Integrated Reporting in Germany
The DAX 30 Benchmark Survey 2015

An analysis of company reporting in terms of the IIRC’s International <IR> Framework.

March 2016
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Preface

Integrated reporting is an evolving reporting trend that focuses on the core of a company, how it creates value, and its strategic direction. By aligning reporting on strategy, business model, performance, and business management, a company sharpens its own understanding of how these aspects relate to one another, and enables external users to better assess the company’s ability to maintain and create value in the short, medium and long term.

Over the last decades, the information used to manage businesses and support stakeholders’ decisions has become increasingly complex. Integrated reporting seeks to align relevant information about an organisation’s strategy, governance, performance and future prospects in a manner that reflects the economic, environmental and social setting within which it operates.

The International Integrated Reporting Council (IIRC) brings together leaders from all the major international standard-setting and regulatory bodies with companies, investors and other key representatives, with the objective of developing an internationally accepted integrated reporting framework.

The IIRC’s long-term vision is a world that has integrated thinking embedded within mainstream business practice both in public and private sector organisations, facilitated by integrated reporting as the corporate reporting norm.

In December 2013, the IIRC launched its final International <IR> Framework. In addition it extended the pilot programme with over 100 global participants into 2014, transferred it to the Business Network and introduced the Corporate Reporting Dialogue (CRD). There are now more than 750 participants organized in integrated reporting networks worldwide and more than 1000 companies using the <IR> Framework.

As in last year’s DAX 30 Benchmark Survey, we examined the effectiveness of corporate reporting at DAX 30 companies based on PwC’s integrated reporting model and the IIRC’s International <IR> Framework.

The purpose of this survey is to provide insights into the progress of listed companies in Germany towards integrated reporting. We further seek to highlight how they might improve their reporting to create a convincing narrative about their ability to maintain and create value in the short, medium and long term.

Hendrik Fink
Nicolette Behncke
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<td>33</td>
<td>Deutsche Telekom AG</td>
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A Key findings and highlights

1 Key findings and interpretations

On the whole, we observe a slowing down of the pace with which DAX 30 companies are moving towards integrated reporting as compared to the previous year. It appears that the integration of IIRC relevant information into traditional annual reports is at a “tipping point”. We see that companies are struggling to find out what it takes to improve reporting and hence to pass this tipping point.

Reporting remains compliance-driven at most of the DAX 30 companies. Nevertheless, apart from the “average reporting company” we also identified frontrunners who showed substantial efforts in implementing integrated reporting and integrated thinking. These frontrunners show how non-financial topics have been embedded in their strategy, the management of their company, as well as remuneration and performance reporting.

Last year the implementation of the standard for the German management report caused a significant boost in the reporting period 2014. Due to the recently introduced mandatory German Accounting Standard 20 (GAS 20), we noted significant progress in the reporting efforts of the DAX 30 companies in the previous reporting period. This improvement concerned reporting on non-financial information, on key performance indicators, on risks and opportunities as well as on forecasts. These efforts led to an overall improvement of up to 10% compared to the reporting period 2013.

In contrast to these positive developments in our previous survey, the current assessment of potential increases in the efficiency and effectiveness along the time axis almost inevitably yielded a sobering result: Compared to our analysis results for the previous reporting period, the current study could only confirm a minimum positive shift in the range of 1%.

In addition to the overall development, this current study finds several new trends regarding certain IIRC elements. The most significant results can be summarized as follows:

• We identified no or merely marginal developments compared to the previous financial year regarding the content elements “organizational overview and external environment” as well as for the content elements “governance” and “outlook”. While individual components were subject to fluctuations, these balanced each other out to yield little change overall.

• We observed positive developments regarding the content elements of “business model”, “risks and opportunities” as well as “strategy and resource allocation”. Whereas the improvements in reporting on risks and opportunities seem to be a further consequence of compliance efforts regarding GAS 20, the slightly improved quality in reporting on business model and strategy suggests continued efforts on the part of individual companies towards the integrated reporting agenda.

• Finally, we identified a slight decline in performance in the sense that slightly fewer reports are classified as “effective communication” as compared to the previous year.
The current flattening trend in the quality of reporting suggests that improvements in corporate reporting may only be achieved if integrated reporting does not merely focus on the “report” as such, but goes beyond “reporting”. Companies need to start thinking about what is relevant to create value. Reporting will then follow the value creation narrative of the company.

2 Highlights

<table>
<thead>
<tr>
<th>Explain what the key markets and products are</th>
<th>Discuss their culture and values of the company</th>
<th>Discuss key risks also elsewhere in the narrative</th>
<th>Discuss differences between business model and strategy per segment</th>
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<td>73%</td>
<td>47%</td>
<td>60%</td>
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<tr>
<th>Management’s usage of performance measure to monitor success</th>
<th>Clearly identify material capital inputs</th>
<th>Provide insights into key underlying drivers of expected market growth</th>
<th>Explain what has driven their profit performance</th>
</tr>
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<tr>
<td>47%</td>
<td>23%</td>
<td>84%</td>
<td>73%</td>
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<th>Align KPIs to the strategic priorities</th>
<th>Provide insights into the dynamics of their risk profile</th>
<th>Explain actions being taken to mitigate or manage potential of each risk</th>
<th>Clearly align KPIs with their remuneration policies</th>
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<td>63%</td>
<td>77%</td>
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<th>Provide information on their policy on and targets for diversity on the Board</th>
<th>Discuss their impact on external non-financial capitals</th>
<th>Explain differentiators and value adding activities within their business model</th>
<th>Identify material issues for their future viability</th>
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Executive summary

Building and maintaining trust has never been more important or more challenging. How business operates and what drives success is constantly evolving. At the same time, there is a shift in what is expected from business on the part of customers, suppliers, employees, governments and society in general. Inevitably, this has an impact on the kind of information that management needs for strategic business decisions, and the content required for external communication.

The integrated report has come to the fore as one of the most prominent channels of communicating with stakeholders. An integrated report seeks to align relevant information about an organisation’s strategy, governance systems, performance and future prospects in a way that reflects the economic, environmental and social impact it has on the environment in which it operates.

For over a decade, we have invested significant resources in understanding the information needs of preparers and users as well as the economic benefits of transparency and best practices from around the world in order to provide practical insights into the critical building blocks of effective corporate reporting.

Our focus has been on aligning the interests of those who report on performance with those who use the information to make critical investment decisions.

While financial reporting is mature and established, and has been for quite some time, the model for reporting in an integrated manner is still evolving.
1 Emerging themes

Voluntary progress is rare: regulation drives reporting on non-financial information

Last year a large number of companies started to integrate non-financial information into their annual reports, primarily because of the new German standard on management reporting (GAS 20), which requires companies to report their most relevant non-financial key performance indicators that are used to manage the company. This year we observed no further material developments in that direction. Regulation seems to play a crucial role as we see only some companies progressing voluntarily. It will be interesting to observe how German lawmakers will translate the EU directive on non-financial and diversity information into German law and how regulation will further drive reporting on non-financial information in the next years.
**The conciseness paradox**
We also observed that some companies have attempted to ‘cut the clutter’ in their integrated reports by moving more detailed information to other reports or making further information available on their website.

Striking a balance between reporting in a concise manner and retaining key messages is not easy. Often, context and depth is lost when decisions to omit content from an integrated report are taken without sufficiently careful deliberation and consideration. The key to achieving conciseness is to balance materiality and completeness when communicating the ‘big picture’.

**Embedding integrated thinking**
Integrated thinking is underpinned by the concepts of connectivity and interdependency between a range of factors that affect an organisation's ability to create value over time.¹ There is a distinct trend of connecting certain ‘typical’ sections in a corporate report, such as strategy, while leaving others to stand on their own, like governance.

**Through the looking glass**
As was the case in last year’s findings, companies still focus on historical reporting and near term forward-looking information, with limited insights into prospects for the medium and long-term or the future viability of their business model.

2 Research methodology

We conducted our survey on the Top 30 companies listed on the DAX during the review period covering the 2014 calendar year. Each of the companies in the Top 30 (see Appendix 1) was subject to a detailed assessment of over 100 factors.

The assessment was based on PwC's integrated reporting model and linked to the Content Elements of the IIRC's International <IR> Framework.

Each assessment was reviewed by an experienced reviewer before being approved for inclusion in the overall survey results.

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3 Overview of findings

Findings were grouped by Content Element and then evaluated according to three broad categories:
• Clear opportunities to develop reporting;
• Potential to develop reporting; and
• Effective communication.

This year, reporting on risks and opportunities, on organisational overview and external drivers, on strategy and resource allocation as well as performance reporting delivered the most effective communication.

While reporting on risks and opportunities, on strategy and resource allocation and on business model showed the most improvement since our previous study, a significant progress above all content elements is still lacking.

Particularly the reporting on governance and on business models show significant scope for improvement.
Findings

1 Organisational overview and external environment

An integrated report should answer the question: What does the organisation do and what are the circumstances under which it operates?

Source: International <IR> Framework para 4.4

What it means
Communicating the context in which an organisation operates is often the first step towards enabling stakeholders to understand how that organisation creates and sustains value.

An integrated report should therefore communicate information that allows stakeholders to understand the markets the organisation competes in, why it has chosen to compete in those markets and the impact of trends that are driving strategic choices. This involves communicating about the general market environment, including the key markets and environments that an organisation operates in, key underlying drivers of market growth historically and in the future, and the organisation’s competitive landscape.

An organisation should recognise the opportunities and risks presented by the external market that, through its strategic choices, the organisation is adapting itself to meet.

Principle in practice: Good reporting should provide insight into

- The organisation’s:
  - Culture, ethics and values;
  - Ownership and operating structure;
  - Principal activities, markets, products and services;
  - Competitive landscape and market positioning (considering factors such as the threat of new competition and substitute products or services, the bargaining power of customers and suppliers, and the intensity of competitive rivalry);
  - Position within the value chain;
- Key quantitative information (e.g. the number of employees, revenue and number of countries in which the organisation operates) highlighting, in particular, significant changes from prior periods; and
- Significant factors affecting the external environment and the organisation’s response.

Findings

30% of the companies surveyed displayed effective reporting of their organisational overview and external environment. Another 63% of the surveyed companies have scope to further develop their reporting. No significant changes compared to the preceding year could be observed.

Fig. 3 Reporting on organisational overview and external environment

As we have already shown in earlier studies, most of the companies surveyed provide useful information about their business environment. Several companies outline their surrounding environment (e.g. market trends and underlying drivers of the market for the future), but substantial information regarding the comprehensiveness was not elucidated. But we note a positive development: the number of reports giving no clear evidence into the competitive landscape decreased by 9%.

Nevertheless, the conducted study indicates that 84% of the surveyed companies elaborate the key underlying drivers of expected market growth in the future well (see Figure 4). Compared to last year’s results, we noted in particular that there is an increase in the number of reports classified as “accomplished” (14%), while the number insufficiently prepared reports decreased by approximately 50%. At the same time, this positive development is tempered by the results regarding the customer base. Just 23% of the evaluated reports give insights into the customer base for a company’s products or services.
Findings

Fig. 4  Insights into the key underlying drivers of expected market growth

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<th>Somewhat accomplished</th>
<th>Accomplished</th>
<th>Exemplary</th>
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<tr>
<td></td>
<td>16%</td>
<td>47%</td>
<td>37%</td>
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</table>

Source: PwC analysis.

We once again identified a comprehensive discussion of companies' key underlying drivers of market growth in the reporting period in the current study. 43% of companies – almost twice as many as in earlier analyses - succeeded in providing valuable information on how strategic choices are directly linked to external drivers and trends.

**How reporting can be developed**

While it is often difficult to identify forward-looking information and quantify industry trends, this information is crucial to investors in assessing an organisation's ability to create value over the medium and long term, as opposed to providing short-term returns.

Therefore, companies could seize the opportunity and include robust reporting on factors that may have impact on their ability to create value in the longer term, and use these factors to create context for their strategic choices.
Findings

What good reporting looks like

Fig. 5 Deutsche Post AG

A.02 Market volumes

Global
- Air freight (2013): 25m tonnes
- Ocean freight (2013): 3.4m TEUs
- Contract logistics (2013): €16bn
- International express market (2013): €20bn

Germany
- Mail communication (2014): €4.8bn
- Dialogue marketing (2014): €7.0bn
- Parcel (2014): €8.8bn

Source: Deutsche Post AG, Annual Report 2014.
Findings

Fig. 5 Deutsche Post AG

Insights into competitive landscape and market position are given.

Market shares per business unit are provided.

Illustration of major trade flows between the continents.

Imports and Exports for each continent are quantified.
2 Governance

47% of companies discuss their culture and values and how they drive governance and tone from the top

Integrated reports should answer the question: “How does the organisation’s governance structure support its ability to create value in the short, medium and long term?”

Source: International <IR> Framework para 4.8

What it means
“Those charged with governance are responsible for creating an appropriate oversight structure to support the ability of the organisation to create value”.2

Governance reporting provides the link between social, environmental, economic and financial issues that impact the organisation’s business and the development of strategy.

Effective communication about an organisation’s governance is therefore integral to the user’s appreciation of how those charged with governance are creating value.

Principle in practice: Good reporting should provide insight into

• An organisation’s leadership structure, including the diversity and skills of those charged with governance;
• Specific processes used to make strategic decisions and to establish and monitor the culture of the organisation, including its attitude towards risk and mechanisms for addressing integrity and ethical issues;
• Particular actions those charged with governance have taken to influence and monitor the strategic direction and risk management approach;
• How the organisation’s culture, ethics and values are reflected in its use of and effects on the capitals, including its relationships with key stakeholders;
• Whether governance practices exceed legal requirements;
• The responsibility those charged with governance take for promoting and enabling innovation; and
• How remuneration and incentives are linked to value creation.


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2 “International <IR> Framework”, IIRC, paragraph 2.22.
Findings

In analysing our results, the governance element emerged as an area where reports did not provide much insights into their governance practice.

The overall finding was that the majority of reporters provide only a partial information on their corporate governance practice which do not reflect what those charged with governance have actually done in adding value to the company. We often find that the information on corporate governance is not well integrated into the rest of the report.

Most of the companies assessed indicated that they are comfortable reporting on by-laws and articles of association. However, those reports showed they have been prepared based on German legislation and standards. The relevant sections tend to be more of a descriptive presentation about required information. This background also led to the finding that there is an opportunity to integrate the reporting of actions and responsibilities of those charged with governance with the operations and strategies of the company in order to provide a holistic view of governance.

In this context it is necessary to take into account that the Governance reporting requirements according to the <IR> Framework refer to companies with a one tier system, including executive and non-executive board members. The German two tier system separates executive and non-executive board members. Therefore the German Governance reporting provides only information about how the company has been controlled by the non-executive board members. Information about management topics like strategic decision making and risk management approach is being provided by the management itself and shown in other reporting elements like risk reporting or report on the company’s strategy.

Source: PwC analysis.
**Do KPIs align with those that drive remuneration policies?**

The link between remuneration, incentives and value creation is often thought to be one of the true measures of an organisation’s commitment to integrated thinking. Performance measures in isolation without a clear link to the reward of those tasked with implementing an organisation’s strategy are often not a fair reflection of what actually drives underlying value.

A clear link between all key performance indicators and remuneration policies for executive directors and key management is given in 40% of the evaluated reports. The reason for this relatively low result is the exclusion of non-financial KPIs, which are often not described as drivers for remuneration policies, even though a slight increase in comparison to the last years study was observed.

Most remuneration scheme disclosure includes a narrative about fixed and variable remuneration, with a statement that these are aligned with the company’s strategy.

![Fig. 7 KPIs aligned with remuneration policies](image)

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<tr>
<th>Somewhat accomplished</th>
<th>Exemplary</th>
<th>Accomplished</th>
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<tr>
<td>60%</td>
<td>33%</td>
<td>7%</td>
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Source: PwC analysis.

However, it is not clear how the objectives set for management relate to the company’s objectives and key value drivers, especially for non-financial capital measures where only a few of the companies disclosed a clear linkage between remuneration and KPIs. The current data suggests two different trends: On the one hand the number of reports without any link between all key performance indicators and remuneration policies decreased to zero. At the same time the share of reports classified as being exemplary decreased by 6%.

Looking ahead, performance measures will have to take into account the strategy of the organisation, including both the financial and non-financial elements of achieving strategic objectives. Remuneration policies will have to go hand-in-hand with determining appropriate performance measures to ensure that targets are not only well thought out, but also measurable.

**Board effectiveness**

The current situation could be summarized as follows: a clear and concise description of the actual activities undertaken by the board is provided in 47% of reports. Compared to this 43% of the reports were even classified as having reached a high level of reporting by providing pertinent examples or case studies. In terms of the question of how companies discuss the issue of governance and the related discussion of culture and value judgment, 47% of the considered reports were classified as being well elaborated, whereas 53% were classified as being capable of providing at least a basis for further discussion.
A word on diversity
Gender and race are important factors to consider in achieving board diversity. In assessing the organisation’s leadership structure, we reviewed integrated reports to determine if policies and targets for diversity have been disclosed.

No mention of a policy or a target for diversity could be found in a mere 10% of reports, while 90% provided at least a brief reference to support policies on diversity.

The reports classified as accomplished in this area provided insight into the company’s policy, evidence of actions taken and targets set to achieve diversity. This was demonstrated in 50% of all reports.

![Fig. 8 Discussion on targets for diversity on the board](image)

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<tr>
<th>10%</th>
<th>40%</th>
<th>50%</th>
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<tr>
<td>Not accomplished</td>
<td>Somewhat accomplished</td>
<td>Accomplished</td>
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Source: PwC analysis.

How reporting can be developed
Organisations that incorporate their governance reporting into their integrated report provide a more holistic view of the importance that governance has to managing a business. This also helps instil confidence in investors with regard to the quality of management and supervisory board and overall credibility of reporting.

Reporting on actual activities undertaken by the supervisory board and the outcomes of these activities is more insightful than simply providing information about committee agendas and charters.

A lot of space is dedicated to key management remuneration, while there remains a clear opportunity to illustrate how management is incentivised for executing the company strategy and for meeting not only financial but also non-financial targets.
What good reporting looks like

Fig. 9 Munich Re AG

- Description of basis of the assessment
- Parameters used to measure variable remuneration

3 Business model

63% of companies explain the differentiators and value adding activities within its business model used to execute its strategy and implement priorities just to a limited extent.

An integrated report should answer the question: What is the organisation’s business model?

Source: International <IR> Framework para 4.10

What it means
The business model is at the heart of an organisation and draws from the different capitals as inputs and converts them into outputs by means of the organisation’s business activities. This process leads to outcomes which in turn impact on the capitals, which are not necessarily the same as those used in the input phase.

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

Fig. 10 The value creation process

Source: International <IR> Framework (Copyright © December 2013 by the International Integrated Reporting Council (‘the IIRC’). All rights reserved. Used with permission of the IIRC.)
An organisation should explain the resources and relationships that it relies on to deliver its strategy, how dependent it is on them, how it manages them and how it monitors success.

**Principle in practice: Good reporting can be enhanced through**

- Explicit identification of the key elements of the business model;
- A simple diagram highlighting key elements, supported by a clear explanation of the relevance of those elements to the organisation;
- Narrative flow that is logical given the particular circumstances of the organisation;
- Identification of critical stakeholder and other (e.g. raw materials) dependencies and important factors affecting the external environment;
- Connection to information covered by other Content Elements, such as strategy, risks and opportunities, and performance (including KPIs and financial considerations, like cost containment and revenues).


**Findings**

The reporting on the business model does not take place in the context of the IIRC business model, but focuses on a mere business description of what the company does.

**Fig. 11 Reporting on the business model**

<table>
<thead>
<tr>
<th>Year</th>
<th>Clear opportunities to develop reporting</th>
<th>Potential to develop reporting</th>
<th>Effective communication</th>
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<tbody>
<tr>
<td>2015</td>
<td>7%</td>
<td>13%</td>
<td>80%</td>
</tr>
<tr>
<td>2014</td>
<td>83%</td>
<td>4%</td>
<td>13%</td>
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</table>

Source: PwC analysis.

**Material capital inputs**

Our survey found that only 23% of companies identify their material capital inputs to their business models. This development stagnated in the current study in comparison to the base year 2014. While a majority (70%) of companies surveyed showed some attempts of identification, 7% of the companies did not identify material capital inputs at any point.
Fig. 12 Identification and description of material capital inputs

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<th>Somewhat accomplished</th>
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<tr>
<td>Accomplished</td>
<td>0%</td>
<td>70%</td>
<td>23%</td>
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Source: PwC analysis.

Measures of strength
Although there is no single definition of what constitutes a business model, it is often seen as the process by which an organisation seeks to create and sustain value. Our survey found that 30% of the reports surveyed explained the differentiators and value-adding activities within their business model, with which they execute their strategy and implement priorities. To provide a convincing and coherent narrative, good reports explain what makes the company a good investment, what will drive success in achieving their objectives, and what leads to successful performance both operationally and financially - such as excellent skills development, differentiated customer service, timely project delivery and capital strength.

Differences in business models and executing strategy across segments
Business models and executing strategies may vary in different segments of a single company. With a view to explanations of differences in the business model and executing strategies between segments we saw progress in the current data set. A share of 40% of the evaluated reports do not even offer any explanations for differences in business models and the executing strategy. But the share of companies addressing this topic is growing perceptibly and amounts to 43% (somewhat accomplished) or 17% (accomplished).

Fig. 13 Explanation of differences in the business model and executing strategy across its segments

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<th>Somewhat accomplished</th>
<th>Not accomplished</th>
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<tr>
<td>Accomplished</td>
<td>0%</td>
<td>43%</td>
<td>17%</td>
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Source: PwC analysis.

How reporting can be developed
Clarity and conciseness
Given the complexity of organisations' relationships with the external environment, resources and relationships, careful consideration ought to be given to the communication of this complexity to stakeholders. This is especially true where organisations are dependent on scarce resources or specific relationships to create value. Clearly identifying the different elements of the business model (inputs, business activities, outputs and outcomes) and depicting them graphically may be an effective way to simplify reporting in this area.
Findings

What good reporting looks like

Fig. 14 SAP AG

Economic, social and environmental indicators are provided

Impact of non-financial indicators on financial performance indicators is being quantified

Employee retention is the ratio of the average headcount (expressed in full-time equivalents) minus employee-initiated terminations (turnover) divided by the average headcount, taking into account the past 12 months.

Retention: A change by one percentage point of Retention would have an impact of 40-50 million € for SAP’s operating profit.

Capability Building >> Employee Retention:
According to the Global Workforce Study (2012) the “chances to advance the career” is the second-most important driver of employee retention. By promoting and thus growing from within, SAP creates career opportunities for its employees. In turn, it is our expectation that this opportunity leads to an increase in employee retention.

Employee Engagement >> Employee Retention:
In 2014, we used real data from SAP to analyze and proof the financial impact of Employee Engagement. We could proof that there is a significant positive correlation between Employee Engagement and Employee Retention.

Employee Retention >> Revenue:
Alexander, Bloom, & Nuchols (1994) have found a negative relationship between employee turnover and organizational productivity. In other words, employee retention is positively correlated with organizational productivity and thus a company’s revenue.
The connections between non-financial and financial performance indicators are illustrated

Clear discussion of the relationships between financial and non-financial indicators

**GHG Footprint >> BHCI (Business Health Culture Index):**
Many of SAP’s GHG emissions are caused by business travel and commuting, which we believe can have both negative and positive impacts on employee health. Some people may experience greater stress through more travel because they have less time to spend at home, are jet lagged, or lose valuable working hours; others may enjoy travel, which enables them to experience other places, meet new people, and get a taste of life as a ‘jet setter’.

**GHG Footprint >> Employer Ranking:**
A study conducted by Backhaus et al. (2002) has found that job seekers place considerable importance on a prospective employer’s commitment to sustainability. Notably, efforts to promote environmental protection are a key differentiator for employers. Because a company’s appeal to potential new hires helps to determine most employer rankings, SAP’s commitment to lower our GHG Footprint is likely to increase our ranking as an employer.

**GHG Footprint >> Employee Engagement:**
We believe that lowering SAP’s GHG footprint can have a positive impact on employee engagement because loyalty will rise as employees see their company act responsibly towards the environment. However, because lowering emissions also brings certain restrictions, such as flying less, it may also have a negative impact on employee engagement.

Findings

4 Risks and opportunities

An integrated report should answer the question: What are the specific risks and opportunities that affect the organisation’s ability to create value over the short, medium and long term, and how is the organisation dealing with them?

Source: International <IR> Framework para 4.23

What it means
Continued short, medium and long-term value creation is significantly affected by an organisation’s ability to identify and manage risk and to embrace opportunities. An integrated report should identify these risks and opportunities, and explain the strategic direction chosen by the organisation as well as key actions undertaken to mitigate risks and seize opportunities.

The company should provide insight into its risk identification and materiality determination process. It is important that risks are not boilerplate, but specific to the organisation, and that the organisation provides a clear discussion of the implications of the identified risks on its ability to create value.

The <IR> Framework requires an organisation to look beyond its financial reporting boundary (subsidiaries, joint arrangements or associates) to identify risks, opportunities and outcomes that materially affect its ability to create value. Risks that could impact an organisation’s ability to create value may include for instance supplier labour practices or scarcity of natural resources used by suppliers.

Principle in practice: Good reporting should provide insight into

- Significant risks, opportunities and dependencies flowing from the organisation’s market position and business model;
- The specific source of opportunities and risks, which may be internal, external or, commonly, a mix of the two;
- The organisation’s assessment of the likelihood that the opportunity or risk will come to fruition and the magnitude of its effect if it does. This includes consideration of the specific circumstances that would cause the opportunity or risk to come to fruition; and
- The specific steps being taken to mitigate or manage key risks or to create value from key opportunities, including the identification of the associated strategic objectives, strategies, policies, targets and key performance indicators.

Source: International <IR> Framework para 3.4, 4.25
**Findings**

The vast majority (64%) of reports surveyed succeeded in reporting on opportunities and risks. Compared to last year’s result we even observed a further improvement mainly due to further compliance efforts regarding GAS 20. All reports, discussed the topic of risk mitigation, and furthermore a growing number of reports (77%) outlined actions taken to mitigate or manage the potential of each risk extensively.

**Fig. 15 Reporting on risks and opportunities**

Source: PwC analysis.

**Risk dynamics**

Owing to the implementation of GAS 20 and its impact on the results of the previous study, we noted an increasing willingness on the part of companies to disclose their risk profiles by including information on the impact and probability of identified risks. This development continued in the current study as well, leading to a significant increase along the time axis over the last three years (starting in 2013: 20% – 50% – 63%). However, only 23% of the companies give insight into how the dynamics of its risk profile may change over time.

**Fig. 16 Providing insights into the dynamics of the company’s risk profile**

Source: PwC analysis.
What good reporting looks like

Risks are classified as very low, low, medium or high.

Likelihood is further described.
What good reporting looks like

Fig. 18 EnBW AG

Holistic and integrated risk and opportunity map

Individual risks are being qualified as high or low
Findings

Fig. 18 EnBW AG

Connectivity of top risks/opportunities with key performance indicators

<table>
<thead>
<tr>
<th>Top risks/opportunities</th>
<th>Financial indicators</th>
<th>Strategic indicators</th>
<th>Non-financial indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Disclosures</td>
<td>1 2 3</td>
<td>4 5 6 7</td>
<td>8 9 10 11 12 12</td>
</tr>
<tr>
<td>2. Improvements in efficiency</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Company pension scheme</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Market prices for financial investments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Discount rate applied to pension provisions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Competitive environment (electricity and gas)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. War-end balance on the EEG bank account</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. New construction project EnBW Baltic 2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Nuclear power provisions – ultimate storage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Nuclear power provisions – interim storage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Availability of power plants</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Changes to interest rates on nuclear power provisions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Hedging</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14. Margin payments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15. Long-term gas agreements</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Key performance indicators

53% of companies do not or just to some extent clearly set out the performance measures management uses to monitor success of its actions and progress against the strategic priorities.

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

An integrated report should answer the question: Where does the organisation want to go and how does it intend to get there?

Source: International <IR> Framework para 3.3, 4.27

**What it means**

The importance of an organisation’s strategy is highlighted by the fact that strategic focus is both one of the Guiding Principles of the <IR> Framework, as well as a Content Element.

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

**Principle in practice: Good reporting should provide insight into**

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

Source: International <IR> Framework para 4.28
**Findings**

Our assessment on the reporting about strategy and resource allocation shows that nearly half of the evaluated reports (44%) effectively cover these attributes. Furthermore 47% make a clear statement about their overall objectives. In this context the development along the time axis is striking: we see an 27% increase compared to the previous year’s study.

![Diagram showing reporting on strategy and resource allocation](source: PwC analysis)

Regarding the performance measures that management uses to observe the success of their actions, the current study shows that in 47% of cases companies set out these factors sufficiently. Although last year’s study gave significantly lower scores, there is still much room for improvement when it comes to providing detailed insight into the progress against the strategic priorities.

![Diagram showing setting out of management’s usage of performance measure to monitor success of its actions](source: PwC analysis)

Source: PwC analysis.
What good reporting looks like

**Goals**

In 2011, we set ourselves sales and earnings goals for 2015 and 2020 as part of the “We create chemistry” strategy. We will not reach our medium-term financial goals for 2015, primarily because gross domestic product and Industrial and chemical production grew at a considerably lower average rate from 2010 to 2015 than our strategy had anticipated (former expectations in parentheses):

- Growth of gross domestic product: 2.6% (3.4%)
- Growth in industrial production: 3.3% (4.5%)
- Growth in chemical production: 4.0% (4.9%)

This weaker economic development is largely due to sluggish momentum in the emerging markets and the lack of recovery in the European economy. Furthermore, pressure increased on margins for some basic products as well as in sections of the Performance Products segment.

**Progress made in the reporting period is communicated**

**Growth and profitability**

<table>
<thead>
<tr>
<th>EBITDA in billion €</th>
<th>2020 Goal</th>
<th>11</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td></td>
<td>11</td>
</tr>
</tbody>
</table>

**Employees**

- Senior executives with international experience: 83.0%

**Long-term goals**

- Increase in proportion of non-German senior executives
- Increase in proportion of female leaders worldwide
- Establishment of systematic, global employee development as shared responsibility of employees and leaders based on relevant processes and tools

**Status at year-end 2014**

- 34.3%
- 83.0%
- 19.1%

### Safety, security and health

<table>
<thead>
<tr>
<th>Metric</th>
<th>2020 Goals</th>
<th>Status at year-end 2014</th>
<th>More on</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation accidents per 10,000 shipments</td>
<td>-70%</td>
<td>-54.3%</td>
<td>Page 98</td>
</tr>
<tr>
<td>Production</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lost-time injuries per million working hours (baseline 2002)</td>
<td>-80%</td>
<td>-54.5%</td>
<td>Page 99</td>
</tr>
<tr>
<td>Health Performance Index (annual goal)</td>
<td></td>
<td>0.91</td>
<td>Page 99</td>
</tr>
<tr>
<td>Products</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk assessment of products sold by BASF worldwide in quantities of more than one metric ton per year</td>
<td>&gt;90%</td>
<td>51.1%</td>
<td>Page 101</td>
</tr>
</tbody>
</table>

### Environment

<table>
<thead>
<tr>
<th>Metric</th>
<th>2020 Goals</th>
<th>Status at year-end 2014</th>
<th>More on</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improvement of energy efficiency in production processes</td>
<td>+35%</td>
<td>+19.0%</td>
<td>Page 104</td>
</tr>
<tr>
<td>Introduction of sustainable water management at production sites in water stress areas</td>
<td>-80%</td>
<td>-79.5%</td>
<td>Page 107</td>
</tr>
<tr>
<td>Emission of air pollutants</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emission of air pollutants</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. In 2013, we achieved our goal to stop the flaring of associated gas released during Winterhald’s production of crude oil. In 2014, we already nearly reached our 2020 goal of reducing greenhouse gas emissions in the natural gas transportation business by 10% per transported amount and distance compared with 2010. These two goals will no longer be pursued in the future. For further information, see page 104.
2. excluding oil and gas production
Fig. 22 Henkel AG & Co. KGaA

Our focal areas and targets for the five-year period from 2011 to 2015

More value

More social progress and better quality of life
Performance
Social Progress
Safety and Health
Energy and Climate
Materials and Waste
Water and Wastewater

Deliver more value at a reduced footprint
More value for our customers and more value for Henkel
+ 10% more net sales per production unit
+ 20% safer per million hours worked

Less energy used and less greenhouse gases
Less water used and less water pollution
Less resources used and less waste generated
- 15% less water per production unit
- 15% less waste per production unit
- 15% less energy per production unit

Reduced footprint

Specific targets are set
Linkage to strategy and focus areas

Findings

What good reporting looks like

Fig. 23 Bayer AG

OUR VALUES
Bayer’s values play a central role in our daily work and are intended to guide us in fulfilling our mission. These values are represented by the word LIFE: Leadership, Integrity, Flexibility, Efficiency.

These values apply to everyone at Bayer and are firmly integrated into our global performance management system for managerial employees. Our value culture ensures a common identity within the enterprise across national boundaries, management hierarchies and cultural differences.

We have also adopted a clearer position as we compete to attract the best talent, using the slogan: “Passion to Innovate, Power to Change.” Further details can be found in the Chapter “Employees.”

1.2 Group Strategy

In line with our mission “Bayer: Science For A Better Life,” we aim to improve people’s quality of life. For this endeavor, we focus on our core competency of developing and successfully commercializing innovative products and solutions based on scientific knowledge.

ENTIRE FOCUS ON LIFE SCIENCE BUSINESSES
Bayer in future will focus entirely on the Life Science businesses – HealthCare and CropScience – and intends to float MaterialScience on the stock market as a separate company by mid-2016 at the latest. This move is designed to give MaterialScience direct access to the capital market for the continued development of its business. MaterialScience will align its organizational and process structures and corporate culture with its own industrial environment and business model in order to become a leading polymers company.

OUR OBJECTIVE: PROFITABLE GROWTH
Our corporate strategy is aligned toward profitable growth that will increase corporate value in the long term. We place special importance on developing new products and solutions that create significant value for customers and patients, and on serving the Emerging Markets, particularly those of Asia and Latin America. In this way we are giving more and more customers access to our products and establishing a solid basis for further growth.

THE FOUNDATION FOR OUR SUCCESS: INNOVATION
Bayer is steadily opening up new, attractive market segments in fast-growing and research-driven areas of the Life Sciences. Our success is based on the development of new molecules, technologies, processes and business models. In the long term we expect additional growth impetus to come from interdisciplinary and interspecies research as we build on successful first steps in these areas. We aim to drive growth in our established business areas through investment in research and development as well as through acquisitions and collaborations. We are investing heavily to deliver organic growth in all areas of activity. Bayer plans to invest a total of over €6 billion in research and development and in property, plant and equipment in 2015.

### Bayer Group Targets

<table>
<thead>
<tr>
<th>Definition of target</th>
<th>Target year</th>
<th>Target attainment to end 2014</th>
<th>New target for 2015</th>
<th>Explanations of target</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Profitable Growth</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in Group sales (in portfolio adj.), forecast issued in February 2014: approx. 9% increase to approx. €1 billion – €1.2 billion</td>
<td>2014</td>
<td>7.3% increase to €1.2 billion</td>
<td>Low-single-digit percentage increase (7% portfolio adj.) to approx. €1.2 billion</td>
<td></td>
</tr>
<tr>
<td>Increase in EBITA before special items forecast issued in February 2014: low-to-mid single-digit percentage increase</td>
<td>2014</td>
<td>4.7% increase</td>
<td>Low-to-mid single-digit percentage increase</td>
<td></td>
</tr>
<tr>
<td>Increase in earnings per share forecast issued in February 2014: mid single-digit percentage increase</td>
<td>2014</td>
<td>7.7% increase</td>
<td>Low-to-mid single-digit percentage increase</td>
<td></td>
</tr>
<tr>
<td><strong>Innovation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group: Increase in our investment to approx. €5.4 billion</td>
<td>2014</td>
<td>€5.4 billion</td>
<td>Increase in our investment to over €6.0 billion</td>
<td></td>
</tr>
<tr>
<td>HealthCare: Transition of more than 10 new molecular entities (compounds) into development</td>
<td>2014</td>
<td>12 new molecular entities (compounds) were transferred into development</td>
<td>Transition of more than 10 new molecular entities (compounds) into development</td>
<td>A new molecular entity is a chemical or biological substance that has not yet been developed at Bayer for a specific indication.</td>
</tr>
<tr>
<td>CropScience: Transfer of at least 5 new molecular entities or plant traits into confirmatory technical proof-of-concept field studies</td>
<td>2014</td>
<td>5 new molecular entities or plant traits were transferred into development</td>
<td>Transfer of at least 5 new molecular entities or plant traits into confirmatory technical proof-of-concept field studies</td>
<td>A new plant trait is a specific characteristic that has not yet been available as a product for the crop plant in question. The target was not achieved in 2014 due to changes in the regulatory framework in major regions.</td>
</tr>
<tr>
<td>MaterialScience: Improvement in production process technology to achieve better energy efficiency</td>
<td>Continuous</td>
<td>Improved production technologies introduced (e.g., Dawn Production, new cut facility)</td>
<td>Unchanged</td>
<td>This innovation target supports the achievement of the resource efficiency targets. More information on “efficient production” in Chapter 12.3 (Climate Program).</td>
</tr>
<tr>
<td><strong>Sustainability</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplier Management</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Evaluation of all strategically important suppliers</td>
<td>2015</td>
<td>66%</td>
<td>Unchanged</td>
<td>Strategically important suppliers are those with a major influence on business, including in terms of procurement spend and long-term collaboration prospects (5–7 years). Sustainability performance is evaluated in assessments and audits.</td>
</tr>
<tr>
<td>Evaluation of all potentially high-risk suppliers with significant Bayer spend</td>
<td>2020</td>
<td>61%</td>
<td>Unchanged</td>
<td>Risk definition based on a country- and material-based approach. We define significant procurement spend as &gt; €1 million p.a.</td>
</tr>
<tr>
<td>Development and establishment of a new sustainability standard for our supply base</td>
<td>In implementation</td>
<td>In implementation</td>
<td>Unchanged</td>
<td>The sustainability standard for our suppliers is based on best practice from the chemical industry. We are currently working on the “Together for Sustainability” initiative and the Pharmaceutical Supply Chain Initiative. The goals include standardizing and sharing sustainability assessments and audits of suppliers in the same industry and describing clear expectations regarding sustainability as well as establishing appropriate sustainability practices among our suppliers.</td>
</tr>
</tbody>
</table>
6 Performance

73% of companies explain what has driven their profit performance (quality and sustainability of profits)

An integrated report should answer the question: To what extent has the organisation achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?

Source: International <IR> Framework para 4.30

What it means
Underpinning the focus on integrated reporting is a strong appreciation that the success of organisations is inextricably linked to three interdependent factors: society, the environment and the global economy.

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

Principle in practice: Good reporting can be enhanced through

- Quantitative indicators with respect to targets and risks and opportunities, explaining their significance, their implications and the methods and assumptions used in compiling them;
- The organisation's effects (both positive and negative) on the capitals, including material effects on capitals up and down the value chain;
- The state of key stakeholder relationships and how the organisation has responded to key stakeholders’ legitimate needs and interests; and
- The linkages between past and current performance, and between current performance and the organisation's outlook.

Source: Consultation Draft of the International <IR> Framework para 4.28

Findings

Only one-fifth (20%) of the companies surveyed effectively communicate their holistic performance to stakeholders. The current data set shows a slight falling-off compared to the preceding year, which may be due to the fact that most of the companies concentrated on describing their financial performance rather than enhancing their reporting by integrating an analysis of their social and ecological performance. Most of the companies seem to remain compliance driven and do not broaden their reporting according to wider stakeholders’ priorities.

Fig. 24 Reporting on performance

Source: PwC analysis.
**KPIs: Alignment with strategic priorities**

The alignment of KPIs with strategic priorities continued on a high level, even though the borders between the categories “accomplished”/“exemplary” and “somewhat accomplished”/“not accomplished” changed marginally. In any case, we noted a negative development for the reports classified as exemplary, which declined sharply in favor of the next class.

**Fig. 25 Alignment of the KPIs to the strategic priorities**

<table>
<thead>
<tr>
<th></th>
<th>50%</th>
<th>43%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not accomplished</td>
<td></td>
<td>Accomplished</td>
</tr>
<tr>
<td>Somewhat accomplished</td>
<td>Exemplary</td>
<td></td>
</tr>
</tbody>
</table>

Source: PwC analysis.

**Linking performance and remuneration**

Our survey identified a tendency to provide further insights into remuneration policies with respect to KPIs. The explanation of KPIs aligned with remuneration policies contributes to enhanced transparency of management and board remuneration. KPIs should also be aligned with strategic priorities which in turn are drivers for the remuneration policies of the company.

Assessing the alignment of KPIs with remuneration policies gives us an ambivalent picture. 40% of the assessed reports show a clear alignment between KPIs and remuneration policies. In terms of providing more than basic disclosure about the alignment, only 7% of reports were evaluated as having accomplished exemplary reporting. The vast majority of the sample disclosed some KPIs that align with remuneration policies (60%).

**Fig. 26 Alignment of KPIs with remuneration policies**

<table>
<thead>
<tr>
<th></th>
<th>60%</th>
<th>33%</th>
<th>7%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Somewhat accomplished</td>
<td>Exemplary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accomplished</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: PwC analysis.

However, the question remains: What is too much and what is enough when it comes to performance measures? There cannot possibly be a one-size-fits-all answer and every reporter will have to judge whether the indicators that are identified as ‘key’ indeed reflect the organisation’s performance against strategy.
Findings

What good reporting looks like

Fig. 27 EnBW AG

Goals address both financial and non-financial strategic ambitions

Providing a clear time frame

Identification of key performance indicators for each goal

<table>
<thead>
<tr>
<th>Finance goal dimension</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goal</strong></td>
<td><strong>Key performance indicator</strong></td>
</tr>
<tr>
<td>Securing profitability</td>
<td>Adjusted EBITDA in € billion</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Safeguarding the good credit rating</td>
<td>Dynamic leverage ratio</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Raising the Group’s value</td>
<td>ROCE in %</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Strategy goal dimension</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goal</strong></td>
<td><strong>Key performance indicator</strong></td>
</tr>
<tr>
<td>Share in results of Customer proximity / Sales</td>
<td>Share in adjusted EBITDA [in € billion / m%]</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Share in results of Grids</td>
<td>Share in adjusted EBITDA [in € billion / m%]</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Share in results of Renewable Energies</td>
<td>Share in adjusted EBITDA [in € billion / m%]</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Share in results of Generation and Trading</td>
<td>Share in adjusted EBITDA [in € billion / m%]</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Customers goal dimension

<table>
<thead>
<tr>
<th>Goal</th>
<th>Key performance indicator</th>
<th>2014</th>
<th>Target in 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing brand attractiveness</td>
<td>Brand Attractiveness Index EnBW/Yello</td>
<td>43/36</td>
<td>44/40</td>
</tr>
</tbody>
</table>

*EnBW and Yello are regarded as attractive brands by consumers, supporting sales and customer acquisition.*

<table>
<thead>
<tr>
<th>Goal</th>
<th>Key performance indicator</th>
<th>2014</th>
<th>Target in 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer proximty</td>
<td>Customer Satisfaction Index EnBW/Yello</td>
<td>114/145</td>
<td>&gt;136/159</td>
</tr>
</tbody>
</table>

*EnBW and Yello customers are satisfied customers with a high level of customer loyalty. EnBW and Yello are organisations strongly oriented towards the customer and which meet the needs and wishes of their customers through tailored solutions and products.*

<table>
<thead>
<tr>
<th>Goal</th>
<th>Key performance indicator</th>
<th>2014</th>
<th>Target in 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply reliability</td>
<td>SAIDI (Electricity) in min/year</td>
<td>15</td>
<td>&lt;25</td>
</tr>
</tbody>
</table>

*EnBW regards the maintenance of supply quality to its customers as its chief priority. The high degree of supply reliability in the EnBW grid area is based on comprehensive investment in grids and plants and our distinctive system competence.*

*Actual results are listed for a better comparison in order to be able to assess the company's current state in achieving its goals.*

---

### Employees goal dimension

<table>
<thead>
<tr>
<th>Goal</th>
<th>Key performance indicator</th>
<th>2014</th>
<th>Target in 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee commitment</td>
<td>Employee Commitment Index (ECI)</td>
<td>56</td>
<td>65</td>
</tr>
</tbody>
</table>

*The commitment our employees feel to EnBW is very strong, and there is faith in the future viability of the company.*

<table>
<thead>
<tr>
<th>Goal</th>
<th>Key performance indicator</th>
<th>2014</th>
<th>Target in 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupational health &amp; safety</td>
<td>LTIF</td>
<td>1.0</td>
<td>Priory year figure</td>
</tr>
</tbody>
</table>

*The number of occupational accidents and resulting days of absence remains at a sustainable, stable level or falls.*

---

### Environment goal dimension

<table>
<thead>
<tr>
<th>Goal</th>
<th>Key performance indicator</th>
<th>2014</th>
<th>Target in 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expand renewable energies</td>
<td>Installed capacity of RE in GW and the share of the generation capacity accounted for by RE in %</td>
<td>24/19.1</td>
<td>50.0/40</td>
</tr>
</tbody>
</table>

*The share of renewable energies in EnBW’s generation capacity has doubled compared with 2012. Onshore and offshore wind power and hydropower are at the forefront in this respect.*

*Providing a clear time frame*
7 Outlook

An integrated report should answer the question: *What challenges and uncertainties is the organisation likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?*

Source: International <IR> Framework, para 4.34

**What it means**

In developing the Framework, it was recognised that much of what is currently reported tends to be backward-looking and fails to provide stakeholders with sufficient information to make a meaningful assessment regarding the organisation’s ability to create and sustain value over the short, medium and long term. Therefore, in addition to reporting on performance during the reporting period, the integrated report should include a forward-looking statement concerning the organisation’s anticipated activities and performance objectives, informed by its assessment of recent performance and understanding of trends in the external and internal environment, including stakeholder expectations.

**Principle in practice: Good reporting should provide insight into**

- Anticipated changes over time;
- The organisation’s expectations about the external environment it is likely to face in the short, medium and long term;
- How the external environment will affect the organisation; and
- How the organisation is currently equipped to respond to the critical challenges and uncertainties that are likely to arise.

Source: International <IR> Framework para 4.35
**Findings**

Our research found that 20% of reports provided effective communication of their future outlook and of how the company plans to create and sustain value over the medium and long term. The remaining 80% have the potential to develop the reporting of their future viability in terms of availability and constraints on material capital inputs. No significant changes in comparison to the last year’s study were observed.

As companies are obliged to give outlook information by law in Germany, we find information about the expected development of the company with respect to key financial performance indicators (KPIs), such as revenue or EBIT, in nearly every report. Due to the new standard on management report and the resulting inclusion of the most relevant non-financial KPIs in the outlook, reports slightly improved in comparison to the reporting period 2013. However, there remains further scope for advancing their disclosure on areas such as future expectation of constraints on the material non-financial capital inputs which impact a company’s value.

**The materiality determination process**

It is important to understand the process undertaken by management to identify material issues affecting the organisation's future viability in order to provide a context for the strategic outlook of the organisation.

Less than a third of reports (30%) gave a description of how the company has identified material issues, while the vast majority of the reports (70%) only provided some or even not any insight into this process.

**Time frames**

By using relevant time frames, the reporting on an organisation’s future can be improved. Considered time frames and targets will vary with business and investment cycles, industry context, strategies adopted and stakeholder expectations. Although we see companies (7%) providing clear time frames in which future viability has been considered, most of the companies surveyed show significant scope for further developing their reporting using time frames, bearing in mind the nature of the company’s business and industry.
Findings

Setting targets for performance measures or KPIs to monitor progress against strategy in relation to non-financial capitals are provided by 10% of the reports at a very good level, and in 3% of cases at a good level. 57% of the reports surveyed had a potential to develop further.

In addition, as indicated in the figure below, a mere 27% of reports assessed discuss the corporate impact on external non-financial capitals, such as human, intellectual, social and relationship capitals, while 70% of the companies provided at least some insights.

**Fig. 29** Discussion of its impact on external non-financial capitals

<table>
<thead>
<tr>
<th></th>
<th>70%</th>
<th>27%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not accomplished</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Somewhat accomplished</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accomplished</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: PwC analysis.

**How reporting can be developed**

An integrated report should provide a clear and appropriate demonstration of the time frame over which future viability has been considered, in the context of the nature of the company’s business and industry.

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

**What good reporting looks like**

Findings

Fig. 31 Bayer AG


Fields of action with indicator function for strategic development and risk control

Importance for internal stakeholders (management)

Importance for external stakeholders (e.g. investors, shareholders, NGOs)

Fig. 32 BMW AG


Importance for internal stakeholders (management)

Fields of action with indicator function for strategic development and risk control
## Financial performance indicators

<table>
<thead>
<tr>
<th></th>
<th>Results in 2014</th>
<th>Pro-forma in 2014</th>
<th>Expectations for 2015</th>
<th>Expectations for 2016</th>
<th>Ambition up to 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NET REVENUE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group</td>
<td>billions of €</td>
<td>62.7</td>
<td>increase</td>
<td>increase</td>
<td>CAGR 1-2%¹</td>
</tr>
<tr>
<td>Germany</td>
<td>billions of €</td>
<td>22.3</td>
<td>slight decrease</td>
<td>stable trend</td>
<td></td>
</tr>
<tr>
<td>United States (in local currency)</td>
<td>billions of €</td>
<td>29.7</td>
<td>strong increase</td>
<td>increase</td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>billions of €</td>
<td>13.0</td>
<td>decrease</td>
<td>stable trend</td>
<td></td>
</tr>
<tr>
<td>Systems Solutions</td>
<td>billions of €</td>
<td>8.6</td>
<td>slight increase</td>
<td>stable trend</td>
<td></td>
</tr>
<tr>
<td>Of which: Market Unit</td>
<td>billions of €</td>
<td>6.9</td>
<td>increase</td>
<td>slight increase</td>
<td></td>
</tr>
<tr>
<td><strong>PROFIT (LOSS) FROM OPERATIONS (EBIT)</strong></td>
<td>billions of €</td>
<td>7.2</td>
<td>strong decrease</td>
<td>strong increase</td>
<td></td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>billions of €</td>
<td>17.8</td>
<td>strong decrease</td>
<td>strong increase</td>
<td></td>
</tr>
<tr>
<td><strong>EBITDA (ADJUSTED FOR SPECIAL FACTORS)</strong></td>
<td>billions of €</td>
<td>17.6</td>
<td>around 18.3</td>
<td>increase</td>
<td>CAGR 2-4%¹</td>
</tr>
<tr>
<td>Group</td>
<td>billions of €</td>
<td>8.8</td>
<td>around 8.8</td>
<td>stable trend</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>billions of €</td>
<td>8.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States (in local currency)</td>
<td>billions of USD</td>
<td>5.7</td>
<td>around 7.0</td>
<td>strong increase</td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>billions of €</td>
<td>4.4</td>
<td>around 4.3</td>
<td>slight increase</td>
<td></td>
</tr>
<tr>
<td>Systems Solutions</td>
<td>billions of €</td>
<td>0.8</td>
<td>around 0.9</td>
<td>increase</td>
<td></td>
</tr>
<tr>
<td><strong>ROCE</strong></td>
<td>%</td>
<td>5.5</td>
<td>strong decrease</td>
<td>strong increase</td>
<td>ROCE &gt; WACC⁹</td>
</tr>
<tr>
<td><strong>CASH CAPEX</strong></td>
<td>billions of €</td>
<td>9.5</td>
<td>around 9.8</td>
<td>slight decrease</td>
<td>CAGR 1-2%¹</td>
</tr>
<tr>
<td>Group</td>
<td>billions of €</td>
<td>3.8</td>
<td>stable trend</td>
<td>slight decrease</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>billions of €</td>
<td>3.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States (in local currency)</td>
<td>billions of USD</td>
<td>4.3</td>
<td>slight increase</td>
<td>slight increase</td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>billions of €</td>
<td>1.6</td>
<td>increase</td>
<td>stable trend</td>
<td></td>
</tr>
<tr>
<td>Systems Solutions</td>
<td>billions of €</td>
<td>1.2</td>
<td>decrease</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>FREE CASH FLOW (BEFORE DIVIDEND PAYMENTS AND SPECTRUM INVESTMENT)</strong></td>
<td>billions of €</td>
<td>4.1</td>
<td>around 4.3</td>
<td>strong increase</td>
<td>CAGR 10%¹</td>
</tr>
<tr>
<td><strong>RATING</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard &amp; Poor’s, Fitch</td>
<td>BBB+</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moody’s</td>
<td>Baa1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>OTHER</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend per share</td>
<td>€</td>
<td>0.50</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EPS (adjusted for special factors)</td>
<td>€</td>
<td>0.54</td>
<td></td>
<td>strong increase</td>
<td>strong increase</td>
</tr>
<tr>
<td>Equity ratio</td>
<td>%</td>
<td>26.3</td>
<td></td>
<td></td>
<td>25 to 35</td>
</tr>
<tr>
<td>Relative debt</td>
<td></td>
<td>2.4x</td>
<td></td>
<td></td>
<td>2 to 2.5x</td>
</tr>
</tbody>
</table>
Insights into the expectations for the next 2 years are provided.

Appendix 1: Companies surveyed

Adidas AG
31 December 2014

Allianz SE
31 December 2014

BASF SE
31 December 2014

Bayer AG
31 December 2014

Beiersdorf AG
31 December 2014

BMW AG
31 December 2014

Commerzbank AG
31 December 2014

Continental AG
31 December 2014

Daimler AG
31 December 2014

Deutsche Bank AG
31 December 2014

Deutsche Börse AG
31 December 2014

Deutsche Lufthansa AG
31 December 2014

Deutsche Post AG
31 December 2014

Deutsche Telekom AG
31 December 2014

E.ON AG
31 December 2014

Fresenius SE & Co. KGaA
31 December 2014

Fresenius Medical Care AG & Co. KGaA
31 December 2014

HeidelbergCement AG
31 December 2014

Henkel AG & Co. KGaA
31 December 2014

Infineon Technologies AG
30 September 2014

K+S AG
31 December 2014

LANXESS AG
31 December 2014

Linde AG
31 December 2014

Merck KGaA
31 December 2014

Munich Re AG
31 December 2014

RWE AG
31 December 2014

SAP AG
31 December 2014

Siemens AG
30 September 2014

ThyssenKrupp AG
30 September 2014

Volkswagen AG
31 December 2014
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About us
Our clients face diverse challenges, strive to put new ideas into practice and seek expert advice. They turn to us for comprehensive support and practical solutions that deliver maximum value. Whether for a global player, a family business or a public institution, we leverage all of our assets: experience, industry knowledge, high standards of quality, commitment to innovation and the resources of our expert network in 157 countries. Building a trusting and cooperative relationship with our clients is particularly important to us – the better we know and understand our clients’ needs, the more effectively we can support them.

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