A survey of JSE Top 40 companies' integrated reports

Practical insights into implementing integrated reporting

August 2015

Integrated reporting
Where to next?

pwc

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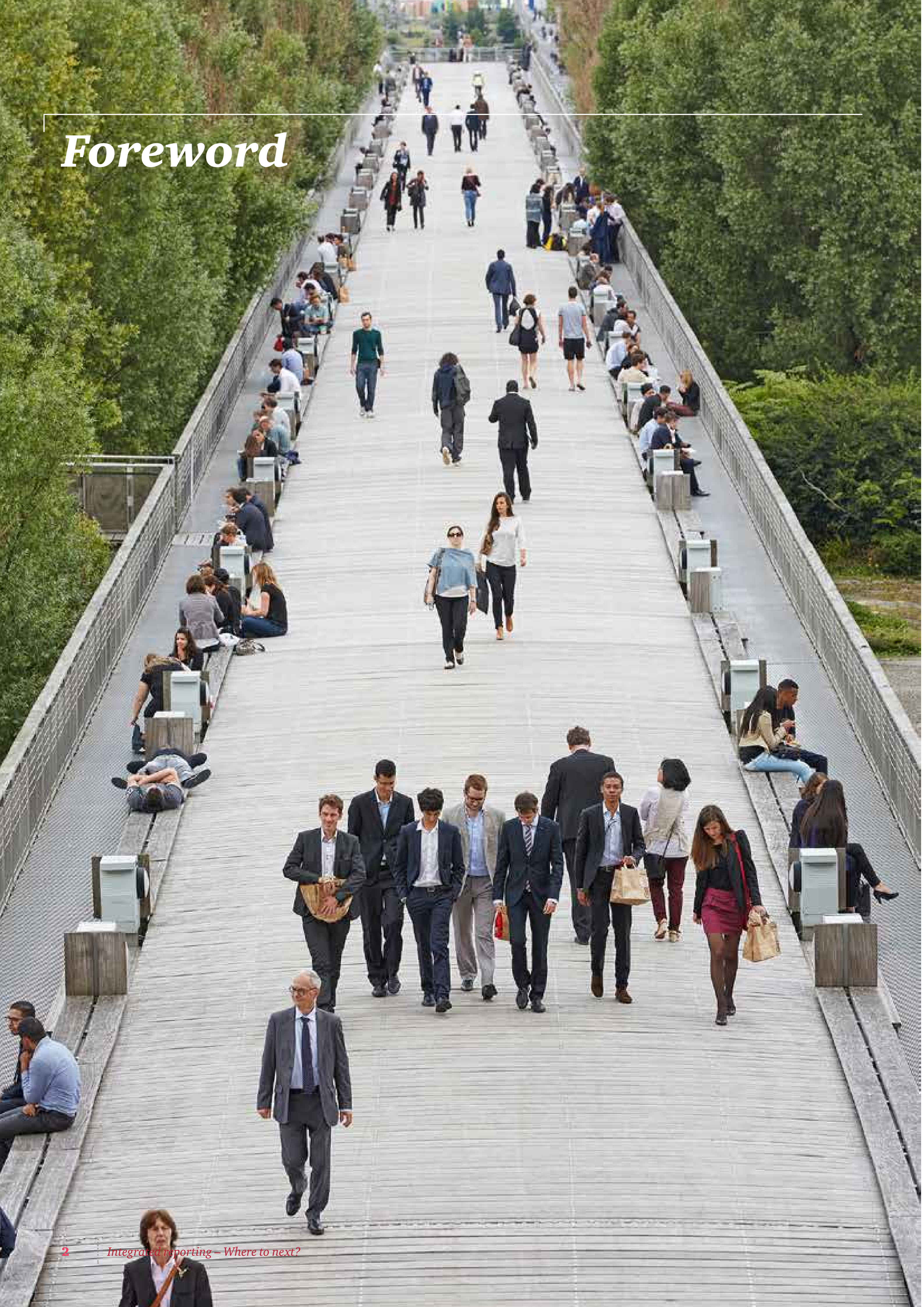
Foreword



Today's businesses are operating in a world of significant change. Increasingly, we are seeing a trend towards more and more information being supplied by business, driven by a number of factors, including:

- The availability of big data to a degree not seen before – as Google's Eric Schmidt put it: "We create as much information in two days now as we did from the dawn of man through to today";
- Resource constraints; and
- The push from an ever wider stakeholder group for greater accountability.

We're seeing CEOs from across the globe seize this as an opportunity. In a recent PwC survey, 75% of CEOs told us that measuring and reporting the total impact of their company's activities across social, environmental, fiscal and economic dimensions contributes to the long-term success of their organisation.[1]

We asked investors what they thought about this widening of emphasis from the traditional financial reporting models. We were told clearly that annual report disclosures about strategy, risks, opportunities and other value drivers can have a direct impact on a company's cost of capital. Only 11% thought otherwise.[2] To me, all of this promises an interesting, if challenging, future for reporting.

At PwC, we have been working on more holistic reporting models for some time now. In 1999, we introduced the Value Reporting Framework, which became a spark for the debate that has evolved to the concept of integrated reporting.

The drivers behind integrated reporting – a focus on value creation across resources or capitals (such as financial, manufactured, human, social, intellectual and environmental) – continue to align with our own long-term vision for thriving and self-sustaining economies.

Integrated reporting, as a response to accounting for broader stakeholder value and longer-term consideration, is inspiring many reporters around the globe to move from the theoretical concept to practical implementation.

I think it's important that this journey continues to be market-led. In South Africa and Brazil integrated reporting is part of the listing requirements. We are keeping a close eye on the experiences of companies in these territories, as well as others where the concepts of integrated reporting are capturing imaginations. In 2015, 130 Japanese companies have produced self-declared integrated reports, as have more than 10% of the UK's FTSE 100.

What's emerging from this experimentation? Many organisations are finding that a fundamental change in reporting requires much more than a focus on the end report. It requires a deeper understanding of all the building blocks of the business value creation process.

How does the outcome of the stakeholder dialogue link to strategy and risk? How does it connect to value drivers and performance and ultimately to impact? And does the impact reflect key messages from stakeholders?

It is my belief that for companies to achieve the holy grail of connectivity, a fundamental internal change is required, in the form of integrated management information. This is why I am so pleased to be introducing our

survey results and practical guide to implementing integrated reporting. This guide has at its core:

- A focus on materiality and value creation to improve your management team's understanding and assessment of your business' value drivers;
- An emphasis on building a deep understanding of connectivity within your business; and
- The creation of an integrated dashboard for your business decision-makers, enabled by information technology.

I hope this publication will both help you to get started and support your ongoing journey. It provides a roadmap drawn from our experiences across the globe as strategy, business management and reporting advisors, as well as sharing examples from South African companies on the same journey.

I hope it both stimulates debate for your management teams and clarifies the stages needed for a fundamental internal change. I welcome your feedback as your journey progresses.

Paul Fitzsimon
PwC Global Head of Reporting and Chief Accountant

1 PwC 17th Annual CEO Survey

2 PwC (2014). Corporate performance: What do investors want to know? Powerful stories through integrated reporting.

Executive summary

There is mounting evidence to suggest a positive link between the reporting and management of pre-financial[3] factors (such as environmental, social and governance issues) and operational/financial performance. At the same time, company boards are increasingly coming under pressure to explain in their corporate reporting how they are developing longer-term, sustainable businesses – and how well they are performing against longer-term goals.

Many are responding through integrated reporting, a way not only to communicate business performance, but also to create more connectivity across different parts of the business. Integrated reporting involves a new way of 'integrated thinking', in which management takes strategic decisions based on a broad range of performance data.

We believe that integrated reporting can help businesses achieve a better dialogue with investors and other stakeholders, and so support the growth of more stable, thriving economies (see the business case for integrated reporting in Chapter 1). Additionally – and for some businesses this may be the primary incentive – we believe integrated reporting will drive intelligence for more connected internal decision-making.

Practical guidance needed

Making the leap from traditional annual financial reports to a fully integrated report is challenging. While a number of frameworks have been developed, there is little practical guidance to help management teams implement integrated reporting in a way tailored to their organisation.

With this publication, we aim to help management focus attention initially on how they create value for stakeholders, how they monitor and manage that value creation process and how they ultimately report their performance externally.

Our guidance is based on a roadmap we have developed for managing and measuring the broader value drivers that form the basis of integrated reporting.

We also shine a spotlight on the themes that emerged from our survey of the JSE's Top 40 companies and shares some practical insights and examples from these local trends.

The PwC roadmap

Our roadmap (Chapter 2) identifies three fundamental foundations that should underpin your organisation's efforts towards integrated reporting:

- **Materiality analysis**
  Understanding material issues for your business, based on investor and other stakeholders' input
- **Value creation**
  Understanding how your particular organisation creates value for all its major stakeholders
- **Impact evaluation**
  Monitoring the indicators that capture the impact of your strategy and operations, and using them to report your value creation story to investors and other stakeholders.

Based on these foundations, our roadmap sets out five stages (Chapter 3 and 4) to introduce and embed integrated reporting in your organisation

Integrated reporting roadmap

- Look at the outside world and engage with your stakeholders
- Determine your stakeholder value proposition and refresh your strategy
- Align your internal processes to your strategy
- Develop your integrated dashboard
- Integrate your reporting for more effective and complete investor dialogue

Our survey of JSE Top 40 companies

Research methodology

We conducted our survey on the Top 40 companies listed on the JSE during the review period covering the 2014 calendar year. For each of the companies making up the Top 40 (see Appendix 1), a detailed assessment of over 100 factors was performed based on each company's 2014 integrated report.

The assessment was based on PwC's integrated reporting model and linked to the content elements of the IIRC's International <IR> Framework.

Each assessment was reviewed by an experienced reviewer before being approved for inclusion in the overall survey results.

[3] Pre-financials are resources that are not yet monetised but which in the longer term can have an impact on the financial results of an organisation. Examples include human and natural resources and relationships.

Overview of findings

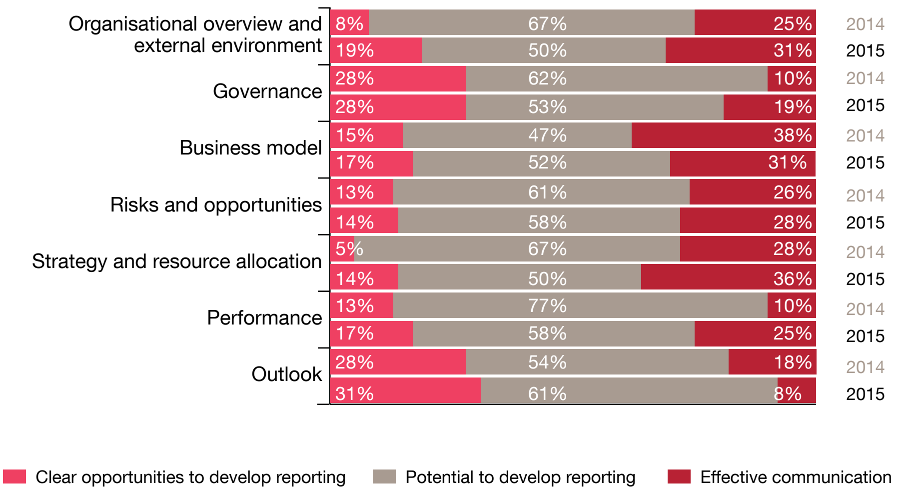
Findings were grouped by content element and then evaluated according to three broad categories:

- ***Clear opportunities to develop reporting***
  Reporting falling within this category demonstrated less than 35% of the characteristics of effective communication as determined by our benchmarking survey.
- ***Potential to develop reporting***
  Reporting falling within this category demonstrated between 35% and 65% of the characteristics of effective communication as determined by our benchmarking survey.
- ***Effective communication***
  Reporting falling within this category demonstrated between 65% and 100% of the characteristics of effective communication as determined by our benchmarking survey.

This year, reporting on strategy and resource allocation delivered the most effective communication. Reporting on performance showed the most improvement from last year.

While governance reporting showed the most significant improvement since our last survey, it still appears to be lacking overall. Reporting on outlook is another area where there are significant opportunities to improve effective reporting.

Fig 1 Survey findings by content element



Source: PwC analysis

Emerging themes from our survey (Chapter 3)

Theme 1: Who's the audience?

Reporters appear to still be grappling with the concepts of materiality in the context of the integrated report.

The importance of materiality is widely accepted, being included in the reporting models of the Global Reporting Initiative (GRI) and IIRC's International Integrated Reporting Framework, as well as financial reporting models.

In order to implement integrated reporting, businesses must develop processes for listening to investors and other stakeholders. This helps management to gain insights into material issues and to understand where value can be created and what should be reported on. The integrated report should not be aimed at a specific audience but should rather provide insight into the material issues that could impact on the organisation's ability to create value.

Theme 2: Agility in the face of change

By gaining a clearer understanding of how you create value for your stakeholders and the risks they face, the organisation is better able to respond to market and business changes by adapting its strategy. This process takes time as it must be validated by stakeholders and is further refined. The continuous improvement and learning process should be reflected in the development of the organisation's reported business model and strategy.

Theme 3: Embedded integrated thinking

We have seen a shift towards a more integrated manner of presenting reporting in recent years, however many of the changes have been cosmetic. A true commitment to integrated thinking requires alignment of an organisation's internal processes with its strategy.

Theme 4: Putting the 'K' in KPI

The efforts that organisations make in developing a resilient business model and comprehensive strategy can only be evaluated when performance against strategy is measured on an ongoing basis, by using indicators that truly reflect the key areas of an organisation's performance.

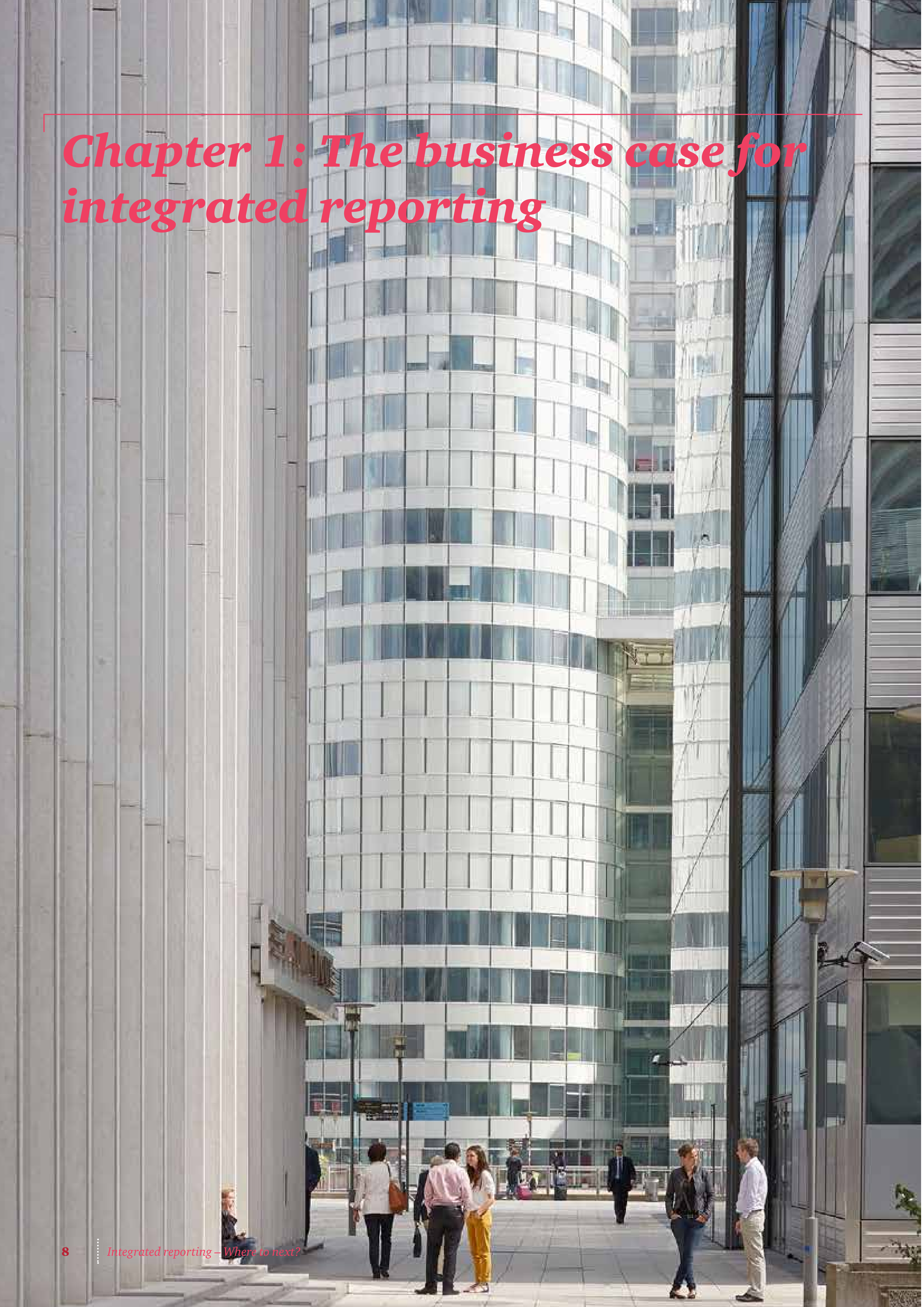
Theme 5: Approaching business with an outcome in mind

Defining the inputs, processes, outputs and outcomes of the organisation's business model enables an organisation to explain how it creates value. By connecting management information that is directly linked to the value creation process, the organisation is able to manage its impacts more effectively and improve both internal and external reporting.

Theme 6: Thinking about tomorrow, today

The heading, 'future outlook' has increasingly appeared in integrated reports, however the actual insight that this reporting has added to an understanding of companies' actual expectations of future environmental and economic change remains limited.

Chapter 1: The business case for integrated reporting



Integrated reporting connects the internal management of a business' value drivers to its financial performance, and so creates a shared business language for management and investors. This new and shared business language enables a better and more robust dialogue with investors, which can deliver real benefits for companies and investors. Almost 75% of CEOs say that measuring and reporting the total impact of their company's activities across social, environmental, fiscal and economic dimensions contributes to the long-term success of their organisation.[4]

Evidence supporting the link between environmental, social and governance (ESG) performance and stock returns is found in a recent set of studies[5] from Harvard Business School. A value-weighted portfolio of 'high sustainability' companies outperformed their 'low sustainability' counterparts by 4.8% p.a. on a risk-adjusted basis over the 20-year period studied.

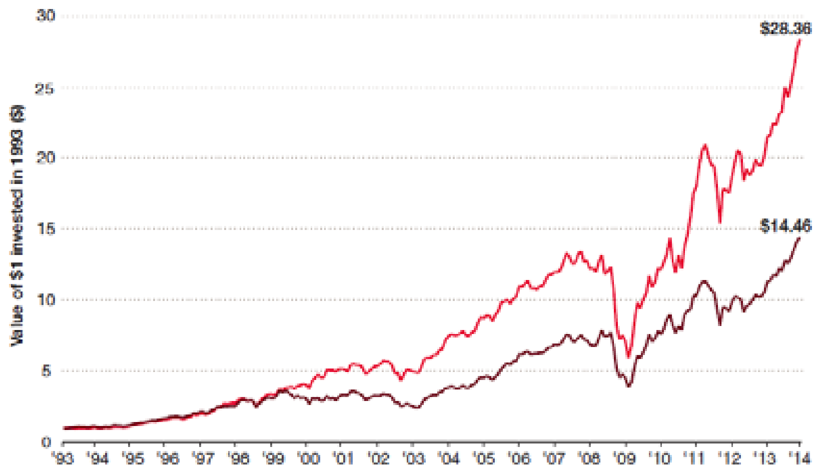
A more recent study[6] considered these companies' ESG performance only in relation to their material issues as identified by the Sustainability Accounting Standards Board. The results were striking: the study shows that it's the material issues that matter. Firms with high performance on material issues, and concurrently low performance on immaterial issues, show the best future stock performance.

4 PwC's 17th Annual CEO survey

5 Robert G. Eccles, Ioannis Ioannou, George Serafeim (2011). 'The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance.' Harvard Business Review.

6 Mo Khan, George Serafeim and Aaron Yoon (2014). Corporate Sustainability: First Evidence on Materiality. HBS working paper quoted in Serafeim (2014). Harvard Business School.

Fig. 2 The impact of good management of material ESG issues on investment performance



The figure shows the evolution of $1 invested in a portfolio of firms with high performance on material sustainability issues (red line) versus competitor firms with low performance on material sustainability issues. Materiality of sustainability issues is industry-specific and it is defined by the Sustainability Accounting Standards Board.
Source: Mo Khan, George Serafeim and Aaron Yoon. Corporate Sustainability: First Evidence on Materiality. HBS working paper, 2014 quoted in Serafeim (2014). Turning a Profit While Doing Good: Aligning Sustainability with Corporate Performance. Harvard Business School.

Academic research focused on sustainability reporting on ESG performance backs up this finding. Even without the potentially enhanced strategic focus and connectivity enabled by integrated reporting, ESG reporting is associated with positive impacts on operational performance and risk management, leading to a reduced cost of capital. In other words, managing broader value drivers (both your financial and pre-financial performance) is in the best interests of shareholders.[7]

Evidence has now also started to emerge to support the value of integrated reporting and demonstrate how it can lead to a better investor dialogue. A PwC survey shows that investment professionals believe the principles behind integrated reporting can enhance their investment analysis.[8] Academic studies find that issuing an integrated report will positively influence the valuation of a company[9] and make it more likely to attract a longer-term investor base.[10]

Further research shows that companies that have already started on the integrated reporting journey demonstrate:

- Better understanding of business opportunities and risks (65%);
- Improvements in decision making (79%); and
- More collaborative thinking about targets and goals by the board and strategy departments (78%).[11]

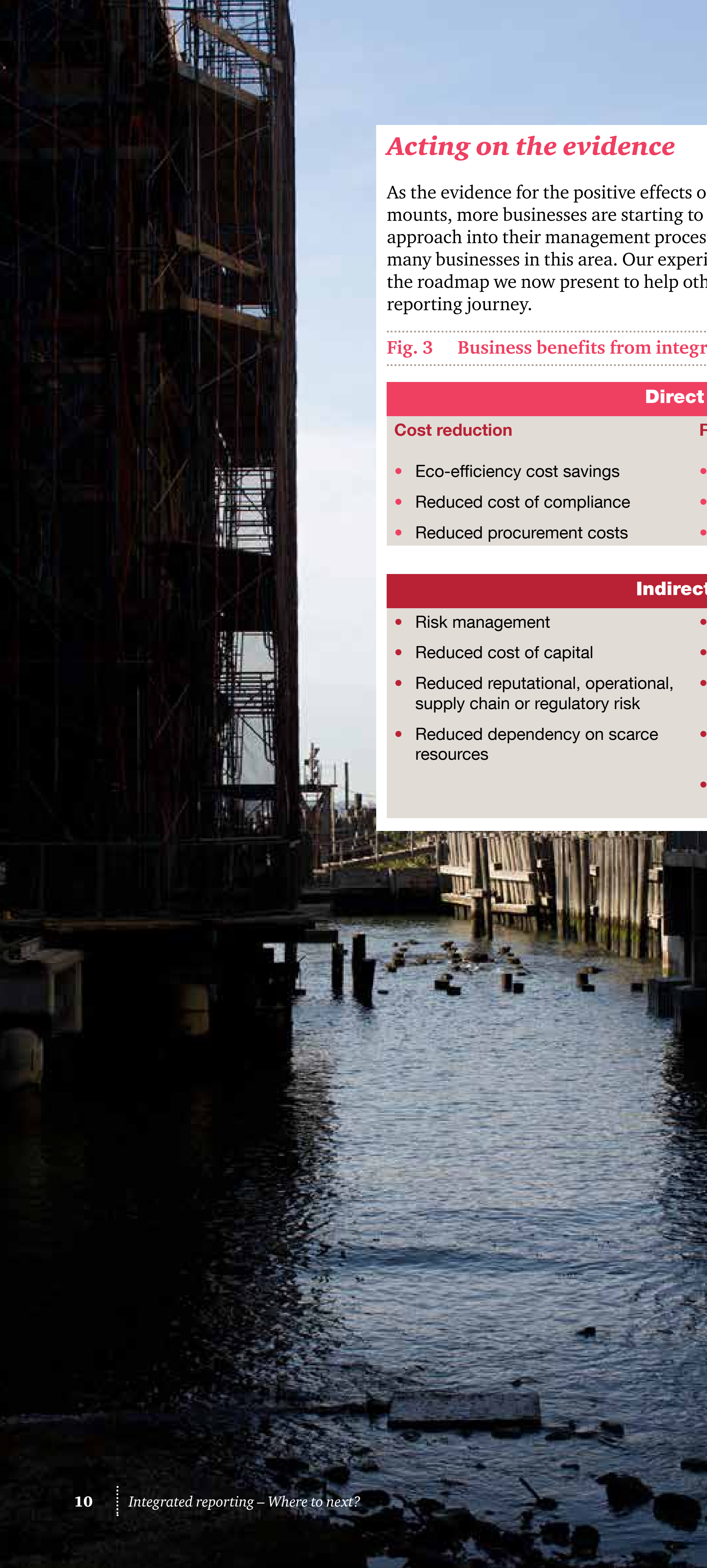
7 Clark, Feiner and Viehs (2014). From the Stockholder to the Stakeholder: how sustainability can drive financial outperformance.

8 PwC (2014). Corporate performance: What do investors want to know? Powerful stories through integrated reporting.

9 Arnold, Bassen and Frank (2012). Integrating CSR reports into financial statements: An experimental study. Working paper.

10 Serafeim (2013). Integrated reporting and investor clientele. Harvard Business School.

11 Blacksun (2014). Realizing the benefits, the impact of integrated reporting.



Acting on the evidence

As the evidence for the positive effects of integrated thinking and reporting mounts, more businesses are starting to consider how they can introduce the approach into their management processes. We have already worked with many businesses in this area. Our experience and insights have resulted in the roadmap we now present to help others progress along their integrated reporting journey.

Fig. 3 Business benefits from integrated reporting

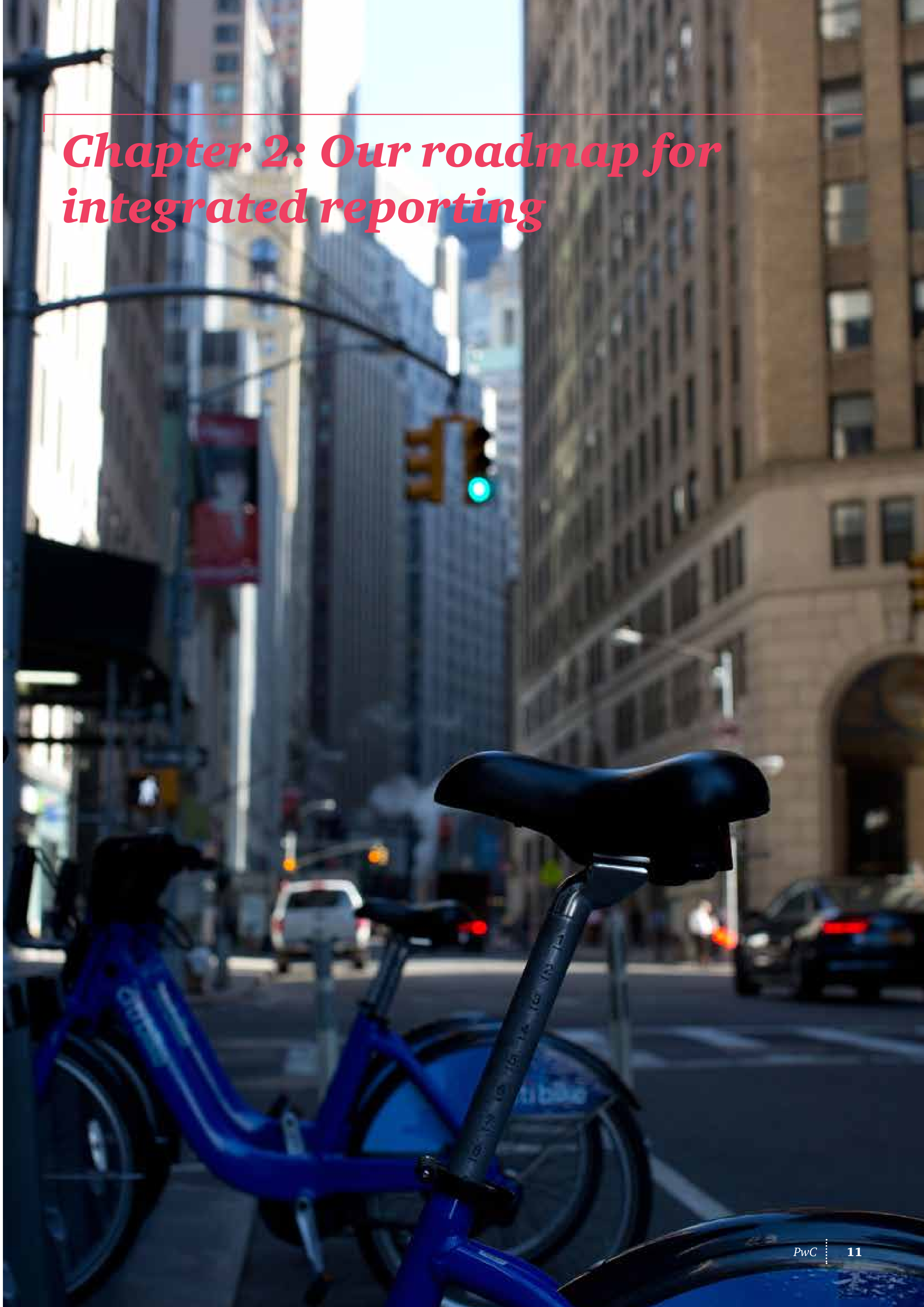
Direct value

Cost reduction	Revenue growth
• Eco-efficiency cost savings	• Business model innovation
• Reduced cost of compliance	• Product innovation
• Reduced procurement costs	• New revenue streams

Indirect value

• Risk management	• Brand and intangibles
• Reduced cost of capital	• Brand enhancement
• Reduced reputational, operational, supply chain or regulatory risk	• Employee engagement, attraction and retention
• Reduced dependency on scarce resources	• Improved market access or licence to operate
	• Improved security and quality of supply

Chapter 2: Our roadmap for integrated reporting



The business challenge

With any new concept, attention is often focused on the intended output. In the case of integrated reporting, this can result in a disproportionate focus of energies on the end product – the 'integrated report' – without similar time and resources being spent on assessing and improving more holistic business management approaches – sometimes also referred to as 'integrated thinking'.

While many organisations have improved the quality of their reporting, a communication gap still exists between reporter and investor and other stakeholders.[12] We believe every organisation will reach its own 'tipping point' – a stage where further improvement requires fundamental change. Simply redesigning the reporting structure or adding some new content won't be enough. Businesses that fully embrace the concept of integrated thinking and reporting can hope to achieve higher quality investor dialogue.

The starting point: Materiality, value and impact

From our experience, we know that boards are increasingly seeing the importance of engaging in holistic discussions when reaching decisions, taking into account a broad set of financial and pre-financial value drivers. However, these discussions are rarely supported with integrated management information. Where information is available in the organisation, reporting systems and processes are not always able to deliver it in an integrated and easily accessible manner. Integrating these value drivers throughout the whole organisation and value chain can be even more challenging.

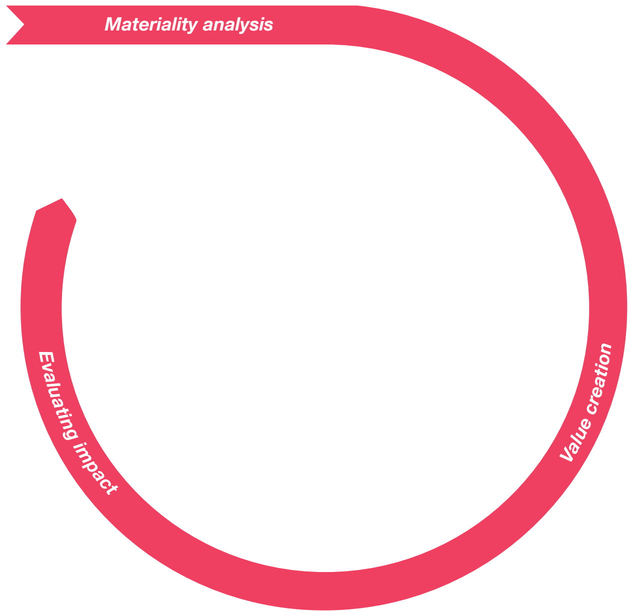
[12] PwC (2014). Corporate performance: What do investors want to know?

How can organisations manage their steps on the road towards integrated reporting? How can they manage and measure their drivers of value more effectively, and use this to improve internal and external reporting?

Our solution is presented in a roadmap based on **three fundamental foundations**, which we believe should underpin all your organisation's efforts towards integrated reporting. The three foundations are:

- Materiality analysis;
- Value creation; and
- Impact evaluation.

Fig. 4 PwC's roadmap for integrated reporting: The fundamental foundations



Source: PwC

Materiality analysis is vital to our roadmap. The importance of materiality is widely accepted, being included in the reporting models of the Global Reporting Initiative and the IIRC's International Integrated Reporting Framework, as well as financial reporting models. However, definitions of materiality vary, as do the processes that lie behind the materiality analysis.

We believe that to implement integrated reporting, businesses must develop processes for listening to investors and other stakeholders. This helps management to gain insights into material issues and to understand where value can be created. This outside-in perspective aids management in developing a more holistic view of their business and its operating context. A growing number of organisations already understand the value of a more direct dialogue with their stakeholders and are taking steps to achieve it. In this way they also gain greater understanding of how external stakeholders perceive the impact the business is having, both in financial and other terms.

The concept of **value creation** is the second key component of our roadmap. Your organisation should have a qualitative understanding of how value is created for its stakeholders. In our view, value creation is a circular process that depends on seven connected building blocks: stakeholders, their key messages, risk, strategy, value drivers (what activities influence the achievement of strategic objectives), performance and impact.

Value creation is an iterative process: value creation cannot be defined without robust outcomes from stakeholder dialogue, while you need an understanding of value creation to achieve an effective dialogue. Further, your understanding of value creation will change as the impact of management decisions is being evaluated and measured.

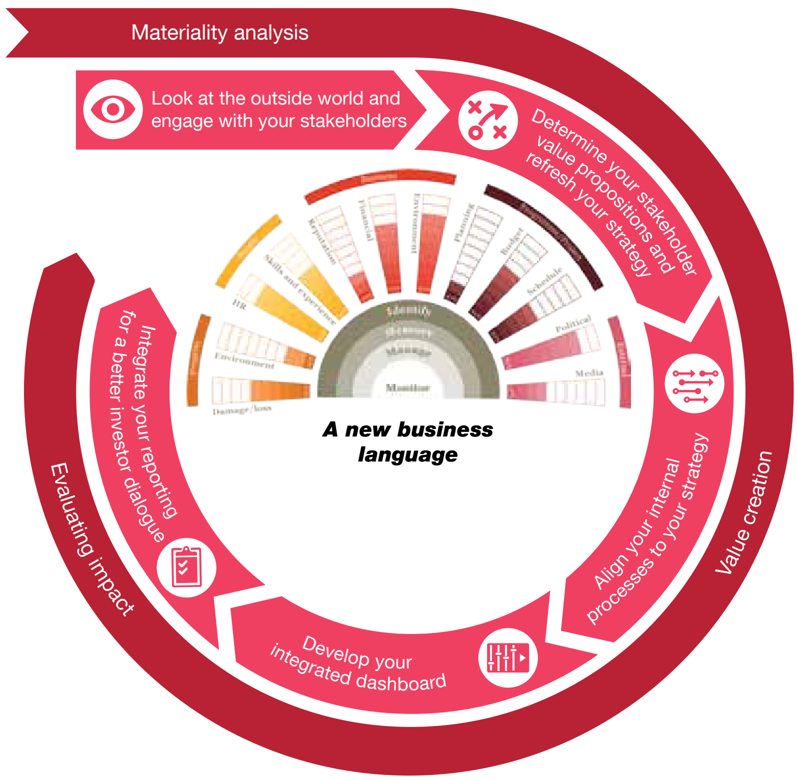
Evaluating impact forms the third foundation of our roadmap. This is first achieved by translating the value creation process into management information systems and processes, so that the organisation can monitor performance and make informed decisions – we call this the 'integrated dashboard'. This integrated dashboard includes connected and broader information on stakeholders, key material matters, risks, strategic objectives, value drivers, KPIs, targets and impacts. It helps companies to manage their impact by evaluating it systematically, though management teams may need to accept that not all data used will be 100% accurate and assured at the start.

The next stage involves developing your external reporting to investors and other stakeholders. Maintaining connectivity along the way is often difficult. For example, does performance managed by KPIs have a positive correlation with impact? Does actual impact, if it can be evaluated, connect back to your stakeholder dialogue, i.e. can the organisation report an impact that actually addresses the outcomes of the stakeholder dialogue?

Five stages towards integrated reporting

Our proposed stages and steps shouldn't be read as a set of prescriptive tasks, nor should achieving the benefits of integrated reporting and thinking be approached as a compliance exercise. Each organisation will need to tailor our guidance to their specific situation and remain focused on their own assessment of value and their value creation process.

Fig. 5 PwC's integrated reporting roadmap



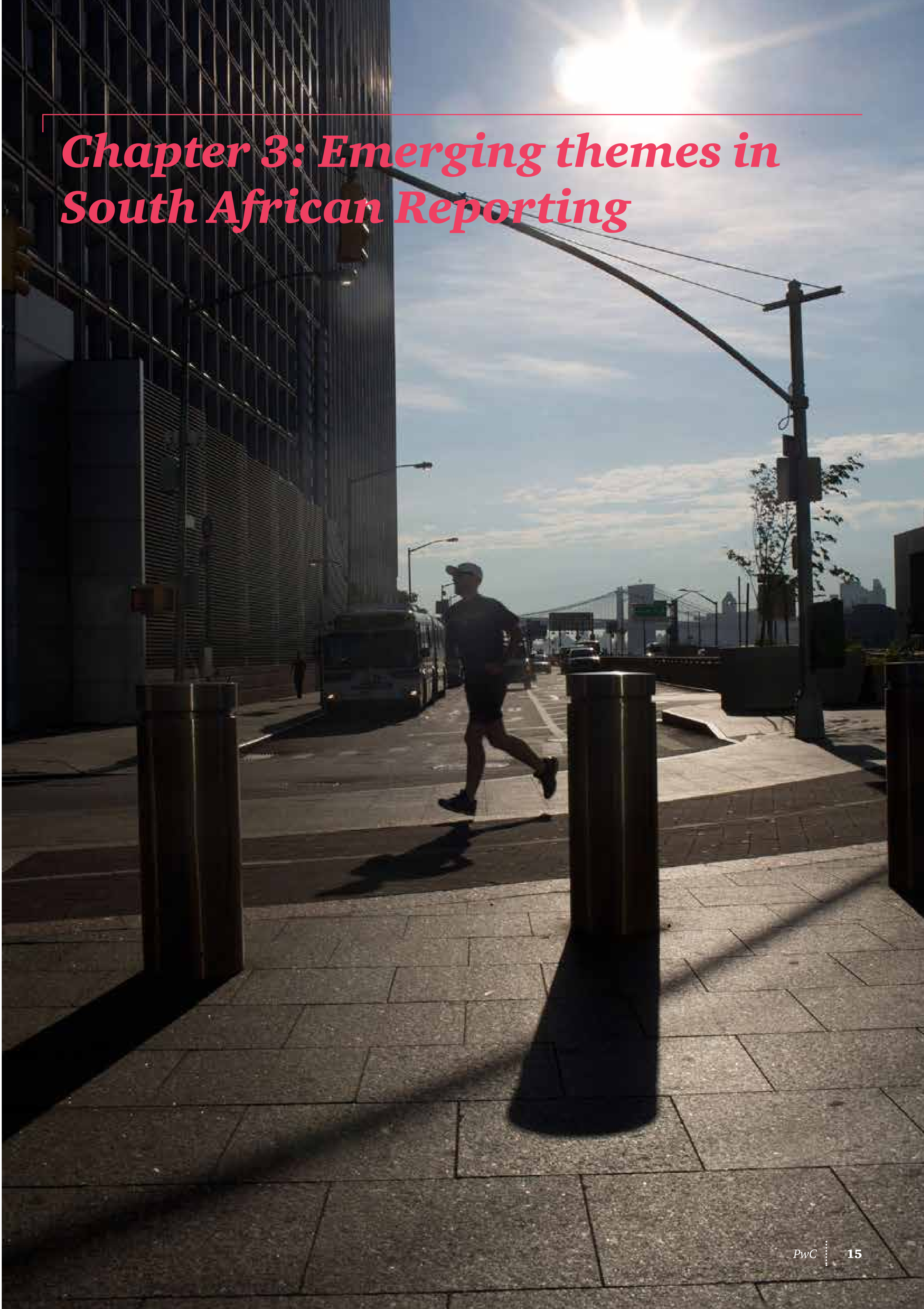
Source: PwC

Each stage is centred on a number of guiding questions designed to structure and stimulate the thinking process for management teams. Our approach supports a continuous improvement process and promises concrete benefits, not only at the end of the road, but also at the end of each stage.

Five stages of integrated reporting

Stages on the journey	Guiding questions	The cumulative benefits to your reporting
Stage 1 Look at the outside world and engage with your stakeholders	• Have you identified and prioritised your stakeholders and assessed how you engage with them? • Have you considered the business opportunities and risks arising from megatrends? • How well do you understand your competitive position in the market? • How do you assess materiality?	• Stakeholder engagement process • Value chain map • Analysis of operational context and competitors • Materiality matrix
Stage 2 Determine your stakeholder value proposition and refresh your strategy	• How do you define value for your stakeholders? • How do you create value for your stakeholders? • Is your strategy resilient for the short, medium and long term? • Should you refresh your strategy and goals to reflect all your material issues?	• Definition of value • Improved risk reporting • Value creation process
Stage 3 Align your internal processes to your strategy	• How does your organisational culture and behaviour support delivery of your strategic objectives? • Is your integrated management information enabled by systems and processes? • Can you link your strategic objectives to your suite of management information?	• Value drivers • Qualitative disclosures of connectivity • Insight into cultural alignment • Relevant KPIs • The first three stages enable reporting disclosures as highlighted as well as contributing to the overall operational benefits listed below.
Stage 4 Develop your integrated dashboard	• Can you communicate to the rest of your organisation how your strategy delivers value to stakeholders? • Can you ensure that your management information provides holistic insight to the board and other decision makers? • Do you make decisions based on holistic management information? • Do you have the right data to drive your decisions? • How do you evaluate your impact and is it incorporated into your dashboard?	• Connected insights into (predictive) relationships between stakeholder value and impact • The integrated dashboard breaks down silos between different departments, clarifying how each department contributes to business benefits • Reduced reporting burden as the integrated dashboard combines several (pre-existing) reports into one overarching report with factual (vs. intuitional) stakeholder value • Communication tool (internal and external) on how the organisation creates the value that stakeholders are looking for • Aligned internal and external reporting, improving the efficiency of external reporting processes at the end of the year • Measurement of impact: Total Impact Measurement and Management *www.pwc.com/totalimpact*
Stage 5 Integrate your reporting for a better investor dialogue	• Within your existing reporting process, have you nominated a multidisciplinary steering group? • Has the board provided the steering group with a clear vision? What story is to be told? • Have you nominated one responsible writer? • Have you started on a blank page and determined the scope and boundaries? • Are you using the connectivity matrix (see figure 12) as the storyline? • Is there a clear communication plan for how to improve the use of the annual report within your investor dialogue?	• External reporting becomes more valuable for your investor dialogue, and for the dialogue with other stakeholders • Your external reporting becomes the solid basis for continuous and fundamental improvement of your reporting and alignment of internal and external reporting

Chapter 3: Emerging themes in South African Reporting



Theme 1: Who's the audience?

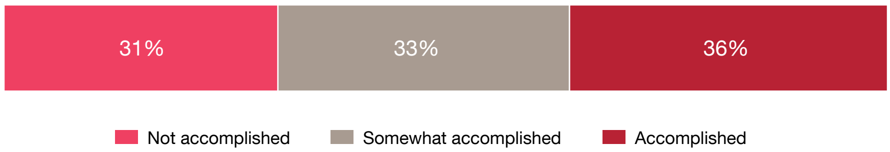
Your organisation is dependent on the providers of financial capital, but cannot function independently of the stakeholder environment in which it operates. Even though the primary purpose of an integrated report is to explain to the providers of financial capital how your organisation creates value over time[13], organisations are also answerable to a broader range of stakeholders[14]. Management cannot, however, disclose detail on every stakeholder concern and has to determine which of these impacts on the ability of the organisation to create value now and in the future. The level of detail disclosed about stakeholder issues is determined by the materiality determination process.

The first stage on the roadmap for integrated reporting is identifying material issues by looking at the outside world to develop a holistic understanding of the strategic risks and opportunities arising from the changing external environment, the organisation's competitive position and global megatrends. Only 36% of companies included in our analysis clearly explained how they identified the material issues for future viability of their businesses.

[13] IIRC <IR> Framework, 2013

[14] In terms of the stakeholder-inclusive approach to governance referred to in the third King Report on Corporate Governance.

Fig. 6 Clear explanation of how material issues are identified



Source: PwC analysis

The organisation should then engage with stakeholders and determine material issues by following these steps:

- Establish a programme of systematic engagement with investors and other stakeholders (internal and external), which is embedded in your governance and reporting manual, so that it becomes part of the formal reporting process and instructions, and informs the strategy process.
- Based on desktop research, create a 'comprehensive list' of issues based on external sources that may be relevant to your organisation and its stakeholders.
- Use desktop research as the basis for more holistic analysis of the operational context, competitor analysis and megatrends.
- A project team set up for the purpose of integrated reporting further reduces the comprehensive list by eliminating issues that are highly unlikely to be material, so making the stakeholder dialogue more relevant.
- Identify, rank and obtain approval for key stakeholders and articulate why they are considered key and how they will be engaged.
- Communicate the issues list to key stakeholders and request their input in order to rank the 3-5 material issues that are most important to the long-term success of the organisation. Ask each stakeholder to indicate whether the impact is restricted to the organisation itself or extends into the value or supply chain.
- Plot the issues identified in point 5 using a ranking based on their importance to stakeholders. (y-axis)
- Plot the issues identified based on their impact on the organisation's strategy. (x-axis)
- Prepare a graphic representation of the relevant issues across the value chain. The x-axis represents the impact on the strategy or organisation, as determined by the board. The y-axis represents the impact on stakeholders or their interest.
- Finally, discuss and analyse six to twelve issues that can be considered to be material.

Based on your structured dialogue with key stakeholders, you now have better insight into the areas where your organisation can create most value. Those are also the areas where most value can potentially be destroyed. Completing an assessment of material issues brings internal benefit by guiding stakeholder engagement, providing operational context and provides relevant content for external reporting.

Inspiring examples

Example 1: Identification of material issues

MATERIAL ISSUES

We define our most material issues as those that have the greatest real and potential impact – both positive and negative – on the achievement of our business objectives.

IDENTIFYING OUR MATERIAL ISSUES

These may be issues related to our internal or external environments (see page 28), significant risks and opportunities as identified in our integrated risk management process (see page 34), and/or be important to stakeholders (see page 38).

In reviewing our material priorities, we took account of:

- The views, expectations, interests and concerns expressed to us by stakeholders, directly and indirectly, formally and informally.
- Peer reports and industry benchmarks.
- Implicit and explicit messages conveyed by strike action and other labour-relations issues.
- Relevant legislation and regulation, and agreements and commitments, entered into by the Company.
- Media coverage and market reports on the Company, the platinum sector and the industry.
- Our values, policies, strategies, systems, goals and targets.
- Significant risks that could affect our success as identified through our risk management process.
- Views expressed by external stakeholders through direct interviews by an external party. Targeted stakeholders who participated in this process included investors, media and market analysts, NGO leaders and customers.

The ranking and prioritisation of our material issues was reviewed and confirmed first by the Executive Committee, and subsequently by the Board.

Our material priorities at the end of 2014 are presented below, along with case studies that provide some insight into the way in which these priorities are dealt with in practice.

Optimising production, cost-effectively and efficiently, within a changing and complex business and socio-political environment P44

Our business performance is directly linked to actual and anticipated global demand for our metals, which in turn influences current and forecast prices. Legislative amendments and uncertainty contribute to this ever-changing external environment. Internally, rising input costs – most particularly electricity and labour costs – combined with declining productivity as a result of structural issues and unplanned stoppages have placed pressure on margins.

Case study: Flexibolt innovation at Bathopele Mine

Following a safety incident in 2013 at Bathopele Mine, we decided to remove its employees from high-risk tasks and areas, which meant that the installation of rope anchors had to become mechanised. We also realised that we would have to develop the required method ourselves: although equipment exists in the market, it is used for mining activities where the stoping width is much greater than that of Bathopele Mine. Subsequently, the team has produced a product and process that will not only increase safety at the mine, but will also have benefits in terms of costs and productivity.

For more information
see page 48 of the Sustainable Development Report

OPTIMISING PRODUCTION, COST EFFECTIVELY AND EFFICIENTLY, WITHIN A CHANGING COMPLEX BUSINESS AND SOCIO-POLITICAL ENVIRONMENT

OPERATING SMARTER

WHAT WE'RE DOING

- Optimising Rustenburg and Union Mines.
- Embracing modern mining technology.
- Focusing on better utilisation of our shafts, concentrators and process facilities.
- Allocating capital expenditure to high performing assets, such as Mogalakwena.
- After the strike came to an end, concentrated effort was placed on bringing operations back into production as quickly as possible. Efforts paid off and production resumed a month ahead of schedule.
- Participating in industry-wide partnerships and new initiatives to stimulate platinum demand.

For us, achieving mining operational excellence means improving productivity across the board.

CHALLENGES

Market challenges: price, demand and costs

In 2012 we initiated the Platinum Review to determine the root causes for a period of sustained under-performance – in the market and within the Company – and to create a sustainable, competitive and profitable platinum business for the long-term benefits of our stakeholders. The review concluded this could no longer be considered a cyclical trough period and the structural changes had fundamentally impacted supply and demand in such a way that price, costs and profitability had all been negatively affected.

For a number of years, platinum supply outstripped demand and an increase in substitution has further reduced demand for primary metals. However, in the past two years demand has exceeded supply but, due to macro-economic global issues, the price has not responded. The price of platinum has continued to remain flat since 2008, while mining and inflation costs have increased at almost double the rate of inflation. The increase in costs is due to a number of factors, including declining grade, increasing mining depths – which lead to greater ventilation, pumping and hoisting costs – and higher input costs for energy, fuel and labour. Costs for the year were 17% higher on 2013 costs. A full review on the market and our external operating environment can be found on pages 28 to 33.

In part, these conditions are causing unsustainable increases in the Company's debt levels – a major concern. Consequently, curtailing production of loss making ounces clearly was necessary, as was reconfiguring the business to optimise and reshape the portfolio of operations.

Declining productivity

Productivity has been declining in the South African platinum industry – by 0.4% over the past decade. In part this is due to mining deeper and more challenging orebodies with declining grades, but is also due to not getting enough productive blasts per year (which increases overall costs) and a decrease in productivity per worker. The five-month long strike in the first half of 2014 had an enormous impact on our overall productivity. Improving output, and subsequently productivity, drives our strategic value of mining and process excellence.

OPPORTUNITIES

Repositioning our portfolio to create value

The structural change in the market gave rise to the necessity to re-configure Amplats and create a sustainable, competitive and profitable platinum business. In the short-term, this led to restructuring the Company, a process which began in 2013 and is now largely complete:

- Rustenburg has been consolidated from five mines to three;
- Union North and South Mines have been consolidated and unprofitable declines closed;
- the JV portfolio is in the process of being simplified, with options to exit the Pandora and Bokoni JVs being explored; and
- significant cost reduction and productivity enhancements are underway.

36%

companies included in our analysis clearly explained how they identified the material issues for future viability of their businesses

Why this example?

In this example, several different sources of information are considered in identifying material issues, including risks, stakeholder engagement and peer benchmarking, which are all linked to strategic priorities.

Source: Anglo American Platinum Integrated Report 2014, page 42, 44

Example 2: Managing material issues

Our material matters

We consider a matter to be material when it has the ability to influence our financial performance, our reputation or impact on our licence to operate.

The diagram below depicts the ongoing and often complex process of determining which matters we believe materially impact our ability to create value.

1. Identify and assess

Multiple issues are brought to light either directly by stakeholders (such as regulatory change and customer insights through day-to-day engagement), through independent research or through internal scans of the operating environment.

We continued to monitor our external environment for trends, signalling opportunities and risks that could have an impact on our growth ambitions.

These are considered against a matrix of stakeholder influence and the expected impact on Barclays Africa.

Our stakeholders Page 13
Reflecting on the six capitals Page 14
Our operating environment Page 15

2. Prioritise

Using the lens of our Balanced Scorecard, we consider the matters within the context of:

- our Purpose to help people achieve their ambitions in the right way;
- our Goal to be the 'Go-To' bank in Africa;
- expected behaviours as informed by the Barclays Way and our Values;
- our operating environment including global, regional and local challenges and priorities;
- our strategy and business model; and
- our risk and capital management framework.

We must be mindful of the opportunities and trade-offs arising from our chosen responses.

3. Respond and monitor

Specific actions are identified to ensure we respond appropriately. These, along with metrics against which we measure our progress, are incorporated in our Balanced Scorecard. Our progress is monitored by our executive committee as well as our Board and the various Board committees in accordance with their terms of reference.

Managing the matters which are material to our sustainability Page 16.

Managing matters which are material to our sustainability

The table below depicts our material matters within the context of our Balanced Scorecard.

Our target outcomes	Key matters raised by stakeholders	Why this is important to us	Material matters	How are we responding
Customer & Client [illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Source: Barclays Africa Group Limited Integrated Report 2014, page 12, 16

Why this example?

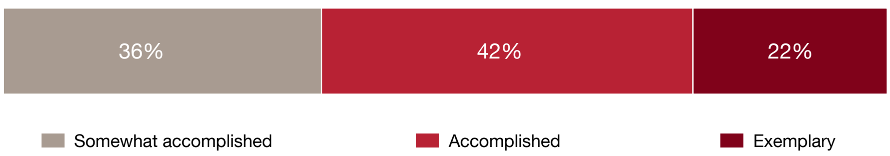
This example outlines the process to identify material issues, which draws from stakeholder engagement, the capitals and the operating environment as sources. This example also illustrates the importance of the iterative nature of the process that requires constant monitoring of issues.

Theme 2: Agility in the face of change

Your business depends on spotting and responding to megatrends – long-term macro-level shifts in the external landscape. These may include factors such as changing demographics, rapid urbanisation, shifting economic power, technological change, resources scarcity and climate change[15]. Our analysis shows that 64% of companies explain the key underlying drivers of market growth for the current and prior periods, but that only 53% explain the impact of external drivers on future growth.

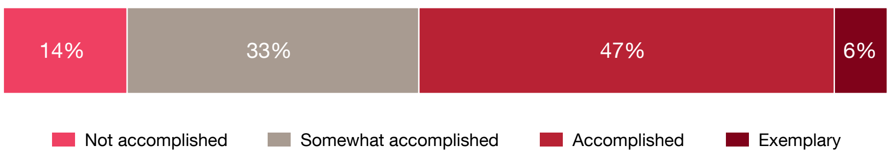
These shifts can pose risks, but they can also provide opportunities if they are identified, assessed and managed effectively, and used to create competitive advantage. Risks and opportunities will also arise from the impact of these trends on your customers, competitors and the other players in your value chain.

Fig. 7 Discussion of key external drivers of market growth in the current and prior years.



Source: PwC analysis

Fig. 8 Discussion of key external drivers of market growth in the future



Source: PwC analysis

Implementing integrated reporting may not necessarily lead you to refine your organisation's strategy. Nevertheless, changes in the external environment and the stakeholder value proposition should be reflected in your strategy and business model. Of the companies analysed in our survey, 56% linked strategic choices to external drivers.

Fig. 9 Explanation of the impact of external drivers on strategic choices

Source: PwC analysis

In order to develop a better picture of its value creation process, an organisation should follow the steps set out below based on stage 2 of our roadmap to integrated reporting:

Step 1: Define value propositions based on the materiality matrix

The examination and analysis of the value creation process is an iterative process that requires an in-depth analysis of all relevant interdependencies.

Some examples of value propositions include:

- The material matters relating to shareholders and providers of financial capital can be economic performance: your strategic response and stakeholder value proposition may be innovation in chosen markets.
- Customers may ask for environmental stewardship. Your value proposition may be: "We double our impact and half our footprint by 2020."

Step 2: Connect material matters to identified risks

The second step is to connect material matters to identified risks and embed these in your organisation's regular risk assessment process. Our survey found that 64% of companies integrate risk reporting with one or more aspects of the integrated report such as external drivers, business model or performance, with the rest reporting risks in isolation.

15 PwC(2014) Megatrends http: //www.pwc.co.uk/issues/megatrends

Fig. 10 Integration of risk reporting

Source: PwC analysis

Examples of risks relating to material matters include:

- Scarcity of qualified personnel in general might result in higher staff turnover, leading to increased recruitment costs, lower productivity and a loss of intellectual capital; and
- If customers expect protection of biodiversity in the supply chain or respect for human rights, non-compliance of your suppliers with your suppliers' code of conduct may damage your business reputation.

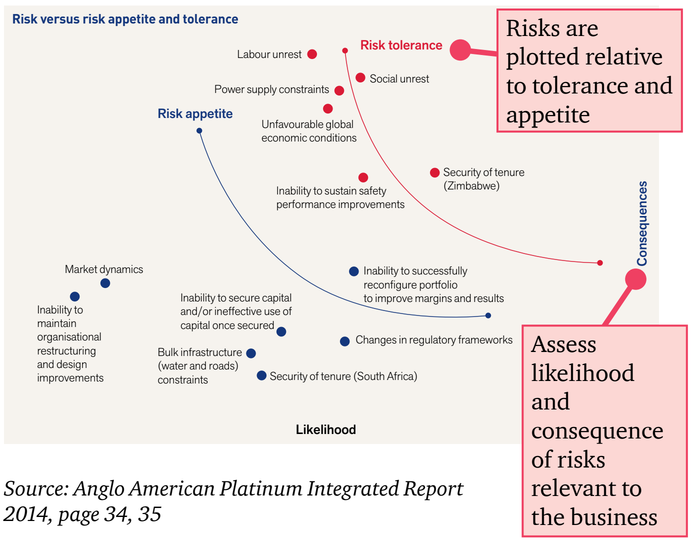
Step 3: Develop the value creation process

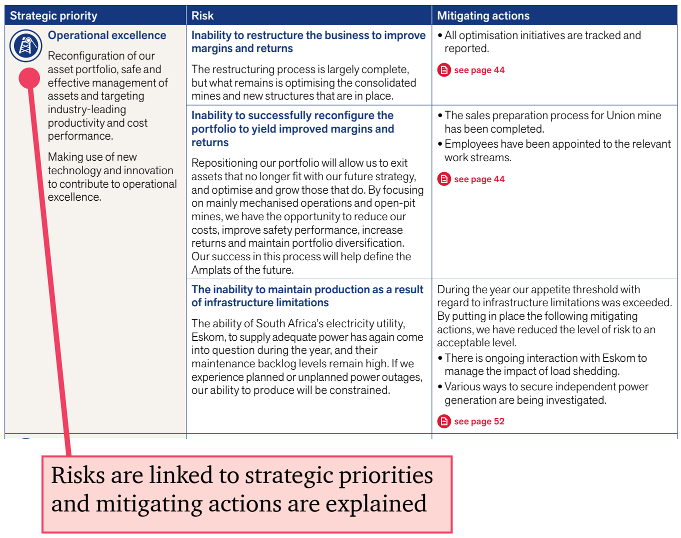
The impact of material matters on opportunities and risks should be part of the value creation analysis. The main purpose of this step is to develop a qualitative understanding of what value the organisation could, and wishes to create. The value creation process can easily be represented graphically and consists of the following elements:

- Input from your key stakeholders, representing the input capitals;
- The material matters;
- Related risks;
- The strategic pillars, addressing the material risks and opportunities;
- The value proposition – the activities you want to excel in for successful execution of strategy;
- The output/outcome key performance indicators tracked against targets as part of your management information (further discussed in Theme 5)
- The impact represented by the value you wish to create for your stakeholders, thus closing the loop with the start of your value creation process

Inspiring examples

Example 3: Dynamic risk management





Strategic priority	Risk	Mitigating actions
Operational excellence Reconfiguration of our asset portfolio, safe and effective management of assets and targeting industry-leading productivity and cost performance. Making use of new technology and innovation to contribute to operational excellence.	**Inability to restructure the business to improve margins and returns** The restructuring process is largely complete, but what remains is optimising the consolidated mines and new structures that are in place.	• All optimisation initiatives are tracked and reported. see page 44
	Inability to successfully reconfigure the portfolio to yield improved margins and returns Repositioning our portfolio will allow us to exit assets that no longer fit with our future strategy, and optimise and grow those that do. By focusing on mainly mechanised operations and open-pit mines, we have the opportunity to reduce our costs, improve safety performance, increase returns and maintain portfolio diversification. Our success in this process will help define the Amplats of the future.	• The sales preparation process for Union mine has been completed. • Employees have been appointed to the relevant work streams. see page 44
	The inability to maintain production as a result of infrastructure limitations The ability of South Africa's electricity utility, Eskom, to supply adequate power has again come into question during the year, and their maintenance backlog levels remain high. If we experience planned or unplanned power outages, our ability to produce will be constrained.	During the year our appetite threshold with regard to infrastructure limitations was exceeded. By putting in place the following mitigating actions, we have reduced the level of risk to an acceptable level. • There is ongoing interaction with Eskom to manage the impact of load shedding. • Various ways to secure independent power generation are being investigated. see page 52

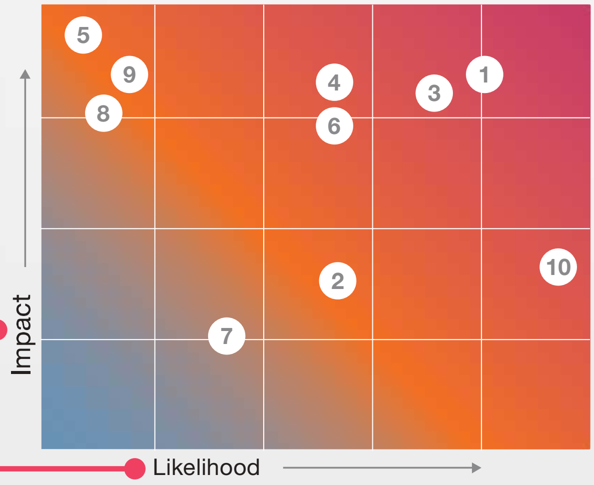
Source: Anglo American Platinum Integrated Report 2014, page 34, 35

Why this example?

This example demonstrates how risks are identified based on both the likelihood of occurrence and the potential consequences thereof. Each risk is also linked to the strategic priority that they may impact, and mitigating actions taken are explained.

Example 4: Risks linked to key value drivers

Our most significant risks



Assess likelihood and impact of risks relevant to the business

1. Industry capacity
2. Product substitution
3. Selling price variability
4. Country risk
5. Employee and contractor safety
6. Fibre supply
7. Energy and related input costs
8. Environmental impact
9. Reputational risk
10. Financial risks

Read about how we are responding to these risks on the next page

1. Industry capacity

Plant utilisation levels are the main driver of profitability in paper mills. New capacity additions are usually in large increments which, through their impact on the supply/demand balance, influence market prices. Unless market growth exceeds capacity additions, excess capacity may lead to lower selling prices.

We monitor industry developments in terms of changes in capacity as well as trends and developments in our own product markets.

Our strategic focus on low-cost production and innovation activities to produce higher value added products, combined with our focus on growing markets, with consistent investment in our operating capacity ensures that we remain competitive.

Link to key value drivers

Major capacity expansions undertaken by the Group included completion of our new 155,000 tonne per annum bleached kraft paper machine in the Czech Republic and 100,000 tonne per annum pulp dryer in Russia.

Read more about our capacity expansions in the chief executive's review on page 17

2. Product substitution

Sustainability considerations and changes in consumer preferences affect the demand for packaging products. Factors such as the weight of packaging materials, increased use of recycled materials, electronic substitution of paper products, increasing demand for certified and labelled goods and specific material qualities all impact on the demand for the products Mondi produces.

Our ability to meet changes in consumer demand depends on our capacity to correctly anticipate such changes and develop new products on a sustainable, competitive and cost-effective basis. Our focus for growth is on products enjoying positive substitution dynamics and growing regional markets. We work with our customers in developing new markets and new products. Our broad range of converting products provides some protection from the effects of substitution between paper and plastic based packaging products.

Link to key value drivers

We invested €18 million on research into new products and applications.

See page 17 to find out about some of the new products we launched this year

Strategic response to risk and link to key value drivers

Source: Mondi Group Integrated Report 2014, page 31, 32

Why this example?

This example illustrates again how key risks are identified based on impact and likelihood and identifies the strategic response to each risk, which is linked to key value drivers.

Theme 3: Embedded integrated thinking

Integrated reporting has become so much of a buzzword in recent years that companies often lose sight of the foundation of integrated thinking that needs to underlie a successful integrated reporting process. This has resulted in many examples of reporting that may appear integrated, but leave the reader wanting true depth and insight into how the company actually creates (and destroys) value.

What our survey found

Our research revealed certain telling signs of this trend towards superficial reporting. While integrated reports are expected to have a strategic focus, only 39% of reports surveyed made a clear statement of what the company's strategic vision is, with the balance of reports remaining ambiguous on this point. Most reports (81%), however, do explain how the company plans to achieve its strategic vision, but only 6% of reports analysed make a clear distinction between short, medium and longer-term strategic priorities.

81%

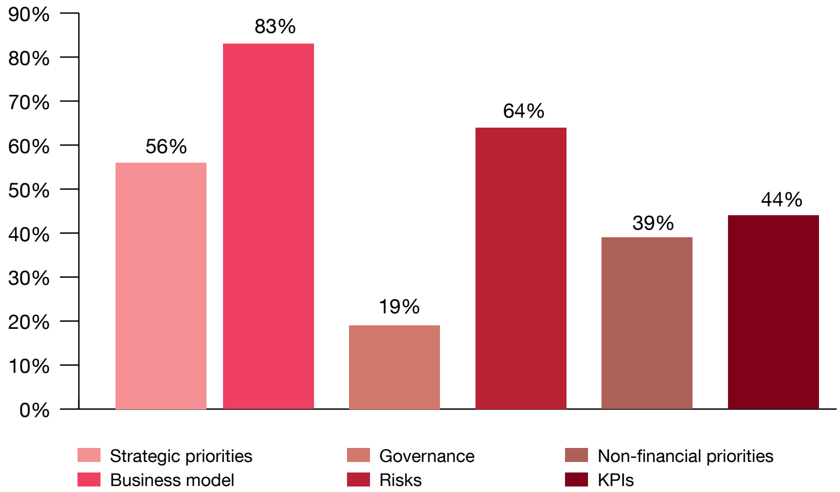
of companies explain plans to achieve strategic vision

Fig. 11 Time frames for strategic priorities

Source: PwC analysis

Integration is achieved to varying degrees of success throughout reports. An integrated approach to the business model (83%) is the best represented area of reporting, with governance reporting remaining poorly integrated at 19%.

Fig. 12 Effective integration in reporting



Source: PwC analysis

While these examples are specific to reporting, they do send a clear message about the thinking that underlies the reporting.

What is integrated thinking?

Integrated thinking can be described as seeing the connections of resources and relationships, how they connect to the different functions, departments and operations in the company, and getting the company as a whole working together in achieving its strategic objectives. The integrated view can break down traditional silos in a company.[16]

Integrated thinking is clearly not something that can be achieved overnight. It necessitates a fundamental mind shift, not only for the strategic decision-makers in a company, but for every individual in a company that contributes to its activities and eventual performance.

Aligning management information with strategy

Embedding integrated thinking in an organisation can be achieved practically by aligning integrated management information with the organisation's sustainable strategy (Stage 3 in our 5 stages to integrated reporting).

What do we mean by integrated management information? We define it as follows: a well-balanced and connected set of financial and pre-financial key performance indicators (KPIs), aligned with value drivers and embedded in systems, processes and supporting culture, which are used in governing the organisation.

The first step is to align strategy with management information, KPIs and value drivers. This is generally referred to as 'performance management' or preferably 'integrated risk and performance management'.

[16] "Integrate: Doing business in the 21st century" (2014), Mervyn King and Leigh Roberts

Culture and behaviour

An organisation should aim to develop a purpose-driven culture that values the needs of stakeholders. Leaders in the organisation need to motivate and mobilise employees and display an ongoing desire to receive and act on internal and external feedback to support delivery of strategic objectives. Success requires a conscious and continual effort by everyone to embed values and behaviour in line with stakeholder expectations.

Systems and processes

The scope of management information should be extended from financials to pre-financials. In most organisations the control environment around pre-financials is still immature, which can raise doubts about information quality. Even though most internal control frameworks should be able to encompass pre-financials, real world experience shows that this doesn't necessarily happen.

We see organisations making progress by:

- Ensuring that the CFO and finance function take responsibility for the quality of all pre-financials with clear allocation of roles and responsibilities between finance and the data owners (governance);
- Establishing a steering group that cuts across business operations and includes those controllers whose remit has been the pre-financials; and
- Gaining a more explicit understanding of how your current internal control framework can be applied to pre-financial information.

Align strategy with management information

The success of an organisation's strategy is reflected in pre-financial and financial results in terms of output or outcome/impact. The results are monitored through KPIs, which clearly need to reflect your business strategy. See more on this in Theme 4.

Decision-making supported by assurance

Assurance is a key factor in addressing doubts surrounding information quality.

If decision-makers have relevant, reliable and timely information that meets their needs (beyond the purely financial), it can build trust in their business, help secure capital and credit, help win the war for talent, develop strong relationships and guarantee the future for generations to come.

Assurance of information and controls and its reporting is evolving to keep pace with change in business. A significant challenge for companies is to adapt in the right ways.

Moving the assurance and trust expectations closer to integrated reporting, the International <IR> Framework calls on those responsible for governance of the organisation, the board, to be responsible for the integrity of the integrated report. This also suggests that the Board is responsible for ensuring that adequate assurance is obtained over the information being provided by way of an integrated report to shareholders and other stakeholders.

As companies embark on the journey to develop their integrated reporting process, they should be developing their approach to assurance over their information in parallel.

But many have spoken about the challenges to developing a fit for purpose assurance model for assurance over an integrated report, including the most recent paper released by the IIRC, 'Assurance on <IR>: Overview of feedback and call to action July 2015'. Some of the main differences as today's financially-orientated reporting broadens and expands to more holistic integrated reporting are illustrated in Figure 13.

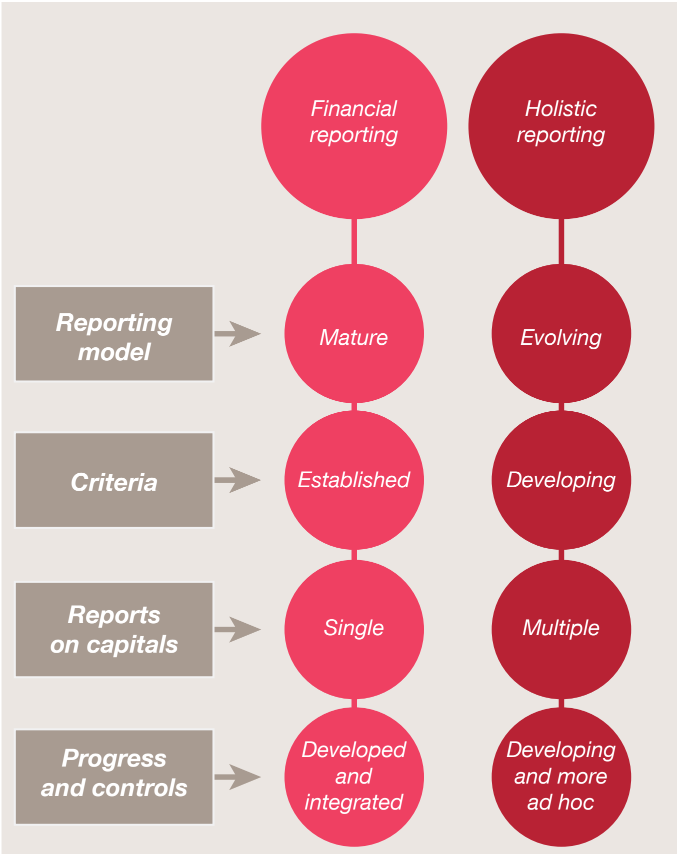
What is integrated reporting assurance?

Integrated reporting assurance would most likely be a combination of assurance over the underlying processes as well as the data and information reported in an integrated report. It will need to be holistic and extend to all the elements and principles of integrated reporting – to the point that an overall opinion could be expressed on an integrated report.

For the reasons mentioned previously, users of the report are still in a process to identify their specific assurance needs – and this may differ from stakeholder to stakeholder. Similarly, assurance providers (both internal and external) are considering their response with regard to the integrated report assurance debate and are considering aspects such as new assurance standards and multidisciplinary teams.

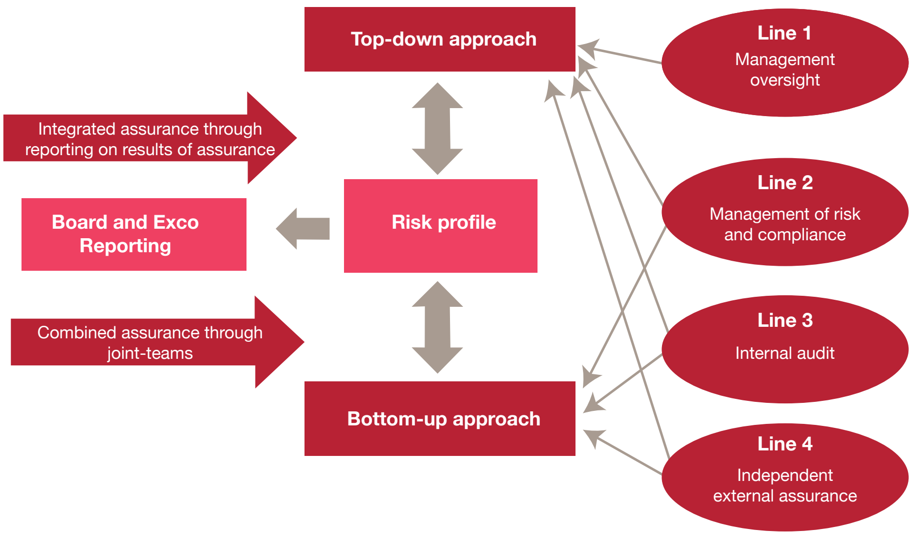
While these processes are ongoing, a stakeholder which has the integrity of information close at heart is surely the board of an organisation, especially given they are responsible for making a statement to this effect in the integrated report.

Fig. 13 The evolution of reporting



Source: PwC

Fig. 14 Process for integrating and co-ordinating assurance activities



Source: PwC

The board should currently turn to their 'combined assurance model' for a view on assurance over important information going into the integrated report – and should not underestimate the different sources of assurance they are being provided with – as depicted below.

Key challenges to consider

Do you know if your organisation, the board and the audit and risk committee are:

- Provided with the right amount of assurance?
- In the right areas?
- From people with the best and most relevant skills?
- As cost effectively as possible?

Are your assurance providers:

- Duplicating work and efforts?
- Providing inconsistent results?
- Operating in silos?

Inspiring examples

Example 5: Governance integrated into strategy

GOVERNANCE

Board activities in 2014

Strategic priorities are consistent throughout the report

Growth

The Group's plans for continued investment in high-growth markets, in combustibles and in non-combustibles, is central to the Board's annual agenda, ensuring that growth remains our key strategic focus.

Activities in 2014

- Consideration of industry trends, competitor environment, the outlook for tobacco products and next-generation products (NGPs) and the innovation pipeline for combustible products;
- Reviewing the implementation of the Group strategy and satisfying itself that its delivery was being accelerated given the current regulatory environment and industry trends;
- Receiving updates on the strategic and tactical opportunities for inorganic growth and the M&A strategy objectives;
- Receiving updates on the Group's NGP business, the strategy for tobacco heating products and the innovation pipeline in this area. Discussing challenges faced in the development of nicotine delivery solutions and reaffirming the objective to develop products that satisfy the consumer in performance and taste;
- Reviewing the impact of foreign exchange rates on the Group's financial performance;
- Considering the trade marketing and distribution strategy and how this will contribute to growth;
- Receiving updates on the Group's joint venture with the China National Tobacco Corporation (China Tobacco), which began operations in 2013, and market initiatives in Myanmar, the Philippines, Morocco and Bangladesh;
- Discussing the Group's Risk Register, improving the Board's understanding of Group-wide and regional risks, and determining the Group's risk appetite in the context of specific growth opportunities; and
- Reviewing the quarterly financial performance of the Group's associate companies, Reynolds American Inc. and ITC Ltd.

Productivity

The Board pays close attention to the Group's operational efficiency and our programmes aimed at delivering a globally integrated enterprise with cost and capital effectiveness, including access to financial markets.

Activities in 2014

- Consideration of a review of the Group's centre and regional organisational structures, which identified opportunities for standardisation of processes, elimination of duplication and simplification of structures;
- Closely monitoring the continued roll-out of the Group's new Operating Model and Global IT solution, which will contribute to the growth and productivity agendas;
- Receiving reports on the significant improvements that have been made in delivering speed and scale of product distribution, reducing out of stocks and ensuring better product quality at the point of sale;
- Benchmarking the Group's trade marketing and distribution resources against best practice to identify cost savings and to ensure that the Group achieves a good return on its investments with retailers as well as in relation to its distribution infrastructures;
- Regularly reviewing the Group's liquidity, confirming that the Company was conforming with its financing principles, and noting planned refinancing activities for the year ahead; and
- Continually keeping the Group's annual share buy-back under review and then suspending it upon the announcement of the Reynolds American deal.

Board strategy days

Delivering growth

In September 2014, the Board held a two-day off-site meeting in the UK to discuss Group strategy.

It addressed the need to accelerate delivery across our strategic pillars given the current industry and regulation trends.

The Director, Marketing presented significant consumer trends, new tools and methodologies to gain consumer insights and opportunities for future growth.

The Board considered the related benefits and likely timeframe with regard to the acquisition of Lorillard by the Group's associate company, Reynolds American Inc.

The Board also received updates on how nicotine-based products are being further developed for commercialisation, after the launch of the Group's Vype product.

Board meeting in Hong Kong

This meeting, held in October, gave the Board the opportunity to review the businesses in the Asia-Pacific Region. The Board received presentations from each of the Region's key markets and had the opportunity to visit a number of outlets in central Hong Kong where the Group's brands are sold.

For more information on our Group Strategy
see pages 14 and 15 of our Strategic Report

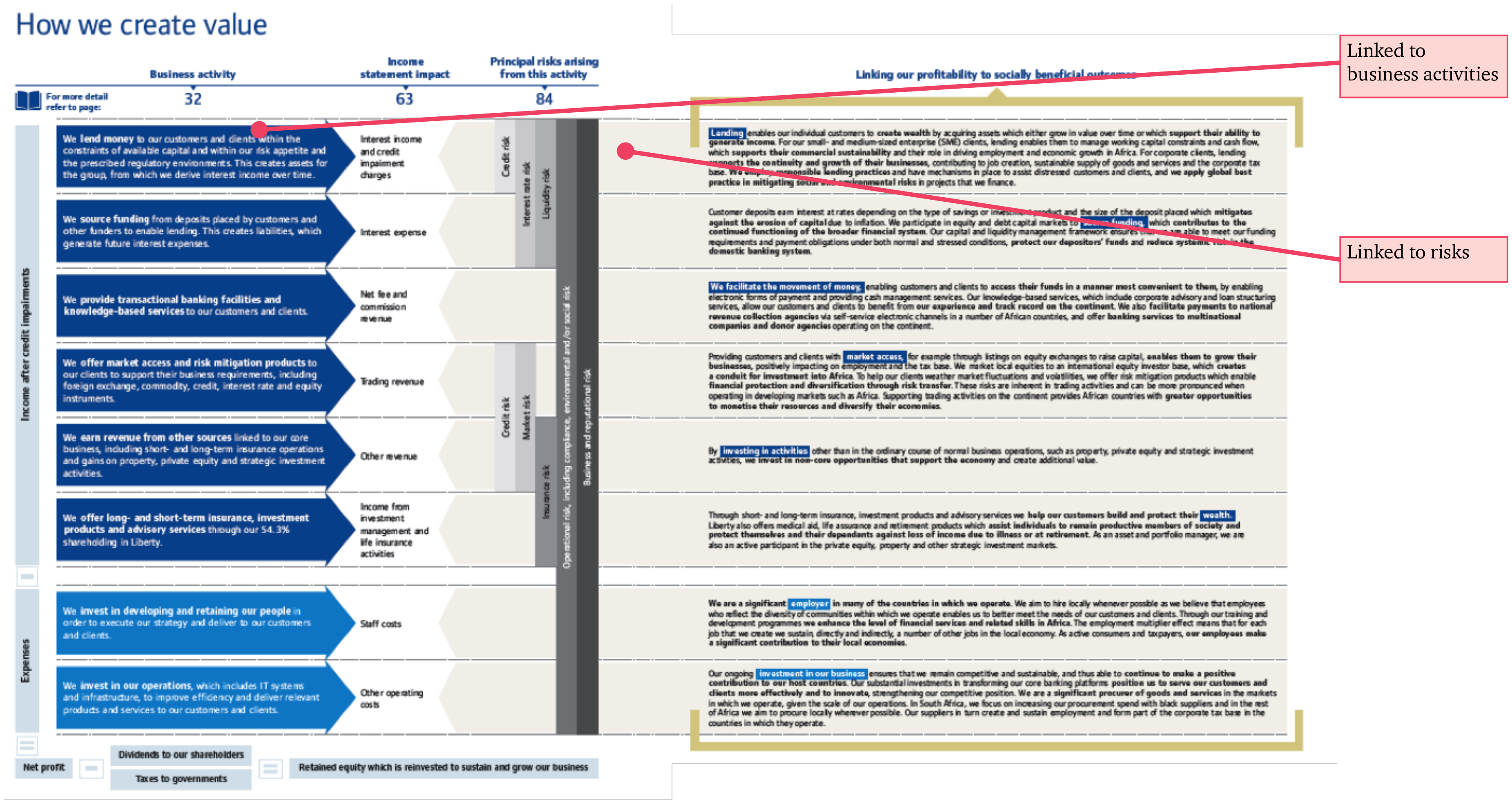
Actual activities of the Board and how they supported strategy

Why this example?

The strategic focus in this report binds its different elements together. Strategic priorities are clearly defined and every area of reporting clearly links back to strategy. Many reports achieve integration in some areas of reporting, but this report takes it to the next level in explaining how the activities of the board support its strategic objectives.

Source: British America Tobacco Annual Report 2014, page 52

Example 6: Linking financial performance to broader economic benefits



Source: Standard Bank Group Annual Integrated Report 2014, page 6-7

Why this example?

This example illustrates how different products and service offerings create value not only for customers, but also for society in a broader sense, and how this links to financial performance for the company. It also demonstrates connectivity by linking to more detail on business activities and risks in other areas of the report.

Theme 4: Putting the 'K' in KPI

In Theme 3 we emphasised the importance of embedding integrated thinking into the organisation. Measuring the success of an organisation's strategy is dependent on identifying the right performance indicators – the key indicators that inform strategy.

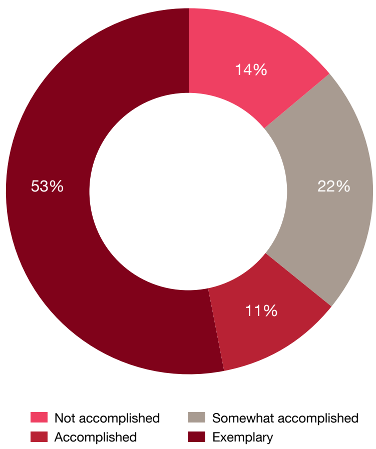
This sounds simple, but it can be challenging to align your strategy firstly to value drivers, and then to KPIs appropriate for providing management information.

What our survey found

Just more than half (53%) of reports surveyed clearly identified the performance measures that were selected to monitor progress against strategy. The remaining reports demonstrated deficiencies in identifying key measures of success.

Companies have room for improvement in contextualising performance measures. Only 31% of reports surveyed clearly defined each KPI and the rationale for its use and targets for future performance were only provided in 22% of reports surveyed. This information is crucial in contextualising how the company monitors performance, yet appears to be a luxury when producing an integrated report.

Fig. 15 Clear identification of performance measures to monitor progress against strategy

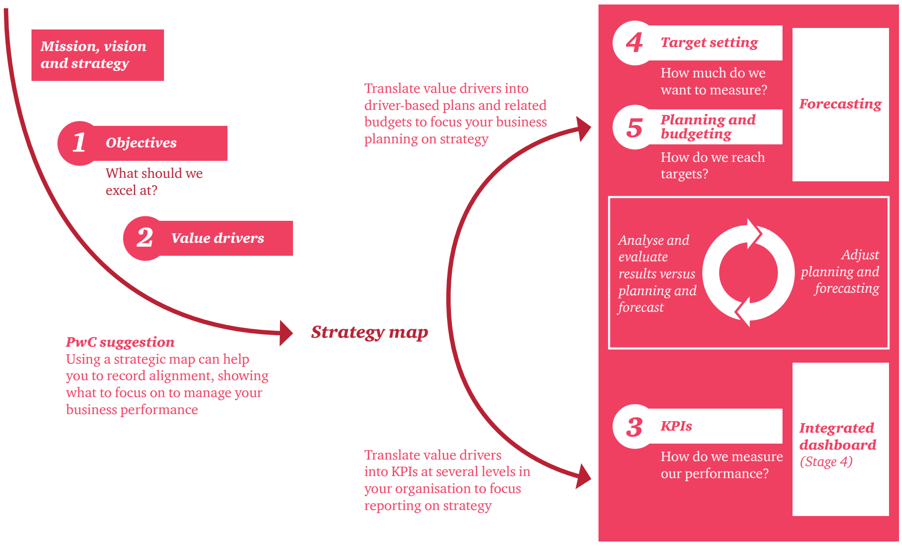


Source: PwC analysis

Aligning strategy with management information

Many businesses use standard KPIs without truly aligning these with their organisation's specific strategy. Effective performance management is about achieving this alignment, as illustrated in the accompanying diagram.

Fig. 16 Alignment of strategy



Source: PwC

In order to translate your strategy into relevant management information (KPIs), the diagram outlines a number of steps to complete:

1. **Objectives**
   Clearly understand your organisation's strategic objectives.

2. **Value drivers**
   Consider what activities the business should excel at to deliver on its strategic objectives.

3. **KPIs**
   Think about how much you want to measure – and whether it can be measured. Remember your aim – selecting metrics which are aligned to strategic goals and which will tell you what is really happening in the business. Therefore it is important to:

   - Have a clear view of the strategic goals and how these can be measured;
   - Find a balance between financial and non-financial KPIs;
   - Use leading (forecast) and lagging (past performance) KPIs and;
   - Make sure your KPIs provide intelligent, connected information that is still easily understandable and relevant for people in the entire organisation.

4. **Target setting**
   Your KPIs are also used to set targets and objectives for teams and individuals, against which performance is measured.

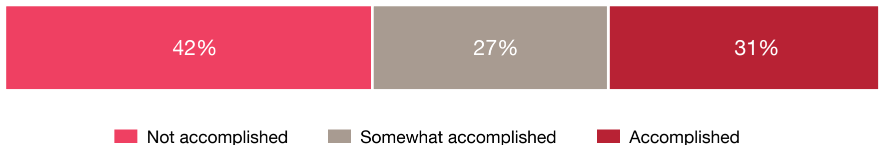
5. **Planning and budgeting**
   In order to achieve its targets, the organisation should develop and implement action plans.

What makes a performance indicator 'key'? What type of information should be provided for each indicator? And how can it best be presented to provide effective reporting?

Fig. 17 Future targets for KPIs

Source: PwC analysis

Fig. 18 Definition and explanation of KPIs provided



Source: PwC analysis

What is key?

The starting point for choosing which performance indicators are key to a particular company should be those that the board uses to manage the business. In our experience, many boards tend to receive financial performance indicators, even though they may be communicating strategies such as maximising customer experience, or attracting and retaining the best and brightest people.

A challenge is whether the KPIs currently presented to the board are those that allow them to assess progress against stated strategies, and when reported externally, allow readers to make a similar assessment. If not, is this because the information is simply not available or because it has not yet been escalated to the board, but may instead be assessed by management of individual business units?

In addition, the KPIs will to a degree be conditioned by the industry in which a company operates. So, for example, a company in the retail industry might use customer satisfaction as a key performance indicator, whereas an oil & gas company might opt for measures of exploration success, such as the value of new reserves.

However, management should not feel compelled to create KPIs to match those reported by their peers. The overriding need is for the KPIs to be relevant to that particular company. Management should explain their choice in the context of the chosen strategies and objectives and provide sufficient detail on measurement methods to allow readers to make comparisons to other companies' choices where they want to.

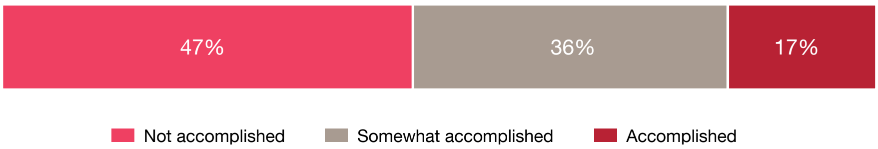
How many KPIs?

Giving the reader multiple performance measures without explaining which ones are key to managing the business does not aid transparency. As noted previously, the choice of which ones are key is unique to each company and its strategy; it is therefore impossible to specify how many KPIs a company should have. However, our experience suggests that between four and ten measures are likely to be key for most types of company.

Segmental or group KPIs?

Management needs to consider how KPIs are collated and reported internally – whether they make sense when aggregated and reported at a group level, or would be more usefully reported at business segment level.

Fig. 19 Alignment of segmental KPIs to strategy



Source: PwC analysis

In some instances it may be more appropriate to report KPIs for each business segment separately if the process of aggregation renders the output meaningless. For example, it is clearly more informative to report a retail business segment separately rather than combining it with a personal financial services segment.

How rigid is the choice of KPIs?

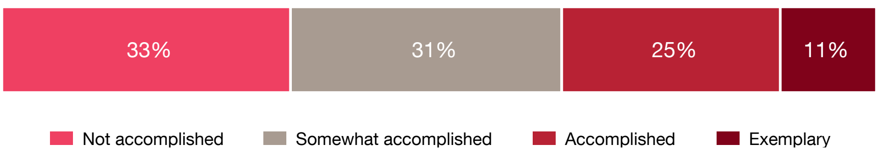
Management should reflect on whether the KPIs chosen continue to be relevant over time.

Strategies and objectives develop over time, making it inappropriate to continue reporting on the same KPIs as in previous periods. Equally, more information may become available to management, facilitating reporting of new KPIs that provide a deeper understanding of the business, or changing how an existing KPI is calculated.

The choice of KPIs is not set in stone for all time: but the reason for, and nature of, changes in KPIs and how they are measured and reported should be clearly explained.

New metrics for executive remuneration

Fig. 20 Alignment of KPIs with remuneration policies



Source: PwC analysis

Probably the most popular metric traditionally used to set executive remuneration is to ensure the company is generating returns above its cost of capital. This is meant to give shareholders comfort regarding the investment they have made and ensure a sustainable return.

Social and economic criteria, for example, employment diversity, have now become more meaningful metrics, particularly in the South African context. These criteria cover a broad spectrum of non-financial measurements that are hidden from day-to-day accounting, but have a direct and significant effect on the well-being of the company.

Some commentators have labelled these measures ‘soft’ key performance indicators, but since they will ultimately determine the future of the company, they should become measurements that directly influence remuneration and incentives paid to executive directors.

These indicators differ widely depending on the type of company and its business profile. Broadly accepted functions such as customer service may be very important criteria where the quality of daily contact with the client is the benchmark by which leaders in the boardroom are measured.

Customer service is a reasonably easy measure, but issues such as climate change and the carbon footprint produced by organisations’ day-to-day operations are far more challenging to manage and measure.

This is a complex subject that requires deep introspection at board level. The most useful insights will not come from the kinds of high-level metrics executives usually use to assess business’s value creation potential, such as return on invested capital, economic profit, and top-line growth.

Although necessary, such metrics do not reflect the underlying causes of value creation in the long term, but should be viewed as financial indicators supporting the sustainability of the business.

Finding the right metrics to apply to directors' remuneration is therefore an item that should begin to appear on the agenda in every boardroom.

Remuneration committees, acting on behalf of the board, will in the future be tasked with the responsibility to measure directors and management on a new dual basis: financial performance and sustainable performance. Some companies have already embarked on serious policy revision to guide the remuneration committee to include, for example, environmental KPIs, on the agenda when deliberating executive remuneration.

KPI categories

Typical KPI metric categories being considered in relation to executive remuneration include:

- Safety;
- Environment;
- Carbon footprint;
- Employee responsibility;
- Customer satisfaction;
- Brand/CSR performance (ranking); and
- Community and stakeholders

Inspiring examples

Example 7: KPIs in context

KPI is defined and rationale for use is explained

Trend data is provided beyond the prior year

Key performance indicators

Measuring our progress

The key performance indicators (KPIs) outlined below are used to monitor progress against our overall financial goal and our strategy. Our strategy defines how SABMiller will achieve its overall financial goal. While it naturally evolves and changes in line with market conditions, this continues to guide our short, medium and long-term growth.

Further detail is contained within the Chief Financial Officer's review and the sustainable development review. Remuneration is linked to our financial goal KPIs as detailed in the directors' remuneration report. Detailed definitions together with an explanation of changes from the prior year are on pages 174 and 175.

What we measure	Why we measure	How we have performed		
Financial goal		**2014**	2013	2012
Total Shareholder Return in excess of the median of our peer group over five-year periods (2012: three-year periods)	Monitor the value created for our shareholders over the longer term relative to alternative investments in the drinks industry	**98%**	140%	89%
Growth in adjusted earnings per share	Determine the improvement in underlying earnings per share for our shareholders	**2%**	11%	12%
Free cash flow	Track cash generated to pay down debt, return to our shareholders and invest in acquisitions	**US$2,563m**	US$3,230m	US$3,048m
Commercial goals		**2014**	2013	2012
The proportion of our total lager volume from markets in which we have no. 1 or no. 2 national market share positions	Gain an overall picture of the relative strength of our market positions	**95%**	95%	93%
The proportion of group EBITA from developing economies	Assess the balance of our earnings exposure between regions of the world economy with highest growth potential and more mature regions	**72%**	73%	77%
Organic growth in lager volumes	Track underlying growth of our core business	**1%**	3%	3%
Group net producer revenue growth (organic, constant currency)	Assess the underlying rate of growth in net sales value of our brand portfolios	**3%**	7%	n/a[1]
Net producer revenue growth in premium brands (constant currency)	Monitor progress in building our portfolio of global and local premium brands	**3%**	7%	14%
EBITA growth (organic, constant currency)	Track our underlying operational profit growth	**7%**	9%	8%
EBITA margin progression	Monitor the rate of growth in our underlying operational profitability	**50 bps**	120 bps	n/a[1]
Hectolitres of water used at our breweries per hl of lager produced	Gauge our progress in reducing the amount of water used in our breweries	**3.5 hl/hl**	3.7 hl/hl	4.0 hl/hl
Fossil fuel emissions from energy use at our breweries per hl of lager produced	Assess progress towards reducing fossil fuel emissions at our breweries	**10.3 kg CO_2e/hl**	11.1 kg CO_2e/hl	12.4 kg CO_2e/hl
Accumulated financial benefits from our business capability programme	Track the payback from our investment in the group business capability programme to demonstrate the leveraging of skills and scale	**US$1,816m**	US$1,229m	US$8[illegible]0m

[1] Not available for 2012.

KPIs are balanced between financial and non-financial performance

Source: SABMiller Annual Report 2014, page 17

Why this example?

This example identifies KPIs that clearly make sense in the broader business context. Every KPI is clearly defined and comparative information gives the reader a sense of a trend over time.

Example 8: KPIs linked to strategic themes

We further develop our strategic themes into strategic priorities which have a three to five-year time horizon. We measure progress against these priorities through the KPIs of the Group executive committee (exco) which are reviewed annually. These are used to determine the bonuses, if any, of the Group exco (36). We detail the bonus calculation process (60) and analyse performance against KPIs, as well as give details of the primary executives responsible for these (20 and 21).

Measures of performance are identified for each strategic theme

Strategic theme	*Strategic priorities*	*What we measure (KPIs) and 2014 target*
Creating and managing stakeholder value	■ Sustainable shareholder returns ■ Responsible corporate citizenship ■ Creating a great place to work ■ Instilling sound governance and values	■ 5% to 15% dividend growth ■ Opportunistic share buy-backs ■ 8% increase from 2013 base on corporate reputation index ■ CSI spend ■ Statistical improvement on vital behaviours in the Group culture audit
Creating a distinct customer experience	■ Brand leadership ■ Customer experience ■ Customer analytics ■ Network quality and coverage	■ Brand corporate identity compliance ■ Net Promoter Score improvements ■ 16,8 million net additions ■ Network performance quality improvement
Driving sustainable growth	■ MTN in digital space ■ Adjacent sectors ■ Enterprise strategy ■ Voice and data evolution ■ M&A and partnerships	■ Grow MTN Mobile Money ■ Data (including digital) revenue increase ■ ICT revenue (MTN Nigeria) ■ M&A and partnership opportunities
Transforming our operating model	■ Asset optimisation ■ Supply chain management ■ Process standardisation and optimisation	■ Group EBITDA margin of 44,8% ■ Realisation of transformation benefits ■ Procurement performance improvement ■ Monetisation of assets
Innovation and best practice	■ Innovation ■ Best practice sharing	■ ICT evolution: cloud services ■ MTN Mobile Money technology ■ Transfer of best practice between opcos

Targets for performance are included

Source: MTN Group Integrated Report 2014, page 15

Why this example?

This example illustrates how performance indicators can be linked to strategic themes and specific strategic priorities. Measures of performance are set out for each strategic theme. Targets for certain key measures are also specified, with broad objectives stated for others.

Example 9: Measuring material issues

Preserving the environment									
Carbon emissions[1] (tCO_2e)*	Aspen recognises that greenhouse gas emissions are required to be controlled in order to prevent environmental damage which could threaten global environmental sustainability. The Group therefore seeks to go beyond mere regulatory compliance in responsibly managing its carbon footprint.	ERM		**Scope 1: 10 917** **Scope 2: 114 615**	Scope 1: 10 744 Scope 2: 119 189	Scope 1: 6 774 Scope 2: 88 008	Scope 1: 15 012 Scope 2: 97 855	Scope 1: 16 609 Scope 2: 37 278	Scope 1 emissions increased 2% and Scope 2 emissions reduced by 4% during the year. Some increases were recorded in Scope 1 emissions at the Port Elizabeth site due to a fault in the chiller units which have subsequently been repaired. Scope 2 emissions benefited from emissions-free electricity at the Aspen Bad Oldesloe site. Closure of sites in Australia continued to reduce emissions. Priority has been assigned to consistent measurement of emissions across the Group's facilities to set a baseline. Where a risk of harmful emissions is identified, consideration will be given to implementing emissions reduction targets. The risk of harmful emissions is currently negligible.
Amount of waste recycled (tons)[1]	Waste recycling is undertaken to manage waste in an environmentally responsible and resourceful manner, extending utilisation of finite resources and limiting waste disposal. In addition to supporting the environment, this is cost effective.	ERM		**3 496**	2 476	1 698	1 574	1 349	The amount of waste recycled increased by 41% during the year through focused waste recycling initiatives. The Port Elizabeth site achieved a reduction in landfill waste of 7% against a target of 5% for 2014.
Managing efficient utilisation of scarce resources									
Electricity used (gigajoules)[1]	Electricity provides the primary source of power to the Group's manufacturing sites. It is an increasingly expensive commodity. In many markets there is a risk of supply interruptions at times of excess load on the source of supply. Efficient electricity utilisation supports lower costs of production and reduces demand, prolonging energy sources.	ERM		**445 224**	469 767	454 357	440 784	276 673	Electricity usage decreased by 5% during the year, mainly as a result of site closures in Australia. Electricity conservation initiatives, implemented during previous years, continued to receive focus in South Africa.
Volume of water used (kilolitres)[1]	Water is essential for the manufacture of Aspen's products, as an energy source (steam), as a lubricant in manufacture, as a delivery medium in liquid medicines, as a cooling agent in temperature control and as a cleaning material. As a limited resource in scarce supply, it is recognised that initiatives to curtail water utilisation will allow for more sustainable water availability.	ERM		**443 893**	499 715	545 372	484 168	418 321	Water used decreased by 11% led by closure of the facilities in Australia. Benefits continue to be realised from water recycling initiatives implemented at the Port Elizabeth facility during previous years.
Conducting our business in a responsible manner									
Number of material incidents of legislative infringements	Lawful compliance underpins an ordered and effective society. Aspen strives to conduct its business with due care and regard for all legislation relevant to the Group.	Internal Group Compliance Officer review		**0**	0	0	0	0	No material incidents of legislative infringements were recorded during the year as a result of effective compliance management and governance processes that are adhered to across the Group.

Source: Aspen Pharmacare Integrated Report 2014, page 38-39

Implications of performance in each area are explained

Trend data is provided for 5 years

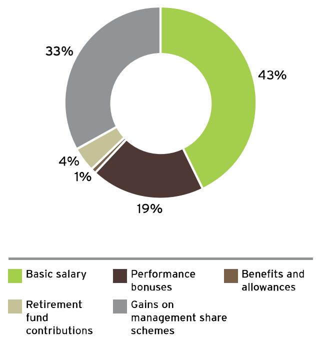
Business relevance of each indicator is explained

KPI identified for each material issue

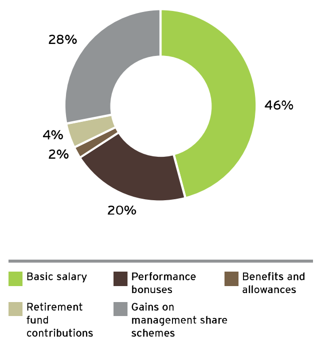
Why this example?

This example identifies material sustainability issues with reference to the Group's strategic objectives, key business risks and engagement with stakeholders. KPIs are assigned to each material issue, with a link to the business relevance thereof. Performance in respect of each KPI is measured with a five-year historical trend provided, and the performance implications of each indicator are described.

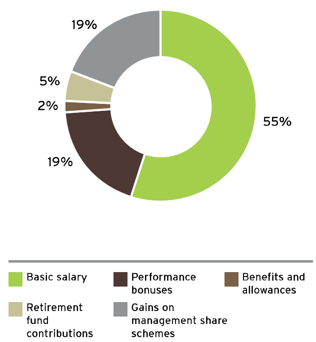
Example 10: Remuneration linked to strategy



Chief executive officer's remuneration mix 2014



Finance director's remuneration mix 2014



Prescribed officer's remuneration mix 2014

Exxaro remuneration: overview

Remuneration elements		Employee categories: Management and specialist category employees – Executive management, F band	Senior management, E band	Middle management, DU and DM band	Junior management, CU and DL band	Bargaining category employees – A-CM band
Guaranteed remuneration	Notional cost of employment or basic salary	Annual adjustments based on: • Performance • External market • Internal parity • Affordability				Annual adjustments based on: • Wage negotiations • Mandate on affordability • Industry benchmarking
	Benefits	• Retirement fund: employer and employee contributions • Medical aid: employer and employee contributions • Housing: company housing or allowances/subsidies applicable to specific business unit				
	Circumstantial remuneration	• Job-specific • Skills scarcity				
Variable remuneration	Short-term incentives	Special performance: • Individual performance base • Strategic business targets			Not applicable	
	Long-term incentives	First tier on budgeted achievement Second tier above target improvement incentives: • Capped at 30% of Exxaro's above-budget improvement				
		Deferred bonus plan (EM and above) • Share match		Not applicable		
		Long-term incentive scheme (DM and above) • Performance conditions			Not applicable	
		Share appreciation right scheme (being phased out, no new allocations since 1 April 2012) • Performance conditions			Not applicable	
Mpower		Not applicable			On 22 May 2012, shareholders approved a new five-year employee share option scheme (Mpower 2012) effective from 1 July 2012 to 31 May 2017	

Short- and long-term incentives are linked to strategy

Guaranteed remuneration

Management and specialist category

Employees in the management and specialist category, including executives, are remunerated on a total-package approach. Guaranteed remuneration adjustments to employees are based on fundamental principles:

- Remuneration is based on performance through individual performance contracting and assessment
- External competitiveness: the market median is the reference point for performance per job family, per level in determining remuneration competitiveness
- Internal equity: same job – same performance – same pay (except circumstantial)
- Affordability: all salary account-related mandates are first included in the Exxaro financial forecasting model to determine affordability.

The table below indicates key performance areas for executives which informs annual guaranteed remuneration adjustments.

Remuneration linked to strategy and balanced between different capitals

Executive key performance areas	CEO (%)	FD (%)	Executive head operations (%)	Other executives* (%)
Vision and strategy	30	30	20	30
Portfolio improvement (ROCE, value release, NPV)	10	15	10	10
Sustainability (safety, health, environment, licence to operate, risk)	15	10	10	10-15
Stakeholder engagement and reputation	10	15	10	10-15
Leadership and people	15	15	15	15
Operational excellence	15	5	30	10
Fit for purpose service	5	10	5	10-15
	100	100	100	100

* Depending on their functional responsibilities.

Source: Exxaro Resources Integrated Report 2014, page 82-83

Why this example?

This example illustrates how remuneration can be linked to strategy to incentives executives in the short and long term. Remuneration is also not based solely on financial performance, but is balanced between the different capitals relevant to the company.

39%

of companies discuss the impact of their activities on external non-financial capitals

Theme 5: Approaching business with an outcome in mind

An organisation's business model is the perfect tool with which to explain exactly what the organisation does, therefore how it makes money and creates value. An organisation's business model illustrates how it uses various capitals, including relationships and resources as inputs to its business activities to produce outputs in the form of products, service, material by-products or waste.

Outcomes represent the internal and external impacts, both positive and negative, of the organisation's business activities and outputs on the capitals. Internal outcomes could include employee morale, organisational reputation, revenue and cash flows. External outcomes on the other hand include customer satisfaction, tax payments, brand loyalty, and social and environmental effects of the organisation itself or of its broader value chain. It is easy for an organisation to focus on positive outcomes while negative outcomes and trade-offs that diminish value are often not discussed. Based on our survey, only 39% of companies discuss the impact of their activities on external non-financial capitals.

Fig. 21 The impact of business activities on external non-financial capitals is discussed

Source: PwC analysis

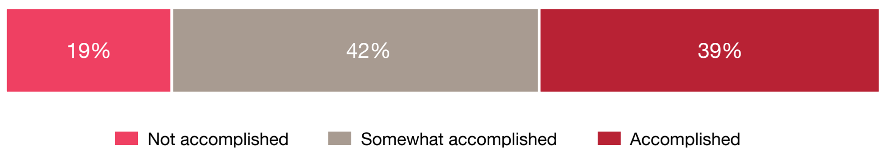
11%

of companies link management of non-financial capital with financial performance

After internalising the value proposition of the organisation into its strategy and business model, the organisation should develop an integrated dashboard to monitor the relevant input, output and impact indicators.

Integration of financial and non-financial capital outcomes is a key element of the integrated dashboard set out in stage 4 of our roadmap to integrated reporting. Only 39% of companies successfully integrate the management of their non-financial capitals into their core strategic business priorities.

Fig. 22 Non-financial capital management integrated into strategy



Source: PwC analysis

Even though quantification of impacts is not a requirement of the International <IR> Framework, this is an area where companies can show innovation in reporting. Currently only 11% of companies make any attempt to link management of non-financial capital with financial performance.

Fig. 23 Management of non-financial capitals is linked to financial performance

Source: PwC analysis

Connectivity matrix

In order to bring all the information gathered in stage 1 to 4 of our roadmap together and to gain a better understanding of connectivity and interdependencies, a connectivity matrix is needed. The connectivity matrix should depict the value creation process from beginning to end.

The basis of the connectivity matrix consists of:

- **Integrating the materiality analysis**
  Providing insight into how the material issues identified in that dialogue are reflected in your approach to risk and your strategy and whether your impact reflects stakeholder needs.
- **Showing your value creation**
  Gaining a better understanding of how you create value for your stakeholders.
- **Evaluating your impact**
  Including management information that connects across financial and non-financial factors and across individual departments.

Example connectivity matrix

	Stakeholder groups	***Key material matters***	***Risks***	***Strategic objectives***	***Value drivers***	***KPIs***	***Targets***	***Impact***
Explanation	The internal and external stakeholders of the organisation, categorised into groups	Matters that are relevant for your stakeholders, identified through a materiality analysis	Risks that could prevent the organisation from performing on the material aspects	The strategic objectives should cover the material matters	The drivers of value which ensure strategy execution and risk mitigation	Indicators to monitor progress on your strategy execution and risk mitigation	Future outlook with goals to achieve the strategy in the short and long term	Looking beyond inputs and outputs to outcomes and impacts – understanding your footprint
Example	• Employees • Shareholders • Suppliers • Etc.	Health and safety	Incidents and accidents	We have the best in industry safety culture	Working on awareness and an open culture	• Lost time injuries • Fatal accidents	Best in the industry on all indicators	All employees feel safe and highly engaged in safety
Notes	*Stakeholders should be identified through a stakeholder mapping. Stakeholder engagement should take place through a structured, regular stakeholder dialogue. In many organisations this is still an ad hoc process.*	*The aim is to bring together aspects which are material for different stakeholder groups. Various frameworks are available that provide guidance.*	*While most organisations have a mature risk assessment, the risks identified may not be (directly or indirectly) related to the material themes. The existing risk assessment may need to be revisited.*	*The organisation's strategy is a response to, for example, a value proposition for stakeholders. It is a management decision and as such it need not cover all the material aspects, although best practice for long-term sustainability is to address all material aspects.*		*Ensure there is a balance between leading (input) and lagging (output) indicators, financial and non-financial indicators, internal and external indicators and process and impact indicators.*	*Targets should be set per indicator. Because all elements of the dashboard are connected, they can be directly linked to the material themes.*	*The dashboard includes quantitative impact information. Qualitative information is not included, but helps with the interpretation of quantitative information.*

Source: PwC

Creating an integrated dashboard in four steps

The integrated dashboard is a tailor-made, organisation-specific tool developed by PwC to monitor stakeholder value with a set of relevant management information.

As illustrated below, we set out four steps for developing an integrated dashboard with a connectivity matrix at its heart:

- Step 1: Assess available information;
- Step 2: Design the connectivity;
- Step 3: Construct the dashboard; and
- Step 4: Implement in internal/external reporting.

Steps to take for developing the integrated dashboard

Steps	**1 Assess available information**	**2 Design the connectivity**	**3 Construct dashboard**	**4 Implement in internal/external reporting**
Activities	• Define purpose, scope and (integrated) team • Assess current dashboards in place • Discuss user needs and (functional) requirements • Assess available information on all elements and add to dashboard format	• Determine the correlations between the elements • Consider establishing existence of potential connections using data analytics • Analyse the gaps and determine project plan to overcome gaps	• Determine final look and feel of integrated dashboard • Make data logistics connections to source systems • Establish integrated dashboard	• Implement instruction usage and adapt reporting manual • Use integrated dashboard as foundation for board meetings • Use the connectivity matrix in your external reporting • Review and adapt
Deliverables	Baseline assessment	Connectivity matrix	Integrated dashboard	Integrated decision making and reporting

Source: PwC

Benefits of developing a connectivity matrix and integrated dashboard include:

- Assist in engagement with investors and other stakeholders by explaining the value creation process in an insightful and intuitive manner;
- Outcomes (even without impacts) may provide important insights for decision-makers using the tool; and
- The board and other decision-makers gain improved insight into the value you create for your stakeholders.

Inspiring examples

Example 11: Business outcomes linked to capitals

Capital allocation

Having both portfolio *and* value chain diversification means we can focus our effort and capital at the points in the value chain that deliver most value, according to the commodity we are mining and the current and projected market conditions.

For more information on how we allocate capital See page 25

BUSINESS OUTCOMES

FINANCIAL

Delivery of consistent and superior cash returns and capital appreciation that reflects free cash flow generated from operations and the recognition of a strong platform for future growth.

For more information on our KPI table See page 16

HUMAN

A healthy, motivated and fairly compensated workforce that is provided with the necessary training and development to achieve their personal and professional objectives and potential.

For more information on our KPI table See page 16

INTELLECTUAL

A high performance culture where we are leaders from both a personnel and operational perspective. The speed and application of leading resource development and mining practices helps us create a competitive and cost advantage.

For more information on our KPI table See page 16

NATURAL

We effectively manage and mitigate environmental risks by implementing robust policies and procedures, and create related opportunities that deliver long term benefits to our stakeholders.

For more information on our KPI table See page 16

MANUFACTURED

Through the effective delivery of our commodities and the collaborative business partnerships we build with our stakeholders, we develop products that benefit society at large.

For more information on our KPI table See page 16

SOCIAL AND RELATIONSHIPS

We create mutually beneficial partnerships with all our stakeholders. We are a development partner with the reputation, the resources and the rigour to deliver on our commitments to all parties.

For more information on our KPI table See page 16

Source: Anglo American Annual Report 2014, page 15

Outcomes are identified for each of the capitals

Outcomes are linked to strategic priorities

Why this example?

This example identifies the outcomes of business activities for each of the capitals, links each outcome to strategic priorities and measures as KPIs.

Example 12: Outcomes per capital

Outcomes are identified for each of the capitals

1 Natural capital

Outcomes (impacts on the capital)

	2014	2013	2012
GHG emissions (Scope 1 & 2) (kilotons)	**67 484**	67 905	68 903
Nitrogen oxides (NOx) (kilotons)	**159**	158	155
Sulphur oxides (SOx) (kilotons)	**223**	215	202
Particulates (fly ash) (kilotons)	**19,3**	17,5	–
Liquid effluent (cubic metres)	**35 833 000**	33 307 000	34 122 000
Total waste (kilotons)	**571**	1 032	1 318

2 Human capital

Outcomes (impacts on the capital)

- More than 33 000 employment opportunities, with R25 billion paid in wages and benefits during the year.
- R5,7 billion in employee share-based payment incentives in 2014.
- Projects at Secunda and Sasolburg created 12 500 construction jobs and 29 000 plant shutdown employment opportunities.
- 451 recordable cases, comprising five fatalities, 156 lost workday cases, 223 medical treatment cases and 67 illnesses.
- 230 523 employees trained, 577 bursaries allocated, and 9 191 employees participated in individual senior development programmes.
- 6 379 employees and 1 735 contractors took up HIV counselling and testing.

Source: Sasol Integrated Report 2014, page 10, 11

Why this example?

In this example outcomes are measured as they impact on each of the capitals. Specific measures are referenced to demonstrate the tangible impact on each capital.

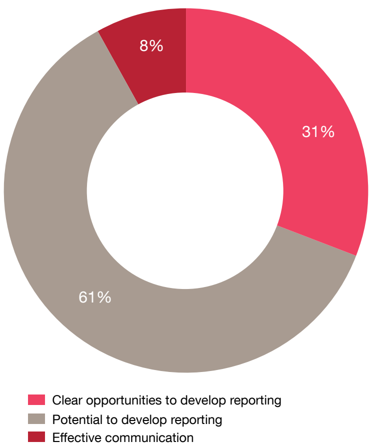
Theme 6: Thinking about tomorrow, today

One of the most challenging differences between traditional financial reporting and the concepts of integrated reporting, is that integrated reporting is not static. Organisations are expected to report on a moving target: what the future may hold and how they plan to adapt their strategy in response to changes. This is a very daunting task for organisations that are primarily equipped to report on what happened in the past.

What our survey found

Reporting on outlook remains the area of reporting where companies consistently missed the mark. Overall, only 8% of reports surveyed demonstrated effective reporting on future outlook.

Fig. 24 Overall reporting on outlook



Source: PwC analysis

The majority of companies surveyed don't discuss expectations for the future availability of, or constraints on the material non-financial capital inputs that they rely on to create value, for example manufactured, human, intellectual, natural, social and relationship capitals. Even from a financial perspective, only 8% of companies surveyed explained funding plans that have been put in place to achieve strategic objectives in future.

Another important aspect that has been left by the wayside is the time frame over which future viability issues are discussed. A mere 6% of reports surveyed discussed this over time frames that are appropriate in the context of their industry.

Fig. 25 Reporting on future viability over appropriate time frames

Source: PwC analysis

Debunking the 'outlook' myth

A common misconception about reporting on outlook is that organisations are all expected to become fortune tellers. This is not the case, and might well be the reason why the final International <IR> Framework dropped 'Future outlook' from its guidelines for content elements and opted simply for 'Outlook'.

Organisations are not expected to commit to a detailed picture of their performance in future periods. They are rather encouraged to evaluate how the external environment might change in the short, medium and long term, how these changes may affect the organisation, and the resources the organisation has in place to respond. This is likely already taken into account in most organisations' risk identification processes and addressed by strategic decision-makers. The expectation is merely that organisations be transparent about how and what they have identified as potential challenges, and what plans they have already put in place to support their strategic objectives.

Inspiring examples

Example 13: Material issues and focus areas

MATERIAL ISSUES

In line with best practice, our integrated report focuses on the most material issues dealt with by Exxaro (material from the perspective of the company and its stakeholders) in 2014. In determining these issues, we follow a logical sequence in distilling:

- Exxaro's top risks
- Stakeholder issues raised, particularly investors, the media and suppliers
- Challenges facing our core coal operations.

These are aligned with our risk appetite framework, in turn based on metrics linked to our top risks. The result is a set of material issues, thematically grouped and detailed throughout this report.

ESKOM

Material issue: Dependency on Eskom as both client and reliable supplier of electricity

Risk: High, with potential impacts on operational and financial results, as well as stakeholder relations

Stakeholders affected: Customers, suppliers, providers of capital, shareholders

Opportunity: Maintaining and building stable annuity revenue by participating in the direct and indirect energy supply for the South African economy

Focus areas

- Broadening local and international customer base
- Regular liaison with Eskom
- Renegotiating Medupi coal-supply agreement – addendum 9 finalised.

OPERATING EFFICIENCIES

Material issue: Operating efficiencies

Risk: High, with potential impacts on operational and financial results, as well as stakeholder relations

Stakeholders affected: Employees, communities, customers, suppliers, providers of capital, shareholders

Opportunity: Implementing group-wide efficiency initiatives, maintaining Grootegeluk among the lowest-quartile cost producers in the world, growing in the global commodity downturn

Focus areas

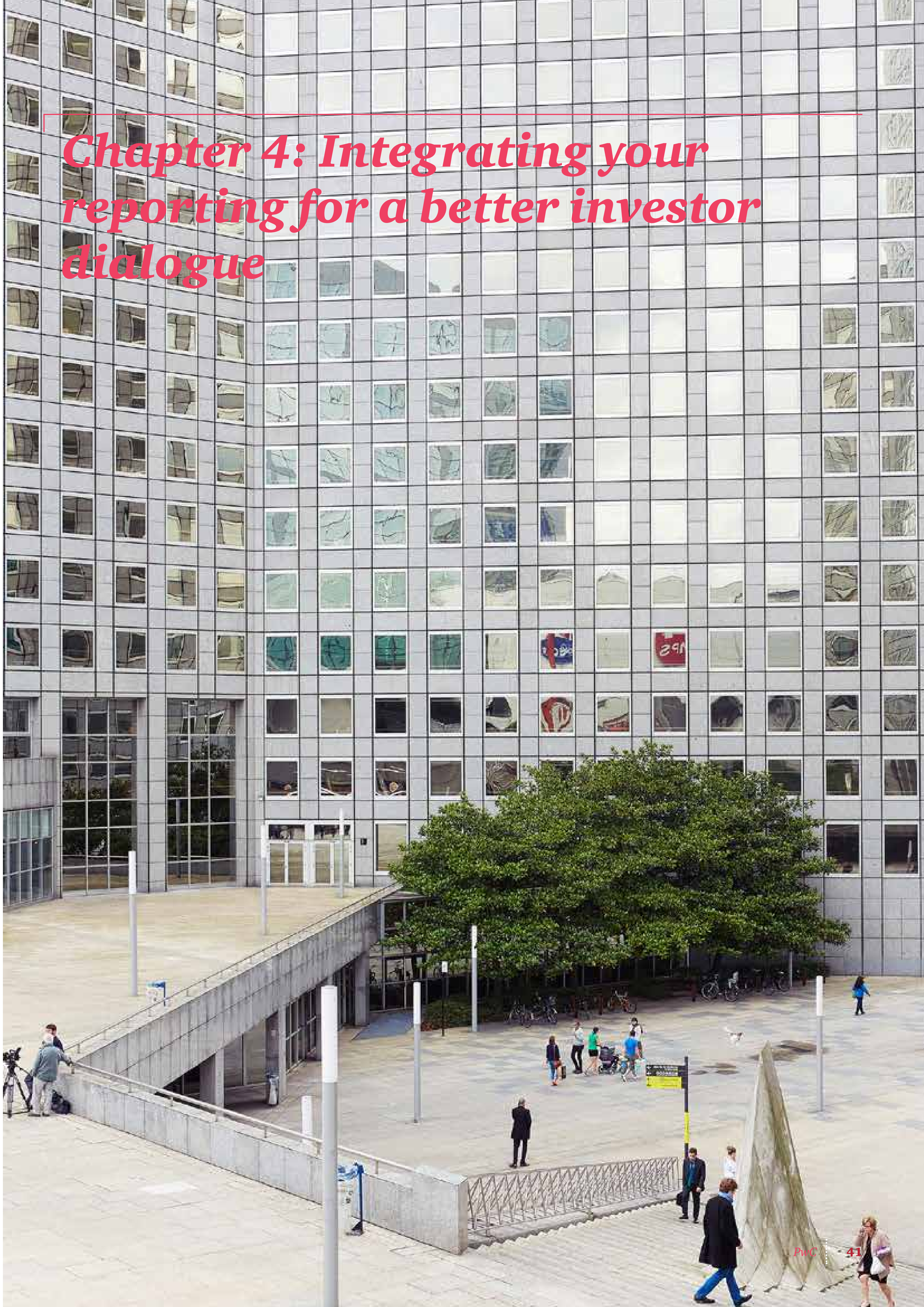
- People productivity – target 2 549 production tonnes/full-time employee, achieved 2 616 on average
- Costs
- Production
- Commodity prices
- Markets: competition and products.

Source: Exxaro Resources Integrated Report 2014, page 24

Why this example?

Material issues are described and the risks associated and affected stakeholders have been identified. The example also explains the current areas of focus to ensure that risk and potential impact is managed.

Chapter 4: Integrating your reporting for a better investor dialogue



The first four stages in our roadmap for integrated reporting, even if not fully completed, may be seen as 'homework' or preparation for external reporting. This preparatory work will help organisations make fundamental improvements in external reporting and enable better investor dialogue.

The fifth stage focuses on how to bring all previous activity and outputs together to develop an integrated report:

1. **When gathering the information the organisation wishes to disclose publicly, make use of existing reporting process and governance.** The process of integrated reporting doesn't require different reporting processes, but our experience suggests existing processes could be more effective:

   - *Multidisciplinary steering group:* In an organisation's governance framework around the reporting process, it is important to make sure that there is one steering group that provides – for the reporting project team – the vision of what the annual report should contain. The steering group should also assess whether milestones are being achieved during the writing and reporting process. Its membership should be multidisciplinary, e.g. including representatives from strategy, HR, internal audit, external communications, investor relations and reporting.

   - *Avoiding a compliance mentality:* Integrated reporting will not realise tangible, sustainable benefits for the organisation (as discussed in Chapter 2) if it becomes a compliance exercise. So the steering group, on behalf of the board, must continue revisiting the three fundamentals that underpin each stage on the roadmap each reporting year.

   - *Comparability with peers:* Periodically check whether the information reported is comparable with that issued by peers. The true value of information lies in comparability. When organisations begin to develop integrated reports, this usually results in more entity-specific information. This is welcome, but organisations need to consider the risk of losing comparability with their peers.

   - *Responsibility for reporting results:* Organisations should try to nominate data-owners: individuals within the organisation responsible for data collection and quality for each material matter. Leaving this responsibility with the project team can create too great a burden for them.

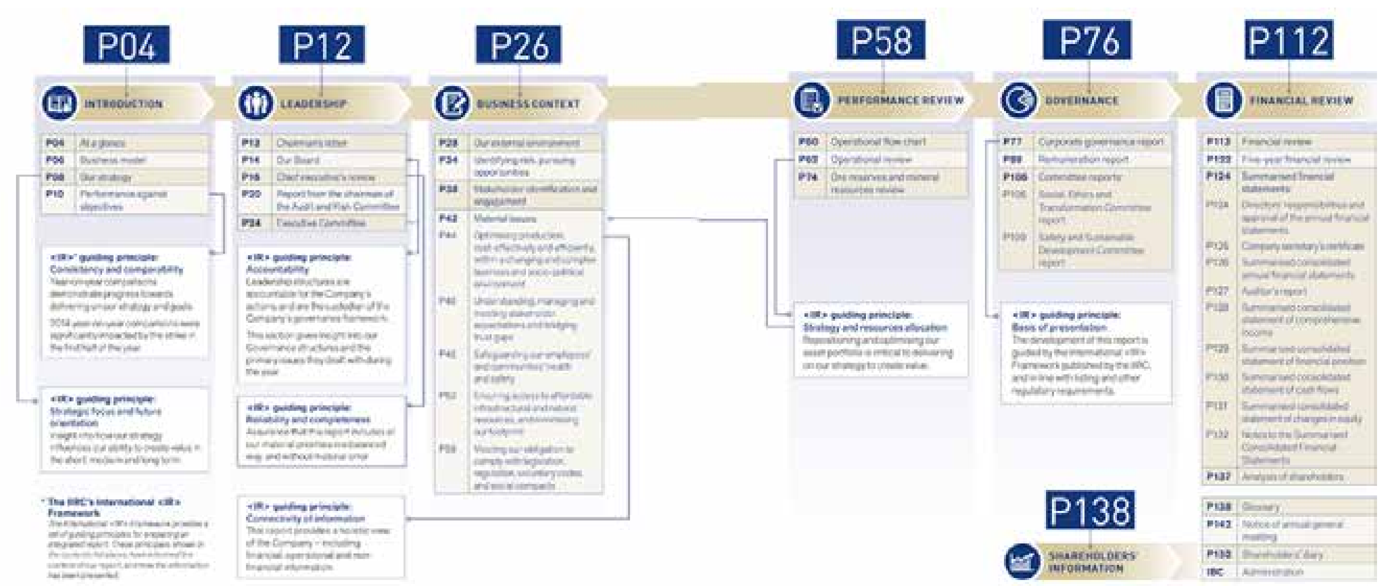
   - *Quality and reliability of the data:* If organisations seek assurance over their reports, the reporting process should be discussed with their auditor, both in terms of process and content (structure, scope and boundaries of the report). This helps to ensure the audit plan is aligned to assurance needs, and that the new structure of the integrated report isn't in conflict with the assurance report.

2. **Nominate *one* responsible writer.** Writing an integrated report requires a different mindset from writing a traditional annual report. The writer will need coaching in how the connectivity matrix serves as a backbone for the report, i.e. how the matrix can be converted into a clear and compelling story of the organisation's value creation process. It is vital to coach the writer throughout the process and make sure the steering group provides regular feedback.

3. **Start with a blank page when planning your report content.** When writing an integrated report for the first time, a fresh approach should be taken. Avoid copying and pasting information from previous years, and don't assume the structure of previous reports must be followed. That said, information from previous years may still be useful.

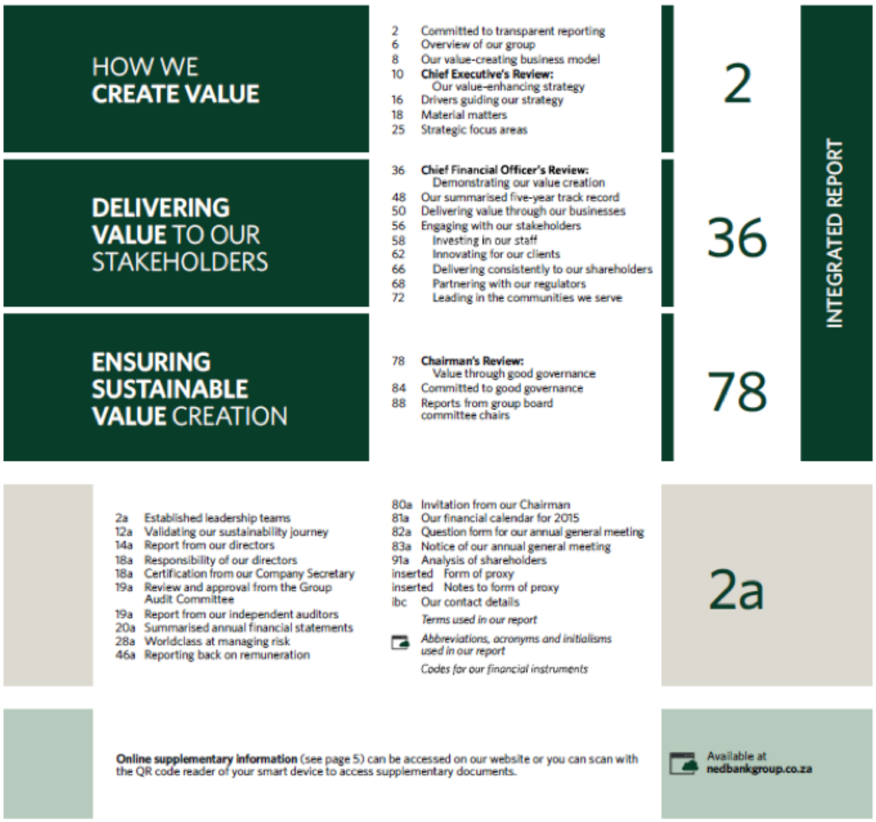
   When developing content, take inspiration from best practice sources, e.g. databases of examples. The table of contents should follow the storyline of the organisation's connectivity matrix (see Stage 4), but it might look something like the accompanying examples.

Example 14 Connected table of contents



Source: Anglo American Platinum Integrated Report 2014, page 2-3

Example 15: Value-focused table of contents



Source: Nedbank Integrated Report 2014, page 1

4. **Use the connectivity matrix as the storyline for writing the report.** Integrated reporting is about showing connectivity, from stakeholder engagement to reporting on impact. But in our experience most integrated reports still lack the connectivity their name implies, for example between stakeholder engagement, strategy and risk, but also between various stakeholder value propositions and various impacts. Try to avoid this problem by basing the report's story on the connectivity matrix, working through its columns from left to right. In this way, the performance and impact (i.e. the value created for stakeholders) reported at the end of the report should still link to the beginning of the value creation process: the key issues identified from the stakeholder dialogue.

5. **Determine the scope and boundaries of the report.** In preparing the report, make a distinction between scope and boundaries, the storyline and content of the report:

   - Scope and boundaries are not only relevant for compliance with reporting guidelines, but also for making sure that the report remains relevant and concise.
   - Scope and boundaries should be determined at the start, and then monitored by the steering group to avoid less relevant content creeping in. There is a risk of 'scope creep' because different parts of the organisation often have their own content wish list.
   - Determine the scope and boundaries by reference to the material matters. Less relevant content could always be included in enclosures or on the website.
   - For integrated reports, the boundaries of the report are likely to be broader than for financial reports, extending beyond the legal ownership structure to include the value chain.

6. **Evaluate the process.** Integrated reporting is a process of continuous improvement. When asked, CFOs and other executives will often say that a key benefit of annual reporting is that it builds in a 'reflection moment' for the organisation. The integrated reporting process should therefore be evaluated as follows:

   - Evaluation by the steering group should take place at predefined milestones to capture lessons learnt, conclude whether ambitions have been realised, and discuss whether that has an effect on future ambitions.
   - Evaluation should include ambitions to further develop IT solutions to align management reporting and external reporting, and to embed the integrated management information in an integrated dashboard interface with underlying management systems and processes.
   - The evaluation process should include feedback from investors and other stakeholders on how they perceive the report, and whether the new language of integrated reporting is understood and contributes to better stakeholder dialogue.
   - The reflection moment should capture the business case, i.e. the benefits of integrated reporting. These outcomes should be shared with the board to ensure their permanent engagement. The board should also consider to what extent integrated reporting and integrated management information provides better insight into the organisation.

7. **Develop a three-year project plan for improving your reporting.** As noted, integrated reporting involves a continuous improvement process, which requires time and resources. Therefore, prepare a project plan to prioritise ambitions for a three-year period.

Appendix 1:Companies surveyed

Company	JSE Listing Code	Year end
Anglo American plc	AGL	12/31/2014
Anglo American Platinum Limited	AMS	12/31/2014
AngloGold Ashanti Limited	ANG	12/31/2014
Aspen Pharmacare Holdings Limited	APN	06/30/2014
Assore Limited	ASR	06/30/2014
Barclays Africa Group Limited	BGA	12/31/2014
BHP Billiton plc	BIL	06/30/2014
Bidvest Group Limited	BVT	06/30/2014
British American Tobacco plc	BTI	12/31/2014
Capital & Counties Properties plc	CCO	12/31/2014
Compagnie Financière Richemont SA	CFR	03/31/2014
Discovery Holdings Limited	DSY	06/30/2014
Exxaro Resources Limited	EXX	12/31/2014
FirstRand Limited	FSR	06/30/2014
Growthpoint Properties Limited	GRT	06/30/2014
Impala Platinum Holdings Limited	IMP	06/30/2014
Imperial Holdings Limited	IPL	06/30/2014
Intu Properties plc	ITU	12/31/2014
Investec Limited[17]	INL	03/31/2014
Kumba Iron Ore Limited	KIO	12/31/2014

[17] Due to their dual listed nature, Investec Bank Limited and Mondi Limited are respectively featured twice amongst the Top 40 companies listed on the JSE. The Group integrated report has been assessed once as the content of both reports has been included within the Group integrated report.

Company	JSE Listing Code	Year end
Life Healthcare Group Holdings Limited	LHC	09/30/2014
Mediclinic International Limited	MDC	03/31/2014
Mondi Limited[17]	MND	12/31/2014
Mr Price Group Limited	MPC	03/31/2014
MTN Group Limited	MTN	12/31/2014
Naspers Limited	NPN	03/31/2014
Nedbank Group Limited	NED	12/31/2014
Old Mutual plc	OML	12/31/2014
Rand Merchant Insurance Limited	RMI	06/30/2014
Reinet Investments S.C.A.	REI	03/31/2014
Remgro Limited	REM	06/30/2014
SABMiller Limited	SAB	03/31/2014
Sanlam Limited	SLM	12/31/2014
Sasol Limited	SOL	06/30/2014
Shoprite Holdings Limited	SHP	06/30/2014
Standard Bank Group Limited	SBK	12/31/2014
Steinhoff International Holdings Limited	SHF	06/30/2014
Tiger Brands Limited	TBS	09/30/2014
Vodacom Group Limited	VOD	03/31/2014
Woolworths Holdings Limited	WHL	06/30/2014

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- Ra’ees Mahomed
- Siya Katywa
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