

# The Sustainability Revolution

Excellence in Sustainability Reporting 2011



**ERNST & YOUNG**  
Quality In Everything We Do





Foreword	<b>1</b>
Article from JSE	<b>2</b>
How the reports were adjudicated	<b>3</b>
Rankings	<b>5</b>
What the adjudicators found	<b>7</b>
The Sustainability Revolution	<b>10</b>
Systems, Reporting, Measurement and Assurance	<b>13</b>
International Integrated Reporting Discussion Paper, 2011	<b>17</b>
The sustainability journey	<b>21</b>
Our carbon footprint	<b>23</b>
What we can do for you	<b>24</b>

# contents

## The elevated relevance of Sustainability Reporting

The current focus on the importance of sustainability reporting and the need for governments and business to beware of, understand and plan for the sustainable future of our world, is nothing short of a revolution. It is in this context that the Ernst & Young Excellence in Sustainability Reporting Awards has become one of the key indicators of the response of business to the need to provide information to their stakeholders about their plans for creating a sustainable future.



We increased the scope of coverage of the awards this year, looking to include the top 100 companies listed on the JSE Limited and the top 10 state-owned entities based on asset value. Because the cut-off deadline for the awards conflicted with the financial year-ends of some of the companies, ultimately only 86 were assessed, of which three were state-owned entities.

The results of the awards reveals an improvement in the overall quality of sustainability reporting. This is most likely a result of companies realising the potential benefits of integrated reports which include information on sustainability measures.

Ernst & Young benefited from the services of the Department of Accounting at the University of Johannesburg and would like to thank them for their assistance in developing the mark plan and assessing the sustainability reports for the purposes of these awards. The mark plan developed was based on the guidelines of

the Global Reporting Initiative and was complemented by what the Department considered 'current best practice' in sustainability reporting. This is noteworthy due to the fact that sustainability reporting is a voluntary and evolving area of reporting which is dependent upon innovators to lead the way forward.

In light of local and global developments in corporate reporting, companies are being encouraged to move towards the issue of an integrated report. Since integrated reporting is considered a new concept, we recently conducted a survey to obtain the market's views on the value, challenges, content and process of integrated reporting. The results indicated that while the market understands the purpose and value of an integrated report, differences exist on the approach to this change in reporting.

This is to be expected as different companies follow different reporting processes and operate in different industries with different complexities. As integrated reporting matures and becomes better understood, it should result in concise, innovative reports that provide an overview of how a company creates and plans to sustain value, with due consideration to the economy, society and environment in which it operates.

Finally, we thank all the companies that participated in the awards for their cooperation.

# foreword

# Some notes from the JSE on sustainability

## Introduction

The JSE advocates integrated sustainability as an imperative for all business, as reflected in the pioneering SRI Index and the incorporation of King III into listing requirements (on an “apply or explain” basis), both world firsts by the JSE.

Truly integrating sustainability means taking a holistic approach to the strategy and management of the organisation; one that not only considers financial performance, but also broader risks and opportunities, the impacts of the organisation on the environment and society, as well as the impacts of environmental and societal trends on the organisation. This requires understanding the links between short term gain and long term value; touching on all aspects of operations, assets and finances. Reporting is the result of this process, and should be a true reflection of the state of play, balanced with actual performance results, to enable stakeholders to form a view of the company's ability to make an impact and continue to deliver value.

## The JSE's experience of sustainability reporting

Since inception of the SRI Index in 2004, the JSE has seen tremendous improvements in companies' sustainability performance and reporting. About two thirds of our eligible universe now indicate their usage of the GRI reporting guidelines, with a clear positive correlation between this figure and the Index constituency figures.

Trends amongst our 2010 SRI Index constituents (particularly larger reporting entities) correlate to Ernst & Young's latest rating. Preliminary results from the 2011 SRI Index assessment also demonstrate moves to a more integrated approach – while close to half of the companies still used separate sustainability reports, about 25% of companies (mainly larger reporting entities) are already pursuing integrated reporting, with many others making commitments for the short term.

## The JSE's own response to sustainability

The JSE aims to leverage its position as regulator and influencer in service of our issuers and investors in various ways, traversing listing requirements, investment products

and contributing to thought leadership through research, advocacy and discussion fora.

As a listed company we are not immune to the impacts of sustainability, and remain committed to developing an all-rounded approach to sustainability. This process will take time and proper consideration of all aspects of our business and may not be reflected in public reporting initially, but is aimed at delivering sustained value not only for the JSE as an entity but also for our stakeholders.

## Conclusion

With the worldwide financial crisis underscoring the importance of taking a longer term strategic view of managing risks and impacts, the business paradigm is gradually shifting, with a broader range of stakeholders engaging in issues beyond short term financials. Collaboration at global level is increasing, with corporate South Africa ahead of the emerging market curve in their excellence in sustainability management, social and governance practices, influenced by King III and tools such as the SRI index. Much work remains though, and together with other leaders such as Ernst & Young, the JSE is committed to being part of this journey.

# How the reports were adjudicated

Professor Ben Marx and Ms. Vanessa van Dyk: University of Johannesburg

The sustainability reporting of the companies and public entities were marked and ranked according to a mark plan developed by the adjudicators specifically for this purpose.

The mark plan was developed with specific emphasis on the guidelines of the Global Reporting Initiative (GRI) as this is considered to reflect current thinking and best practise standards regarding sustainability reporting worldwide. This thinking was proven to be warranted as it was found during the adjudication process that most companies provided sustainability reporting in line with the GRI guidelines. Cognisance, where applicable, was also given to the recommendations of the Third King Report on Corporate Governance (generally known as King III) which places a great deal of emphasis on sustainability reporting and good corporate citizenship, and provides clear guidance in this regard. Where the recommendations of King III were not referred to or applicable, such companies were not negatively affected in the adjudication process. It is also recognised that companies may achieve an excellent

level of reporting without adopting the guidelines of GRI.

As in the past, the survey aims to determine the current level and quality of sustainability reporting. The adjudicators are confident that the mark plan recognises companies that, through their reporting, demonstrate that they are keeping up with developments regarding sustainability and shows their commitment to open, honest and reliable sustainability reporting. Significant emphasis was placed on the importance of assurance regarding sustainability reporting, as well as the importance of the balance between the quality and quantity of reported sustainability information. The results of the survey sufficiently differentiate between companies that exhibit a high level of excellence regarding sustainability reporting and those that do not.

It is important to emphasise that the results of the survey are not necessarily a reflection of companies' future sustainability or their track record regarding social, economical and environmental reporting. However, the adjudicators are of the opinion that companies with quality and credible integrated sustainability reporting will command more respect in the investment and broader stakeholder community.

The reports taken into consideration for the purpose of the survey included all reports made available by entities for the survey before the cut-off date of 25 August 2011. The population consisted of the top 100 companies listed on the Johannesburg Securities Exchange as well as the top 10 state-owned entities based on asset value. These reports were obtained electronically either via e-mail or from the company's website. The reports were mostly in the form of integrated annual reports; however, in instances where companies also produced a separate sustainability report, both the reports were adjudicated. In instances where the electronic reports specifically referred to a

company's website, the information contained on the sites was also included in the adjudication process.

As in prior years, the adjudicators take cognisance of the fact that companies operating within certain industries or sectors may find sustainability reporting less challenging than others. This may be as a result of the nature of their businesses and the regulation and legislation surrounding sustainability issues within these sectors or industries. However, the adjudication process considered the accurate and complete reporting of sustainability issues relevant specifically to the company and its stakeholders, based on the nature of the company's operations and the sector or industry within which it operates. This thinking proved justified as is evidenced in the fact that the company ranked top for the second year in succession is not in the extraction or mining industry.





# Rankings 2011

## Excellent (70 + %)

### Top Ten in order of position

1. The Bidvest Group
2. Eskom
3. AngloGold Ashanti
4. Anglo American Platinum
5. Exxaro Resources
6. Gold Fields
7. Impala Platinum Holdings
8. Sasol
9. Northam Platinum
10. Lonmin Plc

### Excellent

- ABSA Group
- African Rainbow Minerals
- ALTRON
- Anglo American Plc
- British American Tobacco Plc
- Nedbank Group
- Tongaat Hulett

### Good (60+%)

- |                                           |                           |
|-------------------------------------------|---------------------------|
| Altech                                    | Murray & Roberts Holdings |
| Barloworld                                | PPC                       |
| BHP Billiton Plc                          | Royal Bafokeng Platinum   |
| Discovery Holdings                        | SABMiller Plc             |
| Evraz Highveld Steel and Vanadium Company | Sappi                     |
| Harmony Gold Mining Company               | Standard Bank Group       |
| Kumba Iron Ore                            | Woolworths Holdings       |
| Liberty Holdings                          |                           |

**Adequate (+50%)**

AECI  
African Bank  
Firststrand  
Mondi  
Old Mutual  
Sanlam  
Santam  
Telkom SA  
Vodacom Group

**Perfunctory (under 50%)**

Arcelormittal South Africa	The Foshini Group	Medi-clinic Corporation	Remgro
Adcock Ingram Holdings	Grindrod	Mr Price Group	Resilient Property Income Fund
Afrox	Hyprop investment	MTN Group	Reunert
Airports Company South Africa	Illovo Sugar	Nampak	Richmont
Aquarius Platinum	Investec	Naspers	SA Corporate Real Estate Fund
Aveng Group	JD Group	Netcare	Shoprite Holdings
Capital & Counties Properties	JSE	Pick 'n Pay	South African Airways
Capital Shopping Centres	Land Bank	Pioneer Foods Group	Spar
Capitec Bank Holdings	Lewis Group	PSG Properties	Tiger Brands
Central Energy Fund	Life Health Care Group Holdings	Redefine	Transnet
Clicks Group	Massmart Holdings	Reinet Investment	Truworths International

**Note on rankings**

The adjudication process ranks the companies into Excellent, Good, Adequate and Perfunctory. As the term “Perfunctory” implies, the companies that are included in this category are doing little more than the bare minimum of sustainability reporting. Classification of Perfunctory does not necessarily imply that the company has performed poorly, however it does imply that the company does not appear to be making a significant effort to present voluntary additional information that is of particular relevance to that entity. Adequate implies that some evidence exists that regular/systematic efforts are being made to set objectives, implement systems and maintain adequate sustainability performance data. Good and Excellent are awarded to companies that give progressively higher levels of meaningful disclosures in their concept of sustainability reporting.



# What the adjudicators found

## Top 10 Companies

### 1. The Bidvest Group

We rated The Bidvest Group as the company providing the best sustainability reporting for 2011 as we believe that its reporting on financial and non-financial information, dealing with economic, social, environmental and governance aspects, is exceptional. Through its reporting it is evident that the company understands and is committed to sustainability and corporate citizenship, and that these concepts are clearly embedded in its business and daily activities. The reporting is provided through the Integrated Annual Report and an interactive and well-designed website. The information reported is easy to read, follow and understand and an excellent balance is achieved between descriptive and performance data.

### 2. Eskom

We continue to rate Eskom's reporting on sustainability very highly. Excellent understanding of the financial and non-financial aspects affecting the company's sustainability and future viability is displayed in the statements from those responsible for governance. This understanding and commitment is carried further throughout the reporting. Excellent integration is further achieved throughout the reporting between financial and sustainability aspects, providing a holistic view of the company's performance and sustainability. As with Bidvest, the information reported is easy to read, follow and understand with a good balance achieved between descriptive and performance data.





# The Sustainability Revolution

By Kelly Gilman

The sustainability revolution truly began in 1987, when the term 'sustainable development' was coined by the Brundlandt Commission's Report as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs.' Since then, sustainability has grown in significance, evidenced by the propagation of sustainability codes, programmes and initiatives.

## Current reality of the Revolution

In South Africa, King III supports the notion that a company is as much a citizen of the world as a natural person. If it wants to survive and thrive, it has to act responsibly. While awareness of sustainability is at a high point, it is juxtaposed with a society and business obsessed with unsustainable consumption and production which ultimately has a net negative impact. Therefore, despite the integral benefits of sustainability, there are many issues which hobble the progress of the sustainability revolution.

Sustainability is not a peripheral concern or a luxury; there are many sound reasons which make it fundamental for long-term survival. These include:

- ▶ **Declining resources:** Human consumption is out of balance with the earth's resources.
- ▶ **Improved risk management:** Understanding sustainability issues will lead to a better understanding of corporate risk.
- ▶ **Shareholder expectations:** Shareholders expect companies to responsibly manage triple bottom line impacts.
- ▶ **Financial benefit:** Sustainability can drive innovation and entry into new markets.
- ▶ **Reputation and trust:** Embedding sustainability initiatives protects a company's reputation and fosters trust.

Although it is clear why sustainability is a "must have" there are arguments as to why sustainability as we know it is not working. Here's why:

- ▶ **The world is not yet a better place:** Wayne Visser of CSR International contends that sustainability has failed because 'at the macro level almost every indicator of our social, environmental and ethical health is in decline.'
- ▶ **Silo mentality:** Sustainability is often managed in isolation. In addition companies do not collaborate with each other, government or society, while small and medium businesses remain mostly uninvolved.
- ▶ **Slow and steady wins the race, or does it?** Slow approaches to sustainability are de rigueur. They lack the scale and urgency required to make a meaningful change.
- ▶ **It doesn't make business sense:** The market emphasises short term financial profitability at the expense of forward planning to mitigate sustainability crises.



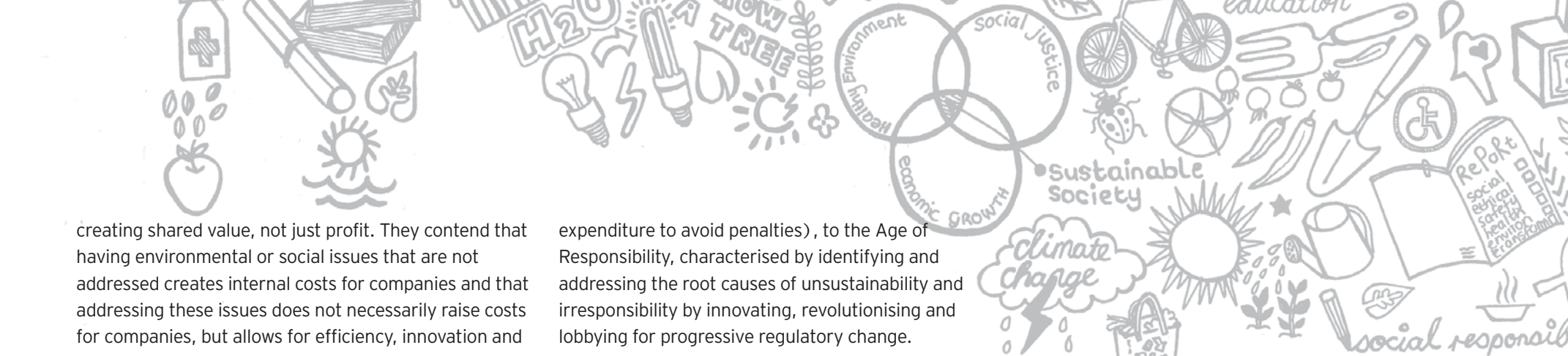
- ▶ **The real face of sustainability:** In 'Corporate Responsibility Movement', Jem Bendell writes that companies are "playing the game like experts" That companies are avoiding drastic action, even where there is evidence of a deepening ecological and social crisis.
- ▶ **Materiality misunderstood:** Most companies fail to focus on the key material sustainability issues on which they can have an impact.
- ▶ **Sustainability is just too complex:** Sustainability covers a wide variety of interconnected issues over various time horizons - understanding the connections and associated impacts between them is challenging.

### **Sustainability Redefined - The Future of the Revolution**

The arguments presented for sustainability as a necessity are too serious to ignore. In the words of Visser, "the issues we are dealing with - the breakdown of ecosystem services, the erosion of morality and the disintegration of social justice - are not marginal. They are business deal-breakers." However, the future of sustainability is open for debate. Some of the most recent thinking on sustainability attempts to challenge current views and pave a path for a sustainable future. The reasoning includes:

### **Creating Shared Value - creating the right kind of profits:**

Michael E. Porter and Mark R. Kramer advance the case for shared value in their paper 'Creating shared value'. They define the concept as 'creating economic value in a way that also creates value for society by addressing its needs and challenges'. By connecting social and economic progress, the purpose of companies is redefined as



creating shared value, not just profit. They contend that having environmental or social issues that are not addressed creates internal costs for companies and that addressing these issues does not necessarily raise costs for companies, but allows for efficiency, innovation and entry into new markets, resulting in reduced costs, more revenue, more responsible products and services and improved access by previously ignored markets.

## CSR 2.0 – from Corporate Social Responsibility to Corporate Sustainability and Responsibility

Visser believes we need a different kind of corporate social responsibility in order to address the declining trend in the world's social, ethical and environmental trends. He contends that companies need to admit to being part of the problem of ineffective CSR and admit they're far from being truly sustainable and responsible. In the paper "The Age of Responsibility: CSR2.0 and the new DNA of business" he advocates that companies need to move from the Age of Greed, characterised by limited CSR actions and responses, taken only if it can be shown to protect shareholder value (e.g.

expenditure to avoid penalties), to the Age of Responsibility, characterised by identifying and addressing the root causes of unsustainability and irresponsibility by innovating, revolutionising and lobbying for progressive regulatory change.

## Conclusion

Many believe that the world is approaching a tipping point. Without major and dramatic paradigm shifts and a speeding up of the sustainability revolution, we will enter the age of collapse. Companies are uniquely positioned to institute change, and deliver innovative and practical solutions to address the systemic problems facing the world, which will ultimately ensure their sustainability and future profits. In the words of Vision 2050, "Crisis. Opportunity. It is a business cliché, but there is truth in it. The perfect storm we face, of environment, population, resources and economy, will bring with it many opportunities."

## 5 Questions to consider

1. Does sustainability operate in a silo in your company?
2. What impact does your company have on society and the environment and does it make the world a better place to live in?
3. How can you create shared value?
4. Have you set any BIG goals regarding sustainability?
5. What opportunities for innovation and revenue growth have you identified arising from sustainability?

# Systems, Reporting, Measurement and Assurance

By Oscar Baruffa

## Measurement systems and reporting structures - an evolving landscape

Traditional annual reports have focussed on historical performance. Part of integrated reporting is trying to encourage companies to report their objectives so that stakeholders can understand how the company intends to create and sustain value into the future.

A company's performance is evaluated in a number of different ways; however, reporting has a distinct difference in that it emanates from the company itself, rather than market perception. It gives stakeholders insight into how the company perceives itself and how it would like to be perceived. Often what is not reported is as telling as what is, particularly in relation to reporting on sustainability matters.

Measurement systems for sustainability reporting have been informal, mostly using tools like Excel spreadsheets. Some companies have matured to using more sophisticated systems, but in general sustainability measurement systems are immature in

comparison to financial measurement systems.

The inadequacy of blind reliance on immature reporting systems becomes transparent to management and the board alike once it is realised that they may not be able to accurately report the link between good financial performance and increased sustainability efforts. It is also apparent when it is difficult to duplicate performance improvements across groups or divisions. This may be the case when despite a direct link to improved performance is known, too many related factors are erroneously included with the aspect being evaluated.

Key questions that will be asked in future development of integrated measurement systems and reporting structures are fairly simple, yet highly focused:

- ▶ What information do we need?
- ▶ Do our systems supply us with the information we need?
- ▶ Is the information being sent to the right person?

- ▶ How do we interpret this information in light of our overall strategy?
- ▶ Do our systems and structures reflect what we want and need to report?

Developing a company's reporting ethos by asking these questions will allow the right systems to develop. These questions should be re-evaluated on a regular basis, but particularly when the sustainability strategy changes to meet the needs of the business.

## Integrated Reporting and Stakeholders: as easy as one, two, three?

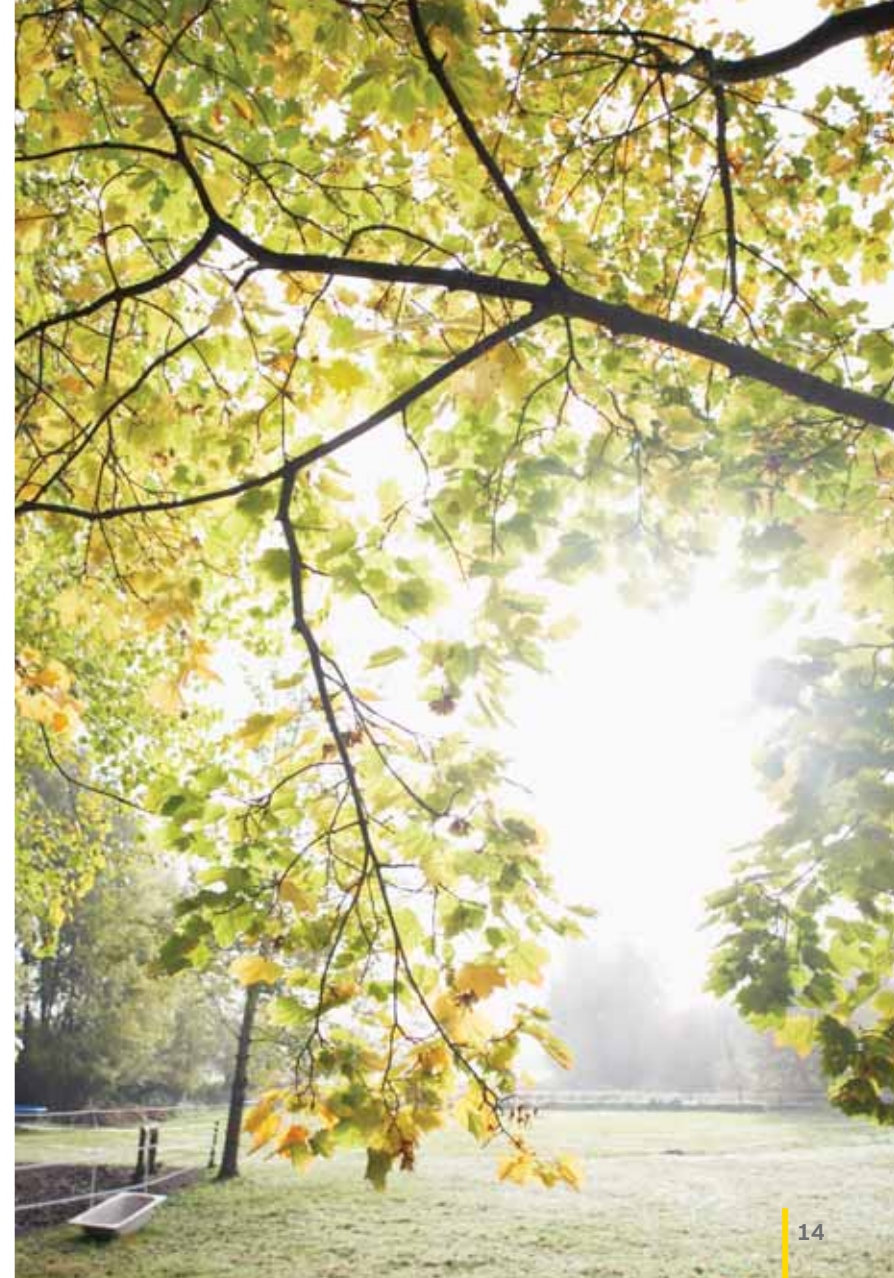
Reporting on sustainability has two viewpoints. The first is that of the company doing the reporting and the second is that of the audience. In addressing the needs of both groups, that which is considered important by the company as well as that which is considered important to the stakeholder needs to be addressed, not just the latter.



The reasoning behind the above statement is simple, stakeholders may not be fully aware of all the important aspects driving an organisation's decisions. Stakeholders should therefore be made aware of those issues which may be outside the scope of what the media and other information sources are informing the stakeholders of being important.

The traditional format of reporting has been to issue a Sustainability Report which is either separate to or included in the Annual Report. Since the introduction of the King Report on Governance for South Africa 2009 (King III), integrated reporting has begun to become more widespread. Integrated reports are intended to provide a concise view of the integrated financial and sustainability performance of the company, ideally showing trade-offs between the two aspects and how the two are interrelated. There is currently no consensus in the market as to whether the integrated report should contain a full set of the Annual Financial Statements (AFS) or just a summary set. The same goes for the sustainability reporting i.e. there is no clear consensus as to whether a full or summary report should be included in the integrated report. In practice, the suite of reports being issued varies, with the most common options being: either a single integrated report issued; an integrated report which either links to a full AFS or sustainability report; or a single integrated report linking to a full AFS and a full sustainability report.

As the aim of an integrated report is to give a concise overview of performance, it is likely that in future, the norm will be to issue three distinct reports. This is especially true for large companies, given the quantity of information they would want to convey in their reporting.





## Reporting as a tool to focus business strategy in the Sustainability Revolution

The often overlooked value of corporate reporting is that it can be used to make sure that everyone in the organisation is “on the same page”. This will be extremely important as we move through the Sustainability Revolution. Organisations will most likely need to re-evaluate the role of sustainability in the operation of their business and the report can be the keystone to ensuring that there is consensus, or at the very least an understanding, of the issues considered important to the continuance of the organisation as a going concern. Reporting can be used as a tool which clearly states where the organisation is, where it’s going and how it’s going to get there.

As business strategy evolves to incorporate this new thinking in the Revolution, the measurement systems and reporting structures may evolve as discussed previously. An excellent example of one approach to this is the recently released Environmental Profit and Loss Account from sports lifestyle brand, Puma. This account has attempted to quantify all the pertinent environmental impacts of the company’s products across its supply chain and is allowing the company to identify where they are most vulnerable to disruptions in their operations, either through climate change, resource shortages, pollution etc. In this case, financial values were applied to environmental aspects and although this is a different use of a financial tool, the scope which Puma have covered is fairly comprehensive. For example, the total green house gas emissions have been allocated a cost in millions of Euro’s per kiloton of CO<sub>2</sub> (equivalent) emissions. Over time the company may alter the measurement and reporting it is using as the system matures.

---

## Reporting can be used as a tool which clearly states where the organisation is, where it's going and how it's going to get there.

---

Due to the nature of the issues considered in sustainability reporting, it is likely that the trend of reporting performance against long term targets will continue, as has been witnessed in some sustainability and integrated reports to date.

### The future of reporting and assurance

Looking to the future, what will reporting look like and what will the role of assurance be? Beginning with reporting, we have already touched on a few points:

- ▶ Systems and structures will evolve to meet the new integrated requirements of the company based on enhanced understanding and application of making an organisation sustainable in the short, medium and long term.
- ▶ Integrated reporting will naturally become more widespread as the Sustainability Revolution takes hold, as companies themselves realise that the standard models of measurement reporting (i.e. only having separate financial and sustainability reports) are not able to measure and convey the information in the right form.

- ▶ The report will serve as a focus point for addressing an organisation's ability to remain operational and create value into the future.

We are also likely to see new sets of Key Performance Indicators (KPIs) included in the Integrated Report. The full AFS might show familiar KPIs such as earnings per share and the detailed Sustainability Report might show the percentage of waste recycled or total the carbon footprint. In the Integrated Report, we could well see KPIs that reflect how sustainability affects daily business operation. If the company consumes vast amounts of water, then perhaps KPIs such as litres per unit or profit per litre might be reported along with information on what the company is doing to ensure it has an adequate supply of water in future. Furthermore, triple-bottom line KPIs may be introduced into all aspects measured, so that the financial impact of sustainability issues is known and vice versa.

Assurance of the reporting will also evolve along with the changes noted above and will continue to play an important role in the reporting process. This role is to give the market and other stakeholders the confidence that not only are the figures and statements true, the

systems and reporting structures support the integrity of the report. In some cases, it may prove beneficial to have combined assurance undertaken for the annual reports.

### Conclusion

In order to publish effective integrated reports, many companies will need to re-think their measurement and reporting procedures. This may initially prove challenging or even daunting, however it can also be seen for what it is: an excellent opportunity to identify and address all aspects that affect business sustainability.

# International Integrated Reporting

## Towards Integrated Reporting: Communicating Value in the 21st Century

The International Integrated Reporting Committee (IIRC) released a discussion paper 'Towards Integrated Reporting: Communicating Value in the 21st Century' (IIRC Discussion Paper) on 12 September 2011. The document considers the rationale behind Integrated Reporting and provides guidance thereon. It also provides information on the IIRC's proposed development of an International Integrated Reporting Framework (Framework) and outlines the steps for its intended creation and adoption.

This article aims to highlight the most pertinent aspects of the IIRC discussion paper including aspects which are similar 'to and different' from the Framework for Integrated Reporting and the Integrated Report Discussion Paper (IRC Discussion Paper) released by the Integrated Reporting Committee of South Africa earlier this year. Attention is drawn to the distinction between the IRC (South Africa) and the similarly-named IIRC (International).

**It should be noted that the IIRC expressly considered the IRC Discussion Paper in the development of the IIRC Discussion Paper.**

Integrated Reporting as defined in the IIRC Discussion Paper is reporting which 'brings together material information about an organisation's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organisation demonstrates stewardship and how it creates and

sustains value. It goes on further to state that in light of the changes 'in the way business is conducted, how business creates value and the context in which business operates', reporting has to change. It points out that 'it is not enough to keep on adding more information; the connections need to be made clear and the clutter needs to be removed'.

In terms of the rationale for Integrated Reporting, the IIRC Discussion Paper states that the development of Integrated Reporting will require a change in established thinking about decision making and reporting, and is ultimately good for business as it:

- ▶ provides a meaningful assessment of the long-term viability of the business model and strategy;
- ▶ meets the information needs of investors and other stakeholders; and
- ▶ allows for effective allocation of scarce resources.

# Discussion Paper, 2011

The IIRC Discussion Paper provides five guiding principles which should underpin an Integrated Report. These are:

- ▶ Strategic focus
- ▶ Connectivity of information
- ▶ Future orientation
- ▶ Responsiveness and stakeholder inclusiveness
- ▶ Conciseness, reliability and materiality

The IIRC Discussion Paper provides suggested content elements for inclusion in an Integrated Report, emphasising the fact that these content elements should be presented in a way that makes the interconnections clear. The content elements at a high level are:

- ▶ Organisational overview and business model
- ▶ Operating context, including risks and opportunities
- ▶ Strategic objectives and strategies to achieve those objectives
- ▶ Governance and remuneration
- ▶ Performance
- ▶ Future outlook





Some practical guidance is provided in terms of extracts from current Annual/Integrated Reports which the IIRC feels represent good practice in Integrated Reporting. The IIRC aims to provide further practical guidance on Integrated Reporting with the establishment of a two year pilot programme from October 2011. The purpose of the pilot programme is to test the recommendations made in the IIRC Discussion Paper.

In terms of the future of Integrated Reporting, the IIRC plans to develop a Framework based on the responses received to the IIRC Discussion Paper, insights from the IIRC pilot programme, research and ongoing engagement with investors and other stakeholders. It is intended that the Framework will help to ensure consistent reporting by organisations, will provide broad parameters for policy-makers and regulators, and will be a focus for harmonising reporting standards. The IIRC intends to publish an Exposure Draft of the Framework for comment in 2012.

### **Comparison of the IRC and IIRC Discussion Papers**

Whilst similarities exist between the principles included in the IRC Discussion Paper and the IIRC Discussion Paper (both recommend that information provided in the Integrated Report is concise, reliable and material) the IIRC Discussion Paper includes additional principles for reporting: strategic focus, connectivity of information, future orientation, responsiveness and stakeholder inclusiveness.

Furthermore, the suggested content elements for inclusion in the Integrated Report in the IIRC Discussion Paper are similar to those in the IRC Discussion Paper. Both include the following at a high level: organisational overview and business model,

## **The IIRC Discussion Paper places much emphasis on risks and opportunities and draws attention to the need to link the strategy and other suggested content elements in the Integrated Report.**

operating context (including risks and opportunities), strategic objectives, governance, remuneration, account of organisational performance against strategic objectives and future outlook.

However, some differences arise in the detail. The IIRC Discussion Paper places much emphasis on risks and opportunities and draws attention to the need to link the strategy and other suggested content elements in the Integrated Report. On the other hand, the IRC Discussion Paper recommends that a report profile and analytical commentary from the leadership of the organisation are included in an Integrated Report.



# The sustainability journey

## From compliance, to opportunity, to an integrated business strategy

### Executive summary

Companies are facing growing pressure to explain and improve their sustainability performance. Investors and equity analysts are building sustainability factors into their analysis and investment decisions. Consumers and nongovernment organisations (NGOs) are demanding more data regarding companies' environmental and social performance. Regulators and standard-setters are piling on the pressure too.

Sustainability has not traditionally been a part of audit committee agendas. Now, management increasingly sees sustainability as a key business driver, and, as one research participant said, 'sustainability has [finally] made its way to the boardroom.' Audit committee members may be on the cusp of more active involvement in sustainability issues.

In order to obtain the necessary insights, interviews with a diverse range of subject matter experts were undertaken to examine how companies are confronting these external pressures and incorporating sustainability into their corporate strategies and cultures.

### There is more pressure on companies to embrace sustainability

With more intense stakeholder scrutiny, companies are embarking on a three-stage 'journey.' Initially, they build sustainability into their risk management approach to comply with regulations. Next, they capture the economic benefits offered by sustainability. Finally, they seek to integrate sustainability into their corporate strategy. There are reporting challenges at each stage of the journey.

*Note:*

*The complete reports are available from Ernst & Young:*

*Issue 14: April 2011, Doing more and doing it better: audit committees meet today's demands.*

*Issue 11: September 2010, The sustainability journey - from compliance, to an integrated business strategy.*

### Stage 1: Building sustainability into regulatory compliance and risk

The prospect of non-compliance with regulatory requirements often triggers a company's focus on sustainability. This is driven initially by the requirement to reduce carbon emissions and report on sustainability performance. Early on, companies have to address some basic reporting questions:

- ▶ What are the mandatory requirements?
- ▶ Which voluntary reporting standards should they adopt?
- ▶ How can they ensure sustainability risks are communicated in financial and corporate reporting?

**"A company cannot walk before it can crawl.  
You cannot skip any of the steps in making  
sustainability part of your company."  
- Leading advisor on sustainability**

### **Stage 2: Focusing on and reporting the economic benefits**

Companies find that as they become more effective at dealing with sustainability risks, potential cost savings and revenue opportunities emerge. Business managers may initially be sceptical of the opportunities provided by sustainability programmes. Managing a range of sustainability data systems and reports can be a challenge.

### **Stage 3: Integrating sustainability into the business strategy**

Companies' approaches to their sustainability journey are always evolving. At this stage of the journey, business leaders strive to fully integrate sustainability into the organisation. This means establishing CEO and board-level commitment to sustainability and incorporating it into top-level decision making. When sustainability is fully ingrained into a company's external communications, companies focus on validating the data – a task increasingly undertaken by external parties.

### **Conclusion: Audit committees could play a critical role in sustainability**

Leading companies are progressing through the three stages of the sustainability journey. Boards should be questioning management on its sustainability strategy, and ensuring stakeholder expectations are met through clear, transparent reporting. Audit committees are well placed to provide oversight, given their expertise in compliance, risk management and reporting. Our research found that the evolving complexity of the regulatory environment may demand audit committee involvement in the near future.

# Our carbon footprint

Calculated for our Excellence in Sustainability Reporting event, 2011

## Overall Scope

### Scope 1: Direct emissions

- ▶ All transport to deliver reports did not occur in Ernst & Young owned vehicles; therefore there are no scope 1 emissions.

### Scope 2: Indirect emissions

- ▶ Electricity consumption from the event venue and the use of the PA system
- ▶ Electricity consumption from laptop use in the organisation of the event

### Scope 3: Other indirect emissions

- ▶ Transport related emissions (e.g. delivery or collection of reports, delegate travel to the event)
- ▶ Paper consumption
- ▶ Catering (emissions)

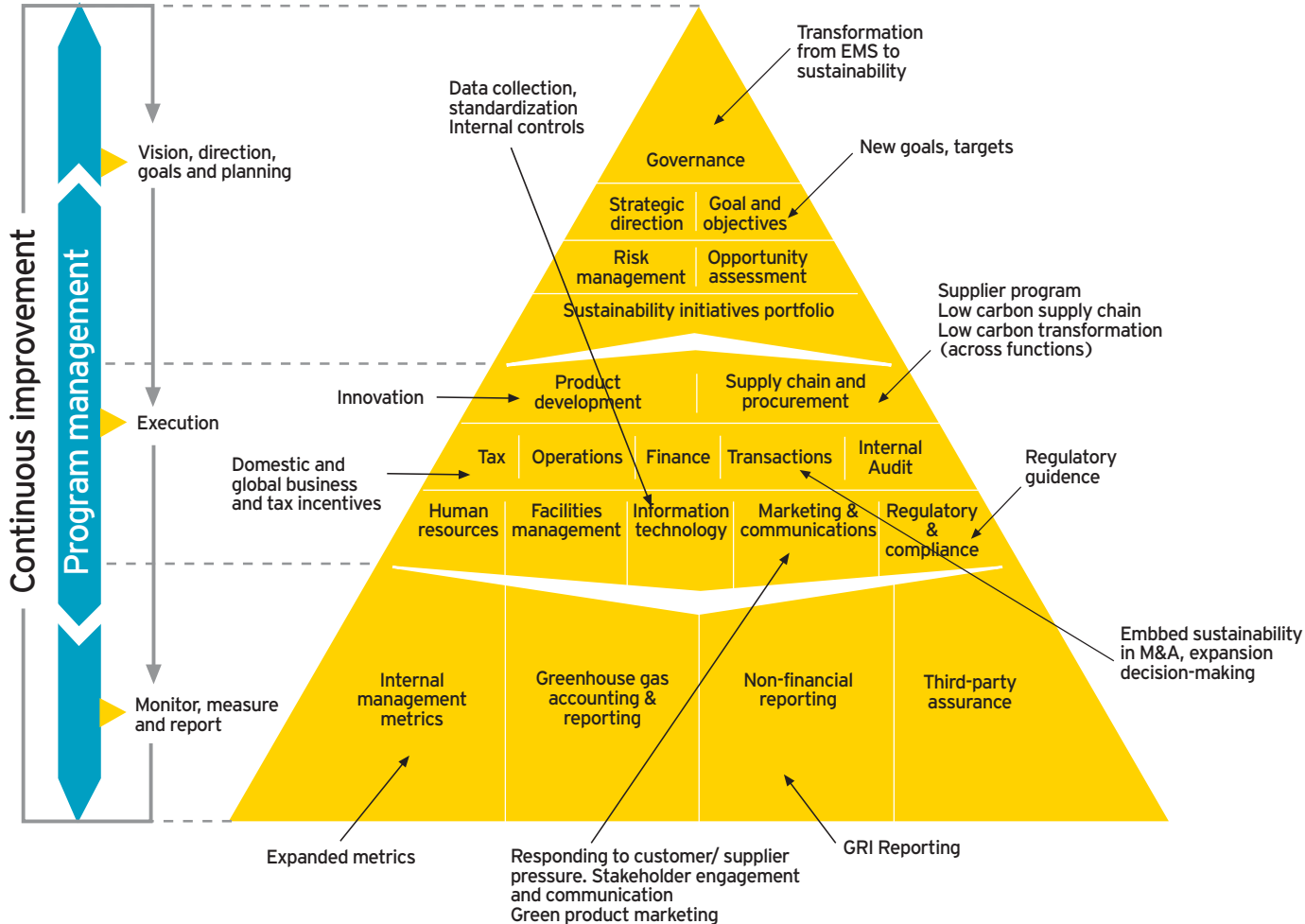
Scope	2011 (kg CO <sub>2</sub> )
<b>Scope 1:</b>	
Ernst & Young transport emissions	0
<b>Scope 2:</b>	
Electricity consumption from the venue: Lighting	6.09
Electricity consumption from the PA system	0.50
Electricity consumption from laptop use	80.07
<b>Scope 3:</b>	
Transport emissions from the delivery/collection of reports	3.36
Transport emissions for travel to/from the event	742.87
Paper consumption from Paper Use	294.79
Catering emissions	2.80
<b>Total emissions</b>	<b>1130.48</b>

## Assumptions:

- ▶ 50 external people were assumed to attend the event
- ▶ National emission factors were used where possible (e.g. Eskom's electricity emission factor and Sappi's paper production emission factors). International default emission factors were used for travel and fuel related emissions.
- ▶ Estimates were calculated for the distance travelled for the delivery of reports based on distances between origin and destination using Google Maps.
- ▶ Direct emissions from the catering of the event were calculated where possible. In addition, the caterer sourced local organic produce where possible and planned the menu to use as little electricity in the preparation as was feasible.

# What we can do for you

We can assist you on your sustainability journey and help you navigate through the areas in the triangle below:



## Our key contacts are:



**Jeremy Grist**

Director

+27 (0) 11 772 3029



**Kelly Gilman**

Senior Manager

+27 (0) 21 443 0473

Further detail on our service offerings is available on our website: [www.ey.com/za](http://www.ey.com/za)



Reduce, reuse, recycle

Ernst & Young

Assurance | Tax | Transactions | Advisory

### About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit  
[www.ey.com/za](http://www.ey.com/za)

Ernst & Young refers to the global organisation of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients.

© Ernst & Young South Africa 2011.  
All rights reserved.

Studio ref. 111112. Artwork by Roome.