

Company Name: CECP Trendtalk
Event: CECP 2018 Investor Forum
Date: April 19, 2018

<<Mark Tulay, Director, Strategic Investor Initiative, CECP>>

Good afternoon, everyone very excited to announce the next speaker, Mike Krzus from BrownFlynn. I first encountered Mike in the British Library, not physically Mike but Mike in published form his book The Integrated Reporting Movement with Bob Eccles. It was fairly early on in my journey in sustainability that I read that book and really helped sort of clarify some of my thinking.

Mike is a Senior Advisor at BrownFlynn, BrownFlynn a very generous supporter of CECP. Mike and I also working together on a project called the method of production of long-term plans, where we try to talk to some of these companies and really kind of look under the hood of what their internal process was for producing these long-term plans on how perhaps that process affected plan quality. It is a delight to work with Mike on that. Mike is going to talk a little today about integrated reporting, so over to you Mike, thank you.

<<Mike Krzus, Senior Advisor, BrownFlynn>>

Don't panic Mark, it is 20 point type, it's not long presentation. Companies today are faced with almost a constant demand for information from investors and analysts, ratings and ranking agencies, regulators NGO's and other stakeholders. They meet these demands by publishing a variety of reports, 10-K's, Q's proxy statements, sustainability reports and responding to questionnaires and surveys.

In addition, documents such as privacy statements, governance guidelines, codes of conduct, supplier policies all can be found on a corporate website. But specific information about a company's long term vision, strategy and execution plan are much harder to find.

These strategic investor initiative CEO Investor Forums are a first step towards moving from backward looking short-term metrics buried in multiple reports to a stronger focus on long-term corporate viability.

An article was published in two 2015, the real business of business that was written by three McKinsey partners, exploring how an organization can achieve long-term viability. And ever since I read that article one point has stuck with me, the authors made an assertion that C-level executives must learn to focus on creating value not only for current shareholders but also for future generations of shareholders.

Striving to create value for both today's and tomorrow's shareholders, contribute to overcoming short termism. A problem that actually brought us together today. Solving the problem of short-term thinking requires several different approaches.

The CEO Investor Forums are one, ESG integration projects by investors are another. Activism by long-term focused investors, research by academics by McKinsey, by FCLT Global are all steps in the right direction. The concept of integrated reporting is also a response to short-term thinking.

An integrated report at least the way I define, it is a way to explain how a company balances the imperative for long-term viability of the company and the world that it relies on to create economic value with demands for short-term competitiveness and profitability.

The first integrated report was published in 2002. The first U.S. company, to publish an integrated report was United Technologies in February 2009. Unfortunately, integrated reporting has not been widely embraced by U.S. companies. Today, 21 out of 4,300 companies listed on NASDAQ or the New York Exchange claim to be in various stages of integrated reporting. 21 out of 4,300 less than one half of 1%.

I searched for but couldn't find any published research on why companies resist integrated reporting, why they're not adopting it. However, anecdotal evidence accumulated by me and by my good friend and co-author Bob Eccles over the last ten years or so suggests that perceptions about complexity, cost and litigation risk are three major obstacles.

So Bob and I decided to conduct a little experiment. We explored two questions, to what extent is information needed to publish an integrated report already in the public domain. And if the information is available then how difficult would it be to construct an integrated report.

Report process began with the selection of ExxonMobil, as the company we would use for our experiment. ExxonMobil was one of the companies that we included in a December 2017 paper on the TCFD recommendations. That project gave us a lot of familiarity with the wide range of information that ExxonMobil provides through its published reporting and on its corporate website.

From our TCFD project Bob and I identified seven ExxonMobil reports. All were potential sources of information for our integrated report. The next step that we took we referred to a map that I created a little over a year ago. The map matched the elements and the principles of the international integrated reporting framework to FCLT Global's 10 elements of a long-term strategy.

The real work was using that map to organize the information culled from ExxonMobil's SEC filings, other reports and their website. I have to admit it was a mind numbing exercise but it was worth the effort. Here's what Bob and I learned from our experiment.

First using publicly available information, we were able to construct a decent 40 page mock integrated report for ExxonMobil. Our integrated report covered the integrated

reporting frameworks guiding principles, content elements and some but not all of the capitals.

I want to emphasize that my use of the word decent to describe the report is meant to convey the idea that without oil and gas industry expertise, or in-depth knowledge of ExxonMobil there was no way that I could adequately capture and convey all of the information that should be in what might considered an excellent integrated report.

Second we spent about 40 hours, directing, reviewing and editing the report. I want you to think about this, if two old guys with gray beards can create an integrated report from public information in less than 40 hours then how hard and how costly can be integrated process, integrated reporting process really be. Let me be clear that that point isn't directed at ExxonMobil, it's directed at every U.S. publicly held company.

Next, a more important finding is the fact that all of the information in the mock integrated report comes from documents in the public domain. This belies the concern that increased litigation risk might arise from the disclosures in the integrated report, it's already in the hands of the public. The result of our work is a paper titled Constructing ExxonMobil's First Integrated Report: An Experiment, it has been uploaded to ssrn.com. Now there's one thing that I hope is interest to Mark, Daryl and the entire SII team as well as all of the network partners.

As everyone in this room has heard in February 2018 the investor subcommittee of the SII Advisory Board published a letter to CEOs that outlined seven elements that should be in a CEO presentation of a long-term plan.

Our mock integrated report touched on all of these elements, similar to my description of the mock integrated report as decent. I would say that I did a decent job of touching on the seven points in the SII letter. Some of the points were covered well, while others were addressed in what I can only describe as a superficial way. Again any cross functional corporate team would do a much better job than I did in addressing those seven points.

For the next step in our experiment Bob and I are exploring the feasibility of creating an integrated report generator tool. The tool would use machine learning and natural language processing to comb through public information to create again a decent not a perfect integrated report.

The purpose of the tool is really to provide stakeholders with a way to create an integrated report for any listed company. However, the real objective is to go to companies and to publishing their own integrated reports, if we can create this tool we hope to house it on a publicly available website that would be free to anyone.

In March 2010, the first book that Bob Eccles and I ever wrote was published it was titled One Report: Integrated Reporting for a Sustainable Strategy and after the report was – after the book was published I was interviewed and I just don't even remember who it was. But I was asked one question, Mike, why did you and Bob write this book? And I

leaned back and I said Bob Eccles and I are children of the 1960s we are still trying to change the world.

With that thought in mind Bob and I hope that our integrated reporting experiment becomes a catalyst for change. We hope that companies are inspired to create their own integrated reports to communicate their long-term vision and strategy. After all, the alternative is to let artificial intelligence or two old guys do it for them.

We hope investors and analysts realize that they have a critical role to play in encouraging the use of integrated reporting to communicate long-term plans. When you ask questions about those plans you demonstrate that long-term thinking matters, when you ask C-level executives. All of the questions that were raised in that February 2018 SII letter, you are making a strong statement that the answers to those questions are critical to your decision making.

And finally, if all of you in the investment community demand business reporting that focuses on the long-term. Then you make it clear that the concept of creating value for both current and future generation of shareholders is something that really matters to the capital markets and to society. Thank you.

<<Mark Tulay, Director, Strategic Investor Initiative, CECP>>

If you want to take questions?

<<Mike Krzus, Senior Advisor, BrownFlynn>>

Absolutely. If there is time, yes.

Q&A

<Q – Mark Tulay>: Is there any questions?

<A – Mike Krzus>: 54 pages I don't know how many of you...

<Q>: [Question Inaudible]

<A – Mike Krzus>: I don't have it with me and actually I decide not to lose any slides, I would just read it notes however, I'll make the link available to not in the SII team, it's a free download on SSRN, you can have the entire paper, the map is in there and the sample report is in there as well.

<Q>: Thanks for the conversation. And we've had a lot of conversation in the general debate about where this information is reported and in what form and so. I was hoping you could describe from your perspective, what is the existing value proposition of having a specific integrated report as opposed to existing 10-K separate sustainability report or the various channels on the Internet of just communicating broadly to investors.

<A – Mike Krzus>: I think the integrated report is an alternative to, as ExxonMobil had seven different forms of communication. Now I'm not suggesting and we've all know the 10-K is never going to go away not in my lifetime or the lifetime of anyone in this room. And I'm not suggesting that sustainability report goes away. But I have to openly ask is there a need for an operating and financial review in a summary annual report, why not cover important topics in a single document like the long-term strategy, which would touch on various ESG as well as other issues. And do that in a way that can be expanded upon in more depth in a sustainability report for anyone who's interested. I see integrated reporting as a biased perfect communications vehicle for a long – everything that goes into long-term thinking.

<Q – Mark Tulay>: We have time for one more question, was there another hand somewhere? Okay, I do see, sorry about that. I can't have a left right balance here this is supposed to be a political. So I got to be better at picking.

<Q – Nicolai Lundy>: I'm Nicolai Lundy, I'm with SASB. And I'm just curious have you heard from ExxonMobil or any other company or you just curious about how you've been able to demonstrate it and what they might do?

<A – Mike Krzus>: I wish I could say that we got phone calls the next day but in all seriousness neither Bob nor I have heard from them directly. However, I have heard that it has been discussed at the very least by the entire sustainability team. And that the reaction was not anger at all, were two questions who are these guys and curious about what made them do it and what was the thought process behind it. They were – it came from a good source, someone who works with ExxonMobil, they were truly curious and wanted to know more about the process in the whole concept of integrated reporting. So I'll take that as hopeful at least for the moment.

<<Mark Tulay, Director, Strategic Investor Initiative, CECP>>

With that, thank you for your time and we need more white bearded old man doing so great things. So thank you Mike.