Financial Reporting Council

[Month Year]

[Draft] Guidance on the Strategic Report

This draft Guidance on the Strategic Report has been prepared by FRC staff to accompany the Draft amendments to the Guidance on the Strategic Report: Non-financial reporting to illustrate the impact of the proposed amendments and assist stakeholders in responding to the consultation by placing the proposed amendments in context. It does not form part of the Exposure Draft.

Contents

Summary

(i) The aim of the Financial Reporting Council (FRC) is to promote high quality corporate governance and reporting to foster investment. The FRC believes that encouraging entities[1] to prepare a high quality strategic report – which provides shareholders with a holistic and meaningful picture of an entity's business model, strategy, development, performance, position and future prospects – is a key part of achieving this aim.

Background

(ii) In August 2013, the Government published ~~new~~ Regulations[2] for the strategic report and directors' report. The Regulations resulted in an amendment to existing company law requirements and became effective on 1 October 2013. The main change was the introduction of a requirement for certain companies to prepare a strategic report as part of their annual report. ~~The requirements apply for periods ending on or after 30 September 2013.~~

(iii) The Department for Business, Innovation and Skills (BIS) requested that the FRC prepare non-mandatory guidance supporting the new legal requirements for the strategic report. ~~While the changes introduced by the Regulations represent a relatively modest change to the pre-existing legal requirements, t~~The FRC believes the strategic report should be ~~that they should act as a catalyst for entities to prepare~~ clear and concise ~~narrative reports that facilitate~~and result in fair, balanced and understandable reporting. The ~~new~~ guidance is therefore intended to encourage preparers to consider how the strategic report fits within the annual report as a whole with a view to improving the overall quality of corporate ~~financial~~ reporting.

(iv) In December 2016, the Government published non-financial reporting Regulations[3]. For certain entities, the Regulations introduce additional non-financial reporting requirements for the strategic report. The requirements apply for financial years beginning on or after 1 January 2017.

Aims of the guidance

~~(iv)~~(v) The FRC has developed guidance that aims to be:

(a) principles-based;

(b) mindful of recent developments in narrative reporting best practice; and

(c) aligned with the requirements in the *UK Corporate Governance Code*.

~~(v) This guidance replaces the Accounting Standards Board's *Reporting Statement: Operating and Financial Review*.~~

[1] This guidance uses the broader term 'entity' unless the term 'company' is more appropriate in a specific context.
[2] The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (the 'Regulations').
[3] The Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016.

Overview

(vi) The *Guidance on the Strategic Report* serves as *a* best practice statement and, as such, has persuasive rather than mandatory force. One of its objectives is to set out high-level principles that enable entities to ‘tell their story’.

(vii) The guidance is for directors and is intended to serve as best practice for all entities preparing strategic reports.

(viii) The guidance encourages ~~that the~~ companies to provide information ~~provided~~ in annual reports ~~should be more~~ relevant to shareholders. With that in mind, the guidance is framed in the context of the annual report as a whole. In practice, an annual report comprises a number of components. The information contained in each of these components has different objectives that should guide preparers to where disclosures could be located. The aim is to promote cohesiveness and enable related information to be linked together.

(ix) Placement is a key theme in the guidance with a view to providing entities with the building blocks to be innovative in the location of information while working within the regulatory framework. The aims are to ensure that important information ~~that is important to shareholders~~ is prominent and improve the accessibility of information. The guidance recommends that information that is provided to meet the needs of individual stakeholders ~~not relevant for shareholders~~ should be provided outside the annual report where this is permitted by law or regulation.

(x) The ~~overriding~~ primary objective of the strategic report is to provide information for shareholders ~~that will enable~~ and help them to assess how the directors have performed their duty, under Section 172 of the Act, to promote the success of the company~~.~~[4] while having regard to the matters set out in that section. It should reflect the ~~directors'~~ board's view of the company and provide context for the related financial statements.

~~(x)~~(xi) Stakeholders as a whole will have an interest in the long-term success of an entity and i~~I~~n meeting the needs of shareholders, the information in the annual report ~~may~~ will also be ~~of interest~~ useful to other stakeholders. The annual report should not, however, be seen as a replacement for other forms of reporting addressed to other stakeholders.

~~(xi) The guidance includes sections on the application of materiality to the strategic report, communication principles, and content elements.~~

(xii) The guidance recommends that ~~only~~ information that is material ~~to shareholders~~ should be included in the strategic report. Immaterial information should be excluded as it can obscure the key messages and impair understandability. In meeting the information needs of shareholders, the strategic report will also provide information which is useful to an entity’s other stakeholders taken as a whole and will meet many of their information needs.

[4] Section 172 of the Companies Act 2006

(xiii) The communication principles suggest that the strategic report should have the following characteristics – be fair, balanced and understandable; be concise; have forward-looking orientation; include entity-specific information; and link related information in different parts of the annual report. There are also principles which recommend the structure, presentation and content of the strategic report be reviewed to ensure that information remains relevant to the current period. The communication principles are intended to emphasise that the strategic report is a medium of communication between a company's ~~directors~~ board and its shareholders.

(xiv) The content elements for the strategic report set out in the guidance are derived from the Companies Act 2006, and include a description of the entity's strategy~~, objectives~~ and business model. In addition, the strategic report should include an explanation of the main trends and factors affecting the entity; a description of its principal risks and uncertainties; and an analysis of the development and performance of the business,~~; and an analysis using~~ including key performance indicators. ~~Disclosures~~ Entitites should disclose information about the environment, employees, social, community, ~~and~~ human rights, anti-corruption and anti-bribery matters ~~issues~~ considering the impact of their activity ~~are required when material~~. There is also a requirement to include disclosures on gender diversity.

~~(xiv)~~(xv) On 5th July 2017, the European Commission published 'Guidelines on non-financial reporting'. The Commission Guidelines are non-binding and state that companies may use other reporting frameworks, including this guidance, in preparing non-financial information.

Section 1
Objectives and how to use this guidance

1.1 The objectives of the *Guidance on the Strategic Report* are to:

(a) ensure that relevant information that meets the needs of shareholders is presented in the **strategic report**;

(b) encourage companies to experiment and be innovative in the drafting of their **annual reports**, presenting narrative information in a way that enables them to best 'tell their story' while remaining within the regulatory framework; and

(c) promote greater cohesiveness in the annual report through improved linkage between information within the strategic report and in the rest of the annual report.

1.2 This guidance is structured as follows:

Boxed text in bold type describes the main principles or, in Section 7, content elements that form the basis of this guidance. References to legislative or other regulatory requirements are given in the footnotes to this guidance.

1.3 The bold text is followed by further supporting guidance explaining how the main principles and content elements might be applied. The supporting guidance is then supplemented by highlighted text as follows:

Summary of legal requirements

Where the law or regulation underpinning the guidance requires explanation or highlighting, this information is included in a 'summary of legal requirements'. This information is intended to summarise important aspects of the legal requirements; it is not intended to be a comprehensive analysis of the law.

Example

Where a specific paragraph warrants further application guidance, practical examples are included. These examples are intended to be illustrative only and may not be appropriate for all entities.

Linkage example

One of the main objectives of this guidance is to encourage the preparation of more cohesive annual reports. The 'linkage examples' illustrate ways in which interdependencies or relationships between strategic report content elements and disclosures placed elsewhere in the annual report might be highlighted or presented. The linkage examples are not intended to be a comprehensive list of all possible linkages in the strategic report, nor are they intended to be a template for the presentation of information.

Encouraged content element

The encouraged content elements identify areas where there are no explicit disclosure requirements in the Act. However, entities could include additional content to ensure that the strategic report meets its overall purpose – to inform members of the company and help them assess how directors have performed their duty under section 172 (to promote the success of the company).

1.4 Terms defined in the Glossary (Appendix I) are in **bold type** the first time they appear in each section.

1.5 Clarifications of **the Act's** requirements in respect of the strategic report are provided in a letter from BIS that can be found on the FRC's website at https://www.frc.org.uk/Narrative-Reporting.

Section 2
Scope

2.1 This guidance is non-mandatory and is intended to serve as best practice for all entities[5] preparing a **strategic report**.

> ***Summary of legal requirements***
>
> **The Act** sets out different levels of reporting depending on the type of company.
>
> Section 414A of the Act requires all companies that are not small[6] to prepare a strategic report.
>
> For a financial year in which the company is a parent company, and the directors of the company prepare group accounts, the strategic report must be a group strategic report relating to the entities included in the consolidation.[7]
>
> Where a company has more than 500 employees and is a **traded company, a banking or an insurance company**, section 414CA requires the strategic report to include additional non-financial information.
>
> A detailed analysis of the Act's requirements in respect of the strategic report, including information on the application of the statutory requirements to different types of company, is set out in Appendix III and Appendix IV.
>
> Section 415 of the Act also requires all companies to prepare a **directors' report** which contains other information specified by the Act and its associated regulations.[8] The extent of disclosure in a directors' report also varies depending on the type of company. An analysis of the requirements of the Act and its associated regulations in respect of the directors' report is set out in Appendix ~~I~~V.
>
> Section 4(1)(a) of the Partnerships (Accounts) Regulations 2008 requires qualifying partnerships to prepare a strategic report.
>
> Both the strategic report and the directors' report are integral parts of the **annual report**.

2.2 As noted in the 'summary of legal requirements' above, the extent of disclosure that is required for a company will vary according to the type of company. However, this guidance does not differentiate on this basis. ~~**Material**~~ It is best practice to disclose information that is necessary for an understanding of the development, performance, position or future prospects of the entity[9] or the impact of its activity ~~should be disclosed~~ in the strategic report, irrespective of the existence or otherwise of an explicit statutory disclosure requirement.

> ***Example***

[5] This guidance uses the broader term 'entity' unless the term 'company' is more appropriate in a specific context.

[6] Section 414B of the Act. A company or qualifying partnership is entitled to the small companies exemption in relation to the strategic report for a financial year if – (a) it is entitled to prepare accounts for the year in accordance with the small companies regime (s382), or (b) it would be so entitled but for being or having been a member of an ineligible group. The small companies regime does not apply to a company that is, or was at any time within the financial year to which the accounts relate – a

Section 414C(6) of the Act has the effect of providing exemption for medium-sized companies from the requirement to disclose non-financial **Key Performance Indicators (KPIs)**. However, where disclosure of non-financial KPIs is the most appropriate method of providing the information necessary for an understanding of the development, performance, position or future prospects of the company's business, this guidance recommends their use, even if the company is medium-sized.

~~2.3 This guidance is written with the requirements for **quoted companies** in mind (and particularly those listed companies that apply **the Code**), the narrative reporting requirements for which are more extensive than those in the law for unquoted companies. However, this guidance still represents best practice for all companies required to prepare a strategic report.~~

public company; a company that is an authorised insurance company, a banking company, an e-money issuer, a MiFID investment firm or a UCITS management company, or; carries on insurance market activity (s384(1)).

7 Section 414A(3) of the Act.

8 In the case of a medium-sized or large company, the 'Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008'. In the case of small companies, the 'Small Companies and Groups (Accounts and Directors' Reports) Regulations 2008'.

9 This guidance uses the broader description 'development, performance, position or future prospects of the entity' rather than the description 'development, performance or position of the company's business' contained in the Act, unless the latter is more appropriate in a specific context.

Section 3
The annual report

The purpose of the annual report

3.1 Although this guidance is primarily focused on the application of the **strategic report** requirements, it also addresses the role of the strategic report in the context of the **annual report** as a whole. This recognises that the strategic report does not exist in isolation.

3.2 The purpose of the annual report is to provide shareholders with relevant information that is useful for making resource allocation decisions and assessing the directors' stewardship.

3.3 The annual report should provide the information necessary for shareholders to assess the entity's:

(a) development, performance and position;

(b) future prospects;

(c) **strategy** for achieving its **objectives**;

(d) **business model**;

(e) governance; and

(f) directors' remuneration.

3.4 In meeting the needs of shareholders, the information in the annual report may also be of interest to other investors (such as debt investors and potential investors) and creditors. Other stakeholders such as customers, employees and members of society more widely may also wish to use information contained within it. The annual report should address issues relevant to these other users where, because of the influence of those issues on the development, performance, position or future prospects of the entity's business, they are also **material** to shareholders. The annual report should not, however, be seen as a replacement for other forms of reporting addressed to other stakeholders.

3.5 The annual report cannot provide all of the information that shareholders and other stakeholders may find useful and is only one of the reports that entities might produce. Other forms of corporate reporting, delivered through alternative channels, may also provide a source of information.

~~3.5~~3.6 The annual report as a whole should be fair, balanced and understandable and should provide the information necessary for shareholders to assess the entity's position and performance, business model and strategy.[10]

Auditor's responsibilities

3.7 The auditor's report is required to state[11] whether, based on the work undertaken in the course of the audit, the information in the strategic report, directors' report and corporate governance statement:

- is consistent with the financial statements;
- has been prepared in accordance with applicable legal requirements; and
- contains any material misstatements.

~~3.6~~3.8 The board~~directors~~s of companies that are required to report on how they have applied the Code, or to explain why they have not, are required to include a statement in the annual report confirming that they consider it to be fair, balanced and understandable.~~.~~

Placement of information

~~3.7~~3.9 Table 1 provides an overview of the annual report. It identifies the principal **components** of an annual report, sets out their different but linked objectives and highlights the main sources of disclosure requirements. The table is intended to help preparers make judgements regarding where information would be best located. Considering these different objectives when drafting each component of the annual report will help ensure that only relevant and focused information is included in them.

~~3.8~~3.10 Law or regulation defines the components of the annual report, but does not dictate a structure. Similarly, Table 1 is not intended to impose a specific structure or order for the annual report or restrict the ~~directors~~ board to including only the components it specifically identifies. Other sections that are not required by law or regulation (e.g. a chairman's statement or a chief financial officer's report) may be included in the annual report as a subsection of a mandatory component, or in a separate non-mandatory section, if that is considered the best way of ensuring that the document is both relevant and understandable.

~~3.9~~3.11 Table 1 is not intended to stifle innovation or experimentation. This guidance encourages companies to consider and challenge the structure of their annual reports using the flexibility available within the framework.

10 **The Code**, Provision C.1.1. ~~This wording is consistent with the wording of the September 2012 Code. In April 2014, the FRC published a consultation 'Proposed Revisions to the UK Corporate Governance Code'. The proposed amendment to Provision C.1.1 refers to the assessment of "the company's position and performance, business model and strategy".~~

11 ISA (UK) 720 – Revised June 2016, paragraph 22D

Table 1

Document	Annual report				
Document purpose	• The purpose of the annual report is to provide shareholders with relevant information that is useful for making resource allocation decisions and assessing the directors' stewardship.				
Component	**Strategic report[12]**	**Corporate governance report[13, 14]**	**Directors' remuneration report[15]**	**Financial statements**	**Directors' report**
Component objectives	• To provide information for members and help them assess how directors have performed their duty under section 172 (duty to promote the success of the company). • To provide context for the related financial statements. • To provide insight into the entity's business model and its main objectives and strategy. • To describe the principal risks the entity faces and how they might affect its future prospects. • To provide an analysis of the entity's past performance. • To provide **signposting** to show the location of **complementary information**.	• To provide information necessary to explain how the composition and organisation of the entity's governance structures supports the achievement of the entity's objectives.	• To set out all elements of the entity's directors' remuneration policy and key factors that were taken into account in setting the policy. • To report on how the directors' remuneration policy has been implemented • To set out amounts awarded to directors and provide details on the link between the entity's performance and directors' remuneration.	• To present the entity's financial position, performance and development in accordance with Generally Accepted Accounting Practice.	• To provide other statutory/ regulatory information about the entity.
Main sources of annual report disclosure requirements for an unquoted UK company[16]	• **The Act** s414C	• n/a	• n/a	• Accounting standards • The Act • SI 2008/410[17]	• SI 2008/410 Schedule 7
Main sources of annual report disclosure requirements for a UK company with a premium listing on the London Stock Exchange	• The Act s414C • The Code, Provision C.1.2 • **DTR** 4.1[18] • The Act s414CA • The Act s414CB	• The Code Schedule B • **LR** 9.8.6(5)–(6) • DTR 7.1[19] • DTR 7.2	• SI 2008/410 Schedule 8 • The Code Section D	• Accounting standards • The Act • SI 2008/410	• SI 2008/410 Schedule 7 • DTR 4.1 • DTR 7.2
	• LR 9.8 requires the inclusion of certain specific disclosures in the 'annual report and accounts'.				

12 The objectives of the strategic report are considered more fully in section 4.
13 The corporate governance report is often included as a component of the directors' report by **cross-reference.**
14 The corporate governance report will usually, in accordance with the recommendations of the Code, include separate sections detailing the work of the audit and nomination committees.
15 Separate guidance on the disclosures to be included in the directors' remuneration report has been published by the GC100 and Investor Group: http://uk.practicallaw.com/6-540-9731.
16 Small companies are not required to prepare a strategic report, corporate governance report or directors' remuneration report. Those companies should refer to the Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 (SI 2008/409) in respect of the requirements for the financial statements and directors' report.
17 SI 2008/410 'The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008'.
18 DTR 4.1 refers only to a 'management report' which will usually comprise the strategic report and directors' report.
19 LR 9.8.6(5)-(6) requires all of this information to be included in the annual report without specifying the location.

~~3.10~~3.12 The placement of information within the annual report or elsewhere should facilitate the effective communication of that information.

~~3.11~~3.13 The annual report is a medium of communication between the ~~company's directors~~ board and ~~its~~ shareholders. Its structure should facilitate that communication while also complying with **~~company law~~the Act** and other regulatory requirements. In general, information should ~~only~~ be placed in the annual report when it is ~~relevant~~ material to shareholders. Information that is ~~primarily~~ provided to meet the needs of individual stakeholders ~~other users~~ should be placed elsewhere (e.g. online or in another report), where law or regulation permits.

Placement of information in a component of the annual report

~~3.13~~3.14 The Act envisages each component of the annual report to be a separately identifiable part of the annual report. Therefore, the strategic report, corporate governance report, directors' remuneration report, financial statements and directors' report should generally include only the content that is necessary to meet the objectives of those components~~effectively communicate the information that is required by law or regulation~~.

~~3.14~~3.15 It follows from paragraph 3.14~~3~~ that information that is required to meet the requirements of the strategic report should generally be placed in the strategic report.

Cross-referencing within the annual report

~~3.14~~3.16 In some instances, it may be helpful to group together similar or related disclosure requirements arising from different legal or regulatory requirements that apply to different components of the annual report. This will reduce duplication and enable linkages to be highlighted and explained clearly in one place.

~~3.16~~3.17 Where information satisfying a disclosure requirement that applies to the strategic report is presented outside of that component, cross-referencing must be used in order for the disclosure requirement to be met. Cross-references should be clear and specific. Cross-referencing may also be applied to other components of the annual report.

~~3.17~~3.18 The use of cross-referencing should be limited to when a piece of information would tell the company's story more effectively if it were located in another component of the annual report.

Example

Some accounting standards require the disclosure of large amounts of explanatory detail which may remain unchanged year to year. This information, while material to an understanding of particular items in the financial statements, may be of a nature or volume that would interrupt the flow of information in the components of the annual report (e.g. background information on share-based payment arrangements). The directors might consider locating these disclosures in a separate (audited) 'other financial information' section of the financial statements and linking the disclosures by cross-referencing.

Summary of legal requirements

Section 463 of the Act provides that directors are liable to compensate the company if the company suffers any loss as the result of any untrue or misleading statement in (or any omission from) the strategic report, the directors' remuneration report or the directors' report. The extent of the liability is limited: directors are only liable to the company. Further, directors are only liable to the company if they knew that the statements were untrue or misleading or if they knew that the omission was a dishonest concealment of a material fact. This protection is sometimes known as 'safe harbour'.

Accordingly, provided directors do not issue a deliberately or recklessly untrue or misleading statement or dishonestly conceal a material fact by way of an omission, they will not be liable to compensate the company for any loss incurred by it in reliance on the report. This 'safe harbour' protection applies to the strategic report, the directors' report and the directors' remuneration report.

In order to benefit from this protection, it is generally accepted that directors should ensure that information required in one of the three specified reports is included in those reports, either directly or via a specific cross-reference.

The exact scope and extent of the protection (including whether it extends to information included in a report on a voluntary basis) has not been tested in court and hence the legal position in relation to the inclusion of such information remains uncertain.

Further information on the application of the 'safe harbour' provisions is provided in a letter from BIS which can be found on the FRC website at https://www.frc.org.uk/Narrative-Reporting.

Placement of complementary information

~~3.18~~3.19 **Complementary information** that is not required to be included in the annual report (i.e. it is voluntary and not necessary to help meet the objectives of that component), but which the directors wish to place in the public domain, should generally be published separately (e.g. on the company website). The directors may, however, sometimes consider it appropriate to include some of this complementary information in the annual report. In such cases, that information could be included either in a separate, non-statutory component of the annual report or in the directors' report.

Signposting

~~3.19~~3.20 The strategic report should be considered as the top layer of information for shareholders. Some users may require a greater level of detail. In this case, the strategic report can be used to signpost to other complementary information.

~~3.20~~3.21 Signposting enables shareholders to 'drill down', to detailed complementary information that is related to a matter addressed in a particular component but that is not necessary to effectively communicate the information that is required by law or regulation in respect of that component. This more detailed complementary information should be placed elsewhere in the annual report, or published separately. Signposts to such information should make clear that it does not form part of the component from which it is signposted.

> ***Example***
>
> An entity in the extractive industry may include its total proven and probable reserves within the strategic report as one of its non-financial **key performance indicators (KPIs)**. The provision of the disaggregation of these totals is an example of complementary information that is not required to meet the objectives of a strategic report. Some companies may include this complementary information as part of their annual report within a separate, non-statutory component of the annual report.

~~3.21~~3.22 Paragraphs 3.1~~2~~4 ~~to~~ and 3.1~~4~~5 notwithstanding, the components of an annual report should not be drafted independently. It is only through an integrated approach to drafting the annual report that all relevant relationships and interdependencies between items of information disclosed in it will be properly identified and appropriately highlighted through linkages and signposting.

Assurance

~~3.22~~3.23 The source of disclosure requirements, and their location in the annual report or otherwise, will usually affect the level of assurance to which information is subjected (e.g. audit, review or no formal assurance). It is important that, as a minimum, it is clear which information has been subject to audit and which has not. This is particularly the case where the application of the guidance set out in this section has resulted in the splitting of disclosure requirements derived from a single legislative or regulatory source or the combination of requirements derived from different sources.

Structure of information within a component

~~3.23~~3.24 Effective communication of the matters required to be addressed in a component will not usually be achieved through the use of a 'checklist style' approach to drafting. This can result in the structure of the component being driven by the order in which disclosure requirements arise and the presentation of more granular detail in such a way that other important information is obscured.

~~3.24~~3.25 Each component of the annual report should be structured in a way that allows for a clear narrative flow and cohesiveness in the information that it contains. The ultimate aim of this is to ensure that the component, and the annual report more broadly, is relevant and understandable.

Section 4
The strategic report: purpose

4.1 The **strategic report** should provide shareholders of the company with information that will enable them to assess how the directors have performed their duty to promote the success of the company for the benefit of members as a whole, while having regard to the matters set out in section 172.[20]

~~4.4In complementing the financial statements, the strategic report should provide information about the business and its development, performance or position that is not reported in the financial statements but which might be relevant to the shareholders' evaluation of past results and assessment of future prospects.~~

4.2 The success of a company is dependent on its ability to generate and preserve value. Companies do not exist in isolation; they need to build and maintain relationships with a range of stakeholders in order to generate and preserve value. The strategic report should provide information about the relationships that are most important to the entity's ability to do so and should also explain how those relationships are taken into account in the boards' decision making. This information will provide an insight into the purpose of the entity and its culture.

4.3 The strategic report should provide shareholders with information to allow them to understand the **strategy**, development, performance, position and impact of the entity's activity, including potential long term outcomes.

4.4 In considering impact, the board should consider the impact of the entity's activities on stakeholders as a whole, including the impact on society more widely. These are matters which may affect an entity's success in the long term.

~~4.2~~4.5 The strategic report should provide additional explanations of amounts recognised in the financial statements and explain the conditions and events that shaped the information contained in the financial statements. The strategic report should also include information relating to sources of value that have not been recognised in the financial statements and how those sources of value are managed, sustained and developed, for example a highly trained workforce, intellectual property or internally generated intangible assets, as these are relevant to an understanding of the entity's development, performance, position or impact of its activity.

4.6 There should be consistency between the strategic report and the information presented in the financial statements.

4.7 The strategic report should contain sufficient information to help members of the company to assess how the directors have performed their duty under section 172 and had regard to the matters listed therein. This may require the inclusion of information additional to that prescribed in the Act. However, the matters listed should not be applied as a checklist.

4.8 ~~4.2~~ The strategic report should reflect the collective view of the ~~company's directors~~board.

~~4.7~~4.9 The strategic report should also provide **signposting** to show the location of **complementary information**.

[20] Section 414C(1) of **the Act**

Summary of legal requirements

The purpose of the strategic report is to inform members[21] of the company and help them to assess how the directors have performed their duty under section 172' of the Act.

The duty of a director, as set out in section 172 of the Act, is to 'act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

(a) the likely consequences of any decision in the long term;

(b) the interests of the company's employees;

(c) the need to foster the company's business relationships with suppliers, customers and others;

(d) the impact of the company's operations on the community and the environment;

(e) the desirability of the company maintaining a reputation for high standards of business conduct; and

(f) the need to act fairly as between members of the company'.

The disclosure requirements set out in section 414C of the Act, on which the content elements in Section 7 are based, are intended to ensure that the strategic report achieves its statutory purpose.

21 The Act refers to 'members' of the company, however this guidance uses the broader term 'shareholders' unless the term 'members' is more appropriate in a specific context.

Section 5
The strategic report: materiality

5.1 The strategic report requirements use terms such as 'principal' (e.g. as used in the term 'principal risks and uncertainties') 'key' (e.g. as used in the term 'key performance indicators' (KPIs)) and 'necessary for an understanding of'. These terms serve as a filter to ensure that neither too little nor too much information is included and serve as a guide to the level of detail that should be provided. As materiality is a commonly understood term in financial statements; this guidance uses the term material in conjunction with principal, key or necessary for an understanding of, to help guide entities in making the judgement of what level of disclosure is necessary.

~~5.1~~5.2 **Information is material if its omission from or misrepresentation could reasonably be expected to influence the economic decisions shareholders take on the basis of the annual report as a whole. Only information that is material in the context of the strategic report should be included within it.**

Conversely, the inclusion of immaterial information can obscure key messages and impair the understandability of information provided in the strategic report. Immaterial information should be excluded from the strategic report.

~~5.2~~5.3 The **strategic report** and the **annual report** more broadly should ~~only~~ contain information that is **material** to shareholders. A company's shareholder base may comprise groups with different needs and interests and the needs of all significant shareholder groups, including those who take a long-term view on investment, should be considered when determining whether a matter is material.

5.4 Stakeholders as a whole will have an interest in the long-term success of an entity. Providing information that is material for shareholders will also thereby provide information that is useful to all stakeholders taken as a whole. When determining whether information is material, an entity should consider whether the fact or circumstance would affect the ability of the entity to generate or preserve value in the long term.

~~5.3~~5.5 Materiality is ~~an~~ entity-specific ~~aspect of relevance~~ based on the nature or magnitude (or both) of the actual or potential effect of the matter to which the information relates ~~in the context of an entity's annual report~~. It requires directors to apply judgement based on their assessment of the relative importance of the matter to the entity's development, performance, position or future prospects and the impact of its activity.

5.6 The disclosure of the auditing materiality figure in the audit report may focus attention on materiality as a number. In the context of qualitative information in general and non-financial information in particular, however, a numerical materiality figure is of less importance and a separate assessment may be required.

~~5.4~~5.7 Materiality in the context of the strategic report will depend on the nature of the matter and magnitude of its effect, judged in the particular circumstances of the case. However, due to the nature of the information contained in the strategic report, and the purpose it serves:

(a) qualitative factors ~~will~~ may often have a greater influence on the determination of materiality in the context of the strategic report, particularly in relation to non-financial information ~~than might be the case when making materiality judgments in respect of items in the financial statements. Both financial and non-financial information could be material~~; and

(b) the materiality of an item in the financial statements ~~will often~~may be based on its magnitude relative to other items included in the financial statements in the year under review but may also be based on the potential effect over the longer term. The potential magnitude of future effects of a matter on the entity's development, performance, position or future prospects should also be considered when determining the materiality of a matter in the context of the strategic report.

~~5.5~~5.8 The assessment of materiality for the strategic report should be reviewed annually to ensure that the information included in the report continues to be material over time in light of changes in facts and circumstances affecting the entity.

~~Materiality and T~~Tthe Companies Act

~~Although **the Act** does not use the term 'material', the concept is implicit in many of its requirements. For example, the disclosure of trends and factors (described in paragraph 7.17) is only required to be included in the strategic report '…to the extent necessary for an understanding of the development, performance or position of the company's business'. Where information is required 'to the extent necessary for an understanding', it should be included in the strategic report when it is material to shareholders.~~

~~5.6~~5.9 The strategic report should focus on those matters that are material to an understanding of the development, performance, position, ~~or~~ future prospects or impact of its activity ~~of the entity when taken as a whole~~. In the annual report of a parent company, for example, the strategic report should be a consolidated report and should include only those matters that are material in the context of the consolidated group.

5.10 ~~5.7~~ The terms 'key' ~~(e.g. as used in the term '**key performance indicators' (KPIs)**)~~ and 'principal' ~~(e.g. as used in the term '**principal risks** and uncertainties')~~ refer to facts or circumstances that are (or should be) considered material to an understanding of the development, performance, position or future prospects, and, for non-financial information, the impact of the entity's activity. These will generally be the performance measures or risks considered by the board.

~~5.7~~5.11 ~~5.8~~ The number of items disclosed as a result of the requirements to disclose principal risks or KPIs will generally be relatively small; they should not, for example, result in a comprehensive list of all performance measures used within the business or of all risks and uncertainties that may affect the entity. They should be consistent with how the board manages the entity.

~~5.10~~5.12 The concept of materiality cannot, however, be applied to disclosures that are required by company law or its associated regulations unless explicitly allowed (for example, through the use of the terms '…to the extent necessary for an understanding of…' or 'principal').

> ***Example***
>
> A **quoted company** must provide the following disclosures in its strategic report irrespective of the directors' view of their materiality or strategic importance:
>
> - A description of its **strategy** and **business model** (See paragraph~~s~~ 0~~7.5~~ 7.8~~and~~ Error! Reference source not found.~~7.11~~); and
> - A breakdown by gender of the number people it employs (See paragraph 7.67~~7.51~~).

~~5.11~~5.13 Unlike the strategic report, most of the requirements for the **directors' report** are required irrespective of the ~~directors'~~ board's view of materiality.

> ***Example***
>
> A quoted company must, to the extent it is practicable to obtain the information, provide the greenhouse gas emission disclosures in its directors' report even if the ~~directors~~ board does not consider the information to be material to shareholders. In addition, where it is not practicable to obtain the information, a justification of that fact must be included.[22]

Disclosure of confidential information

~~5.12~~5.14 There may be occasions when the ~~directors~~ board considers the disclosure of detailed information about impending developments or matters in the course of negotiation would be seriously prejudicial to the interests of the company. ~~In such cases, summarised information that is not seriously prejudicial may meet substantially all shareholder information needs.~~ Where entities rely on this derogation to omit information, directors should still consider whether there is summarised information that is not seriously prejudicial which should be disclosed.

> ***Summary of legal requirements***
>
> Section 414C(14) of the Act clarifies that the disclosure of information about impending developments or matters in the course of negotiation is not necessary if the disclosure would, in the opinion of the directors, be seriously prejudicial to the interests of the company. This is the case even if that information is considered material.

~~Addressing the needs of different shareholder groups~~

~~5.13~~5.15 ~~As noted in paragraph 5.2, the strategic report should contain only the information that is material to shareholders. Sometimes, a company's shareholder base will comprise groups with different needs and interests (e.g. retail investors vs. institutional investors); the needs of all significant shareholder groups should be considered when determining if a matter is material.~~The derogation from the general requirement to disclose material information is limited to those situations where disclosure would negatively impact impending developments or ongoing negotiations which are not in the public domain, for instance where the entity is in talks to acquire another entity. It is not a general derogation applying to all commercially sensitive information.

[22] SI 2008/410 'Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008': Schedule 7, part 7.

Section 6
The strategic report: communication principles

6.1 The ~~communication~~ following principles provide guidance on how the ~~qualitative characteristics of the disclosures included in the~~ **strategic report** should be prepared. They are also relevant in the ~~drafting~~ preparation of the **annual report** as a whole.

6.2 Entities should consider the most effective methods of communicating material information, as well as its placement within the annual report.

~~6.2~~6.3 **The strategic report should be fair[23], balanced[24] and understandable.[25]**

~~6.3~~6.4 The strategic report should address the positive and negative aspects of the entity's development, performance, position and future prospects of the entity openly and without bias. The ~~directors~~ board should seek to ensure that shareholders are not misled as a result of the presentation of, or emphasis given to, information in the strategic report, or by the omission of **material** information from it.

~~6.4~~6.5 The strategic report should be written in plain language. The excessive use of jargon should be avoided ~~where possible~~. Where the use of industry specific terms is necessary for clear communication, they should be clearly defined and used consistently.

~~6.5~~6.6 The method of presentation can significantly affect the understandability of information in the strategic report. The most appropriate method of presentation will depend on the nature of the information but may include tabular, graphical or pictorial methods as well as narrative text. A combination of these methods may also sometimes be appropriate.

~~6.6~~6.7 The ~~directors~~ board should take into consideration the strategic report when ensuring that the annual report, when taken as a whole, is also fair, balanced and understandable.

~~6.7~~6.8 **The strategic report should be clear and concise yet comprehensive[26] ~~but concise~~.**

~~6.8~~6.9 Comprehensiveness reflects the breadth of information that should be included in the strategic report rather than the depth of information. The strategic report does not need to cover all possible matters in detail to be considered comprehensive. It should include the information that is necessary for an understanding of the entity's development, performance, position and future prospects of the entity.

~~6.9~~6.10 Conciseness is achieved through the efficient communication of all material information.

~~6.10~~6.11 **Where appropriate, information in the strategic report should have a forward-looking orientation.**

~~6.11~~6.12 Information on how a fact or circumstance might affect the entity should be included in the strategic report when it is material to an assessment of the development, performance or position or future prospects of the entity. The provision of this information does not require disclosure of a forecast of future results.

23 Section 414C(2)(a) of **the Act**
24 Section 414C(3) of the Act
25 **The Code**, Provision C.1.1
~~26 Section 414C(3) of the Act~~

~~6.12~~6.13 The strategic report should not concentrate solely on a single timeframe. Where relevant to an understanding of the development, performance, position or future prospects of the entity, the strategic report should give due regard to the short-, medium- or long-term implications of the fact or circumstance being described.

6.14 Entities should communicate relevant information that enables shareholders to assess the factors that may have an impact on the long-term success of the business. This may involve looking beyond the strategic planning horizon of an entity.

~~6.13~~6.15 The strategic report should provide information that is entity-specific.

~~6.14~~6.16 Information on how a particular fact or circumstance might affect, or has affected, the development, performance, position or future prospects of the entity and how it is responding to that fact or circumstance provides insightful information that can be used in the assessment of the entity's future prospects. The inclusion of generic or 'boilerplate' information on its own is of limited use to shareholders.

~~6.15~~6.17 The strategic report should highlight and explain linkages between pieces of information presented within the strategic report and in the annual report more broadly.

~~6.16~~6.18 Linkages are relationships or interdependencies between, or the causes and effects of, facts and circumstances disclosed in the annual report.

~~6.17~~6.19 The Act sets out a list of discrete disclosure requirements which could be met in a series of independent sections in a strategic report. It is often the case, however, that there are relationships and interdependencies between the required pieces of information that, if highlighted and explained, will provide a greater insight into the entity's business.

Linkage example

Separate sections ~~detailing trends in the entity's business environment and the entity's strategy~~setting out the principal~~a~~ risks and uncertainties and key performance indicators may be individually informative. However, highlighting and explaining linkages between these two elements of the strategic report might provide a deeper insight into ~~the reasons for the entity's strategic choices~~how the risks might impact on the KPIs in future.

~~6.18~~6.20 Similarly, there are many examples where separate sources of requirements that apply to different **components** of the annual report result in the disclosure of related information. While each component of the annual report is independently useful, more valuable insight can be provided if the strategic report highlights and explains linkages between the information disclosed in them.

> ***Linkage example***
>
> Providing independent information on an entity's ~~business strategy~~key performance indictors in the strategic report and the drivers of directors' remuneration ~~arrangements in the strategic report and~~ in the directors' remuneration report components will be informative. However, highlighting and explaining linkages or differences between these two components of the annual report ~~might~~ will provide a deeper insight into the entity's executive incentivisation policies.

~~6.19~~6.21 The most appropriate method of dealing with these linked requirements will depend on factors such as the nature of the information and any regulatory requirements specific to the disclosures being made. The methods are closely linked to the guidance on the placement of information in the annual report set out in Section 3 and may involve the use of **cross-referencing** or **signposting** or combining related disclosures. Where cross-referencing or signposting is used, care should be taken that the nature of the relationship or interdependency is adequately explained, rather than just highlighting its existence.

~~6.20~~6.22 It is probable that the information related to some disclosure requirements will be relevant to several different parts of the annual report. Where this is the case, directors will need to consider how the linkages between these discrete disclosure requirements can be highlighted and explained in the most efficient and understandable way.

~~6.21~~6.23 The duplication of information should generally be avoided as it usually leads to unnecessary volumes of disclosure detracting from the understandability and usefulness of the annual report as a whole. This can be achieved by using signposting or cross-referencing. In some cases, it may be necessary to repeat certain pieces of information however this should be limited to circumstances when this would tell the company's story more effectively. ~~This may also be achieved by using signposting or cross-referencing.~~

> ***Example***
>
> The directors might consider some information on trends and factors to be relevant to an understanding of an entity's strategy, **principal risks** and current year performance. ~~Directors~~ The board might choose to highlight relevant linkages either through:
>
> - combining relevant information on trends and factors with the strategy, principal risks and current year performance disclosures;
> - highlighting linkages between relevant information on trends and factors and different parts of the strategic report dealing with strategy, principal risks and current year performance; or
> - a combination of some or all of the above.

~~6.22~~6.24 It would be impracticable to highlight and explain all relationships and interdependencies that exist within the annual report while also ensuring the strategic report is both concise and understandable. In consequence, priority should be given to the relationships and interdependencies that are most relevant to the assessment of development, performance, position or future prospects of the business.

~~6.23~~6.25 **The structure, and presentation and content of the strategic report should be reviewed annually to ensure that it continues to meet its ~~objectives~~ purpose ~~in an efficient and effective manner~~ and contains information that is relevant.**

~~6.24~~6.26 Consistent structure, presentation and content will facilitate comparison from year-to-year but the benefits of continuity should not override innovation where this will improve the relevance and understandability of the information presented.

~~6.26~~6.27 Content that has been brought forward from previous years should be reviewed to ensure that it has continuing relevance. Any information that is no longer necessary in meeting the objectives of the strategic report should be removed.

Section 7
The strategic report: content elements

7.1 The content elements of the **strategic report** set out in **the Act** can be analysed into three broad categories: Strategic management, business environment and business performance:

Strategic management	**Business environment**	**Business performance**
How the entity intends to generate and preserve value	The internal and external environment in which the entity operates	How the entity has developed and performed and its position at the year end
• Strategy ~~and objectives~~ • Business model	• ~~Trends and factors~~ • Principal risks and uncertainties • Environmental, employee, social, community, ~~and~~ human rights and anti-corruption and anti-bribery matters	• Analysis of performance and position • Trends and factors • Key Performance indicators (KPIs) • Employee gender diversity

7.2 In addition to the specific disclosure requirements set out in Act[27], entities should ensure that the strategic report meets its overall purpose; to provide information to shareholders and help them assess how the directors have performed their duty under section 172. This guidance provides examples in the form of encouraged content elements which, whilst not required by law may provide information to ensure that the strategic report achieves its overall purpose.

~~7.2~~7.3 ~~Paragraph 7.1 notwithstanding, t~~The various content elements ~~required~~[25] to be included in the **strategic report** should not be addressed in isolation; there are numerous relationships and interdependencies between elements and other disclosures in the **annual report** which, as noted in paragraph 6.1~~5~~7, should be highlighted and explained in the strategic report. In particular, relevant non-financial information should be considered as integral to the strategic report and should be linked, where appropriate, to other content elements. The relevance and strength of the relationships and interdependencies between the content elements will vary according to the facts and circumstances of the entity.

~~7.3~~7.4 Where there has been a **material** change in the facts or circumstances relating to any of the content elements set out below, that fact should be highlighted and explained.

[27] As noted in paragraph 2.1, this is best practice guidance. Certain content elements described in this section of the guidance are not mandatory for companies that do not meet the definition of a **quoted company, traded company, banking or insurance company with more than 500 employees**. Appendix III sets out which strategic report requirements apply to different types of companies.

~~7.4~~7.5 An entity's **purpose**, its ~~s~~S**trategy**, ~~**objectives**,~~ and its **business model** are inter-related concepts. Different businesses may use different terms for these concepts and/or may approach them in a different order. ~~This guidance is not intended to impose a specific order or approach on an entity. Irrespective of the order or approach taken, t~~The disclosure of an entity's ~~objectives~~purpose, strategy and business model should together explain what an entity does and how and why it does it.

7.6 An entity's purpose is why it exists. The entity's strategy describes the intended means of fulfilling its purpose. Together they provide an overview of why and how the entity aims to generate and preserve value.

~~**7.5The strategic report should include a description of the entity's strategy[28] and the objectives it is intended to achieve.**~~

~~7.6~~7.7 The purpose of a~~A~~n entity will usually ~~have~~ be supported by a number of formal objectives that it intends to achieve in pursuit of ~~its ultimate aim or mission~~that purpose. Objectives can be financial or non-financial in nature and may be expressed in quantitative or qualitative terms.~~The entity will also have developed a strategy that describes the means by which it intends to achieve these objectives.~~

7.8 ~~7.5~~ **The strategic report should include a description of the entity's strategy and its business model~~the objectives it is intended to achieve.~~** [29]

Strategy

~~7.7~~7.9 A description of the strategy for achieving an entity's objectives provides insight into its future development, performance, position and future prospects. The disclosure of the entity's objectives places the strategy in context and allows shareholders to make an assessment of its appropriateness.

~~***Linkage example***~~ ~~Relating the development and, performance of the entity during the year to strategy that was in place at the time will allow shareholders to assess the directors' actions in pursuit of the entity's objectives and may be relevant in an assessment of the entity's future prospects.~~ ***Linkage example*** Relating the development and, performance of the entity during the year to strategy that was in place at the time will allow shareholders to assess the directors' actions in pursuit of the entity's objectives, how directors have discharged their duty under section 172 and may be relevant in an assessment of the entity's future prospects.

7.10 The entity's strategy should also explain the values, behaviours and culture that the entity seeks to uphold. The strategy should explain how the financial and non-financial objectives of the entity are drivers for those stated values, behaviours and culture.

~~28~~ ~~Section 414C(8)(a) of t**he Act** and **the Code**, Provision C.1.2~~

29 Section 414C(8)(a) of t**he Act** and **the Code**, Provision C.1.2 for strategy, and section 414C(8)(b) of the Act and the Code, Provision C.1.2 for business model insofar as quoted companies and s414CB(2)(a) for business model insofar as traded, banking or insurance companies more than 500 employees.

Encouraged content element

An entity could set out who it considers its major stakeholders to be, how an entity engages with those stakeholders and how the interests of major stakeholder groups and the matters set out in section 172 were taken into account when making significant strategic decisions in the period.

Example

An entity may have a strategy of moving production overseas. In deciding how to disclose such a strategy, an entity should consider its rationale, the impact on existing employees and how regard was given to their interests, and the impact of the decision in the long term.

7.11 The entity's purpose and strategy should be reflected in its objectives and key performance indicators (KPIs). The discussion of KPIs should allow an assessment of the entity's progress against its strategy and objectives. Similarly, emphasising the relationship between an entity's principal risks and its ability to meet its objectives may provide relevant information, particularly in relation to an entity's risk appetite. The relationship between the KPIs disclosed in the strategic report and the measures of performance in the directors' remuneration policy many also provide relevant information.

Linkage example

Relating the development and, performance of the entity during the year to strategy that was in place at the time will allow shareholders to assess the directors' actions in pursuit of the entity's objectives, how directors have discharged their duty under section 172 and may be relevant in an assessment of the entity's future prospects.

Business model

~~7.7~~7.12 The description of the entity's business model should provide more detail on ~~set out~~ how it generates or preserves value over the longer term~~, and how it captures that value~~. ~~It should describe what the entity does and why it does it.~~ It should also make clear what makes it different from, and/or the basis on which it competes with, its peers. There should be alignment between company purpose, values, strategy and business model.

~~7.8~~7.13 The description of the business model should also ~~provide shareholders with~~ include a high level understanding of how the entity is structured, the markets in which it operates, and how the entity engages with those markets (e.g. what part of the value chain it operates in, its main products, services, customers and its distribution methods). It should also provide a broad understanding of the nature of the relationships, resources and other dependencies that are sources of value and are necessary for the success of the business.

7.14 The description of the entity's major products, services and markets and its competitive position within those markets should reflect the way that the business is managed, as should the segment analysis presented in the financial statements. While the level of aggregation and detail may vary, there should be overall consistency between these two information sets.

Linkage example

The value chain that the entity operates within, its suppliers and customers, exposes the entity to operational and reputational risks. The entity's strategy should explain how the values, behaviours and culture that it seeks to uphold are supported by its position in its value chain and the policies and due diligence that it undertakes in pursuit of that strategy.

~~7.14~~7.15 An entity will often ~~create~~ generate value through its activities at several different parts of its business process. The description of the business model should focus on the parts that are most important to the generation~~,~~ and preservation ~~or capture~~ of value. The impact of an entity's activity, however, may be greatest in other parts of the business process and these areas should also be considered.

Example

An entity operating in the pharmaceuticals sector might have a ready market for an innovative drug; the key to the value ~~creation~~ generation process is in the development and approval of that drug. In this case, the business model description should give due emphasis to the critical drug development and approval processes.

~~7.10~~7.16 The description of the business model should provide context for the strategic report and the annual report more broadly.

Linkage example

Identifying relationships between the business model and other content elements could provide linkage with other relevant information in the strategic report. For instance, it could highlight the principal risks that affect, or strategy that relates to, a specific part of the business model.

Business environment

Sources of value

7.17 As noted in paragraph 7.13, a critical part of understanding an entity's business model is understanding its sources of value, being the key resources and relationships that support the generation and preservation of value. In identifying its key sources of value, an entity should consider both its tangible and intangible assets and consider those resources and relationships that have not been reflected in the financial statements because they do not meet the accounting definitions of assets or the criteria for recognition as assets. This information may provide insight into how the board manages, sustains and develops these unrecognised assets.

Example

An entity may generate a significant portion of its value from its corporate reputation and brand strength. The strategic report should explain an entity's key sources of value and the actions that it takes in order to manage, sustain and develop these sources of value. Other sources of value may include: customer base; natural resources; employees; research and development; intellectual capital; licences, patents, copyrights and trademarks; and market position.

7.18 For many entities, a key source of value that helps ensure that an entity's success is sustainable over the longer term is the existence of mutually beneficial relationships with key stakeholders. These relationships are often built over many years and are based on trust, integrity and transparency. Information on an entity's approach to building and maintaining successful relationships with its key stakeholders, and the impact of its activities on them, helps shareholders' assessment of the entity's future prospects.

> ***Encouraged content element***
>
> An entity could describe how it develops and maintains its relationships with its key stakeholders. This could include the regular interactions it has with them, how it communicates with them and how regard is had to their interests in key decisions. For instance, there may be a non-executive director who has specific responsibility for considering the interests of employees and other stakeholders.

7.19 All sources of value may require expenditure by the entity to manage, sustain and develop. The board will use resources to, for instance, invest in research and development, make capital investments, provide returns to shareholders, contribute to pension funds, provide training, pay and benefits to employees, make the entity's operations more sustainable and pay taxes. Some of these items of expenditure will result in assets recognised on the balance sheet, some will result in resources that are not recognised. Providing information on this expenditure, may provide insight into how an entity views its sources of value.

7.20 Whilst the costs associated with these decisions may be relatively easy to quantify, measuring the benefits, which could provide greater insights, may be more difficult.

7.21 Some entities are innovating in the provision of such insights by providing analyses of, for example, the economic contribution to different stakeholders, the distribution, retention and re-investment of "added value" (which can be based on sales less the cost of externally purchased goods and services) and the allocation of "free-cash" flows.

> ***Encouraged content element***
>
> An entity could describe how its allocation of resources will support the achievement of its strategy, generate and preserve value and will impact on its stakeholders where material to an understanding of the entity's future prospects. This could include a~~,~~ quantitative and qualitative analysis of allocation decisions made (such as investments) and their impact during the year.

~~7.23~~7.22 **The strategic report should include a description of the principal risks and uncertainties facing the entity,[30] together with an explanation of how they are managed or mitigated[31].**

[30] Section 414C(2)(b) of the Act

[31] It is considered best practice to explain how principal risks are managed or mitigated. The FRC's ~~consultation 'Proposed Revisions to the~~ UK Corporate Governance Code~~'~~ Provision C.2.1 reflects this.

~~7.24~~7.23 The risks and uncertainties included in the strategic report should be limited to those considered by the entity's management to be material to the future development, performance, position or future prospects of the entity or the impact of the entity's activity. They will generally be matters that the directors regularly monitor and discuss because of their likelihood, the magnitude of their potential effect on the entity, or a combination of the two. They can arise from both matters facing the entity and from the impact that the entity has on external parties.

7.24 Principal risks should include, but are not necessarily limited to, those risks that could result in events or circumstances that might threaten the entity's business model, future performance, solvency or liquidity. In determining which risks are the principal risks, entities should consider the potential impact and probability of the related events or circumstances arising and the timescale over which they may occur.

Linkage example

Principal risks may result in threats to solvency and liquidity. An entity should consider the period over which principal risks may crystallise and how these have been taken into account when, where relevant making the viability statement[32]. Where a viability statement uses a timeframe shorter than that over which risks may crystallise, the entity should explain the potential impact of these long term risks on the entity's viability.

~~7.13~~7.25 The board~~Directors~~ should consider the full range of business risks, including both those that are financial in nature and those that are non-financial. Where the entity is facing long-term systemic risks which may have a material effect on the entity's ability to generate and preserve value in the long term, for instance risks arising from climate change or risks arising from changing technology, the strategic report should explain how the directors expect the entity's strategy and business model to change in response to those risks.

Linkage example

~~Principal risks may result from matters described in paragraph 7.29. In such cases information on the policies adopted by the entity on those matters and effectiveness of those policies (as set out in paragraph 7.45) will be important to the assessment of how the entity manages or mitigates these risks.~~Climate change may require an entity to make changes to its business model, adapt its products and production processes or alter the markets in which it is engaged. In these situations, the entity's strategy and business model should explain how climate change might influence the entity's business in the future and the potential effects of climate change on the development, performance, position or future prospects of the entity.

7.26 **Where relevant and proportionate, the entity should describe its business relationships, products and services which are likely to cause adverse impacts in relation to non-financial reporting risks.**[33]

[32] A viability statement is only required for those companies that are subject to the Code.

[33] S414CB(2)(d) insofar as traded, -banking or~~and~~ insurance companies with more than 500 employees.

7.27 The entity should look beyond its own operations and consider risks arising from business relationships, products and services, including the other parts of the supply chain in which it sits. Principal risks should be disclosed and described irrespective of how they are classified or whether they result from strategic decisions, operations, organisation or behaviour, or from external factors over which the board may have little or no direct control. ~~The assessment should include consideration of threats to solvency and liquidity.~~

Example

An entity that sources its products from overseas could face risks (e.g. reputational risks) relating to customer concerns over local labour practices. In this situation, the entity might have put in place a system to validate and monitor adherence to stated labour practice policies across its supply chain. The entity's policy should be described, including whether UK standards are permeated throughout its supply chain or whether different standards are applied in different parts of the world. The due diligence processes adopted to mitigate this risk, including whether external bodies have been engaged to assess practices, should be discussed in the strategic report.

~~***Linkage example***~~

~~Principal risks may result from matters described in paragraph 7.29. In such cases, information on the policies adopted by the entity on those matters and the effectiveness of those policies (as set out in paragraph 7.36) will be important to the assessment of how the entity manages or mitigates these risks.~~

~~7.26~~7.28 The descriptions of the principal risks and uncertainties ~~facing the entity~~ should be specific so that a shareholder can understand why they are material to the entity. This might include a description of the likelihood of the risk, an indication of the circumstances under which the risk might be most relevant to the entity and its possible effects. An explanation of how the principal risks and uncertainties are managed or mitigated should also be included to enable shareholders to assess the impact on the future prospects of the entity.

~~***Linkage example***~~

~~The disclosure of risk management or mitigation might be enhanced with the discussion of the reporting and monitoring process, for example, through disclosures that explain the entity's appetite for risk, how often the risk is reviewed, and by whom. Risk management and mitigation could also be linked to an entity's overall approach to risk management and internal control which is often included in the corporate governance report.~~

~~7.27~~7.29 Significant changes in principal risks such as a change in likelihood, probable timing or possible effect, or the inclusion of new risks, should be highlighted and explained.

Example

~~It could be useful to explain the change in risk profile since the previous year and how the entity has responded to this change in terms of its risk mitigation.~~Where the risk profile of an entity has changed, many entities explain whether the individual risks identified have increased, decreased or remained the same severity. The risk mitigation could also show how the entity has responded to the change.

For instance, in recent years, the cyber risk faced by many entities has significantly increased, The risk disclosures should explain the ways in which cyber risk could affect the business, for instance, a cyber attack, loss of sensitive data leading to a lack of customer confidence, a failure of IT systems leading to a failure to operate certain elements of the business etc. The risk mitigation should explain the processes that the entity has put in place to mitigate the increased risk profile faced.

~~***Linkage example***~~

Non-financial reporting

7.30 **Non-financial information should be integrated throughout the strategic report.**

7.31 Although the Act sets specific requirements for the non-financial information listed below, to the extent necessary for an understanding of the development, performance and position and the impact of its activity, these matters should not be considered in isolation, but should be considered when determining the entity's strategy and business model, principal risks and uncertainties and KPIs. They are also relevant to an understanding of the way in which directors have performed their duty under section 172.

7.32 ~~**7.29**~~ **To the extent necessary for an understanding[34] of the development, performance or position and impact of its activity, the strategic report should include information relating to, as a minimum:**

(a) environmental matters (including the impact of the entity's business on the environment)[35];

(b) the entity's employees[36];

(c) social and community matters[37];

(d) respect for human rights[38]; and

(e) anti-corruption and anti-bribery matters.[39]

7.33 **The board should consider the impact of an entity's activity and disclose information that is material to its long-term success.**

34 Section 414C(7) insofar as quoted companies that are not traded, banking or insurance companies with more than 500 employees, section 414CB(1) insofar as traded, banking and insurance companies with more than 500 employees.
35 Section 414C(7)(b)(i) insofar as quoted companies that are not traded, banking or insurance companies with more than 500 employees, section 414CB(1)(a) insofar as traded, banking or insurance companies with more than 500 employees.
36 Section 414C(7)(b)(ii) insofar as quoted companies that are not traded, banking or insurance companies, section 414CB(1)(b) insofar as traded, banking or insurance companies with more than 500 employees.
37 Section 414C(7)(b)(iii) insofar as quoted companies that are not traded, banking or insurance companies with more than 500 employees, section 414CB(1)(c) and (d) insofar as traded, banking or insurance companies with more than 500 employees
38 Section 414C(7)(b)(iii) insofar as quoted companies that are not traded, banking or insurance companies with more than 500 employees, section 414CB(1)(d) insofar as traded, banking or insurance companies with more than 500 employees.
39 Section 414CB(1)(e) insofar as traded, banking or insurance companies with more than 500 employees.

7.34 These matters may pose threats to and provide opportunities for the success of an entity's business. The adverse (or positive) impact of an entity's activity in relation to the matters may inhibit (or further) the success of the entity's business, now or in the future. An entity should consider the impact of its activities on the stated matters and then report on those aspects which could materially affect the future performance or development of the entity.

~~7.31~~7.35 The strategic report should include information on a matter described in paragraph 7.32 ~~7.29~~ when its influence, or potential influence, on the development, performance, position~~, or future prospects~~ impact of the entity's business is material to shareholders. Information on these matters will also be useful to stakeholders as a whole, and providing transparent information may help to build and maintain successful relationships with stakeholder groups. The strategic report should also provide signposting to where other, more detailed, information may be found which satisfies the information needs of individual stakeholder groups.

> ~~***Example***~~
>
> ~~An entity that sources its products from overseas could face risks (e.g. reputational risks) relating to customer concerns over local labour practices. In this situation, the entity might have put in place a system to validate and monitor adherence to stated labour practice policies across its supply chain. Where the nature or magnitude of the potential effect of the risk on the business is such that it would be material to shareholders, it should be described and discussed in the strategic report.~~

7.36 **The strategic report should include a description of the policies[40] pursued by the company in ~~respect of~~ relation to non-financial matters and any due diligence processes[41] implemented by the company in pursuance of those policies. It should also include a description of the outcome[42] of those policies.**

If the company does not pursue policies in relation to one or more of these matters, the strategic report must contain a clear and reasoned explanation for the company not doing so[43].

7.37 When disclosure of ~~a~~ non-financial information is necessary for an understanding of the entity's development, performance and position and the impact of its activity, the strategic report should include a description of the policies that the entity has in place in relation to the matters described. Where an entity does not have a policy in place in relation to one of the matters, it should state that fact and explain why it is not considered necessary to have a policy.

40 Section 414C(7)(b) insofar as quoted companies that are not traded, banking or insurance companies with more than 500 employees, section 414CB(2)(b) insofar as traded, banking or insurance companies with more than 500 employees.

41 Section 414CB (2)(b) insofar as traded, banking or insurance companies with more than 500 employees.

42 Section 414C(7)(b) insofar as quoted companies that are not traded, banking or insurance companies, section 414CB(2)(c) insofar as traded, banking or insurance companies with more than 500 employees.

43 Section 414CB(4) insofar as traded, banking or insurance companies with more than 500 employees.

Example

Many entities have a stated aim of being fully compliant with the UN Guiding Principles on Business and Human Rights by a stated date. Where material, entities could report on the progress achieved to date in meeting this aim, whether it remains achievable and the major hurdles still to overcome.

7.38 The strategic report should include a description of any due diligence processes that an entity has in place to ensure that its policies relating to non-financial matters are adhered to throughout the group, and, where appropriate, through its supply chain. The strategic report should also include a description of the outcome of that due diligence work in relation to the disclosed policies and the outcome of the policies. Where the outcome of policies is measured by reference to a survey or other external evidence, the strategic report could signpost where this complementary information can be found.

Example

The approach to combating bribery and corruption in an entity may vary according to the jurisdictions where it operates. The due diligence which may be necessary to ensure anti-bribery and anti-corruption policies are adhered to in an emerging economy may differ from those necessary to ensure the same policies are adhered to in the UK. Where this is relevant, the information disclosed should be sufficiently specific to enable investors to understand the different risks posed by different parts of the entity's operations.

Linkage example

The way an entity conducts its business in relation to its tax affairs may have an impact on community and social matters in the countries in which it operates. An entity may adopt a strategy of having a transparent tax structure paying a fair rate of tax in each of its major areas of operation which in turn supports those local communities in which it operates.

The execution of this strategy can be seen through the presentation of the tax rates paid in each of its major areas of operation in the period under review.

~~7.35~~7.39 Where an entity uses KPIs to monitor its performance in respect of any of the matters described in paragraph Error! Reference source not found.~~7.29~~, the most efficient way of communicating information on the effectiveness of its policies on those matters will often be through reference to those measures.

7.40 **Where information on any of the matters described above is not included in the strategic report because it is not considered necessary for an understanding of the development, performance or position of the company's business, the matters that are not covered in the strategic report should be stated.**[44]

7.41 ~~7.37 Information on any of the matters described in paragraph 7.29~~Where information on any of the matters described in paragraph 7.32 ~~that~~ is not considered necessary for an understanding of the development, performance, position or ~~future prospects of the entity's business~~ impact of its activity, that information should not be included in the

[44] Section 414C(7) of the Act.

strategic report. However, certain entities are required to disclose -when no disclosure has been provided on the basis of materiality.

~~7.37~~7.42 Where the directors wish to put this information in the public domain, it should be located outside of the strategic report, for example in a separate sustainability or corporate social responsibility report which could be located online. Directors may, however, wish to provide a reference to where this complementary information is available.

7.43 The board may refer to a source of guidance or a voluntary framework that provides advice on how the entity should conduct its business, suggests ways of monitoring or tracking performance, or provides examples of disclosures that might be helpful in communicating information to the entity's stakeholders.

Business performance

Analysis of performance and position

~~7.38~~7.44 **The strategic report should provide a~~n~~ fair, balanced and comprehensive analysis of the development and performance of the business in the financial year and of its position at the end of that year.**[45]

7.45 The strategic report should include a narrative of the development, performance and position of the business in the financial year which is consistent with the information contained in the financial statements.

~~7.39~~7.46 The analysis should complement the financial statements, where relevant providing additional explanations of amounts recognised in the financial statements and the conditions and events that shaped the information contained in them.[46]

Example

The strategic report might, where relevant, include comments on:

- the existence and timing of commitments for capital expenditures;
- changes in the effective tax rate and the reasons for that change;
- material prior year items;
- changes in revenue from year to year that result from organic growth, acquisitions, foreign exchange, etc. (a 'revenue bridge'); or
- financing arrangements (e.g. changes in net debt or approach to financing of long-term liabilities).

~~7.40~~7.47 The development and performance of the business should be analysed in the context of the strategy applied by the entity during the financial year. Segmentation of

[45] Section 414C(2)(a) and (3) of the Act
[46] Section 414C(12) of the Act

the analysis of development, performance or position should be consistent with the segments identified in the financial statements.

~~7.41~~7.48 Where necessary for an understanding of the development, performance, position or future prospects of the entity, the analysis should make reference to cash flows during the year and factors that may affect future cash flows. Where appropriate, the strategic report should discuss the entity's current and prospective liquidity and its ability to fund its stated strategy.

Key performance indicators

~~7.43~~7.49 **The analysis in the strategic report should include financial and non-financial key performance indicators (KPIs).[47]**

~~7.44~~7.50 The KPIs used in the analysis should be those that the directors judge are most effective in assessing progress against objectives or strategy, monitoring principal risks, or otherwise utilised to measure the development, performance or position of the entity or the impact of the entity's activity.

~~7.45~~7.51 Non-financial KPIs ~~can be indicators of~~ provide insight into future financial prospects and progress in managing risks and opportunities. They may include, for example, measures related to product quality, customer complaints, or the matters identified in paragraph 7.32 ~~7.29~~.

~~7.46~~7.52 ~~Where possible,~~ KPIs should reflect the way that the board manages the entity's business. They may be generally accepted measures that are widely used, either within the entity's industry sector or more broadly. However, the comparability of the KPIs should not override the effectiveness of the KPIs for assessing the performance or position of the business.

Linkage example

The use of KPIs that also form part of directors' current or future incentive plans in the analysis of principal risks, strategy and performance will provide a clearer indication of how these matters might affect or have affected executive remuneration.

~~7.47~~7.53 Comparatives should be included and the reasons for any significant changes from year to year explained. Consistency in the presentation of KPIs is a desirable quality.

~~7.48~~7.54 The entity should provide information that enables shareholders to understand each KPI used in the strategic report. For example, the following information should be identified and explained where relevant:

(a) its definition and calculation method;

(b) its purpose;

(c) the source of underlying data;

(d) any significant assumptions made; and

[47] Section 414C(4) of the Act

(e) any changes in the calculation method used compared to previous financial years, including significant changes in the underlying accounting policies adopted in the financial statements which might affect the KPI.

~~7.49~~7.55 Where a line-item from the financial statements, or a commonly used KPI, has been adjusted for inclusion in the strategic report, the term used for that adjusted measure should be clear and, where practicable, a reconciliation to an appropriate financial statement line-item and explanation of any material adjustments should be provided.

Example

Where an entity uses earnings before interest, tax, depreciation, amortisation (EBITDA) and certain restructuring costs to analyse business performance~~as a KPI~~, the measure could be referred to as 'EBITDA before restructuring costs' or similar. A reconciliation to an appropriate financial statement line-item and explanation of the adjustment should be provided.

~~7.50~~7.56 Similar KPIs should be clearly distinguishable from each other.

Example

An entity may use one earnings per share measure when discussing performance and another when discussing executive remuneration in the directors' remuneration report. The terms adopted to describe each KPI should be unique and used consistently and the differences between the two KPIs clearly identified.

7.57 Alternative Performance Measures (APMs) can be a KPI. The European Securities and Markets Authority's (ESMA) Guidelines on Alternative Performance Measures defines APMs as a measure of historical or future performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. ESMA's Guidelines include the following disclosure principles for presenting APMs.

(a) APMs should be defined and the basis of calculation explained.

(b) APMs should be given meaningful labels reflecting their content and basis of calculation.

(c) A reconciliation of the APM to the most directly reconcilable line item, subtotal or total presented in the financial statements of the corresponding period should be disclosed and should not be given more prominence than the statutory figures.

(d) APMs should be accompanied by comparatives for the corresponding previous periods.

(e) The definition and calculation of the APM should be consistent over time.

The principles in the ESMA Guidelines are similar to those set out in paragraph 7.54 above.

Trends and factors

7.58 ~~7.17~~ To the extent necessary for an understanding of the development, performance or position of the entity's business, the strategic report should include the main trends and factors likely to affect the future development, performance or position of the business.[48]

7.59 The strategic report should explain the entity's performance during the year in the context of both how it has performed relative to prior periods, relative to stated targets and relative to the external environment in which it is operating, in order that shareholders can make an assessment of the future development, performance or position of the business.

7.60 If a trend in a part of the business has a material impact on business performance that should be disclosed. Shareholders should be able to distinguish between movements in performance which have resulted from one-off events and trends which are expected to continue. It is also important to identify the impact of acquisitions and disposals on performance in order for shareholders to be able to understand how the existing business has performed and the likely future impact of the acquisition or disposal.

7.61 Where the structure of a group has changed significantly in the period, for instance as a result of a major acquisition or disposal, an entity might choose to use pro-forma figures to explain trends in addition to the statutory figures. Where pro-forma figures are presented, explanations of how those figures have been calculated and their relationship to amounts extracted from the audited statements should also be presented.

7.62 ~~7.18~~ Trends and factors affecting the business may also arise as a result of the external environment in which the entity operates. They may have affected the development, performance or position of the entity in the year under review or may give rise to opportunities or risks that may affect the entity's future prospects. In considering the external trends, it is important that entities consider both the trends in the market in which the entity operates and the trends and factors relating to society more generally. For instance, an entity should consider the risks and opportunities arising from factors such as climate change and the environment, and where material, discuss the effect of these trends on the entity's future business model and strategy.

Example

The environment within which an entity operates, particularly that related to consumer sentiment, can change quickly as a result of a specific incident or media interest. A recent incident or media coverage need not be directly related to the entity, and need not have affected the current year performance, to have the potential to give rise to new risks or opportunities that may have a material effect on its future prospects.

7.63 ~~7.19~~ The strategic report should also cover other significant features of its external environment (e.g. the legal, regulatory, macro-economic and social environment) and how those influence the business. The strategic report should set out the directors' analysis of the potential effect of the trends or factors identified on the future development, performance or position of the entity.

48 Section 414C(7)(a) of the Act

7.64 ~~7.20~~ The discussion of internal trends and factors will vary according to the nature of the business, but could, for example, include the development of new products and services or the benefits expected from capital investment.

7.65 ~~7.21~~ Where practicable and relevant, the trend or factor should be quantified and the source of the evidence underpinning it identified.

> ***Example***
>
> An entity may wish to state in its strategic report that the market in which it operates has grown substantially in the past five years. In this case, the strategic report should, where practicable, indicate by how much the market has grown and reference the source of the statistic used.

7.66 ~~7.22~~ Given the influence trends and factors might have on many aspects of the entity's development, performance, position or future prospects, the linkage of this type of information to other areas of the strategic report and the annual report more broadly will be particularly important.

> ***Linkage example***
>
> The strategic report might highlight the principal risks or opportunities that arise from, or the strategy that has been adopted as a result of, significant trends and factors identified. It might also highlight how certain trends or factors have affected the development, performance or position of the entity through reference to information in the financial statements.
>
> ***Linkage example***
>
> Increasing interest from investors in sustainable investment may require an entity to make changes to its business model such as to adapt its investment strategy. Information on these trends should be linked to the entity's strategy and business model explaining the potential effects on the development, performance, position or future prospects of the entity.

~~7.51~~7.67 **The strategic report should provide a breakdown showing, as at the end of the financial year:**

(a) the number of persons of each sex who were directors of the company;

(b) the number of persons of each sex who were senior managers of the company (other than persons falling within sub-paragraph (a)); and

(c) the number of persons of each sex who were employees of the company[49].

[49] Section 414C(8)(c) of the Act

~~7.52~~7.68 A 'senior manager' is an employee who has responsibility for planning, directing or controlling the activities of the entity or a strategically significant part of it. In the strategic report of a consolidated group, directors of subsidiary companies that are included in the consolidated financial statements are also considered 'senior managers'.[50]

~~7.53~~7.69 In referring to a 'strategically significant' part of an entity and by including directors of subsidiaries included in the consolidated financial statements, the definition of a 'senior manager' in paragraph 7.68~~7.53~~ is wider than the definition of key management personnel in IAS 24 *Related Party Disclosures* and FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

~~7.54~~7.70 An entity might not consider that including all directors of all subsidiaries included in the consolidated financial statements in the statutory definition of 'senior managers' accurately reflects its executive pipeline. This may be the case, for instance, where a subsidiary is insignificant in the context of the group as a whole. In such cases, it may be appropriate to provide an enhanced analysis of the statutory 'senior manager' category. For example:

	Male	***Female***
Directors of the company	x	x
Employees in other senior executive positions	x	x
Directors of subsidiary companies not included in above	x	x
Total senior managers other than directors of the company	x	x
Other employees of the group	x	x

~~7.55~~7.71 Where the strategic report includes an enhanced analysis such as that suggested in paragraph 7.70~~7.55~~, a description of how employees included in any non-statutory category have been identified should be provided. Information on other executive pipeline or general employee diversity matters should also be provided where it is necessary to put the diversity statistics into context. While percentages of male and female directors and employees can be informative, numbers must also be provided.

Other content elements

~~7.56~~7.72 To the extent that they are matters that are considered to be of strategic importance to the entity, the strategic report should also include information that would otherwise be disclosed in the directors' report.[51]

~~7.57~~7.73 There are a number of **directors' report** disclosure requirements that are closely related to matters that should be considered for inclusion in the strategic report. Where this information is also necessary for an understanding of the development, performance, position or future prospects of the business, it should be included as part of the strategic report. However, where the information is not necessary for that purpose, these disclosures should be included in the directors' report. In such cases, a **signpost** enabling shareholders to drill-down to this information should be considered when it is related to matters covered in the strategic report. Appendix ~~I~~V includes an analysis of directors' report disclosure requirements.

[50] Section 414C(9) & (10) of the Act
[51] Section 414C(11) of the Act

~~7.58~~7.74 Where information that is required to be disclosed in the directors' report is included in the strategic report, it does not also need to be included in the directors' report. However, where this is the case, the directors' report should **cross-reference** information that has been included in the strategic report instead of the directors' report.[52]

Signature of the statutory reports and the statement of directors' responsibilities

Summary of legal requirements
The Act requires the board of directors to approve the strategic report, directors' report and directors' remuneration report, as well as the financial statements. The name of the director or secretary of the company who has signed each report on behalf of the board should be stated on every copy of that report in accordance with section 433 of the Act. The Act does not specify where in each report the name should be located.

52 SI 2008/410 'Large and Medium-sized Companies and Groups (Reports and Accounts) Regulations 2008'

Section 8
The strategic report with supplementary material

Statutory option to provide strategic report with supplementary material

> ***Summary of legal requirements***
>
> Section 426 of **the Act** allows a company, in certain circumstances, to send its members the **strategic report** with supplementary material instead of the full **annual report**. The supplementary material, which is specified in section 426A of the Act, includes information on the audit report issued on the annual accounts and, in the case of a **quoted company**, limited extracts from the directors' remuneration report. This option replaces the option to send summary financial statements to members instead of the full annual report.

8.1 Where this statutory option is taken, the Act requires a complete strategic report, as it appears in the annual report, to be sent to the company's members. Compliance with the law would not be achieved if the shareholders were sent a summarised version of, or selected extracts from, the strategic report that is included in the company's annual report.

8.2 Similarly, disclosures that are included in the strategic report by **cross-reference** to another part of the annual report must also be sent to shareholders along with the main body of the strategic report in order to comply with the law.

> ***Example***
>
> A quoted company has chosen to present the strategic report's quantitative employee gender diversity disclosures alongside the description of the board's policy on diversity, its objectives for implementing the policy and its progress on achieving those objectives, that **the Code** recommends is set out in a separate nomination committee report. It has included a cross-reference to these quantitative disclosures in the company's strategic report in order for it to meet the requirements of section 414C(8). If the company wishes to take the option to send its shareholders the strategic report and supplementary material instead of the full annual report, it must ensure that the quantitative employee gender diversity disclosures form part of the supplementary material that is sent with the main body of the strategic report.

8.3 The strategic report will often **signpost** or otherwise refer to **complementary information** presented elsewhere in the annual report; this signposting will often include a reference to a page number in the full annual report. The directors may wish to consider whether including a clarifying statement in the 'strategic report with supplementary material' is appropriate to draw attention to the fact that this information is not included as part of the document that has been issued.

8.4 While there is no requirement to include any supplementary information other than that specified under section 426A of the Act under this statutory option, a company may include additional extracts from, or summaries of, information contained in the full annual report, if the directors consider it appropriate. The nature and extent of these extracts will vary from company to company and will depend on the information needs of the company's shareholders and the nature and format of the information already included in the strategic report.

Non-statutory summarised business information

8.5 Business information that is tailored to the needs of a specific subset of the company's shareholders can be more easily produced when its form and content is not prescribed in law or regulation. In consequence, a non-statutory approach to sending summarised business information may be considered appropriate. This might particularly be the case where a company's shareholder base contains subsets of investors who have significantly different information needs.

> ***Example***
>
> A company's shareholder base may comprise substantial retail and institutional investor subgroups. The directors may find that the shareholders in the retail investor subgroup wish to receive business information that is less detailed than would be appropriate for inclusion in the strategic report within the full annual report. In these circumstances, the directors might consider it appropriate to send non-statutory summarised business information which focusses on the issues that they believe will be of the greatest relevance to the retail investors, rather than to send this subgroup of shareholders the strategic report with supplementary material as described in paragraphs 8.1 to 8.4.

> ***Summary of legal requirements***
>
> Section 435 of the Act sets out the requirements in connection with publication of non-statutory accounts. Where a company chooses to send its members non-statutory summarised business information that includes any financial statements, then it must ensure that it complies with the requirements in section 435.
>
> Where this non-statutory approach is taken, members must also be sent one of the statutory reports (i.e. either the strategic report with supplementary material, described in paragraphs 8.1 to 8.4 above, or the full annual report).

Electronic publication of statutory reports

8.6 In certain circumstances, the statutory report required to be sent to shareholders can be sent electronically (e.g. on a CD or DVD, by e-mail or through a link to the company's website) rather than in hard copy form.

> ***Summary of legal requirements***
>
> Sections 146 and 147 of the Act set out the requirements in respect of the communication of information by a company to its members. A company may choose to send its annual report to consenting members by electronic means. In order to take advantage of this option, the company must give its members the opportunity to choose to receive their annual report in a hard copy form. This is normally done when a member becomes a shareholder but can be done at any later date. If the consent letter is worded appropriately, the member can be assumed to have consented to electronic delivery if they do not respond. Publication of the annual report on the company's website can also be considered an acceptable form of delivery to consenting members as long as the company's articles permit it and the company has notified the member of its availability and where it can be found.

Appendix I: Glossary

the Act	The Companies Act 2006.
annual report	The annual accounts and reports that members of the company are entitled to receive under section 423 of **the Act**.
banking company	Broadly an entity that has permission under Part 4A of the Financial Services and Markets Act 2000 (c8) to accept deposits. See sections 1164(2) and 1164(3) of the Act for full definition.
business model	How the entity generates or preserves value over the longer term.[53]
complementary information	Complementary information is information that is relevant to shareholders but is not necessary to effectively communicate the information that is required by law or regulation. Complementary information can be more detailed information or additional voluntary information (e.g. a five year summary or a glossary).
components	The distinct reports and other sections that are required to be included in the **annual report** by law or regulation (e.g. the **strategic report**, the **directors' report**, the corporate governance report, the directors' remuneration report and the financial statements).
cross-referencing	A means by which an item of information, which has been disclosed in one **component** of an annual report, can be included as an integral part of another component of the annual report. A cross-reference should specifically identify the nature and location of the information to which it relates in order for the disclosure requirements of a component to be met through the relocated information. A component is not complete without the information to which it cross-references. Cross-referenced information must be located within the annual report. Cross-referencing is different to **signposting**.
the Code	The 201~~2~~6 UK Corporate Governance Code.
directors' report	The report that is required by section 415 of the Act which incorporates the disclosures specified by the Act and its associated regulations.
DTR	The Financial Conduct Authority's Disclosure and Transparency Rules.
insurance company	This guidance uses the term 'insurance company' to refer to: An authorised insurance company - an entity who has permission under Part 4A of the Financial Services and Markets Act 2000 (c8) to effect or carry out contracts of insurance (section 1165(2)). A company carrying on insurance market activity as defined in section 316(3) of the Financial Services and Markets Act 2000 (section 1165(7)).
key performance indicators (KPIs)	Quantitative measures used by directors to assess progress against **objectives** or **strategy**, track **principal risks**, or otherwise monitor the development, performance or position of the business.

53 **The Code**, Provision C.1.2

LR	The ~~UK Listing Authority (UKLA)~~Financial Conduct Authority's Listing Rules.
material (in the context of the strategic report)	Information is material if its omission or misrepresentation could reasonably be expected to influence the economic decisions shareholders take on the basis of the annual report as a whole. Only information that is material in the context of the strategic report should be included within it. Conversely, the inclusion of immaterial information can obscure key messages and impair understandability of information provided in the strategic report. In such circumstances, the immaterial information should be excluded from the strategic report.
objective	A specific aim that the entity wishes to achieve
principal risk	A risk or combination of risks that can seriously affect the performance, future prospects or reputation of the entity. These should include those risks that would threaten its business model, future performance, solvency or liquidity.
purpose	Why an entity exists.
quoted company	A company whose equity share capital has been included in the official list in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000; or is officially listed in an EEA State; or is admitted to dealing on either the New York Stock Exchange or the exchange known as NASDAQ.[54]
signposting	A means by which a shareholder's attention can be drawn to **complementary information** that is related to a matter disclosed in a component of the annual report. A component must meet its legal and regulatory requirements without reference to signposted information. Signposts should make clear that the complementary information does not form part of the component from which it is signposted. Signposted information may be located either within or separately from the annual report. Signposting is different to **cross-referencing**.
strategic report	The report, required by section 414C of the Act, which provides shareholders of the company with the ability to assess how the directors have performed their duty under section 172 (duty to promote the success of the company).
strategy	A plan or approach which is intended to help the entity achieve an **objective**.
traded company	A company with transferable securities admitted to trading on a regulated market.

[54] Section 385 of the Act

Appendix III
The Companies Act 2006 strategic report disclosure requirements

The following table summarises the disclosure requirements of **the Act** in respect of the strategic report for companies and qualifying partnerships that do **not** fall within the scope of the Non-Financial Reporting Regulations. Those that do should refer to Appendix IV.

S414B A company or qualifying partnership is entitled to the small companies exemption in relation to the strategic report for a financial year if –

(a) it is entitled to prepare accounts for the year in accordance with the small companies regime (s382), or

(b) it would be so entitled but for being or having been a member of an ineligible group.

The small companies regime does not apply to a company that: is, or was at any time within the financial year to which the accounts relate, a public company; is a company that is an authorised insurance company, a banking company, an e-money issuer, a MIFD investment firm or a UCITS management company; or carries on insurance market activity (s384(1)).

Reference	Requirement	Quoted public company	Other public company including AIM	Large and medium-sized private company and qualifying partnership	Small private company and qualifying partnership (Except those companies where the small companies regime does not apply)
s414C(1)	The purpose of the strategic report is to inform members of the company and help them to assess how the directors have performed their duty under s172 (duty to promote the success of the company).	✓	✓	✓ ~~(Except those that would be small if not in an ineligible group – s414B)~~	×
s414C(2)(a)	The strategic report must contain a fair review of the company's business.	✓	✓		×
s414C(2)(b)	The strategic report must contain a description of the principal risks and uncertainties facing the company.	✓	✓		×

Reference	Requirement	Quoted public company	Other public company including AIM	Large and medium-sized private company and qualifying partnership	Small private company and qualifying partnership (Except those companies where the small companies regime does not apply)
s414C(3)	The review required is a balanced and comprehensive analysis of the development and performance of the company's business during the financial year, and the position of the company's business at the end of that year, consistent with the size and complexity of the business.	✓	✓		×
	The review must, to the extent necessary for an understanding of the development, performance or position of the company's business, include:				
s414C(4)(a)	(i) analysis using financial key performance indicators; and	✓	✓	✓ ~~(Except those that would be small if not in an ineligible group – s414B)~~	×
s414C(4)(b)	(ii) where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters.	✓	✓	✓ (Large companies only – s414C(6))	×
s414C(7)(b)	The strategic report must, to the extent necessary for an understanding of the development, performance or position of the company's business, information about:	✓	×	×	×

Reference	Requirement	Quoted public company	Other public company including AIM	Large and medium-sized private company and qualifying partnership	Small private company and qualifying partnership (Except those companies where the small companies regime does not apply)
	(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. If the report does not contain information of each kind mentioned in s414C(7)(b)(i), (ii) or (iii), it must state which of those kinds of information it does not contain.				
s414C(8)(a)	The strategic report must include a description of the company's strategy.	✓	×	×	×
s414C(8)(b)	The strategic report must include a description of the company's business model.	✓	×	×	×

Reference	Requirement	Quoted public company	Other public company including AIM	Large and medium-sized private company and qualifying partnership	Small private company and qualifying partnership (Except those companies where the small companies regime does not apply)
s414C(8)(c), (9) & (10)	The strategic report must include a breakdown showing at the end of the financial year: i) the number of persons of each sex who were directors of the [parent][55] company; ii) the number of persons of each sex who were senior managers of the company (other than persons falling within sub-paragraph (i)) [or who were directors of undertakings included in the consolidation][56]; and iii) the number of persons of each sex who were employees of the company. A senior manager is an employee of the company who has responsibility for planning, directing or controlling the activities of the company, or a strategically significant part of the company.	✓	✗	✗	✗
s414C(11)	The strategic report may also contain such matters otherwise required by regulations made under s416(4) to be disclosed in the directors' report that the directors consider are of strategic importance to the company.	✓	✓	✓ ~~(Except those that would be small if not in an ineligible group – s414B)~~	✗
s414C(12)	The report must, where appropriate, include references to, and additional explanations of, amounts included in the company's annual accounts.	✓	✓		✗

[55] In the case of group accounts, this category comprises directors of the parent company only (s414C(10)(a)).

[56] In the case of group accounts, this category includes directors of subsidiary undertakings who otherwise would not meet the definition of a senior manager (s414C(10)(b)).

Reference	Requirement	Quoted public company	Other public company including AIM	Large and medium-sized private company and qualifying partnership	Small private company and qualifying partnership (Except those companies where the small companies regime does not apply)
s414A(4) & s414C(13)	A group strategic report may, where appropriate, give greater emphasis to the matters that are significant to the undertakings included in the consolidation, when taken as a whole. With the exception of the disclosures required by s414C(8), in relation to a group strategic report s414C has effect as if the references to the company were references to the undertakings included in the consolidation.	✓	✓		✗
s414C(14)	Nothing in s414C requires the disclosure of information about impending developments or matters in the course of negotiation if the disclosure would, in the opinion of the directors, be seriously prejudicial to the interests of the company.	✓	✓	✓ ~~(Except those that would be small if not in an ineligible group – s414B)~~	✗
s414D(1)	The strategic report must be approved by the board and signed on behalf of the board by a director or the secretary of the company.	✓	✓		✗

Appendix IV
The Companies Act 2006 strategic report non-financial reporting disclosure requirements

The following requirements apply to companies and qualifying partnerships that fall within the scope of the non-financial reporting requirements, being those with more than 500 employees that are:

- Traded companies
- Banking companies
- Authorised insurance companies
- Companies carrying on insurance market activity

A company that is a quoted company with more than 500 employees may already have met some of the requirements below before the implementation of the n~~N~~on-financial reporting Regulations.

Reference	**Requirement**
s414CB(1)	The strategic report must contain information, to the extent necessary for an understanding of the company's development, performance and position and the impact of its activity, relating to, as a minimum (a) environmental matters (including the impact of the company's business on the environment); (b) the company's employees; (c) social matters; (d) respect for human rights; and (e) anti-corruption and anti-bribery matters.
s414CB(2)(a)	The strategic report must include a brief description of the company's business model.
s414CB(2)(b)	The strategic report must include a description of the policies pursued by the company in relation to the matters mentioned in s414CB(1) and any due diligence processes implemented by the company in pursuance of those policies.
s414CB(2)(c)	The strategic report must include a description of the outcome of those policies.

Reference	Requirement
s414CB(2)(d)	The strategic report must include a description of the principal risks relating to the matters mentioned in s414CB(1) arising in connection with the company’s operations and, where relevant and proportionate: (i) a description of its business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and (ii) a description of how it manages the principal risks.
s414CB(2)(e)	The strategic report must include a description of the non-financial key performance indicators relevant to the company’s business.
s414CB(4)	If the company does not pursue policies in relation to one or more of the matters mentioned in s414CB(1), the strategic report must include a clear and reasoned explanation for not doing so.
s414CB(5)	The strategic report must, where appropriate, include references to, and additional explanations of, amounts in the company’s annual accounts.

Other requirements of the Strategic Report that also apply to companies within the scope of the non-financial reporting Regulations

Reference	Requirement	Quoted public company	Other public company including AIM	Large and medium-sized private company and qualifying partnership	Small private company and qualifying partnership (Except those companies where the small companies regime does not apply)
s414C(1)	The purpose of the strategic report is to inform members of the company and help them to assess how the directors have performed their duty under s172 (duty to promote the success of the company).	✓	✓	✓	✗
s414C(2)(a)	The strategic report must contain a fair review of the company's business.	✓	✓		✗
s414C(2)(b)	The strategic report must contain a description of the principal risks and uncertainties facing the company.	✓	✓		✗
s414C(3)	The review required is a balanced and comprehensive analysis of the development and performance of the company's business during the financial year, and the position of the company's business at the end of that year, consistent with the size and complexity of the business.	✓	✓		✗

Reference	Requirement	Quoted public company	Other public company including AIM	Large and medium-sized private company and qualifying partnership	Small company and qualifying partnerships (Except those companies where the small companies regime does not apply)
S414C(4)	The review must, to the extent necessary for an understanding of the development, performance or position of the company's business, include:				
s414C(4)(a)	(i) analysis using financial key performance indicators; and	✓	✓	✓	✗
s414C(7)(a)	The strategic report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include the main trends and factors likely to affect future development, performance and position.	✓	✗	✗	✗

Reference	Requirement	Quoted public company	Other public company including AIM	Large and medium-sized private company	Small company and qualifying partnerships (Except those companies where the small companies regime does not apply)
s414C(7)(b)(iii)	The strategic report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include information about community issues.	✓	×	×	×
s414C(8)(a)	The strategic report must include a description of the company's strategy..	✓	×	×	×

Reference	Requirement	Quoted public company	Other public company including AIM	Large and medium-sized private company And qualifying partnership	Small company and qualifying partnership (Except those companies where the small companies regime does not apply)
s414C(8)(c), (9) & (10)	The strategic report must include a breakdown showing at the end of the financial year: i) the number of persons of each sex who were directors of the [parent][57] company; ii) the number of persons of each sex who were senior managers of the company (other than persons falling within sub-paragraph (i)) [or who were directors of undertakings included in the consolidation];[58] and iii) the number of persons of each sex who were employees of the company. A senior manager is an employee of the company who has responsibility for planning, directing or controlling the activities of the company, or a strategically significant part of the company.	✓	×	×	×
s414C(11)	The strategic report may also contain such matters otherwise required by regulations made under s416(4) to be disclosed in the directors' report that the directors consider are of strategic importance to the company.	✓	✓	✓	×

[57] In the case of group accounts, this category comprises directors of the parent company only (s414C(10)(a)).

[58] In the case of group accounts, this category includes directors of subsidiary undertakings who otherwise would not meet the definition of a senior manager (s414C(10)(b)).

Reference	Requirement	Quoted public company	Other public company including AIM	Large and medium-sized private company And qualifying partnership	Small company and qualifying partnership (Except those companies where the small companies regime does not apply)
s414C(12)	The report must, where appropriate, include references to, and additional explanations of, amounts included in the company's annual accounts.	✓	✓		✗
s414A(4) & s414C(13)	A group strategic report may, where appropriate, give greater emphasis to the matters that are significant to the undertakings included in the consolidation, when taken as a whole. With the exception of the disclosures required by s414C(8), in relation to a group strategic report s414C has effect as if the references to the company were references to the undertakings included in the consolidation.	✓	✓		✗
s414C(14)	Nothing in s414C requires the disclosure of information about impending developments or matters in the course of negotiation if the disclosure would, in the opinion of the directors, be seriously prejudicial to the interests of the company.	✓	✓	✓	✗
s414D(1)	The strategic report must be approved by the board and signed on behalf of the board by a director or the secretary of the company.	✓	✓		✗

Appendix ~~I~~V
The Companies Act 2006 directors’ report disclosure requirements

The following tables summarise the disclosure requirements of **the Act** and its associated regulations in respect of the directors’ report.

Companies Act 2006 reference	**Requirement**	**Quoted public company**	**Other public company including AIM**	**Large and medium-sized private company**	**Small private company**
s236	Statement of the existence, at any time during the financial year to which a directors' report relates or when the directors' report is approved, of qualifying indemnity provisions (whether made by the company or otherwise) for the benefit of one or more directors of the company or directors of an associated company.	✓	✓	✓	✓
s416(1)	The names of the persons who, at any time during the financial year, were directors of the company.	✓	✓	✓	✓
s416(3)	The amount (if any) that the directors recommend should be paid by way of a dividend.	✓	✓	✓ (Except those that would be small if not in an ineligible group – s415A)	✗

Companies Act 2006 reference	Requirement	Quoted public company	Other public company including AIM	Large and medium-sized private company	Small private company
s418(2)	A statement to the effect that, in the case of each of the persons who are directors at the time the report is approved, (a) so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and (b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.	✓	✓	✓	✓ (If audited)
s419(1)	Approval by the board of directors and signature on behalf of the board by a director or the secretary of the company.	✓	✓	✓	✓
s419(2)	If in preparing the report advantage is taken of the small companies' exemption, the directors' report must contain a statement to that effect in a prominent position above the signature.	✗	✗	✗ (Except those that would be small if not in an ineligible group – s415A)	✓

Regulations[59] reference	Requirement	Quoted public company	Other public company including AIM	Large and medium-sized private company	Small private company
Sch 7.1A	Identification of the information for which the company has chosen, in accordance with s414C(11) of the Companies Act, to set out in the company's strategic report which would otherwise be required by Schedule 7 of the 'Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008' to be contained in the directors' report.	✓	✓	✓	×
Sch 7.3(2) & 4(1) Sch 5.2(2-3) & 3(1)	Information on political donations made or political expenditure incurred by the company or its subsidiaries, if in excess of £2,000 in aggregate.	✓ (Other than wholly owned subsidiaries of UK-incorporated companies)	✓ (Other than wholly owned subsidiaries of UK-incorporated companies)	✓ (Other than wholly owned subsidiaries of UK-incorporated companies)	✓ (Other than wholly owned subsidiaries of UK-incorporated companies)
Sch 7.6(1)(a)	Unless the information is not material for an assessment of the assets, liabilities, financial position and profit or loss of the company (and any subsidiaries included in its consolidation), an indication of financial risk management objectives and policies, including the policy for hedging each major type of forecasted transaction for which hedge accounting is used.	✓	✓	✓	×
Sch 7.6(1)(b)	Unless the information is not material for an assessment of the assets, liabilities, financial position and profit or loss of the company (and any subsidiaries included in its consolidation), an indication of exposure to price risk, credit risk, liquidity risk and cash flow risk.	✓	✓	✓	×
Sch 7.7(1)(a)	Details of any important events affecting the company (and any subsidiaries included in its consolidation) since the end of the financial year.	✓	✓	✓	×

[61] In the case of a medium-sized or large company, Schedule 7 of the 'Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008'. In the case of small companies, Schedule 5 of the 'Small Companies and Groups (Accounts and Directors' Reports) Regulations 2008'.

Regulations[59] reference	Requirement	Quoted public company	Other public company including AIM	Large and medium-sized private company	Small private company
Sch 7.7(1)(b)	An indication of likely future developments in the business of the company (and any subsidiaries included in its consolidation).	✓	✓	✓	×
Sch 7.7(1)(c)	An indication of activities (if any) of the company (and any subsidiaries included in its consolidation) in the field of research and development.	✓	✓	✓	×
Sch 7.7(1)(d)	Unless the company is an unlimited company, an indication of the existence of branches (as defined in s1046(3) of the Companies Act 2006) of the company outside of the United Kingdom.	✓	✓	✓	×
Sch 7.8-9	Information on the acquisition of own shares.	✓	✓	×	×

Regulations reference	Requirement	Quoted public company	Other public company including AIM	Large and medium-sized private company	Small private company
Sch 7.10(3) Sch 5.5(3)	A statement describing the company's policy regarding the hiring, continuing employment and training, career development and promotion of disabled persons.	✓ (Where the weekly average number of employees exceeds 250)	✓ (Where the weekly average number of employees exceeds 250)	✓ (Where the weekly average number of employees exceeds 250)	✓ (Where the weekly average number of employees exceeds 250)
Sch 7.11(3)	For employees working wholly or mainly in the UK, a description of the action that has been taken during the financial year to introduce, maintain or develop arrangements aimed at: (a) providing employees systematically with information on matters of concern to them as employees; (b) consulting employees or their representatives on a regular basis so that the views of employees can be taken into account in making decisions which are likely to affect their interests; (c) encouraging the involvement of employees in the company's performance through an employees' share scheme or by some other means; (d) achieving a common awareness on the part of all employees of the financial and economic factors affecting the performance of the company.	✓ (Where the weekly average number of UK-based employees exceeds 250)	✓ (Where the weekly average number of UK-based employees exceeds 250)	✓ (Where the weekly average number of UK-based employees exceeds 250)	✗

Regulations reference	Requirement	Quoted public company	Other public company including AIM	Large and medium-sized private company	Small private company
Sch 7.13(2) & 14	Detailed information, including any necessary explanatory material with regard to that information, on matters including: (a) the structure of the company's capital (including securities not admitted to trading on a regulated market); (b) any restrictions on the transfer of securities in the company; (c) persons with a significant direct or indirect holding of securities in the company; (d) persons who hold securities carrying special rights with regard to control of the company; (e) voting rights of shares in employee share schemes; (f) restrictions on voting rights; (g) agreements between holders of securities that are known to the company and may result in restrictions on the transfer of securities or on voting rights; (h) any rules that the company has about the appointment and replacement of directors, or the amendment of the company's articles of association; (i) the powers of the company’s directors, including in particular any powers in relation to the issuing or buying back by the company of its shares. (j) significant agreements to which the company is a party that take effect after or terminate upon, a change of control of the company following a takeover bid, and the effects of any such agreements; (k) any agreements between the company and its directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid, unless disclosure of the agreement would be seriously prejudicial to the company and the company is not under any other obligation to disclose it.	✓ (Company quoted on an EU-regulated market only)	×	×	×

Regulations reference	Requirement	Quoted public company	Other public company including AIM	Large and medium-sized private company	Small private company
Sch 7.15(2), (3) & (18)	To the extent it is practicable for the company to obtain the information, the quantity of emissions in tonnes of carbon dioxide equivalent from activities for which that company is responsible including[60]: (a) the combustion of fuel; and (b) the operation of any facility. To the extent practicable for the company to obtain the information, the report must state the annual amount of emissions in tonnes of carbon dioxide equivalent resulting from the purchase of electricity, heat, steam or cooling by the company for its own use. Comparatives must be given after the first year of the application of this requirement[61].	✓	✗	✗	✗
Sch 7.15(4)	A statement of what information in Sch 7.15(2) & (3) is not disclosed and why, if it is not practicable for the company to obtain some or all of that information.	✓	✗	✗	✗
Sch 7.16	The methodologies used to calculate the information disclosed under Sch 7.15(2) & (3).	✓	✗	✗	✗
Sch 7.17 & 18	At least one ratio which expresses the quoted company's annual emissions in relation to a quantifiable factor associated with the company's activities. Comparatives must be given after the first year of the application of this requirement.	✓	✗	✗	✗

60 Separate guidance on the application of the greenhouse gas (GHG) emissions disclosure requirements has been published by the Department for Environment Food & Rural Affairs (DEFRA): https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206392/pb13944-env-reporting-guidance.pdf

61 The GHG emissions disclosure requirements are effective for the first time in periods ending on or after 30 September 2013.

Regulations reference	Requirement	Quoted public company	Other public company including AIM	Large and medium-sized private company	Small private company
Sch 7.19	The period for which the company is reporting if the period for which it is reporting the information required by Sch 7.15(2) & (3) is different to the period in respect of which the directors' report is prepared.	✓	×	×	×