Deloitte.

Gems and jetsam
Surveying annual reports

Contents

1. Executive summary

The Deloitte survey of annual reporting is prepared by those who like to be current in fashion terms. As September 2011 saw the publication of the consultation paper, from the International Integrated Reporting Committee, advocating integrated reporting, so this year's survey covers both the front half and the back half of the annual report in one publication. In 2010 there were "Swimming in words" and "Drowning by numbers". In this 2011 survey the entire annual report is considered together, partly to determine where are the gems and partly to consider what can be safely jettisoned either entirely or to be found by intrepid explorers of company websites.

The question of splitting the annual report is highly topical. The Department for Business published in September 2011 its proposals for the Future of Narrative Reporting. These include, for listed companies, splitting the annual report into three sections:

- the Strategic Report which will describe concisely the company's strategy, risks and business model, the company performance and the links between that performance and the remuneration of directors and senior executives;

- the Annual Directors' Statement which will be the location for what may be described colloquially if inappropriately as the duller bits in the present report, such as the full details on directors' remuneration and corporate governance arrangements. The aim appears to be that this section will be published on line albeit that shareholders can request information in hard copy form; and

- the financial statements.

There are no plans from the International Accounting Standards Board to reduce the length of the audited financial statements. Indeed, the new standards, IFRS 10 through to IFRS 13, threaten a few more forests when they come into effect from 2013. However, the IASB has commissioned and received a report, entitled "Losing the excess baggage – reducing disclosures in financial statements to what's important". That report indicates that a reduction of some 30% in the length of the financial statements is possible. It remains to be seen whether the IASB will pick up on this report and take it forward for serious action.

The Financial Reporting Council continues to fret about the clutter. Comments on its April paper were due by 30 September 2011. These responses are presumably now being considered and any next steps may be announced in a few months' time.

So, how do the results of the 2011 Deloitte Survey of annual reports inform these various initiatives?

- For the first time in 15 years of doing these surveys, the average length of annual reports has decreased from 101 pages in 2010 to 98 pages this year. The main reason for this is that two banks which had relatively long reports in 2010 have been made significantly shorter in 2011. Around half of companies' reports were reduced by very modest cuts of a page or few. But overall the reduction is very modest at 3%. It takes companies back to their 2009 level but still 123% longer than when these surveys began in 1996. This suggests that while companies have done what they can, the need to review the rule book remains and thus the proposals from BIS should be of interest.

- The reductions in 2011 in the length have been caused by companies cutting back on the narrative reporting in the front half. The length of the audited financial statements is the same as the previous year at an average of 47 pages. The range is from 20 pages to 138 pages. With almost every new accounting standards increasing exponentially the volume of disclosures, a project which has reviewed the merit of current disclosures and recommended deletions should be considered by the IASB.

- 31% of companies (2010 21%) have sought to describe their business model, a request which is now coming into effect via the UK Corporate Governance Code.

- 44% (2010 35%) of companies complied fully with the Combined Code, the predecessor to the UK Corporate Governance Code. The top 350 companies in particular have anticipated the operation of the new Code, with 71% (2010 6%) of these companies undertaking an annual re-election of all directors and 38% of them already using an external facilitator for board performance evaluations.

- Required information about the environment, employees and social and community issues was disclosed by 92%, 96% and 94% of companies respectively.

- Almost half of the companies surveyed (47%) referred to their audit committees' consideration of key accounting assumptions, estimates, forecasts and judgements. But most focussed on the process in place, with only 5% being judged as providing insightful comments.

- 76% of companies clearly adopted the 2009 FRC guidance on going concern and liquidity risk. This is a high percentage for a relatively new requirement. Three audit reports contained modifications in respect of going concern issues, a modest decrease from the four companies last year with such references. These results will be sent to the Sharman Inquiry established by the FRC and currently considering how the 2009 FRC guidance is working.

The state of financial reporting does cause concern. Accounting policies and share based payment notes take up some 18% of the audited financial statements.

The average number of reportable segments was three, a decline from four in 2010. Meanwhile, 40% of companies explicitly referred to the requirement to disclose reliance on major customers but over half of these disclosed that there were no major customer relationships.

Investment trusts have been considered separately and those results are discussed in section 14 of this report. Overall, the results for this group are relatively positive, with trusts reporting six days faster in 2011 compared with 2010.

63% of investment trusts and 45% of the corporates' parent companies continue to report under UK GAAP and so will be impacted by the current deliberations of the Accounting Standards Board on the future of UK accounting. Another exposure draft is now expected perhaps in time for Christmas. The likely implementation date for the new regime has been delayed until 2014.

Overall company reporting is complex. For those seeking some relief from the pain, there are some promising developments. But will these merely seek to manage the problem rather than cure the illness?

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2. Regulatory overview

Reporting by UK listed companies is subject to a complex tapestry of requirements, which has evolved significantly over the last few years. This section provides an overview of the regulations and guidance which have shaped annual reports during the survey period, as follows.

Disclosures	Source applicable for the 2010/11 reporting season
Directors' report, including the business review	Companies Act 2006 (CA06)
The Operating and Financial Review	The Accounting Standards Board's (ASB) Reporting Statement: Operating and Financial Review (RS)
Corporate Governance	The Listing Rules The Disclosure and Transparency Rules (DTR) The Combined Code, now renamed the UK Corporate Governance Code (the Code) and supporting guidance
Other disclosures	The Disclosure and Transparency Rules (DTR)
Financial statements	Company law and International Financial Reporting Standards or UK GAAP

Also discussed here are changes that may be made to the narrative disclosure regime in the foreseeable future. This publication excludes the directors' remuneration report, the regulatory requirements for which are covered in the Deloitte publication, 'Know the ropes – the remuneration committee knowledge'. Two other Deloitte publications, 'Executive directors' remuneration' and 'Board structure and non-executive directors' fees', published in September 2011, provide survey data on the directors' remuneration report.

Directors' report, including the business review

The general requirement to produce a directors' report is contained in section 415 of the CA06.

All quoted and unquoted companies (except those qualifying as small) are required to include a business review in their directors' report. This includes subsidiary companies which do not qualify as small, even if they are wholly-owned. The purpose of the business review is to inform members of the company and help them assess how the directors have performed their duty to promote the success of the company.

Under section 417, a business review should include a fair review of the company's business and a description of the principal risks and uncertainties facing the company. The review required is a balanced and comprehensive analysis, consistent with the size and complexity of the business, of:

• the development and performance of the business of the company during the financial year; and

• the position of the company at the end of the year.

In February 2011, the Financial Reporting Review Panel (FRRP) highlighted the challenges in the reporting of principal risks and uncertainties. In particular, the FRRP is keen to avoid failure to focus on just principal risks and uncertainties and failure to state how the company manages its principal risks and uncertainties.

The requirements include, to the extent necessary for an understanding of the development, performance or position of the business of the company:

• an analysis using financial key performance indicators (KPIs); and

• where appropriate, analysis using other KPIs, including information relating to environmental matters and employee matters.

In practice the interpretation of "necessary" and "appropriate" varies greatly depending on the size and nature of the company's business.

In addition, a quoted company's business review must disclose:

• the main trends and factors likely to affect the future development, performance and position of the company's business;

• information about:
  – environmental matters (including the impact of the company's business on the environment);
  – the company's employees; and
  – social and community issues,

  including information about any policies of the company on these matters and the effectiveness of these policies; and

- information about persons with whom the company has contractual or other arrangements which are essential to the business of the company. Disclosure about a person is not required if the disclosure would, in the opinion of the directors, be seriously prejudicial to that person and contrary to the public interest.

Although the above disclosures need to be included only "to the extent necessary" for an understanding of the business, a company not discussing each of the specific areas in the second and third bullets above has to state expressly that it has not done so.

Investors have told the Accounting Standards Board (ASB) that they are interested in how much financial capital a business needs and whether there is a surplus or a deficit. An ASB study of the quality of capital management disclosures concluded that too often there is excessive boilerplate text and too many companies have missed essential elements of the required disclosure.

Companies are not required to disclose 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. The exemption from disclosing information about persons with whom the company has contractual arrangements is somewhat different. Disclosure of information about such a person may be omitted only if it would be seriously prejudicial to that person and contrary to the public interest. Non-disclosure is not permitted simply because it would be prejudicial to the company.

Compliance with the statutory requirements of the business review is analysed in sections 6, 7 and 8 of this publication.

The Accounting Standard Board's (ASB's) 'Reporting Statement: Operating and Financial Review' (RS) sets out best practice principles and guidelines, for a narrative report on operating and financial matters. If a narrative report is called an 'Operating and Financial Review' (OFR) there is an expectation that directors will have followed the RS and if this is not the case it would be useful to give the narrative report a different name, such as a 'Business Review'.

Corporate governance disclosures

Listed companies are required by the Listing Rules to make certain disclosures about corporate governance in their annual reports. At the heart of this requirement is the Code. A listed company incorporated in the UK is required to make a statement about how it has applied the main principles in the Code and a statement of compliance with the Code. The Code is supported by additional guidance on internal controls (the 'Turnbull Guidance') and audit committees (the 'FRC Guidance on audit committees'). In addition, the Listing Rules state that there should be a statement by the directors that the business is a going concern with supporting assumptions or qualifications as necessary.
These requirements are discussed in more detail in sections 9 to 11 of this publication.

Following amendments to the EU Fourth, Seventh and Eighth Directives, the Financial Services Authority (FSA) added rules into the Disclosure and Transparency Rules (DTR) on corporate governance statements and audit committees.

Companies with listed shares must include a corporate governance statement in their directors' report referring to:

- the corporate governance code that the company has decided to apply or is subject to under the law of the Member State in which it is incorporated (the UK Corporate Governance Code in the UK);

- an explanation as to whether, and to what extent the company complies with that code. To the extent that a company departs from the code, the company should explain the parts of the code from which it has departed and the reasons for doing so;

- a description of the main features of the company's internal control and risk management systems in relation to the financial reporting process; and

- a description of the composition and operation of the company's administrative, management and supervisory bodies and their committees.

For companies complying in full with the relevant provisions of the Code, many of these disclosures will already be in place. What is additional are the requirements to provide the information in a dedicated 'corporate governance statement' and to provide a description of the main features of the company's internal control and risk management systems.

A company may elect that, instead of including its corporate governance statement in its directors' report, the information required may be set out:

- in a separate report published together with and in the same manner as its annual report; or
- by means of a reference in its directors' report to where such a document is publicly available on the company's website.

Audit Committees

Under DTR 7.2, companies whose shares are traded on a regulated market in the EU are also required to have a body, such as an audit committee, which is responsible for performing the functions detailed below. At least one member of that body must be independent and at least one member must have competence in accounting and/or auditing. The requirements may be satisfied by the same member or by different members of the relevant body.

The company must ensure that, as a minimum, the relevant body should:

- monitor the financial reporting process;
- review and monitor the independence of the statutory auditor and in particular the provision of additional services to the company;
- monitor the effectiveness of the company's internal control, internal audit function where applicable and risk management systems; and
- monitor the statutory audit of the annual and consolidated accounts.

The company must make a statement available to the public disclosing which body carries out the functions above and how it is composed. This statement can be included in any corporate governance statement.

The FRC Guidance on audit committees

The Code provides that a separate section of the annual report should describe the work of the audit committee in discharging its responsibilities (Code provision C.3.3). The supporting Guidance recommends that the audit committee:

- explains to shareholders in the audit committee report how it reached its recommendation to the board on the appointment, re-appointment or removal of the external auditors;
- considers whether there might be any benefit in using firms from more than one network;
- considers the need to include the risk of the withdrawal of their auditor from the market in their risk evaluation and planning; and
- explains how, if the auditor provides non-audit services, auditor objectivity and independence are safeguarded.

The explanation to shareholders on how the audit committee reached its recommendation to the board on the appointment, re-appointment or removal of the external auditors should normally include supporting information on tendering frequency, the tenure of the incumbent auditor and any contractual obligations that acted to restrict the audit committee's choice of external auditors.

Going concern

The Listing Rules and the Code require a statement by the directors that the business is a going concern, together with supporting assumptions or qualification as necessary. This requirement should be prepared in accordance with the "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009" published by the FRC in October 2009.

The Guidance is based on three principles covering the process which directors should follow when assessing going concern, the period covered by the assessment and the disclosures on going concern and liquidity risk. The Guidance applies to all companies and in particular addresses the statement about going concern that must be made by directors of listed companies in their annual report and accounts.

The Guidance focuses on three key principles.

1. **Assessing going concern**: directors should make and document a rigorous assessment of whether the company is a going concern when preparing annual and half-yearly financial statements.

2. **The review period**: directors should consider all available information about the future when concluding whether the company is a going concern at the date they approve the financial statements. Their review should usually cover a period of at least twelve months from the date of approval of annual and half-yearly financial statements.

3. **Disclosures**: directors should make balanced, proportionate and clear disclosures about going concern for the financial statements to give a true and fair view. Directors should disclose if the period that they have reviewed is less than twelve months from the date of approval of annual and half-yearly financial statements and explain their justification for limiting their review period.

The process carried out by the directors should be proportionate in nature and depth depending upon the size, level of financial risk and complexity of the company and its operations. Section 11 of this publication considers how companies have adopted the Guidance.

Directors' responsibilities statements

For many years there has been a requirement for a directors' responsibilities statement imposed, in effect, by auditing standards. The statement explains the responsibilities of the directors for the preparation of the financial statements with the aim of distinguishing those responsibilities from the responsibilities of the auditors.

In addition, there is a requirement for those companies that are within the scope of the Disclosure and Transparency Rules (DTR) of the Financial Services Authority to include a 'responsibility statement' in their annual report. The statement is an acknowledgement by those responsible for the annual report of their responsibilities.

The responsibility statement required by the DTR must be made by the person(s) responsible within the company. This is usually the directors, but it is up to each company to decide which person(s) is (are) considered responsible. The responsibility statement must include the name and function of the person making the statement. Only one person is required physically to sign the responsibility statement.

Each person making a responsibility statement must confirm that to the best of his or her knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and

- the management report (the DTR term to describe the narrative part of the annual report) includes a fair review of the development and performance of the business and of the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

ISA (UK and Ireland) 700 (revised) requires that the audit report contains a 'statement that those charged with governance are responsible for the preparation of the financial statements'. Whilst this is not as strict as the previous ISA, which required that either the annual report or the audit report contain a description of those responsibilities, all of APB's examples refer to a separate Directors' Responsibilities Statement. The APB has not provided an example of a statement for a public company, but market practice has generally been to continue preparing a similar statement to that used in previous years, combined with the statement required by DTR 4.1.

Directors' liability for disclosures

Section 463 of the Companies Act 2006 provides a level of protection for directors in respect of certain statements. It was introduced to encourage directors to provide more meaningful disclosures, particularly relating to the future. Under section 463, a director may be held liable only to the company itself (although existing civil or criminal offences are unchanged) and not to individual shareholders or third parties. Such liability to the company would exist only if the director knowingly made a statement that was untrue or misleading, or was reckless as to whether this was the case. For an omission from the directors' report, liability would arise only if he or she knew that the omission was 'dishonest concealment of a material fact'.

This protection extends only to the directors' report and directors' remuneration report and any summary financial statement derived from those reports. Statements made outside these reports, such as within an OFR or corporate governance statement (whether under the Listing Rules or DTR 7.2), are not protected unless the OFR or other relevant statement has been scoped into the directors' report by means of a clear cross reference.

Gender pay gap information

The Equality Act 2010 gives the government the power to make regulations requiring disclosure of gender pay gap, defined as the size of the difference between men's and women's pay expressed as a percentage. The Government's aim is for employers regularly to publish such information on a voluntary basis. The government has been working with a range of partners to develop a new voluntary framework for gender equality reporting called 'Think, Act, Report'. The Government does not intend to make regulations under this power while it is working with business to increase transparency on a voluntary basis. The power would be used only if voluntary arrangements do not work.

Reporting greenhouse gas emissions

In September 2009, the Department for Environment, Food and Rural Affairs (DEFRA), in partnership with the Department for Energy and Climate Change (DECC), published guidance for businesses and organisations on how to measure and report their greenhouse gas emissions. The guidance explains how businesses and organisations can measure and report their greenhouse gas emissions as well as set targets to reduce them. The guidance is aimed at all sizes of business as well as public and third sector organisations.

In addition, section 85 of the Climate Change Act 2008 commits the government either to introduce regulation, under CA06 by April 2012, to require corporate greenhouse gas reporting, or explain why not. DEFRA is expected to publish a follow-up to its recent consultation on carbon reporting later in 2011.

Financial statements

The survey consists of 100 companies that are fully listed on the London Stock exchange – regulated market, all of which applied IFRS in their consolidated financial statements.

The survey also included 30 investment trusts. The Investment trusts that were groups prepared their consolidated accounts in accordance with IFRS and the remaining investment trusts that did not have any subsidiaries have the choice of IFRS or UK GAAP.

The majority of companies and investment trusts in the survey were incorporated in the UK and subject to UK company law, with a small number being incorporated in Jersey or Guernsey and subject to local company law requirements.

The key aspects of the accounting regulatory framework are detailed in the Deloitte publication: *iGAAP 2011 Financial statements for UK listed groups.* The 2012 edition illustrating the requirements effective for 31 December 2011 year ends is expected to be issued on 30 November 2011.

What changes to the framework can be expected for the 2011/12 reporting season?

This section provides an overview of the latest developments which will impact narrative reporting next year and beyond.

The new UK Corporate Governance Code
The FRC launched the new UK Corporate Governance Code in May 2010. The new Code aims to help company boards become more effective and more accountable to their shareholders.

Changes to the Code include:

- to improve risk management, the company's business model should be explained and the board should be responsible for determining the nature and extent of the significant risks it is willing to take;

- performance-related pay should be aligned to the long-term interests of the company and its risk policy and systems;

- to increase accountability, all directors of FTSE 350 companies should be put forward for re-election every year;

- to promote proper debate in the boardroom, there are new principles on the leadership of the chairman, the responsibility of the non-executive directors to provide constructive challenge, and the time commitment expected of all directors;

- to encourage boards to be well balanced and avoid "group think", there are new principles on the composition and selection of the board, including the need to appoint members on merit, against objective criteria, and with due regard for the benefits of diversity, including gender diversity; and

- to help enhance the board's performance and awareness of its strengths and weaknesses, the chairman should hold regular development reviews with each director and FTSE 350 companies should have externally facilitated board effectiveness reviews at least every three years.

There are two key changes which will impact narrative reporting. Firstly, the preface to the new Code states that "chairmen are encouraged to report personally in their annual statements how the principles relating to the role and effectiveness of the board (in Sections A and B of the new Code) have been applied". It is hoped that this will give investors a clearer picture of the steps taken by boards to operate effectively but also, by providing fuller context, it will make investors more willing to accept explanations when a company chooses to explain rather than to comply with one or more provisions.

Secondly, there is a new requirement (Code provision C.1.2) that there should be an explanation of the basis on which the company generates or preserves value over the longer term (the business model) and the strategy for delivery of the objectives of the company. The new Code states that it would be desirable if the explanation were located in the same part of the annual report as the business review required by section 417 of the CA06. It also refers preparers to the guidance contained in paragraphs 30 to 32 of the RS.

The new Code applies to all companies with a premium listing of equity shares with financial years beginning on or after 29 June 2010. The Deloitte publication 'Setting the tone – a new focus for governance' provides suggested actions and questions to ask on a practical route to implementation.

New disclosures for audit committees on the provision of non-audit services
The FRC recommended that audit committees should take steps to improve the governance and transparency of the provision of non-audit services to the company by their external auditors in revisions to section 4 of its Guidance on audit committees issued in December 2010. The FRC encourages companies to use the revised Guidance with effect from 30 April 2011.

The new guidance recommends that audit committees should:

- consider the effect the external auditor undertaking aspects of the internal audit function may have on the effectiveness of the company's overall arrangements for internal control and investor perceptions in this regard (new 4.8);

- keep the policy in relation to the provision of non-audit services by the auditor under review (addition to 4.29);

- set and apply a formal policy specifying the types of non-audit service (if any) for which (a) the use of the external auditor is pre-approved, (b) specific approval from the audit committee is required before they are contracted, or (c) the external auditor is excluded (new 4.30-4.32);

- disclose to shareholders, as early as practicable, instances where the audit engagement partner will, on grounds of audit quality, continue in position for an additional period of up to two years in excess of the usual five and the reasons for this decision (new 4.36); and

- provide an explanation in the annual report, or on the company's website, as to how auditor objectivity and independence is safeguarded if the auditor provides non-audit services in sufficient detail to cover each of the elements described in the third bullet above. In addition the audit committee's report within the annual report should set out, or cross-refer to, the fees paid to the auditor for audit services, audit related services and other non-audit services. Where the auditor provides non-audit services, other than audit related services, the annual report should include an explanation for each significant engagement of what the services are, why the audit committee concluded that it was in the interests of the company to purchase them from the external auditor (rather than another supplier) and how auditor objectivity and independence has been safeguarded. (new 4.38). A template for the provision of the fees information by the auditors to the audit committee is set out in Appendix A to Ethical Standard 1 issued by the Auditing Practices Board and might usefully be considered in preparing the company's own disclosure. This template provides two distinct columns, one for audit related services and another for non-audit related services.

The future of narrative reporting

In a first step along the path to better corporate information, BIS issued a consultation paper in September 2011 proposing a new, simpler framework for narrative reporting that should reduce burdens on companies.

BIS is proposing to introduce a Strategic Report and an Annual Directors' Statement, the latter of which does not have to be included in the annual report. The intention is that the level of prescription for the Strategic Report will be kept to a minimum so that companies have the flexibility to "tell their story". The Strategic Report will continue to include the existing content required by section 417 of the CA06 (The Business Review) but in addition **quoted** companies will be required to provide:

- a description of the company's strategy;

- a description of the company's business model;

- key information on executive remuneration (including the link between company performance and the remuneration of company directors and senior executives);

- a description of critical changes in the company's governance;

- disclosure on women on boards;

- information regarding human rights matters (in accordance with the newly published Guiding Principles for the "Protect, Respect and Remedy" Framework); and

- comparative information for KPIs for the preceding financial year.

BIS is proposing that the Strategic Report should be signed off by each individual director as well as the company secretary.

The Annual Directors' Statement will be the key source of detailed information on specific aspects of company performance. It will be designed for online disclosure. However the right to request the information in hard copy will remain.

To help with efforts to reduce clutter, BIS has proposed that five specific disclosures are removed. These include the creditors' days payment policy and charitable donations.

The deadline for comment is 25 November 2011 and the Government intends to publish draft regulatory and non-regulatory solutions with a view to these becoming effective for years beginning 1 October 2012.

The Turnbull Guidance on internal control

In December 2010, the FRC indicated that it was deferring its planned review of the Turnbull guidance. It wanted first to explore how companies were responding to the extension of Code principle C.2 to cover the board's responsibility to determine the nature and extent of the risks they are willing to take in achieving their strategic objectives. The FRC has now issued a summary of the discussions it has had with companies, investors and advisers and this paper (Boards and Risk – September 2011) indicates that the FRC has concluded that some change is needed to the Turnbull guidance to reflect the role of the board as articulated in the new version of the Code. The FRC intends to carry out a limited review during 2012.

Gender diversity on boards

The Department of Business, Innovation and Skills is expected to consult on the recommendation made in Lord Davies report 'Women on boards' that quoted companies should be required to disclose each year the proportion of women on the board, women in senior executive positions and female employees in the whole organisation.

The FRC announced changes to the UK Corporate Governance Code in October 2011, which aim to address the recommendations set out in Lord Davies report. The changes come into force for periods commencing on or after 1 October 2012.

To help with efforts to reduce clutter, BIS has proposed that five specific disclosures are removed. These include the creditors' days payment policy and charitable donations.

3. Survey objectives

The main objectives of the survey were to discover:

- what narrative reporting listed companies have provided in their annual reports;
- how companies met the requirements of the Companies Act 2006 to provide a business review within the directors' report;
- the level of variety in presentation of the primary statements in listed companies' financial statements;
- which critical judgements and key estimations directors consider to be the most significant;
- how compliance with disclosure requirements and the accounting policy choices made under IFRSs varied; and
- how the results varied depending on the size of the company and compared with similar surveys performed in previous years.

The annual reports of 130 listed companies were surveyed to determine current practice. Consistent with the approach adopted in Deloitte's recent surveys, the companies were split into two groups being 30 investment trusts and 100 other companies. Investment trusts are those companies classified by the London Stock Exchange as non-equity or equity investment instruments (this excludes real estate investment trusts). They have been treated as a separate population due to their specialised nature and the particular needs of their investors.

The sample is, as far as possible, consistent with that used in last year's survey. As a result of takeovers, mergers and de-listings over the last 12 months, the sample could not be identical. Replacements and additional reports were selected evenly and at random from three categories being those within the top 350 companies by market capitalisation at 30 June 2011, those in the smallest 350 by market capitalisation, and those that fall in between those categories (the 'middle' group).

The annual reports used were those most recently available and published in the period from 1 August 2010 to 31 July 2011.

As noted above the findings for investment trusts are analysed separately within this publication. Sections 4-13 summarise the results for the 100 companies excluding investment trusts and section 14 reviews the 30 investment trusts.

Consistent with the approach adopted in Deloitte's recent surveys, the companies were split into two groups being 30 investment trusts and 100 other companies.

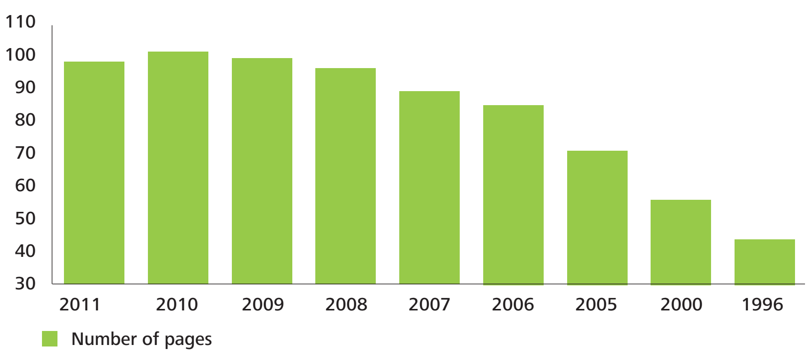
4. Overview of the annual report*

- For the first time in fifteen years of doing these surveys, the average length of annual reports has decreased. They are 3% shorter than in 2010. The decrease has been in the narrative sections. The average length of the audited financial statements is unchanged.
- Companies have reported quicker, taking an average of 74 days to approve their annual reports (2010: 75 days)
- Once again all companies achieved compliance with the DTR reporting requirements and reported within the prescribed timeframe.
- Narrative reporting has decreased slightly to constitute 49% of annual reports (2010: 51%).
- Financial statements range from 20 to 138 pages.

Length of the annual report

Recent years have seen incessant increases in the average length of annual reports. In the Deloitte 2010 survey, the ton was broken. The average length was 101 pages. The average length of annual reports in this year's survey has fallen by 3% to 98 pages. But this does not mean problem-solved. The decrease is small and compared with 2005 reports, their 2010/11 equivalents are still 38% longer. Compared with 1996, they are 123% longer. The average length in that year's survey was a mere 44 pages.

Figure 1. How has the average length of the annual report changed over the past fifteen years?



The slight decrease in average length compared to the prior year, appears to be as a result of two banks with very long reports getting significantly shorter, around half of the companies' reports reduced by a small amount, whilst a significant number of companies in the sample have produced reports that are actually slightly longer.

The quality and relevance of the content of annual reports is currently a hot topic for regulators, and a number of studies have been carried out recently.

In April 2011, the FRC published a report entitled "Cutting Clutter: Combating clutter" in annual reports which identifies some of the causes of clutter and provides to those preparing annual reports practical aids for reducing clutter. It gives ideas for how disclosures might look without the clutter and factors to consider when planning the annual report process.

In July 2011 a joint working party carried out by the Institute of Chartered Accountants of Scotland (ICAS) and the New Zealand Institute of Chartered Accountants (NZICA) reported on their project to reduce the volume of disclosure requirements in International Financial Reporting Standards (IFRS). Their report "Losing the excess baggage – reducing disclosures in financial statements to what's important" concluded that the length of companies financial statements could be cut by 30%, and more focused information would bring a greater clarity and understanding to those seeking to assess the financial performance of leading companies.

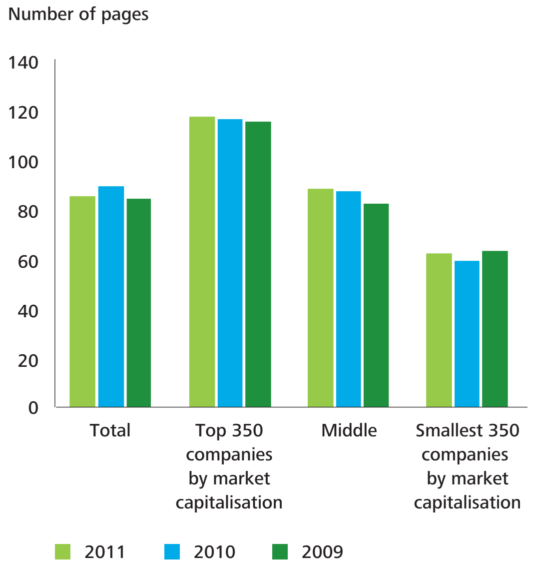
While the results of this survey will be welcomed, regulatory change appears to be necessary to make more dramatic reductions.

* This section analyses the findings for all companies other than investment trusts

The median (i.e. the middle value when the report lengths are ranked in numerical order – see below) length of annual reports has fallen back to 86 pages (2010: 90 pages).

Consistent with previous year's results, the longest median reports are those of the top 350 companies (118 pages) whilst the shortest reports are produced by the smaller companies (89 pages for the middle companies compared with 63 pages for the smallest 350 companies) – see Figure 2.

Figure 2. What is the overall length of the annual report?

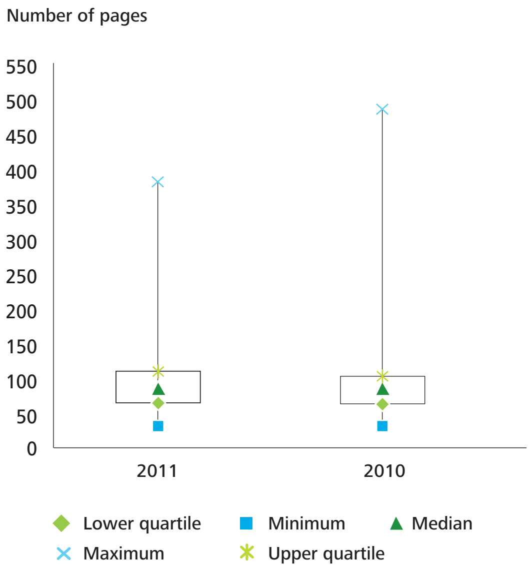


When considering the length of the annual reports, medians have been considered as well as arithmetic means. The reason for this is that the arithmetic mean (average) could be considered misleading. The range of annual report lengths is not normally distributed, with a small number of lengthy outliers skewing the arithmetic mean (average) upwards. The white boxes in the figure below indicate where the middle 50% of the sample are distributed, while the two 'whiskers', or tails, show the range of the upper quartile (longest 25% of reports) and the lower quartile (shortest 25% of reports).

As shown in the box plots below, the majority (75%) of reports are in the range of 35 – 113 pages (2010: 33 – 108 pages), but the upper quartile (the upper 25% of the sample) are significantly longer, ranging from 113 pages to 385 pages (2010: 108 – 490 pages). It is these lengthy reports which skew the arithmetic mean (average) upwards and affect the trend.

Given the relatively small size of our sample (100 companies), it is likely that the modal average (i.e. the most common report length) could also be relatively misleading.

Figure 3. What is the range of annual report lengths in 2011 and 2010?



Once again, the longest report was produced by a bank from the sample of top 350 companies by market capitalisation, but in keeping with the trend for reduction in length, and as shown by the boxplot above, this bank shaved over 100 pages from its report, giving a length of 385 pages compared with 490 in 2010.

The shortest report (35 pages) came from the sample of the smallest 350 companies by market capitalisation. This was also the case in the prior year, when the shortest report was 33 pages.

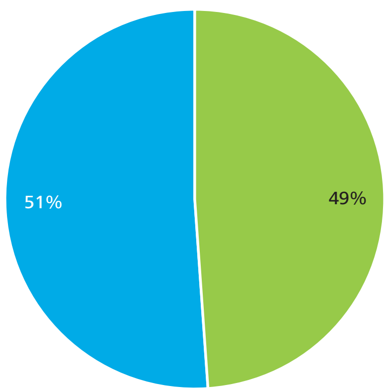
Balance of narrative and financial reporting

For the purposes of this survey, the 'narrative' section (or 'front half') of the annual report is defined as all of the pages in the annual report excluding the audited financial statements and independent auditors' report. The 'narrative' reporting typically includes some, or all, of the following sections.

- Summary information
- Chairman's statement
- Chief executive's statement
- Business review
- Financial review
- Corporate social responsibility (CSR) statement
- Directors' report
- Corporate governance statement
- Directors' remuneration report
- Statement of directors' responsibilities

The balance of narrative pages and financial statements has shifted, compared with the prior year. As shown in Figure 4 below, narrative reporting now constitutes 49% of the annual report (2010: 51%).

Figure 4. What is the balance of narrative and financial reporting in the annual report?

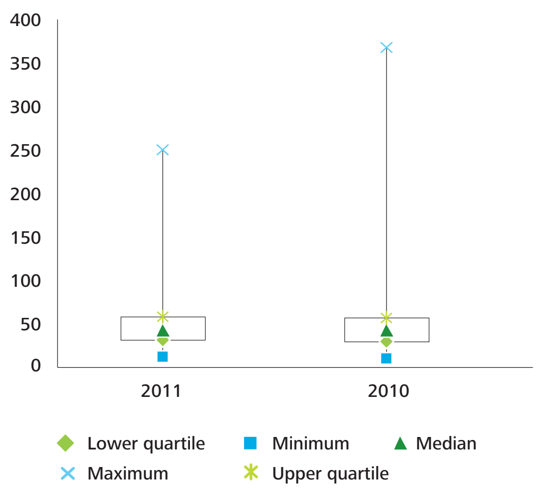


This is also shown in Figure 5, below, which shows that the median length of narrative sections has remained flat (43 pages in both 2011 and 2010).

The inter-quartile range has also remained the same at 30 – 56 pages in 2010 and 32 – 58 pages in 2011. The longest narrative section in the sample was 250 pages (2010: 368 pages), with the same bank as noted above reducing the length of its annual report by cutting down the narrative.

The shortest narrative section was 13 pages (2010: 11 pages) produced by two companies in the smallest group.

Figure 5. What is the range of narrative reporting length in 2011 and 2010?

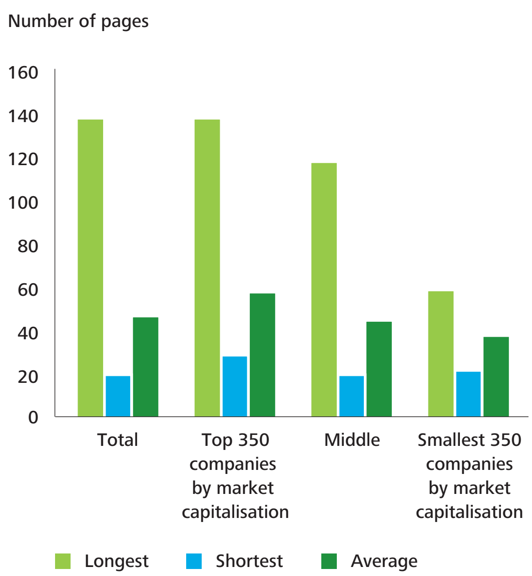


The length of the financial statements varied from 20% to 71% of the overall annual report length. The top 350 companies were consistent with the prior year, with the financial statements representing an average of 45% (2010: 43%) of the annual report and being lower than the overall average of 51% (2010: 49%) across the sample.

In comparison, the middle group of companies had an average of 49% of the annual report allocated to the financial statements (2010: 50%) and the smallest 350 companies had an average of 58% (2010: 54%) of the annual report taken up by financial statements.

… there is a clear relationship between the length of the financial statements and the size of the business.

Figure 6. How long are the financial statements?



As illustrated in Figure 6, there is a clear relationship between the length of the financial statements and the size of the business. This is expected and consistent with previous years, as companies in the top 350 are generally more complex and required to provide additional disclosures usually relating to financial instruments, pensions and share based payments. Again, the range between the longest and shortest financial statements is noticeably larger in the top 350, the longer financial statements largely representing those entities from the banking sector where there are extensive disclosures on financial instruments. The gap between the longest and shortest financial statements has fallen slightly, ranging from 20 to 138 in the current year (2010: 18 to 137).

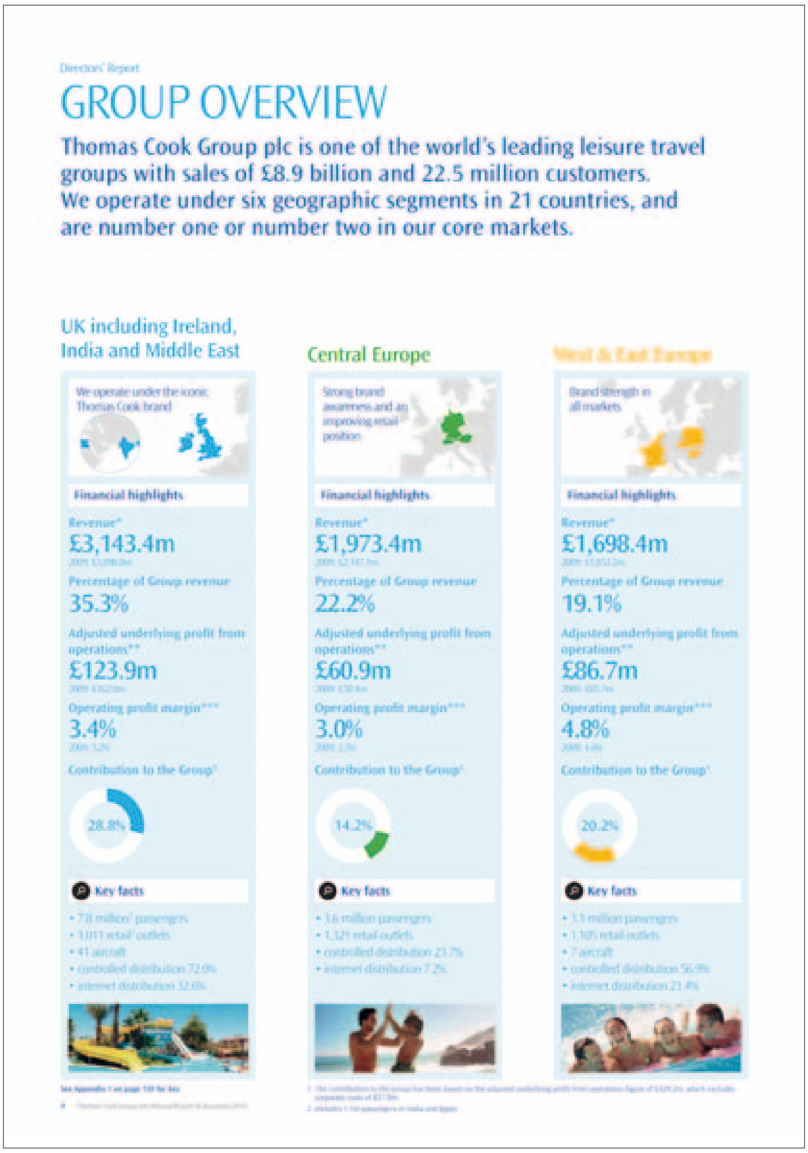
Speed of reporting

All companies included in the survey are required to comply with the DTR requirement to publish their annual report within four months of their year end. The potential impact of non-compliance with this rule is the suspension of shares. Once again, all of the companies in the sample met the deadline in 2011 (100% compliance in 2010 compared with 99 out of 100 companies meeting the requirement in 2009).

Overall, across the sample companies are achieving a year on year improvement by approving the annual report faster. The average time for report approval was 74 days which was slightly quicker than in 2010 where the average was 75 days.

The profile of speed of approval has also improved compared to the prior year: 65% of companies approved their annual reports within 75 days of their year-end (2010: 57%), while 20% of companies took over 90 days to approve their annual reports (2010: 21%).

Given market expectations and the level of resources devoted to financial close and production of the annual report, the top 350 companies reported quickest, while the smallest 350 companies were slowest (see Fig. 7). The quickest report was approved within 41 days of the year end (2010: 42 days), while the slowest report took 120 days to be approved (2010: 121 days). Middle sized companies were again slightly quicker this year, taking 70 days on average (2010: 71), while larger companies were consistent with the prior year, taking 62 days on average. The smaller companies were also consistent in their performance, taking 92 days on average in 2011 and 2010.



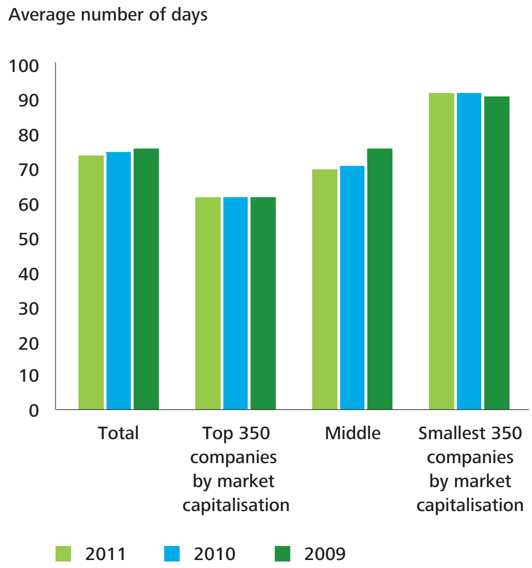
GROUP OVERVIEW

Thomas Cook Group plc is one of the world's leading leisure travel groups with sales of £8.9 billion and 22.5 million customers. We operate under six geographic segments in 21 countries, and are number one or number two in our core markets.

UK including Ireland, India and Middle East	Central Europe	
Financial highlights	Financial highlights	Financial highlights
Revenue*	Revenue*	Revenue*
£3,143.4m	£1,973.4m	£1,698.4m
Percentage of Group revenue	Percentage of Group revenue	Percentage of Group revenue
35.3%	22.2%	19.1%
Adjusted underlying profit from operations**	Adjusted underlying profit from operations**	Adjusted underlying profit from operations**
£123.9m	£60.9m	£86.7m
Operating profit margin***	Operating profit margin***	Operating profit margin***
3.4%	3.0%	4.8%
Contribution to the Group[1]	Contribution to the Group[1]	Contribution to the Group[1]
28.8%	14.2%	20.2%
Key facts	Key facts	Key facts

Thomas Cook Group plc Annual Report & Accounts 2010

Figure 7. How quickly was the annual report approved in 2011, compared with previous years?



Presentation

As in prior years, many companies invested in producing glossy annual reports. 71% of companies presented their annual reports in a manner which was visually interesting (2010: 75%). Again, the largest companies were the top performers, increasing to 91% (2010: 88%) of the sample of top 350 companies producing interesting-looking reports. Only 48% (2010: 61%) of the smallest 350 companies produced an eye-catching annual report.

It should be noted that the appeal of an annual report is a subjective assessment. Some of the criteria used to determine whether a report was well presented were the structure of the report, clear headings, and the use of colour, pictures, tables and charts. These results suggest that the larger companies continue to view their annual reports as a key marketing and communication tool for stakeholders, whilst the trend amongst smaller companies appears to have been to cut back on the spend on annual report production.

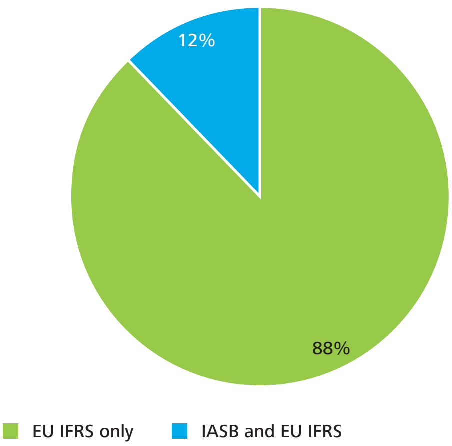
An example of a visually interesting annual report is included left.

Reporting frameworks and auditors' reports

In the sample all companies had transitioned to IFRS in prior periods.

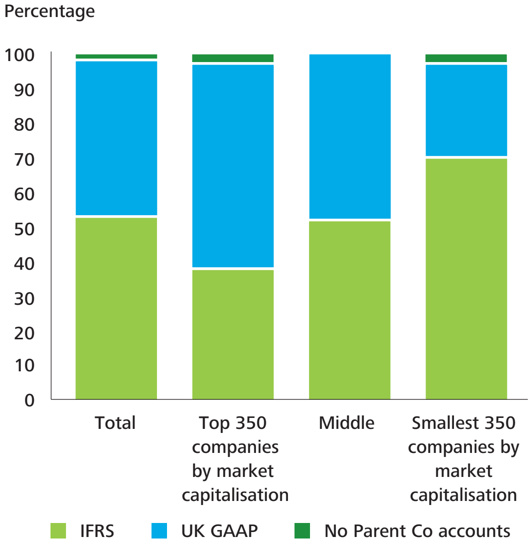
88 (2010: 91) companies had an audit opinion under accounting policies which were in accordance with IFRS as adopted by the European Union (EU). Twelve (2010: 7) companies had an opinion under IFRS as issued by the IASB in addition to those standards adopted by the EU. In 2010, 2 companies had an opinion under IFRSs as issued by the IASB, those **adopted** by the EU and a separate opinion on US GAAP. There were no companies in the 2011 sample with US GAAP opinions.

Figure 8. In accordance with which GAAP has the group audit opinion been given?



The number of groups reporting the results of their parent company under IFRS was 53% (2010: 55%), whilst 45% of companies (2010: 45%) reported under UK GAAP. The remaining 2% in the current year did not produce parent company only accounts, as they were registered in Jersey. It has been rare to see a change in the accounting framework applied to parent companies.

Figure 9. Is the parent company reporting under IFRS or UK GAAP?



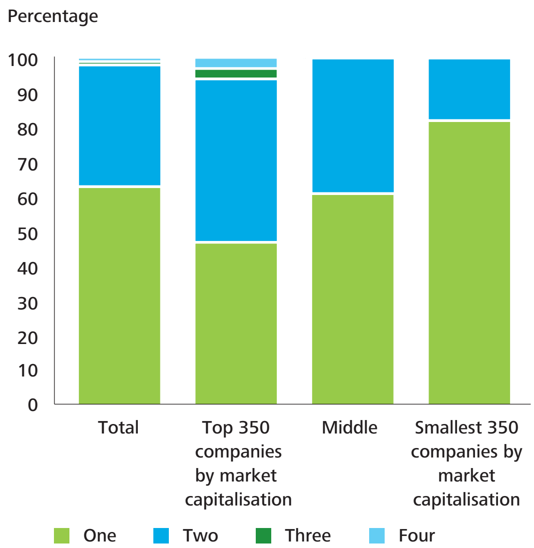
The UK Accounting Standards Board (ASB) is consulting its constituents on the future of UK GAAP. The ASB believes that only one accounting framework is needed in the UK and it should be based on IFRS. However, the ASB recently made the tentative decision to remove the proposed requirement for publicly accountable entities to prepare accounts under EU-adopted IFRS. As a consequence the application of EU-adopted IFRS will not be extended beyond the current requirements in law, meaning that a listed parent company would be able to continue to prepare its solus financial statements under whatever framework is decided on to replace existing UK GAAP.

Once again, the majority of companies provided one auditors' report which covered all opinions given, whether applicable to the consolidated financial statements or the parent company financial statements. 35% (2010: 34%) of companies had two auditors' reports, being one for the consolidated financial statements and a separate opinion for the company financial statements.

One (2010: two) company had three auditors' reports. BT Group plc provided three separate auditors' reports, including one for consolidated financial statements covering both IFRS opinions (EU endorsed IFRS and as issued by the IASB) and one for the company. BT Group plc also had a separate report for consolidated financial statements referred to as a United States opinion. This was also given under IFRS as issued by the IASB and not US GAAP, and contained an opinion on internal control over financial reporting.

Once again, only one (2010: one) company in the sample, Mondi Group plc, presented four audit reports. This company is listed in two different countries and presents separate audit reports for both the group and the parent company. These four opinions cover compliance with IFRS applicable to South Africa, IFRS as adopted by the EU and IFRS as issued by the IASB and opinions to the members of South African limited company and to the members of the British plc.

Figure 10. How many audit reports have been presented?



Once again, the majority of companies provided one auditors' report which covered all opinions given, whether applicable to the consolidated financial statements or the parent company financial statements.

5. Summary information*

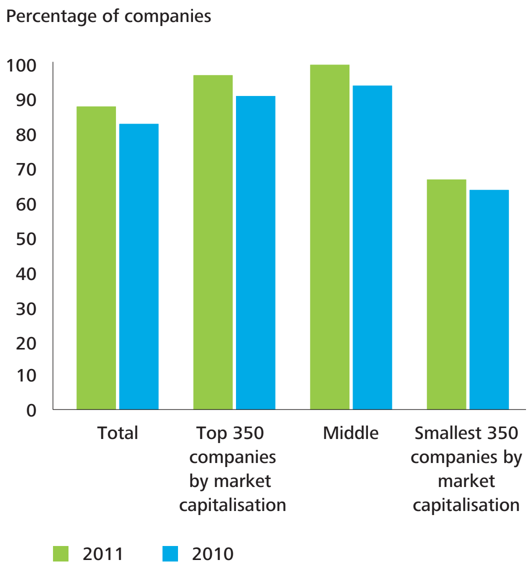
- The number of companies presenting summary information at the start of their annual reports has increased over the year from 83% to 89%.
- All summary pages included financial data.
- Of those companies showing a summary page, 77% gave prominence to KPIs.

Summary information is a useful tool to bring key information to the users' attention. This is optional, rather than a requirement, but many companies choose to include a summary page at the start of their annual report.

As shown in Figure 11, 97% of the top 350 companies included summary information (2010: 91%), compared to 100% of the middle-sized companies (2010: 94%) and 67% of the smallest companies (2010: 64%). Only one company out of the top 350 companies chose not to present a summary page. However, a quick snapshot of the company's highlights was shown within the Chairman's Statement. Due to having a simpler structure and a relatively short annual report, the smaller companies tend to consider that there is less need for a summary report.

Overall, 89% of the companies surveyed included summary information in one form or another (2010: 83%). The overall increase of 6% from the prior year could mean that more and more companies appreciate the benefits of providing users with clear, concise and relevant information about the business and performance during the year, separate from the more comprehensive disclosures required.

Figure 11. How many annual reports include a summary information page?



Information shown on the summary page

The summary information presented varied in content and structure. Some contained a simple table of key financial data. Others used the summary to provide information about the structure and business of the organisation. Some summaries identified the key strategies, objectives and achievements during the year.

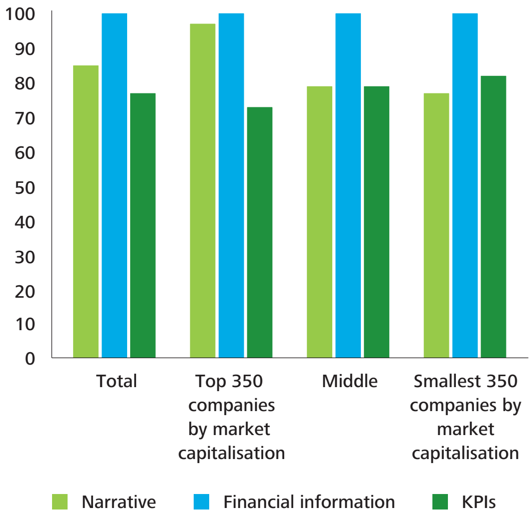
All companies who presented summary information chose to include financial data (2010: 96%), 85% (2010: 86%) included narrative and 77% (2010: 76%) presented KPIs (as identified as KPIs later in the report). Of those who presented KPIs, 88% included financial KPIs, 2% non-financial KPIs and 10% chose to include both financial and non-financial KPIs.

Overall, 89% of the companies surveyed included summary information in one form or another.

* This section analyses the findings for all companies other than investment trusts

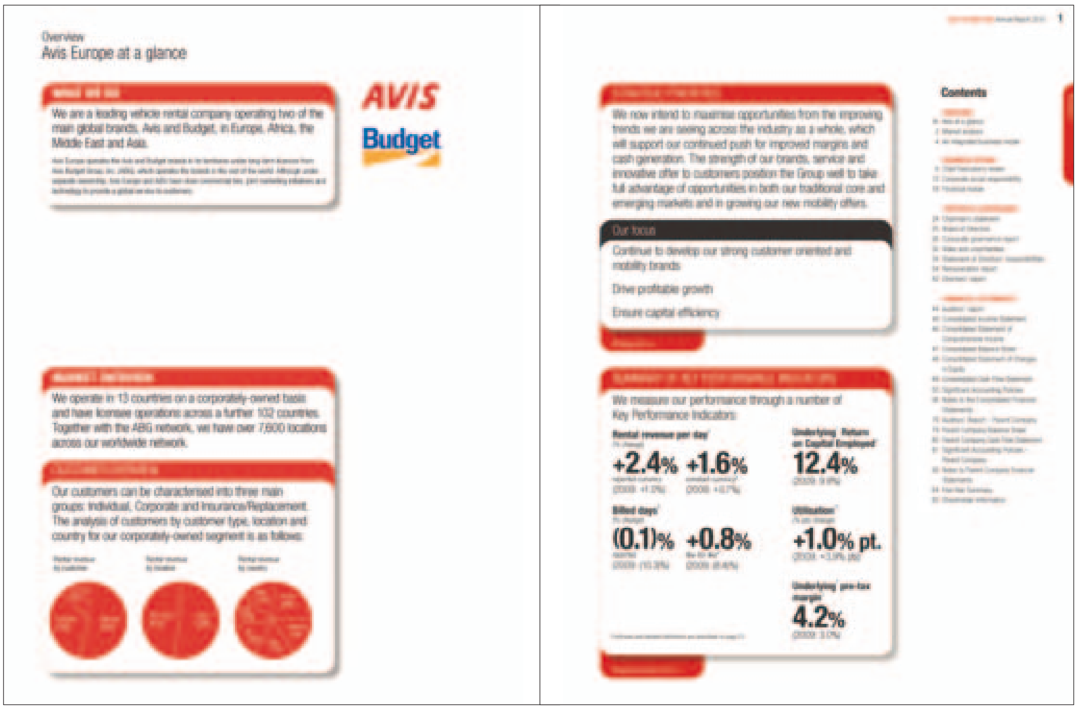
Figure 12. What kind of information is presented in the summary page(s)?

Percentage of companies presenting this information



Good examples of different presentation of summary information were found in the annual reports of Collins Stewart Hawkpoint plc, Avis Europe plc and DRS Data & Research Services plc. Collins Stewart Hawkpoint plc provided more narrative information on divisions and markets, with less emphasis on financial data. Avis Europe plc provided a mix of narrative and financial information plus the use of KPIs and clear cross references to further information in the annual report on particular areas included in the summary information. DRS Data & Research Services plc's summary information section was visually interesting and also showed operational highlights.

Collins Stewart Hawkpoint plc Annual Report and Accounts 2010



Avis Europe plc Annual Report 2010

DRS Data & Research Services plc Annual Report & Accounts 2010

6. The business review*

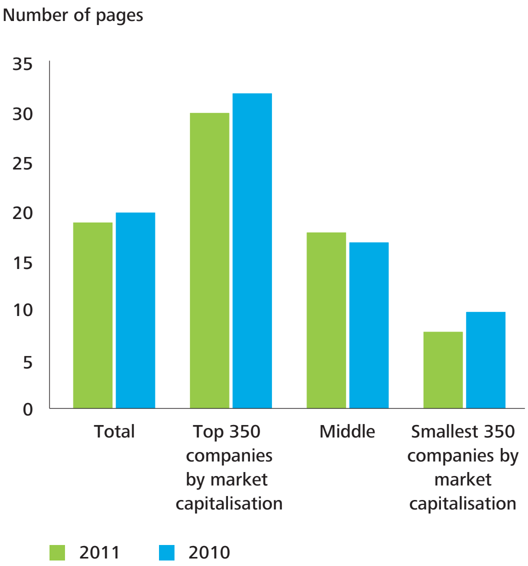
- 76% included reference to long-term objectives.
- 31% (2010: 21%) sought to describe their business model.
- Required information about the environment, employees, and social and community issues were disclosed by 92%, 96% and 94% of companies (2010: 93%, 94% and 90%), respectively.
- Nine (2010: 13) provided a formal 'Operating and financial review'.

Under section 417 of the Companies Act 2006 (CA06), all companies are required to include, amongst other things, a business review in their directors' report, unless they qualify as small. The review should include a fair review of the business and a description of the principal risks and uncertainties facing the company. All of the companies surveyed (2010: 98%) provided a distinct section called a business review. All companies (2010: 98%) included negative points in their business review and therefore appeared to present a 'balanced' review of the business.

Length of the business review

The length of the business review varied with the size of the company, as shown in Figure 13. The average length of the business reviews of the largest companies was 30 pages, with an average of 18 pages for the middle-sized companies and nine pages for the smallest companies. This variance in length reflected the difference in length of the narrative sections of the annual report. For both the largest and middle-sized companies the average business review made up 39% (2010: 43% and 39% respectively) of the narrative section and for the smallest companies it was 30% (2010: 37%) of the narrative section.

Figure 13. How long is the business review?



Location of business review

The CA06 requirement states that the business review should be incorporated into the directors' report. Most of the companies surveyed (70% (2010: 67%)) satisfied this requirement by including a cross-reference in the directors' report to the statements within the front half of the annual report which contained the required disclosures for the business review. 14% (2010:17%) of the companies surveyed included a cross-reference, as described above, but also provided some of the business review requirements within the body of the directors' report. Only 16% (2010: 14%) included the entire business review in the body of the directors' report.

Certain aspects of the business review disclosures have been discussed elsewhere within this report.

Principal risks and uncertainties

86 companies clearly disclosed their principal risks and uncertainties, which are discussed in further detail in section 7.

* This section analyses the findings for all companies other than investment trusts

Key performance indicators

The CA06 requires an entity to include an analysis using financial and non-financial KPIs if this is considered necessary to provide an understanding of the business. 90% of companies identified KPIs, with the majority of these being located in the business review. KPIs are discussed in more detail in section 8.

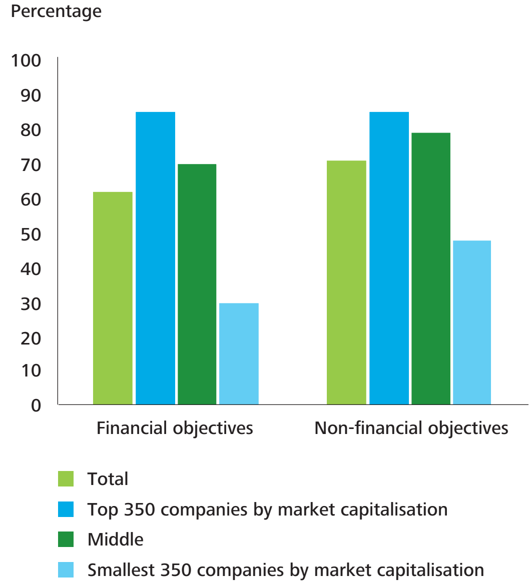
The rest of this section is devoted to analysing the other disclosure requirements of the business review and how these have been addressed by companies in 2011.

Objectives and strategy

Of the companies surveyed, 76% included reference to the long term objectives of the company. The largest companies were particularly good at making such references, with 94% of large companies referring to long term objectives, compared with 73% of middle-sized companies and 61% of the smallest companies.

Many companies referred to both financial and non-financial objectives, where appropriate. Figure 14 shows the balance of discussion between financial and non-financial objectives.

Figure 14. What is the balance between financial and non-financial objectives?



There was a good balance between financial and non-financial objectives, with a slight bias towards the disclosure of non-financial objectives, such as those relating to market position or corporate responsibility. 71% of companies sampled included a description of non-financial objectives, compared with 62% of companies providing a discussion of financial objectives.

A large proportion of companies included a description of the strategies adopted to pursue these financial and non-financial goals. However, the nature and extent of these descriptions varied. More consistency and clarity in the description of the strategies adopted by companies to pursue their objectives would assist the users of the accounts in formulating a sound understanding of the business.

An example of disclosure in this area was by National Grid plc.

Operating and Financial Review

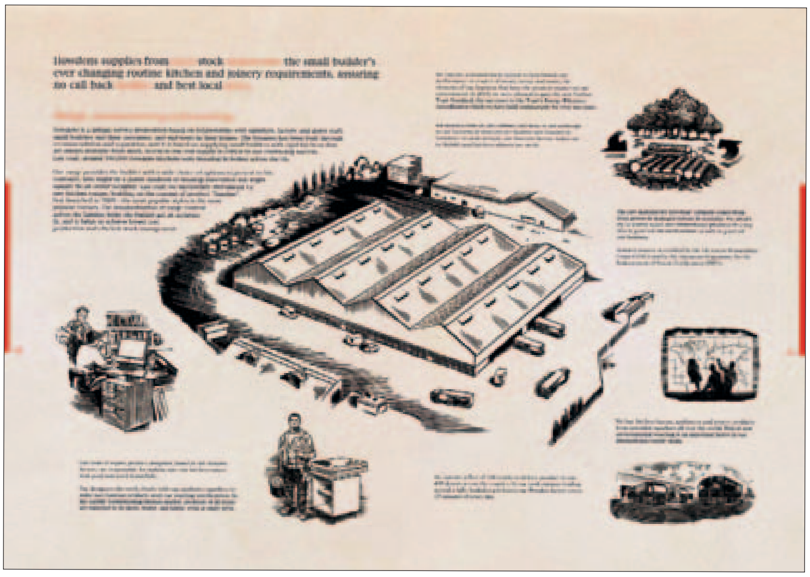
Vision, strategy and objectives

National Grid plc Annual Report and Accounts 2010/11

Overall, 31% (2010: 21%) of companies made an attempt to describe their business model.

Description of the business model

In last year's survey the number of companies attempting to disclose their business model was low. At that time, disclosure of the business model was a relatively new concept having been included as a new provision of the UK Corporate Governance Code (which was published in May 2010 and applicable for periods commencing on or after 29 June 2010). Provision C.1.2 of the UK Corporate Governance Code states that there should be an explanation of the basis on which the company generates or preserves value over the longer term (the business model) and the strategy for delivery of the objectives of the company and that "it would be desirable" if this disclosure were included within the business review.



Howden Joinery Group plc Annual report & accounts 2010

This year, there has been some improvement, particularly amongst the middle and smallest groups of companies. Overall, 31% (2010: 21%) of companies made an attempt to describe their business model. 44% (2010: 44%) of the top 350 companies sampled described their business model, 33% (2010: 15%) of the middle group, and 15% (2010: 3%) of the smallest 350 companies included a description.

A description of the business model was deemed, for the purposes of this analysis, to be more than just a simple discussion of what the company does. A reference to the specific way in which the company generates value or an explicit reference to "business model", together with a description of what the directors deem that model to be, was required to satisfy this requirement. An understanding of the company's business model assists the users of the annual report in formulating opinions about the company or its financial statements.

It is interesting to note that an area where detailed requirements have not been laid down, is allowing companies the freedom to develop their own interpretations of the disclosure. A variety of different styles were set out. These included a diagrammatical approach (Howden Joinery Group plc), a distinct section of the annual report clearly signposted from the contents page (Halma p.l.c), a clear link to strategy and a definitive statement of how the company created value (TT electronics plc) and a small narrative section (Galliford Try plc).


Our Business Model

Our strategy

Our strategic priorities

Our growth drivers

Our values

Our organisational structure

Our operational culture

Halma p.l.c Annual Report and Accounts 2011


A DIVERSE SPREAD OF ACTIVITIES

Galliford Try plc Annual Report and Financial Statements 2010


Our strategy and business model

Underpinned by our Core Values

TT electronics plc Annual Report 2010

Cobham plc Annual Report and Accounts 2010

... disclosures on employees and social and community issues have improved since last year.

Corporate and social responsibility

Under the CA06, companies are required – to the extent necessary for an understanding of the business – to discuss additional information about environmental matters, the company's employees and community and social issues. Whilst the number of disclosures on the environment has decreased slightly, disclosures on employees and social and community issues have improved since last year.

Figure 15. How many companies made disclosures about the environment, employees and social and community issues?

	2011	2010
Environment	92%	93%
Employees	96%	94%
Social & community	94%	90%

Most companies chose to include these disclosures in a Corporate Social Responsibility (CSR) statement and formats varied from tabular or diagrammatic disclosures to sections of prose.

A good example was the Corporate Responsibility and Sustainability statement included within the annual report of Cobham plc. In addition to providing narrative descriptions and analysis, Cobham also provided a table which linked each focus area with the relevant performance indicators, objectives, progress, targets and the company's strategic objectives.

Carbon reporting

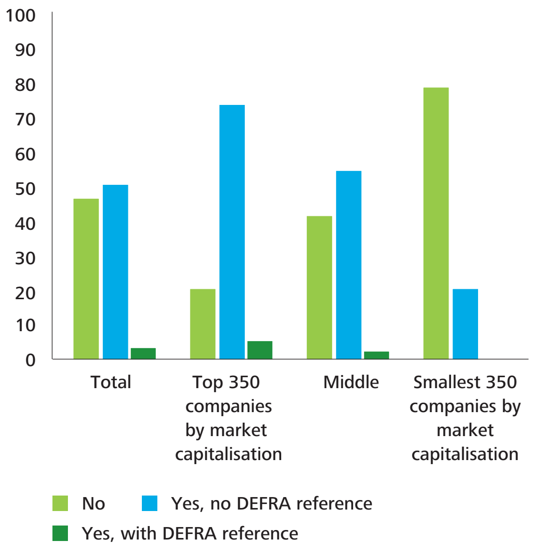
As explained in section 2, the Department for Environment, Food and Rural Affairs (DEFRA) issued guidance in September 2009 recommending that companies disclose information about their greenhouse gas emissions. Disclosure of this information is not mandatory at present but it is interesting to note how many companies are already attempting to tackle these areas and the nature of the disclosures.

53% (2010: 37%) of the companies surveyed made an attempt to disclose CO2 emissions, of those 50% (2010: 31%) made disclosures with no reference to the DEFRA guidance and 3% (2010: 6%) disclosed and referred to the DEFRA guidance.

The largest companies performed best in this area, with 79% (2010: 71%) of the largest companies making disclosures about their emissions, compared with 58% (2010: 33%) of the middle group and 21% (2010: 6%) of the smallest companies (none of whom made reference to the DEFRA guidance).

Figure 16. How many companies made disclosures about their greenhouse gas emissions?

Percentage



None of the companies surveyed disclosed any gender pay gap information.

Gender diversity

The Equality Act 2010 recommends that companies disclose gender pay gap information. In addition, as noted in Section 2, Lord Davies report 'Women on boards' recommends that quoted companies should be required to disclose each year the proportion of women on the board, women in senior executive positions and female employees in the whole organisation and to set targets for the number of women on the board in 2013 and 2015.

None of the companies surveyed disclosed any gender pay gap information. Six companies in the sample referred to gender diversity policies and targets. Of these, five were from the largest group of companies. Vodafone Group Plc and Barclays PLC provide a clear statement regarding their aspiration for female representation on the board.

> The Board welcomed the publication in February of the Davies Review on Women on Boards and, in line with its recommendations, it is our aspiration to have a minimum of 25% female representation on the Board by 2015. The Financial Reporting Council is currently consulting on changes to the UK Corporate Governance Code including a recommendation that companies adopt a boardroom diversity policy; we expect to comply with any such recommendation. The Board recognises the importance of gender balance throughout the Group and continues to support our CEO, Vittorio Colao, in his efforts to build a diverse organisation. Further information can be found in the Corporate Governance section of this report.

Vodafone Group Plc Annual Report 2011

> There has been much debate this year on the subject of board diversity, notably on the subject of gender and the representation of women on the boards of companies. We were pleased to sponsor this year's Cranfield FTSE Female Report and we support the recommendation in the new UK Corporate Governance Code that boards should consider the benefits of diversity, including gender, when making board appointments. For us, however, diversity is much more than the issue of gender: it is about ensuring that there is an appropriate range and balance of skills, experience and background on the Board. Achieving this balance is a key determinant of any new Board appointments we make. In 2010 we were fortunate to be joined on the Board by Dambisa Moyo and Alison Carnwath, who were appointed with effect from 1st May 2010 and 1st August 2010 respectively. They both bring relevant, financial and other experience to the Board and these appointments have widened the range of perspectives brought to our Board deliberations.

Barclays PLC Annual Report 2010

Cobham plc Annual Report and Accounts 2010

The annual report 2010 contains statements which are not based on current or historical fact and which are forward looking in nature. These forward looking statements reflect knowledge and information available at the date of preparation of this annual report 2010 and the Company undertakes no obligation to update these forward looking statements. Such forward looking statements are subject to known and unknown risks and uncertainties facing the Group including, without limitation, those risks described in this annual report 2010, and other unknown future events and circumstances which can cause results and developments to differ materially from those anticipated. Nothing in this annual report 2010 should be construed as a profit forecast.

Rexam PLC is registered and domiciled in England and Wales: company number 191285

Rexam annual report 2010

This Business Review has been prepared solely to provide additional information to shareholders. It contains statements that are forward looking. These statements are made by the Directors in good faith based on the information available to them up to the time of approval of this report. Such statements should be treated with caution due to the inherent uncertainties and risks associated with forward looking information.

Domino Printing Sciences plc Annual Report and Financial Statements 2010

Operating and Financial Review

The inclusion of a formal operating and financial review (OFR) remains voluntary. Nine companies (2010: 13) presented a narrative section titled "Operating and Financial Review" in 2011. For those companies choosing to do so, it is considered best practice to follow the guidance in the ASB's Reporting Statement (RS). Of the nine companies choosing to present an OFR in 2011, four (2010: five) made a statement regarding their compliance with the RS, with all four (2010: four out of five) stating full compliance with the RS guidance and none (2010: one) reporting exceptions.

Given that there is a definite overlap between the RS and the requirements of the business review, there is a possibility that the presence of two separate sources of rules and guidance may be over complicating the narrative reporting requirements. This is supported by the relatively low proportion of companies choosing to identify formally a separate OFR statement in their annual reports.

Presentation of divisional information

The way in which companies disclosed the operational information about their businesses varied greatly. Some companies chose to present the information in a graphical or tabular format, while others chose to present the information in narrative. A relatively common approach, which worked well, was to present a separate review of operations for each division of the business. This approach enabled an overall description of each division to be presented clearly, as well as facilitating discussion of both financial and non-financial performance of each division (including, in some cases, the identification of division-specific objectives, KPIs and risks). This extract taken from the annual report of Cobham plc is a good example of the disclosure of divisional summaries.

Cautionary statements

45% of companies (2010: 40%) included a disclaimer or cautionary statement about the forward-looking information included within the annual report. Two examples are presented below. One is a blanket disclaimer covering the entire annual report (Rexam PLC) and one is a disclaimer specifically for the business review (Domino Printing Sciences plc).

7. Principal risks and uncertainties*

- 86% of companies (2010: 95%) clearly identified their principal risks and uncertainties.
- An average of nine risks (2010: eight) was disclosed per company.
- Operational issues were identified as a principal risk by 81% (2010: 69%) of companies.
- 75% of companies (2010: 74%) identifying principal risks identified the state of the economy as a principal risk.
- 14% of companies identifying principal risks provided only generic descriptions of these risks.

Disclosure in the annual report of the principal risks and uncertainties facing the company is required by both the DTR and the CA06. Section 417 of CA06 requires that a description of these principal risks and uncertainties is included and DTR 4.1 requires the directors to confirm that this description is included within the review of the business.

Within the sample of 100 companies there were two companies which reported under Jersey Law and so were not caught by the UK Companies Act requirement to disclose principal risks and uncertainties. However these companies should still comply with the requirement of the DTR.

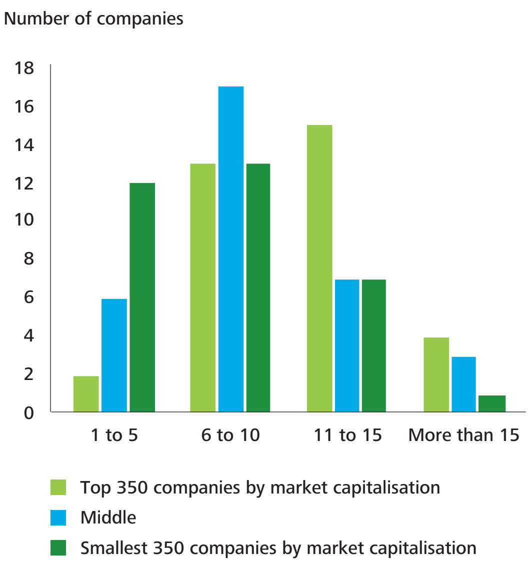
All companies surveyed identified the risk factors that could have a material adverse effect on their business. However, only 86 of the 100 companies sampled clearly identified their risks and uncertainties as 'principal'. Of the remaining companies, one was in the top 350 category, six were in the middle 350 and seven were in the smallest 350.

Number of risks and uncertainties

An overall average of nine risks and uncertainties were identified in the 2011 survey compared to an overall average of eight in the 2010 survey. On average, the largest 350 companies identified 12 risks (2010: 11); the middle group identified an average of nine risks (2010: eight); and the smallest 350 companies averaged seven risks (2010: six).

The highest number of risks identified in the 2011 sample was 28 (2010: 28) by a company in the top 350 and there were two of the smallest companies which each identified only one risk or uncertainty. As described in Section 2, the FRRP has stated that companies should focus on principal risks and uncertainties. Having a large number of identified risks can be seen as not in the spirit of disclosing principal risks. As described above, although all companies have identified risks facing their businesses, 14 companies failed to identify the risks presented as "principal". Most companies, however, have complied with the spirit of disclosing principal risks by identifying between 6 and 10 risks.

Figure 17. How many risks are identified by companies in 2011?



* This section analyses the findings for all companies other than investment trusts

Location

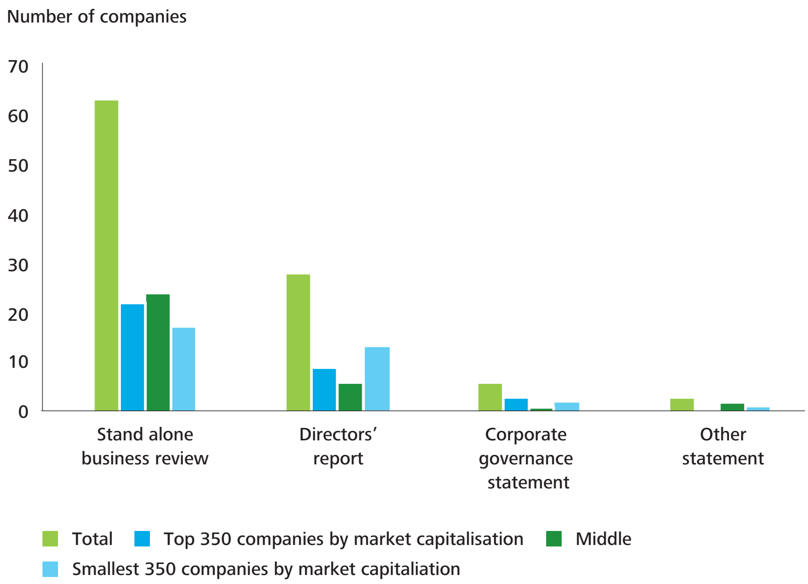
As noted above, DTR 4.1 requires that the description of the principal risks and uncertainties is included in the business review section of the directors' report. Of the 100 companies surveyed, 63 described their risks and uncertainties in a stand-alone business review, cross-referencing them from the directors' report, and 28 companies described the risks directly in the directors' report. Six companies (three from the top 350; one from the middle 350 group and two from the smallest 350) identified their risks within their corporate governance statement. However, these were clearly referenced from the directors' report.

The remaining three companies did not fall into any of the categories described above:

- two from the middle 350 category presented their list of risks and uncertainties in a stand-alone section distinct from the business review and clearly referenced from the directors' report (a separate section of the directors' report); and

- one from the smallest 350 category incorporated the disclosure in its directors' report by a reference to a note in the financial statements.

Figure 18. Where are the principal risks and uncertainties described?



In summary, despite the varied locations where the risks and uncertainties were described it is good to see that all of the companies surveyed adhered to the CA06 requirement by presenting the risks and uncertainties in the directors' report, albeit with most clearly cross-referencing to other locations.

Type of risk and uncertainty

In a slight improvement from the prior year, 97% of companies (2010: 96%) which identified their risks and uncertainties covered strategic, commercial and operational risks as well as financial risks. All of the top and middle 350 companies covered all these types of risks, while 91% of the smallest 350 companies discussed all these types.

The common risks identified were categorised as follows:

- Operational issues – factors directly affecting operational output.

- State of the economy – including the impact of the credit crunch.

- Demand – specific factors affecting demand, including competition.

- Regulation and legislation – including political risk abroad.

- Foreign exchange – exposure to movements in foreign exchange rates.

- People – loss of key personnel.

- Financing issues – factors directly affecting the company's ability to raise finance or meet loan covenants in the future.

- Financial instrument (IFRS 7) risks – market, credit and liquidity risks.

- Legal action and litigation – uncertainty regarding outcome.

- Reputation and brand – loss of customer goodwill.

- Cost of raw materials – movement in commodity prices or other direct costs of sales.

- Environmental issues – including natural disasters as well as CSR-type risks.
- Pensions – factors affecting pension contributions or liabilities.
- Research and development – including failure of R&D projects.
- Tax – including changes in tax rates and legislation.

In a significant shift from last year, operational issues became the most common risk identified by companies in the 2011 survey (2010: the state of the economy), with 81% of companies identifying operational issues as a principal business risk (2010: 69%). In contrast to the prior year, this now appears to be a principal risk across two categories of company, with 94% of the top 350 (2010: 76%) and 85% of the middle 350 (2010: 77%).

64% of the smallest 350 companies identified operating issues as a principal risk compared to 68% in the prior year. Mecom Group plc included operational issues in its risk disclosure.

The second most common risk was the state of economy identified by 75% of those companies sampled (2010: 74%). Market demand/competition was the next most common risk, with 69% of those companies sampled identifying a risk in this category.

Figure 19 demonstrates the common risks identified by the companies sampled. There is also an increasing trend of including separately 'other risks' in addition to those identified as principal risks – an example of this was Pearson plc. This may indicate a compromise where companies are keen to meet the challenge set by the FRRP to reduce the list of principal risks but are also nervous of failing to disclose a risk which could materialise and embarrass the company.

Operational performance

Description	Management action
The Group's strategy for enhancing margins includes identifying operating synergies which are often achieved through reorganisations, the introduction of more efficient work practices and realising economies of scale. However, the cost of structural change in continental European economies is potentially very high.	Throughout 2010 the Group continued to seek ways of improving productivity to protect its margins and established priority programmes in all divisions in the light of the economic downturn. These programmes are driving improvements in our business models by making our businesses more innovative, securing better ways of working, leveraging cross-Group benefits from scale and removing old "industry practices" and have been implemented without disruption to operations.
In addition, the Group operates in countries with labour laws and agreements that differ from the UK and where employees generally enjoy stronger protection. This sometimes means that the pace of change is slower than changes in market conditions.	To ensure that the Group is able to implement the structural changes needed in its business, it is committed to working constructively with governments and other regulatory bodies. It is challenging previous collective bargaining and industry practices to make its cost base more flexible and continues to engage in constructive dialogue with unions, works councils, editorial boards and legislators to develop effective relationships in each case.
The Group's ability to generate cost savings on a timely basis may also be hampered by strikes, illegal industrial action or new regulation from governments in any of the jurisdictions in which we operate. It could also be hampered by not having effective governance and programme management capabilities over its cost savings initiatives or new revenue increasing projects.	For major projects, e.g. the outsourcing of IT services, the Group has focussed particular attention on the governance arrangements and key mitigations are also being built into the contract with the service provider to protect Mecom's position and ensure delivery to agreed service levels.
Specifically, the Group's operational performance could be negatively impacted by its inability to effectively manage the long term contract entered into with the publisher of *De Pers*, the Dutch daily freesheet, as set out in Note 11 to the consolidated financial statements.	The executive and senior management in the Netherlands continue to work with the publishers of *De Pers* to seek ways to offset the potential negative financial consequences of the long term contract. Provision has been made for the currently estimated potential losses that may arise under the contract.

Mecom plc Annual Report and Accounts 2010

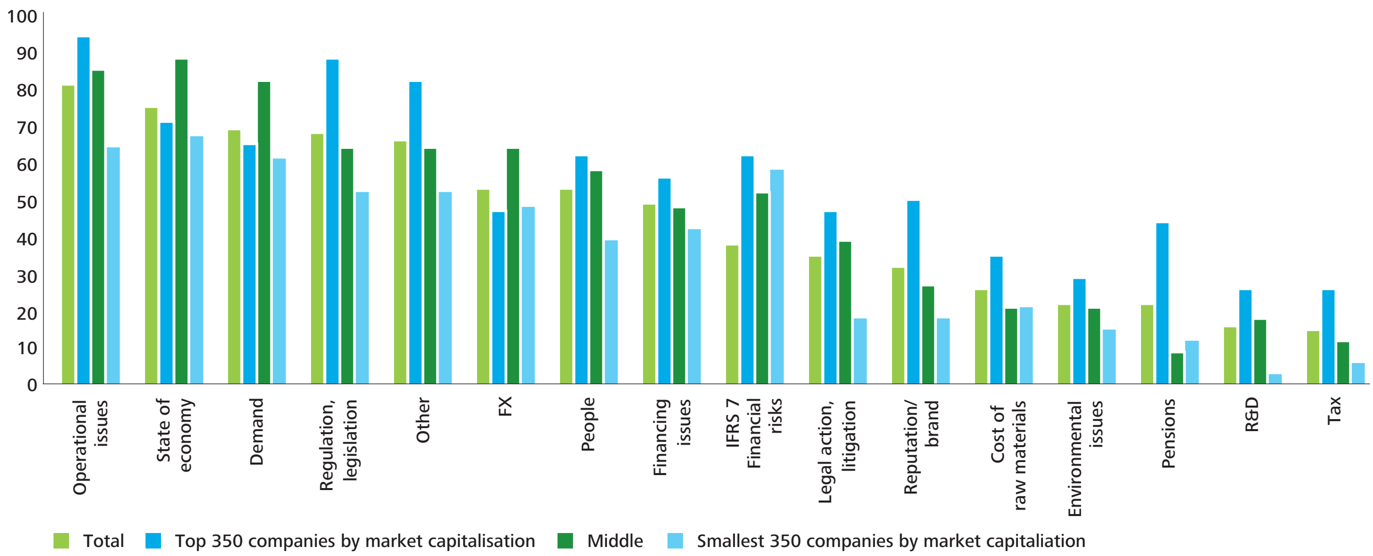
In a significant shift from last year, operational issues became the most common risk identified by companies in the 2011 survey.


Other risks

Pearson plc Annual Report and Accounts 2010

Figure 19. What are the main categories of risks that are identified?

Percentage of companies who identified risks and uncertainties



Description of risks and their mitigation

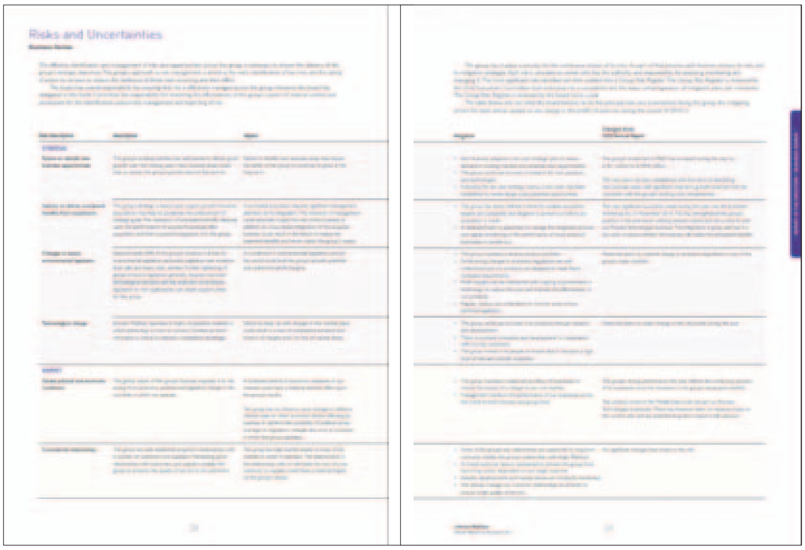
In its 2010 and 2011 annual reports the FRRP made it clear that it expects an indication of the measures taken to manage principal risks and uncertainties to be given. For principal risks and uncertainties the following characteristics are suggested:

"The risks and uncertainties described in the business review are genuinely the principal risks and uncertainties that the Board are concerned about. The descriptions are sufficiently specific that the reader can understand why they are important to the company. The links to accounting estimates and judgements are clear."

There has been a further deterioration in the proportion of companies who attempted to describe their strategies for mitigating each of their risks and uncertainties (80% in 2011, compared with 84% in 2010 and 88% in 2009).

The survey revealed that 14% of companies surveyed provided only generic descriptions of risks (2010: 18%), with no discussion of why those risks were important specifically to the company. This was most prevalent in the smallest 350 companies, with 27% of the companies providing only generic descriptions. The top 350 companies continue to perform better with only 3% of the companies (2010: 6%) providing generic risk descriptions; 12% of middle companies did so (2010: 17%).

Johnson Matthey plc represents an example of good practice which also includes an update on any change in the profile of each risk during the course of the current year. Oxford Instruments plc links each risk to associated company strategic priorities and goals.


Risks and Uncertainties

Johnson Matthey plc Annual Report and Accounts 2010

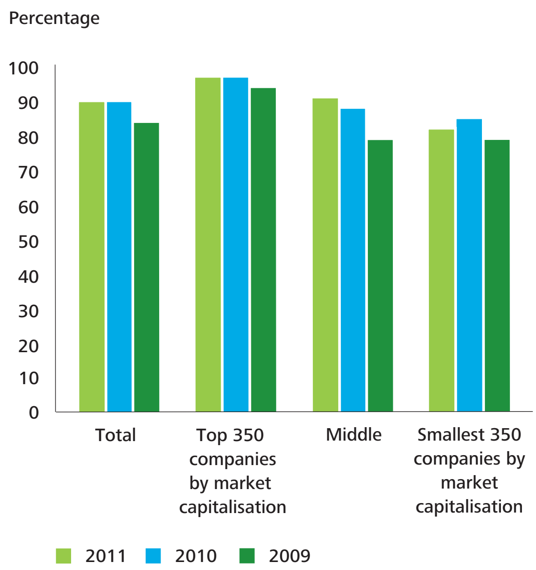

Principal Risks

Oxford Instruments plc Reports and Financial Statements 2011

8. Key performance indicators (KPIs)*

- 90% of companies clearly identified key performance indicators (2010: 90%).
- An average of eight KPIs was disclosed (2010: seven).
- 62% of the KPIs identified were financial in nature, a slight decrease on 65% in 2010.
- Only 20% of companies identified targets for their KPIs (2010: 17%), making it difficult to assess performance.
- Only 12% of companies provided a clear link between KPIs and their strategic aims and objectives (2010: 17%).

Figure 20. How many companies clearly identified KPIs?



The CA06 requires a business review to include an analysis using financial KPIs and, where appropriate, 'other' KPIs, to the extent necessary to provide the users of the annual report with an understanding of the development, performance and position of the business of the company. 'Other' KPIs are non-financial which may include information relating to environmental, employee and customer matters.

Identifying KPIs

A key performance indicator is defined in law as a factor by reference to which the development, performance or position of the company's business can be measured. While the term is used and explained in the CA06 (section 417), it is not required to be used explicitly by companies in their annual business reviews, which leads to problems in practice in identifying which measures are considered "key" by the directors.

For the purposes of this survey, KPIs were deemed to be any measures identified explicitly as "Key Performance Indicators" within the narrative of the annual report. Figure 20 shows the percentage of companies clearly identifying their KPIs. Overall, in both years 2011 and 2010, 90% of the companies surveyed clearly identified their KPIs. 97% of the largest companies clearly identified KPIs in both 2011 and 2010 surveys. The smallest companies decreased slightly, with 82% clearly identifying KPIs compared with 85% in 2010. The middle group continues to improve with 91% of companies clearly identifying KPIs in 2011 compared with 88% in 2010 and 79% in 2009.

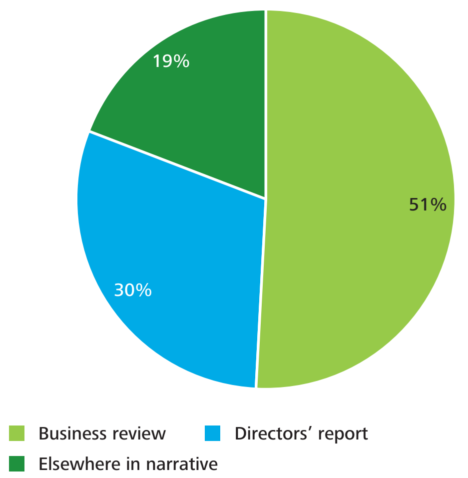
Most of the companies surveyed (97%) presented certain other information as if it were a KPI although they did not specifically refer to it as such. The most common example of this was where a financial or non-financial statistic, such as dividend per share, profit before tax or revenue growth, had been given particular prominence in the annual report (frequently on the summary page) and then was subsequently discussed as part of the business review narrative. Only one of the ten companies in the sample, who failed to identify specific KPIs, included a statement as to why KPIs were not discussed (the stage of development of the company was the reason given).

Location of KPIs

Consistent with previous surveys, the most common place for the KPIs to be located was in a business review presented separately from the directors' report but scoped into it via a cross-reference. 51% of companies surveyed that clearly identified KPIs adopted this approach. This was the most common positioning across all top and middle 350 companies with 58% and 63%, respectively, including them within a separate business review. For 30% of companies surveyed, KPIs were identified in the directors' report. In these cases, the reader was often referred to the business review for further analysis. For the smallest 350 companies, the directors' report continues to be the most common location of KPIs with 63% (2010: 50%) including KPIs there.

* This section analyses the findings for all companies other than investment trusts

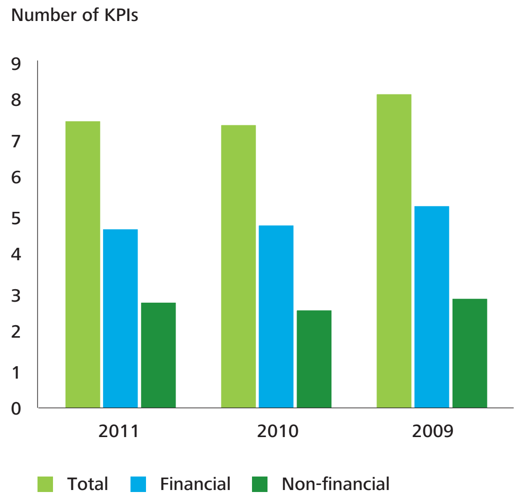
Figure 21. Where are KPIs identified?



Nature and number of KPIs identified

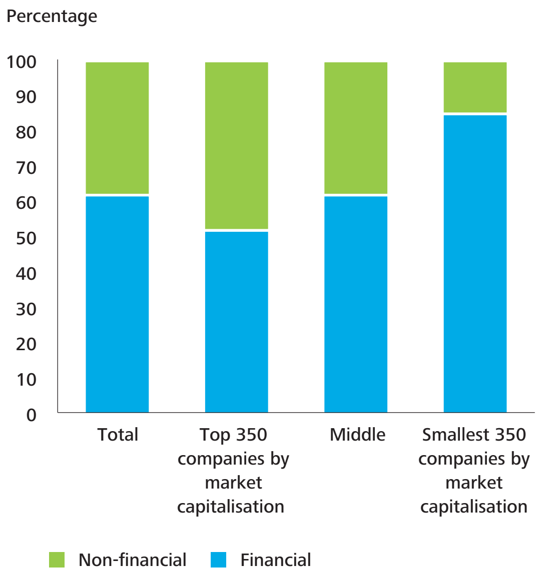
Overall, 62% of KPIs were financial in nature (2010: 65%) while 38% were non-financial measures (2010: 35%). On average, companies identified eight KPIs in total in 2011 (2010: seven).

Figure 22. How many KPIs were identified in recent years?



The larger companies not only tended to show more KPIs than the smaller companies, identifying an average of ten KPIs compared with an average of eight KPIs from the middle group and five KPIs on average within the smallest companies, but also tended to show the greatest proportion of non-financial measures – see Figure 23.

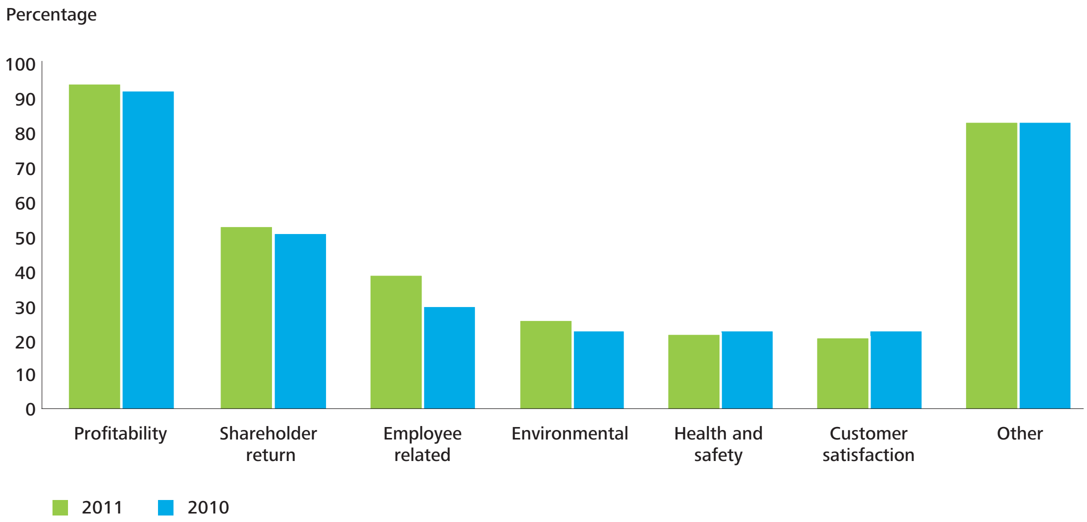
Figure 23. What is the balance between financial and non-financial KPIs?



The range of measures identified as KPIs was largely similar to the prior year, as Figure 24 indicates. The top three most common KPIs disclosed remained the same as in 2010, being profitability, shareholder return and employee-related measures. Overall, 94% of those companies identifying KPIs included at least one measure of profitability, 53% included shareholder return and 39% included employee-related measures. There are still relatively few companies (26%) identifying environmental measures within their KPIs, with much of their discussion on these matters being confined to the corporate responsibility statement.

Common KPIs falling into the 'other' category in the figure below include cash and debt measures, and customer and product information, including for example, the number of online customers or the volumes of specific product sales.

Figure 24. What type of KPIs are included within the annual reports?



Box-ticking or valuable analysis?

As described above, CA06 requires that sufficient KPIs are identified and that these are presented in such a way that the reader can understand and measure effectively the development, performance and position of the business. As noted in previous years, companies were good at disclosing KPIs. However, many companies failed to provide enough information to give a full understanding of why the company had selected a particular KPI and what the factors driving the KPIs are.

The Reporting Statement (RS) recommends disclosure of the following items which may be considered to be best practice:

- definition and calculation method;
- purpose;
- source of data;
- reconciliation to amounts included in the financial statements;
- quantification or commentary on future targets;
- any changes to KPIs compared to previous financial years; and
- comparatives.

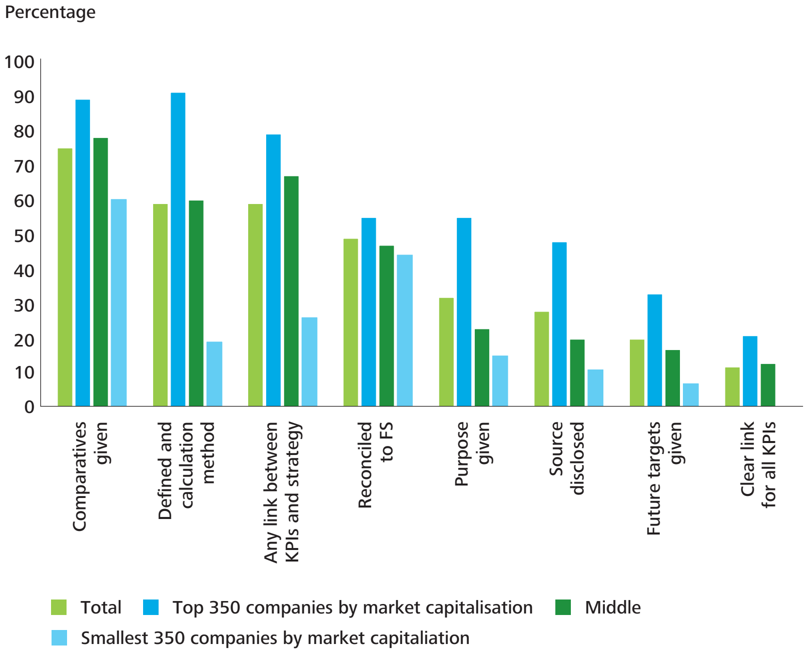
Most of the companies surveyed applied few of the above disclosures. Improvements can be noted compared to the prior year. 59% (2010: 39%) of companies defined or disclosed the calculation method for their KPIs. 32% of companies clearly gave the purpose of the KPIs they had selected (2010: 24%). Only 20% made reference to targets for their KPIs (2010: 17%), making it difficult for readers to assess a company's performance. Perhaps most important of all, 59% of companies surveyed gave a link between the KPIs chosen and the directors' strategies and objectives (2010: 59%) but only 12% of companies surveyed provided a clear link between KPIs and their strategic aims and objectives (2010: 17%).

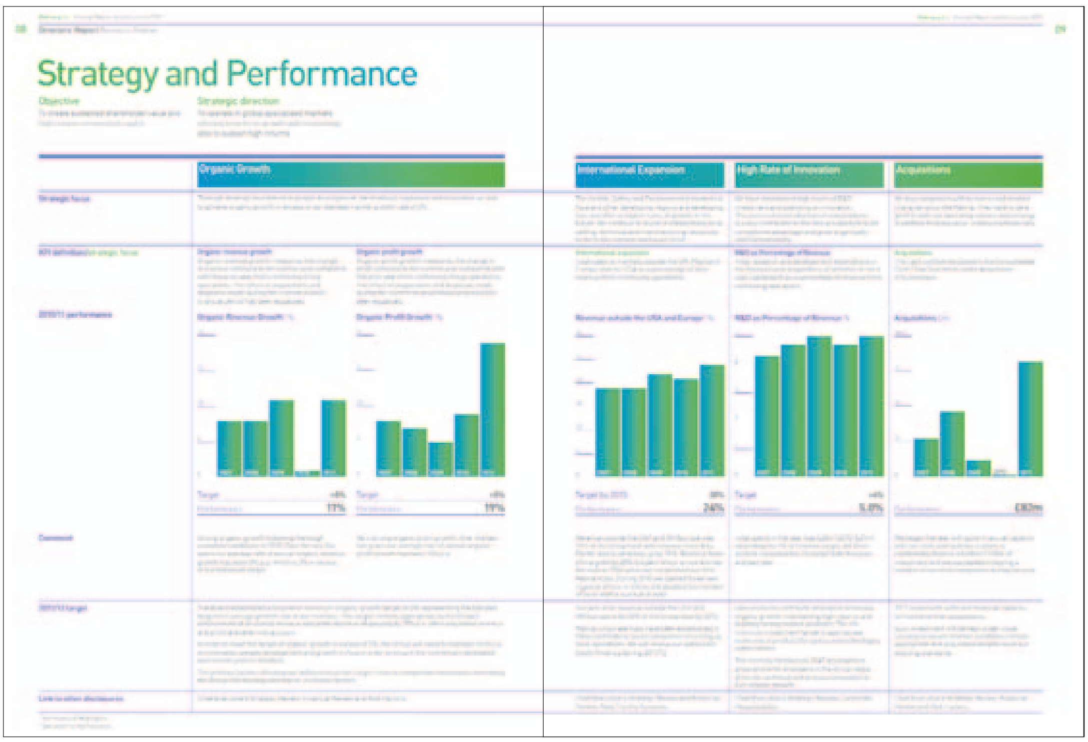
... 59% of companies surveyed gave a link between the KPIs chosen and the directors' strategies and objectives ...

Halma p.l.c, Cobham plc and National Grid plc provide examples of good practice in the disclosure of key performance indicators.

Halma p.l.c, Cobham plc and National Grid plc provide examples of good practice in the disclosure of key performance indicators. These companies provide a clear link between the chosen KPI and strategy plus comparative information and targets.

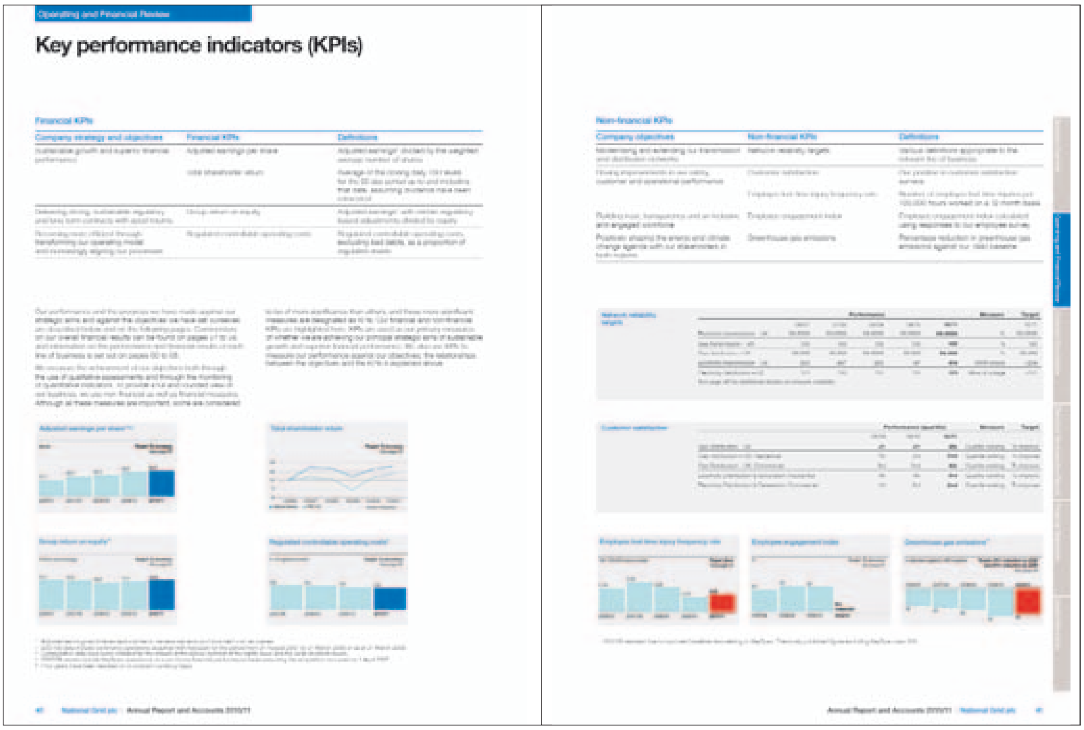
Figure 25. How much analysis and explanation is given alongside the KPIs identified?





Halma p.l.c Annual Report and Accounts 2011

Cobham plc Annual Report and Accounts 2010



National Grid plc Annual Report and Accounts 2010/11

9. Corporate governance – Compliance*

- 44% (2010: 35%) of companies complied fully with the provisions of the Combined Code, now the UK Corporate Governance Code.
- 38% of the top 350 companies are already using an external facilitator for board performance evaluation.
- 71% (2010: 6%) of the top 350 companies undertook annual re-election of all directors.

Statement of compliance

Listing Rule 9.8.6R requires that UK listed companies make a statement as to whether or not they have complied with the provisions set out in Section 1 of the Code. All of the companies surveyed (2010: 99%) included a compliance statement.

Figure 26. How well are companies complying with the Code?

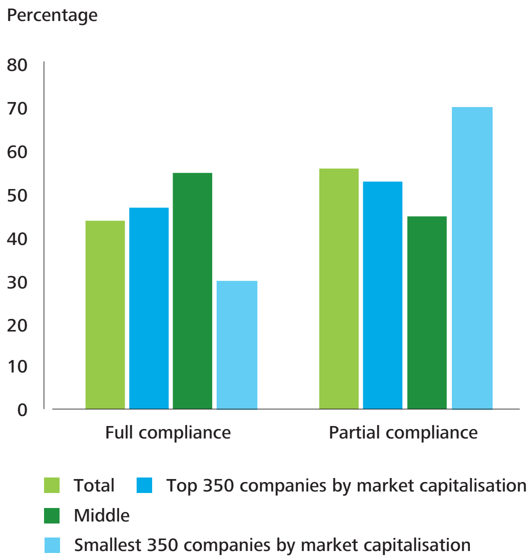
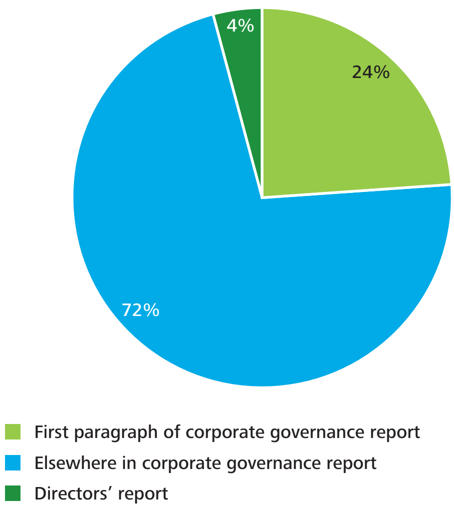


Figure 26 shows how companies were complying with the Code in each of the three groups by market capitalisation. 44% (2010: 35%) of companies complied in full with all the provisions and 56% (2010: 65%) partially complied. 47% (2010: 47%) of the top 350 companies applied all provisions of the Code compared to 55% (2010: 45%) of the mid tier companies and 30% (2010: 15%) of the smallest 350 companies.

Figure 27. Where is the statement of compliance positioned?



For the 53% (2010: 53%) of the top 350 companies who reported partial compliance with the Code, 39% (2010: 61%) stated that they did not comply with Code provision A.3.2 which requires that at least half the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent.

The only other recurring non-compliance among the top 350 companies was in relation to Code provision C.3.1 (the constitution of the audit committee) (17%).

* This section analyses the findings for all companies other than investment trusts

Amongst the 15 companies from the middle tier reporting partial compliance, the most common areas of non-compliance were as follows:

Code provision	Percentage of mid-tier companies reporting non-compliance
A.2.1 (combined chairman/chief executive)	27%
B.2.1 (constitution of the remuneration committee)	27%
C.3.1 (constitution of the audit committee)	27%
A.3.2 (less than half the board independent)	20%
A.6.1 (performance evaluation)	20%

Figure 28 shows the most popular non-compliances for the smallest 350 companies which have reported partial compliance. Amongst the smaller companies the size of the company was the most common reason cited for not complying with specific provisions.

The strength of the "comply or explain" approach to corporate governance lies in the quality of explanations provided where companies have taken the decision not to comply with aspects of the Code. Those companies reporting non-compliances were reviewed to determine if the "explanation" provided was a fulsome explanation or merely a statement of fact, e.g. "at least half of the board is not comprised of independent non-executives". The results were positive. Out of the 56 companies reporting partial compliance with the Code, 91% were judged to have provided a fulsome explanation and justification. Just four of the 56 companies reported that they had discussed the non-compliance(s) with shareholders.

Figure 28. What are the most common non-compliances for the smallest 350 companies?

Out of the 56 companies reporting partial compliance with the Code, 91% were judged to have provided a fulsome explanation and justification. Just four of the 56 companies reported that they had discussed the non-compliance(s) with shareholders.

Board composition and decision making

Code provision A.2.1 requires that the role of the chairman and chief executive should be clearly defined. The chairman has responsibility for leadership of the board and the chief executive is responsible for the day-to-day running of the business. The expectation is that the majority of the FTSE 350 companies will have separate people taking up these positions. There were 9% (2010: 13%) of companies where the roles of the chief executive and the chairman were performed by the same person. This comprised one (2010: two) company in the top 350 companies, one (2010: three) in the middle group and seven (2010: eight) within the smallest 350 companies. Only seven (2010: eight) of these nine companies provided reasons why this was the case. Two examples are provided below.

Throughout the year ended 2 April 2011, the Company complied with all provisions of the 2008 Code with the exception that for part of the year, the role of Chairman and Chief Executive was exercised by the same individual, Sir Stuart Rose. Stuart stepped down as Executive Chairman on 31 July 2010 but remained as Chairman until the appointment of Robert Swannell as Non-Executive Chairman on 4 January 2011. We recognise that Stuart's role as Chairman and Chief Executive was out of line with best practice as were his independence criteria on appointment as Chairman. We understand the concerns that shareholders had, but maintain that robust governance structures were in place, while benefiting from retaining Stuart at the helm. With the separation of the roles of Chairman and Chief Executive we have now returned to best practice.

Marks and Spencers Group plc Annual report and financial statements 2011

On 14 September 2009 John Tutte was appointed Group Managing Director and as a result there is a clear division of responsibilities at the head of the Company between the running of the Board and the operational responsibility for the running of the Company's business as required by the Code. In addition as Steve Morgan is Executive Chairman, a Non-Executive Deputy Chairman and Senior Independent Director, was appointed so strengthening the independence of the Board. The Board had previously consulted with leading shareholders and obtained their support for this structure which allowed Steve Morgan to bring his extensive knowledge and experience of the UK housebuilding industry to Redrow and ensure sufficient continuity of the Board and its practices to serve the interests of all shareholders.

Redrow plc Annual Report & Accounts 2010

Nomination committee

95% (2010: 94%) of the companies which had prepared a corporate governance statement had a nomination committee. The other 5% of companies without a nomination committee comprised one company from the middle group and four companies from the smallest 350 companies. Of those companies which had a nomination committee 98% (2010: 99%) described the work of that committee in accordance with provision A.4.6 of the Code. In a slight decrease from last year, 70% (2010: 74%) of those companies with a nomination committee included the terms of the nomination committee by reference to the company's website.

Performance evaluation

The Code requires a statement of how performance evaluation was conducted for the board, its committees and individual directors. 96% of companies (2010: 92%) made such a statement describing how the performance evaluation process was conducted. TT electronics plc provided a comprehensive overview of its board, committee and directors' performance evaluation process.

Board and Committee performance evaluation

In accordance with the Code, the Board conducted an evaluation of its performance and that of its principal Committees.

The Board performance evaluation programme was led by the Chairman and each Director completed a questionnaire which they used to score and comment on a number of performance criteria. These individual responses were then compiled into a single report by the Group Company Secretary and this was circulated to the Board for discussion and detailed review. It was concluded that the Board was performing satisfactorily, noting in particular that:

- Board engagement had improved as a result of increased contact with the Divisional Chief Executives, together with visits to operational facilities;
- the transition to a new Chairman had been successfully effected; and
- the appointment of a new independent non-executive Director with extensive experience in engineering and production worldwide had resulted in a more well balanced Board with a complementary mix of skills and experience.

The evaluation process employed by each of the principal Committees is detailed in their respective reports on pages 53 to 60.

Directors' performance evaluation

In accordance with the Code, the performance of individual Directors was also evaluated.

Each of the non-executive Directors completed a self assessment questionnaire which required them to score their own performance against a number of criteria. The Chairman then held private discussions with each non-executive Director and this provided an opportunity to discuss any issues which had arisen in respect of either their individual assessments or those of the Board and its principal Committees. In respect of the Chairman's performance, the other non-executive Directors together with the Group Chief Executive met privately to discuss this, with the outcomes from these discussions being fed back to the Chairman by the senior independent non-executive Director for discussion and action as appropriate.

At the beginning of the year, each executive Director was set challenging performance objectives, progress against which was then reviewed as the year progressed. All the executive Directors take part in the Group's performance management programme under which they each receive detailed feedback from their colleagues which, together with a review of progress against agreed goals and objectives, is used to assess performance and to set clear objectives and developmental plans for the following year which are closely aligned with the Group's strategic priorities and values. The Group Chief Executive met with each of the other two executive Directors to confidentially discuss and review their performance against objectives whilst the performance evaluation of the Group Chief Executive was conducted by the Chairman.

TT electronics plc Annual Report 2010

As described in Section 2, the new UK Corporate Governance Code (applicable for periods commencing on or after 29 June 2010) requires that the performance evaluation process of FTSE 350 companies be externally facilitated at least once every three years. With that in mind, those companies in this year's sample have been surveyed to determine how many were already using external facilitators. 38% (2010: 26%) of the top 350 companies were using external facilitators and, unsurprisingly, none of the companies outside the FTSE 350 made reference to the use of an external facilitator.

Risk committees

In the previous two surveys, further to recommendations in the Walker Review on the governance of financial institutions, the survey companies were reviewed to see if they had a separate risk committee. In 2011, seven of the top 350 companies surveyed disclosed that they had a separate risk committee and some also provided details on the availability of the terms of reference, the names of the members of the committee and the number of meetings. The seven companies with a separate risk committee included three banks, with the other four companies being non-financial companies. In 2010, there were nine companies in the top 350 companies which had a separate risk committee and three of these were banks. Interestingly, one of the middle group of companies had a separate risk committee in both years. This company was a non-financial company.

Looking ahead

As described in Section 2, the new UK Corporate Governance Code was issued in May 2010. In addition to the new provision on performance evaluation discussed above, there are a number of other new provisions which have been examined to determine levels of existing practice.

The first of these relates to the diversity of the board. The supporting principle B.2 states that:

"The search for board candidates should be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the board, including gender."

The companies have been reviewed to determine the gender composition of the board. Figures 29 and 30 below show the percentage of companies with female executive and non-executive directors in 2010 and 2011. In the top 350 companies, 9% (2010: 6%) of companies have greater than one female executive director and 24% (2010: 15%) of companies have greater than one female non-executive director.

Figure 29. How many companies have female executive directors?

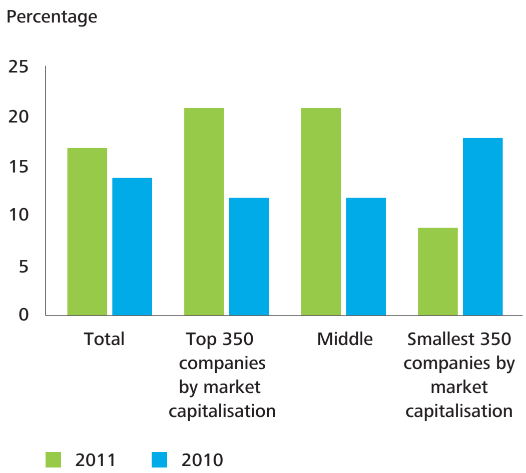
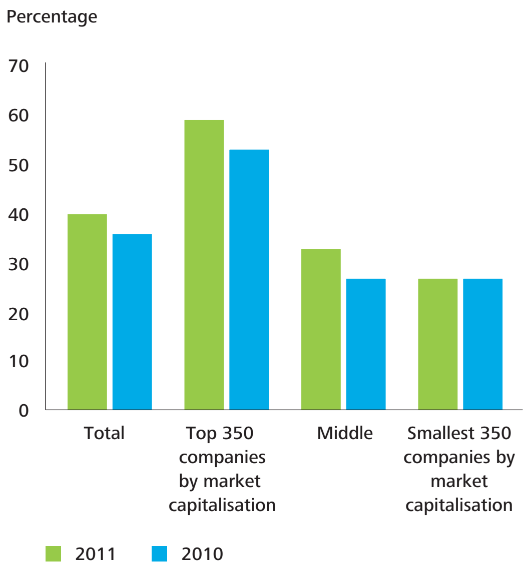


Figure 30. How many companies have female non-executive directors?



In addition to this new provision in the Code, the Equality Act 2010 provides a new cross-cutting legislative framework to protect the rights of individuals and to advance equality of opportunity for all. A number of provisions came into force with effect from 1 October 2010 and there are some provisions that the Government is still considering how best to implement. One of these strands for further consideration relates to the publication of gender pay gap information. The companies were surveyed to determine if any companies were already voluntarily providing any information on gender pay gap, but no reference to this could be found in any of the companies surveyed.

Another provision in the new Code relates to the annual re-election of directors. Provision B.7.1 states:

"All directors of FTSE 350 companies should be subject to annual election by shareholders."

The re-election policies of the FTSE 350 companies in the survey were examined. In a huge increase on last year, 71% (2010: 6%) of the top 350 companies undertook annual re-election of all directors. An example of annual re-election policy disclosure is as follows:

election and re-election of directors

The Company's articles of association state, in accordance with the Code, that any director appointed to the board since the date of the last AGM should be proposed for election at the first AGM after their appointment. Thereafter a director must be proposed for re-election at the third AGM following the AGM at which the director was last elected or re-elected. To promote good governance and in accordance with the New Code, the board has recommended that all directors should submit themselves for re-election on an annual basis. Following a rigorous evaluation of the performance of each director and on the recommendation of the nomination committee the board is proposing that all directors stand for re-election at the AGM 2011.

Graham Chipchase is being recommended for re-election as the board believes his leadership and insight into the Group and its markets will help to grow Rexam and create shareholder value. David Robbie is being recommended for re-election as the board believes his strong financial and corporate finance experience and his financial and strategic skills are important to the board and to the maintenance of tight financial controls. The chairman and all non executive directors are being recommended for re-election as they remain independent, and continue to be effective and demonstrate their commitment to the board. A biography of each member of the board can be found on pages 52 and 53.

Rexam annual report 2010

Six companies (2010: one) outside of the FTSE 350 were also found to have annual re-election of all directors.

A key new disclosure recommendation in the UK Corporate Governance Code is included in the preface to the Code. The preface states that:

"Chairmen are encouraged to report personally in their annual statements how the principles relating to the role and effectiveness of the board (in Sections A and B of the new Code) have been applied."

... the Equality Act 2010 provides a new cross-cutting legislative framework to protect the rights of individuals and to advance equality of opportunity for all.

The companies in the survey were reviewed to determine if the chairman's statement included reference to how the Code had been applied. 29% (2010: 12%) of the chairmen of the top 350 companies included a statement on application of the Code in their annual statements. Over half of the two page chairman's statement in the Marks and Spencer plc report talked about governance and the board:


Chairman's statement

"Marks & Spencer is a very special company and I feel privileged to be its Chairman at such an exciting time."

6.2p

10.8p

17.0p

Performance

Dividend

Governance

How we're governed

The Board

Looking ahead

Marks and Spencer Group plc Annual report and financial statements 2011

Another approach which was noted was for the chairman to make a statement as part of the company's corporate governance statement. An example of this was in the Halma p.l.c annual report for 2010.

Discussion of the other new disclosure requirement from the UK Corporate Governance Code regarding the business model can be found in section 6. It was interesting to note that 57% of companies surveyed made reference to the new UK Corporate Governance Code and its forthcoming implementation. Three companies (two from the top 350 companies and one from the middle group) stated that they were compliant with the UK Corporate Governance Code in addition to providing a statement of compliance with the Combined Code.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Corporate Governance

Board committees

Board performance

Succession planning

Shareholder communication

Board appointments

Halma p.l.c Annual Report & Accounts 2011

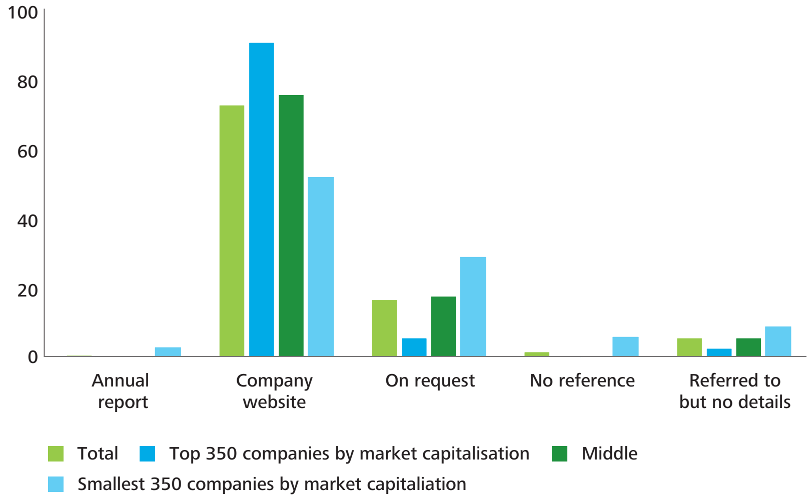
10. Corporate governance – Audit committees*

- 98% (2010: 99%) of relevant companies described the work of the audit committee within their annual report.

- 47% of companies included reference to the audit committee's consideration of key accounting assumptions, estimates, forecasts and judgements.

- 33% (2010: 27%) of companies sought to explain their auditor selection decision.

Figure 31. Where are the audit committee terms of reference?



The Code requires a separate section of the annual report to describe the work of the audit committee in discharging its responsibilities (provision C.3.3). In 2011 two companies (2010: one) failed to describe the work of the audit committee. These companies were from the middle tier and had made a decision that the board would assume the responsibilities of the audit committee. While the Code refers to a 'separate section' of the annual report, a subsection within a larger corporate governance statement is generally considered acceptable and this is how the vast majority of companies (84% (2010: 87%)) presented information on their audit committees. 14 companies presented a stand-alone audit committee report and ten of these had been signed off by the audit committee chairman. In a further four companies, the audit committee chairman had signed off the audit committee section within the corporate governance statement.

The Code requires that the terms of reference of the audit committee, including its role and the authority delegated to it by the board, should be made available. Companies can meet this provision by including the information in the annual report or by making the information available on request or placing it on the company's website. 89% (2010: 83%) of companies referred the reader to the company website or stated that the terms of reference are available on request.

The FRC's Guidance on audit committees recommends that the section describing the work of the audit committee should include the following:

- a summary of the role of the audit committee;

- the names and qualifications of the members of the audit committee during the period;

- the number of audit committee meetings; and

- a report on the way in which the audit committee has discharged its responsibilities.

99% (2010: 98%) of the companies which included an audit committee section in their annual report provided information on the role of the audit committee and all except four companies from the smallest 350 group indicated the number of meetings held during the period.

* This section analyses the findings for all companies other than investment trusts

The Guidance on audit committees lists for inclusion in the report the following activities on the way in which an audit committee discharges its responsibilities.

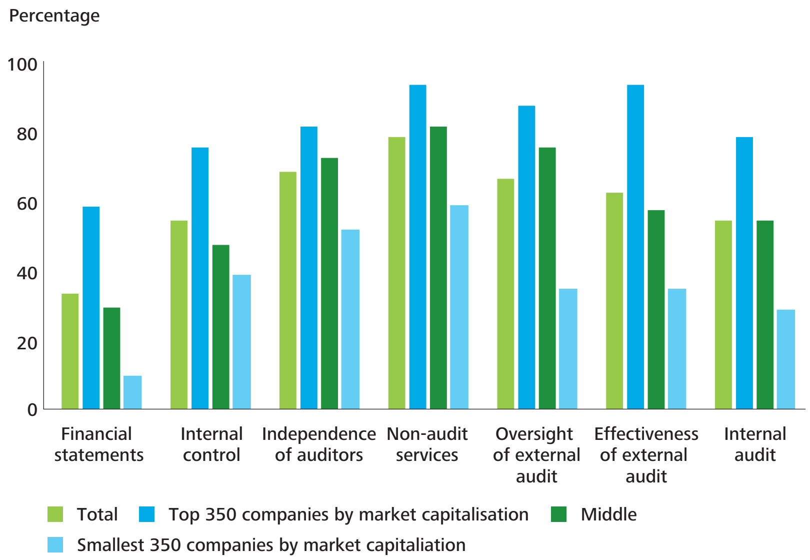
- the activities carried out to monitor the integrity of the financial statements;
- the activities carried out to monitor the integrity of the internal financial controls and risk management systems;
- the procedures adopted to review the independence of the external auditors, including disclosure of the policy on the provision of non-audit services and an explanation on how the policy protects auditor independence;
- oversight of the external audit process and confirmation that an assessment of the effectiveness of the external audit has been made; and
- review of the plans and work of the internal audit department.

Although the detailed guidance above is not mandatory, it is an indication of best practice. Figure 32 indicates whether the companies included in the survey provided this information within their audit committee report. The results were mixed. To achieve a positive result for each category in this section a company had to describe the activities undertaken to fulfil responsibilities. It was not sufficient simply to repeat the responsibilities, the emphasis being on the 'how' as opposed to the 'what'. Perhaps not surprisingly the largest companies provided the most information and the smallest companies disclosed the least. Probably as a direct result of the increasing focus on the external audit relationship, the majority of companies provided some information about auditor independence, non-audit services and the effectiveness of the external auditors.

By contrast, less than half of companies disclosed the activities undertaken to monitor the integrity of the financial statements. This is interesting as recent debates on the future role of auditors and the audit committee have highlighted the desire, amongst the investor community, for more transparency of the key issues being considered by the audit committee and the auditors. A number of companies have already included discussion of such issues in their audit committee report.

Almost half of the companies surveyed (47%) had included reference to the audit committee's consideration of key accounting assumptions, estimates, forecasts and judgements as part of the committee's responsibilities and activities. 56% of the top 350 companies made reference to this area, 58% of the middle group and just 27% of the smallest group. Only five companies were judged to have provided insightful commentary on the issues which had concerned the audit committee during the year, as opposed to focusing on the processes in place. The audit committee reports of Barclays plc and Pearson plc are good examples of such practice. These reports are included in full at the end of this section.

Figure 32. Which audit committee activities are disclosed in the annual report?



In compliance with the Code (provision C.3.5), 24% (2010: 36%) of companies in the survey stated explicitly that they did not have an internal audit function together with an explanation of why this was the case. The external auditors provided non-audit services in 96% (2010: 95%) of companies surveyed. Where this is the case, provision C.3.7 of the Code requires an explanation of how auditor objectivity and independence are safeguarded. 91% (2010: 87%) of companies for whom it was applicable gave a more detailed explanation of how auditor independence was protected in these circumstances.

The auditor selection decision

As noted in Section 2, the revised Guidance on audit committees issued in October 2008 includes a recommendation that the audit committee should explain to shareholders in the audit committee report how it reached its recommendation to the board on the appointment, re-appointment or removal of the external auditors. There has been an increase in levels of disclosure here but compliance rates are still not high. 33% (2010: 27%) of all companies had attempted to explain their auditor selection decision, including 56% (2010: 41%) of the largest companies.

The revised guidance also recommends that the audit committee should consider disclosing any contractual obligations that acted to restrict the audit committee's choice of external auditor. 18 (2010: 14) companies in the sample made reference to any contractual obligations and that was to confirm that there were none.

19% (2010: 12%) of the companies reviewed had provided details of tendering frequency and 24% (2010: 20%) on the tenure of the incumbent auditor. National Grid plc included disclosures on these areas in its annual report:

> Following the latest annual review, the Committee is satisfied with the effectiveness, objectivity and independence of the external auditors, who have been engaged since the merger with Lattice Group plc in 2002, and they will be recommended to shareholders for reappointment at the AGM. There are no contractual obligations restricting the Company's choice of external auditors and no auditor liability agreement has been entered into by the Company. The external auditors are required to rotate the audit partner responsible for the Company every five years and a new partner was appointed during the year.
>
> In addition to the annual review of the service provided by the external auditors, the Committee considers formally at least every three years whether the audit might be provided more efficiently or effectively by an alternative audit firm. However, the Company may put the audit out to tender at any time.

National Grid plc Annual Report and Accounts 2010/11

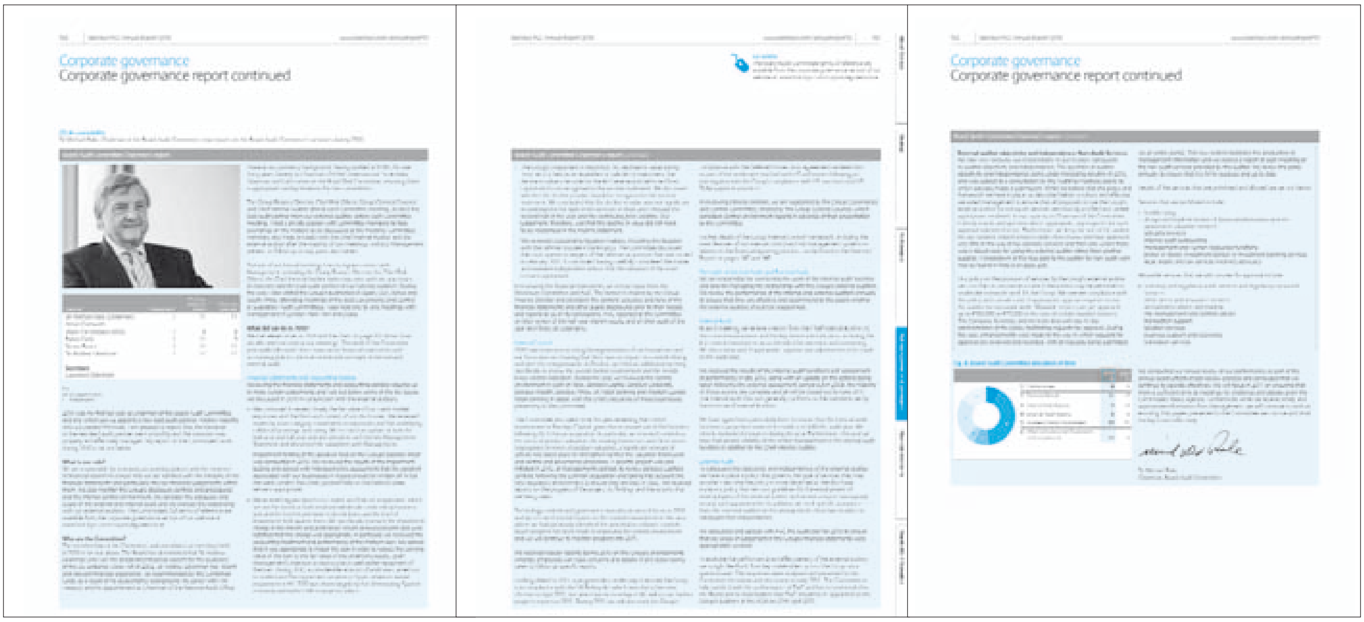
Board chairmen and the audit committee

The 2008 Code (Provision C.3.1) allows the chairman of a smaller listed company (outside the FTSE 350) to be a member of the audit committee where he or she was considered independent on appointment. 24% (2010: 33%) of the middle group of companies and in 48% (2010: 55%) of the smallest 350 companies had the chairman as a member of the audit committee. In addition one of the top 350 companies (2010: two) had the chairman as a member of their audit committee.

33% (2010: 27%) of all companies had attempted to explain their auditor selection decision, including 56% (2010: 41%) of the largest companies.

Setting the standard

The following audit committee reports have been included as examples of leading practice.



Barclays PLC Annual Report 2010

Pearson plc Annual report and accounts 2010

11. Corporate governance – Going concern*

- 76% of companies clearly adopted the 2009 FRC guidance.
- The average length of the going concern statement has increased to 175 words.
- 71% of companies provided a cross reference from the going concern statement to other key areas such as areas of judgement, risks or liquidity.
- 18 (2010: 49) companies referred to an uncertainty within their expanded going concern statement.
- Six auditors' reports contained an emphasis of matter paragraph (2010: five), of these three related to going concern (2010: four).

As stated in section 2, the Listing Rules and the Code require a statement by the directors that the business is a going concern, together with supporting assumptions or qualifications as necessary. This requirement should be prepared in accordance with the "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009" published by the FRC in October 2009. This guidance is effective for accounting periods ending on or after 31 December 2009.

The guidance focuses on three key principles:

- assessing going concern;
- considering the review period; and
- making balanced, proportionate and clear disclosures about going concern for the financial statements to give a true and fair view, making specific disclosures on whether this is less than twelve months from the date of approval of the financial statements.

Adoption of the FRC guidance

The number of companies clearly adopting the FRC guidance has risen to 76% (2010: 63%). Of the 24% (2010: 37%) which did not clearly adopt the guidance, 15% were in the smallest 350 companies, 6% in the middle group and 3% in the top 350.

Location of statement

The 2009 guidance states that addressing the disclosure requirements on going concern included in the accounting standards, CA 2006 and the Listing Rules may lead a company to cover going concern and liquidity risk in different sections of its annual report and financial statements. This may create difficulties for investors and other stakeholders in seeking to obtain a clear, comprehensive and cohesive understanding of the issues facing the company.

The guidance suggests that it would be helpful to investors and other stakeholders if all of the disclosures were brought together in a single place in the company's financial statements. It may be necessary to provide a cross reference to that single place from other parts of the annual report. If it is not practicable to provide all of the information in a single place, it is still helpful if the key disclosures are brought together by way of a note that includes appropriate cross references to information in the financial statements and from the financial statements to information included elsewhere in the annual report.

All companies included at least a basic statement on going concern. Figure 33 shows where the statement was positioned. 46% (2010: 50%) of companies included the statement within the directors' report, this being the most common place for the top and middle sized groups with 35% (2010: 44%) and 58% (2010: 64%) of them doing so respectively. For 34% (2010: 34%) of all companies the statement was situated within the corporate governance statement. 45% of companies in the smallest category included the going concern statement in the directors report and 45% included it in the corporate governance statement.

* This section analyses the findings for all companies other than investment trusts

17% (2010: 11%) of companies placed the going concern statement within the standalone business review which was referenced from the directors' report. 3% of companies positioned the statement elsewhere. Of these, two positioned it in the statement of directors' responsibilities and the other company included it within the notes to the financial statements.

Length of statement

Across all companies, the average length of the main statement on going concern was 175 words (2010: 156 words), representing an increase on the prior year. Figure 34 shows that there has been an increase in length in all the three sub categories of the survey. The longest statement was 609 (2010: 562) words and the shortest only 29 (2010: 30).

The additional information, recommended by the guidance, allows users of the annual report to have a more rounded understanding of the company's position and its ability to continue in the near future. In a climate of significant uncertainty, clear disclosure and discussion around the directors' assumption that the company is a going concern is undoubtedly of utmost importance.

Across all companies, the average length of the main statement on going concern was 175 words (2010: 156 words).

Figure 33. Where is the going concern statement positioned?

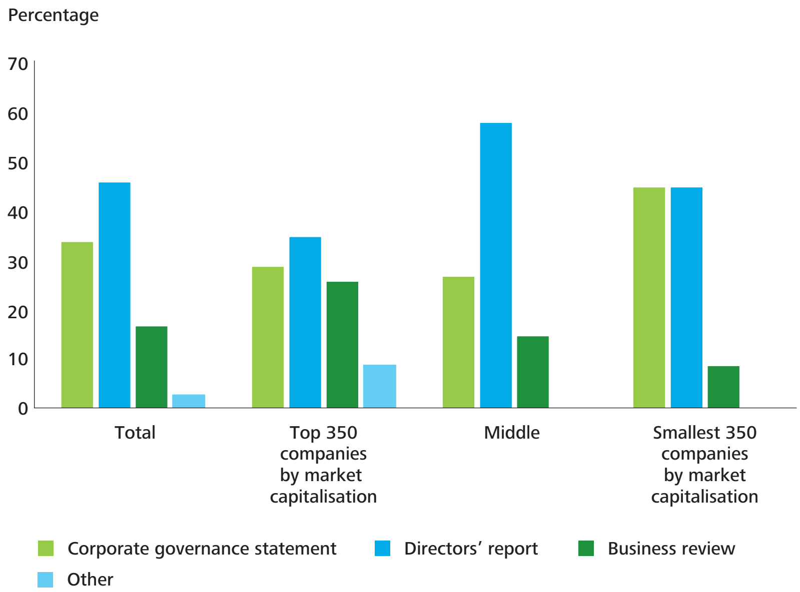
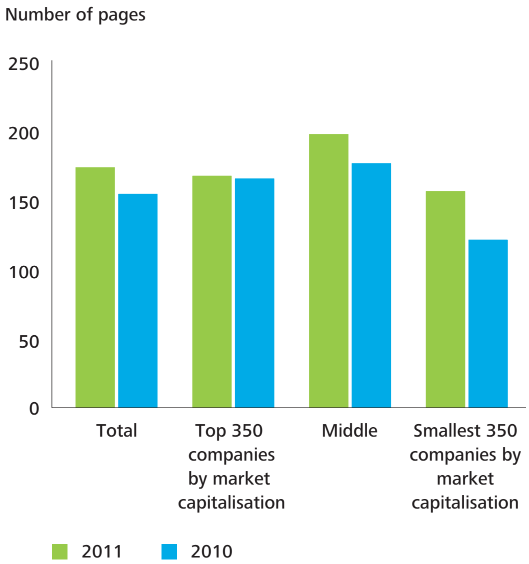


Figure 34. What is the average length of the going concern statement?



An example of a company providing appropriate information in a clear and concise manner, was Fidessa group plc.

> **Going concern**
> The Group's business activities and position in its market are described in the Overview and Market Review. The financial position of the Group, its cash flows and liquidity position are described in the Finance Review. In addition, the notes to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposures to credit and liquidity risk. Having reviewed the future plans and projections for the business and its current financial position, the directors believe that the Group is well placed to manage its business risks successfully despite the ongoing economic uncertainties. The Group has considerable financial resources, no borrowings, a high level of recurring revenue and a very broad spread of customers. As a consequence of these factors and having reviewed the forecasts for the coming year, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. For this reason, it continues to adopt the going concern basis of accounting in preparing the annual financial statements.

Fidessa group plc Annual Report and Accounts 2010

Cross-referencing

A further indication of improvement in the quality of going concern disclosures is the rise to 71% (2010: 59%) of companies that either cross-referred to related discussion such as principal risks and uncertainties, liquidity and key judgements, or included or repeated relevant sections of narrative, within the going concern statement. Of these, 30% (2010: 25%) were in the top 350 companies, 25% (2010: 22%) in the middle group and 16% (2010: 12%) in the smallest 350.

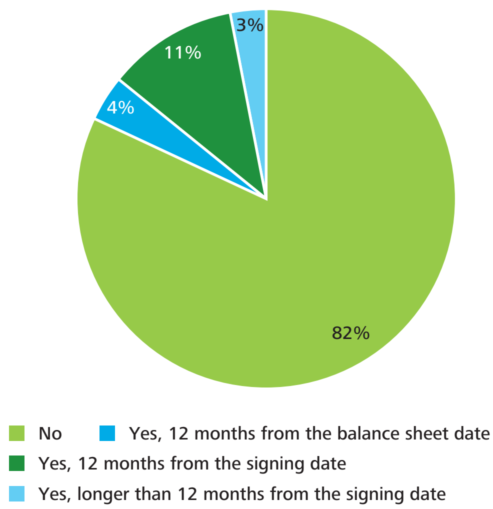
Cross-referencing is deemed to be a positive attribute of the going concern statement as it brings together all related information into one clear location. This enables the user of the report to have a clearer understanding of issues affecting the going concern assessment.

Length of forecasts

Standard UK practice, as confirmed under FRS 18 and auditing standards, is to prepare budgets and forecasts to cover as a minimum a period of 12 months from the date of approval. Medium or long term plans are also considered as they give an indication in general terms of how the directors expect the company to fare. The guidance states that directors should prepare budgets or forecasts covering the period up to twelve months from the date of approval of their financial statements or for a longer period.

Despite the positive improvements noted above, this is still an area for improvement by companies. The survey found a slight improvement in that 18% (2010: 13%) of all companies disclosed the period of forecasts or budgets relied on to support the going concern assumption, as shown by the graph below.

Figure 35. Are the period of forecasts or budgets disclosed?



Of the 18% of companies who disclosed the length of forecasts, 3% confirmed that they were longer than 12 months from the date of approval (2010: 3%). A further 11% (2010: 6%) confirmed that forecasts covered the 12 month period from the date of approval. Four (2010: four) companies indicated that forecasts covered only 12 months from the balance sheet date.

Going concern

At 31 December 2010, the Group had cash of $5.9 million and borrowings of $3.0 million. The Directors have made an assessment of the risks and uncertainties in the business, as disclosed in this Annual Report and Accounts, have reviewed the 2011 budgets and projections for 2012 and considered the projected effect on the Group's cash resources, taking into account the revision to the means of settlement of the BioSeek contingent consideration (see note 27 to the financial statements). Following this review, the Directors have a reasonable expectation that the Group has adequate cash resources to fund the requirements of the business for at least the next 12 months and have therefore adopted the going concern basis in preparing the financial statements for the year ended 31 December 2010.

Asterand plc Annual Report and Accounts 2010

As well as reviewing disclosure of length of budgets and forecasts used in companies going concern assessments, our survey also looked at companies that had specifically referred to the period over which going concern had been considered. 28 companies clearly made an explicit statement that going concern had been considered for a period of at least 12 months from the date of approval of the annual report. One company clearly stated that it had not considered going concern for a period of 12 months and gave justification for this. (This company had an emphasis of matter paragraph in its audit report, related to a going concern issue.) The remaining companies gave no explanation as to the period under consideration.

Identifying uncertainties

18 (2010: 49) companies referred to an uncertainty within their expanded going concern statement. Of these, six (2010: 17) were from the top 350 companies, seven (2010: 19) from the middle group and the remaining five (2010: 13) from the smallest 350 companies.

Of the companies reporting uncertainties, nine companies mentioned concerns about trading volumes, five were worried about financing or shareholder support and four referred to a breach or potential breach of covenants. 15 of these companies mentioned other concerns, typically by way of cross reference to the principal risks and uncertainties, but some also mentioned currency risks and uncertain economic outlook. As there could be multiple uncertainties facing companies, they often cited a combination of a number of the above factors in their going concern statements.

This year one company in the largest group noted uncertainty over a breach or a potential breach of covenants (2010: no companies). 2% of companies (2010: 21%) of the middle group and 1% of (2010: 23%) of the smallest companies identified this as an area of concern. The sharp fall is presumably a reflection of improving relationships between companies and their finances.

Consistent reporting

The annual report should tell a cohesive story with the narrative reporting sections and the financial section giving a consistent presentation of the company's financial position and results. The going concern statements were therefore considered for consistency with disclosure in the financial statements, the auditors' report and the narrative reporting as a whole. All going concern statements were deemed to be consistent with specific disclosures in the financial statements, the auditors' report and narrative reporting.

The annual report should tell a cohesive story with the narrative reporting sections and the financial section giving a consistent presentation of the company's financial position and results.

In March 2011, the FRC announced that it had established a panel to carry out an enquiry to identify lessons for companies and auditors addressing going concern and liquidity risks.

Auditors' reports

In this year's survey, six companies had an emphasis of matter paragraph in their audit reports. In the prior year, five companies had an emphasis of matter paragraph. For three of the companies, these paragraphs related specifically to the group's ability to continue as a going concern (2010: four companies). The other three companies' emphasis of matter paragraphs related to other uncertainties, including valuation of intangibles, litigation and tax disputes. In 2009 there were nine audit reports with an emphasis of matter paragraph of which seven related to going concern. This reflects a continuing downward trend.

Recent developments

Going concern disclosures continue to be a key part of the content of the annual report. The FRC report entitled "Cutting Clutter: Combating clutter in annual reports", published in April 2011 makes no mention of reducing any of the current going concern disclosures. The July 2011 report by a joint working party carried out by the Institute of Chartered Accountants of Scotland (ICAS) and the New Zealand Institute of Chartered Accountants (NZICA) on reducing IFRS disclosure requirements concluded that there should be no changes to IAS 1 requirements regarding going concern as it was considered to be a fundamental area.

In March 2011, the FRC announced that it had established a panel to carry out an enquiry to identify lessons for companies and auditors addressing going concern and liquidity risks. The panel of inquiry would examine amongst other things:

- Companies assessment of adequacy, timeliness and reliability of information that is used to monitor going concern and liquidity risks;
- How the board and audit committee approach going concern and liquidity risks; and
- Whether the existing reporting regime and guidance should be further developed.

Initial conclusions are expected in autumn 2011 with final recommendations by the end of the year.

12. Primary statements*

- 99% (2010: 99%) of companies complied with at least the minimum disclosure requirements for the face of the income statement.
- 61% (2010: 58%) of companies presented additional non-GAAP performance measures on the face of the income statement.
- Only 17% of companies surveyed presented a combined income statement and statement of other comprehensive income.
- 94% (2010: 93%) of companies presented an operating profit line on the face of the income statement.
- 23% (2010: 30%) of companies had discontinued operations.
- 99% (2010: 100%), companies used the indirect method to present the cash flow statement.
- The length of balance sheets varied from 17 to 50 lines, with an average length of 32 lines.
- 7% presented a third balance sheet, as required by the revised IAS 1 in certain circumstances.

Income statement

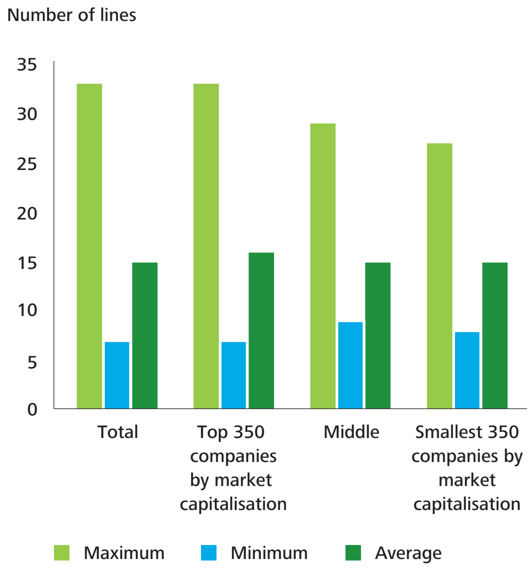
IAS 1 requires separate disclosure on the face of the income statement of, amongst others things, revenue, finance costs, tax expense and profit or loss.

Consistent with the 2010 survey, all but one company sampled complied with the presentation requirements of IAS 1. The non-compliant company had disclosed its finance costs net of finance income. This presentation is popular with companies reporting under UK GAAP but has been rejected by IFRIC (IFRS Interpretations Committee) as an acceptable option under IFRS.

IAS 1 allows presentation of a combined income statement and statement of other comprehensive income. Only 17% of the companies surveyed adopted this option, one from the top 350 category and eight for each of the middle and smallest 350 categories. The remaining entities reported separately the income statement and statement of other comprehensive income.

The length of the income statement, measured in number of lines from the top to profit after tax, ranged from seven to 33 lines (2010: seven to 42 lines). The average number of lines was 15, slightly lower than 16 last year. 11 to 15 lines continues to be the most popular range of lines presented on the income statement, adopted by 51 companies (2010: 48 companies). Figure 36 illustrates how this varied according to size of company.

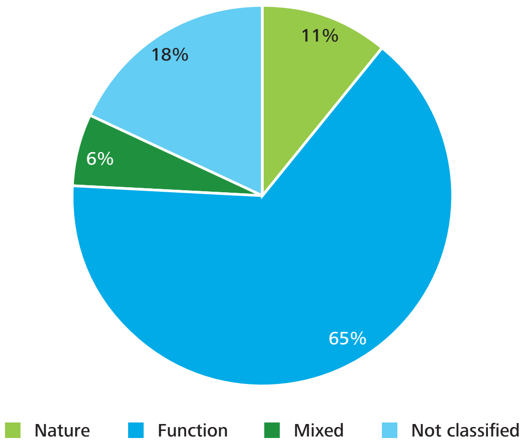
Figure 36. How many lines, from the top to profit after tax, are in the income statement?



* This section analyses the findings for all companies other than investment trusts

There is no specific requirement regarding the classification of operating expenditure on the face of the income statement. IAS 1 recognises that showing expenses by either function or nature has benefits for different companies. Figure 37 shows how operating expenses were presented on the face of the income statement.

Figure 37. How are operating expenses presented on the face of the income statement?



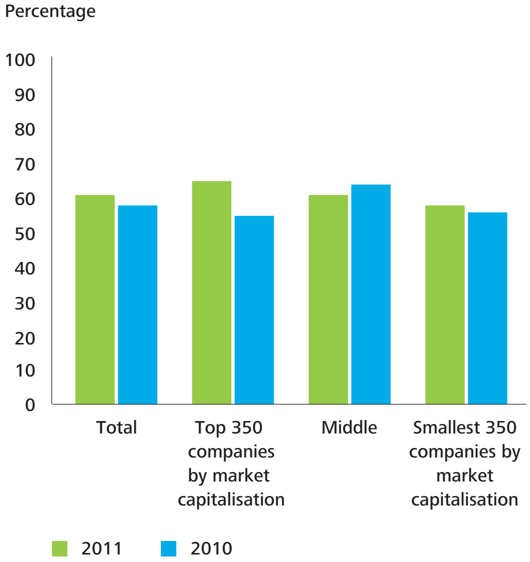
The majority (65%) of companies surveyed presented their expenses by function, for example as part of cost of sales or administrative costs. Where costs are presented by function there is a further requirement within IAS 1 to disclose additional information on the nature of the expenses, including depreciation, amortisation and employee benefits expense. This requirement was met by all companies surveyed.

There is considerable variety in the presentation of the income statement as companies present their results in a manner that is most appropriate to their business. However, this variety reduces the users' ability to compare easily one company to another.

Additional non-GAAP measures

Of the total companies surveyed, 61% went beyond the IAS 1 requirements and presented additional non-GAAP performance measures on the face of the income statement, a slight increase from the prior year (2010: 58%). In the current year, 65%, 61% and 58% of the top, middle and smallest 350 categories used non-GAAP performance measures compared to 55%, 64% and 56%, respectively in 2010.

Figure 38. What percentage of companies are presenting non-GAAP measures?



This use of additional measures is permitted under IAS 1 which encourages such items to be presented when this is relevant to an understanding of a company's financial performance. However, of the companies that presented additional non-GAAP information, 7% of companies did not define their non-GAAP measures, thus, raising difficulties in fully understanding why these measures were being used. On the other hand, this is an improvement from the previous year in which 16% of relevant companies did not provide a definition.

The items most commonly excluded in non-GAAP performance measures are detailed in Figure 39. Amortisation of intangibles was excluded from performance measures by 66% of relevant companies, a significant increase from the 52% in last year's survey. Exclusion of costs of fundamental reorganisations from performance measures of relevant companies saw significant decrease to 57% from 69% in the prior year which could be attributed to a changing economic environment compared to previous years.

Other common exclusions were the effects of impairment charges, the disposal of investments and fixed assets, the sale or termination of operations and items relating to IAS 39 *Financial instruments: Recognition and measurement*.

Of the companies giving additional performance measures, 44% referred to the highlighted items as 'exceptional', a term not used in IFRSs but obviously familiar to those who used to report under UK GAAP. Less common were the terms 'underlying' (13%) and 'non-recurring' (8%).

Additional performance measures are presented on the face of the income statement in a variety of ways, as Figure 40 illustrates.

46% of relevant companies took a columnar approach to presenting their performance. There was:

- an income statement, from revenue to profit after tax, which excluded the non-GAAP measures;
- a middle column containing the non-GAAP items; and
- a column showing the full results including the non-GAAP items.

Figure 39. What items do the non-GAAP measures exclude?

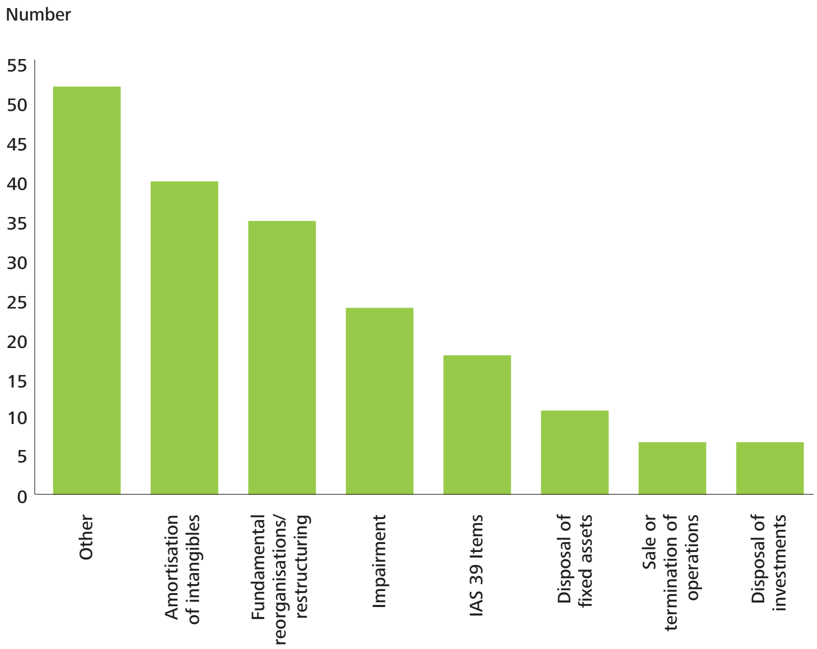
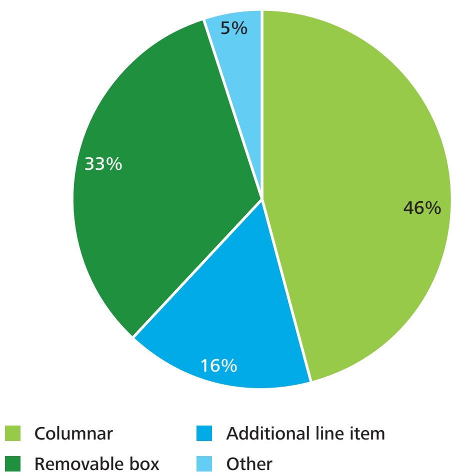
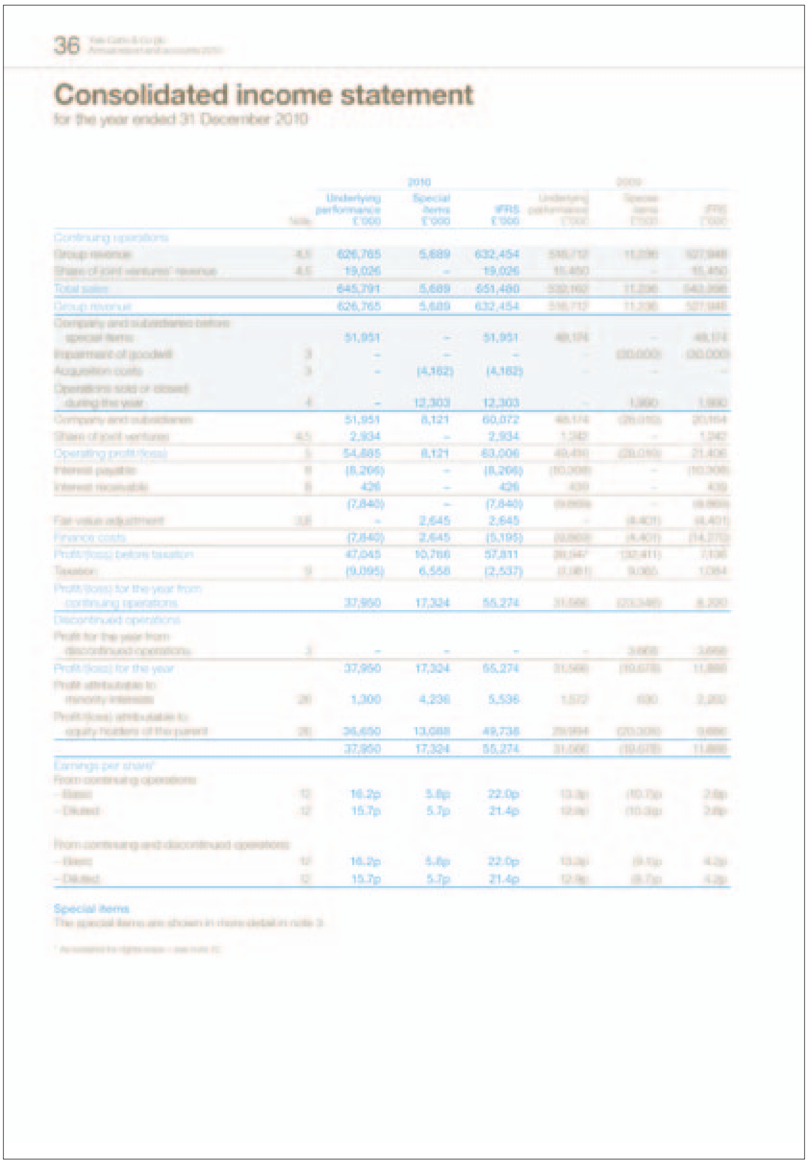


Figure 40. How are non-GAAP measures presented?



46% of relevant companies took a columnar approach to presenting their performance.

A good example presenting a columnar approach is illustrated in the annual report for Yule Catto & Co plc below.


Consolidated income statement
for the year ended 31 December 2010

Yule Catto & Co plc Annual Report for the year ended 31 December 2010

The removable box approach continues to be the second most popular option for presenting non-GAAP items, used by 33% of relevant companies. Under this approach the non-GAAP items were included in the income statement but further analysis, typically of operating profit, was presented to highlight these 'exceptional items'. The annual report of Rexam plc below, shows a good example of using the removable box approach.

Rexam plc 2010 Annual Report

Of the relevant companies in the sample, 16% included additional line items in their income statement. This approach excluded the non-GAAP items from the main body of expenses and often included a sub-total such as "Earnings before interest, taxes, depreciation and amortisation (EBITDA)" or "operating profit before exceptional items", such that the non-GAAP measure was integral to the income statement. This was demonstrated in the annual report of National Grid plc right

.

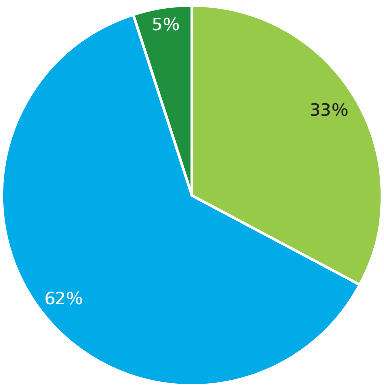
Presentation of other items

An operating profit line was given by the majority of the companies surveyed i.e. 94% (2010: 93%). This is not a requirement of IAS 1 and there is variety in the items included in this measure. If such a line is included, IAS 1 BC 13 states that it would be misleading to exclude items of an operating nature. These might include inventory write downs, restructuring and relocation expenses. It also notes that the measure must be presented consistently year on year and the company should disclose a specific policy making clear what line items the measure includes and excludes.

21% (2010:13%) of those companies which included an operating profit line used an alternative name for the measure, such as trading surplus, profit before finance income or profit from operations.

IAS 1 requires the share of profit or loss of associates and joint ventures accounted for using the equity method to be presented separately as a single line item on the face of the income statement.

Figure 41. Of the companies presenting results of associates or joint ventures, are they included above or below the operating profit line on the face of the income statement?



Above Below Not applicable

There were 44 companies in the survey with associates or joint ventures but only 40 companies complied with this requirement. Of the remaining four companies, two included the results of joint ventures using the proportionate consolidation method of accounting, a currently acceptable alternative under IAS 31. One of the remaining two companies did not present their share of the associate or joint venture separately due to immateriality and, for the other company, the associate was already valued at nil.

Financial Statements

Consolidated income statement

for the years ended 31 March

	Notes	2011 £m	2011 £m	2010 £m	2010 £m	2009 £m	2009 £m
Revenue*	1a		**14,343**		14,007		15,687
Operating costs	2		**(10,598)**		(10,714)		(13,064)
Operating profit							
Before exceptional items, remeasurements and stranded cost recoveries	1b	**3,600**		3,121		2,915	
Exceptional items, remeasurements and stranded cost recoveries	3	**145**		172		(292)	
Total operating profit	1b		**3,745**		3,293		2,623
Interest income and similar income							
Before exceptional items	4	**1,281**		1,005		1,315	
Exceptional items	3,4	**43**		–		–	
Total interest income and similar income	4		**1,324**		1,005		1,315
Interest expense and other finance costs							
Before exceptional items and remeasurements	4	**(2,415)**		(2,160)		(2,465)	
Exceptional items and remeasurements	3,4	**(37)**		47		(84)	
Total interest expense and other finance costs	4		**(2,452)**		(2,113)		(2,549)
Share of post-tax results of joint ventures and associates	13		**7**		8		5
Profit before tax							
Before exceptional items, remeasurements and stranded cost recoveries	1b	**2,473**		1,974		1,770	
Exceptional items, remeasurements and stranded cost recoveries	3	**151**		219		(376)	
Total profit before tax	1b		**2,624**		2,193		1,394
Taxation							
Before exceptional items, remeasurements and stranded cost recoveries	5	**(722)**		(553)		(517)	
Exceptional items, remeasurements and stranded cost recoveries	3,5	**261**		(251)		45	
Total taxation	5		**(461)**		(804)		(472)
Profit from continuing operations after tax							
Before exceptional items, remeasurements and stranded cost recoveries		**1,751**		1,421		1,253	
Exceptional items, remeasurements and stranded cost recoveries	3	**412**		(32)		(331)	
Profit for the year from continuing operations			**2,163**		1,389		922
Profit for the year from discontinued operations	6		–		–		25
Profit for the year			**2,163**		1,389		947
Attributable to:							
Equity shareholders of the parent			**2,159**		1,386		944
Non-controlling interests			**4**		3		3
			2,163		1,389		947
Earnings per share from continuing operations**							
Basic	8		**63.9p**		48.4p		31.8p
Diluted	8		**63.6p**		48.2p		31.7p
Earnings per share**							
Basic	8		**63.9p**		48.4p		32.7p
Diluted	8		**63.6p**		48.2p		32.5p

* Items previously reported separately as 'other operating income' have been included within revenue.

** Restated to reflect the impact of the bonus element of the rights issue and as a result of the additional shares issued as scrip dividends.

The notes on pages 125 to 176 form part of the consolidated financial statements.

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National Grid plc 2010/11 Annual Report and Accounts

Of the 39 companies who presented the share of the profit or loss of associates and joint ventures as a single line item, 33% presented this within operating profit and 62% below operating profit on the face of the income statement. Both presentations are acceptable as IAS 1 does not require the line items in the income statement to be presented in any particular order, only that the share of results of associates and joint ventures must be presented before profit for the period. The 5% depicted in Figure 41 represents the two companies in the survey which presented share of the profit or loss of associates and joint ventures as a single line item but did not include an operating profit line (or any alternative name for this measure).

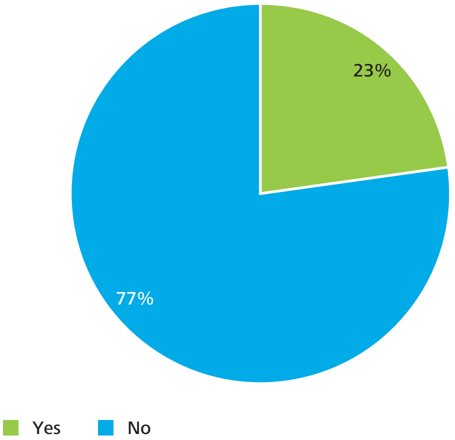
Under UK GAAP, FRS 3 requires items such as the cost of fundamental reorganisations and disposals of fixed assets and investments to be treated as non-operating exceptional items. In contrast, based on the guidance in IAS 1 BC13, it may seem questionable to present these costs below operating profit under IFRS.

All 17 companies that had incurred fundamental reorganisation costs during the year, and had an operating profit line or equivalent, correctly and clearly presented these as an operating cost. All seven companies that had disposals of fixed assets clearly disclosed these above the operating profit line.
10 (2010: 14) companies clearly disclosed profit or loss on the disposal of an investment. Of these, six included them as operating income or charge. In addition six (2010: 13) companies disclosed results relating to the sale or termination of operations, of which four (2010: nine) included them within operating results.

Discontinued operations

IFRS 5 *Non-current assets held for sale and discontinued operations* enables users to evaluate the financial effects of discontinued operations from other operations.

Figure 42. Have there been discontinued operations in the current year?



In the current year, 23 (2010: 30) of the companies surveyed had discontinued operations. All relevant companies correctly presented the results from the discontinued operations as a single amount on the face of the income statement. This is consistent with the minimum requirements under IAS 1 which requires the post-tax profit or loss of discontinued operations to be presented as a single amount.

In the current year, 23 (2010: 30) of the companies surveyed had discontinued operations.

Defined benefit pension costs

The current IAS 19 *Employee benefits* discusses the various costs that may need to be recognised in the income statement (such as current service costs, interest costs, expected return on plan assets, actuarial gains and losses to the extent recognised and the effect of curtailments or settlements). However, neither IAS 1 nor the current IAS 19 clearly dictates how the charge/credit to the income statement should be presented.

On 16 June 2011, the IASB issued amendments to IAS 19 that change the accounting for defined benefit plans and termination benefits. The objective of these amendments is to improve the financial reporting of employee benefits by:

- eliminating the 'corridor method' such that a deficit or recoverable surplus is recognised in full;
- removing the options available for the presentation of gains and losses relating to defined benefit plans. Service and finance costs are to be included in profit and loss and re-measurements in other comprehensive income, thereby separating those changes from changes that many perceive to be the result of an entity's day-to-day operations. Finance costs will be a net finance cost on the net defined benefit asset or liability; and
- improving the disclosure requirements for defined benefit plans to better explain the characteristics of defined benefit plans and the risks arising from those plans.

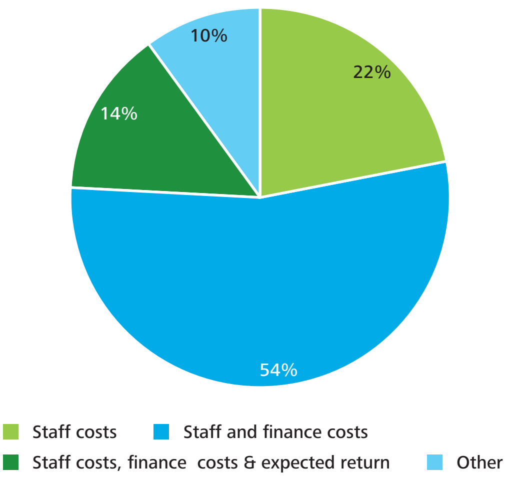
The amended version of IAS 19 is effective for financial years beginning on or after 1 January 2013, with earlier application permitted although this is subject to EU endorsement.

58% (2010: 65%) of companies surveyed had defined benefit pension schemes. Figure 43 below shows where the companies surveyed with defined benefit pension schemes elected to include the items in the income statement.

The majority (54%) of the companies surveyed with a defined benefit pension scheme attributed the pension costs to both staff costs and finance costs.

The majority (54%) of the companies surveyed with a defined benefit pension scheme attributed the pension costs to both staff costs and finance costs.

Figure 43. Where are defined benefit pension costs included in the income statement?



22% allocated the pension costs to staff costs alone. 14% of companies disclosed the costs allocated between staff costs, finance costs and expected return. The remaining 10% of companies presented the pension costs in different ways to those detailed above.

Earnings per share (EPS)

IAS 33 *Earnings per share* requires all listed companies to disclose EPS.

Where a company chooses to present additional EPS figures (which is permitted under IAS 33), both basic and diluted figures are required to be presented with equal prominence. The spirit of IAS 33 would seem to suggest that these additional EPS figures should be presented in the notes rather than on the face of the income statement.

In the survey, 24 companies presented additional EPS figures. This represented 39% of the companies which presented additional non-GAAP performance measures, other than EPS for discontinued operations. Of these 24 companies, 88% presented both adjusted basic and diluted EPS. The three companies remaining (12%) presented only basic adjusted EPS.

Of the 23 companies with discontinued operations in the year (2010: 30), 12 (2010: 17) companies presented EPS for total operations and EPS for continuing operations (the difference being the result for the discontinued operations). Nine companies showed both EPS for continuing operations and discontinued operations, usually together with a total, a slight decrease from eleven last year. The remaining two companies (2010: two) only presented EPS for total operations on the face of the income statement.

Income statement for parent companies

The current year's survey revealed that 92% of companies sampled took advantage of the exemption available under the CA06 which allows companies not to publish a separate income statement for the parent company. However, one of these companies failed to state that they had taken the exemption and 10 companies presented a parent company's statement of other comprehensive income. Of the remaining 8%, 6% of companies disclosed a separate income statement for the parent company and the remaining 2% were subject to Jersey law and were not required to publish a separate income statement for the parent entity.

Cash flow statement

IAS 7 *Statement of cash flows* requires that a cash flow statement is presented reporting the inflows and outflows of cash and cash equivalents during the period. Cash flows must be analysed across three main headings (operating, investing and financing activities).

All companies surveyed complied with the requirement to present a cash flow statement as a primary statement.

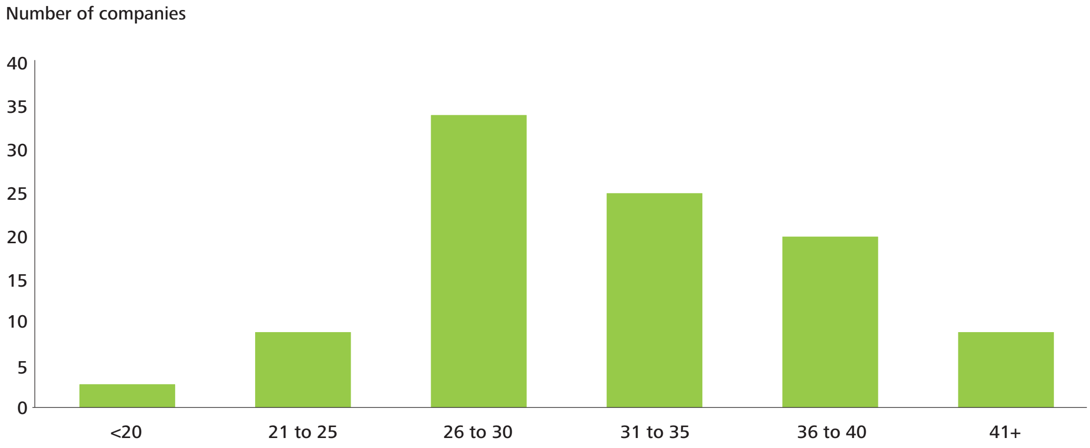
IAS 7 describes two methods allowed in presenting the cash flow statement, the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed, and the indirect method, whereby profit is adjusted for a variety of effects. 99% (2010: 100%) of companies surveyed elected to present their cash flow statement using the indirect method.

Balance sheet

The minimum requirements in IAS 1 allow companies some flexibility in the presentation of the balance sheet. However there is less variety in practice than with the income statement as discussed above. IAS 1 allows entities to present their balance sheets in order of the ageing of the items (i.e. current/non-current) or in order of liquidity.

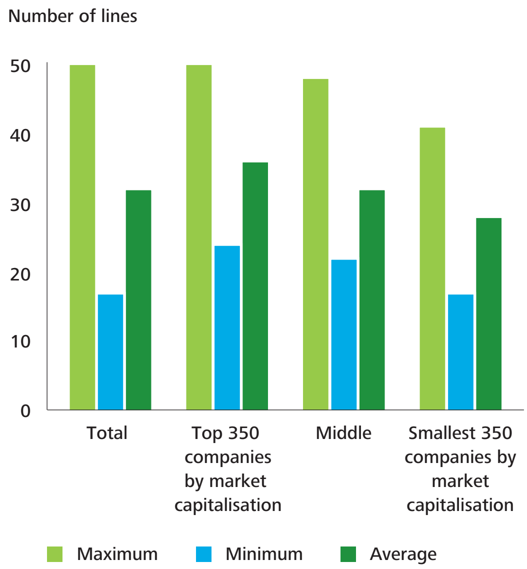
The average length of the group balance sheet was 32 lines (2010: 31). The longest balance sheet contained 50 lines. The shortest was 17 lines.

Figure 44. How many lines are on the face of the group balance sheet?



The average length of the balance sheet was directly in line with the size of the companies as shown in Figure 45 below. This is consistent with previous surveys and presumably demonstrates the increase in complexity of the position of each company as its size increases.

Figure 45. How many lines are on the face of the group balance sheet by size of company?



The third balance sheet

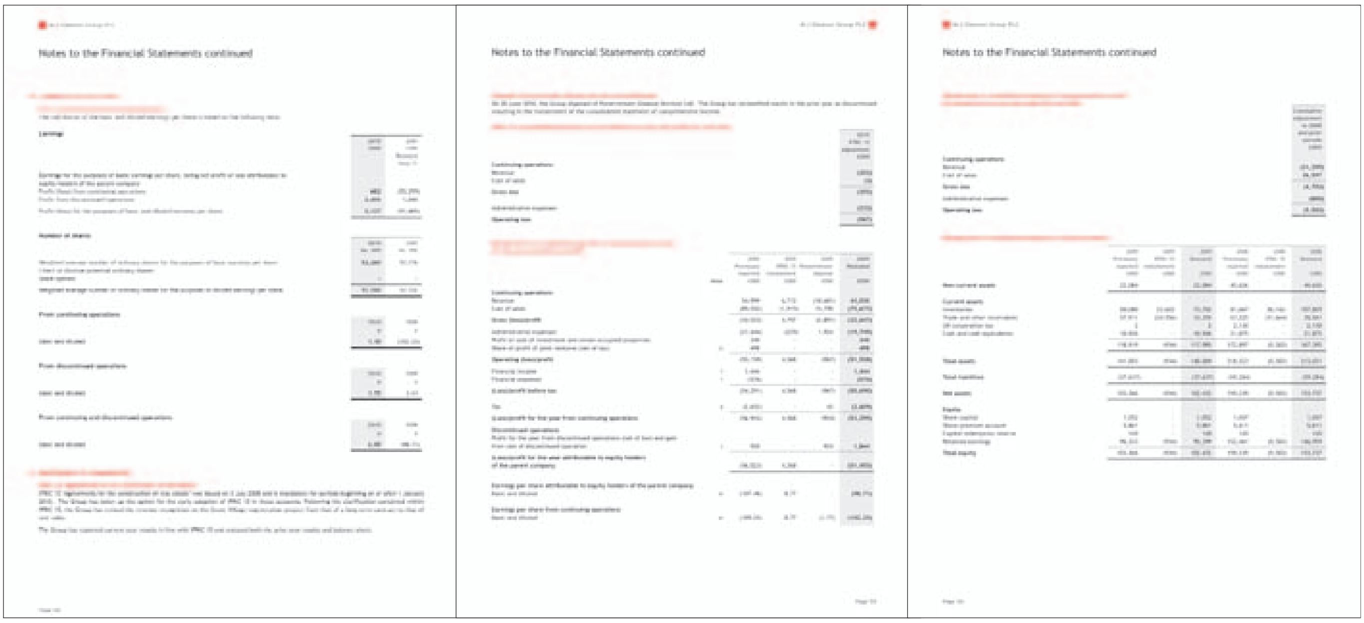
IAS 1 requires a third balance sheet, showing the position at the beginning of the prior period when the entity has made a retrospective application of an accounting policy or a retrospective restatement or reclassification of items in its financial statements. The objective of this amendment is to enhance comparability.

In the current survey, 7% of companies presented a third balance sheet (2010: 9%). Of these 6% (2010: 9%) presented a third balance sheet as required under the circumstances described above and 1% (2010: 0%) presented a third balance sheet but there was no clear disclosure of retrospective application of an accounting policy or a retrospective restatement or reclassification of items in its financial statements. One of these companies was in the top 350 companies, two in the middle group and four in the smallest 350 companies. In addition, the survey revealed that there were 11 companies which reported restatements but no third balance sheet was presented. An explanation was included which commonly stated there was no material impact in the opening balances due to the amounts being immaterial and/or the restatement being a simple reclassification of accounts.

Parkwood Holdings plc and M J Gleeson Group plc provide good examples of disclosures made in respect of the prior period restatement by the use of detailed narrative or use of pro-forma tables, respectively.


Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

Parkwood Holdings plc Annual Report and Accounts 2010


Notes to the Financial Statements continued
Notes to the Financial Statements continued
Notes to the Financial Statements continued

M J Gleeson Group plc Annual Report and Accounts 2011

In the IASB's view, 'non-controlling' interest is a more accurate description of the interests of those owners who do not have a controlling interest in an entity.

Non controlling interests

IAS 27(2008):BC28 explains that the change in terminology from 'minority' to 'non-controlling' interest reflects the fact that the owner of a minority interest in an entity might control that entity and, conversely, that the owners of a majority interest might not control the entity. In the IASB's view, 'non-controlling' interest is a more accurate description of the interests of those owners who do not have a controlling interest in an entity. From those sampled, 52 companies had non-controlling interests; of which seven companies still used the term 'minority interest'.

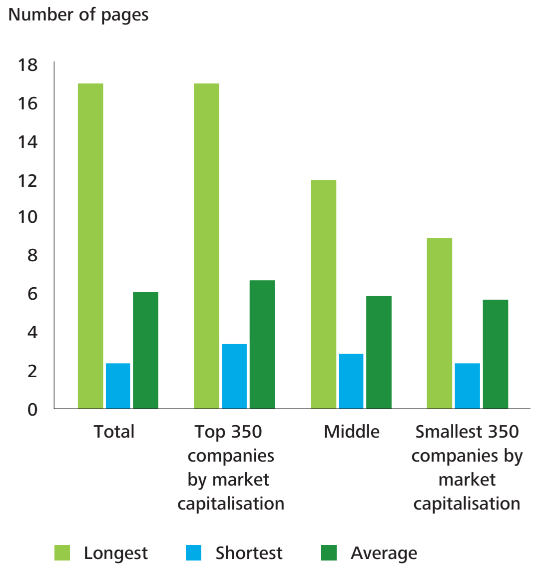
13. Notes to the financial statements*

Accounting policies

IAS 1 requires that the financial statements include a summary of the significant accounting policies and other explanatory notes.

The length of the accounting policies notes of the companies surveyed ranged from 2.5 to 17 pages. The average number of pages for accounting policies was 6.2 pages (2010: 6). Figure 46 shows that the average length was directly in line with the size of the companies – exhibiting the complexity of the business as its size increases.

Figure 46. How long is the accounting policies note by size of company?



Critical judgements

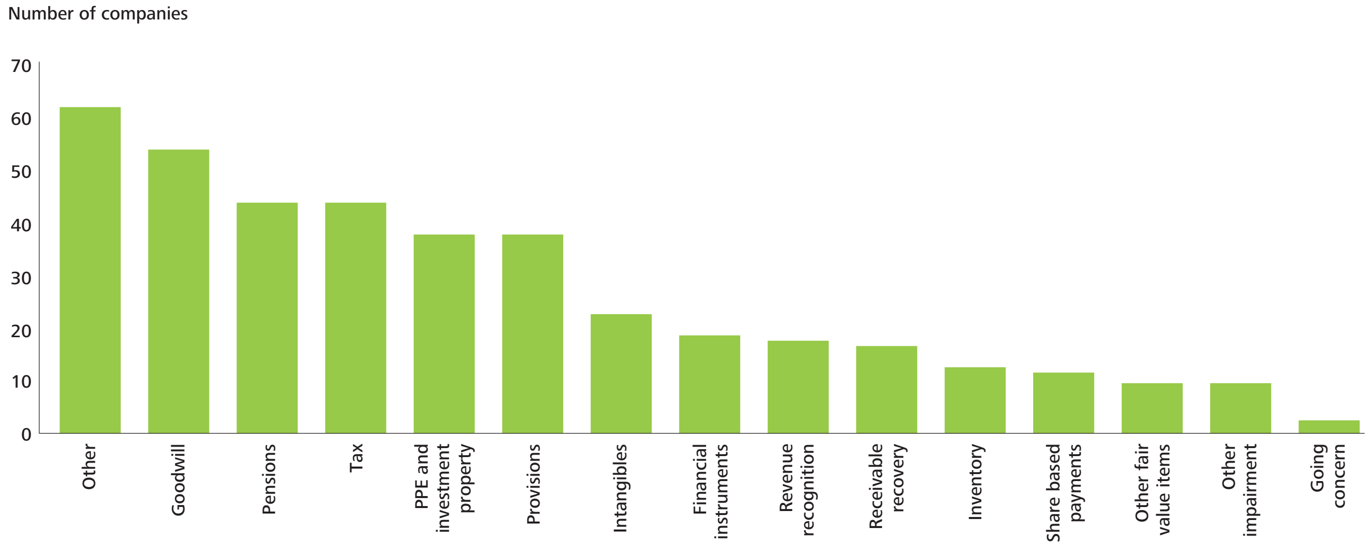
IAS 1 requires the disclosure of the critical judgements made by management in the process of applying the group's accounting policies. These are described as those judgements that have the most significant effect on the amounts recognised in the financial statements.

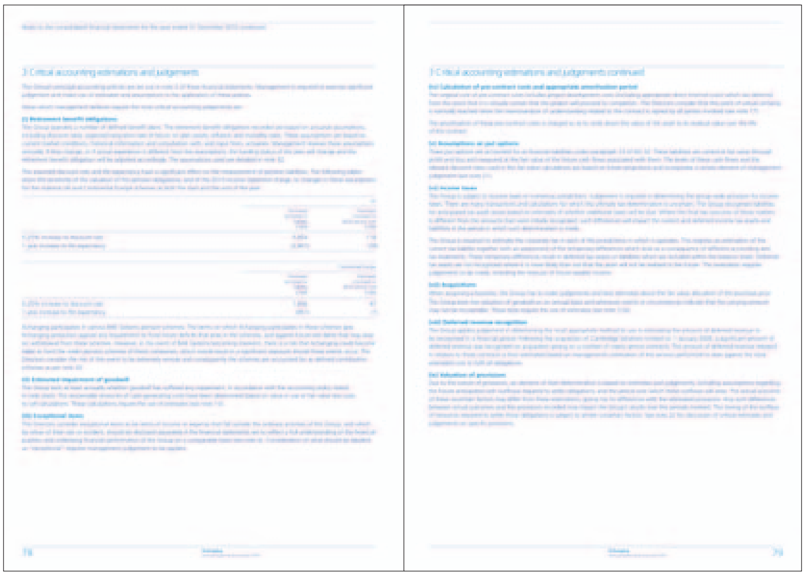
Of the companies surveyed, 92% of companies clearly disclosed the critical accounting judgements made in applying their accounting policies, an improvement from last year's 88%.

- Accounting policies were on average 6.2 pages long (2010: 6).
- 92% of companies clearly disclosed the critical judgements made in applying the accounting policies, an improvement from 88% last year.
- The average number of critical judgements disclosed was four (2010: four).
- 97% of companies disclosed their key sources of estimation uncertainty (2010: 92%).
- The average number of reporting segments was three (2010: four).
- 40% of companies explicitly referred to reliance on major customers (2010: 34%).
- 82% of companies surveyed had goodwill (2010: 80%).
- 80% of relevant companies with goodwill disclosed an allocation by cash generating unit (2010: 75%).
- 71% made reference to impairment sensitivities disclosures (2010: 68%).
- The average number of pages of the clearly identified notes on financial instruments was four and the longest disclosure was 14 pages from the top 350 companies' category.
- 89% (2010: 89%) of companies had share option schemes.
- The overall average number of the relevant share option schemes disclosure pages is 2.4 and the longest disclosure was 13 pages from the top 350 companies' category.
- 80% (2010: 86%) of joint ventures were accounted for using the equity method of accounting.
- 30% (2010: 31%) of companies had business combinations in the year.
- 20 of the companies surveyed provided all business combination disclosures required or had only minor narrative deficiencies.

* This section analyses the findings for all companies other than investment trusts

Figure 47. On what issues are the critical judgements being made?





Xchanging plc Annual Report and Accounts 2010

There was a large range in the number of critical judgements disclosed by companies from one to 12, with an average of four critical judgements across the companies that had this disclosure (eight of the total companies surveyed did not disclose any critical judgements). The range and average number of judgements disclosed remained reasonably consistent with last year (2010: range was from one to ten and average was four).

As shown in Figure 47, the most common judgements made were around goodwill, pensions (typically the actuarial assumptions), tax related items, PPE /investment property (including determining useful lives and impairment) and provisions. It is perhaps encouraging that the category of other was the largest. These typically represented company-specific items, such as the exceptional items, life of a mine, reserve estimates or particular development costs.

Xchanging plc provides a good example of disclosing the critical judgements used in applying its accounting policies.

97% of companies have disclosed key sources of estimation uncertainty, an improvement from last year (2010: 92%).

Key sources of estimation uncertainty

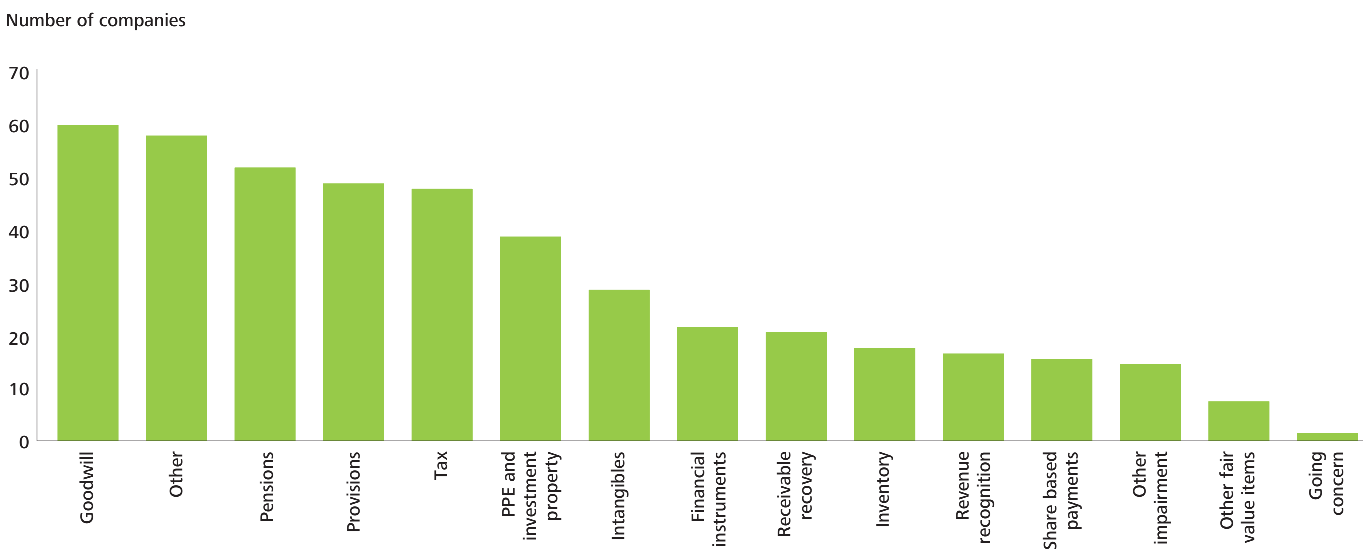
IAS 1 requires the disclosure of the key sources of estimation uncertainty, at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

97% of companies met this requirement and have disclosed key sources of estimation uncertainty, an improvement from last year (2010: 92%). Of these companies, the number of sources disclosed varied from one to 12, with an average of five (2010: from one to 11, with an average of four).

All companies reported either critical judgements or key sources of estimation uncertainty, with 89% of the companies surveyed presenting both critical judgements and key sources of estimation uncertainty. Overall, 73% of the total companies surveyed made little or no differentiation between an estimate and a judgement indicating some confusion around the distinction of these terms and the fact that estimates and judgements are often interlinked. Only 27% clearly reported them separately or with clear distinction.

Using the critical judgment areas described above, Figure 48 shows that key sources of estimation uncertainties reported in the current year are very similar to critical judgements evidencing that these two are usually interlinked.

Figure 48. On what issues are the key sources of estimation uncertainty being made?



Revenue recognition

The FRRP has focussed for a number of years on the revenue recognition accounting policy and, in particular, whether it contains sufficient specific detail to enable users of the financial statements to understand the basis on which each significant category of revenue is recognised.

Figure 49. How long is the revenue recognition policy?

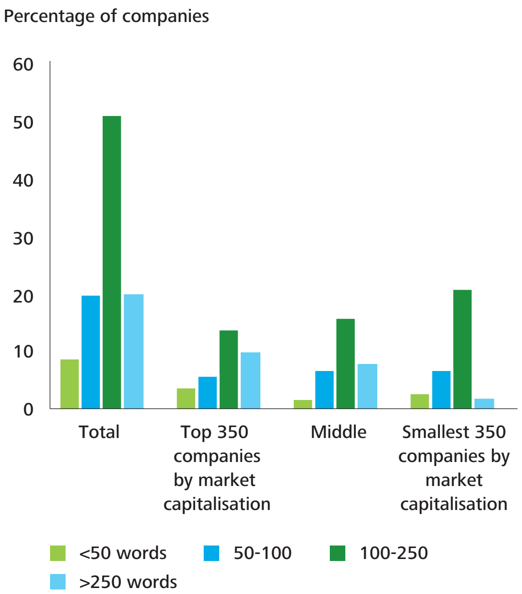


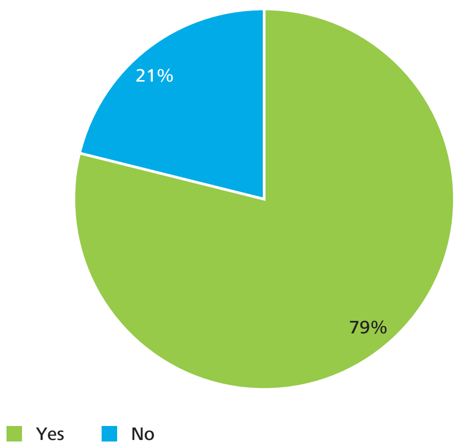
Figure 49 shows 51% of companies this year that had revenue recognition policies containing between 100 and 250 words (2010: 43%). There is a decrease to 9% (2010: 17%) in companies surveyed that had revenue recognition policies containing fewer than 50 words. 20 (2010: 17) companies had revenue recognition policies containing more than 250 words, ten of these companies being from the top 350 companies, eight from the middle and two from the smallest 350 categories.

Going concern

In October 2009 the FRC published "Going concern and Liquidity Risk: Guidance for Directors of UK Companies 2009". Going concern disclosures are discussed in more detail in section 11.

In the current survey and as shown in Figure 50, 79% of companies included a reference to going concern in their financial statements. For those entities that did not include any specific reference to going concern in the financial statements, an assessment was made in the front half.

Figure 50. Is there specific reference to going concern included in the financial statements?



Prior year restatements, reclassifications and changes in accounting policies

17 (2010: 40) companies made restatements and 15 (2010: 17) companies made reclassifications of prior year balances in their current year financial statements (either on the face of the financial statements or in the notes). The most common reason for this was to adjust for the effect of the revised standards applicable in the period (seven companies). Other reasons included general reclassifications of amounts in either the income statement or the balance sheet (including re-presentation of cash-flow in some instances), reclassifications of results from discontinued operations, or the correction of material errors identified relating to prior periods.

Of the 17 companies which had restatements, only six companies presented a third balance sheet, as discussed in section 12.

Segmental analysis

IFRS 8 *Operating segments* was introduced to allow companies to be more flexible than the previous standard when reporting their segmental results. The standard states that the segments reported should be on the same basis that the Chief Operating Decision Maker (CODM) uses when making decisions.

The number of segments reported by the companies surveyed ranged from one to ten segments, with an average of three being reported. 86% of companies sampled identified two or more segments, a slight decrease from 90% last year. The most popular number of segments to be presented was three as illustrated in Figure 51. This measure includes unallocated or central corporate segments.

Disclosure typically comprised a summary of the requirements under the standard and the basis for the number of segments reported. In the survey, 14 companies reported only one segment therefore no separate analysis was required. Three of these were in the top 350 companies, three in the middle and eight in the smallest 350 companies' category. 12 companies included clear explanation as to why they have only one reportable segment. A good example which illustrates this is from Vectura Group plc.

3 Segmental information

The Group is engaged in a single business activity of pharmaceuticals and the Group does not have multiple operating segments. The Group's pharmaceutical business consists of the research, development and commercialisation of pharmaceutical products. The Executive Management team is the Group's chief operating decision-making body, as defined by IFRS 8, and all significant operating decisions are taken by the Executive Management team. In assessing performance, the Executive Management team reviews financial information on an integrated basis for the Group as a whole, substantially in the form of, and on the same basis as, the Group's IFRS financial statements. Resources are allocated between activities and products on a Group-wide basis on merit.

All revenue and losses before taxation originate in the United Kingdom.

Vectura Group plc Annual Report and Accounts 2010/11

Major customers

IFRS 8 requires companies to disclose information about the extent of their reliance on major customers. If revenues from transactions with a single customer exceed 10% of an entity's revenues, the entity is required to disclose this fact.

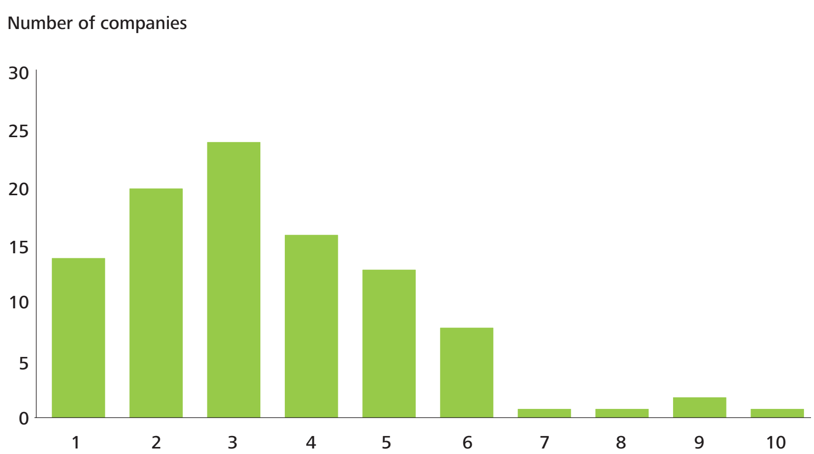
40% of the companies surveyed included a statement in the financial statements disclosing details of major customers or relationships, or disclosing that there were no major customer relationships in the period (2010: 34%). Most of those making a statement disclosed the latter i.e. 21 companies (2010: 17).

Goodwill and intangibles

IFRS 3 *Business combinations* requires companies to disclose information that enables users of the financial statements to evaluate changes in the carrying amount of goodwill during the period. Further, IAS 36 *Impairment of assets* requires additional information on the disclosure of the recoverable amount and impairment of goodwill.

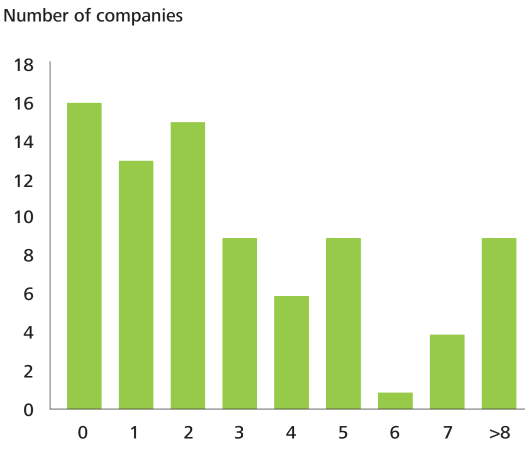
Among the companies surveyed, 82% had goodwill on their balance sheets (2010: 80%). Of these companies, 80% disclosed the allocation of goodwill across cash generating units (CGUs), an increase from 75% last year.

Figure 51. How many segments were identified?



In the survey, the largest number of CGUs disclosed was 50. The average number of CGUs disclosed, excluding those with goodwill who did not disclose any information regarding the CGUs, was 4.7, a slight increase from last year's 3.9. Figure 52 shows the number of CGUs to which goodwill was allocated.

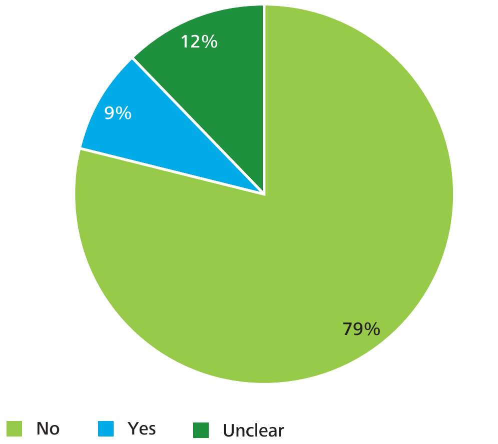
Figure 52. How many CGUs has goodwill been allocated to?



IAS 36 requires the disclosure of the basis used to measure the recoverable amounts. The recoverable amount for an asset or a CGU is calculated as the higher of its fair value less costs to sell and its value in use.

Of the companies with goodwill, 88% met the requirement of IAS 36 to disclose the period over which the cash flows have been projected (2010: 80%). Seven companies (2010: 14) that had goodwill assessed its recoverable amount using cash flow projections over a period of greater than five years. The requirement to provide an explanation of why the company is using a period greater than five years was met by three of these companies (2010: six). Ten (2010: 13) companies were unclear on the period over which they had projected their cash flows. This is illustrated in Figure 53.

Figure 53. Was the period over which the cash flows are projected more than five years?



As shown in Figure 54, the growth rate used in value in use calculations was disclosed by 82% of the relevant companies, an improvement from 75% last year. 25 (2010: 28) companies did not report a growth rate or, if a growth rate was disclosed, there was no information regarding how it compared to the long term average growth rate.

Figure 54. Were the growth rates disclosed?

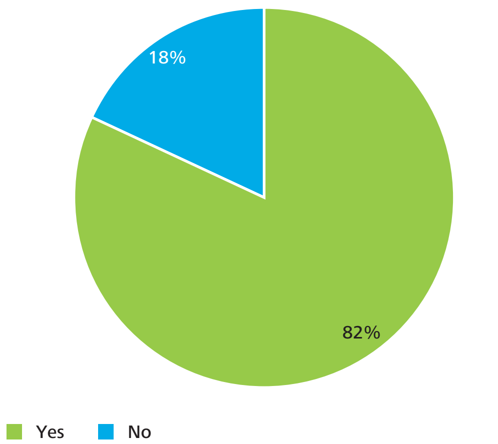
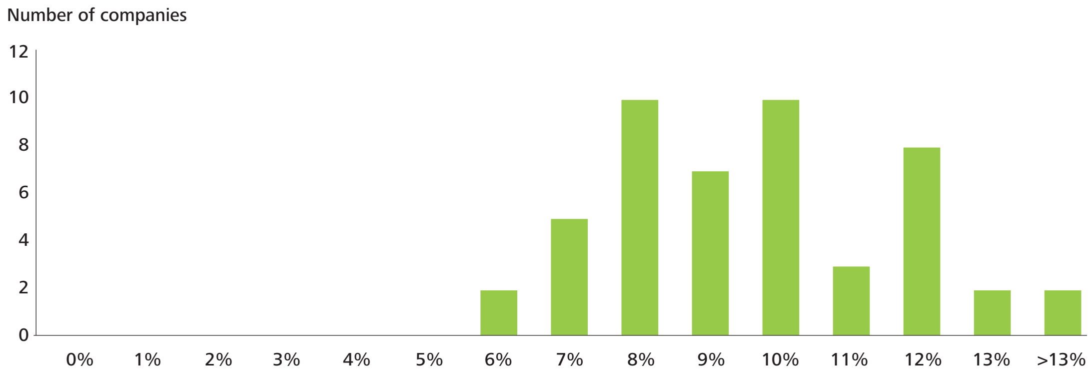


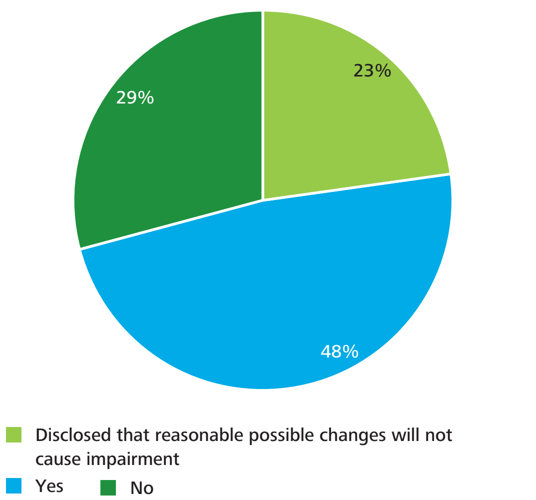
Figure 55. What were the discount rates used?



In the current year, 91% (2010: 90%) of relevant companies disclosed the discount rate they used in their value in use calculations. In the survey, 27 companies used more than one rate for different groups of CGU and nine of these companies disclosed them as ranges. Of the relevant companies which used one discount rate, the rate ranged from 6% to 16% with an average of 7% as shown in Figure 55. Compared to last year's survey, the range of rates decreased slightly (previously 5% to 16%) and the average decreased (2010: 10%).

IAS 36 contains further sensitivity disclosure requirements where a reasonably possible change of key assumptions would cause the unit's carrying amount to exceed its recoverable amount.

Figure 56. Were additional sensitivity disclosures provided regarding reasonably possible changes in key assumptions that cause the carrying value to exceed recoverable amount?

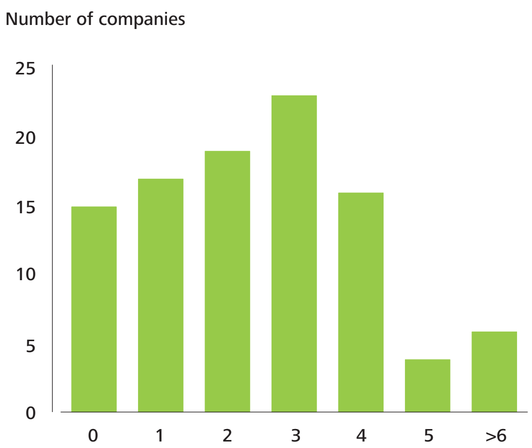


Out of the companies with goodwill, 71% made reference to sensitivities, an increase from last year's results (68%). 33% (2010: 54%) of these companies reported that reasonably possible changes of key assumptions would not cause the units' carrying amounts to exceed their recoverable amounts.

Intangibles

Other than goodwill, 85% (2010: 83%) of companies recognised intangible assets on their balance sheets in the year. Consistent with last year's survey, the number of classes of intangibles ranged from one to seven with an average of three across these companies.

Figure 57. How many classes of intangibles have been disclosed?



IAS 38 *Intangible assets* requires disclosure, for each class of intangible, of whether the useful lives are indefinite or finite, the amortisation rates used where the useful lives are finite and the reasons supporting the assessment of indefinite life. Of the 85 companies with intangible assets, ten (2010: four) had assets assessed as having an indefinite life.

Creston plc provided a brief disclosure of its justification for using an indefinite life for intangible assets (due to proven market position and commitment to develop and enhance the assets' value).

(b) Other intangible assets

Other acquired intangible assets are capitalised at cost. Intangible assets acquired as part of a business combination are capitalised at fair value at the date of acquisition. The list of such intangible assets is significantly more comprehensive under IFRS. Intangible assets are amortised to residual values over the useful economic life of the asset. Where an asset's life is considered to be indefinite an annual impairment test is performed. The Directors consider the value assigned to goodwill to exceed that assigned to intangible assets because the inherent value of the acquired companies predominantly lies within the employees.

The identified intangible assets and associated periods of amortisation are as follows:

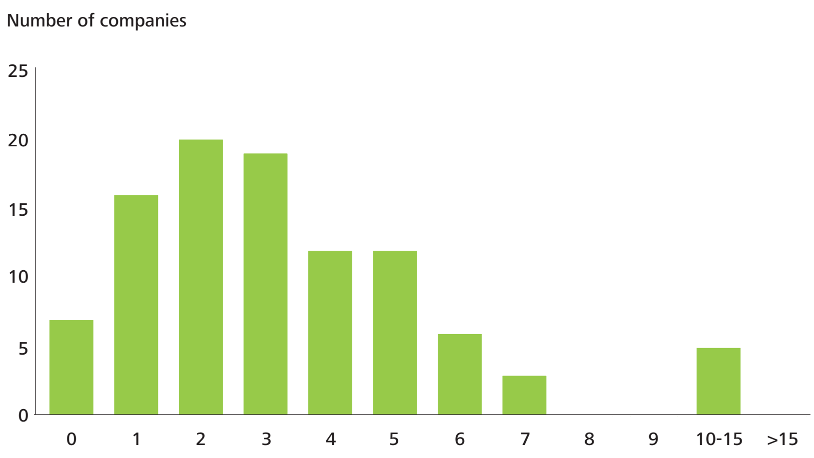
Intangible asset	Period of amortisation
Brand names	Infinite life – subject to annual impairment testing
Customer contracts	Over the notice period of the contract (generally one to three months)

Brands are considered to have an infinite economic life because of their proven market position and the Group's commitment to develop and enhance their value. On this basis, the Directors consider it reasonable to assign an infinite life to these intangible assets but consider it appropriate to review this on an annual basis in order to assess whether there has been any degradation of a Company's brand name and image.

The customer contracts are amortised over this period because the Directors consider this to be the typical length of customer contracts active at the time of acquisition.

Creston plc Annual Report and Accounts 2011

Figure 58. How long are the clearly identified notes on financial instruments?



Financial instruments

All companies surveyed held financial instruments, as caught by IFRS 7 *Financial instruments: Disclosures*, and made the required disclosures. While IFRS 7 requires companies to make various disclosures on financial instruments, these are not required in a specific place, resulting in disclosures being found in a variety of places.

For the purposes of the survey, consideration is given only to notes to the financial statements that were clearly identified as notes on financial instruments. As shown in Figure 58, the longest disclosure was 14 pages from a bank company in the top 350 category and another four companies had a note of over 10 pages.

The average number of pages is four. There was a clear link between the size of the companies and the length of these disclosures. The top 350 companies have an average of 5.5 pages with an average of 3.5 pages and 2.4 pages for the middle and smallest 350 companies' categories, respectively.

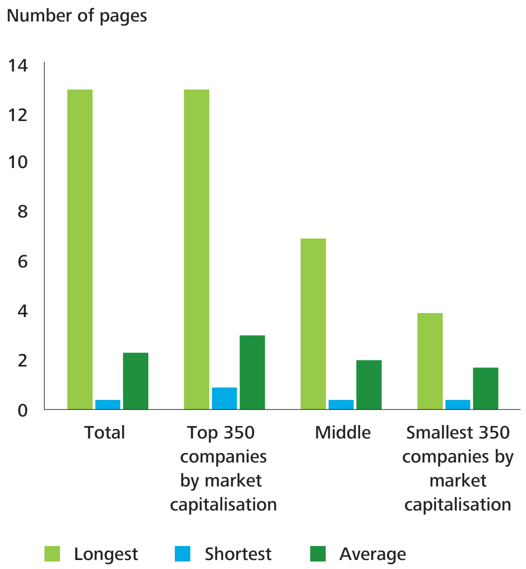
Share based payments

89% of companies included in the survey had share option schemes in place at the year end, (2010: 89%). Of the 11 companies that did not, seven of these were within the smallest 350 companies and four were within the middle group.

IFRS 2 *Share-based payment* requires certain information to be disclosed to enable users to understand the nature, and extent, of share based payment arrangements.

As illustrated in Figure 59, the survey revealed that there was also a direct link between the size of the companies and the length of disclosure of the share-based payment arrangement. Of the above 89 companies, the overall average number of the relevant disclosure pages is 2.4 and the longest disclosure was 13 pages from one of the top 350 companies with a relatively large number of different schemes. Overall, the top 350 category has an average of 3.1 pages with an average of 2.1 pages and 1.8 pages for the middle and smallest 350 categories respectively.

Figure 59. How long is the share-based payments note (in pages)?



Subsidiaries, joint ventures and business combinations

On 12 May 2011, the IASB announced the issue of a package of new and revised standards described as "improvements to the accounting requirements for off balance sheet activities and joint arrangements". However, the package goes further than this by replacing or revising all IASB requirements dealing with consolidation and joint arrangements.

In summary, the five new or revised standards are as follows together with the main features:

- **IFRS 10** ***Consolidated Financial Statements*** – replaces SIC 12 *Consolidation – Special Purpose Entities* and most of IAS 27 *Consolidated and separate financial statements*. It provides a new single consolidation model based on the principle of an investor having actual control of an investee.

- **IAS 27** ***Separate Financial Statements*** – contains the unchanged residual accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

- **IFRS 11** ***Joint Arrangements*** – differentiates jointly controlled arrangements between 'joint ventures' and 'joint operations' based on the substance of the arrangement, and not the legal form of the investee. It prescribes the accounting for interests in joint operations.

- **IAS 28** ***Investments in Associates and Joint Ventures*** – prescribes the unchanged accounting for investments in associates using equity accounting. Guidance on equity accounting also applies to joint ventures as determined under IFRS 11 (proportional consolidation is no longer permitted).

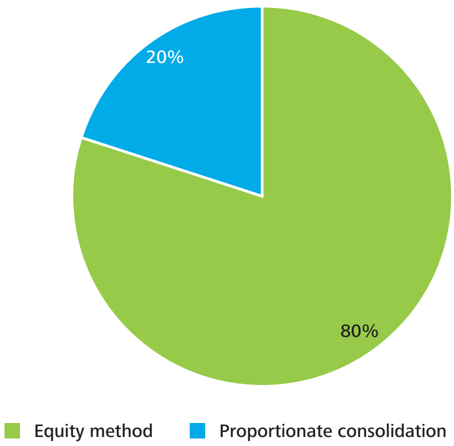
- **IFRS 12** ***Disclosure of Interests in Other Entities*** – brings together all existing disclosure requirements related to interests in subsidiaries, joint arrangements and associates (note – there are no disclosure requirements in IFRS 10, IFRS 11 or IAS 28).
  It introduces new disclosure requirements, including an explanation of significant judgements in the application of IFRS 10 and 11, and information on unconsolidated structured entities.

All these Standards are effective for accounting periods beginning on or after 1 January 2013, but early application, subject to EU endorsement, is permitted for the package as a whole. However, it is permitted to incorporate any of the disclosure requirements in IFRS 12 without technically early applying the provisions of IFRS 12 (and thereby each of the other four standards).

IAS 31 *Interests in joint ventures* currently offers an accounting choice to companies for interests in jointly controlled entities. Companies can use either the proportionate consolidation method or the equity method. 35 (2010: 43) of the companies surveyed had interests in joint ventures at the period end. As illustrated in Figure 60 below, 80% (2010: 86%) of these 35 companies used the equity method of accounting when accounting for their interests in joint ventures.

In the survey, two companies had certain contractual arrangements to engage in joint activities that do not create an entity carrying on a trade or business of its own (joint arrangement that is not an entity). Both of these companies reflected their proportionate interest or the assets that they control, the liabilities and expenses that they incur and the share of the income that they earn in the joint operations.

Figure 60. Have joint ventures been accounted for using the equity method of accounting or proportionate consolidation?



Business combinations

30% of companies surveyed disclosed that a business combination had occurred in the reporting period (2010: 31%). Of these, 13 companies were from the top 350 companies, 11 and 6 companies were from the middle and smallest 350 companies' categories respectively.

IFRS 3(2008) *Business combinations* requires that the acquirer should disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination that occurs. Detailed guidance as to disclosures required to meet the objectives of the IFRS is set out in Appendix B to the Standard.

Of the 30 companies surveyed which had a business combination in the reporting period, 20 companies had presented all disclosures required or had minor narrative deficiencies. The remaining 10 companies provided limited disclosures. For example, no detailed fair value information was provided while others presented only a fair value table or had very limited disclosures or no further disclosures at all.

Compass Group plc provided an example of the disclosures.

Of the 30 companies surveyed which had a business combination in the reporting period, 20 companies had presented all disclosures required or had minor narrative deficiencies.

25 Business combinations

The Group acquired 100% of Hurley Corporation, a provider of soft support services to the Canadian Business & Industry sector, on 4 February 2010 for a total consideration of £31 million, of which £6 million is deferred. 100% of Southeast Service Corporation, a provider of soft support services to the USA Business & Industry and Education sectors, was acquired on 7 July 2010 for £37 million, £8 million of which is deferred. In addition, small infill acquisitions in the USA vending business were completed for a total consideration of £9 million.

In France, the Group strengthened its position by acquiring 100% of Caterine Restauration, a provider of foodservice in the Education and Healthcare sectors for £45 million on 30 April 2010.

In the UK, 100% of Vision Security Group ('VSG Group') was acquired on 10 September 2010 for £42 million.

In addition to the acquisitions set out above, there have been other minor acquisitions in several countries for the total consideration of £52 million.

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25 Business combinations continued

	Acquisitions Book value £m	Acquisitions Fair value £m	Adjustments[1] Fair value £m	Total Fair value £m
Net assets acquired				
Contract-related and other intangibles arising on acquisition	9	25	1	26
Property, plant and equipment	19	19	2	21
Inventories	3	3	–	3
Trade and other receivables	53	53	–	53
Cash and cash equivalents	20	20	–	20
Deferred tax asset	3	3	–	3
Other assets	1	1	–	1
Trade and other payables	(66)	(66)	(2)	(68)
Deferred tax liabilities	(6)	(6)	–	(6)
Minority interest	5	5	–	5
Other liabilities	(48)	(48)	(1)	(49)
Fair value of net assets acquired	(7)	9	–	9
Goodwill arising on acquisition		205	12	217
Total consideration		214	12	226
Satisfied by				
Cash consideration		191	12	203
Deferred consideration		23	–	23
		214	12	226
Cash flow				
Cash consideration		191	12	203
Cash acquired		(20)	–	(20)
Acquisitions transaction costs		5	–	5
Net cash outflow arising on acquisition		176	12	188
Deferred consideration and other payments relating to previous acquisitions				17
Total cash outflow arising from the purchase of subsidiary companies and investments in associated undertakings				205

1 Adjustments to provisional amounts in respect of prior year acquisitions within the measurement period in accordance with International Financial Reporting Standard 3 'Business Combinations' (2003).

Adjustments made to the fair value of assets acquired include the value of intangible assets, provisions and other adjustments recognised on acquisition in accordance with International Financial Reporting Standard 3 'Business Combinations' (revised 2008). The adjustments made in respect of acquisitions in the year to 30 September 2010 are provisional and will be finalised within 12 months of the acquisition date.

The goodwill arising on the acquisition of the businesses represents the premium the Group paid to acquire companies which complement the existing business and create significant opportunities for cross-selling and other synergies. Of the goodwill arising, an amount of £8 million is expected to be deductible for tax purposes.

Acquisition transaction costs expensed in the year to 30 September 2010, were £5 million (2009: £nil).

In the period from acquisition to 30 September 2010, the acquisitions contributed revenue of £122 million and operating profit of £5 million to the Group's results.

If the acquisitions had occurred on 1 October 2009, it is estimated that Group revenue for the period would have been £14,612 million and total Group operating profit (including associates) would have been £995 million.

Consolidated financial statements

Compass Group PLC Annual Report 2010 **113**

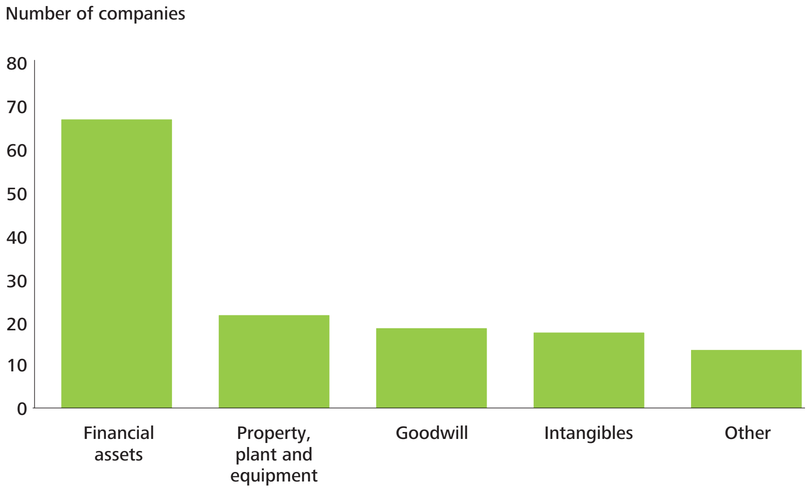
Compass Group plc Annual Report 2010

Impairments

Impairment reviews are performed to ensure that assets are carried at no more than their recoverable amount. 81% of the companies surveyed reported an impairment loss during the year. Of these, 70% have disclosed the events and circumstances that led to the recognition of the impairment loss.

As shown in Figure 61, impairment loss on financial assets (e.g. trade receivables) was reported by 67 companies. Impairment of 'other' assets was the least common and reported by only 14 companies. In the survey, these "other" assets include inventories, investment property and other investments.

Figure 61. What was impaired?



Pro forma accounts

In certain instances, companies highlight the effect of a significant transaction that has been confirmed after the balance sheet date by including pro forma accounts. For the purposes of the survey, pro forma accounts were regarded as non-GAAP stand-alone accounts and excluded the long-period historical performance record of companies.

The survey revealed that three companies included pro forma accounts. Two of these companies included supplementary information in accordance with the European Embedded Value (EEV) Principles issued in May 2004 by the CFO Forum of European Insurance Companies and expanded by the Additional Guidance on European Embedded Value Disclosures issued in October 2005. One related to an insurance company and was fully audited and had a separate audit report and the other was a company with an insurance division which included the pro forma accounts in the front half of the annual report. The third company included a pro forma balance sheet in its notes to the financial statements to illustrate the impact on the group net assets of including the company's preference shares at their full nominal value and preference share dividend arrears at their full value rather than at amortised cost.

True and fair override

No company in the survey invoked the 'true and fair override'.

14. Investment trusts

- The report length has remained consistent with last year at 50 pages.
- The proportion of narrative reporting within the annual reports has decreased from 61% to 60% in the last year.
- Trusts were six days faster on average, in approving their annual reports in comparison with 2010.
- The number of trusts identifying principal risks and uncertainties has increased from 97% to 100% since last year.
- The number of trusts identifying KPIs has remained consistent at 97%.
- There has been an improvement in corporate governance compliance, with 20% of trusts stating that they fully comply with the required provisions compared with 7% in 2010.
- Going concern disclosures have improved again, by increasing the content and providing more references to risks and uncertainties and length of budgets and forecasts.

The sample of 30 investment trusts has been considered separately for the purposes of this survey and is analysed in this section. Investment trusts are those companies which have been classified by the London Stock Exchange as "non-equity investment instruments" or "equity investment instruments". Real estate investment trusts have not been included in this category.

The investment trust sample has been divided into three categories by market capitalisation, as with the other companies sampled.

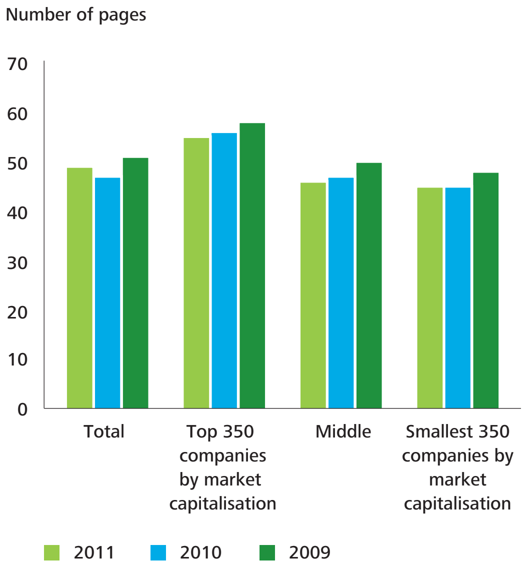
One third of the sample (i.e. ten companies) have been taken from the top 350 companies by market capitalisation at 30 June 2011, one third have been taken from the smallest 350 by market capitalisation, and one third have been taken from those that fall in between those categories (the middle group). The sample included 21 investment trusts and nine venture capital trusts. The venture capital trusts were all in the smallest third of the sample.

Overview

Length of annual reports

The average length of the annual reports has remained constant at 50 pages. The median length was 49 pages, which was a slight increase on the prior year figure of 47 pages.

Figure 62. What is the median length of an investment trust annual report?



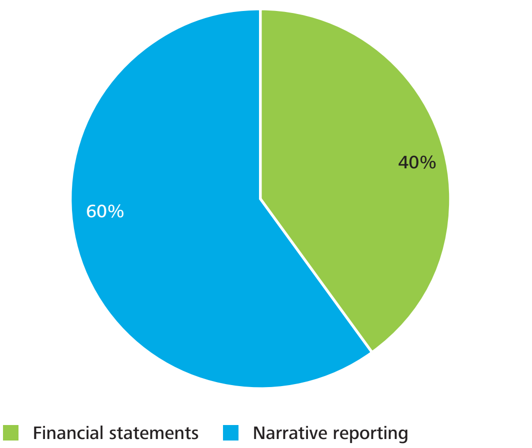
It appears that the length of reports peaked in 2009 across all three size categories, and has fallen or remained similar in the last two years, although for statistical reasons the overall median rose compared to last year.

As expected, the trusts from the top 350 are still producing the longest reports, while the smallest trusts are producing the shortest ones. The median report length by size category this year was 55 pages for the largest trusts (2010: 56), 46 pages for the middle group (2010: 47) and 45 pages for the smallest trusts (2010: 45).

It should be noted that the median data shows a similar trend to the average data, as the investment trust report lengths appear to be more 'normally' distributed than the corporate sample (see chapter 4: Overview of the annual report).

The survey results also highlight a continuing trend in the decreasing ratio between narrative reporting and the financial statements. Last year 61% of the average annual report was made up of narrative reporting. This year this has fallen to 60%. This decrease has been observed in all three size categories and has been more noticeable for the smallest trusts. The narrative in the largest trusts' annual reports constituted 62% of the annual report (2010: 63%), the middle group's annual reports were comprised of 59% narrative, on average (2010: 60%) and the smallest trusts annual reports were comprised of 59% narrative (2010: 61%).

Figure 63. What is the balance of narrative and financial reporting in the average 2011 investment trust annual report?



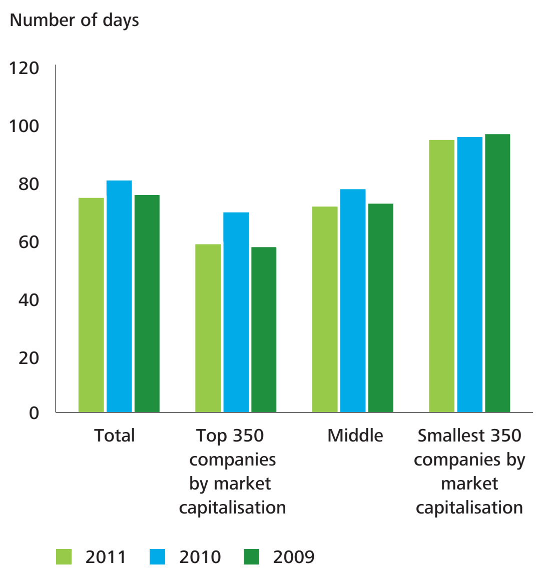
Speed of reporting

It was noted last year that investment trusts were getting slower, on average, at approving their annual reports. This trend has reversed in the current year, with reporting times showing a slight improvement on 2009 levels.

The average annual report took 75 days to be approved (2010: 81 days, 2009: 76 days). Trusts from the top 350 group showed the greatest improvement, being on average 11 days quicker than in 2010, reporting in 59 days (2010: 70 days). The middle group took 72 days, on average, to approve their annual reports compared with 78 days in 2010, while the smallest group took an average of 95 days compared with 96 days in 2010.

The fastest trust to report was from the top 350 group and reported in 42 days. The slowest to report was from the smallest 350 group and took 120 days.

Figure 64. How quickly are annual reports approved?

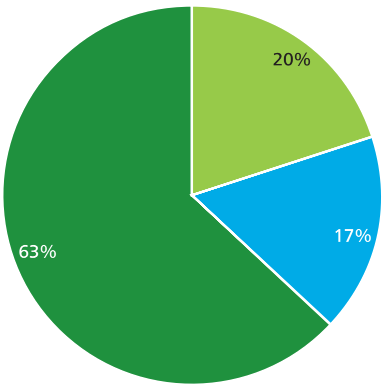


The fastest trust to report was from the top 350 group and reported in 42 days.

Reporting framework

63% of the trusts surveyed were stand-alone trusts which reported under UK GAAP (2010:64%).
20% (2010: 23%) were parent companies within a group and therefore required to prepare consolidated accounts under IFRS. The remaining 17% (2010: 13%) of the trusts were single entities which chose to adopt IFRS. The results show a slight shift towards IFRS reporting in the current year.

Figure 65. Under which accounting framework are investment trusts reporting?



- Groups reporting under IFRS
- Single entities reporting under IFRS
- Single entities reporting under UK GAAP

During 2009 the Association of Investment Companies (AIC) issued a revised SORP, "Financial Statements of Investment Trust Companies and Venture Capital Trusts", which incorporated the various changes in the accounting standards and other regulations affecting investment trusts. In addition this SORP was no longer specific to investment trusts and was also aimed at venture capital trusts. This SORP became applicable for all accounting periods beginning on or after 1 January 2009. Once again, all trusts in the year had adopted the relevant SORP with the exception of two trusts which did not apply it as they were registered in Guernsey.

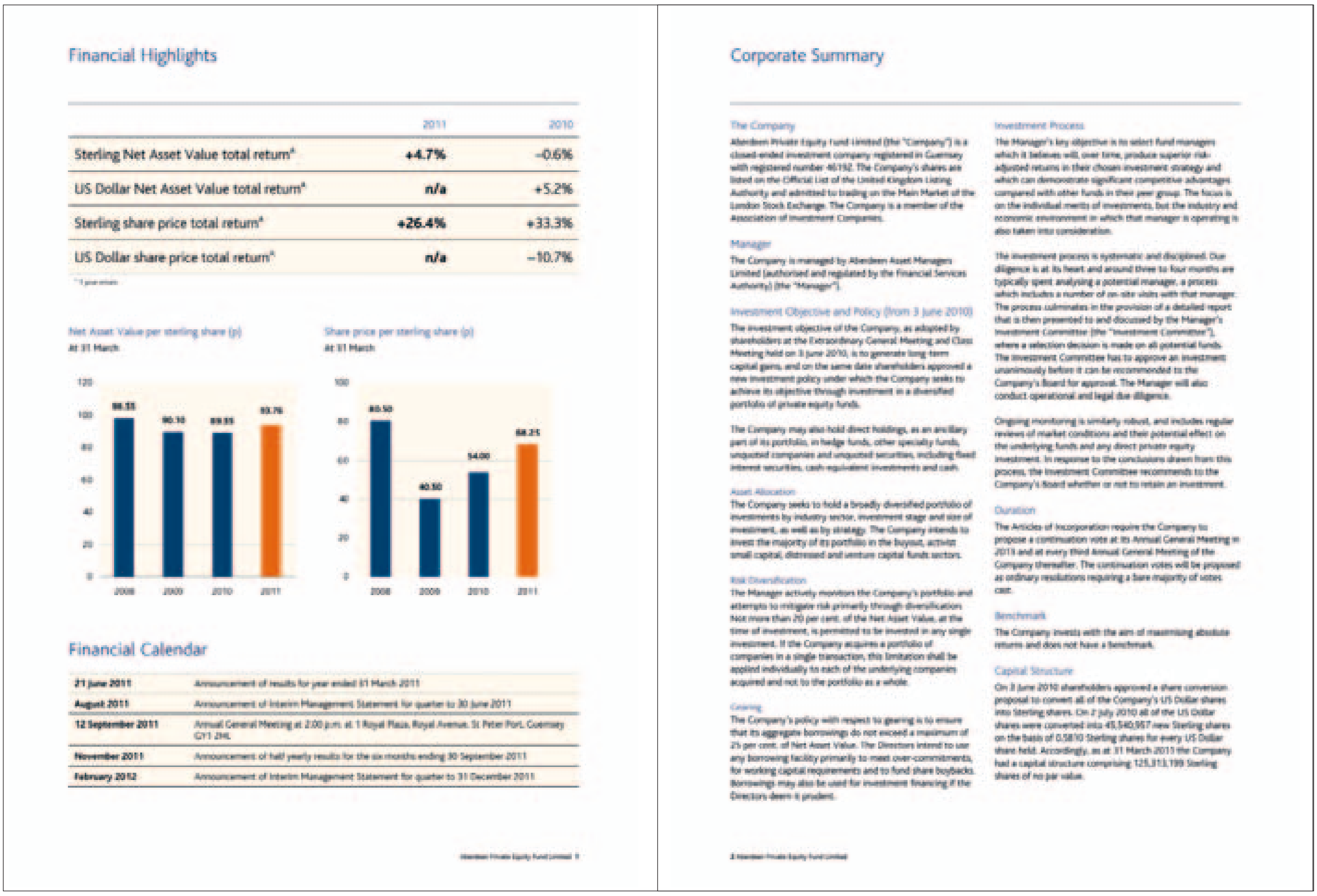
Some contradictory requirements were noted for those trusts adopting both the SORP and IFRS. A common example is that the SORP requires a reconciliation of movements in shareholders' funds (RMSF) and a statement of total recognised gains and losses (STRGL) as opposed to IFRS that requires a statement of changes in equity (SOCIE). In the survey, all of the trusts that applied IFRS presented a SOCIE.

Investment managers

All of the reports surveyed identified their investment managers and made reference to their appointment. One trust from the top 350 group used a multi manager approach. As such, it did not include separate investment manager reports provided by each manager, but provided in the directors report a report and portfolio summary for the whole portfolio. Only one other trust, from the smallest 350 sample, did not provide an investment manager's report in their annual report. The same trust did not provide an investment manager's report in 2010, 2009 and 2008.

Summary information

Again, 29 trusts (97%) included summary information (including financial highlights and/or key events during the year) at the start of their annual reports.
This summary information was largely financial in nature, with only one trust (2010: two) including significant narrative to support its summaries. This year, 21 annual reports also included a trust summary (a general statement about the trust, such as its investment objectives/methods, information about the investment manager or information about its status as an investment trust) within the first few pages of the annual report, a decrease on the prior year. Of the trusts that included summary information, 90% included KPIs (as defined elsewhere in the narrative) within their summary pages, representing a slight decrease on 93% in 2010.



Aberdeen Private Equity Fund Limited Annual Report year ended 31 March 2011

An extract from Aberdeen Private Equity Fund Limited provides an example of summary information pages. It includes financial highlights and also an extensive corporate summary which includes information on its investment objectives and process, investment manager and capital structure.

Key performance indicators

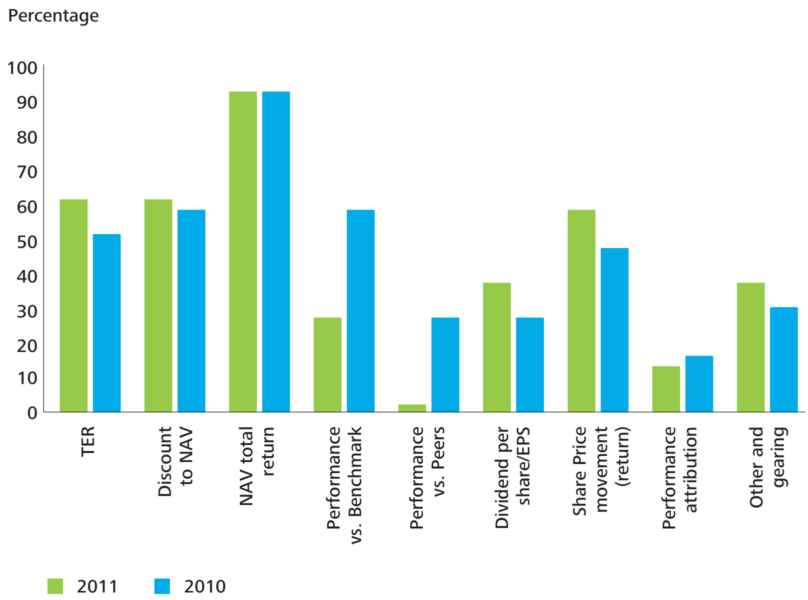
Again, the average number of KPIs has remained at four, in line with that noted in 2010 and 2009. This figure includes both financial and non-financial KPIs but the vast majority of KPIs presented were again financial. Only two trusts had one non financial KPI each.

Only one trust did not identify any KPIs this year. This trust was registered in Guernsey and was therefore not subject to UK company law.

The location of KPI presentation in annual reports seems to be shifting, with 80% of trusts that identified KPIs, presenting KPIs in the director's report or business review (2010 97%), with 7% in a separate statement and 10% elsewhere in the narrative.

As can be seen from the graph below, the categories of KPIs identified have remained roughly in line with the prior year. The notable movements are decreases in the number of trusts identifying comparisons against peer performance within their KPIs (down from 39% in 2009 to 27% in 2010 and now only 3% in 2011) and performance against benchmark (down from 57% in 2010 to 27% in 2011). Net asset value remains the most popular KPI, being cited by 93% of those trusts identifying KPIs (2010: 93%). Increases were also noted in the use of traditional KPIs such as Total Expense ratio (TER) discount to net asset value and share price return.

Figure 66. What type of KPIs are included in the investment trusts' annual reports?



Principal risks and uncertainties

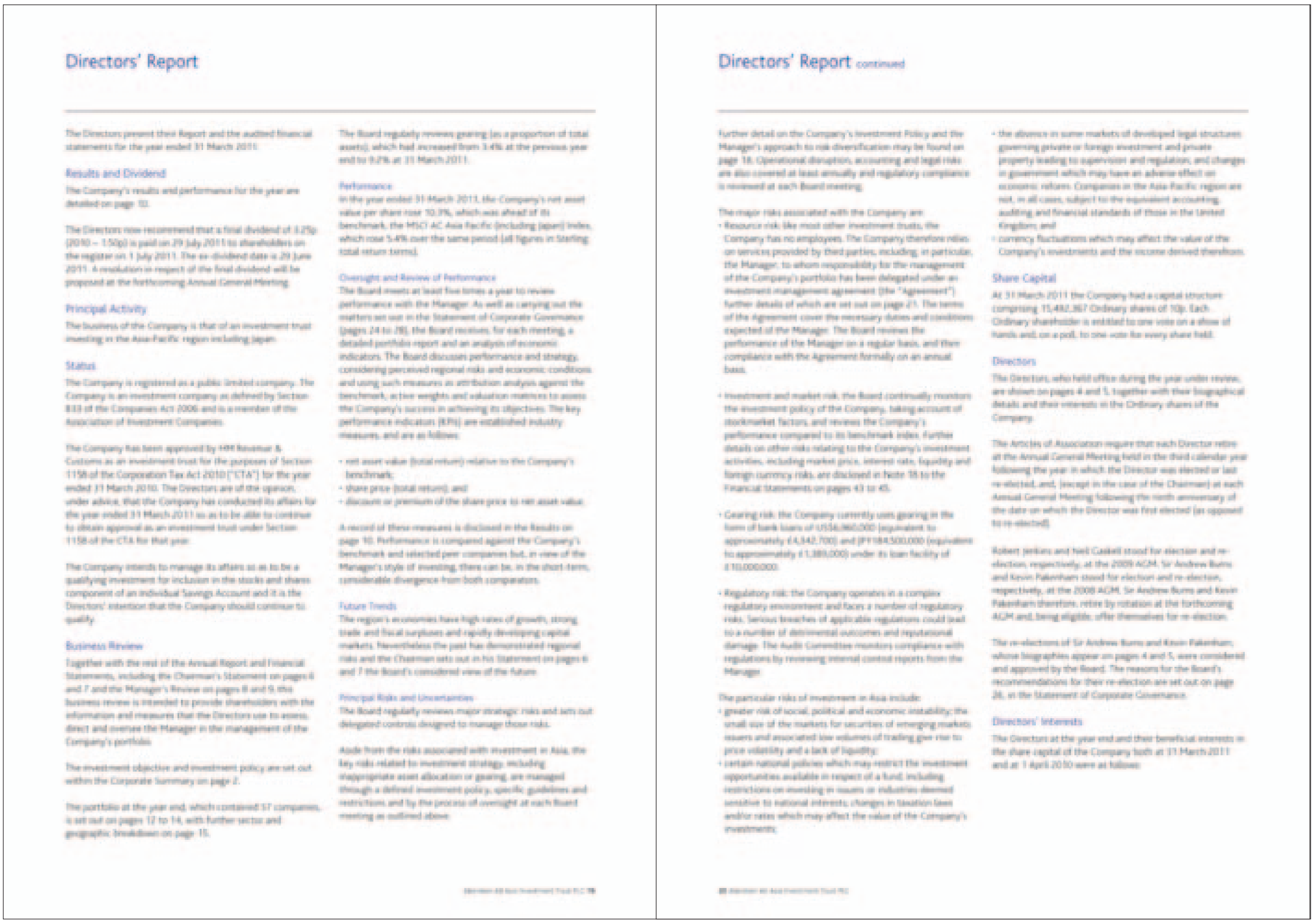
The quality of reporting has improved in the current year, with all trusts identifying principal risks and uncertainties in their annual report (2010: 97%). The trust not identifying principal risks and uncertainties in the prior year was registered in Guernsey and so is not subject to UK company law, but it has now started voluntarily giving this information.

The average number of risks identified has been consistent with last year, with trusts identifying seven risks. There has also been an increase to 97% of the number of trusts including strategic and operational risks as well as financial risks (2010: 90%). The proportion of trusts identifying strategies that have been put in place to mitigate these risks has remained constant at 97%.

Again the average number of KPIs has remained at four, in line with that noted in 2010 and 2009.

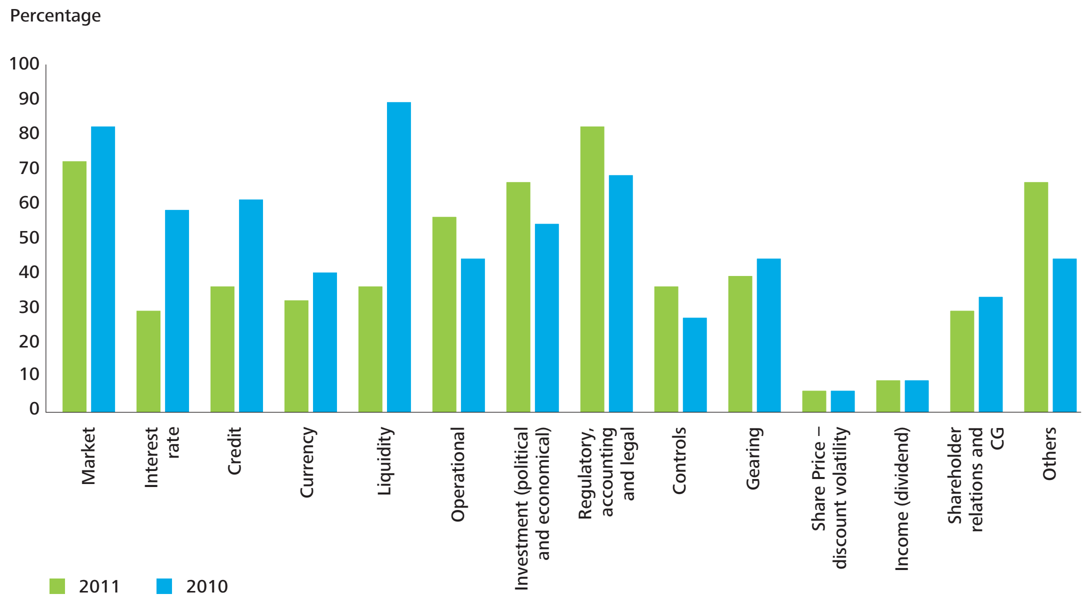
The profile of risk categories is shown in Figure 67. It reflects the comments above, in that operational, political, economic and accounting, regulatory and legal risks show an increase on the prior year. There has also been a fall in the number of trusts disclosing the components of market risk (ie interest rate, currency and other price risk) separately as principal risks.

Aberdeen All Asia Investment Trust plc provides an example of principal risks and uncertainties. It includes a description of regulatory and operational and financial risks as well as market risks with the directors' policy for managing those risks.



Aberdeen All Asia Investment Trust plc Annual Report & Accounts 31 March 2011

Figure 67. What sorts of risks are discussed in the investment trusts' annual reports?



Note that 'CG' in the graph above relates to Corporate Governance risks.

Corporate governance

As noted in previous surveys, the corporate governance disclosures provided by the trusts in the sample varied greatly in quality and quantity. Some trusts provided relatively little information beyond the regulatory minimum. However this is largely because of the nature of their business as an investment trust. Many of the trusts did not have any employees or any executive directors and delegated much of the responsibility of the Board to the investment manager. As a result, many of the 'usual' corporate governance disclosures were not applicable. On the other hand, some trusts did provide insightful, meaningful disclosures that were clearly specific to their business, rather than just generic comments.

In the current year, compliance appears to have improved, with 20% of trusts stating that they were fully compliant with the Combined Code (2010: 7%). 77% stated they were partially compliant and one UK trust did not give enough disclosure for it to be clear whether they had complied or not. Of the partially compliant trusts, 96% identified the provisions that they hadn't complied fully with (2010: 71%) but only 74% of these trusts stated why they had not complied with these provisions.

There are important areas of governance which are specific to investment companies. For example, how does the Board manage its relationship with the investment manager? These aspects are not covered by the Combined Code, but are likely to be of interest to investors and users of the annual report. For this reason, the Association of Investment Companies (AIC) has developed a complementary corporate governance code and related guide. The Financial Reporting Council (FRC) confirmed that trusts who report against the AIC Code of Corporate Governance (AIC Code) and who follow the AIC's Corporate Governance Guide for Investment Companies (AIC Guide) would be meeting their obligations in relation to the Combined Code and paragraph 9.8.6 of the Listing Rules.

Several trusts disclosed that they had reviewed the AIC Code to ensure they had met their specific obligations as investment trusts.

As expected, all trusts had a chairman and two had a chief executive, (up from one in the prior year). This is likely to be due to the fact that the investment managers usually fulfil this role within investment trusts.

All 30 trusts identified their independent non-executive directors (NEDs) by name (2010: 29).

All of the trusts sampled disclosed the number of Board meetings held in the year and showed the attendance at these meetings by individual director (as was the case in the prior year). All of the trusts also showed the number of audit committee meetings held in the year (2010: 29). The trust that did not disclose this information in the prior year was unable to do so because it did not have a separate audit committee and was therefore in breach of the Combined Code's provisions regarding audit committees.

All trusts surveyed, in both 2010 and 2011, included a discussion regarding internal controls within their Corporate Governance reports, and there were no instances of controls breakdowns being identified in either year. All trusts stated that it was the audit committee's responsibility to review the effectiveness of these controls, 100% of whom explained how the effectiveness of these controls had been reviewed.

All of the trusts disclosed from where the Audit Committee's terms of reference could be obtained (2010: 93%).

21 trusts had a nomination committee and 48% of those disclosed information about the process for board appointments. 90% of those trusts disclosed where the committee's terms of reference could be found, compared with 82% in 2010. Disclosure of succession planning was slightly down this year at 33% compared with 40% in 2010.

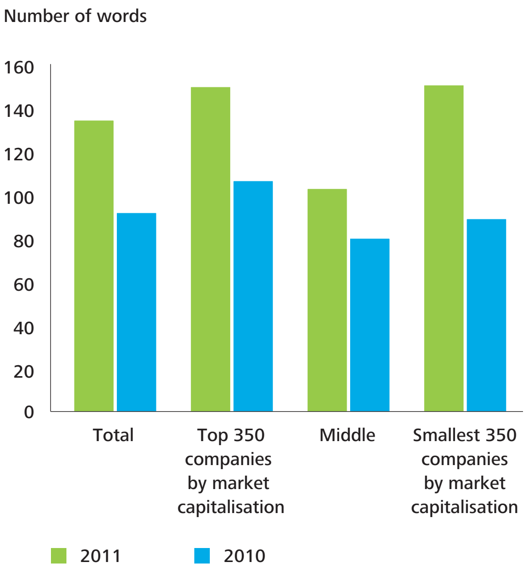
Disclosures about performance evaluation have improved this year for evaluation of committees and directors, and remained the same for the board as a whole. Committee performance evaluation was mentioned by 77% of trusts (2010: 60%) whilst individual director performance evaluation was noted in 80% of trusts' annual reports (2010: 70%). Discussion of the performance evaluation of the board as a whole remained constant at 77% of trusts.

Going concern

Going concern disclosures have remained excellent this year, with all trusts once again making a statement regarding going concern in the narrative part of the annual report. No trusts had an emphasis of matter paragraph in the current year audit report. (Last year, one trust included a statement to say that the financial statements had been prepared on a basis other than the going concern basis. This trust's audit report included an emphasis of matter paragraph regarding the basis of preparation of the financial statements due to its announced intention to conduct an orderly realisation of its investment portfolio.)

The length and hence amount of detail given in the going concern disclosure has also increased on average. This year the average length was 135 words (2010: 93 words). This increase was across the categories and is shown in figure 7 below:

Figure 68. What is the average length of going concern disclosure in investment trusts' annual reports?

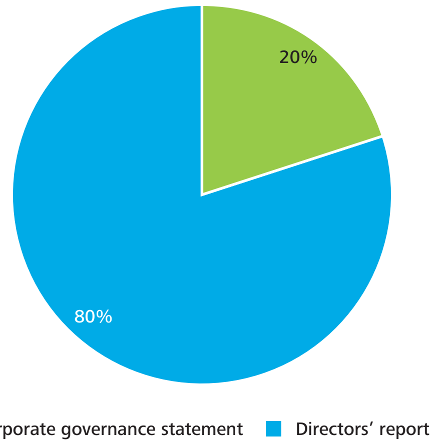


The FRC has previously highlighted the importance of clear disclosure regarding going concern and liquidity risk, given the difficult prevailing market conditions of the last few years. Disclosures in this area have also improved since 2009, with 50% of trusts making cross references to risks and uncertainties or liquidity from their going concern discussion (2010: 27%, 2009: 7%).

Six trusts made reference to the length of budgets or forecasts that had been considered as part of their going concern assesments (2010: no trusts).

As shown in the figure below, most trusts chose to discuss the going concern basis within the directors' report, with the remainder including this discussion in the corporate governance statement. This was also the case in the prior year. However the proportion of trusts presenting this information in the directors' report has decreased slightly from 83% to 80%.

Figure 69. Where is the statement on going concern located?



Witan Investment Trust plc includes an example of a going concern statement (right).

Income statement

Once again, none of the investment trusts in the survey presented any non-GAAP measures on the face of their income statement, consistent with last year's survey. There was also a greater degree of consistency in the presentation of the income statement, compared to the corporates, providing users more comparability across investment trusts. The greater degree of consistency is explained by the similar nature of the investment trusts and the existence of industry-specific guidance included in the SORP.

All of the trusts that noted adoption of the SORP had presented revenue, capital and a total column on the face of the income statement as required. All of the trusts presented the return per share at the foot of their income statement, the SORP-complying trusts showing separate values for both revenue and capital, with 36% referring to this as "earnings/ loss per share" (2010: 43%). All but two of the trusts who reported under IFRS referred to the income statement as a statement of comprehensive income.

Balance sheet

Balance sheets were similar in terms of size and presentation. The number of lines ranged from 11 to 24 lines, with an average of 16 lines presented (2010: 16 lines).

All trusts adopting the SORP presented their balance sheets with current and non-current assets and liabilities categories, with a clear analysis in terms of ageing. One of the Guernsey trusts presented assets and liabilities in order of liquidity.

All disclosed their net asset value per share at the foot of their balance sheets. Separate information on how this was calculated was disclosed by all of the trusts.

(b) Going concern
The Group's business activities, together with the factors likely to affect its future development and performance, are set out in the Business Review section of the Directors' Report on pages 6 to 17. The financial position of the Group as at 31 December 2010 is shown in the balance sheet on page 45. The cash flows of the Group for the year ended 31 December 2010, which are not untypical, are set out on page 46. The Company had fixed debt and preference share capital totalling £110,246,000, as set out in note 13 on page 57; none of the borrowings is repayable before 2016. The Group had no short term borrowings at 31 December 2010 but shortly before the year end put in place a one year secured multi-currency borrowing facility for £50 million. Note 14 on pages 57 to 64 sets out the Group's risk management policies and procedures, including those covering currency risk, interest rate risk and liquidity risk. As at 31 December 2010 the Group's total assets less current liabilities exceeded its total non current liabilities by a multiple of over ten. The assets of the Group consist mainly of securities that are held in accordance with the Company's investment policy, as set out on page 11. Most of these securities are readily realisable even in volatile markets. The directors, who have reviewed carefully the Group's budget and forecast for the coming year, consider that the Group has adequate financial resources to enable it to continue in operational existence for the foreseeable future. Accordingly, the directors believe that it is appropriate to continue to adopt the going concern basis in preparing the Group's accounts.

Witan Investment Trust plc Annual report 2010

Cash flow statement

As with the income statement and balance sheets, the cash flow statements were also presented on a relatively consistent basis across the trusts sampled. Consistent with last year's survey, all relevant trusts showed dividends received as cash flows from operating activities.

Where dividends were paid, those trusts reporting under UK GAAP disclosed them as a separate item in accordance with FRS 1, whilst those reporting under IFRS classified them under financing activities as permitted by IAS 7.

All relevant trusts showed interest received as cash flows from operating activities apart from one which classified it as investing activities.

Accounting policies

The length of the accounting policies note presented by trusts in this year's survey ranged from one to five pages with an average length of two pages. This average length was broadly consistent across each of the size categories.

The graph below shows the page ranges across the size categories.

Revenue recognition policies varied in length. Some smaller trusts were seen to be providing more detail than medium sized trusts as illustrated in Figure 71. The length of the revenue recognition policy in the largest trusts grew, with 90% presenting policies of between 101 and 250 words. The results from the middle and smallest categories were broadly consistent with last year's survey.

Figure 71. How long is the revenue recognition policy?

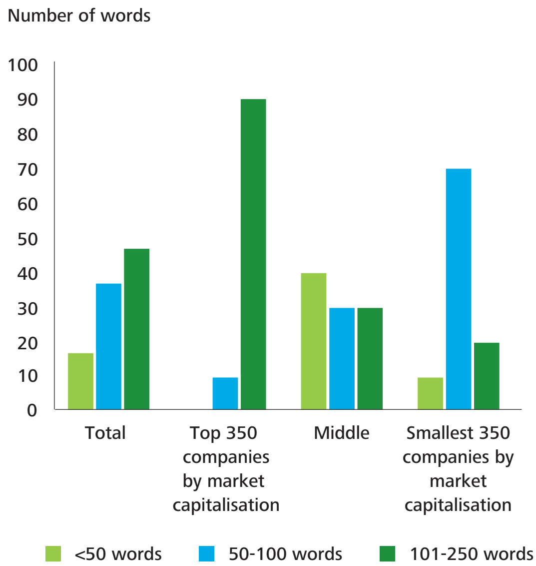


Figure 70. How long is the accounting policies note?

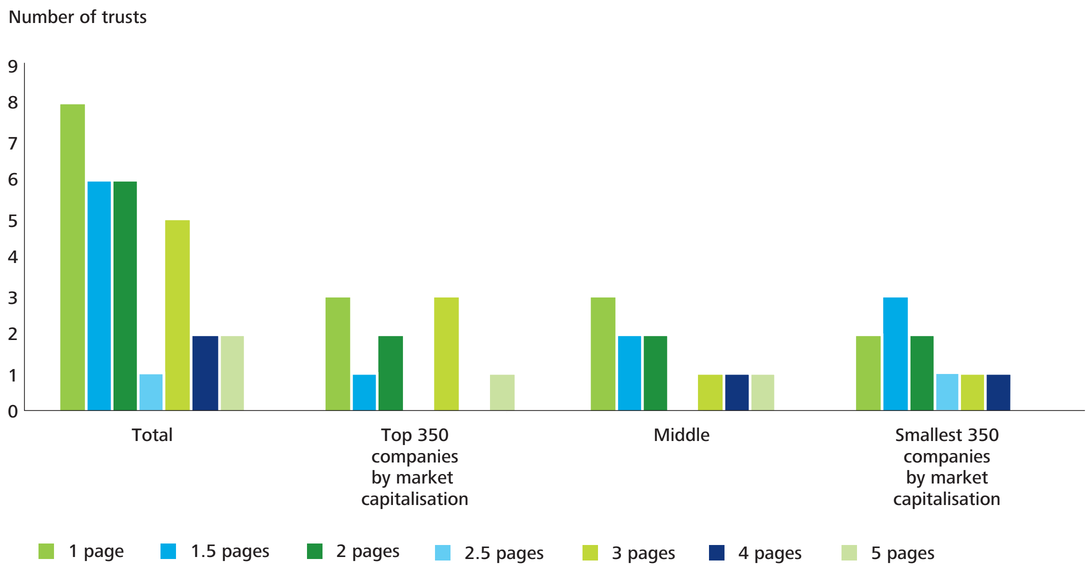
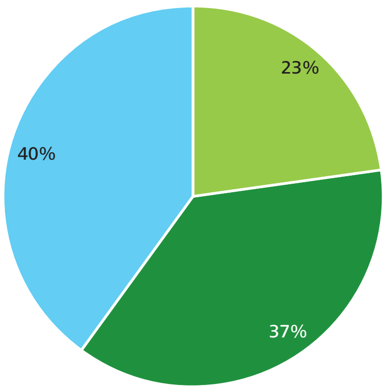
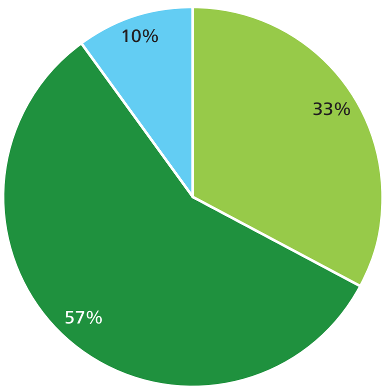


Figure 72. How are costs allocated between revenue and capital?

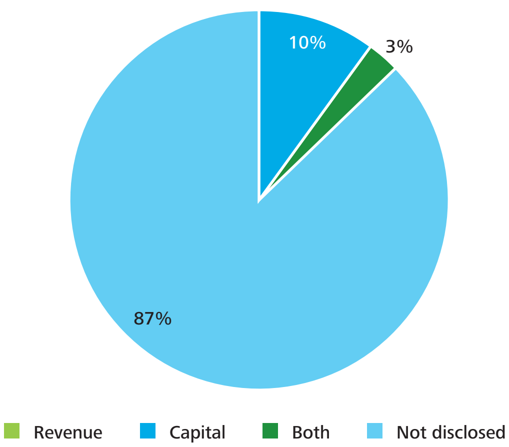
Finance Costs



Investment Management Fees



Performance Fees



The length of disclosures around financial instruments varied considerably, ranging from one and a half (2010 – three) to seven and a half (2010 – eight) pages …

Financial instruments

Investment trusts surveyed fell within the scope of either FRS 29 or IFRS 7 *Financial Instruments: Disclosure*. Disclosures were included in the notes to the financial statements. The length of disclosures around financial instruments varied considerably, ranging from one and a half (2010 – three) to seven and a half (2010 – eight) pages in the annual reports surveyed, marking a greater range, but slightly lower average than last year. The average length was around four pages (2010: four and a half pages.)

Other notes to the financial statements

Only two trusts in the sample presented more than one segment (2010: four trusts). One of these trusts presented two segments and the other presented three. Only 36% of the trusts which presented only one segment explained the basis for this.

Costs

Allocations of finance costs, investment management fees and any performance-related fees were reviewed as part of the survey:

Finance costs tended to be shown in both revenue and capital columns or just in the revenue column. Likewise, investment management fees also continued to have a wide range of treatment of whether costs are attributable to revenue or capital accounts. 33% of trusts included the investment management fees in revenue account (2010: 23%), the majority (57%) allocating costs between both revenue and capital (2010: 63%). Where the trusts split their investment management fees, they detailed their basis for allocation as required by the SORP in all but one instance.

16 trusts had performance fee arrangements. Of these, only four trusts actually paid performance fees in the current year. Of these four trusts, one allocated performance fees to revenue and capital, the other three allocated them just to capital.

The SORP also requires disclosure of transaction costs incurred on acquiring and disposing of investments during the period. 47% (2010 – 53%) of trusts included this information in the notes to their financial statements.

Reserves

The SORP recommends that trusts disclose clearly which of their reserves were distributable and their movements. This has again improved in the year. 19 (2010: 13) trusts clearly presented this information.

Investment portfolio

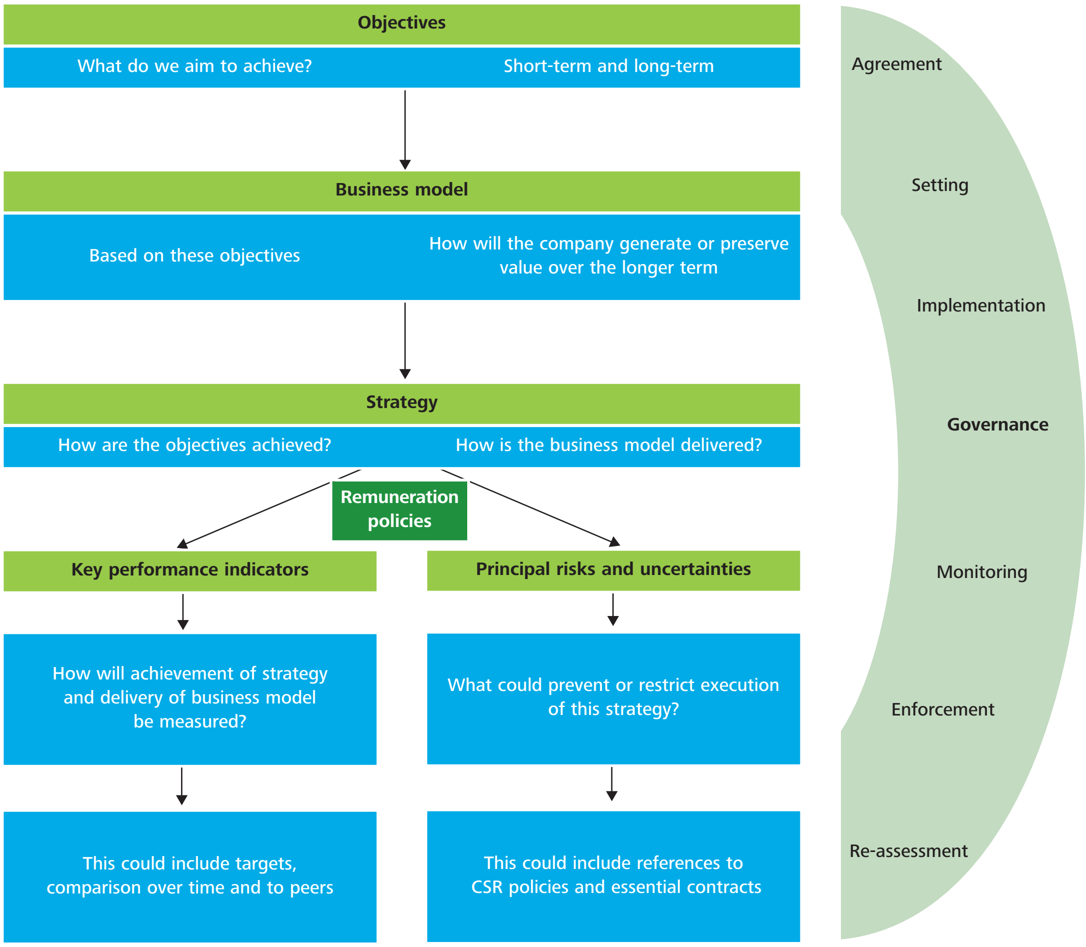
The SORP includes requirements for trusts to disclose a broad geographical and industrial analysis of their portfolio, specifically listing all investments representing 5% or more of their portfolio and as a minimum their ten largest investments. This is required when the trusts are investing in more than one location and one industry.

In an improvement on the prior year, the SORP's requirement for a broad geographical and industrial analysis was met by all trusts in the sample (2010: 26 trusts). The four trusts that did not comply with this standard in the prior year were the two which did not apply the SORP and the other two trusts which provided only information for their top investments and not an analysis covering the whole investment portfolio. For all trusts, disclosure of this information was included in the front half of their annual report.

47% (2010: 47%) of trusts disclosed their entire investment portfolio and the remainder disclosed at least their top ten investments by size. The number of investments disclosed ranged from ten to 82 and in most cases covered the majority of their portfolio. The average number of investments disclosed in the front half of the reports was 35 (2010: 31).

Appendix 1 – The missing links

The following chart was included in last year's survey "Swimming in words" but papers issued by BIS and the FRC in September 2011 on narrative reporting and effective company stewardship confirm its continued relevance. Linking the elements of the annual report is crucial to aiding the readers focus and understanding and helps to "tell the story" in a cohesive manner. Remuneration policies have been added as there is increasing pressure on companies to provide a clear link between performance, risk and reward.



Appendix 2 – Glossary of terms and abbreviations

AIC Association of Investment Companies
The Association of Investment Companies is the trade organisation for the closed-ended investment company industry. Amongst other initiatives, it provides technical support and guidance to Members and their advisers in areas such as accounting, tax, company law and regulation.

ASB Accounting Standards Board
The role of the Accounting Standards Board is to issue UK accounting standards. The ASB also collaborates with accounting standard-setters from other countries and the International Accounting Standards Board (IASB) both to influence the development of international standards and to ensure that its standards are developed with due regard to international developments.

BR Business Review
The Companies Act 2006 requires that directors' reports include a Business Review.

CA06
Companies Act 2006.

CGU Cash generating unit

CSR Corporate social responsibility
Corporate social responsibility is about how businesses take account of their economic, social and environmental impact. The Companies Act 2006 requires that companies disclose information, about environmental matters, their employees, and social and community issues, in their annual report.

DTR Disclosure and Transparency Rules
These rules, which include requirements for periodic financial reporting, replace some of the Listing Rules and have been inserted into the Disclosure Rules sourcebook of the Financial Services Authority (FSA).

EBITDA Earnings before interest, tax and amortisation

EPS Earnings per share

EU European Union

EU Takeovers Directive
The main objectives of the Directive are to provide a framework of common laws for takeovers in the EU. It has been implemented in the UK via the Companies Act 2006. It requires in the directors' report certain disclosures about capital structures.

FRC Financial Reporting Council
The UK's independent regulator responsible for promoting confidence in corporate reporting and governance.

FRRP Financial Reporting Review Panel
The Panel seeks to ensure that the annual accounts of public companies and large private companies comply with the Companies Act 2006 and applicable accounting standards.

FSA Financial Services Authority
The Financial Services Authority is an independent non-governmental body, given statutory powers by the Financial Services and Markets Act 2000. The FSA regulates the financial services industry in the UK and acts as the Competent Authority for setting and enforcing the rules applicable to listed companies and those admitted to trading on a regulated market.

FTSE 100/350 Financial Times Stock Exchange top 100/350 companies (share index)

GAAP Generally accepted accounting practice
IAS International Accounting Standard

IASB International Accounting Standards Board
The IASB is an independent body that issues International Financial Reporting Standards.

IFRSIC International Financial Reporting Standards Interpretations Committee (formerly IFRIC)
IFRIC is the term given to describe Interpretations issued by the Committee which has been renamed the IFRS Interpretation Committee (IFRSIC). It develops interpretations of IFRSs and IASs, works on the annual improvements process and provides timely guidance on financial reporting issues not specifically addressed by the existing standards.

IFRS International Financial Reporting Standard(s)

KPI Key performance indicator
A factor by reference to which the development, performance or position of the company's business can be measured effectively.

Listed company
A company, any class of whose securities is listed (i.e. admitted to the Official List of the UK Listing Authority).

Listing Rules
The Listing Rules made by the UK Listing Authority for the purposes of Part VI of the Financial Services and Markets Act 2000 and published in the manual entitled 'The Listing Rules' as from time to time amended.

Market capitalisation
A measure of company size calculated as share price multiplied by the number of shares in issue at a certain point in time.

OFR Operating and financial review
The OFR is a voluntary statement for inclusion in annual reports. It provides an analysis of the business through the eyes of the board of directors. Where an OFR is prepared, the Reporting Statement: Operating and Financial Review issued by the ASB provides recommendations on best practice.

PPE Property, plant and equipment

Quoted Company
Section 385 of the Companies Act 2006 defines a quoted company as a company whose equity share capital:

a) has been included in the official list in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000; or

b) is officially listed in an EEA State; or

c) is admitted to dealing on either the New York Stock Exchange or the exchange known as Nasdaq.

Regulated market
Regulated market is defined in the Markets in Financial Instruments Directive. The European Commission website also includes a list of regulated markets at: *http://ec.europa.eu/internal_market/securities/isd/index_en.htm*

RS The Reporting statement: Operating and Financial Review
A statement of best practice on OFRs published by the ASB in January 2006.

SOCIE Statement of Changes in Equity

SORIE Statement of Recommended Income and Expense

SORP Statement of Recommended Practice

Stock Exchange London Stock Exchange

STRGL Statement of total recognised gains and losses

TOD EU Transparency Obligations Directive
This directive aims to enhance the transparency of publicly traded companies through an EU-wide framework, by improving the information available to investors. It has been implemented in the UK via the DTR (see above).

Turnbull guidance
The guidance issued by the Turnbull Committee in September 1999 (subsequently updated in 2005) to assist listed companies in implementing the requirements of the Combined Code relating to internal control.

UITF Urgent Issues Task Force
The UK equivalent of IFRIC (now renamed IFRSIC). The UITF assists the ASB in interpreting existing standards under UK GAAP.

UK Corporate Governance Code
The UK Corporate Governance Code sets out standards of good practice on issues such as board composition and development, remuneration, accountability and audit, and relations with shareholders. All companies incorporated in the UK and listed on the Main Market of the London Stock Exchange are required under the Listing Rules to report in their annual report on how they have applied the UK Corporate Governance Code.

UKLA UK Listing Authority
The FSA acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000.

How can we help?

Deloitte would be pleased to advise on specific application of the principles set out in this publication. Professional advice should be obtained as this general advice cannot be relied upon to cover specific situations; application will depend on the particular circumstances involved. If you would like further, more detailed information or advice, or would like to meet with us to discuss your reporting issues, please contact your local Deloitte partner or:

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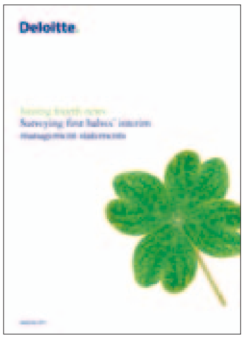
The Deloitte Global Centre for Corporate Governance
For further information and resources on governance matters please refer to:

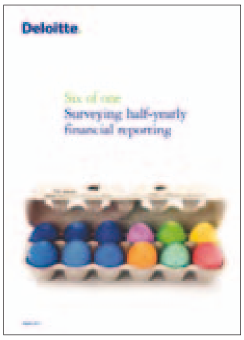
www.corpgov.deloitte.com/site/uk

Related publications

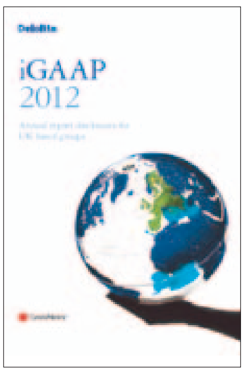
The following publications survey a consistent sample of companies through a full cycle of periodic financial reporting requirements. All are available at www.deloitte.co.uk/audit.



Issuing fourth news – Surveying first halves' interim management statements (September 2011)
This publication considers how UK listed companies have met the requirements for an interim management statement (IMS) in the fourth year of compliance with the Disclosure and Transparency Rules.



Six of one – Surveying half-yearly financial reporting (March 2011)
"Six of one" analyses half-yearly financial statements. It reviews compliance with the Disclosure and Transparency Rules and IAS 34, how companies dealt with developments in IFRSs and what information companies choose to include in their Interim Management Report (the narrative part of the half-yearly financial report).



iGAAP 2012 – Financial statements for UK listed groups (due to published on 30 November 2011)
This publication illustrates the disclosures in force for December 2011 year ends.

Notes

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Designed and produced by The Creative Studio at Deloitte, London. 14023A

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