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UNITED NATIONS
DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS
STATISTICS DIVISION

Seminar

Addressing Information Gaps in Business and Macro-Economic Accounts to Better Explain Economic Performance

New York, 23 – 24 June 2008
United Nations, Conference room C

Financial and non-financial reporting on intangibles and intellectual capital assets in company reports

A sell-side view on company reporting paucity

John Ballow

United Nations Seminar Presentation

"Financial and non-financial reporting on intangibles and intellectual capital assets in company reports"
June 24, 2008

"A sell-side view on company reporting paucity"

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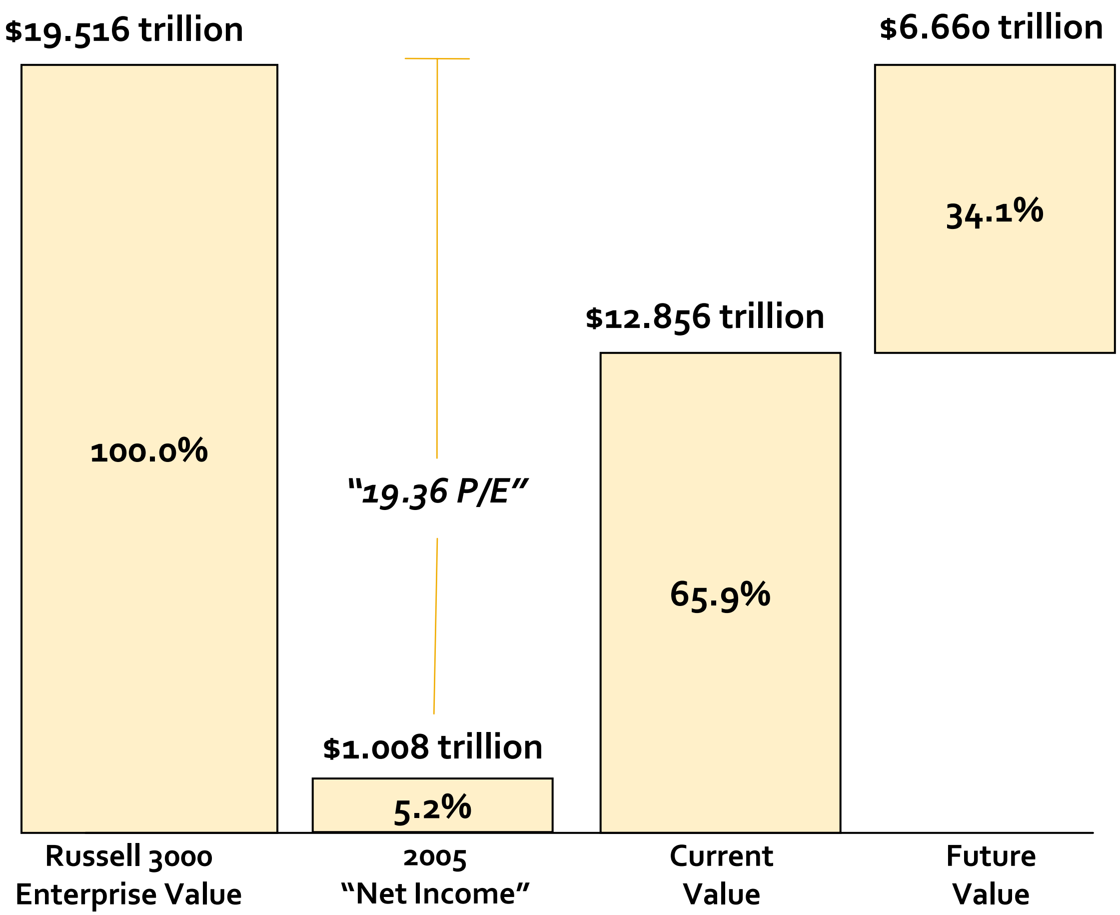
If 'Earnings' represent only 5% of Enterprise Value, then what is the rest?



Notes:

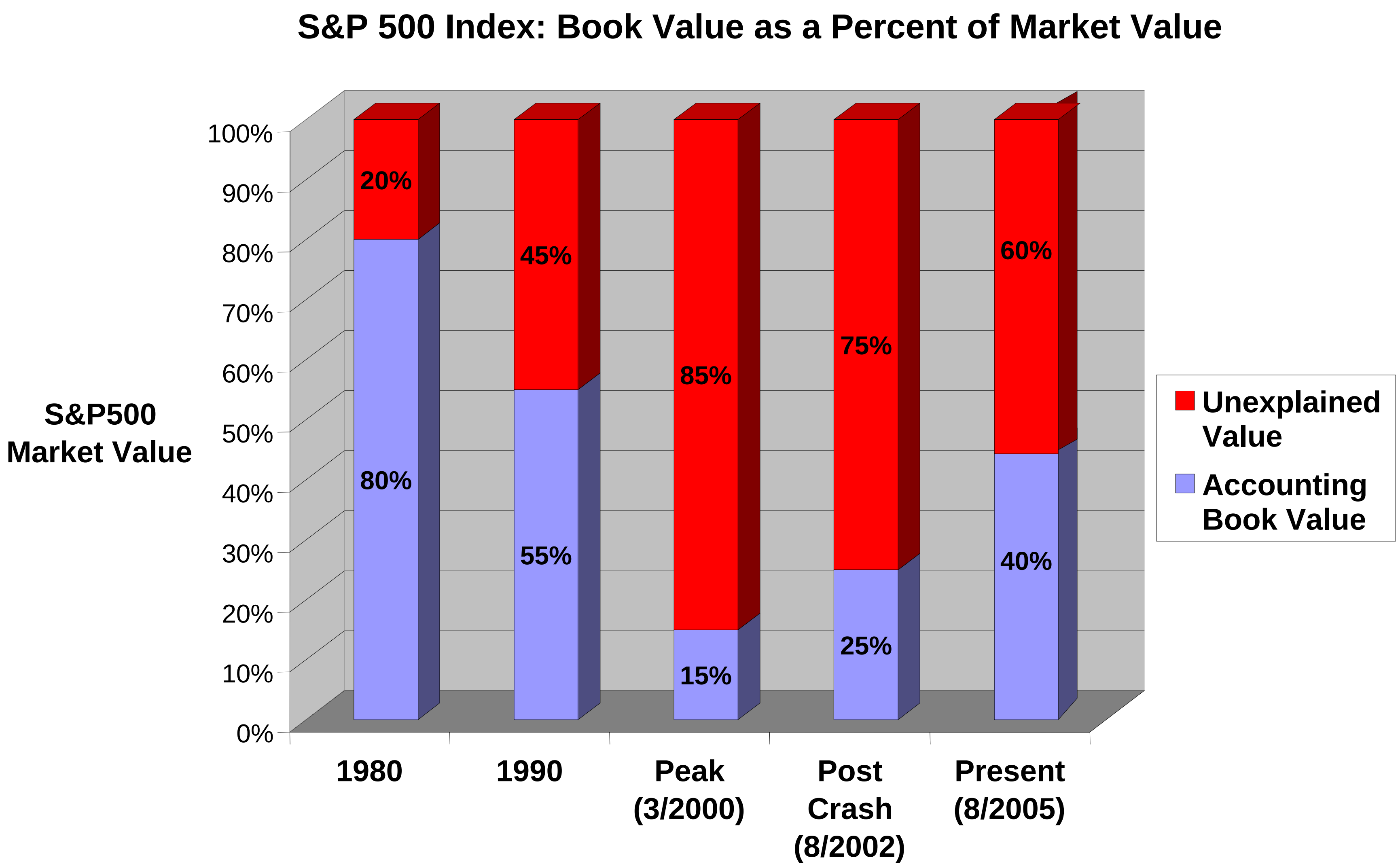
1. Current Value is defined as NOPAT / WACC and represents the Present Value of current operations in perpetuity.
2. Future Value is defined as Enterprise Value minus Current Value and represents the Present Value of the future incremental value the market expects the company to create in addition to the value to be delivered from current operations into perpetuity.
3. The Current Value and therefore the Future Growth calculations are sensitive to the market premium chosen (in this case 4.5%) – a higher market premium would see a higher WACC which would see a lower Current Value and an even higher Future Value.
4. Analysis does not include the Standard & Poor's GICS industry group - real estate [4040].

The magnitude and importance of Future Value to Enterprise Value varies by industry

(4-digit GICS code), December 31, 2004

Industry Group	GICS Code	No. of Cos.	Current Value [$ million]	Future Value [$ million]	Total Enterprise Value [$ million]	Future Value as % of Enterprise Value
Energy	1010	127	1,420,795	(108,996)	1,311,799	(8.3%)
Materials	1510	124	552,143	164,666	716,809	23.0%
Capital Goods	2010	185	792,565	527,630	1,320,194	40.0%
Commercial Services & Supplies	2020	84	160,080	86,902	246,982	35.2%
Transportation	2030	55	209,961	204,731	414,692	49.4%
Automobile & Components	2510	34	235,362	24,537	259,899	9.4%
Consumer Durables & Apparel	2520	103	288,321	35,186	323,507	10.9%
Hotel Restaurants & Leisure	2530	89	204,086	156,772	360,857	43.4%
Media	2540	79	288,262	524,305	812,567	64.5%
Retailing	2550	143	465,736	322,574	788,310	40.9%
Food & Staples Retailing	3010	28	364,539	140,782	505,321	27.9%
Food, Beverage & Tobacco	3020	52	696,755	59,116	755,871	7.8%
Household & Personal Products	3030	23	228,262	126,224	354,486	35.6%
Health Care	3510	188	462,780	326,536	789,316	41.4%
Pharmaceuticals	3520	142	626,760	438,279	1,065,039	41.2%
Banks	4010	274	878,202	100,080	978,283	10.2%
Diversified Financials	4020	78	699,326	283,220	982,546	28.8%
Insurance	4030	96	572,642	(7,110)	565,532	(1.3%)
Software	4510	189	206,471	482,149	688,620	70.0%
Technology	4520	163	198,123	672,675	870,799	77.2%
Semiconductors	4530	99	71,916	286,233	358,149	79.9%
Telecommunications	5010	43	350,545	314,096	664,642	47.3%
Utilities	5510	93	822,592	153,277	975,870	15.7%
Totals		2,491	10,796,225	5,313,865	16,110,090	33.0%

Balance Sheets no longer adequately track the assets that are valued nor driving the value.

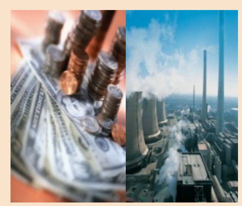


Why? The asset base has changed dramatically. Balance sheets ignore and under-manage value creating assets.

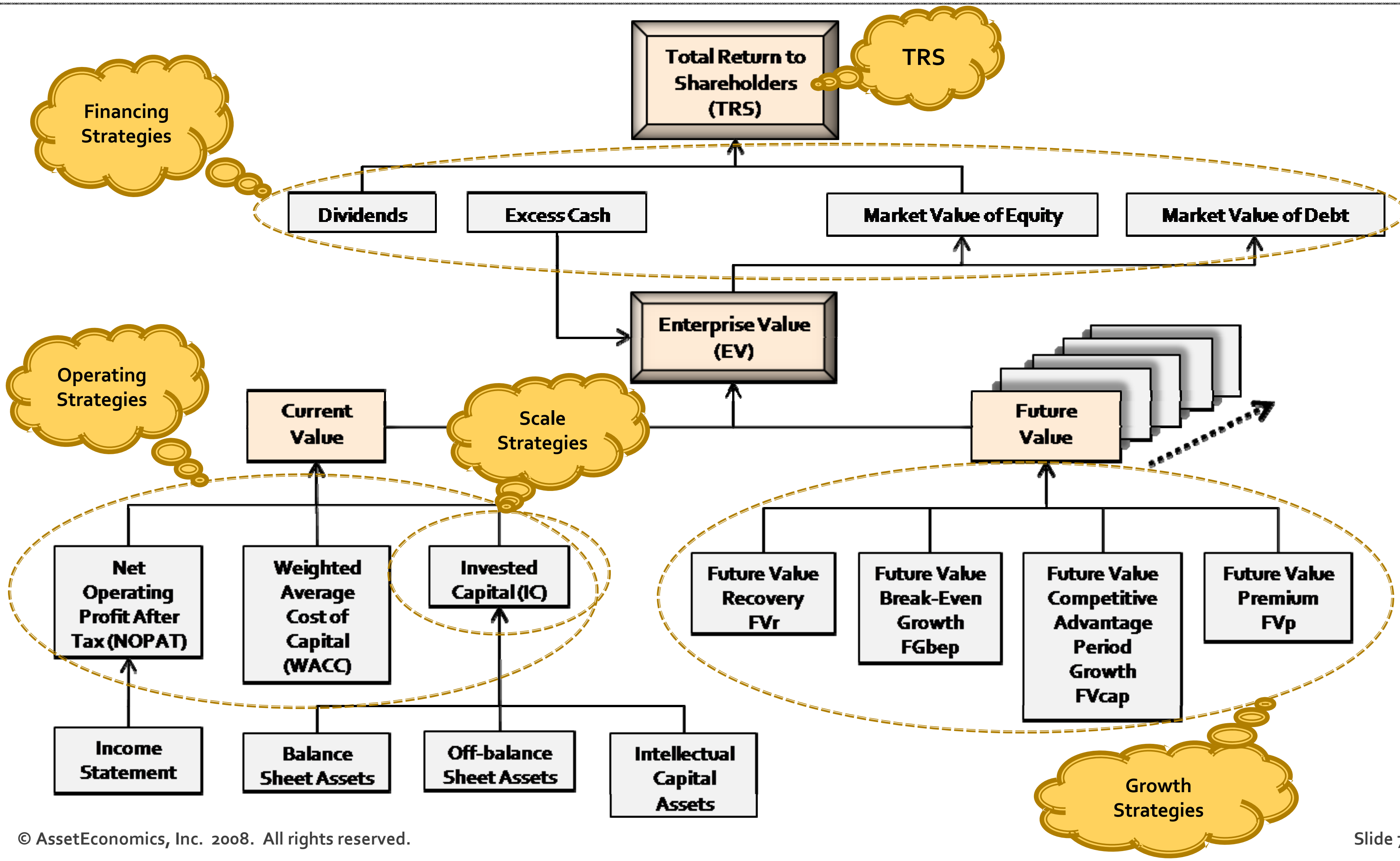
Traditinal Accounting Balance Sheets

		Resource Form				
		Traditional Economic Capital		Intellectual Capital		
		Monetary Capital	Physical Capital	Relationship Capital	Organizational Capital	Human Capital
Resource Recognizability	Tangible	❑ Cash ❑ Receivables ❑ Investments ❑ Free Cash Flow	❑ Inventory ❑ Property, Plant & Equipment ❑ Land & Buildings ❑ IT Hardware	❑ Formal JVs, Alliances ❑ Customer & Client Contracts ❑ Outsourcing Contracts ❑ R&D Licensing Agreements	❑ Software ❑ Software Code ❑ Documented Processes & Methods ❑ Internal Control Systems ❑ Patents & TMs	❑ Management Contracts ❑ Union Contracts
	Intangible	❑ Earnings Quality ❑ Receivables Quality ❑ Credit Ratings ❑ Debt Capacity ❑ Balance Sheet Strength ❑ Cash Surplus	❑ Plant Flexibility ❑ Plant Modernity ❑ Reliance on Strategic Resources ❑ Asset Tradability ❑ Infrastructure Accessibility	❑ Brands ❑ Reputation ❑ Customer Loyalty ❑ Stakeholder Support & Influence Networks	❑ Governance Processes ❑ Org. Structure ❑ Organizational Controls ❑ Exercise Rights (right to design, right to tender)	❑ Tacit Knowledge ❑ Capabilities ❑ Experience ❑ Management Bench Strength ❑ Employee Loyalty ❑ Workforce Stability

Compounding the problem, business models have changed as well. 170 of the S&P 500 are no longer value chain companies.

	Pre-1780s	1780/1840s - 1995	1995 - Present
Type of Economy	Agricultural	Industrial	Knowledge
Business Model	Value Shop (brawn)	Value Chain Value Network (heavy)	Value Chain Value Shop (brain) Value Network (light)
Key Value Outcome Asset Drivers	Human 	Monetary & Physical 	Relational, Org. & Human 

So how might we propose to measure all this? TRS Mapping™ - integrates market valuation, accounting, strategies and performance.



Exactly where have the shareholders returns come from? TRS Mapping™ - illustrated with AstraZeneca.