Trends, views and tips on building public trust through relevant and insightful reporting

Trust through transparency

What does your reporting say about you?

www.pwc.com/corporatereporting

Contents

'A big part of lack of trust is ignorance.'

CEO at PwC Trust round-table

Foreword

It's a challenging time for businesses. There are fast-changing global issues, economic uncertainty, new technologies and increasingly interdependent relationships. New risks are emerging and business models must evolve to keep pace. And there is constant demand for information from multiple stakeholders.

No wonder confusion and ignorance can reign and strategically important information can be lost – for management and stakeholders. The last thing businesses – and capital markets – need is the risk of an overnight loss of trust from unseen issues.

At PwC, we believe trust can be rebuilt or retained by improving understanding of the business using relevant, insightful and reliable reporting. To achieve this, we have long challenged the current reporting environment, advocated an evolutionary approach to improving reporting and celebrated progress.

Improving trend

In this 10th year of our Building Public Trust Awards (see box-out page 4), our experience with clients, supported by our research into current reporting practices, provides evidence of an encouraging overall trend of improvement.

Innovation and experimentation are also alive and well in the FTSE 350's reporting – from insightful reporting of strategy, business models, and risk dynamics, to de-mystifying complex financial statements. We believe such innovation is essential to drive a focus on more strategic (less cluttered) reporting.

We fully support the initiatives that are driving many of these fresh approaches – such as the Financial Reporting Council's (FRC) Reporting Lab, Department of Business, Innovation & Skills' (BIS) consultation on a new reporting framework, and the work of the International Integrated Reporting Council (IIRC). Clearly these mechanisms and the work of leading reporters are pushing the boundaries and challenging companies to rethink the content and shape of their reporting. We support the continuing evolution of the reporting environment to enable this innovation to continue.

So the overall trend is positive. But what concerns us is the gap that persists between the best reporters and those who have not grasped the opportunity to communicate effectively with their stakeholders. If some companies are pushing the boundaries in reporting, what does this mean for those that aren't? And are they at risk of losing the trust of investors and other stakeholders because of their lack of transparency?

We know the path towards relevant, insightful and reliable reporting isn't necessarily an easy one – and is sometimes not seen as a priority for companies when set against other business challenges. As they debate the future of their reporting with us, management often raise concerns and questions such as:

Why does reporting need to evolve?

How can I persuade others it's the right thing to do?

What's wrong with our current reporting?

Is my management information sufficiently relevant and reliable so that it can fill any gaps in external reporting?

Practically, which parts of reporting should we focus on?

What's everyone else doing?

Evolution and innovation essential

This report seeks to respond to some of those concerns and encourage continued evolution, innovation and experimentation by providing:

- Insights that demonstrate the need for change
- Research to identify the gaps in reporting that might lead to 'ignorance'
- A case study highlighting some of the benefits of improving reporting
- 12 reporting tips that provide practical guidance on what you can do to close any gaps in your reporting
- Examples to illustrate the art of the possible

We hope you will find these insights useful as you tackle the challenge of building and retaining public trust in your organisation.

Charles Bowman
Senior corporate reporting partner
PwC

The need for change

'Companies can either produce the annual report smartly, or they can produce it just because they have to. Those who do it smartly will positively impact their position in the capital market'

An investor's view

Business information, reporting and assurance have to change. Why? Because they have to respond to the dramatic changes businesses are undergoing as they adapt to fast-moving global issues, economic uncertainty and new technology.

Historically, it was enough for companies to point to continued growth in the financial numbers as justification that their strategy was working. But these numbers have been increasingly volatile and the physical and financial assets behind them represent an ever smaller percentage of companies' market value, as the value of intangibles – such as people, R&D and brands – has grown dramatically.

We all know that relevant, reliable and timely information (beyond the purely financial) is vital for management to make informed decisions about a company's risks, business models, strategies and governance. With more intangible factors now a key driver of value (over 80%), a more holistic information set is also essential for investors, employees, customers and other stakeholders.

Percentage of market value now explained by **physical and financial** assets – down to only 19% in 2009 from 83% in 1975

Source: *Intangible asset market value study* Ocean Tomo (2010)

1975
83%

2009
19%

Effective communication of how these factors affect the quality and sustainability of performance can secure capital and credit, help win the war for talent, develop strong relationships and build trust in your business. We are not alone in believing change is needed.

Change initiatives

- UK Department for Business, Innovation & Skills (BIS), Future of narrative reporting: following consultation in 2011/2012, BIS is developing proposals to encourage a greater emphasis on short, succinct and strategically-focused reporting with the introduction of the requirement for a 'strategic report'.
- Financial Reporting Council's (FRC) Financial Reporting Lab: the Lab provides an environment where investors and companies can come together to develop pragmatic solutions to today's reporting needs, through sharing and testing new ideas and adding value through improved information. The Lab has published two reports to date: *A single figure for remuneration* and *Net debt reconciliations*.
- International Integrated Reporting Committee (IIRC): the principles, content and practical application of integrated reporting are being developed, tried and tested by businesses and investors through a pilot programme. It is running for a period of three years and is due to end in October 2014. Its version 1.0 Framework will be published late in 2013.
- *The Kay review of UK equity markets and long-term decision making*: Recommendations are firmly centred on the themes of restoring trust and confidence between investors, companies and intermediaries, allowing them to look beyond the short term to sustainable, long-term performance. Kay explains the key role of narrative reporting in building transparency, stressing the need for companies and investors to communicate with each other and continuously raise the quality of reporting to the highest standards.

What's the problem with today's reporting?

Our conversations with management and investors highlight their concerns:

- Intense focus on historic financial information and producing basic compliance data means that there is often not enough time to spend on gaining real insight.
- The external reporting model has remained largely unchanged even though the way companies operate and what drives success has changed dramatically – for example, the proportion of market value now represented by intangible rather than physical or financial assets is 81%, compared to 17% in 1975.
- Investors and others want information that is not necessarily included in statutory reporting and so sources of information outside management's control are increasingly being used to fill the gap. Changes in regulation and stakeholder demands for information are a huge challenge for companies: the resulting reporting can create more confusion, rather than clarity for users.

The next section of this report provides evidence of current trends in FTSE 350 companies' reporting and highlights some gaps we found in their information.

'Top performing finance teams spend 17% less time on data gathering and 25% more time on analysis than typical functions'

***Finance effectiveness benchmark study,* PwC (2012)**

'With so many people putting information out there, the [need for] reliability and trust in the information and providing the right insight so the right decisions can be made, to me feels absolutely spot on'

Charles Tilley, chairman of Building Public Trust judging panel

Mind the gap

We've looked at the reporting of the FTSE 350 companies from the 2011/12 reporting cycle, including their annual reports and preliminary results presentations. We base our review of how effective their communication is on more than a decade of research with management and investors into what information is important to them. The result of that research is codified in our Integrated Reporting Framework and the key attributes of excellent reporting that we look for: content, quality and integration (see below).

Key attributes

- **Content** – does the report contain all the elements we would expect to see and focus on the key messages?
- **Quality** – the depth of information, for example quantified data, targets, benchmarks.
- **Integration** – demonstration of a consistent message and clear integration between the elements reported.

The overall picture is one of continued, but slight, improvement in the effectiveness of reporting.

The Building Public Trust Awards

This is the 10th year in which PwC has presented these annual awards for outstanding reporting and they have never been more important and relevant as organisations strive to earn, rebuild and retain public trust.

Each award recognises the achievement of organisations that have excelled in the clarity and transparency of their reporting.

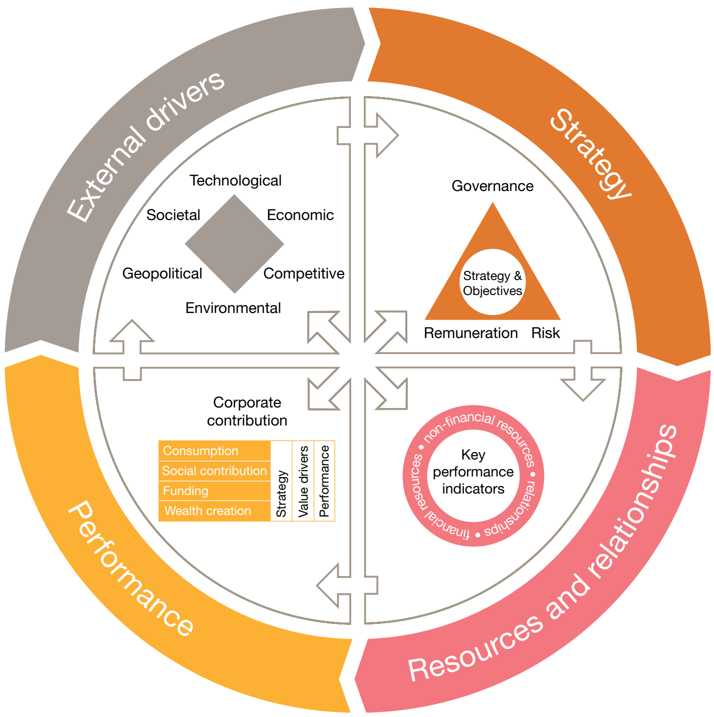
The criteria used for each of the awards reflect the measures that CFOs and the investment community tell us they need to assess the performance of organisations.

The principles of good quality reporting are common across the awards: better – not more – information; linkage between the information provided and the stated strategy; quantified data that supports the qualitative statements made; metrics that, where relevant, illustrate performance against peers; and, where appropriate, a statement of future ambition.

These attributes are embedded in the benchmarking tool used by PwC specialists who screen companies for the Building Public Trust Awards. This screening generates the short list that is subsequently evaluated by our independent judging panel.

For more details of the Building Public Trust Awards see www.bptawards.com

Integrated reporting – what we mean



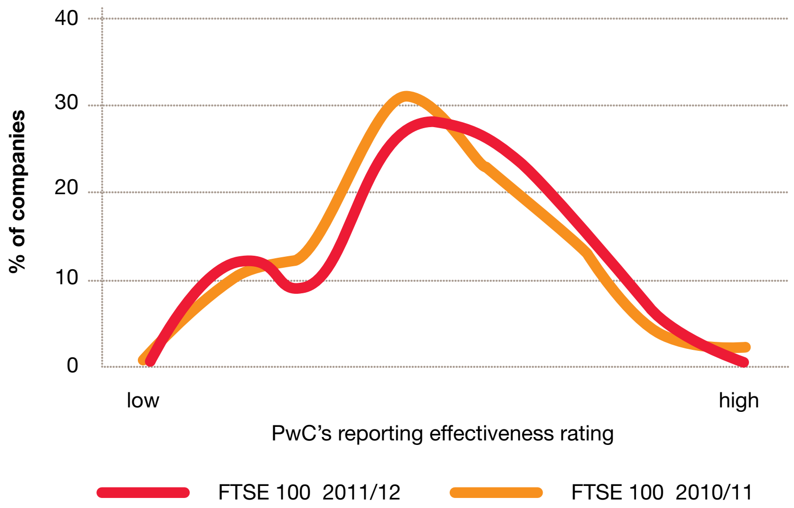
For further insight into the PwC integrated reporting model contact us for a copy of *Integrated reporting: What does your reporting say about you?* or for detailed examples of effective reporting in particular areas, email: info@corporatereporting.com

FTSE 100 reporting trends

The graph shows a shift towards more effective communication among the FTSE 100 companies. For this group our Building Public Trust independent judging panel noted that the best reporters continue to push the boundaries of corporate reporting with innovations in content and presentation.

How effective is FTSE 100 reporting?

The bell curve shows the proportion of companies at each stage of the journey towards effective reporting



'Clarity and plain English [in the back half] are very welcome'

BPT judge

FTSE 250 reporting trends

As we've seen before, excellence is not confined to the larger companies. The graph illustrates that the quality of communication in some FTSE 250 reports is at least equal to that of the FTSE 100 category, and higher than many in that sector. The BPT judging panel had a lively debate over why this might be the case – with suggestions ranging from the greater ease of reporting on a less complex, perhaps more entrepreneurial FTSE 250 business, to the possibility that their lower profile drives them to explain themselves more clearly. Whatever the reasons, the panel rated the best 250 reports as 'terrific'.

'[The FTSE 250 shortlisted companies are] cracking good reports that put to shame many of the FTSE 100 ones'

BPT judge

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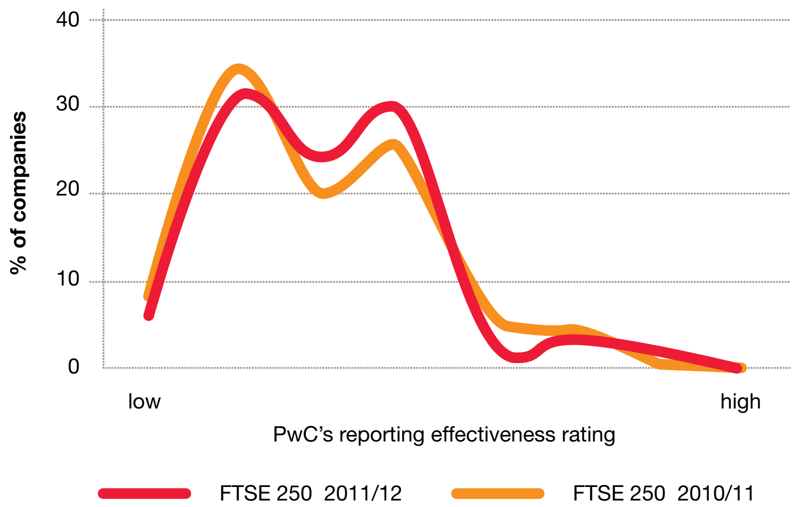


'They know they're not famous so they explain what they do'

BPT judge

...continuing gap between the most effective communicators and those whose reporting is less effective

Gap between best and the rest

These results also show a continuing gap between the most effective communicators and those whose reporting is less effective: evidence perhaps of the inability of some companies to keep pace with new reporting requirements, emerging practice and stakeholder demands.

Challenging new requirements

Weaker reporters may find themselves scrambling to keep up with changes such as the need under the UK Corporate Governance Code to confirm that the annual report as a whole is fair, balanced and understandable, and the proposals from BIS on narrative and remuneration reporting. Evidence of the challenge in responding to new requirements and emerging trends can be seen by looking at the areas of business model, remuneration and governance reporting.

Business model reporting

Take companies' recent experience with business model reporting for example – a new challenge for many companies this year due to a change in the Corporate Governance code. Some have found it difficult to define and describe their business model in plain English.

> ***'They really explained why they were successful in a desperately difficult market, and therefore, for an investor, what it was they were doing that was right about their business model'***
>
> BPT judge

Interestingly, start-up businesses live or die by how clearly they can articulate their business model to win funding. But it's something that large businesses – as they grow, acquire and divest – can lose sight of, turning an apparently simple ask into a significant challenge.

Although 77%[1] of the companies used the term 'business model' (or similar) in their reports, 16% of those had no further information at all and we felt only half of the reports went on to provide truly meaningful insight into what really makes their business tick.

Remuneration reporting

Another hot topic is reward for performance. As you would expect, almost all companies identify their key performance indicators and a good proportion – 78% – make some reference to these being connected with executive remuneration. But only 25% provided sufficient information for readers to be able to make a direct link between the performance outcomes of the business and how management were rewarded.

Governance reporting

With increasing scrutiny of how companies are run by their boards and management, it is worrying to see just 49% of the governance reports referring to the culture and values of the company. And only 34% clearly explain what the board and its committees have actually been doing during the year.

[1] All statistics are based on our review of 200 companies' reports – the FTSE 100 and 100 of the FTSE 250 – for periods ended between 1 April 2011 and 31 March 2012. Each report was examined against more that 80 data points related to our integrated reporting model.

Challenges to overcome

These, and other gaps, don't just apply to the annual report, but also to preliminary results presentations, often cited as a more timely source of information.

At best, such poorly conceived reporting is largely ignored by stakeholders. At worst, the quality of management can be questioned.

For many companies, there might not seem to be any 'quick fixes' for these and other shortcomings in reporting. Key challenges companies tell us about include:

- Articulating strategy and business model.
- Data is often hard to collate or not felt to be consistent and reliable – particularly across diverse businesses/ segments.
- The process of pulling together a report can be cumbersome and involve many parts of the business – all with differing agendas.
- Changes in reporting must compete for management attention against many other business issues.

So is it worth trying to improve? The next section of this report highlights what one company did to move from compliance to compelling reporting that has changed stakeholders' understanding of the business and won awards.

See 12 Reporting Tips section of this report for additional key findings from our research, as well as practical ideas to improve and illustrative examples.

Shanks' case study
From compliance to competitive edge

Shanks Group plc set out to make its 2011 annual report compelling and not just compliant.

Shanks is one of Europe's leading waste management businesses with operations in the Netherlands, Belgium, the UK and Canada. Its approach to making its 2011 annual report a key communications vehicle for the group holds valuable lessons for any company looking to meet investors' information needs.

'It starts from really understanding the purpose of an annual report. It is our platform for describing the company. It really is a key document.'

Chris Surch, former Shanks finance director

Context is everything

Shanks' reporting team realised that what they took for granted about their market wasn't necessarily clear to others. So they put Shanks' strategy in the context of a market overview section that explains the dynamics of a highly regulated industry characterised by changing legislation and tax incentives that are "forcing and encouraging everyone to think about recovering more resources from waste". Shanks' strategic focus on recycling and energy recovery (rather than landfill and mass incineration), for example, makes more sense when the increasing cost of landfill is explained.

How do you make money?

"Our business is about taking a tonne of waste and trying to minimise the amount that goes off to landfill," said Mr Surch. "For us it's simple to see how we derive value from that, but for others it was difficult because we had not explained it very well in the past. In most businesses, prices go up and volumes go down. In Shanks it is a little bit more complicated than that."

Shanks decided to show how it makes money by taking the reader on a structured and clearly signposted tour of the dynamics of the waste management business, along with a clear articulation of the three legs of its business model.

"We didn't talk about commercially sensitive aspects of the business but we had to go the extra step in our explanations because there are no other businesses quite like ours for investors and potential investors to compare us to," Mr Surch noted. "We talked about external market drivers, which is all public domain information, and the internal drivers, which are management actions. But we focused on the inter-relationships to help people get a better understanding."

What about the risks?

Credible reporting depends on providing an honest and open analysis of opportunities and challenges facing the company. Investors are natural sceptics who quickly tire of reports that only focus on the positives. Sections that outline risks are therefore important.

Lessons from Shanks' reporting journey

Shanks team shares some of the lessons learned as they look for further reporting improvements.

Be evolutionary
Don't try to do it all in one year. You are always under pressure to get reports done, so be realistic.

Set the timetable
This is key to making it work. Get the inputs from people in the organisation early and give yourself time to achieve a consistent style and messaging.

Clarity is key
Be sure about why you are taking your approach and be consistent. For Shanks, the focus was on explaining things better.

Be relatively brave
You may think explaining your business model could be harmful, but if it is done well, you gain benefits without giving anything up.

Be consistent
There may be obstacles to including information from investor presentations in the annual report, but overcoming them is worth the effort. Your website and online communications need to be consistent, too.

Look to improve
View better communication as a work-in-progress.

"We are very clear about where there are pressures and where there are not," said Mr Surch. "We spent a lot of time on the risks and opportunities section and people have found it very helpful. Our view has always been that it's tough in any business and therefore you must set out the things that are going well and the things that are more challenging. It's just not credible otherwise."

Are you on track?

Failure to link key performance indicators (KPIs) to company strategy is a common weakness in reporting.

Shanks sets the context for its financial and non-financial KPIs in terms of its business objectives and presents them clearly in tables. The management team has taken the unusual, but effective, step of quantifying targets for the returns it expects from its portfolio of projects. And it has repeated this approach across all its reporting outputs – including the annual report, its website and investor presentations.

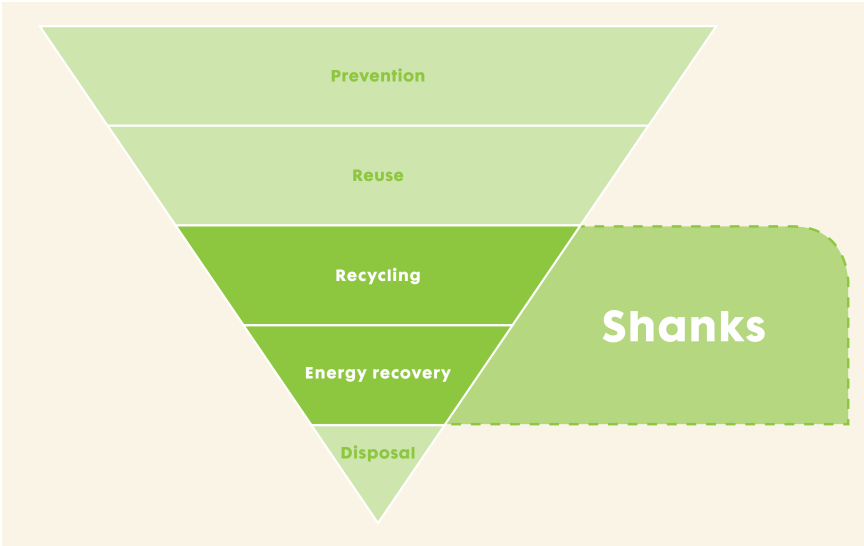
Setting out the company's performance measures in this way helps to spell out the company's investment potential. Just as important, it sends the message that management is confident and is in control of the business.

Joined-up reporting

For Shanks, the net result is corporate reporting that is joined-up and has attracted positive comment from investors and won awards. The company was 'Best investor communication' winner at the PLC reporting awards and was highly commended in the 2011 PwC BPT Awards for being "…one of the most joined-up examples of reporting we have seen, giving a real sense that one person has written the whole thing." This year, Shanks has improved again to win the BPT award for excellence in reporting in the FTSE 250.

Effective use of diagrams can help summarise your market positioning

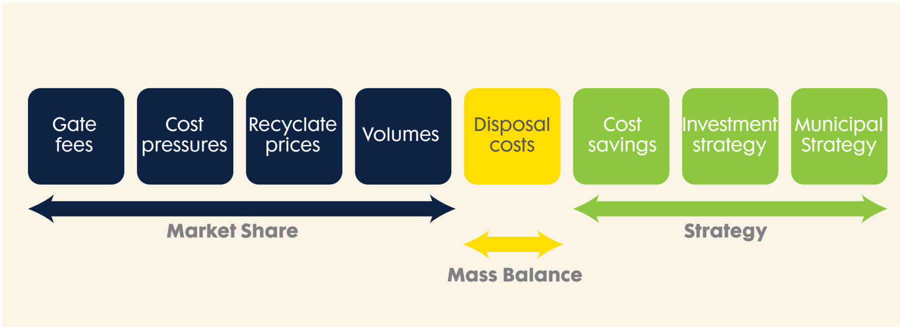
Market overview. The waste hierarchy as shown below is embedded in European and national waste legislation. Across the world, governments are urging the waste industry to support them in recovering more resources and energy from waste.



Source: Shanks Group plc Annual Report & Accounts 2011

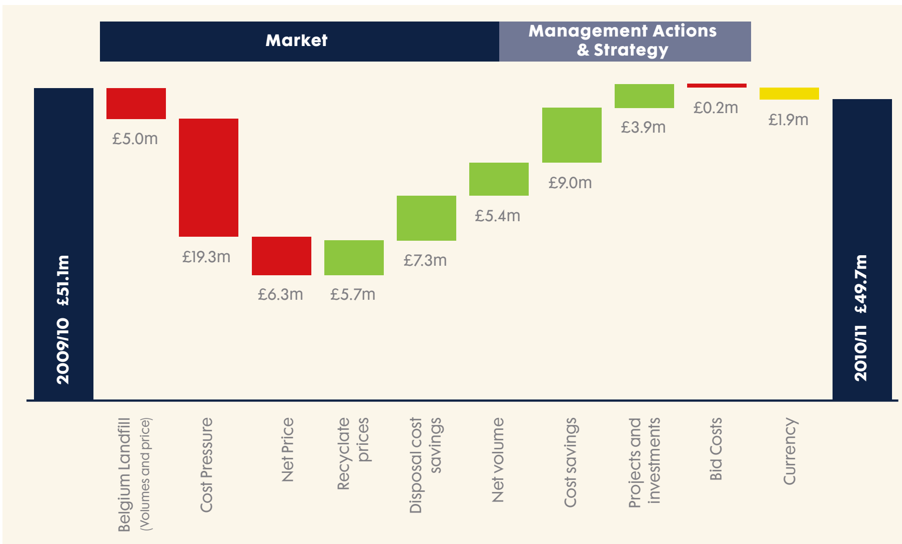
Words and graphics work together to communicate the logic of the approach

The business model – how we make money. The drivers that influence the success of our business and deliver the business model are set out below.



Source: Shanks Group plc Annual Report & Accounts 2011

Waterfall charts work well for finance directors and investors like them, too.



Source: Shanks Group plc Annual Report & Accounts 2011

12 reporting tips

1. ***Have a backbone – strategy***
2. ***Back to basics – business models***
3. ***The big picture – external drivers***
4. ***Tell the whole tax story – it's more than just numbers***
5. ***Cash is still king – cash and debt***
6. ***Survival of the fittest – sustainability***
7. ***Bottom up – segments***
8. ***Flash in the pan – underlying performance***
9. ***Not the kitchen sink – principal risks***
10. ***What gets measured gets done – KPIs and remuneration***
11. ***Cracking the code – corporate governance***
12. ***Joining the dots – integrated picture***

All statistics are based on our review of 200 companies' reports – the FTSE 100 and 100 of the FTSE 250 – for periods ended between 1 April 2011 and 31 March 2012. Each report was examined against more that 80 data points related to our integrated reporting model. The comparatives provided, where available, are based on prior year results for broadly the same set of companies.

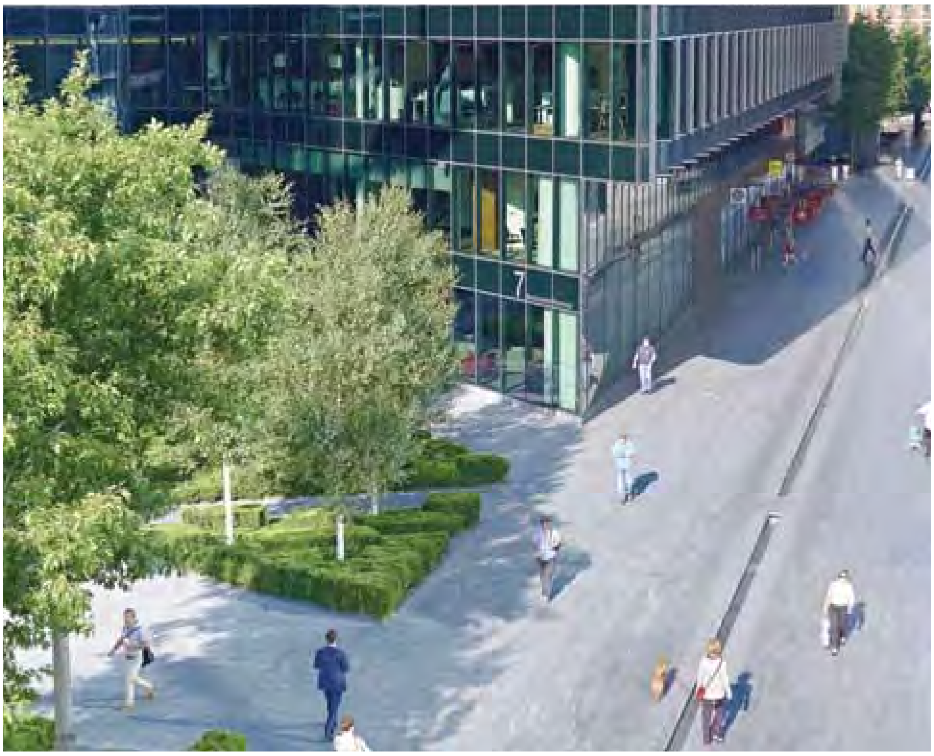
Practical ideas: 12 reporting tips and illustrative examples

There are many ways to improve your communication with stakeholders, whether you go for a completely new approach or take small steps in a more evolutionary process.

We've compiled 12 practical reporting tips based on engagment with companies on the information they use to run their business and insights from investors on what they would like to see in reporting.

These ideas and options for making your reporting more relevant and accessible are here to inspire you. We don't see them as a checklist – you might choose one or two to focus on in isolation as 'quick wins'; others may take longer to implement. But taken together, they are designed to provide a starting point for developing an effective reporting strategy and helping you improve the quality and effectiveness of your reporting.

Each tip includes key findings from our research, providing evidence of the gaps in reporting, along with real examples from companies to inspire you and illustrate what's possible.



See what effective reporting looks like

Knowing what 'excellence in reporting' looks like in practice can be a challenge – to help we have developed a collection of over 200 real good practice examples. It can be searched by industry, region, reporting topic or company.
Visit 'good practices' at **www.pwc.com/corporatereporting**

1. Have a backbone
Strategy

Use your objectives and strategy to underpin your reporting and to provide the context for your activities and performance. Strategic statements set in isolation from the rest of your reporting can appear as hollow statements of intent.

Most companies in our FTSE 350 sample report on their strategy, and a growing number are trying to make their reports more clearly explain their strategic aims, priorities and progress. However, all too often, these strategic themes are not developed throughout the rest of their reporting. This lack of development raises more questions than it answers, and it risks undermining the level of strategic debate, planning and action that undoubtedly goes on internally. One way that some companies have overcome this is through the use of 'strategic progress' tables. Others use consistent wording and graphics throughout to clearly signpost the relevance of the content.

What companies are doing today:

95% include strategic priorities
2011 *95%*

28% base reporting on strategic themes
2011 *20%*

21% provide comprehensive and quantified information on progress against each strategic priority
2011 *16%*

47% provide strategic targets/timeframes for some strategic priorities – only 7% (10%) provide targets/timeframes for all priorities
2011 *50%*

27% have detailed explanation of actions taken to deliver strategic priorities
2011 *19%*

Source: PwC 2012 review of narrative reporting

'Really good management usually have really good discussions because they know what's important to their company. Poorly managed companies do not have that level of confidence'

Investor

Example:

Balfour Beatty annual report 2011 *(pages 14-15)*

Uses a clear, two-page table to set out concisely the main elements of the group's strategy and what underpins it. The overall strategy is linked to strategic objectives and priorities, then to the financial and non-financial KPIs that measure progress against priorities, and the principal risks that could affect the achievement of strategy.

Our strategy, which evolves with our competitive landscape, sets our direction and determines our objectives for each year.

→

Our strategic objectives

1. Grow in new markets and vertical sectors

We are already one of the largest global players in infrastructure by revenue. To achieve further growth we are working to develop our position in new geographies and resource-rich economies such as Brazil, India, Australia and Canada and we are intensifying our focus on high-growth sectors such as power, rail, mining and transportation.

→

Our key performance indicators

Order book and revenue are good indicators of top-line growth, with order book growth leading revenue growth by six to 12 months in our business. Increased revenue in higher-growth markets (outside Europe and North America) is evidence of our focus on new geographies. In a difficult year overshadowed by governments' austerity measures, we kept our order book stable and increased our revenue, particularly in higher-growth markets.

0%	+5%	+12%
Order book	Revenue[1]	Revenue[1] in higher-growth markets

→

Principal risks

Economic environment
- Changes in general economic conditions and the impact on customers' investment plans

People
- Failure to recruit and retain appropriate skilled people to deliver specific contracts and the Group's future growth

Our business

Our strategy

Our strategy, which evolves with our competitive landscape, sets our direction and determines our objectives for each year.

It is crucial that we are able to measure the achievement of our key strategic objectives and to report on our key performance indicators for our own benefit as well as the benefit of our stakeholders.

For more information on our strategic objectives and key performance indicators go to **P16 – P21**

Our strategic objectives

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2. Deliver greater value to the customer

Many of our customers own complex and critical assets that enable societies to function by providing transport, energy, water, natural resources, schools, hospitals and local services.

For them, providing an asset is not an end in itself. They are concerned to provide education rather than schools, healthcare rather than hospitals, mobility rather than roads or railways. We help them achieve their true goals by working in partnership with them – bringing together teams that have the know-how and talent to understand the underlying issues and solve the toughest infrastructure challenges.

3. Improve operational performance and cost-effectiveness

Our unique breadth of capabilities and our wide geographical reach are the results of a sustained period of expansion. Much of this expansion has come through acquisitions, and we will continue to acquire businesses that enhance our capabilities or expand our territorial coverage – as described in objective 1 above. But it is not enough to build the platform; we must also operate it as efficiently and profitably as possible.

4. Continue to show leadership in values and behaviour

To be recognised as the leading provider of infrastructure services – and to secure a sustainable, long-term future for the Group – we must also be a leader in areas such as ethics, safety and the environment.

Our key performance indicators

Order book and revenue are good indicators of top-line growth, with order book growth leading revenue growth by six to 12 months in our business. Increased revenue in higher-growth markets (outside Europe and North America) is evidence of our focus on new geographies. In a difficult year overshadowed by governments' austerity measures, we kept our order book stable and increased our revenue, particularly in higher-growth markets.

0%	+5%	+12%
Order book	Revenue[1]	Revenue[1] in higher-growth markets

Every year, Roads and Bridges magazine in the US surveys 10,000 government officials and asks them which design firm they prefer to work with. In the industry, this is called the Go-To List.

While they only cover our professional services business, these rankings are a good example of the strength of our track record and reputation with our customers. In 2011, there was a slight deterioration in the rankings, although we are still in an enviable No. 1 or No. 2 position in four categories.

Go-To List rankings for Parsons Brinckerhoff

No.1	No.2	No.4
in the Road & Highway (=) and Airport categories	in the Bridge and Mass Transit (=) categories	in the Design-Build category

We aim to increase Group operating margin to a level of 3.5%–4% by 2015 mainly through better utilisation of resources, efficiency savings and improved business mix.

While our £30m cost reduction programme is on course, our margin progress in 2011 was hindered by difficult market conditions in our major established markets.

3.0%
Group operating margin[1,2]

The safety of our people and everyone we come into contact with remains a key priority although our safety performance was disappointing in 2011.

We have challenged ourselves to reduce our impact on the environment. In 2011, we made good headway in water and waste, but our CO_2e emissions made little progress due to energy-intensive projects.

+6%	-1%
Accident Frequency Rate (AFR)	Greenhouse gas emissions (tonnes CO_2e/£m revenue)

[1] Including joint ventures and associates.
[2] Before non-underlying items.

Principal risks

Economic environment
- Changes in general economic conditions and the impact on customers' investment plans

Expansion into new territories and by acquisition
- Failure to address associated risks

Legal and regulatory
- Breaches of local law and regulations

Business conduct
- Not observing the highest standards of integrity and conduct in dealing with customers, supply chain and other stakeholders

People
- Failure to recruit and retain appropriate skilled people to deliver specific contracts and the Group's future growth

Bidding
- Not adequately estimating risks and costs associated with contract terms and conditions

Project execution
- Not executing projects to customers' requirements and on a timely basis

Health, safety and sustainability
- Failure to manage risks associated with health, safety and sustainability and hence exposing our people and the public to injury or harm

Go to **P58 – P62** for more information on how the Group manages risk

Reward

A world-leading infrastructure business differentiated by asset knowledge

Superior growth and value for stakeholders

Our business

14 Balfour Beatty Annual report and accounts 2011

Balfour Beatty Annual report and accounts 2011 15

Shows the development of strategic priorities in a separate section – the rationale for strategy, what Balfour Beatty have done, and what they plan to do next.

Our business

Strategic performance

This is how we addressed our four strategic priorities in 2011:

4. Continue to show leadership in values and behaviour

To be recognised as the leading provider of infrastructure services – and to secure a sustainable, long-term future for the Group – we must also be a leader in areas such as ethics, safety and the environment.

Why is this important?
We do not want our growth to be constrained by the pace of growth in our traditional markets. The breadth of our capabilities and the extent of our international reach give us access to an exceptionally broad range of markets and customers. We will exploit this by increasing the focus of our activity in markets where opportunities are bigger and growth rates higher.

What are we doing?
Infrastructure markets around the globe are growing at different rates. We are harnessing our unique combination of capabilities, particularly in professional services and project finance, to build our position in selected geographic markets and sectors that have superior growth rates.

What's next?
In the year ahead, we aim to:
- refresh our sustainability roadmap, developing new targets for 2015
- continue to roll out sustainability training to involve an increasing number of employees in our 2020 vision
- participate in Business in the Community's corporate responsibility index for the first time
- sponsor Ecobuild 2012, the construction sector's largest event, to share our knowledge on BIM, offsite construction, energy efficiency and whole-life carbon modelling
- continue to embed our ethics, values and compliance programme and leverage it to support the Group's growth strategy as we enter new and sometimes higher-risk markets.

2. Back to basics
Business models

Explain your key capabilities and the key resources and relationships you depend on to create and sustain value. Consider both your key inputs/outputs as well as your own activities, and demonstrate how your business model interacts with other key elements of reporting – for example, strategy, risks and KPIs.

Reporting on the business model has been a hot topic this year, whether driven by a commercial decision to better articulate what the company does, what it relies on and what sets it apart from competition, or in response to changes in legislation. So it comes as no surprise that over three-quarters of the reviewed FTSE 350 companies have attempted to explain their business model in their reporting. However, the variety of approaches taken, the level of detail provided, and the often 'siloed' approach to their disclosure suggest the inherent difficulty many companies have in defining their business model. So it is likely to remain a hot topic as companies consider the level of detail they should provide – group vs segment, legal boundaries vs value chain and the impact of the business model on strategy, risks and performance. What is clear is that the best reporters use a diagram to present their business model; they identify the key processes, relationships and resources they rely upon; and they link the content to the other key elements of reporting.

What companies are doing today:

77% (2011: 70%) include the term 'business model' in their reporting. Of those who mention their business model, 53% provide insightful detail. 16% provide no further information

61% (2011: 54%) use graphics to help explain their business model

8% (2011: 7%) have clear integration between the business model and other reporting areas, such as sustainability, risks and strategy

44% (2011: 38%) have some explanation of differences in segmental business models

Source: PwC 2012 review of narrative reporting (2011 findings in brackets)

'You apply a bigger discount to companies when there is stuff you don't understand'

Analyst

Example:

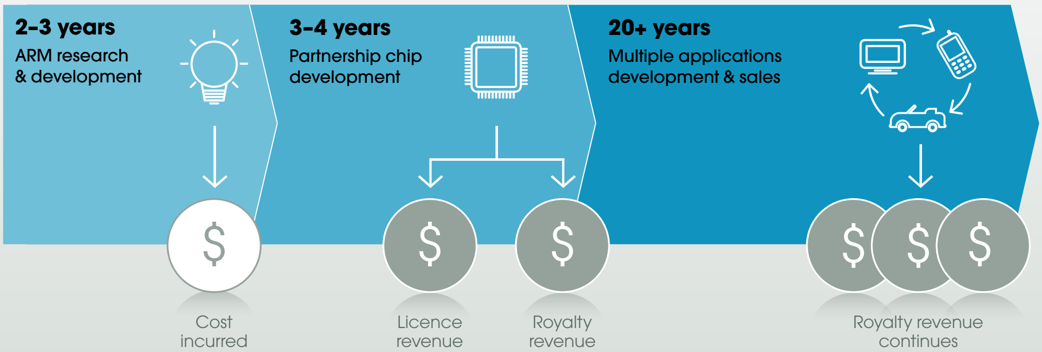
ARM Holdings annual report 2011 *(pages 14-15)*

Our business model

ARM designs technology to go into energy-efficient chips. A processor design can take 2–3 years to develop. In most years, ARM introduces 2–3 new processors that have been designed with a range of capabilities making them suitable for different end-markets.

The companies who choose ARM technology pay an up-front licence fee to gain access to a design. They incorporate the ARM technology into their chip – a process that often takes 3–4 years. When the chip starts to ship, ARM receives a royalty on every chip that uses the design. Typically our royalty is based on the price of the chip.

Each ARM processor and physical IP design is suitable for a wide range of end applications and so can be reused in different chip families addressing multiple markets. Each new chip family generates a new stream of royalties. An ARM design may be used in many different chips and may ship for over 20 years.



Explains how money is made, as well as how value is created.

Provides insight into the role of key relationships in the success of the model.

How ARM creates value

ARM endeavours to recover its costs from the licence revenues of each technology, leaving the majority of royalties to be reinvested back into the business or to be returned to shareholders. Over the medium-term, we expect royalties to grow faster than licence revenues and we expect that revenues will grow faster than costs, making ARM increasingly profitable.

As our customers are the world's largest semiconductor manufacturers, their regular royalty payments have become a highly reliable cash flow. ARM's business model is strongly cash generative.

Why semiconductor companies use ARM technology

ARM designs technology that would be difficult and expensive for our Partners' R&D teams to develop for themselves. It is cheaper for them to license the technology from ARM than to develop it internally. The design of a processor or a library of physical IP requires a large amount of R&D investment and expertise. We estimate that each semiconductor company would need to spend over $100 million every year to reproduce what ARM does. This represents more than $20 billion of annual costs for the industry. By designing once and licensing many times, ARM spreads the R&D costs over the whole industry, making digital electronics cheaper.

Technologies that are suitable for the ARM business model

ARM's licensing business started in the early 1990s with the development of our first processor. The processor is like the brain of the chip; it is where the software runs and it controls the functionality of the product. ARM designs each processor to be applicable to a broad range of end-markets to maximise the number of Partners that can license each processor and to maximise the number of markets in which the Partner can deploy that technology. In most years ARM introduces 2–3 new processor designs. Over the past 10 years, ARM has developed other technologies suitable for a licensing and royalty business model, such as graphics processors and physical IP components. Both of these technologies are now widely licensed and are delivering royalty revenues.

3. The big picture
External drivers

Put your results in the context of market trends. Provide management's perspective on the competitive landscape and macro environment to allow the reader to evaluate your strategic choices and actions along with the quality and sustainability of performance.

The level of insight into the external drivers shaping the markets in which companies operate has remained broadly similar year-on-year. It is also perhaps unsurprising, due to the macro environment and the ongoing uncertainty, that there is a little less detail on areas such as reporting of future market trends, customer base and competitive environment. At a time when so much uncertainty exists, it is more important than ever for management to put across their perspective on the markets. However, most companies only refer to market conditions in the context of their financial performance during the year. Few companies have taken the opportunity, as Shanks Group has (see opposite and page 8), to use the discussion of the market and other external drivers to show where in the value chain they operate and to provide the context for, and rationale behind, their business model and strategic choices.

What companies are doing today:

86% provide some discussion on future market trends
2011 *87%*

53% give insight into competitive environment, but only 18% (17%) offer any real depth of information
2011 *59%*

75% mention their customer base
2011 *79%*

21% clearly link market discussion to strategic choices
2011 *20%*

Source: PwC 2012 review of narrative reporting

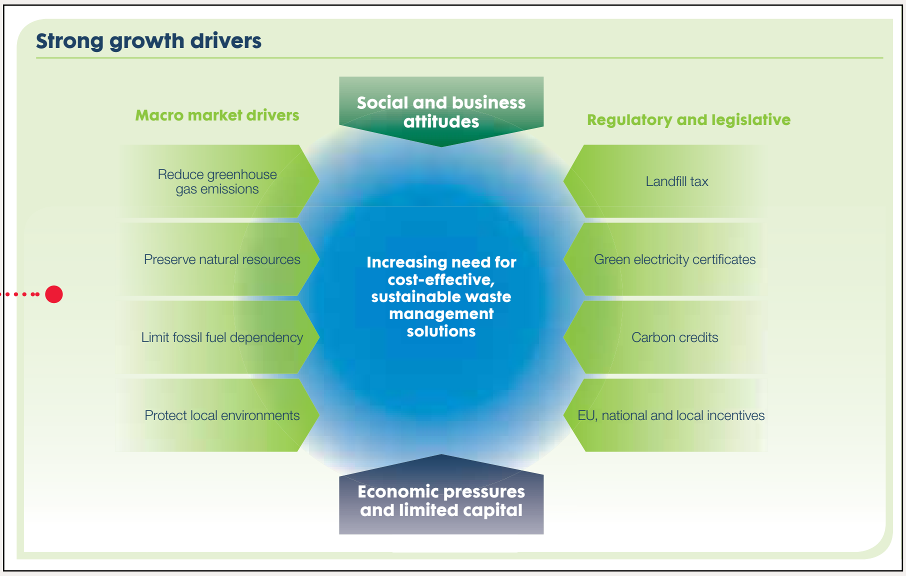
'I need an analysis of what markets they are in: what their position is and what drives their business model. But you very rarely find anything like that'

Analyst

Example:

Shanks Group annual report 2012 *(pages 22 and 29)*

Clearly illustrates the areas of the waste management market the company operates in.



Provides a clear overview of the key growth drivers both macro and regulatory.

4. Tell the whole tax story

It's more than just numbers

Provide clear information for stakeholders on how tax impacts your business, looking more broadly at tax strategy, risk management and the wider impact of tax as well as detailed tax performance in the tax note. Communicate in a simple and straightforward way to help readers of your report understand your tax affairs.

We have been pleased to see a trend towards greater transparency in our annual review of tax reporting. Encouragingly, this year, we found more companies talking about management involvement and oversight of tax affairs. We also found an increasing number of companies explaining the difference between effective and cash tax rates using clear language. The leaders in tax reporting believe that the benefits from greater tax transparency outweigh the risks and are going well beyond the tax disclosures required by accounting standards.

What companies are doing today:

62% talk about governance and oversight for tax – less than half did this two years ago

25% disclose tax payments by country

34% mention taxes other than corporation tax, compared to 22% a year ago

33% of companies mention the importance of tax transparency or stakeholder interest in their tax payments

Source: PwC 2012 review of 50 leading tax reporters

'It is impossible to miss the intense scrutiny that tax affairs have come under in recent years by pressure groups and newspapers. And I firmly believe that it is in business' long-term interest to engage with that debate; to set out and explain your position; to open yourselves to greater scrutiny; to demonstrate just how critical your success is to the prosperity of individuals and families across the economy. Engagement and transparency will help address the myths and confusion on tax, feed a more informed debate, and result in a simpler, more efficient and less costly tax system to the benefit of everyone'

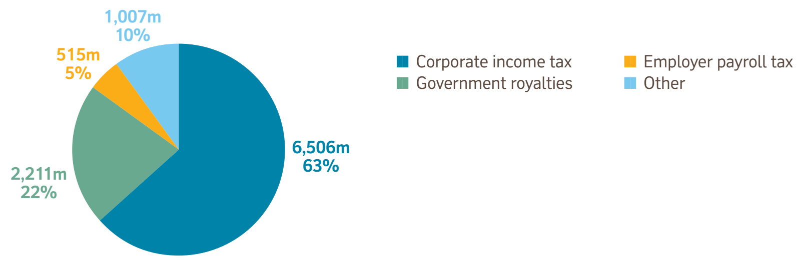
David Gauke, Exchequer Secretary, on 28 February 2012

Example:

Rio Tinto – Taxes paid in 2011 report *(pages 5, 10, and 12)*

Analysis of tax by type illustrating that the contribution is wider than corporate income tax.

Total tax payment by tax type
(US$ millions)



3 Our tax strategy and governance

In support of our overall business strategy and objectives, Rio Tinto pursues a tax strategy that is principled, transparent and sustainable in the long term. The Group has established principles governing its tax strategy which have been reviewed and approved by the board of directors. These remain unchanged from previous years and include the following key points:

- A tax strategy that is aligned with our business strategy and conforms with our global code of business conduct, *The Way We Work.*
- Commitment to ensure full compliance with all statutory obligations, and full disclosure to tax authorities.
- Maintenance of documented policies and procedures in relation to tax risk management and completion of thorough risk assessments before entering into any tax planning strategy.
- Sustaining good relations with tax authorities, and actively considering the implications of tax planning for the Group's wider corporate reputation.
- Management of tax affairs in a pro-active manner that seeks to maximise shareholder value, while operating in accordance with the law.

Within this governance framework, the conduct of the Group's tax affairs and the management of tax risk are delegated to a global team of tax professionals. Management certifies our adherence to these principles to the Rio Tinto board of directors on an annual basis. The suitability of the tax strategy and principles is kept under regular review.

Throughout 2011, we upheld these principles across all countries of operation. In this context, Rio Tinto does not obtain any significant benefit from 'tax havens'. The Group has business operations in certain jurisdictions that offer tax incentives for businesses, such as Singapore where the Group has significant marketing and logistics activities. 63% of the Group's gross sales revenues, by destination, are to the Asia Pacific region.

Explanation of tax strategy and management.

6 Tax charged in the financial statements in 2011

(continued)

A reconciliation between the tax payments shown in section 5 and the taxes charged is shown below.

All amounts are in US$ millions	Corporate income tax	Other tax borne	Total tax borne	Net indirect tax paid/ (refunded)	Net tax payments
Total included in Group income statement	6,946	3,704	10,650	–	**10,650**
Less deferred tax included above	(314)	–	(314)	–	**(314)**
Accrued tax paid less payments due after 2011	(126)	748	622	–	**622**
Net indirect tax collected/(refunded)	–	–	–	(719)	**(719)**
Total tax paid in the year	**6,506**	**4,452**	**10,958**	**(719)**	**10,239**

Reconciliation between tax charge and tax paid.

All amounts are in US$ millions	Corporate income tax	Other tax borne	Total tax borne
Parent companies and subsidiaries	6,197	4,416	10,613
Non-controlled entities	309	36	345
Total tax paid in the year	**6,506**	**4,452**	**10,958**

Notes:
(i) The analysis between controlled and non-controlled entities is as follows:

All amounts are in US$ millions	Corporate income tax charge	Other tax charges	Total tax charge	Profit before tax	Minority interests	Net earnings
Parent companies and subsidiaries	6,439	3,685	10,124	13,102	939	5,724
Non-controlled entities	507	19	526	619	–	112
Discontinued operations	–	–	–	(10)	–	(10)
Total included in income statement	**6,946**	**3,704**	**10,650**	**13,711**	**939**	**5,826**

5. Cash is still king

Cash and debt

Explain how you make money, generate cash and are funded. Competition for capital is fiercer than ever before so consider including detailed disclosure about your operating cash flow strategy and performance and consolidating your debt disclosure. Provide real granularity into your debt maturity schedule and reconciliation of free cash flow to movements in net debt.

Cash generation over time is a key measure of a company's value, while the ability to attract funding is critical to sustaining performance. Some companies have made real steps forward, but a number of challenges remain in the reporting of cash and debt. Insights into the cash and debt position are often hard to find, as they remain spread throughout the annual report; communications around future funding strategies are often lacking in detail; and it can be a real challenge for users to reconcile debt disclosures, due to the different measurement bases used in the balance sheet and notes.

Providing clear and useful information on cash and debt to users is vital. The best reporters are tackling these challenges by: consolidating their cash and debt information in the notes to the accounts; clearing up their cash flow statements by starting directly from an operating line; and providing clear and detailed net debt reconciliations. Some companies are also providing valuable insight to users by showing debt maturity information on an annualised basis, as the GlaxoSmithKline example illustrates (opposite).

What companies are doing today:

89% have debt

Of companies with debt:

32% have annualised debt maturity information

2011 *32%*

43% mention covenants – only 15% (15%) in a detailed way

2011 *41%*

53% have a reconciliation of movements in net debt

Source: PwC 2012 review of narrative reporting

'Lets clear up the cash flow statement because at the end of the day, it's our best indicator of what's real'

Investor

'Companies are quick to provide the information you need when issuing a bond; they are not very good at keeping that relationship going'

Analyst

Example:

GlaxoSmithKline annual report 2011 *(page 199)*

Shows maturity information for each year for five years from the balance sheet date.

Shows the maturity of lease obligations and trade payables separately from other forms of debt finance.

Shows interest and principal amounts separately to allow investors to see amounts which need to be repaid or refinanced as well as the cost of the finance.

Contractual cash flows for non-derivative financial liabilities and derivative instruments

The following is an analysis of the anticipated contractual cash flows including interest payable for the Group's non-derivative financial liabilities on an undiscounted basis. The impact of interest rate swaps has been excluded. For the purpose of this table, debt is defined as all classes of borrowings except for obligations under finance leases. Interest is calculated based on debt held at 31 December without taking account of future issuance. Floating rate interest is estimated using the prevailing interest rate at the balance sheet date. Cash flows in foreign currencies are translated using spot rates at 31 December.

At 31 December 2011	Debt £m	Interest on debt £m	Obligations under finance leases £m	Finance charge on obligations under finance leases £m	Trade payables and other liabilities not in net debt £m	**Total £m**
Due in less than one year	(2,665)	(750)	(34)	(3)	(6,730)	**(10,182)**
Between one and two years	(1,613)	(636)	(24)	(3)	(223)	**(2,499)**
Between two and three years	(968)	(558)	(15)	(3)	(59)	**(1,603)**
Between three and four years	(1,333)	(515)	(11)	(1)	(61)	**(1,921)**
Between four and five years	–	(463)	(3)	(1)	(5)	**(472)**
Between five and ten years	(2,816)	(1,784)	(8)	–	(22)	**(4,630)**
Greater than ten years	(5,422)	(4,785)	–	–	(5)	**(10,212)**
Gross contractual cash flows	(14,817)	(9,491)	(95)	(11)	(7,105)	**(31,519)**

At 31 December 2010	Debt £m	Interest on debt £m	Obligations under finance leases £m	Finance charge on obligations under finance leases £m	Trade payables and other liabilities not in net debt £m	Total £m
Due in less than one year	(259)	(755)	(32)	(5)	(6,280)	(7,331)
Between one and two years	(2,564)	(756)	(27)	(5)	(178)	(3,530)
Between two and three years	(1,603)	(638)	(18)	(3)	(35)	(2,297)
Between three and four years	(962)	(559)	(11)	(2)	(57)	(1,591)
Between four and five years	(1,368)	(538)	(7)	(1)	(7)	(1,921)
Between five and ten years	(2,831)	(2,053)	(8)	–	(21)	(4,913)
Greater than ten years	(5,425)	(5,013)	–	–	(12)	(10,450)
Gross contractual cash flows	(15,012)	(10,312)	(103)	(16)	(6,590)	(32,033)

Example:

National Grid annual report 2012 *(page 150)*

Analyses the factors that have an impact on the movement of net debt during the year, by component of net debt.

(b) Analysis of changes in net debt

	Cash and cash equivalents £m	Bank overdrafts £m	Net cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivatives £m	Total[i] £m
At 1 April 2009	737	(17)	720	2,197	(26,776)	1,186	(22,673)
Cash flow	(16)	(12)	(28)	(826)	2,079	(560)	665
Fair value gains and losses and exchange movements	(1)	–	(1)	2	644	220	865
Interest charges	–	–	–	24	(1,042)	22	(996)
At 31 March 2010	720	(29)	691	1,397	(25,095)	868	(22,139)
Cash flow	(333)	(13)	(346)	1,551	2,933	(133)	4,005
Fair value gains and losses and exchange movements	(3)	–	(3)	(34)	402	325	690
Interest charges	–	–	–	25	(1,337)	84	(1,228)
Reclassified as held for sale	–	–	–	–	9	–	9
Other non-cash movements	–	–	–	–	(68)	–	(68)
At 31 March 2011	384	(42)	342	2,939	(23,156)	1,144	(18,731)
Cash flow	(52)	9	(43)	(577)	1,343	(444)	279
Fair value gains and losses and exchange movements	–	–	–	8	22	(117)	(87)
Interest charges	–	–	–	23	(1,187)	122	(1,042)
Reclassified as held for sale	–	–	–	(2)	–	–	(2)
Other non-cash movements	–	–	–	–	(14)	–	(14)
At 31 March 2012	**332**	**(33)**	**299**	**2,391**	**(22,992)**	**705**	**(19,597)**
Balances at 31 March 2012 comprise:							
Non-current assets	–	–	–	–	–	1,819	1,819
Current assets	332	–	332	2,391	–	317	3,040
Current liabilities	–	(33)	(33)	–	(2,459)	(162)	(2,654)
Non-current liabilities	–	–	–	–	(20,533)	(1,269)	(21,802)
	332	**(33)**	**299**	**2,391**	**(22,992)**	**705**	**(19,597)**

(i) Includes accrued interest at 31 March 2012 of £178m (2011: £162m).

6. Survival of the fittest
Sustainability

Demonstrate an understanding of the material sustainability risks and opportunities relevant to your organisation and your key stakeholders and how they are integrated into your core corporate strategy. Take a short-, medium- and longer-term perspective, and consider the impact of your business across your entire value chain when considering materiality.

A growing number of companies provide some relevant insights into sustainability issues in their annual report. The number of companies setting targets and measuring performance in this area is also increasing. The scope of sustainability information is becoming more strategically focused as companies increasingly ask stakeholders what matters to them – encouragingly, almost twice as many companies as last year provide some insight into how they have identified their material sustainability issues.

All good news, surely? These are indications that companies are starting to broaden the scope of their reporting and think about the sustainability of their business in the widest sense. Logically, it follows that management will analyse sustainability information and develop strategies to respond to the associated risks and opportunities that affect them. However, less than a quarter of companies we reviewed in the FTSE 350 comprehensively embed sustainability in their overall strategy; this raises questions over either the relevance of the sustainability information reported, or the quality and completeness of the strategy. It is easy to identify companies that have made a serious attempt to understand their sustainability issues. They understand their place in the value chain, their impacts and dependencies; and sustainability is, naturally, at the heart of the business model and strategy.

What companies are doing today:

78%* include some relevant insight into their sustainability issues
2011 77%

20%* comprehensively embed sustainability in overall strategy
2011 19%

49%* have targets for sustainability performance metrics

*statistics based on information included in the annual report

Source: PwC 2012 review of narrative reporting

> *'..luckily, even those concerned only about bottom-lines and not the fate of nature are beginning to realise that the sustainability of business itself depends on the long-term viability of ecosystems'*
>
> CEO

Example:

Unilever – annual report 2011 *(pages 8-9)*, Unilever Sustainable Living Plan – progress report 2011 *(pages 1-2 and 4-5)*

VISION

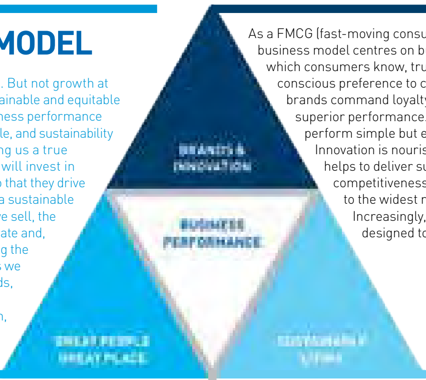
Our vision is to double the size of Unilever while reducing our environmental footprint.

The two elements of this are interlinked. Our growth ambition is dependent on operating sustainably. These two aspects of the vision shape and form our business model.

Sets out in the annual report a clear vision of decoupling the company's growth from its environmental impact – a vision that is woven through all their communication channels.

BUSINESS MODEL

Our aim is to deliver growth. But not growth at any cost – rather a new sustainable and equitable form of growth. Strong business performance is driven by our brands, people, and sustainability – which is increasingly giving us a true competitive advantage. We will invest in strengthening our brands so that they drive profitable growth as part of a sustainable business model: the more we sell, the more efficiently we can operate and, at the same time, by reducing the cost of running our business we can invest more in our brands, innovations, and advertising and promotions. This, in turn, enables us to sell more.



As a FMCG (fast-moving consumer goods) company, our business model centres on building **GREAT BRANDS** which consumers know, trust, like, and buy in conscious preference to competitors' products. Our brands command loyalty and affinity and deliver superior performance. They help consumers to perform simple but essential everyday tasks. Innovation is nourishment for our brands. It helps to deliver superiority, increases our competitiveness and allows us to appeal to the widest range of consumers. Increasingly, our innovations are designed to enable sustainable living.

As a major employer, our business model is rooted in our people. We have a distinctive set of values and they attract people who bring a sense of purpose to their work. We reward in line with performance and create a climate where people are incentivised to excel. We develop leadership capabilities early and place priority on building tomorrow's leaders today. All this combines to build a business of **GREAT PEOPLE**.

A further element of our business model is **SUSTAINABLE LIVING**. External factors will move it from being the choice of a concerned few to a new norm for billions in this decade. Companies who move quickly to enable it can seize major competitive advantage by doing so. Our aim is to help people move to a more sustainable way of using our products and reduce the current rate of consumption of scarce resources.

Illustrates in the annual report how the sustainability agenda is integral to the company's business model, and is fundamentally linked to corporate strategy. The Unilever Sustainable Living Plan (USLP) makes the full business case for sustainability.

Value chain approach to sustainability management – Unilever demonstrates that its sustainability activities extend beyond the company's operational boundaries; they demonstrate how they take action to minimise their impacts and effect broader change.

Working as Unilever on consumer behaviour change

We design new products which are more sustainable and encourage people to consume more sustainably

Sustainable product design

Products with less salt, sugar and fat

Recyclable packaging

Concentrated detergents

Easy rinse conditioners

Behaviour change programmes

The Lifebuoy handwashing programme

Signal / Pepsodent Brush Day and Night campaign

We have developed our own model of behaviour change: The Unilever Five Levers for Change methodology

Working as Unilever in the supply chain

Sometimes acting alone can catalyse change across the industry

In 2007 we were the first large company to commit to **sustainable sourcing of tea**

Many tea companies have followed us

RSPO
Roundtable on Sustainable Palm Oil

In 2008 we committed to draw all of our **palm oil from certified sustainable sources by 2015**

Much of the industry has followed

We will source all our **cocoa sustainably by 2020**

FAIRTRADE

Ben & Jerry's are asking Fairtrade to **certify their key ingredients**

Knorr has established a €1 million **Partnership Fund** to help farmers

Our **Sustainable Agriculture Code** is an open source document available to our suppliers and others

2 **Unilever** Sustainable Living Plan Progress Report 2011

BUILDING A **SUSTAINABLE BUSINESS**

We believe growth and sustainability go hand in hand.

THE BUSINESS CASE

As we implement our Plan we are recognising that the business case for embedding sustainability into our brands is strong.

1. **Consumers want it.** A small but growing number of consumers around the world are seeking the assurance that the products they buy are ethically sourced and responsibly made. A more sustainable brand is often a more desirable brand.
2. **Retailers want it.** Many retailers have sustainability goals of their own and need the support of suppliers like Unilever to implement them. This collaboration is deepening the relationships we have with our customers.
3. **It fuels innovation.** Sustainability is a fertile area for both product and packaging innovation. It is allowing us to deliver new products with new consumer benefits.
4. **It helps develop new markets.** Over half Unilever's sales are in developing countries, which often face the greatest sustainability challenges. New products that help people adapt to the changing world will drive growth.
5. **It saves money.** Managing our operations sustainably reduces energy, minimises packaging and drives out waste. It not only generates cost savings, it can also save the consumer money.
6. **It inspires our people.** Our vision to create a sustainable, growing business is motivating for our employees and appealing to people who are considering joining Unilever.

OUR BUSINESS PROGRESS

As a business we cannot choose between growth and sustainability. We need to grow if invest i agricul

The Un helping

- The b susta perfo our c Com
- The e facto levels
- Our e **pack**

In 2011 was 6.5 its oper

We see consum are mu

EMBEDDING SUSTAINABILITY

Only by embedding sustainability into our business will we succeed in reaching our

NEW MODELS OF BUSINESS

Business has to decide what role it wants to play. Does it sit on the sidelines waiting for governments to take action or does it get on the pitch and start addressing these issues?

In Unilever we believe that business must be part of the solution. But to be so, business will have to change. It will have to get off the treadmill of quarterly reporting and operate for the long term. It will have to see itself as part of society, not separate from it. And it will have to recognise that the needs of citizens and communities carry the same weight as the demands of shareholders.

We believe that in future this will become the only acceptable model of business. If people feel that the system is unjust and does not work for them, they will rebel against it. And if we continue to consume key inputs like water, food, land and energy without thought as to their long-term sustainability, then none of us will prosper.

7. Bottom up
Segments

Challenge whether the segment analysis is not just compliant but also makes visible the different dynamics inherent within the business. Consider including a few additional line items such as working capital, operating cash flow and capital employed for each segment.

Segment reporting is hugely valuable to investors, providing much needed detail for building valuation models. A large majority of companies have segments – whether for competitive, quality and availability of data, or for space reasons – but few provide much detail beyond the minimum legal requirements and high-level insights into activities and performance.

The best reporters recognise what stakeholders need and provide plenty of information at segment level. In a diverse international business, it is just as important to report on all the key elements — external drivers, strategy, risks, performance and the business model – at segment level as it is at group level.

What companies are doing today:

92% (2011: 92%) have narrative consistent with segment notes

67% (2011: 67%) set out strategic priorities for at least some segments

87% (2011: 88%) report on drivers of financial performance in each segment – only 7% (27%) comprehensively communicate detailed financial performance at segment level

45% (2011: 55%) report KPIs for at least some segments, but alignment with segment strategies is a noticeable area for improvement – only 8% (5%) clearly align KPIs and strategy at segment level

84% (2011: 87%) report on external drivers at segment level

18% (2011: 18%) report on risks specific to each segment

Source: PwC 2012 review of narrative reporting

> *'The area where there is greatest potential for increased disclosure that would add value is in the segment information'*
>
> **Investor**

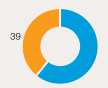
Example:

National Grid annual report 2012 *(page 64-65)*

Provides segment reporting that is clear, comprehensive, and relevant.

Principal operations

UK Transmission



Adjusted operating profit of group total (%)

UK Transmission

We own the electricity transmission system in England and Wales and are the national electricity transmission system operator, responsible for both the England and Wales transmission system, and the two high voltage transmission networks in Scotland, which we do not own. Day-to-day operation of the system involves the continuous real-time matching of demand and generation output. We are also designated as system operator for the new offshore electricity transmission regime.

We own and operate the gas national transmission system in Great Britain, with day-to-day responsibility for balancing demand.

We own and operate the UK assets, and a portion of the subsea cables, that comprise the electricity interconnector between England and France as part of a joint arrangement with the French transmission operator.

For more details on how our UK Transmission business operates see pages 16 to 17 and 20 to 21.

Key achievements

- delivered our capital investment programme totalling £1.4 billion;
- achieved our best year for reliability on record with transmission system availability of 99.999999%;
- opened an office in Brussels to engage at a European level;
- outperformed both our transmission carbon budgets (by over 25%) and our regulatory SF_6 leakage target; and
- in February 2012, in a joint venture partnership with ScottishPower, we awarded a £1 billion contract to build the first ever subsea electricity link between England and Scotland – the western high voltage direct current link.

Strategy

As part of the group's strategic objectives, UK Transmission's strategy includes:

- delivering the increased capital investment programme. This adds to our regulated asset value and supports future equity growth;
- working with Ofgem to achieve an acceptable outcome to RIIO-T1. This will include reviewing the output measures and incentives and considering how best to maximise our returns under these new mechanisms. This will contribute to future earnings and cash flows;
- continuing work to increase our influence in Europe and create a long-term EU strategy, intended to help contribute to the evolution of the laws and regulations that affect our business and our consumers; and
- increasing innovation, commercially, technically and financially. This can help us meet the output measures of our RIIO regulatory agreement and assist in finding new ways to generate growth.

Principal risks

- the assets associated with our major project developments will require significant stakeholder engagement in order to secure the necessary permissions to be built;
- the increased capital expenditure programme drives a need to ensure we have the appropriate core organisational and leadership capabilities; and
- the outcome of Ofgem's review of our business plans is uncertain.

Outlook

We believe the outlook for our UK Transmission business over the coming year is positive. While there are challenges ahead, we believe we have the right skills and approach to overcome them.

In the next 12 months we aim to deliver over £1.5 billion of capital investment and over the RIIO price control period we estimate this will be £25 billion.

Our safety and reliability performance has remained strong during the year and we believe this can continue. Our customer satisfaction scores have improved and work is underway to help deliver further improvement in this area.

We are working with stakeholders to try to develop the network of the future, designed to have appropriate flexibility to cope with the transition to a low carbon economy.

Summarises key strategic priorities and risks by segment.

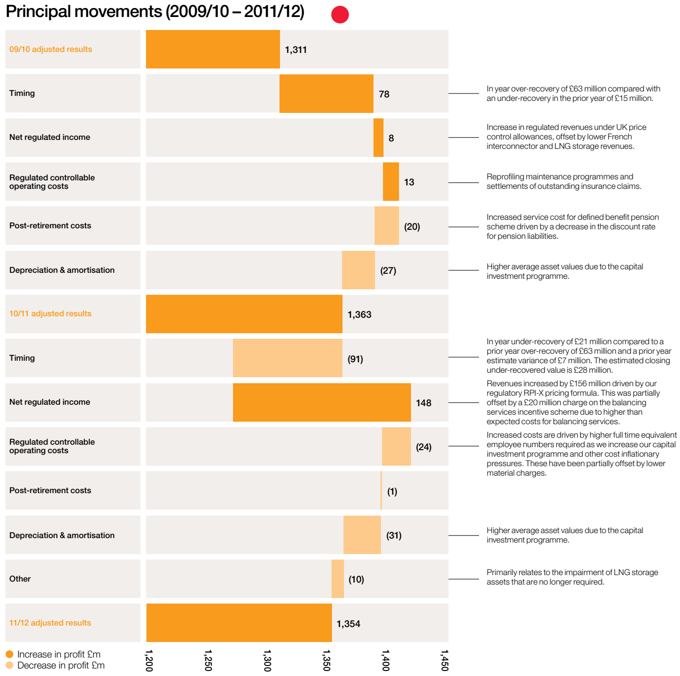
UK Transmission

The results of the UK Transmission segment for the years ended 31 March 2012, 2011 and 2010 were as follows:

	Years ended 31 March 2012 £m	2011 £m	2010 £m
Revenue	**3,804**	3,484	3,475
Operating costs excluding exceptional items	**(2,450)**	(2,121)	(2,164)
Adjusted operating profit	**1,354**	1,363	1,311
Exceptional items	**–**	(70)	(59)
Operating profit	**1,354**	1,293	1,252

Makes use of revenue bridges to enhance understanding of financial information. Consistent use of colour coding makes it easy to recognise segment information throughout the report.

Principal movements (2009/10 – 2011/12)



8. Flash in the pan
Underlying performance

Explain what is driving financial performance – is growth sustainable or not? Consider using bridge charts to help investors understand what is driving revenue profit and growth. Embrace non-GAAP measures to support your messaging but ensure they are clearly identifiable, consistently defined and reconciled to your GAAP numbers where appropriate.

Corporate reporting traditionally focuses on providing an explanation of the numbers. However, it is often difficult to get a clear sense of what is really driving movements in key financial numbers year on year – for example, revenue and profit – because few companies are effectively using the narrative to help explain underlying performance. For example, what role did market conditions play versus management actions? How sustainable is the financial performance – how much growth was driven by growth in volumes versus prices or by movements in exchange rates? A growing number of companies provide such insights in their investor presentations but few replicate this in their annual report.

Many companies use non-GAAP numbers as a proxy for underlying performance. These measures allow companies greater freedom to report numbers relevant to their business, but it is essential to clearly identify them as such and reconcile them back to GAAP in order to explain any differences in calculations.

Another interesting development is the growing number of companies experimenting with the financial statements and notes as a way of more clearly communicating performance – for example, consolidating notes around key balances/primary statements, merging accounting policies and integrating narrative, graphs and charts from the financial review with the notes.

What companies are doing today:

86% (2011: 79%) report non-GAAP measures. Of those that report non-GAAP measures, 51% (48%) clearly reconcile them to statutory reporting

56% (2011: 52%) use graphics to support explanations of underlying performance

33% (2011: 26%) clearly explain and quantify underlying drivers of financial performance

Source: PwC 2012 review of narrative reporting

'You can't always tell whether a company's growth is coming from volume versus growth versus pricing; whether it is organic versus acquired'

Investor

Example:

Schroders annual report 2011 *(page 76)*

For increased clarity, this year's Financial review, where practical, is positioned to provide a commentary next to the financial statements. It begins with an overview of the primary financial statements and then provides more granular detail relevant to the segmental results. We have also introduced, at the beginning of each note, a 'plain English' description of the purpose of the note.

The headlines of the year-on-year change in our financial results are set out in the graphs opposite. Net revenue and profit before tax are largely unchanged from 2010. Assets under management fell in the second half of the year after two consecutive strong quarters in the first half which enabled us to report robust results for the year as a whole.

The explanations set out in this report elaborate on the outcome of our key performance indicators and relate the financial results to our business model. Accordingly, this report is best read after reading the Strategy section of this Annual Report.

Introduces the new format of the financial statements, explaining how management have tried to improve their communication with users.

Uses simple charts to highlight the drivers of the changes in key performance indicators: these are presented in the financial review, alongside the primary statements.

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Financial report
Financial review

Overview

For increased clarity, this year's Financial review, where practical, is positioned to provide a commentary next to the financial statements. It begins with an overview of the primary financial statements and then provides more granular detail relevant to the segmental results. We have also introduced, at the beginning of each note, a 'plain English' description of the purpose of the note.

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The report opposite confirms that the auditors have no matters that need to be brought to readers' attention.

I fully support the work of the Financial Reporting Council encouraging the 'de-cluttering' of annual reports. These financial statements exclude disclosures that are immaterial and judged to be unnecessary to understand our results and financial position.

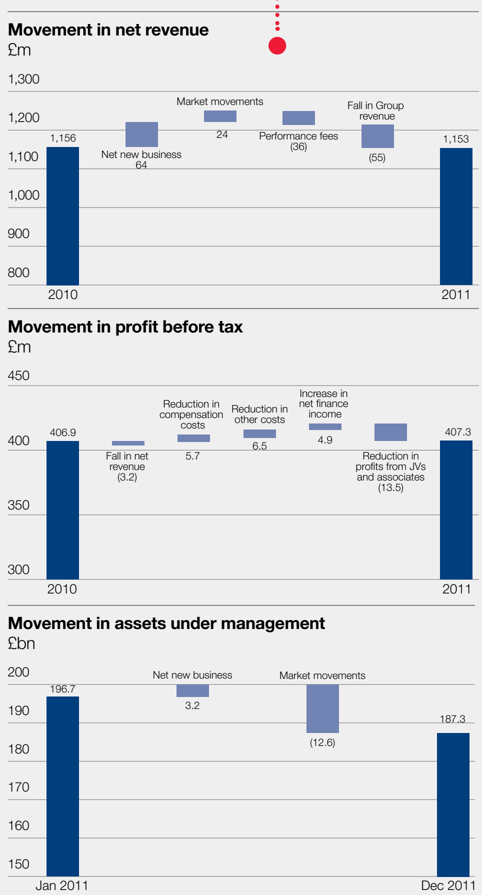
I would welcome feedback on the content and presentation of this report.

Kevin Parry
Chief Financial Officer

7 March 2012

The audited financial statements comprise the income statement, statement of comprehensive income, statements of financial position, statements of changes in equity, cash flow statements and the related notes. The accounting policies are identified with background shading in blue. The bold blue print at the beginning of each note provides a 'plain English' description of the purpose of the note.

The separate shaded sections included on the following pages and identified as the Financial review form part of the overall Business review and are unaudited.



9. Not the kitchen sink
Principal risks

Highlight principal risks, not all risks. How might they derail your strategy? How are they managed? How has the risk profile changed during the year and what is the sensitivity of underlying performance to changes in these risks?

Leading reporters have raised the bar in risk reporting this year, bringing their risk management processes and procedures to life and providing real insight into their risk profile and how it has changed during the year. Across the board, risk reporting has become more specific and less likely to be a generic list of risks that could apply to any company.

However, too often, risk reporting stands in isolation from the rest of the narrative report. The tangible links between risk appetite, processes and the other key elements of reporting – strategy, risks and business models – to provide context are often not evident. This limits the usefulness of the disclosure.

What companies are doing today:

95% explain nature/mitigation of risks
2011 *95%*

24% explain how risks have changed over time
2011 *12%*

43% provide some cross-referencing between the risk reporting and other areas such as strategic priorities, external drivers, business model and performance
2011 *37%*

21% provide insights into the impact vs probability of risks materialising
2011 *18%*

Source: PwC 2012 review of narrative reporting

'What we would like to see is 'what ifs' that allow us to build our models and our scenarios'

Analyst

Example:

Fresnillo annual report 2011 *(pages 38 – 39)*

Describes the process used to identify nine principal risks, from 97 original risks.

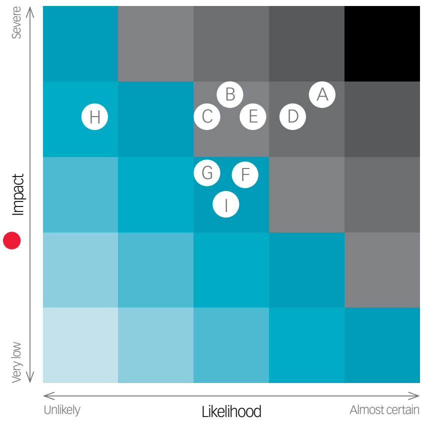
Our risk profile

97 risks were identified and assessed through our risk identification and assessment processes in 2011. Executive Management and the Board of Directors performed further analysis to prioritise these risks with a focus on highlighting the principal risks to the achievement of our strategic objectives. Of the total risks identified, 25 were highlighted as higher priority and then further consolidated into our nine 'principal' risks. These nine risks are monitored closely by Executive Management and the Board of Directors. While these principal 'top 9' risks represent a significant portion of our overall risk profile, Executive Management and the Audit Committee continue to monitor the entire universe of risks to identify and assess any changes in risk exposure, new or emerging risks for consideration by the Board of Directors.

Follows the narrative description of the risk profile process with a simple diagram setting out the impact and likelihood of each risk in relation to the others; a diagram such as this is easy for the reader to understand and remember.

Risk heat map

The following risk heat map illustrates the relative positioning of our principal risks in terms of impact and likelihood:



Uses consistent wording throughout the risk report; the titles shown here are the ones used in the rest of the discussion.

Risk
A. Impact of global macroeconomic developments
B. Access to land
C. Safety
D. Security
E. Projects
F. Human resources
G. Exploration
H. Environmental incidents
I. Potential actions by the government

Shows where there is a difference between the risk rating and risk appetite and sets out what action is being taken; gives a clear indication of where there have been changes in each risk during the year, together with an explanation.

Illustrates the balance between the impact and likelihood of risks.

Our approach for managing risk is underpinned by our understanding of our current risk exposures, risk appetite and how our risks are changing over time.

Risk	Risk rating	Risk appetite	Risk change during 2011	Description of risk change
A. Impact of global macroeconomic developments	High	High	↑	Considering the cyclical nature of metals prices the likelihood of a drop in the price of gold and silver has increased
B. Access to land	High	Medium	↑	More challenging negotiations for land in Mexico combined with an increase in requirement for land
C. Safety	High	Low	↑	Increased reliance on contractors, not all of whom are initially familiar or in compliance with our safety policies and procedures
D. Security	High	Low	↑	Increased state of insecurity in Mexico
E. Projects	High	Medium	—	We continue to mitigate project risk through our investment governance process and system of capital project controls
F. Human resources	Medium	Medium	↑	Greater competition for skilled personnel
G. Exploration	Medium	Medium	—	Continued investment in the exploration programme has stabilised this risk
H. Environmental incidents	Low	Low	↓	Mature environmental management programme continues to reduce the likelihood of a significant environmental incident
I. Potential actions by the government	Medium	Low	↑	Pressure for a mining tax in Mexico has increased. Mining taxes have recently been implemented in other Latin American countries (Chile and Peru), and Mexican legislators continue to take steps to move in this direction.

For those risks with a risk rating that is above our risk appetite, management takes action to reduce the level of risk. See Risk Response/Mitigation in the following table.

Tells the reader where they can go to find out more about those risks where the risk rating and risk appetite are out of balance.

10. What gets measured gets done
KPIs and remuneration

Identify key financial and operational KPIs used to assess progress against strategic priorities. Explain clearly how management are incentivised, highlighting the link between strategy, KPIs and the remuneration package.

The extent of alignment between strategy, reported KPIs and remuneration policy is a good test of the quality of management's strategic thinking. When that alignment is lacking, it raises questions: how can management know the business is on track to deliver its strategic aims? How is management incentivised to deliver strategic success? Does the strategy presented reflect internal reality or is it merely cosmetic? Many companies state there is an alignment, but it is often difficult for the reader to confirm whether this is in fact the case. We are seeing a small improvement, with more transparent and clear reporting of the drivers of executive remuneration and increased use of tables and charts to show the links.

What companies are doing today:

- **93%** explicitly identify KPIs (2011: 93%)
- **78%** make some reference to KPIs driving executive remuneration (2011: 75%)
- **29%** provide targets for KPIs. (2011: 25%)
- **62%** have some alignment of KPIs with strategy, with a further 24% (18%) explicitly linked through tables, numbering, colours etc (2011: 65%)
- **25%** have detailed alignment of multiple KPIs and executive remuneration (2011: 20%)

Source: PwC 2012 review of narrative reporting

> *'Management action is inextricably linked to the structure of their compensation. Simple and clear communication of the KPIs that govern pay is critical'*
>
> Analyst

Example:

Scottish and Southern annual report 2012 *(pages 17, 54 and 79)*

Links remuneration to company strategy by using some of the company's key performance indicators to measure executive performance.

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Remuneration and performance

Executive Directors' salary and incentive plans 2011/12

Performance measure	Purpose – link to strategy	Policy and decisions
Base salary		
	Reflects market data, role, business and individual performance measured against SSE's strategy as set out on pages 1 to 53.	Following an increase in responsibilities the Finance Director and the Generation and Supply Director received a one-off increase of 10%. Following the annual review in March 2012 the salary for the Chief Executive was increased by 3.5%, the first increase since January 2009.
Annual Incentive Scheme		**Range of 25%-30% awarded**
The Annual Incentive Scheme is determined by the Remuneration Committee's assessment of the performance during the year, based on the three key areas below: corporate performance; teamwork; and achievement of objectives.	The performance targets are clearly linked to SSE's strategy, which is to deliver sustained real growth in the dividend through the efficient operation of, and investment in, a balanced range of energy businesses.	Maximum award of up to 100% of base salary: 75% in cash (non-pensionable); 25% compulsorily deferred into shares which only vest, subject to continued service, after three years. There is no share matching award in place.
Corporate performance (60%) Group corporate performance is measured by adjusted profit before tax*, which reflects the underlying profits of SSE's business and the basis on which it is managed.	**Corporate performance (60%)** Sustained real dividend growth can only be delivered if it is supported by an adequate level of adjusted profit before tax*. At the same time, the long-term nature of SSE's dividend commitments means that adjusted profit before tax* has to be earned in a way that is responsible and durable.	**Corporate performance (max 60%)** During 2011/12, SSE delivered a 2% increase in adjusted profit before tax*, which would have resulted in a payment under this element. It was, however, decided that there should be no payment in view of the situation in respect of SSE's doorstep selling activities.
Teamwork (20%) Teamwork is measured by performance against the 'SSE SET' of core values: Safety; Service; Efficiency; Sustainability; Excellence; and Teamwork. Performance against these values is assessed through SSE's performance management process.	**Teamwork (20%)** SSE believes it will only be successful financially if it exercises a wider corporate responsibility to others, such as customers and employees, on whom its success ultimately depends. Its core values summarise this approach.	**Teamwork (max 20%)** **Safety:** Total Recordable Injury Rate and working days lost through injury lowest ever. **Service:** Leading position among the major energy suppliers. **Efficiency:** Lowest-ever customer minutes lost in Southern distribution network. **Sustainability:** Renewable generation capacity up. **Excellence:** Culture of innovation reinforced around £70m of benefit from Licence to Innovate Scheme. **Teamwork:** Employee engagement score above average and upper quartile for first-time company. All of this resulted in an above-target payment of 75% of the maximum.
Personal objectives (20%) SSE believes personal objectives should form a part of the Annual Incentive Scheme. In keeping with its Teamwork value, SSE seeks to avoid potentially conflicting personal objectives. Focusing on operations and the investment programme, they are designed to support achievement of SSE's strategy and reinforce its values.	**Personal objectives (20%)** Personal objectives set during the year covered areas such as performance in respect of safety, customer service and delivery of new sources for generating electricity from renewable sources. Success in each of these areas is central to SSE's emphasis on efficient operations and investment to support dividend growth.	**Personal objectives (max 20%)** Overall, the Remuneration Committee concluded that progress was made in areas such as safety, customer service and renewable energy during 2011/12 and that individually and collectively the Executive Directors delivered strong performance during the year – resulting in payment in the range of 50%-75% of maximum.
Performance Share Plan 2009-2012		**0% awarded**
For awards granted in 2009 performance is measured against the following two elements over a three-year period.	The two elements of TSR and EPS reflect relative and absolute measures of performance.	Maximum award of 150% of base salary each year. Awards are released to the extent performance conditions are met.
Total Shareholder Return (TSR) → 100% vests at or above 75th percentile → 25% vests at median → straight-line basis between median and 75th percentile → no vesting of award if median performance not achieved	The relative TSR measure is dependent on SSE's relative long-term share price performance and dividend return. It is therefore directly linked to the strategic objective of sustained real dividend growth.	**TSR (max 50%)** Out-turn below median of FTSE 100 and 0% of TSR element awarded; the graph on page 81 reflects performance over a five-year period.
Adjusted Earnings per Share* (EPS) → 100% vests where EPS is 9% RPI → 25% vests where EPS is 3% above RPI → straight-line basis between 3% and 9% above RPI → no vesting if EPS minimum growth of RPI +3% is not achieved	Adjusted EPS* is used to monitor SSE's performance over the medium term because it is straightforward: it defines the amount of profit after tax that has been earned for each Ordinary Share. Profit is required to support the payment of, and increases in, the dividend.	**EPS (max 50%)** Out-turn growth below the EPS minimum growth target RPI+3% and 0% of EPS element awarded.

Key performance indicators

Adjusted profit before tax* – £m

2012	1,335.7
2011	1,310.1
2010	1,290.1
2009	1,253.7
2008	1,229.2

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Key performance indicators – SSE's core values

Safety: Total Recordable Injury Rate – per 100,000 hours worked

2012	0.11
2011	0.12
2010	0.14
2009	0.16
2008	N/A

Service: GB supply customer complaints to third parties

2012	896
2011	1,161
2010	1,231
2009	N/A
2008	N/A

Efficiency: Network customer minutes lost (South)

2008	2009	2010	2011	2012
67	66	65	64	60

Sustainability: Power station CO_2 emissions – g/kWh

2012	531
2011	504
2010	494
2009	491
2008	496

Excellence: Investment in 'smart' electricity grids – £m

2008	2009	2010	2011	2012
0.2	0.7	1.3	3.8	8.4

Teamwork: Number of employees

2012	19,489
2011	20,249
2010	20,177
2009	18,795
2008	16,892

11. Cracking the code
Corporate governance

Go beyond compliance and bring governance reporting to life by demonstrating the activities of the board, the skills and experiences each board member brings to the table and how they interact. Focus on what makes your company distinctive and set the tone from the top.

Too many companies still seem to believe that governance reporting is just a compliance exercise and that the people who matter pay little attention to it. The result is that governance reports continue to be about process and don't explain what the board and its committees have been focusing on during the year. However, a range of companies have broken out of this vicious circle and get value out of their reporting by showing how well they are governed in practice – including what the board stands for and how the board members work together effectively as a team.

What companies are doing today:

49% of Governance reports mention company's culture/values

34% clearly explain actual Board/ Committee activities in the year

25% of the audit committees of the largest companies are starting to provide some commentary on how they address the key judgements in the financial statements, although under 10% provide detailed insight

Source: PwC 2012 review of narrative reporting

'Do the work for the reader by drawing out relevant skills and experience of the board'

***Cutting clutter*, Financial Reporting Council (2011)**

'Focus should be on activities not policies'

***Cutting clutter*, Financial Reporting Council (2011)**

Example:

Berendsen annual report 2011 *(pages 47 and 49)*

Iain Ferguson CBE (56)
Non-executive director and
Chairman Designate

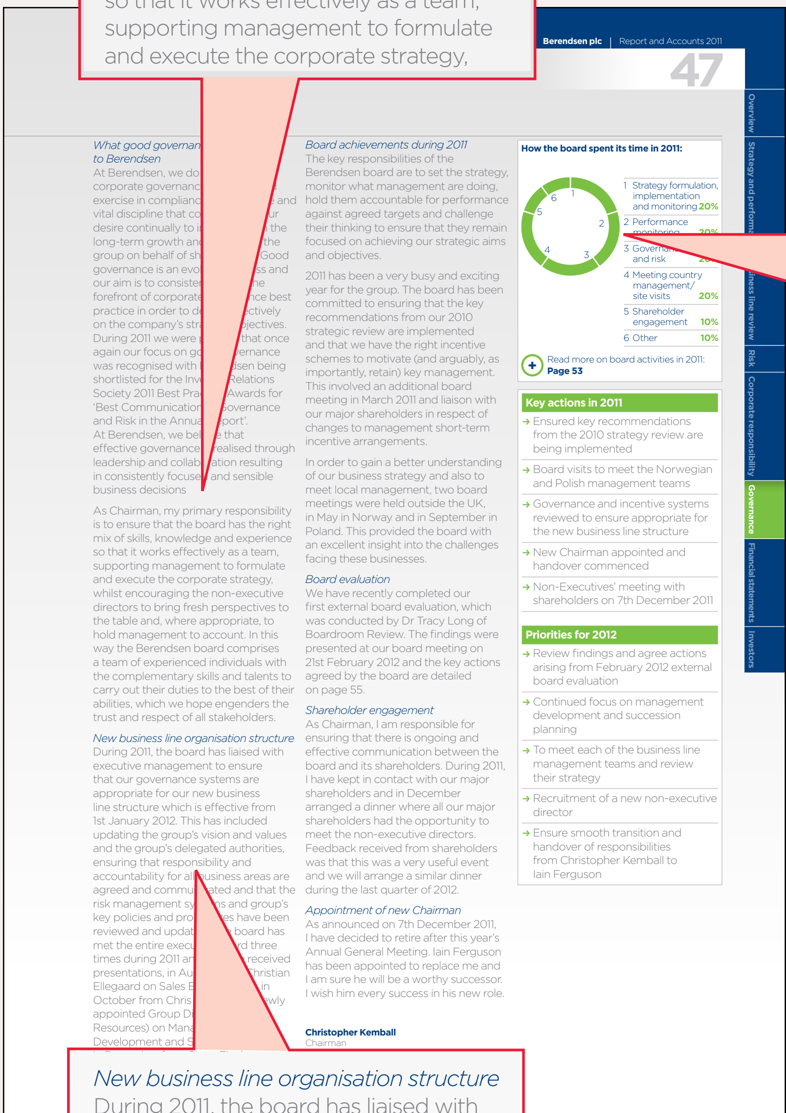
Key strengths:
- Chief Executive Officer experience with an international plc
- Extensive international strategic skills and experience of B2B and B2C businesses
- Significant M&A experience in Europe, USA and Asia
- Broadly based NED experience across the private and public sectors.
- Strong commercial skills

Says what directors bring to this board – not just a CV.

Clearly outlines the role of the chairman.

As Chairman, my primary responsibility is to ensure that the board has the right mix of skills, knowledge and experience so that it works effectively as a team, supporting management to formulate and execute the corporate strategy,

Sets out the board's activities and key actions at a glance.



Berendsen plc | Report and Accounts 2011

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Board achievements during 2011
The key responsibilities of the Berendsen board are to set the strategy, monitor what management are doing, hold them accountable for performance against agreed targets and challenge their thinking to ensure that they remain focused on achieving our strategic aims and objectives.

2011 has been a very busy and exciting year for the group. The board has been committed to ensuring that the key recommendations from our 2010 strategic review are implemented and that we have the right incentive schemes to motivate (and arguably, as importantly, retain) key management. This involved an additional board meeting in March 2011 and liaison with our major shareholders in respect of changes to management short-term incentive arrangements.

In order to gain a better understanding of our business strategy and also to meet local management, two board meetings were held outside the UK, in May in Norway and in September in Poland. This provided the board with an excellent insight into the challenges facing these businesses.

Board evaluation
We have recently completed our first external board evaluation, which was conducted by Dr Tracy Long of Boardroom Review. The findings were presented at our board meeting on 21st February 2012 and the key actions agreed by the board are detailed on page 55.

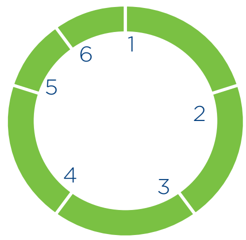
Shareholder engagement
As Chairman, I am responsible for ensuring that there is ongoing and effective communication between the board and its shareholders. During 2011, I have kept in contact with our major shareholders and in December arranged a dinner where all our major shareholders had the opportunity to meet the non-executive directors. Feedback received from shareholders was that this was a very useful event and we will arrange a similar dinner during the last quarter of 2012.

Appointment of new Chairman
As announced on 7th December 2011, I have decided to retire after this year's Annual General Meeting. Iain Ferguson has been appointed to replace me and I am sure he will be a worthy successor. I wish him every success in his new role.

Christopher Kemball
Chairman

Priorities for 2012
- → Review findings and agree actions arising from February 2012 external board evaluation
- → Continued focus on management development and succession planning
- → To meet each of the business line management teams and review their strategy
- → Recruitment of a new non-executive director
- → Ensure smooth transition and handover of responsibilities from Christopher Kemball to Iain Ferguson

How the board spent its time in 2011:



1 Strategy formulation, implementation and monitoring	**20%**
2 Performance monitoring	**20%**
3 Governance and risk	**20%**
4 Meeting country management/ site visits	**20%**
5 Shareholder engagement	**10%**
6 Other	**10%**

Key actions in 2011
- → Ensured key recommendations from the 2010 strategy review are being implemented
- → Board visits to meet the Norwegian and Polish management teams
- → Governance and incentive systems reviewed to ensure appropriate for the new business line structure
- → New Chairman appointed and handover commenced
- → Non-Executives' meeting with shareholders on 7th December 2011

New business line organisation structure
During 2011, the board has liaised with executive management to ensure that our governance systems are appropriate for our new business line structure which is effective from 1st January 2012. This has included updating the group's vision and values and the group's delegated authorities,

Brings the board's culture, skills and experience to bear on a real-life example.

12. Joining the dots
Integrated picture

Avoid silos and present a clear, coherent and integrated picture of how your strategy, governance, performance and prospects lead to long-term value creation. Consider how: the description of your business model links to your discussion of external drivers and strategy; strategy aligns with your KPIs and remuneration; and risks relate to the narrative elsewhere.

We have covered 11 core areas of reporting in the previous pages, and the recurring theme is the importance of companies being able to demonstrate, in a meaningful way, the links and inter-relationships between each area. Stand-alone statements of strategy or performance, markets or risks are not sufficient to enable stakeholders to assess the potential of a company to create value now and in the future.

Our findings show that companies are gradually becoming better at demonstrating closer alignment within the existing content through the use of summary spreads, cross-referencing, and consistency of content and language. However, much of the reporting remains 'combined or included' rather than integrated.

Few, if any, companies are really demonstrating a deep understanding of the inter-relationships between all the critical elements of reporting; and few are challenging the traditional way of reporting to explain more clearly their prospects for long-term value creation – a key aspect of integrated reporting.

The gradual improvement reflected in our findings demonstrates the size of the challenge. Companies can only meaningfully report in an integrated way if this joined up picture is mirrored internally. 'Integrated thinking', as the International Integrated Reporting Council has coined it, is therefore critical to integrated reporting. It is also a key benefit identified by those participating in the IIRC pilot programme who have started to challenge their reporting to become more integrated.

What companies are doing today:

62% have some alignment of KPIs with strategy with 24% explicitly linked through tables, numbering, colours etc
2011 *65%*

38% have some integration between business model and other reporting areas, most commonly sustainability (33%)

24% provide explicit linkage between discussion on business models and performance measures

28% of reports fully integrate reporting on strategy with the rest of the report
2011 *20%*

21% the external drivers provides clear context for strategy
2011 *20%*

10% of companies do not discuss the principal risks reported elsewhere in the narrative report
2011 *14%*

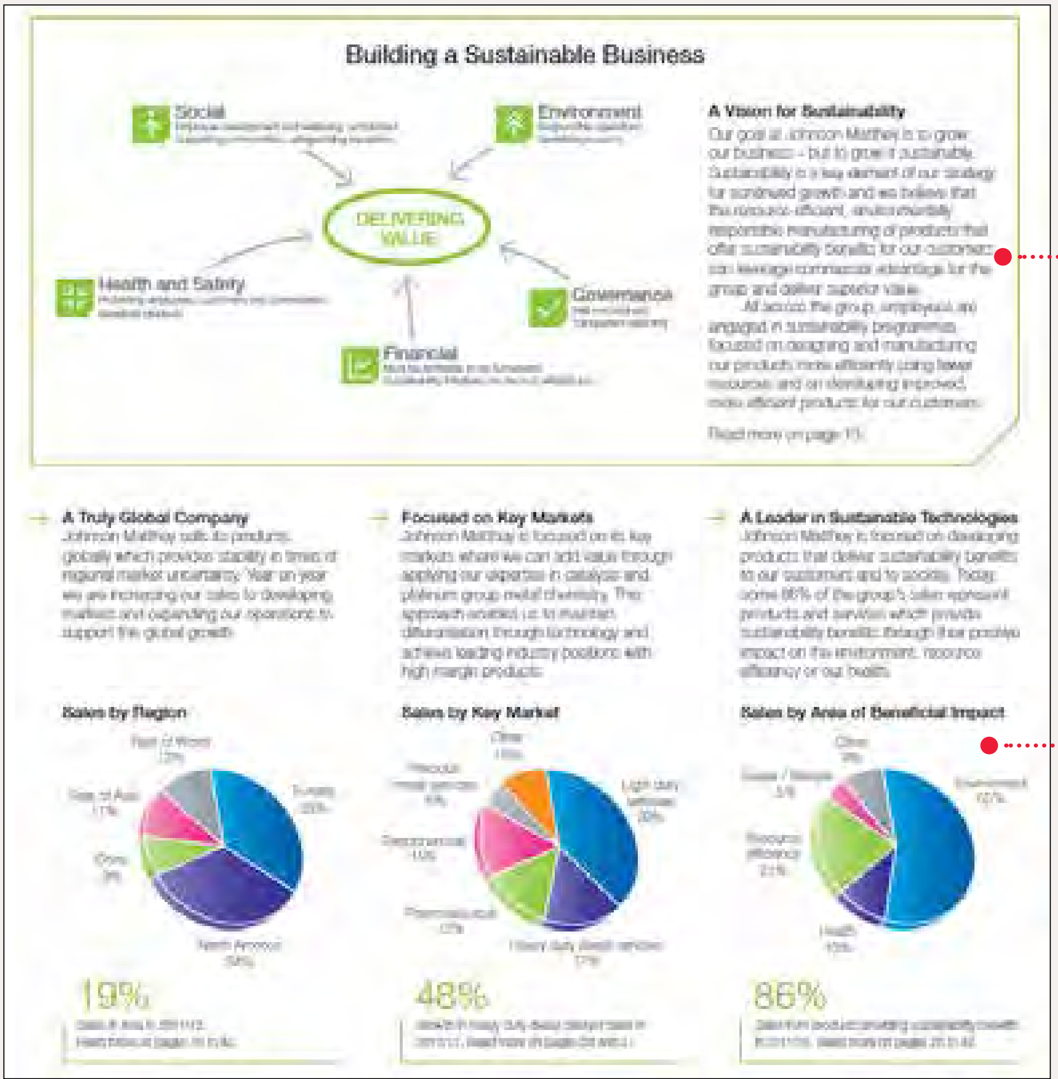
Source: PwC 2012 review of narrative reporting

'For us, integrated reporting came at exactly the right time…it allowed us to overhaul how we look at ourselves, manage our business, engage with our stakeholders and tell our story, all at the same time'

Head of investor relations

Example:

Johnson Matthey annual report 2011 *(pages 11 and 17)*



Identifies the key elements for building a sustainable business.

Provides a clear overview of the key strengths of the business, incorporating key aspects of sustainability.

Progress Towards Sustainability 2017

Sustainability 2017 Target	Sustainability 2017 Key Performance Indicators	Baseline 2007	2012[1]	Target	Progress
At least double earnings per share	Underlying earnings per share (pence)	62.2[2]	**153.7**	154.4	
Halve carbon intensity	Global warming potential (tonnes CO_2 eq / £ million sales)	294[2]	**156**	147	
Achieve zero waste to landfill	Waste to landfill (tonnes)	16,555[2]	**10,708**	0	
Halve key resources per unit of output	Electricity consumption (GJ / £ million sales)	1,098[3]	**626**	549	
	Natural gas consumption (GJ / £ million sales)	1,604[2]	**1,012**	802	
	Water consumption (m^3 '000 / £ million sales)	1.426[3]	**0.822**	0.713	
Achieve zero greater than three day accidents	Annual greater than three day accident rate per 1,000 employees	n/a	**2.07**	0	
Reduce occupational illness cases by at least 30% by 2013/14	Annual incidence of occupational illness cases per 1,000 employees	5.3[4]	**3.5**	3.7	

[1] Data presented is for the period 1st April 2011 to 31st March 2012.
[2] Data presented is for the period 1st April 2006 to 31st March 2007.
[3] Data presented is for the period 1st January 2006 to 31st December 2006.
[4] Baseline is incidence of occupational illness cases per 1,000 employees in calendar year 2006.

Reports progress towards the group's 'Sustainability 2017' vision within its performance review section. Incorporates both financial and non-financial performance relative to clear targets.

Staying informed

World Watch magazine

Governance, reporting and assurance

Interviews, opinion articles, case studies and worldwide news, published twice a year, on issues and developments that affect our ability to build and sustain public trust.

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What does effective reporting look like?

Over 200 examples of good practice reporting

Knowing what 'excellence in reporting' looks like in practice can be a challenge – this collection of over 200 real good practice examples addresses that. It can be searched by industry, region, reporting topic, company. Visit 'good practices' at www.pwc.com/corporatereporting

Contacts

PwC has a strong network of people who can advise you on how to develop your reporting to best meet the needs of your business, the board and external stakeholders. To discuss reporting insights for your organisation, please speak to your usual contact or one of these people:

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