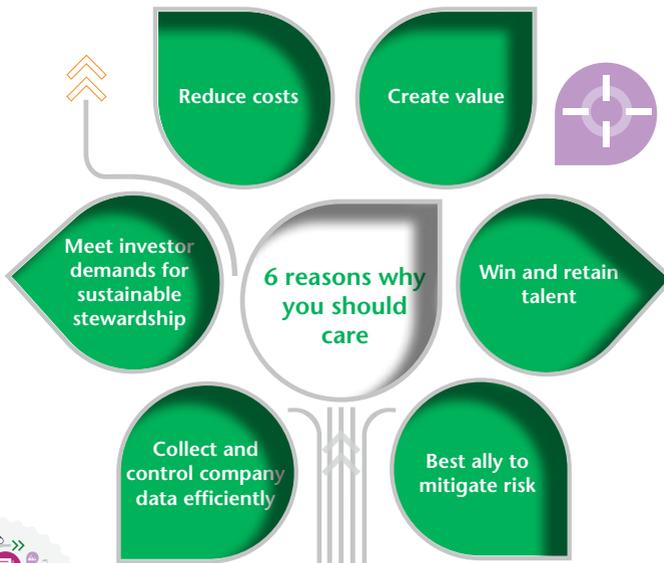


Sustainability

A new competence for financial leaders



Future Leaders Program 2014

Enabling tomorrow's sustainability business leaders



Sustainability and Finance are increasingly interwoven

Companies more and more see good sustainability performance as a proxy and a leading indicator for sound management and financial results in the long term.



Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

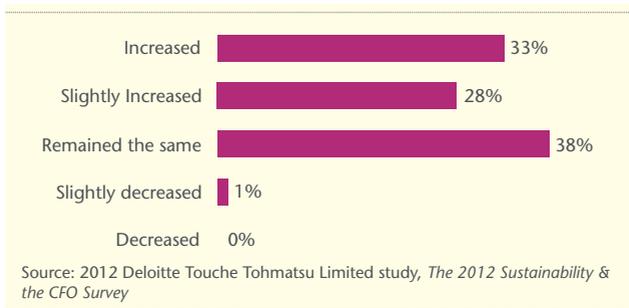
Brundtland Report 1987

30%

of the incentive remuneration of the Danone UK's CFO's are linked to sustainability KPIs¹

61%

of CFO's at large companies see their role in sustainability strategy to increase or slightly increase in the next two years:



Sustainability efforts feed through many roles and responsibilities of the finance department:

Business Performance

Managing costs

Supporting growth

Risk Management

Reputational risk

Operational risk

Regulatory risk

Reporting and Investor relations

Producing reliable and consistent information

New investment reality

Creating new opportunities

As management embeds sustainability across all functions of an enterprise and the economic case becomes clear, financial leaders can no longer define their role in strictly financial terms but must embrace this wider mandate.



Sustainability creates value

According to an Accenture global survey¹, 78% of business executives agree sustainability is vital to future business growth.

Sustainability provides product differentiation and adds value to a brand. Given brands equally priced and of similar quality, 91% of consumers say they are likely to switch to the one associated with a good cause (Cone Communications/Echo CSR Study).

A multiyear study² by the Conference Board shows the link has become much tighter between brand value and sustainability performance.



Brand affinity and customer loyalty become a function of the social capital that you accrue, and that's part of a constant deposit and withdrawal cycle. Social capital is a great metric for a brand.

*Simon Mainwaring,
CEO of branding consultancy*

1 Accenture Long-Term Growth, Short-Term Differentiation and Profit from Sustainable Products and Services. A global survey of business executives.

2 The Link Between Brand Value and Sustainability 2013 by The Conference Board, Inc. All rights reserved.

Sustainability leads to new products, new services and new markets

In PwC's 14th Annual Global CEO Survey, more than two-thirds of CEO's (64%) said environmentally friendly products and services are an important part of their innovation strategy.

Leading UK retailer Marks & Spencer's, Plan A of 100 sustainability commitments, launched in 2007, has generated £50 million in profits from new products – such as M&S Energy, which provides insulation and solar panels for 300,000 customers.

Sustainability locks in consumer demand for products over the long run

Unless products, operating processes or business behavior are socially and environmentally acceptable, sales growth can be seriously dented by factors such as regulatory changes, public communication, customers and consumers demand.

A total of 77% of consumers in the past year refused to buy products or services from companies they do not trust.¹

Philips generated over half of its revenue in 2013 from the sales of green products, or EUR11.8 billion.



Sustainability offers ways to reduce costs

Cost control is always on the agenda of the CFO. Sustainability offers a long list of ways for a company to save money, by reducing energy and water consumption; lowering production costs and travel spending; and cutting exposure to unnecessary waste and carbon costs. These are obvious business benefits which flow from a well-designed sustainability program. These cost savings will become more crucial in front of rising commodity prices and increasing compliance costs due to more regulation.



Pushing sustainability onto the agenda is not simple – but when the finance function makes clear the effect on P&L performance at every level, the discussions become much easier.

*Jan Piet Valk, CFO,
Logica Benelux*

Sustainability and cutting costs

The new focus is on controlling non-labour costs, including the following:

- Energy efficiency
- Waste reduction
- Transport efficiency – use less fuel, reduce emissions
- Packaging remade to reduce waste and lower environmental impact
- Circular resource use – changing how products are designed, sold, reused, and recycled for better value
- Collaborating with supply chain partners to reduce costs and raise efficiency

The Energy Investment Tax Allowance (EIA) in the Netherlands reduces upfront investment costs related to energy savings through an income tax deduction. In 2011, the net tax reduction for companies averaged 10% of total investment.

Investing in sustainability is growing sharply and needs to be managed

Sustainability investments are now significant and continuously increasing. These investments must be treated equal to other expenses, and assessed with the same efficiency criteria to make sure they are well apportioned.

In partnership with the sustainability department, the finance department must develop tools and methodologies to efficiently allocate resources dedicated to sustainability.

Sustainability and taxes are intertwined

Close collaboration between sustainability, tax and operations departments is vital for a well-managed tax policy and for making efficient business decisions.

- Environmental taxes accounted for 6.2% of revenue in the 27 countries of the European Union in 2011
- Discussions increase around tax load shift from labor to the environment
- More and more countries are adopting carbon taxes
- Social and environmental tax exemptions provide savings for companies

PUMA published its first environmental profit and loss statement in 2011, showing a € 145 million environmental impact from the supply chain.



Sustainability is the CFO's best ally in mitigating risk

Embedding sustainability into the Enterprise Risk Management (ERM) system of a company is a well-proven way to boost the effectiveness of risk management and improve business performance.

Regulatory risk

Many companies face a wide array of regulatory compliance risks. The number of new national, regional, and international laws and regulations is steadily rising, including laws on employee health and safety, anti-bribery, and environmental performance. Voluntary compliance mechanisms are also multiplying, especially on human rights, to which more companies are holding themselves publically accountable.

Strategic and reputational risk

As sustainability becomes a global challenge, companies unwilling to adapt to this new reality are exposing themselves to huge reputational risks. By contrast, companies that achieve first-mover status and develop a stakeholder base with a much greater appreciation of the value of the company's efforts, gives a company a powerful social license to operate. Add to that the greater role these three actors can have on a company's reputation, for better or worse:

- 24-hour news cycle means media response is immediate and global
- The influence of social media is spreading rapidly
- NGOs have a powerful voice on social and environmental issues



Source: EY Portal – Sustainability Risk Drivers

Operational risk

Desertification, freshwater shortages, and more severe climate disruptions of short and long duration will pose greater risks to companies in the coming years. As the global population rises to eight billion, over the next 50 years, there will be price shocks and supply disruptions as resources become increasingly scarce. Companies must find new ways to keep operations resilient and to anticipate and avoid bottlenecks.

These social and environmental risks can place huge stress on company operations in the following ways:

- Increasing competition and costs for scarce raw materials
- Rising energy costs
- Closing operations due to unsustainable business practices
- Increasing safety issues
- Growing influence of sustainability on the ability of companies to operate on the long term

Reporting risk

As stock exchanges anticipate how to provide the financial community with ways to gauge environmental and social risks on the marketplace, companies, too, are facing mounting pressure to disclose their sustainability performance to investors. Companies are also looking to develop strong internal controls of their environmental performance, in order to deliver investment-grade information.

- Growing calls for greater transparency
- Proliferating channels reporting on non-financial information:
- Rising tide of information for institutional investors from commercial information providers, such as Bloomberg and Thomson Reuters
- Placing more importance of reporting credibility
- Growing allegations of green-washing
- Coming reporting regulations by many countries, already in place France, South Africa, Denmark, India

It takes twenty years to build a reputation and five minutes to destroy it

Warren Buffet, billionaire investor and CEO of Berkshire Hathaway

Even when carbon prices are low or non-existent, the downside risks of future regulation can offset the cost advantage of thermal coal relative to alternative energy sources

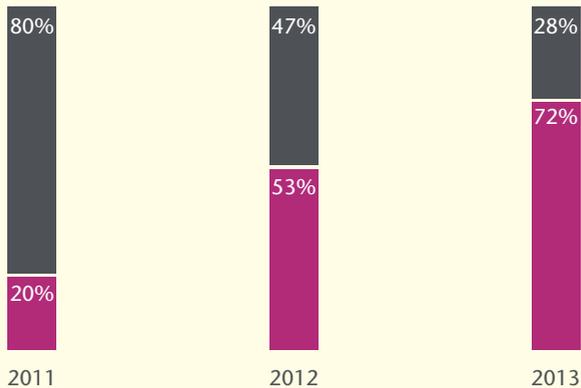
Rocks & Ores - The window for thermal coal investment is closing," Goldman Sachs, July 2013



Applying the rigor of financial reporting to sustainability statements

- Many sustainability reports are now larger than annual reports.
- Required by law, clamored for by investors and other stakeholders, sustainability reports are multiplying (see below figure).

Governance & Accountability Institute Research Results
S&P 500® Companies Sustainability Reporting



Source: Governance & Accountability Institute, Inc. (www.ga-institute.com)



Sustainability performance reporting means having robust processes and sufficient controls in place that provide:

- Reliability
- Consistency
- Comparability

The data sources for reporting on sustainability performance are many and various, and the data gathering is often manual and not harmonized. The risks of errors and inconsistencies are high.



Financial leaders should apply their deep knowledge and expertise of processes, data collection and management, internal controls, KPI's, and analysis to non-financial reporting.

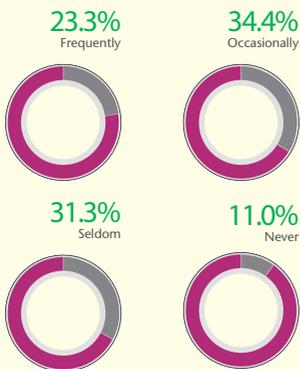


Sustainability performance plays a growing role in relations with investors

Not only is sustainable investment steadily increasing, traditional investors are paying more attention to non-financial information and taking this data into account in their risk assessments and their investment decisions.

Traditional investors are focusing more on the environment, social and governance data

In the last 12 months, how frequently has a company's non-financial performance played a pivotal role in your investment decision-making?²



Source: EY-Institutional Investor Survey

In the US, one out of every \$8 of the \$25.2 trillion in total assets under management tracked by Thomson Reuters was placed in sustainable and socially responsible investments in 2010. ¹

¹ Social Investment Forum (SIF), quoted in 2012 PwC report "Do investors care about Sustainability? Seven trends provide clues"

² EY: "Tomorrow's investment rules: Global survey of institutional investors on non-financial performance"

Sustainability helps win and retain talent

Companies are integrating sustainability into corporate culture and building sustainable development capabilities.

Engaging and training employees

"8 in 10 people who worked for a large company felt greater motivation and loyalty towards their jobs & companies the more socially responsible their employers became." WBCSD website

Aligning incentives

Recognition and reward are critical to attract and retain talent, and to incentivize and reward appropriate performance and behavior.

Motivating employees

Employees can make a difference by internalizing a company's sustainability strategy, and translating high-level commitments into action and results on the ground.



Business leaders increasingly recognize the crucial role employees play in driving and delivering sustainable business strategy.

Why sustainability matters for a career in finance

A financial leader today is a business partner rather than just a finance professional. As a result, a financial leader is now expected to also support company objectives and drive peak performance.

By being able to understand the true value of sustainability as a whole, and what companies are doing about it, the financial professional will connect more with the sustainability values and behaviors set out by the management teams. At the same time, the financial leader will be exposed to new discussions and new opportunities to achieve strategic goals. Sustainability is already on the agenda of many CFO's.

There is no right way for an organization to become more sustainable. There are many ways, and many resources and experts ready to provide assistance.

Sustainability is central to the future of most companies, so it is central to the future of most financial leaders.

Taking part in these sustainability processes is a career boost:

- Understanding top management strategy
- Helping manage stakeholders, including those in the company hierarchy
- Improving resource allocation
- Discussing topics with multiple financial dimensions such as:
 - Profitability
 - Cost management
 - Risk management
 - Taxes

Forward-thinking CFO's see that sustainability is now central to value protection and creation and encourage their teams to become sustainability leaders in their firms

*Conference Board of Canada,
February 2014 webinar highlights*



Questions financial leaders should be able to answer about their company sustainability practices:



Q

What is the total sustainability spending?

Q

How are resources allocated for sustainability initiatives?

Q

How much does the company pay in environmental taxes? Have environmental incentives been exercised?

Q

Are sustainability issues embedded in marketing decision making?

Q

How do the risk management and sustainability departments work together?

Q

What are the processes and controls for disclosing non-financial information (Sustainability report, inclusion in the Dow Jones Sustainability Index, the Carbon Disclosure Project or other indexes and initiatives)?

Q

What questions did investors ask recently about non-financial information?

Summary



- Non-financial reporting is large and steadily growing
- Investor behavior is changing and increasingly focused on non-financial information
- Cost reduction and growth opportunities are embedded in sustainability issues
- Sustainability spending must be monitored and allocated using objective criteria
- Regulations are evolving, and a license to operate is a major issue a company must face
- Transparency increases reputation risk and a company's obligations

