



MODULE 3 – Part 2

GUIDING PRINCIPLES OF IR FOR SMEs

AGENDA

Materiality principle

- Relevance and materiality
- Materiality determination process
- Format of materiality matrix
 - Material issues and their impact on value creation
 - The example of how *Sappi* determines materiality
 - Test questions



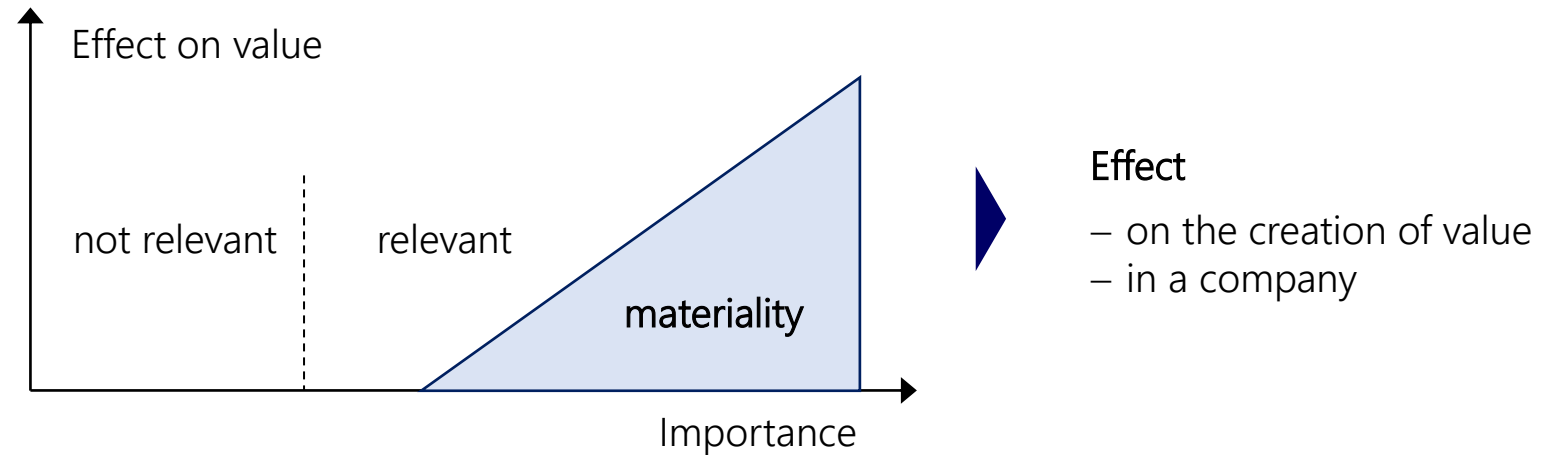


Materiality principle

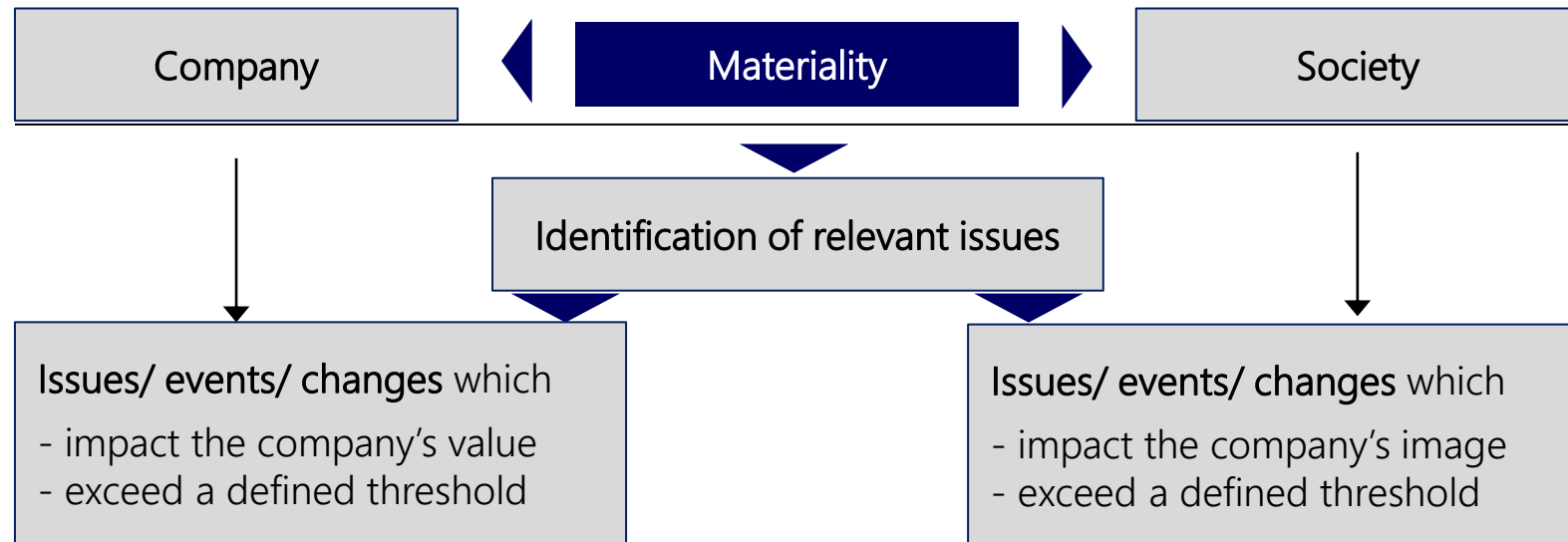
An integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term.

Relevance and materiality

Relevance
and Materiality



Double materiality
approach



e.g.

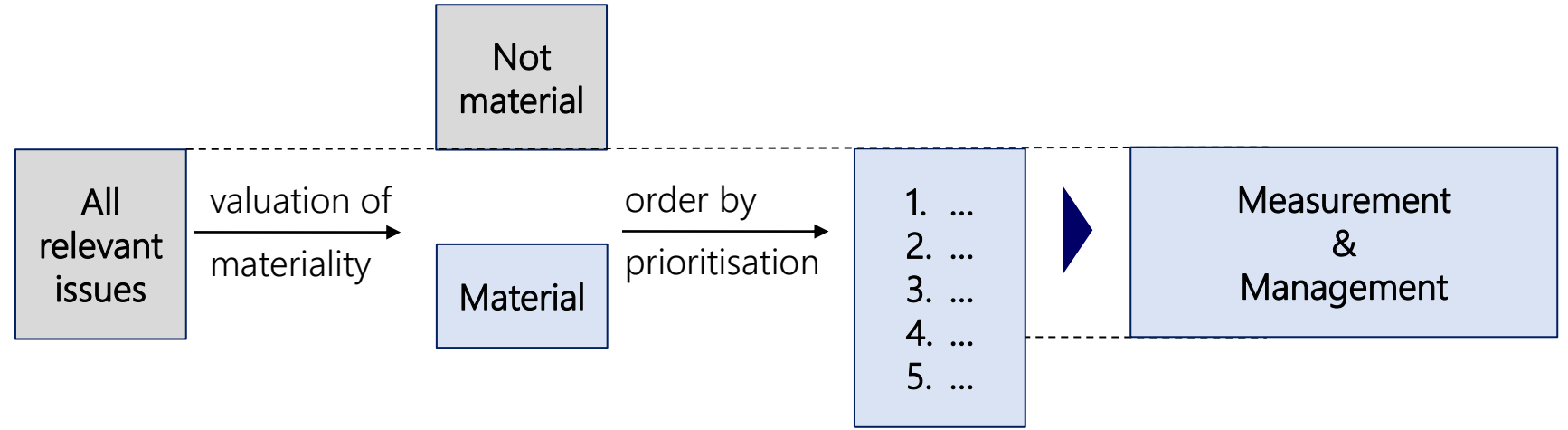
- changes in KPIs
- changes on the market
- ...

e.g.

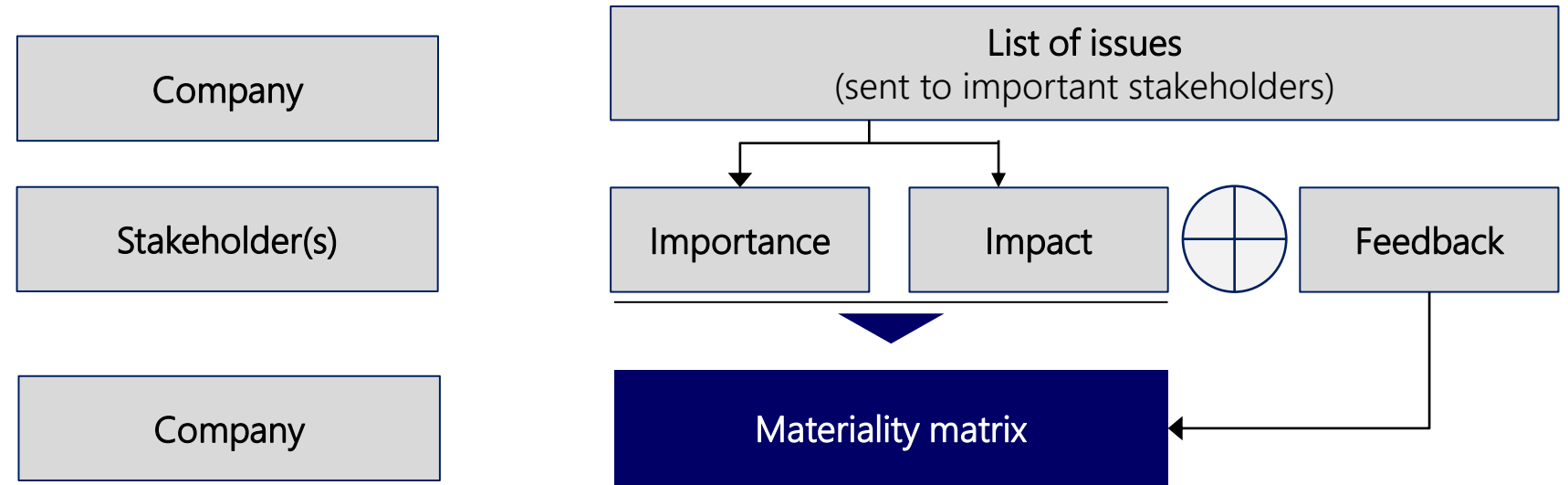
- Side effect of products
- closing of a production plant
- ...

Materiality determination process

Materiality determination process

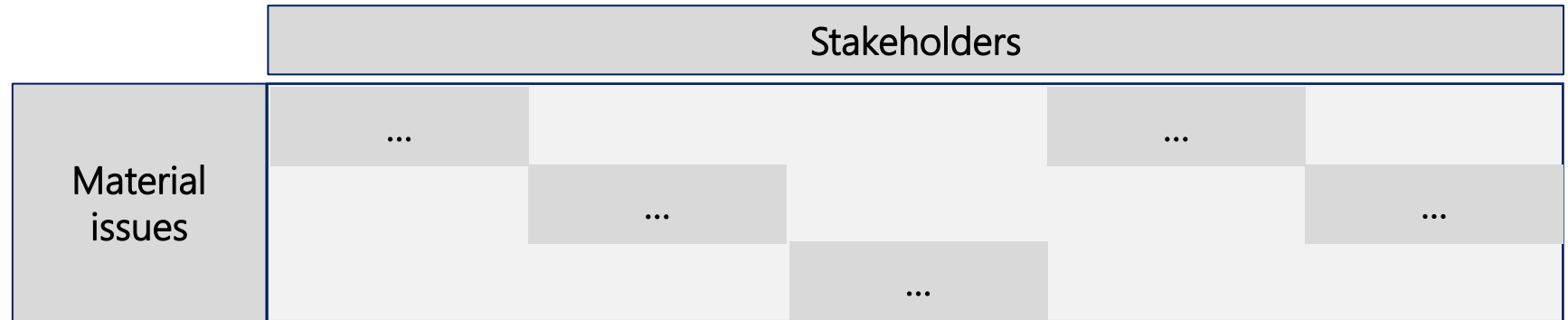


Assessment to identify Issues (materiality survey)

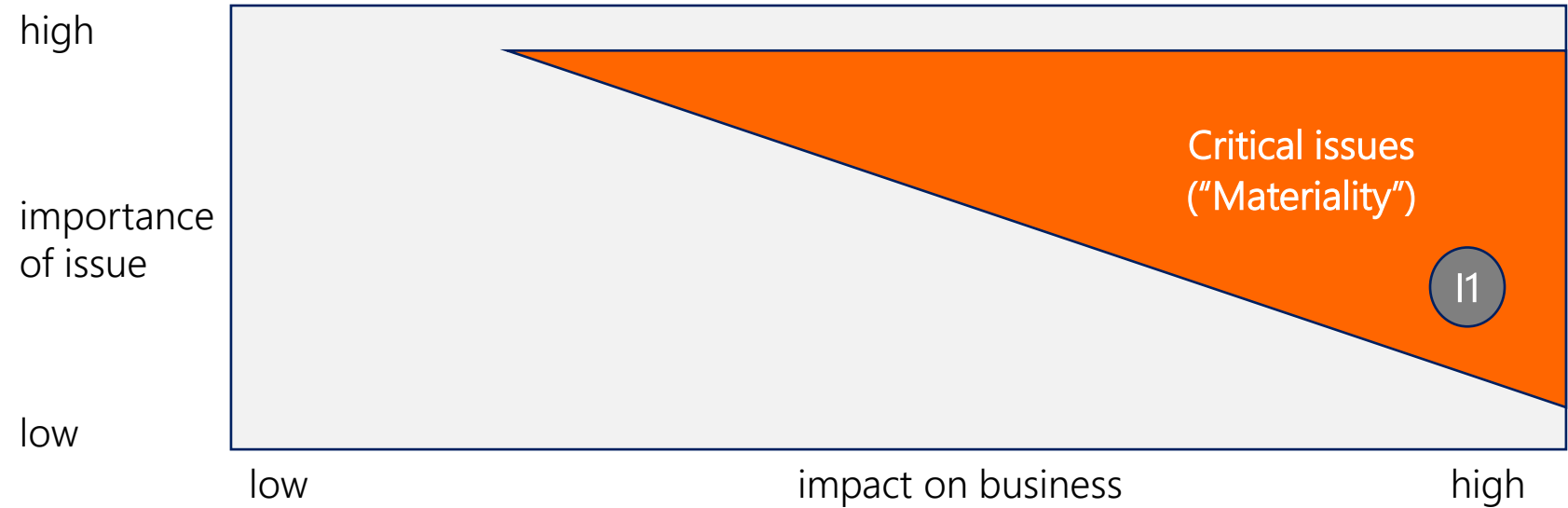


Format of materiality matrix

Simple format of materiality matrix



Complex format of materiality matrix

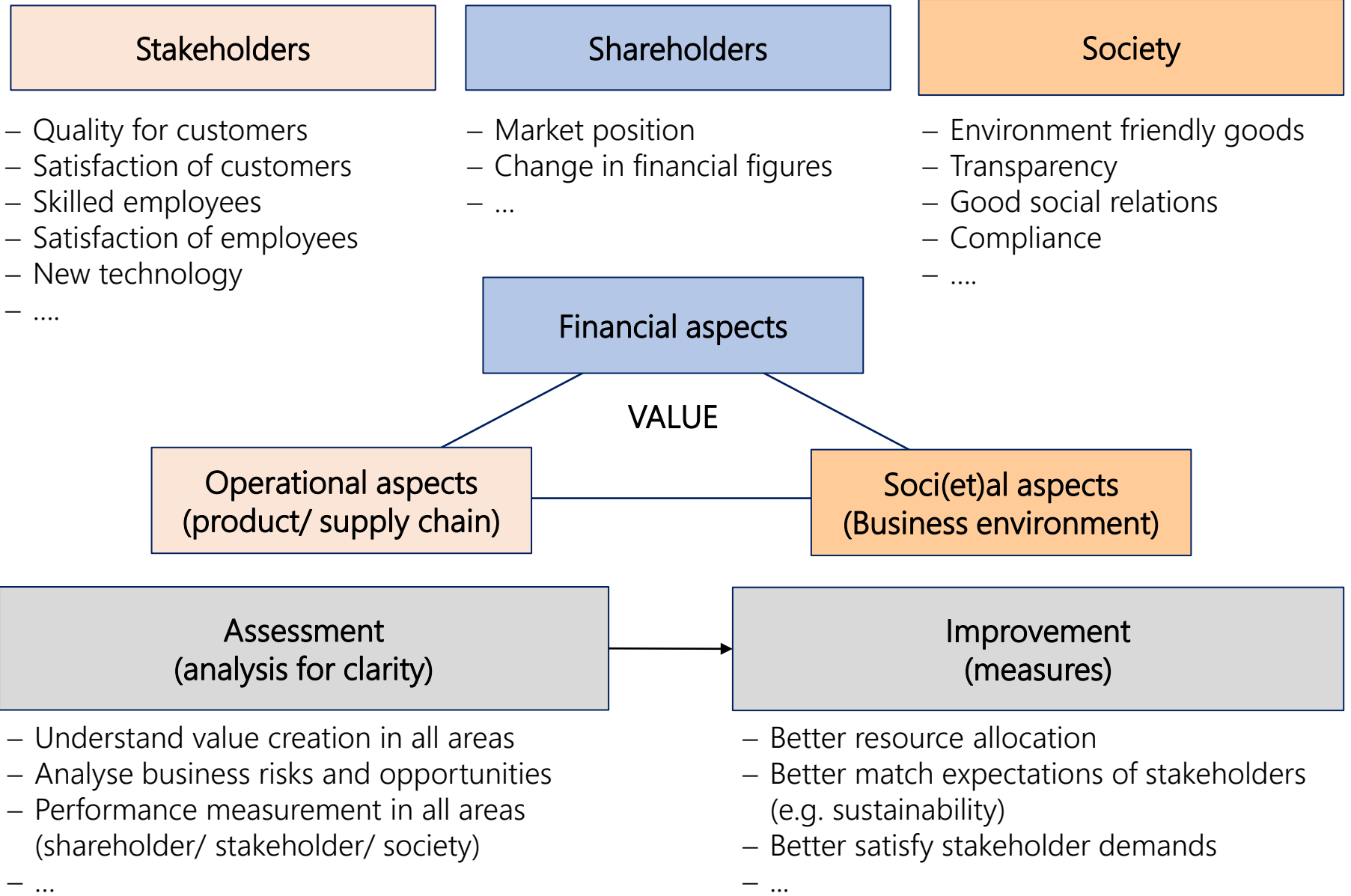


Material issues and their impact on value creation

Clustering of issues

Materiality triangle

Benefits



Materiality is related to relevant matters/issues that have or can impact the ability to create value. Many issues influence the business activity, but only some of them have to be analyzed more deeply because they impact the value creation process. These issues are classified to be material. Materiality comprises two dimensions: internal and external, also called the double-materiality approach. Some events are classified as important by the management (e.g., operational issues) but rarely directly affect the external stakeholders (i.e., society). However, some of the company's actions may deteriorate the environment but have a negligible impact on the company's short-term business figures. These two dimensions have to be taken into account when analysing materiality.

A multi-step process identifies the material issues. In a first step, all the relevant issues are identified and assessed with regard to their materiality. Matters that are classified as "not material" are excluded from further analysis. The "material" issues are prioritised by the importance for the company, so that a ranking of material issues is created. Management decides which topics are under control to be measured and managed. This process is executed regularly as the prioritization might change over time.

One open question is how to identify the important issues of the company. This can be implemented with the support of the company's stakeholders in a materiality survey. The outcome of the company's analysis (list of relevant issues) is sent to the stakeholder requesting rating and feedback. Based on the stakeholders' responses, the management can create a matrix that visualizes the material issues.

The first "simple" form of a materiality matrix is a table with two dimensions: all material issues are checked whether they affect stakeholders so that finally the material issues for each stakeholder group can be easily identified. But there is no statement about the importance of the issues' materiality (except the issues being material).

The second "advanced" method is more complex. It is based on two dimensions: impact on business and importance of the issue. All issues are rated in these two dimensions and are placed (see Issue I1) inside the matrix. Issues which should receive critical treatment are shown in the importance and high impact corner (here: top on the right side, visualised by the orange triangle) and can be easily identified.

All material issues can be clustered how they affect the company's value creation by the already mentioned three dimensions shareholder, stakeholders, and society, so that issue lists are available. Generally, materiality supports the value idea as these three clusters can be related to the areas of the company: financial issues (-> shareholders), operational aspects as issues of product and of the total supply chain (-> stakeholders) and soci(et)al aspects of the business environment (-> society). The question can be posed whether the effort and time invested in the materiality analysis are worth the outcome. The answer is yes. Even if the list of prioritized issues under management is small, the analysis provides a huge value-added. After this analysis, you understand your company and the value creation approach better, know potential risks and see upcoming opportunities, which helps you understanding. This information can be used for improvements, increasing the utility inside and outside the company.

The example of how Sappi determines materiality

How we determine materiality

Step 1

Identifying regulatory and reporting issues

We take various stakeholder guidelines into account including those set out in terms of the UN SDGs, the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the King IV Code on Corporate Governance (King IV); as well as ratings agencies such as ISS-OEKOM, MSCI and FTSE4Good Index Series

Step 2

Mapping stakeholder issues and local and global trends

Regulatory and reporting guidelines are mapped against stakeholder issues, as well as trends and developments in the external operating environment

Step 3

Prioritising issues through the lens of materiality

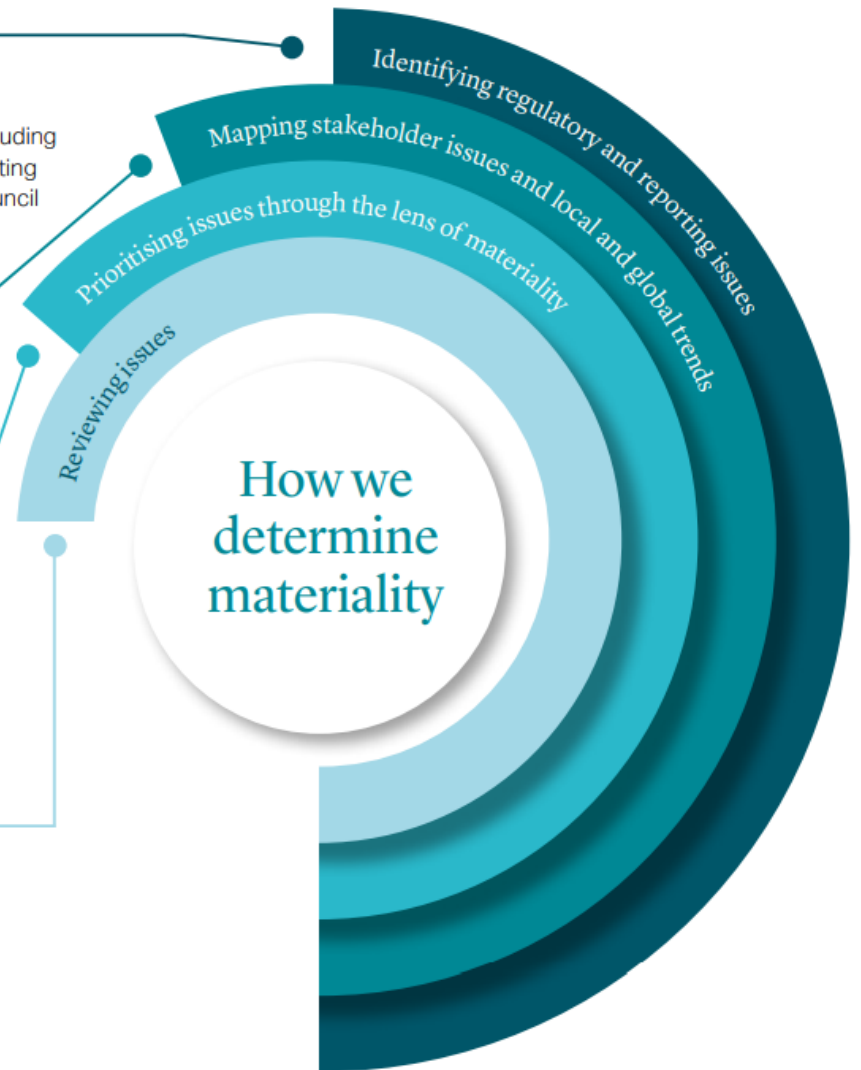
How relevant is each issue to our business?
How does each issue impact our ability to create value in the short, medium and long term?

Step 4

Reviewing issues

How do our key material issues align with our **Thrive25** strategy and the global forces shaping that strategy?

How do they link to risk, our priority UN SDGs and developments in our operating context?



This example presents how Sappi company discloses its material issues. Firstly, the company starts with clarification why that particular issue is material. Then, the material issue is linked to the other aspects of the company's business, which reflects compliance with the connectivity principle.

The integrated report presents linkage of the material issue to SDGs (Sustainable Development Goals), risks, strategic fundamentals, and global forces shaping Thrive25 strategy.

The company also addresses the key developments in the current year concerning the said material issue.

People

Ensuring the safety of our employees and contractors

Why it's material

In terms of our safety-first culture, we believe that nothing is so important that it cannot be done safely and that every individual has the power to have a positive impact. We do not accept that injuries and accidents are inevitable and remain committed to zero harm. We aim to achieve this through the continuance of improved personal behaviour and making safe choices underpinned by risk assessments, group sharing of all incidents and root cause investigations, enforcement of compliance and leadership engagement with our people.

How this issue links to other aspects of our business

Our global priority SDGs



Our top ten risks

- 1 Safety
- 8 Employee relations

Our strategic fundamentals



The global forces shaping our Thrive25 strategy

- Continued erosion of trust in business, coupled with increasing social activism

Key developments in 2020

In response to the **Covid-19 pandemic**, all operations and sites established the required sanitising and hygiene protocols, social distancing, temperature checks, self-declaration health check requirements with ongoing engagement and communications for the necessity of self-awareness at work and at home. On the positive side, the pandemic appears to have heightened adherence to safe attitudes and behaviours amongst our people.

Despite a concerted focus on **safety**, tragically, there was one transport-related contractor fatality in the Sappi Forests division in South Africa. All regions, however, showed an overall improvement in injury and severity

rates. SEU completed the year with an improved lost-time injury frequency rate (LTIFR), underpinned by the ongoing successful integration of operations acquired in recent years into the Sappi safety culture. SNA established their best LTIFR on record, completing the year with an LTIFR for own employees of 0.20 compared with 0.25 for FY2019 and 0.35 for FY2018. Safety performance also improved in SSA. We undertook a complete review of all risk assessments in manufacturing areas to ensure that all risks are identified and assessed correctly for potential severity. The findings of the survey were addressed and the completed actions as well as the effectiveness of the closeout will be audited during FY2021.

Test questions



Q1. Indicate the correct statements:

- A. All relevant issues are material.
- B. All material issues can be managed by the company.
- C. Stakeholders do not participate in the materiality determination process.

D. In "complex materiality matrix" issues are sorted by importance and impact on business.



GLOSSARY

- **Materiality** – It is a specific feature of an issue that confirms that it is material because it may substantively affect the organization's ability to create value in the short, medium or long term.
- **Materiality matrix** – It is a tool that helps visualize the findings of a materiality assessment.
- **Materiality determination process** – It is a multi-step process that leads to the identification of material issues which substantively affect the organization's ability to create value over the short, medium and long term.



Bibliography

