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Nkonki 2017 Integrated Reporting

Trends in SA Top 100 JSE Listed Companies and SOCs

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FOREWORD

Jon Lisby, CEO, Kreston International

The Nkonki Integrated Reporting Awards forms an integral part of Nkonki's contribution of world-class thought leadership material to the Kreston International Network.

Kreston International is exceptionally proud to be associated with this South African firm, which continues to demonstrate its skill and thought leadership in the integrated reporting space. As the CEO of Kreston – which is the 12th largest accounting network in the world, boasting a staff complement of more than 23,000 people – I am delighted to once again provide the foreword to this review, which has been running successfully for seven years, and as such, providing much-needed insights to companies wishing to emulate those included in this publication, particularly those ranked at the top.

If done properly an integrated report can provide a very powerful tool for organisations to use as a means to communicate how they continue to create value for stakeholders particularly in these difficult times.

In light of this, I am thrilled to see how this initiative, first launched in 2011, has evolved from its initial focus on only the Top 40 companies listed the Johannesburg Stock Exchange (JSE) (as ranked by their market capitalisation) to include Top 100 Listed and Schedule 2 Public Finance Management Act (PFMA) State Owned Companies. This bears testimony to the great inroads made and effort put in by many companies. This year marks another milestone in the journey for Nkonki as, for the first time, the firm has looked at this as a comprehensive programme by combining the JSE Top 100 companies and the country's largest Schedule 2 PFMA SOCs – it is truly exciting to see how these two sectors compare in their respective rankings.

The King IV Code of Corporate Governance, which was officially launched in South Africa on 1 November 2016, came into effect for organisations whose financial years started on or after 1 April 2017, replacing King III in its entirety. Although not yet applicable for the period of the integrated reports reviewed for this survey, it is gratifying to see that the new Code is already being adopted by some organisations.

This is surely an indication of how South African companies remain willing to embrace developments in both corporate governance and reporting.

Globally there is no doubt that the standard of integrated reporting in South Africa is very high, which clearly makes the Top 10 companies very competitive, as there was very little that separates the quality of their integrated reports.

With the current economic and political turmoil in South Africa and the world at large, which may have had an adverse impact on some companies, the concept of integrated reporting has become even more crucial. This allows for companies to explicitly communicate their affairs to their stakeholders, building a culture of trust and honesty, which boosts the confidence of their stakeholders in the company.

Please allow me to congratulate the following companies that made Top 10 of this year's report, ranked as follows:

1 ArcelorMittal

2 KUMBA IRON ORE

3 Barloworld Leading brands

4 AngloAmerican PLATINUM

5 ANGLOGOLD ASHANTI

6 TRANSNET

7 IMPALA PLATINUM

7 Life Healthcare

7 Nampak packaging excellence

8 aspen HOLDINGS

I believe it's important to yet again single out ArcelorMittal for excelling in the quality of their integrated report. This clearly demonstrates the value that the organisation is deriving from this new way of communication.

I invite you to engage with this publication, interrogate it and learn from all the thought leadership that is provided herein.

INTRODUCTION

Thuto Masasa, Partner, Nkonki Incorporated

Nkonki Incorporated is proud to release the 2017 Integrated Reporting Awards, based on the integrated reports produced by South Africa's leading companies during 2016.

Now in our seventh year of successfully producing this influential publication, Nkonki prides itself in the rigorous process that it undertakes during the review process to ensure that the results presented provide companies with real insights on how to produce best practice and industry leading integrated reports. In our quest to remain at the top of our game, we have provided some guidelines to companies wishing to learn from the Top 10, and thereby hope to continue contributing to the improvement of integrated reporting for all South African companies.

This year's publication once again highlights that most listed companies and some of the larger Schedule 2 SOCs with publicly available integrated reports in the survey apply the prescripts of the IIRC's International Integrated Reporting <IR> Framework to their 2016 reports. We also noted with interest that although the King IV Code of Governance is only to be applicable to companies starting their financial years on or after 1 April 2017, some companies already took the initiative to apply the new Code.

Although this report follows similar trends to previous years, this year we combined the JSE Top 100 and SOCs, resulting in one joint report. We included all the SOCs producing integrated reports in this survey. Based on these criteria, the sample size for the survey was 116 companies.

From the results we noted that the number of companies reporting a score of 80% and higher increased, equally the companies with scores falling below 50% also increased. This is a clear indication that although there are companies that are doing significantly well in terms of integrated reporting, there are also a growing number that are doing poorly and do require support and guidance.

Based on the results, the total average performance of the JSE Top 100 companies has declined from 64% in 2015 to 61% in 2016.

The category "Naming of the report, reference to the IIRC and outlining responsibility for the report" took a knock, declining 6% to 65% in 2016 from 71% in 2015. "Strategic focus" saw a slight drop of 1% from 87% in 2015 to 86% in 2016. Key areas such as "Materiality" saw an encouraging increase from 54% in 2015 to 60% in 2016. "Fundamental concepts, Business model and Capitals" improved by 2% from 56% in 2015 to 58% in 2016. All pillars are reported on in depth on page 16 on this report - the graph referring to "Average Performance of the JSE Top 100".

The average total score of SOCs also dropped from 55% in 2015 to 53% in 2016. One of the reasons could be the inclusion of Telkom in the Top 100 – due to the small sample size of SOCs, the removal of just one institution can have a major influence on the results. Pillars such as Strategic focus 89% (79% 2015), Connectivity of information 66% (60% 2015) and Fundamental concepts, Business model and Capitals 49% (44% 2015) saw increases while other pillars either remained the same or declined. The full graph can be viewed on page 17 — the graph headed "Average Performance of the Schedule 2 PFMA SOCs".

I would like to invite you to take note of our analysis on pages 13 where we assessed the trends in reporting for both the SOCs and the JSE Top 100 listed companies, from 2011 to 2016. The average performance of the SOCs exhibited an upward trajectory between 2011 and 2014, then leveled off, and declined in 2016. This is attributed to a clear division of the population — those companies reporting excellently and those lagging behind. Those lagging behind have got to improve for us to see the overall SOC average increase.

The reporting standard of the JSE Top 100 companies also declined in the current year. Some of the reasons for the decline are as follows:

- Some companies made their maiden appearance in the Top 100 because of being newly listed or their market capitalisation increasing. The average score for these companies was 45% (2015: 52%).

- An increasing proportion of companies scoring less than 50%. The proportion of companies scoring less than 50% increased from 21% in 2015 to 30% in 2016.

- The score of Public Limited Companies (Plcs) of 48% had an impact on the average performance of the listed companies.

- The exclusion of companies that formed part of last year's sample for various reasons.

Based on the results, it is also encouraging to see the movement of the companies that have made it to the Top 10. It is encouraging to see a company such as ArcelorMittal holding onto first position, with Kumba Iron Ore making an impressive leap from the seventh position last year to claim second place this year. Barloworld, which occupied second position in 2015 slipped down one position to take up third place.

It was also reassuring to see companies such as AngloGold Ashanti moving from 29th place to fifth place; Impala Platinum was in position 23 last year and now occupies position seven; and Aspen Pharmacare Holdings jumped from position 40 to claim spot number eight on the rankings table.

This serves as proof that more and more South African listed companies are making an effort to produce integrated reports not only as a compliance requirement but as a strategic tool that can be used to influence stakeholders and investors in a positive manner. It is no wonder that South Africa is lauded for leading the corporate governance and corporate integrated reporting race globally. We have no doubt that by continuing to adopt the available tools such as the <IR> Framework, the King III Code of Governance, and now the King IV Code, South African companies will continue to make strong inroads in their 2017 reports.
Also, it is worth noting that the quality of the reports produced is improving year on year, making the placement of the companies on the Top 10 quite challenging as there were really few differentiators in this group. It is for this reason that three companies jointly took seventh place.

I would like to congratulate the top three winners, ArcelorMittal South Africa Limited, Kumba Iron Ore Limited and Barloworld Limited, and to convey our well wishes to all the companies that made the Top 10 list. This is a truly impressive achievement.

Finally, I would like to thank the panel of adjudicators from Monash South Africa for their contribution to ensuring the success of this report. A further thank you goes to Jon Lisby, the CEO of Kreston International, for his continued support and contribution to this report.

THE 2017 **WINNERS**

This year Nkonki is proud to announce the following 10 companies as the winners of the firm's 2016 Integrated Reporting Awards:

Ranking 2016	Company	Sector	Year-end	Ranking 2015
1	**ArcelorMittal South Africa Ltd**	Basic Materials	Year-end: 31 December	1
2	**Kumba Iron Ore Ltd**	Basic Materials	Year-end: 31 December	7
3	**Barloworld Ltd**	Industrials	Year-end: 30 September	2
4	**Anglo American Platinum Ltd**	Basic Materials	Year-end: 31 December	6
5	**AngloGold Ashanti Ltd**	Basic Materials	Year-end: 31 December	29
6	**Transnet Ltd**	SOC	Year-end: 31 March	3 SOC
7	**Impala Platinum Holdings Ltd**	Basic Materials	Year-end: 30 June	23
7	**Life Healthcare Group Holdings Ltd**	Healthcare	Year-end: 30 September	16
7	**Nampak Ltd**	Industrials	Year-end: 31 September	3
8	**Aspen Pharmacare Holdings Ltd**	Healthcare	Year-end: 30 June	40

The top three companies in each industry sector are as follows:

Basic Materials	Consumer Goods	Industrials	Consumer Services
ArcelorMittal	OCEANA GROUP	Barloworld Leading brands	TSOGO SUN
KUMBA IRON ORE	Tiger Brands	Nampak packaging excellence	TRUWORTHS
AngloAmerican PLATINUM	Tongaat Hulett	Imperial	Massmart We're dedicated to adding value

Financials	Healthcare	Telecommunications	SOC
Redefine PROPERTIES	Life Healthcare	MTN	TRANSNET
NEDBANK	aspen HOLDINGS	vodacom	AIRPORTS COMPANY SOUTH AFRICA
Sanlam	NETCARE You're in safe hands	Telkom	DBSA Development Bank of Southern Africa

SECTION 1

WHAT LESSONS CAN WE LEARN FROM THE TOP PERFORMERS?

"The <IR> Framework takes a principles-based approach. The intent is to strike an appropriate balance between flexibility and prescription that recognises the wide variation in individual circumstances of different organisations while enabling a sufficient degree of comparability across organisations to meet relevant information needs. It does not prescribe specific key performance indicators, measurement methods, or the disclosure of individual matters, but does include a small number of requirements that are to be applied before an integrated report can be said to be in accordance with the Framework."

The standard of integrated reporting in South Africa continues to improve making the placement of the Top 10 companies very competitive, with little separating the quality of their integrated reports.

In an attempt to provide a clearer guideline to companies wishing to emulate the Top 10, and thereby contribute to the continuing improvement of integrated reporting for all South African companies, this year Nkonki has included key learnings from the Top 10, which are set out below. We believe that these examples will provide other companies with a tangible opportunity to see where they can improve on their reporting.

With that in mind, we acknowledge that the report of, for example, a large international mining company would be very different from that of a local Investment company with very few staff members.

1.1 Trends Amongst the Top 10

- Eight companies called their reports "Integrated Reports", one was called an "Annual Integrated Report" and one an "Integrated Annual Report".
- Nine companies produced separate Annual Financial Statements (AFS) and six had separate sustainability reports.
- The average length of the integrated reports was 137 pages.
- All ten companies applied King III and the Global Reporting Initiative (GRI4) guidelines.
- Nine reports referred to the International <IR> Framework, although all 10 companies clearly applied the Framework in their approach to their reporting.
- Nine reports referred to the six capitals as mentioned in the International <IR> Framework, with one company using their own definitions for the capitals.
- Nine companies had their sustainability information externally assured, with seven declaring Limited Assurance. Two of the reports referred to both Limited Assurance and Reasonable Assurance.
  - Six companies had the assurance done by the same external auditors as those that audited their financial statements, while three used other sustainability audit providers.

- Six companies disclosed the resulting audit report in their integrated reports, two disclosed these in their sustainability report and one company's report was found on its website.

- All ten companies started their integrated reports clearly, setting the boundaries of the report, often referred to in a section entitled 'About This Report'. In this section, the companies explained the purpose of their report, as well as what additional reports could be viewed if users wanted more detailed information. They explained on what basis the report was compiled – in other words, what guidelines they used, for example, the International <IR> framework, King III, etcetera.

Companies also often referred to what, if any, external assurance was done. Some also introduced materiality by explaining that their determination of material matters set the boundaries of their report.

1.2 Notable Examples of Integrated Reporting From the Top 10

1.2.1 Excellent Reporting Boundaries

The concept of reporting boundary is identified in the International <IR> Framework as a key concept in materiality determination. Key to this concept is clearly identifying the financial reporting entity and risks, opportunities and outcomes attributable to entities and stakeholders outside the financial reporting entity yet they have a significant effect on the process of value creation.

An example of a good introduction that clearly sets out the scope and boundary of the report as discussed above is taken from Kumba's report:

- The company states that their report relates to Kumba's strategy and business model, operating context, material risks and opportunities, and governance and operational performance for the period 1 January 2016 to 31 December

- They identified the reporting framework relating to both the financial reports and the integrated report

- They identify that the value creation process is also affected by factors beyond the financial reporting entity when they acknowledged that their report is of "material interest to current and prospective investors and any stakeholder who wishes to make an informed assessment of Kumba's ability to generate value over the short, medium and long term"

- Furthermore, the company acknowledged in explaining their reporting boundary and that the " ability to create value is determined by our operating context and by our response to the resulting risks and opportunities and the interests of our stakeholders"

1.2.2 Responsibility for the Report

As per the <IR> Framework, an integrated report needs to include a statement from those charged with governance that they are responsible for ensuring the integrity of the report, acknowledge they have applied their collective mind to its preparation and presentation and their opinion about whether the report is presented according to the Framework.

An excellent example of a Directors' Statement of Responsibility is taken from the AngloGold Ashanti report:

SECTION 1 (Continued)

"The Board of Directors of AngloGold Ashanti, assisted by the Audit and Risk Committee, is ultimately responsible for overseeing and confirming the integrity and completeness of this <IR> and the entire suite of 2016 reports, with the Social, Ethics and Sustainability Committee overseeing the <SDR>.

The board, having reviewed and applied its collective mind to the preparation and presentation of this report, declared that the Integrated Report addresses all material issues and fairly presents the organization's integrated performance and its impacts. The board, on the recommendation of the Audit and Risk Committee, approved the Integrated Report 2016 on 22 March 2017."

1.2.3 Stakeholder Relationships

According to the <IR> Framework, the term "stakeholder relationships" relates to the nature and quality of the organisation's relationships with its key stakeholders, and to how and what extent the organisation understands, considers and responds to legitimate needs and interests of these stakeholders.

The top companies generally listed their stakeholders, and detailed their key material matters, their strategy to deal with issues arising from stakeholder engagement and the outcomes of their dealings with stakeholders. This is how Implats dealt with it:

"Implats measures its performance by identifying its stakeholders and their legitimate material issues and what must be done to address these needs. The risks involved are assessed, a strategy is determined and objectives are set to manage the risks and achieve the strategy: KPIs, against which performance is measured, are set taking into account the Group's stated vision and mission to determine performance for a wide range of stakeholders."

1.2.4 Determining Materiality

Not only did the top companies mention what is material to them, many of them gave a detailed explanation of how they arrived at that materiality. As the explanation below shows, management applied their collective minds to the determination of matters that are material to the company.

The company explained in detail a two-pronged approach to the determination of materiality for the purposes of integrated reporting. Internal materiality was determined by analysis of the minuted executive decisions, stakeholder engagement and guidance from consultants and advisers.

"This analysis supplemented the assessment of outcomes from the risk or audit committee process for risk identification and prioritisation, and adapted a materiality process to identify trends, business opportunities and emerging societal trends."

External materiality was assessed by analysing the factors that could potentially affect the company through the use of *"analysing media articles, research materials, industry benchmarking studies and economic outlook reports as well as key stakeholder interviews, multi-disciplinary workshops, to identify gaps between what Amplats already considers in determining materiality and what external trends are suggesting needs to be considered."*

The company also engages the stakeholders on material issues and elevate the issues to the board when necessary.

1.2.5 Outstanding Business Model and Value Creation Process

The value creation process was well articulated or represented by the Top 10 companies – 15% of the total mark awarded by the panel was allocated to the business model based on the model as set out in the <IR> Framework and the top companies scored an average of 93% in this area. The top companies used excellent graphics to explain their business model and their application of integrated thinking was sound. Transnet was an outstanding example of this – their business model and value creation process is well worth looking at, and can be found on pages 18 and 19, and pages 22 to 24 of their reports respectively.

1.2.6 Excellent Reporting on the Environmental Factors

Companies not only have to contend with these "new realities", but must also be able to deal with the exponential rate of change. Organisations that are able to respond to these omnipresent changes have flexible and dynamic business models, risk assessment methodologies and strategies. The changes in the market bring new risks, have implications for strategy and business models that could not have been anticipated in the original design.

What follows is an analysis of the integrated reports of this year's Top Five companies, which we did to determine if they were indeed documenting some of these key challenges.

• ArcelorMittal attempted to address business innovation by establishing a technology and innovation hub to facilitate the empowerment of businesses, with a specific focus on Black owned businesses.

• The company's strategic objective #4 incorporates innovation into organisational thinking: "… world-class people who value safety, teamwork, innovation, productivity, quality – and each other."

• It reported that its Remuneration and Social and Ethics committees reviewed the code and anti-corruption guidelines and reported to the board that it believed these were adequate. Additionally, training was conducted on anti-trust and anti-corruption behaviour.

• As a way of registering integrated thinking in relation to the business operating environment the company reported on how many jobs it created, as well as its contribution to GDP.

• In addition, ArcelorMittal stated that there had been minimal infrastructural spend by the government, and addressed different aspects of the macro-economic risk environment, including forex exposure, as part of its risk management process.

• Anglo American Platinum provided an excellent view of the environmental factors and those that impact competitiveness, including impressive summaries in the form of graphics.

• It appears as though environmental factors were part of the company's integrated thinking when designing the responses to these factors. It is particularly noticeable in the risk management process where community protests, the high level of local unemployment, supply chain localisation and management were listed as material issues.

• Material risks also include the impact of specific environmental factors, such as the impact of the increase in Chinese cars sales on demand for palladium. Additionally, labour unrest was discussed in the CEO's Report.

• It also summarised the key environmental issues and factors that impact competitiveness; provided an analysis of the impact of the changing regulatory requirements in South Africa, specifically mining charter amendments; and incorporated the environmental factors and corruption considerations into its risk management and thus allows for continuous monitoring.

This was another great example of how to deal with environmental factors and other relevant issues that affect competitiveness.

• The Chairman's Report set the tone for the entire integrated report in terms of drawing the attention of the reader to the factors that they needed to consider about when going through the report.

• The following were the salient environmental factors included in the Chairman's Report: unconventional events in the global sphere, China's debt, negative yield and low oil prices, the Euro and GBP weakened yet the Dollar continued to strengthen, voters in the UK voted to exit the European Union, the election of Donald Trump as American President and the resulting destabilising effect on the equity markets, the effect of demonetisation in India and on the gold price, a new emerging – and unpredictable – political order, the draft Mining Charter being released without consultation and regulatory uncertainty in the mining sector.

• Elsewhere in the report, pertinent environmental factors were also addressed, including training of employees on anti-bribery and anti-corruption measures.

SECTION 1 (Continued)

Barloworld
Leading brands

- Brexit and the election of Donald Trump as US president were discussed in the report, and low growth in South Africa was mentioned as a specific local challenge within the CEO's Report.
- In analysing the impact of the environmental factors, a top-down approach was adopted, starting with the macro-economic factors, going to industry factors and then filtering down to company level.
- The company's risk management process also included socio-economic factors such as currency volatility, skills shortage and weak prices.

KUMBA
IRON ORE

- This report is acknowledged for its well-documented environmental factors.
- The Chairman's Review also set the tone for the report in terms of drawing attention of the reader to the factors that he/she needs to think about as he/she goes through the report. His review also raises the relevant local issues, as well as those in the operating environment; particularly turbulent year for the mining sector at the geo-political level, Britain's decision to leave the European Union and the election of Donald Trump as president in the United States, In South Africa, similar volatility, with persistent concerns around corruption and "state capture", countrywide student demonstrations on the cost and quality of education, general political uncertainty in the run up to the ANC National General Conference and leadership election in 2017, the possibility of a downgrade at the time of writing and The Mining Charter.
- Additional factors raised elsewhere in the integrated report included the downstream demand in China and heightened stakeholder expectations.

1.3 Room for Improvement

1.3.1 Conciseness Still an Issue

A guiding principle in the <IR> Framework is that an integrated report should be concise. In determining the conciseness of the report, the panel only considered the length of integrated report. Many companies use additional reports or even a suite of reports very effectively, where users of the integrated report are directed to if they require additional more in-depth information. When reading the integrated report, if the panel felt that there was not enough information in the report, such as insufficient financial information to allow the user to get an overview of that capital, or relevant information had been completely omitted and was only available in the other reports, then the pages of the other supporting reports were added to those of the integrated report.

1.3.2 External Assurance Reports

The <IR> Framework states that an integrated report should be both reliable and complete. It goes on to say that the reliability of information is enhanced by mechanisms such as robust internal control and reporting systems, stakeholder engagement, internal audit or similar functions, and independent, external assurance. If companies improve the reliability of their information by providing external assurance, it would be beneficial for the users of the integrated reports to actually see the external assurance reports rather than just a statement saying that non-financial information has been externally audited.

1.3.3 Integrated Thinking Not Always Evident

The <IR> Framework states that integrated thinking is the active consideration by and organisation of the relationships between the various operating and functional units and the capitals that the organisation uses or affects. Some companies use the word "integrated" in the report's title and some even stated that they were guided by the International <IR> Framework but their reports did not reflect this in any way. These reports can be disjointed with no connectivity of information. There is no or little evidence from their reports that there has been any integrated decision-making and actions that consider the creation of value over the short, medium and long term.

1.3.4 Reporting on Progress

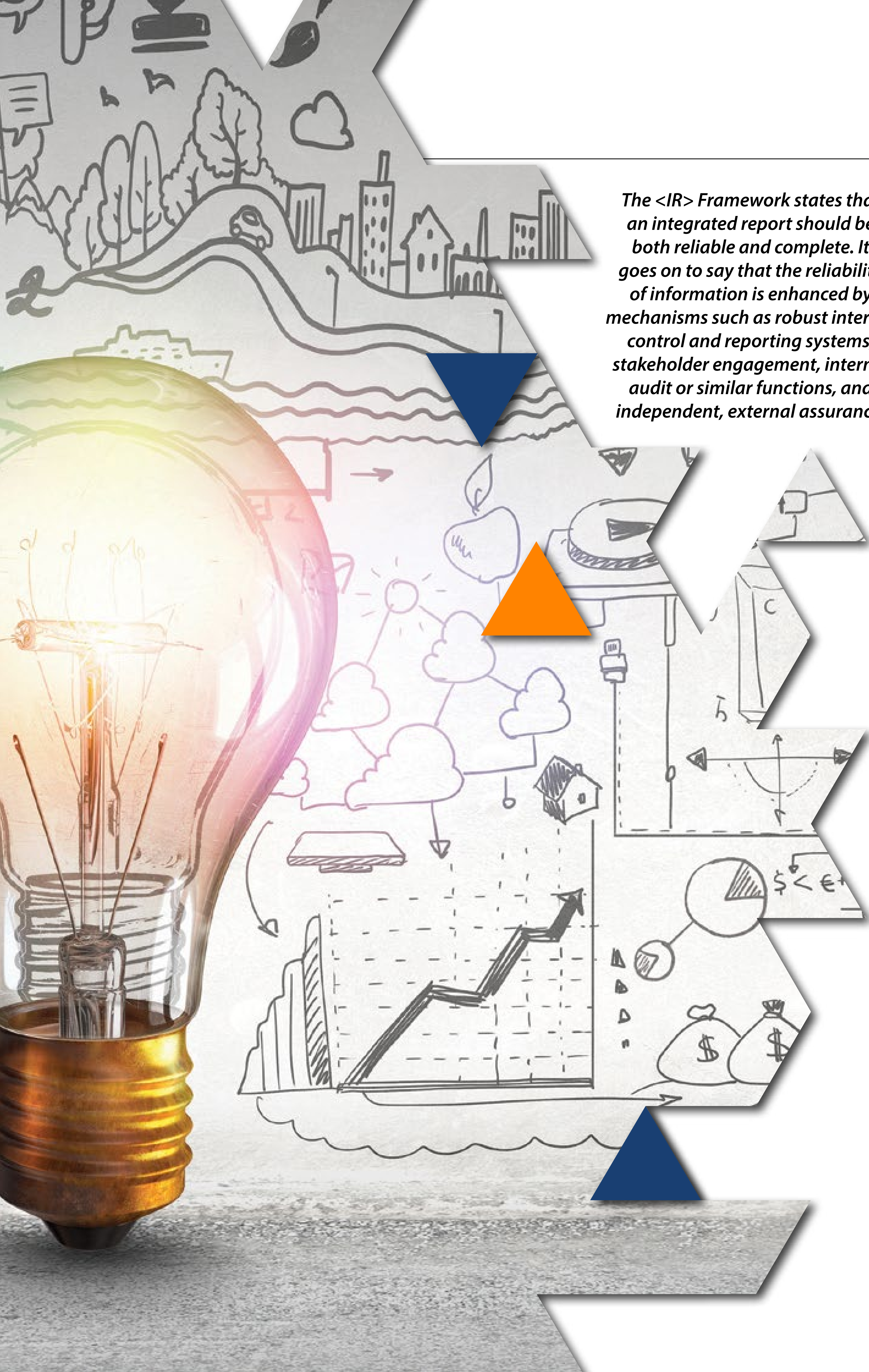
Whilst companies tended to do well with respect to their strategy where they discussed their future outlook it should be noted that it is important in the subsequent report to give feedback on progress. Some companies failed to do this. Some companies even failed to explain clearly what their strategy is.

1.3.5 Limited Explanations of Determining Materiality

The integrated report should be concise, but must still cover all the issues that are material to stakeholders. It is thus not sufficient for a company to state that it has included only those items that are material – they must explain how they determined materiality.

1.3.6 Responsibility for the Report

Those charged with governance need to take responsibility for the report. In some cases, those responsible only acknowledged their responsibility for the AFS and no mention was made of the rest of the report. This was noticeable particularly with respect to some of the SOCs.



The <IR> Framework states that an integrated report should be both reliable and complete. It goes on to say that the reliability of information is enhanced by mechanisms such as robust internal control and reporting systems, stakeholder engagement, internal audit or similar functions, and independent, external assurance.

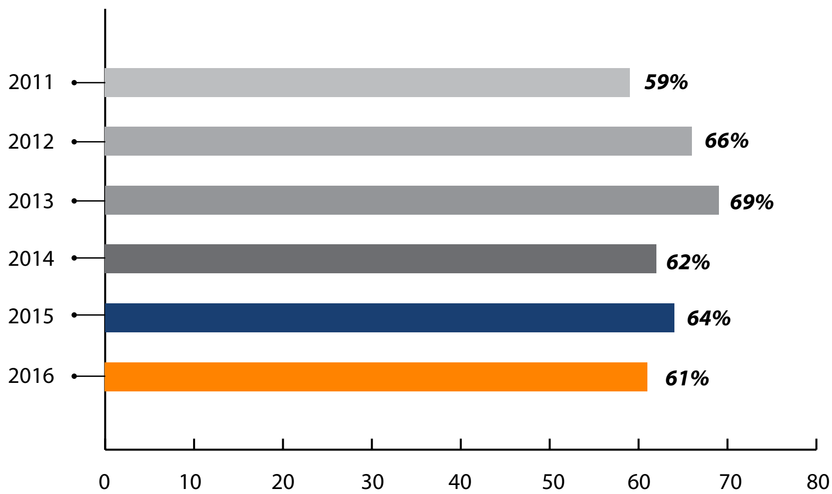
SECTION 2

YEAR ON YEAR PERFORMANCE OF TOP 100 JSE LISTED COMPANIES AND SOCs

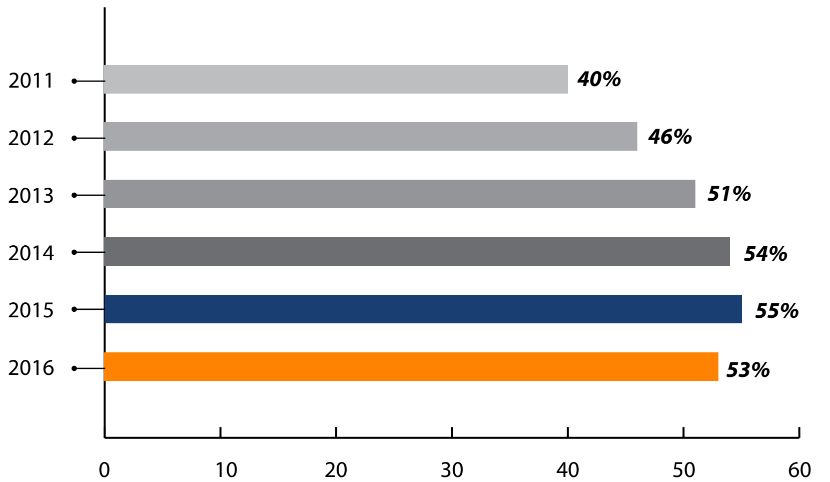
2.1 Trend Analysis

To assess the trend in reporting for both the SOCs and the JSE Top 100 listed companies, the panel analysed the average overall score trends of the entities from 2011 to 2016:

Trend for JSE Listed Top 100



Trend for Schedule 2 PFMA SOCs



Some companies were included for the first time purely because they qualified as part of the JSE Top 100 based on an increase in their market capitalisation or they were newly listed with a high enough market capitalisation to qualify for inclusion.

The average performance of the JSE Top 100 companies declined in the current year. There are four major reasons for this decline:

- **Some companies were included for the first time purely because they qualified as part of the JSE Top 100 based on an increase in their market capitalisation or they were newly listed with a high enough market capitalisation to qualify for inclusion.** The average score for these companies was 45% (2015: 52%). This unfortunately negatively impacted the average for all the listed companies which we evaluated.

- **Companies that fell into Category E (below 50%) only scored an average of 39% (2015: 40%) compared to those falling into higher scoring categories (i.e. 50% or above) – these companies scored an average of 70%. The poor performing companies also made up 29.6% (2015: 20.75%) of the total population.** It is evident that although the average performance of the poorly-performing companies remained relatively constant, the proportion of poorly-performing companies has increased, thereby pulling down the average score for the Top 100 as a whole. The range between the average performance of the good and poor performers of 31% suggests that the poor performers need to improve their reporting standard significantly if the average performance is to show an upward trend on a year-on-year basis going forward.

- **The average performance was also prejudiced by companies who do not have the JSE as their primary listing. The average score of these companies was 48%.** The exceptions were Anglo American Plc and Mediclinic Int Plc, which produced excellent reports.

- **The exclusion of companies that formed part of last year's sample** – there are number of possible reasons why those companies are not part of this year's sample, ranging from a decrease in market capitalisation, newly-listed companies with a higher market capitalisation displacing the company from the Top 100, or the termination of the SRI Index, which appears to be the most plausible explanation and thus it will be explained below in detail.

Further analysis showed that 24 companies that were part of the Top 100 last year are no longer part of this group. The composition by industry of those companies includes two in Basic Materials, four in Consumer Goods, two in Financials, 10 in Industrial, one in Mining and one in Technology. Notably, the 10 companies in the Industrial sector that are no longer part of the sample had an average score of 70% last year. Additionally, five of the 24 had an A-rating and three had a B- rating, whilst two of the 24 companies were in the top 10 of the Nkonki Integrated Reporting Awards for 2015. It therefore seems plausible to partly attribute the decrease in the average score for the JSE Top 100 this year to the exclusion of these companies, given the average score of the 24 companies in 2015 was 63% compared with an average score for the new companies included in the sample this year of just 45%.

SECTION 2 (Continued)

The SRI Index was originally introduced by the JSE to promote sustainable business practises, triple bottom line reporting and good corporate governance. This index was implemented in 2004 and was discontinued in 2015, when it was replaced with the FTSE/JSE Responsible Investment Index Series. Up until 2015, the companies listed in the SRI Index were included in the annual Nkonki survey, making the sample a bit larger than 100 companies – until 2015 it made sense, in the absence of any other framework, to include the SRI companies in the awards as the index ensured that companies with high ESG ratings were contributing to some level of excellence in reporting. What's more is that, in 2015 we determined that companies that were part of the SRI Index generally produced better integrated reports than those which weren't. But because the SRI companies are no longer included in the awards if they don't make it to the Top 100 (by market capitalisation), this has negatively impacted the scores.

The average performance of the SOCs exhibited an upward trajectory between 2011 and 2015. Thereafter it levels off. The upward trajectory represents an improvement in reporting for the top performing entities. An analysis of the past three years performance starting in 2012 and ending in 2015 reveals the following:

One company moved from an E rating in 2012 to A rating in 2015

Two companies moved from a C rating in 2012 to A rating in 2015

One company moved from an F rating in 2012 to B rating in 2015

One company moved from an E rating in 2012 to B rating in 2015

Two companies moved from a D rating in 2012 to B rating in 2015

One company moved from a G rating in 2012 to D rating in 2015

The average total score dropped from 55% in 2015 to 53% in 2016. Because the analysis includes a much smaller sample than the Top 100, the results of just one SOC can greatly influence the overall results. This was compounded by Telkom being part of the JSE Top 100. Telkom is now only included within the Telecommunications industry sector. Two companies, i.e. Transnet Limited and Airports Company South Africa SOC Limited, once again scored over 80% in 2016. These companies produce excellent integrated reports that follow the guidelines of the <IR> Framework. Unfortunately, eight reports (45%) received below 50%. Most of these SOCs made no attempt to produce an integrated report. Therefore, as with the Top 100 companies, there is a growing gap between those companies producing excellent integrated reports and those that are not.

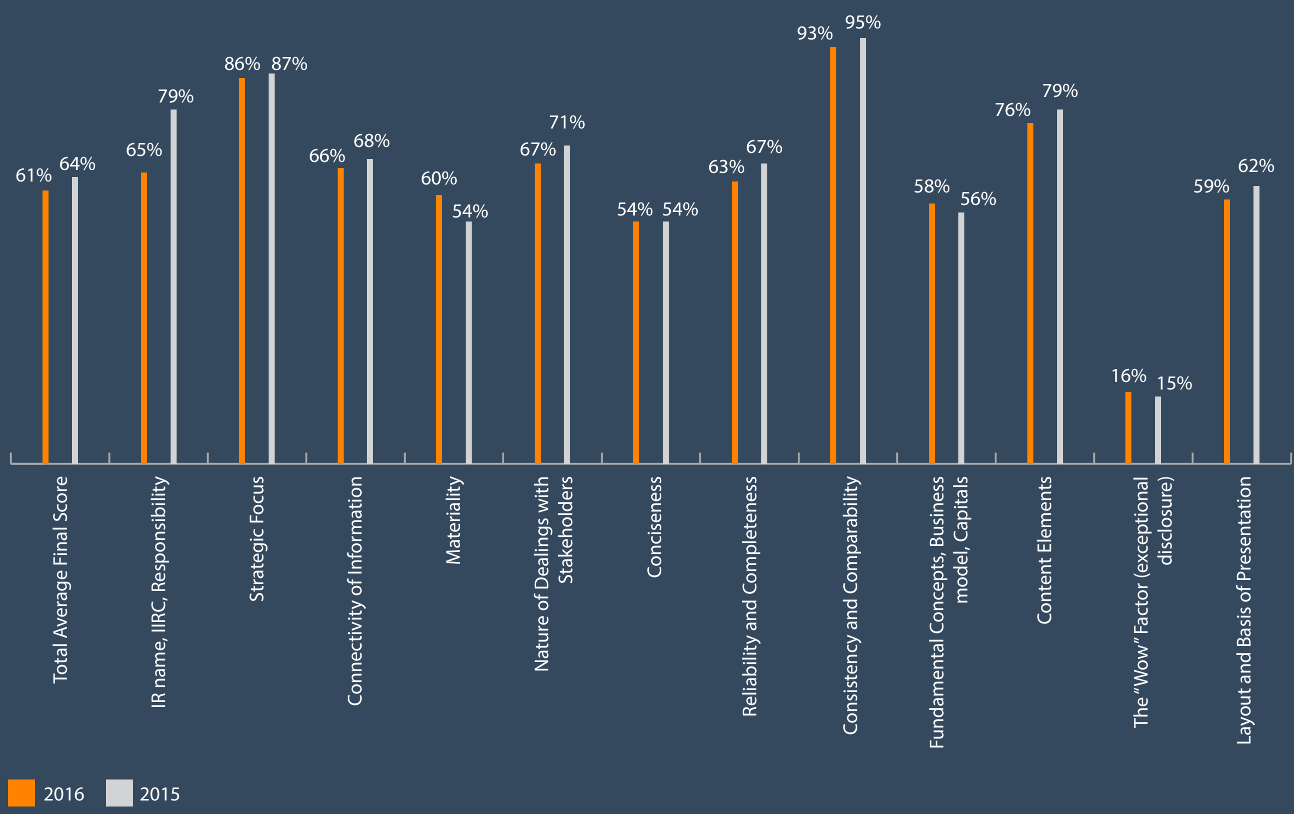
Our analysis further determined that it is unlikely that the average performance for the SOCs will converge with that of the Top 100 listed companies soon if the poorly-performing companies within the SOC category don't dramatically improve on their reporting. The best versus worst performers among the SOCs show that the best performers averaged 67% (compared to 70% for the Top 100 companies) whilst their poor-performing counterparts averaged 36% (compared with 39% for the Top 100), reflecting a range of 31% — the same as that for the Top 100. On the face of it, these statistics appear very similar and would seem to suggest convergence of average performance between the Top 100 companies and SOCs should happen soon. However, when we examined this in more detail, we found that only 55% of the SOCs obtained a mark above 50%, pulling down the average performance of the SOCs and thus dampening the prospects of convergence. This points to the fact that although the top performing SOCs continue to do well, the poorly performing SOCs are not improving markedly.

To sum up the implications of the trends for both the Top 100 and SOCs, the performance of the good companies has improved markedly yet the poorly performing companies tend to pull down the average performance. The statistics seem to suggest that the poorly performing companies are not keeping pace with the improvements in reporting evident in the reports for the good performers. The range between those companies is 31% for both Top 100 and SOCs, reflecting that a gap in reporting quality still exists.

2.2 Key Quantitative Results

2.2.1 The Performance of the JSE Top 100

Average Performance of the JSE Top 100



The Top 100 listed companies were selected for this year's survey – of these, 98 reports were analysed based on the availability of their latest reports. This compares to 97 Top 100 and 80 SRI Index companies in 2015, but because many of the SRI companies were also Top 100 companies, a total of 107 companies were included last year.

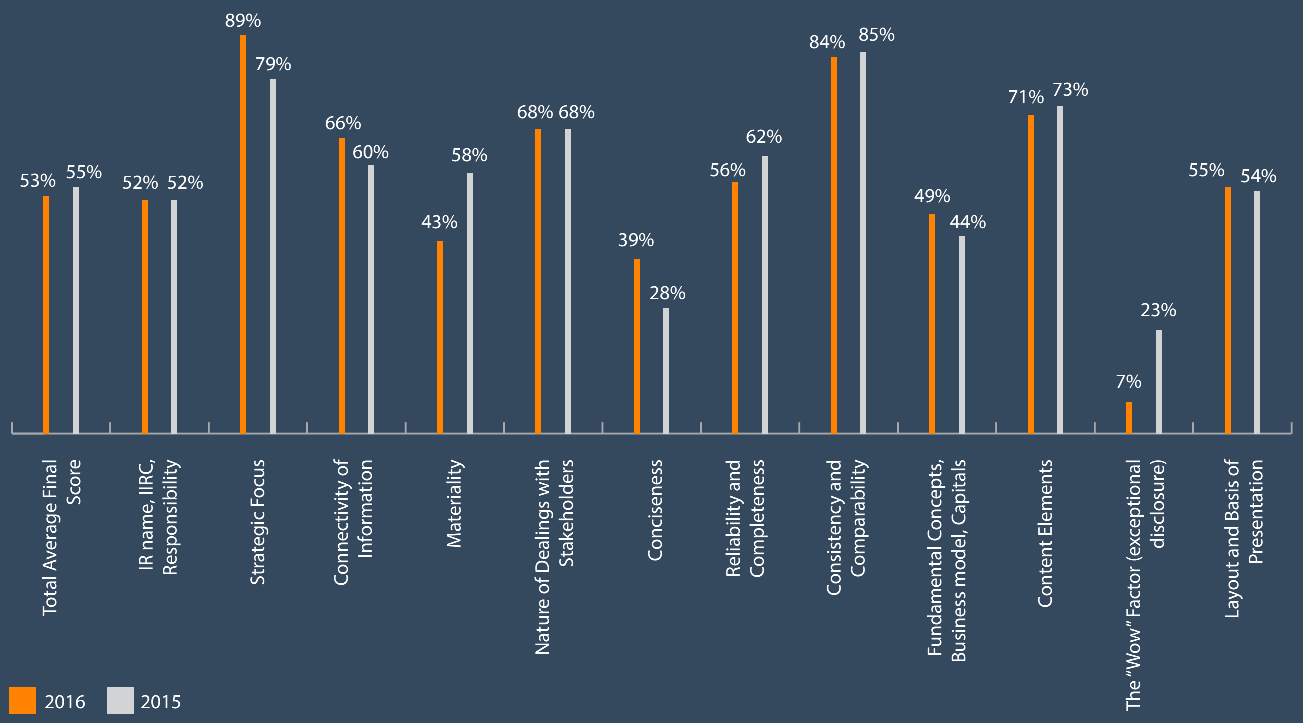
As the number of companies doing well increased, the panel focused more intensely on the quality of the reporting. A classic example was the basis of determining materiality. In previous years many companies simply omitted the explanation, but this year most companies explained the process in detail (refer to comment below regarding materiality). This shift towards quality partly accounts for more companies scoring less than 50%.

It was also found that companies that have a primary listing on an exchange other than the JSE increased in 2016. With a few notable exceptions, these companies performed poorly, with many not mentioning the IIRC or the <IR> Framework. This can be seen clearly in the title of their reports, references to the Framework and directors accepting responsibility for the integrated report – the overall score for this category fell considerably from 79% to 64% (see previous comments on the companies whose primary listing is not the JSE).

Most other categories also showed a slight decline, except for Materiality, which showed a satisfying increase in disclosure, as mentioned. However, the panel was looking for reports that went further than just mentioning materiality – they wanted to see how companies were determining what material to them was and then applying this in establishing the boundaries of their reports.

SECTION 2 (Continued)

Average Performance of the Schedule 2 PFMA SOCs



2.2.2 The Performance of the Schedule 2 SOCs

A total of 18 SOCs were analysed in this year's survey. The reports of two companies, i.e. South African Forestry Company SOC Limited and South African Express SOC Limited, did not form part of the survey because their reports for 31 March 2016 weren't available. This equates to the number of SOCs assessed in 2015, when the reports for 31 March 2015 for three companies, i.e. South African Airways SOC Limited, South African Nuclear Energy Corporation SOC Limited and Broadband Infraco SOC Limited, weren't available. Given the operating environment characterised by radical transparency, the SOCs that are not availing their reports to stakeholders need to make a concerted effort in this regard.

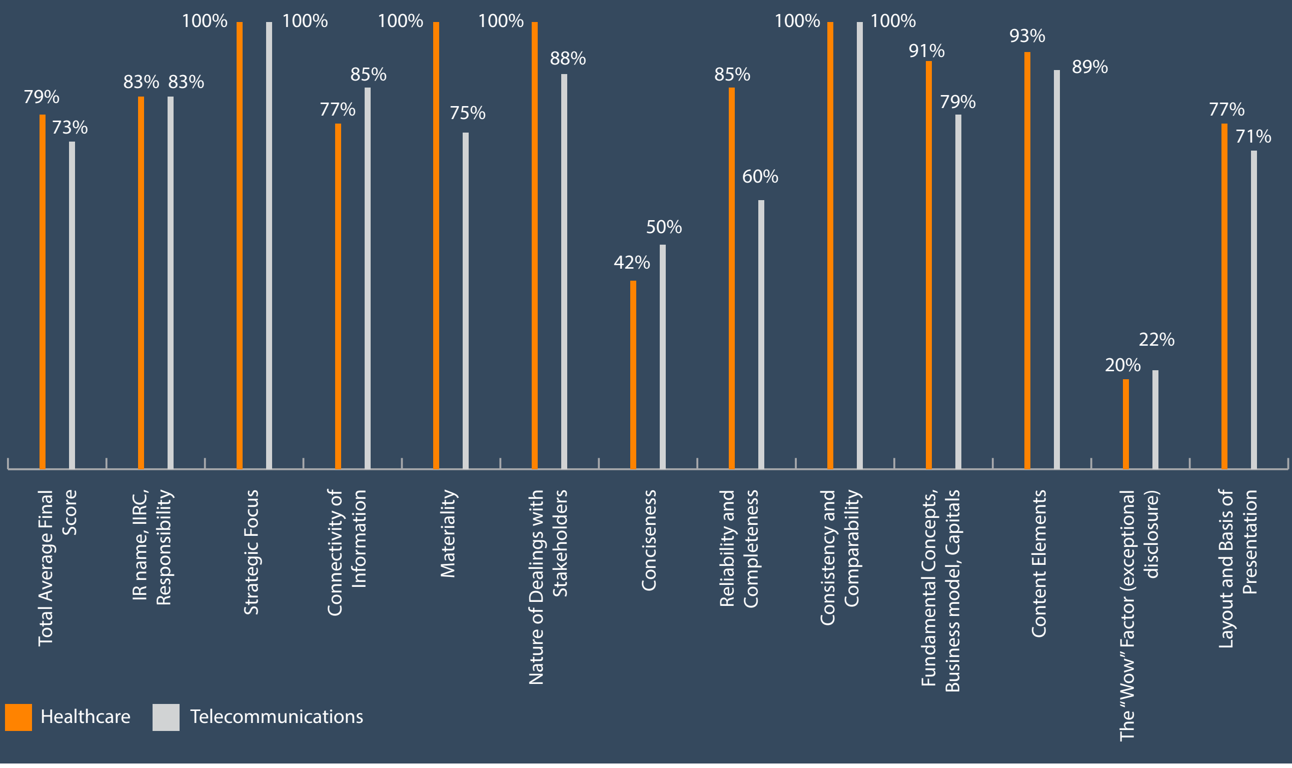
Telkom SA SOC Limited was included in the Nkonki 2015 Schedule 2 PFMA SOCs Integrated Reporting Awards, as well as in the Nkonki JSE Top 100 Integrated Reporting Awards. Because the awards are being combined this year, Telkom was only included in the Top 100 Awards and not in the SOC analysis.

What did improve considerably was Strategic Focus, with several of the SOCs stating where they want to go and how they intend to get there. Materiality was well reported by four of the SOCs but eight did not mention materiality or how they had decided on what to include in their reports, other than what is required in terms of the PFMA. Therefore, materiality scored a low 43%.

The conciseness of the reports improved, with several companies producing shorter reports. The Industrial Development Corporation of South Africa Limited and Transnet SOC Limited reduced theirs considerably. The 'WOW Factor' dropped considerably, with just five SOCs scoring any marks in this section at all.

2.2.3 Sector Analysis Reveals Strengths and Weakness

Average Performance of the Top Two Industries



Both the Healthcare and Telecommunications sectors consist of a relatively small number of companies, with four in each sector. Healthcare had two companies scoring an A (over 80%) and two scoring a B. Telecommunications had three companies scoring an A.

The Telecommunications sector probably benefited immensely from the GRI sector supplement that gave guidance on how the sector should report. This was specifically done as a pilot project for the sector as it modeled the thoughts on reporting at the time. This could explain the quick uptake of the latter reporting frameworks by the Telecommunication sector.

When the past and current performance of these two industries was further analysed the following became evident:

Telecommunications Industry

Looking at the industry's performance in the past, it occupied second position in 2014, first in 2015 and second in 2016. In 2015, the industry comprised thee companies that each obtained an A rating. Those same companies maintained an A rating in 2016. In 2016, the industry consisted of four companies. The "new" company obtained an E rating, therefore bringing down the average for the industry from 81% to 73%.

Healthcare Industry

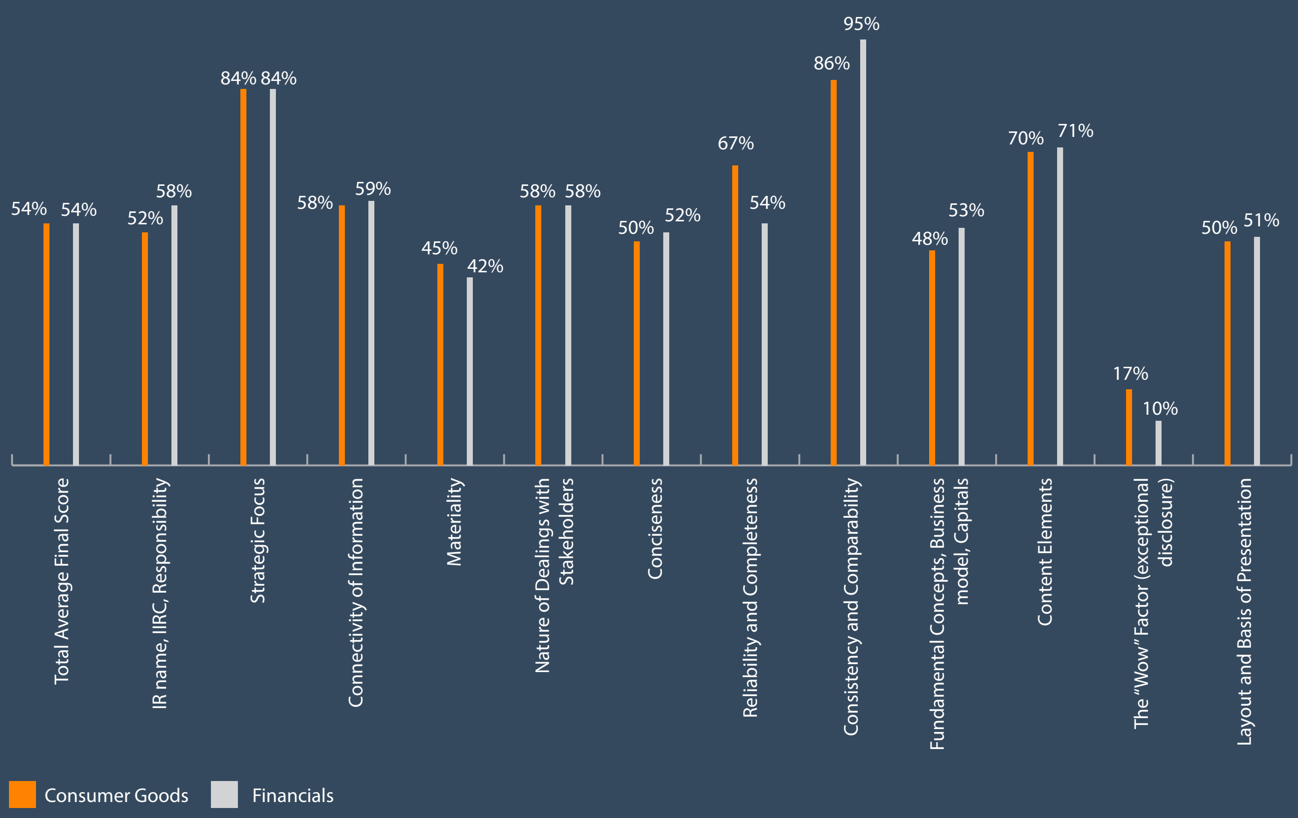
A comparative industry performance analysis shows that the Healthcare Industry achieved 5th position in 2014, 4th in 2015 and 1st in 2016. In 2015 the Healthcare Industry comprised five companies, as follows:

- One of the companies improved from a B rating in 2015 to an A rating in 2016;
- One of the companies improved from C rating in 2015 to an A rating in 2016;
- One of the companies moved from a C rating in 2015 to a B rating in 2016; and
- One company maintained a B rating from 2015 to 2016
- One company, which had a F rating, is no longer part of the survey.

In 2016 the Healthcare sector comprised four companies. As mentioned, two of the companies obtained an A rating and two a B rating. Given that the company that pulled down the average in 2015 (the company with the F rating) is no longer part of survey, and the companies in the sample have improved their ratings.

SECTION 2 (Continued)

Average Performance of the Bottom Two Industries



The panel noted that some of the poorly-performing companies in this sector dedicated a significant portion of their integrated reports to marketing activities, explaining why the company is a suitable candidate for investment and focusing other statutory reporting requirements.

The recommendation is that financial and investment companies should start to give the integrated report due regard as a tool to communicate with all stakeholders, and not just current and prospective investors.

Comparative industry analysis of the average performance of both the Consumer Goods and the Financials industries provide the following further insights:

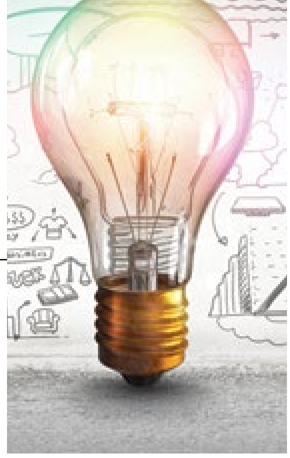
Consumer Goods Industry

- It occupied position 6th (out of 9) in 2014, 8th in 2015 (out of 8) and 8th (out of 8) in 2016, a position it shared with the Financials industry.
- The proportion of companies obtaining a score of less than 50% increased from 33% in 2015 to 40% in 2016, thus having a negative effect on the industry average.

Financials Industry

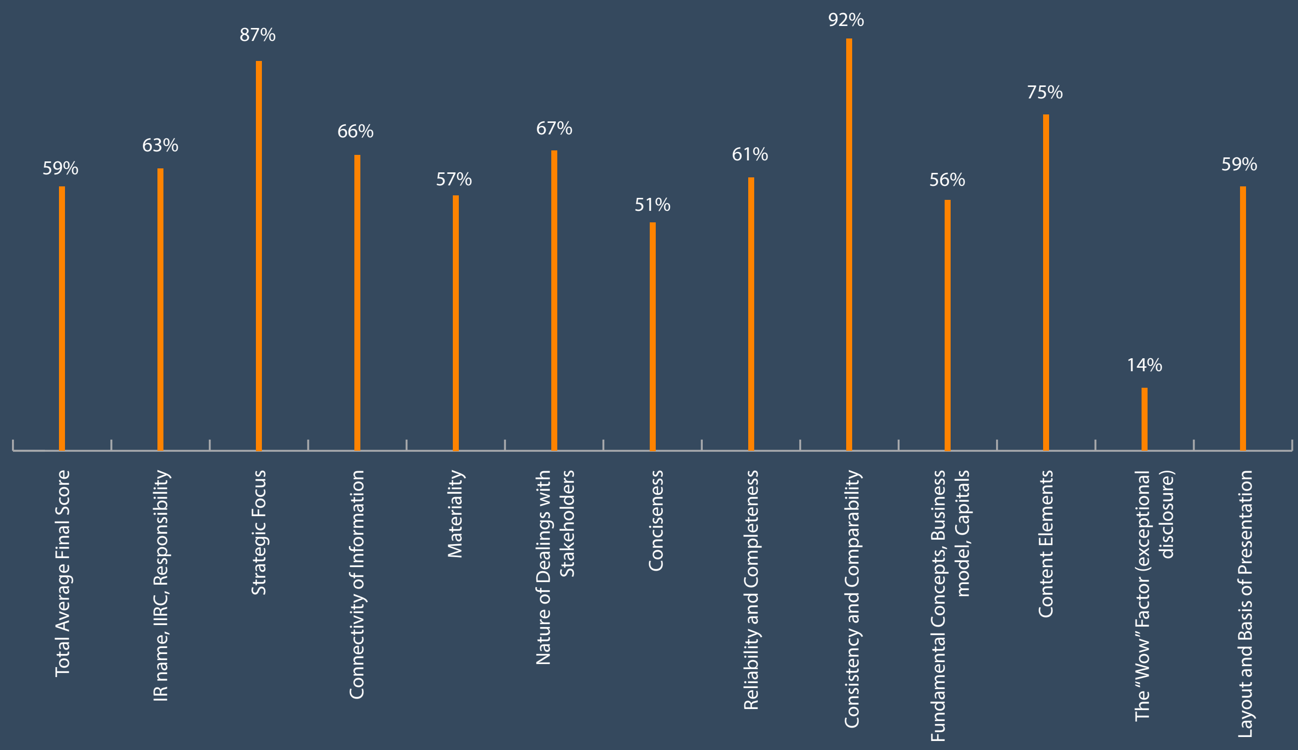
- It occupied position 8th (out of 9) in 2014, 7th in 2015 (out of 8) and 8th (out of 8) in 2016.
- The proportion of companies obtaining a score of less than 50% increased from 33% in 2015 to 47% in 2016, thus pulling down the industry average.

The change in the proportion of the companies performing poorly is partly attributable to the change in the make-up of companies in these sectors, bringing new – and apparently poorly-performing entrants – into both sectors for reasons outlined elsewhere in this publication.



2.3 Combining the JSE Top 100 with the SOCs

Average Performance of the Combined Top 100 and Schedule 2 PFMA SOCs



Because this is the first time the Top 100 listed companies and SOCs were combined, there is no comparison for previous years. The combined average performance presented here will be used in future to track performance, including any possible convergence between the two.

SECTION 3

THE QUESTIONS WE ASKED THIS YEAR

Question 1: Who is the report directed at?

According to the <IR> Framework, the primary purpose of an integrated report is to explain to providers of financial capital how an organisation creates value over time. It therefore should contain relevant information, both financial and other. An integrated report should also benefit all stakeholders interested in an organisation's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers.

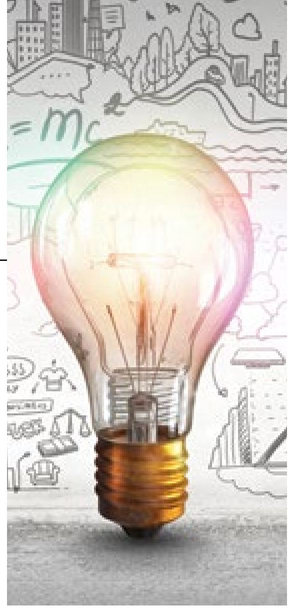
Of the 116 companies that were adjudicated this year, 49 (42%) stated that the report was directed at shareholders or providers of capital and the other 67(58%) either stated that it was directed at all stakeholders or were silent on the matter. If this finding is read in conjunction with the response to Question 8, where 91% of the companies were found to be going further in terms of how they engage stakeholders, it can be concluded that although some companies are primarily reporting to shareholders, this does not mean that they weren't considering the inclusivity of all their stakeholders. These companies can be said to be creating value for all stakeholders over time, a quality consistent with the recommendations of the International <IR> Framework.

Question 2: Does the company explain the factors that are material to their business?

An integrated report is a concise communication. Those responsible for the preparation and presentation of the report therefore need to exercise judgement, given the specific circumstances of the organisation, to determine:

- ***Which matters are material***
- ***How they are disclosed***

Eighty-two (71%) of the companies stated that they had only included items that were material to their organisations and explained the factors that were considered material to them. Many of these statements were given in the introduction to the report, therefore helping to define the boundaries of the report. It is encouraging to note the evolution in report writing as most companies are now drafting integrated reports with an emphasis on highlighting clarity and connections.



Question 3: Does the company discuss the process of identifying the factors that are material to their business?

The process for determining materiality for the purpose of preparing and presenting an integrated report involves:

- ***Identifying relevant matters based on their ability to affect value***
- ***Evaluating the importance of relevant matters in terms of their known or potential effect on value creation***
- ***Prioritising the matters based on their relative importance***
- ***Determining the information to disclose about material matters***

This year 60 (52%) companies disclosed how they determined materiality. Although the companies surveyed are doing well by disclosing information that is truly material to their business, it is also evident that only half are disclosing the actual methodology they relied upon. This is an aspect that will hopefully improve in the future.

Question 4: Was the non-financial information assured externally?

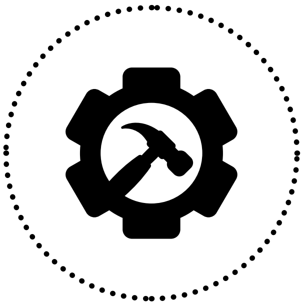
The reliability of information is affected by its balance and freedom from material error. Reliability is enhanced by mechanisms such as robust internal control and reporting systems, stakeholder engagement, internal audit or similar functions, and independent, external assurance.

Just 40 (34%) of the surveyed companies had some of their non-financial information assured externally – as previously mentioned, this continues to be a weakness. However, a few did include very detailed explanations or graphics explaining the different lines of defence that they used to ensure the reliability of their information. Several companies that are not currently using external assurance did also state that they intended to use external assurance in the future. And finally, while several companies stated that they were using external assurance providers, they did not make these external reports available.

SECTION 3 (Continued)

Question 5: Who were the external assurers?

Twenty-two of the external assurance reports were compiled by the company's external auditors, with18 compiled by other service providers, which included other audit firms or entities specialising in non-financial assurance.



Question 6: What type of assurance was provided?

Twenty-three companies declared Limited Assurance, five declared Reasonable Assurance, two Moderate Assurance and 10 a combination of Limited Assurance and Reasonable Assurance.

Question 7: What was assured?

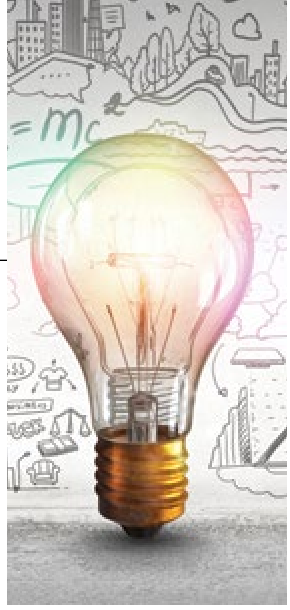
There was a great variation as to what non-financial information was assured. Some companies stated that their B-BBEEE was assured externally. If the company only assured its B-BBEEE rating, this did not qualify as an external assurance report for the purposes of integrated reporting.

Some companies stated that they used external assurance, although they only assured a few components of their reports, for example, their B-BBEEE status as mentioned above, or their carbon emissions. Other companies used external assurance to assure many components of their report. The external assurance reports were generally available in their integrated reports or their sustainability reports.

Examples of what was assured included the following: carbon emissions, value created, social spend, workplace diversity, energy consumption, information in the strategic report (applicable to Plcs), corporate governance structure, material risks, health and safety, no forced employment (European listed companies only), training (hours and economic spend), local procurement, waste generation, whistle blower hotline and network availability.

Some of the companies that have listings on other stock exchanges make use of numerous external assurance providers that are not based in South Africa. Generally, these assurance reports were not available to be read and therefore were not included in the 40 companies that the panel deemed to be externally audited in terms of their non-financial information.

The industry that performed the best in terms of extensive assurance was Basic Materials



Question 8: Did companies go further than just 'talking' to their stakeholders?

"An integrated report should provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organisation understands, considers and responds to their legitimate needs and interests. This Guiding Principle reflects the importance of relationships with key stakeholders because, as value is not created by or within an organization alone, but is created through relationships with others."

In this year's survey 91or 78% of the companies went further than limited engagement with their stakeholders. The results indicated that a large majority of companies place significant importance on cultivating a responsive relationship with their stakeholders.

Some of the methods used to assess the quality of the relationships were as follows; one-on-one meetings, collective bargaining, roadshows, open days, employee engagement, hosting of foreign delegations, social media (mentioned by many companies), surveys (including customer, suppliers, employees), partnering with various stakeholders, industry forums, university contacts, exhibitions, service level agreements, community engagement forums, media briefings and balanced scorecards.

Question 9: Do company strategies include stakeholder relationships and their management of them?

A guiding principle of the <IR> Framework reflects the importance of relationships with key stakeholders, as value is not created by or within an organisation alone, but it is created through relationships with others. Therefore, the question was asked to see how many companies have stakeholder relationships and their management as part of their strategy. It was found that seventy-six, or 66% of the companies adjudicated do include stakeholder relationships as part of their strategy. Although this is a positive trend, we hope that in future more companies will discuss the link between stakeholders and their impact on the business' ability to create value over time.

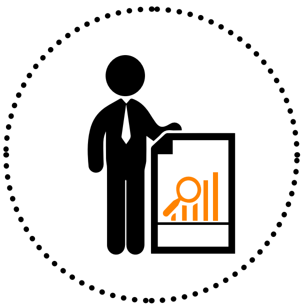
SECTION 3 (Continued)

Question 10: Have KPIs been identified for stakeholder engagement?

Based on the importance placed on stakeholder relationships as mentioned in question 9, a further question was asked as to whether the companies use KPIs to help in their management of these relationships of which forty-one or 35% of companies were identified as having KPIs for stakeholder engagement.

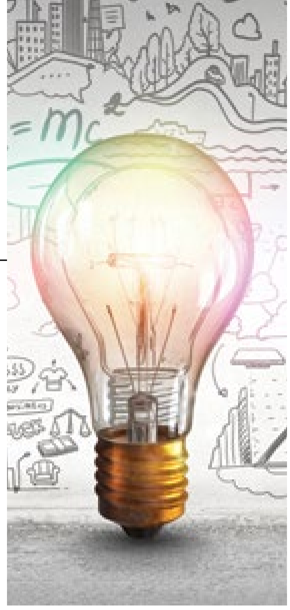
Question 11: Did the companies report on succession planning?

Although not a requirement of integrated reporting, this question was asked in terms of good governance eighty-nine, or 77%, of the companies reported that succession planning is in place. The companies that did discuss succession planning nearly always discussed it in terms of senior management.



Question 12: Was the remuneration policy linked to strategy?

This question was asked as integrated thinking leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term. On that basis, the question was asked to see how the employees of companies would directly benefit from an increase in the creation of value. In nearly all cases, for both the listed and SOC companies, executive directors, and some senior management, receive short- and long-term incentives comprising bonuses and various share incentive schemes that are linked to attainment of strategic objectives. Therefore, if integrated thinking does indeed lead to an increase in value, it appears that by applying integrated thinking the more senior management who are responsible for the company's value creation will be rewarded accordingly.



Question 13: Did companies show a distinction between human capital and intellectual capital?

The reason for this question being asked was that in a number of instances it was noticed that companies did not always report on all six capitals and the most common capital to be left out appeared to be intellectual capital. Several companies using the term "capitals" combined human and intellectual capital into one. The panel also noted several cases where the distinction between human capital and intellectual capital was not clear. There were also cases where certain human capital was incorrectly described as intellectual capital. The source of this confusion might be that in everyday language intellectual capital maybe used interchangeably with human capital as it is used to refer to intellect". For clarity, intellectual capital is defined by the IIRC as *"Organizational, knowledge-based intangibles, including intellectual property, such as patents, copyrights, software, rights and licences 'organizational capital' such as tacit knowledge, systems, procedures and protocols."*

Human capital is defined as *"People's competencies, capabilities and experience, and their motivations to innovate, including their alignment with and support for an organization's governance framework, risk management approach, and ethical values, ability to understand, develop and implement an organization's strategy, loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate"*

Question 14: Did companies report on natural capitals?

Eighty-eight, or 76%, of companies reported on natural capitals. Several companies such as investment companies stated that natural capital was not material to them,. Some of the natural capitals reported on included carbon emissions (included by a high percentage of companies, with some going into further detail, breaking emissions down into various types); energy consumption, including electricity, fuel and diesel consumption; water (including consumption and recycling); nature conservation and bio diversity (including environmental incidents); paper and packaging reduction; recycling including paper; general waste management; noise reduction; rehabilitation of land and mines; climate change; cyanide usage; green buildings; renewable energy; mineral and waste disposal.

SECTION 4

HOW WE ASSESSED THE TOP 100 JSE LISTED COMPANIES AND SOCs

A combined model comprising both quantitative and qualitative methodologies was used, with the aim of evaluating the quality and content of the integrated reports produced by the Top 100 JSE listed companies as well as the SOCs in 2016.

As mentioned, a total of 116 companies formed part of this year's survey. To ensure that we received accurate and reliable data reflecting the ranking of companies by market capitalisation at the end of the year and the correct classification of the industry and sector, we requested the data directly from the JSE. The JSE consequently provided the market capitalisation data as at 30 December 2016. A combined model comprising both quantitative and qualitative methodologies was used, with the aim of evaluating the quality and content of the integrated reports produced by the Top 100 JSE listed companies as well as the SOCs in 2016.

The methodologies can be broken down as follows:

- Using mark sheets based on the International <IR> Framework to assess the content of the integrated report as well as to measure the quality of the data included therein (refer to total score analysis table below).
- Using a qualitative desktop survey, incorporating elements of the International <IR> Framework as a tool to gain greater insight on specific aspects of the sample of integrated reports produced in 2016.
- Adjudication of the integrated reports within the context of the business operating environment and considering global trends.

Total score analysis

Component	Marks
Using the <IR> Framework, the application of the Framework and declaring responsibility for an integrated report	15
Strategic focus	5
Connectivity of information in the integrated report	15
Materiality and stakeholder dealings	10
Stakeholder dealings	10
Conciseness of the integrated report	15
Reliability and completeness	15
Consistency and comparability	5
Fundamental concepts, business model and capitals	30
Content elements	35
"Wow factor"[1]	15
Presentation, layout and basis for preparation	30
TOTAL	**200**

1. The "Wow factor" refers to the components that are presented in an exceptional way

116

Total of 116 companies formed part of this year's survey.

SECTION 5

CURRENT OPERATING ENVIRONMENT

Content elements discussed in the <IR> Framework include, among other things, that an organisation should, in its integrated report, report on an organisational overview and the external environment. As per the <IR> Framework, significant factors affecting the external environment include aspects of the legal, commercial, social, environmental and political context that affect the organisation's ability to create value in the short, medium or long term.

The Global Competitiveness Report 2015–2016 identifies the fourth industrial revolution, new forms of consumerism, a new and exceptionally fast-paced wave of innovation, the global economy that is now characterised by a "new normal" of higher unemployment, lower productivity growth, and subdued economic growth as some of the significant challenges in the global operating environment. The King IV Code of Corporate Governance also summarises, succinctly, the emergence of the new factors that create significant uncertainty in the operating environment:

"New global realities are testing the leadership of organisations on issues such as inequality, globalised trade, social tensions, climate change, population growth, ecological overshoot, geo-political tensions, radical transparency and rapid and scientific advancements."

Over and above the factors identified above, specific factors impacting the business environment include the restless consumer who has ever-changing and new needs, the shifting needs of employees, faster regulatory change that tracks and keeps up with changes in the market, and financial crises and recessions.

During 2015 and 2016, South African companies had to grapple with many global and local challenges. These included the Chinese stock market crash; Brexit; Donald Trump winning the US presidential elections – an event that brought its own instabilities in the markets due to uncertainty on trade agreements, foreign policy and immigration; the amended Codes of Good Practice for Broad-based Black Economic Empowerment; service delivery protests; the #feesmustfall protests; skills shortages; high unemployment; mining charter; inequality; and the social tensions arising therefrom, as well as corruption.

As alluded to above, we expect companies to report on geo-political, social, and economic factors in the operating environment in as far as they are material to their operations. Refer to section 1.2 for examples of excellent reporting in this regard.

In the following sections, we discuss key elements and developments in the South African and global operating environment and assess how companies responded to these elements and developments. We have singled out South Africa's competitiveness, The Fourth Industrial Revolution, King IV report and the new ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report.

5.1 South Africa's Competitiveness

The Global Competitiveness Report measures domestic prosperity or competitiveness by taking into account the various policies and factors which influence a nation's productivity.

According to The Global Competitiveness Report 2015–2016, South Africa was ranked 49th (2015: 56), improving by seven places. With a Global Competitiveness Index of 4.39, South Africa was the second most competitive country in Africa after Mauritius, which is ranked 46 out of 140.

Some of the policies and factors that are analysed in arriving at the Global Competitiveness Index, such as the macro-economic environment and business innovation, are elements that businesses have to apply their minds to in both their day to day operations and reporting.

5.2. Key Audit Matters

According the International Standards on Auditing (ISA) 701, Key Audit Matters (KAMS) are those matters which, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. This ISA is effective for audits of financial statements for periods ending on or after December 15, 2016.

Connectivity is identified as one of the guiding principles in the preparation of integrated reports. The <IR> Framework describes connectivity as a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organisation's ability to create value over time.

Our expectation is that once a matter has been identified as a KAM, it should be reported on in other areas of the integrated report as management apply their minds to how that matter affects value creation and how it links with other matters reported on.

To determine how companies reported on KAMS, the panel analysed the audit reports of the Top 10 companies for examples of good reporting regarding KAMS, where applicable.

SECTION 5 (Continued)

Going concern was raised in the KAMs by the auditors which was linked or mentioned as well in the "Directors Report", mentioned in the "About the Report" section, mentioned in the "Message from the CFO", mentioned in the section that reads "Leadership" – therefore emphasising the importance of the matter and how it was dealt by the leadership.

Both the Chairman's and CFO reports stated that during February 2017, the group concluded an agreement with the South African Revenue Service (SARS) to settle the dispute relating to assessments received for the years 2006 to 2010 inclusive, and the tax treatment of the relevant issues in the years 2011 to 2015 inclusive, for a full and final total settlement amount of R2.5 billion.

In both the reports above, the KAMs are first raised generally by management to draw the stakeholder's attention to the matters and also addressed by the CFO as a custodian of finances showing the how the matters affect different value creating activities.

5.3 Information Technology and Disruption

According to a World Economic Forum article entitled, "The Fourth Industrial Revolution: what it means, how to respond":

"We stand on the brink of a technological revolution that will fundamentally alter the way we live, work, and relate to one another. In its scale, scope, and complexity, the transformation will be unlike anything humankind has experienced before. We do not yet know just how it will unfold, but one thing is clear: the response to it must be integrated and comprehensive, involving all stakeholders of the global polity, from the public and private sectors to academia and civil society."

Companies should report on the implications of the Fourth Industrial Revolution, as part of their operating environment and consider, amongst other things, the following; the changing needs of employees and the relevance of current roles, the impact of potential future job losses, the new risks that technology brings and the ways of mitigating such risks, implication for strategy – strategies should be dynamic, anticipatory and easily adaptable to the new norm at a speed that does not result in loss of business or impact the future business model, emergence of new material issues for integrated reporting, extensive engagement with stakeholders, specifically focusing on the use of technology and reporting on education and training should not only list the amount spent – it should include the nature of the training. ArcelorMittal's report aptly describes training as, "training for the new operating reality". With respect to the new norm of technology, such descriptions should be commonplace and specific to the different facets of technology readiness training. Anglo American Platinum company described innovation as essential to modernising its business and new mining technology was mentioned as one way of ensuring innovation.

According to the CEO's Report, Barloworld also aims to leverage technology to enhance customer experience and deliver improved productivity and performance.

AngloGold Ashanti reports that innovation and technology are being viewed as an ongoing exercise, having resulted in improvements in reef-boring times.

5.4 Integrated Thinking and Reporting Through the King IV Lens

5.4.1 A Note on Some of the Salient Features of King IV

The King IV Report, released in November 2016, emphasises among other things, integrated reporting, integrated thinking, and assurance on information contained in an integrated report. The report has notable linkages to the <IR> Framework with respect to integrated reporting, including using the six capitals as a lens for understanding the value creation process, strategic focus, risk and opportunities, the business model, the connectivity of information, the capitals and their interdependencies and the emphasis on integrated thinking. In fact, integrated thinking has been identified as one of the philosophies underpinning King IV, and the authors acknowledged that they relied on the <IR> Framework.

Analysing the Code of Corporate Governance, specifically Section 5.2, brings to the fore that King IV seeks to develop these linkages, as well as the concept of integrated reporting. Principle 4 states that the governing body should appreciate the organisation's core purpose, its risks, opportunities, strategy, business model and performance, whilst Principle 5 says that reporting should be done in such a way that stakeholders are able to make an informed assessment of the organisation's performance and its short-, medium- and long-term prospects.

As a further development of the concept of integrated reporting, King IV provides more guidance, given subsequent developments and evolution in integrated thinking, than King III, which merely introduced the idea of integrated reporting. King IV succinctly sums up what an integrated report should focus on:

"An integrated report could be a standalone report which connects the more detailed information in other reports and which addresses, at a high level and in a complete and concise way, the matters that could significantly affect the organisation's ability to create value."

SECTION 5 (Continued)

5.4.2 Uptake of The King IV Principles in Integrated Reporting During 2016

It was our expectation that most companies would not fully implement the recommendations of the King IV report during 2016, given that it was only issued in November 2016. However, we were pleasantly surprised that some companies with later year-ends did implement some of the recommendations of King IV or even the whole report as they had more opportunity to do so. Some of the top performing companies did at least mention King IV in their integrated report.

- ArcelorMittal states in its integrated report that it will align its reports to the requirements of King IV and will report on the King IV recommendations from 2017. In the corporate governance report, the company made reference to the requirements of King IV in a number of instances.

- Anglo American Platinum, having a 31 December year-end, stated that it used King IV as one of the reporting frameworks it followed and explained in the corporate governance report that it is an early-adopter of King IV.

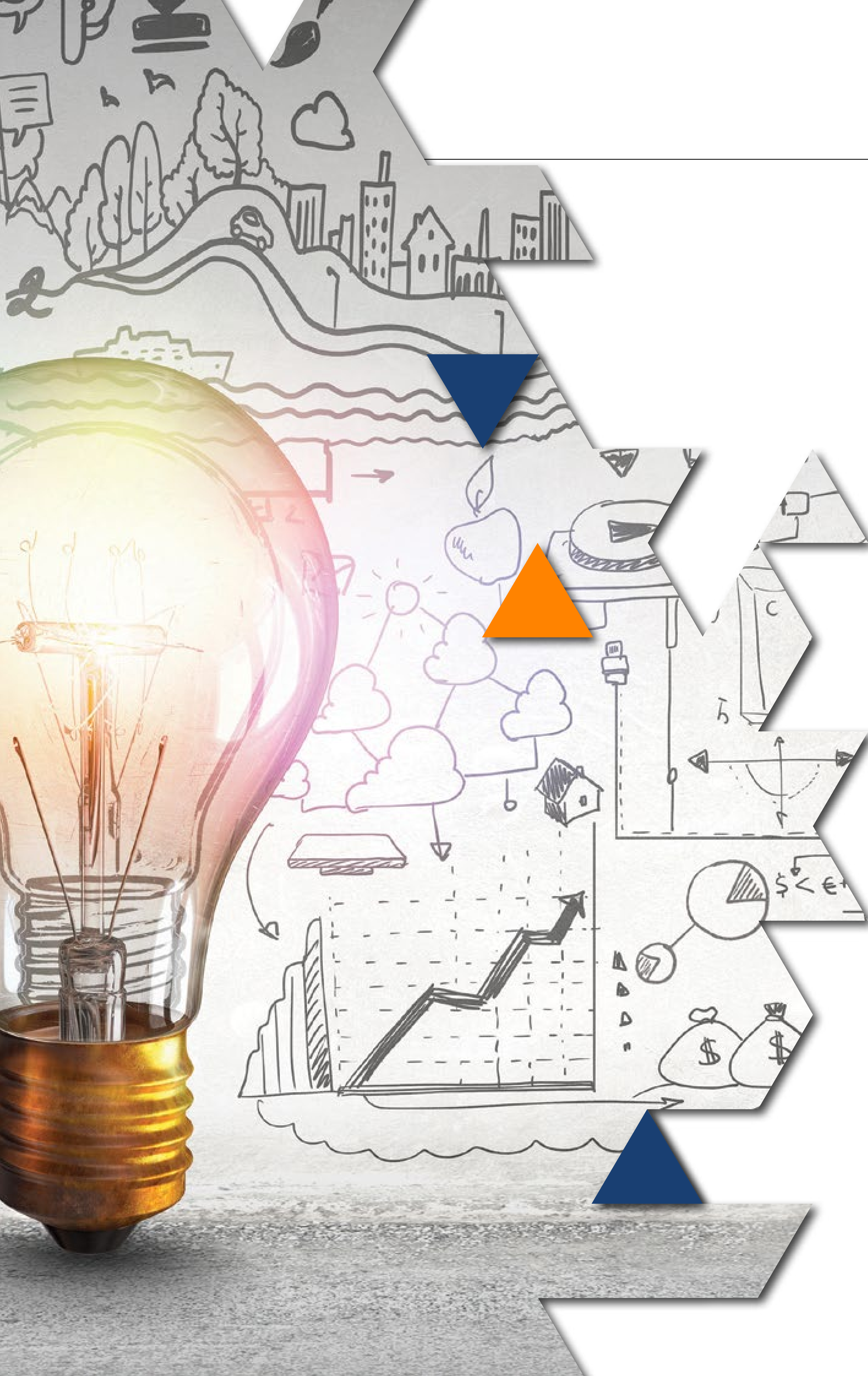
- AngloGold Ashanti, Life Health Group Holdings and Barloworld stated that they are in the process of aligning their reporting to King IV.

- Kumba Iron Ore stated that the board had been trained on King IV and has begun a process of aligning to its reporting to the new code. It is stated in corporate governance report that the terms of reference for most committees have been updated to give effect to King IV, and that director independence is based on the recommendations of the new code.

- Nampak mentioned that King IV will be applicable to its 2018 report.

- Transnet mentioned the training (of the directors) relating to King IV.

It should be noted that on 22 May 2017, the JSE issued amendments to its Listings Requirements: Part 1 of 2016, in which it noted the adoption of the King IV Report on Corporate Governance and other governance arrangements, including a race diversity policy and the publication of a compliance report pursuant to the Broad-Based Economic Empowerment Amendment Act No.46 of 2013. According to this, the JSE will require the application and disclosure of the King IV corporate governance amendments on any documents (circulars and annual reports) submitted to the JSE on or after 1 October 2017. The King IV corporate governance amendments will apply to all new listings from the Effective Date (being Pursuant to Board Notice 87 of 2017 as published in the Government Gazette No.40847, the effective date is 19 June 2017); the document served to confirm the implementation dates in respect of certain amendments, notwithstanding the effective date of 19 June 2017 (the "Effective Date").



INDEPENDENT RESEARCH PANEL

The independent research panel has years of combined expertise in the fields of integrated reporting, corporate governance, accounting, auditing, compliance, law and financial management, and are considered experts in their fields.

Adrian Pilley, BCompt, BCompt (Honours) MCom, CA(SA), RA

Adrian had a successful career of over 15 years in commerce and industry where he held various senior positions. He began his academic career at Monash South Africa (MSA) in 2001 were he initially lectured taxation and has been lecturing financial reporting for the last 9 years. He has been a part of the MSA judging panel of the Nkonki Integrated Awards for the past 5 years. Adrian provides accounting and taxation assistance for small to medium sized entities. His research interest is in the area of integrated reporting.

Professor Humphrey Gowar, BCom, PGDA, CA(SA), FInstD

Humphrey began his career by qualifying as a Chartered Accountant, serving 5 years in practice with Ernst & Young and 2 years in banking. He then began an academic career at the University of KZN, where he co-authored a text book which is now in its 27th edition and was a member of a team that prepared candidates for their professional exams. Humphrey was then recruited by UDW as a Professor. At UDW he was elected Dean, Chairman of the Committee of Deans, Head of the Transformation Forum and was then appointed Vice Principal. Thereafter the University of Technology recruited Humphrey as Registrar: Finance and Head of the Department of Internal Auditors. For 7 years he served, inter alia, on the Executive of the KZN branch of the Institute of Directors.

Soon after moving to Johannesburg as a consulting registrar at Bond University, he established a consultancy specialising in Corporate Governance, Mentoring of Directors, Strategy, Risk, Ethics, Leadership etc, and was made a Fellow of the Institute of Directors (SA).

Humphrey has been elected Fellow of the Corporate Governance and Sustainability International Group and has been nominated international Influencer of the week. He also is a member of the International Business Roundtable Institute for Corporate Ethics. This has led to him being included in the Sanford International Who's Who.

Humphrey is currently lecturing on Corporate Governance and related management topics at Monash University (SA) and does public presentations on various topics.

Rufaro Shambare, LLB, LLM, PGDIP (Compliance)

Rufaro has been a part of academia since 2008. She has been lecturing business law for the past seven years and has lectured students ranging from first to final year at MSA since 2013. Her research interests lie generally within the field of company law, corporate governance and specifically in business rescue. Rufaro's two publications and two conference papers lie within the fields of public and commercial law. She is also the former editorial assistant for the South African Journal of Criminal Justice.

Gladman Moyana, BCom (cum laude), BCom(Honours)(Acc), CA(SA), RA

Gladman is a qualified Chartered Accountant with extensive experience and a subject matter expert in various aspects of business advisory including technical accounting, turnaround strategy, audits and audit support, equity valuations, capital structure restructuring, forecasting and budgeting, strategy formulation and implementation, profitability analysis, financial modeling, capital productivity, forensic investigations and research relating to business survival. Gladman is a former member of panel on the Auditor General's panel of experts on audit and other related matters. He is the engagement leader and thought leader in a couple of business advisory assignments.

He provides technical assistance to private and public-sector clients, medium sized audit and consulting firms where specialist financial management and research expertise is required on the various business advisory assignments. He is currently an associate member of the Zambian Institute of Chartered Accountants.

Gladman teaches Financial Management to senior undergraduate students and honors students at Monash South Africa, and also marking and commenting on the Financial Management paper for the ITC (South African Institute of Chartered Accountants) board exam. Gladman is an active researcher in the areas of business failure, persistence of earnings and IFRS vs US GAAP interface. His conference presentations include three papers on business sustainability and is currently contracted to assist a major research company with the finance and economics part of their research assignments.

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ANNEXURE

ANNEXURE A: SCORES FOR THE TOP 100 JSE LISTED COMPANIES AND SOCs

	Company	Grade
1	Airports Company of South Africa Limited	A
2	Anglo American Platinum Ltd	
3	Anglogold Ashanti Ltd	
4	ArcelorMittal SA Limited	
5	Aspen Pharmacare Holdings Ltd	
6	Barloworld Ltd	
7	Exxaro Resources Ltd	
8	Impala Platinum Holding Ltd	
9	Kumba Iron Ore Ltd	
10	Life Healthcare Group Holding Ltd	
11	MTN Group Ltd	
12	Nampak Ltd	
13	Nedbank Group Ltd	
14	Oceana Group Ltd	
15	Redefine Properties Ltd	
16	Sanlam Limited	
17	Sasol Limited	
18	Sibanye Gold Limited	
19	Telkom SA SOC Ltd	
20	Transnet Limited	
21	Truworths Int Ltd	
22	Tsogo Sun Holdings Ltd	
23	Vodacom Group Ltd	
24	African Rainbow Minerals Ltd	B
25	Air Traffic and Navigation Services Company Limited	
26	Anglo American plc	
27	Attacq Limited	
28	Barclays Africa Grp Ltd	
29	Development Bank of Southern Africa	
30	ESKOM	
31	Gold Fields Ltd	
32	Imperial Holdings Ltd	

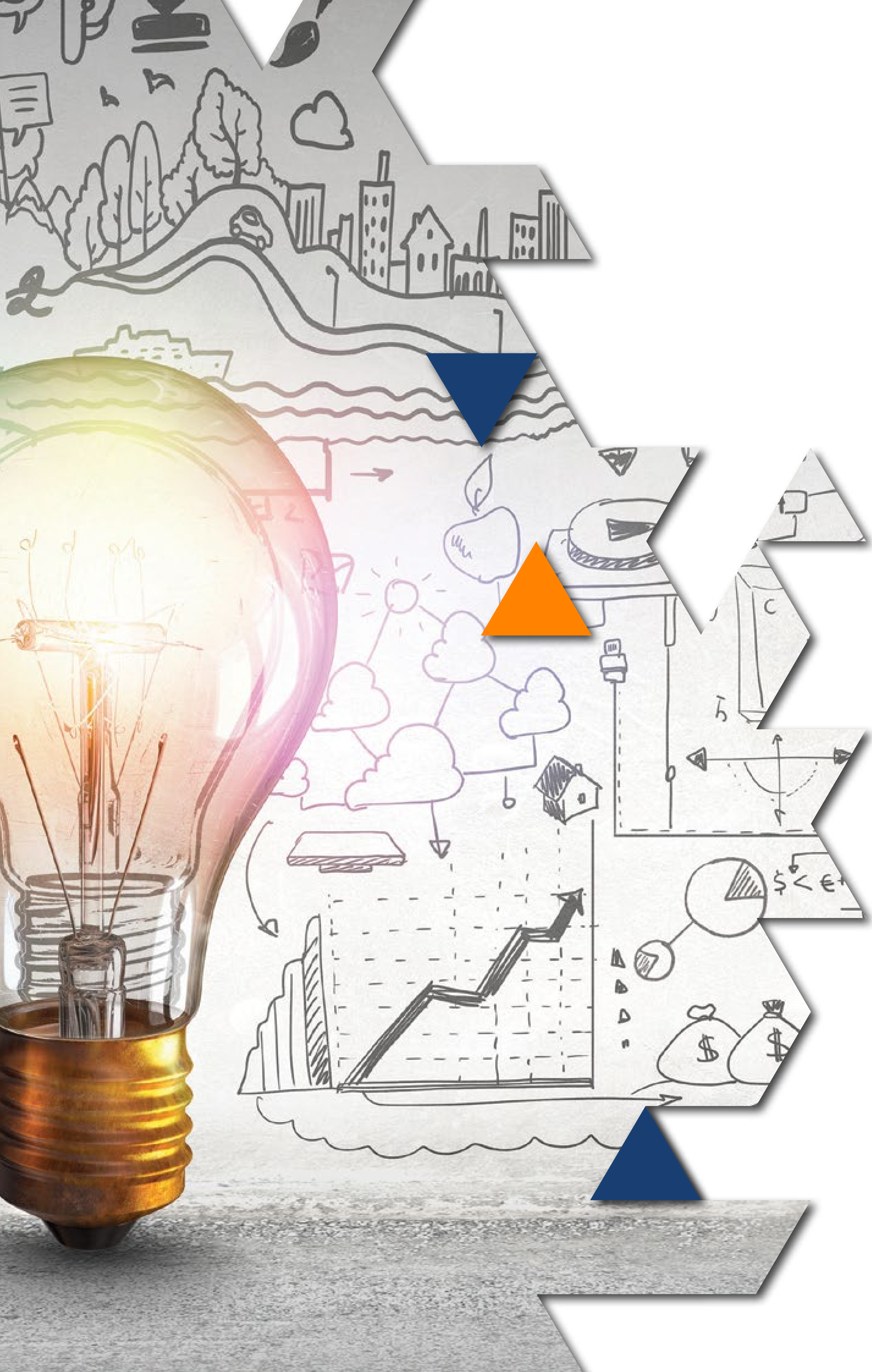
	Company	Grade
33	Liberty Holdings Ltd	B
34	Massmart Holdings Ltd	
35	Mediclinic Int plc	
36	Mr Price Group Ltd	
37	Netcare Limited	
38	Northam Platinum Ltd	
39	Rand Merchant Investment Holdings Ltd	
40	Sappi Ltd	
41	Standard Bank Group Ltd	
42	Woolworths Holdings Ltd	
43	Alexkor Limited	C
44	Capitec Bank Holdings Ltd	
45	Clicks Group Ltd	
46	Coronation Fund Managers Ltd	
47	Growthpoint Prop Ltd	
48	Harmony GM Co Ltd	
49	Hyprop Investment Ltd	
50	Industrial Development Corporation of South Africa Limited	
51	Mondi Ltd + plc	
52	Naspers Ltd -N-	
53	Pick n Pay Stores Ltd	
54	Pioneer Foods Group Ltd	
55	Reunert Ltd	
56	RMB Holdings Ltd	
57	The Foschini Group Limited	
58	Tiger Brands Ltd	
59	Tongaat Hulett Ltd	
60	BID Corporation Ltd	D
61	Bidvest Ltd	
62	British American Tobacco plc	
63	CEF SOC Ltd	
64	Curro Holdings Limited	
65	DENEL (Pty) Ltd	
66	Discovery Ltd	
67	Distell Group Ltd	
68	EOH Holdings Ltd	
69	Famous Brands Ltd	
70	Fortress Inc Fund Ltd	
71	Glencore plc	
72	Investec plc + Ltd	
73	Land and Agricultural Development Bank of South Africa	
74	Old Mutual plc	
75	Omnia Holdings Ltd	
76	Resilient REIT Limited	
77	SA Corp Real Estate Ltd	
78	Santam Limited	
79	The Spar Group Ltd	

ANNEXURE A (Continued)

	Company	Grade
80	AECI Limited	E
81	Anheuser-Busch InBev SA NV	
82	Armaments Corporation of South Africa SOC Limited	
83	Assore Ltd	
84	AVI Ltd	
85	BHP Billiton plc	
86	Blue Label Telecoms Ltd	
87	Brait SE	
88	Broadband Infrastructure Company (Pty) Ltd	
89	Capital&Counties Prop plc	
90	Compagnie Fin Richemont	
91	Firstrand Ltd	
92	Hammerson plc	
93	Hosken Consolidated Investments Ltd	
94	Independent Development Trust	
95	Intu Properties plc	
96	Italtile Ltd	
97	JSE Ltd	
98	KAP Industrial Holdings Ltd	
99	MMI Holdings Limited	
100	New Europe Prop Inv plc	
101	Oakbay Res and Energy Ltd	
102	PSG Group Ltd	
103	Reinet Investments S.C.A	
104	Remgro Ltd	
105	Rockcastle Global Real Estate Co Ltd	
106	Shoprite Holdings Ltd	
107	South African Airways SOC Limited	
108	South African Broadcasting Corporation Limited	
109	South African Nuclear Energy Corporation Limited	
110	South African Post Office Limited	
111	South32 Limited	
112	Steinhoff Int Holdings N.V.	
113	Super Group Ltd	
114	Trans-Caledon Tunnel Authority	
115	Vukile Property Fund Ltd	
116	Zeder Investments Ltd	

Key to Grading Criteria

Above 80%	A
70 - 79	B
60- 69	C
50-59	D
Below 50%	E



ANNEXURE

Annexure B: Useful Tool For Improving Integrated Reporting

As part of the evolution of the reporting and enhancing the process of integrated thinking, companies could make use of some of Nkonki's tools that provide a guide through the thought process. One such tool is the Maturity Assessment Chart presented below:

APPLYING THE NKONKI MATURITY CHART

The integrated reporting maturity chart was developed by Nkonki to assist Audit Committees, Chief Executive Officers, Chief Financial Officers and other Executives, those preparing integrated reports, and other stakeholders in navigating the journey towards an excellent integrated report.

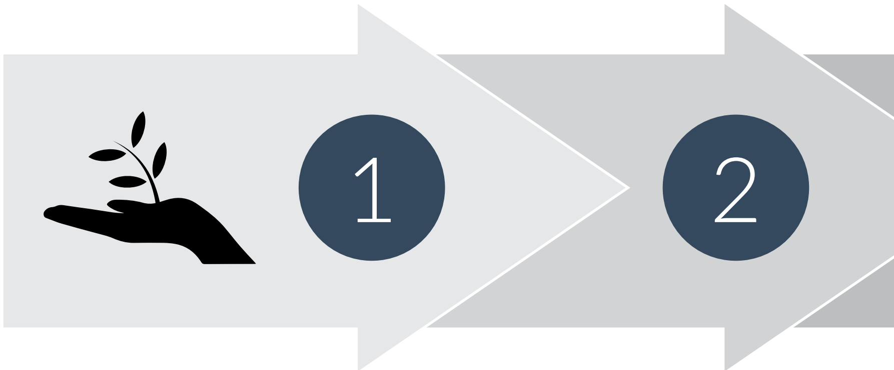
Assess your organisation's integrated reporting maturity by determining how many aspects within each level have been achieved. Once a level is "completed" (i.e all or the majority of aspects can be ticked off), attention should be given to achieving the aspects within the next higher level.

The maturity levels have been derived from the Dreyfus Model of Skill Acquisition©:

1. Novice Company
2. Advanced Beginner
3. Competent Role Player
4. The Company is Proficient in Integrated Reporting
5. Integrated Reporting Expert Company

INTEGRATED REPORTING MATURITY LEVELS

The maturity levels have been derived from the Dreyfus Model of Skill Acquisition©

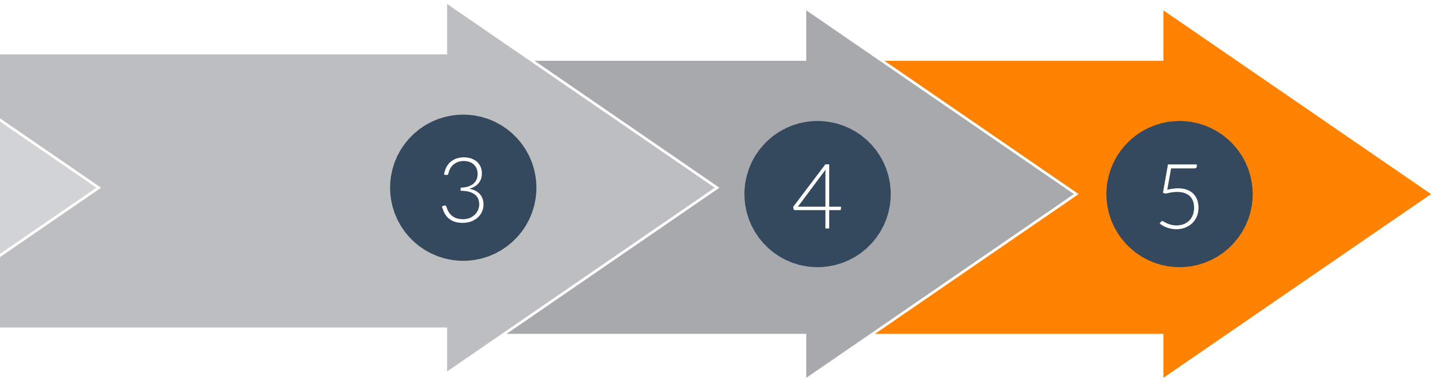


Novice Company

- The board decides to start the integrated reporting journey and produce its first report
- There is board and executive awareness training on integrated reporting, integrated thinking, the *International <IR> Framework* and other relevant regulations
- The board articulates, guided by the *International <IR> Framework*, the business model, the capitals used or affected by the organisation's activities, and the key stakeholders
- The board sets strategic objectives over the short, medium and long term after considering the capitals used or affected, the risks and opportunities, and sets KPIs and targets
- The executives are tasked with setting up systems for internal reporting for the non-financial KPIs, and for stakeholder engagement and the organisation's responsiveness
- The first integrated report tells, at least, the business model, strategic objectives, key stakeholders, and risks and opportunities noting when other information will be available

Advanced Beginner

- The board understands the need for integrated thinking and actively seeks to include consideration of the capitals used or affected in its decision-making
- The remuneration policy reflects incentives to achieve the short, medium and long term strategic objectives
- The executive in charge of the integrated report leads a multi-divisional steering committee that develops and monitors the project plan for the report
- The material matters are approved by the board together with the process of determining them
- The internal reporting system spews out reliable non-financial performance information
- There is internal and external assurance of the strategic objectives' KPIs on the realisation that these are core to the business



Competent Role Player

- Integrated thinking is embedded at board and executive levels with decision-making that includes the capitals used or affected
- The integrated report contains truly connected information
- The governance element of the integrated report has been fine tuned to reflect information that relates to the value creation process of the organisation
- There is greater understanding of outcomes (consequences on the capitals) with a move to seek quantitative information in addition to qualitative information
- The integrated report is more concise than in previous years on the better understanding of the material matters process and greater comfort in housing detailed information on the website and/ or in supplementary reports

The Company is Proficient in Integrated Reporting

- There is a standing board agenda item on the quality of the organisation's relationships with its key stakeholders and the material matters
- Remuneration incentives throughout the organisation are linked to the strategic objectives' KPIs for the short, medium and long term
- The integrated report is easily and quickly compiled at year-end as a seamless extension of internal integrated reporting and embedded integrated thinking
- Key stakeholders are fully aware that the integrated report holds strategic, material and forward-looking information and that they can find detailed information on the website
- Internal audit assures elements of the integrated report with other key elements being assured by external parties

Integrated Reporting Expert Company

- Integrated thinking is fully embedded at board, executive and staff levels
- The executives acknowledge that integrated thinking is the way they run the business
- The strategic objectives and the importance of the capitals used or affected are understood by all in the organisation
- There is external assurance on the whole integrated report
- The integrated report is looked forward to by the organisation's key stakeholders
- The organisation is, and is seen to be, a good corporate citizen with excellent corporate reporting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