

INTEGRATED REPORTING COMMITTEE (IRC) OF SOUTH AFRICA

REPORTING ON OUTLOOK IN THE INTEGRATED REPORT: AN INFORMATION PAPER



INTEGRATED REPORTING
COMMITTEE OF
SOUTH AFRICA


NETWORK

www.integratedreportingsa.org

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FOREWORD

A quality integrated report provides the stakeholders of an organization with balanced and transparent information, which can assist them in making more informed assessments of the organization's prospects and value creation ability into the future. 

Information on Outlook is essential when reporting to stakeholders as it completes the value creation story of the organization as told in its integrated report. Outlook information covers the organization's strategic path ahead – and the leadership's view of the material uncertainties and challenges that may affect the achievement of the strategic objectives and the potential implications for the organization (referred to as "Outlook" and "Outlook information" in this Paper). The integrated report that does not offer meaningful insight into the organization's Outlook diminishes in credibility.

Outlook information should not be misunderstood as market "guidance" on future earnings, which may be a potential breach of legal requirements. The intention of Outlook information in the International <IR> Framework¹ relates to the organization's value creation process.

Reporting by organizations, in particular financial reporting, has come under heightened scrutiny. This partly stems from the spate of corporate failures and scandals caused by events not previously reported on despite being in existence at the time of reporting. These failures and scandals have had an adverse impact on the perceived integrity of those charged with governance and the reports they issue to stakeholders.

The governing body should ensure that Outlook information in the integrated report mindfully reflects its view of the organization's strategic path ahead and the potential uncertainties, disruptive factors, challenges and opportunities. This is a key component of a quality integrated report and is a part of the governing body's duty of accountability through balanced and transparent reporting.



Professor Mervyn E. King SC

Chairman of the Integrated Reporting Committee (IRC) of South Africa
Chairman Emeritus of the International Integrated Reporting Council (IIRC)

December 2019

¹ Available at www.integratedreportingsa.org or www.integratedreporting.org

PURPOSE OF THIS PAPER

The Integrated Reporting Committee (IRC) of South Africa has developed this Information Paper (Paper) to assist organizations with their disclosure of the information required in terms of the Outlook Content Element of the <IR> Framework.

The Paper aims to inform those preparing integrated reports, as well as executives and members of the governing body who are responsible for guiding and approving integrated reports. The Paper will also be useful to the users of reports to enhance their understanding and expectations of information on Outlook.

This Paper sets out to:

- Clarify the nature of Outlook information in the integrated report.
- Highlight the responsibility of the governing body in the disclosure of Outlook information in the integrated report.
- Emphasise the benefits of meaningful Outlook information.
- Identify the challenges and weaknesses in current reporting.
- Consider the guidance of the <IR> Framework.
- Suggest key considerations for determining Outlook information with illustrative examples from the integrated reports of South African organizations.

The Paper includes reference to the *King IV Report on Corporate Governance™ for South Africa 2016*² (King IV³), which is the South African corporate governance code released in November 2016, and the <IR> Framework released by the International Integrated Reporting Council (IIRC) in December 2013. The <IR> Framework has been endorsed by the IRC of South Africa as guidance on good practice on how to prepare an integrated report. Excerpts from King IV and the <IR> Framework are stated in italics in this Paper.



While this Paper suggests key considerations for achieving balanced reporting, it does not purport to be an exhaustive checklist and recognises that the due process, judgement and integrity of the organization's leadership ultimately determines whether their integrated report provides a balanced view of the organization's value creation process.

It should be noted that this Paper is issued for informational purposes; guidance is offered by King IV and the <IR> Framework.

The <IR> Framework uses the term *those charged with governance*, while King IV refers to *members of the governing body*. Both terms are used interchangeably in the Paper.

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³ Available at <https://www.iodsa.co.za/page/DownloadKingIVapp>

OUTLOOK INFORMATION IN THE CONTEXT OF THE INTEGRATED REPORT

The <IR> Framework states that the organization should answer the following question when addressing the Outlook Content Element in the integrated report:

What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?⁴

In the integrated report, Outlook information relates to the organization's value creation process. It informs the users of the report of the leadership's view of the material factors that could affect the achievement of strategy and the potential implications for the organization.

Outlook information should not be misunderstood as market "guidance" (such as earnings forecast or projection), nor as a guarantee of future financial performance. Nor should it be misconstrued as the expectation to commit to a detailed scenario of future performance. In determining the Outlook information for disclosure in the integrated report, the organization will, as a matter of course, consider applicable regulatory provisions and stock exchange listings requirements with regard to forward-looking information. Further, the organization may seek legal counsel in areas of doubt about potential breach of legal requirements.

While determining Outlook information may seem challenging to some organizations, it is essential to the users of reports as it rounds off or completes the value creation story of the organization as told in its integrated report.

In determining Outlook information for the integrated report the organization addresses the factors that are material to achieving its strategic objectives in the short-, medium- and long-term. These may be:

- Within the organization's control (controllable factors) or outside of its control (uncontrollable factors).
- Internal to the organization, such as employee upskilling, or external to the organization, arising from the economic, environmental, technological, political or regulatory environment, such as availability of raw materials or digital disruptors.

Using the example of a mining company, the impact of changes in the market-determined US dollar metal price on the organization's future performance against strategic objectives is an uncontrollable factor, while the impact of safety incidents may have both controllable and uncontrollable aspects.



THE ROLE OF THE GOVERNING BODY

The governing body is responsible for the organization's strategic direction and actions – and for its reporting. It is the duty of those charged with governance to ensure that the information reported presents a true and fair reflection of the affairs of the organization.⁵

With regard to the integrated report, the governing body is accountable for ensuring that the information provided is sufficient for stakeholders to make informed decisions about the organization's performance and its short-, medium- and long-term prospects.⁶

In approving the disclosure of Outlook information in the integrated report, the governing body ensures that: there is an integrated view that is aligned with the business direction; the information is adequately supported by research and input from management; and, it is reliable, credible and reasonable in the opinion of the governing body and management.⁷

Moreover, the <IR> Framework requires a statement of responsibility from those charged with governance to be included in the integrated report, which addresses:⁸

- *An acknowledgement of their responsibility to ensure the integrity of the integrated report*
- *An acknowledgement that they have applied their collective  to the preparation and presentation of the integrated report*
- *Their opinion or conclusion about whether the integrated report is presented in accordance with the <IR> Framework*

The inclusion of this statement in the integrated report implies that those charged with governance have a sound basis for the integrity of the report, and that the report is in accordance with the <IR> Framework, including the requirement for Outlook information.

It is the judgement of those charged with governance as to whether or not sufficient information has been provided for the users of reports to make informed decisions of the future value creation ability of the organization.

⁵ IRC, Achieving Balance in the Integrated Report: An Information Paper, page 3, www.integratedreportingsa.org

⁶ Principle 5 of King IV 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.*

⁷ The governing body relies on the organization's capability for reporting on future prospects through credible information systems and monitoring and management processes.

⁸ IIRC, International <IR> Framework, 1G Responsibility for an integrated report, page 9 

BENEFITS OF MEANINGFUL OUTLOOK INFORMATION

Disclosure of meaningful Outlook information affords many benefits to the organization.

Benefits to the organization

- ▶ The information **completes** the value creation story of the organization as told in its integrated report.
- ▶ There is **greater appreciation by stakeholders** of the challenges and uncertainties, as well as the opportunities, which the organization could face in pursuing its strategic objectives, along with an explanation of their potential implications.
- ▶ Transparency on the reality of the organization's value creation process can **improve stakeholders' trust** in the organization.
- ▶ Assists in **managing the internal and external expectations** of the organization.
- ▶ Demonstrates the **leadership's understanding** of the organization's anticipated environment and its preparedness and ability to respond.
- ▶ **Contributes to a balanced report** by showing the relevant connectivity between the past with explanation of the potential implications.

CHALLENGES AND WEAKNESSES

The following are the challenges cited and the weaknesses observed in the Outlook information disclosed in integrated reports.

Challenges cited by organizations

- ▶ Concern that Outlook information may **overstep** legal, regulatory or stock exchange listing requirements.
- ▶ **Uncertainty** as to what the <IR> Framework requires.
- ▶ Apprehension over **potential risks**, including reputational risk and legal liability, from the misinterpretation of Outlook information.
- ▶ Not wanting to create **unrealistic expectations** about future performance.
- ▶ **Lack of a clear strategy** or robust processes to support long-term planning and scenario analysis.
- ▶ Concern that the information could **influence current engagements** with stakeholders, such as suppliers and trade unions, or reduce the organization's competitive advantage.

Weaknesses observed in reports

- ▶ Disclosure of information **not material** to the organization's value creation process.
- ▶ **Vague or generic** information.
- ▶ **Lack of connectivity**, for instance to the external environment, strategic objectives, risks and opportunities, performance or material matters.
- ▶ **Lack of supportive information** to assess the soundness of the organization's reasoning or assumptions.
- ▶ **Focus on short-term** strategic targets with less disclosure of medium- and long-term targets or statements.
- ▶ **Similar information** in reports of organizations in the same industry gives the impression it is from the same source and not mindful thinking.
- ▶ Outlook information appears to be a **neglected area** of the report, inferring insufficient consideration by those charged with governance.

THE INTERNATIONAL <IR> FRAMEWORK

The <IR> Framework's principles-based approach recognises the unique value creation process of each organization. This process is explained in the organization's integrated report.

Figure 1 graphically shows the value creation process as the organization transforms the inputs it draws from the six capitals into outputs (its products, services and waste) and outcomes (the resulting effects on the six capitals) over the short-, medium- and long-term.

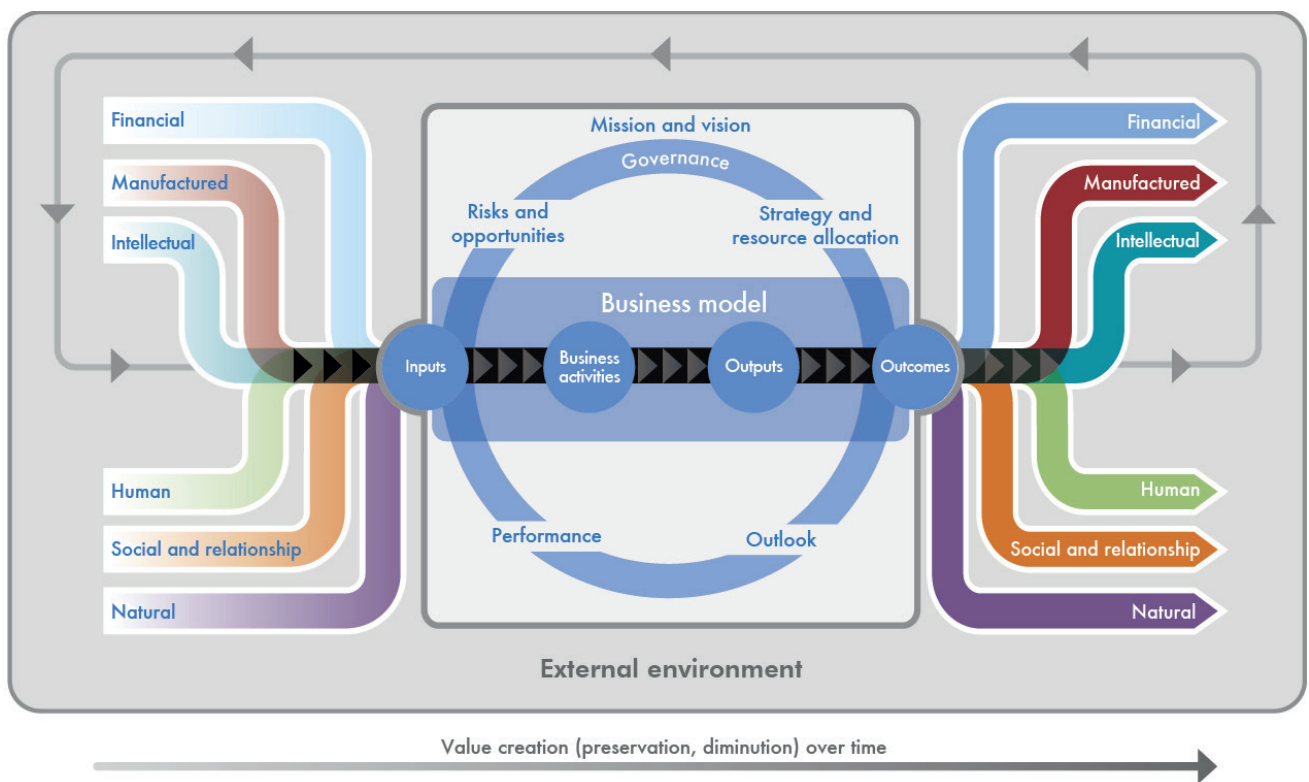


Figure 1: An organization's value creation process⁹

The <IR> Framework has seven Guiding Principles¹⁰ (determining the type of information suitable for the report and how it is presented) and eight Content Elements¹¹ (akin to information areas). While there is a specific Content Element addressing Outlook, report preparers should bear in mind that all the Content Elements are connected in explaining the organization's value creation process.

All seven of the Guiding Principles are relevant to Outlook information. They are listed on page 8 with the particular aspects pertinent to information on Outlook (please see the <IR> Framework for the definition of each Guiding Principle¹²):

⁹ Copyright December 2013 by the International Integrated Reporting Council ("the IIRC"). All rights reserved. Used with the permission of the IIRC.

¹⁰ IIRC, International <IR> Framework, Guiding Principles, pages 16 – 23.

¹¹ IIRC, International <IR> Framework, Content Elements, pages 24 – 29. Each Content Element is stated as a question and the <IR> Framework identifies various types of information that could be considered in answering the question in the integrated report.

¹² IIRC, International <IR> Framework, Guiding Principles, pages 16 – 23.



Strategic focus and future orientation – The content of the report offers strategic and forward-looking insights into the organization’s value creation process in the future. Outlook information reflects the material factors that may influence the organization’s ability to achieve its strategic objectives and how they may impact the organization and its performance.

Connectivity of information – Links the past, present and future: Outlook information can draw on the past and present to make assumptions about the future. Links the six capitals: considering how the organization’s future activities depend on and may affect the six capitals, the trade-offs required, and the strategic plans in place to secure their availability. Links information: connecting related information in the Content Elements.

Stakeholder relationships – Information on stakeholder relationships, including insight into how the organization responds to the needs, interests and expectations of stakeholders, as well as disclosure on the quality of the relationships with key stakeholders, is critical information in assessing the ability of the organization to achieve its strategic objectives in the future.

Materiality – The process of determining material matters encompasses short-, medium- and long-term horizons in identifying the matters that could substantively affect the organization’s ability to create value and achieve its strategic objectives.

Conciseness – Giving clear and sufficient Outlook information can enhance understanding, while unnecessarily detailed or generalised information can obfuscate the material information.

Reliability and completeness – Outlook information is balanced (covering both positive and negative information) and is based on sound assumptions. Completeness necessitates that the organization has ensured that all material factors that could influence the achievement of strategic objectives are disclosed.

Consistency and comparability – Consistent and comparable information, with explanation of variances in performance against previously stated targets, can enhance understanding of the organization and its leadership capability.

The Outlook Content Element in the <IR> Framework, excerpted below, usefully offers pointers on information for the organization to consider in answering the Outlook question.

Content Element 4G Outlook¹³

An integrated report should answer the question: What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?

An integrated report ordinarily highlights anticipated changes over time and provides information, built on sound and transparent analysis, about:

- *The organization's expectations about the external environment the organization is likely to face in the short-, medium- and long-term.*
- *How that will affect the organization.*
- *How the organization is currently equipped to respond to the critical challenges and uncertainties that are likely to arise.*

Care is needed to ensure the organization's stated expectations, aspirations and intentions are grounded in reality. They need to be commensurate with the ability of the organization to deliver on the opportunities available to it (including the availability, quality and affordability of appropriate capitals), and a realistic appraisal of the organization's competitive landscape and market positioning, and the risks it faces.

The discussion of the potential implications, including implications for future financial performance, ordinarily includes discussion of:

- *The external environment, and risks and opportunities, with an analysis of how these could affect the achievement of strategic objectives.*
- *The availability, quality and affordability of capitals the organization uses or affects (e.g. the continued availability of skilled labour or natural resources), including how key relationships are managed and why they are important to the organization's ability to create value over time.*

An integrated report may also provide lead indicators, KPIs or objectives, relevant information from recognised external sources, and sensitivity analyses. If forecasts or projections are included in reporting the organization's outlook, a summary of related assumptions is useful. Comparisons of actual performance to previously identified targets further enables evaluation of the current outlook.

Disclosures about an organization's outlook in an integrated report are made taking into account the legal or regulatory requirements to which the organization is subject.

These points are explored in the next section, Key Considerations with illustrative examples, on pages 11 to 18.

It should be noted that the integrated report is by its nature largely a forward-looking report and Outlook information may appear throughout the report rather than in a dedicated section. For instance, Outlook information may appear under external environment, strategy, risks and opportunities, performance, material matters and in discussion of the six capitals. In addition, the Chairman, Chief Executive Officer and Chief Financial Officer may comment on Outlook in their reviews. (See Key Consideration number 7.)



REGULATIONS AND OTHER FRAMEWORKS

As mentioned on page 4, the disclosure of Outlook information in the integrated report requires prior consideration of the regulatory context within which the organization prepares its reports. The <IR> Framework, paragraph 3.52¹⁴, emphasises that in some jurisdictions legal or regulatory requirements may apply to certain future-oriented information.

Other voluntary frameworks can provide useful guidance when linking Outlook information to specific elements presented in terms of such frameworks.

In today's global environment characterized by volatility, uncertainty, complexity and ambiguity¹⁵, any forward-looking information is inherently uncertain. It is, therefore, essential to make it clear to users of the report that this is the case. In practice, a disclaimer regarding financial forward-looking information and forecasts is often given by organizations in their reports.

When providing any forward-looking information consideration is given to:

- Relevant financial reporting frameworks.
- Relevant companies, listings and industry regulations.
- Specific industry requirements or legislation governing specific activities that make reference to the provision of forward-looking information or forecasts.

¹⁴ IIRC, International <IR> Framework, page 22.

¹⁵ CGMA, Joining the Dots: Decision making for a new era, February 2016,
<http://integratedreportingsa.org/ircsa/wp-content/uploads/2017/05/Joining-The-Dots-Report.pdf>

KEY CONSIDERATIONS AND ILLUSTRATIVE EXAMPLES

The key considerations listed below may assist organizations in the disclosure of meaningful Outlook information in their integrated reports.


It should be noted that the excerpts from integrated reports in this section have been chosen as illustrations of the key considerations and should be seen in this context. The links to the reports on the organizations' websites can be accessed for more information.

1. Strategic objectives and strategy set out the organization's path in the short-, medium- and long-term

This is material information to Outlook as it shows the organization's intended direction going forward. (See the IRC's Information Paper on *Disclosure of Performance against Strategic Objectives*.¹⁶) The organization discloses its strategic objectives for the short-, medium- and long-term, the targets (and the measurement indicators such as strategic key performance indicators), and its strategy to achieve them.

Targets for strategic objectives are material as they set out a road map for the future. In some instances, the organization may not have strategic objectives or targets for the long-term. In such a case it would be helpful to provide a broad direction to the users of the report, for example linking the organization's purpose to scenario evaluation and planning.

Redefine Properties Limited Integrated Report 2018: Shows the strategic objectives, KPIs and targets, and the strategy for the short-, medium- and long-term.




Invest strategically

Short- to medium-term focus

- Continue to improve, expand and protect our properties in order to attract and retain quality tenants
- Selective acquisitions in under-represented regions and to complement existing assets
- Provide strategic and financial support to our in-country partners
- Invest directly where there is potential for capital uplift through active asset management
- Support listed investments in corporate activities
- Responsibly manage geographic concentration risk

Long-term focus

We are experiencing first-hand the drastic effects of climate change and disruptive technologies on the use of space. In this context, ensuring that our capital allocation decisions take the long-term consequences of our investments into consideration is no longer a nice-to-have. We invest in greening our buildings and in renewable energy, where possible, as well as incorporating flexible development solutions, because we believe that it is a business imperative in ensuring the sustainability of our business, which is reliant on the wellbeing of our planet.



KPI

Net asset value (NAV) per share R

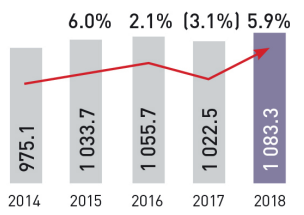
Why this is important

NAV is the value of an entity's assets less the value of its liabilities. NAV 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 NAV.

Target

NAV growth per share of greater than 5% ▲

Five-year trend



Year	NAV per share	Growth %
2014	975.1	-
2015	1033.7	6.0%
2016	1055.7	2.1%
2017	1022.5	3.1%
2018	1083.3	5.9%

Related risks

1, 2, 4, 5, 6, 7, 8, 9, 10
Refer to pages 25 to 29.

2. The likely challenges and uncertainties in pursuing the strategic objectives and strategy, and the potential implications

Setting out the strategic path ahead is only part of the story; there is concomitant discussion of the material challenges and uncertainties likely to be encountered that could affect the achievement of the strategic objectives and strategy. There is disclosure of how the organization is dealing with them through its responses or mitigating actions. There is explanation of the potential implications for the organization, the business model, achievement of the strategic objectives and future financial performance.

The organization discloses the strategic allocation plans it has in place to ensure it has access to the capitals it needs in the future, considering their availability, quality and affordability. Similarly important to the organization's value creation ability is how it manages its key stakeholder relationships and the quality of these relationships.

Anglo American Platinum Limited 2018 Integrated Report: Shows the uncertainties and challenges, and their potential implications, linked to the strategic objectives. Information is given on the company's response through mitigation and the available opportunities.

On the following pages, we summarise the top 10 risks facing the business, our mitigating strategies and where these risks fit in with our strategic priorities.

	DESCRIPTION OF RISK AND ITS CONTEXT	OPPORTUNITIES
<p>1</p> <p>EMPLOYEE SAFETY</p> <p>No change in risk rating from prior year</p>	<p><i>Failing to deliver a sustained improvement in safety performance. Senior management continues to prioritise safety risk management. Given the number and nature of high-potential incidents (HPIs) and an increase in incidents related to not adhering to basic safety rules and standards, significant work remains.</i></p> <p>ROOT CAUSE</p> <ul style="list-style-type: none"> • Inconsistent application of safety rules and hazard identification, including non-compliance to critical controls • Exposure to major safety-related issues: material handling, fall-of-ground, transport, moving machinery, working at heights <p>POTENTIAL IMPACTS</p> <ul style="list-style-type: none"> • Loss of life • Workplace injuries • Safety-motivated stoppages by regulators • Threats to our licence to operate <p>MITIGATION</p> <ul style="list-style-type: none"> • Implementing safety management system standards, fatal risk standards and safety golden rules, supported by robust risk management and risk assurance processes • Creating a leadership approach and culture conducive to innovation and improved safety performance. Enhance people development, using KPI-based reward and recognition to drive behaviours • Move up the hierarchy of controls through innovation and engineering capability • A continued, relentless focus on safety improvement and safety risk management adopted by executive management • Elimination of fatalities programme <p>RISK APPETITE</p> <ul style="list-style-type: none"> • Currently within risk appetite, but potential to exceed it <p>RISK TOLERANCE</p> <ul style="list-style-type: none"> • Within tolerance <p>PILLARS OF VALUE</p> <div style="display: flex; justify-content: space-around;"> <div style="text-align: center;">  <p>SAFETY AND HEALTH</p> </div> <div style="text-align: center;">  <p>PEOPLE</p> </div> </div>	<p>Introduction of new digital safety, health and environment (SHE) incident management and real-time analytics has the potential to reduce future incidents.</p> <p>Predictive big-data analytics system to identify and notify SHE potential risks.</p>

3. Explanation of expected changes in the industry and external environment, and the potential implications

Expected changes in the external environment over the short-, medium- and long-term – including material legal, commercial, social, environmental, political, industry, global, regional and local factors – are a part of the organization’s challenges and uncertainties. The organization shares its view of the expected changes and how it is equipped (or building up) to respond.

The explanation of the potential effects may include a realistic view of how the competitive landscape could evolve in the future and the organization’s market positioning. This is especially important where the organization faces heightened threats and opportunities from industry disruptors.

Nedbank Group Integrated Report 2018: The industry disruptor and the related increased competition is explained with the company’s view of the potential effects and opportunities, with links to strategic objectives, strategy and risks.

Disruptive technologies and increased competition



As the world becomes increasingly digitised, all industries are feeling the impact of the pervasiveness of technology. Financial institutions have seen leading indicators of this revolution as it changes all aspects of providing financial services and creates new opportunities – from digitisation of financial services, enhanced client experiences and new products and channels, to evolving organisational structures and internal processes, as well as new staffing and skills requirements. New digital technologies are reshaping the value proposition of existing financial products and services and how these are delivered to and consumed by clients.

Digital and disruptive technologies – The digitisation of banks includes embracing and leveraging mobile technology, fintech partnerships, cloud computing, big data, advanced analytics, machine learning, blockchain technology, artificial intelligence, robotics and biometrics in the optimisation of legacy IT infrastructure as well as in the pursuit of new revenue channels and opportunities. Banks (which have both the scale and position of trust with clients) are increasingly partnering with fintechs, enabling faster delivery to market of new innovations. The adoption and application of modern tooling enable more rapid software engineering development and scaling of delivery, which allow for faster innovation and digitisation.

New banking entrants – Competitors in the banking sector have evolved to include new entrants, fintech disruptors and big tech disruptors. These disruptors are revolutionising the banking experience for clients. While many fintech players have found it hard to scale and are increasingly partnering with traditional banks, big tech disruptors such as Google, Amazon, Facebook, Apple and Microsoft (GAFAM), Alibaba and Tencent have the financial muscle as well as the ability to scale and are therefore arguably a greater threat to traditional banks. While these are global trends, they are likely to transform the SA banking landscape in the future.

2019 will see the launch of value propositions by various new entrants in the SA banking system. SARB has granted banking licences to Discovery, Tyme Digital, Post Bank and Bank Zero. These new entrants are likely to focus on transactional services and deposits and they will challenge existing banks with innovative digital solutions.

The opportunity, given Nedbank’s differentiation

Revenue growth and cost optimisation – Opportunities for Nedbank include gaining client transactional volumes and revenue by continuing to respond to the digital challenge in an agile and client-centred manner, improving efficiency through technology (lower cost to serve) and bringing new digital offerings to market quicker. Our approach to innovation delivery through our aligned ME and DFL strategies (discussed in more detail on page 50) adopts global gold standards and has enabled us to commercialise swiftly market-leading and innovative new products and enhancements, as shown on pages 43 and 44.

- Delivering innovative market-leading client experiences
- Growing our transactional banking franchise faster than the market
- Being operationally excellent in all we do

For more details on our strategic focus areas and strategic enablers refer to pages 41 to 55.

Cyber risks – The dark side of the global technology revolution is that financial crime has increased dramatically, evidenced by the increase in the number, intensity and sophistication of high-profile cyberattacks. These attacks are usually aimed at accessing, changing or destroying sensitive information, extorting money from users or interrupting normal business processes. Banks have become attractive targets for cyberattacks because of their key role in payment and settlement systems, the volume of sensitive client information they hold and the potential adverse impact of interfering with the smooth functioning of banking services. In 2018 a large SA financial services company became the victim of a cyberattack, with an external party claiming to have seized data and demanding payment. A survey conducted by the World Economic Forum (WEF) has recently indicated that, globally, cyberattacks are among the top five risks expected to increase in 2019, while our Internal Risk and Governance Framework similarly includes cyber risk as one of our top three risks.

Key risks and mitigating actions

Pressure on revenues and costs – Loss of relevance with clients, loss of market share and loss of revenue are key risks should our digital offerings not remain competitive, digital banking become a commodity and not a differentiator, or new competitors capture a significant share of revenues. In addition, if we are not able to offset the higher-expense burden of investing in IT and digital innovation with efficiencies and cost optimisation initiatives, we risk not meeting our 2020 cost-to-income ratio target. We are responding to these risks by bringing various new innovations to market, as shown on pages 43 and 44, as well as our cost optimisation initiatives on page 46.

Cyber risk – Cyber risk has been identified and listed as a Nedbank top 10 risk. To offer protection cybersecurity capabilities are continually being enhanced, even though Nedbank is currently leading in cyber resilience statistics in the market (eg lowest in industry with regard to cyber losses and successful phishing attacks). Our various assessments have identified the top 11 cyber priority areas. These have been included in our Cyber Resilience Programme and are receiving accelerated focus to address gaps and mitigate risks. One of the most effective forms of preventing cyberattacks is through training and awareness. Nedbank has rolled out cyber risk e-learning and all employees and contractors are required to complete this course. Our Nedbank Group Insurance Programme includes substantial standalone cyber insurance cover in line with local and global trends.

- Strategic and execution risks
- Operational risk
- Cyber risk

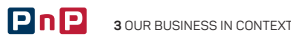
For more details on our top 10 risks refer to pages 58 and 59.

4. The expected opportunities, and the potential implications

The likely challenges and uncertainties, as well as the expected changes in the external environment, may render opportunities for the organization. The material opportunities are disclosed with the potential implications for the organization's ability to create value. Such explanation could cover future performance, the ability to achieve strategic objectives and the expected access to capitals.

There is explanation of how the organization intends to, or could, take advantage of the opportunities. This is given as a realistic view, and after considering the organization's ability to deliver on the opportunities. Also helpful, is information on the organization's overall approach to maximising opportunities and innovation.

Pick n Pay Group Limited Integrated Report 2019: Shows the prospects in different market segments and the growth opportunities for the company.

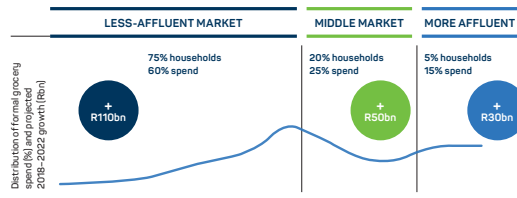


THE ENVIRONMENT WE OPERATE IN (continued)

GROWTH OPPORTUNITIES IN THE SOUTH AFRICAN MARKET

The Pick n Pay Group is a leaner and more cost-effective business, well positioned to deliver growth in a tough market. We delivered market-leading sales growth of 7.4% in South Africa in FY19 through sharper prices, exceptional value and greater quality and innovation in grocery and allied retail services.

The Group is particularly pleased with the performance of its Pick n Pay and Boxer stores serving the lower- to middle-income segments of the market. These communities are resilient and aspirational. We believe that there are good growth prospects for this segment of the market, as circumstances start to slowly improve (for example through improved economic growth, higher wages and the availability of social grants).



Pick n Pay's broad range of formats and our offer, including through its franchise partners, combined with Boxer's unbeatable value, position our Group well to serve all customers, and take our fair share of growth in the market.

The Group's ability to appeal broadly across socio-economic demographics is a key advantage. We will continue to drive range optimisation over the short term to ensure that our stores carry product ranges which are effectively tailored to meet the needs of the customers served. Range optimisation in a number of our lower- to middle market stores has already led to a meaningful reduction in stockholdings, higher on-shelf availability, stronger promotions, reduced waste and improved trading densities.

Our broad range of formats provides further growth opportunities outside of our core grocery offer, including through developing and growing our clothing, liquor, general merchandise, health and beauty and value-added services offer. The Group is confident of its growth prospects in the South African market, notwithstanding forecasts that economic conditions are unlikely to ease over the short term.

LOOKING FORWARD: THE ROLE WE WILL PLAY IN SOUTH AFRICA

The Group will invest up to R2.0 billion in its store opening and refurbishment programme in the coming year. We will continue to follow a measured approach to capital investment, focusing on space that we are confident will drive sustainable financial returns. There are still many geographic communities across South Africa, across all demographics, where Pick n Pay and Boxer are not well represented. We look forward to bringing our offer to these communities, whether in urban, peri-urban or rural areas. Our leaner, stronger operating model has significantly improved our ability to deliver sustainable new space, including through smaller, neighbourhood stores, which reflect the growing customer demand for convenience. Our growth will provide opportunities for job creation and play an important role in alleviating high unemployment levels in South Africa. This will help to ensure the marginalised benefit from greater inclusion in the economic prosperity to come.

OUR OUTLOOK FOR THE SOUTH AFRICAN MARKET

Short-term consumer outlook

- Low consumer confidence and restrained spend
- High unemployment
- Consumers looking for more value
- Inflationary pressure from rising input costs, in particular fuel and energy costs, and a weaker rand
- Real GDP growth forecast for 2019: 1.0%, after weak Q1 data in 2019

6 to 12 months

Long-term consumer outlook is more positive, supported by:

- Greater South African political stability after the May 2019 elections
- Political intent under President Ramaphosa to streamline government, eradicate corruption and the mismanagement of public funds, and improve the performance of state owned enterprises
- Improved outlook for economic transformation and growth
- A young population
- A growing consumer base across a changing demographic
- Good infrastructure
- Robust and enduring institutions, with strong corporate governance

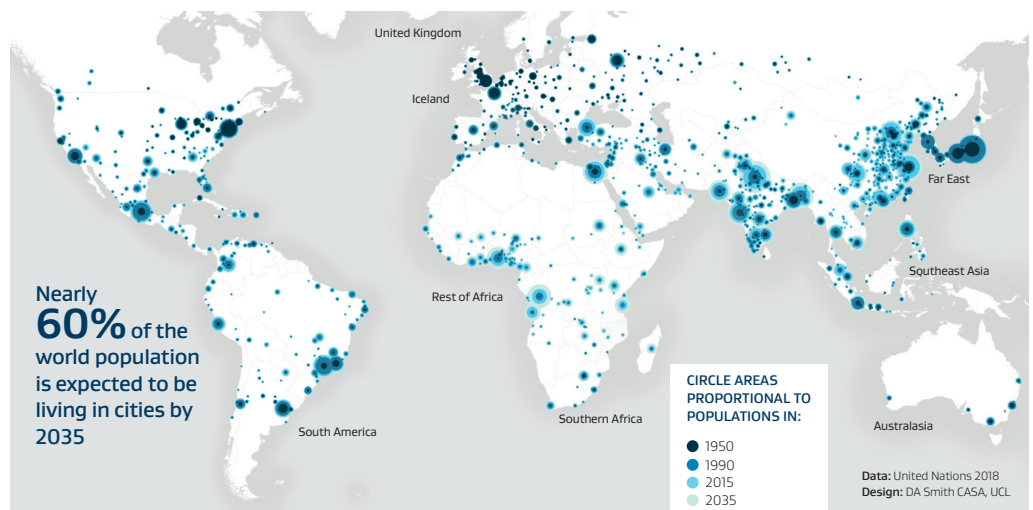
Next 3-5 years

Ours is a growing business and we are confident of the long-term opportunities in the markets we operate in and the valuable role we will play in uplifting the communities we serve.

5. Realistic expectations and assumptions grounded in sound analysis

A realistic assessment of the path ahead often involves research, interpretation and analysis of data, which forms the basis of the organization's expectations and assumptions about the future. The robustness of these is supported by disclosure of mechanisms such as: lead indicators, sensitivity analyses of key determinants, stress tests, scenario evaluation and planning, trend analyses and credible external information sources. The distinction between factors the organization can control and those it cannot control is relevant. Also useful, is explanation of the process and the parties involved in setting the expectations and assumptions.

Sasol Limited Integrated Report 2018: The analysis and reasoning behind the organization's expectations is explained.

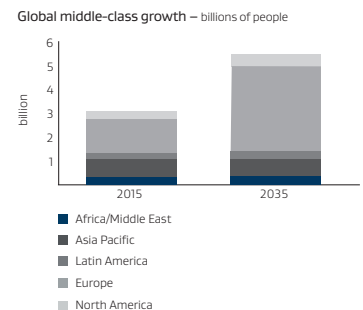


GROWING POPULATION, HIGHER LIVING STANDARDS

World Gross Domestic Product (GDP) is expected to continue to grow in the years to 2040, driven largely by greater prosperity in the developing world. An increase in the global population to more than 9,0 billion by 2040 from 7,5 billion in 2017. By 2030, the middle class is projected to account for nearly two-thirds of the population from around two-fifths in 2015. Together with the growth in population and rising living standards will be greater urbanisation: nearly 60% of the world's people are expected to live in cities by 2030, compared to 54% in 2015. These factors will lead to increased demand for chemicals, heating fuel, transportation and electricity.

Rising demand for energy and chemicals

Commercial transportation and chemicals will underpin growth in demand for global liquids*. Asia-Pacific will lead the increase in car ownership in non-OECD** countries, in turn supporting personal mobility-related energy demand across the world. However, gains in efficiency, improvements in technology and environmental pressures will keep energy demand in check. Within personal transport, improvements in engine efficiency will play a greater role than alternative technologies.



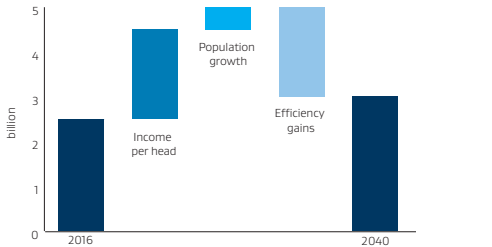
* Liquids are made up of crude oil, condensate, natural gas liquids and bitumen.
** Organisation for Economic Co-operation and Development.

MOUNTING ENVIRONMENTAL PRESSURE

Although the world will increasingly use less energy to generate each unit of GDP, fossil fuels will likely continue to dominate the energy mix for some time to come. Increasing usage of fossil fuels will put pressure on emissions, and it will be important that clean technologies are pursued across the chemicals and energy industries. Certain technologies, like those used to develop electric vehicles, can assist with reducing localised pollution, but they are likely to have a lesser influence the global demand or the emissions picture significantly when compared to, for example, improvements in engine efficiency. Over time, demand for liquids for use as feedstocks for chemicals, lubricants and bitumen will become an increasingly important component of overall hydrocarbon demand. Although there is less scope to make significant efficiency gains with these products, environmental pressure is increasing on the use of some end-products, particularly single-use plastics and packaging.

We carefully consider how the world of energy is changing, how government policies are evolving and how consumer behaviour is responding. This is impacting energy and chemical demand, requiring companies like ours to hone their strategies to ensure their sustainability as the world continues to transition.

Contributions to transport energy consumption growth – billion tons of oil equivalent



ADVANCING TECHNOLOGY



The pace of business is increasing with continuous change and adaptation required. Technologies are developing faster and faster, and rapid adoption of new third party technologies and/or selective innovation of new proprietary technologies and products are more important than ever to remain competitive and relevant. The advances in computing capability and new digital tools and platforms present opportunities to investigate the application of digitalisation tools and processes to improve the performance and robustness of our existing assets and businesses; to better design and deliver opportunities to drive our growth aspirations and to enhance our value proposition to our customers and shareholder. These opportunities to embrace digitalisation cover the full spectrum from advances in automation, big data analytics, predictive maintenance will be pursued with a clear focus on the best balance between cost, risk, value and return considerations.

MAKING CLEAR CHOICES TO DRIVE A FOCUSED STRATEGY

Our strategic choices are informed by megatrends pointing towards global population growth and further urbanisation, shifts to even greater efficiency and performance, in all aspects of business, supported by digitalisation and sustained volatility in both crude oil prices and exchange rates.

https://www.sasol.com/sites/default/files/financial_reports/Sasol%20IR_Web.pdf

6. Showing the connectivity between the actual performance to previously stated targets and to the future targets

A connected approach enables the users of the report to evaluate the factors (controllable and uncontrollable) that affected the organization's actual performance versus previously stated targets. It can provide further insight into the links between past and current performance and what is aimed for in the future.

Vodacom Limited Integrated Report 2019: Shows the actual performance in the current year and the previous year to the rolling targets set for the end of the year ahead.¹⁷

Delivering on our strategy

Vision 2020: Our strategy


















We have been implementing the five pillars of our Vision 2020 strategy since 1 April 2017. This year we added two new pillars, separating our Digital content platform and Financial Services commitments as we see these areas requiring particular focus in delivering on our goal of being a leading digital company.

Our vision is to be a leading digital company that empowers a connected society



We will disrupt through technology while delivering world-class digital solutions. We will remove barriers to access as we evolve to the gigabit society, while transforming education, healthcare, financial services and agriculture.

Empowering the digital lives of our customers

Connecting everybody to live a better today and build a better tomorrow

Strategy	How we measure success	Goal to 31 March 2020	Performance at 31 March 2018	Performance at 31 March 2019
 Best customer experience	Net promoter score (NPS)	#1 in all markets	#1 in all markets	#1 in all markets except Mozambique 
	Digital NPS	#1 in all markets	not yet measured	#1 in all markets, not yet measured in International 
 Segmented propositions	Group service revenue growth rate (%)	Mid-single digit	3.4%	5.0% 
 Financial services	Group customers using financial services ¹	>52 million customers	not yet measured	45.8 million customers 
 Digital content platforms	Group service revenue contribution (%) from digital services (IoT, Infotainment and advertising)	5%	3.2%	2.8% 
 Best technology	Network NPS	#1 in all markets	#1 in all markets	#1 in all markets except #2 in Tanzania #2 in Mozambique 
 Digital organisation and culture	Employee Engagement index (%)	80%	78%	78% 
	Employee Digital index (%)	80%	77%	75% 
 Our brand and reputation	Brand leadership	#1 in South Africa	#1 in South Africa	#1 in South Africa 
	Reputation survey	#1 in all markets	#1 in all markets	#1 in all markets 

1. Including Safaricom.

 Achieved target  Partially achieved


<http://www.vodacom-reports.co.za/integrated-reports/ir-2019/pdf/full-iar-lores.pdf>

¹⁷ Also see the example on page 11 from the Redefine Properties report, which shows the past performance trend analysis, current performance and the focus in the short-, medium- and long-term for each strategic objective.

7. A summary of Outlook information

As mentioned on page 9, an integrated report is by its nature largely a forward-looking report and Outlook information may appear throughout the report, for example in the external environment, strategy, risks and opportunities, performance, material matters, discussion of the six capitals etc. The organization may thus take the view, after considering the question posed in the <IR> Framework's Outlook Content Element, that it has already answered the question in the content of the report. In this instance, the organization may consider the value of including a round-up of the Outlook information appearing throughout the report in a dedicated section entitled Outlook, with cross-references as to where the information appears elsewhere in the report. This may serve to enhance the readability of the report.

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The members of the Working Group are appointed in their individual capacity and bring their experience and expertise in different industry sectors and as preparers, consultants, investors and academics.

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We hope you find this Paper useful and welcome your comments and suggestions, addressed to the Secretariat, Sandy van Esch at sandy@integratedreportingsa.org 

The following IRC publications are on our website www.integratedreportingsa.org

- *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 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*

Our website also offers the latest integrated reporting excellence awards in South Africa, blogs, a webcast of our Annual Conference, articles and academic research papers.

While every effort has been made to ensure the information published in this Paper is accurate at the date of publication, the Integrated Reporting Committee (IRC) of South Africa, its members, Secretariat and the members of its Working Group take no responsibility for any loss or damage suffered by any person as a result of reliance upon 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. Use of the logo does not necessarily mean the report reflects the views of the individual organizations in the network concerned or the International Integrated Reporting Council.

ABOUT THE IRC OF SOUTH AFRICA

The IRC is a voluntary association, not for gain, in South Africa founded in May 2010. The role of the IRC 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 December 2019, comprises: Professor Mervyn King (Chairman), Professor Suresh Kana (Deputy Chairman), Leigh Roberts (CEO), Graeme Brookes (JSE), Loshni Naidoo (SAICA), Parmi Natesan (IoDSA), Sunette Mulder (ASISA), Larissa Clark (EY) and Stephen Sadie (CSSA).

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

The CEO of the IRC is Leigh Roberts and the head of the Secretariat is Sandy van Esch. The IRC relies on a team of people who volunteer their services: Darren Gorton (IT and website), Michiel Engelbrecht and Graham Terry (business development), Corli le Roux (website content), Elrida Oberholzer (Secretariat) and Yvette Lange (research initiatives).

The IRC's membership comprises Organization members (professional and industry bodies), Corporate members (Large and SME) and Honorary members. The founding Organization members are: Association for Savings and Investment SA (ASISA), Institute of Directors in South Africa (IoDSA), JSE Ltd and the South African Institute of Chartered Accountants (SAICA).

Our other Organization members are: ACCA South Africa (ACCA), Auditor-General of South Africa (AGSA), Banking Association South Africa (BASA), Chartered Secretaries Southern Africa (CSSA), Council of Retirement Funds for South Africa (Batseta), Government Employees Pension Fund (GEPF), Institute of Internal Auditors of South Africa (IIASA), The Institute of Risk Management South Africa (IRMSA), Financial Sector Conduct Authority (FSCA), Chartered Institute of Management Accountants South Africa (CIMA SA), South African Institute of Professional Accountants (SAIPA), University of Johannesburg, Department of Accountancy and University of the Witwatersrand – School of Accountancy.

Our 2019/20 Corporate members are: African Bank Ltd, Bastion Graphics (Pty) Ltd, Discovery Ltd, Ernst & Young (EY), Eskom Holdings SOC Ltd, Government Employees Medical Scheme (GEMS), Imperial Logistics Ltd, Ince (Pty) Ltd, Industrial Development Corporation Ltd (IDC), 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.

Our 2019/20 Corporate SME members are: Magnific Corporate Reporting, Alchemy Creative Studios (Pty) Ltd, Russell & Associates, Trialogue (Pty) Ltd, Anne Heath Communications and HKLM Exchange (Pty) Ltd.

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

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