

A King penguin stands prominently in the center-right of the frame, surrounded by a dense colony of fluffy brown chicks. The penguin has a dark blue body and a distinctive yellow patch on its neck. The chicks are covered in thick, brown down and have dark blue beaks. The background is filled with more chicks, creating a sense of a large, active colony.

EY's Excellence in Integrated Reporting Awards 2016

A survey of integrated reports from
South Africa's top 100 JSE listed
companies and top ten state-owned
companies

Purpose of the survey

Over the years, it became clear that financial statements on their own did not tell the whole story of the company's performance. Companies therefore started reporting on their environmental impacts, employee-related issues and corporate social responsibility issues in a separate report often referred to as a sustainability report that accompanied the financial information distributed to shareholders.

Since 2010, all companies listed on the Johannesburg Stock Exchange (JSE) have been required to produce an integrated report, in line with the requirements of King III. EY commissioned the Excellence in Integrated Reporting survey for the last five years in order to encourage excellence in the quality of integrated reporting to investors and other stakeholders by South Africa's top companies and state-owned companies.

Contact

For more information on this survey, contact Larissa Clark, Director in the EY Professional Practice Group on 011 772 3094 or larissa.clark@za.ey.com.

Disclaimer

The survey has been independently prepared by the College of Accounting at the University of Cape Town. The views expressed in this survey are accordingly the views of the College of Accounting and not those of EY.

Workshops

Excellence in Integrated Reporting workshops will be held in the following cities. Please contact Viv Mathys for more information: viv.mathys@za.ey.com

Cape Town: 15 September 2016

Durban: 21 September 2016

Johannesburg: 23 September 2016

For more information, please visit:
ey.com/za

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EY's Excellence in Integrated Reporting Awards 2015



Excellence in Integrated Reporting winners 2015 - Liberty Holdings Ltd

From left to right: Ajen Sita (EY), Mark Alexander, Bev Morris and Jeff Hubbard (Liberty).



Runner up - Anglo American plc

From left to right: Saleh Mayet (Anglo American) and Ajen Sita (EY).



3rd place - Barclays Africa Group Ltd

From left to right: Ajen Sita (EY), Jason Quinn, Nadine Drutman, Nola Richards, Hendre van Zyl (Barclays).



Standard Bank Group Ltd (7th place)

From left to right: Ajen Sita (EY), Stephen Brickett, Lauren Penrose, Amanda Gerry and Crystal Cape (Standard Bank).

Contents



Transnet SOC Ltd - Excellent state-owned entity

From left to right: Ajen Sita (EY), Nombuyiselo Tsukudu, Edmore Gama (Transnet).



The adjudicators of the EY Excellence in Integrated Reporting Awards

From left to right: Ajen Sita (EY), Professors Mark Graham, Alex Watson and Goolam Moodack (University of Cape Town).



JSE Ltd - Merit award for Excellence in governance reporting

From left to right: Aarti Takoordeen (JSE Ltd), Ajen Sita (EY).



EY Excellence in Integrated Reporting Awards team

From left to right: Joanne Henstock, Abby Paulus, Ajen Sita, Andrea Holmes, Viv Mathys, Larissa Clark, Kelly Gilman (EY).

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Introduction

High-quality integrated reporting benefits companies

The discipline required to prepare an integrated report - for example, considering the relationships between financial and non-financial information, developing meaningful new key performance indicators, and implementing more integrated systems to gather the needed information - helps organisations to better assess and respond to both risks and opportunities, and to make more informed decisions around resource allocation and investment.

Now in its fifth year, the EY Excellence in Integrated Reporting Awards programme encourages high-quality reporting, helping to raise standards by recognising great examples of integrated reports. Companies showcased for their groundbreaking efforts not only benefit from being seen as leaders in corporate reporting, but also provide a benchmark for others to emulate, demonstrate good governance and provide improved information to their stakeholders.

The Awards are more than just a ranking; they provide insights into the top ten companies, share trends and help to spread leading practices. All of this benefits the market as a whole, and is reflected in the fact that the quality of reports improves each year.



A handwritten signature in black ink that reads "Mark Weinberger".

Mark Weinberger
Global Chairman and CEO
EY

Foreword

Against the current backdrop of global economic slowdown, political uncertainty both abroad and locally, as well as emerging trends such as the fourth industrial revolution and the eruption of social media; non-financial drivers of enterprise value are more important than ever.

In South Africa, we have seen an evolution in integrated reporting over the last five years. From the first integrated reports in 2011, where many companies simply combined their annual financial statements with their sustainability reports, to high quality innovative integrated reports, some of which are approaching the ideal integrated report.

The 2016 Awards mark the fifth year of our EY Excellence in Integrated Reporting. This year shows that, once again, South African companies have made every effort to improve their 2015 integrated reports. We have seen significant movements in the “top ten” integrated reports. There are three newcomers to the “top ten” and there is a brand new winner of the EY 2016 Excellence in Integrated Reporting Awards.

We extend our congratulations to Kumba Iron Ore Ltd on this outstanding achievement. We know the team at Kumba has worked incredibly hard over many years to deliver their best integrated report yet. Their effort has resulted in an exemplary report that firmly embraces the principles that are set out in the <IR> Framework.

This year we introduced the “Honours” award and granted it to two companies with integrated reports which the adjudicators believe have come the closest to complying with all the requirements of the <IR> Framework: Kumba Iron Ore Ltd and Oceana Group Ltd. Congratulations to them on this exceptional achievement.

In addition, we also celebrate and congratulate all those companies included in the “top ten”, our merit award winners, and those companies (including SOCs) that were recognised for their excellent reports. Indeed, every one of those companies that achieved the rankings of “Excellent” and “Good,” are recognised for the examples they have set, both in South Africa and around the globe.

A special word of congratulations is extended to the integrated reporting teams at Liberty Holdings Ltd, Sasol Ltd and Truworths Ltd, who have been included in the “top ten” consistently over the last five years. This indeed displays a great commitment to reporting excellence

This survey is made possible by the continued involvement and dedicated efforts of Professors Alexandra Watson, Mark Graham and Goolam Modack, the panel of adjudicators from the College of Accounting at the University of Cape Town.

We hope, by continuing this survey that EY will continue to drive the quest for excellence and encourage companies to strive to improve the quality of their integrated reports through embedding integrated thinking in all aspects of their operations.



Larissa Clark

Director
Assurance Professional Practice Group
EY



Five years of integrated reporting in South Africa

2011:

- ▶ Little guidance on what integrated reports should contain
- ▶ First reports often combined annual financial statements and sustainability report
- ▶ Many companies adopted a "wait and see" approach

2013:

- ▶ Clearer international guidelines
- ▶ Reports more focussed and concise
- ▶ Reports with different "look and feel" starting to develop

2015:

- ▶ Integrated reports becoming more innovative
- ▶ More reports focussing on strategy and forward looking
- ▶ Better articulation of the way in which business creates value
- ▶ Widening gap between companies who embrace integrated reporters and those who do not

2012:

- ▶ Companies starting to experiment with innovative ways in which to communicate their value creation story
- ▶ Companies starting to remove detailed sustainability and corporate governance information from integrated reports
- ▶ Many struggling to find balance between traditional annual report and a forward looking report emphasising strategy

2014:

- ▶ <IR> Framework issued
- ▶ Many more local and international examples of excellent reporting
- ▶ Integrated reporting now part of the corporate reporting landscape

2016 Rankings

Top ten

1 <i>with Honours</i> Kumba Iron Ore Ltd	2 <i>with Honours</i> Oceana Group Ltd	3 Liberty Holdings Ltd	4 Sasol Ltd
5 Redefine Properties Ltd	6 Truworths International Ltd	7 Vodacom Group Ltd	8 Nedbank Group Ltd
9 Anglo American plc	10 Barclays Africa Group Ltd	<p>"Honours" is awarded to those high quality integrated reports, which the adjudicators believe have come closest to complying with all the requirements of the <IR> Framework.</p>	

Merit awards

For conciseness: Tsogo Sun Holdings Ltd	For reporting of performance against strategy: Standard Bank Group Ltd	For most improved: Telkom SA SOC Ltd
For risk disclosure: Gold Fields Ltd	For strategic focus: Woolworths Holdings Ltd	For focus on value creation: Nampak Ltd
For innovation: Exxaro Resources Ltd	<p>"Merit" awards are awarded to "Excellent" and "Good" ranked companies not included in the top ten.</p>	

Stated-Owned Companies

Excellent	Development Bank of Southern Africa	Transnet SOC Ltd	
Good	Airports Company South Africa SOC Ltd	Eskom SOC Ltd	Industrial Development Corporation of South Africa Ltd
Average	Central Energy Fund SOC Ltd		
Progress to be made	Land and Agricultural Development Bank of South Africa (Land Bank)	South African Post Office SOC Ltd	Trans-Caledon Tunnel Authority

The adjudication process ranks companies into the categories of “Excellent” (which includes the top ten positions), “Good”, “Average” and “Progress to be made.” “Excellent” and “Good” are awarded to those companies that achieve progressively a higher level of adherence to the spirit of integrated reporting.

Excellent*

Anglo American Platinum Ltd	Intu Properties plc	Standard Bank Group Ltd
AngloGold Ashanti Ltd	Life Healthcare Group Holdings Ltd	Telkom SA SOC Ltd
Aspen Pharmacare Holdings Ltd	Massmart Holdings Ltd	Tsogo Sun Holdings Ltd
Barloworld Ltd	MTN Group Ltd	Woolworths Holdings Ltd
Exxaro Resources Ltd	Nampak Ltd	
Gold Fields Ltd	Netcare Ltd	
Impala Platinum Holdings Ltd	Sappi Ltd	

Good*

African Rainbow Minerals Ltd	Growthpoint Properties Ltd	PPC Ltd
Attacq Ltd	Hyprop Investments Ltd	Redefine International plc
BHP Billiton plc	Imperial Holdings Ltd	Reunert Ltd
British American Tobacco plc	Investec plc	SABMiller plc
Capitec Bank Holdings Ltd	JSE Ltd	Sanlam Ltd
Clicks Group Ltd	Mondi plc	Sibanye Gold Ltd
Curro Holdings Ltd	Mr Price Group Ltd	Sun International Ltd
Discovery Ltd	Northam Platinum Ltd	The Foschini Group Ltd
Distell Group Ltd	Old Mutual plc	The Spar Group Ltd
FirstRand Ltd	Pick n Pay Stores Ltd	Tiger Brands Ltd
Glencore plc	Pioneer Food Group Ltd	Tongaat Hulett Ltd

Average*

AECI Ltd	Investec Property Fund Ltd	RCL Foods Ltd
Bidvest Ltd	KAP Industrial Holdings Ltd	Remgro Ltd
Brait SE	Medicinic International Ltd	RMB Holdings Ltd
Capital & Regional plc	MMI Holdings Ltd	Santam Ltd
Capital & Counties Properties plc	PSG Group Ltd	South32 Ltd
Coronation Fund Managers Ltd	PSG Konsult Ltd	Super Group Ltd
Datatec Ltd	Rand Merchant Investment Holdings Ltd	

Progress to be made*

AVI Ltd	Italtile Ltd	Rockcastle Global Real Estate Company Ltd
Compagnie Financière Richemont S.A.	Naspers Ltd	Shoprite Holdings Ltd
EOH Holdings Ltd	Net 1 UEPS Technologies Inc	Steinhoff International Holdings N.V.
Erin Energy Corporation	New Europe Property Investments plc	Vukile Property Fund Ltd
Famous Brands Ltd	Oakbay Resources and Energy Ltd	Zeder Investments Ltd
Fortress Income Fund Ltd	Reinet Investments S.C.A.	
Hosken Consolidated Investments Ltd	Resilient Reit Ltd	

*Not ranked within categories

Top ten companies and merit awards

The top 10 companies

1

Kumba Iron Ore Ltd

Overall, Kumba's report scored excellently in almost every aspect of the marking process. This crisp and concise report has a clear focus on sustainable value creation and the issues that are material to this value creation.

The explanation of the value chain that includes activities, outcomes and strategic focus areas is indeed excellent. The diagrammatic presentation of the business model incorporates appropriate detail on the factors influencing revenue and costs, which is particularly appropriate given the challenging operating context. The six capitals are introduced early on in the report together with the key inputs and outcomes for each capital. The actions that are required to enhance these outcomes as well as the trade-offs between the capitals are well articulated.

We particularly liked the high level of connectivity in this report. The strategy, business model, operating context, material risks and opportunities, and governance and operational performance is well integrated within the report. The explanation of the group's strategic objectives and the detailed strategies needed to achieve these objectives is informative.

2

Oceana Group Ltd

Oceana's report clearly connects the group's material issues, strategic objectives, principal risks and the external environment. The explanation of how various external issues impact the group's business model is excellent. Outstanding risk disclosures include "heat maps" for both inherent and residual top ten risk exposures as well as a clear link between each of the risks and the relevant strategic objectives.

We particularly liked the way in which the overall strategy and risk disclosures are carried forward into each of the divisional reviews. This enables the reader to relate the group's overall strategy and risks to each division.

The corporate governance section is well laid out and achieves the objective of explaining how the various governance processes will support Oceana's ability to create value in the future.

3

Liberty Holdings Ltd

Liberty's 84-page report continues to be bold and original in the way in which it explains and emphasises the group's value creation story, whilst still presenting the information in an accessible way. The governance section which appears early on in the report and focusses on how Liberty's governance structure supports its ability to both protect and create value is excellent.

The report is themed around Liberty's key stakeholder partnerships, which are those that enable the group to maximise competitive sustainable value. Extensive information on those partnerships is presented in a crisp and concise manner.

We particularly liked the presentation of the performance dashboard that includes current year performance and future targets and the clarity around which targets have been achieved and which have not.

4

Sasol Ltd

Sasol's report clearly explains how the group's strategy, operating model, structure, priorities, culture and material sustainability focus areas are integrated to achieve its definition of "victory". The top priorities for the year ahead are clear and the presentation of financial and non-financial KPIs is excellent.

The context, key inputs, activities and outputs for each of the group's capitals are covered extensively within a value creation scorecard. We particularly liked the way in which this scorecard is followed by a detailed discussion of the trade-offs that exist between the various capitals and how the group intends to balance their resources in a way that maximises sustainable value.

Operating performance is disaggregated into a business unit basis with a concise summary of activities, material developments, financial and non-financial indicators and forward looking information.

5

Redefine Properties Ltd

Redefine's report is once again an excellent example of how a property company can tell its value creation story. The report explains value creation using the six capitals, clearly highlighting the inter-relatedness between the capitals and their importance to the long-term sustainability of the business. The group's material matters are clearly identified early on in the report and linked to the group's strategic priorities.

The comprehensive risk disclosures are complemented by a number of risk "heat maps" that provide an overview of short, medium and long term risks. Furthermore, strategic issues and risks are linked which enhance the general connectedness of this report.

The report has an extremely good description of the group's business model that includes the primary business activities as well as the outcomes of these activities. The "Essential Reads" introduction, supported by the more detailed leadership commentary and value creation for each of the six capitals works well.

6

Truworths International Ltd

Truworths' report is sensibly structured around its seven material issues and these material issues are linked to the six capitals. Performance against previous objectives, targets for the year ahead, challenges, risks and opportunities are discussed for each material issue. Effective cross referencing enhances the connectivity between the various issues. The way in which material issues, risks and opportunities are presented is excellent as it provides a holistic picture of the most significant issues.

We particularly liked the financial director's report, specifically the way that local and global benchmarks are presented for the various financial targets, and the integration of explanatory narrative within the key financial statements as well as the granularity of the information on revenue and costs.

The report continues to be crisp, concise and focussed and covers many of the issues one would expect to find within the integrated report of a fashion retailer.

7

Vodacom Group Ltd

Vodacom's report clearly outlines the group's relationship with key stakeholders and what matters most to these stakeholders. These key stakeholder matters are clearly linked to the group's strategic priorities. The emphasis on how the group sustains its ability to create value and the prominent disclosure of the value that has been created for each stakeholder group are excellent.

We particularly liked the disclosure of performance against each of the group's strategies, including the significant achievements as well as highlighting the areas for improvement.

The report is innovative, engaging and easy to read. The information within the report is sensibly structured and connectivity is enhanced through the use of icons and cross-referencing.

8

Nedbank Group Ltd

Nedbank's report starts with a comprehensive overview of the group that outlines the organisational structure and includes areas of strength and differentiation, details relating to their competitors, aspirations and targets. The section that outlines how the group creates "value sustainably" is excellent as is the section that links the material issues in the operating environment to the trend in short term and longer term risks and opportunities.

We particularly liked the manner in which the group's long-term goals are presented as an introduction to the detailed description of the group's purpose and business model.

The section that explains the trade-offs that have been made between the various forms of capital in delivering the various strategic focus areas is extremely informative.

9

Anglo American plc

Although Anglo American has not produced an integrated report in accordance with the <IR> Framework, its annual report includes a "strategic report" that nonetheless includes most of the content we would expect to find within an integrated report. Anglo American's report focusses on strategy, value creation and the challenges faced within the group's operating environment. The group's targets are clear and are appropriately grouped according to the group's various pillars of value. We particularly liked the emphasis within the report on governance and what it encompasses at Anglo American. Furthermore, the granularity that is achieved within the divisional reviews of this large and diverse group is excellent.

10

Barclays Africa Group Ltd

Barclays Africa's report uses a balanced scorecard approach to report on its material matters. The explanation of the materiality determination process is detailed and comprehensive. The key matters raised by each stakeholder group are expanded upon together with an explanation of why the matter is considered to be important and how the group is responding to the matter. The balanced reporting of the positive and negative aspects of the group's performance, particularly in the performance summary in the inside front cover, is excellent.

We particularly liked the way in which the remuneration incentives of key executives are linked to their performance against each of the group's balanced scorecard components. The risk summary provides a good overview, with 2015 progress mapped against 2015 priorities and a "looking ahead" overview.

Lastly, the report appropriately balances the reporting of summarised data and explanatory narrative, making Barclays Africa's value creation story easily understandable.

The merit awards

The following merit awards are awarded to excellent and good ranked companies not included in the top ten.

For conciseness:

Tsogo Sun Holdings Ltd

This integrated report "includes sufficient context to understand the organisation's strategy, governance, performance and prospects without being burdened with less relevant information."¹

For reporting of performance against strategy:

Standard Bank Group Ltd

This integrated report provides extensive detail on the extent to which the organisation has achieved its strategic objectives.

For most improved:

Telkom SA SOC Ltd

This integrated report has shown the most improvement since the previous year.

For risk disclosure:

Gold Fields Ltd

This integrated report's risk disclosures outline the specific risks that affect the organisation's ability to create value. Consideration is given to the extent to which detail has been provided on how the risks have been determined, prioritised and mitigated. The use of graphics and other visual aids to help the reader understand the risks are also taken into account.

For strategic focus:

Woolworths Holdings Ltd

This integrated report provides clear "insight into the organisation's strategy and how it relates to the organisation's ability to create value."¹

For focus on value creation:

Nampak Ltd

The focus of this integrated report is on "the process that results in increases, decreases or transformations of the capital's caused by the organisation's business activities and outputs."¹

For innovation:

Exxaro Resources Ltd

This integrated report has used a bold and fresh approach to presenting the content that is required by the <IR> Framework.

¹The International <IR> Framework, IIRC, 2013.



Mark Graham

Associate Professor
Head: College of Accounting
University of Cape Town



Overall impressions - at a glance



Quality of the "excellent" and "good" reports **continue to improve**

Only 28 companies ranked as **"excellent"** compared to 31 last year

Gap widening between reports ranked "excellent" and "good" on one hand and "average" and "progress to be made" on the other

Only **two state-owned companies** ranked **"excellent"** compared to last three years

Two companies given **"honours"**, awarded to high quality integrated reports, closest to complying with requirements of <IR> Framework

Number of **"excellent"** and **"good"** reports **increased** to **61** this year from **58** last year

Seven companies structured report around the **six capitals**



Positive trends

1. Significant **improvement** in quality of integrated reports over last five years
2. Improved **connectedness** of information
3. Evidence of innovation in **layout and structure**
4. Improved articulation of **business models**
5. Greater use of **websites** for detailed and compliance information
6. Focus on how **governance structures** promote value creation
7. Better use of **infographics**, navigation tools and cross reference
8. Use of **"pop-up" narratives** to explain key numbers
9. More companies referring to the **"capitals"**
10. Trend towards **conciseness**

Negative trends

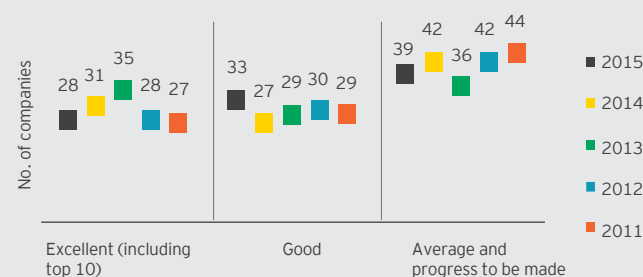
1. After five years almost 40% of JSE listed companies are still **not** making an effort to **produce an integrated report**
2. Too much emphasis on **financial performance** and not enough on strategy and value creation
3. Still not much evidence of **integrated thinking**
4. **Trade-offs between capitals** not given enough prominence
5. Lack of meaningful **KPIs**
6. No clear distinction between **"outputs"** and **"outcomes"**
7. **Strategies** to achieve strategic objectives are often lacking
8. Tendency to concentrate on **positive issues** rather than more balanced reporting
9. Still too much **compliance** information
10. Executive **directors' emoluments** still poorly handled

General impressions and overall performance

Interview with Associate Professor Mark Graham on the adjudicators' impressions of this year's survey

How do this year's rankings compare to previous years?

Trends in rankings



This year we ranked 61 integrated reports in the “Excellent” and “Good” categories compared to 58 last year. This is a slight increase and shows that the majority of listed companies are making a concerted effort to produce a high quality integrated report. However, this year we only ranked 28 integrated reports as “Excellent” compared to 31 last year and 35 in 2013. This downward trend should not be interpreted as a decline in the quality of integrated reporting in South Africa but rather that we have become stricter in our assessments. We believe that this approach is justified as the guidelines for integrated reporting are now firmly established and companies have had sufficient time to absorb this new form of corporate reporting.

We were pleased to see that the number of integrated reports in the “Average” and “Progress to be made” categories have declined from 42 in the prior year to 39 in the current year. Whilst this shows that a large number of companies are still not yet making a serious attempt to produce an integrated report it is encouraging to see that the number of these companies is declining.

For the state-owned companies, there was some movement in and out of the “Excellent” category - this year we found that only two of the state-owned companies, compared to three last year, had produced integrated reports that we considered to be in the “Excellent” category. We were pleased to see the continued improvement in the ranking of the Development Bank of Southern

Africa’s integrated report which improved from being “Good” last year to being ranked “Excellent” in the current year.

What is your overall impression of the quality of integrated reports produced during 2015?

There is no doubt that the integrated reports of those companies that take integrated reporting seriously are continually improving whilst the integrated reports of those companies that do not, are showing very little improvement.

The gap between those reports that we have ranked as “Excellent” and those that we rank in the “Average” and “Progress to be made” categories is clearly widening each year. The better integrated reports are forward looking, they provide a clear strategic focus and emphasise the way in which the business creates value.

They also demonstrate a high level of connectivity between the various elements of the report. To put it simply, preparers of these reports apply the guiding principles of integrated reporting and cover the content elements of integrated reporting as set out in the <IR> Framework. Each year we can see that these companies are striving to improve the way in which they tell their value creation story.

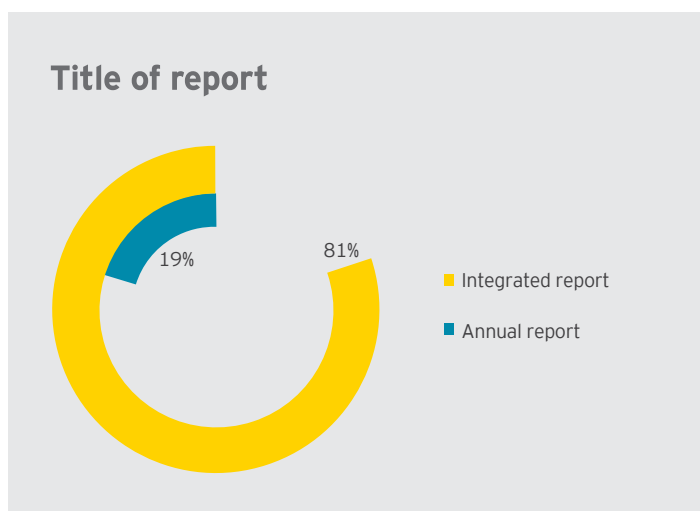
We were disappointed that five years after the introduction of integrated reporting there are still many local companies that have yet to fully embrace the concept of integrated reporting. So whilst these companies produce a report that is labelled an “integrated report” it does not really comply with the requirements of the <IR> Framework. In other cases, whilst the report may have the right terminology, it lacks substance.

Most companies that we have ranked as “Excellent” have come close to producing an ideal integrated report, but very few of them are yet, in our opinion, perfect. With this in mind, this year we introduced the “Honours” category, awarded to those high quality integrated reports, which we believe have come closest to complying with the requirements of the <IR> Framework.

With regards to the state-owned companies, there is a wide gap between the integrated reports of those at the top end and those at the bottom end of the rankings.

The reports that we have ranked as “Excellent” are certainly comparable in quality to their listed counterparts. Sadly, there are still a number of state-owned companies that are issuing integrated reports that are not really an integrated report as envisaged by the <IR> Framework. We hope that these state-owned companies will embrace integrated reporting and commence the journey to reporting excellence.

Are all companies producing integrated reports?



Nineteen of the 100 companies in this year’s survey have their primary listings on stock exchanges other than the JSE, and as such are not required to produce an integrated report. Interestingly, 13 of these 19 companies have their primary listing on the London Stock Exchange and consequently since 2014 have been required to include a strategic report within their annual report. This strategic report has many similarities to the integrated report and it is therefore no surprise that the majority of the reports of the London listed companies have been ranked highly. The integrated reports of nine of these companies have been ranked as either “Good” or “Excellent”, with Anglo American plc’s report being placed in 9th position.

On the other hand, all of the six companies whose primary listing is neither on the JSE nor on the London Stock Exchange, were given a rating of “Average” or “Progress to be made” implying that their reports contain very few of the characteristics of integrated reporting.

We found that 79 out of the 81 companies that have their primary listing on the JSE and two who do not, produced a report that was titled an “integrated report” However, it must be said that these were not always integrated reports as envisaged by the <IR> Framework. Interestingly, two companies whose primary listing is on the JSE, chose to call their report an “annual report”.

This is the fifth year of surveying integrated reports, how has integrated reporting developed over this period?

We have seen huge improvements in the quality of the integrated reports over the last five years. When the first integrated reports were produced in 2011 there was very little guidance on what these reports should contain. There were few, if any, published examples of good integrated reports and there was an element of uncertainty as to the exact requirements of integrated reporting. The first reports were often just a sustainability report combined with the annual financial statements and some management commentary. The information was not integrated and in 2011 we observed that many companies were simply taking a “wait and see” approach. However, a number of companies did make an attempt to embrace the concept of integrated reporting and included their business model, material matters, strategy, risks, stakeholders and non-financial performance. However, these various elements of the report were not presented in a connected way.

In 2012 we started to see an increased diversity in the structure of the reports as companies started to experiment with innovative ways in which they could communicate their unique value creation story. More companies started to remove the detailed sustainability and corporate governance information from the integrated report and placed them online. However, many companies were still struggling to strike a balance between the traditional annual report and a more forward looking report that emphasised strategy.

By 2013 clearer guidance was starting to emerge from the International Integrated Reporting Council. Integrated reports were becoming more concise and more focussed on issues that were material to the business. Some companies were starting to use the concept of the six capitals to explain how they create value. In some cases it was clear that companies were starting to develop reports that had a very different “look and feel” to the previous traditional annual reports.

By the time the 2014 reports were being drafted the <IR> Framework had been issued. There was finally clarity on the guiding principles and content elements that should form part of the integrating reporting process. There were also many examples available, both local and international, of excellent reporting. Integrated reporting had become part of the corporate reporting landscape and many companies had clearly embraced the guidance provided in the <IR> Framework. However, we started to observe a widening gap between those companies that were making an effort to embrace integrated reporting and produce a high quality integrated report and those that were not.

Did you notice any improvements or innovations in the 2015 integrated reports?

Yes. We certainly did see some improvements and innovation. The layout and structure of the value creation narrative has improved in some cases. There has also been definite improvement in the way in which the business models have been described. Some of the better reports are now including inputs that flow into the business, and the outputs¹ and outcomes that are generated by the business, giving a good sense of the scale of operations.

Greater use is being made of websites to provide more detailed data and compliance related information. We are seeing an increased focus on how the governance structures promote value creation.

Navigation tools, cross-referencing and the use of tables that increase the connectivity of the report are improving and we get a sense that many companies are experimenting with ways in which to link the various areas of the report. The use of infographics supported by more detailed narrative is emerging as an appropriate way in which to present much of the content that is required in the report. We particularly liked the way in which many companies are starting to use “pop-up” narrative boxes to explain the numbers in their key financial statements and the way in which this information is presented within the discussion of financial performance.

Where can improvements be made?

The main area where we believe improvements should be made is in the area of value creation and strategy. Whilst some performance reporting is important for context, too many reports are backward looking with an over emphasis on financial performance.

The emphasis of the integrated report should be on how the organisation's business model is dependent on the different forms of capital together with how the business model impacts those capitals. In particular, we are hoping for more balanced reporting on the outcomes of the business model (including relevant trade-offs between different capitals) and a clearer distinction between outputs and outcomes.

We would like to see more reports with a strategy focus and a future orientation. Furthermore, in many instances the strategy that is presented is merely a statement of strategic objectives or aspirations - the strategies that will be used to achieve these strategic objectives need to be presented.

Many reports still contain far too much information that simply satisfies various compliance requirements and which distracts the reader from the value creation story. Perhaps this compliance information can be placed on the website or included in addenda to the integrated report, if preparers feel that users of the report require this information.

A real challenge to improving the integrated report is to improve the story line. Too often, the information does not form a coherent narrative. Companies should look carefully at the order in which the various disclosures within the report are presented and reconfigure them to make the report more readable and to improve the connectivity of the information presented.

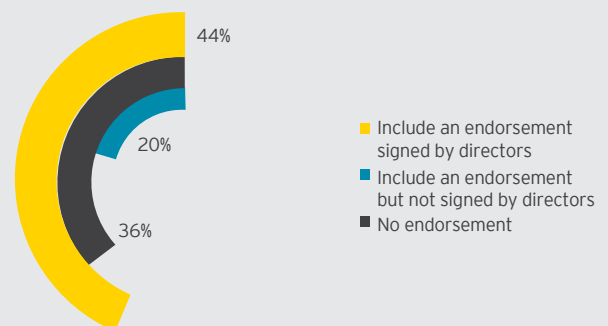
Finally, many integrated reports could be significantly improved if key performance indicators were disclosed that show the status of current strategies and how performance against future strategies will be evaluated. Disclosure of trends over time, current year performance against prior projections for the current year, future projections and industry benchmarks and/or best practice significantly enhances the usefulness of the key performance indicators.

Integrated reporting is meant to encourage integrated thinking, did you find any evidence of this?

We found very little explicit discussion of integrated thinking within the integrated reports. Some companies do however mention that integrated thinking is used within the business, but provide little or any evidence to demonstrate this. However, we find it hard to imagine that a company can draft an “Excellent” integrated report that explains value creation and which connects strategy, risk, governance and performance without having some elements of integrated thinking within the organisation. This does not imply that those governing the companies whose reports we have ranked as “Average” or “Progress to be made” do not think in an integrated manner; simply that there is no evidence of this in their integrated reports.

Are the integrated reports being endorsed by those charged with governance?

Have the directors endorsed the integrated report?

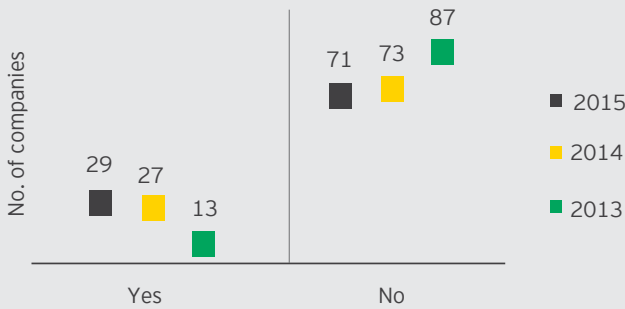


In this year's survey we saw that 64 of the 100 companies included a clear statement of endorsement of the integrated report by those charged with governance. In most cases this was an endorsement by the board. Of the companies that included a clear endorsement, 44 companies included a signed statement by the directors.

This endorsement does not necessarily imply that integrated thinking is taking place. However, it does give the reader some comfort that the directors are familiar with the report and that the report reflects the directors' views of the organisation and is not simply a public relations exercise.

Who is the primary audience of the integrated reports?

Are companies primarily aiming their integrated reports at investors?



This is an interesting issue. The <IR> Framework clearly states that the primary purpose of the integrated report is to explain to providers of financial capital how an organisation creates value over time. King III however, recommends that the integrated report should be aimed at all stakeholders. This conflicting advice has resulted in preparers of integrated reports taking different approaches. Some preparers clearly state that their report is aimed at "providers of financial capital" or at "all stakeholders", whilst some simply do not identify a primary audience. In this year's survey we found that 29 reports clearly identified investors as the target audience, whilst the remainder are either addressing their reports to all stakeholders or do not identify their primary audience. Considering that only 81 of the reports are integrated reports this implies that slightly more than a third of companies are addressing the audience suggested by the <IR> Framework.

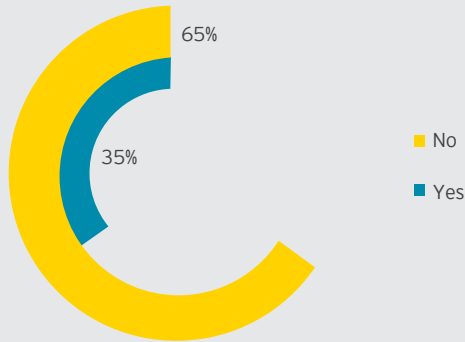
Although we do not penalise those reports that are aimed at "all stakeholders", it was interesting to note that whilst only 29% of the reports in the survey aimed their reports at investors, 43% of those ranked as "Excellent" stated explicitly that their reports were aimed at investors. Perhaps this clarity of focus with respect to their audience allows them to produce a more focussed and targeted report.

With the Draft King IV™ report now placing increased emphasis on integrated reporting in accordance with the <IR> Framework, it will be interesting to see if companies will be changing the emphasis of their reports in future.



The <IR> Framework requires that the integrated report should provide insight into the extent to which the organisation takes into account the legitimate needs and interests of its stakeholders. To what extent is this being done?

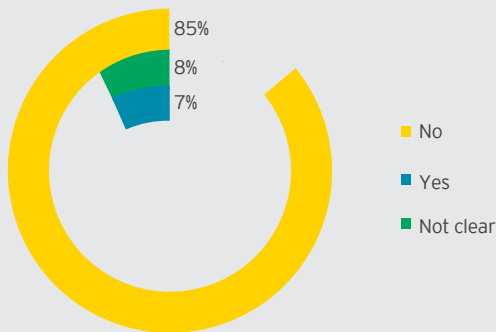
Are stakeholder needs and concerns addressed?



In this year's survey we found that 35 companies identified their various stakeholders' needs and concerns and furthermore explained how these needs and concerns were being addressed. In many cases this information was reflected in the stakeholder engagement table (but not always) and in many cases was linked to the company's material issues and/or its strategy.

Did you see any evidence that the concept of the "six capitals" has taken hold?

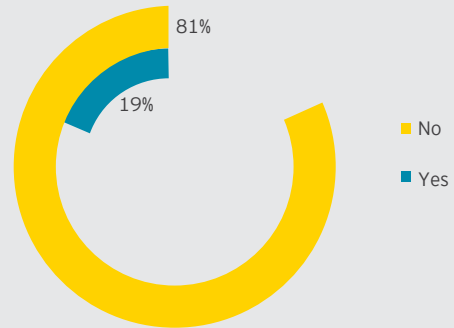
Are the capitals used as a basis for report structure?



One of the key elements of integrated reporting is explaining how the various capitals will create value. We were pleased to see that 42 companies this year explicitly referred to the capitals in their integrated report. Seven of these companies (up from four last year) actually structured their integrated report around the six capitals. Many other companies refer to the capitals by explaining where information on each capital can be found. Although the reference to the capitals has increased, there is still very little information presented about the trade-offs between the various capitals and how these trade-offs have influenced the company's strategy.

Are companies separately disclosing their outputs' and outcomes?

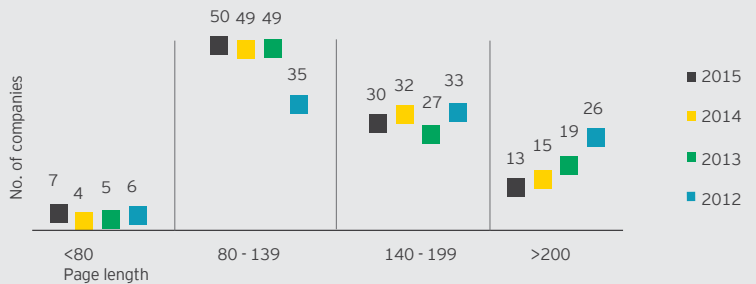
Is there separate disclosure of outputs and outcomes?



We were disappointed that only 19 integrated reports, included in this year's survey, separately include the actual outputs and outcomes that relate to the value that has been created by their business activities. It seems that many companies are still struggling to differentiate between outputs, outcomes and other performance measures.

How long are the integrated reports?

Length of integrated report



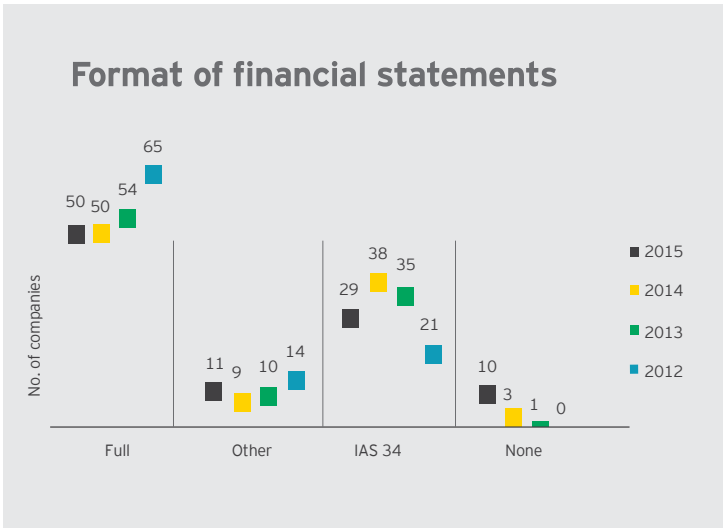
A key characteristic of an excellent integrated report is conciseness - this implies that there is "sufficient context without being burdened with less relevant information". Whilst conciseness and length are not necessarily synonymous, the length of a report is often a good proxy for conciseness.

There is still a wide range in the length of the reports ranging from the shortest at 45 pages (Clicks Group Ltd) to the longest at 548 pages (FirstRand Ltd). However, the overall length does appear to be decreasing. Only 13 reports now exceed 200 pages (15 last year and 26 in 2012) and seven reports (four last year), are now less than 80 pages.

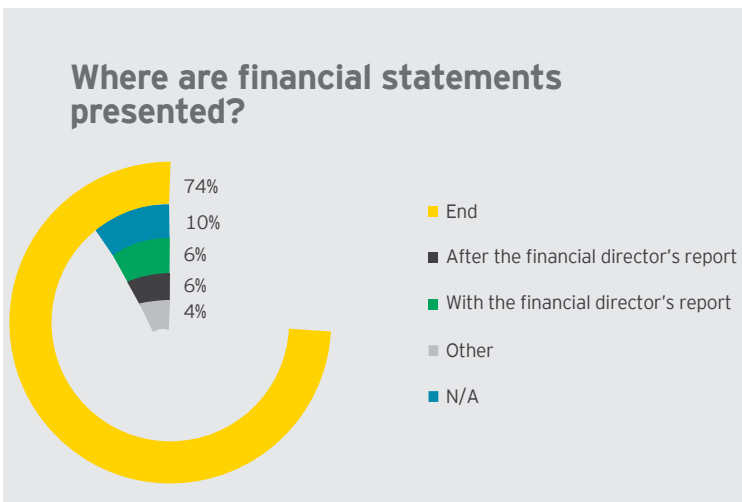
The average length of the reports in this year's survey (148 pages) continues to slowly decline from the 2014 and 2013 averages of 151 and 159 pages respectively.

The main difference between the shorter and longer reports is that the shorter reports often include only summarised financial information. Furthermore, preparers of these shorter reports often placed the detailed corporate governance, remuneration and other compliance information elsewhere.

Have you seen any changes in the way in which financial information is presented within the integrated report?

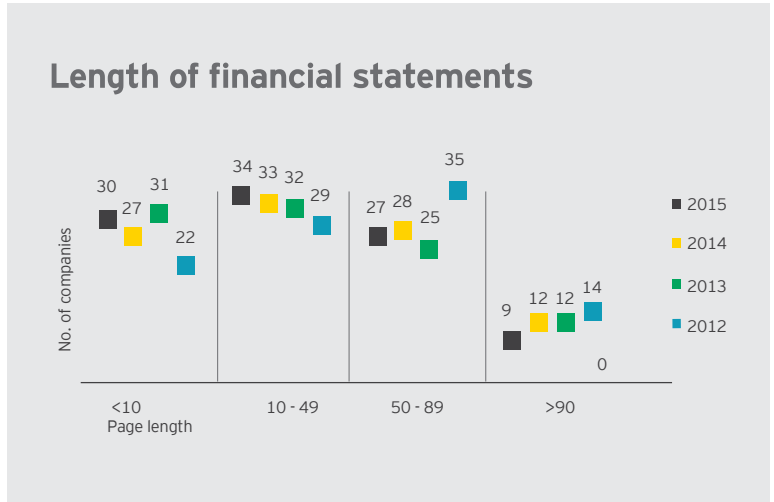


All of the 19 reports that are labelled as being an "annual report" and a further 31 reports labelled as being an "integrated report" include full annual financial statements. The other 50 reports include financial statements prepared in accordance with the requirements of IAS 34, in some other format or do not include financial statements at all. Interestingly this year, ten companies chose not to present statements of financial position, comprehensive income or cash flows within their integrated reports. Instead these companies presented only key financial information or extracts from the financial statements within their financial review or in their discussion of financial capital.



Most companies continue to present their financial statements at the end of their report, whilst 12 companies presented their summarised financial statements either within or after the financial director's report. This latter approach often achieves a high level of connectivity between the reported IFRS numbers and the narrative that provides context to these numbers.

What is the length of the financial statements?



This year we saw a slight decrease in the length of the financial statements that have been included in the integrated report. It should be noted that the 30 companies that presented financial statements of less than ten pages include those ten that did not include any financial statements.

1 Outputs are defined within the <IR> Framework as "an organisation's products and services, any by-products and waste", whilst outcomes are defined as "the internal and external consequences (positive and negative) for the capitals as result of than organisation's business activities and outputs".

Disruption

The march of disruption is unrelenting and this can leave today's decision makers and leaders grappling with tremendous uncertainty and a broad array of challenges. Responding to disruption has become a central issue for organisations everywhere.

EY's approach to disruption is to amplify the signal rather than the noise, and see the connections, not just the dots. We do this by widening the lens through which we see disruption.

Disruption has commonly come to mean a transformation of business models and value networks driven by technology or business innovation. The evidence is growing that it can come from public policy, macroeconomic trends, geopolitical events and other developments. Disruption upends more than business models and value networks; it can transform political systems, regulatory regimes, social compacts and much more. The perception of disruption is shifting from that of threat to opportunity. Companies have begun to embrace disruption to take advantage of the rapidly changing environment.

How to drive innovation in a world of disruption

The threats of disruption are evident. It's the opportunities to innovate that businesses need to consider. The steps below highlight the call to action to respond to disruption and how to realise the benefits.

Step 1: Face it head on

To motivate change - real change - requires just that: motivation. We all can quickly identify that threats come from new sources: digital, changing consumer behaviours and competition from unexpected places. But for most, when asked how they know the threat is real, the easy answer is: "I'll see it in the numbers." But if financial results already show the threat in any material way, it's almost too late. Financial results are, in fact, a lagging indicator of the threat. The analysis must start much further upstream in the process.

Step 2: Get the right data and insights

If results lag efforts, then we must redirect efforts much earlier. So we need the right information to inform us. Across sectors, clients shared that the best sources of intelligence include self-evident yet under-utilised tactics:

- ▶ Talk with customers
- ▶ Get insights from front-line employees

- ▶ Remove barriers to hear voices from all levels of the organisation
- ▶ Listen to new sources of internal and external data and the patterns within them
- ▶ Redefine the competitive category and mine it for competitive insight
- ▶ Focus on customer problems to solve, as opposed to products to sell

By integrating better insights, and then separating "noise from the signals," we can gain deeper intelligence around what we need to do to change the impact, not simply admire the problem after the fact.

Step 3: Empower innovation by making the organisation "uncomfortable"

Companies must make the space to enable innovation. Making that space often means the organisation becomes "uncomfortable" while exploring new possibilities. We need to challenge fundamental norms like:

- ▶ Where people work
- ▶ How people work
- ▶ What we measure
- ▶ What defines success
- ▶ How to celebrate failure

If we cannot make space for innovation and to be purposeful, the efforts will be theoretical and will not be realised in any material way. And undoubtedly, moving money, people, and other resources towards such efforts, will make people uncomfortable. But that's what it takes to be serious about innovation.

Step 4: Find an innovation model - or even better - a portfolio of models

There is no one way to win, but nothing will happen without purposeful experimentation. There are a wide range of innovation options and stimuli available:

- ▶ **An advisory board providing fresh perspectives:** Can you tap diverse people in the company, young business leaders outside the company, or customers to bring outside perspective in to identify problems and contemplate solutions?
- ▶ **Cross-pollination moments:** Whether people swap jobs; executives pollinate perspectives across functions, business units and roles; or talent is recirculated geographically - can you create unexpected juxtapositions to offer creative thinking?

- ▶ **Incubators:** Is there an opportunity to consistently invest in new ideas to solve problems - not beholden to short-term financial goals - to generate new products, businesses and insights?
- ▶ **Innovation community:** Are there physical or virtual ways to convene people across the company and meaningfully hear their ideas?
- ▶ **Investment:** Can you invest in a portfolio of smaller, more disruptive companies (that may even be disrupting your core business) to consider new approaches and potentially create new paths to acquisitions?
- ▶ **Founder's mindset:** Can you build a bridge to entrepreneurs and founders to change the cultural mindset of the organisation and focus on building ideas more quickly?
- ▶ **Innovation challenges/hackathons:** With a discrete problem to solve and finite time and space to address it, can you convene unconventional thinkers across and beyond the organisation to generate new solutions?
- ▶ **Millennials:** Are there specific ways to tap into youth in the organisation and empower them to drive new strategies?
- ▶ **Discomfort:** If innovation requires being uncomfortable, can you make your organisation uncomfortable, just long enough to create a new interaction between people and drive innovation? What would happen if everyone surrendered their mobile devices for just a few hours?

Step 5: Diligently cull and kill ideas

Regardless of the innovation model, creativity and breakthrough thinking must be directed to drive a meaningful outcome. Ideas must be tied to problems, and killing ideas is as important as creating them.

One cannot fall in love with ideas or allow them to get personal. By making failure acceptable and encouraged, you can distill the portfolio of ideas to focus on the ones that are truly material and exciting. And the process must be constant and ongoing.

Step 6: Accelerate the possible

For the ideas that show potential, make them matter. Find the best talent, bring in the right partners, invest in them materially, and go for it. Once the idea shows validity, it must escape the constraints of incremental thinking. Find ways to be decisive and be (responsibly) radical to scale.

Step 7: Go for it!

But above all, the key to realising innovation is to pursue it meaningfully. Ask better questions. Purposefully define the problems you hope to solve. Make people uncomfortable enough to be comfortable thinking differently. Generate a portfolio of approaches. Distill ideas ruthlessly and accelerate the possible. Simply said: "Go for it!"

Where to from here?

Financial reporting is a very dynamic environment and will continue to be so over the next few years. As integrated reporting is gaining more momentum globally, it will change how we currently report. Our message to clients is to embrace this change, and to continue to challenge themselves to articulate their value proposition more clearly and more concisely than ever.

Developing an excellent integrated report requires innovation, which may in turn require "disruptive" ideas and a challenge of the status quo. Companies need to take on a different mindset towards their integrated reports, a mindset that may be considered to others who play in the integrated reporting space as "disruptive". This is a mindset that acknowledges the existence of disruptive thinking and uses this as a driver for creating change and innovation with an organisation.



Lance Tomlinson

Africa Assurance Leader
EY

Remuneration disclosures and the integrated report

The primary purpose of an integrated report is to explain how an organisation creates value over time. It is not intended to be the document that complies with detailed reporting requirements. For example, many companies choose to publish separate financial statements rather than include them in the integrated report. Remuneration reporting is another aspect where integrated reports could be improved, by focussing more clearly on the distinction between disclosures intended to satisfy reporting requirements and those contributing to the value creation story.

There are two separate aspects relating to remuneration – the first is the determination of appropriate remuneration policies, and the second is the communication with respect to those policies. This article looks at what should be communicated in an integrated report as opposed to how remuneration should be determined.

A good integrated report will demonstrate how the remuneration structure is linked to the strategy of the organisation, and how that strategy will contribute to the creation of value over the short, medium and long-term. If there is no link between remuneration and the strategy, even the best remuneration disclosures can add little value, other than perhaps highlighting a governance risk to the organisation.

The way in which a remuneration policy is determined should tell a clear story of what is important to the organisation, and in particular, the extent to which integrated thinking is actually happening in an organisation. Many companies refer broadly and generically to the different capitals, sustainability practices and long term value creation.

If companies continue to reward their executives solely on the basis of short term, and often only financial, performance indicators, this will raise the question of the extent to which there is a genuine commitment to long term value creation.

Principle 4.4 of the Draft Consultation of the King IV™ Report ("Draft King IV™") requires that the "governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the creation of value in a sustainable manner". That succinctly explains what we are looking for in respect of remuneration when assessing excellence in integrated reporting.

With respect to "remunerates fairly", appropriate disclosures could include a correlation between long term historic performance of both financial and sustainability indicators and directors' remuneration, with an explanation of any obvious divergence. Relationships between remuneration of directors and either the average or lowest paid employees also provides appropriate context, particularly in a South African context.

With respect to "responsibly and transparently", we would expect to see appropriate disclosure of how remuneration policies are approved, including any interaction with different stakeholders such as employee bargaining units or shareholders.

Consideration is also given to how easy the information is to understand. This is an aspect that we find particularly challenging, as many companies provide an excessive amount of detail of individual remuneration schemes, which detract from the big picture and in particular, the link to the strategy and value creation.

The most important disclosure is how the remuneration policy promotes "creation of value in a sustainable manner". One of the aspects that makes this challenging for companies, is that many companies do not clearly articulate what they consider to be the value that they are trying to create.

In addition, disclosures of outcomes of the business model is an aspect where many companies have room for improvements in their integrated reports, particularly in respect of the trade-offs between the outcomes on the different capitals.

Without a clear understanding and communication of how the organisation aims to create value and its impacts on the different capitals, good disclosure of remuneration policies is unlikely to be achievable.

The goal in preparing an integrated report should be to clearly communicate the strategy of the organisation, and the key performance indicators that are used to measure the success in achieving that strategy. The report should then clearly and transparently indicate how those KPIs will impact remuneration of key employees.

This does not necessarily need to be done in a separate remuneration report. The connectivity of the report could be enhanced by linking these disclosures more directly to disclosures on the strategy, future targets and/or current year performance.

An integrated report should also highlight the risks of the organisation, some of which will relate to remuneration. Risks arise if employees are incentivised to have a short term focus, or are significantly under, or even over, remunerated. Sustainability risks also arise if variable remuneration is linked only to financial indicators.



Alex Watson
Professor
College of Accounting
University of Cape Town

Integrated thinking and reporting: a feature of good governance

Integrated thinking and integrated reporting is increasingly gaining prominence as a feature of good governance. It is also a distinct underlying feature of South Africa's revised King Report™ and King Code of Governance Principles™ (hereinafter "King IV™"). As such, perhaps it is an opportune time to take a look at what this means for governing boards of South African companies.

One of the useful aspects of the annual EY Excellence in Integrated Reporting Awards is that the awards reveal a picture of the varied stages of adoption and implementation of integrated thinking and integrated reporting in a sample of reporters- i.e. the JSE top 100 companies and top ten state-owned companies. Something South Africa's corporate sector can be distinctly proud of is the bristling competitiveness of the cohort of top integrated reporters that has emerged over the years. Apparent from the awards, is that the top integrated reporters recognised continually strive to achieve better reporting, embracing the challenge of striving for excellence in their corporate reporting. Over time,

the scope of this challenge has changed to include a refinement of the integrated thinking and integrated reporting processes and approach. The integrated report is typically a compelling read for those following an individual company's progress. It serves as the company's vehicle to showcase the governing body and executive team's view of the value creation story "so far".

In the course of exploring views of company directors and executives about what they perceive as the benefits of their investment in integrated thinking and integrated reporting, an important theme emerges: the use of a far more informative, dynamic lens to view and report on the company's strategy, risks and performance achievements. This is in contrast to the more static and immovable statutory financial reporting model. The integrated thinking and integrated reporting process opens up the new horizon of holistic value creation. For forward-thinking and value-driven company boards, this is indeed an exciting and challenging development.

Boards of top integrated thinking and integrated reporting companies are in a position to embrace their governance responsibilities and activities with new perspectives. This includes a far better understanding of the company's strategic challenges, risks and opportunities, than prior to implementing integrated thinking and integrated reporting. Companies have moved beyond a mere mechanical adoption of the integrated reporting framework, or the "integrated reporting veneer" approach, to embrace more fully its underlying precept: that holistic value creation needs to be driven through the entire organisation in line with a corporate strategy that sees and measures corporate risk and performance through a holistic value creation lens.

With King IV™ set to emerge later this year, a critical consideration for boards will be about how they move to harness the power of integrated thinking and integrated reporting in implementing the new Code - if they haven't already done so.

King IV™ now frames integrated thinking and integrated reporting as a unique context for proper performance of governance responsibilities - moving away from a previously more implicit context.

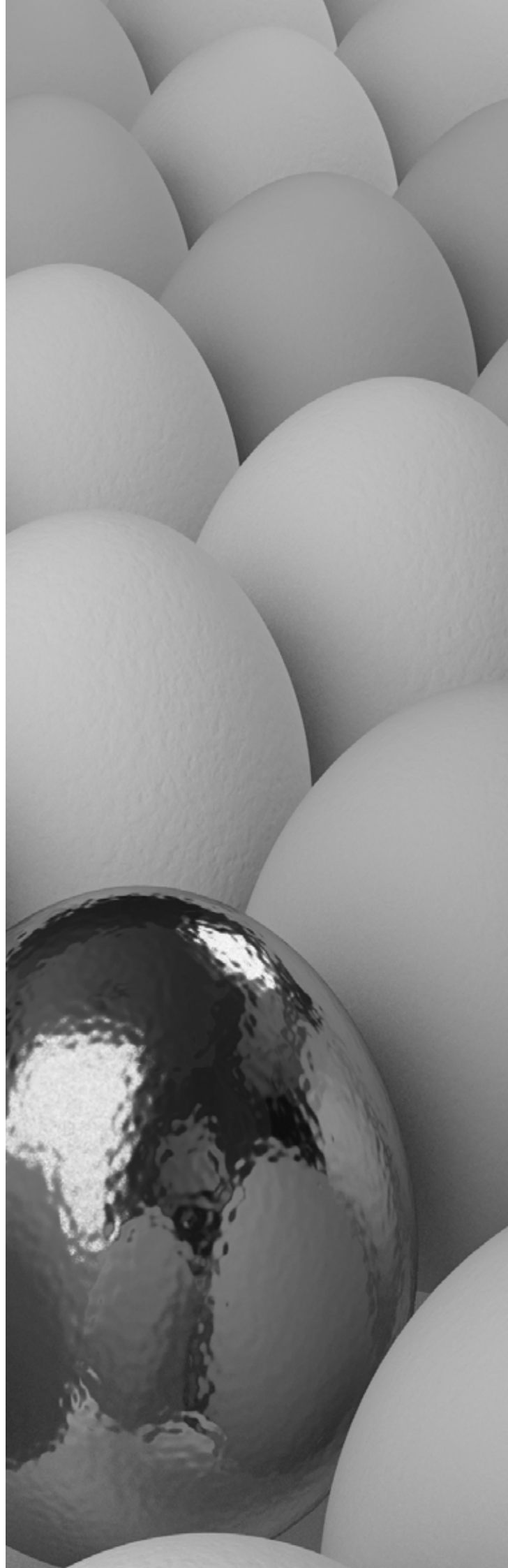
As boards of companies and other companies that elect to adopt King IV™ consider what needs to be done to apply the Code, a foremost consideration should be what is at the heart of King IV™ i.e. to fully embrace integrated thinking to drive holistic, long-term performance and value creation by the entity.

Important to note is that this approach is relevant for any entity in any sector. The opportunity to harness integrated thinking and integrated reporting should not be unique to any particular industry. There is a need to develop competence and capability in driving holistic value creation. An important factor underpinning sound national economies, would be an increasing private and public sector uptake of integrated reporting. This is the right direction to drive a healthy environment of robust economic activity and accountability. King IV™ embodies a call to action by boards to realise that potential that can be obtained by embracing integrated thinking.



Joanne Henstock

Executive Director
Governance, Integrated Reporting
and Sustainability
EY



The mark plan - at a glance

Based on the <IR> Framework

Who was included in the EY Excellence in Integrated Reporting Awards?

- ▶ Top 100 JSE-listed companies
- ▶ Based on market capitalisation at 31 December 2015
- ▶ Pure holding companies are excluded
- ▶ Dual-listed companies are included
- ▶ Ten newcomers
- ▶ Integrated report for year-ended on or before 31 December 2015
- ▶ Top SOCs based on reported total assets

Consideration given to the Framework's fundamental concepts:

1. Various capitals that the organisation uses and affects
2. How value is created

Based on the seven Guiding Principles:

1. Strategic focus and future orientation
2. Connectivity of information
3. Stakeholder relationships
4. Materiality
5. Conciseness
6. Reliability and completeness
7. Consistency and comparability

And on the eight Content Elements:

1. Organisational overview and external environment
2. Governance
3. Business model
4. Risks and opportunities
5. Strategy and resource allocation
6. Performance
7. Outlook
8. Basis of presentation

The mark plan and adjudication process

Interview with Associate Professor, Goolam Modack

How were the companies included in the 2016 EY Excellence in Integrated Reporting Awards chosen?

These are the top 100 companies on the JSE selected on the basis of their market capitalisation at 31 December 2015, which was the last trading day of that year.

All companies were regarded as being eligible to be included in the survey other than pure holding companies, such as Pick n Pay Holdings. The final top 100 included the full range of listed companies on the JSE, from resources to industrials, retailers and financial institutions and also included a number of companies with dual listings, such as SAB Miller and Old Mutual. In the case of Investec Ltd and Investec plc, as well as Mondi Ltd and Mondi plc, which operate through a dual listing structure, the combined group was included and consequently, only the combined report was reviewed.

Did you notice anything of interest with respect to the companies that were selected this year?

Yes, it is interesting to note that the market capitalisation of the 100 companies in this year's survey range from approximately R1.8 trillion at the top end (British American Tobacco plc) to R9.2 billion (Zeder Investments Ltd) at the lower end. These 100 companies account for approximately 95% of the total market capitalisation of the JSE at 31 December 2015. This in a sense supports our decision to only consider the largest 100 companies listed on the JSE.

Furthermore, following changes in market capitalisation and other corporate activity, ten companies that appeared in last year's survey were no longer regarded as being eligible, resulting in the appearance of ten newcomers. Interestingly, five companies that were ranked as "good" in 2015 and one company that was ranked "excellent" (Arcelor Mittal South Africa Ltd) are not included this year due to a decline in their market capitalisation. In contrast, nine of the ten replacement companies were ranked as being "adequate" or requiring "progress to be made" with the tenth, Curro Holdings Ltd, being ranked as "good".

We also saw an increase in the number of top 100 companies whose primary listing is not on the JSE. This year there were nineteen such dual listed companies compared to fifteen

companies in last year's survey, with thirteen of the nineteen having their primary listing on the London Stock Exchange.

How was the mark plan developed?

The mark plan was developed by the three adjudicators from the College of Accounting at the University of Cape Town in conjunction with EY's Professional Practice Group. The team comprises Professors Alexandra Watson, Mark Graham and myself. All of us were involved for many years in EY's Excellence in Corporate Reporting Awards and since 2011 in EY's Excellence in Integrated Reporting Awards.

What was included in the mark plan?

Once again, the mark plan is quite simple and is based on the Guiding Principles and Content Elements that appeared in the "The International <IR> Framework" (the <IR> Framework) that was issued by the International Integrated Reporting Council in December 2013. A mark out of ten is awarded for each of the seven Guiding Principles (i.e. strategic focus and future orientation, connectivity of information, stakeholder relationships, materiality, conciseness, reliability and completeness and lastly consistency and comparability). Similarly, a mark out of ten is awarded for each of the eight Content Elements (i.e. organisational overview and external environment, governance, business model, risks and opportunities, strategy and resource allocation, performance, outlook and finally basis of presentation and preparation). Marks are also awarded for the extent to which the integrated report incorporates the <IR> Framework's fundamental concepts, dealing with how value is created with reference to the six "capitals" where relevant.

Could you elaborate on what you were expecting to see with respect to the six capitals?

We believe that an explanation of how a business creates value with respect to the six capitals is a particularly suitable way for most companies to present much of the content that needs to be presented within its integrated report. An explanation of how value is created within an organisation can sensibly be structured around how value is embodied in the capitals that it uses. Doing this should also give the report a more logical flow.

So whilst we do not expect companies to explicitly structure their report around the six capitals, or indeed use this specific terminology, we would certainly have looked for disclosures relating to the stock and flow of the capitals (i.e. financial, manufactured, etc.) and the extent to which tradeoffs between different capitals has or may influence the strategy.

Locally it is still not clear as to the target audience of the integrated report. How did you handle this when marking?

Whilst King III recommends that an integrated report is aimed at all stakeholders, the <IR> Framework suggests that the integrated report should be prepared primarily for the providers of financial capital (i.e. shareholders) but that it should be of benefit to “all stakeholders interested in an organisation’s ability to create value over time”. The mark plan is not prescriptive about this but we do expect the company’s view to be explicitly stated and the reporting approach to be appropriate for its stated target audience.

Which document did you mark?

We reviewed and marked the document that is actually labeled as being the integrated report. For those dual listed companies that do not produce an integrated report, we evaluated the information contained in their annual report. We found this was not detrimental to those companies as many of the integrated reporting principles are included in their reports, nonetheless. In all cases the on-line pdf or hard copy of the report was reviewed.

Did you look at separate sustainability reports or other reports?

No, we only looked at the document that is labelled as being the integrated report or the annual report where companies have not produced an integrated report.

Who actually marked the integrated reports?

Each of the integrated reports of the top 100 companies was separately marked by each of the three adjudicators from the College of Accounting at the University of Cape Town using the pre-agreed mark plan.

Is this simply a box ticking exercise?

No, absolutely not. Much more emphasis is placed on the quality of information presented - the relevance, understandability, accessibility and connectedness of that information; whether users of the integrated reports would have a reasonable sense of the issues that are core to the operations of each of the companies and whether companies have dealt with the issues that users would have expected. This implies that much more credit is given for crisply presented information that highlights relevant facts compared to the same information needing to be extracted from less relevant information.

Furthermore, once the marking process is complete the scores for the seven Guiding Principles, the eight Content Elements and for adherence to the fundamental concepts and individual members’ recommended rankings are collated resulting in a final ranking being awarded. The final ranking is therefore based on a combination of the average of these scores, overall perceptions and extensive discussions surrounding the final rankings for each company. This ranking process is particularly important as the scoring process is subjective and scores may differ, based on the adjudicators’ impressions at the time.

Did the markers attempt to achieve consensus on the scores?

No, not really. It’s really the ranking that matters. Where an adjudicator’s ranking differed widely from the others, this was reviewed to ensure that information had not been overlooked. Often, scores may have varied widely. While the adjudicators generally agree on what is good disclosure, perception of the relative importance of items may differ. Despite this, there was a high degree of consensus among the adjudicating members’ overall perceptions and recommended rankings.

Is there an overriding objective to the ranking?

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

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

How did you identify and rank the top ten?

There are three specific areas which, we believe are crucial to excellence in integrated reporting. These are the extent to which the report has a clear strategic focus, an emphasis on value creation and a high level of connectivity between the various elements presented. These three areas are then used to identify the top ten integrated reports from all amongst those ranked as excellent and to assign them a ranking within the top ten.

Other than the top ten, are there any other awards?

In addition to the top ten, a number of integrated reports that were ranked as excellent but which were not included in the top ten were awarded a merit award for achieving excellence in a specific area of integrated reporting that we consider to be important.

Furthermore, this year we introduced the "Honours" award. An "Honours" is awarded to those high quality integrated reports which we believe have come the closest to complying with all the requirements of the <IR> Framework.

Which state-owned companies are included in the survey?

The survey traditionally includes the integrated reports of the top ten state-owned companies selected by reference to their reported total assets as at their year-end. However, this year South African Airways had not issued their integrated report by the time of the survey (15 months after the reporting date) and so only nine of the largest state-owned companies 2015 integrated reports were rated this year.

Is the adjudication process for state-owned companies similar to that used for the top 100 JSE-listed companies?

Yes, it is exactly the same. The mark plan for state-owned companies is based on the Guiding Principles and Content Elements of the <IR> Framework. Each of the three adjudicators evaluate each of the integrated reports and the overriding objective of the rankings, to comply with the spirit of integrated reporting. Furthermore, the rankings also result in each of the state-owned companies being ranked as "Excellent", "Good", "Average" or "Progress to be made".

Why are the SOCs not ranked together with the JSE-listed companies?

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

Are there any other differences between state-owned companies and JSE listed companies?

Yes, there are clear differences in their ownership and stakeholder structures and they have to comply with more expansive regulatory reporting requirements than their JSE-listed counterparts. However, notwithstanding these differences, the principles of integrated reporting apply in exactly the same way to them.

Any last comments on the marking process?

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



Goolam Modack

Associate Professor
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Taking integrated reporting to the next level

1

Focus on value creation:

The integrated report must emphasise how the organisation creates value for itself and for others over time. Value has two interrelated aspects - value for the organisation in the form of financial returns to the providers of financial capital and value for other stakeholders and society at large. The organisation should clearly define what value means to it early on in the report and this should form the thread that runs through the report. Value creation should be the lens through which decisions are made about the information that is included in the report. Thus, all the individual elements within the integrated report such as the business model, strategy, risk, governance, performance, etc. should all form part of the organisation's value creation narrative.

2

Improve connectivity:

The integrated report should explain the organisation's value creation story. All stories must have a connected and coherent story-line. Preparers can achieve this through the order in which the various components of the report are presented and the linkage between these various components. As with any story the start is important, but there are many different formats that can be used to tell a story well. A format that works for many, is to start with an introduction that outlines the scope, boundary and other preliminary issues, followed by an explanation of the organisation - its mission, vision, profile, external environment and business model. After this the stakeholders can be identified together with their legitimate needs and concerns. It should then be explained how these needs and concerns have been filtered and used to establish the organisation's material issues and overall strategy. The detailed strategy can then be introduced together with the risks that may prevent the organisation from achieving its strategic objectives. The report can then continue with the necessary detail which can be presented by capital, stakeholder, material issue or division, whichever it is felt will tell the value creation story the best.

2

Explain the organisation's strategy:

Strategy guides the selection and presentation of all the other content within the integrated report and explains the "how". How the organisation will use the capitals at its disposal to create value, the dependency of the business model on the different capitals, how it will manage the trade-offs between the various capitals, how it will utilise the opportunities that have arisen, how it will manage the risks, etc. Strategies are not simply broad goals, aspirations, objectives, ideals or a vision. A strategy is more detailed than this. It requires an explanation of a set of coherent actions. Detailed strategies describe how the organisation intends to achieve its broader strategic objectives.

4

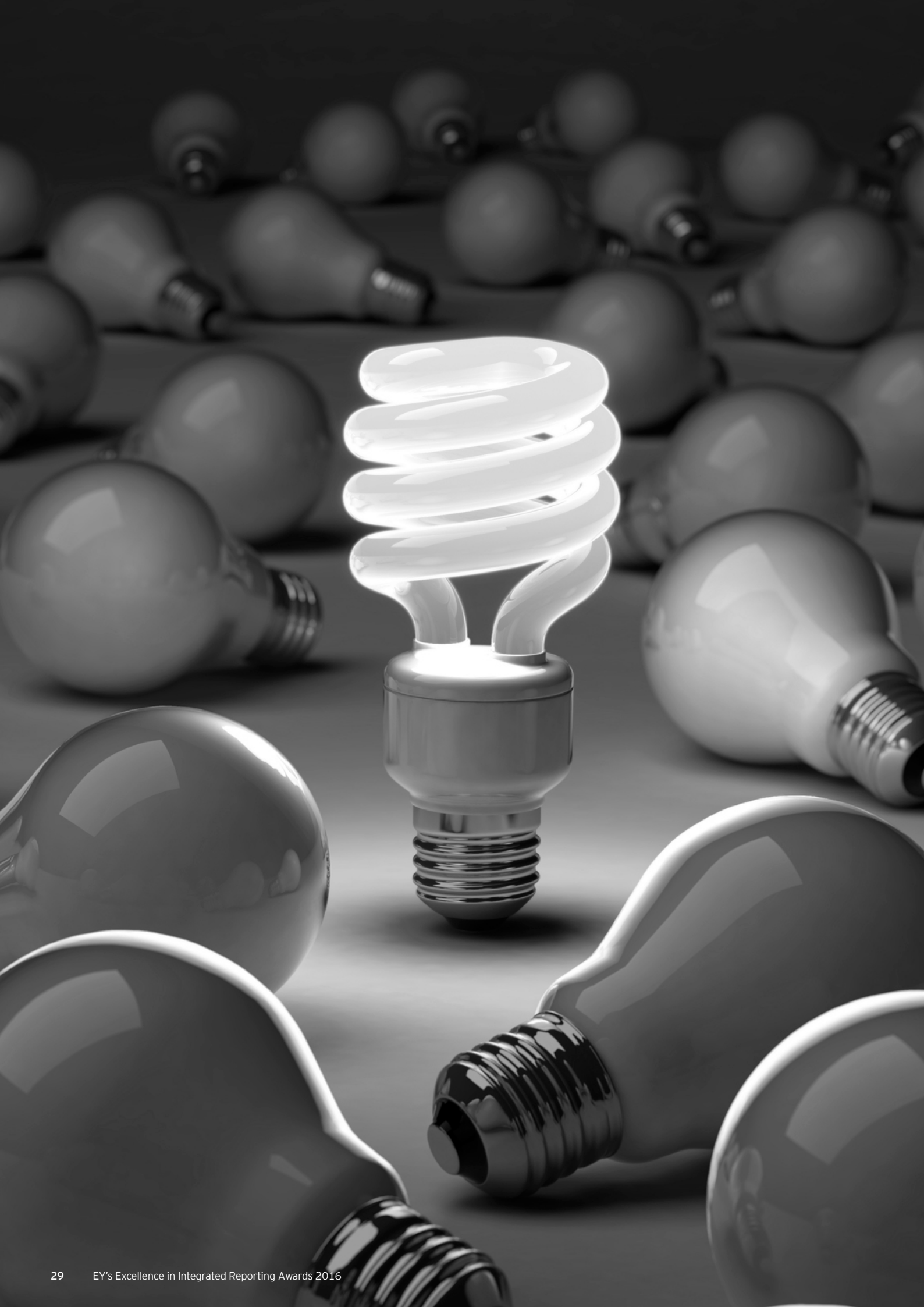
Focus on balanced reporting:

An integrated report should tell the value creation story, warts and all, of the organisation. It is not intended to be a publicity document for the organisation, but should focus on the internal and external challenges, risks and problems relating to the organisation. Many companies focus only on the good news stories, which does not tell the complete story and undermines the credibility of the report and those charged with governance.



Alex Watson

Professor
College of Accounting
University of Cape Town



About the adjudicators

Mark Graham

Mark is an Associate Professor and Head of the College of Accounting at the University of Cape Town where he specialises in financial reporting and financial analysis. He also teaches on the MBA, EMBA and Executive programmes at UCT's Graduate School of Business. He consults to the accounting profession and regularly presents courses on various aspects of accounting, both public and in-house. He is the current chair of the Association of Heads of Accounting in South Africa. Mark has been involved with EY's Excellence in Corporate Reporting Awards since its inception in 1997 and is the current chair of the adjudication panel for the annual EY Excellence in Integrated Reporting Awards.



Associate Professor Mark Graham
Head: College of Accounting,
University of Cape Town

Alexandra Watson

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



Professor Alex Watson
College of Accounting,
University of Cape Town

Goolam Modack

Goolam is an Associate Professor and Deputy Head of the College of Accounting at the University of Cape Town. He teaches financial reporting at an undergraduate and postgraduate level and has co-authored a number of financial reporting textbooks. He is an independent director of subsidiaries of a JSE listed financial services group and also consults to the accounting profession. Goolam has been a member of the adjudicating panel of the EY Excellence in Integrated Reporting Awards, and prior Excellence in Corporate Reporting Awards since 2005.



Associate Professor Goolam Modack
Deputy Head: College of Accounting,
University of Cape Town

How can EY help

Service	Contact person
<ul style="list-style-type: none"> ▶ Excellence in Integrated Reporting Awards benchmark report (including in-person consultation with one of the awards adjudicators) 	<p>Larissa Clark (011) 772 3094 larissa.clark@za.ey.com</p>
<ul style="list-style-type: none"> ▶ Learning and development on integrated reporting: On-site briefings on the International Integrated Reporting Council's <IR> Framework and on applying the Framework (including industry relevant application) 	<p>Joanne Henstock (011) 502 0364 joanne.henstock@za.ey.com</p>
<ul style="list-style-type: none"> ▶ Gap analysis of existing reporting against GRI G4 Guidelines, <IR> Framework and local and international best practice and peers ▶ Facilitation of the materiality determination process ▶ Writing the sustainability or integrated report ▶ Assurance of non-financial information in the sustainability or integrated report 	<p>Kelly Gilman (021) 443 0473 kelly.gilman@za.ey.com</p> <p>Joanne Henstock (011) 502 0364 joanne.henstock@za.ey.com</p> <p>Kelly Gilman (021) 443 0473 kelly.gilman@za.ey.com</p>
<ul style="list-style-type: none"> ▶ Stakeholder engagement - development of framework, policy and strategy and/or facilitation of stakeholder engagement ▶ Development of a sustainability framework ▶ Identification of key performance indicators for material issues and strategic objectives 	<p>Thomas Van Viegen (011) 502 0424 thomas.vanviegen@za.ey.com</p> <p>Kelly Gilman (021) 443 0473 kelly.gilman@za.ey.com</p>
<ul style="list-style-type: none"> ▶ Remuneration design, reporting and disclosure support (linking pay to performance across different capitals) 	<p>Ray Harraway (011) 772 5466 ray.harraway@za.ey.com</p>

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