An analysis of company reporting in terms of the IIRC's International Integrated Reporting Framework.

December 2013

Creating value through corporate reporting

An external reporting assessment of Swiss Market Index (SMI) constituents

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* Since a different set of metrics is relevant in the banking industry, they are not included in the analysis for these two elements

Foreword

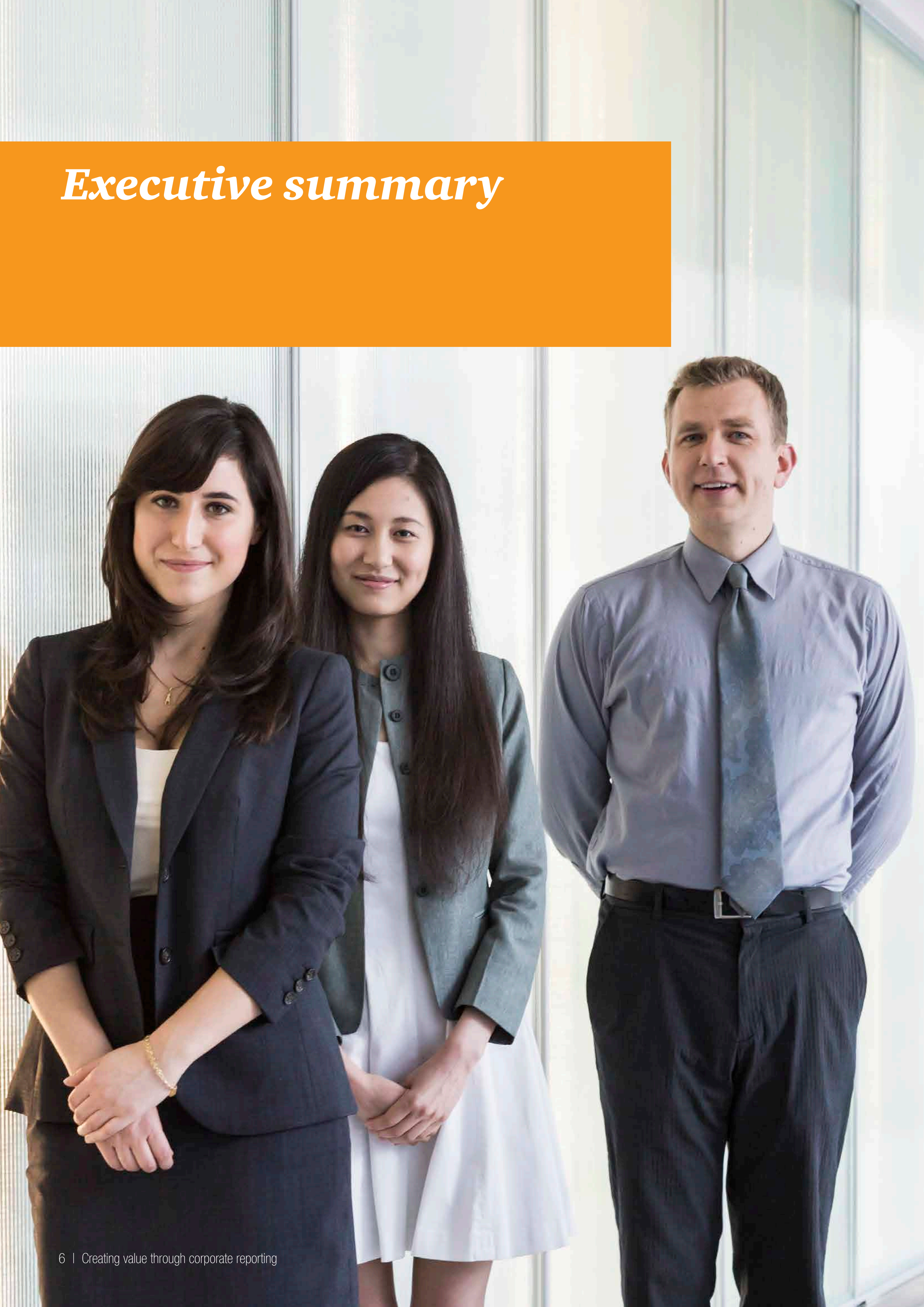
The challenges in corporate reporting are constantly increasing with the seemingly endless stream of new regulations and requirements. More importantly, investors are becoming more and more vocal about reporting that meets regulatory requirements but fails to provide a fully transparent view of a company's health and prospects. The pressure is on for companies to report on a broad set of financial and non-financial measures that can help investors better judge performance.

Integrated reporting has been a buzzword in recent years and could be one of the approaches to improve corporate reporting in the future. Investors and other stakeholders are now demanding that management teams provide clear, unambiguous information about issues such as external drivers affecting their business, their approach to governance and managing risk, and how their business model really works.

In this study, we compare the requirements of the International Integrated Reporting Framework (IR Framework) issued by the International Integrated Reporting Council (IIRC) against the current reporting practices of SMI companies to see what is already there and suggest how reporting could be further developed.

Integrated reporting deals with value creation in the short, medium and long term and the integrated report tells the story of this value creation in clear, concise and understandable language.

Executive summary



We identified the following emerging themes based on our assessment:

Enhancement through targets and forward looking KPIs

Integrated reporting is not primarily about producing an integrated report. Rather, it is about the communication of the company's performance versus its strategy and an explanation of how strategic objectives actually support the long-term creation of value.

The majority of the companies surveyed explain the external environment they are operating in, their key strategic priorities or the basics of their business model. However, companies should improve their reporting on performance. The majority of them disclose some key performance indicators (KPIs), but targets and forward looking KPIs are reported only in very few instances. Targets and forward looking KPIs would enhance the accountability of management and would help investors to assess where a company stands in the execution of its strategic priorities.

Companies do not systematically report on their non-financial capital

Only approximately 20% of the market value of a company today relates to its tangible assets, whereas investors also want businesses to account for the 80% intangible value. To understand the long-term creation of value, therefore, there has to be on improvement in reporting on the non-financial aspects in other sections of the annual report.

Our assessment has found that companies discuss their expectation of the future availability and constraints of material non-financial capital in one way or another. Most companies provide at least some insights into their human capital management. However, a structured assessment of all other material non-financial capital (such as intellectual, manufactured, natural or social capital) is often missing. Some companies issue separate corporate social responsibility reports which limit the integration of discussions on the availability of non-financial capital into the overall picture. Equally important, most companies only report financial KPIs, although stakeholders would benefit from the disclosure of non-financial KPIs.

Make governance reporting dynamic and relevant

Companies seemed more comfortable reporting on board charters and tasks and less on the actual activities undertaken by the board and its committees during the year.

Moreover, a correlation between KPIs and the remuneration of board and management members was presented only in few cases. Most of the time, an extensive discussion on the remuneration policies and plans was offered, but the link between actual performance and the remuneration is often missing.

Companies still engage in "silo" reporting

Stand-alone sections of reporting often provide excellent information, but opportunities to relate them to other sections are often missing.

20%

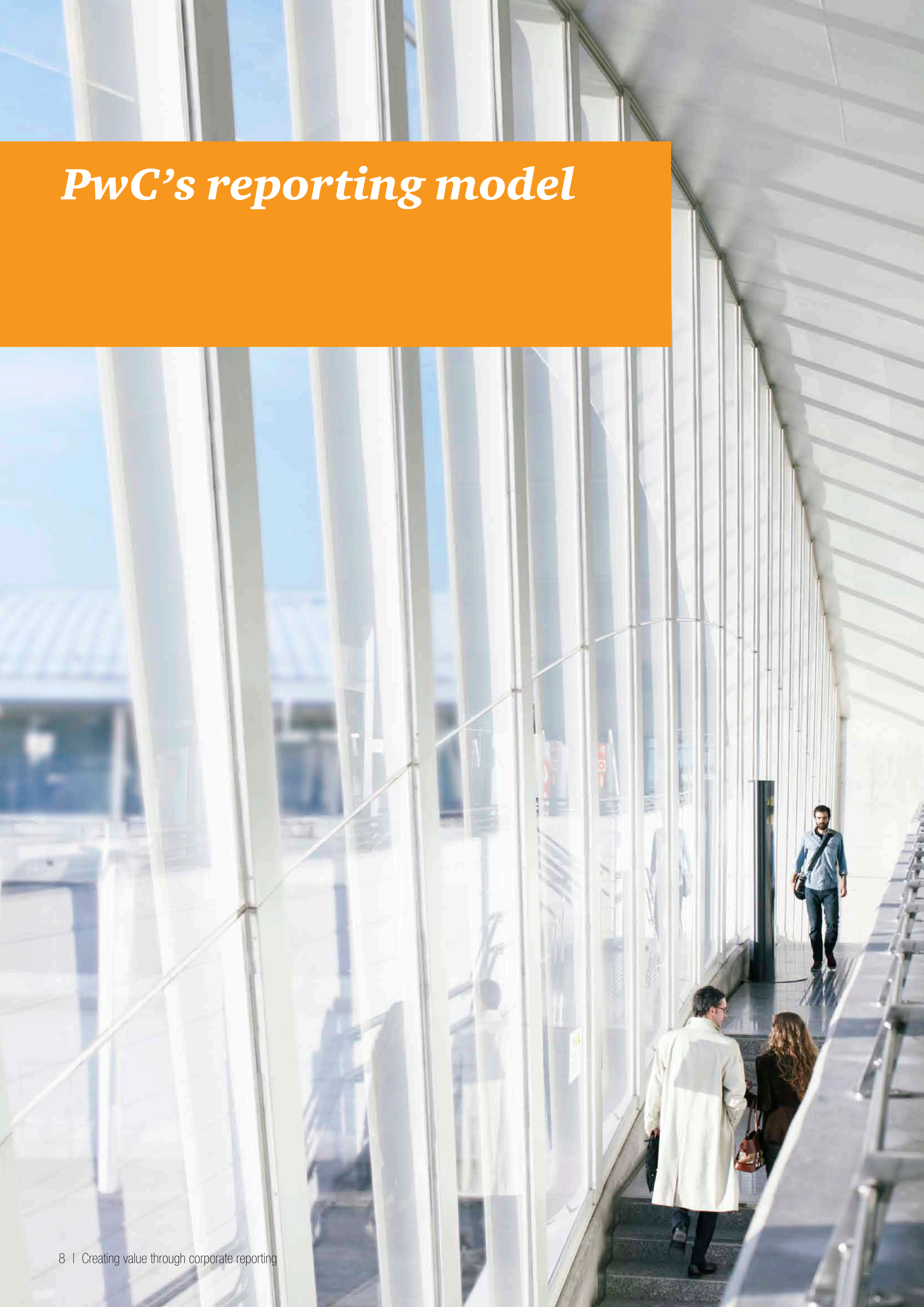
of the market value of a company today relates to its tangible assets, whereas investors also want businesses to account for the 80% intangible value.

However, our assessment found that several companies provide valuable graphics and images, mostly in the introductory sections of their annual report, in order to highlight the connection between the sections. Some of the best examples are provided in this study. We believe that companies should further explore the use of such graphics and images. We also believe that the use of tables in the introductory section could serve as an effective tool to show the interrelationship between the various sections.

Cash is still king

The importance of non-financial capital is on the rise. Nevertheless, financial capital information is still the most relevant disclosure. Companies should better explain how they make money, generate cash and how they are funded. Competition for capital is fierce, so companies should consider including detailed disclosure about their operating cash flow strategy and performance, as well as consolidating their debt disclosure. They should provide real granularity in the debt maturity schedule and a reconciliation of free cash flow to changes in net debt.

PwC's reporting model



Corporate reporting is an ever-evolving field as companies continually strive to improve communication with their stakeholders.

One of the most important ways of doing so is through the annual report, which seeks to align relevant information about an organisation's strategy, governance systems, performance and future prospects in a way that reflects the economic, environmental and social impact it has in its field of enterprise.

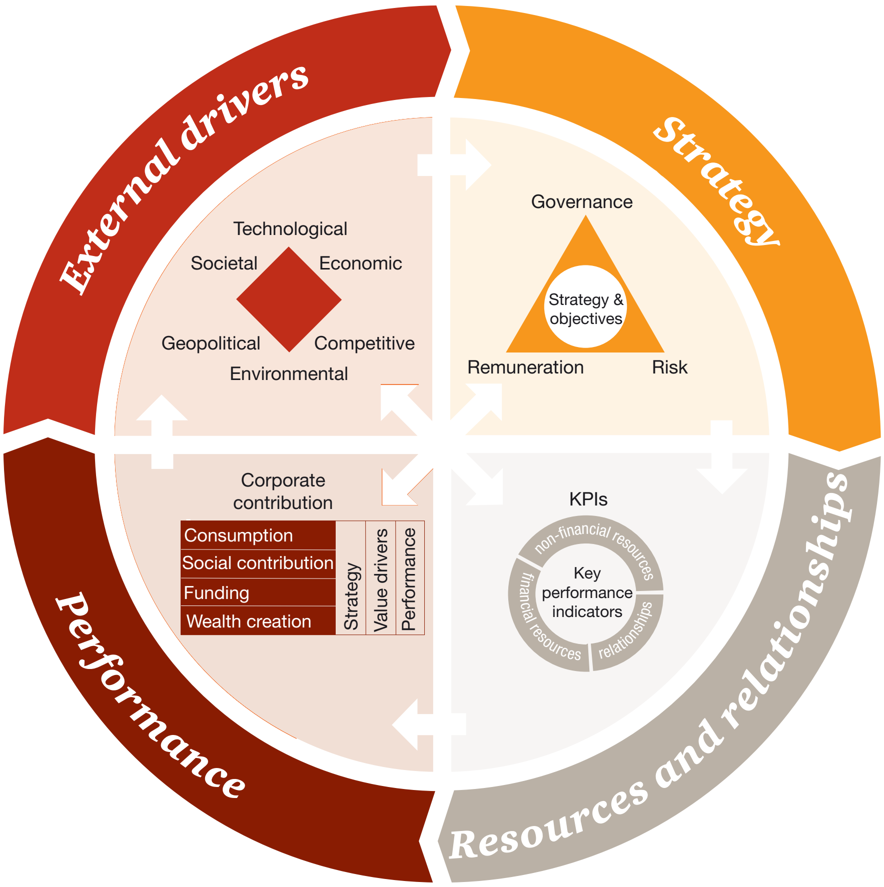
For more than a decade, PwC has invested significant resources in gaining an understanding of:

- the information needs of preparers and users;
- the economic benefits of transparency; and
- up-to-date reporting and best practices from around the world in order to provide practical insights into the critical building blocks of effective corporate reporting.

Our focus has been on aligning the interests of those who report on performance with those who use the information to make critical investment decisions. Our model was branded as a value reporting framework.

The model was developed on the basis of extensive stakeholder research and is closely aligned with the IR Framework issued by the International Integrated Reporting Council (IIRC).

PwC's reporting model



Source: PwC

Research methodology

The mission of the IIRC is to create a globally embraced IR Framework that assists organisations in recognising and presenting material information about their strategy, governance, performance and prospects in a clear, concise and comparable format.

Our survey was conducted on the SMI (Swiss Market Index), which comprises the 20 largest issuers in the Swiss equities market. A detailed assessment for each company was performed on the basis of seven "content elements" put forward by the Consultation Draft of the IR Framework.

Two further elements incorporated in this study were based on insights and observations gained from our dialogue with the investment community. According to the IR Framework, an integrated report should be prepared mainly to assist financial capital providers in assessing allocations. We have also highlighted in a separate section our thoughts on the structuring of these reports.

We focused only on the content of the printed annual reports and Corporate Sustainability Report (CSR). We have not assessed online reporting or separate investor relations communications.

Integrated reporting

The road to integrated reporting

The International Integrated Reporting Council (IIRC) published a Consultation Draft of the IR Framework in April 2013. Finally, the IR Framework was issued on 9 December 2013.

What is the IIRC?

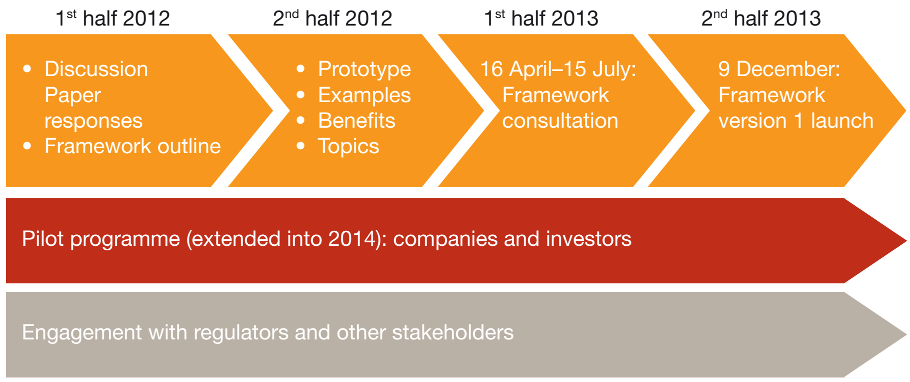
The IIRC brings leaders from all the major international standard-setting and regulatory bodies together with companies, investors and other key players in an effort to develop an internationally accepted integrated reporting framework.

The IIRC's mission is "to create the globally accepted IR Framework that elicits from organisations material information about their strategy, governance, performance and prospects in a clear, concise and comparable format.[1]"

Since October 2011, the IIRC's Pilot Programme Business Network, which comprises more than 90 businesses from 24 countries, has been putting the principles of integrated reporting into practice.

The Business Network is supported by more than 30 investor organisations that comprise the Pilot Programme Investor Network.

Framework finalisation process



Source: Adapted from the Consultation Draft of the International <IR> Framework

What's the big deal?

The world is changing at a rapid pace and the global environment in which businesses operate is changing too. The economic crisis was a sharp reminder that financial measurement alone cannot provide sufficient insight into business performance.

Investors and other stakeholders are now demanding that management teams provide clear, unambiguous information about issues such as external factors affecting their business, their approach to governance and managing risk, and how their business model really works.

This paradigm shift is necessitating that businesses and other organisations consider more than just the traditional financial focus of thinking and reporting.

What is "integrated reporting"?

Integrated reporting is "a process that results in communication, most visibly a periodic integrated report, about value creation over time. An integrated report is a concise communication about how an organisation's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term."[2] Integrated reporting is not just about producing an integrated report.

What are the benefits for businesses?

The organisations participating in the Business Network have already begun to see the benefits of applying the principles of integrated reporting in their businesses. Organisations benefit from improving their ability to tell their own stories and defining what the business is trying to do in management's eyes. This could be a benefit for many businesses, as it is challenging them to question their own internal decision-making processes and break down silos within their organisations.

Why stakeholders like it

The IR Framework identified investors, or "providers of financial capital", as the primary audience for an integrated report, but emphasised that other communications resulting from integrated reporting would be of benefit to all stakeholders interested in an organisation's ability to create value over time.

The Pilot Programme Investor Network has told the IIRC what they want: they want to see how companies perform as compared to their strategy and how strategic objectives actually support the long-term creation of value.

[1+2] "Consultation draft of the international <IR> Framework", IIRC, http://www.theiirc.org/wp-content/uploads/Consultation-Draft/Consultation-Draft-of-the-InternationalIRFramework.pdf

What does the IR Framework say?

Fundamental concepts

The IR Framework focuses on the various forms of capital that an organisation uses or affects, the organisation's business model and the creation of value over time.

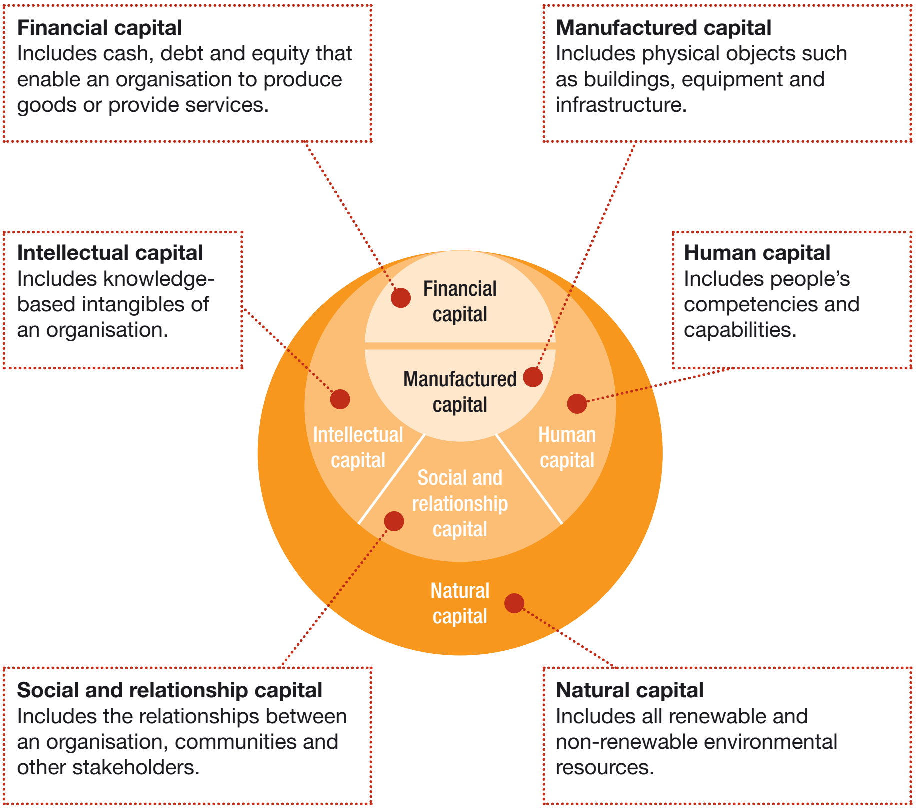
The business model is the vehicle through which an organisation deploys its capital to create value.

Value in the context of integrated reporting is not limited to monetary or financial value, or a set time frame. Value can be tangible or intangible, it can be created over the short, medium and long term, and is not limited to the organisation itself but can be created for others as well. It is important to acknowledge that value creation is complex and arises from the interaction between a wide range of factors.

Guiding Principles and Content Elements

While the purpose of the IR Framework is to assist organisations in the process of integrated reporting, the requirements of the Framework are principle-based and do not focus on rules for measurement or disclosure of individual matters or the identification of specific key performance indicators.

Organisational capital



Source: Consultation Draft of the International IR Framework[3]

The IR Framework puts forward Guiding Principles and Content Elements to give direction to the content of an integrated report. The Guiding Principles pertain to the content of the report as well as to how the information is presented.

The Content Elements outline the categories of information that need to be included in an integrated report in order to communicate the organisation's particular value creation story.

The Framework provides the following Content Elements:

- Organisational overview and external environment
- Governance
- Business model
- Risks and opportunities
- Strategy and resource allocation
- Performance
- Outlook
- Basis of preparation and presentation
- General reporting guidance

These elements are not intended to appear as independent sections of the report. Rather, the purpose of the report is to integrate these elements in a meaningful way by answering the question posed by each element.

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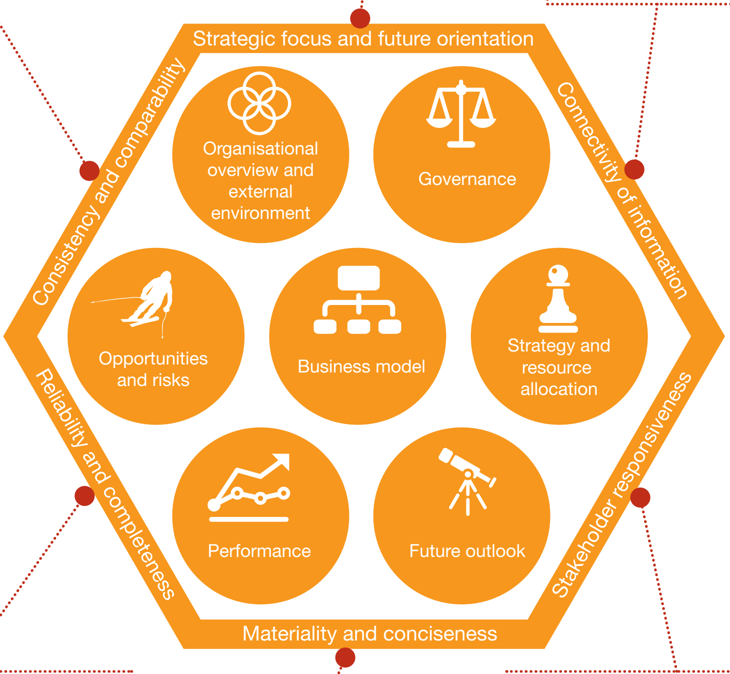
Guiding Principles and Content Elements

The information in an <IR> should be presented in a way that is consistent over time and enables comparisons to be drawn with other organisations if such is material to the organisation's own value creation story.

An <IR> 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.

An <IR> should provide a comprehensive value creation story, i.e. the combination, inter-relatedness and dependencies between the components that are material to the organisation's ability to create value over time.



An <IR> should address all significant matters, both positive and negative, in a balanced way and without material error.

An <IR> should provide concise information that is material to assessing the organisation's ability to create value in the short, medium and long term.

An <IR> should provide insight into the quality of the organisation's relationships with its key stakeholders and how and to what extent the organisation understands, takes into account and responds to their legitimate needs, interests and expectations.

Source: Consultation Draft of the International <IR> Framework[4]

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Findings

An integrated report should answer the question:

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

Source: International <IR> Framework, para 4.4

What it means

Explaining the environment in which an organisation operates is often the first step in enabling stakeholders to understand how that organisation creates and sustains value.

An annual report should therefore communicate information that enables stakeholders to understand the markets the organisation competes in, why it has chosen to compete in that market, and the impact of trends that are driving strategic choices. This involves elaborating on the general market conditions, including the key markets and environments that an organisation operates in, the major underlying drivers of market growth both in the past and the future, as well as the organisation's competitive landscape. It should also address the opportunities and risks presented by the external market which the organisation is adapting to by means of its strategic decisions.

Findings

45% of the companies surveyed explain what the key underlying drivers of the expected future market growth are. However, the comprehensive quantification of data, such as expected market trends or rates of market growth, is one of the most important pieces of information that nevertheless is not disclosed. Companies explain how markets have grown or changed historically but limit information on the key factors impacting the future.

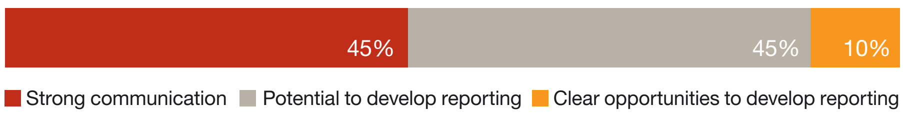
45%

of the companies surveyed explain what the key underlying drivers of the expected future market growth are.

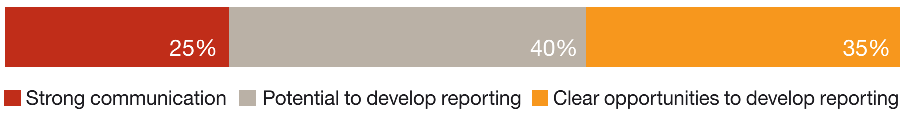
There is an inclination to avoid comprehensive discussions of a company's market share or its competitive landscape. Other ancillary topics include describing key-market positioning and which barriers to entry exist in a given market. Many companies shied away from identifying key competitors.

25% of the companies surveyed provided valuable information on how strategic choices are directly linked to external drivers and trends.

Question: Is there an explanation of underlying drivers of expected market growth?



Question: Is a link made to strategic choices?



Source: PwC analysis

25%

of the companies surveyed provided valuable information on how strategic choices are directly linked to external drivers and trends.

How reporting can be developed

While it is often difficult to identify forward-looking information and quantify industry trends, this information is crucial to investors in assessing an organisation's ability to create value over the medium and long term, as opposed to providing short-term returns. Companies can therefore seize the opportunity by including robust reporting on the factors that may have an impact on their ability to create value in the longer run, as well as by providing more specific details on the competitive landscape.

Roche: Market trends and regional market share embedded in strategy section

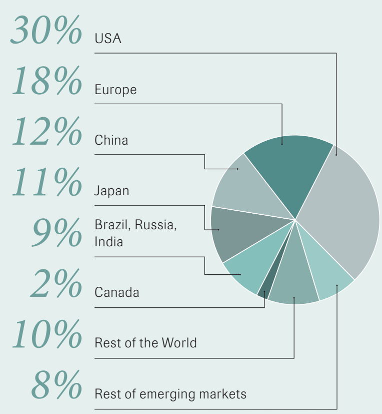
Examples of good reporting

Example 1: Roche

Market Trends

Despite advances in modern medicine the need for improved healthcare and treatments remains enormous. Over 3,000 of all known diseases – about two-thirds – remain untreatable or lack satisfactory treatment. A growing and ageing world population, meanwhile, is accelerating demand: the 65-and-older population is forecast to triple to 1.5 billion by 2050, giving rise to more age-related, chronic diseases such as cancer, diabetes and Alzheimer's disease. Ageing and lifestyle-related diseases are no longer just a problem in the affluent west: they constitute the fastest growing public health problems in developing countries.

Regional market share of global pharma sales 2016*



* IMS Health Market Prognosis, April 2012

Pharmaceutical market

Pharmaceutical markets are continuing to expand world-wide, although the pace of growth is slowing, with more and more medicines going off patent. Global sales are forecast to reach more than a trillion Swiss francs in 2013.

Emerging markets are showing the most robust growth, creating new opportunities for the pharmaceutical industry, as governments invest in public healthcare systems. China is expected to be the main contributor to global growth by 2015.

Growth in developed markets, however, is expected to stay modest at best. The US is the largest healthcare market, but growth rates there are forecast to slow, with lower GDP growth and increasing generic competition.

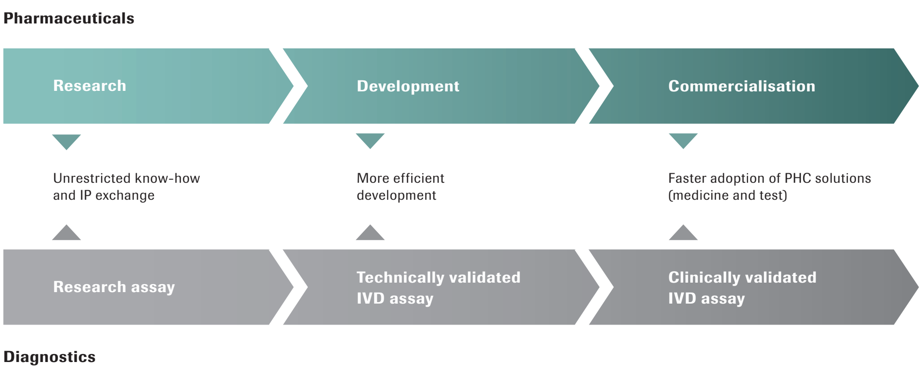
Speciality pharmaceutical markets are the largest and among the fastest growing healthcare segments, with a total market share of 22% [2011 data; source: IMS], with the largest share of growth in the US. Key growth areas are oncology and autoimmune disease, and in general the hospital and biologics segments – where Roche is the global leader.

Diagnostics market

The global *in vitro* diagnostics market, estimated at approximately 50 billion Swiss francs, has grown at a slower pace in 2012, but is expected to grow on average by about 5% annually over the longer term [source: independent IVD consultancy]. The highest growth rates are forecast for emerging markets and for molecular and tissue diagnostics.

Roche strategy: Leveraging Pharmaceuticals and Diagnostics

Throughout discovery market



Source: Roche Annual Report 2012

Example 2: Syngenta


Challenges and our contribution

The 21st century's greatest challenge: how to feed more people sustainably

Population pressures

80 million more mouths to feed every year

By 2050, the world's population will have increased by almost a third. We will have 2 billion more mouths to feed.

10,000 years

We need to produce more food in the next 50 years than in the past 10,000.[1]

5 people

In 1950, a hectare could feed two people. By 2030 it will have to feed five.[2]

Land pressures

We lose a soccer field of farmland every second

Soil erosion and urbanization are reducing available farmland. Every second, we lose an area about the size of a football field – while adding two more people to the world's population. We have to produce more food from less land.

08 Syngenta Annual Review 2012


Resource pressures

One person consumes 2,000 liters of water a day

Farming uses 70 percent of the world's fresh water withdrawal: growing food for one person takes about 2,000 liters of water a day. We have to produce more food with less water.

3 years

Stocks of major crops have now fallen for the third year in a row, and demand continued to grow by 1.4 percent each year.[3]

Consumer pressures

'Enough' is a moving target

While almost a billion people today are undernourished, another billion are overweight. As affluence increases, consumers demand greater variety, quality and quantity of food. In growth economies such as China, they are switching from crop-based to meat-based diets that are significantly more resource-hungry.

230 million

Between 2000 and 2050, global meat demand will double – an increase of 230 million metric tons.[4]

Labor pressures

Farmers are a shrinking population

The lure of the city continues to deplete rural populations. More than half of humanity now lives in towns and cities, and the rate of urbanization is set to grow by almost 2 percent a year between 2010 and 2015. In many rural areas, labor scarcity is now driving-up farm costs.

3.4 billion

Today's rural population is 3.4 billion. It is not expected to increase.[5]

1 Guardian report on UN Food Conference, Iceland, 2007
2 FAOSTAT
3 WASDE report, December 11, 2012
4 USDA
5 FAOSTAT

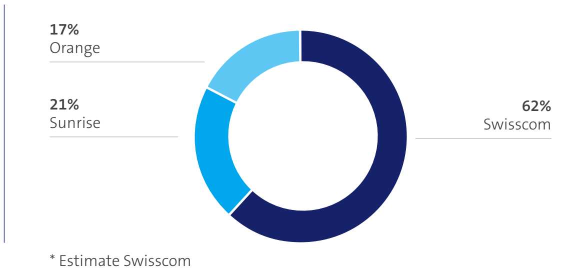
Syngenta Annual Review 2012 09

Source: Syngenta Annual Review Report 2012

Syngenta: Challenges to be addressed explaining the external drivers

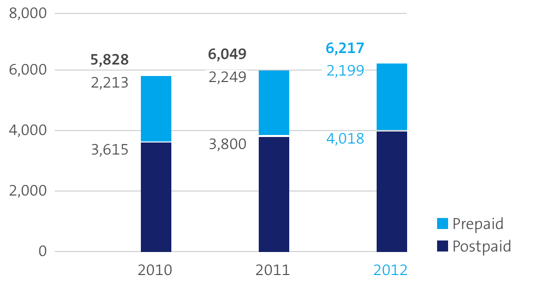
Example 3: Swisscom

Market shares mobile subscribers in Switzerland* in %



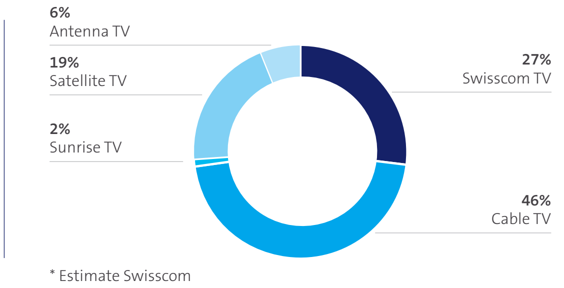
* Estimate Swisscom

Swisscom mobile access lines in thousand



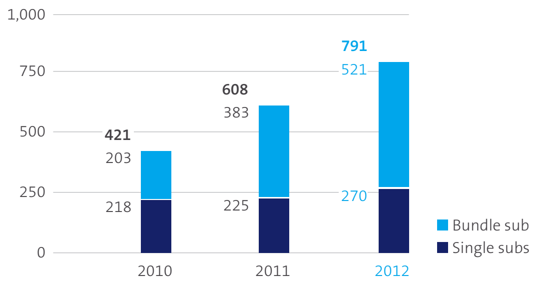
Swisscom: Market share including identification of competitors

Market shares digital TV in Switzerland* in %



* Estimate Swisscom

Swisscom TV subscribers in thousand



Source: Swisscom Annual Report 2012

Principle in practice

Good reporting should provide insight into:

- The organisation's:
  - culture, ethics and values;
  - ownership and operating structure;
  - principal activities, markets, products and services;
  - 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);
- key quantitative information (e.g. the number of employees, revenue and number of countries in which the organisation operates), highlighting, in particular, significant changes from prior periods; and
- significant factors affecting the external environment.

Source: International <IR> Framework, para 4.5

What it means

The importance of an organisation's strategy is highlighted by the fact that strategic focus is one of the guiding principles of the <IR> Framework, as well as a Content Element.

A good strategy is the frame of reference for all the value creation decisions and activities that an organisation may engage in. An organisation should communicate what it is trying to achieve, where it is trying to compete, how it will achieve its goals and how it will measure progress.

An integrated report should answer the question:

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

Source: International <IR> Framework para 4.27

35%

of the companies surveyed explain their key strategic priorities well.

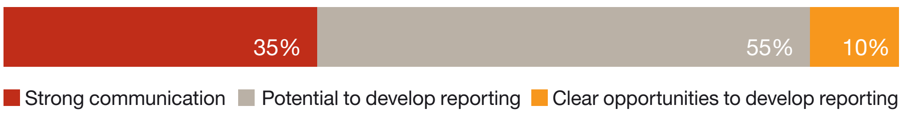
Findings

35% of the companies surveyed explain their key strategic priorities well.

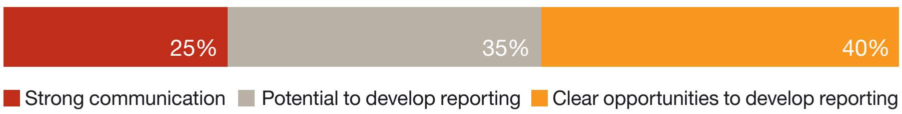
Companies often focus on strategic growth, but there is no additional information on drivers behind that growth. Detailed information on the steps that have to be taken to implement the strategy is often lacking. Only some companies made detailed reference to how strategic priorities are aligned with their overall goals.

25% of the companies integrated the strategic priorities throughout the report, for example by assessing the company's performance as compared to its strategy.

Question: Are key strategic priorities explained?



Question: Does the report discuss the strategy and key priorities?



Source: PwC analysis

Principle in practice

Good reporting should provide insight into:

- The organisation's short, medium and long-term strategic objectives;
- the strategies it has in place, or intends to implement, to achieve those strategic objectives;
- the resource allocation plans it has in place, or intends to put in place, to implement its strategy; and
- how it will measure achievements and target outcomes for the short, medium and long term.

Source: International <IR> Framework para 4.28

How reporting can be developed

Incorporating strategic priorities as a common theme throughout a report demonstrates how integrated strategy is part of a company's value creation journey.

Including time frames and targets for achieving strategic priorities also enables stakeholders to assess whether companies are making progress towards achieving their ambitions.

Examples of good reporting

Example 4: Zurich

Group strategy

Zurich is a profitable, well capitalized and resilient global insurance provider. Our success is built on the dedication of our people and a combination of financial and underwriting discipline, customer centricity and operational excellence. But to maintain our momentum in an increasingly volatile economic and social environment, we must do more.

Our Group strategy is designed to deliver profitable growth by leveraging the strength of our global business, making the best use of our resources and building our reputation as a trusted brand. This strategy is based on three simple concepts: 'who we are, what we do and how we do it'.

More about our Group strategy: see pages 8–9 of this Annual Report.

Our strategy

Who we are

The Zurich Story
We are Zurich, one global company, with one mission, one ambition, one set of shared values and a clearly articulated commitment to our stakeholders: our customers, our people, our shareholders, and the communities in which we live and work.

What we do

Business Portfolio
Build a profitable portfolio for the long term.

Customers and Intermediaries
Become more customer-driven.

Products and Services
Excel in products and services.

How we do it

People Management
Attract, retain and develop the best people.

The Zurich Way
Create a competitive edge by sharing best practices.

Processes and Systems
Simplify and improve our processes and systems.

60,000
Employees (approximately)
(December 31, 2012)

170+
Countries
(December 31, 2012)

AA–/stable
Standard & Poor's financial strength rating of Zurich Insurance Company Ltd
(December 31, 2012)

Source: Zurich Insurance Group Annual Report 2012

Zurich: Strategy linked to business model (How we do it)

Adecco: Strategic priorities linked to overall targets and to implementation (enablers)

Example 5: Adecco

How we reach our target

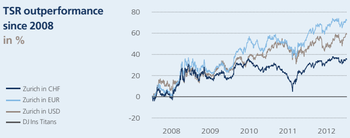
Strategic priorities		Our target		Enablers
· Retention · IT · Professional Staffing & Services · Segmentation · Business Process Outsourcing Solutions · Emerging Markets	→	EBITA MARGIN > 5.5%	←	· Topline Growth · Pricing Discipline · Business Mix · Cost Control

Source: Adecco Group Annual Report 2012

25%

of the companies integrated the strategic priorities throughout the report, for example by assessing the company's performance as compared to its strategy.

Example 6: Zurich

Group strategic aspirations	Performance		Commentary
Zurich maintains its strategic ambition to achieve a business operating profit after tax return on equity of 16% over the long term. In the current low interest rate environment, a return of around 2 percentage points below this number is more realistic.	**BOPAT-ROE**	9.3% (2011: 10.2%)	• Underlying profitability was sustained by contributions from Global Life and Farmers, as well as the strong underlying underwriting performance in General Insurance.
Deliver attractive Total Shareholder Return (TSR)	**TSR outperformance since 2008** in %		• Zurich has clearly outperformed the benchmark Global Insurance Titans index in TSR terms since 2008 by approximately 37 percent in Swiss franc terms, or about 60 percent in U.S. dollar or 74 percent in euro terms.

Targets		Highlight	Commentary
General Insurance	• Improve combined ratio by 3–4 points relative to global competitors by 2013 • Reduce expenses (excluding commissions) by 7% or at least USD 350m on a run-rate basis by 2013 (included in the USD 500m Group target) • Hold market position without compromising on profitability	**Combined ratio** 98.4% (2011: 98.9%)	• Across the portfolio, the business continued to execute against its strategic targets with an improvement in the underlying loss ratio.
Global Life	• 30% of NBV from Asia-Pacific and Middle East (APME) and Latin America • Top 5 European-based global insurer by New Business Value (NBV) • Cash generative while self-funding organic growth	**Share of new business value, after tax, in APME and Latin America** 25.2% (2011: 21.1%)	• Global Life continued to benefit in 2012 from its investment in organic growth in target markets. Including the Zurich Santander and Zurich Insurance Malaysia Berhad acquisitions the share of NBV would be close to 40%.
Farmers	• Maintain top quartile growth performance among the 12 largest U.S. personal lines companies • Continue to increase market share for the Farmers Exchanges • Improve retention by 3 points to close the gap relative to top-tier U.S. personal lines competitors	**Gross written premiums in the Farmers Exchanges** USD 18,935m (2011: USD 18,297m)	• This increase was driven by continued premium growth in all lines of business primarily as a result of ongoing rate actions undertaken to improve profitability.
Group	• Reduce run-rate costs by USD 500m in mature markets at YE 2013 to strengthen our position in growth markets	**Efficiency program expense reduction to date** USD 200m	• General insurance has delivered the bulk of Group savings so far. Group Operations implemented two of the largest IT outsourcing initiatives in the insurance industry. Restructuring projects in Global Life are expected to become visible in 2013.

Source: Zurich Insurance Group Annual Report 2012

Zurich: Strategy linked to performance measurement

An integrated report should answer the question:

What is the organisation's business model?

Source: International <IR> Framework, para 4.10

What it means

The business model represents the heart of an organisation and draws from the different kinds of capital as inputs and converts them into outputs by means of the organisation's business activities.

This process leads to outcomes that have an impact on the capitals, which are not necessarily identical to those used in the input phase.

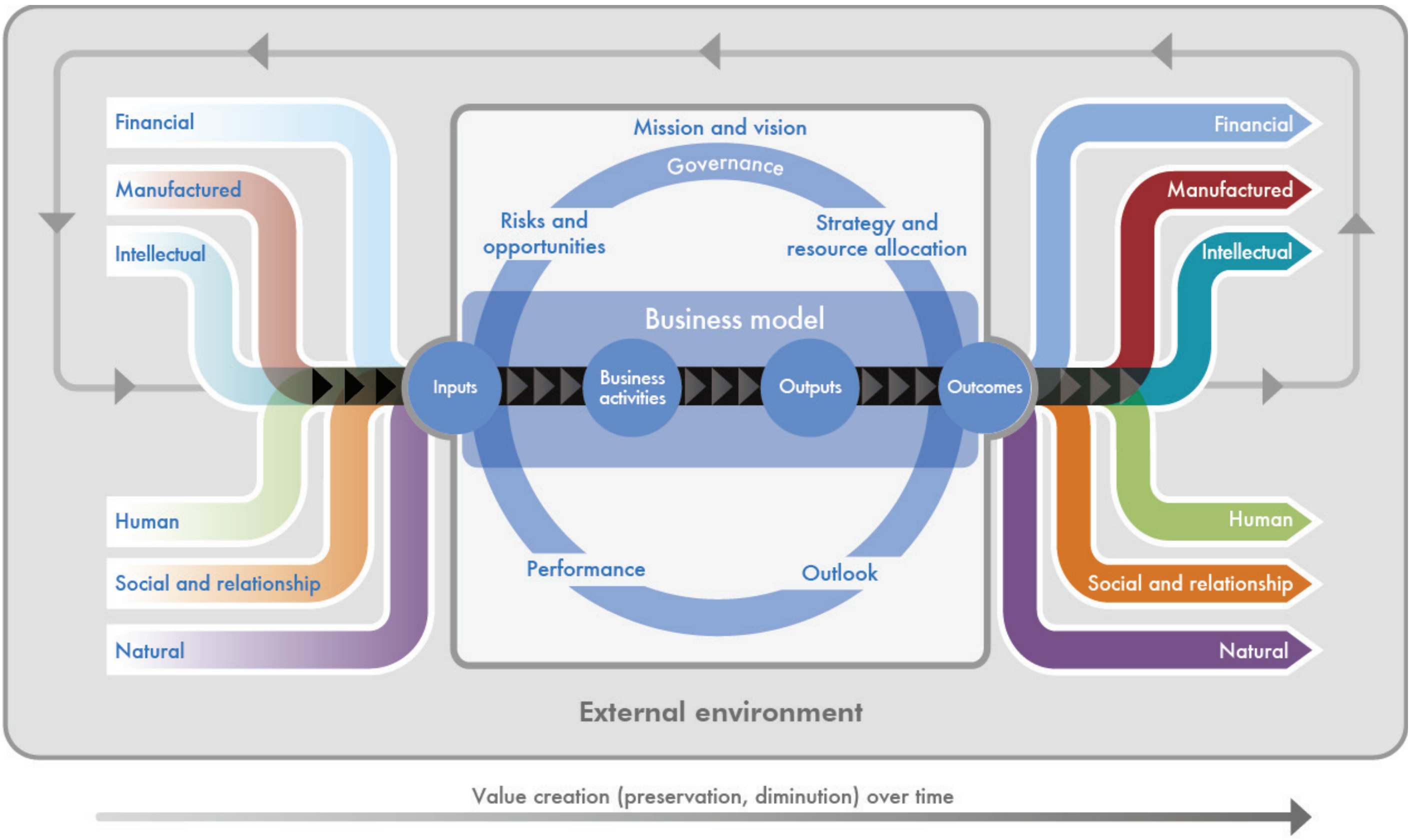
This complex interconnection between an organisation and its environment is the core of value creation.

An organisation should explain the resources and relationships it relies on to execute its strategy, how dependent it is on them, how it manages them and how it monitors success.

15%

of the companies systematically describe all of their material inputs to the business model.

The value creation process



Source: International <IR> Framework[5]

[5] Copyright © April 2013 by the International Integrated Reporting Council. All rights reserved.

An example of good reporting

Example 7: Nestlé

Nestlé: External drivers (growth drivers) linked to capitals (competitive advantages) and to value creation (operational pillars)

Source: Nestlé Annual Report 2012

Principle in practice

Good reporting should provide insight into:

- Key inputs and how they relate to the kinds of capital from which they are derived;
- key business activities, considering such factors as:
  - how the organisation differentiates itself in the market place;
  - the extent to which the business model relies on revenue generation after the initial point of sale;
  - how the organisation addresses the need to innovate;
  - how the business model has been designed to adapt to change;
- key outputs, explaining the products and services that the organisation places in the market, and material by-products and waste;
- key outcomes in terms of the various capital elements, including both internal outcomes and external outcomes.

Source: International <IR> Framework, paras 4.12, 4.14–4.20

Findings

The notion of reporting on an entity's business model, its capital inputs and its value creating activities are new for many companies in Switzerland. Formal reporting on the business model is required in other territories.

However, our study found that in one way or another most companies identify a selection of material capital inputs used in the business model.

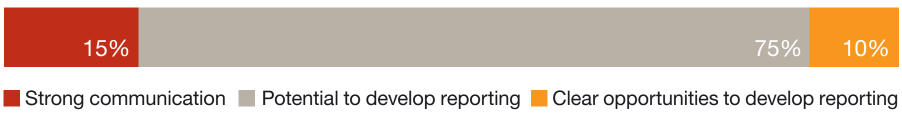
15% of the companies systematically describe all of their material inputs to the business model. Differentiators and value creating activities for executing the strategy and implementing the priorities were well presented in 15% of the reports assessed.

How reporting can be developed

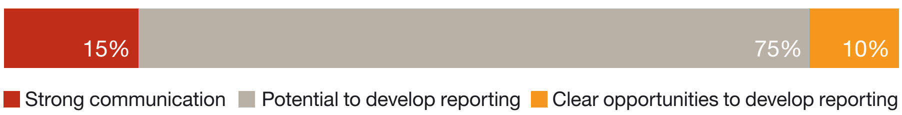
Given the complexity of organisations' relationships with the external environment, resources and relationships, organisations should carefully consider the communication of this complexity to stakeholders. This is especially true where organisations are dependent on scarce resources or significant relationships to create value.

Many organisations neglect to discuss the role of the corporate centre in the delivery of strategy. How an organisation functions on a central level may provide insights into how the different elements of the business model are managed and monitored, as the corporate centre is often the main driver of the different value-creating activities of an organisation.

Question: Does the company systematically identify and describe the material capital inputs to its business model?



Question: Does the company systematically explain the differentiators and value adding activities within its business model used to execute its strategy and implement priorities?

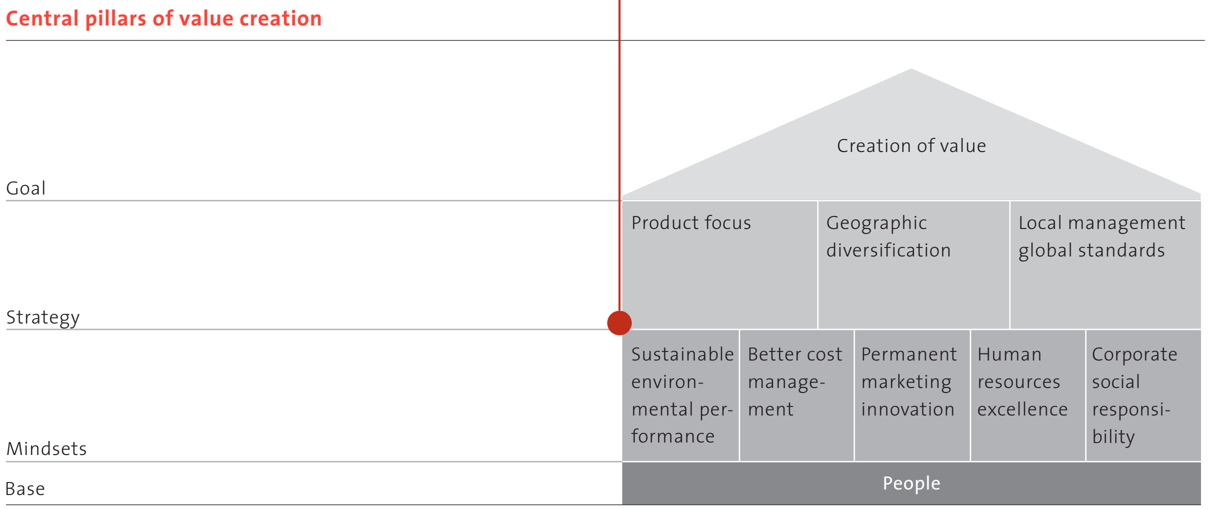


Source: PwC analysis

Holcim: Strategy to business model (mindset) link

Examples of good reporting

Example 8: Holcim



Creating added value is Holcim's paramount objective, an objective that is based on the three strategic pillars and determines guidelines in the functional sectors. The most important foundation on which everything rests is a workforce that gives its best on a daily basis.

© Holcim Ltd

Source: Annual Report 2012 Holcim Ltd

Example 9: Swiss Re

Market forces

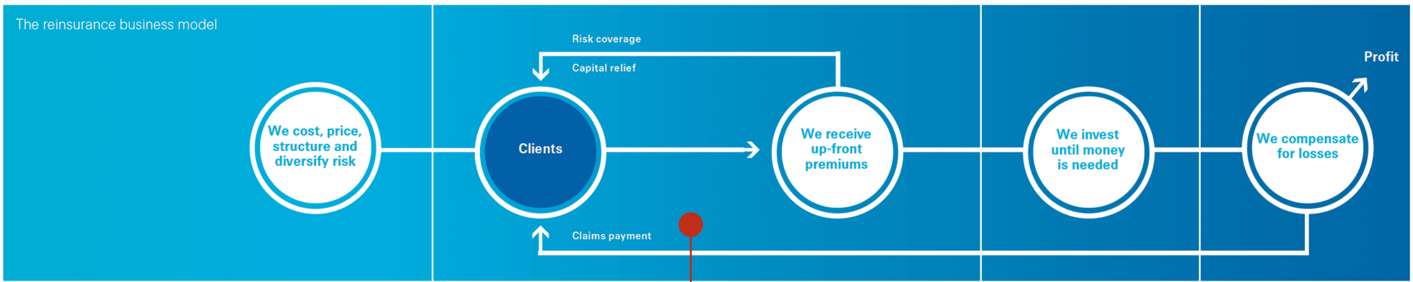
Shifting client needs
The set of risks – social, economic, political and environmental – is growing and changing ever more quickly.

Changing regulations
The pace of regulatory change in the financial industry has accelerated, and its scope is growing.

Momentary equilibrium
While re/insurance prices have held steady in 2012, a variety of factors, including low interest rates and regulatory change, point toward prices rising higher.

Low interest rates
Persistently low interest rates challenge the profitability of both life and non-life insurers.

Renewing trust
Many factors, weak growth and high unemployment among them, are putting pressure on private sector institutions to prove their social value.



Our approach and why

Innovation and strength
We help clients handle challenges such as longevity and catastrophe risk with innovative, fully developed insurance solutions.

For examples of how we have helped clients meet their changing needs, read the stories from the Reinsurance and Corporate Solutions Business Units beginning on page 16 of the Business Report.

Advocating a smart response
We support a range of measures that will help financial industries to continue conducting business effectively and sustainably — indeed, we make it our business.

To see how our capital strength allows us to turn regulatory uncertainty into good business, read the Admin Re® story beginning on page 24 of the Business Report.

A structure for success
Our realigned corporate structure enables capital to move more efficiently among our businesses, allowing us to be agile in meeting Group-wide financial targets — no matter where we are in the cycle.

For full details of how the Business Units performed in 2012, see pages 20–35 of the Financial Report.

Asset-liability management
We apply a top-down, Group-wide investment strategy consistently across all Business Units' (BUs) investments. Each BU's characteristics and objectives are reflected in its strategic asset allocations.

To read about our Group and BU investment results, see pages 20–35 of the Financial Report.

Broad resilience and sustainability
We embrace our role in supporting resilience against natural catastrophes and other perils. In 2012 we were named the most sustainable company in the insurance sector for the fifth year in a row by SAM, provider of one of the world's leading corporate sustainability benchmarks.

To see some of the measures we have taken to maintain and build long-term value, see pages 32–39 of the Business Report.

Source: Swiss Re Annual Report 2012

Swiss Re: Link of external drivers (market forces) to reinsurance business model and value creating activities (our approach and why)

Integrated reports should answer the question:

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

Source: International <IR> Framework, para 4.8

What it means

"An organisation's ability to create and sustain value is determined inter alia by how it's led and its governance.[6]"

Governance reporting provides the nexus for the social, environmental, economic and financial issues that have an impact on the organisation's business and the development of its strategy.

In recent years there has been renewed interest in the corporate governance practices of modern corporations, particularly with regard to accountability. Effective communication about the governance of an organisation is therefore integral to the user's appreciation of how those charged with governance are creating value.

Findings

The disclosure of corporate governance is generally driven to meet the Swiss Exchange (SIX) disclosure requirements. In many cases, there are detailed discussions about the governance principles in an entity. There is an emphasis on reporting on the responsibilities, tasks and charters of the board and its committees rather than reporting on the actual activities undertaken to fulfil those responsibilities. There are only a few companies that disclose details on actions and outcomes. Very few companies provide detailed disclosures on the board's effectiveness. These reports included information on the logistics and processes taken in assessing the effectiveness as well as the outcomes of the review.

Principle in practice

Good reporting should provide insight into:

- An organisation's leadership structure, including the diversity and skills of those charged with governance;
- specific processes used to make strategic decisions and to establish and monitor the culture of the organisation;
- particular actions those charged with governance have taken to influence and monitor the strategic direction and risk management approach;
- how the organisation's culture, ethics and values are reflected in its use of and effect on the various forms of capital, including its relationships with key stakeholders; and
- how remuneration and incentives are linked to value creation.

Source: International <IR> Framework, para 4.9

[6] Consultation draft of the international <IR> Framework", IIRC, http://www.theiirc.org/wp-content/uploads/Consultation-Draft/Consultation-Draft-of-the-InternationalIRFramework.pdf (accessed August 2013)

An example of good reporting

Example 10: Zurich

Board of Directors and its Committees
as of December 31, 2012

* Chairman of Board or Board Committee, respectively

Activities 2012: During 2012, the Governance and Nominations Committee met five times – average attendance at meetings was 90 percent. It particularly discussed

- developments with regard to corporate governance related matters and their potential effect on Zurich;
- succession planning for the Board resulting in its recommendation to the Board to nominate Ms. Monica Mächler for election at the Annual General Meeting on April 4, 2013;
- management succession planning, including a review of the leadership team and talent and diversity management; and,
- modifications and changes to the Corporate governance report.

Activities 2012: During 2012, the Audit Committee met seven times – attendance at meetings was 100 percent. It particularly discussed

- accounting policy changes (for example IFRS 10 which will be adopted in 2013);
- reserving policies and matters;
- the effectiveness of the internal control framework;
- Group Audit work plans, Group Audit findings and management implementation of remediation actions;
- the work of the external auditors, the terms of their engagement and the external auditor's findings on key judgments and estimates in financial statements; and,
- the Annual Group Compliance Plan, which it approved and against which it monitored progress during the year. The Audit Committee also discussed compliance issues and trends, such as the evolving regulatory expectations with regard to the compliance function.

Activities 2012: During 2012, the Remuneration Committee met seven times – attendance at meetings was 100 percent. It particularly discussed

- the performance of the Group, the segments and the GEC and the approval of STIP and LTIP awards for 2011 including the approval of the Total Variable Remuneration Pool for 2011;
- the regulatory environment such as implications from the FINMA Circular 2010/1 Remuneration Schemes and remuneration aspects raised by Ethos and ISS;
- developments for remuneration-related matters and their potential effect on Zurich;
- topics related to proxy advisors such as Ethos or ISS;
- the share ownership levels of the members of the Board and the GEC (for more details see the Remuneration report on page 70 and 77);

Source: Zurich Insurance Group Annual Report 2012

How reporting can be developed

The assessed companies are comfortable reporting on board charters and the related tasks. However, reporting on actual activities undertaken by the board and the outcome of those activities is more insightful than simply providing information about committee agendas and charters.

Here there is an opportunity to integrate reporting of the actions and responsibilities of those charged with governance into the operations and strategy overview of the company in order to provide an understanding of its governance as a whole. Organisations that do so in their integrated report underscore just how important governance is to a business.

Zurich: Board committee activity reporting

Risks and opportunities

Principle in practice

Good reporting should provide insight into:

- The specific source of opportunities and risks, which may be internal, external or, commonly, a mix of the two;
- the organisation's assessment of the likelihood that the opportunity or risk will arise and the magnitude of its effect if it does; this includes consideration of the specific circumstances that would precipitate the opportunity or risk; and
- the specific steps being taken to create value from key opportunities and to mitigate or manage key risks, including the identification of the associated strategic objectives, strategies, policies, targets and performance indicators.

Source: International <IR> Framework, para 4.25

An integrated report should answer the question:

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?

Source: International <IR> Framework, para 4.23

What it means

Value creation is significantly affected by an organisation's ability to embrace opportunities and effectively manage risk. An annual report should identify these opportunities and risks, and explain the strategic direction the organisation has chosen and the actions it has undertaken to manage them.

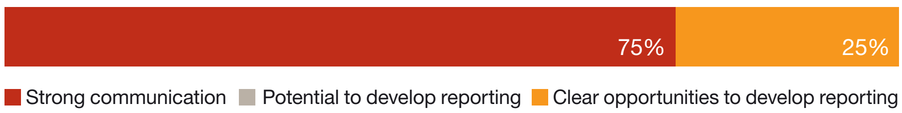
Effective communication in this area includes providing insight into the risk identification and risk management processes of an organisation, specifying the identified risks to the organisation, and clearly discussing the implications those risks may have on the organisation's ability to create value.

Findings

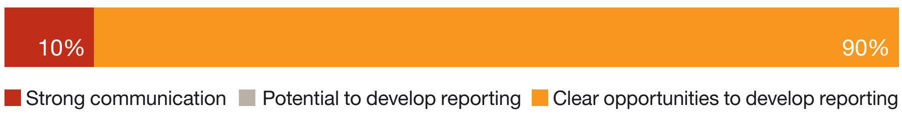
The majority of companies (75%) identified their principal risks and included a narrative discussion on the topic. The reporting was found to be limited to the risk reporting stand-alone section. Also, SMI companies listed on a US stock exchange (Foreign Private Issuers) prepare their risk disclosures in keeping with the US legal environment.

Very few companies display risk maps highlighting the likelihood and impact of those risks. A mere 10% of companies provided good insights into the dynamics of their risk profile by including information about the impact and probability of identified risks, as well as how risk profiles may change over time.

Question: Existence – Does the company identify its principal risks and uncertainties?



Question: Has the company provided insights into how the dynamics of its risk profile may change over time?



Source: PwC analysis

75%

of companies identified their principal risks and included a narrative discussion on the topic.

10%

of companies provided good insights into the dynamics of their risk profile.

How reporting can be developed

Opportunities and risks are fundamental and highly relevant to an organisation's value creation activities. It is therefore of paramount importance to include discussions relating to opportunities and risks throughout the annual report and avoid limiting risk reporting to a stand-alone section.

Companies that include information about the potential impact and probability of risks occurring provide stakeholders with valuable information about the specific risks that could influence the company's ability to create value over the short, medium and long term. This may also include linking risks with KPIs or quantifying risks in a meaningful way.

An example of good reporting

Example 11: Swiss Re

Categorisation of Swiss Re's risk landscape

Core risks	Operational risks	Other risks
Insurance ▪ Property and casualty ▪ Life and health	People	Liquidity
	Processes	Strategic
Financial market ▪ Credit spread ▪ Equity market ▪ Foreign exchange ▪ Interest rate ▪ Real estate	Systems	Regulatory
	External	Reputational
Credit ▪ Credit default ▪ Credit migration		

Swiss Re: Explanation of change in life and health risk over time

Life and health risk — Change from 2011 **+4%**

Description

Swiss Re's life and health insurance risk arises from the business we take on when providing mortality (death), longevity (annuity), and morbidity (illness and disability) coverage through both the Reinsurance Business Unit, and when acquiring run-off business through the Admin Re® Business Unit. In addition to potential shock events, such as a severe pandemic, we monitor and manage underlying risks inherent in life and health contracts (such as pricing and reserving risks) that arise when mortality, morbidity, or lapse experience deviates from expectations. The investment risk that is part of some life and health business is monitored and managed as financial market risk.

Developments in 2012 section

Our life and health risk increased by 4% in 2012 (see table on page 49) mainly due to higher mortality trend risk. Business growth was partially offset by the sale of the Admin Re® US business. Longevity risk increased through new deals (see example on page 27) but as it is negatively correlated with mortality trend risk it reduced the overall life and health risk.

The table above shows that Swiss Re's exposure to a severe lethal pandemic remained stable. This is mainly due to the issuance of extreme mortality bonds in 2012 which offset business growth. These bonds are part of an established Vita programme, used to manage our lethal pandemic exposure.

Management

We have an aggregate Group limit governing the acceptance of all life and health risks, with separate individual limits for mortality and longevity exposures. At the Business Unit level, acceptance of life and health risks is governed by aggregated Business Unit limits. Local teams can write reinsurance within their allocated capacity and clearly defined boundaries, such as per-life retention limits for individual business. Market exposure limits are in place for catastrophe and stop-loss business. We pay particular attention to accumulation risk in densely populated areas and apply limits for individual buildings. Following a process similar to the one in property and casualty, all large, complex, or unusual transactions are reviewed and require individual approval from Products Underwriting, Client Management, and Risk Management. We manage the risk exposure of Swiss Re's life and health book by external retrocession. In addition, insurance-linked securities are used to reduce peak exposures.

Source: Swiss Re Annual Report 2012

Integrated reports should answer the question:

To what extent has the organisation achieved its strategic objectives and what are its outcomes in terms of the effects on the various forms of capital?

Source: International <IR> Framework para 4.30

What it means

Underpinning an organisation's focus on integrated reporting is its acknowledged appreciation that the company's success is inextricably linked to three interdependent factors: society, the environment and the global economy.

Performance reporting has evolved from merely reporting on financial measures of success to a more holistic approach of reporting on social and environmental performance.

65%

of the companies explicitly identified KPIs.

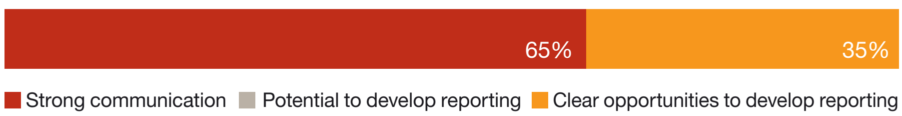
Findings

Quantitative indicators of performance such as KPIs are helpful in reporting variances from targets and facilitate better comparison of entities within the same industry. Our research found that 65% of the companies explicitly identified KPIs. In many instances, companies only report financial KPIs, although stakeholders would benefit from the disclosure of non-financial KPIs.

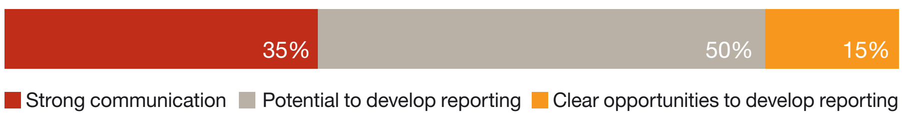
Target and forward-looking KPIs would enhance the accountability of management. Some companies partially disclose future targets for KPIs. Only very few reports provide quantified future targets for all KPIs. It was noted that information on targets and actual performance could often be found in the investor relations presentations or on the Internet.

In 35% of the reports, KPIs are clearly aligned with strategic priorities.

Question: Does the company explicitly identify its KPIs?



Question: Can the KPIs be clearly aligned to the strategic priorities?



Source: PwC analysis

Principle in practice

Good reporting should provide insight into:

- Quantitative indicators with respect to targets, value drivers, and opportunities and risks, explaining their significance and implications and the methods and assumptions used in compiling them;
- the organisation's effects (both positive and negative) on the various forms of capital, including material effects on each form throughout the value chain;
- linkage between past and current performance, and between current performance and future outlook

Source: International <IR> Framework para 4.31

Enhancing the quality of KPIs

- Tailor KPIs to be relevant to the organisation;
- report KPIs that are consistent with measures used by those charged with governance in assessing the performance of the organisation;
- present KPIs with targets, forecasts or projections over the short and medium term;
- present KPIs for past periods to establish a trend and comparability with industry benchmarks;
- present KPIs against previously reported targets, forecasts or projections to enhance accountability;
- report consistently over periods;
- present measurement techniques and assumptions made with qualitative information; and
- report on reasons for significant variations from targets, trends or benchmarks and why they are or are not expected to reoccur.

35%

of the reports clearly aligned KPIs with strategic priorities.

Examples of good reporting

Example 12: Credit Suisse

Key performance indicators

Our KPIs are targets to be achieved over a three to five year period across market cycles. Our KPIs are assessed annually as part of our normal planning process.

in / end of	Target	2012	2011	2010
Growth (%)				
Collaboration revenues [1]	18–20% of net revenues	18.6	16.8	14.4
Net new asset growth	Above 6%	0.9	3.9	5.3
Efficiency and performance (%)				
Total shareholder return (Credit Suisse) [2]	Superior return vs peer group	4.8	(39.4)	(23.3)
Total shareholder return of peer group [2, 3]	–	49.2	(35.0)	(1.7)
Return on equity attributable to shareholders	Above 15%	3.9	6.0	14.4
Core Results pre-tax income margin	Pre-tax income margin above 28%	8.0	10.8	22.2
Capital (%)				
Tier 1 ratio (Basel II.5)	Compliance with Swiss "Too Big to Fail" and Basel III	19.4	15.2	14.2

[1] Includes revenues recognized when more than one of the Group's divisions participates in a particular transaction. [2] Source: Bloomberg. Total shareholder return is calculated as equal to the appreciation or depreciation of a particular share, plus any dividends, over a given period, expressed as a percentage of the share's value as of the beginning of the period. [3] The peer group for this comparison comprises Bank of America, Barclays, BNP Paribas, Citigroup, Deutsche Bank, HSBC, JPMorgan Chase, Société Générale and UBS. The total shareholder return of this peer group is calculated as a simple, unweighted average of the return reported by Bloomberg for each of the members of the peer group.

Source: Credit Suisse Annual Report 2012

Credit Suisse: Financial KPIs with targets and performance

Example 13: Holcim

Area	Target	Progress	Target date	Status 2011
Vision, strategy and corporate governance				
Strategy	Integration of SD materiality review in existing business risk management (BRM) system for use by Group companies.	The SD materiality review has been integrated into the existing BRM system and recommendations provided to Group companies. Work is continuing with integrating SD issues fully into the standard BRM system. See CR page 9	2008	Achieved and ongoing
Management systems	ISO 14001 implemented by all cement plants and alternative fuels and raw materials (AFR) pre-treatment platforms.	This is a rolling target as newly acquired Group companies require time to implement management systems. See CR page 31	2004	Cement 93% AFR 95%
Environmental performance				
Climate and energy	Reduce global average specific net CO_2 emissions (kg CO_2/tonne cementitious materials) by 25%, using 1990 as reference.	See CR pages 14 and 9	2015	21.8%
Environmental impacts	Emissions monitoring and reporting standard implemented.	The figure reported reflects the percentage of plants with continuous emission monitoring in place and includes our operations in India. This is an ongoing target as newly acquired plants and companies require time to implement systems.	2004	88%
	Reduce global average specific nitrogen oxides, sulfur dioxide and dust emissions (g pollutant/tonne cementitious materials) by 20%, using 2004 as reference.	The specific SO_2 emission target was exceeded in 2009. Due to the global economic crisis, efforts to reduce dust and NO_x emissions focused on implementing primary measures. The target date was thus revised to 2012 for dust and 2013 for NO_x. See CR pages 14 and 9	2012	NO_x – 21% Dust – 29% SO_2 – 65%

Source: Holcim Corporate Sustainable Development Report 2011

Holcim: Non-financial KPIs with targets and progress

Example 14: UBS

Annual performance targets[1]

Group targets:

Basel III CET1 ratio fully applied	**11.5% in 2013** **13.0% in 2014**
Cost / income ratio	**60–70% from 2015**
Return on equity[2]	**> 15% from 2015**

Business division targets:

Wealth Management	Net new money growth rate	**3–5%**
	Gross margin	**95–105 bps**
	Cost / income ratio	**60–70%**
Wealth Management Americas	Net new money growth rate	**2–4%**
	Gross margin	**75–85 bps**
	Cost / income ratio	**80–90%**
Investment Bank (effective from 1.1.2013)	Pre-tax RoAE[3]	**> 15%**
	Basel III RWA	**< CHF 70 billion**
	Cost / income ratio	**65–85%**
Global Asset Management	Net new money growth rate	**3–5%**
	Gross margin	**32–38 bps**
	Cost / income ratio	**60–70%**
Retail & Corporate	Net new business volume growth	**1–4%**
	Net interest margin	**140–180 bps**
	Cost / income ratio	**50–60%**

UBS: KPIs at group and divisional level reported in strategy section

Source: UBS Annual Report 2012

Linking performance and remuneration

The alignment of KPIs with remuneration policies enhances the transparency of management and board remuneration.

A clear correlation between KPIs and remuneration was demonstrated in only 10% of the annual reports assessed. Only a few annual reports concluded on whether targets were actually achieved and, if targets were not achieved, the reasons for underperforming. In many cases, an extensive discussion on the remuneration policies and plans exist, but the link between actual performance and the remuneration is missing.

How reporting can be developed

Organisations can enhance the quality and usefulness of reported KPIs by making them specific to their business and providing clear targets and industry benchmarks against which they can be measured.

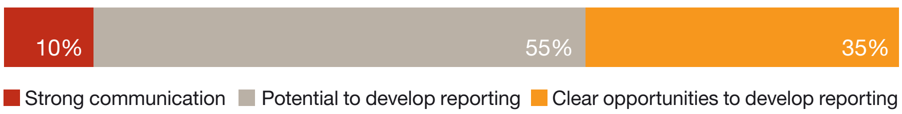
Where trends are provided to assist in year-on-year analysis, management commentary should be added to enable users to understand the movements in KPIs.

Providing a clear link between KPIs and the organisation's strategy and remuneration policies will enhance the quality of disclosure on remuneration.

10%

of the annual reports assessed demonstrated a clear correlation between KPIs and remuneration.

Question: Do the KPIs align with those that drive remuneration policies?



Source: PwC analysis

An example of good reporting

Example 15: Credit Suisse

2013 performance criteria for the Executive Board

Performance criteria	Weightings			Description and performance objectives
	CEO	Divisional Head	Shared Services Head	
Group performance				
Underlying[1] ROE	33%	33%	40%	Group performance is evaluated on the basis of ROE, measured on an underlying basis at year end compared to target; targets are set on an annual basis in the Group's financial plan and approved by the Board. **Performance objectives:** 11% underlying[1] ROE to reach target; 16% underlying[1] ROE to reach cap

Performance evaluation for 2012

In January 2013, the Compensation Committee completed its performance evaluation for 2012 for the Group and the individual assessments of Executive Board members.

Group performance evaluation

For 2012, the Compensation Committee concluded that the Group performance targets were met. The Group delivered a performance largely in line with annual targets in the financial plan for 2012. In 2012, underlying pre-tax income significantly improved to CHF 5.0 billion from CHF 2.4 billion in 2011 and underlying ROE significantly improved to 10.0% from 5.5% in 2011. Reported Core pre-tax income was CHF 1.9 billion, compared to CHF 2.7 billion in 2011, while reported ROE was 3.9%, compared to 6.0% in 2011. The primary difference between the Group's reported and underlying results for 2012 arose from fair value losses on our own debt before tax of CHF 2.9 billion, which resulted from improvements in our credit spreads, a trend closely aligned to market recognition of the strengthening of the Group's capital and competitive position in 2012. The table "Reconciliation of underlying results" below provides a reconciliation of the Group's underlying results to the most directly comparable US GAAP measures. For the purposes of evaluating the Executive Board's

Credit Suisse: Actual performance is discussed in remuneration section

Source: Credit Suisse Annual Report 2012

Integrated reports should answer the question:

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?

Source: International <IR> Framework, para 4.34

What it means

In developing the Framework, it was recognised that much of what is currently reported tends to be backward-looking and fails to provide stakeholders with sufficient information to make a meaningful assessment of the organisation's ability to create and sustain value over the short, medium and long term.

Therefore, in addition to reporting on performance during the relevant period, the annual report should include a forward-looking statement concerning the organisation's anticipated activities and performance objectives, based on its assessment of recent performance and understanding of trends in the external and internal environment, including stakeholder expectations.

For an organisation to create value, it relies heavily on its estimate of the projected future access to material, non-financial capital inputs. To provide a base for assessing the sustainability of an organisation, it is important to understand the approach taken by management in identifying material issues affecting its future viability, its stakeholder engagement processes and the outcomes ("materiality assessment").

Findings

Our assessment found that companies discuss their expectation of the future availability and constraints of material non-financial capital (35%). All companies provide at least insight into their human capital management. Most companies provide minimum insight into their human capital management.

35%

of companies discuss their expectation of the future availability and constraints of material non-financial capital.

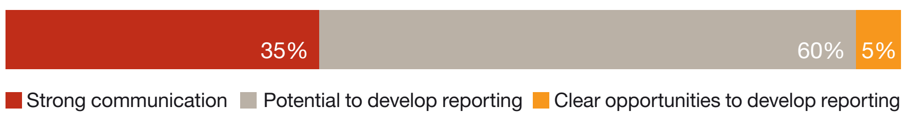
However, a structured assessment of all material non-financial forms of capital (such as intellectual, natural or social capital) is missing.

Some reports provided insights into the company's materiality assessment. However, in most instances the assessment is addressed in a separate Corporate Social Responsibility (CSR) report.

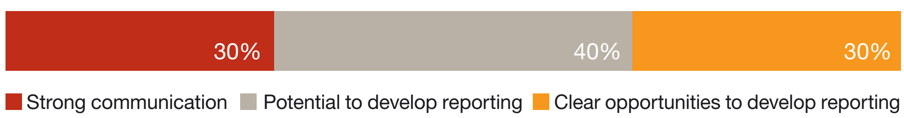
30% of the companies explicitly integrate sustainability priorities into their core business strategy. Some companies have separate CSR reports which – by definition – limit the integration of discussions on the future viability and the availability of non-financial capital into the overall strategy discussion.

Companies issuing a separate CSR report often provide a short summary in a separate section within their annual report. However, separate CSR reports do not necessarily follow the structure of the annual report, but rather standards such as GRI, thereby limiting the integration into the overall picture.

Question: Does the company discuss its expectation of the future availability and constraints of material non-financial capital?



Question: Does the company integrate its priorities relating to the management of its non-financial capitals into its core business strategic priorities?



Source: PwC analysis

Principle in practice

Good reporting should provide insight into:

- Anticipated changes over time;
- information, built on sound and transparent analysis, about:
  - the expectations of senior management and those charged with governance with regard to the external environment the organisation is likely to face in the short, medium and long term;
  - how that will affect the organisation;
  - how the organisation is currently equipped to respond to the critical challenges and uncertainties that may arise.

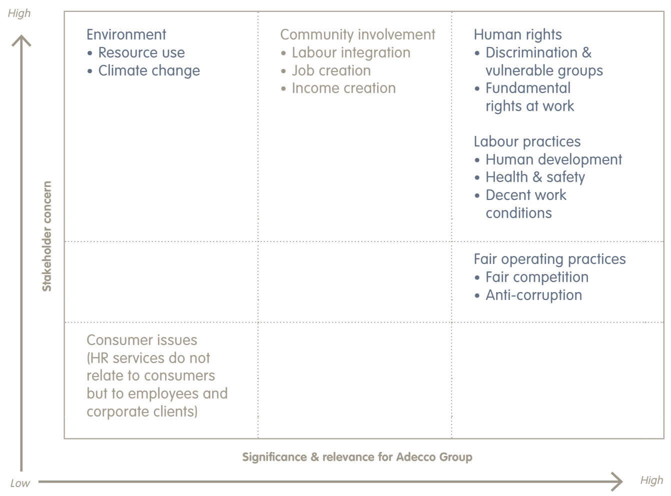
Source: International <IR> Framework, para 4.35

An example of good reporting

Example 16: Adecco

Materiality matrix

(blue = corresponding to UN Global Compact principles)



Our six strategic focus areas

Source: Adecco CSR Report 2012/2013

Adecco: Materiality assessment linked to strategy

30% *of the companies explicitly integrate sustainability priorities into their core business strategy.*

The discussion on sustainability and non-financial capital is industry-specific and depends on its relative importance. The future viability of a financial institution for example is driven mainly by the availability of financial capital. This is reflected in extensive discussions surrounding the "too-big-to-fail" regulation requirements. Industries that are more dependent on resource scarcity provide comprehensive discussions on non-financial forms of capital and integrate them well in the overall business strategy.

How reporting can be developed

The annual report should provide a clear and appropriate demonstration of the time frame over which future viability has been considered, within the context of the nature of the company's business and industry.

Disclosing the specific strategic actions to be undertaken in addressing the availability of material non-financial capital and to provide future KPIs for the identified strategic objectives communicates the future prospects and viability of an organisation to its stakeholders.

An example of good reporting

Example 17: Holcim

SD materiality review – aligning global stakeholder feedback with current Group priorities

Source: Holcim Corporate Sustainable Development Report 2011

Holcim: Materiality assessment

Corporate reports should answer the question:

What is the key cash flow information investors need to understand performance?

Source: PwC Investor's View (http://www.pwc.com/gx/en/corporate-reporting/investor-views/index.jhtml

What it means

Reported profit is of importance to investors, but so is cash flow. Cash flow information is critical, both as a vital input to the valuation of entities, and because it allows investors to understand management's ability to service the entity's working capital requirements and debt position, as well as any related risks.

Recognising the importance placed on clear cash flow reporting by the investment community, we have focused on this particular aspect of financial performance in our assessment. An integrated report needs to address cash flow analysis and strategy in a clear and transparent way, as well as link in with broader strategic and risk considerations where necessary.

An example of good reporting

Example 18: Novartis

	2012 USD millions	2011 USD millions	Change USD millions
Operating income	**11 511**	**10 998**	**513**
Reversal of non-cash items			
Depreciation, amortization and impairments	4 954	5 980	– 1 026
Change in provisions and other non-current liabilities	539	1 295	– 756
Other	452	272	180
Operating income adjusted for non-cash items	**17 456**	**18 545**	**– 1 089**
Interest and other financial receipts	689	470	219
Interest and other financial payments	– 616	– 687	71
Taxes paid	– 2 022	– 2 435	413
Payments out of provisions and other net cash movements in non-current liabilities	– 1 173	– 1 471	298
Change in inventory and trade accounts receivable less accounts payable	183	– 492	675
Change in other net current assets and other operating cash flow items	– 323	379	– 702
Cash flows from operating activities	**14 194**	**14 309**	**– 115**
Purchase of property, plant and equipment	– 2 698	– 2 167	– 531
Purchase of intangible assets	– 370	– 220	– 150
Purchase of financial assets	– 180	– 139	– 41
Purchase of other non-current assets	– 57	– 48	– 9
Proceeds from sales of property, plant and equipment	92	61	31
Proceeds from sales of intangible assets	163	643	– 480
Proceeds from sales of financial assets	221	59	162
Proceeds from sales of other non-current assets	18	5	13
Group free cash flow	**11 383**	**12 503**	**– 1 120**

Source: Novartis Annual Report 2012

Novartis: Clearly defined "free cash flow" number reconciled to GAAP. Free cash flow numbers also disclosed on a segmental level and free cash flow performance is discussed in detail.

Principle in practice

Good reporting should provide insight into:

- Clearly defined free cash flow, measured on a consistent basis year on year
- Cash flows for capital expenditure, split into maintenance vs. growth spending, ideally on the face of the cash flow statement
- The dynamics of cash flows from trading working capital, i.e. change in payables, change in receivables on the face of the cash flow statement
- Cash flow on a segmental basis

Source: PwC Investor's View (http://www.pwc.com/gx/en/corporate-reporting/investor-views/index.jhtml

29%

*of companies disclosed a clearly defined "free cash flow" number.**

* banking sector is not in scope of the analysis in this chapter

Findings

29% of companies disclosed a clearly defined "free cash flow" number. While there is no standard definition of "free cash flow", if a company is able to define a means of measurement that is useful in understanding their cash generation and clearly discloses how it has been calculated, that can be very helpful for the users of the financial statements. As to the aspect of "clearly defined", we investigated whether companies were clear and consistent in their definition of free cash flow and balanced in the adjustments they made, this in an effort to establish a measurement that is relevant to the understanding of performance.

The leading reporters also reconcile back to GAAP, showing adjustments clearly in either a bridge chart or a table.

How reporting can be developed

When you think about your funding strategy and disclosures, ask yourself if you are answering the basic questions your investors want to know:

- What is your current funding situation?
- What is your strategy to access the capital you will need to meet your operational and growth objectives?

Talk about a broad definition of funding – include more insight than merely current cash and debt. Step back and consider what the reader wants to know. Give details of working capital, payments in advance and other items as a part of the funding disclosure where they represent important sources of finance.

In some instances, reporting requirements, or simply the complexity of a business structure, can lead to information on a given topic (such as liquidity risk, or funding strategy) being scattered around various places in the report. The most innovative reporters are experimenting with the ordering of their notes, including "plain English" introductions and even moving elements of the financial review alongside the relevant notes to present a cohesive picture of each area of focus.

An example of good reporting

Example 19: Swisscom

Cash flows

In CHF million	2012	2011	Change
Operating income before depreciation and amortisation (EBITDA)	4,381	4,584	(203)
Capital expenditure in property, plant and equipment and other intangible assets	(2,529)	(2,095)	(434)
Proceeds from sale of tangible and other intangible assets	25	37	(12)
Change in defined benefit obligations	(84)	(91)	7
Change in net working capital and other cash flows from operating activities	103	(360)	463
Dividends paid to non-controlling interests	(14)	(7)	(7)
Operating free cash flow	**1,882**	**2,068**	**(186)**
Net interest paid	(236)	(251)	15
Income taxes paid	(190)	(182)	(8)
Free cash flow	**1,456**	**1,635**	**(179)**
Other cash flows from investing activities, net	1	113	(112)
Issuance and repayment of financial liabilities, net	(75)	(723)	648
Dividends paid to equity holders of Swisscom Ltd	(1,140)	(1,088)	(52)
Purchase of non-controlling interests of Fastweb	–	(92)	92
Other cash flows from financing activities	(18)	(11)	(7)
Net increase (Net decrease) in cash and cash equivalents	**224**	**(166)**	**390**

Free cash flow in CHF million

Swisscom: Defines a clear measure of "free cash flow" and shows it reconciled to GAAP numbers in a clear table.

Source: Swisscom Annual Report 2012

Corporate reports should answer the question:

What is the funding position of the company, and how has that changed in the period?

Source: PwC Investor's View (http://www.pwc.com/gx/en/corporate-reporting/investor-views/index.jhtml

What it means

Cash is important to investors, but so is clear information on debt. For this section of the report, we looked at how well companies presented a full picture of their net debt position as well as the associated risks and strategies.

For example, an integrated report that includes a clear reconciliation of net debt allows users to easily assess whether a company that seems to have had a significant increase in cash has, for example, achieved this only by taking on a corresponding increase in borrowings.

Investors tell us that a clear "net debt rec" sets an organisation apart.

Investors also tell us that they need a comprehensive maturity table for all material components of debt, including the contractual maturity of each type of debt and when management expects it to be repaid (if different). Rather than reporting broad bands, investors are looking for year-on-year details of impending debt repayments.

An example of good reporting

Example 20: Swiss Re

Maturity of long-term debt
As of 31 December, long-term debt as reported above had the following maturities:

USD millions	2011	2012
Due in 2013	1 605	0[1]
Due in 2014	1 735	1 763
Due in 2015	691	708
Due in 2016	2 304	2 136
Due in 2017	1 403	1 428
Due after 2017	8 803	10 251
Total carrying value	16 541	**16 286**

[1] Balance was reclassified to short-term debt.

Source: Swiss Re Annual Report 2012

Swiss Re: By providing a clear analysis of debt maturity, rather than using broad brackets, for example 2–5 years, Swiss Re has responded to the investment community's desire for information on an annual basis.

Principle in practice

Good reporting should provide insight into:

- How management defines the components of 'net debt'?
- How net debt has moved in the year, including a net debt reconciliation showing the movement in the year for each component of net debt by impacting factors, e.g.: Fx, M&A, new issuances, etc
- Debt maturity analysis, on an annual basis, for at least the next 5 years
- Material debt covenants and compliance with those covenants
- Average net debt balance for the period

Source: World Watch "Issue 2 2013" Jennifer Sisson, PwC Investors' view site

44%

*of companies disclosed their debt maturity information on an annualised basis, for at least 5 years from the balance sheet date.**

* banking sector is not in scope of the analysis in this chapter

Findings

44% of companies disclosed their debt maturity information on an annualised basis, for at least 5 years from the balance sheet date. Investors tell us this is important as it helps them to gain confidence in the models they are building, rather than having to make estimates based on broad ranges such as 2–5 years.

The leading reporters show interest and principle payments separately in their debt maturity analysis. Some companies also break down lease payments on the same basis.

How reporting can be developed

Even though the debt maturity information is an IFRS requirement, companies can add value by disclosing information as presented in our best practice examples. More broadly, it is still a real challenge for users to reconcile debt disclosures due to the different measurement bases used, so net debt reconciliations are a vital tool for users of financial statements, yet many companies with debt still do not provide this information. By clearly defining the components of net debt, and showing the key factors impacting movements in these balances, a net debt reconciliation would be a very helpful addition to company reporting.

An example of good reporting

Example 21: Holcim

Contractual maturity analysis

Million CHF	Contractual undiscounted cash flows							Carrying
	Within 1 year	Within 2 years	Within 3 years	Within 4 years	Within 5 years	Thereafter	Total	amount
2012								
Trade accounts payable	2,179						2,179	2,179
Loans from financial institutions	1,428	317	232	223	67	183	2,450	2,456
Bonds, private placements and commercial paper notes	2,197	1,689	1,077	887	1,332	3,658	10,840	10,888
Interest payments	594	497	345	303	258	770	2,767	
Finance leases	25	19	12	10	9	68	143	93
Derivative financial instruments net[1]	9	(14)	32	(16)	(12)	(30)	(31)	(40)
Total	**6,431**	**2,508**	**1,698**	**1,407**	**1,653**	**4,650**	**18,348**	

Source: Annual Report 2012 Holcim Ltd

Holcim: A detailed maturity table, showing information on an annualised basis, as well as splitting out principal and interest payments as well as lease payments to help investors and analysts use the data in their models.

Findings

The majority of reports assessed (85%) follow the traditional structuring of the annual report: they contain a business review section, a financial statements section and a corporate governance section. Some of these annual reports also include a Corporate Social Responsibility (CSR) section. A considerable number of companies (45%) issue a separate CSR report. Although a high level summary of the CSR topics is often shown in the annual report, it limits the integration of the discussion regarding the future viability and the availability of non-financial capital into the overall discussion.

The traditional structuring of an annual report – incorporating a CSR section or other statutory reporting requirement (in the financial sector) – tends to be comprehensive, but leads to massive reports.

We noted that there are several approaches for producing shorter reports: some companies (15%) issue their financial statements separately without including them in the annual report in order to limit the size of the report. Some of these companies issue separate Corporate Governance reports to further limit the size. In contrast, other companies (25%) issue a summary report to provide a short-form business review.

How reporting can be developed

Although the language in the IR Framework could be interpreted as implying that there should be a single new report in addition to existing reporting, integrated reporting should involve a holistic approach applied across all reporting. It is not simply about a new report to be imposed on top of existing corporate reporting.

The emphasis should be on applying the principles of the IR Framework across all of a company's applicable reporting so that it represents a coherent whole, rather than a single integrated report.

Whether issuing a traditional annual report, an annual report without including the financial statements or the Corporate Governance section or even issuing a summary report, such reports should explain – as a primary document – how an organisation's strategy, governance, performance and prospects lead to the creation of value in a concise format. Any additional reports should be in reference to the leading document and explain the principles and results in more detail.

25%

of the companies issued a separate business review report in addition to the annual report

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