ESG reporting –
Aiming to uncover the true performance

Dr Hendrik Garz
FAIRE conference, Paris, 12 June 2008
ESG and the uncertainty about true company value
Transparency

Source WestLB Research; GRI

Reporting Principles

Content
(topics and indicators on which the company should report)

- Materiality
- Inclusivity
- Sustainability Context
- Completeness

Quality and Presentation
(… of reported information)

- Balance
- Clarity
- Accuracy
- Timeliness
- Comparability
- Reliability

Source WestLB Research; GRI
How shall the financial community take this seriously?
The current state of ESG reporting – country/region

Reporting propensity according to regional/national provenance of companies
(number of companies and reporting rate)

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Companies</th>
<th>Reporting Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>388</td>
<td>28.8%</td>
</tr>
<tr>
<td>Canada</td>
<td>224</td>
<td>54.0%</td>
</tr>
<tr>
<td>Japan</td>
<td>196</td>
<td>46.7%</td>
</tr>
<tr>
<td>Asia (ex Japan)</td>
<td>119</td>
<td>13.6%</td>
</tr>
<tr>
<td>UK (incl. Bermuda)</td>
<td>66.9%</td>
<td></td>
</tr>
<tr>
<td>Europe ex UK</td>
<td>238</td>
<td>55.6%</td>
</tr>
<tr>
<td>Australia + Pacific</td>
<td>60</td>
<td>38.1%</td>
</tr>
</tbody>
</table>

Source: WestLB Research, CorporateRegister.com
The current state of ESG reporting - sector

**Sector breakdown by DJ STOXX sector level 2**
(number of companies and reporting rate - sorted by reporting rate)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of Companies</th>
<th>Reporting Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemicals</td>
<td>13</td>
<td>78%</td>
</tr>
<tr>
<td>Automobiles</td>
<td>12</td>
<td>73%</td>
</tr>
<tr>
<td>Utilities</td>
<td>57</td>
<td>67%</td>
</tr>
<tr>
<td>Basic Resources</td>
<td>26</td>
<td>62%</td>
</tr>
<tr>
<td>Food &amp; Beverage</td>
<td>42</td>
<td>55%</td>
</tr>
<tr>
<td>Construction</td>
<td>33</td>
<td>54%</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>29</td>
<td>51%</td>
</tr>
<tr>
<td>Cyclical Goods &amp; Services</td>
<td>21</td>
<td>54%</td>
</tr>
<tr>
<td>Non-Cyclical Goods &amp; Services</td>
<td>51</td>
<td>47%</td>
</tr>
<tr>
<td>Energy</td>
<td>50</td>
<td>46%</td>
</tr>
<tr>
<td>Banks</td>
<td>62</td>
<td>45%</td>
</tr>
<tr>
<td>Industrial Goods &amp; Services</td>
<td>42</td>
<td>45%</td>
</tr>
<tr>
<td>Technology</td>
<td>36</td>
<td>45%</td>
</tr>
<tr>
<td>Insurance</td>
<td>69</td>
<td>45%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>116</td>
<td>43%</td>
</tr>
<tr>
<td>Media</td>
<td>67</td>
<td>42%</td>
</tr>
<tr>
<td>Retail</td>
<td>41</td>
<td>41%</td>
</tr>
<tr>
<td>Financial Services</td>
<td>33</td>
<td>39%</td>
</tr>
<tr>
<td>Unassigned</td>
<td>39</td>
<td>28%</td>
</tr>
<tr>
<td>Media</td>
<td>41</td>
<td>28%</td>
</tr>
<tr>
<td>Retail</td>
<td>58</td>
<td>28%</td>
</tr>
<tr>
<td>Financial Services</td>
<td>140</td>
<td>19%</td>
</tr>
<tr>
<td>Unassigned</td>
<td>16</td>
<td>16%</td>
</tr>
</tbody>
</table>

Source: WestLB Research, CorporateRegister.com
The current state of reporting – growth/value

GRI adherence according and the p/b ratio (on a sector-adjusted basis)

High growth

High Value or distress

Source WestLB Research, CorporateRegister.com
What is reported? A look at GRI reports

CI analysis: ‘2002 IA’ reports – reported indicators per section
(percentage of reported indicators per section, according to CIs – average of all ‘2002 IA’ reports)

% of reported indicators

Governance Structure and MS* 96.5
Vision and Strategy 96.2
Profile 96.0
Economic PIs 70.4
Labour Practices and decent work 69.7
Human Rights 58.5
Society 57.7
Environmental PIs 46.4
Product Responsibility 39.2

Source WestLB Research, CorporateRegister.com
Do companies deliver what they promise? A look at G3 reports in the banking sector

- We looked for **67 indicators** altogether.
- Coverage ratios range from 10.4% for ABN Amro to 20.9% for Westpac.
- Delivery ratios range from 25% (Banco Sabadell) to 50% (NAB).

**Self-declared in CI vs. actually delivered – number of performance indicators (GRI Guidelines only)**

**Delivery ratio (%)**

<table>
<thead>
<tr>
<th></th>
<th>BS</th>
<th>ABN</th>
<th>Westpac</th>
<th>ANZ</th>
<th>NAB</th>
</tr>
</thead>
<tbody>
<tr>
<td>claimed in CI</td>
<td>36</td>
<td>26</td>
<td>36</td>
<td>27</td>
<td>26</td>
</tr>
<tr>
<td>actually delivered</td>
<td>9</td>
<td>7</td>
<td>14</td>
<td>11</td>
<td>13</td>
</tr>
</tbody>
</table>

Delivery ratio in %:

- BS: 25.0%
- ABN: 26.9%
- Westpac: 38.9%
- ANZ: 40.7%
- NAB: 50.0%

Source: WestLB Research, companies’ reports
Coverage vs delivery: Autos, Food, Banks

Source WestLB Research, companies’ reports
Even if delivered … lack of cross-sectional comparability of data points

- Obstacles for cross-sectional comparisons: some of them remediable (units of measurement), some of them not (differences in reporting scope, and indicator definitions).

- Example: fuel efficiency of the manufacturers’ car fleets (a Core Indicator of the Automotive Sector Supplement): 5 companies remained to be benchmarked against each other – albeit most manufacturers are members of the Automotive Working Group that developed the GRI Automotive Sector Supplement.

**Auto sector – A6: ‘Average fuel economy by type of vehicle (km/l)’**

- Ford - Combined car and truck
- GM - Light trucks
- GM - Cars
- Mazda - Passenger cars - 2000 kg
- Mazda - Passenger cars - 1750 kg
- Mazda - Passenger cars - 1500 kg
- Mazda - Passenger cars - 1250 kg
- Mazda - Passenger cars - 750 kg
- Hyundai - Light trucks
- Hyundai - Passenger cars
- Kia - Total

Source: WestLB Research, company reports
Conclusion

■ “For the financial analyst CR/Sustainability reports are useless.” Not able to reject this provocative hypothesis with great confidence.

■ We are fully aware that the quality of reporting on quantifiable KPIs is not the only benchmark for a report to be classified as being useful or not useful (“not everything that counts can be counted”). But it clearly is a litmus test for the potential acceptance within the mainstream investment world.

■ G3 is giving an improved framework for reporting. It is now up to the companies to make the reports more useful to investors and of course to other stakeholders as well.

■ Necessary exercise: Looking at ESG reporting from a pure financial market/investor perspective - DVFA/EFFAS initiative
WestLB Equity Research: Distribution of ratings as of 09 January 2007

<table>
<thead>
<tr>
<th>Coverage universe</th>
<th>Count</th>
<th>Percent</th>
<th>Inv. Banking Relationships*</th>
<th>Count</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy/Add</td>
<td>145</td>
<td>54</td>
<td>Buy/Add</td>
<td>42</td>
<td>63</td>
</tr>
<tr>
<td>Hold</td>
<td>94</td>
<td>35</td>
<td>Hold</td>
<td>21</td>
<td>31</td>
</tr>
<tr>
<td>Sell/Reduce</td>
<td>29</td>
<td>11</td>
<td>Sell/Reduce</td>
<td>4</td>
<td>6</td>
</tr>
</tbody>
</table>

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