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Dear Sirs

Consultation Draft of the International <IR> Framework

Thank you for the opportunity to comment on the IIRC's Consultation Draft of the International <IR> Framework. As a member of the IIRC Pilot Programme, Unilever fully supports the objective of the IIRC to improve corporate reporting through Integrated Reporting.

The note attached contains our answers to the specific questions within the consultation document. In addition, there are a few key themes that we would like to emphasise, which we hope will be useful for the finalising of the Framework.

1. **Target audience:** We support the focus of <IR> on providers of financial capital as a means of maintaining discipline and focus as the <IR> framework evolves. We believe that well-crafted Integrated Reporting that meets the high standards required by the investing community will also be of significant relevance and interest to other internal and external stakeholders. That said, we believe greater emphasis is needed on long term value creation and less on short term financial performance, and that <IR> has a key role to play in addressing this balance.
2. **Principles-based:** We fully support the principles-based approach adopted for the Framework. Organisations must have flexibility to articulate their value creation story in whichever way is most relevant to their business. In this spirit, we believe that mandatory "comply or explain" elements of the Framework should be kept to a minimum. The way an organisation reports on value creation should, in most cases, make it sufficiently clear why it has chosen to focus on specific capitals and other elements of the framework, without the need for further explanation or disclosures.
3. **Co-ordination:** One of the greatest challenges faced by companies attempting to improve the quality of their corporate reporting is the proliferation of corporate and sustainability reporting initiatives being driven by legislators, regulators, standard setters and other bodies. We believe that the IIRC should play a role in helping to align and coordinate these efforts, to create momentum rather than fragmentation of effort. This would substantially boost the pace and quality with which the <IR> vision is delivered.
4. **Communication:** The Framework is a high quality technical framework for reporting practitioners and technical experts. However, its success or failure will ultimately be determined by its broad based acceptance amongst investors and other stakeholders. We

would therefore encourage the IIRC to put additional ‘marketing’ effort into communicating the <IR> framework and its benefits in ways that will engage a broader audience.

I hope that you find our input helpful as you move forward to the next phase of the <IR> programme. Please do not hesitate to contact me if you wish to explore further any of our comments or if you feel we could be of any other assistance.

Yours sincerely,

Charles Nichols
Group Controller

Chapter 1: Overview

Principles-based requirements

To be in accordance with the Framework, an integrated report should comply with the principles-based requirements identified throughout the Framework in bold italic type (paragraphs 1.11-1.12).

Question 1: Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.

No. The principle-based requirements are sufficiently clear and enable enough flexibility to be interpreted by each reporting organisation as appropriate to them.

Interaction with other reports and communications

The <IR> process is intended to be applied continuously to all relevant reports and communications, in addition to the preparation of an integrated report. The integrated report may include links to other reports and communications, e.g., financial statements and sustainability reports. The IIRC aims to complement material developed by established reporting standard setters and others, and does not intend to develop duplicate content (paragraph 1.18-1.20).

Question 2: Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?

An integrated report will not meet the requirements of all audiences and will add to the existing corporate reporting requirements. There will be overlaps and duplication with other reports which will be hard to overcome. However, it should become the starting point for providers of financial capital.

It is critical to obtain feedback from investors regarding the sufficiency of <IR> and whether it will enable providers of financial capital to make decisions. It is important to gain their views on the key principle of materiality and whether there is sufficient disclosure for them to make an assessment of the content.

It is unclear what is referred to as “all relevant reports” and we do not believe the Framework should comment on analyst calls and the investor relations section of an organisation’s website (paragraph 1.18). This reference should be removed. See further details in the response to Question 15.

Question 3: If the IIRC were to create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, which references should be included?

The IIRC should make available all existing indicators and measurement methods being used and allow organisations and providers of financial capital to decide what should be reported. The online database should not be restrictive.

Question 4: Please provide any other comments you have about Chapter 1.

We consider the elements and principles of integrated reporting to be sensible but the Framework introduces a complex set of inter-related and sometimes overlapping criteria across the capitals, guiding principles and content elements, making it difficult to understand what can and/or should be included in the report. We think the Framework should be entirely principles-based to enable appropriate interpretation.

Chapter 2: Fundamental concepts

The capitals (Section 2B)

The Framework describes six categories of capital (paragraph 2.17). An organisation is to use these categories as a benchmark when preparing an integrated report (paragraphs 2.19-2.21), and should disclose the reason if it considers any of the capitals as not material (paragraph 4.5).

Question 5: Do you agree with this approach to the capitals? Why/why not?

We agree with the broad classification of capitals but inventory should be included in manufactured capital.

We disagree with the requirement to disclose immaterial capitals. The requirement to disclose immaterial capitals is also contradictory because according to paragraph 2.19 organisations aren't required to use the categories of capitals provided by the Framework. Removing "requirements" and keeping to principles would solve this issue.

Business model (Section 2C)

A business model is defined as an organisation's chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term (paragraph 2.26).

Question 7: Do you agree with this definition? Why/why not?

Integrated reporting, targeted at providers of financial capital, has an emphasis on strategic focus and future outlook in the long term. It is suggested to remove all other references to short and medium term throughout the Framework to make the objectives of <IR> clear. We note that paragraph 2.42 refers to the "ability of the organisation to create value over time" which is inconsistent with other references to "value creation" but a more appropriate phrase.

Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organisation's business activities and outputs (paragraphs 2.35-2.36).

Question 9. Please provide any other comments you have about Section 2C or the disclosure requirements and related guidance regarding business models contained in the Content Elements Chapter of the Framework (Section 4E).

We disagree with the requirement to explain the resilience of the business model. Removing "requirements" and keeping to principles would solve this issue.

Question 10. Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.

Paragraph 2.37: We do not believe that it is necessary to mention destruction at the same time as creation.

Chapter 3: Guiding Principles

Materiality and conciseness (Section 3D)

Materiality is determined by reference to assessments made by the primary intended report users (paragraphs 3.23- 3.24). The primary intended report users are providers of financial capital (paragraphs 1.6-1.8).

Question 11. Do you agree with this approach to materiality? If not, how would you change it?

We agree with the approach but we disagree with the requirement to disclose how materiality has been determined.

It is crucial to get the feedback of investors to regarding the extent of disclosure required for an organisation's assessment of material capitals, to enable them to adequately assess the content of the report and make decisions.

The terms "significance" and "importance" are used throughout the Framework but the difference between them is unclear. It is suggested to clarify the difference in the glossary or use one consistent term throughout the Framework.

Question 12. Please provide any other comments you have about Section 3D or the Materiality determination process (Section 5B)

Reliability and completeness (Section 3E)

Reliability is enhanced by mechanisms such as robust internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (paragraph 3.31).

Question 13. How should the reliability of an integrated report be demonstrated?

We agree with paragraph 3.31 but believe that the organisation should choose how reliability will be demonstrated. We do not believe that the Framework should be prescriptive in this context. Reliability could be demonstrated through a "Basis of Preparation" statement which clearly discloses definitions, scope, data sources and estimates used in the integrated report or through a simple statement explaining the reliability of the report.

Question 15. Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.

Paragraphs 3.2 and 3.13: The term "provide insight" does not seem appropriate; "explain" is more appropriate.

Paragraph 3.41: Systems deficiencies are likely to become apparent during the preparation of the integrated report. It is unclear what the purpose of this paragraph is.

Paragraph 3.48: Greater flexibility should be given to the reporting of key performance indicators ("KPIs"). It is unlikely that comparison between organisations will be achieved as each organisation will have a unique value creation story and will report the KPIs applicable to the organisation. For example, there is currently ad hoc reporting by organisations of sustainability performance and the related financial and non-financial KPIs.

Chapter 4: Content Elements

Question 16. Please provide any comments you have about Chapter 4 that are not already addressed by your responses above (please include comments on the Content Element Business Model [Section 4E] in your answer to questions 7-9 above rather than here).

Some content elements are unlikely to change significantly each year and therefore should not be required to be reported within the integrated report.

We disagree with the requirement to disclose the materiality process. The organisation can determine what is material and clearly disclose these to enable users of <IR> to make their own assessment.

Paragraph 4.11: It is unclear what "tone at the top" means in this context and how this will be conveyed in an integrated reported. "Tone at the top" should be explained.

Paragraph 4.23: It is unclear what is meant by "the position of the organisation within the entire value chain".

Chapter 5: Preparation and presentation

Involvement of those charged with governance (Section 5D)

Section 5D discusses the involvement of those charged with governance, and paragraph 4.5 requires organisations to disclose the governance body with oversight responsibility for <IR>.

Question 17. Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why/why not?
There are both benefits and disadvantages with requiring a statement of acknowledgement by those charged with governance. Requiring such a statement means that the governance body is clearly identified, could add weight to the report and could help in assigning responsibility for the report. However, integrated reporting is a process and we would not expect the governance body to sign-off all reporting. Removing "requirements" and keeping to principles would solve this issue.

Credibility (Section 5E)

The Framework provides reporting criteria against which organisations and assurance providers assess a report's adherence (paragraph 5.21).

Question 19. If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?

This should be a decision for the organisation.

Question 20. Please provide any other comments you have about Credibility (Section 5E). Assurance providers are particularly asked to comment on whether they consider the Framework provides suitable criteria for an assurance engagement.

There could be significant judgement and estimation used in the preparation of the integrated report and significant time and expense could be required to provide assurance over the completeness of the report e.g. whether all material capitals have been identified and sufficiently disclosed and the completeness of the reporting boundaries.

Question 21: Please provide any other comments you have about Chapter 5 that are not already addressed by your responses above (please include comments on the materiality determination process [Section 5B] in your answer to question 11 above rather than here).

Reporting boundaries will be important for achieving consistency each year and comparability between companies. The reporting boundaries are sensible in theory but are likely to be difficult to apply in practice.

There are always likely to be matters which organisations will not disclose due to commercial sensitivity and potential loss of competitive advantage.

We disagree with the reference to "short, medium and long term". Integrated reporting has an emphasis on strategic focus and future outlook in the long term and is primarily aimed at long term providers of financial capital. It is suggested to remove references to short and medium term throughout the Framework.

Overall view

Question 22. Recognizing that <IR> will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate for use by organisations in preparing an integrated report and for providing report users with information about an organisation's ability to create value in the short, medium and long term?

We support the objective of the IIRC to improve corporate reporting and are committed to the IIRC pilot programme.

The Framework is good quality and provides sufficient depth of content. It provides a good foundation for bridging disclosure gaps existing in corporate reporting and will need to evolve as these gaps change over time.

There should be guidance provided for the reporting of KPI's by identifying important KPIs across industry sectors, as a reference (only). Comparability year on year is an important principle but is difficult to achieve across organisations. The objective of the Framework is for an organisation to tell its 'unique value creation story' which will be very different across organisations. This is evidenced through a lack of consistency in the use of non-financial indicators by organisations in current corporate reporting and communications.

There should be a pilot period of at least 3 to 4 years to see how the Framework "lands" and can be practical implemented. It is critical to get the feedback from investors during this period as <IR> evolves.

Development of <IR>

Question 23. If the IIRC were to develop explanatory material on <IR> in addition to the Framework, which three topics would you recommend be given priority? Why?

We recommend that the IIRC develops some example Integrated Reports across industry sectors in a similar way to the illustrative examples that Big Four accounting firms do for financial reporting. This could be performed using case studies: Use example organisations across selected industries and provide an illustrative integrated report or provide the expected key content elements and disclosures. This would need to be done in such a way as to avoid boilerplate disclosures.

Other

Question 24. Please provide any other comments not already addressed by your responses to Questions 1-23.

It is unclear how the compliance of organisations claiming to comply with Framework will be regulated. This could have negative reputational consequences for the entire Framework.

Overall, the diagrams could be bolder and have clearer labelling. Most of the diagrams need to be studied and referred back to the text.

Figure 1: This diagram is good as it neatly portrays the principles and content elements.
Figure 2: This diagram is not useful to the reader. We don’t think that the “octopus” style is appealing.
Figure 3: This is better than Figure 2 as it includes a useful overview of the business model.