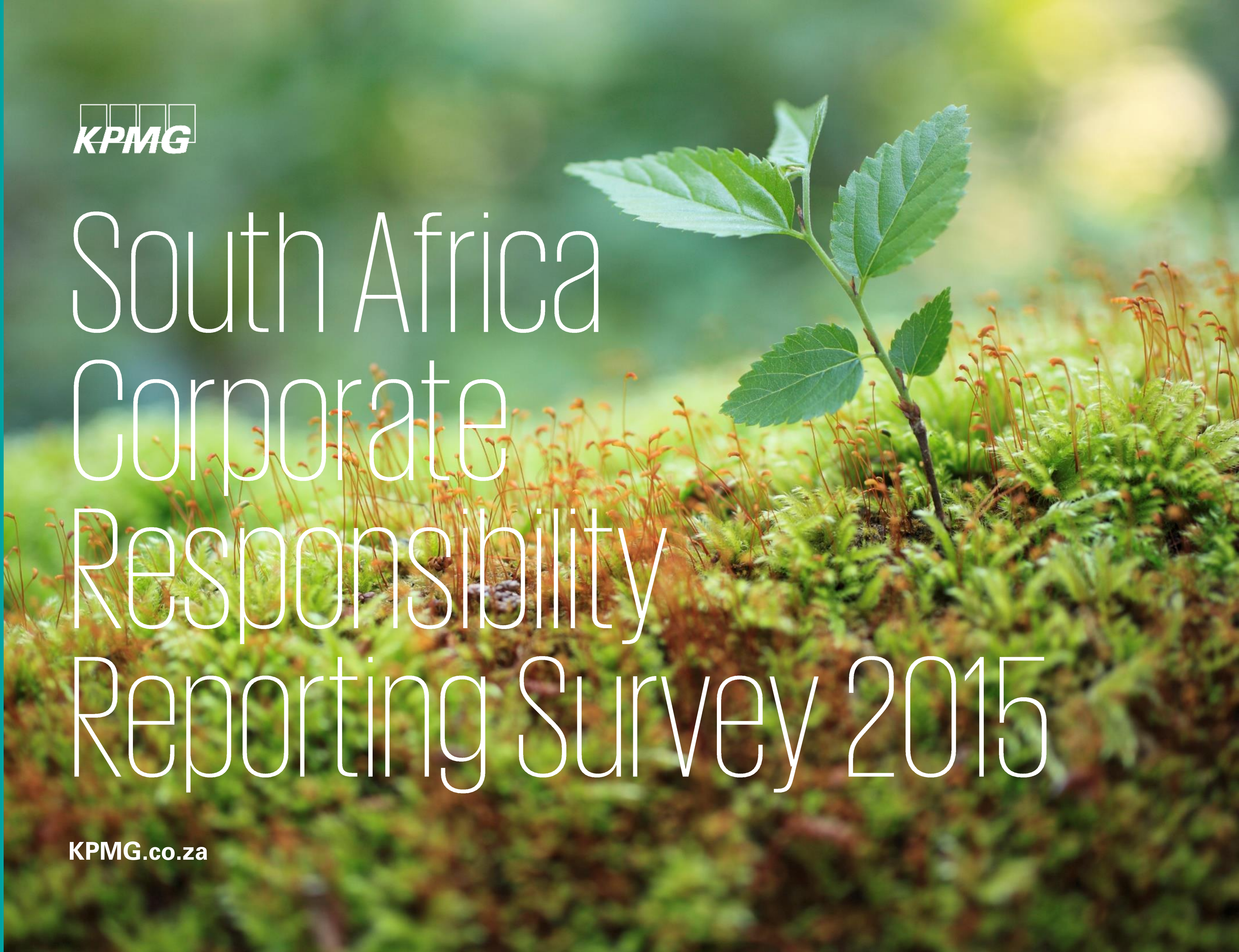

South Africa Corporate Responsibility Reporting Survey 2015

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Welcome to the KPMG South Africa Corporate Responsibility Reporting Survey 2015

This report is intended as a supplement to the KPMG Survey of Corporate Responsibility Reporting 2015.

The information presented in this report is primarily intended to provide a snapshot of certain trends in current South African corporate responsibility (CR) Reporting to business leaders, CR/sustainability professionals, investors and other interested parties. Based on KPMG South Africa's professional review of publically available CR reports of South Africa's top 100 companies (by revenue), this report aims to reflect on and highlight trends, drivers and gaps as well as offering insights on the business implications so that companies may be able to improve the quality of their reports.

Methodology

The KPMG (International) Survey of Corporate Responsibility Reporting 2015 recently published is the ninth edition of this series which reflects the current state of non-financial reporting worldwide.

Forty-five KPMG member firms around the world reviewed the CR reports of the top 100 companies (termed the 'N100') in their respective countries, and completed a set of questions. In addition, a further questionnaire was completed regarding the CR reporting of the world's 250 largest companies by revenue (termed the 'G250').

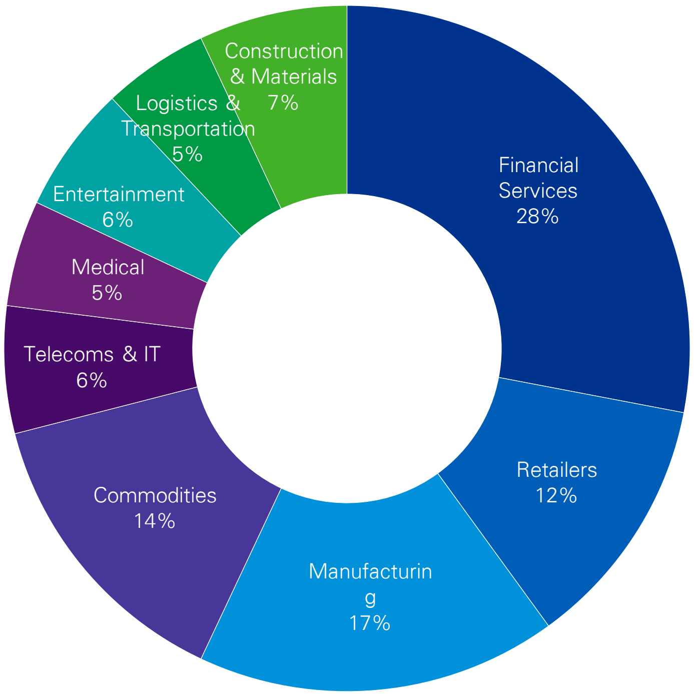
While KPMG South Africa participated in the 2015 KPMG (International) Survey it also conducted a detailed review of the CR Reporting in South Africa (through completing the same questionnaire used in the G250 review) which allowed for interesting benchmarks.

The most recent publically available documents were used and no direct contact was made with any companies. The information was extracted from annual reports, integrated/CR reports and company websites. Reports published in 2014/2015 that related to the 2013/2014 reporting year were used to conduct the research and when available 2015 interim reports. Reports older than 2014 were not included in the research. In the first instance, local reports were used and if the company did not publish a local report then the group report was used.

The South African 100 companies (SA N100) included in the survey comprised of the sectors as shown in figure 1. Note that the 'commodities' sector includes companies in the mining and metals sector.

The information extracted from various reports were then analysed in excel and are represented here using graphics. These graphics are contextualised for the South African perspective and in some cases comparative analysis was conducted using the results from the global KPMG Survey of CR Reporting 2015 (the International G250 and International N100 companies).

Figure 1. **South African N100 companies – Industry segment**



Source: KPMG South Africa Corporate Responsibility Reporting Survey 2015
Base: 100 South African N100 companies

The KPMG (International) Survey on Corporate Responsibility Reporting 2015

KPMG's global survey on Corporate Responsibility reporting is one the most comprehensive reports on global trends in CR Reporting. Download the KPMG (International) Survey of Corporate Responsibility Reporting 2015 here:

http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Documents/kpmg-survey-of-corporate-responsibility-reporting-2015-O-201511.pdf

This report discusses the findings from the survey questions covering the following topics:

- Corporate Responsibility Reporting in South Africa
- Risks and Opportunities
- Materiality and Stakeholder Engagement
- Targets and indicators
- Transparency and Balance
- External Assurance

Key findings

- Corporate Responsibility and Integrated Reporting is **standard practice in South Africa**
- South African companies are **driven by corporate responsibility risks as well as opportunities**
- **Social risks** put South African companies in a different position to other global companies
- Disclosure of **materiality processes needs progress**
- South African companies' reporting on **stakeholder inclusivity and responsiveness is in line with the global top companies**, but can still improve
- Definitions and consistency of **indicators**, and allocating **timeframes to targets** could be **improved**
- **Intensity metrics inconsistent** across companies
- **Balanced reporting is more common in South African** corporate responsibility reporting than in the global top companies
- **External assurance of CR information is more common in the global top companies** than in the South African top companies

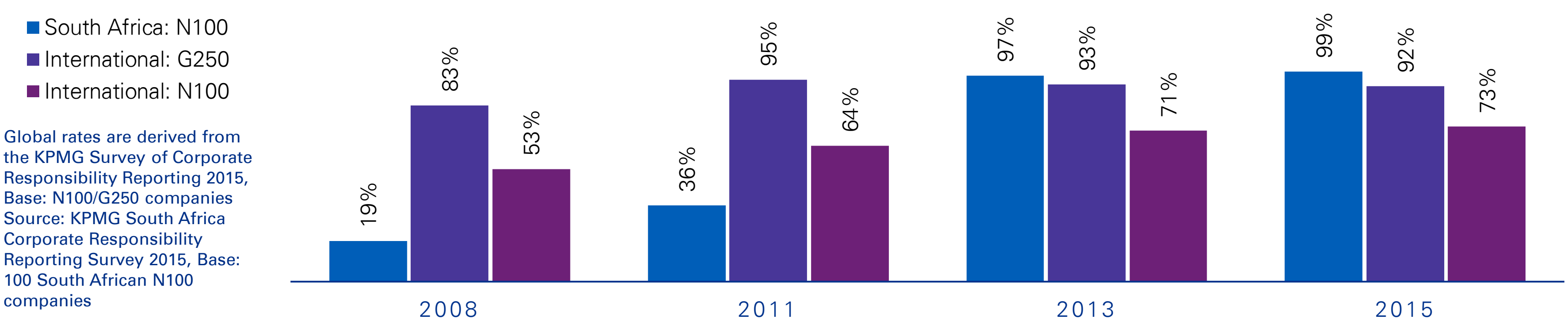
Corporate Responsibility Reporting in South Africa

Corporate Responsibility and Integrated Reporting is standard practice in South Africa

The *KPMG (International) Survey of CR Reporting 2015* found that globally 'Corporate Responsibility (CR) Reporting is standard practice and growth has continued between 2013 and 2015, although the rate of growth has slowed down'.

CR Reporting in South Africa is standard business practice with a **99% CR and Integrated reporting rate** (in the South African N100 companies), even higher than the G250 companies (as shown in Figure 2.). Results from the KPMG International survey highlighted South Africa as being placed fourth behind India, Indonesia and Malaysia respectively for having the highest CR growth rate globally.

Figure 2**. Corporate Responsibility reporting rate for South Africa in comparison to Global rates.**
*Global rates are derived from the KPMG Survey of Corporate Responsibility Reporting 2015



Global rates are derived from the KPMG Survey of Corporate Responsibility Reporting 2015, Base: N100/G250 companies Source: KPMG South Africa Corporate Responsibility Reporting Survey 2015, Base: 100 South African N100 companies

The awareness and support of the International Integrated Reporting <IR> framework by major South African listed companies is high. In South Africa all JSE listed companies are required, on an apply or explain basis, to produce an Annual Integrated Report as part of the recommended principles and practices outlined in the King III Code of Corporate Governance since as early as February 2011. As a result, South Africa has led the way in integrated reporting. The King IV Governance Code consultation draft will be released soon, we anticipate that its focus on integrated reporting will remain. King IV is anticipated to become effective from mid-2017, after a robust consultation process.

Based on our experience companies are beginning to see that integrated reporting can assist them to unlock value, through identifying and strategically responding to the most material impacts on their business that threaten or enhance value creation into the long term. Integrated reporting is purpose-built reporting, it enables businesses to make informed timely decisions and ensures that underlying processes are fit for purpose

With regards to the reporting frameworks used in CR reporting, the 2015 research found that Global Reporting Initiative (GRI) remained the most commonly used reporting framework, in both the G250 companies as well as the South African N100 companies.

Risks and Opportunities

Businesses, across all sectors, are becoming more and more aware of the global, sustained and macro-economic forces that impact business, economies and societies; such as climate change, water scarcity and population growth. By staying informed of these megaforces and their implications on themselves and their suppliers and customers, companies are able to better assess the risks and opportunities presented.

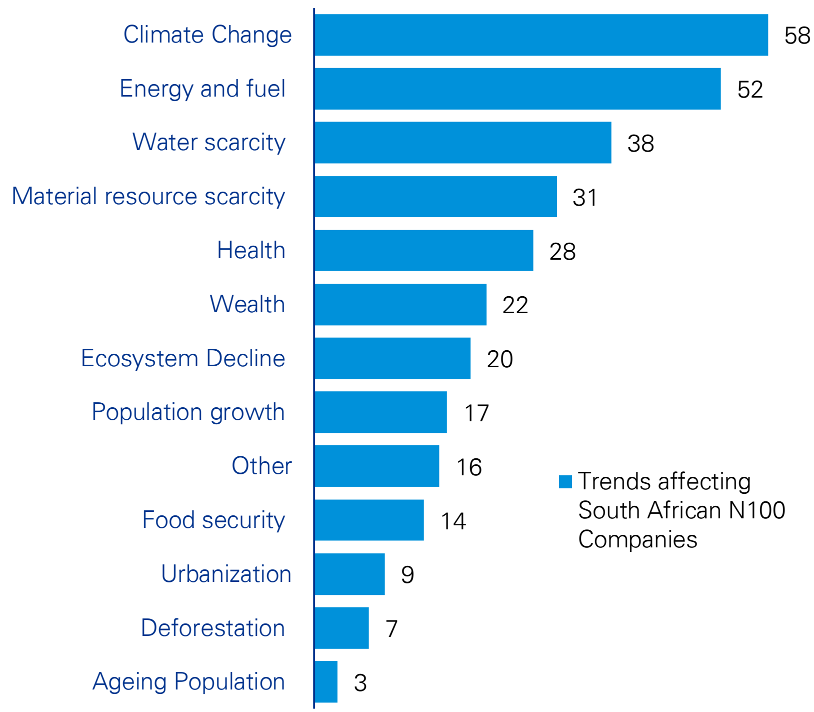
Of the South African N100 company reports reviewed 80% identified some global megaforces that impact their business. Of these, climate change, energy and fuel and water scarcity are the most commonly listed (as shown in Figure 3.).

We noted that in the South African N100 companies the commodities, manufacturing, financial services and retail sectors included discussions of the highest number of the megaforces in their reporting.

Sustainable businesses need to stay informed of the megaforces and consider the short, medium and long term possible impacts on the business. Practically this will include:

- Stakeholder engagement: working with stakeholders to ensure business plans are in place
- Assess the cost of externalities: Consider ways to reduce costs through the current externalities ahead of your competitors
- Transparent reporting: Be accountable and transparent to your stakeholders

Figure 3. **Number of times the South African N100 companies discussed the global environmental and social megaforces as affecting their business**



Source: KPMG South Africa Corporate Responsibility Reporting Survey 2015
Base: 100 South African N100 companies

South African companies are driven by **corporate responsibility risks** as well as **opportunities**.

Social risks put South African companies in a different position to other global companies.

Figure 4. **Reporting of Corporate Responsibility as a risk and/or opportunity**

	South African N100 companies	International G250 companies
risks (%)[1]	65	83
opportunities (%)[2]	78	85

Global rates are derived from the KPMG Survey of Corporate Responsibility Reporting 2015, Base: 230 G250 companies that report on CR
Source: KPMG South Africa Corporate Responsibility Reporting Survey 2015, Base: 100 South African N100 companies, footnotes included on pages 10 and 11

Regarding the reporting of opportunities and risks both the South African N100 companies and international G250 reports identify more opportunities than risks when reporting on the megaforces. This shows the understanding and value given to sustainability as it is seen as both a risk factor and a value driver.

Of the risks identified by the South African N100 companies, regulatory and social risks are the most commonly discussed whereas physical and regulatory risks are most commonly discussed in the G250 companies. Innovation and learning is the opportunity identified most commonly by both the South African N100 and the international G250 companies.

A risk that emerges as unique to the South African context is that of social risk. This is to say that for South African companies, social stability and good relations with all stakeholders, including employees, unions, and local communities is of integral importance in ensuring the ongoing operation of the business by avoiding labour or community unrest. Therefore, it is important for business to understand the impact being made on its surrounding community as well as society in general, and also the micro and macro socio-economic factors which may affect these groups and, in turn, the business itself.

In a country where historical racial and class divides remain significant, and economic progress and inclusion have not reached a large proportion of society, business is seen to be critically involved in creating a more fertile economic environment. This places the private sector under pressure to play a role in creating positive change, and means that they are accountable to South African society for doing so.

As an example, the mining industry, on which the South African economy places great reliance, is experiencing particularly difficult times amidst low commodity prices, a weak currency and growing pressure from a range of stakeholders including local government, labour, communities and shareholders. In business terms, this pressure translates to a need to ensure that decisions being made are those that contribute to sustainable businesses, communities and economies, in order that investments are not being wasted and decisions are being made which are likely to support the continuation of the business's right to operate (both from a regulatory and social licence to operate point of view). The channel through which the license to operate in the Mining Industry predominantly flows is that of the Social and Labour Plans (SLPs). In order to secure their regulatory license to operate, mines are required to commit significant financial resources towards a number of areas aimed at the upliftment of their communities, and South African society more generally. These range from skills development to ownership, local economic development to preferential procurement (amongst many others) and are areas if addressed thoughtfully and strategically, are able to go a long way in securing the mine's social license to operate as well.

1: **Six types of CR risk** KPMG has identified six key types of risks companies face from social and environmental megaforces. For this report, member firms' professionals reviewed G250 CR reports to find out what types of risks large companies are identifying.

Physical
Damage to assets and supply chains from physical impacts such as storms, floods, water shortages and sea-level rise.

Competitive
Impacts of fast-changing market dynamics, and uncertainty of supply and price volatility of key inputs.

Regulatory
Complex and rapid changes to the regulatory landscape.

Social
Conflicts, social unrest, community and worker protests, labour shortages, migration, etc.

Reputational
Damage to corporate reputation from being seen to do the wrong thing.

Legal
Exposure to potential legal action, for example, over non-disclosure of environmental, social and governance information.

KPMG International,ExpecttheUnexpected, February 2012. kpmg.com/expecttheunexpected

2: KPMG identified **several opportunities** from social and environmental megaforces. These are:

- innovation (e.g. new products or services) and learning;
- improve employee motivation;
- reduce/manage risks;
- access to capital or increased shareholder value;
- improve reputation or brand (e.g. strengthened consumer relationships);
- improve market position (market share);
- strengthen supplier relationships;
- cost savings;
- improved relationships with governmental/regulators.

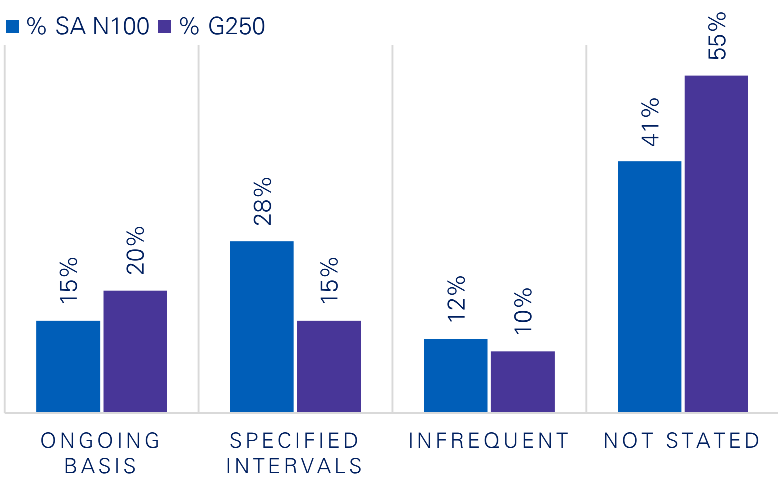
KPMG

Materiality and Stakeholder Engagement

Disclosure of materiality processes needs progress

Our survey showed that the majority of the G250 and the South African N100 companies do present their material issues. However, only 44% of the N100 South African companies showed a clear link between stakeholder views and the material issues identified. In addition, as shown in figure 5, many companies in the G250 as well as the South African N100 do not disclose how often a materiality assessment is conducted.

Figure 5. **Frequency of materiality assessments in the SA N100 and G250 companies**

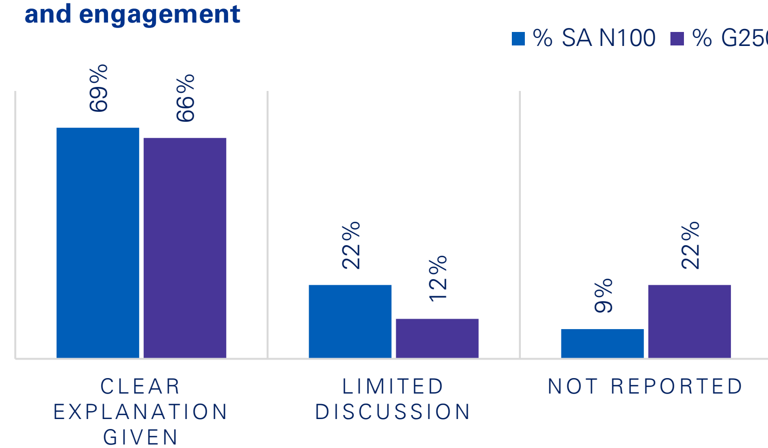


*Global rates are derived from the KPMG Survey of Corporate Responsibility Reporting 2015, Base: 230 G250 companies that report on CR
Source: KPMG South Africa Corporate Responsibility Reporting Survey 2015, Base: 100 South African N100 companies

South African companies' reporting on stakeholder inclusivity and responsiveness is relatively in line with the global top companies, but can still improve

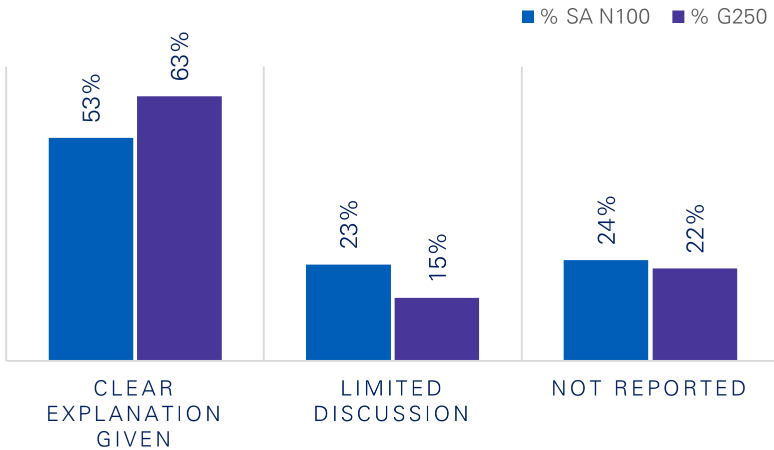
Figure 6 shows that in comparison to the G250 companies, South African companies more commonly report on the process followed for stakeholder engagement. Only 53% and 63% of the South African N100 and the G250 companies respectively provided clear explanations of how the companies report on actions in response to stakeholder feedback (figure 7.).

Figure 6. **% Responses in the SA N100 and G250 regarding whether there is a reported process for stakeholder identification and engagement**



*Global rates are derived from the KPMG Survey of Corporate Responsibility Reporting 2015, Base: 230 G250 companies that report on CR
Source: KPMG South Africa Corporate Responsibility Reporting Survey 2015, Base: 100 South African N100 companies

Figure 7. **% Responses in the SA N100 and G250 regarding whether the companies report on actions taken in response to stakeholder feedback**



*Global rates are derived from the KPMG Survey of Corporate Responsibility Reporting 2015, Base: 230 G250 companies that report on CR
Source: KPMG South Africa Corporate Responsibility Reporting Survey 2015, Base: 100 South African N100 companies

Companies need a materiality process to identify and prioritize the issues at the heart of their long term viability and to focus management and reporting resources on these.
With the release of the Global Reporting Initiative's (GRI) G4 Reporting guidelines, materiality has become a more critical element in CR Reporting, and has allowed companies to focus their reports on the most significant risks and opportunities. The GRI G4 Guidelines list materiality and stakeholder inclusiveness as two of the Reporting Principles which are 'fundamental to achieving transparency in sustainability reporting and therefore should be applied by all organizations when preparing a sustainability report'.
Stakeholder inclusiveness and materiality go hand-in-hand as stakeholder insight on the relative importance of specific sustainability issues should be considered when companies report on their performance; but is also important in strategic planning and operational management.

*** Stakeholder Inclusiveness Principle:** The organization should identify its stakeholders, and explain how it has responded to their reasonable expectations and interests. Stakeholders can include those who are invested in the organization as well as those who have other relationships to the organization. The reasonable expectations and interests of stakeholders are a key reference point for many decisions in the preparation of the report.

***Materiality Principle:** The report should cover Aspects that:

- Reflect the organization's significant economic, environmental and social impacts; or
- Substantively influence the assessments and decisions of stakeholders

Organizations are faced with a wide range of topics on which they could report. Relevant topics are those that may reasonably be considered important for reflecting the organization's economic, environmental and social impacts, or influencing the decisions of stakeholders, and, therefore, potentially merit inclusion in the report. Materiality is the threshold at which Aspects become sufficiently important that they should be reported.

***Global Reporting Initiative, G4 Sustainability Reporting Guidelines, Reporting principles and Standard disclosures**

Targets and Indicators

Definitions and consistency of indicators and allocating timeframes to targets could be improved

Our review of the South African N100 companies showed significant variation in the type of sustainability performance indicators reported on. It is common to see different definitions used for particular indicators as well as inconsistencies in the indicators reported on within sectors. Safety is a striking example of a lack of comparability between companies. When reporting safety, any of the following metrics are used:

- Lost time injury frequency rate (LTIFR)
- Total recordable injury frequency rate (TRIFR)
- Medical treatment injury frequency rate (MTIFR)

It is common to see differences in the following:

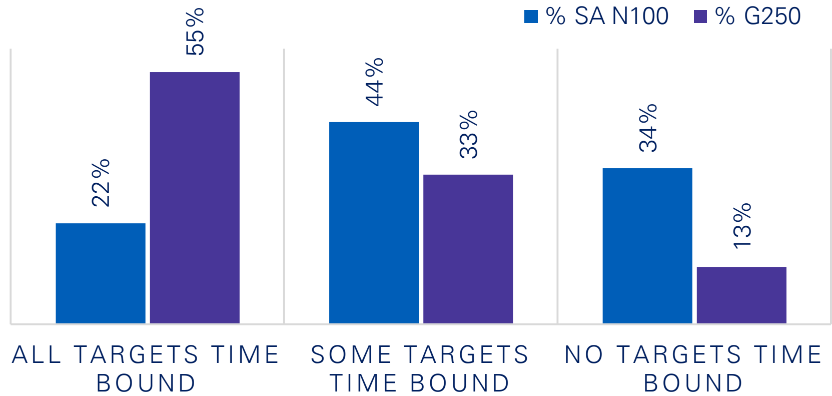
- calculation methods used (e.g. injury rates expressed as the number of injuries per 1 000 000 hours worked, or 200 000 hours worked)
- definition of a lost time, recordable or medical treatment injury

When stakeholders, including investors, government and NGOs benchmark companies they are likely to assume that metrics are comparable, while in fact they may not be. Therefore it is very important for companies to disclose their sustainability performance information in a transparent manner so that readers are able to analyse and understand the context of the data.

In addition, alignment and agreement within sectors on the form and definition of particular key metrics should assist sector-wide reliable comparisons and collaborations.

With regards to targets, our survey revealed a relatively high proportion of the South African N100 companies reported on targets which were not time bound (figure 8.). When targets are set (e.g. reduce the carbon footprint by 15%) it is important to allocate a timeframe or deadline in order to make the target finite; which ultimately will hold a company accountable for its performance.

Figure 8. **Percentage of South African N100 and G250 companies that allocate timeframes to targets in their reporting**

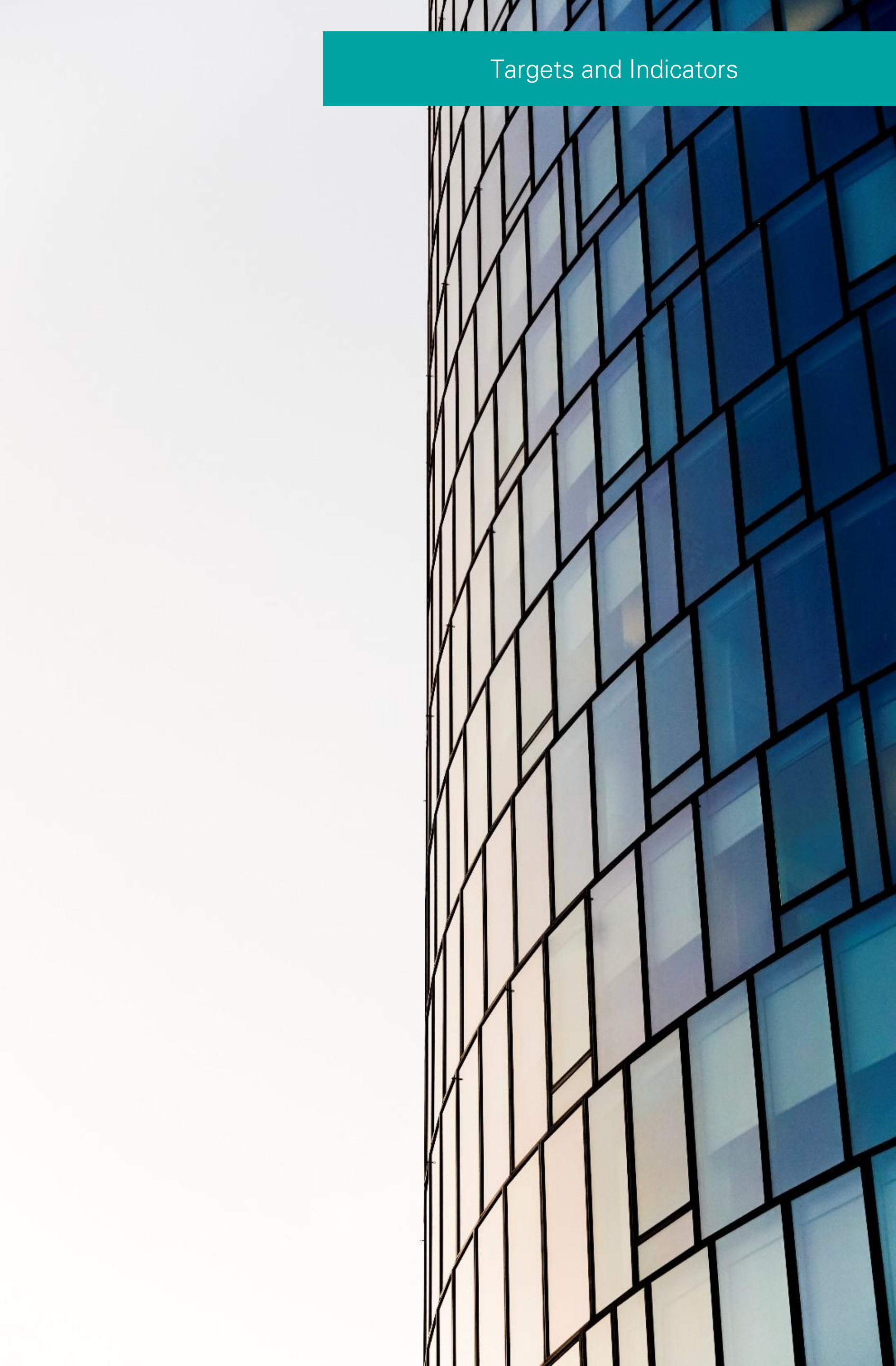


*Global rates are derived from the KPMG Survey of Corporate Responsibility Reporting 2015, Base:184 G250 companies that report on targets
Source: KPMG South Africa Corporate Responsibility Reporting Survey 2015, Base: 100 South African N100 companies

Intensity metrics inconsistent across companies

- The majority of intensity metrics reported in the South African N100 companies were CO_2-equivalent/GHG emissions intensity metrics, followed by energy intensity, and water intensity metrics.
- The remaining intensity metrics noted consisted of training spend and training hours per employee, waste to landfill per kg produced, and diesel consumption intensity.

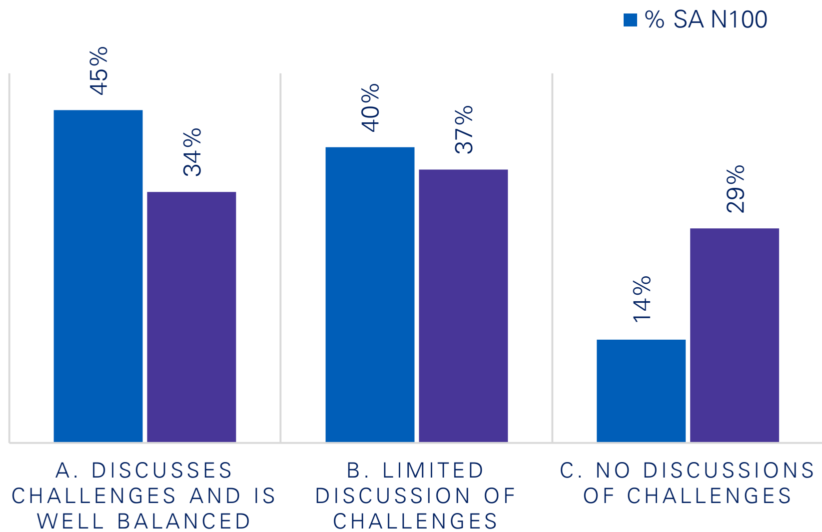
The findings from the South African N100 research regarding intensity metrics were consistent with those from the global *KPMG Survey of CR Reporting 2015*. There is a large disparity between companies and sectors in terms of how they report and what they report. Intensity metrics is a valuable tool with which to benchmark performance, however consistency across companies is needed for this. Industry or sector specific initiatives and targets can be a way of agreeing a consistent approach in order to drive change as a sector.



Transparency and Balance

Balanced reporting is more common in South African Corporate Responsibility reporting than in the global top companies

Figure 9. **Percentage responses of South African N100 and G250 companies when asked whether the report discusses challenges/dilemmas/failures as well as achievements**



*Global rates are derived from the KPMG Survey of Corporate Responsibility Reporting 2015, Base: 230 G250 companies that report on CR
Source: KPMG South Africa Corporate Responsibility Reporting Survey 2015, Base: 100 South African N100 companies

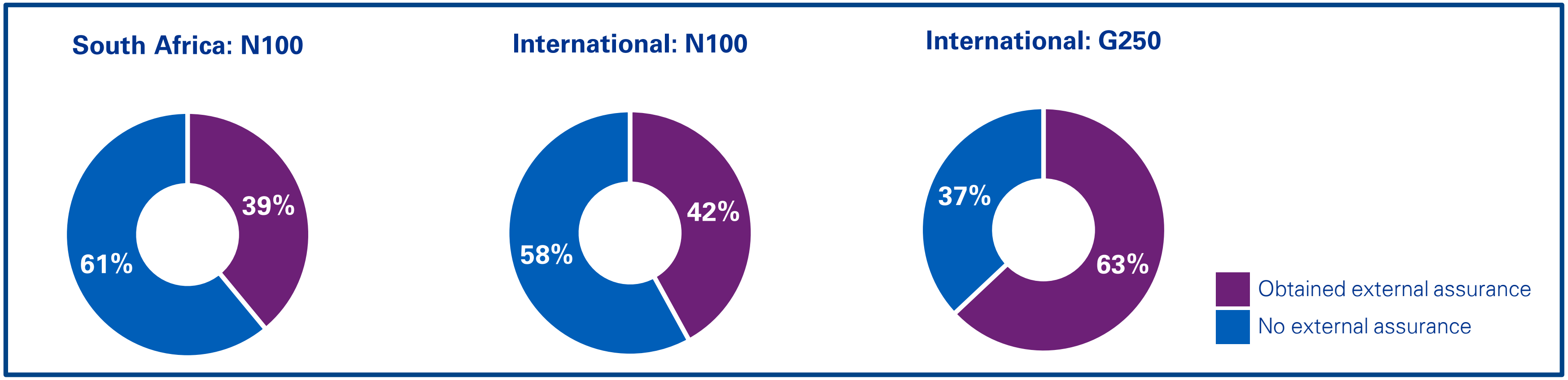
Transparency in CR reporting is extremely important and the commitment to publish non-financial information (whether positive or negative) leads a company to ask itself important questions about its performance. By reporting transparently on the entire range of practices and products, as well as providing comparative data, stakeholders may be able to obtain an understanding of the overall impact of a company. When a company avoids disclosing discussion of their challenges and failures the report becomes a marketing document as opposed to a report intended for making informed business decisions.

The survey results indicated that 45% of the South African N100 companies were deemed to have well balanced reports (reporting of their successes as well as failures or challenges), in comparison to 34% of the G250 companies.

External Assurance

External assurance of CR information is more common in the global top companies than in the South African top companies

Figure 10. **Independent assurance rates of the South African N100, G250 and global N100 companies**

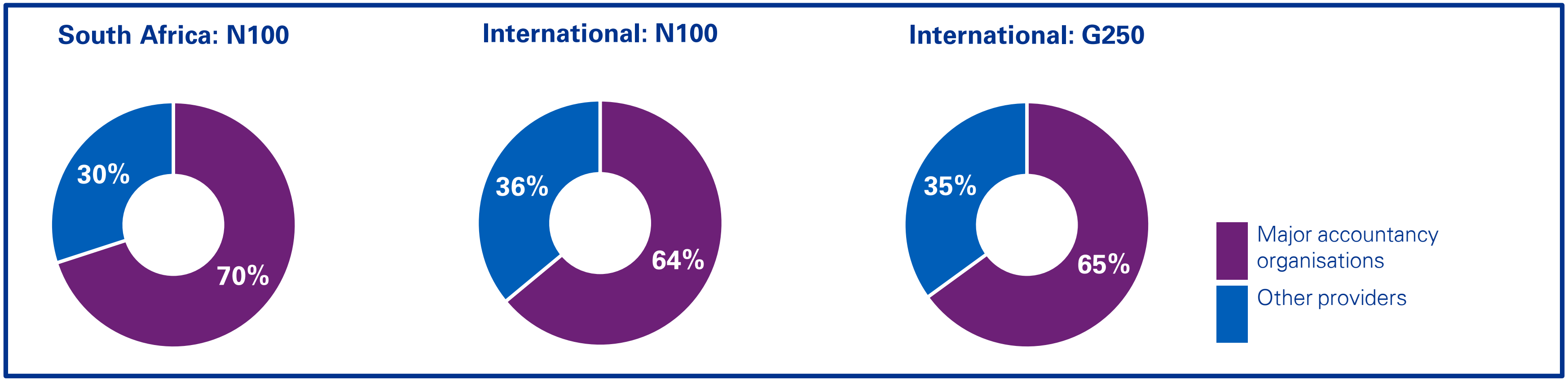


*Global rates are derived from the KPMG Survey of Corporate Responsibility Reporting 2015 Base: Total number of assurance reports for N100/G250 companies
Source: KPMG South Africa Corporate Responsibility Reporting Survey 2015, Base: 100 South African N100 companies

Third party assurance of CR information is now firmly established as standard practice. However the rate of assurance in 2015 was lower in the South African N100 companies than in the global N100 and G250 companies.

The 39 companies in the South African N100 list that obtain third party assurance have the scope over selected indicators. This is different to the Global companies reviewed as part of the global KPMG Survey of CR Reporting 2015 where many companies obtain assurance over their whole report.

Figure 11. **Independent assurance providers of the South African N100, G250 and global N100 companies**



*Global rates are derived from the KPMG Survey of Corporate Responsibility Reporting 2015, Base: Total number of assurance reports for N100/G250 companies
Source: KPMG South Africa Corporate Responsibility Reporting Survey 2015, Base: 100 South African N100 companies

Of the South African companies that do obtain assurance over their CR information, 70% of these opt for assurance from the major accountancy organisations, higher than this rate in the global N100 and G250 companies (as shown in Figure 11).

Today's businesses need to be concerned about the accuracy and integrity of sustainability information and data which is reported to stakeholders and used for strategic decision making. The growing demand for credible non-financial information is influenced by the attention and scrutiny it receives on behalf of analysts, investors, consumers, business partners and even employees. The reputational risk of getting it wrong is significant, both in terms of not managing the right risks or reporting inaccurate information.

As companies increasingly incorporate sustainability into their core business strategies, the importance of timely and accurate sustainability related metrics increases.

About KPMG Climate Change and Sustainability services

KPMG is one of the pioneers of sustainability consulting – some KPMG member firms first offered sustainability services over 20 years ago – which gives KPMG's network a level of experience few can match. Today, our member firms employ several hundred sustainability professionals located in around 60 countries.

Local knowledge, global experience

Our global network means KPMG member firm professionals have in-depth understanding of the economic, political, environmental and social landscapes wherever your organization may operate. At the same time, our member firms are closely connected through our global Centre of Excellence. This means that, whatever challenge you face, we can put together a team with international experience to help you.

Sustainability Plus

We don't work in a sustainability vacuum. We work side-by-side with KPMG member firm professionals from tax, audit and advisory including sector specialists, management consultants, tax accountants and experts in IT, supply chain, infrastructure, international development and more. You won't receive generic advice and one-size- fits all solutions, instead you can benefit from a hand-picked multi- disciplinary team.

Results-driven

KPMG firms help clients to develop future-fit business strategies based on solid understanding of the issues. We strive to think big and challenge convention, but also to find practical solutions that can create success and growth through change.

Foresight needs insight

Our global Centre of Excellence focuses on thought-provoking research, analysing drivers of global change and developing practical business responses that you can apply within your own organisation.

KPMG

Contact us:

Shireen Naidoo
Shireen.Naidoo@kpmg.co.za
+27 83 381 9235
Director
Climate Change & Sustainability Services

Neil Morris
neil.morris@kpmg.co.za
+27 83 286 7194
Director
Climate Change & Sustainability Services