Consultation questions

The IIRC welcomes comments on all aspects of the Draft International <IR> Framework (Draft Framework) from all stakeholders, whether to express agreement or to recommend changes.

The following questions are focused on areas where there has been significant discussion during the development process. Comments on any other aspect of the Draft Framework are also encouraged through the questions.

Please provide all comments in English.

All comments received will be considered a matter of public record and will be posted on the IIRC's website (www.theiirc.org).

Comments should be submitted by Monday 15th, July 2013.

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Stakeholder group:	Report preparers

If replying on behalf of an Organization please complete the following:

Organization name:	Petróleo Brasileiro SA - Petrobras
Industry sector:	Oil and gas
Geographical region:	Central and South America

Key Points

If you wish to briefly express any key points, or to emphasize particular aspects of your submission, or add comments in the nature of a cover letter, then the following space can be used for this purpose. Please do not repeat large amounts of material appearing elsewhere in your comments.

Petrobras presents below its considerations regarding the <IR> consultation draft and also reinforce some considerations made by Ipieca.

Rather than aim for another separate report, we believe that the IIRC process should have initially aimed to improve, and help integrate, existing public reporting frameworks which already cover the same ground as the six capitals. Further, there is a contradiction between the notion that an integrated report should be a 'stand-alone document' but should also contain links to other reports and communications for its audience.

The framework needs to have a much sharper focus and absolute clarity to define what information is currently absent and needs to be provided/developed.

The framework provides guidance with greater focus in the creation of an integrated report and not that much in the integrated reporting process as a whole. This approach creates contradictions in some points, when using the term "report" while requiring an extensive and detailed volume of information. The demand for detailed information interferes in the conciseness principle whenever IIRC is not clear about what should compose an integrated report (a stand-alone report) and what should be part of an integrated reporting process. The use of these two expressions along the framework appears to be inaccurate and therefore is causing difficulty in understanding. The 4.6 Item, for example, demands some basic information about the company to be included in the "integrated report" and, later on, in section 5:38, IIRC suggests that the same information could be available in company's corporate site.

The text of the framework is a bit repetitive and we found nearly identical paragraphs in different parts of the document. The approach hinders the understanding of the requirements contained in the framework. Furthermore, it would be more illuminating if there were presented more examples throughout the document.

Chapter 1: Overview

Principles-based requirements

To be in accordance with the Framework, an integrated report should comply with the principles-based requirements identified throughout the Framework in bold italic type (paragraphs 1.11-1.12).

1. *Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.*

The framework could be clearer in respect to how principles-based requirements must be used.

The principles-based requirements are effectively "in accordance" criteria that require the reporting company to meet 6 Guiding Principles and 9 Content Elements. Taking into account the scope of the (fundamental concepts, including the) six categories of capital and the number of material matters that a company may identify related to value creation, a report that meets all principles-based requirements has the potential to be detailed and extensive, providing a dilemma when attempting to produce a complete and comparable report that is sufficiently concise to be readable. While the requirements individually may seem logical, in combination they are likely to make the reporting task complex and onerous. Thus, it is suggested that requirements are streamlined and more narrowly defined with the aim of producing a more concise report. It is difficult to suggest eliminations without greater clarity on what is most important to the stakeholder audience, and therefore what can be omitted.

Interaction with other reports and communications

The <IR> process is intended to be applied continuously to all relevant reports and communications, in addition to the preparation of an integrated report. The integrated report may include links to other reports and communications, e.g., financial statements and sustainability reports. The IIRC aims to complement material developed by established reporting standard setters and others, and does not intend to develop duplicate content (paragraphs 1.18-1.20).

2. *Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?*

The complementary and differentiated approach in these paragraphs is not convincing as there are clearly overlaps today between <IR> and both statutory annual reports and sustainability reports, and these overlaps will not be avoided. The intent here is therefore misleading without further guidance on what is intended by "complementary and differentiated".

We suggest the framework make clearer difference between which information and aspects are essential and have to be part of a "stand-alone report" and what can/should be supplemented with content from other publications/sources that are part of a broader process of integrated reporting. Throughout the framework all content elements for example refer to this integrated report. It is unclear whether all the aspects mentioned by the content elements must be reported considering all material issues. If yes, we fear that, in the case of Petrobras, conciseness can not be expected. Furthermore, we emphasize the concern of Ipieca about the inevitable overlap of information available in other reports traditionally published and in this integrated report, for example, in relation to the risks.

3. *If the IIRC were to create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, which references should be included?*

GRI, and for the oil and gas industry specifically, the IPIECA / OGP / API “Oil and gas industry guidance on voluntary sustainability reporting - 2010 update” and the GRI Oil and Gas Sector Supplement.

Besides GRI, we suggest consider UNGC (United Nations Global Compact), ISO 26000 and IFRS.

Other

4. *Please provide any other comments you have about Chapter 1.*

1. The framework could have more indications of mechanisms and tools to address the content elements. The lack of these mechanisms and tools makes comparability with other organizations more difficult.

2. Reputation is composed by esteem, admire, trust and feeling, according to the Reputation Institute. Considering this reference, reputation is more of a relational capital than an intellectual capital.

Chapter 2: Fundamental concepts

The capitals (Section 2B)

The Framework describes six categories of capital (paragraph 2.17). An organization is to use these categories as a benchmark when preparing an integrated report (paragraphs 2.19-2.21), and should disclose the reason if it considers any of the capitals as not material (paragraph 4.5).

5. *Do you agree with this approach to the capitals? Why/why not?*

Yes, as long as there is no expectation that all capital can be measured in financial terms.

6. *Please provide any other comments you have about Section 2B?*

Business model (Section 2C)

A business model is defined as an organization’s chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term (paragraph 2.26).

7. Do you agree with this definition? Why/why not?

Yes. No other comments.

Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organization’s business activities and outputs (paragraphs 2.35-2.36).

8. Do you agree with this definition? Why/why not?

Yes. No other comments.

9. Please provide any other comments you have about Section 2C or the disclosure requirements and related guidance regarding business models contained in the Content Elements Chapter of the Framework (see Section 4E)?

Other

10. Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.

Regarding item 2.35, we do not understand reputation as an internal outcome. Instead we consider it to be an external outcome, directly impacting the relationship with stakeholders, market value, etc. Moreover, the framework suggests that the positive or negative impacts should be measured in terms of ability to generate net income. We suggest a more comprehensive approach which includes social and environmental impacts.

Chapter 3: Guiding Principles

Materiality and conciseness (Section 3D)

Materiality is determined by reference to assessments made by the primary intended report users (paragraphs 3.23-3.24). The primary intended report users are providers of financial capital (paragraphs 1.6-1.8).

11. Do you agree with this approach to materiality? If not, how would you change it?

“Materiality is determined by reference to assessments made by the primary intended report users (paragraphs 3.23-3.24). The primary intended report users are providers of financial capital (paragraphs 1.6-1.8).”

Materiality should not be defined by the providers of financial capital but to the providers of capital. It is not only about reporting issues or aspects identified as relevant by this audience, but mainly the company has to understand the themes and aspects that more significantly affect the interests and expectations of this stakeholder group.

12. Please provide any other comments you have about Section 3D or the Materiality *determination process (Section 5B).*

In the items 3.23 e 3.24, it should be clearer that the materiality process defined from the perspective of the organization (senior management and those charged with governance) should consider the perceptions and interests of the stakeholders and the context of sustainability in which the company operates.

Regarding item 3.37 about completeness of information provided by companies, they should consider critical factors of sustainability related to material issues instead of just considering its concerns in relation to costs, competitive advantage and future directions. It is important to always consider a broader view of value creation.

Reliability and completeness (Section 3E)

Reliability is enhanced by mechanisms such as robust internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (paragraph 3.31).

13. How should the reliability of an integrated report be demonstrated?

Reliability and completeness processes should not differ from existing company reports, which will take into account materiality of disclosures. Reports can therefore be supported by explanation of management and internal control systems, and independent assurance, as appropriate.

14. Please provide any other comments you have about Section 3E.

It does not seem to be clearly understood that "balanced reporting" should automatically be an outcome of a robust materiality process. It is also to be noted that 'conciseness' often conflicts with 'completeness'.

Other

15. Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.

Chapter 4: Content Elements

16. Please provide any comments you have about Chapter 4 that are not already addressed by your responses above (please include comments on the Content Element Business Model [Section 4E] in your answer to questions 7-9 above rather than here).

General Comments: The general guidelines are not really objective and very detailed. The coverage of the elements was quite broad which may hinder the fulfillment of the Guiding Principles, specially in terms of objectivity and conciseness. It is suggested making the guidelines of Content Elements more concise and objective.

In the last bullet of 4.5 item, we understand that it can be redundant to justify why a capital was considered immaterial. Considering the materiality process we justify the selection of particular capitals and consequently the exclusion of others.

In the 4B item, we think the approach to governance has excessive focus on actions and positioning by senior management. We suggest an approach more focused in providing a comprehensible picture of the structure and processes of governance and decision making and best practices applied.

In the first bullet of 4.22 item the framework should specify which types of inputs are considered for the business model, eg: materials, labor force, etc.

In the 4.23 item we suggest that the same example and guidance can be applied to the report of external environment and risks and opportunities of the organization.

In the 4.29 item we suggest a review so that the monetization of environmental information does not seem a priority over other approaches, since this is a matter of strategic positioning of the companies. Not all environmental aspects can be monetized and they are no less relevant to the organization's ability to create value. In some cases, monetization can provide a simplified overview of issues related to sustainability and create an inappropriate association that implies mistruths. We suggest something more like: "When possible and considered strategic the company can demonstrate the connectivity between of financial performance with performance regarding other capitals.".

In the 4.36 item it is important to make clear that the future outlook is related to other content elements and do not need to be reported in a separated session.

Chapter 5: Preparation and presentation

Involvement of those charged with governance (Section 5D)

Section 5D discusses the involvement of those charged with governance, and paragraph 4.5 requires organizations to disclose the governance body with oversight responsibility for <IR>.

17. *Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why/why not?*

We agree with first two items in the description of the mentioned statement: attesting the integrity of integrated report content and confirming the involvement of top management in the definition of this content. But we do not agree that senior management should certify that each report (every year) is presented in accordance with the framework. We believe it is a very specific issue once they have attested the quality and integrity of information contained in the report.

18. *Please provide any other comments you have about Involvement of those charged with governance (Section 5D).*

Credibility (Section 5E)

The Framework provides reporting criteria against which organizations and assurance providers assess a report's adherence (paragraph 5.21).

19. If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?

For legal or financial reasons not all assurance processes can be done comprehensively. In these cases the company should clearly identify the information assured and information not assured. And in this last case the company must justify why the information could not be assured.

20. Please provide any other comments you have about Credibility (Section 5E). Assurance providers are particularly asked to comment on whether they consider the Framework provides suitable criteria for an assurance engagement.

Other

21. Please provide any other comments you have about Chapter 5 that are not already addressed by your responses above (please include comments on the materiality determination process [Section 5B] in your answer to question 11 above rather than here).

For certain KPIs it may be more appropriate for the boundary to reflect the share of responsibility rather than the equity share. The risk of fatalities or oil spills, for example, would need to reflect the total responsibility of the company – not a financial based share of that responsibility.

In the item 5.9 we suggest including the effect on company's stakeholders and its relationship with them and also including environmental effects.

Regarding the item 5.41, how it would be possible to have comparability among reporting processes of different companies, in different contexts and with different materials issues?

About the use of XBRL, maybe it makes sense for GRI to stimulate the adoption of this tool but not for IIRC.

Overall view

22. Recognizing that <IR> will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate for use by organizations in preparing an integrated report and for providing report users with information about an organization's ability to create value in the short, medium and long term?

The absence of a suggested structure for an integrated report in the framework may hamper comparability among companies and makes implementation by the ones that already have a history in reporting more difficult.

Development of <IR>

23. If the IIRC were to develop explanatory material on <IR> in addition to the Framework, which three topics would you recommend be given priority? Why?

1) Confirm how providers of capital will respond to receipt of IRs – the engagement should not be one-way. For example, will they annually produce transparent public reports back to individual companies, and groups of companies by sector, to provide feedback on the value of <IR>? Will this list the reports that have been analysed, the benchmark outcomes, and the strategic decisions that they have taken based on <IR> information?

2) The relationship between financial and non-financial capital and issues - the framework is vague in this regard.

3) Mapping and prioritizing risks.

Other

24. Please provide any other comments not already addressed by your responses to Questions 1-23.