Integrated reporting

MCCG Intended Outcome 11.0

There is continuous communication between the company and stakeholders to facilitate mutual understanding of each other’s objectives and expectations.

Stakeholders are able to make informed decisions with respect to the business of the company, its policies on governance, the environment and social responsibility.

MCCG Practice 11.2

Large companies are encouraged to adopt integrated reporting based on a globally recognised framework.

The internalisation and application of the content “Why” and “How” should be read in tandem with the line of sight outlined by the Intended Outcome.

Why

The case for change

Integrated reporting establishes the cycle of integrated thinking and reporting as a core requirement that is designed to support sustainable business and financial stability.

The South African Institute of Chartered Accountants (“SAICA”) in its 2015 survey found evidence of improvement in the quality of information presented as a result of integrated thinking (i.e. a process that underpins integrated reporting), as follows:

- improved risk identification and management process;
- improved decision-making, at both management and board level through the understanding of inputs and outputs in which the business relies upon;
- improved efficiency in optimising and allocating resources, including between remuneration and value creation; and
- improved governance processes, as companies managed to develop a more inclusive culture that makes employees feel empowered.

Traditionally, annual reports have been an essential medium to update stakeholders on the company’s financial and strategic performance over the past financial years. However, the nature and pace of change in businesses today have evolved over time and stakeholders are now placing greater emphasis on the future performance and non-financial information of a company.

1 Creating value: The cyclical power of integrated thinking and reporting, 2016, International Integrated Reporting Council
The awareness of the importance of non-financial information in determining long-term financial stability is growing amongst stakeholders. In tandem with the growing demand for changes in corporate reporting, a number of initiatives have emerged that are aimed at addressing disclosure needs and expectations of stakeholders. Some of these initiatives are as follows:

- In order to provide more insights on the audit process, the International Auditing and Assurance Standards Board introduced the reporting of Key Audit Matters (“KAM”) by the external auditors; and
- In line with greater demand by shareholders and public at large for disclosure of comprehensive and relevant non-financial information to complement the information provided in the financial statements, Bursa Malaysia Securities Berhad mandated the disclosure of Management Discussion & Analysis (“MD&A”) in annual reports effective from 31 December 2016 onwards. Information to be contained in the MD&A in summary must include an overview of the group’s business and operations; discussion and analysis of the financial results and financial condition; review of operating activities; discussion on identified and anticipated or known risks; and forward looking statements comprising trends, outlooks, prospects, and distribution policy.

The rising importance of non-financial reporting is also reflected in the Companies Act 2016 for which an extraction of the relevant section is shown below.

### Section 253(3) of Companies Act 2016 – Contents of directors’ report

The directors’ report prepared under section 252 of the Companies Act 2016 may include a business review as set out in Part II of Fifth Schedule or any other reporting as prescribed.

In light with these ongoing developments coupled with the need to provide stakeholders with a complete and closely knitted picture of the business, integrated reporting has emerged as a timely response to bridge the existing divide and enable all the dimensions of a company’s values, strategy, risks and opportunities aligned to outputs and outcomes, to be articulated in a single and comprehensive report.

**Integrated reporting signals integrated thinking**

Integrated reporting is based on the process of integrated thinking. Integrated thinking requires a company to evaluate and consider its many different relationships that intertwine with its operations and functions along with the resources involved. The process of integrated thinking allows a company to

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2 Report on Investors’ Roundtable and Engagement Session with Public Listed Companies by the Integrated Reporting Steering Committee, 5 & 6 August 2015, Malaysian Institute of Accountants (MIA)
3 Insights into Integrated Reporting, 2017, ACCA
4 KAM are those matters that, in the external auditor’s judgment, were of most significance in the financial audit of the current-period financial statements.
5 Paragraph 7, Part A, Appendix 9C of Bursa Securities Listing Requirements
6 Relating to the provision for directors to prepare directors’ report
7 Information to be included in the business review may contain, a fair review of the company’s business; a description of the principal risks and uncertainties facing the company; a balance and comprehensive analysis of the development and position, performance and key indicators of the company.
integrate its decision-making processes and its actions that contribute to the creation of value for the company over the short, medium and long term.

It is paramount that any reporting done by a company be in compliance with legal and regulatory requirements including those relevant to the business. Whilst many companies have complied with legal and regulatory requirements by publishing a vast amount of information, the information presented is often isolated as they are prepared by different departments, such as:

- financial reports which are prepared by accounting and finance departments;
- disclosures on regulatory and legal compliance which are produced by general and legal counsels;
- sustainability reporting which is carried out by those involved in sustainability management;
- media releases and website contents which are overseen by communication and media departments; and
- risk issues which are reported by risk management team.

As such, integrated thinking enhances connectivity in a company resulting in the following benefits:

- helps to align internal and external messages by clearly articulating the business strategy and business model;
- facilitates better understanding of the company’s strategy and how value is created through breaking down silos;
- provides stronger focus on material issues and facilitates a long-term view of the business;
- provides better information from management that enhances accountability;
- improves quality of reporting thus building greater trust within the business and with stakeholders;
- imparts deeper understanding of resources and business activities to analyse and remediate gaps in the processes; and
- improves the understanding of the value of non-financial assets and renews emphasis on stakeholder engagement.

The Integrated Reporting <IR> Framework, issued by the International Integrated Reporting Council (“IIRC”) in December 2013 is a widely recognised integrated reporting framework. The <IR> Framework illustrates the fundamental concepts that underpin integrated reporting (i.e. the articulation of value creation and information on six capitals) together with seven Guiding Principles that underpin the preparation and presentation of an integrated report, and eight Content Elements which are key categories of information to be included in an integrated report. These form the structure of an integrated report. The <IR> Framework enables a company to bring these Content Elements together through the concept of “connectivity of information”, to explain how it creates value. The fundamental concepts, Guiding Principles and Content Elements within the <IR> Framework can be found in Appendix I of this Pull-out.
Integrated reporting is no longer viewed as nugatory or just “another reporting initiative”. It is not about more reporting but better and concise reporting. In short, assembling an integrated report promotes integrated thinking i.e. by breaking down silos of business entity and introducing new way of value creation.

Integrated thinking blends the strategy, resource allocation and relationship that a company is reliant upon and through qualitative and quantitative information, integrated report looks at how the activities and capabilities of the company transform the relevant capitals into outcomes for the company’s decision making and value creation over the short, medium and long term.

There are six types of capitals that represent a collection of values that are either increased, decreased, or transformed through its business activities, into outputs and outcomes. These six capitals are typically referred to as: financial; manufactured; intellectual; human, social & relationship; and natural capitals. It is important to understand that although most companies interact with most of these capitals to some extent, not all capitals are of equal importance to each company.

The following explains how the capitals apply to companies of all sizes with some non-exhaustive examples.

<table>
<thead>
<tr>
<th>Capitals</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>The pool of funds available to a company for use in the production of goods or the provision of services, which are obtained through financing, such as debt, loans, equity or grants, or generated through operations or investments.</td>
</tr>
<tr>
<td>Manufactured</td>
<td>Physical objects (as distinct from natural physical objects) that are available to a company for use in the production of goods or the provision of services, including buildings, equipment and infrastructure (such as roads, ports and bridges, etc.).</td>
</tr>
<tr>
<td>Intellectual</td>
<td>Knowledge-based intangibles, including intellectual properties of a company, such as patents, copyrights, software, rights and licences, systems, procedures and protocols.</td>
</tr>
<tr>
<td>Human</td>
<td>People competencies, capabilities and experience, and their motivations to innovate, including their alignment with and support for a company’s governance framework, risk management approach, and ethical values along with the ability to understand, develop and implement a company’s strategy and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate.</td>
</tr>
<tr>
<td>Social and relationship</td>
<td>The institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individuals’ wellbeing and its licence to operate. Social and relationship capital includes brand and reputation, common values and behaviors, key stakeholder relationships, and the trust and willingness to engage with its external stakeholders.</td>
</tr>
<tr>
<td>Natural</td>
<td>All renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of the company. It includes emissions, water, waste, land, minerals and forests, along with biodiversity and its ecosystem.</td>
</tr>
</tbody>
</table>

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8 Realizing the benefits: The impact of Integrated Reporting, 2014, Black Sun
The capacity of the business model to adapt towards changes such as the availability, quality and affordability of the capitals could impact the company’s long-term viability.

**The practice in substance**

In order to explain the company’s current state and future aspirations, **Practice 11.2 of MCCG** encourages Large Companies to adopt integrated reporting based on a globally recognised framework.

*Note: In implementing Practice 11.2 of MCCG, the focus should be on the substance of the reporting, regardless of how companies opt to brand their annual reports. In providing a statement on the application of this Practice, companies should reflect on the extent to which they have adopted integrated reporting based on a globally recognised framework premised on the objective of providing disclosures on the company’s value creation in a credible, systematic and comprehensive manner.*

Integrated reporting expands on the current financial reporting model to integrate non-financial information that will help shareholders and other stakeholders understand how a company takes into account the connectivity and interdependences that have a material effect on the company’s ability to create and sustain value over time.

**Guidance to Practice 11.2 of MCCG** defines the integrated report to be the main report in which information flows seamlessly and interconnects the company’s financial statements to other non-financial based statements such as, governance statements and sustainability reports. The integrated report provides information on how a company’s strategy, performance, governance and prospects lead to value creation. The integrated report enhances the value of information available to stakeholders and advocates higher standards of transparency and accountability from the company towards its stakeholders.

Key considerations relating to the application of this Practice are discussed below:

**How is integrated reporting put into practice?**

The first step that has to be taken by a company is to make a conscious decision to adopt integrated reporting. **The decision to adopt integrated reporting usually stems from the company’s motivation to gain the internal benefits of integrated thinking and to focus their reporting on matters that are considered as material to the company and its stakeholders.**

A company with experience in sustainability reporting is in a better position to adopt integrated reporting as it is more likely to have established the necessary systems, controls and assurance processes to assure the senior management that there is a clear presence of quality non-financial data to support the development of an integrated report.

Although the details may vary, the integrated reporting journey of any company usually involves **five phases**, as outlined on the following page.
Phase 1: Deciding to adopt integrated thinking and reporting

The decision to adopt integrated reporting and the resulting activities should be supported by the highest governing body as this form of reporting requires breaking down silos. In this regard, directors of a company are best suited to ensure the company’s overall adoption of the integrated thinking and reporting process. Integrated reporting does not only help directors and senior management communicate better with stakeholders but it also provides them with a view of how long-term strategies could be pursued and how the resources could be allocated in achieving their targets.

The integrated report should include a statement from those in charge of governance that consists of an acknowledgement of their responsibility to ensure integrity of the integrated report and that they have applied their collective minds in setting the direction of the company and taking accountability for the performance of the company.

Phase 2: Embedding the process

Integrated thinking requires the participation of many functions across the business. A company that has the process of integrated thinking embedded into its activities will be able to better synergise its connectivity of reporting from management, its business analysis, decision-making process and this will flow into the integrated report.

The IIRC and the Chartered Institute of Public Finance & Accountancy ("CIPFA") in their jointly issued 2016 report have outlined the following considerations in this regard.

<table>
<thead>
<tr>
<th>Who?</th>
<th>What?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who are the intended readers/external stakeholders?</td>
<td>What reports should be produced in addition to the integrated report (annual, financial, etc.) and will they be printed, only published on the website or both?</td>
</tr>
<tr>
<td>Who will develop and distribute the reporting system/documentation, and is training required for those involved?</td>
<td>Will any current reports be discontinued/moved to the web only?</td>
</tr>
<tr>
<td>Who will write the integrated report?</td>
<td>What information will be included in the integrated report?</td>
</tr>
<tr>
<td>Who, of the senior managers, will 'champion' &lt;IR&gt; and review the report before it is submitted to the executive team?</td>
<td>What gap analysis will be undertaken (what information we produce versus what is needed for the integrated report)?</td>
</tr>
<tr>
<td>Who will approve the final report (e.g. audit committee before it goes to the board)?</td>
<td>What are the inputs from the relevant six capitals that need to be considered?</td>
</tr>
<tr>
<td>Who will design, typeset and print the report (internal, external or a combination)?</td>
<td>What information will be assured – internally and/or externally – when will this take place and what are the requirements?</td>
</tr>
<tr>
<td>Who will provide the budget?</td>
<td>What is the budget for the reports (consider any cost saving measures on design, printing, etc.)?</td>
</tr>
</tbody>
</table>
Phase 3: Identifying stakeholders

Identifying key stakeholders will be one of the key challenges of the process. Stakeholders are either groups or individuals that can be affected by a company’s business activities, outputs or outcomes, and where their actions could have an impact on the company’s ability to create value over time. Guidance on stakeholder engagement can be found in established benchmarks such as the AA1000 Stakeholder Engagement Standard (AA1000SES)\(^9\).

The following diagram shows the typical stakeholders considered by a company when determining the boundary of an integrated report, i.e. the context of which the company needs to address in relation to risks, opportunities and outcomes.

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### Phase 3: Identifying Stakeholders

<table>
<thead>
<tr>
<th>How?</th>
<th>When?</th>
</tr>
</thead>
<tbody>
<tr>
<td>- How will the information for the report be collated (pay specific attention to multiple divisions/subsidiaries) and is it a standard or individual process of collating?</td>
<td>- When will the team meet (schedule meetings in advance)?</td>
</tr>
<tr>
<td>- How will the report be structured?</td>
<td>- When to schedule interviews with senior management and the board?</td>
</tr>
<tr>
<td>- How will the material matters be identified in the context of the six capitals?</td>
<td>- When will the material matters be approved?</td>
</tr>
<tr>
<td>- How will the report be released?</td>
<td>- How long will it take to compile the information for the report?</td>
</tr>
<tr>
<td>- How will the quality/accuracy within the report be ensured – 3rd party audit or verification?</td>
<td>- How long will it take to write the report?</td>
</tr>
<tr>
<td>- How will the report be released?</td>
<td>- When will the report be released?</td>
</tr>
</tbody>
</table>

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\(^9\) The AA1000SES issued by AccountAbility is a generally applicable framework for the assessment, design, implementation and communication of quality stakeholder engagement. AccountAbility is a global consulting and standards firm that works with business, governments, and multilateral organisations to advance business practices and long term performance.

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Source: The International <IR> Framework, 2013, IIRC
Good communication with key internal and external stakeholders is vital throughout all five phases. The information provided to the stakeholders must be determined by what is material for the specific stakeholder group.

Phase 4: Gathering and consolidating the information

In order to decide what information to gather for an integrated report, materiality needs to be considered by a company.

In integrated reporting, a matter is material if it could substantially affect the company’s ability to create value in the short, medium or long term. The process of gathering and consolidating the information however depends on each specific company based on industry and other factors as well as from multi-stakeholder perspectives. The materiality should also be taken into consideration in setting the company’s goals and strategy as this would allow the board to be prepared for any challenges or risks that they could encounter in their value creation process.

Embedding the materiality determination process into management process can enhance the effectiveness of decision making and reporting. The <IR> Framework provides guidance for shaping the materiality content of the integrated report. The following diagram provides a summary of the steps involved in shaping and setting the reporting boundary and determining the disclosures.

Source: Materiality in <IR> guidance for the preparation of integrated reports 2015, IIRC

It is also imperative that the company considers how the existing reports such as internal reports, sustainability reports and financial statements could fit into the integrated reporting process so as to ensure there is no duplication of information nor overburdening of resources. Quantitative and qualitative indicators, such as key performance indicators (“KPIs”) and targets or indicative values, and the context in which they are provided, can help to explain how a company creates value and how it uses and affects various capitals (see page 23 of this Pull-out).

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10 Materiality is the principle of identifying and assessing a wide range of relevant matters, and refining them to what are most important to the company for value creation.

11 Materiality in <IR> Guidance for the preparation of integrated reports 2015, IIRC
Phase 5: Preparing the integrated report

The <IR> Framework provides guidance on the Content Element which identifies information to be included in an integrated report, as briefly explained in Appendix I of this Pull-out. Companies should consider and reflect the company’s business activities and processes in producing an integrated report.

How can companies prepare an integrated report, guided by the Content Elements as contained in the <IR> Framework?

In preparing an integrated report, companies may draw guidance from the following eight Content Elements:

Content Element 1: Company overview and external environment

The integrated report should provide an overview of what the company does and under which environment it operates. In providing the company overview, the company should first identify the following:

- the company’s:
  - culture, ethics and values;
  - ownership and operating structure;
  - principal activities and markets;
  - competitive landscape and market positioning (considering factors such as the threat of new competition and substitute products or services, the bargaining power of customers and suppliers, and the intensity of competitive rivalry); and
  - position within the value chain;
- quantitative and qualitative information that is key to the company (e.g. the number of employees, revenue and number of countries in which the company operates), highlighting, in particular, significant changes from prior periods; and
- factors that significantly affect the external environment and the company’s response.

Significant factors impacting the external environment of a company include legal, commercial, social, environmental and political issues that affect the company’s ability to create value in the short, medium or long term.

Stakeholder needs, macro and micro economic conditions, political and economic stability as well as market forces such as competition and demand from customers, for instance, are some factors that can impact the company either directly or indirectly (e.g. by influencing the availability, quality and affordability of a capital that the company uses or affects). These factors may vary based on each individual company’s business activities, industry and region which it operates in.
Content Element 2: Governance

The company should provide an explanation on how the current governance structure supports its ability to create value in the short, medium and long term.

The integrated report must provide details on the company’s leadership structure, the skillset of its board and executive management, the diversity of its members, (e.g. range of backgrounds, gender, competence and experience) the people responsible for the governance within the company and which regulatory requirements influenced the design of the governance structure.

The integrated report must highlight the processes used in implementing strategic decisions, creating and monitoring the company’s culture, including the company’s risk appetite and the mechanisms in place to address issues relating to integrity and ethics. Information on the steps and measures taken to influence and monitor the company’s strategic direction along with the risk management in place should be provided together with the explanation on the company’s relationship with its key stakeholders. The following illustrative disclosure provides an example on a governance framework of a South African conglomerate.

Source: Sasol Limited, Integrated Report, 2016 (South Africa)

12 The International <IR> Framework. 2013, IIRC
Content Element 3: Business model

A company’s business model is a setup of transforming inputs, through its business activities, into outputs and outcomes that aims to satisfy the company’s strategic need and create the desired value over the short, medium and long term.

Factors that could improve the quality and readability of the articulation on the business model include the following:

- recognising the specific elements of the business model;
- providing a diagram illustrating the key elements and providing relevant explanations to the elements;
- ensuring there is a logical flow to the writing; and
- identifying the crucial factors affecting the external environment of the company including but not limited to the needs of stakeholders.

The diagram below provides an example of how the reporting for a business model could be accomplished:

Source: Sasol Limited 2016, Integrated Report (South Africa)

This illustration shows how the various inputs were incorporated into the business and delivered through outputs and outcomes allowing the reader to fully understand the company’s business model in a clear and concise manner.

Content Element 4: Risk and opportunities

The company should articulate the risks and opportunities faced by the company and state how it would mitigate the risks and take advantage of the opportunities. It is important for a company to understand what factors have a material impact on its long-term value creation. Integrated reporting provides stakeholders with a better understanding of what the risks to the business are and how the company would respond to them. The illustrative disclosure on the following page provides an example of a risk management process and its residual risk rating disclosed by a South African company.
Linking the issues across the report will allow for the disclosure to focus on the most material issues. If an issue is identified as a key risk or opportunity, the strategy and performance in managing it should also be explained, together with future outlook and governance process. If management finds it difficult to explain this information, they should ask themselves whether they are reporting on issues that are of only peripheral relevance.
Content Element 5: Strategy and resource allocation

A company should identify its strategic direction and allocate resources (means) to ensure it gets there (ends). There should be a link between the operational and functional risks and the opportunities identified elsewhere in the report along with the strategy. The results should be a mix of information covering the company’s short-term operational strategy and long-term strategic vision for the business.

In setting the company’s goals, the board and management should consider the following:

- clearly identify the overall company’s short, medium and long-term goals and outline how to achieve the said goals;
- ensure discussion on strategy and resources includes consideration of internal and external factors that could impact the business including future market trends;
- identify the resources available to the company; and
- provide a roadmap on the actions or plans taken by the company to achieve its short, medium and long-term goals.

The integrated reporting framework allows companies to reflect upon their business model and implement changes as deemed necessary.

The table below and illustrative disclosure on the following page provide an example of how a global conglomerate explains its strategy by showcasing its objectives and initiatives undertaken to achieve the objectives:

<table>
<thead>
<tr>
<th>Strategic Pillars</th>
<th>We focus on our four strategic pillars – Community trust, Consumer relevance, Customer preference and Cost leadership - that encompass the key areas of our business.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>While these strategic pillars are fundamental to our vision and do not change, we have adapted our initiatives to take full advantage of the growth era that we believe the economy is entering. The KPI to measure our progress during the period 2016-2020 are our scorecard.</td>
</tr>
<tr>
<td>Initiatives</td>
<td>All our operations in 28 countries work towards the same objectives: drive volume growth, focus on value, improve efficiency and invest in the business by implementing initiatives that are designed centrally. These initiatives are adjusted to respond to local demographics, economies and market characteristics in order to manage growth.</td>
</tr>
<tr>
<td>Scorecard</td>
<td>We have five KPIs that are chosen to measure our progress. We report on these every year.</td>
</tr>
</tbody>
</table>
Community trust
We help our communities thrive, impacting their lives positively by making economic, social and environmental contributions

Consumer relevance
Consumer preference
We work hard to remain relevant for our consumers and be the preferred supplier to our customers

Cost leadership
We aspire to be a cost leader and make the necessary investments to sustain this leadership

Strategic pillars

Objectives

Initiatives
1. Expand and deepen route-to-market
2. Execute in-store with excellence
3. Create joint value with customers
4. Drive the water category, focusing on value

1. Capitalise on meals and socializing occasions for sparkling drinks
2. Increase share of single-serve packs, driving transactions
3. Improve performance in hotels, restaurants and cafes (HoReCa)
4. Grow in the energy category
5. Drive pricing strategies

1. Continue production infrastructure and logistics optimisation
2. Capitalise on contiguous territory and Emerging market opportunities
3. Utilise shared services to gain process efficiency
4. Drive packaging harmonisation and innovation (light-weighting)

1. Invest in revenue-generating assets and innovative technology
2. Acquire water and juice brands in existing territory
3. Maintain negative working capital balance sheet position

Scorecard
Average currency-neutral revenue growth
4-5% p.a
Comparable OpEx as % of revenue
26-27%
by 2020
Capital expenditure
5.5-6.5%
of revenue
Comparable EBIT
11%
by 2020
Working capital less than
-€100m

Enablers and values

Our people
Our most important enablers to growth are our people: unparalleled talent and a high-performance mindset are what we strive for.
Our people make our Company what it is and create value by growing our business responsibly and sustainably. Strengthening the capabilities of our people as well as engaging them and rewarding them appropriately are priorities at every level of our Company, enabling us to continue to attract and retain the best talent.

Adapted from Coca-Cola Hellenic Bottling Company 2016, Annual integrated report (Switzerland)
Content Element 6: Performance

The integrated report should contain qualitative and quantitative information about the company’s performance and value creation. It should describe 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.

The information that may be included in the report is outlined below:

- quantitative indicators in relation to targets, risks and opportunities, explaining their significance, their implications, and the methods and assumptions used in compiling them;
- the company’s effects (both positive and negative) on the capitals, including material effects on capitals up and down the value chain;
- the relationship between the company and its key stakeholders and how the company has responded to key stakeholders’ legitimate needs and interests; and
- the connection between past and current performance, and between current performance and the company’s outlook.

Besides providing an understanding of the underlying business returns, current performance information also helps readers understand the implications for future performance. The focus of the report must be on identifying and explaining performance variances – in particular the strategic objectives management has self-imposed.

The relevant measures will often be operational rather than financial in nature and this requires the report to maintain a balanced view, written from an operational perspective. The logic of integrated reporting means that any gaps in the reporting of strategically important performance will be immediately apparent to readers.

The example on the following page illustrates a clear and concise reporting of performance by a company in the United Kingdom.
### GROUP FINANCIAL OBJECTIVES

<table>
<thead>
<tr>
<th>OBJECTIVE</th>
<th>KPI</th>
<th>2016/17 PERFORMANCE (52 weeks to 1 April 2017)</th>
<th>2015/16 PERFORMANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grow Group revenue</td>
<td>GROUP REVENUE</td>
<td>Total Group revenue, including retail sales for owned businesses and wholesale sales to franchise partners.</td>
<td>£10.6bn +2.2%</td>
</tr>
<tr>
<td>Increase earnings and returns</td>
<td>GROUP PROFIT BEFORE TAX (PBT) AND ADJUSTED ITEMS</td>
<td>Adjusted profit provides additional information on performance, adjusting for items considered to be significant in nature and/or value.</td>
<td>£613.8m -6.3%</td>
</tr>
<tr>
<td>Increase earnings and returns</td>
<td>RETURN ON CAPITAL EMPLOYED (ROCE)</td>
<td>Return on capital employed is a relative profit measure of the returns from net operating assets.</td>
<td>13.7%</td>
</tr>
<tr>
<td>Increase earnings and returns</td>
<td>ADJUSTED EARNINGS PER SHARE (EPS)</td>
<td>Adjusted earnings per share (EPS) is the profit before the impact of adjusted items divided by the weighted average number of ordinary shares in issue.</td>
<td>30.4p +13.0%</td>
</tr>
<tr>
<td>Increase earnings and returns</td>
<td>DIVIDEND PER SHARE</td>
<td>Dividend per share declared in respect of the year.</td>
<td>18.7p</td>
</tr>
</tbody>
</table>

### NON-FINANCIAL OBJECTIVES

<table>
<thead>
<tr>
<th>OBJECTIVE</th>
<th>KPI</th>
<th>2016/17 PERFORMANCE</th>
<th>2015/16 PERFORMANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engage, serve and retain our customers</td>
<td>FOOD</td>
<td>Total number of UK Food customers per year and average number of shops per customer resulting in a purchase across all UK shopping channels.</td>
<td>20.5m 22.5</td>
</tr>
<tr>
<td>Engage, serve and retain our customers</td>
<td>CLOTHING &amp; HOME</td>
<td>Total number of UK Clothing &amp; Home customers per year and average number of shops per customer resulting in a purchase across all UK shopping channels.</td>
<td>24.6m 7.2</td>
</tr>
<tr>
<td>Foster a skilled, motivated and engaged team</td>
<td>EMPLOYEE ENGAGEMENT</td>
<td>Engagement is a key driver of performance. Our You Say survey looks at the key drivers of employee engagement such as pride in M&amp;S and our products, feelings about M&amp;S as an employer and the role of line managers.</td>
<td>81% 43%</td>
</tr>
<tr>
<td>Source products with integrity</td>
<td>PRODUCTS WITH A PLAN A QUALITY</td>
<td>This is a quality or feature regarded as a characteristic or inherent part of a product which has a demonstrable positive or significantly lower environmental and/or social impact during its sourcing, production, supply, use and/or disposal.</td>
<td>79% 46%</td>
</tr>
</tbody>
</table>

Source: Marks and Spencer Group PLC Annual Report 2017 (United Kingdom)
Content Element 7: Outlook

Integrated report highlights the anticipated changes over time and provides information based on sound and transparent analysis on the company’s expectations about the external environment and how well equipped is the company to meet the challenges that lie ahead.

The outlook should help the reader form their own views on the future of the company. The illustrative disclosure below provides an example on how the company could provide an outlook for the next financial year.

Illustrative disclosure

Strategic priorities and future outlook for next financial period

- Organic growth is expected to be boosted by new product launches and possible bolt-on product acquisitions in targeted therapeutic areas. Following the success of current second brands/ clones launches, additional co-marketing arrangements will be explored.
- In the quest to reduce complexity within the business, the Pharmaceutical and Consumer divisions of this business will be streamlined into a single structure to drive synergies. Focus on infant nutritionals continues with plans to achieve further growth through the various stages of infancy as well as ensuring reliable availability of products through all channels.
- The recent divestment of a product portfolio to Litha Pharma (Pty) Limited and acquisition of the Norgine business form part of Aspen’s ongoing strategic intent to focus attention on areas where most value can be added and to lessen complexity.

Source: Aspen Holdings 2015 Integrated Report (South Africa)

Content Element 8: Basis of preparation and presentation

The integrated report should provide clarity on how the company determines what matters would be included in the report and how they are evaluated and qualified.

The integrated report should contain a clear explanation on the process and application undertaken by the board and management in identifying material matters. The following steps should be taken to identify the material matters:

- establish parameters for the materiality determination process;
- ensure all matters are filtered to identify and evaluate their relevance, importance and prioritised accordingly;
- set the reporting boundaries; and
- determine the disclosures to be included in the integrated report.

Point for reflection

Integrated reporting was not created to replace the existing reporting frameworks. The <IR> framework provides a seamless integration of other standards and frameworks to help provide a complete and coherent view of the value creation process of a company. Further information on the <IR> Framework can be found at https://integratedreporting.org/.
Regional/international perspectives

Alongside Malaysia, countries such as South Africa and Philippines have enumerated provisions on integrated reporting premised on the need to provide stakeholders with a clear articulation of a company’s value creation.

<table>
<thead>
<tr>
<th>Country</th>
<th>Provision</th>
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<tbody>
<tr>
<td>South Africa</td>
<td>The governing body should oversee that the organisation issues an integrated report at least annually, which is either:</td>
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<td></td>
<td>a. A standalone report which connects the more detailed information in other reports, and addresses at a high level and in a complete, concise way, the matters that could significantly affect the organisation’s ability to create value; or</td>
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<td></td>
<td>b. A distinguishable, prominent and accessible part of another report which also includes the annual financial statements and other reports that must be issued in compliance with legal provisions. (Principle 5, Recommended Practice 12)</td>
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<tr>
<td>Philippines</td>
<td>The company should ensure that the material and reportable non-financial and sustainability issues are disclosed. (Principle 10).</td>
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<td>The Board should have a clear and focused policy on the disclosure of non-financial information, with emphasis on the management of economic, environmental, social and governance (EESG) issues of its business, which underpin sustainability. Companies should adopt a globally recognized standard/framework in reporting sustainability and non-financial issues (Recommendation 10.1).</td>
</tr>
</tbody>
</table>

Explanation

As external pressures including resource scarcity, globalization, and access to information continue to increase, the way corporations respond to sustainability challenges, in addition to financial challenges, determines their long-term viability and competitiveness. One way to respond to sustainability
Disclosures can be made using standards/frameworks, such as the G4 Framework by the Global Reporting Initiative (GRI), the Integrated Reporting Framework by the IIRC and/or the Sustainability Accounting Standards Board (SASB)'s Conceptual Framework (Principle 10, Recommendation 10.1).