Improving transparency and disclosure

Good practice reporting by portfolio companies

Private Equity Reporting Group

The Guidelines for Disclosure and Transparency in Private Equity

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pwc

Contents

Introduction

The objective of this guide is to assist private equity owned portfolio companies to improve the transparency and disclosure in their financial and narrative reporting by highlighting good practice examples.

The Private Equity Reporting Group (the ‘Group’) was established to monitor conformity of the UK private equity industry with the Guidelines for Disclosure and Transparency in Private Equity (the ‘Guidelines’). The Guidelines resulted from an independent review of the adequacy of disclosure and transparency of reporting by private equity owned companies undertaken by Sir David Walker at the request of the British Private Equity and Venture Capital Association (‘BVCA’). The Group is also responsible for making recommendations to the BVCA for changes to the Guidelines as needed.

After consultation with the market, the Guidelines were refreshed in 2014 following the implementation of The Companies Act 2006 (Strategic Report and Directors’ Report) Regulations 2013 (the ‘Strategic Report Regulations’). The Group has taken the view that the Guidelines should be aligned with the requirements for quoted companies, with a few exceptions, to continue to meet our ambition for large private equity corporate reporting to be at the level of the best in the FTSE 350.

In setting out the Guidelines for Disclosure and Transparency in Private Equity revised July 2014 (‘the Guidelines’) we have continued to make it clear which areas are specific to the Guidelines due to private equity ownership, which would be required by large private companies in any case, and which areas are incremental due to our aspiration of matching the standard of quoted company reporting. This Good Practice Guide has been published alongside our fifteenth report on compliance with the Guidelines.

The Group has commissioned PwC to produce this guide to illustrate how the Guidelines should be implemented and to share examples of good practice to encourage the adoption of good practice across all aspects of reporting. They are not a comprehensive analysis of how any individual company complied with any particular Guideline, but to illustrate different attributes and styles of reporting that have been determined to have at least some of the good practice qualities.

We note that a “glossy” annual report isn’t always a prerequisite to meet good practice and that some of our good practice examples come from growing businesses that were previously privately owned, who have produced succinct and good quality disclosures. We also note a pleasing trend where former public companies transition to private equity ownership and retain their existing high bar for transparent corporate reporting, even when not expressly required to do so.

We have also observed that since the Guidelines were last revised, further new legislative requirements have resulted in an improvement in non-financial reporting arising from enhanced disclosure requirements (e.g. Streamlined Energy and Carbon Reporting) and we expect this to continue with the new Non-Financial and Sustainability Information Statement (where applicable) in the next annual cycle. However, we remain disappointed that many of the disclosures in respect of social, community and human rights issues remain at a basic level of compliance with the Guidelines rather than good practice as well as the disclosures of non-financial KPIs and gender diversity.

The Group would like to thank PwC and the BVCA for their continued efforts in assisting the Group with the review of the portfolio companies and the production of this guide.

Nick Land
Chairman – Private Equity Reporting Group

Executive summary

The purpose of this report is to provide guidance for those individuals at portfolio companies who are responsible for preparing the Annual Report and financial statements, and to provide some examples of good and excellent practice for each of the Walker Guidelines.

Non-financial reporting is an increasingly important element of the Annual Report and statutory or regulatory changes are bringing more companies into scope for enhanced disclosure. Recent changes impacting large private companies, which will likely include a number of portfolio companies include the requirement for reporting on governance frameworks, reporting under the Task Force on Climate-related Financial Disclosures (“TCFD”) and also stakeholder focus on the impact that companies have on the wider communities they operate in. Portfolio companies have the opportunity to be ahead of the game through making a more full-hearted attempt to comply with the Walker Guidelines, which provide a strong foundation for the increased disclosures required.

It is important to note that ‘glossy’ formatting is not a necessity to achieve good practice, but rather a focus on clear, concise and transparent disclosures, as evidenced in our example extracts. As a first point of reference, each of the Guidelines has been broken down into specific requirements which must be addressed in order to achieve ‘basic’, ‘good’ or ‘excellent’ practice. For each, we have included an example that meets ‘good’ or ‘excellent’ practice.

Those examples that met and/or exceeded the requirements typically followed a process that started with clear articulation of the strategy. We have illustrated this process as follows:

1. **Clearly articulate the strategy and business model**

   A well defined strategy and business model should be used as a framework to structure the remainder of the non-financial narrative disclosures. (Guidelines 9, 10)

2. **Identify meaningful key performance indicators (“KPIs”)**

   Internal reporting should be reviewed to determine those metrics which are used by key decision makers to monitor performance and incentivise management. KPIs should be aligned with key strategic priorities and information provided should include data on historic trends, targets and timelines. (Guidelines 7, 8)

3. **Define principal risks, their impacts and mitigations**

   The report should include a clear assessment of the principal risks to business. A detailed description which is linked to specific strategic priorities, the potential impact of the risk and mitigating actions taken by management should be included. (Guidelines 4, 6)

4. **Include those employee, social and community issues which most impact the business**

   These issues should be explained with reference to the overall business strategy, KPIs and performance. Inclusion of relevant statutory requirements in respect of employee and environmental disclosures will result in at least basic compliance for Guidelines 12 and 13 however more is required to achieve good or excellent practice.

5. **Frame the business review using the strategy, KPIs and relevant risks**

   The review of the business should give a reader information about the performance and position of the business versus the strategy, KPIs and risks. In addition this section should provide management’s view of the outlook for the business including the impacts of the wider market and macro economic trends. (Guidelines 3, 5, 11)

In addition to the points referenced above, preparers should ensure that those Guidelines which are more prescriptive in nature are addressed by including specific headings and/or signposts to the information. This includes the identity of the Private Equity house (Guideline 1), the composition of the board (Guideline 2) and gender diversity (Guideline 15). The annual report should also include an explicit statement of compliance with the Guidelines.

The Guideline in respect of social, community and human rights issues (Guideline 14) is one that which requires significant improvement based on the sample of reports reviewed in the current year. We have not identified any examples of excellent practice in this area.

Applying the Guidelines – Guiding principles

The Guidelines requirements are split into fifteen sections in three broad areas. However, when determining what to include in the annual report and constructing its look and feel, in addition to compliance with the individual criteria, the annual report should be fair, balanced and understandable to a user of the accounts. Good annual reports are:

- Tailored to the business and avoid boilerplate language.
- Provide useful and specific information, avoiding generic terms and superficial references.
- Are not cluttered with erroneous or repeated information and help the reader focus on and understand the key relevant information.
- Are consistent throughout and demonstrate linkage between each area.

No two annual reports will look the same, as no two businesses are the same but these principles, along with the specific criteria below will enhance understanding and comparability of annual reports. The examples highlighted in this guide are indicative of good practice and represent some of the attributes of requirements, rather than the full disclosure being included, however each company should determine the most appropriate format and content for their relevant circumstances. The Guidelines are summarised below and set out in more detail on the following pages where examples of good reporting are included:

Guidelines specific

Disclosures focussed on the features that occur from being under private equity ownership:

- Identity of the private equity firm – page 4
- Details on board composition – page 5
- Financial review – position – page 6
- Financial review – financial risks – page 7

Strategic report – Large private

Disclosures required for all large private companies in order to comply with the Strategic Report Regulations and included in the Guidelines regardless of whether the portfolio company meets the criteria of being a large private company:

- Balanced and comprehensive analysis of development and performance during the year and position at the year end – page 8
- Principal risks and uncertainties facing the company – page 9
- Key performance indicators – financial – page 10
- Key performance indicators – non-financial including environmental matters and employees – page 11

Strategic report – Quoted

- Additional elements from the Strategic Report Regulations for quoted companies that have been adopted into the Guidelines for portfolio companies to further explain the business and offer comparability to those disclosures often seen in listed groups:
- Strategy – page 12
- Business model – page 13
- Trends and factors affecting future development, performance or position – page 14
- Environmental matters – page 15
- Employees – page 16
- Social, community and human rights issues – page 17
- Gender diversity information – page 18

Greenhouse gas emissions disclosures

A quoted company (and large private companies in accordance with the Streamlined Energy and Carbon Reporting requirements) must make various disclosures on the quantity of emissions in tonnes of carbon dioxide equivalent from activities for which that company is responsible and from the purchase of electricity, heat, steam or cooling by the company for its own use. Disclosures concerning greenhouse gas emissions are not a mandatory requirement under the Guidelines. However, where this information is available and is significant to the understanding of the portfolio company and its operations, its inclusion could only improve the transparency and quality of reporting.

Statement of compliance

A statement of compliance with the Guidelines should be presented in the annual report to demonstrate the Guidelines have been addressed. This does not need to be substantial and can be presented wherever seems most relevant.

A suggestion for this statement would be 'The Directors consider the annual report and financial statements to comply with all aspects of the Guidelines for Disclosure and Transparency in Private Equity.'

Where the annual report does not fully comply with the Guidelines this should be referenced.

Comply or explain requirement

The extracts of 'Good Practice' shown through this guide are examples of disclosures that we see as being consistent with that standard. Where elements of the requirements are not applicable to the specifics of that company, our view is that the Guidelines encourage explanation as to why they are not relevant and why the disclosure may be omitted, under the 'comply or explain' philosophy.

Disclosure placement

Compliance with the Guidelines should be addressed in the audited annual report and financial statements and should not rely on other website or review documents for compliance. Most companies will find they include these requirements within their strategic report.
Where there is any crossover between the director's report and other areas of the annual report, appropriate cross references may be used to ensure compliance whilst optimising the most appropriate and clear structure for the accounts.

1. Identity of private equity firm

Requirement

The report should identify the private equity fund or funds that own the company and the senior executives or advisers of the equity firm in the UK who have oversight of the company on behalf of the fund or funds.

Basic compliance

To comply with this requirement, the identity of the private equity firm should be disclosed within the annual report together with the identity of the relevant senior executives of the firm.

Good practice

Attributes of good practice include:

- Name of the fund as well as the name of the private equity firm.
- Background on the private equity firm and explanation of its role.
- History of the ownership of the company, including that of previous equity owners.

Excellent practice

Excellent practice disclosures are achieved where they stand out over and above the requirements of the Guidelines, akin to examples of transparency and disclosure in the higher end of the listed reporting space. A company would be expected to include all relevant attributes listed above and go beyond this in order to achieve this classification.

Stagecoach Group – 29 April 2023 (Excellent practice)

Stagecoach Group Limited is a private limited company that is incorporated, domiciled and has its registered office in Scotland. Until 28 June 2022, the Company's ordinary shares traded on the London Stock Exchange. The Company is now owned by Inframobility UK Bidco Limited, which is indirectly owned by an international infrastructure fund managed and advised by DWS Infrastructure.

On 9 March 2022, Inframobility UK Bidco Limited made an all-cash offer to acquire the entire issued and to be issued share capital of the Company. That offer became unconditional on 20 May 2022. On 28 June 2022, the listing of the Company's shares was cancelled. On 15 August 2022, Inframobility UK Bidco Limited completed the acquisition of the Company's entire issued share capital, and on 17 October 2022, the Company re-registered as a private company. Inframobility UK Bidco Limited is a Company managed by DWS Infrastructure, a long-term infrastructure investment management business.

The Company engages directly with DWS Infrastructure, which manages the shareholder's investment in the Company. Four representatives of DWS Infrastructure are directors of the Company and the Company's management also has regular discussions with other representatives of DWS Infrastructure. Those representatives of DWS Infrastructure also share the views of the investors in the fund that is the ultimate owner of the Company. Accordingly, the Board has a clear understanding of the views of the shareholder and the fund's investors.

Since the end of our last financial year on 30 April 2022, Inframobility UK Bidco Limited ("Bidco"), a company managed by DWS Infrastructure, took control of the Company. Following the change of control to Bidco, four representatives of DWS Infrastructure joined the Board of the Company on 26 May 2022.

This example meets all the attributes of good practice, providing good detail on the role of the private equity firm in supporting the Group following a change in ownership during the year.

Ultra – 31 December 2022 (Excellent practice)

History and ownership structure

Ultra Electronics ("Ultra") was formed in 1993 to acquire the Electronic Systems division of Dowty Group plc and was listed on the London Stock Exchange in 1996. Since then, Ultra has grown both organically and through over fifty acquisitions.

On 16 August 2021, the Ultra Electronics Holdings plc Board of Directors unanimously recommended an offer by Cobham Ultra Acquisitions Limited[1], a company incorporated in England and Wales and a wholly-owned indirect subsidiary of Cobham Group Holdings Limited ("Cobham"), an entity controlled by funds managed by Advent International Corporation ("Advent International") to acquire Ultra Electronics Holdings plc (the "Acquisition"). This offer, was subsequently approved by Ultra Electronics Holdings plc's shareholders.

On 6 July 2022, the UK Government Business Secretary cleared the acquisition to proceed. The acquisition completed on 1 August 2022 and Ultra Electronics Holdings plc was de-listed from the London Stock Exchange and renamed Ultra Electronics Holdings Limited. This report includes the consolidated financial statements of Cobham Ultra SeniorCo S.à r.l. ("the Company") and its subsidiaries ("the Group") for the period ended 31 December 2022. The results of Ultra Electronics Holdings Limited and its subsidiaries are consolidated into Cobham Ultra SeniorCo S.à r.l. from 1 August 2022, the date of acquisition, consequently these financial statements reflect only five months of Ultra trading, not the full 12 months from 1 January 2022 to 31 December 2022.

Background on Advent International

Founded in 1984, Advent International is one of the largest and most experienced global private equity firms. With offices on four continents, it has a globally integrated team of more than 250 investment professionals, focused on buyouts and growth equity investments in five core sectors. Since initiating its private equity strategy in 1989, Advent International has invested $65bn in over 400 private equity investments across 42 countries and, as at 31 December 2022, managed $89bn in assets. The Advent International fund investing in Cobham and Ultra is Advent International GPE IX.

During the acquisition of Ultra, entities controlled by funds managed by Advent International made certain undertakings to regulatory authorities in the UK and continue to ensure full compliance with these commitments.

This example clearly states the history of the ownership of the company and provides details of the transaction to purchase the company during the year. There is good information on the background of the private equity firm.

2. Details on board composition

Requirement

The report should give detail on the composition of the board, identifying separately executives of the company, directors who are executives or representatives of the private equity firm and directors brought in from outside to add relevant industry or other experience.

Basic compliance

The Companies Act requires the disclosure of the directors of the company but this is not, by itself, sufficient to meet this requirement of the Guidelines. Additional disclosures are required to highlight which of the directors are also directors of, or had been appointed by, the private equity firm.

Good practice

Attributes of good practice include:

- Additional explanations of the industry and other relevant experience that external directors bring to the company.
- Disclosure of other appointments.

Excellent practice

Excellent practice disclosures are achieved where they stand out over and above the requirements of the Guidelines, akin to examples of transparency and disclosure in the higher end of the listed reporting space. A company would be expected to include all relevant attributes listed above and go beyond this in order to achieve this classification.

D&G – 31 March 2023 (Excellent practice)

Nina Bhatia
Independent Non-Executive Director

Appointed
April 2019

Committee Membership
Remuneration

Biography
Nina is currently the Executive Director, Strategy & Commercial Development at the John Lewis Partnership. Nina was previously Managing Director of Hive, a smart home business owned by Centrica. She also ran a national home services business for British Gas. Nina spent 23 years at McKinsey & Co., was elected a Partner in 1999 and served clients in multiple sectors including energy, media, healthcare and government.

External appointments
Nina is Executive Director, Strategy & Commercial Development at the John Lewis Partnership.

Robin (Pev) Hooper
Non-Executive Director

Appointed
August 2013

Committee Membership
Remuneration (Chair)

Biography
Pev Hooper is a Managing Partner at CVC, he co-leads CVC's private equity activities in the UK and is based in London.

He joined CVC in 2003 after working in mergers and acquisitions at Citigroup and Schroders. He holds an MA degree from Oxford University. Pev brings a range of UK consumer financial services experience from his time on the boards of FCA/PRA regulated businesses such as NewDay (a leading consumer credit provider) and the RAC (leading roadside recovery provider and insurance broker).

External appointments
Pev serves on the board of the RAC, NewDay, Away Resorts, Lipton Teas, Premiership Rugby & Six Nations Rugby.

Martin Iacoponi
Non-Executive Director

Appointed
November 2021

Committee Membership
Audit & Risk (D&G)
Remuneration
Sustainability[1]

Biography
Martin is a Managing Director at CVC and joined in 2015. Prior to joining CVC, Martin worked at Credit Suisse.

External appointments
Martin serves on the board of RiverStone International Limited and has also been involved with CVC Funds' investments in Pensions Insurance Corporation, NewDay, Paysafe and TMF.

Barbara Merry
Independent Non-Executive Director of DGI – the Group's UK regulated operating entity

Appointed
September 2014

Committee Membership
Audit & Risk (Chair – DGI)
Sustainability[1]

Biography
Barbara is a Chartered Accountant with a wealth of experience in the insurance industry and underwriting sector, serving for 12 years as CEO of Hardy Underwriting Group and prior to that, as Managing Director of the Omega Group. She was also a general manager with the Corporation of Lloyds for some 14 years.

External appointments
Barbara is a non-executive director with Pool Reinsurance Company Limited, Argus Group Holdings, Berkshire Hathaway International Insurance Limited, Berkshire Hathaway European Insurance DAC, BGC Brokers LP and BGC European Holdings LP.

This example identifies all directors, including those appointed on behalf of the private equity firm, and provides additional detail on their relevant experiences and skills. This includes detail on committee roles held by each private equity director, and the key activities of each committee.

3. Financial review – Position

Requirement

The financial review should cover risk management objectives and policies in the light of the principal financial risks and uncertainties facing the company, including those relating to leverage, with links to appropriate detail in the footnotes to the balance sheet and cash flow section of the financial statements.

To cover the financial review requirement the analysis has been split into two parts. The first looks at information on the position of the entity at year end. The second looks at the financial risks identified (see page 7).

Basic compliance

The review of financial position should include an explanation of the year end debt and capital structure of the company and its funding requirements. This should be linked into the financial statements and notes through appropriate cross referencing.

Good practice

Attributes of good practice include:

- An analysis of the components of debt and the repayment schedule.
- Discussion and quantification of debt covenants.
- A discussion of gearing and leverage.
- A reconciliation of the year end net debt position to the prior year (or to free cash flow).
- Where non-GAAP measures (for example, net debt and free cash flow) are used to support the discussion in the financial review these are appropriately reconciled to the financial statements.
- Proforma information, where appropriate, to enable meaningful comparatives to be provided (for example where the portfolio company is a NewCo acquisition vehicle in its first years of reporting).

Excellent practice

Excellent practice disclosures are achieved where they stand out over and above the requirements of the Guidelines, akin to examples of transparency and disclosure in the higher end of the listed reporting space. A company would be expected to include all relevant attributes listed above and go beyond this in order to achieve this classification.

ASDA – 31 December 2022 (Excellent practice)

Capital Structure and Net Debt

The Group is funded through a capital structure of equity, external debt and cash on balance sheet. The table below provides a summary of the net debt as at 31 December 2022.

Facility	Amount (£m)	Maturity	Interest	Notes
Term Loan A	**195**	Aug-25	SONIA + 3.25%	
Term Loan B	**€845**	Feb-26	EURIBOR + 2.75%	Fixed via cross-currency rate swap at effective rate of 3.73% until Feb-24
Senior Unsecured Notes	**500**	Feb-27	4.00%	
Senior Secured Notes	**2,250**	Feb-26	3.25%	
Senior Secured Notes	**500**	Feb-26	4.50%	
Arthur Additional Bridge Facility	**200**	Oct-23	SONIA +7.75%	Option to extend facility for a further 12 months Rate increases to SONIA + 8.00% upon extension
Revolving Credit Facility	**500**	Jul-25	SONIA + 3.25%	Commitment fee of 0.975%. Interest payable on any drawn portion only
Cash and cash equivalents	**663**			

The Group has a number of covenants in place in respect of its financing structure which, among other things, restrict the Group from entering into certain transactions. This includes limitations on the incurrence of additional indebtedness, and restrictions on certain types of payments, liens, dividends, sale of assets, affiliate transactions and mergers and acquisitions. The Group is also required to test certain financial covenants at each quarter end. The Group has policies and procedures in place to ensure that it continues to comply with its covenants. Asda was compliant with its covenants throughout FY22.

The capital structure has enabled the business to be resilient during a challenging trading period as well as providing investment to drive growth through investment in strategic initiatives and through the recent acquisition of Arthur Foodstores Ltd.

Please refer to the Consolidated Balance Sheet and Note 20, Borrowings, in the Notes to the Financial Statements for further information.

Liquidity

Asda is a highly cash generative business and has access to liquidity in the form of cash on balance sheet and a revolving credit facility of £500m.

The Group also benefits from supply chain finance facilities in place which enable suppliers participating in the programme to receive payment sooner than its standard payment terms. The facility is at no cost to the Group. Please refer to Note 19 Financial Instruments to the Financial Statements for further information about this and the Group's other working capital facilities.

Reconciliation of Adjusted EBITDA to Free Cash Flow

Unaudited	**FY22**	**FY21 (annualised)**
Adjusted EBITDA	**886**	**1,172**
Capital Expenditure	276	419
Free Cash Flow	**610**	**753**

This example includes an extensive discussion of the capital structure and net debt with appropriate cross-referencing to the notes to the financial statements. The liquidity of the business is discussed and non-GAAP financial measures are reconciled to financial statement information.

4. Financial review – Financial risks

Requirement

The financial review should cover risk management objectives and policies in the light of the principal financial risks and uncertainties facing the company, including those relating to leverage, with links to appropriate detail in the footnotes to the balance sheet and cash flow section of the financial statements.

Basic compliance

The review of financial position requirements should include the following:

- Discussion in the financial statements of the overall risk management objectives and policies of the company.
- Discussion of the risk management policies relating to the company's leverage.

Good practice

Attributes of good practice include:

- More detailed discussion in the financial statements of the overall risk management objectives and policies.
- Discussion focused on the key financial risks identified, for example, liquidity and cash flow, credit, interest rate, and how the risk management policies aim to address these risks.
- Quantitative information is included to support the discussion on risks.
- Disclosure of the likelihood and impact of these risks and clear linkage to how they are managed and monitored.

Excellent practice

Excellent practice disclosures are achieved where they stand out over and above the requirements of the Guidelines, akin to examples of transparency and disclosure in the higher end of the listed reporting space. A company would be expected to include all relevant attributes listed above and go beyond this in order to achieve this classification.

Esure Group – 31 December 2022 (Good practice)

Market Risk Interest Rate Equity Spread Concentration	**Definition** Market Risk represents the uncertainty in the financial position due to fluctuations in the level and volatility of market prices of assets and liabilities. **Current risk profile** Uncertainty in general market conditions is driven by potential interest rate rises by central banks; and geopolitical developments such as the Russian invasion of Ukraine. Climate risks could impact market risk. These arise from the potential impact of the global transition to a lower-carbon economy.	• The investment strategy is set with consideration to the overall market risk appetite. • Market risk is managed against this appetite through regular monitoring of issues including the drivers of investment return and value at risk measures, counterparty exposures, asset liability management and the interest rate sensitivities of our assets and liabilities. • The investment strategy does not materially expose the Group to currency risk or the risks arising from active trading of derivatives. • The Group policy concerning market risk aligns and ensures compliance with Solvency II 'Prudent Person Principle' requirements.
Credit Risk Reinsurance Counterparty Supplier	**Definition** Credit Risk is the loss or adverse change in the Group's financial situation resulting from fluctuations in the credit standing or default of counterparties to which the Group is exposed (note that investment counterparties are included within market risk). **Current risk profile** The Group has a low appetite for credit risk. The most material exposures are through its reinsurance counterparties.	• We evaluate the creditworthiness of reinsurers and concentration against our risk appetite metrics. These are monitored prior to the finalisation of any reinsurance contract and on an ongoing basis. • As part of the Group's supplier management process, credit exposures to significant third parties are monitored regularly.
Solvency and Liquidity Risk Solvency Liquidity	**Definition** Solvency Risk is the risk that the Group has insufficient capital to meet regulatory requirements. Liquidity risk is the risk that the Group is unable to realise investments and other assets to settle financial obligations when they fall due. **Current risk profile** The Group is currently operating within its desired solvency operating range and liquidity risk profile.	• Solvency risk is managed through the ORSA processes which include stress and scenario testing of a range of events and decisions. • Liquidity risk is assessed by considering the Group's operating cash flows, stressed for catastrophe scenarios, and liquidity strains. • Regulatory risks that could impact solvency are monitored through our close relationship with the Prudential Regulation Authority (PRA) and other bodies.

This example provides a comprehensive discussion of the key financial risks that the Group faces and how these are managed. It includes detail on how management assess each risk and their appetite for risk.

Across the full sample of companies which have been reviewed in the current year, there were none which were noted to be excellent practice therefore the above meets the requirement for "good practice".

5. Balanced and comprehensive analysis of development and performance during the year and position at the year end

Requirement

The strategic report must contain a balanced and comprehensive analysis of development and performance of the company's business during the year and position at the end. The purpose of this is to inform the members of the company and help them assess how the directors have performed their duty.

Basic compliance

In order to provide sufficient insight into a company's development and performance during the year and its position at the end of the year, this should be a fair reflection of the performance and provide appropriate context to the discussion such as the market environment in which the company operates.

Good practice

Attributes of good practice include:

- Strategy used to structure the content of the discussion to provide a clear alignment of strategic priorities, development and performance.
- Explanation of the performance in the wider market context.
- Discussion at an appropriate divisional level to demonstrate how different parts of the business are performing.

Excellent practice

Excellent practice disclosures are achieved where they stand out over and above the requirements of the Guidelines, akin to examples of transparency and disclosure in the higher end of the listed reporting space. A company would be expected to include all relevant attributes listed above and go beyond this in order to achieve this classification.

ASDA – 31 December 2022 (Excellent practice)

Summary

FY22 marked the first full financial year under the Group's new ownership. The year presented a range of macro-economic challenges: as the world emerged from the global pandemic, Russia's invasion of Ukraine sparked an energy crisis, which further accelerated growing inflation. As a result, cost-of-living pressures have continued to create uncertainty for customers and businesses alike.

Against this backdrop, Asda recorded a resilient performance in the year ended 31 December 2022 ("FY22"), with sales flat to the prior year. The Group focused on initiatives to support customers in the cost-of-living crisis and protect market share by investing in price and quality. In addition, supply side inflation impacting the cost of goods and energy costs, alongside wage increases to support colleagues, all contributed to reduced profitability, with Adjusted EBITDA of £886m 24% lower than the prior year.

The Group remained highly cash generative, with Free Cash Flow of £610m in the year (FY21 annualised: £753m).

In October 2022 Asda Stores Ltd, a subsidiary within the Group, acquired 132 convenience sites from the Co-operative Group, Arthur Foodstores Ltd. This marks a significant step for the group into the convenience market. An Initial Enforcement Order is in place from the Competition and Markets Authority whilst it undertakes an investigation on the transaction. As a result, the Group is not deemed to have control and the financial results of Arthur Foodstores Ltd have therefore not been consolidated into the Group's accounts for FY22.

On 14 March 2023 the CMA delivered its Phase 1 decision in respect of its investigation into the transaction. They identified 13 potential areas for competition concern, with the potential for local remedies. The Group has offered to dispose of the 13 sites in question and the CMA has indicated that it considers that there are reasonable grounds for believing that the undertakings offered, or a modified version of them, might be accepted under the Enterprise Act 2002.

Further detail of performance in the year is discussed below.

Food

In the first six months of FY22 ("H1 22") the Group experienced like-for-like decline in sales due to Covid-19 related lockdowns in the prior year which led to an increase in at-home grocery consumption. The lockdown was in place for the majority of Q1 21, with some restrictions continuing into Q2 and beyond. The Group also experienced loss of market share over H1 which further contributed to like-for-like sales declines.

Non-food

In non-food sales, performance in Q1 was similarly lower than the comparative period in FY21 when Asda benefited from non-essential retail stores being closed during Covid-19 lockdowns. Sales in both clothing and general merchandise were also impacted by supply chain challenges from Q4 21 which led to the wrong stock being in place in the early part of the year. Direction provided by new leadership contributed to significant improvement in sales momentum in Q2 22, in particular following the Jubilee Weekend, when our proposition appealed strongly to customers and we delivered new relevant product. In Q3, clothing grew ahead of the market, with particular strengths in women's wear and back to school sales, supported by improvements in merchandising and in-store shopping experience following reopening fitting rooms after Covid-related closures. George is the market leader in children's wear, baby wear and school wear[1]. In Q4, clothing sales were impacted by availability challenges resulting which arose during a major system upgrade. Some issues with the transfer to the new system led to challenges in visibility and allocating stock, preventing product from being distributed around the store network appropriately; however sales recovered in December

This example provides extensive discussion on current year performance with commentary given for the overall business and then split by food, non-food and online sectors.

6. Principal risks and uncertainties facing the company

Requirement

The strategic report must contain a description of the principal risks and uncertainties facing the company.

Basic compliance

To comply with this requirement, the strategic report should contain an explicit identification of the principal risks and uncertainties facing the company. The definition of 'principal' may be unique to a business and the number identified will be dependent on a business size and complexity, however in order to be meaningful long lists of boiler plate risks should be avoided.

Good practice

Attributes of good practice include:

- Clear alignment between strategy and risks.
- Explanation of how each risk is managed.
- Assessment of the risk profile – the likelihood versus the impact of each risk – and an explanation of how the profile has changed during the year.

Excellent practice

Excellent practice disclosures are achieved where they stand out over and above the requirements of the Guidelines, akin to examples of transparency and disclosure in the higher end of the listed reporting space. A company would be expected to include all relevant attributes listed above and go beyond this in order to achieve this classification.

Energia Group – 31 March 2023 (Excellent practice)

Competition in generation and supply of electricity

There is a risk that increased competition in generation and supply will reduce margins. Under the I-SEM there are multiple opportunities to trade electricity. Most electricity is traded through a Day Ahead Market where a single day ahead price for each hour, determined by the day ahead price coupling solution used across Europe, is received by all generators with a market position. Capacity payments are quantity-based in the form of "reliability options" and issued through a competitive auction process. The commissioning of new generating capacity may reduce the System Marginal Price (SMP) and may lead to increased competition in the capacity auction process resulting in lower capacity payments, subject to the impact of plant retirements and overall levels of demand. Both Huntstown plants bid in the competitive capacity auctions and both have reliability options awarded for the next four capacity years (as summarised within the Flexible Generation operating review section).

The Group's main competitors in the electricity supply markets in the RoI are Electric Ireland, Bord Gáis Energy, SSE Airtricity, PrePay Power and Pinergy. The main competitors in the electricity supply markets in NI are SSE Airtricity, Electric Ireland, Budget Energy, Go Power and Click Energy. Growing competition could adversely affect the Group's retail market share and margins in both the residential and business sectors. Certain of the Group's competitors may be able to offer lower prices or incentives that may attract customers away from the Group thereby reducing its market share, which in turn, may have a material adverse effect on margins achieved and delivery of the Group's growth strategy.

Wholesale electricity price

All electricity (with limited exceptions) bought and sold across the island of Ireland is traded through the I-SEM.

The I-SEM market trading arrangements, which comprise a Day Ahead Market, Intra-Day Market and Balancing Market, have experienced volatility since the market commenced on 1 October 2018 and the Group's energy purchase and supply businesses remain exposed to energy price and volume resettlement risks. As at 31 March 2023 the market operator has resettled these markets up to 3 December 2022 for M+4 resettlement and 5 March 2022 for M+13 resettlement in line with the expected market resettlement timetable of 4 months and 13 months after initial settlement. The market has had two main system fixes released over the last year however further market fixes are required to be implemented before the market settlement solution can be considered fully aligned to the market code requirements, with a number of additional resettlements to occur ranging across the full 54-month period since the market commenced. The Group therefore continues to be exposed to potential price resettlements in the balancing market and estimates the level of resettlement that may be applied. These estimates are based on known market anomalies as discussed in industry forums and facts and circumstances as at the Balance Sheet date. Estimations are dependent on the resettlement approach taken by the market operator.

Throughout FY23 commodity markets for gas and carbon continued to experience high and volatile prices, albeit the later part of the year did see prices reduce somewhat from the levels earlier in the year, which impacted I-SEM market prices for electricity. Ongoing geopolitical circumstances continue to

Huntstown CCGTs and wind farm availability

Energia Group runs the risk of interruptions to the availability of its Huntstown 1 and 2 CCGTs and its wind farms. Unscheduled interruptions to availability risks asset output performance levels.

For the Huntstown CCGTs, this risk is managed by having long-term maintenance agreements in place with the plants' Original Equipment Manufacturers (OEM), Siemens and Mitsubishi. Energia Group operates the plants to the manufacturers' guidelines within a suite of International Organization for Standardization (ISO) approved operation, maintenance and safety policies and procedures. The plant designs incorporate industry accepted levels of redundancy for critical plant components and there is regular testing of back up services and standby equipment.

The availability of wind farm assets is managed through maintenance contracts with the original turbine manufacturers and third parties. The Group's Renewables Business is also certified to ISO 55001:2014 Asset Management in respect of its asset management system for renewable generation assets. ISO 55001:2014 is the international standard for asset management and associated life cycle engineering.

This examples clearly identifies specific risks to the business, and includes information around what the risk is, how and why it is affecting the business and how it links to the strategy of the company. There is an assessment of the risk profile and how it has impacted the current year, including the reasons for this through external pressures and the company's plans to mitigate that risk.

IRIS Software – 20 April 2023 (Excellent practice)

Risk	Mitigation
Disruption of IT Systems and Networks, including Cyber Risk The Group's business operations rely on the efficient and uninterrupted operation of its information technology systems and networks. Loss of access, loss of customer data, and GDPR fines present a risk if not properly managed. 	IRIS continues to invest in cyber security measures, including improvements to identity protection, security monitoring and ransomware defence. We have increased the scope of our cyber essentials certification to the whole business and have implemented a new security policy framework to support our global regulatory requirements. Extensive investments have been made in preventative security capabilities within our software development processes. These include developer training, improvements in architectural governance and standardisation, as well as technical capabilities to ensure all strategic products use tools to detect threats from our software supply chain and threats from defects in code.

This example uses infographics to illustrate the group's assessment of the risk, it's impact and mitigation, and how this has changed since the previous year.

7. Key performance indicators – Financial

Requirement

The strategic report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include analysis using financial key performance indicators. 'Key performance indicators' means factors by reference to which the development, performance or position of the company's business can be measured effectively.

Basic compliance

For ease of confirming compliance and effective communication companies should explicitly disclose their financial KPIs and not leave it up to the readers to deduce what management consider to be 'key'.

Good practice

Good practice reporting goes further than just identifying KPIs and also provides:

- A clear alignment of KPIs to the company's strategic priorities and remuneration policies so that their relevance as a basis for management's assessment of strategic success is clear.
- An explanation of why each KPI has been included – it should be clear why this would be considered key.
- A definition of how they have been calculated.
- Quantified trend data.
- Targets or milestones, whether qualitative or quantitative.

Excellent practice

Excellent practice disclosures are achieved where they stand out over and above the requirements of the Guidelines, akin to examples of transparency and disclosure in the higher end of the listed reporting space. A company would be expected to include all relevant attributes listed above and go beyond this in order to achieve this classification.

Energia Group – 31 March 2023 (Excellent practice)

Financial KPIs

The financial KPIs are:

- Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA);
- Capital expenditure; and
- Net debt.

The EBITDA KPI is pro-forma EBITDA which is based on regulated entitlement and before exceptional items and certain remeasurements as outlined in note 4.

Financial performance

The Renewables financial KPIs are shown below:

	2023 €m	2022 €m
EBITDA[1]	224.5	211.5
Capital expenditure	40.6	14.7

[1] Based on regulated entitlement and before exceptional items and certain remeasurements as outlined in note 4.

Renewables EBITDA increased to €224.5m (2022 - €211.5m) primarily reflecting higher wind generation assets EBITDA (due to higher wind volumes across the portfolio, higher energy prices benefitting NI assets (partly offset by the Electricity Generator Levy on NI assets effective January 2023) and lower operating and development project costs). EBITDA from the renewable PPAs was broadly in line with last year (with higher wind volumes and higher energy prices largely offset by the impact of the RoI Inframarginal Revenue Cap effective December 2022).

Renewables capital expenditure increased to €40.6m (2022 - €14.7m) primarily reflecting capital expenditure on development projects (notably including the construction of the Drumlin on-shore windfarm project and expenditure on offshore projects).

This example clearly and explicitly disclosed their financial KPIs including quantifiable information and narrative for the business as a whole, and then split by business segments.

Stagecoach Group – 29 April 2023 (Excellent practice)

KPI 1 – profitability

The overall strategy of the Group is intended to promote the success of the Group and create long-term value to shareholders. In the shorter term, we measure progress towards this overall aspiration by monitoring Earnings before Interest, Tax, Depreciation and Amortisation before separately disclosed items.

Profitability

Earnings before Interest, Tax, Depreciation and Amortisation, before separately disclosed items ("Adjusted EBITDA") is used to measure the profitability of the Group for the year.

Adjusted EBITDA was as follows:

	Year ended 29 April 2023 £m	Year ended (restated) 30 April 2022	Year ended 1 May 2021
Adjusted EBITDA	**190.3**	183.9	166.7

Sections 1.3 and 1.5 of this Annual Report include comments on the development of the Group's profitability.

Financial KPIs are clearly stated and defined, with quantified trend data for the current and previous years. Discussion on KPIs is linked to the group strategy and the wider business performance in the year.

8. Key performance indicators – Non-financial

Requirement

The strategic report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include, where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters. 'Key performance indicators' means factors by reference to which the development, performance or position of the company's business can be measured effectively.

Basic compliance

For ease of confirming compliance and effective communication companies should explicitly disclose their non-financial KPIs and not leave it up to the readers to deduce what management consider 'key'.

For instance, many companies state that their employees, customers or suppliers are important to the ongoing success of their business. In these circumstances there would be a reasonable expectation by the reader to see employee, customer or supplier-based KPIs as a means to demonstrate performance. The relative importance of certain KPIs will differ depending on the company's industry.

Good practice

Good practice reporting goes further than just identifying KPIs and also provides:

- Clear alignment of strategic priorities and non-financial KPIs.
- An explanation of why each KPI has been included and a definition of how they have been calculated.
- Quantified trend data, targets and milestones, whether qualitative or quantitative.

Excellent practice

Excellent practice disclosures are achieved where they stand out over and above the requirements of the Guidelines, akin to examples of transparency and disclosure in the higher end of the listed reporting space. A company would be expected to include all relevant attributes listed above and go beyond this in order to achieve this classification.

Energia Group – 31 March 2023 (Excellent practice)

Operational KPIs

The operational KPIs are:

Renewables

- the average annual and year end capacity (MW) of wind generation in operation in the RoI and NI;
- availability (the percentage of time wind generation assets are available to produce full output);
- wind factor (the indicative net output of the available wind generation assets after dispatch losses); and
- the average annual and year end capacity (MW) of contracted renewable generation in operation in the RoI and NI.

KPIs	2023	2022
Wind generation assets owned Wind generation capacity in operation in the RoI and NI		
- average during the year (MW)	309	309
- at 31 March (MW)	309	309
Availability (%)	97.6	97.1
Wind factor (%)	25.7	23.8
Renewable PPA portfolio Contracted renewable generation capacity in operation in the RoI and NI		
- average during the year (MW)	1,266	1,282
- at 31 March (MW)	1,247	1,282

This example details non-financial KPIs for the group as a whole and then breaks down each KPI by business segment. KPIs are discussed with movements and what has driven them, why the KPI has been included and how they have been calculated.

Stagecoach Group – 29 April 2023 (Excellent practice)

KPIs 3 and 4 – safety and service delivery

To deliver organic growth in revenue, we aim to provide safe and reliable transport services that people want to use. We measure safety and service delivery using a range of measures appropriate for each business.

Further details on how we calculate these key performance indicators, our targets and our recent performance is summarised below.

Service delivery

Our measures of service delivery include reliability measured as the percentage of planned vehicle miles to be operated that were operated.

Service delivery KPIs are not reported for businesses acquired or disposed of in the year.

The service delivery KPIs were as follows:

	Target	Year ended 29 April 2023 %	Year ended 30 April 2022 %	Year ended 1 May 2021 %
UK Bus (regional operations) reliability	**>99.0%**	**96.9%**	97.5%	99.7%
UK Bus (London) reliability	**>99.0%**	**97.7%**	98.5%	99.2%

During the year ended 29 April 2023, operational reliability across the business has been adversely impacted by staff shortages, resulting in higher lost mileage than we would typically expect in our business. The improved operational reliability in the year ended 1 May 2021 reflects the reduced disruption to bus services due to less traffic congestion during the COVID-19 pandemic and increased vehicle availability whilst lower levels of vehicle mileage were being operated.

This example includes a number of non-financial KPIs which are clearly defined and linked to the group's strategy. Trend data is provided along with a target figure to give context to the data, and narrative is included to explain the reasoning for movements in KPIs in the year.

9. Strategy

Requirement

The strategic report, should clearly articulate how the business intends to achieve its objectives.

Basic compliance

The strategy should underpin the reporting and provide a context for the activities and performance of the company. Strategic statements set in isolation from the rest of the company reporting can appear as hollow statements of intent.

Good practice

Attributes of good practice include:

- Clear statement of the strategy and this is used to underpin the remainder of the report.
- A clear articulation of the company's strategy will explain the strategic themes, targets, time frames and add further clarity to the reporting.

Excellent practice

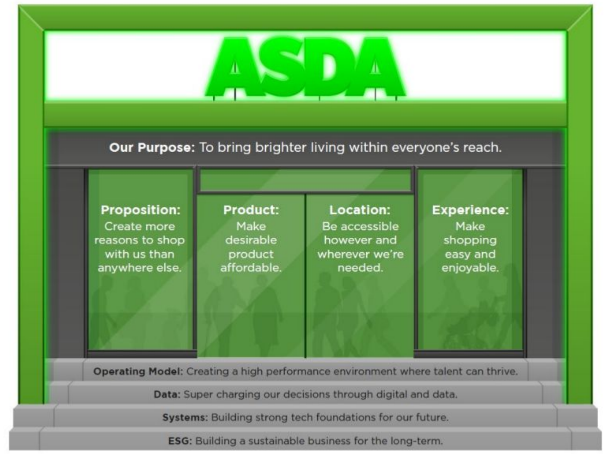
Excellent practice disclosures are achieved where they stand out over and above the requirements of the Guidelines, akin to examples of transparency and disclosure in the higher end of the listed reporting space. A company would be expected to include all relevant attributes listed above and go beyond this in order to achieve this classification.

ASDA – 31 December 2022 (Excellent practice)

Our purpose it to bring brighter living within everyone's reach.

It is the reason we exist and defines what we aim to deliver for our customers.

Our strategy is the means by which we will achieve our purpose. It is centred around four strategic pillars which guide our business priorities and planning: **proposition, product, location and experience**. These priorities aim to deliver growth for the Group by being customers' supermarket of choice in the highly competitive UK grocery market, enabling us to achieve our ultimate goal of regaining our number two position in UK grocery market share from our current third position.



The strategy is well defined by four strategic pillars, underpinned by four enablers and the Group's values. This links in with every section of the report, focusing on the clear objectives and strategic themes.

D&G – 31 March 2023 (Excellent practice)

This example gives the strategy of the business with a clear statement and then breaks this down into three key objectives which are explained in detail.

10. Business model

Requirement

The strategic report must include a description of the business model.

Basic compliance

The business model should as a minimum identify what the company does to create value and how they do it.

Good practice

Attributes of good practice include:

- An explanation of how the business model builds on the strategy that is set out in the strategic report.
- Gives reference to the key capabilities, resources and relationships the company uses to create and sustain value.
- Where businesses operate distinct business models with divisions, further disclosures may be required to provide meaningful information that aids understanding of how a company operates.

Excellent practice

Excellent practice disclosures are achieved where they stand out over and above the requirements of the Guidelines, akin to examples of transparency and disclosure in the higher end of the listed reporting space. A company would be expected to include all relevant attributes listed above and go beyond this in order to achieve this classification.

Stagecoach Group – 29 April 2023 (Excellent practice)

Stagecoach Group's purpose

What we do

We operate bus, coach and tram services covering locations across the UK.

Why we do it

Our purpose is to connect communities to the people and places that matter most. We aim to connect people in a sustainable way, which is better for the environment. To achieve that, we seek to provide safe, high quality, sustainable and reliable transport at good value for money for customers.

We support, directly and indirectly, many businesses and thousands of sustainable jobs.

How we create stakeholder value

By applying our commitment to operational and commercial excellence, we aim to provide a great experience to our customers and our people. Through our sustainable transport services, we can create a healthier environment for our communities. We believe that in these ways, we can create long-term sustainable value for shareholders and other stakeholders.

Stagecoach Group is a leading public transport group. The Group employs around 23,000 people and operates bus, coach and tram services. The Group has three main segments – UK Bus (regional operations), UK Bus (London) and UK Rail.

We offer greener, smarter travel in the UK and our principal business is providing passenger transport services, primarily by transporting people by bus, coach or tram.

This section 1.4.1 summarises the Group's business model. The remaining parts of section 1.4 are also important to an understanding of our business model and we cross-reference them where appropriate.

Stagecoach Group Limited is a private limited company that is incorporated, domiciled and has its registered office in Scotland. Until 28 June 2022, the Company's ordinary shares traded on the London Stock Exchange. The Company is now owned by Inframobility UK Bidco Limited, which is indirectly owned by an international infrastructure fund managed and advised by DWS Infrastructure.

Throughout this Annual Report, Stagecoach Group Limited is referred to as "the Company" and the group headed by it is referred to as "Stagecoach" and/or "the Group".

Section 1.4.2 summarises our strategy and section 1.4.3 explains what we do and provides a description of each of our key business segments, markets and where appropriate, market share.

Sources of revenue

We have a number of revenue streams, principally arising from:

- amounts we receive from individuals or groups of individuals to travel on our transport services;
- amounts we receive from government bodies in respect of travel by individuals on our transport services – for example, in the UK, older people, people with disabilities and younger people in some parts of the country, are legally entitled to travel on our bus services at certain times free of charge but we receive revenue from government bodies in respect of that travel;
- amounts we receive from government bodies as payment to us for operating transport services under contract – for example, Transport for London pays us to run specified bus services. Any amount payable by individual passengers flows to Transport for London and our revenue would be from that authority;
- amounts we receive from corporations or others for operating transport services under contract – for example, a university might pay us to operate a bus service to shuttle students around its campus;
- subsidy we receive from government bodies to financially support the operation of transport services they consider to be socially or economically desirable;
- commissions for selling travel on other operators' transport services;
- undertaking maintenance work on other operators' vehicles;
- selling fuel to other transport operators.

We also receive other income, which may include income from:

- property rental;
- selling advertising space on vehicles and premises we operate;
- government grant income to support transport networks affected by the COVID-19 situation.

Competitive advantages

We see our key sources of competitive advantage as being:

- Our operational excellence – providing safe, reliable, good quality, value for money, customer-focused transport services;
- Innovation – we have a long record of innovation;
- Our commercial expertise in designing transport networks, pricing our services and marketing our services;
- Our brands – our operational excellence and commercial expertise is reflected in our generally high customer satisfaction scores meaning that our key brands are well regarded in their respective markets;
- Our relationships – we view our relationships with employees, trade unions and government bodies, in particular, as key advantages to our business;
- The economies of scale of being a relatively large transport provider.

This example provides excellent detail on the activities of the business and breaks this down to how revenue is generated, how the business seeks to achieve competitive advantages and create value for stakeholders.

11. Trends and factors affecting future development, performance or position

Requirement

The strategic report must, 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 the future development, performance and position of the company's business.

Basic compliance

The strategic report should have a high-level forward-looking orientation explaining the trends and factors likely to influence the business including market trends, future strategic priorities or investment in research and development. This could be throughout the annual report or in a specifically headed section.

Good practice

Attributes of good practice include:

- Discussion of drivers shaping the future growth of markets in which a company operates
- Reference to the macro-economic, competitive or regulatory trends and factors shaping the business and identification of product pipeline and expected market size.
- Discussion of future trends and factors are supported by quantifiable evidence.

Excellent practice

Excellent practice disclosures are achieved where they stand out over and above the requirements of the Guidelines, akin to examples of transparency and disclosure in the higher end of the listed reporting space. A company would be expected to include all relevant attributes listed above and go beyond this in order to achieve this classification.

LGC – 31st March 2023 (Good practice)

TRENDS AND FACTORS AFFECTING FUTURE DEVELOPMENT AND PERFORMANCE

Our success and financial performance are dependent on our ability to continue to serve as a trusted, long-term partner to our large and diverse customer base.

As a provider of life science tools, our performance benefits from long term macro trends. These trends include:

- A growing, ageing and more affluent global population with increasingly high expectations of the healthcare they receive. They expect safety guarantees around the food they consume and monitoring of the environment in which they live. Together, these have led to increased global spending within the human healthcare and applied market segments;
- Market participants, from multinational In Vitro Diagnostics (IVDs) providers, pharmaceutical and food companies, to early-stage biotechnology companies, operate in increasingly highly-regulated environments. They are measured against both established and often-enhanced governmental and industry standards which have driven demand for our products and solutions; and
- Life science innovators developing new technologies, or new applications for established technologies, which drive human progress and create new markets for life science practitioners and the tools they use, which result in growing demand for our products and solutions.

We have made, and intend to continue to make, targeted investments across a number of high growth application areas, such as advanced therapeutics and diagnostics for human health. Our success is dependent on our ability to manage and execute on these investments. Our current major capital expenditure projects include:

- Strengthening nucleic acid therapeutics capabilities further, with the strategic investment in a new laboratory in Berlin, Germany, dedicated to medium to large scale and early- to late-phase clinical GMP manufacturing of nucleic acid therapeutics; and
- Consolidating existing locations in Toronto into a 203,000 sq. ft., purpose-built centre of excellence for organic synthetic chemistry.

We have made, and intend to continue to make, strategic acquisitions in existing and adjacent customer market segments to supplement organic growth, solidify our current market presence and expand into new areas.

This example provides details of how changes in the wider macro environment will impact the future development of the business.

Chime Communications – 31 December 2022 (Good practice)

In brand and communications, we are very much focused on the areas that are central to the developing needs of our clients. These include:

- Data proficiency, with data literacy becoming essential in driving business value, demonstrated by its formal inclusion in over 80% of data and analytics strategies and change management programmes (Gartner, 2022).
- With 80% of companies having not made CX a part of their brand identity, 56% of marketing leaders say improving the experience of customers will be a top priority for supporting their company's business strategy during the next two years.
- The convergence of digital and physical retail experiences, with brand leaders (75%) saying they will invest more in delivering hybrid experiences over the next 12 months.*

*Source: Deloitte, 2022

When it comes to the **global sport sponsorship** market, it is estimated to have reached US$77.69bn, a rise from US$71.89bn in 2021. Meanwhile, the sector is expected to experience CAGR of 8.32%, to reach US$116.17bn by 2027 (Business Wire, 2022). Furthermore, research shows that sponsorship continues to reflect a large proportion of marketing budget – rising from an average of 19% in 2021, to 21.3% in 2022 (Nielsen, 2022).

This example provides information on expected growth within the company's industry and how this may affect the future performance of the business.

Across the full sample of companies which have been reviewed in the current year, there were none which were noted to be excellent practice therefore the above meets the requirement for "good practice".

12. Environmental matters

Requirement

The business review must, 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), including information about any policies of the company in relation to those matters and the effectiveness of those policies.

Disclosures concerning greenhouse gas emissions are not a mandatory requirement under the updated Guidelines. However where this information is available and is significant to the understanding of the portfolio company and its operations, its inclusion could only improve the transparency and quality of reporting.

Basic compliance

Basic compliance includes a discussion of the environmental matters affecting the business, the policies in place to address them, and the impact of these policies.

The type of disclosure required is, naturally, dependent on the nature of the business. For example it would be expected that water companies would focus on discussions about the level of water wastage and food manufactures would focus on reducing packaging, the levels of salt and hydrogenated fats in food.

Good practice

Attributes of good practice include:

- Discussion of the specific actions taken to address the environmental matters identified, supported by quantifiable evidence and specific targets where applicable.
- Clear explanation, and alignment, of the specific environmental matters and strategy.
- Extracts from a company's Corporate and Social Responsibility Report often provide the most relevant disclosure this can be cross-referenced to avoid.

Excellent practice

Excellent practice disclosures are achieved where they stand out over and above the requirements of the Guidelines, akin to examples of transparency and disclosure in the higher end of the listed reporting space. A company would be expected to include all relevant attributes listed above and go beyond this in order to achieve this classification.

Morrisons – 31 January 2023 (Excellent practice)

Our environment

We know our long-term success depends on the sustainable use of the planet's resources.

Climate change

The food system is a significant contributor to climate change and we recognise the urgent need to develop innovative approaches to reduce greenhouse gas ('GHG') emissions and transform food production and consumption. As a leading retailer, we know we must play our part, which is why we have been taking action in our own operations and our wider value chain to reduce our carbon footprint.

We are committed to targets and in our own operations (referred to as Scope 1 & 2) we plan to reach net zero GHG emissions by 2035 and to reduce our value chain emissions for own-brand products by 30% by 2030 (referred to as Scope 3). We are also a signatory to the British Retail Consortium's Climate Change Roadmap. During the financial period, Morrisons has worked with the Carbon Trust to measure its emissions and set science-based carbon reduction targets. We have also worked with the Science Based Targets initiative ('SBTi') on the approval of these targets. On Scope 1 and 2 emissions, Morrisons is making the move to help limit global warming to 1.5°C, in line with the highest ambition of the international Paris Agreement - to limit temperature rises to 1.5°C above pre-industrial levels. Morrisons Scope 3 emissions will follow a well below 2°C pathway.

We are further integrating climate change into our strategic planning, and we continue to voluntarily report under the Task Force on Climate-related Financial Disclosures ('TCFD') framework (see pages 21 to 23).

Acquisition of McColl's

During the financial period, we acquired McColl's (1,160 stores). McColl's energy and emissions figures will be integrated into the Group GHG figures after the first full year of ownership, and will be included in next year's Annual Report. Within this year's report, where sufficient McColl's data exists, this has been separately reported below.

Own operations (Scopes 1 & 2) – excluding McColl's

To enable growth, whilst considering our impact on the environment, we have continued to invest in energy efficient technology and generate our own power. A summary of our energy initiatives are outlined below, which have helped us to reduce our carbon emissions by 9% versus the previous year:

- we have upgraded further sites to LED with improved lighting control and dimming capability;
- a quarter of the estate now has new HVAC controls - this upgrade helps to reduce gas and electricity consumption through improved remote heating and ventilation controls;
- we have retrofitted sites with shelf edge technology, which traps cold air within the fridge to reduce energy consumption;
- we have ensured our existing solar estate is well maintained and we continue to invest in retrofit installations on our sites and stores - now having 85 sites with solar panels;
- our replacement of refrigeration systems has continued, moving away from HFC-based refrigerants towards CO2 alternatives wherever possible;
- we have improved performance across our engagement campaigns in all sites and stores to encourage the right energy-saving behaviours, such as keeping blinds on fridges closed at night;
- we have two heat pumps live within our supermarket operation, one of which is within our lower environmental impact store at Little Clacton. At this store, we have also implemented solar panels, next generation refrigeration, voltage optimisation and rainwater harvesting, and are expecting a 43% reduction in operational carbon emissions as a result; and
- our logistics division has continued to undertake a number of activities designed to reduce the distance travelled and fuel consumed while delivering to our stores. This includes careful scheduling to minimise mileage, longer semi-trailers, and using vehicle telematics systems to encourage drivers to reduce harsh braking, acceleration and engine idling time.

Group greenhouse gas emissions methodology – excluding McColl's

We have reported for the period from 1 November 2021 to 31 October 2022. Our reporting covers a 365-day period, which is one day longer than the financial period. We have used the Government's Environmental Reporting Guidelines (2019) to prepare the report, and the emissions factors from the UK Government GHG Conversion Factors for Company Reporting.

In line with Streamlined Energy and Carbon Reporting ('SECR') requirements we have also reported on the underlying energy use used to calculate Group GHG emissions. The reporting boundary has been determined by operational control, which includes emissions from the operation of the Group's supermarkets, manufacturing, distribution sites and operation of its haulage fleet.

We exclude our Hong Kong office and Dutch Bos Brothers site, which together represent less than 0.1% of the total Group footprint and are therefore deemed immaterial.

This example includes specific actions taken and plans for the future. This includes clear explanations of the environmental impact of the related industry and includes the long term goals of the company. This is over and above the SECR disclosure requirements.

13. Employees

Requirement

The strategic report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include information about the company's employees including information about any policies of the company in relation to those matters and the effectiveness of those policies.

Basic compliance

The Companies Act requires, for all companies with greater than 250 employees, the disclosure of the company's policy in respect of the employment of disabled persons, of the health, safety and welfare at work of employees and of the involvement of employees in the management of the company. To comply with the Guidelines, to the extent that employees are considered a critical resource of the business, disclosures should also include a discussion of the management and development of employees, including recruitment, training and development practices.

Good practice

Attributes of good practice include:

- Alignment of strategy and employee policies and actions
- Detailed discussion of employee policies including benefits, share schemes and performance bonuses and explanations of how these link to performance and development
- Policies around recruitment, training and development.
- Quantifiable evidence of performance.
- Disclosure of targets, qualitative or quantitative, and discussion of performance against targets.

Excellent practice

Excellent practice disclosures are achieved where they stand out over and above the requirements of the Guidelines, akin to examples of transparency and disclosure in the higher end of the listed reporting space. A company would be expected to include all relevant attributes listed above and go beyond this in order to achieve this classification.

Ultra – 31 December 2022 (Excellent practice)

Employees

At Ultra our employee goal is to 'create a dynamic, inspiring and inclusive work environment that attracts, develops, engages and retains the best diverse talent. In 2022 we continued to invest in the people agenda whilst also ensuring that we retained and engaged critical talent throughout the lengthy Acquisition process in a buoyant external talent market. We accomplished this through delivering a number of actions within the following six key strategic HR Pillars:

1. Building the Talent Pipeline

Ensuring we have the right talent in the right place at the right time has been central to our talent acquisition agenda in 2022. We have significantly improved our strategic workforce planning which is reviewed by the executive committee in the quarterly business reviews. As a result of winning a number of bids on programs the demand for talent growth has been strong in 2022 and we invested in our in-house talent acquisition team to support this, and we continued to invest in recruitment tools to support this. Additionally, we have improved our on-boarding process having completed LEAN sprints on our process and started to work on a virtual on boarding program utilising gamification. We completed an audit of our recruitment process to ensure that it enables us to appeal to the broadest and most diverse talent pools and have also started to put in place accessibility guides for candidates interviewing at our sites.

2. Compelling Reward & Recognition

In 2022 we had to be agile in our compensation and benefit programs to ensure we retained and motivated our employees throughout the acquisition process. In August 2022 as a result of the acquisition a number of Ultra employees benefitted from the £35 share purchase through the legacy Ultra long-term incentive program and employee share schemes in place at the time.

In addition to the above, a retention payment program was put in place to retain critical leadership and functional talent through the acquisition process which was paid out 90 days post completion. This proved extremely successful in retaining talent with a very small number of exits in this population over the last year.

We have continued to run our annual bonus program with the majority of employees across the Group being included in a bonus plan. In 2022 we continued our efforts to harmonise the opportunity by levels to enable better mobility of talent. The bonus scheme is based on performance against profit and cash measures (85% of the opportunity) with an individual performance (15% of the opportunity) enabling us to differentiate awards for higher performance. With regards to the individual component, employees are set four to eight specific objectives that are aligned to the 'Objective and Key results' ("OKRs") of the business or function, and these are reviewed throughout the year but with a formal review in June and December. A rating is given for this, which is calibrated and then used in deriving bonus outcomes and as an input to salary increases.

This example is an extract of employee matters relating to recruitment, recognition and includes talent development to support employees into leadership roles.

LGC – 31st March 2023 (Excellent practice)

OUR APPROACH

Our people make our purpose of Science for a Safer World possible. We are committed to making LGC a sustainably great place to work and to improve our employee experience across our Group.

OUR PERFORMANCE THIS YEAR

We want to hear our colleagues' experiences and opinions directly from them, wherever they are in the Group. We use this feedback to focus our efforts on the activities which matter most to our people. We capture comprehensive, anonymous feedback across the year, through:

- Quarterly employee Net Promoter Score (eNPS) pulse surveys
- Our annual Employee Engagement Survey.

Findings are shared with our leadership teams to enable them to respond through targeted action plans. Findings and action plans are shared with all colleagues through relevant communications.

WHAT WE HEARD THIS YEAR

The things colleagues said they liked about working at LGC, or that we had improved on this year include:

- Action on previous survey feedback
- Work and life blend
- Management
- Collaboration and communication
- Service and quality focus.

Areas where colleagues said we can do better include:

- How we explain our plans for the future and the changes we are making
- How we manage performance and recognise our colleagues.

ACTION ON PREVIOUS FEEDBACK
I have been provided an opportunity to see and discuss employee survey results +14%

COLLABORATION AND COMMUNICATION
Other departments at LGC collaborate well with us to get the job done +4%

MANAGEMENT
My manager gives me useful feedback on how well I am performing +4%

WORK AND LIFE BLEND
I am able to arrange time out from work when I need to +3%

SERVICE AND QUALITY FOCUS
Day-to-day decisions here demonstrate that quality and improvement are top priorities +2%

This example is from a separate report which is clearly cross-referenced within the annual report. The report includes employees' initiatives undertaken and results of employee engagement schemes.

14. Social, community and human rights issues

Requirement

The strategic report must, 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, including information about any policies of the company in relation to those matters and the effectiveness of those policies.

Basic compliance

Basic compliance includes a section of the annual report describing, at a high level, the social, community and human rights issues affecting the business and the company's policies to address them. A compliance led statement is a minimum, identifying what the company does in these areas and confirming, if appropriate, that human rights are not a material issue for the company.

Good practice

Attributes of good practice include:

- Alignment of social, community and human rights issues to strategy.
- Explanation of the actions taken to address specific social, community and human rights issues for example, local recruitment, investment in education and overseas employment policies.
- Supply chain management monitoring to ensure social policies are consistent throughout, for example use of labour and the wider impact on society in overseas locations.
- Where the discussion is supported by quantifiable evidence.

Excellent practice

Excellent practice disclosures are achieved where they stand out over and above the requirements of the Guidelines, akin to examples of transparency and disclosure in the higher end of the listed reporting space. A company would be expected to include all relevant attributes listed above and go beyond this in order to achieve this classification.

Energia Group – 31 March 2023 (Excellent practice)

Community

Commitment to Community

Energia Group want to enrich communities bringing a genuine social value to our activities. We are committed to the local communities in which we operate and whom we serve and have a long-standing record of working in collaboration with community groups to enhance local areas and to benefit local people.

The Group's activities support SDG 11: Sustainable Cities and Communities through a range of initiatives. Linked to the Group's activities in support of the other SDGs highlighted in this report, we promote the achievement of cleaner and more sustainable cities (Target 11.3 and 11.6), sustainable transport solutions (Target 11.2) and ensure the protection of nature in all we do (Target 11.4).

Through our work in communities across the island, we also promote SDG 13: Climate Action through efforts to improve education and awareness of climate change and the action required to mitigate and adapt to minimise its adverse impacts (Target 13.3).

We are committed to making a positive impact in the communities in which we operate and serve through comprehensive and meaningful engagement with people living in those community on all issues of relevance. The Group has strong links with community groups, NGOs and Education programmes through various partnerships, our employee volunteering programmes, Greener Possibilities and Windfarm Community Benefit funds.

From a cultural perspective Energia Group is supporting the national Wexford Opera festival and is also the national sponsor of Seachtain na Gaeilge le Energia.

In sport, Energia is the sustainable energy partner of the IRFU and sponsor of the Energia All Ireland Leagues and also sponsors a range of local and regional sporting activities and events.

Overall in FY23 Energia Group provided over €1 million to a diverse range of local community groups and charities across the island of Ireland. For further information on our community activities please see Energia Group's Responsible Business Report FY23.

Energia Group has also won a wide range of awards for programmes encompassing sustainability, innovation in energy supply, customer service, sponsorships and community engagement. Energia Group is also 1 of only 41 companies in Ireland to have been awarded the Business Working Responsibly Mark by Business in the Community Ireland. For further information on our community activities please see Energia Group's Responsible Business Report FY23.

This example is an extract included in the annual report which details specific actions taken by the company within the community, including targets and it links to the company's strategy. It also clearly cross-references a separate report which includes human rights related disclosures.

15. Gender diversity information

Requirement

The strategic report must include a breakdown at the end of the financial year show the number of each sex who were directors the (parent) company, the number of people of each sex who were senior managers of the company (other than those already identified as directors) and the number of people of each sex who were employees of the company. The updated Guidelines allow the portfolio company to apply their own definition to the role of a senior manager.

Basic compliance

Basic Compliance includes a section of the annual report describing, at a high level, the gender diversity under the three required headings.

Good practice

Attributes of good practice include:

- Clear overview of diversity statistics identifying the split at the three levels described.
- Policies and actions to promote diversity and actions taken to avoid discrimination.
- Detail about the relevance to the business of diversity and how this links in with the strategy.
- Explicit detail about the definition of a senior manager to the business.

Excellent practice

Excellent practice disclosures are achieved where they stand out over and above the requirements of the Guidelines, akin to examples of transparency and disclosure in the higher end of the listed reporting space. A company would be expected to include all relevant attributes listed above and go beyond this in order to achieve this classification.

Ascot Lloyd – 31st December 2022 - (Good practice)

Gender diversity

We are committed to not only eliminating discrimination but also creating a diverse workforce. We believe that everyone should be treated with equal respect and dignity and should have access to the same opportunities to develop professionally and personally within the Group. We believe a diverse workforce creates a positive and open culture, we celebrate differences and value everyone's contributions to the everyday workings of the Group. We recognise and value each individual's own personal background and skillset and we strive to grow talent and reach full potential.

We measure gender balance from the top down and by function. We are pleased with the diversity at Senior Manager level, which compares favourably to the FTSE Women Leaders' Review target of 40% representation of women on FTSE 350 Boards by the end of 2025.

We remain committed to creating an inclusive workspace and are focusing on the following action plan:

- Translating awareness into positive action by building on the milestones we have already achieved and continuing to work towards a vision of achieving a truly inclusive workplace culture by 2025.
- Incorporating Diversity and Inclusivity measures into our employee surveys and using these responses to shape future action plans.
- We have taken steps to establish interest in menopause awareness sessions.
- Working with our agency partners to ensure diversity data is captured during our recruitment process and anonymising CV's as a direct result of feedback from managers who have received inclusivity training so far.
- Undertake additional research to encourage applications from minority groups.
- Continue to work with not-for-profit charity groups who support minority groups and offer to support apprentices through our apprenticeship levy.
- Adapting processes for internal promotions, salary reviews, training and exits to facilitate the provision of more insightful diversity management information in relation to these aspects of the employee lifecycle.

Gender diversity – as at 31 December 2022

	Male		Female		Total	
	Number	%	Number	%	Number	%
Directors	2	0.4%	1	0.2%	3	0.5%
Senior Managers	6	1.1%	6	1.1%	12	2.2%
Other	276	50.5%	256	46.8%	532	97.3%
Total	**284**	**51.9%**	**263**	**48.1%**	**547**	**100.0%**

We define 'Senior Manager' as someone who is a member of key management and is responsible for the day to day operations of the Group's trading entities. They have the responsibility for planning, directing and controlling the activities of the Group's trading entities, and are an employee of a company within the Group.

We define 'Manager' as someone who reports directly to a Senior Manager. They have the responsibility for executing the activities of the Group's trading entities, and are an employee of a company within the Group.

This example discloses gender information by the three required categories, with a definition of "senior manager" and includes details of their business action plan for creating a diverse workforce with specific policies.

Across the full sample of companies which have been reviewed in the current year, there were none which were noted to be excellent practice therefore the above meets the requirement for "good practice".

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Appendix

Appendix

Guidelines for disclosure by portfolio companies and private equity firms

The requirements of the update Guidelines for the form and content of disclosure by portfolio companies within their annual report and accounts are set out below:

1. Definition of a portfolio company to be covered by the Guidelines

A portfolio company is a UK company:

- Acquired by one or more private equity firms in a public to private transaction where the market capitalisation together with the premium for acquisition of control was in excess of £210 million and more than 50% of revenues were generated in the UK or UK employees totalled in excess of 1,000 full-time equivalents.
- Acquired by one or more private equity firms in a secondary or other non-market transaction where enterprise value at the time of the transaction is in excess of £350 million and more than 50% of revenues were generated in the UK or UK employees totalled in excess of 1,000 full-time equivalents.

Private equity firms for the purposes of the Guidelines include private equity and 'private equity-like' firms (together 'PE firms'). PE firms include those that manage or advise funds that either own or control one or more companies operating in the UK and the company or companies are covered by the enhanced reporting guidelines for companies. PE firms include those that acquire portfolio companies: i) with funds provided by one or more investors ii) an exit/disposal of the company is envisaged and iii) may play an active management role in the company. This would therefore include, but is not limited to, other types of investment funds including infrastructure funds, pension funds, sovereign wealth funds and credit/debt funds. It also applies to firms that may be headquartered outside of the UK. Banks and credit institutions, other than their asset management operations, are specifically excluded.

A portfolio company of a PE firm or firms becomes a Walker company, subject to meeting the other criteria as laid out in the Guidelines, when any one of the following criteria is met:

- It is evident the PE firm holds a majority stake (>50% of the ordinary shares) in the underlying business.
- If a PE firm, in its own financial statements, discloses that it maintains control of the portfolio company.
- A PE firm has the ability to direct the financial and operating policies of a portfolio company with a view to gaining economic benefits from its activities. Consideration shall include, but not be limited to: management control board seats directors indicative of significant influence.

Where more than one PE firm invests in a portfolio company, those firms will be jointly responsible for ensuring that the portfolio company applies the Guidelines.

The Group continues to review whether the transaction size criteria should be lowered to bring more portfolio companies into scope. Further communication will be issued if new criteria become applicable.

2. Content of disclosure by a portfolio company

A portfolio company should include as part of its audited annual report and accounts the following disclosures, none of which call for disclosures beyond those specified for quoted companies in the Companies Act 2006 or other disclosure requirements applicable to quoted companies. Such reporting should throughout focus on substance rather than form and on the economic reality of a company or group rather than its legal structure.

The report should identify the PE fund or funds that own the company and the senior executives or advisers of the PE firm in the UK who have oversight of the company on behalf of the fund or funds.

The report should give detail on the composition of the board, identifying separately executives of the company, directors who are executives or representatives of the PE firm and directors brought in from the outside to add relevant industry or other experience.

The financial review should cover risk management objectives and policies in the light of principal financial risks and uncertainties facing the company, including those relating to leverage, with links to appropriate detail in the footnotes to the balance sheet and cash flow section of the financial statements to explain the financial position of the company and/or group.

The directors of a company must prepare a strategic report for each financial year of the company. The purpose of the strategic report is to inform members of the company and help them assess how the directors have performed their duty under section 172 (duty to promote the success of the company). The report should also include a strategic report that substantially conforms to the provisions of Chapter 4A of Part 15 of the Companies Act 2006 including sub-sections 7 and 8 of section 414C (which are ordinarily applicable only to quoted companies):

- The strategic report must contain— a) a fair review of the company's business, and b) a description of the principal risks and uncertainties facing the company.
- The review required is a balanced and comprehensive analysis of— a) the development and performance of the company's business during the financial year, and b) the position of the company's business at the end of that year, consistent with the size and complexity of the business.

Appendix (continued)

- The review must include — a) analysis using financial key performance indicators, and b) where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters. The term 'key performance indicators' means factors by reference to which the development, performance or position of the company's business can be measured effectively.
- s414C(7) requires in the case of a quoted company and as adopted by the Guidelines the strategic report must, 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 the future development, performance and position of the company's business.
  - Information about— i. environmental matters (including the impact of the company's business on the environment), ii. the company's employees, and iii. social, community and human rights issues, including information about any policies of the company in relation to those matters and the effectiveness of those policies. If the report does not contain information of each kind mentioned in paragraphs (b)(i), (ii) and (iii), it must state which of those kinds of information it does not contain.
- s414C(8) requires in the case of a quoted company and as adopted by the Guidelines the strategic report must include:
  - A description of the company's strategy.
  - A description of the company's business model.
  - A breakdown showing at the end of the financial year— i. the number of persons of each sex who were directors of the company ii. the number of persons of each sex who were senior managers of the company (other than persons falling within sub-paragraph (i)) and iii. the number of persons of each sex who were employees of the company.

In subsection (8), 'senior manager' means a person who — a) has responsibility for planning, directing or controlling the activities of the company, or a strategically significant part of the company, and b) is an employee of the company.

In relation to a group strategic report a) the reference to the company in subsection (8)(c)(i) is to the parent company and b) the breakdown required by subsection (8)(c)(ii) must include the number of persons of each sex who were the directors of the undertakings included in the consolidation.

3. Form and timing of public reporting by a portfolio company

The audited report and accounts should be readily accessible on the company website. The report and accounts should be made available no more than six months after the company year end.

A summary mid-year update giving a brief account of major developments in the company (but not requiring updated financial statements) to be placed on the website no more than three months after mid-year.

4. Conformity by a non-UK portfolio company or group

Where a portfolio company is applying the Guidelines in an audited annual report which is not covered by the Companies Act 2006 it should look to ensure all the requirements are met in this annual report but does not need to explicitly produce a separate strategic report.

5. Conformity with each of the Guidelines should be on a 'comply or explain' basis.

Where an explanation is given for 'non-compliance', this should be discussed with other related relevant disclosures called for under these Guidelines in the annual report and financial statements which should be on the website of the PE firm or portfolio company.

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Thank you

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