The reporting dilemma – balancing the needs of shareholders and other stakeholders

PwC's Annual Review of Corporate Reporting in the FTSE 350 2018/19

pwc

Contents

Introduction to this year's review

Hemione Hudson
Head of Audit,
PwC UK

Welcome to PwC's annual review of corporate reporting in the FTSE 350. The decision almost 20 years ago to establish our Building Public Trust Awards to recognise the best in reporting looks more relevant than ever as, across the capital market, we all work to regain the trust of our stakeholders in uncertain times.

An open and transparent annual report still plays a vital role in a FTSE 350 company's suite of communications with the outside world. It has been particularly heartening to see many of this year's reports reflect a new emphasis on how companies and boards develop and sustain positive relationships with their employees, customers, suppliers and others – the very stakeholders whose trust needs to be rebuilt.

The whole reporting and assurance ecosystem in the UK, including the annual report itself, is under scrutiny. One of the most consistent messages we hear from companies is that the regulators and government shouldn't continue to make a never-ending series of changes on a piecemeal basis. We agree, and it is vital that the outcomes of the current reviews are coherent, consistent and complementary – and implemented well.

So there are challenges ahead, but with them comes a tremendous opportunity. We all need to play our part – whether we're auditors, investors, directors, regulators or the many other groups who have a stake in the reporting and assurance framework. As the debate continues we at PwC are contributing our ideas with a positive mindset, including about how we can adapt our own role and the potential for technology to have a transformational part to play.

The quality of a company's corporate reporting is a real indicator of a board's commitment to transparency and its fundamental sense of accountability to all its stakeholders. I hope you find our observations on this year's reporting – and our thoughts about the future – both interesting and thought-provoking.

> An open and transparent annual report still plays a vital role in a FTSE 350 company's suite of communications with the outside world.

1

Setting the scene in uncertain times

Mark O'Sullivan
Head of Corporate Reporting, PwC UK

Reporting in uncertain times

It's an overused phrase, but we live in uncertain times. Trust in our institutions is felt to be at an all-time low. The nature of political debate has changed, powered by a new populism across the world which is itself fuelled by the impact of global issues on a local and national level, and by the rise of technology and instant communications.

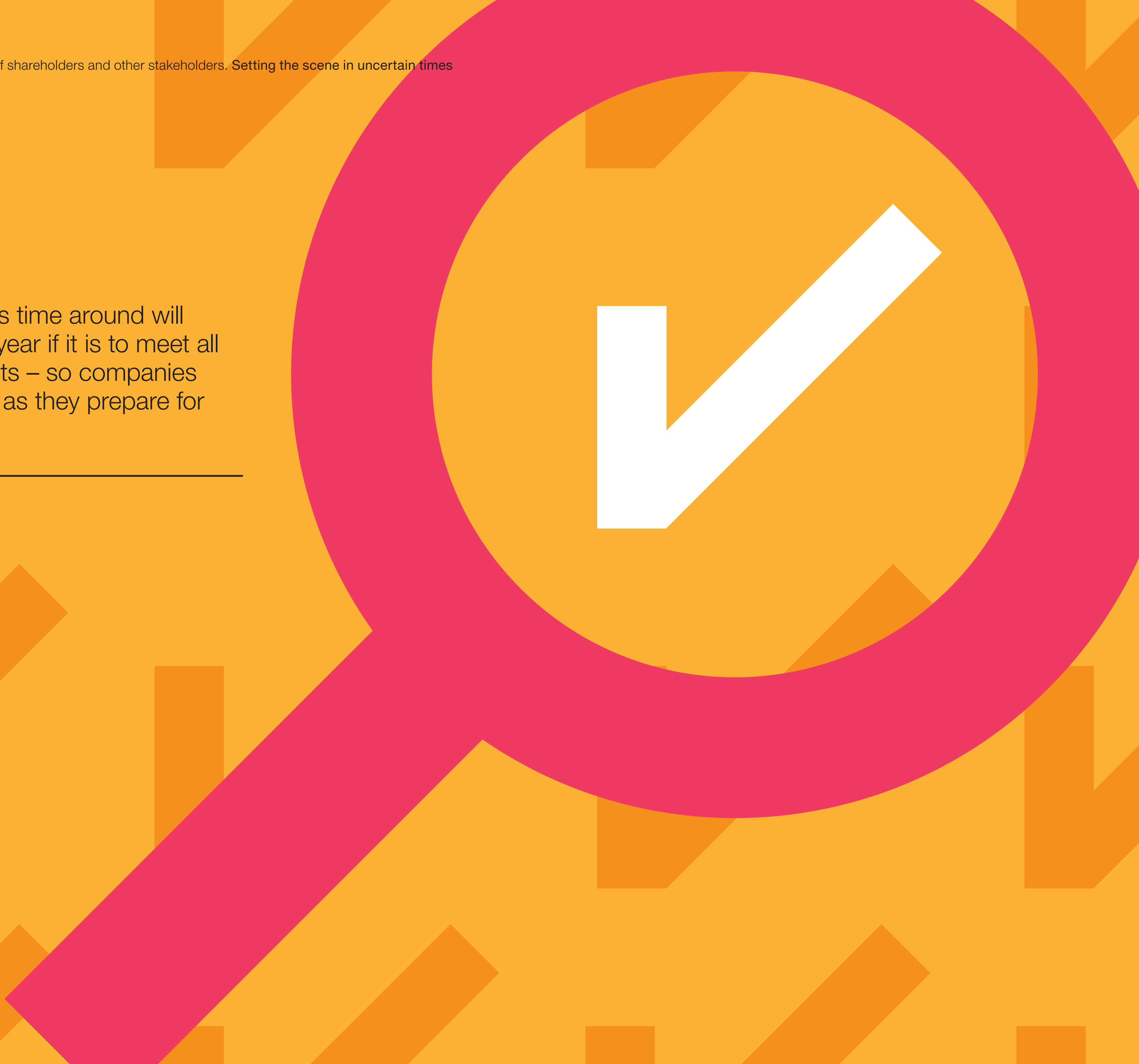
Against this background, in the UK fundamental questions are being posed about the role that business should play in society, and the accountability of all parts of the financial system from companies and boards, to investors, regulators and auditors. There has been a steady stream of new 'stakeholder' reporting requirements for companies to address on their websites, from modern slavery to the gender pay gap, and of course major reviews of the regulatory and audit frameworks.

Little wonder, then, that we were not sure what we'd find as we approached this year's review of reporting practices in the FTSE 350. On the one hand, it felt like we might see little development – with companies in a holding pattern waiting for regulation to take effect. On the other, there has been so much debate around 'the stakeholder agenda' it felt that a significant response to this was almost inevitable.

In the event, we found evidence for both of these outcomes.

> …fundamental questions are being posed about the role that business should play in society.

“The reporting that we saw this time around will need to develop further next year if it is to meet all the new technical requirements – so companies should look carefully at these as they prepare for next year’s annual report.



Some initial thoughts from our findings

I often remark that, year on year, corporate reporting evolves at glacial speed, and this was the case again this year across almost all the aspects of the annual reports that we reviewed. Fundamental changes in reporting require leadership buy-in and it may well not have been easy to get that buy-in this year with all the other challenges facing businesses. The exception, as always, is when there is a particular story to tell, or issue to deal with; our sense is that this drives much of the change that we see in individual companies.

When it came to the stakeholder agenda, however, the situation was different. We found significant evidence of companies seizing the initiative, responding to external expectations and not waiting for regulatory change to take effect. This is without doubt positive news but, as always, there are some caveats.

First, the reporting that we saw this time around will need to develop further next year if it is to meet all the new technical requirements – so companies should look carefully at these as they prepare for next year's annual report.

And second, although there was a significant amount of new content on stakeholders in this year's reports, it rarely felt properly integrated into the rest of the strategic story. If businesses are to make a positive contribution to society they need to be successful, and that's where the real importance of good relationships with, and understanding of, key stakeholders lies.

Let me summarise briefly some of the specific findings of our review.

Length

The average FTSE 350 annual report has grown by 7% in the past two years, and even in the last year the average strategic report has added another three pages. The additions relating to the stakeholder agenda have certainly contributed to this.

Whilst the length of the average report varies depending on industry and index, there isn't a notable correlation between length and quality. In fact many of the good disclosures we have seen feature in shorter reports which know their audience and what they seek to achieve.

+7%

The average annual report has grown by 7% in the past 2 years.

37%

Only 37% of companies explicitly set out plans for the year ahead.

65%

Of companies have changed their KPIs in the past 2 years.

Strategic, forward-looking focus

The strategic report should provide information around a company's strategy and its performance against that strategy. But, while many companies articulate a strategy in their annual report, they often fail to answer questions that inevitably arise such as 'how do these actions or this performance stack up against what was strategically intended?' or 'what comes next?':

- Companies silent or unclear about the time frame their strategic narrative covers in the annual report have risen by 4% to 52%.
- Only 37% (2018: 35%) of companies explicitly address their strategic plans for the next year.
- Companies discussing future developments in their markets have dropped to 33% (2018: 39%).

This is not an easy time to make predictions about the future but that's exactly when shareholders and other stakeholders want to have a sense that a company is doing all it can to address the issues it faces. From a risk management point of view, companies and boards often have concerns about the extent to which they can be held to account later for best estimates that turn out to be wrong.

We feel that companies can do more to provide a forward-looking orientation through insights into future market trends/ drivers, emerging risks, evolving business models and strategic milestones without providing hard financial targets. But we also recognise the concerns, and encourage government and regulators to help to address these as the reform debate continues.

On the face of it despite so much disruption and uncertainty we saw little change in what was reported. We found no change in the average number of KPIs and risks that companies disclosed.

- Only 9% indicated in the business model how they were tackling disruption and other pressures – despite the uncertain conditions discussed earlier.

However, look behind the headline numbers and change is afoot:

- Over the last two years 65% of companies have changed their KPIs.

If this finding reflects changes in the underlying business and how it is monitored and managed, this is a positive sign. It's interesting that the Financial Reporting Council (FRC) has recently directed auditors to focus more on the reasons for such changes through their thematic review on other information within the annual report.

- In the last year, 27% of companies have made a change to their principal risks.

Whilst a principal risk for cyber security is now commonplace, and many companies are providing a consistent narrative around Brexit from the prior year, the challenge is to make this discussion around new trends relevant and specific to the company's business model.

Climate change is an area where we have seen a greater number of companies referencing its impact, but the quantity and quality of information remains low.

+56%

The increase in companies discussing stakeholder engagement.

15%

Only 15% discussed their responses to engagement outcomes, or the impact on decision making.

Stakeholder agenda

This is *the* area of change year on year.

There is hardly a company in the FTSE 350 who do not now refer to their stakeholders in one way, shape or form – whether identifying them or referring to them in their business model. Companies making some disclosure on stakeholder engagement have more than tripled from 26% to 82%, with 56% of them referring to engagement processes with stakeholders other than employees.

It's clear that this has been the area most companies wanted to address this year, whether in response to societal expectations or in preparation for the new 2018 Code and stakeholder reporting requirements, which will all impact the first reporters from December of this year. However, the question remains as to whether these new disclosures were always meaningful.

- Only 25% of companies explained the key stakeholder issues arising from this engagement; while

- Only 15% explained what their responses to engagement outcomes were, or how they had affected decision making.

Few reports (22%) this year explicitly referred to section 172 of the Companies Act, unsurprisingly, though a number of disclosures had clearly been made to address a combination of section 172 and stakeholder relations more generally.

The rest of our findings can be found in the next section of this report. We are always happy to talk to any FTSE 350 company about how they benchmarked against our criteria, and the wider future of reporting.

Looking ahead

So, the review of the FTSE 350 reporting over the last 12 months has been interesting. But perhaps more interesting is what comes next.

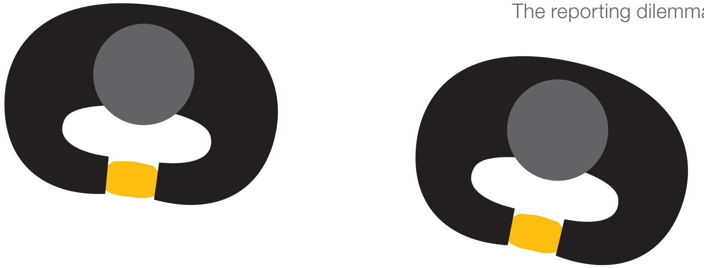
The debate about whether the annual report has a future is still a live one. We continue to focus principally on it for a number of reasons. First, it remains the document of record. It's the only source of information on all aspects of a company which is subject to a (relatively) well-understood regulatory framework, including external assurance. But, just as important, in my experience there is no doubt that it retains its role as a litmus test for the quality of reporting across other channels – in all our work the ability to produce a good annual report is consistently a sign of good reporting discipline within a company more generally.

The rise of the stakeholder agenda has created a new challenge for the annual report, however: responding to increasing demands for information from an ever-more diverse audience with apparently differing needs. On one side, there is pressure from the government, regulators and special interest groups to show how the company is engaging with and considering its stakeholders in its actions and, on the other, there are investors wanting to know the company's strategic plans, future ambitions and how it measures success.

For me these needs are not mutually exclusive. I strongly believe, and the FRC confirmed this in their revised Guidance on the strategic report, that the annual report remains a document for the shareholders and that, in meeting their needs to provide information that builds confidence in the quality and sustainability of financial performance, the annual report will also provide information that is of importance and relevance to a wider stakeholder group.

There is of course also a place for technology to allow users to drill deeper into the topics and content that are of most interest to them. We know that many companies are considering how best to use their corporate websites, and there are examples of animation, interviews and other methods that deliver information in more engaging ways. In 69% of cases in this year's review, however, the annual report was simply added as a pdf file to the website, with no more expansion beyond any links already within the report.

Underlying the stakeholder agenda is a recognition that technology is transforming the way that customers and a whole range of others interact with companies and access and consume information on their activities and performance. Investors, analysts and consumers will also increasingly have access to or create their own information. All of which makes it even more important for companies to communicate in a clear, concise and more transparent way if their voice is to be heard and trusted.



"

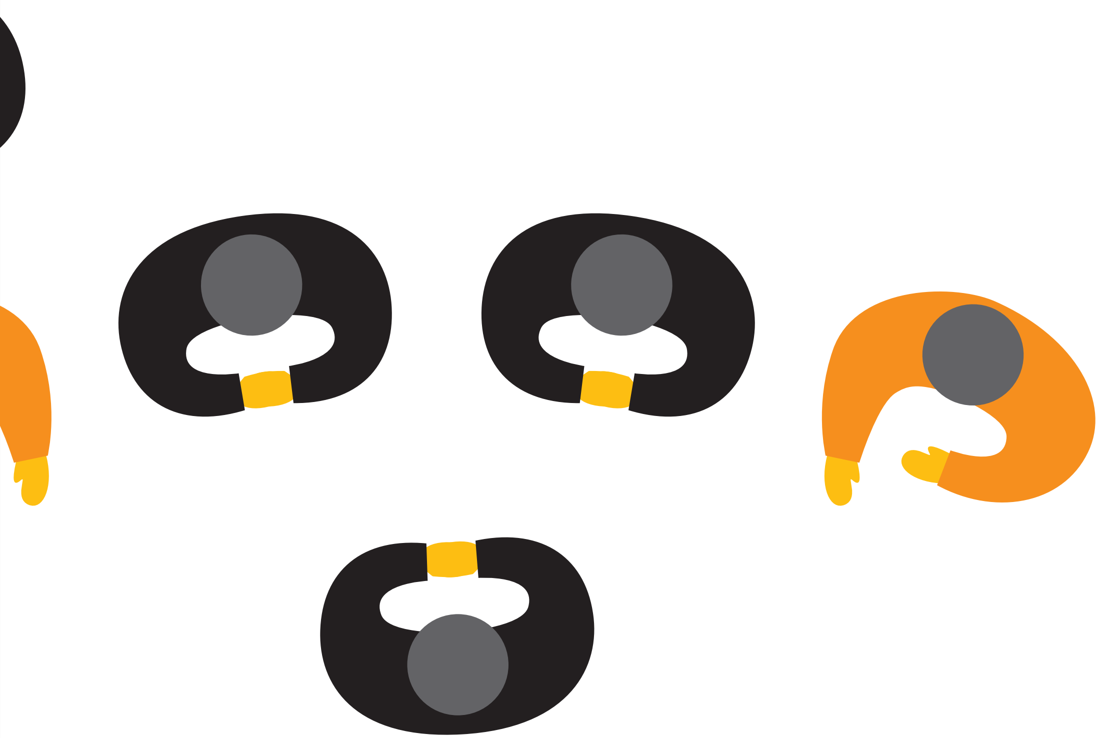
The annual report (supported by other sources where appropriate) should be seen as a tool to tell the company's story, tell it truthfully and tell it well, in a way that takes proper account of all its stakeholders.

Final thoughts

In times of uncertainty, it's often a good idea to focus on doing the basics well. And this is a message which is entirely relevant to corporate reporting at the present time.

For me, good corporate reporting is characterised by one underlying quality: accountability. Our findings again show that many companies still need to create a clearer strategic narrative which identifies what is really important to them, and why – and this includes information arising from the stakeholder agenda. Reporting can never be truly accountable and transparent without this. Too many reports simply throw information at the reader in a way that seems 'comprehensive' but is rarely properly 'understandable'.

So I'd encourage companies to use 'accountability' as the guiding principle to help them respond appropriately to the competing challenges and pressures that they face in their reporting as they navigate these uncertain times. The annual report (supported by other sources where appropriate) should be seen as a tool to tell the company's story, tell it truthfully and tell it well, in a way that takes proper account of all its stakeholders.



2

Reporting practices in the FTSE 350

Key themes from our review this year

This section of our report explores the current and emerging trends, supported by statistics, from this year's review of annual reporting practices of the FTSE 350.

Evolution not revolution

This year has been no different to others in that the pace of change, on the whole, remains at a glacial speed. Whilst the stakeholder agenda has had a clear impact on what is reported (more on this later) the traditional areas of the strategic report continue to evolve and improve at a slow pace.

We, of course, recognise the hard work that many companies continue to put into their reporting, particularly in balancing regulatory demands for more information with user demands for brevity and transparency, and welcome the continued progress made. But after so many years of slow but steady progress, we have to ask whether the net effect is enough.

Of course the annual report remains a primarily technical document and, with more regulatory change coming in next year companies will need to stay on top of what is required and respond accordingly. But surely in today's world the annual report also needs to reflect the expectations society has on business with a new attitude towards accountability and telling a clear, transparent and authentic story of strategic thinking and progress.

Signaling change

On the face of it there has been very little change in what companies report, despite much talk about uncertainty and disruption. The average number of KPIs and principal risks have remained remarkably static for a number of years, while only 9% of the FTSE 350 have made any attempts to show how their business model is adapting or responding to disruption in the changing world in which we live.

Pick away at the disclosures themselves, though, and we see some change is afoot. Over 60% of companies have made changes to their KPIs in the last couple of years and over 25% of companies have made changes to their risks.

However, too often companies are silent on highlighting these changes and explaining their strategic relevance, instead leaving it up to the reader to find them by comparing two years' worth of annual reports and forming their own views as to the changes made.

Back to the future

Technology is disrupting every walk of life. But for now the reporting model appears relatively immune. During the year, companies have attempted to make some advances, creating interactive web pages or using video to communicate key messages but on the whole the default approach was simply to upload a pdf file and stop there.

With the imminent arrival of the European Single Economic Format (ESEF) into UK law, technology will change the way annual reports are filed and arguably how users access and consume the information they house. But we're still at an early stage regarding what impact this will have on the traditional annual report and, in the short-term, the likelihood is that companies will still produce a report for human consumption as well as one for machines.

Regardless of how ESEF plays out, the reality is the relative importance of the traditional form of reporting is declining and companies need to recognise and embrace the fact they are no longer in control of their story. The approach to corporate reporting needs to be one which is proactive and positive – with accountability at its heart – and this includes the annual report. So tell your story, and tell it well.

Strategic backbone

It’s important to remember that ‘strategy’ should form the backbone of the strategic report. As content expands and page length grows, sometimes companies can lose sight of the importance of ensuring strategy is the underlying thread tying together all aspects of the report.

We’ve seen some improvements this year, particularly around the linkage between strategy and KPIs and risks. However, with the response to the stakeholder agenda it's been interesting to see how the proportion of companies aligning their strategy with their business model has declined as companies introduced more discussion around purpose, stakeholders and value creation in their business model without reflecting it in their strategic messaging.

Significantly, the content in the annual report tends to be quite backward-looking, and fails to discuss plans and a direction of travel for the future, which are the bedrock of strategy. Without this strategic backbone flowing through and connecting disclosures, it is hard to see how some reports correctly meet the definition.

Stakeholder agenda

Under significant societal pressure, as well as upcoming regulatory change, it has been interesting to see companies respond so rapidly in this year’s reporting cycle and in effect look to adopt aspects of the new requirements. There has been a significant increase in the content around stakeholders as companies looked to lay solid foundations in preparation for these changes. It is encouraging to see so many companies take a proactive response to the stakeholder agenda but questions remain over the relevance and significance of some of the content.

Whilst ‘stakeholders’ has clearly become a buzzword, and references to engagement are plentiful, the key piece of the puzzle regarding stakeholders is outcomes and how those outcomes impact the company and its strategy. In particular the board’s involvement in this process was not always clear. As a key criterion for new reporting requirements, we expect this will be a focal point over the next year.

Follow the leader

A notable trend, which doesn’t come across from a singular year-end statistic, is how the quality of reporting changes over the year. With the timing last year of a number of regulatory announcements and updates to the Code and Strategic Report guidance, it's been interesting to see how companies’ reporting has evolved and improved throughout the year. December year-ends have taken, and built off, those improvements made by earlier reporters, while March year-ends have had a significant population of reporters to understand and respond to the emerging themes.

This is evident in the response to the stakeholder agenda. As an example, companies referencing s.172 leapt from 20% for a December year-end reporter, to 38% for those with a March year-end.

This is encouraging for the year ahead in that earlier reporters will now have examples of how to take their own reporting forward.

The ever-growing annual report

The annual report and the reports within it continue to grow. The average annual report has grown by 7% in the last 2 years. No doubt much of this is down to new reporting requirements – both in the front half and in the financial statements.

Is a longer strategic report a good thing? Not necessarily. We, and other stakeholders, want to see relevant and strategic information. But often the report becomes a repository for a whole range of disclosures which may be more suited to a separate sustainability report or a website disclosure.

Strategic report content should be exactly that: strategic.

56

Average page length of strategic report

47

Average page length of governance and remuneration reports

2018: 174 **2019: 182**

Average annual report page length

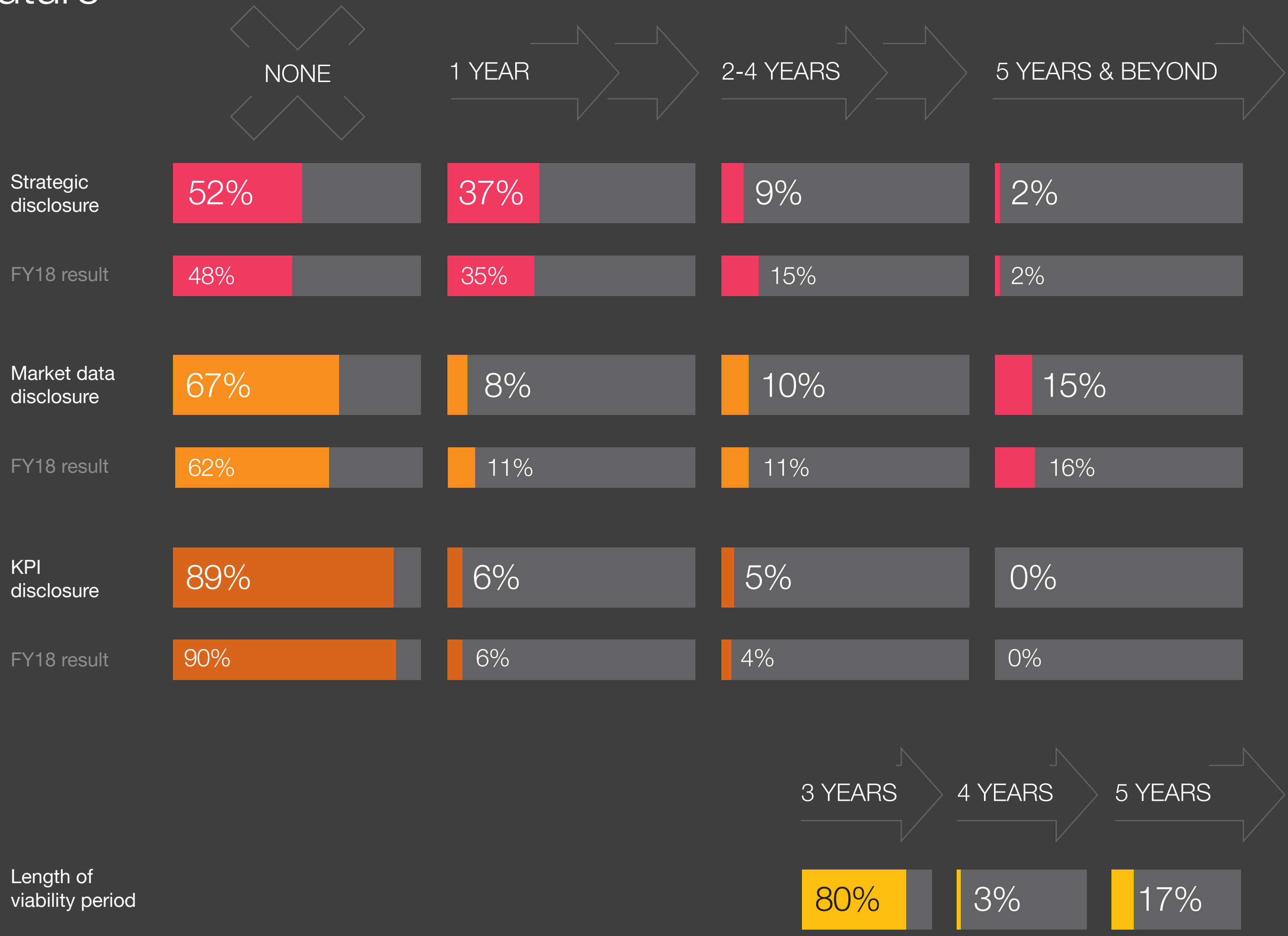
Setting out a strategy for the future

The clue is in the title. A strategic report is meant to be strategic and hence forward-looking in nature, although there is clearly an inherent trade-off between this aspiration and the traditional role of an annual report as a confirmatory regulatory filing focused primarily on a company's performance in the year and position at the end.

We've seen a mix in companies' responses this year. Whilst most annual reports included reference to a strategy, many remained mainly backward-looking and fewer companies than last year providing forward-looking strategic content, setting out how the market will evolve, or providing clear performance targets.

Once again we saw the average length of the stated viability period as 3 years, often referring to the internal strategic planning cycle. However, very few companies referred to this period in their strategic disclosures and details of this plan were often missing.

In uncertain times we might expect companies to take a step back from the information they disclose regarding future plans, and we can understand the hesitancy. However, it is in this time of change that investors are demanding more information. It can be a difficult balancing act.

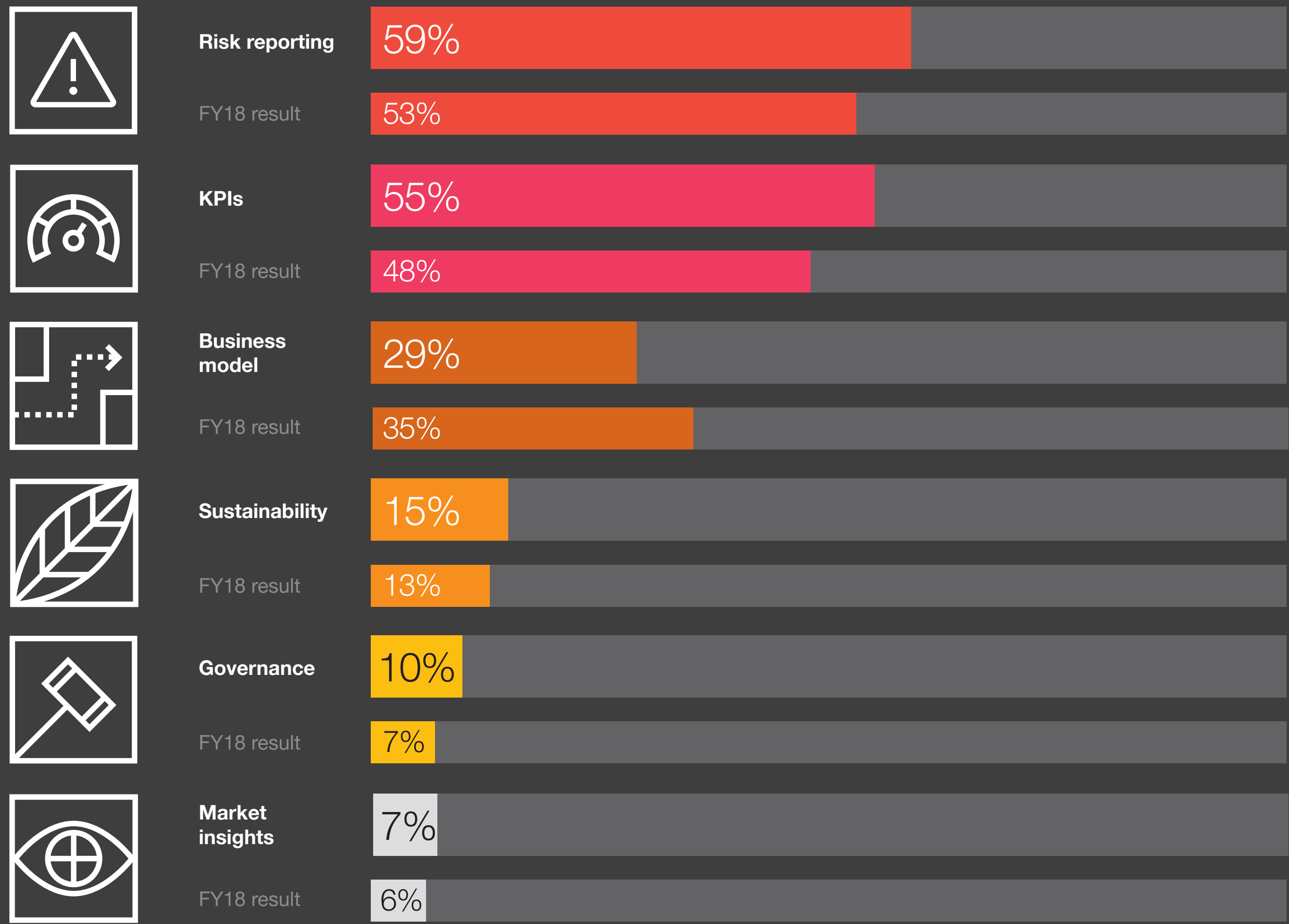


Presenting a joined-up, strategic narrative

Presenting an integrated strategic report has long been a challenge for many companies. Once again this year we have generally seen small improvements across the board, with the majority of companies making the connection between their strategy and both KPIs and principal risks.

There are undoubtedly some companies doing a good job at producing a strategically-aligned annual report. However, in many instances we approach these connections with a degree of caution, questioning whether the icons or cross-references are always meaningful. Despite the design of the report suggesting a linkage, reading between the lines doesn't always support this.

Integration is important because it explains how the various moving parts of the strategic report relate to one another. The importance of this will only grow as more disclosures on stakeholders and other non-financial information find there way into annual reports. Making the connection between these disclosures and strategy will be key to avoid accusations of marketing and spin and to demonstrate how the company is planning for the long term.



KPIs: Reflecting strategic performance and reward

We have encouraged companies for many years to ensure their Key Performance Indicators (KPIs) are exactly that – the measures which the board uses to monitor strategic success – rather than report those KPIs that are easy to measure, demonstrate a positive trend, or are already required by existing legislation.

Explanation of why a KPI is disclosed can help to bridge the gap and assist users in understanding why the measure is relevant – in particular when these measures differ from the key highlights usually presented upfront in the annual report.

The use of targets is still rare across the FTSE 350, with companies unwilling to commit themselves publicly to a specific aim. Often where targets are used, these are for non-financial measures.

9

Average number of KPIs

6

Average number of financial KPIs

3

Average number of non-financial KPIs

65%

Of companies have changed their KPIs in recent years

We noted that 38% of companies changing KPIs were introducing new non-financial measures; however, 46% also made changes to their financial KPIs. In most cases it is unclear why companies have changed their KPIs because little explanation was usually provided in most cases. Could it be that companies are making the change to try and reflect more positive performance? Or perhaps the change is to genuinely reflect the real KPIs for the business and the measures that illustrate strategic progress.

KPIs showing a link to remuneration

9% (Yes, all)

21% (Yes, some)

Executive remuneration is certainly a hot topic in today's governance world. The underlying concept is that pay should reward performance. KPIs are key in illustrating this performance, but often the link between KPIs and how they impact pay is not clear. Certain companies make the link between some, or even all, of their metrics but the majority do not.

Delivering meaningful risk and viability reporting

Risk reporting is an area of the annual report that can provide shareholders or potential investors with important insights, yet often it can also be one of the most boilerplate sections. We appreciate the sensitivity with which risk often has to be considered, but in our view there is still more companies can do.

Highlighting changes in risk helps to show that there has been a proper reassessment – both within individual risks and the overall risks presented. Whilst 77% of companies indicated how each risk had moved in the year, only 27% indicated whether any principal risk had been introduced or removed during the most recent assessment, but others may have changed without explaining they have done so.

The approach across industries varies significantly, with companies in the natural resources sector typically providing more detailed and company-specific information. Common illustrations included risk owners, potential velocity of the risk and information about the actual mitigating activities performed in the year.

11

Average number of principal risks

77%

Risk movement indicated

Does the company indicate there are any new or removed risks during the year?

27%

23%

Companies providing insight on emerging risks

Disclosure around emerging risks has evolved over time, and greater focus has been placed on this type of risk in the 2018 version of the UK Corporate Governance Code. Better disclosure around emerging risks is consistent with the push to make annual reports more forward looking generally – looking to the future and how the risk profile of the company might change over time.

There is continuing focus on the viability statement and the 2018 Code now also includes a provision for the board to consider the sustainability of the business model. The FRC Lab has also issued guidance encouraging companies to think about the wider and longer-term prospects of the company, not just the official statement of viability. But our review showed that there is still a long way to go in this area.

Does the viability statement discuss prospects i.e. a 2-step approach?

21%

Does the viability statement explain which principal risks have been included in the assessment?

33%

Tackling the stakeholder agenda: non-financial reporting

Without doubt the response to the stakeholder agenda has been the most notable change in reporting this year. This agenda covers many moving parts – engagement, s.172, non-financial reporting. The aim being to ensure companies are able to demonstrate how they're taking stakeholders and other long-term considerations into account in their decision-making.

A company's purpose and values are important issues for many of its stakeholders. The business model is often where companies show how they aim to create value for all their stakeholders, and it was pleasing to see a large proportion of companies acknowledging their non-financial impacts – though often only the positives are shown.

S.172 reporting has been at the forefront of many company boards' minds this year, thinking about whether the new regulation was an exercise in transparency or required more fundamental change in internal processes and information gathering in order to be in a position to report next year.

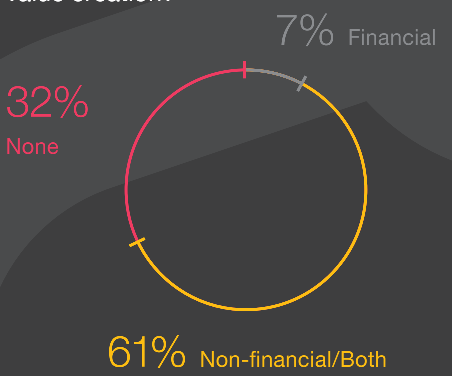
Understandably, only 22% of companies made reference to the requirement. However, our discussions with corporates during the year suggest a lot is going on behind the scenes.

58% Set out their purpose

65% Explain their values

56% of CEO statements discussed stakeholders

How does the business model illustrate value creation?

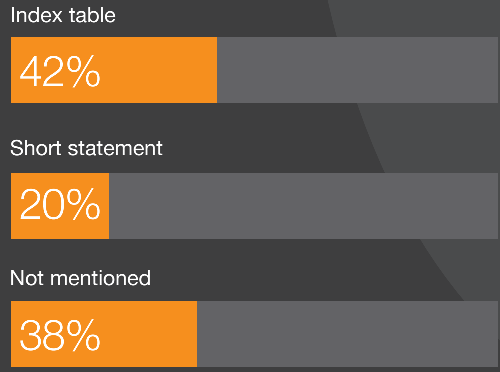


How may companies referenced s.172, or included a statement?

✓ **22%**

The coming requirement to report against s.172 is causing a lot of boards to stop and think about the way in which they make decisions. As intended, it is having an impact on process, not just reporting.

How is the non-financial information statement presented?

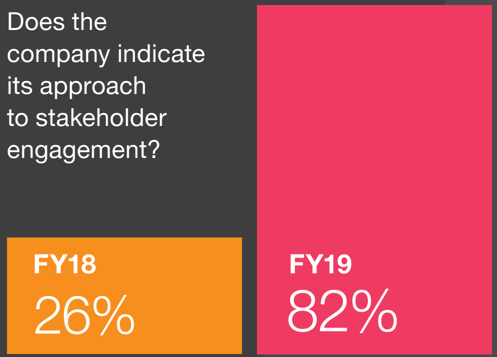


Reminder: A non-financial information statement is now required by s.414CA of the Companies Act 2006.

Companies have been slow to comply with the requirement for a non-financial information statement as a subsection of the strategic report, but more now include additional narrative to meet the requirements – most often in the form of an index table and cross-referencing. But there are still a lot of companies not meeting what the FRC views as a statutory reporting requirement.

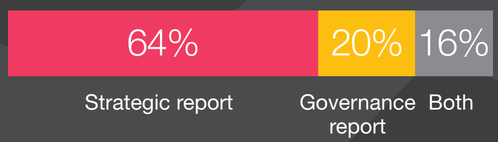
Tackling the stakeholder agenda: engagement

Does the company indicate its approach to stakeholder engagement?



Does the company demonstrate engagement, other than with employees?

Where is the stakeholder engagement disclosed?



Are the key issues for stakeholders discussed?

25%

Has the company shown how it has responded to key stakeholder issues?

15%

Even before the new stakeholder reporting requirements come into effect, many companies have clearly been focused on addressing this area in the current year. There has been a huge increase in those discussing engagement, up by 56% – although this time next year the figure should have reached 100%.

However, the key part of the puzzle is still missing in most instances: What were the outcomes of this engagement, why does it matter and most importantly how has the company responded? If stakeholder reporting is to be meaningful for users of the strategic report, companies will need to show how it is important for the delivery of strategy. Only 15% of companies made efforts to show this.

Most of the stakeholder reporting in this year's annual reports was in the strategic report. Companies will need to make sure that they also capture the boards' involvement to meet the new Code requirements in this area. They will also need to make sure that the Companies Act requirement for stakeholder reporting in the directors' report is addressed – likely through the use of cross-references where the content is integrated elsewhere in the annual report.

How are companies responding to changing times?

We live in changing times, with many key considerations for business hugely more significant than they were several years ago. In our review we focused on three macro trends – climate change, cyber security and Brexit. We expected most companies would say something about these topics, and how significant they were for their business.

Plenty of companies identified principal risks in these areas, but more interesting and useful disclosure generally was found outside of the risk reporting section of the report.

Discussion on climate change is growing in relevance and importance across most sectors, but most obviously in the financial services and mining sectors, and disclosures are beginning to respond. However, with the recent publication of the UK government's Green Finance Strategy paper and its expectations on listed companies reporting against the Taskforce for Climate Related Financial Disclosures (TCFD) we expect to see more information reported in the future.

85%

Companies discuss cyber security in the annual report

79% !!!!!!!!!!

Identify cyber security as a principal risk

49%

Companies discuss climate change in the annual report

13% !!!!!!!!!

Explicitly identified climate change within their principal risks

Is Brexit discussed as part of the risk reporting section?

82%

Is Brexit discussed outside of the risk reporting section?

52%

Brexit not mentioned at all?

11%

9%

Of companies use the business model to show how they are adapting to change

We know that we live in a time of disruption, with companies being forced to adapt to market forces around them. This can often result in a change in how a company operates. But from our review, very few companies are explaining how their business models are adapting to this change.

Methodology

This year's review is based on the FTSE 350 as at 1 July 2019 and covered annual reports for the period April 2018 to March 2019. Our review excludes investment trusts, and also any annual reports not released as at the time of publication – seven companies.

There has been significant change in the index this year, primarily due to M&A activity and a number of new listings – 32 companies were featured in our review this year which did not appear in the previous year.

The make-up of the index has remained relatively consistent on an industry basis with business and support services remaining the largest sub-sector.

Our review is driven by the questions we believe best reflect the concepts of good practice in corporate reporting that we have accumulated over the many years PwC's Corporate Reporting team have been carrying out this review. Of course, each year we also include new questions based on current and emerging trends – the obvious focus this year being stakeholders.

32

New entrants to the FTSE 350 over the year

28

Companies in the biggest sector – business and support services

3

Bringing our findings to life

Examples from the FTSE 350 in 2018/19

Providing a forward-looking orientation and telling an integrated story of strategic progress

Berkeley Group Holdings plc Annual Report 2018

1. Provides an overview of progress against current commitments and future commitments for each strategic area.
2. The company's previous plans and commitments are revisited.
3. Sets out commitments for the next two years.
4. Strategy is linked to the UN Sustainable Development Goals.
5. Aligns strategic commitments with the corresponding KPI.

CUSTOMERS

Our approach in this area has evolved from ensuring that customer-facing teams provide exceptional service to a strong emphasis on all employees placing the customer at the heart of every decision.

2016–2018 HEADLINE COMMITMENTS — PERFORMANCE

Net Promoter Score
Deliver world-class customer service as evidenced by a top quartile Net Promoter Score compared to UK Customer Satisfaction Index results. ✓

Customer insight
Run a programme of engagement and research to further enhance our product and processes based on the needs of our customers. ✓

2018–2020 HEADLINE COMMITMENTS

Net Promoter Score
Establish Berkeley amongst the top performing companies for customer service, as evidenced by the Net Promoter Score.

Mortgage lending
Make the case for a proportionate approach to lending, including two year mortgage offers, so that every purchaser has a fair chance in the new build market.

See page 24

2016–2018 COMMITMENTS

CUSTOMER SERVICE AND THE NET PROMOTER SCORE

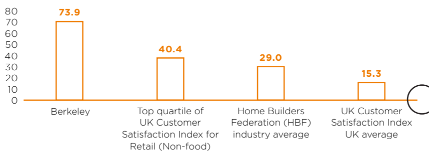
The service we provide is professional, efficient and helpful to make the home buying process as straightforward and enjoyable as possible. We aim to exceed our customers' expectations, starting from the moment a customer first enquires about a property. Each customer receives tailored information relating to their purchase and has a dedicated person to guide them through their buying journey and beyond.

We have created a 'customer first' mind-set and empower teams to think and act differently. This is supported by a range of employee training and the continuation of our Sales Academy to bring talented individuals from other industries into the business.

This year we are delighted to have achieved the Investor in Customers Gold award across all of our operating companies. This follows an independent assessment of customer service, from understanding and meeting customer needs to delighting customers and engendering loyalty. Customer feedback showed a high level of customer satisfaction and loyalty and employee feedback showed that staff in all roles and at all levels understand the needs of the customer and are committed to delivering an excellent customer experience.

We use the Net Promoter Score to benchmark the levels of service we provide against well-regarded companies across all sectors. Our six-month rolling average Net Promoter Score of 73.9 compares extremely favourably against the industry average of 29 and overall UK average of 15.3. Overall, 97% of our customers would recommend us to a friend.

Net Promoter Score
(on a scale of -100 to +100)



CUSTOMER INSIGHT

Key to the ongoing success of our business is that we listen to, understand and respond to the needs of our customers. Over the last two years we have implemented a range of new initiatives to gain customer insight.

A new data tool has been used to provide further insight from existing customer surveys. We have also developed an online portal to share lessons learnt across Berkeley.

Customer focus groups are run at many of our developments, including the Skyline apartments at Woodberry Down. These give customers an opportunity to provide feedback on the homes and places in which they live whilst providing us with invaluable information to help inform future improvements both on-site and beyond.

We also recognise the value in obtaining feedback from potential customers who chose not to purchase a property. Surveys of around 170 potential customers completed at seven developments have enabled us to better understand purchaser expectations and priorities. Going forward, we will undertake this for all sites.

Site-specific information is supported by annual brand research of 500 people from our target market on what is important to people when selecting a new home.

2018–2020 NEW COMMITMENTS

NET PROMOTER SCORE

Establish Berkeley amongst the top performing companies for customer service, as evidenced by the Net Promoter Score.

Having high levels of customer satisfaction is critical to our business and we aim to exceed our customers' expectations, starting from the moment a customer first enquires about a property.

For the last four years, we have used the Net Promoter Score to benchmark the levels of service we provide against well-regarded companies across all sectors and help drive improvements. We will continue to monitor our performance, share good practice, and implement new initiatives to ensure that our customers receive excellent levels of service.

MORTGAGE LENDING

Make the case for a proportionate approach to lending, including two-year mortgage offers, so that every purchaser has a fair chance in the new build market.

We want every homebuyer to have the same chance as an investor to purchase a property in the new-build market. Mortgage offers today typically last for six months, but this does not lend itself to buying off-plan because the offer has usually expired before the new property is completed.

Through this commitment we will encourage lenders to introduce mortgage offers which give every purchaser a fair chance of buying a new-build home. Through research, debate and fresh thinking, we want to create a level playing field for every purchaser.

OTHER AREAS OF FOCUS

In addition to the two headline commitments, we have specific targets to:

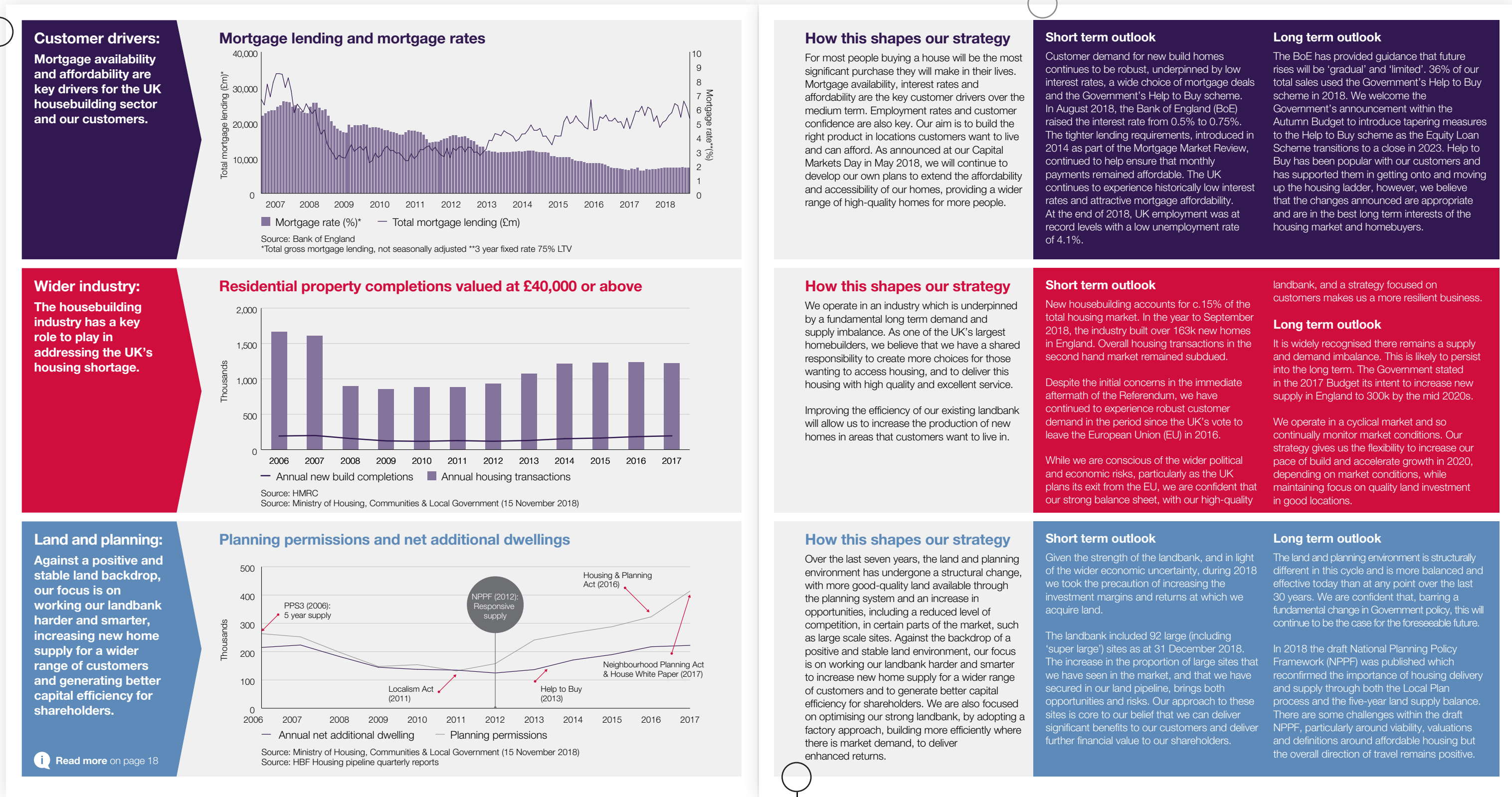
— Understand and respond to customers' emotional journeys
— Promote the use of MyHome Plus
— Market homes in the UK and London first
— Meet minimum standards for sales and marketing suite set-up
— Communicate Our Vision
— Communicate sustainable living
— Promote digital and sustainable communication
— Undertake sales and marketing suite exit interviews

SUPPORTING THE UN'S SUSTAINABLE DEVELOPMENT GOALS

Aligning market trends with strategic response

Taylor Wimpey plc Annual Report & Accounts 2018

1. Outlining trends impacting different aspects of the business.
2. Discussion around both the short- and long-term outlooks.
3. The relevance to strategy is explained and how the company has responded.



Customer drivers:

Mortgage availability and affordability are key drivers for the UK housebuilding sector and our customers.

Mortgage lending and mortgage rates

Source: Bank of England
*Total gross mortgage lending, not seasonally adjusted **3 year fixed rate 75% LTV

How this shapes our strategy

For most people buying a house will be the most significant purchase they will make in their lives. Mortgage availability, interest rates and affordability are the key customer drivers over the medium term. Employment rates and customer confidence are also key. Our aim is to build the right product in locations customers want to live and can afford. As announced at our Capital Markets Day in May 2018, we will continue to develop our own plans to extend the affordability and accessibility of our homes, providing a wider range of high-quality homes for more people.

Short term outlook

Customer demand for new build homes continues to be robust, underpinned by low interest rates, a wide choice of mortgage deals and the Government's Help to Buy scheme. In August 2018, the Bank of England (BoE) raised the interest rate from 0.5% to 0.75%. The tighter lending requirements, introduced in 2014 as part of the Mortgage Market Review, continued to help ensure that monthly payments remained affordable. The UK continues to experience historically low interest rates and attractive mortgage affordability. At the end of 2018, UK employment was at record levels with a low unemployment rate of 4.1%.

Long term outlook

The BoE has provided guidance that future rises will be 'gradual' and 'limited'. 36% of our total sales used the Government's Help to Buy scheme in 2018. We welcome the Government's announcement within the Autumn Budget to introduce tapering measures to the Help to Buy scheme as the Equity Loan Scheme transitions to a close in 2023. Help to Buy has been popular with our customers and has supported them in getting onto and moving up the housing ladder, however, we believe that the changes announced are appropriate and are in the best long term interests of the housing market and homebuyers.

Wider industry:

The housebuilding industry has a key role to play in addressing the UK's housing shortage.

Residential property completions valued at £40,000 or above

Source: HMRC
Source: Ministry of Housing, Communities & Local Government (15 November 2018)

How this shapes our strategy

We operate in an industry which is underpinned by a fundamental long term demand and supply imbalance. As one of the UK's largest homebuilders, we believe that we have a shared responsibility to create more choices for those wanting to access housing, and to deliver this housing with high quality and excellent service.

Improving the efficiency of our existing landbank will allow us to increase the production of new homes in areas that customers want to live in.

Short term outlook

New housebuilding accounts for c.15% of the total housing market. In the year to September 2018, the industry built over 163k new homes in England. Overall housing transactions in the second hand market remained subdued.

Despite the initial concerns in the immediate aftermath of the Referendum, we have continued to experience robust customer demand in the period since the UK's vote to leave the European Union (EU) in 2016.

While we are conscious of the wider political and economic risks, particularly as the UK plans its exit from the EU, we are confident that our strong balance sheet, with our high-quality landbank, and a strategy focused on customers makes us a more resilient business.

Long term outlook

It is widely recognised there remains a supply and demand imbalance. This is likely to persist into the long term. The Government stated in the 2017 Budget its intent to increase new supply in England to 300k by the mid 2020s.

We operate in a cyclical market and so continually monitor market conditions. Our strategy gives us the flexibility to increase our pace of build and accelerate growth in 2020, depending on market conditions, while maintaining focus on quality land investment in good locations.

Land and planning:

Against a positive and stable land backdrop, our focus is on working our landbank harder and smarter, increasing new home supply for a wider range of customers and generating better capital efficiency for shareholders.

Read more on page 18

Planning permissions and net additional dwellings

Source: Ministry of Housing, Communities & Local Government (15 November 2018)
Source: HBF Housing pipeline quarterly reports

How this shapes our strategy

Over the last seven years, the land and planning environment has undergone a structural change, with more good-quality land available through the planning system and an increase in opportunities, including a reduced level of competition, in certain parts of the market, such as large scale sites. Against the backdrop of a positive and stable land environment, our focus is on working our landbank harder and smarter to increase new home supply for a wider range of customers and to generate better capital efficiency for shareholders. We are also focused on optimising our strong landbank, by adopting a factory approach, building more efficiently where there is market demand, to deliver enhanced returns.

Short term outlook

Given the strength of the landbank, and in light of the wider economic uncertainty, during 2018 we took the precaution of increasing the investment margins and returns at which we acquire land.

The landbank included 92 large (including 'super large') sites as at 31 December 2018. The increase in the proportion of large sites that we have seen in the market, and that we have secured in our land pipeline, brings both opportunities and risks. Our approach to these sites is core to our belief that we can deliver significant benefits to our customers and deliver further financial value to our shareholders.

Long term outlook

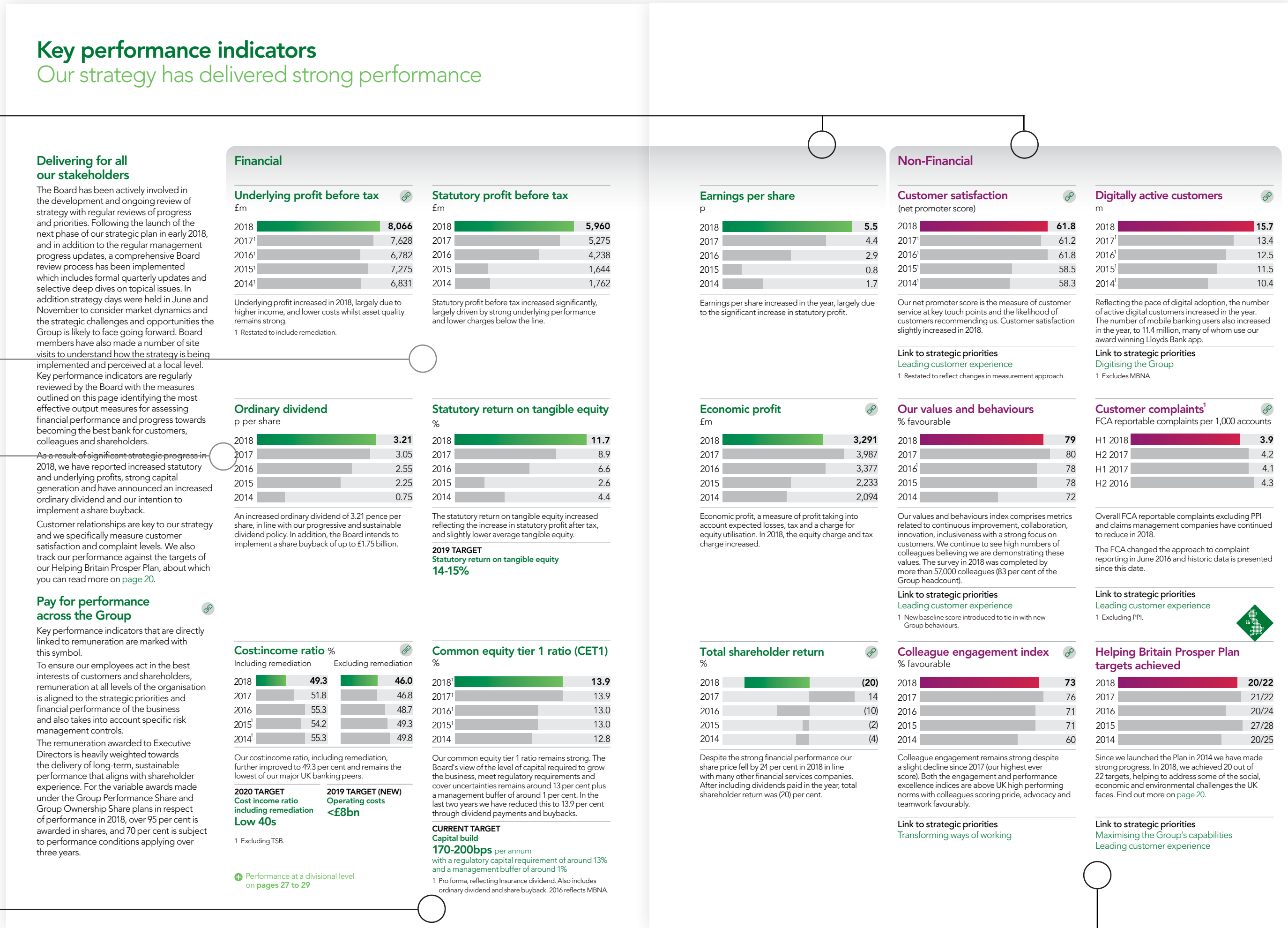
The land and planning environment is structurally different in this cycle and is more balanced and effective today than at any point over the last 30 years. We are confident that, barring a fundamental change in Government policy, this will continue to be the case for the foreseeable future.

In 2018 the draft National Planning Policy Framework (NPPF) was published which reconfirmed the importance of housing delivery and supply through both the Local Plan process and the five-year land supply balance. There are some challenges within the draft NPPF, particularly around viability, valuations and definitions around affordable housing but the overall direction of travel remains positive.

Metrics that matter

Lloyds Banking Group plc Annual Report & Accounts 2018

1. Balance of both financial and non-financial KPIs.
2. Trend of the KPI is provided for 5 years where applicable.
3. Aligns KPIs with the relevant strategic priorities.
4. Highlights those KPIs that are reflected in the executives' incentive schemes.
5. Provides supporting narrative for each KPI to explain its purpose and performance over the year.



Key performance indicators
Our strategy has delivered strong performance

Delivering for all our stakeholders

The Board has been actively involved in the development and ongoing review of strategy with regular reviews of progress and priorities. Following the launch of the next phase of our strategic plan in early 2018, and in addition to the regular management progress updates, a comprehensive Board review process has been implemented which includes formal quarterly updates and selective deep dives on topical issues. In addition strategy days were held in June and November to consider market dynamics and the strategic challenges and opportunities the Group is likely to face going forward. Board members have also made a number of site visits to understand how the strategy is being implemented and perceived at a local level. Key performance indicators are regularly reviewed by the Board with the measures outlined on this page identifying the most effective output measures for assessing financial performance and progress towards becoming the best bank for customers, colleagues and shareholders.

As a result of significant strategic progress in 2018, we have reported increased statutory and underlying profits, strong capital generation and have announced an increased ordinary dividend and our intention to implement a share buyback.

Customer relationships are key to our strategy and we specifically measure customer satisfaction and complaint levels. We also track our performance against the targets of our Helping Britain Prosper Plan, about which you can read more on page 20.

Pay for performance across the Group

Key performance indicators that are directly linked to remuneration are marked with this symbol.

To ensure our employees act in the best interests of customers and shareholders, remuneration at all levels of the organisation is aligned to the strategic priorities and financial performance of the business and also takes into account specific risk management controls.

The remuneration awarded to Executive Directors is heavily weighted towards the delivery of long-term, sustainable performance that aligns with shareholder experience. For the variable awards made under the Group Performance Share and Group Ownership Share plans in respect of performance in 2018, over 95 per cent is awarded in shares, and 70 per cent is subject to performance conditions applying over three years.

Financial

Underlying profit before tax
£m

2018	8,066
2017[1]	7,628
2016[1]	6,782
2015[1]	7,275
2014[1]	6,831

Underlying profit increased in 2018, largely due to higher income, and lower costs whilst asset quality remains strong.

1 Restated to include remediation.

Statutory profit before tax
£m

2018	5,960
2017	5,275
2016	4,238
2015	1,644
2014	1,762

Statutory profit before tax increased significantly, largely driven by strong underlying performance and lower charges below the line.

Earnings per share
p

2018	5.5
2017	4.4
2016	2.9
2015	0.8
2014	1.7

Earnings per share increased in the year, largely due to the significant increase in statutory profit.

Ordinary dividend
p per share

2018	3.21
2017	3.05
2016	2.55
2015	2.25
2014	0.75

An increased ordinary dividend of 3.21 pence per share, in line with our progressive and sustainable dividend policy. In addition, the Board intends to implement a share buyback of up to £1.75 billion.

Statutory return on tangible equity
%

2018	11.7
2017	8.9
2016	6.6
2015	2.6
2014	4.4

The statutory return on tangible equity increased reflecting the increase in statutory profit after tax, and slightly lower average tangible equity.

2019 TARGET
Statutory return on tangible equity
14-15%

Economic profit
£m

2018	3,291
2017	3,987
2016	3,377
2015	2,233
2014	2,094

Economic profit, a measure of profit taking into account expected losses, tax and a charge for equity utilisation. In 2018, the equity charge and tax charge increased.

Cost:income ratio %

	Including remediation	Excluding remediation
2018	49.3	46.0
2017	51.8	46.8
2016	55.3	48.7
2015[1]	54.2	49.3
2014[1]	55.3	49.8

Our cost:income ratio, including remediation, further improved to 49.3 per cent and remains the lowest of our major UK banking peers.

2020 TARGET
Cost income ratio including remediation
Low 40s

2019 TARGET (NEW)
Operating costs
<£8bn

1 Excluding TSB.

Performance at a divisional level on pages 27 to 29

Common equity tier 1 ratio (CET1)
%

2018[1]	13.9
2017[1]	13.9
2016[1]	13.0
2015[1]	13.0
2014	12.8

Our common equity tier 1 ratio remains strong. The Board's view of the level of capital required to grow the business, meet regulatory requirements and cover uncertainties remains around 13 per cent plus a management buffer of around 1 per cent. In the last two years we have reduced this to 13.9 per cent through dividend payments and buybacks.

CURRENT TARGET
Capital build
170-200bps per annum
with a regulatory capital requirement of around 13% and a management buffer of around 1%

1 Pro forma, reflecting Insurance dividend. Also includes ordinary dividend and share buyback. 2016 reflects MBNA.

Total shareholder return
%

2018	(20)
2017	14
2016	(10)
2015	(2)
2014	(4)

Despite the strong financial performance our share price fell by 24 per cent in 2018 in line with many other financial services companies. After including dividends paid in the year, total shareholder return was (20) per cent.

Non-Financial

Customer satisfaction
(net promoter score)

2018	61.8
2017[1]	61.2
2016[1]	61.8
2015[1]	58.5
2014[1]	58.3

Our net promoter score is the measure of customer service at key touch points and the likelihood of customers recommending us. Customer satisfaction slightly increased in 2018.

Link to strategic priorities
Leading customer experience

1 Restated to reflect changes in measurement approach.

Digitally active customers
m

2018	15.7
2017[1]	13.4
2016[1]	12.5
2015[1]	11.5
2014[1]	10.4

Reflecting the pace of digital adoption, the number of active digital customers increased in the year. The number of mobile banking users also increased in the year, to 11.4 million, many of whom use our award winning Lloyds Bank app.

Link to strategic priorities
Digitising the Group

1 Excludes MBNA.

Our values and behaviours
% favourable

2018	79
2017	80
2016[1]	78
2015	78
2014	72

Our values and behaviours index comprises metrics related to continuous improvement, collaboration, innovation, inclusiveness with a strong focus on customers. We continue to see high numbers of colleagues believing we are demonstrating these values. The survey in 2018 was completed by more than 57,000 colleagues (83 per cent of the Group headcount).

Link to strategic priorities
Leading customer experience

1 New baseline score introduced to tie in with new Group behaviours.

Customer complaints[1]
FCA reportable complaints per 1,000 accounts

H1 2018	3.9
H2 2017	4.2
H1 2017	4.1
H2 2016	4.3

Overall FCA reportable complaints excluding PPI and claims management companies have continued to reduce in 2018.

The FCA changed the approach to complaint reporting in June 2016 and historic data is presented since this date.

Link to strategic priorities
Leading customer experience

1 Excluding PPI.

Colleague engagement index
% favourable

2018	73
2017	76
2016	71
2015	71
2014	60

Colleague engagement remains strong despite a slight decline since 2017 (our highest ever score). Both the engagement and performance excellence indices are above UK high performing norms with colleagues scoring pride, advocacy and teamwork favourably.

Link to strategic priorities
Transforming ways of working

Helping Britain Prosper Plan targets achieved

2018	20/22
2017	21/22
2016	20/24
2015	27/28
2014	20/25

Since we launched the Plan in 2014 we have made strong progress. In 2018, we achieved 20 out of 22 targets, helping to address some of the social, economic and environmental challenges the UK faces. Find out more on page 20.

Link to strategic priorities
Maximising the Group's capabilities
Leading customer experience

Bringing risks to life

Pearson plc Annual Report & Accounts 2018

1. Comprehensive discussion of principal risks.
2. Risks are linked to relevant strategic priorities.
3. The principal risk is specific and relevant to the company and avoids boilerplate narrative.

64 **Pearson plc** Annual report and accounts 2018

Principal risks and uncertainties

Strategy and change

2 Products and services

Failure to successfully invest in, develop and deliver (to time and quality) innovative, market leading global products and services that will have the biggest impact on learners and drive growth, ensuring Pearson:

› Responds to market needs, as well as threats from both traditional competitors as well as disruptive innovation

› Offers products to market in line with our strategy, at the right price and with a deal structure that remains competitive.

This risk was revised and expanded in 2018 following a risk review against the strategic priorities, as well as a thorough analysis of underlying risk drivers. The definition has been changed as a result.

No overall change

Strategic priorities:

1 Grow market share through digital transformation

2 Investing in structural growth opportunities

Reason for risk rating

We have made significant progress in managing risks around our competition and the product and investment portfolio in 2018 due to the ongoing progress we have made in improving our processes and strategic investment recommendations.

However, due to the importance of product innovation (such as the ongoing development of the Global Learning Platform (GLP) and our investment in AI research) to achieving Pearson's strategic priority of digital transformation, the impact if this risk materialises remains high.

Competition
We have made significant progress understanding the competitive and structural threats, especially to our US Higher Education Courseware business, and made progress mitigating these.

We operate in competitive markets with many competitors across these markets. As the consumption of educational products and services shifts to digital and subscription models, this has the potential to lead to changes in the competitive structure of the markets in which we operate.

Existing controls

› Global product lifecycle process
› Portfolio governance and management
› Audit Committee oversight of the GLP.

Outcome of 2018 activities

Product Innovation
Further investment was made in 2018 in development of the GLP – our single, cloud-based platform to support our learners and enable us to innovate faster in the future.

The first of our pilots – Rio – went live in September 2018: Pearson used the software to run a number of focus groups and targeted interactions with different schools and instructors during the latter half of 2018.

In addition, we are investing in other innovations, such as Artificial Intelligence (AI), to ensure that our products provide leading personalised learning experiences and better outcomes. In 2018, we appointed an industry expert to lead on the development of our AI products and solutions strategy.

Product and investment portfolio
Progress was made during 2018 in consolidating our key product portfolios. Portfolio investment allocation decisions were made using an agreed data-driven framework and the investment governance criteria and process were revised, spanning partnerships, portfolio strategy and geographies.

Competition
In 2018, we scaled the rental access model initiative from c.50–c.150 titles in total by the end of the year.

We also continued initiatives (e.g. pricing, format, policies, marketing, channel) to incentivise customers to move from print to digital products to help mitigate risks arising from the secondhand market and achieve our digital business transformation goals.

2018 saw the launch of additional anti-piracy initiatives (see risk 12, Intellectual Property, which includes piracy, for more on this risk).

2019 outlook and plans

Turning this risk into an opportunity – successfully accelerating our shift to digital as well as investing in and delivering the right products and services – is as critical to successful business performance in 2019 as we have flagged in previous years. As our Chief Executive highlights on p10, over time our aim is to transition to a digital first model for our learners, with print resources available as an 'add on' service.

Product Innovation
We will continue to invest in our development of the GLP (focusing on an enhanced Revel platform) and expect to launch in the second half of the year. The GLP will also enable us to better deploy AI and machine learning to drive advances in educational technology.

Investment in the development of AI will also continue, such as using it to build on existing automated scoring capabilities using natural language processing.

Product and investment portfolio
2019 priorities include improving decision making effectiveness, for example by implementing a decision playbook to support how we make decisions for our products plus identify gaps in the decision making process and how to close them.

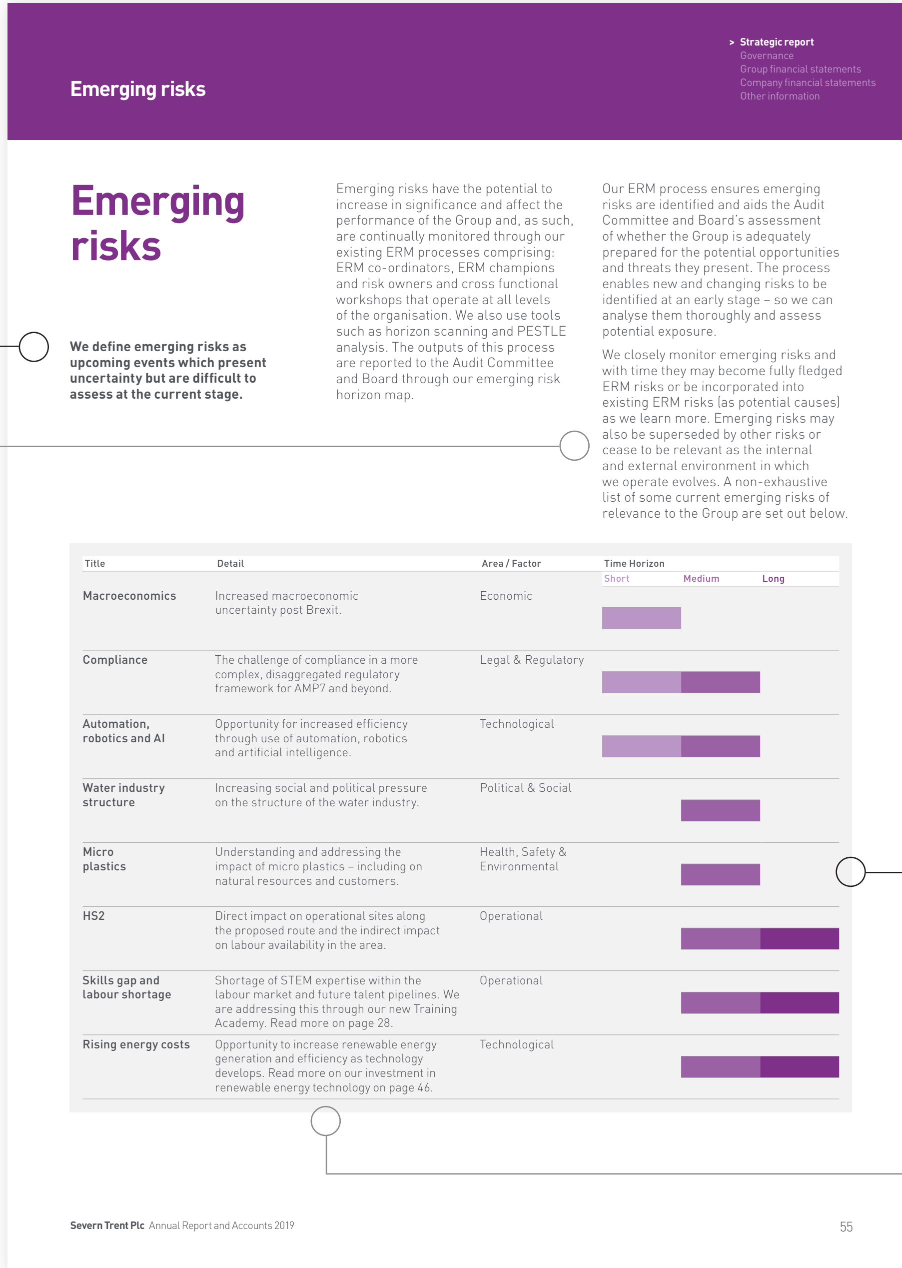
Competition
Our aims in 2019 are to significantly increase the number of US Higher Education Courseware products in the 'access first' or Subscription business model, as well as continuing our pricing simplification efforts in order to clarify and simplify our pricing structure for both sales representatives and customers.

4. Key activities during the year are outlined.
5. Highlights the outlook and future plans for each risk.
6. The movement of the risk during the year is indicated.

Horizon scanning – providing insights into emerging risks

Severn Trent plc Annual Report & Accounts 2019

1. Provides their definition of an emerging risk.
2. Outlines the process for identifying and monitoring emerging risks.
3. Illustrates the potential time horizon and when it might arise for each emerging risk.
4. Identifies and describes each emerging risk.



Emerging risks

> Strategic report
Governance
Group financial statements
Company financial statements
Other information

Emerging risks

We define emerging risks as upcoming events which present uncertainty but are difficult to assess at the current stage.

Emerging risks have the potential to increase in significance and affect the performance of the Group and, as such, are continually monitored through our existing ERM processes comprising: ERM co-ordinators, ERM champions and risk owners and cross functional workshops that operate at all levels of the organisation. We also use tools such as horizon scanning and PESTLE analysis. The outputs of this process are reported to the Audit Committee and Board through our emerging risk horizon map.

Our ERM process ensures emerging risks are identified and aids the Audit Committee and Board's assessment of whether the Group is adequately prepared for the potential opportunities and threats they present. The process enables new and changing risks to be identified at an early stage – so we can analyse them thoroughly and assess potential exposure.

We closely monitor emerging risks and with time they may become fully fledged ERM risks or be incorporated into existing ERM risks (as potential causes) as we learn more. Emerging risks may also be superseded by other risks or cease to be relevant as the internal and external environment in which we operate evolves. A non-exhaustive list of some current emerging risks of relevance to the Group are set out below.

Title	Detail	Area / Factor	Time Horizon: Short	Medium	Long
Macroeconomics	Increased macroeconomic uncertainty post Brexit.	Economic			
Compliance	The challenge of compliance in a more complex, disaggregated regulatory framework for AMP7 and beyond.	Legal & Regulatory			
Automation, robotics and AI	Opportunity for increased efficiency through use of automation, robotics and artificial intelligence.	Technological			
Water industry structure	Increasing social and political pressure on the structure of the water industry.	Political & Social			
Micro plastics	Understanding and addressing the impact of micro plastics – including on natural resources and customers.	Health, Safety & Environmental			
HS2	Direct impact on operational sites along the proposed route and the indirect impact on labour availability in the area.	Operational			
Skills gap and labour shortage	Shortage of STEM expertise within the labour market and future talent pipelines. We are addressing this through our new Training Academy. Read more on page 28.	Operational			
Rising energy costs	Opportunity to increase renewable energy generation and efficiency as technology develops. Read more on our investment in renewable energy technology on page 46.	Technological			

Severn Trent Plc Annual Report and Accounts 2019 55

Insights into stakeholder engagement and s.172

United Utilities Group plc Annual Report & Financial Statements 2019

1. Identifies each stakeholder group e.g. customers.

2. Explains how the group engages with each stakeholder, the key issues identified through the process and how it influences their decisions.

3. Explains how the group creates value for each stakeholder and aligns it back to its strategic priorities.

Customers

How we engage with and are influenced by customers

To deliver a great service in a way that customers value, we need to listen and engage with them in building new solutions. We engage with customers through a variety of channels, including webchat, text and social media. We get feedback on customer interactions every day, and conduct more detailed weekly research on key themes that are important to them. We have changed how we communicate and deliver services based on customer feedback, such as the introduction of our customer app and redesign of customer bills. Our business plan for 2020–25 was shaped by unprecedented levels of customer engagement.

Read more on pages 19 to 23

The independent customer challenge group, 'YourVoice', aims to ensure customers are at the heart of our business planning engagement, and the Chair regularly attends our board meetings. YourVoice continues to provide challenge and critical support on our delivery of commitments for the 2015–20 period as well as contributing to our business plan for 2020–25.

Top three material issues for customers*

- Customer service and operational performance
- Affordability and vulnerability
- Leakage and water efficiency

How we create value for customers

Short-term	Long-term	Link to strategic themes
› We focus on delivering a reliable service so customers can simply get on with their lives and not have to worry about their water and wastewater services › When they do need to contact us, we provide a helpful service, talking and listening to customers so we can understand and meet their expectations › We maintain bills that are good value for money through innovation and efficiency › Where customers are struggling with affordability and vulnerability, we provide tailored support through Priority Services and payment assistance schemes	› Our water and wastewater services make a major contribution to the long-term health and wellbeing of customers in our region › Through long-term financing and the regulatory framework, we are delivering multi-million pound infrastructure projects, to improve our services and resilience for the long term. We ensure the cost of this is shared fairly and affordably between those that benefit now and in the future › We focus on earning the trust of customers, for example by keeping personal details safe and through transparent reporting, to ensure they can have complete peace of mind	Engaging with customers helps us understand what they value most so that we can target our services accordingly By achieving sustainable cost reductions we can provide an efficient service, keeping bills low and enabling us to help vulnerable customers Customers value a company they can trust, and they care about protecting vulnerable people in society. They value the support we provide through our many assistance schemes

Statement by the directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

The board of directors of United Utilities Group PLC consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in the decisions taken during the year ended 31 March 2019 (see pages 88 to 89). In particular, by reference to the approval of our business plan ('our plan') for the period 2020–25, supported by the board assurance statement accompanying our plan:

› Our plan was designed to have a long-term beneficial impact on the company and to contribute to its success in delivering a better quality, more reliable water and wastewater service for customers in the North West of England to 2025 and beyond. We will continue to operate our business within tight budgetary controls and in line with our regulatory targets. Our plan was awarded 'fast-track' status and commended in relation to: customer engagement, affordability and vulnerability, resilience and innovation (see pages 19 to 21).

› Our employees are fundamental to the delivery of our plan. We aim to be a responsible employer in our approach to the pay and benefits our employees receive. The health, safety and well-being of our employees is one of our primary considerations in the way we do business (see page 6).

› Our duty, in accordance with the Water Industry Act 1991, is to provide a safe and secure supply of water and return wastewater safely to the environment. Our plan was informed by extensive engagement with customers, enabling us to gain an understanding of their views and priorities, communicating and listening through new channels and underpinned by working with the independent customer challenge group YourVoice (see page 40). We have made a commitment to share the gains of out-performance with customers. We also aim to act responsibly and fairly in how we engage with: our suppliers (see page 42); our credit investors (see page 100); and co-operate with our regulators (see page 44); all of whom are, integral to the successful delivery of our plan.

› Our plan took into account the impact of the company's operations on the community and environment and our wider societal responsibilities, and in particular how we impact the regions we serve in the North West of England (see page 40). Several of the proposed performance measures in our plan will deliver environmental improvements.

› As the Board of Directors, our intention is to behave responsibly and ensure that management operate the business in a responsible manner, operating within the high standards of business conduct and good governance expected for a business such as ours (see pages 84 to 143) and in doing so, will contribute to the delivery of our plan. The intention is to nurture our reputation, through both the construction and delivery of our plan, that reflects our responsible behaviour.

› As the Board of Directors, our intention is to behave responsibly toward our shareholders and treat them fairly and equally, so they too may benefit from the successful delivery of our plan.

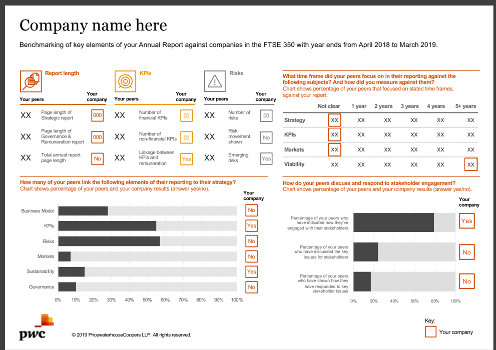
4. Provides a s.172 statement.

5. Uses the example of the approval of the 2020-25 business plan as a case study to demonstrate how the board met their duties under s.172.

Benchmarking of your annual report

Our review of the FTSE 350 this year enables us to provide benchmarking of your Annual Report against those of your peers.

Please let us know if you would like to discuss obtaining your personalised benchmarking, or a more detailed review and feedback on your Annual Report.



Contacts

Mark O'Sullivan
Head of Corporate Reporting
mark.j.osullivan@pwc.com

Richard Haig
Corporate Reporting Specialist
richard.t.haig@pwc.com

Further reading

Tackling the governance report under the 2018 Code

Navigating the stakeholder agenda

pwc.co.uk/corporatereporting

pwc.co.uk/corporatereporting