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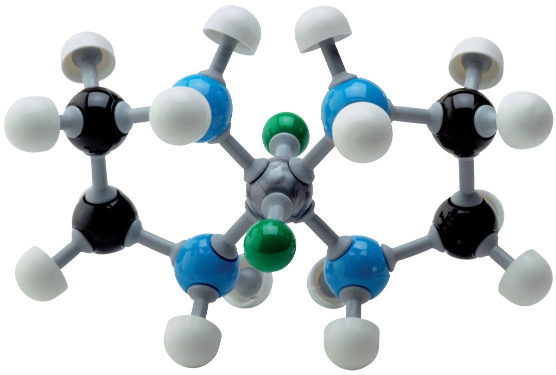


Integrated reporting
A reporting evolution

Integrated reporting should accrue benefits to both the company and its stakeholders.

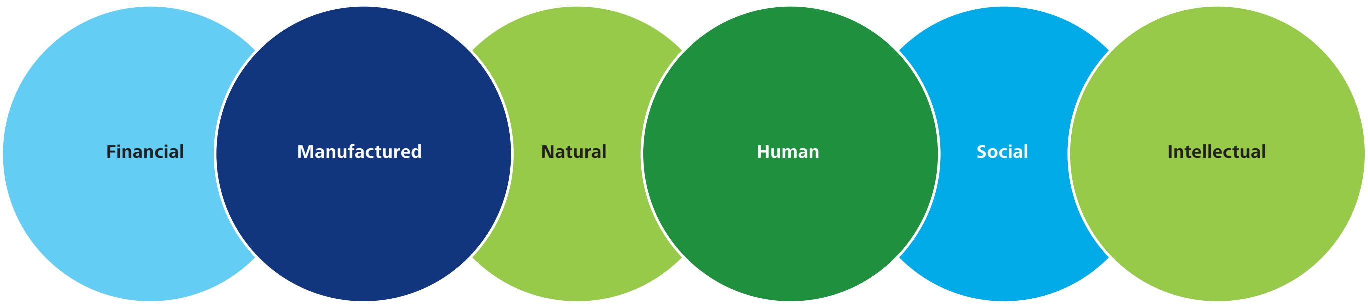
Linking sustainability to the bottom line

There are increasing concerns that the assets covered by financial statements reflect a steadily diminishing component of shareholder value. From 1975 when physical and financial assets represented 83% of market value to 2010 when they represented a mere 19%[1], there has clearly been a change in business models which is not reflected in traditional financial statements. Add to that the failure of current financial statements to capture the value of inputs from, or reliance on, natural capital and forms of capital other than financial capital, and the ground is ripe for new ideas.

Integrated Reporting (IR) is at the forefront of these ideas. Defined by the International Integrated Reporting Council (IIRC), the Integrated Report combines the different strands of reporting (financial, management commentary, governance and sustainability reporting) into a coherent whole that explains an organisation's ability to create and sustain value. It is a single report that the IIRC anticipates will become an organisation's primary report.

Integrated reporting should accrue benefits to both the company and its stakeholders. For most organisations, the main value will lie in the strategic and operational effects – the selection of metrics, the scrutiny and analysis of the business impacts and risks, the resultant insights and the subsequent adjustments to operations and strategy.

Integrated Reporting will require organisations to report on an integrated strategy that links *six capitals*:



Integrated thinking – why is it important?

An integrated report requires an integrated business strategy that tells investors and shareholders how the leadership team is balancing short-term gain with long-term investment, managing potential risks and building for growth; this is nothing new to most boards. What is different, however, is the emphasis on issues other than financial performance such as the environment, societal impact and reputation, talent, supply chain and innovation.

1. Ocean Tomo (2010), 'Ocean Tomo's Intangible Asset Market Value Study' (cited in the IIRC's 2011 discussion paper Towards Integrated Reporting Communicating Value in the 21st Century

All of these may appear obvious to most boards of directors, but many investors and stakeholders remain confused by the plethora of information contained in a typical financial statement and corporate responsibility report.

"The way a company addresses corporate responsibility can seem remote from its core strategic objectives, its culture and its values. My starting point is to look at a company's annual report, results announcements and investor presentations, to see what is included on sustainability or CR. I want to know whether the CEO includes strategic CR or sustainability issues in his/her statement, what the Chairman includes in his report, what features in the risk section and whether they have the governance processes in place to act on these issues. To be honest I rarely look at standalone CR reports – too many are too long, unfocused and tell me little about the business."
Emma Howard Boyd, Jupiter Asset Management

Ultimately, integrated reporting is about making things simpler and more accessible which should be good news for most organisations who spend too long and too much resource in measuring and reporting data that is rarely used.

"The goal posts for reporting are shifting. Governments, regulators and investors increasingly want to know about the sustainability of organisations and businesses. There is also a need for directors to put sustainability into the core of their strategies and corporate reporting. Integrated reporting and non financial reporting are therefore becoming increasingly important."
Martyn Jones – Deputy President, ICAEW

Integrated reporting is already a reality and it makes sense

Already certain jurisdictions are pushing for wider reporting of non-financial information through regulatory regimes. Carbon reporting will be mandatory in the UK from 2013; integrated reporting is required for listed companies in South Africa and regulators in the US and many EU countries require reporting of environmental or health and safety information. Other emerging reporting requirements include:

- BIS 'Future of narrative reporting' project (UK)[2].
- Stewardship code (UK)[3].
- Wider developments relating to supply chain in certain industries; for example Ruggie principles[4] relating to human rights, reporting on sourcing of conflict minerals.

The need for compliance with such regimes may drive the initial reporting focus, but the identification and effective management of both financial and non-financial data is essential to the on-going success of an organisation. But if this data is to be used by the Board and investors to make real business decisions, it must be robust, reliable, and relevant. This is at the heart of the drive towards integrated reporting.

The International Integrated Reporting Council (IIRC) was created in 2010 and was tasked with defining a new approach for corporate reporting, fit for the 21st Century. A discussion paper was released by the IIRC in September 2011 that sets out a proposed framework for integrated reporting and key issues that the IIRC is looking for organisations to address include:

Risks, opportunities and corporate strategy	An integrated strategy requires management to determine which risks and opportunities (financial and relating to wider environmental, social and governance issues) are material to the business. These become the focus for the corporate strategy and reporting. An assessment of emerging global trends affecting the business and broader stakeholder engagement helps management to reach informed and integrated judgements.
Governance	Governance structures encouraging integrated thinking, for example the identification of broader non-financial targets and the linking of these to performance and remuneration can lead to innovation and ensure the Board is driving the IR agenda forward.
KPIs and targets	A new integrated corporate strategy requires a set of financial and non-financial KPIs, with short-, medium-, and long-term targets to measure performance that are directly linked to 'enterprise value'.
Data and performance management	A review of systems to track performance and deliver accurate and consistent data for measurement against these selected financial and non-financial KPIs and related targets may identify and drive performance management improvements in line with the corporate strategy.
Culture	Everyone in business thinking in an integrated way is cultural. Developing such a culture may require changes to business systems, processes and tools and engaging with your employees, suppliers and partners in a new way. Communication will play a vital role.

2. www.bis.gov.uk/consultations/future-of-narrative-reporting-further-consultation
3. www.frc.org.uk/our-work/codes-standards/corporate-governance/uk-stewardship-code
4. Report of the Special Representive of the Secretary General, John Ruggie: Guiding Principals on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework

What are the benefits?

Integrated reporting will bring together material information about an organisation's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates and will lead to information that is more useful and relevant to all stakeholders. We believe that the journey towards IR should be evolutionary rather than a radical overnight shift, but it is essential that given this move towards IR that organisation prepare in good time and take the opportunity to ensure that their non-financial data management systems are in good order.

Leading organisations should already beginning to think about their reporting in a way that identifies and integrates key business issues and strategies.

Strategic focus	Insight into the organisation's strategic objectives, and how those objectives relate to its ability to create and sustain value over time and the resources and relationships on which the organisation depends.
Connectivity of information	An integrated report shows the connections between the different components of the organisation's business model, external factors such as consumer sentiment or climate that affect the organisation, and the various resources and relationships such as the environment or supply chain on which the organisation and its performance depends.
Future orientation	Management's expectations about the future, as well as other information to help users understand and assess the organisation's prospects and uncertainties it faces.
Responsiveness and stakeholder inclusiveness	Insight into the organisation's relationships with its key stakeholders and how and to what extent the organisation understands takes into account and responds to their needs.
Conciseness, reliability and materiality	Concise, reliable information that is material to assessing the organisation's ability to create and sustain value in the short, medium and long term.

The move towards integrated reporting need not require a 'wholesale rethink' about how an organisation is managing (and reporting) its business and should be managed in stages. Only through reviewing the approach in the context of the IR principles can an organisation assess how far and how quickly it may wish to move along the road towards integrated reporting.

Key benefits
• Encouraging your organisation to think in an integrated way
• Better identification of risks and opportunities
• Linking of non-financial performance more directly to the business
• A single report that is easy to access, clear and concise, rather than two separate financial and CR reports
• Improved internal processes leading to a better understanding of the business
• Increased focus and awareness of senior management
• Better articulation of strategy and business model
• Creating value for stakeholders though identification and measurement of non-financial factors

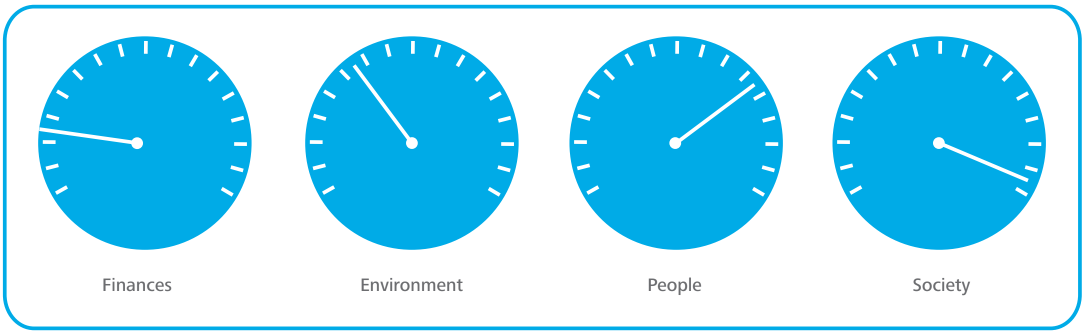
Ultimately, the benefits to be gained from moving towards IR include stronger management of operations; having the right information to make decisions and reaping the rewards of enhanced communication, in your organisation and externally.

"Our view is that much sustainability performance information and non-financial data is tracked for the wrong reasons such as compliance purposes. As such it is not made relevant to the Board or investor community which means that it is rarely used for business relevant decision-making."
Guy Battle, Partner Deloitte Sustainability

The Corporate Steering Wheel – An integrated dashboard

By reinforcing the connections between financial, social and environmental issues, integrated reporting can help management to make better, long term and sustainable decisions throughout the business. It will also enable investors and other stakeholders to understand how an organisation is really performing and all the factors on which its performance relies.

Executive Committee Data Dashboard



Integrating multiple data streams for decision making assists the board in creating long-term sustainable value for the business

IR can act as a catalyst to help embed wider issues into the corporate strategy, encouraging greater efficiencies and knowledge-sharing across teams.

How Deloitte can help

Integrated reporting diagnostic – are you ready?

Deloitte has developed an Integrated Reporting Scorecard that will help you to review your corporate strategy and reporting activity by benchmarking you against integrated reporting guidance, industry peers and good practice. Key steps include:

- A diagnostic – where are you?
- Gap analysis – how far do you have to go?
- Stakeholder analysis – are you meeting their needs?
- Identification of key non-financial business metrics (value-based).

Integrated Reporting implementation plan and roadmap

We use the results of the integrated reporting diagnostic, along with interviews with key stakeholders from inside and outside your business, to determine how your organisation can evolve its reporting and management processes towards integrated thinking and reporting. Core elements of this will be an assessment of the relevance of your non-financial KPIs for decision-making, the business benefits of doing so and the creation of a road map to inform your future reporting strategy.

Finance transformed for sustainability (FT4S)

We will work with your finance teams to support you in the development of your non-financial data management systems to ensure that they are robust, reliable, accurate and auditable. We will help identify reporting strategies that provide business relevant information for your board to make decisions and for investors to understand the value that an integrated approach to sustainability brings.

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