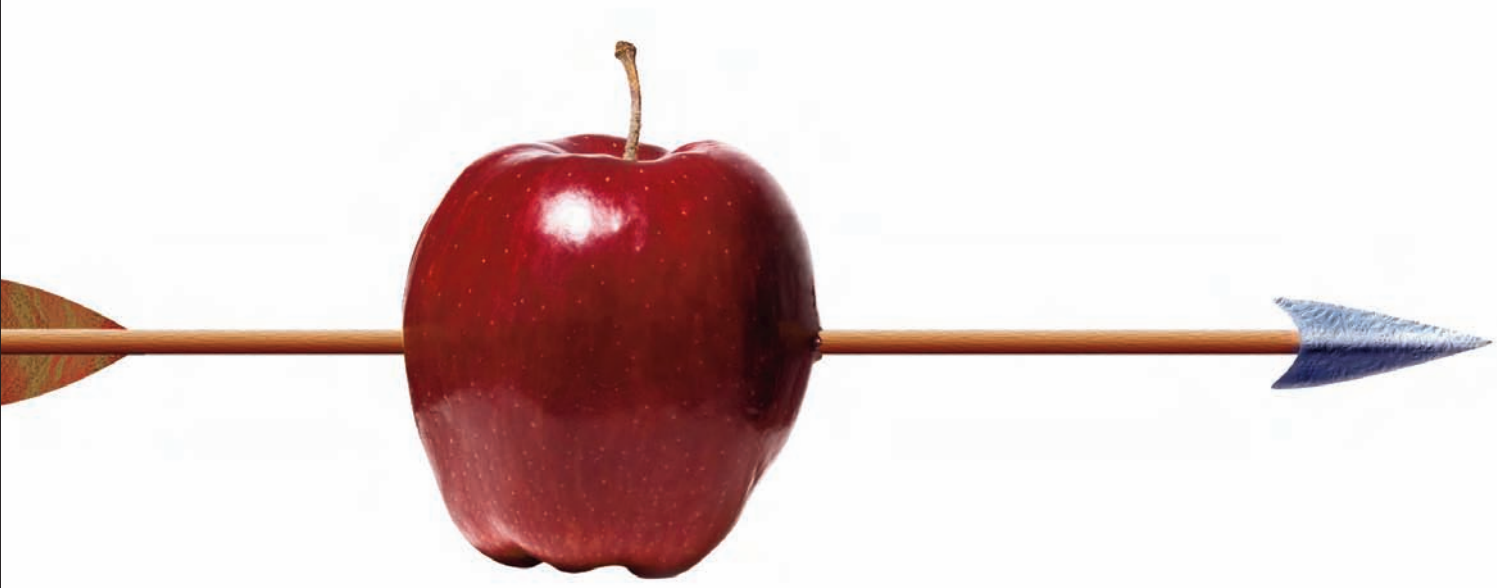
Deloitte.

A telling performance
Surveying narrative reporting in annual reports



Contents

1. Executive summary

A Financial Reporting Council report, published in October 2009, contains the following:

"Addressing the requirements of the FRSSE, UK GAAP, IFRS, CA2006 and the Listing Rules that apply to a company may lead it to address going concern and liquidity risk in different sections of its annual report and financial statements. This may create difficulties ... in seeking to obtain a clear, comprehensive and cohesive understanding of the issues facing the company".

The main adjectives therein probably represent an unintended alliteration by the FRC and it is regrettable that overused adjective "dysfunctional" is missing. That's because dysfunctional is a good way to describe the competing disclosure regimes applying to the front half of companies' annual reports.

Despite this, companies have performed better in 2009 than in 2008 in meeting the disclosure demands. That's the main message from this 2009 annual Deloitte survey looking at what companies report in the narrative sections, that is the parts outwith the audited financial statements, of their annual reports. As with 2008, the population of listed companies is split into two categories, being investment trusts which make up 40% of listed companies (38% in 2008) and other companies. The findings on investment trusts are reported in section 13 while the results for other companies are reported in sections 4 to 12.

The main findings for companies other than investment trusts are:

- the length of the annual report has increased by 3% compared with 2008 and by 41% compared with 2005. There are no signs of recession here. The hope that 2008 was a plateau has been proven unfounded. While some companies have taken the option to publish some information on their websites rather than in the annual report, this has not compensated for the need to say more to meet the disclosure requirements and to tell how companies have performed in the choppy economic conditions in 2008/9;

- 62% of those companies, which reported after the November 2008 FRC Update on going concern and liquidity risk was published, clearly took on board voluntarily the guidance therein. They provided on average 253 words on going concern matters;

- nine companies (2008: five) had received modified audit reports, seven (2008: four) of which related to group going concern. Another one related to a subsidiary going into administration post year-end;

- three areas saw dramatic increases compared with 2008: 83% (2008: 47%) discussed their capital structure and financing; 68% (2008: 48%) discussed treasury policies and 47% (2008: 22%) discussed their current and prospective liquidity. In some cases companies were merely reassuring the market about the strength of their financial position. For about a third of companies, relative weaknesses or uncertainties related to their going concern and liquidity positions were discussed;

- 96% of companies (2008: 89%) clearly described their principal risks and uncertainties. Companies disclosed eight risks on average, with one FTSE 350 company identifying 30. The state of the economy was the most commonly noted risk;

- 84% of companies (2008: 77%) identified clearly their key performance indicators. The average number of KPIs per company was eight, of which five were financial in nature and three were non-financial. While these statistics are strong, companies' performance in explaining the KPIs selected and their link with strategy was relatively poor, with less than half doing so;

- 35% (2008: 30%) of companies complied fully with the provisions of the Combined Code on corporate governance, the remainder using the facility to explain the areas in which they had not complied. The results demonstrated the relative burden of the Code on smaller listed companies, with only 18% complying in full; and

- only four out of 100 companies (2008: five) claimed that they had complied with the ASB's Reporting Statement on operating and financial reviews.

The ASB has announced that it is carrying out a survey of narrative reporting in 2009, following up on the survey which it did a couple of years ago. The results of this Deloitte survey suggest that the ASB needs to take action to withdraw its Reporting Statement and to consider issuing a document which tackles the dysfunctional disclosures and provides companies with a complete and logically ordered guide to narrative reporting.

2. Regulatory overview

Narrative reporting by UK listed companies is subject to a complex tapestry of requirements, which has evolved significantly over the last couple of years and will continue to do so for the foreseeable future. This section provides an overview of the regulations and guidance which shape some of the "front half" of annual reports, being:

Disclosures	Source
Directors' report, including the business review	Companies Act 2006
The Operating & Financial Review	The Accounting Standards Board's (ASB) Reporting Statement: Operating and Financial Review
Corporate governance	The Listing Rules The Disclosure and Transparency Rules The Combined Code (the Code) and supporting guidance
Other disclosures	The Disclosure and Transparency Rules

Also discussed here are directors' liability and changes that may be made to the narrative disclosure regime in the foreseeable future. It excludes the directors' remuneration report, the regulatory requirements for which are covered in the separate Deloitte publication, *'Know the ropes – the remuneration committee knowledge'*.

Directors' report, including the business review

The general requirement to produce a directors' report is contained in section 415 of the Companies Act 2006.

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.

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 in relation to those matters and the effectiveness of those 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.

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 only be omitted 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 Operating and Financial Review

The 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.
The statement was originally issued in 1993 and subsequently revised in 2003 and 2006. While the Government had been planning to make compliance with the ASB statement mandatory in 2005, this did not happen and thus adherence to the ASB Statement has remained voluntary throughout its existence.

If a narrative report is called an 'Operating and Financial Review' (OFR) there is an expectation that directors will have followed the ASB's guidance and if this is not the case it would be useful to give the narrative report a different name, such as a 'Business Review'. In practice, as discussed in section 12 of this publication, only a handful of companies included in the survey called their narrative report an OFR or stated compliance with the RS. This publication refers to 'OFR-style information' which includes both formal OFRs and where companies have covered many of the items recommended by the RS within their chairman's and/or chief executive's statement, business review and financial review.

Corporate governance disclosures

Corporate governance statements – the Combined Code and Listing Rules

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 'Smith Guidance').

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.

An updated Combined Code was issued in June 2008 which applies to accounting periods beginning on or after 29 June 2008. In practice this means that most companies will begin to apply the 2008 Code in 2009 and will report against its requirements for the first time in 2010.

The updated version includes two amendments to the 2006 Code:

- to remove the restriction on an individual chairing more than one FTSE 100 company; and
- to allow 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.

Corporate governance statements – the DTR

Following amendments to the EU Fourth, Seventh and Eighth Directives, the Financial Services Authority (FSA) has introduced new rules into the Disclosure and Transparency Rules (DTR) on corporate governance statements and audit committees. These rules apply to all UK companies, which have shares and/or debt admitted to trading on a regulated market in the EU, for periods commencing on or after 29 June 2008.

Listed companies will have to 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 Combined 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;

- major shareholdings and related matters already required by the Takeover Directive; 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 2008 Code, many of these disclosures will already be in place. What is new 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 the new DTR 7.2, companies whose securities 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 Smith Guidance

In October 2008 the Financial Reporting Council (FRC) issued a new edition of the Smith Guidance on audit committees. The report includes the following new recommendations 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; and

- considers the need to include the risk of the withdrawal of their auditor from the market in their risk evaluation and planning.

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.

Companies were invited to adopt the best practice guidance with immediate effect, but the recommendations on disclosure are only intended to apply to reports covering operating periods ending on or after 30 June 2009. This means that they take effect at the same time as new disclosure requirements contained in the revised Code and the DTR corporate governance rules discussed above.

Other disclosures

UK companies with shares and/or debt admitted to trading on a regulated market also have to comply with the requirements on periodic financial reporting in the DTR issued by the FSA. These rules replace some of the Listing Rules for such periods and are derived from the EU Transparency Obligations Directive. The DTR require most listed companies to prepare an annual management report. With one minor exception, these requirements duplicate the existing requirements within UK law for the directors' report.

The requirements of DTR 4.1 for the annual report include a 'responsibility statement'. This is in force for annual periods beginning on or after 20 January 2007. ISA (UK and Ireland) 700 (revised), which is applicable for periods commencing on or after 6 April 2008 and ending on or after 5 April 2009, requires that the audit report contain 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. This is presumably driven by a concern that removing the statement required under the old ISA could imply that directors were taking less responsibility for the accounts and reports.

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.

The responsibility statement is discussed in more detail in section 6 of this publication.

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.

On the horizon

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

Review of the Combined Code

At the beginning of 2009 the FRC announced another review of the impact of the 2008 Combined Code on Corporate Governance. Views were invited on the following questions:

- Which parts of the Code have worked well? Do any of them need further reinforcement?

- Have any parts of the Code inadvertently reduced the effectiveness of the board?

- Are there any aspects of good governance practice not currently addressed by the Code or its related guidance that should be?

- Is the 'comply or explain' mechanism operating effectively and, if not, how might its operation be improved?

In addition Sir David Walker was asked by the Chancellor of the Exchequer to review the corporate governance arrangements of the UK banking industry. The terms of reference for this review included consideration of the following areas:

- the effectiveness of risk management at board level including the incentive in remuneration policy to manage risk effectively;
- the balance of skills, experience and independence required on the boards of UK banking institutions;
- the effectiveness of board practices and the performance of audit, risk, remuneration and nomination committees; and
- whether the UK approach is consistent with international practice and how national and international best practice can be promulgated.

Sir David published his proposed recommendations in July 2009 and invited comment on these by 1 October. These will seek to address weaknesses in risk management, board quality and practice, control of remuneration and the exercise of ownership rights. Sir David's intention is to issue final recommendations in November 2009.

The FRC issued in July 2009 a progress report on its review of the Combined Code, which summarised the responses to the initial consultation paper, of which there were over 100, identified the areas of the Code the FRC may consider updating and cross-referred those areas to the relevant recommendations contained in the Walker Review consultation document. In particular the FRC is seeking views during the same period to October 2009 on whether the Walker Review recommendations should extend to all non-financial listed companies or some sub-set of those. The FRC aims to publish its final report, and begin consultation on whatever changes may be proposed to the Combined Code, before the end of the year. Subject to the outcome of that consultation, a revised Code would take effect in mid-2010.

Going concern

In November 2008 the FRC published an *Update for directors of listed companies: going concern and liquidity risk*. The Update brought together the requirements on directors to comment on going concern and liquidity in annual reports and accounts, in the light of the significant economic difficulties that were being experienced in the latter half of 2008. However, its status was that of guidance and it did not replace the formal 1994 Guidance on going concern to which reference is currently made in the Listing Rules. Section 11 of this publication considers how companies have adopted the Update's recommendations.

In October 2009 the FRC published updated guidance for directors of UK companies for implementation for periods ending on or after 31 December 2009. It is expected that the FSA will take the necessary steps to replace the 1994 Guidance with the 2009 Guidance to meet this timetable.

The updated guidance brings together the Update published in November 2008 and the 1994 Guidance and draws on the experience gained in the first half of 2009. The format and style of the updated guidance is significantly different to the 1994 guidance. It follows the same practical approach to making a going concern assessment but seeks more disclosures. The FRC believes that its impact will be to support directors making high quality assessments of going concern and providing effective disclosures without increasing the costs for companies or users of financial statements.

IASB exposure draft 'management commentary' and the ASB's review of narrative reporting

This exposure draft presents the International Accounting Standards Board's (IASB) proposals for a broad framework for the preparation and presentation of management commentary to accompany financial statements in accordance with International Financial Reporting Standards (IFRSs). The IASB makes it clear that it is for the management of an entity to decide how best to apply this framework in the particular circumstances of its business. The Board's proposals are intended to provide a basis for the development of good management commentary. It offers a non-binding framework which could be adapted to the legal and economic circumstances of individual jurisdictions. The guidance has been developed to apply to publicly traded entities.

The IASB's ED is similar in content and proposed status to the ASB's RS. The ASB carried out a review of narrative reporting in 2007 and is planning to issue a further report in 2009.

3. Survey objectives

The main objectives of the survey were to discover:

- what narrative reporting listed companies have provided in their annual reports;
- how disclosures varied depending on the size of the company;
- how companies met the requirements of the Companies Act 2006 to provide a business review within the directors' report;
- to what extent companies have adopted the recommendations in the ASB's best practice RS; and
- how the results 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 2008 survey, 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 and mergers over the last twelve 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 2009, 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 2008 to 31 July 2009.

Consistent with last year, the scope of the survey included a review of corporate governance statements in annual reports against the provisions of the 2006 Code. It seemed timely to understand in more detail how companies are performing in this area as the new regulatory requirements under the DTR came into force for periods commencing on or after 29 June 2008.

As noted above the findings for investment trusts are analysed separately within this publication. Sections 4 to 12 summarise the results for the 100 companies excluding investment trusts and section 13 reviews the 30 investment trusts.

The disclosures in the directors' remuneration report are not covered in this publication but are studied in the Deloitte publication *Executive directors' remuneration* published in September 2009.

4. Overview of the annual report*

- Annual reports continue to increase in length and are 3% longer than in 2008.
- Average length of narrative reporting falls from 54% to 52% year on year.
- Companies report quicker with average reporting speed falling from 78 to 75 days.

Length of annual report

The trend noted over recent years has continued in 2009, with the overall length of annual reports increasing to an average of 99 pages (2008: 96), an increase of 3%. The largest increase is seen in the top 350 companies (up 5% on prior year) whereas the length of the smallest companies' annual reports has remained flat at 64 pages. It is perhaps surprising that annual reports have increased in length given that some companies have sought to make the reports shorter or at least less glossy to save costs and that some are now opting to put information on their websites e.g. environmental information which might hitherto have been included in their annual reports. On the other hand, there have been some additional disclosure requirements in 2008 and 2009 and the current economic climate and its effect on companies' results will have warranted further explanations.

Over the four year period since the 2005 survey, the average length of reports has grown by 41% from 70 to 99 pages. The most significant increases in length are seen in the middle group of companies whose reports have increased by 46% since 2005, from an average of 57 to 83 pages. Length of reports for the smallest 350 companies has increased from 47 to 64 pages and the top 350 companies from 108 to 147 pages.

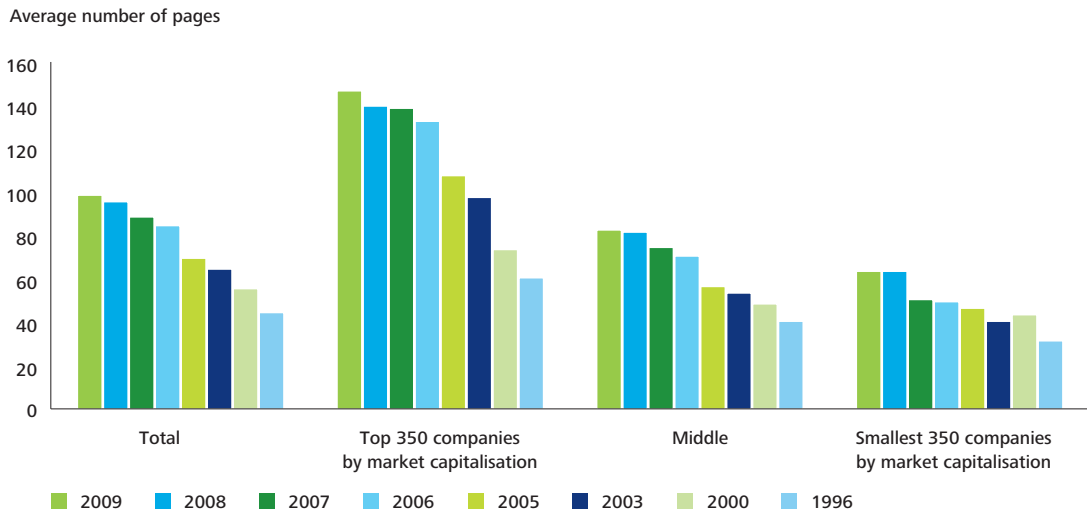
The longest report was 469 pages (2008: 473) and the shortest was 32 pages in length (2008: 30).

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 the pages in the annual report excluding the audited financial statements. The 'narrative' reporting typically includes some or all of the following sections:

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

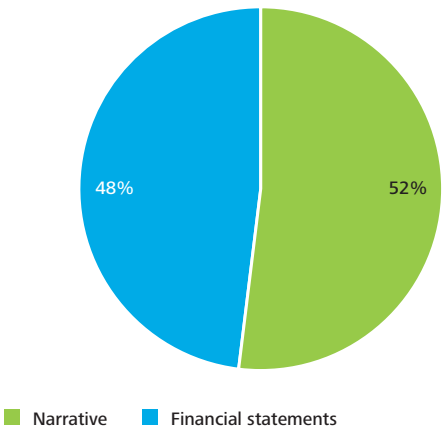
Figure 1. What is the overall length of the annual report?



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

The balance of narrative versus financial statements as a proportion of the total annual report has shifted slightly from the prior year. As shown in figure 2, below, financial statements now represent on average 2% more of the total report than last year at 48% (2008: 46%). The overall shift is to an increase in length of the financial statements. The larger companies continue to devote more of the report to narrative information than the middle and smaller companies, with total narrative of 56%, 50% and 45% respectively (2008: 59%, 51% and 47% respectively). The relative decline between 2008 and 2009 may be due to the factors referred to above regarding information being moved to company websites or separate reports.

Figure 2. What is the balance of narrative and financial reporting in the annual report?



Speed of reporting

The DTR require that the annual report, which includes the audited financial statements, a management report and the responsibility statement, is published within four months of the end of the financial year. This is a significantly shorter deadline than the six months allowed under the previous Listing Rules.

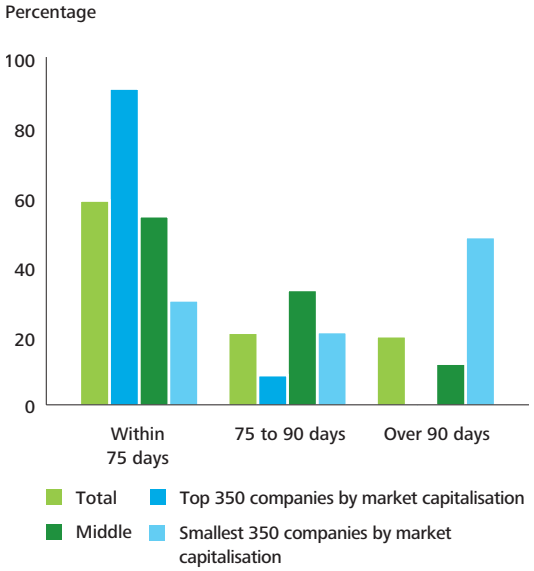
All companies included in the survey are required to comply with the DTR requirement to publish their annual report within four months of their year-end. The potential impact of not complying with this rule is the suspension of shares.

Overall compliance with this requirement was good, with 99 companies meeting the deadline. The company which missed the deadline announced its preliminary, unaudited results within four months, but took 141 days to approve its financial statements.

During this period administrators were appointed to two of its subsidiaries and a company voluntary arrangement was entered into.

Of the 99 companies, 59 approved their financial statements within 75 days, 21 within 76 to 90 days and the remaining 19 companies over 90 days. Despite fewer companies reporting within 75 days (2008: 61 companies), there was an overall improvement in speed of reporting on prior year with only 20% of companies reporting after 90 days (2008: 25%) and the average number of days falling from 78 to 75.

Figure 3. How quickly was the annual report approved in 2009?



The largest companies were the quickest reporters, with 91% reporting within 75 days and the remaining 9% within 90 days, which is consistent with last year. Middle-sized companies were quicker than last year with only 12% reporting after 90 days (2008: 18%). The smallest companies remain the slowest reporters, with 48% reporting after 90 days, albeit an improvement on 2008 where 58% reported in that timeframe.

Presentation

Many companies invested in producing glossy annual reports. 89% of companies presented their annual reports in a manner which was visually interesting. The appeal of a report is a subjective assessment. However some of the criteria used to determine whether a report was well presented were structure of report, clear headings and use of colour, pictures, tables and charts.

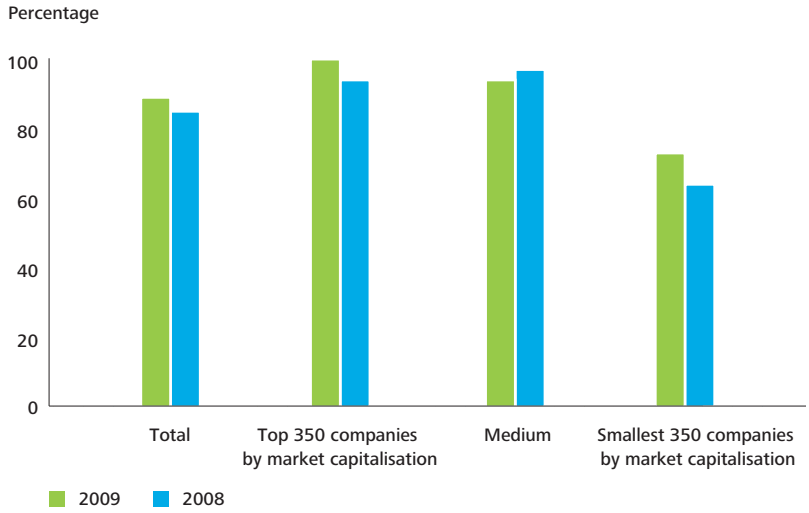
5. Summary information*

- The number of companies including a summary page increases from 85 to 89 year on year.
- 90% of summary pages include a narrative overview.
- 73% of companies present KPIs on their summary page.

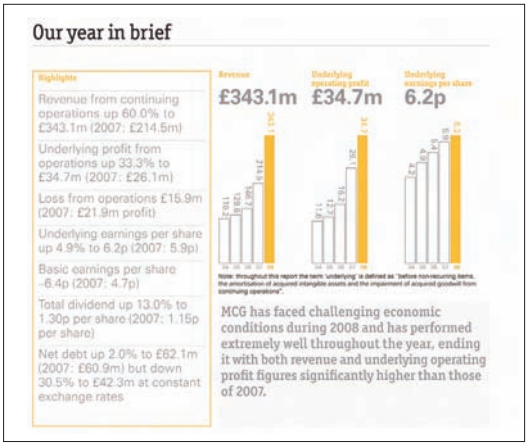
As the disclosure requirements within narrative reporting increase and the length of annual reports follow suit, it is no surprise that so many companies include a summary page at the front of the annual report. The inclusion of a summary page is optional and not a regulatory requirement.

Overall 89% of companies (2008: 85%) presented a summary page at the front of their annual report. All of the top 350 companies included a summary page (2008: 94%) compared to 94% of middle-sized companies (2008: 97%) and only 73% of the smallest companies (2008: 64%). The smaller companies tended to have simpler structures and shorter reports, indicating that there is less need for a summary report.

Figure 4. How many annual reports include a summary information page?



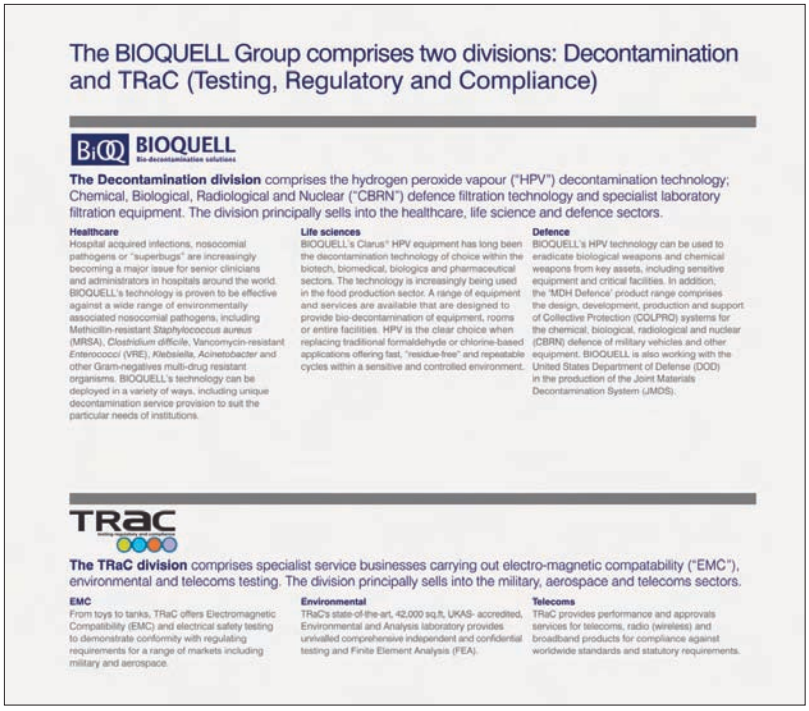
The benefits of providing a summary page include being able to draw to the user's attention the key statistics and developments in the period to support the narrative discussion that follows. A good example of this is Management Consulting Group PLC which presents key financial information in tabular format, alongside graphs with several years of comparatives and a summary performance statement.



Management Consulting Group PLC Annual report and accounts 2008

Some companies also use the summary page to provide information about the structure and business of the organisation, thus portraying either graphically or simply in summary what would otherwise occupy further discussion in the business review. Good examples of these are Delta plc and BIOQUELL plc which present information about their divisions in alternative ways.

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



The BIOQUELL Group comprises two divisions: Decontamination and TRaC (Testing, Regulatory and Compliance)

BIOQUELL

The Decontamination division comprises the hydrogen peroxide vapour ("HPV") decontamination technology; Chemical, Biological, Radiological and Nuclear ("CBRN") defence filtration technology and specialist laboratory filtration equipment. The division principally sells into the healthcare, life science and defence sectors.

Healthcare
Hospital acquired infections, nosocomial pathogens or "superbugs" are increasingly becoming a major issue for senior clinicians and administrators in hospitals around the world. BIOQUELL's technology is proven to be effective against a wide range of environmentally associated nosocomial pathogens, including Methicillin-resistant *Staphylococcus aureus* (MRSA), *Clostridium difficile*, Vancomycin-resistant *Enterococci* (VRE), *Klebsiella*, *Acinetobacter* and other Gram-negatives multi-drug resistant organisms. BIOQUELL's technology can be deployed in a variety of ways, including unique decontamination service provision to suit the particular needs of institutions.

Life sciences
BIOQUELL's Clarus® HPV equipment has long been the decontamination technology of choice within the biotech, biomedical, biologics and pharmaceutical sectors. The technology is increasingly being used in the food production sector. A range of equipment and services are available that are designed to provide bio-decontamination of equipment, rooms or entire facilities. HPV is the clear choice when replacing traditional formaldehyde or chlorine-based applications offering fast, "residue-free" and repeatable cycles within a sensitive and controlled environment.

Defence
BIOQUELL's HPV technology can be used to eradicate biological weapons and chemical weapons from key assets, including sensitive equipment and critical facilities. In addition, the 'MDH Defence' product range comprises the design, development, production and support of Collective Protection (COLPRO) systems for the chemical, biological, radiological and nuclear (CBRN) defence of military vehicles and other equipment. BIOQUELL is also working with the United States Department of Defense (DOD) in the production of the Joint Materials Decontamination System (JMDS).

TRaC

The TRaC division comprises specialist service businesses carrying out electro-magnetic compatability ("EMC"), environmental and telecoms testing. The division principally sells into the military, aerospace and telecoms sectors.

EMC
From toys to tanks, TRaC offers Electromagnetic Compatibility (EMC) and electrical safety testing to demonstrate conformity with regulating requirements for a range of markets including military and aerospace.

Environmental
TRaC's state-of-the-art, 42,000 sq.ft, UKAS- accredited, Environmental and Analysis laboratory provides unrivalled comprehensive independent and confidential testing and Finite Element Analysis (FEA).

Telecoms
TRaC provides performance and approvals services for telecoms, radio (wireless) and broadband products for compliance against worldwide standards and statutory requirements.

Some companies also use the summary page to provide information about the structure and business of the organisation, thus portraying either graphically or simply in summary what would otherwise occupy further discussion in the business review.

Delta plc Annual Report and Accounts 2008 (top) and BIOQUELL plc Annual Report and Accounts 2008 (above)

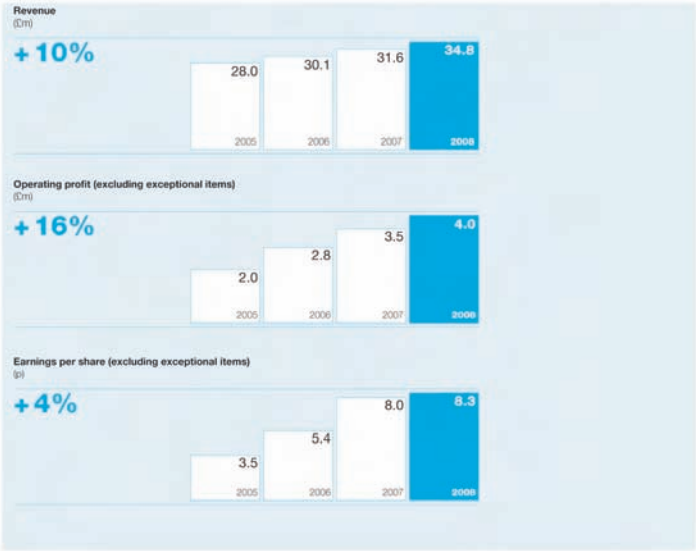
Welcome to Zotefoams

Zotefoams is the world's leading manufacturer of cross-linked block foams. The global appeal of its high-performance foams ensures that Zotefoams' products are used in a wide range of markets including sports and leisure, packaging, aerospace, automotive, medical and construction as well as general industrial and consumer products.

Our strategy is to expand sales internationally and broaden our market appeal with unique new products supported by our commitment to quality, innovation and customer service.

We are focused on achieving this while continuing to improve our operating margins, our return on capital employed and delivering our prime goal of sustained profit growth.

Highlights



Zotefoams plc Annual Report and Financial Statements 2008

Other companies use the summary page as a way of setting the scene by explaining who the company is, what they do, what their strategy is and the key highlights from the financial year. A good example of this is Zotefoams plc.

Information shown on the summary page

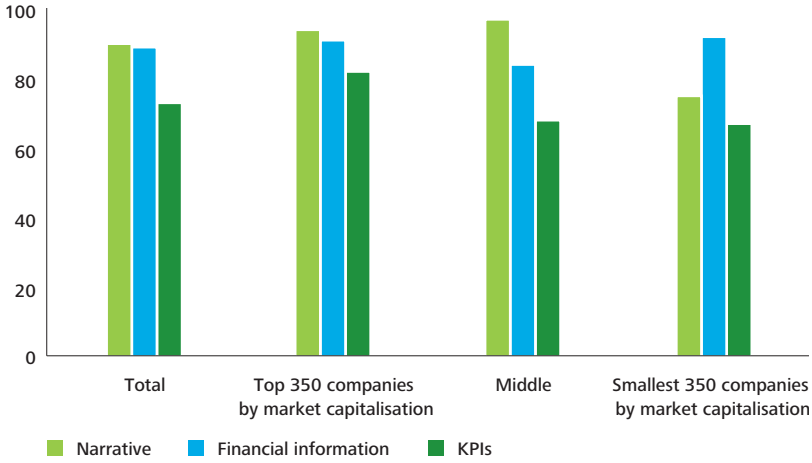
As demonstrated in the examples above, the different approaches to a summary page result in a variety of information being given prominence at the start of the report. Of the companies including a summary page, 90% included narrative on the page (2008: 80%). Such narrative covered various topics, including strategic mission statements, an overview of the group's business, and highlights of performance and developments during the period.

89% of companies provided financial information (2008: 91%). 79% of companies with a summary page provided both narrative and financial information.

Of the companies including a summary page, 90% included narrative on the page (2008: 80%).

Figure 5. What type of information is shown on the summary page?

Percentage



6. The business review*

- 81% of companies present the business review in a section distinct from the directors' report.
- Required information about the environment, employees and social and community issues is disclosed by 87%, 94% and 70% of companies respectively.
- A responsibility statement as required by the DTR is included by 86% of companies.

Since 1 April 2005, all quoted and unquoted companies (except those qualifying as small) have been required by section 417 of the 2006 Companies Act to include a business review in their directors' report. The review should include a fair review of the business and a description of the principal risks and uncertainties facing the company and contain a balanced and comprehensive analysis 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 that year.

Other requirements are discussed further below.

All companies except one identified the narrative which met the definition of a business review. The one exception had clearly complied with all the business review requirements within a very extensive directors' report but had not clearly identified any particular sections as fulfilling the business review criteria.

Location of business review

The law requires the business review to be part of the directors' report. The most common way of fulfilling this obligation across all sizes of companies was to prepare a separate business review outside the directors' report and then scope it clearly into the directors' report via a cross reference. 81% of companies did this. The reference to the business review in the directors' report was often cross-referenced to the individual reviews of the chairman, chief executive and other financial and operating reviews.

13% of companies both cross-referenced to narrative outside the directors' report and also included some of the business review requirements within the directors' report. Only 6% of companies across all size groups presented their complete business review within the directors' report.

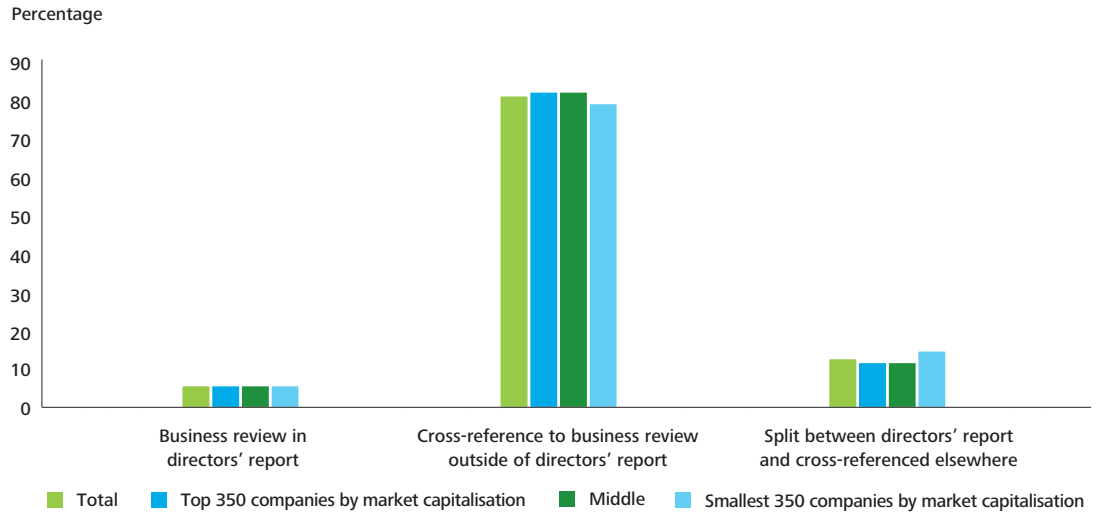
An example of a clear cross-reference in the directors' report is shown below in an extract from the Annual Report of PayPoint plc.

Results for the period

The consolidated income statement, balance sheet and cash flow statement for the 52 weeks ended 29 March 2009 are set out in pages 27 to 29. The business review of the group for the 52 weeks ended 29 March 2009, which complies with the Accounting Standards Board's 2006 Statement on Operating and Financial Reviews, including an analysis of the group's key performance indicators and financing and treasury policy, is set out on pages 5 to 10. An analysis of risk is set out on page 11 and of risk management on page 15. The balance sheet and cash flow statement of the holding company for the 52 weeks ended 29 March 2009 are set out on pages 30 and 31.

PayPoint plc Annual Report 2009

Figure 6. Where is the business review positioned?



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

The inclusion of a formal OFR remains voluntary. 11 companies provided a narrative section titled "Operating and Financial Review", a surprising increase on last year where only nine companies did so. In 2009, nine companies included the OFR within their business review, which consisted of the OFR and other narrative statements cross-referenced from the directors' report. One company defined their business review through cross-reference in the directors' report to the OFR and the financial statements. The remaining company chose to label the majority of the narrative (including the OFR) as the directors' report without specifically defining any text as the business review. All requirements of the business review were met by this company. OFR-style information is discussed further in section 12.

Principal risks and uncertainties

96 companies clearly disclosed their principal risks and uncertainties. Principal risks and uncertainties are discussed further in section 7.

Key performance indicators

The Companies Act requires a business review to include, if considered necessary, an analysis using financial and non-financial KPIs. 84 companies identified KPIs with the majority of companies locating the discussion of KPIs in their business review presented separately from the directors' report but scoped into it via a cross-reference. KPIs are discussed further in section 8.

Development and performance of the business

99% of companies provided a review of the business within the narrative identified as the business review. One company had included a cross-reference from the directors' report to both the financial statements and the OFR to fulfil the business review requirements. However the brevity of the OFR, being only four sentences in length, and lack of discussion in the financial statements resulted in the conclusion that a review of the business had not been provided.

Of those companies providing a review of the business, 99% provided a fair review. The one company which was considered not to provide a fair review had failed to mention the group's overall significant loss for the period, driven by discontinued operations. Instead, the review concentrated solely on the profitable continuing operations. Similarly, the business review made a fleeting mention of the large negative retained earnings when it confirmed no dividends would be proposed, but did not expand on this when discussing the year end position of the company or future strategy.

93% of companies included an analysis of the development and performance of the company during the year. All of the seven companies which did not clearly discuss performance during the year were within the smallest 350 companies. These companies focused solely on the year end position without commenting on factors during the year.

The 2006 Act strengthened the requirements regarding both non-financial and forward-looking information in the business review. In addition to the existing provisions, a quoted company's review must disclose the main trends and factors likely to affect the future development, performance and position of the company's business.

93% of companies included information on the trends and factors likely to affect the future development, performance and position of the business within the business review. Of the seven companies which did not, three had this information in the chairman's statement which had not been cross-referenced into the defined business review. The four remaining companies did not clearly discuss future trends and factors that would affect the business at all.

Of the companies including a summary page, 90% included narrative on the page (2008: 80%).

Balanced review

8% of companies did not contain any negative comments within their business review, bringing into question whether the review met the criteria of being balanced. Three quarters of these were in the top 350 companies. Most acknowledged the troubled economic environment but failed to specify what, if any, effect this had had on the company. This is a key feature of the business review that the Financial Reporting Review Panel (FRRP) has said it will be taking into account when reviewing annual reports and deciding whether to raise a question on the business review.

Corporate and social responsibility

The Companies Act 2006 requires companies to discuss additional 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 in relation to those matters and the effectiveness of those policies to the extent necessary for an understanding of the business. A company not discussing each of the specific areas above has to state expressly that it has not done so.

Overall the disclosure around the environment, employees and social and community issues has not improved significantly on last year. The most helpful information provided in any area was by companies who clearly identified and set out their policies and discussed future targets or related non-financial KPIs alongside the policies. An example of clearly set out key principles underpinning the company's policy, complemented by corresponding KPIs is from Croda International Plc, right.

Croda International Plc Safety, Health and Environment policy

Croda is a manufacturer of speciality chemicals currently employing approximately 3,500 people worldwide.

The Company operates its business in a manner which actively seeks to prevent or minimise the possibility of its operations causing harm to people, plants or animals. We strive to provide the resources to educate and involve every individual in the Company in achieving this objective.

It is my belief that aspiring to excellence in the management of safety, health and the environment is vital to ensuring the long term future and profitability of the Company.

Principles:

1. We believe that all accidents, incidents and work related ill health are preventable and we manage our business with this aim, including the provision of adequate resources for the prevention of major accident hazards.
2. Because we are human, mistakes can be made; but because we are committed, intelligent human beings, we investigate to identify the basic causes and take action to prevent these mistakes being repeated.
3. As an absolute minimum we will comply with all national regulations but in addition we set our own demanding internal corporate standards on matters relating to safety, health and the environment and endeavour to comply with them throughout our international operations.
4. Site management teams within the Company are measured for their contribution to the continuous improvement of safety, health and environmental performance in their area of responsibility. Individual employees each have a responsibility to participate in and contribute to the improvement of the corporate SHE performance.
5. We will continue to search out new ways of conserving all the natural resources used in our processes.
6. We will continue to innovate in order to improve our products and processes so that their effect on safety, health and the environment is reduced.
7. We will continue to improve communication and the exchange of views with employees, employee representatives, customers, contractors, suppliers, neighbours and any other individual or organisation affected by our business.

We have assessed the significant safety, health and environmental hazards posed by the Company's activities, and an appropriate set of arrangements has been implemented to control these hazards. The effectiveness of these arrangements is monitored and reviewed on a regular basis with action taken to redress any deficiencies and ensure continuous improvement.

Mike Humphrey
Group Chief Executive
Director responsible for SHE

Indicators of SHE performance

SHE management

Objective
To continually improve the effectiveness of our SHE management systems.

Target
All former Croda manufacturing sites to be certified to BS OHSAS 18001 by 2009.
All former Uniqema manufacturing sites to be certified to BS EN ISO 14001 and BS OHSAS 18001 by 2011.

The first target for all former Croda sites to be certified to BS OHSAS 18001 by 2009 has been successfully achieved. With respect to the second target, two of the former Uniqema sites are already certified to both BS EN ISO 14001 and BS OHSAS 18001 and the remaining nine sites are expected to achieve certification by the target date.

Croda International Plc Annual Report & Accounts 2008

Other useful ways to present policies and their effectiveness is in tabular format, an approach adopted by Pearson plc, shown below.

Our impact on society
Progress and plans

Target 2008	Progress	Plan 2009
Sustainable business practice		
Expand our individual company environmental committees into our US and other businesses, directly involving many more of our people.	**Ongoing.** Over 30 Green Teams now in place in Pearson facilities in the UK, the US, Canada, Australia and India.	Continue to expand our network of environmental teams across our businesses.
Continue our environmental and labour standards auditing programme, revisiting our printers in Asia, North America and parts of Europe.	**Achieved.** Visits carried out in Australia, China, India, Japan, Mexico and in several European countries, including Germany, Italy, Spain and Slovakia.	Hold training refresher seminars with key Pearson production departments on labour standards and environmental issues.
Continue the process of becoming a climate neutral company with a view to completing that process globally by the end of 2009.	**Ongoing.** Highlights include:	Continue the process of becoming a climate neutral company with a view to completing that process globally by the end of 2009, including:
	Reduced energy usage from a global investment programme in lighting upgrades and server virtualisation;	
	Partnered The Nature Conservancy on its 'Plant a Billion Trees' programme. 1.5 million planted to date;	Extend Planet Pearson, a new website designed by Pearson staff in the US, to be available internationally;
	Established funds in the UK and the US to stimulate innovative carbon saving programmes;	Continue programme to ensure our key buildings are energy efficient;
	Implemented a new policy in the UK to place a carbon cap on vehicle types and in the US introduced first hybrid vehicles into our car fleet.	FT newspaper to assess feasibility of setting up its own offset programme;
		Purchase 'green' energy where available and affordable.
Audit the social and environmental policies and impact of companies acquired in 2007 and set out plans to integrate them into Pearson's framework for corporate responsibility.	**Achieved.** Harcourt and other businesses now integrated into Pearson framework for reporting on labour standards and environmental matters.	Continue to work with industry partners to establish a methodology to assess the carbon footprint of a book.
Maintain our position in the key indices of social responsibility.	**Achieved.** Pearson retained its position as Global Leader for the Media Sector in the Dow Jones Sustainability Indices and maintained its Platinum rating in the Business in the Community Responsibility Index.	Maintain our position in the key indices of social responsibility.

For a more in-depth look at our CR and sustainability activity in 2008, please go to Live and Learn: Our Impact on Society 2008 report at www.pearson.com/community/csr_report2008/

Pearson plc Annual report & accounts 2008

Environment

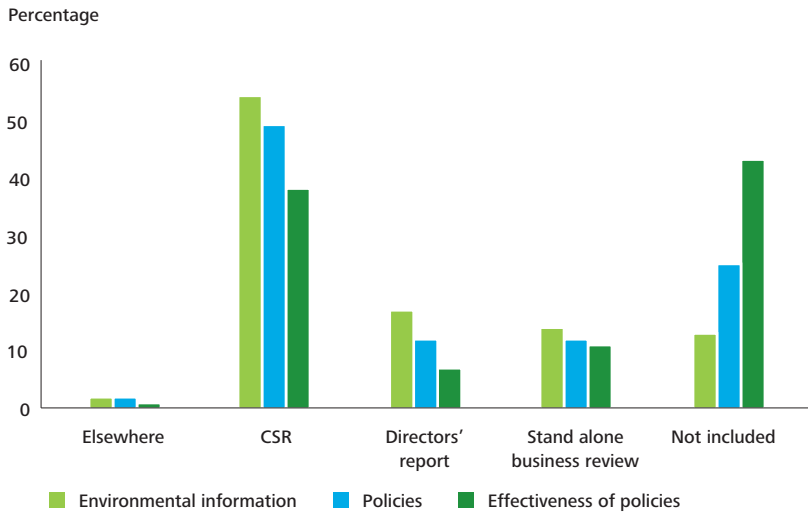
Overall 87 companies included some information on their response to environmental matters. The most common location for the discussion of environmental factors across all sizes of company is the corporate and social responsibility (CSR) statement, with 54 companies including information therein. Over a third of these companies included their CSR statement within the business review. 17 companies provided detail directly in the directors' report and 14 incorporated these comments in their stand alone business review without titling them 'CSR'. Many companies produce separate CSR reports, in addition to their annual reports, which tend to be available on the companies' websites; these have not been taken into account for the purposes of this survey.

Companies were less clear about specific environmental policies, with only 75 companies disclosing details around such policies. Of these, only 57 went on to provide details about the effectiveness of such policies. Common policies related to the ISO 14001 accreditation which is internationally recognised. Other popular environmental policies adopted include reduction in energy usage and waste output.

The smallest companies within the sample were noticeably weaker at disclosing information around environmental issues than their larger counterparts. While 73% of the smallest 350 companies provided some information, only 45% described their policies and 27% disclosed the effectiveness of such policies.

Wm Morrison Supermarkets PLC is a good example of clear disclosure in this area. An extract from the Annual report and financial statements 2009 highlighting environmental policies and the effectiveness of such policies, shown right.

Figure 7. Where is information on the environment shown in the annual report?



Reducing waste

We work hard to prevent waste. This year, we have reduced the volume of our waste to landfill by a further 2,886 tonnes, achieving a cumulative reduction of 17% since 2006. In 2008, we trialled a new waste segregation project at two stores, which, if successfully rolled out to all stores, could result in further significant reductions in waste sent to landfill. We are also investigating the best means of generating renewable energy from our waste.

Carrier bags

In May 2008, and again in December, we urged our customers to help reduce carrier bag use by giving a free reusable carrier bag to every shopper. On each occasion we gave away 10 million reusable bags (one for each of our customers), made from 100% recycled material and larger than standard bags. We encouraged our customers to use the reusable bags on every shop. We have achieved a 32% reduction since 2006 (4,502 tonnes), the equivalent of 505 million bag units.

Cutting our Carbon Footprint

We have cut our Carbon Footprint by 36% since 2005, being ahead of our 2010 target. Our reduction strategy is based on:

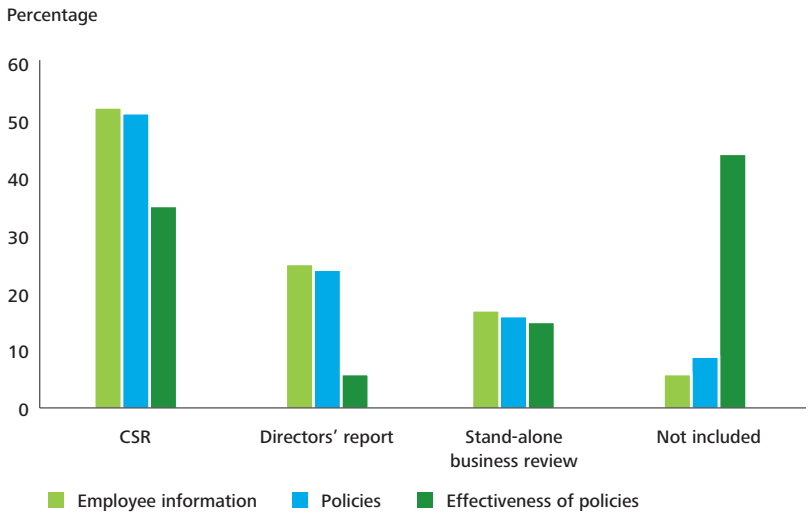
- energy efficient and low emission technologies;
- carbon and energy monitoring, management and control;
- sourcing and generating renewable energy;
- transport efficiency;
- colleague awareness and 'good housekeeping' policies; and
- numerous energy and carbon saving projects.

In June 2008, we were among the first of only 12 companies to receive the prestigious new Carbon Trust Standard, for reducing carbon emissions. The accreditation scheme is the world's first carbon award requiring an organisation to measure, manage and reduce its Carbon Footprint and make real reductions year-on-year.

Wm Morrison Supermarkets PLC Annual report and financial statements 2009

The smallest companies within the sample were noticeably weaker at disclosing information around environmental issues than their larger counterparts.

Figure 8. Where is employee information shown in the annual report?



Our people

We employ around 388,000 people in some 55 countries. As a service organisation, our success is linked to having an engaged workforce and giving people the opportunity to voice their opinion on the business, our processes and practices. Over the last five years, we have conducted a number of employee surveys to help us better understand how we can maximise employee commitment, retention and discretionary effort, in other words 'engagement'. Our last 'Your Voice' survey, conducted in April 2007, gave over 150,000 people from 20 of our largest businesses (representing over 90% of total Group revenue) the opportunity to participate. The results were very encouraging and our response rate of 61% was slightly ahead of that seen in our 2005 survey. Employees have a clear line of sight with our mission and understand how they contribute to success. Managers feel the Group is making the right changes to be successful, has a clear sense of direction and is successfully focusing on both long-term strategies and short-term results.

Developing our people

Through our global employment brand, talent management and various learning and development programmes, helping our people develop their skills and fulfil their potential within the business has been an area of focus this year.

The development of leadership skills of senior managers is a key objective and during 2008 we launched a global learning and development programme called 'Mapping for Value', designed to embed our MAP operating framework deeper into the organisation.

The programme is a highly interactive way for our business leaders to equip themselves with the knowledge and tools to help them accelerate the development and delivery of their MAP plans. Over 400 of our senior managers (including our Executive Committee) have already attended 'Mapping for Value' and our plan is to broaden the roll-out to a further 5,000 managers across the Group.

We were delighted to be recognised in October 2008 by the prestigious UK Institute of Grocery Directors with the John Sainsbury award for Learning and Development, beating other high profile companies, for our new 'One Compass Welcome' induction programme recently launched within the UK business. The 'One Compass Welcome' has, to date, given over 10,000 new employees a great start in their new roles and a solid framework in which to develop their occupational health and safety and customer service skills.

Compass Group PLC Annual Report 2008

Employees

Five companies in the sample do not have any employees. All of these companies' principal activity is investment in either property or mortgage-backed securities, although they do not meet the definition of an Investment Trust (Investment Trusts are discussed in section 13). Of the remaining 95 companies, 94% provided some information around employees. Again, it was most common to include such information in the CSR statement (52%) with 25% choosing to disclose relevant information directly in the directors' report and 17% in the stand-alone business review.

Companies were strong at including discussion around employee policies, with 91% of companies with employees doing so. However, detail of the effectiveness of such policies was lacking with only 56% of companies providing this information. Any information provided under the Companies Act requirement to disclose detail concerning disabled employees was not taken into account for the purpose of these questions.

Again it was the smallest companies who were weakest at providing details of policies (77% of the smallest 350) and the effectiveness of policies (26%).

Compass Group PLC is a good example of describing clearly the importance of employees and relevant policies in place.

Social and community issues

This was the weakest area of disclosure across all companies. All of the top 350 companies provided information around social and community issues, but the middle group and smallest 350 companies struggled, with only 67% and 42% complying respectively. Overall compliance with providing general information was 70%, an improvement on 64% from 2008.

As with the other disclosures, it was most common to include this information in the CSR statement with 46% of companies doing so. 14% disclosed information within the stand-alone business review and 10% directly within the directors' report.

Less than half of the total sample detailed policies in this area, with 51% of companies not providing any detail at all (2008: 46%). Similarly, only 39% of companies (2008: 48%) discussed the effectiveness of policies in place.

Again it was the smallest companies whose disclosure in this area was considerably weaker than other companies. Only 42% provided any information at all, 15% disclosed their policies but only 12% discussed the effectiveness of such policies. Clearly these areas are proving burdensome for the smallest companies.

A good example of furthering the reader's understanding of the business through describing relevant social and community activities is Punch Taverns plc.

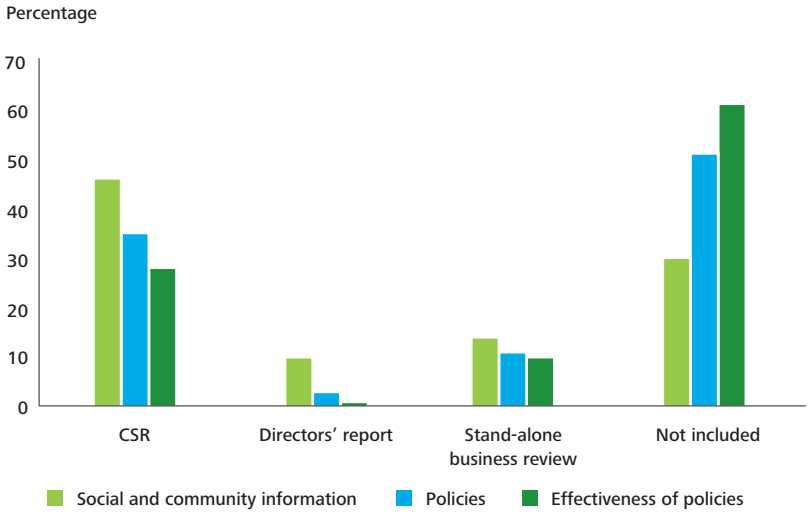
There were 31 companies which did not disclose any detail about one or more of the above three issues. Of these, only two companies stated that they had not done so.

Contractual arrangements

A further stipulation of the Companies Act 2006 is to include information about persons with whom the company has contractual or other arrangements which are essential to the business of the company.

Thirteen companies disclosed persons with whom the company has contractual or other arrangements which are essential to the business of the company and ten confirmed that there were none to disclose. Of the total 23, ten were from the top 350 companies, nine from the middle group and the remaining four from the smallest 350. Although this is an increase on 2008 where only 15 companies disclosed specific information about contractual and other arrangements, the level of compliance with this legal requirement seems very low. A possible reason for non-compliance is that the Companies Act caveats the requirement, stating that disclosure should only be made to the extent necessary for an understanding of the business and where such disclosure would not be seriously prejudicial to the interests of the person and contrary to the public interest. However, if a company does not make the disclosure, the Companies Act requires the company to state expressly that it has not done so.

Figure 9. Where are social and community issues discussed in the annual report?



Pub is the Hub

A high proportion of our leased and managed estates is made up of community pubs, each forming an integral part of local life. On average, they each host at least one club or team which means a huge number of people getting together every week in our pubs to share in a communal activity. Valuable local jobs are also provided to the community, often including flexible shift work which is in high demand.

Pubs in remote and rural areas have been impacted by younger people needing to leave villages due to house prices and commuters using services away from their home. It's a great loss to the community when a rural or village pub closes and we fully support the drive to save the great British pub.

We support the Pub is the Hub scheme that encourages local pubs, which may have lost their position at the heart of the community, to win this back with improved services and facilities. Such schemes have seen our pubs provide hot school dinners for local children, open Post Office counters, open grocery stores and sell fresh produce over the bar.

Supporting good causes

Our pubs are great fundraisers, generating millions every year for local good causes. As well as the cash contribution, they deliver an immeasurable amount of support in providing meeting places, venues and sponsorship in many different forms.

During the last year we have adopted a local approach to our corporate support of charities and good causes and have established the Punch Community Spirit Project (PCSP). From the end of 2007 onwards, all of our Head Office fundraising which includes a Summer BBQ for employees and their families and a Christmas Ball, has been pooled into this one worthy project. Community groups and charities from within a 15 mile radius of Burton are invited to apply for funding and four times a year our Committee meets to allocate the cash we've accumulated.

Punch Taverns plc Annual Report and Financial Statements 2008

Essential contracts

The Group's performance is largely reliant on sourcing high quality products at the lowest possible prices. Whilst price is important, the Directors do not believe that lowering price is an acceptable alternative to producing quality products. The Group has benefited from a number of contracts with suppliers which have proved essential in enabling the Group to deliver quality products at the lowest possible price.

In addition the Group has a number of members of staff who, due to their knowledge of the Group and its intellectual property, are essential to the continued smooth running of the business. The Group reviews its employment policies at regular intervals, including a review of its performance-related pay policies, so as to ensure these members of staff continue to remain incentivised and their goals remain congruent with those of the Group. All employment contracts contain non-compete agreements. All employment contracts also stipulate that all intellectual property remains that of the Group.

Goldshield Group plc Annual Report 2009

Directors' responsibility statement

The directors confirm, to the best of their knowledge:

- that these financial statements prepared in accordance with IFRS, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the company and undertakings included in the consolidation taken as a whole; and
- that the management report includes a fair review of the development and performance of the business and the position of the company and undertakings included in the consolidation taken as a whole, and a description of the risks and uncertainties faced.

The directors of Greene King plc are listed on pages 28 and 29.

Greene King plc Annual Report 2008/9

A good example of clear disclosure in this area is taken from Goldshield Group plc's Annual Report 2009.

Section 12 of this report discusses the dependency disclosure set out in the RS which is a broader but not necessarily overlapping disclosure with the specific Companies Act requirement discussed above.

DTR responsibility statement

The DTR requirement for directors to provide a responsibility statement is now effective for all companies within the sample. It was met by 86% of companies, a significant increase on 2008 (54% of eligible companies). Two non-compliant companies were in the top 350 group, six were from the middle group and six from the smallest 350 companies.
An example of the responsibility statement taken from Greene King plc's Annual Report is shown left.

The DTR requirement for directors to provide a responsibility statement is now effective for all companies within the sample.

7. Principal risks and uncertainties*

- 96% of companies clearly describe their principal risks and uncertainties.
- An average of eight risks is disclosed per company.
- 63% of companies identify the state of the economy as a key risk.

The requirement to include a description of the principal risks and uncertainties facing the company is stated in section 417 of the Companies Act 2006. Further to this, the responsibility statement required by DTR 4.1 requires the directors to confirm that the review of the business includes a description of principal risks and uncertainties that the company faces. Within the sample of 100 companies are four which report either under Guernsey or Jersey law and so are not caught by the UK Companies Act requirement to disclose principal risks and uncertainties. However these companies should still comply with the requirement of DTR 4.1.8 to disclose their principal risks and uncertainties.

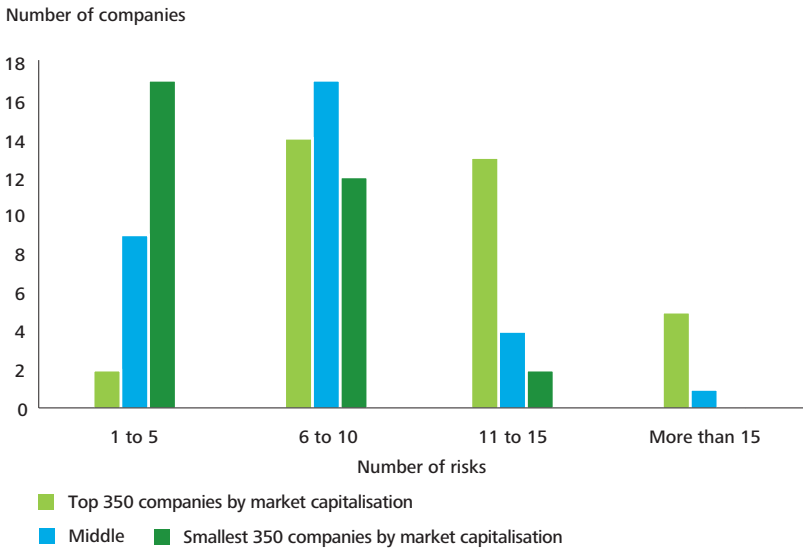
Overall 96 companies clearly disclosed their principal risks and uncertainties. Of the remaining four companies, two were in the middle 350 category and two were in the smallest 350. Only one of these was a company reporting under Guernsey or Jersey law. This is a clear improvement from the results of 2008 where only 89% of companies complied with the requirement in company law.

Number of risks and uncertainties

An average of eight risks and uncertainties were disclosed for each company that clearly described their principal risks and uncertainties. The number of risks per company was seen to correlate with the size of the business, with an average of 12, 8 and 5 for the top 350 companies, the middle group and the smallest 350 companies respectively.

The highest number of risks was 30 for one top 350 company and there were three small companies which identified only one risk or uncertainty facing the company. It is hard to see how identifying 30 risks is in the spirit of disclosing principal risks (none of them are marked as such), albeit the 30 risks are subdivided into 14 risk groups.

Figure 10. How many risks are disclosed?



The Financial Reporting Review Panel (FRRP) also noted this in its report *Review findings and recommendations – 2008*. It confirmed that the disclosure of principal risks and uncertainties is likely to warrant greater attention during the 2009 reporting season as the current economic environment presents all companies with increased, and possibly different, risks.

Of the three companies with only one risk:

- one company identified the retention of key personnel as the principal risk or uncertainty;
- one referred from the directors' report to the disclosure of financial instrument risks within the financial statements as its principal risks as well as referring to the business review, but the risks and uncertainties were not clearly stated there; and
- the third company also referred to the business review, but the only risk or uncertainty clearly stated was again the required disclosure of financial instrument risk management.

This is an improvement on the 2008 survey where 7% of companies considered it adequate only to include a cross-reference in the directors' report to the financial instrument risk disclosures in the financial statements.

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

Location

A description of the principal risks and uncertainties facing the company is required to be included in the directors' report. Of the 96 companies that disclosed their principal risks and uncertainties, 60 companies described their principal risks and uncertainties in a stand-alone business review, cross-referencing them from the directors' report. 25 companies described them directly in the directors' report.

Three of the top 350 companies described their principal risks and uncertainties within their corporate governance statement. Of these, one company had identified the whole of the narrative report to be a component of the directors' report and the other two clearly cross-referred to the corporate governance statement from the directors' report.

Eight companies described their principal risks and uncertainties elsewhere. Of these:

- two companies cross-referred from the directors' report to the notes to the financial statements where they described all risks and uncertainties (including those other than the financial instrument risk disclosures);
- three companies set out risks and uncertainties in a separate statement clearly outside of the business review and directors' report. Two of these companies clearly cross-referred to this statement from the directors' report. The third company reports under Jersey law;
- two simply cross-referred from the directors' report to the financial instrument risk disclosure (as discussed above); and
- the remaining company cross-referred from the directors' report to both the business review (where it identified one uncertainty) and the financial instrument risk disclosures for the remaining risks.

It was good to see that, despite the varied locations where principal risks and uncertainties were described, most companies were adhering to the requirement under the Companies Act of presenting the risks and uncertainties in the directors' report, albeit with most clearly cross-referencing to other locations.

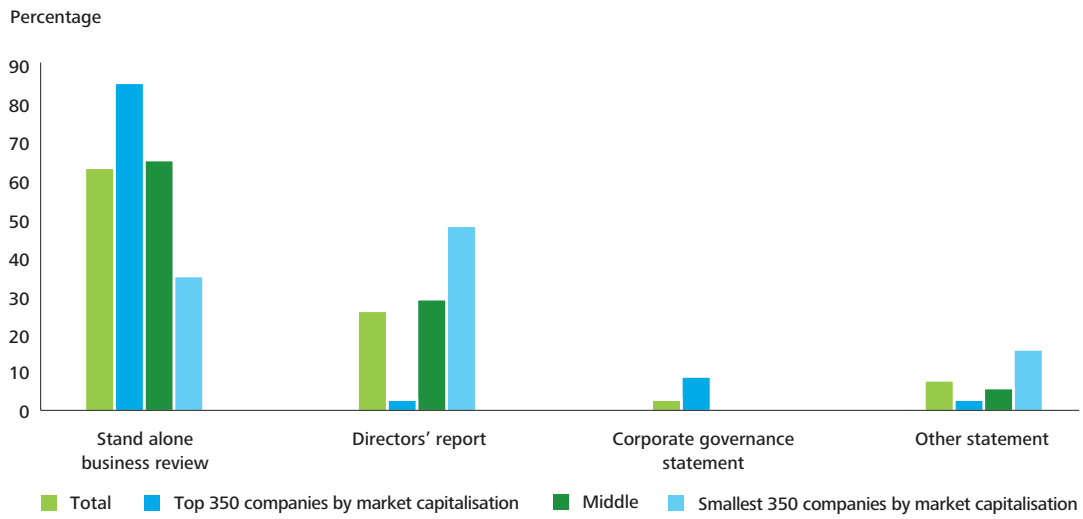
Type of risk and uncertainty

91% of companies who clearly described their principal risks and uncertainties covered strategic, commercial and operational risks as well as financial risks. This is an improvement on last year where only 81% of companies did so. All of the top 350 companies covered risks other than financial risks, as did 97% of the middle group. Only 74% of the smallest 350 companies identified risks and uncertainties other than financial ones.

The most common risks identified were categorised as follows:

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

Figure 11. Where are principal risks and uncertainties described?



- Demand – factors affecting demand including competition.
- Foreign exchange – exposure to movements in foreign exchange rates.
- Reputation and brand – loss of customer goodwill.
- Pensions – factors affecting pension contributions or liabilities.
- Regulation and legislation – including political risk abroad.
- Legal action and litigation – uncertainty regarding outcome.
- Operational issues – factors directly affecting operational output.
- Financing issues – factors directly affecting the company's ability to raise finance or meet loan covenants in the future.
- Cost of raw materials – movement in commodity prices or other direct costs of sales.
- Financial instrument risks – market, credit and liquidity risks.
- People – loss of key personnel.

Other risks separately analysed in last year's survey were tax and research & development. Only 10% of risks disclosed fell into these categories, thus proving less common than the other risks identified above.

Unsurprisingly, the most common risk companies were facing was the state of the economy, with 63% of companies overall identifying this as a principal risk. This is an increase on last year where 52% of companies identified economic factors as a key risk. 82% of the top 350 companies identified the state of the economy as a key risk, a significantly higher proportion than the middle group (52%) and the smallest 350 companies (48%).

The second most common risk was operational issues (57% of all companies), with most companies identifying some sort of technological failure as being a significant risk on the company's ability to continue operations.

Demand and competition was also a key risk for many companies (56%), being the top risk alongside operational issues for the middle group of companies and the second most common risk for the smallest 350 companies. This is a similar result to last year's survey.

Risks arising from local and overseas regulation and legislation were very common, with 52% of companies overall highlighting this as a key risk.

Figure 12. What are the main categories of risks that are disclosed?

ISSUE	RISK	MITIGATION
GOVERNMENT POLICY	Changes to government policy on housing (at both national and local level), including planning, affordable housing requirements and planning gain obligations all impact on the Group's business.	Effects of changes to planning policies at all levels closely monitored, and representations made where necessary.

The Berkeley Group Holdings plc annual report 2009

Risk	Impact	Examples of mitigating activities
Economic downturn Our current priorities place a greater emphasis on managing our business through the downturn, underpinning our strong financial position and continuing to invest for the long term, to be well placed when the market improves.		
Strategy We fail to set the strategic direction to balance short-term and long-term profitability	Adverse effect on financial results	– Short-term priorities announced in November 2008 – Significant cost saving initiatives announced in January 2009 – Increased Board discussion concerning strategy with dedicated away-days in 2009
Finance We fail to protect brand and profitable revenues whilst driving cost savings	Adverse effect on financial performance and brand reputation	– Regular monitoring of key brand/profit indicators – Regular monitoring of key service and compliance measures to ensure operating standards in our stores are maintained
We fail to react to changes in foreign currency exchange or inflation rates	Adverse effect on operating costs or accounting impact on operations	– Progressive hedging policy – Close liaison with suppliers to mitigate adverse currency impact – Continued drive of economies of scale
We fail to maintain cost efficient funding	Increased costs and tighter conditions Adverse effect on business and financial results	– Ongoing tight cash flow, working capital and cost management – Tight stock management – Quarterly cash forecasting and tight management of payment terms – Tight control of capital expenditure – Proactive engagement with funding providers and credit agencies – Development of suite of future funding options if and when necessary
People As we continue to grow our business and invest for the future, it's important we keep strengthening our team at every level from the shop floor to the boardroom.		
We fail to attract, develop and retain talent with the correct skills to succeed into senior positions	Inability to develop and execute business plans Competitive disadvantage	– Increased responsibilities for the executive team to support succession plans and appointment of separate Chairman and CEO by July 2011 – New 'Lead to Succeed' leadership programme to develop and fast track current and potential leaders for tomorrow – Bonus plans linked to individual performance being introduced in 2009/10
We fail to retain the confidence and motivation of our employees	Poor employee morale	– Improved communication at all levels to keep employees engaged and motivated – Tracking of employee satisfaction surveys and resulting actions – Tracking of customer perceptions of service and resulting actions

Marks and Spencer Group plc Annual report and financial statements 2009

Top three risks by category of company

Total	Top 350	Middle	Smallest 350
1. State of the economy	Regulation and legislation	Demand and Operational issues	State of the economy
2. Operational issues	State of the economy	State of the economy	Demand
3. Demand	Operational issues	Regulation and legislation, foreign exchange and people	Financial instrument risks

Regulatory controls

The Group must comply with a broad range of regulatory controls on the testing, approval, manufacturing and marketing of many of its pharmaceutical and consumer healthcare products, particularly in the USA and countries of the European Union, that affect not only the cost of product development but also the time required to reach the market and the uncertainty of successfully doing so. Health authorities have increased their focus on safety when assessing the benefit risk/balance of drugs in the context of not only initial product approval but also in the context of approval of additional indications and review of information regarding marketed products. Stricter regulatory controls also heighten the risk of changes in product profile or withdrawal by regulators on the basis of post-approval concerns over product safety, which could reduce revenues and can result in product recalls and product liability lawsuits. There is also greater regulatory scrutiny, especially in the USA, on advertising and promotion and in particular on direct-to-consumer advertising.

In addition, in some cases the Group may voluntarily cease marketing a product or face declining sales based on concerns about efficacy or safety (for example, declines in sales of *Avandia* in 2007 following publicity around questions regarding risks associated with the product), whether or not scientifically justified, even in the absence of regulatory action. The development of the post-approval adverse event profile for a product or the product class may have a major impact on the marketing and sale of the product.

GlaxoSmithKline plc Annual Report 2008

This was actually the most common risk among the top 350 companies (85%), with only 21% of the smallest 350 companies identifying this as a key risk. Examples of such risks are taken from The Berkeley Group Holdings plc and GlaxoSmithKline plc, shown above.

The most common risk in the 2008 survey was foreign exchange, with 61% of companies identifying it. This year only 43% of companies identify this as a stand-alone risk. This may be explained by the fact that in many cases (42% of all companies) the financial instrument risks requiring disclosure under International Financial Reporting Standards were identified as key risks and currency risk is included within these financial instrument disclosures.

The categorisation of risks in a manner similar to those shown in Figure 12 is not commonly performed by companies. Some of the key risks that are identified by companies will cover more than one category in the above analysis. Some companies present their risks in sub-groups of risk categories. An example of this is from Marks and Spencer Group plc, middle left.

Prudential plc provides a useful risk categorisation table with definitions of each risk category, thus providing the reader with an understanding of how management view the risks within the company.

While some companies had clearly explained how each particular risk was pertinent to its business, other companies merely provided boiler-plate descriptions of risks which could have been applied to many a company. It was therefore difficult to see how the risk actually would affect the results of the company.

Risk management

85 companies (89% of those clearly describing principal risks and uncertainties) included a description of how the risks identified are mitigated. This was represented by 100% of the top 350 companies, 81% of the middle group and 79% of the smallest 350 companies.

Most companies incorporated the description of risk mitigation within continuous prose. Several companies adopted a tabular format which clearly identified the risk, the impact and then the procedures in place to mitigate the risk. An example of this is from Persimmon plc right.

> While some companies had clearly explained how each particular risk was pertinent to its business, other companies merely provided boiler-plate descriptions of risks which could have been applied to many a company.

Risk categorisation

Category	Risk type	Definition
Financial risks	Market risk	The risk that arises from adverse changes in the value of, or income from, assets and changes in interest rates or exchange rates
	Credit risk	The risk of loss if another party fails to meet its obligations, or fails to do so in a timely fashion
	Insurance risk	The inherent uncertainty as to the occurrence, amount and timing of insurance liabilities. This includes adverse mortality, morbidity and persistency experience
	Liquidity risk	The risk that a business, though solvent on a balance sheet basis, either does not have the financial resources to meet its obligations as they fall due or can secure them only at excessive cost
Non-financial risks	Operational risk	The risk of direct or indirect loss resulting from inadequate or failed internal processes, people or systems, or from external events. This includes legal and regulatory compliance risk
	Business environment risk	Exposure to forces in the external environment that could significantly change the fundamentals that drive the business's overall objectives and strategy
	Strategic risk	Ineffective, inefficient or inadequate senior management processes for the development and implementation of business strategy in relation to the business environment and the Group's capabilities

Prudential plc Annual Report 2008

Principal Risks

The Group's financial and operational performance is subject to a significant number of risks, which are subject to continual assessment by management to mitigate and minimise these risks. There are also many risks which are outside of our control which can affect our business. Our principal risks are:

Risk	Impact	Mitigation
National and regional economic conditions	The housebuilding industry is sensitive to changes in job growth, interest rates and consumer confidence. Further deterioration in economic conditions may significantly decrease demand and pricing for new homes, which could have a material effect on our business revenues, margins and profits.	We minimise the level of speculative build undertaken by closely controlling our work in progress levels.
Capital requirements	Our ability to continue to manage our business depends on our ability to access capital on favourable terms. We could be adversely affected by a change in our credit rating or disruption in the capital markets resulting in credit facilities not being available. We also require access to bonding facilities to secure planning, road and sewer agreements for our developments.	The Group actively maintains a mixture of medium and long term debt and bonding lines to ensure sufficient funds and bonding are available to support operations.
Mortgage availability	Any further restrictions in the market availability of mortgages for our customers could reduce demand for our homes and affect revenues, margins and profits.	We ensure construction is matched to our level of sales.
Competitive markets	We operate in a market with many other national, regional and local housebuilders. Increasing levels of competition for a reduced number of buyers could reduce the number of homes we sell and affect revenues, margins and profits.	We constantly review our prices and sales incentives offered to customers to maintain appropriate sales volumes. We plan our developments to provide the right house styles and specification to suit the local market.
Regulatory compliance	Our business is subject to extensive and complex laws and regulations principally relating to planning, the environment and health and safety. Our obligations to comply with legislation can result in delays in land development and housebuilding activity causing us to incur substantial costs and prohibit or restrict land development and construction.	We hold a landbank sufficient to provide security of supply for short term requirements. We operate comprehensive management systems to ensure regulatory compliance and reduction in reputational risk.

Persimmon plc Annual Report December 2008

8. Key performance indicators*

- 84% (2008: 77%) of companies clearly identify key performance indicators.
- An average of eight KPIs are disclosed, five financial and three non-financial.
- Only 15% of companies include targets for the KPIs to enable readers to assess the company's performance.

The Companies Act 2006 requires a business review to include, to the extent necessary for the understanding of the development, performance or position of the business of the company:

- an analysis using financial KPIs; and
- where appropriate, analysis using other KPIs, including information relating to environmental matters and employee matters.

Identifying KPIs

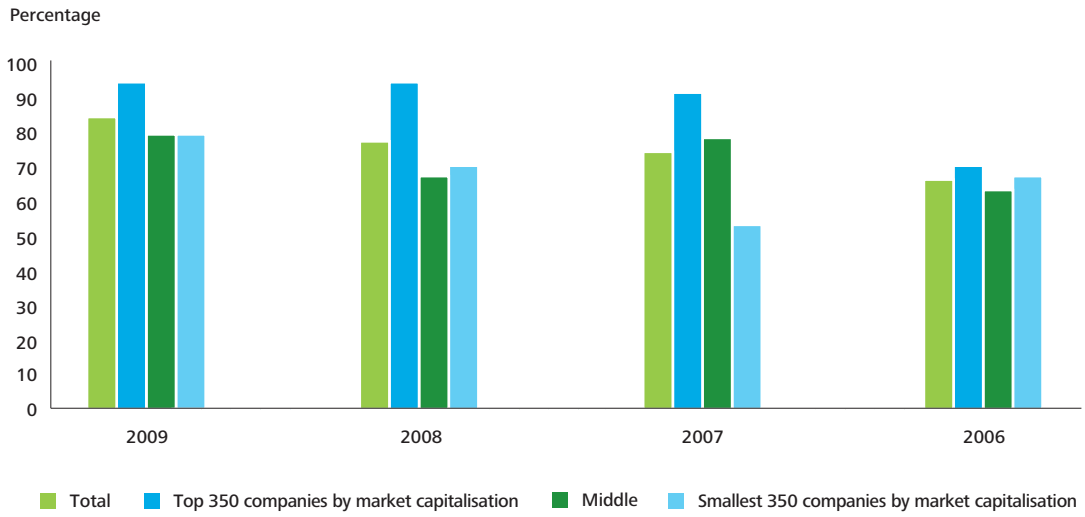
A key performance indicator is defined in law as a factor by reference to which the development, performance or position of the company's business can be measured effectively.

While the term is used and explained in the Companies Act 2006 (section 417), it is not required to be used explicitly by companies in their annual business reviews. This can lead to problems in practice in identifying which measures are considered "key" by the directors. The first step in this part of the survey was to identify those companies which clearly disclosed which of their performance measures were key, i.e. labelling them "key performance measures", or "KPIs". In some cases it was a challenge to determine exactly which the KPIs were. Figure 13 below shows the percentage of companies which clearly identified their KPIs.

The trend noted in last year's survey of increasing compliance in this area has continued. Overall 84% of companies clearly disclosed their KPIs, an improvement on recent years.

94% of the top 350 companies continue to identify clearly their KPIs (2008: 94%). The smallest 350 companies have improved with 79% compliance compared to 70% in the prior year. The largest improvement has been seen among the middle group, with 79% disclosing KPIs in 2009, an increase of 12% on 2008.

Figure 13. What percentage of companies are identifying KPIs?



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

One company within the middle group clearly identified KPIs (both financial and non-financial) but argued that these are segment-specific. Given the spread of businesses within the group and local country definitional differences, the company considered it was not possible to aggregate meaningfully such data. In contrast, other companies provided KPIs on both a group basis and also by segment. An example of this is Ladbrokes plc, as shown below and right.

Strategic objectives
To create long-term value across the Group by:

1 Steadily growing the profitability of the foundation business in the UK
2 Capturing the growth available in the online space
3 Developing the international retail businesses.

Key Performance Indicators (KPIs)
While strategic initiatives can change, our KPIs capture the desired results of our actions.

Operational efficiency is key so the pursuit of these strategic goals is also examined from a cost[1][2] growth and profit before interest and tax[2] growth perspective.

Ladbrokes plc Annual Report and Accounts 2008

The Group

The Group performance

The Board also examines the performance of the Group as a whole. To do this they examine the gross win growth, cost growth and profit performance over the year.

	2008	2007
Gross win growth	(2.9)%	29.2%
Operating cost[1][2] growth	7.3%	16.2%
Profit before interest and tax[2]	(23.0)%	60.5%

Because of the volatile frequency of High Rollers activity the Board also examines the Group excluding this business.

Group (excluding High Rollers) – gross win growth (%)

Group (excluding High Rollers) – cost[1][2] growth (%)

Group (excluding High Rollers) – profit before interest and tax[2] growth (%)

The Board also look at the financial metrics below operating profit to gauge financial stability and cash efficiency.

	2008	2007
Net interest expense[2]	£65.2m	£67.7m
Net debt to EBITDA[2] ratio	2.6	1.9
Net debt to EBITDA[2] ratio adjusted for High Rollers	3.3	3.1
Effective tax rate	15.4%	15.6%

Detail on the Group performance can be found on pages 26 and 27.

eGaming

Investments into new customer acquisition

In February 2008 we announced the intention to drive the top line of the eGaming business through investment into new customer acquisition.

The Board examines the gross win growth for this part of the business and specific online KPIs such as unique active players, real money sign-ups and cost per acquisition to monitor its progress.

eGaming – net gaming revenue growth (%)

eGaming – cost[1][2] growth (%)

eGaming – profit before interest and tax[2] growth (%)

Telephone

Additional KPIs

To complete the picture of the Group, the Board examines the Telephone business which, with the High Rollers element, can have a sizeable impact on the Group as a whole.

Total Telephone

	2008	2007
Net revenue growth	(55.1)%	510.9%
Cost[1][2] growth	(61.0)%	178.3%
Profit before interest and tax[2] growth	(54.7)%	961.3%
No. of calls (000s)	6,382	7,165
Agent costs per call	57p	61p
Unique active players (000s)	108.4	115.0
Average monthly active player days	176	193

Excluding High Rollers

	2008	2007
Net revenue growth	(9.6)%	(10.1)%
Cost[1][2] growth	(4.3)%	(0.9)%
Profit before interest and tax[2] growth	(32.6)%	(35.2)%
Gross win margin	7.6%	7.1%

Detail behind this performance can be found on page 19.

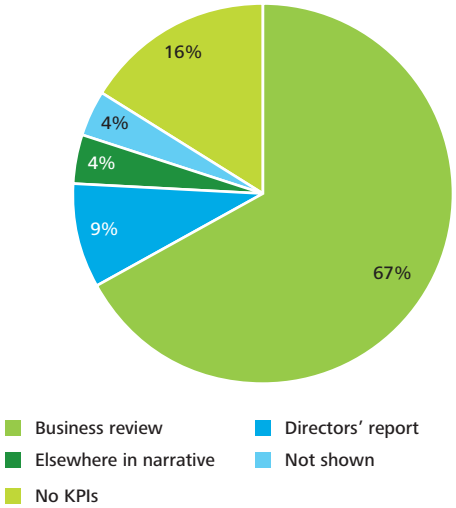
Ladbrokes plc Annual Report and Accounts 2008

Of the 16% of companies not disclosing KPIs, only one company gave a reason why the directors deemed it unnecessary to refer to them. In this case the directors argued that there are no standardised indicators which can usefully be employed to gauge the performance of the group at the present stage of its development other than the performance of the parent company's listed shares. Another company added a sentence at the end of the Financial Review which referred to "metrics discussed above" being the key performance indicators of the group, yet did not identify which these were and it was not clear. The remaining 14% were silent on the omission of KPIs, although 13% had presented some key financial ratios but had not clearly labelled them as KPIs.

Of the companies clearly identifying KPIs, 45% of companies also presented further information as if it were a KPI although they did not specifically refer to it as such. An example of such a situation is where a financial or non-financial statistic has been given particular prominence in the annual report (often on the summary page) and is then subsequently discussed as part of the business review narrative or otherwise.

These results indicate that some financial information and some KPIs are given equal or similar prominence within the annual report, with the distinction between KPI and other information not always being made clearly. Distinguishing between the two is important. The FRRP has noted that companies have generally been able to demonstrate that KPIs have been referred to in the business review although they had not been described as such but has also indicated in its *Annual Review 2008* that companies will be challenged when KPIs are absent or have not been clearly labelled.

Figure 14. Where in the annual report are KPIs disclosed?



Consistent with previous surveys, the most common place for the KPIs to be located is in a business review presented separately from the directors' report but scoped into it via a cross-reference, with 67% of companies that clearly identified KPIs adopting this approach. This was the most common positioning across all sizes of company, with 88%, 67% and 45% of the top, middle and smallest 350 companies respectively including them within a separate business review.

9% of companies which clearly identified KPIs disclosed them directly in the directors' report, with most of these being in the smallest 350 companies. Four companies presented KPIs on the summary pages at the front of the annual report, albeit with corresponding discussion positioned in the business review.

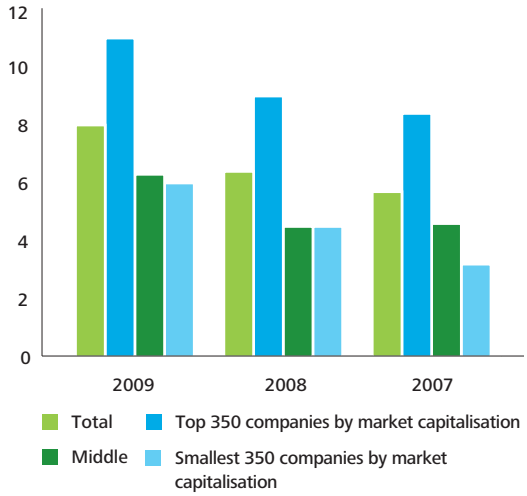
A further four companies identified KPIs but the discussion and quantification could not easily be found in the annual report.

Balance of financial and non-financial KPIs

Company law refers to both financial and non-financial KPIs. The average number of both financial and non-financial KPIs across all companies has increased since the 2008 survey. In total there were an average of eight KPIs disclosed (2008: seven), with five being financial (2008: four) and three being non-financial (2008: three).

Figure 15. How many KPIs are identified?

Average number



On average the larger companies tended to identify a larger number of KPIs, with an average of eleven, compared with six KPIs for the middle and smallest 350 companies.

One company identified 14 financial KPIs and another identified 16 non-financial KPIs. Both of these companies were in the top 350 companies. It is intriguing how these companies consider so many performance indicators to be key to their business.

Similarly, the larger the company, the more balanced the ratio of financial to non-financial KPIs identified. The trend for the larger companies to give more disclosure and discussion of non-financial information and other company policies is mirrored in other areas of the annual report, such as the corporate social responsibility discussion (see section 6) and description of the business (see section 12).

It is perhaps not surprising that non-financial KPIs and other information should be increasing year on year, given the importance now attributed to reporting on the environment and corporate responsibility. As climate change and other ethical trading considerations become more widely reported in the media, investors may be becoming more interested in this aspect of a company's operations.

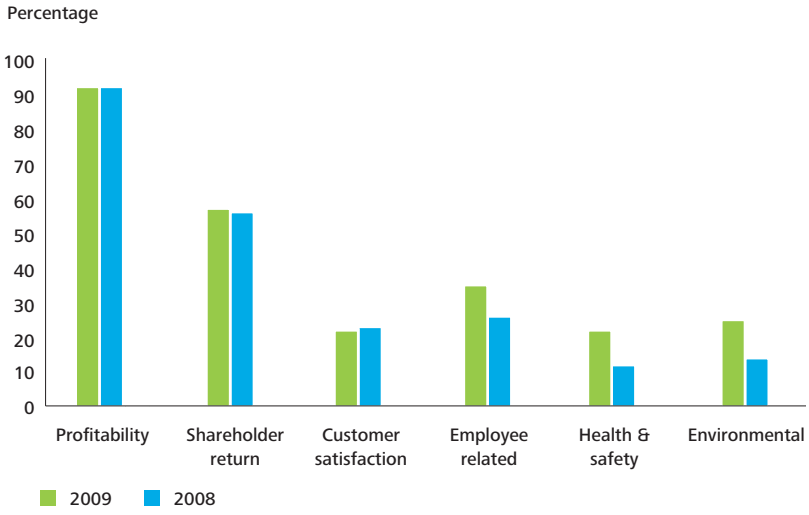
An example of clearly identifiable financial and non-financial KPIs is Rexam PLC, shown right.

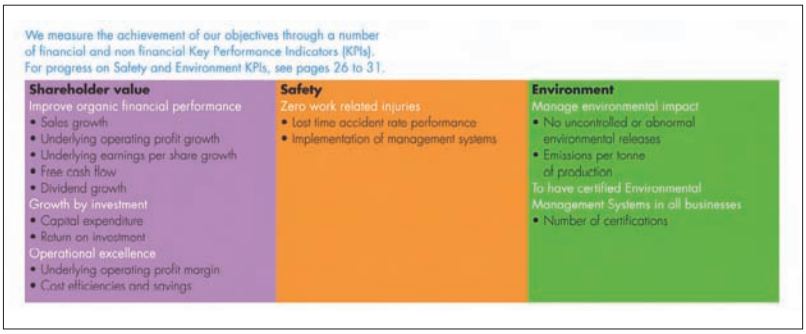
Categories of KPIs

The top three most common KPIs disclosed were the same as in 2008, being profitability, shareholder return and employee-related measures. This was consistent across all sizes of company. Examples of such KPIs include profit before tax, earnings per share and staff retention. Figure 16 shows the percentage of companies with clearly identified KPIs that included at least one KPI relating to the specific category.

The proportion of companies identifying KPIs relating to the environment, employees and health and safety all increased significantly on last year.

Figure 16. What categories of KPIs are disclosed?




We measure the achievement of our objectives through a number of financial and non financial Key Performance Indicators (KPIs).
For progress on Safety and Environment KPIs, see pages 26 to 31.

Shareholder value
Improve organic financial performance
- Sales growth
- Underlying operating profit growth
- Underlying earnings per share growth
- Free cash flow
- Dividend growth

Growth by investment
- Capital expenditure
- Return on investment

Operational excellence
- Underlying operating profit margin
- Cost efficiencies and savings

Safety
Zero work related injuries
- Lost time accident rate performance
- Implementation of management systems

Environment
Manage environmental impact
- No uncontrolled or abnormal environmental releases
- Emissions per tonne of production

To have certified Environmental Management Systems in all businesses
- Number of certifications

Rexam PLC Annual Report and Accounts 2008

Understanding KPIs

Companies were good at disclosing KPIs and providing a suitable balance between financial and non-financial measures. However, many companies did not provide sufficient information for a reader of the annual report to understand fully why the company had selected the KPIs and what the factors driving the KPIs are.

Although the Companies Act only requires the identification of KPIs used by a company, the following items are recommended to be disclosed by the RS and may be considered to be best practice:

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

Financial KPIs – trend analysis

	2008 %	2007 %	2006 %	2005 %	2004 %
Revenue growth[1]	3.4	20.8	13.4	12.2	–
Revenue mix[2]					
Net interest income	52.1	47.8	52.8	54.4	60.6
Net fee income	24.5	27.9	26.3	25.1	25.2
Other income[3]	23.4	24.3	20.9	20.5	14.2
Cost efficiency[4]					
– reported	60.1	49.4	51.3	51.2	51.6
– excluding goodwill impairment	47.2	49.4	51.3	51.2	51.6
Credit performance as measured by risk adjusted margin[5]	4.8	6.0	6.3	6.3	6.8
Return on average invested capital[6]	4.0	15.3	14.9	15.9	15.0
Dividends per share growth[7]	(28.9)	11.1	11.0	10.6	10.0
Basic earnings per ordinary share[8]					
– reported (US$)	0.47	1.65	1.40	1.36	1.18
– excluding goodwill impairment (US$)	1.36	1.65	1.40	1.36	1.18
Return on average total shareholders' equity[9]	4.7	15.9	15.7	16.8	16.3

	Over 1 year	Over 3 years	Over 5 years
Total shareholder return			
HSBC TSR	84.5	84.5	98.5
Benchmarks:			
– FTSE 100	71.7	88.1	118.3
– MSCI World	81.8	93.6	123.7
– MSCI Banks	63.0	60.8	82.7

1 *The percentage increase in net operating income before loan impairment and other credit risk charges since the previous year.*
2 *As a percentage of net operating income before loan impairment charges and other credit risk provisions.*
3 *Other income comprises net operating income before loan impairment charges and other credit risk provisions less net interest income and net fee income.*
4 *Total operating expenses divided by net operating income before loan impairment and other credit risk charges.*
5 *Net operating income divided by average risk-weighted assets.*
6 *Profit attributable to ordinary shareholders divided by average invested capital.*
7 *The percentage increase in dividends per share since the previous year, based on the dividends paid in respect of the year to which the dividend relates.*
8 *Basic earnings per ordinary share is defined in Note 13 on the Financial Statements.*
9 *The return on average total shareholders' equity is defined as profit attributable to shareholders of the parent company divided by the average total shareholders' equity.*

HSBC Holdings plc Annual Report and Accounts 2008

33% of companies did not define or disclose the calculation method for any of their KPIs (2008: 42%). Only a third of companies reconciled their financial KPIs to the financial statements (2008: one third). Some companies did not adjust the data used in the financial KPIs and so no reconciliation was necessary. Others used financial KPIs including numbers which are not shown in the financial statements, such as the sales order book. Where KPIs are not defined and where adjusted numbers from the financial statements are used, it is difficult for the reader to understand how the KPI relates to the performance of the company as otherwise disclosed. An example of well defined KPIs is taken from HSBC Holdings plc, below left.

15% of companies commented on future targets, an improvement on 2008 where only 9% did so. This remains a low area of adherence to the RS. KPIs are relatively meaningless if no target or benchmark is provided against which the reader can assess the company's performance.

24% of companies discussed the purpose for each KPI (2008: 18%). 7% of companies showed a clear link between the KPIs and their strategy, an increase on 3% last year. 29% of companies showed a clear link for some but not all KPIs. For 24% of companies it was not possible to see a link between the strategy and the KPIs. KPIs should be those measures used by a company to monitor their performance against their objectives. Where neither the purpose nor a link to strategy is clearly identifiable, it is difficult to understand why company management rely on such indicators as a measure of the company's performance.

The link between KPIs and strategy was shown in different ways. Halma plc clearly identified and discussed their strategy in the narrative and then summarised their principal objectives above the KPI table so that the link could be seen easily.

Other companies presented the link diagrammatically, such as Cobham plc shown below.

In terms of comparative information for the KPIs, 6% of companies did not show any comparatives at all, so it was not possible to determine whether performance had improved compared to previous periods.
On average two years' of comparative figures was shown. Two companies presented ten or more comparatives by referencing the KPIs to a table showing the long-term performance of the company.

On average the larger companies tended to identify a larger number of KPIs, with an average of eleven, compared with six KPIs for the middle and smallest 350 companies.

We have a clear focus on achieving organic growth, maintaining high returns, investing in new products and generating cash

KPIs

ORGANIC REVENUE GROWTH[1]
%

2009: 11% target >5%

Definition
Organic revenue growth measures the change in revenue achieved in the current year compared with the prior year from continuing Group operations. The effect of acquisitions made during the current or prior financial period has been equalised.

Performance
Strong organic growth across all sectors for the fourth consecutive year.

Target
The Board established a minimum organic growth target of 5% representing the blended long-term growth rate of our markets.

RETURN ON SALES[1]
%

2009: 17.3% target ~18%

Definition
Return on sales is defined as adjusted profit before taxation[1] from continuing operations expressed as a percentage of revenue from continuing operations.

Performance
High returns achieved representing a marginal drop in performance against this target. This reflected a reduction in profitability within the Health and Analysis sector.

Target
The Return on sales target reflects the expectation that high returns are sustained and will vary within a narrow range of 16 – 20% giving the average 18% target.

Halma plc Annual Report and Accounts 2009

Key performance indicators

Performance indicator	Definition	Results 2008 actual	Results 2007 actual	Results target	Strategic objectives 1	2	3	4	5	6
Technology Divisions' organic growth	Organic revenue growth represents the growth of the Technology Divisions for the period they are within the Group's control, translated at constant exchange rate	10%	13%	High single digit	■	■	■	■	■	■
Underlying EPS growth	Underlying profit after tax divided by the average number of shares in issue (at constant translation exchange rates)	13%	16%	High single digit	■	■	■	■		■
Operating cash conversion	Operating cash flow after capex and PV as a percentage of trading profit, excluding profit from joint ventures	106%	81%	>80%	■	■	■	■		■
PV investment	Company funded investment in R&D as a percentage of the three Technology Divisions' revenue	5.7%	5.6%	6%* in medium term	■	■	■		■	■
Staff safety	The total number of reportable injuries and other occurrences > 3 days absence per 100,000 employees	260	548	Zero					■	■
Voluntary staff turnover	Voluntary leavers excluding planned retirements, redundancies, company disposals and contractors	8.5%	10%	–	■	■	■	■	■	■

All measures on this page are underlying. * PV target has been recalibrated to 6% and the 2007 figure re-stated to reflect the acquisition of SPARTA in June 2008, where R&D is largely customer funded.

Cobham plc Annual Report and Accounts 2008

9. Corporate governance – compliance*

- 35% of companies comply fully with the provisions of the Combined Code.
- The chief executive is also the chairman for 9% of companies.

Statement of compliance

Listing Rule 9.8.6 requires that UK incorporated listed companies make a statement as to whether or not they have complied with the provisions set out in Section 1 of the Code. 99% (2008: 96%) of the companies surveyed included a compliance statement. The one company which did not is incorporated outside the UK and therefore Listing Rule 9.8.6 does not currently apply. Such companies will however have to comply for periods commencing on or after 1 January 2010.

Figure 17 shows how companies are complying with the Code in each of the three groups by market capitalisation. 35% (2008: 30%) of companies complied in full with all the provisions and 65% (2008: 70%) partially complied. 47% of the top 350 companies applied all provisions of the Code compared to 39% of the mid tier companies and 18% of the smallest 350 companies.

54% of companies included the statement of compliance in a prominent position in the first paragraph of their corporate governance report. Where a company has not complied with all the provisions of the Code, or complied with them for only part of the year, the Listing Rules require the company to set out those provisions. Figure 19 below 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.

Figure 17. How many KPIs are identified?

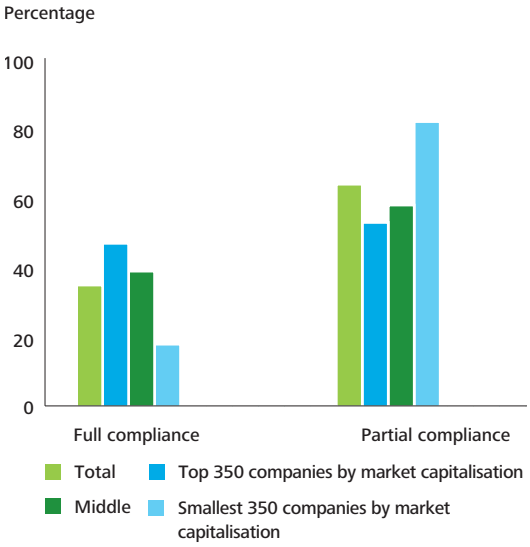


Figure 18. Where is the statement of compliance positioned?

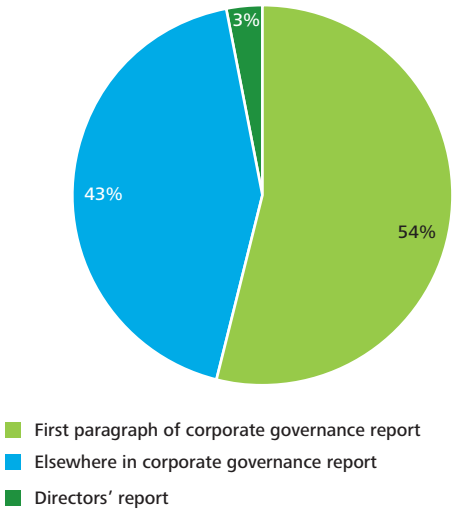
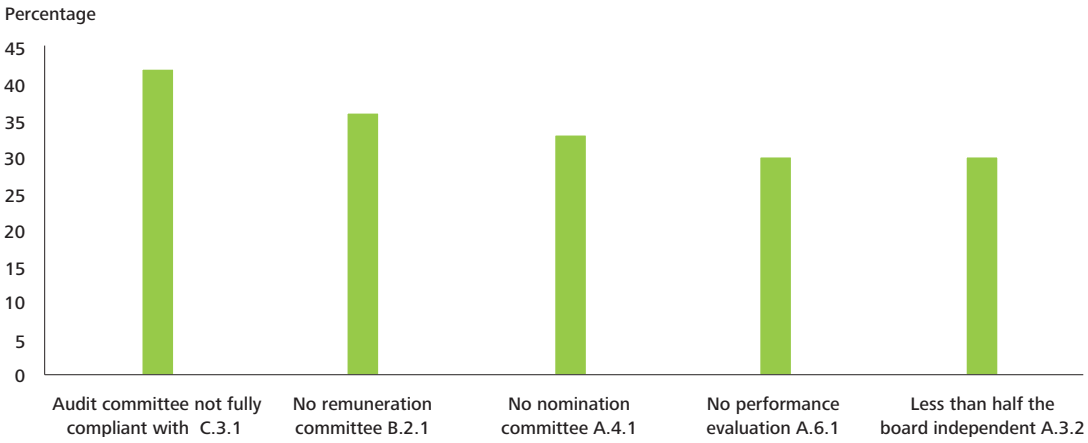


Figure 19. What are the most common non-compliances for the smallest 350 companies?



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

For 53% of the top 350 companies who reported partial compliance with the Code, 50% 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. 25% of the 20 companies reporting partial compliance from the middle group reported that they did not meet all the requirements of Code provision C.3.1 (on establishment of an audit committee) and Code provision B.2.1 (on establishment of a remuneration committee).

Board composition and decision-making

Code provision A.2 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 was that the majority of the FTSE 350 companies would have separate people taking up these positions. In 9% of the companies surveyed, the roles of the chief executive and the chairman were performed by the same person. This comprised one company in the top 350 companies (see below), two in the middle group and six within the smallest 350 companies. Just six of these companies provided reasons why this was the case.

> We recognise that our current Board structure is out of line with the Combined Code in that Sir Stuart Rose combines the roles of Chairman and Chief Executive. We understand the concerns of our shareholders but believe that we still can – and do – maintain robust governance while at the same time benefiting from having Stuart at the helm.

Marks and Spencer Group plc Annual report and financial statements 2009

As noted in section 2, the 2008 Code removes the restriction on an individual chairing more than one FTSE 100 company. The sample does not fall within the applicable period for the 2008 Code but it was interesting to note that two FTSE 100 companies already had a chairman who was a chairman of another FTSE 100 company. One of those did not acknowledge that this was in contravention of the Code applicable to its reporting period. The other did and noted the forthcoming revision to the Code as illustrated top right.

The other amendment included in the 2008 Code 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.

> **The Chairman**
> Following the resignation of Sir John Sunderland, Roger Carr was appointed Chairman of Cadbury plc in July 2008. On his appointment, Roger Carr met the independence criteria set out in the Code. Amongst Roger Carr's external appointments, he is also the Chairman of another FTSE 100 company. As a result, the recommendation under the Code that no individual should be appointed to a second chairmanship of a FTSE 100 company has not been met. (Under the revised Code, in effect from January 2009, the restriction against Chairmanships of two FTSE 100 companies is no longer in place.) As part of the appointment process, the time commitment required by this role was evaluated and reviewed against his external appointments. Prior to his appointment as Chairman of Cadbury plc, Roger Carr had served simultaneously as Chairman of two FTSE 100 companies, and has demonstrated his ability to fulfill the demands of both roles.

Cadbury plc Annual Report & Accounts 2008

It is interesting to note that this was already the case in 21% of the middle group of companies and in 42% of the smallest 350 companies. In addition one of the top 350 companies has the chairman as a member of their audit committee. The company includes the following explanation.

> ***C.3.1 – the composition of the Audit Committe***
> We recognise that only two of the three members of the Audit Committee are independent Non-Executive directors. However, the Chairman will remain a member of the Audit Committee as in the Board's view his objectivity and ability to advise and question the Executive Directors, particularly in respect of financial affairs is not affected. His counsel has contributed significantly to the Group's success.

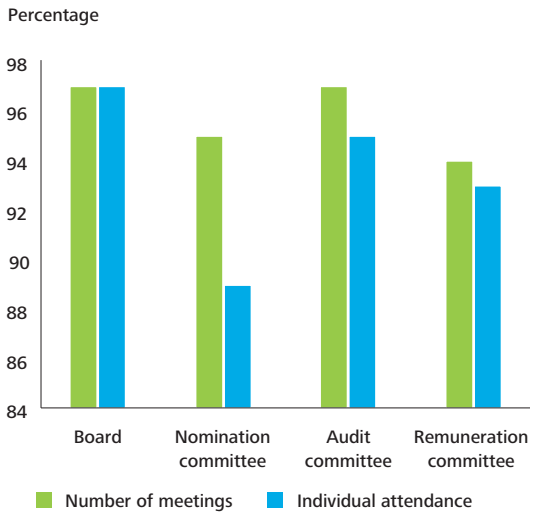
The BSS Group plc Annual Report & Accounts 2009

Meeting attendance

Many companies adopted a tabular format to give details of the number of meetings of the board and various committees including individual attendance at those meetings, in line with Code provision A.1.2.

Figure 20, overleaf, shows that at least 94% of companies surveyed gave the number of meetings held by the board and its committees. At least 90% gave details of individual attendance by directors at those meetings. Some reports also contained explanations of why members were unable to attend particular meetings.

Figure 20. Does the annual report show meeting attendance?



Nomination committee

90% of the companies which had prepared a corporate governance statement had a nomination committee. The other 10% of companies without a nomination committee comprised one company from the middle group and nine companies from the smallest 350 companies. Of those companies which had a nomination committee 97% described the work of that committee, in accordance with provision A.4.6 of the Code.

The terms of reference of the nomination committee were included by reference to the company's website by 70% (2008: 68%) of companies surveyed. In an improvement on last year only 12% of companies surveyed (2008: 28%) made no reference. This is expected given the Code (provision A.4.1) requires that the nomination committee should make available its terms of reference.

There has also been an improvement in the section describing the work of the nomination committee where 87% (2008: 59%) of companies complied with Code provision A.4.4 and outlined the specific procedures used for board appointments including the search and selection process. 55% of companies acknowledged or discussed succession planning. Over half of these were within the top 350 companies.

The Code requires a statement of how performance evaluation was conducted for the board, its committees and individual directors. Over two thirds of companies made such a statement.

Consistent with last year the top 350 companies were best at this, with 97% providing information on board evaluation and 91% on performance evaluation for both the committees and directors. The middle group followed with 82% (2008: 80%) detailing how performance evaluation had been conducted for the board. This group did less well at describing the process for its committees, with 67% (2008: 63%) giving this detail, although 73% (2008: 73%) did include information on appraisals for individual directors. 52% (2008: 50%) of the smallest 350 companies explained the procedure for board evaluation and 36% (2008: 41%) described the process for committees and 45% described the process for directors. This may be linked to smaller companies generally having a less formal appraisal process compared to larger organisations.

Risk committees

As noted in section 2 there are two key reviews in progress which could impact on governance arrangements going forward. One suggestion is the introduction of a separate risk committee with its own terms of reference. With this in mind, the survey companies were reviewed to see if they already have separate risk committees. Nine of the top 350 companies surveyed disclosed that they have a separate risk committee and some also provided details of the availability of the terms of reference, the names of the members of the committee and the number of meetings. The nine companies with a separate risk committee included two banks and seven non-financial companies.

10. Corporate governance – audit committees*

- 97% of companies describe the work of the audit committee within their annual report.
- 16% of audit committees have adopted early the revised Smith guidance on disclosure of the auditor selection decision.

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). All except three companies (97%) complied with this provision of the Code and two of these stated that, due to their small size, they did not have an audit committee. While the Code refers to a "separate section" of the annual report, a sub-section within a larger corporate governance statement is generally considered acceptable and this is how the vast majority of companies (89% (2008: 91%)) presented information on their audit committees. As discussed in the regulatory overview in section 2, companies are required by the DTR to provide disclosure about the audit committee for periods beginning on or after 29 June 2008. It is therefore reassuring that most companies are already providing this information within their annual reports.

The Code also 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 requirement by including the information in the annual report or by making the information available on request or placing it on the company's website.

Last year over a quarter of companies in the sample (29%) included no information on the terms of reference of the audit committee. This year there is a marked improvement for this requirement, with 80% of companies with an audit committee referring the reader to the company website or stating that the terms of reference are available on request.

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

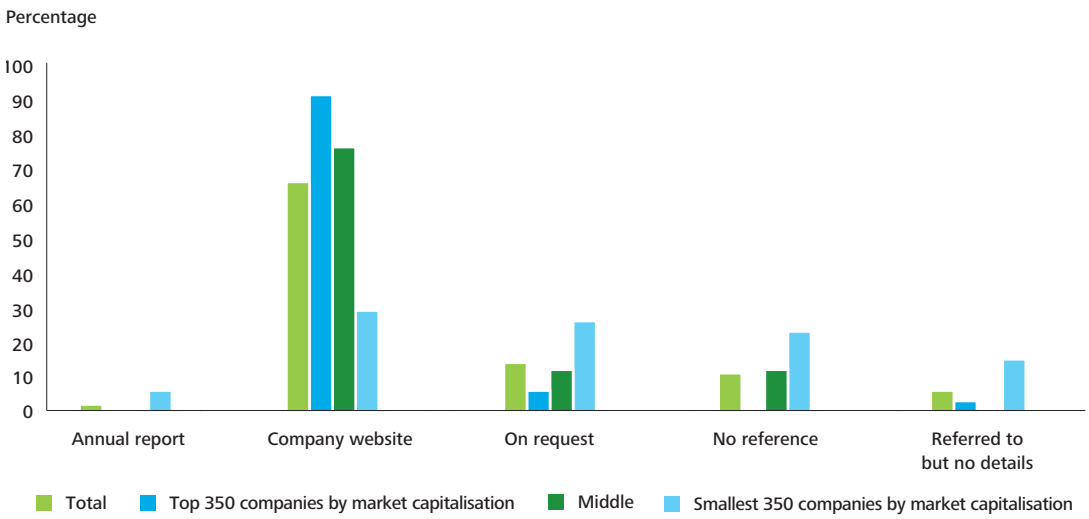
- a summary of the role of the audit committee;
- the names and qualifications of the members of the audit committee during the period;
- the number of audit committee meetings; and
- a report on the way in which the audit committee has discharged its responsibilities.

96% (2008: 100%) 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 three companies from the smallest 350 group indicated the number of meetings held during the period.

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

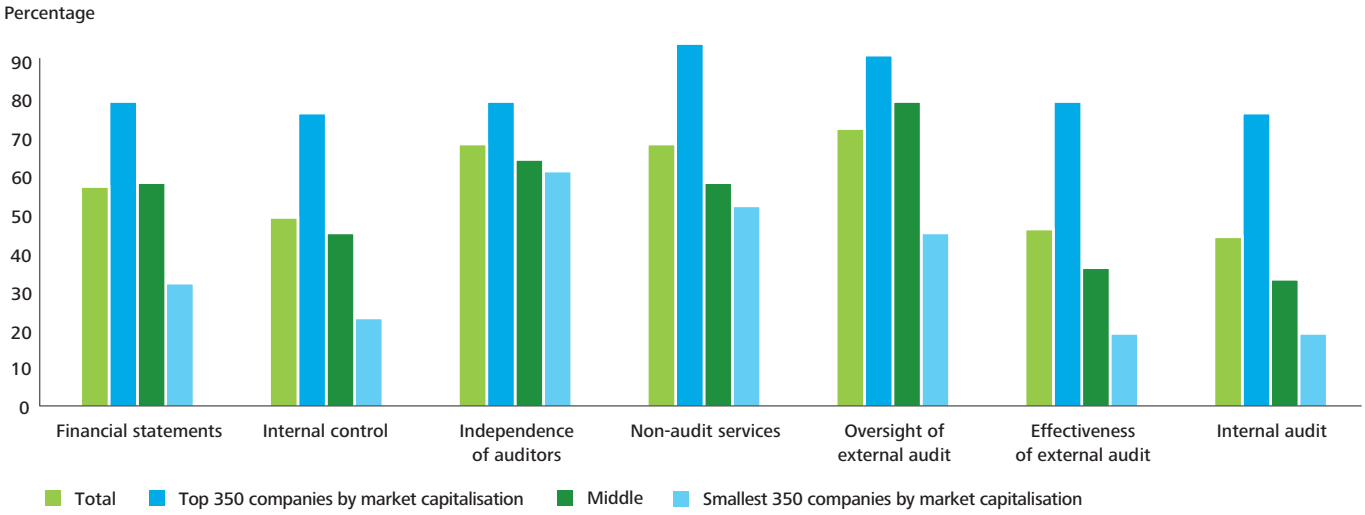
- the activities carried out to monitor the integrity of the financial statements;

Figure 21. Where are the audit committee terms of reference?



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

Figure 22. Which audit committee activities are disclosed in the annual report?



- 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 22 indicates whether the companies included in the survey provided this information within their audit committee report. The results were mixed. Not surprisingly companies in the top 350 companies provided the most information and those in the smallest 350 companies disclosed the least. Overall the majority of companies provided some information about auditor independence, non-audit services and oversight of the external auditors. By contrast, less than half of companies disclosed whether an assessment of external audit effectiveness had been made or whether the work of internal audit had been reviewed.

An example of reporting on the activities undertaken by the audit committee during the year is included in the Ladbrokes plc Annual Report and Accounts 2008, right.

The main activities of the committee in 2008 were as follows:

› with the assistance of reports received from management and the external auditor, the critical review of the significant financial reporting issues in connection with the preparation of the Company's financial and related formal statements;

› assessing the scope and effectiveness of the systems established to identify, assess, manage and monitor financial and non-financial risks;

› monitoring the integrity of the Company's internal financial controls.

The committee does so by reference to:

(a) summaries of business risks and mitigating controls;

(b) regular reports and presentations from the head of key risk functions, internal audit and external audit; and

(c) the results of the system of annual self-certification of compliance with key controls and procedures;

› monitoring and reviewing the plans, work and effectiveness of the internal audit function, including any actions taken following any significant failures in internal controls;

› reviewing, with the external auditor, its terms of engagement, the findings of its work, and at the end of the audit process reviewing its effectiveness; and

› reviewing the independence and objectivity of the external auditor.

Ladbrokes plc Annual Report and Accounts 2008

In compliance with the Code (provision C.3.5), 36% (2008: 35%) 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. Taking these companies into account in the results above, 23% (2008: 29%) of companies still failed to provide any disclosure on the internal audit function – either to confirm its review by the audit committee or to explain that such a function did not exist within the company.

The external auditors provided non-audit services in 95% (2008: 96%) 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. 85% (2008: 87%) of companies for whom it was applicable gave a more detailed explanation of how auditor independence was protected in these circumstances.

Leading the pack

As noted in section 2, the revised Smith Guidance 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. Although not falling within the implementation period of the revised Smith Guidance, the sample was reviewed to determine if any companies had adopted this new guidance early. 16% of all companies had attempted to explain their auditor selection decision, including 32% of the top 350 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. Only three companies in the sample made reference to any contractual obligations and that was to confirm that there were none.

Only three companies in the sample made reference to any contractual obligations and that was to confirm that there were none.

An example of these disclosures is included in the Cadbury plc Annual Report & Accounts 2008:

Evaluation of external auditors: In appropriate circumstances, the Committee is empowered to dismiss the external auditor and appoint another suitably qualified auditor in its place. The re-appointment of the external auditor is submitted for approval annually by the shareholders at the Annual General Meeting.

To assess the effectiveness of the external auditors, the Audit Committee reviewed:

> the arrangements for ensuring the auditor's independence and objectivity;
> the external auditor's fulfilment of the agreed audit plan;
> the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements; and
> the content of the external auditor's reporting on internal control.

As part of the decision to recommend to the Board the re-appointment of Deloitte LLP, the Committee has taken into account the tenure of the auditors and considered whether there should be a full tender process. There are no contractual obligations restricting the Committee's choice of external auditors.

As a consequence of its satisfaction with the results of the activities reviewed above, the Audit Committee has recommended to the Board that a resolution proposing the re-appointment of Deloitte LLP as external auditors be put to shareholders at the Annual General Meeting.

Cadbury plc Annual Report & Accounts 2008

Information on tendering frequency and the tenure of the incumbent auditor are further recommendations for disclosure by the audit committee for periods commencing on or after 28 June 2008. Just 3% of the companies reviewed had provided details of tendering frequency and 5% on the tenure of the incumbent auditor. Prudential plc includes disclosures on both categories in their annual report:

Re-appointment of auditor
The Group operates a policy under which at least once every five years a formal review is undertaken by the Committee to assess whether the external audit should be re-tendered. The external audit was last put out to competitive tender in 1999 when the present auditor was appointed. In 2005, 2006, 2007 and 2008 the Committee formally considered the need to re-tender the external audit service and concluded that, given the significant changes in accounting, audit and regulatory requirements, the interests of the Company were better served by retaining the existing auditor through a period of continuing change. In addition, the Committee concluded that there was nothing in the performance of the auditor requiring a change.

Prudential plc Annual Report 2008

11. Corporate governance: going concern*

- 62% of companies clearly adopts the recent FRC guidance.
- The average length of the going concern statement of those companies clearly adopting the recent guidance is 253 words.
- Nine auditors' reports contain an emphasis of matter, of which seven relate to 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. For periods ending before 31 December 2009 this requirement should be prepared in accordance with the *Going Concern and Financial Reporting: Guidance for Directors of Listed Companies registered in the United Kingdom* published in 1994 (the 1994 guidance). This guidance was written by a working group formed under the auspices of the Cadbury Committee that reported on the financial aspects of corporate governance.

The 1994 guidance identifies three conclusions which the directors can reach when considering the results of their procedures:

- they have a reasonable expectation that the company will continue in operational existence for the foreseeable future and have therefore used the going concern basis in preparing the financial statements;
- they have identified factors which cast doubt on the ability of the company to continue in operational existence for the foreseeable future but they consider it appropriate to use the going concern basis in preparing the financial statements; or
- they consider the company is unlikely to continue in operational existence for the foreseeable future and therefore the going concern basis is not an appropriate one on which to draw up the financial statements.

New guidance

In November 2008 the FRC issued the Update, *An update for Directors of Listed Companies: Going Concern and Liquidity Risk*, in response to the turmoil in the economic environment. This brought together existing guidance relating to going concern and liquidity risk disclosures and recommended that directors consider an expanded statement on going concern.

While the Update notes that it does not establish any new requirements, it sends out clear messages on the need for directors to consider early going concern and the importance of clear disclosure about going concern and liquidity risk in current economic conditions. The Update can be accessed on the FRC website at www.frc.org.uk/corporate/goingconcern.cfm

Paragraph 27 of the Update includes a useful summary of the three potential going concern outcomes together with the consequences for the directors' statement on going concern and the auditors' report. Crucially, the paper provides three examples of disclosures, setting out how directors have reached their going concern conclusion, differentiating among the following situations:

1. where the directors have little or no uncertainty about the entity's ability to continue as a going concern;
2. where the directors have identified some uncertainty but where there are mitigating factors that address this uncertainty such that it does not result in a material uncertainty about the entity's ability to continue as a going concern; and
3. material uncertainty about the entity's ability to continue as a going concern.

The Update also provides guidance on assessing borrowing facilities based on the possible reluctance of bankers to confirm the continued availability of facilities. In short, the recent guidance recommends the discussion be extended in the following manner:

- include cross-referencing to other appropriate and supporting discussion, such as discussion of the group's business activities, together with the factors likely to affect its future development, performance and position in the business review, the financial position of the group, including its cash flows, liquidity position and borrowing facilities and financial risk management; and
- discuss any uncertainties affecting the group (including a reference to the uncertain economic outlook, where appropriate) and the financial resources available to the group to address or manage such uncertainties,

before giving the standard going concern statement as required under the 1994 guidance.

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

In October 2009 the FRC released an updated version of the 1994 guidance, based heavily upon the material in the November 2008 Update. The updated guidance will be effective for companies with 31 December 2009 year ends.

Location of statement

The 1994 guidance indicates that the going concern statement should be included in the OFR on the basis that the OFR contains a significant amount of discussion and analysis which will help to put the statement on going concern into context. As there is no statutory requirement to prepare an OFR, this guidance cannot be regarded as mandatory, even where listed companies voluntarily prepare an OFR.

There is no indication in the Update where the going concern statement and extended discussion should be positioned. A sensible option for listed companies is simply to expand the current going concern statement to take into account the Update. As this is a fundamental assumption supporting the preparation of the financial statements, it would seem right for this to be captured by the scope of the auditors' report and as such a cross-reference from the notes to the financial statements could be made. Alternatively the extended discussion could be included within the notes, with the standard going concern statement remaining within the narrative reporting.

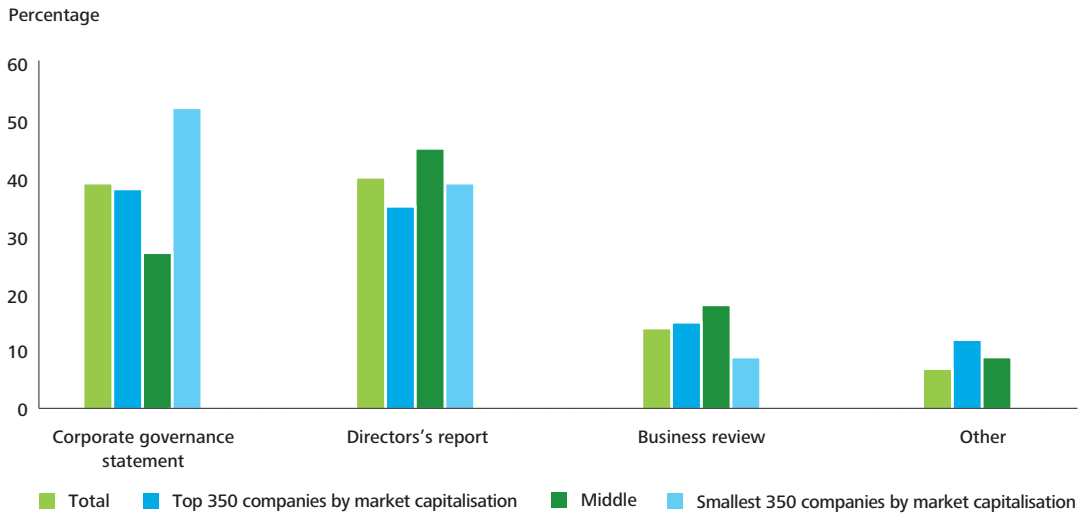
All companies included a statement on going concern. Figure 23 shows where the statement was positioned. 40% of companies included the statement within the directors' report, this being the most common place for the middle group with 45% of them doing so. For 39% the statement was situated within the corporate governance statement, this being the most popular for the top and smallest 350 companies with 38% and 52% respectively.

14% of companies placed the going concern statement within the stand-alone business review which was referenced from the directors' report. 7% of companies positioned the statement elsewhere. Of these, 4% made a brief reference to going concern within the narrative report, but the fuller statement reflecting the Update was located in the notes to the financial statements. 2% positioned the statement in the statement of directors' responsibilities and the remaining company included the going concern statement only within the notes to the financial statements.

Adoption of the FRC Update

87 companies approved their financial statements on or after 15 December 2008 and therefore were able to take heed of the FRC Update published in November 2008. All of the following analysis of going concern statements uses these 87 eligible companies as its sample population.

Figure 23. Where is the going concern statement positioned?



62% of eligible companies clearly adopted the FRC guidance. Of the 38% which did not, 21% were in the smallest 350 companies, 13% in the top 350 and 5% in the middle group.

Cross-referencing

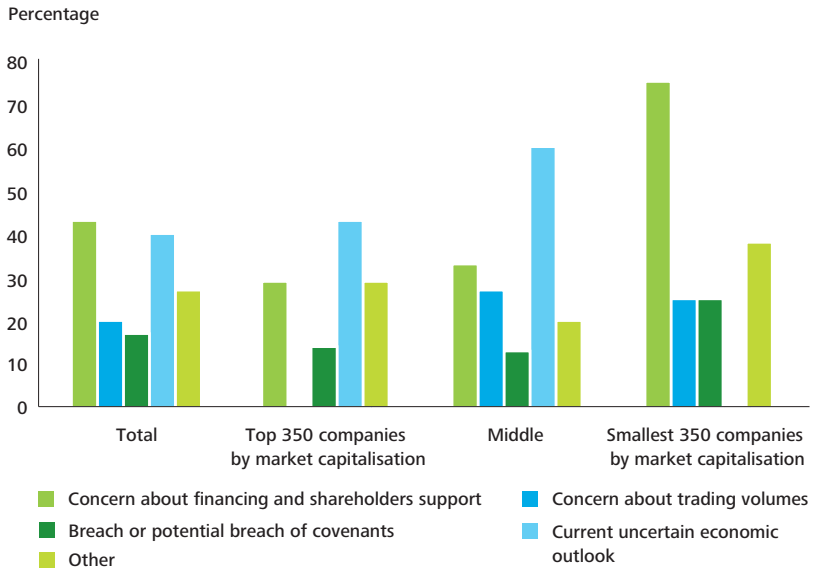
67% of all eligible companies either cross-referred to related discussion such as principal risks and uncertainties, liquidity and key judgements, or included or repeated relevant sections of narrative, such as liquidity, within the going concern statement. Of these, 30% were in the middle group, 27% in the top 350 companies and 10% in the smallest 350.

Cross-referencing is a recommendation in the Update (as noted above) and is deemed to be a positive attribute of the going concern statement as it brings together all related information into one clear location, enabling the user of the report to have a full understanding of issues affecting the going concern assessment.

Identifying uncertainties

30 companies out of the sample of 87 referred to an uncertainty within their going concern statement. Of these, 15 were from the middle group, eight from the smallest 350 companies and the remaining seven from the top 350 companies. In the current economic climate it is surprising that 57 companies chose not to mention any uncertainty, particularly given that the three example disclosures presented in the Update all include reference to some kind of uncertainty. Figure 24, below, illustrates what the uncertainties discussed related to.

Figure 24. For those companies which discussed uncertainties in their going concern statement, what were these uncertainties?



Results per category of uncertainty are presented as a percentage of all companies identifying uncertainty, with some companies listing more than one uncertainty.

43% of uncertainties related to financing and shareholder support. This was particularly common among the smallest 350 companies. Understandably, this was a lesser concern for the larger companies who presumably are more able to generate support from financiers given the size and scale of their operations.

None of the largest companies considered there to be any uncertainty around trading volumes, in stark comparison to 27% of the middle group and 25% of the smallest companies. Seemingly the larger companies have already gained sufficient market share for trading volumes not to be an issue, assuming their operations are not cyclical.

17% of companies with uncertainties considered that specifically breaching or potentially breaching covenants presented an uncertainty. 40% of companies with uncertainties made a simple reference to the current uncertain economic outlook without expanding on the effect on the company itself. This is taken directly from the first example given in the FRC Update.

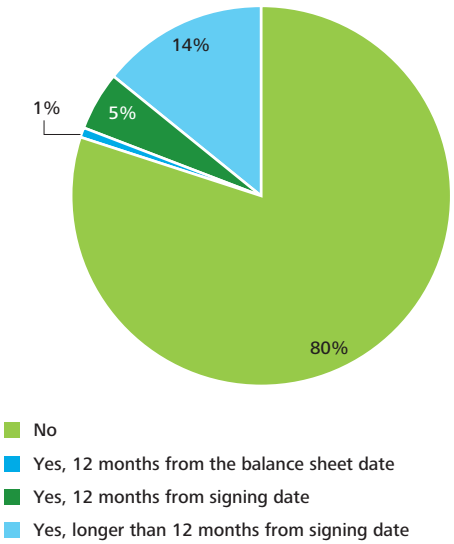
27% of uncertainties related to something other than those categories discussed. Two companies referred to current uncertainty in markets which particularly affected their business, such as the property market. One company considered the uncertainty around the funding position of the defined benefit pension scheme and its accounting deficit to be worthy of disclosure in the context of going concern. Other companies referred to other specific items as being uncertain, such as the re-assignment of leases on a retail portfolio, disposal of a particular division, foreign exchange movements and cash generation from current projects.

Length of forecasts

Standard UK Practice, as confirmed under FRS 18 Accounting Policies and auditing standards, is to prepare budgets and forecasts to cover a period of twelve months from the date of approval of the financial statements as a minimum. 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 updated guidance published in October 2009 confirms 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.

80% of all 100 companies did not disclose the length of forecasts or budgets relied upon to support the going concern assumption.

Figure 25. Are the length of forecasts or budgets disclosed?



Of the 20% of companies who disclosed the length of forecasts, 14% confirmed that they were longer than twelve months from the date of approval. A further 5% confirmed that forecasts covered the twelve month period from the date of approval. One company from the smallest 350 indicated that forecasts covered only twelve months from the balance sheet date.

Length of statement

Across all companies, the average length of the main statement on going concern was 168 words. The longest statement was 716 words and the shortest only 30. Of those companies considered to have clearly adopted the Update, the average length increased significantly to 253. Of those eligible to have adopted the guidance but who did not clearly do so, the average word count was 78.

The additional information provided under the Update 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 where there appears to be an abnormally high number of companies falling into administration or financial distress, clear disclosure and discussion around the directors' assumption that the company is a going concern is undoubtedly of utmost importance.

A good example a of company which clearly adopted the spirit of the recent FRC guidance, providing appropriate information in a clear and concise manner, is Intermediate Capital Group PLC.

Going concern statement

ICG's business activities, together with the factors likely to affect its future development, performance and financial position, are set out in the Managing Directors' review and Business review.

The risk profile and related uncertainty of ICG has increased with the global recession, impacting our borrowers' ability to meet their obligations as well as significantly reducing the level of early repayments and recoveries on impaired assets. Our portfolio as a whole is performing satisfactorily in light of the worsening economic conditions and the majority of our top twenty debt and top ten equity investment exposures are performing strongly. The capital position of ICG is reviewed below.

Having reviewed ICG's budget and business plans, and taking into account reasonable downside sensitivity, the Directors believe that ICG has adequate financial resources to continue in operational existence for the foreseeable future despite the current uncertain economic climate. Accordingly they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Intermediate Capital Group PLC Annual Report and Accounts 2009

Similarly, Triad Group plc provides a good example of adopting the FRC guidance and highlighting key uncertainties facing the company in the current climate.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Chairman's statement, and Operating review on pages 1 to 3. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chairman's statement on page 1 and in note 18 to the financial statements. In addition note 3 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

As highlighted in note 18 to the financial statements, the Group meets its day to day working capital requirements through an invoice finance facility. The current economic conditions create uncertainty particularly over (a) the level of demand for the Group's services and (b) the availability of bank finance in the foreseeable future.

The Group's projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facility. The facility may be terminated by either party with one month's written notice. The board receives regular cash flow and working capital projections to enable it to monitor its available headroom under this facility. These projections indicate that the Group expects to have sufficient resources to meet its reasonably expected obligations. The bank has not drawn to the attention of the Group any matters to suggest that this facility will not be continued on acceptable terms.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Triad Group plc "Annual Report and Accounts 2008-2009

Consistent reporting

The going concern statements were considered for consistency with disclosure in the financial statements, the auditors' report and the narrative reporting as a whole. All going concern statements were consistent with any specific disclosures in the financial statements.

Two companies were inconsistent with the auditors' report which included an emphasis of matter paragraph relating to a material uncertainty leading to significant doubt over going concern. Where auditors' reports include an emphasis of matter paragraph the specific wording "... material uncertainty leading to significant doubt ..." must be used. The International Standards on Auditing require the directors' going concern disclosures to mirror this wording. The third disclosure example in the Update uses such wording.

In both instances of inconsistency identified, the directors' statements on going concern did not identify the material uncertainties that led to significant doubt over the company's ability to continue as a going concern. Indeed, the directors of one company acknowledged that the company's ability was dependent on the achievement of forecasts and continued support from suppliers and related parties yet did not describe these circumstances even as being uncertain.

The auditors of a third company included an emphasis of matter paragraph within their report, highlighting the basis of preparation as set out in the notes to the financial statements and the valuation of both intangibles and investments. There was no mention of a material uncertainty leading to significant doubt and no specific reference to going concern. It has been presumed that going concern is underlying the emphasis of matter as it highlights three future possible events that underpin the company's success.

The directors of one company stated that they considered the company to have adequate resources to continue in operations for the foreseeable future. Curiously, the chairman had previously admitted in his statement that not only had order intake reduced significantly since the year end and that this was not likely to improve in the current year, the unprecedented level of uncertainty meant that it was not possible to indicate turnover for the following financial year. All other companies were considered to have made statements on going concern which were consistent with the rest of the narrative report.

Auditors' reports

Nine companies within the sample had modified opinions from their auditors and all were due to the inclusion of an emphasis of matter paragraph. This is a significant increase on last year where only five companies had an emphasis of matter paragraph. This year, for seven of the companies, these paragraphs related specifically to the group's ability to continue as a going concern. This compares with five in 2008. The other two emphases of matter related to uncertainty around ongoing litigation and a subsidiary going into administration post year end.

One of the nine companies had both an emphasis of matter paragraph and a qualified audit opinion due to limitation of scope. This is in line with last year where one company's auditors qualified their opinion arising from a disagreement and also included an emphasis of matter paragraph.

Nine companies within the sample had modified opinions from their auditors and all were due to the inclusion of an emphasis of matter paragraph.

12. OFR-style information*

- 11 companies include a sub-section of their narrative headed OFR, an increase on nine companies in 2008.
- The number of companies complying with the ASB's Reporting Statement declines from 5% in 2008 to 4% in 2009.
- 79% of companies include a discussion of their objectives.
- 36% more companies than last year discuss capital structure and financing, which is indicative of the heightened importance in the current climate.

Narrative reporting statements

Companies packaged their narrative reporting information in different ways. The front half of most annual reports contained a business or operating review and financial review, together with a Chairman's and/or Chief Executive's statement. Eleven companies surveyed had a statement which was titled 'operating and financial review'. This small proportion of companies raises the question of whether there is scope to dispense with guidance on such a statement or a need to redraft the ASB RS to fit in with current law and practice.

The OFR

The preparation of an OFR is voluntary for all companies. For those companies providing OFR-style information best practice is to follow the ASB's RS. Four companies in 2009 (2008: five) included a statement to say that they had complied with the RS. One of these companies had only partially complied with all requirements.

There is clear overlap between the RS and the requirements for the business review. It seems that having two sources of rules or guidance on what is essentially a review of the business is making narrative reporting more complicated than it needs to be. Section 6 of this survey, on "how companies met the requirements of the business review", demonstrated that companies showed this information where it fitted best in their annual reports. This theme continues when it comes to the OFR information which is not specifically required by the law.

The table below identifies the overlap between the OFR and business review. The column on the left outlines the mandatory requirements of the business review that are also best practice in the RS. The column on the right shows the items for the best practice OFR. This list is not comprehensive but intended to highlight the key differences.

	BR	OFR
Development and performance of the company's business during the financial year and company's position at the end of that year	✓	✓
Forward looking information/ Trends and factors likely to affect the future of the business	✓	✓
Information on environment, employees and social and community issues	✓	✓
Objectives & strategy	×	✓
Capital structure, cash flow, treasury policies & liquidity	×	✓
Contractual or other arrangements essential to the business of the company	✓	✓
Principal risks and uncertainties	✓	✓
Financial & non-financial KPIs	✓	✓
Principles:		
Balance	✓	✓
Comprehensive	✓	✓
Understandable	×	✓
Comparable	×	✓

Despite some of the above requirements such as objectives, strategy and a description of the nature of the business not being a legal requirement, this information would be expected in an annual report as it enhances a reader's understanding of the business and sets the context for the financial statements.

Those items which are mandatory requirements of the business review, including KPIs and principal risks and uncertainties, have been discussed above in sections 6 to 8. The remainder of this section analyses whether companies have also included additional OFR-style information in their annual reports and whether this information meets the recommendations of the RS.

OFR-style information usually had two distinct elements. The first part was discussion of the business divisions, objectives and strategy. The second part was a review of the financial information.

All analysis below is based upon the whole sample and not only those companies which included a sub-section entitled OFR.

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

Nature of the business

The RS states that the OFR should include a description of the business and the external environment in which it operates as context for the directors' discussion and analysis of performance during the financial year and financial position.

Figure 26. To what extent is the business described?

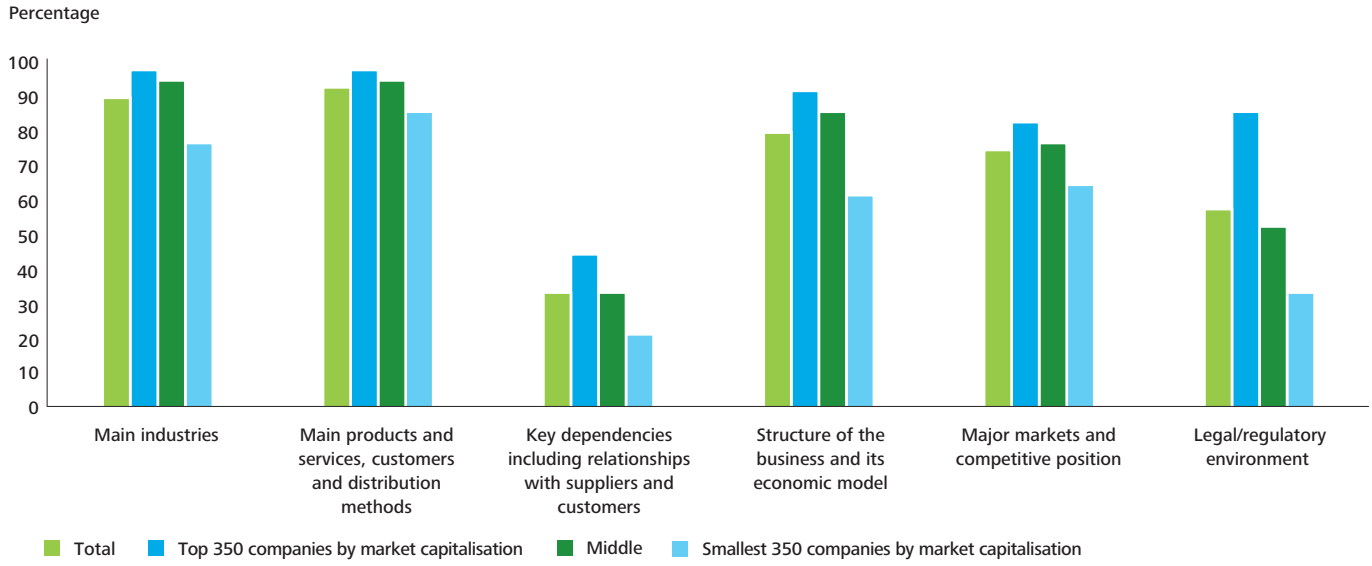


Figure 26 shows the extent to which companies described various aspects of their business.

The extent to which the companies' businesses were described was generally very good, with only a handful of companies (all within the smallest 350 companies) providing such little information that it was not clear what operations the company actually had or where they were carried out. The smallest 350 companies provided the least information across all categories shown in figure 27, presumably because their size naturally lent itself to a simple structure and operations which were self-explanatory.

89% of companies discussed or provided information relating to the main industries in which they operated. This was particularly common within the top 350 companies and the middle group, with 97% and 94% of companies providing such discussion respectively.

92% of companies provided a discussion of their main products or services, identifying their customers clearly and some detail of distribution methods (where appropriate). This was the area that the highest proportion of the smallest 350 companies (85%) provided information on. Several companies provided case studies to demonstrate how their products or services benefited their customers. Although this added to the length of the annual report, this was a convenient method of providing the reader with a rounded understanding of the company's operations.

A third of all companies provided information around key dependencies, whether these are relationships with particular suppliers and customers or other parties such as financiers, regulators and key employees. This is an improvement on 2008 (17%) but in line with 2007 (37%). It is also higher than those who disclosed contractual arrangements essential to the business (a Companies Act requirement, as discussed in section 6) where 13 companies disclosed essential contractual arrangements and a further ten confirmed there were none.

79% of companies described the structure of the business and its economic model and 74% discussed their major markets and competitive position. In line with the number of companies identifying related risks, 57% of companies discussed the legal or regulatory environment within which they operated.

A common approach to presenting information about the business was to provide a separate review of operations for each division, thereby enabling an overall description of each division to be presented clearly as well as facilitating discussion of both financial and non-financial performance.

Alternatively, many companies described the structure of the group diagrammatically, identifying divisions which were subsequently referred to in the review of operations and financial performance. A good example of this is shown in the extract from Vislink plc's annual report, right. This extract identifies some of the group's divisions, explains the division's operations and identifies operating locations, brand names and customers. Alongside this is an explanation of how two support divisions feed into the operations of the trading divisions.

MARKET LED ORGANISATION

NEWS AND ENTERTAINMENT

Vislink News and Entertainment brings together Vislink's three established broadcast businesses of satellite uplink manufacturer Advent Communications, wireless camera manufacturer Link Research and Microwave Radio Communications, which manufactures fixed and mobile microwave links. It has offices in the UK, USA, Dubai and Singapore.

Our brands
- Advent Communications
- Link Research
- Microwave Radio Communications (MRC)

Our Customers:
- Most international broadcasters; US networks; Outside Broadcast hire companies.

2008 Revenue:
£70.2 million

Ben McLeod
Managing Director
News and Entertainment

Stephen Rudd
International Sales Director

LAW ENFORCEMENT AND PUBLIC SAFETY

Vislink LE&PS is the leading manufacturer of secure, wireless, video and data communications systems, for worldwide law enforcement and public safety operations. It has locations in the US, both East and West coast, the UK and Singapore.

Our brands
- Advent Communications
- Link Research
- Microwave Radio Communications (MRC)
- Pacific Microwave Research (PMR)

Our Customers:
- US state and local police and fire departments; security forces around the world, US and UK armed forces.

2008 Revenue:
£5.5 million

Mike Payne
Managing Director
Law Enforcement and Public Safety

TECHNOLOGIES

Vislink Technologies is responsible for the Group's forward technology strategy, designing and developing products to meet the needs of the Business Units and their customers. The unit has engineering teams focused on the key areas that underpin the Group's secure communications expertise.

Vislink Technologies is a resource for all the Business Units, providing a coordinated product development strategy that takes advantage of their common needs through shared electronics modules, delivering efficiencies in design, manufacture and support.

John Mulcahy
Managing Director
Technologies and CTO

LOGISTICS, HR AND IT

The Business Units source their products through Vislink Logistics, which is responsible for the sourcing of materials and products in the most cost-efficient way for the Group across its locations in the UK, USA (East and West coast) and Norway.

Doug Ferguson
Managing Director Logistics

12 VISLINK PLC ANNUAL REPORT 2008

Vislink plc Annual Report 2008

A common approach to presenting information about the business was to provide a separate review of operations for each division, thereby enabling an overall of description of each division to be clearly presented as well as facilitating discussion of both financial and non-financial performance.

BT Group plc also included a clear group structure, below.

OVERVIEW

HOW WE ARE STRUCTURED

We meet the needs of our different customer groups through four customer-facing lines of business, supported by two internal functional units. BT Retail, BT Wholesale and Openreach operate mainly in the UK. BT Global Services provides services in more than 170 countries around the world.

We believe that the way we are structured brings us closer to our customers, helps us get it right first time and enhances the customer experience, at the same time as helping us reduce our costs and drive value for our shareholders.

BT Group

BT Global Services

BT Global Services is a provider of networked IT products, services and solutions. It aims to be the partner of choice for large enterprise and government customers in the UK and globally.

2009

- five-year US$526m contract with Procter & Gamble, to provide communications infrastructure in 80+ countries
- Telemark Services Platinum award for best in class customer satisfaction for global data virtual private networks
- 40%+ reduction in average time to provide international MPLS

BT Retail

BT Retail serves consumer customers and small and medium-sized enterprises in the UK, providing a range of innovative communications products and services that enable customers to enhance the way they live their lives and run their businesses. It also comprises BT Ireland and our BT Enterprises division.

2009

- 4.8m broadband lines
- 20.7m fixed lines
- 65% improvement in time taken to get through to an adviser
- 20% improvement in average time to clear telephony network faults experienced by business customers

BT Wholesale

BT Wholesale brings potential economies of scale to around 700 UK communications providers, through a diverse portfolio ranging from nationally available broadband, voice and data connectivity services and the interconnection of traffic across other service providers' networks, to managed network solutions.

2009

- signed managed network services contracts worth a projected £1.2bn over their lifetimes
- average time taken to repair broadband faults reduced by 40%
- ADSL2+ broadband now available to 10m UK homes

Openreach

Openreach is responsible for the crucial 'first mile' connecting communications providers' customers to their local telephone exchange, giving them equal, open and economic access to the UK network.

2009

- fulfilling 94,000 LLU orders a week
- 65%+ reduction in number of customers waiting more than three days for a fault to be fixed
- 20%+ reduction in access faults this year – a line goes wrong only every 13 years on average

BT Design

BT Design is responsible for the design and deployment of the platforms, systems and processes that support our products and services. It is also responsible for network planning and the implementation of BT's global 21CN platform.

BT Operate

BT Operate is responsible for making sure that BT's products and services run smoothly. It manages our IT and network infrastructure platforms as a single converged operation.

Objectives and strategy

The RS recommends that the OFR discusses the objectives of the business to generate or preserve value over the long-term. Such a discussion would include both financial and non-financial objectives where appropriate.

79% of companies included a discussion of the objectives of the business. Of those which did not clearly do so, 2% were in the top 350 companies, 5% in the middle group and the remaining 14% in the smallest 350 companies. In some cases the objectives of the business were stated on a summary page but there was no further discussion on the matter.

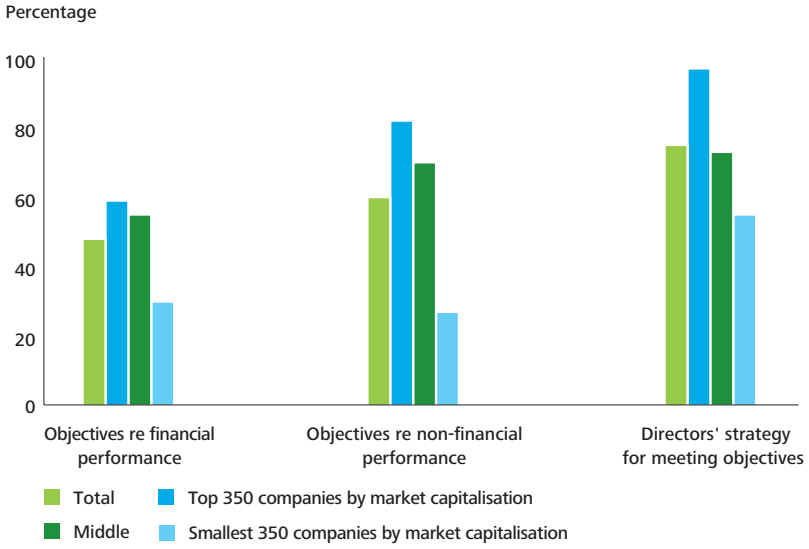
Figure 27 shows the balance of discussion between financial and non-financial objectives and the directors' strategy to meet such objectives.

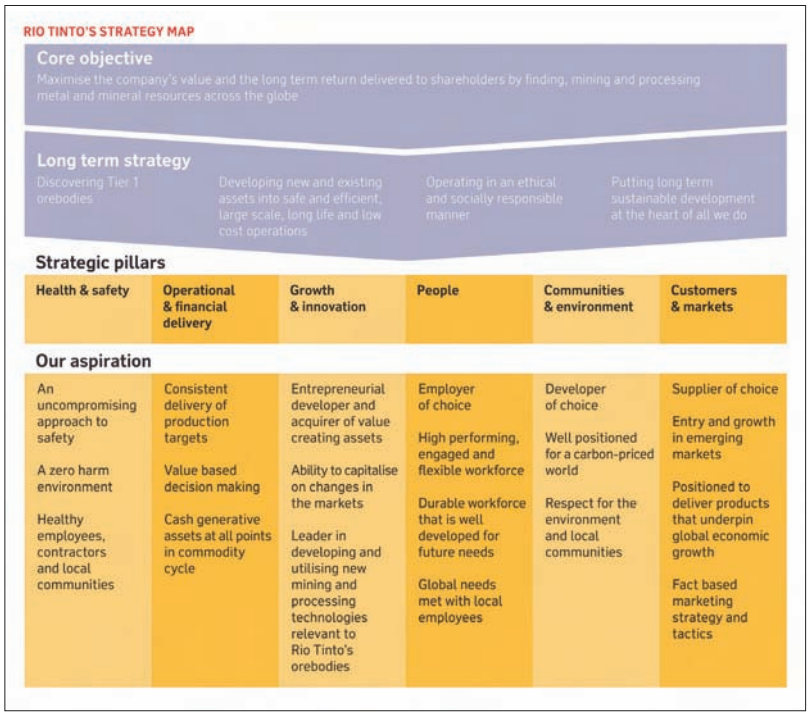
48% of companies clearly identified and discussed objectives relating to financial performance. Less than half of the smallest 350 companies identified and defined any financial objectives. Common financial objectives related to profitability or cash generation. Indeed, a number of companies admitted that in the current year they have deflected from their original objectives to focus on cash generation given the turmoil of the current economic environment.

It was more common across the top 350 companies and the middle group to discuss one or more non-financial objectives the most common of which was referred to simply as "increasing shareholder value". 82% and 70% of these companies did so. Of the smallest 350 companies only 27% discussed non-financial objectives. Overall 60% of companies identified and discussed non-financial objectives (2008: 93%).

75% of companies set out their strategy to action their objectives. Of these companies, 52% were considered to set out their strategy clearly and the remaining 48% set it out only in part. The strategies which were most easy to understand were those which were illustrated in a diagram, or else set out clearly in the narrative. Rio Tinto provides both, describing clearly the objectives and strategy and illustrating this with a "Strategy Map".

Figure 27. Are business objectives and strategy discussed?





Rio Tinto's core objective is to maximise the long term return to shareholders by finding, mining and processing metal and mineral resources across the globe.

To deliver this objective the Group follows a long term strategy that concentrates on:

- The discovery of Tier 1, (large, low cost) orebodies that will safeguard our future cash flow.
- The development of Group assets into safe and efficient large scale, long life and low cost operations to ensure the Group can operate profitably at every stage of the commodity cycle.
- Operating in an ethical and socially responsible manner that maintains Rio Tinto's reputation and ensures ongoing access to people, capital and mineral resources.
- Putting long term sustainable development at the heart of everything the Group does.

Rio Tinto Annual report 2008 (above and left)

A further example of using tabular format to illustrate clearly their objectives for 2009 and corresponding strategies is from Cadbury plc.

Priority	2009 plans
1. Growth 'Fewer, Faster, Bigger, Better'	> Category focus for scale and simplicity > Drive advantaged, consumer preferred brands and products > Accelerate white space market via 'Smart Variety' > Create advantaged customer partnerships via total confectionery solutions > Expand product platforms and strengthen route to market through partnership and acquisition
2. Efficiency 'Relentless focus on cost & efficiency'	> Realise price and optimise customer investment > Reduce SG&A cost base > Deliver supply chain cost reduction and reconfiguration initiatives > Rationalise portfolio > Optimise capital management
3. Capabilities 'Ensure world-class quality'	> Operate a category-led business enabled through consistent commercial capabilities > Invest in science, technology & innovation to deliver preferred products at competitive cost > Drive focused decision making and speed of execution > Sharpen talent, diversity and inclusiveness agenda > Leverage partnerships to streamline processes and reduce costs

Cadbury plc Annual Report & Accounts 2008

69% of companies discussed their performance in the context of the objectives identified, indicating a positive trend of improvement in this area with 63% and 50% of companies achieving this in 2008 and 2007 respectively.

Other non-financial information

The RS seeks discussion of other non-financial information, a description of the resources available to the entity and how they are managed.

24% of companies discussed the management structure of the business, providing helpful information of reporting lines and business divisions. This is an improvement on last year where 22% did so. 92% of companies discussed receipts from and returns to members. This is unsurprising given the need for companies to re-assess their dividend policies in the current economic environment as cash generation and retention remains a high priority for the majority of companies.

67% commented on resources that will assist the pursuit of objectives. While these resources were wide-ranging, many companies referred to their in-house research and development, brand and people.

Financial information

The RS recommends that the OFR should contain a description of the development and performance of the business in the financial year, which is covered in the business review requirement under the Companies Act.

The OFR should also contain an analysis of the financial position of the entity. The table below summarises the recommended content of this analysis and the percentage of companies including the items listed:

	2009	2008
Financial position	99%	100%
Capital structure and financing	83%	47%
Treasury policies	68%	48%
Cash flows and ability to generate cash	84%	86%
Current and prospective liquidity	47%	22%

One company failed to provide any meaningful analysis or discussion of the financial position at the year end. All other companies did provide such information, although seven companies were noted to include very minimal discussion of the balance sheet at the year end.

There was a significant increase in the number of companies providing discussion around capital structure and financing, with 83% of companies providing commentary. All of the top 350 companies included such discussion, as did 82% of the middle group and 67% of the smallest 350 companies. This is unsurprising, given the elevated importance of going concern (see section 11) and availability of funding from banks in the current economic environment. Similarly, the number of companies discussing current and prospective liquidity more than doubled on last year from 22% to 46%, again a reflection of increased narrative around funding from banks and expiration of current loan agreements.

Forward-looking information

The RS states that OFRs should have a "forward-looking orientation". 95% of companies included some discussion about the future which is in line with the results of the 2008 survey (98%).

Almost all of these companies also commented specifically on trends and factors that were expected to affect the future development, performance or financial position of the business. Not only is this a recommendation of the RS for OFRs, it is also a requirement of the Companies Act 2006 that listed companies disclose such information in their business reviews (see section 6).

The RS encourages companies to explain how they have invested in the future performance of the business. 73% of companies provided discussion in areas such as capital expenditure, advertising and marketing, training, research and new products. 43% of companies went on to describe how investment would assist achieving the objectives set out.

Alongside the forward-looking information the RS indicates that directors may wish to include a statement in the OFR to treat forward-looking information with caution, explaining the uncertainties underpinning such information. As explained in section 2, the Companies Act 2006 affords a level of protection to directors for statements made in the directors' report and directors' remuneration report. This does not extend to OFR-style information unless it has been specifically scoped into one of these reports.

43% of companies included a statement in their annual report that forward-looking information should be treated with caution, an increase from 39% in 2008. As with previous years, it was among the largest companies that the inclusion of a cautionary statement was most common (68%; 2008: 64%). 39% and 21% of the middle group and smallest 350 companies respectively included such statements (2008: 25% and 16% respectively). Examples of cautionary statements are shown below, taken from Zotefoams plc and Triad Group plc.

Forward-looking statements
This document contains statements that are not historical facts, but forward-looking statements that involve risks and uncertainties, including the timing and results of technical trials, product development and commercialisation risks, the risks of satisfying the regulatory approval process in a timely manner and the need for and the availability of additional capital. A discussion of these and other risks and uncertainties is contained in the Directors' Report under the section entitled 'Risks and Uncertainties'. These forward-looking statements are based on knowledge and information available to the Directors at the date the Directors' Report was prepared, and are believed to be reasonable at the time of preparation of the Directors' Report, though are inherently uncertain and difficult to predict. Actual results or experience could differ materially from the forward-looking statements.

Zotefoams plc Annual Report and Financial Statements 2008

Forward-looking Statements
The Chairman's Statement and Operating Review contain forward-looking statements. Due to the inherent uncertainties including both economic and business risk factors underlying such forward-looking information, the actual results of operations, financial position and liquidity may differ materially from those expressed or implied by these forward-looking statements.

Triad Group Plc Annual Report and Accounts 2008-2009

Two companies made reference to past predictive comments and whether or not these were borne out by subsequent events, as recommended by the RS. This compares with one company last year and three in 2007.

13. Investment trusts

This section analyses the findings for the 30 investment trusts included in the survey. 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 investments trusts have not been included in this analysis. As with the other companies surveyed, the investment trusts have been split into three categories being those within the top 350 companies by market capitalisation at 30 June 2009, those in the smallest 350 by market capitalisation, and those that fall in between those categories (the middle group).
Two (2008: three) of these companies are registered in Guernsey and one (2008: one) in Jersey, and therefore are not subject to UK company law. Where these have affected the results of the survey, this has been discussed in more detail below.

Overview

Length of annual reports

The average length of the annual reports for those investment trusts in the smallest 350 companies was 48 pages (2008: 48 pages) and in the middle group was 51 pages (2008: 48 pages). As expected, the investment trusts in the top 350 companies generally had longer annual reports, with an average length of 60 pages, which is higher than 57 pages in the 2008 survey. There is no specific reason for this increase. Generally there were additional disclosures in the directors' report and corporate governance report, along with enhanced disclosures on financial instruments and risk management.

The ratio between narrative reporting and the financial statements remained almost constant, with financial statements on average making up 36% of the annual report, compared to 37% in the previous year.

Speed of reporting

Regarding the speed at which annual reports were approved, the average for companies in the smallest 350 group was 95 days, which is nine days longer than in 2008. The annual reports in the middle group were approved slightly more quickly, taking on average 73 days in 2009 compared to 74 in 2008. As expected, companies in the top 350 group were quickest at approving their annual reports, taking on average only 58 days (59 days in 2008).

Overall, 60% (2008: 60%) of the annual reports were approved within 75 days, 20% (2008: 10%) within 76 to 90 days and 20% (2008: 30%) in over 90 days.

For the sample of ten companies in the smallest 350 group, the average time taken to approve annual reports in 2009 was higher than in 2008, yet, the actual number of annual reports signed in over 90 days reduced to four in 2009 from six in 2008. This is because the four companies in the over 90 day's category took an average of 129 days to approve the accounts in 2009 which is significantly longer than the average of 106 in 2008. This reduced number of companies approved in over 90 days accounted for the overall decrease in the proportion of the companies in the over 90 days category in figure 28 below.

Figure 28. How quickly are annual reports approved? (2009)

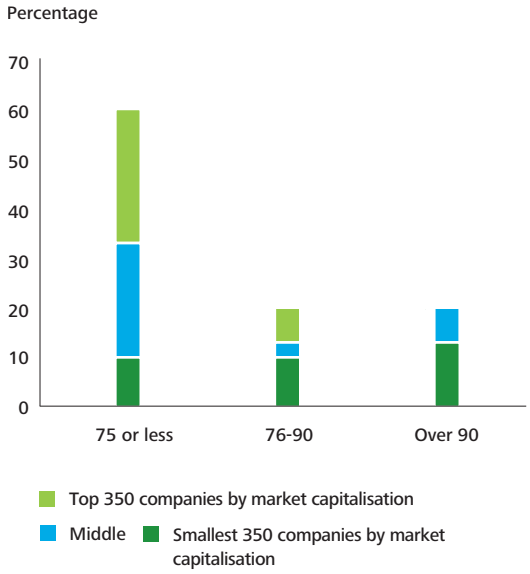
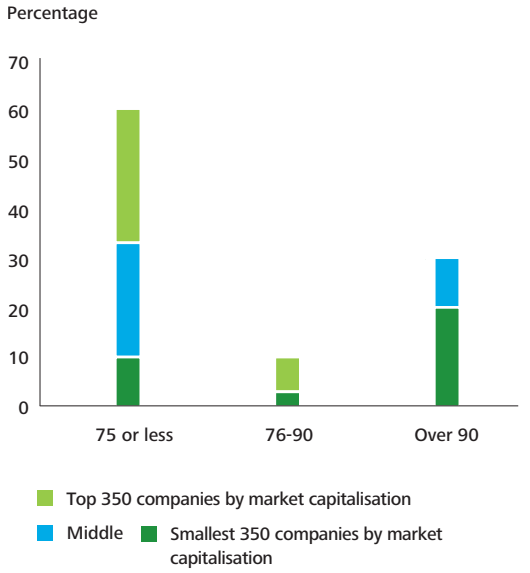


Figure 29. How quickly are annual reports approved? (2008)



Reporting framework

73% of trusts surveyed were stand-alone companies and therefore not required to adopt IFRSs. 86% of these stand-alone companies had continued to report under UK GAAP which is higher than 82% in the previous year. The remaining 14% had chosen to adopt IFRS.

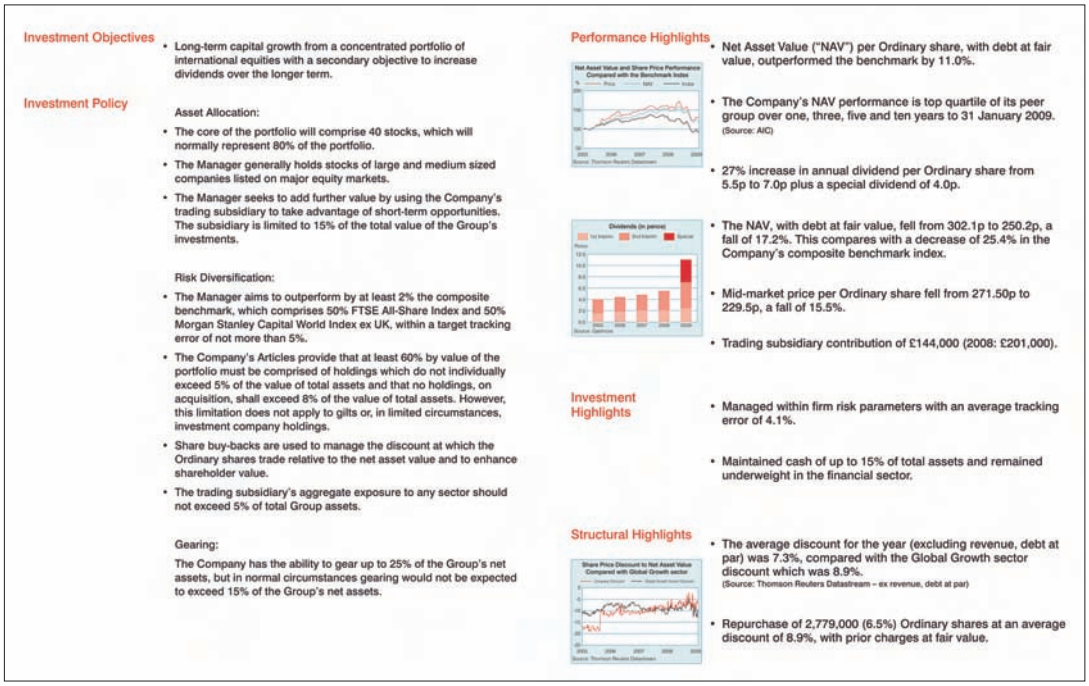
Investment managers

All reports included details on the appointment of their investment managers and the associated terms, although the location of the disclosure varied between the notes to the financial statements and the narrative reporting. Only one company had not included an investment manager's report, which is consistent with 2008 survey. In 63% of the annual reports (2008: 53%) the directors had cross-referenced to the investment manager's report or the Chairman's statement rather than preparing additional financial analysis. In 27% (2008: 37%) of cases the directors had performed a separate financial review and the remaining 10% (2008: 10%) of reports failed to include either a financial review by the directors or a cross-reference to the aforementioned alternatives.

Summary information

97% of companies presented a summary page or pages near the start of their annual reports as compared to 93% in the previous year, although the content was variable. Summary information for 93% of the companies contained some financial information and 97% of the companies had included KPIs, as compared to 96% in 2008. Only 11% provided any level of narrative to accompany and interpret this financial information as compared to 29% in 2008. 93% of companies provided narrative explaining their company background or investment objectives in 2009, compared to 96% in 2008.

Gartmore Global Trust PLC provides a good example of a summary information page. It included information on its investment objectives, investment policy, performance, investment and structural highlights, including KPIs.



Investment Objectives

- Long-term capital growth from a concentrated portfolio of international equities with a secondary objective to increase dividends over the longer term.

Investment Policy

Asset Allocation:

- The core of the portfolio will comprise 40 stocks, which will normally represent 80% of the portfolio.
- The Manager generally holds stocks of large and medium sized companies listed on major equity markets.
- The Manager seeks to add further value by using the Company's trading subsidiary to take advantage of short-term opportunities. The subsidiary is limited to 15% of the total value of the Group's investments.

Risk Diversification:

- The Manager aims to outperform by at least 2% the composite benchmark, which comprises 50% FTSE All-Share Index and 50% Morgan Stanley Capital World Index ex UK, within a target tracking error of not more than 5%.
- The Company's Articles provide that at least 60% by value of the portfolio must be comprised of holdings which do not individually exceed 5% of the value of total assets and that no holdings, on acquisition, shall exceed 8% of the value of total assets. However, this limitation does not apply to gilts or, in limited circumstances, investment company holdings.
- Share buy-backs are used to manage the discount at which the Ordinary shares trade relative to the net asset value and to enhance shareholder value.
- The trading subsidiary's aggregate exposure to any sector should not exceed 5% of total Group assets.

Gearing:

The Company has the ability to gear up to 25% of the Group's net assets, but in normal circumstances gearing would not be expected to exceed 15% of the Group's net assets.

Performance Highlights

- Net Asset Value ("NAV") per Ordinary share, with debt at fair value, outperformed the benchmark by 11.0%.
- The Company's NAV performance is top quartile of its peer group over one, three, five and ten years to 31 January 2009. (Source: AIC)
- 27% increase in annual dividend per Ordinary share from 5.5p to 7.0p plus a special dividend of 4.0p.
- The NAV, with debt at fair value, fell from 302.1p to 250.2p, a fall of 17.2%. This compares with a decrease of 25.4% in the Company's composite benchmark index.
- Mid-market price per Ordinary share fell from 271.50p to 229.5p, a fall of 15.5%.
- Trading subsidiary contribution of £144,000 (2008: £201,000).

Investment Highlights

- Managed within firm risk parameters with an average tracking error of 4.1%.
- Maintained cash of up to 15% of total assets and remained underweight in the financial sector.

Structural Highlights

- The average discount for the year (excluding revenue, debt at par) was 7.3%, compared with the Global Growth sector discount which was 8.9%. (Source: Thomson Reuters Datastream – ex revenue, debt at par)
- Repurchase of 2,779,000 (6.5%) Ordinary shares at an average discount of 8.9%, with prior charges at fair value.

Gartmore Global Trust PLC Report and Accounts for the year to 31 January 2009

Key performance indicators

93% of the companies surveyed disclosed KPIs in their Business Review in 2009 compared to 90% in 2008. The 7% that didn't disclose KPIs were companies registered in Guernsey and were therefore not required to prepare a Business Review in accordance with UK company law.

The average number of financial KPIs disclosed was 4, which is consistent with 2008. Only 7% of companies disclosed non-financial KPIs, which is also consistent with the 7% in the prior year.

As illustrated in Figure 30, opposite, the most popular KPI presented was net asset value with 80% (2008: 78%) of the companies disclosing KPIs using this measure. Other popular measures included performance vs. benchmark 60% (2008: 52%), share price discounts 53% (2008: 67%) and the total expense ratio 50% (2008: 56%).

Principal risks and uncertainties

All companies, excluding two which were registered in the Channel Islands, discussed principal risks and uncertainties in their business reviews, a statistic unchanged from the previous year.

The average number of risks disclosed, including via cross-references, was five. A wide variety of risks were identified, although certain themes were common.

As shown in Figure 31, most companies understandably identified the performance of their relevant markets as a principal risk. 80% (2008: 60%) of companies also identified regulatory risks, typically around compliance with taxation, accounting and other legal legislation. Despite the current economic climate only 57% (2008: 27%) of companies identified credit risk, for example, that a broker could fail to discharge its obligations in a transaction, resulting in a loss to the company. All companies disclosing principal risks and uncertainties went on to describe the directors' policies for managing those risks.

JPMorgan Indian Investment Trust plc provides a good example of principal risks and uncertainties. It includes a description of strategic, commercial, operational and financial risks with the directors' policy for managing those risks.

Principal Risks

With the assistance of the Manager, the Board has drawn up a risk matrix, which identifies the key risks to the Company. These key risks fall broadly under the following categories:

- Investment and Strategy: An inappropriate investment strategy, for example asset allocation or the level of gearing, may lead to under-performance against the Company's benchmark Index and peer companies, resulting in the Company's shares trading on a wider discount. The Board manages these risks by diversification of investments through its investment restrictions and guidelines which are monitored and reported by the Manager JPMorgan Asset Management (UK) Limited ("JPMAM"). JPMAM provides the Directors with timely and accurate management information, including performance data and attribution analyses, revenue estimates, liquidity reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the Investment Managers, who attend all Board meetings, and review data which show statistical measures of the Company's risk profile. The Investment Managers employ the Company's gearing, within a strategic range set by the Board.
- Market: Market risk arises from uncertainty about the future prices of the Company's investments. It represents the potential loss that the Company might suffer through holding investments in the face of negative market movements. The Board considers asset allocation, stock selection and levels of gearing on a regular basis and has set investment restrictions and guidelines, which are monitored and reported on by JPMAM. The Board monitors the implementation and results of the investment process with the Manager.
- Accounting, Legal and Regulatory: In order to qualify as an investment trust, the Company must comply with Section 842 of the Income and Corporation Taxes Act 1988 ('Section 842'). Details of the Company's approval are given under 'Business of the Company' above. Were the Company to breach Section 842, it would lose its investment trust status and, as a consequence, gains within the Company's portfolio would be subject to Capital Gains Tax. The Section 842 qualification criteria are continually monitored by JPMAM and the results reported to the Board each month. The Company must also comply with the provisions of The Companies Acts and, since its shares are listed on the London Stock Exchange, the UKLA Listing Rules. A breach of the Companies Acts could result in the Company and/or the Directors being fined or the subject of criminal proceedings. Breach of the UKLA Listing Rules could result in the Company's shares being suspended from listing which in turn would breach Section 842. The Board relies on the services of its Company Secretary, JPMAM to ensure compliance with The Companies Acts and the UKLA Listing Rules.
- Corporate Governance and Shareholder Relations: Details of the Company's compliance with Corporate Governance best practice, including information on relations with shareholders, are set out in the Corporate Governance report on pages 18 to 21.
- Operational: Loss of key staff by JPMAM, such as the Investment Managers, could affect the performance of the Company. Disruption to, or failure of, JPMAM's accounting, dealing or payments systems or the custodian's records could prevent accurate reporting and monitoring of the Company's financial position. Details of how the Board monitors the services provided by JPMAM and its associates and the key elements designed to provide effective internal control are included with the Internal Control section of the Corporate Governance report on page 20.
- Financial: The financial risks faced by the Company include market price risk, interest rate risk, liability risk and credit risk. Further details are disclosed in note 18 on pages 39 to 45. Additional disclosures are provided this year for the first time in accordance with IFRS7.
- Political and Economic: Adminstrative risks, such as the imposition of restrictions on the free movement of capital.

JPMorgan Indian Investment Trust plc Annual Report & Accounts 2008

Figure 30. What KPIs are disclosed?

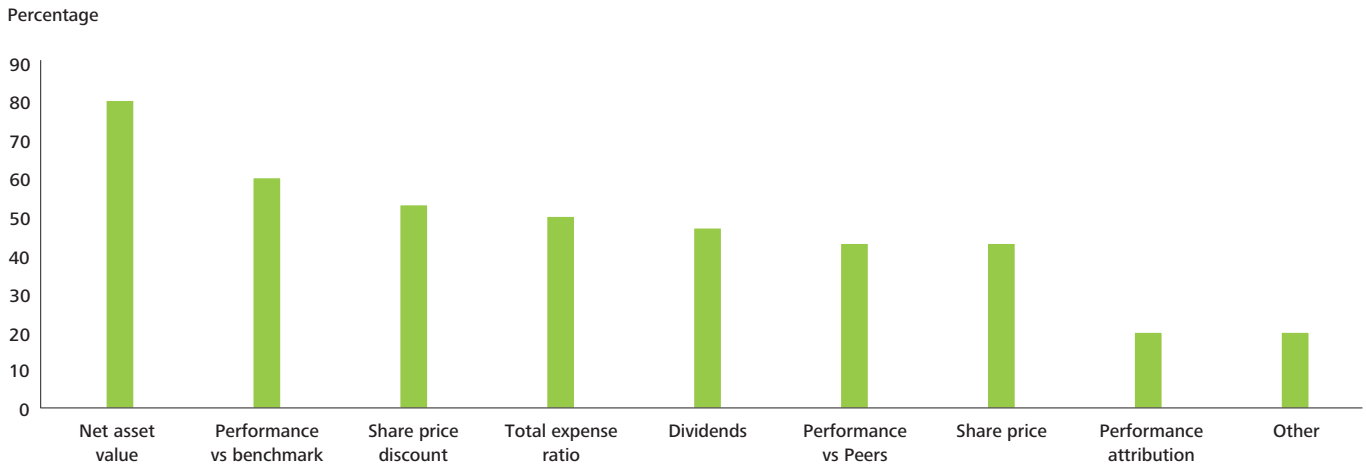
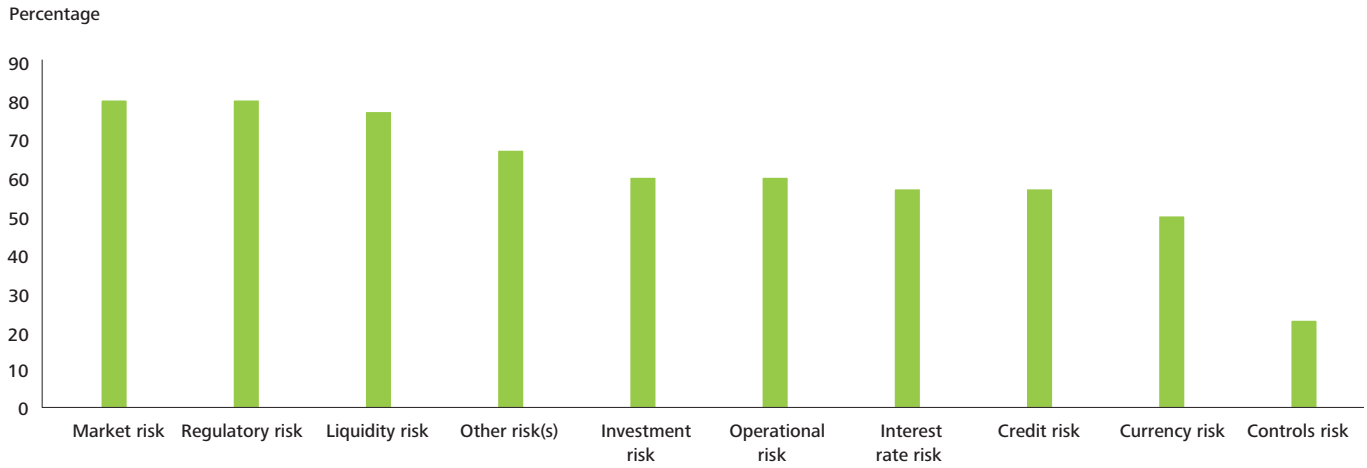


Figure 31. What principal risks are disclosed?



Corporate governance

The disclosures on corporate governance varied greatly in quality and quantity for the companies surveyed. Some companies provide relatively little information beyond the statutory minimum because of the nature of their business as an investment trust. Other companies provided insightful, meaningful disclosures that were clearly specific to their business, rather than just generic comments. A good example was The Monks Investment Trust PLC.

Compliance

As investment trusts generally outsource all of their day-to-day management and operational functions and do not have any employees or executive directors, a number of the provisions in the Combined Code on Corporate Governance (the Combined Code) relating to, for example, board composition (such as balance of executives and non-executives) and senior management (such as succession planning) are not relevant for such companies.

There are other important areas of governance specific to investment companies (such as how the board manages its relationship with the manager) which are not covered by the Combined Code but which are of fundamental importance to investors. For this reason, the Association of Investment Companies (AIC) has developed a complementary Corporate Governance Code and related Guide. The Financial Reporting Council (FRC) has confirmed that companies who report against the AIC Code of Corporate Governance produced by the AIC (AIC Code) and who follow the AIC's Corporate Governance Guide for Investment Companies (AIC Guide) will be meeting their obligations in relation to the Combined Code and paragraph 9.8.6 of the Listing Rules.

A large number of companies disclosed that they had reviewed the AIC Code to ensure they had met their specific obligations as investment trusts.

Only one company surveyed actually stated that it complied fully with the Combined Code. 10% of the companies surveyed were registered in the Channel Islands and therefore exempt from reporting on the Combined Code's requirements, instead developing their own company-specific framework. All other companies stated compliance with the provisions of the Combined Code insofar as they considered them relevant.

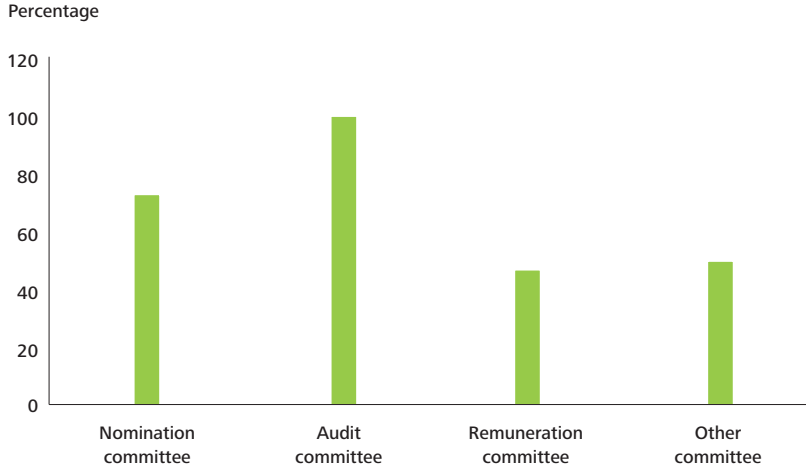
Where UK companies had not complied with all the provisions of the Combined Code, only 37% (2008: 19%) actually stated all the provisions with which they had not complied. Of these companies, 93% gave reasons for their non-compliance.

Directors' roles and board committees

83% of the investment trusts provided information on the types of decisions delegated to management or in this case the investment managers. Such detail is to be expected given the lack of employees in these companies and the prominent role that the investment managers play in the trusts' day-to-day operations. 97% of companies also explained the types of decisions taken by the board. The quality varied tremendously, with the best cases providing information on formal schedules of matters reserved for the board's decision.

As expected, all companies had a chairman, but none had a deputy chairman or a chief executive, with the investment managers fulfilling this role. 57% (2008: 63%) of companies explained that they did not feel the need for a chief executive, whilst the remaining 43% (2008: 37%) did not mention the lack of such a position. 43% of companies had appointed a senior independent director as required under the Combined Code, compared to 47% in 2008.

Figure 32. What committees do companies have?



As shown in Figure 32, all companies fulfilled the Combined Code's requirement to have an audit committee and 73% had a nomination committee, which is consistent with 2008. Only 47% (2008: 33%) had remuneration committees in place. Since the board tended to consist solely of non-executive directors, this was to be expected as Listing Rule 15.6.6 provides an exemption for investments trusts with no executive directors from those provisions of the Combined Code that deal with directors' remuneration. 50% (2008: 43%) of companies had other committees in place. These included management engagement committees which reviewed the relationship with the investment manager. One company had formed a valuations committee to provide additional oversight on the investment manager's valuation process. Foreign and Colonial had a Private Equity Committee to carry out its transition to hold a significant interest in private equity investments and a Service Providers and Marketing Committee to review and encourage F&C's promotion and marketing activity. Both of these committees were disbanded during the year as both the committees had achieved their main objectives. Details of the members of each committee and their chairmen, along with attendance at meetings, were provided by all companies.

Nomination committee

This year all the companies with nomination committees explained the role that this played compared to 95% in 2008. 90% of the companies provided some level of information on the processes undertaken around board appointments, but only 20% (2008: 13%) specifically discussed succession planning. 77% (2008: 82%) of companies with nomination committees provided information on where their terms of reference could be obtained, although none included them in the annual report.

73% of companies discussed performance evaluation of the Board (2008: 80%). Of the remainder 7% (2008: 10%) stated their belief that this Combined Code provision was not relevant and 20% (2008: 10%) did not comment on it at all. A similar pattern was noted around the evaluation of individual directors' performance and that of the various committees. 100% (2008: 90%) of companies clearly disclosed the significant commitments of their Chairman, but only 10% (2008: 7%) stated that there had been any change in those commitments during the year.

Internal controls and audit committee

On the whole this was a strong area for the companies surveyed. All companies included a statement around internal control as well as details of how the Board had reviewed effectiveness. Only 3% (2008: 7%) of companies failed to give additional information about the company's risk management processes. No companies highlighted any control breakdowns.

All companies described the work of their audit committee. 87% (2008: 73%) provided information on where their terms of reference could be found. Only 13% (2008: 17%) disclosed relevant qualifications for all committee members. There was also a low level of compliance with the requirement to report on the way that the audit committee had discharged its responsibilities, with 57% (2008: 17%) of companies failing to provide detail in this respect. In some cases, improvements in this area could be achieved easily by clarifying that audit committees had discharged all their responsibilities, rather than just listing what their duties were. On a similar note, in the majority of cases it was stated that an assessment of the effectiveness of auditors had been undertaken. 37% (2008: 3%) of companies confirmed that the external audit process was effective, which was much higher than in 2008.

As expected, no companies had their own internal audit function and thus included an explanation that this was because of the nature of their business. 33% (2008: 40%) either had in place their own arrangements for staff to raise concerns about improprieties or had checked that their investment managers had suitable controls in place.

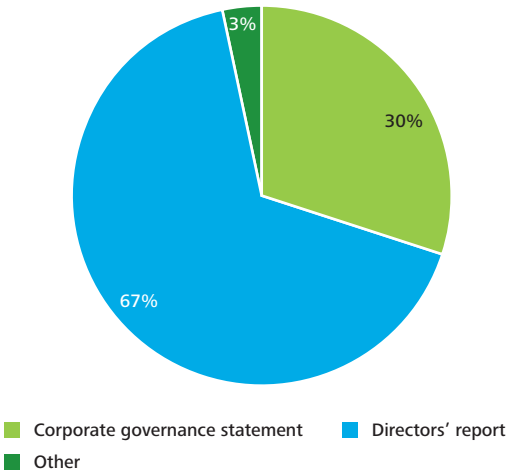
Going concern

As illustrated by Figure 33, in 30% (2008: 57%) of the annual reports surveyed the statement around going concern was located in the corporate governance statement, in 67% (2008: 43%) the statement was found in the directors' report and the remaining 3% were found elsewhere in the narrative section. In addition 37% also had an explicit statement included within the audited financial statements that the business was a going concern.

As noted in section 2 of this report, the FRC issued an update for the Directors of listed companies on Going Concern and Liquidity Risk in November 2008. The FRC highlighted the importance of clear disclosure about going concern and liquidity risk in the current difficult market conditions. The guidance suggested that the going concern disclosure should be brought together in a single section of a company's annual report. If it was not practical to provide a single note, the disclosure could be brought together by way of references. It was recommended that the going concern note should include the following components in three paragraphs:

- cash and borrowing positions and how liquidity risk is managed in practice;
- whether confirmation of the renewal of banking and other facilities has been sought; and, if so
- whether those confirmations have been obtained and whether the use of the going concern basis of accounting is appropriate and explaining the basis of that conclusion.

Figure 33. Where is the statement on going concern located?



23% of the annual reports surveyed were approved on or after 1 December 2008. Out of that group, only 9% of the Companies had clearly adopted the FRC guidance.

Appendix 1. Dear Deloitte – addressing common narrative reporting problems

The table below sets out some of the common problems identified from the survey and provides suggested solutions for addressing those problems.

Problem	Solution
Difficulty interpreting the requirement to provide "a fair review" of the company's business?	The review should be balanced and comprehensive and consistent with the numbers presented in the financial statements. Avoid the temptation to include only positive aspects of the performance for the year. Remember the order of the annual report and consider what users will have read before they get to the business review section. Ensure that cross references are clear, specific and do not distract from conveying the message. *The Business Review is discussed in more detail in section 6.*
Principal risks are too generic	When disclosing principal risks and uncertainties avoid presenting a list of generic risk headings without any focus on the impact such a risk would have on the company's business were it to materialise. Best practice is to include the nature of the risk, the potential impact and planned mitigation. The discipline of providing disclosures under each of these headings for each risk should avoid falling into the trap of producing a generic list of risks that could affect any company. *See the extract from Persimmon plc's annual report on page 25. Risks and uncertainties are discussed in more detail in section 7.*
Lack of detail on trends and factors likely to affect the future development, performance and position of the company's business	There should be a read across between these disclosures and the disclosures on principal risks and uncertainties. However, in the case of trends and factors, it is possible that more generic elements will be appropriate to disclose. For example, the current environment is likely to be a factor which could affect the future development, performance and position of the company's business. To provide meaningful disclosure in this area it is important to include a description of how the trends and factors identified would affect the future development, performance and position of the company's business. *The requirements for the Business Review are discussed in more detail in section 6.*
Too many key performance indicators	There is no magic number but it is important to be pragmatic and to ensure that the user is not overloaded with data which will serve only to hide the true 'key performance indicators'. This is a good example of the importance of quality over quantity. As with principal risks and uncertainties, a useful mechanism is to attempt to include disclosures on the definition, calculation and use of each KPI in the business. This process would usually identify those measures which are superfluous. *KPIs are discussed in more detail in section 8.*
Inclusion of non-financial KPIs which are not relevant to the business	Avoid the temptation to include disclosures on non-financial KPIs simply because it is 'fashionable' to do so at present. For example, if disclosures of measures relating to the environment, employees or social and community issues are not relevant to the business then there is no harm in disclosing that fact. Cluttering the annual report with irrelevant KPIs is not helpful to the users. *KPIs are discussed in more detail in section 8.*
No explanation of the link between strategy and objectives	To assess properly the performance of a business the reader of the annual report should have a clear understanding of the objectives of the business and how these objectives are translated into the business strategy. A further step to enhance transparency would be to link the strategy to the key performance indicators. *See the extract from Cobham plc's annual report on page 31.*
Summary information lacks structure and purpose	Consider the summary information provided on a stand-alone basis and ensure that it tells a relevant and coherent story highlighting statistics and developments. Then consider the summary information in conjunction with the rest of the annual report and ensure that a consistent message is given and that highlights provided in the summary information achieve similar prominence in the narrative. *See the extract from Management Consulting Group PLC's annual report on page 10. Summary information is discussed in more detail in section 5.*
Fragmented and inconsistent disclosures on going concern	References to going concern can appear in three areas of the annual report: the narrative reporting, the financial statements and the auditors' report. It is important to ensure that these disclosures are consistent and that appropriate cross references are included as recommended by the FRC's updated guidance. *See the extracts from Intermediate Capital Group PLC and Triad Group plc's annual report on page 41. Going concern is discussed in more detail in section 11.*
No disclosure of the actual activities of the audit committee during the year	Review the audit committee report and determine whether there is disclosure of audit committee activities or audit committee responsibilities. There is a difference. The responsibilities will be set out in the audit committee terms of reference and will be broadly generic for all audit committees as they are set out in the Smith Guidance. The activities will describe the work the audit committee undertook to discharge those responsibilities. Confidence in the effectiveness of the audit committee will be enhanced if users can see clearly the activities undertaken by the audit committee during the year. *See the extract from Ladbrokes plc's annual report on page 36. Audit committees are discussed in more detail in section 10.*
Confusion regarding the requirements for the Business Review and the OFR	The requirement for the Business Review comes from s417 of the Companies Act 2006. There are no mandatory requirements for an OFR. The ASB has a Reporting Statement which sets out guidance for the OFR. There are elements of overlap between the Business Review requirements and the recommended content of the OFR. The ASB has produced a reconciliation between the two which can be accessed from http://www.frc.org.uk/asb/press/pub1480.html *Sections 6 and 12 provide further detail on the Business Review and the OFR and section 2 sets out the current regulatory requirements.*

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.

Cadbury Committee
The Committee on the Financial Aspects of Corporate Governance.

Combined Code
The Combined Code on Corporate Governance 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 Combined Code. The Combined Code is updated at regular intervals. The 2006 edition applies to accounting periods beginning on or after 1 November 2006. The June 2008 edition applies to accounting periods beginning on or after 29 June 2008.

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). The periodic financial reporting rules of DTR 4.1 apply to companies with shares and/or debt admitted to trading on a regulated market for periods commencing on or after 20 January 2007. The corporate governance requirements of DTR 7 apply to the same companies for periods commencing on or after 29 June 2008.

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.

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

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

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.

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.

Smith guidance
The guidance on audit committees issued by the FRC.

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.

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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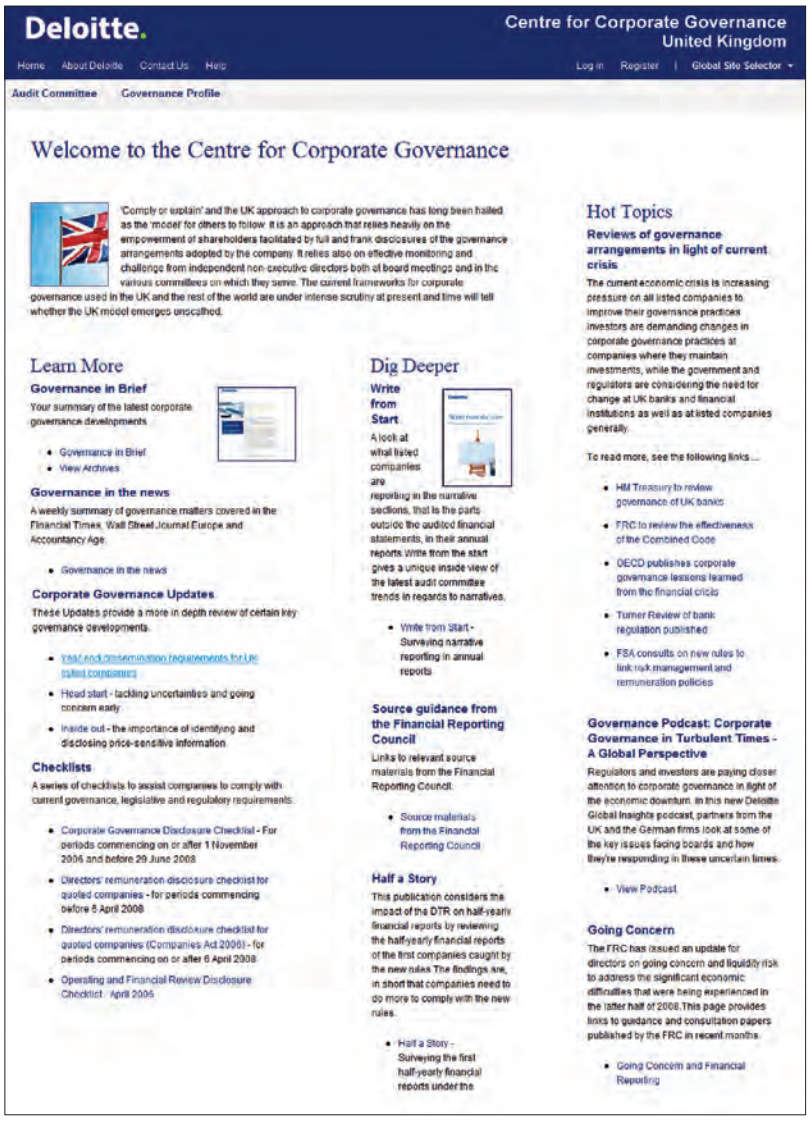
Introducing the Deloitte Global Centre for Corporate Governance

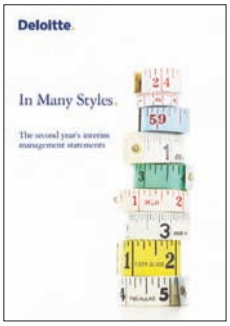
For further information and resources on governance matters please refer to:

http://www.corpgov.deloitte.com/site/uk/

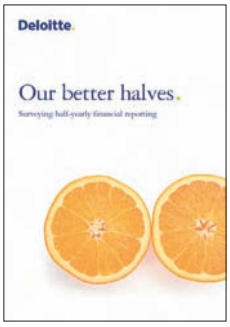


Related publications

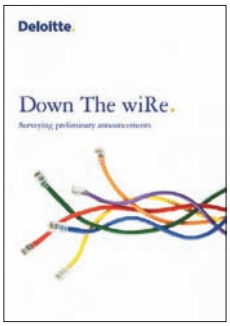
The following publications survey a consistent sample of companies through a full cycle of periodic financial reporting requirements. All are available at www.deloitte.co.uk/audit



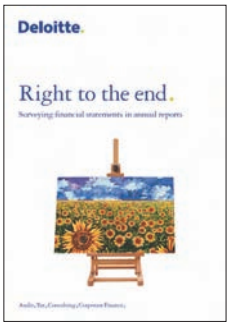
In Many Styles – The second year's interim management statements (July 2009)
This publication considers how UK listed companies have met the requirements for an interim management statement (IMS) in the second year of compliance with the Disclosure and Transparency Rules. It also includes an illustrative IMS and an IMS disclosure checklist containing all the requirements.



Our better halves – Surveying half-yearly financial reporting (February 2009)
"Our better halves" analyses half-yearly financial statements. It reviews compliance with the Disclosure and Transparency Rules and IAS 34, and considers the different presentations adopted in half-yearly financial statements and how companies complied with the requirements for their Interim Management Report.



Down the wire – Surveying preliminary announcements (May 2009)
This publication reviews compliance with the dissemination requirement of the Disclosure and Transparency Rules, the different forms of announcements used by listed companies and what information companies choose to include in their preliminary announcements.



Right to the end – Surveying financial statements in annual reports (November 2008)
This survey analyses the financial statements of listed companies. It includes a review of how compliance with disclosure requirements and the accounting policy choices made under IFRS varied, the level of variety in the presentation of primary statements and which critical judgements and key estimation uncertainties directors consider to be the most significant. A 2009 study is expected to be published in November.

Designed and produced by The Creative Studio at Deloitte, London. 127A