

Business and Investors explore the sustainability perspective of Integrated Reporting

IIRC PILOT PROGRAMME YEARBOOK 2013

INTERNATIONAL INTEGRATED REPORTING COUNCIL

ABOUT THE IIRC PILOT PROGRAMME 2013 YEARBOOK

IN EVERY MOVEMENT, THERE ARE THOSE WHO MOVE FIRST: THE PIONEERS. THEY SEE OPPORTUNITY EARLY. THEY COMBINE VISION WITH ACTION. THEY AIM TO LEARN – AND TO LEAD.

THE BUSINESSES IN THIS BOOK ARE THE INNOVATORS OF INTEGRATED REPORTING (<IR>).

AS PARTICIPANTS IN THE IIRC PILOT PROGRAMME, THEY ARE LEADING THE WAY IN EVOLVING <IR> FROM A PROMISING CONCEPT TO A POWERFUL PRACTICE WITH TRANSFORMATIONAL EFFECTS NOT JUST ON THE WAY AN ORGANIZATION REPORTS, BUT ON THE WAY IT THINKS AND ACTS.

PAUL DRUCKMAN, IIRC, CEO:

"INTEGRATED REPORTING PROMOTES A MORE COHESIVE AND EFFICIENT APPROACH TO CORPORATE REPORTING THAT DRAWS ON DIFFERENT REPORTING STRANDS. HERE, OUR INNOVATORS FOCUS IN ON THE SUSTAINABILITY PERSPECTIVE.

THEY TELL THEIR JOURNEY, HOW THEY ARE CONNECTING DEPARTMENTS ACROSS THEIR BUSINESS, HOW THEY ARE DEVELOPING THEIR STRATEGIES FOR LONGER TERM VALUE CREATION."

SUSTAINABILITY:

*"A DYNAMIC PROCESS OF ADAPTATION, LEARNING AND ACTION. IT IS ABOUT RECOGNIZING, UNDERSTANDING AND ACTING ON INTERCONNECTIONS, ABOVE ALL, THOSE BETWEEN THE ECONOMY, SOCIETY AND THE NATURAL ENVIRONMENT."**

**RESILIENT PEOPLE, RESILIENT PLANET: A FUTURE WORTH CHOOSING* – A REPORT OF THE UN SECRETARY-GENERAL'S HIGH-LEVEL PANEL ON GLOBAL SUSTAINABILITY, JANUARY 2012



INTEGRATED REPORTING

ABOUT THE INTERNATIONAL INTEGRATED REPORTING COUNCIL.

THE IIRC IS A GLOBAL COALITION OF REGULATORS, INVESTORS, COMPANIES, STANDARD SETTERS, THE ACCOUNTING PROFESSION AND NON-GOVERNMENTAL ORGANIZATIONS. ITS MISSION IS CLEAR: TO ENABLE INTEGRATED REPORTING TO BE EMBEDDED INTO MAINSTREAM BUSINESS PRACTICE IN THE PUBLIC AND PRIVATE SECTORS.

OUR LONG-TERM VISION IS A WORLD IN WHICH INTEGRATED MANAGEMENT AND THINKING ARE EMBEDDED WITHIN MAINSTREAM BUSINESS PRACTICE IN THE PUBLIC AND PRIVATE SECTORS, FACILITATED BY <IR> AS THE CORPORATE REPORTING NORM. THE CYCLE OF INTEGRATED THINKING AND REPORTING, RESULTING IN EFFICIENT AND PRODUCTIVE CAPITAL ALLOCATION, WILL ACT AS A FORCE FOR FINANCIAL STABILITY AND SUSTAINABILITY. WWW.THEIIRC.ORG

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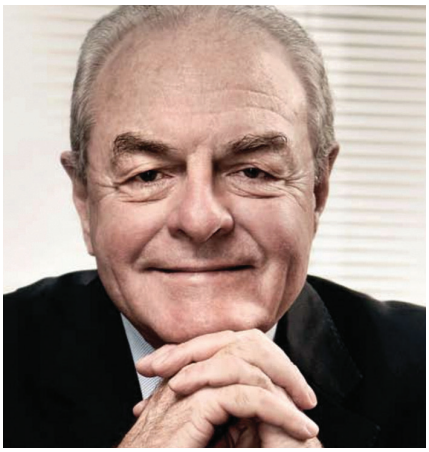
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WELCOME



From the Chairman

Until recently, corporate reporting has failed to keep pace with the new ways business has to be done in the 21st Century. The IIRC Pilot Programme businesses are leading the way with innovative approaches towards Integrated Reporting.

Good corporate governance, ongoing stakeholder relationships, integrated thinking and the integrated report are four of the tools being used by businesses today in learning to make more with less. In this Yearbook the realisation that these elements matter are brought to life through the stories told about the application of the Guiding Principles and Content Elements of Integrated Reporting.

Business leaders should take note of the journeys in this Yearbook which will aid and encourage them to embark on their own journeys of Integrated Reporting.

Stakeholders are already learning that they can make a more informed assessment about value creation from an integrated report.

Integrated Reporting is playing a role in meeting the world's two great challenges – financial stability and sustainability. The participants in the IIRC Pilot Programme have made and continue to make an important contribution to sustainable capitalism.



Professor Mervyn E. King S C
Chairman – International Integrated Reporting Council



From the CEO

Over the last year, we have seen the global momentum for <IR> gather pace, mirrored by a significant contribution by the IIRC Pilot Programme community, and a growing recognition that <IR> has an important role to play in establishing resilient business practice.

At the heart of the IIRC's work is our Pilot Programme, which now includes 140 leading businesses and institutional investors. These organizations, some of which are featured as case studies in this Yearbook, ensure that the IIRC's work remains grounded in the reality of today's business environment and focused on the needs of providers of financial capital. The businesses and investors involved in the IIRC Pilot Programme are central to the development of the International <IR> Framework.

Integrated Reporting promotes a more cohesive and efficient approach to corporate reporting that draws on different reporting strands. In this year's Yearbook we have decided to look at what those responsible for sustainability within their organization are doing in order to move towards Integrated Reporting. They have talked to us about how they are beginning to use the sustainability information they already collect to progress towards <IR>.

INTEGRATED REPORTING IS PLAYING A ROLE IN MEETING THE WORLD'S TWO GREAT CHALLENGES – FINANCIAL STABILITY AND SUSTAINABILITY.

The IIRC Pilot Programme is now active in 25 countries, bringing to life two of the IIRC's strategic goals: to be market-led; and to be truly global in nature and outlook. It is the innovation hub of the IIRC – our community of innovators – and it is contributing to the growing body of evidence that points to the real and tangible benefits of <IR>.

Our engagement with many organizations and individuals during the year was reflected in the 359 submissions we received on the Consultation Draft of the Framework in July 2013. This extensive engagement programme continued with business leaders from the IIRC Pilot Programme, and I would like to thank them for facilitating these meetings.

Other highlights during the year are worth recounting. For example, our interaction with stock exchanges resulted in the Consultation Draft launches taking place at the New York, Toronto, Johannesburg, Sao Paulo, Tokyo, Singapore and Frankfurt Stock Exchanges, and furthermore, Deutsche Börse became the landmark 100th business in the IIRC Pilot Programme.

Across the world, our engagement with supra-national bodies has been extensive. We had conversations at the European Commission about <IR>'s role in the evolution of corporate reporting, and presented to ABAC[1] about <IR>'s role as a major accelerator of long-term investment in energy finance. Countries such as Japan have set up Corporate Reporting Labs to explore the opportunities <IR> has to offer, and Malaysia is looking to follow suit.

Our collaborations have been strengthened, through Memorandums of Understanding with IFAC, IASB, GRI, CDP, CDSB, WBCSD and WICI[2], with more in the pipeline. As we move into our next phase of early adoption, we are supported by our business and investor communities to build the evidence base, and ensure that <IR> is at the heart of the evolution of corporate reporting.

I would like to thank all the organizations involved in the IIRC Pilot Programme and I look forward to continuing our <IR> journey together.



Paul Druckman
Chief Executive Officer – International Integrated Reporting Council

1 The APEC Business Advisory Council

2 International Federation of Accountants; International Accounting Standards Board; Global Reporting Initiative; Carbon Disclosure Project; Climate Disclosure Standards Board; World Business Council for Sustainable Development; World Intellectual Capital Initiative.

A REWARDING JOURNEY: BUSINESS AND INVESTORS LEAD THE WAY TO <IR>

Integrated Reporting is market-led; the trail is being blazed by both business and investors.

Their experience proves that <IR> is not just about producing reports; it is about integrated thinking and the way an organization creates value over time.

In their <IR> journeys, the businesses in the IIRC Pilot Programme are tackling key interconnected areas of Integrated Reporting: the use of capitals, the creation of value and the definition of the organization's business model.

The capitals concept: A framework with flexibility

IIRC Pilot Programme businesses start by considering all forms of capital they use or affect, be it financial, manufactured, intellectual, human, social and relationship, or natural.

The capitals concept is proving to be flexible. Some businesses focus only on the types of capitals they use most, exploring the interdependencies between the capitals (for example, the way financial capital is underpinned by the other capitals). Others are developing targets and tools to measure the uses of capital. One is using the capitals concept to benchmark how much attention the six capitals get in its current reporting on performance; another has aligned its strategic objectives with the capitals, which has changed the company's materiality analysis and helped it focus on value creation.

Considering the capitals has led many companies to change the way they work across departments, use technology to integrate information, and change their reporting to strengthen the connectivity of information. The key benefit: the capitals concept has helped them establish the causal relationship between their business model, strategy and performance.

Value creation attracts long-term capital

Participants find that <IR> is leading them to change the ways they define value by exploring how their stakeholder relationships correlate with financial returns.

Businesses are stepping up communications that are not directly financial, to provide long-term investors with potential leading indicators for future financial performance.

In knowledge-based businesses such as financial services, <IR> is changing the way they communicate their strategy for value creation to providers of financial capital. Some are now accounting for social and relationship capital, showing how they improve customers' experiences. Others focus on human capital – the attraction and retention of talent. In some cases, this is leading to changes in management and governance structures.

Depicting business models clarifies value

IIRC Pilot Programme businesses find describing their business models to be one of the most crucial elements in an integrated report, because this helps investors understand the company's performance.

In explaining their business models, participants find it critical to clarify how different activities interact. Some analyse their model's strengths, weaknesses, opportunities and threats. Others have engaged employees in the way they describe the company's business model, facilitating a shared narrative about how the organization creates value. This is not always easy, because some companies have more than one business model – each with different stakeholders and impacts.

Despite the challenges, the journey is proving to be rewarding, as participants report that including a business model in a corporate report often provides clarity and new insight for investors.

International regional networks lay the foundations for <IR>

The businesses and investors in the IIRC Pilot Programme are catalysts for <IR>. Through regional networks across the world, they drive momentum for <IR> and refine its practice by sharing their experiences.

Each regional network operates in its own way to address local challenges, build capacity and engage with policy-makers, peers, standard setters and others to drive <IR>.

Highlights include:

- The Brazilian Integrated Reporting Network brings together 175 market participants, facilitated by the Brazil National Development Bank. The network includes business, accounting bodies, the Global Reporting Initiative, the UN-backed Principles for Responsible Investment and the University of São Paulo. The network organized a joint response to the Draft Framework, focused on communications about <IR>, has run business road shows, tracked benchmark companies and formed an investor group that includes investment banks and pension funds.
- Nearly 50 companies have taken steps towards <IR> in Japan, where the Integrated Reporting network consists of business and institutional investor representatives, including IIRC Pilot Programme participants.
- The Australian Business Reporting Leaders Forum has more than 200 members, including public sector and industry associations, companies, investors and universities. <IR> is gaining momentum as support increases among major asset owners, including the Australian Council of Superannuation Investors.
- In Germany's Integrated Reporting Network, businesses and investors exchange experiences. One of the newest members of the network is Germany's stock exchange operator, the Deutsche Börse Group, which became the first stock exchange to join the IIRC Pilot Programme.
- Integrated Reporting is a listing requirement in South Africa, and IIRC Pilot Programme participants have been catalysts for a South African Integrated Reporting Network in collaboration with the Johannesburg Stock Exchange, the South African Institute of Chartered Accountants and the Integrated Reporting Committee of South Africa. The network provides a platform to promote learning and information sharing.

Investors provide essential feedback on <IR>

Since integrated reports are primarily for use by providers of capital, feedback from investors around the world is essential to success on the journey.

The IIRC Pilot Programme Investor Network brings together more than 35 asset owners and managers with more than US$4 trillion in assets under management. It provides investors' perspectives on the shortfalls of current corporate reporting; constructively challenges and provides feedback on emerging reporting from IIRC Pilot Programme reporting organizations and on the Framework development; and engages with peers in the investor community.

After reviewing sample reports from Pilot Programme businesses, participating investors agreed that these documents surpassed typical corporate reports by providing a more holistic view of performance and better insight into risk, strategy, the business model, the operating context and governance. They also appreciated having a contextual foundation to interpret and analyse results.

Investors recommended that organizations improve disclosures on how they create value in the long term by:

- Providing a clear overview of the business model
- Addressing industry specific factors, including trends, risks and opportunities, over the long term
- Indicating timeframes for key strategies, milestones and targets, looking beyond the short and medium term to longer term horizons
- Aligning integrated reports and other key disclosures, including financial statements, management discussion and analysis or management commentary, sustainability reports, codes of conduct and policy statements.

Investor feedback also called on companies to maintain credibility by ensuring that report content is balanced, and substantiated by third-party research, projections and estimates.

Investor network members have noted the growing materiality of social and environmental issues to value creation, and advocate a growing focus on these issues as well as the quality of corporate governance.

Investor representatives overwhelmingly believe that <IR> supports long-term decision-making by both business and investors, which is essential to market stability and integrity.

With the theoretical backbone for <IR> almost in place, participating investors expect <IR> to gain growing attention from market regulators and other standard-setters.

The alignment between reporting companies and investors is impressive, and bodes well as all stakeholders continue their <IR> journey.

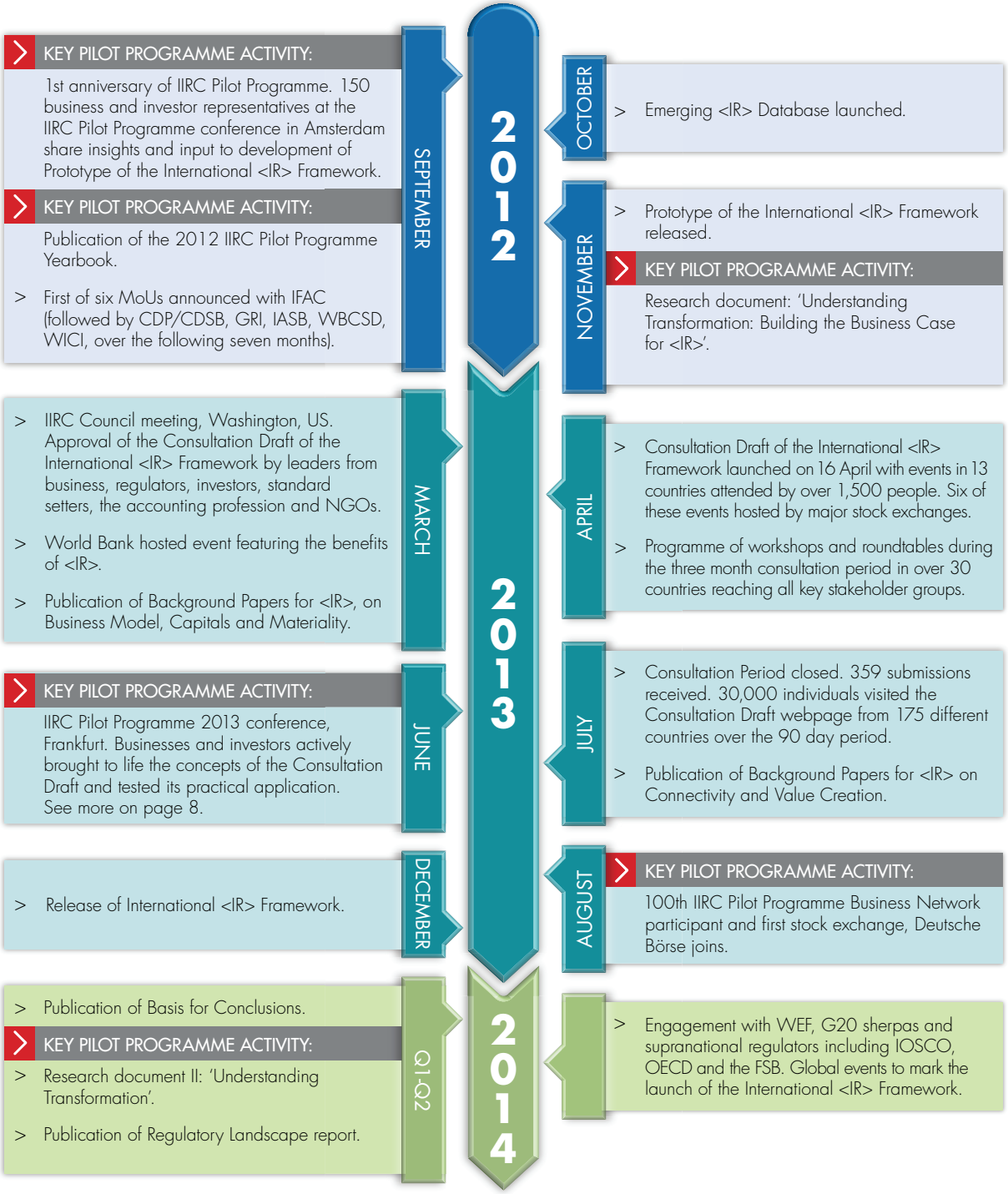


SECTION 1

OVERVIEW OF THE PAST YEAR:

IIRC Highlights in 2012 –13

HOW HAS INTEGRATED REPORTING PROGRESSED OVER THE LAST YEAR ... AND WHERE IS IT HEADED NEXT?



THE IIRC PILOT PROGRAMME

The inclusive, market-led approach undertaken by the IIRC, means that the development of the International <IR> Framework is underpinned by the needs of business, investors and civil society. The group of organizations participating in the IIRC Pilot Programme has contributed to the development of the Framework and demonstrated global leadership in shaping the future of corporate reporting.

These organizations are the best advocates of <IR>, demonstrating that re-energising the business model, and effectively communicating the story of value creation, can lead to a better interaction with providers of financial capital, and ultimately play a part in financial stability and sustainability.

"We call the Pilot Programme our 'innovation hub' – made up of people who want to push the boundaries just a little bit further, to challenge, or at least question orthodox thinking, and to acknowledge the importance of reporting to the way our organizations think and behave," says Paul Druckman, CEO, IIRC.

This phase of the IIRC Pilot Programme will run until September 2014, which is after the publication of the International <IR> Framework in December 2013, thereby allowing participants time to test the Framework during their following reporting cycle.

The participants in the IIRC Pilot Programme are engaging with the IIRC and other community members through individual meetings, webinars, regional and sector networks, and through a dedicated Pilot Programme community website. This wide-ranging interaction is brought together annually at the IIRC Pilot Programme Conference, which provides the opportunity to discuss and challenge developing technical material, test its application and share learning and experiences.

THE IIRC PILOT PROGRAMME CONFERENCE 2013

Hosted by PwC, June 2013.

Held in Frankfurt in June 2013, the IIRC Pilot Programme conference was attended by 150 Business and Investor Network representatives. Together, the representatives worked to bring to life the concepts of the Consultation Draft, enabling practitioners to test and develop practical applications with their peers.

Over the two-day conference, participants demonstrated their energy, support and momentum for implementing <IR> in their respective organizations. In keynote speeches, investor behaviour was challenged and the role of regulation debated, whilst in presentations business perspectives on identifying capitals and determining the business model and reporting performance were discussed. Attendees split into industry groups to work together on developing sector specific case studies. In these industry groups participants also began to pull together information they considered relevant in order to create an integrated report.

With speakers from business, policy-makers, investors and IIRC Board Members, IIRC Pilot Programme participants had the opportunity to learn from each other's progress and experience, as well as share their own.

IIRC PILOT PROGRAMME CONFERENCE 2013



'A Business Perspective from Unilever': Charles Nichols, Group Controller, Unilever



Superna Khosla, Relationships Director, IIRC, welcomes delegates to the IIRC Pilot Programme Conference 2013



'A Business Perspective from Danone': Laura Palmeiro, VP Finance Nature, Danone



Jan Peter Balkenende, former Prime Minister of the Netherlands. (Also on stage: Richard Howitt MEP, European Parliament Rapporteur on Corporate Social Responsibility and Paul Druckman, CEO, IIRC)



'What information Investors are looking for': Panel Chair – Rolf Frank, Managing Director, DVFA – Society of Investment Professionals in Germany. The Investors: Terri Z Campbell, Managing Director, Liberty Mutual Group; Michael Schmidt, Managing Director and Head of Portfolio Management Equities, Union Investment; Susana Penarrubia, Director, Duetsche Asset & Wealth Management (of Deutsche Bank AG); Alison Thomas, member of the steering committee of the UK's FRC's Financial Reporting Lab



Industry Sector Break Out Group. Discussion led by Leigh Roberts, South African Institute of Chartered Accountants, and a member of the IIRC Technical Task Force.

BUSINESSES IN THE IIRC PILOT PROGRAMME by industry classification

BASIC MATERIALS

AkzoNobel NV, Netherlands
AngloGold Ashanti, South Africa
BASF SE, Germany
Cliffs Natural Resources, United States of America
Gold Fields, South Africa
MASISA SA, Chile
Solvay, Belgium
Teck Resources, Canada

CONSUMER GOODS

The Clorox Company, United States of America
The Coca-Cola Company, United States of America
Danone, France
Industria de Diseño Textil SA (Inditex), Spain
Marks and Spencer Group plc, United Kingdom
Natura, Brazil
Sainsbury's, United Kingdom
Showa Denki Co. Ltd., Japan
Unilever, United Kingdom

CONSUMER SERVICES

Edelman, United States of America
Meliá Hotels International, Spain
New Zealand Post, New Zealand
Slater & Gordon Lawyers, Australia

FINANCIALS

Achmea (formerly Eureko), Netherlands
AEGON NV, Netherlands
Association of Chartered Certified Accountants, United Kingdom
bankmecu Limited, Australia
BBVA, Spain
BNDES, Brazil
The Chartered Institute of Building, United Kingdom
The Chartered Institute of Management Accountants, United Kingdom
CNDCEC, Italy
The Crown Estate, United Kingdom
DBS Bank, Singapore
Deloitte LLP, United Kingdom
Deloitte Netherlands, Netherlands
Deutsche Bank, Germany
Deutsche Börse Group, Germany
Ernst & Young Nederland LLP, Netherlands
Ernst & Young ShinNihon LLC, Japan
Generali Group, Italy
Grant Thornton UK LLP, United Kingdom
Grupo Segurador Banco Do Brasil E Mapfre, Brazil
HSBC Holdings plc, United Kingdom
Itaú Unibanco, Brazil
Jones Lang LaSalle, United States of America
KPMG International, Switzerland
LeasePlan Corporation NV, Netherlands
National Australia Bank Limited, Australia
PricewaterhouseCoopers Advisory, Italy
PriceWaterhouseCoopers N.V., Netherlands
Prudential Financial, Inc., United States of America
Rabobank, Netherlands
Stockland, Australia
Strate, South Africa
Uralsib, Russian Federation
Vancity, Canada

HEALTH CARE

NHS London, United Kingdom
Novo Nordisk, Denmark
Takeda Pharmaceutical Company Limited, Japan

INDUSTRIALS

AB Volvo – Volvo Group, Sweden
Atlantia SpA, Italy
BAM Group, Netherlands
BWise BV, Netherlands
CCR SA, Brazil
Diesel & Motor Engineering PLC, Sri Lanka
Flughafen München GmbH, Germany
Freund Corporation, Japan
Hyundai Engineering and Construction, South Korea
Interserve Plc, United Kingdom
Kirloskar Brothers Limited, India

NV Luchthaven Schiphol, Netherlands
Port Metro Vancouver, Canada
Randstad Holding NV, Netherlands
Tata Steel, India
Transnet, South Africa
Via Gutenberg, Brazil
Votorantim Industrial, Brazil

OIL & GAS

eni SpA, Italy
NIAEP, Russian Federation
Petrobras SA, Brazil
Repsol SA, Spain
ROSATOM, Russian Federation
Rosneft, Russian Federation
Sasol, South Africa
SNAM SpA, Italy
Vestas Wind Systems, Denmark

TECHNOLOGY

ARM Holdings plc, United Kingdom
Indra, Spain
Microsoft Corporation, United States of America
SAP, Germany

TELECOMMUNICATIONS

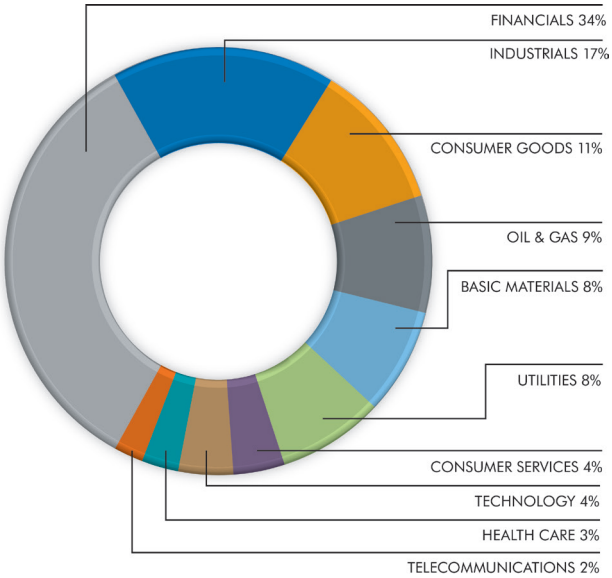
SK Telecom, South Korea
Telefónica SA, Spain

UTILITIES

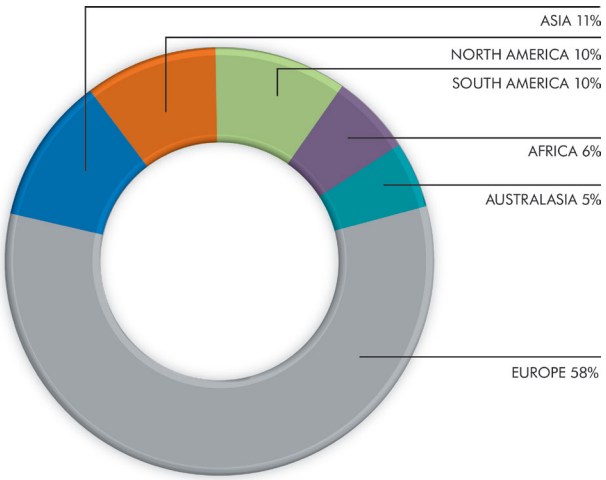
AES Brazil, Brazil
CLP Holdings Limited, China
CPFL Energia, Brazil
ENAGAS SA, Spain
EnBW Energie Baden-Württemberg AG, Germany
Enel SpA, Italy
Eskom Holdings SOC Limited, South Africa
Terna SpA, Italy

Businesses correct as at September 2013

THE PILOT PROGRAMME SPANS ALL INDUSTRY SECTORS



PARTICIPANTS SPAN THE GLOBE



SECTION 2

A REWARDING JOURNEY: How businesses are tackling key areas of <IR>



INTEGRATED REPORTING IS A PROCESS FOUNDED ON INTEGRATED THINKING THAT RESULTS IN A PERIODIC INTEGRATED REPORT BY AN ORGANIZATION ABOUT VALUE CREATION OVER TIME AND RELATED COMMUNICATIONS REGARDING ASPECTS OF VALUE CREATION. **THE BUSINESSES IN THE IIRC PILOT PROGRAMME ARE LEADING THE WAY IN THIS TYPE OF INTEGRATED THINKING, AND WE ASKED THEM TO SHARE THEIR EXPERIENCES. HERE ARE STORIES OF CHALLENGES FACED, LESSONS LEARNED AND PROGRESS MADE IN THEIR JOURNEYS SO FAR.**

Keys areas of focus

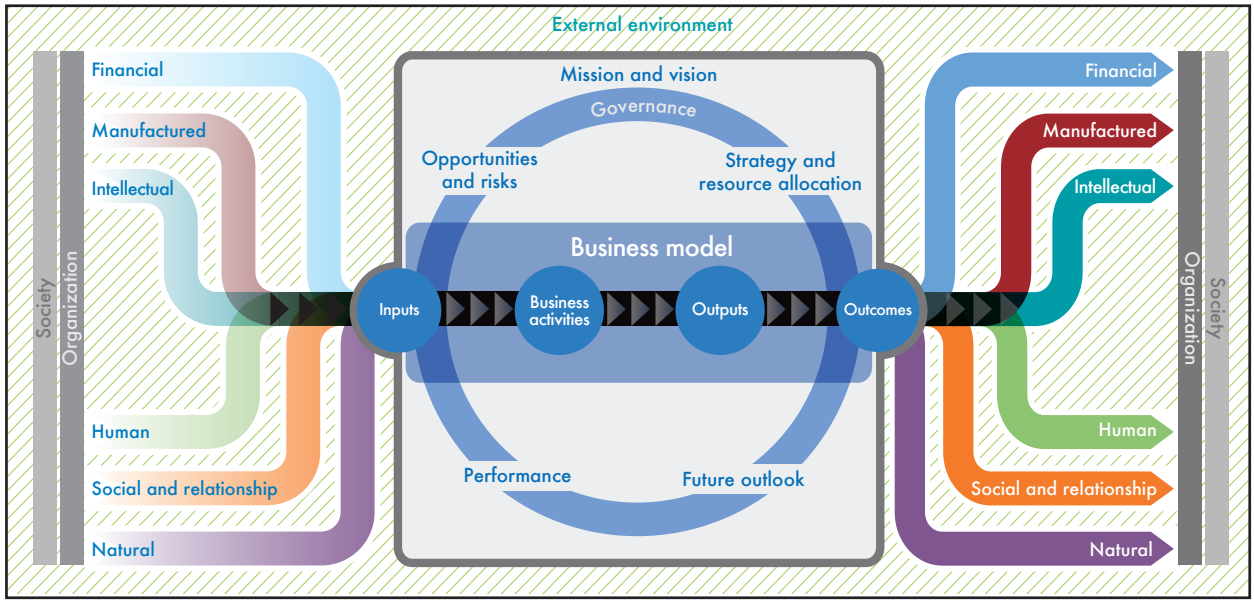
IIRC Pilot Programme businesses are tackling key interconnected concepts of Integrated Reporting:

- the use of capitals
- the creation of value
- the definition of the organization's business model.

The capitals that an organization uses and affects are embodied in the value that it creates through its business model. As shown in the figure below, the business model represents the fundamentals of an organization's activities and structure; these interact with the external environment and the capitals to create value over time.

The business model draws on various capitals as inputs and, through its business activities, converts them to outputs (products, services, by-products and waste).

These outputs lead to outcomes that affect the capitals. The organization and society share both the cost of the capitals used as inputs and the value created by business activities. An integrated report should reveal the challenges and uncertainties that an organization is likely to encounter in pursuing its strategy, and the potential implications for its business model and future performance.



An illustration of an organization's value creation process.

REPORTING ON CAPITALS: BROADENING YOUR VIEW

Business uses and affects many different types of capital – financial, manufactured, intellectual, human, social and relationship, and natural.

IIRC Pilot Programme businesses use the capitals model as a benchmark for ensuring they consider all forms of capital they use or affect, and as part of the theoretical underpinning for the concept of value. For example, ***Interserve***, a UK-based global support services and construction company, focuses on four material capitals in its first integrated report: financial capital – generating revenue and profit – is underpinned by their other three: social, knowledge and natural.

THE CAPITALS IN A NUTSHELL

Every business uses different types of capital to create value. These capitals become inputs to business activities. In the process of becoming an organization's outputs, they can be increased, decreased, enhanced, consumed, modified, destroyed or otherwise transformed. Different capitals apply to different organizations, depending on the level of their dependence or impacts on them. Examples of the capitals include:

FINANCIAL Funds available for use in the production of goods or provision of services; obtained through financing, or generated through operations or investments.

MANUFACTURED Buildings, equipment, infrastructure.

HUMAN People's competencies, capabilities, experience, and motivations to innovate.

INTELLECTUAL Organizational, knowledge-based intangibles, including: intellectual property, "organizational capital" and intangibles associated with brand and reputation.

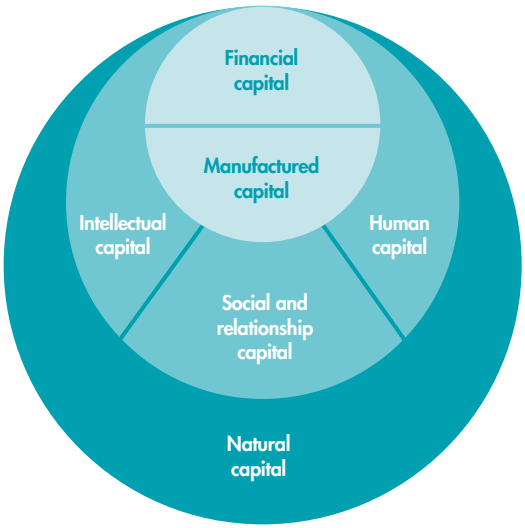
SOCIAL AND RELATIONSHIP Relationships with stakeholder groups and other networks, and the ability to share information to enhance wellbeing. It includes relationships with key external stakeholders, such as customers, suppliers, business partners, communities, legislators, regulators, and policy-makers – an organization's social licence to operate.

NATURAL All renewable and non-renewable environmental resources and processes that provide goods or services that support the prosperity of an organization.

Laura Spiers, Interserve's Group Sustainability Manager, likes the flexibility of <IR> to make reporting relevant to a business. "We are first looking at reporting elements in our Annual Report, and then at decision-making tools in the business to address aspects of the capitals by changing the way we do business or taking on indicators," she says. "These two perspectives on the capitals require different nuances in what to do. We don't have all of the answers yet, and are still finding out what we need to track."

BBVA, a global financial group based in Spain, discusses the capitals in general terms with a global focus in its Annual Report, and provides more localised information across operations in more than 30 countries in the bank's Sustainability Report. Even when it comes to financial capital, BBVA and many banking sector peers need to describe their outlooks better, rather than just disclosing how they have done, according to BBVA's Director of Financial Communication, Maria Teresa Balbin Maldondo. "We will try to improve information on targets for the capitals," she says. "We have to go step by step in terms of non-financial information. We are just at the beginning of a long journey."

The Netherlands-based airport operator *Schiphol Group* and industrials company *AkzoNobel*, which provides decorative paints, performance coatings and specialty chemicals, both use the concept of the capitals, but adapt the language used to portray them to investors and other stakeholders. Ivar Smits, Sustainability Reporting Manager at AkzoNobel, where he previously worked as Investor Relations Manager, thinks that the capitals make sense conceptually, and translates them into terminology that the business uses internally. For instance, the company manages and measures human capital through both human resources and talent management. Schiphol Group uses the capitals concept predominantly for a benchmarking exercise to assess how much attention the six capitals get throughout its current reporting on performance.



This diagram is one way to visualize the capitals; it is not intended to imply a hierarchy that must be used for <IR>. While financial and manufactured capitals are commonly reported on by organizations, <IR> takes a broader view by also considering intellectual, social and relationship, and human capitals, all of which are linked to human activity. <IR> also captures natural capital, which provides the environment in which all the other capitals sit.

Connecting information sparks integrated thinking

An integrated report should provide concise information to show the combination, inter-relatedness and dependencies between components that are material to a business's ability to create value over time.

Many IIRC Pilot Programme businesses are changing their approaches to work across departments to weave together information for a better understanding and to tell a more coherent story through <IR>. This approach has helped AkzoNobel, Smits reports, noting that relationships have strengthened across disciplines as they have collaborated on developing <IR>. Discussing key sustainability metrics alongside financial performance under <IR> fits with the inclusion of both strands in AkzoNobel's strategy.

Some businesses are beginning their journey towards <IR> by blending sustainability and financial information to produce 'combined' reports that do not yet integrate the fundamental concepts of <IR> at a strategic level. Interserve sees integrated thinking as 'work in progress'. "Last year we effectively produced a 'combined' report," Spiers says. "An evolving long-term process will help ensure stakeholders are more comfortable with what the company is trying to do and address the challenge of understanding what it means for the way they do business."

Schiphol Group is working towards an integrated report in terms of reporting on flows of capitals, their interaction and new ways to measure value creation within business models. It has linked its strategy to other elements in its Annual Report 2012, including performance reporting and management discussion.

"By clearly linking reporting to strategy, the connectivity and relevance of reported information increased significantly compared to previous reports," says Simon Theeuwes, Schiphol Group's Investor Relations Manager. "It therefore already feels much more integrated. This is reinforced by having the Management Board and other disciplines such as group strategy and key business managers much more involved in the process."

Showing the interdependencies between the six capitals at the global consulting, technology, innovation and talent company ***Indra***, based in Spain, resulted in a new approach to its Annual Report.

"Storytelling focuses on KPIs for what we call 'key success factors'," explains Alberto Muelas Plaza, Sustainability and Internal Communications Manager. "These are based on the model of six capitals, which we've prioritized and adapted to make more relevant to our company."

Indra's Annual Report 2012 describes its business model, strategy, performance and future outlook for each of the key success factors. In order to do this, Indra changed its 'Sustainability Master Plan' and aligned its strategic objectives with the capitals. This in turn changed the company's materiality analysis and helped it to focus on value creation.

Plaza emphasizes the importance of using technology, such as web-based reports, to integrate information. It gives a different structure to the company's reporting to strengthen the connectivity of information, the relationships between capitals, and the causal relationship between the business model, strategy, performance and goals. Indra has identified the need to link non-financial teams (human resources, for instance) with quantitative management based on KPIs as one challenging area to improve on next year.

For BBVA, since identifying trade-offs between capitals can be challenging, the main benefit of <IR> is starting to work in a more united way across different functions. BBVA sees connectivity between human and financial capital as one of the most important elements of <IR> for its business – crucial for all stakeholders, particularly investors.

"We now have much closer links thanks to <IR>," says Tomás Conde Salazar, BBVA's Sustainability Director. "The market is pushing us to work in a more integrated way. By becoming part of the IIRC Pilot Programme and adopting this model, a key message is to anticipate and take advantage of this process as much as possible."

Salazar believes that <IR> will become mandatory in the coming years, due to market pressure for companies to improve on transparency and reporting. Investors will want to understand business models in the medium and long term, because profitability in the short term is not enough. Salazar explains his vision: "Within five years, the reporting landscape will be clearer, more transparent and concise. Companies will report focused, quality information that report users want to know. That's what this is about. This is just the beginning."

"WE NOW HAVE MUCH CLOSER LINKS THANKS TO <IR>. THE MARKET IS PUSHING US TO WORK IN A MORE INTEGRATED WAY. BY ADOPTING THIS MODEL, A KEY MESSAGE IS TO ANTICIPATE AND TAKE ADVANTAGE OF THIS PROCESS AS MUCH AS POSSIBLE."

TOMÁS CONDE SALAZAR, BBVA'S SUSTAINABILITY DIRECTOR.

USEFUL LINKS

Background Paper on the Capitals, led by the Association of Chartered Certified Accountants (ACCA), Netherlands Institute of Chartered Accountants (NBA)
http://www.theiirc.org/wp-content/uploads/2013/03/IR-Background-Paper-Capitals.pdf

Background Paper on Connectivity, led by the World Intellectual Capital Initiative (WICI)
http://www.theiirc.org/wp-content/uploads/2013/07/IR-Background-Paper-Connectivity.pdf

CASE STUDY

INTERSERVE CAPTURES THE VALUE OF RELEVANT CAPITALS

Interserve's work to develop its approach to <IR> by 2014 is underpinned by the company's sustainability plan, launched in 2013. The plan includes five outcomes and 48 targets or stepping stones that the business is measuring itself against. Four capitals – financial, social, natural and knowledge – link to business management information and outcomes such as achieving sustainable growth, managing risk, and delivering on projects that benefit people. The targets, which range from 2014 to 2020, provide a way of measuring implementation of its strategy.

The business supports more traditional KPIs, such as pre-tax profits going to communities, with indicators such as number of work placements, water consumption and sustainable procurement, which all feed into the capitals. Laura Spiers, Group Sustainability Manager, says, "On social capitals, the company is looking at issues including connectivity and relationships with communities, the roles of networks, building trust and benefits of business activities to health and wellbeing. We are exploring ranking or weighting KPIs in a certain way to focus efforts."

Interserve learned that instead of looking at the stocks of capitals in the organization, it needed to focus on flows, as well as the issue of attribution. For instance, by exploring the interplay between training and development and retention metrics within knowledge capital.

This raises the challenge of capturing and weighting different inputs and outputs. Interserve holds workshops to understand what data are practical to collect. Key questions arise around how to address quantifiable and qualitative information including whether to score, monetise or explain information so that meaningful insight accompanies the figures. Spiers explains, "Some are not collected in a structured way across business, while other data are more reliable. We are exploring different needs for high level aggregate information in reports or local information in decision-making."

> "WE'RE TRYING NOT TO GET CAUGHT UP ON MEASUREMENT AS IT CAN DISTRACT FROM WHAT WE ARE TRYING TO ACHIEVE FROM AN INTEGRATED STRATEGIC POINT OF VIEW."
>
> *LAURA SPIERS, INTERSERVE'S GROUP SUSTAINABILITY MANAGER*

Interserve is also asking whether this requires different metrics and new methodologies to fill data gaps. For instance, on natural capital and Interserve's contribution to ecosystem services, what are the best things to measure that contribute to their four capitals, and how do they interrelate and interact? To answer these and other questions, Interserve plans to test and consult on a variety of methods before refining a working model in 2014. "We're trying not to get caught up on measurement as it can distract from what we are trying to achieve from an integrated strategic point of view," says Spiers. "We want to use measurement as a helpful decision-making tool but not as the be all and end all of what we do. It's just a way of looking at things. Measurement and data are certainly important, but not the reasons we are doing this."

BANKS TAKE STEPS TO ACCOUNT FOR AND REPORT ON NATURAL CAPITAL

Three banks that participate in the IIRC Pilot Programme Business Network are also signatories to the Natural Capital Declaration (NCD), a finance-led initiative that supports the development of accounting, disclosure and reporting frameworks that incorporate natural capital. The CEOs of BBVA, National Australia Bank (NAB) and Rabobank Group have committed to build a global consensus around the integration of natural capital into private sector accounting and decision-making.

For NAB and Rabobank Group the agricultural sector represents a significant customer segment. Therefore, they see potential natural capital risks experienced by these customers (such as climate variability, water shortages, land degradation, species loss, etc.) as having potentially financially material impacts to their balance sheets, both now and in the future.

NAB, which published its third Integrated Annual Review in 2013, is starting to explore accounting for natural capital across operations and in its lending portfolios so that it has the tools to manage exposure to physical risks such as drought and loss of natural assets as they materialise. The bank is evaluating its own impacts so that it can better understand risks and opportunities for its customers.

Rabobank's international business is most advanced on understanding factors such as water and greenhouse gas emissions in its client base to reduce credit risk. Accounting and reporting on these factors began from a risk management perspective, and has led to market opportunities, providing a clear connection between the non-financial capitals and the bank's loan book.

VALUE CREATION ATTRACTS LONG-TERM CAPITAL

Value creation – and destruction – lies at the heart of <IR>. Value creation depends on a wide range of capitals, interactions, activities, causes and effects, and relationships beyond those directly associated with changes in financial capital.

"WE NEED TO UNDERSTAND AND COMMUNICATE THE IMPACTS OF, AND THE COMPANY'S RESPONSE TO, SUSTAINABILITY ISSUES AND CHALLENGES BY INTEGRATING THESE FACTORS INTO BUSINESS AND MANAGEMENT REPORTING, MAKING A CONNECTION TO STRATEGIC DIRECTION AND FINANCIAL PERFORMANCE."

KEITH NICHOLLS, CFO, AKZONOBEL

An organization can create and maximise value by serving the interests of, and working with, all its key stakeholders which can manifest itself in financial returns. This can have positive or negative effects on other capitals and other stakeholders. By communicating information that providers of financial capital can use to assess an organization's broader ability to create value over time, <IR> can support their decision-making, engagement and voting practices.

At ***AkzoNobel***, communicating how strategy and governance integrate to create value was a prerequisite for <IR>. This has driven a shift in investor relations, with a move towards communication with responsible

investors, such as signatories of the UN-backed Principles for Responsible Investment (PRI). Sustainability Reporting Manager Ivar Smits reports, "We stepped up communications on topics that are not directly financial because they can generate management insight, and we think that long-term investors value them as lead indicators for future financial performance. Informing investors better on non-financial topics gives them better information for valuations."

About 40% of AkzoNobel's shares are now held by PRI signatories. Smits believes long-term investors are gradually embracing <IR>, responding positively to the company's steps to combine information in its Annual Report and align content better to show how its strategy includes financial and non-financial programmes.

USEFUL LINKS

Background Paper on Value Creation, led by Ernst & Young LLP (EY)

http://www.theiirc.org/wp-content/uploads/2013/08/Background-Paper-Value-Creation.pdf

Demonstrating value in knowledge-based businesses

In knowledge-based businesses such as financial services, <IR> is changing the way businesses explain their strategies to create value for their investors, stakeholders and society. Among them is ***Aegon NV***, the global provider of pensions, investment and insurance based in the Netherlands. Aegon is starting to account for and report on social and relationship capital as an important area, showing how it is working to connect with customers and improve their experience. As a knowledge-based business, Aegon also focuses attention on its human capital – the attraction and retention of talent. The Group's global head of HR now sits on the management committee to have input into strategy discussions and bringing board-level support.

"AN IMMEDIATE ACHIEVEMENT OF <IR>HAS BEEN A BETTER UNDERSTANDING OF HOW NON-FINANCIAL ISSUES ARE VITAL TO DRIVING FINANCIAL PERFORMANCE."

MIKE MANSFIELD, SUSTAINABILITY OFFICER, AEGON NV

Aegon's integrated strategy has been an asset in the company's <IR> journey, and most work has gone into defining the methodology and collecting the right information. Sustainability Officer Mike Mansfield says that an immediate achievement as a result of <IR>has been a better understanding of how non-financial issues are vital to driving financial performance. A greater focus by Aegon's CEO and CFO to connect non-financial and financial information is beginning to change the traditional focus on financial performance as the sole measure of success. This is helping employees to see connections between issues such as employee engagement and customer loyalty and financial performance.

Jones Lang LaSalle shifts to future-oriented approach to sustain value

Sarah Nicholls, Head of Global Corporate Sustainability, reveals how the US firm, which specializes in real estate services and investment management, is focusing its reporting not just on past performance, but on defining and communicating a sustainable value creation story for the future.

After joining the IIRC Pilot Programme in mid-2012, we applied <IR> principles to our Form 10-K, 2012 Annual Report, which was published in Spring 2013. Our collaborative approach to governance, strategy and enterprise risk management, among other topics, has been at the forefront of our operations for some time. However, <IR> has enabled Jones Lang LaSalle to more deliberately review and assess how these concepts – as well as others – contribute to our value creation story.

Our view is increasingly future-oriented. One of the biggest improvements has been our incorporation of a 'sustainable enterprise' theme. Based on this, our strategy and business model are centred on activities that will ensure we exist in the long term for our clients, shareholders, employees and the wider community. This type of shift means that sustainability is now integral to the processes and our thinking. Put another way, this means looking at financial capital alongside the five other capitals, such as human and natural capital.



Jones Lang LaSalle Annual Report 2012

http://www.joneslanglasalle.com/InvestorPDFs/JLL_2012_Annual_Report.pdf

CASE STUDY

MELIÁ HOTELS INTERNATIONAL DRIVES INTEGRATED THINKING

<IR> is a natural evolution for Meliá Hotels International, a hospitality company based in Spain, which has worked in recent years to create a global view of the business. The integrated thinking concept resonated internally, as the company's managers work consciously to avoid silo thinking. Gabriel Escarrer Jaume, Vice Chairman and CEO of Meliá Hotels International, feels privileged to be part of the Integrated Reporting network. "Although we were on the right path, being able to interact and benchmark against other companies that are much more evolved on <IR> has been really helpful to leap forward," he says. "Comparing yourself with your sector peers is always useful, but being able to peek into what other sectors are doing gives you different and innovative points of view on how to approach reporting issues."

As the only tourism company in the IIRC Pilot Programme, Meliá Hotels hopes to be able to promote <IR> in the leisure industry and inspire others in tourism to join in this journey.

CASE STUDY

INVESTORS RECOGNISE STRATEGIC VALUE CREATION AT ENEL

Italy-based Enel SpA, an integrated utilities company which produces, distributes and sells electricity and gas, is incorporating the flow of capitals in its business model and strategy to support a more holistic and integrated approach to its reporting.

The company has undergone "profound transformation in order to maximise performance through a robust, fully integrated structure", according to its CEO Fulvio Conti. He says that showing the inter-relatedness of information is central to the power utility's work to connect corporate social responsibility (CSR) with the company and its activities, such as business development, risk management, regulation, operations and maintenance.

Enel Group's senior executives, including both Conti and CFO Luigi Ferraris, see CSR as a way of working towards shared value creation. "Reporting is a powerful driver for the integration of corporate social priorities into business priorities," says Marina Migliorato, Enel's Group Head of CSR. "That's why we choose the integrated approach."

Management promotes this view in meetings with investors. In order to create shared value, Enel is re-evaluating issues such as cost saving and revenue generation related to environmental, social and governance performance through materiality analysis and the implementation of a data collection system. Enel's materiality analysis, published in its Sustainability Report for the first time in 2012, aims to map and calibrate business, governance, social and environmental issues and stakeholder expectations with the company's commitments and capabilities to respond to these. "Combining these two perspectives enables the most important issues both for the company and for stakeholders to be identified – so-called material issues," explains Migliorato. "This reveals the level alignment – or misalignment – between external expectations and internal relevance."



CASE STUDY

BASF EVALUATES VALUE CREATION THROUGH THE CAPITALS

In order to reflect its corporate strategy, the chemical company BASF began working towards reporting on its economic, environmental and social performance in an integrated way in its Annual Report 2007. By publishing mainly quantitative long-term goals for performance on issues ranging from profitability and employees to safety and the environment in the management analysis, it strives to make both financial and non-financial information more accountable. It also reports annually on the status of achieving its goals.

BASF strives to show interdependencies between non-financial and financial performance in its Annual Report. In its management analysis the so called value-value concept highlights robust and quantified examples of how BASF generates economic value through providing solutions for societal needs and environmental challenges. "The concept of the capitals is quite challenging, especially with regard to quantifying them," said Tanja Castor, BASF's Deputy Head of Corporate Sustainability Relations and representative in the IIRC Business Network.

One example of how BASF aims to quantify the interdependencies between financial and non-financial performance is in the field of climate protection.

Since 2008, BASF provides a comprehensive corporate carbon footprint which reports the CO_2 emissions along the value chain and shows the volume of emissions prevented through the use of BASF's climate protection products. BASF defines climate protection products as those product groups which, compared with alternatives, avoid greenhouse gas emissions over the entire life cycle and whose ecoefficiency is at least as good as the alternatives. In 2012, BASF generated sales of around €7.2 billion (9% of BASF Group sales) with its climate protection products, such as building insulation material and plastic components for the automotive industry.

CASE STUDY

AEGON EMBEDS VALUE CREATION IN ITS BUSINESS MODEL

Aegon used the company's business model as a focus for its 2012 integrated report. Sustainability Officer Mike Mansfield says, "Through our business model we tried to show how we create value for stakeholders. This focused our reporting on what was important for our decision-making."

This has now led Aegon to start mapping its value chain in much greater detail – that's a challenge for an insurance company which doesn't have a conventional value chain, but which has relationships with customers which can last 20, 30 or 40 years. For many people, insurance products are something of a mystery, and explaining the connection between products and investments, on the one hand, and claims and benefits on the other, can be difficult. Aegon believes its value chain will provide a better framework for reporting both its performance and in assessing risk – all the way from product development to paying out benefits.

<IR> represents a departure from traditional financial reporting, but Aegon took the plunge after a decision to combine the company's existing Annual Report with its 20-F SEC filing in the US opened up an opportunity to do something different. Mr. Simon Clow, Sustainability Officer explains, "Of course, it will take several years to make the full transition to Integrated Reporting, and it's something where we're learning all the time. But we're convinced Integrated Reporting is the way to go. Importantly, it focuses us on the trends that matter for our company and our industry – the same trends that also matter to our stakeholders. It makes our reporting clearer, simpler and more relevant."

DEPICTING BUSINESS MODELS CLARIFIES VALUE

An organization's business model is its chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term. IIRC Pilot Programme businesses find describing their business models to be one of the most crucial elements in an integrated report, because this helps stakeholders understand the company's performance.

For example, ***BBVA*** describes its business model with a focus on strategy. Sustainability Director Tomás Conde Salazar thinks its approach could be more forward-looking. ***Schiphol Group*** includes key trends in explanations of its business model, which clarify how different activities of the airport operator (airport services, retail, real estate, etc.) interact.

"We explain our business model operational context by adding trends and a SWOT analysis," says Schiphol's Simon Theeuwes, Investor Relations Manager. "Significant effort is put into explaining the strengths and weaknesses of our businesses, together with opportunities and threats. This level of transparency is clearly appreciated by our stakeholders."

The Crown Estate, a diverse property business, discovered that employees had different ways to describe its business model. Mark Gough, Head of Sustainability, explains, "The debate that we facilitated to reach a consensus was enlightening and clarified some pivotal issues about our approach. It created a common sense of purpose. Our employees now have a shared narrative and way of communicating how we create value and this consistency in our story shows greater integrated thinking within our business."

In 2013, ***AkzoNobel*** plans to include the business model in its Annual Report much more clearly than it has done in the past, a key learning from the IIRC Pilot Programme. Ivar Smits, Sustainability Reporting Manager, reports that the company aims to include its business model in its report to provide clarity and new insight for investors. "We think it's a good way of presenting what we do and placing the company in the context of the external environment to make the business clearer," he says.

AkzoNobel is describing its business model to enable stronger integration and a better understanding of how sustainability elements relate to the business and economic considerations. Demonstrating these connections by making the business model more transparent is helping to clarify how the company creates value.

BASF's Deputy Head of Corporate Sustainability Relations Tanja Castor reveals one major challenge: Succinctly describing the business model of a chemical company with a variety of business models. Some depend on close collaboration with customers, for instance in developing products with minor environmental impacts; other models, such as the pure sale of commodities, do not.

Despite the challenges, the journey is proving to be rewarding, as participants report that including a business model in a corporate report often provides clarity and new insight for investors.

Useful links

Background Paper on the Business Model, led by the Chartered Institute of Management Accountants (CIMA), International Federation of Accountants (IFAC), PricewaterhouseCoopers (PwC) http://www.theiirc.org/wp-content/uploads/2013/03/Business_Model.pdf

The Crown Estate takes charge of material issues

Mark Gough, Head of Sustainability, reports on how The Crown Estate, a diverse property business, is pinning down materiality as part of adopting <IR>.

Greater integrated thinking required us to reassess issues that are material to our business success. Building on knowledge from across our portfolios and our risk and opportunity register, we defined an issue as material if it could impact our board and committee decisions. We designed a structured process for identifying and prioritizing these issues based on their economic impacts on the business, the concerns of primary stakeholders, and the extent to which they are likely to grow in significance and impact in the future. The importance of setting and understanding these material issues was led from the top, but the contribution of all employees was valuable to the process. Sustainability was a key element within all of the 14 material issues we identified, cementing sustainability at the heart of our business, where it should be. The material issues became the bedrock of our corporate plan this year, helping to define our strategic objectives and ultimately our individual business plans.

CASE STUDY

Vancity

VANCITY LINKS PERFORMANCE TO BUSINESS MODEL

Vancity's 2012 Annual Report illustrates its financial, social and environmental performance and impact, explaining how the Canadian credit union translates millions of dollars of credit, grants and shared profits into positive outcomes for members and communities. As a member of the Global Alliance for Banking on Values, Vancity is committed to achieving triple-bottom-line impact through responsible banking practices.

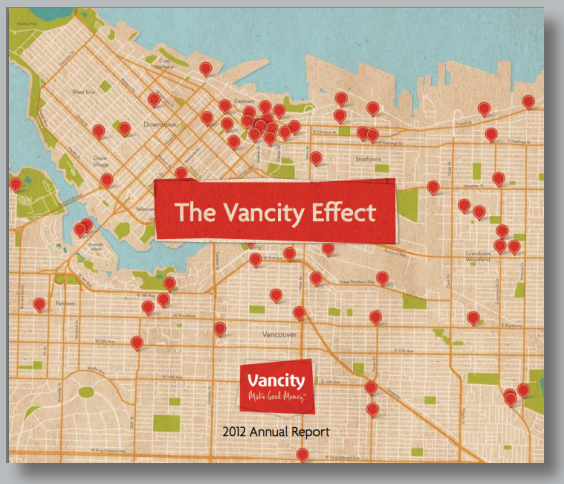
This is Vancity's third integrated Annual Report, according to Julia Robbins, Senior Associate, Accountability Reporting. "During the past three years, we have developed one organizational scorecard, aligned with our strategic goals," she says. "This replaced the two overlapping scorecards that we had previously for our annual and sustainability reports."

The one scorecard influences employee pay, and in 2013 it addresses financial, human, intellectual, social relationship and natural capital, and aims to address the value Vancity creates.

Vancity talks about the capitals in terms of impact, confidence and integrity. Impact measures are critical for creating positive community impact. Confidence goals aim to show its business model is robust and will attract more people to do business with the credit union. Integrity targets acknowledge that without strong ties to the community in which members live and work, Vancity's efforts to achieve impact at scale would not be possible.

"Measuring impact is challenging, and we're working to develop and test more robust impact measures," explains Robbins. "We then plan to incorporate these into our scorecard to further illustrate the impact of our strategy on the various capitals in terms of outcomes, not just outputs," she says.

Being transparent about the extent to which it meets targets is important to Vancity. The scorecard published in its Annual Report includes performance against targets, and is externally assured.



Vancity Annual Report 2012
www.vancity.com/2012annualreport

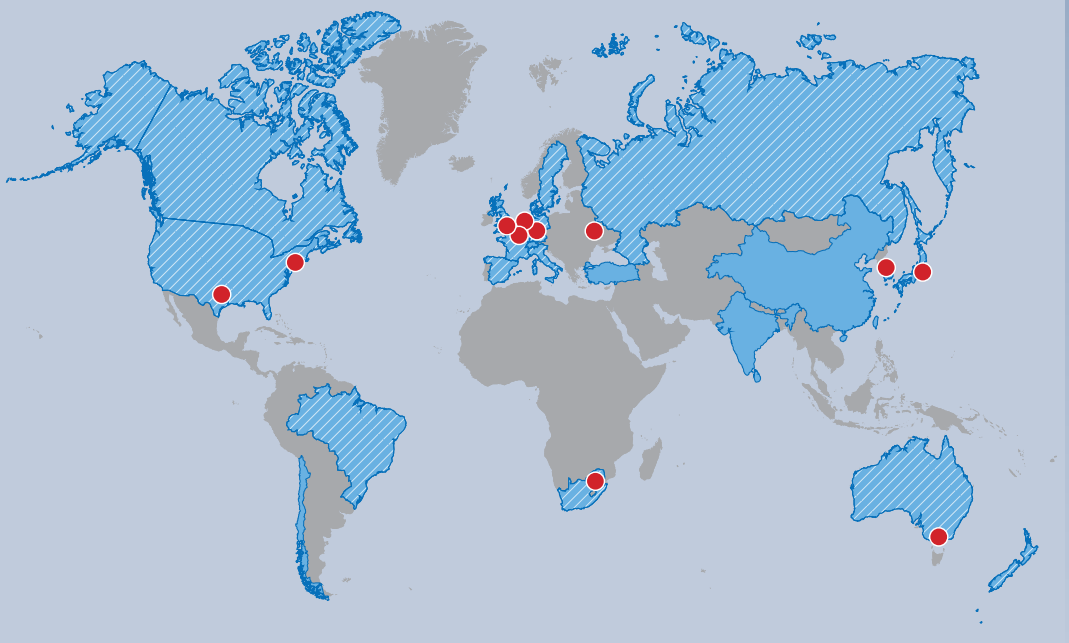


SECTION 3

A GLOBAL MOVEMENT: International networks lay the foundations for <IR>

THE BUSINESSES AND INVESTORS IN THE IIRC PILOT PROGRAMME ARE CATALYSTS FOR INTEGRATED REPORTING. THROUGH REGIONAL NETWORKS ACROSS THE WORLD, THEY DRIVE MOMENTUM FOR <IR> AND REFINE ITS PRACTICE BY SHARING THEIR EXPERIENCES. EACH REGIONAL NETWORK OPERATES IN ITS OWN WAY TO ADDRESS LOCAL CHALLENGES AND BUILD CAPACITY. WE LOOKED AT HOW NETWORKS IN BRAZIL, SOUTH AFRICA, AUSTRALIA, JAPAN AND GERMANY ARE LEADING AND FACILITATING ACTIVITIES INCLUDING ENGAGEMENT WITH POLICY-MAKERS, PEERS, STANDARD SETTERS AND OTHERS TO DRIVE <IR>.

<IR>: THE GLOBAL MOVEMENT



REGIONAL NETWORKS BUILDING MOMENTUM IN 2013 INCLUDE:

- Australia
- Brazil
- France
- Germany
- India
- Japan
- Russia
- Spain
- Turkey
- United Kingdom
- United States

Countries home to organizations participating in the IIRC Pilot Programme

IIRC Regional Networks

IIRC Secretariat Bases

JOINING FORCES IN BRAZIL

The Brazilian Development Bank (BNDES), the main financial support instrument in Brazil for investments in all economic sectors (with disbursements of US$65 billion in 2012) has been working in partnership with key organizations to develop an Integrated Reporting network in Brazil.

BNDES joined the IIRC Pilot Programme in 2012 to introduce and test <IR> principles within its own organization. Since then, BNDES has spurred industry bodies to coalesce to raise awareness of <IR> among companies, financial institutions, investor relations professionals and company Board members (see box).

Vânia Maria da Costa Borgerth, Senior Advisor on Market Transparency to BNDES President Coutinho, explains, "We're getting involved right now because Integrated Reporting is important. We're telling companies that joining the IIRC Pilot Programme is a wonderful opportunity to be part of testing Integrated Reporting proposals and goals. As part of the process, we will be able to understand why the International <IR> Framework has developed in a certain way. Learning through this is very useful and is much greater than just receiving the final outcome."

BNDES keeps regulators informed of developments in <IR> as part of its public mission to improve capital markets. "We understand that improving transparency will create more stable capital markets that are better prepared to grow," says Borgerth. "We're involved in Integrated Reporting because we think it is a much more transparent way to see a company as a whole, not just as a profit entity. As an accountant, I think financial information is no longer enough to provide the market and investors with information they need in order to make decisions. Investors, suppliers, clients and society will generally benefit; transparency reduces uncertainty. Having a more transparent way of presenting a company so that the whole market understands it better can help avoid drastic decisions and systemic risk, even during a crisis," she says.

"BY DEMONSTRATING THE INTERACTION AND VALUE CREATION IN PERFORMANCE ON NATURAL AND OTHER CAPITALS, WE ALLOW STAKEHOLDERS TO LOOK BEYOND THE SHORT TERM AND FORM A CLEARER AND MORE STRATEGIC LONG-TERM VISION OF THE COMPANY."

WELLINGTON SILVA BALDO, SUSTAINABILITY MANAGER, ITAÚ UNIBANCO

"AS AN ACCOUNTANT, I THINK FINANCIAL INFORMATION IS NO LONGER ENOUGH TO PROVIDE THE MARKET AND INVESTORS WITH INFORMATION THEY NEED IN ORDER TO MAKE DECISIONS."

VÂNIA MARIA DA COSTA BORGERTH, SENIOR ADVISOR TO BNDES

Building momentum across Brazil's capital market

In Brazil, involving membership bodies and influential groups has created a multiplier effect. The number of businesses in the IIRC Pilot Programme has expanded fivefold. The Brazilian network includes IIRC Pilot Programme participant ***Itaú Unibanco***.

"By demonstrating the interaction and value creation in performance on natural and other capitals, we allow stakeholders to look beyond the short term and form a clearer and more strategic long-term vision of the company," says the company's Sustainability Manager, Wellington Silva Baldo.

BNDES's Borgerth believes that <IR> can lead to more reliable, linked and credible sustainability information. As independent auditors become comfortable with this, "it will have a huge weight" in decision-making, she says. Greater transparency on sustainability risks will clarify how they could affect financial results in the future.

BNDES's advocacy of <IR> has sent ripples through the Brazilian market through its financing of almost half of the companies listed in the Brazilian Stock Exchange.

An academic study (da Silva et al, 2013)[3], found that when BNDES finances a company through equity participation or underwriting of convertible debentures, it tends to improve corporate governance and transparency.

BNDES provides long-term finance to commercial banks, which are expected to follow the same criteria that it uses in lending decisions. In case it decides to include <IR> in lending or financing criteria in the future, BNDES invited the Brazilian Federation of Banks (FEBRABAN) to be part of an informal 'commission for <IR>'. FEBRABAN hosts monthly <IR> meetings so that commercial banks can develop a better view of companies that are potential clients, in order to reduce risk in lending transactions.

Borgerth says that creating the Brazilian network has helped develop closer relationships between institutions. "<IR> has made us sit together to discuss issues, which has helped us to realise synergies that we hadn't noticed," she explains. "It has changed the way people see and understand each other and how we can work together."

To find out more about the Brazil network, contact the IIRC's Relationships Manager Ricky Cronin at ricky.cronin@theiirc.org

NETWORK BRINGS TOGETHER KEY MARKET PARTICIPANTS

The Brazil Integrated Reporting network, facilitated by the Brazilian Development Bank, brings together several umbrella organizations, including the Brazilian Institute of Corporate Governance, Brazilian Association of Listed Companies (ABRASCA), Brazilian Institute of Investor Relations and Association of Analysts, FEBRABAN, and the Associations of Brazilian Executives.

The network's 175 members include representatives from business, accounting bodies, the Global Reporting Initiative (GRI), the UN-backed Principles for Responsible Investment (PRI) and the University of São Paulo.

This year the network has:

- organised a joint response to the Draft Framework
- focused on communications about <IR> and run business road shows
- tracked benchmark companies, such as Natura
- formed an investor group that includes investment banks and pension funds.

IIRC Pilot Programme businesses and investors in Brazil

AES Brazil
BNDES
CCR SA
CPFL Energia
Itaú Unibanco
Natura
Petrobras SA
Via Gutenberg
Votorantim Industrial
Grupo Segurador

3 http://www.waset.org/journals/waset/v74/v74-64.pdf

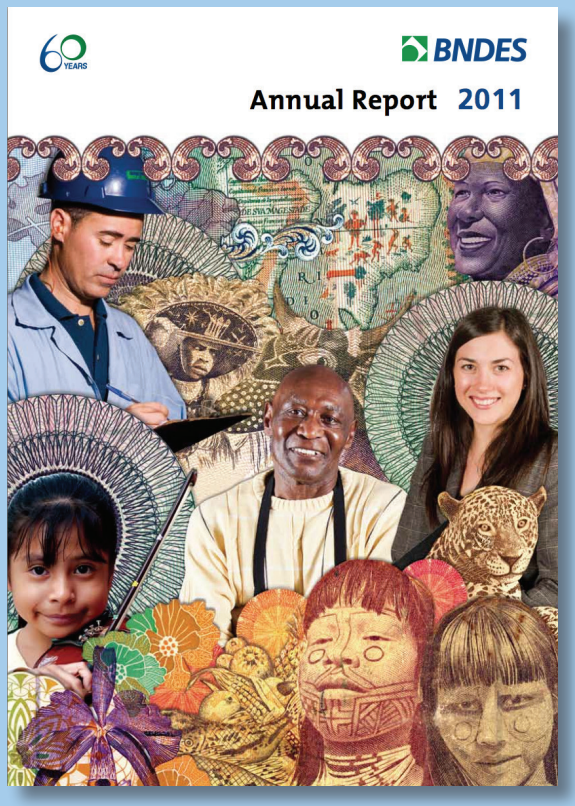
CASE STUDY

BNDES

BNDES PUTS <IR> INTO PRACTICE

When BNDES joined the IIRC Pilot Programme, Vânia Maria da Costa Borgerth, Senior Advisor on Market Transparency to BNDES President Coutinho, was concerned at first that the development bank's targets and goals would be too different from other IIRC Pilot Programme businesses. The bank's goals include fostering more balance in its economic, financial, social and environmental objectives. "Strategically important goals to bring development can be a more significant driver than financial profitability," she explains. "We joined the IIRC Pilot Programme to gain experience, and understand and anticipate challenges. I learned a lot during the process. Now I realise how important it is for us to be involved. As a non-profit oriented organization, it makes sense for a development bank to use Integrated Reporting to show how it creates value in broader terms than financial profitability."

Through <IR>, BNDES now links environmental and other sustainability information to its financial reporting and strategy. Borgerth explains, "The big change was cultural in terms of behaviour and our way of reporting; the importance of breaking down silos is something that we've been trying to incorporate into our reporting."



BNDES Annual Report 2011
http://www.bndes.gov.br/SiteBNDES/export/sites/default/bndes_pt/Galerias/Arquivos/empresa/RelAnual/ra2011/relatorio_anual2011_full.pdf

CORPORATE GOVERNANCE AND INVESTOR RELATIONS CENTRE STAGE IN JAPAN

Nearly 50 companies have taken steps towards <IR> in Japan[4], where the Integrated Reporting network consists of business and institutional investor representatives, including IIRC Pilot Programme participants. Through regular meetings, the network aims to share experiences of developing <IR> and improve corporate reporting through dialogue with investors.

Akira Sato, Founder and Managing Partner of ***Value Create Inc***, which provides company and industry research to investors, hopes that <IR> will help address an urgent need for improvements in reporting on corporate governance. Some Japanese companies are focusing on intangible assets in their integrated reports, providing an example to other companies globally. "Factors such as customer and employee satisfaction, corporate vision and strategy are important off-balance sheet assets," he says. "Although CSR issues are often mentioned, what's important from an investor's point of view is whether and how these issues will be integrated into long-term goals and improvements in enterprise value. Integrated Reporting is starting to make it easier to identify connectivity between these issues, but there is still a long way to go to compare companies strategically on them."

Sato adds that he will use integrated reports to make investment decisions and would like to see greater awareness on <IR> among Japanese investors, including those with holdings in long-term and convertible bonds.

IIRC Pilot Programme businesses and investors in Japan

Ernst & Young ShinNihon
Freund Corporation
Nissay Asset Management Corporation
Showa Denki Co. Ltd
Takeda Pharmaceutical Company
Value Create Inc

To find out more about Japan's network contact the IIRC's Relationships Manager Hiroko Ozawa at hiroko.ozawa@theiirc.org

POLICYMAKERS SET TO BOLSTER LONG-TERM VALUE CREATION ACROSS CAPITALS

Japan's Ministry of Economy, Trade and Industry (METI) has established a Corporate Reporting Lab to provide business and investors with opportunities to deepen dialogues for enhancing corporate values as well as to discuss, study and propose more effective communication and disclosure about corporate value. A task force of the Lab is looking at <IR> and corporate value, and has commented, "We share IIRC's view that corporate reporting needs to evolve to provide a concise communication about an organization's value creation over the short, medium and long term. We hope that an international framework of Integrated Reporting will promote companies' integrated thinking and function as a catalyst to improve overall communication between companies and their stakeholders."

4 http://www.meti.go.jp/english/policy/economy/corporate_accounting/pdf/121106_PC3_Summary.pdf

BUSINESS LEADERS AND INVESTORS SEEK TRANSPARENCY IN AUSTRALASIA

The Australian Business Reporting Leaders Forum (BRLF) aims 'to promote and drive the development and implementation of a strategy-aligned integrated business reporting framework, thereby reducing complexity and enabling efficient allocation of capital.' The BRLF has been working with Australian stakeholders since 2010. The network now has more than 200 members, including public sector and industry associations, companies, investors and universities.

Network members include IIRC Pilot Programme businesses ***National Australia Bank***, a financial services organization, and ***bankmecu Ltd***, a customer-owned bank. At the 2013 Australasian Reporting Awards, bankmecu received the inaugural Special Award for Integrated Reporting. The bank's managing director, Damien Walsh, believes the award highlights bankmecu's commitment to corporate governance and reporting in an integrated, transparent and accountable way.

The ***Australian Financial Reporting Council***, the body responsible for overseeing the effectiveness of the financial reporting framework in Australia, sees <IR> as 'adding complementary information to that provided by the financial report (statements) to arrive at a holistic view of the entity, for example social, and environmental disclosures.'

Investor uptake

<IR> is gaining momentum in Australia as support increases among major asset owners. For instance, the ***Australian Council of Superannuation Investors (ACSI)*** has joined the IIRC Pilot Programme Investor Network and also plans to develop integrated reports to set an example for investee companies.

Asset managers are coming under pressure to be more transparent about how people's retirement savings are being invested. One of the largest fund managers in Australia, ***Colonial First State Global Asset Management (CFSGAM)***, is active in the Australian network as well as in the IIRC Pilot Programme Investor Network (see page 42).

"More scrutiny from our key clients and stakeholders will flow through the investment chain, and we may ask companies that we're putting those beneficiaries' capital into, more about their activities than perhaps we've ever done before," says Pablo Berrutti, Head of Responsible Investment Asia Pacific at CFSGAM.

CFSGAM has a fiduciary duty to invest in a responsible way, and uses shareholder rights on proxy voting and engagement to encourage better corporate performance and management of risks and opportunities. Its leaders believe <IR> will help them better evaluate long-term investments by engaging companies on topics such as impacts and trade-offs, and on material issues that could affect the company's social license to operate.

Berrutti thinks that the current lack of reporting on environmental and social challenges and material issues in sustainability reporting means that this information does not necessarily reach markets. It can be difficult for equity and fixed income teams to understand how these issues relate to value creation, particularly where there is too much information on elements that might not be material and under-disclosure of issues which might be.

With sustainability reporting more widely practiced in developed markets, he hopes that <IR> provides an opportunity for emerging markets in Asia and elsewhere to leapfrog some traditional investor issues. Berrutti adds, "Integrated Reporting should become increasingly important, and we'd encourage companies to engage with it earlier rather than later."

IIRC Pilot Programme businesses and investors in Australia

ACSI
AMP Capital Investors
bankmecu Ltd
Colonial First State Global Asset Management
Financial Services Council
National Australia Bank Ltd
Regnan
Slater & Gordon Lawyers
Stockland
Victorian Funds Management Corp.

To find out more about the Australia network contact the IIRC's Head of Relationships, East Asia and Australasia, Liz Prescott at liz.prescott@theiirc.org

CASE STUDY

NATIONAL AUSTRALIA BANK: INTEGRATED THINKING IS CRITICAL

National Australia Bank (NAB) started working towards <IR> in 2010 and joined the IIRC Pilot Programme in 2011. Janette O'Neill, NAB's Head of Corporate Responsibility Strategy, thinks that <IR> enables the bank to demonstrate how its culture and corporate responsibility are a fundamental part of how it does business. "Bringing together material information about our operating environment, business strategy, governance and financial and non-financial performance in one report helps explain how we create and sustain value for our stakeholders," she says. O'Neill believes that an understanding of stakeholder interests and a robust materiality process are critical to successful Integrated Reporting and that it's important "to have corporate responsibility embedded into the business and strategy and be able to articulate how you're doing integrated thinking and integrated business," she explains.

"We have had really strong feedback, particularly from the investor community, that having all of this together works really well, because it does give them a better sense of how we're creating and sustaining value."

She adds, "I think one of the challenges for organizations is around changing the traditional financial mindset towards a holistic discussion around who we are and how we're performing."

> "BRINGING TOGETHER MATERIAL INFORMATION ABOUT OUR OPERATING ENVIRONMENT, BUSINESS STRATEGY, GOVERNANCE AND FINANCIAL AND NON-FINANCIAL PERFORMANCE IN ONE REPORT HELPS EXPLAIN HOW WE CREATE AND SUSTAIN VALUE FOR OUR STAKEHOLDERS."
>
> *JANETTE O'NEILL, HEAD OF CORPORATE RESPONSIBILITY STRATEGY, NAB*

ENCOURAGING TAKE UP OF <IR> IN GERMANY

In Germany's Integrated Reporting Network, businesses and investors exchange their experiences regularly. One of the newest members of the network is Germany's stock exchange, the ***Deutsche Börse Group***, which became the first stock exchange to join the IIRC Pilot Programme, as well as the 100th participant in the IIRC Pilot Programme Business Network. The Deutsche Börse Group lists approximately 765 companies with a combined market capitalization of €1.2 trillion ($1,576 tr).

"As one of the largest international providers of infrastructure for financial markets, Deutsche Börse Group's key aim is the promotion and enhancement of market transparency," says the Group's CFO, Gregor Pottmeyer. "Thereby, we enable informed investment decisions, which contribute significantly to the security and stability of global markets. We also apply this commitment to transparency to our own reporting. We have started moving towards Integrated Reporting in the 2012 financial year, and communicate financial as well as non-financial key figures in our corporate report. Feedback from the market has been positive across the board, encouraging us to build on this first step with an integrated corporate report in the next few years."

"INTEGRATED REPORTING OFFERS ENBW THE POSSIBILITY TO ASSESS RISKS AND OPPORTUNITIES IN A MORE HOLISTIC WAY. THIS ALLOWS US TO BETTER FULFIL STAKEHOLDER EXPECTATIONS AND TO ADVANCE OUR SUSTAINABLE, PERFORMANCE-ORIENTED STRATEGY."

THOMAS KUSTERER, CFO, ENBW

Since 2012, Christoph Dolderer, Director of Group Accounting at ***EnBW***, and Lothar Rieth, Senior Manager at the EnBW sustainability department, have led a group-wide project on corporate reporting at EnBW. They see many benefits and lessons learned within the German network. These include a better understanding of the challenges of <IR>, strong engagement in the IIRC Pilot Programme, an <IR> conference in Berlin, engagement of the Federation of German Industries (BDI), and a joint response to the IIRC's Consultation Draft in 2013.

EnBW's CFO, Thomas Kusterer, agrees. "Integrated Reporting offers EnBW the possibility to enhance its business performance system by assessing risks and opportunities in a more holistic way," he says. "This allows us to better fulfil stakeholder expectations and to advance our sustainable, performance-oriented strategy."

SAP's Head of Group Accounting and Reporting, Sonja Simon, sees <IR> and integrated thinking as "the way forward". She doesn't think it makes sense to measure a company and its development purely on financial numbers, since these only reveal a partial snapshot at a single point in time, whereas investors really want a glimpse of the future.

"Investors want to know whether our business model is sustainable and if we are on top of developments, how we are positioned to meet risks and opportunities in the industry and global economy, and what policies we have in place to meet those challenges," she says.

Simon thinks that if financial analysts simply focused on quarterly financial numbers, all financial models' forecasts would be identical. The large variations in valuations of SAP show that analysts go deeper than financial numbers.

"I have heard a number of times that analysts and investors don't have the necessary information and have to guess, which carries a risk premium," Simon explains. "The more transparent we are about how we plan to meet challenges, and provide information showing how we actively manage not only our short-

term financial numbers but also take steps to safeguard the future, the less risk premium there will be. Integrated Reporting can help communicate this."

Simon has participated in World Bank meetings to spread the message that the more companies do <IR>, the more financial analysts will value the information presented and be able to compare integrated reports across sector peers in the mid to long term.

"<IR> is an idea that has to grow on people from a financial reporting and accounting background because they generally like rules and regulations," says Simon. "Integrated Reporting gives you the freedom to be creative on how you present your unique value creation story." Simon advises other companies not to over-analyse <IR>, to agree that integrated reports are not going to be perfect the first time, and to just take one step at a time.

IIRC Pilot Programme businesses and investors in Germany

BASF
Deutsche Asset & Wealth Management (of Deutsche Bank AG)
Deutsche Bank
Deutsche Börse Group
EnBW Energie Baden-Württemberg
Flughafen München
SAP

BASF IN THE GERMAN NETWORK

BASF also participates in the German network. BASF's integrated report highlights quantifiable examples of how it generates economic value by addressing societal needs and challenges. Dr. Kurt Bock, Chairman of the Board of Executive Directors of BASF SE, says, "Our report aims to serve as a basis for assessing BASF's current and future risks as well as opportunities, and therefore it enables investors and other stakeholders to evaluate our performance and strategy. The discussions and exchange of information among companies in the IIRC Pilot Programme enable us to better meet the expectations of our stakeholders, and especially those of our investors. An integrated report is an excellent way of demonstrating that sustainability is an integral part of our strategy and operations."

CASE STUDY

PERFORMANCE ON CAPITALS UNDERPINS SAP'S STRATEGIC OBJECTIVES

Corporate objectives are a key component that forms a thread throughout the software company SAP's first integrated report, launched in March. The report received positive feedback on efforts to present connectivity between financial and non-financial data. Two of its four corporate objectives are financial performance indicators (revenue and margin). The remaining two are non-financial indicators (customer loyalty and employee engagement) for SAP's future success and value creation. These key performance indicators (KPIs) mirror SAP's dependence on primarily three capitals: financial, intellectual, and human. Producing an integrated report brought sustainability, investor relations, financial and communications colleagues together.

Sonja Simon, Head of Group Accounting and Reporting, says, "Our report makes it clear that our business success relies on the power of human thinking, inspiration and creativity. We worked together with colleagues in sustainability to actively drive the project and make sure we have support from our board for the idea."

To move away from boilerplate language, they sought to make the connections between financial and non-financial performance more tangible. SAP created a graphic to depict the relationships between its most important financial and non-financial indicators and supported findings with external research and calculations. As an example of how the company showed the strong connection between financial and non-financial performance, it reported that it avoided €220 million of costs since the beginning of 2008 by reducing its carbon footprint. SAP also found that a 1% change in employee retention has an effect of €62 million on operating results. Simon said that measuring this impact builds on a KPI for employee engagement, which measures how happy employees are to work for SAP. She says, "A financial number is not directly tied to this as it includes factors such as work-life balance and satisfaction with managers. Customer satisfaction is also difficult to quantify – we tried to link revenue to it, but there are so many layers of complex information that we can't currently put a financial number on it with a level of accuracy where we would feel comfortable reporting in our financial cycle. But we are confident there is a connection and have indicators to support this. We plan to do more work in the area."

A challenge in implementing <IR> is to provide more transparency within the legal framework. "To comply with financial reporting rules and accounting standards, information does not always present an accurate picture," says Simon. "For instance, the value of software rights developed over the past 40 years is not currently reflected on SAP's balance sheet due to the restrictions of International Financial Reporting Standards." The company plans to get a better grip on measuring intellectual property as one of its greatest assets. "Integrated Reporting is important because it enables us to make statements about brand name and value allocated to employees as an important asset, and how we are safeguarding these assets," says Simon. "We need to be cautious in order to avoid creating a legal risk in forward-looking statements, and to work within regulatory frameworks while at the same time providing a more comprehensive and holistic picture to our stakeholders."

See report for Graphic linking capitals
http://www.sapintegratedreport.com/2012/en/key-facts/connecting-financial-and-non-financial-performance.html

INTEGRATED REPORTING: A LISTING REQUIREMENT IN SOUTH AFRICA

IIRC Pilot Programme participants have been catalysts for a South African Integrated Reporting Network in collaboration with the Johannesburg Stock Exchange (JSE), the South African Institute of Chartered Accountants (SAICA) and the Integrated Reporting Committee of South Africa (IRC).

The network provides a platform to promote learning and information sharing as businesses discuss the practicalities of implementing <IR>; advocates for <IR>; and provides practical input into adopting the Draft Framework in a local context through events and workshops.

There is strong collaboration between business and investors who share a mutual objective of improving corporate reporting, including umbrella bodies such as the Association for Savings & Investment South Africa, Institute of Directors in Southern Africa and the Banking Association of South Africa.

THE SOUTH AFRICAN INTEGRATED REPORTING LANDSCAPE

Companies listed on the Johannesburg Stock Exchange (JSE) are encouraged to publish an integrated report.

- The JSE listing requirements mandate the application of the Principles put forward by King III, the Code for Corporate Governance in South Africa, on an 'apply or explain' basis.
- It is a requirement of King III to prepare an integrated report.
- King III recommends that Integrated Reporting should enable stakeholders to make a more informed assessment of the economic value of a company, based on a 'stakeholder inclusive' model.
- King III was introduced by the Institute of Directors in 2010.
- The Code for Responsible Investment in South Africa (CRISA) encourages institutional investors to integrate environmental, social and governance issues into investment decisions. The Code states that an institutional investor should develop an assessment of the quality of the company's Integrated Reporting dealing with the long-term sustainability of its strategy and operations. If Integrated Reporting has not been applied, due enquiry should be made on the reasons for this.

South Africa's regulatory framework and Corporate Governance Code, as well as participation in the IIRC Pilot Programme, have helped the Johannesburg based gold producer ***Gold Fields Ltd*** put <IR> into practice (see case study on page 37). Long-term shareholders in Gold Fields, which include ***Government Employees Pension Fund of South Africa (GEPF)***, Investec and Element Investment Managers, take account of issues such as social license to operate, environmental practices and long-term sustainability, providing a proxy for a wider stakeholder reach.

GEPF, Africa's largest pension fund with some US$100 billion in assets, conducts proxy voting and engagement with companies. Belaina Negash, Research Analyst at GEPF, sees <IR> as valuable because it brings together a company's strategy with issues that are really important to its business. "Integrated Reporting helps us to understand what is material to a company," says Negash.

<IR> brings together non-financial and financial issues to produce a holistic report and a better understanding of business risks in the long term, according to GEPF Research Analyst Sylvester Sebico. He adds, "GEPF as a pension fund recognises that these issues affect returns in the long term. Shareholders are becoming more aware of what's really going on in the companies they invest in. The global financial crisis prompted investors to require more due diligence in how money is allocated, which has led to greater demand for Integrated Reporting."

Both GEPF and Ernst & Young (EY) have highlighted the excellence of disclosure on risks by Sasol and Gold Fields, which aligned its risk report with its strategy and performance (page 48 of Gold Fields' Integrated Report 2012[5]). Both Gold Fields and Sasol were among the five highest-ranking companies in an EY benchmarking study of integrated reports from South Africa's top 100 JSE listed companies and top 10 state-owned companies, conducted for the third time in 2013[6]. The state-owned utility Eskom was also rated excellent.

In August, PwC in South Africa released findings of its survey of how the Top 40 companies listed on the JSE disclosed value creation in their integrated reports. PwC's analysis of company reporting found that companies showed a willingness to tell their value creation stories beyond the traditional financial focus of reporting[7].

To find out more about the South Africa network, contact the IIRC's Senior Project Manager, Ian Jameson, at ian.jameson@theiirc.org

IIRC Pilot Programme businesses and investors in South Africa

AngloGold Ashanti
Eskom Holdings SOC
Gold Fields
Sasol
Strate
Transnet
GEPF
Element Investment Managers

5 http://www.goldfields.co.za/reports/2012/ir.pdf

6 The mark plan for the Excellence in Integrated Reporting survey was developed by adjudicators from the College of Accounting at the University of Cape Town in conjunction with Ernst & Young's Professional Practice Group. Their scoring took account of the IIRC discussion papers, and informed the company rankings. EY's Excellence in Integrated Reporting Awards 2013, A survey of integrated reports from South Africa's top 100 JSE listed companies and top 10 state owned companies, Ernst & Young.

7 http://www.ey.com/Publication/vwLUAssets/Excellence_in_Integrated_Reporting_Awards_2012/$FILE/120830%20Excellence.indd.pdf

CASE STUDY

GOLD FIELDS: REPORTING ON RISK IN A DYNAMIC ENVIRONMENT

The South Africa based gold producer Gold Fields has been commended for its reporting on risk (EY Excellence in Integrated Reporting and PwC Building Public Trust Awards) that connects risks, strategy and performance as well as tolerance levels set by the Board.

Corporate Affairs Manager Sven Lunsche sees a culture change over recent years, enforced on mining companies as they have come under pressure on social and environmental performance.

At least half of Gold Fields' risks relate to non-financial issues traditionally seen as sustainability. Gold Fields aims to report on issues such as performance against targets and particularly sensitive issues, such as strikes, in a transparent and critical way. "We still make mistakes, but mine managers need to be as accountable on social and environmental as on financial issues," says Lunsche. "We have an integrated management approach to run mines, and our quarterly reports reflect this. Integrated Reporting essentially builds on our practical experience. It reflects how we manage the company."

Lunsche argues that <IR> reinforces the message around integrated management practices to internal and external stakeholders. He adds, "The industry realises that community risk is one of the biggest issues for operations – do you have social license to operate? We tackle issues such as labour unrest, how it has impacted operations and how we dealt with it. It's a controversial industry and we can prepare by dealing with issues head on and being transparent in how we report on them."

Top level buy-in enables effective data collection

Support at the CEO and CFO level was essential to secure co-operation across the organization to deliver an integrated report. "Financial data is assured and audited but non-financial data accuracy remains one of the biggest challenges facing many companies," says Lunsche. "The only way to address it is to devote human resources and financial resources to the development and capture of non-financial data (water and electricity usage – water quality and safety and community investment) amongst others."

Lunsche said that the company's restructuring exacerbated data challenges. (Gold Fields unbundled certain operations into a separate company). This led to challenges in calculating historical non-financial data over the past five years and balancing this with forward-looking data on the reorganized business.

Despite these difficulties, Lunsche believes the integrated report communicates effectively with all stakeholders, not just shareholders, including employees, communities, government and NGOs. Given the company restructuring, this was essential. "Of course it was important to explain to providers of capital what the changes meant to them, but reaching wider stakeholders can be equally important when a company is going through significant changes," he says.



http://www.goldfields.co.za/reports/2012/ir.pdf

CASE STUDY

SASOL OPENS UP ON CHALLENGES

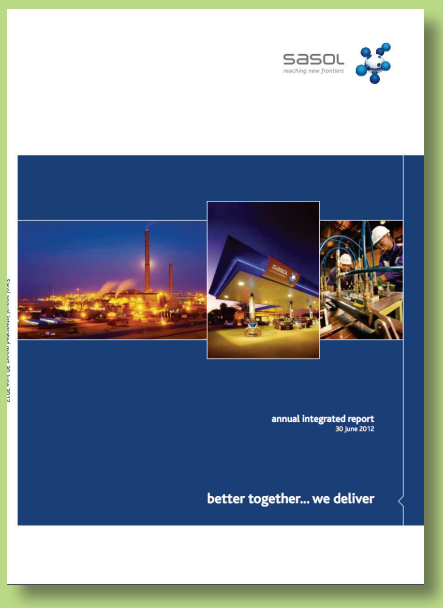
The South African oil and gas company Sasol was commended by the EY Excellence in Integrated Reporting awards for 'excellent' explanations of the company's business model and integrated value chain, together with risk reporting, in its 2012 Annual Integrated Report. Judges' comments noted that the CFO's report 'provides a clear and concise summary of the key financial risks and uncertainties of the business.'

Sam Barnfather, General Manager Finance for Investor Relations Operations, says that Sasol is on a journey towards <IR>. Remaining challenges include obtaining accurate, timely and complete input into the report and effectively co-ordinating information from many functions across the business. It is also a challenge to explain the business succinctly and simply, given Sasol's complex operations in diverse industries operating globally.

"Our business model is integrated and ensuring that it is understood is a challenge," Barnfather says. "We therefore decided to graphically depict our business model and integrated value chain showing how the operations fit together – what goes into the process and what the final product is."

Barnfather believes the focus must go beyond highlights to look at challenges that the company faces, to ensure that Sasol's story is well-balanced. "People are naturally averse to providing information on aspects which didn't go according to plan," she explains. "However, persuading them to do so in a manner that is unbiased, but which also highlights opportunities, has worked well."

Greater transparency required buy-in from senior people. They have understood that the Annual Integrated Report is an important document that can tell Sasol's story – where it has been and where it is going – in a way that is understandable to all of its stakeholders."



Sasol Annual Integrated Report 2012
http://www.sasol.com/investor-centre/publications/integrated-report-1



SECTION 4

INVESTOR NETWORK

Investors provide essential feedback on <IR>

THE IIRC PILOT PROGRAMME INVESTOR NETWORK NOW INCLUDES MORE THAN 35 ASSET OWNERS AND MANAGERS WITH MORE THAN US$4 TRILLION IN ASSETS UNDER MANAGEMENT. INVESTOR ORGANIZATIONS WITHIN THE INVESTOR NETWORK CRITIQUED A SELECTION OF THE LATEST REPORTS FROM THE IIRC PILOT PROGRAMME BUSINESS NETWORK IN 2013. THE AIM WAS TO UNDERSTAND THE STRENGTHS AND AREAS FOR IMPROVEMENT FROM THE PERSPECTIVE OF PROVIDERS OF FINANCIAL CAPITAL.

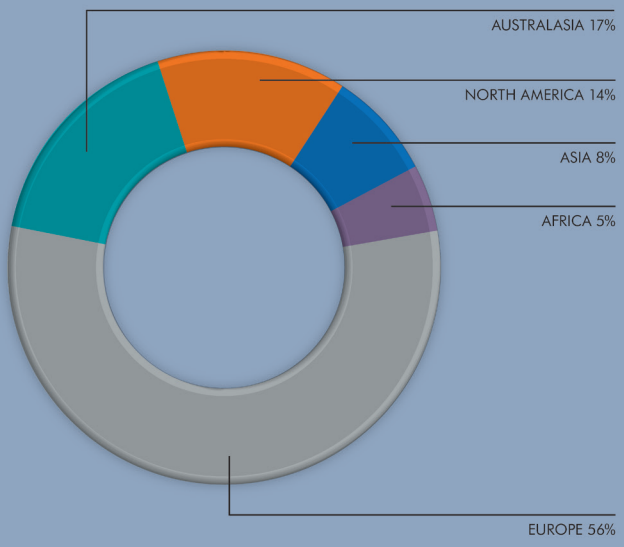
THE IIRC PILOT PROGRAMME INVESTOR NETWORK IN BRIEF

The IIRC Pilot Programme Investor Network aims to:

- Provide investors' perspectives on the shortfalls of current corporate reporting
- Constructively challenge and provide feedback on emerging reporting from IIRC Pilot Programme reporting organizations and on the Framework development
- Engage with peers in the investor community on <IR>.

The IIRC collaborates with the UN-backed Principles for Responsible Investment (PRI) to operate the IIRC Pilot Programme Investor Network, which was launched in March 2012 and is Chaired by Colin Melvin, CEO of Hermes Engagement Ownership Service (EOS).

Investors in IIRC Pilot Programme Investor Network by Region



INVESTORS WHO CRITIQUED REPORTS	COUNTRY
AMP Capital Investors	Australia
APG Asset Management	Netherlands
Arisaig Partners (Asia) Pte Ltd	Singapore
Australian Council of Superannuation Investors (ACSI) (on behalf of StatewideSuper + AustralianSuper)	Australia
Calvert Investments	United States
Colonial First State Global Asset Management (including First State Investments)	Australia
EIRIS	United Kingdom
Goldman Sachs – UK	United Kingdom
Government Employees Pension Fund of South Africa (GEPF)	South Africa
ING Investment Management	Netherlands
Natixis Asset Management	France
Regnan – Governance Research & Engagement Pty Limited	Australia
Victorian Funds Management Corporation	Australia

After reviewing sample reports from Pilot Programme businesses, participating investors agreed that these documents surpassed typical corporate reports by providing a more holistic view of performance and better insight into risk, strategy, the business model, the operating context and governance. They also appreciated having a contextual foundation to interpret and analyse results.

INVESTOR ORGANIZATIONS IN THE NETWORK AS OF SEPTEMBER 2013

AMP Capital Investors
APG Asset Management
AQAL Investing
Arisaig Partners (Asia) Pte Ltd
Australian Council of Superannuation Investors
Calvert Investments
CFA Institute
Colonial First State Global Asset Management
Deutsche Bank Asset & Wealth Management (formerly DWS)
EIRIS
Element Investment Managers
Ethos Foundation
Financial Services Council
Goldman Sachs – UK
Government Employees Pension Fund of South Africa
Groupama Asset Management
Hermes EOS
ING Investment Management
Inter-American Development Bank
Kepler Cheuvreux
London Pensions Fund Authority
Natixis Asset Management
Newton Investment Management
Nissay Asset Management Corporation
Norges Bank Investment Management
Pax World Investments
PGGM Vermogensbeheer B.V.
Railpen
Rathbone Brothers Plc.
Regnan – Governance Research & Engagement Pty Limited
Rockefeller Financial
Skandinaviska Enskilda Banken AB
The European Federation of Financial Analysts Societies
Value Create Inc
Victorian Funds Management Corporation
WHEB Asset Management



PHILIPPE ZAOUATI
DEPUTY CEO, NATIXIS ASSET MANAGEMENT

Among fund managers reviewing reports was Natixis Asset Management, which had US$783.3 billion assets under management as of 30 June 2013 and is a subsidiary of Natixis. Philippe Zaouati, Deputy CEO of Natixis Asset Management in charge of the responsible investment division Mirova, believes that some reports by IIRC Pilot Programme businesses show a clearer, more coherent picture of strategic goals and how the business model fits in with this. He has seen integrated reports become increasingly holistic, with concise presentations of the business model and related key performance indicators.

"THIS IS WHY THE CONCEPT OF CAPITALS – FINANCIAL OR OTHERWISE – IS SO INTERESTING: IT WILL GIVE INVESTORS A BETTER UNDERSTANDING OF A BUSINESS MODEL'S ADEQUACY IN ITS OVERALL CONTEXT, AND OF THE EXTENT TO WHICH IT CREATES LONG-TERM VALUE."

Appetite for material, contextual information

In critiquing IIRC Pilot Programme company reports, investors applauded reporting companies for offering important contextual information, while identifying potential to clarify the ability of businesses to create value over time. Investors expressed a need for more risk-oriented information and an interest in how certain market or regulatory changes could affect organizations. The reviewers advised report preparers to close information gaps by providing more information in areas such as governance and stakeholder engagement, and by disclosing their materiality assessment processes.

Zaouati thinks that materiality assessment is complex and that emerging methods should be tailored to each company with the providers of financial capital in mind. "From an investor point of view, more transparency on material aspects implies an adequate level of information to the market. Far from being a risk to the company, this is a way to ensure that investors won't be misled and will be able to assess its fair value," he says.

Alison Thomas, former Head of Global Research at Baring Asset Management and a member of the steering committee of the UK Financial Reporting Council's Financial Reporting Lab, spoke at the 2013 IIRC Pilot Programme Conference. She sees companies expanding the quantity of information, but stressed that investors need more disclosure that provides context.

"We need relevant, material information – not just data," she explains. "We need clear explanations of what it means for business and investors. The elements of value creation are wider than years ago, such as the product value chain. This broader set of contextual information needs to be reported in a form that allows investors to factor it into their calculation of performance."

Thomas is concerned that new disclosure rules might not focus on relevant information, since the economy is dynamic and sometimes what matters changes by the time information gets into the marketplace.

Pablo Berrutti, Head of Responsible Investment Asia Pacific at Colonial First State Global Asset Management (CFSGAM), a subsidiary of the

"WE NEED RELEVANT, MATERIAL INFORMATION – NOT JUST DATA. THIS MEANS WE NEED A CLEAR EXPLANATIONS OF WHAT THIS INFORMATION MEANS FOR BUSINESS AND INVESTORS."

Commonwealth Bank of Australia which manages funds valued at some US$162 million, believes that <IR> will help companies articulate what is really important for their long-term performance.

Call for unbiased transparency

Investor feedback also called on companies to maintain credibility by ensuring that report content is balanced, and substantiated by third-party research, projections and estimates.

Berrutti, who reviewed some 10 integrated reports for the IIRC Pilot Programme, says, "A big challenge in the reports that I've reviewed is honesty about barriers, difficulties and where companies go wrong. For investors to use integrated reports as a framework to discuss long-term value creation, companies need to be more open about material risks and opportunities."

Although greater transparency can run the risk of negative media coverage, there are legal requirements for companies to disclose information that is material to their business. One difficulty with this can be differences in the timings of interactions between the six capitals, which can manifest in the longer term. Berrutti explains, "If something could impact the value of the enterprise, shareholders should be informed, as far as is possible, how this might impact them. Integrated Reporting could be very useful for equity and fixed income analysts working within institutional investment teams."

Zaouati thinks that <IR> implies a complete overview of a company, from internal to external aspects, on financial and non-financial issues and on positive and negative impacts, both now and in the future. "Levels of uncertainty should be clarified for insights into long-term issues," he says.

Connecting information to strategic risks and opportunities

Both CFSGAM and Mirova see the International <IR> Framework as useful in connecting environmental, social and governance (ESG) information with risk management and strategy. Reporters in 2013 have been urged to improve the connectivity of information by explicitly linking strategy and other content elements, such as external environment, performance, opportunities, risks, future outlook and business model. "Connectivity is the key to a global understanding of issues and opportunities," says Zaouati. "Our investment decision-making process can only benefit from a better quality and interconnectivity of information, which is really what we are hoping for by supporting <IR>."

Zaouati says that <IR> responds to investors' need for a qualitative leap in information which is necessary to assess risks and opportunities, by encouraging companies to report on how strategy fits in with their current situation, operating environment and future issues.

He and others also advocate that companies focus on the growing materiality of social and environmental issues to value creation, and on the quality of their corporate governance.

"The move toward investment supporting value creation for all stakeholders can only be based on sufficient and reliable information," Zaouati continues. "This is why the concept of capitals – financial or otherwise – is so interesting: it will give investors a better understanding of a business model's adequacy in its overall context, and of the extent to which it creates long-term value."

Enlightening investors

CFSGAM recognises that mindsets need to shift in order to move towards a more stable economy and investment climate, and believes that <IR> supports long-term decision-making.

"Short-termism contributed to the global financial crisis and weakened governance systems," says Berrutti. "The UK's Kay Review, for example, highlighted the consequences of a short-term view by both investors, their agents and companies which manifested itself in the quality of corporate reporting."

Like many investors, Berrutti also believes <IR> will lead not just to better information for investors, but also to better quality conversations about complex issues in the context of long-term value creation. "It is not a panacea, but it is part of the puzzle to bring about a more informed investor community," he says.

With the theoretical backbone of <IR> almost in place, Zaouati and others believe that <IR> will gain growing attention from market regulators and other standard setters. "We can only benefit from <IR>, since it will give us access to better and new information," he says. "<IR> will surely benefit all investors and thus help mainstream responsible investment decisions."

The alignment between reporting companies and investors is impressive, and bodes well as all stakeholders continue their Integrated Reporting journey.

IIRC Pilot Programme Investor Network explains needs for disclosures on value creation

Investors who critiqued reports in 2013 recommended that organizations improve disclosures on how they create value in the long term by:

> Providing a clear overview of the business model

> Addressing industry-specific factors, including trends, risks and opportunities, over the long term

> Indicating timeframes for key strategies, milestones and targets, looking beyond the short and medium term to longer term horizons

> Aligning integrated reports and other key disclosures, including financial statements, management discussion and analysis or management commentary, sustainability reports, codes of conduct and policy statements

Q&A WITH SUSANA PENARRUBIA, DWS



DEUTSCHE ASSET & WEALTH MANAGEMENT (DWS) REPRESENTS THE ASSET MANAGEMENT AND WEALTH MANAGEMENT ACTIVITIES CONDUCTED BY DEUTSCHE BANK AG. DWS IS A MEMBER OF THE IIRC PILOT PROGRAMME INVESTOR NETWORK, AND DEUTSCHE BANK AG PARTICIPATES IN THE IIRC PILOT PROGRAMME BUSINESS NETWORK.

WE ASKED SUSANA PENARRUBIA, SENIOR INVESTMENT MANAGER, DWS INVESTMENTS, ABOUT RECENT STUDY FINDINGS ON <IR> AND HER VIEWS ON THE DIFFERENCE THAT <IR> MAKES.

Why do you think <IR> is important to business and investors?

If top management has integrated thinking, this will be reflected in Integrated Reporting. The clear advantage is in integrated thinking – investors can see when managers do not take account of important issues highlighted in Corporate Social Responsibility (CSR) reports or link these to financial results, strategy and value creation. Through company reports and meetings with management, we find out the level of integration of financial and non-financial issues into remuneration, strategy and what the company does. We then adjust risk return scenarios for companies. This can really influence valuation and investment decisions, depending on the materiality of the information.

Deutsche Bank's study[8] highlighted in the academic literature review, evidence that high ratings for CSR and ESG factors can lead to a lower cost of capital, as well as research showing that focusing on ESG ratings could lead to similar performance. Companies that are addressing risks and opportunities in a timely manner can achieve an advantage, but publishing an integrated report in itself may not increase stock value.

Investors already have to take risk and opportunity factors into account, but better disclosures can strengthen our assessments and improve the way we allocate money to make better risk-return investment decisions. The International <IR> Framework will accelerate uptake and help companies understand what to focus on in reporting.

DEUTSCHE ASSET & WEALTH MANAGEMENT'S SUSANA PENARRUBIA ON INTEGRATED REPORTING
http://www.youtube.com/watch?v=eMzYtGwwzbE&feature=c4-overview&list=UUee53PLVUpXLL5kIsfMw7aQ

8 https://www.dbadvisors.com/content/_media/Sustainable_Investing_2012.pdf

DEUTSCHE BANK'S STUDY – SUSTAINABLE INVESTING; ESTABLISHING LONG-TERM VALUE AND PERFORMANCE (2012) – FOUND THAT <IR> CAN 'HELP BUSINESSES MAKE MORE SUSTAINABLE DECISIONS AND HELP INVESTORS AND OTHER STAKEHOLDERS TRANSPARENTLY UNDERSTAND THE TRUE PERFORMANCE OF COMPANIES.'

What is the main barrier to investors calling for integrated reports?

We are still far away from consistency on how information is presented and measures on which key performance indicators are disclosed. We need to develop ways for information in integrated reports to be assured externally. A lot of work will have to be done going forward by assurance companies and due diligence, on which kind of information will have a concrete level of assurance.

What do you focus on in integrated reports?

Two things: Which risks a company faces; and what it is doing around strategic issues in remuneration incentives to position the company for future challenges and opportunities compared to its peer group. This helps me assess long-term potential and risk.

What do investors stand to gain from <IR>?

The main benefits are more integrated thinking, material information and connectivity. Not all companies are addressing connectivity – putting information into context to take a factor into account. For instance, a company might report data on water consumption but not integrate it into its strategy or planning, or reveal whether growing water risks in areas where it operates could cause disruption. An analyst might not make that link. We want information on what companies are taking into account in order to assess them, integrate different factors into our analysis and quantify risks.


GLOSSARY

GLOSSARY

For the purpose of the Framework, unless stated otherwise, the following terms have the meanings attributed below:

1. Business Model: An organization's system of transforming inputs through its business activities into outputs and outcomes that aims to fulfil the organization's strategic purposes and create value over the short, medium and long term.

2. Capitals: Stocks of value on which all organizations depend for their success as inputs to their business model, and which are increased, decreased or transformed through the organization's business activities and outputs. The capitals are categorized in this Framework as: financial, manufactured, intellectual, human, social and relationship, and natural.

3. Content Elements: The categories of information required to be included in an integrated report; the Content Elements, which are fundamentally linked to each other and are not mutually exclusive, are stated in the form of questions to be answered in a way that makes the relationships between them apparent.

4. Guiding Principles: The principles that underpin the preparation of an integrated report, informing the content of the report and how information is presented.

5. Inputs: The capitals (resources and relationships) that the organization draws upon for its business activities.

6. Integrated Report: 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 in the short, medium and long term.

7. Integrated Reporting <IR>: A process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation.

8. Integrated Thinking: The active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term.

9. Material/materiality: Information about a matter is material if it could substantively affect the organization's ability to create value in the short, medium and long term.

10. Outcomes: The internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs.

11. Outputs: An organization's products and services, and any by-products and waste.

12. Performance: An organization's achievements relative to its strategic objectives, and its outcomes in terms of its effects on the capitals.

13. Providers of Financial Capital: Equity and debt holders and others who provide financial capital, both existing and potential, including lenders and other creditors. This includes the ultimate beneficiaries of investments, collective asset owners, and asset or fund managers.

14. Reporting Boundary: The boundary within which matters are considered relevant for inclusion in an organization's integrated report.

15. Stakeholder: Those groups or individuals that can reasonably be expected to be significantly affected by an organization's business activities, outputs or outcomes, or whose actions can reasonably be expected to significantly affect the ability of the organization to create value over time. Stakeholders may include providers of financial capital, employees, customers, suppliers, business partners, local communities, NGOs, environmental groups, legislators, regulators, and policy-makers.

16. Strategy: Strategic objectives together with the strategies to achieve them.

17. Those charged with governance: The person(s) or organization(s) (e.g., the board of directors or a corporate trustee) with responsibility for overseeing the strategic direction of an organization and its obligations with respect to accountability and stewardship.

18. Value Creation: The process that results in increases, decreases or transformations of the capitals caused by the organization's business activities and outputs.

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