

INTEGRATED THINKING AND THE INTEGRATED REPORT

IFAC

14 November 2012

Presented by Mervyn E King SC

THE COMPANY YESTERDAY

- ★ The primacy of the shareholders
- ★ Wealthy families
- ★ Single focus and bottom line
- ★ Financial reporting – rear view mirror
- ★ Prepare as if only user the investment analyst
- ★ 100 years but IASB and FASB

YESTERDAY'S ECONOMIC MODEL

- ★ Yesterday's economic model was based on two false assumptions that :
 - ★ there were limitless resources in nature and
 - ★ that planet earth had an infinite capacity to absorb waste
- ★ Take – make – waste
- ★ Industrial revolution
- ★ Until middle of 20th century

THE COMPANY TODAY

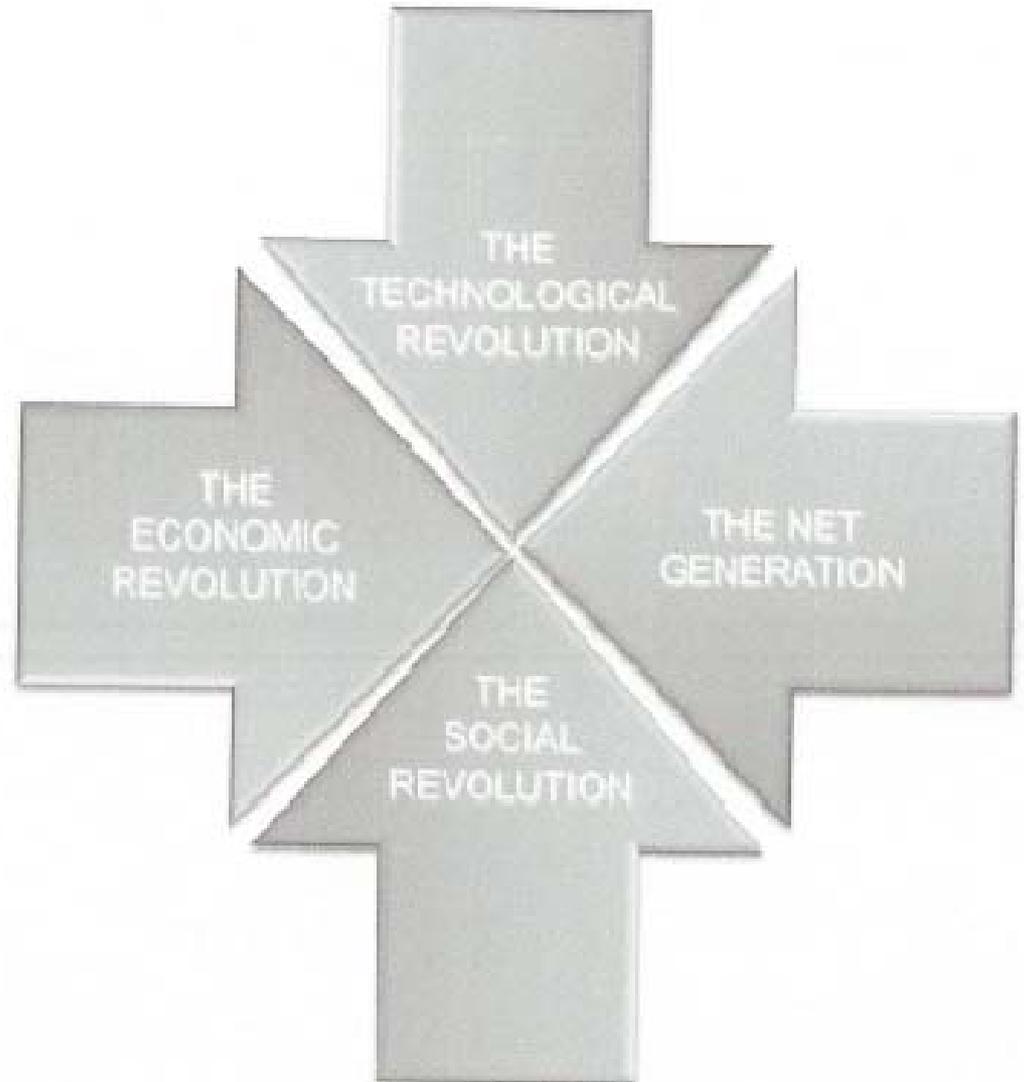
- ★ New capitalists
- ★ Stakeholders – inclusive – CSRO's
- ★ Legitimate NIE's
- ★ Moat of shareholders
- ★ 100 largest economies
- ★ Not in a vacuum – a triple context
- ★ What are the specifics?

THE CHANGED WORLD

- ★ Global financial crises
- ★ Climate change crisis
- ★ Ecological overshoot
- ★ Radical transparency
- ★ Greater expectations from stakeholders
- ★ Population growth
- ★ Cannot carry on business as usual
- ★ Have to learn to make more with less
- ★ Requires IT and innovation

DRIVERS FOR CHANGE

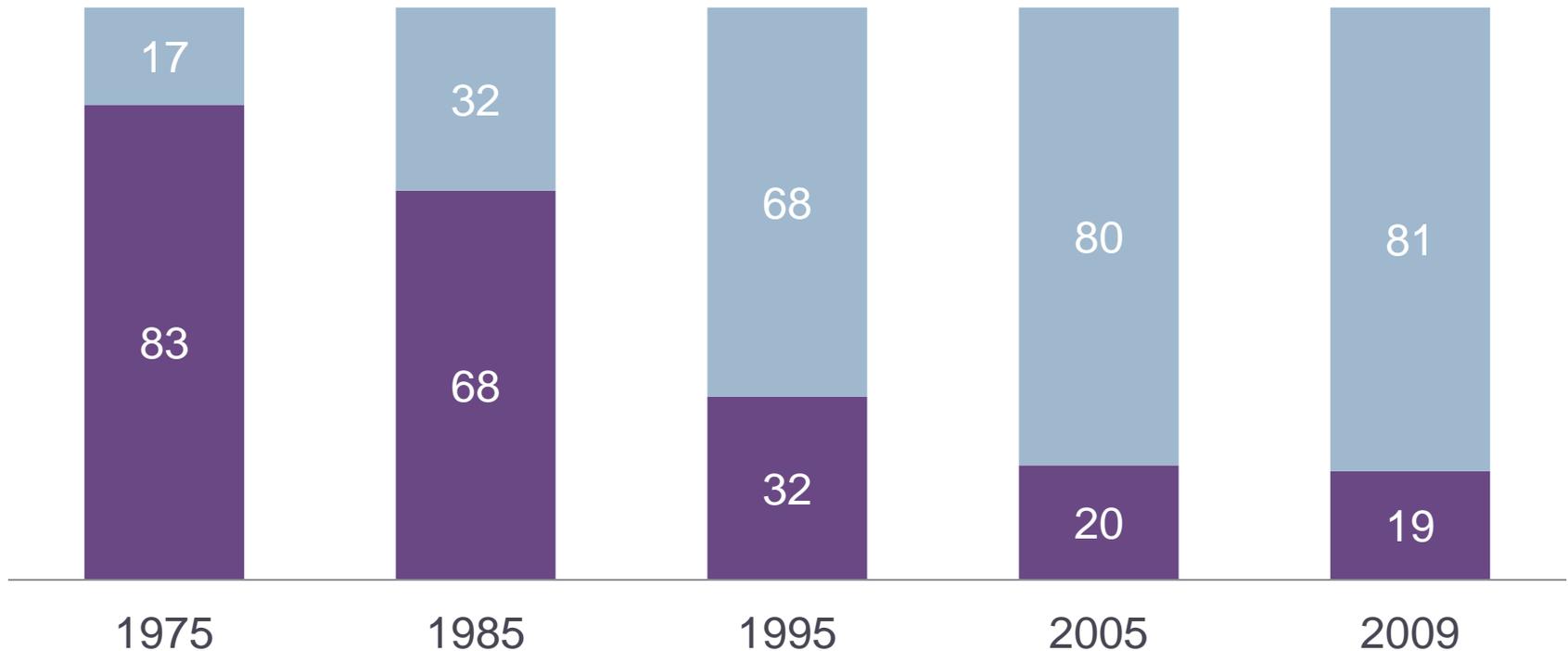
Drivers for Change



COMPONENTS OF MARKET VALUE

S&P 500

■ Physical and financial assets ■ Other assets



The Global 1000

Time period	Sales (\$B) of the top 1,000 firms	Employees (M) of the top 1,000 firms	GDP (current US\$B) of OECD members	Population of 15-64 of OECD members	Top 1,000 firms' sales as % of OECD GDP	Top 1,000 firms' employees as % of OECD working population
1980	2,638.10	20.9	8,547	629	30.90%	3.33%
1990	7,126.30	31.4	18,079	702	39.40%	4.47%
2000	15,821.30	49.9	26,162	767	60.50%	6.51%
2010	31,196.30	66.8	42,809	825	72.90%	8.11%

Source: Worldscope; World Federation of Exchanges, <http://www.world-exchanges.org/statistics/annual/2010/equity-markets/domestic-market-capitalization>, accessed January 2012, Global Financial Data, accessed January 2012.



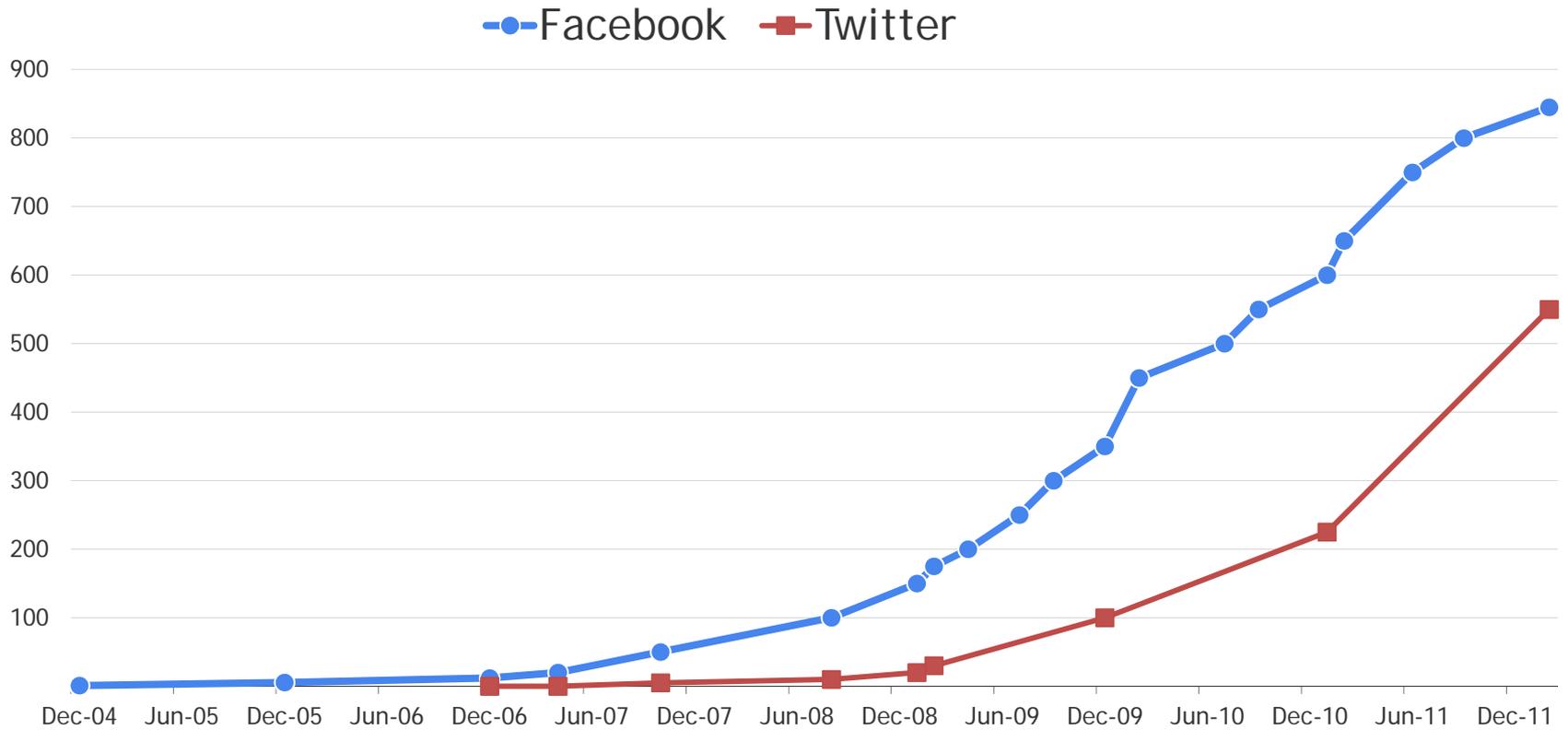
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The Information Age

Number of users, millions



Source: Facebook: <http://www.benphoster.com/facebook-user-growth-chart-2004-2010/>;

Twitter: <http://wewillraakyou.com/2012/02/dynamic-chart-shows-twitters-exact-growth/>

The Power of the Internet



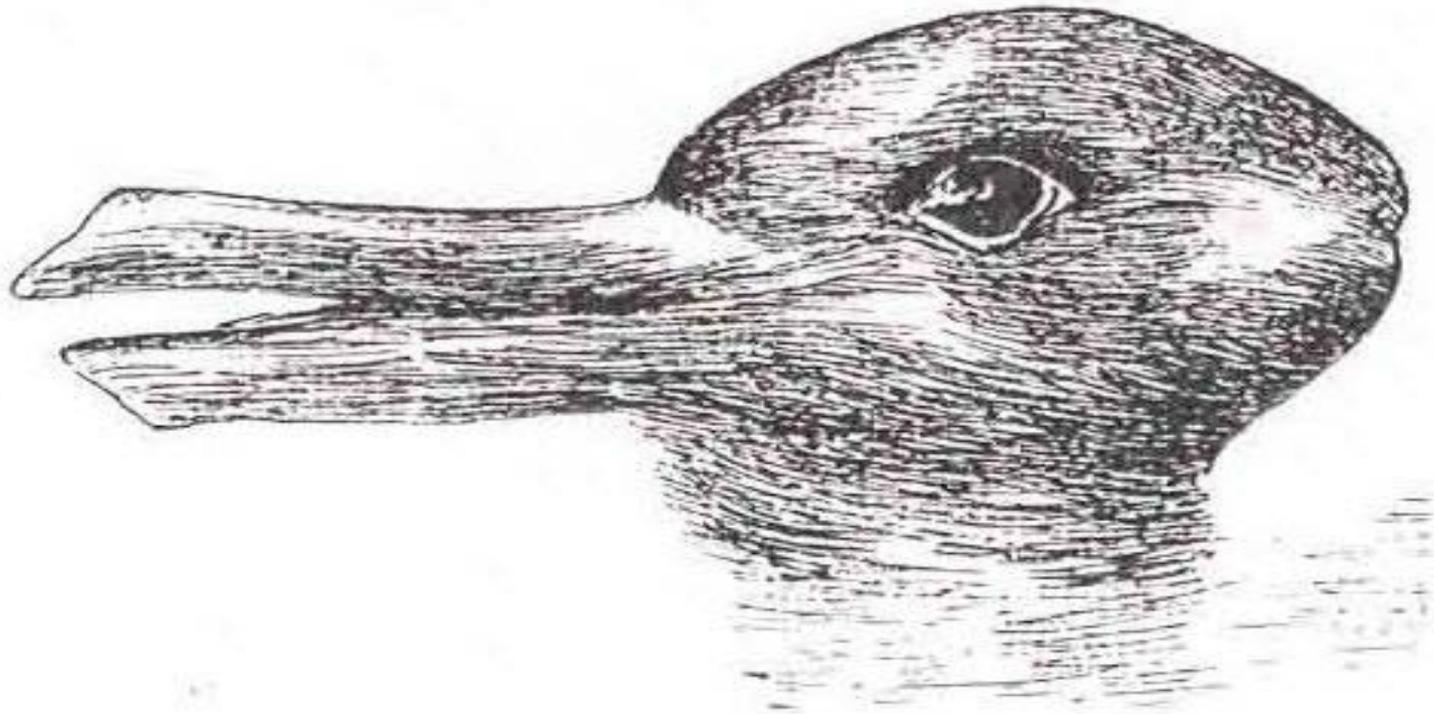
Source: PR Daily, <http://www.prdaily.com/Main/Articles/8632.aspx>

INTEGRATED THINKING (1)

- ★ Integrated as opposed to “silo thinking”
- ★ Every company dependent on relationships and resources
- ★ Mindset change at board level
- ★ Agenda item stakeholder relationships
- ★ Knowledge of stakeholders’ legitimate NIE’s
- ★ Greater stakeholder expectations

INTEGRATED THINKING (2)

MINDSET CHANGE



INTEGRATED THINKING (3)

- ★ Manage and strategize on a more informed basis
- ★ Supply chain – suppliers stakeholder – code of conduct – impact reputation
- ★ Traceability and monitoring

INTEGRATED THINKING (4)

- ★ Identify sustainability issues material to business
- ★ As water is to beverage manufacturer
- ★ Embed sustainability into long term strategy
- ★ In context of resources, relationships, risks, opportunities and global turbulence

INTEGRATED THINKING (5)

Some numbers....

Integrated ESG information into investment decisions

- * 79% of asset owners
- * 95% of investment managers

(Source: UNEP Finance Initiative, UN Global Compact)

INTEGRATED THINKING (6)

Tipping point to embed sustainability in core business strategies? (Acc. to CEO's)

- ★ Customers demand sustainable products
 - ★ 89%
- ★ Educational reform to change mindsets
 - ★ 88%
- ★ Accurate long-term valuation (incl. sustainability metrics)
 - ★ 86%
- ★ Shareholders place more value on sustainability information
 - ★ 85%
- ★ Boards hold directors accountable for practices
 - ★ 84%

(Source: *UN Global Compact and Accenture*)

INTEGRATED THINKING (7)



Financial



Manufactured



Human



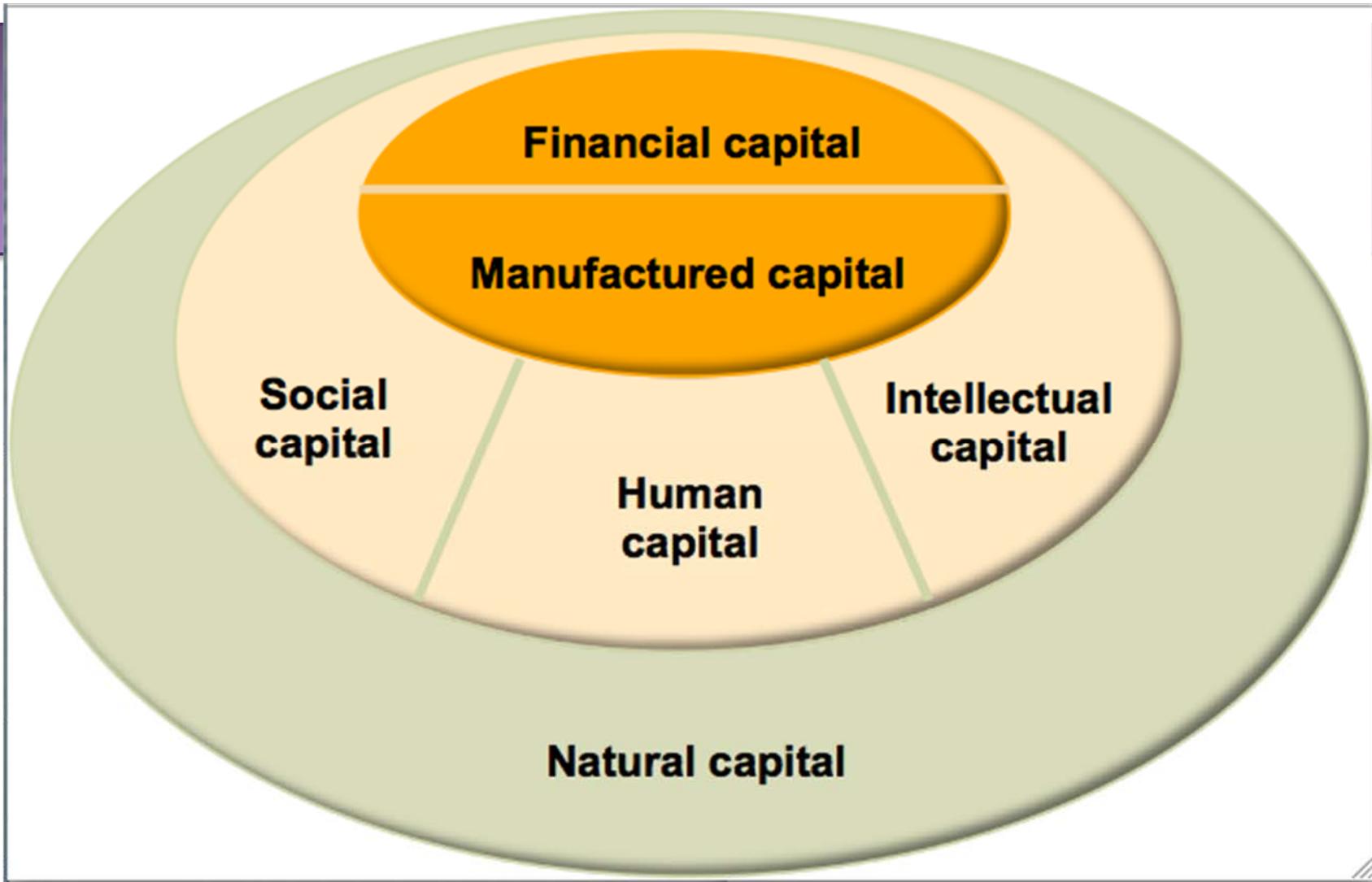
Intellectual



Natural



Social



All organizations depend on a variety of **resources and relationships** for their success. These resources and relationships can be conceived as different forms of “capital”.

INTEGRATED THINKING (8)

- ★ Management of risk
- ★ Risk matrix informed by the levels of dependence on the resources and relationships
- ★ Levels of risk tolerance more informed – opportunities
- ★ Risk management plan more informed
- ★ Risk responses more appropriate

INTEGRATED THINKING (9)

- ★ Impacts
- ★ Leverage
- ★ Of company's business model
- ★ KPI's and KRI's fall under financial or non-financial?

INTEGRATED THINKING (10)

- ★ Unilever
- ★ Long term plan – re-engineer
- ★ Productions and products
- ★ Renewable power, recyclable materials, zero waste to landfill, consumer and supplier
- ★ Lifebuoy and Pureit

INTEGRATED THINKING (11)

- ★ Understanding, knowing and then planning:
- ★ How the company makes it money?
- ★ How the company will sustain value creation in the long term?

INTEGRATED THINKING (12)

- ★ Companies consist of interacting, interrelated and interdependent operations, functions, relationships and resources
- ★ Take account of:
 - ★ the connectivity between these factors
 - ★ the changed world in which the company operates
 - ★ impacts
 - ★ leverage

INTEGRATED THINKING (13)

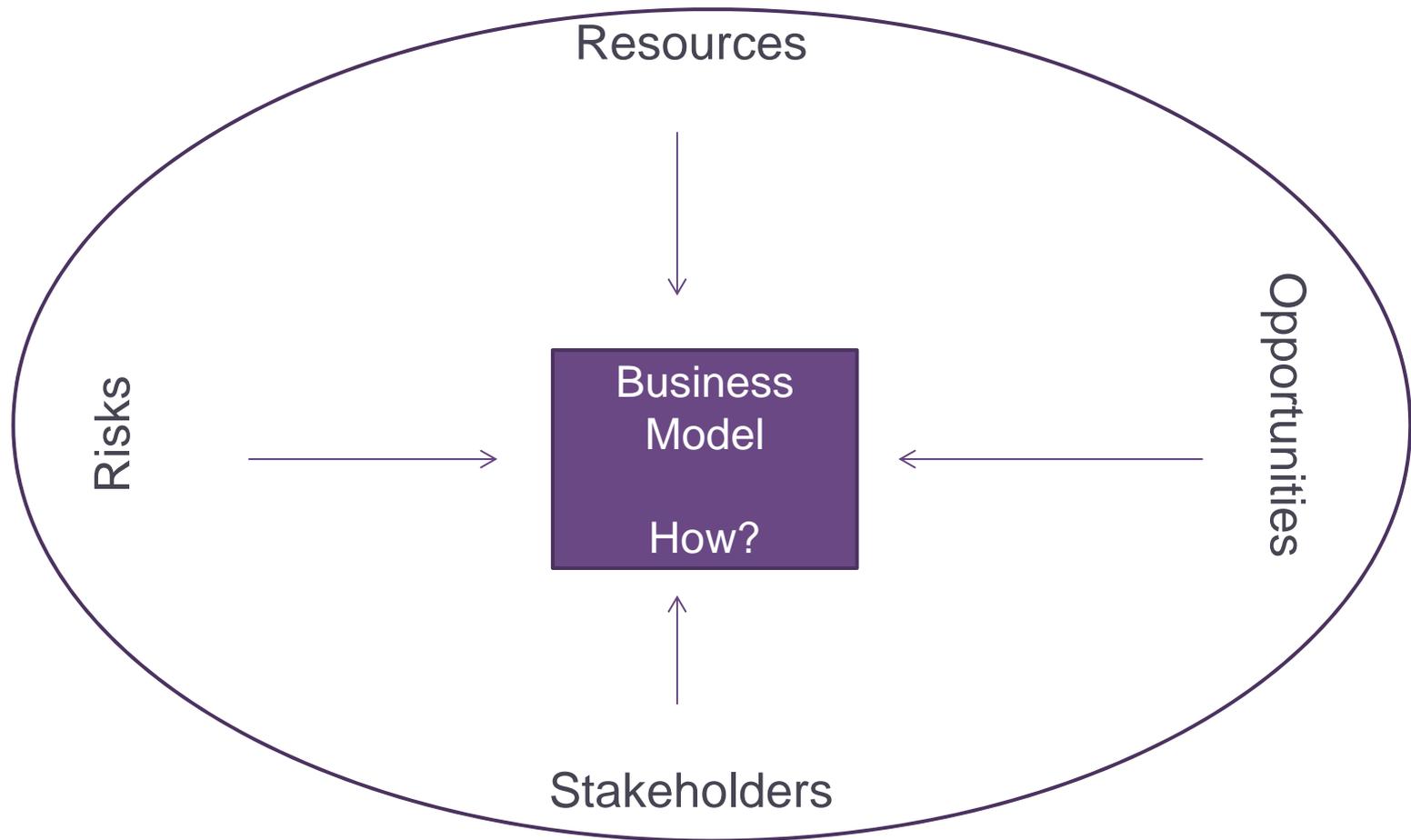
Stakeholders expect that:

1. The company has not profited at the expense of the environment, human rights, a lack of integrity or society;
2. There are adequate controls in place to monitor and manage material risks and opportunities;

INTEGRATED THINKING (14)

3. Remuneration is linked to overall performance which includes social, environmental and financial aspects;
4. There is an interactive communication with the stakeholders who are strategic to the company's business; and
5. The company is conducting a sustainable business

INTEGRATED THINKING (15)



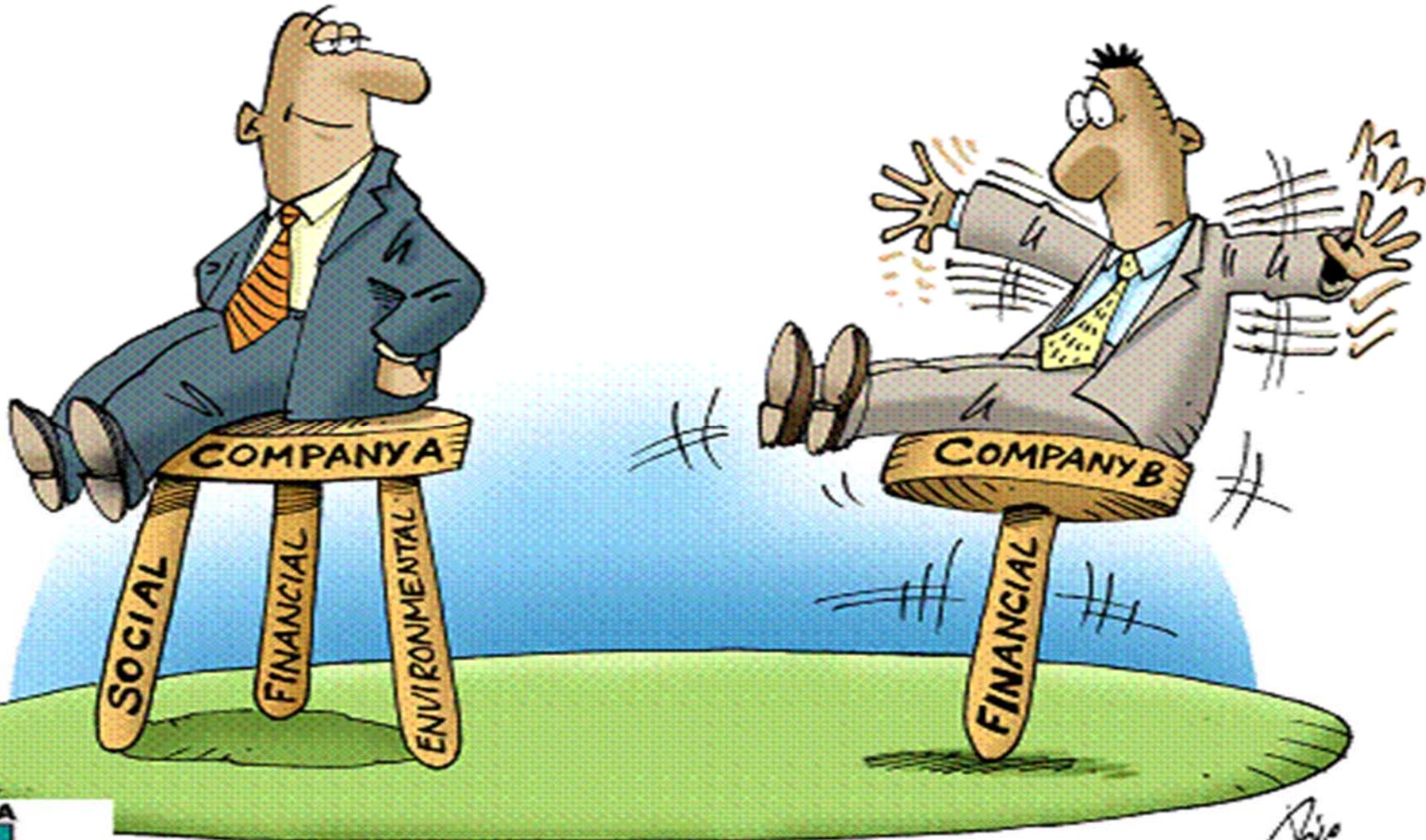
THE OPEN KIMONO

- ★ Reporting influences behaviour
- ★ Integrated reporting – King III
- ★ IIRC – formation 2010
- ★ Informed assessment
- ★ Discharge of fiduciary duty by trustee

SYSTEM OF REPORTING

- ★ Is there one?
- ★ Bolt on a division's report to another
- ★ Chairman's statement
- ★ Integrated report has a system
- ★ The collective mind of the board
- ★ FR impact on NF and how material sustainability embedded into strategy to sustain value creation

INTEGRATED REPORT



DRIVERS FOR INTEGRATED REPORTING

- ★ State of planet
- ★ The customer of today
- ★ The new capitalist
- ★ The identity & reputation of companies
- ★ Competitive advantage – management more informed
- ★ Market forces - external

PURPOSE OF INTEGRATED REPORT?

- ★ Clear and understandable statement on “the state of play”
- ★ Financial Report only part of “state of play”
- ★ Nothing of impacts on society and environment
- ★ Cannot make an informed assessment of the sustainability of a business

Guiding Principles

- ★ **Strategic focus:** An Integrated Report provides insight into the organization's strategic objectives, and how those objectives relate to its ability to create and sustain value over time and the resources and relationships on which the organization depends.
- ★ **Connectivity of information:** An Integrated Report shows the connections between the different components of the organization's business model, external factors that affect the organization, and the various resources and relationships on which the organization and its overall performance depend.
- ★ **Future orientation:** An Integrated Report includes management's expectations about the future, as well as other information to help report users understand and assess the organization's prospects and the uncertainties it faces.
- ★ **Responsiveness and stakeholder inclusiveness:** An Integrated Report provides insight into the organization's relationships with its key stakeholders and how and to what extent the organization understands, takes into account and responds to their needs.
- ★ **Conciseness, reliability and materiality:** An Integrated Report provides concise, reliable information that is material to assessing the organization's ability to create and sustain value in the short, medium and long term.

Content Elements

- ★ **Organizational overview and business model:** What does the organization do and how does it create and sustain value in the short, medium and long term?
- ★ **Operating context, including risks and opportunities:** What are the circumstances under which the organization operates, including the key resources and relationships on which it depends and the key risks and opportunities that it faces?
- ★ **Strategic objectives and strategies to achieve those objectives:** Where does the organization want to go and how is it going to get there?
- ★ **Governance and remuneration:** What is the organization's governance structure, and how does governance support the strategic objectives of the organization and relate to the organization's approach to remuneration?
- ★ **Performance:** How has the organization performed against its strategic objectives and related strategies?
- ★ **Future outlook:** What opportunities, challenges and uncertainties is the organization likely to encounter in achieving its strategic objectives and what are the resulting implications for its strategies and future performance?

EVOLUTION AND REVOLUTION

- ★ The integrated report is evolving
- ★ It is an evolution in corporate reporting
- ★ Integrated thinking is a revolution
- ★ A revolution in the approach to managing environmental and societal issues
- ★ Overwhelming support for integrated thinking

How are companies Doing?

- ★ Annual reports now Integrated Report
- ★ Detailed financial and sustainability information on line
- ★ New Companies Act – section 29(3)
- ★ Abridged financials
- ★ Companies using diagrams, graphs and graphics
- ★ All participants in the IR journey
- ★ Some examples

How we measure our performance?

Our most important measure is what we call our Net Promoter Score ('NPS'). Vodafone uses this to monitor customer happiness in most of its markets. It is simply a measure of how likely our customers are to recommend us to their family, friends and colleagues – and how likely they are to recommend our competitors. We implemented NPS in South Africa and DRC in 2011. In the year ahead we'll implement it in the other markets we operate in.



The great stuff we did this year

- Number one in NPS in all markets we measured
- Involved our executives in customer focus groups and customer days
- Improved our customer touchpoints
- Established active engagement with our customers on Twitter and Facebook  
- Offered more value, bringing the effective price per minute down 18.0% across the Group
- Added 3.6 million new customers to bring Group customers to 43.5 million
- Launched Vodacom Change the World and Vodacom Red Alert initiatives with customers



The stuff we didn't do well this year

- Delayed network rollout in some countries due to slow approvals and equipment deliveries
- Second place in Vodafone voice quality tests
- Limited progress in encouraging customers to dispose of handsets responsibly

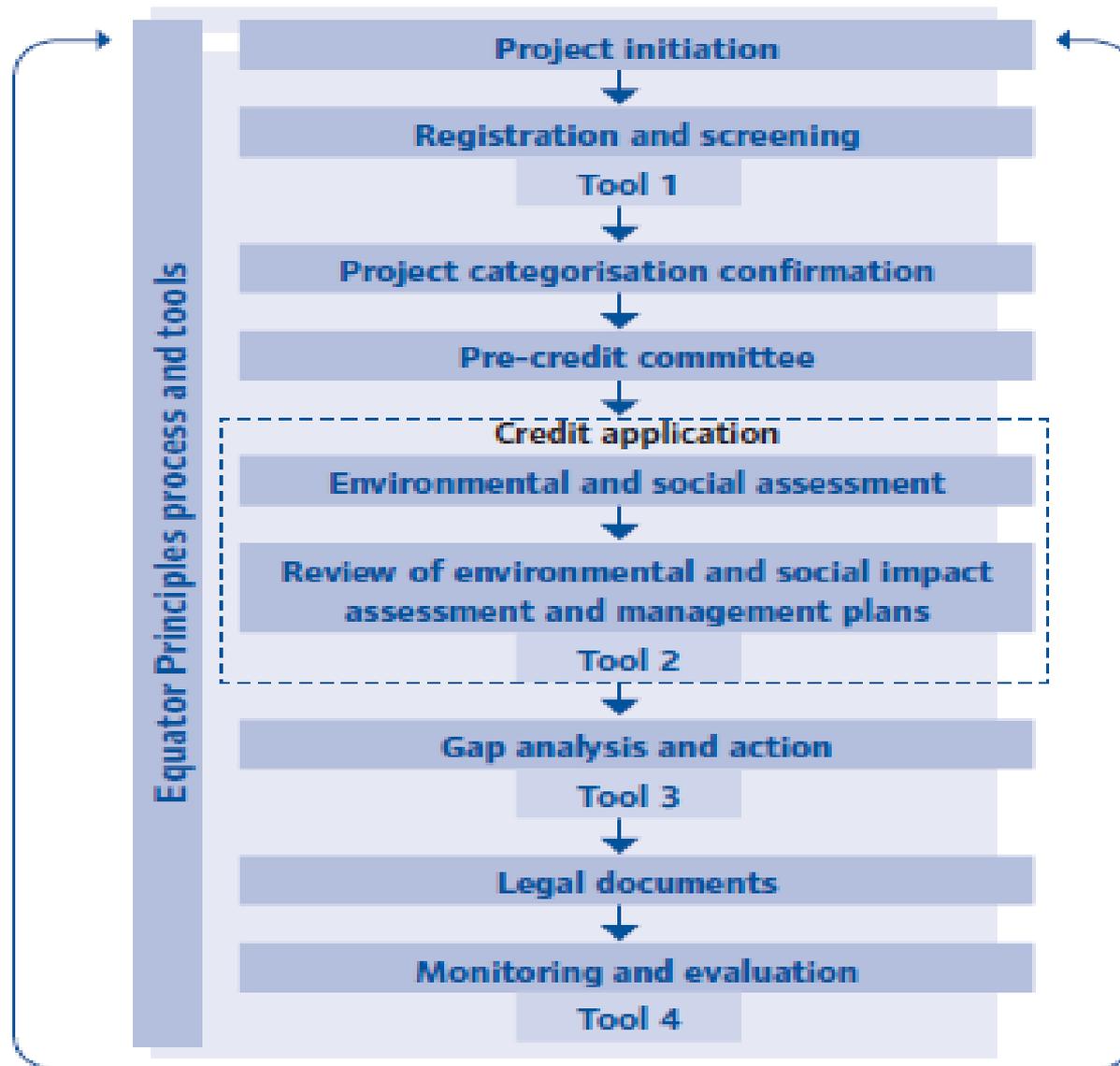
**Our
2013
goal**

We aim to be

No 1

in NPS in all our markets
across all customer
touchpoints.

Integration of Equator Principles into credit approval process



Standard Bank

USE OF SYMBOLS AND COLOURS



Easy referencing and usability features



Where we have succeeded in our objectives



Where we have not yet achieved our goals

Have we succeeded in our 2010/11 strategic objective?

Get more information online

Cross-reference information

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CONVEYING KEY RELATIONSHIPS

Net working capital days

- Accounts receivable
- Inventory
- Accounts payable

- ★ Multiple years
- ★ Arrow to indicate trend
- ★ Colour usage to distinguish



BUSINESS MODEL – HOW WILL IT ADD VALUE?

Our business model is designed to deliver sustainable growth in earnings. It is consumer-led and science-based.

How our business works

Consumers

Our success depends on really understanding the different profiles and preferences of our consumers. We invest in gathering comprehensive insights into smokers' preferences and buying behaviour. This drives our marketing and allows us to promote our products to adult tobacco consumers in ways that satisfy their preferences, while responding to stakeholder expectations about how we should market our products.

Sourcing

We have a significant interest in tobacco growing and we work directly with around 70 per cent of the farmers who supply our leaf. We manage our whole supply chain responsibly and work with our suppliers to create a shared understanding of our social, environmental and economic impacts. This enables us and our suppliers to manage risks better, while ensuring that we are agile and flexible, so that we can use our resources as effectively as possible.

Building sustainable value

Science-based R&D

For over 50 years, we have had an extensive scientific research programme. More recently, we have been focusing research on modified cigarettes and low-toxicant smokeless tobacco products. We are committed to helping develop the scientific and regulatory framework we need to deliver a varied portfolio of products in the future, including alternative regulatory-approved nicotine products, to meet the evolving needs of adult smokers.

Brands

We have a successful brand marketing strategy based on innovation, responsibility and consumer choice. We recognise that our business starts with our consumers and our brand portfolio is designed to meet key consumer needs, especially in our strategic consumer segments. Our four Global Drive Brands – Dunhill, Kent, Lucky Strike and Pall Mall – and our other international brands account for more than 50 per cent of our total cigarette volumes.

WHAT IS MATERIAL TO STAKEHOLDERS

★ New initiatives in 2011

Stakeholder	What matters most to them	Ways we engage
<p>Customers</p> <p>30 46</p>	<ul style="list-style-type: none"> • Better value offerings • Faster data networks and wider coverage • Making it simpler and quicker to deal with us • Converged solutions for business customers 	<p>Call centres and outlets. Extensive focus groups and customer interviews.</p> <ul style="list-style-type: none"> ★ Active Twitter and Facebook customer engagement ★ New online portal with greater customer self-service capability ★ Monthly Net Promoter Score interviews done in most markets
<p>Employees</p> <p>38</p>	<ul style="list-style-type: none"> • Clear career paths • More knowledge sharing across the Group • Building the coaching capability of leaders • Better understanding of reward structures 	<p>Weekly emails, intranet, top management/CEO roadshows, webcasts and dedicated employee call centres.</p> <ul style="list-style-type: none"> ★ Yammer, an internal conversation platform, launched ★ People Survey conducted across the Group ★ New Vodacom Buzz magazine
<p>Business partners</p>	<ul style="list-style-type: none"> • Fair treatment across the board • Top management involvement 	<p>Dedicated call centres, trade bulletins, allocated business managers, annual business partner conference.</p>

(VODACOM)

CASE STUDIES

- ★ Unilever
- ★ P & G
- ★ SAB Miller
- ★ Siemens – sustainability should be viewed not from the viewpoint of risk and compliance only but that which drives business expansion
- ★ Walmart

MARKS &
SPENCER



GOLD FIELDS

 National Australia Bank



Microsoft[®]


natura


PRUDENTIAL



ROSATOM

Pilot Programme

BBVA



HSBC



 Eskom

INTEGRATED REPORTING <IR>



novo nordisk[®]

DUTY OF CARE

- ★ Centro judgment – Australia
- ★ What do you know or ought you to know?
- ★ What are you aware of or ought you to be aware of?

SOME CONCLUSIONS

- ★ Tell your stakeholders what you do, do what you tell them, and write it down in your Integrated Report
- ★ Companies cannot solve 21st century problems with the same mindset their boards used when they created them
- ★ We cannot solve 21st century corporate challenges with 20th century decision making or reporting

INTEGRATED REPORT

- ★ Reporting influences decision making
- ★ A concept, fit for purpose
- ★ Whose time has come
- ★ Because of the changed world
- ★ Financial, natural, human, society, manufacturing, intellectual capital
- ★ Critical interdependencies
- ★ The decade of stupidity 2000 – 2010
- ★ The decade of change 2010 -2020

THE FUTURE

- ★ Mindset changes
- ★ Advanced IT
- ★ The net generation
- ★ Sustainable capitalism
- ★ Civil society – great expectations
- ★ Integrated reports and financial stability
- ★ One certainty - change

IDEAS

- ★ Man and nations
- ★ Helen Keller: “The only thing worse than being blind is having sight and no vision”
- ★ We have the light
- ★ Why grope in the dark?

THANK YOU

Prof Mervyn E King SC