

THE **STRATEGIC** REPORT

A PRACTICAL GUIDE

JUNE 2020



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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; and
- ▶ 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 large companies, Quoted companies and Public Interest Entities with more than 500 employees ("Large PIEs").

Whilst only Quoted companies and Large PIEs 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. This emphasis is only likely to increase as all large companies¹ must now include a separate 'Section 172 Statement' in their strategic reports 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 its members as a whole).

The FRC has published [non-mandatory guidance](#) on the implementation of the strategic report requirements (including the Section 172 Statement). 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.

¹Including 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.

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 inter-relationships and inter-dependencies 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 listed on an EU-regulated market (such as the Main Market of the London Stock Exchange), the NASDAQ or the New York Stock Exchange. A PIE is a company whose debt or equity securities are listed on an EU-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	<ul style="list-style-type: none"> 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). 	<ul style="list-style-type: none"> 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 Large PIE, 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. 	<ul style="list-style-type: none"> 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 Large PIE)	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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 Large PIEs only	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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 Large PIE, 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 Large PIE, any due diligence processes implemented by the company in pursuance of those policies. 	<ul style="list-style-type: none"> 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
Employees	Quoted companies and Large PIEs only	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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 Large PIE, 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. For a Large PIE, this information should also be included if it is necessary for an understanding of the impact of the company's activities on its employees. 	<ul style="list-style-type: none"> 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 Large PIEs only	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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 Large PIE, 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 Large PIE 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 Large PIE, any due diligence processes implemented by the company in pursuance of those policies. 	<ul style="list-style-type: none"> 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	Large PIEs only	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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?
Absence of information	Quoted companies only (except if also a Large PIE)	<ul style="list-style-type: none"> Identify matters on which the company has provided no disclosures. 	<ul style="list-style-type: none"> If the company has not provided information on environmental matters, employees or social, community and human rights issues, state which kinds of information is not included in the strategic report. 	<ul style="list-style-type: none"> n/a
Absence of policies	Large PIEs only	<ul style="list-style-type: none"> Identify matters on which the company has no policies Where relevant, ascertain reason for the absence of a policy. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> n/a

BUSINESS MODEL AND STRATEGY

SUBJECT	MANDATORY FOR	ACTIVITY	DISCLOSURE REQUIREMENT	LINKAGE EXAMPLES
Business model	Quoted companies and Large PIEs only	<ul style="list-style-type: none"> ▶ 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. 	<ul style="list-style-type: none"> ▶ The strategic report should include a description of the company's business model. 	<ul style="list-style-type: none"> ▶ 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	<ul style="list-style-type: none"> ▶ 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. 	<ul style="list-style-type: none"> ▶ The strategic report should include a description of the company's principal objectives and the strategies for achieving those objectives. 	<ul style="list-style-type: none"> ▶ 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)	<ul style="list-style-type: none"> ▶ 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 members as a whole ▶ Assess how the directors' activities have affected board actions and decisions made. 	<ul style="list-style-type: none"> ▶ 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. 	<ul style="list-style-type: none"> ▶ Which contextual factors overlap with the matters set out in s172(1)(a) to (f)?

PROCESS

POSITION AND PERFORMANCE

SUBJECT	MANDATORY FOR	ACTIVITY	DISCLOSURE REQUIREMENT	LINKAGE EXAMPLES
Performance	All companies required to prepare a strategic report	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> The strategic report should include an analysis using financial KPIs Large companies must also (where appropriate) use non-financial KPIs in their analysis Large PIEs must also include a description of the non-financial KPIs that are relevant to the company's business 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. 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Consider whether any of the directors' report disclosures might more appropriately be included in the strategic report (see the Links to the Legislation section). 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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.

LINKS TO THE LEGISLATION

THE STRATEGIC REPORT

The following table summarises the Companies Act 2006 strategic report requirements for Quoted¹ companies (Quoted), large Public Interest Entities² with over 500 employees (Large PIE), other large companies including those listed on AIM (Large), and 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.

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). Additional requirements, which are effective for accounting periods beginning on or after 1 January 2019, introduce more explicit disclosure requirements relating to how directors have performed their duties under s172. These have been highlighted in pink in the table.

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.

REFERENCE	REQUIREMENT	QUOTED	LARGE PIE	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	✓ (Except if also a Large PIE)	✗	✓ (Except if also a Large PIE)	✗
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	✓ (Except if also a Large PIE)	✗	✗	✗
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)	✓ (Except if also a Large PIE)	✗	✗	✗
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	✓ (Except if also a Large PIE)	✗	✗	✗
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	✓ (Except if also a Large PIE)	✗	✗	✗
s414C(7)(b)(iii)	To the extent necessary for an understanding of the development, performance or position of the business, information about community issues	✓	✗ (Except if also Quoted)	✗	✗
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	✓ (Except if also a Large PIE)	✗	✗	✗

¹A 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).

²A company whose securities are listed on an EU-regulated market or which is a banking company, authorised insurance company or a company carrying on insurance market activity.

REFERENCE	REQUIREMENT	QUOTED	LARGE PIE	LARGE	MEDIUM
s414C(8)(a)	A description of the company's strategy	✓	✗ (Except if also Quoted)	✗	✗
s414C(8)(b)	A description of the company's business model	✓ (Except if also a Large PIE)	✗	✗	✗
s414C(8)(c)	Specified quantitative information on employee gender diversity	✓	✗ (Except if also Quoted)	✗	✗
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	✓	✓	✓	✓
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	✓	✓	✓	✓
SECTION 172 STATEMENT³					
s414CZA	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)	✓	✓	✓	✗
NON-FINANCIAL INFORMATION STATEMENT⁴					
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(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(5)	Reference to, and additional explanation of, amounts included in the company's annual accounts	✗	✓	✗	✗

³ 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.

⁴ The non-financial information in this section 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.

LINKS TO THE LEGISLATION

THE DIRECTORS' REPORT

The following table summarises the directors' report requirements for Quoted¹ 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.

Additional requirements have been introduced, which are effective either for accounting periods beginning on or after 1 January 2019 or periods beginning on or after 1 April 2019. These have been highlighted in pink in the table. 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 the appendix 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 ⁵	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-EU 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 branches	✓	✓	✓	✗


⁵ 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, and (iv) achieving a common awareness of the financial and economic factors affecting the company	✓ (Where the conditions are met using the two year rule ⁶ . Conditions are: monthly average number of UK-based company (or group if the company is a parent company) employees exceeds 250)	✓ (Where the conditions are met using the two year rule ⁶ . Conditions are: monthly average number of UK-based company (or group if the company is a parent company) employees exceeds 250)	✓ (Where the conditions are met using the two year rule ⁶ . Conditions are: monthly average number of UK-based company (or group if the company is a parent company) employees exceeds 250)	✗
Sch 7 11(1)(b)	A statement summarising: (i) how directors have engaged with employees, and (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 conditions are met using the two year rule ⁶ . Conditions are: monthly average number of UK-based company (or group if the company is a parent company) employees exceeds 250)	✓ (Where the conditions are met using the two year rule ⁶ . Conditions are: monthly average number of UK-based company (or group if the company is a parent company) employees exceeds 250)	✓ (Where the conditions are met using the two year rule ⁶ . Conditions are: monthly average number of UK-based company (or group if the company is a parent company) employees exceeds 250)	✗
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 the conditions are met using the two year rule ⁶ . Conditions are: At an individual company level, would be small or medium-sized by reference to the size thresholds only)	✓ (Except where the conditions are met using the two year rule ⁶ . Conditions are: At an individual company level, would be small or medium-sized by reference to the size thresholds only)	✗	✗

⁶The 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 the Appendix.

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 an EU-regulated market only)	✗	✗	✗

EMISSIONS AND ENERGY CONSUMPTION

Sch 7 15 ⁷	Information on the annual quantity of emissions for which the company is responsible, together with the methodology adopted for the calculation and at least one ratio for emissions against a quantifiable factor associated with the company's activities		✗	✗	✗
Sch 7 15-19 ⁸	<p>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</p> <p>The requirements are detailed and specific – see Sch 7 for details</p> <p>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</p>	 (Except subsidiaries included in the group report of an entity that is also subject to the Sch 7 greenhouse gas and energy consumption requirements or their LLP equivalent)	✗	✗	✗
Sch 7 20A-K ⁸	<p>Information on the annual quantity of emissions and energy consumption <u>within the UK and its offshore areas only</u> for which the company is responsible, together with a description of measures taken to increase energy efficiency</p> <p>The requirements are detailed and specific – see Sch 7 for details</p> <p>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</p>		 (Except where the conditions are met using the two year rule ⁶ . Conditions are: At an individual company level (or group headed by it if the company is a parent), would be small or medium-sized by reference to the size thresholds only) ...and... (Except subsidiaries included in the group report of an entity that is also subject to the Sch 7 greenhouse gas and energy consumption requirements or their LLP equivalent)	✗	✗

⁷For periods beginning BEFORE 1 April 2019.

⁸For periods beginning ON OR AFTER 1 April 2019.

LINKS TO THE LEGISLATION

THE DIRECTORS' REPORT CONTINUED

CORPORATE GOVERNANCE ARRANGEMENTS

REFERENCE	REQUIREMENT	QUOTED	LARGE	MEDIUM	SMALL
Sch 7 21-28	<p>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</p> <p>This statement must be made freely available on a website</p>	<p>✗</p> <p>(Except where the conditions are met using the two year rule⁶. 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</p> <p>...and...</p> <p>If the company is Quoted by virtue of a listing on the New York Stock Exchange or NASDAQ⁹)</p>	<p>✓</p> <p>(Where the conditions are met using the two year rule⁶. 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</p> <p>...but...</p> <p>NOT if the company is a community interest company or charitable company)</p>	<p>✓</p> <p>(Where the conditions are met using the two year rule⁶. 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</p> <p>...but...</p> <p>NOT if the company is a community interest company or charitable company)</p>	<p>✗</p>

⁹Other Quoted companies will be required by the overlapping DTR requirement to prepare a corporate governance statement and so are exempt from this specific requirement.

APPENDIX

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 go up 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 unlisted);
- ▶ A company that has permission to carry on a regulated activity or carries on an insurance market activity;
- ▶ An e-money issuer (medium-sized company ineligibility only); or

▶ 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 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 Traded company is a company whose transferable securities (debt or equity) are admitted to trading on a 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.

		20X6	20X7	20X8 PRIOR YEAR	20X9 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 it does not meet the criteria of 'more than' noted in the table on the previous page].



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