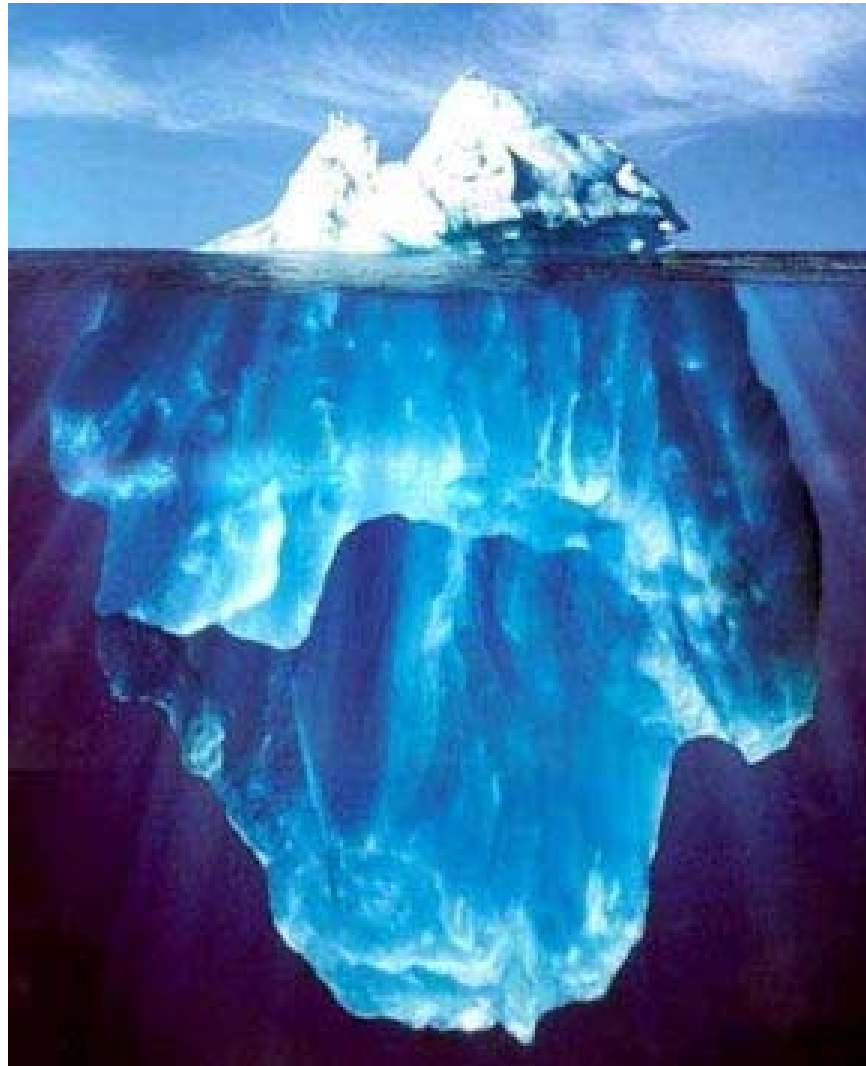


# ESG reporting – Aiming to uncover the true performance

Dr Hendrik Garz  
FAIRE conference, Paris, 12 June 2008

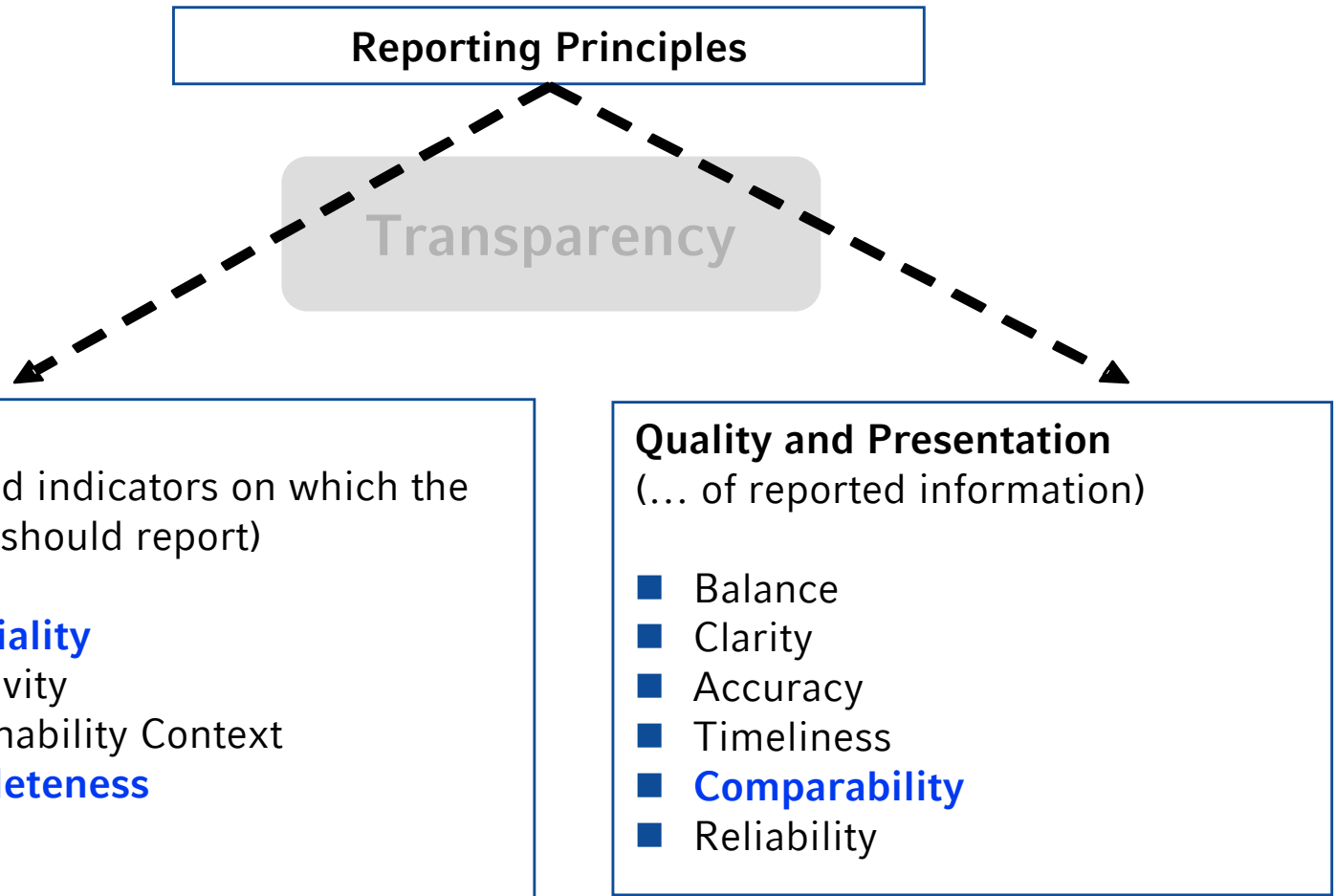
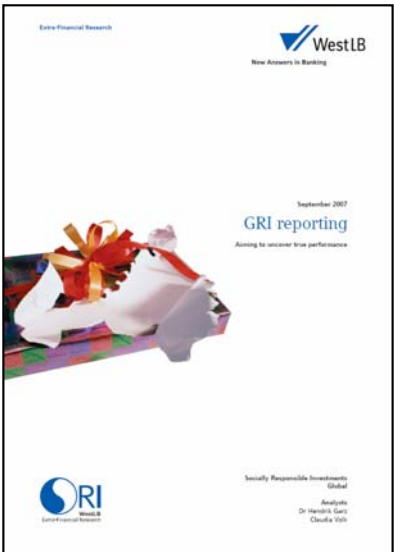
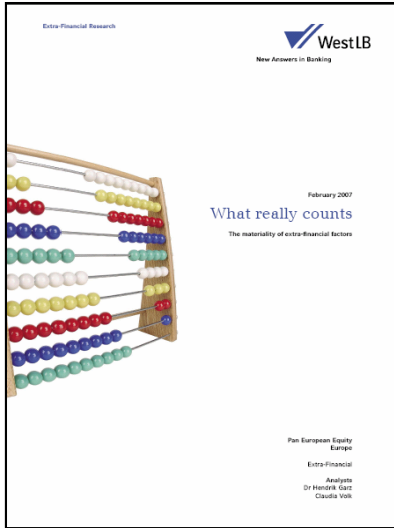


# ESG and the uncertainty about true company value



$x\%$

$1-x\%$



# How shall the financial community take this seriously?



## welcome to our corporate and social responsibility report 2006

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Chief Executive, Cadbury Schweppes plc
- 4 **Baroness Williams**  
Chair, Board CSR Committee
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This report covers the Cadbury Schweppes group of companies and focuses primarily on 2005. It has been developed with input from our functions and regions and its content has been reviewed and signed off by senior leaders in our business.

We welcome your feedback.  
Please see the back of this report for contact details.

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## our business

At Cadbury Schweppes we manufacture, market and sell confectionery and beverage products. We are the world's largest confectionery company, and have strong regional beverage businesses in North America and Australia. With origins stretching back over 200 years, today our products are enjoyed in almost every country around the world.



Our strategic goals are to deliver superior shareholder performance; profitably and significantly increase global confectionery share; profitably secure and grow regional beverage share; ensure our capabilities are the best in class and nurture the trust of colleagues and communities.

In 2005, we set financial goals to measure our annual business performance based on three key performance indicators – sales, margins and cash flow. For the 2004-2007 period we aim to grow revenues by 3-5% every year (excluding acquisitions and disposals), to improve margins by 50 to 75 basis points each year and to generate free cash flow of £1.5 billion.

We have made changes to our business portfolio to ensure that capital is applied where we can generate the highest growth and returns. We have further focused our beverage business on more advantaged markets through exiting our beverage business in Europe, Syria and South Africa, and concentrating our beverage activities on the key markets of North America, Mexico and Australia, where we have strong brands and effective routes to market.

In beverages, we have strengthened our route to market in the US through a number of acquisitions. The most significant of these was the purchase, in the spring of 2006, of the 55% stake we did not already own in the largest independent bottler in the US, the Dr Pepper/Seven Up Bottling Group (which we renamed Cadbury Schweppes Bottling Group).

In confectionery, we intend to sell a number of non-core brands and businesses in the UK and Canada to allow us to focus on our more profitable and advantaged brand portfolio. We have invested over £200 million in emerging markets to increase our existing holdings in businesses in Nigeria and Turkey, and to acquiring the leading chewing gum business in South Africa.

Following the changes to our business described above, we will update our stakeholders on our strategy and plans for 2007 and beyond at the end of October 2006.

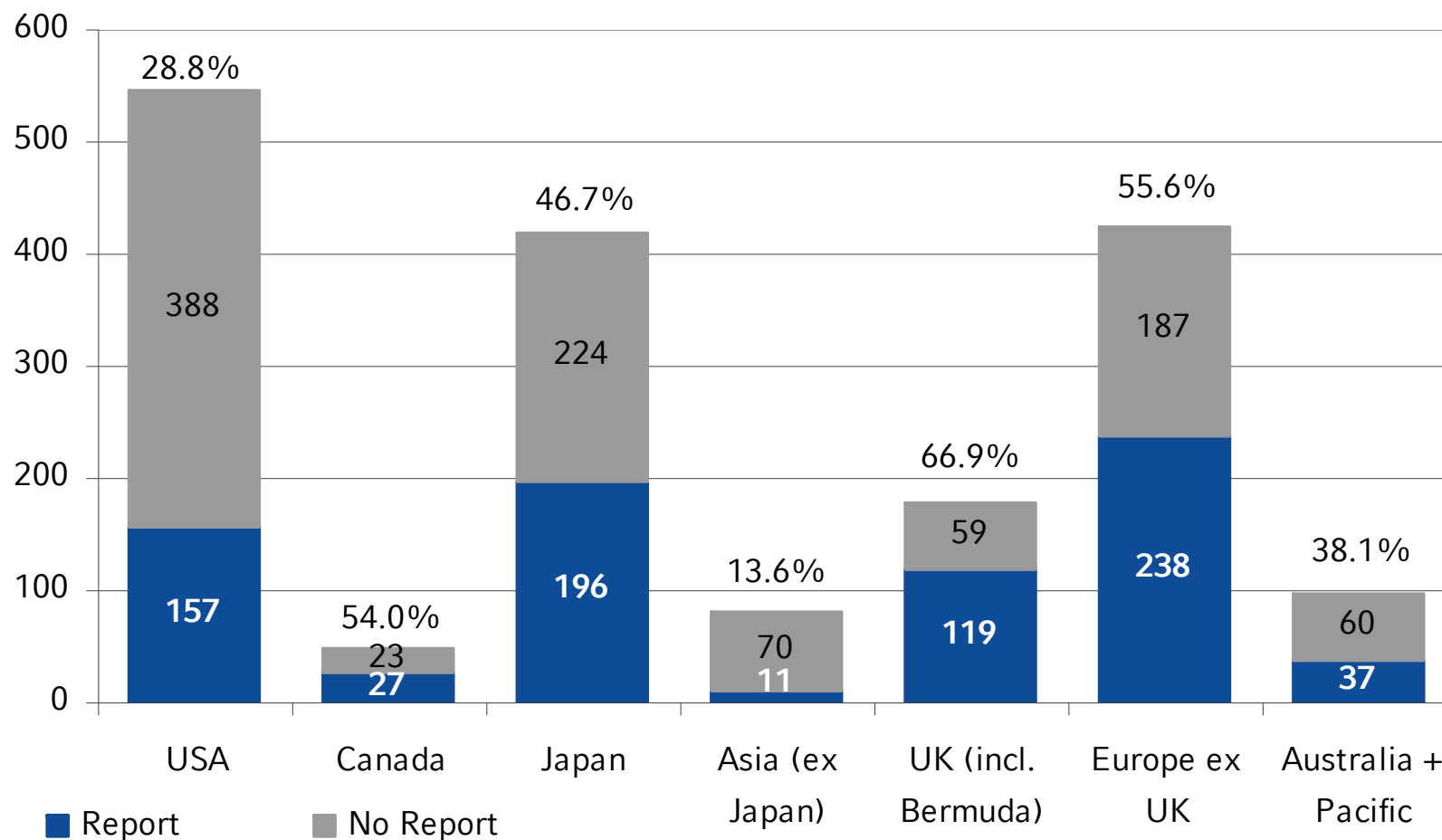
06  
Hosted by CorporateRegister.com

Note: Revenue, profits and employee numbers are as reported in Cadbury Schweppes Report & Accounts 2005, page 152. Dr Pepper/Seven Up Bottling Group is not included in these figures.

# The current state of ESG reporting – country/region

## Reporting propensity according to regional/national provenance of companies

(number of companies and reporting rate)



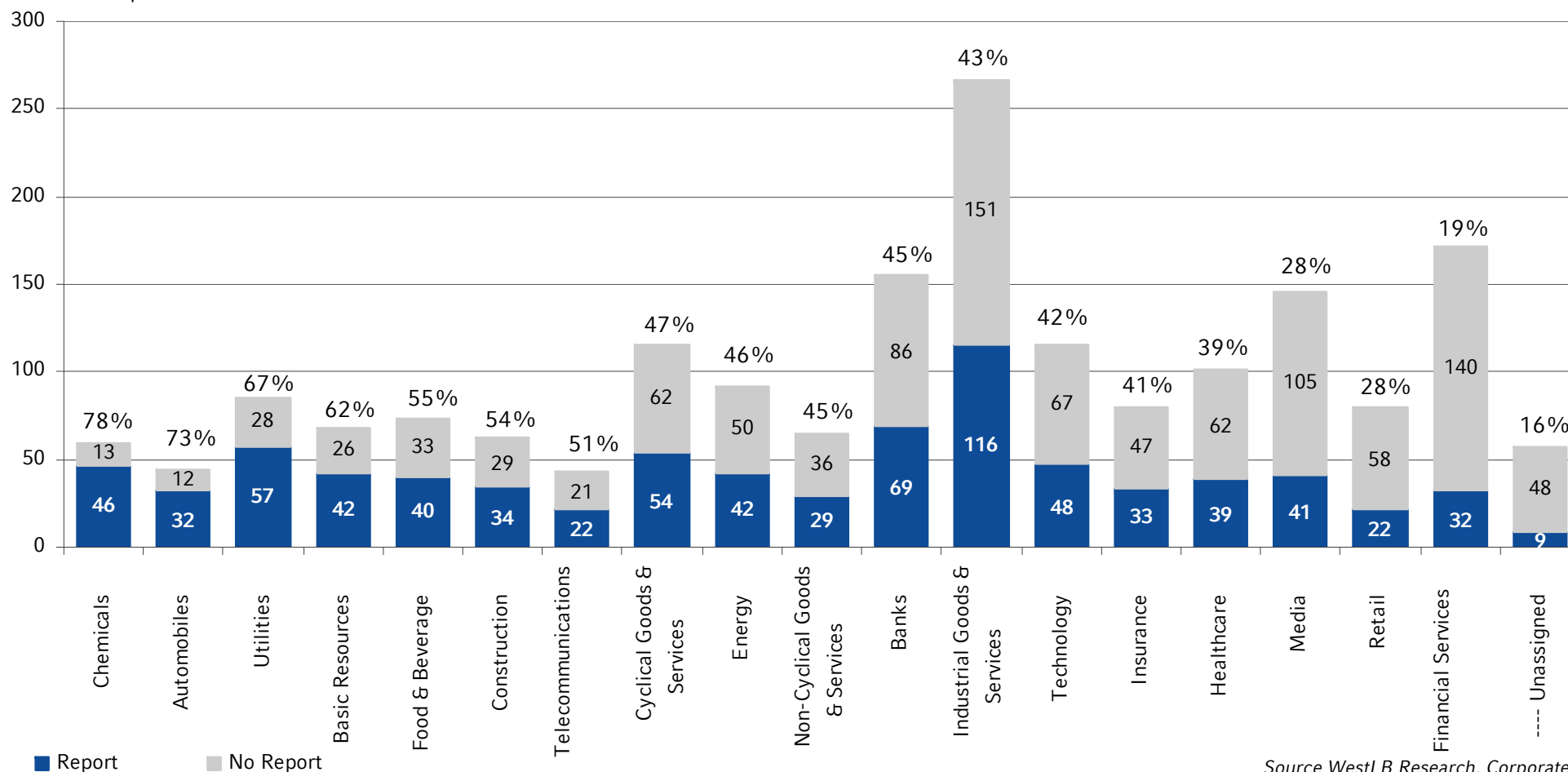
Source WestLB Research,  
CorporateRegister.com

# The current state of ESG reporting - sector

## Sector breakdown by DJ STOXX sector level 2

(number of companies and reporting rate - sorted by reporting rate)

number of companies

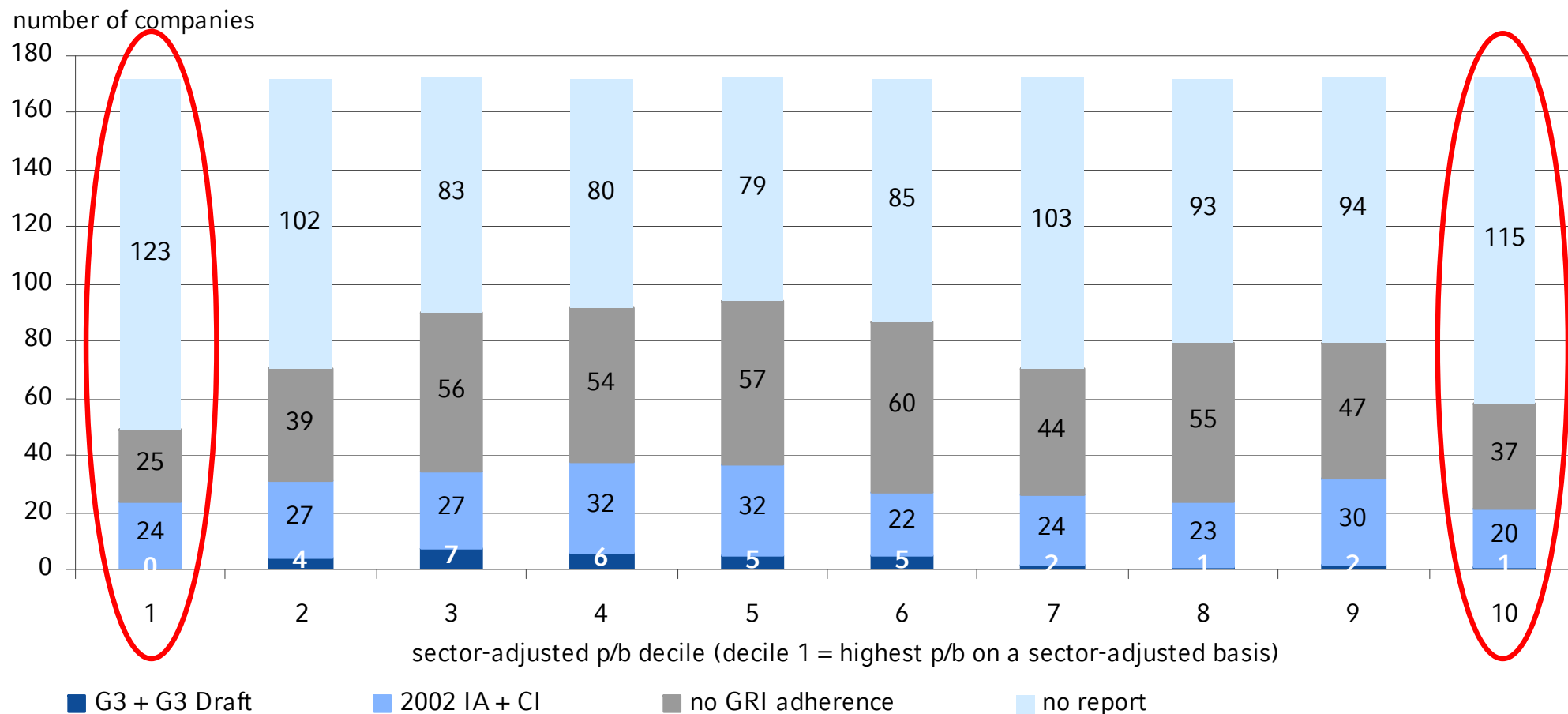


# The current state of reporting – growth/value

## GRI adherence according and the p/b ratio (on a sector-adjusted basis)

### High growth

### High Value or distress

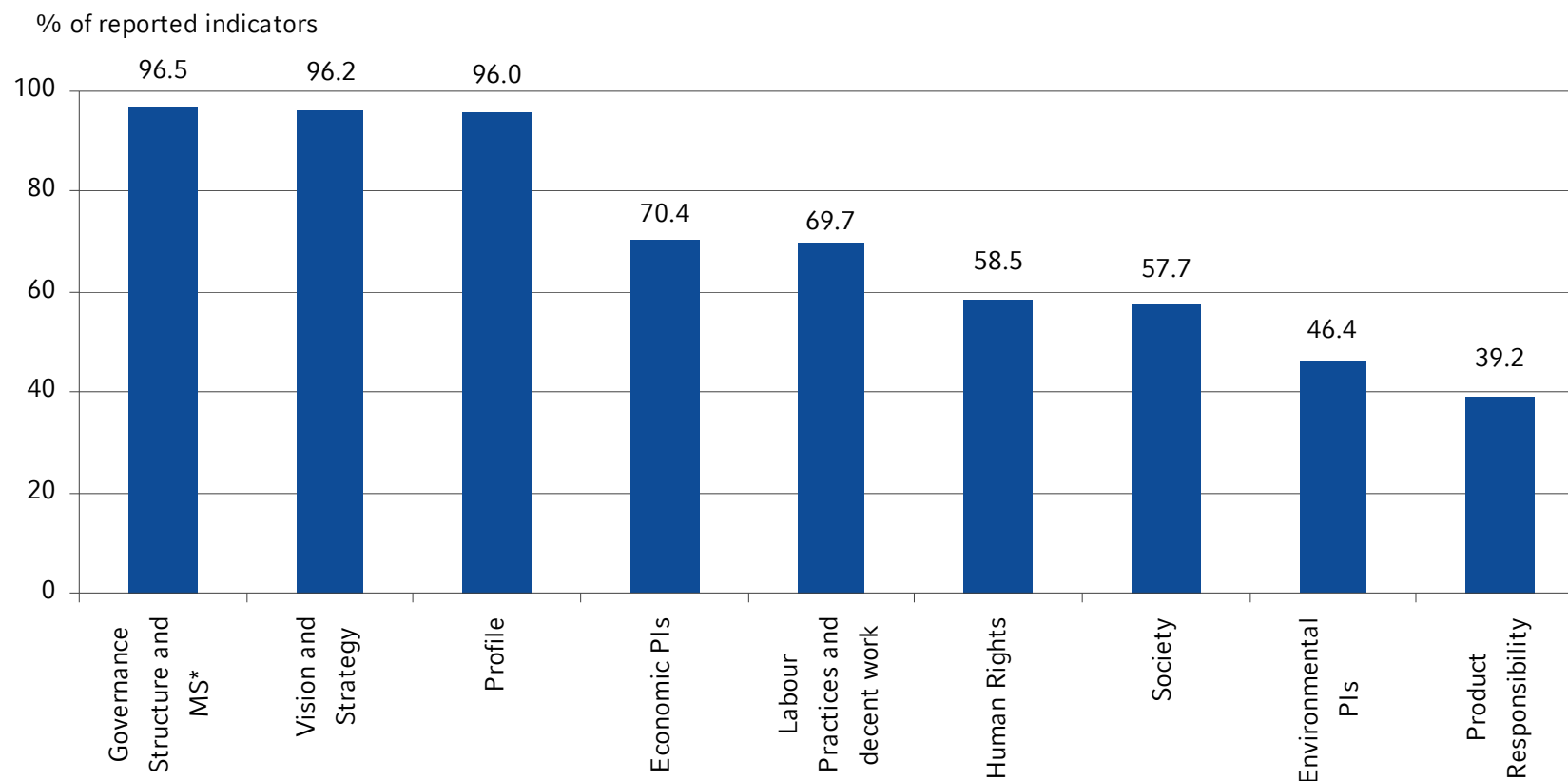


Source WestLB Research, CorporateRegister.com

# What is reported? A look at GRI reports

## CI analysis: '2002 IA' reports – reported indicators per section

(percentage of reported indicators per section, according to CIs – average of all '2002 IA' reports)



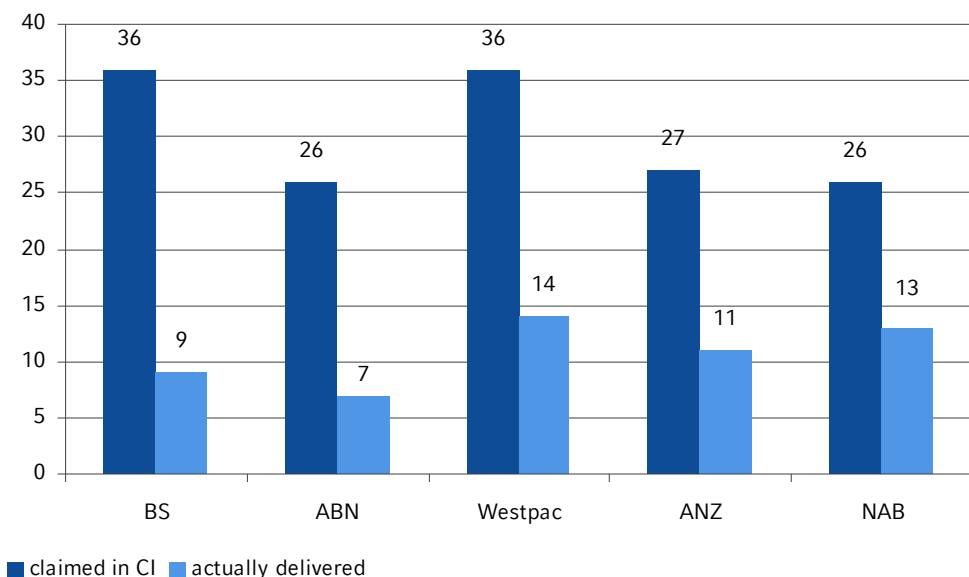
Source WestLB Research, CorporateRegister.com



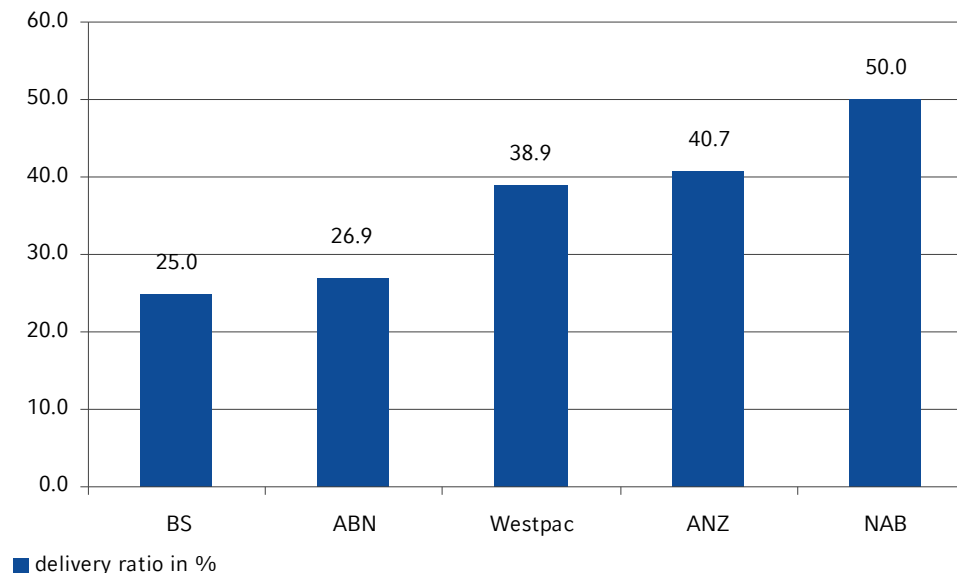
# Do companies deliver what they promise? A look at G3 reports in the banking sector

- We looked for **67 indicators** altogether.
- Coverage ratios range from 10.4% for ABN Amro to 20.9% for Westpac.
- Delivery ratios range from 25% (Banco Sabadell) to 50% (NAB).

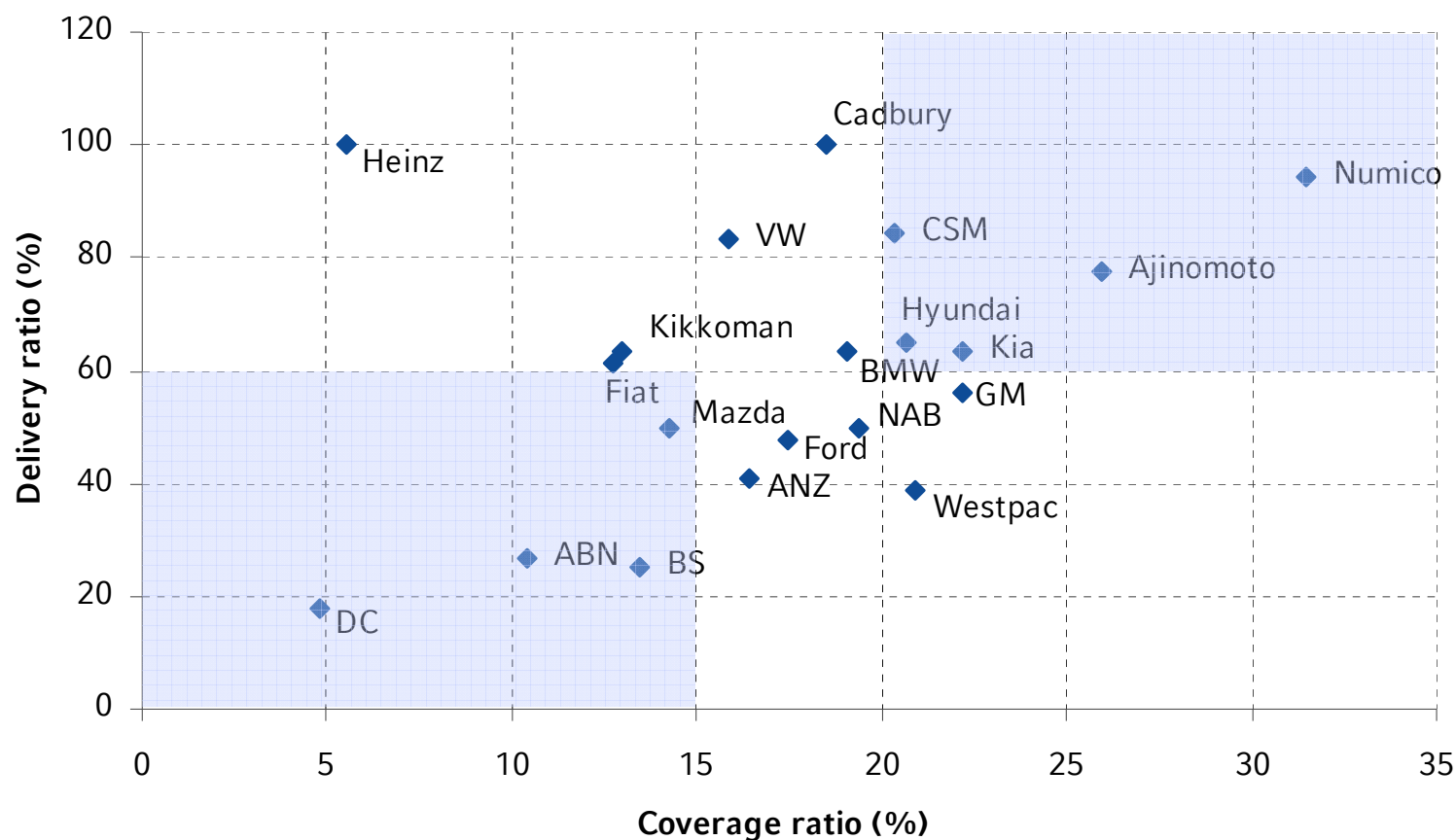
**Self-declared in CI vs. actually delivered – number of performance indicators (GRI Guidelines only)**



**Delivery ratio (%)**



# Coverage vs delivery: Autos, Food, Banks

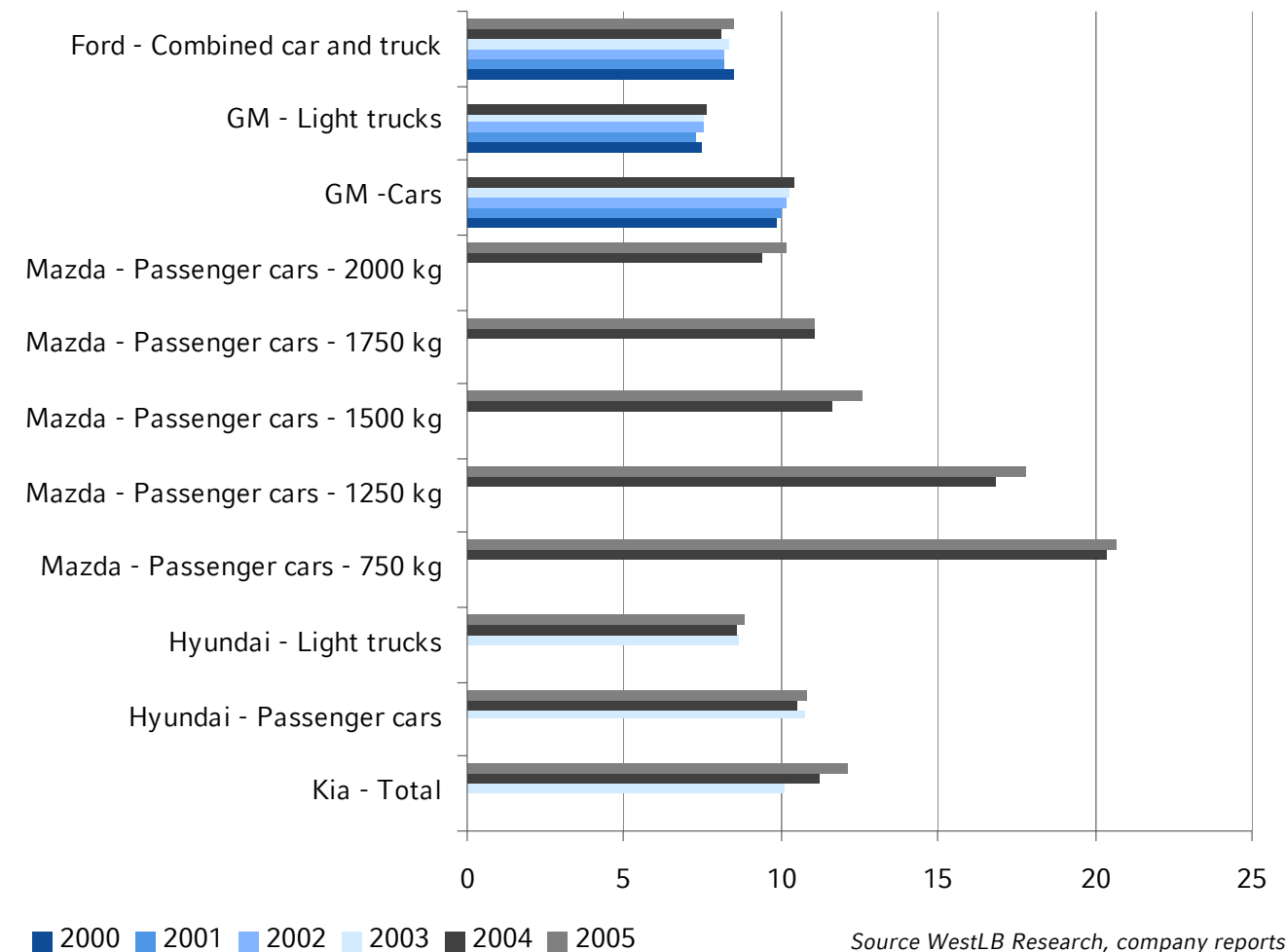


Source WestLB Research, companies' reports

# Even if delivered ... lack of cross-sectional comparability of data points

- Obstacles for cross-sectional comparisons: some of them remediable (units of measurement), some of them not (differences in reporting scope, and indicator definitions).
- Example: fuel efficiency of the manufacturers' car fleets (a Core Indicator of the Automotive Sector Supplement): 5 companies remained to be benchmarked against each other – albeit most manufacturers are members of the Automotive Working Group that developed the GRI Automotive Sector Supplement.

**Auto sector – A6: 'Average fuel economy by type of vehicle (km/l)'**



Source WestLB Research, company reports

# Conclusion

- “For the financial analyst CR/Sustainability reports are useless.” Not able to reject this provocative hypothesis with great confidence.
- We are fully aware that the quality of reporting on quantifiable KPIs is not the only benchmark for a report to be classified as being useful or not useful (“not everything that counts can be counted”). But it clearly is a litmus test for the potential acceptance within the mainstream investment world.
- G3 is giving an improved framework for reporting. It is now up to the companies to make the reports more useful to investors and of course to other stakeholders as well.
- Necessary exercise: Looking at ESG reporting from a pure financial market/investor perspective - DVFA/EFFAS initiative

# WestLB Extra-Financial Research



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Coverage universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy/Add	145	54	Buy/Add	42	63
Hold	94	35	Hold	21	31
Sell/Reduce	29	11	Sell/Reduce	4	6

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Unless otherwise stated in the text of this report, target prices in this report are based on either a discounted cash flow valuation or comparison of valuation ratios with companies seen by the analyst as comparable or a combination of the two methods. The result of this fundamental valuation is adjusted to reflect the analyst's views on the likely course of investor sentiment.

Whichever valuation method is used there is a significant risk that the target price will not be achieved within the expected timeframe. Risk factors include unforeseen changes in competitive pressures or in the level of demand for the company's products. Such demand variations may result from changes in technology, in the overall level of economic activity or, in some cases, in fashion. Valuations may also be affected by changes in taxation, in exchange rates and, in certain industries, in regulations. Investment in overseas markets and instruments such as ADRs can result in increased risk from factors such as exchange rates, exchange controls, taxation, political and social conditions. This discussion of valuation methods and risk factors is not comprehensive – further information is available if required.

Stock ratings are based on the analyst's expectation of the stock's total return relative to the total return from the relevant market during the twelve months following assignment of the rating. This view is based on the target price, set as described above, and on the analyst's opinions on general market and economic developments.

Within that overall framework, a Buy rating means that the total return from the stock is expected to exceed the total return from the market by at least 20%; Outperform means between 10% and 20% better than the market; Neutral means movement between 0% and a positive 10% above the market mean; Underperform means between 0% and 10% underperformance relative to the market; Sell means the stock is expected to return at least 10% less than the market.

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