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BETTER BUSINESS REPORTING

A practical guide to the strategic report

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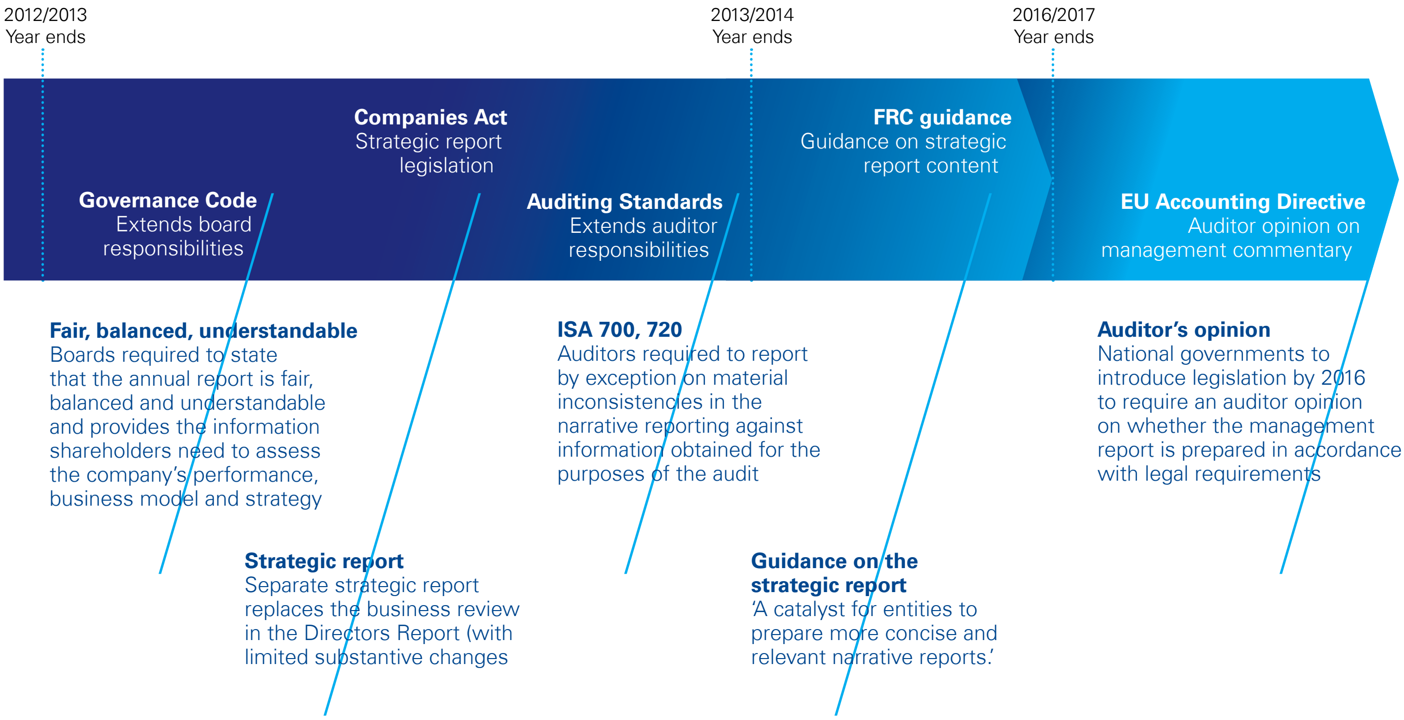
Contents

The strategic report: An overview

Narrative reporting is undergoing a period of increased regulatory focus. There is widespread recognition that it has an essential role to play in providing a broader perspective on business performance alongside the financial statements. The FRC's *guidance on the strategic report* is the latest in a series of regulatory initiatives aimed at improving the relevance of narrative reports for shareholders.

Approached positively, the guidance could help companies look beyond current year earnings to provide a broader picture of shareholder value creation in their annual reports. The business-centric focus of the guidance is an opportunity for companies to focus their reports on those factors that are most important to the long term prospects of their business. This will require a different approach from report preparers, placing the emphasis on explaining the business story and understanding shareholder needs, rather than meeting a checklist of disclosures.

Few companies are likely to conclude that their existing strategic reports meet all the aspirations of the guidance, even if they appear to comply with the letter of the legal requirements. Given the extent of change that may be required to meet the spirit of the guidance, we may expect to see companies adopting an evolutionary approach to change – not least because it will take time to develop non-financial reporting systems to support the broader range of information that is expected.



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Key areas of change that we expect the guidance to drive include:

- **More rigorous descriptions of business model and strategy** that provide shareholders with an understanding of the processes, relationships and resources that the business depends on – and the strategy for developing and preserving business capability over the longer term;
- **Renewed focus on the strategic report complementing the financial statements** by explaining past performance to support shareholders' assessment of future prospects;
- **Greater use of non-financial performance measures** that are relevant to an understanding of business prospects and capabilities – and how they have been developed and protected; and
- **Better linkage between elements of the report,** including performance measures that relate to the identified risks and opportunities to shareholder value.

The guidance, which is not mandatory, was written with the requirements of quoted companies in mind but it also represents best practice for all companies required to prepare a strategic report. This publication takes a similar approach. The specific requirements for non-listed companies are identified in the *legal and regulatory requirements* section at the end of this publication.

Implementing the guidance

The traditional approach to annual report preparation has entailed allocating responsibility for each element of the report to separate parts of the organisation. It may be time to rethink this approach. Presenting a consistent business-wide story will require a more joined-up approach, possibly including:

1) Establish a cross-functional team to develop the report on an integrated basis. Ensure that this team is chaired by someone who is sufficiently senior to cut across any existing reporting silos
2) Develop the report from the business model out by focusing on a ground-up assessment of the features that are most significant to future prospects. Ensure that the reporting team has the right operational and business strategy representation to do this effectively
3) Recognise that it may take time to provide the right shareholder-focused performance measures. If the right measure isn't available, put a plan in place to address this for future periods

Boards and Audit Committees have a particular role to play in ensuring that the picture of the business presented is one that they recognise.

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Key features of the FRC's guidance

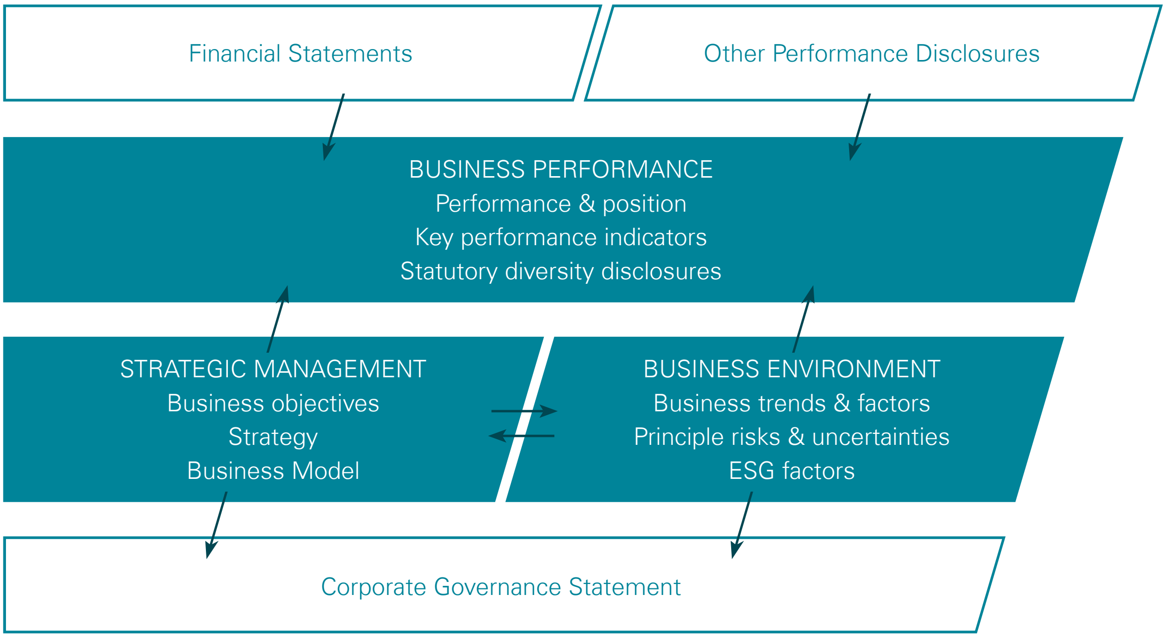
The principles-based approach underlying the guidance means there is no checklist of disclosure requirements to follow. Instead, report preparers will need to apply the guidance in the context of the specific circumstances of their business, and the resulting information needs of their shareholders.

Below, we explain the key principles and how they can be applied to communicate an effective picture of the business to shareholders. We then look at each of the three areas of content envisaged by the guidance in the context of these principles.

The content elements and linkage

The guidance does not prescribe a mandatory structure for the strategic report but instead identifies three broad content elements to consider in determining its content. The first two – *Strategic Management* and *Business Environment* effectively provide a foundation for the third element, *Business Performance*. It is expected that issues raised in relation to one content element will be followed up in the other elements, so material issues identified in *the Strategic Management* and *Business Environment* elements should be followed up in the *Business Performance* element to provide readers with objective analysis of how the business is progressing in managing each matter.

It is important to note that the FRC's intent here is not to prescribe a structure for the report; rather the content elements provide a basis for ensuring that the report provides a more complete picture of the performance, prospects, and position of the business.



Matters raised in one element of the report should be followed up in the other elements

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> The emphasis of the guidance is on business telling its story, with the onus on companies to provide the information that they consider should be relevant to their shareholders' decisions.

Linkage between the content elements

The concept of linkage applies both between content elements within the strategic report but also more broadly, to cover linkage to other elements of the annual report. Linkage should also apply to any additional (immaterial) information provided outside the annual report (for example in a stakeholder focused ESG report). In a well written report, linkage should ensure that matters addressed in one part of the report are addressed and followed up in other relevant sections of the report.

Linkage is particularly relevant for the discussion of risks and opportunities. In our experience it is rare to find reports addressing progress in managing the key risks that have been identified. As an example, retention of research staff is sometimes identified as a key risk but it is rare to find specific information on research staff turnover to show whether this risk is increasing or decreasing.

Example – Report linkage:

Alpha plc highlights in its business model description that 40% of its revenues are currently derived from maintenance and support provided to its existing user base. Alpha's discussion of business trends identifies that specialist support providers are increasingly competing for this revenue stream. This discussion links to Alpha's strategy which explains that it has responded by promoting whole-life service contracts. Although this is currently a small part of overall revenue, KPIs are provided to show the proportion of renewals switching to this structure.

Report focus and materiality

The guidance emphasises the shareholder focus of the strategic report (and the annual report more generally), reflecting the requirements of the Companies Act. This clarity on report audience should be particularly helpful in determining what information to include in the report. Whilst the issues that the report needs to address will be defined by the business model, the information needed to explain their implications should be defined by the needs of shareholders as the audience for the report. Reports prepared without consideration of shareholder needs may address the right issues but are unlikely to provide information that is relevant to shareholder decision making. For example, many business strategies are centred on developing a particular aspect of the customer base but performance measures are rarely segmented in this way, even though that is what a shareholder would need as a base for assessing the potential earnings impact of the strategy.

The application of materiality is particularly important in a principles based framework. The guidance states that *Information is material if its omission or misrepresentation could influence the economic decisions shareholders take on the basis of the annual report as a whole (§5.1).* It is also helpful to consider the overall purpose of the annual report – *to provide shareholders with relevant information that is useful for making resource allocation decisions and assessing the director's stewardship (§3.2).* In applying this guidance, the directors will generally need to consider whether the information in question is relevant to either:

1) Shareholders' voting decisions; or

2) Shareholders' investment decisions (i.e. buy / sell / hold).

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Whilst boards should have a general picture of shareholder priorities through their ongoing shareholder dialogue, it is important that they do not fall back on a reactive approach to report content. The emphasis of the guidance is on business telling its story, with the onus on companies to provide the information that they consider to be relevant to their shareholders' decisions.

It is also important to recognise that whilst many financial reporting disclosures are necessarily balance sheet focused, shareholders will generally view business value from the perspective of its future earnings prospects. They will need information that can help them assess this. That does not mean that reports need to provide projections, but the significance of information will depend to a large extent on how far it helps shareholders form their own views of future business prospects.

Not only do report preparers need to judge the potential significance of a matter on future prospects, this must be done in the context of uncertain outcomes. To assist this assessment, it may be helpful to approach it from the perspective of the intrinsic value of the business – so that matters considered relevant to an assessment of discounted future earnings would generally be considered material, whilst other matters would generally not be, unless they give rise to a specific governance issue. This approach may help the report to remain focused on the typically small number of matters that are most relevant to shareholder value.

Key questions to ask:

- Have material issues identified in one part of the report been followed up in other parts – for example, have relevant KPIs been provided over the material matters highlighted?
- Is the range of information being reported to the board reflected in the scope of information reported externally?
- Is material information being communicated through other channels (such as investor presentations) to plug gaps in the annual report?

The guidance retains the Companies Act exemption from not providing information that is considered *seriously prejudicial* to the interests of the company. However, it will often be the case that shareholders needs can be met by a different set of information to that which, for example, a competitor might benefit from. The guidance notes that in cases where the seriously prejudicial exemption is applied, shareholders needs will often be substantially met by summarised information that is not *seriously prejudicial.*

Note that some information (in particular, gender diversity disclosures, and many of the directors' report disclosures) is required by statute irrespective of materiality.

The significance of information will depend to a large extent on how far it helps shareholders form their own views of future business prospects

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Other key principles

The guidance identifies a number of communication principles most of which will already be familiar to report preparers. A number of points, though, are worth particular emphasis:

- The guidance explains that conciseness requires that information that is not material to shareholders should not be included in the strategic report except where required by statute. This may apply to some environment, social, and governance reporting and should help companies to focus on providing information that is relevant to shareholder decision making rather than broad disclosures that are more relevant to other stakeholders. These could instead be presented in a separate report more clearly focused on those stakeholders' needs.
- The emphasis on *forward looking orientation* does not imply that reports should include earnings projections. Rather, reports can focus on providing the information that shareholders need to form their *own* assessments of future prospects.
- The guidance to review the content, structure, and presentation of the report annually reflects the need for reports to adapt to constantly evolving business circumstances and strategies. Keeping reports focused on current issues will require leadership input that should be provided at the outset of the reporting process in order that there is time to source relevant and reliable information to communicate new issues effectively.

Strategic report communication principles

1) The strategic report should be fair balanced and understandable
2) The strategic report should be comprehensive but concise
3) Where appropriate, information in the strategic report should have a forward looking orientation
4) The strategic report should provide information that is entity specific
5) The strategic report should highlight and explain linkages between information presented within the strategic report and in the annual report more broadly
6) The structure and presentation of the strategic report should be reviewed annually to ensure that it continues to meet its objectives in an efficient and effective manner
7) The content of the strategic report should be reviewed annually to ensure that it continues to be relevant in the current period

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The content elements:
1. Explaining the strategic management of the business

The *strategic management* description should provide a foundation for the rest of the report, so it is important that the picture provided is one that is recognised by the board, and consistent with the operational reality of the business.

A clear description of the objectives, strategy and business model can help the report as a whole to stay focused on the most significant drivers of business value. It can also provide quantitative and qualitative context to help shareholders assess the impact of matters on the business as they arise.

It can be difficult to focus this description on the right level and aspects of detail. Getting the right people involved in the drafting process can help here. The involvement of operational and strategic management will help keep the description founded in the operational realities of the business. However it is important to stay focused on the objectives specified in the guidance – *to concentrate on the high level priorities related to the development, performance, position, and future prospects (§7.8).*

The guidance splits the content element into two aspects: business strategy and objectives; and business model. These terms already feature in many company reports as sub-headings, though the actual content provided varies from broad descriptions of business values to more detailed descriptions of business activities that address how the board plans to develop them to achieve business specific objectives.

1) Business strategy and objectives

'The strategic report should include a description of the entity's strategy and the objectives it is intended to achieve' (§7.5)

The guidance calls for a description of the financial and non-financial objectives that the business intends to achieve in pursuit of its ultimate aim. We sometimes see business objectives described in generic terms – for example 'to generate shareholder returns', or 'customer satisfaction'. Descriptions of this nature convey limited information to shareholders – few businesses would disagree with these. A more helpful approach is to describe the board's objectives for the business itself – for example, it may be to become the global leader in a specific segment, or to establish technological leadership in a particular sector.

Once objectives are clearly stated, the description of the business strategy can build on this by explaining how it is planned to achieve these objectives. In our experience, some reports focus on actions planned to be taken over the next one to two years, whilst others focus predominantly on the management of long term value. A balance is required in order to address the range of factors affecting business value.

It is also important that the strategy explanation addresses all material aspects of the business model. Some strategy descriptions focus on a narrow aspect of the business, perhaps linked to the board's immediate operational priorities. Narrow descriptions of strategy can give the impression that other elements of the business model are being taken for granted.

Key questions to ask:

- Are the objectives business-specific? For example, becoming the global leader in a specific segment, rather than generic aims (such as maximising shareholder return)
- Does the strategy address the short, medium, and long term priorities for the business?
- Does the strategy address the material anticipated changes across the business model, covering changes arising from both management initiatives, and external factors?

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2) Business model

'The strategic report should include a description of the entity's business model' (§7.11)

The aim of the business model description is to set out how value is generated and captured. Although most shareholders will already have a high level understanding of the business model at a sector level, the description provided in the strategic report is important because it can help shareholders to focus on those aspects of the company's business model that differentiate it from others in the sector. It is important to recognise that businesses typically generate value at multiple stages in the business model. A retailer, for example, may derive a key part of its competitive advantage from its supply chain and logistics capabilities. An effective business model description should highlight all stages in the value chain where the business creates value. This may include material aspects of: supply chain; raw materials / inputs; business processes; products; other external impacts; sales channels and distribution; customers.

Many companies now use a graphical representation to explain their business model. Whilst we welcome this approach, which can significantly improve report clarity, there is a risk that it can result in a loss of relevant detail. We have seen some examples of business models where it is difficult even to tell the industry to which they relate.

It is important that the picture provided is one that is recognised by the board.

The description of the business model should set out how the business generates or preserves value over the longer term and how it captures that value. This should include:

- How the entity is structured;
- The markets in which it operates;
- How the entity engages with those markets;
- Its main products/services;
- Its main categories of customers;
- Its main distribution methods

The business model can also play an important role in providing business-specific information. This can help shareholders understand the relative importance of each aspect of the model as a basis for assessing the potential impact of specific matters on the business as a whole. Within the report itself, a well written business model description should also give shareholders greater confidence that the rest of the report addresses all material aspects of the business.

Key questions to ask:

- Are all the essential aspects of the business model covered? Not just those affected by the immediate strategy.
- Where different segments of the business have different operating characteristics (for example, different customer relationships) or performance drivers, is this clear?
- Has sufficient detail been provided over each aspect of the business model so that shareholders can assess the potential impact of matters raised elsewhere in the report?

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The content elements:
2. Explaining the business environment

The description of the *business environment* should address the main trends and factors likely to affect the future development, performance, or position of the business. Matters identified should be relevant to the year under review and the entity's future prospects

Explaining business trends and factors

'The strategic report should include the main trends and factors likely to affect the future development, performance, or position of the business.' (§7.17)

Trends and factors can arise from both internal factors (such as the development of new product segments) and external factors – such as changing customer needs. Most companies will already be identifying trends that affect their current year results but a key element of shareholder value will generally be locked up in the longer term prospects of the business. A broader approach is therefore needed to address the full range of trends affecting shareholder value. This should cover matters that affect the business in the short term (i.e. tomorrow); the medium term (i.e. within the operational planning horizon); and the long term shape of the business.

Customers and markets should form a natural focus for this discussion but it is important also to consider other aspects of the business model. The business may depend on certain resources (such as access to a key raw material, or the continued relevance of its intellectual property) that can't be taken for granted in the longer term. The likelihood of losing access to these resources may be remote, but the potential game-changing impact on the business is so great that shareholders nevertheless need to understand how this aspect of shareholder value is being managed.

An effective description of the business model, highlighting the key resources on which it depends, should help companies to focus on the most relevant trends and factors that might affect the business.

Companies can help shareholders assess the impact of the trends and factors identified by providing contextual information. For example, if a trend has been identified affecting a specific customer segment, shareholders will need to understand the size of that segment if they are to model its impact. Ideally this information should already be available from the description of the business model.

The guidance also encourages companies to quantify trends or factors wherever practical. This may be by reference to internal data (such as an operational performance trend), but it could also be by reference to external or other data sources. Some companies are already doing this by providing market level statistics or referencing consumer research surveys. We expect that the encouragement provided by the guidance will make this practice more common. This type of information may be of particular value when presented in the form of longer term trends rather than as a single, current year, value. Knowing that a company scored 85% on its last customer satisfaction survey may be of limited value to shareholders on its own; knowing that this is part of a longer term upward trend in customer satisfaction may be much more helpful.

We expect that the guidance will encourage a broader perspective for discussions of business trends and factors. It is therefore important that companies remain focused on addressing only those issues that are relevant to shareholder decision making, recognising that the number of factors that an assessment of business prospects can take into account is inevitably limited

Key questions to ask:

- Do identified trends look beyond those already apparent in the financial statements?
- Are matters identified the ones that are relevant to a shareholder's assessment of the business and its prospects?
- Is sufficient detail provided for shareholders to form their own views on the implications of each trend or factor?

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A key element of shareholder value will generally be locked up in the longer term prospects of the business.

Principal risks and uncertainties

'The strategic report should include a description of the principal risks and uncertainties facing the entity, together with an explanation of how they are managed or mitigated.' (§7.23)

Principal risk discussions are already an established part of annual reports but the guidance should drive further improvement to disclosures in this area.

There is emphasis on addressing the full range of business risks irrespective of whether they are financial or non-financial in nature. In our experience, some risk disclosures focus predominantly on matters that have an immediate potential financial implication whilst giving lower priority to operational risks that may ultimately be more important to the future prospects of the business.

For many companies, a substantial part of business value lies in the strategy for developing the business. The risks to the successful execution of this strategy are likely to be amongst the most relevant to an assessment of shareholder value. For a complete picture, it is important to include matters that relate to the risk of not achieving growth, as well as those presenting a downside risk to business as usual.

The guidance also recognises that shareholders will need to understand and assess the potential implications of each risk identified. Broad descriptions of generic or industry level risks and mitigating actions are unlikely to provide this. Instead, company specific descriptions, supported by quantitative disclosures showing the part of the business model affected can help shareholders form a view of the potential earnings implications.

It may be appropriate to link risk descriptions to other parts of the report which provide indicators of progress in managing the risk. Some risks may also link to governance disclosures to explain how the board is monitoring and setting risk appetite and policy.

Example – Reporting on managing risk

Gamma plc manufactures business critical parts which it is able to sell at a significant premium because of its well established reputation for quality. Gamma identifies loss of reputation due to product failure as a principal risk and provides average failure rates over a five year period to help shareholders assess progress in managing this risk

Key questions to ask:

- Are the risks highlighted the most relevant to an understanding of business prospects – including those relating to success in implementing business strategies?
- Does the report address significant risks arising from both the internal and external environment?
- Do the disclosures link to KPI and governance explanations that address progress in managing the risk
- Where practical, are trends quantified, and information provided so that the potential impact of the risk can be understood?

ESG related disclosures

Many annual reports explain the strategy for managing environment, social, and governance ('ESG') risks in a separate section of the report, also incorporating ESG related performance information – perhaps a reflection of the stakeholder-focused origins of many ESG reports. As with any other matter, it is important that all shareholder-material ESG matters are addressed, but the guidance warns that *the annual report should not, however, be seen as a replacement for other forms of reporting addressed to other stakeholders (§3.4).* Information that is not material to shareholders should therefore be communicated separately to other stakeholders as appropriate. The s414(C)11(d) Companies Act requirements in relation to *environmental* matters (including the impact of the company's business on the environment, the company's *employees,* and *social,* community and human rights issues) applies only to material matters. However, where these disclosures are not given because they are not considered material, this fact must be stated.

It is also important that the performance disclosures given are those that are most relevant to shareholders. In our experience, ESG disclosures are sometimes limited to the requirements of public policy driven regulatory requirements rather than providing measures designed to help shareholders assess the potential implications of the issues and the progress in managing it.

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The content elements:
3. Communicating business performance

The strategic report provides an opportunity for organisations to focus on those measures of performance that are most relevant to their long term prospects and business value, in addition to explaining their short-term financial performance.

Staying focused

The guidance helps companies to determine the most relevant performance measures to include by encouraging linkage back to the matters raised in the descriptions of strategic management and the business environment, and by providing a shareholder focused definition of materiality – *Information is material if its omission or misrepresentation could influence the economic decisions shareholders take… (§5.1).*

Performance & position

'The strategic report should provide an analysis of the development and performance of the business in the financial year and of its position at the end of that year' (§7.38)

Financial analysis should complement the information that is already provided in the financial statements –by providing additional explanations of amounts in the financial statements, and by explaining the events that shaped the information in them. Many companies also use separate, investor-focused results presentations to fulfill this function. It is important that the development of these two documents is connected. The implication of the guidance is that the information material to shareholder decision making should be incorporated in the strategic report, rather than communicated separately.

Non-GAAP measures, often presented as part of an earnings bridge, can be a useful tool for improving the clarity of financial performance analysis by helping to link the financial statements to explanations of business performance. We have seen regulatory attitudes to such measures evolve from a position of suspicion to one of constructive support – for example, the consultation by the European Securities and Markets Authority seeks to enhance transparency and comparability rather than limit disclosures. Provided that the measures used are clearly explained and reconciled to the underlying financial statements, we believe that they can enhance rather than detract from the value of the financial statements.

Key Performance Indicators

'The analysis in the strategic report should include financial and non-financial key performance indicators (KPIs).' (§7.43)

The guidance identifies a number of areas where KPIs or other quantitative measures have a role to play in the strategic report:

- Assessing progress against the business's strategy and objectives *(§7.10)*
- Measuring the development of the business *(§7.38)*
- Measuring the performance of the business *(§7.38)*
- Measuring the position of the business *(§7.38)*
- Monitoring principal risks and progress in managing those risks *(§7.44, 7.45)*
- Providing indicators of future financial prospects *(§7.45)*
- Quantification of trends or factors affecting the business where practicable *(§7.21)*

Whilst a single performance measure may fulfill a number of the roles identified above, this will not always be the case. It will be important to assess whether the quantitative measures provided over a matter are the most relevant in answering the issues raised elsewhere in the report.

Example – Reporting on value drivers:

Beta plc's ongoing success is dependent on a constant programme of technology innovation. In addition to disclosing its research and development expenditure, Beta provides analysis of revenues from products developed over the last two years as a measure of performance outcomes in this area. Beta has also identified loss of development staff as a related principal risk. It reports on graduate staff turnover levels in the development team as an indicator of progress in managing this risk

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The external communication of a wider range of non-financial measures is likely to be the biggest challenge for companies implementing the guidance.

Some KPIs are most useful in track-record form, covering three or five years. This may be particularly true of risk indicators, where the trend in the measure may be far more important than the absolute value being reported. More generally, presentation of KPIs can play an important role in report clarity. Tabular presentations of performance data can reduce the risk that key data is 'lost' in the narrative discussion.

The guidance makes specific reference to the role that non-financial indicators play in helping shareholders understand the future prospects of the business. Non-financial measures can be particularly useful in helping shareholders to form their own views of business prospects based on objective historical data. This is an area where reporting practice is still developing both in the UK and internationally. A recent KPMG International survey highlighted the gap between the key drivers of business value, and the performance measures being reported. The survey also highlighted that many of the non-financial measures being provided were derived from existing statutory or other disclosure requirements instead of being selected for their relevance to investors.

Looking at the resources identified in the business model description that are critical to the future operation of the business may help companies to focus the performance measures on the most relevant matters.

The external communication of a wider range of non-fin
measures is likely to be the biggest challenge for compa
implementing the guidance. Whilst the measures being
should align closely with the key measures being monit
internally, it may take time for companies to develop the
non-financial reporting systems to meet the standards e
for external reporting. The reward for doing so may be si
in moving the focus of shareholder discussion beyond s
earnings to address a broader range of factors where m
is working to develop and protect shareholder value.

Key questions to ask:

- Are KPIs drawn from the most relevant financial anc non-financial information, rather than regulatory disc
- Do the measures address the specific part of the bu affected by the issue, rather than being provided on aggregate basis for the business as a whole?
- Do measures address progress in managing the crit resources on which the business depends?
- Where significant matters are identified elsewhere report, do KPIs address progress in implementing th related strategy / managing the identified uncertaint

Companies reporting on key business value drivers

	identified as a top three value driver[1]	companies providing a related KPI
Operational efficiency	66%	21%
Customer focus	56%	7%
Supply chain	42%	8%
Brand & reputation	42%	2%

Note: (1) Audit committee members identifying the area as one of their top three drivers of business value
Source: The KPMG survey of business reporting: KPMG International, 2014

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Legal and regulatory requirements

Companies Act requirements

The Companies Act specifies that the purpose of the strategic report is to inform members of the company and help them assess how the directors have performed their duty to promote the success of the company. The report must be approved by the directors and signed on its behalf.

Directors' responsibilities under the Governance Code

The 2012 UK Corporate Governance Code formalised boards' obligations over the annual report as a whole. Two requirements have particular relevance to the strategic report:

– The board should present a fair, balanced and understandable assessment of the company's position and prospects. *(§C1)*

– The directors should explain in the annual report their responsibility for preparing the annual report and accounts, and state that they consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy. *(§C1.1)*

Auditors' responsibilities

Auditors' are not currently required to report on the content of the strategic report – though this may change, as the EU Accounting Directive requires national legislation to be introduced in this area by 2016. However, ISA720 does require auditors to report by exception when matters in the strategic report (and elsewhere in the annual report) are identified that are materially inconsistent with either the financial statements or their knowledge acquired in the course of the audit.

Companies Act principal disclosure requirements for the strategic report

s414C(8)(a)	• A description of the company's strategy (1)
s414C(8)(b)	• A description of the company's business model (1)
s414C(4) s414C(7)(a),(b)	• To the extent necessary for an understanding of the development, performance or position of the company's business: – A fair review of the company's business including analysis using financial key performance indicators; and where appropriate, analysis using other key performance indicators (factors by reference to which the development, performance or position of the company's business can be measured effectively) (2) – The main trends and factors likely to affect the future development, performance and position of the company's business (1) – Information about: (i) environmental matters (including the impact of the company's business on the environment), (ii) the company's employees, and (iii) social, community and human rights issues, including information about any policies of the company in relation to those matters and the effectiveness of those policies. (1)
s414C(1)(b)	• A description of the principal risks and uncertainties facing the company
s414C(12)	• Provide references to, and additional explanations of, amounts included in the company's annual accounts where appropriate
s414C(8)(c)	• A breakdown showing at the end of the financial year: (i) the number of persons of each sex who were directors of the company; (ii) the number of persons of each sex who were senior managers of the company; and (iii) the number of persons of each sex who were employees of the company.(3)

Note: (1) Applicable to quoted companies and those following the FRC's guidance
(2) Medium sized companies are exempt from providing non-financial key performance indicators under the Companies Act but would need to do so if they are following the FRC's guidance
(3) Applicable to quoted companies

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Key questions for boards to consider

1) Does the board recognise the picture of the business presented in the report?

Does the report address the key drivers of business success over the long term as well as the short – medium term? Are the areas receiving the most management attention covered in the report?

2) Does the report provide shareholders with the most relevant information to support their decision making?

Do the performance measures presented provide a balanced view of progress and prospects that is consistent with the board's own perspective? Is key information being communicated through other channels instead of the annual report?

3) Does the board have sufficient basis to make the compliance statement required by the Governance Code?

Is the board satisfied with the level of process behind the report, including the extent to which management sign-off is required over (i) all significant matters being covered; and (ii) all relevant information being communicated? Is the board satisfied with the level of verification and challenge over the underlying data and related processes?

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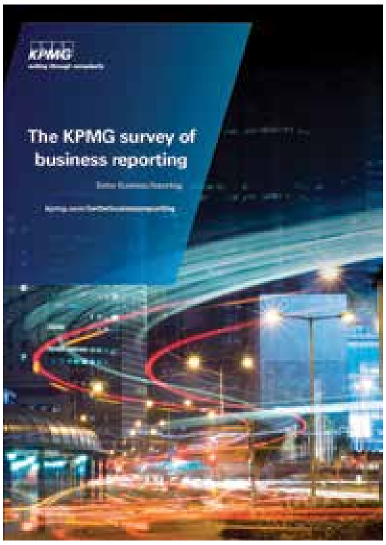
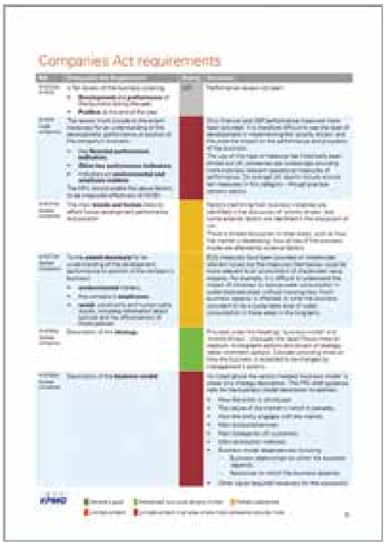
Where can I get help?

The *KPMG survey of business reporting* provides an overview of current reporting practice and highlights areas where this could be developed to provide shareholders with a better understanding of business performance.

KPMG in the UK offers a strategic report health check that can help to highlight the key areas to develop in your strategic report.





The survey and other reporting resources are available from:
www.kpmg.com/betterbusinessreporting.

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