

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.

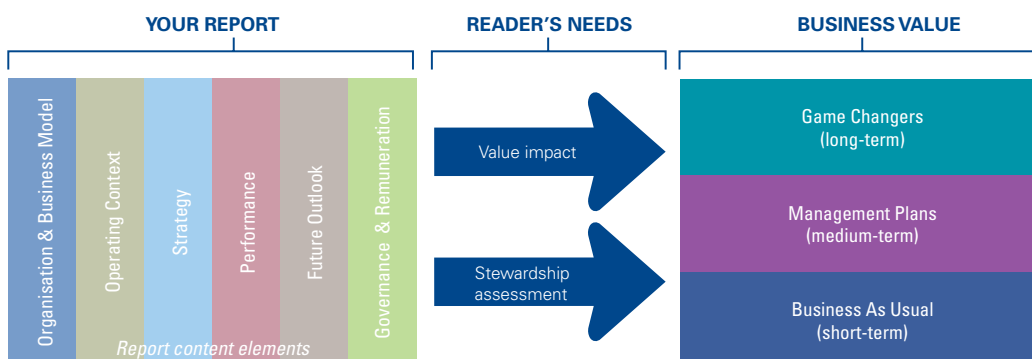
The Integrated Report should cover the six content elements using the five guiding principles to enable capital providers and other key stakeholders to make decisions about the business’s value and stewardship – the matters that shape its value for the longer term, its aspirations and plans for the medium-term,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



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.

ANNUAL REPORT

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)

FINANCIAL
STATEMENTS

CORPORATE
RESPONSIBILITY

OTHER REPORTS

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.

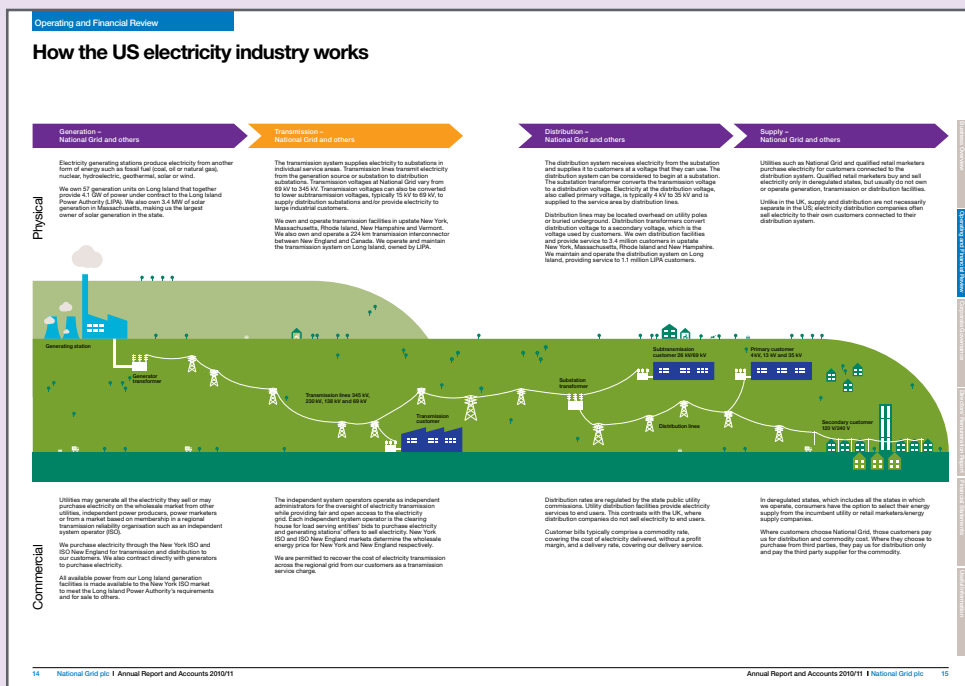
A high level view of the business model provides a starting point for readers to understand the business on its terms – in fact it should be the foundation of the report. However, it's not enough on its own. Detail is needed if readers are to use the business model description in their decision-making. 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



Source: National Grid plc Annual Report and Accounts 2010/11, pages 14-15

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

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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.

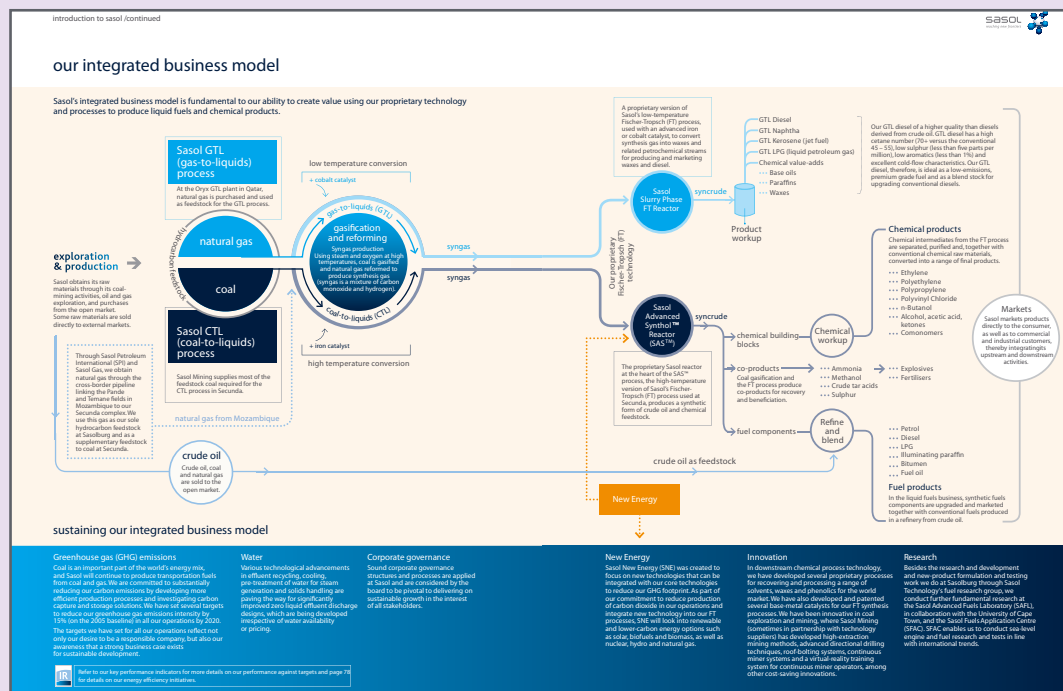
How well does your reporting explain your business model?

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

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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?

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.

Example – Risk management, strategy and performance

2.2 Risk management
Effective and integrated risk management sits at the heart of true business sustainability. Gold Fields has a well-established Enterprise Risk Management (ERM) process, which not only covers our traditional operational and business risks, but also our environmental, social, health and safety risks.

The overriding purpose of the ERM process is to help Gold Fields become more resilient in the global business environment and achieve its strategic objectives – to grow Gold Fields, to optimise its operations and to secure its future. It also supports our efforts to achieve the highest levels of corporate governance, as well as full compliance with the risk management requirements of South Africa's King III Code.

The ERM process is comprised of two integrated and well-aligned components: operational risk management and strategic risk management (see Figure 2.8). It is aligned with the ISO 31000 international standard on risk management.

Additional content online
www.goldfields.co.za

Figure 2.8: Enterprise Risk Management process – definition

Enterprise Risk Management

- Strategic risk management:** The identification, analysis, evaluation and treatment of hazards and risks in order to create a safer, healthier, more productive, environmentally friendlier and sustainable working environment.
- Operational risk management:** The identification, analysis, evaluation and treatment of hazards and risks in order to create a safer, healthier, more productive, environmentally friendlier and sustainable working environment.

Figure 2.9: Risk management review process

Strategic risk management: Risks from the external environment → Group Executive Committee Risk Review → Audit Committee Risk Review → Disclosure of risks to all Stakeholders

Operational risk management: Hazard identification and risk assessment in terms of SIMIRAC AUISWZ 4360 → Baseline, initial or 'whole of mine' risk assessment and risk profile → Issue based risk assessment – Change Management → Ongoing or continuous risk assessment → Project risk management guideline and HAZOP'S – Exploration site risk assessments

FOUNDATION – If we cannot mine safely, we will not mine **PRINCIPLE – Stop, Think, Verify, Fix and Continue**

Figure 2.10: Risk, strategy and performance (within the tolerance levels set by the Board)

Risk Area	Aspirations	Tolerance level	Targets	2010	2011
Optimize our assets			ERR - Zero	0.11	0.13
			SFR - 25% less ¹	2.22	2.64
			LTRR - 25% less ¹	4.39 ²	4.69
			MTRR - 25% less ¹	7.16 ²	5.68
Safety	Zero Harm	Zero Harm			
Health	Zero Harm	Zero Harm	2013 MISC milestones for Silicosis & NHL	On track	On track
Environment	Zero Harm	Zero Level 4 and 5 incidents	Zero	Zero	Zero
	SMOZ by 2015	95% compliance	5.5Moz	2.5	3.5
Gold Delivery		NCE 25%		16%	25%
Securing our future					
Human Resources	Pipeline of scarce and critical skills	60% - successor cover ratio for top 200 employees	60%	59%	70%
License to operate	Global leader in sustainable gold mining	Full compliance with all legal and community commitments	Full compliance	100%	100%
Ethics and Corporate Governance	Full compliance - SOX and substantial compliance to King III	No material / significant failures	No material / significant failures	N/A	N/A
Growing Gold Fields					
Capital Projects	Project delivered on time / budget	7% - 10% overrun	South Deep, Chuquibambilla, ESE, APB, Venetia	On track	On track
Mergers & Acquisitions	Proper assessment of risk and return commensurate with the risk	IRR 5% - Near-mine IRR 10% - Greenfields	As per IRR	On track	On track
Exploration	Appropriate balance between geological potential & political risk	Learning towards greater geological potential in high risk areas	As per GBAR ⁴	On track	On track

Legend: ■ Targets achieved ■ Improved on previous year ■ Targets not achieved

¹ South Africa only - other regions are subject to a 20% reduction target for SFR, LTRR and MTRR
² Reinstatement - LTRR previously reported as 4.38 and MTRR previously reported as 7.20. Please see report for explanation.
³ Internal Rate of Return
⁴ Global Business Area Rating system

Figure 2.10: Risk, strategy and performance (within the tolerance levels set by the Board)

Risk review process
The multi-stage strategic risk management process starts with quarterly strategic risk management assessments at each of our mines and service divisions. In addition, all sites regularly conduct operational risk assessments compliant with standards set by Simtec Safety in Mines Research Advisory Committee in South Africa and the AUISWZ standard 4360 in Australasia. Key strategic risks are identified and analysed, and mitigating actions are put in place (or reviewed if already in place). The regions' top risks are forwarded to the regional executive committees, which review the risk register and decide on appropriate mitigating actions.

Risk management assurance
Our Risk Management Charter provides for four levels of ERM process assurance: (1) Financial Internal Controllers review mitigating strategies on a regular basis to ensure they are being implemented. These reviews must be captured in the Cuts risk management software system; (2) Internal Audit conducts an annual review on the effectiveness of the risk management process; (3) Internal Audit provides assurance to the Board that the risk management plan is integrated into the daily business activities of Gold Fields; (4) Internal Audit conducts an annual review of the mitigating strategies of the top risks in the risk registers to ensure they are being implemented.

Source: Gold Fields Integrated Annual Review, 2011, pages 36-37

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

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 focusses 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

STAKEHOLDER	Reasons for engagement	Types of engagement
STAFF	<ul style="list-style-type: none"> To ensure that Nedbank Group remains an employer of choice by providing a safe, positive and inspiring work environment. To provide all staff with strategic direction and pertinent information regarding group activities. 	<ul style="list-style-type: none"> A direct combination of face-to-face, written and broadcast communications. These included culture and engagement surveys, roadshows, email, intranet communications, data casting, magazines and relevant training. Leading for DeepGreen through a facilitated process, with virtual working teams for personal mastery and team effectiveness.
CLIENTS	<ul style="list-style-type: none"> To understand and respond to staff experience, needs and concerns. To provide all staff with strategic direction and pertinent information regarding group activities. 	<ul style="list-style-type: none"> A direct combination of face-to-face, written and broadcast communications. These included culture and engagement surveys, roadshows, email, intranet communications, data casting, magazines and relevant training. Leading for DeepGreen through a facilitated process, with virtual working teams for personal mastery and team effectiveness.
SHAREHOLDERS	<ul style="list-style-type: none"> To ensure that Nedbank Group remains an employer of choice by providing a safe, positive and inspiring work environment. To provide all staff with strategic direction and pertinent information regarding group activities. 	<ul style="list-style-type: none"> A direct combination of face-to-face, written and broadcast communications. These included culture and engagement surveys, roadshows, email, intranet communications, data casting, magazines and relevant training. Leading for DeepGreen through a facilitated process, with virtual working teams for personal mastery and team effectiveness.
REGULATORS	<ul style="list-style-type: none"> To ensure that Nedbank Group remains an employer of choice by providing a safe, positive and inspiring work environment. To provide all staff with strategic direction and pertinent information regarding group activities. 	<ul style="list-style-type: none"> A direct combination of face-to-face, written and broadcast communications. These included culture and engagement surveys, roadshows, email, intranet communications, data casting, magazines and relevant training. Leading for DeepGreen through a facilitated process, with virtual working teams for personal mastery and team effectiveness.
COMMUNITIES	<ul style="list-style-type: none"> To ensure that Nedbank Group remains an employer of choice by providing a safe, positive and inspiring work environment. To provide all staff with strategic direction and pertinent information regarding group activities. 	<ul style="list-style-type: none"> A direct combination of face-to-face, written and broadcast communications. These included culture and engagement surveys, roadshows, email, intranet communications, data casting, magazines and relevant training. Leading for DeepGreen through a facilitated process, with virtual working teams for personal mastery and team effectiveness.

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.

Example – Explaining business strategy

3 Drive new revenue streams by exploiting our content across multiple platforms, free and pay

What do we want to achieve?

- Enter pay TV
- Transform itv.com
- Own customer relationships on connected platforms
- Total Value approach to brand exploitation
- Build addressable advertising capabilities

Transforming ITV

'Develop new revenue streams through building our programme brands and platform offerings'

How are we going to achieve it?

We need to develop a channel portfolio that is more balanced between pay and free television, driving forward sponsorship and product placement and developing new revenue streams through building our programme brands and platform offerings.

itv.com needs to be transformed. Navigation and the viewing experience will be improved to cultivate a richer deeper relationship between ITV and its viewers. In addition, we will maximise the reach of our video on demand service, ITV Player, making the service available on new platforms. We will also undertake pay trials on itv.com and are developing a payment mechanism to enable us to do this.

We will continue to support and grow the Freeview and Freesat platforms where ITV channels perform strongly. Part of our platform strategy will also be the launch of YouView, the next generation of Freeview. This will allow viewers to navigate seamlessly between their favourite Freeview channels and the most popular on demand content on ITV Player and the BBC iPlayer subscription free.

Growing revenues from the SDN business, which operates one of the six digital terrestrial multiplex licences in the UK that make up Freeview, also remains a focus.

In the past we have not exploited the full value of our programming. With our new Total Value approach to programme commissioning and brand exploitation, we intend to maximise the lifetime revenues from our strongest brands.

As explained earlier we have restructured the sales team to ensure we have the right team in place to offer creative advertising solutions and drive revenues across all our platforms.

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

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

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, ITV'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.

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

Example – Explaining business strategy

Our strategy continued

3
Reduce complexity and cost.

- Continually improve key areas of customer service
- Converge and simplify processes and ensure disciplined expense management
- Upgrade our technology with a multi-year program that will make us a more agile, efficient and competitive business by simplifying banking, finance and risk systems, processes and tools

2011 HIGHLIGHTS

- Simplified our product ranges
- Progressed simplification of the mortgage process for our customers and our frontline bankers
- Progressed technology upgrades in infrastructure, network, re-platforming program and customer process

FOCUS GOING FORWARD

- Continue to progress the upgrade of operations and replace ageing infrastructure
- Responsible management of costs within growth

MLC & NAB WEALTH

A new priority at MLC & NAB Wealth is to create market-leading advice capability for financial advisers and customers. There are significant benefits for both our business and our customers in enabling more transactions to be completed online, including faster turnaround times and improvements to customer service, accuracy and efficiency.

"MLC Online Applications are invaluable in streamlining accurate business implementation – they completely cut out the need to read paperwork, and enable new accounts to be set up on MLC's system instantly which reduces potential errors associated with manual administration. Ultimately, this helps advisers spend more time actually speaking with clients!"

Chris Gillis, MLC Financial Planning

National Australia Bank Annual Review 2011

Our business | Our strategy

"NAB's strategy for fair exchange of value has been reinforced by a number of Personal Banking initiatives including competitively priced products and services, leading the industry by abolishing early exit fees."

Cameron Clyne, Group CEO

4
Enhance our reputation.

- Improving our customer outcomes
- Invest in our people – leadership and skill development, diversity and volunteering
- Address our broader responsibility in society – education, inclusion and environment

2011 HIGHLIGHTS

- Awarded 'Best Low Fee Bank Account' for NAB Classic Banking by CHOICE for the second consecutive year
- Removed mortgage exit fees and introduced fairer credit card charges
- Awarded 'Most Satisfied Customer' of the Major Banks by Canstar Blue
- Awarded 'Best Career Development Program' for the Academy NAB's training and development centres in the 2011 Australian Banking and Finance Awards
- Contributed over 25,000 volunteer days to the community, worth more than \$8 million
- Included in the Dow Jones Sustainability Index (Asia Pacific) index top-ten leaders and the World Index, and the Carbon Disclosure Project Performance and Disclosure Index
- Published our third Reconciliation Action Plan, setting out 22 commitments for the year ahead

FOCUS GOING FORWARD

- Continue delivering on promise of 'More Give, Less Take' to show we stand for fairer and better banking
- Achieve our Greenhouse Reduction and Beyond Carbon Neutral targets by 2013
- Create a more diverse workforce through initiatives that help achieve our disclosed diversity targets
- Continue to focus on issues of inclusion, hardship and education in our wider community

Customer satisfaction Personal Banking Australia

Key of every satisfied (%)

Year	2009	2010	2011
NAB	74.1	74.3	76.4
Other banks	72.8	72.2	73.6

Open Saturdays.

PERSONAL BANKING

By listening to our customers and maintaining our commitment to 'do the right thing,' we have enhanced our reputation and expanded the NAB Family. Ms Silvercar, from Forest Hill in Victoria, broke up with Wallace after 20 years.

"I just got sick of paying this extra money each month and just felt I wasn't getting the personal service. Ms Silvercar, new NAB customer"

Source: National Australia Bank Annual review 2011, pages 12-13

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

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 to 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.

Woodside Petroleum shows how the creation of new oil and gas reserves can be reported.

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

Woodside Petroleum Ltd 2011 Annual Report

Overview

Reserves statement

Contingent resources increased 322.7 MMboe primarily due to positive revisions in the Greater Browse fields and exploration and appraisal success in the Greater Exmouth and Greater Pluto regions.

2011 Key performance highlights

- The three year organic Proved reserves replacement ratio remains above 100%.
- Proved reserves life is 20 years.
- Net contingent resources in the Greater Browse region increased 251.5 MMboe.
- Net contingent resources in the Greater Exmouth region increased 21.8 MMboe.
- Net contingent resources in the Greater Pluto region increased 69.8 MMboe.

Woodside's reserves¹ overview

	2011	2010	Change%
Proved ²	MMboe 1,292.4	1,308.5	(1.2)
Proved plus Probable ³	MMboe 1,523.2	1,601.1	(4.9)
Contingent resources ⁴	MMboe 2,136.3	1,813.9	17.8

Key metrics

	2011	2010
2011 reserves replacement ratio ⁵	% 106	108
Organic 2011 reserves replacement ratio ⁶	% 76	69
Three year reserves replacement ratio ⁷	% 84	57
Three year organic reserves replacement ratio	% 102	68
Reserves life	Years 20	25
Annual production ⁸	MMboe 63.7	63.7
Net acquisitions and divestments	MMboe 69.8	0.9

Proved reserves

Proved reserves annual reconciliation by product⁹

	Dry gas	Condensate	Oil	Total
Reserves at 31 December 2010	6,490	122.3	54.6	1,308.5
Revision of previous estimates ¹⁰	150	2.8	13.7	36.8
Extensions and discoveries ¹¹	12	1.1	0.0	13.7
Acquisitions and divestments	0.0	0.0	69.1	69.6
Annual production ¹²	(2.8)	(6.3)	(19.8)	(69.7)
Reserves at 31 December 2011	6,406	117.2	51.4	1,292.4

Best estimate contingent resources annual reconciliation by product

	Dry gas	Condensate	Oil	Total
Contingent resources at 31 December 2010	8,280	245.9	111.2	1,813.9
Transfer to reserves	(28)	(6.7)	(2.7)	(8.3)
Revision of previous estimates	1,240	28.1	68.8	292.2
Extensions and discoveries	315	5.7	31.0	352.0
Acquisitions and divestments	441	17.6	(2.9)	455.7
Contingent resources at 31 December 2011	9,780	280.8	135.7	2,136.3

Proved plus Probable reserves

Proved plus Probable reserves have remained steady over the past five years.

¹ Refer to page 18 for Notes to the Reserves Statement.

Source: Woodside Petroleum Ltd Annual Report, 2011, page 16. The above disclosures reflect the Group's position as at 31 Dec 2011

Our performance

Financial performance

Group revenue

	2011	2010	2009
Group revenue	£9.7bn	£9.2bn	£8.7bn
Change	+5.5%	+5.8%	+5.8%

Underlying Group operating profit

	2011	2010	2009
Underlying Group operating profit	£24.9m	£25.8m	£25.2m
Change	-3.5%	+2.4%	+2.4%

Performance against our plan

Focusing on the UK

UK market share clothing and footwear

Value: 11.7% (+0.5%)

Volumes: 12.3% (+0.3%)

UK market share food

Value: 3.9% (+0.1%)

Volumes: 4.1% (+0.1%)

UK mystery shopping programme

Average score is 76%

Drive UK space growth

Average weekly footfall: 20.7m (+0.3%)

Annual space growth: 1.4%

Source: Marks and Spencer Group plc Annual Report 2011, page 10

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

Readers should be able to build their own judgments around management's expectations.

Example – Explaining results sensitivities

Estimated impact on FY2011 profit after taxation of changes of:	US\$M
US\$1/bbl on oil price	43
US¢1/lb on aluminium price	20
US¢1/lb on copper price	18
US¢1/lb on nickel price	1
US\$1/t on iron ore price	80
US\$1/t on manganese alloy	0.5
US\$1/dmtu on manganese ore	138
US\$1/t on metallurgical coal price	22
US\$1/t on energy coal price	24

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.

How well does your reporting explain the future outlook for the business?

Would a reader agree with these statements?

- I can see what effect management's plans will have on the future productive capacity of the business
- I can see how changes to the business environment together with management's plans will affect the ability of the business to generate financial returns
- I can see how the 'game changing' issues affecting the operating environment could affect productive capacity and ability to generate returns
- I have enough information to form my own views about how the issues and opportunities identified in the report might affect the business

technical details of a planned new product launch; the track record of past launches may be more helpful to their assessment.

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 targets and aspirations

Report by the Managing Board

Highlights of 2011
DSM in motion: driving focused growth
 Shareholder engagement
 Profit in 2011
 Profit in 2011
 Growth
 Innovation
 External recognition

Strategic and financial targets

Profitability targets 2013	
- EBITDA	€ 1.4 - 1.6 bn
- ROCE	> 15%

Sales targets 2015	
- Organic sales growth	5-7% annually
- China sales	from USD 1.5 bn to > USD 3 bn
- High-growth economies sales	from ~30% toward 50% of sales
- Innovation sales	from ~12% to 20% of sales

Aspiration regarding Emerging Business Areas for 2020	
- EBA sales	> € 1 bn

Sustainability aspirations 2011-2015

Down Jones Sustainability Index	Top ranking (SAM Gold Class) ¹
ECO² (Innovation)	100% of positive vs ECO ²
ECO² (Running business)	From approximately 34% toward 50%
Energy efficiency	25% (absolute) by 2020, compared to 2008
Greenhouse-gas emissions	Toward High Performance Norm ³
Employee Engagement Survey	Toward High Performance Norm ³
Diversity and Peoples	To be updated in 2011

1 The means a total score of at least 75% and within 5% of the DSM sector leader
 2 See page 20 for definition of ECO²
 3 The High Performance Norm (HPN) Scorecard is the composite of the top 20% employee responses of the selected external benchmark organisations

In 2010 DSM set a number of ambitious sustainability aspirations for 2015, and in 2011 the company made good progress toward meeting them. The highlights can be found on page 27.

High Growth Economies: from 'reaching out' to being truly global

A key element of DSM in motion: driving focused growth is for DSM to move from being a European company reaching out to the world to being a truly global company. All the evidence indicates that fast-growing economies such as China, India, Brazil and Russia and other emerging areas will be the major growth engines for the world economy over the next decade. DSM's market penetration in the high growth economies has increased from just 22% of sales in 2005 to 39% now, the target for 2015 being to move toward 50% of sales. DSM expects over 70% of its growth in the period to 2015 to come from high growth economies.

DSM has a clear focus on China, where the company has set a target to double sales to a level of at least USD 3 billion by 2015. In 2011 DSM made good progress toward this target. China sales increased 23% to USD 2.0 billion. To support this growth DSM intends to invest USD 1 billion in China in this strategy period. DSM will also increase its presence in other markets, doubling or even tripling revenues in India, Latin America and Russia.

Source: Royal DSM Integrated Annual Report 2011, page 29

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

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

Skills and experience	Board	Risk and Audit	Nomination	Remuneration	Sustainability
Managing and leading Sustainable success in business at a very senior level in a successful career.	11 Directors	3 Directors	3 Directors	3 Directors	3 Directors
Global experience Senior management or equivalent experience in multiple global locations, exposed to a range of political, cultural, regulatory and business environments.	12 Directors	4 Directors	3 Directors	3 Directors	3 Directors
Governance Commitment to the highest standards of governance, including experience with a major organisation, which is subject to rigorous governance standards and an ability to assess the effectiveness of senior management.	12 Directors	4 Directors	3 Directors	3 Directors	3 Directors
Strategy Track record of developing and implementing a successful strategy, including appropriately probing and challenging management on the delivery of agreed strategic planning objectives.	12 Directors	4 Directors	3 Directors	3 Directors	3 Directors
Financial acumen Senior executive or equivalent experience in financial accounting and reporting, corporate finance and internal financial controls, including an ability to probe the adequacies of financial and risk controls.	12 Directors	4 Directors	3 Directors	3 Directors	3 Directors
Capital projects Experience working in an industry with projects involving large-scale capital outlays and long-term investment horizons.	10 Directors	3 Directors	3 Directors	2 Directors	3 Directors
Health, safety and environment Experience related to workplace health and safety, environmental and social responsibility, and community.	11 Directors	4 Directors	3 Directors	2 Directors	3 Directors
Remuneration Board remuneration committee membership or management experience in relation to remuneration, including incentive programs and pensions/superannuation and the legislation and contractual framework governing remuneration.	12 Directors	4 Directors	3 Directors	3 Directors	3 Directors
Mining Senior executive experience in a large mining organisation combined with an understanding of the Group's corporate objective to create long-term value for shareholders through the discovery, development and conversion of natural resources.	4 Directors	1 Director	0 Directors	0 Directors	2 Directors
Oil and gas Senior executive experience in the oil and gas industry, including in depth knowledge of the Group's strategy, markets, competitors, operational issues, technology and regulatory concerns.	4 Directors	1 Director	2 Directors	2 Directors	1 Director
Marketing Senior executive experience in marketing and a detailed understanding of the Group's corporate objective to create long-term value for shareholders through the provision of innovative customer and market-focused solutions.	10 Directors	3 Directors	3 Directors	3 Directors	3 Directors
Public policy Experience in public and regulatory policy, including how it affects corporations.	12 Directors	4 Directors	3 Directors	3 Directors	3 Directors
Total Directors	12 Directors	4 Directors	3 Directors	3 Directors	3 Directors

Director qualifications

- Business/Finance, 7 Directors
- Engineering and Science, 2 Directors
- Science, 2 Directors
- Engineering, 1 Director

Non-executive Director locations

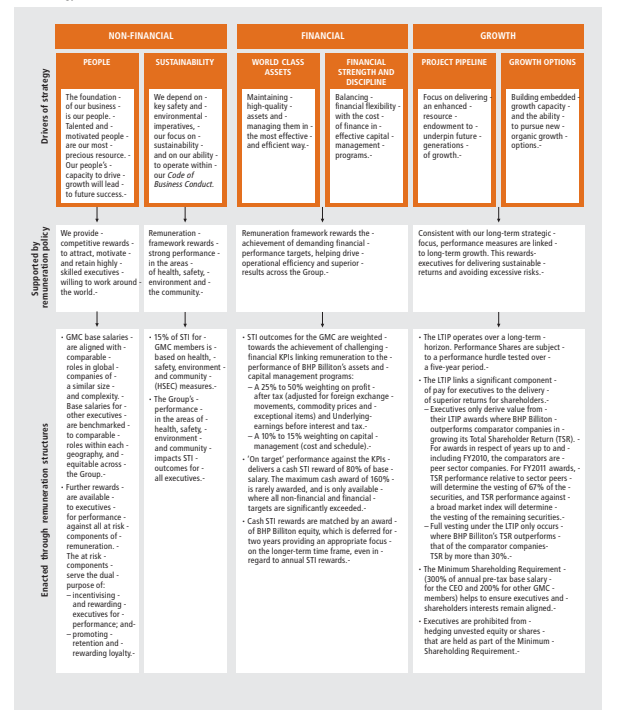
- US, 3 Directors
- Australia, 5 Directors
- UK, 2 Directors
- South Africa, 1 Director

Source: BHP Billiton Annual Report, 2011, pages 112 and 130

6 Remuneration Report

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 own and operate large, low-cost, expandable, upstream assets diversified by commodity, geography and market. Our focus on the safety and health of our workforce, our fundamental drive for sustainability across all our business operations, our concern for the environment and communities within which we work, and our management of operational risks are reflected through our remuneration policy and structures. The diagram below illustrates how BHP Billiton's remuneration policy and structures serve to support and reinforce the six key drivers of our strategy.



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

There is still scope for companies to use an integrated reporting approach to improve their reporting within their local compliance framework.



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