What does an Integrated Report look like?

By Michael Bray, KPMG in Australia and Matt Chapman, KPMG in the UK

One of the questions KPMG member firms are most often asked in relation to Integrated Reporting is: what does an Integrated Report look like? Whilst some organizations have made significant progress in applying Integrated Reporting principles, they are all, in our view, still on the journey towards Better Business Reporting.

One of the distinguishing features of Integrated Reporting is that in contrast to compliance based reporting, there can be no model report – every report must be built around the unique business model of the preparer. This requires a very different mindset when looking at examples of good reporting. There are many good illustrations of how to report specific matters but examples can only provide a starting point for a company’s own reporting, not a template.

The starting point for understanding how Integrated Reporting works is considering the application of the content elements and guiding principles of the IIRC’s Integrated Reporting framework. We have not provided an example of an overall ‘perfect’ Integrated Report as it simply does not exist at this stage, although the experience in South Africa and the work of the IIRC pilot programme will take us in that direction in the future. What we have done instead is to show the elements that companies need to consider in building up their Integrated Reports, and give some examples of good practice to date.

Integrated Reporting building blocks
The IIRC has set out the content elements and guiding principles which underlie Integrated Reporting.

The Integrated Report should cover the six content elements using the five guiding principles to enable capital providers and other key stakeholders to make decisions about the business’s value and stewardship – the matters that shape its value for the longer term, its aspirations and plans for the medium-term, the business as it currently stands, and how it has delivered on its promises.

Guiding principles for Integrated Reporting
- Strategic focus
- Future Orientation
- Connectivity of information
- Responsiveness and stakeholder inclusiveness
- Conciseness, reliability and material

It is important to note that whilst the content elements provide a good overall structure, there is no need to assemble the report in a linear fashion. A consistent thread of key issues should run throughout the report – it should be possible to follow a strategic objective all the way through the report, from how that objective relates to the business model, through the associated risks and risk mitigation strategies, to the key performance indicators measuring progress in achieving these, and to the future outlook.

Applying the Integrated Reporting Content elements

<table>
<thead>
<tr>
<th>YOUR REPORT</th>
<th>READER’S NEEDS</th>
<th>BUSINESS VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisation &amp; Business Model</td>
<td>Value impact</td>
<td>Game Changers (long-term)</td>
</tr>
<tr>
<td>Operating Context</td>
<td>Stewardship assessment</td>
<td>Management Plans (medium-term)</td>
</tr>
<tr>
<td>Report content elements</td>
<td></td>
<td>Business As Usual (short-term)</td>
</tr>
</tbody>
</table>

What does an Integrated Report look like? / June 2012
Can I model it?
Ultimately good reporting is about meeting investors’ needs. For an Annual Report this comes down to answering two key questions. What does it tell me about the value of the business and what does it tell me about the management’s stewardship of the business? Some of the best examples of reporting help readers understand how to model value - how to structure a cash flow model of the business and how to form views on the key model judgments. Businesses that don’t do this risk greater capital markets volatility.

Tackling Integrated Reporting by element
On the following pages we consider each of the six content elements and the challenges that reporters have in addressing them. In doing so, we also highlight how the guiding principles apply across the content elements.

We set out the questions reporters need to ask themselves before moving on to give illustrations of good practice. In a publication of this size, we can only cover a limited number of examples: there are many more examples of ‘good’ out there. Some of these have come from South African public companies that are now preparing their second round of Integrated Reports. Other examples come from companies which have been working to improve their reporting without necessarily seeking to follow the Integrated Reporting principles.

Integrating with IFRS and other reporting frameworks
Many South African companies are rebranding their annual reports as ‘integrated annual reports’, with Integrated Reporting replacing the ‘front end’ of the annual report and IFRS-based financial statements either in the same document or published separately.

Existing Annual Report elements such as chairman’s statements, CEO reports and operational reviews are being re-focussed on specific Integrated Reporting content elements. Many companies are also continuing to produce GRI-based sustainability reports, usually in a separate publication or on-line.

Material information from the financial and sustainability reporting is being retained in the Integrated Report and supplemented with new ‘value-indicating’ KPIs. Other reporting may be reduced in volume and complexity by the renewed focus that Integrated Reporting can bring. The financial statements of UK company ITV provide an interesting example of how financial statements can be de-cluttered to provide a clearer report within the existing IFRS framework.

In the longer term, Integrated Reporting may become a self-contained, clear and concise articulation of business value and stewardship. Integrated Reporting may be distributed electronically, or even be an electronic repository from which readers can drill down to other reports for detail.

Typical approach
- Structured around Integrated Reporting content elements
- Retains traditional components (Chairman’s statement etc) within the Integrated Reporting framework
- Incorporates the financial and non-financial data necessary to understand all components of business value
- No direct change to supporting reports such as the financial statements and corporate responsibility report (though there may be an opportunity to cut clutter from both)
What does it look like?

Organizational overview & business model.

This element of the report provides essential context to the report user. It provides the foundation on which the more specific disclosures elsewhere in the report are based. It is also the part of the report that users will fall back on to assess the headline impact of unexpected events on future cash generation in the absence of any specific management guidance.

Challenges:

- Is sufficient detail provided to understand the relative importance of each group of assets / activities to the value of the business?
- Is the analysis sufficient to put the elements of the business into context?
- Do the components of the business model described link through to the rest of the report?

The starting point is an explanation of how the business works and the factors which affect the continued operation of the business model. Sasol and National Grid are among a growing number of companies that have found a graphical presentation to be helpful.

A high level view of the business model provides a starting point for readers to understand the business on its terms – in fact it should be the foundation of the report. However, it’s not enough on its own. Detail is needed if readers are to use the business model description in their decision-making. The right detail will support two different perspectives on the business – readers will need both of these when making different judgments about the business:

1 Explaining business activity

A good description of the business model should provide a basis for explaining each aspect of the business operations – the suppliers it interacts with, the inputs on which it depends, the processes it undertakes, the outputs it produces, and the customers it sells to. For example, in their Sustainable Living Plan, Unilever identify their top 10 raw materials by volume. This helps readers understand the potential impact of strategic objectives around sustainable sourcing.

This is not to say that extensive disclosures are required in each area – the amount of detail only needs to be sufficient for readers to assess the impact of the material risks and

Example – Explaining the business model


All extracts from published reports should be read in conjunction with the full report itself including its notes
2 Explaining the business’s resources
The business will generally depend on different resources at each stage in its process. Readers will want to understand the extent to which the business depends on these capitals and the impact it has on them. They will represent the key source of risk and opportunity for the business. The frustration for many reporters has been that the cost of managing these resources is covered in traditional corporate reporting whilst the benefit is not.

The IIRC has identified six capitals: financial, intellectual, manufactured, social, human and natural. Not all will be significant for every reporter but some will be essential if readers are to understand the resources the business depends on and how it affects them.

The mining industry has been providing in-depth analysis of its natural resources for many years. The result is much greater visibility over how management of the productive capacity of the business is evolving. Other businesses will have different priorities – for example brand management – but they may well benefit from following similar reporting principles.

How well does your reporting explain your business model?

Would a reader agree with these statements?

• I understand the resources on which the business has access to, depends on, and how it affects them
• I can see what the business currently does and how it adds value
• I can see how management’s plans will change the shape of the business
• I understand the high level assumptions that underpin the business model

Detail is needed if readers are to use the business model description in their decision-making.

Example – Explaining the business model

Source: Sasol Integrated Annual Report 2011, pages 8-9

All extracts from published reports should be read in conjunction with the full report itself including its notes
What does it look like?

Operating context including risks & opportunities.

This part of the report describes the external factors affecting the business (both positively and negatively) and how the business identifies and responds to these factors.

Compliance led reporting has generally focussed on the downside risks here but if a more complete picture of value is to be given, business opportunities also need to be addressed as they form a major part of the long-term value of many businesses.

Challenges:

- Does the description balance the focus between the long-term major risks to the business model and short-term operational issues?
- Is sufficient detail provided to understand the impact of the risk/opportunity? For example, what size of revenue segment does it affect?

Example – Risk management, strategy and performance

Some reporters clearly put a great deal of effort into identifying potential risks. We believe readers will be more interested in gaining a deeper understanding of the smaller number of issues that could have a fundamental effect on business value.

Some companies provide a broad-ranging analysis of its risks and their management, explaining their risk management performance in some detail in terms of risk tolerance levels set by the board (risk area, aspirations, tolerance level, targets, and 2010 and 2011 performance). They also comment on their risk review process and risk management assurance.

The linkage of issues across the report can help keep it focused on the most material issues. If an issue is identified as a key risk or opportunity, linkage demands that the strategy and performance in managing it are also explained, together with future outlook and governance. If management find it difficult to explain these, they should ask themselves whether they are reporting on issues that are of only peripheral relevance.
The linkage of issues across the report can help keep it focused on the most material issues.

Many South African reporters have used stakeholder interaction as a basis for providing the assessment of operational and strategic risk. This approach can help to balance focus on the major long term risks and opportunities that can transform business value with the more immediate operational challenges on which management focuses on a daily basis. This distinction between long and short-term is particularly important in this part of the report – readers need to understand both.

Nedbank overviews its various key stakeholders and their key issues, introducing each of them, explaining the importance of each and why they need to be engaged and how they have been engaged. Nedbank pays particular attention to its individual key stakeholders. For example, in relation to regulators it reviews relevant objectives, summarizes the strategy for 2011 and self-assesses performance. It ties this to strategic objectives for 2012 and beyond, and comments on feedback and resultant actions. It also cross-references / links to other reports.

How well does your reporting explain the operating context of the business?

Would a reader agree with these statements?

- I understand the risks and opportunities associated with the resources on which the business depends on
- I can see how the business affects (positively and negatively) the providers of the resources that it depends on
- Management has explained the assumptions around future business environment on which the organization’s plans are based; I understand the change in resource required to deliver this plan
- I understand the current risks and opportunities faced by the business and how they are managed

Example – Stakeholder engagement

Source: Nedbank Group Integrated Report 2011, pages 16-17

All extracts from published reports should be read in conjunction with the full report itself including its notes
What **does it** look like?

### Strategic objectives

This part of the report should explain the vision of how the organization will look in the future and how it will get there. There should be a natural link between the operating risks and opportunities identified elsewhere in the report and the strategy for dealing with them. The result should be a mix of information covering both short-term operational strategy and the long-term strategic vision for the business.

#### Challenges:

- Are the consequences (good and bad) for the organization’s resource requirements and availability clear – and does analysis in the rest of the report support this understanding?
- Are the consequences of the strategy visible in both the performance and outlook sections of the report?
- Does the content describe a long-term vision for the business or near-term tweaks to business operations?

An effective description of strategy should have three key elements: vision, starting point and delivery:

1. **Vision**
   - Where are we trying to get to? Focus on what the business should look like after management has implemented its strategy. Help readers understand the rationale for following the vision (including any changes to previous strategies) and the assumptions about the future on which it is based.

2. **Starting point**
   - This is the base from which the business is starting its journey, including its strengths and exposures, focussing on those aspects of the business that are directly relevant to the strategy. A good description here provides a basis for understanding how business activities and resources will need to change as a result of following the strategy.

3. **Delivery**
   - Leading reports help readers understand the milestones on the journey to delivering the change, and an explanation of how the key risks and opportunities are being managed and the impact they could have on the strategic goal. This should form the basis for identifying the operational performance indicators that show readers how the business has progressed in delivering the strategy.

The following example from ITV demonstrates the unique aspects of its business strategy.

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### Example – Explaining business strategy

**Source:** ITV plc Report and Accounts 2010, pages 17-18

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It is important to demonstrate the unique features of the strategy. After all, this is management’s opportunity to explain how it is enhancing the business model. Reporters who don’t do this, risk falling back on generic industry-level objectives such as market leadership. This adds little value, and in reality may be creating operational goals that the business has little hope of achieving. In contrast, IT’s description of its strategy ran to some 19 pages in its 2010 Annual Report, providing readers with a clear picture of how the business is expected to change under management’s plans.

This is management’s opportunity to explain how it is enhancing the business model.

Example – Explaining business strategy

How clearly does your reporting explain the business strategy?

Would a reader agree with these statements?

- I understand where the company is on its journey towards its strategic vision
- I understand how the business will change in the short-term as it develops towards its strategic vision
- I can see the operational milestones in implementing the business strategy
- I can see in broad terms how the business plans to evolve to meet changes in its operating environment;
- I understand its strengths and weaknesses as it prepares to meet this challenge
- I understand how the long-term strategy will be delivered

Source: National Australia Bank Annual review 2011, pages 12-13
What does it look like?

Performance

This part of the report describes current levels of performance both as a basis for assessing progress in delivering management’s strategic targets and as a base for understanding the future outlook for the business.

Challenges:
- Is the analysis of performance on a basis consistent with the operational reality of the business and on a basis that can be projected forwards by the reader by applying a set of operational assumptions?
- Have all aspects of corporate strategy been addressed?
- Does ‘underlying performance’ provide a balanced perspective from which the future outlook can be assessed?

If the foundation of the report has been well designed (covering business model, operating context, and strategy), the material areas for performance reporting should naturally follow. However, care needs to be taken in selecting the right measures to report. The performance indicators selected need to support readers’ decision-making processes. This means recognizing that different types of measures are relevant to different judgments.

The following four key areas should help readers form a clearer view of business value and stewardship:

1. How has the ‘asset’ base changed and how has it been managed?
   Businesses investing in their asset base can be frustrated that financial reporting rules often class their investment as a cost rather than an asset. It is in both companies’ and investors’ interest that a broader view be provided. The six capitals (financial, intellectual, manufactured, social, human, natural) outlined by the IIRC should help preparers provide a more complete picture of investment in (and consumption of) the asset base, and ultimately help readers understand whether the productive capacity of the business has declined or been enhanced.

   In some instances, it may be possible to report on specific outcomes – for example brand recognition scores. In others, reporting on investment in the asset may be more appropriate – for example research investment. In all cases it is important to focus on investment that has a direct benefit to the business.

2. How has the business performed against its operational objectives?
   Operational objectives cover both the management of risk and the delivery of performance milestones. The measures that are reported on here should follow naturally from the description of operating context (management of risk) and business strategy (performance milestones). If these parts of the report have a clear focus there should be a relatively small number of key operational performance indicators that are aligned with measures that management is itself using to run the business.

   The example below from Marks and Spencer Group plc shows operational performance against management’s plan.

3. What underlying return is being generated by the business?
   The starting point for most valuation models will be the current earnings generation capacity and growth of the business. A consequence of this is that, without adjustment, small earnings fluctuations can have a magnified effect on valuation assessments leading to share price volatility.

   Companies have long reported adjusted earnings figures that can help provide a more stable base for this assessment than raw financial data. There is however a distinction between the backwards-looking adjustments that are typically reported, and the more forward-looking analysis needed to help readers understand the current earnings run-rate. As an illustration, the results of acquisitions are often excluded from underlying earnings – this provides a basis for comparison of business performance against targets but it does not help readers understand the earnings generation capability of the business post-acquisition earnings. To understand this, readers will need to see the impact pre-acquisition earnings would have had on statutory earnings.

4. What does current performance say about the prospects of the business?
   As well as providing a basis for understanding underlying business return, current performance information also helps readers understand the implications for future performance – but the information needed for this is different.

   The focus here generally needs to be on identifying and explaining performance variances – in particular variances against the strategic objectives management has set itself. The relevant measures will often be operational rather than financial in nature. A balanced view, written from an operational perspective, is important here – the logic of Integrated Reporting means that any gaps in the reporting...
The performance indicators selected need to support readers’ decision-making processes.

of strategically important performance will be immediately apparent to readers. Most businesses respond quickly to areas of operational under performance. The opportunity to explain this response should be preferable to leaving readers to assess the implications for themselves.

The quality and depth of the business model description will be important in helping readers relate the implications of operational performance variances to overall business performance and value. In a well designed report, detail provided in the business model should follow the same operational structures as the performance analysis. So, for example if one segment of the customer base is performing ahead of expectations, readers can look to the business model to understand the relative size of that base and ultimately form their own judgment on the implications for future earnings.

How well does your reporting explain business performance?

Would a reader agree with these statements?

- I can see the extent to which the productive capacity of the business has been retained / enhanced
- I can see the extent to which management is delivering on its short, medium, and long-term change programme
- I can see how successful the business is in generating value
- I understand the capacity of the business to generate value
- I have sufficient visibility over the key short-medium, and long-term risk indicators to assess whether its current direction and ability to generate financial returns is sustainable

Example – Reporting operating performance

<table>
<thead>
<tr>
<th>Source</th>
<th>Reserves statement</th>
</tr>
</thead>
</table>


<table>
<thead>
<tr>
<th>Source</th>
<th>Our performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marks and Spencer Group plc Annual Report 2011, page 10</td>
<td>All extracts from published reports should be read in conjunction with the full report itself including its notes</td>
</tr>
</tbody>
</table>

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Future outlook

This part of the report should provide a basis for readers to form their own views on the long-term prospects of the business. The information in this section is central to readers’ understanding of business value. But businesses have traditionally been wary of sharing this type of information. This is understandably a difficult area given the legal and regulatory environment in which businesses operate. We believe the approach outlined below can make it easier for businesses to manage these concerns.

Challenges:

- Are assumptions expressed in sufficient detail that readers can understand the impact of flexing them? Does the description of existing operations also support this?
- Does the outlook help readers form their own views – to the extent possible – on the long-term elements of a valuation assessment as well as the short-term?

1 Help readers form their own views of the future

Don’t assume that explaining the future outlook requires a financial forecast. If enough clarity is provided over your existing operations, readers should be able to build their own judgments around management’s expectations for the operational performance of the different parts of the business rather than relying on high level financial forecasts. For example, AstraZeneca provide information on both research progress and future patent expiries.

2 Don’t take responsibility for assumptions you can’t control

Financial forecasts and projections inevitably involve significant assumptions that are beyond management’s operational control. Help readers to understand these assumptions by explaining them. BHP Billiton plc achieves this by providing a sensitivity analysis to metals prices based on current year performance.

3 Stay at the right level

Commercial sensitivities are a natural concern for many businesses when looking to the future. However, the information needed for shareholders to assess future business value is generally at a much higher level to that which would be relevant to a competitor. For example shareholders may be looking to understand growth in a particular market but are less likely to need to know the
4 Help readers understand the long-term prospects
The long-term prospects of the business are, of course, hugely subjective — so is there any value in explaining these? We believe there is, but the focus of the explanation should be different. Irrespective of whether management provides this information, anyone looking to value the business will need to form a judgment over its long-term prospects. This is likely to represent a significant proportion of overall value.

Example – Explaining results sensitivities

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Sensitivity Estimate</th>
<th>Impact on FY2011 Profit after Taxation</th>
<th>US$M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>US$1/bbl on oil price</td>
<td>43</td>
<td></td>
</tr>
<tr>
<td>Aluminum</td>
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<td></td>
</tr>
<tr>
<td>Copper</td>
<td>US$1/lb on copper price</td>
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<td></td>
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<tr>
<td>Nickel</td>
<td>US$1/lb on nickel price</td>
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<td></td>
</tr>
<tr>
<td>Iron</td>
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<td>80</td>
<td></td>
</tr>
<tr>
<td>Manganese</td>
<td>US$1/t on manganese alloy</td>
<td>0.5</td>
<td></td>
</tr>
<tr>
<td>Ore</td>
<td>US$1/t on manganese ore</td>
<td>138</td>
<td></td>
</tr>
<tr>
<td>Coal</td>
<td>US$1/t on metallurgical coal price</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>Coal</td>
<td>US$1/t on energy coal price</td>
<td>24</td>
<td></td>
</tr>
</tbody>
</table>

Source: BHP Billiton Annual Report, 2011, page 86

At this level, explanations of future performance should focus more on the overall shape of the business rather than detailed operational considerations. For example, recognizing that one part of the business is likely to grow faster than others can help readers to adjust their expectations of overall margins earned.

Example – Explaining targets and aspirations

<table>
<thead>
<tr>
<th>Strategic and financial targets</th>
<th>Probability targets H1 FY2011</th>
<th>Probability targets H2 FY2011</th>
<th>Base targets FY2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced Capital Expenditure</td>
<td>-10%</td>
<td>-15%</td>
<td>-12%</td>
</tr>
<tr>
<td>Sales Growth</td>
<td>&gt;15%</td>
<td>&gt;20%</td>
<td>10%</td>
</tr>
<tr>
<td>EBITDA Growth</td>
<td>&gt;25%</td>
<td>&gt;30%</td>
<td>20%</td>
</tr>
<tr>
<td>ROCE</td>
<td>&gt;10%</td>
<td>&gt;12%</td>
<td>10%</td>
</tr>
<tr>
<td>Free Cash Flow</td>
<td>+25%</td>
<td>+30%</td>
<td>15%</td>
</tr>
<tr>
<td>Operating margin</td>
<td>&gt;20%</td>
<td>&gt;22%</td>
<td>20%</td>
</tr>
<tr>
<td>Cash Flow Margin</td>
<td>&gt;10%</td>
<td>&gt;15%</td>
<td>10%</td>
</tr>
<tr>
<td>Operating cash flow</td>
<td>&gt;10%</td>
<td>&gt;15%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Royal DSM Integrated Annual Report 2011, page 29
What does it look like?

Governance & Remuneration

In many regions there are already extensive compliance-based disclosures covering governance and remuneration reporting. Nevertheless, there is still scope for companies to use an Integrated Reporting approach to improve their reporting within their local compliance framework.

Challenges:

• Compliance requirements can lead to generic disclosure offering little that is specific to the organization. Disclosures need to stay focussed and relevant to the company and its business value.
• Setting a tone that reflects the importance the board places on the maintenance and enhancement of long-term shareholder value.
• Demonstrating the connection between the decision-making processes and the business’s priorities, as set out in the rest of the report.

Below we highlight three areas where the Integrated Reporting principles can help to improve governance reporting:

1 Demonstrating the relevance of the board’s experience

Shareholders will expect the composition of their board to reflect the needs of the company’s business model. Reporters can help demonstrate this by explaining the rationale for the board’s composition, linking the individual appointments (including the strengths and benefits that individual board members bring to their roles) with an explanation of the overall positioning of the board as a whole. Readers should be able to understand why any board members who are up for re-election should be re-elected in terms of their individual contribution in the context of the business model and how they link with the rest of the company’s governance network.

For example BHP Billiton provide a summary of Directors’ skills and experience covering the composition of each of the main board committees.

2 How governance works within the company

Readers need to know how strategic decisions are taken. The focus should be on how governance links to the risks identified and their mitigation strategy, with the challenge in ensuring that there is a link made between the decision-making process and the business’s priorities – its strategy and opportunities as identified elsewhere in the report. At the same time reporters should ensure there is not an excessive focus on the governance process at the expense of concentrating on the practical execution of the board’s responsibilities and substance of its decision-making.

3 Performance and remuneration

One of the challenges of board remuneration reporting has been the potential mismatch between the short term financial performance of the business and its long-term value. Integrated Reporting attempts to address this by building reports that amongst other things highlight the delivery of operational performance milestones against the strategic objectives of the business. The potential is an improved basis for remuneration reporting that’s aligned with the business mission and value creation.

How well does your reporting explain the governance over the business?

Would a reader agree with these statements?

• I can see that key management decisions were subject to due process and scrutiny by the board;
• I can see the extent to which decisions affecting long-term value feature in the process;
• I can see that the board is focussed on the issues that matter and has the expertise to address these;
• I can see that the board understands and engages with potential stakeholder issues, threats and opportunities;
• I understand the amount and basis for board remuneration and the link between remuneration and the delivery of business strategy and value.
The potential is an improved basis for remuneration reporting that’s aligned with the business mission and value creation.

Example – Linking skills and remuneration to strategy

5 Corporate Governance Statement continued

5.3.3 Skills, knowledge, experience and attributes of Directors continued

Management and leading

<table>
<thead>
<tr>
<th>Skills and experience</th>
<th>Board</th>
<th>Risk and Audit</th>
<th>Remuneration</th>
<th>Sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing and leading</td>
<td>5 Directors</td>
<td>4 Directors</td>
<td>1 Director</td>
<td>1 Director</td>
</tr>
</tbody>
</table>

Global experience

<table>
<thead>
<tr>
<th>Skills and experience</th>
<th>Board</th>
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Strategic

<table>
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<th>Skills and experience</th>
<th>Board</th>
<th>Risk and Audit</th>
<th>Remuneration</th>
<th>Sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic</td>
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<td>4 Directors</td>
<td>1 Director</td>
<td>1 Director</td>
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Financial

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<th>Remuneration</th>
<th>Sustainability</th>
</tr>
</thead>
<tbody>
<tr>
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<td>4 Directors</td>
<td>1 Director</td>
<td>1 Director</td>
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Capital

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<th>Board</th>
<th>Risk and Audit</th>
<th>Remuneration</th>
<th>Sustainability</th>
</tr>
</thead>
<tbody>
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<td>4 Directors</td>
<td>1 Director</td>
<td>1 Director</td>
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</table>

Health, safety and environment

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<th>Board</th>
<th>Risk and Audit</th>
<th>Remuneration</th>
<th>Sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health, safety and environment</td>
<td>5 Directors</td>
<td>4 Directors</td>
<td>1 Director</td>
<td>1 Director</td>
</tr>
</tbody>
</table>

Remuneration Report continued

6.2.2 Our remuneration policy underpins our Group strategy

The Remuneration Committee recognises that the implementation of the Group’s strategy and our ongoing performance depends on the quality and motivation of our people.

Our purpose is to create long term shareholder value through the discovery, acquisition, development and marketing of natural resources. Our strategy is to use and operate large, low cost, expandable assets diversified by commodity, geography and market. Our focus on the safety and health of our workforce, and our fundamental drive for sustainability across all of our business operations, are crucial for the environment and communities within which we work, and our management of operational risks is reflected through our remuneration policy and structure.

The diagram below illustrates how BHP Billiton’s remuneration policy and structure serve to reinforce and reflect the key elements of our strategy:

![Diagram of BHP Billiton's remuneration policy and structure]

6.2.3 Our remuneration policy supports our Group strategy

The diagram below illustrates how BHP Billiton’s remuneration policy and structure serve to reinforce and reflect the key elements of our strategy.

![Diagram of BHP Billiton's remuneration policy and structure]

All extracts from published reports should be read in conjunction with the full report itself including its notes.
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