


PRICEWATERHOUSECOOPERS 

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THE VALUE REPORTING REVOLUTION

MOVING
BEYOND THE
EARNINGS
GAME

Increasing Transparency: Challenges and Benefits in Improving Corporate Reporting

Environmental Disclosures in Financial
Statements New Developments and
Emerging Issues

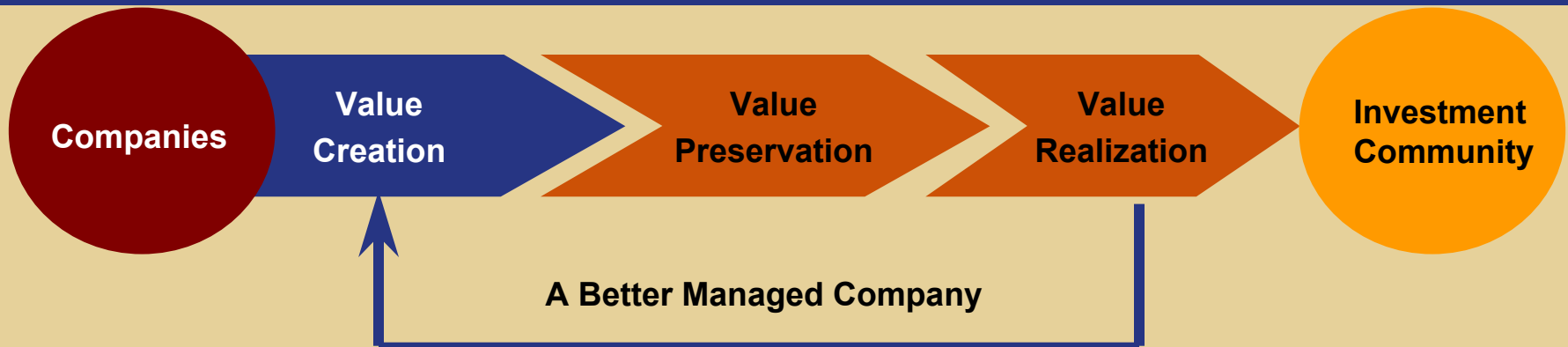
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What is ValueReporting™ ?

- Providing shareholders and other stakeholders the information they need to make decisions
 - Financial and nonfinancial value drivers
 - Tangible and intangible assets
 - Integrated management and reporting of risk and value
- Voluntary transparency beyond regulatory reporting requirements
- A way to move beyond The Earnings Game

Why Is Value Reporting Important?



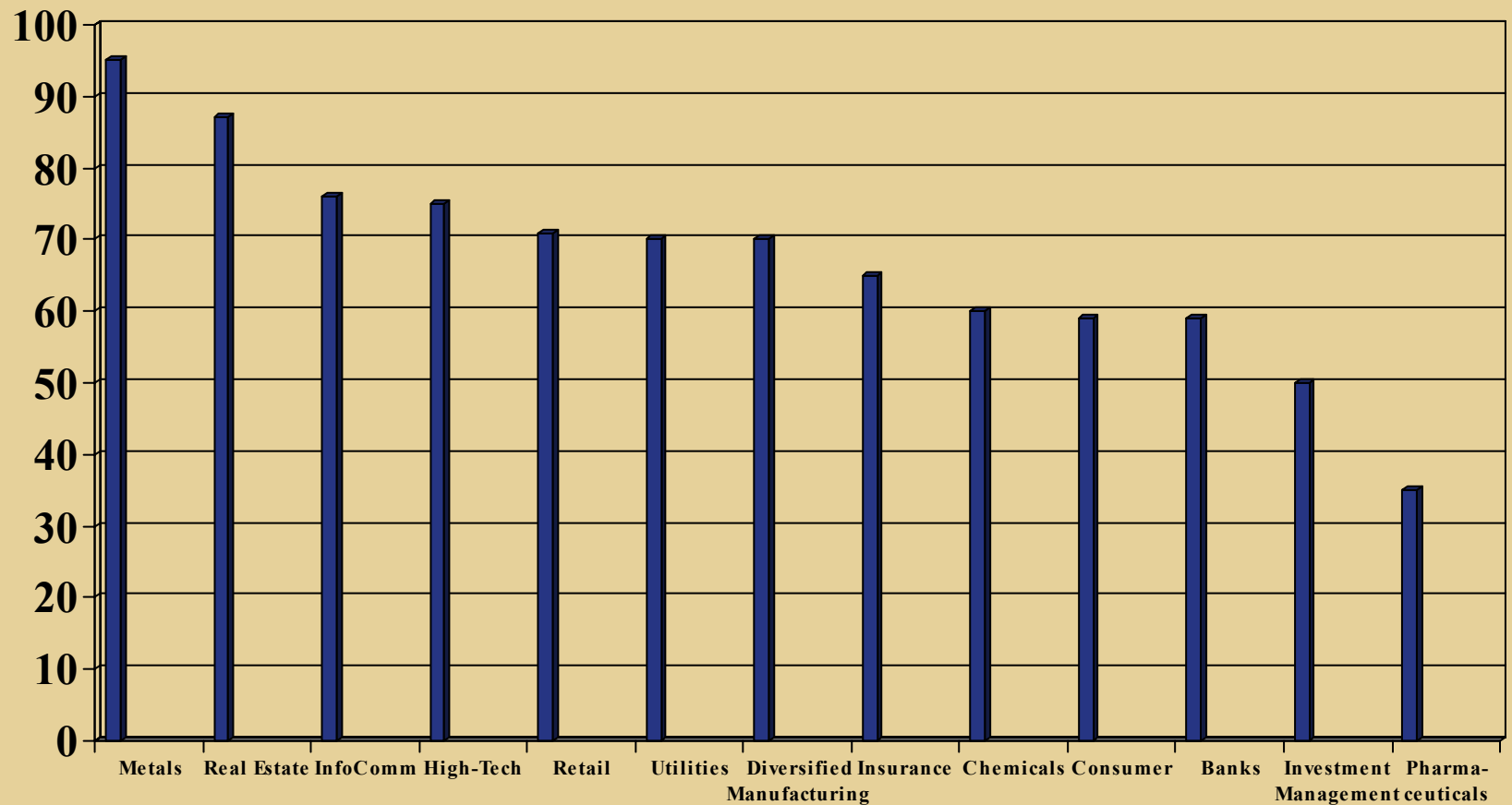
Companies create sustainable economic value by developing, operationalizing and executing superior strategies which guide the company towards delivering valuable products and services.

These strategies yield future cash flows greater than investment or economic profit.

Companies preserve the value of the underlying business unit cash flows through effective management controls, risk and tax management.

Companies ensure that investors realize the value created by the business units and the corporate center by managing and delivering upon market expectations.

Percentage of Executives Who Believe Their Shares are Undervalued



Comparison of Highly Important Measures by Industry

| Retail | Info-Comm | Pharmaceuticals | Diversified Manufacturing |
|--|---|---|----------------------------------|
| Customer satisfaction | Capital expenditures | Earnings | Capital expenditure |
| Earnings | Cash flow by business segment | Effectiveness of product launch | Earnings |
| Free cash-flow | Competitive landscape | Market growth & potential by therapeutic area | Free Cash flow |
| Gross margins | Market growth | Market share by therapeutic area | Manufacturing costs |
| Market growth | Market share | Performance by business segment | Market growth |
| Market share | Partnering strategy / strategic alliances | Product focus strategy | Market share |
| Performance by business segment | Pricing strategy | Product innovation strategy | Product quality |
| Same store / like for like sales | Quality of management | R&D pipeline | Quality of management |
| Store portfolio changes (new stores etc) | Regulatory Environment | Regulatory issues | Strategic direction |
| WACC | Significant operating costs by category | Reputation with prescribers | Sales and Marketing Costs |

Comparison of Highly Important Measures by Industry

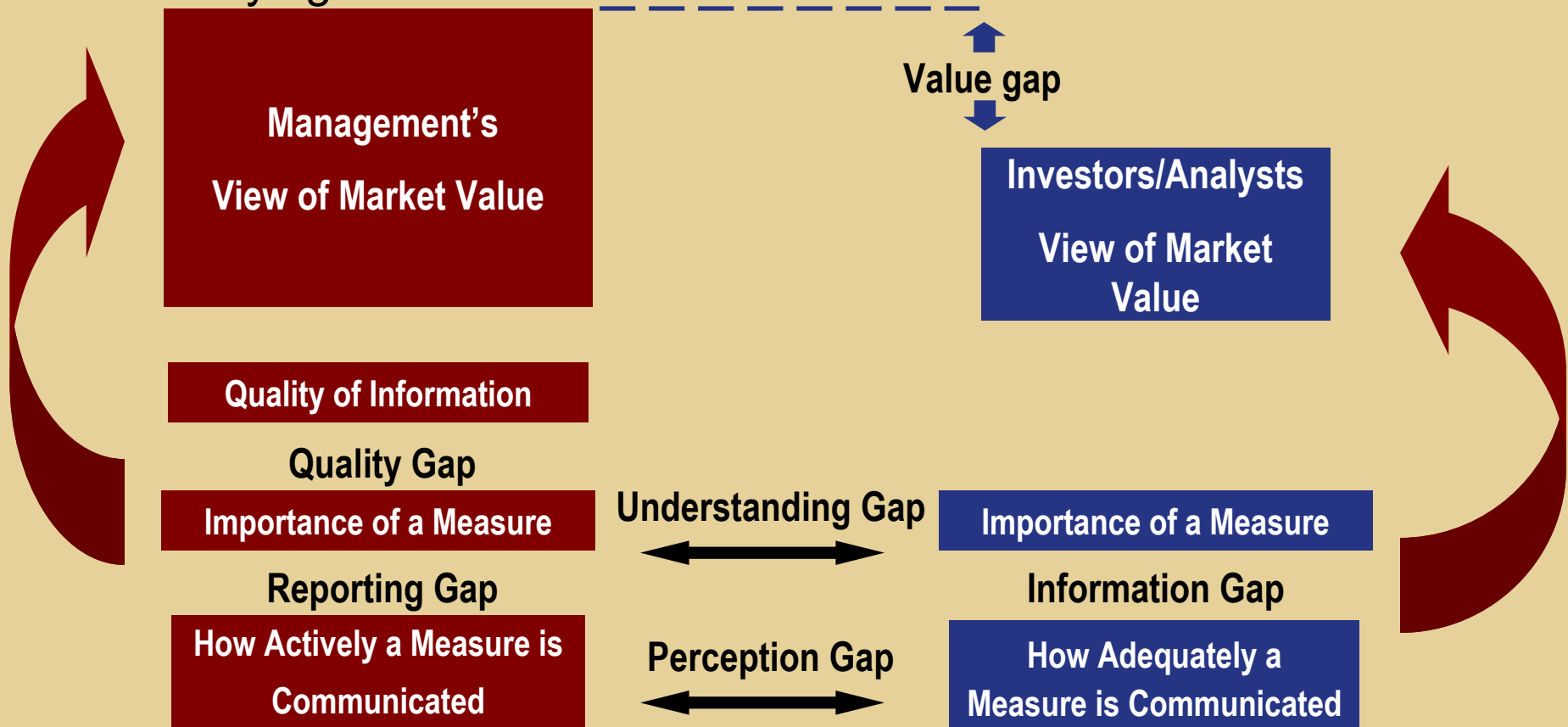
| Investment Mgt. | Insurance | Banks | Real Estate |
|---|---------------------------------|---------------------------------|---|
| Investment Product Performance | Capital Management | Asset Quality | Earnings |
| Asset growth from investment performance | Distribution Channels | Asset/Liability Management | Financing strategy |
| Asset growth from product cash flows | Expense Ratio | Capital Adequacy | Investment in new acquisitions and development properties |
| Asset retention | Investment Performance | Capital Management | Investment strategy |
| Compensation levels of professional staff | Market Growth | Customer Penetration | Macro-economic factors (e.g., GDP growth, inflation, population & job growth, interest rates) |
| Competitive landscape | Performance by Business Segment | Customer Retention | Market rental rate |
| Employee retention | Plans for Growth | Earnings | Occupancy rate |
| Product diversification strategy | Quality of Management | Loan Loss | Quality of management |
| Profit margins | Return on Risk Adjusted Capital | Return on Risk Adjusted Capital | Revenue from new developments or acquisitions |
| Quality of management | Risk Management Practices | Risk Management Practices | ROIC |

Comparison of Highly Important Measures by Industry

| High Tech | Chemicals | Consumer Products | Metals | Energy & Utilities |
|---------------------------------------|---------------------------------|----------------------------------|--|--|
| Strategic direction | Capital expenditure | Capital expenditure | Capital expenditure | Cost reduction |
| Cash flow | Earnings | Customer loyalty & advocacy | Costs per ton delivered – including sub-components e.g. labour costs/ton | Investment/acquisition strategy |
| Market growth | Free cash flow | Free cash-flow | Earnings | Margin improvement |
| Gross margins | Manufacturing costs | Growth strategy | Energy prices and supply | Market growth |
| Quality/Experience of management team | Market growth | Market growth | Market growth | Operating cash flow growth |
| Market size | Performance by business segment | Marketing strategy | Market share | Operating profit growth |
| Competitive landscape | Product quality | Performance by business segment | Metals prices | Quality of management |
| Earnings | Quality of management | Performance by geographic market | Performance by business segment e.g. commodity vs. speciality / value-added end products | Regulatory environment and price controls |
| Speed to market (first to market) | Strategic direction | Quality of management | Potential supply globally and locally (capacity) | Risk Management processes |
| Market share | Utilisation of facilities | Sales volumes | Utilisation of facilities | Strategic direction & focus - integrated vs. specialist player |

A Framework for Gap Analysis

Communication gaps prevent market value from reflecting underlying value.



ValueReporting Framework

External | Internal

Market Overview

- Competitive Environment
- Regulatory Environment
- Macro-economic Environment

Strategy

- Goals & Objectives
- Organisational Design
- Governance

Value Creating Activities

- Customers
- People
- Innovation
- Brands
- Supply Chain
- Environmental, Social and Ethical

Financial Performance

- Financial Position
- Risk Profile
- Economic Performance
- Segmental Analysis

ValueReporting Framework for the Petroleum Industry

External

Internal

Market Overview

- Geo-political Environment
- Market Share
- Supply Dmeand and Prices
- Overall rig utilization

Strategy

- Strategic Direction
- Hedging strategy
- Product / services pricing

Value Creating Activities

- Quality of management
- Exploration success rate
- Refinery capacity
- Refinery utilization
- Crew downtime
- Rig utilization
- Product utilization

Financial Performance

- Cash flow
- Earnings
- Capital expenditures
- ROACE
- Performance by business segment
- Volume of proven and probable reserves
- Reserves replacement costs
- Refinery margins

Petroleum Investors Perceptions of the Relative Importance of Performance Measures*

*Measures ranked as important by 100 to 80 percent of the respondents are categorized as High Importance, measures ranked as important by 79 to 50 percent of the respondents were categorized as Medium Importance, and measures ranked by 49 or less percent of the respondents as important were categorized as Low Importance

| High Importance | Medium Importance | Low Importance |
|--|--|---|
| <ol style="list-style-type: none"> 1. Refinery capacity (nameplate or distillation) 2. Cash flow 3. Performance by business segment 4. Earnings 5. Value of proven and probable reserves 6. Strategic direction 7. Quality of management 8. Refinery margins by region (refining centres) 9. Refinery utilisation 10. Capital expenditure 11. ROACE or similar return measures 12. Hedging strategy 13. Reserve replacement costs 14. Market share 15. Exploration success rate 16. Geopolitical environment | <ol style="list-style-type: none"> 17. Unit cost by refinery 18. Quality of crude reserves (e.g. light, medium, heavy) 19. Operating profit per equivalent measure by geographic location 20. Regulatory environment 21. Supply, demand and prices for crude oil & natural gas 22. Supply, demand and prices for petroleum products by region 23. Partnering strategy 24. Risk management 25. Net cash flow per equivalent unit by geographic location 26. Quality of workforce 27. FAS69 data 28. Refinery acquisition cost of crude 29. Environmental strategy 30. Implementation of new processes and technology 31. Distribution channel efficiency 32. Equity NPV per share | <ol style="list-style-type: none"> 33. Petroleum product sales by volume by refinery 34. Evidence of compliance with environmental protocols 35. Compliance with health and safety regulations |



Information, Reporting & Quality Gaps In the Petroleum Industry

| Performance Measures | Information Gap # | | Reporting Gap# ✨ |
|--|-------------------|-----------|---|
| | Analysts | Investors | Companies |
| 1. Refinery capacity (nameplate or distillation) | | ← | |
| 2. Cash flow | | | |
| 3. Performance by business segment | ← | ← | |
| 4. Earnings | | | |
| 5. Value of proven and probable reserves | | | |
| 6. Strategic direction | | | |
| 7. Quality of management | ← | ← | ✨ Quality of management ✓ |
| 8. Refinery margins by region (refining centres) | ← | ← | ✨ Refinery margins by region (refining centres) |
| 9. Refinery utilisation | ← | ← | |
| 10. Capital expenditure | | ← | |
| 11. ROACE or similar return measures | ← | ← | |
| 12. Hedging strategy | ← | ← | |
| 13. Reserve replacement costs | | ← | |
| 14. Market share | ← | ← | ✨ Market share ✓ |
| 15. Exploration success rate | | ← | |
| 16. Geopolitical environment | ← | ← | |

Gap exists when the difference is equal or greater than 20 percent.

✨ Measures with quality gap

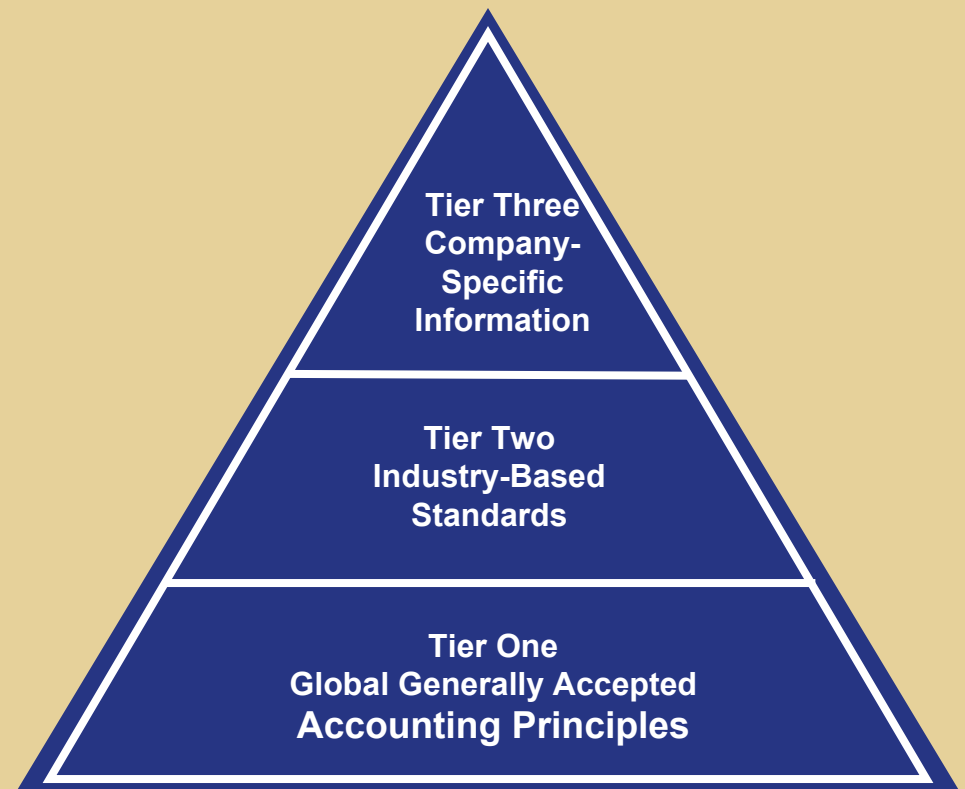
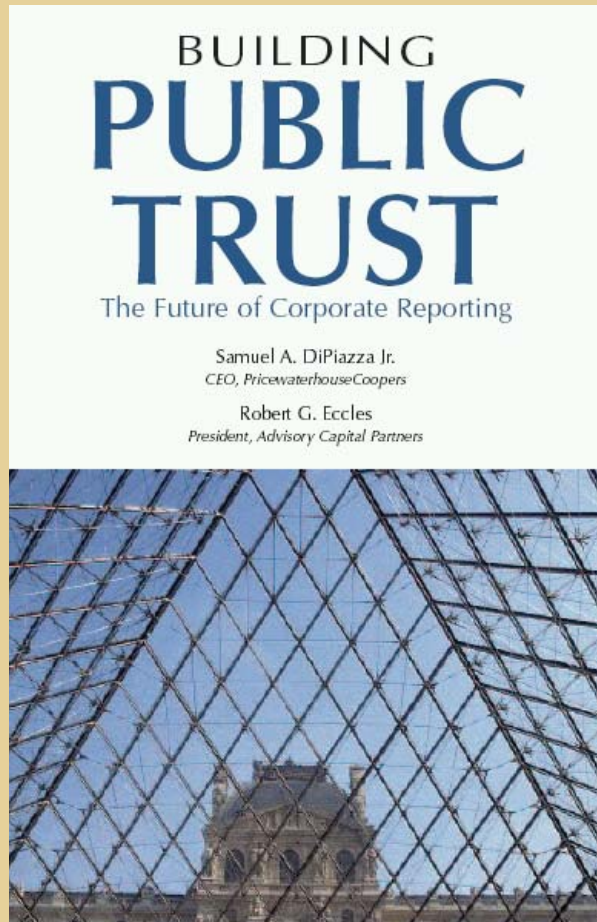
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| <ol style="list-style-type: none"> 1. Petroleum product sales by volume by refinery 2. Evidence of compliance with environmental protocols 3. Compliance with health and safety regulations |  |  | <ol style="list-style-type: none"> 1. ✨ Petroleum product sales by volume by refinery 2. ✨ Evidence of compliance with environmental protocols 3. ✨ Compliance with health and safety regulations |

Benefits to Better Disclosure

- Increased credibility of management
- Increased shareholder value
- Increased number of long term investors
- Improved access to new sources of capital
- Lower cost of capital

The Three-Tier Model of Corporate Transparency



XBRL – A Reporting Format for the 21st Century

Content and format are integrally linked

- Information is still largely provided in a clumsy paper-based format
- All this changes with Extensible Business Reporting Language (XBRL)
 - XBRL is a taxonomy for “tagging” information
 - Provides the context for explaining what the information means
 - XBRL enables obtaining information directly off the internet
- Microsoft, NASDAQ and PricewaterhouseCoopers have developed an XBRL demonstration site
 - www.nasdaq.com/xbri
 - 20 semi-conductor companies
 - 5 years of data including income statement, balance sheet and footnotes.

Corporate Reporting Supply Chain

Every Group Must Take Responsibility for Improving our Markets



Implications for Environmental Health & Safety Reporting

- To what extent does management believe in managing and reporting on these topics?
- To what extent do analysts and investors believe these are important for creating long term shareholder value?
- How quickly and broadly will standards be developed such as those of the global reporting initiative?
- Do U.S. companies still lag European ones in the importance they accord to these issues?