# Excellence in Corporate Reporting 2011

**A survey of annual reports from South Africa's top 100 companies and top 10 state-owned entities**

Ernst & Young
*Quality In Everything We Do*

The purpose of this survey is to encourage excellence in the quality of financial reporting to investors and other stakeholders by South Africa's top companies and state-owned entities.

## Benchmarking:

Each year Ernst & Young offers all listed companies, and state-owned entities, an opportunity to obtain a detailed analysis of how their annual reports are rated against best practice. The annual reports are reviewed using guidelines from the Excellence in Corporate 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. This year such a report is suited more to companies who have already made efforts to produce an integrated report, while for companies who are starting to make such efforts, Ernst & Young offers a seperate service to assist companies in producing an integrated report. The recommendations in the report relate not only to the accounting and financial information contained in the annual 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 UCT adjudicators or by members of the Ernst & Young Professional Practice Group.

# The purpose of this survey




Companies wishing to benchmark their reports against those in this survey can contact Mary-Anne Donachie on (011) 772 3034 or maryanne.donachie@za.ey.com

For more information on this survey, contact Garth Coppin, National Technical Director of Accounting at Ernst & Young, on (011) 772 3034 or garth.coppin@za.ey.com


# contents

Whilst there are those individuals who enjoy being in the limelight, there are fewer we can uphold as being good examples.  The press often carries reports about questionable activities of various politicians, sportspersons taking drugs or being involved in match fixing as well as movies stars changing partners relatively frequently.

# foreword

While these reports might make headlines that sell newspapers, those headlines also include "good news" stories. For example, by all accounts South Africa ran a successful football World Cup during 2010. This resulted in the eyes of many being focused on this country, whether by visitors attending matches in the country or by watching games on television.

This can lead to the question as to in what other areas can South Africa be portrayed as a good example. The country can also be proud of its electoral processes since the first truly democratic elections in this country in 1994, the successful hosting of rugby and cricket world cups, its sound financial systems, illustrated by the financial crisis that affected so many countries during 2008 having little effect on the local banks, and its outstanding scenery.

South Africa has also been fortunate in having a world class stock exchange. Through its listing requirements it has ensured that companies are required to prepare financial statements in terms of International Financial Reporting Standards (IFRS) and through its Financial Reporting Investigation Panel (previously the GAAP Monitoring Panel) has ensured those standards are adhered to.

This Excellence in Corporate Reporting Survey has over the past fourteen years played its part in not just considering what companies are reporting but in encouraging them to improve the quality of their annual reports. The extent of efforts that companies have demonstrated in preparing their annual reports is evidenced by the number of companies being rated as excellent in this latest survey being the highest over the past six years. The survey also shows that South African companies perform well when compared to those companies who while listed in South Africa, have a primary listing on another exchange, such as the London Stock Exchange.

The quality of annual reports has improved substantially since the first survey was published in 1997. Since then companies have had to adapt to many changes, not just economic, but also the increased focus on environmental and social issues, as well many changes in accounting standards. Companies are presently also grappling with changed expectations regarding annual reports.

With the stock exchange requiring companies to report on their extent of compliance with the King Report on Governance for South Africa 2009 and that report requiring companies to produce integrated reports, companies have been applying their corporate mind to this issue. With King III providing little guidance on integrated reporting companies have been considering what other guidance might be available.

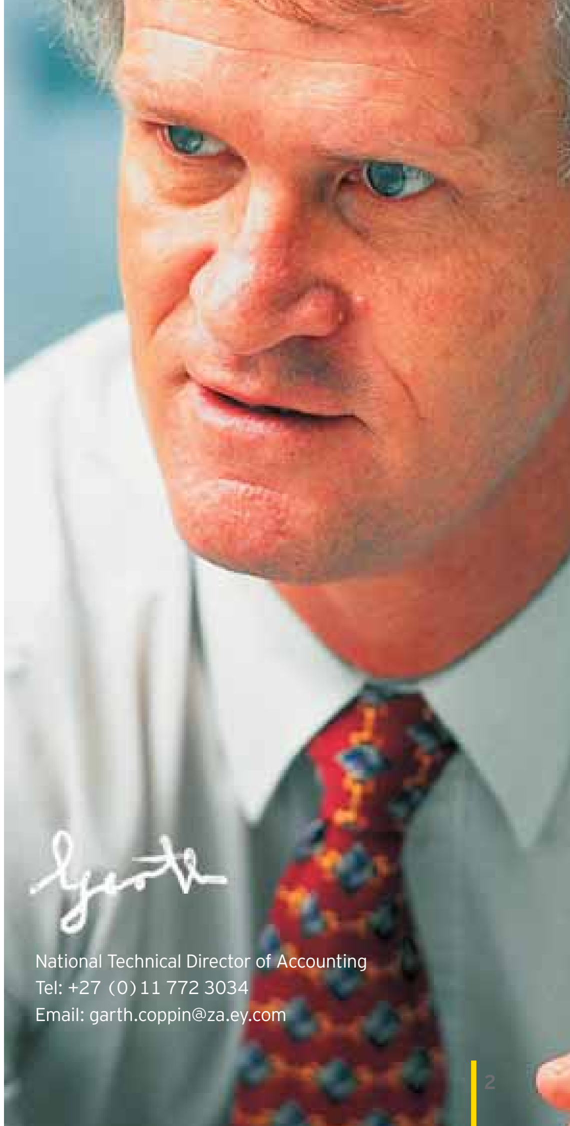
Accordingly the discussion paper on the Framework for Integrated Reporting and the Integrated Report issued by the Integrated Reporting Committee of South Africa has been a useful document for preparers. With the local stock exchange promoting high corporate governance standards through its support for King III and thus being among the first countries requiring integrated reports, this discussion paper has received a lot of attention, not just in this country, but also from parties based in other countries.

Thus again South Africa has been able to demonstrate that it is able to lead by example, evidenced by the number of comments received from overseas parties to the discussion paper. This discussion paper has also been used by the International Integrated Reporting Committee as it prepares its own proposals on integrated reporting.

With South Africa been seen by many as a gateway to the rest of Africa it is setting expectations that other African countries can aspire to and be an example for. This also needs South African companies to rise to the challenge of producing high quality integrated reporting. As a result what started initially as Excellence in Financial Reporting and changed to Excellence in Corporate Reporting is looking to become Excellence in Integrated Reporting in 2012.

Thus we salute those companies who have produced annual reports they can be proud of, which shows evidence of much thought and effort being applied in their production by those involved in the preparation. However like any top class athlete, these companies cannot rest on their laurels, but will need to deal with the challenges facing them in preparing integrated reports. We are sure that many companies will rise to the challenge of being an example, not just to other companies locally, but also to other companies in Africa and elsewhere.

This survey has again been made possible by the continued involvement of the adjudicators from the University of Cape Town. This has helped to ensure a consistent standard of assessment over the fourteen years that this survey has been conducted. Accordingly we are extremely grateful for their dedication, which includes each of them reading all annual reports of the top companies surveyed, as this has contributed significantly to this survey reaching the high stature it has in the business community.



Garth

National Technical Director of Accounting
Tel: +27 (0) 11 772 3034
Email: garth.coppin@za.ey.com

# The 2011 rankings

## Johannesburg Stock Exchange (JSE) listed companies

| Top Ten in order of position | |
|---|---|
| Nedbank Group | *Joint* |
| Gold Fields | *winner* |
| Anglo American Plc | |
| Massmart Holdings | |
| Standard Bank Group | |
| Exxaro Resources | |
| Truworths International | |
| African Rainbow Minerals | |
| Sasol | |
| Kumba Iron Ore | |

| Excellent |
|---|
| ABSA Group |
| Anglo American Platinum |
| AngloGold Ashanti |
| Barloworld |
| BHP Billiton Plc |
| British American Tobacco Plc |
| Clicks Group |
| Evraz Highveld Steel and Vanadium Company |
| Grindrod |
| Growthpoint Properties |
| Impala Platinum Holdings |
| Investec |
| Liberty Holdings |
| Lonmin Plc |
| Netcare |
| Pretoria Portland Cement Company |
| Sappi |
| Sun International |
| The Foschini Group |

| Good | | |
|---|---|---|
| AECI | Illovo Sugar | Old Mutual Plc |
| Adcock Ingram Holdings | Imperial Holdings | Redefine Properties |
| African Bank Investments | JD Group | Royal Bafokeng Platinum |
| Allied Electronics Corporation | Lewis Group | SABMiller Plc |
| Arcelormittal South Africa | Life Healthcare Group Holdings | Sanlam |
| Aspen Pharmacare Holdings | Medi-Clinic Corporation | Santam |
| Aveng | Mondi | Telkom SA |
| Capitec Bank Holdings | MTN Group | The Bidvest Group |
| Discovery Holdings | Murray & Roberts Holdings | Vodacom Group |
| Firstrand | Nampak | Woolworths Holdings |
| Harmony Gold Mining Company | Northam Platinum | |

## State-owned entities

Many of the drivers of reporting for state-owned entities are different to those of listed companies. For example, in regulated industries there is an incentive for state-owned entities to be more transparent about cost structures and associated variances; this sort of information is highly unlikely to be presented by a listed company with competitors. As a result, it is difficult to draw a meaningful comparison between the top state-owned entities and the top listed companies.

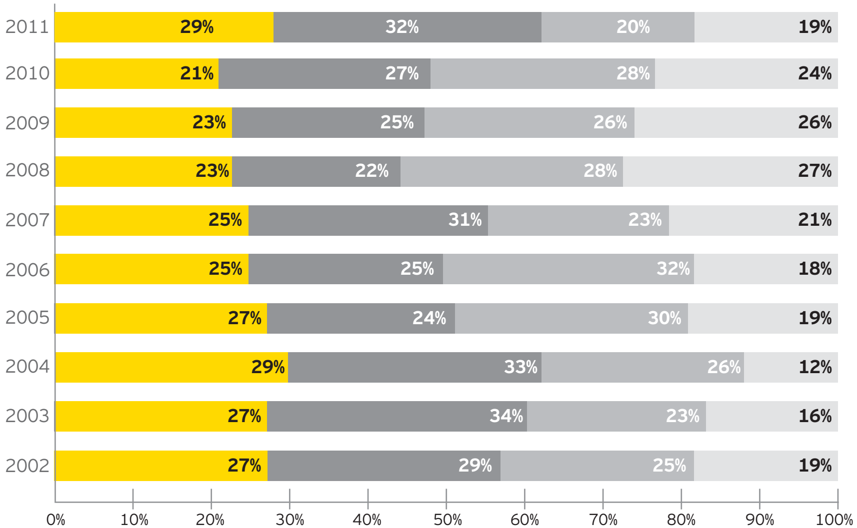
| Excellent |
|---|
| Eskom |
| Transnet |

| Good |
|---|
| DBSA |

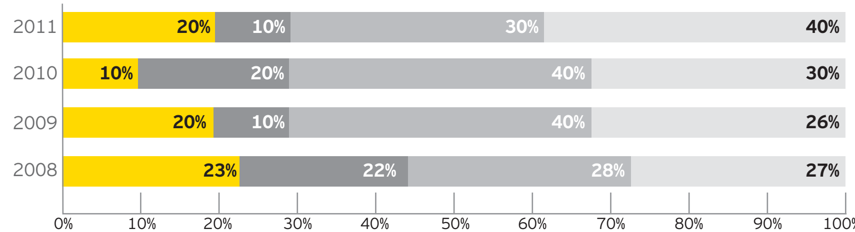
** A full listing of all companies and entities that were ranked is available on the website www.ey.com/za - Services - Assurance*

# Results over time

## Listed companies




## State-owned entities




*Note on rankings:*

*The adjudication process ranks the entities into the categories of Excellent (which includes the top 10 positions), Good, Adequate and Perfunctory.*

*As the term "Perfunctory" implies, the entities that are included in this category are doing little more than the bare minimum to satisfy the requirement to comply with International Financial Reporting Standards or listing requirements. Classification as "Perfunctory" does not necessarily imply that the entity has produced a poor set of financial statements. It does however imply that the entity does not appear to be making a significant effort to present voluntary additional information that would be expected of a top company or large state-owned entity.*

*"Adequate" implies that we consider the financial statements as being adequate for one of the largest South African entities - it does not imply that the level of compliance with minimum requirements is adequate. As this is a process to identify excellence, those entities that are classified as "Adequate" have given an appropriate amount of optional additional disclosure for a large entity.*

*"Good" and "Excellent" are awarded to entities that give progressively higher levels of meaningful disclosures in their annual reports.*

## Past winners

| | |
|---|---|
| 1998 | Edgars Consolidated Stores |
| 1999 | Iscor |
| 2000 | Iscor |
| 2001 | Standard Bank Group |
| 2002 | BoE |
| 2003 | Anglo American Platinum Corporation |
| 2004 | ABSA Group |
| 2005 | Sasol |
| 2006 | Sasol |
| 2007 | Sasol |
| 2008 | Sasol |
| 2009 | Standard Bank Group |
| 2010 | Anglo American Plc |


# Top 10 companies

### 1 (Joint) Nedbank Group

Overall, Nedbank scored excellently in every aspect of the marking process. The report contained useful navigation aids at the top of the pages, and it was simple to manoeuvre through the on-line version. The reader could get a clear view of the company's performance, focus areas and prospects from the first couple of pages, including explicit medium- to long-term financial targets. The likely impact of Basel III was also highlighted and the effect diagrammatically represented. Helpful icons were introduced to guide different stakeholders to relevant information. In the Financial Report, the "Average banking balance sheet" was useful in assessing performance. A summary of impairments, credit loss ratios and defaulted loans, per operational segment, and reconciled from the beginning to the end of the year, is a highly-relevant and welcome disclosure. The Remuneration Report included good executive remuneration disclosure, showing targets, performance against targets and explicit vesting criteria.

### 1 (Joint) Gold Fields

Risk disclosure was a significant contributor to the high ranking of Goldfields – we liked the way in which Goldfields described its risk review process, the good overall summary of the overall risk profile including targets and actual results for 2010 as well as the effective use of colour and graphic presentation to indicate the significance as well as changes in risk factors. This report gives a good sense of what will ensure the sustainability of the business going forward – in particular what commodity prices will need to be in terms of the existing cost structures as well as a useful section (Growing Gold

Fields) which takes a longer term focus of the business. The discussion and detailed information on costs, including what the appropriate measurement basis is, assists in analysing the future prospects for this organisation. Detailed disclosure of the 2010 objectives and the progress made in achieving those objectives as well as detailed objectives for 2011 combined with some notes on factors that could influence the ability to reach the targets set were other factors that have contributed to the ranking of this report.

## 3 Anglo American plc

Anglo American's annual report manages to convey the volume of information required as a result of the diversity in its business operations in an accessible manner, partly as a result of clever use of graphics as well as a carefully considered structure and layout. The strategy of the business and the resulting key performance indicators for both the current and future year are given the prominence they deserve and are clearly communicated. Key relationships such as life of mine per commodity, diversity, resources consumption as well as the more usual economic data are successfully portrayed using graphics. There is very little waffle and boiler plate disclosure in this report. The governance disclosure has some unusual and useful disclosures, including a frank analysis of a board effectiveness review. The big picture disclosure in relation to capital expenditure is considered highly appropriate for the nature of the group.

## 4 Massmart Holdings

Massmart's user friendly report is exceptionally well laid out with excellent cross-referencing that makes the information in the report extremely accessible. The divisional operating reviews are crisp and well supported by key financial data. Furthermore, they have disclosed a range of financial targets for each of their divisions. Compliance with, and exceptions to, King III were particularly well handled as were the detailed disclosures relating to their strategic and operational risks. Good use was made of various graphics such as their innovative use of a waterfall graph to show the make-up of the net movement in their cash flows.

## 5 Standard Bank Group

Overall, Standard Bank produced an eloquently-written, commendably arranged and intriguing annual report. We found the navigation aids down the right-hand-side of the page helpful, together with the summaries before every major section highlighting the contents. Fair commentary on both good and bad news was provided. A description of how the strategy has been refined and the management responsibilities changed, helped in assessing the organisational shifts. A description of how the group generates its revenue and the key risks it faces in doing so was an articulate and meaningful disclosure. We appreciated the Risk and Capital Management report being the location for all the necessary risk disclosures (including those required by IFRS), with appropriate references to the financial statements. We found it a sensible decision to allocate annexures for the exhaustive accounting policies, and including only a summary of the major accounting policy elections made, in the main body of the financial statements.

## 6 Exxaro Resources

The front cover and the first 11 pages of the Exxaro integrated annual report have been the major contributors to the ranking of this company. The introductory pages highlight the material issues that arose after consulting with stakeholders, how the company has responded to each issue, what impact each issue has on the risk map and a reference to where the issue is dealt with more fully in the report. There is clear disclosure of financial and non-financial targets for 2010 and 2011 as well as 4 years of historic figures. A graphic presentation of the top residual business risk map for 2010 with a ranking of the top 20 risks is effective. A nice touch was the context that was provided to the environmental disclosures, for example by giving energy and water consumption per ton produced for 3 reporting periods.

## 7 Truworths International

Truworths' report includes a good explanation of their business and the way in which they manage both the risk of fashion and the risk of credit. An investment case is made early in the report with references to the sections of the report where more detail can be found on any particular theme. Financial targets and objectives for the year ahead are given together with their performance against targets that were set for the current year. These targets are usefully supplemented by disclosure of both local and international benchmarks.

## 8 African Rainbow Minerals

African Rainbow Minerals annual report is well structured and cross referenced to supporting information in additional reports on mineral reserves and resources as well as a sustainability report. Key performance indicators of a financial and non-financial nature are clearly explained and illustrated by means of graphs reflecting performance over a 6 year period. Information that would be useful in projecting future profitability include targeted costs per mine for 2012 relative to global cost curves as well as clearly communicated information on key growth projects. A waterfall graph depicting factors that accounted for the differences between the 2009 and 2010 profits as well as inclusion in the financial review of significant accounting matters as well as financial management issues were also favourably considered by the adjudicators.

## 9 Sasol

Sasol's annual report included an annual review and annual financial statements, and a separate sustainable development report. Its chief financial officer's report provides a clear and concise summary of the key financial risks and uncertainties of the business, and it has an appropriate emphasis towards issues of particular relevance to the group. There is clear disclosure of the strategic agenda and top priorities of management and the group imperatives that arise from those. Its presentation of the key financial indicators and detailed segmental reporting are commendable, both in content, structure and layout, and the combination with a variety of different forms of graphic presentation.

## 10 Kumba Iron Ore

Kumba Iron Ore has three reports – an annual report, annual financial statements and a responsibility report, with clever use of symbols to indicate where additional related information could be found. The reports clearly convey the strategy of the group for achieving long-term sustainability, and detailed disclosure was given on factors influencing each of the pillars of that strategy. Graphic presentation of key performance indicators, a waterfall graph highlighting the factors that contributed to changes in the cost structure during the year as well as a comprehensive overview of the root causes, potential impact and mitigating steps taken for key risks were other factors that contributed to its inclusion in the rankings. A good analysis of the market in which it is operating as well as detailed analysis of the performance of each significant operation was also favourably considered.

# How the top 100 were chosen

The top 100 companies were selected on the basis of their market capitalisation on the JSE at 31 December 2010, being the last trading day in December. Once again the 2010 annual reports were reviewed for all companies, including those with a December year-end.

**It is interesting to note that the market capitalisation of the 100 companies in this survey range from approximately R590 billion at the top end (BHP Billiton plc) to R6.2 billion (Datatec Ltd) at the lower end.**

Furthermore, these 100 companies account for approximately 90% of the total market capitalisation of the JSE.

All companies were regarded as being eligible other than 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 and Old Mutual. 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 annual report was reviewed.

Following changes in market capitalisation and other corporate activity nine companies that appeared in last year's survey were no longer regarded as being eligible, resulting in the appearance of nine newcomers. This represents a slightly higher churn than last year when six new companies entered the survey.  This year we said farewell to: Coal of Africa, Gold Reef Resorts, Net 1 UEPS Technologies, Oando, Platmin and Rainbow Chicken following declines in their market capitalisations, as well as to Dimension Data, Metropolitan and Liberty International all of which were delisted during the year. Liberty International was rated as 'good' in the 2010 rankings with the others failing to make the good or excellent categories.

The nine newcomers in this year's survey include the two new listings Capital and Counties Properties and Capital Shopping Centres born out of the split of Liberty International. Other newcomers in the 2011 survey are four mining companies; Eastern Platinum, Great Basin Gold, Optimum Coal Holdings and Royal Bafokeng Platinum as well as the financial services group, PSG, the health care provider Life Healthcare and the information systems technology company, Datatec. Out of these newcomers only Royal Bafokeng Platinum and Life Healthcare managed to make the good / excellent rankings with their annual reports being ranked as good. MMI Holdings, born out of the merger of Metropolitan and Momentum has yet to produce its maiden annual report and was thus excluded from the survey. Highveld Steel and Vanadium Corporation changed its name to Evraz Highveld Steel and Vanadium during the year and in 2011 its first annual report, using its new name, was ranked in the excellent category.

# How the annual reports were marked

The marking process starts with the adjudicators from the Department of Accounting at the University of Cape Town formalising a mark plan that takes into account both new and existing financial and non-financial disclosures which companies are expected to include in their 2010 Annual Reports. Emphasis is placed on those developments which would have impacted on these disclosures at the time of publishing the annual reports. As was the case in previous years, the final mark plan is discussed and agreed with Ernst & Young's Professional Practice Department.

This year the UCT team, led by Professor Mark Graham, included Professors Alex Watson, Geoff Everingham and Goolam Modack as well as new team members, Ilse Lubbe and Taryn Miller.

Each of the annual reports of the top 100 companies is separately marked by three adjudicators using the pre-agreed mark plan. The adjudication process results in each of the 100 companies being placed in the top ten or ranked as either Excellent, Good, Adequate or Perfunctory (which implies compliance of reporting requirements with limited additional information).

Where the annual report makes clear reference to information that is contained on the company's website (e.g. sustainability disclosures) the team would review this information as well.

In addition to marking the annual reports in accordance with the mark plan, each adjudicator is required to record their recommendation of the category in which the report should be ranked in the adjudication process.

This is particularly important as:

- The marking process is subjective and scores may differ, based on the adjudicators' impressions at the time of marking. Often, scores may vary widely, but the recommended ranking is the same.
- Different types and levels of disclosures are required for companies in different industries. In less complex companies, certain aspects of the mark plan may be less relevant and this could negatively impact the scores resulting in raw scores that are deceptive.

Where a member's scores varied widely from the others, this was reviewed to ensure that disclosures had not been overlooked. Having said this though, no attempt was made to arrive at a consensus score as this would compromise the subjectivity of the scoring process. Despite variations in scores, there was a high degree of consensus among the adjudicating members' scores and overall perceptions.

Once the marking process was completed, the scores and individual members' recommended rankings were collated resulting in a final ranking being awarded in this survey based on the average of the three adjudicating members' scores. These average scores, together with overall qualitative perceptions at the time of marking, are then used to determine the final rankings and help resolve some border-line and/or contentious decisions.

The marking process is not simply about 'ticking the box'. The mark plan assumes compliance with statutory requirements and adherence to accounting standards. The mark plan places emphasis on the quality of information presented - the relevance, understandability and accessibility of that information; whether users of the annual 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 to the same information needing to be extracted from less relevant information.

In deciding on the top 10 rankings additional emphasis was given to; the overall layout of the report and to the accessibility of the information therein, the extent to which the key risks of the business were outlined, the disclosure of key performance indicators and targets, useful explanations of data presented, discussion of the key issues that are facing the business and the way in which accounting issues that were peculiar to the business were handled.

As a consequence of changes to the mark plan on an annual basis and the subjectivity involved in its use, the mark plan is not made public. In addition, a mark plan that is publicly available could have the disadvantage of encouraging gamesmanship amongst the participants rather than striving to encourage excellence in corporate reporting.

The broad aspects of the mark plan are, however, outlined below. This year's mark plan once again comprised 5 categories as follows:

# mark plan

**Presentation (approximate weighting 8%)**

This represents the smallest category on the mark plan and marks are awarded for the timely release of the annual report as well as overall impressions as to the layout and accessibility of information and innovation shown in presenting the annual report.

**Performance review (approximate weighting 28%)**

This section deals with the non-statutory section of the annual report and awards marks for a review of operating performance, commentary on the business environment and trends and the quality of segmental information, particularly where companies have divisions with significantly different risk profiles. More credit is given to information that is relevant and presented in a manner that is understandable.

**Financial disclosure (approximate weighting 18%)**

The emphasis in this category is not on compliance with Generally Accepted Accounting Practice (GAAP) and International Financial Reporting Standards (IFRS) as this is assumed. The mark plan focuses on the clarity, relevance and understandability of the accounting policies that are being applied, the accounting disclosures that are useful taking into account the nature of the business, disclosures of areas where judgments and estimates have been applied and early adoption of or discussions on the impact of accounting standards that are not yet effective.

Companies are penalised where key accounting policies, estimates and disclosures are omitted.

**Governance and sustainability issues (approximate weighting 28%)**

This category looks at corporate governance issues, with particular emphasis on the remuneration of directors. In addition, key issues in this section are employment equity, black economic empowerment, health and safety and effective use of natural resources.

**Forward-looking information (approximate weighting 18%)**

Forward-looking information is important to users of the annual report. This is often an area where very little detail is provided. In this category marks are awarded for disclosures of the business strategy and objectives, financial targets and the risks that the company faces.

**Finally, and as we have indicated before, 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 corporate 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 do not, to improve.**

# What the adjudicators found

## 2010 financial year ends

2010 was a challenging year to adjudicate the Excellence in Corporate Reporting awards. By the time that the December year ends produced their reports, there had been a lot of focus and some suggested guidance published on integrated reporting. While we made a decision that we were not directly rewarding integrated reporting, many of the underlying concepts of integrated reporting were already built into the mark plan.

As a result, those companies that have been ranked highly are those that have either made significant progress on the integrated reporting journey or are likely to find the process going foward, relatively easy.

2010 was a year that saw significant improvements in the overall quality of the annual reports. Considerably less generic boilerplate sustainability and governance disclosures, more substance to the sustainability reports and a greater awareness of the importance of linking the financial and non-financial information were the most noticeable trends. It is not clear whether the move towards integrated reporting is changing the focus in the way in which companies report or is changing the way in which companies manage their business, but it is apparent that there is an increasing emphasis on linking financial performance and the more traditionally-considered sustainability factors of the business. Overall it appears that the gap between the information that a board of directors is likely to be considering and what is being reported in an annual report is narrowing. Furthermore, many of the companies that experienced negative press were transparent in their communication of these issues.

Our adjudication process looks at the whole suite of reports that make up the annual report, and focuses on the effectiveness of the communication as well as the content. In 2010 we found a bigger diversity in the combination of reports that companies produced – probably a consequence of their initial attempt at an integrated report. Many companies that had previously published sustainability reports now include only a high level summary in the printed report, with more details available online, which we consider to be a positive step. There has also been an improvement in the quality and amount of cross-referencing of information in the reports, but we do believe that there is still room for improvement in this regard.

Our adjudication process rewards disclosures that we believe are useful to understand the vision and strategy of the business, performance against targets that are relevant to all stakeholders and the factors that are the most likely to influence performance in the future. Information on how the strategy of the business influences key performance indicators, and how those influence executive compensation are factors that favourably influence our assessment.

We have raised a concern about the accessibility of information in previous years and emphasised the importance of structure, cross referencing of information and removing clutter and boilerplate disclosures where possible. More use of high level summaries that drill down to the required detail, section specific indices, cross-referencing and careful thought to the structure of the suite of reports can make the volume required more manageable and accessible to users.

On balance, there has been an improvement in accessibility of the information presented in 2010. The annual reports appear to be more focussed, with more thought given to the linkage between different components of the report. However, there were a number of instances where we felt that the decisions made in respect of where information should be placed in the suite of reports was unexpected, and as there was usually also insufficient indexing, it was difficult to find. This was particularly apparent at the closing stages of our adjudication process where we agreed on the key factors that we felt should influence our rankings. We judged the accessibility of the report by how quickly we were able to find and consider the information we were looking for.

Increasingly our adjudication includes at least some use of the information on the company's website. We encountered some challenges in doing that. In many cases it was difficult to discern what was considered to be part of the annual reporting process and we would suggest that preparers include an overview of what reports are included in the reporting package, and give careful consideration to allocating

information to the appropriate report. We also found the predominate use of portrait layout to be difficult to use online, particularly where documents require two pages to be considered side by side. Many companies websites include both a pdf version as well as an interactive version of the annual report – in most but not all cases, the interactive version improved the accessibility of the information.

We noticed a reduction in the amount of general discussion and case studies, particularly in relation to corporate social investments and to a lesser extent, environmental reporting. There were considerably more hard facts, supported by an increasing amount of independent assurance on non-financial information. Overall, it is becoming easier to get an overall perspective of the initiatives and impacts that the business has, partly as a result of the reduction in clutter and also because of more use of diagrams and tables that more effectively highlight the relationships between items.

The quality of information in respect of risk disclosures continues to improve. There are some companies that are providing useful disclosures on the risk monitoring process that they follow and many companies are broadening their horizons in identifying the type of risks on which they report. An increasing use of tabular presentation, ranking or grouping of risks and even some graphic presentations are raising the overall standard of reporting in this area.

As there are more companies that have produced sustainability-related information for a few years, the usefulness of the information is increasing as trends and relations emerge. In most instances we felt that the usefulness of the information could be improved by giving it more context – perhaps by comparison with industry norms, or at least by including some relationship between the amount measured and other activity levels (e.g. the amount of electricity per ton mined.) We noticed an increase in the disclosure of sustainability targets but would have liked to have see more discussion on the challenges that are anticipated in meeting those targets and the anticipated costs in financial (or any other terms) of doing so.

**Increasingly we are finding that the statutory financial statements are the least relevant aspect in making our decisions. There is very little in the financial statements that can be used to discriminate excellence – as compliance with IFRS and its detailed disclosure requirements results in reasonably consistent financial statements.**

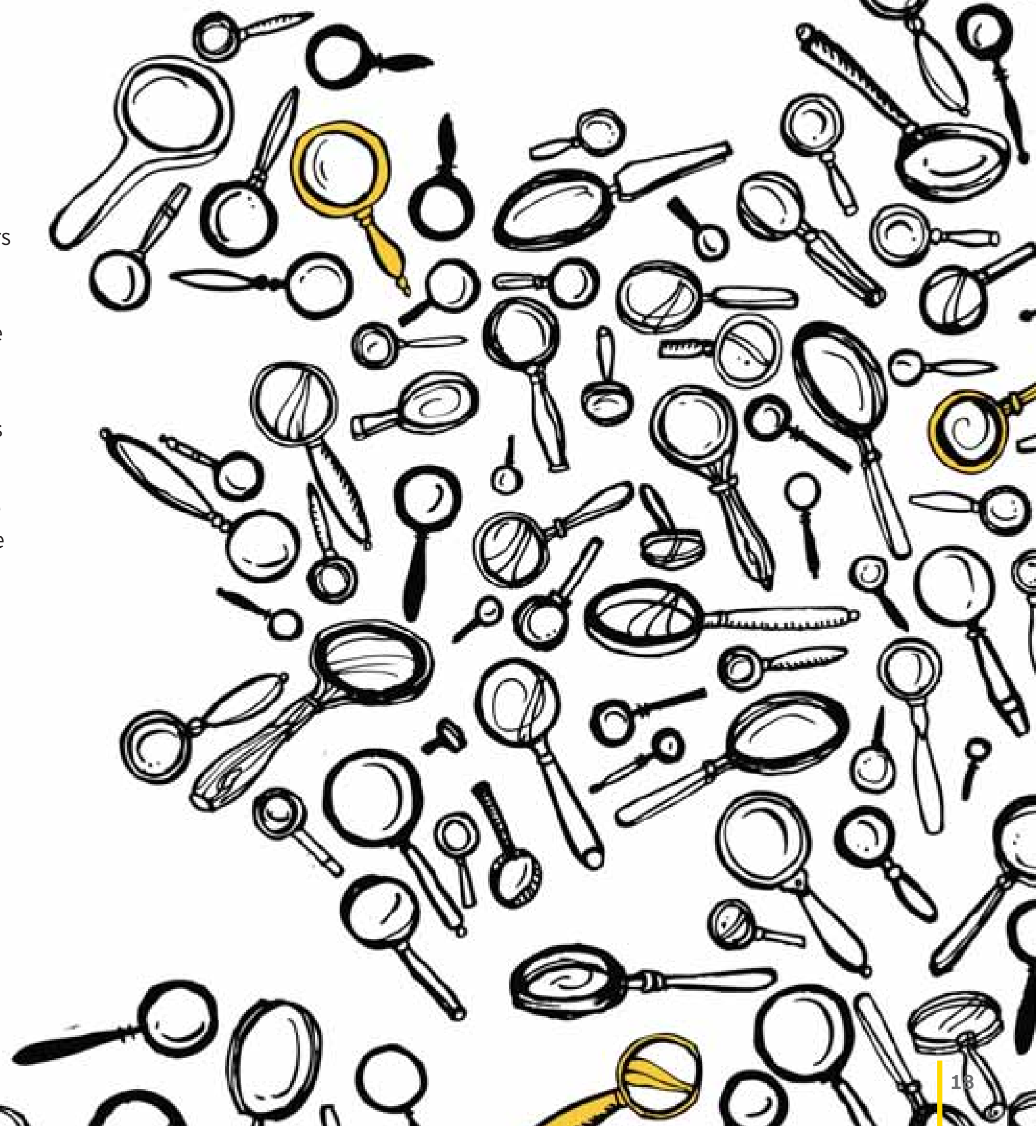
There are isolated examples of particularly well structured and highlighted financial statements and the use of appendices to remove the clutter of items that are required but not that decision useful. We understand the need to be compliant with IFRS and listing requirements, particularly in the light of the JSE's newly introduced proactive monitoring of financial statements, but do think that this can be done in a way that is more effective.

An issue that has been addressed in our feedback almost every year is the issue of the disclosure in relation to directors' remuneration. This is a sensitive issue that gets considerable media attention and is an area where we continue to believe there is potential for improved disclosure. Many companies provide a great deal of information, with pages outlining each type of incentive scheme on an individual director basis. While that information may be necessary, it is generally very difficult to get a clear understanding of the overall remuneration of its individual director and the maximum potential amount payable. In particular, it is rare to see useful disclosure of the IFRS 2 charge linked to individual directors' remuneration.

During 2010 we felt that the quality of disclosure in respect of bonus awards to directors was marginally improved, with more disclosure given of the factors that influence the bonus and the terms and conditions that are needed for directors to participate in incentive schemes. Placing more emphasis on caps to the payments and on the overall package as opposed to individual incentive schemes are areas where there is generally room for improvement. There were mixed responses to the requirement in King III to disclose the remuneration of the 3 highest paid executives that are not directors – perhaps this will improve in reports published after King III has become effective.

Last year we identified that there was room for improvement in respect of the disclosure of accounting policies, and a need for a move away from boilerplate disclosures to more entity specific disclosures. There has been limited improvement in this regard but Standard Bank continues to impress with its approach to accounting policies – where the choices made are highlighted at the introduction of the financial statements with the more detailed policies appropriately placed in an annexure. A similar approach was adopted in respect of the potentially tedious disclosures required in terms of share based payment and employee benefit schemes.

In a separate document, we have highlighted the factors that contributed to the ranking of the top 10 companies. In most cases, those are factors that would be useful aspects to consider in preparing an integrated report and we would encourage companies to consider whether some of those approaches are appropriate for their company, particularly for those companies that still have some distance to go on their integrated reporting journey.



# Our professional practice contacts

## Team leaders

**Mike Bourne**

**Head: Professional Practice Group**

Tel: +27 (0)21 443 0258
Email: michael.bourne@za.ey.com

**Vincenzo Paino**

**Director for Assurance Enablement**

Tel: +27 (0)21 443 0391
Email: vincenzo.paino@za.ey.com

**Garth Coppin**

**National Technical Director of Accounting**

Tel: +27 (0)11 772 3034
Email: garth.coppin@za.ey.com

**Larissa Clark**

**Director for Assurance: Professional Practice Group**

Tel: +27 (0)11 772 3094
Email: larissa.clark@za.ey.com

**Jeremy Grist**

**Director for Climate Change & Sustainability Services**

Tel: +27 (0) 11 772 3029
jeremy.grist@za.ey.com

## Adjudicators

**Left to right:**

*Professors Alexandra Watson, Geoffrey Everingham and Mark Graham*

*Tarryn Miller*

*Ilse Lubbe*


# Doing business in Africa?

Africa is receiving unparalleled attention, with substantial opportunities across all sectors. Our Africa Business Center™ network of professionals, can help you navigate these opportunities and challenges of doing business on the continent.

According to our survey of 1,400 executives – Competing for Growth, companies across all sectors and markets are expecting the new economy to be even more competitive. Those from emerging markets expect competiveness to increase the most, as companies from developed markets enter and local players intensify their focus.

Connect with us, and collaborate in a facilitated client session to find a balanced approach to your customer reach, operational agility, cost competitiveness and stakeholder confidence.

Winning in the new economy.

**www.ey.com/za**

***Africa Business Center™ Africa Interactive™*** *- unique map based interactive software that maps company footprints across Africa, intersecting with key variables relevant to the business for informed decision making*

*africabusiness@za.ey.com*

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

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.



Studio ref. 110810. Artwork by Govender.