Corporate Reporting: Enhancing Transparency and Value

From the Non-Financial Information (NFI) Directive to Integrated Reporting <IR>
Opening and welcome

Olivier Boutellis-Taft,
Federation of European Accountants, CEO
Keynote

Paul Druckman,
International Integrated Reporting Council, CEO
Corporate Reporting: Enhancing Transparency and Value
From the Non-Financial Information Directive to Integrated Reporting

<IR> as “a step ahead” for business

Paul Druckman, Chief Executive Officer,
International Integrated Reporting Council
In the last 7 days
Principle 7.5 reads: The board should provide an integrated report that puts historical performance into context, and portrays the risks, opportunities and prospects for the company in the future, helping shareholders understand a company’s strategic objectives and its progress towards meeting them.

“Public company reporting has become so complicated that what matters to investors can get lost. Our priority is to provide meaningful information that all investors can readily access. For investors to make investment and voting decisions, we don’t believe that more information is necessarily better. Instead, we’ve challenged ourselves to provide better information. Over the past several years, we have already been enhancing our reporting in response to feedback from investors, and they have told us how much they like it. This year, we are taking it even further.”

www.ge.com/ar2015/integrated-report  March 2016 released:
- calls for Integrated Reporting!

"This sees the restructuring of the traditional “front half” annual report and “back half” financial statements into three more integrated reporting requirements based on performance, accountability and financial statements."

"The previous requirement for a standalone Sustainability Report within annual report and accounts has now been removed. Instead, organisations are strongly encouraged to demonstrate through integrated reporting, how sustainability is an essential characteristic within the strategic objectives, operations and policy making, the risks to these and how the risks are being managed. Additional context should be given to explain the areas of focus of sustainability and those which are the most material to the organisation. This seeks to reduce the focus of meeting onerous disclosure requirements rather than embedding sustainable development in the organisation’s operations"

"There is no prescribed proforma for reporting – organisations should develop their own format to fit their business but are reminded that integrated reporting is strongly encouraged. "

Public sector annual reports: sustainability reporting guidance 2015-16 - March 2016
"We are asking that every CEO lay out for shareholders each year a strategic framework for long-term value creation. Additionally, because boards have a critical role to play in strategic planning, we believe CEOs should explicitly affirm that their boards have reviewed those plans. BlackRock’s corporate governance team, in their engagement with companies, will be looking for this framework and board review."

Larry Fink, CEO, BlackRock

"Efforts by the International Integrated Reporting Council to develop a framework for reporting value creation seem very much in-line with what Mr Fink is suggesting."

Sandra Peters, Head of Global Financial Reporting Policy, CFA Institute
A call to action

• strategic, serious and valued communication
• fit within strategy of the business
  ...change in behaviour
• start on the <IR> journey
Keynote

Erik Nooteboom, European Commission, Head of Unit Accounting and Financial Reporting
Keynote

Richard Howitt, Member of the European Parliament
Q&A Session

Wim Bartels,
Federation of European Accountants, Member of ESG Reporting Task Force
Coffee Break

15:40 – 15:50
Next generation corporate reporting

Hilde Blomme

Mark Vaessen

Jyoti Banerjee

Chris Zerlaut

Massimo Romano
Corporate Reporting: Enhancing transparency and value

Mark Vaessen
Chair FEE Corporate Reporting Policy Group
Structure of the Cogito Paper

- Introductory Section and 4 chapters
  1. Growing Audience
  2. Content: Financial and Non-financial reporting
  3. Core and More
  4. Approach to Policy Making and Innovation

- Focus on TECHNOLOGY as driver and enabler of change
Future of Corporate Reporting and

- Need for debate and experimentation
  - Is there agreement on the issues to be solved?
  - If yes, who should own the agenda?
- <IR> is the most developed and promising initiative
- <IR> could become the CORE report
Chapter 4: Policy Making and Innovation

- Allow parallel experimental reporting
- Change the compliance approach and remove barriers
- Stakeholder coordination with policy makers and standard setters
- Use of Technology to stimulate innovation
Technology (IT) as driver and enabler for change

- At the heart of change
- Enables lively presentation
- Focus on relevant and material information
- Enhances readability on screen
- Enhances calculations, storage, processes, connectivity, cross-checking, references…
Join the debate

- FEE welcomes responses by 30 June 2016
- For updates, follow #FutureCorporateReporting
- Join our LinkedIn group

https://www.linkedin.com/groups/8417453
Next generation corporate reporting

Hilde Blomme

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Technology Blueprint for <IR> Adoption

Corporate Reporting: Enhancing Transparency and Value

Jyoti Banerjee
International Integrated Reporting Council
@jyotib
Four major developments in the global business environment

“We are asking that every CEO lay out ... a strategic framework for long-term value creation”

Larry Fink, BlackRock

- Calls for long-termism
- Visibility of non-financial information
- Exponential growth of data
- Disruptive business models

Companies that voluntarily adopt policies on NFI outperform the rest

Structured approach to decision-making through data-driven insights

New ways to apply tech to traditional practices
Despite increasing data availability, CEOs say they lack the information they need to support their decision-making

<table>
<thead>
<tr>
<th>VALUE</th>
<th>Short-termism drives <strong>prioritisation of profit</strong> over other forms of value creation</th>
</tr>
</thead>
<tbody>
<tr>
<td>STRATEGY</td>
<td>The <strong>strategy process</strong> is formulated in an isolated approach and lacks <strong>collective intelligence</strong> and cross-silo understanding of organisational value drivers and <strong>key performance indications</strong></td>
</tr>
<tr>
<td>EXECUTION</td>
<td>As a consequence, <strong>strategic, business and operational goals and metrics</strong> are <strong>misaligned</strong> and driven by <strong>divergent viewpoints</strong> and interests</td>
</tr>
<tr>
<td>REPORTING</td>
<td>The reporting process is divorced from the corporate <strong>strategy process</strong>, <strong>backward-looking</strong> and misses <strong>80% of a company's value</strong> that is intangible(^1)</td>
</tr>
</tbody>
</table>

**Key challenges and barriers across organisational layers**

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We need a single information architecture across the organisation.

<IR> unites strategic, operational, performance and disclosure information across multiple capitals and over time.
The integrated thinking conversation...

Do our information systems cover **all the information** we need to run our business?

Is our data **stuck in silos** obscuring connectivity that exists across the information landscape?

How can we **harness the power of big data** and improved disclosure before our investors and stakeholders do?

What analytical tools can help us assess the **maturity and materiality** of the new information we need to track?
Steps in the <IR> journey

- Establish the approach to integrated thinking
- Operationalise the approach
- Disclose the approach

Source: Implementing Integrated Reporting, PwC
Connectivity and maturity analysis

1. Financial Capital KPIs
   - Ex: EBIT

2. Manufactured Capital KPIs
   - Ex: Services backlog

3. Human Capital KPIs
   - Ex: Employee retention

4. Intellectual Capital KPIs
   - Ex: R&D investment

5. Natural Capital KPIs
   - Ex: CO2 emissions

6. Social Capital KPIs
   - Ex: Contribution to the local communities employment

Legend:
- IT Systems
- Excel
- Word (Qualitative)
- Manual
- Global
- Local
NFI and <IR>

• Non-financial information: There is no such thing
• <IR> references multiple capitals for a reason - this is not just about non-financials
• Compliance burden: <IR> is a step ahead because it addresses the disconnect between external reporting and internal management practice
• The existing frameworks already offer the means to deal with the requirements of the NFI Directive
Thanks and contact info

April 2016

This presentation has been prepared by:

Jyoti Banerjee,
project director,
International Integrated Reporting Council

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Next generation corporate reporting

Hilde Blomme

Mark Vaessen

Jyoti Banerjee

Chris Zerlaut

Massimo Romano
Connecting non-financials and financials to drive economic performance

Establishing sustainability into operational steering

Chris Zerlaut
Director, Natural Resources & Sustainability Products, SAP
Our journey towards an Integrated Report

- 1988: 1st Annual Report
- 2007: 1st Sustainability Report (offline)
- 2008: Sustainability Report (online only)
- 2011: Integration of some content in Annual Report and Sustainability Report
- 2012: 1st Integrated Report
- 2013: 2nd Integrated Report
- 2014: 3rd Integrated Report
- 2015: 4th Integrated Report
Integrated Reporting is our way to Integrated Thinking
Connectivity of non financial and financial performance is key

<IR> is a catalyst
- First gain sustainability reporting experience
- Don’t wait for “integrated thinking”
- Use <IR> for management engagement (CEO, Finance, HR)

Analyze the links between KPIs
- How do environmental, social, and financial KPIs relate?
- There’s your business case!

More work than two reports
- Start early
- Lots of cross-departmental collaboration
Evolving descriptive connectivity towards financial impact
We balanced expected output with associated efforts

<table>
<thead>
<tr>
<th>#</th>
<th>KPI</th>
<th>Clear Definition</th>
<th>Quantifiable?</th>
<th>Required effort &amp; data research</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ecological Indicators</td>
<td>Yes</td>
<td>Yes due to clear and operational definition</td>
<td>Low/moderate Core data available</td>
</tr>
<tr>
<td>2</td>
<td>Employee Retention</td>
<td>Yes</td>
<td>Yes due to clear definition</td>
<td>Low/moderate Review &amp; adjustment (if applicable)</td>
</tr>
<tr>
<td>3</td>
<td>Business Health Culture (BHCI)</td>
<td>Yes</td>
<td>Yes due to clear and operational definition</td>
<td>Moderate Core data available</td>
</tr>
<tr>
<td>4</td>
<td>Employee Engagement (EE)</td>
<td>Yes</td>
<td>Yes due to clear and operational definition</td>
<td>Moderate Core data available</td>
</tr>
<tr>
<td>5</td>
<td>Women in Management</td>
<td>Yes</td>
<td>Yes due to clear definition</td>
<td>High due to complex cause-effect relation</td>
</tr>
<tr>
<td>6</td>
<td>Employer Ranking</td>
<td>No</td>
<td>Difficult because information about candidates’ attitudes seems hardly quantifiable</td>
<td>Very high due to behavioral impacts which mainly effects candidates</td>
</tr>
<tr>
<td>7</td>
<td>Capability Building</td>
<td>No</td>
<td>Difficult due to clear and operational definition</td>
<td>High due to definition deficiency</td>
</tr>
<tr>
<td>8</td>
<td>Social Investment</td>
<td>No</td>
<td>External effects quantifiable (e.g. ioci methodology), internal effects hardly quantifiable</td>
<td>Very high due to external impacts</td>
</tr>
</tbody>
</table>

Quantifiable? = Focus = Out of scope in phase II

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Initially we analyzed the impact on gross profit. Linking required investments to impact was out of scope.

- Initial analysis on the impact on gross profit.
- Linking investments to impact was not within the scope.

**Investments in KPI measures**

**Change of non-financial KPI**

**Positive and negative economic impacts**

**Financial impact of KPI**

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**Scope of our work**

- We used univariate linear regression results to model our pathway impacts.
- Considered latest non-IFRS figures from SAP's Integrated Report 2015 in our analyses.

*Under consideration of our work and scope: Financial impact means gross financial impact of a KPI change.*
Our non-financial performance impacts our gross profit
Based on SAP data we identified statistically significant connectivity

Employee Engagement
- 1%pt. up/down -> € 40 – 50 Mio

Business Health Culture Index
- 1%pt. up/down -> € 75 – 85 Mio

Employee Retention
- 1%pt. up/down -> € 45 – 55 Mio

Carbon Emissions
- 1% up/down -> € 4 Mio
SAP’s material aspects linked to the IIRC externalities

Represents what is core to our company and business model

Source: IIRC
Transparency creates holistic steering
We make financial and non-financial connectivity tangible for everybody

Provide transparency
- Provide material social and environmental KPI’s
- Available to all employees
- Enable slice and dice

Connect financials and non-financials

Ensure data privacy

Establish governance for operational steering
Integrated Reporting catalyzes Integrated thinking
Making non-financial performance relevant for operational steering

Social and environmental performance were viewed separately from economic performance

Especially SAP’s knowledge based business model is highly dependent on our healthy and engaged workforce

Monetization of non-financial performance will and has raised management awareness

Integrated operational steering requires transparency of integrated financial and non-financial performance

We receive excellent external feedback from investors and customers for our integrated approach
Implementing a Sustainable Strategy through <IR>
We establish sustainability into operational steering

No revolution
Catalyze, enhance, or complement existing business strategy

Evolve over time
Learn how to write good business cases

Ongoing engagement
Build strong engagement mechanisms
Make performance transparent and tangible

Over-communicate
“We also believe that the full measure of a great business is not just in its financial results, but also in its social responsibility. That’s why we include metrics like environmental impact and diversity alongside revenue and operating income – to give you the full picture of an ambitious, successful, and sustainable company.”

Bill McDermott, CEO, SAP SE SAP Integrated Report 2015
Thank you
Next generation corporate reporting

Hilde Blomme

Mark Vaessen

Jyoti Banerjee

Chris Zerlaut

Massimo Romano
Generali Group

Corporate Reporting Evolution

Bruxelles, 6\textsuperscript{th} April 2016

Massimo Romano
Head of Group Integrated Reporting & CFO Hub
Corporate Reporting Evolution

What we have done and what we are going to do

- **Regulatory framework**: (i.e. UE non financial directive)
- **Leading IR practice**

**IR 3.0**
Implementation in the BUs of
- Integrated Report and
- Internal Integrated Report

**IR 2.0**
Feedback collection

- **Integrated Report (IR) 1.0 and Financial Supplement**
- **Feedback collection**

**YE 2015**

**2016 2017**

**YE2014**

**HY2014 - 1Q2014**

**YE2013**
Solving the puzzle of Corporate Reporting
Thank You.
Closing & thank you

Olivier Boutellis-Taft, Federation of European Accountants, CEO
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