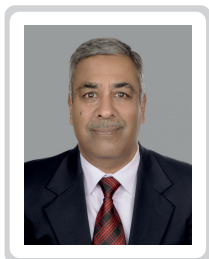


◆ MEMBER'S SECTION ◆



Making sense of Integrated Reporting

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The perspective

Globally and in India corporate reporting has evolved significantly over the last decade to be more transparent, relevant and comprehensive in providing information to key users and stakeholders. For many years, investors and other stakeholders have felt the limitations in the current form of annual reporting - as indicated by South Africa's King report III, the current form of annual financial reporting takes a short term approach and is perceived as inadequate to meet the needs of investors and other stakeholders who would like to have a holistic view of the company's performance and the ability to connect financial and sustainability performance. The primary objective of integrated reporting is to help stakeholders analyze and assess the company's ability to create and sustain value in the medium and long term.

What is Integrated Reporting ?

An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term. The primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time. Integrated thinking is described as the Framework for active consideration by an organization of the relationship between its various operating and functional units and the capitals that the organization uses or affects. Integrated reporting will help analyze company's level of control and influence on various forms of capital and whether its activities serve to increase or decrease the stock of various forms of capital.

Integrated Reporting is a framework that applies principles and concepts focused on bringing improved cohesion and efficiency to the reporting process. IR

allows a business to tell its value creation story in a cohesive and holistic manner and ultimately enables efficient and productive allocation of capital. Integrated Reporting advocates disclosures of materially relevant aspects that affect the value created by an organization. This includes key financial and non-financial indicators, governance and risk management, strategic outlook and the actions taken by the company towards it. An integrated report explains how an organization creates value over time. Value is not created by or within an organization alone.

- It is Influenced by the external environment
- Created through relationships with stakeholders
- Dependent on various resources.

Genesis of Integrated Reporting

To understand the need of the 21st century, in 2009, The Prince of Wales together with various UN representatives including The Prince's Accounting for Sustainability Project², International Federation of Accountants (IFAC)³, and the Global Reporting Initiative (GRI)⁴, established the International Integrated Reporting Committee (IIRC). The role of IIRC was to oversee the creation of a globally accepted Integrated Reporting framework. Thereafter, in November 2011, the Committee was renamed the International Integrated Reporting Council⁵. Thereafter, on March 1, 2010 the Johannesburg Stock Exchange adopted the King III principles (Code of Corporate Governance Principles for South Africa) as part of its listing requirements, which requires listed companies to apply King III or explain which recommendations have not been applied and publicly provide reasons therefore. Because of this, for most companies in South Africa, the integrated report has

become their primary report. Subsequently, various other countries started adopting the framework of integrated reporting.

Fundamental concepts underpinning Integrated Reporting

- Value creation for the organization and for others : An organization's activities, its interactions and relationships, its outputs and the outcomes for the various capitals it uses and affects influence its ability to continue to draw on these capitals in a continuous cycle.
- The capitals : The capitals are the resources and the relationships used and affected by the organization, which are identified in the <IR> Framework as financial, manufactured, intellectual, human, social and relationship, and natural capital. However, these categories of capital are not required to be adopted in preparing an entity's integrated report , and an integrated report may not cover all capitals - the focus is on capitals that are relevant to the it.
- The value creation process : At the core of the value creation process is an entity's business model, which draws on various capitals and inputs, and by using the entity's business activities, creates outputs (products, services, by-products, waste) and outcomes (internal and external consequences for the capitals).

Objectives and fundamental concepts of integrated reporting

- To improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital
- Provide a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time.
- Enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies
- Support integrated thinking, decision-making and actions that focus on the creation of value over the

short, medium and long term

Understanding how Integrated Reporting works

The starting point for understanding how Integrated Reporting works is considering the application of the guiding principles and content elements of the IIRC's Integrated Reporting framework.

GUIDING PRINCIPLES

- Strategic focus and future orientation - insight into the organization's strategy
- Connectivity of information - showing a holistic picture of the combination, inter-relatedness and dependencies between the factors that affect the organization's ability to create value over time
- Stakeholder relationships - insight into the nature and quality of the organization's relationships with its key stakeholders
- Materiality - disclosing information about matters that substantively affect the organization's ability to create value over the short, medium and long term
- Conciseness - sufficient context to understand the organization's strategy, governance and prospects without being burdened by less relevant information
- Reliability and completeness - including all material matters, both positive and negative, in a balanced way and without material error
- Consistency and comparability - ensuring consistency over time and enabling comparisons with other organizations to the extent material to the organization's own ability to create value.

CONTENT ELEMENTS

- Organizational overview and external environment - What does the organization do and what are the circumstances under which it operates?
- Governance - How does an organization's governance structure support its ability to create value in the short, medium and long term?
- Business model - What is the organization's business model?

- Risks and opportunities - What are the specific risk and opportunities that affect the organization's ability to create value over the short, medium and long term, and how is the organization dealing with them?
- Strategy and resource allocation - Where does the organization want to go and how does it intend to get there?
- Performance - To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?
- Outlook - What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?
- Basis of preparation and presentation - How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?

Boards and IR

Integrated reporting promotes the need to answer important questions around long term value creation and in a world where economic instability and long term sustainability threatens the welfare of society, this further push towards improved corporate transparency must be welcome. Boards should consider how integrated reporting can help build stronger relationships with stakeholders

Questions For directors Questions for directors to ask include:

- How well do we, as a board, and as an organization, understand integrated reporting?
- Have we considered how it may benefit the board and management in understanding our organization

and how well our strategies and business models are creating longer-term value?

- What are our shareholders' and other stakeholders' expectations for a clearer, longer-term picture of our organization and its ability to create value?
- If our organization provides a sustainability report, how effectively do we integrate it with our financial reports?
- Do we understand how the full adoption of integrated reporting might affect the board, including the liability of directors and officers?

Looking forward

Corporate reporting will continue to evolve with the changing business environment and stakeholder expectations. Adding integrated reporting to management's agenda and to board strategy sessions may help companies determine how to meet these evolving expectations. The integrated reporting concepts may provide companies a useful framework when considering how to best disclose environmental, social, and governance matters that they have decided to report. Companies may also improve their access to capital, achieve greater influence internationally and achieve strategic business benefits from integrated thinking.

A lot of people think it's about putting together your financial and sustainability reports. Wrong. It is much more than that - and much less. Integrated reporting requires thinking about value beyond financial terms. It will not replace either a financial or sustainability report - both must be in place for integrated reporting. But starting to think about the connections between the financials, environment, social and governance issues, the relationships your organization has with its key stakeholders and how it makes use of various types of capitals, for a start, is a step in the right direction.