

Integrated Annual Reports - Good Reporting Practices

Steven Rupprecht and Rob Ingram

Introduction

Integrated Annual Reports represent a comprehensive report on a company's activities during the year under review. Not only do the annual reports provide information regarding the company's financial position and future direction but provide other information deemed relevant as stakeholders need to make informed assessments about the longer term sustainability of a company and that it is operating as a responsible corporate citizen.

The recent debacle of Steinhoff International where shareholder value plunged over accounting irregularities demonstrates the need for good reporting compliance in integrated annual reporting. For mineral companies the declared Mineral Resources and Mineral Reserves represent the foundation of the company, as ultimately it is the Mineral Reserves that are based on a life of mine plan that provide the underlying value of the company. In essence, the companies Mineral Resources and Mineral Reserves are the company's inventory which once extracted generates cash flow for the company and shareholders. For investors it is important that these Mineral Resources and Mineral Reserves are in fact correct, as the valuation of the company is dependent upon the Mineral Resources and Mineral Reserves statement.

The Role of The JSE Reader

As part of the Johannesburg Stock Exchange (JSE) listing requirements, Mining and Exploration companies listed on the JSE are required to comply with Section 12.11 (on-going reporting requirements). Accordingly, Exploration and Mining companies are required to disclose information related to the reporting requirements for Mineral Resources and Mineral Reserves in their annual report. The JSE reporting requirements for an Integrated Annual Report is shown in Table 1. As a means to improve public reporting of Mineral Resources and Mineral Reserves the JSE makes use of a Readers Panel to review a number of Integrated Annual Reports each year. It should be noted that the role of the Readers Panel is one means by which the primary objective of the Panel is to verify and monitor compliance with Section 12 of the JSE Listing Requirements and the SAMCODES. The objective of a review is to ensure reporting that is transparent and contains sufficient relevant information to allow an investor (or potential investor) to make an informed decision and that cannot be construed to be misleading or inappropriate.

Integrated Annual Reports - Reporting Performance

In 2009, the Johannesburg Stock Exchange (JSE), through the JSE's Readers Panel, began to review annual reports for compliance of the Integrated Annual Reports in terms of Section 12.11.

In 2015, the JSE Review Panel reviewed 26 Integrated Annual Reports and found only three companies had reported in full compliance with Section 12.11; while two companies performed badly, having 19 and 16 instances of non-compliance respectively. The main areas of non-compliance in according to Section 12.11 of the JSE Listing Requirements relating to

the reporting requirements for Mineral Resources and Mineral Reserves in Integrated Annual Reports are as follows.

- Companies should minimise the use of reporting mineral ounces without referencing the actual grade or referring the reader to the Mineral Resource and Mineral Reserve section of the Integrated Annual Report for full disclosure. Although this is common practice in public reports and commonly found in the chairperson's report to shareholders or in the summary section of the Integrated Annual Report – it is a practice that should be curtailed as it doesn't agree with the intent of the SAMREC Code.
- Companies incorrectly state the estimated Mineral Resources and Mineral Reserves. Some companies still incorrectly refer to "Proven" instead of "Proved" Mineral Reserves. Some companies fail to report the previous years Mineral Resources and Mineral Reserve nor provide commentary when there are material changes in the Mineral Resources or Mineral Reserves. In one particular case a company was requested to retract a Coal Reserve statement as the Coal Reserve was based on a Scoping Study rather than the SAMREC Code requirement of at least a Pre-Feasibility Study. The information leading to the initial compliant was based on the information provided in the Integrated Annual Report.
- In many cases companies do not fully disclose the details of the Competent Person or acknowledge that the Competent Person had given written confirmation for the disclosure of the information. Although the Section 12.11 discusses the reporting of the Lead Competent Person's details it is also important that the Integrated Annual Report provide the pertinent information regarding the Competent Persons who sign off on the Mineral Resource and Mineral Reserve.
- Companies failed to disclose the methods, key assumptions and parameters by which the Mineral Resources and Mineral Reserves were estimated. The mineral price used to establish a Mineral Resource or Mineral Reserve is often nebulous leaving the reader uncertain if the price used supports the declaration of a Mineral Resource or Mineral Reserve.
- Companies often failed to comment on the legal entitlement to the minerals or whether there are any known impediments.

Some of the best practices observed in the Integrated Annual Reports have been identified as:

- Leading practices in the area of reporting exploration activities, exploration expenditure, exploration results and feasibility studies undertaken use this section of the Integrated Annual Report as a means to inform the reader of the company's future and project pipeline. Rather than just stating monetary values to exploration the company can provide the reader/investor a real sense of the company's potential and vision by providing details around exploration and technical studies.
- Identifying technical team members used in the development of Mineral Resources and Mineral Reserves. This is seen as best practice as it expands the level of expertise to down to the level of specialist doing much of the technical work that underpins the Mineral Resource and Mineral Reserve.
- Detail risk assessments that address the potential impacts that the identified risks may have on the Mineral Resource and Mineral Reserve estimations. Since some the inputs associated with the Mineral Resource and Mineral Reserve estimations process vary with time (e.g. exchange rate metal prices) mining companies must highlight the potential risk associated with the assumptions.
- It is becoming common practice for Integrated Annual Reports to provide extended summaries of the companies environmental management, security of mineral right, and financial provisions for the rehabilitation. Other impacts such as water use and pollution, air quality and pollution, land management and biodiversity practices are

often properly disclosed. Any one of the above could have a material impact on the Mineral Resource and/or Mineral Reserve.

- Third party reviews of the Mineral Resource and Mineral Reserve estimation process is viewed as good practice with the regular rotation of the independent consultants considered best practice.

As means to indicate progress towards on-going reporting of Mineral Resources and Mineral Reserves in Integrated Annual Report the following compliance issues were highlighted in 2017 (Ingram, 2017) when the Readers Panel reviewed 11 Integrated Annual Reports:

- Failure to fully disclose the necessary details of the Competent Persons
- Failure to fully disclose methods and key assumptions by which the Mineral Resource and Mineral Reserve (including Exploration Results) were estimated and disclosed.
- Failure by directors to make statement of any legal proceedings or other material conditions that could impact on the company's ability to continue operations, or an appropriate negative statement.
- Failure to provide appropriate locality maps and plans

Although a few issues remain, by and large companies have learned from previous reviews with noncompliance issues remaining minor.

Squirrel Award

The Squirrel Award is given to the company, which presents exceptional reporting for the year of reporting. The Squirrel awarded in 2016 went to AngloGold Ashanti for their 2015 Integrated Annual Report. During 2017, two Squirrels were awarded – one for companies with a market capitalization greater than R15Bn and one for companies with a market capitalization less than R15Bn. The winners of these trophies (presented in June 2017) were Impala Platinum Holdings Limited and Keaton Energy Holdings Limited, respectively, for reports submitted during 2016 (SAMCODE, 2017).

Conclusion

Compliance with the SAMCODES isn't just limited to Competent Persons Reports and the declaration of Exploration Results, Mineral Resource and Mineral Reserves but also includes on-going reporting requirements associated with Integrated Annual Reports as per the JSE Listing Requirements. Although the JSE, through the JSE Readers Panel, will continue to review Integrated Annual Reports, it remains the responsibility of listed companies, as well as Competent Persons to ensure reporting remains transparent, contains all material information and the work conducted is done in a competent manner.

Reference

Ingram, R. (2014). On-going reporting requirements in terms of Section 12.11.

Ingram, R. (2017). Annual report back to the SSC in terms of Section 6.2 of the Solid Minerals Panel Mandate. 30 November 2017

SAMCODE. (2017). Do you want to win a Squirrel? <http://www.samcode.co.za/news/163-do-you-want-to-win-a-squirrel> [online] [Accessed 28/11/2017]

Table 1

JSE Integrated Annual Report Requirements (after Rob Ingram, 2014)

12.11		In addition to complying with IFRS Section 30 of the Act and paragraph 3.84 of the Listings Requirements, issuers are required to disclose the following information in the annual report:
12.11	(i) Scope	
	1	The JSE may require non-mineral companies with substantial mineral assets to comply with these requirements.
	2	Mineral Companies (which for purposes of this listings requirement, includes subsidiaries, joint ventures, associates and investments), are required to disclose the details contained in these paragraphs on an attributable beneficial interest basis (ie beneficial “see through” basis).
	3	Mineral Companies may report on an aggregated attributable beneficial interest basis (“total basis”) where the required disclosure details in these paragraphs have been previously disclosed and published by separately listed Mineral Companies in compliance with this listing requirement. If disclosure is made on a total basis, then the attributable beneficial interest percentage must also be clearly stated.
	4	Mineral Companies’ disclosure in accordance with 8.63(l) must be compliant with the SAMREC Code and parts of Table 1 and this Section 12. The applicable relevant SAMREC Code Table 1 (Checklist and guidelines of reporting and assessment criteria) paragraphs are referred to throughout this requirement as follows: -[refer to T1,Txx,xx]. Where the disclosure is not in accordance with a Section 12 or Table 1 paragraph, or incorporates a number of such paragraphs, it will be referred to as follows – [stand alone]
	5	Mineral Companies must disclose the full name, address, professional qualifications and relevant experience (including the name and address of the body recognised by SAMREC of which the Competent Person is a member) of the Lead Competent Person authorising publication of the information disclosed in terms of these paragraphs [refer to T9.1.]
	6	Mineral Companies must include a statement that they have written confirmation from the Lead Competent Person that the information disclosed in terms of these paragraphs is compliant with the SAMREC Code and where applicable, the relevant Section 12 and Table 1 requirements, and that it may be published in the form and context in which it was intended [stand alone].
12.11	(ii)	Disclosure Compliance
	1	Where individual operations, projects or exploration activities are material to:
	(aa)	Mining Companies, then 12.11(iii) must be complied with in full (if any sub paragraph or paragraphs is/are not applicable, an appropriate statement(s) must be made); or
	(bb)	Exploration Companies), then 12.11(iv) and 12.11(iv) must be complied with in full (if any sub paragraph or paragraphs is/are not applicable, an appropriate statement(s) must be made).
	2	Where individual operations, projects or exploration activities are not material to Mineral Companies, then only 12.11(iii)(6) and 12.11(iii)(8) require compliance disclosure.
		Mineral Resources and Mineral Reserves
12.11	(iii)	Mining Companies annual disclosure requirements
		Mining Companies must disclose the following information, where applicable, for the financial year/period under review as part of their annual reports:
	1	a brief description of any exploration activities, exploration expenditures, exploration results and feasibility studies undertaken; [stand alone but refer to T4 and T5 for guidance.];
	2	a brief description of the geological setting and geological model; [refer to T 4.1(iv)];
	3	a brief description of the type of mining and mining activities, including a brief history of the workings or operations [refer to T 1.4];

	4	production figures, including a comparison with the previous financial year/period [stand alone];
	5	a statement that the company has the legal entitlement to the minerals being reported upon [refer to T1.5] together with any known impediments [stand alone] ;
	6	the estimated Mineral Resources and Mineral Reserves (“Mineral Resource and Reserve Statement”) [refer to T4];
	7	description of the methods and the key assumptions and parameters by which the Mineral Resources and Mineral Reserves [refer to T4] were calculated and classified;
	8	a comparison of the Mineral Reserve and Mineral Resource estimates with the previous financial year/period’s estimates together with explanations of material differences [stand alone];
	9	whether or not the Inferred Mineral Resource category has been included in feasibility studies, and if so the impact of such inclusion [refer to clause 26 of the SAMREC Code)];
	10	any material risk factors that could impact on the Mineral Resource and Reserve Statement [refer to T 5.7];
	11	a statement by the directors on any legal proceedings or other material conditions that may impact on the company’s ability to continue mining or exploration activities, or an appropriate negative statement [refer to T1.5];
	12	appropriate locality maps and plans [refer to T1]; and
	13	a summary of environmental management and funding [refer to T5.5].
12.11	(iv)	Exploration Companies – annual disclosure requirements
		In addition to the disclosure requirements in 12.11(iii), Exploration Companies must disclose the following information as a part of their annual report, where applicable:
	1	summary information of previous exploration work done by other parties on the property [refer to T 1.4, 5];
	2	summary information on the data density and distribution [refer to T 4.1 (i) and(iv)];
	3	exploration results not incorporated in the Mineral Resource and Reserve Statement including the following, where applicable, or a qualified negative statement:
	(aa)	the relationship between mineralization true widths and intercept lengths [refer to T 3.1 (viii)];
	(bb)	data and grade compositing methods and the basis for mineral equivalent calculations [stand alone but refer to T 4.2(ii)and T5.2(iv)];
	(cc)	for poly-metallic mineralisation or multi-commodity projects, separate identification of the individual components[stand alone];
	(dd)	the representivity of reported results [refer to T 4.5(i);
	(ee)	other substantive exploration data and results [refer to T 3.1(iii)];
	(ff)	comment on future exploration work stand alone [but refer to Section 12.9 (e)(ii) and (iii)];
	(gg)	the basic tonnage/volume, grade/quality and economic parameters for the exploration target [refer to SAMREC Code paragraph 21 and 22)];
	(hh)	sample and assay laboratory quality assurance and quality control procedures [refer to T 3.4(i), 3.5(iv) and 3.6(i)];