

July 15, 2013

Mr. Paul Druckman, FCA  
Chief Executive Officer  
The International Integrated Reporting Council  
By e-mail via website

Re: Integrated Reporting Consultation Draft, April 16, 2013

Dear Mr. Druckman:

Cenovus Energy Inc. ("Cenovus") is pleased to provide comments on the Integrated Reporting Consultation Draft dated April 16, 2013.

Cenovus is a leading North American integrated oil company, listed on both the Toronto and New York stock exchanges, with a market capitalization of approximately US\$24 billion. We report our financial results under International Financial Reporting Standards, and Cenovus is included in both the Dow Jones Sustainability Index and the Jantzi Social Index.

Cenovus commends the International Integrated Reporting Council ("IIRC") for undertaking the Consultation Draft of the International Integrated Reporting Framework ("IIRF"). We support the direction that the IIRF is heading, in particular for jurisdictions with less rigorous regulatory systems. However, there are some significant legal and practical implementation challenges to be addressed before this Framework is adopted.

North American security regulators already require publicly accountable enterprises to prepare numerous reports (many of which have prescribed forms), to meet the needs of existing stakeholders. Securities Exchange Commission (U.S. regulatory body) reporting, in particular, is based on complex and detailed rules. Regulatory reporting is not expected to change upon adoption of Integrated Reporting ("IR"). Accordingly, IR would result in the preparation of an additional report, increasing the cost burden on preparers and contributing to the existing concern of disclosure overload.

We agree with the strategic focus and future orientation guiding principle, although companies will be sensitive to disclosing material forward-looking information that could jeopardize competitive positions. Therefore, we do not support the mandatory disclosure of details of a business strategy for competitive reasons.

Finally, Cenovus believes additional guidance should be provided on identifying and measuring key performance indicators and on the application of IR to other corporate communications, such as investor calls, in order to achieve the comparability desired by the Consultation Draft.

Detailed responses to the questions asked in the Consultation Draft are attached as an Appendix.

We thank you for the opportunity to respond to this important area of corporate reporting.

Yours truly,

Cenovus Energy Inc.

A handwritten signature in blue ink, appearing to read 'Ivor M. Ruste', with a stylized flourish at the end.

Ivor M. Ruste, FCA  
Executive Vice-President & Chief Financial Officer

Attachment

## APPENDIX – CENOVUS’S RESPONSES TO THE IIRC’S QUESTIONS

Our responses herein represents the views of professional accountants, financial reporting, media relations, government affairs & corporate responsibility, external communications & brand management and investor relations personnel within our organization - Cenovus.

### Chapter 1: Overview

#### Principles-based requirements

**Question 1** - *Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.*

The principles-based requirements in the Framework are reasonable. The guiding principles effectively emphasize the importance of providing a balanced communication, which includes positive and negative outcomes, as well as explaining how the various capitals are related. While the principles are reasonable, some may be challenging to apply. For example, the principles of completeness and conciseness of information, while both important, are somewhat contradictory and will require professional judgment. Furthermore, providing future-oriented information for the long term has many associated risks.

#### Interaction with other reports and communications

**Question 2** - *Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?*

While Cenovus agrees that an integrated report should highlight the inter-relatedness of capitals and value creation, it is unclear how IR can be applied to other communications such as analyst calls. The Framework should more clearly differentiate between communicating in an integrated fashion on a continual basis and the preparation of an annual integrated report.

The Framework does not emphasize the difference between adopting an integrated approach to reporting and combined reporting, in which several documents are simply presented together or linked. In Cenovus’s view, IR should be more than an umbrella report with links to other reports and communications in traditional, financially focused reports.

The Framework does not address the issue of timeliness. North American external reporting follows regulated reporting deadlines. It is unclear from the Consultation Draft if an integrated report is expected to be filed within the same timeframe of the current external reporting cycle. If so, significant additional resources would be required to complete work currently not completed within this reporting cycle.

The Framework will require organizations to challenge their current perceptions of reporting and, as such, further guidance on the preparation of an annual integrated report is required.



**Question 3** - *If the IIRC were to create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, which references should be included?*

A database of indicators and measurement methods will be a key requirement to ensure comparability within specific industries and across industries. Below are three examples of authoritative sources of indicators and measurement methods that the IIRC should consider.

The Global Reporting Initiative ("GRI") is already a key source of performance indicators and measurement guidance for non-financial indicators. The GRI is currently being used by a number of companies, including Cenovus, as a reference for disclosures in Corporate Responsibility reports. It is suggested that the GRI be included as a source for non-financial indicators and measurement methodologies. Additional frameworks for non-financial reporting with specific reference to the oil and gas sector should include the International Petroleum Industry Environmental Conservation Association (IPIECA) and the Responsible Canadian Energy program developed by the Canadian Association of Petroleum Producers (CAPP). The IIRC should consider having a sector-specific guide to address relevant indicators.

Canada's *National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities* ("NI 51-101") provides a very complete, comprehensive source of performance indicators for oil and gas activities. The measurement of these indicators is based on detailed guidance of professional geoscientists; thus, are less subject to interpretation by the disclosing companies.

Canadian securities regulations (Canadian Securities Administrators Staff Notice 52-306) acknowledge the need for certain non-GAAP and additional GAAP financial measures in public disclosure documents. The regulations establish guidelines to ensure readers can understand why these measures are important, how they are determined and how they may differ from similar measures reported by peers. This Staff Notice should be referred to by the IIRC to assist in developing guidelines for disclosing how specific measures are determined and why they are important.

#### Other

**Question 4** - *Please provide any other comments you have about Chapter 1.*

The Framework indicates an integrated report should be prepared primarily for providers of financial capital. If the intent of the Framework is to value non-financial capitals equally with financial capitals, organizations should be encouraged to address all significant users of an integrated report. Cenovus includes customers, suppliers, communities where we operate, aboriginal groups and environmental groups among its stakeholders.

The Framework states an integrated report should include material information which could influence the assessments of the primary intended report users. If the primary intended user is not expanded beyond providers of financial capital, Cenovus does not believe that the objectives of the Framework will be achieved and an integrated report will merely be a hub linking to corporate reports currently prepared for financial audiences.

## Chapter 2: Fundamental concepts

### The capitals (Section 2B)

**Question 5** - *The Framework describes six categories of capital. An organization is to use these categories as a benchmark when preparing an integrated report and should disclose the reason if it considers any of the capitals as not material. Do you agree with this approach to the capitals? Why/why not?*

The six categories of capitals described in the Framework are very inclusive. The capitals are broad enough to capture most organization's inputs and outputs. Including both financial and non-financial capitals reinforces the overall concept of IR.

We believe an organization should select only those capitals that are most relevant to their business and should not be required to explain why one or more of the capitals are not discussed in the integrated report.

**Question 6** - *Please provide any other comments you have about Section 2B.*

Cenovus agrees with the importance of discussing both the applicable financial and non-financial capitals with equal importance. The challenge will be communicating the tradeoffs between various capitals and how they impact value over time in a concise, yet meaningful, manner.

### Business model (Section 2C)

**Question 7** - *A business model is defined as an organization's chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term. Do you agree with this definition? Why/why not?*

Yes, Cenovus agrees with the general definition of a business model. A company's business model is integral to how it creates value as well as how a company interacts with all its stakeholders. Establishing and reinforcing a clear business model is the primary means for management to affect the outcomes and outputs.

**Question 8** - *Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs. Do you agree with this definition? Why/why not?*

The Framework clearly distinguishes between outputs, what a company produces or the service it provides, and outcomes, the consequences arising from the use of capitals including social, environmental, and financial consequences. Cenovus agrees with these definitions. The definition and separation of outcomes and outputs provides a basis for disclosing both positive and negative consequences of a company's business activities.

**Question 9** - *Please provide any other comments you have about Section 2C or the disclosure requirements and related guidance regarding business models contained in the Content Elements Chapter of the Framework.*

The definition of a business model in the Framework is broad and effectively captures the social, environmental and financial elements. The challenge will be in adequately describing how inputs are linked to the various capitals, risks and non-financial performance. As well, it will be a significant change in a company's mindset to



ensure non-financial performance is given equal prominence to financial performance within the integrated report.

Cenovus does not agree with disclosing how an organization differentiates itself in the market place if this could jeopardize its competitive position.

#### Other

**Question 10** - *Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.*

No further comments on Chapter 2 that are not addressed above.

### Chapter 3: Guiding Principles

#### Materiality and conciseness (Section 3D)

**Question 11** - *Materiality is determined by reference to assessments made by the primary intended report users. The primary intended report users are providers of financial capital. Do you agree with this approach to materiality? If not, how would you change it? Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.*

Cenovus does not agree that materiality should be evaluated primarily on the assessment of providers of financial capital. Materiality should be assessed in the context of all users, financial and non-financial.

International Financial Accounting Standards defines an item as being material if "it could influence decisions that users make on the basis of financial information about a specific reporting entity." United States generally accepted accounting principles notes, "information is material if its omission or misstatement could influence the economic decision of users taken on the basis of the financial statements." While financial statement preparers and users are accustomed to financial materiality, the Framework should focus attention on the non-financial users of the integrated report as well.

Cenovus believes it is important to engage internal and external stakeholders in its assessment of materiality for non-financial measures. Cenovus uses the following process for determining materiality for its Corporate Responsibility Report:

- 1) Management identifies issues based on topics and indicators that may be a concern for stakeholders focusing particularly on issues that affect the oil and gas industry; and
- 2) Management works with an independent advisor to facilitate workshops with internal and external stakeholders to prioritize and validate issues.

While Cenovus does not believe a method of determining materiality should be prescribed by the Framework, Cenovus does believe companies should include disclosures about how materiality was determined.

**Question 12** - *Please provide any other comments you have about Section 3D or the Materiality determination process.*

The definition of materiality as defined by paragraphs 3.23 and 3.24 is broad enough to include non-financial measures if the definition of the primary report user is

expanded to include non-financial users. Paragraph 3.27 should be revised to consider the needs of all users when evaluating materiality.

#### Reliability and completeness (Section 3E)

**Question 13** - *How should the reliability of an integrated report be demonstrated?*

For the purpose of IR, measurable information should be attested to by independent experts to provide limited assurance regarding the accuracy of the key performance indicators reported.

An assurance statement would have scope limitations on the work performed and the level of assurance provided; however, it would provide users of the information some comfort as to the reliability of the integrated report.

A general statement by Management acknowledging responsibility for the information reported would provide some assurance on reliability of the disclosures.

**Question 14** - *Please provide any other comments you have about Section 3E.*

Cenovus agrees with the recommendation to include both positive and negative indicators of performance. Utilizing a database of industry specific key performance indicators consistently would assist in achieving this goal.

#### Other

**Question 15** - *Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.*

While Cenovus agrees with the concept of comparability, and believes this is attainable for financial indicators, comparability may not be as easily attained for non-financial indicators. The measurements of non-financial indicators are often not standardized, nor are the measurement processes. Companies will need to assess the cost/benefit of implementing system enhancements and processes to measure non-financial data. The development of industry benchmarks and commonly reported ratios will improve comparability, provided that standardized definitions are utilized. More emphasis needs to be placed on non-financial indicators to achieve true integration in reporting.

#### Chapter 4: Content Elements

**Question 16** - *Please provide any comments you have about Chapter 4 that are not already addresses by your responses above.*

Cenovus believes that it is already providing much of the content requirements of an integrated report through its annual (audited) and quarterly (unaudited) consolidated financial statements, annual and quarterly Management's Discussion and Analysis (MD&A), Annual Information Form, Annual Information Circular and Corporate Responsibility Reports. Cenovus supports the concept of creating a universal report that addresses all capitals and the needs of all stakeholders.



## Chapter 5: Preparation and presentation

### Involvement of those charged with governance (Section 5D)

**Question 17** - *Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why/why not?*

Management should provide a general statement that there are policies and controls in place over the quantitative measures and qualitative information in the integrated report. Cenovus does not believe this acknowledgement by management needs to be at the same level of assurance as required by the Sarbanes Oxley Act.

**Question 18** - *Please provide any other comments you have about involvement of those charged with governance.*

We do not believe the Board needs to more formally acknowledge the integrated report beyond what they do reviewing all the existing reports which management issues.

### Credibility (Section 5E)

**Question 19** - *If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?*

Limited assurance should be obtained from independent assurance providers with respect to specific aspects of the report, namely quantitative key performance indicators. It is not reasonable to expect external assurance providers to assess the completeness or the accuracy of qualitative disclosures; thus, scope limitations would be expected.

Requiring assurance on an integrated report in its entirety will inhibit wide spread adoption due to the associated cost.

**Question 20** - *Please provide any other comments you have about Credibility (Section 5E). Assurance providers are particularly asked to comment on whether they consider the Framework provides suitable criteria for an assurance engagement.*

No additional comments.

### Other

**Question 21** - *Please provide any other comments you have about Chapter 5 that are not already addressed by your responses above.*

Cenovus agrees that, if IR becomes mandatory within the applicable regulatory framework, a stand-alone integrated report should be prepared on an annual basis in line with statutory reporting guidelines. As companies transition to an integrated report, additional time will be required for the development of the report as well as the capture of data for non-financial measures.

The Framework notes that the integrated process should be applied continuously to all relevant reports and communications, including analyst calls. It is unclear how the integrated process is to be applied to on-going communications, such as analyst calls and investor conferences, due to timing of availability of non-financial information.



## Overall view

**Question 22** - *Recognizing that Integrated Reporting will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate for use by organizations in preparing an integrated report and for providing report users with information about an organization's ability to create value in the short, medium and long term?*

Cenovus believes the content of the Framework provides a good overview of the intent of IR. Application of the Framework will be an iterative process and will take a significant amount of time to implement. Companies will need to assist readers in understanding the evolution of their disclosures as they adopt IR.

## Development of <IR>

**Question 23** - *If the IIRC were to develop explanatory material on Integrated Reporting in addition to the Framework, which three topics would you recommend be given priority? Why?*

In addition to being able to access the integrated reports of the pilot entities, explanatory material on the following topics is recommended:

1. Suggested standard key performance indicators for financial and non-financial measures, or references to sources of such key performance indicators;
2. Guidance on how IR will be incorporated into other communications (analyst calls, press releases); and
3. Standardized definitions and process for determining materiality.

## Other

**Question 24** - *Please provide any other comments not already addressed by your responses to Questions 1-23.*

Cenovus is supportive of the development of an integrated report, provided that it can be done without duplication of effort. We believe it will provide a balanced view of the capitals and how a company's business model contributes to short, medium and long term value. Corporate reporting should be expanded to address more than just the financial impact of a business. Cenovus currently addresses these other capitals (human, social and relationship and natural capital) through its Corporate Responsibility report and Annual report. Providing a concise annual integrated report that encompasses all the capitals will enhance credibility and trust with all stakeholders.

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