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**Annual report insights 2018**

Surveying FTSE reporting



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# Overview

Ever increasing scrutiny, constant change and a shortage of trust in business have been continuing features of the corporate reporting landscape. Once again our survey shows how companies have managed these challenges, where they are struggling to comply and areas of innovation and better practice.

As ever, we have scoured the annual reports of 100 listed UK companies, of various sizes and in various industries, in order to provide you with insight into FTSE reporting practices. We look at the whole report, including the strategic report, governance content and the financial statements.

## Responsible capitalism and licence to operate

Responsible capitalism is a much-cited concept in recent years and there is an increasing acknowledgement that a company needs a societal licence to operate. It was therefore no surprise that 92% of companies surveyed referred to key inputs into their business model in the form of off-balance sheet resources and relationships, ranging from employee workforces to customer relationships and natural resources. The International Integrated Reporting Council's <IR> Framework can be helpful in this regard, with six companies referring to it or describing their report as 'integrated'.

## Company purpose and culture

76% of reports gave a clear description of a company purpose that went beyond making profits for shareholders and, encouragingly, 76 companies discussed value created for at least one stakeholder other than shareholders.

The FRC has also stressed the importance of corporate culture in recent years, including the critical role of the board in holding management to account. An encouraging 58% of companies explained the values, behaviours and culture that they seek to uphold.

## Section 172

Section 172 of the Companies Act 2006 (s172) already requires directors to consider broader non-financial matters, such as employee interests and the impact on the community and environment, whilst promoting the success of the company for its shareholders.

New laws will soon see all large UK companies having to describe in their annual reports how their directors have had regard to the matters set out in s172.

Corporate governance reforms have also seen the FRC publish a new UK Corporate Governance Code, incorporating the Prime Minister's broad social reform agenda and desire to restore trust in UK business. Effective in 2019, the 2018 Code will see numerous changes to the detailed public reporting on a company's corporate governance arrangements, driven by changes to the underlying governance processes for many companies.

Some companies are already acknowledging their broader responsibility within society. 29% of companies referred to the responsibilities required by s172 (2017: 17), with 8% explaining how the directors had fulfilled those responsibilities and had regard to their duty under s172. The vast majority of companies (97%, 2017: 87%) evidenced consideration of their business' impact on the community and the environment. The fostering of relationships with suppliers was also acknowledged by 71% (2017: 38%).

## Non-financial information

One of the few changes to the requirements for annual reports in 2017 was the implementation of the Non-Financial Reporting (NFR) Directive in the UK. 70 of the companies surveyed fell within its scope and compliance was mixed.

One NFR Directive requirement is to give the policies a company pursues in relation to environmental matters, its employees, social matters, human rights and anti-bribery and anti-corruption. 61 companies clearly mentioned anti-bribery and anti-corruption, but in many cases it was hard to identify whether companies had made disclosures designed to meet the NFR Directive, due to existing requirements touching on similar areas. Another recurring issue was ambiguity as to whether the information provided could really be regarded as constituting a 'policy'. For example, we felt that only 23 of the companies in scope had clearly named or described a policy in relation to social matters.

*Don't need to report on all these things - only on the ones that are relevant to the business*



The new NFR Directive requirements may have contributed to an increase in the average length of reports, which rose from 155 to 164 pages. 13% discussed how they had regard to materiality in the context of their narrative reporting, typically within their corporate responsibility information.

### **Narrative reporting assurance**

Despite investor focus on non-financial metrics, only a quarter of companies referred to internal or external assurance over non-financial or CSR information, in some cases covering more than just traditional sustainability information.

### **Use of APMs**

The use of non-financial metrics remains relatively common in companies' key performance indicators (KPIs), with 71% (2017: 74%) having one or more such metric. Employee-related items were the most popular type of non-financial metric - 75% (2017: 53%) of those with non-financial KPIs had such a measure.

When it comes to financial metrics, alternative performance measures (APMs), being adjusted versions of IFRS measures, also remain popular, reflecting the widespread belief in the UK that when used appropriately they are useful. 96% presented such metrics in their up-front highlights section, with 91% of those including an adjusted profit APM.

### **Compliance with ESMA guidelines**

An emerging trend observed, adopted by 46%, was for companies to have a dedicated section or appendix on APMs, providing much of the information required by ESMA's guidelines on APMs. Overall, compliance with ESMA's guidelines was mixed. 86% of those with an adjusted profit APM in their highlights section reconciled it back to the IFRS measure and 80% provided comparative balances.

### **Prominence of APMs**

One of the more judgemental requirements of ESMA's guidelines is that APMs should not be given more prominence than the associated IFRS measures. It appeared that 20% of companies may have given undue prominence to adjusted profit measures by using bold font or graphs to emphasise APMs in their highlights. Looking further into the reports, almost a third of Chairmen's and CEOs' statements did not make any reference to IFRS profit measures when discussing adjusted profit measures, echoing findings from the FRC's recent thematic review on APMs.

In the financial statements themselves, 68% had APMs on the face of the income statement. In terms of the labels used, it appears that concerns over the use of misleading terms may be having an effect - the use of 'exceptional' items dropped from 20 companies to 11 companies and the use of 'non-recurring' from three to none. The use of 'adjusting items' as an umbrella term rose from six to ten.

### **Principal risks: cyber and technology**

Against the backdrop of a fast-changing world, companies on average identified ten risks that could seriously affect their performance, future prospects or reputation. These principal risks covered a wide variety of issues, but in a business environment increasingly utilising technology it was unsurprising that, similar to the previous year's reports, they frequently included matters around cyber-crime (73%), data protection (54%) and systems' failures (46%). Many companies evidenced in their reports that their boards are taking cyber risks seriously, with 54% disclosing board attention on cyber risk/cyber security, including board training, presentations to the board or audit committee, cyber insurance and externally provided projects regarding cyber security.

Continuing with the technology theme, it was interesting that 19% set out a principal risk that they might not keep up with the pace of technological change and that a failure to do so would threaten the business. Another feature of the modern world, social media, was explicitly referred to by a small number of companies in the context of reputational risks and the need to monitor such publicity.

### **Principal risks: Brexit**

Looking slightly further ahead, the UK's departure from the European Union was identified as a principal risk by 25 companies, with a further 34 explicitly referring to it in the context of a broader risk around marketplace and economic uncertainty. 27% disclosed board attention to the topic of Brexit, down from 44% in 2017. In terms of their business model and how it might or might not change following Brexit, the majority were either silent (46%) or stated that they were monitoring the situation (26%). 23% indicated that they did not expect any change and the remaining 5% that they had changed, would change or might change. The FRC is keen for companies to keep updating the information they provide on Brexit as the situation continues to evolve.



### Principal risks: climate change

Surprisingly only one company identified climate change as a principal risk. A very small number mentioned compliance with regulation including that designed to tackle climate change and 18 companies identified environmental risks, ranging from availability of resources to extreme weather events (without linking these to climate change).

On a related note, only four companies asserted the level of compliance with the guidelines on climate-related disclosure published by the G20 Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD). Slightly more encouragingly, 15 companies in total described their board of directors' oversight of climate related risks.

### Viability

Having considered a company's principal risks the directors are required to provide a statement regarding the company's longer term viability. 50% (2017: 34%) indicated which specific risks were considered in making their statement, with 54% disclosing qualifications or assumptions underlying their assessment – 29 companies mentioned the availability of financing or refinancing.

The FRC and investors have indicated that they expect to see directors undertaking an assessment of a company's prospects, including the resilience of the business model, over a longer time period than that over which they assess the company's viability. However, only 13% provided a clearly distinct discussion of the company's prospects in the viability statement.

### Board evaluation

The performance of directors is often subject to considerable scrutiny nowadays, making board evaluation disclosures of particular interest. 35% of companies explained the findings and related action points from board evaluation processes (2017: 41%). A further 17% of companies just described the findings of their evaluation (2017: 9%). Discussing areas for improvement helps demonstrate transparency, openness to change and commitment to the running of an effective board.

### Diversity

Boards can also benefit from having a suitably diverse make-up. New rules, stemming from the NFR Directive and implemented into the Disclosure Guidelines and Transparency Rules (DTR), became effective for periods commencing on or after 1 January 2017, requiring disclosure of boardroom diversity policies in the corporate governance statement, including aspects such as age, gender, geographical diversity and educational and professional background.

Although 80% (2017: 86%) of reports referred to aspects of diversity other than gender, only 29% were regarded as meeting the new DTR requirements. In order to meet the new requirements, boards should aim to describe the policy itself rather than the processes in place or actions taken during the year. Any cross-references to entity-wide diversity policies should also include information on how they specifically apply to the board.

### Succession planning

After a significant improvement in our 2017 survey, standards had been maintained in this year's succession planning disclosures. 93% of boards disclosed activity around succession planning (2017: 89%, 2016: 69%). However, in our judgement only 33% (2017: 41%) of companies this year included disclosures that explained clearly the systems the board has in place to maintain good succession planning, for example use of a regularly updated skills matrix.

### Audit committee reporting

The FRC's Audit and Assurance Lab published, in December 2017, investor feedback on what information is expected from audit committees on significant financial reporting issues. In our judgement, based on the FRC's findings, only 25% provided comprehensive disclosures adding substantially to the reader's understanding of issues and how the audit committee had considered and challenged them. In general, audit committees could have provided more detail on their actions and level of challenge and comparatively few explained the rationale underlying their conclusions regarding the significant issues.

The FRC's program of thematic reviews led, in part, to an increase in audit committee reports referring to engagement with the FRC's Corporate Reporting Review panel – a rise from 3% to 15%.



### Judgements and estimates

In November 2017, the FRC published findings from its thematic review of financial statement disclosures on critical accounting judgements and key sources of estimation uncertainty under IAS 1. Consistent with the findings therein, it seemed to us that some progress had been made but that there is still room for improvement. For example, 66% (2017: 52%, 2016: 27%) distinguished between judgements and estimates, bearing in mind that different information is required for each, although 18 companies seemed to have misclassified items between these categories. Boilerplate also remains a concern - just under a third of companies we looked at only provided disclosures that were so generic they could have been applied equally to any other company.

### Defined benefit pensions

Another area where the FRC completed a thematic review in 2017, and one that attracts significant attention, is in respect of defined benefit schemes run by companies. Albeit many are now closed to new entrants or future accrual, 67% of companies still had some form of defined benefit obligation. Encouragingly, on an accounting basis at least, 40 were in a surplus (where plan assets exceeded the liabilities) and 37 of those surpluses were recognised as assets by companies, although only 21 provided justifications for asset recognition.

### New IFRSs

It was the final year for 81 companies surveyed before the mandatory implementation of significant new accounting standards on financial instruments and revenue, IFRS 9 and IFRS 15. Given this proximity, and perhaps thanks to regulatory pressure, it was pleasing that companies provided more information on these forthcoming standards than previously.

Six companies indicated that IFRS 15 might have a material impact and a further 20 stated that it would have an impact, which implied that it would be material. Of those 26 companies, 23 quantified the impact. Similarly, 19 companies indicated they expected IFRS 9 to have an impact, which again implied it would be material, with 14 quantifying it.

No companies had early adopted the new leasing standard, IFRS 16, which becomes effective for periods commencing on or after 1 January 2019 and brings most leases on balance sheet for lessees. Some companies appeared well advanced in their preparations, with eight companies quantifying the impact. A further 36 companies gave some idea of the impact through a cross-reference to their operating lease commitments. However, care should be taken in adopting such an approach, due to potential differences between IAS 17's disclosure and the amount to be recognised under IFRS 16. In the forthcoming reporting season expectations will only increase in terms of the information to be provided on the impact this significant new standard will have.

### Final thoughts

Change abounds, both in terms of the business environment companies find themselves operating in and in terms of the information they are called upon to provide to investors. This publication provides valuable insight into how companies are responding to this challenge and how they are innovating when it comes to telling their story in their annual reports.

### Veronica Poole

Global IFRS Leader and UK Head of Corporate Reporting  
Deloitte



# Introduction

In this publication we aim to provide insight into practices in annual reporting, focusing on areas where requirements have changed, where regulators are focusing or where innovative practices are emerging.

The publication presents the findings of a survey of 100 annual reports of UK companies with a premium listing of their equity on the London Stock Exchange. 75 of the 100 companies are the same as those used in the previous survey. The population comprises 19 FTSE 100 companies (2017: 18), 38 FTSE 250 companies (2017: 39) and 43 companies outside the FTSE 350 (2017: 43). Investment trusts, other than real estate investment trusts, are excluded from the sample due to their specialised nature. The reports analysed are for financial years ended between 30 September 2017 and 31 March 2018.

Each section addresses a different aspect of a typical UK listed company's annual report, generally distinguishing between:

- areas where compliance has been relatively good or improved;
- areas where companies have struggled to comply with requirements; and
- areas where companies have gone beyond mere compliance and are innovating or voluntarily providing information.

The topic of integrated reporting impacts multiple parts of companies' annual reports and is discussed in multiple sections of our publication. To help identify this recurring topic we have used the following colour-coding:



**Integrated reporting –**  
commentary highlighted blue

Although our survey data uses only companies from our sample, when selecting examples of good practice we have used material from companies that, in our view, best illustrate a particular requirement or innovation, regardless of whether they are in our sample.

Many more example disclosures can be found in an appendix accompanying the electronic version of this publication, available at [www.deloitte.co.uk/annualreportinsights](http://www.deloitte.co.uk/annualreportinsights). A more detailed discussion of the regulatory requirements UK companies with a premium listing are subject to is also provided as an appendix in the electronic version.

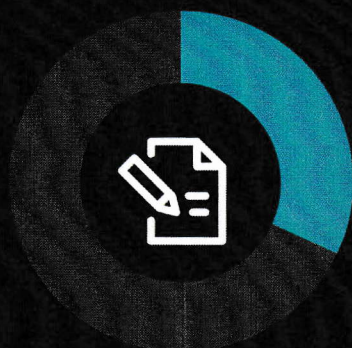
Each section also includes a short list of items to watch out for in the reporting season ahead, reflecting areas of changing requirements or practice and areas of regulatory focus.



# 1. Purpose and culture

32%

gave a clear, prominent description of their purpose beyond making profits for shareholders



**A company's purpose defines 'who' a business is and why it exists. It goes beyond financial goals to incorporate a broader set of shared values and behavioural expectations; a company's values and behaviours define its culture. Together, purpose and culture act as benchmarks for every important decision. From environmental footprints to social impacts businesses are scrutinised by an ever-wider array of stakeholders. If they fall short in any respect, they erode a vital commodity: trust. In an age of enhanced transparency and heightened accountability, a loss of trust has profound consequences. But this is not just about trust.**

As Larry Fink, CEO BlackRock, noted in his 2018 letter to CEOs' *'Without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders. It will succumb to short-term pressures to distribute earnings, and, in the process, sacrifice investments in employee development, innovation, and capital expenditures that are necessary for long-term growth'. He continues to note that 'ultimately, that company will provide subpar returns to the investors who depend on it to finance their retirement, home purchases, or higher education'.*

A clear company purpose sets the context for the company itself and, as a result, drives the company story told through the annual report. It underpins the business model and how the organisation creates value, drives the company's strategy for stakeholder engagement, and reflects the underlying culture and values the company signs up to.

Given the importance of having a clear sense of purpose, companies should feel proud to declare it to their investors. Broadly consistent with 2017, 32 companies included a prominent and clear description of the company's purpose, explaining why it exists, while 86% of companies discussed culture or values in their strategic report. Of those who did provide a clear purpose there was an even split between companies in the FTSE 100, 250 and other sectors.

This clearer understanding of and realisation that businesses can better succeed when they have a broader focus – succeeding for broader stakeholders as well as shareholders – is consistent with delivering an understanding of how the directors have discharged their duty under section 172 (see section 4). It also resonates with the FRC's focus on corporate culture, which has indicated the importance of board attention to this topic in order to hold management to account (see section 9).

Once again the length and prominence of purpose statements showed considerable variation. Those that were slightly longer, two or three sentences, allowed the company to provide more detail and substance. Similarly to 2017 a number were clearly marked as purpose, for example BT Group plc, whilst others were simply stated without a heading early on in the report, such as HSBC Holdings plc's on the inside front cover, or encompassed within a 'mission' or 'vision'.

Good examples of purpose statements link to wider stakeholders whilst also providing clarity on the activities of the company and avoiding the use of generic words or statements. For example, National Express Group PLC wrote *'Our customers are at the heart of what we do at National Express. Whether they are fare paying passengers, transport authorities or school boards, the mission is the same: to relentlessly meet their expectations. As a leading transport company, we provide a crucial service by conveniently and safely connecting people to jobs, education, shopping and leisure in an environmentally responsible way, through value fares'.*

Linked to purpose is the culture and values of the organisation and how these underpin both what the business does and how it does it, with reporting on this area increasing. Over half of companies provided, within their strategy, a description of the values, behaviours and culture that the entity seeks to uphold. For example Intertek Group Plc outlines 5 'strategic enablers' that explain the values, behaviours and culture that they seek to uphold. In addition there was a rise of 33% in the number of companies referencing the UN Sustainable Development Goals, reflective of an increased focus for companies to have a wider purpose that goes beyond creation of profit for shareholders and demonstrates a commitment to longer term value creation for a broader group of stakeholders.

As companies focus on longer term reporting and reporting how they create value for a broad range of stakeholders, the role of clear purpose underpinned by values and delivered through a strong and consistent corporate culture has never been so topical.





### What to watch out for

- ☐ Explain your company's purpose. The importance of communicating company purpose and linking this to the strategy and business model is something that is drawn out in the FRC's revised Guidance on the Strategic Report<sup>2</sup>, published in July 2018.
- ☐ Explain your corporate culture, the focus of the Board and their challenge to management in this area, including both how the company goes about setting culture and then how it is adhered to. A useful starting point is the FRC's report on 'Corporate Culture and the Role of Boards'<sup>3</sup> published in July 2016.



### Examples of disclosure

The following statements of purpose go beyond making a profit for shareholders.

#### BT Group Plc

**Our purpose** remains to use the power of communications to make a better world. This drives everything that we do.

**Our vision** is leadership in converged connectivity and services, delivered brilliantly in the UK and for multinational corporations. This highlights our commitment to convergence as a growing category of products and service.

**Our goal** is to drive sustainable growth in value. This reflects our commitment to balance top and bottom-line growth and to create value from our investment in our integrated network and differentiated products and services.

#### Marks and Spencer Group plc

##### "The M&S Way"

A family of businesses joined by common brands, channels, and customer insights and a shared set of beliefs in quality, ethical sourcing and delivering value for money.

The following demonstrates an entity's strategy explaining the values, behaviours and culture that the entity seeks to uphold.

#### Intertek Group plc



#### HSBC Holdings plc

### Connecting customers to opportunities

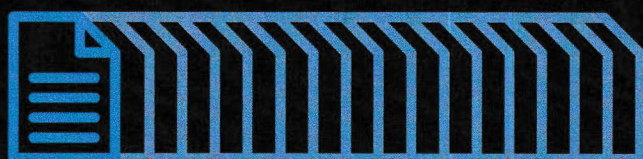
HSBC aims to be where the growth is, enabling business to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

#### Lloyds Banking Group plc

**Our purpose** is to help Britain prosper. We are creating a responsible business that better meets our customers' needs and a culture where our colleagues put customers first. This is key to our long-term success and to fulfilling our aim to become the best bank for customers, colleagues and shareholders.



## 2. Report structure and preliminary announcements



Average **report length** grown from an average of

**155** to **164** pages

Reports comprised an average of

**61%**  
narrative

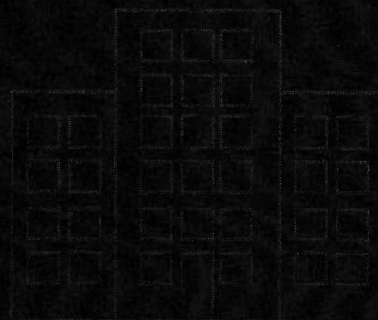


**39%**  
financial  
statements



**13**

companies mentioned how they had **regard to materiality** in their narrative reporting







### Preliminary results announcements

Initial results announcements were made to the market, on average, 66 days after the year end, an increase of 3 days compared to 2017. This increase was driven by the slowing of releases from companies outside of the FTSE 350 who took 74 days, compared to 70 days in 2017. FTSE 350 companies released results, on average, after 59 days, in line with 2017 and significantly faster than their smaller counterparts. Despite this gap in timing of release, the quickest 10 reporters were a mix of companies with 4 from FTSE 100, 4 from FTSE 250 and 2 from outside the FTSE 350.

Five companies chose to include special purpose audit reports in their results announcements, all of whom were outside of the FTSE 100. Investors may find such timely insight on the audit helpful, rather than having to wait for the full annual report to be released. 88 companies made it clear in their results announcement that the results were based on audited amounts, where the audit had been completed.



### Reporting timetable

With most companies issuing preliminary results based on fully audited financial statements, it comes as no surprise that similar trends were found in terms of the time taken for annual reports to be approved by directors (as opposed to when they were published in glossy form). The average time taken to approve annual reports increased from 64 days to 66 days after year end. In line with the results announcements, this increase has been driven by companies outside of the FTSE 350 where reporting took 75 days, compared to 69 days in 2017. The increase for FTSE 350 companies was only 1 day to 60 days.

Companies outside of the FTSE 350 took between 44 to 120 days to approve their annual reports. This range of 76 days is far broader than those companies in the FTSE 100 who had a range of only 34 days, reflecting a significant variation in resources available to companies outside of the FTSE 350.



### Length of report

Annual reports have grown again from 155 pages to 164 pages in the current year with 24 companies having annual reports with 200 pages or more and 2 with over 300 pages. The 2 longest reports from the previous survey cut the length of their reports by 40 pages on average. However, the general trend is that annual reports continue to grow and this is driven primarily by companies outside of the FTSE 350.

The average length of financial statements have increased to 63 pages, up from 60 pages in 2017. However, the proportion of the annual report that is narrative content remains at 61%, showing that the increased length of annual reports is split relatively evenly between narrative and financial reporting.

The purpose of the strategic report specifically is to provide information to shareholders to help them assess how directors have performed their duty under s172. However, only that information that is material for a shareholder's understanding of the business should be included. 13 companies talked about how they had regard to materiality in the context of their narrative reporting, most usually within their corporate responsibility information – likely prompted by the materiality guidance in the Global Reporting Initiative (GRI) framework which many companies refer to. However, 3 discussed it in respect of the narrative as a whole, with 2 of those providing a detailed discussion of how they arrived at the material matters.

It was encouraging that 38 companies cross referred to a separate sustainability report, indicating that they had included in the annual report only that CSR information which was considered material for investors but ensuring that further information, provided for a broader range of stakeholders, was available elsewhere.

The length of audit reports has remained consistent year on year at 7 pages. However, the length of the audit report often does not reflect the length of the financial statements of the company as it comprises on average 10% of a FTSE 100 company's financial statements but 13% of those outside the FTSE 350.



### Directors' remuneration

The length of the directors' remuneration report has remained above 10% of the whole annual report but has fallen, on average, by 1 page to 18 pages. Whilst FTSE 100 companies have the longest reports, on average, at 20 pages, surprisingly the longest 5 reports, all 30 pages or more, were from companies outside of the FTSE 100.

It was pleasing to see that companies are acknowledging the pay conditions of the wider workforce within their directors' remuneration reports with 69% of companies making reference, if only briefly, to their entire workforce. However, in line with 2017 no company has included a ratio comparing directors' to employees' pay. From 1 January 2019 quoted companies will need to provide certain ratios comparing CEO pay to employees.

In our sample, eight companies disclosed that more than 20% of shareholder votes had opposed approval of the previous 'Annual Report on Remuneration' at their most recent AGM, with one instance of the opposing proportion exceeding 50%. The Code requires companies to announce the actions they intend to take to understand a significant proportion of votes against a resolution; six of the above companies had followed up with explanations of the actions taken in their next directors' remuneration report. Section 4 provides further detail on stakeholder engagement.



### Consistency

In reporting how the entity has developed and performed in the year, companies must ensure their analysis is fair, balanced and comprehensive. In assessing this, one of the things the FRC looks out for is consistency between information in the 'front half' and the financial statements. One indicator of this is whether the description of the entity's major products, services and markets and its competitive position in those markets in the front half is aligned with the segment analysis presented in the financial statements – for 92 companies it was.



### What to watch out for

- ☐ Remember that the strategic report is only required to contain information material to shareholders.
- ☐ Consider the communication principles set out in the FRC's revised Guidance on the Strategic Report and the <IR> Framework's Guiding Principles, illustrated below.
- ☐ Consider investor views on whether to disclose the level of distributable profits and any associated recent FRC guidance.

## <IR> Framework Guiding Principles



**Conciseness**



**Connectivity of information**



**Stakeholder relationships**



**Materiality**



**Strategic focus and future orientation**



**Consistency and comparability**



### FRC's Communication Principles

- The strategic report should be fair, balanced and understandable.
- The strategic report should be clear and concise yet comprehensive.
- Where appropriate, information in the strategic report should have a forward-looking orientation.
- The strategic report should provide information that is entity-specific.
- The strategic report should highlight and explain linkages between pieces of information presented within the strategic report and in the annual report more broadly.
- The structure, presentation and content of the strategic report should be reviewed annually to ensure that it continues to meet its purpose and only contains information that is relevant.



### Examples of disclosure

Mondi plc commented on materiality in the context of their report as a whole.

#### Mondi plc

##### Materiality

Mondi's Integrated report and financial statements 2017 aims to provide a fair, balanced and understandable assessment of our business model, strategy, performance and prospects in relation to material financial, economic, social, environmental and governance issues.

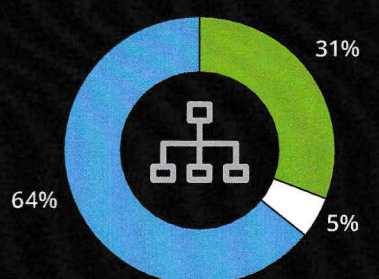
The material focus areas were determined considering the following:

- Specific quantitative and qualitative criteria
- Matters critical in relation to achieving our strategic objectives
- Principal risks identified through our risk management process
- Feedback from key stakeholders during the course of the year



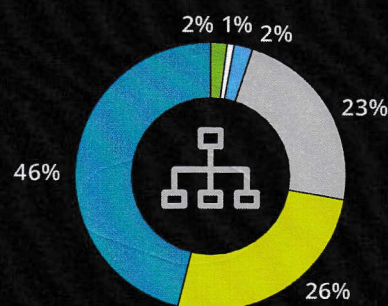
# 3. Strategy and business model

## How is the business model presented?



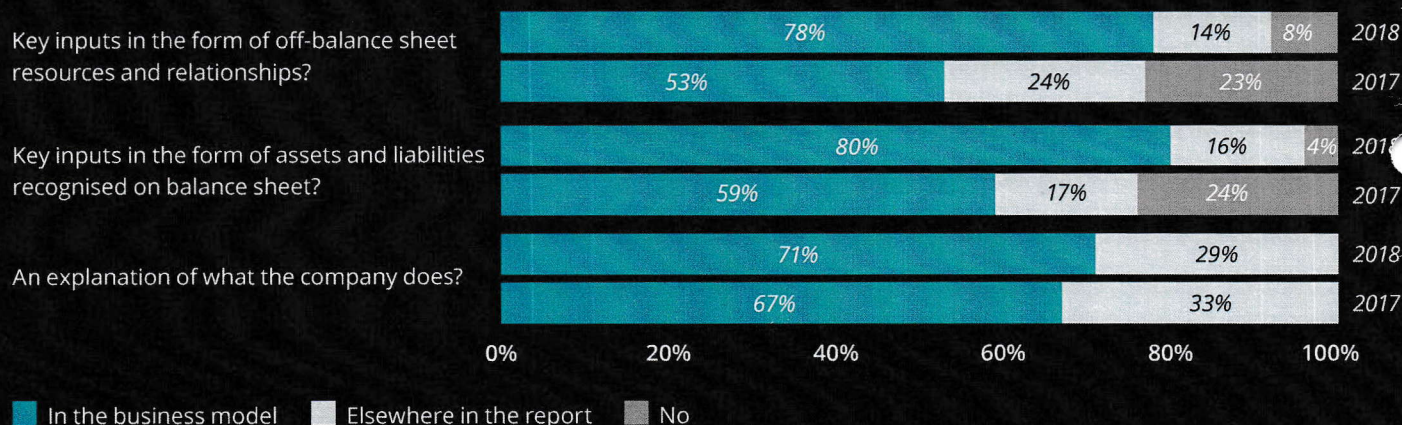
■ Narrative alone ■ Predominantly visual  
■ Combination of narrative and visual

## Is there evidence of a change in business model because of Brexit?

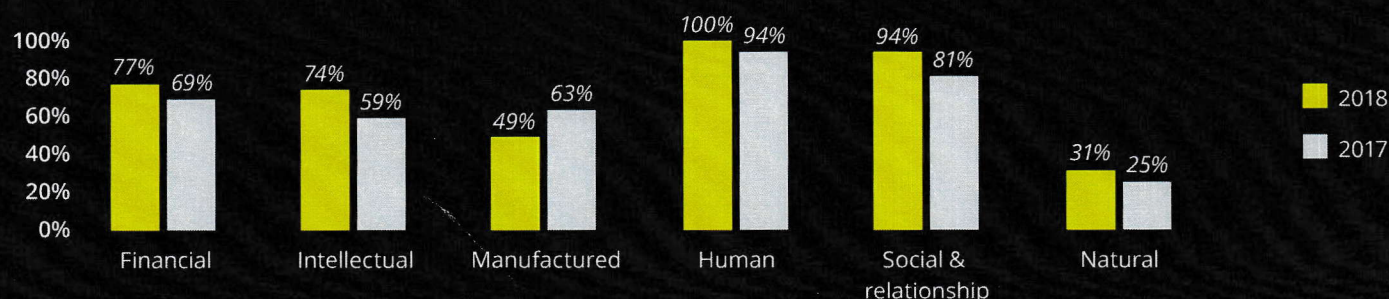


■ Yes, already changed ■ Indicated will be changing  
■ Indicated might be changing ■ No expectation the business model will change  
■ Possible impacts are being monitored, but no conclusion ■ No

## What information is provided in the business model?



## Of those identifying <IR> capitals, which ones are referred to?







### Compliance – positive trends

An entity's purpose, its strategy, and its business model are inter-related concepts. The strategy sets out how the purpose will be fulfilled. But a key part of setting the strategy is understanding the organisation's business model, particularly the relevant levers available for directors to push and pull to be able to increase outputs and create long term value.

The business model disclosure is not only required by law, but is one of the first things investors look for in an annual report<sup>4</sup>, so it should explain what the company does, how it does it, and the impact that the company's activities has. 94 companies clearly disclosed a business model, or information resembling such (2017: 95). Of the 6 companies that did not clearly disclose a business model, one of these conceded that their business model was being revised to reflect a new strategy and approach, along with a revised set of KPIs. The others all referred to the term "business model" within the standard boilerplate directors' responsibilities statement, but none provided any other clear disclosure in this regard.

Using a combination of words and diagrams remains the most popular means of articulating the business model, with 58 companies doing so (2017: 55). It was good to see that of those presenting some or all of the business model disclosure in a visual manner, 75% of these visuals were deemed to have aided the discussion, compared to only half of those last year.

The graph opposite identifies certain elements considered useful by investors to be included within the business model disclosure, as highlighted in the FRC's Financial Reporting Lab project<sup>5</sup>. It is good to see an increase overall across all elements, although there still remains scope for improvement.

More companies are identifying and articulating in their business models those inputs which are key to the success of their business, as is suggested in the FRC's Guidance to the Strategic Report. In particular, over three quarters of companies are identifying those key sources of value in the form of off-balance sheet resources, relationships and other dependencies.



The identification of inputs is similar to the <IR> Framework's notion of 'capitals' within its value creation process. We were encouraged to see 35 companies (2017: 32) clearly considering the <IR> notion of 'capitals' in their business models, often demonstrating the outcomes of the business model on each capital, going beyond the FRC's recommendation of identifying just key inputs. Interestingly, these companies were spread fairly evenly across the FTSE, demonstrating that it is not only the largest of companies that see the benefit in understanding and articulating their business model in this way. On average, these companies identified a total of 6 capitals, with the most identified by one company being 12 different capitals.

Of those that identified key sources of value in the form of off-balance sheet resources, relationships and other dependencies, either in their business model or elsewhere in the report, 96% went on to provide an indication of how the key relationships and resources are being maintained and enhanced. For example, where a company's employees or its relationships with customers were identified, maintenance and enhancement of these relationships often focused around providing a supportive environment or a challenging or interesting job role for employees, and staying close to customers to understand their needs and adapting products or services accordingly.

The most useful disclosures regarding maintenance and enhancement of these key relationships then went on to provide either evidence or some sort of measurement of maintenance and how this impacted value creation. Examples include employee engagement scores, retention rates and details of internal progression for employees; when these increased (presumably as a result of the company's actions), employees would be happier and more motivated and thus productivity would increase, thus generating more value (see section 6). For customer relationships, Net Promoter Scores were often cited; again, as the company actively seeks to increase the score, the relationship strengthens and more value is created for the company, e.g. through repeat orders.



This issue of maintaining and enhancing key relationships highlights the importance of stakeholder engagement to understand stakeholder needs, and the close link between this and value creation (see section 4). It is expected that the renewed focus on directors' duties in s172 (including the requirement to "foster business relationships with suppliers, customers and others") and also on the NFR Directive, which either encourage or require disclosure on these non-financial sources of value, will increase the quality of disclosure about key off balance sheet resources, relationships and other dependencies.



#### Compliance – problem areas

Despite the vast majority disclosing a business model, it was disappointing to see only a small increase in the number of companies describing in their business model what their business actually does. Given many readers will turn straight to the business model, and that the business model lies at the heart of a company's strategy, this is something that we would expect companies to be addressing.

All but one company identified in their report the stakeholders it considers in how they do business, such as employees, customers and suppliers. For some companies this was obvious from their business model, for example by clearly identifying value created (or 'outcomes') for different stakeholder groups. An example of setting this out clearly is the business model presented by St James's Place plc. However, for a lot of companies this was less explicit and, in the absence of descriptions of clear stakeholder engagement activities (which would, in turn, inform the business model – see section 4) the identification of key stakeholder groups was hidden in the detail of the report. Disclosure of the value created for other stakeholders that supports economic value generation for the company itself is one of the desired attributes of a business model, as per the FRC's Lab report. For instance, investors want to understand the value to customers of the product / service that will likely result in future sales. But this is difficult to determine if it is not clear in the business model who the other stakeholders are.

Investors also need to know how successful directors have been in creating value. The FRC's revised Guidance on the Strategic Report<sup>2</sup> includes a paragraph stating that a company's strategy should be reflected in its key performance indicators (KPIs) i.e. the discussion of KPIs should allow an assessment of progress against the strategy. Only 46 companies linked all of their KPIs to

their strategy in a meaningful way, as opposed to simply providing a cross-reference, an increase on the 37 which did so in 2017. A clear explanation of how the strategy and KPIs are related enables investors to ascertain how successful the directors have been in attaining what they set out to achieve. Brewin Dolphin Holdings PLC clearly linked its KPIs to each relevant strand of their strategy to facilitate measurement of their performance to date, as well as providing an indication, where applicable, of potential challenges to success.



#### Looking beyond compliance

Although an area of constant evolution, sustainability reporting is no longer a new concept, with many industries having reported on their environmental impact for over 30 years and the Global Reporting Initiative introducing broader sustainability reporting through their first framework of guidance in 1998. So it's not unreasonable to expect that the recent focus on s172 responsibilities and the NFR Directive disclosures would focus directors' minds on broader corporate social responsibility ('CSR') matters. Perhaps, then, it is a symptom of the corporate wheels moving slowly that for many companies there remains a lack of connection between the specific thinking around sustainability and broader strategic-level thinking.

Three companies were deemed not to include any significant CSR disclosures and 49 companies disclosed a separate CSR section with no reference to these matters within their strategy. More positively, 38 companies included some elements of CSR within their strategy, while the remaining ten companies fully integrated their CSR disclosures within their broader company strategy, thus avoiding the need for a separate full CSR section. G4S plc identified its key stakeholder groups upfront and linked each to the relevant strand of its strategy. The strategic review discussion then incorporated all material CSR disclosures, without the need for a separate section.

16 companies (2017: 12) made reference to the UN's Sustainable Development Goals<sup>6</sup> ("SDGs"), a set of 17 goals which were signed up to in 2015 by 193 world leaders with an aim to end extreme poverty, inequality and address climate change by 2030. Although most of the companies making reference were from the FTSE 100, they were from a number of industries, including telecoms, financial services, media and oil & gas. Most of the references to SDGs were where companies had mapped their sustainability strategy to the SDGs, with two companies bringing in the SDGs within their wider group strategy.



Linked to this, five companies made reference to the Task Force on Climate-related Financial Disclosures' Guidelines ('TCFD') which encourage consideration of climate risk, while another four indicated that they had complied with them. A further six companies did otherwise describe the Board's oversight of climate related risks and opportunities, albeit with no reference to TCFD.

The FRC has referred to both the SDGs and the TCFD, among others, as sources of guidance to Boards<sup>7</sup> when considering the impact on environment with respect to their s172 responsibilities (see section 4).

Linkage to principal risks, particularly those which are new or have changed, is valuable in demonstrating the resilience of the business model and how it can react to changes in the market environment. The issue of Brexit was widely discussed, with half of all companies discussing within their principal risks how it may specifically impact them. As shown in the graph, 54 companies (2017: 31) discussed, to varying extents, whether Brexit might impact their business model. While uncertainty may abound, directors' assessment of Brexit and its possible impact on the business' ability to create value in the long term provides deeper insight into the business and how directors are carrying out their s172 duties to promote the success of the company.

### What to watch out for

- ☐ Review your business model disclosure and challenge whether it describes what the company does and identifies who the key stakeholders are.
- ☐ Of those key resources, relationships and other off-balance sheet sources of value creation identified in the business model, consider how these are maintained and enhanced. Useful disclosure includes evidence and measurement of maintenance and a description of how this impacted value creation.
- ☐ Challenge whether these key stakeholders and the value created for them by the company are being reflected in the strategy. Incorporating strands of a separate sustainability strategy into the main company strategy breaks down organisational silos and leads to a more coherent, comprehensive and connected strategy.

- ☐ Consider how progress against your strategy will be measured. One helpful way is through clearly linking the strategy to the relevant KPIs.

*regular review*



### Examples of disclosure

The Weir Group PLC clearly articulated in its business model what it does, what the key resources it relies upon are and who their key stakeholders are and the value created for them.

### The Weir Group PLC



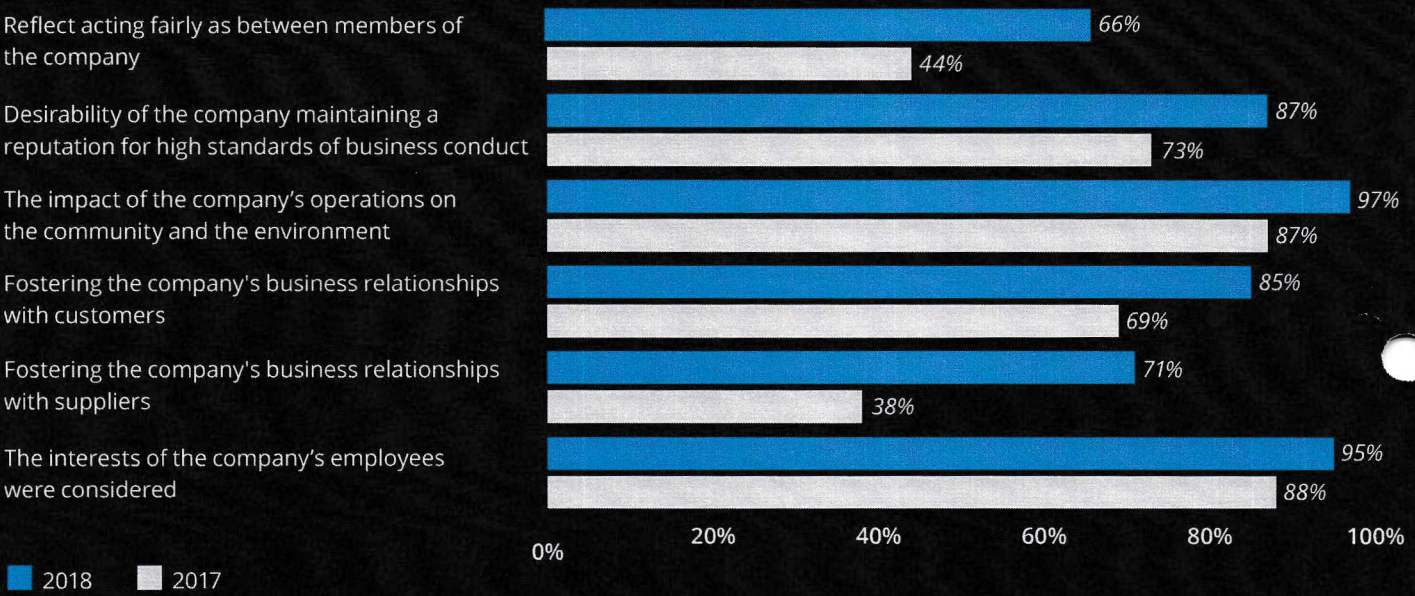
See more examples of disclosure in the electronic version of this publication.



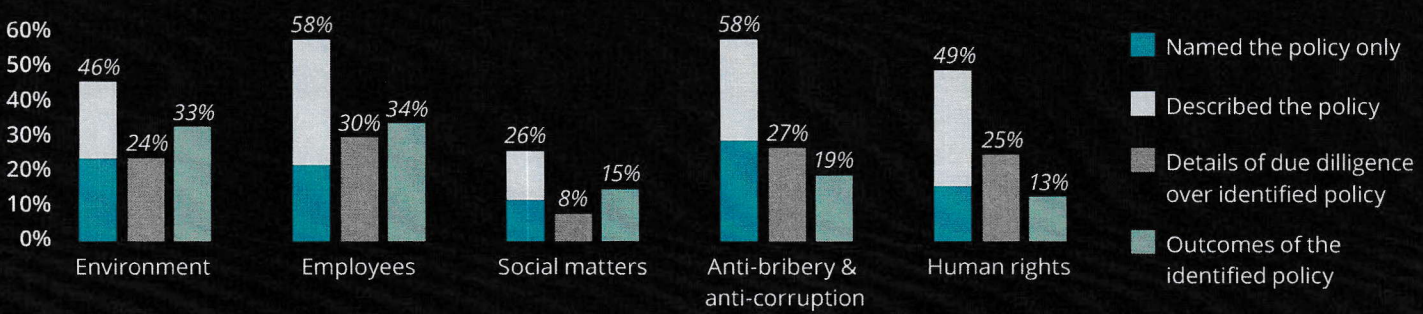
# 4. Stakeholders



There was an indication that the following s172 considerations were considered somewhere in the annual report



Of those 70 companies in scope, which elements of the NFR Directive were identifiable?





## ⊕ Compliance – positive trends

Over the past year there has continued to be a focus by government and in the media around directors' responsibilities under s172, specifically their duty to promote the long term success of the company taking into regard the impact on a broad group of stakeholders such as employees, customers, suppliers and the environment. It is therefore no surprise that more companies are referring to this duty in their annual report, with 29 doing so (2017: 17). However, only 8 companies (2017: 8) went on to provide a further comment to allow shareholders to assess how the directors have performed their duty. New regulations are applicable to periods commencing on or after 1 January 2019, which requires companies of a significant size (both public and private) to explain how they have complied with s172<sup>8</sup>. This is clearly an area which companies will need to consider further.

But how do directors carry out this s172 duty? First steps are to identify relevant stakeholder groups to the company, aside from shareholders. As the graphic opposite demonstrates, and in line with those key sources of value identified in the business model (see section 3), most commonly these are customers and employees.

Next, directors must engage with and listen to those other stakeholders. Although there is no legal requirement to disclose detail around engagement activities specifically, encouragingly 94 companies (2017: 90) described, to varying levels of detail, how they engaged with their stakeholders. Of these, 13% (2017:23%) focused only on their engagement with investors, while the remainder covered how they engaged with at least one non-investor stakeholder group. Most commonly this included conducting employee engagement surveys or getting customer feedback. Often the discussion covered only one or two stakeholder groups and frequently was dotted about the annual report. The most useful disclosures around engagement were those that presented the full picture, identifying each main stakeholder group, describing their engagement with each, what the subject of engagement was (e.g. customer service or quality) and explaining why this was relevant.

Stakeholder relationships and the capacity of an organisation to respond to key stakeholders' legitimate needs and interests are at the heart of integrated thinking, which underpins integrated reporting. An integrated report should provide insight into the nature and quality of the organisation's relationships with its key stakeholders, including how and to what extent the organisation understands, takes into account and responds to their legitimate needs and interests. The <IR> Framework states that by doing so, the integrated report enhances transparency and accountability.

Insight from engagement activities then needs to feed its way back to the boardroom, the board needs to react to this feedback, develop high level intentions and translate them into more precise policies for the company (see below regarding NFR Directive disclosures). However, as noted in section 9, there is little insight around this currently, with only 10 companies indicating that stakeholder feedback has any impact on board decision making.

Despite this missing link to the boardroom, almost half of those engaging with stakeholders (2017: 36%) went on to describe an outcome of some engagement and what they have done differently as a result. 8 companies provided outcomes solely relating to investor engagement, all of which related to directors' remuneration. 30 provided outcomes solely relating to engagement with other stakeholders, while the remaining 7 provided examples relating to engagement with both investors and at least one other stakeholder group. Nearly all of the descriptions of change were in response to employee or customer feedback. One related to changes made following feedback from regulators, and one mining company provided outcomes of engaging with local communities.



The focus on employees and customers mirrors the common identification of these groups as inputs into value creation in the business model disclosures (see section 3). It seems that companies find these engagement activities and disclosures easier for some stakeholders than others. Possibly this reflects an underlying current of short-termism: a company may adversely impact the local environment for a while before it becomes visible, whereas it would immediately feel the pinch if customer or employee relationships worsened, so companies need to keep a closer eye on them. Perhaps because of a more direct and more observable impact of employees or customers on cash flows, companies are more readily paying attention to those stakeholders and measuring the business' impact on them. In turn it is simply more difficult to measure interactions with local communities and other stakeholders, not just because of indirect financial implications but also because of difficulties gathering data and knowing what data to gather.



#### Compliance – problem areas

70 companies fell within the scope of the newly effective NFR Directive (19 companies had financial years beginning prior to 1 January 2017, while 11 companies had fewer than 500 employees). The legal requirement refers to a “non-financial information statement” to be included within the strategic report. In December 2017 the FRC published some FAQs<sup>9</sup> to accompany the NFR Directive, one of which confirms that the disclosures required do not have to be either a discrete element within the strategic report or a separate statement. Instead, companies are encouraged to consider how this information relates to other information in the strategic report and incorporate it therein. This view has been updated in the FRC’s revised Guidance on the Strategic Report<sup>2</sup> to make clear that there must be a separate statement within the strategic report, but that this can include cross-references to where the required information can be found in the main body of the strategic report.

Only one company presented a standalone non-financial information statement, which took the form of a table detailing the disclosure requirements and cross-referring to where the information could be found. A handful of companies clearly identified the elements of the NFR Directive (environmental matters, employees, social matters, respect for human rights, and anti-corruption and anti-bribery matters) and provided some cross-references to where some of the information was located. One company was explicit in stating that the

required NFR Directive information had been integrated into the strategic report, thus “promoting cohesive reporting of non-financial matters”. In many cases the individual policies were named within the principal risks disclosures as an example of a mitigating activity, where relevant, and then further information was included within the CSR disclosures. 19 companies, spread fairly evenly across the FTSE, included some or all of the required disclosures outside of the strategic report (for example in the corporate governance statement) without cross referring to it from the strategic report. Given the non-financial information is required to be included in the strategic report the placement of these new disclosures within it (or cross referenced from it) is important.

Given the overlap with existing disclosure requirements, it was in many cases actually quite difficult to find some of the NFR Directive disclosures. For example, quoted companies are already required to include information about the company’s employees, to the extent necessary for an understanding of the development, performance or position of the company. The NFR Directive requires a description of the policies pursued in relation to employees, along with any due diligence and outcomes of those policies. While many companies described their aims (such as focusing on the diversity of the workforce, or to achieve zero-level accidents) or specific actions (such as carrying out engagement surveys or investment in training and progression), it was often not clear whether this was a description of a specific underlying policy. Similarly, some companies named some specific policies but then did not link them to any other text to demonstrate how they had been applied.

If a company does not pursue policies in relation to one or more of the NFR Directive matters, it must provide a clear and reasoned explanation for the company’s not doing so. This was very rare in practice, with only four companies doing so in relation to the environment and two for social matters.

In contrast, the NFR Directive disclosures around anti-bribery and anti-corruption were new, with no previous requirements in these areas. It was therefore much easier to identify the disclosures. 61 of those in scope and 15 outside scope discussed both anti-bribery and anti-corruption in their report, even if briefly. A further four companies in scope of the regulations discussed either bribery or corruption, but not both, leaving the remaining five companies in scope not discussing the matter at all.



Many companies enhanced their disclosures around human rights with information regarding slavery and human trafficking, linking to their other reporting requirements under the Modern Slavery Act. 24 companies disclosed in their annual report some or all of the detail required under their reporting duty on modern slavery with 38 others providing a cross-reference to their modern slavery reporting.

The area of most difficulty appeared to be disclosure of social matters. Albeit 'social' matters are not defined, we felt that only 23 of the 70 companies in scope had clearly named or described a policy in relation to social matters, although a further two did indicate that they do not pursue policies in this area. Some others may have felt that they had also provided relevant information, based on a broader interpretation of 'social'. While many companies include a lot of information about their interaction with local communities, most commonly their charitable fundraising efforts, for some it was to the point where it is questionable as to whether this information is truly material to the annual report. For others it raises the question of whether they have missed the mark a little, too, by providing information which does not give any meaningful insight into the impact of the company's activities on social matters. Anglo American plc provided a good example of a social matters policy, their "Social Way", which included details of due diligence and discussed the outcomes as well.

The requirement to disclose any due diligence processes implemented by the company in pursuance of the relevant policies was addressed in relation to about half of those policies disclosed. Overall the level of detail provided varied from vague to extensive, and the extent of the due diligence ranged from internal reviews and internal audit to external assurance. What was particularly refreshing was that the information disclosed seemed to be specific to each company, rather than reeling off a new boilerplate disclosure. Moreover, in many cases the due diligence resulted in a report to the Board, or at least a sub-committee. This supports the upcoming s172 disclosures (see below) by demonstrating how directors fulfil their responsibilities in practice.

Where outcomes of policies are measurable such as environmental emissions or employee accident rate, these were clearly disclosed. For other outcomes, such as for human rights policies, it was notable that these are more difficult to determine or articulate.



### Looking beyond compliance

The new requirements of the government's package of corporate governance reforms (being the new regulations cited above, along with a new Corporate Governance Code<sup>10</sup>) are not applicable until periods commencing 1 January 2019. However, as shown in the graph opposite, perhaps unsurprisingly given the renewed focus, more companies are disclosing information this year around how directors have considered their responsibilities under s172 in all of those areas noted. A few of these areas also overlap with the new disclosure requirements under the NFR Directive and therefore the same disclosures may be meeting both requirements.

Almost all companies are providing information around how they have had regard to the interests of employees. Reference to the new gender pay gap reporting, and other employee performance metrics (see section 6) also evidenced how directors are taking employees' interests into account. This focus on employees is reflected in the number of companies including employees as key sources of value within their business model (see section 3).

Many more companies are indicating how they have fostered their relationships with their suppliers. Often this was through linking in to their human rights policies, and how they worked with their suppliers to ensure that their standards were being adhered to throughout the supply chain. Four companies disclosed some or all of the detail required under the reporting duty on payment practices and performance (which is otherwise required outside of the annual report for periods commencing on or after 6 April 2017), with two others providing a cross-reference to their reporting.

Acting fairly between members was usually demonstrated through the description of shareholder engagement whereby private shareholders were given opportunity for engagement and feedback outside of merely attending the AGM. Most companies disclosed this information within their corporate governance report, with 57 doing so. A good example of this disclosure is Barclays PLC which detailed engagement throughout the year with institutional investors and private investors.



A number of companies provided examples of how the directors had taken into account broader factors in their decision making process. Britvic plc explained how, as part of their business capability programme, they had consulted with stakeholders and demonstrated how they had taken into account the interests of employees when relocating their manufacturing plants. Mears Group PLC developed a portal that provides detailed insight into local demographics, helping to identify areas of deprivation, which now drives their decision making by enabling them to target intervention and outreach to the most disadvantaged groups and focus on the right outcomes. Such examples may assist directors in articulating how they have performed their duty under s172.



Essentially, s172's requirement to take into account the impacts of decisions made upon key stakeholders is akin to "integrated thinking" under the <IR> Framework, which encourages this multi-capital approach to decision-making. Hilton Food Group plc explained how they factor into their decision making their customers' desire for reducing waste and minimising the environmental impact of their operations. As such the company has been working with suppliers to reduce the amount of packaging which, in turn, reduces cost and environmental impact.

There is no current requirement to disclose in the annual report any details of stakeholder feedback when reporting on major events during the year. It was pleasing, therefore, that a handful of companies discussed the mechanism for gathering stakeholder feedback in such circumstances. Marks and Spencer Group plc highlighted how their Business Involvement Group (where elected employees feedback to a national committee, the chair of which attends board meetings twice a year) helped to manage significant changes in the company, resulting in employee involvement being at the centre of the Board process.



#### What to watch out for

- ☐ New regulations applicable to accounting periods beginning on or after 1 January 2019 require all large companies to describe in their strategic report how they have complied with the requirements of section 172.
- ☐ Ensure Board processes are in place to enable the new s172 statement and meaningful NFR Disclosure statement to be made.
- ☐ Note that recent amendments made to the FRC's Guidance on the Strategic Report encourage companies to include a separate non-financial information statement within their strategic report, which includes clear cross references to where the required content is covered in the strategic report, if not in the statement itself. This is consistent with the approach required for the s172 statement.
- ☐ Both the SDGs (which can be incorporated into the company's strategy) and TCFD guidance (which can be used as a tool for considering climate risk) are recommended as sources of guidance by the FRC. These can be referred to when demonstrating how the board is considering environmental impact.
- ☐ An engagement programme for all relevant stakeholders should target not just those who are more vocal or easy to engage with, and should be supported by a process for feedback to the board.
- ☐ In particular, the new Corporate Governance Code provides a choice of three workforce engagement mechanisms (a director appointed from the workforce, a formal workforce advisory panel or a designated non-executive director).
- ☐ Challenge whether your NFR Directive disclosures are clear, with policies identified and described, and due diligence over and outcomes from those policies discussed. Where there is no policy in place, this must be clearly disclosed.





## Examples of disclosure

Marks and Spencer Group plc identified their 5 key stakeholder groups and summarised how they have engaged with each in the year.

### Marks and Spencer Group plc

30 MARKS AND SPENCER GROUP PLC  
DIRECTORS' REPORT GOVERNANCE

GOVERNANCE

## HOW WE ENGAGE & RESPOND

**SHAREHOLDERS**

Our rich network of stakeholder relationships upholds the values on which M&S was founded. These relationships are even more vital during this period of change.

**OUR APPROACH**

Engaging with our stakeholders is fundamental to the way we do business at M&S. We have over 50,000 registered shareholders, 85,000 colleagues and 32 million customers. We serve our products right across our 'footprints'. These individuals, businesses and communities are integral to our business. We will only be able to successfully transform M&S with their input, support and trust.

As a Board, stakeholder considerations are woven throughout our decisions and decisions. Like any business, sometimes we have to take decisions that adversely affect one or more of these groups and in such cases, we always ensure that those impacted are treated fairly.

We have invested in the development and involvement of our stakeholder communities as we believe it is through thoughts do not only for our stakeholders but for our business. These pages provide a snapshot of just some of the ways in which we do this.

**COLLEAGUE ENGAGEMENT SCORE**

82%

**SHAREHOLDERS**

While the Annual General Meeting has traditionally been seen as the highlight of the shareholder calendar, we believe that engagement with our private shareholders and institutional investors should be an ongoing process, not something we think about once a year. We connect with shareholders on an ongoing basis through a variety of channels including face-to-face meetings, webcasts, and an increasing amount of online content.

**ANNUAL GENERAL MEETING (AGM)**

The 2017 AGM was held on 24 May at our new headquarters in London. It was a landmark event, marking the first time we held our AGM at our new headquarters. We were delighted to have over 1,000 shareholders in attendance, including many of our long-standing institutional investors.

**ANNUAL REPORT AND ACCOUNTS**

The 2017 Annual Report and Accounts were published on 24 May. We were pleased to see that our report was well received by our shareholders and institutional investors. We will continue to work on improving our reporting and transparency.

**ONGOING ENGAGEMENT**

We have a number of ongoing engagement initiatives in place. These include regular meetings with our institutional investors, as well as a number of smaller-scale initiatives designed to engage with our private shareholders.

**INVESTOR PERCEPTION STUDY**

We commissioned a study to understand how our shareholders perceive our business. The study found that our shareholders value our transparency and our commitment to our customers and colleagues.

**PRIVATE SHAREHOLDER PANEL**

We have established a Private Shareholder Panel, which is a group of private shareholders who meet regularly with our management to discuss our business and provide feedback.

**ASSET REINVESTMENT**

We have a number of initiatives in place to encourage our shareholders to reinvest in our business. These include a share purchase plan and a dividend reinvestment plan.

National Grid plc referred directly to s172 in the Letter from the Chairman, and provided an overview of how the directors have performed their duties.

### National Grid plc

I believe that strong corporate governance supports long-term value creation for shareholders and is key to balancing the interests of our shareholders with those of our wider stakeholders. Your Board recognises the importance of our wider stakeholders and takes its responsibility and duty to them under section 172 of the Companies Act 2006 very seriously. On page 6, we set out who our key stakeholders are, why they are important to us and how we create value for them over the long term.

Engagement with our stakeholders continues to be an important priority for us. This year, the Board has reviewed who the Company's key stakeholders are; our current stakeholder engagement activities; the appropriateness of this engagement; how this engagement is reported to the Board; the mechanisms used to feedback to our stakeholders; and whether there is a need for greater engagement at Board level. You can read about this on page 48.

I believe that the Board should choose a stakeholder engagement model best suited to the needs of the Company, and for us that means it should reflect that more than two-thirds of our employees now work in, and more than 60% of our capital expenditure is in, the US. We will continue to engage with our stakeholders in a way that is guided by our purpose, vision and values.



See more examples of disclosure in the electronic version of this publication.

21 NATIONAL REPORT AND FINANCIAL STATEMENTS 2018

**CUSTOMERS**

Our insight team constantly gathers and analyses feedback from our customers to understand what they want from M&S. In addition to sharing findings with the directors, we focused in 2017 on making our wealth of insight available throughout the business to ensure decisions are based on facts. This has enabled us to improve the shopping experience and better understand how we need to position the business.

**COMMUNITY**

At the heart of M&S's engagement with the community is Plan A, our social and environmental sustainability programme. Building on a successful year of this initiative, we launched Plan A 2018 in June last year with three main goals: to help 100,000 people live better, to help 100,000 communities, and to become a zero-waste business. Find out more at [marksandspencer.com/planA](http://marksandspencer.com/planA).

**SUPPLIERS**

As one of the most trusted brands in the high street, we believe we have a responsibility to be fair to our suppliers. This means the prices we pay our suppliers for the goods we provide to the communities where we trade. It also means ensuring good working conditions for our suppliers and ensuring our products with integrity.

**DIRECT FEEDBACK**

The 2017 AGM was held on 24 May at our new headquarters in London. It was a landmark event, marking the first time we held our AGM at our new headquarters. We were delighted to have over 1,000 shareholders in attendance, including many of our long-standing institutional investors.

**COMMUNITY TRANSFORMATION**

We have a number of initiatives in place to encourage our shareholders to reinvest in our business. These include a share purchase plan and a dividend reinvestment plan.

**TOWN CENTRE REGENERATION**

We have a number of initiatives in place to encourage our shareholders to reinvest in our business. These include a share purchase plan and a dividend reinvestment plan.

**WORK EXPERIENCE**

We have a number of initiatives in place to encourage our shareholders to reinvest in our business. These include a share purchase plan and a dividend reinvestment plan.

**LOCAL FUNDRAISING**

We have a number of initiatives in place to encourage our shareholders to reinvest in our business. These include a share purchase plan and a dividend reinvestment plan.

**M&S COMPANY ARCHIVE**

We have a number of initiatives in place to encourage our shareholders to reinvest in our business. These include a share purchase plan and a dividend reinvestment plan.

**SPARE CARD**

We have a number of initiatives in place to encourage our shareholders to reinvest in our business. These include a share purchase plan and a dividend reinvestment plan.



## 5. Alternative performance measures and KPIs

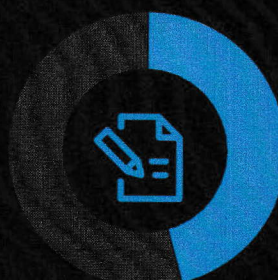
1/3

of Chairmen's Statements included profit APMs and no IFRS equivalent



46%

of companies included an appendix or section dedicated to APMs

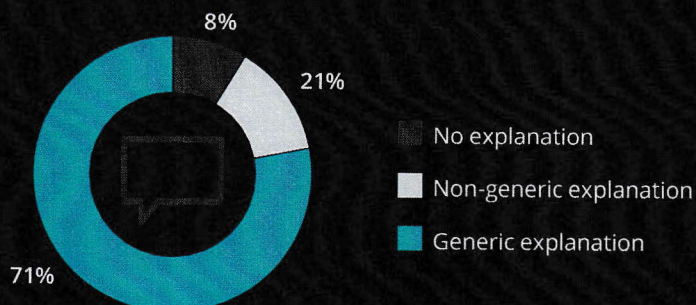


92%

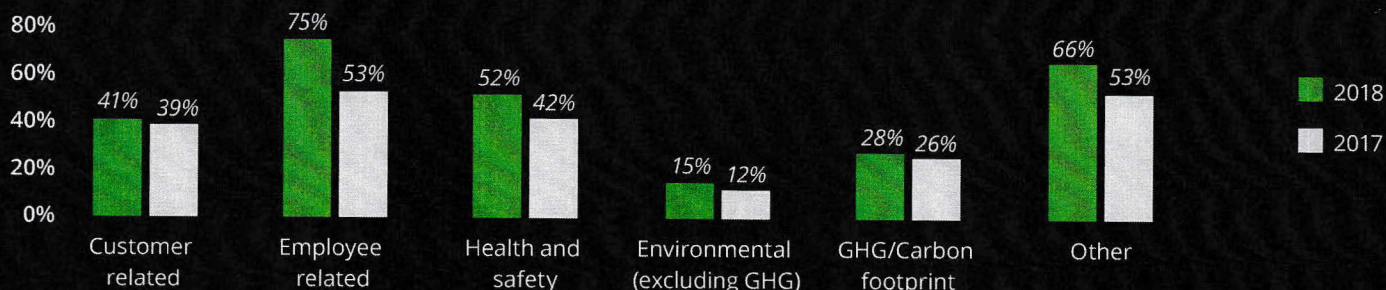
provided an explanation of APMs but

71%

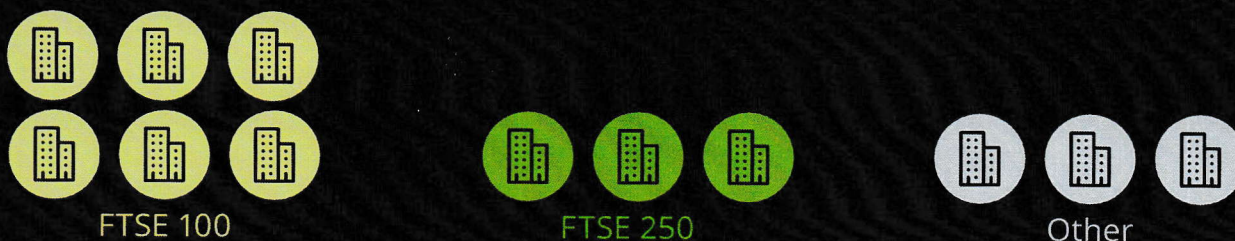
of these were generic



### Common types of non-financial KPIs (for those with such metrics)



### Average number of non-financial KPIs





*Not used  
new  
enough  
statistical  
tools*

The use of alternative performance measures (APMs), often referred to as non-GAAP measures, continues to be a common feature across UK annual reports. These measures are intended to offer investors additional information on the reporting company's performance, in addition to the statutory GAAP measures. ESMA's Guidelines<sup>19</sup> on the use of APMs, together with the FRC's recent publication of their corporate reporting thematic review findings<sup>11</sup>, provide the framework and key guidance to be applied when using APMs in corporate reporting. This area continues to be a hot topic for regulators and while there have been high level improvements where more companies appear to be applying the basic principles of ESMA's Guidelines, the pace of change has been slow.

In terms of where APMs are to be found in reports, 96 companies presented financial APMs within an up-front financial highlights section, and 91% of these included adjusted profit measures. Only 32% of companies presenting APMs in their financial highlights included adjusted sales measures. It seems that adjusted sales measures feature more commonly in detailed performance analyses, for example in the Chief Financial Officer's statement.

81% (2017: 81%) of companies had a Chairman's statement containing APMs and 82% (2017: 89%) a CEO's statement with APMs. The majority of these statements included adjusted profit measures. For example, 60% and 66% of companies surveyed presented a Chairman's and CEO's statement, respectively, which contained adjusted profit measures.

A continuing trend is that APMs, within the scope of the ESMA Guidelines, are being used by companies in their key performance indicators (KPIs). Of the 90 companies (2017:92) that clearly identified their KPIs only one did not include an APM, in 2017 all 92 companies included at least one APM.

Carrying on through the annual report, 68 companies (2017: 68) presented APMs on the face of their income statements (excluding unadjusted 'operating profit' lines). These measures would be considered APMs under the ESMA Guidelines were it not for the fact that the ESMA Guidelines apply only outside of the financial statements.

Whilst APMs can be both financial and non-financial, the ESMA Guidelines only apply to financial APMs. We consider the use of non-financial metrics, which did feature in a number of companies' operational highlights, in our discussion of KPIs below.



#### Compliance – positive trends

According to the ESMA Guidelines, APMs should be reconciled to the most directly reconcilable line item, subtotal or total presented in the financial statements. It is positive to see that 86% of companies reporting an alternative profit measure within the highlights section did reconcile back to an IFRS profit measure for all profit measures reported. In contrast, it was disappointing that only 29% of companies reporting an alternative sales measure provided a reconciliation albeit that this was driven by a lack of reconciliation for companies reporting a like-for-like or constant currency sales movement.

The Guidelines require the provision of comparatives for all APMs and we have seen that approximately 80% of companies with alternative profit measures in their highlights section provided this information.

Looking at KPIs, in an improvement from 2017, 46 companies (2017:37) linked all of their KPIs to the company's strategy in a meaningful way, as opposed to simply providing a cross-reference. This is a step in the right direction for linking together each area of the strategic report, although clearly there is still room for improvement by many. 71 reports evidenced, in some form, linkage between companies' KPIs and their directors' remuneration, demonstrating alignment of reward with success of the company.





### Compliance – problem areas

Almost a third of Chairmen's and CEOs' statements did not make any reference to GAAP profit measures when discussing adjusted profit measures. This echoes the FRC's findings from their recent corporate reporting thematic review of APMs where they noted that companies would be challenged if GAAP measures were not clearly highlighted early in the narrative discussions presented in the strategic report. A similar concern exists in terms of undue prominence being given to non-GAAP measures in the highlights section of the annual report. 8% of companies failed to present any IFRS profit measures in the highlights despite presenting alternative profit measures whilst 20% of companies were open to challenge given they had utilised bold text or graphs to emphasise APMs.

It was good to see that the majority of companies, 80%, provided some explanation for why the profit APMs in their annual reports were useful. However, disappointingly 71% of these explanations appeared to be generic or high level. The ESMA Guidelines require companies to explain the specific purpose of each APM and why management believe that the APM provides useful information regarding the financial position, cash flows or financial performance. Many companies simply stated that APMs were used to present additional information about underlying performance without a clear explanation of how and why each APM achieved this objective. In line with previous years, it is worrying that some companies present APMs as being better, more representative or more meaningful than IFRS figures. The FRC, in their 2017 thematic review, noted that stating the reason *why* an APM is useful rather than simply asserting that it would improve explanations.

Of the 68 companies that included APMs on the face of the income statement, there were still 16, or 24%, that failed to include an accounting policy relating to adjusting items. The FRC expects to see a policy to ensure that any non-IFRS figures are appropriately and sufficiently defined and why certain items are adjusted for is explained. On a similar note, despite their prevalence, it was interesting that only 19 companies had disclosed critical judgements relating to such metrics in their income statement under IAS 1.

We saw a slight fall in companies using a collective term to capture multiple adjusting items on the face of the income statement to 48 from 51 in 2017. Only 11 companies chose to describe these adjusting items as 'exceptional' compared to 20 last year and no companies used the phrase 'non-recurring' compared to three in 2017. This is a positive step, given that the FRC has highlighted use of terms such as 'exceptional' and 'non-recurring' as requiring explanation as they often do not reflect the nature of adjusting items. The number of companies referring to such items merely as 'adjusting', which does not give the impression of a one-off basis, rose from six to ten.

The Companies Act 2006 defines KPIs as factors by reference to which the development, performance or position of the company's business can be measured effectively. Given that KPIs are chosen by each individual company, we would expect them to be reflected, in a large number of cases, in the highlights section of the annual report. As these are the key balances that management look at, we expect that they would wish to communicate these up front to readers. Disappointingly, we found that only 12% of reports included all financial KPIs within the highlights and 84% of reports included measures in the highlights which were not KPIs, albeit it is not unexpected that non-KPIs may be highlighted in addition in some cases.



### Looking beyond compliance

46 companies provided a distinct section, such as an appendix, within the annual report focused on APMs. This was more companies than expected and reflected an improvement in the clarity of reporting on APMs across a spectrum of companies, with 26% of those with a separate section coming from outside the FTSE 350.

There was a slight fall in companies identifying non-financial KPIs from 74 to 71 but no change in the average number of non-financial KPIs identified, which remained at four per company. It is clear that this focus on transparency around non-financial KPIs relating to employees, customer satisfaction and health and safety, among others, is being driven by larger companies with FTSE 100 companies surveyed identifying six non-financial KPIs on average.



27 companies identified environmental KPIs (2017: 24), 20 of which (2017: 19) included greenhouse gas/carbon footprint-related KPIs. This is a slight increase on 2017 but still a relatively low percentage of companies.

See section 6 for a discussion of employee-related metrics that investors are calling for in the context of better understanding long-term value creation.



### What to watch out for

☐ Consider whether the use of graphs or bold lettering could give more prominence to APMs than the associated IFRS GAAP measures.

☐ Avoid the use of generic explanations for the description of purpose for APMs.

☐ Identify whether KPIs are omitted from up-front highlights and if so assess whether they really are 'key' performance indicators.

☐ Particularly for smaller companies, consider whether adequate levels of non-financial KPIs have been identified.

☐ Consider the views of investors outlined in the FRC's Lab report<sup>12</sup> from June 2018 and whether disclosure of APMs can be improved in this regard.



### Examples of disclosure

Bioquell PLC provided a reconciliation of a revenue-based APM (constant currency sales) to IFRS revenue and an explanation of why it is used.

#### Bioquell PLC

Given the large percentage of total revenue earned in currencies other than sterling, the Group monitors the level of constant currency sales growth, calculated by expressing revenues in both the period under review and the comparative period at constant exchange rates as set out in the table below. For the year as a whole biodecontamination sales grew by 9% in constant currency terms.

	Bio Div £m	Group £m
Revenue	28.5	29.2
Impact of foreign exchange movements	(1.0)	(1.1)
Constant currency revenue (at 2016 exchange rates)	27.5	28.1

Gross margin in the year was up 4% to 52% (2016: 48%). This meaningful increase in gross margin reflects a number of additional factors besides exchange rates including both the results of targeted cost-reduction programmes associated with our products and price increases for certain products.

Pendragon PLC's Chairman's statement provided a table with APMs as well as equivalent IFRS totals.

#### Pendragon PLC

EM	REVENUE	GROSS PROFIT	OPERATING PROFIT	PBT	EPS
LIKE FOR LIKE*	<b>£4,665.9</b> (+5.1%)	<b>£546.3</b> (-1.0%)	<b>£85.8</b> (-16.1%)	<b>£62.4</b> (-18.4%)	<b>N/A</b>
UNDERLYING**	<b>£4,739.1</b> (+4.5%)	<b>£552.9</b> (-1.2%)	<b>£83.8</b> (-17.2%)	<b>£60.4</b> (-19.9%)	<b>3.3p</b> (-15.4%)
TOTAL	<b>£4,739.1</b> (+4.5%)	<b>£552.9</b> (-1.2%)	<b>£91.4M</b> (-9.0%)	<b>£65.3</b> (-10.5%)	<b>3.7p</b> (-2.6%)

\* like for like results include only current trading businesses which have a 12 month comparative history

\*\* underlying results that exclude items that are not incurred in the normal course of business and are sufficiently significant and/or irregular to impact the underlying trends in the business  
NOTE: Throughout this document, Alternative Performance Measures have been used which are non-GAAP measures that are presented to provide readers with additional financial information that is regularly reviewed by management and should not be viewed in isolation or as an alternative to the equivalent GAAP measure, see note 1 of the Financial Statements for details



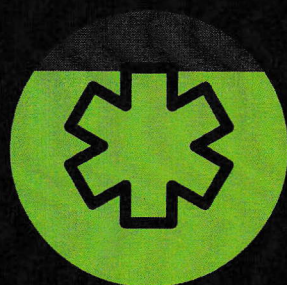
See more examples of disclosure in the electronic version of this publication.



## 6. Long term value creation

76

companies discussed the value created for at least one other type of stakeholder, other than shareholders



1/4

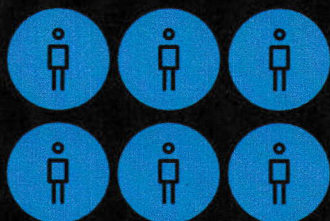
of companies referred to assuring some non-financial or CSR information in some way



### Employee-related metrics (other than gender) the Investment Association are calling for:

#### Headcount

Total headcount:



6 distinguished between full-time and part-time employees

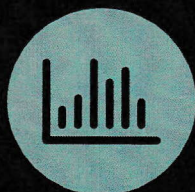


6 gave diversity metrics (other than gender)



A further 3 did both the above

#### Employee turnover



19

gave employee turnover metrics, with 4 splitting between planned and regrettable turnover

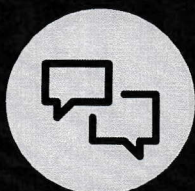
#### Investment in training



38

discussed investment in training and professional development but only 9 discussed progression and promotion rates

#### Employee engagement



38

provided employee engagement scores

#### What the metrics mean



8

explained, for at least one metric provided, what it meant in terms of progress towards strategic objectives or productivity improvements



The use of KPIs and alternative performance measures in discussing the company's long term value creation was considered separately in section 5.

The non-financial information statement and the outcomes of policies are discussed in section 4.



### Looking beyond compliance

As well as getting a picture of past financial performance, investors are increasingly looking to understand the company's broader value creation story and how sustainable the business model is. Companies are responding to this by considering the value created for broader stakeholders, and discussing this in more detail than last year. 76 companies (2017: 63) discussed the value created for at least one other type of stakeholder, other than shareholders, and 36 (2017: 24) of these quantified aspects of that value in some way. Some companies, such as Mondi plc, provided the quantification in the business model disclosure, identifying their "key outputs"; some, such as Howdens Joinery Group Plc, presented the information in a double page spread; others provided the information within the narrative of the report. Quantified value created for other stakeholders included amount spent on research and development, number of training hours spent by employees, value of social contribution, value of total taxes paid, value of supplier payments and value of dividends paid.

Something that a few companies are seeking to illustrate is how total value generated has been allocated amongst stakeholders through use of a pie chart or table. 'Value' in this context is interpreted in a variety of ways. This year we saw a company explaining how 'direct economic value', defined as gross revenues was allocated e.g. through operating costs, employee costs, taxes, community investment and reinvestment. Another provided a 'value distribution' diagram with value distribution defined as operating profit before taking into account personnel costs, depreciation, amortisation and impairments.

A balance needs to be struck, though. We felt 11 companies didn't touch on short term value creation i.e. didn't discuss how they expect to perform in the coming one to two years. Conversely, 21% were focusing on short-term profits at the expense of discussing long-term strategy, growth and sustainability.

In demonstrating this balance between interests of current shareholders as a whole and having regard to long term viability and the interests of broader stakeholders, 38 discussed a proposed future allocation of capital aside from paying out profits to shareholders. This included, for example, specific funds being allocated to capital expenditure, R&D and training.

In terms of shareholder returns and the availability of distributable profits, encouragingly, 32 companies (2017: 17) disclosed a single figure of the level of retained profits available to pay dividends from, with just over half of those companies electing to provide such information in their financial statements. A further four companies went on to describe which of their reserves were distributable, albeit without providing a total single figure. This progress is consistent with the findings of the FRC's financial reporting lab, who published their most recent findings in this area in October 2017<sup>5</sup>.

A number of themes around the longer term and capital management are picked up in the Investment Association's Long Term Reporting Guidance<sup>13</sup>. This was published in response to calls from investors for improvements in the explanation of the long term drivers of value creation, to allow them to judge whether capital is being utilised efficiently. Other potential areas for improvement included:

- Providing greater clarity of the drivers of productivity within the business and how planned investments are expected to drive productivity gains over the longer term.
- Explaining the environmental and social risks and opportunities that may significantly affect the company's short and long term value, and how they might impact on the future of the business (see section 7 – Risks and opportunities)



- Explaining the Board's role in shaping, overseeing and monitoring culture (see sections 1 and 9). The guidance makes it clear that investors believe it is the board's role to determine the purpose of the company and to ensure that the company's values, strategy and business model align to this purpose.
- Conveying an understanding of the role played by the company's workforce in generating sustainable, long-term value. Various metrics are being called for, as illustrated.

Linked to this, although not required to be disclosed in the annual report itself, 14 companies included some or all of their required gender pay gap reporting (required by 4 April 2018) in their annual report and a further 12 provided a cross reference to where the information could be found.

As investors are increasingly relying on non-financial measures in making their investment decisions, the perceived expectation gap – that the information in the strategic report is of equal quality to that included in the financial statements and subject to the same level of assurance becomes more apparent. Traditionally many companies have sought limited assurance on their sustainability reports, but not on all their non-financial KPIs, which in some cases may be relied upon more by investors, e.g. subscriber numbers, customer satisfaction.

A quarter of companies referred to assurance (internal and/or external) of some non-financial or sustainability information. Given the investor focus on these metrics, where additional assurance is obtained, it would be worthwhile making reference to this within the annual report. In some cases this assurance went beyond traditional sustainability information, e.g. gaining assurance over performance conditions for bonuses or testing anti-corruption controls. The majority of these referred to frameworks, the more common ones being various ISO Frameworks on health and safety and the environment. Ten companies referred to assurance over specific non-financial metrics. Most commonly these were greenhouse gas emissions metrics, now a required disclosure in the annual report, but also covered were safety and other environmental metrics.



#### What to watch out for

- ☐ Ensure processes are in place to enable the Board to make the new s172 statement and to provide a meaningful non-financial information statement.
- ☐ Remember to use the right materiality filter when including non-financial information. The strategic report is required to include information that is material for shareholders which means it is integral to the success of the business.
- ☐ Check there is appropriate balance between discussion of value creation over both the long and the short term.
- ☐ Consider quantifying the value you have created in the year for both shareholders and other stakeholders.
- ☐ Look at the FRC's revised Guidance on the Strategic Report for ideas on how to explain capital allocation and dividend policy decisions as well as value created for broader stakeholders.





### Examples of disclosure

Kaz Minerals PLC included a table setting out how the economic value generated is distributed.

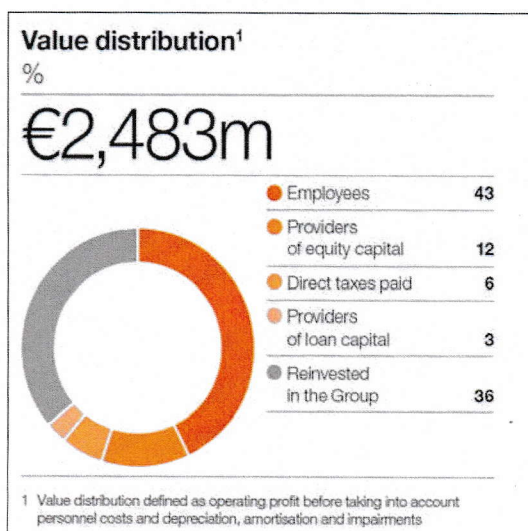
#### Kaz Minerals PLC

Economic value generated and distributed		
\$ million	2017	2016
Direct economic value generated		
Gross Revenues	1,938	969
Economic value distributed		
Operating cash costs <sup>1</sup>	523	288
Employee wages and benefits <sup>2</sup>	170	181
Payments to providers of capital <sup>3</sup>	222	179
Taxes paid <sup>4</sup>		
Kazakhstan	317	173
Kyrgyzstan	7	4
United Kingdom	—	—
Community investments	10	8
Economic value retained	689	136

<sup>1</sup> Operating cash costs as disclosed in the Financial review (see page 34), being the difference between Gross Revenues and Gross EBITDA adjusted to exclude total employee costs (see note 8 to the financial statements) and social spend, as reflected in the table above.  
<sup>2</sup> Employee wages and benefits represents cost incurred by the Group of the total labour cost and associated social taxes (see note 8 to the financial statements).  
<sup>3</sup> Payments to providers of capital represents interest paid on borrowing facilities during the period (see consolidated statement of cash flows on page 112).  
<sup>4</sup> Taxes paid for each region is reflected in the payments to governments table on page 42 (see Financial review) and is the total taxes paid adjusted to remove employee and employers' payroll taxes, which are reflected within employee wages and benefits for each region and excludes social spend, reflected as community investments.

Mondi plc provided a value distribution diagram.

#### Mondi plc

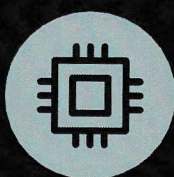




## 7. Risks and opportunities



The number of principal risks ranged from 4 to 24 with an average of 10

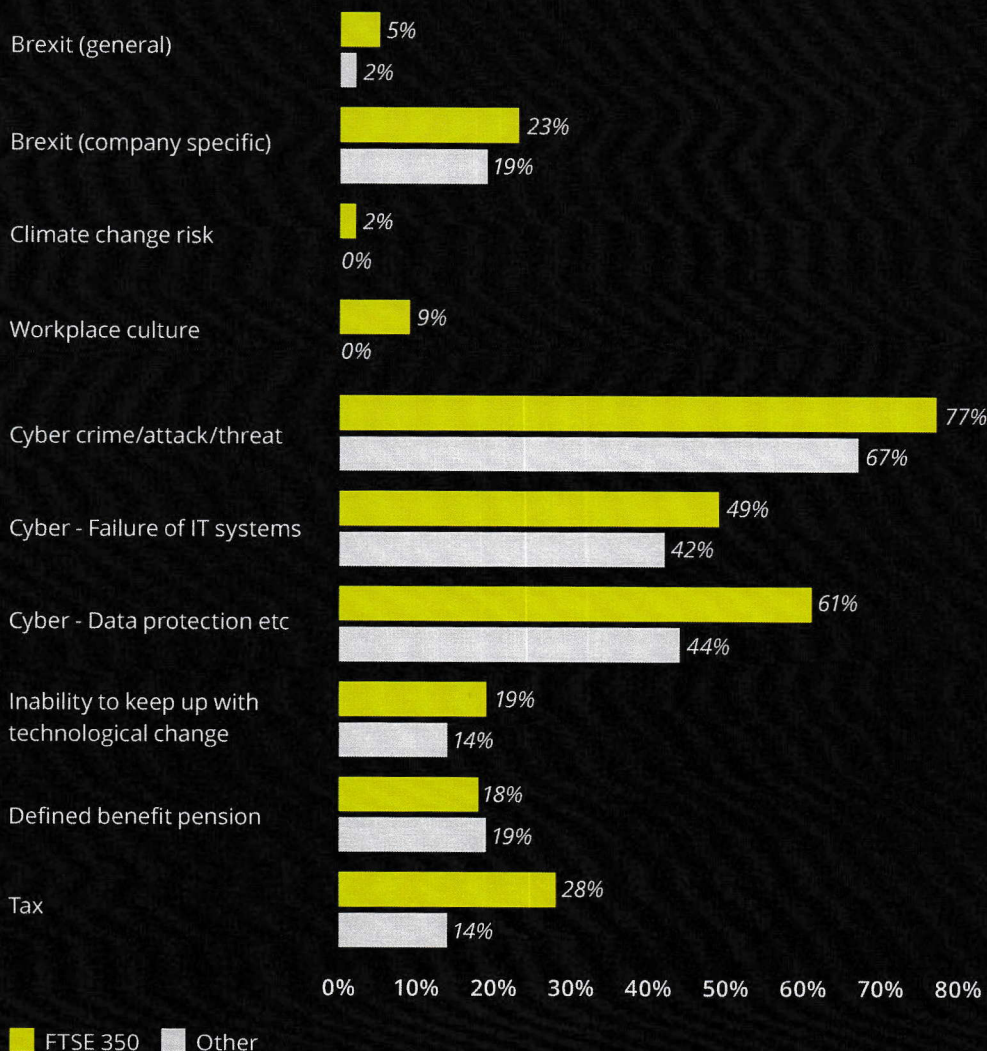


**44** companies referred to the General Data Protection Regulation as part of a **data protection risk** or another principal risk



**1** company identified **climate change** as a **principal risk** in its own right or as part of a broader risk

### Principal risks disclosed



### Information provided on risk appetite:



**10%**

Meaningful for each principal risk



**49%**

Less detailed information



**41%**

None



Companies are required to disclose their principal risks and uncertainties, as well as their risk identification process and management activities in order to comply with the requirements of the Companies Act and the Code. The NFR Directive, which became effective for periods commencing on or after 1 January 2017, expanded on this to require that non-financial information statements include any principal risks relating, as a minimum, to environmental matters, social and employee matters, respect for human rights and anti-corruption and anti-bribery matters. These disclosures must include, where relevant and proportionate, the company's business relationships, products or services which are likely to cause an adverse impact in those matters. The FRC published guidance on risk management and internal control in 2014<sup>21</sup> and their financial reporting lab ('the Lab') also issued a report in late 2017<sup>14</sup>, detailing the specific entity information that investors are focused on and find most valuable.

### **Compliance – positive trends**

Per the Lab report, investors like to know how changes have evolved during the period, so it was positive to see that companies have increasingly sought to provide such insight with 76% (2017: 62%) indicating whether individual risks had changed in significance during the year, often by means of up or down arrows. This disclosure provides insight to investors about how principal risks are evolving but also helps evidence that those charged with governance are actively monitoring and responding to the changing risks.

Only four companies identified material uncertainties around going concern (2017: two). Better reports linked going concern disclosures, the principal risks and their viability statements. The longer term viability of the business and how the business model, strategy and risk mitigation interlink with each other is important to both investors and wider stakeholders. It was promising to see that within the viability statement, 50 companies (2017: 34) made specific reference to which principal risks were considered as part of the viability assessment. 43 companies (2017: 62) gave a general reference to principal risks or a general cross reference while the remaining seven (2017: four) provided no reference at all.



### **Compliance – problem areas**

Even though there have been progressive trends in linkage between principal risks and the viability statement, other areas of FRC guidance, such as linkage between the principal risks and strategy, have not seen a significant shift with only 47% (2017: 42%) of companies having made such disclosures. This information is critical to the readers' understanding of the 'story' the annual report presents and ensuring that consistent messages are communicated throughout.

26 companies (2017: 18) disclosed the likelihood of principal risks materialising and similarly, 28 companies (2017: 18) disclosed the magnitude of the possible impact of principal risks. While these trends are moving in the right direction, investors have called for more information in this area. Of the companies that did disclose the likelihood and magnitude of principal risks, 24 (2017: 12) did so by means of a heat map or similar diagram. This, together with narrative disclosures, provides the reader with clarity and can be used as an engaging and succinct way of communicating compound aspects. For the majority of companies, it was unclear whether the risks were presented net or gross of mitigating activities, with only four companies clearly presenting risks on a gross basis, eight on a net basis after mitigating activities and four companies presenting risks on both a net and gross basis.

Whilst the vast majority of companies continued to explain how risks are mitigated, far fewer seemed to provide the information newly required by the NFR Directive in terms of the company's business relationships, products or services which are likely to cause an adverse impact in the specified matters. For example, of the 67 companies disclosing employee-related principal risks, only 14 disclosed the aforementioned information.





### Looking beyond compliance

The FRC has indicated that companies need to use a “broad range of factors” when determining their principal risks and have highlighted cyber risk, climate change and Brexit as potential areas of focus. Unsurprisingly, the World Economic Forum ‘Global Risks Report 2018<sup>20</sup>’ (‘WEF’s GRR’) has identified global trends in similar risks areas, namely cyber related risks and climate change risks.

Cybersecurity is a current hot topic, especially following the implementation of the General Data Protection Regulation (“GDPR”) effective from 25 May 2018. 73% (2017: 71%) of companies identified cyber crime as a principal risk, with 54% (2017: 53%) specifically identifying data protection as part of their principal risks. Furthermore, 22 companies included GDPR as part of their data protection principal risk and a further 22 associated GDPR with other principal risks such as compliance with laws and regulations. The WEF’s GRR identified cyber-attacks and data theft and fraud risks to be on the rise in terms of prevalence, potential disruption and financial loss and so it is encouraging to see companies making the above disclosures. Moreover, companies also gave consideration to different types of cyber risks, including the impact of system failures, which 46% (2017: 58%) also disclosed.

Although 18 companies referred to broader environmental issues as principal risks, and despite climate change often being thought of as a hot topic, only one company identified climate change as part of a broader environmental and energy risk. Another company identified climate change as a risk in the context of non-principal risks and a very small number of companies mentioned compliance with climate change regulation as part of their wider regulatory and compliance risks. Further, only four companies indicated some level of compliance with the Task Force on Climate-related Financial Disclosure (“TCFD”) recommendations. The TCFD recommendations focus on climate related risks and opportunities, related reporting metrics and the actual or possible financial impact from climate related risks. Slightly more encouragingly, 15 companies described their oversight of climate related risks and opportunities either within the strategic or governance report. The TCFD recommendations continue to be a challenge for companies to consider and explain why climate related risks and opportunities are or are not considered part of their principal risks.

It is interesting that these findings are perhaps in contrast to those found in the WEF’s GRR, where their respondents identified extreme weather events, natural disasters and failure of climate change mitigation and adaptation to all be in their top 5 risks, both in terms of likelihood and impact.

Boards continue to assess the potential impact of Brexit with 59 companies (2017:55) identifying Brexit as a principal risk in itself or explicitly referring to it as a contributing factor to a wider market or economic risk. Of the 59 companies, 43 (2017:35) identified company specific risks and 16 (2017:20) identified more generic risk factors. The FRC has indicated that investors find it helpful where companies explain what the potential impact Brexit may have on them and their risk mitigation strategies. This will continue to be an area of focus as Brexit negotiations continue. As the future becomes clearer expectations will increase in terms of the specificity companies should provide in their disclosures.

In terms of the risk categories referred to in the NFR Directive, by far the most commonly identified category of principal risk was employee-related risks (67 companies). Although workforces are obviously an integral part of most businesses, it came as a slight surprise to see so many companies expressing this level of concern over, typically, employee retention. However, despite workplace culture being a regulator hot topic, only five companies identified principal risks in this space.

Meanwhile, 27 companies identified principal risks related to anti-bribery or anti-corruption matters, typically as an explicit part of a broader compliance risk. Only five companies identified principal risks related to human rights issues and only three identified principal risks relating to ‘social’ issues.





In the context of the organisation's strategic focus and future orientation, the <IR> Framework sees risks, opportunities and dependencies as flowing from the organisation's market position and business model. 75% of companies clearly identified both risks and opportunities arising in the marketplace and discussed how they were applicable to the company, while 10% clearly identified only the risks and 12% identified only the opportunities. Identifying risks in the marketplace, particularly those which may not otherwise have been disclosed as a principal risk, enhances a user's understanding of the business and its environment. Discussing the marketplace opportunities further complements this, and can support the justification for the company's strategy.



### What to watch out for

- ☐ Consider whether the principal risk disclosures link with the viability statement, business model and strategy, so the annual report tells one story.
- ☐ Explain what the likelihood is of risks materialising and what the impact will be in a clear, concise manner and consider the use of a diagram to assist in this area.
- ☐ Consider the requirements of the NFR Directive to not only make disclosures of how risks are mitigated, but also activities that may have adverse impacts on those risks.
- ☐ Monitor developments in Brexit negotiations and consider updating disclosures as appropriate to provide company-specific insight insofar as it is possible.
- ☐ Reassess whether hot topics such as cyber security, climate change and environmental risks have been appropriately considered in arriving at the risks regarded as 'principal'.



### Examples of disclosure

Mondi plc provided insight into their risk tolerance for each category of risk, together with insight on who was responsible in that area and how the risk had evolved during the year.

#### Mondi plc

##### Operational risks

###### Risk tolerance:

Low

A low residual risk tolerance is demonstrated through our focus on operational excellence, investment in our people and commitment to the responsible use of resources.

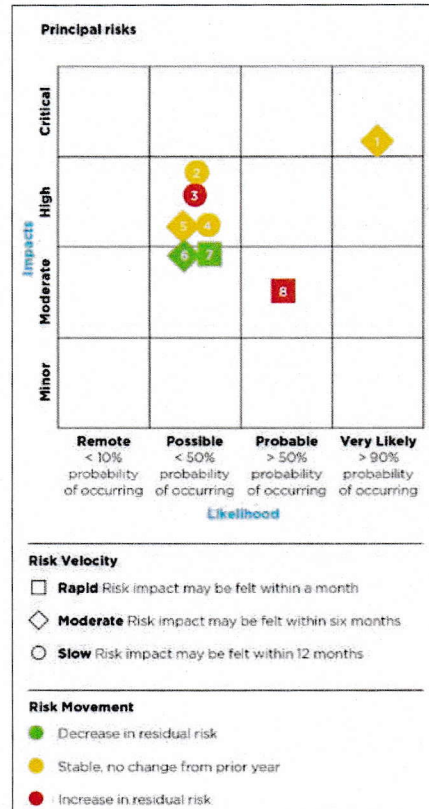
###### Key people responsible:

Peter Oswald (Chief Executive Officer),  
John Lindahl (Group Technical and  
Sustainability Director)

Our investments to improve our energy efficiency, engineer out our most significant safety risks, improve operating efficiencies, and renew our equipment continue to reduce the likelihood of operational risk events. However, the potential impact of any such event remains unchanged.

Laird PLC provided a graphical representation of the likelihood and potential impact of various principal risks, together with insight on how those risks were evolving.

#### Laird PLC



See more examples of disclosure in the electronic version of this publication.

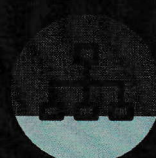


## 8. Viability



13%

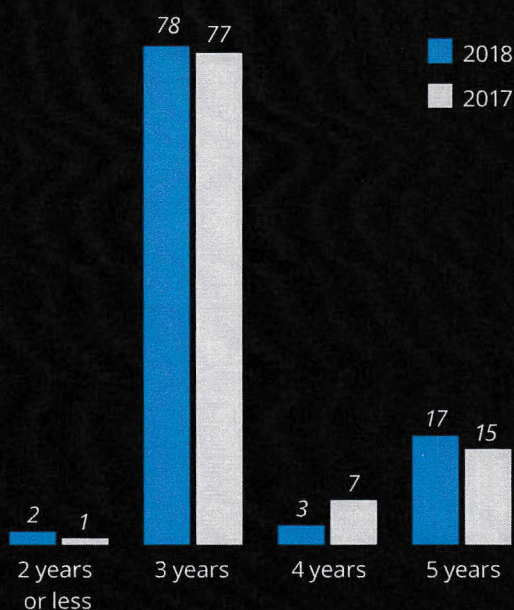
of companies drew out their **disclosure of prospects** in their viability statement, which has been called for by both the FRC and the Investment Association.



32%

of companies discussed the **risk and resilience** of their business model in their viability statement.

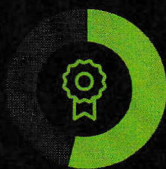
### Number of companies using different lookout periods



**74%** of companies included the longer term viability statement with the principal risks disclosures in the strategic report – **down from 77%** last year.

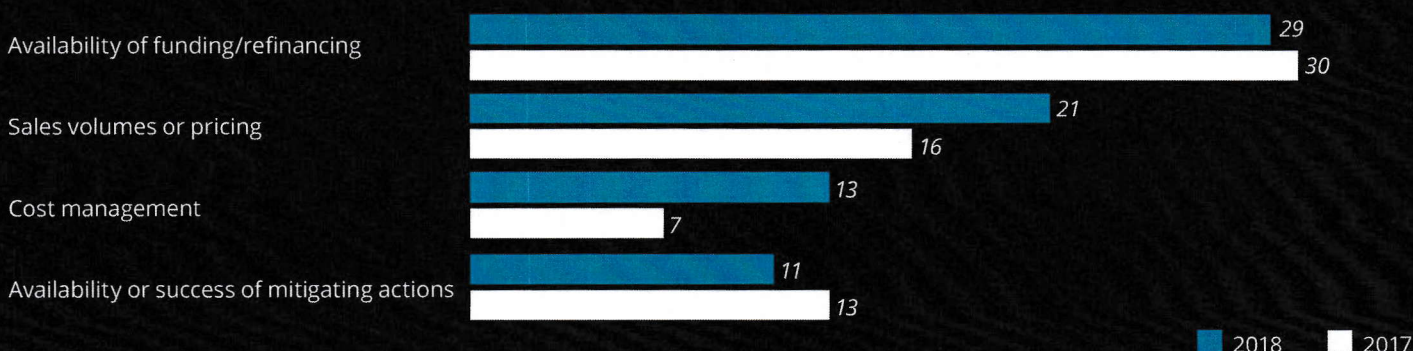


Only **20%** reported on a lookout period spanning more than three years – **down from 22%** last year



**54%** of companies disclosed the qualifications or assumptions underlying their assessment – **up from 52%** last year.

### What qualifications or assumptions were disclosed?





### Compliance – positive trends

This is the third year that companies have been required to provide a longer term viability statement as required by the UK Corporate Governance Code, Provision C.2.2.

The trend is for most of these statements to be included in the strategic report, alongside the disclosure on principal risks, which is the location suggested by the FRC. 74% of companies included their statement in the strategic report this year (2017: 77%). This makes sense as the potential impact of the company's principal risks is a key part of the directors' assessment of longer term viability.

As required by the Code, 93% provided some explanation of the length of the lookout period they selected (2017: 95%). 89% of these companies justified the period based on their planning cycle; encouragingly, 51% of these companies discussed the nature of the business or its stage of development in justifying the lookout period and 23% drew a comparison with another time horizon used in the annual report, for instance debt repayment or technology development periods.

91% of companies referred to the nature of the analysis they undertook to support the statement. A requirement of the Code is to report on how the directors have performed their analysis and we would expect all statements to meet this. The proportion of companies complying was 88% in our 2017 survey.

Of the 91 companies providing a description of the nature of the analysis they undertook, 90 (2017: 87) discussed performing modelling, stress testing, sensitivity analysis or scenario planning with only one company indicating that its assessment was limited to consideration of qualitative factors only.

### Compliance – problem areas

The FRC has explained that it envisages a two stage process to meet Code Provision C.2.2, with reporting on each stage – the first being about the assessment of the prospects of the company, the second being the directors' reasonable expectation of viability for the period of their assessment. The expectation from both investors and from the FRC is that the period over which directors assess the prospects of the company will be longer than the period for the viability assessment.

This year only 13% of companies provided a disclosure about future prospects that was a clearly differentiated portion of the viability statement section. However, several of the companies explained that future prospects had been assessed over the same period that they used as the viability statement lookout period – which is not the approach intended by the FRC.

32% of companies discussed the risk and resilience of the business model to some extent, including 22 of the 26 that had some form of future prospects disclosure. This can be particularly helpful for users of the annual report as it illustrates how robust the viability statement assessment has been.

Despite the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting<sup>14</sup> calling for principal risks to be considered both individually and in combination when looking at the effect on longer term viability, only 45% of companies made it clear that they had taken this step (2017: 45%).

Only 54% of companies chose to disclose any qualifications or assumptions underlying their assessment (2017: 52%). Companies disclosing assumptions generally focused on the availability of funding or refinancing (29 companies; 2017: 30 companies) although we saw a significant increase in companies referring to assumptions on sales volumes, pricing and cost control.

Surprisingly, only one company drew out an assumption related to Brexit, despite the end of the two year negotiation period offered by Article 50 being well within the lookout period for all of the companies we surveyed. Scenarios described by a handful of further companies referred to possible Brexit outcomes or Brexit-related principal risks. Whilst we accept the continued levels of uncertainty around Brexit outcomes, our expectation would have been that more boards would have considered, and discussed, the potential impact an unfavourable Brexit outcome could have on their longer term viability.





### Looking beyond compliance

In November 2017, the FRC's Financial Reporting Lab issued a report on Risk and Viability Reporting<sup>14</sup>, incorporating insight from investors around the elements of viability reporting that are most useful for them.

There are some positive trends emerging following the recommendations in this report and the Investment Association's Guidelines on Viability Statements<sup>13</sup>. These include:

- longer lookout periods, with 20 companies reporting over four years or longer (2017: 22 companies; 2016: 14 companies);
- 74% disclosed that they took the current state of the company's affairs into consideration (2017: 71%) and, of these disclosures, in our judgement 24 companies provided useful detail this year;
- 11% of companies made the link to the sustainability of dividends (2017: 5%);
- 10% disclosed the use of reverse stress testing, a particularly robust testing methodology (2017: 10%); and
- Of 26 companies that set out clear scenarios they had used to test the model for their viability statement, 13 had presented a conclusion covering each scenario (2017: 26 and seven).



### What to watch out for

- ☐ Consider whether you have addressed both parts of Code Provision C.2.2, incorporating an explanation of how longer term prospects have been assessed and the viability statement, and include clear disclosure on both elements.
- ☐ Explain the risk and resilience of your business model so that investors understand to what extent your viability assessment is finely balanced.
- ☐ Consider whether a longer lookout period would be more appropriate for the life cycle of your business – and whatever the lookout period, include a clear and reasoned explanation as to why it is the right decision.
- ☐ Explain the analysis you have undertaken and consider whether that could be more robust by assessing principal risks in combination or performing reverse stress testing.
- ☐ Presenting clear testing scenarios is a helpful addition to the disclosure, particularly if conclusions are shown for each of those scenarios.
- ☐ If you are subject to financing arrangements, remember that in most cases the viability assessment will make assumptions about those arrangements continuing, which should be disclosed.

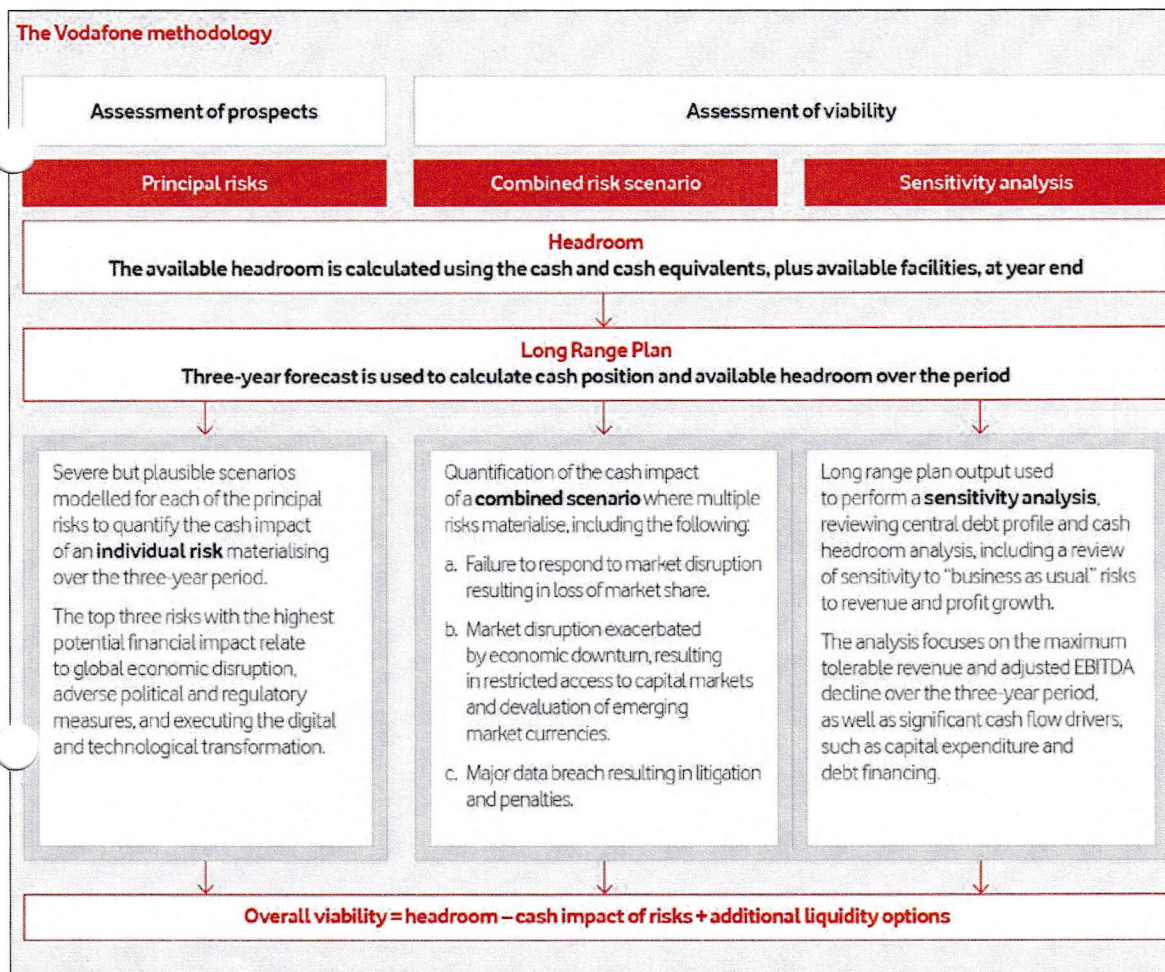




### Examples of disclosure

Vodafone Group Plc gave a clear explanation of their methodology for arriving at conclusions on the viability assessment, including clear differentiation between assessment of prospects and assessment of viability and the principal risks being assessed both individually in severe but plausible scenarios and in combination.

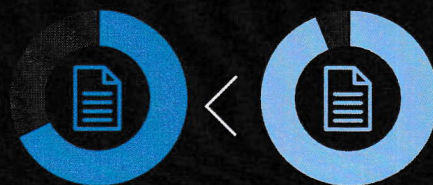
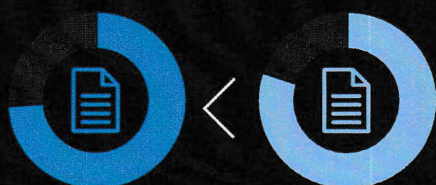
#### Vodafone Group Plc



See more examples of disclosure in the electronic version of this publication.



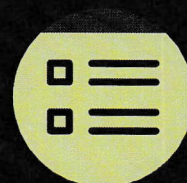
## 9. Board and director stewardship



99% of companies (2017: 100%) reported on **compliance with the provisions** of the UK Corporate Governance Code

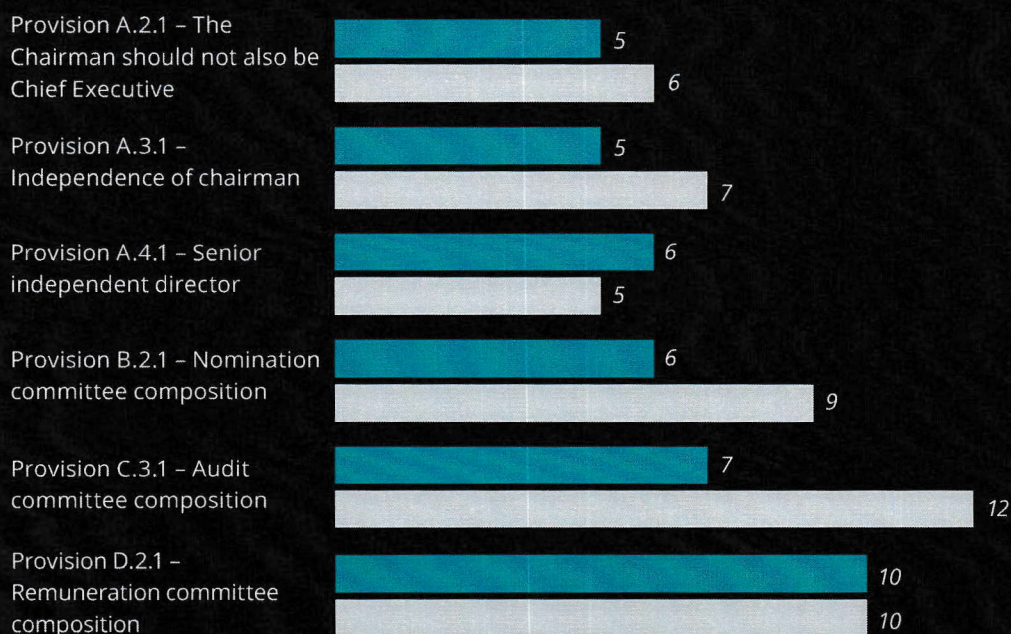


**62%** reported that they had complied fully (2017: 52%)

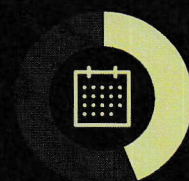


Of the **37%** that reported they had **partially complied with the Code**, **86%** provided an adequate explanation of the reasons for any non-compliance (2017: 90%).

### Common Code non-compliances disclosed:



■ 2018 ■ 2017



Only **27%** of companies refer to the board's consideration of Brexit in the corporate governance statement, **down** from **44%** of companies in 2017.



## Compliance – positive trends

Comply or explain – the Listing Rules supported by FRC guidance indicate that a meaningful explanation should be provided for any departure from the provisions of the applicable UK Corporate Governance Code, affording the reader the opportunity to understand the company's governance journey.

The quality of explanations given for departures from Code provisions during the year remained high, with 86% of those companies that did not fully comply with the Code providing a meaningful explanation (2017: 90%).

We identified some strong board evaluation disclosures, with 35% of companies explaining the findings and related action points (2017: 41%). A further 17% of companies described the findings of their evaluation (2017: 9%) – this means that a total of 52% of companies included informative disclosure regarding their evaluation (2017: 50%). The omission of action points was in some cases driven by the timing of the board evaluation and we noted several disclosures that explained that actions were to be set at an upcoming board meeting or board strategy day.

It is particularly helpful to be able to see the benefits companies have derived from their board evaluation and it demonstrates transparency, openness to change and commitment to the running of an effective board when they are prepared to discuss areas for improvement in the annual report.

6% of companies had not performed a board evaluation during the year, generally attributed to substantial recent changes at board level which led the board to conclude that an evaluation would be of limited use and should be delayed until the changes had been in place for longer. Of the other 94 companies, 80% made it clear in the annual report that their board evaluation processes had covered all of board, board committees and individual directors (as laid out in Code Principle B.6).

Corporate culture has been an area of focus for the FRC in recent years with the report on 'Corporate Culture and the Role of Boards' released in July 2016<sup>3</sup>, indicating the importance of board focus on this topic in order to hold management to account. As well as an encouraging 86% of companies discussing culture or values in their strategic report we found 74% discussing this in their corporate governance statements (2017: 82% and 69%).

We considered that 32% offered a detailed discussion in the strategic report (2017: 44%) and 11% in their corporate governance statements (2017: 25%). It was interesting to note that some of the stronger disclosures regarding culture we identified this year arose in companies outside the FTSE 350. High quality disclosures acknowledge people and values as a key company asset and provide a clear, detailed explanation of how their culture works, the value derived from that, how it is monitored and how it is supported by the company structures, including the board.

23% of companies included some detail on the tools and techniques the board uses to monitor culture and 4% indicated that the board obtains some type of assurance regarding corporate culture (2017: 21% and 6%). 8% of companies disclosed action taken by the board to address issues during the year around culture – for example, introducing new training on values, work on a fundamental cultural transformation in the business, or action to address concerning findings regarding culture arising from an employee engagement survey.

Disclosure focusing on the tools and techniques the board uses to monitor the quality of the cultural environment in the group helps the reader to understand how seriously the board takes the topic of understanding, developing and improving the culture and values embedded in their organisation – as does disclosure on the actions the board is taking to fix perceived cultural issues in the company.

This year, 7% of companies helped bring their culture and values to life for the reader by providing illustrative case studies – a recommendation from the FRC's report (2017: 10%).

## Compliance – problem areas

The Listing Rules require premium listed companies to provide a statement regarding how they apply the Main Principles of the Code in a manner that would enable shareholders to evaluate how the principles have been applied. These principles are key to corporate governance in the UK as they represent a broad structure within which companies can develop the specific governance arrangements that works best for them. Only 74% of companies this year included a statement clearly indicating how they applied the main principles of the Code (2017: 80%). This included a substantial deterioration in the FTSE 100 companies surveyed, where only 68% included this statement, down from 94% in 2017.





### Looking beyond compliance

The world of governance continues to move quickly and government, regulators and investors look for boards to respond promptly and with foresight. This year, all boards had sight of the direction of travel and most boards had the opportunity to read the consultation draft of the 2018 UK Corporate Governance Code developed in conjunction with the Government's corporate governance reform agenda, which was published in December 2017.

We were therefore anticipating thoughtful disclosure in corporate governance statements regarding the attention paid by boards to section 172 of the Companies Act 2006 (also discussed in section 4), broader stakeholder engagement, company purpose and their plans for formal workforce engagement mechanisms (expected to be an employee director, workforce council or designated non-executive director). However, most boards appear to have taken a "wait and see" approach in the corporate governance statement:

- 21 companies referred to section 172 of the Companies Act or explained how the board takes into account the interests of broader stakeholders (2017: 17).
- Six companies referred to corporate purpose, and only one of these companies included any detailed disclosure.
- Only four companies explained current or planned workforce engagement mechanisms, with each of the three main options taken up by at least one company.
- Two companies explained the involvement of the board in determining which groups constitute the company's key stakeholders.
- Only ten companies indicated that stakeholder feedback has any impact on board decision making – however these disclosures were in general not specific about the nature of that impact.

Disclosures on current "hot topics" this year included:

- 54% disclosed board attention on cyber risk/cyber security, including board training, presentations to the board or audit committee, cyber insurance and externally provided projects regarding cyber security (2017: 50%). 2% disclosed a specific cyber security breach the company had suffered during the year. Section 7 also discusses principal risks disclosed in

this space, with 79% having identified such a risk, either in relation to cyber-crime or systems' failures.

- 35% mentioned board involvement in the company's work to implement the General Data Protection Regulation (GDPR), where boards received training and disclosed plans, including internal audit attention to the topic of data security. 44 companies mentioned GDPR compliance as part of their principal risks.
- 27% disclosed board attention to the topic of Brexit where boards discussed strategy, principal risks and mitigating actions, whilst audit committees mentioned foreign exchange and treasury risk, potential impairments, principal risks and viability statements – down from 44% in 2017. In contrast, 59% had either identified Brexit as a principal risk or explicitly mentioned it as a contributing factor to a broader marketplace or economic risk.



### What to watch out for

- ☐ The 2018 UK Corporate Governance Code (the 2018 Code) takes effect for years commencing on or after 1 January 2019. This means most underlying changes to company policies and processes should be in place by the time many companies issue their next annual report. Boards should consider incorporating disclosure on their role in these changes.
- ☐ Remember to provide a clear statement of how the Code's main principles have been applied in addition to a statement of compliance with the provisions.
- ☐ Corporate culture is an area of continued focus – it is key for boards to understand what makes their companies tick and ideally to explain how they monitor that the company's values are applied consistently and what they do to improve matters.
- ☐ Despite the uncertainties around Brexit, it is an area of concern for the FRC and for investors, where boards should demonstrate they are involved in the key monitoring and planning processes and that they understand the impact their company could face.
- ☐ Company vulnerability to cyber attack continues to be an area of concern for Government and for investors, who would like to understand how the board is managing and/or mitigating this risk.





### Examples of disclosure

Mears Group PLC explains its conclusion to appoint an employee director to help the board receive insight and views from the workforce.

#### Mears Group PLC

##### Employee Director

We understand the vital role that our workforce plays in the success of the Group. To further increase engagement between the Board and our employees, we are looking to appoint an Employee Director to the Board. This role will ensure that the Board receives full, open and honest insight and views from its workforce on how strategic initiatives are being implemented and will provide the wider workforce with a better understanding of how the Board operates. We are currently managing the recruitment process, with applications open to all employees. The role will be restricted to a two-year term and we hope that the appointment of the successful applicant will be confirmed at the 2018 AGM.

Croda International Plc provides insight on the board decision making process around culture and values, including the development of a culture plan, link to business strategy and a mechanism for monitoring culture throughout the business.

#### Croda International Plc

##### Culture and values

The Board spends a considerable amount of time meeting with employees and visiting our offices and manufacturing sites around the world. This ensures that our Non-Executive Directors develop and maintain greater insight and understanding of the Business, which enhance the quality of decision making and debate. That diversity of thought allows the Board to consider the broader long term impact of its decisions on our employees, suppliers and customers and the communities in which we operate. On page 43 we set out more details of the Board's programme of activities outside the boardroom.

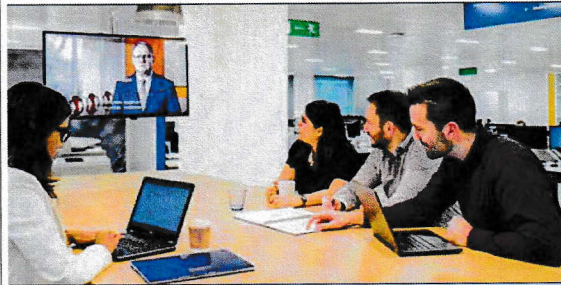
We recognise the value of culture, and these visits also create opportunities for a cultural tone to be cascaded from the boardroom. Directors are able to promote the values-based conduct and behaviours expected from every part of the Company. The Board has spent time working on the development of our Culture Plan, linking our culture to our Business strategy in order to deliver business results. Central to this plan is the Global Employee Culture

Survey, conducted in 2017 and designed in-house specifically to examine our culture and ensure that it is consistent with our values across the Business. More information about the survey can be found on page 02.

Anglo American plc includes an illustrative case study on values and culture, a technique to communicate culture that has been recommended by the FRC.

#### Anglo American plc

##### DOING THE RIGHT THING - PUTTING OUR VALUES INTO ACTION



##### Material issues

Developing a capable and engaged workforce that behaves in a manner consistent with Anglo American's values and Code of Conduct:

- Training more than 3,400 leaders to help employees understand the new Code of Conduct
- Providing a toolkit of innovative materials to create simple and creative messaging that can be understood by all of our employees, regardless of cultural, educational or literacy background.

Employees at Anglo American's headquarters in London were part of our extensive employee engagement programme to cascade and embed our new Code of Conduct successfully. The Code provides employees with a single point of reference to guide them in making the right choices, and drives the behaviours that will support our high performance culture.

During 2017, more than 3,400 leaders were trained to facilitate Anglo American's new Code of Conduct engagement sessions with employees at all levels in the organisation. Helping employees to understand what it means to act ethically in Anglo American, and supporting them in this process, is all the more critical in challenging market conditions where there are strong tensions between the pressure to deliver targets and choosing to do the right thing.

The engagement programme for the Code of Conduct has encompassed all of our employees across a range of different cultural, educational and literacy backgrounds. The approach has been to train team leaders to facilitate discussions on ethical dilemmas and personal action commitments with their employees. The dilemmas have been based on everyday challenging situations that

employees may encounter, such as what to do when they feel that safety or integrity may be compromised. During the discussions, employees were encouraged to refer to the new Code of Conduct as guidance in making the right choice or in knowing where to go to ask for more support.

The toolkit supporting leaders in the 'cascade' campaign included a range of innovative materials from animations to interactive documents. Anglo American was proud to win the 'Best employee engagement programme' award in relation to its efforts in this regard at the 2017 'CorpComms' Corporate Communications Awards.

Various initiatives are under way to measure the success of the engagement programme. In Anglo American's 2017 'Have your say' employee engagement survey, 94% of respondents agreed that the new Code of Conduct was guiding the right behaviours.



See more examples of disclosure in the electronic version of this publication.



## 10. Succession and diversity

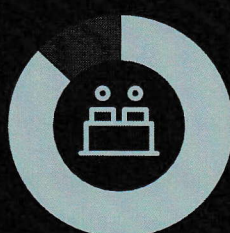
75%

of nomination committees were involved in **appointing a new director** during the year; all of these committees held at least one meeting and...



87%

of them described the process used for **specific board appointments** during the year

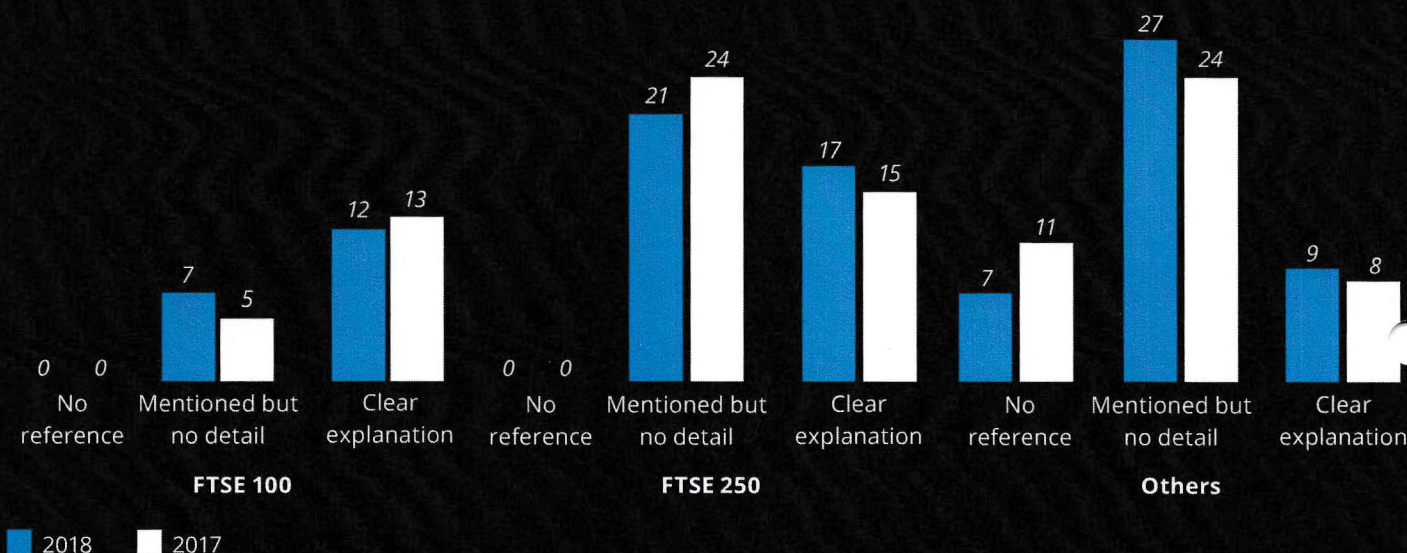


79%

of nomination committees that appointed a new director used an **executive search firm** to help identify candidates



### How did boards disclose activity around succession planning?



**33%** of nomination committee disclosures explained clearly the system the board uses to maintain **good succession planning practices** (2017: 41%)


**80%** of annual reports referred to aspects of **board diversity** other than gender (2017: 86%); however, only **29%** of companies met the new **DTR requirements** to describe the board diversity policy

Only **15%** of companies disclosed the **gender diversity** in the executive committee and their direct reports, in line with the Hampton-Alexander review's expectations (2017: 8%)



## Compliance – positive trends

We noted a significant trend for improvement in succession planning disclosures in our 2017 survey. There has not been a further step-change this year, however nomination committees have continued to provide better quality disclosure. The Guidance on Board Effectiveness<sup>15</sup> offers insight on succession planning practices, information which could also add value to succession planning disclosures.

 % of boards disclosed activity around succession planning (2017: 89%, 2016: 69%). This year the small improvements in quality of disclosure we have seen has been in companies below the FTSE 100. However, in our judgement only 33% of companies this year included disclosures that explained clearly the systems the board has in place to maintain good succession planning, compared to 41% in 2017. We were looking for information such as whether the board uses a skills matrix, whether it is reviewed regularly, whether there is a regular update provided on succession planning for senior management.

19% of companies had disclosures that clearly showed that the succession plan and the talent programme were connected to the corporate strategy (2017: 19%). Finally, we saw a small increase to 31% in the number of companies that included information on the quality of the internal pipeline (2017: 27%, 2016: 9%).

Code provision B.2.4 lays out the requirements relating to nomination committee reporting. These are still not fully met by the companies in our sample.

- 88% of companies this year met the requirement for a separate section of the annual report describing the work of the nomination committee (2017: 89%).
- Of the 75% of companies that appointed a new board director during the year, 87% described the process used for those appointments, in line with the Code provision asking for disclosure of “the process used in relation to board appointments.” (2017: 67% and 85%).

With regard to the appointment of directors:

- In total, 67% of companies disclosed the use of executive search agencies, either in relation to a current year director appointment or a description of their general appointment process (2017: 66%). A significant minority mentioned that they had

requested diverse shortlists or that the agency in question had signed up to the Voluntary Code of Conduct on diversity.

- Only two companies disclosed that they used open advertising and neither of those companies used advertising as the sole method of finding directors. A further company indicated that it would use open advertising in the future in order to promote diversity.
- Other methods described by companies to find new directors included appointment of internal candidates; personal connections; information on candidates from previous shortlists.

## Compliance – problem areas

We consider that the requirements of the Non-Financial Reporting Directive regarding diversity disclosures in the corporate governance statement (implemented in the UK through the Disclosure Guidelines and Transparency Rules) should not be very different from the Code requirements for “a description of the board’s policy on diversity, including gender, any measurable objectives... and progress on achieving the objectives.” Complying with the new DTR was a requirement for large listed companies with periods commencing on or after 1 January 2017.

In our judgement, only 29% of companies this year met the requirements of the DTR; of these, six companies disclosed that they did not have a board diversity policy and provided reasons why. The proportion of companies that met the requirements rose to 53% of FTSE 100 companies, with one of those companies disclosing that it did not have a board diversity policy and why. Two further FTSE 100 companies did not describe the policy on board diversity but did say they had a policy available on their website.

In order to meet the DTR requirements, boards should aim to describe the policy itself rather than the processes in place or actions taken during the year – although of course knowing about these is also valuable to the reader! We also do not consider it is sufficient to provide a cross-reference to a disclosure about the diversity policy applying to the organisation as a whole without further clarification of whether or how it relates to the board itself. Boards should be clear about measurable objectives (disclosed by 22% of companies this year, up from 16% in 2017) and should comment clearly on the outcomes during the year.



Ideally the policy should look beyond gender diversity – the DTR also refers to age, educational background and professional background, with the goal to promote diversity of thought at board level.

Only 15% of companies disclosed the gender diversity in the executive committee and their direct reports, in line with the Hampton-Alexander review's expectations (2017: 8%). This will be a disclosure requirement in the 2018 Code. Only six companies included any disclosure on the level of ethnic diversity on their board.

The McGregor Smith review also covered ethnic diversity – this time throughout the workforce. One company included reporting along these lines in its strategic report.



#### Looking beyond compliance

Additional information on director performance and contribution is particularly helpful for FTSE 350 companies, where there is a requirement for annual re-election. 55% of all companies in our sample included disclosure regarding director contribution (2017: 35%), increasing to 79% of the FTSE 100. We have seen an increase in companies outside the FTSE 350 disclosing that they also seek annual re-election of directors, which will soon be required under the 2018 Code for all premium listed companies.

We considered the impact of the 2018 Code on independence and succession considerations for the companies in our sample. 2018 Code provision 9 requires the chair to be independent on appointment, and provision 19 states that "the chair should not remain in post beyond nine years of the date of their first appointment to the board."

We found that:

- 10% of companies disclosed that their chair was not independent on appointment. A further 36% did not mention whether or not their chair had been independent on appointment.
- 25% of companies had chairs who had served on the board for more than 9 years. A further 3% did not mention the tenure of the chair. Six of the companies with long-serving chairs had chairs who were not independent on appointment.



#### What to watch out for

- ☐ Nomination committees are short on time to plan for the implementation of the 2018 Code, which will be in effect for periods commencing on or after 1 January 2019. Consideration should be given to succession planning, the tenure of directors and refreshment of the board, director appointment, and the accompanying disclosures.
- ☐ On succession planning, informative disclosures are specific to the company and to the year. They cover the link between succession and strategy, the process, tools and advisors used by the nomination committee, an insight into the quality and diversity of the internal pipeline, and work the board is doing to improve the internal pipeline.
- ☐ Focus is moving further down the organisation and boards are expected to pay more attention to the diversity and remuneration of executive committees and their direct reports, along with reporting on those matters.
- ☐ The recent focus on the first gender pay gap disclosures both in the media and by Government committees and the investor pressures on board diversity suggest that boards should consider carefully their policies and disclosures in this area.
- ☐ Finally, boards have struggled to meet the required disclosures under DTR 7.2.8A regarding the board diversity policy, objectives and outcomes during the year. If this is a difficult disclosure to write, is there an issue with the underlying policy which needs to be addressed?





## Examples of disclosure

Mondi plc's nomination committee includes a helpful diagram showing the process it follows for appointment of new directors, together with detail on how that process was applied to the appointment of a director during the year, the use of an executive search firm and the detail that they are a signatory of the Voluntary Code of Conduct.

### Mondi plc



Howden Joinery Group Plc discloses detail regarding the process followed in appointing its new CEO, covering the process, interaction between board committees and HR, use of psychometric profiles, and contract negotiation.

### Howden Joinery Group Plc

**Case Study: CEO Succession**

The Nominations Committee has considered Executive Director succession as part of its routine succession planning for a number of years. In 2016, Matthew Ingle indicated that he would consider retirement conditional upon the Board identifying a suitable successor as CEO. The Nominations Committee therefore agreed to identify, at the appropriate time, an individual who, should it become necessary, would ultimately be able to undertake the role of CEO of Howdens.

The Nominations Committee, supported by the Interim Group HR Director and the Company Secretary, agreed:

- A specification for the role and responsibilities for a new CEO (alongside the roles and responsibilities of the Chairman and Senior Independent Director);
- To appoint Zygos as the external search partner<sup>\*</sup>; and
- An interview and selection process.

It was also agreed that the Company Secretary was responsible for ensuring that the approved process steps were followed.

The Nominations Committee requested that the Remuneration Committee determine an indicative reward package but that this should be in line with the Remuneration Policy for Executive Directors. With the assistance of Zygos, a long list of candidates was drawn up for consideration by the Nominations Committee. Both internal and external candidates were invited to participate in the process.

The Nominations Committee considered formal appraisals of all candidates selected from the long list. A significant number of the candidates met with the Chairman and some of the Non-Executive Directors. Following the conclusion of these meetings, the Nominations Committee met to agree a short list of candidates.

Three candidates were considered for further consideration. All three candidates met with the Non-Executive Directors and the Chairman. References were taken for each candidate and psychometric profiles undertaken for selected candidates. Following a further Nominations Committee meeting, it was agreed to seek to engage with a particular individual and agree contract terms.

The Remuneration Committee, with support from the Interim Group HR Director, worked with Matthew Ingle to agree a retirement arrangement which was fair and in line with the Remuneration Policy. The Committee also agreed an onboarding package with the new CEO which took account of the bonus and long term incentives he would forfeit from leaving his previous role. More information and detail about both Matthew and Andrew's remuneration arrangements can be found in the Remuneration Committee Report, which starts on page 72.

After contractual arrangements had been agreed with both parties in principle, the Board met on 6 July 2017 to consider the recommendations of both the Nominations Committee and the Remuneration Committee. They unanimously approved the proposals and internal and external announcements were made on 7 July.

Having successfully secured a suitable candidate for the role and discharged its announcement obligations, the Nominations Committee tasked the Interim Group HR Director with formulating transitional arrangements for the outgoing and incoming CEOs which included a detailed induction plan for the new CEO Designate.

Andrew Livingston joined Howdens on 29 January 2018 as CEO Designate.

<sup>\*</sup> Zygos does not have any other business relationship with the Company.



See more examples of disclosure in the electronic version of this publication.



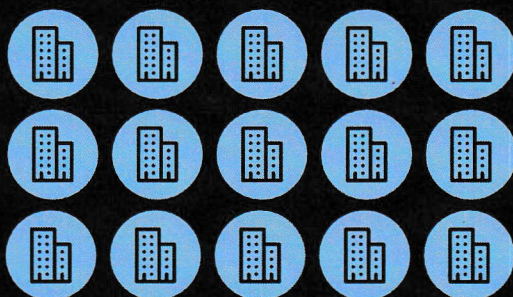
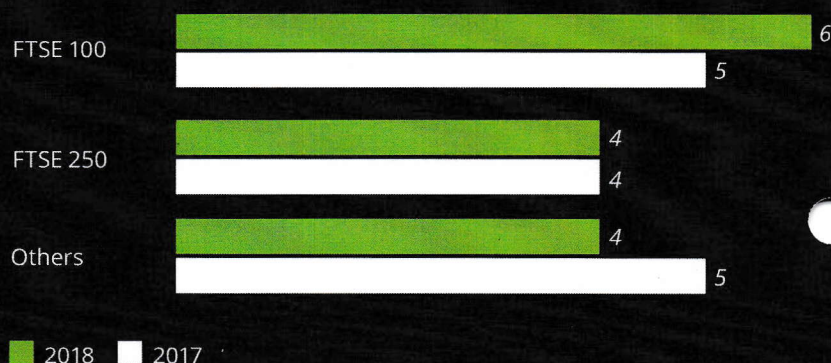
# 11. Accountability and internal control

**89%**

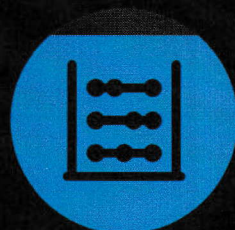
of audit committee chairmen showed **clear ownership of their committee's report**, in most cases through a personal introduction or through signing the full report (2017: 87%).



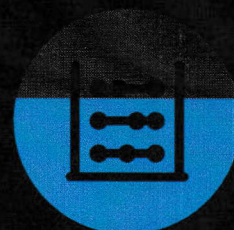
**On average, how many significant financial reporting issues were identified by the audit committee?**



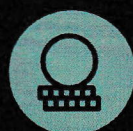
**15** companies referred to engagement with the FRC's Corporate Reporting Review panel, up from **3** in 2017.



**88%** of audit committees disclosed how they had assessed the **effectiveness of the external audit process**



**60%** of companies with an internal audit function explained how they had assessed the effectiveness of the internal audit function (2017: 89% and 67%).

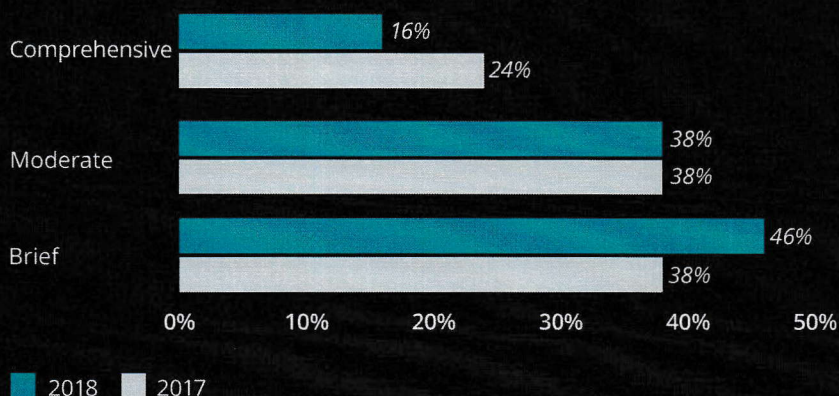


The ratio of **non-audit fees** compared to **audit fees** was significantly lower this year at **25%**, a reduction from **62%** since the introduction of the FRC's Revised Ethical Standard for auditors.



Only **8%** of companies disclosed a ratio exceeding **70%**.

**How comprehensive were the disclosures regarding the effectiveness of the external audit process?**





## Compliance – positive trends

This year, in order to assess whether disclosures on significant issues considered in relation to the financial statements was comprehensive, we considered each of the factors laid out by the FRC's Audit & Assurance Lab in its report, Audit Committee Reporting<sup>17</sup>. This calls for informative context to be provided for each significant issue, including quantification where appropriate; a description of the actions carried out by the audit committee during the year; the conclusion on each issue and the rationale behind that conclusion; and suitable cross-references to elsewhere in the annual report.

In our judgement, based on these criteria, only 25% were comprehensive disclosures adding substantially to the reader's understanding of those issues and how the audit committee has considered and challenged them. In general, audit committees could have provided more detail on their actions and level of challenge and comparatively few explained the rationale underlying their conclusions regarding the significant issues.

15% of audit committees referred to engagement with the FRC's Corporate Reporting Review (CRR) panel, up from 3% in 2017. The increase was driven partially by company involvement in the CRR's programme of thematic reviews, which has widened the number of companies engaged in dialogue with the CRR this year.

6% of companies indicated that their company had experienced some form of significant internal control breakdown during the year. Following the 2014 change in the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting<sup>21</sup> on how to report on significant failings or weaknesses, which now calls for an explanation of what actions have been or are being taken to remedy any significant failing or weakness, 67% of those that had experienced a control breakdown provided a good disclosure regarding the actions that have been or are being taken. This compares favourably to 44% of those companies identifying a significant failing or weakness in our 2017 survey making that disclosure.

Another responsibility of the audit committee relates to the relationship with the external auditor. This year 22% of companies mentioned that they had read the FRC's Audit Quality Review Team (AQRT) report on their audit firm (2017: 18%).

17% referred to a specific AQRT inspection of their company's audit (2017: 12%), and almost all of those explained whether there were significant issues identified and, if so, that they had discussed the report with the auditor and agreed appropriate actions.

We also looked at the disclosure of non-audit services:

- 8% of companies indicated their auditor did not provide any non-audit services (2017: 6%).
- For those that did provide non-audit services, the average ratio of non-audit fees to audit fees<sup>16</sup> over all companies was 25%, falling to 23% in the FTSE 350 part of our sample (2017: 62%, falling to 45%). This indicates a substantial shift following the FRC's Revised Ethical Standard for auditors taking effect.
- Where the audit committee calculated the ratio it came out at 21% on average, compared to 29% on average where we calculated it ourselves. This may be because auditor's fees for the review of the interim report were often included by audit committees as audit fees when calculating the ratio – we note that these are classified as non-audit fees under the Ethical Standard.
- Only 8% of companies disclosed a ratio of non-audit fees to audit fees exceeding 70%.

Last year, we highlighted changes to the 2016 UK Corporate Governance Code and the Guidance on Audit Committees affecting the audit committee report for years commencing on or after 17 June 2016. We have identified an increase in the number of companies providing these disclosures:

- 91% described the composition of their audit committee and 57% included a disclosure about sector competence (2017: 89% and 35%).
- 38% indicated when there might be a future external audit tender (2017: 49%).
- 73% disclosed the tenure of the current audit partner and 58% disclosed the audit partner name (2017: 60% and 43%).
- 58% included some mention of the annual performance evaluation of the audit committee (2017: 52%).





### Compliance – problem areas

In the wake of public attention on both external and internal audit, it is notable that audit committee disclosures regarding internal audit have not moved on to the same degree. It is not unusual to see several pages of disclosure regarding the audit committee's consideration of external audit, yet only a few sentences regarding internal audit.

Internal audit is a critical element of the “third line of defence” and Government and regulatory bodies have been encouraging boards to spend more time ensuring internal audit is established properly with independent lines of reporting, a clear remit, coverage of key risks to the business and suitable access to the rest of the organisation.

Despite an expanded section on internal audit in the FRC's 2016 Guidance on Audit Committees, we have seen no real improvement in the reporting of the role and activities of the internal audit function.

Of the 81% of companies which have an internal audit function (93% of the FTSE 350 and 65% of smaller companies), 94% of audit committees confirm that they have reviewed the plans and work of internal audit (2017: 90%). Only 52% stated that they have set internal audit plans with reference to the key risks of the business (2017: 53%).

Only 60% of audit committees in companies with an internal audit function explain how they have assessed the effectiveness of the internal audit function (2017: 67%), and many of these disclosures are very brief indeed. This year we noted a substantial minority disclosing they had used some form of external assessment process, an exercise recommended by the Institute of Internal Auditors on a five-yearly basis.



### Looking beyond compliance

The FRC's A&A Lab report, Audit Committee Reporting<sup>17</sup>, indicates that investors would find it helpful to have clarity in the audit committee report regarding the role the audit committee plays in internal control. In our judgement, 78% of companies met this standard. However, most of the remaining 22% of companies included sufficient disclosure elsewhere in the annual report to understand the role of the audit committee; indeed, we noticed that several companies had a short section immediately preceding the audit committee report which clearly explained the governance structures around risk and internal control. Companies should consider whether to rearrange the location of their disclosures in order to meet investor preferences.

The 2018 UK Corporate Governance Code, which will be effective for years commencing on or after 1 January 2019, has a provision regarding whistleblowing which makes it clear that whistleblowing is the board's responsibility. 91% of companies included some mention of whistleblowing in the annual report, of these 76% in the audit committee report. In our judgement, only 23% of companies that mentioned whistleblowing shared disclosures that went beyond boilerplate. Better disclosures brought out the importance of a robust speaking-up process to the company. They were company-specific and year-specific and could include the operation of the whistleblowing process, its independence and reporting lines, changes during the year, reporting statistics, and the nature of reports received and acted upon. Some drew out the link to corporate culture.



### What to watch out for

- ☐ Consider enhancing disclosures regarding the internal audit function and demonstrating the level of oversight applied by the audit committee. What is the scope of internal audit activity across the company? Does it cover the key risks? Is resourcing and skills sufficient and appropriate? How has the committee assessed the effectiveness of the internal auditor?



- ☐ Provide useful information about the nature of the significant issues affecting the financial statements – clear context and value. Make it clear for each issue what actions the audit committee has taken during the year, how the audit committee has applied challenge to management's conclusions, the conclusion the audit committee itself has reached and its underlying rationale.
- ☐ Consider disclosures around the importance of external audit quality, particularly where coming up to a tender of the external audit or where one has recently been undertaken. Investors are keen to know that audit committees prioritise audit quality.
- ☐ Whether disclosure sits in the audit committee report or elsewhere in the annual report, it is important for employees and other stakeholders to know that the whistleblowing process is robust, independent, and that reports are listened to and acted upon.



### Examples of disclosure

Rotork plc's disclosure on significant issues affecting financial reporting includes context and valuation, the evidence reviewed and actions taken by the committee, the conclusions reached and rationale, and cross-reference to the relevant financial statement note.

#### Rotork plc

The principal matters of judgment considered by the Audit Committee in relation to the 2017 accounts and how they were addressed were:

- Goodwill impairment testing. The year end balance sheet includes goodwill of £228.0m, this represents approximately 30.9% of the Group's assets. The Audit Committee reviewed the carrying value of goodwill by examining a report from the Group Financial Controller which set out the values attributable to each cash generating unit, the expected value in use, based on projected cash flows and the key economic assumptions related to growth and discount rates. The report included a detailed impairment review paper for Bifold as this was the cash generating unit identified as being most sensitive to changes in the key assumptions. The Bifold paper was reviewed by the Board in December 2017 and finalised in February 2018. The Audit Committee discussed the appropriateness of the assumptions used, compared expected growth rates to historical averages and relevant market data and compared the discount rates to the Group weighted average cost of capital and appropriate risk premiums. Following the discussion, the Audit Committee were satisfied with the approach taken by management which resulted in the impairment of the Bifold (£19.8m) and Tulsa (£1.6m) cash generating units. The Audit Committee also considered the impact of any reasonable change in assumptions that might further increase or reduce the impairments recorded and whether any reasonable change would result in any other cash generating unit requiring to be impaired. The Audit Committee reviewed the sensitivities and impairment disclosures in note 10 and were satisfied these are balanced and fair.

Intertek Group plc explains how its whistle-blowing hotline operates, including lines of reporting, independence, nature of reports and number of reports both received and substantiated.

#### Intertek Group plc

##### Whistle-blowing hotline

To empower the people who work for Intertek to act, we have a well-publicised hotline for all employees, contractors and others representing Intertek, enabling them to confidentially report suspected misconduct or breaches of the Code.

Our whistle-blowing hotline is run by an independent, external provider, is multi-language and is accessible to all employees 24 hours a day either by phone or by email. Those concerned are encouraged to report any conduct, compliance, integrity or ethical concerns using the hotline. Information posters are present in all of our sites.

If a report is made to the hotline, it is followed up by Intertek's Compliance officers. All reports received are fully investigated by our Group Compliance function, which is independent of our operational businesses and reports directly to our Group General Counsel. Provided there is no conflict of interest, all reports are also notified immediately to our Group Ethics & Compliance Committee which consists of our Group CEO, Group CFO, Group EVP for HR and Group General Counsel. This ensures effective resolution both of individual issues and any systemic or process improvements that can be made to address them.

- During 2017, 202 reports of non-compliance with our Code of Ethics were made to our hotline. Of those reports, 35 were substantiated and required remedial action. Of those substantiated claims: there were no substantiated grievances relating to human rights, labour practices or societal impact breaches;
- there were no environmental incidents;
- there were no reported violations of the rights of indigenous people; and
- there were no cases of discrimination..



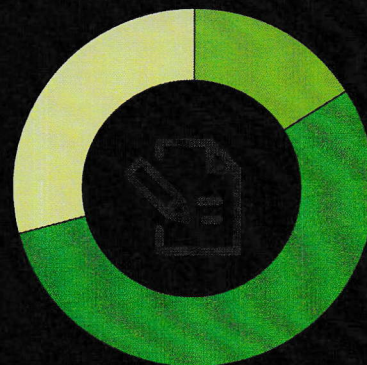
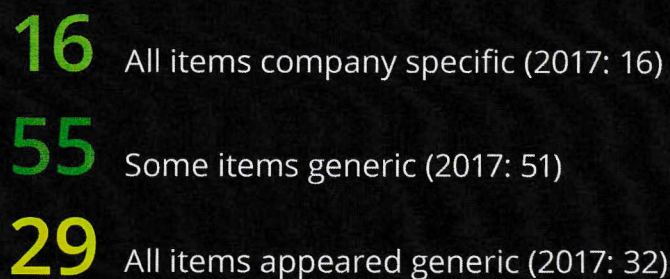
See more examples of disclosure in the electronic version of this publication.



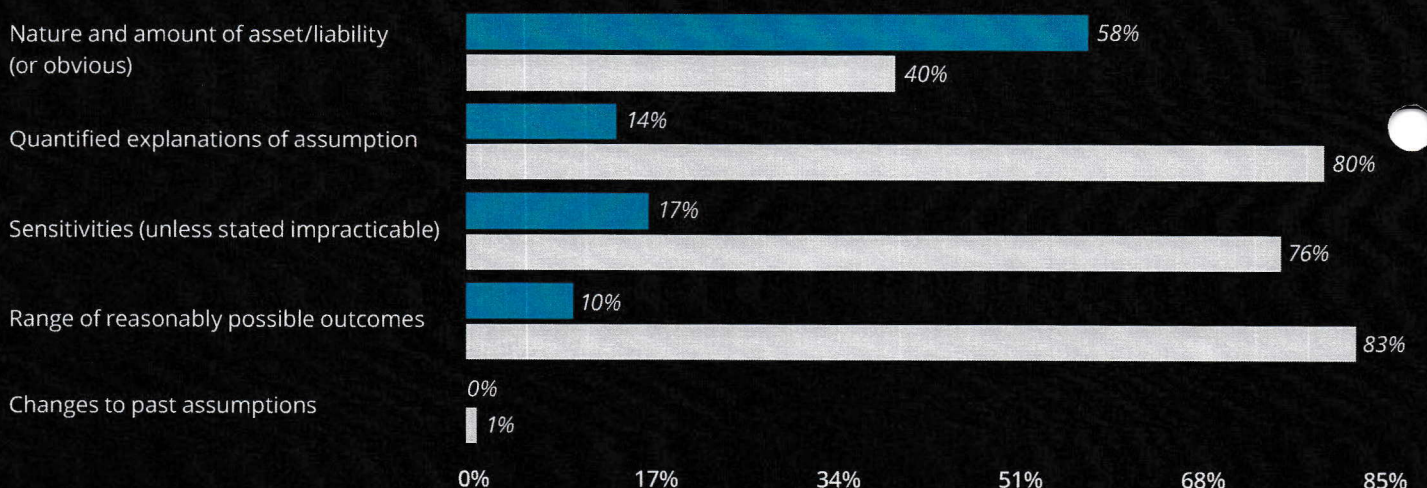
# 12. Judgements and estimates, tax and pensions



## Do those items appear to be company-specific?



## Disclosures on estimation uncertainties\*



\* of the 99 companies appearing to disclose key sources of estimation uncertainty

■ All items ■ Some items





In November 2017, the FRC published feedback reports on its thematic reviews<sup>18</sup> of financial statements covering the areas of critical judgements and key sources of estimation uncertainty, tax and pensions, in which they identified areas where companies can continue to enhance their related disclosures. We have focused below on the main topics where the FRC is seeking improvements.

### Critical accounting judgements and key sources estimation uncertainty

Critical accounting judgements and key sources of estimation uncertainty are two disclosures that have often mistakenly been merged together, despite IAS 1 requiring separate and different disclosure for each. Disclosure of accounting judgements under IAS 1 specifically excludes those involving estimations, which are covered by the estimation uncertainty disclosures. The differing disclosures required for each mean this distinction matters. Also, the key estimates disclosures apply only where there is a significant risk of material adjustment in the next year due to changes in assumptions and estimates, so not all areas of estimation are covered.

We observed further progress here, with 66% of those surveyed (2017: 52%, 2016: 27%) now making clear which items they regard as estimates and which as judgements. 89% of those companies made the distinction by using sub-headings. Even where a distinction was presented though, confusion remained – it appeared to us that 18 companies had either presented estimates as judgements or vice versa.

The FRC remains concerned about the use of boilerplate text and continues to identify examples of generic disclosures that do not describe the specific judgements and estimates made. Just under a third of companies we looked at only provided narrative that was so generic that it could have been applied equally to any other company, for example in relation to goodwill impairment testing, defined benefit pension assumptions and uncertain tax positions.

Only 16 companies (2017: 15) disclosed items that all appeared suitably company-specific. The FRC has commented that the better quality reports identify a smaller number of judgements and estimates and noted that audit committee reports and auditors' reports often provide more granular information in respect of significant judgements and richer information regarding the particular estimates and assumptions made, which is consistent with our findings.

When critical judgements were distinguished, the maximum was eight, with an average of two. 15 companies indicated that they had no critical judgements. 33% of the companies presented one or more judgements where it was not obvious, based on the information provided, how those judgements could have a significant effect on the financial statements. Perhaps unsurprisingly the greater the number of judgements, the more likely this was to be the case.

When sources of estimation uncertainty were distinguished, the maximum was seven, with an average of three. For 82% of companies, it was unclear to us for one or more items identified as key sources of estimation uncertainty, how they could realistically give rise to a material adjustment within the next 12 months. Again, those presenting fewer items seemed to have done better at focusing on "key" sources of estimation uncertainty.

These findings highlight the need for preparers to avoid feeling compelled to identify a list that is typically five or six items long with the same items as in their peer group's financial statements.

In terms of the disclosures listed in paragraph 129 of IAS 1 regarding information about estimates, 79% of companies disclosed some quantification of assumptions underlying estimates, with only 14% of companies disclosing quantification for all key sources of estimation uncertainty. This information is important to investors as it enhances understanding of the assumptions underlying estimates. 91% of companies disclosed insight into sensitivities and ranges of reasonably possible outcomes for some of the items identified as a key source of estimation uncertainty, although this was typically by virtue of disclosing information required by other standards, such as IAS 36 and IAS 19.



## Tax

Recent times have seen greater scrutiny of the amount of tax companies are paying and on the use of overseas tax structures. The FRC's thematic review also highlighted areas for improvement in companies' tax disclosures and transparency.

Large UK companies are now required to publish their UK tax strategy online, either as a separate document or as part of another. In the annual reports we surveyed, 40% (2017: 38%) provided information on tax strategy or governance, of which 24% were providing fairly generic disclosures or a brief cross-reference to a company website, and only 16% were providing more detailed insight.

The majority of companies (81%) discussed the current year effective tax rate in the strategic report, although only 52% provided insight into the expected future effective tax rate. Providing information in addition to generic disclosure of Budget tax rate changes is encouraged. Of the 56 companies that showed adjusting items on the face of the income statement, only 27 analysed the tax impact of these in the tax reconciliation note to the accounts.

One area of concern raised by the FRC is around uncertain tax positions, which are relatively common in large entities given the complexity of many tax regimes. 37% of companies surveyed (2017: 38%) identified provisions for uncertain tax positions as a critical accounting judgement or a key source of estimation uncertainty (although in some cases mis-categorised within these two headings), and 34% of companies provided an accounting policy on uncertain tax positions. However, of the 37 companies, only 18 quantified their uncertain tax provisions to provide useful information to the reader on the extent of estimation. 23 companies (2017: 15) disclosed contingent liabilities related to tax, although only 14 (2017: seven) of those gave an estimate of the potential effect as required by IAS 37 where the probability of outflow is not remote.

Alongside IFRIC 23 *Uncertainty over Income Tax Treatments*, which provides clarity on the accounting (with effect from periods commencing on or after 1 January 2019), the FRC is promoting greater transparency in this area, through clearer disclosure of accounting policy and quantification of uncertain tax provisions. The FRC has stated that justification for non-quantification will continue to be a regulatory focus in future.

## Pensions

Whilst many companies have closed their defined benefit pension schemes either to new entrants or to future accrual, ongoing obligations to fund such schemes are often significant and 67 companies surveyed (2017: 67) still had such schemes.

The vast majority of companies provided some quantified insight into future funding levels (an area of FRC focus), and whilst improved on prior year, the level of insight into future contribution levels still varied. 31 (2017: 15) appeared to quantify future contributions over the whole period covered by schedules of contributions, while 21 only disclosed expected contributions for the following year. Only two companies surveyed mentioned an increase in dividend payments potentially triggering an increase in pension scheme contributions, which is a topical area of public interest.

40 companies had one or more schemes in surplus on an IAS 19 basis, with 37 of those companies recognising the surplus as an asset. However, justification for recognising an asset was only provided by 21 companies (in all cases, as in previous years, on the grounds of an unconditional right to a refund). The FRC's thematic review highlighted this as an area for improvement. On a related note, no company recognised an additional liability for a minimum funding requirement that would have given rise to an irrecoverable surplus. This is an area where the FRC does challenge companies, focusing on matters such as trustees' rights to enhance benefits.

Most companies analysed plan assets by major category, although 24 companies did not make clear which categories had quoted market prices and which did not. Over half of the companies with defined benefit schemes (42) clearly identified and explained the risks inherent in their scheme asset investment strategy and 24 companies disclosed asset-liability matching strategies such as annuities or longevity swaps.

Most companies provided sensitivity analyses for significant assumptions although, for 26 of these, certain assumptions moved in the current year by more than the 'reasonably possible' change identified in the sensitivity disclosure. This may appear inconsistent for a reader assessing the extent of estimation, as the extent of reasonably possible changes would typically be expected to be consistent with recent variations, rather than just having standard variations of plus or minus 0.1% for example.



**What to watch out for**

- |   |   |
|---|---|
| <input type="checkbox"/> Distinguish between judgements (other than those relating to estimates) and estimates.   | <input type="checkbox"/> Provide tailored commentary on tax strategy and governance.  |
| <input type="checkbox"/> Make the judgements and estimates disclosures company-specific and meet the FRC's expectations for all the accompanying detail, such as sensitivity information.   | <input type="checkbox"/> Provide insight into the future expected tax rate.   |
| <input type="checkbox"/> Only include the most complex or subjective judgements that have the most significant effect on amounts recognised.  | <input type="checkbox"/> Provide the necessary disclosures around uncertain tax positions.  |
| <input type="checkbox"/> Only include the assumptions and other sources of estimation uncertainty where there is a significant risk of material adjustment to the carrying amounts of assets or liabilities within the next year. | <input type="checkbox"/> Provide justification for recognition of a pension asset where a scheme is in surplus.   |
|   | <input type="checkbox"/> Consider the reasonably possible changes in all key pension assumptions, and whether the disclosed ranges are consistent with recent variations. |

**Examples of disclosure**

Kingfisher plc included insightful information on the risks inherent in their defined benefit investment strategy.

**Kingfisher plc**

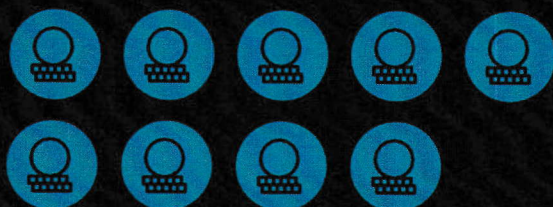
o reduce volatility risk a liability driven investment (LDI) strategy forms part of the Trustee's management of the UK defined benefit scheme's assets, including government bonds, corporate bonds and derivatives. The government bond assets category in the table above includes gross assets of £2.8bn (2016/17: £3.0bn) and associated repurchase agreement liabilities of £1.4bn (2016/17: £1.4bn). Repurchase agreements are entered into with counterparties to better offset the scheme's exposure to interest and inflation rates, whilst remaining invested in assets of a similar risk profile. Interest rate and inflation rate derivatives are also employed to complement the use of fixed and index-linked bonds in matching the profile of the scheme's liabilities.



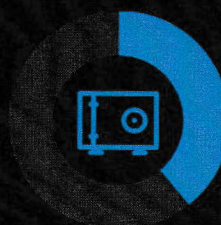
See more examples of disclosure in the electronic version of this publication.



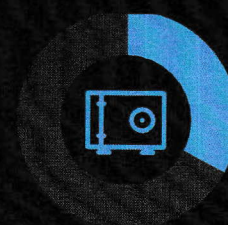
# 13. Other financial statement disclosures



Only **9** companies indicated any involvement in debt factoring, supplier financing or similar



**39%** of companies had **business combinations** in the year, compared to **33%** last year



## How was recoverable amount determined for goodwill?



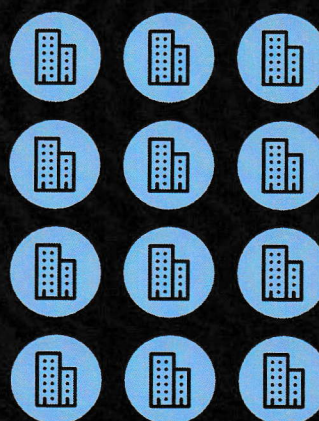
Value in use



Fair value less costs of disposal



Both



Only **12** companies stated that they did not expect IFRS 16 to have a material impact

## Companies indicating the quantitative impact of IFRS 16:



Precise numbers

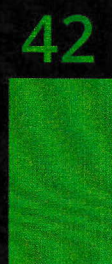


Numerical ranges



Cross-referring to operating lease commitments

## What reporting framework are parent companies using?



Full IFRS



FRS 101



FRS 102



### Changes in 2017/18

There were relatively few changes to IFRS reporting requirements in the past reporting season, although companies did make some limited progress in areas of recurring regulatory focus as explained below.

Perhaps the most significant change to actual requirements was the introduction of IAS 7's requirement to disclose movements in liabilities arising from financing activities, which became effective for periods commencing on or after 1 January 2017. Of the 81 companies surveyed caught by this requirement, only 57 provided information resembling that required, although for a number of those omitting the disclosure it appeared that they had little or nothing in the way of liabilities arising from financing activities.

A wide variety of formats were used by companies, some of which could be open to challenge. For example, 37 companies included positive cash balances as part of this disclosure, perhaps because they then resembled net debt reconciliations historically prepared under UK GAAP or perhaps because this was felt to be more useful information for users. However, whilst permitted, care should be taken to still isolate the information required by IAS 7, which specifically focuses on the movements in liabilities – a pull-out box may be a good means of achieving compliance in this regard.

Recent times have also seen regulators paying increased attention to the accounting, presentation and disclosure of debt factoring transactions, supplier financing and similar, including in the statement of cash flows. Only nine companies surveyed provided some evidence in their financial statements of being party to such transactions – a figure which seemed low given the relatively widespread use of such facilities at present. Preparers would be well advised to consider whether their reports can be improved in this area.

### Impairment testing of goodwill

80 companies had a goodwill balance at the year-end, including all of the FTSE 100 companies in our population, which required them to produce disclosures under IAS 36 in relation to impairment testing. Continuing the trend of previous years it was pleasing to see that 73 of the 76 companies with significant goodwill identified key assumptions for determining the recoverable amount of all the relevant cash generating units (CGUs). 44 companies included key assumptions other than just discount and growth rates, including margins, commodity prices and volumes amongst other things. However, of these companies only six quantified some or all of these additional assumptions.

Of the 76, 66 companies determined recoverable amount with reference to the value in use, five using fair value less costs to sell and five using a mixture of the two methods.

49 companies had disclosed the impairment testing of goodwill to be a key source of estimation uncertainty, indicating that, per IAS 1, there was a significant risk of material adjustment within the next 12 months. However, only 31 companies in their goodwill note stated that there was a reasonably possible change in a key assumption that would give rise to an impairment. Care should be taken to avoid any contradictory disclosures in this regard.

In terms of sensitivity analyses, IAS 36 requires disclosure of, amongst other things, how much a key assumption would need to change by such that it would give rise to an impairment, but only where such a change is reasonably possible.

Only three companies with goodwill (2017: eight) did not mention anything about sensitivity analyses. A number of others elected instead to provide a short negative statement that there were no reasonably possible changes that would give rise to an impairment. 19 companies described the impact, or lack thereof, of varying assumptions by plus or minus a certain percentage, whilst 20 gave an indication of how much assumptions would need to change by to produce an impairment.



### Business combinations – goodwill and intangible asset recognition

Of the 39 companies that had business combinations in the year (2017:33), 31 recognised goodwill on these business combinations. It is surprising to see that a number of companies are leaving themselves open to challenge in relation to the requirement to provide a qualitative description of the factors that make up goodwill either by not disclosing a description at all or by including a generic description of goodwill.

### Impact of forthcoming standards

Only one company surveyed had early adopted IFRS 9 *Financial Instruments* and another early adopted IFRS 15 *Revenue from Contracts with Customers*. Unsurprisingly, the vast majority did however indicate that they were underway in their preparations for the new standard. In what was the final year (at least for 81 of the companies surveyed) before the mandatory implementation of IFRS 9 and IFRS 15 and perhaps thanks to regulatory pressure, it was pleasing that companies provided more information in relation to these forthcoming standards than in previous years.

In relation to IFRS 15, 65 companies stated that they expected the standard to have an immaterial impact on their accounts. Six companies indicated that the new standard might have a material impact and a further 20 stated that it would have an impact, implying that it would be material. Of those 26 companies, 23 quantified the impact, of which four provided ranges (as opposed to a precise number). It was disappointing to see that eight companies were still unable to, or chose not to, give any indication as to the impact the new standard would have on them.

In terms of the approach to be taken on transition, 62 companies remained silent on which approach they would take on adoption of IFRS 15, with 28 electing the 'modified retrospective' application, whereby comparative balances are not restated. The remaining nine companies stated that they would be adopting the standard with full retrospective effect. Only six companies gave an indication of practical expedients they would use in applying IFRS 15.

In a similar vein, 75 companies disclosed that they expected IFRS 9 to have an immaterial impact and, of the 19 companies that indicated they expected an impact, 14 quantified this. Only three companies, none of them banks, expressed an intent to restate their prior year comparatives upon adoption of IFRS 9.

Despite implementation of IFRS 16 *Leases* being an additional year away, given the pervasiveness of leasing, it came as no surprise that only 17 companies were either unclear regarding commencement of a transition project or indicated they hadn't yet started their preparations. Only 12 companies explicitly stated that they did not expect a material impact, although another 30 were silent on the impact.

Although no companies had early adopted the standard, some appeared well advanced, with eight already quantifying the impact, two by using a range. A further 36 companies gave some idea of the impact through a cross-reference to their operating lease commitments. However, care should be taken in adopting such an approach, due to potential differences between IAS 17's disclosures on commitments and the amounts to be recognised under IFRS 16. In terms of whether comparative balances would be restated on transition, less progress seemed to have been made with 88 either undecided or silent.

### Significant accounting policies and material disclosures

Where accounting policies were presented in a separate note (as opposed to interspersed throughout multiple notes to the accounts), they were just under eight pages long on average, an increase of approximately one page compared to the previous year. Unlike the length of annual reports, FTSE 100 companies do not have significantly longer accounting policies than those outside the FTSE 350. The longest accounting policy note was 17 pages, four pages longer than the next one at 13.

### Parent company financial statements

52 of the parent company financial statements surveyed were prepared under FRS 101, with 42 continuing to use full IFRS and just 6 using FRS 102. With the requirement to notify shareholders ahead of adopting FRS 101 having been removed, and increased flexibility to adapt the statutory formats, with FRS 101 reporters now permitted to use IFRS titles, over time there may be a gradual shift from full IFRS to FRS 101. At present, just over half the FRS 101 and FRS 102 reporters adapted the statutory formats to use IFRS titles.

## What to watch out for

- ☐ Take care, especially in the first year of adoption, to provide clear and comprehensive disclosures required by IFRS 9 and IFRS 15.
- ☐ Where IFRS 16, the new leasing standard, has not yet been adopted, provide company-specific disclosure on the anticipated impact.
- ☐ Ensure appropriate consistency between disclosures, for example IAS 1's critical judgements and key sources of estimation uncertainty and the associated account balance notes.
- ☐ Provide appropriate disclosure on debt factoring transactions, supplier financing and similar arrangements, ensuring that associated cash flows are also appropriately classified in the cash flow statement.

## Examples of disclosure

Rightmove plc provided company-specific information on the impact IFRS 16 is expected to have.

### Rightmove plc

The Group has completed a detailed assessment to quantify the impact on its reported assets and liabilities of adoption of IFRS 16. The Group will transition to IFRS 16 using the modified retrospective application approach with no restatement of prior year comparatives. On 1 January 2018 the Group expects to recognise new right-of-use assets of £10,730,000 and lease liabilities of £10,824,000 for its operating leases in respect of office premises and company cars. The nature of expenses related to those leases will also change as the straight-line operating lease expense will be replaced with a depreciation charge for right-of-use assets and interest expense on lease liabilities, in the first year of adoption these are expected to be approximately £1,775,000 and £301,000 respectively. The Group plans to adopt IFRS 16 in its financial statements for the year ending 31 December 2018.

Mears Group PLC provided a reconciliation of movements in liabilities arising from financing activities.

### Mears Group PLC

Movements in financing liabilities during the year are as follows:			
	Borrowings relating to assets held for resale	Finance leases	Total
At 1 January 2016	—	386	386
Inception of new finance leases	—	388	388
Cash outflows	—	(661)	(661)
At 1 January 2017	—	113	113
Inception of new finance leases	—	2,685	2,685
Cash inflows/(outflows)	13,941	(1,954)	11,987
<b>At 31 December 2017</b>	<b>13,941</b>	<b>844</b>	<b>14,785</b>

See more examples of disclosure in the electronic version of this publication.



# Appendix 1 – The preparation process

When implementing the recommendations set out in this document, it is important to work to an achievable timetable. Getting as much as possible done in advance of the year end, when there is less pressure on the timetable, reduces the burden during the post year end reporting cycle.

In order to help you achieve your objectives we have provided a suggested 2018/19 plan below, as well as suggestions for what could be on the agenda for your planning meeting.

## **A suggested timetable for 2018/19 (For December reporters)**

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### **October 2018**

#### **By mid October**

- Planning meeting of contributors to agree responsibilities, process and governance, including how to assess whether the report is fair, balanced and understandable, plus decide the overall structure for the report
- Identify opportunities to make the report clearer and more concise

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### **November 2018**

#### **Early to mid November**

- Contributors draft templates for their areas of responsibility
- Structure of draft report pulled together and reviewed for duplication
- Areas for linkage identified and highlighted in the draft report

#### **Late November/early December**

- Auditors review the structure of the report and provide comments

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### **December 2018**

#### **By mid December**

- Disclosure Committee (or equivalent) approve overall structure and technical compliance of the report

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### **January 2019**

- Draft report presented to the Audit Committee for initial comment on key messages, themes and overall balance
  - Report sections updated for final messages based on year end results
  - Cross-check for consistency with other planned or existing public reporting
-

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## February 2019

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- Audit Committee assesses annual report on behalf of the Board – is it comprehensive and is it fair, balanced and understandable?
- Remuneration report reviewed by Remuneration Committee
- Report sections formally presented for review

Chairmen of Audit, Remuneration and Nomination Committees compose introductions to their reports

By late February/March

- Final report presented to Audit Committee, Remuneration Committee and Board for approval
- 

## Suggested agenda for annual report planning meeting

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- Consider how you will ensure that all elements of your annual report meet the regulatory requirements and effectively convey strategically important information to shareholders
  - Agree the key messages and themes that will flow through the report, as far as they are understood at this stage, getting Audit Committee and Board buy in at a sufficiently early stage
  - Discuss and agree how materiality will be applied to the annual report as a whole
  - With the design team, discuss the key messages and themes and how these can be brought to life through design
  - With the website team, discuss your approach to digital communication alongside the key messages and themes, to agree any advance design work to be done on the website
  - Plan how you will avoid the “silo effect”:
-



# Appendix 2 – Timeline of key corporate reporting changes

## Effective for periods commencing on or after:

1 January 2017	<ul style="list-style-type: none"> <li>• EU Non-financial reporting directive</li> <li>• New IAS 7 Statement of Cash Flows disclosures</li> </ul>
1 January 2018	<ul style="list-style-type: none"> <li>• New IFRSs on revenue and financial instruments</li> </ul>
1 January 2019	<ul style="list-style-type: none"> <li>• New IFRS on leasing</li> <li>• New UK Corporate Governance Code and revised Guidance on Board Effectiveness</li> <li>• The Companies (Miscellaneous reporting) Regulations 2018</li> </ul>
1 January 2021	<ul style="list-style-type: none"> <li>• New IFRS on insurance contracts</li> </ul>

## Other significant initiatives ongoing

FRC's clear and concise initiative

IIRC integrated reporting framework

Financial reporting lab projects on performance metrics and digital future

FRC thematic reviews on:

- targeted aspects of smaller listed and AIM quoted company reports and accounts;
- the effect of the new International Financial Reporting Standards (IFRSs) on revenue and financial instruments on companies' 2018 interim accounts;
- the expected effect of the new IFRS for lease accounting; and
- the effects of Brexit on companies' disclosure of principal risks and uncertainties.

IASB standard setting on definition of material and rate-regulated activities

# Appendix 3 - Additional examples of disclosure





# Strategy and business model disclosures

## St James's Place plc

An example of clearly identifying in the business model key stakeholders and the value created for them is St James's Place plc.

**WHAT WE OFFER STAKEHOLDERS**

**Clients**

- Trusted, holistic financial advice and peace of mind;
- Enhancement of wealth and preservation of wealth; and
- Outcomes aligned to financial and life objectives.

**The Partnership**

- Unique adviser business model in the UK market;
- Opportunity to build and realise value creation in their businesses;
- Distinct and comprehensive client proposition; and
- Effective risk and compliance oversight, together with support for their business objectives.

**Employees**

- Challenging and stimulating career in a growth company;
- Authentic corporate culture focused on 'doing the right thing'; and
- Reward for commitment and contribution.

**The SJP Charitable Foundation and Our Local Communities**

- Ongoing financial support;
- Staff volunteering and assistance; and
- Financial education; youth employability skills.

**Shareholders**

- Focused, capital-light business model in an attractive market;
- Growing cash profits, underpinning increasing shareholder returns; and
- Consistency and resilience in our solvency and balance sheet.

## Brewin Dolphin Holdings PLC

Brewin Dolphin Holdings PLC clearly links its KPIs to each relevant strand of their strategy to facilitate measurement of their performance to date, as well as providing an indication, where applicable, of potential challenges to success.

**Key Performance Indicators**

**Measuring progress**

We use key performance indicators ('KPIs') to measure the progress and the success of our strategy implementation.

**Changes to KPIs**

We have removed the following KPI after assessing the ongoing suitability of the KPIs for measuring the success of our strategy implementation:

- % of managed funds in our discretionary service – This measure is no longer relevant, as the focus on discretionary funds is fully embedded and the target of 90% has been met.

**1 Revenue growth**

**Discretionary funds inflows (%) (Bp) Target 0%**

**Definition:** The value of assets under management as a percentage of opening funds for our discretionary service.

**Performance during the year:** The year has seen a 10% increase in inflows, driven by a strong start to the year, with higher inflows than the prior year.

**Potential challenges:** Future challenges include maintaining the momentum of the strong start to the year.

**Net promoter score (NPS) (Bp) Target 4.7 (20%)**

**Definition:** An indicator of how likely clients are to recommend Brewin Dolphin to a friend or colleague.

**Performance during the year:** The year has seen a score of 4.7 (20%), significantly above the industry benchmark of 4.2 (15%).

**Potential challenges:** Future challenges include maintaining the momentum of the strong start to the year.

**Overall client satisfaction (Bp) Target 7.5**

**Definition:** An indicator of overall client satisfaction, based on a score of 1 to 10, measured by a client satisfaction survey conducted by an independent third party.

**Performance during the year:** The year has seen a score of 7.5, significantly above the industry benchmark of 7.0.

**Potential challenges:** Future challenges include maintaining the momentum of the strong start to the year.

**2 Improved efficiency**

**Adjusted EBIT margin (%) (Bp) Target 25%**

**Definition:** The ratio of EBIT to revenue, adjusted for non-recurring items.

**Performance during the year:** The year has seen a 25% increase in EBIT margin, driven by a strong start to the year.

**Potential challenges:** Future challenges include maintaining the momentum of the strong start to the year.

**Discretionary funds per CFPS (Bp) Target 0.5m**

**Definition:** The ratio of discretionary funds to CFPS.

**Performance during the year:** The year has seen a 0.5m increase in discretionary funds per CFPS, driven by a strong start to the year.

**Potential challenges:** Future challenges include maintaining the momentum of the strong start to the year.

**Average client portfolio (BPS) Target 500**

**Definition:** The average value of funds per client for our managed discretionary services.

**Performance during the year:** The year has seen a 500 increase in average client portfolio, driven by a strong start to the year.

**Potential challenges:** Future challenges include maintaining the momentum of the strong start to the year.

**Employee engagement (%) (Bp) Target 85%**

**Definition:** A survey of employee engagement, based on a score of 1 to 100.

**Performance during the year:** The year has seen a 85% increase in employee engagement, driven by a strong start to the year.

**Potential challenges:** Future challenges include maintaining the momentum of the strong start to the year.

**3 Capital sufficiency**

**Capital adequacy ratio (%) (Bp) Target 150%**

**Definition:** The ratio of capital to assets, as a percentage of the regulatory capital requirement.

**Performance during the year:** The year has seen a 150% increase in capital adequacy ratio, driven by a strong start to the year.

**Potential challenges:** Future challenges include maintaining the momentum of the strong start to the year.

**4 Dividend growth**

**Adjusted EPS growth - diluted (%)**

**Definition:** The annual percentage change in diluted earnings per share.

**Performance during the year:** The year has seen a 10% increase in adjusted EPS growth, driven by a strong start to the year.

**Potential challenges:** Future challenges include maintaining the momentum of the strong start to the year.

**Dividend growth (%)**

**Definition:** The percentage change in dividend per share.

**Performance during the year:** The year has seen a 10% increase in dividend growth, driven by a strong start to the year.

**Potential challenges:** Future challenges include maintaining the momentum of the strong start to the year.

# Stakeholder disclosures

## Barclays PLC

A good example of disclosure of acting fairly between members is Barclays PLC which details engagement throughout the year with institutional investors and private investors.



## Anglo American plc

Anglo American plc identifies its key stakeholders, summarising how they have engaged with them, what their material matters were and how these link to the broader strategy





# Alternative performance measures and KPIs disclosures


## Lonmin Plc

Lonmin Plc provide a good example of KPIs being clearly presented and explained, tied in to strategy and referenced to directors' remuneration.

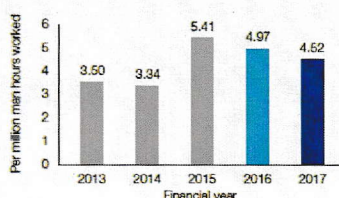
### Relevance to Strategy:

- ① Operational Excellence
- ② Our People
- ③ Corporate Strategy
- ④ Corporate Citizenship

### Remuneration

Some KPIs are used as a measure in the incentive plans for the remuneration of executives. These are identified with the symbol 

### Safety



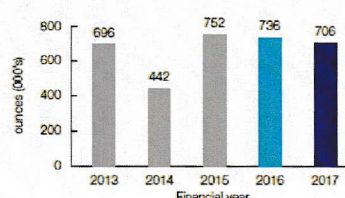
#### Definition

Lost Time Injury Frequency Rate (LTIFR) is measured per million man hours worked and reflects all injuries sustained by employees where the injured party is unable to return to work on the next shift.

#### Comment

The LTIFR improved by 9.1% compared to the previous year. This was due to intensified focus on a number of safety initiatives, including visible felt leadership and direct employee engagement.

### Sales



#### Definition

Platinum ounces sold are those ounces we produce either as refined ounces or recoverable ounces sold in concentrate, at 99.95% purity.

#### Comment

Platinum sales exceeded guidance of 650,000 to 680 000 ounces in 2017, as we continued to benefit from the smelter clean-up initiative as well as various efficiency enhancement projects at the Smelting & Refining operations as well as reduction in refined stock levels.

# Risks and opportunities disclosures

## Unite Group PLC

Unite Group PLC provides good narrative on how the principal risks are linked to strategic objectives and discloses the focus for the ensuing financial year.

2. Demand reduction (due to societal change)	
<b>Possible events</b> <ul style="list-style-type: none"> <li>Concerns over the costs of a University education – affordability and value for money</li> <li>Alternative course delivery (such as Massive Open Online Courses)</li> <li>Shorter/more semester-led courses.</li> </ul>	<b>Impact</b> <ul style="list-style-type: none"> <li>More competition for value and reduced demand for year round student accommodation in the longer term resulting in lower profitability and asset values.</li> </ul>
<b>What happened in 2017</b> <ul style="list-style-type: none"> <li>Strong service delivery evidenced by high customer satisfaction and University trust scores.</li> <li>Increasing proportion of second and third-years choosing PBSA. 45% of Unite's direct lets are returning students.</li> <li>Enhanced PRISM, our innovative and proprietary operating platform.</li> <li>Wi-Fi upgraded to 70Mbps. Enhanced our Unite apps to improve connectivity with our digital native customers.</li> <li>Rollled out Student Ambassador programme and University-adopted Welcome programme.</li> </ul> <p>→ Read more about our <b>Quality service platform</b> on p04</p>	<b>Risk management</b> Ongoing monitoring of affordability and value for money and the evolution of digital learning and ensuring we partner with the stronger Universities with properties in the best locations.
<b>Risk mitigation activity in 2017</b> Ensured the successful roll out of PRISM, enabling online and more flexible tenancies. Continued investment in market knowledge and building on our relationships with the strongest Universities, driven by Home for Success and our University partnerships team.	<b>Strategic objective</b> Offering quality service is key to ensuring we have relationships with the higher and medium-tariff Universities (the ones most likely to sustain a reduction in demand). PRISM helps us deliver the best customer service efficiently. <p>→ Read more about <b>Business model and strategy</b> on p04</p>

## The Weir Group PLC

In describing their risk appetite, the Weir Group PLC provide insight into the risk parameters applicable to each of their risk assertions.

Risk Appetite Statement	
The Weir Group is strategically positioned in markets with good long-term growth prospects. We will pursue ambitious growth targets, and we are willing to accept a higher level of risk to increase the likelihood of achieving or exceeding our strategic priorities, subject to the parameters below.	
Risk assertions	Risk parameters
<b>1. Organic growth</b> We will rigorously pursue divisional organic growth strategies to meet our market growth objectives.	Investment of resources will be consistent with divisional strategies and expected divisional compound annual growth rates over five year plans.
<b>2. Mergers and acquisitions (M&amp;A)</b> We will actively pursue M&A opportunities that enhance our strategic platform subject to meeting investment criteria.	Post-tax returns should exceed our cost of capital within three years of the acquisition.
<b>3. Returns and profitability</b> We will not pursue growth at all costs, and expect high margins, strong returns on capital and working capital discipline together with cash generation.	Short term margin dilution is acceptable in gaining market entry but over the cycle we aim for top quartile operating margins and returns on capital.
<b>4. Capital allocation</b> We will encourage capital expenditure in pursuit of our growth ambitions subject to Internal Rate of Return (IRR) hurdles and capital structure targets.	Local country cash flow projections for investment appraisal purposes discounted at country specific rates to account for risk weighted returns.
<b>5. Capital structure</b> We are prepared to use leverage in pursuit of our growth agenda and will actively seek low cost debt to fund the Group but, recognising cyclicality in our end markets, will maintain significant headroom against our financial covenants.	We will seek to maintain the ratio of net debt/EBITDA below two times (current financial covenants 3.5 times) and will retain adequate headroom within our debt facilities at all times.
<b>6. Reputation and brand image</b> We will avoid/manage situations or actions that could have a negative impact on our reputation and brands. We aim to be transparent with all of our stakeholders unless prejudicial to our collective interests.	No tolerance for breaches of: <ul style="list-style-type: none"> <li>Legislative/statutory requirements.</li> <li>Weir Code of Conduct.</li> <li>International sanctions.</li> <li>Delegated authority levels.</li> <li>Group and divisional policies.</li> </ul>



# Viability statement disclosures

## Marks and Spencer Group plc

Marks and Spencer Group plc explains that risks are modelled in combination, describes potential mitigations for risks and explains the assumptions applied, including relating to Brexit.

### OUR APPROACH TO ASSESSING LONG-TERM VIABILITY

The UK Corporate Governance Code requires us to issue a 'viability statement' declaring whether we believe the Company is able to continue to operate and meet its liabilities, taking into account its current position and principal risks. The overriding aim is to encourage directors to focus on the longer term and be more actively involved in risk management and internal controls.

The Board is required to assess the Company's viability over a period greater than 12 months. The increased levels of uncertainty within the global economic and political environment and the macro-economic challenges being experienced within the retail sector, mean the Board continues to believe a three-year period is appropriate for business planning, measuring performance and remunerating at a senior level. Our assessment of viability therefore continues to align with this three-year outlook.

The process adopted to assess the viability of the Company involves collaborative input from a number of functions across the business to model severe but plausible scenarios in which a number of the Group's principal risks and uncertainties materialise within the period of the three-year plan.

We have modelled scenarios which group together principal risks where we believe interdependencies exist between the risks, in addition to scenarios where unconnected risks occur simultaneously. These scenarios focused on both external factors, such as Brexit and lower than expected market growth, and internal factors, such as strategic programmes delivering lower than expected benefits. The scenario with the most significant adverse impact was reviewed against the current and projected liquidity position to conclude on the Company's viability. The assessment also took account of additional potential mitigations available in the event of further downside factors, including a reduction in capital expenditure and reduced returns to shareholders. The Audit Committee reviews the output of the viability assessment in advance of final evaluation by the Board.

In assessing viability the Board considered a number of key factors, including our business model (see page 10), our strategy (see pages 4-5), risk appetite (see page 22) and our principal risks and uncertainties (see pages 22-24). These have been reviewed in the context of our financial plans, specifically the Annual Budget and Three-Year Plan.

The directors also satisfied themselves that they have the evidence necessary to support the statement in terms of the effectiveness of the internal control environment in place to mitigate risk.

In making the statement, the directors have applied the following assumptions in preparing the scenarios:

- Bonds maturing during the assessment period will be repaid through our existing bank facilities.
- The actions included in our plan to grow sales are not fully realised or are offset by lower than expected market growth.
- The actions included in our plans to mitigate input cost increases that we expect are not delivered in full or the input cost increases are greater than expected.
- The UK government's notification of its intention to exit the European Union will have adverse financial impacts, including input cost inflation from increased tariffs and a weakening in sterling, as well as reduced UK consumer spending.

The Board's assessment is that M&S is a viable business. The Viability Statement can be found on page 67.

## Informa PLC

Informa PLC clearly draws out how it has assessed the prospects of the group and includes consideration of upcoming business developments

## INFORMA'S PROSPECTS AND VIABILITY

As part of the Group's strategy and ambition to continue its growth and performance, Informa's Directors at all times maintain a sharp focus on assessing the Group's long-term prospects and the company's viability as a business on a three-year basis.

### ASSESSING INFORMA'S PROSPECTS

Informa operates in the market for knowledge and information, and has developed strong positions in many specialist vertical markets that offer the potential for long-term growth. It has many of the elements necessary for greater future business success – valuable brands, strong customer relationships and market knowledge, talent and a culture of ideas with commercial focus.

The Group seeks to build on these strong foundations with continued investment in its products and customer platforms, alongside further expansion.

Through the recommended offer for UBM, Informa will benefit from increased operating scale and industry specialisation, creating a leading B2B information services group with the scale and specialist capabilities to capture the long-term growth potential of this expanding market.

Informa runs a rigorous annual business planning process, involving Divisional and Group management with Board input and oversight. This produces Divisional and Group strategic plans, which in turn generate three-year financial plans that drive the setting of in-year budgets.

This process, and the plans that result from it, are a significant contributor to the assessment of the Group's prospects. Informa's current position, Group level strategy, business model and the risks related to the business model are also used to assess prospects.

### FACTORS IN ASSESSING LONG-TERM PROSPECTS

#### Group's current position

- Recurring revenue streams with strong cash dynamics, including positive working capital driving high cash conversion
- Diversified business model by geography of operations and customers
- Diversified business model by products and by the verticals in which Informa operates
- Strong market positions, brands that customers value and a focus on long-term customer relationships
- Flexible cost structure, enabling the business to respond effectively to changes in demand or in markets

See the Financial Review on page 62 for more detail.

#### Strategy and business model

- Clear growth strategy
- Focus on creating capabilities for future growth and scale under the 2014-2017 *Growth Acceleration Plan*
- Intention to build further operating scale and specialism in vertical industries, and in B2B information services, through the January 2018 recommended offer for UBM
- Business model that draws on talent, brands and intellectual capital, technology, relationships, access to finance and natural resources

See the Business Model on page 20 and Strategy on page 6 for more detail.

#### Principal risks related to the Group's business model

- Colleague and talent-focused risks around retention and change management
- Market risk related to new entrants and economic instability related to access to finance
- The risk of technology failure, data loss and cyber breach
- Customers and relationships impacted by privacy regulation risk and reliance on key counterparties
- Acquisition and integration-related risk

See pages 27-32 for a description of each principal risk.

### STRUCTURED STRATEGIC AND FINANCIAL PLANNING PROCESS

The Group's prospects are assessed primarily through the annual strategic planning process, which involves the creation of business plans by Divisional management that are reviewed in detail by the Group Chief Executive, Group Finance Director and the Director of Strategy & Business Planning.

To create these plans, each Division assesses external factors – such as peers and their activity, broad and specific risks and market trends – and internal factors – including people, products and platforms – that influence the business's approach today.

## Mears Group PLC

Mears Group PLC explains the risks and the scenarios applied in a good level of detail and includes thoughtful commentary on the resilience of the business model.

### Business planning and financial viability

In accordance with C.2.2 of the UK Corporate Governance Code 2014, the Directors have assessed the viability of the Group over a five-year period. A period of five years has been chosen as it broadly reflects the average contract length. Whilst the Group holds contracts which extend beyond this time horizon, a period of greater than five years is considered too long, given the inherent uncertainties involved.

The Board considered its key risks. The principal risks are set out on pages 25 and 26 and the most relevant of these risks to viability were considered to be:

- a service delivery failure, possibly resulting in the death or harm of a service user, with significant negative publicity and long-term reputational damage;
- deterioration in carer churn rates and poor recruitment practices resulting in a material reduction in carer numbers, sales volumes and profitability;
- a health and safety failure resulting in serious personal injury or death of an employee or service user, leading to significant financial penalties and significant reputational damage; and
- a failure in our IT systems, impacting upon our ability to deliver our services. We provide services to vulnerable people and even a short period of downtime could cause severe reputational damage. A serious system failure could have significant impact on invoicing our customers and collecting cash.

A financial model has been built on a contract-by-contract basis for the next twelve months and extended on a business-by-business basis for the following four years. The five-year plan considers cash flows as well as financial covenants. Consideration was given to a number of key assumptions, namely future revenue growth, operating margins and working capital management. The assumptions set were considered conservative given the focus of the model is in respect of underperformance. Sensitivity analysis was undertaken to stress test the resilience of the Group and its business model to the potential impact of the Group's principal risks, or a combination of those risks. The Board overlaid the potential impact of the principal risks which could affect solvency or liquidity in 'severe but plausible' scenarios.

Two scenarios were modelled. The first scenario assumed a significant business failure within the Housing division. The model assumed a 6% per annum compound reduction in revenues for each year within the five-year plan, a total reduction of 23%. This was combined with a 1% deterioration in Housing gross margin which, when combined with an under-recovery in central support overheads, resulted in a reduction in Group net profit margin from 4.1% to 2.9% in year five of the model.

The second scenario assumed a similar failure within the Care division. The model assumed a 15% per annum compound reduction in revenues for each year within the five-year plan, a total reduction of 56%. This was combined with a 2% deterioration in Care gross margin which resulted in a Care operating loss of £4.2m in year five of the model but no reduction in Group net profit margin due to the reducing materiality of Care in this scenario.

Both scenarios showed that the Group would remain viable even in the event of a severe business failure over an extended period. No mitigating actions were included within either scenario, which was considered conservative albeit not realistic.

Whilst the Group's continuing operations are based in the UK, the large network of branches does reduce the risk of serious business interruption. In addition, the Group has a broad spread of customers – our largest client constitutes circa 7% of Group revenues which, while significant, would, in the event of its loss, not impact on the Group's wider viability.

The Board has recently completed an 'amend and extend' of the Group's revolving credit facility, which now runs to November 2022. The Board has considered the Group's ability to renew the existing debt facilities in November 2022 and is confident that replacement sources of funding will be available at that time.

The Board also considered the impact of Brexit on the business and does not envisage any significant negative effect impacting on the Group's viability for the period under review.

The Board is mindful that there has been a significant increase in the fines that can be levied upon companies for non-compliance in areas such as health and safety and data protection. Fines are discretionary based on the nature, gravity and culpability of the company but fines are applied based upon a percentage of group revenue. In a low margin business such as Mears, any single fine could have a significant and disproportionate impact upon retained profits. The Board took the view, however, that, whilst such an event could be damaging, it would not ultimately impact on the long-term viability of the Group. Both health and safety and IT and data feature high on the Group's risk register and we continually review our mitigating actions to ensure that we minimise our residual risk.

The Board accepts that, particularly in an increasingly volatile macro-economic environment, uncertainty of results increases as the projections extend out over a five-year period. However, the Board concluded that there is a reasonable expectation that the Group will continue in operation and will be able to continue to meet liabilities as they fall due over the five-year period assessed.



# Board and director stewardship disclosures

## Informa PLC

Informa PLC includes an illustrative case study on values and culture, a technique to communicate culture that has been recommended by the FRC.



Annie Mickle

Informa's framework of codes and policies, plus the Speak Up whistleblowing service, were enhanced and relaunched to colleagues in 2017. Annie Mickle, Group Head of Compliance, explains why.

"Our Code of Conduct was updated to meet the latest regulation and fully articulate our views and commitments in areas like human rights, dignity and respect in the workplace, modern slavery, and safeguarding personal data and information assets.

"We also put a real focus on making sure our code, and 15 global policies that support it, give colleagues clear, accessible guidance on doing the right thing in an engaging and accessible way."

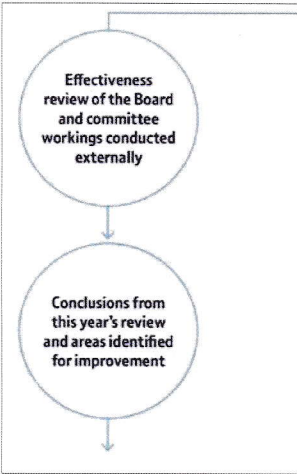
The code includes a foreword from the Chief Executive and is available in five languages to ensure accessibility. The whistleblowing service, Speak Up, allows colleagues and suppliers to report issues confidentially in multiple languages by phone or online, and there is a strict no-retaliation policy.

To implement the code, mandatory training was successfully rolled out to colleagues including contractors and the Board. Our target is to achieve a 100% completion rate while allowing new joiners a period of 30 days to finish their training. Non-compliance with the code can result in disciplinary action.

One of the 15 global policies is a new standalone Diversity & Inclusion policy, created during the year to provide greater detail on anti-discrimination practices and promote a culture of equality and opportunity.

## BT Group plc

BT Group plc provides a detailed explanation of its external board evaluation process.



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graph TD; A((Effectiveness review of the Board and committee workings conducted externally)) --> B((Conclusions from this year's review and areas identified for improvement)); B --> C[ ];
```

### Board evaluation

The Board engaged an external facilitator for the evaluation of the Board and its committees in 2017, in keeping with the guidance provided under the current UK Corporate Governance Code. The facilitator was Ffion Hague of Independent Board Evaluation (IBE), a specialist consultancy that undertakes no other business for BT. The chairman and company secretary provided a brief to IBE in March 2017. This included IBE attending and observing Board and some committee meetings in March and April 2017, as well as reviewing supporting materials designed to enhance the IBE team's understanding of how the Board and its committees operate. IBE also conducted detailed interviews with every Board member following a tailored agenda, with the IBE team also interviewing several *Executive Committee* members and senior managers across the business.

IBE presented its final report, together with recommendations, to the Board at its meeting in September 2017, which the Directors discussed and considered. IBE also prepared separate reports for the *Audit & Risk*, *Nominating & Governance* and *Remuneration Committees*; the conclusions were discussed by the relevant committees. The chairman, Sir Michael Rake, also received a report on each individual director that he subsequently reviewed with them. Nick Rose, as senior independent director, received a report on the chairman, Sir Michael Rake, and subsequently reviewed its findings with him.

In addition to receiving the IBE report, the Board and each committee considered the views of their respective members, as well as of others, on their performance over the year as a whole.

### Countryside Properties PLC

Countryside Properties PLC describes in the audit committee report the assurance the board and the audit committee have obtained over information security and cyber risk.



## INFORMATION SECURITY REVIEW

**"ENSURING THAT THE GROUP'S INFORMATION IS SECURE AND MANAGED CORRECTLY HAS BEEN A KEY FOCUS IN 2017."**

As part of Countryside's review of risk management, a thorough information security review was conducted between 28 June and 13 July 2017. Overseen by the Group's IT Management Committee, the project was led by the Group IT Director, with the support of our security partners, Saepio and Pen Test Partners.

The review consisted of an internal and external penetration test followed by an ISO 27001 audit.

A presentation of the results was made to the Board on 27 July 2017 and a detailed roadmap of improvements is being put in place with the support of our security partners and the Board.

An internal audit by Deloitte, to confirm the Group's assessment of cyber risk readiness, was carried out in October with the results reviewed by the Executive Committee and the Audit Committee during November 2017.

### Howden Joinery Group Plc

Howden Joinery Group Plc summarises key elements of its application of the main Code principles and provides cross-references to where additional information can be found in the annual report.

#### SECTION A: LEADERSHIP

##### A1 THE ROLE OF THE BOARD

**"Every company should be headed by an effective board which is collectively responsible for the long-term success of the company."**

- The Board held eight formal meetings during 2017. Individual Directors' attendance may be found on page 51. The number of meetings and the attendance of each Board Committee may also be found on the following pages:
  - Nominations Committee: page 65
  - Remuneration Committee: page 72
  - Audit Committee: page 85
- A formal schedule of matters which only the Board may take decisions on is available on the Howdens website.
- The Company maintains appropriate insurance cover against legal action brought against it or its subsidiaries, Directors and Officers. It has also provided indemnities to the Directors (to the extent permitted by the Companies Act 2006) in respect of liabilities incurred as a result of their office. Neither the indemnity nor insurance provides cover in the event that the Director is proved to have acted dishonestly or fraudulently.

##### A2 DIVISION OF RESPONSIBILITIES

**"There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision."**

- The roles of Chairman and Chief Executive Officer are separate and clearly defined. They are not exercised by the same individual.
- The responsibilities of each role have been set out in writing and agreed by the Board.
- Further information about the separation of the roles and how they work together for the success of Howdens may be found on page 57.

##### A3 THE CHAIRMAN

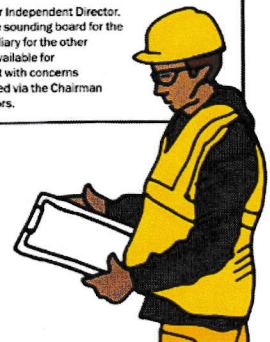
**"The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role."**

- The Chairman was considered independent on appointment.
- The Chairman sets the agendas for all Board meetings and ensures sufficient time is given to each agenda item.
- The Chairman ensures the full Board receives accurate and clear information in a timely fashion (please see B5 'Information and Support' on page 62 for further information).
- All the Directors are encouraged by the Chairman to participate in constructive and open discussions during meetings.

##### A4 NON-EXECUTIVE DIRECTORS

**"As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy."**

- The diversity of skills, experience, approach and mindset of our Non-Executive Directors mean that they are well placed to effectively scrutinise both strategy and operational management. In addition to the Executive Directors, members of the Executive Committee are frequently present in person at Board meetings where Non-Executive Directors can hold them directly accountable.
- Tiffany Hall is the Senior Independent Director. She provides a valuable sounding board for the Chairman and intermediary for the other Directors. She is also available for shareholders to contact with concerns which cannot be resolved via the Chairman or the Executive Directors.





# Succession and diversity disclosures

## Barclays PLC

Barclays PLC explains the approach taken to board composition, including the use of a skills matrix and consideration of diversity and of the executive pipeline.

Area of focus	Notes addressed	Notes of the Committee	Exclusionary information
<b>Board and Board Committee composition</b>	The membership of the Barclays PLC Board and the current and future composition of the Board and its Committees.	<ul style="list-style-type: none"> <li>Reviewed the Board skills matrix and discussed the key skills and experience needed on the Board in the context of future strategic direction, including any areas requiring strengthening for skills and succession and conducted a search for non-executive Directors.</li> <li>Considered the skills and composition of the Board in a post-structural reform environment.</li> <li>Reviewed the membership, size and composition of Board Committees.</li> </ul>	<p>The Committee identified the need to appoint an additional non-executive Director with chairman or CEO experience to add further depth to the Board.</p> <p>During the year it recommended for appointment to the Board Mike Turner CBE, Sir Ian Cheshire (brought on as Chairman of Barclays UK) and Matthew Lester (following the Committee's previous recommendation of an additional non-executive Director with accounting and auditing experience). The Committee agreed that a search would be conducted for an additional female non-executive Director to promote diversity of gender on the Board and in recognition of the Board's commitment to achieving 33% female representation on the Board by 2020.</p> <p>The Committee agreed to review the role, purpose and composition of the Group Board once the Barclays UK and Barclays International Boards were fully constituted and operational boards. It noted that changes to Board Committee membership may take place once those boards, as well as the Group Service Company board, were operational so that a holistic view can be taken on appropriate memberships and cross-memberships of boards and committees.</p> <p>Please refer to page 77 for more details of the Board's approach to the recruitment of new Directors.</p>
<b>Executive succession planning and talent management</b>	Succession planning and talent management at Group Executive Committee level.	<ul style="list-style-type: none"> <li>Considered updates on, and progress being made against, Barclays' Talent and Succession strategy, including monitoring diversity within the talent pipeline.</li> <li>Discussed updates from the Group HR Director on Group Executive Committee succession plans, including assessing emergency cover, the existing talent pipeline and any potential gaps.</li> <li>Considered individuals identified as potential Group Executive Committee successors and discussed next steps for their development.</li> <li>Considered the succession plans for the most critical business unit and functional roles and discussed how to develop the high performing individuals identified.</li> </ul>	<p>The Committee welcomed the progress made in the Group Executive Committee succession planning, but noted that there was further work to be done in ensuring we are able to recruit and retain the best talent for the Group. It noted that the boards of Barclays UK and Barclays International, once established, would be able to take a more granular view of succession to both the Group Executive Committee and business executive committees to give senior individuals exposure to Group matters as a further way of developing these individuals to ensure a healthy pool of potential candidates in the succession pipeline.</p>

## Mondi plc

Mondi plc's board explains its approach to and targets for diversity at board level, includes Hampton-Alexander disclosures on gender diversity and describes how it tracks diversity in the business.

<p><b>Diversity</b></p> <p>Mondi is committed to encouraging and promoting diversity in all its forms.</p> <p>As a global organisation operating in over 30 countries, diversity forms an integral part of the way we do business. We are committed to creating a culture that embraces diversity and provides a working environment that is flexible and non-discriminatory from recruitment and people development to reward and our talent management approach. We strive for an inclusive environment where differences are valued and embraced. We employ, empower and develop competent people with the necessary potential required to meet our business needs and maintain a competitive business advantage.</p> <p>During 2017 the Boards reviewed the Group's formal diversity policy which sets out guidelines for such matters as recruitment, the use of search firms, succession and annual reviews. The review was undertaken in light of increasing expectation in this area, the Boards' desire to send a strong message and the findings of the Hampton-Alexander Review on gender diversity and the Parker Review on ethnic diversity. The revised policy builds on the original one, continuing to set out the Boards' position and clear guidelines in relation to diversity at board and executive committee level and throughout the Group. The policy requires search firms to include female candidates as well as candidates from a variety of ethnic backgrounds in order to ensure that diversity is fully considered during recruitment processes, both at board and executive committee level and throughout the organisation.</p> <p>The policy also confirms the Boards' intention to work towards achieving the Hampton-Alexander Review's recommended target of 33% women on boards and across executive committees and their direct reports by 2020 and the Parker Review's recommended target of one person of colour on boards by 2021, a target that we currently meet.</p>	<p>However, while gender, race and other forms of diversity will always be considered, appointments at all levels will continue to be made based on skill and ability. It remains important to ensure that diversity is seen in a broader context and that we have the right mix of backgrounds, skills, knowledge and experience on our Boards, and throughout the Group, to meet our business needs and future strategy.</p> <p>At the end of 2017, we had two female directors representing 25% of the composition of the Boards and one director of colour. During 2017, we also reported to the Hampton-Alexander Review that as at 30 June 2017 we had approximately 27% female representation across our executive committee and its direct reports combined. While the number of women on our executive committee has increased during the course of 2017, there is still further work required if we are to make progress towards 33%. Details of the DfC executive committee's membership during the year and as at 31 December 2017 can be found on page 110. A continued focus on the pipeline up to executive committee level is needed as well as a focus on other forms of diversity including ethnicity. Additional gender diversity statistics can be found in the Strategic report on page 48.</p> <p>As part of the Boards' oversight of Mondi's diversity policy, two presentations were provided to the committee during the year in relation to diversity, covering new and ongoing initiatives to improve diversity and progress made in this regard.</p> <p>In South Africa we are committed to making a positive contribution to the process of transformation. We have taken active steps to meet the requirements of broad-based black economic empowerment (B-BBEE), including establishing transformation forums in our South African operations to allow our employees to discuss equity and training-related issues and ideas.</p>	<p>Diversity is also an essential part of Mondi's leadership development programme with the inclusion of a number of talent management and development initiatives, including the implementation of training modules such as 'Intercultural Diversity &amp; International Business Competence' through The Mondi Academy to enhance the understanding and appreciation of the benefits of diversity within the business. Other training schemes designed to empower and support diversity include 'Success management training' with a focus on female career strategies for higher management positions and training on career building for young female employees. In addition, employee exchanges where individuals spend time working in different business units and locations around the Group enable them to gain experience of different working practices and skills as well as having exposure to different cultures. Other initiatives include mentoring and development programmes, flexible working practices and membership of an LGBT+ network and consultancy in order to support diversity and employee integration across the business world.</p> <p>The Mondi cultural characteristics incorporate our aim to hire and work effectively with people who differ in race, gender, culture, age and background. We measure our progress through the use of tools such as our global employee surveys and 360° feedback.</p> <p>While it is recognised that there are many challenges and there is more work to do, Mondi believes that continually sharing best practice, networking and sharing experiences both internally and externally helps us to make good progress. More details can be found on pages 47 and 48.</p>
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## Marks and Spencer Group plc

Marks and Spencer Group plc provides clear information about progress against the board's diversity objectives and about developing a diverse pipeline of executive talent.

BOARD DIVERSITY POLICY	
<p><b>Our objective of driving the benefits of a diverse Board, senior management team and wider workforce is underpinned by our Board Diversity Policy (the Policy), which can be viewed on our corporate website. The Board keeps the Policy under review to ensure it remains an effective driver of diversity in its broadest sense, having due regard to gender, ethnicity, background, skill-set and breadth of experience.</b></p> <p><b>BOARD DIVERSITY: PROGRESS UPDATE</b></p> <p><b>Maintain a level of at least 30% female directors on the Board over the short- to medium-term.</b></p> <p>Following the departures of Helen Weir and Miranda Curtis during the year, the level of female representation on our Board reduced from 30% in February 2018 to 14% in May 2018. In May 2018, we announced that Kate Bickerton and Pip McCrostie would join the Board, subject to their election at the Annual General Meeting in July 2018. Following these appointments, female directors will comprise 30% of our Board.</p> <p>The Board is committed to its target for female representation and is mindful of the target set out in the Hampton-Alexander Review of 33% female representation by 2020. The Committee will continue to make recommendations for new appointments to the Board based on merit, with candidates measured against objective criteria and with regard to the skills and experience they would bring to the Board.</p> <p>Our principles for board diversity also apply to our Operating Committee where female representation currently stands at 33%. The Board continues to strengthen the pipeline of senior female executives within the business, and ensure that there are no barriers to women succeeding at the highest levels within M&amp;S. We are pleased that M&amp;S was listed in The Times Top 50 Employers for Women in 2018 for the eighth year running.</p>	<p><b>Ensure long lists of potential non-executive directors include 50% female candidates.</b></p> <p>All long lists for potential future non-executive director appointments include at least 50% female candidates.</p> <p><b>Consider candidates for appointment as non-executive directors from a wider pool, including those with experience outside of traditional listed boards.</b></p> <p>During the year, the Nomination Committee discussed non-executive director appointments and succession. It worked closely with executive search agencies in compiling long and short lists of candidates from various backgrounds and industries. Candidates were identified, interviewed and measured against pre-determined criteria. Although we do not currently openly advertise our non-executive director positions, we keep this under review.</p> <p><b>Only engage executive search firms who have signed up to the Voluntary Code of Conduct for Executive Search Firms on gender diversity and best practice.</b></p> <p>The Board supports the provisions of the Voluntary Code of Conduct for Executive Search Firms and only engages executive search firms who are signatories to this code. During the year, our work on succession was supported by Russell Reynolds and JCA. Neither firm has any other connection with the Company aside from the provision of recruitment services.</p> <p><b>Assist the development of a pipeline of high-calibre candidates by encouraging a broad range of senior individuals within the business to take on additional roles to gain valuable board experience.</b></p> <p>The Board continues to support and encourage initiatives that strengthen the pipeline of executive talent in the Company. It continues to learn from existing programmes, while introducing new initiatives to provide development opportunities to drive the quality of talent throughout the business. Key activities include:</p> <ul style="list-style-type: none"> <li>- A comprehensive talent review presented to the Board, mapping successional candidates and opportunities across all senior roles within the business.</li> <li>- Initiatives for high potential talent to identify and partner key senior talent across the business, broadening their skill-sets and experience to prepare them for future opportunities. This has been supported through greater Boardroom exposure, non-executive and Trustee roles outside of M&amp;S, involvement in senior pipeline programmes and participation in mentoring schemes.</li> <li>- Access to business school training.</li> <li>- Senior management mentoring and coaching schemes and executive director-sponsored engagement forums.</li> </ul> <p><b>Report annually against these objectives and other initiatives taking place within the Company which promote gender and other forms of diversity.</b></p> <p>Diversity and inclusion have continued to be promoted across the business with a number of initiatives:</p> <ul style="list-style-type: none"> <li>- Employee-led networks on gender, ethnicity (BAME), sexual orientation (LCBT) and health conditions. This year, we held our second Diversity &amp; Inclusion festival, engaging thousands of colleagues across M&amp;S.</li> <li>- Continued involvement in the 30% Club, an organisation committed to increasing female representation on UK boards.</li> <li>- Active involvement in key campaigns including LGBT+ Pride celebrations, International Women's Day, Black History Month, National Inclusion Week, Mental Health Awareness Week and World Disability Day, raising awareness and our profile as an inclusive place to work.</li> <li>- Our programmes to help people in our communities, including Marks &amp; Spencer Start International, continue to support young people, the homeless, lone parents and those with disabilities in finding work in our stores and distribution centres.</li> </ul>

See p20 of our Plan A Report for further information on diversity across M&S, available at [marksandspencer.com/plana2018](https://marksandspencer.com/plana2018)

## Rightmove plc

Rightmove plc explains its board gender diversity and its target and provides disclosure of the gender diversity on the executive committee and their direct reports.

At 31 December 2017, female representation on the Board was 38% and with the appointment of Lorna Tilbian in February 2018 that proportion has risen to 44% of Board members. Following the retirement of Ashley Martin in May 2018, we are delighted that female representation on the Board will rise to 50%.

The Board continues to focus on succession planning and developing potential within the senior management team to enable us to promote internal candidates to the Board. The Group succession plan also identifies individuals with potential to join the senior management team in the wider organisation. As at 31 December 2017, 26% (2016: 21%) of our leadership team<sup>(1)</sup>, were female. The Board is keen to strengthen female representation in senior roles and has been a contributor to the Hampton-Alexander Review, a Government sponsored initiative which aims to increase female leadership within the FTSE350. In line with the Hampton-Alexander Review, Rightmove has set a target for 33% female leadership by 2020.

(1) Being the Executive Committee and their direct reports as per the Hampton-Alexander definition.



# Accountability and internal control disclosures

**International Personal Finance plc**  
International Personal Finance plc draws out the scope of internal audit activity and the link between the audit plan and the principal risks of the business.

The plan was split between basic assurance audits, covering core controls across the business as defined in the Group Schedule of Key Risks, and thematic audits providing a deeper review of the mitigation of the specific principal risks facing the Group. The Committee assessed the effectiveness of the internal audit function throughout the year. It considered and approved the annual internal audit plan on the basis that it addressed the principal risks and uncertainties facing the business. The Committee reviewed the reports produced and closely monitored management's progress in implementing the actions agreed. The Committee is satisfied that the internal audit function has a clear remit and a good linkage with the organisation.

**Significant internal audits in 2017 were performed in the following areas:**

Basic assurance	Thematic audits
<p><b>Branch-level reviews:</b></p> <ul style="list-style-type: none"><li>• Management of administration, operational, financial and loss prevention oversight processes in home credit branches in Mexico where the branch network continues to expand.</li></ul> <p><b>Head office audits:</b></p> <ul style="list-style-type: none"><li>• Implementation of IFRS 9</li><li>• Cyber-attack readiness</li><li>• Strategy execution</li><li>• General Data Protection Regulation readiness</li><li>• Core controls over:<ul style="list-style-type: none"><li>• People risk</li><li>• Collections in the home credit markets</li><li>• Change management</li></ul></li></ul>	<ul style="list-style-type: none"><li>• <b>Regulation and compliance:</b><ul style="list-style-type: none"><li>• Anticipating regulatory change</li><li>• Implementation of a Compliance Framework</li><li>• Compliance<ul style="list-style-type: none"><li>– with affordability legislation</li><li>– with licensing regimes</li><li>– with mis-selling legislation</li></ul></li></ul></li><li>• <b>IT and Systems:</b><ul style="list-style-type: none"><li>• Development of IPF Digital core IT system</li><li>• Single digital platform development</li><li>• IT strategy implementation</li><li>• IT key supplier roadmap</li><li>• MyCollections mobile app integrity</li></ul></li><li>• <b>Credit and collections:</b><ul style="list-style-type: none"><li>• Credit and collections of IPF Digital</li><li>• Debt sales strategy execution</li></ul></li><li>• <b>Strategic:</b><ul style="list-style-type: none"><li>• Mexico stabilisation</li><li>• Response to proposed changes to total cost of credit legislation in Poland</li></ul></li></ul>

**Marks and Spencer Group plc**  
Marks and Spencer Group Plc provides good detail on how they have assessed the effectiveness of the auditor, including their conclusion, rationale and a plan for improving audit quality in the coming year.

**EFFECTIVENESS**

The effectiveness of our external auditor is assessed in accordance with a process agreed by the Audit Committee, which involves gathering information through a series of questionnaires tailored to the following target groups:

**1. Heads of Finance: Food, Clothing & Home and International:** Short questionnaire focusing on the audit team, planning, challenge and interaction with the business.

**2. Chief Finance Officer and Director of Group Finance:** Longer questionnaire covering all areas of the audit process and taking into account the questionnaires completed by the Heads of Finance.

**3. Audit Committee:** A high-level set of questions with specific focus on planning, execution, value, communication and challenge. The Committee was provided with a summary of the Chief Finance Officer and Director of Group Finance responses and had access to copies of the completed management questionnaires (sections 1 and 2 above) to assist with its own considerations.

Feedback from each of the target groups was positive overall. It was agreed that the audit partners have a good understanding of our business as well as our values and culture, with an increased awareness of property issues for which specialists within Deloitte have been leveraged. Areas of focus for the year ahead will be on driving analysis and challenge around finance, risk management and internal controls findings.

Adding a further Director to the team has addressed previous issues with availability and the team now appears to be well resourced. It was also widely agreed that a more critical lens was now being applied, with increased evidence of challenge in current judgements.

### Croda International Plc

Croda International Plc provides details of its audit tender process, including the criteria supporting audit quality.

9. Case study	
External Audit Tender	
Set out below is the process we ran to select the best external auditor for the business. The Internal Audit tender essentially followed the same process, other than in September the Audit Committee Chairman, Group Finance Director and Vice President, Risk and Assurance reduced the internal audit candidate firms from five, including the incumbent KPMG, to four shortlisted firms and the Vice President Risk and Assurance was a member of the selection panel.	
October 2016	The Audit Committee Chairman and Group Finance Director met with potential successor firms (PwC) were not asked to tender due to their tenure as external auditors) at the most senior level, and gave an outline of the tender process that we intended to run. Most importantly the key attributes that we expected from the lead audit partner and senior members of the audit team as well as the likely structure of that team were set out. This enabled the firms to select the most appropriate audit partners who could lead the tender. In addition independence was discussed and processes put in place to avoid any such issues arising.
November 2016/ January 2017	Following the introductory meetings three firms confirmed interest in tendering and put forward their proposals for lead audit partner followed by other senior team members. Time was taken to meet with those individuals to ensure the ones selected were the best fit for Croda, in its broadest sense, as without that it was unlikely that Croda would receive the best possible tender. The Committee were then notified of the key individuals selected from each tendering firm.
April 2017	The Committee finalised the detailed selection criteria for the tendering process. These included: <ul style="list-style-type: none"> <li>→ Expertise, competency and cultural fit of the lead partner and team</li> <li>→ Knowledge and understanding of our business, industry and key geographies</li> <li>→ Audit approach including use of data analytics</li> <li>→ Technical expertise, including SAP, and audit quality, including the results of recent FRC Audit Quality Reviews and inspections</li> <li>→ Conflicts of interest and independence</li> <li>→ Quality of reporting and communication, including the ability to challenge constructively</li> <li>→ The selection panel's previous experience of the firms</li> <li>→ Value for money.</li> </ul>
July/August 2017	Formal tender request issued and data room opened.
September 2017	Meetings, held over a number of days, allowing each of the tendering firms to meet with our key personnel in order for them to get a better understanding of the culture, the business and the key requirements. Feedback was gathered from our attendees following each meeting to provide input into the subsequent decision making process. Written proposal documents were then received and reviewed.
October 2017	Selection panel interviews conducted with oral presentations from the shortlisted firms. The panel comprised: <ul style="list-style-type: none"> <li>→ All members of the Audit Committee</li> <li>→ Group Chief Executive</li> <li>→ Group Finance Director</li> <li>→ Group Financial Controller</li> </ul> A formal decision was made by the Committee, taking account of the selection panel's recommendations, and its recommendation to appoint NPMG as external auditor was made to the Croda Board.

### TBC Bank Group PLC

TBC Bank Group PLC provides a detailed explanation of the audit committee's relationship with the auditor and their interactions.

The audit committee of the Company held multiple audit planning meetings with PwC in 2017, commencing this process in the middle of the year. The Audit Committee had the opportunity (without involvement of the Management) to highlight areas it wished the External Auditor to focus on, flagging relevant concerns and trends, and discussing the appropriate audit response.

The Audit Committee has a policy of regular quarterly face to face discussions with PwC as part of our formal meeting agendas, proactively and mutually addressing any material audit or control issues. In addition, the Chairman and often other members of the Audit Committee, had a similar number of more informal (i.e. not minuted) meetings with PwC at occasional but frequent intervals, which combined mutual audit planning/execution updates with some element of briefing or training to the Audit Committee's members on the latest developments in accounting regulations and corporate governance, which included, in particular, PwC sharing with us experiences of best practice across their full international audit spectrum. This provided both parties with the opportunity for open dialogue.

Given the holding company structure of the Group, both the London and Tbilisi practices of PwC are fully involved in the audit process for the Group. PwC Georgia and PwC in Azerbaijan, which audits our small Azeri subsidiary, are both part of PwC's Central and Eastern Europe network firm. In the opinion of the Audit Committee, this 'double coverage' works well and provides some extra reassurance to us in terms of scrutiny of the Group's financial and risk-management processes. We also enjoy ready access to our audit engagement partner (Jeremy Foster) for the entire Group, who is aware of his overall responsibility and ultimate sign-off duties, and the cooperation and communication between the two audit practices is well coordinated with a common audit methodology. The London audit team coordinates the entire audit for the Group and the balance of PwC's audit responsibilities is shifting somewhat from Tbilisi to London. We expect this trend to continue going forward. The Chairman and majority of the Audit Committee's members are based in the UK and enjoy ready access to the audit team there.



# Judgements and estimates, tax and pensions disclosures

## National Grid plc

National Grid plc provides a detailed sensitivity analysis in respect of the key sources of estimation uncertainty, presented in a separate note to the financial statements.

### 33. Sensitivities

In order to give a clearer picture of the impact on our results or financial position of potential changes in significant estimates and assumptions, the following sensitivities are presented. These sensitivities are hypothetical, as they are based on assumptions and conditions prevailing at the year-end, and should be used with caution. The effects provided are not necessarily indicative of the actual effects that would be experienced because our actual exposures are constantly changing.

The sensitivities in the tables below show the potential impact in the income statement (and consequential impact on net assets) for a reasonably possible range of different variables each of which have been considered in isolation (i.e. with all other variables remaining constant). There are a number of these sensitivities which are mutually exclusive and therefore if one were to happen, another would not, meaning a total showing how sensitive our results are to these external factors is not meaningful.

The sensitivities included in the tables below broadly have an equal and opposite effect if the sensitivity increases or decreases by the same amount unless otherwise stated.

#### (a) Sensitivities on areas of estimation uncertainty

The table below sets out the sensitivity analysis for each of the areas of estimation uncertainty set out in note 1E. These estimates are those that have a significant risk of resulting in a material adjustment to the carrying values of assets and liabilities in the next year.

	2018		2017	
	Income statement £m	Net assets £m	Income statement £m	Net assets £m
<b>Pensions and other post-retirement benefits<sup>1</sup> (pre-tax):</b>				
UK discount rate change of 0.5% <sup>2</sup>	8	1,075	9	1,305
US discount rate change of 0.5% <sup>2</sup>	15	623	17	669
UK RPI rate change of 0.5% <sup>3</sup>	5	965	8	1,114
UK long-term rate of increase in salaries change of 0.5% <sup>4</sup>	-	61	2	80
US long-term rate of increase in salaries change of 0.5%	3	44	3	51
UK change of one year to life expectancy at age 65	2	588	2	673
US change of one year to life expectancy at age 65	4	359	4	365
Assumed US healthcare cost trend rates change of 1%	31	448	37	510
<b>Environmental provision:</b>				
10% change in estimated future cash flows	154	154	175	175
0.5% change in discount rate	56	56	67	67

1. The changes shown are a change in the annual pension or other post-retirement benefit service charge and change in the defined benefit obligations.
2. A change in the discount rates is likely to occur as a result of changes in bond yields and as such would be expected to be offset to a significant degree by a change in the value of the bond assets held by the plans.
3. The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant increases in salary assumptions.
4. This change has been applied to both the pre 1 April 2014 and post 1 April 2014 rate of increase in salary assumption.

#### Pensions and other post-retirement benefits assumptions

Sensitivities have been prepared to show how the defined benefit obligations and annual service costs could potentially be impacted by changes in the relevant actuarial assumption that were reasonably possible as at 31 March 2018. In preparing sensitivities the potential impact has been calculated by applying the change to each assumption in isolation and assuming all other assumptions remain unchanged. This is with the exception of RPI in the UK where the corresponding change to increases to pensions in payment, increases to pensions in deferment and increases in salary is recognised.

## Laird PLC

The disclosure pinpoints the area of estimation uncertainty rather than more generally referring to testing goodwill for impairment.

### Goodwill impairment testing: Connected Vehicle Solutions and Wireless & Thermal Systems

The Group determines whether goodwill is impaired on an annual basis and this requires an estimation of the value in use of the cash-generating units to which the intangible assets are allocated. This involves estimation of future cash flows, estimating a growth rate used for extrapolation purposes and choosing a suitable discount rate (see note 16).

Following the Group's various acquisitions total goodwill of £418.0m is recognised on the 2017 balance sheet. In 2016, future financial projections resulted in an impairment of £155.5m in relation to the Connected Vehicle Solutions and the Wireless & Thermal Systems cash-generating units. Given this recent impairment the Group has identified the assumptions and estimates used in goodwill impairment testing as a key source of estimation uncertainty. No further impairment has been identified in 2017. Past assumptions have been updated in 2017 to reflect current trading performance and future expectations, which has resulted in an increase in impairment headroom over 2016.

The assumptions selected and associated sensitivity analysis are disclosed in note 16.

### LSL Property Services plc

LSL Property Services plc provide a good example of the new disclosure requirements of IAS7.44A in a clear reconciliation format.

12. Cash-flow from financing activities						
	At 1 <sup>st</sup> January 2017 £'000	Cashflow £'000	Acquisition £'000	Foreign Exchange £'000	Fair Value £'000	At 31 <sup>st</sup> December 2017 £'000
Long Term Liabilities	16,500	10,500	-	-	-	27,000
Short Term Liabilities	3,756	(777)	-	-	-	2,979
	20,256	9,723	-	-	-	29,979

**Short term liabilities**  
The overdraft totalling £3.0m (2016: £3.8m) is secured via cross guarantees issued from all of the Group's subsidiaries excluding the following subsidiaries, Homefast, Linear (Linear Mortgage Network and Linear Financial Services), Templeton LPA and Chancellors Associates (see Note 21 to these Financial Statements).

**Long term liabilities**  
The bank loan totalling £27.0m (2016: £16.5m) is secured via cross guarantees issued from all of the Group's subsidiaries excluding the following subsidiaries, Homefast, Linear (Linear Mortgage Network and Linear Financial Services), Templeton LPA and Chancellors Associates (see Note 21 to these Financial Statements).

### IP Group plc

IP Group plc provide a table clearly showing the key assumptions quantified for the purposes of impairment testing by IP Group plc.

	2017	2016
Number of spin-out companies per year	13-16	10-15
Annual investment rate	£50m-£60m	£40m-£75m
Rate of return achieved	15%-20%	15%-22%
Proportion of IPO exits	25%-30%	25%-35%
Proportion of disposal exits	25%-28%	25%-32%
IPO & Disposal valuations	£30m-£35m	£25m-£35m
Long term growth rate	1.5%-1.7%	1.9%
Discount rate	10%-15%	9%-11%

### Vodafone Group Plc

Vodafone Group Plc give a good example of the sensitivity analysis required by IAS36.134(f).

Sensitivity analysis			
Other than as disclosed below, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of any cash-generating unit to materially exceed its recoverable amount.			
The estimated recoverable amount of the Group's operations in Germany, Spain and Romania exceed their carrying values by €7.7 billion, €0.3 billion and €nil respectively. The changes in the following table to assumptions used in the impairment review would, in isolation, lead to an impairment loss being recognised for the year ended 31 March 2018.			
	Change required for carrying value to equal recoverable amount		
	Germany ppts	Spain ppts	Romania ppts
Pre-tax risk adjusted discount rate	2.0	0.2	0.1
Long-term growth rate	(2.3)	(0.2)	(0.1)
Projected adjusted EBITDA <sup>1</sup>	(3.3)	(0.3)	(0.1)
Projected capital expenditure <sup>2</sup>	16.3	1.4	0.4

**Notes:**  
1 Projected adjusted EBITDA is expressed as the compound annual growth rates in the initial five years for all cash-generating units of the plans used for impairment testing.  
2 Projected capital expenditure, which excludes licences and spectrum, is expressed as capital expenditure as a percentage of revenue in the initial five years for all cash-generating units of the plans used for impairment testing.

### Informa Plc

Informa Plc gave a precise disclosure, avoiding boilerplate descriptions, of the factors leading to goodwill.

The goodwill of £63.2m arising from the acquisition relates to the following factors:

- providing Informa with increased scale in the growing international yachting vertical;
- complementing the existing Group's ownership of the Monaco Yacht Show; and
- adding to the Global Exhibitions Division's scale in the US.



# Appendix 4 – Regulatory overview

## The big picture

The demands placed on companies in relation to their corporate reporting by regulators and investors continue to evolve. To assist companies in addressing these changing demands, the FRC continues to issue helpful guidance as part of its long-standing 'Clear & Concise Reporting' initiative, as well as through the work of its Financial Reporting Lab.

Since we published our last annual report insights survey, the Financial Reporting Lab has issued:

- Disclosure of dividends – policy and practice (October 2017) examines how companies have responded to suggestions for enhanced disclosure. It also includes some examples of developing practice.
- Risk and viability reporting (November 2017) – looks at the views of companies and investors on the key attributes of principal risk and viability reporting, their value and use. It also includes some illustrative examples of reporting favoured by investors.
- Reporting of Performance metrics – an investor perspective (June 2018) which sets out a framework and set of questions for companies and their boards to consider when reviewing the reporting of performance metrics.
- Blockchain and the future of corporate reporting – how does it measure up (June 2018) which explores some of the potential use-cases and impacts on corporate reporting.

The following parts of our regulatory overview examine requirements and hot topics in respect of narrative reporting, corporate governance and financial reporting.

## Narrative reporting

This past year, the UK implementation of the EU Directive on disclosure of non-financial and diversity information (NFR Directive) became effective<sup>1</sup>. This requires companies within scope to include a non-financial information statement in their strategic report. 70 companies in our survey were within scope by virtue of year end and size. Our results indicate that many companies found the new requirements a challenge (see section 4).

Another significant development this year, which will take effect for periods beginning on or after 1 January 2019, is the publication of new reporting requirements stemming from the government's agenda for corporate governance reform. The new requirements aim to strengthen the link between section 172 of the Companies Act 2006 (s172), described below, and the strategic report to help the report provide greater insight into whether boardroom decisions have taken wider stakeholder interests into account<sup>2</sup>. The FRC has updated its Guidance on the Strategic Report to reflect these developments<sup>3</sup>.

## Existing requirements

### The strategic report

Other than for small companies, which are exempt, the main component of the narrative section of an annual report is the strategic report, as required by section 414A of the Companies Act 2006. Companies are also required by section 415 of the Act to include a directors' report. Since the introduction of the strategic report this mainly contains basic compliance disclosures although recent corporate governance reform has seen some additional requirements added.

The Disclosure Guidelines and Transparency Rules (DTR) of the Financial Conduct Authority also require most listed companies to prepare an annual 'management report' to accompany their financial statements. However, with one small exception, these requirements duplicate existing requirements within the law concerning the content of the directors' report and strategic report.

The purpose of the strategic report is to provide information for shareholders and help them to assess how the directors have performed their duty, under s172, to promote the success of the company and, in so doing so, had regard to the matters set out in that section<sup>4</sup>. These matters include a number of nonfinancial considerations:

- the likely consequences of any decision in the long term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct, and
- the need to act fairly as between members of the company.

The content requirements for the strategic report differ depending on whether a company is a quoted company or a public interest entity (PIE), as defined below. This is due to the way that the NFR Directive was implemented into UK law as it resulted in two similar, but different, sets of requirements operating in parallel for quoted companies within scope, which leads to some complexity. The FRC, in its updated Strategic Report Guidance, has tried to help companies by producing one set of guidance for those entities which are PIEs (section 7B) and one set for those which are not (section 7A).

For all quoted companies, the strategic report is required to include<sup>5</sup>:

- a fair review of the company's business, including elements such as a description of the company's business model, its strategy and information about corporate social responsibility (see sections 3, 4 and 5 for more details);
- to the extent necessary for an understanding of the development, performance or position of the company, analysis using financial and, where appropriate, non-financial KPIs (see section 5 for more details); and
- a description of the principal risks and uncertainties facing the company. The UK Corporate Governance Code and associated guidance also contains requirements in this area (see section 7 for more details).

Also, many companies choose to present the longer term viability statement and going concern disclosures required by the 2016 Code as part of their strategic report (see section 8 for more details).

### Non-financial information statement

For periods commencing on or after 1 January 2017, those entities that are PIEs need to include a non-financial information statement (NFI statement) in their strategic report<sup>6</sup>. A PIE is defined as:

- a traded company (which means a company any of whose transferable securities (debt or equity) are admitted to trading on a regulated market in the EEA); a banking company; an authorised insurance company; or a company carrying on insurance market activity; and
- parents of a group with more than 500 employees.

The content of the NFI statement is similar but not identical to the strategic report requirements above so companies will need to be careful that they include all the relevant elements that apply to them. For large quoted companies, the NFI statement builds on the existing requirements of the strategic report by introducing specific requirements to disclose information on anti-corruption and bribery matters (including related policies), to discuss due diligence over non-financial policies and to explain the impact of and risks relating to various non-financial reporting matters.

Disclosure does not need to be duplicated – there are exemptions from some of the existing strategic report requirements for companies which are required to include a NFI statement. However, the FRC's Guidance makes clear that a separate NFI statement will need to be made in the strategic report, but cross references can be made from that statement to the relevant content that is included elsewhere in the strategic report.

Our findings on how companies have addressed the new requirements this year are discussed in section 4 (on stakeholders).

The FRC's revised Guidance includes a lot of information for companies on how to present the content requirements of the strategic report most effectively.



The updated version of the Guidance, which has been enhanced to recognise the increasing importance of non-financial reporting, reflects the new requirements of the NFR Directive and enhances the link between the purpose of the strategic report and the matters directors should have regard to under s172.

The <IR> Framework also gives guidance on reporting requirements that will be helpful to UK companies. However, the <IR> Framework goes further than this, introducing the concept of 'Integrated Thinking' – challenging and enabling companies to 'live their story' rather than merely tell it. Integrated reporting (<IR>) is discussed in more detail throughout this report – look out for the <IR> boxes.

### Alternative Performance Measures

Listed companies are still getting to grips with the European Securities and Markets Authority's (ESMA's) Guidelines on Alternative Performance Measures (APMs)<sup>7</sup>.

These guidelines apply to a variety of documents but, in particular, include within their scope the narrative sections of annual reports (but not the financial statements themselves). Although they are described as 'Guidelines', ESMA has stated that they expect compliance with them to be enforced by national regulators.

In a UK context, the FRC has issued a number of publications explaining that they are assessing how companies are meeting the requirements of the ESMA Guidelines as part of the activities of their Conduct Committee, i.e. reviews of company annual reports. These include their annual review of corporate reporting<sup>8</sup> and their findings from their second thematic review<sup>9</sup> of the use of APMs. Also, recently published is a report from the Financial Reporting Lab of the FRC on performance metrics<sup>10</sup> which includes an investor perspective on the reporting of performance metrics.

Deloitte has produced a practical guide to the ESMA Guidelines<sup>11</sup> to assist preparers in complying with the requirements. Similarly, ESMA itself has issued a set of Q&As in relation to its Guidelines<sup>12</sup>.

The Guidelines set out a framework for the presentation of APMs, also known as non-GAAP measures, aimed at promoting their usefulness and transparency. In particular, they require that:

- APMs should be defined and the basis of calculation set out;
- APMs should be reconciled to the most directly reconcilable line item, subtotal or total presented in the financial statements;
- APMs should not be displayed with more prominence, emphasis or authority than the most directly comparable measure defined by the entity's financial reporting framework;
- APMs should be accompanied by comparatives for the corresponding previous period; and
- APMs should be consistent over time, with changes in or the cessation of use of an APM explained.

Our findings on the presentation of APMs are discussed in section 5.

### Statements outside the annual report

There are various reporting requirements for companies, aimed to increase transparency, which require publication on a website rather than as part of a company's annual report. These include:

- a slavery and human trafficking statement, as required by the Modern Slavery Act 2015<sup>13</sup>. (see section 4); and
- disclosure of tax strategy<sup>14</sup>.

Companies will also be required to comply with the following:

- gender pay gap reporting came into force on 6 April 2017 with the first disclosures being required by 4 April 2018; and
- payment practices and performance disclosure needs to be made by large companies for years commencing on or after 6 April 2017.

Publication of all the above is required to be on a website rather than as part of a company's annual report. However, where issues in these areas are material to the business, companies will need to consider whether disclosure should also be provided to meet the above requirements of the strategic report. We looked at the extent to which companies are deciding to include this information in their annual report (see sections 4 and 6).

### New requirements for December 2018 year-ends

Although there are no mandatory new requirements for years ended 31 December 2018, there are various areas of regulatory focus, set out below, where many companies could improve their reporting. Companies may also wish to look to the FRC's updated guidance on the strategic report and the forthcoming changes to narrative reporting, described further below.

### Areas of regulatory focus

Narrative reporting is under increasing scrutiny - the strategic report is the second most commonly raised issue in the FRC's corporate reporting reviews. The FRC is aware of concerns regarding a lack of trust in big business and that expectations of corporate reporting are rising, particularly in respect of:

1) recognising the importance for the long-term success of the company of engagement with employees, customers, suppliers and other stakeholders. The FRC is encouraging companies to be more transparent about how they are engaging various stakeholders and distributing the value they create amongst different groups of those stakeholders, such as in the form of dividends, pay and benefits, capital investments and tax; and

2) the need to communicate how a company generates and preserves value.

The FRC's updated Strategic Report Guidance has been enhanced to recognise the increasing importance of non-financial reporting and encourages companies to consider wider stakeholders and broader matters that impact performance over the longer term. Future changes to reporting requirements in this area are also described below.

The following areas of regulatory focus have been identified in relation to narrative reporting.

- The business review included within the strategic report should be **fair, balanced and comprehensive**. This includes balancing analyses that use non-GAAP measures with analyses that use unadjusted metrics and ensuring discussions of performance and position are suitably comprehensive and not omitting 'bad news'. Companies should also ensure that they provide a fair and balanced assessment of performance and prospects that covers both positive and negative aspects.
- Presentation of **alternative performance measures** is still a significant focus area given the requirements introduced by the ESMA Guidelines. In addition, the identification of items excluded from APMs (often described as 'exceptional items') is also likely to be an area of continued focus – see the financial statements section of this appendix for more detail.
- The **linkage and consistency** of the information included in the 'front half' and 'back half' of the annual report. Companies should ensure that there is cohesion between the information reported and effective linkage throughout the annual report. For example, consistency would be expected between the items identified as part of capital when discussing capital management in the front and back halves of the report. Similarly, the description of reconciling items in a company's tax note should be consistent with discussions in the strategic report. The FRC has also highlighted<sup>15</sup> that they want companies to pay attention to ensuring the links between the financial statements and discussions of strategy, performance including KPIs, financial position and cash flows are clear.
- Ensuring that information provided is **company-specific and material** to an understanding of the business, its performance and prospects.
- Identification of **principal risks and uncertainties**. Companies should ensure that the risks and uncertainties disclosed are genuinely *principal* and make sure they discuss how risks are identified, managed or mitigated. Linkage between risks and strategic objectives and KPIs has been specifically highlighted as needing to be clearly disclosed. There is a particular focus on those systemic risks such as climate risk, Brexit and cyber risk.



- The FRC expects reference to be made to the **impact of climate change** where relevant for an understanding of the company's activities. Omitting this would question whether the strategic report is comprehensive.
- A number of suggestions for improvement of **disclosure of business models** were made in the FRC's Financial Reporting Lab's report in 2016. Companies should, therefore, expect more scrutiny in this area, e.g. in respect of articulating the key drivers of the business.
- Where in scope, ensure that the requirements for the **non-financial information statement** are covered.
- **Identification of KPIs.** Companies should consider whether ratios that are discussed prominently in the strategic report should be identified as KPIs, and that where APMs are identified as KPIs the information required by the ESMA Guidelines is given. Where KPIs have changed year on year, changes should be explained.
- Disclosure of **dividend policy and practice** (i.e. how the policy is applied in taking decisions to declare dividends) as well as the level of distributable reserves will be an area of focus, especially after the FRC's latest Financial Reporting Lab report on this topic (published in October 2017) made a number of suggestions to improve disclosure.
- The **impact of the EU referendum** decision has been highlighted as an area where the FRC expects to see more detailed disclosure as the economic and political effects develop.

#### Looking further ahead

The government has published new reporting requirements for private and public companies in response to its consultation on corporate governance reform. The Companies (Miscellaneous reporting) Regulations 2018<sup>16</sup> introduce the following new reporting requirements for periods beginning on or after 1 January 2019:

- All large companies (private as well as public) must include a section 172(1) statement in their strategic report which describes how their directors have complied with their duty to promote the success of the company for the benefit of its members whilst having regard to the matters set out in section 172(1)(a)(f) (see above)

We looked for an indication that the s172 matters were considered by those companies in our survey. Most companies clearly considered employees and environment. See section 4.

- The directors' report of all large companies (private as well as public) must include more information on how directors have had regard to the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard on the principal decisions taken by the company during the financial year. Requirements are also added in respect of how directors have engaged with employees, had regard to employee interests, and the effect of that regard on the principal decisions taken by the company during the financial year.

Section 4 of our survey discusses the trends we are seeing with respect to engagement with stakeholders.

- All companies of a "significant size" must disclose their corporate governance arrangements in their directors' report and on their website, including whether they follow any formal code (excluding companies such as listed companies which are already required to report on their corporate governance arrangements – see below).
- All quoted companies must also comply with new reporting requirements that have been introduced in respect of CEO pay ratios and long-term incentive outcomes.

Further details can be found in our Need to Know<sup>17</sup>. The FRC's updated Guidance on the Strategic Report includes guidance on how companies might approach the section 172(1) statement.

### Corporate governance

This past year the main new requirement for premium listed companies was the update to the DTR, requiring companies to describe their diversity policy in relation to the board, including aspects such as age, gender, geographical diversity and educational and professional background, in the corporate governance statement (see section 10).

Much of the reporting focus for companies and the Financial Reporting Council (the FRC) has been on areas being explored for the purpose of improved communication between companies and investors, in particular viability statements (see section 8) and audit committee reporting (see section 11).

New legislative requirements arising from the Government's corporate governance reform agenda, together with the fundamental changes built into the 2018 version of the UK Corporate Governance Code, will come into effect for periods commencing on or after 1 January 2019, with pressure from investors to adopt certain of the disclosure requirements early, particularly with regard to executive pay.

### Existing requirements

Listed companies are required by the Listing Rules to make certain disclosures about corporate governance in their annual reports. Companies with a premium listing are required to state how they have applied the main principles set out in the UK Corporate Governance Code<sup>18</sup> (the Code) issued by the FRC. This should be sufficient to enable shareholders to evaluate how the principles have been applied. They are also required to make a statement of compliance throughout the year with all relevant Code provisions, identifying provisions that have not been complied with and explaining their reasons for this non-compliance. The FRC has issued guidance<sup>19</sup> on what constitutes a meaningful explanation. The Listing Rules also require disclosures regarding certain provisions of the Code, including those on the preparation of financial statements on a going concern basis and the preparation of a longer term viability statement.

During the period covered by this year's survey, companies had to report on their compliance with the 2016 Code, which is supported by the FRC's Guidance on Board Effectiveness<sup>20</sup>, Guidance on Risk Management, Internal Control and Related Financial and Business Reporting<sup>21</sup>, and by the Guidance on Audit Committees<sup>22</sup>.

The FRC's guidance documents include recommendations regarding disclosure in the annual report. Alongside the 2016 Code, a new FRC Ethical Standard for Auditors also became effective for periods commencing on or after 17 June 2016, which places additional restrictions on the non-audit services that can be provided by the external auditor. Disclosure recommendations regarding non-audit services are incorporated into the Guidance on Audit Committees.<sup>23</sup>

The main components of a company's corporate governance report are:

- a statement on how the company has applied the main principles of the Code and a statement of compliance with the detailed provisions of the Code (see section 9), often with an introduction from the Chairman of the board focusing on the principles of accountability and effectiveness;
- statements on the robust assessment of principal risks and the longer term viability statement (see section 8), which some companies include as part of their corporate governance report, although the majority have presented these as part of their strategic report;
- a report on the work of the audit committee, in particular its role in oversight of effectiveness of risk management and internal control systems, in assuring the integrity of the company's financial reporting, such as its detailed consideration and challenge of management regarding the significant issues affecting the financial statements, and in its oversight of relationships with both internal audit and the external auditor, covering effectiveness and scope and (for the external auditor) tendering and non-audit services (see section 11 for more details); and
- reports from the other significant board committees, in particular the nomination committee regarding succession and diversity (see section 10 for more details), the remuneration committee and, where constituted, the risk committee.

Quoted companies reporting under the Act are required to include a directors' remuneration report. This report must contain a statement by the chair of the remuneration committee telling the story of the year in respect of remuneration.



The report is split into a policy report, which is not subject to audit and is not required to be presented in full in years where there will not be a vote on the company's remuneration policy, and an annual report on remuneration, some elements of which are subject to audit. The policy report is subject to a binding shareholder vote every three years, or whenever the policy is to change. The annual report on remuneration is subject to an annual advisory vote and includes a "single figure" directors' remuneration table. The GC100 and Investor Group has published guidance on these requirements, which was updated in August 2016<sup>24</sup>.

Updates to the DTR, reflecting the diversity requirements of the EU Non-Financial Reporting Directive, came into effect for periods commencing on or after 1 January 2017.

These require companies within scope – public interest entities that are not small or medium sized – to describe their diversity policy in relation to the board, including aspects such as age, gender, geographical diversity and educational and professional background, in the corporate governance statement. As well as describing the policy, or providing a clear explanation if no such policy exists, they must explain the objectives of the policy, how it has been implemented and the results of the policy in the reporting period. Where this information is incorporated into existing disclosures outside the corporate governance statement, a suitable cross-reference should be provided.

#### **New requirements for December 2018 year-ends**

There are no new corporate governance requirements this year for premium listed companies with years commencing on or after 1 January 2018. This provides a welcome opportunity for companies to focus instead on embedding previous reporting requirements and planning for the substantial changes for periods commencing on or after 1 January 2019. However there continue to be areas receiving regulatory focus which we have set out below.

For companies on the Alternative Investment Market (AIM), corporate governance disclosure requirements have changed and will now require companies to report on the application of a recognised corporate governance code, with an implementation date of 28 September 2018. The Quoted Companies Alliance has issued a revised version of the QCA Corporate Governance Code to coincide with this change.<sup>25</sup>

#### **Areas of regulatory focus**

Corporate governance is currently an area of substantial focus for Government, regulators such as the FRC, and investors along with their representative organisations. Much of the focus over the past year has been on the corporate governance reform changes implemented in July 2018 through legislative change and a new 2018 UK Corporate Governance Code, all of which will come into effect for periods commencing on or after 1 January 2019.

The FRC has encouraged companies to consider and bring some of the related disclosures in the strategic report into effect early, through its revised Guidance on the Strategic Report and guidance on implementing non-financial reporting (see above).

Some of the other areas that the FRC is focusing on include:

- Further improvements to viability statements, which the FRC highlights is a priority for investors.<sup>26</sup> One of the key focus areas for the FRC and for investors is the disclosure of prospects as well as viability. The FRC has explained that it envisages a two stage process to meet the Code provision with clearly differentiated reporting on each stage – the first being about the assessment of the prospects of the company, including the resilience of the business model, and the second being about the directors' reasonable expectation of viability for the period of their assessment. The FRC anticipates that the period over which directors assess the prospects of the company will be longer than the period for the viability assessment. This is also consistent with the Investment Association's Guidelines on Viability Statements<sup>27</sup> and with the findings of the FRC's Financial Reporting Lab's report on Risk and Viability Reporting.<sup>28</sup>
- Succession planning and corporate culture disclosures have each been the subject of recent FRC projects and feature in the new 2018 UK Corporate Governance Code (see below).
- The FRC is encouraging companies to review their Brexit disclosures regularly. In particular, it calls for companies to make their disclosures on the uncertainties arising as a result of Brexit more specific, identifying the nature of the likely risks and ensuring the disclosure reflects their latest analysis of the potential impact on the business.

The FRC has launched a new Lab along the lines of the Financial Reporting Lab in order to foster dialogue between audit committees, investors and auditors. The Audit & Assurance Lab published its first report, Audit Committee Reporting, in December 2017. This report “focuses on the good practice elements of existing audit committee reporting, and encourages audit committees to consider adopting them.”<sup>29</sup>

The report’s key recommendations on audit committee reporting include:

- It is useful to bring out **key messages**, for instance in an introductory statement from the chair.
- More **concise reporting** is more likely to be read, enabling key information to be identified by investors
- Explain in the audit committee report why the **significant issues** relating to the financial statements were deemed to be significant, what challenges the audit committee raised on those issues and what the conclusion was. The disclosure on significant issues should be easily identified and understood.
- Sufficient emphasis should be placed on **audit quality** and **auditor independence**, in particular disclosure is useful when there is a planned external audit tender.
- Make it clear what the audit committee’s role is in relation to **internal control, risk management, and internal audit**, in particular where there are other committees such as a risk committee that may share responsibility in this area.

#### Looking further ahead

##### 2018 UK Corporate Governance Code

Under the Government’s corporate governance reform initiatives, elements of reform are being brought in through the 2018 UK Corporate Governance Code, issued by the FRC in final form on 16 July 2018 and accompanied by new Guidance on Board Effectiveness, effective for periods commencing on or after 1 January 2019. The FRC took the opportunity to perform a fundamental review and has also covered recent hot topics including corporate purpose, s172 of the Companies Act 2006 (described above), succession planning, corporate culture and diversity.

The changes to the Code are wide-ranging and principles-based. They are aimed squarely at companies achieving long-term, sustainable success. Reporting under the Code and the associated guidance is expected to demonstrate “how the governance of the company contributes to its long-term sustainable success and achieves wider objectives”.<sup>30</sup>

In this context, the key new elements of reporting requirements under the new Code are below.

On board leadership and company purpose, much of which is likely to be covered in the strategic report:

- The board should describe how opportunities and risks to the future success of the business have been considered and addressed, the sustainability of the company’s business model and how its governance contributes to the delivery of its strategy.
- The board should assess and monitor culture and ensure corrective action is taken where required. Disclosure should explain the board’s activities, any action taken, and an explanation of the company’s approach to investing in and rewarding its workforce.
- Where there has been a 20 per cent or greater vote against a resolution, the board should seek feedback and provide a final summary on what impact this has had on the decisions the board has taken and any actions or resolutions now proposed.
- The board should describe how the views of the company’s key stakeholders and the other matters set out in s172 of the Companies Act 2006 have been considered in board discussions and decision-making. Whilst this is similar to the legislative requirement explained in the narrative reporting section of this regulatory overview, as it falls within the Code it applies to all premium listed companies, not only those that are UK registered.
- If the board does not use one of the three methods of workforce engagement described in provision 5 of the Code, it should explain what alternative arrangements are in place and why it considers that they are effective.



On division of responsibilities:

- The board should provide a clear explanation where it considers a non-executive director is independent regardless of any of the circumstances outlined in the Code which may impair independence, or other relevant circumstances which may suggest that a non-executive director's independence is impaired.
- The reasons for permitting directors to undertake other significant external appointments should be explained.

On composition, succession and evaluation, including nomination committee reporting:

- The papers accompanying the resolutions to elect each director should set out the specific reasons why their contribution is, and continues to be, important to the company's long-term sustainable success. (In practice, we expect this disclosure will generally be in the annual report which accompanies the resolutions.) Also see section 10.
- A clear explanation should be provided where the chair remains in post beyond nine years from the date of their first appointment to the board (for succession planning purposes).
- Enhancement of disclosures regarding board evaluation, including the nature and extent of the external evaluator's contact with the board and individual directors, the outcomes and actions taken, and how it has or will influence board composition.
- Diversity disclosures, including how succession planning supports developing a diverse board, and the gender balance of those in the senior management and their direct reports.<sup>31</sup>

On audit, risk and internal control, including audit committee or risk committee reporting:

- Where there is no internal audit function, in addition to explaining why this is the case, there should be an explanation of how internal assurance is achieved, and how this affects the work of external audit.
- In addition to the existing disclosures regarding principal risks, the board should carry out a robust assessment of the company's emerging risks and explain what procedures are in place to identify emerging risks.

On remuneration, most disclosure requirements have historically not been included in the Code. However, the new Code requires a description of the work of the remuneration committee, including:

- the strategic rationale for executive directors' remuneration policies, structures and any performance metrics;
- reasons why the remuneration is appropriate using internal and external measures, including pay ratios and pay gaps;
- a description, with examples, of how the remuneration committee has addressed the factors affecting policy and practices: clarity, simplicity, risk, predictability, proportionality and alignment to culture;
- whether the remuneration policy operated as intended and, if not, what changes are necessary;
- what engagement has taken place with shareholders and the impact this has had;
- what engagement with the workforce has taken place; and
- to what extent discretion has been applied to remuneration outcomes and the reasons why.

These changes will come into effect for periods commencing on or after 1 January 2019.

### Changes for large private companies

As mentioned above, the Secretary of State made The Companies (Miscellaneous reporting) Regulations 2018<sup>32</sup> on 17 July 2018 in response to the Government's corporate governance reform agenda.

This includes the requirement for all companies with either 2,000 or more global employees, or a turnover over £200m globally and a balance sheet over £2bn globally, to disclose their corporate governance arrangements in their directors' report and on their website, including whether they follow any formal code.<sup>33</sup>

This applies for periods commencing on or after 1 January 2019 and falls on individual companies that are not otherwise required to make corporate governance disclosures in the annual report, including AIM companies and subsidiaries of listed businesses that meet the size criteria.

## Financial statements

Listed groups are required to prepare consolidated accounts under IFRSs as adopted by the EU, although whether and for how long the EU endorsement aspect will remain unaltered once the UK leaves the EU is at present unclear. Listed entities that are not parent companies, such as many investment trusts, can also choose to prepare financial statements using FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (FRS 102).

The separate financial statements of a 'qualifying entity' can be prepared under FRS 101 *Reduced Disclosure Framework* (FRS 101), which closely reflects IFRS accounting but with reduced disclosures. If eligible, this may be an attractive option for many parent companies' separate financial statements and for their subsidiaries. Another option is to apply FRS 102 with reduced disclosure. There is no longer a requirement for companies applying FRS 101 or reduced disclosures under FRS 102 to notify their shareholders in writing.

The past year saw relatively few changes coming into force for the reports covered by our survey this year – the most significant was an amendment to IAS 7 *Statement of Cash Flows*, discussed in section 13.

## New requirements for December 2018 year-ends

Below is a list of the new IFRS requirements coming into force for financial years ending between September 2018 and August 2019. Hyperlinks to further information are included in the table.

Title	As issued by the IASB mandatory for accounting periods starting on or after	Per the EU adopting regulation, mandatory for accounting periods beginning on or after
Amendments to IAS 7 (Jan 2016) – Disclosure Initiative	1 January 2017	1 January 2017
Amendments to IAS 12 (Jan 2016) – Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	1 January 2017
Annual Improvements to IFRSs: 2014-16 Cycle (Dec 2016) – IFRS 12 Amendments	1 January 2017	1 January 2017
IFRS 9 – Financial Instruments	1 January 2018	1 January 2018
IFRS 15 – Revenue from Contracts with Customers (including clarifications)	1 January 2018	1 January 2018
IFRIC 22 – Foreign Currency Transactions and Advance Consideration	1 January 2018	1 January 2018
Amendments to IFRS 2 (Jun 2016) – Classification and Measurement of Share-based Payment Transactions	1 January 2018	1 January 2018
Amendments to IFRS 4 (Sept 2016) – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018	1 January 2018
Amendments to IAS 40 (Dec 2016) – Transfers of Investment Property	1 January 2018	1 January 2018
Annual Improvements to IFRSs: 2014-16 Cycle (Dec 2016) – IFRS 1 and IAS 28 Amendments	1 January 2018	1 January 2018



### Areas of regulatory focus

In November 2017, the FRC published findings from its thematic reviews into the disclosure of judgements and estimates under IAS 1<sup>34</sup> and defined benefit pension disclosures under IAS 19<sup>35</sup>. A report was also published following a thematic review into the use of alternative performance measures<sup>36</sup>, focusing on application of the relevant ESMA Guidelines, which only apply to companies' narrative reporting, but contain points that may also be of relevance to non-GAAP measures included in the financial statements. In all three areas improvements had been noted in certain areas, although the FRC set out areas they will continue to challenge.

In respect of judgements and estimates, the FRC stated that, amongst other items set out in their thematic review, it will continue to challenge and expect change by companies that do not:

- identify the assets and liabilities at significant risk of material change in the next 12 months;
- quantify the specific amounts; and
- provide sensitivity analysis of the possible range of outcomes.

In respect of defined benefit pension disclosures, the FRC stated that, amongst other items set out in their thematic review, it will continue to challenge and expect change by companies that do not:

- disclose the information needed to support an understanding of how pension-related risk may affect the amount, timing or uncertainty of future cash flows (including quantified information about the level of funding of the pension scheme in future years); or
- clearly explain the basis on which different plan assets have been valued.

In respect of APMs, the FRC will continue to challenge and expect change by companies that display APMs with greater prominence than IFRS measures or those who default to identifying matters as 'non-recurring' or similar in connection with items such as restructuring or impairment charges. The FRC will also continue to challenge apparent non-compliance with the ESMA Guidelines more broadly.

The FRC's thematic reviews for 2018/19 are:

- targeted aspects of smaller listed and AIM quoted company reports and accounts;
- the effect of the new IFRSs on revenue and financial instruments on companies' 2018 interim accounts;
- the expected effect of the new IFRS for lease accounting; and
- the effects of Brexit on companies' disclosure of principal risks and uncertainties.

Priority sectors and areas of focus announced by the FRC for reviews in 2018/19 are as follows:

- financial services, with particular emphasis on banks, other lenders and insurers;
- oil and gas;
- general retailers; and
- business support services.

More generally in relation to financial statements, and in addition to the items above, significant areas of regulatory focus at the moment include the following:

- Appropriate application of the **new IFRSs on revenue recognition and financial instruments** in the full year financial statements, including clear, comprehensive, entity-specific disclosures, including relevant accounting policies.
- **Tax accounting and disclosures** remain a significant area of focus, in particular:
  - narrative around tax strategy, policy and governance;
  - the completeness of disclosures of uncertain tax positions and the risk of material change in the tax liability;
  - identifying the effective tax rate and discussing what factors might affect that rate in future;
  - explanation of major reconciling items between profit before tax multiplied by an appropriate tax rate and the total tax charge, including distinguishing non-recurring items from those expected to arise each year; and

- using an appropriate tax rate in the tax reconciliation and not simply defaulting to the domestic tax rate, e.g. where there are significant multi-jurisdictional operations.
- Disclosure and accounting for **complex supplier arrangements, including supplier financing** and presentation of associated cash flows in the statement of cash flows.
- Disclosure of **accounting policies** should avoid unnecessary repetition of information, boilerplate or irrelevant items. Accounting policies should not be provided for items or transactions that are immaterial, non-existent or no longer relevant.
- Appropriate accounting for and disclosure of **business combinations**. Care should be taken to distinguish between asset acquisitions and business combinations, to identify arrangements that are remuneration rather than consideration and not to inappropriately aggregate disclosures for different business combinations.
- The impact of a **low interest rate environment and uncertainties around the macro-economic environment** mean that scrutiny can be expected on issues such as impairments, recognition of deferred tax assets and fair value measurements.
- Whether future committed contributions under a **defined benefit pension scheme** are in excess of any deficit recognised and, if so, whether this means any additional liability should be recognised. On a related note, there is also a focus on providing explanations where surpluses are regarded as recoverable assets and recognised as such.

#### Looking further ahead

The table below shows other new standards and amendments published by the IASB, along with their effective dates and EU endorsement status.

Title	As issued by the IASB mandatory for accounting periods starting on or after	Per the EU adopting regulation, mandatory for accounting periods beginning on or after
IFRS 16 – Leases	1 January 2019	1 January 2019
IFRIC 23 - Uncertainty over Income Tax Treatments	1 January 2019	TBC
Amendments to IFRS 9 (Oct 2017) - Prepayment Features with Negative Compensation	1 January 2019	1 January 2019
Amendments to IAS 28 (Oct 2017) - Long-term Interests in Associates and Joint Ventures	1 January 2019	TBC
Annual Improvements to IFRS Standards 2015–2017 Cycle (Dec 2017)	1 January 2019	TBC
Amendments to IAS 19 (Feb 2018) - Plan Amendment, Curtailment or Settlement	1 January 2019	TBC
IFRS 17 – Insurance Contracts	1 January 2021	TBC
Amendments to IFRS 10 and IAS 28 (Sept 2014) - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed	TBC



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# Contacts

For more information visit [www.deloitte.co.uk/annualreportingsights](http://www.deloitte.co.uk/annualreportingsights). If you would like advice on specific application of principles set out in this publication, or would like to meet with us to discuss your reporting issues, please contact your local Deloitte partner or:



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