



A Directors' Guide to Integrated Reporting



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Introduction

Ironically, integrated reporting is not really about reporting at all.

It's about integrated thinking, responsible business behaviours and innovation. And telling it like it is.

"In a rapidly changing, unpredictable world... , where every company has to build its licence to operate on foundations of trust, and where technology and international communications makes everything visible, leadership and relationships are the only consistent building blocks of success."¹

Tomorrow's Company

Conceptually, integrated reporting (<IR>) is really just common sense: organisations can only create enduring value for shareholders if they develop successful and enduring relationships with customers, employees, suppliers and the communities in which they operate as well as with their shareholders. Business these days depends on more than financial and manufactured capital to make its money. It relies on a broader set of resources and relationships, which <IR> terminology calls 'capitals', which include intellectual, human, social and natural capitals.

In practice, integrated reporting asks the right questions – the difficult ones: how do you define measures of success for each of these resources and relationships? What are the interdependencies and trade-offs between them that, over time, influence a business's ability to create value? What is your approach to assessing linkages between your strategy, activities, material capital inputs and your performance?

And to assessing whether your KPIs are the right ones for the business? Are there opportunities to better connect and integrate the sources and drivers of value for your business?

Integrated reporting is dynamic; it is a process of thinking your business through. It's about how you create value and identify value at risk, not only in the short but medium and long term, and about how you articulate your strategy and business model for long-term sustainable value creation.

Some commentators wonder whether integrated reporting is a passing fad. But it's difficult to dismiss an international initiative which seeks to encourage a level international playing field for integrated corporate behaviours and the processes of decision-making and bespoke reporting by businesses to the capital markets. And investment professionals see room for improved reporting.²

Also <IR> is a market-driven initiative. It has evolved in part from the recognition that businesses must change how they operate in order to win back trust from the market, following the global financial crisis. The International Integrated Reporting <IR> Framework ('<IR> Framework') is a principles-based framework aimed at empowering and encouraging businesses to explain and disclose better how they create value. Applied and tested by a number of businesses through an <IR> pilot programme, it has proven to result in a host of benefits for those organisations.

There remains considerable scepticism in some camps about whether <IR> is the right answer and therefore whether it is worth embarking on the journey. As the IIRC launches its <IR> Business Network, we thought it would be useful to produce a short document to tell you everything you need to know about <IR>, to help you to decide for yourself.

In the following pages, we look at what the drivers of integrated reporting are, what it is exactly and what are the real benefits that businesses see behind integrated reporting.

... It's about integrated thinking, responsible business behaviours and innovation. And telling it like it is.

Not everything that
counts, can be counted
and not everything that
can be counted, counts.
Albert Einstein

Why integrated reporting?

The drivers

Rebuilding trust in business and long-term value creation

‘Doing business the right way: how can business regain trust through long-term value creation?’ was a CEO-led session at 2014’s World Economic Forum. Another session was entitled ‘Ethical Capitalism – worth a try?’ Both were responses to the need for boards to rebuild trust in their businesses following the global financial crisis and continued misgivings about the capitalist model.

Rebuilding trust in business and long term value creation go hand in hand. Long term value creation is impossible if an organisation does not take into account the interests of all of its major stakeholders. A business cannot ignore its employees, suppliers, customers, creditors, communities and the environment. How you gauge their interests, and your effect on them, and any knock-on effects on strategy and business model, however, is not straightforward. A recent Finance function benchmark survey of more than 200 organisations revealed that just 52% of organisations believe that their KPIs are aligned to the strategic goals of the business.

Being able to articulate your strategy and business model, as well as link metrics to them, is critical for an organisation to build trust.

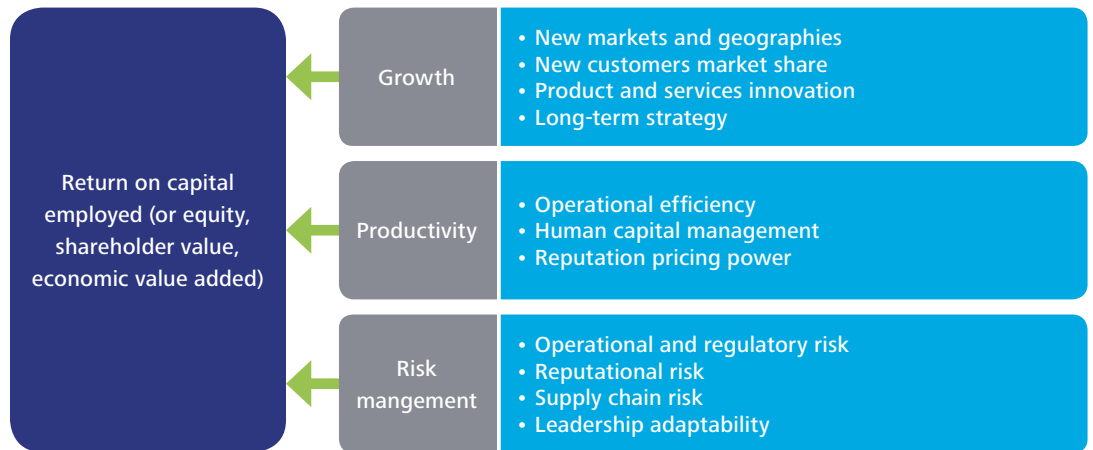
Unlike reputation, which is an attribute which is earned and built over time, trust comes before engagement: it is forward-looking. It is a measure of whether others want to do business with you:

- Do investors trust enough in your organisation to put their capital at risk, by investing in you?
- Do you act as a force for good for your investors and major stakeholders? Do they trust in you to create value for them in a way that is responsible and so protects their interests?

Trust requires transparency and accountability. Standard & Poors (‘S&P’) state that greater transparency of project data and risks would help to capture potential capital, highlighting that “lack of transparency and disclosure of risk heightens investor uncertainty and creates market unease.”⁴ Trust is a cornerstone of efficient and integral capital markets.

Being able to articulate your strategy and business model, as well as link metrics to them, is critical for an organisation to build trust. The UN Global Compact⁵ suggests the following model as a tool to assist entities in constructing metrics to describe the connection between their business strategy and performance in the broadest sense. Growth, productivity and exposure to risk are key concerns of investors. The model categorises possible risks and associated metrics into these three areas.

Value Driver model



Source: UN Global Compact 2013

Best practice corporate governance and reputation

Research in 2010 from Ocean Tomo found that net assets of S&P 500 companies represented only 19% of their market capitalisation in 2009, compared to 90% in the 1970s.⁶ In other words, intangible factors, including trust, reputation, and long-term viability of the business model that are not necessarily captured by accounting records have become the material value drivers.

Reputation can be a crucial when it comes to company value. The 2015 UK Reputation Dividend Report⁷ finds that, although it varies significantly between companies, the average "reputational leverage" across the FTSE 250 was 1.4, meaning that a 1% improvement in a company's reputation would be expected to increase its market value by 1.4%. For the average FTSE 100 company, a 1% improvement in reputation adds about £266 million to its market value: a not inconsiderable amount.

"I obviously worry a lot about financial performance, because if you don't over the long run perform well financially either you are gone as a CEO or your company gets taken over. But the thing I worry most about is reputation."

Richard Goyder, CEO and MD, Wesfarmers⁸

What mattered to CEOs at the 2014 World Economic Forum was for investors to understand the long-term value proposition behind their businesses. This extended far beyond the numbers reported on in the financial statements.

"We've got to change the dialogue from 'what we do with the money we make' to 'how we make the money'... there's an ethical responsible way to run companies and make money, change the dialogue and that'll build the trust."

Indra Nooyi, CEO and Chairman of PepsiCo, USA⁹

Good corporate governance is about the 'how of business'. It's not about putting a measure on or 'monetising' the intangible factors (trust, reputation, long-term viability), if indeed that were possible. It's about responsible business behaviours and processes, and transparency around these processes, necessary for accountability.

One of these processes is the corporate reporting process. Corporate reporting is key to providing stakeholders with the information they need to hold boards to account. And yet a recent study revealed that more than two-thirds of investors have lost trust in company reports since the onset of the global financial crisis.¹⁰ In another recent survey, 80% of investment professionals considered that their perception of the quality of a company's reporting affected their perception of the quality of its management.¹¹ This research also noted that 89% of the investment professionals surveyed believed that disclosures in an annual report about strategy, risks and opportunities and other value drivers can have a direct impact on a company's cost of capital.¹²

"The ability of the Board to understand and address the risks facing the company is itself a major risk factor."

UK Financial Reporting Council (FRC)¹³

An integrated report – an output of an integrated reporting process – requires the board to explain how the organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term.

An end result of the integrated reporting process should, therefore, be more meaningful (comprehensive, integrated and uniform) dialogue with external stakeholders.

Responsible capitalism and responsible growth

"Full integration of financial and non-financial information for purposes of decision-making requires parity. We created a roadmap for how to raise the equality of the social and environmental data."

Susanne Stormer, VP, Corporate Sustainability, Novo Nordisk¹⁴

Material capital inputs to the business model today include, in addition to traditional financial and manufactured capitals, intellectual and human capital and social and relationship capital, as well as natural capital. The latter four capitals are often not explained in financial reporting, or not in great detail. These critical non-financial value drivers and risks have often been a poor relation of financial metrics and risks.

Business, Indra Nooyi, CEO and Chairman of PepsiCo, implies, needs to redefine the concept of managing for duration as *how we make the money*, and to move away from the narrow and misleading concept of simply *what we do with it*.¹⁵

Society in the 21st century expects business to participate in resolving society's needs and desires. How a business makes money today must be a function of how its interests are aligned and integrated with those of society. In part, the corporate dialogue has moved away from how the world encourages capitalism and growth to how it encourages responsible capitalism and responsible growth.

Leading global businesses are putting solving societal challenges at the heart of what they do, integrating social and environmental concerns into their strategy. They are tackling some of the world's most pressing problems – global health, climate change, and urbanisation, to name a few, while making profits. The focus of the CEOs and Boards of these businesses is on their business's societal and long-term impact.

How a business makes money today must be a function of how its interests are aligned and integrated with those of society.

"An increasing number of major company CEOs are espousing an overall purpose for their business that is distinct from the profit motive in an attempt to demonstrate to their stakeholders that their enterprise is a force for good in contributing to society, and then developing their strategies, actions and communications (internal and external) by reference to that sense of purpose. A focus on the purely financial is no longer enough."
*Steve Almond, Chairman, DTTL*¹⁶

Societal purpose: some examples

Unilever	<p>“People always think that to do the right thing costs you more. That is not true at all. It can actually ignite innovation and lower your costs.”</p> <p>Paul Polman, CEO of Unilever</p>	<ul style="list-style-type: none"> • Unilever’s vision and strategy is “to double the size of the business, whilst reducing our environmental footprint and increasing our positive social impact. We will lead for responsible growth, inspiring people to take small everyday actions.” • Unilever’s Lifebuoy soap has launched an initiative to tackle the spread of pneumonia and diarrhoea (the 1st and 3rd causes of child mortality) through hand washing and improved hygiene. It is currently the no.1 selling health soap brand. Every second, 111 families buy a Lifebuoy product.
IBM	<p>“Business, in particular, must seize the initiative. We must not wait for government mandates. We must be active in convening all sectors of society to solve problems that none can solve on their own. We must energize our own resources – not just financial, but also human. Most crucially, we must create corporate citizenship and business strategies that are not merely ‘linked’, but one.”</p> <p>Virginia Rometty, CEO and Chairwoman of IBM</p>	<ul style="list-style-type: none"> • IBM states that “a company culture based on core values not only helps our business, but also defines the role that we can and should play in society: <ul style="list-style-type: none"> – We identify and act on new opportunities to apply our technology and expertise to societal problems. – We scale our existing programs and initiatives to achieve maximum benefit. – We empower our employees and others to serve their communities. – We integrate corporate citizenship and social responsibility into every aspect of our company.” • IBM’s ‘Smarter Planet’ initiative uses data captured by smart systems to find solutions to societal and development challenges. These include smart grids, water management systems, and greener buildings. • IBM’s stock price tripled to more than \$200 a share after it launched its Smart Planet marketing campaign.
GE	<p>“When we come out of this fog [referring to the recession], this notion that companies need to stand for something – they need to be accountable for more than just the money they earn – is going to be profound.”</p> <p>Jeff Immelt, CEO and Chairman of the General Electric Company</p>	<ul style="list-style-type: none"> • General Electric states: “GE’s strength lies in our ability to look at what the world needs, combine it with our belief in a better way and then drive to invent and build better futures for our customers and communities.” • GE have integrated sustainability priorities and stakeholder interests with business strategy, stating: “Our Board of Directors is responsible for overseeing how management serves the interests of shareowners and other stakeholders, including such issues as: risk management; environmental, social and regulatory challenges; and global trends.” • Clean energy innovations from GE’s ‘Ecomagination’ strategic initiative have provided cleaner and more efficient sources of energy, reduced emissions and provided more abundant sources of clean water. • By the end of 2013, Ecomagination had generated \$160bn in revenue since its launch nine years previously.

Essentially, integrated thinking challenges and enables companies to 'live their story', rather than merely tell it.

What is integrated reporting (<IR>)?

"<IR> gives an opportunity to clearly communicate your strategic message – what is our business model? how do we create value?, what is our relationship with a broad view of stakeholders? and critically why is our business model sustainable in the long term?... and we think that this is a question that a number of users are challenging corporates to be able to answer."

Russell Picot, Chief Accounting Officer, HSBC¹⁷

At the heart of integrated reporting is integrated thinking, defined by the International Integrated Reporting Council (IIRC) as follows:

Integrated thinking is the active consideration by an organisation of the relationships between its various operating and functional units and the capitals that the organisation uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term.

Essentially, integrated thinking challenges and enables companies to 'live their story', rather than merely tell it.

"We now need to measure things that we didn't previously need to measure. The challenge is to measure non-financial capitals. You cannot measure the opening and closing balances of knowledge capital, for instance. What can be measured and managed is the flow."

Tim Haywood, FD and Head of Sustainability, Interserve, Europe¹⁸

Integrated reporting is an output of integrated thinking. It is about moving away from a traditional retrospective financial account to a holistic and cohesive explanation of the strategy, business model and value proposition today, tomorrow and into the long term.

Embedding integrated thinking into an organisation's activities requires better connection of external reporting and the information used for management reporting, analysis and decision-making. For example, the concept of connectivity within an integrated report is a reflection of the integrated thinking within an organisation, with all the parts of the organisation acting and moving together. This goes further than simply cross-referencing different sections of an external report.

Another example is the preparation and presentation of separate sustainability or corporate responsibility reports, which can often be seen as bolt-on processes to other reporting. Applying integrated thinking requires an organisation to consider not only the outputs of their business, but also the outcomes i.e. the effects that outputs have on other capitals including those capitals directly related to the sustainability of the business.

In this way, integrated reporting often initiates processes to integrate sustainability or corporate responsibility information into business management and reporting systems, and, where necessary, to identify and develop smarter non-financial information and KPIs.

The content elements of an integrated report

For integrated reporting to be meaningful to investors and to ensure some consistency, the <IR> Framework requires an organisation to comply, at a minimum, with eight content elements and the application of seven guiding principles for preparation of an integrated report, as set out below. Consistent with its principle-based approach, the <IR> Framework presents the content elements in the form of questions for the organisation to consider to enable it to respond in a way that reflect its individual circumstances.

The fundamental concepts of integrated reporting

Three fundamental concepts of an integrated report underpin the content elements and guiding principles (see below) that govern the overall content of an integrated report:

- **The capitals.** This is <IR> terminology for the six categories of resource and relationships on which a business may depend in the broadest sense: not only 'the 3 Ps', as they are often referred to, being people (human capital), planet (natural capital) and profit (financial capital) but also other non-financial value drivers such as brand, reputation and know-how (intellectual capital), property, plant and equipment and infrastructure (manufactured capital) and relationships, such as relationships with suppliers and customers amongst others (social and relationship capital).
- **Value creation.** Defined as 'value creation for the organisation and value creation for others' being value creation in the broadest sense, considering value for all stakeholders. The premise here is that if a business creates value for others, in the long term, this creates value for the business.

<IR> Framework Content Elements

Organisational overview and external environment

What does the organisation do and what are the circumstances under which it operates?

Governance

How does the organisation's governance structure support its ability to create value in the short, medium and long term?

Business model

What is the organisation's business model?

Risks and opportunities

What are the specific risks and opportunities that affect the organisation's ability to create value over the short, medium and long term and how is the organisation dealing with them?

Strategy and resource allocation

Where does the organisation want to go and how does it intend to get there?

Performance

To what extent has the organisation 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 organisation 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 organisation determine what matters to include in the integrated report and how are such matters quantified or evaluated?

- **The value creation process.** The traditional business model concept (inputs, activities and outputs in the form of goods or services) is extended to consider the 'outcomes' of the business's activities for the <IR> capitals above. This is because negative or positive outcomes (or impacts) today could have future repercussions (value at risk).

The guiding principles

Seven guiding principles underpin the preparation and presentation of an integrated report, informing the content of the report and how information is presented. These guiding principles are applied individually and collectively for the purpose of preparing and presenting an integrated report; accordingly, judgement is needed in applying them, particularly when there is an apparent tension between them (e.g., between conciseness and completeness).

<IR> Framework Guiding Principles

Strategic focus and future orientation

An integrated report should provide insight into the organisation's strategy, and how that relates to its ability to create value in the short, medium and long term and to its use of and effects on the capitals.

Connectivity of information

An integrated report should show a holistic picture of the combination, inter-relatedness and dependencies between the factors that affect its ability to create value over time.

Stakeholder relationships

An integrated report should provide insight into the nature and quality of the organisation's relationships with its key stakeholders, including how and to what extent the organisation understands, takes into account and responds to their legitimate needs and interests.

Materiality

An integrated report should disclose information about matters that substantially affect the organisation's ability to create value over the short, medium and long term.

Concise

An integrated report should be concise.

Reliability and completeness

An integrated report should include all material matters, both positive and negative, in a balanced way and without material error.

Consistency and comparability

The information in the integrated report should be presented (a) on a basis that is consistent over time and (b) in a way that enables comparison with other organisations to the extent it is material to the organisation's own ability to create value in the short, medium and long term.

<IR> offers a new lens
for thinking about your
business.

Integrated reporting: the benefits

As part of its development of the <IR> Framework, the IIRC ran a three-year pilot programme for investors and over 100 businesses from around the world to experiment with and trial the integrated reporting concepts. Their experiences and views, in addition to comments received from other stakeholders through two rounds of public consultation, informed the final text of the <IR> Framework in issue today.

As highlighted in a Black Sun survey of the pilot programme participants, integrated reporting impacts and benefits at all levels of an organisation, from the daily operational level, to board level, to relations with investors.¹⁹

"<IR> is a very powerful framework for thinking about our business model and the way we create value. There are enough highly publicised examples of corporate failures where it became clear that even boards did not know how their particular organisation was creating value and the risks they were taking."

Charles Nichols, Group controller, Unilever²⁰

Some of the benefits are wide-reaching, naturally flowing from one to the next. The pilot programme participants saw real value in sitting key internal stakeholders and decision-makers together around a table – for example, the Board and/or Heads of Finance, Corporate Responsibility, Investor Relations, Human Resources, Investor Relations, Strategy and Sustainability amongst others – to brainstorm how the business creates value through the lens of integrated reporting.

This enabled them to break down silos and integrate understanding, narrative and language around what makes the business tick, fostering buy-in for the company's strategic objectives and propositions for going to market.

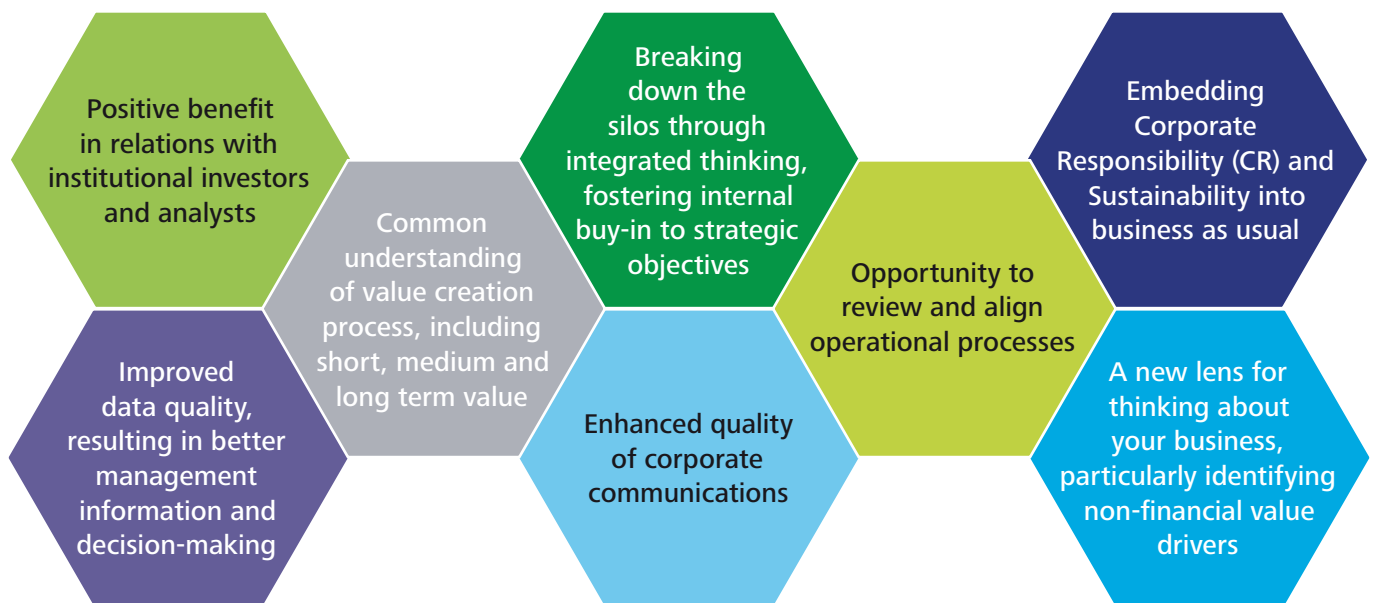
As well as breaking down the silos, this offered the opportunity to review the business model with fresh eyes to identify non-financial value drivers and enable innovation. Further, <IR>'s emphasis on value creation in the short, medium and long term also helped identify value at risk. By considering all of the capitals together, this focus on value creation over time naturally diminished the arguments for a separate corporate responsibility or sustainability agenda, strategy and function. Initiating these integrated behaviours within a business then easily translated into a comprehensive and coherent account of what is the long-term value proposition.

"Driving sustainable long-term business performance starts with a deep understanding of your business model and a clear articulation of what success looks like. From this flows strategic alignment, the right metrics – financial and non-financial – and an appreciation of business risks. All these are prerequisites for a sustainable, high performing business."

Charles Nichols, Group controller, Unilever²¹

Deloitte LLP UK was one of the businesses in the IIRC's pilot programme. As Steve Almond, DTTL Chairman, and member of the IIRC explains: "The reason why Deloitte UK [took] part in the IIRC Pilot Programme for Businesses is simple. In the UK alone, we have over 12,000 employees. Human capital is our main asset, something we cannot explain in financial terms."²²

Other benefits of integrated thinking and reporting, explored in more detail in Black Sun's survey of pilot programme participants, include the following:



Some of the benefits are wide-reaching, naturally flowing from one to the next.

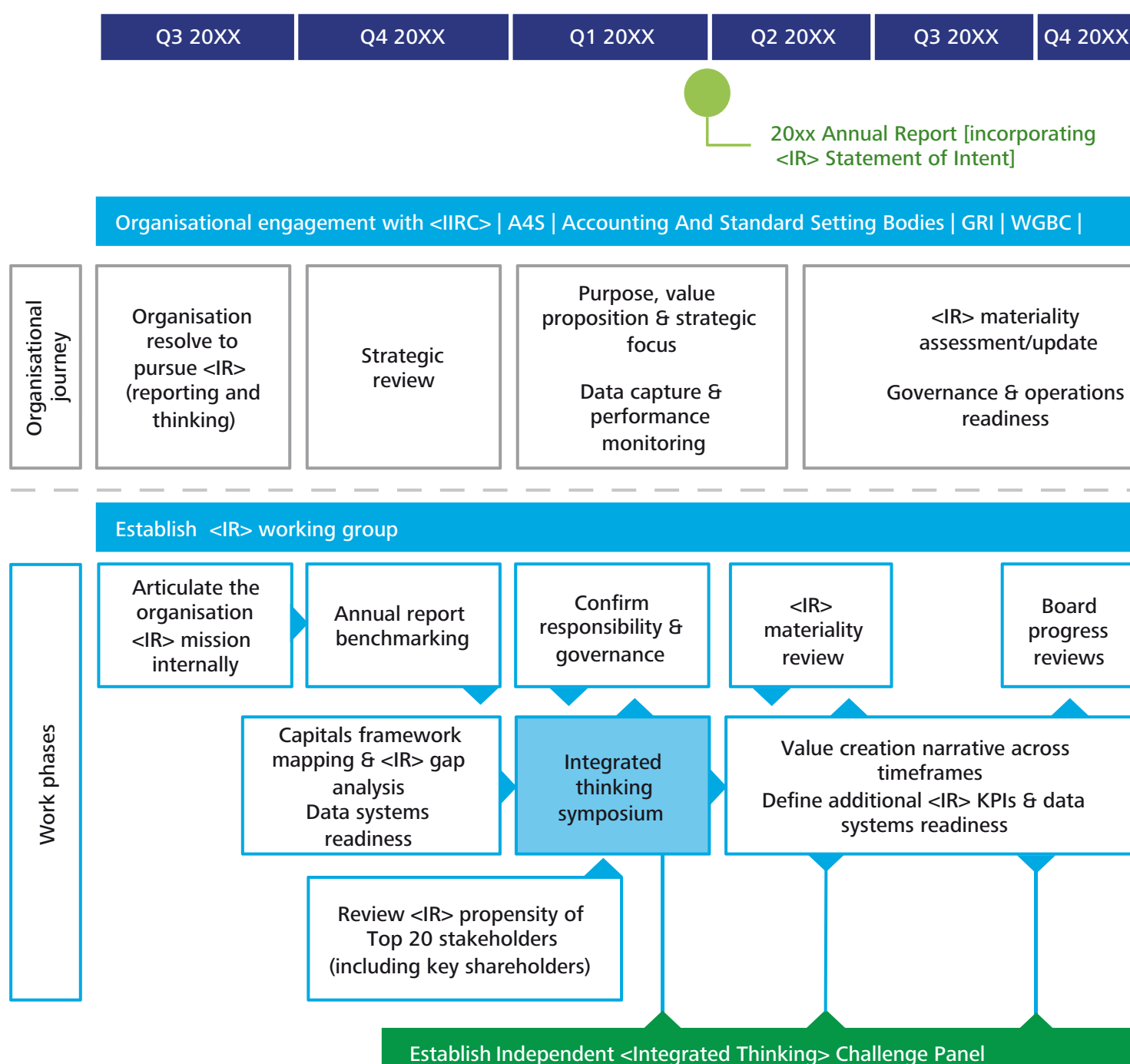
Appendices

Appendix 1: your <IR> journey

Developing an integrated report could potentially meet your investor needs, while also encouraging more cohesive decision-making within your business to support your long-term value proposition.

Integrated reporting is habitually referred to by the IIRC and those organisations piloting and applying its concepts as a journey.²³ This is because it requires a change in thinking that takes time to implement.

Based on the pilot experience, this is what a roadmap to <IR> may look like (the starting point along the roadmap may differ between organisations depending on what processes and levels of governance are already in place):



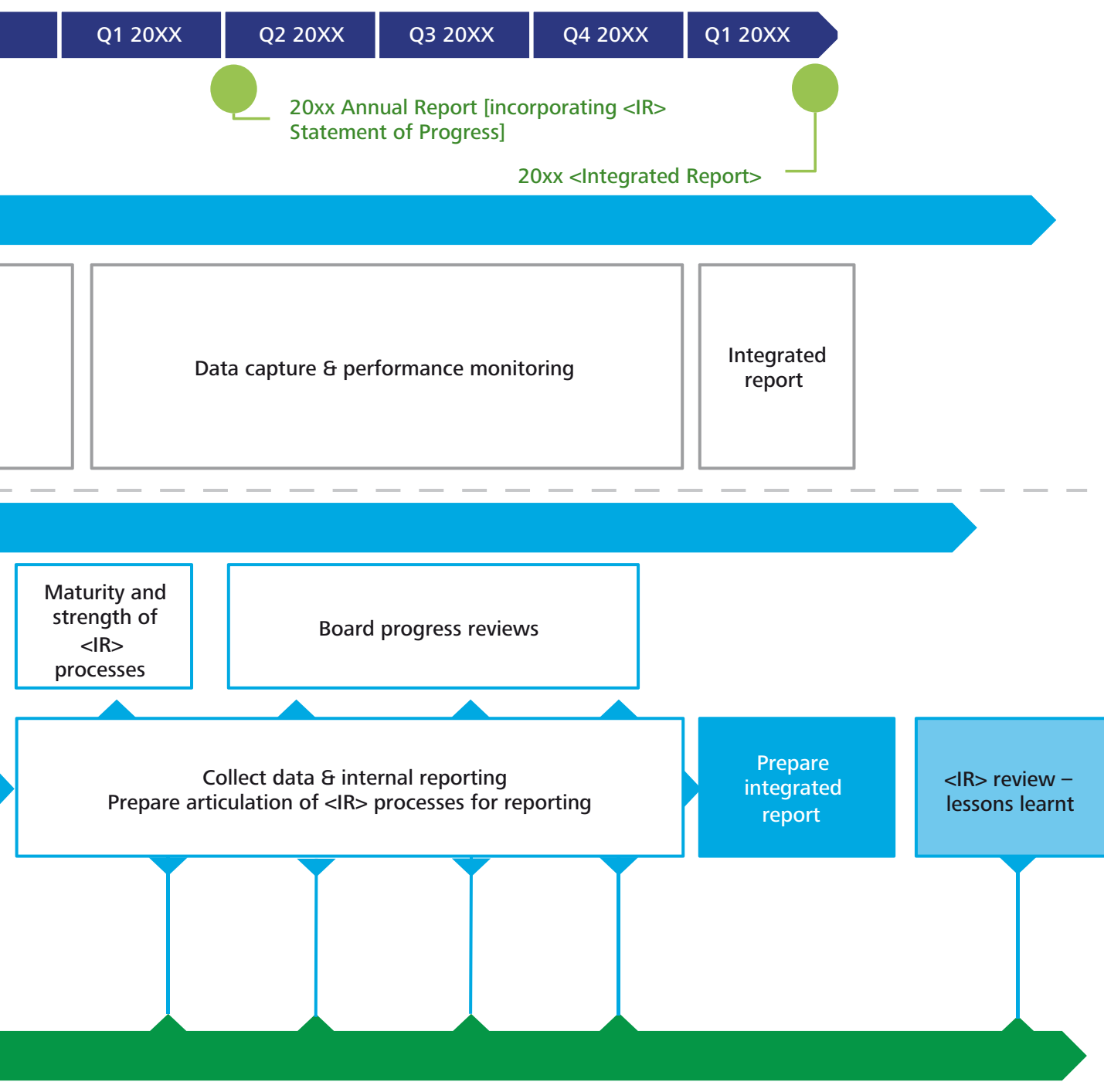
Integrated reporting is habitually referred to as a journey by the IIRC and those organisations piloting and applying its concepts.

Key:

A4S = Accounting for sustainability
(www.accountingforsustainability.org)

GRI = Global Reporting Initiative
(www.globalreporting.org)

WGBC = World Green Building Council (www.worldgbc.org)



Embedding integrated thinking and behaviours in an organisation is about considering the broader range of resources and relationships on which your business depends to identify and integrate into your decision-making those matters most relevant to your ability to create value today, tomorrow and into the long term.

Applying the concepts of integrated reporting will require you to think through the following questions and evaluate whether your reports to market answer these questions.

- Does the world know **what makes your organisation tick**?

- Do you and your investors, and other primary stakeholders such as your customers and the communities in which you operate, **know what you stand for**? Do they have access to the information they need to make their investment or purchase decisions?

- Do you consider all the material inputs into your business that could affect your **longer term viability**? How do you identify those matters most relevant to the ability of your business to create value? Are they captured in your business model, strategy and strategic objectives, risks and opportunities and your KPIs?

- Does your business model consider how material capital inputs (where relevant to your organisation) are transformed into outputs, but also have **outcomes**?

- Do you know **everything you need to know about your business**? Is your current management thinking and decision-making broad enough?

- Do you have data and/or KPIs for the broader resources and relationships on which your business depends (i.e. the age-old business maxim: **you manage what you measure**)?

- What is the **long-term value proposition of your business**? How will you create value for others hence for the business not only today, but tomorrow and into the long term? Do your investors and other stakeholders understand your value proposition?

- **How integrated is the thinking in your business and its decision-making**? Are corporate responsibility and sustainability a bolt-on or, put simply, 'how you do business'? Can you explain why your business model is sustainable into the long term, and how resilient it is in response to the dynamics of the markets in which it operates?

- Do your reports to the market answer these questions?

Other specific questions raised by the content elements and guiding principles of the <IR> Framework, include:

Relevant <IR> Framework Content Element	Questions to consider in your reports to markets
Organisational overview and external environment What does the organisation do and what are the circumstances under which it operates?	<ul style="list-style-type: none"> • Do you discuss future market trends? • Does your discussion of the market link to your strategic choices?
Governance How does the organisation's governance structure support its ability to create value in the short, medium and long term?	<ul style="list-style-type: none"> • Do you discuss leadership effectiveness? • Are the outcomes for your KPIs aligned to executive remuneration outcomes?
Business model What is the organisation's business model?	<ul style="list-style-type: none"> • Is your business model clear? • Do you identify the material capital inputs to your business model? • Is the position of your business in the wider value chain clear? Is your dependency and impact on future supply of resources clearly explained?
Risks and opportunities What are the specific risks and opportunities that affect the organisation's ability to create value over the short, medium and long term and how is the organisation dealing with them?	<ul style="list-style-type: none"> • Are your risks specific, rather than boiler-plate? Do they relate to your strategy? • Is there a correlation of risks with the issues discussed elsewhere in the report? • Do you discuss how risks are changing over time?
Strategy and resource allocation Where does the organisation want to go and how does it intend to get there?	<ul style="list-style-type: none"> • Do you report your strategic priorities? • Are non-financial capital priorities included in your core strategy? • Would an explanation of the business model at segment level assist with understanding strategy and resource allocation?
Performance To what extent has the organisation achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?	<ul style="list-style-type: none"> • What are the most important key performance indicators for your business? Not only the financial but non-financial performance indicators? How do they compare to your industry peers? How do they compare period to period as you develop your business model? • Do you explicitly identify your KPIs? • Do you explain why you have chosen these particular measures, to assist investors with the importance of a particular KPI and to put its performance in context? • Do you include 'operational' as well as 'financial' KPIs? • Are your KPIs linked to your remuneration policies?
Outlook What challenges and uncertainties is the organisation likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?	<ul style="list-style-type: none"> • Do you consider the future availability of material inputs (capitals) into your business?
Basis of preparation and presentation How does the organisation determine what matters to include in the integrated report and how are such matters quantified or evaluated?	<ul style="list-style-type: none"> • Is the basis of measurement for your KPIs clearly disclosed? To enable comparison over time and with your industry peers?

Relevant <IR> Framework Guiding Principle	Questions to consider in your reports to the market
Strategic focus and future orientation An integrated report should provide insight into the organisation's strategy, and how that relates to its ability to create value in the short, medium and long term and to its use of and effects on the capitals.	<ul style="list-style-type: none"> • Do you include statements and metrics on expected future performance? • Is it clear how the business makes money today and how that value will convert into cash in the future?
Connectivity of information An integrated report should show a holistic picture of the combination, inter-relatedness and dependencies between the factors that affect its ability to create value over time.	<ul style="list-style-type: none"> • Is your corporate responsibility information a separate section of your annual report, or integrated into the wider narrative on business performance and value? • Are the statements and metrics on expected future performance linked to risks and strategy?
Stakeholder relationships An integrated report should provide insight into the nature and quality of the organisation's relationships with its key stakeholders, including how and to what extent the organisation understands, takes into account and responds to their legitimate needs and interests.	<ul style="list-style-type: none"> • Which stakeholder relationships are most relevant to you and your risks? • Do you explain how you engage or consult your stakeholders, including investors?
Materiality An integrated report should disclose information about matters that substantially affect the organisation's ability to create value over the short, medium and long term.	<ul style="list-style-type: none"> • Is it clear from your report what keeps the Board awake at night and why? • Is it clear how the Board identifies the most relevant matters pertaining to your organisation's ability to create value?
Concise An integrated report should be concise.	<ul style="list-style-type: none"> • Acknowledging that conciseness is a function of the complexity of the business and its economic and regulatory environment, could you avoid duplicating information with better linkage?
Reliability and completeness An integrated report should include all material matters, both positive and negative, in a balanced way and without material error.	<ul style="list-style-type: none"> • Is your report content substantiated, where appropriate, by credible third-party research, projections and estimates? • Is your corporate responsibility information externally assured? • Is other data assured and to what extent is this clear?
Consistency and comparability The information in the integrated report should be presented (a) on a basis that is consistent over time and (b) in a way that enables comparison with other organisations to the extent it is material to the organisation's own ability to create value in the short, medium and long term.	<ul style="list-style-type: none"> • Is your report content aligned with key messaging across other corporate communications?

Appendix 2: frequently asked questions

Is integrated reporting mandatory?

This is dependent on the jurisdiction in which an organisation reports. In the majority of jurisdictions, integrated reporting is not yet mandatory. In South Africa, companies listed on the Johannesburg Stock Exchange are obliged to apply the principles of the King Code of Governance (King III), which includes a recommendation that organisations produce an integrated report, or else explain why not. Similarly, the Brazilian Stock Exchange BM&FBOVESPA S.A. made a statement in support of integrated reporting and encouraging listed businesses to produce integrated reports under a 'report or explain' approach.

Does the UK's strategic report, as required under UK company law, qualify as an integrated report?

Not entirely, no. Paul Druckman, CEO of the IIRC, has said: "The Strategic Report, together with the FRC's Guidance, is consistent with integrated reporting and is one of the leading initiatives across the world."²⁴

The disclosure requirements of the strategic report alone are not as broad as the content elements of an integrated report. For UK companies the remaining <IR> Framework content elements (such as corporate governance and directors' remuneration) are captured under other legal disclosure requirements. Ultimately, the key aspect of integrated reporting that differentiates itself from the strategic report is the underlying integrated thinking (and the associated impacts upon internal processes).

Why would you consider assurance over integrated reporting?

While an objective of the <IR> Framework is to establish guiding principles and content elements for the content of an integrated report, a primary goal is to establish a process of integrated reporting founded on integrated thinking. This process extends further than the production of an integrated report. It involves embedding into internal processes, and management information and decision-making, an understanding of and consideration of the interdependencies and trade-offs between the capitals and over time that influence value creation.

External assurance forms part of a range of mechanisms that management uses to assure itself that its internal processes and the information it reports is credible and of investment-grade quality. The assurance here is not about what is or isn't included in the integrated report as compared to the <IR> Framework's content elements, but about the internal activities and processes, and underlying data quality processes, that an organisation goes through to prepare the integrated report.

The IIRC's July 2014 'Assurance on <IR>: an exploration of Issues' paper explores these issues while noting that it is not within the remit of the IIRC to develop assurance standards or methodologies.²⁵ This is now on the agenda of the International Assurance and Auditing Standards Board (IAASB).

Appendix 3: the <IR> journey

So how did integrated reporting come about?

The IIRC, as a body, is still very young. But in a short time it has achieved a great deal, including launching pilot programmes for integrated reporting for businesses and investors and publishing a discussion paper and consultation draft as part of its development of the <IR> Framework, a feat it completed in 3 years. As of September 2014, it has set up new networks to carry integrated reporting forward, including, amongst others, a business network and a public sector network.

Of equal importance has been the IIRC's launch on the world stage, attaining recognition among key organisations and agencies, with integrated reporting strongly recommended on a comply or explain basis by several stock exchanges around the world.

Integrated reporting was a key topic of the 2014 World Economic Forum (WEF) among discussions around ethical capitalism and doing business 'the right way'. Thought was focused on how businesses can regain trust through long-term value creation. Integrated reporting was cited further in 2015's WEF with regards to long-term strategy and putting an end to short-term incentive systems.

Key events in <IR>'s journey include:

Date	Events
June 2010	IIRC founded.
2010	JSE-listed companies are required to commit to integrated reporting by complying with the principles of the King Code of Governance of 2009 – known as King III – or to explain why they are not able to do so. In March 2014 the International <IR> Framework was subsequently endorsed in South Africa as the best tool to use when meeting this obligation.
October 2011	Pilot programmes for businesses and investors launched.
June 2012	At the United Nations Conference on Sustainable Development (Rio+20), government delegates from 196 countries, as well as the United Nations itself, expressed support for the concept of corporate reporting integration, which was included in the Outcome Document – the set of high level agreements reached at the intergovernmental meeting.
April 2013	Consultation draft of the <IR> Framework launched, receiving over 350 responses.
December 2013	International <IR> Framework released.
January 2014	'Integrated reporting' was a term used by a number of CEOs at the annual World Economic Forum meeting in sessions on 'Doing business the right way' and 'Ethical capitalism'.
April 2014	BM&FBOVESPA S.A., the Brazilian Stock Exchange, made a statement in support of integrated reporting encouraging listed businesses to produce integrated reports under a 'report or explain' approach. ²⁶

Date	Events
June 2014	The third 'arrow' of Prime Minister Abe's Japan's Revitalization Strategy plan calls for a market dialogue to understand how corporate reporting reform, and integrated reporting specifically, can help to refocus businesses and investors on long term value creation.
June 2014	IIRC launches the Corporate Reporting Dialogue (CRD) which brings together organisations that have significant international influence on the corporate reporting landscape, among them the IASB and the FASB.
July 2014	The B20 recommends to G20: "In particular, the B20 notes its support for the following initiatives, many of which are already underway... A review by the [International] Integrated Reporting Council and International Accounting Standards Board in relation to making corporate reporting more conducive to infrastructure and other long-term investment, and eliminating or addressing current barriers." ²⁷
July 2014	The UNCTAD (United Nations Conference on Trade and Development) World Investment Report 2014 stated that, "Reorientation of financial markets towards sustainable development needs Integrated Reporting". ²⁸
July 2014	IIRC publishes two assurance papers which provide an overview of assurance and its relationship to integrated reporting. The papers are intended to stimulate global discussion for those interested in assurance.
September 2014	The International Corporate Governance Network's (ICGN's) 2014 Global Corporate Governance Principles ²⁹ include principle 7.5 on non-financial information: "The board should provide an integrated report that puts historical performance into context, and portrays the risks, opportunities and prospects for the company in the future, helping shareholders understand a company's strategic objectives and its progress towards meeting them."
September 2014	The Global Commission on the Economy and Climate, which makes recommendations to governments and other decision-makers, has recommended that businesses should adopt and implement the <IR> Framework, also stating that investors and stock exchanges should require companies to disclose an <IR> information set.
October 2014	Mark Carney, Chairman of the G20's Financial Stability Board and Governor of the Bank of England, cited integrated reporting as a powerful tool for influencing the allocation of capital and credit more effectively, based on a better understanding by investors of long-term issues.

Footnotes

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5. The Value Driver Model: A Tool for Communicating the Business Value of Sustainability, UN Global Compact and the Principles for Responsible Investment (PRI), December 2013.
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19. Realising the benefits: The impact of Integrated Reporting, Black Sun, September 2014.
20. Tomorrow's Business Success: Using Integrated Reporting to help create value and effectively tell the full story.

21. Tomorrow's Business Success: Using Integrated Reporting to help create value and effectively tell the full story.
22. DTTL Press Release, April 2013.
23. The IIRC's <IR> Business network was launched in September 2014 for organisations committed to the adoption of <IR>. The Network offers the chance for businesses to explore the opportunities and challenges of adopting <IR> through networking with peers, sharing experiences and best practice, accessing investor insights, and industry sector and expert perspectives.
24. <http://www.theiirc.org/2014/06/09/iirc-welcomes-move-towards-better-quality-reporting-in-the-uk>.
25. <http://www.theiirc.org/wp-content/uploads/2014/07/Assurance-on-IR-an-exploration-of-issues.pdf>
26. <http://www.bmfbovespa.com.br/en-us/bmfbovespa/sustainability/at-companies/report-or-explain.aspx?idioma=en-us>.
27. Unlocking Investment in Infrastructure – Is current accounting and reporting a barrier? Commissioned by the B20 Group (B20), July 2014, available at: <http://www.theiirc.org/wp-content/uploads/2014/06/unlocking-investment-in-infrastructure.pdf>.
28. http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf.
29. Further, principle 7.1 states: "The board should present a balanced and understandable assessment of the company's position and prospects in the annual report and accounts in order for shareholders to be able to assess the company's performance, business model, strategy and long-term prospects."

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Notes

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