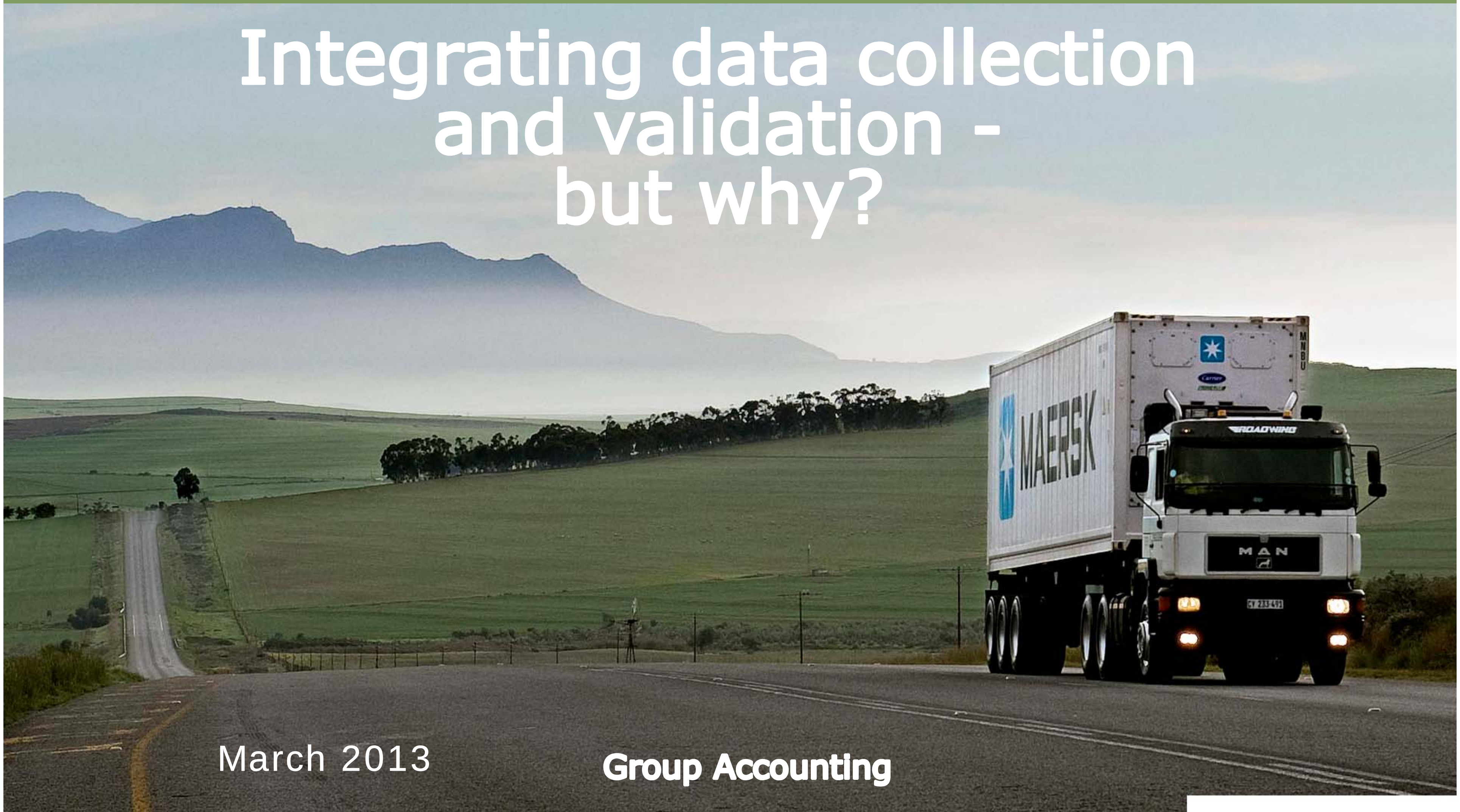
Integrating data collection and validation - but why?



March 2013

Group Accounting

PROMETHIUM CARBON

Pm

CDSB
Climate Disclosure Standards Board
A special project of CDP

Agenda

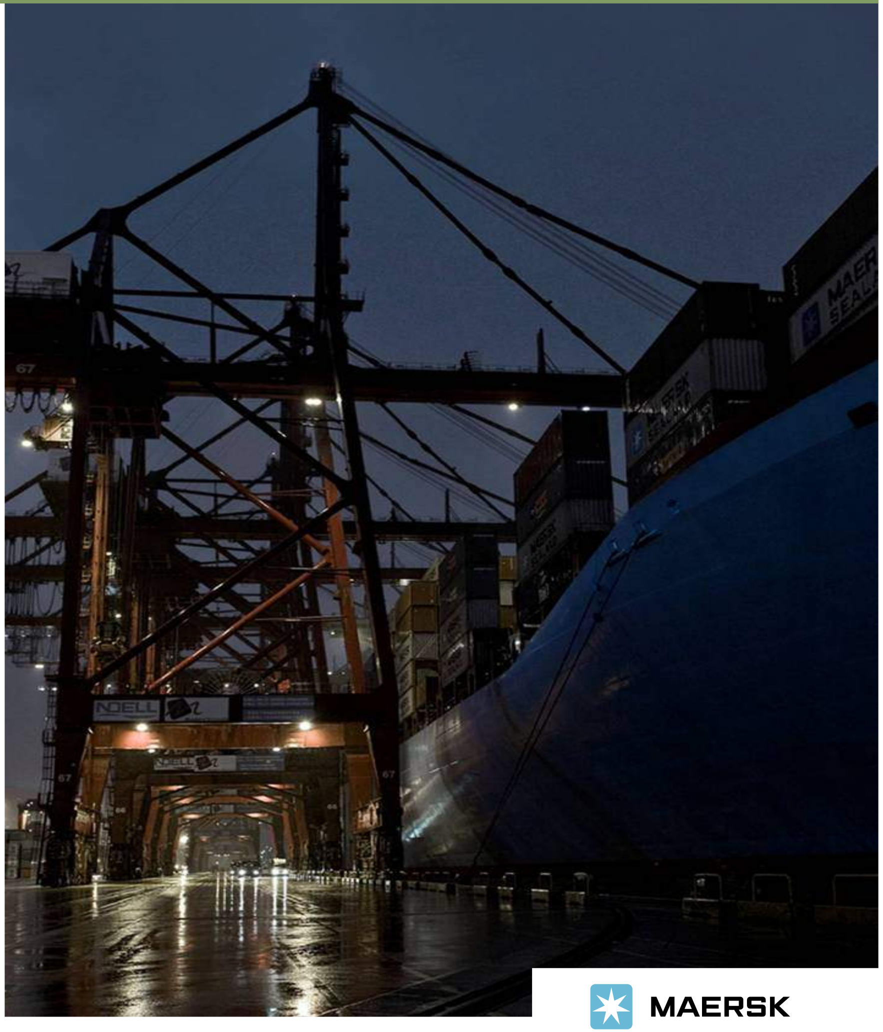
•Short into

•Why was CSR/Sustainability data collection moved to Group Accounting

•Definition of scoping

•Benefits of using financial tools and logic

•Investors’ benefits from Integrated Reporting



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Short Introduction

- Control Compliance Officer in A.P. Moller-Maersk, which is a conglomerate of app. 1000 companies in 130 countries with headquarter in Denmark. The conglomerate covers shipping, oil extraction, terminals, retail, banking etc.

- 25 years background in financials – though the last 3 in both financials and non-financials

- Currently responsible for ensuring the control environment for the financial and the non-financial reporting for the Group.

- Author of the Danish book “Investor oriented CSR reporting”; used as a teaching book at Copenhagen Business School’s for the auditor-students. In my PhD, I have specialised in quantifying qualitative data into valid data sets to be used for analysis

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Why was CSR/Sustainability data collection moved to Group Accounting

- In 2009 the APMM report got a review stating "poor data quality"
- Aims for the report 2010 were:
  - "Poor data quality" should not be part of the audit review. Data should be in APMM style; meaning
    - Group definitions and regulations are followed in all BUs. No self-invented rules can occur in a group reporting
    - Data should be controlled and documented from the lowest level and consolidated in a group controlled consolidation tool => audit trail
    - BUs should be able to explain development of figures
    - BUs should provide data in such a quality, that their senior management can sign it
- Chairman and CEO thought Group Accounting would be better at achieving this
- Result of transfer of data collection: Reliability is now "Good"

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APMM changed the scope from operational to financial scope – why?

- Data quality
  - In order to improve data quality, a transfer of data collection to group accounting was decided.
- Business integration
  - Furthermore, there was a whish to build a gangway between reported economic activity and reported sustainability impacts and thereby ensure stronger integration of sustainability with business.
- Accounting practices
  - Financial accounting system set to operated with financial scope

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- Changing the scope has created some issues for some BUs:
  - Scoping-change issues rests on primarily two issues:
    - Lease issue
    - Consolidation issue

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Scope-issues

- Leasing: Data are scoped via the means to the production and revenue; meaning:
  - Own assets, we are using ourselves for our production => we carry the consumption and emissions
  - Leased-in assets, we use for our production => we carry the consumption and emissions

  - Consequently:
  - Own assets, leased out to others' production => we do NOT carry the consumption and emissions

- JVs: To ensure the comparability, it is also important that the sustainability data is consolidated the same way as the production, revenue and cash flow. This means:
  - Financial consolidation is used all over
    - subsidiaries 100%
    - JVs proportional
    - and associates and others are not included

- From 2013 will JVs not be included - only joint operations, IFRS 11 (see also IFRS 10 to understand definition on control)

Scope-issues – joint operations

Two joint operations (IFRS 11). One is operated and the other is not => In financial scoping the operator is of no importance (IFRS 10 – the operator is just an agent). Both are included, proportionally splitted given by ownership share; say 50%

Two joint operations (IFRS 11). One is operated and the other is not => Given operational scoping, reporting will include one 100% and one 0% => <u>financial and non-financial datasets are not comparable => integrated reporting does not make much sense with operational scoping</u>

Scope-issues – leasing – financially scoped

- Our supermarkets have subcontracted a haulier to deliver goods from the warehouses to the stores in his trucks. Who are liable for the emissions?
  - Answer: This is procurement of service and not leasing of assets (with or without operator) – thus, the haulier is scope 1 liable, as he chooses which trucks are used. The supermarket can choose to write about their scope 3 emissions in the text.

- The supermarkets have their own trucks – but hire drivers from a bureau. Who are liable for the emissions?
  - Answer: The supermarket is scope 1 liable for the fuel consumption. Even if the trucks were leased in, the supermarket would still be liable, as they have chosen to work with these specific assets (bought or leased in) and not other cheaper or more expensive trucks, which pollute more or less. This choice is the supermarket's – they are liable for this choice – just like the haulier before.

- Remember to re-use the financial rules for, when there is sale of services and when it is leasing. Then you will achieve comparison between the data sets.

Benefits of using financial tools and logic?

- The reporting process is known by the Business Units

- Consolidation system is as good as free – no need for implementation time

- Better co-work between financial and sustainability people.
  - In all fairness, sustainability people are not very familiar with concepts like: evidence, controls, monitoring, SOPs etc.
  - Sustainability people are now able to claim something, where others believe the data to be true

- Re-use of the financial reporting package tools:
  - APMM Sustainability GAAP
  - Upload sheets
  - Explanation sheets
  - Quality Assurance testing tools on Business Unit and Group level
  - EuroSox© control overview with Audit Committee attention

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Research: Investors' benefits from integrated reporting

- Current research does not show anything firm about, whether sustainability reporting has an impact on the company's profitability. This lack of insight is not due to lack of research, since much research are done, but is most likely due to the poor quality and incomparable sustainability data – also compared to the financial data.

- But some research indicates sustainability reporting can ensure more stable stock prices - probably because sustainability reporting creates a form of "insurance", whereby the negative impact on stock prices of adverse events decreases.

- This is believed to be due to sustainability reports providing investor – especially the institutional investor - a better understanding of the risk profile, whereby investors do not respond so strongly, when negative events occur.

Investors' inclusion of Integrated Reporting when evaluating investment opportunities

- How can this risk profile be included in the investors' investment evaluations? Remember – investors do not like 80 pages of narratives, when evaluating thousands of investment-opportunities.

- The moment companies report data given by the financial scoping and consolidation, on the same minimum required indicators, given the same definitions, with the same quality as financially - then it will be possible for the investors to make the following KPIs, when evaluating what shares to buy, hold, or sell. See the following example using pollution as risk profile indicator:
  - Price/Earnings compared to Price/Pollution; Price/Pollution = (price per share)/(pollution per share)
  - Pollution is a monetary unit summarised of
    - CO_2-eq scope 1+2 * CO_2 price
    - Water-consumption * generic water price
    - Waste production * generic waste price

- See for instance PUMA (part of PPR Home) to see an example of a monetary calculation

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Investors' evaluation of Price/Earnings compared to Price/Pollution

- Thus, it will be possible for the investors to use the pollution information in their evaluations of the investments – but it requires quantified comparable data of better quality, in which the investors can trust.

Price / Pollution

Best investment	Good investment	Moderate investment
Good investment	Moderate investment	Poor investment
Moderate investment	Poor investment	Poorest investment

Price / Earnings

OBS: Such analysis work the best, when doing benchmark-analysis on comparable businesses. Also note: Price/Pollution cannot stand alone

Questions?

Thank you for your attention

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