12 reporting tips
What does your reporting say about you?
### 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 than 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.
The need for change

Business information and reporting 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.

It used to be enough for companies to point to continued growth in the financial numbers as justification that their strategy was working. Financial numbers are still important, but they have become increasingly volatile and the physical and financial assets behind them represent an ever smaller proportion of companies’ market value. This is because the value of intangibles – such as people, R&D and brands – has grown dramatically.

Both management and external stakeholders – such as investors, customer and employees - need a more holistic information set that communicates how all these factors affect the quality and sustainability of performance. Communicating this effectively can secure capital and credit, help win the war for talent, develop strong relationships and build trust in your business.

12 reporting tips and 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 engagement 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.

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)

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
- **47%** provide strategic targets/timeframes for some strategic priorities – only 7% (10%) provide targets/timeframes for all priorities
- **28%** base reporting on strategic themes
- **27%** have detailed explanation of actions taken to deliver strategic priorities
- **21%** provide comprehensive and quantified information on progress against each strategic priority

‘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
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 priorities and to report on our key performance indicators for our own benefit as well as the benefit of our stakeholders.

Our strategic objectives
1. Grow in new markets and vertical sectors
   - We are already one of the largest global players in infrastructure and construction. To maintain this pace of investment it is actively promoting our presence and earnings in new geographies and resource-rich areas such as Brazil, India, Australia and Canada and we are identifying our focus on high-growth sectors such as power, rail, mining and transportation.

2. Deliver greater value to the customer
   - Many of our customers now expect our services to be provided not only to the right technical specification, but also to ensure our performance and cost-effectiveness.

3. Improve operational performance and cost-effectiveness
   - Our unique breadth of capabilities and our wide geographical presence allows us to provide a more efficient service to customers.

4. Continue to show leadership in values and behaviour
   - To be recognised as the leading provider of infrastructure solutions and services – and to become a sustainable, long-term future for the Group – we must also be a leader in areas such as ethics, health and the environment.

Our key performance indicators
- Order book
  - +5%
  - +12%

- Revenue
  - +5%

- Earnings
  - +12%

Principal risks

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

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

Our business

Strategic performance

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

1. Grow in new markets and vertical sectors
   - We are already one of the largest global players in infrastructure and construction. To maintain this pace of investment it is actively promoting our presence and earnings in new geographies and resource-rich areas such as Brazil, India, Australia and Canada and we are identifying our focus on high-growth sectors such as power, rail, mining and transportation.

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4. Continue to show leadership in values and behaviour
   - To be recognised as the leading provider of infrastructure solutions and services – and to become a sustainable, long-term future for the Group – we must also be a leader in areas such as ethics, health and the environment.

Why is this important?
   - We don’t want our growth to be constrained by the pace of growth in our traditional markets. The benefits of our capabilities are required to take. In 2011 we published a Code of Conduct for all areas where we have transferable expertise across infrastructure and construction sectors.

What are we doing?
   - To continue to grow, we need to maintain our existing core markets and create new opportunities. For them, providing an asset is not an end in itself. They are working to develop our position in new geographies and resource-rich areas such as Brazil, India, Australia and Canada and we are identifying our focus on high-growth sectors such as power, rail, mining and transportation.

What’s next?
   - This is how we addressed our four strategic priorities in 2011:
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%** 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%** use graphics to help explain their business model.
- **8%** have clear integration between the business model and other reporting areas, such as sustainability, risks and strategy.
- **44%** 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.

- **2-3 years**
  - ARM research & development
  - Cost incurred

- **3-4 years**
  - Partnership chip development
  - Licence revenue

- **20+ years**
  - Multiple applications development & sales
  - Royalty revenue

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.

**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
The primary markets in which Shanks operates are set out on page 6. The demand dynamics, our strengths in these markets, the competitive environment and growth opportunities are explained below.

Across the world, governments are urging the waste industry to support them in recovering more resources and energy from waste. The driving factors behind this are climate change, the price and security of fossil fuels and the need for society at large to develop sustainable waste solutions. Through legislation and fiscal incentives, governments are forcing and encouraging everyone to think about recovering more resources from waste.

The chart below shows the waste management cycle and where we operate. Shanks has a distinct position in this industry structure and we have a reputation as a leading provider of sustainable alternatives to landfill and mass incineration. We focus our activities on sustainable waste solutions and 'making more from waste'.

The market in which we operate clearly illustrates the areas of the waste management market the company operates in.

There are a number of external factors that influence the success of our business and future earnings growth. These drivers are set out and discussed below.

It is recognised that more sustainable forms of waste management have a role to play in accelerating the move to a low carbon economy. In short we have to make more from the waste we create.

The driving forces behind our industry are climate change, greenhouse gas emissions, fossil fuel dependency and society's need to manage waste without damaging the environment.

Biodegradable waste in landfill is a major source of methane emissions to the atmosphere. Methane is a potent greenhouse gas with 21 times the impact of a carbon dioxide emission of the same mass.

Governments globally are responding with legislation and fiscal incentives to drive change.

Waste management is an essential service. In the countries where the Group operates, there is a high level of regulation and enforcement and increasingly it is becoming a sophisticated industry using advanced technologies.

The specific legislative drivers, both regulation and environmental taxation, are:

Landfill tax: This is the key measure that is driving change in the industry. This tax is used by many European states to divert waste from landfill to more environmentally acceptable options such as recycling and energy recovery. The UK Government has announced that landfill tax rates will increase by £8 per tonne per annum to £80 per tonne by 2014/15, and moving towards rates in the Benelux of circa €90 per tonne. The level in the UK from 1 April 2012 was £64 per tonne.

Green electricity certificates: Provide a clear overview of the key growth drivers both macro and regulatory.

Carbon credits: Increasing need for cost-effective, sustainable waste management solutions

Economic pressures and limited capital: Regulatory and legislative

Example:
Shanks Group annual report 2012 (pages 22 and 29)
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
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.

6 Tax charged in the financial statements in 2011

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

<table>
<thead>
<tr>
<th>All amounts are in US$ millions</th>
<th>Corporate income tax</th>
<th>Other tax charges</th>
<th>Total tax borne</th>
<th>Net indirect tax paid/(refunded)</th>
<th>Net tax payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total included in Group income statement</td>
<td>6,946</td>
<td>3,704</td>
<td>10,650</td>
<td>10,650</td>
<td>10,650</td>
</tr>
<tr>
<td>Less deferred tax included above</td>
<td>(314)</td>
<td>–</td>
<td>(314)</td>
<td>–</td>
<td>(314)</td>
</tr>
<tr>
<td>Accrued tax paid less payments due after 2011</td>
<td>(130)</td>
<td>748</td>
<td>622</td>
<td>622</td>
<td>622</td>
</tr>
<tr>
<td>Net indirect tax collected/(refunded)</td>
<td>–</td>
<td>–</td>
<td>(719)</td>
<td>(719)</td>
<td>(719)</td>
</tr>
<tr>
<td>Total tax paid in the year</td>
<td>6,506</td>
<td>4,452</td>
<td>10,958</td>
<td>10,239</td>
<td>10,239</td>
</tr>
<tr>
<td>All amounts are in US$ millions</td>
<td>Corporate income tax</td>
<td>Other tax charges</td>
<td>Total tax borne</td>
<td>Net indirect tax paid/(refunded)</td>
<td>Net tax payments</td>
</tr>
<tr>
<td>Parent companies and subsidiaries</td>
<td>6,197</td>
<td>4,416</td>
<td>10,613</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-controlled entities</td>
<td>309</td>
<td>36</td>
<td>345</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total tax paid in the year</td>
<td>6,506</td>
<td>4,452</td>
<td>10,958</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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:

Of companies with debt:

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>89%</td>
<td>have debt</td>
</tr>
<tr>
<td>32%</td>
<td>have annualised debt maturity information</td>
</tr>
<tr>
<td>43%</td>
<td>mention covenants – only 15% (15%) in a detailed way</td>
</tr>
<tr>
<td>53%</td>
<td>have a reconciliation of movements in net debt</td>
</tr>
</tbody>
</table>

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)**

**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

<table>
<thead>
<tr>
<th>Maturity</th>
<th>Debt (£m)</th>
<th>Interest on debt (£m)</th>
<th>Obligations under finance leases (£m)</th>
<th>Finance charge on obligations under finance leases (£m)</th>
<th>Trade payables and other liabilities not in net debt (£m)</th>
<th>Total (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due in less than one year</td>
<td>(2,665)</td>
<td>(750)</td>
<td>(34)</td>
<td>(3)</td>
<td>(6,799)</td>
<td>(10,162)</td>
</tr>
<tr>
<td>Between one and two years</td>
<td>(1,613)</td>
<td>(636)</td>
<td>(24)</td>
<td>(3)</td>
<td>(2,233)</td>
<td>(2,499)</td>
</tr>
<tr>
<td>Between two and three years</td>
<td>(968)</td>
<td>(558)</td>
<td>(15)</td>
<td>(3)</td>
<td>(59)</td>
<td>(1,603)</td>
</tr>
<tr>
<td>Between three and four years</td>
<td>(1,333)</td>
<td>(515)</td>
<td>(11)</td>
<td>(1)</td>
<td>(61)</td>
<td>(1,921)</td>
</tr>
<tr>
<td>Between four and five years</td>
<td>–</td>
<td>(463)</td>
<td>(3)</td>
<td>(1)</td>
<td>(5)</td>
<td>(472)</td>
</tr>
<tr>
<td>Between five and ten years</td>
<td>(2,816)</td>
<td>(1,784)</td>
<td>(8)</td>
<td>–</td>
<td>(22)</td>
<td>(4,630)</td>
</tr>
<tr>
<td>Greater than ten years</td>
<td>(5,422)</td>
<td>(4,785)</td>
<td>–</td>
<td>–</td>
<td>(5)</td>
<td>(10,212)</td>
</tr>
<tr>
<td>Gross contractual cash flows</td>
<td>(14,817)</td>
<td>(9,491)</td>
<td>(95)</td>
<td>(11)</td>
<td>(7,105)</td>
<td>(31,519)</td>
</tr>
</tbody>
</table>

#### At 31 December 2010

<table>
<thead>
<tr>
<th>Maturity</th>
<th>Debt (£m)</th>
<th>Interest on debt (£m)</th>
<th>Obligations under finance leases (£m)</th>
<th>Finance charge on obligations under finance leases (£m)</th>
<th>Trade payables and other liabilities not in net debt (£m)</th>
<th>Total (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due in less than one year</td>
<td>(2,595)</td>
<td>(763)</td>
<td>(32)</td>
<td>(5)</td>
<td>(6,289)</td>
<td>(7,311)</td>
</tr>
<tr>
<td>Between one and two years</td>
<td>(2,564)</td>
<td>(756)</td>
<td>(27)</td>
<td>(5)</td>
<td>(176)</td>
<td>(3,530)</td>
</tr>
<tr>
<td>Between two and three years</td>
<td>(1,603)</td>
<td>(638)</td>
<td>(18)</td>
<td>(3)</td>
<td>(35)</td>
<td>(2,247)</td>
</tr>
<tr>
<td>Between three and four years</td>
<td>(962)</td>
<td>(559)</td>
<td>(11)</td>
<td>(2)</td>
<td>(57)</td>
<td>(1,519)</td>
</tr>
<tr>
<td>Between four and five years</td>
<td>(1,368)</td>
<td>(538)</td>
<td>(7)</td>
<td>(1)</td>
<td>(7)</td>
<td>(1,921)</td>
</tr>
<tr>
<td>Between five and ten years</td>
<td>(2,831)</td>
<td>(2,043)</td>
<td>(8)</td>
<td>–</td>
<td>(21)</td>
<td>(4,913)</td>
</tr>
<tr>
<td>Greater than ten years</td>
<td>(5,425)</td>
<td>(5,073)</td>
<td>–</td>
<td>–</td>
<td>(12)</td>
<td>(10,450)</td>
</tr>
<tr>
<td>Gross contractual cash flows</td>
<td>(15,012)</td>
<td>(10,312)</td>
<td>(103)</td>
<td>(16)</td>
<td>(6,590)</td>
<td>(32,033)</td>
</tr>
</tbody>
</table>

### Example:
**National Grid annual report 2012 (page 150)**

#### (b) Analysis of changes in net debt

<table>
<thead>
<tr>
<th>Date</th>
<th>Cash ( £m)</th>
<th>Bank overdrawn ( £m)</th>
<th>Net cash and cash equivalents ( £m)</th>
<th>Financial investments ( £m)</th>
<th>Borrowings ( £m)</th>
<th>Derivatives ( £m)</th>
<th>Total debt ( £m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 April 2009</td>
<td>737</td>
<td>(17)</td>
<td>720</td>
<td>2,197</td>
<td>(20,778)</td>
<td>1,166</td>
<td>(22,675)</td>
</tr>
<tr>
<td>Cash flow</td>
<td>(333)</td>
<td>(13)</td>
<td>(546)</td>
<td>1,561</td>
<td>2,833</td>
<td>(133)</td>
<td>4,000</td>
</tr>
<tr>
<td>Fair value gains and losses on derivatives</td>
<td>(1)</td>
<td>–</td>
<td>(1)</td>
<td>2</td>
<td>644</td>
<td>220</td>
<td>885</td>
</tr>
<tr>
<td>Interest charge</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>24</td>
<td>(1,042)</td>
<td>22</td>
<td>(998)</td>
</tr>
<tr>
<td>At 31 March 2010</td>
<td>720</td>
<td>(20)</td>
<td>691</td>
<td>1,397</td>
<td>(35,059)</td>
<td>868</td>
<td>(22,139)</td>
</tr>
<tr>
<td>Cash flow</td>
<td>(333)</td>
<td>(13)</td>
<td>(546)</td>
<td>1,561</td>
<td>2,833</td>
<td>(133)</td>
<td>4,000</td>
</tr>
<tr>
<td>Fair value gains and losses on derivatives</td>
<td>(1)</td>
<td>–</td>
<td>(1)</td>
<td>2</td>
<td>644</td>
<td>220</td>
<td>885</td>
</tr>
<tr>
<td>Interest charge</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>24</td>
<td>(1,042)</td>
<td>22</td>
<td>(998)</td>
</tr>
<tr>
<td>Other non-cash movements</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>At 31 March 2011</td>
<td>384</td>
<td>(42)</td>
<td>342</td>
<td>2,939</td>
<td>(23,156)</td>
<td>1,444</td>
<td>(18,731)</td>
</tr>
<tr>
<td>Cash flow</td>
<td>(333)</td>
<td>(13)</td>
<td>(546)</td>
<td>1,561</td>
<td>2,833</td>
<td>(133)</td>
<td>4,000</td>
</tr>
<tr>
<td>Fair value gains and losses on derivatives</td>
<td>(1)</td>
<td>–</td>
<td>(1)</td>
<td>2</td>
<td>644</td>
<td>220</td>
<td>885</td>
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<td>Interest charge</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>24</td>
<td>(1,042)</td>
<td>22</td>
<td>(998)</td>
</tr>
<tr>
<td>Other non-cash movements</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>At 31 March 2012</td>
<td>332</td>
<td>(33)</td>
<td>299</td>
<td>2,391</td>
<td>(22,992)</td>
<td>705</td>
<td>(19,597)</td>
</tr>
</tbody>
</table>

#### Notes:
- Includes accrued interest at 31 March 2012 of £378m (2011: £162m).
- Balances at 31 March 2012 comprise:
  - Non-current assets: £1,819
  - Current assets: £317
  - Current liabilities: £2,948
  - Non-current liabilities: £2,033
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
- **20%** comprehensively embed sustainability in overall strategy
- **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.

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.

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 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.

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?

But capitalism is not a panacea. For those people whose lives are the most affected by climate change, the market has failed us. As a result we live in a world where the concentration of natural capital is becoming an increasing factor for businesses. The Plan will result in three significant outcomes:

1. Consumers want 2. The market has failed us. We need to halve the environmental footprint of our products, but we can only do so if our business model delivers business growth and is increasingly seen as more desirable.

3. It fuels innovation.

The Unilever Sustainability Plan is the world’s most focused sustainability programme. We have committed to the following:

1. Encouraging people to change how they view nutrition and health – in order to live within the natural limits of the planet.

2. It helps us to deliver on our ambitions.

3. It fuels innovation.

As a business we cannot choose between growth and sustainability. We need to find new models of growth. The best businesses know this.

The Un's Scaling up nutrition (SUn) initiative can feed 2 billion people. We believe that many of these factors will continue for the foreseeable future. The UN predicts that the world’s population will increase by 2 billion people by 2050. Which means a prospect of another 2 billion people on the planet by 2050.

We will help people move to a more sustainable way of using our resources and reduce the current rate of consumption of scarce resources.

BUSINESS MODEL

As a FMCG (fast-moving consumer goods) company, our business model revolves around 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 measurement 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.

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 (USLBP) makes the full business case for sustainability.

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.

For businesses, this means:

1. Knowing our people. For us to create a sustainable, growing business, we must first know our people, ourselves and where we are coming from – considering our journey so far.

2. Knowing our planet. For us to create a sustainable, growing business, we must know how we interact with our planet, develop the business case for sustainability and find new models of growth – considering our journey so far.

3. Knowing our business. For us to create a sustainable, growing business, we must find new models of growth, new business cases for sustainability and new tools to embed sustainability into our business model – considering our journey so far.

4. Knowing our strategy. For us to create a sustainable, growing business, we must align our sustainability efforts with our business strategy now includes innovation.

5. Knowing our performance. For us to create a sustainable, growing business, we must embed sustainability into our 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.

6. Knowing our people. For us to create a sustainable, growing business, we must align our sustainability efforts with our business strategy now includes innovation.

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 little or no sugar or salt
- Biodegradable packaging
- Concentrated detergents
- Easy to recycle

Behaviour change programmes

- The Unilever handwashing programme
- Signal / Pepsodent Brush Day and Signal/Leaves for Change: marketing

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:

- We have established a £1 million Partnership Fund to help farmers
- Ben & Jerry’s are asking Fairtrade to certify their key ingredients
- Our Sustainable Agriculture Code is an open source declaration available to our suppliers and others.

In 2008 we committed to draw all of our palm oil from certified sustainable sources by 2020:

- We will source all our cocoa sustainability by 2020
- RSPO

Our business strategy now includes innovation.
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%** have narrative consistent with segment notes (2011: 92%)
- **87%** report on drivers of financial performance in each segment – only 7% (27%) comprehensively communicate detailed financial performance at segment level (2011: 88%)
- **84%** report on external drivers at segment level (2011: 87%)
- **67%** set out strategic priorities for at least some segments (2011: 67%)
- **45%** 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 (2011: 55%)
- **18%** report on risks specific to each segment (2011: 18%)

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.

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.
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%** report non-GAAP measures. Of those that report non-GAAP measures, 51% (48%) clearly reconcile them to statutory reporting.
- **33%** clearly explain and quantify underlying drivers of financial performance.
- **56%** use graphics to support explanations of underlying 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

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PwC
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.

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.

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.

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.
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
- **24%** explain how risks have changed over time
- **43%** provide some cross-referencing between the risk reporting and other areas such as strategic priorities, external drivers, business model and performance
- **21%** provide insights into the impact vs probability of risks materialising

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
Trust through transparency

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

- **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 prioritize these risks with a focus on highlighting the principal risks to the achievement of our strategic objectives. Of the total risks identified, 26 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.

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

- **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.**

- **Illustrates the balance between the impact and likelihood of risks.**

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

- **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.**

---

<table>
<thead>
<tr>
<th>Risk</th>
<th>Impact of global macroeconomic developments</th>
<th>Access to land</th>
<th>Safety</th>
<th>Security</th>
<th>Projects</th>
<th>Human resources</th>
<th>Exploration</th>
<th>Environmental incidents</th>
<th>Potential actions by the government</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk rating</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
<td>Medium</td>
<td>Low</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Risk change during 2011</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
<td>Medium</td>
<td>Low</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Description of risk change</td>
<td>Considering the cyclical nature of metal prices the likelihood of a drop in the price of gold and silver has increased</td>
<td>More challenging negotiations for land in Mexico combined with an increase in requirement for land</td>
<td>Increased reliance on contractors, not all of whom are initially familiar or in compliance with our safety policies and procedures</td>
<td>Increased state of insecurity in Mexico</td>
<td>We continue to mitigate project risk through our investment governance process and system of capital project controls</td>
<td>Unsuitable competition for skilled personnel</td>
<td>Continued investment in exploration programmes has mitigated the risk</td>
<td>Maturity environmental management programme continues to reduce the likelihood of significant environmental incident</td>
<td>Pressure for 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 for new mining legislation.</td>
</tr>
</tbody>
</table>

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

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
### Key performance indicators – SSE’s core values

| Safety: Total Recordable Injury Rate – per 100,000 Hours worked |
|------------------|------------------|------------------|------------------|
| 2009              | 2010             | 2011             | 2012             |
| 1.9               | 1.6              | 1.3              | 0.7              |

| Efficiency: Network customer minute lost (SSE) |
|------------------|------------------|------------------|------------------|
| 2010              | 2011             | 2012             | 2013             |
| 0.17              | 0.16             | 0.13             | 0.12             |

| Sustainability: Power station LG, emissions – g/kWh |
|------------------|------------------|------------------|------------------|
| 2010              | 2011             | 2012             | 2013             |
| 0.8               | 0.7              | 0.6              | 0.5              |

| Excellence: Investment in smart activity grid – £m |
|------------------|------------------|------------------|------------------|
| 2010              | 2011             | 2012             | 2013             |
| 0.5               | 0.5              | 0.7              | 0.8              |

| Teamwork: Number of employees |
|------------------|------------------|------------------|------------------|
| 2010              | 2011             | 2012             | 2013             |
| 10,000            | 10,500           | 11,000           | 11,500           |

### Remuneration and performance

#### Executive Directors’ salary and incentive plans 2011/12

<table>
<thead>
<tr>
<th>Performance measure</th>
<th>Purpose – link to strategy</th>
<th>Policy and decisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base salary</td>
<td>Reflects market data, role, business and individual performance measured against SSE’s strategy as set out on pages 1 to 53.</td>
<td>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 7.5%, which took effect from January 2009.</td>
</tr>
<tr>
<td>Annual Incentive Scheme</td>
<td>The performance targets are closely 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. Corporate performance (60%) Group corporate performance is measured against adjusted profit before tax*, which reflects the underling profits of SSE’s business and the way in which it is managed.</td>
<td>Maximum award of up to 100% of base salary. 75% in cash (non-pensionable); 25% compulsorily deferred into shares which only vest, subject to continuous service, after three years. There is no share matching award in place.</td>
</tr>
<tr>
<td>Personal objectives (20%)</td>
<td>SSE believes personal objectives should form 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.</td>
<td>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 domestic retail activities.</td>
</tr>
</tbody>
</table>

#### Performance Share Plan 2009-2012

<table>
<thead>
<tr>
<th>Performance share plan target 2009-2012</th>
<th>Performance share plan target 2009-2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>For awards granted in 2010 performance is measured against the following two elements over the three year period.</td>
<td>For awards granted in 2013 performance is measured against the following two elements over the three year period.</td>
</tr>
<tr>
<td>Total Shareholder Return (TSR)</td>
<td>Total Shareholder Return (TSR)</td>
</tr>
<tr>
<td>100% vested or above 75th percentile</td>
<td>100% vested or above 75th percentile</td>
</tr>
<tr>
<td>25% vested or above median</td>
<td>25% vested or above median</td>
</tr>
<tr>
<td>no vesting if median performance not achieved</td>
<td>no vesting if median performance not achieved</td>
</tr>
</tbody>
</table>

#### Adjusted Earnings per Share (EPS)

<table>
<thead>
<tr>
<th>Adjusted Earnings per Share (EPS)</th>
<th>Adjusted Earnings per Share (EPS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% vested when EPS is above RPI</td>
<td>100% vested when EPS is above RPI</td>
</tr>
<tr>
<td>25% vested where EPS is 1% above RPI</td>
<td>25% vested where EPS is 1% above RPI</td>
</tr>
<tr>
<td>no vesting if EPS minimum growth of RPI+3% not achieved</td>
<td>no vesting if EPS minimum growth of RPI+3% not achieved</td>
</tr>
</tbody>
</table>

#### Group performance

- Total Recordable Injury Rate: The lowest-ever customer days lost through injury.
- Operational stock availability: The percentage of operational stock available.
- Total Recordable Injury Rate: The lowest-ever customer days lost through injury.
- Teamwork: Performance against these values is assessed through SSE’s performance management system.

#### Strategy

- Emphasis on efficient operations and investment generating electricity from renewable sources.
- Personal objectives: 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.

#### Shareholder information

- TSR (max 50%): The two elements of TSR and EPS reflect relative and absolute measures of performance.

#### Note

- Adjusted EPS is used to monitor SSE’s performance over the medium term because it is straightforward and defines the amount of profit after tax that has been earned for each Ordinary Share. Profit is required to support the payment of the dividend and increases in the dividend.

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**Example:**

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

<table>
<thead>
<tr>
<th>49%</th>
<th>of Governance reports mention company’s culture/values</th>
</tr>
</thead>
<tbody>
<tr>
<td>34%</td>
<td>clearly explain actual Board/Committee activities in the year</td>
</tr>
</tbody>
</table>

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:

Berenhden 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.

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

How the board spent its time in 2011:

- 20% Strategy formulation, implementation and monitoring
- 20% Performance monitoring
- 20% Governance and risk
- 20% Meeting country management/site visits
- 10% Shareholder engagement
- 10% Other

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
- New Chairman and board engaged in planning
- Non-Executives’ meeting with shareholders on 7th December 2011

Overview

Risk

Investors

Strategy and performance

Governance and incentive systems

Shareholder engagement

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.
- **28%** of reports fully integrate reporting on strategy with the rest of the report.
- **38%** have some integration between business model and other reporting areas, most commonly sustainability (33%).
- **21%** the external drivers provides clear context for strategy.
- **24%** provide explicit linkage between discussion on business models and performance measures.
- **10%** of companies do not discuss the principal risks reported elsewhere in the narrative report.

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.

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

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• What investors think of reporting
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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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Design & Media – The Studio21311 (10/12)