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The strategic report

A practical guide

December 2023

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Purpose

The purpose of the strategic report

The purpose of the strategic report is to inform shareholders of the company and help them assess how the directors have performed their duty under s172 of the Act to promote the success of the company for the benefit of the shareholders as a whole, and in doing so, have regard to:

- The likely consequences of any decisions in the long term
- The interests of the company's employees
- The need to foster the company's business relationships with customers and others
- The impact of the company's operations on the community and the environment
- The desirability of the company maintaining a reputation for high standards of business conduct
- The need to act fairly as between shareholders in the company.

The Companies Act 2006 (the 'Act') requires all companies, other than those that are small or would be small were they not part of an ineligible group, to prepare a separate narrative report called a strategic report in addition to their directors' report.

The Act's strategic report requirements comprise a complex set of layers. There are basic rules that apply to all companies required to prepare a strategic report, supplemented by additional requirements that apply to certain companies with more than 500 employees (Public Interest Entities (PIEs), AIM companies and large private companies with more than £500m turnover), Quoted companies and other large companies.

The scoping of the rules has been further complicated with the change to the non-financial and sustainability information statement, which is effective for accounting periods beginning on or after 6 April 2022. PIEs, Quoted companies and AIM companies, along with other large companies with more than £500m turnover, are required, if they have more than 500 employees, to include climate-related financial disclosures in their strategic report. These requirements are based on the Task Force for Climate-Related Financial Disclosures (TCFD) recommended disclosures and reflects the increasing focus by investors, regulators and the government on the impact of climate change on businesses. The aim is to ensure companies provide sufficient and relevant information to help a stakeholder understand the climate-related risks and opportunities a business faces together with the governance and risk management policies that the Board have put in place. In particular, investors require this information to enable them to make effective investment decisions.

In order to assist companies drafting their climate-related disclosures, BEIS have issued non-binding guidance.

All large companies[1] are also required to include a separate 'Section 172 Statement' in their strategic report that explains how the directors have had regard to broader stakeholder and other interests when performing their duty under section 172 of the Companies Act 2006 (Duty to promote the success of the company for the benefit of the members as a whole).

Whilst only Quoted companies and other PIEs with more than 500 employees are explicitly required to include a description of their business model and strategy and information on environmental matters, the company's employees and respect for human rights and other non-financial matters, the Financial Reporting Council's (the 'FRC') enforcement of the more generally applicable requirements is increasingly pushing these types of disclosures down to smaller companies as best practice.

The FRC has published non-mandatory guidance on the implementation of the strategic report requirements. In addition to providing guidance on the drafting of a strategic report, the FRC's guidance seeks to encourage the production of annual reports that are generally more relevant to shareholders' needs. It states they should provide a greater insight into the business by encouraging a report that 'tells the company's story' and provides a more forward-looking perspective on business risks, strategy and business model, and provides clear information on the company's development, performance and position.

Notwithstanding an increasing acknowledgement of other stakeholders' concerns, however, the FRC's guidance makes clear that information in the strategic report, and annual report more generally, should focus on that which is material to shareholders.

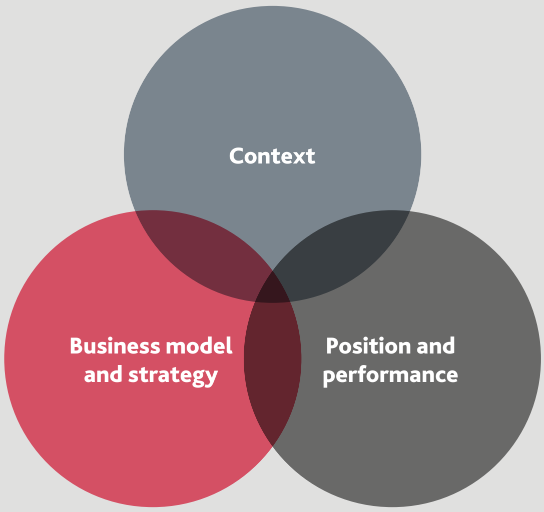
[1] Including large subsidiaries included in higher consolidations, parents and intermediate parent companies that are large only due to the size of the groups they head and companies that are only 'large' because they are ineligible companies or members of an ineligible group.

Purpose

The purpose of this guide is to enable preparers of annual reports to better understand what is required of them. It describes the sort of matters that should be considered when deciding on both the form and content of disclosures to be included in a strategic report. It may also be helpful to users and auditors as an aide mémoire of what to look for in a strategic report.

This guidance has been drafted with the aim of helping to produce a good strategic report, not one that merely meets the minimum disclosure requirements. The minimum requirements set out in the original legislative provisions are in the Links to the Legislation part of this guide.

A good strategic Report



A good strategic report should describe the environment in which a business exists (context); how the business interacts and reacts to the environment (business model and strategy); and, the result of these interactions and reactions (position and performance). A good strategic report should show clearly and concisely the interrelationships and interdependencies between these three elements.

Quoted vs PIE

The terms Quoted company and Public Interest Entity (PIE) are defined in company law. Broadly, a Quoted company is a company whose equity shares are included in the official list (such as the Main market of the London Stock Exchange), officially listed in an EEA state, or listed on NASDAQ or the New York Stock Exchange. A PIE is a company whose debt or equity securities are listed on an UK-regulated market or which is a banking company, an authorised insurance company or a company carrying on insurance market activity.

A company may be a Quoted company or a PIE or fall within the scope of both of the definitions.

Process

Context

Subject	Mandatory for	Activity	Disclosure requirement	Linkage examples
Principal risks and uncertainties	All companies required to prepare a strategic report	▶ Review risk management and/or other board deliberations on risk and include those considered by management to be the most important to the future of the business (normally characterised by regular monitoring and discussion of their likelihood and effect), covering commercial, operational and financial matters ▶ Draft disclosure that allows shareholders to understand why the specific risks and uncertainties highlighted are important. Avoid including generic material (eg exposure to economic downturn in general terms).	▶ The strategic report should include a description of the principal risks and uncertainties facing the company, together with an explanation of how they are managed or mitigated ▶ For a PIE with more than 500 employees, the strategic report should also, where relevant and proportionate, contain a description of the company's business relationships, products and services which are likely to cause adverse impacts on principal risks related to environmental matters, the company's employees, social matters, respect for human rights and anti-corruption and anti-bribery matters.	▶ How have risks or uncertainties affected business performance? ▶ To which part of the business model do the risks relate? ▶ What strategies have been developed to help mitigate or take advantage of the risk or uncertainty? ▶ Which KPIs are used to monitor risks or uncertainties?
Trends and factors	Quoted companies only (except if also a PIE with more than 500 employees)	▶ Identify the trends and factors that have been considered in budgeting and business planning ▶ Draft a concise explanation of the potential effect of the most significant factors.	▶ The strategic report should, to the extent necessary for an understanding of the development, performance or position of the company's business, include the main trends and factors likely to affect future development, performance or position of the business.	▶ Which KPIs demonstrate or monitor the trend or have been affected by the factor? ▶ Which strategies relate to particular trends or factors? ▶ How has performance been affected by the trend or factor? ▶ How is the business model related to the trend or factor?
Environmental matters	Quoted companies and PIEs with more than 500 employees only	▶ Consider and draft a description of the effect of the company's business on the environment ▶ Identify the policies the business has in respect of environmental matters ▶ Assess the effectiveness of those policies.	▶ The strategic report should, to the extent necessary for an understanding of the development, performance or position of the company's business, include information about environmental matters (including the impact of the company's business on the environment) ▶ For a PIE with more than 500 employees, this information should also be included if it is necessary for an understanding of the impact of the company's activities on the environment ▶ Information should include the company's policies and the effectiveness of those policies and, in the case of a PIE with more than 500 employees, any due diligence processes implemented by the company in pursuance of those policies and a description of the outcome of those policies.	▶ How have environmental matters affected or manifested themselves in the company's strategies? ▶ To which part of the business model do the environmental matters relate? ▶ Which KPIs are affected by the environmental matters? ▶ How have environmental matters affected or might affect performance? ▶ Do any of the principal risks of the company relate to environmental matters?

Process

Context (continued)

Subject	Mandatory for	Activity	Disclosure requirement	Linkage examples
Climate-related financial disclosures	PIEs and AIM companies with more than 500 employees and other private companies with turnover of more than £500 million and more than 500 employees.	▶ Identify both the climate related-related risks and the opportunities facing the business ▶ Consider and draft a description of the Boards governance and risk management procedures used to identify and manage climate-related risks and opportunities ▶ Consider engaging expert climate consultants to assist with both the drafting of the disclosures and to provide guidance and training for the Board ▶ Read the FCA and FRC reports into TCFD disclosures to provide guidance and examples of good reporting practice ▶ Ask challenging questions and make reasonable assumptions ▶ Where certain disclosures are omitted as they are considered not relevant for an understanding of the business, clarify the reasons for this.	▶ A description of the company's governance arrangements in relation to assessing and managing climate-related risks and opportunities ▶ A description of how the company identifies, assesses, and manages climate-related risks and opportunities ▶ A description of how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management process ▶ A description of: – The principal climate-related risks and opportunities arising in connection with the company's operations – The time periods by reference to which those risks and opportunities are assessed. ▶ A description of the actual and potential impacts of the principal climate-related risks and opportunities on the company's business model and strategy* ▶ An analysis of the resilience of the company's business model and strategy, taking into consideration different climate-related scenarios* ▶ A description of the targets used by the company to manage climate-related risks and to realise climate-related opportunities and of performance against those targets* ▶ A description of the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and of the calculations on which those key performance indicators are based* ▶ Where disclosures highlighted as above* are considered not relevant to the understanding of the business, those disclosures can be omitted. Where such disclosures are omitted, the directors must provide a clear and reasoned explanation of the directors' reasonable belief that forms the basis of any non-disclosure.	▶ How have climate-related risks and opportunities affected the company's strategy and business model? ▶ Do any of the principal risks of the company relate to climate change? ▶ Are the main trends and factors driven by climate-related issues? ▶ Which KPIs are affected by climate change risks and opportunities? ▶ Are the estimates, assumptions and judgements used in the climate-related financial disclosures consistent with those used in the financial statements?

Subject	Mandatory for	Activity	Disclosure requirement	Linkage examples
Employees	Quoted companies and PIEs with more than 500 employees only	▶ Consider and draft a description of the effect of the company's business on employees ▶ Identify the policies the business has in respect of its employees ▶ Assess the effectiveness of those policies.	▶ The strategic report should, to the extent necessary for an understanding of the development, performance or position of the company's business, include information on the company's employees ▶ For a PIE with more than 500 employees, this information should also be included if it is necessary for an understanding of the impact of the company's activities on its employees ▶ Information should include the company's policies and the effectiveness of those policies and, in the case of a PIE with more than 500 employees, any due diligence processes implemented by the company in pursuance of those policies, and a description of the outcome of those policies.	▶ How have employee matters affected or manifested themselves in the company's strategies? ▶ To which part of the business model do the employee matters relate? ▶ Which KPIs are affected by the employee matters? ▶ How have employee matters affected performance or how might they affect it? ▶ Do any of the principal risks of the company relate to employee matters?
Social, community and human rights issues	Quoted companies and PIEs with more than 500 employees only	▶ Consider and draft a description of the effect of the company's business on society, community and human rights ▶ Identify the policies the business has in respect of social, community and human rights issues ▶ Assess the effectiveness of those policies.	▶ The strategic report should, to the extent necessary for an understanding of the development, performance or position of the company's business, include information about social, community and human rights issues ▶ For a PIE with more than 500 employees, this information should also be included if it is necessary for an understanding of the impact of the company's activities on social issues or respect for human rights. A PIE with more than 500 employees is not required to provide the disclosures above in relation to community issues ▶ Information should include the company's policies and the effectiveness of those policies and, in the case of a PIE with more than 500 employees, any due diligence processes implemented by the company in pursuance of those policies and a description of the outcome of those policies.	▶ How have social, community and human rights issues affected or manifested themselves in the company's strategies? ▶ To which part of the business model do the social, community and human rights issues relate? ▶ Which KPIs are affected by the social, community and human rights issues? ▶ How have social, community and human rights issues affected performance or how might they affect it? ▶ Do any of the principal risks of the company relate to social, community or human rights matters?
Anti-corruption and anti-bribery matters	PIEs with more than 500 employees only	▶ Consider and draft a description of the effect of the risk of bribery and corruption on the company's business ▶ Identify the policies the business has in respect of bribery and corruption ▶ Assess the effectiveness of those policies.	▶ The strategic report should, to the extent necessary for an understanding of the development, performance and position of the company's business, or of the impact of its activities, include information on anti-corruption and anti-bribery matters ▶ The information should include a description of the policies pursued by the company in relation to anti-corruption and anti-bribery matters, any due diligence processes implemented by the company in pursuance of those policies and a description of the outcome of those policies.	▶ How have anti-corruption and anti-bribery matters affected or manifested themselves in the company's strategies? ▶ To which part of the business model do the anti-corruption and anti-bribery matters relate? ▶ How have anti-corruption and anti-bribery matters affected or might affect performance? ▶ Do any of the principal risks of the company relate to anti-corruption and anti-bribery matters?

Process

Context (continued)

Subject	Mandatory for	Activity	Disclosure requirement	Linkage examples
Absence of information	Quoted companies only (except if also a PIE with more than 500 employees)	▶ Identify matters on which the company has provided no disclosures.	▶ If the company has not provided information on environmental matters, employees or social, community and human rights issues, state what information is not included in the strategic report.	▶ n/a
Absence of policies	PIEs with more than 500 employees only	▶ Identify matters on which the company has no policies ▶ Where relevant, ascertain reason for the absence of a policy.	▶ If the company does not pursue policies in relation to environmental matters, employees, social matters, respect for human rights, or anti-corruption and anti-bribery matters, the strategic report must provide a clear and reasoned explanation for not doing so.	▶ n/a

Business model and strategy

Subject	Mandatory for	Activity	Disclosure requirement	Linkage examples
Business model	Quoted companies and PIEs with more than 500 employees	▶ Identify the key ways in which the company creates and captures value ▶ Draft material, or adapt existing material, to express the business model in the context of the way the market operates, demonstrating how the company engages with that market in terms of its major products, services, customers and distribution methods ▶ In addition the disclosure should give an understanding how the company is structured and the inputs that are necessary for it to be successful in executing its model.	▶ The strategic report should include a description of the company's business model.	▶ How does the business model relate to the business segments disclosed in the financial statements? ▶ Which KPIs are most relevant to which part of the business model? ▶ How do the matters highlighted in the context section interact with the company's business model?
Strategy	Quoted companies only	▶ Identify material currently available relating to the company's strategy ▶ Identify any formal existing expression of the business's objectives ▶ Re-draft in a concise manner.	▶ Identify material currently available relating to the company's strategy ▶ Identify any formal existing expression of the business's objectives ▶ Re-draft in a concise manner.	▶ To which part of the business model do the strategies relate? ▶ Which KPIs measure progress against strategies? ▶ To which risks or trends do the strategies relate?

Section 172 statement

Subject	Mandatory for	Activity	Disclosure requirement	Linkage examples
Section 172 Statement	All 'large' companies, except those that qualify for the small companies' strategic report exemption (ie those that would be small other than for the fact that they are members of an ineligible group)	▶ Determine the issues, factors and stakeholders the directors consider relevant in complying with section 172(1)(a) to (f) and the reasons for that opinion ▶ Understand how the directors have had regard to the matters set out in s172(1)(a) to (f) when performing their duty under section 172 of the Companies Act 2006 to promote the success of the company for the benefit of its membersas a whole ▶ Assess how the directors' activities have affected board actions and decisions made.	▶ Our tips for preparing the section 172 statement document looks at how to go about preparing the section 172 statement and what should be included within it ▶ The FRC released their publication 'reporting on stakeholders, decisions and Section 172' which provides guidance on preparing the section 172 statement together with examples from current reporting practice.	▶ Which contextual factors overlap with the matters set out in s172(1)(a) to (f)?

Position and performance

Subject	Mandatory for	Activity	Disclosure requirement	Linkage examples
Performance	All companies required to prepare a strategic report	▶ Draft narrative that describes the performance and the financial position of the business, explaining how the changes in financial position and performance have affected the business's development.	▶ The strategic report should include a fair, balanced and comprehensive review of the development, performance and position of the company's business, consistent with its size and complexity, which informs shareholders about how the directors have performed their duty under s172 of the Act ▶ The strategic report must include references to, and additional explanations of, amounts included in the company's annual report.	▶ Which contextual factors have most affected performance and how? ▶ Which contextual factors might affect future performance? ▶ Which KPIs are used to measure and what are the reasons for movements in them? ▶ How effective have the company's strategies been at driving performance?
Key Performance Indicators (KPIs)	All companies required to prepare a strategic report	▶ Review board papers and management accounts to determine which measures are most relied on as indicators of performance ▶ Compare with other industry wide measures and draft explanations of their meaning and derivation.	▶ The strategic report should include an analysis using financial KPIs ▶ Large companies must also (where appropriate) use non-financial KPIs in their analysis ▶ PIEs with more than 500 employees must also include a description of the non-financial KPIs that are relevant to the company's business ▶ The FRC expect that, as well as providing an analysis using KPIs, the strategic report should ensure the reasons for them being key are given, that they are properly defined and, where relevant, they are reconciled to the amounts included in the financial statements.	▶ How do KPIs explain, or how have they been affected by, performance in the year? ▶ How KPIs relate to executive incentive plans ▶ How do KPIs relate to principal risks and uncertainties and what do movements in them tell us about those risks?
Employee diversity information	Quoted companies only	▶ Analyse number of persons of each sex who are directors of the ultimate holding company ▶ Analyse the number of persons of each sex who were senior managers, including directors of any subsidiaries ▶ Analyse the number of persons of each sex who are other employees.	▶ The strategic report should include a quantitative analysis of employee diversity ▶ For the purpose of this disclosure a senior manager is an employee who has responsibility for planning, directing or controlling a significant part of the activities of the business or, in consolidated accounts, who were a director of a subsidiary included in the consolidation.	▶ How might the policies on employees highlighted in the context section affect this disclosure?
Other information of strategic importance	All companies required to prepare a strategic report	▶ Consider whether any of the directors' report disclosures might more appropriately be included in the strategic report (see the Links to the Legislation section).	▶ The strategic report may also include the information otherwise required to be included in the directors' report, if it is considered to be of strategic importance to the company.	▶ Is green house gas emissions data relevant to a principal risk? ▶ Are financial instruments risks principal risks for the company? ▶ Is research and development a matter of strategic importance to the company?

Review

Qualities of a strategic report

Objective	
The strategic report should:	
1	Explain how the directors have performed their duty under s172 of the Act (Duty to promote the success of the company).
2	Provide shareholders with relevant information that is useful for them in making resource allocation decisions and assessing stewardship.
3	Be fair, balanced and understandable. In particular the information in the strategic report should be consistent with the other information in the annual report.
4	Be structured and presented in such a way that it effectively facilitates the communication of its content.
5	Exclude immaterial information but, conversely, should include all material information.
6	Cover all relevant aspects of the business's development, performance and position and its principal risks in as concise a way as the size and complexity of the business allows.
7	Highlight the relationships and interdependencies between different parts of the annual report.
8	Be specific to the business. Where there are circumstances that are important to the entity but which are general in nature, the strategic report should explain how the business might be affected and what it is doing about it.
9	Have a forward looking orientation which explains how the information contained in it might affect future periods.

Requirements for LLPS

This guidance focuses on the requirements for companies however certain LLPs may also be in-scope of some of the regulations.

Traded and banking LLPs are required to prepare a strategic report but the disclosures are not as extensive as those for companies.

In addition, large LLPs are required to prepare an Energy and Carbon report and certain traded, banking and large LLPs are also required to provide climate-related financial disclosures.

Please refer to Appendix 2 for scoping requirements and disclosure regulations applicable to LLPs.

Links to the legislation

The strategic report

The purpose of the strategic report is to inform members of the company and help them to assess how the directors have performed their duty under s172 of the Companies Act 2006 (duty to promote the success of the company).

The following table summarises the Companies Act 2006 strategic report requirements for:

- Public Interest Entities[2] with over 500 employees (PIE > 500 employees)
- Quoted[3] companies that do not meet the definition of a PIE with over 500 employees (Quoted but not PIE > 500 employees)
- AIM[4] companies or large high turnover[5] companies both with over 500 employees (AIM or large high turnover > 500 employees)[6]
- All other large companies that do not meet the above criteria (Other large)
- Medium-sized companies (Medium).

Small companies, and those that would be small if they were not part of an ineligible group, are not required to prepare a strategic report. Where the company is a parent company and directors of the company prepare group accounts, the strategic report must be a consolidated report relating to the undertakings included in the consolidation.

Additional requirements have been introduced which are effective for accounting periods beginning on or after 6 April 2022. PIEs, Quoted companies and AIM companies, along with other large companies with more than £500m turnover, are required, if they have more than 500 employees, to include climate-related financial disclosures in their strategic report. These have been highlighted in the table on the next page.

These disclosures will be included within the 'Non-financial and sustainability information statement' (for periods beginning before 6 April 2022 the title of the statement is the 'Non-financial information statement' and climate-related disclosures are not required). The disclosures are based on the Task Force for Climate-Related Financial Disclosures (TCFD) recommended disclosures. In order to assist companies drafting their climate-related disclosures BEIS have issued non-binding guidance.

[2] A PIE is a traded company (a company whose transferable securities (debt or equity) are listed on a UK-regulated market(s474(1)), a banking company, an authorised insurance company or a company carrying on insurance market activity.

[3] A Quoted company is a company whose equity share capital has been included in the official list in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000; or is officially listed in an EEA State; or is admitted to dealing on either the New York Stock Exchange or the exchange known as NASDAQ (s385).

[4] A company with any securities (debt or equity) admitted to trading on AIM (s414CA(1)).

[5] A high turnover company is a company whose turnover is more than £500 million in the financial year (or where the company was a parent company at any time within the financial year, the group headed by that company has an aggregate turnover of more than £500 million net). Turnover figures to be proportionality adjusted where the financial period is not a year (s414CA(2A-2C)).

[6] For accounting periods beginning before 6 April 2022 AIM companies and high turnover private companies were in scope of 'Other large' companies' requirements and were not required to present a 'Non-financial information statement'. After that date, AIM companies and high turnover companies are required to present climate-related disclosures within a 'Non-financial and sustainability information statement'.

Links to the legislation

The strategic report

Reference	Requirement	PIE > 500 Employees	Quoted but not PIE > 500 Employees	AIM or large high turnover > 500 Employees	Other large	Medium
s414C(2)(a)	A fair review of the company's business.	✓	✓	✓	✓	✓
s414C(2)(b)	A description of the principal risks and uncertainties facing the company.	✓	✓	✓	✓	✓
s414C(3)(a)	A balanced and comprehensive analysis of the development and performance of the business during the year, consistent with the size and complexity of the business.	✓	✓	✓	✓	✓
s414C(3)(b)	A balanced and comprehensive analysis of the position of the business at the end of the year, consistent with the size and complexity of the business.	✓	✓	✓	✓	✓
s414C(4)(a)	To the extent necessary for an understanding of the development, performance or position of the business, analysis using financial key performance indicators.	✓	✓	✓	✓	✓
s414C(4)(b)	Where appropriate and to the extent necessary for an understanding of the development, performance or position of the business, analysis using other (non-financial) key performance indicators, including information relating to environmental matters and employee matters.	✓[7]	✓	✓	✓	✗
s414C(7)(a)	To the extent necessary for an understanding of the development, performance or position of the business, a description of the main trends and factors likely to affect future development, performance and position of the business.	✓[7] (Quoted companies only)	✓	✗	✗	✗
s414C(7)(b)(i)	To the extent necessary for an understanding of the development, performance or position of the business, information about environmental matters (including the impact of the company's business on the environment).	✓[7] (Quoted companies only)	✓	✗	✗	✗
s414C(7)(b)(ii)	To the extent necessary for an understanding of the development, performance or position of the business, information about the company's employees.	✓[7] (Quoted companies only)	✓	✓	✗	✗
s414C(7)(b)(iii)	To the extent necessary for an understanding of the development, performance or position of the business, information about social and human rights issues.	✓[7] (Quoted companies only)	✓	✓	✗	✗
s414C(7)(b)(iii)	To the extent necessary for an understanding of the development, performance or position of the business, information about community issues.	✓[7] (Quoted companies only)	✓	✓	✗	✗
s414C(7)	For the matters described in s414C(7)(b), information on the policies relating to those matters and the effectiveness of those policies should be included. If information on the matters described in s414C(7)(b) is not included in the strategic report, the information not included should be stated.	✓[7] (Quoted companies only)	✓	✓	✗	✗

[7]In accordance with s414CB(7), if the strategic report complies with s414CB(1) to (6) then the strategic report of which it is a part of is to be treated as complying with the requirements in s414C(4)(b), s414C(7) [except as it relates to community issues], s414C(8)(b) and s414C(12).

Reference	Requirement	PIE > 500 Employees	Quoted but not PIE > 500 Employees	AIM or large high turnover > 500 Employees	Other large	Medium
s414C(8)(a)	A description of the company's strategy.	✓ (Quoted companies only)	✓	✓	✗	✗
s414C(8)(b)	A description of the company's business model.	✓[7] (Quoted companies only)	✓		✗	✗
s414C(8)(c)	A breakdown showing at the end of the financial year: ▶ The number of persons of each sex who were directors of the company (or the parent company for a group strategic report) ▶ The number of persons of each sex who were senior managers[8] of the company (excluding persons in (i) but including directors of subsidiary undertakings included in the consolidation) ▶ The number of persons of each sex who were employees of the company (or of all of the undertakings included in the consolidation for a group strategic report).	✓ (Quoted companies only)	✓	✗	✗	✗
s414C(11)	The strategic report may also contain information that is otherwise required to be included in the directors' report where it is of strategic importance to the company.	✓	✓	✓	✓	✓
s414C(12)	Reference to, and additional explanations of, amounts included in the annual accounts.	✓	✓	✓	✓	✓
Section 172 statement[9]						
s414CZA(1)	The strategic report must include a 'Section 172 statement', which describes how the directors have had regard to matters set out in section 172(1)(a) to (f) when performing their duties under s172 of the Companies Act. This statement must be made freely available on a website (s426B).	✓	✓	✓	✓	✓

[8] A senior manager is an employee of the company who has responsibility for planning, directing or controlling the activities of the company, or a strategically significant part of the company.

[9] The s172 statement must be a separate section of the strategic report. However, clear and precise cross-referencing to other parts of the strategic report may be used to reduce unnecessary duplication.

Links to the legislation

The strategic report

Reference	Requirement	PIE > 500 Employees	Quoted but not PIE > 500 Employees	AIM or large high turnover > 500 Employees	Other large	Medium
Non-financial (and sustainability) information statement[10]						
s414CB(1)(a)	To the extent necessary for an understanding of the company's development, performance and position and the impact of its activities, information on environmental matters (including the impact of the company's business on the environment).	✓	✗	✗	✗	✗
s414CB(1)(b)	To the extent necessary for an understanding of the company's development, performance and position and the impact of its activities, information on the company's employees.	✓	✗	✗	✗	✗
s414CB(1)(c)	To the extent necessary for an understanding of the company's development, performance and position and the impact of its activities, information on social matters.	✓	✗	✗	✗	✗
s414CB(1)(d)	To the extent necessary for an understanding of the company's development, performance and position and the impact of its activities, information on respect for human rights.	✓	✗	✗	✗	✗
s414CB(1)(e)	To the extent necessary for an understanding of the company's development, performance and position and the impact of its activities, information on anti-corruption and anti-bribery matters.	✓	✗	✗	✗	✗
s414CB(2)(a)	A description of the company's business model.	✓	✗	✗	✗	✗
s414CB(2)(b) & (c)	A description of the policies pursued by the company in relation to the matters mentioned in s414CB(1) and any due diligence processes implemented by the company in pursuance of those policies, together with a description of the outcome of those policies.	✓	✗	✗	✗	✗
s414CB(2)(d)	A description of the principal risks relating to the matters mentioned in s414CB(1) and, where relevant and proportionate, a description of the business relationships, products and services which are likely to cause adverse impacts on those areas of risk and a description of how the company manages the principal risks.	✓	✗	✗	✗	✗
s414CB(2)(e)	A description of the non-financial key performance indicators relevant to the company's business.	✓	✗	✗	✗	✗
s414CB(A1)	The non-financial and sustainability information statement must contain the climate-related financial disclosures of the company as detailed in s414CB(2A)(a-h) below.	✓	✗	✓	✗	✗
s414CB(2A)(a)	A description of the company's governance arrangements in relation to assessing and managing climate-related risks and opportunities.	✓	✗	✓	✗	✗
s414CB(2A)(b)	A description of how the company identifies, assesses, and manages climate-related risks and opportunities.	✓	✗	✓	✗	✗
s414CB(2A)(c)	A description of how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management process.	✓	✗	✓	✗	✗

[10] The non-financial and sustainability information statement must be included in a separate section of the strategic report. However, this may be achieved through clear and precise cross-referencing to other parts of the strategic report to reduce unnecessary duplication. For accounting periods beginning on or after 6 April 2022 the name of this section of the strategic report has changed from 'Non-financial information statement' to 'Non-financial and sustainability information statement" and the scope of the statement has been extended such that companies admitted to trading on the Alternative Investment Market ('AIM') with more than 500 employees and large high turnover companies with more than 500 employees are now required to comply with s414CB(A1), s414CB(2A), s414CB(4A)-(4B) and s414CB(6) (highlighted in slate). For accounting periods beginning before 6 April 2022 the title of this section is 'Non-financial information statement' and the items highlighted in slate are not required to be disclosed.

Reference	Requirement	PIE > 500 Employees	Quoted but not PIE > 500 Employees	AIM or large high turnover > 500 Employees	Other large	Medium
s414CB(2A)(d)	A description of: ▶ The principal climate-related risks and opportunities arising in connection with the company's operations ▶ The time periods by reference to which those risks and opportunities are assessed.	✓	✗	✓	✗	✗
s414CB(2A)(e)	A description of the actual and potential impacts of the principal climate-related risks and opportunities on the company's business model and strategy.	✓	✗	✓	✗	✗
s414CB(2A)(f)	An analysis of the resilience of the company's business model and strategy, taking into consideration different climate-related scenarios.	✓	✗	✓	✗	✗
s414CB(2A)(g)	A description of the targets used by the company to manage climate-related risks and to realise climate-related opportunities and of performance against those targets.	✓	✗	✓	✗	✗
s414CB(2A)(h)	A description of the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and of the calculations on which those key performance indicators are based.	✓	✗	✓	✗	✗
s414CB(4)	If the company does not pursue policies in relation to one or more of the matters mentioned in s414CB(1), clear and reasoned explanations for not doing so.	✓	✗	✗	✗	✗
S414CB(4A)-(4B)	Where the directors of a company reasonably believe that the climate-related financial disclosures are not relevant, as a whole or as part of a climate-related financial disclosure required by subsection (2A)(e), (f), (g) or (h), is not necessary for an understanding of the company's business, the directors may omit the whole or relevant part of the disclosure. Where such disclosures are omitted, the directors must provide a clear and reasoned explanation of the directors' reasonable belief that forms the basis of any non-disclosure.	✓	✗	✓	✗	✗
s414CB(5)	Reference to, and additional explanation of, amounts included in the company's annual accounts.	✓	✗	✗	✗	✗
s414CB(6)	If information required by subsections (1) to (5) of section 414CB to be included in the non-financial and sustainability information statement is published by the company by means of a national, EU-based or international reporting framework, the statement must specify the framework or frameworks used, instead of including that information.	✓	✗	✓	✗	✗
Approval of the strategic report						
s414D(1)	The strategic report must be approved by the board of directors and signed on behalf of the board by a director or the secretary of the company.	✓	✓	✓	✓	✓

Links to the legislation

The directors' report

The following table summarises the directors' report requirements for Quoted[11] companies (Quoted), other large companies including those listed on AIM (Large), medium-sized companies (Medium) and small companies (Small), which are derived from the Companies Act 2006 and its associated regulations.

There are exemptions from some of the requirements, for example, if a company would qualify as a small or medium-sized company except for the fact that they are 'ineligible'. Refer to the notes in Appendix 1 to this document for the size and eligibility criteria.

Where the company is a parent company and directors of the company prepare group accounts, the directors' report must be a consolidated report relating to the undertakings included in the consolidation.

Please note, companies whose shares are listed may have to provide additional disclosures required by law or stock exchange rules; these disclosure requirements have not been considered in this guidance.

Reference[12]	Requirement	Quoted	Large	Medium	Small
s236	Qualifying indemnity provision.	✓	✓	✓	✓
s416(1)	The names of the directors.	✓	✓	✓	✓
s416(3)	Recommended dividend.	✓	✓ (Except those that would be small if not in an ineligible group – s415A)	✓ (Except those that would be small if not in an ineligible group – s415A)	✗
s419(2)	Statement of use of small companies exemptions if taken (s416(3) exemption).	✗	✗ (Except those that would be small if not in an ineligible group s415A)	✗ (Except those that would be small if not in an ineligible group s415A)	✓
s418(2)	Directors' statement on information provided to auditors.	✓	✓	✓	✓ (If audited)
s419(1)	Approval by and signature on behalf of the board.	✓	✓	✓	✓
Sch 7 1A	Identification of any of the directors' report disclosures that have instead been made in the strategic report.	✓	✓	✓	✗
Sch 7 3(2) & 4(1) Sch 5 2(2) & 3(1)	Information on political donations and expenditure in excess of £2,000 in aggregate for the group headed by the company.	✓ (Other than wholly owned subsidiaries of UK-incorporated companies)	✓ (Other than wholly owned subsidiaries of UK-incorporated companies)	✓ (Other than wholly owned subsidiaries of UK-incorporated companies)	✓ (Other than wholly owned subsidiaries of UK-incorporated companies)
Sch 7 4(1)&(2) Sch 5 3(1)&(2)	Information on non-UK political donations made by a company or its subsidiaries.	✓ (Other than wholly owned subsidiaries of UK-incorporated companies)	✓ (Other than wholly owned subsidiaries of UK-incorporated companies)	✓ (Other than wholly owned subsidiaries of UK-incorporated companies)	✓ (Other than wholly owned subsidiaries of UK-incorporated companies)
Sch 7 6(1)(a)	Financial risk management objectives and policies.	✓	✓	✓	✗
Sch 7 6(1)(b)	Information on exposure to price risk, credit risk, liquidity risk and cash flow risk.	✓	✓	✓	✗
Sch 7 7(1)(a)	Post balance sheet events.	✓	✓	✓	✗
Sch 7 7(1)(b)	Likely future developments in the business of the company.	✓	✓	✓	✗
Sch 7 7(1)(c)	Research and development.	✓	✓	✓	✗
Sch 7 7(1)(d)	Existence of non-UK branches.	✓	✓	✓	✗

[11] A Quoted company is a company whose equity share capital has been included in the official list in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000; or is officially listed in an EEA State; or is admitted to dealing on either the New York Stock Exchange or the exchange known as NASDAQ (s385).

[12] Sch 7 refers to Schedule 7 in SI 2008/410 'The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008' and Sch 5 to Schedule 5 of SI 2008/409 'The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008'.

Links to the legislation

The directors' report (continued)

Reference	Requirement	Quoted	Large	Medium	Small
Sch 7 9	Acquisition of own shares.	✓	✓ (If a plc)	✗	✗
Sch 7 10(3) Sch 5 5(3)	Description of the policy regarding the employment, training, career development and promotion of disabled persons.	✓ (Where the monthly average number of UK-based company employees for the individual company in the year exceeds 250)	✓ (Where the monthly average number of UK-based company employees for the individual company in the year exceeds 250)	✓ (Where the monthly average number of UK-based company employees for the individual company in the year exceeds 250)	✓ (Where the monthly average number of UK-based company employees for the individual company in the year exceeds 250)
Sch 7 11(1)(a)	A statement describing the actions taken in the year to introduce, maintain or develop arrangements aimed at: (i) Providing employees with information on matters of concern to them (ii) Consulting employees on a regular basis so their views can be taken into account in making decisions which are likely to affect their interests (iii) Encouraging involvement of employees in company performance through share schemes and other means (iv) Achieving a common awareness of the financial and economic factors affecting the company.	✓ (Where the monthly average number of UK-based company employees (or group if the company is a parent company) exceeds 250 using the two year rule[13])	✓ (Where the monthly average number of UK-based company employees (or group if the company is a parent company) exceeds 250 using the two year rule[13])	✓ (Where the monthly average number of UK-based company employees (or group if the company is a parent company) exceeds 250 using the two year rule[13])	✗
Sch 7 11(1)(b)	A statement summarising: (i) How directors have engaged with employees (ii) How directors have had regard to employee interests, and the effect of that regard, including on the principal decisions taken by the company during the financial year.	✓ (Where the monthly average number of UK-based company employees (or group if the company is a parent company) exceeds 250 using the two year rule[13])	✓ (Where the monthly average number of UK-based company employees (or group if the company is a parent company) exceeds 250 using the two year rule[13])	✓ (Where the monthly average number of UK-based company employees (or group if the company is a parent company) exceeds 250 using the two year rule[13])	✗
Sch 7 11B	A statement summarising how the directors have had regard to the need to foster the company's business relationships with suppliers, customers and others and the effect this regard has had, including on the principal decisions made in the year.	✓ (Except where at an individual company level the company would be small or medium-sized by reference to the size thresholds using the two year rule[13])	✓ (Except where at an individual company level the company would be small or medium-sized by reference to the size thresholds using the two year rule[13])	✗	✗

[13] The two year rule is designed such that a single 'spike' or 'dip' in the specified criteria in a single year does not cause the company (or group) to require/no longer require this disclosure. An illustration of the 'two year rule' is included in Appendix 1.

Reference	Requirement	Quoted	Large	Medium	Small
Sch 7 13(2) & 14	Detailed information on capital structure.	✓ (Companies with securities carrying voting rights admitted to trading on a UK-regulated market only)	✗	✗	✗
Emissions and energy consumption					
Sch 7 15-19	Information on the total (ie global) annual quantity of emissions and energy consumption for which the company is responsible, together with the proportion within the UK and its offshore areas and a description of measures taken to increase energy efficiency. The requirements are detailed and specific – see Sch 7 for details. There is an exemption available if the energy consumed is 40,000kWh or less as set out in Sch 7 15(5) and this fact is disclosed.	✓ (Except subsidiaries included in the group report of an entity that is also subject to the Sch 7 greenhouse gas and energy consumption requirements)	✗	✗	✗
Sch 7 20A-K	Information on the annual quantity of emissions and energy consumption **within the UK and its offshore areas only** for which the company is responsible, together with a description of measures taken to increase energy efficiency. The requirements are detailed and specific – see Sch 7 for details. There is an exemption available if the energy consumed is 40,000kWh or less as set out in Sch 7 20D(7) and this fact is disclosed.	✗	✓[14]	✗	✗

[14] Except for an individual company (or group headed by it if the company is a parent) where the entity would be small or medium-sized by reference to the size thresholds using the two year rule (See Appendix 1). Subsidiaries are also excluded where they are included within the group report of an entity that is also subject to the Sch 7 greenhouse gas and energy consumption requirements.

Links to the legislation

The directors' report (continued)

Corporate governance arrangements

Reference[12]	Requirement	Quoted	Large	Medium	Small
Sch 7 21-28	Statement of corporate governance arrangements, including which code (if any) the company has applied, how the code has been applied and the reasons for departing from any aspects of the code applied. Where a code has not been applied, explain the reasons for this and explain what governance arrangements were applied in the year. This statement must be made freely available on a website.	✗[15]	✓[16]	✓[16]	✗

[15] Except where an individual company has a) more than 2,000 employees and/or b) turnover of more than £200 million and a balance sheet total of more than £2 billion and if the company is quoted by virtue of a listing on the New York Stock Exchange or NASDAQ. Other quoted companies will be required to prepare a corporate governance statement due to the overlapping DTR requirements and so are exempt from this specific regulation.

[16] Where the conditions are met using the two-year rule (See Appendix 1). Conditions are: If the individual company has a) more than 2,000 employees; and/or b) turnover of more than £200 million and a balance sheet total of more than £2 billion but NOT if the company is a community interest company or charitable company.

Notes

Appendix 1

UK company size thresholds

The size limits for qualifying as a small or medium-sized company are detailed below – all limits are 'not more than'. Unless specified elsewhere in this document, a parent company will only meet the qualifying conditions for being a small or medium-sized company if the group headed by it also meets the conditions for being a small or medium-sized group.

Not above 2 out of 3 of	Medium company	Medium group	Small company	Small group
Turnover	£36m	£36m net (or £43.2m gross)	£10.2m	£10.2m net (or £12.2m gross)
Balance sheet total	£18m	£18m net (or £21.6m gross)	£5.1m	£5.1m net (or £6.1m gross)
Number of employees	250	250	50	50

In order to qualify as small or medium-sized, a company (or group) must be below two of the thresholds in its first financial year and, in subsequent years, the two year rule applies (ie a single 'spike' or 'dip' year will not cause the size of the company/group to group or down).

In addition to the size criteria above, a company is excluded from being treated as small (s384) or medium-sized (s467) if they are 'ineligible'. A company is ineligible if it was at any time during the financial year:

- A public company (whether listed or not)
- A company that it is an authorised insurance company, a banking company, a MiFID investment firm, or a UCITS management company (for small-sized company ineligibility only)
- A company that has permission under Part 4A of the Financial Services and Markets Act 2000 to carry on a regulated activity (for medium-sized company ineligibility only)
- A company that is an e-money issuer
- A company that carries on insurance market activity
- A scheme funder of a Master Trust scheme (within the meanings defined)
- A member of an ineligible group – a group is ineligible if any of its members is:
  - A Traded company
  - A body corporate (other than a company) whose shares are admitted to trading on a UK regulated market
  - A person who has permission to carry on a regulated activity
  - An e-money issuer
  - A small company that is an authorised insurance company, a banking company, a MiFID investment firm or a UCTIS management company
  - A person who carries on insurance market activity
  - A scheme funder of a master trust scheme.

A Traded company is a company whose transferable securities (debt or equity) are admitted to trading on a UK regulated market (s474).

The 'two year rule'

Below is a table which demonstrates the ‘two year rule’ referred to in the requirement conditions in the tables on the previous pages.

		20X0	20X1	20X2 Prior year	20X3 Current year	Disclosure required in current year?
SCH 7 11 (1) – Employee engagement						
Monthly average number of UK-based company (or group if the company is a parent company) employees exceeds 250	A	-	-	✗	✗	✗
	B	✗	✗	✓	✗	✗
	C	-	✓	✓	✗	✓
	D	-	-	✓	✓	✓
	E	-	✗	✗	✓	✗
	F	✓	✓	✗	✓	✓

The two year rule, as illustrated above for the Schedule 7 11(1) employee engagement requirements, applies in a similar manner to the following other Schedule 7 disclosure requirements:

- Sch 7 11B Fostering business relationships – Individual company meets two out of three large company size thresholds
- Sch 7 20A-K Emissions and energy consumption disclosures - Individual company (or group headed by it if the company is a parent) meets two out of three large company size thresholds
- Sch 7 21-28 Corporate Governance arrangements – Individual company has a) more than 2,000 employees; and/or b) turnover of more than £200 million and a balance sheet total of more than £2 billion.

The definition of the two year rule in Companies Act for these Schedule 7 requirements are that a company is exempt from the requirements:

(a) In relation to the company’s first financial year if the qualifying conditions are met in that year;

(b) In relation to a subsequent financial year of the company:

(i) If the qualifying conditions are met in that year and the preceding financial year; [A in table above]

(ii) if:

(aa) The qualifying conditions are met in that year, and

(bb) The company was exempted in relation to the preceding financial year; [B in table above] or

(iii) if:

(aa) The qualifying conditions were met in the preceding financial year, and

(bb) The parent company was exempted in relation to the preceding financial year. [E in table above]

[The qualifying conditions are that the company is below the relevant size thresholds set out in the table on the previous page].

Appendix 2

Strategic report and energy and carbon report requirements for LLPs

Strategic report

Certain LLPs are required to prepare a strategic report:

- Traded LLPs[17]
- Banking LLPs[18].

These regulations are detailed in The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (SI 2008/1911) (Part 5).

The contents of the strategic report for traded and banking LLPs is as follows:

- A fair review of the LLP's business
- A description of the principal risks and uncertainties facing the LLP
- A balanced and comprehensive analysis of the development and performance of the LLP's business during the year, consistent with the size and complexity of the business
- A balanced and comprehensive analysis of the position of the LLP's business at the end of the year, consistent with the size and complexity of the business
- To the extent necessary for an understanding of the development, performance or position of the LLP's business, analysis using financial key performance indicators
- Where appropriate and to the extent necessary for an understanding of the development, performance or position of the LLP's business, analysis using other (non-financial) key performance indicators, including information relating to environmental matters and employee matters
- Reference to, and additional explanations of, amounts included in the LLP's annual accounts
- Climate-related financial disclosures (see page 24)
- The strategic report must be approved by the members and signed on behalf of all of the members by a designated member.

Where the LLP is a parent LLP and the members of the LLP prepare group accounts, the strategic report must be a consolidated report relating to the undertakings included in the consolidation.

Energy and carbon report

Large LLPs are required to prepare an 'Energy and Carbon report'. The definition of 'large' uses only the size thresholds as set out in the Companies Act (s465-466) and is subject to the two year rule as detailed in Appendix 1.

A large LLP is exempted from the requirement to prepare an energy and carbon report where the following criteria are met:

- The LLP is a subsidiary undertaking at the end of the financial year and is included in the group report of a parent undertaking
- The group report is prepared for a financial year of the parent undertaking that ends at the same time as, or before the end of, the LLP's financial year; and
- The group report is either:
  - A group directors' report of a quoted company which complies with the SECR disclosure requirements set out within Part 7 of Schedule 7 of SI 2008/410 and does not rely on a 'seriously prejudicial exemption; or
  - A group directors' report of an unquoted company which complies with the SECR disclosure requirements set out within Part 7A of Schedule 7 of SI 2008/410 and does not rely on a 'seriously prejudicial exemption; or
  - A group energy and carbon report of a large LLP which complies with the SECR disclosure requirements set out within Part 7A of Schedule 7 of SI 2008/410 [as modified by regulation 12B of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008] and does not rely on a seriously prejudicial exemption.

The contents of the energy and carbon report for Large LLPs is as follows:

- The names of the persons who, at any time during the financial year, were members of the LLP
- Information on the annual quantity of emissions and energy consumption within the UK and its offshore areas for which the LLP is responsible, together with a description of measures taken to increase energy efficiency (consistent with the disclosures required for an unquoted company). Note that there is an exemption available if the energy consumed is 40,000kWh or less and this fact is disclosed
- Climate-related financial disclosures (see page 24)
- The energy and carbon report must be approved by the members and signed on behalf of all of the members by a designated member
- The name of the designated member signing the report.

[17]Traded LLP means an LLP any of whose transferable securities are admitted to trading on a UK regulated market.

[18]Banking LLP means an LLP which has permission under Part 4 of the Financial Services and Markets Act 2000 to accept deposits (but does not include such an LLP which has permission to accept deposits only for the purpose of carrying on another regulated activity in accordance with that permission).

[19]Turnover figures to be proportionality adjusted where the financial period is not a year.

Climate-related financial disclosures

The following LLPs must also provide climate-related financial disclosures:

- A traded or banking LLP which has an average of more than 500 employees in the relevant financial year to which the strategic report relates (or if the LLP is a parent LLP, the group headed by the LLP has an average of more than 500 employees). These disclosures will be presented within the strategic report
- A large LLP, which is not a traded or banking LLP, which has an average of more than 500 employees and an annual turnover of more than £500 million[19] in the relevant financial year to which the energy and carbon report relates (or if the LLP is a parent LLP, the group headed by the LLP has an average of more than 500 employees AND an annual turnover of more than £500 million). These disclosures will be presented within the energy and carbon report.

The climate-related financial disclosures are the same as those required for a company under s414CB(2A) of the Companies Act.

Where the members of an LLP reasonably believe that, having regard to the nature of the LLP's business, and the manner in which it is carried on, the whole or a part of a climate-related financial disclosure required by s414CB(2A)(e), (f), (g) or (h) is not necessary for an understanding of the LLP's business, the members may omit the whole or relevant part of the disclosure. Where such disclosures are omitted, the members must provide a clear and reasoned explanation of the members' reasonable belief that forms the basis of any non-disclosure.

FOR MORE INFORMATION:

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