KPMG’s Survey of Corporate Responsibility Reporting 2017

New Zealand Supplement
October 2017
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KPMG International’s Survey of Corporate Responsibility Reporting continues to be the world’s most well-respected, comprehensive and authoritative survey of corporate responsibility reporting.

First launched in 1993, KPMG’s Survey has become the global benchmark research in relation to the corporate responsibility (CR) reporting landscape.

The 2017 edition is our 10th edition, and is the largest and most extensive yet, with 4,900 companies across 49 countries included. New Zealand has contributed to the survey since 2011.

The survey provides a detailed look at global trends in CR reporting and insights for business leaders, company boards, and CR and sustainability professionals. It is designed to offer guidance on good practice to corporate professionals who assess and prepare their own CR reports. It also serves as a guide to investors, asset managers and rating agencies who now factor environmental, social and governance (ESG) information into the assessment of corporate performance, risk and ultimately value.

KPMG New Zealand has produced this supplementary report. Our aim is to examine the New Zealand CR reporting space in more depth, and provide additional insights specific to our market.

Our interest lies beyond looking at the numbers – to explore the why and how of CR reporting in New Zealand. Importantly, this 2017 report coincides with the launch of the new New Zealand Stock Exchange (NZX) Corporate Governance Code (NZX Code), which marks a significant turning point in New Zealand’s reporting landscape.

You can download the full global report at:  www.kpmg.com/crreporting
New Zealand’s top 100 companies (by revenue) form the basis for the survey results and the findings in this supplementary report.

For the first time, we include commentary on the top 10 Maori companies.
To complete the global survey, professionals from 49 KPMG member firms carried out thousands of hours of research. Publicly available disclosures made by the 100 largest companies by revenue (N100) across 49 countries, including New Zealand, were reviewed. We also studied the world’s largest companies by revenue based on the Fortune 500 ranking (G250). Data disclosed prior to June 2015 was not included in the research.

In clarifying the scope of our work, three important points include:

1. **What constitutes corporate responsibility (CR) reporting in our analysis?**

   Companies may communicate their approach to CR performance in a number of ways. For the purposes of this research, “overall disclosure” included any publicly available information or published statements on CR/sustainability made by the company. These included financial reports, integrated reports, standalone CR reports, and information provided online.

   As a result, determining whether a company is deemed to have communicated their sustainability strategy and performance sufficiently to be considered a ‘reporter’ is based on a level of judgement.

2. **Impact of group versus local reporting**

   Many of New Zealand’s largest companies are part of group structures with the parent entity located overseas. For this New Zealand supplement, it is worth noting that 24 of our N100 report via their global parent, and do not have New Zealand-specific disclosures. As with global methodology, local results were used in preference with global results used to complete the picture.

   Globally, of the 4,900 companies studied, 49% are headquartered in Europe; 22% in Asia Pacific; 14% in the Americas; and 14% in the Middle East and Africa.

3. **Inclusion of Maori sector research analysis**

   For the first time, we conducted additional research into the reporting landscape of the top 10 Maori companies. Whilst these companies are not large enough to feature in the N100 by revenue, the Maori sector plays a significant part of New Zealand’s cultural and business landscape.
Summary of key findings

“The growth of CR reporting in New Zealand over the last two years can be attributed to increased consumer awareness and investor pressure, as well as a broader appreciation among businesses that non-financial risk management is key to long-term value protection and creation.”

New Zealand is catching up and records the second largest increase in CR reporting since 2015

With an overall disclosure rate of 69%, New Zealand is catching up to the global average among the N100 of 72%. The rate among the world’s 250 largest companies (G50) is 93%.

This represents a 17% increase in New Zealand in CR reporting rates since 2015. This is the second largest percentage increase among the 49 countries in the survey. This is an encouraging outcome given the significance of the changing reporting landscape.

Mexico recorded the largest increase (32%) as businesses and the stock exchange responded to foreign investor demands and new Government regulation requiring companies to report on their carbon emissions.

Growth in global CR reporting since 1993

Source: KPMG Survey of Corporate Responsibility Reporting 2017
“For the moment, the quality of CR reporting by New Zealand businesses is often lacking in balance, objectivity and transparency. Over the next two years, the introduction of the new NZX Corporate Governance Code will likely act as a catalyst for better business reporting by raising the bar on what is expected. The onset of this more holistic approach will hopefully see box-ticking compliance consigned to the side lines and frameworks such as Integrated Reporting and GRI being used as critical business tools to understand, define and enhance corporate value.”

Erica Miles, KPMG New Zealand
More companies are including CR data in their annual financial reports

Globally, 60% of the N100 and 78% of the G250 include CR information in their annual financial report, suggesting they believe CR information is relevant for their investors.

New Zealand’s rate is sitting at 55%. We expect this to grow significantly with the introduction of the NZX Code.

The Global Reporting Initiative (GRI) remains the most popular framework for CR reporting

The research found that globally, 74% of the N100 and 89% of the G250 companies are using some form of guidance or framework for their reporting. The GRI framework is the most commonly used, with 63% of N100 reports and 75% of G250 companies applying it.

In New Zealand, 29 companies of our N100 reporters are using GRI. Of these, 19 disclosures are made via the global parent. Only 10 locally based disclosures utilise the GRI framework.
Case study: Māori top 10

“Kaitiakitanga embodies the natural values within Maori culture of guardianship and conservation including care for the environment, people and relationships.”

The way Maori communicate their value creation to their key stakeholders forms an important component of the more holistic reporting landscape in New Zealand. Whilst the largest companies within the sector do not generate the revenue levels to appear in New Zealand’s N100, we included the top 10 Maori organisations in our study. Of the 10 Maori organisations researched, four engaged with CR reporting, with all these disclosures included in annual financial reports. Although none of this group adopts the GRI or <IR> framework, the inclusion within their annual financial reports reflects the integral value of Kaitiakitanga within Maori organisations.

Positively, one organisation has shown leadership by reporting their progress towards achieving the UN’s Sustainable Development Goals (SDGs). One other organisation had also begun to quantify their environmental, social and governance impacts in financial terms through their “tribal, cultural and health activities.”
Integration is the new normal and “non-financial” the new financial

Four

Assurance of CR data has more than doubled among the G250 in the last 12 years indicating that the largest companies see value in promoting the reliability of this information. New Zealand continues to lag.

A report free from material misstatement enhances both the credibility and reliability of the company’s reporting. Independent assurance opinions provide security over data integrity and data collection practices.

Globally, the percentage of N100 companies investing in third-party assurance of their CR reporting has grown from 33% in 2005 to 45% in 2017. Among the world’s largest G250, the rate is 67%.

New Zealand lags significantly, with only six companies who report locally seeking independent assurance. When reporting through their global parent entity, this figure rises to 23%.

This reflection fails to acknowledge the ever-increasing scrutiny paid by investors around their requirement for balanced and transparent non-financial disclosures. Critically, this reflects a failure by businesses to acknowledge the value non-financial matters adds to their bottom line.

Five

Lack of focus on material issues

Identifying material issues via stakeholder engagement highlights the areas of greatest importance and impact to the business.

As identified in point three, relatively few New Zealand reports align to recognised reporting frameworks. This is a central reason behind a general lack of applying a materiality lens to disclosures. Accordingly, with a few exceptions, the quality of disclosures among New Zealand companies is generally considered to be low.

Six

“Integrated Reporting” starting to take off in certain countries

The number of companies that specifically label their reports as ‘Integrated’ is growing slowly but steadily. In 2017, 14% of our world’s N100 largest businesses claim their report as ‘Integrated’. However, only two thirds of these reference the International Integrated Reporting Council (IIRC) framework for integrated reporting (<IR>).

The rate among the G250 is 15% of those reporting.

In New Zealand, nine organisations claim their report is ‘Integrated’, with five referencing the <IR> framework. Globally, leaders in integrated reporting are South Africa (90%), Japan (42%), Spain (36%) and The Netherlands (26%).

“The merging of financial and non-financial reporting will quickly accelerate in the next few years and it is the finance teams who will be expected to deliver the disclosures.

The first step is to gain a sound understanding of the material environmental and social issues that have the potential to impact the company’s financial performance. Most companies have resident experts who can help, namely their sustainability teams. Increased dialogue and collaboration between the finance and sustainability functions, which are too often separate and siloed, will be critical.”

Jose Luis Blasco, Global Head, KPMG Sustainability Services
Emerging topics in Corporate Responsibility reporting

The 2017 survey spotlights four major emerging trends within CR reporting:

13. Linking CR activity to the UN’s Sustainable Development Goals
15. Acknowledging human rights as a global business issue
17. Acknowledging the financial risks of climate change
20. Linking carbon targets to the Global Climate Goal
In September 2015, the United Nations adopted the Sustainable Development Goals (SDGs). These are a set of 17 goals to end poverty, protect the planet, and ensure prosperity for all. KPMG’s survey analysed how many companies make a connection between their corporate responsibility activities and the SDGs.

KPMG’s survey shows that the SDGs have resonated strongly with companies worldwide in less than two years since their launch. Around four in 10 CR reports, from both the N100 and G250 companies, make a connection between the company’s CR activities and the SDGs. This is a clear trend that has emerged in a short space of time, and strongly suggests that SDGs will be growing in profile in CR reporting over the next two to three years.
Number of companies that connect their CR activities to the SDGs

| Base: 3,543 N100 companies that report on CR, 233 G250 companies that report on CR |
| In New Zealand 69 companies report on CR, of these 17 (25%) make a connection between their CR activity and the SDGs. Only three of these are local disclosures, with the remaining 14 disclosing via their global parent. |

Source: KPMG Survey of Corporate Responsibility Reporting 2017
In 2011, the UN endorsed the Guiding Principles on Business & Human Rights. These principles establish the responsibility of businesses to respect human rights, avoid infringing them and remedy any negative human rights impacts they are involved with.

Six years on, KPMG analysed reports to see how many companies are acknowledging human rights as an issue for their business.

The survey found almost three quarters (73%) of the N100 CR reporters and nine out of ten (90%) of the G2150 reporters acknowledge the issue. However, despite the high numbers of companies acknowledging human rights as a business issue, only around two thirds of these (62% of both the G250 and N100 reporting) state they have a human rights policy in place.

Furthermore, only one third of those acknowledging the issue also referenced the UN Guiding Principles. This indicates that only a minority of business are yet prepared to align themselves publicly with the Principles.
Of the 69 New Zealand companies that report on CR, 26 (38%) of these acknowledge human rights in their CR report. Seven of these are local disclosures, with the remaining 19 disclosing via their global parent.

In New Zealand, 16 CR reports state the organisations had a Human Rights Policy. None of these are local disclosures, with all of these 16 made via the global parent.

In regards to referencing the UN Guiding Principles, 16 of the 69 disclosures reference these Principles. Three of these are local disclosures, with the remaining 13 disclosing via their global parent.

Source:
KPMG Survey of Corporate Responsibility Reporting 2017
Companies that acknowledge the financial risk of climate change in their annual reports

- **N100**: 28% acknowledge the financial risk of climate change.
- **G250**: 48% acknowledge the financial risk of climate change.
- **New Zealand**: 31% acknowledge the financial risk of climate change.

Source: KPMG Survey of Corporate Responsibility Reporting 2017

Acknowledging the financial risks of climate change

Our survey found three quarters of companies worldwide are yet to acknowledge climate change as a financial risk.

KPMG analysts studied companies’ annual financial reports to understand how many acknowledge that climate change poses a financial risk to their business.

Globally, we found that only 28 percent of these companies currently acknowledge the financial risk of climate change in their annual financial report. Among New Zealand N100 companies, the figure is 31.

Of those companies that do acknowledge climate change as a financial risk in their financial reporting, a relatively high proportion provide some narrative description of the potential impacts. Very few, however, are currently quantifying the potential impact of those risks. In New Zealand, 16 companies provide a narrative description of the potential impacts.
Global Task Force increases pressure on companies to disclose financial risks of climate change. In New Zealand, none of the annual financial reports prepared by our N100 noted the Task Force and its recommendations.

In 2015, the Financial Stability Board highlighted climate change as a risk to the stability of the global financial system, and set up the Task Force on Climate-related Financial Disclosures (TCFD). The Task Force has brought together companies that prepare financial data and users of that data (investors, lenders and insurers) to recommend how companies should disclose their financial risks of climate change. These recommendations focus on the disclosure of physical risks from extreme weather such as storms and droughts, and commercial risks related to the global transitions to a lower-carbon economy. The recommendations were submitted to the G20 in July 2017.

As a result, pressure is growing on companies to improve their disclosure of climate-related financial risk. UK investment house Aviva Investors, for example, has announced it will vote against the annual reports and accounts of investee companies that do not report in line with the Task Force’s recommendations.

For more on the TCFD see: www.fsb-tcfd.org
It is no longer considered enough for companies to set arbitrary carbon reduction targets with no connection to the bigger picture. Instead, pressure is growing on companies to cut their carbon emissions in line with the greater global goal.

Adrian King, KPMG Partner and former Global Head of Sustainability Reporting and Assurance
A solid majority of the world’s largest companies (G250) now disclose targets to cut their carbon emissions. The percentage in 2017 stands at 67 percent of reporting companies – up from 58% in 2015.

Among the N100, the survey shows that 50 percent of reporting companies set carbon reduction targets. In New Zealand, the figure is 37 out of our 69 reporting companies (54 percent) disclose their carbon targets.

However, most carbon targets are not linked to greater climate goals. Although most companies (around two thirds) set carbon targets for their business, many don’t yet acknowledge the external targets being set by governments and others. Of those that do link their own carbon targets to external targets, the majority refer to the Paris Agreement 2°C goal. This equates to around one quarter (23%) of companies that disclosure carbon targets.

In New Zealand, the research found 13 of reporting companies align their carbon targets with global, regional and national targets; with seven linking their targets to the Paris Agreement 2°C goal.

Companies linking their carbon reduction targets to national, regional or global goals

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<thead>
<tr>
<th>Linked to global 2°C target (Paris Agreement)</th>
<th>Linked to regional targets (e.g. EU targets)</th>
<th>Linked to national targets (NDCs/INDCs)</th>
<th>Not linked to any other targets</th>
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<tbody>
<tr>
<td>N100</td>
<td>G250</td>
<td>New Zealand</td>
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<tr>
<td>23%</td>
<td>23%</td>
<td>19%</td>
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<tr>
<td>6%</td>
<td>2%</td>
<td>7%</td>
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Base: 1765 N100 companies that report carbon reduction targets, 156 G250 companies that report carbon reduction targets, New Zealand 69 reporting companies.

Source: KPMG Survey of Corporate Responsibility Reporting 2017
New Zealand’s road ahead - the future of Corporate Responsibility reporting

From tree-hugging fringe to business imperative

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NZX: a catalyst for better reporting?

The days of corporate responsibility (CR) reporting being considered ‘an optional extra’ are now firmly behind us.

The recent changes to the New Zealand Stock Exchange (NZX) Corporate Governance Code mark a significant turning point in the CR reporting landscape in New Zealand.
The new NZX Code took effect on 1 October 2017 and represents the first substantial change of governance rules since 2004. It applies to all NZX Main Board Listed issuers, for reporting periods ending 31 December 2017 and beyond.

In New Zealand, regulatory requirements around non-financial reporting represent a new development. Specifically, the NZX’s recommendation that entities disclosure their non-financial performance brings New Zealand into line with global markets that have been required to make non-financial disclosures for many years - New Zealand is now playing catch-up.

Principle 4 of the NZX Code covers reporting and disclosure matters for both financial and non-financial performance. Recommendation 4.3 of the NZX Code states:

Financial reporting should be balanced, clear and objective. An issuer should provide non-financial disclosure at least annually, including considering material exposure to environmental, economic and social sustainability risks and other key risks. It should explain how it plans to manage those risks and how operational or non-financial targets are measured.

While offering some initial flexibility, the NZX Code is intentionally far-reaching and signals the first step in raising expectations of issuers.

To aid comparability by the investment community, the NZX Code (through its commentary) steers issuers to the use of recognised frameworks (such as the Global Reporting Initiative (GRI) or Integrated Reporting <IR>).

The changes should not be viewed as a ‘compliance’ exercise

From a reporting standpoint, issuers will need to weigh short term compliance with longer term stakeholder engagement objectives; so that quality (measuring impact) wins over quantity (simply reporting statistics) when it comes to their disclosures.

For both financial and non-financial reporting, the NZX Code highlights the need to: communicate a balanced, transparent, and objective assessment of performance; an issuer’s management of their material exposures to non-financial risks; their business model; strategic objectives; and ultimately reporting of progress against meeting them.

Accordingly, there is no “one size fits all” approach – it’s the quality of the disclosures, and the processes behind them that counts.
For years, New Zealand has lagged behind our global peers in the quantity and quality of our CR reporting. However, with the ever-increasing scrutiny from the investment community and the recent introduction of the NZX Code, we are provided with an invaluable opportunity to improve our standing among the global capital markets. For those new to reporting or those looking to improve, let us consider three critical points:

**KPMG insights**

The value is in the strategic response not the statistics

In preparing to meet the requirements of the investment community and the NZX Code, it is important to appreciate the value and role communicating your non-financial performance plays.

The value of reporting is not in the disclosures themselves. The value is in the strategic journey you go through to enable disclosure. This journey must start with the identification and development of strategic responses to manage your material non-financial risks (and opportunities).

The role of reporting is not about providing simple statistics and stories. Rather the value is in communicating your organisation’s strategy, your performance against that strategy, and ultimately, how you protect and create long-term value. Your ability to articulate your value protection...
and creation processes is what the investment community and other stakeholders are looking for – not how many tonnes of waste were recycled.

This is about doing better, not more. It is about prosperity, not paperwork.

**Quality and transparency are paramount**

In New Zealand, we need to acknowledge the need to improve the quality and transparency of our disclosures. We need to appreciate and recognise that financial and non-financial disclosures will ultimately be integrated, and the same rigour currently applied to financial risks will need to apply to non-financial risks too.

Utilising globally-recognised reporting frameworks and seeking (integrated) external assurance, will provide the investment community and other stakeholders with comfort that your disclosures are credible and trustworthy. Taking the lead from the world’s largest companies is a prudent response.

**Reflection of global trends**

For an increasingly globalised capital market, we can expect an increasing need to align our reporting to include your progress against global commitments. In particular, this will mean looking to integrate the requirements of the UN’s SDGs, the 2°C Paris Agreement, and the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD) into your report. The latter, for example, recommends the financial risks of climate change be quantified and included within annual financial reports. More on the latter shortly.

**Our conclusion**

The NZX Code marks a key turning point in New Zealand’s reporting landscape. In embracing these requirements, we must acknowledge that strategy drives reporting, and not vice versa. Remember, the value lies in the strategic response taken to identify and manage non-financial risks – and reporting is a transparent output of this journey.
At KPMG, we believe all companies in New Zealand have an important role to play in New Zealand’s prosperity journey. Creating a sustainable future is a core element of this. Whether your organisation is just starting out on its corporate responsibility journey, or you’re ready to increase the quality and integrity of your reporting – the team at KPMG has a wealth of experience to assist you.

We work with organisations to help them manage the risks and opportunities associated with corporate responsibility, and to enhance all aspects of reporting and communication.

Our services include:

**Reporting strategy and planning**
- Understand which of the environmental and social issues are material to you and your stakeholders (e.g. materiality assessments or workshops)
- Undertake benchmarking assessments of your report against national and/or global best practice
- Help you choose the right reporting approach and framework for your business to ensure alignment with wider business goals and/or specific corporate responsibility strategies
- Undertake gap analysis against the GRI and <IR> reporting frameworks, and provide advice on how these can be used to frame a balanced report that addresses material issues in line with the NZX Corporate Governance Code requirements
- Integrate financial and non-financial information in your reporting in line with the NZX Corporate Governance Code requirements

**Risk and opportunity management**
- Align your corporate responsibility activities with the UN’s Sustainable Development Goals, and assess your contributions to achieving these goals
- Conduct Environmental, Social and Governance (ESG) risk and opportunity assessments and make strategic recommendations for mitigating or realising these
- Workplace health and safety advice and compliance
- Carbon and greenhouse gas emissions inventories and assurance
- Environmental, Social and Governance (ESG) due diligence

**Assurance**
- Assist you to preparing for independent assurance through completion of internal readiness assessments of corporate responsibility related data systems and controls (pre-assurance)
- Provide independent assurance of corporate responsibility reporting according to international standards
- Provide independent assurance of your integrated financial and non-financial report, according to international standards

For further information, please refer to our website.