This IR Update comprises the following:

- Types of capitals
- Maintaining capitals to create value in the future
- Application of the capitals model for IR
- Considerations in using the capitals model in IR
- Examples of the different types of capitals

Integrated Reporting Update

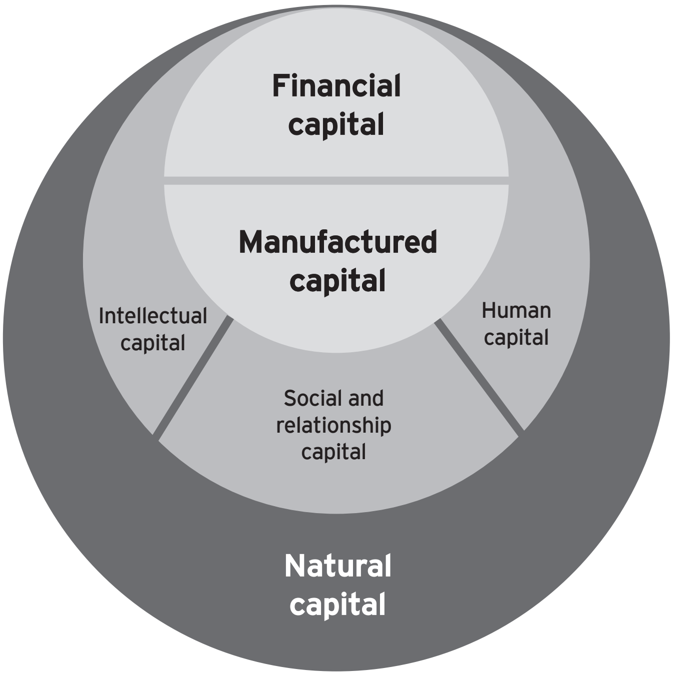
The concept of 'capital' in Integrated Reporting

Building a better working world

This document summarises the Capitals background paper (paper) released by the International Integrated Reporting Council (IIRC) in March 2013. The IIRC is considering this paper in the development of the International Integrated Reporting (IR) Framework Consultation Draft.

Note: For a copy of this paper, please refer to the IIRC's website: www.theiirc.org/resources-2/framework-development/background-papers/

Summary of the IIRC's paper on Capitals

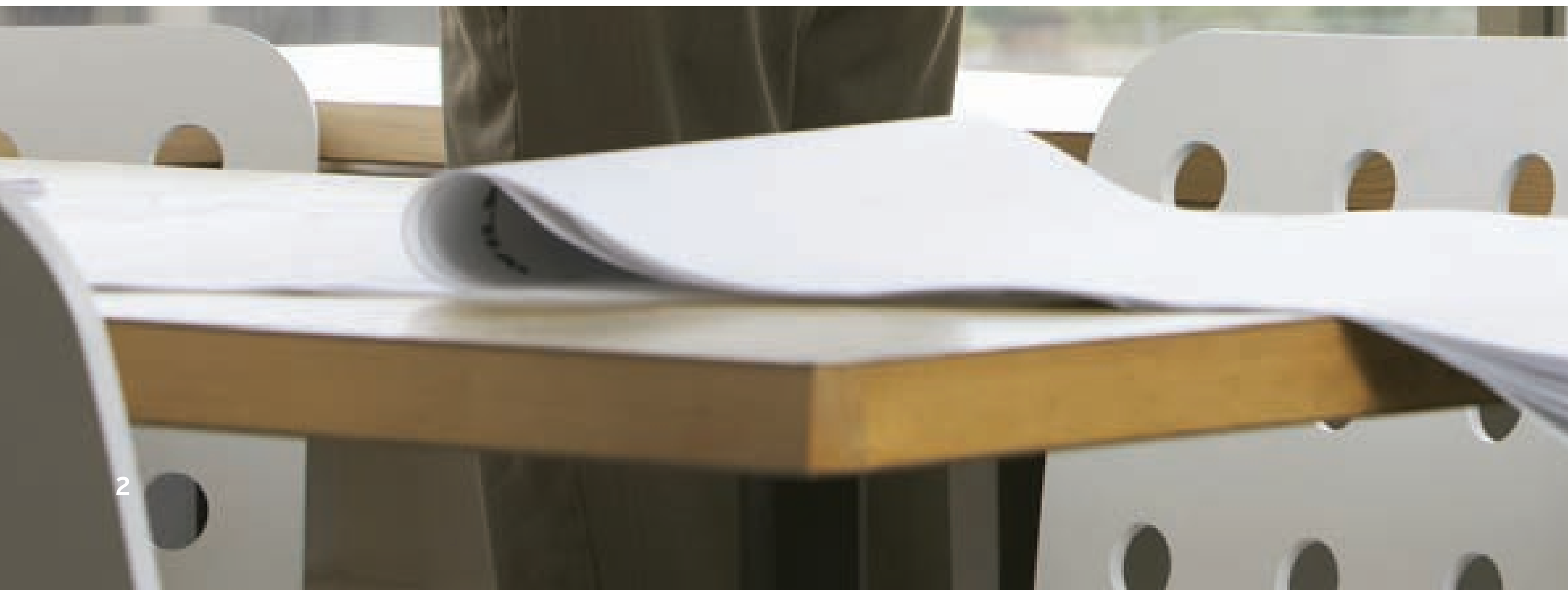


Types of capitals

The IIRC has defined six different types of capitals for the purpose of IR:

- Financial capital,
- Manufactured capital,
- Intellectual capital,
- Human capital,
- Social and relationship capital, and
- Natural capital.

The paper focuses on the categorisation and description of these various capitals and has made some suggested changes to the definitions previously supplied in the Prototype Framework. This diagram above is one way to depict the capitals. Financial and manufactured capitals are the ones organisations most commonly report on. <IR> takes a broader view by also considering intellectual, social and relationship, and human capitals (all of which are linked to the activities of humans) and natural capital (which provides the environment in which the other capitals sit).



Maintaining capitals to create value in the future

The capitals represent stores of value that can be built up, transformed or run down over time in the production of goods or services. Their availability, quality and affordability can affect the long term viability of an organisation's business model and, therefore, its ability to create value over time.

The capitals must therefore be maintained if they are to continue to help organisations create value in the future.

Application of the capitals model for IR

The capitals model as included in the Framework is not intended to serve as the only possible model that can be reported against. The primary reasons for including the capitals model in the Framework are for it to serve:

- As a benchmark for ensuring that organisations consider all the forms of capital that they use and affect (e.g. when describing their business model), and
- As part of the theoretical underpinning for the concept of value which is central to IR. As explained in the Prototype Framework, the concept of value focuses on increases and decreases in the capitals.

It is likely that organisations will adapt the capitals model (and terminology) appropriately to structure or articulate disclosures in their IR.

Considerations for the IR when using the capitals model

- *Capitals are interrelated and tradeoffs are likely to occur:* for example, an increase in human capital through investment in training programmes decreases financial capital (at least in the short run). Reporting on these relationships and tradeoffs is of particular importance to IR.
- *Some types of capitals are more important than others:* While most organisations rely on all capitals to an extent, some dependencies will be relatively minor or so indirect that they are immaterial for reporting purposes.
- *An analysis of the correlation between capitals and stakeholder impacts (dependencies) helps to set boundaries for IR:* Section 6.13 of the paper includes a table that demonstrates how the organisation's use of its capital impacts (or depends on) various stakeholders respectively. An assessment of the significance of the impacts (or dependencies) helps to define the IR boundary (i.e. what to include / exclude in the report). In addition, by analysing capitals in such a way an organisation could enhance the robustness of its stakeholder analysis.
- *Reporting on performance through narrative or quantified KPI's:* In some instances the uses and effects on an organisation's capitals can be quantified, but in some instances it may be best to report in the form of a narrative.
- *Ownership of the capitals:* An organisation doesn't necessarily own all the capitals that it uses or affects. In fact, they may be owned by others, or may not be owned at all in a legal sense (e.g. access to unpolluted air).

Examples of the different types of capitals

Types of capital
1. Financial capital: The pool of funds that is available to an organisation for use in the production of goods or the provision of services obtained through financing or generated through operations or investments. ‣ Debt ‣ Equity ‣ Grants
2. Manufactured capital: Manufactured physical objects that are available to an organisation for use in the production of goods or the provision of services. ‣ Buildings ‣ Production equipment and tools ‣ Infrastructure (such as roads, ports, bridges and waste and water treatment plants)
3. Intellectual capital: Organisational, knowledge-based intangibles ‣ Intellectual property, e.g. patents, copyrights, software, rights and licences ‣ Organisational capital, e.g. tacit knowledge, systems, procedures and protocols ‣ Intangibles associated with the brand and reputation that an organisation has developed
4. Human capital: People's competencies, capabilities and experience, and their motivations to innovate. ‣ Alignment with and support for an organisation's governance framework and risk management approach, and ethical values such as recognition of human rights ‣ Ability to understand, develop and implement an organisation's strategy ‣ Loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate Related aspects include: employee turnover, labor/management relations, occupational health and safety, training and education, diversity and equal opportunity

Types of capital

5. Social and relationship capital: The institutions and relationships established within and between each community, group of stakeholders and other networks (and an ability to share information) to enhance individual and collective well-being

- Shared norms, and common values and behaviours
- Key relationships, and the trust and willingness to engage that an organisation has developed and strives to build and protect with customers, suppliers, business partners, and other external stakeholders
- An organisation's social license to operate
- Community

Related aspects include: corruption; anti-competitive behaviour; customer health, safety and privacy; human rights such as non-discrimination, freedom of association, and indigenous rights

6. Natural capital: All renewable and non-renewable environmental stocks that provide goods and services that support the current and future prosperity of an organisation.

- Air, water, land, forests, materials, minerals, energy
- Biodiversity and ecosystem health.

Related aspects include: Emissions, effluents, and waste

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