The reality, and not merely the economic one, that we are experiencing is made up of an increasing number of dimensions that are mutually linked and intertwined and give rise to a series of conditions and dependencies. In particular, value creation models are determined by a wide variety of resources and relationships that are often not immediately comprehensible.

Only a clear understanding and a clear picture of the links between resources, processes and outputs enables us to fully assimilate the scenario in which we operate.

From this new threshold, currently not even touched upon in our traditional reporting, is born the need to correlate financial information and sustainability data and to focus on integrated thinking with regard to the management of company resources and the entire business model.

Dear Stakeholder,

Reporting on the year in an integrated manner has never been more appropriate than it is for 2015. Our operational and financial management, sustainability initiatives and governance practices all worked dynamically together. I genuinely believe that it is this holistic approach that gave us the energy and power we needed to make 2015 a successful year despite the challenges we faced throughout.

In Coca Cola HBC’s 2015 integrated report we can see an example of the links between capital, processes, created value and how it is shared. The 1’30" video presentation on capitals, produced by ING is also very effective.

The economic crisis itself has highlighted the close ties that exist between global finance, enterprises, people, development and progress. The current desire to promote a renewed financial stability that is compatible with sustainable development means having to analyse and develop the links between investment decisions, strategies, value creation and impact on business capital.

Thus, a new method of reporting has become a global need.
INTEGRATED REPORTING

GUIDELINES

THE INTERNATIONAL <IR> FRAMEWORK

Integrated reporting represents the evolution of traditional reporting, with a new focus on synthesis, strategy and orientation towards the future. At every opportunity the World Bank and the IMF are pushing for a broader kind of reporting on issues such as risk and future development.

The International <IR> Framework explains how the integrated report is indeed a communication document relating to the strategy, the governance, the results and the future prospects of an enterprise within a specific competitive and environmental context and how all these factors come together to create value in the short, medium and long-term.

The Framework enables us to assimilate all these factors into the system via the concept of “connectivity of information” so as to better tell the story of the enterprise’s value creation.

The aim of IR is to:

- Improve the quality of the information provided to financial capital providers in order to ensure that capital is allocated more efficiently and productively
- Promote a more cohesive and efficient approach to company reporting, ensuring that it draws on various reporting elements and presents a broad range of factors that impact significantly on an organization’s ability to create value over time
- Increase accountability and responsibility as regards the management of the various forms of capital (financial, manufactured, intellectual, human, social and natural) and to guide our understanding of their interdependence
- Support integrated thinking, the decision-making process and actions aimed at creating value in the short, medium and long-term.

GUIDING PRINCIPLES

The following Guiding Principles underpin the preparation of an integrated report, informing the content of the report and how information is presented:

- **Strategic focus and future orientation:** an integrated report should provide insight into the organization’s strategy, and how it relates to the organization’s ability to create value in the short, medium and long term, and to its use of and effects on the capitals
- **Connectivity of information:** an integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization’s ability to create value over time
- **Stakeholder relationships:** 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 organization understands, takes into account and responds to their legitimate needs and interests
- **Materiality:** an integrated report should disclose information about matters that substantively affect the organization’s ability to create value over the short, medium and long term
- **Conciseness:** an integrated report should be concise
- **Reliability and completeness:** an integrated report should include all material matters, both positive and negative, in a balanced way and without material error
- **Consistency and comparability:** the information in an integrated report should be presented: (a) on a basis that is consistent over time; and (b) in a way that enables comparison with other organizations to the extent it is material to the organization’s own ability to create value over time.

CONTENT ELEMENTS

An integrated report includes eight Content Elements that are fundamentally linked to each other and are not mutually exclusive:

- **Organizational overview and external environment:** what does the organization do and what are the circumstances under which it operates?
- **Governance:** how does the organization’s governance structure support its ability to create value in the short, medium and long term?
- **Business model:** what is the organization’s business model?
- **Risks and opportunities:** what are the specific risks and opportunities that affect the organization’s ability to create value over the short, medium and long term, and how is the organization dealing with them?

- **Strategy and resource allocation:** where does the organization want to go and how does it intend to get there?
- **Performance:** to what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?
- **Outlook:** what challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?
- **Basis of presentation:** how does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?
CONNECTIVITY OF INFORMATION

From the International Integrated Reporting Council document:

1.1 An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization’s ability to create value over time.

1.2 The more that integrated thinking is embedded into an organization’s activities, the more naturally will the connectivity of information flow into management reporting, analysis and decision-making, and subsequently into the integrated report.

1.3 The key forms of connectivity of information include the connectivity between:

- The Content Elements. The integrated report connects the Content Elements into a total picture that reflects the dynamic and systemic interactions of the organization’s activities as a whole. For example:
  1. An analysis of existing resource allocation, and how the organization will combine resources or make further investment to achieve its targeted performance.
  2. Information about how the organization’s strategy is tailored when, for instance, new risks and opportunities are identified or past performance is not as expected.
  3. Linking the organization’s strategy and business model with changes in its external environment, such as increases or decreases in the pace of technological change, evolving societal expectations, and resource shortages as planetary limits are approached.

- The past, the present and the future. An analysis by the organization of its activities in the past-to-present period can provide useful information to assess the plausibility of what has been reported concerning the present-to-future period. The explanation of the past-to-present period can also be useful in analyzing current capabilities and the quality of management.

- The capitals. This includes the interdependencies and trade-offs between the capitals, and how changes in their availability, quality and affordability affect the ability of the organization to create value.

  - Financial information and other information. For example, the implications for:
    1. Expected revenue growth or market share of research and development policies, technology/know-how or investment in human resources.
    2. Cost reduction or new business opportunities of environmental policies, energy efficiency, cooperation with local communities or technologies to tackle social issues.
    3. Revenue and profit growth of long term customer relationships, customer satisfaction or reputation.

- Quantitative and qualitative information. Both qualitative and quantitative information are necessary for an integrated report to properly represent the organization’s ability to create value as each provides context for the other. Including KPIs as part of a narrative explanation can be an effective way to connect quantitative and qualitative information.

- Management information, board information and information reported externally.

- Information in the integrated report, information in the organization’s other communications, and information from other sources. This recognizes that all communications from the organization need to be consistent, and that information the organization provides is not read in isolation but combined with information from other sources when making assessments.

1.4 The connectivity of information and the overall usefulness of an integrated report is enhanced when it is logically structured, well presented, written in clear, understandable and jargon-free language, and includes effective navigation devices, such as clearly delineated (but linked) sections and cross-referencing. In this context, information and communication technology can be used to improve the ability to search, access, combine, connect, customize, re-use or analyse information.

1.5 The organization seeks a balance in its integrated report between conciseness and the other Guiding Principles, in particular completeness and comparability. In achieving conciseness, an integrated report:

- Applies the materiality determination process described in Section 3D.
- Follows a logical structure and includes internal cross-references as appropriate to limit repetition.
- May link to more detailed information, information that does not change frequently (e.g., a listing of subsidiaries), or external sources (e.g., assumptions about future economic conditions on a government website).
- Expresses concepts clearly and in as few words as possible.
- Favours plain language over the use of jargon or highly technical terminology.
- Avoids highly generic disclosures, often referred to as “boilerplate”, that are not specific to the organization.

In this context, the content of the integrated report is not only an expression of the organization’s strategy, but also a means of connecting the Content Elements into a total picture that reflects the dynamic and systemic interactions of the organization’s activities as a whole. For example:

- An analysis of existing resource allocation, and how the organization will combine resources or make further investment to achieve its targeted performance.
- Information about how the organization’s strategy is tailored when, for instance, new risks and opportunities are identified or past performance is not as expected.
- Linking the organization’s strategy and business model with changes in its external environment, such as increases or decreases in the pace of technological change, evolving societal expectations, and resource shortages as planetary limits are approached.

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Integrated Performance Analysis

A Holistic View of Our Performance

Linking Non-Financial and Financial Performance: Advancing Our Model

An example of connectivity of information in the SAP section on “Integrated Performance Analysis”.
Indeed, it will be essential to:

- Map the company’s digital sources as regards strategy content, risk management, business model, value chain, shared value and sustainability
- Map the external third party digital sources as regards context scenarios and mega-trends
- Map all the links within the document in order to create all the necessary cross-references
- Identify cross-cutting navigation paths (for example by type of capital)
- Identify complex concepts for the connectivity network involved and communicate them effectively via interactive solutions
- Change the structure and style of written communications

BEST PRACTICES

Now, how did all the big companies that adopted integrated reporting in their respective 2014 and 2015 financial years do it?

Message conducts an annual status-quo and mega-trends analysis regarding reporting in Europe, which you can view by clicking here.

You can also view the entire database, filtering the information by various variables, at the following link.

However, in order to simplify the task of identifying the best practices we have selected those implemented that we feel should be highlighted due to the efficacy of the solutions adopted and their originality, so that they may provide some answers or clues for anyone who is just beginning to address this new topic.

In order to facilitate your viewing, we have subdivided the examples on the basis of the content dealt with.
INTEGRATED REPORTING

VALUE CREATION

BASF

The business model and value creation process are explained on a dedicated page. The interactive solution addresses three elements:

- Our foundation
- Our business model
- Our results

Every sub-element then refers to other pages of the financial statements in order to provide further details.

PHILIPS

Here too, the value creation model is sub-divided into three macro-elements as follows:

- Capital input
- Value creation
- Value outcomes

All the elements and sub-elements are linked to further details by means of a simple click, thus highlighting the connections.

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The entire BASF online report is certified by the Audit Company.
INTEGRATED REPORTING

STRATEGY

KESKO

The integrated solution adopted by Kesko is interesting. On a single, vertically scrollable page with the heading “This is how we operate”, the Company offers the following elements:

- Strategy: a brief description
- Strategy: qualitative objectives
- Strategy: financial objectives
- Identity: value, vision and mission

SOLVAY

A number of companies, although stopping short of labelling their financial statements an "integrated report", nevertheless manage to effectively create a closed information loop, create links between the various elements and report on progress made in terms of ongoing transformation processes.

This is the case of the Belgian multinational company Solvay that operates in the chemical sector and which, in the More Commitment section of its Annual Financial Statements, does well to correlate Transformation on track, Commitments by 2025 and Strategic decisions within the context of an online annual statement site that focuses on the word “more” and is broken down into 4 macro-sections as follows:

- Overview
- More Commitment
- More Talent
- More Sustainable solutions
The Dutch Company places the item “Performance” right up front at the first browsing level, which includes Highlights, the CEO’s Message, Group Performance, Sector Performance and an Interactive charting tool. Group Performance offers an integrated view of all the results achieved, subdivided as follows:

- Financial
- Social
- Environmental
- Proposed distribution
- Outlook
This integration can be deemed to be a due tribute to the fact that, in any event, even in the Integrated report, the major stakeholder of reference remains the investor.

Instead, the section entitled “Ferrovial in 2015” tells the story of the quantitative evolution of the various forms of Capital during the course of 2015 and the results achieved.

Details of one of the capitals (Human Capital)
TELIA SONERA

Within the 2015 report, the section dedicated to risk is very well structured. Here are the various chapters included:

- Industry and market conditions
- Operations and strategic activities
- Associated companies and joint operations
- Sustainability
- Owning Telia shares

TeliaSonera operates in a broad range of geographical product and service markets in the highly competitive and regulated telecommunications industry. As a result, TeliaSonera is subject to a variety of risks and uncertainties. TeliaSonera has defined risk as anything that could have a material adverse effect on the achievement of TeliaSonera’s goals. Risks can be threats, uncertainties or lost opportunities relating to TeliaSonera’s current or future operations or activities.

TeliaSonera has an established risk management framework in place to regularly identify, analyze, assess, and report business, financial as well as ethics and sustainability related risks and uncertainties, and to mitigate such risks when appropriate. Risk management is an integrated part of TeliaSonera’s business planning process and monitoring of business performance.

**RISKS AND UNCERTAINTIES**
FERROVIAL

The matrix of Risk Events is very interesting. The company has managed to show all of the following in a single matrix:

- Risk elements by category
- Risk elements linked to each strategic priority
- The relative importance of each risk element

![Risk matrix diagram](image)

*Strategic priorities

Please note: The closer a risk is to the diagram's center, the higher its relative importance. The colored areas indicate tolerance levels. Risk events that threaten several strategic priorities have been placed in the section with the highest relative importance.
OTHER ELEMENTS TO REPORT

GEBERIT

Full highlights

Challenge accepted. 2015 – an eventful year at Geberit.

GEBERIT

Materiality