

# Insights into integrated reporting 3.0: The drive for authenticity

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# Insights into integrated reporting 3.0: The drive for authenticity

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## About this report

This report examines the reporting practices of organisations in the International Integrated Reporting Council's <IR> Business Network. It highlights the progress made towards integrated reporting over the past year, discusses the challenges that preparers face, and gives practical recommendations to guide more organisations on the path to integrated reporting.



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# Foreword



A handwritten signature in black ink, reading 'Helen Brand'.

**Helen Brand OBE**  
Chief executive  
ACCA

**At its most fundamental level, the integrated reporting movement emerged to help restore trust and confidence in company disclosures and give shareholders that all-important authentic view of performance, prospects and value creation.**

This latest review of the integrated report marketplace shows that advances continue to be made against some of the important Guiding Principles in the international <IR> Framework, notably conciseness.

However, giving equal prominence to good and not-so-good news remains a hard nettle to grasp for too many integrated reporters. Similarly, there is a reluctance in some quarters to disclose measures and targets, denying readers the opportunity for important insight into how an organisation is managed and steered.

It's difficult – if not impossible – for users of reports to assess the quality of strategic thinking and action within an organisation without the full picture.

So while we applaud the journey so many reporters have been on – including those whose case studies feature in this report – we also need to encourage the marketplace to recommit to the underlying drivers of integrated reporting: to give a complete insight into the quality of strategic thinking that drives long-term value creation.



# Executive summary

**ACCA has been working alongside the International Integrated Reporting Council (IIRC) for three successive years to review a sample of the reports produced by organisations in the <IR> Business Network.**

These businesses have embraced the concept of integrated reporting and are seeking to give a more holistic picture of their organisational performance and how they create value over time.

The review is designed to give feedback to participating companies, while also generating insights to be shared more widely that may be of practical benefit to other organisations experimenting with integrated reporting. Findings from previous reviews are contained in our 2017 report, *Insights into integrated reporting: Challenges and best practice responses* (ACCA 2017), and last year's report, *Insights into integrated reporting 2.0: Walking the talk* (ACCA 2018).

Findings from the most recent review, conducted in 2018 on reports voluntarily submitted by 48 <IR> Business Network participants, contain some intriguing paradoxes. Integrated reports continue to become more concise – suggesting a sharper focus on material issues. Alongside this, significantly more organisations are now reporting on their UN Sustainable Development Goal (SDG) commitments. There has also been an advance in the assurance sought on integrated reports, with audit firms evolving their service offerings to provide

reasonable assurance on some areas that fall outside the scope of the statutory audit. And explicit commitment to integrated reporting continues to strengthen, with 76% of the reports reviewed now called integrated reports, up from 58% last year.

At the same time, the reviewers found reporting quality declining in key areas such as reliability and completeness, performance, risks and opportunities and business models. In pursuing innovations, attention and resources may have been diverted temporarily away from core aspects of reporting.

A perceived lack of balance seems to underlie a number of areas where reporting quality fell this year. For example, reviewers often commented that positive performance seemed to be reported more prominently than negative performance. Most organisations still shy away from presenting targets and forecasts when reporting on performance against strategic objectives. Discussions of how organisations plan to deal with future risk and opportunities often seem generic or incomplete, or are left out of the report altogether. In general, reporting could be much more specific, including in relation to the time frames associated with future risks.

The theme of balance and authenticity is an important one in this year's report. Reporting in a balanced and complete way is vital if readers are to view documents as more than mere marketing tools. Authenticity can be demonstrated by the way companies tailor the concepts of the International <IR> Framework (<IR> Framework) to reflect how they create value over time. This links to another area where the reviewers judged the quality of reporting to have slipped: business model reporting.

There is often a reluctance among executives to make claims that are too ambitious before the desired levels of performance have been achieved. However, in these times of low corporate trust, authenticity – being honest about the organisation's mistakes and challenges – is increasingly important for the credibility of integrated reports.

This report presents good practice ideas and excerpts from ten integrated reports which have demonstrated authenticity in different ways. We hope that these help to drive further improvements in integrated reporting and thinking around the world.



# 1. Introduction

**The adoption of integrated reporting continues to grow, but companies still face a number of implementation challenges. By sharing their experiences, members of the <IR> Business Network are driving improvements in the quality of their integrated reports.**

Such efforts are important, given the strong interest that investors and other stakeholders now have in non-financial information. In a poll of participants attending an <IR> Business Network event in October 2018, 64% of respondents said they regularly get questions from investors on non-financial information, with topics covering environmental, social and governance issues. Integrated reporting can help organisations to provide such information in meaningful ways.

Members of the <IR> Business Network welcome feedback on the integrated reports they produce. In this context, ACCA has for the last three years worked alongside the IIRC to co-convene an <IR> Specialist Panel to review members' corporate reports. (See Appendix 2 for the participants in the <IR> Specialist Panel.)

The most recent review was conducted during 2018, covering reports for accounting periods up to 31 March 2018. These reports included any documents that the companies considered to be part of their integrated reporting package – potentially including annual reports, supplements, and/or standalone sustainability reports. This year, the review

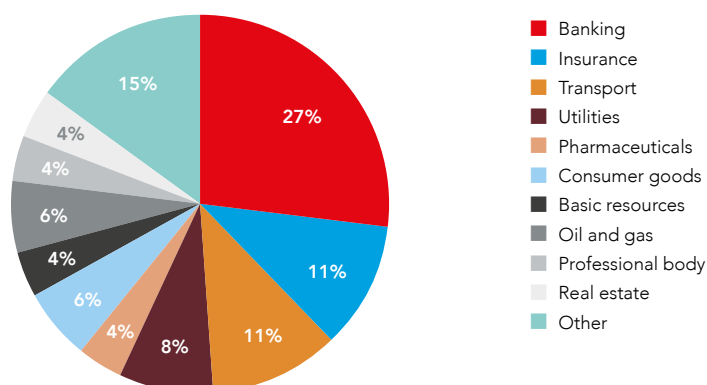
sample covered reports from 48 organisations at different stages of their integrated reporting journey: some are yet to publish an integrated report, preferring to implement integrated thinking internally first, while others did so even before the International <IR> Framework was finalised in 2013.

Participating companies received confidential feedback on their reporting. Reviewers indicated areas where the reporting was aligned particularly strongly with the <IR> Framework, as well as any identified gaps where the application of

the guiding principles and content elements could be improved, or integrated more effectively.

A large proportion (47%) of reports reviewed this year were issued by European companies, although entities from across the rest of the world also participated. It is also notable that banks account for over a quarter (27%) of the reports reviewed this year. Insurance companies are also well represented (11%). Therefore, the financial sector accounts for 38% of the companies reviewed. This is a slightly stronger

**FIGURE 1.1:** Sectors covered by the review



**There is an indication that green financing – lending or investment towards sustainable development priorities – may be on the rise.**

representation than is found in the <IR> Business Network itself – where 27% of participants are categorised as financial services organisations (banking, insurance and pensions companies) – but it's clear that the financial sector plays a leading role in advocating integrated reporting. There is also strong participation in this year's review group from transport (airports, road and rail infrastructure) and utilities – both sectors that interact frequently with the public sector. Their interest in integrated reporting may reflect a desire to explain their contributions to wider value creation.

Given the strong European and financial services participation, the review findings cannot be viewed as representative of the quality of integrated reporting achieved by all adopters across the world. Nevertheless, the insights from these leading organisations could benefit other organisations currently on the journey of integrated reporting adoption.

This report presents the key findings of the <IR> Specialist Panel's latest review. We also share insights gained from interviews conducted with representatives from five <IR> Business Network companies in the first quarter of 2019. As in our previous reports, we identify examples of good practice and include practical suggestions designed to help organisations bring the spirit of integrated reporting to life.

### **BENEFITS IDENTIFIED**

As in previous years, we asked interviewees about the perceived benefits from integrated reporting. Identifying direct benefits in terms of higher than expected growth, lower cost of capital or higher valuation multiples remain difficult. Nonetheless, there is an indication that green financing – lending or investment towards sustainable development priorities – may be on the rise.

Financial services group ING introduced a sustainable improvement loan for businesses that 'drew a lot of attention in the market and quickly became popular with other banks', according to Radoslav Georgiev, sustainability manager and disclosure lead at ING Group. The

interest rate for this loan fell as the client's sustainability rating improved. These ratings, measured by environmental, social and governance (ESG) ratings agencies, rely on ESG disclosures primarily from sustainability and integrated reports. This is one way in which 'integrated reporting, through a theory of change that follows reporting, can help companies to raise capital at a lower cost, or to borrow on better terms', Georgiev comments.

Another participating organisation, airport company Royal Schiphol Group, issued green bonds in 2018 to finance its investment projects. Reliable non-financial data was vital for securing the funding – data that the group's experience with integrated reporting has helped it to develop. German utilities company EnBW also issued its first green bonds last year and got an immensely positive response in this process from investors, particularly with regard to its business model and its strong focus on its long-term strategic approach.

As we found previously, however, most benefits from integrated reporting are internal, in the form of enhanced understanding of the business, including the full range of its inputs, outputs and outcomes. This leads to more integrated thinking and better decision making. Tanja Castor, senior expert in corporate sustainability strategy at chemicals company BASF, has seen integrated thinking take root at her organisation. 'The perceived two worlds of the financial and the non-financial are coming closer and closer', she says. 'There is no silo any more. I spend more time with my colleagues in the finance and risk departments than I do with my colleagues in the sustainability team'.

In addition, we sense that for some companies, their integrated reporting journey has helped them to deal with new reporting challenges – such as the UN Sustainable Development Goals (SDGs), the EU Non-Financial Reporting (NFR) Directive and the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). We touch on this briefly in the next section.

## 2. Complying with multiple reporting frameworks

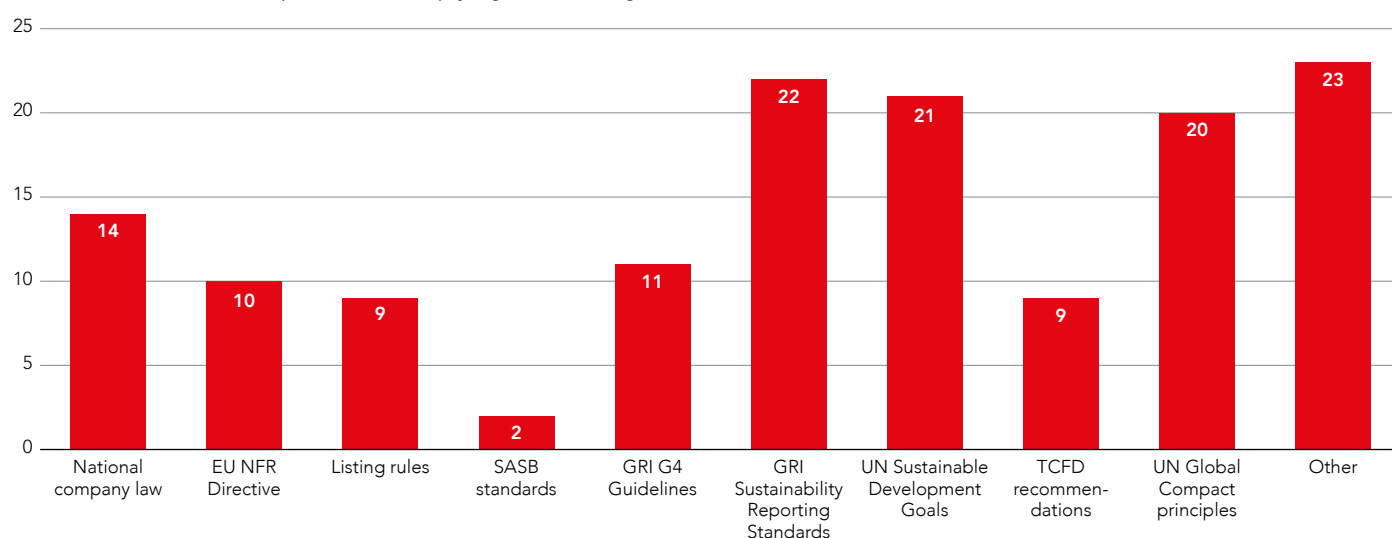
**Many of the integrated reports reviewed seek to demonstrate compliance with other reporting frameworks and/or corporate responsibility initiatives.**

This was a challenge that we identified in last year's report (ACCA 2018: 30 and 31), finding that companies sometimes struggle to apply different definitions of materiality in a coherent way that enables them to produce concise reports. Another frustration for preparers of corporate reports is that different reporting frameworks, including mandatory ones, can have conflicting disclosure requirements. Harmonisation would be widely welcomed.

It's encouraging that the Corporate Reporting Dialogue, which includes bodies such as the IIRC and Global Reporting Initiative (GRI), has launched a two-year project focused on driving better alignment in the corporate reporting landscape (CRD 2019). The project aims to make it easier for companies to prepare effective and coherent disclosures that meet the information needs of capital markets and society.

Differing requirements can create challenges for determining what to include in a report when applying the principles of completeness and materiality. 'When is a report complete and what does have to be included in a report?' asks Lothar Rieth, group expert in sustainability at utilities company EnBW. 'What is necessary when compiling and selecting information for an integrated report? What is redundant? What is not? When we look at the [EU Non-Financial

**FIGURE 2.1:** Number of reports also complying with other guidelines or laws (total: 48)



# 19%

(9 out of 48) of the reports reviewed referred to the final recommendations of the Task Force for Climate-related Financial Disclosures (TCFD recommendations).

Reporting Directive] and the auditors' procedures in upcoming years, there will be some turmoil and conflicts around auditors' requirements for a reasonable assurance in this regard'. The definition of what makes information material under the EU NFR Directive is different from how the <IR> Framework, or the TCFD recommendations, approach materiality.

This year, 69% (33 out of 48) of the companies reviewed report against GRI requirements. To continue to be considered GRI-compliant, reports published after 1 July 2018 are required to use the GRI Sustainability Reporting Standards, which represent an enhancement from the previous G4 Guidelines. Our review found evidence that many companies have already made the switch, with twice as many reporting under the GRI Standards than under the G4 Guidelines.

We also found a significant increase in the number of companies reporting against at least some of the UN SDGs – 21 doing so this year, compared with seven in last year's research. Among our review sample, 20 reports referred to the Ten Principles of the UN Global Compact, which cover the themes of labour, the environment and anti-corruption. Companies have found reporting on the SDGs somewhat complex, because many of the targets relate more easily to governments than corporations, so measuring contributions is challenging. Even so, ING noted that the SDGs have helped with its own materiality analysis by providing 'probably the most comprehensive' overview of society's interests, says Georgiev. 'So we don't have to figure out what society needs and it was easier to split our analysis using society's interests as expressed in the SDGs'.

Out of the 23 European companies in the review sample, 11 reports were identified as explicitly expressing compliance with the EU NFR Directive.

Nine companies in our review referred to the final recommendations of the Task Force for Climate-related Financial Disclosures (TCFD recommendations) – but feedback from the October 2018 poll of <IR> Business Network members indicates that many more plan to do so: 70% of attendees said they were planning to implement the TCFD recommendations over the next year. Of these, 75% expect to include the related disclosures in the integrated report. ING has already embraced the TCFD and found its previous experience with integrated reporting helpful. Georgiev says: 'It was completely doable to map the TCFD elements in our report and create the overview or index at the end, because we were already reporting on climate change in our risk sections. We were talking about the risk and opportunities of climate change and had already started working on scenario analysis. Our disclosure is not perfect. But the integrated reporting process drove that integration of climate change disclosures into our annual reports and helped us when these new recommendations were released'.

EnBW has also embraced the TCFD initiative within its integrated report. The TCFD recommendations helped the company to apply some of the <IR> Framework principles more effectively. We look at EnBW's experience in more detail in our later discussion of reporting on risks and opportunities.

We plan to focus in more detail in future on the relationship between integrated reporting and other reporting frameworks. Look out for case studies, which will be available on the ACCA website, relating to the TCFD initiative, the UN SDGs and the EU NFR Directive.



### 3. Progress by integrated reporters this year

**Integrated reports have progressed in some aspects, but companies still struggle with some important principles, concepts and content elements.**

Explicit commitment to integrated reporting continues to grow among <IR> Business Network participants. This year, 77% of the reports reviewed stated that they were integrated reports (up from 58% last year (ACCA 2018) and just over half two years ago (ACCA 2017)). In addition, 79% said they followed the principles of the <IR> Framework (76% last year (ACCA 2018)).

Just over half (52%) of reports identify their intended audience (44% last year (ACCA 2018)). The focus in integrated reports on providers of financial capital (including shareholders, mainstream investors, ESG investors and other forms) seems to have weakened. Of the reports identifying their audience, only 44% specifically address such providers of financial capital, down from 61% last year (ACCA 2018). This means that customers, employees, governments and 'other' types of reader now account for the majority of the audience groups identified. As we noted last year (ACCA 2018: 30), growing public interest in corporate behaviour is leading some organisations to reconsider the audience for their corporate reports.

Continuing a trend identified last year, the reports are becoming more concise: 54% contain 100 pages or fewer, excluding the financial statements, compared with 49% last year and 20% in 2017.

#### RELATIVE QUALITY SHIFTS

The areas where reporting is strongest and those where the quality of reporting could be improved have remained stable since last year. Explaining organisations' operating context (as part of the 'organisational overview and external environment' content element), and reporting how organisations create value (as part of the fundamental concept 'value creation for the organisation and others') continue to feature as particular areas of strength across the board.

Looking at the lower end of the quality rankings, aspects that ranked poorly have also remained largely consistent with last year's findings.

- **Governance responsibility for integrated reporting:** this takes the form of a statement from those charged with governance, acknowledging their responsibility for the integrity of the integrated report, and has consistently been the lowest-rated area over the past three years.
- **Outlook:** reporting on the challenges and uncertainties that could affect the organisation was weak in 2018 and remains so this year.
- **Performance and strategic focus and future orientation:** explaining the ways that companies link strategy and

performance to how they use and manage their capitals also remains problematic, as it was in 2018.

- **Basis of preparation:** despite some improvement in companies' approach to explaining how they identify material matters, their quantification or evaluation remains in the bottom end of the review rankings.

There have been interesting movements in the rankings overall. We found significant improvement in reporting on how organisations identify material matters. We also noted improvement in the application of the value creation lens to materiality, explanations of how governance structures support value creation, the connectivity of information, and comparability with other organisations. All these areas have featured as particularly challenging in 2017 and 2018, so it is encouraging to observe the enhanced quality of disclosures this year. Reporting on stakeholder relationships, a strong area in 2016 (ACCA 2017), has again become one of the highest-scoring areas this year.

Less positively, we also found some worsening reporting trends. Compliance with the guiding principle of reliability and completeness – the extent to which reports present all material matters, both positive and negative, in a balanced way – has fallen this year, after a noticeable

For the first time, some companies sought reasonable assurance on aspects of their integrated report, a step up from the limited assurance that companies usually seek on their non-financial reporting.

improvement last year. Partly linked to this was a deteriorating quality of reporting on two related content elements: risks and opportunities, and performance (explaining to what extent the organisation has achieved its strategic objectives for the period).

In reporting on risks and opportunities, the organisations reviewed consistently find most difficulty in explaining how opportunities affect their ability to create value in the short, medium and long term. This is in part related to another area where preparers have struggled in past years: outlook. (For insights into reporting on outlook, please see ACCA 2018: 24 to 29). This year, reviewers also noticed that fewer organisations are adequately explaining how they are dealing with risks and opportunities.

The articulation of business models is also an area where reporting quality has dropped. This may reflect the fact that the review sample contained a large proportion of banks, which often find it difficult to summarise their complex products and services in the context of value creation – a legacy perhaps of the traditional tendency to equate business models with operating models. Another reason may be that business model reporting is an area where continuous improvements require time and resource, and regulatory changes and other reporting initiatives may have diverted organisations' efforts away from business models this year.

This report focuses on four areas where reporting quality has dropped since 2018. These are balance in reporting, reporting performance against strategic objectives, explaining how organisations are dealing with risks and opportunities, and reporting on business models. Underpinning all of these challenging areas is a sense that corporate reports need to be more authentic. The quest for authentic reporting is therefore the theme we want to explore this year.

### ASSURANCE DEVELOPMENTS

This year saw the emergence of a higher level of assurance on the contents of integrated reports. For the first time, some companies have sought 'reasonable' assurance on aspects of their integrated report, a step up from the 'limited'

assurance that companies usually seek on their non-financial reporting. In other words, audit firms are now able to collect enough evidence on these reports for them to express a positive opinion that the information assured is reasonably stated; this contrasts with limited assurance engagements, where less evidence is collected and the assurance opinion is expressed negatively, for example 'nothing has come to our attention to indicate that the information is materially misstated.'

This development, coming as the International Auditing and Assurance Standards Board (IAASB) plans to publish guidance to enable more consistent and appropriate application of ISAE 3000 (Revised)<sup>1</sup> to emerging forms of external reporting, is particularly notable (IFAC 2019). The pace of innovations and the increasing demand for assurance shows that the IAASB's project could not be more timely.

ING is one organisation that has obtained reasonable assurance on its integrated reporting content. The company's auditors provided limited assurance on the non-financial information in the 'Report of the Executive Board' and in the non-financial appendix, but also provided a reasonable assurance on four specific topics. These are: the 'What matters most to our shareholders' section, data for the 'Net Promoter Score for Retail Banking', the 'Feeling of Financial Empowerment' and the 'System Availability'. These are essentially GRI disclosures. 'It's the GRI definition of materiality and the GRI indicators and standards that we get [reasonable] assurance on', Georgiev explains, 'because our assurance provider cannot give assurance on the <IR> Framework because it's a principles framework, rather than a standards framework. We may increase the level of assurance on some of our other KPIs [key performance indicators] as we assess their strategic importance'.

The fact that the <IR> Framework is principles-based has not prevented other audit firms from assuring integrated reports. Another Dutch bank, ABN AMRO, gained a limited level of assurance – not reasonable assurance – on its *Integrated Annual Review 2018* on the way it applied the <IR> Framework and the company's own supplementary reporting criteria.

1 ISAE 3000 is the international auditing standard for assurance engagements other than audits or reviews of historical financial information. It applies, for example, to assurance over integrated reports.

**‘When the auditor is interested in the processes of the different departments, that makes the departments more involved in the process of non-financial reporting.’**

**Michael Gebbert, EnBW**

Georgiev would like the IIRC to engage with assurance providers to encourage more of them to offer assurance on the <IR> Framework. He would see a benefit from such assurance. ‘It would help us focus our reports on what we believe is really most relevant for our inputs and outputs and impacts in an integrated way’, he says. ‘It would also help achieve conciseness in reports [seen as one of ING’s biggest challenges]. Some of the standards don’t add easily recognisable value to our reports, but we need to focus on them to obtain assurance. What integrated reporting does is help companies focus on what really drives value creation in the organisation, and on the impact of the organisation on the capitals and the capital providers. So we would be able to choose those types of KPIs that speak to those impacts, rather than report on other KPIs that are not necessarily fit for our business model’.

EnBW, the German utilities company, also obtained reasonable assurance for the first time on its non-financial declaration, as requested by the supervisory board. This, for them, marked the achievement of a ‘high level of integration in the whole reporting process’ (EnBW *Integrated Annual Report 2017*, p.11. See Appendix 4 for links to all the reports discussed here). As Michael Gebbert, project leader transformation accounting and tax at EnBW, explains: ‘When the auditor is interested in the processes of the different departments, that makes the departments more involved in the process of non-financial reporting. For us, it’s helpful if the auditor visits our energy-producing sites and looks at the processes there. In this way we had a benefit from this reasonable assurance audit’.

A move towards a higher level of assurance could be accelerated by national legislation. For example, Germany’s national implementation of the EU NFR Directive requires those KPIs defined as relevant for ‘steering’ the company (Steuerungsrelevanz) – used for internal management purposes – to be subjected to reasonable assurance.

Royal Schiphol Group gained limited assurance on the corporate responsibility information included in its 2017 annual report. This is important to the main

shareholder, the Dutch government, but Marianne de Bie, senior adviser on Corporate Affairs at Schiphol, believes assurance is needed if an entity is to be seen as ‘a responsible company’. For Schiphol, this is vital for underpinning the reliability of its reporting at a time of national debate about whether aviation in Holland should be allowed to grow. ‘If we are not transparent in our reporting or make statements that are not founded on provable data, then there is no future’, de Bie says. She also thinks that the process of gaining assurance makes the data and associated activities ‘tangible’ and shows their impact for the company personnel responsible, which helps to drive improved performance.

Standard Bank does not currently obtain any external assurance over its integrated reporting, although content extracted from the financial statements is covered by the statutory audit. Sandra Gouveia, senior manager: integrated reporting at Standard Bank, does not envisage this changing without some enforcement by auditing authorities to encourage audit firms to develop appropriate guidance and to provide such services. ‘From an assurance perspective, I understand that the information isn’t as easily substantiated as that in the financial statements’, Gouveia says. Even so, she agrees with EnBW’s Gebbert in that there is value in assuring the reporting process. ‘I have engaged with our internal auditing team, to advise on building a process which could be audited in accordance with an assurance standard in future’, she says. ‘We are therefore on the journey to improve so that we can get the integrated reporting process assured. This is, however, pointless if an external auditor isn’t able to accept an engagement of this nature’.

The debate around the external assurance over integrated reports will continue for some time. What is clear in this fast-developing area is that the scope of assurance, the methodology used and the level of assurance provided could all vary greatly from one organisation to another – driven, not least, by the different reasons why assurance is sought in the first place. Whether or not an organisation decides to seek external assurance, however, sound internal assurance and robust internal controls remain as important as ever.



## 4. The drive for authenticity

**Corporate reports need to be authentic in order for investors and other stakeholders to trust them. We asked interviewees to explain what they think authenticity means and why it matters.**

Black Sun's 2018 *Complete 100* report, assessing the annual reports of all the companies in the FTSE 100 index, is titled *Less Perfection, More Authenticity*. Noting that 'truthful and authentic communication plays an integral part in combatting low corporate trust', the report argues that 'authenticity' goes beyond being fair, balanced and understandable: it means telling a story that 'truly communicates [the company's] uniqueness, warts and all' (Black Sun 2018).

At Standard Bank, Gouveia sees authenticity as 'extremely important' to the reliability of reports. 'It [the integrated report] has to tell the true story and an organisation's external reporting should reflect its internal reporting', she says. 'All executives should be held accountable for the content they have submitted for the integrated report and this content should be aligned to what they report internally for their business area. If we have balance and appropriate approvals throughout the business, the report will have authenticity'.

Royal Schiphol Group's de Bie interprets authenticity as meaning being 'honest' and being open about trade-offs: for example, where decisions are made that appear to be contrary to achieving the maximum financial outcome – or the best option in terms of sustainability – but that are made for sound and long-term reasons.

Lauren Muusse, senior advisor and human rights lead at ING Group, believes that transparency brings external accountability. She explains her interpretation of authenticity as:

*'Being transparent about your wins and your losses, things that went well and things that didn't, targets that you didn't meet. If you state those things publicly and make stakeholders aware, that builds a platform for improvements; it builds momentum through conversations started internally or externally, and builds a platform for follow-up'.*

Georgiev suggests there is something counterintuitive about authenticity. 'Most people strive to just look at the positives and only the best case studies', he says. 'But a bit of authenticity and admitting your mistakes and the challenges actually creates more trust in stakeholders. People trust that you are telling them the whole story if you also tell them about the challenges'.

Asked for his interpretation of what authenticity means, EnBW's Rieth says: 'We published our strategy in 2013 and we have stuck to this strategy for more than five years. We were always transparent and consistent about the baseline year and how we have performed with regard to our long-term goals and how we performed over time. For us, this is very important. We don't put out new targets every other year, but instead we kept our targets in place, so that how we performed was always comprehensible for our stakeholders. This is evidence of our authentic and consistent reporting over time'.

**‘The question of credibility is of utmost importance to BASF because we are in a very sensitive industry and we are fully aware that we have positive as well as negative impacts along the value chain’.**

**Tanja Castor, BASF**

The fact that EnBW has consistently reported its most important KPIs, regardless of performance, supports the perception that its reporting is balanced. ‘Having a fully audited, with reasonable assurance, integrated annual report, we are obliged to show the development of our top financial and non-financial KPIs, be developments good or bad, whether they are going up or down’, Rieth says. As he notes, however, markets do not yet reward honesty or authenticity, so this can result in caution about disclosing weak results.

At BASF, Castor’s interpretation of authenticity reflects the nature of the company’s sector – chemicals. Being authentic in reporting means that ‘we do

not over-promise’, she says. ‘We are very focused on facts and data. Our report is not always easy to digest, because it’s very data-driven, fact-oriented and science-based. This is part of our DNA. We are a science-based company’. Feedback from stakeholders indicates that they trust in and believe what they read in the report. ‘The question of credibility is of utmost importance to BASF because we are in a very sensitive industry and we are fully aware that we have positive as well as negative impacts along the value chain’, Castor says. ‘So, we have a responsibility and through our report, we have to transmit the message that we are trustworthy.’

## 5. Reliability and completeness – balance



### OBSERVATIONS FROM THE REPORT REVIEWS

The <IR> Framework's guiding principle on reliability and completeness states that an integrated report should include all material matters, both positive and negative, in a balanced way and without material error. The quality of reporting against this principle has gone down: falling from 12th to 19th place when we ranked the average score in this area against the average scores given for other aspects of the <IR> Framework. (See Appendix 2 for an explanation of the ratings and ranking process.)

A perceived lack of balance emerged as the chief issue. The <IR> Framework describes what balance means:

*'A balanced integrated report has no bias in the selection or presentation of information. Information in the report is not slanted, weighted, emphasized, de-emphasized, combined, offset or otherwise manipulated to change the probability that it will be received either favourably or unfavourably.'*<sup>2</sup>

This suggests that there are several aspects to achieving balance. While it is important to ensure that all material information – whether negative or positive – is reported, the presentation of information also plays an important role.

The tone and language used could give rise to perceptions of bias, if the report reads like a public relations document. The context in which information is presented and the location and prominence it is given in the report also need to be considered. This includes, for example, assessing whether certain performance measures should be presented in the CEO's statement, in the performance review section on, say, page 20, or in an appendix on page 120.

Achieving a balance of good and bad news in equal measure was also identified as an issue in our first report in this series, *Insights into integrated reporting: Challenges and best practice responses* (ACCA 2017), which was based on reviews conducted in 2016. So this is clearly an area that preparers of integrated reports consistently find difficult.

The Integrated Reporting Committee (IRC) of South Africa, in its December 2018 publication, *Achieving Balance in the Integrated Report: An Information Paper*, highlighted numerous benefits of balanced reporting (IRC 2018). These include enhanced trust and reputation, accurate public narrative, enhanced internal insight, support for an open and transparent culture and consistent messaging. Balanced reporting can also give stakeholders the sense that the

leadership team is enlightened and strategically focused, aware of the full spectrum of risks and outcomes facing the business.

Nonetheless, the IRC also identified many challenges to achieving balance: lack of commitment to transparency and accountability; inadequate processes and systems to support complete and balanced reporting; uncertainty about what to report; concerns about potential negative consequences of reporting sub-optimal information; and over-reliance on consultants.

### WHAT CHALLENGES DO COMPANIES IDENTIFY?

#### Human nature

At Standard Bank, Gouveia identifies the main barrier to balanced reporting. 'Everybody wants to put their best foot forward', she says. 'They want to talk about positive news'.

Gouveia responds by making the case for balance. 'It's important to remind all contributors that integrated reporting is not a marketing document', she says. 'It shouldn't be used to advertise successes only; it should tell the entire story, both the positive and negative aspects'. Her advice to colleagues in business areas is that a sensitive issue should preferably be

**‘Everybody wants to put their best foot forward. They want to talk about positive news’.**

**Sandra Gouveia  
Standard Bank**

adequately explained in the bank’s reports rather than badly explained in a newspaper article. As an example, she refers to the bank’s strategic focus area to digitise. ‘Becoming more digital will affect our workplace and therefore our people. By digitising internally, certain processes are automated meaning that certain jobs will be affected, and to respond to this the bank seeks to upskill or reassign its people before letting people go’, Gouveia says. ‘In our report we discuss our digitisation strategy, but we also discuss reskilling our people so that they may remain relevant. Balanced reporting is about providing a complete story – before a headline draws attention in certain cases’. She adds: ‘If you have a balanced report, it enhances the transparency and the credibility of the report and more importantly of the organisation’.

Content that could create a news headline is not the most challenging for achieving balance, Gouveia says. ‘Those are the easy battles. The more difficult battles concern things that don’t go to the headlines – that are internal. It may be that some things still need to be resolved. It may be premature to talk about them. The bad news might not be bad if you have some time to work on it.’

At ING, Georgiev also notes that human nature comes into play. ‘Sometimes a barrier to achieving balance is that we are not proud of our mistakes and not proud of the things that didn’t go well this year’, he says. ‘When we compose the annual report, at times we are sent an imbalance on the good stories. It can be difficult to holistically hear from the business the challenges and what we learnt from those challenges’.

De Bie at Royal Schiphol Group has had similar experiences. ‘There are still content providers who see the annual report as a PR document’, she says. ‘And they are reluctant to report on what went wrong, dilemmas or targets not achieved’. People also struggle to talk openly about the challenges they see in future – or ‘when they see it in black and white on paper, they don’t want it to be written that way’, de Bie notes.

‘So we have to convince people why it’s so important to tell the complete story – the what and the how and the why’. Besides, with social media, any problems or issues become public knowledge soon enough, and need to be addressed in the integrated report.

### **Sectoral culture**

In some sectors, such as banking, laws and regulations may prevent some disclosures or require matters to be reported to a regulator before being publicly disclosed. The compliance mindset of working in such a highly regulated sector may perhaps impede transparency. ‘In the banking sector in general, disclosure is typically need-driven and any requests going beyond required disclosures may be seen as secondary’, Muusse says.

There are pressures outside financial services, too. For example, Schiphol Airport operates in a complex value chain. ‘Aviation activities are regulated, with consultations with the airlines over planned investments and to set the tariffs’, de Bie says. ‘All the stakeholders keep a close watch on what we are doing and the direction we want to take’. Safety and security are other sensitive areas. ‘With regard to security, it is obvious you cannot disclose too much – that is the nature of security’, de Bie says. ‘So there is a kind of ceiling to how transparent and open you can be on some topics’.

### **SENIOR SUPPORT**

For Gouveia, the support of her group financial director (or CFO) and chief executive officer (CEO) is essential for preparing a quality integrated report. ‘Senior executives are key contributors to the integrated report; the support of a CFO and CEO illustrates that this reporting process is to be taken seriously’, she says. Gouveia presents her report to the group executive committee before it goes to the group audit committee and then the group board. ‘The CEO, who has also been part of the process, will together with the executive committee review and approve the report’, Gouveia says.

**Tone from the top is crucial to creating a culture in which people feel comfortable talking openly and honestly about failure. These frank conversations could enable more effective strategies for dealing with similar problems in the future.**

De Bie also cites the importance of senior executive leadership, for example, from the CEO and CFO. 'Tone at the top is a big influence', she says. 'Our board encourages us and has put us on the path of integrated reporting, and it is a path we will continue to follow – to every year improve in writing a more transparent and complete report'.

### ROBUST PROCESSES

Standard Bank has developed a robust process for gathering content and preparing the integrated report. Questionnaires are completed and signed off by all contributors and these provide the key content for the first draft of the report; this draft report forms the basis of interviews held with the key contributors and executives to allow them to provide feedback, before submission of an updated draft to the group executive committee. Before approving the report for print, final checks on the content are done, allowing the relevant executives to sign off on the final version. 'The process is in place to ensure that the information in the report is complete, reliable and relevant. If questions are raised on any disclosure, we need to be able to substantiate it', Gouveia says.

A balanced report-writing team is also helpful. At Royal Schiphol Group, producing the integrated report has until recently been the task of a three-person team, including a representative from the corporate affairs department, a sustainability officer and a member of the investor relations team. This 'core team' works closely with the financial and control departments and the strategy department. 'The combination of finance, sustainability and communications expertise is a good balance so that what is in the report can be proved and is factually correct', de Bie says. It also ensures that the report tells the integrated story of the business and its approach to corporate responsibility. An integrated reporting officer from a Big Four firm has just joined this team. 'This will help us to proceed, to look at TCFD,

among other developments, and to move on, for example, explore if it is possible to develop a socio-economic profit and loss account', de Bie says. 'Our board encourages us in this'.

### TRANSPARENCY ENABLES TRANSPARENCY

Muusse believes that ING is a transparent organisation internally. This is supported by the CEO's regular quarterly review in video format, accompanied by a management summary of developments – including what has not gone well. This means that the individuals working on, and owning the process of, the integrated report have a reasonably balanced picture of the year's performance. Muusse comments: 'We will be aware of a certain failure and can go back to a colleague and say, what about this element that we heard about? What else can we say about that externally? People can have a tendency to provide the positive information, so sometimes we do need to challenge them in order to pull it [less positive information] out'. Tone from the top is crucial to creating a culture in which people feel comfortable talking openly and honestly about failure. These frank conversations could enable more effective strategies for dealing with similar problems in the future.

### GAINING AN INDEPENDENT PERSPECTIVE

Being 'inside' an organisation can make it more challenging to report in what an 'outsider' would consider to be a balanced way. Standard Bank uses external integrated reporting experts to support its reporting processes and to provide an independent view on the report. These experts help to prepare and review the questionnaires completed by contributors; they ensure that content provided is relevant to integrated reporting and that it is balanced. 'We have interviews with the senior executives and one of the questions on our list is the balance question', Gouveia says, 'This allows us to understand what the key issues are and how they have been dealt with'.

Besides balance, reliability is also about 'freedom from material error'. Achieving this requires robust internal control and assurance processes, in addition to the external assurance that some companies obtain.

The external experts remain involved throughout the reporting process, from the preparation for the first draft to the review of the final draft. 'They always encourage more balance in reporting', Gouveia says. 'From an outsider's perspective they will identify issues which could enable balanced reporting, which won't necessarily be identified by someone internal. They therefore provide an independent view on what I could be missing'.

External consultants should, however, be used judiciously. The IRC's *Achieving Balance in the Integrated Report* warns that the use of external consultants could be a barrier to balanced reporting if management teams do not participate sufficiently in the process (IRC 2018). While consultants can act as an objective sounding board, they do not diminish the board's responsibility for making strategic, operational and reporting decisions, and for overseeing the external reporting process.

Although ING obtains assurance because investors are seen to value it, Georgiev adds: 'It also helps us internally to bring more balance to the report. The auditors ask what were the challenges this year, which things didn't go that well and ask us to include that narrative in the report. So that helps us achieve balance in our reports'.

Muusse agrees that having an external, objective voice such as the auditors' supports transparency and improvement. For example, last year ING had a finding on diversity and pay gap disclosures. The human resources (HR) team was looking at the issue already, but the auditor helped 'to bring this forward into our awareness', Muusse says. 'They provide an external perspective and give an extra push so that we know this is being asked for and it is the right thing to be doing'.

## FREEDOM FROM MATERIAL ERRORS

Besides balance, reliability is also about 'freedom from material error'. Achieving this requires robust internal control and assurance processes, in addition to the external assurance that some companies obtain.

Standard Bank has several review levels to try to prevent any material errors. For example, information submitted for the integrated report is reviewed by the external integrated reporting experts, investor relations, the external reporting team (who check for consistency with other reports), the chief executives of the business units, group executive committee, the group financial director and group CEO. 'Internal audit also reviews the report and external audit [the statutory auditors of the financial statements] read the report to ensure that it agrees with what they have seen on their side', Gouveia says. 'Although they won't issue an assurance report, they will say they have read the report and it is not materially different to what they know of the business'. Statutory auditors issue a statutory audit opinion, and as part of their work will read over content in the integrated report in accordance with ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*.

ING uses various processes to reduce the risk of material error. 'We have regular internal audits on a risk-based approach', says Georgiev. 'We have a corporate audit services department that does risk audits and audits of how standard operating procedures are followed, how data is recorded and stored, security settings and so on. So there's internal audit and then the annual external audit by an assurance provider'. There is also 'a four-eye[s] principle internally', Muusse adds.

The trade-offs section provides a systematic way of embedding balance into reporting on performance.

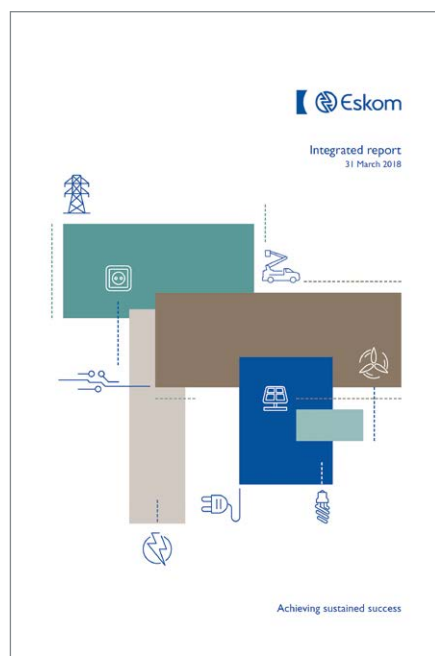
## PRACTICAL APPROACHES

Standard Bank's *Annual Integrated Report 2017* (page 19) has a clear and consistent structure for presenting the progress against each of the organisation's strategic value drivers. As part of this, the trade-offs section highlights the potential cybersecurity risks in relation to the digitalisation of its services, and provides a balanced discussion of the bank's approach to restructuring loan agreements for clients in financial distress. This is a systematic way of embedding balance into reporting on performance.



The Chairman directly addresses the challenges that the company has faced, and sets a clear direction for the board over the next three years.

After a year of high-profile governance scandals, and while still subject to investigations, Eskom opens its 2018 *Integrated Report* (pages 4 to 6) with a Chairman's Statement that sets the tone for transparency and accountability. The Chairman directly addresses the challenges that the company has faced, and sets a clear direction for the board over the next three years.



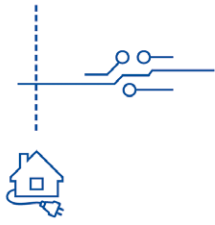
**CHAIRMAN'S STATEMENT**



**JABU MABUZA**  
Chairman



No-one can deny that Eskom has experienced a tumultuous year. This was not due to operational issues – our generation plant and network produced solid performance, and the new build programme delivered another three units at Medupi and Kusile, with another two units expected in the near future, while electrification of households continued at a brisk pace.



However, a number of factors posed a serious threat to Eskom's ability to obtain funding for its capital expansion programme, thereby putting a significant strain on liquidity. Firstly, the prior year's audit report contained a qualification relating to the completeness of irregular expenditure information disclosed in the annual financial statements, as the auditors could not place reliance on certain of the processes supporting the information in question. Secondly, serious allegations of financial mismanagement were levelled against a number of senior executives.

Progress on the improvement process to address the audit qualification on irregular expenditure is discussed under "Ethical leadership" on page 18

These all contributed to several credit ratings downgrades due to Eskom's deteriorating liquidity position and profitability, combined with a highly-gearred balance sheet, ineffective governance processes and internal controls, as well as Government's perceived inability to provide sufficient and timely support. The downgrades further hampered our efforts to obtain funding and consequently, raised serious concerns around Eskom's long-term viability and status as a going concern.

In addition, the effective 2.2% price increase granted by NERSA for 2017/18 put further pressure on Eskom's financial position, resulting in a weakening of the majority of financial ratios over the past year, despite a stringent focus on cost savings in order to manage liquidity. The much lower than expected price increase, coupled with the liquidity issues, led to the external auditors reporting an emphasis of matter related to going concern on our interim results.

**4** Integrated report | 31 March 2018



Our business and strategy

### Governance

It was against this backdrop that the new Board was appointed in January 2018, with a clear mandate to stabilise and restore Eskom. Four of the directors appointed to the interim Board in 2017 were retained. An Interim Group Chief Executive was appointed at the same time, to bring stability to an organisation which had witnessed a seemingly endless parade of individuals heading the organisation over the past few years. These appointments constituted the first step towards improving governance and restoring confidence in the company, ultimately aimed at assisting with the execution of funding initiatives, improving Eskom's financial position and restoring its operational performance.

Our immediate priorities when we took over in January were to address the liquidity challenges, tackle governance issues and release the interim results on a going concern basis.

We spent the first two months, which falls within the year under review, inculcating a culture of effective and transparent governance, to ensure that those engaged in corrupt and irregular activities are brought to account. This process has since led to the departure of seven members of senior management as a result of serious allegations of misconduct. The finalisation of investigations into suspended executives remains our key priority, while we continue to focus on improving corporate governance in Eskom.



Investigations into allegations of corruption and misconduct are discussed under "Ethical leadership" on page 19

## CHAIRMAN'S STATEMENT

continued

### Strategy

Given recent challenges, we have refined our strategy to respond appropriately. We aim to clean up governance issues, stop the bleeding and stabilise the business by continuing to do what we do, and doing it well, and thereafter re-energise the business in order to set a firm foundation for growth. At the same time, we will continue implementing initiatives identified in the prior year, by focusing on strengthening our financial position through demand stimulation, cost containment and efficiencies, while striving to achieve a cost-reflective price of electricity.

Under the leadership of our newly appointed Group Chief Executive, we are undertaking a strategy review in support of our mandate of being South Africa's trusted and reliable electricity provider. We plan to develop a new ambition for the period to 2035, focused on implementation and disciplined execution of actions to ensure the sustainability of Eskom. This review is expected to be completed by September 2018. The main areas of focus are:

- Strengthening Eskom's financial position and its balance sheet
- Reviewing the business model, which could lead to restructuring if warranted to respond to global changes in the energy industry
- Growing the business in existing markets, expanding into new markets and delivering new products across these markets

### Looking ahead

Eskom has suffered an absence of ethical leadership at the highest level for some time, but we aim to rectify that as a matter of urgency. We also need to focus on addressing executive vacancies, although this is partly dependent on the final structure of the organisation, after completing the strategy review. We need to have the right people in the right places doing the right things, to stabilise Eskom and set it up for sustained success, while fulfilling both its commercial and developmental mandate.

Over our three-year term, we intend focusing on the following:

- Improving liquidity and solidifying Eskom's status as going concern, which will require a focus mainly on costs, given the recent price increases. Given that primary energy and employee benefit costs are our biggest categories of operating expenditure, we have to focus our attention on those, as well as robust management of capital expenditure. This will require a significant improvement in financial and business discipline
- Instilling transparent and effective governance to support a culture of ethical behaviour by returning to our values

- Prioritising financial sustainability and strengthening the balance sheet, while minimising reliance on debt and Government guarantees
- Influencing energy policy and the regulatory environment to support the organisation's turnaround, by working with DPE, DoE, the DEA, National Treasury and NERSA. Issues include electricity tariffs, the long-awaited IRP and future IPP allocations, as well as dealing with municipal arrear debt

If we succeed at all of these priorities, we expect that it will positively impact Eskom's credit ratings, and thereby its ability to secure funding in both domestic and international markets. However, executing the turnaround will require difficult decisions. There is no doubt that the next few years will be challenging, but the turnaround has already begun, with positive progress since the appointment of the new Board. The start of restoration of investor confidence is evidenced by the R20 billion bridge-to-bond facility signed in February 2018, with great strides being made towards improving governance and rooting out financial mismanagement and malfeasance.

As expected from a responsible corporate citizen, Eskom must comply with the Constitution, applicable laws and regulations, as well as our own policies and procedures, and act in accordance with our mandate, vision and strategy. We also have a developmental responsibility – through building new capacity, executing DoE's electrification programme, and supporting skills development and job creation – and play a pivotal role in the country's economy. In executing our mandate, Eskom provides the basis for growth in South Africa and SADC, and as a result, transforms lives.

In order to improve trust and restore investor confidence in Eskom, it is crucial that we improve our integrity and thereby our credibility. If not, we will not be able to access financial markets to fund our build programme.

### Concluding remarks

My congratulations go to Mr Phakamani Hadebe on his recent appointment, approved by Cabinet, as Group Chief Executive. This is a reflection of the excellent work he has done while acting in the position since January this year. His appointment is an important step towards stabilising Eskom. Phakamani has a strong reputation of turning around organisations and, in light of Eskom's current financial challenges, we are lucky to have someone with his financial expertise to steer Eskom towards achieving our vision for the future.

The message from the CEO recognises in one of its opening paragraphs that ‘things went badly wrong during the May holidays’ when congestion at the airport caused delays. This is communicated in an open and direct tone.

Royal Schiphol Group's *Annual Report 2017* also creates a sense of balanced reporting early on (pages 6 and 7). The message from the CEO recognises in one of its opening paragraphs that ‘things went badly wrong during the May holidays’ when congestion at the airport caused delays. This is communicated in an open and direct tone. It sets the scene for the discussion, central to this year's report, about how the group has been proactively addressing the congestion challenge by investing in capacity by the expansion of the terminal and developing the regional airports.



Royal Schiphol Group  
2017 Annual Report

## Message from the CEO

Schiphol connects the Netherlands to 326 destinations worldwide, making us Europe's 'best direct connected airport'. We are working hard to prepare for the future so that we can accommodate the increasing flow of passengers. At the beginning of April we opened a temporary departure hall, and in the autumn made room for the construction of a new pier and terminal. Perform today, Create tomorrow. Today's challenges go hand-in-hand with tomorrow's investments.



## Congestion is the new normal

2017 was a year of excitement and progress for Royal Schiphol Group. It was our busiest year ever with 68.5 million passengers at Schiphol. The record number signified an increase of nearly 8% compared with last year. On Monday, 31 July 2017, we welcomed more than 234,400 passengers, making it our busiest day ever. Whilst during previous summer holiday periods there were only a few peak days with more than 200,000 passengers, in summer 2017 there were only a few days when passenger numbers dipped below 200,000.

Congestion is the new normal at Schiphol. Extra capacity is urgently needed if we are to meet growing demand. The temporary departure hall, built to enable us to accommodate the growing number of passengers within the Schengen area,

was completed in record time. However, things went badly wrong during the May holidays when we were unable to ensure that each passenger reached the gate on time. For three days, the picture at Schiphol was one of long queues, full baggage carousels and legitimate public concerns. We were quick to address the problems.

I'm happy to say that this was yet another illustration of how we all pull together at such moments. I believe compliments are due first and foremost to our colleagues and our business partners. They did sterling work in facing our peak times head-on. We came through our busiest-ever summer holiday period safely and successfully, and that's a good thing because the pressures will not be letting up.

### Good practice ideas

- Review report presentation: the visual prominence of information on the page, the tone of the narrative, and the order in which information is presented can affect perceptions of balance.
- Set the right tone from the start, through the messages from the Chairperson and the CEO.
- Challenge colleagues' and management's natural tendency to focus on positive performance by highlighting the consequences when problems unaddressed by the organisation become public.
- Monitor media and social media coverage of the organisation, to identify key issues that need to be addressed directly by the organisation.
- View reporting negative performance as an opportunity: it allows the organisation to demonstrate that it has a plan to tackle the challenges.
- Use external experts as an independent sounding board, but make sure that the board exercises oversight of the reporting content.
- Establish robust control processes for data to be included in integrated reports.
- Involve representatives from different teams in the report drafting or review process, to ensure a balance of perspectives.
- Report information used by management in running the business.
- Consider what level of assurance may be appropriate for your report's content, and if and how external assurance can add value to the business.



## 6. Performance – reporting performance against strategic objectives

### OBSERVATIONS FROM THE REPORT REVIEWS

The <IR> Framework states that 'An integrated report should answer the question: to what extent has the organization achieved its strategic objectives for the period, and what are the outcomes in terms of its effects on the capitals?'<sup>3</sup>

Such content on performance is clearly a crucial part of any integrated report, given the strong investor interest in it. Nonetheless, this is an area where preparers struggle: reporting performance against the capitals has consistently been among the lowest-rated areas in previous years, and this year the quality of reporting against strategic objectives has also dropped, from 15th to 22nd place in the quality rankings. The challenges driving this may be similar to those for balanced reporting, as highlighted in the previous section.

We covered the challenges and best practice recommendations around reporting performance and strategy against the capitals in *Insights into integrated reporting 2.0: Walking the talk* (ACCA 2018: 14 to 18). Here, we focus on how companies are reporting performance against strategic objectives.

### WHAT CHALLENGES DO COMPANIES IDENTIFY?

#### Lack of internal clarity

Gouveia says Standard Bank has been on a journey to develop its approach to reporting performance against strategic objectives. A key trigger was the group financial director's involvement, following comments from readers of the bank's integrated report, that the bank was not explaining its strategy clearly enough. This drove the development of a strategic value driver 'formula', considering the capitals concept in integrated reporting. The formula articulated the idea that the bank's financial outcome depends on the combination of its client focus, employee engagement, and risk and conduct (doing the right business the right way).

'Those three value drivers are all important to enable us to create our financial results – and all of those together result in our social, economic and environmental impact', Gouveia says. 'Each business unit now has to report against the formula. For example, each business needs to talk about its clients, people and how it addresses risk, financial results and also the social, economic and environmental impacts. Without the formula to report against, we were randomly discussing these items without being clear and structured'.

#### Identifying metrics

Standard Bank's group financial director had the authority to enforce the value driver formula throughout the bank. This took 'a lot of work' and required the chief executive's commitment together with a change of mindset across the business since 'we had to report against these value drivers and this had to be consistent', Gouveia says. The value driver formula, introduced in 2016, is now firmly embedded but Gouveia sees that more work is needed in reporting against those value drivers. In particular, the bank needs to 'get the metrics right'. Gouveia says: 'The financial metrics are easy for us – we've been reporting against those. Our risk metrics are also clear. But when we talk about our social, economic and environmental impacts, those are a bit more difficult. We need to determine which metrics are important and whether we can report on them every year so that we can have a trend to show how we are making progress'.

#### More than a CSI project

'We still have conversations that this is not only CSI [corporate social investment] – it's more than that', Gouveia says. In other words, it remains necessary to convey the message that the integrated reporting and thinking encouraged by the <IR> Framework leads to successful long-term value creation by

One challenge in reporting on performance against objectives is that employees – and board members – need to be internally honest about their achievements and failures, which can be difficult.

the business, not just to being seen as a good corporate citizen.

As she also notes, every year there is a new challenge in integrated reporting. A new member of the executive committee, for example, may have new ideas on how to explain social, economic and environmental issues from a business perspective. 'It's something that evolves every year', Gouveia says.

### Organisational honesty

One challenge in reporting on performance against objectives is that employees – and board members – need to be internally honest about their achievements and failures, which can be difficult. Human nature is such that people could be unwilling to tell their boss they have failed, and this can be repeated through the layers of an organisation.

'In general, management may not hear all that is wrong and thinks everything is going all right until the last moment', says de Bie from Royal Schiphol Group. 'It is courageous to admit that not all went well and that not enough was done. It is vital that the supervisory board challenges management and that board members take their governance role seriously'.

BASF's Castor understands a natural sense of discomfort in reporting on objectives that have not been met. 'But this is part of the reporting process and it is required by the reporting principle of "balanced reporting", she says. 'The question is whether it's up to us to tell the

reason why and put it in the right context or whether others should do it for us.

Especially if you are a chemical company, there is no option but to be transparent if something went wrong'.

### Constant evolution

Royal Schiphol Group is developing its approach to reporting against objectives, with a key development between its 2017 and 2018 annual reports. Its 2017 report contained a list of priorities for the 2018 Management Agenda. In 2018, these priorities are more specific – including measurable targets to be achieved in multiple areas: safety, sustainability, network, passengers, airlines, local residents, employees and shareholders. In addition, performance against the non-financial indicators (as well as financial KPIs) will affect the variable element of employees' remuneration. 'If our customer appreciation measure or reputation scores do not meet the targets, that will affect everyone's variable component, independent of financial profits', says de Bie. 'So, for the first time, these have become real objectives that every employee has to take into their hearts and work on'.

### PRACTICAL APPROACHES

Standard Bank's strategic value drivers formula helps it to identify relevant and meaningful KPIs to report against. The value drivers feature throughout the Bank's *Annual Integrated Report 2017* and provide the structure around which performance is reported.

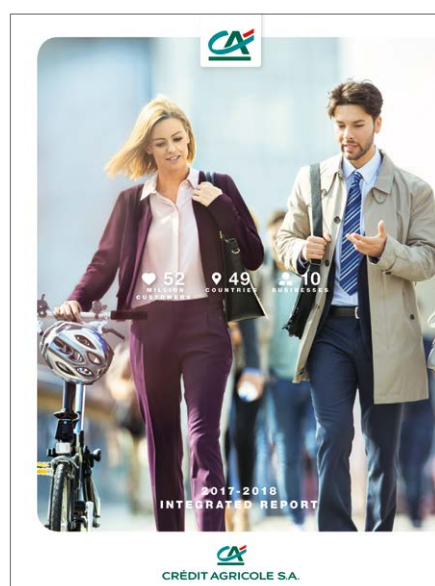
## OUR STRATEGIC VALUE DRIVERS

Focus our efforts and measure the progress we are making against our group strategy and vision.



Credit Agricole presents KPIs on the five aspects of its strategic plan, against targets for the end of 2019.

In its *Integrated Report 2017–2018*, French cooperative bank Crédit Agricole presents KPIs on the five aspects of its strategic plan (pages 30 to 32). The KPIs are set against targets for the end of 2019, and the achievement or not of these targets is indicated. 2019 targets already achieved are shown with solid green stars.



## APPENDICES

### Strategic Plan Tracking Indicators

#### BUSINESS LINES THAT SUPPORT THE CUSTOMER-FOCUSED BANK AND CLIMATE FINANCE

|                                                                             | TARGETS FOR END-2019 | 2015     | 2016                   | 2017                   | LEVEL OF ACHIEVEMENT |
|-----------------------------------------------------------------------------|----------------------|----------|------------------------|------------------------|----------------------|
| <b>CRÉDIT AGRICOLE GROUP</b>                                                |                      |          |                        |                        |                      |
| Revenue synergies                                                           | €8.8bn               | €7.8bn   | €8.0bn                 | €8.2bn                 | ☆                    |
| <b>RETAIL BANKING, ACQUISITION OF NEW CUSTOMERS AND MUTUAL SHAREHOLDERS</b> |                      |          |                        |                        |                      |
| <b>REGIONAL BANKS</b>                                                       |                      |          |                        |                        |                      |
| Number of mutual shareholders                                               | 12m                  | 8.8m     | 9.3m                   | 9.7m                   | ☆                    |
| <b>LCL</b>                                                                  |                      |          |                        |                        |                      |
| Mid-cap customer market share                                               | 50%                  | 43%      | 45%                    | 45%                    | ☆                    |
| <b>CRÉDIT AGRICOLE ITALIA</b>                                               |                      |          |                        |                        |                      |
| Number of customers                                                         | 2m                   | 1.7m     | 1.7m                   | 2m                     | ★                    |
| <b>RETAIL BANKING, CROSS-SELLING MOMENTUM</b>                               |                      |          |                        |                        |                      |
| <b>REGIONAL BANKS</b>                                                       |                      |          |                        |                        |                      |
| Personal and property insurance contracts                                   | +2m                  | 9.2m     | 9.6m                   | 10.2m                  | ☆                    |
| <b>LCL</b>                                                                  |                      |          |                        |                        |                      |
| Percentage of customers with insurance and life insurance contracts         | 25%                  | > 20%    | 21.1%                  | 22.4%                  | ☆                    |
| <b>CRÉDIT AGRICOLE ITALIA</b>                                               |                      |          |                        |                        |                      |
| UCITS/Life insurance                                                        | +12%/year            | +11.6%   | +10.6%                 | +5.7%                  | ☆                    |
| <b>ASSET GATHERING</b>                                                      |                      |          |                        |                        |                      |
| <b>AMUNDI</b>                                                               |                      |          |                        |                        |                      |
| Net inflows cumulative over 2016-2019                                       | €160bn               | €80bn    | €62.2bn                | €73.1bn <sup>(1)</sup> | ★                    |
| <b>CRÉDIT AGRICOLE ASSURANCES</b>                                           |                      |          |                        |                        |                      |
| Combined ratio <sup>(2)</sup>                                               | < 96%                | 95.8%    | 95.9%                  | 96.8%                  | ☆                    |
| <b>INDOSUEZ WEALTH MANAGEMENT</b>                                           |                      |          |                        |                        |                      |
| Average annual net inflows                                                  | €3bn                 | €4bn     | -€4bn                  | €5bn                   | ☆                    |
| <b>SPECIALISED FINANCIAL SERVICES</b>                                       |                      |          |                        |                        |                      |
| <b>CRÉDIT AGRICOLE CONSUMER FINANCE</b>                                     |                      |          |                        |                        |                      |
| Managed loans within Crédit Agricole Group                                  | +5%/year             | €13.5bn  | €15.3bn +13.1% vs 2015 | €17.0bn +11.3% vs 2016 | ★                    |
| <b>CRÉDIT AGRICOLE LEASING &amp; FACTORING</b>                              |                      |          |                        |                        |                      |
| Share of the renewable energies market in France                            | 35%                  | 35%      | 33%                    | 32%                    | ☆                    |
| <b>LARGE CUSTOMERS</b>                                                      |                      |          |                        |                        |                      |
| <b>CRÉDIT AGRICOLE CIB</b>                                                  |                      |          |                        |                        |                      |
| AAGR in financing revenue                                                   | +1.4%/year           | €2.2bn   | €2.2bn +0.3% vs 2015   | €2.2bn +2.5% vs 2016   | ★                    |
| <b>AAGR in capital markets and investment banking revenue</b>               | +3.8%/year           | €2.1bn   | €2.2bn +5.6% vs 2015   | €2.3bn +1.3% vs 2016   | ☆                    |
| <b>CACEIS</b>                                                               |                      |          |                        |                        |                      |
| Assets under custody                                                        | €2,700bn             | €2,327bn | €2,522bn               | €2,656bn               | ☆                    |

(1) €70.5 billion based on a combined approach.

(2) Scope: Pacifica.

Underlined words are defined in the glossary on page 33; the icons representing the United Nations Sustainable Development Goals are defined on page 36.

|                                                                                                                                           | TARGETS<br>FOR END-2019       | 2015                   | 2016                   | 2017                  | LEVEL OF<br>ACHIEVEMENT |
|-------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|------------------------|------------------------|-----------------------|-------------------------|
| <b>CLIMATE FINANCING</b>                                                                                                                  |                               |                        |                        |                       |                         |
| New green financing arranged via Crédit Agricole CIB                                                                                      | €60bn → €100bn <sup>(3)</sup> | N/A                    | €28bn                  | €71bn                 | ★                       |
| Financing for energy transition projects through Amundi joint asset management companies with EDF and Agricultural Bank of China          | €5bn                          | N/A                    | €150m                  | €203m                 | ☆                       |
| Doubling of financing for renewable energies in France via the Regional Banks, LCL and Crédit Agricole Leasing & Factoring <sup>(4)</sup> | x2                            | €425m                  | €514m<br>+21% vs 2015  | €635m<br>+24% vs 2016 | ☆                       |
| Cash invested in green bonds by end-2017 via Crédit Agricole S.A. and Crédit Agricole CIB                                                 | €2bn                          | N/A                    | €1.1bn                 | €2bn                  | ★                       |
| <b>INNOVATION THAT BENEFITS CUSTOMERS</b>                                                                                                 |                               |                        |                        |                       |                         |
|                                                                                                                                           | TARGETS<br>FOR END-2019       | 2015                   | 2016                   | 2017                  | LEVEL OF<br>ACHIEVEMENT |
| <b>REGIONAL BANKS</b>                                                                                                                     |                               |                        |                        |                       |                         |
| % of key retail customer journeys digitalised and dematerialised, interruptible and interoperable                                         | 100%                          | N/A                    | 45%                    | 60%                   | ☆                       |
| Time needed to open an account and order a bank card in branches and on line                                                              | 15 min.                       | 45 min.<br>in branches | 45 min.<br>in branches | 15 min.               | ★                       |
| <b>LCL</b>                                                                                                                                |                               |                        |                        |                       |                         |
| Branches renovated in line with the LCL Mon Agence concept or refurbished                                                                 | 100%                          | N/A                    | N/A                    | 36                    | ☆                       |
| <b>CRÉDIT AGRICOLE ITALIA</b>                                                                                                             |                               |                        |                        |                       |                         |
| % of branches in Italy advice-focused and automated                                                                                       | 50%                           | N/A                    | 35%                    | 38%                   | ☆                       |
| <b>CRÉDIT AGRICOLE GROUP: START-UPS SUPPORTED BY VILLAGES BY CA</b>                                                                       |                               |                        |                        |                       |                         |
|                                                                                                                                           | 600                           | N/A                    | 231                    | 400                   | ☆                       |
| <b>CRÉDIT AGRICOLE S.A.: RAISING EMPLOYEE AWARENESS ABOUT DIGITAL TECHNOLOGIES (TARGETS AT END-2018)</b>                                  |                               |                        |                        |                       |                         |
| % of connections to the Digital platform                                                                                                  | 40%                           | N/A                    | N/A                    | 30%                   | ☆                       |
| % of employees with a Digital passport                                                                                                    | 30%                           | N/A                    | N/A                    | 22%                   | ☆                       |
| <b>A CUSTOMER RELATIONSHIP BUILT TO LAST</b>                                                                                              |                               |                        |                        |                       |                         |
|                                                                                                                                           | TARGETS<br>FOR END-2019       | 2015                   | 2016                   | 2017                  | LEVEL OF<br>ACHIEVEMENT |
| <b>REGIONAL BANKS</b>                                                                                                                     |                               |                        |                        |                       |                         |
| Increase customer satisfaction                                                                                                            | Annual improvement in the CRI | + 1 pt                 | Stable                 | + 3 pts               | ★                       |
| <b>CRÉDIT AGRICOLE S.A.</b>                                                                                                               |                               |                        |                        |                       |                         |
| Measure employee engagement using an annual ERI survey                                                                                    | Every year                    | N/A                    | Achieved               | Achieved              | ★                       |
| <b>THE GROUP'S TRANSFORMATION</b>                                                                                                         |                               |                        |                        |                       |                         |
|                                                                                                                                           | TARGETS<br>FOR END-2019       | 2015                   | 2016                   | 2017                  | LEVEL OF<br>ACHIEVEMENT |
| <b>COST/INCOME RATIO EXCLUDING SRF</b>                                                                                                    |                               |                        |                        |                       |                         |
| CRÉDIT AGRICOLE GROUP                                                                                                                     | < 60%                         | 63%                    | 65.5%                  | 64.2%                 | ☆                       |
| CRÉDIT AGRICOLE S.A.                                                                                                                      | < 60%                         | 66%                    | 68.0%                  | 64.2%                 | ☆                       |
| CRÉDIT AGRICOLE S.A. RECURRING SAVINGS                                                                                                    | €900m                         | N/A                    | N/A                    | 1/3 achieved          | ☆                       |
| CRÉDIT AGRICOLE S.A. INCREASE THE PROPORTION OF WOMEN IN TOP-LEVEL MANAGEMENT AS PART OF THE FREED INITIATIVE                             | +10%<br>(target of 23.3%)     | 21.2%                  | 21.5%                  | 20.7%                 | ☆                       |

(3) Initially €60 billion at end-2018. The target was raised in 2017 to €100 billion at end-2019.

(4) Initial target (double) raised in 2017.

In its *Report 2017*, BASF's management report contains a detailed section on 'responsibility along the value chain'.

In its *Report 2017*, BASF's management report contains a detailed section on 'responsibility along the value chain'. This explains the group's strategy on key supply-chain-related issues, reports performance against prior-year trends, and clearly sets out 2020 goals. The extract below (pages 104 to 106) focuses on BASF's strategy, goals and measures related to energy efficiency and climate protection.



#### 104 Management's Report

Responsibility along the value chain – Environment, health, safety and security – Energy and climate protection

BASF Report 2017

### Energy and climate protection



As an energy-intensive company, we are committed to energy efficiency and global climate protection. We want to reduce emissions along the value chain and utilize, for example, efficient technologies for generating steam and electricity, energy-efficient production processes, and comprehensive energy management. Our climate protection products make an important contribution toward helping our customers avoid emissions.

#### Strategy

- We are committed to energy efficiency and global climate protection along the value chain

We want to reduce greenhouse gas emissions in our production and along the entire value chain. To this end, we have thoroughly analyzed the greenhouse gas emissions from our production in the past few years and implemented comprehensive reduction measures.

Comparisons with European emissions trading benchmarks show that our greenhouse gas-intensive chemical plants operate at above-average efficiency. To supply our production sites with energy, we rely on highly efficient combined heat and power plants with gas and steam turbines, and on the use of heat released by production processes.

Our success also depends on the long-term security and competitiveness of our energy supplies. Furthermore, we are committed to energy management that helps us analyze and further improve the energy efficiency of our plants. We continuously analyze potential risks to our business operations arising in connection with the topics of energy and climate protection and derive appropriate measures.

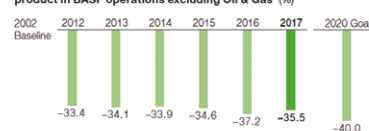
We offer our customers solutions that help prevent greenhouse gas emissions and improve energy and resource efficiency. Around half of our total annual research and development spending goes toward developing these products and optimizing our processes.

Our climate protection activities are based on a comprehensive analysis of our emissions. We report on greenhouse gas emissions in accordance with the Greenhouse Gas Protocol Standard, as well as the sector-specific standard for the chemical industry. Since 2004, we have participated in the international non-profit organization CDP's program for reporting on data relevant to climate protection. BASF again achieved a score of A- in CDP's rating for 2017, awarding it "Leadership" status. Companies on the "Leadership" level are distinguished by factors such as the completeness and transparency of their reporting. They also pursue comprehensive approaches in managing the opportunities and risks associated with climate change as well as emissions reduction strategies to achieve company-wide goals.

Climate protection is a shared global task. We advocate climate protection by supporting initiatives to this end. In 2017, companies from G20 countries – the Business 20 (B20) – developed recommendations on energy, climate and resource efficiency for state and government leaders. BASF led this B20 task force. BASF supports a consistent implementation of the Paris climate accord as the necessary basis for limiting global warming. We therefore also joined the World Economic Forum's CEO Climate Leaders initiative in 2017.

For more information on climate protection, see [basf.com/climate\\_protection](http://basf.com/climate_protection)

#### Reduction of greenhouse gas emissions per metric ton of sales product in BASF operations excluding Oil & Gas<sup>1</sup> (%)



<sup>1</sup> The value for the 2012 business year was not adjusted to reflect the currency applied global warming potential factors. For more information on our data collection methods, see page 105.

**BASF Group's greenhouse gas emissions according to the Greenhouse Gas Protocol<sup>1</sup>** (million metric tons of CO<sub>2</sub> equivalents)

| BASF operations including Oil & Gas                    | 2002          | 2016          | 2017          |
|--------------------------------------------------------|---------------|---------------|---------------|
| Scope 1 <sup>2</sup>                                   |               |               |               |
| CO <sub>2</sub> (carbon dioxide)                       | 14.634        | 16.215        | 16.813        |
| N <sub>2</sub> O (nitrous oxide) <sup>3</sup>          | 6.407         | 0.586         | 0.747         |
| CH <sub>4</sub> (methane)                              | 0.244         | 0.045         | 0.048         |
| HFC (hydrofluorocarbons)                               | 0.061         | 0.087         | 0.081         |
| SF <sub>6</sub> (sulfur hexafluoride)                  | 0             | 0             | 0             |
| Scope 2 <sup>4</sup>                                   |               |               |               |
| CO <sub>2</sub>                                        | 5.243         | 3.884         | 3.796         |
| <b>Total</b>                                           | <b>26.589</b> | <b>20.817</b> | <b>21.485</b> |
| Sale of energy to third parties (Scope 1) <sup>5</sup> |               |               |               |
| CO <sub>2</sub>                                        | 0.347         | 1.161         | 1.086         |
| <b>Total</b>                                           | <b>26.936</b> | <b>21.978</b> | <b>22.571</b> |

<sup>1</sup> BASF reports separately on direct and indirect emissions from the purchase of energy. Scope 1 emissions encompass both direct emissions from production and generation of steam and electricity, as well as direct emissions from the generation of steam and electricity for sale. Scope 2 emissions comprise indirect emissions from the purchase of energy for BASF's use.

<sup>2</sup> Emissions of N<sub>2</sub>O, CH<sub>4</sub>, HFC and SF<sub>6</sub> have been translated into CO<sub>2</sub> emissions using the Global Warming Potential, or GWP, factor. GWP factors are based on the Intergovernmental Panel on Climate Change (IPCC) 1995 (2002 emissions) and IPCC 2007, errata table 2012 (2016 and 2017 emissions). HFC (hydrofluorocarbons) are calculated using the GWP factors of the individual components.

<sup>3</sup> The 2016 figure has been adjusted due to updated data.

<sup>4</sup> Location-based approach. Information on the calculation of market-based Scope 2 emissions can be found in the GRI and Global Compact Index; see [basf.com/en/grl\\_gc](http://basf.com/en/grl_gc)

<sup>5</sup> Includes sale to BASF Group companies; as a result, emissions reported under Scope 2 can be reported again in some cases.

**Global goals and measures**

- Reduction of greenhouse gas emissions per metric ton of sales product
- Introduction of energy management systems in accordance with ISO 50001

We aim to reduce our greenhouse gas emissions per metric ton of sales product by 40% by 2020, compared with baseline 2002. Our emissions rose year-on-year in 2017, mainly due to higher production levels of precursors within the Group and an increase in nitrous oxide emissions. In 2017, we reduced greenhouse gas emissions per metric ton of sales product by 35.5% compared with baseline 2002 (2016: reduction of 37.2%). Since 1990, we have been able to lower our overall greenhouse gas emissions from BASF operations (excluding Oil & Gas) by 48.3% and even reduce specific emissions by 74.7%.

We set ourselves a new energy efficiency goal in 2015 covering both the chemicals and the oil and gas businesses. By 2020, we want to have introduced certified energy management systems (DIN EN ISO 50001) at all relevant production sites.<sup>6</sup> Taken together, this represents 90% of BASF's primary energy demand. This is one of the ways in which we intend to identify and carry out improvements in energy efficiency, reducing not only greenhouse gas emissions and saving valuable energy resources, but also increasing the BASF Group's competitive ability.

**2020 Goal**

Reduction of greenhouse gas emissions per metric ton of sales product  
Baseline 2002  
BASF operations excl. Oil & Gas

–40%

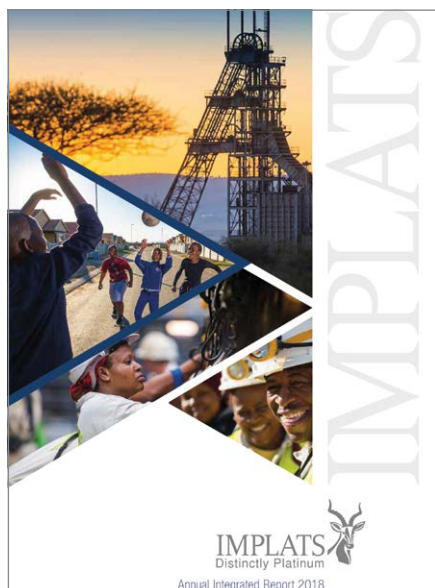
**2020 Goal**

Coverage of our primary energy demand through certified energy management systems at all relevant sites  
BASF operations incl. Oil & Gas

90%

The introduction and implementation of the energy management systems is steered by a global working group. All energy efficiency measures are recorded and analyzed in a global database and made available to BASF sites as best practices. Currently, over 100 measures are being pursued to reduce energy consumption and increase competitive ability. Sites and pilot plants across all regions were certified in accordance with ISO 50001 in 2017. These include the Verbund site in Antwerp, Belgium, production plants at the Guaratinguetá site in Brazil and Freeport in Texas, as well as another 10 sites in China, India, Singapore, Ireland, Norway and Switzerland. At the moment, 43 sites are certified worldwide, representing 54.3% of our primary energy demand.

<sup>6</sup> The selection of relevant sites is determined by the amount of primary energy used and local energy prices.



In its *Annual Integrated Report 2018* (pages 70 and 71), South African platinum producer Impala Platinum (Implats) reports performance against five key operational strategies. Specific KPI performance targets for the year are presented for each of the operational strategies, and current year performance is also compared with trends going back over the four previous years. Both positive and negative performance is reported in a balanced and candid way.

## Group performance against objectives

Implats Annual Integrated Report 2018 | 70

Implats Annual Integrated Report 2018 | 71

| Strategy                                                                                                                                                                                                                                                                                                                                                                                     | Operational strategies                              | KPI performance target for FY2018*                                                                                                                                                                           | Performance against strategy and KPIs*                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Performance graphs*                                                           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|
| <b>Implats is a focused PGM producer and supplier. Our strategy seeks to sustain optimal levels of production at the lowest possible cost from a diverse and competitive asset portfolio. We seek to position the Company in the lower half of the industry cost curve, and as the industry safety leader, to benefit from future stronger PGM prices and to reward all our stakeholders</b> | Relentlessly drive the safety of our people         | <ul style="list-style-type: none"> <li>&gt; Zero fatalities</li> <li>&gt; LTIFR &lt;5.5</li> </ul>                                                                                                           | <ul style="list-style-type: none"> <li>&gt; Regrettably, seven employee fatalities were recorded during the year</li> <li>&gt; LTIFR improved 5.4% from the previous year to 6.01 per million man-hours (including contractors) (2017: 6.39)</li> <li>&gt; Continue to drive zero harm through awareness and education, by implementing appropriate systems and best practice, and by working in partnership with employees and regulators</li> <li>&gt; Our focus is on ensuring resilient and effective leadership and operational discipline to ensure compliance with safe production practices</li> </ul>                                                                                           | <b>LTIFR</b><br>                                                              |
|                                                                                                                                                                                                                                                                                                                                                                                              | Consistently deliver production targets             | > Refined platinum production of 1.57 – 1.61Moz                                                                                                                                                              | <ul style="list-style-type: none"> <li>&gt; Refined platinum production of 1.47 million ounces</li> <li>&gt; Strong mining performances at Impala Rustenburg and Marula were supported by sustained excellent mining contributions from all other operations</li> <li>&gt; Planned closures of 4, 7 and 7A Shafts at Impala Rustenburg</li> <li>&gt; Furnace maintenance work during the first half of the year and an electrical failure at the furnace in February 2018 resulted in an inventory build over the year</li> </ul>                                                                                                                                                                        | <b>Platinum production</b><br>                                                |
|                                                                                                                                                                                                                                                                                                                                                                                              | Improve efficiencies through operational excellence | > Cost per platinum ounce <R23 100 and stock adjusted unit cost achieved of R22 931 (2017: R22 628)                                                                                                          | <ul style="list-style-type: none"> <li>&gt; Unit costs increased to R24 660 per platinum ounce refined impacted by the lower refined production volumes (2017: R22 657)</li> <li>&gt; Completed and approved a strategic review of Impala Rustenburg that will transition this operation to long-term economic viability in a low-price environment</li> <li>&gt; Continue to address inefficiencies and contain the rising input cost base at operations, particularly Impala Rustenburg</li> <li>&gt; Enhanced focus on human resources, which includes the development of a high-performance culture and reviews of the organisational structure and remuneration policies to support this</li> </ul> | <b>Unit cost/Pt oz</b><br>                                                    |
|                                                                                                                                                                                                                                                                                                                                                                                              | Cash conservation                                   | > Capital <R4.7 billion                                                                                                                                                                                      | <ul style="list-style-type: none"> <li>&gt; Capital expenditure of R4.61 billion (2017: R3.43 billion)</li> <li>&gt; Capital expenditure was in line with plan</li> <li>&gt; R1.4 billion was spent on the two development shafts, 16 and 20</li> <li>&gt; Key projects and their associated capital investment were re-evaluated during the year resulting in a reduction (R910 million) or deferral of capital spend in a low-price environment</li> </ul>                                                                                                                                                                                                                                             | <b>Capital expenditure</b><br>                                                |
|                                                                                                                                                                                                                                                                                                                                                                                              | Maintain our licence to operate                     | <ul style="list-style-type: none"> <li>&gt; Impala Rustenburg SO<sub>2</sub> at &lt;16tpd</li> <li>&gt; Marula community disruptions &lt;10 days</li> <li>&gt; Build/sell &gt;230 employee houses</li> </ul> | <ul style="list-style-type: none"> <li>&gt; SO<sub>2</sub> emissions at Impala Rustenburg at 6379t (2017: 6 306t)</li> <li>&gt; Direct SO<sub>2</sub> emissions were within the conditions of the Air Emission Licence at Impala Rustenburg and Impala Springs</li> <li>&gt; Built 136 employee houses in Rustenburg as expenditure was curbed due to cash preservation</li> <li>&gt; Officially opened Sunrise View Secondary and both primary and secondary schools at Platinum Village</li> <li>&gt; Group social development expenditure amounted to R214.10m (2017: R136.48m)</li> <li>&gt; Resolved land dispute and secured mining tenure at Zimplats</li> </ul>                                  | <b>Social development expenditure in South Africa (including housing)</b><br> |

\* Performance targets and actual performance exclude the associate companies Tiro Rivers and Minrosa.

### Good practice ideas

- Clarify strategic value drivers internally to support clear reporting of performance against them externally.
- Identify metrics that are useful and relevant for monitoring the performance of the business and its employees.
- Report on KPIs consistently from year to year, and explain any changes in the KPIs used.
- Include trend data so that performance over time is easy to understand.
- When reporting performance, set this clearly against the context of targets and/or expectations, and explain the reasons for the differences between actual and forecast performance.
- Encourage a culture of transparency, so that problems at the business unit level are not hidden from the top management layers.



## 7. Explaining how organisations are dealing with risks and opportunities

### OBSERVATIONS FROM THE REPORT REVIEWS

Under the <IR> Framework, integrated reports should answer the question: 'What are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term, and how is the organization dealing with them?'<sup>4</sup>

Partly because mandatory reporting frameworks tend to emphasise reporting on risks over opportunities, there have consistently been fewer discussions about opportunities than risks in the reports reviewed. This year, the reviewers found that the quality of reporting on opportunities had dropped further, from 24th to 29th in the quality rankings, making it one of the poorest-performing areas. The quality of reporting on how organisations are dealing with risks and opportunities, has also dropped from 11th to 18th place.

### WHAT CHALLENGES DO COMPANIES IDENTIFY?

#### Compliance-driven culture

Some sectors may be culturally primed to be cautious when it comes to transparent reporting. 'The banking industry is highly regulated', says ING's Georgiev. 'There is sensitive trade

information and competitive information we do need to be careful with. It is also difficult to draw the line on competitively sensitive information in some instances – we want to be open and yet we can't always say it all due to these regulations and standards with which we must comply'. Caution about giving away too much information and losing competitive advantage was an issue we also identified last year, in relation to companies' reporting outlook (ACCA 2018).

The <IR> Framework states that where disclosure of material information could cause significant competitive harm, organisations could describe the essence of the matter in a general way, rather than identifying specific details<sup>5</sup>. In these cases, a judgement call needs to be made, weighing the advantage that a competitor could actually gain from the information, against the primary purpose of an integrated report: 'to explain to providers of finance how the organisation creates value over time<sup>6</sup>'. Making this judgement call, and getting agreement from other people within the organisation, could be difficult.

Georgiev's colleague Muusse gives an example of how legal restraints or anti-trust concerns can also impede transparency.

ING is a signatory of the Dutch Banking Sector Agreement on Human Rights, designed to help banks and other interested parties work collaboratively towards the goal of fully meeting their human rights responsibilities. 'At the beginning of each meeting with the other banks, the first thing presented to the group is an anti-trust statement', Muusse says. 'As a requirement, meetings start with a reminder that we cannot bring in competitive information or non-public information about strategies etc. That is realistically the regulatory landscape we are working in. It can set a tone of caution in some instances'.

#### Expectation management

Organisations do face challenges in reporting on opportunities they see for creating value. 'Some of the information may be sensitive', says ING's Georgiev. 'Sometimes we are not sure if there is an opportunity. For example, we may suspect that sustainable businesses and sustainable clients are better clients, but we need to do more work before we can go external about it – before we can actually record this as an opportunity'.

This sense of caution, and the need to fulfil and to manage market expectations, is also an important concern for BASF.

<sup>4</sup> International <IR> Framework, paragraph 4.23

<sup>5</sup> International <IR> Framework, paragraph 3.51

<sup>6</sup> International <IR> Framework, paragraph 1.7

The more a company can demonstrate that it has a proactive risk-management strategy that allows it to transform risks into opportunities, the more positively it may be viewed by investors.

‘For BASF, we have set ourselves ambitious goals and subsequently, we should not overpromise’, Castor says. ‘This is not only related to ESG topics. The overall aim is to be acknowledged as a credible and reliable partner and investment. So, it is quite natural, that – in terms of the tone – there is a difference between the report and a marketing brochure’.

Investors, particularly in the ESG context, express more interest in risks than opportunities. ‘The financial market still focuses on the risks’, Castor says. ‘In particular, rating agencies still weigh controversies quite highly. We strongly believe that sustainability also helps us to seize business opportunities through more sustainable products or more sustainable operating processes. Therefore, we include concrete examples for the business case of integrating sustainability in our report.’

Despite some investors’ tendency to focus on risks, it could be argued that managing risks and seizing opportunities are parts of the same process. The more a company can demonstrate that it has a proactive risk-management strategy that allows it to transform risks into opportunities, the more positively it may be viewed by investors. This is how ING’s Georgiev views it. ‘We [...] take the stance that risks and opportunities are two sides of the same coin’, he says. ‘So where we see risks, we also try to look at the opportunities side, and vice versa’.

#### **Integrated thinking in the business**

Reporting on and discussing risks and opportunities trigger integrated thinking in the business by prompting management to consider the relationship between non-financial and financial factors. It can provide a ‘way in’ to introducing this type of thinking to parts of the business for which it may not be traditional or natural. Getting that engagement can be achieved by approaching the topic in a way that makes sense to people in the business.

BASF’s Castor gives an example of engaging with colleagues to encourage them to integrate ESG criteria into their operations. ‘It’s often a matter of

language’, she says. ‘You can approach them [and say] “It is important, due to ethical reasons”’. Some colleagues will say that this makes their life even more complicated, because they have to focus on efficiency, quality, price and so on. If you adjust your language and say, “Mitigating the most material ESG related risks could help to avoid supply chain disruption and fosters business continuity”, they might listen to you. You have to adjust your messages so that your target group is able to understand the value added’.

EnBW found the TCFD initiative, with its risk-focused approach, particularly helpful for integrating non-financial risks into the company’s core processes. ‘The way the TCFD has applied this basic logic [around risks and opportunities] to climate-related aspects was helpful for us’, Rieth says. ‘When we updated our new risk and opportunity matrix or table, which forms the basis for the surveys conducted internally, it was the TCFD that pushed us to another level, rather than the IIRC’s guiding principles. We fully understood the basic logic of the IIRC, but with the TCFD we got a new tool in our hand and a more clear-cut, well-defined approach’.

Although still principles-based, the TCFD gave more ‘concrete’ guidance on how to address risk. ‘We are very much into the TCFD approach’, says Rieth. ‘For us, this is about the nuts and bolts of integrated reporting. It’s climate related, but you can apply the TCFD logic to all the other sustainability and ESG issues. It’s a constant process where companies assess how to integrate this way of integrated thinking into the strategy, governance and risk dimensions[...] The TCFD gave us some truly important guidance on how this is connected to the financial bottom line’.

#### **Need for hard facts and threshold clarity**

The banking sector is familiar with the concept of risk, with strong internal risk functions. That doesn’t necessarily make it easier when trying to report on the actions taken to mitigate or manage risks that relate to environmental and social factors. ‘The risk function is so strong that it needs hard facts and precise data – so there are definitely challenges’, says Georgiev.

**‘Traditional enterprise risk management is used to dealing with precise thresholds - with black and white. Now you have to deal with 50 different shades of grey.’**

**Tanja Castor, BASF**

ING has two risk functions, staffed by the relevant risk experts, that focus on financial and non-financial risks. Sustainability and climate change risks, because they have financial implications, are categorised as financial risks. Areas such as behavioural and ethical risks would be treated as non-financial. The two functions, however, follow the same reporting line – ‘two funnels’, as Muusse describes it, both overseen by the chief risk officer.

Castor has noted regulators pushing companies to develop more integrated risk-management processes that encompass ESG issues, but there are challenges around definitions and thresholds. BASF has held intensive discussions during the implementation of the German law to implement the EU NFR Directive requirements. BASF designed a decision tree to provide a systematic approach to identifying any material ESG risks that need to be included in its risk report. ‘The most important challenge was to discuss the thresholds’, Castor says. ‘For financial risks there are quite clear and precise thresholds. For non-financial risks, the thresholds are for example “if it has a significant impact on your business”. But what does significant mean?’

‘And even if it would be possible to define clear-cut thresholds for topics like Human Rights – would it make sense to monetize impacts in this area?’, Castor asks. ‘Traditional enterprise risk management is used to dealing with precise thresholds – with black and white. Now you have to deal with 50 different shades of grey. It is up to each company to find a solution which helps the company to establish an Enterprise Risk Management reflecting all relevant risks – be it financial or ESG-related risks’.

Castor found a helpful resource in Guidance for Applying Enterprise Risk Management to Environmental, Social and Governance-related Risks, jointly

developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the World Business Council for Sustainable Development (WBCSD) (COSO and WBCSD 2018). ‘It could serve as a starting point to further develop our risk management’, Castor says. This topic remains on her agenda to work on for 2019, together with colleagues from the Corporate Risk Management team.

### **Creating a level playing field**

At ING, Muusse notes that having a level playing field in the sector and with other corporates helps. ‘We have a plan to increase transparency in our reporting on environmental and social risks and disclosures’, she says. ‘It really does help that other banks such as ABN AMRO or Westpac also have models of how to report more transparently on environmental and social risks. So you can take from that. We see what other people are doing, what’s best practice, and how we can improve. And as you disclose more, you recognise that you are also contributing to a more level playing field in the whole sector. We want to drive improvements not just in our own business, but ultimately improvements in the world and society – and this is one way to do so’.

### **Topic-specific reporting requirements**

One challenge in risk reporting – and reporting generally – is the growth in topic-specific reporting requirements, as regulators try to respond to the public demand for more information and drive the achievement of global climate and social goals. ‘There are lots of topic-specific reporting requirements and they will also have a tremendous impact on risk reporting’, Castor says. ‘TCFD seems to be the starting point. There will be a challenge for the whole integrated reporting approach. I am not sure whether we will be able to fulfil all these topic-specific requirements via one integrated report’.

For ING, risks and opportunities are two sides of the same coin.



## PRACTICAL APPROACHES

ING's *Group Annual Report 2017* demonstrates that the organisation has a clear and well-defined mechanism for responding to risks and opportunities, which is embedded into the governance structure. For ING, risks and opportunities are two sides of the same coin. The extract included here (from page 12) shows how ING reports on the opportunities and risks associated with customer centricity. Helpfully, the opportunities and risks are linked explicitly to material topics, and cross-references are included for more detailed discussions on each of the topics.

| Opportunities & Risks                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Material topic                                                                                                                                                      | Our approach and performance                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | More information                                                                                                                                                                                                                   |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Customer centricity</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                    |
| <b>Opportunities:</b> <ul style="list-style-type: none"> <li>Focus on improving customer experience by accelerating innovation and becoming more agile.</li> <li>Digital delivery of advice and support aimed at improving customer decision-making.</li> <li>Scalable cross-border banking platform to make online interaction personal, instant, seamless and relevant.</li> <li>Embed data-driven culture.</li> </ul> <b>Risks:</b> <ul style="list-style-type: none"> <li>Technology is removing a number of barriers to entry that once insulated financial services.</li> <li>Cybercrime, fraud and cyber-security risks arising due to growing digitalisation across banking.</li> </ul> | <b>A Innovative business developments</b><br>Innovate to adapt and remain relevant.                                                                                 | In 2017, ING launched a EUR 300 million venture capital fund to deepen fintech partnerships and accelerate the pace of innovation.<br><br>ING had more than 100 fintech partners by the end of 2017, 21 of which ING invested in.<br><br>Our annual Innovation Bootcamp attracted 786 ideas from 22 countries.                                                                                                                                                                                                                                                                                                                                                                   | <a href="#">Innovation section in the 'Improving the customer experience' chapter.</a>                                                                                                                                             |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <b>B Customer privacy and data ethics</b><br>Our duty to handle customers' data with the utmost care and only process personal data for specific business purposes. | Our approach can be summarised as: the right people using the right data for the right purpose.<br><br>We set up ethical committees in the ING countries in 2017 as well as a framework for dealing with dilemmas related to how we use data.                                                                                                                                                                                                                                                                                                                                                                                                                                    | <a href="#">Data section in the 'Improving the customer experience' chapter.</a><br><a href="#">Balancing our responsibilities: Innovative business developments vs. data ethics section in the 'The world around us' chapter.</a> |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <b>C Enhancing customer financial capabilities</b><br>Helping people make smarter financial decisions with transparent tools, tailored offers and expert advice.    | In 2017, 25.4 million people felt financially empowered. <sup>(A)</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | <a href="#">Financial empowerment section in the 'Our business (Retail Banking)' chapter.</a>                                                                                                                                      |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <b>D Stability of IT systems and platforms</b><br>Securing the stability of ING's IT systems and platforms, such as payment services, internet banking and apps.    | For 2017, ING's weighted system availability for Retail customers in the Netherlands and Belgium was 99.7%. For Wholesale Banking customers, system availability was 100% globally. <sup>(A)</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <a href="#">Reliability and stability section in the 'Improving the customer experience' chapter.</a>                                                                                                                              |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <b>E Usability and accessibility of our products and services</b><br>Stand out by making banking personal, instant, seamless and relevant to our customers.         | Across ING, digital channels account for 98% of contact with retail customers.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | <a href="#">Digital first section in the 'Our business' chapter.</a><br><a href="#">Differentiating experience section and Financial empowerment section in the 'Our business (Retail Banking)' chapter.</a>                       |
| <b>Economic contribution</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                    |
| <b>Opportunities:</b> <ul style="list-style-type: none"> <li>Leveraging a stable funding base and balance sheet quality.</li> <li>Competitive advantage due to global presence.</li> <li>Utilising specific, in-depth knowledge of financial services, knowledge of customers and rigorous risk-management.</li> <li>Generating fee-based income.</li> </ul> <b>Risks:</b> <ul style="list-style-type: none"> <li>Interest rates are increasing, but remain low.</li> <li>Business and strategic impact due to 'Basel IV'.</li> <li>Execution risks because of increasingly complex regulatory environment.</li> <li>Lack of an international level playing field.</li> </ul>                   | <b>F Financial performance*</b><br>Being a financially healthy and stable company is important to stakeholders and us.                                              | ING Group recorded robust commercial growth and strong financial results in 2017, with a full-year 2017 net profit of EUR 4,905 million, an increase of 5.5 percent year-on-year.<br><br>We continue to perform well against most of our Ambition 2020 targets, including those for capital, leverage ratio and dividend.                                                                                                                                                                                                                                                                                                                                                        | <a href="#">Performance highlights table in 'ING at a glance' chapter.</a><br><a href="#">Our strategy and how we create value' chapter.</a>                                                                                       |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <b>G Pricing of products and services</b><br>Fair pricing of products and services is important for our competitiveness in the marketplace.                         | We actively manage our interest rate risk exposure and successfully maintained the net interest margin on our core lending in 2017. To manage this challenge moving forward, we are proactively developing new offerings at fair pricing that help empower our customers and generate fee-based income, while our transformation programmes will help us to bring down our cost/income ratio to our target range of 50-52% by 2020.<br><br>By end-2017 our total number of retail customers stood at 37.4 million, and primary relationships rose by more than 900,000 during 2017 to 10.8 million. We are on schedule to meet the target of 14 million primary clients by 2020. | <a href="#">Fair pricing section in the 'Our business' chapter.</a>                                                                                                                                                                |

\* The financial topics are covered by KPMG's audit of the consolidated annual accounts. See page 309 for the 'Independent auditor's report'.



Singaporean bank DBS Bank, in its *Annual Report 2017* (pages 26 to 27), also presents risks alongside opportunities: these are aligned to each of the material matters. The presentation, over a two-page spread, is admirably clear and there are cross-references to further discussion about what DBS is doing about each of the material matters.

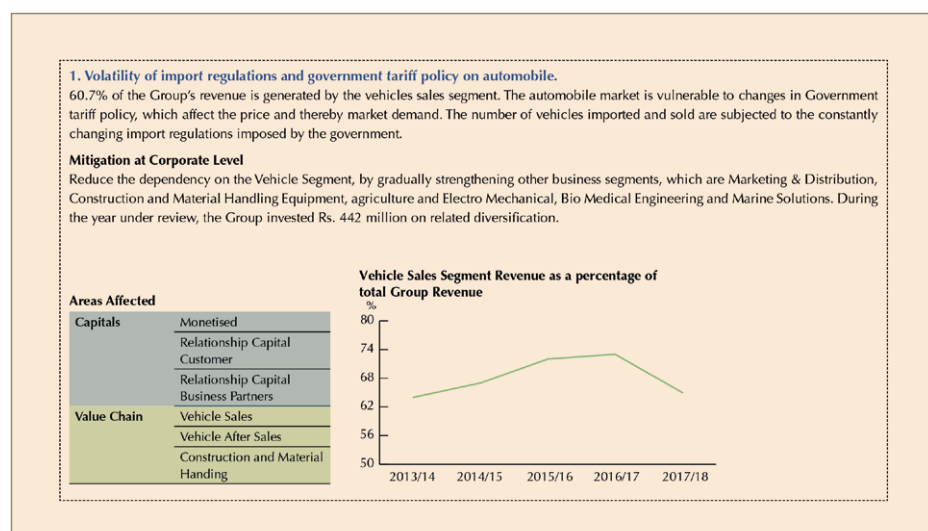
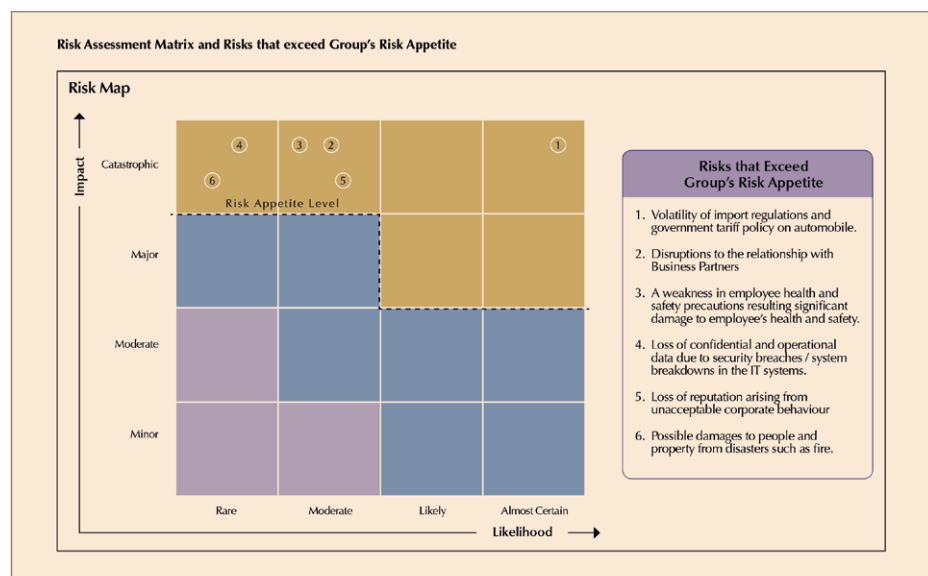
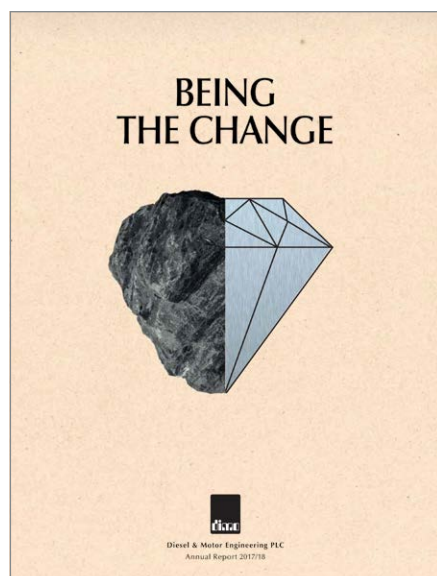
26 DBS Annual Report 2017

Material matters 27

| Balanced scorecard indicator | Material matters                                               | What are the risks?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Where do we see the opportunities?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | What are we doing about it?                                                                                                                                                                                                                                                                                                                                                                                       |
|------------------------------|----------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Shareholders                 | Macroeconomic and demographic trends                           | China's structural changes and multi-year reform agenda, geopolitical events such as rising tensions in North Korea or a step-up in trade barriers between the United States and China, and sociopolitical risks caused by tensions surfacing from the disenfranchised and underprivileged in society, could trigger corrections that adversely impact economic growth.                                                                                                                                                                                                                                                             | Asia megatrends – from growing affluence, increasing urbanisation, surging consumption to huge infrastructure investments – provide massive opportunities for banks to provide financing and financial services, particularly in our growth markets.                                                                                                                                                                                                                                                                                     | Our multiple business lines, nimble execution and strong balance sheet will enable us to mitigate the risks and capture opportunities across the region.<br><i>Refer to "CEO statement" on page 18.</i>                                                                                                                                                                                                           |
| Employees                    | Talent management and retention                                | Failure to attract and retain talent impedes succession planning and expansion into new areas. Employees risk obsolescence if they are not well-equipped with changing skillsets required in this new digital age.                                                                                                                                                                                                                                                                                                                                                                                                                  | We see the opportunity to transform our workforce into an innovative and tech-savvy 24,000-person start-up.<br><br>This will enable us to be nimble and agile in responding to changes in our operating environment.                                                                                                                                                                                                                                                                                                                     | <i>Refer to "Employer of Choice" on page 105.</i>                                                                                                                                                                                                                                                                                                                                                                 |
| Digital transformation       | Digital disruption and changing consumer behaviour             | Technology and mobility are increasingly shaping consumer behaviour. Traditional banks risk losing relevance to platform companies and fintechs.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | A successful digital transformation will allow us to respond and innovate quickly to deliver simple, fast and contextual banking to our customers.<br><br>This will help us protect our position in core markets as well as extend our reach into emerging markets.                                                                                                                                                                                                                                                                      | <i>Refer to "Deeper, Broader, Smarter" on pages 12 to 17.</i>                                                                                                                                                                                                                                                                                                                                                     |
| Regulators                   | Evolving regulatory and reporting landscape                    | The evolving regulatory and reporting landscape – including Basel reforms, overhaul of accounting standards, taxation rules around technology/ digital businesses, and extraterritorial application of laws (e.g. Markets in Financial Instruments Directive and General Data Protection Regulation) – may affect banks' existing business models and give rise to compliance risks.                                                                                                                                                                                                                                                | With capital well above regulatory requirements, we are in a strong position to serve existing and new customers. We also have greater flexibility for capital and liquidity planning.<br><br>As a leading bank in our markets, we are well placed to provide appropriate responses to regulators and policy makers on regulatory developments.                                                                                                                                                                                          | <i>Refer to "CFO Statement" on page 30, "CRO statement" on page 68 and "Capital management and planning" on page 92.<br/><br/>See also "Regulators and policy makers" on page 29.</i>                                                                                                                                                                                                                             |
| Enablers                     | Cyber security<br>Financial crime<br>Fair dealing              | The prevalent threat of cyber attacks on financial institutions remains one of our top concerns.<br><br>Financial crime risks, including money laundering, sanctions and corruption, give rise to compliance and reputational risks.<br><br>Banks are expected to deal honestly, transparently and fairly with customers, concepts which are articulated more explicitly in fair dealing standards. Failure to observe such standards gives rise to compliance and reputational risks, and erodes the trust of stakeholders.                                                                                                        | A well-defined cyber security strategy that is well-executed gives confidence to customers and can differentiate us.<br><br>A reputation for being clean and trustworthy can help us attract and retain customers and investors.<br><br>Customers are more likely to do business with us if they believe that we are fair and transparent.                                                                                                                                                                                               | <i>Refer to "CRO statement" on page 70 and "Cyber security and data protection" on page 99.<br/><br/>Refer to "CRO statement" on page 70 and "Preventing financial crime" on page 99.<br/><br/>Refer to "Fair dealing" on page 99.</i>                                                                                                                                                                            |
| Society                      | Responsible financing<br>Climate change<br>Financial inclusion | The public demands that banks lend only for appropriate corporate activities. Failure to do so gives rise to reputational and credit risks.<br><br>Climate change poses serious threats to the global economy and can give rise to reputational, credit and operational risks.<br><br>While Asia's rapid economic growth and development have led to an improvement in living standards across the region, certain marginalised segments remain underserved in financial services.<br><br>Developing niche products for such segments may come at relatively high operating and credit costs for banks and erode shareholder value. | We have an opportunity to make a positive impact on society and the environment through our lending practices. Investors are increasingly looking to invest in companies engaged in sustainable practices.<br><br>Banks can play an influential role in shaping the transition to a low carbon economy, which in turn brings new opportunities and business growth.<br><br>With technological advancements, we see opportunities to drive costs down and develop a more inclusive financial system. This aligns with our digital agenda. | <i>Refer to "Responsible financing" and "Sustainable finance" on page 100.<br/><br/>Climate change is a wide topic addressed in various parts of our business, including "Responsible financing", "Managing our environmental footprint" and "Sustainable sourcing".<br/><br/>Read more about this on pages 97 to 103.<br/><br/>Refer to "Sustainable finance" and "Financial inclusion" on pages 100 to 101.</i> |

DIMO's Annual Report 2017/18 displays the risks that affect the group's ability to create value against two axes, likelihood and impact, and clearly determines the group's risk appetite on this basis. This allowed DIMO to identify six specific risks to focus on.

The Sri Lankan motor company DIMO's Annual Report 2017/18 (page 134 and 136) displays the risks that affect the group's ability to create value against two axes, likelihood and impact, and clearly determines the group's risk appetite on this basis. This allowed DIMO to identify six specific risks to focus on. For each of the six risks that exceed the group's risk appetite, DIMO sets out the mitigation strategies in a clear and concise way, while also identifying the capitals affected.



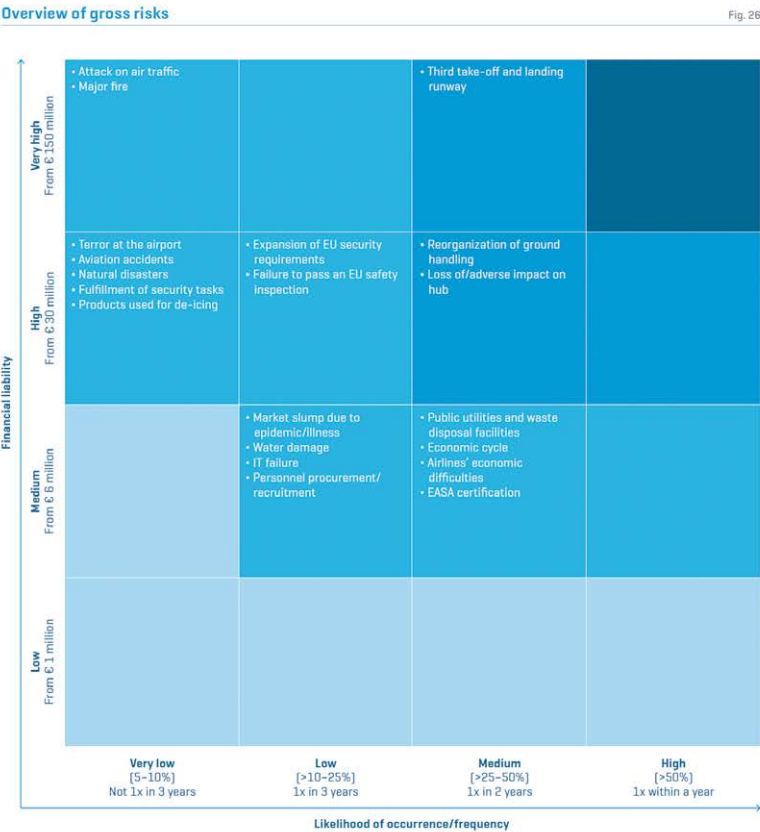
Munich Airport's *Integrated Report 2017* presents the risks that exceed the group's risk tolerance limit in a very specific and transparent way, explaining the countermeasures that the group is taking in relation to each.

Munich Airport's *Integrated Report 2017* (pages 105 to 108) presents the risks that exceed the group's risk tolerance limit in a very specific and transparent way, explaining the countermeasures that the group is taking in relation to each. The report also identifies any risks highlighted in previous years which, thanks to the actions taken, have now fallen below the risk tolerance limit.



**Risks**  
Risks that could have a material influence on the business activity or on the net assets, financial position and results as well as the reputation of Munich Airport are explained below. The risks are presented in each case before (overview of gross risks) and after taking appropriate countermeasures into account (overview of net risks).

The risk assessment relates to the economic impact in the assessment period quoted. As of December 31, 2017, the following material gross risks were identified for Munich Airport: Fig. 26



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**Market risks**

| Risk           | Description and analysis                                                                                                                                                                                                                                                                                                                                                                 | Countermeasure[s]                                                                                                                                                                                                                                                                                                      |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Economic cycle | As a consequence of a weak economy, the growth parameters assumed in the planning process cannot be achieved, which has an adverse impact on profits.<br>During more significant economic crises, a collapse in loan finance markets may occur.<br>The exit of the United Kingdom from the European Union (EU) could have a negative economic impact and needs to be observed carefully. | Reducing expenses through cost monitoring, if necessary reducing staff numbers in a socially responsible manner plus a short-term cut in the investment budget in non-critical divisions aim to mitigate the consequences of economic slowdowns.<br>There are revolving credit lines to ensure the company is solvent. |

**Operating risks**

| Risk                                    | Description and analysis                                                                                                                                                                                                                                                                                                                                                                                                                                          | Countermeasure[s]                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| EASA certification                      | If the European Aviation Safety Agency (EASA) Certificate is not renewed, then Munich Airport could lose its operating license.<br>The certification procedure was completed successfully on December 6, 2017 with the formal award of the EASA Certificate. This means that the operating permit of the passenger airport in Munich was secured again as from January 2018. This risk will therefore be omitted from the risk reporting as from January 1, 2018. |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| IT failure                              | Damage to the IT system can result from fire, water ingress, or sabotage. Failure of IT for traffic operations with the corresponding interruptions of operations would be the consequence.<br>There is an increasing, abstract risk potential in the area of cybercrime, which needs to be observed and assessed continuously.                                                                                                                                   | Critical corporate IT systems are fully redundant with systems located in physically separate locations. Property damage and interruptions of operations are insured.<br>To defend against a cyber attack at Munich Airport, a central information security management system was set up in 2004 that specifies and monitors the strategic, technical, and organizational measures for combating cyber attacks. The risk is also minimized with an insurance policy. Following assessment of the countermeasures, the net risk is deemed to lie below the risk tolerance limit. |
| Water damage                            | Water damage caused by a break in the main drinking water or fire extinguishing water pipelines could lead to the failure of infrastructure systems important for air traffic.                                                                                                                                                                                                                                                                                    | Remotely controlled emergency shut-off equipment and additional protective devices in the pipeline connections limit the possible damage. Property damage and interruptions of operations are insured. Following assessment of the countermeasures, the net risk is deemed to lie below the risk tolerance limit.                                                                                                                                                                                                                                                               |
| Expansion of EU security requirements   | The European regulations on aviation security require the rules governing checks on persons and luggage at airports to be extended in phases. The resultant conversion measures cause costs. Depending on the design, the conversion work causes the loss of leasable space.                                                                                                                                                                                      | Munich Airport is introducing optimization measures to minimize the loss of space.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Failure to pass an EU safety inspection | The EU's aviation authorities are conducting safety inspections at airports. If an inspection results in a high number of complaints, Munich Airport will lose its security status. The consequences would be a heightening of the safety regulations, considerable obstruction with operational processes, competitive disadvantages and a loss of image.                                                                                                        | Munich Airport conducts thorough and strict quality controls to manage the quality of all safety aspects at the airport.<br>After passing an inspection at the end of 2016 and following requirement-oriented process optimization and employee qualification, the likelihood of occurrence for the net risk is deemed to be extremely low.                                                                                                                                                                                                                                     |
| Utilities and waste disposal facilities | The inadequate availability of substances necessary for operating activities, such as electricity, heat, cooling energy, drinking and extinguishing water, waste water, and waste, may result in property damage and interruptions of operations.                                                                                                                                                                                                                 | The service and maintenance programs, network redundancies, and storage reduce the risk of gaps in supply. Property damage and interruptions of operations are insured. Following assessment of the countermeasures, the net risk is deemed to lie below the risk tolerance limit.                                                                                                                                                                                                                                                                                              |
| Reorganization of ground handling       | The success of the reorganization of the former Ground Handling business unit could be put at risk by the following uncertain events and circumstances: sustained declines in traffic at existing customers, handling losses due to the cession of partial fleets to airlines that do not belong to the customer portfolio, aggressive price policy of competitors, and an increasing decline in prices at Munich Airport.                                        | A new contract was concluded at the end of 2016 in the negotiations concerning the extension of a long-term contract with an important customer of AeroGround. As a result, it was possible to extend associated collective restructuring agreements.<br>Continuous monitoring and reporting on the reorganization progress and/or path. In the event of a loss of ground handling, the capacities and related costs are reduced.                                                                                                                                               |
| Personnel procurement/recruitment       | Personnel procurement is proving to be increasingly difficult in the various career groups. The causes for this include the strained labor market in the region, the high costs for accommodation, the increasing age of the workforce, as well as the high level of fluctuation in the area of ground handling services.                                                                                                                                         | A working group was set up to counteract these issues. Its objective is to develop a Group-wide, coordinated procedure and target group-specific HR marketing and procurement concepts.<br>Further suitable measures are the intensification of training activities, the promotion of marketing at universities, and appearances at trade fairs and job exchanges.<br>Projects were also initiated to create affordable housing for Group employees.<br>Following assessment of the countermeasures, the net risk is deemed to lie below the risk tolerance limit.              |

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In addition to the risks shown in the risk matrix, there was a risk of quality losses in the previous year in the personnel and goods checks and in alarm tracking due to personnel shortages (CAP staff shortages). Thanks to a successful increase in personnel and the deployment of a renowned security company as a subcontractor, this risk fell below the risk tolerance limit as at December 31, 2017.

**Legal risks**

| Risk                              | Description and analysis                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Countermeasure[s]                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Third take-off and landing runway | In the event of the third runway project being finally shelved or postponed for a significant period of time, all existing planning and land acquisition costs must be checked in respect of their recoverability and depreciated if necessary. There could be a significant loss of corporate value unless capacity is expanded through the construction of the third take-off and landing runway.<br>The development project will require further examination and the further procedure will need to be decided.                                                                                                                                          | The legal ruling in favor of Munich Airport dated February 19, 2014 was an important milestone in limiting the legal risks for project implementation.<br>Munich Airport is also making a case to politicians for the expansion.<br>The well-founded work to persuade people of the merits of the third take-off and landing runway is continuing.                                                                                                                                                                                                                                                                                 |
| Products used for de-icing        | There is a suspicion that the formates in the products currently used for de-icing paved areas and runways accelerate the oxidation of aircraft brakes. There are discussions about banning these formate de-icing products at the SAE (Society of Automobile Engineers) international standardization committee. As an alternative, there are currently only glycol-based de-icers on the market, and they are not approved for use at Munich Airport by the Ministry of the Environment. If they are banned, Munich Airport would have to invest substantial sums in waste water systems to comply with the requirements of water management legislation. | The German passenger airports are working together with the ADV (German Airports Association) and the BDL (German Aviation Association) to fight against the ban on formate de-icers. The aim is to continue applying pressure on the SAE through the AGI (Airports Council International) Europe. In discussions with the Bavarian water management authority, ACI Europe, and the responsible SAE working group, it was demonstrated that the smallest possible amount of de-icers is used to minimize the impact on the environment. It is planned to involve manufacturers of the de-icers in resolving the problem in future. |

As is often the case in ordinary business activities, FMG is facing various legal disputes. They could lead in particular to the payment of compensation for damages or, in the case of construction projects, to changes in the service remuneration. Moreover, further legal disputes may be initiated, or existing ones may be expanded. Apart from the issues that have already been provided for in the balance sheet, FMG does not anticipate any material negative impacts on the net assets, the financial position, and the earnings situation from the other cases that are currently known.

For the gross financial risks listed below, the expected financial liability fell short of the reporting limit as of December 31, 2017. Therefore they were not included in the risk reporting.

**Financial risks**

| Risk                           | Description and analysis                                                                                                                              | Countermeasure[s]                                                                                                                                                                                                                                                                                                                                                                                 |
|--------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Currency risks                 | Currency risks arise insofar as planned sales in foreign currencies are not balanced by any corresponding expenses or outgoings in the same currency. | Munich Airport hedges currency risks using currency forwards.                                                                                                                                                                                                                                                                                                                                     |
| Credit and credit rating risks | Credit and credit rating risks primarily arise from short-term deposits as well as trade receivables.                                                 | In general, deposits are only made with German banks with deposit protection.<br>The management of credit rating risks includes the constant monitoring of debtors' creditworthiness, overdue invoices, and a stringent debt collections management. Dependent on the credit rating, certain services are only performed against prepayment or provision of collateral in the form of guarantees. |
| Interest rate risks            | Interest rate risks essentially arise from floating-rate financial liabilities.                                                                       | Munich Airport counters interest-rate risks using interest payer swaps.                                                                                                                                                                                                                                                                                                                           |

Group management report  
Outlook, risks and opportunities report

### Good practice ideas

- Reach out to operational teams to get them thinking about non-financial risks and opportunities, and how they may affect financial performance.
- Consider how the colleagues responsible for assessing financial risk and those responsible for assessing non-financial risk can work together in a more integrated way.
- Use guidance on enterprise risk management, such as COSO/ WBCSD's Guidance (COSO and WBCSD 2018), or, for climate-related risks, guidance from the TCFD (2017), to assess non-financial risk more reliably.
- Review reporting by other companies in your sector to identify best practice in disclosures.
- Consider viewing risks and opportunities as two sides of the same coin, making managing them and reporting on them parts of the same process.
- Share any positive feedback received on 'bolder' disclosures made in previous reports to encourage future transparency.
- Explain how risk assessments have changed year on year, and why.



## 8. Reporting on the business model

### OBSERVATIONS FROM THE REPORT REVIEWS

The <IR> Framework states that ‘integrated reports should answer the question: What is the organization’s business model?’ The Framework goes on to specify that:

‘An organization’s business model is its 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.’<sup>7</sup>

The quality of business model reporting slipped from 13th to 19th place this year in the quality rankings as scored by reviewers.

One explanation may be the large representation of banks among companies in this year’s sample – constituting over a quarter (27%) of the reports reviewed, although the ratings show that banks were not alone in finding business model reporting challenging.

In 2018, the UK Financial Reporting Council’s Financial Reporting Lab published an implementation study,

*Business Model Reporting; Risk and Viability Reporting: Where Are We Now?* following up on an earlier 2016 report on the same topic (FRC 2018). This found that, now as in 2016, investors believe that more company-specific detail is needed in business model disclosures, to allow them to understand companies’ performance and position. They also commented that business models often lacked connections to information in the rest of the annual report. Both observations are borne out in our reviews.

### WHAT CHALLENGES DO COMPANIES IDENTIFY?

**Gaps in knowledge and understanding**  
Presenting the business model in a way that aligns with the <IR> Framework – with its capitals, inputs, business activities, outputs and outcomes – can be challenging when executives in the business have a different views of what a business model is. Standard Bank’s Gouveia has encountered this kind of ‘knowledge barrier’ within the business among business managers and others. ‘They don’t necessarily refer to the integrated thinking business model but rather refer to their own form of

operating model’, she says. Gouveia addresses this challenge by continuously introducing integrated reporting concepts into meetings – referring to capitals or resources. In this way she can gradually break down any knowledge or conceptual barriers and improve understanding of what an integrated reporting business model involves. She also looks for opportunities to refresh or improve the business model presentation each year, using internal and external feedback and awareness of any developments or innovations made by other integrated reporters.

At Royal Schiphol Group, de Bie says: ‘As an airport it was in our DNA to work with natural capital, manufactured capital, intellectual capital and so on. Intellectual capital is our baggage systems, our smart check-in, face recognition. Manufactured capital is our terminal, our piers. Natural capital is what we use, what we deplete and our emissions. In all of what we do in our business, all the capitals are there – but they are only named “capitals” in our value creation model in our annual report. They are not mentioned as “capitals” in our strategy, but they are all there’.

7 International <IR> Framework, paragraphs 4.10–4.11

**‘[With the <IR> Framework], you get more freedom to bring out the unique features of your business and the unique ways of adding value.’**

**Radoslav Georgiev, ING**

### **Interpreting complex businesses**

‘Working on the business model or value creation model is a challenge because there is so much we do as a business’, says ING’s Muusse. ‘So we try to choose KPIs and ways to communicate about the capitals in the most meaningful way, but there are a lot of different ways you could express this’.

Although it already has a well-formed business model in its 2017 integrated report, ING Group seeks further improvement, for example, by adding outcomes or impacts. In developing the model to date, the bank has focused on identifying the capitals from which it consumes resources (value in), and the capitals to which it contributes as outputs (value out) – of which there are more. The bank then identifies relevant KPIs – aiming to have KPIs for each item of value in and value out. ING wants to make the value-creation model even more specific in next year’s annual report, explaining how it makes money from fees, commissions and interest.

The principles-based nature of the <IR> Framework provides flexibility to integrated reporters. ‘From an opportunity perspective, you get more freedom to be creative and bring out the unique features of your business and the unique ways of adding value’, says Georgiev.

### **Evolution – but continuity matters too**

‘The [<IR>] Framework has helped us to present the business model in a more concise and simpler way’, Rieth says. EnBW’s recent integrated reports are more ambitious in this respect than those from 2010 or 2011, ‘be it in a more graphical way, [or] in the way we describe it’. The company has always looked at best practice examples from the IIRC’s <IR> Examples Database<sup>8</sup> for inspiration.

‘We want to present the story of our company, our business model as concisely and convincingly as possible’, Rieth says. ‘We will always be on this learning curve and willing to adopt good ideas from others’. Even so, changes will probably become less frequent. ‘Sometimes, sitting together two or three months after publishing our report, we ask ourselves, “what do we want to further develop and what will we change in the next reporting season?” But the longer we are in the process, we say we have got to change less and less year by year – because continuity is also a value in itself to our stakeholders’, Rieth says.

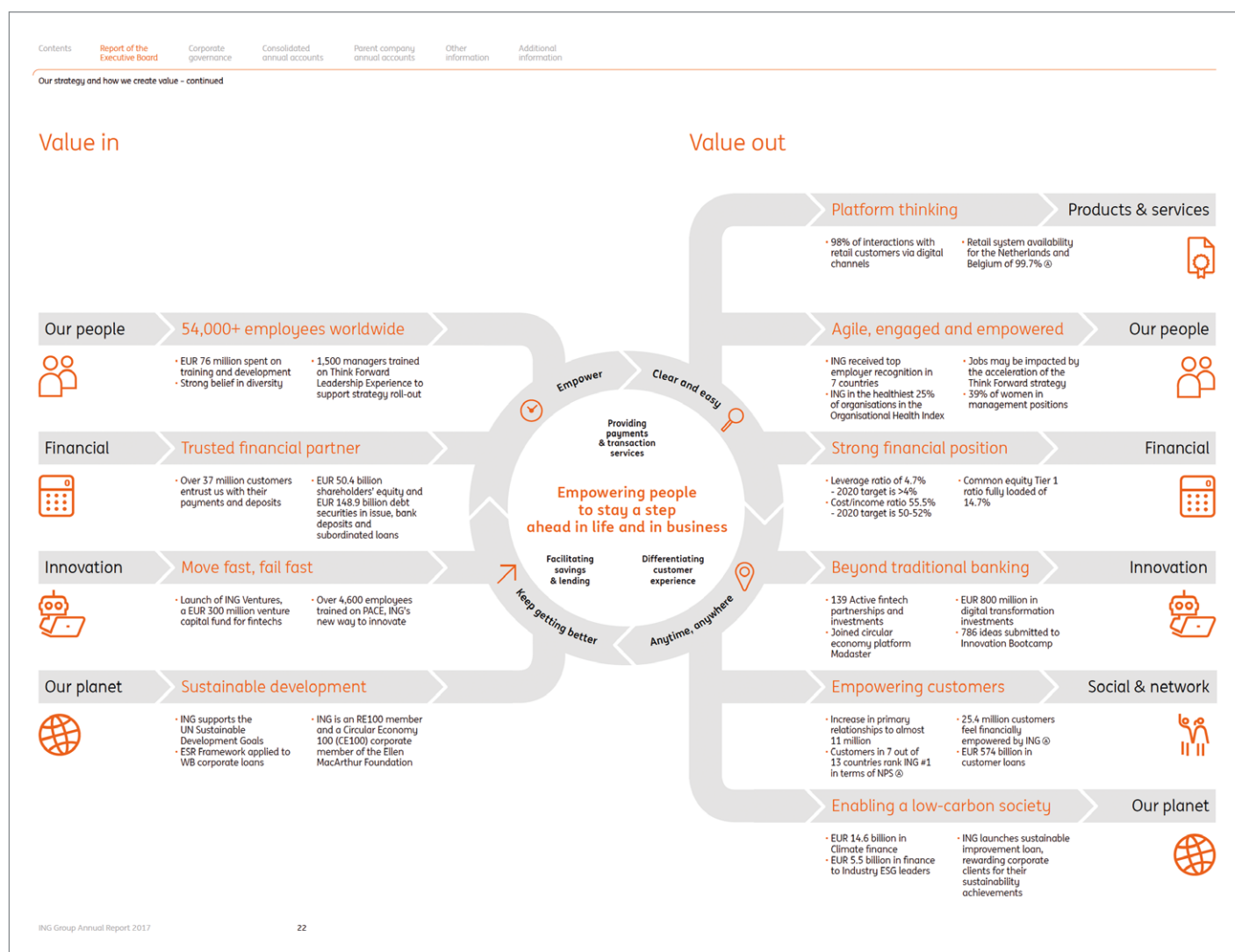
He does see value in creating a clear representation of the business model. ‘Starting with our internal stakeholders, the better the model is presented the more it is used in internal and external presentations’, he says.

8 See the Integrated Reporting website at <http://examples.integratedreporting.org/home>

ING's value creation model sets out – in a concrete and specific way – the value on which the business relies and the value it creates.

## PRACTICAL APPROACHES

ING's value creation model (page 22 of its *Annual Report 2017*) sets out – in a concrete and specific way – the value on which the business relies and the value it creates.



The outputs are distilled in a concise, positive way, and each is mapped to key risk types. The value drivers formula eloquently sums up the shared value outcomes.

Standard Bank's *Annual Integrated Report 2017* sets out (page 14 and 15) very specific and tangible inputs to its shared value model. The outputs are distilled in a concise, positive way, and each is mapped to key risk types. The value drivers formula eloquently sums up the shared value outcomes.

OUR BUSINESS / OUR PERFORMANCE / OUR ACCOUNTABILITY / ADDITIONAL INFORMATION

## OUR SHARED VALUE MODEL

Our shared value model connects commercial and social realities in a dynamic environment of competing stakeholder expectations, competitive forces and regulatory pressures.

### INPUTS

|                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Quality relationships with all our stakeholders</b><br>The quality of our relationships with our clients, providers of capital, regulators and other stakeholders underpins our legitimacy, reputation and competitiveness. We protect, advance and reconcile the individual and collective interests of our stakeholders to remain commercially viable and socially relevant.    | <ul style="list-style-type: none"> <li>• Profitable client relationships.</li> <li>• Good standing with investors.</li> <li>• Constructive relationships and dialogue with regulators and government.</li> <li>• Collaborative relationships with suppliers and associates.</li> <li>• Social and environmental risk management in financing activities.</li> </ul>                                                                                                                                                                 |
| <b>Our diverse, multi-generational pan-African workforce</b><br>Our people are our strongest competitive advantage. Their expertise, resilience and motivation is required to serve our clients and fulfil the expectations of our other stakeholders, according to our values and within the parameters of compliance and risk appetite.                                            | <ul style="list-style-type: none"> <li>• 48 322 employees, 68% based in South Africa.</li> <li>• R925 million invested in training (2016: R890 million).</li> <li>• 11 employee engagement surveys.</li> <li>• Good relationships with employee representatives.</li> <li>• Reward structures linked to our values, strategy and financial performance.</li> <li>• High-performance ethical culture.</li> <li>• Robust risk and compliance structures.</li> </ul>                                                                   |
| <b>Our intellectual property</b><br>The systems and processes that underpin our business and align our people, culture, technology and organisational architecture to our strategic direction. An important aspect of our intellectual capital is the strategic investments we make in associate companies, enabling us to stay abreast of disruptive change and remain competitive. | <ul style="list-style-type: none"> <li>• A 156-year heritage and strong brand.</li> <li>• On-the-ground presence in Africa and strategic partnership with ICBC.</li> <li>• Experienced and skilled board and strong executive and leadership teams.</li> <li>• Client-focused, digitally enabled ways of working.</li> <li>• A global network of associates, including fintechs, venture capital firms and partner banks, giving us access to innovative solutions.</li> <li>• A culture of digitisation and innovation.</li> </ul> |
| <b>Our infrastructure</b><br>Our channel and IT infrastructure, particularly our modernised IT platforms and digital channels and the national infrastructure of the countries we operate in, which we use to conduct our business.                                                                                                                                                  | <ul style="list-style-type: none"> <li>• Core banking IT platforms.</li> <li>• Fit-for-purpose branch network and digital touch points.</li> <li>• Backup systems to mitigate the risk of business disruption and utility outages.</li> </ul>                                                                                                                                                                                                                                                                                       |
| <b>Funding from our providers of capital</b><br>The funding from the providers of capital used to run our business and invest in our strategy.                                                                                                                                                                                                                                       | <ul style="list-style-type: none"> <li>• Affordable access to capital, and resilient and diverse capital structure which includes an optimised mix of equity and debt.</li> <li>• Strong market capitalisation and share price growth.</li> </ul>                                                                                                                                                                                                                                                                                   |
| <b>Natural resources</b><br>Our indirect impact on natural resources through our financing activities and, more directly, the utilities we require to operate.                                                                                                                                                                                                                       | <ul style="list-style-type: none"> <li>• Working with clients to promote the preservation of natural capital in their projects.</li> <li>• Investing in renewable energy projects.</li> <li>• 243 820 gigajoules energy consumed (2016: 257 226 gigajoules).</li> <li>• 666 806 kilolitres water consumed (2016: 718 960 kilolitres).</li> <li>• Initiatives that minimise our direct environmental footprint and secure supply.</li> </ul>                                                                                         |

### GOVERNANCE

Our governance and risk frameworks are integrated across our operations, enabling enhanced accountability, effective risk management, clear performance management, greater transparency and effective leadership.

Our ethical and effective leadership unites our purpose and performance by embedding an ethical and risk-aware culture that recognises that the trust of our stakeholders is the basis on which we compete and win.

#### KEY RISK TYPES:

- Credit risk
- Interest rate risk
- Insurance risk
- Country risk
- Business and reputational risk
- Liquidity risk
- Market risk
- Operational risk, including compliance, environmental and/or social risk

## OUTPUTS

### What we enable our clients to do

- Borrow** ●●●●●●●●  
to achieve their personal and business goals, supporting employment and inclusive economic growth in Africa.
- Transact** ●●●●●●●●  
through convenient access to and movement of funds.
- Invest** ●●●●●●●●  
to create wealth by generating long-term returns and mitigate the erosion of their capital due to inflation.
- Access** ●●●●●●●●  
financial markets and invest in Africa, based on the advice we provide.
- Insure** ●●●●●●●●  
to protect their wealth and well-being.

### What we invest in to support what we do for our clients

- Our universal financial services offering and capabilities delivered through PBB, CIB, Wealth, Liberty and our relationship with ICBC. ●●●●●●●●
- Our people, to equip them to deliver exceptional client experiences in a changing world of work. ●●●●●●●●
- Our operations, including our IT platforms, to enhance our capabilities, improve efficiency and remain compliant with all applicable laws and regulations. ●●●●●●●●
- Strategic investments** ●●●●●●●●  
that support our access to innovation, and drive socioeconomic development in Africa.

We strive to employ our resources and relationships responsibly in what we do and how we do it, to create the best outcomes for our clients, our people, our shareholders and our other stakeholders.

## SHARED VALUE OUTCOMES

- RCM Risk and capital management report.
- AIR 16-17 Managing our risks.

## VALUE DRIVERS

**Client focus**  
Exceptional client experience – placing the client at the centre of everything we do.



**Employee engagement**  
Making Standard Bank a great place to work.



**Risk and conduct**  
Doing the right business the right way.



**Financial outcomes**  
Delivering superior value to our shareholders.

**SEE impact areas**  
Creating and maintaining shared value.

- AIR 18-29 Measuring our strategic progress.



In its *Integrated Annual Report 2017*, EnBW's business model is supplemented by a detailed value-added table (pages 16 and 17), where the company reports the resource inputs and activities, and then the value created both for EnBW and for stakeholders.

## 16 Management report > Business model

Integrated Annual Report 2017 of EnBW

### Value added for EnBW and its stakeholders

| Resources of EnBW                                                                                                                                                | Significant activities in 2017                                                                                                                                                                                                                                                                                                                                                                | Value added                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                      |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                               | for EnBW                                                                                                                                                                                                                                                                                                                                                                              | for stakeholders                                                                                                                                                                                                                                                                                                                                                                     |
| Finance                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                      |
| A constantly solid financial structure (equity, debt, positive cash flow levels) for financing our business activities                                           | <ul style="list-style-type: none"><li>&gt; Repayment of hybrid bond in the amount of €1 billion</li><li>&gt; Sale of shares in EnBW Hohe See and EnBW Albatros</li><li>&gt; Reimbursement of nuclear fuel rod tax</li></ul>                                                                                                                                                                   | <ul style="list-style-type: none"><li>&gt; <b>TOP</b> Securing profitability</li><li>&gt; <b>TOP</b> High level of financial discipline</li><li>&gt; <b>TOP</b> Increasing Group value</li></ul>                                                                                                                                                                                      | <ul style="list-style-type: none"><li>&gt; Paying interest on time to our creditors</li><li>&gt; Wages, salaries and pensions for active and former employees</li><li>&gt; Paying tax to the state</li><li>&gt; Dividends for our shareholders</li></ul>                                                                                                                             |
| <b>Financial position</b><br>> page 60 ff.                                                                                                                       | Targets for the key performance indicators<br>> page 28 f.                                                                                                                                                                                                                                                                                                                                    | Value added statement<br>> page 18                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                      |
| Relationships (customers/society)                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                      |
| Our customers are the central focus of our philosophy and actions. We actively promote dialogue with our stakeholders and thus build trust and social acceptance | <ul style="list-style-type: none"><li>&gt; Entering the digital product world (digital meters: EnBW is a certified supplier for smart meter gateway operation) and expansion of e-mobility (expansion of charging infrastructure)</li><li>&gt; "We're making it happen" image campaign</li><li>&gt; "Making it happen" bus with EnBW employees providing support where it is needed</li></ul> | <ul style="list-style-type: none"><li>&gt; <b>TOP</b> Increasing share of result from "Customer proximity" / Sales</li><li>&gt; <b>TOP</b> Increasing customer satisfaction: "Customer proximity"</li><li>&gt; <b>TOP</b> Improving reputation</li><li>&gt; Efficient, sustainable and responsible procurement</li></ul>                                                              | <ul style="list-style-type: none"><li>&gt; <b>TOP</b> Increasing customer satisfaction: "Customer proximity"</li><li>&gt; <b>TOP</b> SAIDI: Maintaining supply reliability</li><li>&gt; Engaging in social issues with activities for our end customers, business partners and local authority target groups</li><li>&gt; Numerous awards for our sustainability reporting</li></ul> |
| <b>Customers and society goal dimension</b><br>> page 69 ff.                                                                                                     | Targets for the key performance indicators<br>> page 28 f.                                                                                                                                                                                                                                                                                                                                    | In dialogue with our stakeholders<br>> page 36 ff.                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                      |
| Employees                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                      |
| The expertise, experience and diversity of our employees contribute to the success of the company, supported by an effective and efficient HR policy             | <ul style="list-style-type: none"><li>&gt; Promoting diversity and inclusion through various measures and events</li><li>&gt; Representative random sample surveys for Employee Commitment Index (ECI)</li><li>&gt; Projects and campaigns on occupational safety and health protection</li></ul>                                                                                             | <ul style="list-style-type: none"><li>&gt; <b>TOP</b> Increasing employee commitment (ECI)</li><li>&gt; <b>TOP</b> Improving occupational safety (LTIF)</li><li>&gt; Always having the right employees with the right skills in the right place</li><li>&gt; Setting targets for proportion of women in the first and second management levels</li><li>&gt; Women's network</li></ul> | <ul style="list-style-type: none"><li>&gt; <b>TOP</b> Measuring employee identification with the company based on the Employee Commitment Index</li><li>&gt; Engagement in the area of diversity ("Diversity Charter")</li><li>&gt; Offering trainee and degree places</li><li>&gt; Launch of the second round of the career integration programme for refugees</li></ul>            |
| <b>Employees goal dimension</b><br>> page 72 ff.                                                                                                                 | Targets for the key performance indicators<br>> page 28 f.                                                                                                                                                                                                                                                                                                                                    | In dialogue with our stakeholders<br>> page 36 ff.                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                      |

### Good practice ideas

- Link the business model disclosures to related information in other parts of the annual report: for example, the organisational overview, strategy, KPIs and outlook.
- Make the disclosures as specific to the organisation as possible: do not neglect to explain what the organisation does.
- Use diagrams if these help to present your business model, but not at the expense of clear and concise text.
- Adapt the terminology and concepts to suit your particular business, while still staying true to the <IR> Framework's principles.
- Present the business model to internal stakeholders, to drive a consistent understanding throughout the organisation, but also seek their views.
- Once a satisfactory business model template has been achieved, review it every year to consider whether incremental changes are needed.



## 9. Conclusion

**As adopters of integrated reporting gain experience year on year, the reports they produce are evolving. Continued experimentation will help to drive further improvements.**

Some of the participants in this year's research have many years' experience of integrated reporting. Standard Bank, for example, produced its first integrated report for its 2011 year end and BASF embraced the concept of integrated reporting in 2007, even before the <IR> Framework was finalised. It is encouraging to see the many examples of best practice from a variety of integrated reports, including from more recent adopters.

As this year's reviews and interviews have shown, however, applying the <IR> Framework and producing high-quality integrated reports continue to challenge the reporting teams involved. While some aspects of reports have improved, others have slipped. Keeping all aspects of integrated reporting on an upward curve is not easy.

In a poll of <IR> Business Network members in October 2018, participants were asked to rank what they saw as the greatest challenges to progress in integrated reporting. The results were, in order of importance:

1. Organisational / functional silos
2. Lack of resources or inadequate internal performance management systems
3. Limited experience in non-financial data capture / reporting
4. Current regulatory requirements
5. Lack of management / executive support
6. Internal resistance to change.

This suggests that achieving integrated reporting is a long journey that can take many years. Getting there requires making cultural, organisational and informational changes, but as we have seen, the benefits are also proportional to the efforts invested.

In the same October 2018 poll, 55% of <IR> Business Network members thought that mandatory reporting requirements were accelerating their organisations' progress in integrated reporting; 27% thought that mandatory reporting requirements were constraining their

progress. It is clear that mandating new reporting requirements is playing a positive role in focusing the minds of management on tackling pressing environmental and social issues, and in some cases, driving innovations in reporting. Nonetheless, the time and resources that organisations are able to commit to reporting are limited, and there is a risk that rapid or significant changes to reporting requirements could divert attention away from telling an authentic, consistent and coherent story about how the organisation is creating value for itself and for other stakeholders.

ACCA hopes the insights and examples contained in this report will encourage further experimentation by current integrated reporters, inspire others to begin their integrated reporting journey, and stimulate further improvements in reporting quality in future. It particular, we hope it will help organisations to develop an authentic voice in their corporate reporting, which in turn should help them develop stronger stakeholder relationships based on trust.



## 10. Ten top tips for authentic reporting

**Authenticity is essential if your integrated report is to be credible – and if you want to benefit fully from your integrated reporting journey. Here are 10 top tips for achieving an authentic integrated report.**

### **The report**

- 1.** Don't just say what the organisation cares about: show why you care about it.
- 2.** Explain the trade-offs involved in the decisions made.
- 3.** Pinpoint what makes the organisation unique.
- 4.** Set clear long-term goals and report progress against them in a consistent way from year on year.

### **The internal process**

- 5.** Ensure that the information reported externally is consistent with information reported internally.
- 6.** Be transparent about wins and losses: use the report as a platform for improvements.
- 7.** Use the reporting process as an opportunity to review how the organisation can better capture, measure and manage different risks.

### **The people**

- 8.** Involve staff from different parts of the business in the reporting and internal control processes.
- 9.** Counter the human tendency to focus on positives over negatives, by creating a culture where people feel comfortable to talk about and learn from failure.
- 10.** Use external advisors and/or auditors as a sounding board for detecting any organisational bias.

# Appendix 1: Participants

ACCA would like to thank the individuals who gave their time to be interviewed for this report.

## Lauren Muusse

Senior Advisor and Human Rights Lead, ING Group

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*‘Integrated reporting underpins integrated thinking, which in turn drives meaningful target setting resulting in better stakeholder inclusiveness and a holistic value creation strategy’.*

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Lauren is a senior advisor and human rights lead at ING Group. Lauren leads ING’s work in integrated thinking and strategy and non-financial disclosures, with a focus on human rights and business ethics. Lauren manages ING’s alignment and reporting on the UN Guiding Principles on Business and Human Rights. Prior to joining ING she studied and worked on the topics of indigenous relations, minority rights and policy analysis. She holds an MA degree in Political Science and Indigenous Studies from the University of Alberta.

## Radoslav Georgiev

Sustainability Manager and Disclosure Lead, ING Group

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*‘Integrated reports should centre on a few key contextualised metrics relevant to the providers of capitals and the beneficiaries of the organisation’s value creation’.*

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In his role as sustainability manager and disclosure lead, Radoslav is responsible for many of ING’s disclosures and overall approach to the Sustainable Development Goals. Prior to joining ING, Radoslav worked at Sustainalytics where he supported corporates in ESG benchmarking and materiality assessment, as well as investors in ESG integration and impact strategies. Radoslav holds an MBA degree from the University of Amsterdam Business School and a BA in Business from the University of Portsmouth.

## Lothar Rieth

Group Expert, Sustainability, EnBW

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*‘With our integrated report, we have laid the foundations for our compliance with the EU Non-Financial Reporting Directive’.*

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Dr. Lothar Rieth holds the position of Group Expert, Sustainability, in the strategy division of EnBW Energie Baden-Württemberg AG, the third biggest utility company in Germany. He has been co-supervisor of the group-wide integrated reporting project for three years (2012-2015). He is currently responsible for sustainability management and reporting at EnBW and chairs EnBW’s CSR Committee. He is at present member of the IIRC Framework Panel, the Econsense Steering Committee (Forum for Sustainable Development of German Business) and assists EnBW’s CFO in various sustainable finance initiative (such as TCFD and the EU Technical Expert Group on Sustainable Finance (TEG)). He studied administrative science and political science (at the Universities of Constance and of Tuebingen, Germany and Rutgers University, NJ, USA).

Contact: l.rieth@enbw.com

## Michael Gebbert

Project Leader, Transformation Accounting and Tax, EnBW

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*‘Integrated Reporting was a milestone for us in the further development of interdepartmental cooperation within the whole group’.*

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In addition to his actual position as leader transformation accounting and tax, Michael is responsible for the further development of non-financial reporting within EnBW’s management and business reporting. Together with the group expert in sustainability, he supports EnBW’s CFO Thomas Kusterer in his role both as a board member of the TCFD and member of the Technical Expert Group on Sustainable Finance. In former positions within EnBW, Michael was head of Group Accounting, Head of Controlling Generation and Head of Internal Auditing. Before joining EnBW he worked as an external auditor and tax consultant.

**Sandra Gouveia (CA)SA**

**Senior Manager – Integrated Reporting and IFRS  
Technical Advisory and Business Solutions,  
Standard Bank**

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*‘Integrated reporting allows an organisation to effectively communicate its strategy and performance across all capitals’.*

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Sandra is responsible for telling the Standard Bank story with passion and conviction in the annual integrated report. Sandra has nine years of experience in International Financial Reporting Standards (IFRS) and three years in integrated reporting.

Sandra completed her articles at EY in 2011 and remained with the firm in the IFRS technical department, providing IFRS support to clients and the business. She also became involved in integrated reporting during this time. In 2016, Sandra joined Standard Bank in a dual role, which included IFRS and integrated reporting. In addition to providing IFRS support to the business, this position has allowed her to manage the integrated reporting process for the group, preparing award-winning reports – the 2016 Annual Integrated Report was placed tenth in the EY Annual Integrated Reporting awards, and the 2017 Annual Integrated Report was placed eighth.

**Marianne de Bie**

**Senior Advisor, Corporate Affairs,  
Royal Schiphol Group**

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*‘Our Annual Report is an important tool for telling our integrated story and has helped to raise awareness within our company of our wide and diverse impact. It helps to provide a holistic view on our activities in a business that is very 24-hours operational’*

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Marianne has a background in the hospitality, travel and airline industries and has worked outside the Netherlands in several positions. She entered the employment of Schiphol in 1989, starting in the Strategy and Physical Planning departments. Since 1996 she has been working for the communications department, as senior press officer, head of internal communications and, since 2009, as the senior (strategic) adviser. Marianne is in charge of strategic communications issues, editing corporate publications,

international relations and activities. She is a member of the Annual Report Team together with senior representatives of the corporate treasury and control departments and with corporate responsibility/strategy advisers.

Royal Schiphol Group is an airport company; Amsterdam Airport Schiphol is its main airport. With over 71 million passengers in 2018, Schiphol is the third-largest airport in Europe measured by passenger numbers. Schiphol embraces integrated reporting and for its annual reports over 2014, 2015 and 2017, Schiphol has received prestigious awards.

**Tanja Castor**

**Senior Expert, Corporate Sustainability Strategy, BASF**

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*‘The journey towards integrated reporting helped us and still helps us, to further deepen the collaboration between financial and sustainability functions. It leads to a better understanding of interdependencies between financial and extra-financial performance. And it is the reporting scheme which adequately reflects our corporate strategy’*

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Tanja Castor has a degree in economic geography, anthropology and botany. Since 2005, she has represented BASF in various national and international networks on corporate sustainability, such as the GRI, the UN Global Compact, the IIRC or the Schmalenbach Society. In her various functions e.g. in EHS, Governmental Affairs, Corporate Stakeholder Relations and nowadays in Corporate Sustainability Strategy as part of the Corporate Development department, she is always focused on integrating material sustainability aspects in BASF's core steering processes. In 2007 she was involved in the transition process towards integrated reporting resulting in the company's first integrated report. In 2017 she focused on the first implementation of the German CSR Directive Implementation Act. Her current focus areas are the further development of BASF's report and the EU Sustainable Finance Action Plan.

# Appendix 2

## Average ratings from the 2018 <IR> Business Network Report Critique project

For each of the 48 corporate reports reviewed, <IR> Specialist Panel reviewers rated the quality of reporting against each aspect of the <IR> Framework. Ratings were on a scale of 1 to 5, where 1 = does not satisfy the <IR> Framework guidance at all, and 5 = fully satisfies the guidance.

The reports reviewed relate to accounting periods ended up to and including 31 March 2018.

The <IR> Specialist Panel includes Paolo Bersani from PwC, Jonathan Hanks from Incite, Simon Clow and Neil Smith from We Are Koan, Lelanie Sherman from Greymatter & Finch, Valentina Yakhnina from Goodvision, Petra Nix, Susanne Erdt and Beat Schweizer from PETRANIX, Henning Drager and Adrianca Mens from BDO, expert reviewers and moderators from the ACCA, as well as senior reporting specialists from the IIRC.

Some organisations in the sample have not yet reported externally using the <IR> Framework's principles but may be somewhat aligned with it on the basis of their current practices and regulatory requirements.

The right-hand column below provides the average ratings awarded to the 48 reports for each guiding principle, content element and fundamental concept of the <IR> Framework. Alongside the 2018 average ratings, the relative ranks for 2018, 2017 and 2016 are also provided, with 1 indicating the highest-scoring area.

For each year, the areas where overall reporting quality is strongest are indicated with green font. The areas where overall reporting quality is weakest are indicated with red font.

In order to provide insights into specific areas of strengths and challenges, some guiding principles, content elements and fundamental concepts were disaggregated in the most recent reviews. Where this is the case, the related 2016 relative rank is indicated with an asterisk (\*).

It should be noted that the ratings given are subjective in nature and, although the reviews have been subject to moderation by ACCA and the IIRC, judgements vary from one reviewer to another.

| FRAMEWORK PARAGRAPH REFERENCE                  | <IR> FRAMEWORK TEXT                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 2016 RELATIVE RANK<br>(1 = highest score, 25 = lowest score) | 2017 RELATIVE RANK<br>(1 = highest score, 32 = lowest score) | 2018 RELATIVE RANK<br>(1 = highest score, 31 = lowest score) | 2018 AVERAGE RATING |
|------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|--------------------------------------------------------------|--------------------------------------------------------------|---------------------|
| <b>RESPONSIBILITY FOR AN INTEGRATED REPORT</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                              |                                                              |                                                              |                     |
| 1.20                                           | <ul style="list-style-type: none"> <li>An integrated report should include a statement from those charged with governance that includes:               <ul style="list-style-type: none"> <li>an acknowledgement of their responsibility for ensuring the integrity of the integrated report</li> <li>an acknowledgement that they have applied their collective mind to the preparation and presentation of the integrated report</li> <li>their opinion or conclusion about whether the integrated report is presented in accordance with this Framework</li> </ul> </li> </ul> | 24                                                           | 31                                                           | 30                                                           | 2.6                 |
| 1.20                                           | <ul style="list-style-type: none"> <li>or, if it does not include such a statement, it should explain:               <ul style="list-style-type: none"> <li>what role those charged with governance played in its preparation and presentation</li> <li>what steps are being taken to include such a statement in future reports</li> <li>the time frame for doing so, which should be no later than the organisation's third integrated report that references this Framework.</li> </ul> </li> </ul>                                                                            | 25                                                           | 32                                                           | 31                                                           | 1                   |
| <b>GUIDING PRINCIPLES</b>                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                              |                                                              |                                                              |                     |
| <b>Strategic focus and future orientation</b>  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                              |                                                              |                                                              |                     |
| 3.3                                            | <ul style="list-style-type: none"> <li>An integrated report should provide insight into the organisation's strategy...</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 2                                                            | 5                                                            | 8                                                            | 3.73                |
| 3.3                                            | <ul style="list-style-type: none"> <li>...and how that relates to its ability to create value in the short, medium and long term...</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                    | 18*                                                          | 22                                                           | 24                                                           | 3.17                |
| 3.3                                            | <ul style="list-style-type: none"> <li>...and to its use of and effects on the [six] capitals.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 18*                                                          | 25                                                           | 27                                                           | 3.02                |

| FRAMEWORK<br>PARAGRAPH<br>REFERENCE                     | <IR> FRAMEWORK TEXT                                                                                                                                                                                                                                                                                        | 2016 RELATIVE<br>RANK<br>(1 = highest<br>score, 25 =<br>lowest score) | 2017 RELATIVE<br>RANK<br>(1 = highest<br>score, 32 =<br>lowest score) | 2018 RELATIVE<br>RANK<br>(1 = highest<br>score, 31 =<br>lowest score) | 2018<br>AVERAGE<br>RATING         |
|---------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|-----------------------------------------------------------------------|-----------------------------------------------------------------------|-----------------------------------|
| <b>Connectivity of information</b>                      |                                                                                                                                                                                                                                                                                                            |                                                                       |                                                                       |                                                                       |                                   |
| 3.6                                                     | • An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between factors that affect the organisation's ability to create value over time.                                                                                                              | 16                                                                    | 18                                                                    | 11                                                                    | 3.54                              |
| <b>Stakeholder relationships</b>                        |                                                                                                                                                                                                                                                                                                            |                                                                       |                                                                       |                                                                       |                                   |
| 3.10                                                    | • An integrated report should provide insight into the nature and quality of the organisation's relationships with its key stakeholders, including how and to what extent the organisation understands, takes into account and responds to their legitimate needs and interests.                           | 7                                                                     | 14                                                                    | 6                                                                     | 3.75                              |
| <b>Materiality</b>                                      |                                                                                                                                                                                                                                                                                                            |                                                                       |                                                                       |                                                                       |                                   |
| 3.17                                                    | • An integrated report should disclose information about matters that substantively affect the organisation's ability to create value over the short, medium and long term.                                                                                                                                | 9                                                                     | 25                                                                    | 19                                                                    | 3.33                              |
| <b>Conciseness</b>                                      |                                                                                                                                                                                                                                                                                                            |                                                                       |                                                                       |                                                                       |                                   |
| 3.36                                                    | • An integrated report should be concise.                                                                                                                                                                                                                                                                  | 21                                                                    | 21                                                                    | 14                                                                    | 3.44                              |
| <b>Reliability and completeness</b>                     |                                                                                                                                                                                                                                                                                                            |                                                                       |                                                                       |                                                                       |                                   |
| 3.39                                                    | • An integrated report should include all material matters, both positive and negative, in a balanced way and without material error.                                                                                                                                                                      | 14 / 2 <sup>9</sup>                                                   | 12                                                                    | 19                                                                    | 3.33                              |
| 3.44                                                    | • A balanced integrated report has no bias in the selection or presentation of information. Information in the report is not slanted, weighted, emphasised, de-emphasised, combined, offset or otherwise manipulated to change the probability that it will be received either favourably or unfavourably. | -                                                                     | 15                                                                    | -                                                                     | Not separately assessed this year |
| <b>Consistency and comparability</b>                    |                                                                                                                                                                                                                                                                                                            |                                                                       |                                                                       |                                                                       |                                   |
| 3.54                                                    | • The information in an integrated report should be presented on a basis that is consistent over time...                                                                                                                                                                                                   | 22                                                                    | 5                                                                     | 7                                                                     | 3.75                              |
| 3.54                                                    | • ...and in a way that enables comparison with other organisations, to the extent that is material to the organisation's own ability to create value over time.                                                                                                                                            | 23                                                                    | 20                                                                    | 10                                                                    | 3.56                              |
| <b>CONTENT ELEMENTS</b>                                 |                                                                                                                                                                                                                                                                                                            |                                                                       |                                                                       |                                                                       |                                   |
| <b>Organisational overview and external environment</b> |                                                                                                                                                                                                                                                                                                            |                                                                       |                                                                       |                                                                       |                                   |
| 4.4                                                     | • An integrated report should answer the question: What does the organisation do...                                                                                                                                                                                                                        | 1*                                                                    | 1                                                                     | 1                                                                     | 4.1                               |
| 4.4                                                     | • ...and what are the circumstances under which it operates?                                                                                                                                                                                                                                               | 1*                                                                    | 2                                                                     | 2                                                                     | 4.06                              |
| <b>Governance</b>                                       |                                                                                                                                                                                                                                                                                                            |                                                                       |                                                                       |                                                                       |                                   |
| 4.8                                                     | • An integrated report should answer the question: How does the organisation's governance structure support its ability to create value in the short, medium and long term?                                                                                                                                | 14                                                                    | 25                                                                    | 16                                                                    | 3.4                               |
| <b>Business model</b>                                   |                                                                                                                                                                                                                                                                                                            |                                                                       |                                                                       |                                                                       |                                   |
| 4.10                                                    | • An integrated report should answer the question: What is the organisation's business model?                                                                                                                                                                                                              | 10                                                                    | 13                                                                    | 19                                                                    | 3.33                              |
| <b>Risks and opportunities</b>                          |                                                                                                                                                                                                                                                                                                            |                                                                       |                                                                       |                                                                       |                                   |
| 4.23                                                    | • An integrated report should answer the question: What are the specific risks ... that affect the organisation's ability to create value over the short, medium and long term...?                                                                                                                         | 13*                                                                   | 10                                                                    | 13                                                                    | 3.5                               |
| 4.23                                                    | • What are the specific ... opportunities that affect the organisation's ability to create value over the short, medium and long term...?                                                                                                                                                                  | 13*                                                                   | 24                                                                    | 29                                                                    | 3                                 |
| 4.23                                                    | • ... and how is the organisation dealing with them?                                                                                                                                                                                                                                                       | 12                                                                    | 11                                                                    | 18                                                                    | 3.35                              |

9 The relative rank of 2 related to an additional question – 'Is the report's language generally neutral and factual?'

| FRAMEWORK PARAGRAPH REFERENCE                             | <IR> FRAMEWORK TEXT                                                                                                                                                                                                                           | 2016 RELATIVE RANK<br>(1 = highest score, 25 = lowest score) | 2017 RELATIVE RANK<br>(1 = highest score, 32 = lowest score) | 2018 RELATIVE RANK<br>(1 = highest score, 31 = lowest score) | 2018 AVERAGE RATING |
|-----------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|--------------------------------------------------------------|--------------------------------------------------------------|---------------------|
| <b>Strategy and resource allocation</b>                   |                                                                                                                                                                                                                                               |                                                              |                                                              |                                                              |                     |
| 4.27                                                      | • An integrated report should answer the question: Where does the organisation want to go...?                                                                                                                                                 | 5*                                                           | 7                                                            | 9                                                            | 3.58                |
| 4.27                                                      | • ...and how does it intend to get there?                                                                                                                                                                                                     | 5*                                                           | 15                                                           | 17                                                           | 3.38                |
| 4.29                                                      | • What differentiates the organisation to give it competitive advantage and enable it to create value?                                                                                                                                        | 8                                                            | 19                                                           | 25                                                           | 3.15                |
| <b>Performance</b>                                        |                                                                                                                                                                                                                                               |                                                              |                                                              |                                                              |                     |
| 4.30                                                      | • An integrated report should answer the question: To what extent has the organisation achieved its strategic objectives for the period...?                                                                                                   | 11                                                           | 15                                                           | 22                                                           | 3.27                |
| 4.30                                                      | • ...and what are its outcomes in terms of effects on the capitals?                                                                                                                                                                           | 20                                                           | 22                                                           | 23                                                           | 3.21                |
| <b>Outlook</b>                                            |                                                                                                                                                                                                                                               |                                                              |                                                              |                                                              |                     |
| 4.34                                                      | • An integrated report should answer the question: What challenges and uncertainties is the organisation likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance? | 17                                                           | 28                                                           | 26                                                           | 3.06                |
| <b>Basis of preparation and presentation</b>              |                                                                                                                                                                                                                                               |                                                              |                                                              |                                                              |                     |
| 4.40                                                      | • An integrated report should answer the question: How does the organisation determine what matters to include in the integrated report...?                                                                                                   | 18*                                                          | 29                                                           | 15                                                           | 3.42                |
| 4.40                                                      | • ...and how are such matters quantified or evaluated?                                                                                                                                                                                        | 18*                                                          | 30                                                           | 27                                                           | 3.02                |
| <b>FUNDAMENTAL CONCEPTS</b>                               |                                                                                                                                                                                                                                               |                                                              |                                                              |                                                              |                     |
| <b>Value creation for the organisation and for others</b> |                                                                                                                                                                                                                                               |                                                              |                                                              |                                                              |                     |
| 2.4 – 2.9                                                 | • Overall, does the report explain how the organisation creates value for itself...?                                                                                                                                                          | 3                                                            | 2                                                            | 4                                                            | 3.9                 |
| 2.4 – 2.9                                                 | • ...and others?                                                                                                                                                                                                                              |                                                              | 4                                                            | 5                                                            | 3.81                |
| <b>The capitals</b>                                       |                                                                                                                                                                                                                                               |                                                              |                                                              |                                                              |                     |
| 2.10 – 2.19                                               | • Overall, does the report provide information on the capitals (ie Financial, Manufactured, Intellectual, Human, Social and Relationship, Natural) that the organisation uses or affects and that underpin its ability to create value?       | 5                                                            | 8                                                            | 3                                                            | 3.92                |
| <b>Value creation process</b>                             |                                                                                                                                                                                                                                               |                                                              |                                                              |                                                              |                     |
| 2.20 – 2.29                                               | • The value creation process [aligns] with the Content Elements                                                                                                                                                                               | -                                                            | 9                                                            | 12                                                           | 3.52                |

# Appendix 3

## <IR> Business Network participants interviewed

| ORGANISATION         | HEADQUARTERS | INDUSTRY  | NUMBER OF INTEGRATED REPORTS PREPARED <sup>9</sup> | NOTES                                                                                                                             |
|----------------------|--------------|-----------|----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| BASF                 | Germany      | Chemicals | 12                                                 | BASF embraced integrated reporting in 2007 as a result of its internal strategy, then joined The IIRC pilot programme in 2014.    |
| EnBW                 | Germany      | Utilities | 5                                                  | EnBW published combined reports for 2012 and 2013, and issued its first integrated report for the year ending 31 December 2014.   |
| ING Group            | Netherlands  | Banking   | 3                                                  | ING Group issued combined reports for 2014 and 2015, before more fully meeting the requirements for an integrated report in 2016. |
| Royal Schiphol Group | Netherlands  | Transport | 5                                                  | Schiphol's 31 December 2014 annual report was the first considered to some extent integrated.                                     |
| Standard Bank        | South Africa | Banking   | 8                                                  | Standard Bank issued its first integrated report for the year ending in 2011, in compliance with the King Code.                   |

## YEAR-ENDS REVIEWED

**31 December 2017:** BASF, EnBW, ING Group, Royal Schiphol Group, Standard Bank

<sup>9</sup> Up to and including reporting periods ended 31 December 2018.

# Appendix 4

## Links to company accounts from which examples have been taken



### BASF

[https://report.basf.com/2017/en/servicepages/downloads/files/BASF\\_Report\\_2017.pdf](https://report.basf.com/2017/en/servicepages/downloads/files/BASF_Report_2017.pdf)



### Impala Platinum

<http://implats-reports.co.za/reports/pdf/2018/implats-air-2018.pdf>



### Crédit Agricole

<https://credit-agricole.publispeak.com/2017-2018-integrated-report/#page=C1>



### ING Group

<https://www.ing.com/About-us/Annual-reporting-suite/Annual-Report/2017-Annual-Report-Empowering-people.htm>



### Diesel & Motor Engineering PLC

<https://www.dimolanka.com/wp-content/themes/dimo/pdf/DIMOAnnualReport2017.pdf>



### Munich Airport

[https://www.munich-airport.com/\\_b/0000000000000005421826bb5c0009eb/Integrated-Report-2017.pdf](https://www.munich-airport.com/_b/0000000000000005421826bb5c0009eb/Integrated-Report-2017.pdf)



### EnBW

[https://www.enbw.com/enbw\\_com/downloadcenter/annual-reports/enbw-integrated-annual-report-2017.pdf](https://www.enbw.com/enbw_com/downloadcenter/annual-reports/enbw-integrated-annual-report-2017.pdf)



### Royal Schiphol Group

<https://2017.annualreportschiphol.com/>



### Eskom

<http://www.eskom.co.za/IR2018/Documents/Eskom2018IntegratedReport.pdf>



### Standard Bank

[http://annualreport2017.standardbank.com/downloads/Standard\\_bank\\_AIR2017\\_annual\\_integrated\\_report.pdf](http://annualreport2017.standardbank.com/downloads/Standard_bank_AIR2017_annual_integrated_report.pdf)



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ACCA (2018), *Insights into integrated reporting 2.0: Walking the talk*, <[https://www.accaglobal.com/content/dam/ACCA\\_Global/professional-insights/Insights-into-integrated-reporting-2-walking-the-talk/pi-insights-IR-2.0.pdf](https://www.accaglobal.com/content/dam/ACCA_Global/professional-insights/Insights-into-integrated-reporting-2-walking-the-talk/pi-insights-IR-2.0.pdf)>, accessed 25 April 2019.

Black Sun (2018), *Less Perfection, More Authenticity: Analysis of FTSE 100 Corporate Reporting Trends in 2018*, <[https://www.blacksunplc.com/content/dam/black-sun/corporate-comms/Documents/Research/Black%20Sun\\_LessPerfectionMoreAuthenticity\\_Summary.pdf](https://www.blacksunplc.com/content/dam/black-sun/corporate-comms/Documents/Research/Black%20Sun_LessPerfectionMoreAuthenticity_Summary.pdf)>, accessed 25 April 2019.

Corporate Reporting Dialogue (2019), *Better Alignment Project*, <<https://corporatereportingdialogue.com/better-alignment-project/>>, accessed 17 April 2019.

COSO and WBCSD (Committee of Sponsoring Organizations of the Treadway Commission and the World Business Council for Sustainable Development) (2018), *Guidance for Applying Enterprise Risk Management to Environmental, Social and Governance-related Risks*, <<https://www.coso.org/Documents/COSO-WBCSD-ESGERM-Guidance-Full.pdf>>, accessed 9 April 2019.

FRC (Financial Reporting Council) (2018), *Business Model Reporting; Risk and Viability Reporting: Where Are We Now?* <<https://www.frc.org.uk/getattachment/43c07348-e175-45c4-a6e0-49f7ecabdf36/Business-Models-Lab-Implementation-Study-2018.pdf>>, accessed 9 April 2019.

IFAC (2019), 'Extended External Reporting (EER) Assurance' [website article] <<http://www.iaasb.org/projects/extended-external-reporting-eer-assurance>>, accessed 5 April 2019.

IRC (Integrated Reporting Committee) (2018), *Achieving Balance in the Integrated Report: An Information Paper*, <<http://integratedreporting.org/resource/irc-achieving-balance-in-the-integrated-report-an-information-paper/>>, accessed 9 April 2019.

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