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FIRST COMPREHENSIVE STUDY ON STATE OF INTEGRATED REPORTING IN UNITED STATES:
Sustainability Reporting Is Widespread, But Connection to Bottom Line Sometimes Missing
Webinar on May 3, 2013, at 2 PM ET to Review Findings

NEW YORK, NY, April 29, 2013 – Every company in the S&P 500 except one reports some form of sustainability disclosure, but fewer quantify those disclosures in terms of bottom line impacts, according to a new report from the IRRC Institute (IRRCI) and the Sustainable Investments Institute (SI2). That report is the first to comprehensively benchmark the status of integrated reporting in the U.S.

A webinar to review the findings and respond to questions regarding this new report, *Integrated Financial and Sustainability Reporting in the United States*, is scheduled for Friday, May 3, 2013, at 2 PM ET. Register here or at https://www1.gotomeeting.com/register/989588280.

The 285-page report analyzes sustainability disclosures on a sector-by-sector basis, and examined a total of 56,000 individual data points, across both mandated SEC filings and voluntary sustainability reports. The report examined disclosures for 2012. Looking across the entire S&P 500, the report discovered that:

- 499 companies made at least one sustainability related disclosure, but only 7, or 1.4% integrate financial and sustainability reporting. Zions Corporation is the only company not to include any sustainability disclosure across the various reports examined. The 7 companies, which included a statement on integrated reporting, were American Electric Power, Clorox, Dow Chemical, Eaton, Ingersoll Rand, Pfizer and Southwest Airlines.
- Nearly three quarters (74 percent) of the companies placed a dollar figure on at least one sustainability-related initiative, though they frequently also mentioned other initiatives whose benefits/costs were not quantified.
- 43.4% of the companies linked executive compensation to some type of sustainability criteria.

By issue area, the study identified the following trends:

- **Environmental management (disclosed by 68 percent of companies)—**Disclosures of capital expenditures on environmental controls were the most common. Many companies wrote about reducing overall operational risks—especially those related to employee health and safety and associated losses tied to productivity, settlements and lawsuits—as well as environmental spills and related cleanup and remediation costs, potential fines and lawsuits.

- **Employment (67 percent)—**Most companies noted the importance of attracting and retaining talent. Many described programs to engage employees about business topics, workplace issues and job satisfaction, as well as benefits to attract and retain them, including health plans, retirement accounts, job training and continuing education. Diversity also was mentioned as a key driver of business success. Health and safety risks were common notes too, as were risks related to poor employee relations, strikes and other work stoppages.

- **Climate change (66 percent)—**Climate change frequently was discussed in the context of potential regulation in the United States, as well as being a chief concern among key stakeholders. Many companies identified the energy efficiency of their operations and products as "low hanging fruit," since they found investments in these areas produced returns competitive with other competing demands for capital.

- **Hazardous waste (63 percent)—**Most companies described risks related to hazardous waste in their annual Form 10-K filings; this was the only sustainability topic discussed by a majority of companies in any one specific reporting format. Many of these disclosures related to pending litigation. Risk mitigation efforts, including environmental, health and safety management systems, also factored into disclosures for some of the companies, as did legal requirements on reporting government fines. Hazardous waste also was the area where companies were most likely to place a dollar amount on their activities.

- **Product formulations (54 percent)—**These disclosures included product lifecycle assessments as well as the marketing of green, fair trade or other types of sustainable products. Most disclosures happened in sustainability reports.

- **Waste management (49 percent)—**Companies primarily addressed efforts to reduce packaging and to move manufacturing operations toward producing zero landfill waste.

- **Water use (39 percent)—**Companies viewed water principally as a cost or as a potential risk due to scarcity. Several companies with water-intensive manufacturing or other operational needs had completed or had begun to undertake assessments to review current and future demand, availability and associated operational risks.

- **Ethics (21 percent)—**Fraud and related ethics topics were often discussed in a context of compliance with legal requirements, primarily the U.S. Foreign Corrupt Practices Act (FCPA).

- **Human rights (15 percent)—**The issue rarest to be talked about as a business opportunity, human rights most frequently was described as a reputational risk, specifically with regard to suppliers' use of child or forced labor or operations in conflict zones.

"As the report demonstrates, disclosure per se is commonplace today. But isolated sustainability disclosures are of limited value, both to corporate managements trying to improve the bottom line and to investors trying to gauge risks and opportunities. The challenge today is to connect the dots between sustainability initiatives and corporate earnings and then to quantify the causal relationship," noted Jon Lukomnik, executive director of the IRRCi "Clearly, there is a linkage. For instance, I found it intriguing that nearly half the companies consider sustainability in determining at least some portion of executive compensation. But for far too many sustainability factors, across far too many reports, quantification is lacking, leaving managers without tools and investors to wonder how carefully they are being managed."

Report author and Si2 cofounder Peter DeSimone said, "Myriad regulations and rules on disclosing environmental contingencies, liabilities and government fines, as well as climate change and a handful of other sustainability risks are driving much of this disclosure. However, these rules are disjointed and do not offer companies or their investors a comprehensive, top-to-bottom view on how sustainability risks and opportunities are factored into corporate planning and how they are affecting financials."

"Because companies often omitted financial estimates for the impacts of their sustainability efforts, does not mean they are not capable of doing so," DeSimone added. "The report found numerous examples of companies offering anecdotal evidence of the links between sustainability and financial performance. In fact, the report's data indicate that by not scaling up sustainability initiatives and coordinating them through a unified corporate strategy, many companies may be missing opportunities to improve financial results."

The report, *Integrated Financial and Sustainability Reporting in the United States*, also includes a thorough review of existing regulatory requirements and an overview of current efforts to advance integrated reporting by providing frameworks and materiality guidelines, including the recent work of the Global Reporting Initiative, the International Integrated Reporting Council and the Sustainability Accounting Standards Board. A full copy of the report is available at http://irrcinstitute.org/projects.php.

The Investor Responsibility Research Center Institute (IRRCi) is a not-for-profit organization headquartered in New York, NY, that provides thought leadership at the intersection of corporate responsibility and the informational needs of investors. More information is available at www.irrcinstitute.org.

The Sustainable Investments Institute (Si2) provides institutional investors with in-depth, impartial analysis of environmental and social policy shareholder resolutions filed at U.S. companies. It also is an incubator for empirical research on emerging sustainability topics and corporate and investor responsibility issues. More about Si2 is at www.siinstitute.org.

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