EY’s Excellence in Integrated Reporting Awards 2014
A survey of integrated reports from South Africa’s top 100 J SE-listed companies and top 10 state-owned companies.
EY’s Excellence in Integrated Reporting Awards

A survey of integrated reports from South Africa’s top 100 JSE-listed companies and top 10 state-owned companies.
The purpose of the survey

The purpose of this survey is to encourage excellence in the quality of integrated reporting to investors and other stakeholders by South Africa’s top companies and state-owned companies (SOCs).

**Benchmarking**

Each year, EY offers all listed companies and SOCs an opportunity to obtain a detailed analysis of their integrated reports. The integrated reports are reviewed using guidelines from the Excellence in Integrated Reporting survey and a benchmarking report is issued. The report contains practical suggestions and comments that can be used to improve the quality of future reports by the company. The recommendations in the report relate not only to the accounting and financial information contained in the integrated report, but also to the non-financial data that is used by analysts in assessing the company’s performance. The benchmarking report is prepared either by the adjudicators or by members of the EY Professional Practice Group.

**Contents**

<table>
<thead>
<tr>
<th>Contents</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreword</td>
<td>1</td>
</tr>
<tr>
<td>The challenges and benefits of integrated reporting</td>
<td>3</td>
</tr>
<tr>
<td>Integrated reporting — gaining global momentum</td>
<td>5</td>
</tr>
<tr>
<td>2014 rankings</td>
<td>7</td>
</tr>
<tr>
<td>The top 10 companies</td>
<td>9</td>
</tr>
<tr>
<td>General impressions and overall performance</td>
<td>16</td>
</tr>
<tr>
<td>The practical evolution of integrated reporting</td>
<td>21</td>
</tr>
<tr>
<td>The mark plan and adjudication process</td>
<td>23</td>
</tr>
<tr>
<td>About the adjudicators</td>
<td>27</td>
</tr>
</tbody>
</table>

Companies wishing to obtain a benchmark report on their company’s integrated report can contact Mary-Anne Donachie on + 27 11 772 3034 or maryanne.donachie@za.ey.com.

For more information on this survey, contact Larissa Clark, Director, EY Professional Practice Group, on + 27 11 772 3094 or larissa.clark@za.ey.com.

**Disclaimer**

The survey has been independently prepared by the College of Accounting at the University of Cape Town. Accordingly, the views expressed in relation to the survey are its views and not that of EY.
Foreword

by Larissa Clark and Jeremy Grist

We are excited to announce the results of the third EY Excellence in Integrated Reporting Awards. Our annual survey has shown that many South African companies have made significant progress in their integrated reporting journeys. In this survey, we recognize the outstanding efforts of those companies that are the leaders in integrated reporting, we reflect on their achievements, highlight the emerging trends and share best practice in this area.

The purpose of the survey is to encourage excellence in integrated reporting. We believe that our survey and awards are important and continue to be relevant for the following reasons:

1. How the companies are chosen: we consider the top 100 Johannesburg Stock Exchange (JSE), JSE-listed companies and the top 10 State Owned Companies (SOCs). This captures over 94% of the JSE’s market capitalization and provides a good representation of current standards of reporting in South Africa. For these entities, their 2013 integrated reports were included in the survey.

2. The markplan: the markplan is largely based on the Consultation Draft of the International <IR> Framework. This considers the guiding principles and content elements that appeared in the Draft Framework. The markplan also considers the extent to which the Framework’s fundamental concepts, such as an explanation of the business model and how value is created, have been incorporated into the integrated report. Emphasis has also been given to the Framework’s recommendation that the information should be presented in a clear, concise, connected and comparable format.

The markplan is updated every year to reflect the changes in the global integrated reporting landscapes. So, for example, the markplan will be updated this year to take the guidance of the International <IR> Framework, issued in December 2013 into account.

Larissa Clark
Director | Assurance Professional Practice Group

Jeremy Grist
Director | Climate Change and Sustainability Services
3. The adjudicators: each of the integrated reports of the top 100 companies has been separately marked by each of the three independent adjudicators from the College of Accounting at the University of Cape Town, using the pre-agreed mark plan. The marking process is not simply about “ticking the box,” emphasis is rather placed on the quality of information presented —the relevance, understandability, accessibility and connectivity of that information. The overriding objective in ranking the integrated report is the extent to which it complies with the spirit of integrated reporting.

We congratulate the winner of the 2014 EY Excellence in Integrated Reporting Award, Royal Bafokeng Platinum Limited, for this outstanding achievement. In addition, we commend all the entities included in the ‘top 10’, our merit award winners, the SOCs and every company that has been ranked “Excellent” and “Good,” for the example they have set in South Africa and around the world.

This survey has been made possible by the continued involvement and dedicated efforts of Professors Alexandra Watson and Mark Graham and Mr. Goolam Modack, the panel of adjudicators from the College of Accounting at the University of Cape Town. We would further like to thank Paul Druckman, Chief Executive Officer of the International Integrated Reporting Council and Mark Weinberger, our Global CEO, for their contributions to this brochure.

We hope that, by continuing this survey, we will encourage companies to improve the standard of their integrated reporting and motivate integrated thinking.

For more details on how the companies were selected, the markplan and the adjudicators, refer to page 23
Interview with our Global CEO and Chairman, Mark Weinberger

The challenges and benefits of integrated reporting

1. How has integrated reporting evolved over the last year?

The publication of the International <IR> Framework by the International Integrated Reporting Council (IIRC) in December 2013 has been an important development. It’s too early to assess its impact, as there’s not yet been a full reporting cycle for many organizations. But the hope is that having a clear set of guiding principles and elements to govern the content of an integrated report, as well as an outline of fundamental concepts, will help to build confidence in integrated reporting among organizations and investors.

2. Do you believe that integrated reporting is gaining traction globally as the next evolution of corporate reporting?

Yes, definitely. Over the past several decades, we’ve seen corporate reporting evolve as organizations work hard to meet investor demands for more information (for example, accountability for key risk policies), forward-looking information, and the context for the underlying data. The financial crisis only heightened the desire for better information. That desire for a truer picture of an organization’s ability to generate value over time – its ability to adapt and change to the external environment and manage its intangible assets – has been a real driver behind integrated reporting. And over the past six months or so, since the Framework was issued, we’ve had some real momentum building around integrated reporting.

3. What are the benefits that organizations can expect to obtain from preparing an integrated report?

By providing a more complete picture of strategy, business model, governance and performance – and how they link together – an integrated report can help stakeholders to make better informed decisions about where to allocate their capital. It also helps share information on a broader range of metrics that contribute to long-term value and the role an organization plays in society, including its use of resources. This helps organizations attract value investors – and can take some of the focus and pressure off short-term, quarter-to-quarter results. And, by advancing transparency in capital markets and creating a more comprehensive picture of risk and return, all organizations benefit more broadly from the advantages of a more resilient and competitive global economy.

Mark Weinberger is EY’s Global CEO and Chairman, and is also a member of the International Integrated Reporting Council (IIRC). The following interview reflects his views on the status, challenges and benefits of integrated reporting globally.
But it’s not just about the report itself. The integrated report should be a product of connectivity and integrated thinking in the organization. It should reflect the way the organization goes about value creation. So it can be argued that integrated reporting helps organizations promote integrated thinking, because it encourages a holistic appraisal of the business drivers. With a focus on sustainable business practices, integrated reporting should help organizations promote longer-term decision-making, enhance accountability and foster a culture of stewardship. View it another way: an integrated report without any preliminary and fundamental integrated thinking just won’t work.

4. How do you see the overlap and alignment of the Integrated Reporting Framework and sustainability reporting guidelines e.g., Global Reporting Initiative G4 Guidelines?

The objectives of sustainability reporting and integrated reporting are different. Sustainability reporting focuses on an organization’s economic, social and governance performance toward a sustainable global economy; while the primary aim of integrated reporting is to offer an organization’s providers of financial capital an integrated representation of the key factors that are material to its present and future value creation. But sustainability reporting is key to a company’s integrated thinking and reporting process, as it provides –besides the financial data- input into the identification of its material issues, strategic objectives, and some assessment of its ability to achieve those objectives and create value over time.

5. How do you see the concept of assurance of integrated reports developing?

If integrated reporting becomes established, users will want to be comfortable that the information they receive from a company is credible and reliable, and they will demand assurance either on specific aspects of the integrated report or potentially on the integrated report as a whole.

Meeting that demand would require suitable criteria against which to provide assurance, and we haven’t evolved to that stage yet. The Framework has helped set out principles and fundamental concepts. And rightly, as a foundational document, it’s conceptual, high-level and aspirational. But it’s doubtful that as it currently exists it’s sufficiently robust to constitute suitable criteria against which to provide assurance, either on aspects or on the integrated report as a whole. That will be the next step. For integrated reporting to evolve to the next level, our profession and its stakeholders need to work with the IIRC to develop three things: robust reporting standards that support the implementation of integrated reporting; suitable criteria for global assurance standards for integrated reporting; and training for assurance providers.

6. What role have you seen firms such as EY play in assisting their clients on their integrated reporting journeys?

One of the key ways we have helped is by supporting the IIRC in the development and publication of the Framework. A number of our people served as members of the IIRC’s working group in developing the Framework. We also support the IIRC more broadly, I am a council member and my colleague Philippe Peuch Lestrade is deputy CEO.

More directly, we also publish guidance and insights on integrated reporting, such as this report. And, perhaps most importantly, we play a very practical role in our day-to-day work with clients – advising them on how to make the transition from traditional reporting to integrated reporting, for example, or how to shape the content of their integrated report or through the assurance of materials.

7. What value does the EY Excellence in Integrated Reporting Awards add to companies?

By profiling and publicising those leading the field, we hope to encourage the healthy competition that should help improve standards in integrated reporting. But we ensure that the awards go well beyond just a ranking. Our aim is that by also providing insights on each of the top 10 companies, we share best practice and help companies learn from others on a similar journey.

We also hope that this survey provides a good snapshot for companies of how things are developing, achievements made and challenges ahead in this fast-evolving area of corporate reporting, in which South Africa is at the forefront.
Integrated reporting—gaining global momentum

With the release of the International <IR> Framework in December 2013, we are seeing the momentum build across the world, with a wide pool of businesses wanting to adopt <IR> for the first time. IIRC Pilot Programme businesses continue to progress on their <IR> journeys — with businesses in South Africa, such as AngloGold Ashanti Ltd, Eskom Holdings (SOC) Ltd, Gold Fields Ltd, Sasol Ltd, Strate Ltd and Transnet (SOC) Ltd, leading the way. Through their experience and best practice, these businesses are becoming the advocates of <IR>.

In September 2014, the IIRC Pilot Programme will come to an end and the <IR> Business Network will be launched, made up of organizations embracing integrated thinking, driving innovation in reporting, and taking the lead in the adoption of <IR>. This is the opportunity for South African businesses to inspire a new generation of <IR> adopters, and to help us drive the evolution in corporate reporting across the world.

South Africa has been the trailblazer, with <IR> being included in King III, which is a JSE listing requirement, for 400 companies on an apply-or-explain basis since 2010. The Integrated Reporting Committee (IRC) of South Africa plays a pivotal role in driving <IR> forward, and the involvement of bodies such as the Association for Savings & Investment South Africa, Institute of Directors in Southern Africa and the Banking Association of South Africa is creating a strong collaboration between business and investors.

The experiences of these companies is starting to reveal the real benefits. <IR> is regarded as more than a simple disclosure tool — it can help drive management decision-making by embedding integrated thinking. IIRC Pilot Programme businesses find describing their business models to be one of the most crucial elements in an integrated report, because it helps investors understand the company’s performance, and enables a more meaningful engagement with investors and a better articulation of the investment case.

by Paul Druckman, CEO, IIRC

Paul Druckman is the Chief Executive Officer of the International Integrated Reporting Council (IIRC). Paul is well known and respected in business and in the accounting profession worldwide. His high profile work on sustainability matters has included chairing The Prince’s Accounting for Sustainability Project (A4S) Executive Board and the FEE Sustainability Group.
Crucially, more effective capital allocation decisions lead to better long-term investment returns – an argument backed up by research from Harvard Business School, led by George Serafeim, which drew data from 1,066 US companies practicing degrees of <IR>. The report, entitled Integrated Reporting and Investor Clientele (2014) indicates that businesses that are on the journey toward <IR>, and are starting to efficiently communicate with investors about how they make value over time, are attracting more stable investment.

Furthermore, and with particular relevance to South Africa, the Singapore Accountancy Commission (SAC), together with the academic community in Singapore, has conducted initial research examining the results of early adoption in South Africa. Led by Professor Gillian Yeo from Nanyang Business School, it shows that, “in essence, holding other factors constant, if a firm improves in its <IR> score across time, it is likely to experience an increase in market valuation.”

Business leaders around the world are listening to their peers and exploring ways of embedding integrated thinking into business practice, facilitated by <IR> as the corporate reporting norm. We continue to engage with the global policy and regulatory community, to urge regulators to create an environment that allows <IR> to flourish.

The broader business and accountancy community is starting to listen and respond. The Brazilian <IR> Network, facilitated by the Brazil National Development Bank brings together over 200 businesses, and the Brazilian stock exchange BM&F BOVESPA has announced a much greater alignment with <IR>. In Singapore, the SAC is setting up a South East Asia “hub” for <IR> to encourage innovation and adoption in the region, and Magnus Bocker, CEO of the Singapore stock exchange has spoken out in support of <IR>. In Australia, the Business Reporting Leaders Forum (BRLF) has more than 200 members, including public sector and industry associations, companies, investors and universities. Major asset owners, including the Australian Council of Superannuation Investors, are voicing their support.

In Japan, nearly 50 companies are moving toward <IR>, and a corporate reporting lab has been set up by Japan’s Ministry of Economy, Trade and Industry (METI), showing a powerful endorsement of the business and economic case for <IR>. In the European Union, legislation was recently approved to increase the disclosure of non-financial information by 6,000 companies with more than 500 employees. In addition, many UK-listed businesses are looking to apply the International <IR> Framework as part of the process of adopting the legislative requirement to produce a strategic report.

South Africa can be justly proud of spearheading this evolution, and of demonstrating innovation to the rest of the world. But there is more work to be done. To help pave the way, we have launched a corporate reporting dialogue with key organizations, to respond to market calls for better alignment of corporate reporting frameworks, standards and related requirements, and a reduction in the reporting burden.

Our priority now is to increase the pace and scale of adoption, and reach a wider group of early adopters by showcasing best practice from businesses leading the way. Specific sector issues are being addressed, with new networks already established for Pension Funds, the Public Sector, and the Banking Sector. With the launch of the <IR> Business Network, South African companies can be part of the group of front-runners at the heart of making <IR> happen — to demonstrate leading practice, inspire others and help drive <IR> adoption on a bigger scale.

“South Africa has been the trailblazer, with <IR> being included in King III, which is a JSE listing requirement, for 400 companies on an apply-or-explain basis since 2010.”
2014 rankings

The adjudication process ranks entities into the categories of “Excellent” (which includes the top 10 positions), “Good,” “Average” and “Progress to be made.” “Excellent” and “Good” are awarded to entities that comply with progressively higher levels of adherence to what an integrated report is envisaged to comprise.

**SOCs**

Many of the drivers of reporting for SOCs are different from those of listed companies. For example, in regulated industries there is an incentive for SOCs to be more transparent about cost structured and associated variances. However, this type of information is highly unlikely to be presented by a listed company with competitors. It is therefore difficult to draw a meaningful comparison between the top SOCs and the top listed companies. Consequently SOCs are ranked separately from JSE-listed companies.

**JSE-listed companies**

The adjudication process ranks entities into the categories of “Excellent” (which includes the top 10 positions), “Good,” “Average” and “Progress to be made.” “Excellent” and “Good” are awarded to entities that comply with progressively higher levels of adherence to what an integrated report is envisaged to comprise.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company Name</th>
<th>Score</th>
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<tbody>
<tr>
<td>1</td>
<td>Royal Bafokeng Platinum Ltd</td>
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<td>2</td>
<td>Standard Bank Group Ltd</td>
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<td>3</td>
<td>Sasol Ltd</td>
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<td>4</td>
<td>Truworths International Ltd</td>
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<td>5</td>
<td>Gold Fields Ltd</td>
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<td>6</td>
<td>Aspen Pharmacare Holdings Ltd</td>
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<td>7</td>
<td>Kumba Iron Ore Ltd</td>
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<td>8</td>
<td>Liberty Holdings Ltd</td>
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<td>9</td>
<td>Clicks Group Ltd</td>
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<tr>
<td>10</td>
<td>Exxaro Resources Ltd</td>
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*Excellent*

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<tr>
<th>Company Name</th>
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<tbody>
<tr>
<td>Altron (Allied Electronics) Ltd</td>
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<tr>
<td>Anglo American plc</td>
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<tr>
<td>ArcelorMittal SA Ltd</td>
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<td>Barloworld Ltd</td>
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<td>Growthpoint Properties Ltd</td>
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<td>Illovo Sugar Ltd</td>
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<td>Lonmin plc</td>
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<tr>
<td>Murray &amp; Roberts Holdings Ltd</td>
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<td>Oceana Group Ltd</td>
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<td>PPC Ltd</td>
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<td>SABMiller plc</td>
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<td>Tsogo Sun Holdings Ltd</td>
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<td>Woolworths Holdings Ltd</td>
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EY’s Excellence in Integrated Reporting Awards 2014
## Merit awards

The following merit awards are awarded to “Excellent” ranked companies not included in the top 10:

**For most improved:** Redefine Properties Ltd  
**For crispness:** Woolworths Holdings Ltd  
**For iconography:** ArcelorMittal SA Ltd  
**For risk disclosure:** Intu Properties plc  
**For efficient reporting:** Anglo American plc

### Good

<table>
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<th>Company Name</th>
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<tr>
<td>Adcock Ingram Holdings Ltd</td>
<td>AECI Ltd</td>
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<td>African Bank Investments Ltd</td>
<td>African Rainbow Minerals Ltd</td>
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<tr>
<td>Aveng Group Ltd</td>
<td>BHP Billiton plc</td>
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<tr>
<td>Capital &amp; Counties Properties plc</td>
<td>Capitec Bank Holdings Ltd</td>
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<tr>
<td>Coronation Fund Managers Ltd</td>
<td>Datatec Ltd</td>
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<tr>
<td>Discovery Holdings Ltd</td>
<td>FirstRand Ltd</td>
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<tr>
<td>Foschini Group Ltd</td>
<td>Glencore Xstrata plc</td>
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<tr>
<td>Grindrod Ltd</td>
<td>Impala Platinum Holdings Ltd</td>
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<tr>
<td>Investec plc</td>
<td>Life Healthcare Group Holdings Ltd</td>
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<tr>
<td>Mondi plc</td>
<td>Nampak Ltd</td>
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<tr>
<td>Netcare Ltd</td>
<td>Northam Platinum Ltd</td>
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<td>Old Mutual plc</td>
<td>Remgro Ltd</td>
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<td>Reunert Ltd</td>
<td>Sanlam Ltd</td>
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<tr>
<td>Santam Ltd</td>
<td>Sun International Ltd</td>
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<td>Vukile Ltd</td>
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### Progress to be made

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<tr>
<td>Assore Ltd</td>
<td>AVI Ltd</td>
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<td>Bidvest Ltd</td>
<td>Brait SE</td>
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<td>Distell Group Ltd</td>
<td>Fountainhead Property Trust</td>
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<td>Hyprop Investments Ltd</td>
<td>Imperial Holdings Ltd</td>
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<td>Massmart Holdings Ltd</td>
<td>Mediclinic International Ltd</td>
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<tr>
<td>MMI Holdings Ltd</td>
<td>Mr Price Group Ltd</td>
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<tr>
<td>Naspers Ltd</td>
<td>Pick ‘n Pay Stores Ltd</td>
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<tr>
<td>Pioneer Foods Group Ltd</td>
<td>Steinhoff International Holdings Ltd</td>
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<tr>
<td>Telkom SA SOC Ltd</td>
<td>Tiger Brands Ltd</td>
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<td>Tongaat Hulett Ltd</td>
<td>Wilson Bayly Holmes-Ovcon Ltd</td>
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### Excellent

<table>
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<th>Company Name</th>
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<tbody>
<tr>
<td>Capital Property Fund</td>
<td>Caxton and CTP Publishers and Printers Ltd</td>
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<tr>
<td>EOH Holdings Ltd</td>
<td>Famous Brands Ltd</td>
</tr>
<tr>
<td>Hosken Consolidated Investments Ltd</td>
<td>Invicta Ltd</td>
</tr>
<tr>
<td>New Europe Property Investments plc</td>
<td>PSG Group Ltd</td>
</tr>
<tr>
<td>Rand Merchant Insurance Holdings Ltd</td>
<td>Reinet Investments S.C.A.</td>
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<tr>
<td>Resilient Property Income Fund</td>
<td>Richemont SA</td>
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<tr>
<td>RMB Holdings Ltd</td>
<td>Shoprite Holdings Ltd</td>
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<tr>
<td>The Spar Group Ltd</td>
<td>Tencor Ltd</td>
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### Average

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<tr>
<th>Company Name</th>
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<tbody>
<tr>
<td>Airports Company SA Ltd</td>
<td>Development Bank of Southern Africa</td>
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<td>South African Post Office (SOC) Ltd</td>
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### Progress to be made

<table>
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<tr>
<th>Company Name</th>
<th>Company Name</th>
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<tbody>
<tr>
<td>Central Energy Fund (SOC) Ltd</td>
<td>Land and Agricultural Development Bank of SA</td>
</tr>
<tr>
<td>South African Airways (SOC) Ltd</td>
<td>Trans-Caledon Tunnel Authority</td>
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*Not ranked within the categories*
The top 10 companies

1 Royal Bafokeng Platinum Ltd

Royal Bafokeng’s 2013 report is indeed "Excellent" and close to what the ideal integrated report should look like in terms of its structure and content.

The report has a strong strategic focus and is attractive and easy to read. The group has successfully embraced the concept of the "six capitals" and has structured their explanation of how the business creates value around these six capitals. The report is crisp, well structured and easily navigable. The explanation of the business model presented in a section entitled ‘operating context’ is comprehensive, easily understandable and leaves the reader with a clear sense of the global and local environment within which the business operates. The reporting is well balanced, with equal prominence being given to successes and disappointments.

The process that has been followed to identify material issues is clearly explained. These material issues are then integrated with both risks and opportunities and clear icons are used to direct the reader to where more information on any particular issue can be found. We liked the way in which the corporate governance review was introduced by the Chairman. The disclosures relating to risk are outstanding, both in the way in which the approach to risk management is explained and in the way the risks are presented.

- The Framework defines six capitals:
  - Financial (pool of funds obtained through financing for use in the production of goods and services e.g. debt or equity capital)
  - Manufactured (manufactured physical objects for use in the production of goods or services e.g. equipment)
  - Intellectual (organisational knowledge-based intangibles e.g. patents)
  - Human (people’s competencies, capabilities and experiences)
  - Social and relationship (institutions and relationships within and between communities e.g. values, brand, reputation)
  - Natural (environmental resources e.g. water, biodiversity)
2 Standard Bank Group Ltd

Standard Bank’s report has done an excellent job of demystifying a complex business, and exhibits a high level of integration between the various key components.

It is focused and emphasizes aspects that are appropriate for a banking group with a suitable balance between financial and non-financial information. It is easy to read and is written in plain English. The report is sensibly structured, and presents a clear strategy with good reporting of the progress that it has made against the 2013 strategy as well as the group’s focus on moving forward. The report has an extremely good description of how the business makes its money.

The Financial Director’s review is one of the best we have seen, and we particularly liked the way in which it included a high-level overview of the impact of economic indicators on key ratios. The report also includes an explanation of key accounting concepts that are relevant to understanding the financial statements. The process used to identify material issues is explained well, and there is a clear description of those issues that are material to the business and the interaction between them.

3 Sasol Ltd

Sasol’s report is well structured with useful and extensive cross-references to other reporting publications.

The use of clear diagrammatic presentations enhances the general crispness of the report. The explanation of the group’s business model and the integrated value chain, together with how this business model can be sustained, achieves many of the objectives of integrated reporting.

The report manages to strike a good balance between financial and non-financial issues, and we particularly liked the section that outlined the group’s ‘top issues’ and what they are doing about them. The group’s strategy is clearly outlined and an appropriate number of key performance indicators, both financial and non-financial, have been identified. These indicators are clearly presented and include graphs, actual performance for three years, and an explanation of current performance against the relevant indicator as well as a target.

The Chief Financial Officer’s review is excellent and we found the explanation of the group’s ‘value drivers’ to be particularly insightful.
4 Truworths International Ltd

Truworths’ report clearly shows that the group has thought carefully about the best way to explain how they intend to create sustainable value in the short, medium and long-term.

The report is crisp and concise and appropriately focused around the core theme of “sustainable future in fashion,” and clearly identifies the factors that have the potential to impact the sustainability of the business. While the report is not structured around the six capitals, an introduction clearly indicates where the capitals are covered within the integrated report.

We found this to be a sensible and acceptable way of dealing with this new concept, which had not been finalized at the time of producing this particular report. The way in which this report presents and integrates the group’s material issues, and the explanation of performance in the current year against previous targets, challenges, key risks, mitigation strategies and objectives, plans and targets for the coming year is excellent.

5 Gold Fields Ltd

Gold Fields’ report sensibly starts with the International <IR> Framework’s definition of an integrated report. This is followed by a clear diagrammatic explanation of the business model and how the model is implemented through a number of value-adding activities.

The risk disclosures, which follow the explanation of strategic trends, are excellent. These risk disclosures include an explanation of the processes used to identify risk, a description of each risk and the mitigation strategy and a ‘heat map’ that visually presents the severity and probability of each risk.

Furthermore, risks are categorized between ‘short-term’ and ‘long-term’ and clearly linked to the relevant strategy together with an indication of risk appetite, tolerance level, targets and the change in risk. Sustainability issues are particularly well integrated in the report, and there is a clear link between the external environment and the implications for the business. We also liked the way in which the financial statements are included within the Chief Financial Officer’s report.
6 Aspen Pharmacare Holdings Ltd
Aspen's report starts with a clear introduction to the content and scope of the report. The group’s strategic objectives are presented, together with the key performance indicators, that are used to measure each particular strategic objective in a format that is extremely effective.

The strategic objectives are furthermore integrated with their respective challenges and risks and presented in an easily understood table. This integration of strategy, performance indicators, risks and outlook, and the manner in which it is presented, is indeed excellent. We were impressed with the presentation of four years of performance indicators that allowed for a comparison and analysis of trends and performance.

We particularly liked the way in which the manner and level of assurance of each separate performance indicator was disclosed and presented. The key themes, discussed in explaining the business model, are followed through into the crisp and concise divisional reviews. The detailed disclosures of the manufacturing capabilities and capacities are useful in understanding how value will be created within this organization.

7 Kumba Iron Ore Ltd
Kumba’s report starts with a good explanation of its approach to integrated reporting and an introduction that identifies the ‘driving forces’ of the business with reference to where more detail can be found.

The description of ‘our business model’ that introduces the report gives an excellent overview of the group’s stakeholders, risks, challenges and opportunities with somewhat more factual detail than other comparable reports. We liked the way in which material issues are clearly identified and explained and linked to key performance indicators and related risks.

The explanation of how risks are identified and the presentation of these risks, together with a ‘heat map’ that depicts the likelihood and impact or consequence of each particular risk, is particularly well handled. The section in the report that deals with stakeholder engagement clearly outlines in sufficient detail the group’s various stakeholders and their legitimate needs and concerns.
8 Liberty Holdings Ltd

Liberty’s annual report begins with an introduction by the Chairman, that clearly identifies the material sustainability issues, with performance against these issues given suitable prominence in the introductory pages.

Within the report, we find an appropriate link between the board’s approved material sustainability issues and key metrics, strategic direction and stakeholder engagement. There is an excellent description of the business and how value is created, with an emphasis on key stakeholders that is enhanced by explaining “the value balance between customers and shareholders.” This report focuses on information that is relevant to a financial institution and highlights the importance of information technology and market share.

The ‘dashboard’ that reflects 2013 performance and 2014 targets, and highlights, whether or not a particular target has been achieved, as well as a self-assessment of the extent to which 2013 strategic objectives have been achieved, is excellent. We particularly liked the way in which the key accounting policies are presented as an introduction to the summarized annual financial statements.

9 Clicks Group Ltd

Clicks’ report is crisp, clear and focused. At 70 pages, it is the most concise report of those ranked as “Excellent” but yet manages to convey all the information one would expect to find about value creation within an integrated report.

The section that deals with the group’s strategy and targets, which highlights plans, targets and achievements for 2013 as well as plans and targets for 2014, is extremely effective. This section covers a broad range of measures relating to a number of different stakeholders, as well as hard numeric targets for each particular strategy. The one-page ‘investment case’ leaves the reader with a clear sense of the key issues that would be attractive to a long-term investor.

The Chief Financial Officer’s report provides a useful analysis of financial performance, with the additional detail relating to turnover being of particular value as it identifies the impact of inflation, comparable store growth and commentary on the seasonality of the revenue stream.
Exxaro Resources Ltd

Exxaro’s integrated report sensibly uses the concept of the ‘capitals’ that have been suggested by the International <IR> Framework. These capitals are introduced in a section that clearly outlines what sustainability means for Exxaro and how this ties into the five capitals that the Group has identified as being relevant to their business.

More detail on each capital is then provided, including the relevant strategy, risks, opportunities and targets in each area. The commodity review, together with various forecasts, provides very useful forward-looking information. Risks are particularly well handled in this report. A summary of the group’s material issues highlights the major risks, why they are an issue for the organization, what their response has been to the particular risk and references to where more detail can be found.

A ‘heat map’ that graphically depicts the severity of each of the major risks is included. Furthermore, we liked the way in which a ‘level of assurance’ is disclosed for each key sustainability performance indicator.
At a glance

• Number of “Excellent” JSE-listed companies increased to 35 this year from 28 in previous year
• 64 companies ranked as “Excellent” or “Good”
• Overall, 22 companies moved up in rankings, while 16 moved down
• Only 3 state-owned entities ranked “Excellent” or “Good”
• Average page length decreased to 159 pages (2013: 172 pages)
• 46 companies included summarized financials
• Average length of financial statements decreased to 45 pages (2013: 52 pages)

The trends:

Positive trends

• Improvement in the explanation of how the business “makes its money”
• An explicit endorsement by the board or audit committee
• Clearer link between strategy, material issues, KPIs and risk
• KPI’s used to evaluate effectiveness of strategy
• Improved connectedness of information
• Use of six capitals resulted in a logical flow
• More concise and focused on material issues
• Better use of indexing, cross-referencing and tables
• More entity-specific disclosures and less “boilerplate”
• Increased use of summarized financial statements

Negative trends

• No value creation story provided
• Traditional annual report layout still used
• Not clear who the report is aimed at, investors or stakeholders in general
• Reporting not balanced – e.g., equal prominence to positive and negative issues
• Lack of key performance indicator data being disclosed, i.e., evaluation of current year performance against targets
• How future performance will be evaluated is not clear
• Executive directors’ remuneration still poorly handled
• Impact of the environment on the entity generally omitted
• Reporting boundaries not defined, especially for non-financial indicators
• No clear indication of how the needs of stakeholders influence the company’s strategic direction
General impressions and overall performance

Interview with Professor Mark Graham, on his impressions of this year’s survey

What is your overall impression of the quality of integrated reports produced during 2013?

The quality of the reports varied, perhaps more so than in other years. At the top end we certainly saw improvements, but we still feel that there are many companies that are not really making much of an effort to produce an integrated report, as envisaged by the International Integrated Reporting Council. However, to be fair this was a challenging year for preparers of reports. Some companies may have been waiting for a final version of the Framework to appear before making substantial changes to their integrated reports.

This year, we ranked 64 integrated reports in the “Good” and “Excellent” categories. This shows that the majority of larger listed companies are making a serious attempt to produce an integrated report. However, while most of the companies that we have ranked in the top 10 have produced reports that come close to being an ideal integrated report, none of them are, in our opinion, perfect.

Have you observed any trends in the rankings over the three years that the Excellence in Integrated Reporting survey has been running?

There has certainly been a considerable improvement in the number of integrated reports of the top 100 JSE-listed entities being awarded an “Excellent” ranking. The number of “Excellent” companies increased to 35 this year from 28 in the previous year. Although the number of companies that we have ranked “Good” has remained static over the three years, we are delighted that the number of companies in our bottom categories “Average” and “Progress to be made” continue to decline. Overall 22 companies moved up in the rankings this year, while only 16 companies moved down. It must be said that we were perhaps slightly more lenient in our grading this year because the guidance on integrated reporting was only finalized during December 2013.

Unfortunately, the trend for the SOCs has not been as positive – this year we have ranked three reports in the “Excellent” category and none as “Good,” compared with four reports ranked as “Excellent” and “Good” last year. In addition, we have ranked seven reports as “Average” and “Progress to be made,” while only six were ranked in these categories during the prior period.

Trends in rankings — JSE-listed companies

Trends in rankings — SOCs
What is being particularly well done?

Many companies provided good descriptions of their business model, which explain the various parts of their business. Some of the better reports went further and included the inputs that flow into, and the outputs that are generated by, the business. This gives a good sense of the scale of operations. A number of companies are presenting a clear strategic focus together with the performance indicators that are being used to measure the effectiveness of their strategies. We also saw an improvement in the connectedness of the information being presented. In many cases, we are now seeing a clear link between strategies, material issues, key performance indicators and risk. Better use is being made of tables and sensible cross-referencing to achieve this connectivity of information, and this style of presentation has also resulted in more crisp and concise disclosures.

Did you see any improvements in integrated reporting during 2013?

I think that the simple answer is yes, but perhaps not as much as we had hoped. We did notice that the reports are becoming more concise and more focused on issues that are material to the business and that better use is being made of indexing and cross-referencing. Furthermore, it is becoming apparent that there is increased communication between preparers of the different components of the report, and that this has resulted in a reduction in duplication and generally more consistent themes being presented. There have also been definite improvements in the way in which the business models have been described and in the explanation of how the business “makes its money.” We were also pleased to see far more entity-specific disclosures and a general move away from generic and less entity-specific information.

What is being done badly and where could improvements be made?

There are still a number of companies producing reports that make no attempt to explain their value creation story and that contain a mere “lip service” to integrated reporting. Others are simply ‘window dressing’ and are not making any real attempt to produce an integrated report as envisaged by the Framework. However, for the many companies that have embraced integrated reporting and are making an effort, there are a number of areas where improvements can be made.

We noticed that disclosures relating to the impact of the operating environment on the organization are generally poor. While the disclosure of the impact of the company on the environment has improved, there is limited disclosure of the impact of the environment on the company. For example, an increasing number of companies disclose how much water they use, but do not disclose the consequences of a water shortage. They also do not disclose the inter-connectivity between the different capitals, so for example, if a process uses 10% less water, what is the financial consequence of that?

The reporting boundaries are also not clearly explained, especially with respect to non-financial indicators. So while the boundary for financial reporting is often reasonably clear and is assumed to be the same as IFRS, boundaries in respect of non-financial indicators are considerably more problematic and often unclear.

Another weakness is often the lack of connection between strategy, risk and performance that could be improved by simply using cross-referencing or including information in tables. Furthermore, too many companies are still disclosing their interactions with their stakeholders without indicating how the legitimate needs of these stakeholders have influenced the strategic direction of the business.

Finally, there is often a lack of hard data in the form of key performance indicators being disclosed that will help the reader to establish what a company has achieved with respect to its strategy. Most reports could be significantly improved if indicators are disclosed that show the status of current strategies and how performance against future strategies will be evaluated.

“In many cases, we are now seeing a clear link between strategies, material issues, key performance indicators and risk.”
To what extent are companies producing integrated reports?

The vast majority of companies have certainly named their reports “integrated reports.” This does not of course necessarily imply that they are integrated reports as envisioned by the Framework and indeed many are not. The majority of companies that continue to title their reports “annual report” do so because they have primary or secondary listings on the London Stock Exchange, where the concept of integrated reporting is not as well advanced as in South Africa. Although many of the reports do not explicitly state that they are “integrated reports,” they include many of the principles of integrated reporting and indeed many of them have been ranked as “Excellent” in this survey.

Who has endorsed the integrated report?

There appears to be some controversy about whether the target audience of the integrated report should be investors or all stakeholders. What are companies actually doing?

Yes, there is some divergence here. While King III recommends that the integrated report should be aimed at all stakeholders, the Framework suggests that the integrated report should be prepared primarily for the providers of financial capital (i.e., investors or shareholders). The Institute of Directors published a practice note on this during June 2014, recommending that companies should apply whichever approach is the most appropriate for them. We found that only 13 companies, in 2013, explicitly stated that investors are the primary audience of their integrated report. The other 87 companies continue to address their report to all stakeholders, in line with King III, or simply avoid the issue and do not identify a primary audience at all.

Are companies aiming their integrated reports primarily at investors?

The Integrated Reporting Framework now requires that the integrated report should include a statement of endorsement from those charged with governance. To what extent is this being done?

Most companies have yet to fully comply with the detailed requirements in the Framework, but we must remember that it was only issued at the end of 2013. Having said that, two-thirds of companies have included an explicit and clear endorsement of the integrated report by either the board of directors or the audit committee, or both. Disappointingly, a third of the companies included no obvious explicit endorsement of the integrated report.

Title of report

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Are companies aiming their integrated reports primarily at investors?
General impressions and overall performance

An integrated report, according to the Framework, is meant to be a “concise” document. Did you see any evidence of this?

There is no doubt that integrated reports are becoming more concise. If we simply look at the length of the report, we see that the average page length decreased from 172 pages in 2012 to 159 pages in 2013. One of the main drivers of this reduction is the move toward including only summarized financial information. However, we did also notice that some reports are becoming less repetitive, with key information presented in tabular or graphic form rather than in lengthy narratives. Nineteen companies are still producing reports that exceed 200 pages, which is far from the ideal length of 30 pages that was debated about when integrated reporting first appeared. While it is hard to imagine that a company could tell its value creation story in 30 pages, we certainly saw many companies being able to do this in 100 pages or less.

Length of integrated report

Are many companies now including summarized financial statements in their integrated report?

Yes, there are certainly many more companies that now include only summarized financial statements in their integrated report. In the 2013 batch of integrated reports, 46 companies included summarized financials compared to 35 companies in the previous year. Of those reporting summarized financial information, most companies have included information that complies with IAS 34 Interim Financial Reporting, while 11 companies have chosen to provide summarized financial information in a different form. Interestingly, we noticed that one company did not include any financial statements at all and chose to merely highlight key financial information within the CFO’s report. This trend to include summarized financial information has resulted in the average number of pages devoted to financial statements declining from 52 in 2012 to 45 in 2013. We fully endorse this trend to include only summarized financial information in the integrated report, with appropriate referencing to where the full annual financial statements can be found.

Format of financial statements

Length of financial statements

Did many companies use the “capitals” as a basis of reporting, and was it effective?

Only four companies structured their integrated report around the concept of the six capitals (financial capital, human capital and so on). A few others made reference to the capitals and one company cleverly highlighted the capitals in the introductory pages of the report and cross-referenced each capital to an area of the report where more information could be found. We suspect that many companies were waiting for the final version of the Framework to be issued before committing themselves to using the capitals in their integrated report. However, there is no doubt that an explanation of how a business creates value with respect to the six capitals is a suitable way for most companies to present much of the content that needs to be presented within their integrated report. We certainly found that those companies that used the capitals to explain how they create value produced a report that had a logical flow and adhered to many of the guiding principles of integrated reporting.
What major themes have integrated reports been structured around?

- 74% Divisions
- 12% Not clear or none
- 7% Capitals
- 4% Material issues
- 2% Strategy
- 1% Strategy and stakeholders

How are companies dealing with sustainability issues within their integrated reports?

The majority of integrated reports that we have ranked as being “Excellent” or “Good” have included their key sustainability issues in their integrated report. There is still, however, an element of ‘greenwashing’ within some reports and some companies continue to include some non-financial issues that are clearly not material to their business. We also believe that an integrated report is not simply the traditional annual report with a sustainability report bolted on. Our view is that a sensible way to make detailed sustainability information available to those who require it is to include suitable cross-references to where more information can be found in a separate report or on the company’s website.

We know that, in the past, the adjudicators have had raised concerns about the remuneration disclosures in the integrated report. Has there been any improvement?

No, not really. Remuneration disclosure is still a major concern. There was increased disclosure of the type of schemes available, and the KPIs that have the potential to influence variable remuneration and in some cases, the presentation of this was well handled. However, even for the better reporters, understanding the link between the various schemes and the actual remuneration continued to be a challenge. Recently introduced requirements in the United Kingdom that remuneration reports are split into two sections – one describing the policy and the other the annual remuneration report, explaining the impact of the policy in the current year, including a single figure for the total remuneration per director —is useful guidance on how disclosures could be improved. There is also still a long way to go in showing how the KPIs, that are being used to measure strategy, are being used to determine the actual South African Rand amount of the variable portion of directors’ salaries.

We know that integrated thinking is the long-term goal of the IIRC and that the integrated report is merely the reporting of this. Did you see any evidence of integrated thinking?

Perhaps it is happening, but we saw limited evidence of this in the reports. We were disappointed by the extent to which relationships and trade-offs between the different capitals or resources were explained. We hope to see improved disclosure of this in the future. For example, the cost implications of more energy-efficient processes or the financial, energy, carbon emission and broader social implications that have been considered when mechanizing a process and retrenching staff. We also found that many companies still use the traditional annual report layout and therefore struggle to pull together the key information in an integrated manner. It is also quite clear to us that it is going to be extremely difficult to produce a good integrated report if the board and management are not thinking in an integrated way.

Will you be making any changes to the way in which you adjudicate the 2014 integrated reports for the 2015 Excellence in Integrated Reporting survey?

Definitely. We now have a final International Integrated Reporting Framework. There is clarity on the guiding principles to use when reporting and also the content elements to include within the report. There is now far more guidance being given on what should be included in the report. There is also additional guidance about specific disclosures dealing with the process to determine materiality, reporting boundaries, information about time frames and so on. Most of this will be included in the 2015 mark plan and, without trying to sound like a schoolteacher, we will probably be much stricter in our assessments now that clear and final guidance has been given. Nonetheless, we are looking forward to seeing the 2014 integrated reports of South Africa’s largest companies and hope that the quality of these reports continues to improve.
The practical evolution of integrated reporting

The impact of the <IR> Framework on future reporting in South Africa

by Professor Alex Watson
College of Accounting, University of Cape Town

The publication in December 2013 of the International Integrated Reporting <IR> Framework brings an end to the challenge of trying to prepare an integrated report without clear guidance of what it should look like. Preparers of annual reports for South African-listed companies have had a few challenging years dealing with rapid changes in reporting requirements, combined with increased expectations about what they should report. Integrated reporting has not been the only challenge—a suite of new International Financial Reporting Standards (IFRS) that became effective in 2013, as well as the Global Reporting Initiative’s (GRI’s) publication of G4 have added to the challenges and uncertainties for those tasked with preparing reports.

As we get more clarity on what the shape of the future of reporting will look like, it is useful to consider reporting developments over the last few years and expectations of how reporting in South Africa will develop in the next few years. For a long time, the emphasis was on financial reports. Despite the complexity of IFRS and the increasing focus on its correct application, following the move to integrated reporting, the trend is now for companies to disclose less IFRS information in the reports distributed to shareholders. Developments in integrated reporting have no impact on the requirements for South African-listed companies to comply with IFRS, but following the adoption of the 2008 Companies Act, companies may now provide shareholders with summarized financial statements prepared in terms of the measurement and recognition principles of IFRS, provided that the full IFRS financial statements are still made available. This implies that in addition to the added complexity of IFRS, judgment needs to be exercised in deciding what and how financial information is to be presented in the integrated report.

Over the years, it has become clear that financial statements were not telling the whole story of the performance of the company, and therefore companies started reporting on their environmental impacts, employee-related issues and corporate social responsibility activities. This information was generally prepared in separate reports referred to by a wide variety of names (including sustainability, sustainable development, corporate social responsibility or triple bottom line reports) that accompanied the financial information that was distributed to shareholders. The disclosure in those reports was often presented in terms of the reporting requirements of the GRI, which aims to create a standardized form of reporting of the impacts of the organization on people and the planet.

Following the publication of the King III Code of Governance in 2009, the focus of listed company reporting in South Africa has shifted to integrated reporting, with the integrated report as the primary report that is distributed to shareholders. An Institute of Directors of South Africa (IoDSA) publication in June 2014 explaining the perceived conflicts between King III and the <IR> Framework, provides clarity that King III sets out the principles of integrated thinking that should be presented in an integrated report, while the <IR> Framework offers implementation guidance on how that should be done.

Early attempts at integrated reporting could more accurately
have been described as combined reporting, as companies published their financial and non-financial information in a combined format. Integrated reporting is very different from combined reporting as it focuses on how the interconnectivity of the different aspects has the potential to create, or diminish, value over time. An important distinction between a sustainability report and an integrated report is that a sustainability report generally reports the impacts of the company on its environment, whereas an integrated report should report on the impact of the operating environment on the company, as well as the company on its environment.

The more detailed implementation guidance on integrated reporting in the <IR> Framework is likely to change the way in which many companies prepare their integrated reports, hopefully resulting in more decision-useful information. The emphasis on materiality, in both the <IR> Framework and in the GRI’s G4 requirements, should continue to increase the focus on entity-specific information that is relevant to the ability of the organization to add value in the long-term.

The <IR> Framework is intended to establish guiding principles and content elements and explain the fundamental concepts that underpin them. Although the Framework is principles based, there are some specific requirements that need to be satisfied before the report can claim to be prepared in terms of the <IR> Framework. An important requirement in the Framework is that there needs to be a specific statement from those charged with governance (i.e., the board of directors) taking responsibility for the report.

Those that were hoping for more standardized integrated reporting are likely to be disappointed by the requirements of the <IR> Framework. The Framework is intended to be principles based and “to strike an appropriate balance between flexibility and the prescription that recognizes the wide variation in individual circumstances.” The Framework does not prescribe specific KPIs, measurement methods or individual disclosures — although there is a specific requirement to disclose the significant frameworks and methods used to quantify or evaluate material matters in the report. While many companies at least imply that financial information is in terms of IFRS, there is less clarity about the basis used in the determination of non-financial information.

The inclusion of the six capitals as one of the fundamental concepts of integrated reporting is likely to change the focus or structure of some reports, and the terminology used. It is important to note that while companies are not required to categorize their capitals on the same basis, or to structure their report on the basis of the capitals, the capitals are expected to be used as a guideline in ensuring that the company does not overlook resources or relationships that it uses or affects. A few companies successfully used the capitals as a basis for reporting (see, for example, Royal Bafokeng Platinum Ltd Integrated Annual Report 2013 and Redefine Properties Ltd Integrated Annual Report 2013), and we expect to see more companies aligning their reports more closely with the concept of capitals.

An aspect on which we hope to see more clarity is in respect of the scope and boundary of the reports. The <IR> Framework has a specific requirement to disclose the reporting boundary and how it has been determined (<IR> 4.43). While the financial reporting boundary is generally well understood, the boundary in other aspects is either not as clearly understood or not as clearly communicated (with the possible exception of greenhouse gas emissions). The new requirements of the GRI G4 guidelines to consider the reporting boundaries for each material aspect, emphasizes the importance of this aspect individually. (For a comprehensive discussion on boundary setting, refer to the Climate Disclosure Standards Board’s 2014 discussion paper on “Proposals for boundary setting in mainstream reports.”)

An important consideration in integrated reporting, is that the report is intended to tell the story of that specific company, which is different from that of any other company. It is intended to demonstrate how integrated thinking is applied in that organization. If integrated thinking is not happening in that organization - the report can only be a superficial report that adds little value. Where decisions are taken by considering the capitals that the organization uses or effects, i.e., there is integrated thinking, explaining how that is done in the integrated report will not be challenging. The reporting challenges arise where integrated thinking is not taking place.
The mark plan and adjudication process

by Professor Mark Graham
College of Accounting, University of Cape Town

How the top 100 were chosen

The companies included in this year’s Excellence in Integrated Reporting survey are the top 100 companies listed on the JSE, selected on the basis of their market capitalization at 31 December 2013, being the last trading day in December of that year. It is interesting to note that the market capitalization of the 100 companies in this survey range from approximately R1.1 trillion at the top end (British American Tobacco plc) to R8.5 billion (Caxton and CTP Ltd) at the lower end. Furthermore, these 100 companies account for approximately 94% of the total market capitalization of the JSE.

All companies were regarded as being eligible to be included in the survey, apart from pure holding companies, such as Pick n Pay Holdings. The final top 100 included the full range of listed companies on the JSE, from resources to industrials, retailers and financial institutions, and also included a number of companies with dual listings, such as SABMiller plc and Old Mutual plc. In the case of Investec Ltd and Investec plc, as well as Mondi Ltd and Mondi plc, which operate through a dual-listing structure, the combined group was included and consequently, only the combined report was reviewed. Following changes in market capitalization and other corporate activity, six companies that appeared in last year’s survey were no longer regarded as being eligible, resulting in the appearance of six newcomers. The integrated report of the Allied Electronic Corporation (Altron Ltd), which reappeared in the top 100 in 2013, was ranked “Excellent” and that of newcomer and dual-listed mining giant Glencore Xstrata plc was ranked “Good.”
Who was included in the EY Excellence in Integrated Reporting survey?

- Top 100 JSE-listed companies and top 10 SOCs
- Based on market capitalization at 31 December 2013
- Pure holding companies are excluded
- Dual-listed entities are included
- Six newcomers
- Integrated report for year ended on or before 31 December 2013
The mark plan and adjudication process

Development of the mark plan

The mark plan for the Excellence in Integrated Reporting survey has been developed by the adjudicators from the College of Accounting at the University of Cape Town (UCT) in conjunction with EY’s Professional Practice Group. The UCT team comprises Professors Alexandra Watson and Mark Graham and Mr. Goolam Modack, all of whom were involved for many years in EY’s Excellence in Corporate Reporting survey and since 2011 in EY’s Excellence in Integrated Reporting survey.

All companies listed on the JSE have been required to produce an integrated report for financial years starting on or after 1 March 2010, in line with the requirements of King III or explain why they have not done so. Thus most JSE-listed companies were, in 2013, producing their third and in some cases fourth, integrated report.

Guidance on what should be included in the integrated report has been evolving since the International Integrated Reporting Council (IIRC) issued its discussion paper “Towards Integrated Reporting - Communicating Value in the 21st Century” in September 2011. This was followed by a number of discussion papers and draft outlines that were published by the IIRC during 2012 and 2013 culminating in “The International <IR> Framework” which was issued in December 2013.

For the purpose of this survey, the development of the mark plan was largely influenced by the “Consultation Draft of the International Integrated Reporting Framework” issued by the IIRC in April 2013. Specific guidance within “The International <IR> Framework” that was issued by the IIRC in December 2013 was not included in the mark plan, as this document was issued too late for much of this guidance to be included in 2013 integrated reports.

We are aware that companies with year-ends earlier in the year may not have had sight of some of the guidance published during 2013. However, much of the guidance that appeared in the Draft Framework, that was published in April 2013, was available in the various documents that preceded it and therefore much of the high level guidance would have been available to those companies with year-ends earlier in the calendar year. Wherever possible, we have tried to ensure that those companies with earlier year-ends have not been prejudiced by detailed guidance only being issued later in 2013, after their 2013 integrated reports had been finalized.

So for example, we have not taken into account some of the detailed guidance that relates to disclosures of reporting boundaries, material matters, capitals, time frames, etc.

Furthermore, while we would certainly have looked for disclosures relating to the stock and flow of the six capitals (i.e., financial, manufactured, etc.), we would not have expected all companies to use this specific terminology.

Another area where the mark plan has not been prescriptive is whether the main focus of the integrated report should be all stakeholders, as suggested by King III, or merely investors as suggested by the Framework. Nevertheless, we expect the company’s view to be explicitly stated.

The mark plan is based on the guiding principles and content elements that appeared in the Draft Framework. A mark out of 10 is awarded for each of the six guiding principles (i.e., strategic focus and future orientation, connectivity of information, stakeholder responsiveness, materiality and conciseness, reliability and completeness and lastly, consistency and comparability). Similarly, a mark out of 10 is awarded for each of the six content elements (organizational overview and external environment, governance, strategy and resource allocation, opportunities and risks, performance and future outlook). Marks are also awarded for the extent to which the Framework’s fundamental concepts, such as an explanation of the business model and how value is created, have been incorporated into the integrated report.

Emphasis has also been given to the IIRC’s recommendation that the information should be presented in a clear, concise, connected and comparable format.

As a consequence of our intention to change the mark plan on an annual basis and the subjectivity involved in its use, the actual mark plan is not made public. Furthermore, a mark plan that is publicly available could have the disadvantage of encouraging gamesmanship among the participants, rather than striving to encourage true excellence in integrated reporting.

How the integrated reports were marked

Each of the integrated reports of the top 100 companies has been separately marked by each of the three adjudicators from the College of Accounting at the UCT, using the pre-agreed mark plan.

The document that has been reviewed and marked was the one that is labeled as the integrated report. For those dual-listed companies that do not produce an integrated report,
the information contained in their annual report has been evaluated. This is not considered to be detrimental to these companies, as many of them nonetheless include many of the integrated reporting principles in their reports. In all cases, the online PDF or hard copy of the report has been reviewed.

The marking process is not simply about “ticking the box.” More emphasis is placed on the quality of information presented — the relevance, understandability, accessibility and connectedness of that information — whether users of the integrated reports would have a reasonable sense of the issues that are core to the operations of each of the companies, and whether companies have dealt with the issues that users would have expected. This implies that more credit is given for crisply presented information that highlights relevant facts, compared with the same information needing to be extracted from less relevant information.

Each individual member’s score for the six guiding principles, the six content elements and the score for adherence to the fundamental concepts are collated, resulting in a final ranking being awarded. The final ranking is therefore based on a combination of the average of these scores, overall perceptions and extensive discussions surrounding the final rankings for each company. This ranking process is particularly important as the scoring process is subjective and scores may differ, based on the adjudicators’ impressions at the time.

Where a member’s ranking differs widely from the others, this is reviewed to ensure that information had not been overlooked. Often, scores may vary widely, but despite this, there was a high degree of consensus among the adjudicating members’ overall perceptions and recommended rankings.

The overriding objective in ranking the integrated report is the extent to which it complies with the spirit of integrated reporting as defined by King III as being “a holistic and integrated representation of the company’s performance in terms of both its finance and sustainability” and by the Framework as being “a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long-term.”

The adjudication process results in each of the 100 companies being ranked as “Excellent,” “Good,” “Average” or ‘Progress to be made’. A further evaluation then results in a ranking of the 10 best integrated reports from among those that are ranked as Excellent.

Finally, the adjudicators would be the first to acknowledge that others would produce a different mark plan, that would doubtlessly yield different results. We do, however, believe that this process clearly differentiates between those companies that exhibit a high level of integrated reporting and those that do not. We therefore hope that this process has resulted in a ranking that gives credit to those that are doing well and encourages those that are not, to improve.

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The mark plan at a glance
Largely based on the Consultation Draft of the International <IR> Framework

Consideration given to the Framework’s fundamental concepts:
1. Various capitals that an organization uses and affects
2. Explanation of the business model
3. How value is created

Based on the six guiding principles:
1. Strategic focus and future orientation
2. Connectivity of information
3. Stakeholder responsiveness
4. Materiality and conciseness
5. Reliability and completeness
6. Consistency and comparability

And the on the six content elements:
1. Organization overview and external environment
2. Governance
3. Strategy and resource allocation
4. Opportunities and risks
5. Performance
6. Future outlook
About the adjudicators

Mark Graham
Mark is an Associate Professor and head of the College of Accounting at the UCT, where he specializes in financial reporting and financial analysis. He also teaches on the MBA, EMBA and Executive programs at UCT’s Graduate School of Business. He consults to the accounting profession and regularly presents courses on various aspects of accounting, both public and in-house. He has been involved with EY’s Excellence in Corporate Reporting Award since its inception in 1997 and is the current chair of the adjudication panel for the annual EY Excellence in Integrated Reporting Award.

Alexandra Watson
Alex is the Richard Sonnenberg Professor of Accounting at the College of Accounting at the UCT. She is a member of the South African Integrated Reporting Committee Working Group, a board member of the Global Reporting Initiative, member of the Financial Reporting Investigations Panel and until recently was the chairman of the Accounting Practices Committee, the technical accounting committee of SAICA. She is an independent director and chair of the audit committee of an asset management company listed on the JSE and has been a member of the adjudicating panel of the EY Excellence in Integrated Reporting Award, and previous EY reporting awards since they were introduced in 1997.

Goolam Modack
Goolam is a Senior Lecturer and Deputy Head of the College of Accounting at the UCT. He teaches financial reporting at an undergraduate and postgraduate level and has co-authored financial reporting textbooks. He is an independent director of subsidiaries of a J SE-listed financial services group. Goolam has been a member of the adjudicating panel of the EY Excellence in Integrated Reporting Award, and previous EY reporting awards since 2005.
“By providing a more complete picture of strategy, business model, governance and performance – and how they link together – an integrated report can help stakeholders to make better informed decisions about where to allocate their capital.”
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