







Reporting on Intangibles in the EU context

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Reasons for Current Developments and Trends in Management Reporting (I)

a) Increasing value orientation

 Growing significance of intangibles, for instance, measured in terms of stock market value:

COMPONENTS of S&P 500 MARKET VALUE



3rd & 4th July 2017



Reasons for Current Developments and Trends in Management Reporting (II)

- a) Increasing value orientation has led to
 - → higher requirements on obligatory reporting, e.g. non-financial indicators, business modell, opportunities, strategy and
 - → increase in voluntary reporting to disclose intangible values, e.g. Intellectual Capital Statement resp. Wissensbilanz, WICI Intangibles Reporting Framework, Human Capital Reporting



Reasons for Current Developments and Trends in Management Reporting (III)

- b) Loss of confidence has led to increasing demands for
 - ...Corporate Social Responsibility (CSR)
 - ➤ Supplementary (voluntary) sustainability reports focusing on economic, ecological and social factors (triple bottom line), e.g. Global Reporting Initiative, Sustainable Development Goals (of United Nations), Global Compact.
 - ➤ Changed perception of company value: Shareholder Value ⇔ Stakeholder Value

...monitoring and transparency

- > Enlargement of management reporting to include, for instance:
 - + Risk Report
 - + Responsibility Statement
 - + Corporate Governance Statement
 - + Description of the Internal Control and Risk Management System
 - + Remuneration Report



Reasons for Current Developments and Trends in Management Reporting (VI)

- c) Reducing diversification in corporate reporting
 - Variety of reporting instruments:
 - ➤ (Consolidated) Financial Statements
 - ➤ (Group) Management Report
 - > Remuneration Report
 - > Sustainability Report
 - ➤ Intangible Report, Human Capital Report, ... etc.
 - Compulsory as well as voluntary information increasingly published:
 - > Rising information costs for both report recipients and senders
 - Information overload?
 - ⇒Integrated Reporting and Integrated Reports, respectively, strive to concentrate on value-relevant information



EU-Directives with Respect to Non-financials in Management Reporting in Germany



2014/95/EU (CSR-RUG 2017)

German Commercial Code (HGB)

Directive 2003/51/EC

amending on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings

⇒Accounting Law Reform Act

(BilReG 2004), German Accounting Standard GAS 15 (2004, replaced by GAS 20 in 2012)

+Non-financial KPIs

in management reporting relevant to the particular business, where appropriate, of groups and large corporations

Directive 2014/95/EU

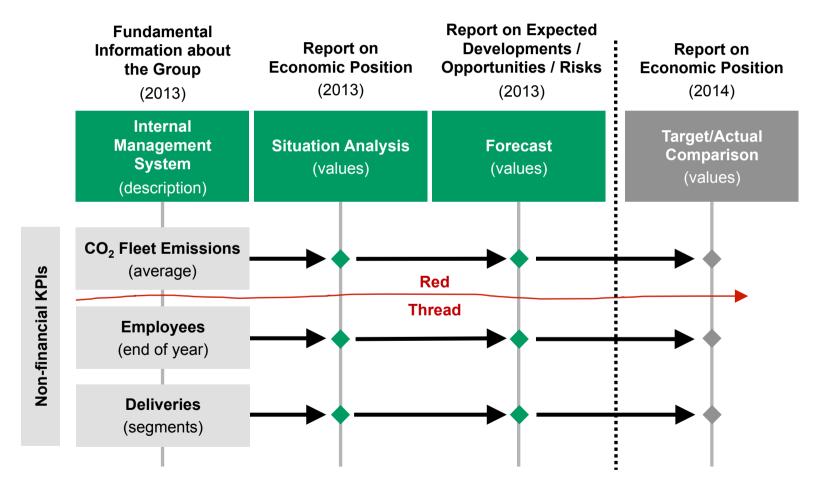
on disclosure of non-financial and diversity information by certain large undertakings and groups

⇒ CSR Guideline Implementation Act (CSR-RUG 2017)

+CSR Disclosure



Group Management Report (GAS 20): "Red Thread" of (Non-)Financial KPIs Used for Internal Management





EU-Directives with Respect to Non-financials in Management Reporting in Italy



Directive 2003/51/EC

amending on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings

Non-financial KPIs

in management reporting relevant to the particular business, where appropriate, of groups and large corporations

Directive 2014/95/EU

on disclosure of non-financial and diversity information by certain large undertakings and groups

implemented in Italy by DLgs n. 254 of December 30, 2016



CSR Directive 2014/95/EU: Overview



- Amendments to Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings:
 - > Relevant for financial years starting in 2017
- Legislative proposal in order to improve disclosure of social and environmental information for investors and other stakeholders:
 - > Enhancement of consistency and comparability of non-financial information
- Establishing a certain minimum of legal requirements for an CSR-related understanding of undertaking's development, performance, position and impact of its activity:
 - ➤ Large undertakings (parent undertakings of a large group, respectively) which are public-interest entities exceeding the average number of 500 employees:
 - + (Consolidated) Non-financial statement (Articles 19a, 29a)
 - ➤ Undertakings referred to in point (1)(a) of Article 2 that *shall* include a **corporate governance statement** in their management report:
 - + Description of the **diversity policy** (Article 20 Paragraph 1(g))



CSR Directive 2014/95/EU: **Non-financial Statement**



Description	of the	undertaking's	business	model

Information rolating as a minimum to the following matters:

Information relating, as a minimum, to the following matters :				
1.Environmental	 ▶ Description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented ▶ Outcome of those policies 			
2.Social				
3.Employees	► Principal risks and risk management related to those matters linked to the undertaking's operations			
4.Respect for human rights	▶ Principal risks and risk management related to those matters linked to, where relevant and proportionate, its business relationships, products or services			
5.Anti-corruption and bribery	► Relevant non-financial KPIs			
	➤ References to, and additional explanations of, amounts reported in the annual financial statements where appropriate			



Non-financial Statement and Integrated Report: similarities and differences

Non-financial Statement

IR-Framework

Buisiness model	Buisiness model (IR F. 4C)
Description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented	Organizational overview and external environment, Governance (IR F. 4A, B)
Outcome of those policies	Performance (IR F.4F)
Principal risks and risk management related to those matters linked to the undertaking's operations and its business relationships, products or services	Risks and opportunities (IR F.4D)
Relevant non-financial KPIs	Performance (IR F.4F)
References to amounts reported in the annual financial statements where appropriate	Principle: connectivity of information

Integrated Reporting has a higher focus on the value creation process, connectivity of information and future perspective

A comparison coming from real experience in Germany and Italy



Case: EnBW - Utilities company Segments and Key Figures

 As an integrated energy company, EnBW operates in Germany along the entire energy industry value chain in four segments: Sales, Grids, Renewable Energies, and Generation and Trading. We draw on a variety of resources – from finances through to expertise – for our corporate activities. As a result of the efficient application of these resources, we create value for ourselves and our stakeholders. EnBW has a diversified business portfolio with a once again – following the realignment as part of the Energiewende – increasingly advantageous risk-return profile.

Revenue: 19 368 million €

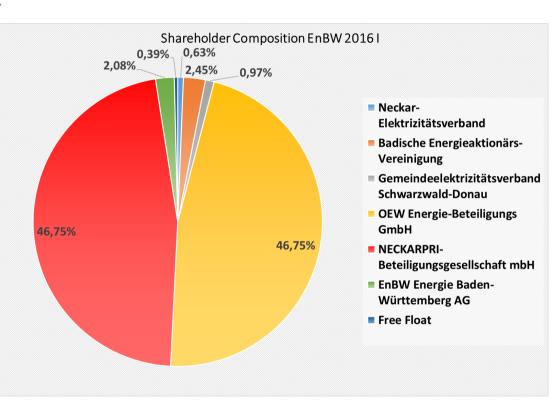
Total assets: 38 535 million €

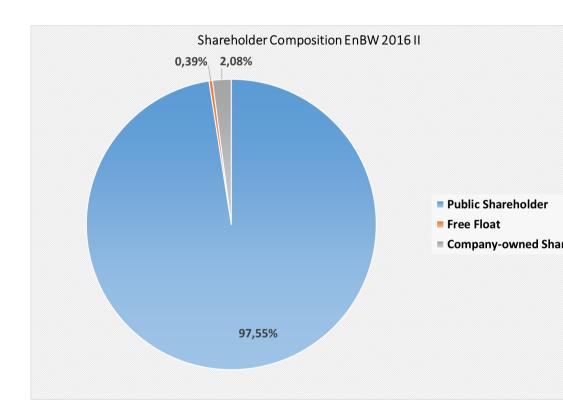
Adjusted EBITDA: 1939 million €

Source: EnBW Integrat Annual Report 2016; O available at: https:// www.enbw.com/enbw investoren/investors_c news_und_publikation enbw-report-2013-con version.pdf; last checks 20.06.17

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EnBW: Shareholder Composition 2016





Source: EnBW Integrated Annual Report 2016; Online available at: https://www.enbw.com/enbw_com/investoren/investors_docs/news_und_publikationen/enbw-report-2013-condensed-version.pdf; last checked on: 20.06.17

the figures do not necessarily add up to 100 % due to rounding differences

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Sustainable Responsibilty at EnBW since 2011

The CEO's tasks primarily pertain to strategic, investor relations, corporate policy and group-wide issues as well as any high-profile functions. The CEO is responsible for the management and development of the group, top management issues, the development of the gas segment, internal auditing, corporate communications, the topics of corporate responsibility and sustainability as well as representing the group's interests with regard to the industry, technology and energy legislation. The group's interests are promoted by representative offices in Brussels, Berlin and Stuttgart and through the coordination of association activities. The areas of media, group press activities and internal communications are the responsibility of corporate communications. Group development covers the areas of group strategy and mergers and acquisitions.

Source: EnBW Annual Report 2011, p. 44; Online available at: https://www.enbw.com/enbw_com/investoren/investors_docs/news_und_publikationen/enbw-report-2013-condensed-version.pdf; last checked on: 20.06.17

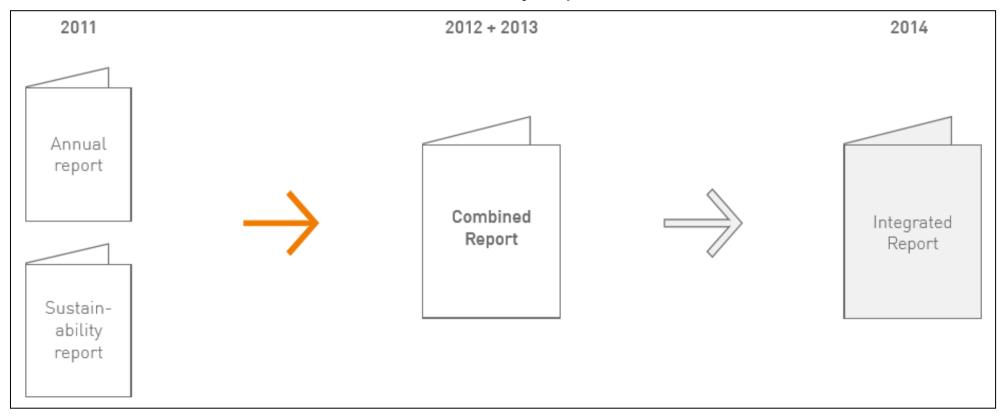
The path to integrated reporting at EnBW

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2004: Ethics and Sustainability report

2005-2007: Booklet on Sustainability report

Since 2008/9: Sustainability report



Source: EnBW Report 2013, p. 2; Online available at: https://www.enbw.com/enbw_com/investoren/investors_docs/news_und_publikationen/enbw-report-2013-condensed-version.pdf; last checked on: 20.06.17

EnBW Intangibles: Interdependencies between TOP-KPIs

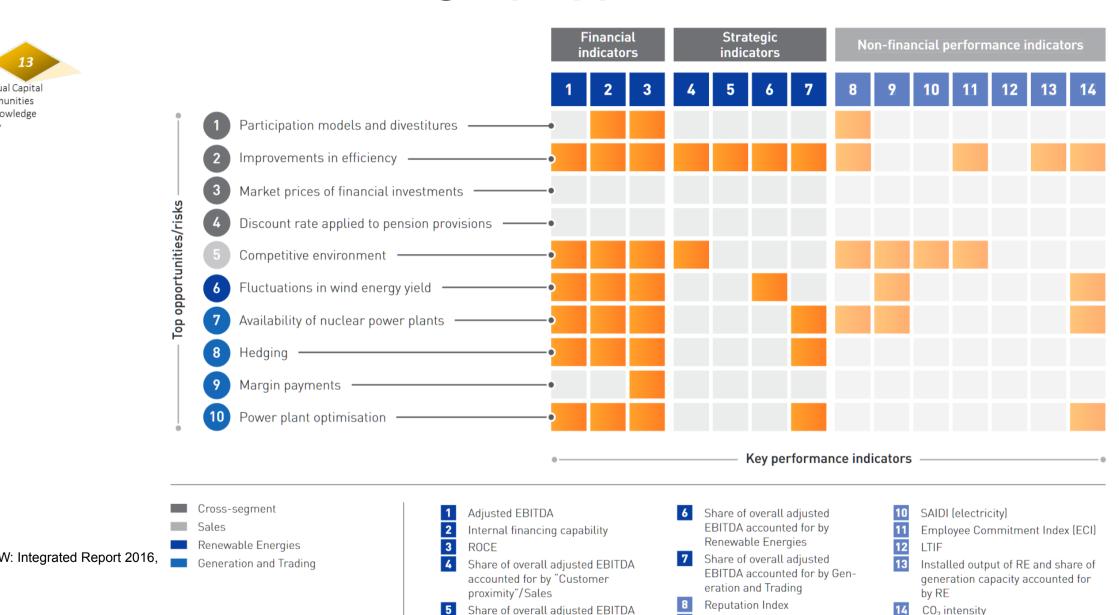
13 **Employees** ıal Capital nunities owledge > Employee Commitment Index (ECI) > LTIF (Lost Time Injury Frequency) Strategy > Share of adjusted EBITDA Share of adjusted EBITDA accounted for by "Customer accounted for by Grids proximity"/Sales **Customers and society Finance** > Reputation Index > EnBW/Yello Customer > Adjusted EBITDA Satisfaction Index > Internal financing capability > SAIDI (electricity) > ROCE > Share of adjusted EBITDA Share of adjusted EBITDA accounted for by Generation accounted for by Renewable and Trading Energies **Environment** ource: EnBW: Integrated Report 2016, p. 2

 Installed output of renewable energies (RE) and the share of the generation capacity accounted for by RE

> CO₂ intensity

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EnBW AG: Linking top opportunities/risks with KPI



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EnBW/Yello Customer Satisfac-

tion Index

accounted for by Grids



Case: HERA – Utilities company Sustainability Report







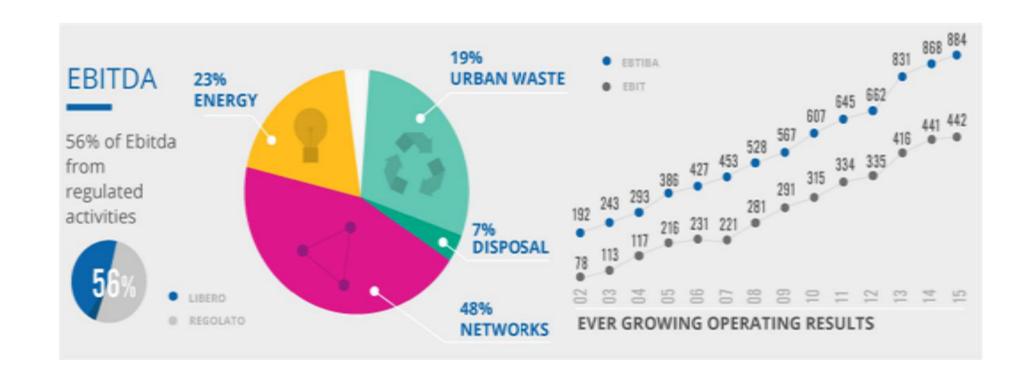
HERA: Main Buisiness



 A Group that provides energy, water and environmental services to over four million citizens in 357 municipalities There are over 2.1 million customers spread across northern and central Italy. Customers with at least one service (included among water service and sale of gas and electricity) amount to around 2,142 thousand. Gas and free-market electricity customers increased reaching 51% and 72% of the total, respectively.

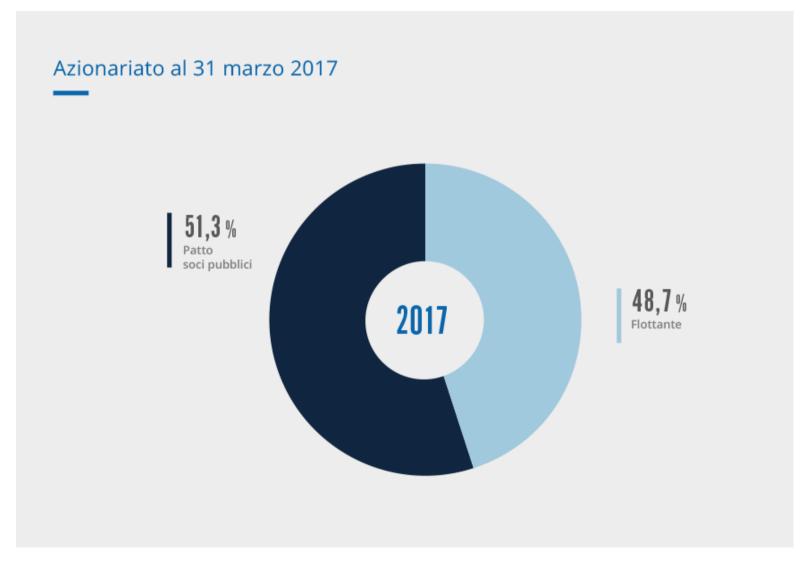
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HERA: Operating Results



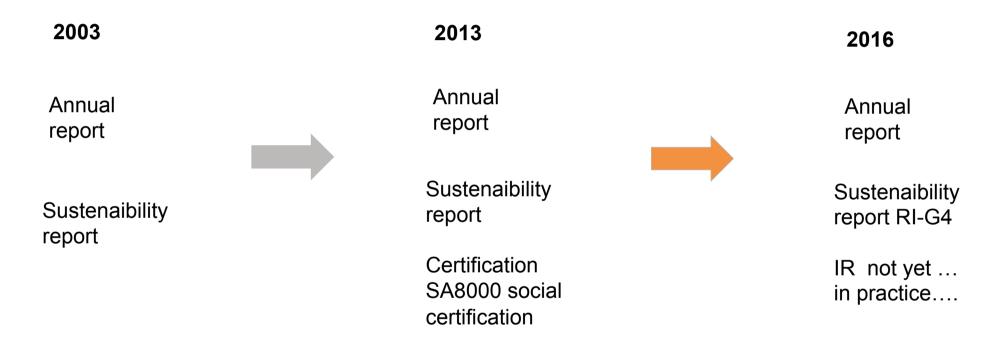
HEAR: Shareholder Composition 2017





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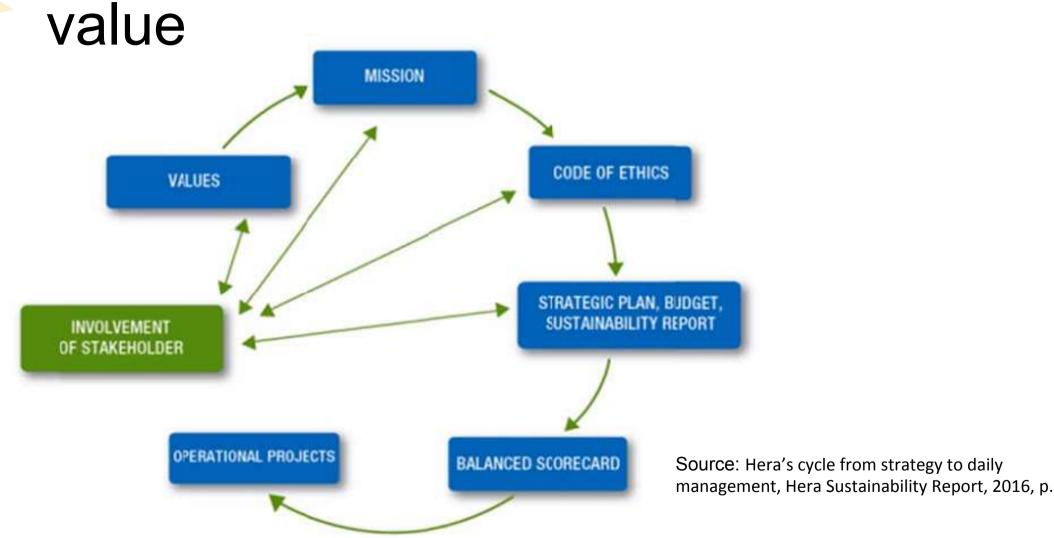
HERA: A wider perspective of reporting



Source: F. manes Rossi Accounting change and integrated reporting in Prctice The case of Hera gropu

HERAs Intangibles: From values to







Sustainability reporting at HERA

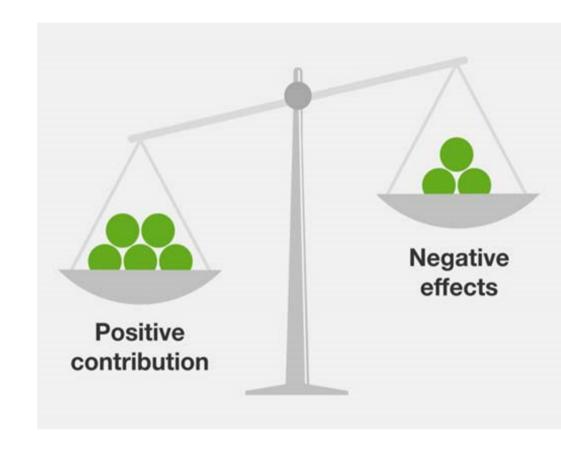
- The 2016 sustainability report was drawn up on the basis of the AA1000 standard which provides the steps required for preparing social and sustainability reports.
- The report content matter was selected in compliance with GRI Sustainability Reporting Standards" (2016) and "Electric Utilities Sector Disclosures" (2013) both defined by Global Reporting Initiative (GRI) with the option "In accordance" Comprehensive. For the definition of Value added and its distribution to stakeholders the Standard GBS 2013 defined by Gruppo di studio per il Bilancio Sociale have been used. In this issue of the report, for the first time this year and two years ahead of mandatory requirements, the GRI standard approved in October 2016 was used as a reference.
- The Hera Group has ratified its commitment to the aims of the Global Compact and the report represents the yearly Communication on Progress that is submitted to the Global Compact.



Learning from German BASF's Value-to-Society - Benefits

What are the benefits of Value-to-Society assessments?

Measuring and expressing our impact on society in monetary terms improves the understanding of the relevance of specific economic, social and environmental impacts and their interdependencies along the different levels of our value chain. This transparency supports the integrated character of our actions, contributing to BASF's long-term success.



purce: https://www.basf.com/en/company/sustainability/management-and-instruments/quantifying-sustainability/we-create-value.html#interactive-chart



Some conclusive suggestion

- Actually at a minimum of 80% of the information needed for Integrated Reporting is covered by the new EU-Directive
- The EU strategy could be successful: simply asking a compulsory set of topics that can be covered by specific contents
- In Europe there is a strong tradition in reporting according to CSR and sustainability reporting perspective. In any case, the quality of the report depends on the will of the company. Accountability is a cultural skill.



Some conclusive suggestion

 German EnBW's Integrated Annual Report is based on GRI G4 Core Standards and does follow the IIRC-Framework.
 Italian HERA has combined an international standard like GRI with an Italian standard to evaluate social value added made by GBS (Gruppo Bilancio Sociale).

BASF is one example using a Value-to-Society assessment

- In public sector we have to take in account the institution's structure and the bureaucratic approach. That can be a barrier for the adaption of one specific model like Integrated Reporting.
- Accountability as a product of a cultural skill is very relevant for a company.
 Which is the richest way?
 - ... coordinating information and reporting OR integrating information and reporting?

Thank you for your attention

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