Corporate responsibility reporting in the Oil & Gas sector

Key findings from the KPMG Survey of Corporate Responsibility Reporting 2015

June 2016

About this research

This briefing contains key findings on the Oil & Gas sector from the KPMG Survey of Corporate Responsibility Reporting 2015 (published November 2015). The research is based on two samples:

– The G250: the world's 250 largest companies by revenue as defined by the Fortune 500 2014 listing.[1] Oil & Gas companies account for 12 percent of this sample (31 companies).

– The N100: the largest 100 companies by revenue in each of 45 countries – a total of 4500 companies worldwide. Oil & gas companies make up approximately 5.5 percent of this sample (268 companies).

Download the full report at www.kpmg.com/crreporting

Number of oil & gas companies reporting on CR has increased significantly

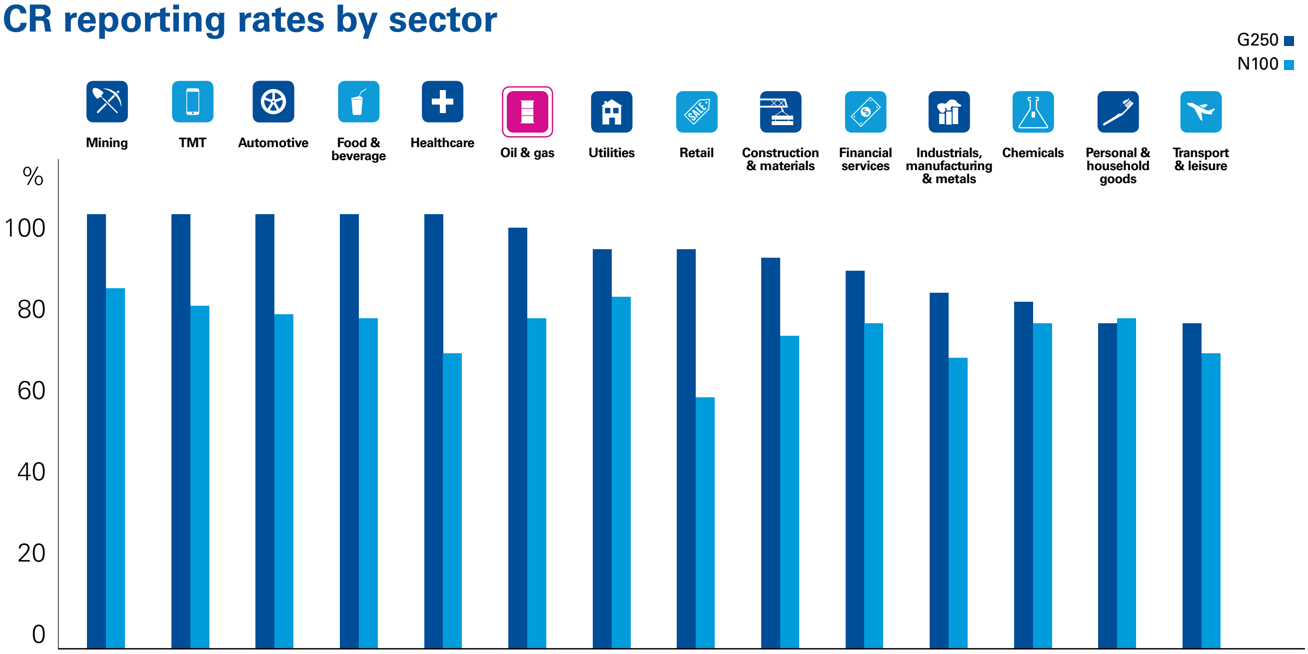
In KPMG's 2013 survey of G250 companies, Oil & Gas had the lowest rate of CR reporting (85 percent) of all the sectors studied. In 2015, almost all the largest oil & gas companies (97 percent) report.

This trend for increasing CR reporting among oil & gas companies is also reflected among the N100 sample where the reporting rate has increased to 76 percent.

These results suggest that the Oil & Gas sector is increasingly recognizing the value of communicating non-financial information to the business and to stakeholders.

Sample	Oil & gas reporting rate 2015	Global average reporting rate 2015
G250	97%	92%
N100	76%	73%

CR reporting rates by sector



Base: 250 G250 companies and 4,500 N100 companies
Source: KPMG Survey of Corporate Responsibility Reporting 2015

Oil & Gas leads in reporting CR information in the annual financial report

Companies in the Oil & Gas sector are among the most likely to publish CR information in the annual financial report. Over three quarters (77 percent) of the world's largest oil & gas companies do this. However, this does not translate into a high rate of 'integrated reporting' as only 10 percent of both G250 and N100 oil & gas companies state their report is integrated (in line with the global cross-sector average).

Oil & gas companies also recognize the importance of assuring stakeholders that the information they provide is accurate and credible. Almost two thirds (63 percent) of large oil & gas companies seek third party assurance for CR reports.

[1] http://fortune.com/global500/2014/

Quality of reporting is slightly above average but could improve

The majority of oil & gas companies are publishing data on their CR and sustainability performance, but how does their quality of reporting measure up against the other sectors?

KPMG analyzed the quality of CR reporting among the G250 against a framework of 7 quality criteria (see breakout box). Researchers awarded each company a reporting quality score out of a maximum of 100.

The quality of reporting by large oil & gas companies is only slightly above the global cross-sector average. The sector average score is just 59 out of a possible 100.

KPMG's quality assessment criteria for CR reporting

1 Stakeholder engagement
The report should explain how the company identifies and engages its stakeholders and how their views inform CR strategy.

2 Materiality
The report should demonstrate a clear, on-going process to identify the issues that are most significant to the company and its stakeholders.

3 Risk, opportunity and strategy
The report should identify environmental and social risks and opportunities, and explain the company's strategic response.

4 Targets and indicators
The report should declare time-bound and measurable targets.

5 Transparency and balance
The report should be open about the CR challenges the company faces, as well as its achievements, and should communicate both effectively.

6 Suppliers and value chain
The report should show how the company's CR strategy and targets address the material social and environmental impacts of its suppliers, products and services.

7 Corporate responsibility governance
The report should detail how CR is governed within the organization, who has responsibility for it and how CR performance is linked to remuneration.

Overall CR quality score

Base: 230 G250 companies that report on CR
Source: KPMG Survey of Corporate Responsibility Reporting 2015

Improvement is needed in supply chain reporting

One of the areas in which oil & gas companies can make a significant improvement is the reporting of CR and sustainability in their supply chains. Over three quarters (77 percent) of oil & gas CR reporters do not report the social and environmental impacts of their supply chains in detail and almost half (47 percent) do not explain the systems in place to measure and manage these impacts.

Oil & gas companies among the most likely to discuss financial risk

However, the Oil & Gas sector is one of the most likely to discuss the financial impact of sustainability risks in their CR reporting. Almost half (43 percent) of oil & gas CR reporters do this compared with the global cross-sector average of 31 percent.

Around one in five reporters (17 percent) quantifies at least some of that risk in financial terms.

While it is still a minority of companies that does this, the number of oil & gas companies quantifying financial risk exceeds the global average (8 percent) by almost ten percentage points.

This is an issue of increasing importance as investors look for better quality information on how sustainability risks and opportunities will affect the companies they invest in. The recently launched Financial Stability Board Task Force on Climate-related Financial Disclosures is just one example of high profile initiatives in this area.[2]

[2] http://www.fsb-tcfd.org/

Most oil & gas companies report on carbon, but the quality of reporting is low

Companies are under increasing pressure to cut their carbon emissions, as the global economy shifts towards a low-carbon, and ultimately zero-carbon, model.

With this in mind, KPMG has analyzed the carbon information published by the world's 250 largest companies (G250) in their CR and annual financial reports, using the following 3 principles:

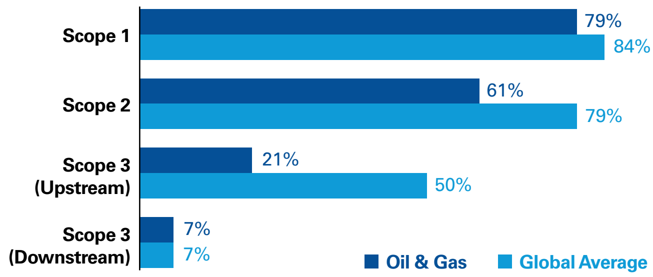
1. Reporting should be clear about whether the company sees carbon as a material issue and, if so, what data is covered and why. Carbon data should also be assured to ensure accuracy.
2. Where carbon is seen as material, reporting should show that the company has set clear targets to reduce its carbon emissions and how it is performing against those targets.
3. Reporting should communicate carbon data clearly and explain how carbon reduction helps the business.

The Oil & Gas sector has one of the highest rates of carbon reporting at 90 percent. However, the quality of reporting is the lowest of all sectors at just 35 out of 100. The global average quality score is 51 out of 100.

Less than one third of large oil & gas companies (29 percent) set targets to reduce carbon emissions. The sector lags the global average (53 percent) by almost 25 percentage points and the leading sector, Technology, Media & Telecommunications (73 percent), by over 50 percentage points. Additionally, of the companies that do set targets, only around 1 in 5 (22 percent) provide a clear rationale for why those targets were selected.

Another key area for improvement is the disclosure of emissions data. Of all the large oil & gas companies that report on carbon, around 1 in 5 (18 percent) do not include any data on carbon emissions. The scope of emissions that oil & gas companies report on is also limited. Only around 1 in 5 (21 percent) reports on emissions in the supply chain (Scope 3 upstream) whereas the global average is 50 percent.

Scope of emissions reported

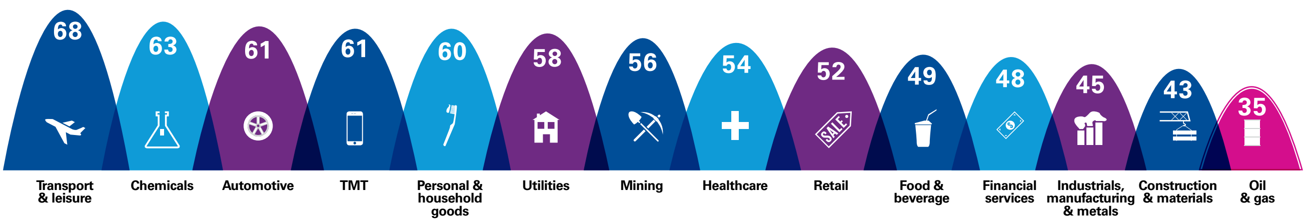


Base: 205 G250 companies that report on carbon
Source: KPMG Survey of Corporate Responsibility Reporting 2015

Furthermore, large oil & gas companies are less likely than companies in many other sectors to invest in third party assurance of their carbon data. Just over half of oil & gas companies do so (54 percent) compared with a G250 global average of 62 percent.

As stakeholder scrutiny in this area grows it will become increasingly important for oil & gas companies to report more transparently on their carbon performance.

Oil & gas companies score lowest for quality of carbon reporting (scores out of 100)



Base: 205 G250 companies
Source: KPMG Survey of Corporate Responsibility Reporting 2015

KPMG member firms can provide you with a bespoke assessment of the quality of your corporate responsibility reporting and a benchmarking report that compares your reporting with sector or country peers, and the global cross-sector average. For further information, contact your local KPMG member firm professional listed on page 6 of this briefing.

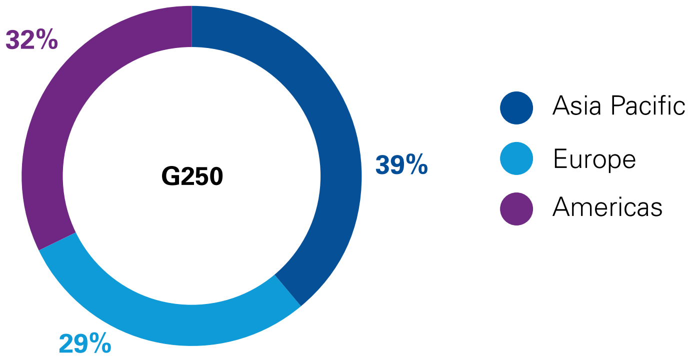
About the KPMG Survey of Corporate Responsibility Reporting 2015

KPMG has been tracking corporate responsibility (CR) reporting trends for 22 years and The KPMG Survey of Corporate Responsibility Reporting 2015 is the ninth edition. It is one of the largest surveys of CR reporting trends globally.

Definition of the Oil & Gas sector

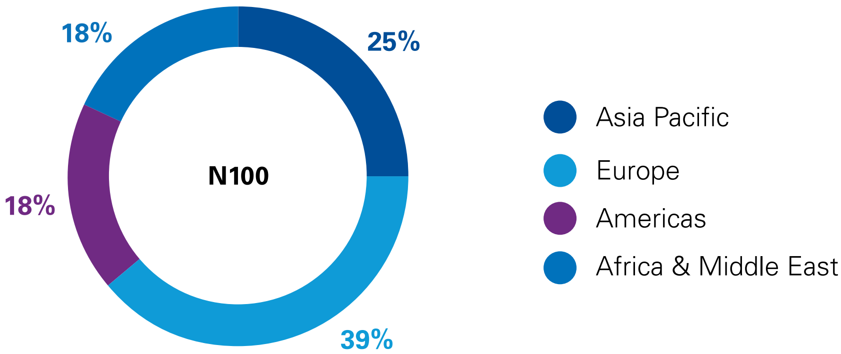
In the KPMG Survey of Corporate Responsibility Survey 2015, the Oil & Gas sector was classified in line with the International Classification Benchmark (ICB) system and includes Exploration & Production and Integrated Oil & Gas.

G250 oil & gas companies by region



Base: 30 G250 oil & gas companies
Source: KPMG Survey of Corporate Responsibility Reporting 2015

N100 oil & gas companies by region



Base: 268 N100 oil & gas companies
Source: KPMG Survey of Corporate Responsibility Reporting 2015

Download the full report from kpmg.com/crreporting

Local Contacts

Argentina
Martin Mendivelzua
mmendivelzua@kpmg.com.ar

Australia
Adrian V. King
Global Head, KPMG Sustainability Services
avking@kpmg.com.au

Austria
Peter Ertl
pertl@kpmg.at

Azerbaijan
Vugar Aliyev
valiyev@kpmg.az

Baltics
Marko Siller
msiller@kpmg.com

Belgium
Mike Boonen
mboonen@kpmg.com

Brazil
Ricardo Zibas
rzibas@kpmg.com.br

Canada
Bill J. Murphy
billmurphy@kpmg.ca

Chile
Luis Felipe Encina
lencina@kpmg.com

China
Maria Cheng
maria.cheng@kpmg.com

Colombia
Maria Teresa Agudelo
magudelo@kpmg.com

Cyprus
Iacovos Ghalanos
iacovos.ghalanos@kpmg.com.cy

Czech Republic
Milan Flosman
mflosman@kpmg.cz

Denmark
Jakob Blicher-Hansen
jabhansen@kpmg.com

Finland
Tomas Otterström
tomas.otterstrom@kpmg.fi

France
Philippe Arnaud
parnaud@kpmg.fr

Germany
Simone Fischer
simonefischer@kpmg.com

Greece
George Raounas
graounas@kpmg.gr

Hungary
István Szabó
istvan.szabo@kpmg.hu

India
Santhosh Jayaram
santhoshj@kpmg.com

Indonesia
Iwan Atmawidjaja
iwan.atmawidjaja@kpmg.co.id

Ireland
Eoin O'lideadha
eoin.olideadha@kpmg.ie

Caroline Pope
caroline.pope@kpmg.ie

Israel
Oren Grupi
ogrupi@kpmg.com

Italy
PierMario Barzaghi
pbarzaghi@kpmg.it

Japan
Kazuhiko Saito
kazuhiko.saito@jp.kpmg.com

Yoshitake Funakoshi
Yoshitake.Funakoshi@jp.kpmg.com

Kazakhstan
Gregor Mowat
gmowat@kpmg.ru

Luxembourg
Jane Wilkinson
jane.wilkinson@kpmg.lu

Malaysia
Kasturi Paramanathan
kparamanathan@kpmg.com.my

Mexico
Jesus Gonzalez
jesusgonzalez@kpmg.com.mx

Netherlands
Wim Bartels
bartels.wim@kpmg.nl

New Zealand
Gabrielle Wyborn
gwyborn@kpmg.co.nz

Nigeria
Tomi Adepoju
tomi.adepoju@ng.kpmg.com

Norway
Anette Ronnov
anette.ronnov@kpmg.no

Peru
Rosario Calderon
rccalderon@kpmg.com

Philippines
Henry D. Antonio
hantonio@kpmg.com

Poland
Krzysztof Radziwon
kradziwon@kpmg.pl

Portugal
Martim Santos
martimsantos@kpmg.com

Romania
Gheorghita Diaconu
gdiaconu@kpmg.com

Russia, Ukraine, Georgia & Armenia
Igor Korotetskiy
Ikorotetskiy@kpmg.ru

Singapore
Sharad Somani
sharadsomani@kpmg.com.sg

Slovakia
Quentin Crossley
qcrossley@kpmg.sk

South Africa
Shireen Naidoo
shireen.naidoo@kpmg.co.za

South Korea
Sungwoo Kim
Regional Leader, Asia Pacific KPMG Sustainability Services
sungwookim@kr.kpmg.com

Spain
Jose Luis Blasco Vazquez
Regional Leader, Europe, Middle East & Africa, KPMG Sustainability Services
jblasco@kpmg.es

Sweden
Daniel Dellham
daniel.dellham@kpmg.se

Jenny Fransson
jenny.fransson@kpmg.se

Switzerland
Isabelle Hirs Schaller
ihirs@kpmg.com

Taiwan
Niven Huang
nivenhuang@kpmg.com.tw

Charles Chen
charleschen@kpmg.com.tw

Thailand
Paul Flipse
pflipse@kpmg.com.th

UAE and Oman
Raajeev B. Batra
raajeevbatra@kpmg.com

UK
Vincent Neate
vincent.neate@kpmg.co.uk

Paul Holland
paul.holland@kpmg.co.uk

US
Katherine Blue
kblue@kpmg.com

Uruguay
Martin Clerino
martinclerino@kpmg.com

Venezuela
Jose O. Rodrigues
jrodrigues@kpmg.com

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