

Reaching Investors

Communicating Value through ESG Disclosures

Global Reporting Initiative™

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ISBN number: 978-90-8866-027-6

Acknowledgement

The Global Reporting Initiative

The Global Reporting Initiative™ (GRI) is a multi-stakeholder non-profit organization that develops and publishes guidelines for reporting on economic, environmental, and social performance ('sustainability performance'). The GRI's Sustainability Reporting Guidelines have been used by over 1000 organizations worldwide, with many more organizations considering them informally during the preparation of their public reports. The Guidelines are developed through a unique multi-stakeholder consultative process involving representatives from reporting organizations and report information users from around the world. First published in 2000 and then revised in 2002, the Guidelines have now entered their third generation, referred to as the GRI G3 Guidelines which were released in October 2006.

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Cover photograph:

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Introduction

Reporting on various aspects of sustainability such as environmental, social, and governance performance has become common for large companies, especially listed companies. This is in part a reflection of the growing relevance of these areas to companies' value creation strategies and also of the growing interest amongst investors in understanding how companies are positioned to handle the full range of risks and opportunities present in the market. However, many companies struggle with how to most effectively communicate their performance to investors so that it can be understood and integrated into their decisions. This report is intended to help close the communication gap between companies and investors on environmental, social, and governance (ESG) issues.

Perhaps the most fundamental point behind the observations contained within this document is that organizations have to communicate about their ESG performance and their business performance in an integrated manner. Environmental and social issues and performance have to be explained with reference to the concepts and strategies that are used to explain how the business works and why it will succeed. Whether this is done through an integrated sustainability and annual report or through separate documents, it is the basis for providing environmental, social, and governance information in a way that investors can most readily integrate into their investment analysis.

This document was prepared based on consultation with a group of individuals with experience in listed companies and financial services institutions. The ideas contained in the document can be applied to the preparation of GRI report or other investor-oriented communications. In the context of the GRI Guidelines, this document and the associated consultation represent part of an ongoing dialogue with mainstream investors.

The G3 *Guidelines* were launched in October 2006 and consultations were undertaken with mainstream investors in the course of their preparation. The key messages of this effort pointed towards the need for a concise strategic overview of the company and its relationship to sustainability supported by disclosure of comparable performance data. The input from the investors had a direct impact on shaping the "strategy and analysis" section of the G3 *Guidelines* (sections 1.1 and 1.2). The consultations underpinning this document re-emphasize many of the initial messages and helps provide more concrete explanations of what investors seek to understand about the link between strategy, risk, opportunity, and sustainability. For those seeking to reach investors with their disclosures on ESG, this document will hopefully provide useful insights and ideas for approaching either their strategy and analysis and their reporting as a whole.

Following the release of this document, GRI will continue its engagement with investors to ensure that their needs are understood and to support the growing use of environmental, social, and governance information in the investment community.

About this Document

This report is organized to outline the key building blocks for reporting on environmental, social, and governance issues and to provide supporting examples and information. The report begins by presenting three elements for good disclosure and explanation of what investors seek to learn from these:

- Statement from the CEO or Chair of the Board;
- Discussion of risks and opportunities; and
- Performance data

Information boxes are used to help elaborate on certain elements. These are intended to offer inspiration and stimulate thinking rather than serve as a checklist of items that should be addressed.

The remainder of the document provides further context on how the financial services industry uses information and provides an example of what how a mining and metals company might apply the thinking in this document.

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Approaches to Reporting

The Building Blocks for Communicating ESG to investors

ESG information is most easily incorporated into investment analysis when it helps to tell a story about a company and its future prospects. As part of this story, investors want an insight into how well management see and understand the relevance of ESG trends to its overall strategy as well as data on the ESG performance of the company. In preparing sustainability reports, companies can structure their disclosures aimed at investors around three key building blocks. These are:

1. The CEO or Chair of the Board Statement. This should explain:
   a. The company's ESG strategy and key ESG priorities, and
   b. How market trends and issues link to the company's ESG strategy and key ESG priorities.
2. Discussion of Risks and Opportunities. This should:
   a. Identify key ESG risks and opportunities facing the business, and
   b. Discuss the implications of these risks and opportunities for business strategy and financial performance.
3. The Provision of Performance Data. This should:
   a. Highlight key achievements, failures, and performance against ESG targets in the reporting period,
   b. Be standardized and comparable through time and across companies.

The advice contained throughout this document has been distilled into 23 action points report writers can consider in order to present their performance in a fashion that can most easily be used to support investment analysis. These points are listed at the end of this section.

1. Statement from the CEO or Chair of the Board

Investors look to statements from the CEO or Chair to understand which issues management thinks are critical and how they wish to address them. CEO/Chair statements are usually brief and therefore will not go into detail on any particular topics. However, they help investors assess the general level of awareness of senior management of major ESG trends that are important for the organization and contribute to the level of confidence investors have in the management team.

A good CEO/Chair statement should exhibit continuity with the CEO/Chair statement in the financial report and cover the following:

ESG Strategy and Business Priorities

Investors are most interested in understanding how a company's ESG strategy relates to its business strategy and activities. In particular, investors are interested in the link between a company's ESG strategy and its overall competitive strategy and performance.

In reporting on this, it will be useful to think about:

- The key elements of your company's competitive advantage and how ESG strategy contributes to this. For example, a company which relies on contract manufacturing might collaborate with suppliers in emerging markets to maintain high quality working conditions to help maintain the stability and productivity of the supply chain.
- How your company transforms competitive advantage into business results and how your approach to ESG contributes to this. Such contribution may come in tangible forms (e.g., energy efficient products helping to build new market share) or they may be related to intangible assets (e.g., improved brand and reputational image).

Explaining the Link between ESG Strategy and Business Strategy

Examples of the possible ways to explain the links between ESG strategy and business strategy are:

- *Contributing to financial targets (e.g., efficiency initiatives that improve margins);*
- *Enhancing key value drivers for the company (e.g., brand awareness, reputation);*
- *Building competencies or assets within the organization that are key to delivering a competitive business strategy (e.g., human capital);*
- *Achieving milestones in business strategy (e.g., introducing new product lines);*
- *Expansion of markets or product lines.*

Market Trends and Strategic Issues Facing the Company

The statement should reference the key market trends and strategic issues facing the company where its ESG strategy is relevant to resulting business performance. For example, an apparel supplier might point to a trend amongst its buyers to consolidate their supply base around a small number of strategic partners. The apparel supplier might feel that the consolidation combined with their own strong performance on labor issues offers the opportunity to position it as the supplier best able to meet all the buyers' needs from quality control to reputational risk management.

Identifying Which Market Trends are Relevant

Investors have the most interest in situations where your ESG initiatives enable you to better respond to broader market trends. Examples of broader market trends where environmental and social performance might provide an advantage include:

- *The emergence of new regulations.*
- *The growth or evolution of customer groups/ segments with interests that are related to or affected by environmental and social trends.*
- *Costs of key commodities or other operating costs.*
- *Industry approaches to customer acquisition and enhancing customer loyalty.*
- *Opportunities for new competitors to enter the industry.*
- *The introduction of new and potentially disruptive technologies.*
- *Expansion or consolidation of the sector and the distribution of the primary manufacturing capacity for the sector (e.g., moving to conflict zones or weak governance areas, etc.).*
- *The stability or geographic distribution of your sector's supply chains.*
- *Prices for your industry's product.*

2. Analysis of Risks and Opportunities

Investors expect to see a discussion of the key risks and opportunities associated with ESG strategies, and prefer to see this consolidated into a single section of a report. This discussion should:

Identify Key Risks to and Opportunities for the Company

Investors want to identify the ESG factors that, in the opinion of management, are likely to present the greatest risks and opportunities for the company.

Diagram 1 shows that the traditional focus of financial reports starts with market context and how a company's products and services fit into the evolving competitive landscape. This facilitates analysis of the corporate strategies and actions and the likely financial outcomes given the market context described.

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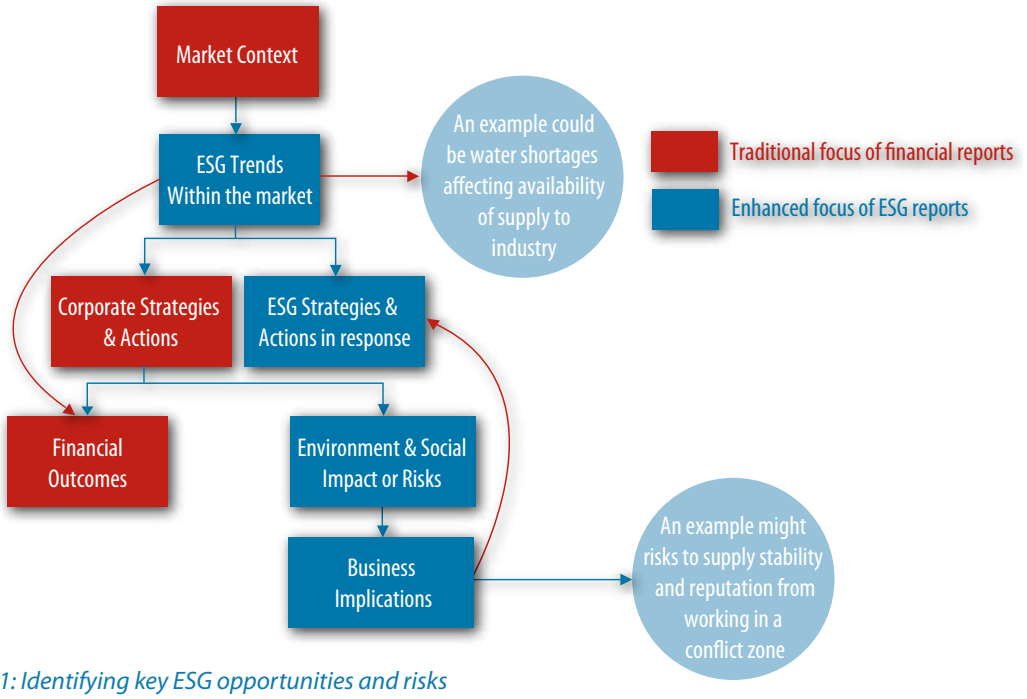


Diagram 1: Identifying key ESG opportunities and risks

Investors interested in ESG risks and opportunities will want to know:

- How ESG trends are linked to the market factors driving corporate strategy and how these trends also affect the company's financial outcomes; and
- What business consequences flow from the risks and opportunities produced by the company's strategies, actions, and impacts.

Investors are interested in both near-term and longer-term risks and opportunities, and need to put them into the perspective of the investment horizon. In prioritizing key risks/opportunities, companies may therefore wish to communicate the relative maturity of the risks and the time horizons over which they might unfold.

In addition, investors are likely to value a brief discussion of management's response to the risks and opportunities identified. In this context, some investors are particularly interested in the *policies and procedures* that have been put into place in response to these risks and opportunities.

Determining which ESG Risks and Opportunities are "key" for Investors

Other things being equal, the issues of greatest priority to investors will be:

- *Issues that have been the subject of discussion by the Board,*
- *Major public issues where the company has significant impact or which are linked to key products (e.g., concern over obesity trends affecting companies that sell food products),*
- *Issues that relate to key corporate commitments,*
- *Issues where ESG performance makes a direct contribution to financial performance (e.g., developing strategic new products, cost reductions, etc.),*
- *Issues that will drive changes in company cost structure (e.g., compliance with new legislation, outsourcing and workforce restructuring), and*
- *Issues that relate to reputation.*

Other investors may be more interested in management's *general approach* and the *specific actions* it initiates (e.g., introducing new lines of food products and enhanced nutritional labelling in response to more health-conscious consumers).

Beyond issues that meet the above criteria, there will be a number of ESG issues where the company regularly expends significant time and effort to pursue good performance. However, while these need to be disclosed, they often will not constitute a "key risk" or "opportunity" unless there have been specific events in the previous reporting period that give them special significance.

For example, a company may be expected to routinely produce health and safety statistics (H&S) and maintain a high standard of performance, the issue of H&S itself would not constitute a key risk or opportunity if performance had been consistent over time and there had been no specific event that gave it particular prominence in a given year (e.g., a major workplace accident). The company would be expected to maintain performance, but investors might expect other environmental or social issues to be addressed in greater depth in the company's reporting.

Discuss the Implications for Business Strategy and Financial Performance

In addition to identifying key risks and opportunities, the report should also discuss the implications for business strategy and financial performance. A good narrative will *qualitatively* discuss how ESG performance affects the primary value drivers of the business. For example, does environmental performance contribute to brand value? Employee retention? Top line growth? Competitive advantage? Other value drivers?

Good reporting will also seek to explain the *measurable* contribution of ESG performance to operating performance. For example, a report might reference the extent to which ESG initiatives reduce or increase costs, how they affect down-time or operational disruptions, how they point to critical vulnerabilities (e.g. reliance upon a material as a key production input that is likely to be banned), or how the initiatives protect the company's competitive position (e.g. use of recycled materials to guarantee supply).

Discussing the implications for business strategy and financial performance

Financial metrics such as costs, sales, and operating margins are valued by many investors, but can be difficult to provide at the level of detail and certainty that investors seek. Other ways to described risks and opportunities include commenting on how ESG influences:

- *Intangible asset development such as customer loyalty, brand value and customer satisfaction;*
- *Aspects of business performance that enable financial results or enhancement of intangible assets such as: productivity levels, employee motivation, investment in R&D, and staff training and retention;*
- *Statistics that demonstrate core business competencies such as: staff with specialized qualifications (e.g., chemical engineers), distribution channels, the configuration of supplier chains, etc.*

3. The Provision of Performance Data

To be useful for investors, data must be standardized and comparable over time to facilitate comparison between current performance and historic performance. It should also be comparable across companies as this allows investors to distinguish between the performance of different companies.

Key Achievements and Performance against Targets

Investors value a discussion of performance against ESG targets, including successes and shortcomings. This helps them understand how a company's ESG strategy is being executed and better understand how ESG strategy and performance might play out in the future.

Companies should document the most important targets that have been set for the company with regards to its ESG performance. In addition, companies should comment on how performance is appraised and state how performance against ESG targets is rewarded (if at all).

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Selecting Key Achievements and Failures

In choosing which achievements to highlight, think about whether/how the achievement:

- *Delivered meaningful financial results or otherwise enhanced the company's position in its markets.*
- *Links to milestones in the implementation of business strategy or ESG strategy (e.g., a company that is highly dependent on human capital might emphasize winning an award as a quality employer).*
- *Marks a turning point with respect to performance in managing ESG risks manifested in prior reports.*
- *Demonstrates quality of management.*

In choosing failures to highlight, it will be useful to think about:

- *Forward-looking challenges.*
- *Accidents.*
- *Missed targets and/or significant deterioration in ESG performance.*
- *Failures to anticipate or appreciate broad market trends and context.*
- *How the company is responding to failures.*

Discussions of achievements and failures will be most effective when they are presented in terms of their impact on the roll-out of business strategy or financial performance. For example a company may have introduced energy efficiency features into a key product line, which helped improve sales.

Techniques that can help make data useful include:

- Adhering to standard definitions. Data that do not have common underlying standards are of very limited use to investors.
- Providing access to raw data (most probably via a hyperlink to the corporate website). This allows investors to manipulate the data according to their own requirements.
- Applying the same segmentation principles to ESG data as used in the company's financial statements.
- Aligning environmental and social statistics with the key elements of the company's business strategy.
- Benchmarking statistics against internal targets and peer group performance.

Actions to consider in ESG Reporting

Generic Advice

1. Link ESG strategy and performance to overall business strategy and performance.
2. Explain how ESG issues relate to the market conditions that drive business strategy.
3. Support statements about ESG performance with facts and/or evidence.
4. Facilitate forecasts by demonstrating the cause and effect relationships that exist between ESG factors and business performance.
5. Be succinct!
6. Ensure balance in reporting – provide the good news and the bad news.
7. Relate ESG strategy to current opportunities and risks rather than providing general statements that could be made at any point in time.
8. Appeal to concepts already understood by investors (such as competitive advantage, market share growth, customer retention and the benefits of innovation).

CEO or Chair of the Board Statement

9. Ensure continuity between statements from the CEO/Chair in the financial report and the statements in the sustainability report.
10. Provide insights into how management thinks about critical issues facing the organization.
11. Explain how ESG strategy contributes to competitive advantage.
12. Identify key market trends and priorities to strategy and performance.

Analysis of Risks and Opportunities

13. Identify how ESG trends are linked to the market factors driving corporate strategy and how these trends also affect the company's financial outcomes.
14. Discuss the business consequences of the environmental and social impacts of the company and/or the environmental and social risks associated with the company's strategies and actions.
15. Communicate whether issues are emerging or mature and in what time horizons they may impact the company.
16. Briefly discuss management's response to ESG risks and opportunities, including relevant policies, procedures and actions.

The Provision of Performance Data

17. Explain the how ESG performance contributes to operating performance.
18. Highlight key achievements, failures and performance against targets.
19. Provide data that is standardized and comparable through time and across companies.
20. Provide data in raw form and allow analysts to choose how to normalize it.
21. Apply the same segmentation principles to ESG reporting as used in financial statements.
22. Benchmark performance against internal targets and peer groups.
23. Comment on how performance is appraised and rewarded.

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Use of ESG Information in Financial Services

The Investor Audience for ESG Reporting

There are four basic groups in the financial services sector that may be interested in a company's ESG strategy and performance. These are listed below and illustrated in *Figure 1*.

1. Buy-side analysts who work in asset managers and help the portfolio managers conduct research,
2. Portfolio managers who work for asset managers and preside over stock selection and portfolio construction,
3. Sell-side analysts who work for brokerage houses and provide research to asset managers looking to invest or disinvest in particular stocks or sectors, and
4. Research Organizations (ROs) and ratings agencies that provide research on ESG performance to *a*, *b* and *c* above.

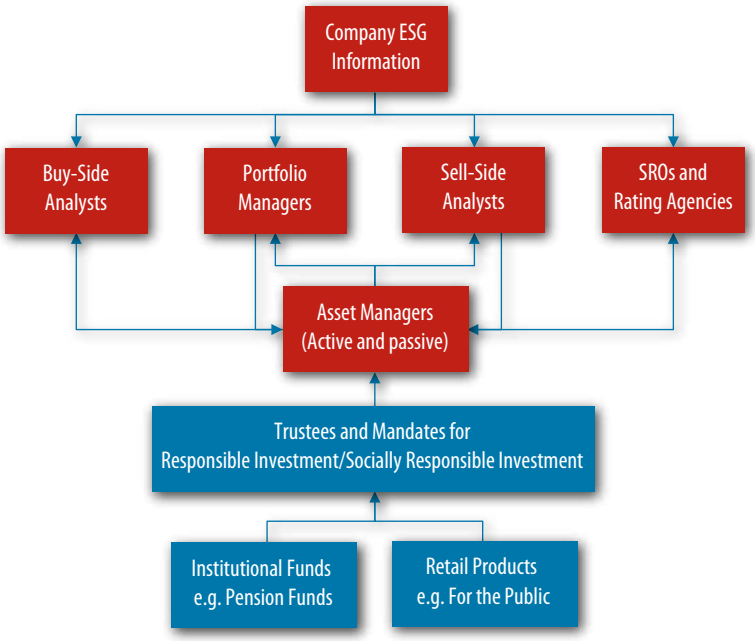


Figure 1: The Flow of Information through the Financial Services Sector

Meeting Specific Information Needs

The asset management industry is one of the primary end users of ESG information. Typically, the industry receives mandates from trustees on behalf of institutional funds such as pension funds in addition to the products that the industry designs for direct sale to the public. Mandates from institutional funds specify or embed certain approaches to investment management and particular performance objectives, which may include requirements related to the use of environmental or social criteria.

Asset management companies are staffed by portfolio managers and research analysts and they typically buy additional ESG research services from brokerage houses and ROs and rating agencies.

There are essentially three different ways in which ESG information is used:

1. In integrating the consideration of ESG performance into investment decisions by adjusting risk/return calculations for individual stocks;
2. In screening portfolios against ESG performance criteria, and
3. In engagement strategies to improve corporate performance and reduce stock specific risk.

Participants in each part of the investment chain may use any combination of the above. In each instance, end users of ESG reports have a need for comprehensive ESG performance data across a wide range of corporate policies, processes, and activities.

Integration

Some asset managers seek to integrate ESG information into investment decision making using the same techniques as they do with financial information.

From a portfolio performance perspective such asset managers are solely interested in ESG issues that are likely to play a material role in corporate and stock price performance. To be relevant to this audience, ESG reports therefore have to make the link between a company's ESG strategy and how the company competes and makes money as well as how senior management thinks about strategy, and how it measures and oversees the execution of strategy.

As well as linking ESG strategy to corporate performance a good ESG report will therefore appeal to concepts already understood by asset managers (such as competitive advantage, market share growth, customer retention and the benefits of innovation). It will also facilitate the translation of ESG data and performance by expert audiences (such as responsible investment analysts employed by asset managers or ROs) into stories that help non-ESG portfolio managers make sense of current valuation and prospective performance.

A good ESG report contains a balance of short- and long-term perspectives on the role that ESG factors play in corporate performance. They should also place the most emphasis on those issues that are considered most relevant to strategy, planning and execution at Board level.

Screening

In screening strategies, investors choose a set of criteria against which they want to measure performance or compliance. This may focus on policies or systems or specific quantitative results. Portfolios are then screened either on an absolute basis (eliminating companies that have a specific feature such as alcohol products) or on a relative basis (creating a ranking and eliminating those with the lowest rankings).

Institutions that screen investments in this manner tend to focus on whether investee companies are behaving in a responsible manner across a range of ESG metrics in activities which may or may not necessarily feature a short-term, material link to financial performance.

Engagement

Lastly, investors will use ESG disclosure to identify risks and opportunities on which they wish to engage with companies. Usually, this engagement is intended to discuss the company strategy or actions and how changes could result in reduced risk to the company.

Investors focusing on engagement will particularly need information that helps them understand the company's strategy around emerging issues as well as the weak spots in performance. Engagements tend to be issue specific, but investors often need a breadth of information to identify topics for engagement and then significant depth on those topics of engagement. Management systems will be important alongside performance results since engagement is typically looking to build capacity and new initiatives to address company-specific or sector-specific issues.

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What Works in ESG Reporting

WHAT'S MISSING FROM ESG REPORTING	WHAT WORKS IN ESG REPORTING
A Link Between ESG Strategy and Business Strategy	
From an investor perspective the greatest shortfall in ESG reports occurs when they fail to make the link between a company's ESG strategy and activities and its overall business strategy and activities. For example, it may not be clear to investors why a company's community health programs are crucial to understanding its competitive position, product pipeline, or any other factors that may be key to business success. Therefore, such programs may be labeled philanthropic activity even when they have a more strategic intent.	When companies make the link between ESG strategy and business strategy clear investors are better able to assess its contribution to firm performance and value. For example, if a mining company presents its community health programs as a key factor in speeding regulatory permits, the information about this factor becomes relevant to investors interested in valuing the firm.
Supporting Statements About ESG performance with Facts and/or Evidence	
(a) ESG reports often fail to explain how ESG issues relate to the market conditions that drive business strategy, how they might create new opportunities, or whether customers are voicing specific preferences or new priorities.	(a) Providing investors with insights into the market context of ESG strategies helps them weigh the importance of ESG factors to overall strategy and performance and to distinguish between companies. For example, if an automobile company discusses its decision to develop hybrid cars in terms of a growing environmental awareness amongst its consumer base and the emergence of regulations limiting carbon emissions, then investors can make better sense of the company's strategy and relate it to overall corporate performance.
(b) In addition, statements of fact often appear in the absence of supporting context. For example, the statement "we are committed to developing environmentally-friendly products" does not enable investors to evaluate the advantage that this company's ESG strategy offers.	(b) Statements of fact accompanied by supporting context convey more information to investors. For example, the statement opposite might be accompanied by the following: "Our lead over the competition is evidenced by the fact that top line growth exceeded market growth in this product segment by 25% in the last year, which compares favorably to the time when our products were not so easy to distinguish on a sustainability basis."
Forward Looking Contextual Information	
Traditional reporting focuses on past performance and does so in a way that does not necessarily enable investors to make a reasonable forecast of the future.	Companies may be reluctant to make forecasts. However, good ESG reports supply investors with information that enables them to identify cause and effect relationships that have held between ESG performance and business performance in the past. This enables investors to appraise how such relationships might play out in the future and facilitates their forecasts.

WHAT'S MISSING FROM ESG REPORTING	WHAT WORKS IN ESG REPORTING
Brevity	
There is a material limit on the quantity of ESG data that investors are able to pay attention to.	A good report will be succinct; providing an overview of relevant factors under clear headings and making more detail/depth available elsewhere. It will also facilitate the analysis of second and third order cause and effect relationships that underpin ESG performance and corporate performance - either in the report or elsewhere.
Balance	
ESG reports often over-emphasize positive news and do not reflect on negative developments. Performance information and data disclosure tends to be selective and reports can therefore appear as a public relations exercise.	Investors want to know whether companies recognize performance issues and have adequate strategies for handling them. Equally, investors recognize that no company is perfect and companies that give an honest account of performance will generally be considered more credible. The "balance" of the report will also give an idea about the ability of the management team to understand and identify risks, and transform them in opportunities.
Relating ESG Strategy to Current Opportunities and Risks	
Many ESG reports contain boilerplate language that can be reproduced again and again without change, as in: "We recognize that being sustainable makes sound sense in business." Reporting of this nature conveys very little information to investors.	ESG reports that relate strategy to current opportunities and risks can convey valuable information to investors, as in: "It is clear from our customer surveys and from sales performance that designing sustainability into our products is more important now than at any time in our history and that it is giving us a lead over our competition."

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Appendix 1:

Example of Reporting on ESG Strategy

The following is an abbreviated example of what an ESG report might look like for a hypothetical mining and metals company written according to the advice contained in this document.

It has been restricted to presenting the CEO's statement and to a discussion of key risks and opportunities, interwoven with the provision of performance data where relevant. It should not be construed as a model report or as a complete report. Finally, particular (but not all) instances in which this example borrows from the advice in this report in respect of content and style are highlighted in accompanying commentary boxes in order to serve as an additional guide to writing ESG reports.

CEO Statement

Our strategy aims to create shareholder value by gaining market share over time in the production of iron ore, platinum and uranium. These are what might be called the company's commodity products. At the same time we want to increase the proportion of company sales generated by value added metals products such as the company's range of specialist catalysts. Doing both is designed to enable the company to grow sales and profits at a rate in excess of the growth rate of the economies in which we operate. In order to do the first we need to maintain our position as the industry's low cost producer. And to do the second we have to lead the industry in investment in research and development (R&D) and in R&D productivity. In pursuing this business strategy, however, we also have to take sustainable development considerations into account and build them into our business thinking.

Paragraph largely taken from the company's financial report

Our sustainability strategy plays to both elements of our overall strategy and makes an important contribution to sustainable development. Our investment in community health programs in the developing economies in which over 80% of our extractive activities take place is a critical factor in supporting our workforce. Such programs contribute to our growing reputation as an employer of choice (meaning that staff retention and absenteeism rates are currently the best in the industry, measured over the last five years). Importantly, they are also a key factor making us an attractive choice as a partner for governments and local communities. This strong reputation is essential to being able to quickly set up and manage operations, and this predictability is key to controlling costs.

Making the link between ESG strategy and performance to overall strategy and performance.

Relating ESG strategy to current opportunities and risks

Demonstrating how ESG relates to competitive advantage and illustrating how the company turns its competitive advantage into performance.

We also recognize that we must maintain a critical mass of skilled employees responsible for innovation in the production of value added products and that these products must serve a societal need. The scientists we need to drive this part of the business are in short supply, but, over the last five years, we have become a leading employer. Our recruitment surveys tell us one reason for this is the company's reputation as a responsible mining company and the job satisfaction that comes from working in an environment where they are expected to work closely with the communities that host our operations.

Even while sustainability is helping us improve as a business, we are also taking the opportunity to develop solutions environmental challenges. There is a move towards greater regulation in Europe, Japan, and other key markets to control air emissions – a challenge where our technology portfolio can specifically help. We expect environmental legislation to become more rigorous over time and note that existing legislation has driven considerable demand for the company's catalyst products – so much so that they now account for 8% of company sales and 10% of profits versus just 2% of sales and profits when we entered the industry through the acquisition of CatProds Inc. in 2001.

Statements of fact supported by context.

At the same time, we are also facing new challenges as costs in the mining sector are rising. Our objective is to retain our low cost producer status in the industry. However, we will not do this at the expense of sacrificing investments in health and safety (H&S). Our record on H&S is one of the primary reasons why we are a preferred partner in many countries in which we operate. Our commitment to H&S is particularly important in emerging market

Identify key market trends and priorities.

economies, which are important stakeholders to our future development. All of our capacity expansion in the last five years has been in emerging markets and we expect to add further substantial capacity in the future.

That said, we know that cost pressures in the industry can create pressure to cut corners in their management practices. To ensure that labor and environmental standards are maintained, we have launched a code of conduct and monitoring system for our suppliers. We expect this to be in place by the end of the year. It will better enable us to monitor H&S standards in our supply chain and make sure that we can remain responsible buyers. Thereafter, we look forward to reporting our progress through 2010. This is important for both our sustainability commitments and for maintaining the operating standards that are expected of our company.

Key Opportunities and Risks

The key ESG related risks and opportunities expanded on below are those that have been the subject of board discussion within the last year or which were identified as critical risks that senior management reviews on a quarterly basis. The board prioritizes ESG risk in terms of the likelihood of the risk manifesting and the possible outcomes should it occur. They has focused on the risks and opportunities most related to our ability to maintain steady operations and/or develop new mining assets.

Provision of insights into how the company identifies key ESG risks and opportunities.

In addition to the risks and opportunities discussed here, we are actively engaged on a much wider range of environmental and social issues that are essential to maintaining our business principles and being able to operate effectively. These are discussed in more length in the other sections of our sustainability report.

Key opportunities

Tightening environmental legislation around air quality in Europe and in several key developing countries is creating demand for technologies that lower air emissions and improve fuel efficiency. This is creating an opportunity for our catalyst products, where demand has increased at a compound growth rate of 7% per annum over the last five years - far outpacing the 3.5% rate of growth in demand for most metals and mining products over the same period.

We see this as the leading edge of growing demand for clean technologies and have set a target that 15% of our revenue and 25% of our profit will come from clean technology by 2012. Accordingly our R&D is focused on auto catalysts and platinum. We have increased our investment in R&D in this area from $250 million at year end 2002 to $500 million at year end 2007 and envisage maintaining this rate of growth (15% per annum) in R&D spend for the next five years. Overall, we see this as an area where we can use our core business and technology competencies to help contribute to environmental protection.

Aligning reported statistics with strategic themes.

Hitting our 2012 revenue target equates replicating our existing mining operations in Indonesia each for the next 5 years. Nevertheless, we are already the largest investor in R&D in this area by a factor of two. Indeed the company's R&D spend in this area equates to thee-quarters of the R&D spend for the entire industry. This explains why sales from products we have developed within the last two years account for in excess of 20% of total sales in this division – beating our target of generating such sales by a factor of three and exceeding our best estimate of industry performance in this regard.

Our success in contributing to improved community health in regions where we work has proven to be an important achievement and there is considerable opportunity to enhance our profile by rolling these new programs out into other regions. Many of the developing economies in which we operate have high incidences of critical illness and relatively short life expectancy compared to developed economies. The development of our new community health programs in South America, Africa and Indonesia have proven to be highly successful, which has benefited the communities and our workers.. Provision of basic health care in remote regions is leading to a tangible reduction in certain diseases (see page 67 of this report for further details and data), which has been recognized and praised by host governments. Our new work at the community level has been one of the key factors in attracting and retaining labor in these regions according to employee surveys. We are now exploring how to further scale up these pilot programs to other parts of our company.

Demonstrating cause and effect relationships that facilitate forecasts.

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Key Risks

The mining industry continues to face a considerable challenge in maintaining a stable work force as a consequence of a range of demographic trends.

Identifying the first of several key ESG trends that feature in the market context that determines corporate strategies and outcomes.

The board is considering this as one of the factors in evaluating the company's expansion objectives and is intent on ensuring our ability to expand and make a contribution to employment in the sector.

One of the key challenges for our company (and many others in the industry) is to attract and retain technical staff – a relatively new risk given the company's target that 10% of revenue and 15% of profit will come from clean technology by 2012. We had a turnover of 5% amongst technical staff in 2007, which is lower than the industry average last year and which continues the declining trend observed in this measure since 2001 (see page 68 for further details and data). We are also pleased to report that specialist teams are now at full compliment versus the situation five years ago when we identified a considerable shortfall in specialist staff.

Our reputation as a responsible is one of our key assets in building relationships with new communities and gaining license to operate in sensitive regions. Due to cost pressures and our increasing use of various outsourcing service, there is greater risk than in the past that poor performance by one of our suppliers may affect our own image. We are responding by developing and implementing new codes of conduct for suppliers and building these into procurement agreements. We will establish a new team in the organization to specifically monitor these agreements.

Lastly, climate change is creating new challenges for us. Like many in our industry, we are facing rising costs for energy and, looking to the future, expect to see significant changes over time in the demand for ores and other commodities. We have made improving energy efficiency and reducing GHG emissions one of our core goals for 2009-2011, and have set targets of 10% reductions. As mentioned already, we are also looking more broadly at how we can use our technologies and products to contribute to dealing with the challenge of climate change.

Appendix 2:

List of Participants in Consultation

The following individuals who participated in the discussions to develop this document.

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