

Consultation questions

The IIRC welcomes comments on all aspects of the Draft International <IR> Framework (Draft Framework) from all stakeholders, whether to express agreement or to recommend changes.

The following questions are focused on areas where there has been significant discussion during the development process. Comments on any other aspect of the Draft Framework are also encouraged through the questions.

Please provide all comments in English.

All comments received will be considered a matter of public record and will be posted on the IIRC's website (www.theiirc.org).

Comments should be submitted by Monday 15th, July 2013.

Name:	<input type="text" value="Simon Braaksma"/>
Email:	<input type="text" value="simon.braaksma@philips.com"/>
Stakeholder group:	<input type="text" value="Report preparers"/>

If replying on behalf of an Organization please complete the following:

Organization name:	<input type="text" value="Royal Philips NV"/>
Industry sector:	<input type="text" value="Industrials"/>
Geographical region:	<input type="text" value="Western Europe"/>

Key Points

If you wish to briefly express any key points, or to emphasize particular aspects of your submission, or add comments in the nature of a cover letter, then the following space can be used for this purpose. Please do not repeat large amounts of material appearing elsewhere in your comments.

<p>1. As a practitioner, the exposure draft does not give sufficient guidance to start reporting according to the fundamental concepts and ideas (which we support). Especially for "experienced" reporters like ourselves (5 years of integrated financial, social and environmental reporting), it would be good to understand what we need to change ...</p> <p>2. Being an SEC listed company, a number of "requirements" stipulated in the consultation draft may expose our company to significant legal issues. Examples are the "Forward looking statements" or "future outlook", and the disclosure of mitigating actions in the Risk Management section.</p> <p>3. We have no inclination to write a separate report to meet the requirements of the IIRC, but instead adopt our current report to the new guidelines, and abstract the relevant IIRC content.</p> <p>4. The IIRC defines 6 "capitals" (Financial, Manufacturing, Intellectual, Social and Relationship, Human, and Natural) – how should these tie into the Financial, Social and Environmental performance? Will our stakeholders still understand?</p> <p>5. The IIRC puts senior management in charge of determining what is material with providers of financial capital as the primary audience of the report while the GRI is more multi stakeholder oriented. Moreover, the GRI states that the process to arrive at the material issues for the company needs to be described, which will result in more "overhead" in the report. How can we meet both the requirements of the IIRC as well as the GRI?</p> <p>6. In both the G4 and the IIRC Framework there is a greater emphasis on reporting the outcomes and impacts of a company's activities. It would be helpful to have some more guidance or clarity on what is expected here and how companies could go about measuring outcomes and impacts.</p> <p>7. The connection between the IIRC and GRI is not completely clear. IIRC provides a framework (but "consultation" status) whereas the GRI published the G4 guidelines. How should the 2 "fit together"?</p> <p>8. The focus of the IIRC is on providers of financial capital. Does this mean that we will be producing a very specific report, focused ultimately on financial value... rather than social etc... ?</p>

Chapter 1: Overview

Principles-based requirements

To be in accordance with the Framework, an integrated report should comply with the principles-based requirements identified throughout the Framework in bold italic type (paragraphs 1.11-1.12).

1. *Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.*

We do not create our integrated report specifically for providers of financial capital (as the consultation framework states in 1.6) but for multiple stakeholders, including employees, customers, suppliers, governments and NGOs.

This does not however impact the principles-based requirements.

Interaction with other reports and communications

The <IR> process is intended to be applied continuously to all relevant reports and communications, in addition to the preparation of an integrated report. The integrated report may include links to other reports and communications, e.g., financial statements and sustainability reports. The IIRC aims to complement material developed by established reporting standard setters and others, and does not intend to develop duplicate content (paragraphs 1.18-1.20).

2. *Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?*

No, for us there will only be one report - the integrated financial, social and environmental report. We do not think our stakeholders will benefit from an "additional" report.

Since our report is only available via the www.annualreport2012.philips.com website, we will need to define a solution in the website where we for example define specific sections as the content of the "IR".

3. *If the IIRC were to create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, which references should be included?*

CDP/GHG protocol
GRI
IASB
SASB (if sufficiently mature)

Other

4. *Please provide any other comments you have about Chapter 1.*

Key challenge is to translate all the requirements of chapter 1 into a report.

Chapter 2: Fundamental concepts

The capitals (Section 2B)

The Framework describes six categories of capital (paragraph 2.17). An organization is to use these categories as a benchmark when preparing an integrated report (paragraphs 2.19-2.21), and should disclose the reason if it considers any of the capitals as not material (paragraph 4.5).

5. *Do you agree with this approach to the capitals? Why/why not?*

No - we are afraid the 6 capitals will confuse stakeholders who just got used to "triple P" reporting.

We would prefer to have some kind of map to "People", "Planet", and "Profit" (or "social", "environmental", and "financial" performance).

6. *Please provide any other comments you have about Section 2B?*

The description of social and relationship capital (including shared norms and the social license to operate) are rather vague. It is not clear how to describe these, nor how to value these ...

Business model (Section 2C)

A business model is defined as an organization's chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term (paragraph 2.26).

7. *Do you agree with this definition? Why/why not?*

Yes - and we appreciate the focus on value creation over the short, medium and long term.

Business model (Section 2C) continued

Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs (paragraphs 2.35-2.36).

8. *Do you agree with this definition? Why/why not?*

Yes, but it may be a challenge on some of the outputs to attain "Assurance" from your Assurance Provider as not all outputs will be tangible, nor have a value attached.

9. *Please provide any other comments you have about Section 2C or the disclosure requirements and related guidance regarding business models contained in the Content Elements Chapter of the Framework (see Section 4E)?*

From a practical point of view, we are struggling how to capture this section in the report if you have several distinctively different businesses, with different business models.

Due to the nature of our business, some of the aspects covered in 4E will be reported at business level, and others at Group level, for example, tax payments will be disclosed for the Group, whereas financial results will be at business (and Group) level.

Other

10. *Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.*

No

Chapter 3: Guiding Principles

Materiality and conciseness (Section 3D)

Materiality is determined by reference to assessments made by the primary intended report users (paragraphs 3.23-3.24). The primary intended report users are providers of financial capital (paragraphs 1.6-1.8).

11. *Do you agree with this approach to materiality? If not, how would you change it?*

No - too limited (financial capital). Many of the material issues are determined by impacts on other stakeholders.

It would also be good to have alignment with the materiality discussion in the GRI G4 framework.

12. Please provide any other comments you have about Section 3D or the Materiality determination process (Section 5B).

See above.

Reliability and completeness (Section 3E)

Reliability is enhanced by mechanisms such as robust internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (paragraph 3.31).

13. How should the reliability of an integrated report be demonstrated?

External assurance.

14. Please provide any other comments you have about Section 3E.

None.

Other

15. Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.

Please refer to the comments made in the introduction on future oriented information for SEC listed companies.

The stakeholder responsiveness requirements are a bit vague, and difficult to translate into action (e.g. 3.16 which states that we need to disclose "The nature and quality of the organization's relationships with key stakeholders" and "How key stakeholders' legitimate needs, interests and expectations are understood, taken into account and responded to").

Chapter 4: Content Elements

16. Please provide any comments you have about Chapter 4 that are not already addressed by your responses above (please include comments on the Content Element Business Model [Section 4E] in your answer to questions 7-9 above rather than here).

We do not understand what is meant by 4.11 "Whether, and if so how, the organization is implementing best governance practices that go beyond legal requirements" ...

Next, we refer to comments made in the introduction on the (Opportunities and) Risk management paragraph for SEC listed companies. The impact on this section is a major topic to be further elaborated on ...

Chapter 5: Preparation and presentation

Involvement of those charged with governance (Section 5D)

Section 5D discusses the involvement of those charged with governance, and paragraph 4.5 requires organizations to disclose the governance body with oversight responsibility for <IR>.

17. Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why/why not?

No - this is already part of the current process.

18. Please provide any other comments you have about involvement of those charged with governance (Section 5D).

The second statement in 5.18 "That it applies its collective mind ... it contains" is rather vague.

Credibility (Section 5E)

The Framework provides reporting criteria against which organizations and assurance providers assess a report's adherence (paragraph 5.21).

19. If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?

The whole report - we already have this implemented.

20. Please provide any other comments you have about Credibility (Section 5E). Assurance providers are particularly asked to comment on whether they consider the Framework provides suitable criteria for an assurance engagement.

In 5.21 it states that "The framework provides reporting criteria ..." but we are unclear which those are.

Other

21. Please provide any other comments you have about Chapter 5 that are not already addressed by your responses above (please include comments on the materiality determination process [Section 5B] in your answer to question 11 above rather than here).

None.

Overall view

22. *Recognizing that <IR> will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate for use by organizations in preparing an integrated report and for providing report users with information about an organization's ability to create value in the short, medium and long term?*

The current framework provides us - an experienced reporter - insufficient guidance to adapt our integrated financial, social and environmental report. This probably means other (less experienced) companies may even have bigger challenges.

Development of <IR>

23. *If the IIRC were to develop explanatory material on <IR> in addition to the Framework, which three topics would you recommend be given priority? Why?*

Materiality
Value creation
Risks and opportunities

Other

24. *Please provide any other comments not already addressed by your responses to Questions 1-23.*

None.

Please save the completed PDF form to your computer and submit via the IIRC website at www.theiirc.org/consultationdraft2013