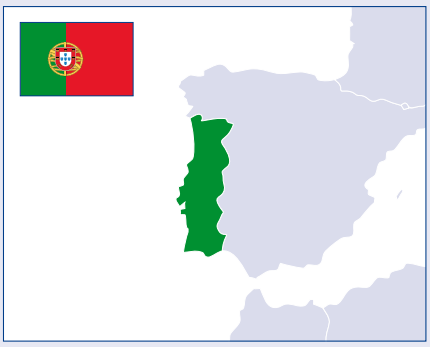
Figure III 3rd party comments



- **Only assurance** 20%
- **Only other 3rd party comments** 4%
- **Both assurance & 3rd party comments** 5%
- **No 3rd party comments** 71%

Source: KPMG Global Sustainability Services, October 2008

Highlight - Portugal



61 report

29 utilize 3rd party comments

100% of metals & engineering, mining, and electronics companies report

Innovation and ethical considerations are top reporting drivers

30 report on their carbon footprint

Interview

Vasco de Mello - Chairman, BCSD Portugal

What do you consider to be the key developments that have influenced corporate responsibility and corporate responsibility reporting in the last four years?
It has been influenced, by the increasing awareness of sustainability issues such as energy and climate or ecosystems, among all stakeholders. It has also been influenced by the momentum that holistic approaches to risk management have gained in capital markets.

In your view, what are the main business drivers for reporting on corporate responsibility?
Two fundamental drivers: 1) Corporate management systems and performance improvement; and 2) reputation asset management and stakeholder involvement.

What are the main drivers for assurance on corporate responsibility reports?
Third party assurance is vital to promote materiality and maybe a competitive advantage as far as reputation assets are concerned. It may also add value to the organization through benchmarking and improving/adopting better and more efficient practices.

In your view, how is risk management linked to corporate responsibility?
Risk management and corporate responsibility are closely intertwined. The growing complexity of business requires new tools, ever more innovative and versatile. The integrated approach to business provided by corporate responsibility is key to better risk management and adjustment, adding new issues and indicators to classic fundamentals.

To what extent does corporate responsibility influence innovation in products/services development?
Corporate responsibility's influence on innovation (products/services) is a combination of factors that vary strongly from business to business. In most cases, it is based on cost efficiency, new consumer expectations oriented for sustainability values, and new business opportunities related to new green technologies and solutions.

The importance of the third sector

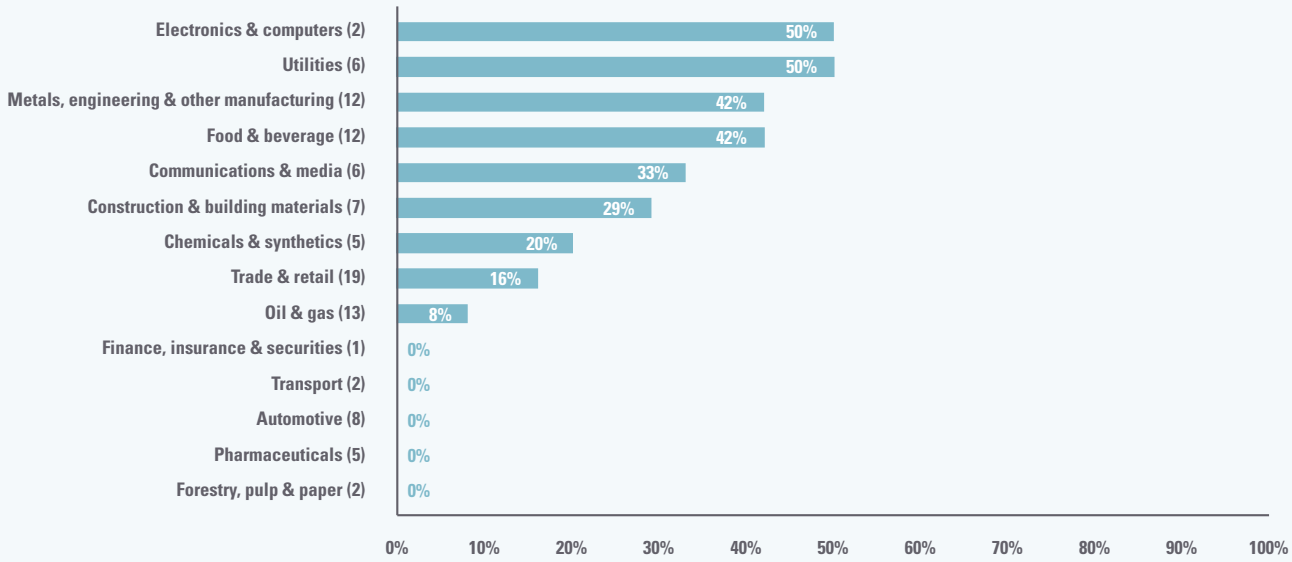
The social economy sector is now receiving greater recognition at the European Union Member State level, particularly by financial institutions, because it represents important sources of entrepreneurship and jobs. In Portugal this sector represents about 4.2 percent of GDP and employs, on average, 250,000 people.

Portuguese financial institutions, like Banco Espírito Santo, are committed to creating value for the wide charity and community network by providing specific products and services tailored to their needs, as well as financial training for the managers of these institutions.

Spotlight
Romania

This is the first year since the inception of KPMG's International Survey of Corporate Responsibility that Romanian companies have been surveyed. One of the most significant findings of the survey was that there was a difference in commitment to corporate responsibility reporting between multinational companies operating in Romania, which are more active in reporting, and Romanian-owned companies, which have less interest. This result could indicate that Romanian companies are less mature than global companies when it comes to disclosing non-financial information voluntarily.

Figure I CR reporting per sector



Source: KPMG Global Sustainability Services, October 2008

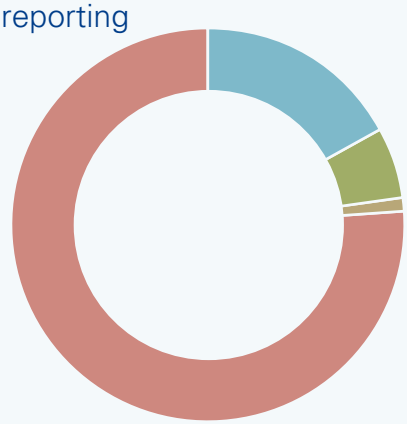
Analysis

The top sectors in sustainability reporting are electronics and computers as well as utilities, neither of which are very well represented in Romania's N100 (only 8 companies). Food and beverage, as well as metals, engineering and other manufacturing, rank second in reporting, but many of the companies in these sectors are multinationals. Sectors very well represented in the N100 are oil and gas and trade and retail (32 companies), but neither of these sectors produce many corporate responsibility reports (8 percent and 16 percent, respectively).

Of the 24 percent of N100 companies that report on corporate responsibility, about two-thirds issued only a separate corporate responsibility report. Six percent of Romanian companies include some information on sustainability in their annual report and in a separate corporate responsibility report. Seventy-six percent of N100 companies do not report on corporate responsibility at all.

Of the 24 companies that report on corporate responsibility, only one company sought assurance of its report and just one company included comments from a third party in its report. This extremely low level of assurance - and low level of corporate

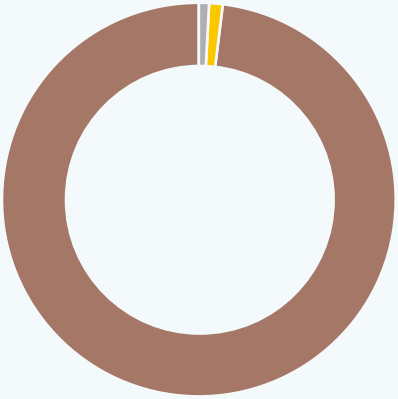
Figure II Integration level CR reporting



- **No integration** (separate CR report only) 17%
- **Partial** (CR report & CR section in the Annual Report) 6%
- **Limited** (CR section in the Annual Report only) 1%
- **No CR reporting** 76%

Source: KPMG Global Sustainability Services, October 2008

Figure III 3rd party comments

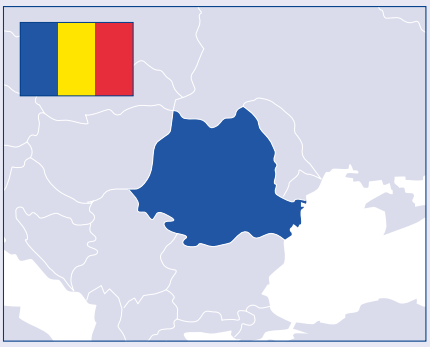


- **Only assurance** 1%
- **Only other 3rd party comments** 1%
- **No 3rd party comments** 98%

Source: KPMG Global Sustainability Services, October 2008

responsibility reporting in general - reflects a lack of awareness and interest among stakeholders in Romania on sustainability and corporate responsibility. These numbers also suggest that companies do not yet appreciate the benefits of reporting and assurance on business development.

Highlight - Romania



24 report

2 utilize 3rd party comments

Reporting leaders include electronics and utilities sectors

Market position and economic considerations are key reporting drivers

28 have a corporate responsibility strategy

Case study

Holcim (Romania)

Holcim Romania has committed itself to sustainable development, and integrated the principles of value-creation, sustainable environmental performance, and corporate social responsibility into its business strategy.

Working in partnership with its stakeholders, Holcim (Romania) is working to improve the quality of life of its workforce, their families, and the communities within which the company operates. The company's policy and global standards on corporate responsibility are applied to its employment practices, occupational health and safety, community involvement, and customer and supplier relations.

Transparent communication, including the annual Romanian Sustainable Development Report (since 2005) helps to build the trust and respect of all stakeholders. High business ethics and personal integrity also support the credibility and reputation of the company.

Increased awareness among the public and decision-makers about global warming and other environmental concerns has contributed to a preference for products and services that help to alleviate climate change. Apart from producing cement in modern, energy-efficient plants, Holcim Romania has also started to use alternative fuels derived from waste. New products with a smaller carbon footprint (Tenco, Structo, road binders) reflect the efforts of the company to produce more cement for the growing Romanian market in a more sustainable way (less CO2 emissions per tonne of cementitious material).

In recognition of the company's efforts around the world, in 2008 the Holcim Group was named "Leader of the Industry" in the Dow Jones Sustainability Index and, for the fourth year in a row, acknowledged as the company with the best sustainability performance in the building materials industry.

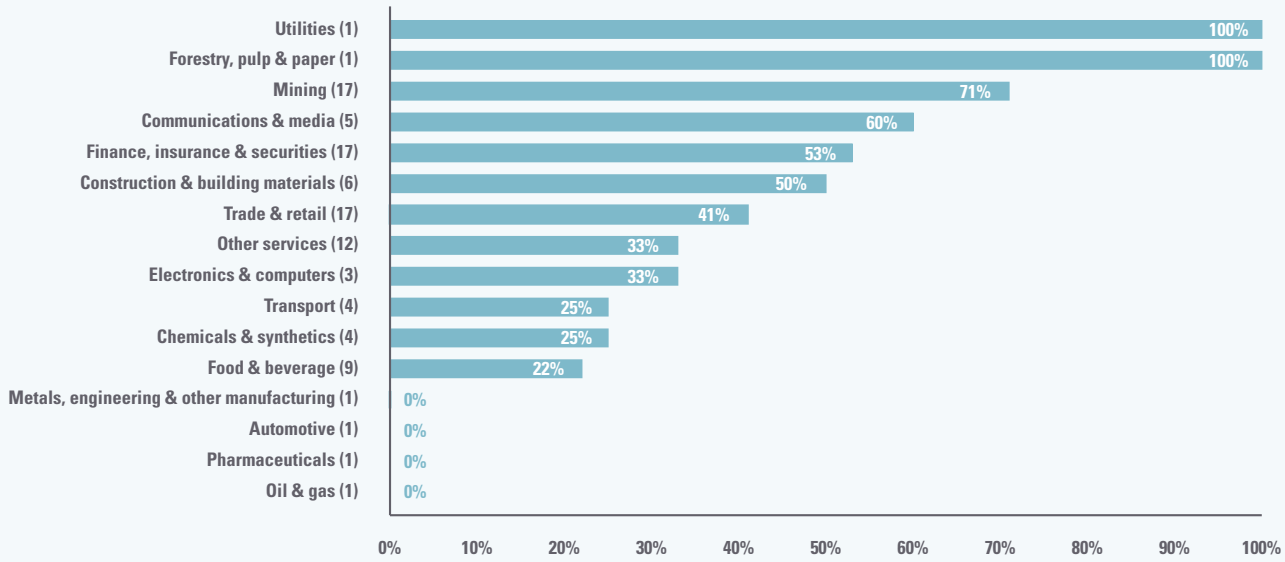
Romania's Approach to Climate Change

Romania has been a signatory of the UNFCCC since 1992 and ratified it in 1994. Romania was also among the first countries to ratify the Kyoto Protocol in 2001, and committed itself to reduce the level of greenhouse gas (GHG) emissions to eight percent of 1989 levels. Even though Romania was already 34 percent below the Kyoto target (mostly due to low economic activity), the government nevertheless acted proactively by putting into place a national strategy and action plan on climate change. The business community's awareness and readiness to manage climate change risk, however, is very limited and the sectors that are not directly affected by the European Union Emission Trading Scheme (EU ETS) directive do not appear to be prepared.

Spotlight
South Africa

Sustainability reporting in South Africa is influenced by three major factors: the extent of a company's environmental impact, its size, and its exposure to international markets and investors. This is due to the fact that companies with large, quantifiable direct impacts face more pressure to report (e.g., the mining sector), and large companies have more discretionary funds to support reporting. Multinational companies, companies that operate in international markets, or companies with an international investor base, produce reports in line with sustainability best practice.

Figure I CR reporting per sector



Source: KPMG Global Sustainability Services, October 2008

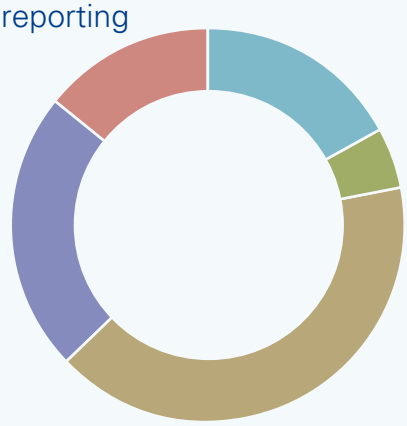
Analysis

If we exclude sectors that are represented by only a few companies, South African sustainability reports are split into two distinct groups (Figure I). First, the majority of companies in the mining, communications and media, and finance, insurance, and securities sectors issue reports. In contrast, less than 50 percent of companies from the construction and building materials, trade and retail, electronics, transport, chemicals and synthetics, and food and beverage industries issue sustainability reports.

Eighty-six percent of companies in South Africa include some level of sustainability reporting in their annual reports or issue a stand-alone report (Figure II). This reflects the influence of the King Code for Corporate Governance (King II), which recommends reporting on sustainability and is a listing requirement of the Johannesburg Stock Exchange.

Very few companies (15 percent) seek assurance of their sustainability reports (Figure III). In by far the majority of cases, companies that seek assurance are in the mining and finance sectors, 75 percent of which operate in international markets or are owned by non-South African companies.

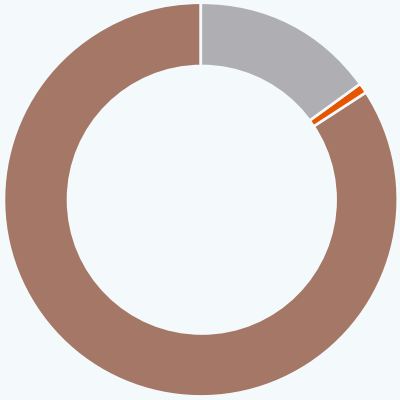
Figure II Integration level CR reporting



- **No integration** (separate CR report only) 17%
- **Partial** (CR report & CR section in the Annual Report) 5%
- **Limited** (CR section in the Annual Report only) 41%
- **Combined** (CR reporting combined with Annual Report) 23%
- **No CR reporting** 14%

Source: KPMG Global Sustainability Services, October 2008

Figure III 3rd party comments

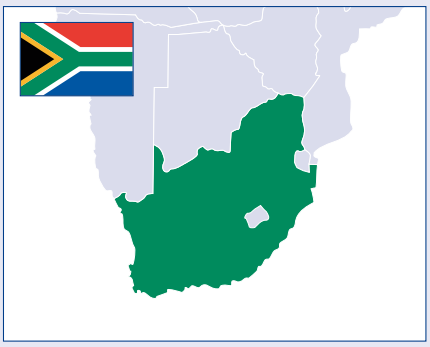


- **Only assurance** 15%
- **Both assurance & 3rd party comments** 1%
- **No 3rd party comments** 84%

Source: KPMG Global Sustainability Services, October 2008

This low level of assurance reflects two influences: low demand for assurance from stakeholders, and a lack of awareness among companies about the benefits of assurance, such as improvements in business management.

Highlight - South Africa



86 report (**17** stand-alone)

16 utilize 3rd party comments

Reporting leaders include utilities, forestry, mining, and communications sectors

25 report on their carbon footprint

Case study

Materiality vs. Full Disclosure

Top South African companies tend to use the Global Reporting Initiative (GRI) Guidelines. In most cases they report on a large set of GRI indicators in their printed report but provide very little information on sustainability strategy, context, and material issues. However, due in part to the influence of GRI's G3 principles-based framework, some companies are starting to approach reporting in a more focused way. The focus of the reports is no longer strictly on performance measures, but on how sustainability presents their company with challenges and opportunities.

A sustainability example of this approach is the report released by Sasol in 2007. In addition to detail on their strategy, management systems, and stakeholder engagement, Sasol's sustainability report focuses on their four material sustainability risks: promoting improved safety performance, addressing the challenge of climate change, responding to the challenge of skills development, and encouraging black economic empowerment in their South African operations.

According to Sasol South African stakeholders have responded well to this approach. Not only is it more cost-effective and environmentally sensitive (fewer pages), but the report communicates key messages to stakeholders, who do not need to search through huge documents for information. Stakeholders who are particularly interested can obtain more detail from the web.

For its report, Sasol was awarded the best South African Sustainability Reporting Award by the Association of Chartered Certified Accountants (ACCA).

Climate Change in South Africa

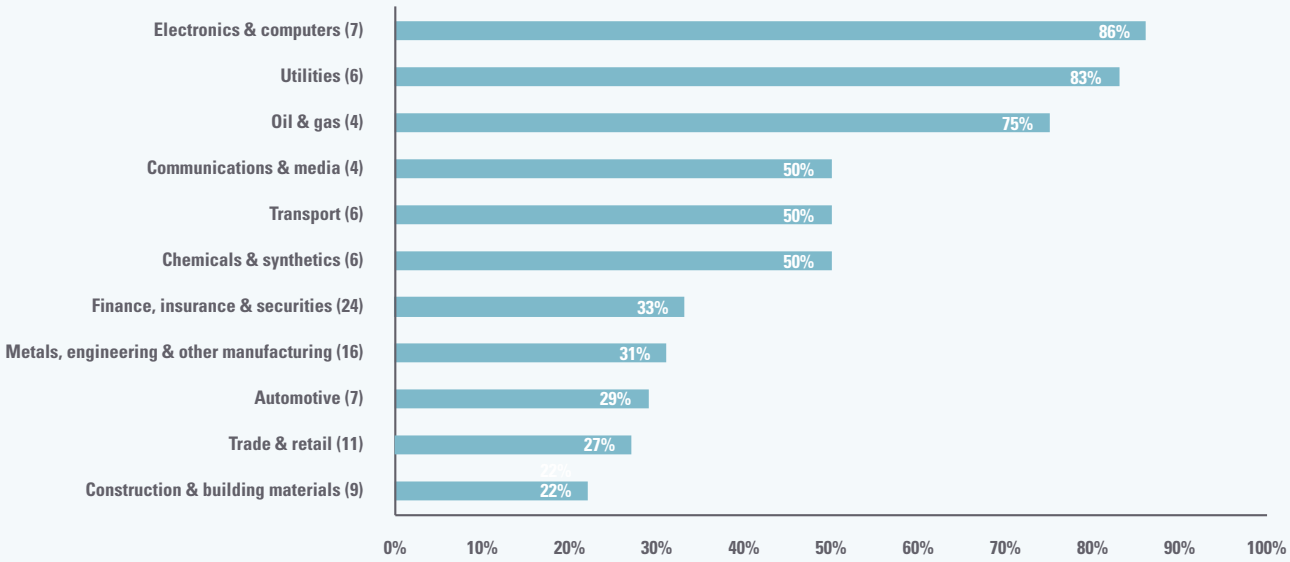
A key driver for sustainability reporting is a heightened awareness of climate change, brought on by electricity shortages in the country. As a result of the insufficient generation capacity of the national energy supplier, Eskom, South Africa is coming to realize that reducing power consumption is not only necessary to combat climate change but is an economic imperative.

Companies are therefore including climate change as a key risk in their reporting and management structures, demonstrated by a 74 percent response rate for South Africa's first Carbon Disclosure Project Report (2007).

Spotlight
South Korea

There is a growing awareness about the importance of corporate responsibility reporting in South Korean businesses. Corporate responsibility reporting is expected to spread to public enterprises, medium-sized corporations and their affiliates, as well as global businesses. In this respect, corporate responsibility reporting is establishing itself as a "must," not an "option," in corporate management.

Figure I CR reporting per sector



Source: KPMG Global Sustainability Services, October 2008

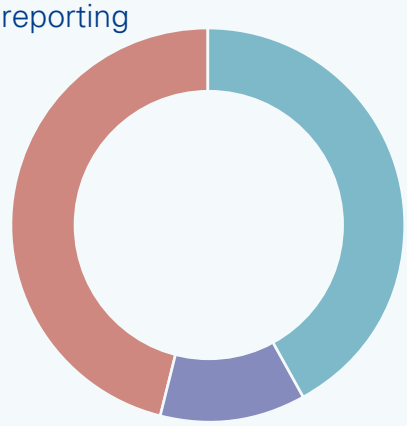
Analysis

The analysis of corporate responsibility reporting by business sector (Figure I) shows that reporting was most prevalent in electronics and computers, utilities, and oil and gas sectors. This is perhaps not surprising due to the link between the nature of their respective industries and their environmental footprint, as well as the emerging opportunities to provide services related to corporate responsibility, such as climate change.

It is noteworthy that the importance of corporate responsibility reporting has expanded to various industries in 2008 compared to 2005 - the number of companies publishing reports skyrocketed from 11 in 2005 to 42 in 2008 (Figure II). This growth is due to the fact that many global customers as well as various civil organizations are demanding it and putting pressure on corporations. It is expected that CEOs of many corporations will come to perceive the importance of reporting on environmental and social performance and begin reporting in order to keep up with this global trend.

In total, 30 of the companies reporting on corporate responsibility had their reports assured by a third party (Figure III). Out of these 30 companies, a very high number (28) opted for

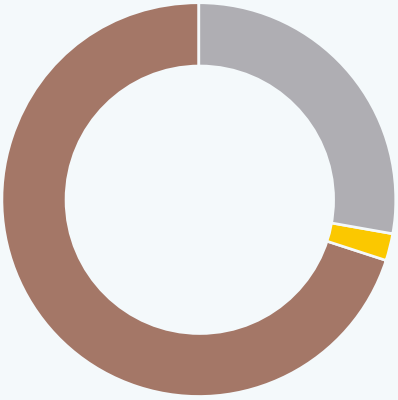
Figure II Integration level CR reporting



- **No integration** (separate CR report only) 42%
- **Limited** (CR section in the Annual Report only) 12%
- **No CR reporting** 46%

Source: KPMG Global Sustainability Services, October 2008

Figure III 3rd party comments

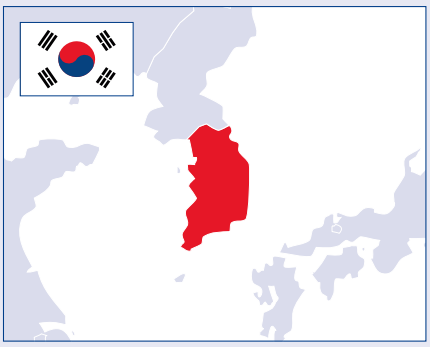


- **Only assurance** 28%
- **Only other 3rd party comments** 2%
- **No 3rd party comments** 70%

Source: KPMG Global Sustainability Services, October 2008

external assurance, with the other two choosing a different form of third party comment. Many South Korean corporations tend to regard third party verification as important for ensuring the objectivity of their reports and enhancing their credibility.

Highlight - South Korea



54 report (**39** stand-alone)

30 utilize 3rd party comments

Reporting leaders include electronics, utilities, and oil & gas sectors

30 report on their carbon footprint

Interview

Young-Chan Nam - Executive Vice President, Head of Management Support Division, SK Telecom

What does corporate responsibility mean in your business?
As a company serving more than half the Korean population, it is crucial for SK Telecom to ensure the well-being of both current and potential customers. The pursuit of customer value is the key to corporate responsibility at SK Telecom.

To what extent does CR influence innovation in your products or services?
Sustainability concerns are effectively reflected in the product and service development process. SK Telecom encourages customer participation at every step, from planning to distribution, and applies a human-centered innovation approach to deliver services that customers truly need. We also partner with external institutions to prepare for future trends such as sustainability.

How is CR integrated into your company's management and accountability processes?
A corporate citizenship committee was recently established, with three outside directors and two internal directors to respond to demands for greater accountability and sustainability in a strategic manner. To embed sustainability in day-to-day operations, Ethics Management Agents are appointed in 55 departments throughout the company.

Which measures does your company have in place to reduce the company's carbon footprint?
Every year all offices set a goal for reducing energy use and awards are given to the best performers. We are introducing natural air-conditioning systems to reduce electricity consumption at base stations. Looking ahead, SK Telecom aims to contribute to the transition toward a Low-Carbon Economy (LCE) not only by reducing our own footprints but by providing solutions for our customers to reduce their footprints.

POSCO

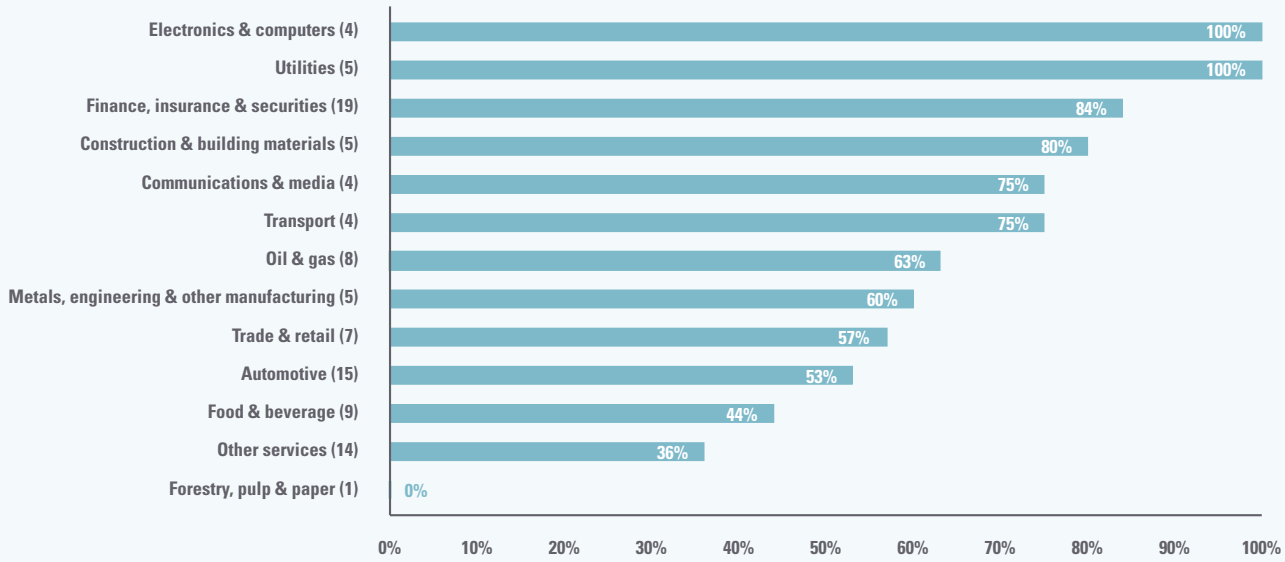
POSCO is providing a vocational training program for married women for the first time in Korea. POSCO opened the program to those who demonstrate strong potential, in order to help them find work and promote their participation in society. Women who complete the program are converted to full-time employee status and deployed to positions according to their aptitude and ability.

They are entitled to enjoy the same working conditions as their male counterparts. Moreover, POSCO plans to expand female dressing rooms and other convenience facilities to provide a better working environment for female employees.

Spotlight
Spain

Corporate responsibility reporting has come a long way in Spain in the last few years. However, in comparison with countries where reporting is more well-established, there is room for improvement. Spanish reporting companies place high importance on assurance. With more than two-thirds of reports assured, Spain ranks second in the survey in percentage of reports assured. However, still one-third of the largest 100 companies in Spain do not report on corporate responsibility at all.

Figure I CR reporting per sector



Source: KPMG Global Sustainability Services, October 2008

Analysis

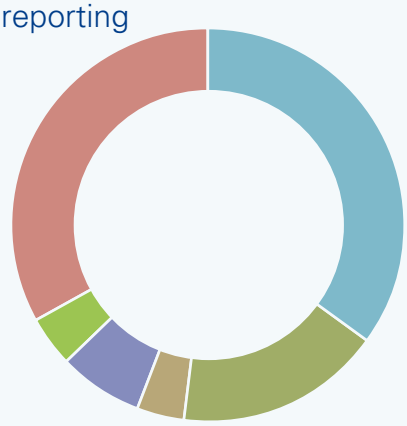
In the survey Spain's rate of reporting on corporate responsibility is above average in all sectors except forestry, pulp, and paper. Sectors that contribute significantly to GDP, such as construction, finance, and insurance and securities, have some of the highest rates of reporting, with 80 percent or more of companies reporting on corporate responsibility. However, just over half of automotive companies, significant in number and important for the local economy, publish corporate responsibility reports.

Integration of corporate responsibility information into annual reports is far from the norm in Spain. One-third of the companies surveyed do not report on corporate responsibility at all, while roughly another one-third publish only a corporate responsibility report, separate from their annual report.

This leaves just under one-third of Spain's 100 largest companies integrating corporate reporting into their annual reports. This is, in general, below average among the surveyed countries.

Spain ranks high in assurance of corporate responsibility reports, placing in the top end in relation to the countries surveyed. However, a little more than half of the N100 companies

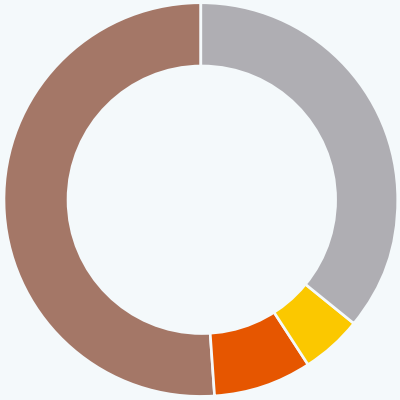
Figure II Integration level CR reporting



- **No integration** (separate CR report only) 35%
- **Partial** (CR report & CR section in the Annual Report) 17%
- **Limited** (CR section in the Annual Report only) 4%
- **Combined** (CR reporting combined with Annual Report) 7%
- **Fully integrated** (CR reporting fully integrated in the Annual Report) 4%
- **No CR reporting** 33%

Source: KPMG Global Sustainability Services, October 2008

Figure III 3rd party comments

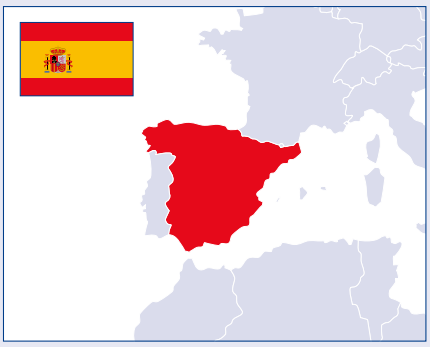


- **Only assurance** 36%
- **Only other 3rd party comments** 5%
- **Both assurance & 3rd party comments** 8%
- **No 3rd party comments** 51%

Source: KPMG Global Sustainability Services, October 2008

lack any kind of third party comments in their reports. Spain's N100 companies show preference for using formal third party assurance only (36 percent), distantly followed by companies that combine assurance with other third party comments (eight percent) and companies that opt for other third party comments only (five percent).

Highlight - Spain



67 report

49 utilize 3rd party comments

100% of utilities and electronics companies report

44 have a corporate responsibility strategy

47 report financial value or business opportunities associated with corporate responsibility

Case study

ACCIONA

ACCIONA's mission is to be a leader in the creation, development, and management of infrastructure, energy, and water, and to contribute actively to social well-being, sustainable development, and creating value for its stakeholder groups. The company operates in 30 countries with over 35,000 employees, and had earnings of 7,953 M€ in 2007. ACCIONA's commitment to sustainability has taken the company to a leadership position in the Dow Jones Sustainability Index heavy construction sector, for the second straight year.

Stakeholder engagement

During 2007, ACCIONA undertook an extensive exercise to identify its main stakeholders in its key markets. A wide-ranging consultation was developed aimed at communicating the company's commitments to opinion leaders and understanding their expectations. Country-specific analyses on environmental and social issues, together with the consultation, were used to develop market-specific action plans.

Committee of Independent Experts

For the second year, the company has engaged with a Committee of Independent Experts whose role is to ask questions on issues that the Committee believes to be relevant for ACCIONA's stakeholders. This panel then issues an opinion on whether the company's report contains sufficient and appropriate information about these issues. This initiative, along with formal assurance of its report, is key to creating and maintaining the trust of stakeholders.

Carbon footprint

The company is convinced of the need for a Low-Carbon Economy (LCE) and is committed to reducing its carbon footprint. As part of this effort, ACCIONA reports in detail about its climate change strategies and performance, including a weekly report on its website on avoided emissions.

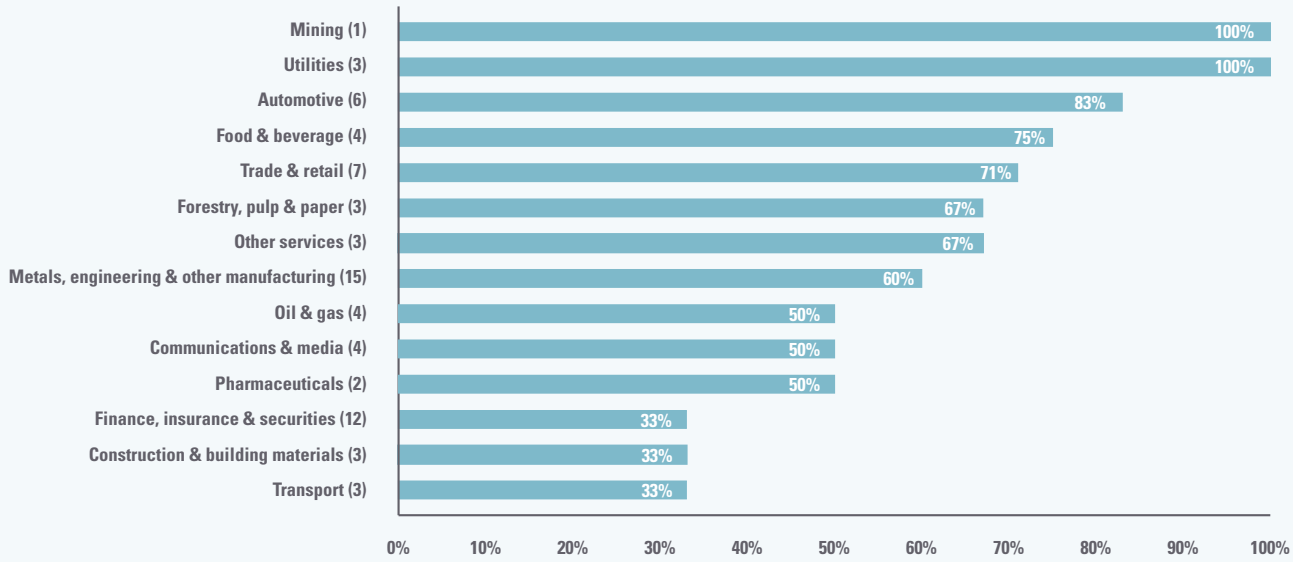
Trust

Recently, KPMG GSS Spain and Fundación Alternativas, a local think tank, conducted an opinion survey among corporate responsibility specialists. The survey's aim was to analyze the level of trust in Spanish companies, as well as understand how corporate responsibility practices are perceived by an informed segment of the public. Over 80 percent of those surveyed believe that in the last few years corporate responsibility commitments have had a positive effect on how Spanish companies are governed and managed, and on their awareness of social, ethical, and environmental issues. Maybe someone is reading all those reports after all.

Spotlight
Sweden

Since the last KPMG survey in 2005, the number of Swedish companies in the N70 that publish a sustainability report has more than doubled. This might be a result of the increasing interest from stakeholders, due to the focus on climate issues over the last two years. Today companies are more aware of their impact on the environment and on the communities where they operate than they were three years ago.

Figure I CR reporting per sector



Source: KPMG Global Sustainability Services, October 2008

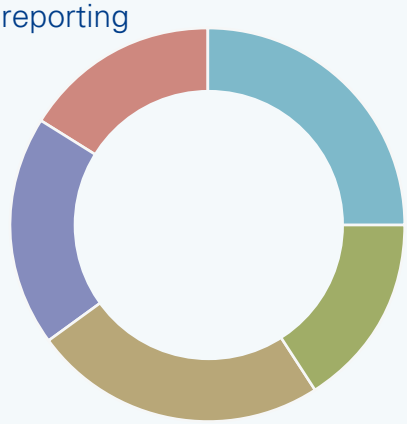
Analysis

It is not surprising to see that companies in resource-intensive sectors are well-represented when we look at the number of corporate responsibility reports by sector. A more interesting result is that in trade and retail, 71 percent of the companies have a corporate responsibility report. This could be due to an increasing focus on supply chain management, which is a key issue to companies in this sector with suppliers in developing countries.

A total of 84 percent of the Swedish N70 companies have some form of corporate responsibility reporting and among these, as many as 7 are state-owned. This means that the state-owned companies are in the forefront when it comes to reporting on social and environmental performance. This could be a result of the active role the Swedish government plays when it comes to putting demands on state-owned companies about sustainability performance and reporting.

Of the companies reporting on corporate responsibility, 14 have an assurance statement. The assurance providers are dominated by the Big Four, with KPMG in the lead. DNV provides assurance on one sustainability report. Seven percent of the companies included comments from other third parties in their sustainability report, such as stakeholder panels or ethical analysts, who commented on sustainability performance and/or the sustainability report itself.

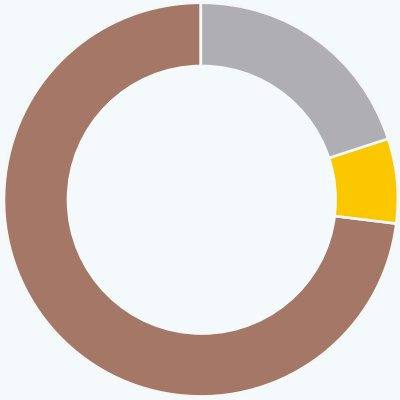
Figure II Integration level CR reporting



- **No integration** (separate CR report only) 25%
- **Partial** (CR report & CR section in the Annual Report) 16%
- **Limited** (CR section in the Annual Report only) 24%
- **Combined** (CR reporting combined with Annual Report) 19%
- **No CR reporting** 16%

Source: KPMG Global Sustainability Services, October 2008

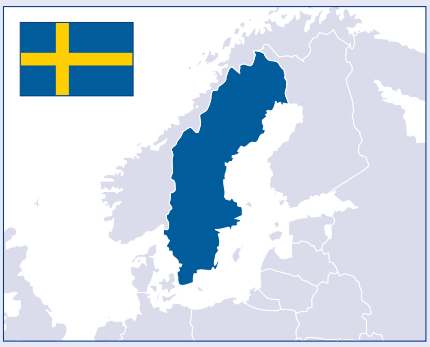
Figure III 3rd party comments



- **Only assurance** 20%
- **Only other 3rd party comments** 7%
- **No 3rd party comments** 73%

Source: KPMG Global Sustainability Services, October 2008

Highlight - Sweden



59 report (**26** stand-alone)

19 utilize 3rd party comments

Reporting leaders include mining, utilities, and automotive sectors

54 have a corporate responsibility strategy in place

47 report on their carbon footprint

Case study

Supply Chain and IKEA

IKEA discloses a lot of detailed information with regard to supply chain management. As IKEA has suppliers in countries where the risk of labor rights abuses are perceived as high, they are obligated to work on these issues in a systematic way, which can be followed up on both internally and externally. IKEA's 2007 Social & Environmental Responsibility Report is noteworthy because of its transparency on its supply chain. For example, IKEA reported on the top five purchasing countries as well as how many IKEA suppliers are IWAY approved (IKEA Way on Purchasing Home Furnishing Products). China is number one in the top five purchasing countries at 22 percent, yet at the same time has the lowest number of IWAY approved suppliers (four percent). IKEA seems aware that transparency also calls for completeness, and has disclosed well-developed information about the challenges in Asia in general, and in China specifically.

Arvid Grindheim, Head of Compliance, IKEA Group, Social & Environmental Affairs, confirms that transparency in sustainability reporting is deliberate. IKEA has worked with IWAY in a structured way since 2000 and has always communicated the status and follow-up internally. Since 2004 IKEA has also communicated the status of IWAY in its corporate responsibility report.

"We face challenges with the suppliers in China, and IKEA is only one among many companies that work hard with the implementation of the Code of Conduct. We want to be open about the situation and also explain what type of challenges we face in China. There is no reason why we should hide these figures from anyone," says Arvid Grindheim.

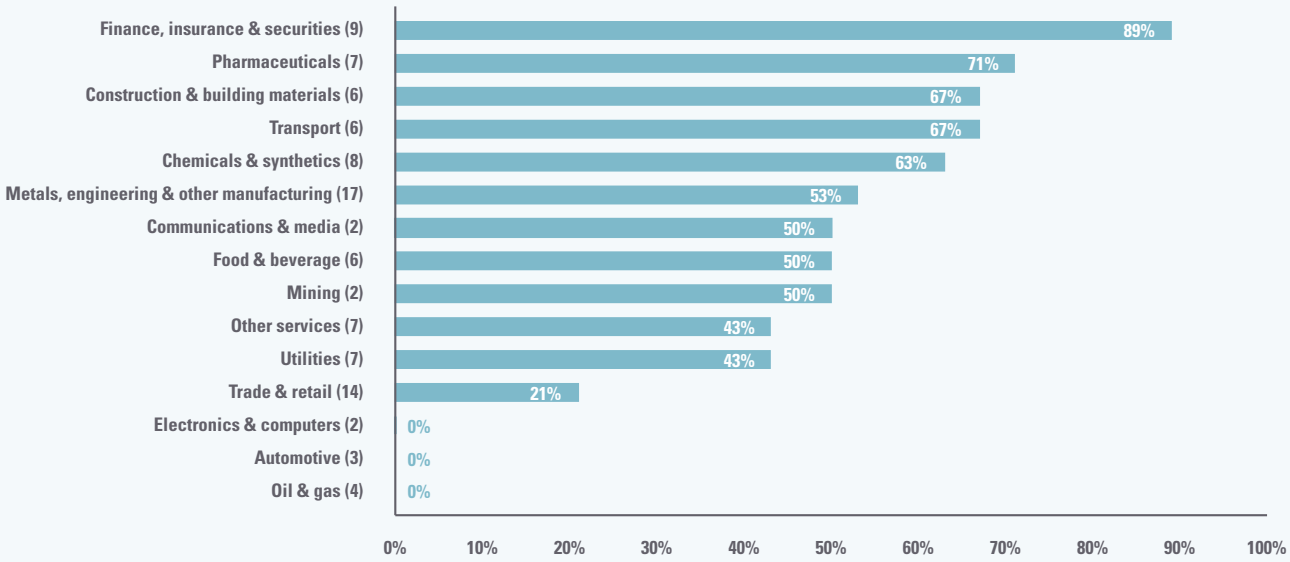
Sustainability reporting guidelines

In November 2007 the Swedish government was the first government in the world to publish mandatory guidelines for sustainability reporting for all state-owned companies. These "Guidelines for external reporting by state-owned companies" state that GRI Guidelines are to be used for sustainability reports. Moreover, the guidelines state that the sustainability report shall be subject to assurance by a third party. The requirements in the guidelines are amongst the most far-reaching requirements for sustainability reporting by a (public) shareholder'.

Spotlight
Switzerland

Based on this survey, the Swiss N100 companies can be divided into two distinct groups. The first group represents large multinationals at the forefront of industry best practices, including corporate responsibility reporting. The second group represents relatively medium-sized companies that are just beginning to formally adopt sustainability and corporate responsibility reporting. Assurance of corporate responsibility reports is a relatively new phenomenon in Switzerland and only a small number of companies have implemented this.

Figure I CR reporting per sector



Source: KPMG Global Sustainability Services, October 2008

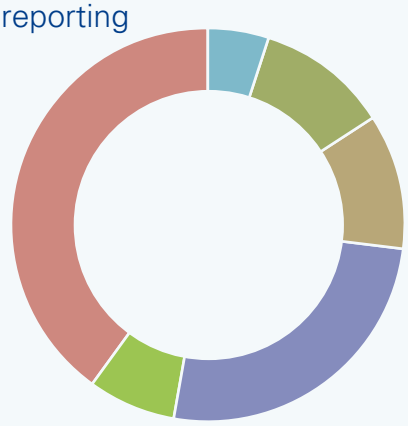
Analysis

The finance, insurance, and securities sector leads in reporting at 90 percent and may reflect a growing demand in the market for responsible investment opportunities (Figure I). Pharmaceuticals, construction and building materials, transport, and chemicals and synthetics, are other sectors in Switzerland with above average corporate responsibility reporting in comparison to other countries.

Sixty percent of the Swiss N100 companies have some form of corporate responsibility reporting, predominantly in various combinations with their annual report (Figure II). Forty percent of the companies do not report on corporate responsibility at all. This may be due to the minimal presence of companies in sectors with typically high rates of reporting, namely mining, oil and gas, and automotive; the presence of several companies that have headquarters in Switzerland but main operations in other countries; and the Swiss cultural tendency for understatement.

Assurance statements in corporate responsibility reports show an upward trend in the last five years. Of particular interest is that companies in sectors forming the core of the Swiss economy in GDP are not only at the forefront of reporting on corporate

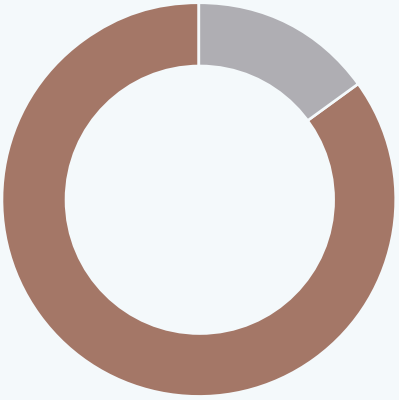
Figure II Integration level CR reporting



- **No integration** (separate CR report only) 5%
- **Partial** (CR report & CR section in the Annual Report) 11%
- **Limited** (CR section in the Annual Report only) 11%
- **Combined** (CR reporting combined with Annual Report) 26%
- **Fully integrated** (CR reporting fully integrated in the Annual Report) 7%
- **No CR reporting** 40%

Source: KPMG Global Sustainability Services, October 2008

Figure III 3rd party comments

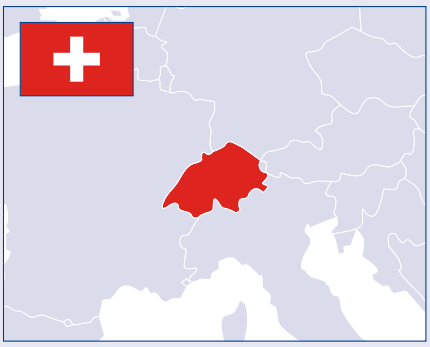


- **Only assurance** 15%
- **No third party comments** 85%

Source: KPMG Global Sustainability Services, October 2008

responsibility, but also in providing assurance - for example, pharmaceuticals (89 percent) and finance, insurance and securities (71 percent). Still, only 15 percent of the companies included external assurance in their reporting (Figure III). The use of third party comments (suppliers, business partners, etc.) to enhance reporting was not evident in this survey.

Highlight - Switzerland



60 report, of which **26** are combined with annual reporting

15 utilize 3rd party comments

Reporting leaders include financial services and pharmaceutical sectors

27 report on their carbon footprint

Interview

Patrick De Maeseneire - CEO, Barry Callebaut (AG)

What were the triggers for Barry Callebaut to embrace sustainability?
Our business is based on cocoa, and although we don't own any cocoa farms, we cannot turn a blind eye to the social conditions under which cocoa is grown and produced. Consumers today want assurance that their food is safe and produced in an ethical and responsible way.

What is your sustainability focus today?
Sustainability for us is about acting responsibly and living our values. With operations in several cocoa-producing countries, we focus our efforts on three spheres of activity where we believe we can achieve the greatest impact: helping to empower cocoa farmers by supporting industry initiatives and our own programs; helping to ensure that children are not harmed in cocoa farming; and empowering employees by providing a safe, healthy, and inspiring work environment.

How do you address climate change risks and opportunities?
We focus on five areas with significant impact on the environment and our business, including emissions, water consumption, energy consumption, waste, and transport. Each site has an environment management system that includes key performance indicators (KPIs) and action plans for continuous improvement monitored by a corporate auditing and evaluation system.

What is your future vision for Barry Callebaut?
I would like to see Barry Callebaut making steady progress toward our sustainability goals, in particular to contributing to improving the livelihoods of cocoa farmers in our areas of operation in Africa, and to increase awareness of our shareholders and stakeholders by better quantifying these benefits.

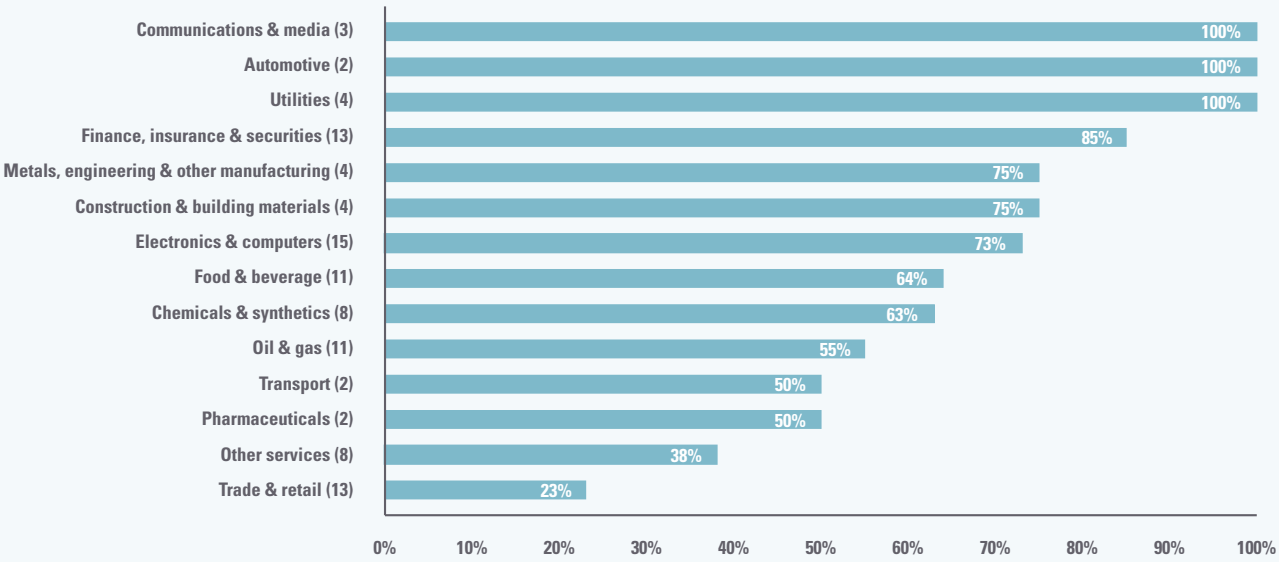
The sustainability debate in Switzerland

Strong public-private partnership will be the key for solving the current global socio-environmental crises and Switzerland provides an excellent infrastructure to take this global debate to the next level. Switzerland has been home to leading institutions and forums like the World Business Council for Sustainable Development, World Economic Forum, International Red Crescent Society, United Nations, and the International Labor Organization, supported by scientific and academic institutions. The Swiss are environmentally conscious and value their democratic tradition, which will be instrumental in the success and longevity of the sustainability debate.

Spotlight
The Netherlands

Some of the Netherlands' major companies started early with reporting on social and environmental impacts - back in the 1990s. This growth slowed down over time, however, and in 2005 Dutch companies were in the mid-range of global corporate responsibility reporting. Over the last three years, however, there has been a clear shift in the Dutch corporate world, with 60 percent of companies now reporting on corporate responsibility, putting Dutch companies in the top ranking of corporate reporters.

Figure I CR reporting per sector



Source: KPMG Global Sustainability Services, October 2008

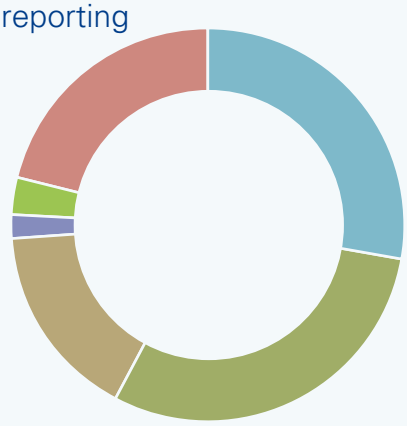
Analysis

In some sectors such as utilities and (tele)communications, reporting has now become all but obligatory. The financial sector now reports about their impacts on society, to which they take a broader view than before since not only environmental reporting, but also other impacts they have on society are taken into consideration. However, sectors that one would expect to report on supply chain issues, such as the trade and retail sector, are only marginally reporting - a surprising result.

In terms of integration, an encouraging 50 percent of companies now include corporate responsibility reporting in their annual report. However, we could look at this from a different angle: another half does not integrate corporate responsibility and annual reporting at all. A comprehensive communication strategy that covers both sides might help encourage a more complete approach to reporting.

Assurance is still not very common in the Netherlands: only one-quarter of companies seek formal assurance (G250: 40 percent). The vast majority do not include third party comments at all, which is perhaps surprising in an era where dialogue and trust are the words of the day. The potential benefits of combining formal assurance with comments from key stakeholders are exploited by only a few companies.

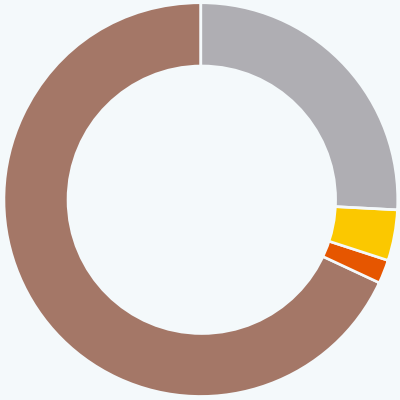
Figure II Integration level CR reporting



- **No integration** (separate CR report only) 28%
- **Partial** (CR report & CR section in the Annual Report) 30%
- **Limited** (CR section in the Annual Report only) 16%
- **Combined** (CR reporting combined with Annual Report) 2%
- **Fully integrated** (CR reporting fully integrated in the Annual Report) 3%
- **No CR reporting** 21%

Source: KPMG Global Sustainability Services, October 2008

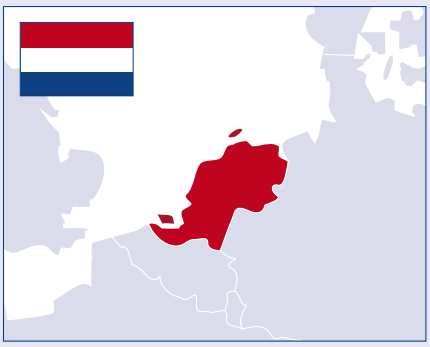
Figure III 3rd party comments



- **Only assurance** 26%
- **Only other 3rd party comments** 4%
- **Both assurance & 3rd party comments** 2%
- **No 3rd party comments** 68%

Source: KPMG Global Sustainability Services, October 2008

Highlight - The Netherlands



79 report (**58** stand-alone) reports

32 utilize 3rd party comments

100% of companies in communications, automotive, and utilities sectors report, as do **85%** of banks

36 report on their carbon footprint

Case study

Royal BAM Group

In previous surveys the construction sector always ranked low in corporate responsibility reporting. However, the 2008 survey shows that the sector is catching up. In 2008, Royal BAM Group, a leading European construction company, published its first group-wide sustainability report.

BAM also published a special report on climate change in the built environment. BAM recognizes that whereas the major focus to date has been on heavy industries and the transport sector, the construction sector is actually in the top ten of sectors with high CO2 emissions. In the near future new buildings built by BAM must be energy-neutral, and the energy use of existing buildings must be halved.

Royal BAM Group is keen to be at the forefront, not only in terms of social responsibility, but also in recognizing that corporate responsibility plays a role in determining the future of a company. To set the agenda and raise awareness both internally and externally, BAM decided to publish the special report on climate change and launch a CO2 desk simultaneously. From this desk, partners in the supply chain can seek advice on developing climate change objectives or taking concrete steps to implement reduction measures.

Royal BAM Group sees the climate change report and the CO2 desk as an opportunity to share their experience and knowledge with the sector. By doing this BAM not only hopes to profile itself as a leading construction company but also to provide a direct contribution to the reduction of CO2 emissions in the built environment.

The way forward

A few areas still have room for improvement:

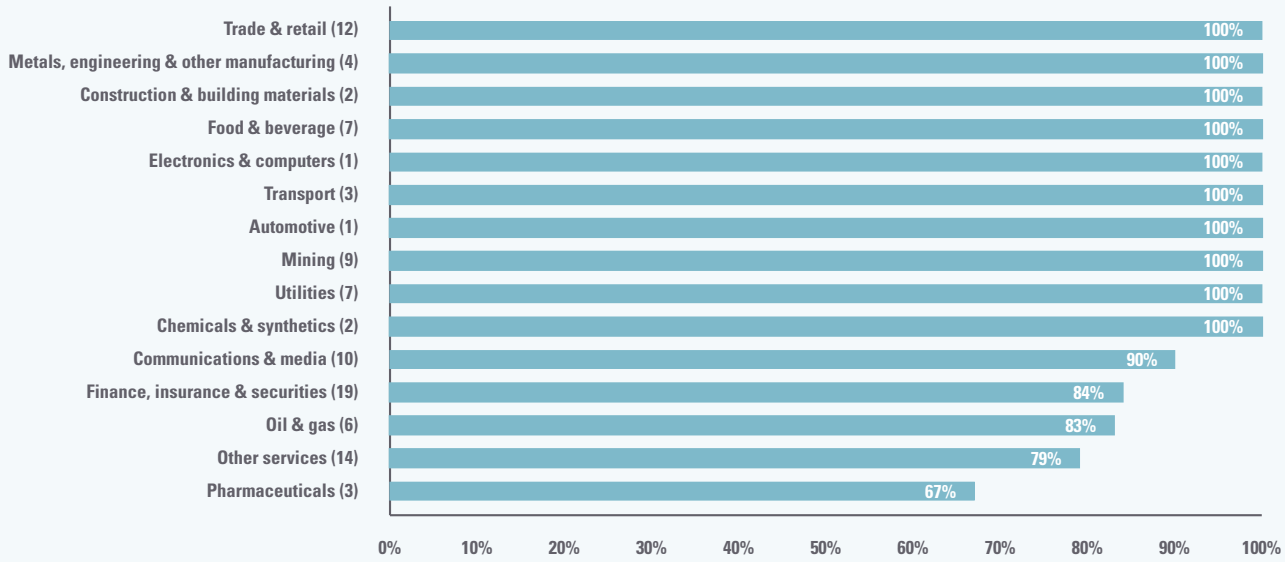
- The "non-reporting half" could begin to incorporate carbon reporting in their annual reports.
- Sectors with supply chain issues could start reporting.
- Wider interest from various stakeholder groups could move companies to provide a corporate responsibility report alongside the annual report, or in fully integrated reports.

Has voluntary reporting hit a ceiling? Will companies that are not reporting need to be moved by stakeholder pressure or regulation? The next three years will reveal the next phase of reporting in the Netherlands.

Spotlight
The United Kingdom

This is the analysis for the UK as part of KPMG's International Survey of Corporate Responsibility Reporting 2008. The Survey continues to be a useful source of information for both our clients and the market in understanding the changing nature of CR reporting. Almost every FTSE 100 company now reports externally on CR in some form, with this becoming increasingly embedded into UK business operations.

Figure I CR reporting per sector



Source: KPMG Global Sustainability Services, October 2008

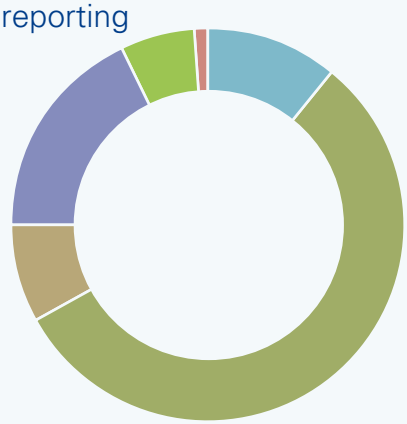
Analysis

Figure I demonstrates the continued high level of corporate responsibility reporting across UK industry. The UK remains one of the highest reporting levels of the countries participating in this International survey. Two-thirds of the sectors, which represent 50 percent of the top 100 companies, have 100 percent of the companies issuing some form of corporate responsibility report. All high impact industries have 100 percent reporting, apart from the oil and gas sector, which is at 83 percent.

It will be interesting to observe if the companies not reporting will require legislation, or further stakeholder pressure, to report on social and environmental impacts. In our member firms' experience these companies tend to be less innovative and responsive and, in the long run, may be less successful.

Figure II provides evidence of a trend toward the integration of corporate responsibility reporting within a company's annual report. We can see that six percent of the top UK companies now have a fully integrated report, with only 12 percent not referring to CR within the annual report. We expect this trend to continue as corporate responsibility reports become integrated into annual

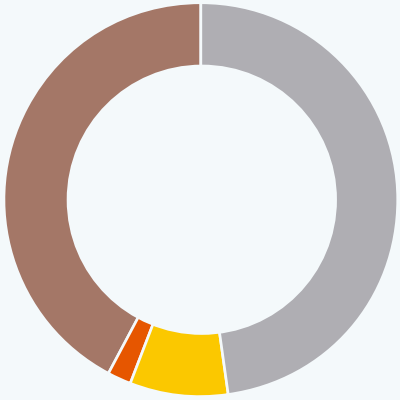
Figure II Integration level CR reporting



- **No integration** (separate CR report only) 11%
- **Partial** (CR report & CR section in the Annual Report) 56%
- **Limited** (CR section in the Annual Report only) 8%
- **Combined** (CR reporting combined with Annual Report) 18%
- **Fully integrated** (CR reporting fully integrated in the Annual Report) 6%
- **No CR reporting** 1%

Source: KPMG Global Sustainability Services, October 2008

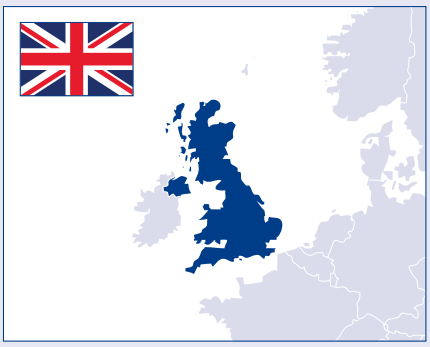
Figure III 3rd party comments



- **Only assurance** 48%
- **Only other 3rd party comments** 8%
- **Both assurance & 3rd party comments** 2%
- **No 3rd party comments** 42%

Source: KPMG Global Sustainability Services, October 2008

Highlight - The United Kingdom



99 report (11 stand-alone)

58 utilize 3rd party comments (**48** formal assurance)

65 have a corporate responsibility strategy

64 report on supply chain risks

63 report on their carbon footprint

Interview

Mark Goyder - Founder Director, Tomorrow's Company

What has influenced the development of corporate responsibility and corporate responsibility reporting?
First, a rise in awareness of the materiality of climate change. Second, the move toward integrated reporting, with the realization that the success of a company is based increasingly on the health of its relationships. Finally there is the recognition that corporate responsibility is ultimately not founded on policies or indices but on values and behaviors. Reporting is the final link in a circle of leadership and governance that starts with purpose and values, measures impacts, and holds companies to their word.

What is the main driver to seek assurance?
You cannot answer this in isolation. Performance and behaviors are the foundations of success. Companies have incentives to focus on the first. But neglecting behavior while focusing on performance is the road to Enron. You need a countervailing force to demand the right behaviors. It is healthy to have that challenge from people who are on the outside. Assurance can provide some of that, as can an external committee of stakeholders. But both only add value if they are feeding from and to the effective decision-makers.

Is it important to align corporate responsibility strategy to business strategy?
In a nutshell, "Yesterday's societal concerns are today's consumer concerns and tomorrow's shareholder returns." To be a successful business in the future you need to redefine success - to "future proof" your business it is crucial you align your strategy with the needs of society.

reports and, ultimately, a natural part of business strategy.

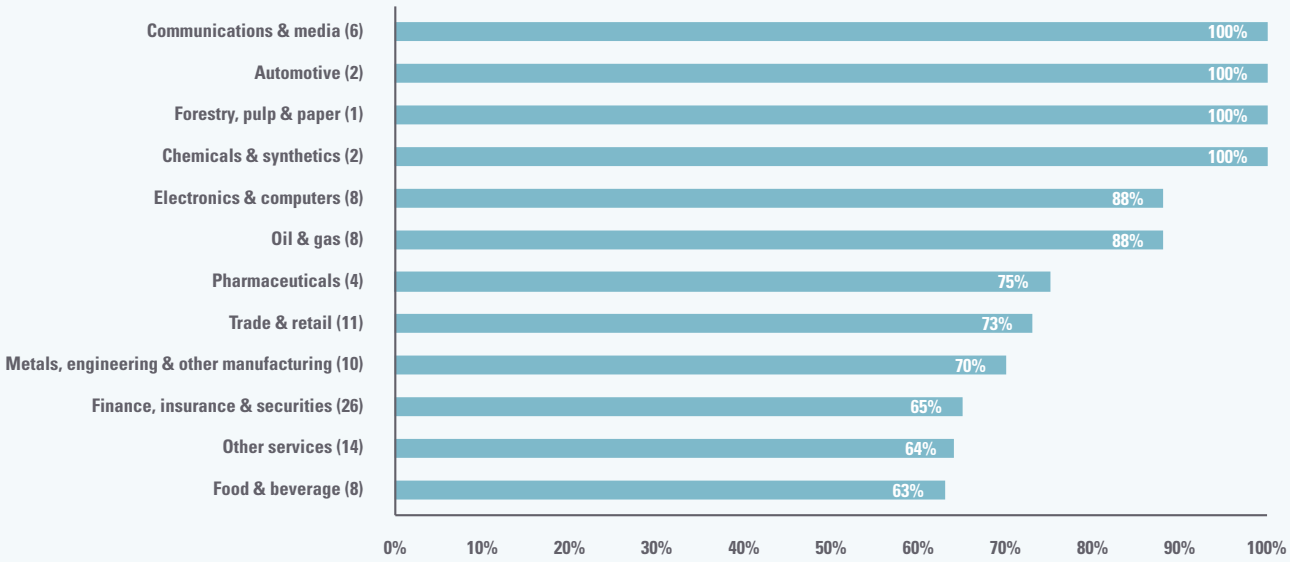
Figure III shows 48 of the companies reporting on corporate responsibility seek external assurance of their CR reports, demonstrating the importance of disclosing credible information. However, the scope and quality of this assurance varies considerably.

Best practice corporate responsibility activities are increasingly involving external stakeholders as a way of verifying their approach, yet the survey results show this is just beginning to be incorporated into external corporate responsibility reporting. Somewhat surprisingly, 42 percent of FTSE100 companies have not used any form of external involvement to enhance the credibility of their reporting.

Spotlight
The United States

KPMG's International Survey of Corporate Responsibility Reporting reflects the growing importance of corporate responsibility as a key indicator of non-financial performance, as well as a driver of financial performance. In the latest survey, we have noticed a significant increase in the publication of corporate responsibility reports in the US, from 37 percent in our 2005 survey to 74 percent in 2008. The survey findings also reflect a growing sense of responsibility in the business community to improve transparency and accountability to the wider community - not just to shareholders.

Figure I CR reporting per sector



Source: KPMG Global Sustainability Services, October 2008

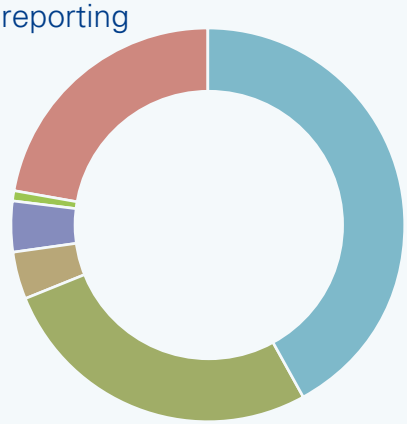
Analysis

The increase in corporate responsibility reporting by the top 100 companies in the United States may be attributed to an increased focus on sustainability issues within US business in the last several years. This year's survey found that the top three drivers for corporate responsibility reporting remained the same as in 2005: ethical considerations, economic considerations, and innovation and learning.

However, within these drivers, ethical considerations (70 percent) replaced economic considerations (50 percent) as the primary driver.

We also noticed a gradual maturation of corporate responsibility programs by US companies. Of the 74 percent that reported publicly, 82 percent had a defined corporate responsibility or sustainability strategy, and 77 percent had implemented management systems for their corporate responsibility goals. Furthermore, 78 percent had defined specific indicators relating to stated objectives and 68 percent actually reported on performance against the stated objectives.

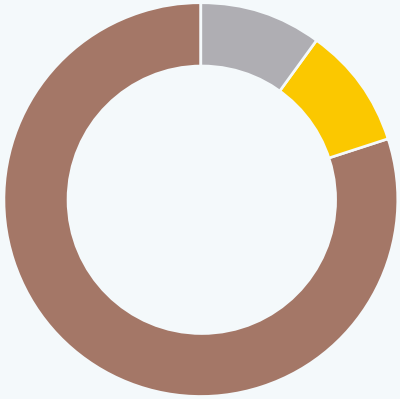
Figure II Integration level CR reporting



- **No integration** (separate CR report only) 42%
- **Partial** (CR report & CR section in the Annual Report) 27%
- **Limited** (CR section in the Annual Report only) 4%
- **Combined** (CR reporting combined with Annual Report) 4%
- **Fully integrated** (CR reporting fully integrated in the Annual Report) 1%
- **No CR reporting** 22%

Source: KPMG Global Sustainability Services, October 2008

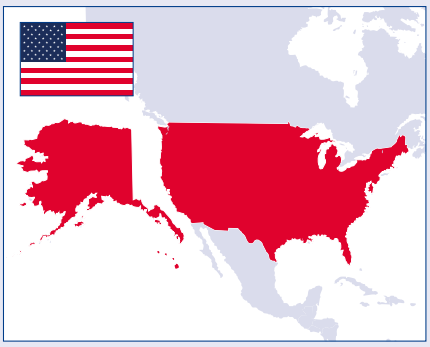
Figure III 3rd party comments



- **Only assurance** 10%
- **Only other 3rd party comments** 10%
- **No 3rd party comments** 80%

Source: KPMG Global Sustainability Services, October 2008

Highlight - The United States



78 report (42 stand-alone)

20 utilize 3rd party comments

Reporting leaders include communications, automotive, forestry, and chemical sectors

61 have a corporate responsibility strategy

32 report on their carbon footprint

Case study

Sustainability developments in the US

US regulators and lawmakers have also focused their attention on sustainability. Well over 200 bills in a recent session of Congress addressed climate change and greenhouse gases, up from 30 pieces of similar legislation just five years earlier.

In Chicago, an exchange has traded carbon offsets since 2003. In late 2008, 10 Northeastern US states opened the nation's first market for trading greenhouse gas permits, with buyer demands for "allowances" four times the existing supply. Seven Western states plan a similar system in 2012.

Indeed, sustainability issues have an effect beyond the industrial giants. With technology often accounting for more than half of a bank's or insurance company's environmental footprint, services firms may face particular pressures. Companies are monitoring their sustainability issues such as climate change, supply chain integrity, and corruption, while also seizing opportunities to develop new products, implement energy cost-saving programs, and redesign business processes.

Meanwhile, investors' demands for transparency have prompted more US companies than ever before to disclose their corporate responsibility successes and risks in annual sustainability reports, often as part of their financial statements.

Still, US companies have difficulty quantifying these emerging risks because little regulatory oversight exists. Knowing that uncertainty makes financial markets jittery, some US companies support better guidance on climate change. Understanding the government's rules of the road may help companies improve how they manage climate change risks and, therefore, gain competitive advantage.

Sustainability Monitoring

Sustainability monitoring and reporting may still be in the formative years in the US, compared with more mature European, Asian, and Australian markets. But evidence shows more US companies are linking their financial performance with their social conscience, and tying profits to corporate principles.

Today, "Save the Planet" is part of the business model.

The Way Forward

There is no doubt that corporate responsibility reporting has gone mainstream for many of the world's largest companies and is headed in the same direction at the national level.

This survey looked behind the reports to shed some light on the strategy and management systems that support accountability and transparency on social and environmental issues. We discovered a maturing field overall, with fewer companies issuing reports in the absence of overarching strategies, but still much to be developed on this front.

In the lead-up to the 2011 KPMG International Survey of Corporate Responsibility Reporting, we would expect to see some progress in the way companies manage key issues. Results were variable when it came to linkages between corporate governance and corporate responsibility, and it seems supply chain management and corporate responsibility are two concepts that are just now starting to merge. It will take several reporting cycles until we can see whether deep change is occurring as a result of supply chain codes of conduct and ethics. We would expect climate to be a fully managed issue by 2011, including strategy, risk management, disclosure on carbon footprint by the company and its wider value chain, and business opportunities and innovations afforded by climate change.

We can only surmize what issues will leap to the forefront by 2011. Some might not be known to us now, some might be simmering quietly in the background. Human rights is one to watch, as is access to food and water.

By 2011 we might expect reader and stakeholder groups to play a more active part in reporting and shaping the type of information that is disclosed, as well as its format and timing. Technology is always a factor in business development, and innovations here may help companies manage their data, connect with their stakeholders, and engage in scenario planning that produces a clearer picture of complex corporate responsibility risks

It seems corporate responsibility reporting has left the experimental phase and has now taken its place alongside other business tools that add valuable insight into the current state of company performance, and helps shed light on future opportunities for growth, innovation and learning in an ever-changing world.

Appendices

Appendix I List of Figures and Tables

Appendices continued

Appendix II List of Terms

AA
AccountAbility

CDP
Carbon Disclosure Project

GHG Protocol
Greenhouse Gas Protocol Initiative

GRI
Global Reporting Initiative

GSP
Global Sullivan Principles of Social Responsibility

IAASB
International Auditing and Assurance Board

ICC
International Chamber of Commerce Business Charter for Sustainable Development

ILO
International Labour Organization

IoD
Institute of Directors - South Africa

IPCC
Intergovernmental Panel on Climate Chante

ISAE
International Standard for Assurance Engagements

ISO
International Organization for Standardization

OECD
Organisation for Economic Co-Operation and Development Guidelines for Multinational Enterprises

PRI
Principles for Responsible Investment

SIF
Social Investment Forum

UDHR
Universal Declaration of Human Rights

UNFCCC
United Nations Framework Convention on Climate Change

UNGC
United Nations Global Compact

UNHCHR
United Nations High Comission for Human Rights (Norms for Transnational Corporations)

Appendix III Key Contributors

Research conducted by:

KPMG Global Sustainability Services offices in 22 countries:

Australia, Brazil, Canada, Czech Republic, Denmark, Finland, France, Hungary, Italy, Japan, Mexico, Norway, Portugal, Romania, South Africa, South Korea, Spain, Sweden, Switzerland, The Netherlands, United Kingdom, and the United States.

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Designed and produced by KPMG LLP (UK)'s Design Services.

Publication name: KPMG International Survey of Corporate Responsibility Reporting 2008

Publication number: RRD-105984

Publication date: October 2008