Innovation and experimentation in the merging of ESG and financial disclosure.

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INTRODUCTION

Not to be confused with simply publishing the contents of an annual report and sustainability report under one cover, integrated reporting aims to provide comprehensive disclosure of a company's finances, governance, strategy and prospects while reflecting the commercial, environmental and social context in which it operates.

While some 95 percent of the world's largest companies now report at some level on sustainability initiatives[1], this reporting has generally been treated thus far as external to financial disclosure and performance, limiting its visibility and impact.

This segregation of ESG and financial information perpetuates a deeply rooted fallacy that environmental and social issues are in some way "non-financial" and unrelated to core business performance and operation. It also isolates stakeholders, enforcing a perception that those who care about sustainability stand apart from the general investment community. As Erika Karp, UBS managing director and head of global sector research notes, "Investors have actually been asking about sustainability for years; they just don't call it that."

In the past few years, however, the gradual emergence of integrated reporting has presented a new alternative. Not to be confused with simply publishing the contents of an annual report and sustainability report under one cover, integrated reporting aims to provide comprehensive disclosure of a company's finances, governance, strategy and prospects while reflecting the commercial, environmental and social context in which it operates.

While only a relatively small cohort of companies has so far issued such reports, its size is growing steadily, aided by several key organizations. In 2012, [International Integrated Reporting Council (IIRC)] Pilot Programme participation more than doubled, from 50 to more than 100 organizations, according to Superna Khosla, IIRC relationships director. "It's been incredible to see integrated reporting hit the agenda of so many businesses and investors globally," says Khosla.

Another body supporting the trend towards integrated reporting is the [Sustainability Accounting Standards Board (SASB)], which is developing industry-specific accounting standards designed for inclusion in the mandatory filings of publicly-traded companies in the US, such as the Form 10-K. "By disclosing ESG performance in the Form 10-K and integrated reports, corporations are giving investors the information needed to truly benchmark and evaluate performance," explains Jean Rogers, SASB founder and executive director.

The benefits of this approach are not limited to external stakeholders. Recent research conducted by the IIRC has shown that of the participants in its Pilot Programme, 93 percent said this work leads to better quality data collection, and 88 percent said that it leads to improvements in business decision making.

After long anticipation, integrated reporting is finally in the early stages of becoming a reality that will eventually transform disclosure expectations—and we hope, sustainability performance imperatives as well.

[1] "KPMG International Survey of Corporate Responsibility Reporting 2011," KPMG, 2011, pg. 7. http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/corporate-responsibility/Documents/2011-survey.pdf

RESEARCH FOCUS

In this research, we sought to add to the growing body of integrated reporting experience and knowledge. Specifically, we examined recent efforts to experiment with integrated reporting models by carefully assessing a small sample of major companies' reports. We selected reports that were self-identified by companies as "integrated." Our goals were to:

- **gauge the actual state of integrated reporting practice as it is being tested and applied by industry leaders,**
- **identify common areas of strength and weakness, and**
- **highlight best practices and lessons for other firms.**

This research is intended to complement efforts such as the IIRC's Pilot Program 2012 Yearbook and Emerging Integrated Reporting Database, which showcase organizations in the pilot program and others that are experimenting with a more integrated approach to reporting.

OVERVIEW OF METHODOLOGY

Selection of sample

We reviewed a sample of 12 reports from major companies. Companies self-identified these reports as integrated in their submissions of report information to the GRI Disclosure Database. The companies in our sample represent a wide range of countries and industries (**see Table 1**).

TABLE 1: LIST OF COMPANIES IN RESEARCH SAMPLE

Company Name	Sector	Country
BASF SE	Chemicals	Germany
Halliburton	Energy	USA
Heineken NV	Food and Beverages	Netherlands
ING Group	Financial Services	Netherlands
National Australia Bank	Financial Services	Australia
Pfizer	Healthcare Products	USA
Rio Tinto	Mining	UK
Sberbank	Financial Services	Russia
Schneider Electric	Energy Management	France
Statoil ASA	Energy	Norway
Telstra	Telecommunications	Australia
UBS	Financial Services	Switzerland

Our purpose in limiting the sample size was to ensure that we could allot sufficient time to carefully assess parameters of integration across the extensive breadth of company material—especially as several of the integrated reports stretched to hundreds of pages in length. Given the small sample size, conclusions from this study should not be viewed as statistically significant or representative of all integrated reporting efforts..

To construct the sample, we began with the 193 reports in the GRI Sustainability Disclosure Database that met the following criteria as of September 30, 2012:

- **The report meets the G3 or G3.1 standard of reporting to the GRI**
- **The company is coded in the database as "Large" or "MNE" (multi-national enterprise)**
- **The report is published in English**
- **The report covers the reporting year 2011 or 2012**
- **The report is self-identified as integrated in the database**

From the resulting group, we selected the 12 companies that also appeared on *Fortune* magazine's Global 500 list. We made the assumption that, as these companies are leaders in their industries, they would be perceived as indicative of having operations, impacts, and reach typical to large companies in similar sectors.

Only one of the companies in our sample, National Australia Bank, is part of the IIRC's Pilot Program. One additional company, Rio Tinto, is not part of the Pilot Program but is included in the IIRC Emerging Integrated Reporting Database. We did not specifically focus on companies applying the IIRC IR Framework as part of the IIRC's Pilot Program, so as to better examine the evolution of integrated reporting "in the wild."

Commentary on the self-identification of reports as "integrated"

In selecting the pool of reports to research, we did not "pre-assess" any of the reports that met the above criteria. Specifically, we did not peruse reports ahead of the actual evaluation to test whether they appeared to be integrated reports or not. By using companies' own self-declaration as a decisive factor in whether a report would be considered, we acknowledge that we are relying on the company's judgment regarding the status of their reporting. Given that the GRI does not provide specific parameters nor guidance to companies regarding what constitutes integrated reporting during the submission of reports to the GRI Sustainability Disclosure Database, there is the possibility that certain of the reports in our sample may have been erroneously designated as integrated.

As the state of integrated reporting matures, we expect that collective understanding of what qualifies as an integrated report will serve to better guide companies in determining whether their reporting effort is truly an integrated one. We also look to the GRI and the IIRC to harmonize their disclosure guidance, with the G4 reporting standard (to be released in May 2013) iterated with the IIRC's Version 1.0 integrated reporting framework (to be released in December 2013).

Many of the companies we reviewed produce other reports in addition to the report they self-identify as integrated (**see Table 2**). As a result, the length of the reports in our sample varies widely, from as short as 50 pages to as long as 468 pages. Variability in length is frequently tied to whether or not companies include full financial statements in their integrated report—inclusive reports tend to be the longest, often exceeding 200 pages. In several cases, companies in our sample published a separate (additional) sustainability report or complementary issue briefs for stakeholders who wish to dive deeper into specific sustainability issues. For companies that file on US stock exchanges, we typically found separate financial Forms 10-K or 20-F; UBS and Rio Tinto, notably, submit their entire Annual Reports as their Form 20-F.

TABLE 2: LIST OF COMPANY REPORTS

Company Name	Report Self-Identified as Integrated to the GRI	Other Reports	Comments with Regard to Additional Reports
BASF SE	BASF Report 2011	None	
Halliburton	2011 Corporate Sustainability Report	2011 Annual Report	The Annual Report contains the Form 10-K, a letter to shareholders and a page of financial highlights
Heineken NV	Sustainability Report 2011	Annual Report 2011	The Annual Report contains the Report of the Executive Board and the financial statements
ING Group	ING in Society 2011	2011 Annual Report	The Annual Report contains the Report of the Executive Board and the financial statements
National Australia Bank	2011 Annual Review	Annual Financial Report	The Annual Financial Report contains the Report of the Directors and the financial statements
		Dig Deeper Series	The Dig Deeper series contains shorter reports that provide more information on: Customers, People, Community, Supply Chain, and Environment
Pfizer	2011 Annual Review	2011 Financial Report	The Financial Report contains a Financial Review and the financial statements
Rio Tinto	Annual Report 2011	Annual Review 2011	The Annual Review contains a concise summary of the Annual Report
		Sustainable Development 2011	The Sustainable Development report provides more information about the company's sustainability strategy
Sberbank	Annual Report 2011	Financial Report 2011	The Financial Report contains the financial statements
Schneider Electric	Financial and Sustainable Development Annual Report	2011-12 Strategy and Sustainability Highlights	The Strategy and Sustainability Highlights report is a concise summary of the Annual Review
Statoil ASA	Annual and Sustainability Report 2011	Statoil in Brief	The Statoil in Brief report contains a concise summary of the Annual and Sustainability Report
Telstra	2012 Annual Review	2012 Annual Report	The Annual Report combines the Annual Review with the financial statements
		Bigger Picture sustainability reporting series	The Bigger Picture series contains shorter reports that provide more information on: Approach to Sustainability, Community, Customers, People and Environment
UBS	Annual Report 2011	Review 2011	The Review contains a concise summary of the Annual Report

Integrated reporting criteria

We evaluated each of the reports in our sample on a common set of criteria. The criteria reflect characteristics that we believe reports must meet to be considered truly integrated. We drew heavily on the work of the IIRC in developing our criteria, incorporating many of its Guiding Principles and Content Elements. Equally important, we drew on Framework's ten years of experience helping our clients to develop their sustainability strategy and reporting.

Our nine criteria were grouped into three categories:

- **Strategic Focus and Forward-Looking Orientation**
- **Materiality**
- **Connectivity of Information**

Each of these categories was weighted to calculate a final score, as described below (Table 3). We gave greater weight to Materiality and Connectivity of Information because we believe these two aspects of disclosure are the most critical to an integrated approach that addresses the concerns of all stakeholders.

TABLE 3: INTEGRATED REPORTING CRITERIA

Category	Criteria	Scale	Weight
Strategic Focus and Forward-Looking Orientation	**Description of business model** Does the report adequately describe the company's business model?	0-3 points	20%
	Description of strategic objectives Does the report adequately describe the company's overall strategic objectives? Do the strategic objectives incorporate consideration of ESG factors?	0-4 points	
	Discussion of future opportunities, challenges, and uncertainties Does the report include discussion of future opportunities, challenges, and uncertainties affecting the business?	0-3 points	
Materiality	**Robustness of process** Is the overall materiality analysis process substantive and robust? Was there meaningful stakeholder engagement? Did the process explicitly account for ESG considerations? Is there a matrix or other visual presentation of results that enables readers to quickly grasp analysis results? Does the analysis consider impacts along the entire value chain? (Value chain analysis is encouraged, but not required.)	0-3 points	40%
	Description and prioritization of key material issues Does the report clearly describe the process by which the most material issues were identified and prioritized? Does it describe the issues and indicate which issues are the highest priorities for the company and how prioritization took place?	0-3 points	
	Materiality relevance Does the report draw a clear link between the material issues identified and the company's overall strategy and risk analysis? Are the material issues placed in context of future opportunities, challenges, and uncertainties? Is there discussion of appropriate actions or strategies to address them? Does the report include KPIs to measure and track performance?	0-4 points	
Connectivity of Information	**Linkage to financials** Does the report include a narrative and/or quantitative assessment of how the material issues and the company's ESG performance are linked to overall business financial success? (Explicit financial valuation of ESG issues is preferred, though a qualitative discussion of how performance on ESG issues affects financial results is a beginning.)	0-4 points	40%
	Discussion of environmental, economic, and societal context Does the report place the company's business model, strategic objectives, risk factors, material issues, current performance, and future targets into the broader environmental, economic, and societal context in which the company operates?	0-3 points	
	Connectivity between past, present, and future performance Does the report draw a link between past, present, and future performance on its material issues? Does it present historical data on performance on KPIs as well as specific forward-looking targets?	0-3 points	

RESEARCH RESULTS

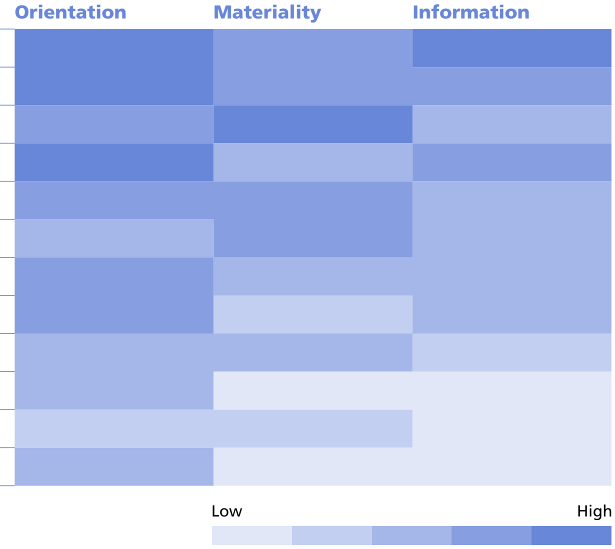
Research results are divided into three parts. First, we present and discuss evaluation results for each of the reports analyzed against the criteria described above. Next, we consider common practices among the reports we found to be the most integrated. Finally, we examine areas where the reports we reviewed fall short and further experimentation is needed. Throughout the discussion, we highlight examples of best practice drawn from the reports.

Report evaluation

Table 4 presents the aggregate analysis for each company. Most companies in our sample scored highest on Strategic Focus and Forward-Looking Orientation, presumably because these criteria are potentially the easiest to understand and quickly apply to existing reporting structures. Materiality was the next highest scoring category, with many reports at least alluding to, if not explicitly detailing, the process and outcomes of issues identification, stakeholder engagement, and issues prioritization. Connectivity of Information, including explicit linkages to financial performance, was the category most companies struggled to address.

TABLE 4: REPORT EVALUATION RESULTS

Company Name	Level of Integration	Strategic Focus and Forward-Looking Orientation	Materiality	Connectivity of Information
Rio Tinto	High			
BASF SE	High			
National Australia Bank	High			
Statoil ASA	High			
ING Group	Medium			
Heineken NV	Medium			
Schneider Electric	Medium			
UBS	Medium- low			
Sberbank	Medium- low			
Telstra	Low			
Halliburton	Low			
Pfizer	Low			



Based on these results, we believe that what sets the most integrated reports apart from the rest is their performance and ability to clearly communicate their approach with regard to the latter two measures (Materiality and Connectivity of Information). More details about each company's score can be found in the Appendix on page 14.

Common practices of top-scoring reports

Each of the reports reviewed for this study incorporates some of the principles of integrated reporting. We found that many of the reports, however, while self-identifying as integrated, are in fact traditional sustainability reports or, at most, combined reports that present sustainability and financial information in a single document without explicitly linking the two.

In contrast, the most integrated reports in our sample demonstrate certain common practices that their lower-scoring peers do not:

1. **Explicitly incorporating ESG considerations into the overall strategy and risk analysis of the business.** The most integrated reports in our sample incorporate ESG considerations into the overall strategy and risk analysis of the business as a whole. Notable examples include Rio Tinto's report, which weaves discussions of safety and greenhouse gas emissions together with strategy and financial performance into the review of each of its business units. It also explicitly names ESG risks in its discussion of risk factors for the business (**see Figure 1**). Another noteworthy example is BASF, which places consideration of ESG factors at the heart of its corporate strategy. Its report names four strategic principles for the business, which correspond to the interests of the company's stakeholders: investors, customers, the environment, and employees (**see Figure 2**).

Figure 1: Rio Tinto sustainable development risks, excerpted from the risk factors section of its Annual Report

Source: Rio Tinto 2011 Annual Report, pg. 12

Sustainable development risks

Increased regulation of greenhouse gas emissions could adversely affect the Group's cost of operations.	Rio Tinto's operations are energy intensive and depend heavily on fossil fuels. Worldwide, there is increasing regulation of greenhouse gas emissions, tighter emission reduction targets and progressive introduction of carbon pricing mechanisms. These are likely to raise worldwide energy, production and transport costs over the next few decades.
The Group depends on the continued services of key personnel.	The Group's ability to maintain its competitive position is dependent on the services of a wide range of highly skilled and experienced personnel available in the locations where they are needed. Failure to recruit and retain key staff, and the inability to deploy staff worldwide, where they are most needed, could affect the Group's business. Similar constraints may be felt by the Group's key consultants, contractors and suppliers with effects on its expansion plans.
The Group's costs of close down, reclamation, and rehabilitation could be higher than expected.	Close down and reclamation works to return operating sites to the community can be extensive and costly. Estimated costs are provided for, and updated annually, over the life of each operation but the provisions might prove to be inadequate due to changes in legislation, standards and the emergence of new reclamation techniques. In addition, the expected timing of expenditure could change significantly due to changes in the business environment that might vary the life of an operation.
Regulations, standards and stakeholder expectations in health, safety, environment and community evolve over time and unforeseen changes could have an adverse effect on the Group's business and reputation.	The resources sector is subject to extensive health, safety and environmental laws, regulations and standards alongside community and stakeholder expectations. Evolving regulation, standards and stakeholder expectations could result in litigation or, in extreme cases, threaten the viability of an operation even where the underlying dispute is not material to the Group.

Figure 2: BASF SE strategic principles

Source: BASF Report 2011, pg. 16

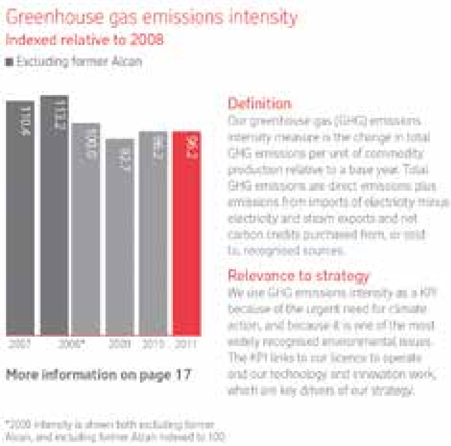


Figure 3: Rio Tinto greenhouse gas emissions intensity and its relevance to strategy

Source: Rio Tinto 2011 Annual Report, pg. 9

2. **Clearly explaining the strategic importance of material ESG issues.** Along with incorporating ESG concerns into company strategy and risk analysis, the most integrated reports in our sample clearly explain the strategic importance of the ESG issues they identify as material. These two practices combined draw a strong link between ESG considerations and overall business success. Rio Tinto uses a particularly effective visual technique for demonstrating this link, presenting financial and ESG key performance indicators (KPIs) alongside a discussion of their relevance to the company's business strategy (**see Figure 3**).

3. **Describing robust stakeholder engagement.** Companies wishing to develop an effective and targeted approach to ESG issues typically invest in robust stakeholder engagement. The process of engagement and issues identification and prioritization should be clearly outlined in the report so that the reader may easily understand which stakeholders were consulted and what issues are most important to them. Many of the reports in our sample provided little information about their stakeholder engagement processes. The best reports described these processes in detail, and indicated which issues emerged as priorities for each stakeholder group. ING Group's report is an example (**see Figure 4**).

Figure 4: ING stakeholder expectations map

Source: ING in Society 2011, pgs. 22-23

4. **Forward-looking orientation.** The most integrated reports in the sample were written with a forward-looking orientation, describing future challenges, opportunities, and uncertainties, and presenting data on past performance along with specific forward-looking targets. Many of the lower-scoring reports reported on prior years' performance on KPIs, but did not put these data into the context of future goals, opportunities, or challenges. A forward-looking orientation enables the reader to evaluate the company's progress towards specific goals, as well as to understand future risks and what actions the company plans to take to address or mitigate them.
5. **Describing economic, environmental, and societal trends.** The highest-scoring reports placed the company's strategy and key material issues in the context of broader trends in the industry, economy, environment, and society. The less integrated reports in the sample often failed to include a discussion of such trends and how they may impact the business now and in the future. This information is crucial to any stakeholder who wishes to understand a company's prospects and likelihood of continued, sustained success.
6. **Presents financial and non-financial KPIs together.** As a signal that economic and ESG performance is interconnected, the highest-scoring reports present data on financial and ESG KPIs in the same place in the report, often in the summary or highlights sections. Statoil's Annual and Sustainability Report 2011 illustrates this practice (**see Figure 5**). Though this is a start, simply lining up financials with ESG factors does not constitute full integration. It does, however, begin to condition readers to look for comprehensive disclosure in one place, rather than in various reports and filings.
7. **Comprehensiveness and interdependence.** While there is obviously a trade-off between completeness and conciseness, the highest-scoring reports in our sample feature thorough discussions of financial and ESG performance. The two are woven together throughout the highest-scoring reports in a way that makes clear their interdependence. Many of the lower-scoring reports, even when they do include both financial and ESG information, do so only superficially, for example presenting ESG and financial metrics side by side, but not linking them in any way. Other low-scoring reports simply segregate financial and sustainability information into entirely separate sections of the report.

Figure 5: Excerpt from Statoil key figures

Source: Statoil [2011 Annual Report]

8. **Summarizes material issues, KPIs, and future targets with an easily understood visual.** The most effective integrated reports summarize key information about material issues, performance, and future goals in tables, charts, or other visuals that facilitate reader comprehension. Rio Tinto's report provides a good example (**see Figure 6**).

Figure 6: Rio Tinto goals and performance tables

Source: Rio Tinto 2011 Annual Report, pg. 15

Goals and targets	Trends	Progress to date
Our safety goal is zero injuries and zero fatalities.		
Progress is measured through our all injury frequency rate (AIFR) per 200,000 hours worked.	∧	Two per cent reduction in our all injury frequency rate compared with 2010 and a 30 per cent reduction compared with 2008.
30 per cent reduction in the rate of new cases of occupational illness per 10,000 employees between 2008 and 2013.	∧	78 per cent reduction in the rate of new cases of occupational illness compared with 2008.
Ten per cent reduction in the rate of employees per 10,000 employees exposed to an eight hour noise dose of more than 85 decibels between 2008 and 2013 [(a)].	∧	4.3 per cent decrease in the rate of employees potentially exposed to an average eight hour noise dose of more than 85 decibels compared with 2008.
Six per cent reduction in total greenhouse gas emissions intensity between 2008 and 2013. We are also targeting a further four per cent reduction by 2015, to deliver an overall ten per cent reduction.	∧	3.8 per cent reduction in our total greenhouse gas emissions intensity compared with 2008.
Six per cent reduction in our freshwater use per tonne of product between 2008 and 2013.	∨	2.7 per cent increase in our freshwater use per tonne of product compared with 2008.
Our diversity goal is to employ people based on job requirements who represent the diversity of our surrounding communities.		
We are targeting:		
• Women to represent 20 per cent of our senior management by 2015.	—	• Women represented 14 per cent of our senior management in 2011.
• Women to represent 40 per cent of our 2015 graduate intake.	∧	• Women represented 35 per cent of our 2011 graduate intake.
• 15 per cent of our 2015 graduate intake to be nationals from regions where we are developing new businesses.	∧	• 21 per cent of our 2011 graduate intake were nationals from regions where we are developing new businesses.
All operations have in place locally appropriate, publicly-reported social performance indicators that demonstrate a positive contribution to the economic development of the communities and regions where we work, consistent with the Millennium Development Goals, by 2013.	∧	35 per cent of our operations have locally appropriate publicly reported social performance indicators in place after two years.

Key: ∧ Improving performance ∨ Declining performance — Static performance

(a) We mitigate the risk of hazardous noise exposure (> 85 decibels averaged over eight hours) in the business through implementation of hearing conservation programmes, which includes the use of hearing protection. However, reducing noise levels through engineering or similar solutions is our preferred approach. The target is designed to drive noise reduction by means other than the reliance on hearing protection.

Performance data 2007-2011

	2011	2010	2009	2008	2007
Social					
All injury frequency rate (per 200,000 hours worked)	**0.67**	0.69*	0.81	0.95	1.21
New cases of occupational illness (per 10,000 employees)	**11**	21**	38	47	22
Employees potentially exposed to an average eight hour noise dose of more than 85dB(A) (per 10,000 employees)	**3,389**	3,524**	3,570**	3,522**	3,720**
Employees (number) [(a)]	**68,000**	77,000	102,000	106,000	106,000
Environment					
Greenhouse gas emissions intensity (indexed relative to 2008)	**96.2**	96.2**	92.7**	100.0	NA[(b)]
Total energy use (petajoules)	**516**[(c)]	513**	496	556**	540[(d)]
Freshwater used (billion litres)	**443**	439**	413**	448**	NA[(e)]
Land footprint – disturbed (square kilometres)	**3,485**	3,453	3,410	1,373	1,154
Land footprint – rehabilitated (square kilometres)	**422**	420	402	471	418
Direct economic contribution					
Value add (US$ million) [(a,f)]	**38,193**	33,812	21,363	28,412	17,241
Payments to suppliers (US$ million) [(a)]	**28,444**	27,486	23,481	29,653	16,277
Community contributions (US$ million)	**294**	166	119	140	107

Areas where further experimentation is needed

There are several aspects in which most of the reports in our sample are weak. These are areas ripe for further exploration and experimentation.

1. **Clearly describing the process by which material issues were identified.** While many of the reports describe their stakeholder engagement process to some degree, few present the concerns of specific stakeholders in detail. Fewer still describe how these concerns were evaluated and prioritized, and combined with other factors such as peer performance, company risk evaluations, and consideration of financial and regulatory implications to come up with the list of top material issues. In the interest of greater transparency, this process of issue identification and prioritization should be more clearly explained. ING's report takes a step in this direction by presenting specific concerns identified by each stakeholder group (**see Figure 7**).

Figure 7: Example of ING material issues by stakeholder category

Source: ING in Society 2011, pg. 24-27

CUSTOMERS

ISSUE	ING'S POSITION
Determination of prices, fees and rates on ING's products and services	An important element of our customer suitability approach is our commitment to clearly explain how rates are determined, what costs are associated with the services provided and how ING's rates compare to rates in the market. Our ultimate goal is for all stakeholders to trust that ING charges a reasonable price (value for money) for its products and services. See page 36 and 37 of this report for more information on our customer suitability programme.
Security of online banking systems	ING aims to provide optimal security of client data and of all transactions as well as to ensure fraud protection; for us protecting our clients is just good business. At the same time, it is clear that there continues to be risks online. Therefore, we also encourage our customers to protect themselves. We provide more information on this on www.ing.com.
ING's commitment to enhancing its customers' financial capabilities	One way we try to improve our customer's experience is enabling customers to further improve their financial capabilities. We offer insight, tools and programs. See page 35 onwards of this report for more information.
ING's efforts to ensure that customer deposits are not used to finance socially or environmentally harmful activities	Environmental and Social Risk (ESR) Policies have become integral to ING's risk culture and are a fully integrated part of our business. Environmental and social risks associated with a financial transaction can be complex and have an impact on both our business and that of our clients. By implementing ESR standards, we have been improving our business and helping our clients improve their overall risk profile. See page 46 for more information.
Remuneration of ING's Executive Board and employees	ING aims to match compensation schemes appropriately against a variety of factors, such as the complexity of functions, the scope of responsibilities, the alignment of risks and rewards, and the long-term objectives of the company and its stakeholders. This is all the more important given the changing international standards regarding responsible remuneration. These factors differ for each role, line of business and country. ING has operations in over 40 countries and over 97,000 employees of whom around 71,000 are based outside the Netherlands (over 54% of senior management is non-Dutch). As much as possible for a global financial institution of our size, ING aims to take account of all these differences and also of the standards applied within similar financial institutions in the various countries in which it operates. Since 2008, ING has been continually reviewing and amending its remuneration policies in response to the ongoing review of the financial system and related public debate, as well as in line with applicable regulatory developments. More information on this can be found on page 83.

Figure 8: BASF value graphic example

Source: BASF Report 2011, pg. 45

2. **Quantifying the financial impacts of ESG performance.** It is difficult to measure with precision the direct implications of ESG performance on a company's bottom line. Some companies are experimenting with new approaches, such as the well-known example of PUMA's environmental profit and loss accounting. As integrated reporting continues to mature, it will become increasingly important for companies to attempt to quantify the impact of ESG issues on their businesses. While many of the reports in our sample draw a narrative link between ESG performance and overall business success, few try to quantify the relationship. BASF's innovative use of visuals to link the value created for the business and the value to stakeholders stands out as a leading example (**see Figure 8**).

3. **Measuring and reporting supply chain impact.** Similarly, there is a growing expectation that companies will report on ESG impacts along their entire value chain, especially given the heightened emphasis on value chain reporting in the GRI's G4 proposed guidelines. To date, few companies are collecting and reporting data on value chain impacts, with the exception of limited discussions related to environmental impacts. In our study, we found that Heineken describes how it measures its impact on energy, water, and carbon dioxide along its entire value chain from "barley to bar." BASF reports on and calculates carbon dioxide emissions along its value chain as well as the emissions avoided by the use of BASF products (**see Figure 9**).

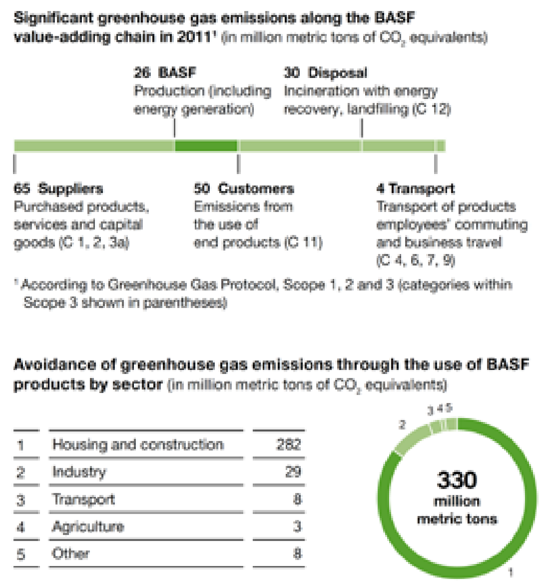


Figure 9: BASF greenhouse gas reporting along the value chain

Source: BASF Report 2011, pg. 97

CONCLUSIONS

Our findings indicate that many companies are paying attention to and experimenting with the concept of integrated reporting. In 2010, 163 companies self-identified their reports to the GRI as integrated; in 2011, that number rose to 183.[2] In 2012, the IIRC's Pilot Programme participation more than doubled, from 50 to more than 100 organizations, according to Superna Khosla, IIRC relationships director.

Upon closer inspection, however, one sees that the degree to which companies are applying the principles and practices of integrated reporting varies greatly. All companies can begin to adopt a mindset of integrated reporting by looking to existing resources and examples, and also engaging in exploratory reporting in areas where no set state of practice has yet been established.

What is certain is that the trend toward integrating reporting will continue. With the help of frameworks and tools developed by organizations such as the IIRC, GRI, and SASB, we anticipate that integration—to varying depths and in various ways—will swiftly become the new norm in expected corporate disclosure.

[2] Reporting to the G3 or G3.1 standard, coded as "Large" or "Multinational Enterprise (MNE)" as entered in the GRI Sustainability Disclosure Database, and published in English

APPENDIX

THE INTEGRATED REPORTING LANDSCAPE

Several key organizations are helping to drive the trend toward the integrated presentation and consideration of ESG and financial information. While some are still in their early stages, these efforts are helping to create a common understanding of what integrated reporting is and how companies can implement it in their own organizations.

GLOBAL REPORTING INITIATIVE

The Global Reporting Initiative (GRI) has established as one of its four strategic goals to contribute to the development of integrated reporting. The level of GRI's commitment is exemplified by GRI's Chairman of the Board, Mervyn King, stepping down in 2011 to transition to the role of Chairman of the International Integrated Reporting Council (IIRC). For more information, visit: www.globalreporting.org.

INTERNATIONAL INTEGRATED REPORTING COUNCIL

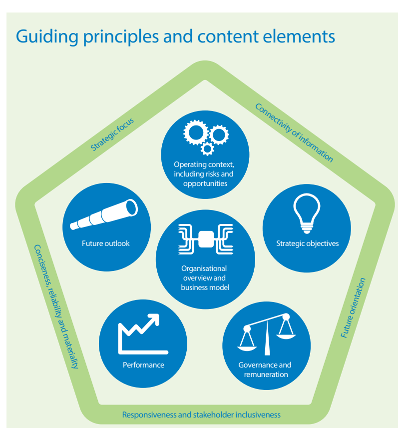
The IIRC was cofounded in 2010 by the GRI, the Prince of Wales Accounting for Sustainability project, and the International Federation of Accountants. The IIRC takes the form of a coalition of regulators, investors, companies, accountants, and NGOs, and is currently crafting a framework to serve as a guide for companies around the world that seek to adopt an integrated approach to reporting (**see Figure 10**). The IIRC will distribute a consultation draft of the Prototype Framework in April 2013 for public comment, with Version 1.0 of the Framework released in December 2013. The organization is also engaging in a Pilot Program with more than 80 businesses and 25 institutional investors who are already experimenting with integrated reporting concepts and practices. Full details are available on the IIRC website: www.theiirc.org.

SUSTAINABILITY ACCOUNTING STANDARDS BOARD

In the United States, the non-profit Sustainability Accounting Standards Board (SASB) is developing industry-specific sustainability accounting standards that are comparable across companies. The eventual goal of SASB is to promote the inclusion (and a mandate) for disclosure of material ESG issues and related key performance indicators in the SEC Forms 10-K and 20-F. See www.sasb.org for further details.

Figure 10: IIRC integrated reporting guiding principles and content elements

Source: "The Pilot Programme 2012 Yearbook," IIRC, pg. 3



DISCUSSION OF EVALUATION RESULTS[3]

RIO TINTO

This is one of the best examples of integrated reporting in our sample. At 224 pages, it is quite long; however, the report contains all of Rio Tinto's financial reports. The Annual Report is submitted to the SEC as the 20-F. The report explicitly incorporates ESG factors into the company's strategy and risk analysis. It includes paragraphs for several top financial and ESG KPIs describing how the indicators are relevant to company strategy. It also incorporates ESG considerations (specifically, safety and greenhouse gas emissions) into its detailed discussion of each business unit's strategy and performance. It describes the economic, environmental, and societal context in which the business operates, and discusses future opportunities and risks, including specific sustainability risks and their implications. More information could be included about the materiality analysis and stakeholder engagement processes. There is also no attempt to quantify the financial impact of ESG performance.

BASF SE

The report scores highly on many of our measures of integration. It is the only report that BASF publishes, and is 240 pages long. (The company does not list on US exchanges, so it does not need to prepare a separate report for the SEC.) BASF's four strategic objectives reflect the interests of various stakeholders: shareholders, customers, the environment/society, and employees. The company's strategic objectives are situated in the context of future opportunities, challenges, and uncertainties, as well as broader economic, environmental, and social trends. The report describes the company's stakeholder engagement and materiality analysis processes; however, there is only some overlap between the most material issues and the issues that are reported on. In most cases, the material issues are linked to the company's overall business strategy and success, although these connections could be made clearer. The report contains graphics that use data to show the value of performance on sustainability issues to stakeholders—potentially a best practice in linking financial and ESG performance. The report does a fair job of connecting past, present, and future performance.

STATOIL ASA

The report creates a strong narrative link between ESG performance and overall strategy and risk management. It describes extensive stakeholder engagement but it does not indicate how the most material issues were determined or which are the highest priorities. Financial and ESG KPIs are presented together, but there is no effort to quantify the financial impact of ESG issues. The report discusses the broader social, economic, and environmental context as well as future risks and opportunities, but it does not include any specific forward-looking targets. The report is only available as an HTML microsite, but if it were in PDF form it would likely be hundreds of pages long; as a result, it loses some clarity and ease of reading.

[3] The discussion of evaluation results reflects our analysis of the singular report identified by each company as "integrated" in its submission of information to the GRI Disclosure Database. See Table 2: List of Company Reports on page 4 for more details.

NATIONAL AUSTRALIA BANK

Unlike some other companies' integrated reports, which include the financial statements in their entirety and considerable amounts of ESG data, this Annual Review just includes ESG highlights and selected financial KPIs. For more information about any of these topics, the reader has to go to the "Dig Deeper" series or the Annual Financial Report. As a result, the Annual Review is only 42 pages. ESG considerations are integrated into the overall strategic priorities of the business. There was extensive stakeholder engagement, but it is not clear why certain issues were selected as the highest priority from a longer list of issues important to stakeholders. There is only some overlap between the most material issues identified and the issues actually reported on. There is no discussion of the overall environmental, economic, and societal context. The report does not make a strong link between ESG performance and financial success ("Enhance our reputation" is one of the 4 strategic priorities, but how reputation is influenced by ESG performance is not discussed.) There is no effort to quantify the financial impacts of ESG performance. Financial and ESG KPIs are presented together. Although each section describes performance in 2011 and future outlook/targets, only on some indicators does the report include data on progress over time.

ING

Although ING's report scores highly overall, it only briefly mentions the strategic objectives of the business and does not discuss economic performance at all. These discussion are housed in the much more comprehensive Annual Report; the 'ING in Society' report would more accurately be billed as a sustainability report. The report puts performance on ESG issues in the context of future opportunities, challenges, and uncertainties and makes a link between past, present, and future performance. There is extensive stakeholder engagement and the way in which material issues are presented in the report may be considered a best practice; however, the process by which the most material issues were selected is not clear. The report creates a narrative link between ESG issues and overall business success, but there is no effort to quantify financial impact of performance on ESG issues.

HEINEKEN

This is a very well-done sustainability report, but it does not rise to the level of an integrated report given the exclusion of financial data. The report describes robust stakeholder engagement, and lists KPIs in an easily understood chart. It also includes a discussion of specific feedback from stakeholders and the actions the company has taken in response, which could be considered a best practice, though it only covers a few issues and does not clearly link stakeholder concerns to the company's selected KPIs. The report makes only minimal connections between the material issues identified and the overall strategy and risk management of the company; includes only minimal discussion of the broader environmental, economic, and societal context; and does not include any information about financial performance.

SCHNEIDER ELECTRIC

This report can be viewed as a "combined" report, with ESG and financial information presented separately in a 280-page long document. The report presents strategic priorities for the business for the next three years (the Connect plan) and historical ESG performance data for the previous three years (the One plan), but these two are not clearly linked. It does not provide any forward-looking ESG goals. The report only provides minimal economic, environmental, and social context, and ESG considerations do not figure prominently in the discussion of future opportunities, challenges, and uncertainties. There is no effort to quantify the financial impact of ESG performance. The "Key figures 2011" section includes only financial KPIs.

UBS

This report is essentially a combined report, not an integrated report, and tops out at 468 pages. There is no attempt to integrate financial and ESG information. For example, the CSR section discusses social and environmental risk factors, but in the risk management section of the financial report, ESG factors are not mentioned. Also, financial and ESG KPIs are not presented together, and there is no effort to quantify the financial implications of ESG performance. It does not appear that a true materiality analysis was conducted. The report does not describe which are the most material issues or the process by which those issues were prioritized. There are no forward-looking goals or targets.

SBERBANK

This is a combined report rather than an integrated report, with a total length of 276 pages. The company's strategic goals for 2012 include some aspects of ESG (namely, governance and HR). However, the report is mostly a backward-looking review of 2011 performance. It does not appear that a true materiality analysis was conducted, and stakeholder engagement appears limited to providing ideas for operational improvements and new products. The report creates a narrative link between ESG issues and overall business success, but there is no effort to quantify financial impact. There is only limited discussion of the economic, environmental, and social context.

TELSTRA

This is a combined report, rather than an integrated report. The Annual Review functions as a sustainability report, while the full Annual Report is the Annual Review plus the regulatory financial report; there is no integration between the two. The report does not provide much information about the company's business model, though it does discuss strategic priorities of the business. The report contains no discussion of future opportunities, challenges, and uncertainties, and the risk management section of the full Annual Report only discusses financial risk. There is no discussion of stakeholder engagement or a materiality analysis process. There is minimal effort to link the material issues to the overall business strategy. There is no effort to quantify the financial impacts of ESG factors. There is very little discussion of the environmental, economic, and societal context. The report presents historical performance data for KPIs but no forward-looking goals or targets.

HALLIBURTON

This report is essentially a sustainability, rather than an integrated, report. It contains very little information about the company's business strategy; social, environmental, or economic context; or future risks and opportunities. Some of the missing information is included in the Annual Report (which is essentially the 10-K plus a letter to Shareholders). Likewise, there is no ESG information included in the Annual Report, except as it relates to potential liabilities for failure to comply with environmental regulation and the need to attract technical personnel.

PFIZER

This report was quite limited in its scope and coverage, and contains very little information about the company's strategic goals. There is little discussion of the broader economic, environmental, and social context or future opportunities, risks, and uncertainties. The report provides no information about the company's stakeholder engagement efforts and it appears that no materiality analysis was completed. There is no explanation of the process by which the material issues were identified or prioritized. The report lists key financial KPIs together with a few ESG KPIs. It does not make any effort to quantify the impact of ESG factors on the overall success of the business. The report only includes data on past performance; it does not include any forward-looking goals or targets.

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