



INTEGRATED REPORTING COMMITTEE (IRC) OF SOUTH AFRICA

# DELIVERING A MEANINGFUL AND CONCISE INTEGRATED REPORT: AN INFORMATION PAPER

INTEGRATED REPORTING  
COMMITTEE OF  
SOUTH AFRICA

 <IR>  
NETWORK

[www.integratedreportingsa.org](http://www.integratedreportingsa.org)



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# FOREWORD

After 10 years of integrated reporting in South Africa we can be proud of the strides that have been made. This is thanks to the commitment of the preparers and many others across the reporting ecosystem who play a role in taking integrated reporting forward.

Now is not the time, however, to rest on our laurels. Organizations are continuously being challenged to evolve and respond to the changing environment in which they operate and strategies are continuously tested and adjusted to respond to internal and external pressures, evolving risks and new opportunities. The challenges faced across the globe are increasingly unprecedented and the types of risks coming to bear, as underscored by the World Economic Forum's annual global risks reports<sup>1</sup>, emphasize the importance of integrated thinking – for now and into the future. The prevalence of environmental and social risks reinforces the need for organizations, more than ever before, to recognize the interconnectedness in society, especially related to economic, social, health and environmental matters and to act accordingly. Organizations do not operate in silos. They rely on and effect multiple capitals: reinforcing the imperative that governing bodies and management have to integrate the six capitals into strategy, risks and opportunities and decision-making. This is recognized in the King IV Report on Corporate Governance™ for South Africa, 2016 (King IV<sup>2</sup>) and in the International <IR> Framework (2021) (<IR> Framework).

Effective communication through integrated reporting allows an organization to explain how it responds to the ever-changing and often challenging context in which it operates. This openness and transparency enhances credibility and trust and allows stakeholders to form a view of the quality of the organization's leadership, strategy and performance. The integrated report is an opportunity to convey how the governing body is leading the organization, especially through difficult times, and to explain to what extent it creates, preserves or erodes value.

A quality integrated report has meaningful information presented in a connected and concise manner. It tells the complete story of the organization's process through which value is created, preserved or eroded. This process is not static – and neither is reporting. Organizations do, and should, strive for continuous improvement in their integrated report. By regularly evaluating the disclosures in the integrated report, the governing body, management and their teams have the opportunity to reassess aspects of their business and how well integrated thinking is embedded, particularly in the context of an ever-changing landscape.

The effort to continuously improve is a key component of a quality integrated report: effective communication is integral to the governing body's duty of accountability. Its input from initial planning to final approval is essential for the report to successfully communicate how the organization creates, preserves or erodes value. The content of this Information Paper (Paper) will assist in this regard.

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Chairman Emeritus of the International Integrated Reporting Council (IIRC)

January 2021

<sup>1</sup> World Economic Forum, [Global Risks](#)

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# PURPOSE OF THIS PAPER

The IRC of South Africa developed this Paper to provide practical considerations on how to better deliver a meaningful and concise integrated report in the context of the <IR> Framework.

A meaningful integrated report transparently explains the organization's process through which value is created, preserved or eroded, over the short, medium and long term through complete and balanced information. It is concise, readable, understandable, useful to stakeholders and contains all material information. In short, a meaningful and concise integrated report exemplifies the Guiding Principles and Content Elements of the <IR> Framework.

The experience of South African organizations in preparing integrated reports over the past 10 years lends itself to sharing learnings from a continuous cycle of improvement. This Paper identifies six focus areas that contribute to a meaningful and concise integrated report. The six focus areas are derived from the observed characteristics of quality integrated reports – as well as from the weaknesses noted in other integrated reports.

The weaknesses that detract from a meaningful and concise integrated report, include:

- ▶ Unclear or incomplete articulation of how the organization creates, preserves or erodes value in short, medium and long term
- ▶ Reporting without regard to materiality resulting in content that is either too lengthy and cumbersome or too short and incomplete
- ▶ Report content is formulaic or follows other organizations' disclosure rather than bespoke
- ▶ Not adapting or updating content to a change in the organization's context in the reporting year
- ▶ A compliance approach to the <IR> Framework without mindful application to the organization

The **six focus areas** that underpin a meaningful and concise integrated report, are:

1. **ALIGNMENT** | Optimize and align the reporting suite
2. **CONNECTIVITY** | Connect the information in the Content Elements
3. **CONCISENESS** | Balance conciseness and comprehensiveness
4. **KPIs** | Explain KPIs and the link to value
5. **OUTCOMES** | Report clearly on outcomes and trade-offs
6. **TECHNICAL REQUIREMENTS** | Apply all the <IR> Framework requirements

## KING IV

King IV encourages transparent and meaningful reporting as a tenet of good corporate governance. Principle 5 states: *The governing body should ensure that reports issued by the organization enable stakeholders to make informed assessments of the organization's performance, and its short, medium and long-term prospects.*

In the following pages, these six focus areas are discussed. For each of them, there is reference to relevant sections of the <IR> Framework, discussion of the challenges and weaknesses, and key considerations are given together with illustrative examples extracted from the integrated reports of South African listed companies. It has to be noted that the six focus areas, and their key considerations, do not purport to be an exhaustive list. The due process, judgement and integrity of the organization's governing body determine whether its integrated report provides a complete, meaningful and concise view of the value created, preserved or eroded by the organization.

Along with the release of the new International <IR> Framework (2021), this Paper can serve to inspire experienced preparers to reflect on their integrated reports, and new preparers can see it as a practical resource in starting their integrated reporting journey<sup>1</sup>. Further, this Paper can assist users in knowing what to look for in assessing whether an integrated report is meaningful and concise.

The Paper includes excerpts from the International <IR> Framework (2021) and from King IV.

This Paper is issued for informational purposes; guidance is offered by the <IR> Framework and King IV.

<sup>1</sup> New preparers are also referred to the [Preparing an Integrated Report: A Starter's Guide \(Updated\)](#).



## PURPOSE OF THIS PAPER CONTINUED

### The importance of integrated thinking

Integrated thinking is a fundamental concept of integrated reporting. In essence, it involves extending the mindset to include not only financial capital and performance, but all six capitals identified in the <IR> Framework (aka resources used by the organization and the relationships it relies on).

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

*Integrated thinking takes into account the connectivity and interdependencies between the range of factors that affect an organization's ability to create value over time, including:*

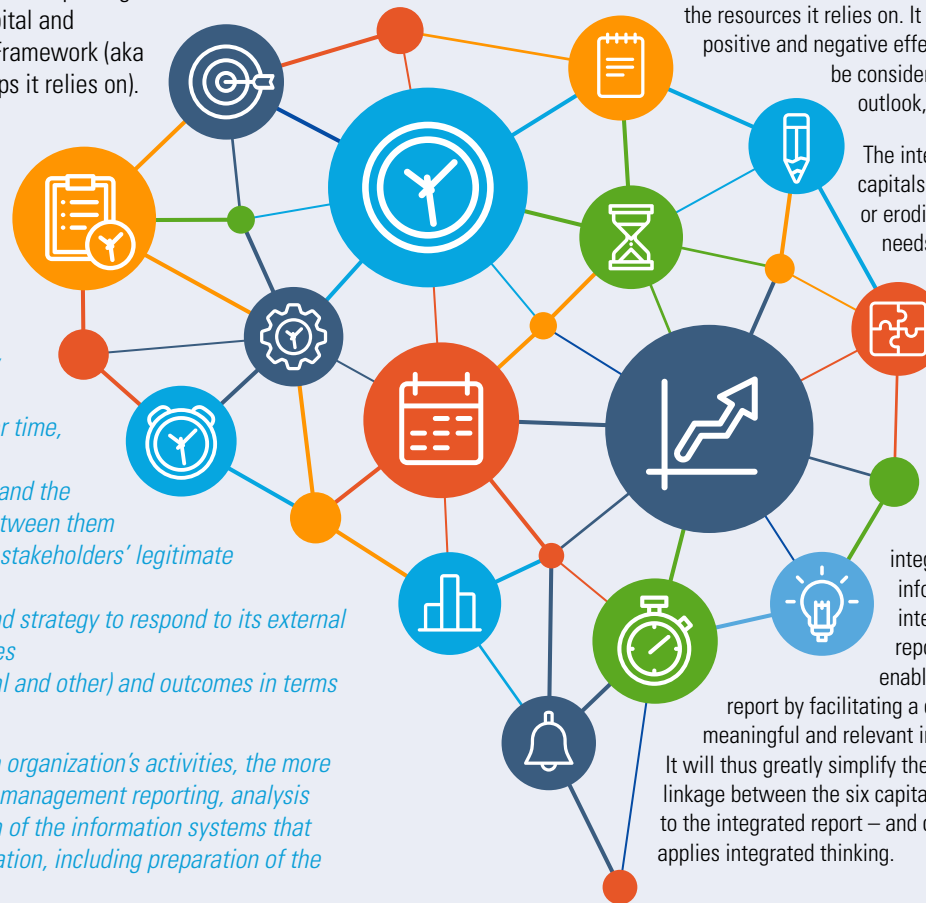
- *The capitals that the organization uses or effects, and the critical interdependencies, including trade-offs, between them*
- *The capacity of the organization to respond to key stakeholders' legitimate needs and interests*
- *How the organization tailors its business model and strategy to respond to its external environment and the risks and opportunities it faces*
- *The organization's activities, performance (financial and other) and outcomes in terms of the capitals – past, present and future.<sup>1</sup>*

*The more that integrated thinking is embedded into an organization's activities, the more naturally will the connectivity of information flow into management reporting, analysis and decision making. It also leads to better integration of the information systems that support internal and external reporting and communication, including preparation of the integrated report.<sup>2</sup>*

Integrated thinking begins with the governing body's understanding that the organization creates value by having a clear purpose and with awareness of the value afforded by its stakeholders and the resources it relies on. It requires an understanding of the organization's positive and negative effects on the six capitals (outcomes) so that these may be considered in strategy, performance, risks and opportunities, outlook, stakeholder relationships and material matters.

The interdependencies and trade-offs among the six capitals are inherent in the process of creating, preserving or eroding value. This means the organization's leadership needs information systems to enable fully informed decision making considering all of these complexities. As part of its integrated thinking decision-making process, it needs to holistically assess the possible implications of a proposed strategy and actions on the six capitals, including the ongoing relationships with stakeholders. Tangible KPIs are needed to measure achievement in the specified timeframes and targets.

Typically, organizations that have embedded integrated thinking in their operations have designed information systems to present information in an integrated format. This enables integrated internal reporting and reporting to the governing body. It also enables a high degree of connectivity in the integrated report by facilitating a connected picture of the organization and meaningful and relevant information rather than general or vague information. It will thus greatly simplify the process of writing the integrated report. The linkage between the six capitals within the inputs to outcomes process is crucial to the integrated report – and can indicate the extent to which the organization applies integrated thinking.



<sup>1</sup> IIRC, <IR> Framework, page 3

<sup>2</sup> IIRC, <IR> Framework, Guiding Principle 3B, paragraph 3.7



# 1. ALIGNMENT | OPTIMIZE AND ALIGN THE REPORTING SUITE<sup>1</sup>

The integrated report's holistic view signals it as a "first read" for users who may then seek detailed information in a subject-specific supplementary report, the website or through engagement with the organization. The supplementary reports and information can be informed by legislative, regulatory or stakeholder requirements.

## The <IR> Framework

*An integrated report should be a **designated, identifiable communication**.<sup>2</sup>*

*An integrated report is intended to be more than a summary of information in other communications (e.g. financial statements, a sustainability report, analyst calls, or on a website); rather, it makes explicit the connectivity of information to communicate how value is created, preserved or eroded over time.<sup>3</sup>*

*An integrated report may be either a standalone report or be included as a **distinguishable, prominent and accessible part of another report** or communication. For example, it may be included at the front of a report that also includes the organization's financial statements.*

*An integrated report can provide an "entry point" to more detailed information outside the designated communication, to which it may be linked.<sup>4</sup>*



### In a nutshell

- Ensure the integrated report is complete by including all material information and all the Content Elements, while applying the Guiding Principles in the preparation of the information
- Create a detailed plan for the reporting suite so that each reporting element has a clear objective and there is a "picture" of how the various reporting elements interconnect
- Implement a holistic review process across the reporting suite
- Use effective and accurate cross-referencing

### Further reading

IRC of South Africa [FAQ: The Octopus Model](#)  
King IV, Principle 5

## Challenges and weaknesses

### 1. A reporting suite misaligned in messaging and material content

In some cases, different reporting suite elements create different messaging or do not demonstrate an aligned picture of the organization. These differences can beg questions about the process followed to determine material matters in the integrated report.

It can also indicate a lack of communication between the departments responsible for different reporting suite elements.

Further, supplementary information might contradict the contents of the integrated report, thus impacting the integrated report's credibility.

### 2. Addressing some of the <IR> Framework's requirements in a supplementary report, but excluding it from the integrated report

Conciseness should not be pursued through excluding material information required by the <IR> Framework.

### 3. Excessive supplementary information that does not necessarily add value

Additional information may not always be aligned to stakeholders' current information needs.

<sup>1</sup> The reporting suite refers to communications published to provide information about the organization, guided and required by various regulatory frameworks, and read by its stakeholders, including investors, shareholders and employees, among others. For example, a South African listed entity at year-end might produce the integrated report, annual financial statements, results presentation, results advert, Stock Exchange News Service (SENS) announcements and the notice of annual general meeting, accompanied by other supplementary reports, such as a sustainability report, governance report and remuneration report.

<sup>2</sup> IIRC, <IR> Framework, Section 1E, paragraph 1.12 (emphasis added)

<sup>3</sup> IIRC, <IR> Framework, Section 1E, paragraph 1.13

<sup>4</sup> IIRC, <IR> Framework, Section 1E (excerpt, emphasis added)



# 1. ALIGNMENT | OPTIMIZE AND ALIGN THE REPORTING SUITE CONTINUED

## Key considerations

### The integrated report is a standalone report in its completeness

The integrated report provides a complete, holistic and concise overview of the process through which value is created, preserved or eroded over time. As explained in the IRC of South Africa's FAQ on The Octopus Model, the integrated report represents the head of the octopus<sup>1</sup> and the other reporting elements represent the arms as they typically contain supplementary information.<sup>2</sup> Material information or a Content Element should not be excluded from the integrated report because a supplementary report also contains that information.

Where appropriate, applying the <IR> Framework Guiding Principles to other elements of the reporting suite can help make them more concise and meaningful, improving the overall quality of the reporting suite.

### Upfront planning for the reporting suite

Each of the other reporting elements will have clear objectives, such as meeting legislative or regulatory compliance requirements, responding to a specific stakeholder group's information needs, or packaging information for a particular stakeholder group.

All those involved in preparing the different reporting suite elements should have a clear picture of how they converge, interconnect and align to each other. Revisiting this during the reporting process will help ensure it remains relevant.

Re-evaluate the reporting suite each year, considering each element's usage and whether it is still relevant as stakeholders' information needs might have changed. Online monitoring of the number of users accessing the various elements is useful.

### A holistic review process and effective cross-referencing

Review the reporting suite to ensure all information is aligned and that there are no contradictions or inconsistencies. Review the other reporting elements to ensure the integrated report includes all material information. This is best done by those responsible for the integrated report; multiple reviews may be required depending on the complexity. Responsibility for these reviews should be assigned upfront and included in the project timeline.

The governing body should satisfy itself that the reporting suite in totality is aligned, prior to approval.

To enable users to identify the available reports and information, include an overview of the organization's reporting suite in the integrated report, in each supplementary report and on the website. Use specific and accurate cross-referencing across the reporting suite and ensure all reporting elements are easily accessible.



<sup>1</sup> IRC of South Africa [FAQ: The Octopus Model](#)

<sup>2</sup> Smaller organizations often include their annual financial statements after their integrated report in the same publication, clearly indicating the two separate sections of the publication.






## ILLUSTRATIVE EXAMPLES TO SHOW A REPORTING SUITE

In the examples below, the organizations clearly show all the elements of their reporting suite, the information provided in each element and where it can be found.

### Sasol Limited [Integrated Report](#) for the year ended 30 June 2020, page 1

These reports are available on our website, [www.sasol.com](http://www.sasol.com), or on request from Investor Relations. Contact details are on inside back cover (IBC).

 <p><b>IR</b> <b>Integrated Report</b> Concise communication about how Sasol's strategy, governance, performance and outlook lead to the creation of value over the short, medium and long term.</p>	 <p><b>SR</b> <b>Sustainability Report</b> Communication about Sasol's environmental, social and governance (ESG) performance.</p>	 <p><b>CCR</b> <b>Climate Change Report</b> Information about Sasol's climate change risk management process, response strategy and summary of work underway to address our climate change risks.</p>	 <p><b>AFS</b> <b>Annual Financial Statements</b> Contains full analysis of the Group's financial results, with detailed financial statements, as well as the full Remuneration Report together with the report of the Audit Committee.</p>	 <p><b>20-F</b> <b>Form 20-F</b> Our Annual Report filed with the United States Securities and Exchange Commission (SEC), in line with the requirement of our New York Stock Exchange listing.</p>
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### Woolworths Holdings Limited [Integrated Annual Report 2020](#), page 4

#### 2020 REPORTING SUITE

The 2020 Integrated Annual Report is the key report that provides a holistic view of the Group's business, strategy, performance, and the creation of value for all stakeholders. This report should be read in conjunction with the more detailed reports highlighted below.

Complementing the Integrated Annual Report are a number of other reports targeted at specific stakeholders. These reports are:

- Annual Financial Statements, providing a more detailed understanding of the financial aspects of our business
- Good Business Journey Report, providing details of our sustainability strategy and a review of performance, primarily against non-financial targets for social, transformation, and environmental matters

- Summarised Remuneration Report, providing key features of the Remuneration Report
- Annual General Meeting (AGM) Notice Report, providing the relevant information necessary for shareholders to vote on the resolutions to be tabled at the AGM

The Annual Financial Statements and Good Business Journey Report are available online on our corporate website, [www.woolworthsholdings.co.za](http://www.woolworthsholdings.co.za).

The AGM Notice will be available online on our corporate website, [www.woolworthsholdings.co.za](http://www.woolworthsholdings.co.za), and sent to all shareholders by no later than 30 September 2020.

Supporting documents and compliance information not included in the reports can be accessed on our corporate website, [www.woolworthsholdings.co.za](http://www.woolworthsholdings.co.za).





## 2. CONNECTIVITY | CONNECT THE INFORMATION IN THE CONTENT ELEMENTS

Effectively connecting information in different areas of the integrated report enables the user to understand the organization's end-to-end process through which value is created, preserved or eroded over time. It helps clarify the material interdependencies the organization manages and how it applies integrated thinking.

### The <IR> Framework

*Guiding Principle Connectivity of information: An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization's ability to create value over time.<sup>1</sup>*

*The key forms of connectivity of information include the connectivity between:*

- The Content Elements
- The past, present and future
- The capitals
- Financial information and other information
- Quantitative and qualitative information
- Management information, board information and information reported externally
- Information in the integrated report, information in the organization's other communications and information from other sources.<sup>2</sup>

*The connectivity of information and the overall usefulness of an integrated report is enhanced when it is **logically structured**, well presented, written in clear, understandable and jargon-free language, and includes effective navigation devices, such as clearly delineated (but linked) sections and cross-referencing.<sup>3</sup>*



### In a nutshell

- Approach content development in an integrated manner and with detailed, upfront planning to ensure everyone involved is on the same page
- Create a logical report structure, be mindful of overlap between sections and plan who will take the lead on common matters throughout the report
- Conduct thorough end-to-end reviews and check for alignment and isolated content
- Use cross-referencing and icons strategically; aim to address key topics only once

### Further reading

IIRC: [Integrated Thinking & Strategy State of Play Report](#)

IRC of South Africa: [Preparing an Integrated Report: A Starter's Guide \(Updated\)](#)

### Challenges and weaknesses

#### 1. Applying the Content Elements as a "tick-box"

Some reports create the impression that the organization did not consider how the Content Elements link together to explain its unique story. This might be due to applying a "tick-box" approach to the guidance given in the <IR> Framework. This can result in unnecessary duplication, inconsistencies and a disjointed report.

Some reports are overly reliant on cross-referencing or iconography in attempting to demonstrate connectivity. This can confuse and may not show the reality of the connections in the business.

#### 2. Siloed report sections and contradictory or isolated content

In some reports, it appears that different sections reflect the individual responsibilities in the organization – without considering how different information areas are connected in telling the story. This can lead to misalignment, inconsistencies or isolated report content, as well as unnecessary duplication. It might also indicate a flawed reporting process.

#### 3. A one-sided view of connectivity

Connectivity too often only focuses on connecting the various Content Elements and ignores other key areas of connectivity, such as the past, present and future, the six capitals, financial and other information, quantitative and qualitative information, etc.

<sup>1</sup> IIRC, <IR> Framework, Guiding Principle 3B, paragraph 3.6

<sup>2</sup> IIRC, <IR> Framework, Guiding Principle 3B, paragraph 3.8 (excerpt, emphasis added)

<sup>3</sup> IIRC, <IR> Framework, Guiding Principle 3B, paragraph 3.9 (excerpt, emphasis added)



## 2. CONNECTIVITY | CONNECT THE INFORMATION IN THE CONTENT ELEMENTS CONTINUED

### Key considerations

#### Approach content development in an integrated manner and with detailed, upfront planning

An integrated approach to content development requires the report preparers and content contributors to understand:

- ▶ The six capitals and how the organization creates, preserves or erodes value related to the capitals
- ▶ How the organization applies integrated thinking, as well as consideration within the content contributor's area
- ▶ How performance in the content contributor's area impacts other business units and stakeholders
- ▶ The organization's material matters
- ▶ The report structure and how individual contributions fit into it
- ▶ Where alignment is required

As part of the planning process, seek guidance from leadership on the material matters and the report structure (the skeleton). Thereafter, it may be useful to have a planning session with the project team and/or the content contributors to unpack the year's messaging, intended report improvements, significant context changes from the previous year and so on.

Consider and plan for all aspects of connectivity (as listed in the <IR> Framework extract on the previous page) in deciding the report's structure and how content will be collected, written and reviewed.

#### Create a logical report structure and be mindful of overlap between sections

An integrated and concise story has an easy to follow and understand structure and narrative. As the <IR> Framework explains, it *follows a logical structure and includes internal cross-references as appropriate to limit repetition*. A good structure can support connected information, avoid inconsistencies and limit duplication.

The Content Elements can appear in any order and format. The primary consideration is that their order and format allow the preparer to best explain how the organization creates, preserves or erodes value over time. It is useful to consider how internal reports are structured, the information included therein, and how the governing body and management oversee and manage the organization's financial and non-financial performance.

The integrated report should read like a story with all chapters relevant and building on one another. There needs to be logic and flow in the structure, and provide reference to detailed information or context.

#### Conduct thorough end-to-end reviews

There ought to be various reviews of the report comprising a collaborative effort between contributors, reviewers and approvers, focusing on, inter alia, the structure, storyline, alignment, completeness and integrity. It is helpful to give one individual the responsibility of ensuring overall alignment and to check for duplication or isolated content throughout the process.

Some organizations find it useful to have someone who has not been involved in the drafting process to review the report to identify any duplication, inconsistencies or where connectivity is unclear or lacking.

#### Use cross-referencing and icons strategically

A clear understanding of the value created, preserved or eroded by the organization over time and reinforcing this narrative throughout the report will lead to sections that flow naturally without constantly using links or icons – too many links and icons can disrupt the reading flow and cause confusion. However, the strategic use of cross-referencing and icons can enhance the clarity of the organization's story and limit duplication. Ideally, key topics will be addressed once in a complete manner, with appropriate linkages and cross-references to information elsewhere in the report.



## 3. CONCISENESS | BALANCE CONCISENESS AND COMPREHENSIVENESS

A concise integrated report provides users with material information and sufficient context without being burdened with less relevant or detailed information. A key construct in conciseness is a robust process of determining material matters.

### The <IR> Framework

*Guiding Principle Materiality: An integrated report should disclose information about matters that substantively affect the organization's ability to create value over short, medium and long term.<sup>1</sup>*

*Guiding Principle Conciseness: An integrated report should be concise.*

*An integrated report includes **sufficient context** to understand the organization's strategy, governance, performance and prospects without being burdened with less relevant information.*

*The organization seeks a balance in its integrated report between conciseness and the other Guiding Principles, in particular completeness and comparability. **In achieving conciseness**, an integrated report:*

- Applies the materiality determination process
- Follows a logical structure and includes internal cross-references as appropriate to limit repetition
- May link to more detailed information, information that does not change frequently (e.g. a listing of subsidiaries), or external sources (e.g. assumptions about future economic conditions on a government website)
- Expresses concepts clearly and in as few words as possible
- Favors plain language over the use of jargon or highly technical terminology
- Avoids highly generic disclosures, often referred to as "boilerplate", that are not specific to the organization.<sup>2</sup>



### In a nutshell

- ▶ Follow a robust process to determine material matters and explain the process in the integrated report
- ▶ Exclude irrelevant information
- ▶ Implement design elements (such as infographics) with clear intent and provide sufficient context
- ▶ Use plain language and get straight to the point using as few words as possible

### Further reading

IRC of South Africa FAQ: [The Octopus Model](#)

IIRC: [Materiality in <IR> Guidance for the preparation of integrated reports](#)

IRC of South Africa: [Achieving Balance in the Integrated Report: An Information Paper](#)

IRC of South Africa FAQ: [Reporting on the SDGs in the Integrated Report](#)

Corporate Reporting Dialogue: [Statement of Common Principles of Materiality](#)

### Incorporating other disclosure requirements in the integrated report

Information beyond the <IR> Framework can be included in the integrated report, provided it does not obscure the concise information required by the <IR> Framework.

Where aspects of this "other information" are material to explaining the organization's process through which value is created, preserved or eroded over time, it should be included in the integrated report.

When deciding on the extent of other information to include in the integrated report, for example disclosures relating to King IV, the United Nation's Sustainable Development Goals or the Task Force on Climate-related Financial Disclosures, among others, consider the <IR> Framework's Guiding Principles. A supplementary report or the organization's website can include information that does not meet the Guiding Principles (refer to the FAQ: The Octopus Model). The integrated report includes cross-references to where users can find additional disclosures.

### Challenges and weaknesses

#### 1. No clarity on what is considered material and how material matters were identified and evaluated

Suppose the process and criteria to determine material matters is not disclosed with sufficient context – in this case, the user is unable to assess the robustness and completeness of the process and what reliance can be placed on it. A limited view of the organization's material matters could result in an incomplete report.

#### 2. Irrelevant information included in the integrated report

Including information that does not align with the Guiding Principles and Content Elements can lead to the inclusion of irrelevant or less important information, detracting from the report's meaningfulness and conciseness.

#### 3. Information is difficult to interpret or presented with insufficient context

Without sufficient context, the user may not fully understand the organization's process through which value is created, preserved or eroded over time. For example, using technical terms, internal terminology or infographics without explanation or context may result in losing or misinterpreting key messages.

<sup>1</sup> IIRC, <IR> Framework, Guiding Principle, Section 3D, paragraph 3.17

<sup>2</sup> IIRC, <IR> Framework, Guiding Principle, Section 3E (emphasis added)



## 3. CONCISENESS | BALANCE CONCISENESS AND COMPREHENSIVENESS CONTINUED

### Key considerations

#### Follow a robust process of determining material matters

*A matter is considered material if it could substantively affect the organization's ability to create value in the short, medium or long term.*<sup>1</sup> The process of determining material matters should ideally be embedded as a continuous and robust process and it requires a clear understanding of how the organization creates, preserves or erodes value over time. It includes assessing the inputs to outcomes process covering the six capitals, the external environment, internal and external information sources, sustainability reporting indices, stakeholders' needs, concerns and expectations and the performance measurement and monitoring that currently occurs and what should be done.

The process and criteria applied to identify, evaluate and prioritize material matters should be explained in the integrated report. It should include the two critical elements of the six capitals and time (short, medium and long term); and the governing body's involvement in the process and approval of the material matters. It is also useful to disclose the timing of the process, e.g. beginning or end of the year or continuous. This allows the user to assess the reliance that can be placed on the organization's process and the degree of comfort it provides on the accuracy and completeness of the material matters stated in the integrated report.

#### Apply the Guiding Principles consistently and rigorously and address the Content Elements

All information in the report should be relevant for the user to make an informed assessment of value creation, preservation or erosion over time. When developing and reviewing content, some helpful questions to ask in considering information are:

- ▶ What insight will it provide to the user (relevance)?
- ▶ How does it align with the material matters?
- ▶ How does it align to the Guiding Principles and Content Elements?

#### Implement design elements with clear intent and provide sufficient context

Infographics are a good tool to make complex information easier to understand and can enhance a report's conciseness. However, if done inappropriately, they can detract from the report's meaningfulness. Have a clear objective for each infographic, graph or other design element and ensure sufficient information is given so that the user has context. Importantly, ensure the design does not slant, emphasize or de-emphasize information, for example, give equal design prominence to KPIs that improved and those that deteriorated.

#### Use plain language and get straight to the point

The <IR> Framework extract on the previous page highlights two particular aspects contributing to conciseness, namely:

- ▶ *Expresses concepts clearly and in as few words as possible*
- ▶ *Favors plain language over the use of jargon or highly technical terminology*

This underscores the importance of how the report is written, in conjunction with what content to include. Write the report assuming a reasonable level of understanding of the organization. However, the report should have enough detail to aid user understanding. Where technical terms are required consider including a glossary to explain them. Limit the use of internal acronyms and terms.

<sup>1</sup> IIRC, <IR> Framework, Glossary



## 4. KPIs | EXPLAIN KPIs AND THE LINK TO VALUE

Users want to see KPIs that directly show the organization's performance and outcomes. They also want to see whether executives have "skin in the game" and that remuneration incentives drive behavior that delivers sustainable value creation over the short, medium and long term.

### The <IR> Framework

*Content Element Strategy and resource allocation: An integrated report should answer the question: Where does the organization want to go and how does it intend to get there?*

*The integrated report ordinarily identifies... the organization's short, medium and long term strategic objectives... how it will measure achievements and target outcomes for the short, medium and long term.<sup>1</sup>*

*A principles-based approach: The <IR> Framework does not prescribe specific KPIs, measurement methods or the disclosure of individual matters. Those responsible for the preparation and presentation of the integrated report therefore need to exercise judgement, given the specific circumstances of the organization.<sup>2</sup>*

*Content Element Governance: An integrated report provides insight about how such matters as the following are linked to its ability to create value – how remuneration and incentives are linked to value creation in the short, medium and long term, including how they are linked to the organization's use of and effects on the capitals.<sup>3</sup>*



### In a nutshell

- Continually assess whether the disclosed KPIs reflect the value created, preserved or eroded over time by the organization
- Disclose what each KPI measures and why it was selected
- Explain the KPI's performance effectively, providing insight into what drove the performance
- Industry benchmarks add useful context

### Challenges and weaknesses

#### 1. It is not evident why the organization selected specific KPIs, or why the KPIs changed year-on-year

When it is unclear why the KPI is important or "core" it may be difficult to understand how it supports the process through which the organization creates, preserves or erodes value over time and links to the strategic objectives.

In addition, if KPIs differ year-on-year, without a clear explanation as to why (for example, due to a change in strategic objectives), it may impact the report's credibility.

#### 2. No clarity on what the KPI means (i.e. what it is measuring, or explanation of whether a performance trend is positive or negative)

If the user does not understand the KPI, what it measures or what its performance trend means, they might misinterpret the organization's performance and outcomes.

#### 3. No clear connection between KPIs and remuneration incentives

Without clear explanation of how the value created, preserved or eroded over time links to the remuneration policy and there is no clear disclosure of how remuneration incentives are aligned to performance, users cannot determine if such incentives support sustainable value creation over the short, medium and long term.

It can also confuse if it is not appropriately explained where incentives related to previous years vest in a year where the current performance is significantly different to when the incentives were awarded.

### Further reading

IRC of South Africa: [Disclosure of Performance against Strategic Objectives: An Information Paper](#)

IRC of South Africa: [Preparing an Integrated Report: A Starter's Guide \(Updated\)](#)

Paragraph 4.53 of the <IR> Framework, Characteristics of quantitative indicators

<sup>1</sup> IIRC, <IR> Framework, paragraphs 4.28 and 4.29 (excerpt, emphasis added)

<sup>2</sup> IIRC, <IR> Framework, paragraph 1:10 (excerpt).

<sup>3</sup> IIRC, <IR> Framework, paragraph 4.9 (excerpt, emphasis added)



## 4. KPIs | EXPLAIN KPIs AND THE LINK TO VALUE CONTINUED

### Key considerations

**Continually assess whether the disclosed KPIs are aligned to the governing body's oversight process and reflect the value created, preserved or eroded over time, with a link to remuneration incentives**

The governing body and management use KPIs to manage and monitor strategy implementation and performance. The assessment to ensure the KPIs included in the integrated report are relevant should include:

- ▶ All the capitals the organization uses and relies on
- ▶ The material outcomes that its business activities, products and services have on the six capitals over the short, medium and long term
- ▶ The linkage to strategy and strategic objectives

Combined assurance<sup>1</sup> over these KPIs adds value to the process and KPI disclosure.

Disclosure should include the KPIs linked to remuneration, the extent to which financial and non-financial measures are balanced and consider the six capitals and how the performance impacted incentives allocated/paid to management.

### Disclose what each KPI measures and why it was selected

Clearly define KPIs and explain each KPI's importance and relevance in relation to the organization's strategy and effects on the six capitals. Explain how the measures are calculated. This detail can be included in a KPI glossary in the integrated report, with appropriate cross-references. If a KPI changes from year-to-year, explain the reason for and nature of the change. Also consider including industry benchmarks as they add useful context.

### Effectively explain the KPI's performance

Provide insight into what the KPI's performance data means, indicate its scope for improvement and explain performance drivers and whether these align with expectations/targets. Disclose targets for the KPI and indicate achievement timelines if the target is not yet met. Performance trends over several years for the KPI can be insightful. Use design elements to indicate whether the KPI movement or performance against target is positive, negative or neutral.

<sup>1</sup> King IV Glossary: A combined assurance model incorporates and optimizes all assurance services and functions so that, taken as a whole, these enable an effective control environment; support the integrity of information used for internal decision-making by management, the governing body and its committees; and support the integrity of the organization's external reports.





# ILLUSTRATIVE EXAMPLES

## Nedbank Group Limited Integrated Report 2019, pages 58 and 59

Given the unfolding impact of the Covid-19 pandemic, our targets and guidance are at risk. On 14 April 2020 we have withdrawn our financial guidance until we have more clarity and certainty of the impact on our business.

### STRATEGIC FOCUS AREAS – KEY PERFORMANCE INDICATORS

Key performance indicators	How it links to:	Executive remuneration <sup>1</sup>	yoy change	2019	2018	2017	Benchmark <sup>2</sup>	Outlook/Target			Assurance
								2020	Medium term	Long term	
<b>Delivering innovative market-leading client experiences</b>											
Digitally active clients (% of total clients)	Enabling more entrenched clients and more cost-efficient channels	GCC	▲	24	20	18	N/A	Increase	Increase	> 70	[MO] [LA]
Digital sales (% of total sales)	Enabling more entrenched clients and more cost-efficient channels	GCC	▲	21	12	<1	> 35	Increase	> 45	> 75	[MO] [LA]
Managed Evolution completion (%)	Increase client satisfaction and market share by delivering innovative technology ecosystems	GCC	▲	70	60	52	N/A	80	Materially complete		[MO]
<b>Growing our transactional banking faster than the market</b>											
Retail main-banked clients (m)	Driver of revenue growth	GCC	▶	2,95	2,98	2,78	N/A	Increase	5,0	Increase	[MO] [LA]
Main-banked market share (%)	Driver of revenue growth	CPT	▼	11,2	13,1	12,7	17,4 peer average	> 15 (target)	Increase	Increase	[MO] [LA] [IN - Consulta]
Retail cross-sell ratio (%)	Number of products per client (holistic client value proposition)	GCC	▶	1,33	1,33	1,32	> 3,0	Increase	> 1,5	> 2,0	[MO]
Household deposit market share (%)	Attractive source of funding in a Basel III world	CPT	▼	16,9	18,0	18,9	20,9 peer average	Increase	Increase	> 19	[IN - SARB BA900]
Commercial transactional-deposits market share (%)	Attractive source of funding in a Basel III world	CPT	▼	14,0	14,5	13,4	24,7 peer average	Increase	> 16,9	> 18	[IN - SARB BA900]
CIB NIR-to-advances ratio (%)	Leveraging our strong position in lending to grow NIR	GCC	▼	2,1	2,4	2,0	N/A	> 2,0	> 2,0	> 2,0	[MO]
NIR-to-expenses ratio (%)	Extent to which NIR covers expenses	GCC	▼	80,8	82,1	80,7	76,2 peer average	Increase	> 85	> 85	[FS]
<b>Being operationally excellent in all we do</b>											
Branch floor optimisation (m <sup>2</sup> )	Cost savings through smaller, more efficient branches	GCC	▲	41 156	32 971	24 485	N/A	49 000	Increase	Increase	[MO]
Self-service cash deposits (% of total)	Shift to convenient self-service channels and downsizing physical footprint	GCC	▲	73	61	60	N/A	Increase	Increase	Increase	[MO]
Digitised services rollout	Shift from physical to cost-efficient digital channels	GCC	▲	114	70	N/A	N/A	180	Complete		[MO]
Core IT system optimisation	Reducing complexity and enabling digitisation of IT systems in a risk-mitigated and cost-efficient manner	GCC	▼	117	119	128	N/A	85	65-75		[MO]
Corporate real estate savings (m <sup>2</sup> )	Space optimisation resulting in lower occupation and accommodation costs	GCC	▲	53 551	25 385	14 683	N/A	Increase	> 100 000	> 120 000	[MO]
Targeted Operating Model savings (Rm)	Improved efficiencies	CPT	▲	114,7	68,0	28,3	N/A	R1,2bn	TOM 2.0 savings (to be disclosed early 2021)		[MO]
Cost-to-income ratio	Key driver of ongoing sustainable profitability	CPT	▼	56,6	57,2	58,6	55,4	Improve	≤ 53	≤ 50	[MO] [FS]
<b>Managing scarce resources to optimise economic outcomes</b>											
ROE (%)	Returns shareholders receive on their capital	CPT	▼	15,0	16,8	15,3	N/A	Guidance withdrawn on 14 April 2020	> 17	> COE +4	[MO] [FS]
Economic profit	Profit generated after adjusting for the expected returns from investors (cost of capital)	STI	▼	1 412	2 868	1 695	N/A	Guidance withdrawn on 14 April 2020			[MO]
We are increasingly tilting financing of SDGs. See pages 50 and 51 for more details.								Metrics are in development.			
<b>Providing our clients with access to the best financial services network in Africa</b>											
Nedbank Africa Regions number of clients (000)	Client gains support revenue growth	GCC	▼	336	353	336	N/A	Increase over time			[MO] [LA]
Financing deals with ETI	Financing opportunities with Ecobank involvement	GCC	▶	1	2	0	N/A	Increase over time			[MO]
Clients doing transactional banking with Ecobank	Servicing and protecting our client relationships	GCC	▲	118	110	85	N/A	Increase over time			[MO]

Each strategic focus area lists the material KPIs, giving the link to remuneration. The year's performance and the performance trend and sector benchmark are shown. The targets for the short, medium and long term are disclosed. The level of assurance on each KPI is given.

<sup>1</sup> GCC - considered as part of agreed goal commitment contracts, which impact STI and LTI allocations for executives  
 CPT - Corporate Performance Target, impacts LTI vesting percentage  
 STI - considered in the build-up and distribution of the STI pool  
<sup>2</sup> Peer average is the simple average for Absa, FirstRand and Standard Bank.

**Assurance indicators**

- LA** External limited assurance on selected sustainability information and the application of the FSC and the group's BBBEE status. Related opinions are available at nedbankgroup.co.za
- IN** Information sourced from external sources, eg independent surveys
- OV** Independent oversight by regulatory bodies, including SARB, the FSCA and various financial sector ombudsman offices
- MO** Management and board oversight through rigorous internal reporting governed by the group's ERMF
- FS** Financial information extracted from the 2019 Nedbank Group Limited Audited Annual Financial Statements.





## ILLUSTRATIVE EXAMPLES

### Redefine Properties Limited *Integrated Report 2019*, pages 52 and 58

There is explanation of why the KPI is important and the performance target. The year's performance is given in the context of the five-year trend and the related outcomes in the reporting year are shown. The link to remuneration is clearly shown.

UNPACKING OUR PROGRESS	
<b>KPI</b>	Forward yield <b>R</b>
<b>Target</b>	Distribution forward yield of equal or less than R186 <b>▼</b>
<b>Why this KPI is important</b>	Our distribution forward yield ultimately reflects the market's rating of our ability to deliver sustained value in the form of growing distributions and capital growth.
	<b>Five-year trend: Forward yield</b> 
<b>2019 outcomes</b>	
<ul style="list-style-type: none"> <li>International Council of Shopping Centres Solat award for <b>Innovation Challenge</b></li> <li>Carbon emissions savings from our solar installations for the year equate to taking approximately 7 340 passenger cars off the road</li> <li>Expanded external waste management to office buildings as part of our Green Star SA certification programme</li> <li>Continue to install various technologies such as online monitoring and leak detection, smart shutoff valves and sensors in bathrooms to reduce water consumption</li> <li>Centurion Mall and Kyalami Corner won gold at Footprint Marketing Awards 2019</li> <li>233 stakeholders engaged with the second <b>Challenge Convention</b> at Maonya Mall</li> <li>Improved board independence – appointed Daisy Naidoo. 100% of non-executive directors independent</li> <li>55% of board is female</li> <li>3rd in EY Excellence in Integrated Reporting Awards 2019</li> </ul>	

UNPACKING OUR PROGRESS	
<b>KPI</b>	Tangible net asset value (TNAV) per share <b>R</b>
<b>Target</b>	TNAV growth of greater than 6% <b>▼</b>
<b>Why this KPI is important</b>	TNAV is the value of an entity's tangible assets less the value of its liabilities. TNAV is an indicator of organic growth of the capital base that is being actively managed, which demonstrates the effectiveness of the investment strategy and serves as an indicator of business sustainability. The most common way to determine the value of a REIT is to look at the TNAV.
	<b>Five-year trend: TNAV</b> 
<b>2019 outcomes</b>	
<ul style="list-style-type: none"> <li>Property assets under management expanded to R95.4 billion</li> <li>Deployed R6.9 billion into property assets</li> <li>Offshore expansion totalled R4.3 billion, with R3.6 billion invested in Poland</li> <li>Local development activity totalled R2.4 billion</li> <li>TNAV declined by 33.0 cents per share to 943.9 cents per share</li> </ul>	

UNPACKING OUR PROGRESS	
<b>KPI</b>	Engagement score <b>R</b>
<b>Target</b>	Maintain or improve previous year's engagement score <b>▲</b>
<b>Why this KPI is important</b>	Engagement score refers to the amount of commitment, discretionary effort and intent to stay that employees exhibit given the combination of their present and past experiences, and expectations for the future. The score is based on an engagement survey carried out by an external service provider.
	<b>Five-year trend: Engagement score</b> 
<b>2019 outcomes</b>	
<ul style="list-style-type: none"> <li>197 learners completed our learnership programme since 2013</li> <li>Certified as a Top Employer</li> <li>Employee engagement score of 87% – above global and local benchmark</li> <li>Business processes restructured to enable service excellence</li> <li>Focusing on people, not jobs, is the key to sustainability</li> <li>Transformation across all levels in progress</li> </ul>	

Outcomes: **▲ Positive** **▼ Negative** **□ In progress**

**R** Link to executive directors' remuneration



## 5. OUTCOMES | REPORT CLEARLY ON OUTCOMES AND TRADE-OFFS

Disclosure of material outcomes is essential to the organization's story. It shows the positive and negative effects the organization's activities and its products and services have on the six capitals over time. Being clear about the interdependencies and trade-offs among the six capitals enhances understanding of the organization.

### The <IR> Framework

*Outcomes: The internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs.*<sup>1</sup>

*Complexity, interdependencies and trade-offs: The <IR> Framework does not require an integrated report to provide an exhaustive account of all the complex interdependencies between the capitals such that an organization's net impact on the global stock of capitals could be tallied. It is important, however, that an integrated report discloses the interdependencies that are considered in determining its reporting boundary and the important trade-offs that influence value creation over time, including trade-offs:*

- *Between capitals or between components of a capital*
- *Over time*
- *Between capitals owned by the organization and those owned by others or not at all.*<sup>2</sup>



### In a nutshell

- Understand how the organization creates, preserves or erodes value over the short, medium and long term
- Think holistically about outcomes for a complete and balanced integrated report: consider the six capitals, the short, medium and long term and be specific in disclosing actual outcomes, intended and unintended, positive and negative
- Explain the judgement applied and the thinking process behind the trade-offs made

### Challenges and weaknesses

#### 1. Describing value creation, preservation or erosion over time in general terms (or not at all) instead of organization-specific information

The following weaknesses detract from meaningfulness, undermine transparency, and leave users with a lack of clarity on the short, medium and long-term outcomes:

- Vague descriptions with little or no focus on quality or relevance
- A focus on value created, preserved or eroded in the reporting year and the short term, but with little disclosure on the medium and long term
- No interpretation of the possible implications, such as how the outcomes can impact future strategy implementation and strategic resource allocation plans.

#### 2. Biased, unbalanced or incomplete disclosure of outcomes

Some organizations tend to only report positive outcomes rather than all the material positive and negative outcomes. There may be insufficient disclosure of indirect or unintended outcomes across all six capitals, particularly where these are negative, as well as the medium and long-term outcomes.

#### 3. Trade-offs are general or disclosed without sufficient context

Providing incomplete trade-off disclosures or general ("boilerplate") non-specific information suggests the organization has not properly considered trade-offs or has not fully embedded integrated thinking.

A lack of sufficient context when explaining the significance of the trade-offs can limit user understanding and detract from the report's meaningfulness.

### Further reading

IRC of South Africa: [Reporting on Outcomes: An Information Paper](#)  
Section 2D of the <IR> Framework, The value creation process

<sup>1</sup> IIRC, <IR> Framework, Glossary

<sup>2</sup> IIRC, <IR> Framework, Chapter 5, paragraph 5.8 (excerpt)



## 5. OUTCOMES | REPORT CLEARLY ON OUTCOMES AND TRADE-OFFS CONTINUED

### Key considerations

#### Understand how the organization creates, preserves or erodes value over short, medium and long term

The value the organization creates, preserves or erodes over time is the essence of the integrated report and informs its structure, content and messaging. The organization's ability to articulate this, and how it links to its purpose and strategy, is essential to a meaningful integrated report. The organization's understanding of the value it creates, preserves or erodes over time may evolve and improve as it embeds integrated thinking.

Determining outcomes should not only be done when preparing the integrated report. An organization should embed its understanding of outcomes (and measurement, where feasible, as well as monitoring) in its integrated thinking. Integrated thinking implies that the evaluation of outcomes is a standard business practice.

While the business model provides a valuable overview of outcomes, the entire integrated report - encompassing all the Content Elements and its preparation according to the Guiding Principles – explains the process of how the organization creates, preserves or erodes value over time.

#### Think holistically about outcomes for completeness and balance: six capitals, positive and negative, and the short, medium and long term

The following considerations may be useful in disclosure:

- ▶ The transparent disclosure of the material negative and positive outcomes can give users a clear view of the value being created, preserved or eroded over time and allows them to make informed decisions
- ▶ Consider all six capitals in the determination of outcomes
- ▶ Consider outcomes in the reporting year and the short, medium and long term. Longer-term outcomes may not always be apparent in the reporting year, but it is important that they are considered and disclosed
- ▶ Quantitative information on outcomes is recommended, where possible, together with explanatory narrative and comparative information
- ▶ Quantitative information may not always be possible or available and thus qualitative information on outcomes should be given - the unavailability of quantitative information should not be a reason to exclude material outcomes
- ▶ Disclose negative outcomes together with the mitigation measures the organization has/will put in place to minimize and manage these
- ▶ Outcomes may have interdependencies and the interplay between capitals should be disclosed and linked to the trade-offs made
- ▶ Explain the possible implications of outcomes to the organization
- ▶ Do not forget about the relevant connectivity, such as to performance, risks and opportunities, material matters, strategy, strategic resource allocation plans and outlook

#### Explain the judgement and thinking process applied to the trade-offs made

Disclosure of the material trade-offs in the business model and strategy should demonstrate the judgement applied, the breadth and depth of the thinking process and the organization's decisions. Many choices have positive and negative outcomes and some element of risk. The disclosure of trade-offs should not seek to justify the decision as one without risk or potential negative effects, but is rather a transparent disclosure of how the organization balanced these factors in the decision-making process.

Trade-offs do not always have to be disclosed as information in a specific table as is often shown in integrated reports; they can be discussed throughout the report if this best explains the organization's story. The trade-offs should explain the interdependencies between the capitals and the choices made regarding the relative effects on the capitals. This could include an explanation of the positive and negative effects considered, any mitigating plans and actions, and why the chosen decision/option is regarded as the optimal choice for the organization over time.

A useful internal process is to document material trade-off considerations during key strategic decisions as they happen. This promotes integrated thinking and can assist the disclosure in the integrated report.



# ILLUSTRATIVE EXAMPLES

## Kumba Iron Ore Limited Integrated Report 2019, pages 16 and 17

OUR BUSINESS CREATING VALUE: INTERDEPENDENCIES WITH THE CAPITALS

### CREATING VALUE: INTERDEPENDENCIES WITH THE CAPITALS

#### CAPITALS

##### PEOPLE

Everything we do depends on the wellbeing, skills, knowledge, expertise, productivity, motivation and behaviour of our employees, the leadership team, contractors and service providers.

##### OUR RELATIONSHIPS

Trusted relationships with stakeholders is essential to maintaining our licence to operate and reputation, and to enabling us to deliver on the Tsevelopele strategy.

##### NATURAL RESOURCES

Our business model involves converting natural and mineral resources into social and economic value; doing so has some unavoidable environmental impacts.

#### NECESSARY INPUTS

- Employees and contractors operating within an environment fostering a zero-harm, performance-based culture (2019: 6,107 permanent employees, 5,596 contractors and 514 learnerships)
- An experienced and sufficiently diverse leadership team, demonstrating values-driven behaviour
- Service providers, delivering on agreed terms and conditions, and facilitating our drive for transformation and local development

**Challenges in securing these inputs:**  
There remain significant competitive pressures in attracting and retaining top skills and diverse talent. This year, some employees in key positions left the company; we have promoted from within and have also attracted skilled talent from the market to fill these positions.

- Positive engagement with unionised and non-unionised workforce
- Constructive relationship with representatives from government and regulators
- Continued confidence from our shareholders, investment community and customer base
- Diversified customer portfolio, with the quality of our products supporting our competitive advantage
- Trusted reputation with host communities, civil society bodies, NGOs and media
- Effective service delivery and engagement from suppliers and contractors
- Conductive local, national and global operating environment, founded on mutual trust

**Challenges in securing these inputs:**  
Declining levels of trust in institutions globally, particularly with multinational corporations, has heightened the importance of developing strong relationships. The challenging iron ore price environment has required us to take actions that have tested some of our relationships. Managing occasionally competing interests of different stakeholder groups can necessitate some difficult decisions and trade-offs. These challenges are heightened by the continuing high levels of inequality and some long-standing constrained stakeholder relationships in South Africa.

- Inclusive mineral resources: 1,262.0 Mt
- Water: Total withdrawal of 30.5 million m<sup>3</sup> (1% decrease year-on-year)
- Energy: Total consumption of 8.78 million GJ (1% reduction year-on-year)
- Diesel: 197.8 Mt purchased (2% reduction year-on-year)
- Land: 92,094 hectares land under management; 2,500 hectares set aside for biodiversity offsets

**Challenges in securing these inputs:**  
We are heavily reliant on water as an input to mining and processing activities. Our mines are in the water-stressed Northern Cape, where arid conditions and municipal potable water supply constraints underscore the need for responsible water management. To maintain our licence to operate, we take all reasonable steps to ensure that we do not degrade water quality or compromise the access rights of other users. We continue to increase the water reuse rate at our operations with the aim of achieving an 85% reuse rate by 2030.

Our ability to create value over time – and any assessment of the “value” we have created, undermined, and/or shared – is determined by how we interact with the resources and relationships that our business model depends on.

#### ACTIONS

##### To enhance our EMPLOYEE contribution

Our activities and investments in providing a safe, healthy and engaged working environment, promoting employee training and development, ensuring fair labour and contracting practices, and encouraging local employment opportunities, provide the foundation for optimising value creation. A review of our activities is provided in the following sections of our 2019 reports:

- Leadership and culture (IR – p 49)
- Provide leadership through responsible citizenship (IR – p 48)
- Our people (SR – p 32)
- Building social capital (SR – p 56)

##### To enhance our RELATIONSHIPS

A review of our activities aimed at strengthening stakeholder relations is provided in the following sections of our 2019 reports:

- Addressing stakeholder interests (IR – p 30)
- Provide leadership through responsible citizenship (IR – p 48)
- Building social capital: Making a positive social contribution (SR – p 64)
- Our People: Workforce culture and capability (SR – p 49)
- Stakeholder engagement (SR – p 30)

##### To minimise ENVIRONMENTAL impacts

In addition to mitigating the direct impacts of our activities, we seek to offset any remaining impacts through the provision of energy and water services to the local community, and the responsible sharing of the socio-economic benefits deriving from our mining activities. A review of our activities to reduce our environmental impacts is provided in the following sections of our 2019 reports:

- Provide leadership through responsible citizenship (IR – p 48)
- Environmental impacts (SR – p 76)

#### OUTCOMES

##### The effect of our activities on EMPLOYEES

- Sustained strong safety and occupational health performance
- Zero employee and contractor fatalities (2018: zero)
- Total recordable case frequency rate of 2.06, against a target of 2.55 (2018: 1.80)
- No new cases of noise-induced hearing loss or occupational respiratory disease
- Enhanced employee skill-set, wellbeing, diversity and commitment, through key initiatives:
  - R5.0 billion spent on employee salaries and benefits (2018: R4.6 billion)
  - R289.0 million invested on training and development (2018: R232.0 million)
  - Leadership and culture initiatives to support employees through the Tsevelopele journey
  - Diversity: 71% HDSA in management (2018: 68%); 23% women in total workforce (2018: 23%)
- Job satisfaction and personal development
- 31 employee grievances referred to Commission for Conciliation, Mediation and Arbitration (CCMA) (2018: 53)

##### The effect of our activities on our RELATIONSHIPS

- Continued to maintain strong employee relations:
  - 3.37% employee turnover rate, well below the industry benchmark
  - No industrial action since 2012
  - Implementation of new employee share ownership scheme, Karolo
- Constructive relationship with national, provincial and local government through regular engagement, strong regulatory compliance, and encouraging performance on transformation and developmental objectives
- Positive delivery in terms of Mining Charter and National Development Plan (NDP) expectations
- No material fines for non-compliance during the year
- R11.9 billion total tax contribution (2018: R6.2 billion)
- Significantly improved relationship with Transnet throughout the year as a result of focused bilateral engagements
- Sustained confidence from shareholders and investment community through strong financial performance
- Long term, stable customer base
- General encouraging relationship with communities, enhanced by active engagement and provision of economic opportunities, infrastructure and services:
  - 91% of Kumba employees recruited from local areas
  - R2.4 billion spent on more than 300 suppliers from our host communities (2018: R1.4 billion)
  - R13.9 billion B-BBEE procurement spend (2018: R11.8 billion)
  - R170.9 million social investment, including in health, education and infrastructure (2018: R120.5 million)
  - Carefully managed relocation of the Dingleton community to a new purpose-built suburb, in accordance with IFC standards
- 46 community complaints, relating mainly to environmental impacts
- Some frustrations expressed by local business forums regarding unmet expectations on economic opportunities

##### The effect of our activities on NATURAL RESOURCES

- No serious (level 3 to 5) environmental incidents for fourth consecutive year
- No water source or habitat materially negatively affected by our extraction and use of water
- Clean mine water recharged into underground aquifers neighbouring Kolomeela (roughly 36,000 m<sup>3</sup>/month)
- 65 hectares rehabilitated during the year
- Progress in mitigating dust emissions at our mining operations
- Limited increase in total greenhouse gas emissions over the year (to 1.00 million tonnes CO<sub>2</sub>e)
- Decrease in overall Ore Reserves of 6% (41.1 Mt), as a result of annual production and decrease of 46% (490.7 Mt) in Mineral Resources, due to the removal of the Zandvriespoort project from Kumba's resource portfolio in 2019
- 20 environmentally-related community grievances relating mainly to groundwater levels and dust (2018: 20)
- 14,838 hectares disturbed by mining, processing and mineral waste disposal

Shows the flow from key inputs taken from each capital to the positive, neutral and negative outcomes. There is explanation of the challenges to the future availability of the key inputs. Links are given to related information and to the mitigating actions for the negative outcomes.





# ILLUSTRATIVE EXAMPLES

## Oceana Group Limited Integrated Report 2019, pages 16 and 17

### MANAGING TRADE-OFFS TO DELIVER LONG-TERM VALUE

Our core purpose, and our underlying business model, relates to the efficient conversion of one capital stock (global fishing resources) into value across all six capitals. Optimising value inevitably involves trade-offs in how and when value is shared between different stakeholder groups, and in how that value is created, transformed or depleted across the capitals. Deciding on these trade-offs often involves some difficult decisions, particularly when it's accompanied by some strongly competing stakeholder interests.

Following are some examples of recent trade-offs undertaken across the Group, with an explanation of the reasons the relevant decisions were taken.

#### FROZEN FISH PROCUREMENT STRATEGY: Increased costs and competition provide supply chain certainty and societal benefits

Given the continued reductions in the South African pilchard TAC, challenging harvesting conditions, uncertainty regarding the timing of future quota allocations and the moratorium on pilchard fishing in Namibia, the majority of the pilchard raw material for canning at our Lucky Star operations is procured internationally as frozen fish. This increases working capital requirements, increases exposure to any weakening in the Rand, and impacts margins. However, the strategy has reduced our reliance on the local pilchard resource and TAC, enhanced our capacity to consistently deliver optimum quality product, and made an important contribution to increasing the hours worked and wages earned by our employees.

Capital depleted	Capital increased
<ul style="list-style-type: none"> <li>106 224 tonnes of frozen fish procured</li> <li>Greater working capital utilised</li> <li>Costs incurred with Rand depreciation</li> </ul>	<ul style="list-style-type: none"> <li>Increased employee earnings</li> <li>Higher investment in local infrastructure</li> <li>Improved community and government relations</li> <li>Greater certainty in meeting customer needs</li> </ul>

#### WEST COAST ROCK LOBSTER: Balancing resource protection and reputational risk

A critical trade-off that lies at the heart of our WCRL business is the need for the industry to remain engaged in a SASSI red-listed fishery against adherence to our own imperative of only operating in sustainable fisheries. The WCRL fishery has been red-listed by WWF for a number of years owing to problems around poaching. Our active engagement with stakeholders and contribution towards the protection of the species illustrates the value of us remaining in this sector. Significant DEFF intervention has seen the level of poaching decrease slightly this year and the TAC remains low, leading to further rationalisation of assets to maintain our viability in the sector. We will continue to work with DEFF, WWF and the industry to identify the most effective way of policing and managing the resource.

Capital depleted	Capital increased
<ul style="list-style-type: none"> <li>Reduced revenue and profit from a low TAC</li> <li>Under-utilised fleet; rationalisation of assets</li> <li>Reduced employment opportunities</li> <li>Reduced reputation of operating in a SASSI red-listed fishery</li> </ul>	<ul style="list-style-type: none"> <li>Greater long-term biomass viability</li> <li>Improved long-term job creation</li> <li>Higher long-term financial return</li> </ul>



#### LUCKY STAR PRICING: Balancing short-term margin gain for long-term customer loyalty

Our Lucky Star canned fish business effected a single, below inflation-linked price increase during the year, despite inflationary cost increases. Although this placed pressure on margins, the competitive positioning of the product bolstered volume sales and product uptake as part of a switch to a lower-cost protein source, increasing the overall performance of the division.

Capital depleted	Capital increased
<ul style="list-style-type: none"> <li>Reduced margins</li> </ul>	<ul style="list-style-type: none"> <li>Increased sales volumes</li> <li>Enhanced customer and brand loyalty</li> </ul>

#### CCS STORAGE: Balancing external CCS operating profit to enable the internal Lucky Star frozen fish strategy

The CCS division provides cold storage solutions to external customers. Given our frozen fish strategy, significant space was reserved to accommodate the frozen fish requirements of Lucky Star. This came at a cost of external CCS customers, that would ultimately have improved the performance of CCS. However, the benefit to Lucky Star enabled the division to achieve its record sales volumes.

Capital depleted	Capital increased
<ul style="list-style-type: none"> <li>Reduced profit</li> <li>Impacted CCS long-standing customer relationships</li> </ul>	<ul style="list-style-type: none"> <li>Continuous supply of Lucky Star inventory to meet demand</li> <li>Enhanced Lucky Star customer and brand loyalty</li> </ul>

#### HOUT BAY FACTORY CLOSURE: Balancing operational requirements with long-term employee loyalty

A strategic decision was taken to close the Hout Bay fishmeal operations, thereby potentially impacting the livelihood of 58 employees. We redeployed 40 individuals in other areas of the Group. Total employee costs would therefore not materially decline but the goodwill gained from the employees and the community in which they live is considered invaluable.

Capital depleted	Capital increased
<ul style="list-style-type: none"> <li>Higher operating costs</li> </ul>	<ul style="list-style-type: none"> <li>Improved relationships with employees and their broader communities</li> </ul>

Gives the context of the trade-off decisions made, disclosing the positive and negative effects on the six capitals.



## 6. TECHNICAL REQUIREMENTS | APPLY ALL <IR> FRAMEWORK REQUIREMENTS

The <IR> Framework's 19 requirements should be applied if the integrated report claims to be "in accordance with" the <IR> Framework. The 19 requirements encompass the crucial aspects of the integrated report and include the seven Guiding Principles and eight Content Elements. By mindfully applying all 19 requirements, the organization can take comfort that it is striving to deliver a meaningful and concise integrated report. The 19 requirements were carefully crafted to achieve an integrated report that is a balanced view of the value being created, preserved or eroded by the organization over the short, medium and long term.

Paragraph 1.17 of the <IR> Framework addresses the need to apply all 19 requirements if an integrated report references the <IR> Framework. It offers two exceptions:

1. The unavailability of reliable information or specific legal prohibitions results in an inability to disclose material information. In this instance, there is a requirement for alternative disclosure as set out in paragraph 1.18
2. Disclosure of material information would cause significant competitive harm

Importantly, the <IR> Framework requires a statement of responsibility from those charged with governance (the governing body) that firstly, acknowledges its responsibility to ensure the integrity of the integrated report, and secondly gives its opinion or conclusion about whether, or the extent to which, the integrated report is presented in accordance with the <IR> Framework (paragraph 1.20).

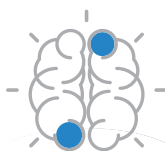
Note that the evaluation of "in accordance" is against the 19 requirements. Those organizations new to integrated reporting and in the process of adopting the <IR> Framework might not be in a position to apply all the requirements. In this instance, it is appropriate to identify which requirements have not been applied and the reasons why (paragraph 1.21).

The <IR> Framework encourages that the statement by the governing body be supplemented by process disclosures as this information indicates the measures taken to ensure the integrity of the integrated report (paragraph 1.24). Such disclosures address the process followed to prepare and present the integrated report and can include: related systems, procedures and controls, including key responsibilities and activities; and the role of the governing body, including relevant committees (paragraph 1.23).

### Summary of the technical requirements of the <IR> Framework

#### Form of the report

- An integrated report should be a designated, identifiable communication (paragraph 1.12)



#### Two required statements

- A statement from those charged with governance (paragraph 1.20)
- "In accordance with" statement: if an integrated report references the <IR> Framework it should apply all the requirements (paragraph 1.17). Note that the alternative disclosure referred to in paragraph 1.18 is also a requirement



#### Seven Guiding Principles

- Strategic focus and future orientation
- Connectivity of information
- Stakeholder relationships
- Materiality
- Conciseness
- Reliability and completeness
- Consistency and comparability



#### Eight Content Elements

- Organizational overview and external environment
- Governance
- Business model
- Risks and opportunities
- Strategy and resource allocation
- Performance
- Outlook
- Basis of preparation and presentation





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While every effort was made to ensure the information published in this Paper is accurate at the date of publication, the IRC of South Africa, its members, secretariat and the members of its Working Group take no responsibility (jointly or individually) for any loss or damage suffered by any person as a result of reliance on the information contained herein.

This Paper carries the IIRC's <IR> Networks logo. <IR> Networks are instrumental in increasing the pace and scale of integrated reporting, bringing together like-minded organizations to collaborate and drive insights and innovation in reporting. The <IR> Networks logo is used by integrated reporting network partners and participants where they have worked collectively on an area of research or report. Using the logo does not necessarily mean the report reflects the views of the individual organizations in the network concerned or the IIRC.

The IRC of South Africa [website](#) is a resource for preparers, investors and users of integrated reports offering the latest integrated reporting excellence awards in South Africa, IR publications, blogs, webcasts of our annual conferences and academic research papers.

If you would like to receive our technical releases and event invitations, you can join the IRC Network by clicking on the menu button on our website.

We hope you find this Paper useful and welcome your comments and suggestions, addressed to [admin@integratedreportingsa.org](mailto:admin@integratedreportingsa.org)

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## The following IRC of South Africa technical releases are on our website:

- 🔗 Reporting on **Outlook** in the Integrated Report: An Information Paper
- 🔗 Achieving **Balance** in the Integrated Report: An Information Paper
- 🔗 **Preparing** an Integrated Report: A Starter's Guide (Updated)
- 🔗 Disclosure of **Governance** Information in the Integrated Report: An Information Paper
- 🔗 Disclosure of **Performance** against Strategic Objectives: An Information Paper
- 🔗 Reporting on **Outcomes**: An Information Paper
- 🔗 FAQ: **Reporting in a Time of Crisis**
- 🔗 FAQ: Reporting on the **SDGs** in the Integrated Report
- 🔗 FAQ: The **Audience** of the Integrated Report
- 🔗 FAQ: Using the **Capitals** in the Integrated Report
- 🔗 FAQ: The **Octopus Model**





## ABOUT THE IRC OF SOUTH AFRICA

The IRC is a voluntary association, not for gain, in South Africa, founded in May 2010. The IRC's role as a national body is to provide direction on matters relating to integrated reporting and integrated thinking in South Africa through technical information and guidance, conferences and other activities.

The IRC's Board as at January 2021 comprises Professor Mervyn King (chairman), Professor Suresh Kana (deputy chairman), Leigh Roberts (chief executive officer), Graeme Brookes (JSE Ltd), Loshni Naidoo (South African Institute of Chartered Accountants), Parmi Natesan (Institute of Directors in South Africa), Sunette Mulder (Association for Savings and Investment South Africa), Jayne Mammatt (PricewaterhouseCoopers Inc.) and Russell Loubser (IRC honorary member).

The IRC Working Group comprises individual experts engaged in the development of integrated reporting in South Africa.

The IRC chief executive officer is Leigh Roberts and the head of the IRC secretariat is Sandy van Esch with Elrida Oberholzer the secretariat of the IRC Working Group. The IRC relies on a team of people who volunteer their services: Darren Gorton (IT and website maintenance), Graham Terry and Lyn Bunce (membership development), Yvette Lange (academic research initiatives), Bronwyn Forsyth (social media), Julie Dixon (website updates) and Racheal Sithole (admin and projects).

The IRC's membership comprises organization members (professional and industry bodies), corporate members (large and small and medium-sized enterprises (SMEs)) and honorary members. The founding organization members are the Association for Savings and Investment South Africa, Institute of Directors in South Africa, JSE Ltd and the South African Institute of Chartered Accountants.

Our other organization members are ACCA South Africa, Auditor-General of South Africa, Banking Association South Africa, Chartered Governance Institute of Southern Africa, Council of Retirement Funds for South Africa (Batseta), Government Employees Pension Fund, Institute of Internal Auditors of South Africa, The Institute of Risk Management South Africa, Financial Sector Conduct Authority, Chartered Institute of Management Accountants South Africa, South African Institute of Professional Accountants, University of Johannesburg: Department of Accountancy and the University of the Witwatersrand – School of Accountancy.

Our 2020/21 corporate members are African Bank Ltd, Bastion Graphics (Pty) Ltd, Discovery Ltd, EY Inc., Eskom Holdings SOC Ltd, Government Employees Medical Scheme, Imperial Logistics Ltd, Ince (Pty) Ltd, Industrial Development Corporation Ltd, KPMG, Legal Practitioners Insurance Indemnity Fund NPC, Liberty Holdings Ltd, Nampak Products Ltd, Nedbank Ltd, Northam Platinum Ltd, PwC, Redefine Properties Ltd, Royal Bafokeng Platinum Ltd, Sasfin Holdings Ltd and SNG Grant Thornton Inc.

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Our honorary members are Professor Mervyn King, Dr Gavin Andersson, Garth Coppin, Hester Hickey, Karin Ireton, Professor Suresh Kana, Corli le Roux, Russell Loubser, Ansie Ramalho, Leigh Roberts, Professor Bob Scholes, Dirk Strydom, Graham Terry and Sandy van Esch.

The IRC gratefully thanks its members for their continued support and commitment to integrated reporting.

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