THE FIRST 2

THE CONCISE STRATEGIC REPORT PARADOX

Analysis of how the FTSE 350 September year ends have responded to the changing reporting environment

TABLE OF CONTENTS

LONGER BUT MORE INSIGHTFUL

2013 was the year reporting changes, which had been in the pipeline for a number of years, became a reality. The reforms of narrative reporting and directors' pay, along with the 2012 updates to the UK Corporate Governance Code, have now become effective. For 30 September 2013 year ends — the first corporates subject to these changes — it set quite a challenge. With so many moving parts, and the supporting guidance not being available until quite late, corporates in this group had a formidable task.

To assess how effectively the new Strategic Report requirements have been adopted we looked at the September year ends from the FTSE 350. In total there were 20 companies that met the criteria — six from the FTSE 100 and 14 from the FTSE 250. Although we realise this data set represents only a small fraction of UK companies, we thought it was imperative to take an early look at how the reforms have been adopted so far and to share our findings with you.

What we found is a story of both 'evolution' and 'revolution' within UK corporate reporting. The new Strategic Report requirements have at the very least acted as a catalyst to 'evolve' their reporting structure for most of the 20 companies and provide better connected reporting compared to years past. In some other cases, the development was more profound, and we have witnessed some 'revolutionary' changes to their Annual Reporting with the addition of material strategic information that was not included in the Annual Report in the past. These developments are greatly encouraging and underscore that the spirit of the new requirements has been embraced by corporates.

This report is a summary of our preliminary findings and forms part of a larger piece of ongoing research to which we are committed. We hope you will find it useful in preparing your 2013 Annual Report.

The Research and Strategy Team at Black Sun – January 2014

CHANGES TO REPORTING BECOME REALITY

FRC

UK CORPORATE GOVERNANCE CODE

Effective for 1 October 2012 accounting periods

BIS Department for Business Innovation & Skills

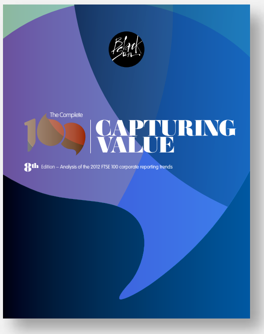
REFORMS TO NARRATIVE REPORTING

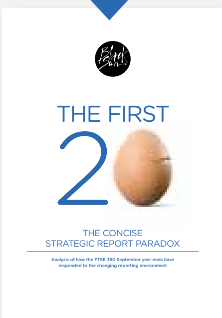
Came into force 1 October 2013 and apply to financial years ending on or after September 2013

BIS Department for Business Innovation & Skills

REFORM TO DIRECTORS' PAY

Came into force 1 October 2013 and apply to financial years ending on or after September 2013





BLACK SUN RESEARCH

Our suite of annual research identifies trends, innovations and best practice in corporate reporting. We are constantly reviewing the latest reports in detail to understand how companies are responding to the changing corporate reporting landscape. Our research includes key statistics and data to enable organisations to compare their own performance against the trends.

2012 Complete 100

Comprehensive review of the FTSE 100 for the past eight years

Our eighth annual analysis of FTSE 100 corporate reporting trends provides us with a clear view of companies' response to a changing regulatory and economic environment, specific trends in the world of corporate reporting and best practice guidance for Annual Reports.

September year ends

First to market: A broader look at the FTSE 350 September year end reports

The purpose of this report is to analyse how the first companies reporting have developed under the requirements of the updated Companies Act 2006 focusing primarily on the content of the Strategic Report following BIS's Reforms to Narrative Reporting. The report touches upon key developments in narrative reporting and the extent to which companies have adopted the requirements of BIS and followed the guidance of the FRC.

2013 Complete 100

Coming soon - our annual update on the FTSE 100 and further tracking of the FTSE 250

Our ninth edition of the Complete 100 will analyse and compare how the reporting of the FTSE 100 has evolved under the requirements of the new Companies Act 2006. With the support of key statistics and data this report will analyse how companies have addressed the challenge of narrative reporting, and identify how companies have communicated and connected key areas of disclosure while identifying best practice.

FRC

UK CORPORATE GOVERNANCE CODE

Effective for 1 October 2012 accounting periods

Designed to give investors greater insight into what Boards are doing to promote their interests, and to provide a better basis for engagement, the changes focus on the role of the Board and in particular the Audit Committee.

The updates cover the following:

- Boards to confirm that the Annual Report taken as a whole is fair, balanced and understandable
- Providing information about how the Audit Committee has carried out its responsibilities, including how it has assessed the effectiveness of the external audit process, significant issues and how these were addressed
- Putting the external audit contract out to tender at least every 10 years
- Companies to explain and report on progress with their policies on boardroom diversity
- Companies to provide fuller explanations as to why they choose not to follow a provision of the Code

Regulation updates can be found here:
[2012 UK Corporate Governance Code]

Helpful guidance:

The FRC's [Financial Reporting Lab] published a report on Audit Committee reporting. The report aims to help companies apply the new Code requirements and gives examples of effective approaches to Audit Committee reporting. The Lab has also published reports on remuneration and risk reporting.

BIS Department for Business Innovation & Skills

REFORMS TO NARRATIVE REPORTING

Came into force 1 October 2013 and apply to financial years ending on or after September 2013

The new narrative reporting legislation (Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013) is aimed at updating legislation concerning best practice reporting. The idea is that the Strategic Report – which replaces the Business Review – should present a concise, strategic and holistic insight into a company's story.

Additional required information:

- Strategy
- Business model
- Human rights issues 'to the extent necessary for an understanding of the company's business'
- 'Diversity in the Board and beyond', including executive committees and the organisation as a whole

The Directors' Report has also seen the addition of mandatory Greenhouse Gas emission reporting (although this can be included in the Strategic Report if deemed to be material) and the removal of some outdated requirements.

Legislation can be found here:
[The Companies Act 2006 Regulations 2013]

Helpful guidance:

The FRC released supporting guidance entitled ['Exposure Draft: Guidance on the Strategic Report'] in late August. Final guidance is expected to be released in the second quarter of 2014.

BIS Department for Business Innovation & Skills

REFORM TO DIRECTORS' PAY

Came into force 1 October 2013 and apply to financial years ending on or after September 2013

The changes are targeted at improving transparency and accountability by giving investors more power through binding votes on pay policies, while providing a clearer link between company performance and executive reward.

Chairman's statement:

- Summarise the major decisions of the remuneration committee
- Outline any substantial changes
- Include the context in which those changes and decisions occurred or were taken

The Annual Report on remuneration:

- Backward-looking report disclosing how the existing remuneration policy was implemented during the financial year
- Outline the actual payments made to Directors in the last financial year
- Outline details of each Director's remuneration throughout the year, including the single total figure
- Subject to an annual advisory shareholder vote (together with the chairman's statement) at the AGM

The Directors' remuneration policy:

- Forward-looking policy which outlines the company's policy on Directors' remuneration and potential payments
- Subject to a binding shareholder vote at the AGM at least every 3 years

Legislation can be found here:
[Enterprise and Regulatory Reform Act 2013] and [Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013]

Helpful guidance:

The GC100 and Investor Group produced the '[Directors' remuneration reporting guidance]'. This guidance will be reviewed and refreshed from time to time.

SEPTEMBER YEAR END RESEARCH: THE CONCISE STRATEGIC REPORT PARADOX

In the short time since the Government's introduction of the new Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (the 'regulations') we have seen the first companies disclose under the Strategic Report requirements in their reporting. While the Regulations represent only a relatively modest change to the existing legal requirements, they aim to bring reporting up to the best practice standard, bringing together all of the most relevant information for shareholders in a concise, cohesive and 'joined-up' story.

We believe that the changes have acted as a catalyst for companies to revisit policies and processes, with a view to preparing relevant and focused narrative reports. This, encouragingly, is aligned to BIS's original objectives, which aimed to 'get the standard of narrative reporting up to the level of the very best'.

Along with the requirements of the New UK Corporate Governance Code and revised remuneration reporting, the introduction of the Strategic Report means that every company will need to rethink and restructure its Annual Report to some extent. This is perhaps why this year's reporting could be the most impactful we have seen in the past few years.

FTSE 250s revolutionise, FTSE 100s evolve

Our analysis has identified three clearly differing approaches to narrative reporting this year, reflecting the level of change from previous reporting: revolutionary - the introduction of new content to meet requirements as well as a structural review; evolutionary - development of past reporting to provide greater insight into key disclosures and strategic linkages throughout, with minimal change; lastly, essentially a re-labelling of the previous year's Annual Report.

Interestingly, our analysis has demonstrated that FTSE 250 companies have, for the most part, demonstrated a revolutionary response to the new regulations. It is apparent that they have focused on adding certain material strategic information for the first time, and on restructuring their Annual Reports in order to tell their story better. This is evidenced by the number of reports we have seen that introduce new and detailed business model discussions, provide clarification around objectives and performance against strategic priorities, demonstrate insight into market trends and focus on developing connectivity between principal risks.

The approach which seems to be adopted by the majority of FTSE 100 companies is that of evolution, primarily due to the majority of these reporters already meeting new requirements, such as the business model and strategy, in their past reports. Largely, we have seen reporters provide similar content to the previous year but with a focus on meeting new requirements, such as the business model, to provide a more understandable overview of the business and how it generates value. Additionally, we have seen companies revisit the structure of the Report by repositioning certain sections in order to better connect key disclosures such as risk and strategy.

CHANGES HAVE ACTED AS A CATALYST FOR COMPANIES TO REVISIT POLICIES AND PROCESSES WITH A VIEW TO PREPARING RELEVANT AND FOCUSED NARRATIVE REPORTS.

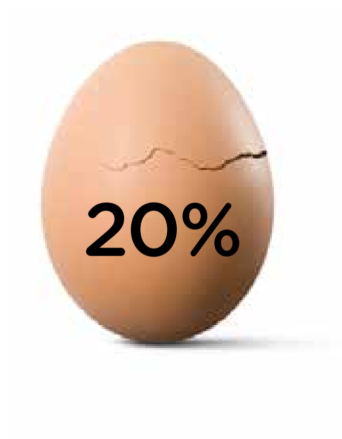
THREE DIFFERENT APPROACHES TO NARRATIVE REPORTING

Revolutionary

Encouragingly, we have seen a number of companies, particularly in the FTSE 250, use the change in the regulatory environment as an opportunity to rethink the structure, approach and content of the Annual Report. Those companies demonstrating a revolutionary response to the regulations have actively restructured the Annual Report, improved past content and provided new content to ensure that material strategic information is available and that connectivity between key areas of disclosure such as strategy, key performance indicators (KPIs) and risk is highlighted.

Evolutionary

It is clear from our research that many companies have demonstrated an evolutionary approach to reporting in response to the new regulations. The evolutionary approach indicates the advancement of an already solid narrative by meeting new requirements, providing clarity around strategic linkages and improving detail in key disclosures. These advances have primarily appeared in the business model, strategy and market reporting, as we have observed a development in the way in which the business 'tells the company story.'



Minimal change

Finally, we have seen a minority of companies continue with a format similar to the 2012 Annual Report but adding detail to meet the requirements of the Strategic Report, essentially re-labelling current areas and re-positioning certain information.

THE CONCISE STRATEGIC REPORT PARADOX continued

Have the regulations been impactful?

It is perhaps no surprise that this level of improvement in disclosure has seen an increase in the number of pages by almost all 20 companies. For the most part, companies encompassed in their Annual Reports the whole of their narrative reporting up to the governance section as their 'Strategic Report'. Companies overall provided Strategic Reports which are on average 20% larger than their previous year's Business Review.

The length of companies' Strategic Reports ranged from 13 pages at the shortest to 57 pages at the longest. Over half the companies produced reports of over 40 pages and only a few reports were under 30 pages.

Naturally, this level of increase is likely to spark questions in regard to the effectiveness of the new regulations, which aimed to mitigate the growing length of narrative reports. However, we have seen a marked improvement in reporting as key disclosures such as the strategy and business model have been broken down, contextualised and clearly explained in accessible segments, helping to make narrative reports more meaningful, if not necessarily more concise. Additionally, it is worth noting that it is not uncommon to see an increase in the length of Annual Reports following the publication of new regulations, as companies tend to overcompensate in order to ensure all requirements are met. Making reporting more concise is likely to be a challenge for the next year.

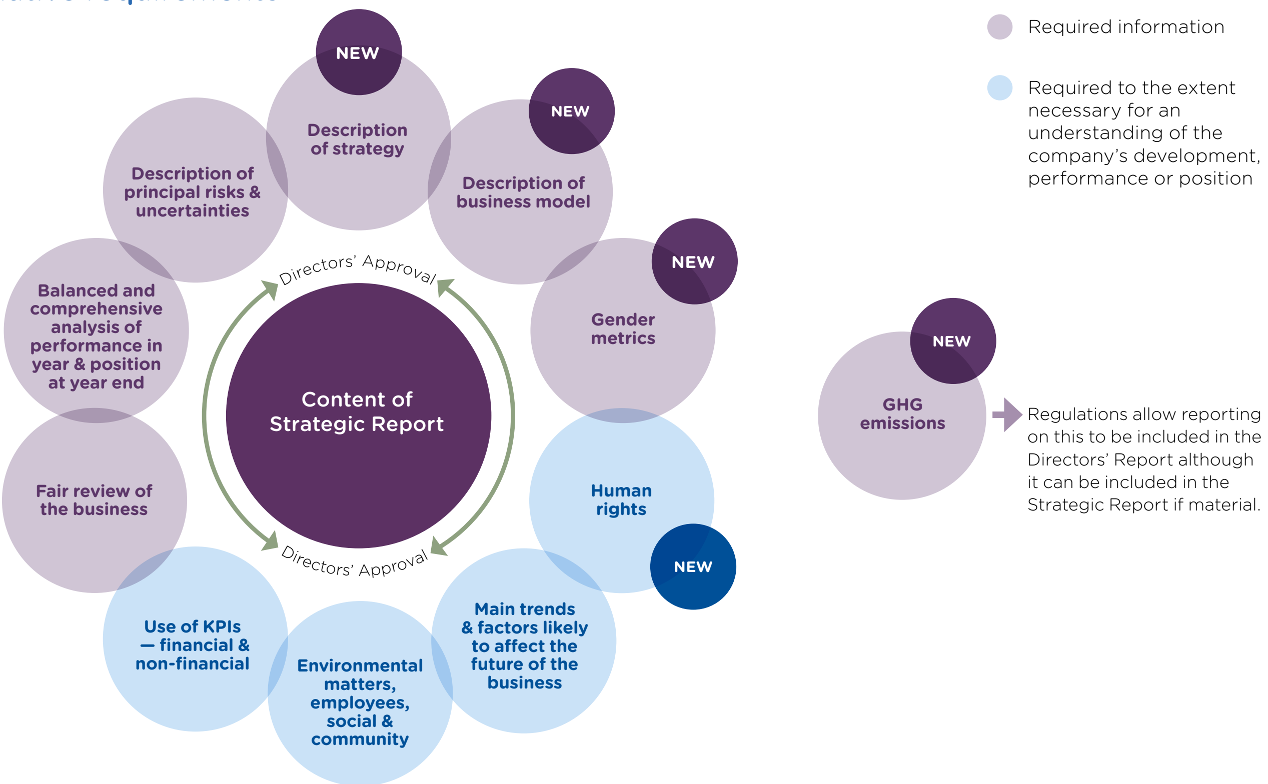
The FRC's 'Exposure Draft: Guidance on the Strategic Report' highlights the importance of the concept of materiality within the Strategic Report, stating 'the inclusion in the Annual Report of information that is not relevant to investors, and is not otherwise required by law or regulation, is considered to be a driver of clutter'. The FRC introduces a 'core and supplementary approach' in which important information for shareholders is given prominence with supplementary information presented elsewhere in a plan to improve flow and cohesiveness in the Annual Report. Only one company, Lonmin, seems to have moved towards a core and supplementary approach. The lack of specific evidence of materiality could be a result of the brief period of time between the final publication of regulations and guidance and the publication of the September year end Annual Reports. The core and supplementary approach is likely to be better exhibited in Reports going forward as companies have more time to develop materiality processes.

Inside or outside of the Strategic Report?

Main reporting topics	% included in narrative section*	% included in Strategic Report
Setting the scene (overview)	80%	60%
Chairman's statement	100%	70%
CEO's review**	80%	80%
Market and outlook	60%	55%
Strategy	100%	100%
Business model	100%	100%
KPIs	95%	95%
Operating reviews	90%	75%
Risk	100%	95%
CR/Sustainability	100%	100%
Finance review	100%	80%
Corporate governance	100%	15%***
Remuneration	100%	0%

* Up to but not including financial statements
** Three of the companies that did not provide a CEO's statement were investment trusts, which instead provided a statement from the fund manager
*** For the four companies that provided corporate governance in the Strategic Report, the content consisted of pictures of the Board and their CVs

Legislative requirements



Trends in reporting

Our analysis reviews how companies are responding to new regulations and the key content requirements of the Strategic Report. We have identified a number of emerging trends which are listed below and expanded upon in the following pages. We have also referred to some interesting examples of reporting. Please note that we do not necessarily consider these examples 'best practice reporting'; we do, however, consider that they demonstrate how many companies are moving towards best practice reporting with the changes. In addition we review on pages 13 and 14 how companies have responded specifically to the new requirements.

A NEW APPROACH TO SETTING THE SCENE

GREATER OWNERSHIP IN THE CEO REVIEW

EXPANSION OF STRATEGY REPORTING

A NEW FOCUS ON THE BUSINESS MODEL

DEVELOPMENTS IN RISK REPORTING

A NEW APPROACH TO SETTING THE SCENE

Setting the scene means setting out an upfront overview of the business — what it does, where it does it and how it creates value. This presents a solid basis for understanding a company and its Annual Report.

While 60% of companies start the Strategic Report with the opening of the Annual Report, an interesting development, particularly within the FTSE 250, has emerged the introduction of a 'company overview' section of the Annual Report, apart from and before the Strategic Report. This overview section, which sets the scene for the report, primarily contains company highlights, the 'at a glance' section (which summarises who the company is and where it operates), and the Chairman's letter. Interestingly, 40% of companies include a 'company overview' section before the Strategic Report. By not including the Chairman in the Strategic Report, these companies appear to be reaffirming that the Strategic Report is a document essentially 'owned' by the CEO, who is responsible for the implementation of strategy and the strategic direction of the business.

FTSE 100

Only one company in the FTSE 100 provided a 'company overview' outside the Strategic Report; opting instead to place the Chairman's statement and 'at a glance' section within the Strategic Report. 67% of the FTSE 100 provided an 'at a glance' section which primarily provided an insight into products, markets and operational segments. TUI Travel PLC's 'at a glance' section is an example. On a double page spread, the Report provides a clear investment case which is supported by five concise bulleted lists highlighting; 'What we do', 'Why we do it', 'How we do it', 'How we measure it' and 'What are the risks'.

FTSE 250

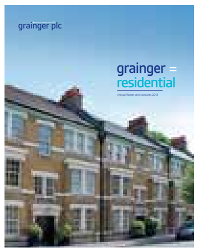
Conversely, 50% of FTSE 250 companies provided 'company overviews' outside the Strategic Report. This could perhaps be an example of the revolutionary approach to reporting FTSE 250s have taken, as a number of the 'at a glance' sections we saw were completely new to the Annual Report. Perhaps next year the FTSE 250 companies will focus on how this highly useful information could be refined and integrated into the Strategic Report.

COMPANIES PROVIDING AN OVERVIEW SECTION WITHIN THE STRATEGIC REPORT

60%

Interesting examples:

Diploma
Pages 4 – 5



Grainger
Pages 4 – 5

TUI Travel PLC
Pages 4 – 5

GREATER OWNERSHIP IN THE CEO REVIEWS

The role of leadership in enhancing transparency and rebuilding trust and confidence among investors has become a key focus area. Management statements have increasingly been used to set the tone at the top, and to explain the strategic direction of the business.

Reinforcing the idea that the Strategic Report is a document 'belonging to' the CEO, we have seen a general increase in the size of CEO reviews in 45% of companies. This reflects a trend towards increased focus on 'the year in review', in which we have seen CEO reviews examining companies' performance against the Group strategy and KPIs.

FTSE 100

In Black Sun's analysis of the FTSE 100 reporting trends last year, we noted that 82% of companies used their Chairman or CEO statements to set up strategic themes.

Encouragingly, it appears that this trend is set to continue under the new regulations. We saw 50% of the FTSE 100 CEO reviews grow by at least one page, highlighting how reporting performance against strategic priorities has become the norm. Interestingly, Sage's CEO Review grew from three pages to 23, as the CEO takes ownership of a variety of disclosures such as the market review, business model and strategy. This particular example could support the theory that as the Strategic Report inherently focuses on strategy, the CEO who owns strategy should have an expanded review.

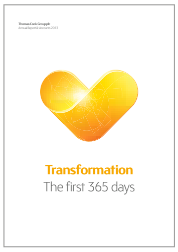
FTSE 250

A number of Reports in the FTSE 250 have demonstrated real developments in the CEO's review, particularly in regard to ownership. We have seen a number of FTSE 250 CEO reviews increase in size by an average of one page, with CEOs more directly addressing the company's performance against the Group strategy. In addition, many examine performance against each individual strategic priority, demonstrating a much higher level of accountability. 35% of FTSE 250 companies have the CEO take full ownership of the Group strategy and business model, with some even providing the operating reviews within the CEO's review. In Diploma's Annual Report, the CEO's Review includes a 'year at a glance' section in which the CEO examines the Group's performance against the Group strategy and KPIs as well as addressing the role of the business model.

COMPANIES THAT HAVE EXPANDED THE CEO REVIEW

45%

Interesting examples:



Thomas Cook
Pages 10 – 14

Diploma
Pages 8 – 15

Sage
Pages 7 – 29

EXPANSION OF STRATEGY REPORTING

Strategy reporting improves substantially due to linkages, future targets and greater clarity around strategic priorities

Reporting on strategy has evolved tremendously over recent years from vague statements to reporting that provides clarity on the future direction of the business. Although the legislation only requires 'a description of the company's strategy', the FRC's draft guidance suggests that 'the Strategic Report should include a description of the entity's principal objectives and its strategy for achieving those objectives'. 65% of companies have increased the number of pages dedicated to strategy. This is primarily due to companies – particularly in the FTSE 250 – introducing a dedicated strategy section for the first time. These strategy sections include diagrams, detailed descriptions and case studies to provide a much deeper understanding of the company's strategic priorities and future direction.

FTSE 100

Within the FTSE 100, strategy reporting has been an area of substantial development since the publication of the regulations. Either the level of detail or the number of pages dedicated to strategy grew in every FTSE 100 Annual Report. Noticeable improvements were made in linking strategy to KPIs and risk as well as in breaking down and clearly explaining each individual strategic priority in understandable language, while using case studies to demonstrate strategy-in-action and to evidence performance. In addition, a majority of FTSE 100 Reports linked strategic priorities to specific KPIs. Though the FTSE 100 is a substantially smaller sample group, this is an encouraging development in strategy reporting, as a direct link between KPIs and strategic priorities was only achieved by 43% of the FTSE 100 last year.

FTSE 250

Strategy reporting marked a key revolutionary element within the FTSE 250. Two thirds of the FTSE 250 sample group either provided a completely new strategy section or developed strategy reporting substantially by providing linkages to KPIs and risk and providing further detail of key strategic priorities and future targets. This is not to say that the remaining companies made no progress is strategy reporting — in fact, a number of companies such as Lonmin and ITE have relocated the strategy discussion to the front of the Report, in order to raise the profile and importance of strategy to the future of the business.

COMPANIES LINKING STRATEGY TO KPIS

45%

COMPANIES PROVIDING A DEDICATED STRATEGY SECTION FOR THE FIRST TIME

35%

Interesting examples:

Aberdeen Asset Management
Pages 18 – 19

Mitchells and Butler
Pages 16 – 17

EuroMoney
Pages 8 – 9

A NEW FOCUS ON THE BUSINESS MODEL

An upsurge in business model reporting as 60% of companies provide either new or significantly developed business model sections

The business model has already seen increased attention in Annual Reports over the past few years as a result of the 2010 UK Corporate Governance Code's 'comply or explain' approach. We see the business model as the 'missing link' — an essential element in a Strategic Report that enables companies to link all the components and acts as a framework for telling their story in a clearer, more compelling way.

With the shift to business model reporting now becoming a legal requirement without the option to 'comply or explain', we have seen further developments. Overall, 35% of companies provided completely new business model sections while a further 25% have developed the previous year's business model reporting to further highlight key differentiators and explain how the business generates value. Furthermore, companies that did report a business model in 2012 expanded the number of pages dedicated to the business model by an average of 33%.

FTSE 100

67% of the FTSE 100 September year ends provided business models which have been developed significantly from the previous year's business model (Sage and Compass), or business model sections which are in fact a completely new addition to the Annual Report (Aberdeen Asset Management and easyJet). The level of change in business model reporting is a clear example of the impact and success of the new regulations, particularly as these newly developed business models work to clearly highlight competitive advantages and explain the value companies generate beyond the financials. They also highlight how the company is positioned for long term success.

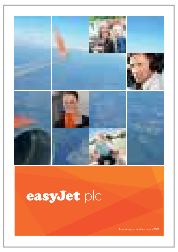
FTSE 250

In line with the FTSE 100, the FTSE 250 demonstrated a commitment to business model reporting. This was evidenced through the introduction of new business models in 57% of the Strategic Reports. Although a lesser number of FTSE 250 business models focus on value creation they have all made some effort to take on board the FRC's 'Exposure Draft: Guidance on the Strategic Report', by detailing what the entity does, why it does it and what makes it different from its peers — demonstrating a real improvement in accountability, transparency and relevance in reporting.

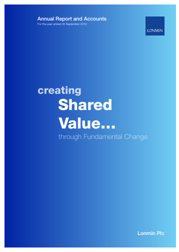
COMPANIES PROVIDING NEW OR DEVELOPED BUSINESS MODELS

60%

Interesting examples:



easyJet
Pages 2 – 3



Lonmin
Pages 6 – 7

Aberdeen Asset Management
Pages 16 – 17

DEVELOPMENTS IN RISK REPORTING

While risk plays a greater role in the strategy discussion, materiality is questionable

The requirement to describe risks and uncertainties facing businesses means that meaningful disclosure has long been an area of challenge. The FRC's focus on the risks and uncertainties included in the Strategic Report, is limited to 'those considered by the entity's management to be the most important to the future development, performance or position of the entity', will prove even more challenging. We have in fact seen 65% of companies increase the reported number of principal risks and uncertainties by anything from one to four additional risks, 25% providing the same number of risks as the previous year and just 10% of companies reducing the number of risks. The total number of risks reported varies, with 70% of companies reporting between six and 10 risks, 20% reporting between 11 and 15 risks and 10% reporting over 16.

These figures raise the question: are companies really undergoing a materiality driven approach? This could have been a timing issue for September year ends that, since the regulations came into law, simply would not have had enough time to undertake a full risk materiality assessment.

Although the level of detail provided in risk reporting has not necessarily improved, this information has been given greater priority in the Report and we are seeing risk play a greater role in the strategy discussion. The common approach to risk reporting in the Strategic Report has been to provide principal risk tables, shown by 85% of companies, while the other companies have integrated this information into the narrative. Risk tables are commonly introduced with a brief insight into the Group's risk management approach or a page reference to further information within the governance report.

FTSE 100

We have seen no real dramatic change in regard to risk reporting in the FTSE 100. This is due principally to there already being a solid foundation in this area of reporting. All FTSE 100 reporters provided a principal risk table in the Strategic Report and 50% provided a detailed insight into risk management, which included an explanation of risk assurance, governance, risk identification and materiality supported by the use of diagrams and charts. Aberdeen Asset Management demonstrated a particular improvement in risk reporting, linking strategic priorities to risk and expanding information on the company's risk management framework, lines of defence and risk indicators for the first time.

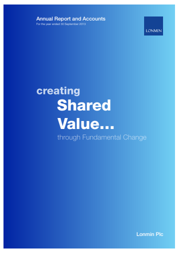
FTSE 250

Whereas the FTSE 100 companies have shown development in risk reporting, a number of FTSE 250 companies have shown a complete revolution in the risk section by making significant steps to demonstrate the integration of strategic priorities and principal risks. Additionally, 43% of companies provide detailed risk management discussions in the Strategic Report as shown by companies, such as Grainger and Euromoney, that have previously provided a strictly narrative discussion of risk. Instead these companies now provide dedicated risk tables that include a link to strategy and KPIs.

COMPANIES THAT HAVE INCREASED SINCE 2012THE NUMBER OF PRINCIPAL RISKS REPORTED

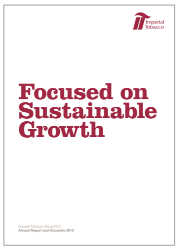
65%

Interesting examples:



Lonmin
Pages 20 – 23

TUI Travel PLC
Pages 42 – 51



Imperial Tobacco
Pages 35 – 41

MEETING NEW REQUIREMENTS

STRATEGY:
COMPANIES PROVIDING A DESCRIPTION OF STRATEGY

100%

The new regulations require quoted companies to include a description of their strategy in the Strategic Report. Generally, the number of pages dedicated to strategy has increased from last year, evidenced by 65% of companies. This is primarily due to companies – particularly in the FTSE 250 – introducing a dedicated strategy section for the first time. These strategy sections include diagrams, detailed descriptions and case studies to provide a much deeper understanding of the company's strategic priorities and future direction.

Interesting examples:

Aberdeen Asset Management
Page 18 – 19

EuroMoney
Pages 8 – 9

Mitchells and Butler
Pages 11 and 17

BUSINESS MODEL:
COMPANIES PROVIDING A DESCRIPTION OF BUSINESS MODEL

100%

In the case of quoted companies, the Strategic Report must include a description of the company's business model. Overall, 35% of companies provided completely new business model sections while a further 25% have developed the previous year's business model reporting to further highlight key differentiators and explain how the business generates value.

Interesting examples:

easyJet
Pages 2 – 3

Lonmin
Pages 6 – 7

Aberdeen Asset Management
Pages 16 – 17

DIVERSITY REPORTING:
COMPANIES PROVIDING GENDER DIVERSITY INFORMATION

100%

The new regulations require companies to provide, within the Strategic Report, a breakdown of the number of persons of each sex who are Directors of the company, senior managers of the company and employees of the company.

95% of companies provide gender diversity information either in the CR/sustainability section or in a dedicated people/employee section, while the remaining companies provide this information in the corporate governance report. Ten companies provide diversity statistics in a diversity table, while seven companies provide this information within the narrative and three companies demonstrate this information through a graph or pie chart. The supporting text primarily concerns the company's equality and diversity policies.

Interesting examples:

Aberdeen Asset Management
Pages 22 – 23

Sage
Page 51

easyJet
Pages 50 – 51

MEETING NEW REQUIREMENTS continued

HUMAN RIGHTS ISSUES: COMPANIES PROVIDING HUMAN RIGHTS INFORMATION

80%

According to the Strategic Report requirements, human rights information should be included 'to the extent necessary for an understanding of the development, performance, position of the entity's business'. The FRC's guidance suggests that if this information is material it should be placed in the Strategic Report and, if not, that it could be located elsewhere.

65% of companies report on human rights. 15% acknowledge human rights and explain why information has not been included, e.g. given the nature of the business. 20% of companies do not address human rights in the Annual Report. For the 65% of companies that consider human rights to be a material issue to address, the level of human rights information is largely mixed; however, companies frequently state the relevant human rights standards they comply or align with, depending on the location of their operations.

Interesting examples:

Lonmin
Page 17

Compass
Page 21

GHG REPORTING: COMPANIES PROVIDING GHG STATISTICS IN EITHER THE STRATEGIC REPORT OR THE DIRECTORS' REPORT

90%

Now that the mandatory requirement to report on Greenhouse Gas (GHG) emissions, we have seen 90% of the September year ends report on their GHG emissions. Only 10% of the sample group failed to provide any reference to GHG emissions reporting. Of the companies that do report, only 15% report on GHG emissions in the Directors' Report, while the remaining 85% have elected to include GHG emissions in the Strategic Report. The supporting narrative primarily provides an insight into why emissions are at the level they are, methodology and any future targets.

In line with the option to comply or explain in the first year of the legislation being in place, 15% of the companies that report GHG emissions have stated that they do not currently have the data but are developing their ability to capture it, while 10% have stated that GHG emissions are not material.

Interesting examples:

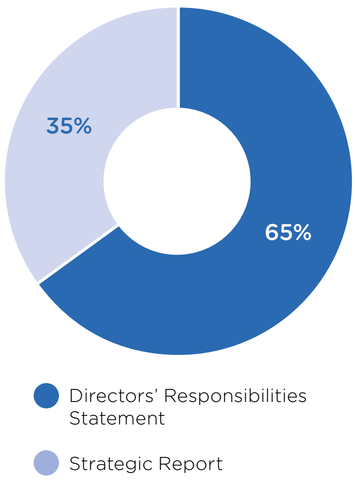
The Paragon Group of Companies
Page 22

Enterprise Inns
Page 23

easyJet
Page 51

Sage
Pages 54 – 55

DIRECTORS' APPROVAL: LOCATION OF THE DIRECTORS' APPROVAL STATEMENT



The Strategic Report must be approved by the Board of Directors and signed off on behalf of the Board by a director or the secretary of the company. Our research showed that 35% of companies provide approval statements in a dedicated section within the Strategic Report, and the most common location for the Directors' approval statement was within the Directors' responsibilities statement.

Interesting examples:

Aberdeen Asset Management
Pages 14 – 15

The Paragon Group of Companies
Page 26

UK CORPORATE GOVERNANCE CODE UPDATES

Governance reporting increases

The journey of reporting on corporate governance has been one of undeniable progress in recent years. However, while the latest changes to the UK Corporate Governance Code are aimed at bringing greater accountability and transparency, they have also added further pages to the Report. While last year the average September year end governance report stood at 12 pages, this has now increased to 15 pages, an increase of 25%.

Significant issues

In part, this is due to the expansion of Audit Committee reporting. Disclosures on significant issues related to the financial statements and how these have been addressed vary in length between one paragraph to several pages. The length and quality of disclosure varies, between one and nine issues. In tandem with this, the new disclosure requirements within the Auditor's Report, which covers the areas of particular focus for the audit process due to the auditor's risk assessment process, has also increased the length of reports. While the majority of companies have a material degree of overlap between the significant issues discussed in the Audit Committee report and the Auditor's Report, these discussions do not correlate directly in all cases.

Effectiveness of auditor

Reporting on audit tendering and effectiveness has seen an increase in disclosure. The Code states that 'FTSE 350 companies should put the external audit contract out to tender at least every ten years'. Going beyond this, 55% of companies actually indicate the year in which the re-tender process will happen, the majority of these being within the next three years. Additionally, 65% provide a specific and detailed view of how the business has ensured the effectiveness of the auditor, covering the processes undertaken and the key people involved in determining this. 50% provided a specific discussion on how an auditor's objectivity and independence were safeguarded when performing non-audit services.

'Fair, balanced and understandable'

A further provision requires that the Directors state that they consider the Annual Report, taken as a whole, to be 'fair, balanced and understandable' and that it provides the information necessary for shareholder to assess the company's performance, business model and strategy. The principle of 'fair, balanced and understandable' is reinforced as a communication principle guiding disclosures included in the Strategic Report by the FRC's Guidance. While we have seen little evidence in reporting of how companies have ensured this beyond a short statement, it has certainly been an item of discussion this reporting season. In fact, only 10% of the sample group provided any real insight into what went on behind closed doors to ascertain this. Instead the majority only made a statement in the Directors' responsibility statement that the Report was fair, balanced and understandable. Seemingly, while activities to ensure this statement undoubtedly took place, disclosure of such detail has not made the cut for the Report.

Reform to Directors' pay

The reforms to remuneration reporting have undoubtedly increased the level of disclosure and consequently the number of pages in the Report. For September year ends, the average number of pages last year stood at 11, compared to 18 pages in the current year. This substantial increase - 64% - reflects the requirement for companies to clearly outline the company policy and to also provide clarity as to how awards to the Directors were determined. Whether the new style reporting is clearer and more understandable for investors remains to be seen.

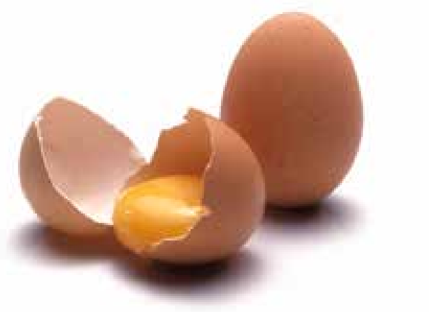
DATA FILE

Sample group

	Annual Report 2013				Annual Report 2012			% change	
	Number of pages in Strategic Report**	Total pages in Annual Report	Number of pages of narrative*	% of narrative content	Total pages in Annual Report	Number of pages of narrative*	% of narrative content	Total change to Annual Report	Total change to narrative
FTSE 100									
Compass Group	44	152	72	47%	140	65	46%	11%	9%
EasyJet	56	136	95	70%	104	62	60%	53%	31%
Imperial Tobacco Group	41	144	85	59%	144	93	65%	-9%	0%
Sage Group	56	152	90	59%	134	73	54%	23%	13%
Aberdeen Asset Management	32	152	83	55%	128	72	56%	15%	19%
TUI Travel	53	188	103	55%	156	78	50%	32%	21%
FTSE 250									
British Empire Securities & General Trust	13	75	35	47%	68	33	49%	6%	10%
Diploma	37	108	66	61%	84	47	56%	40%	29%
Electra Private Equity	23	100	30	30%	96	28	29%	7%	4%
EuroMoney Institutional Investor	41	130	64	49%	120	54	45%	19%	8%
Grainger	22	144	85	59%	140	54	39%	57%	3%
ITE Group	41	182	82	45%	172	74	43%	11%	6%
Lonmin	41	128	73	57%	112	58	52%	26%	14%
Mitchells & Butlers	29	192	107	56%	170	102	60%	5%	13%
Shaftesbury	44	112	67	60%	88	43	49%	56%	27%
The Paragon Group of Companies	22	122	92	75%	108	72	67%	28%	13%
Thomas Cook Group	48	152	78	51%	122	48	39%	63%	25%
UDG Healthcare	57	164	91	55%	140	71	51%	28%	17%
Victrex	34	143	61	43%	122	49	40%	24%	17%
Enterprise Inns	28	104	69	66%	92	53	58%	30%	13%
Total (average)	**38**	**139**	**76**	**55%**	**122**	**61**	**50%**	**26%**	**15%**

Sample group includes UDG Healthcare which is London listed but an Irish registered company and not subject to the disclosure requirements for the Strategic Report.

* The number of pages from the front of the Annual Report to the beginning of the financial statements
** The section of the Annual Report highlighted as the Strategic Report in the contents



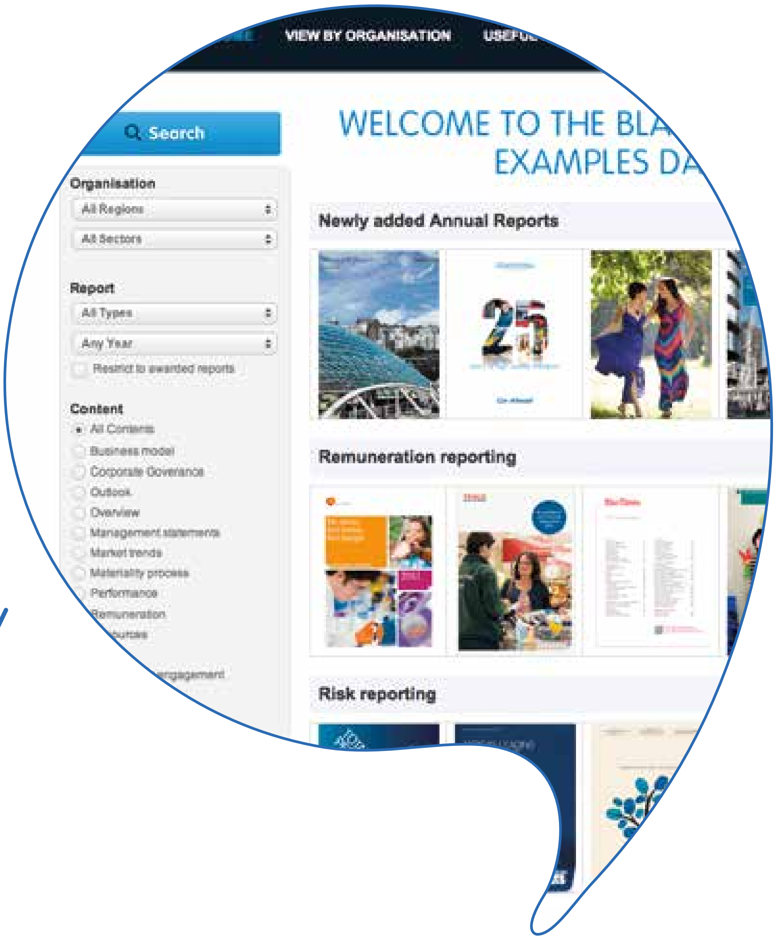
Visit the Black Sun examples database

Developed exclusively for our clients, the Black Sun database provides real-life examples which demonstrate interesting, innovative and leading practice reporting.

Set up so that you can review the featured examples by topic and by sector, the database aims to help provide inspiration, ideas and practical examples.

View the examples online or download them using the print basket facility to review at a later date – whichever suits your way of working.

www.blacksunplc.com/corporate/database/home



Black Sun Plc disclaimer

The information contained in this report is provided for general information purposes only and is not intended to constitute an alternative to professional advice. Although Black Sun Plc has endeavoured to ensure the content of this report is accurate, users of this report should seek appropriate professional advice before taking any action in reliance on any of the information contained within it.

All information in this report is provided 'as is' and Black Sun Plc provides no warranties or representations as to the completeness, accuracy or suitability for any purpose of the content of this report or any other warranty of any kind, express or implied, including but not limited to, warranties of satisfactory quality, non-infringement, or compatibility. To the maximum extent permitted by law, Black Sun Plc accepts no liability to users of this report or other third parties for any decision made or action taken in reliance on the information contained in this report or for any loss howsoever arising from any use of this report or its contents, including without limitation liability for any consequential, special or similar damages even if advised of the possibility of such damages.

This report is supplied for the information of users and it may not be distributed, published, reproduced or otherwise made available to any other person, in whole or in part, for any purposes whatsoever without the prior written consent of Black Sun Plc.

FIND OUT MORE

If you would like to understand more about the trends in corporate reporting or would like to understand how your reporting compares to the FTSE 100, contact us today. We would be delighted to help you on your corporate communications journey.

For more information about Black Sun please contact Sallie Pilot at **spilot@blacksunplc.com** or call **+44 (0)20 7736 0011** or visit us at **www.blacksunplc.com**

Fulham Palace, Bishop's Avenue
London, SW6 6EA

Tel: +44 (0)20 7736 0011
Fax: +44 (0)20 7736 1294
Email: info@blacksunplc.com

www.blacksunplc.com