



IIRC Brazil At FEBRABAN, Sao Paolo, 24th January 2015

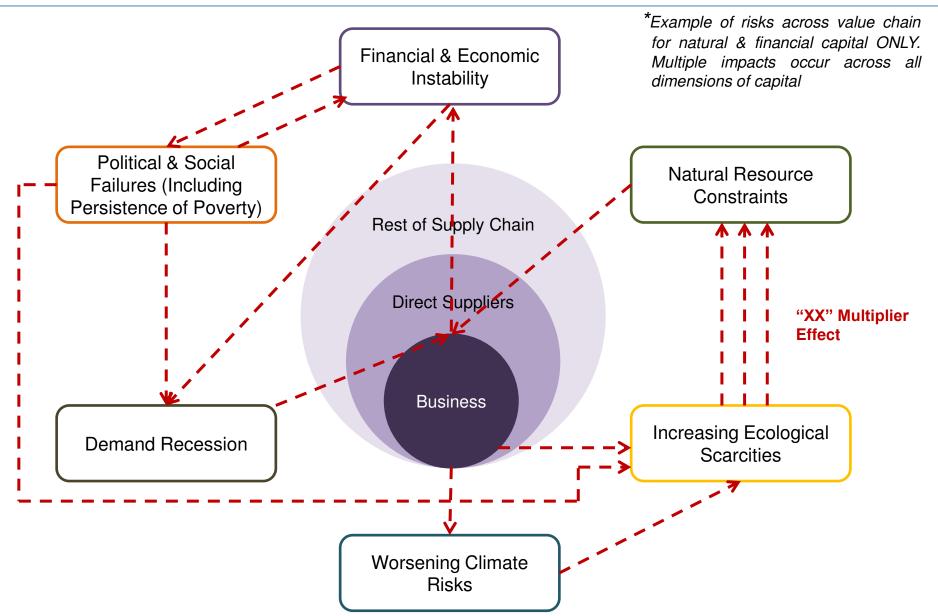
Integrated Profit & Loss Accounting for IIRC



Pavan Sukhdev CEO, GIST Advisory & UNEP Goodwill Ambassador



Goal: Integrated Management for Complexity





Recent Growth in "SRI"/ "ESG" Investment

- Global SRI assets have expanded 61% in just two years, from USD 13.3 trillion (2012) to USD 21.4 trillion (2014)
- Strong 'stakeholder' performance & credible metrics will attract new capital

Figure 1: Proportion of Global SRI Assets by Region

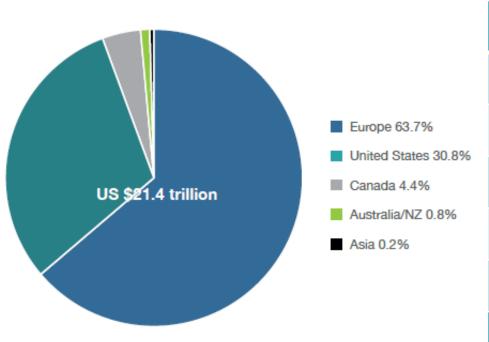


Table 1: Growth of SRI Assets by Region 2012–2014

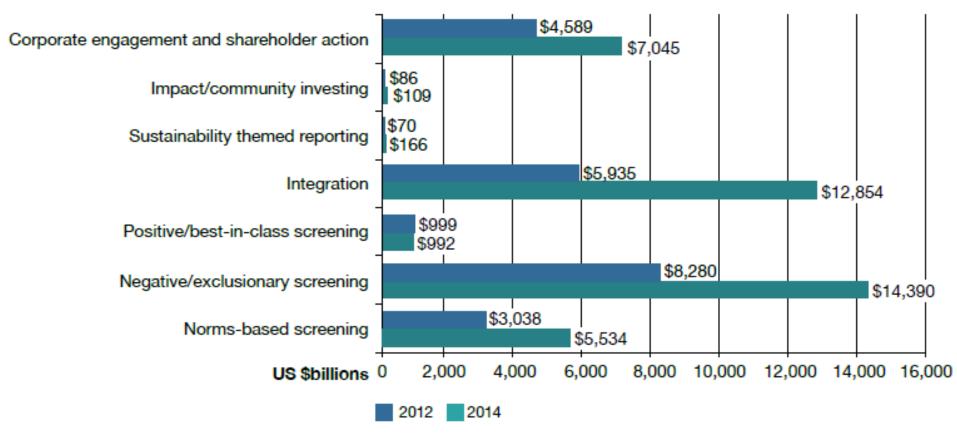
	2012	2014
Europe	\$8,758	\$13,608
United States	\$3,740	\$6,572
Canada	\$589	\$945
Australia/NZ	\$134	\$180
Asia	\$40	\$53
Total	\$13,261	\$21,358

Source: Review Report by Global Sustainable Investment Alliance, 2014



Selection Strategies among SRI/ESG investors...

Growth of Strategies 2012-14



Source: Review Report by Global Sustainable Investment Alliance, 2014



Investors' Feedback...

84% disagreed or strongly disagreed that companies had made it clear how they identified "material" non-financial issues

66% felt that the following additional areas should be addressed by companies

- Corporate governance
- Supply chain impacts
- Company specific issues
- Sector specific issues

84% agreed or strongly agreed that established <u>standardized reporting</u> <u>frameworks</u> should be used by companies

89% agreed or strongly agreed that reporting should be <u>forward looking</u> in addition to providing information on past performance

96% agreed or strongly agreed that quantitative key performance indicators are essential to assess corporate sustainability performance

92% agreed or strongly agreed that financial and non-financial information should be more integrated

Source: Eurosif and ACCA survey of investors, analysts and other stakeholders, 2013



Capitals Framework



Drivers>Outcomes>Impacts



Business' Impacts on Different Dimensions of Wealth

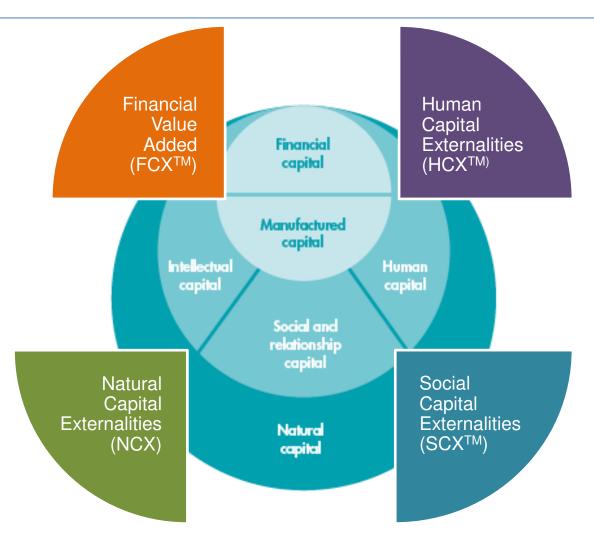
- Business depends on, and/or has <u>impacts on, ALL dimensions of private & public wealth</u>
- Measures and reports only on shareholder wealth i.e., impacts on privately owned physical capital.
- Measuring and reporting on an integrated basis across all capital pools is necessary for measuring sustainability at a corporate level.

	Physical Capital	Human Capital	Social Capital	Natural Capital
Private Ownership	FactoriesBuildingsSecuritiesCash	HealthEducationJob Skills		GardensFieldsForests
Community Ownership* (Club Goods)	Community CentresCommunity Schools	 Traditional Community Knowledge 	 Community Norms & Customs 	Community ForestsGrazing Commons
Public Ownership* (Public Goods)	RoadsBridgesPublic Hospitals	Public DatabasesNon-patent Knowledge	Law & OrderTaxationSocial Equity & Inclusion	 High Seas Fisheries National Parks / Forests

^{*} Community wealth and public wealth are elements of "shared value"

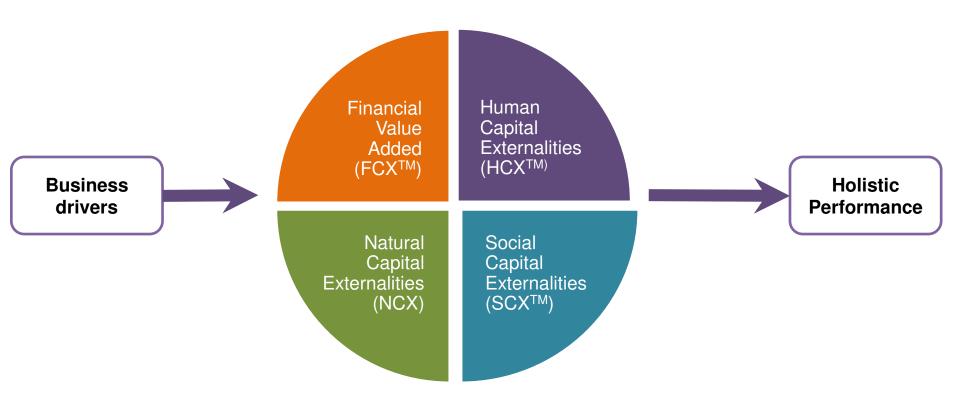


Categories of Capital and Major Externalities





Mapping <IIRC> to Env. Econ. Capital Categories





Valuation Framework



Drivers>Outcomes>Impacts



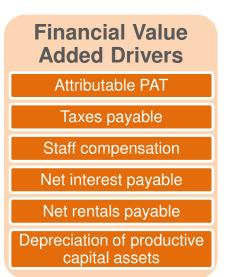
GIST Advisory's Stakeholder Valuation Framework

- Process of examination and elimination, to determine which third-party impacts
 deserve closer attention, measurement, disclosure and management on the basis
 of materiality.
- Seventeen major drivers of externalities arising from typical business activities, which most commonly generate the most significant third-party impacts.









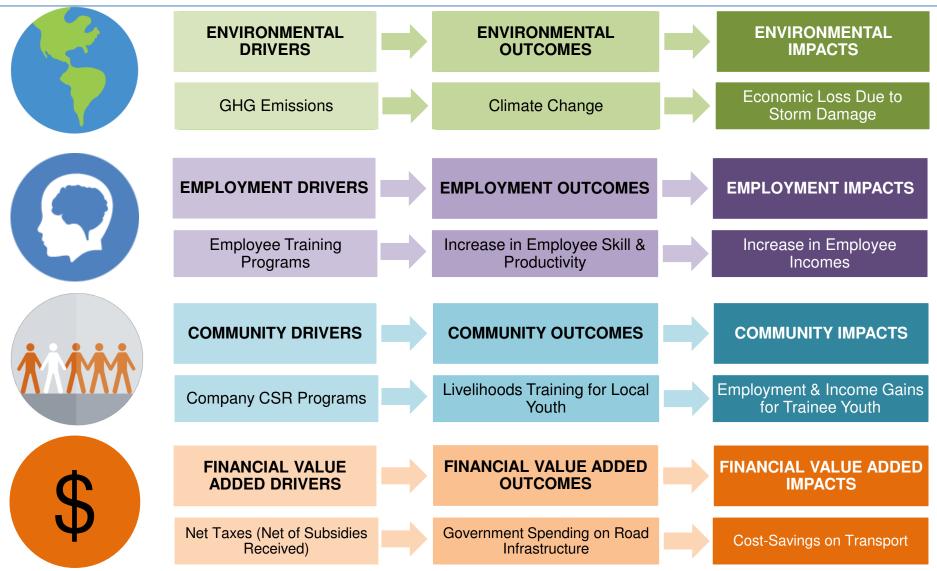
^{1.} Five of these six environmental drivers were first used in PUMA's 2010 "E P&L" (Environmental Profit & Loss), a measurement and valuation of environmental externalities published by the company in November 2011

^{2.} See example in Chapter 5, "Corporation 2020", describing the work of GIST Advisory to estimate human capital externalities of Infosys

^{3.} Natura's business model (see Chapter 4, "Corporation 2020") is an example of one that generates positive social capital externalities).



"Drivers>Outcomes>Impacts" Framework: Examples





Measuring, Valuing & Integrating: "I-P&L"

	20	14	20	15	Annual change
	Р	L	Р	L	%
Natural Capital (NCX)™	51 S	·	10		
Upstream (\$Millions)		152		139	- 8.6%
Direct (\$Millions)		38		42	10.5%
Downstream (\$Millions)	37		43		16.2%
Total		153		138	-9.8%
Social Capital (SCX)™					
Upstream (\$Millions)	5		7		40%
Direct (\$Millions)	135		140		3.7%
Downstream (B2B) (\$Millions)	12		10		- 16.7%
Percentage increase	152		157		3.3%
Human Capital (HCX)™					
Upstream (\$Millions)		15		14	- 6.7%
Direct (\$Millions)	50		65		30%
Downstream (B2B) (\$Millions)		7		9	28.6%
Total	28		42		50%
Financial Capital (FCX) TM	W .			We e	47
Direct	230		355		54.3%
Total	230		355		54.3%

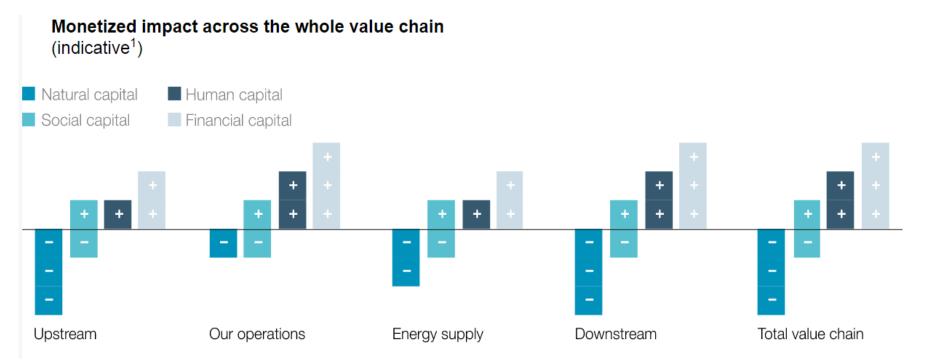
- Drivers from company's direct operations as well as its value chain.
- Negative natural capital impacts are typically along direct operations and upstream material energy & supply chain providers and downstream B2B customers
- Positive human capital externalities are generated as a result of the company's direct hiring and training of employees.
- Positive social externalities accrue as a result of the company's CSR and socially responsible business models, whereas the negative externalities can accrue from both direct as well as upstream and downstream value chain.
- Enables year-on-year evaluation of performance across all dimensions of capital (see next slide).



Example: Integrated Perfromance Report pilot by Akzo Nobel

In order to get a more detailed insight into how profit and loss is generated, AkzoNobel (AN) wanted to develop a deeper understanding across the value chain of how their business impacts the environment, people and society at large. Gaining a better understanding of these aspects – and attaching a monetary value to them – will enable them to identify possible improvements and ultimately increase business value.

The pilot study of AN's Pulp and Performance Chemicals business in Brazil looked at their environmental, human, social and financial impact. By measuring these four dimensions across the whole value chain – including raw materials – as well as attaching an economic value to the positive and negative aspects of each, they were able to identify where they can improve. This new insight will enable them to make better business decisions by reducing the negatives and building on the positives.





"What next?"



Risks & Opportunities



Integrated Management of Risks & Opportunities

Category	Example of Risk (Natural Capital ONLY)	Example of Opportunity (Natural Capital ONLY)
Operational Regular activities, expenditures and processes of the company	 Increased natural hazard costs e.g. storm damage due to degradation of protection provided by coastal ecosystems Increased security costs e.g. due to stakeholder conflicts over natural capital use or depletion Increased resource costs e.g. higher water charges 	 Costs savings from maintaining or investing in green infrastructure e.g. protection against natural hazards, water filtration by natural systems Improved efficiencies through minimizing resource use Reduced resource use (volume and/or price)
Legal & Regulatory Laws, government policies and regulations that can affect corporate performance	 Increased compliance costs Production delays and losses due to permit denials or delays Increased fines, compensation and legal costs e.g. due to natural capital impacts New regulations and license fees e.g. new or elevated charges for water from aquifers 	 Reduced compliance costs Permitting expedited Reduced fines, compensation and legal costs e.g. due to avoidance of real and perceived natural capital impacts
Marketing & Product Portfolio of products and services offered, customer preferences	Changing customer values or preferences leads to reduced market share for products	 New products e.g. carbon, water, habitat credits, new markets for ecosystem services Changing customer values or preferences leads to increased market share for products Increased product premium

Source: Adapted from NCC (2015), WRI et al. (2008) and IPIECA (2011)



Integrated Management of Risks & Opportunities

Category	Example of Risk (Natural Capital ONLY)	Example of Opportunity (Natural Capital ONLY)
Reputational Company image, relationship with customers, the public, government agencies and other stakeholders	 Increased employee recruitment and retention costs Declining interest in shareholder investment Decline in share price as investors see company not managing natural capital related risks 	 Increased access to resources as partner of choice for governments and stakeholders Increased market share for products Improved ability to attract and retain employees Increased share price as investors see a well-managed company reducing risks
Financial Costs and availability of capital from borrowing on open markets and other investors	 Increased financing costs (higher interest rates and harsher conditions) Reduced financing options 	 Access to IFC or Equator Bank financing Reduced financing costs New green funds available

- Business' face similar risks and opportunities across other dimensions of capital as well
- Must recognise these in order to <u>minimize exposure and maximize benefits</u>

Source: Adapted from WRI et al. (2008) and IPIECA (2011)



Thank You!



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