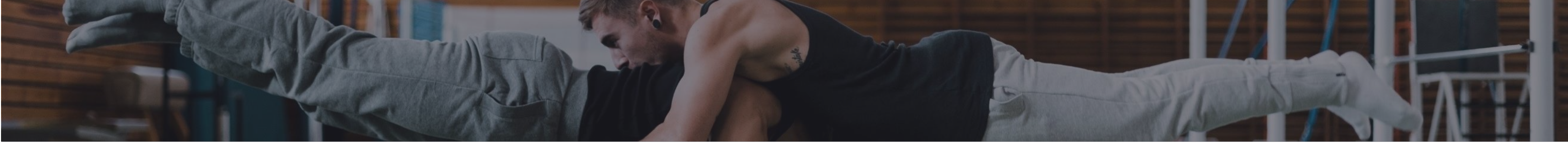
Striking the right balance — a review of FY22/23 FTSE 350 annual reporting

August 2023

Building a better working world



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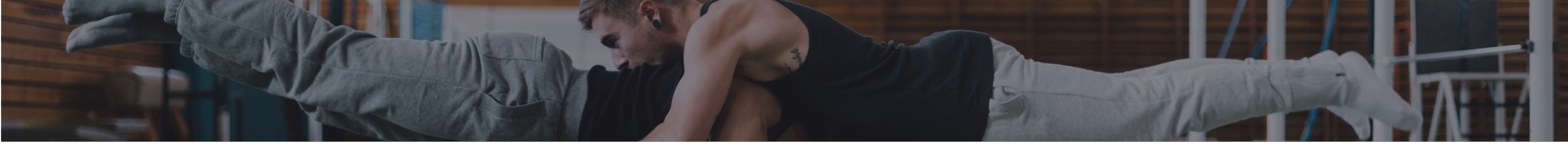

Introduction

The last major change to narrative reporting took place when the 2018 UK Corporate Governance Code (the Code) and the Companies (Miscellaneous Reporting) Regulations 2018 (MRR) came into force on 1 January 2019. In 2020, the Financial Conduct Authority (FCA) introduced a Listing Rule (LR) requirement for premium listed companies (followed by standard listed companies a year later) to include a statement in the annual report and accounts (ARA) setting out whether disclosures consistent with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) have been made. Since then, the LR on the diversity of company boards and their executive management was issued, effective for financial years starting on or after 1 April 2022 and the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 were introduced, effective for financial years beginning on or after 6 April 2022.

Companies are potentially looking at more significant changes in the two years to come. In May 2023, the Financial Reporting Council (FRC) published a consultation on its proposals to revise the Code, and the Department of Business and Trade (DBT) has proposed via secondary legislation (laid in Parliament in draft on 19 July 2023) four new reporting requirements[1]– the Audit and Assurance Policy (AAP), the Resilience Statement (RS), a distribution statement and a statement on steps taken to prevent and detect material fraud.

In this publication, we provide an overview of the current state of narrative reporting by premium listed companies, share good practice and, in some areas, indicate how we expect reporting to evolve if the changes noted above are introduced. Our observations are supported by a review of 100+ FTSE350 ARAs, predominantly with 31 December 2022 year ends. We have also updated our acid test - a practical tool for preparers and boards looking to ensure the narrative within the ARA covers the key qualitative aspects of leading practice. Each chapter begins with relevant considerations from the acid test, and it is produced in full in Appendix B.

We encourage companies to use the 23/24 ARA preparation process to streamline and refresh their reporting to the extent possible. This will ensure that their ARAs remain as concise as possible creating space for the changes to come in the next two years. Secondly, in areas of more significant change such as risk, internal controls and resilience reporting, existing reporting should be reviewed keeping in mind impending requirements. This will provide some early indications of what and how much will need to change in the near future.

High-quality reporting, that strikes the right balance in accurately telling a company's true story whilst meeting all the reporting requirements, requires significant effort to achieve. We hope that those involved in preparing ARAs will find this publication helpful and insightful as they embark on preparing their 2023/24 strategic narrative.

We thank Luke Benson, Mithun Vijay, Rikta Ghosh, Muskaan Kumari and Bhavik Patel for all their help in producing this report.

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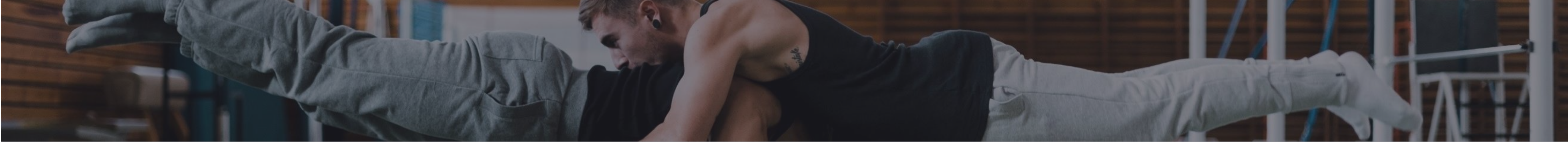
[1] Under the draft Statutory Instrument, these will apply to UK incorporated companies with turnover of £750m or above and 750 global employees.



43% discuss capital allocation beyond dividend policy

35% disclose the number of whistleblowing reports in a year

54% explain the reason for KPI choices

72% do not provide targets or outlooks for KPIs

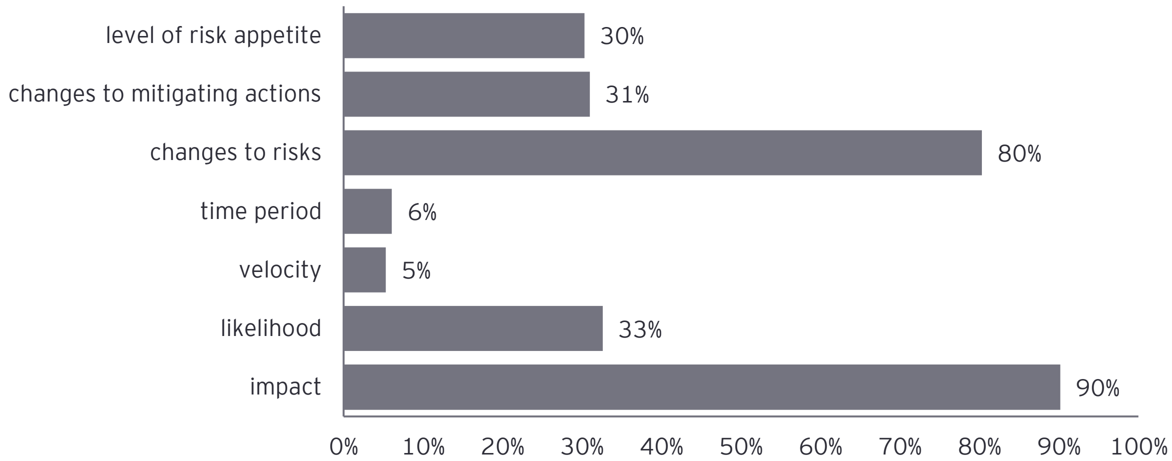
40% do not state who oversees TCFD reporting

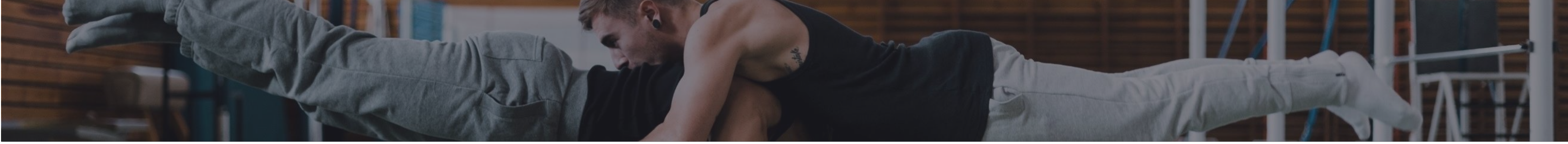
53% disclose principal decisions

23% List out emerging risks

20% Provide examples of emerging risks

Principal risk attributes





1. Purpose

- What is the company's purpose? Does it explain why the company exists?
- Is the purpose bespoke or could it be for any company?
- How did purpose influence any principal decisions the board has made?
- Are there tangible examples of purpose in action?
- Does the company's purpose clearly inform its strategy?
- Is it clear to a reader how strategy delivery helps with realising purpose?

The requirement for boards to establish the company's purpose and ensure it is aligned to the values, strategy and culture was introduced by Principle B of the 2018 Code.

Well established

Four reporting cycles later, the concept of purpose is well established. Majority of companies state their purpose upfront, and many include summary visuals that bring purpose, strategic objectives, values and stakeholders together. **NatWest** (ARA 2022, pp12-13) does this as part of its 'Purpose framework,' **Anglo American** (Figure 1.1) as part of its 'Purpose to value' disclosure. Some companies like **Howden Joinery** (ARA 2022, pp8-9) and **Rio Tinto** (ARA 2022, pp10-11) also reference their approach to sustainability within these summaries.

At the same time, the extent of the accompanying narrative has reduced substantially over time. This reduction is starker this year compared to 2020 – the first year of reporting during the COVID-19 pandemic, when many companies had prominent disclosures on their response and actions in the context of realising their purpose.

Avoiding a reporting "gap"

This year's reduction is a natural evolution given that on one hand purpose is now well embedded and, on the other, the pandemic is behind us. It can, however, create a reporting gap. This is often the case if the purpose statement reads like a marketing slogan or is not sufficiently bespoke, most notably impeding a meaningful articulation of alignment between purpose and strategy. Achieving this alignment is generally easier when, like **Spire Healthcare** (2022 ARA, p18), a company evolves its purpose and refreshes its strategy, thus providing a natural opportunity to explain the development to the reader.

How to bring purpose to life

To help bring purpose to life against a business-as-usual backdrop, we recommend that companies give tangible examples of purpose in action, for example by demonstrating how purpose influenced principal decisions, as done by **Mondi** (Figure 1.2).

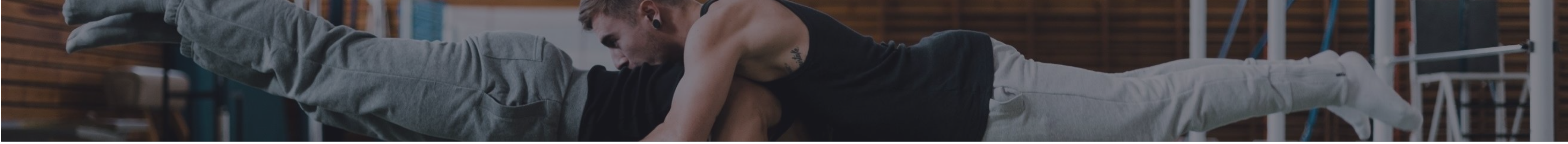
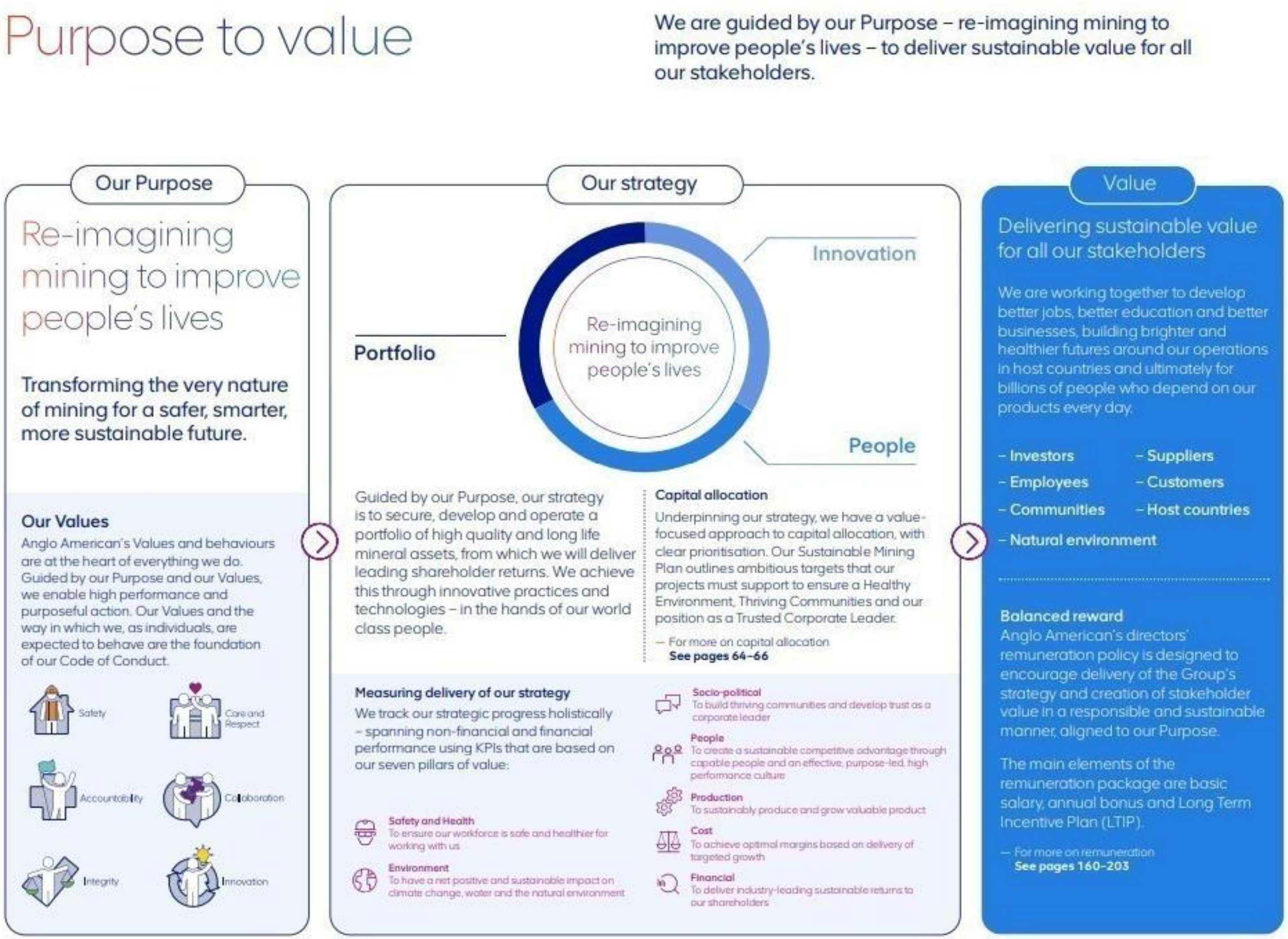


Figure 1.1 Anglo American: Summarising how purpose guides stakeholder value creation (2022 ARA, p10)



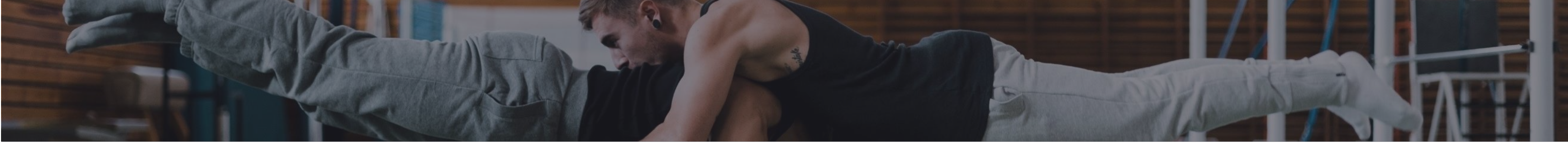


Figure 1.2 Mondi: Articulating the outcomes of a principal decision in the context of purpose and setting out trade-offs (2022 ARA, p34-35)

Section 172 statement

How stakeholder considerations shape decision-making

Mondi's strategic decision-making framework focuses on delivering sustainable value for key stakeholders, and relies on the quality of the relationships it has with them. The Board's deliberations take into account the long-term interests of our stakeholders, along with the impact of our business and the balance of actions required to deliver sustainable growth.

Our approach

Mondi categorises its stakeholders into six key groups described in the preceding pages and reviews these annually. As part of the Board's responsibilities and as a methodology for maximising the effectiveness of their decisions, the directors debate stakeholder considerations in the short-, medium- and long-term, taking account of four key principles:

1. Local and personal engagement

The Board has determined the most effective and scalable way of engaging stakeholders is to embed responsibilities throughout the organisation, while facilitating regular feedback from colleagues who maintain strong day-to-day relationships with our stakeholders. The Executive Committee and Sustainable Development Committee are important mechanisms for reporting these insights to the Board on a regular basis.

2. Informed decision-making

The Board seeks to understand the material issues relevant to stakeholders as they evolve. In addition to the regular feedback it receives from stakeholders and colleagues, the Group carries out an established materiality assessment, which is conducted every three years or more often if needed.

3. Long-term horizons

To grow and protect value, the Board maintains a long-term view that stretches beyond the projected tenure of the directors and considers impacts far into the future. This can be seen with the longer-term focus of our MAP2030 framework.

4. Two-way dialogue

Long-term decision-making, trade-offs and the nuances of local relationships mean it is important not only to take stakeholders into account at Board level, but to effectively communicate our actions to them. This is integral to how Mondi communicates and manages its reputation, supporting the Board's focus on promoting the strongest standards of business ethics and governance.

Local and personal engagement

One way in which the Board gains insights from local and personal engagement is from Mondi's Socio-Economic Assessment Toolbox (SEAT) process. SEATs are arranged as an open dialogue with a variety of stakeholders facilitated by an independent third party. The conclusions of each assessment are shared with the local management team as well as Mondi's senior leadership, including the Sustainable Development Committee.

www.mondigroup.com/SEATs

In May 2022 a SEAT was carried out at our Štětí mill in the Czech Republic. The mill employs around 1,000 people and is the largest producer of pulp and packaging paper in the country. The SEAT process included around 21 meetings and involved conversations with a range of stakeholders such as employees, customers and community representatives.

The stakeholders interviewed identified Mondi Štětí as a:

- Strong and reliable business partner
- Responsible manufacturer who cares about good working conditions
- Modern, supportive and reliable partner to local communities in the region
- Mill with high environmental standards

In terms of areas for improvement, three overarching issues were of most concern to stakeholders:

- Vehicle traffic
- Odour emissions
- A perception of overly stringent safety rules

The local management team reviewed all the findings and responded formally with their feedback in the publication of a SEAT report. This included steps on where improvements can be made for the future, of which some, such as traffic alleviation measures, have already been implemented.

Further details of the Štětí SEAT and outcomes can be found on pages 74 of the 2022 Sustainable Development report.

Ambitious investment at Mondi Štětí

What did the Board's decision entail?

In October 2022 the Board approved a €400 million investment in a new kraft paper machine at our Štětí mill in the Czech Republic. The investment forms part of the Group's €1 billion expansionary capital investment programme to accelerate growth in sustainable packaging and will further strengthen Mondi's leading position in the market.

What was the context for the decision?

- The investment and associated production optimisation will provide Mondi with the opportunity to develop new paper-based products that help customers in their efforts to achieve their sustainability targets.
- Demand for packaging that is fit-for-purpose and sustainable remains high. Regulations, such as the EU Packaging and Packaging Waste Regulation, are accelerating requirements around waste reduction and promoting the use of renewable and recyclable products.

How did the decision account for stakeholder interests?

The Board based its decision on an in-depth review of the benefits expected:

- **Customers:** The additional capacity will meet growing customer demand for sustainable paper-based flexible packaging and provide an opportunity to optimise production and develop new products across Mondi's kraft paper operations. Customers will also benefit from new, on-site product development and innovation capabilities.
- **Employees:** The investment will provide colleagues and potential new hires with long-term career development and training opportunities and renewed confidence in the future of the mill. It will also strengthen the mill's reputation as an attractive employer and motivate colleagues.
- **Investors:** Our disciplined approach to investigating and executing capital projects is a key strength at Mondi. Successful completion will further lower our cost base, deliver volume growth and contribute to the Group's overall performance.
- **Communities:** The investment contributes to the sustainable future of the mill and will stimulate local economic activity and employment.
- **Environment:** Kraft paper has sound sustainability credentials, is made from certified fibre and is fully recyclable. The investment will also increase the mill's energy efficiency and reduce the mill's specific greenhouse gas emissions.

What were the trade-offs?

- The Board reviews numerous capital investments across multiple locations, taking into consideration various financial and non-financial benefits to stakeholders. Ultimately, the Board directs capital to those projects with the strongest long-term return on investment in alignment with our sustainability goals and stakeholder responsibilities.
- Medium-term demand and supply market dynamics and consideration of the sustained competitiveness of the machine in the European sack kraft paper market.
- The additional workload for employees and resources available to execute the project as a result of such a large investment.
- Increased raw material consumption, most notably wood and energy, to supply our expanded production as well as reallocating market pulp for kraft paper production.

What was the outcome of the decision?

The Board approved the investment in a new kraft paper machine. By deciding to invest, the Board demonstrated its continuing support for the Group's strategy and prioritisation of sustainable packaging as the means to sustaining long-term value creation for all stakeholders. By extension, the decision demonstrates the Board's stewardship – and the Group's progress – in achieving its purpose: to contribute to a better world by making innovative, sustainable packaging and paper solutions that are sustainable by design.

Strategic framework
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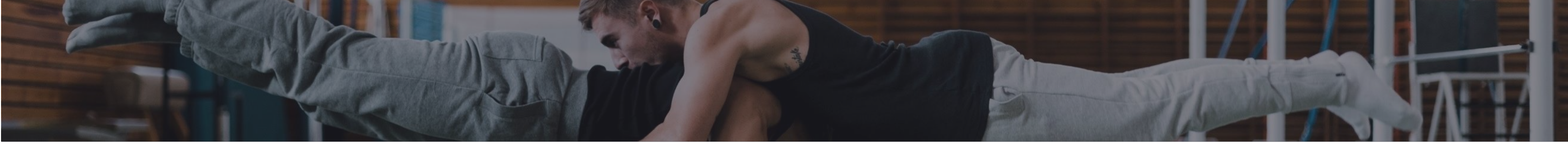
The Mondi Way
Page 14



2. Culture

- Why are the desired behaviours critical to the achievement of strategic objectives?
- How does the board measure and monitor the extent to which the culture is embedded?
- What actions are needed to close any identified gaps between actual and desired culture?
- Is a clear update provided on progress against any past initiatives to close the gaps?

In Engaging stakeholders, restoring trust, our review of narrative reporting issued in September 2019, we had included a framework for meaningful culture reporting (p16 of 2019 report). Whilst some aspects of the culture narrative have moved on substantially since then, other areas continue to lag and therefore the framework from this report continues to have relevance and we have re-produced it as Figure 2.1 below.

Conveying how the desired behaviours support delivering strategy

Companies struggle to convey why the espoused culture is right for what they aim to achieve. Values are not translated into behaviours, and even when they are, it is not clear why they are essential to the delivery of strategic objectives. **Next** (2023 ARA, p18) provides a very detailed explanation of the behaviours that its employees expect from one another. **Ocado** (Figure 2.2) indicates how culture supports each of its five strategic priorities.

Improved narrative on sources of culture insight

On the other hand, there has been significant progress in disclosing the sources of culture insights the board considers. This includes metrics which are being monitored, although the values of those metrics are not always provided. References to whistleblowing are becoming increasingly common, with 35% of companies going as far as disclosing the number of cases in a given year. **BAE** (2022 ARA, pp76-77) goes as far as disclosing ethics enquiries by region, by type, by means raised and provides information on outcomes, including number of dismissals for reasons of unethical behaviour. **WPP** (Figure 2.3) discloses not only the number of cases, but also a metric of their risk impact.

The number of companies that provide commentary on the findings of monitoring remains low. One exception is **ITV** (Figure 2.4), which not only sets out how the board monitors culture, but explains what insights were gained and the resulting outcomes.

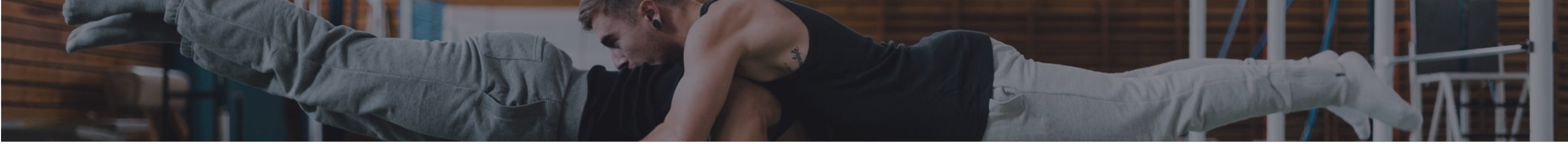
Follow up on actions/initiatives is rare

Most commonly the conclusions from culture monitoring are that behaviours throughout the business are aligned with purpose, values and strategy, even when some of the highlighted culture indicators are showing a downward trend.

On the rare occasions that actions needed to embed and promote culture are discussed in one year, they are almost never followed up on in next year's reporting.

This will need to change given the FRC's consultation on the revised Code proposes to expand Provision 2 to cover reporting on how effectively the desired culture has been embedded.

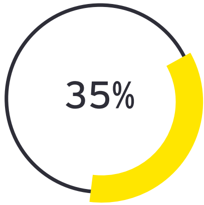
One company, whose reporting is worth following in this regard is **Rio Tinto**. In 2021, Rio Tinto commissioned an independent review of its culture and is now working to implement the 26 recommendations of the Everyday Respect Report. The 2022 ARA details the actions within this report that were accelerated during the year. It will also be



interesting to follow how **Lloyds Banking Group** reports on progress next year, given its new values launched in 2022.

Culture vs DEI

Many companies have started to dedicate substantial space within their culture narrative to diversity, equity and inclusion (DEI), emphasising the importance they place on this topic. Whilst this is a vital social dimension of overall workplace culture, it should not dominate over attributes and behaviours which are critical to strategic delivery. In some cases, DEI can logically fit better as part of the stakeholder narrative.



disclose the number of whistleblowing reports in a year

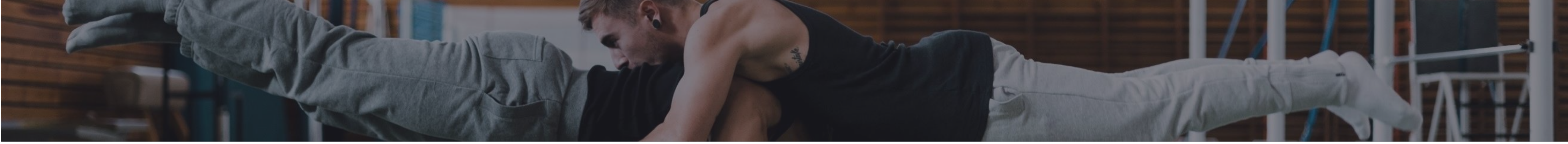
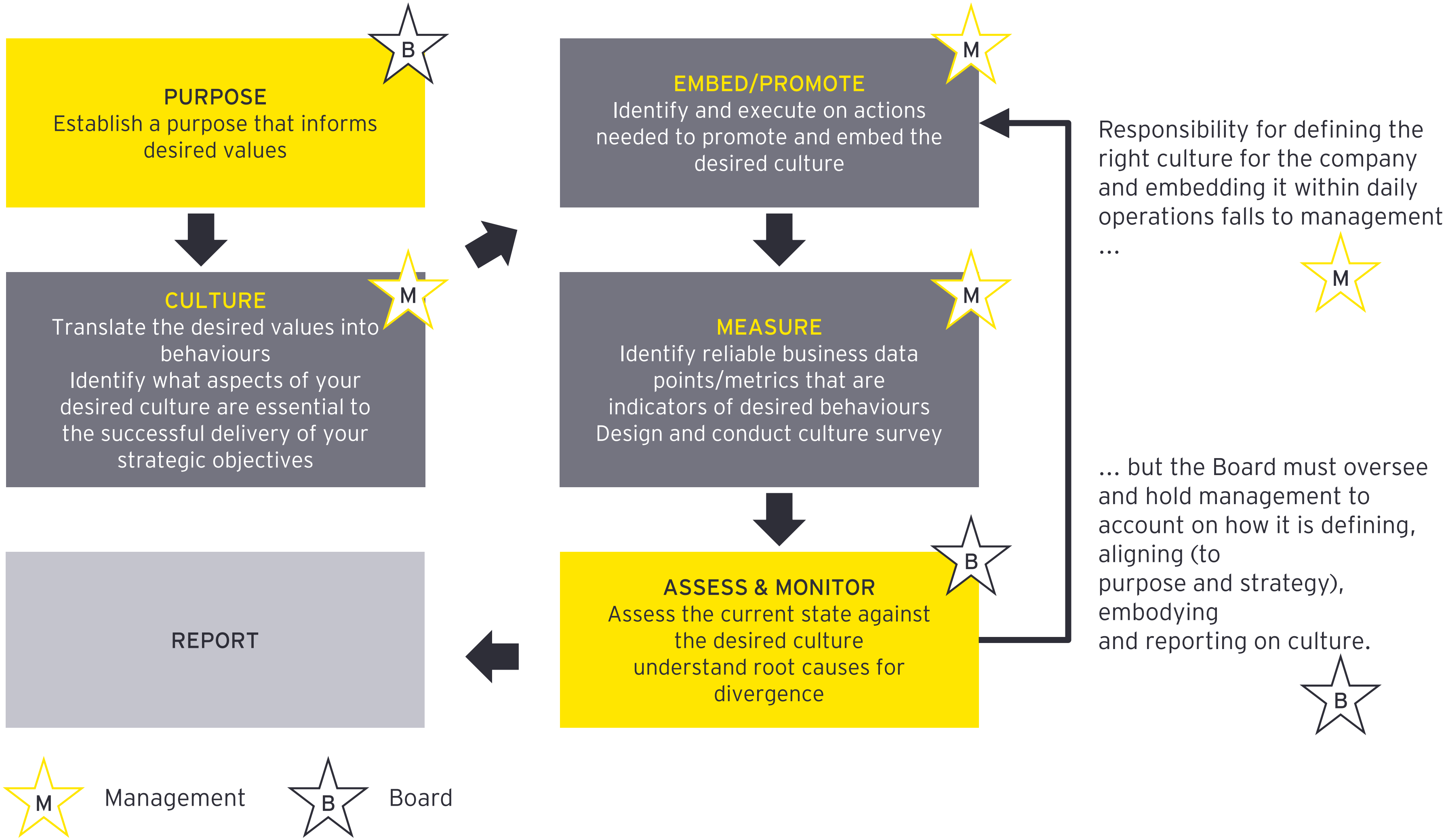


Figure 2.1 From establishing purpose to reporting culture – an overview



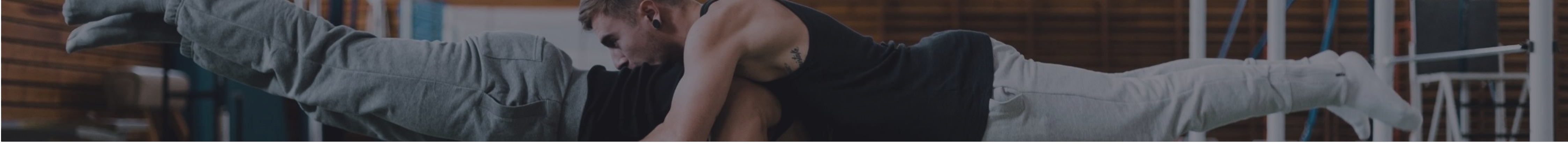


Figure 2.2 Ocado: Linking strategy and culture (2022 ARA, pp26-27)

Our strategic framework Our strategy delivery is focused on five priorities:

	Long-term goals: Responsible business approach	Grow our revenue	Optimise OSP economics	Deliver transformational technology	Deliver on our client commitments
	Read more on page 36	Read more on page 28	Read more on page 30	Read more on page 32	Read more on page 34
Why this is a priority	Continuing to strengthen our strategic business foundations as we scale, from human and natural capital management, to governance, will support us to deliver on our operational objectives into the long-term	Developing, building, acquiring and diversifying our revenue streams	Ensuring our technology, implementation and services deliver industry-leading returns and lowest-cost operations	Led by innovation, we will always stay ahead, by identifying, developing and protecting our digital ecosystem	Providing efficient and scalable solutions – listening first and delivering a best in class customer service
Link to stakeholders					
Group KPIs & key segmental drivers	– Carbon intensity (scope 1 and 2) – Ocado Retail food waste – Technology eNPS	– Modules ordered – Ocado Retail revenue (£m)	– Direct operating cost (% site sales) – Units picked per hour (UPH)	– Technology headcount – Patents granted	– Modules live – Total eaches processed
Link to risks	– Product Commercial Proposition, Product Performance, Product Innovation, Intellectual Property, Supply Chain, Talent & Capability, Cybersecurity, Fire & Safety, Regulatory & Compliance, Geopolitical & Economic Uncertainty, Climate	– Product Commercial Proposition – Product Performance – Supply Chain	– Product Commercial Proposition – Product Innovation – Supply Chain – Geopolitical & Economic Uncertainty	– Product Innovation – Intellectual Property – Talent & Capability – Cybersecurity – Climate	– Product Performance – Supply Chain – Talent & Capability – Fire & Safety – Geopolitical & Economic Uncertainty – Climate
How culture supports this	Create an environment that enables talent development and growth, leading with listening to improve engagement	We innovate to create sustainable success for us and our partners	We collaborate to achieve our cost targets so that we are being efficient and profitable	We are curious so we experiment and evolve to achieve more together	We push ourselves to be accountable and go beyond for our partners

How or culture supports strategy

We're enabled by values and behaviours. Enabling us to grow and transform our business globally at pace – to build our success for the future.

1. We're in it together.
Our inclusive community enables our people to feel a sense of belonging, part of one respectful and supportive team. We're empowered and valued, kind and understanding, honest and trusting – in it together.

2. We can be even better.
We're a community of limitlessly innovative and ambitious people who drive positive change. We're pioneers, we break the mould, we push boundaries, learn fast from our mistakes and lead the way with our solutions. We inspire and challenge each other – to be even better.

3. We're proud of what we do.
We deliver a fast, efficient an responsible service for our Cl Partners, their customers and each other. We always anticip the future and own our decisi – we're proud of what we do.

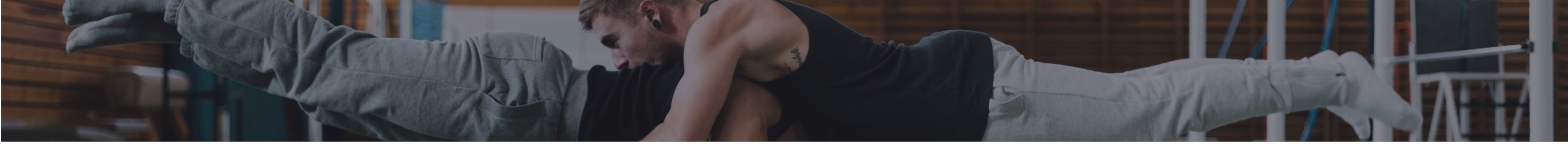


Figure 2.3 WPP: Number of whistleblower reports and their risk impact (2022 ARA, pp88-89)

RISK IMPACT FROM WHISTLEBLOWER REPORTS 2022

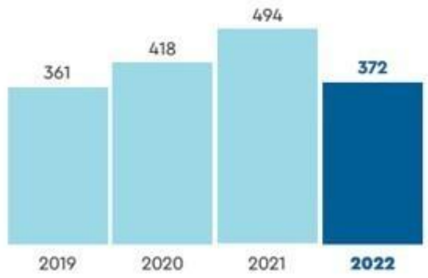
All whistleblower reports received by the Group Chief Counsel and General Counsel, Corporate Risk, which includes all Right to Speak reports, are handled in line with WPP's Whistleblowing and Investigations Protocols and logged, investigated and tracked through to a conclusion including any remediation or follow-up actions that might be required. Recommended remediation can include disciplinary action, changes to systems, controls and processes or wider review and monitoring for a particular time period.

Reports are also analysed for risk impact and root causes. Learnings generated from this analysis are converted into recommendations including for training sessions and practical resources by WPP's business integrity team and implemented together with the support and input of the Risk Committees. WPP's business integrity team also merges these learnings with other data feeds (both internal such as revenue source and breakdown or margin patterns, and external such as Transparency International's Corruption Perception Index) to identify and focus on potential risk concerns.

The nature of each report, action taken and outcome is reported to the Audit Committee and the approach and process are reviewed by the auditors. WPP is committed to providing a safe and confidential way for people with genuine concerns to raise them, and to do so without fear of reprisals. WPP does not tolerate any retaliatory behaviour against individuals reporting concerns and is equally committed to preserving the anonymity of an individual who makes a report and does not wish to have their identity revealed.

The consequences of misconduct or retaliation range from individual performance management, training for a business or an office and one-on-one training or coaching for an individual through to staff relocation and staff dismissal.

TOTAL NUMBER OF REPORTS FROM WHISTLEBLOWERS



RISK IMPACT FROM WHISTLEBLOWER REPORTS
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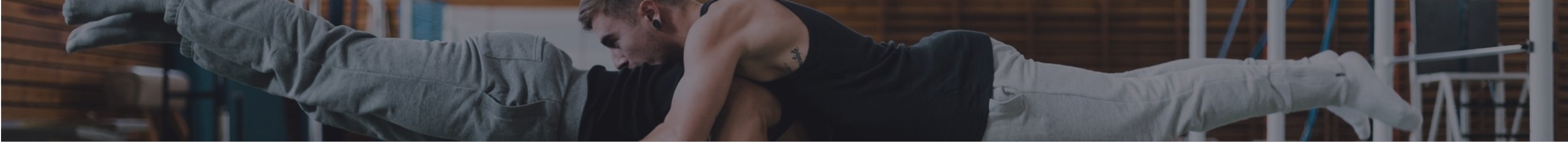


Figure 2.4 ITV: Culture insights gained and resulting outcomes (2022 ARA, pp115-117)

The table below sets out the framework of policies and practices which underpin our culture and explains key ways in which the Board and/or Committees monitor culture, and how these contributed to delivering insights into ITV's culture.

Engagement and feedback channels

How the Board monitors culture	Cultural insight gained
Review assessments of the Company's culture through the 2022 pulse survey, measurements of organisational culture benchmarked against peers, and how ITV's values link to its purpose and behaviour.	Understanding strengths (see findings above) and opportunities (see pages 114 to 117) in ITV's culture, and that ITV's values and stated purpose authentically reflect its culture and behaviours.

Outcome

The Board continue to monitor insights gained from the engagement survey conducted in 2021, through updates from the Chief Executive. Through assessments and updates, the Board received assurance that ITV's culture is aligned to its purpose and values, while recognising the cultural evolution required to deliver strategy as ITV becomes increasingly digital. The Board, through the Audit Committee, gets feedback from external and internal auditors on culture and alignment to purpose and values across the organisation, as observed whilst undertaking audits and engaging with management.

How the Board monitors culture	Cultural insight gained
Interactions with and feedback from Board members through: (i) the Chief Executive (including access to the regular Chief Executive's vodcast and Q&A and her updates on people priorities and communications at every meeting); and (ii) engaging regularly (directly and indirectly) with colleagues through numerous engagement mechanisms (see page 112 to 113 for details regarding the Board's workforce engagement, including the Workforce Engagement Director and Ambassador Network).	A better understanding of day-to-day operations, the practical execution of strategy and the cultural context in which employees work. Further, insight into how colleagues have been supported in the return to office working and following operational changes in the M&E Division. The Chief Executive's vodcast Q&A sessions provide the Board with insight about colleague morale and important topics for colleagues, for example ITV's commitment to diversity and inclusion and hybrid ways of working.

Outcome

Vodcast viewing figures and feedback are shared with the Chief Executive and used to shape vodcasts and ensure content is what colleagues want to hear.

Policies and Practices

How the Board monitors culture	Cultural insight gained
Regular Board updates and relevant Committee updates on a broad range of risk and business integrity matters, including fraud, compliance, bribery, corruption and modern slavery, and standard supplier protocols and procedures. This is done through review of internal audit reports, Speaking Up data, compliance questionnaires, compliance reports, risk deep dives, incident reports and policies and training.	A broad understanding of practices and behaviours and how these align with the purpose, values and strategy of the Group, including an understanding of the Group's approach to supply chain partners and the culture of risk ownership in the business.

Outcome

The Board and its Committees provide appropriate scrutiny and challenge of management and receive assurance over ITV's approaches to managing risk and business integrity matters.

How the Board monitors culture	Cultural insight gained
As part of the Board's culture assessment, review of **ITV's values** as set out in ITV's Code of Ethics and Conduct.	How the Code of Ethics and Conduct promotes the highest standards of ethical business underpinning ITV's values and corporate culture.

Outcome

The Board was satisfied that ITV's Code of Ethics and Conduct embodies ITV's values and culture and will continue to review this code annually to ensure it remains aligned to ITV's purpose (including its Social Purpose), vision, values and strategy and that there is appropriate compliance across the Group.

How the Board monitors culture	Cultural insight gained
Completion of **mandatory training** modules for colleagues by all Board members on the Code of Ethics and Conduct, cyber security, data protection and privacy and climate action. Subsequent review of the understanding and embedding of the Code of Ethics and Conduct and related policies and standards through this training.	A deeper understanding of how ITV's values and standards are communicated and how colleagues are kept safe and secure and act in a compliant way.

Outcome

All members of the Board will continue to undertake training on an annual basis, to ensure their understanding of how colleagues are kept safe and secure and act in a compliant way remains current.

Social Purpose, Diversity and Inclusion

How the Board monitors culture	Cultural insight gained
Annual review of ITV's **Social Purpose** strategy, performance and plans.	How ITV's Social Purpose campaigns influence culture internally as well as externally.

Outcome

The Board will continue to monitor key priorities and initiatives in pursuit of ITV's Social Purpose strategy. See pages 44 to 53 for outcomes related to Social Purpose.

How the Board monitors culture	Cultural insight gained
Annual review session of **Diversity and Inclusion**. Regular updates on progress on ITV's Diversity Acceleration Plan and feedback from ITV's inclusion networks. Regular monitoring by Nominations Committee of progress against diversity targets, with diversity on the Board agenda at least annually. Chief Executive attendance at ITV's Cultural Advisory Council, comprising a group of independent external advisers from a range of different industries and specialisms who advise, challenge and counsel ITV on its diversity and inclusion activities.	The impact the Diversity Acceleration Plan is having on colleague sentiment and ITV's reputation as having an inclusive culture, and the latter's appeal to future employees. How ITV's culture is enabling progress to be accelerated through Group-wide diversity initiatives.

Outcome

The Nominations Committee will continue to monitor progress being made to meet diversity targets to ensure recruitment and succession initiatives support ITV's Diversity and Inclusion strategy. See pages 51 and 53 for outcomes related to Diversity and Inclusion.

Speaking Up

How the Board monitors culture	Cultural insight gained
Report detailing new Speaking Up concerns (if any) produced for every Board meeting. Review and monitoring by the Audit and Risk Committee of the effectiveness of the Speaking Up policy, processes and framework annually and Speaking Up reports at least twice a year. Feedback is given to the Board. See page 133 for the Speaking Up framework's implementation in 2022. Review conducted by the internal audit function of the effectiveness of the Speaking Up process	A perspective on the nature of colleague concerns and trends in the behaviours of colleagues generally. Insight into how concerns are handled by ITV and indications of how the alternative routes for raising all risk concerns are being utilised.

Outcome

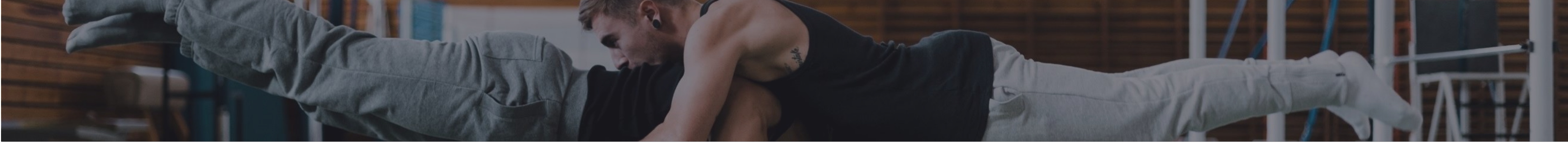
The Audit and Risk Committee will continue to monitor the effectiveness of the Speaking Up framework, and feed back to the Board on how this has supported the openness of ITV's culture.

Remuneration

How the Board monitors culture	Cultural insight gained
Review by the Remuneration Committee of the wider employee reward framework, including gender and ethnicity pay gaps, CEO pay ratios and alignment of directors' pension contribution to the workforce. Integration of ESG measures into incentive targets. Live Q&A and remuneration discussion for Ambassadors hosted by the Remuneration Committee Chair, which was reported back to the Committee.	Insight into the role that remuneration, and setting performance goals, has on promoting the right behaviours and the extent to which incentives and rewards are aligned with culture.

Outcome

The Remuneration Committee will continue to report to the Board on colleague sentiment in relation to retention and reward initiatives.



3. Business model (BM)

- How does the company generate revenues?
- How and where are the company's key assets and resources engaged in the process of value creation?
- What are the company's competitive advantages; does the BM differ from others in the sector?
- How are environmental and social risks and opportunities being addressed to ensure the BM is sustainable? How is the BM evolving in response?
- Is the BM adapting to long-term trends and factors?

Business vs. operating model

A BM is commonly understood to describe how a company creates and captures value through its products/services – its customer value proposition – and the broader stakeholder outcomes it targets.

The operating model deals with how core processes are structured and how value chains are supported; it encompasses the organisation of people, processes and infrastructure (physical and non-physical including systems/technology and information) in support of the BM. Whilst the disclosure requirement relates to the BM, there are no clearly defined lines between the two, and disclosures often covers a mix.

Visual roadmap

Commonly, companies include a two-page visual BM overview. When done well, this can be an impactful, roadmap orienting the reader to further detail across the ARA, at the same time setting the tone for what is of material importance.

Too often however these disclosures are either not company specific, omit aspects that are material to value creation or list topics without demonstrating how they fit into the BM. References to sustainability are one of the most common of these apparent bolt-ons, with very few companies integrating this aspect of the disclosure as **Mondi** (Figure App1.1) has done.

The quality of these disclosures is also undermined when they cannot be 'reconciled' with the financial statements, such as when 'inputs' omit material fixed assets; or when they fail to articulate how revenues are generated. **Spirax-Sarco** (Figure 3.1) and **Rotork** (2022 ARA, pp12-13) both provide meaningful overviews of their routes to market.

Evolving the BM

Another pitfall is 'form over substance' – companies request that their design agency creates a new BM visualisation simply because a year on year "refresh" is felt appropriate. This sometimes results in a visual that looks exciting at face value, but doesn't aid comprehension, nor is it specific to the company. A simple, concise and specific explanation of "What we do", like **Croda**'s (Figure 3.2) or **Essentra**'s (2022 ARA, p8) can be much more meaningful.

That is not to say that companies should stick to the same disclosure every year. On the contrary, it is important to demonstrate how the BM is evolving. When **LSEG** first included a BM disclosure in its 2011 ARA, the main focus was on its role of bringing together companies seeking capital with investors. In its 2022 ARA (p36) the focus has shifted to being a leading provider of financial market data and infrastructure. It is such changes, including in response to the climate transition, that an effective BM disclosure needs to signal early.

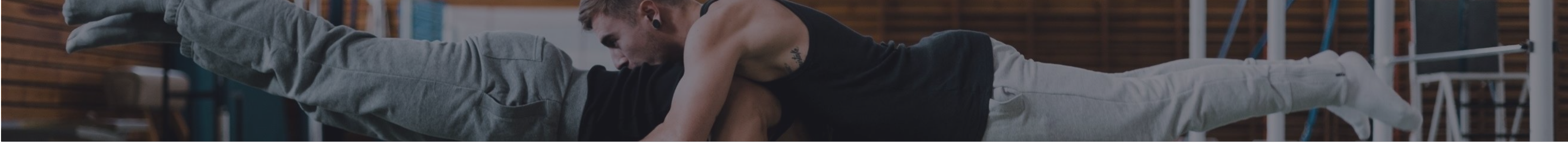
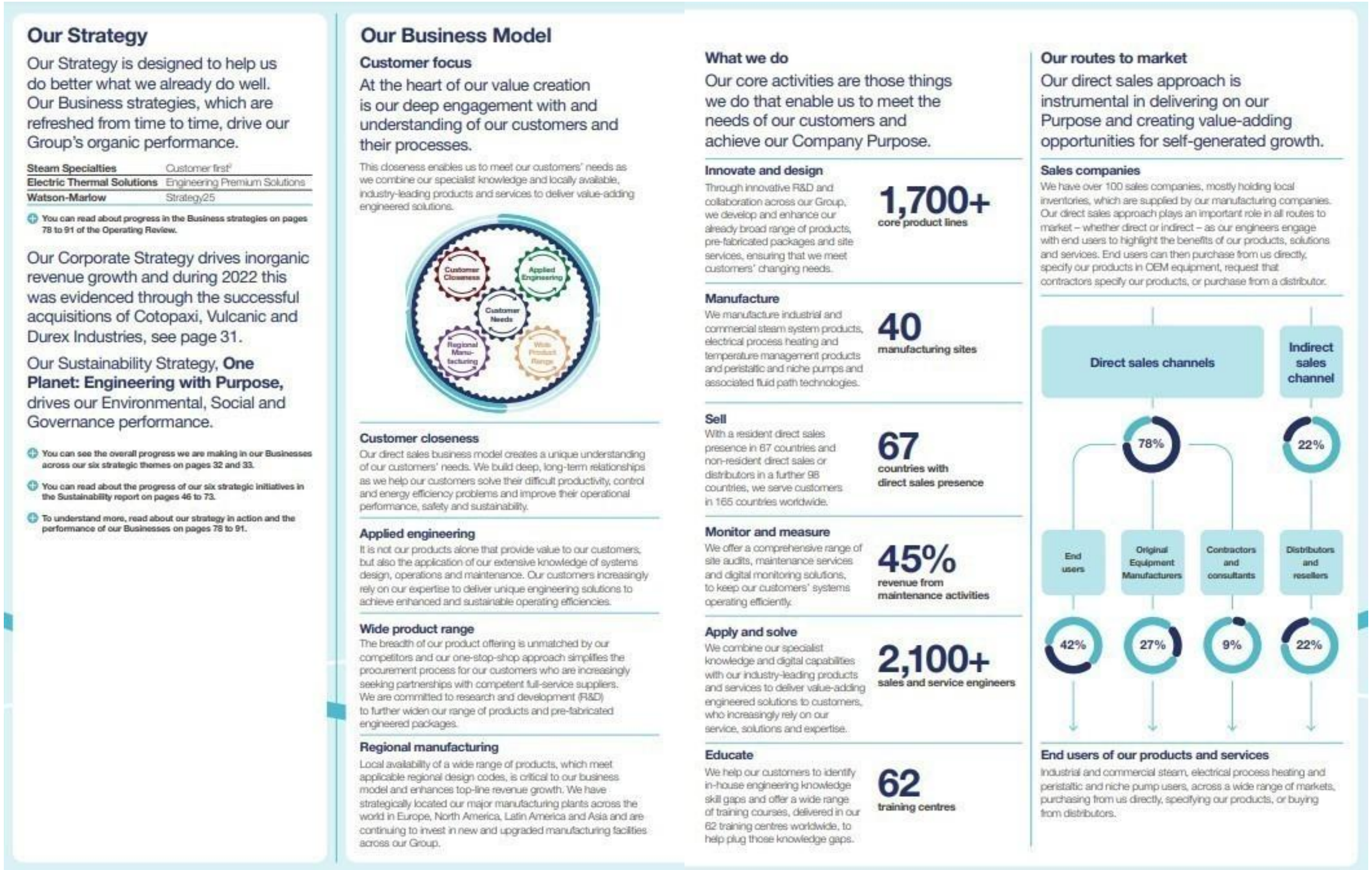


Figure 3.1 Spirax-Sarco — Concise explanation of core activities and routes to market by end user (2022 ARA, pp22-23)



Our Strategy

Our Strategy is designed to help us do better what we already do well. Our Business strategies, which are refreshed from time to time, drive our Group's organic performance.

Steam Specialties	Customer first[2]
Electric Thermal Solutions	Engineering Premium Solutions
Watson-Marlow	Strategy25

You can read about progress in the Business strategies on pages 78 to 91 of the Operating Review.

Our Corporate Strategy drives inorganic revenue growth and during 2022 this was evidenced through the successful acquisitions of Cotopaxi, Vulcanic and Durex Industries, see page 31.

Our Sustainability Strategy, **One Planet: Engineering with Purpose,** drives our Environmental, Social and Governance performance.

You can see the overall progress we are making in our Businesses across our six strategic themes on pages 32 and 33.

You can read about the progress of our six strategic initiatives in the Sustainability report on pages 46 to 73.

To understand more, read about our strategy in action and the performance of our Businesses on pages 78 to 91.

Our Business Model

Customer focus

At the heart of our value creation is our deep engagement with and understanding of our customers and their processes.

This closeness enables us to meet our customers' needs as we combine our specialist knowledge and locally available, industry-leading products and services to deliver value-adding engineered solutions.

Customer closeness

Our direct sales business model creates a unique understanding of our customers' needs. We build deep, long-term relationships as we help our customers solve their difficult productivity, control and energy efficiency problems and improve their operational performance, safety and sustainability.

Applied engineering

It is not our products alone that provide value to our customers, but also the application of our extensive knowledge of systems design, operations and maintenance. Our customers increasingly rely on our expertise to deliver unique engineering solutions to achieve enhanced and sustainable operating efficiencies.

Wide product range

The breadth of our product offering is unmatched by our competitors and our one-stop-shop approach simplifies the procurement process for our customers who are increasingly seeking partnerships with competent full-service suppliers. We are committed to research and development (R&D) to further widen our range of products and pre-fabricated engineered packages.

Regional manufacturing

Local availability of a wide range of products, which meet applicable regional design codes, is critical to our business model and enhances top-line revenue growth. We have strategically located our major manufacturing plants across the world in Europe, North America, Latin America and Asia and are continuing to invest in new and upgraded manufacturing facilities across our Group.

What we do

Our core activities are those things we do that enable us to meet the needs of our customers and achieve our Company Purpose.

Innovate and design

Through innovative R&D and collaboration across our Group, we develop and enhance our already broad range of products, pre-fabricated packages and site services, ensuring that we meet customers' changing needs.

1,700+ core product lines

Manufacture

We manufacture industrial and commercial steam system products, electrical process heating and temperature management products and peristaltic and niche pumps and associated fluid path technologies.

40 manufacturing sites

Sell

With a resident direct sales presence in 67 countries and non-resident direct sales or distributors in a further 98 countries, we serve customers in 165 countries worldwide.

67 countries with direct sales presence

Monitor and measure

We offer a comprehensive range of site audits, maintenance services and digital monitoring solutions, to keep our customers' systems operating efficiently.

45% revenue from maintenance activities

Apply and solve

We combine our specialist knowledge and digital capabilities with our industry-leading products and services to deliver value-adding engineered solutions to customers, who increasingly rely on our service, solutions and expertise.

2,100+ sales and service engineers

Educate

We help our customers to identify in-house engineering knowledge skill gaps and offer a wide range of training courses, delivered in our 62 training centres worldwide, to help plug those knowledge gaps.

62 training centres

Our routes to market

Our direct sales approach is instrumental in delivering on our Purpose and creating value-adding opportunities for self-generated growth.

Sales companies

We have over 100 sales companies, mostly holding local inventories, which are supplied by our manufacturing companies. Our direct sales approach plays an important role in all routes to market – whether direct or indirect – as our engineers engage with end users to highlight the benefits of our products, solutions and services. End users can then purchase from us directly, specify our products in OEM equipment, request that contractors specify our products, or purchase from a distributor.

End users of our products and services

Industrial and commercial steam, electrical process heating and peristaltic and niche pump users, across a wide range of markets, purchasing from us directly, specifying our products, or buying from distributors.

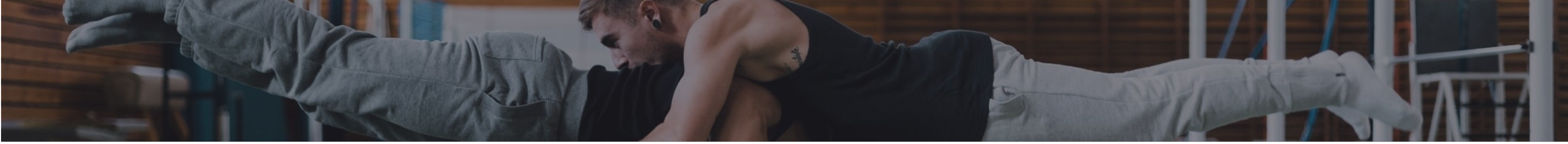
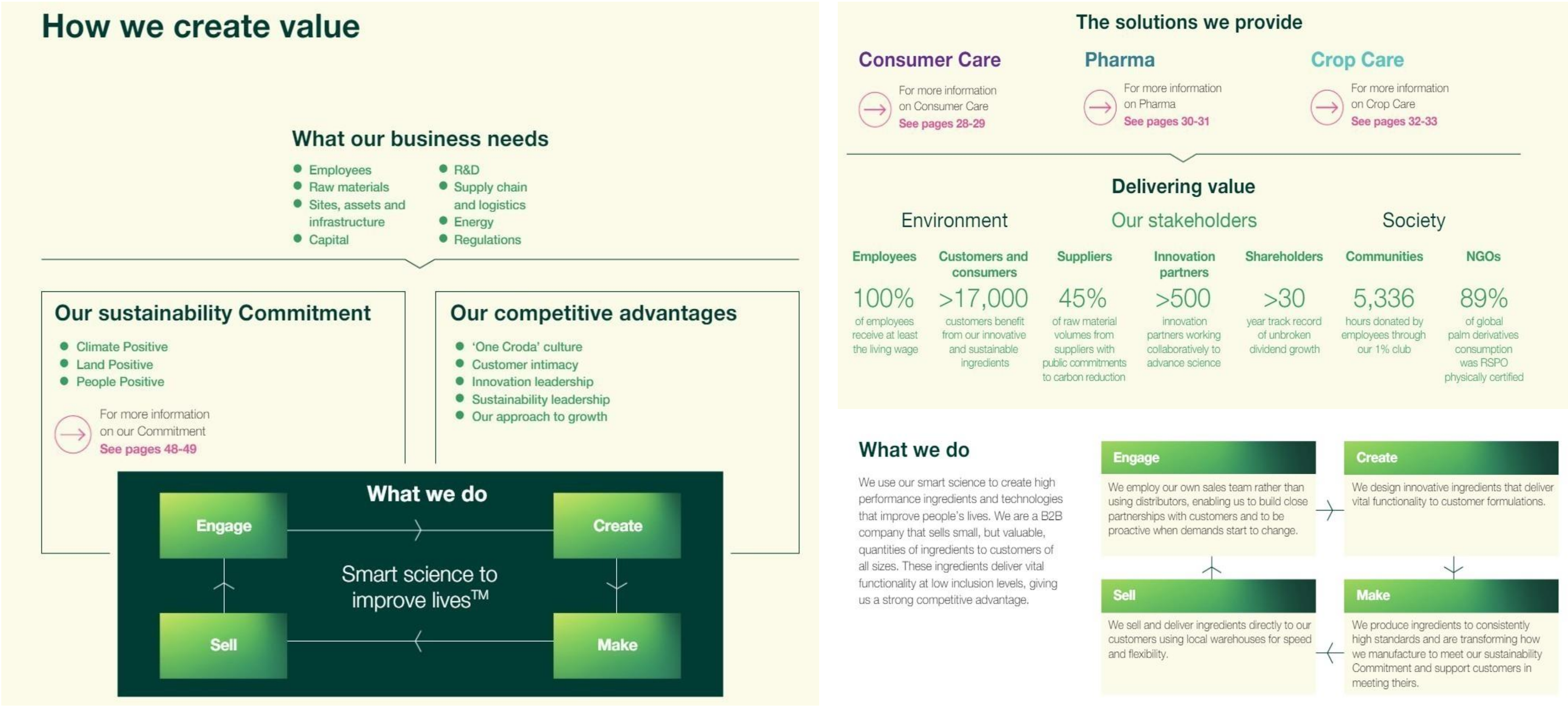
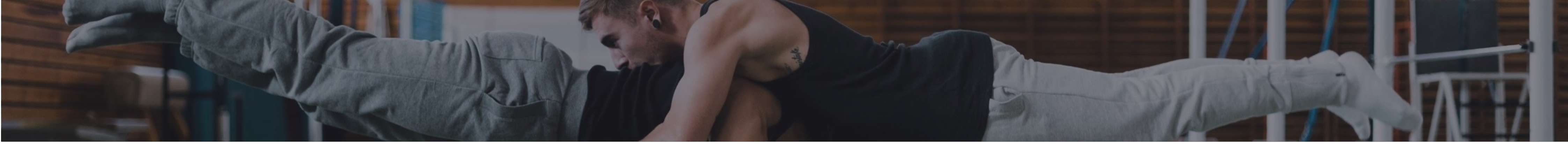


Figure 3.2 Croda – Concise summary setting out what the business does (2022 ARA, pp14-15)





4. Measuring strategic progress

- What are the company's strategic objectives? Are they clear and measurable? Is it clear why key performance indicators (KPIs) and other metrics used to measure progress against them were selected?
- How did the company deliver against prior year goals and what are its priorities for the near and mid-term?
- Do the remuneration policy outcomes appropriately reflect prominent metrics and KPIs?
- Is the use of prominent financial and non-financial metrics balanced and reflective of their strategic importance?
- Is there clarity on the level of assurance obtained over each of the KPIs and other prominent metrics?

Reporting on achievement of prior year goals

Demonstrating ability to deliver against goals and targets increases confidence among stakeholders. Most companies set out a general progress update on strategic delivery in the year and some go on to detail areas of future focus. It is rare to find companies who report back in a transparent way with reference to the commitments they made at the start of the year. Ideally this should set out what aspects were not achieved and why, with clarity on whether these would be focussed on in future periods or if not, whether this represented a change in strategic direction or sentiment. **Fresnillo**, 2022 ARA (pp26-29) has a disclosure that presents this.

Choosing KPIs and prominent metrics

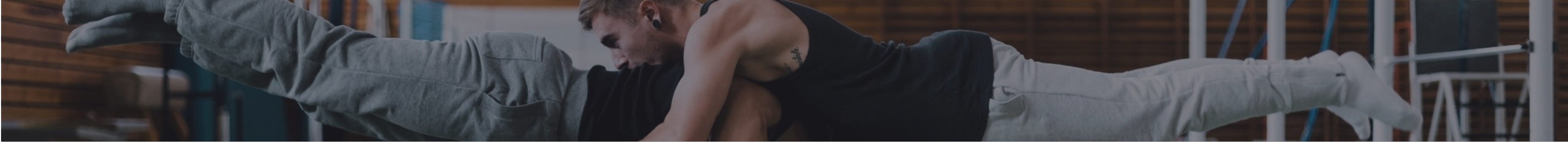
Incorporating KPIs in the discussion of strategic delivery, especially when combined with targets is powerful. **JTC** (Figure 4.1) does this effectively. Some companies provide directional narrative on their aims for the year ahead, for example to grow the number of clients served, without noting a hard target. From our research, less than a third of companies presented targets or an outlook for at least some of their KPIs. **Kingfisher** (Figure 4.2) uses "proof points" to demonstrate how they have progressed against key priorities. This also shows that there could be metrics beyond KPIs that demonstrate strategic progress. However, it is still common to see companies that label certain metrics as KPIs even though their relevance to strategic objectives is questionable. A little over half explained why particular metrics were chosen as a KPI, at least in respect of some of them.

This commonly occurs with E&S metrics. Examples of this include companies using board gender diversity as a KPI without explaining why the number of women on the board is critical to success or including greenhouse gas emissions as a KPI despite the company not identifying climate change as a principal risk or operating in a carbon intensive industry.

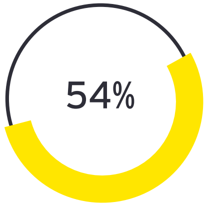
Conversely, many companies have "pay for performance" metrics set out in their remuneration reports, but these do not feature in front half either as KPIs or prominent metrics. This raises questions on whether the KPIs that are actually disclosed in the front half are relevant and meaningful i.e., represent true leading indicators that the board uses to judge delivery of strategic progress and incentivise executives.

Assuring KPIs and prominent metrics

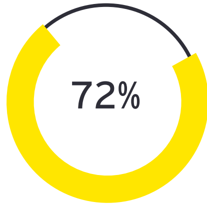
Below we have set out our hallmarks for good KPI disclosure. One of these recommends that for metrics not derived directly from financial statements, companies should explain how data is obtained and its reliability. Only a handful of companies annotate on the KPI disclosure whether the metrics have been assured.



As companies in scope prepare to produce an AAP under draft secondary legislation, it will be important to first have internal clarity on the rationale for obtaining assurance over certain KPIs and then secondly to disclose this. For example, it may be more appropriate to obtain assurance over KPIs which determine remuneration outcomes; or in which there have been errors in the past or which are linked to a covenant. **Aviva** (2022 ARA pp1.31-1.32) is one of the few companies which sets both these aspects (link to remuneration and which KPIs are assured) clearly.



explain the reason for KPI choices



do not provide targets or outlooks for KPIs

EY UK's hallmarks of a good KPI disclosure

- Define KPI and explain the methodology for calculating it
- For metrics not derived directly from financial statements, explain how data is obtained and its reliability
- Link to strategic objectives/principal risks as relevant
- Explain how KPI tracks progress against strategy (why the metric has been chosen) and whether it is a lead or a lag indicator
- Set a target and explain how that target was determined, or provide an outlook for the following year
- Provide 3 or more years of results
- Briefly explain outcome for the current year and cross-refer to further detail
- Make explicit the alignment between KPIs and executive remuneration

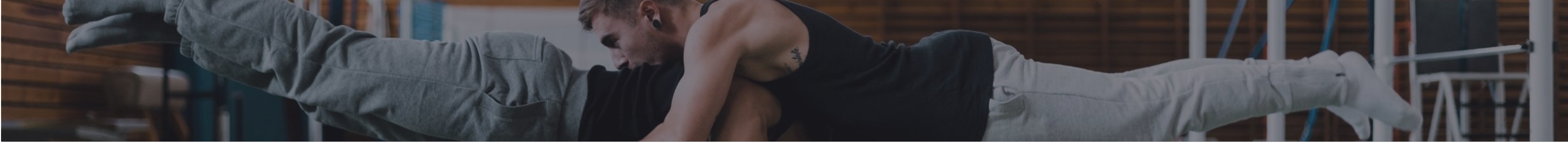
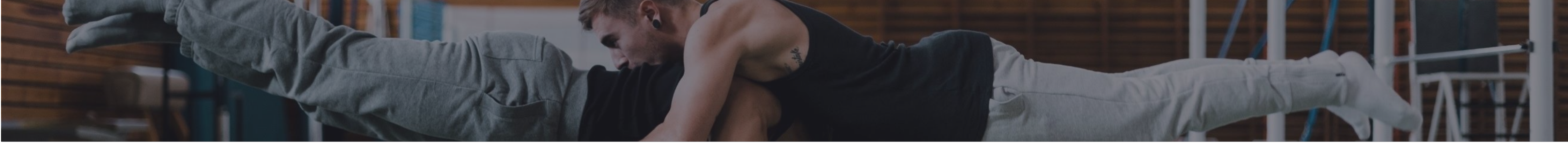


Figure 4.1 JTC – Key Performance Indicators with clearly articulated targets and performance tracked against them (2022 ARA, pp18-19)

KEY PERFORMANCE INDICATORS

The JTC Board uses the following KPIs to measure the performance of the Group

FINANCIAL	REVENUE	UNDERLYING EBITDA MARGIN	NEW BUSINESS WINS	CLIENT ATTRITION	STAFF TURNOVER
DEFINITION	Revenue is defined as income arising in the course of an entity's ordinary activities.	EBITDA margin of the business excluding non-underlying items.	Annualised value of new work won from clients where we have a signed contract.	Work lost that was not end of life.	Number of staff who leave in the year that we did not want to leave divided by average number of staff in the year.
WHY IT'S IMPORTANT	Revenue is a reflection of the work we do for clients. We seek to deliver a high quality service, do more work for existing clients and attract new clients.	Underlying EBITDA margin is our key measure of how well our business is performing, including relative to the wider industry.	Our industry has good growth fundamentals. Winning new business is an important component in the delivery of our organic growth targets.	We have a high proportion of annuity business. Minimising the number of clients that leave JTC is a key indicator of customer satisfaction.	We deliver a high touch service to clients. Maintaining continuity of staff ensures that we are best able to meet client needs.
2022 PERFORMANCE	Revenue growth of 35.6% which comprised 12.0% net organic revenue growth and inorganic revenue growth of 23.6%.	Increase of 0.2pp to 33.0%.	Another record year for new business wins with an increase by value of 17.7% to £24.6m.	Total client attrition was 6.4% (2021: 7.9%) with regretted attrition (not end of life) of 1.7% (2021: 2.6%).	Turnover of 8.0% at Group level (2021: 9.3%).
COMMENTARY	The PCS Division achieved 15.7% growth and net organic revenue growth of 8.7%. The ICS Division achieved 47.4% growth and net organic revenue growth of 14.6%.	The ICS Division achieved 31.5% (+1.3pp) continuing the positive trend seen in recent years. The PCS Division achieved 36.3% (-0.9pp) remaining at the top end of our guidance range and reflecting investment for future growth.	The ICS Division won new business with a total annualised value of £17.2m and the PCS Division won new business with an annualised value of £7.4m.	98.3% (2021: 97.4%) of revenues that were not end of life were retained in the period. Our attrition rate fell in 2022.	Our people are highly regarded in the industry and therefore this is a very good performance.
TARGET	We aim to achieve net organic revenue growth of 8% – 10% every year.	We aim to deliver an underlying EBITDA margin in the range of 33% – 38%.	We aim to achieve at least a 10% increase in the annualised value of new business wins year on year.	We aim to keep regretted client attrition at less than 2.5% p.a.	We aim to keep annual staff turnover, as defined, at less than 10%.
TARGET	2022 12.0% 2021 9.6% 2020 7.9% TARGET 8% – 10%	2022 33.0% 2021 32.8% 2020 33.6% TARGET 33% – 38%	2022 17.7% 2021 16.8% 2020 20.1% TARGET >10%	2022 1.7% 2021 2.6% 2020 3.4% TARGET <2.5%	2022 8.0% 2021 9.3% 2020 5.7% TARGET <10%



FINANCIAL	NEW BUSINESS WINS	CLIENT ATTRITION	STAFF TURNOVER	SHARED OWNERSHIP
DEFINITION	Annualised value of new work won from clients where we have a signed contract.	Work lost that was not end of life.	Number of staff who leave in the year that we did not want to leave divided by average number of staff in the year.	The proportion of permanent employees who are direct owners of the business through our Shared Ownership programmes.
WHY IT'S IMPORTANT	Our industry has good growth fundamentals. Winning new business is an important component in the delivery of our organic growth targets.	We have a high proportion of annuity business. Minimising the number of clients that leave JTC is a key indicator of customer satisfaction.	We deliver a high touch service to clients. Maintaining continuity of staff ensures that we are best able to meet client needs.	Shared Ownership is our key differentiator. It is important that staff have a direct stake in our business to promote a stakeholder mentality and ensure that their interests are aligned with external shareholders.
2022 PERFORMANCE	Another record year for new business wins with an increase by value of 17.7% to £24.6m.	Total client attrition was 6.4% (2021: 7.9%) with regretted attrition (not end of life) of 1.7% (2021: 2.6%).	Turnover of 8.0% at Group level (2021: 9.3%).	100% of permanent employees are owners of the business with staff holding c. 15% of issued share capital.
COMMENTARY	The ICS Division won new business with a total annualised value of £17.2m and the PCS Division won new business with an annualised value of £7.4m.	98.3% (2021: 97.4%) of revenues that were not end of life were retained in the period. Our attrition rate fell in 2022.	Our people are highly regarded in the industry and therefore this is a very good performance.	All new staff awarded shares at the end of probation as well as being enrolled in EBT.
TARGET	We aim to achieve at least a 10% increase in the annualised value of new business wins year on year.	We aim to keep regretted client attrition at less than 2.5% p.a.	We aim to keep annual staff turnover, as defined, at less than 10%.	100% of permanent employees to be owners of the business.
TARGET	2022 17.7% 2021 16.8% 2020 20.1% TARGET >10%	2022 1.7% 2021 2.6% 2020 3.4% TARGET <2.5%	2022 8.0% 2021 9.3% 2020 5.7% TARGET <10%	2022 100% 2021 100% 2020 100% TARGET 100%

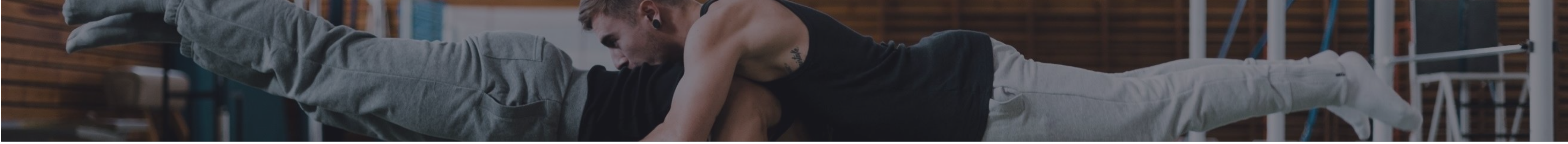
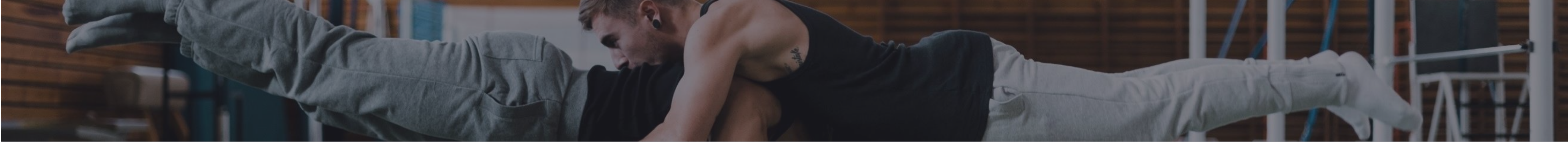


Figure 4.2 Kingfisher – Delivery against strategic priorities using proof points (2022 ARA, pp8-9)

Performance against priorities

Strategic priorities	Progress	Proof points for FY 22/23	Forward focus
Grow by building on our different banners	– First Screwfix stores opened in France following successful launch as a pure-play online retailer. – Continued expansion of Castorama in Poland. – Opened first two B&Q franchise stores in the Middle East.	**82** Screwfix stores opened in the UK and Ireland **5** Screwfix stores now open in France **18** new TradePoint counters in the UK	– Leverage expansion opportunities in our current markets and where attractive in new geographies. – Ongoing roll-out of Screwfix: in FY 23/24, up to 60 new stores planned in the UK and Ireland and up to 25 new stores planned for France. – Longer term, explore new markets, franchise and wholesale models.
Accelerate e-commerce through speed and choice	– Expanded store-based picking model. – More options for Click & Collect (C&C) through the roll out of lockers in Poland, which are also being tested at B&Q. – New last-mile delivery options including Screwfix Sprint available to c. 45% of the UK. – New e-commerce marketplace model successfully launched at B&Q and in Spain and Portugal.	**91%** orders picked from stores **24%** digitally enabled sales **24%** B&Q marketplace participation in February 2023 **+20ppt** online NPS vs FY 19/20	– Leverage our stores to offer customers even faster speed. – Further rapid expansion of the number of SKUs on marketplace planned, preparing for the roll-out of marketplaces in Poland and France. – Ambition of reaching 25% e-commerce sales penetration.
Build a data-led customer experience	– Established data Centre of Excellence with expertise in artificial intelligence (AI), machine learning, advanced analytics and data platform engineering. – New Group-developed recommendation engine implemented at B&Q and Screwfix, driving higher click-through and add-to-basket rates as well as faster response times. – Entered strategic partnerships, including with Google Cloud.	**20m** new identifiable customers acquired since 2019/20 **c. 1bn** customer visits across our e-commerce touchpoints annually	– Leverage data for margin realisation: better pricing decisions, better promotional and markdown effectiveness. – Supply chain visibility in real time to optimise fulfilment and availability, providing suppliers real time stock visibility, demand-led stock optimisation and replenishment. – Developing opportunities to quickly monetise our data capabilities through retail media, including advertising placed within our e-commerce platforms and apps.
Differentiate and win through own exclusive brands (OEB)	– OEB continuing to drive affordability, product innovation and sustainability, and is carrying a higher gross margin % on average than branded products. – Completed roll-out of 32 new and redeveloped OEB brands to drive differentiation between retail banners and extended ranges. – Good performance in kitchen, bathroom & storage and EPHC (electricals, plumbing, heating & cooling) categories, all showing year-on-year growth.	**45%** Group sales **20%** of Group sales from five leading OEB brands **56%** of OEB sales from Sustainable Home Products	– Continue to develop innovative OEB ranges through a customer project lens. – Further embedding sustainability credentials at the core of OEB proposition. – Establish OEB as the most affordable solution for customers.
Develop trade business	– Accelerated Screwfix openings in the UK & Ireland, and strong progress in developing the proposition in France. – TradePoint (in B&Q) 3-year LFL sales growth of +31.5%, outperforming core B&Q and reaching 22% sales penetration. – Launched plan to grow trade customer penetration across all other banners, including new trade loyalty programmes in Poland and Iberia, and the introduction of new trade-focused services and OEB and branded product ranges.	**18** new TradePoint counters opened in the UK **+31.5%** TradePoint 3-year LFL sales growth	– Grow share of wallet by deepening relationships, leveraging loyalty schemes, and developing pro-focused ranges. – Extend reach through small formats with TradePoint in more of the B&Q estate. – Grow digital, including launching TradePoint app. – Expand trade sales across our general DIY and discount formats.
Roll out compact store formats	– High street concept tests (*B&Q Local* in the UK, *Casto* in France and *Castorama Express* in Poland) continue to deliver encouraging learnings and results. – Small retail park concepts are also showing positive results. – Entering final testing phase for Screwfix ultra-compact 'XSR' store format.	**17** new compact stores opened in the UK, France and Poland **12** high street concept stores now open in the UK, France and Poland	– Continue to learn from tests with the aim of creating scalable blueprints. – Focus on urban, in-fill and 'white space' locations. – New Brico Dépôt compact store to launch this year.
Lead the industry in Responsible Business practices and energy efficiency	– Brought forward pay awards and introduced support for colleagues to help manage higher costs of living. – Announced new net zero emissions target for our operations (scope 1 and 2) by the end of 2040. – Developed innovative end-to-end solutions at B&Q, Castorama France and Brico Dépôt France to help customers create personalised energy efficiency action plans for their homes, including access to relevant products and services.	**47%** of Group sales from Sustainable Home Products **6.6** million hours of 'skills for life' learning completed by colleagues since FY 19/20 **2.1** million people helped through charitable partnerships and banner Foundations since FY 16/17 **52.7%** reduction in carbon footprint for our own operations against FY 16/17 base year	– Continue to progress against our four key pillars: colleagues, customers, communities and planet. – Realise growth share of sales from sustainable products (including energy efficient products and solutions). – Improve communication to customers and colleagues.
Human, agile and lean	– Embedding a 'test and learn' culture across the Group, alongside key leadership behaviours to support delivery of our strategy. – Strengthened talent and capability in key areas, including technology, data and trade. – Multi-year cost reduction programmes continue to help offset inflationary pressures.	**4** store rightsizings completed at B&Q **54** eNPS score, significantly ahead of global retail benchmark	– Continue to embed our 'test & learn' mindset. – Prioritise agile and efficient technology. – Continuing to challenge costs and inventory.



5. Evolving strategy

- Is there clarity on both short-term and longer-term market/industry trends impacting the business?
- How is the company's strategy responding to these market trends? How are they influencing principal and emerging risks?
- Is it clear how sustainability commitments support the delivery of strategic objectives?
- What is the directors' approach to capital allocation beyond shareholder distributions?

Response to market trends

The January 2023 EY CEO Outlook Pulse[2] found almost all CEOs (97%) have altered their strategies in response to geopolitical challenges. For instance, 41% have reconfigured their supply chains, 34% are exiting businesses in certain markets and 32% have halted a planned investment.

Under the medium-term section of the proposed RS, companies in scope will need to provide a summary of long-term trends and factors which could represent a threat to the company's business model or operations and explain any plans in place or adaptations that the company is proposing to make to its business model or operations to meet the long-term challenges identified. This is discussed in Chapter 3, on the business model too.

Many companies include a section on market trends, but the better reporters, such as **AstraZeneca** (Figure 5.1) illustrate how their strategy is responding to global trends.

Integration of sustainability strategy with business strategy

For a commitment to sustainability to ring true, it needs to be both integrated into the business model as demonstrated by **Mondi** (Figure App1.1) and form part of the overarching strategy. Where the 'sustainability strategy' touches on the same themes as its 'core strategy' but is presented as something separate (and there are separate ESG metrics reported outside the KPI section), readers might infer that the company is paying lip service to the achievement of E&S objectives.

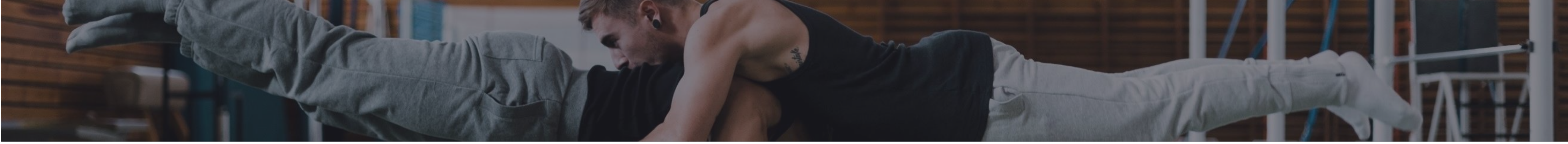
Capital allocation

The draft secondary legislation includes a proposed distribution policy statement which, among other matters, will require in-scope companies to "describe the directors' approach to capital allocation including decisions on investment, capital expenditure, research and development, distributions and purchase of own shares".

Whilst it is very common for companies to reference a 'rigorous' or 'disciplined' capital allocation policy, less than half provide any insight into that policy beyond the approach to dividends. Of those that do (for example **LSEG**, 2022 ARA, p72), less than a quarter provide a robust narrative that explains the approach to, and choices made around allocation. Even of those, a fair few are focussed mainly on how capital was allocated during the year as opposed to forward looking policy statements. These findings suggest that in-scope companies may have to evolve their reporting significantly to address the requirements of the 'distribution statement' being introduced by the draft legislation.

There is increasing expectation that climate-related capital allocation decisions (i.e., investment to transition to a low-carbon economy) are reported – through both transition plan and broader TCFD disclosures. Whilst there is an increase in the number of

[2] Quarterly study of 1,200 CEOs globally



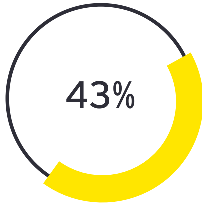
companies that reference capital allocation as part of their TCFD disclosures, other than in the extractives sector, this is very seldom acknowledged within the narrative that discusses the actual policy.

Aside climate transition, any investments needed to sustain a company's competitive advantage (maintenance capital); implement aspects of its current strategy (either maintenance capital or growth capital to drive future value) or evolve its business model (growth or investment capital) together with the rationale for these choices and how they are weighed up against shareholder returns ought to be reported clearly.

The recent situation at some water companies where critics argue that dividends (including intra-group) and loan interest have been paid with money that could have been spent on improving infrastructure and service, only underlines this message. In March 2023, the regulator, Ofwat announced changes to water company licences to require that when making dividend payments, directors take account of service delivery for customers and the environment, as well as current and future investment needs and long-term financial resilience. Such regulation over capital allocation decisions emphasises the importance of clear capital allocation policy disclosures.

Rolls Royce (Figure 5.2) presents its new capital allocation framework which shows both the criteria against which projects will be considered for investment purposes and the prioritisation of how available cash will be used.

Howdens (Figure 5.3) also explain its objective to be able to operate through the annual working capital cycle without incurring bank debt and its expectation to return surplus cash to shareholders if year-end cash is in excess of £250m.



discuss capital allocation beyond dividend policy

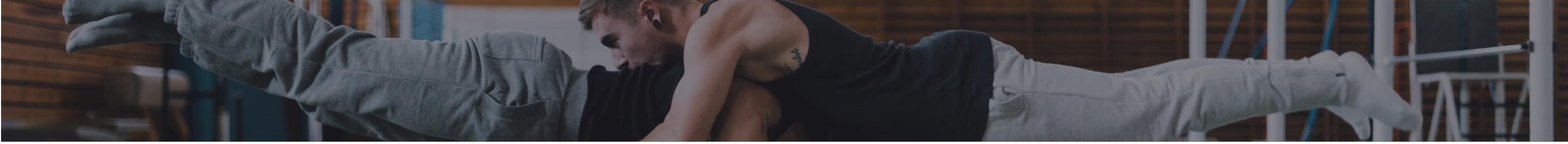


Figure 5.1 AstraZeneca – Clear reference to how global trends impact strategic focus areas (2022 ARA, p15)

Science & Innovation

Our focus areas

- Creating the next generation of therapeutics using an array of drug modalities, for example, advanced biologics, nucleotide-based and cell therapies.
- Leading in convergence of science, data and technology.
- Advancing our pipeline.

How our strategy responds to global trends

To ensure we are able to respond to the increasing burden of disease and incorporate advances in science and digital technologies, we are:

- Advancing our understanding of disease biology to help uncover novel drivers of disease, through genomics, functional genomics and knowledge graphs.
- Progressing an early pipeline consisting of numerous new drug modalities, including ADCs, cell therapy, epigenetics, gene therapy, oligonucleotides, radio-immuno conjugates (RICs) and self-amplifying RNA (saRNA).
- Creating humanised models to better predict the success of our molecules in the clinic.
- Pioneering new approaches to engagement in the clinic and beyond, incorporating patient insights to improve experiences and outcomes.
- Embedding AI across our R&D activities, from target identification to clinical trials, to understand where we can harness new technologies and further automate processes.

How we progressed in 2022

- Achieved 72 regulatory events: 38 NME and major LCM submissions and 34 approvals in major markets (US, EU, China and Japan).
- Secured 29 pipeline progression events: six NME Phase II starts/progressions and 23 NME and major LCM Phase III investment decisions.
- Our pipeline includes 179 projects, of which 155 are in the clinical phase of development.
- At the end of the year, we had 15 NME projects in pivotal trials or under regulatory review covering 28 indications (2021: 16).
- 27 projects were discontinued.

Focus for 2023

- Drive innovation opportunities across our global R&D sites.
- Continue transforming the way we discover and develop new medicines using AI and machine learning.
- Continue attracting the brightest minds to create an environment in which science thrives.

For more information, see Therapy Area Review from page 18 and Business Review from page 34.

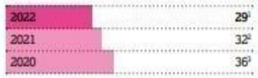
Key Performance Indicators

Our science measures incentivise the development of NMEs and the maximisation of the potential of existing medicines. Pipeline progression events (Phase II NME starts/ progressions and Phase III investment decisions) measure innovation and sustainability. Regulatory events (regulatory submissions and approvals) demonstrate the advancement of this innovation to patients and the value to the Group.

For more information on performance against the Group scorecard, see page 114.

Pipeline progression events

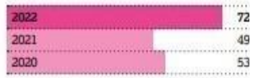
29[1]



[1] 25 against our Group scorecard for determining annual bonus.
[2] 26 against our Group scorecard for determining annual bonus.
[3] 25 against our Group scorecard for determining annual bonus.

Regulatory events

72[1]



[1] 50 against our Group scorecard for determining annual bonus.
[2] 37 against our Group scorecard for determining annual bonus.
[3] 43 against our Group scorecard for determining annual bonus.

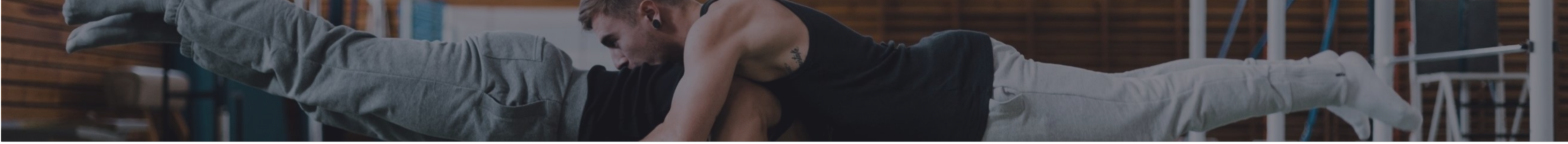
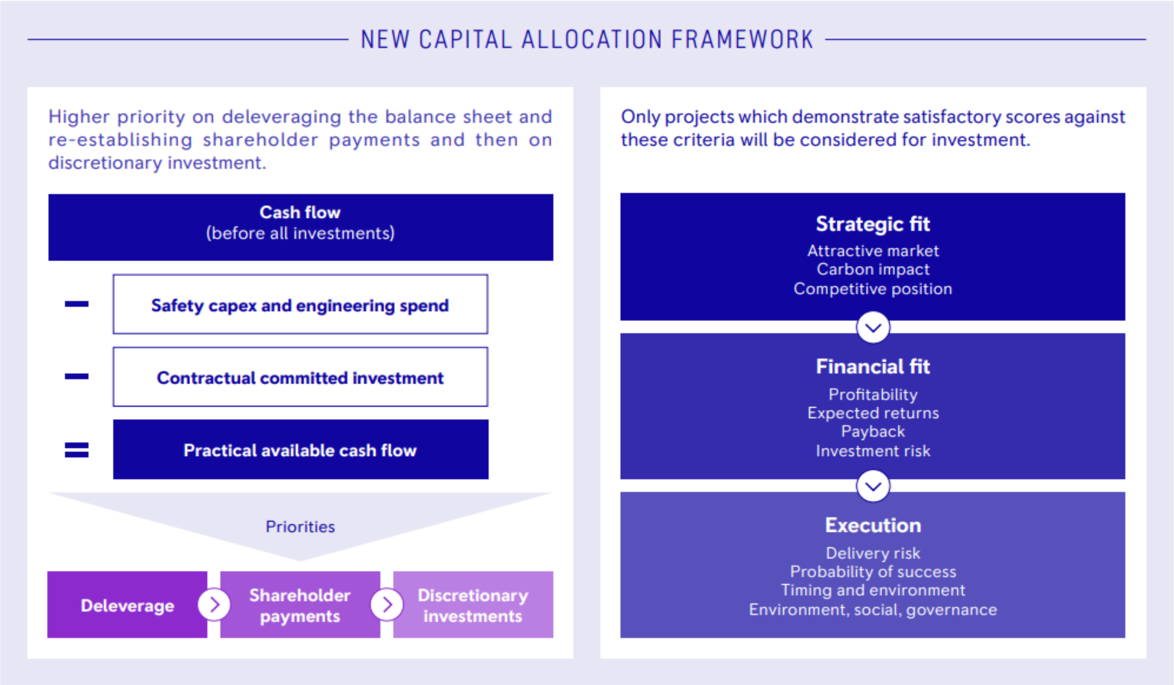


Figure 5.2 Rolls Royce – Sets out its capital allocation framework (2022 ARA, p7, 15)



Investing wisely

Capital allocation is critical to generating the right returns from our business. Our first priority is to reduce our debt, accelerating progress to an investment grade credit rating. We also recognise the importance of shareholder returns, both from investing in high return opportunities and from shareholder payments, which we aim to resume once our balance sheet is stronger.

We have strict criteria that we follow when considering investments. Firstly, any investment must be aligned to our strategy, taking us in the right direction to achieve our goals and vision. Linked to this are our strict criteria on sustainability and carbon impact, where investment opportunities must demonstrate alignment with our decarbonisation ambitions. Secondly, it needs to have a risk and reward profile that generates value. Our investments aim to generate a combination of near, medium and long-term returns. We are looking to strike a balance of protecting and growing our established businesses and pursuing long-term growth opportunities.

As we focus on strengthening our balance sheet we will be vigilant with our capital allocation decisions. In 2022, we spent £1.3bn on research and development, £359m of which was paid for by funding from third parties. Investments made in 2022 included engineering to increase time on wing for our in-service engines, leading to better aftermarket margins as well as longer-dated investments in new products. Not all of our capital allocation decisions are based purely on commercial returns. The health of our people and the safety of our processes and products remain the top priority, where investment will be made to ensure our people can be at their best in a safe environment. In 2022, we approved an investment to replace one of our ageing Defence test beds with a state-of-the-art facility, ensuring on-going health and safety standards are met.

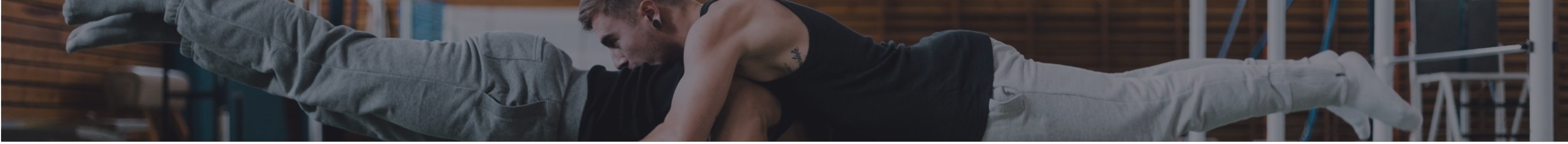
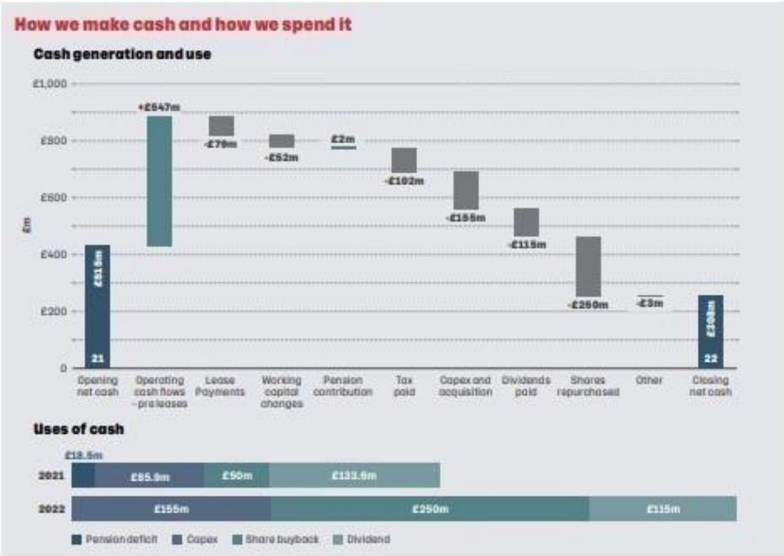
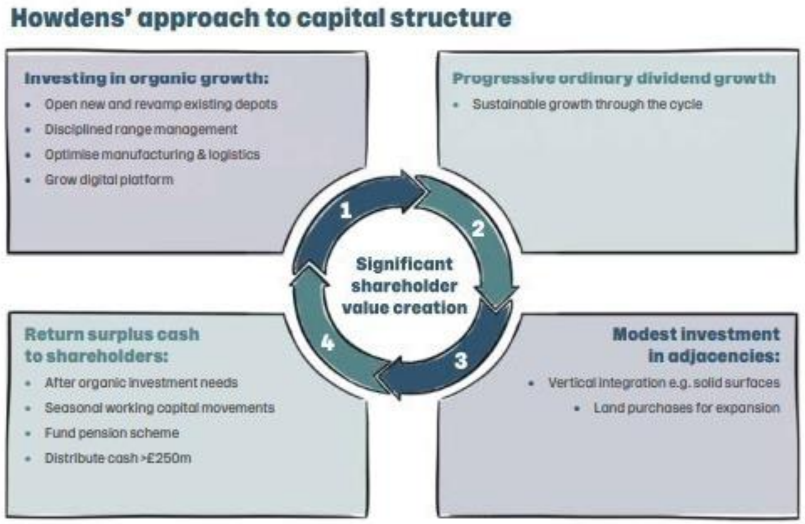


Figure 5.3 Howdens — Explanation of the uses of cash and approach to capital structure (2022 ARA, p32-33)





Capital allocation and returns to shareholders

We have a well-established policy for capital allocation. We focus on achieving sustainable profit growth by investing in and developing our business. We also want to maintain and grow our ordinary dividend in line with earnings to reward shareholders with an attractive ongoing income stream. After allowing for these uses of cash, Howdens remains committed to returning any surplus capital to shareholders.

Within its definition of surplus capital, the Board's objective is for the Group to be able to operate through the annual working capital cycle without incurring bank debt, noting that there is seasonality in working capital balances through the year, particularly in advance of our peak trading period in the second half. We also take into account that the Group has a significant property lease exposure for the depot network, and a large defined benefit pension scheme. Our policy remains that when year end cash is in excess of £250m we expect to return surplus cash to shareholders. This provides sufficient headroom to support organic growth, our seasonal working capital requirements and ongoing investments in our strategic initiatives, while maintaining a strong balance sheet.

On this basis, the Board has decided that the Group will undertake a further £50m share buyback programme. A £250m share buyback programme was announced and completed last year.

Taking into account the Group's prospects and strong financial position, in July 2022 the Board declared an interim dividend of 4.7p per ordinary share (2021: 4.3p per ordinary share). The Board is recommending a final dividend for 2022 of 15.9p per ordinary share (2021: 15.2p per ordinary share), resulting in a total dividend of 20.6p per ordinary share (2021: 19.5p per ordinary share). The total dividend represents a year-over-year increase of 5.6% and the final dividend will be paid on 19 May 2023 to shareholders on the register on 11 April 2023.

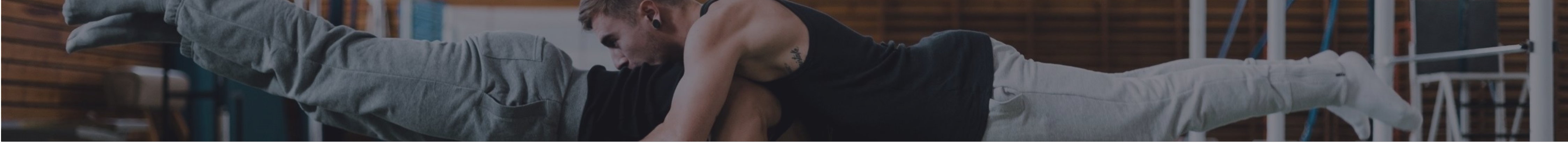
Acquisitions

In February 2022, Howdens acquired Sheridan Fabrications Ltd, for a total consideration of £25m including £10m for the purchase of the site. Sheridans is a leading industry specialist for the manufacture, fabrication, laser templating and installation of premium worksurfaces. The acquisition supports our ambition to develop our Howdens Work Surfaces (HWS) operations as the market leading supply and fit business. We are continuing to invest in expanding our capacity and we have now rolled out HWS to all regions and solid surface worktop orders have significantly increased on the prior period.

Pensions

At 24 December 2022, the defined benefit pension scheme was in a deficit position of £42m on an IAS 19 basis compared to a surplus of £141m on 25 December 2021. This movement from a surplus to a deficit was primarily a result of an increase in the net discount rate resulting in a reduction in the liabilities of £571m, and a decrease in asset valuations of £754m. The extreme market volatility in September 2022 led to changes in the Plan's investments to meet collateral requirements and high inflation experienced through 2022 also increased the liabilities. The defined benefit pension scheme is closed for future accrual.

The pension has returned to a small deficit on a technical provisions basis from November 2022 and, as a result, deficit contributions of £2.5m a month re-commenced in January 2023. It is possible that the scheme could return to a surplus position on a technical provisions basis. If this were the case for more than two consecutive months then deficit contributions would cease. The next full triennial valuation of the scheme will be carried out as at 31 March 2023.



6. Stakeholder engagement and s172

- Is there a compelling explanation of who the identified key stakeholders are and how they have been grouped?
- How did management, and separately the directors, seek to understand the views of and seek input from stakeholders?
- Does the board articulate the feedback received or the insights gained from such interactions in the current year and any actions taken?
- How did the board take such feedback and insights into account when making principal decisions?

Disclosure evolution

Our analysis of reporting in the year before MRR came into force indicated that whilst most companies were explaining who their key stakeholders were, disclosures on how the board engaged with these key stakeholders, the issues covered and, most importantly, the impact of engagement (if any) on the board's discussions and decisions were nascent.

This has evolved and improved significantly since. Companies appear to take the requirement seriously, recognising the benefits of demonstrating how they consider the interests of all those who play a part in their success. As discussed in the ESG and sustainability appendix (Appendix A), increasingly, the stakeholder narrative is being linked to sustainability-related disclosures.

Stakeholder engagement

Whilst the disclosure has matured, room for enhancement remains. For example, some stakeholders are disclosed on an amalgamated, homogenous basis. Yet it is evident that there are distinct sub-groups with potentially varying significance to the company and hence differing engagement methods as well as issues that matter. A common example of this is combining easily substitutable suppliers with strategic business partners that are integral to the business model. Similarly, not separating out a controlling shareholder from other investors might not adequately portray the differences in the intensity and topics of engagement.

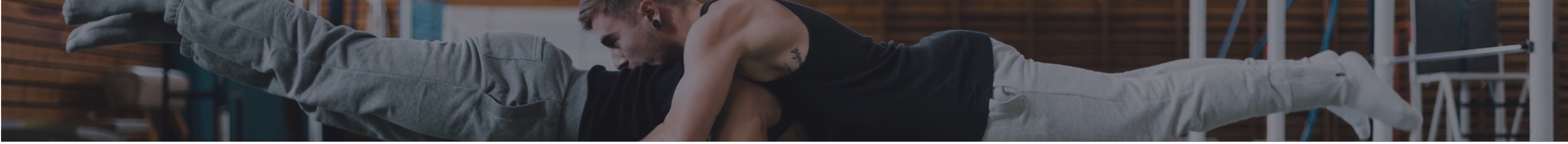
Unlike **Ocado** (Figure 6.1) and **Spirax-Sarco** (Figure 7.1) many companies still fail to provide meaningful disclosures of outcomes and actions arising from the feedback received.

Stronger reporters continue to innovate their stakeholder engagement narratives. This year, we have seen examples of companies setting out future priorities (e.g., **Taylor Wimpey, Ocado**), challenges they faced (e.g., **NatWest**) and including metrics of engagement effectiveness (e.g., **Barratt Developments -** Figure 6.2, **Taylor Wimpey**).

Principal decision reporting

The July 2021 FRC Lab report recommended principal decision reporting. However, just a little over half of companies within our sample included, like **Rentokil** (Figure 6.3) clear disclosure of their principal decisions in the year, with a further 10% interweaving important decisions with other board activities. Typically, companies gave three to four examples, some provided just one illustration with the maximum being eight.

Most common disclosure topics related to the ESG/sustainability strategy, core strategy and shareholder distributions, with many companies referencing the reinstatement of dividend payments. Major acquisitions and disposals as well as director appointments and succession plans were also frequently cited. Another theme that emerged was workforce-related decisions, more than half of which related to supporting people through the cost-of-living crisis. It was rare for companies to reference decisions not to proceed with a course of action, something quite common during the COVID-19 pandemic when boards were deciding to pause dividends.



Good principal decision reporting — like done by **Mondi** (Figure 1.2) — setting out how stakeholder interests were considered and the trade-offs that were required, will be an important element of addressing the requirements in the proposed new Principle D (of the draft revised Corporate Governance Code).

This states that reporting on governance activity should focus on outcomes so as to demonstrate the impact of governance practices. Annotating board activity disclosures with cross references to both principal decisions and other engagement outcomes could help achieve this.

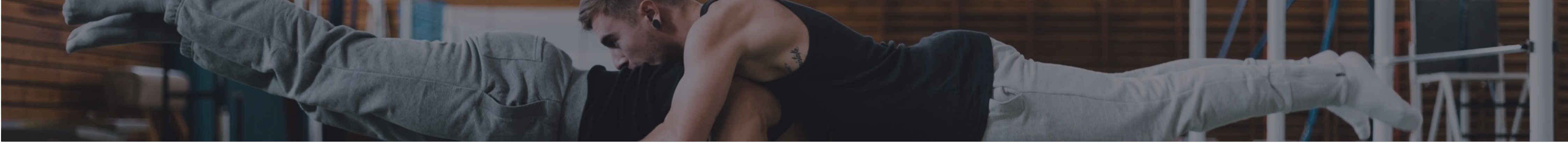


Figure 6.1 Ocado – Setting out engagement outcomes and priorities for the following year (2022 ARA, p16-22)

STRATEGIC REPORT

STAKEHOLDER ENGAGEMENT

Engaging with our stakeholder groups
continued

Suppliers

Why we value them

A strong supply chain is critical to our business as we rely on our suppliers to be able to meet the needs of our Client Partners and ensure that we can meet our shared targets for growth and development across our network.

Material interests

- Building a long-term strategic relationship.
- Success and growth of Ocado's business.
- Fair trade.
- Social, environment and ethical impacts.
- Equitable supply chain practices and compliance with appropriate regulatory and compliance policies and/or processes.
- Ability to collaborate.
- Prompt and accurate payment.

How the Group engages

Our onboarding process provides two-way communication to build relationships with our suppliers. Through auditing our critical/strategic suppliers within our supply chain we can ensure that high standards are maintained. We maintain a regular dialogue with suppliers to proactively resolve any issues that arise.

We use a dedicated third party tool for critical and high-risk suppliers/categories of spend, for corporate responsibility, ethics and responsible sourcing management and reporting.

Our procurement and supplier managers hold quarterly business reviews as well as more regular contract reviews with key suppliers, as determined by turnover and business criticality.

How the Board engages

Regular business reports to the Board raise any issues or concerns regarding managing supplier relationships and the efforts needed to ensure continuity of supply of key components and the delivery of products and equipment to new and expanding sites; a particular focus this year given the continued difficult global trading conditions experienced.

Executive Director sponsorship of the senior management relationship with suppliers (Solutions). Any material changes to key supplier relationships are fed directly back to the executive sponsor, Mark Richardson, during the period, who will engage with the senior executives of critical strategic suppliers as required.

The Board oversees prompt payment practices. Filings are made every six months and in line with government requirements must be approved by a named Director prior to filing. Currently these filings are approved by CFO Stephen Daintith.

Outcomes from engagement

We introduced a new transparent purchase to pay process, ensuring timely instructions for goods/services and prompt payment to suppliers.

We continued to drive strategic supplier relationship management with core and critical suppliers across the business resulting in additional value-add strategic partnerships.

Priorities for 2023

Simplify and consolidate supply arrangements under a single responsible senior manager in a new role to be appointed.

Ocado is committed to responsible sourcing to ensure safe working conditions, respect for human rights and the protection of the environment and will continue to pursue these commitments and to partner only with suppliers that are committed to the same principles.

Continue to drive commercial value in a challenging economic climate by implementing procurement best practice to allow value optimisation and to mitigate supply chain risks to support Ocado's continued growth.

Identify and explore third party risk management tools that could help enhance supplier due diligence and mitigate supply chain risks.

Partners

Why we value them

Building trusted partnerships through ongoing dialogue and shared learnings helps us to better understand the needs of our partners. We are then able to develop and improve our offering to provide cutting-edge solutions that support the growth and success of both our partners and Ocado.

Material interests

- Innovation.
- A flexible offering of potential options for fulfilment.
- Product development.
- Quality and financial performance.
- Supply chain management.
- Building a long-term relationship.

How the Group engages

There is direct engagement with senior management, procurement managers and commodity managers, as well as broader engagement in operations across the business as relationships with our Client Partners develop and more global CFCs become operational.

Bringing together representatives from all our Client Partners as part of the OSP 'club' to work collaboratively and discuss experiences of shared importance, building our understanding of partners' needs. Our flagship Ocado Solutions product conference Beyond 2022, which is exclusive to our OSP partners from around the world, offered networking, expert talks, panels, live tours and an exhibition of our Re:Imagined technologies.

We held the Ocado Re:Imagined virtual product launch at the start of this year which unveiled to our partners and other stakeholders our next leap of game-changing technology and innovation.

We set KPIs and provide feedback during ongoing projects with our partners.

How the Board engages

The Board travelled to Sweden and met with senior executives at ICA and toured their new Stockholm CFC earlier this year. In addition, Chair Rick Haythornthwaite met with leadership at Coles, Kroger, Groupe Casino and Morrisons.

There is regular Executive Director engagement with the senior executives of partners, including quarterly executive leadership meetings between all global Client Partners.

The Board reviews and approves any new significant partnerships, and orders from current Client Partners.

Update reports are provided at each Board meeting on Client Partner relationships, including performance and progress on operations. This year, as more operations have gone live, OSP partner performance has been a strong focus for the Board. The Board's discussions centred on how to structure client services within Ocado to better support our partners.

Client Partner satisfaction scores, obtained through surveys during the year, are reported to the Remuneration Committee and are a key metric of the Ocado Annual Incentive Plan, as well as providing a useful barometer of Client Partner relations.

Outcomes from engagement

Working with Client Partners to identify their top priorities regarding solutions required has resulted in a Solutions product strategy shaped around their priorities, which is integrated into our development plans.

The innovations unveiled at Ocado Re:Imagined respond to our Client Partners' needs, understood through working together, for more cost-effective, simpler, and energy-efficient technology that supports the faster growth of their operations.

The client success team has been developed to provide specialist resources for the ongoing support of our partners to maximise their optimisation across the OSP platform.

Priorities for 2023

Continue to develop our offering for Client Partners and utilise technological advances and innovation to provide more flexible, scalable and efficient solutions.

As more of our Client Partners become operational, ensure that a robust and productive way of working with them during this phase is in place to ensure their long-term success.

OCADO GROUP PLC Annual Report and Accounts 2022

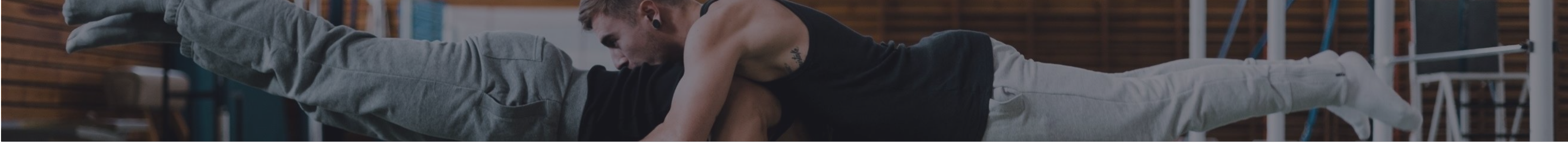


Figure 6.2 Barratt Developments – Metrics of stakeholder engagement effectiveness (2022 ARA, pp40-41)

Significant decisions

The main activities and decisions of the Board are set out on page 79. The following are examples of some of the more significant decisions made by the Board, how they were made and, where applicable, how conflicts between different stakeholders were managed:

Acquisition of Gladman Developments Limited

On 27 January 2022, the Group approved the purchase of the entire issued share capital of Gladman Developments Limited, a strategic land promotion business, for a consideration of £250m on a debt free and cash free basis. The acquisition was seen as a good opportunity to support the Group's volume growth aspirations and reduce pressures on its own site acquisitions.

Stakeholders considered:

- Customers;
- Shareholders;
- Employees; and
- Local communities.

How the Board made its decision:
Management undertook extensive due diligence to assess the viability of acquiring Gladman Developments Limited (Gladman), including the synergies that could be achieved from the transaction. A detailed report was submitted to the Board providing background information on Gladman and the rationale for the acquisition. This included key financial information on Gladman such as the consideration payable, the scale of their strategic land portfolio, their planning success rate and revenue, the potential to recover the Group's investment through enhanced housebuilding activities, the valuation of their assets and any premium attributable to their brand. Planning risks and the retention of key employees, including the Chair, CEO and management team of Gladman were also considered. The Board appreciated the benefits of the transaction to the Group and to landowners, in particular that it would bring together specialist planning expertise, with a stronger balance sheet, and an enhanced ability to target larger sites with more complex requirements.

The Board was mindful of the additional work that the transaction would place on existing employees but was confident that Management would monitor the level of resource throughout the transaction and adjust as required. In addition, it was noted that the acquisition would utilise cash that could potentially be used to increase the returns to shareholders. The Board was however satisfied that the transaction would promote the long-term success of the Company as it will help drive volume growth and that the distributable reserves position would fully support the dividend policy for FY22, being a dividend cover of 2.25 times earnings. Accordingly, the Board approved the transaction and the terms on which Gladman would be acquired.

Committed to Growth

As Britain's largest housebuilder we are committed to playing a key role in addressing the UK's housing shortage. During the year the Board has put in place additional building blocks to support disciplined growth to build 21,500 homes over the medium term. The Group opened two new offices in Sheffield and Anglia, expanding our Northern and East regions, with effect from 1 July 2022. In addition, as a continuation of our strategy to migrate more of our production to timber frame, we will open a new factory in England to complement our existing factory in Scotland. The new timber frame manufacturing facility, near Derby, will add significant capacity to our timber frame output from FY24.

Stakeholders considered:

- Customers;
- Employees;
- Shareholders;
- Sub-contractors and supply chain;
- Local communities; and
- Government, opposition parties and regulators.

How the Board made its decision:
Management presented detailed reports to the Board setting out their recommendations and supporting information in respect of each proposed new division as well as the new timber frame manufacturing facility. These enabled the Board to understand the rationale for each. For the two new divisions the Board considered, amongst other factors, current developments and demand for housing in the area and the current capacity of existing divisions to expand and land opportunities. For the new factory, the Board took into account the current timber frame capacity from Oregon in Scotland, the cost of taking over an existing factory, warehouse or other building and converting it to meet our needs against building our own factory to the specification and size required to meet current and potential future demand. The Board was also mindful of the employment opportunities that each of these recommendations would bring for existing employees looking for a promotion or a new challenge and those residing in the local communities in which each would operate. That said, the Board was aware that each opportunity would require capital investment which could impact the level of any potential returns to shareholders in the short term. The Board, however, was comfortable that the increased capacity and potentially higher levels of sales will in the longer term prove to be beneficial not only for the Group but also for its shareholders and employees. Accordingly, the Board approved the opening of the new offices in Sheffield and Anglia and also the development of a new timber frame manufacturing facility near Derby.

Stakeholder engagement is an important part of our operations. The Board is appraised of the feedback received and takes this into account when making decisions that may impact our stakeholders either collectively or individually.

Customers

Link to Strategic Priorities

Customer first Great places

Why we engage

Customers are at the heart of everything we do. Without them there is no business for us to operate. It is imperative that we understand their needs and adapt our product accordingly.

How we engage

We utilise different methods of engagement with our customers depending on the information that we are trying to gain or provide.

Company Engagement:
We ask for regular feedback from our customers both directly and through Trustpilot and the 8 week HBF National New Homes Customer Satisfaction survey to help us make improvements to our service and their home buying journey. We have, throughout the year, engaged with our customers on cladding and fire-safety to address any of their issues and concerns. We continuously update our website with up-to-date information about Barratt and the sites they may be interested in, as well as any messages around COVID measures that may be in place. We regularly provide customers with guidance on home and garden maintenance.

We continue to enhance our customer research and insight programme to further deliver action led insights. We involve our customers in virtual research to understand their perceptions and preferences on matters such as the cost of living crisis, how they search for their new home, our brand positioning, our product, post-pandemic living preferences and the development of a new range of apartments. We also now cover the specification of future homes to aid decision making and future business planning. We are keen to understand customer awareness of sustainability within housebuilding, specifically around energy efficiency and changing legislation, and how this impacts their buying decisions, which is done through the use of quantitative surveys.

Board Level Engagement:
The Group Customer and Change Director, Jeremy Hipkiss, updates the Board annually on actions taken to engage with customers and the outcomes of such engagement. They also seek to get insight on what else could or should be done. During the year, Katie Bickerstaffe and Nina Bibby, two of our Non-Executive Directors, supported the review and enhancement of the 'Customer Journey' by bringing insight from their respective executive role.

Metrics – How we measure effectiveness

The following metrics are reported to the Board by the Chief Executive and/or the Group Customer and Change Director to enable it to consider and agree what, if any, changes to make in how and when we engage with our customers.

- 8-week HBF National New Homes Customer Satisfaction rating – 5 star rating for the 13th consecutive year.
- 9-month NHBC National New Homes Survey rating – included as a metric in the FY23 bonus scheme.
- Defect resolution – number of open defects and time taken to resolve.
- Trustpilot scores – for FY22 both our Barratt and David Wilson Homes brands scored 4.3 (FY21: 4.1 and 4.3 respectively).
- Click through rate for seasonal newsletters – this was 11.4% and broadly stable over the year.

Interests and concerns

During FY22, the key interests and concerns of our customers related to home working, after-sales care, energy efficiency of our homes, green spaces, cladding and fire-safety of multi-storey buildings and mortgage availability and affordability.

Outcomes from engagement

We constantly look to improve in response to any feedback or information from our customers. During FY22 we adapted our marketing plans to more effectively communicate with our customers about gardens, public open spaces, cost savings associated with our energy efficient homes, how we are designing homes to support flexible living and the changes being made due to the requirements of the Future Homes Standard. We provided ultrafast broadband to our homes to facilitate home working, and engaged with lenders to encourage mortgage product innovation to support affordability challenges and improve mortgage products, process and criteria for our customers.

Effect of engagement with customers on Board decisions

The Board continued to drive defect and complaint resolution across the divisions and issued revised policies and procedures to ensure compliance with the future requirements of the New Homes Quality Code and New Homes Ombudsman Service. The Board, through the Executive Committee, closely monitors build stage movements to ensure customers receive handover of their new home within agreed timescales and agreed action plans to support those sites struggling to make a sale. The Board is fully focused on ensuring that the homes for those customers who are looking to benefit from Help to Buy before it ceases in March 2023, are build complete by no later than December 2022.

The Board agreed to launch Deposit Unlock, facilitating 95% lending on New Build houses and flats, and continues to support the promotion of Green Mortgages, which link the savings from energy efficiency to affordability assessments.

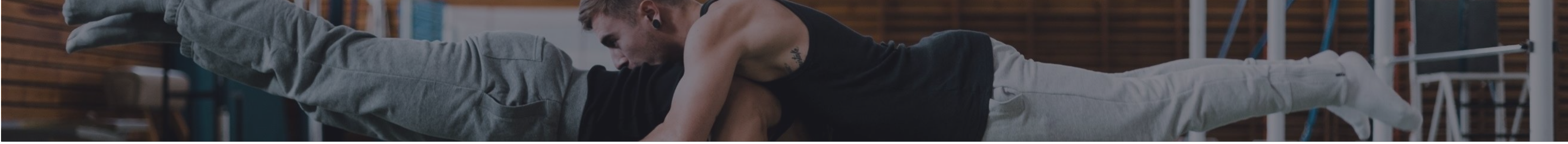


Figure 6.3 Rentokil – Explanation of how principal decisions are defined, along with their examples (2022 ARA, pp86-88)

Principal decisions of the Board

We consider the principal decisions of the Board to be those direct decisions taken, rather than delegated to management or a Committee of the Board, unless considered and approved in principle by the whole Board first, and which may have a potentially material impact on the Company's strategy, a stakeholder group or the long-term value creation of the Company. We group the Board's principal decisions into nine categories: financial results; capital allocation; funding; strategy (including ESG strategy); M&A activity; supplier and customer contracts; Board changes; Company statements; and other matters reserved to the Board.

Within these categories, some matters are considered less material or strategically significant, such as the approval of the Board governance manual (including changes to the Group Authority Schedule), or the issue of new shares to satisfy our executive share plan. An overview of the Board's activities during 2022 can be found on pages 81 to 85.

This contains details of the most materially significant principal decisions made during the year. In addition, examples are provided below to illustrate how the Directors have had regard to the matters set out in section 172(1)(a)–(f) of the Companies Act 2006 when making principal decisions in 2022 (these include consideration given to key stakeholders, including employees, communities and commercial counterparties but are set out in full in the key opposite).

Relevant Board papers for deliberation or decision by the Board are drafted to include an appendix clearly setting out the potential impact on stakeholder groups to aid the Board's consideration.

The section 172(1) statement can be found on page 45. More information on the Board's engagement with stakeholders and the impacts on the Board's considerations during the year can be found on pages 88 to 90.

Completing a transformational combination

Following the announcement to the market on 14 December 2021 that the Company intended to acquire Terminix, a significant amount of time was spent by the Board over the ensuing months to oversee and progress the required steps towards completion. Due to the scale of the acquisition shareholder approval was needed by both companies and this, therefore, included the consideration and approval of UK and US filings. Further information on the Board's activities in 2022 in relation to the transaction can be found on pages 81 to 85.

Directors' consideration of factors in accordance with section 172(1)

Long-term results
The strategic considerations for supporting the transaction as set out in the 2021 Annual Report remained materially unchanged. The Board concluded that the transaction would accelerate business growth and competitive positioning by building on the Group's business leadership through substantially increased scale in North America. The combined Group would have the opportunity to increase net operating margins through cost reductions, organic growth and operational efficiencies.

Colleagues
The combination presents opportunities for colleagues to develop rewarding long-term careers with a clearly communicated set of commitments to colleagues from the Company. The North America business would be underpinned by the Group's focus to develop and retain a best of breed team as part of its Employer of Choice programme, with a strong joint leadership and high-performance culture.

Our business relationships
The business synergies identified in 2021 were regularly reviewed. The complementary combination provides an enlarged platform to serve existing customers with a shared commitment to providing the highest levels of customer satisfaction and to developing new, innovative ways to better serve our customer base.

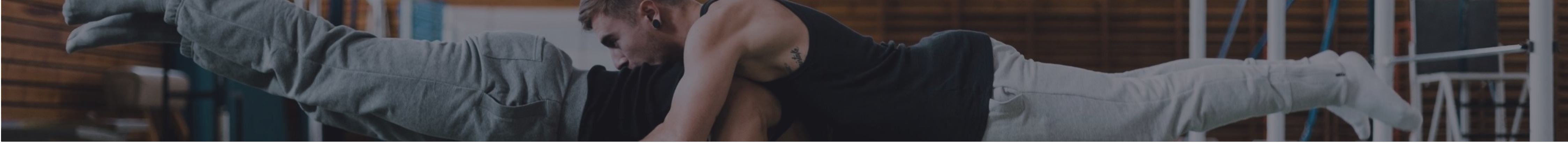
Communities and the environment
Terminix has scale and deep presence in the US and the combined Group would continue to offer job opportunities. Terminix has a clear focus on supporting charitable organisations that align with Rentokil Initial's mission of supporting people and enhancing lives.

Our reputation
The Board has taken time to identify, understand and assess the operational risks in Terminix particularly in relation to termite services including the management of customer claims.

Fairness between our shareholders
The transactional documents produced provided the necessary information for both sets of shareholders to make an informed decision when voting on the transaction.

Outcome

The Board approved the publication of the transactional documents and general meetings were held in October 2022 where shareholders of both companies provided overwhelming support for the transaction to proceed. The acquisition of Terminix completed on 12 October 2022. The acquisition elevated the Company's FTSE ranking and saw it listed on the New York Stock Exchange. A new mission, vision and values were launched for the combined Group. The addition of Preserving our Planet to our mission statement reflects an enhanced focus on becoming more sustainable and supporting customers' sustainability plans.



7. Workforce diversity and engagement

- How has the board engaged with the workforce, what feedback or insights did it receive and how was this considered in the boardroom?
- What actions are being undertaken to address low employee engagement scores, high turnover, culture misalignment or other relevant employee related indicators?
- How successful are initiatives aimed at improving workforce diversity, equity and inclusion and how do these support the achievement of strategic objectives?
- Does the workforce narrative tell a fair and balanced story of how the company has performed against its people commitments?

Companies are dedicating increasing space in their ARAs to workforce related narratives. This includes both workforce engagement, (including as part of s172) and DEI.

Workforce engagement

The results of the 2022 Engage for Success UK employee engagement survey[3] indicates that employee engagement significantly dropped during the pandemic. It also highlights that post-pandemic, the challenges of recruitment, retention, and productivity have become central issues again and that people's expectations have shifted towards more flexibility and choice at work as well as their employers' focus on inclusion, wellbeing and supporting them. In a supply driven labour market, this means that organisational success depends on people being more at the centre of the business agenda.

ARAs indicate that companies are responding to these trends:

- **Spirax-Sarco** (Figure 7.1) set up a Colleague Engagement Committee in 2019, to create a more formal and regular, two-way, direct dialogue between the Board and colleagues. Its 2022 ARA provides a clear summary of engagement activities, the feedback received and the resulting actions.
- A number, like **Metro Bank** (Figure 7.2) included a call out or letter from the designated non-executive director for workforce engagement (DNED) emphasising the importance of understanding the views of the workforce.

Workforce challenges are set to continue – whilst flexibility remains in high demand across the talent pool, companies are starting to re-evaluate remote and hybrid working amidst rising concerns about productivity and risks to cyber security and staving attacks. An increasing number of high-profile employers are requesting that people return to the office and 'remote-washing' is quickly becoming the new catch phrase.

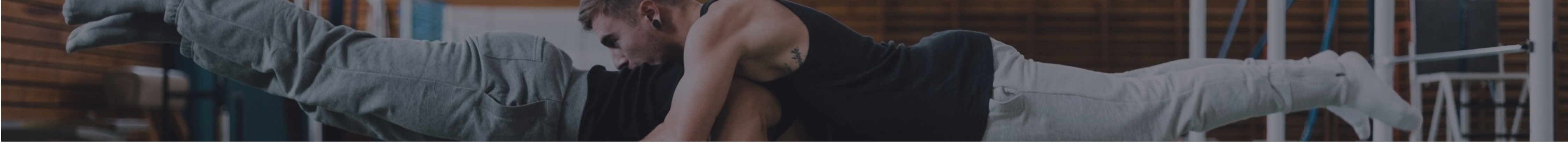
Against this backdrop and with around 77% of companies disclosing a talent-related principal risk, we do not expect the engagement narrative to be contracting in the near-term.

Diversity, equity and inclusion

The 2023 Hiring and Workplace Trends Report[4] points out that DEI will remain top of mind, as employees continue to deeply care about these initiatives, as well as the progress employers are making, or not. Considering employee sentiment, alongside the increasing

[3] Pass, S., Court-Smith, J., Liu-Smith, Y-L., Popescu, S., Ridgway, M. and Kougiannou, N. 2023. Engage for Success UK Employee Engagement Levels 2022: Exploring the impact of the pandemic on employee engagement.

[4] Indeed Hiring Lab and Glassdoor Economic Research team, 2023



emphasis on human rights, the recent announcement that the Taskforce on Inequality-related Financial Disclosures (TIFD) and the organisations preparing a Taskforce on Social-related Financial Disclosures (TSFD) are consolidating their efforts into a single initiative, investor guidelines and the new diversity listing rule which sets targets for board diversity, it is hardly surprising that the volume of the DEI narrative is expanding. However, its quality is not necessarily improving. In a May 2023 ECGI Working Paper on DEI, the authors argue that DEI initiatives have two motivations - financial (i.e. that DEI improves a company's long term financial performance) or social (the belief that companies have a responsibility to contribute to societal goals).

The focus of the narrative in ARAs seems to be the latter, with companies detailing often numerous, narrow initiatives that lack a clear or cohesive link to the organisation's strategic objectives and instead seem to play into political agendas. Companies struggle to articulate how the actions they are undertaking to improve diversity are translating into opening up opportunities, reducing barriers and building the best teams that future-proof the organisation.

They also struggle to demonstrate how they are moving beyond diversity to meaningful inclusion, where people with dissenting views are embraced and debate, which is so often the precursor to innovation, encouraged.

Better narratives, like **Rolls-Royce** (Figure 7.3) are able to evidence the impact activities are having, e.g., demonstrating how outreach activities are inspiring future talent.

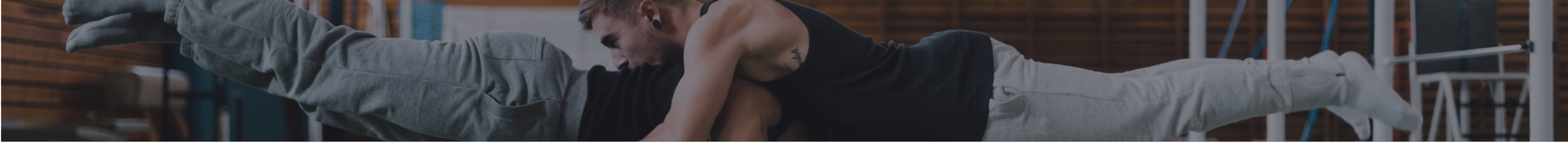


Figure 7.1 Spirax-Sarco — Colleague Engagement Committee report providing a clear link between feedback received and action taken (2022 ARA, pp116-117)

Board leadership and Company Purpose continued

Colleague Engagement Committee Report continued

Focus groups held in 2022

January

- **ETS, Chromalox, Ogden** – a follow-up focus group with some colleagues that we met in 2019 and some new colleagues joined the session
- **Steam Specialties, Spirax Sarco, South Korea** – colleagues from sales and supply joined us, with assistance from a translator

April

- **Early Careers** – colleagues on our Global Graduate Development Programme, Apprenticeship Scheme as well as our Year-in-Industry (YINI) scheme

June

- **Steam Specialties, Spirax Sarco, USA** – colleagues from sales and supply joined a discussion at our Blythewood manufacturing site in South Carolina

October

- **Steam Specialties, Spirax Sarco and Gestra, Italy** – outwith the normal Board meeting schedule, I visited our Italian operating company and was able to tour the facility, meeting colleagues and managers. We conducted two separate focus groups, with representatives of firstly the sales teams and, secondly, with supply colleagues
- **Watson-Marlow, BioPure, UK** – on-site discussion with colleagues from the manufacturing facility in Portsmouth

December

- **Colleague Network Groups** – colleagues who participate in our colleague resource groups, such as the Women's Network, Working Families forum, LGBTQ+ community and disability forum joined us for a discussion

The majority of the time in the discussion group is spent asking colleagues' for their views on a handful of topics. In 2022, our typical areas included gauging colleagues' understanding of and engagement in our Group's sustainability and inclusion strategies. We have also continued to explore how well we live our Values (and Safety in particular), but we also leave plenty of space to hear what's on our colleagues' minds. In support of the Board and Audit Committee focus on ensuring we have adequate whistle-blowing arrangements, we always check if colleagues are aware of our Safecall external helpline.

In 2022, we developed the introduction to the structured meetings, briefly sharing with colleagues the role and operation of the Board and where the Colleague Engagement Committee fits in. These have been well received, with colleagues taking an interest in the wider leadership of the Group.

We hear many consistent and positive messages across the discussions, including:

- Safety is always the first priority and our strongest Value, followed closely by Customer Focus. Colleagues feel cared for by the Company and this has continued beyond the period of the pandemic with many specific examples shared with us, both at a Group and a local level
- Colleagues feel they are treated with respect and have opportunities to influence ways of working with their ideas
- Our colleagues are particularly proud of our investment in and commitment to sustainability (our **One Planet: Engineering with Purpose** Sustainability Strategy) and inclusion (Everyone is Included)
- There is a great deal of enthusiasm for potential future growth, colleague development and our ability to create further value for customers, through digital tools

The most consistent challenges for us seem to relate to leveraging our resources as we mature and grow as a Group:

- Colleagues would welcome more information and insight around the Group's products, customers and opportunities. We have a particular challenge to communicate with colleagues who don't operate on company email
- We will continue to focus on our Value of Collaboration. We need to enable our colleagues to work together cross-functionally in a more seamless way, so they can maximise their personal and our business effectiveness – this will be through a mix of technology, processes and ways of working. We need to reflect on where it is possible to align processes and share know-how across our Group

The Committee and management really value the time taken by our colleagues in offering their feedback in focus groups and management always look for opportunities to take action. Management ensures that, where appropriate action is taken, we communicate that back to the specific group that provided the feedback, some examples of actions taken in 2022 are shown in the table opposite.

Other Committee activities in 2022

Business unit discussions – At Committee meetings in 2022, we invited the leaders of our three Businesses, operational and functional, to share their approach to colleague engagement as well as their engagement successes and challenges.

Board site visits – During 2022, several Board meetings have been held at our manufacturing sites. We have visited Aflex Hose in their new facility in Huddersfield in the north of England, Steam Specialties at the USA site in Charlotte, North Carolina, and BioPure at their new facility, near Portsmouth in the south of England. This has presented plenty of opportunity for the whole Board to connect with colleagues and local management as they showed us around the site and shared their initiatives with us. In 2023, we hope to be able to visit more of our colleagues, including a planned trip to the USA.

Informal engagement – All NEDs participate in 'coffee talks', an informal scheme where colleagues are randomly paired with another for a virtual coffee. This gives NEDs the opportunity to speak to colleagues at all levels of the Group one to one, to both understand their role and gain their feedback on the organisation and their experience working with us.

Feedback received	Action taken
One group indicated that they would welcome more information on the background to the Business unit strategy, that those who were newer to the Business had not been involved in earlier versions of the strategy and therefore lacked the base level understanding.	The team took this on board when developing further discussion sessions on the strategy, taking time to set the context and then considered the team's role in the next phase.
Colleagues suggested that the Group could gain more value from our UK apprenticeship scheme and potentially roll out an apprentice programme in other parts of the world. We were also asked to consider how the various streams of early careers, such as graduates, apprentices and YINIs, could join-up on certain initiatives to share knowledge and streamline resource.	Management have since undertaken a wider review of our apprenticeship programme and what opportunities we may have to leverage something similar globally, which will be a focus for 2023.
Since we have fully embraced hybrid working, one group asked that laptops became 'standard' issue as some still had desktop computers which made working from anywhere but the office impractical.	Desktop computers have since been replaced with laptops, where appropriate and going forward, laptops are issued to new starters.
Some of our female colleagues raised the challenges of getting well-fitting workwear.	This prompted a review of available workwear across our manufacturing locations.
In one very high growth area of our Business, colleagues were very positive about the new facilities and investment from the Group but felt that they had had limited time to understand the Business strategy and wanted to "see it for themselves".	The local management team took an action to 'introduce' all colleagues to their new site, with a tour across all areas, to demonstrate products and their impact on society as well as innovation opportunities.
One group shared that the additional Wellbeing Day, offered to all colleagues in 2022, was not showing on their HR system, so they were unable to request the leave.	The local HR team rectified this immediately.
Participants, particularly in our manufacturing populations, were not always aware of our whistle-blowing hotline (Safecall) or where they would find the number should they need it.	In response, management took action to refresh communications via posters around the workplaces, particularly manufacturing locations.

Looking forward

We look forward to having oversight of and hearing the results of the 2023 colleague engagement survey across the Group that will run during April 2023.

The Committee has planned a number of colleague meetings across the Group in 2023, which will include engaging with some of our Sales Engineer job family and with teams from our two new acquisitions in ETS, Vulcanic and Durex Industries, as well as a meeting with one of largest operating companies, UK Supply, as a follow-up to our last meeting with the team there in 2020.

We also want to advance our race equity journey by better understanding the lived experience of our Black and African American colleagues across our USA operations. To start this, we will be working with an external partner in the USA to run some virtual and physical colleague focus roundtables to assess our race equity culture, identifying opportunities to improve this and to grow our leadership diversity. One of our Committee members, Angela Archon, will participate in these.

All NEDs will continue to participate in quarterly 'coffee talks' and members of the Committee will also take part in an International Women in Engineering Day event as well as the 2023 Graduate Conference.

I am happy to answer any questions or take any feedback on our Committee activities, at our Annual General Meeting in May or at any time.

Caroline Johnstone
Chair of Colleague Engagement Committee

8th March 2023

Committee focus for 2023

- 2023 Group-wide engagement survey
- Colleague discussion and feedback meetings including with companies recently acquired by the Group
- Externally facilitated discussions with our Black and African American colleagues across our USA operations to advance our race equity focus

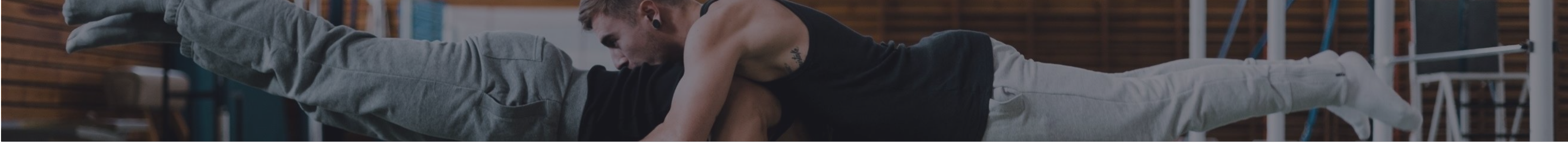


Figure 7.2 Metro Bank — Call out or letter from the designated non-executive director for workforce engagement emphasising the importance of understanding the views of the workforce (2022 ARA, pp115-117)

Letter from the Designated Non-Executive Director for Colleague Engagement

> **"Our Board continues to welcome our colleagues' views, recognising the benefit of a colleague base that is the bedrock of our business model, ensuring we can deliver over and above for our customers, the communities we serve and for each other**

Nicholas Winsor
Designated Non-Executive Director for Colleague Engagement

I'm very pleased to set out my letter to Metro Bank's stakeholders as the designated Non-Executive Director for Colleague Engagement (DNED). I would like to take this opportunity to thank Sally Clark, who was the DNED until 30 June 2022, for her efforts in the role during the first half of the year. I am delighted to have been appointed and I am looking forward to meeting even more colleagues and hearing their views as I take the role forwards into 2023.

The Board continues to be of the opinion that appointing a DNED is the most appropriate engagement mechanism for the Bank to ensure there is effective, two-way engagement between colleagues and the Board, with the ultimate objective of aiding and informing Board decision-making. I have seen first-hand how much our colleagues value access to the Board. In turn, the Board strongly values the feedback provided and we are open and transparent in how we consider and address this.

The Board recognises that the DNED role doesn't replace existing engagement channels. The ExCo already plays a key role in communicating Board decisions to colleagues and we have a number of established networks and forums which help us to understand the views of our diverse colleague population.

The Bank also seeks colleague views through other mechanisms including the Voice of Colleague surveys and feedback via our internal social media channel, Yammer. My role is to garner the views of colleagues and escalate these to the Board as a whole in order to inform effective decision-making. I formally report on engagement activities and the feedback I have gathered to the Board throughout the year.

The Board reviewed the Terms of Reference for the DNED role in 2022 to ensure that it was made explicit that the role also included engaging with colleagues regarding remuneration, including executive remuneration, as appropriate. I also provide a report to the People and Remuneration Committee each year on the outcome of this engagement ahead of the People and Remuneration Committee's year-end decisions.

Colleagues were able to connect in person more frequently in 2022 compared to recent years. Hybrid working continues for many colleagues, so it is important that they have opportunities to come together and have meaningful engagements, regardless of whether they work in a Metro Bank Store, AMAZE Central or an AMAZE Direct site. The Board also discusses and seeks assurance that colleagues working remotely continue to feel connected to the Bank, listened to and supported. We want colleagues to be empowered to come together, so they feel engaged, productive and can provide maximum impact in whatever they are doing.

We are proud of the culture we have at Metro Bank, which we recognise as one of the main reasons that colleagues want to work here. It was great to hear from colleagues that our AMAZEING values continue to inspire and motivate them. The Board plays an active role in defining and monitoring culture, particularly in the context of evolving work practices, and we are pleased to see a strong sense of belonging and inclusion as we embed hybrid working.

2022 DNED engagement activities and feedback

The DNED Working Group, comprising of myself, the Director of Corporate Affairs, the Chief People Officer and members of the Company Secretarial team, meet periodically throughout the year to discuss the DNED schedule of events, feedback from colleagues, and the strategy for engagement.

Throughout 2022, I had many opportunities both face to face and remotely to speak to colleagues. I met colleagues in a range of settings, from store visits, to attending an operations team leadership event, to attending Yammer sessions. These events provided an excellent opportunity to listen to what our colleagues like about working at Metro Bank and also as to what leadership can do to enhance their experiences.

The general consensus is that our colleagues love the culture at the Bank, they feel they can be themselves, and that we all work together as one team towards a common goal of being the number one community bank.

Colleagues have also expressed an interest in more in-person training. As part of the induction process all colleagues attend a 'Visions' event, and we are pleased that these sessions have returned to being in-person events in 2022, so new colleagues can see and live our culture at the start of their Metro Bank careers. Graduation events have also returned to being held in-person.

Following career development feedback, management has refreshed Mentor Bank, ahead of the AMAZE review period, when objective setting and development planning is agreed. In 2022, one in five of our colleagues were promoted demonstrating our commitment to growing and promoting our talent.

Training on unconscious bias was identified as an area of focus to help managers better consider their interactions with their teams. An unconscious bias training module has been developed. It is available to all colleagues, and will form part of our induction learning. Plans are being developed to roll out the training module to existing colleagues as part of the objective setting and development planning process.

Having met a number of store-based colleagues at recent engagement events, there was a strong sense that colleagues value Metro Bank's customer focus and this drives colleague engagement. Colleagues also value the number of career opportunities available at Metro Bank.

There is an overall positive energy in the stores and colleagues are looking forward to connecting in-person post-COVID-19.

I was delighted to attend the Bank's black history month event. Our Black, Asian and Ethnic Minority network, Mbrace hosted a night of Afro-Caribbean food, entertainment from young Black artists, and networking at AMAZE Central Holborn. The evening was both emotional and impactful and it was well supported by a broad cross-section of colleagues. The event also coincided with Faisal Hussain's appointment as Chief Information Officer which got special mention on the evening and was well received by our colleagues.

Alongside this, I regularly log into Yammer, an internal social media tool for colleagues to share information, ideas and socialise. The platform is self-moderating, rather than top-down, and is used as a solutions tool when colleagues have a question.

Colleagues are very active on the platform, which reinforces my view that our colleagues feel engaged. There are colleagues that are 'Yammer Champions', they are very active and support the wide ranging questions that colleagues submit.

The Bank also has a platform called 'Recognise' that allows colleagues to call out each other's achievements and it was great to see colleagues celebrating one another's successes during the year.

Looking forwards

The Board recognises that the role of DNED will continue to evolve, particularly as a result of changing working practices, as new areas of colleague focus are identified, and as fresh opportunities for engagement arise. I am pleased to already have an interesting schedule of engagement opportunities with colleagues in 2023.

The Board continues to welcome all of our colleagues' views, recognising the benefit of a colleague base that is the bedrock of our business model, ensuring we can deliver over and above for our customers, the communities we serve and for each other. I look forward to meeting even more of our AMAZEING colleagues in the future.

Nicholas Winsor
Independent Non-Executive Director
15 March 2023

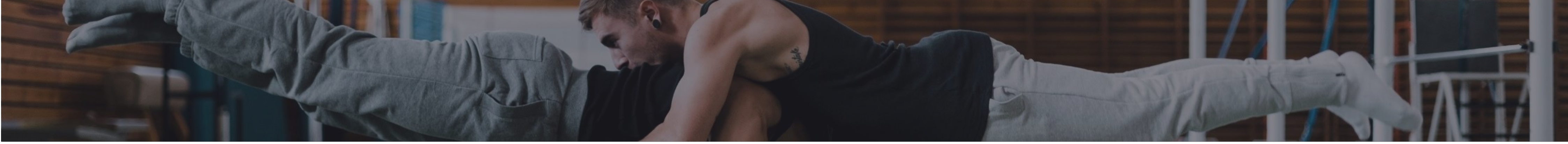


Figure 7.3 Rolls Royce – Explaining how STEM outreach positively impacts future recruitment possibilities (2022 ARA, pp38-39)

Diversity and inclusion

We believe that a diverse, equitable and inclusive workplace makes us a stronger company, enables us to hire the best talent, create high performing teams where our colleagues can reach their full potential and be at their best. In 2022, we focused on inclusion and belonging though our 'Being' campaign, where colleagues volunteered to participate in 'people like me' stories, celebrating them as a person and what makes them unique (see page 52).

We accelerated our efforts to attract and retain diverse talent and we embedded new inclusive hiring processes. We delivered our goals through four key pillars: lead, attract, retain, develop.

In 2022, we continued our focus on increasing the diversity of our external hires, 22% of all global hires were female compared with 19% in 2020. Additionally, 17% of hires in the UK and 26% of hires in the US were of ethnic minority backgrounds. We were recognised externally, winning a variety of awards, including first place in the Times Top 100 Engineering Graduate Employers, Best Engineering Employer for both males and females in the Universum Rankings and Best Diversity Initiative in the Engineering Talent Awards.

To support the growth and development of our under-represented populations, we introduced two new learning programmes: Connect & Belong, aimed at ethnically diverse talent; and Thrive, aimed at gender minorities. Both feature internal mentoring and skill development workshops. Forty-eight participants took part in Connect & Belong and 91 participated in our Thrive programme.

We give full and fair consideration to all employment applications from people with disabilities. If an employee becomes disabled whilst working for us we take steps to support their continued working including, wherever possible, making adjustments to ways of working.

While we have work to do to meet our stretching 2025 diversity targets (see page 40), we continue to refresh our approach against our diversity and inclusion pillars, to expand the global reach and impact of programmes, while driving accountability through continued measurement.

Inspiring future talent

We refreshed our approach to early careers attraction this year through embedding inclusive hiring. We also focused on employee advocacy as a powerful tool to reach diverse talent pools. Our approach has centred on creating an authentic narrative, provided through people's stories, utilising social media and digital platforms. Partnerships became a key lever for attracting diverse talent into our internship and graduate roles. We sponsored three undergraduate of the year awards and converted 89% of the finalists into internship offers across our female, social mobility and neurodiversity categories (76% female, 42% ethnicity). We have also grown our i-Accelerator insights programme to support 80 ethnically diverse students across both STEM and business programmes. Through holistically redesigning our end to end early careers approach, enhancing digital engagement and refreshing our assessment methods to focus on values and behaviours the diversity of our intake significantly increased. Our female graduate hires increased globally from 19% in 2021 to 40% in 2022.

In 2022, a new nuclear skills academy was opened in the UK to 200 apprentices as part of our strategy to inspire the next generation of future engineers. Creating and maintaining this pipeline of talent is crucial for industry growth in UK Defence, alongside providing jobs and opportunities for individuals across the UK. Working in partnership with the National Skills Academy for Nuclear (NSAN), Rolls-Royce SMR also developed a nuclear skills programme for colleagues who are new to nuclear within the nuclear industry framework.

Community and STEM outreach

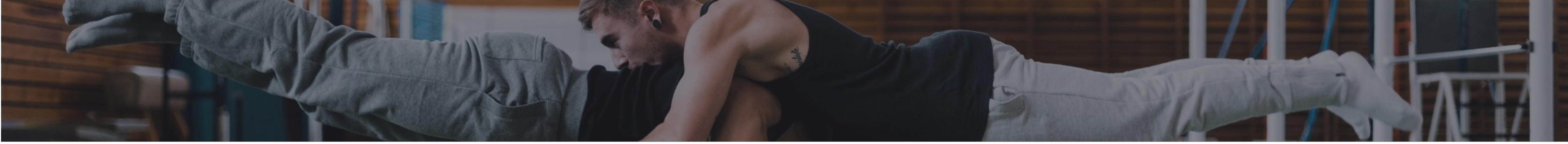
We believe that we have a responsibility to invest in and engage communities, to inspire the next generation, enable opportunities for our people and reflect the diversity of the communities that we operate in, by building a pipeline of future talent.

We work with local partners to identify issues, define objectives and evaluate impacts within a global framework. Together, we develop activities to meet local needs and particularly focus on groups that are disadvantaged by social and economic factors.

In 2022, global community contributions totalled £5.1m (2021: £2.73m), with £2.99m in cash donations, which included our response to the Russia-Ukraine conflict. Funds received as a result of a share forfeiture programme were not spent during 2022 but will be allocated in the future.

Together with our people, we contributed at least £1m to help the people of Ukraine. Contributions included a global matched giving scheme in partnership with Habitat for Humanity. We also matched employee time contributions with our Works Council and made cash and in-kind donations to local agencies supporting refugees arriving in Germany. Our Power Systems business donated gensets to maintain power to hospitals in Ukraine.

Our people remain at the heart of all our programmes and contributed 48,347 hours (2021: 26,427) to community programmes. In 2022, at least 80 teams across the Group completed practical projects in their local communities ranging from improving facilities to maintaining natural environments.



8. Environment

- How well is the company's sustainability strategy integrated into the overall business strategy and are environmental and social factors incorporated into the assessment of principal and emerging risks?
- Does the narrative strike the right balance between providing insights into the business strategy versus sustainability strategy?
- Does the narrative provide a fair and balanced overview of the company's impact on the environment and explain how changes to the environment are impacting the business model? Are these impacts quantified?
- Is it clear which metrics and targets are materially important for managing environment-related risks and opportunities? Are these metrics relevant and meaningful?
- What level of assurance was obtained over these metrics?

Current climate reporting landscape in the UK

The UK's climate-related reporting landscape has evolved rapidly in recent years. Since the introduction of Streamlined Energy and Carbon Reporting (SECR) in 2018 and the requirement to report under MRR on how directors had considered various stakeholders and the environment to discharge their s172 duties, a flurry of climate-related requirements has been introduced.

In 2020, the FCA's Listing Rule mandated premium (followed by standard) listed companies to report on a comply or explain basis on the 11 recommendations of Task Force on Climate-related Financial Disclosures (TCFD). This was followed in 2022 by the government introducing climate regulations mirroring TCFD to capture a wider scope of entities.

International Sustainability Standards Board (ISSB) Standards

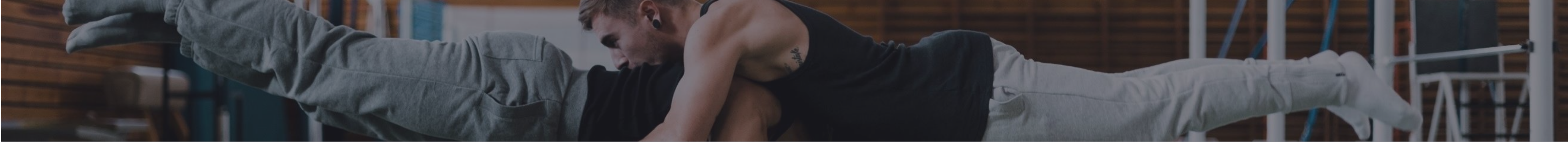
IFRS S1 and S2 are the first IFRS Sustainability Disclosure Standards developed by the ISSB.

- IFRS S1 'General Requirements for Disclosure of Sustainability-related Financial Information' covers the overall requirements for disclosure of sustainability-related risks and opportunities over the short, medium, and long term.
- IFRS S2 'Climate-related Disclosures' sets out specific requirements for the identification, measurement and disclosure of climate-related financial information. It is designed to be used in conjunction with IFRS S1.

IFRS S1 and S2 incorporate the recommendations of TCFD and as a result, the IFRS Foundation will take over the monitoring of climate-related disclosures from 2024.

IFRS S1 and S2 also include additional detail that is not required by the TCFD, including disclosures regarding industry-based metrics, the planned use of carbon credits, and financed emissions. The metrics are not limited to greenhouse gas emissions and include for example, water withdrawn and consumed in water stress regions or metrics related to supply chain management.

The International Organization of Securities Commissions (IOSCO) has already endorsed the standards. The UK government aims to make an endorsement decision on IFRS S1 and S2 by July 2024. Following endorsement, decisions to require disclosure will be taken independently by the FCA for UK listed companies and by government for UK registered companies and limited liability partnerships.



Other international developments

Demand from investors and other stakeholders for more standardised and comparable information about how climate-related risks and opportunities are being addressed continues to grow. The UK is therefore not the only country where the climate reporting landscape is in flux.

The **US Securities and Exchange Commission (SEC)** is developing rules to enhance and standardise climate-related disclosures closely aligned to the TCFD recommendations. Under this proposal companies will be required to disclose their direct and indirect greenhouse gas emissions, and climate-related risks. Companies that have developed transition plans, conducted scenario analysis, or set public climate-related targets or goals will also be subject to specific disclosures. The effective date is currently unknown, with the rules expected to be finalised in 2024.

The **Corporate Sustainability Reporting Directive (CSRD)** is a new EU directive that will require large companies and certain other organisations to report on their sustainability performance across ESG topics. CSRD requires companies to use a common set of standards: the **European Sustainability Reporting Standards (ESRS)** which were finalised in July 2023. There are two cross-cutting ESRS (ESRS 1 and 2) and 10 topic-specific ESRS covering climate change, water, biodiversity, workforce and business conduct among others.

Other than ESRS 2 (General Disclosures), disclosure requirements and data points within the 10 topic-specific ESRS will be subject to a materiality assessment. The materiality assessment process will be subject to external assurance in line with the CSRD.

CSRD has a staggered implementation approach with some EU companies having to apply ESRS from January 2024. The final issued standards were adopted in July and clarify that, in line with ISSB standards, financial materiality focusses on investors as primary users. An explanation is also required if climate change is not considered to be a material topic.

Some UK groups with substantial activity in the EU market are also caught by the requirements and will have to report as of January 2028 (refer to Appendix C for more detail). They will however be subject to a specific set of non-EU ESRS standards that are yet to be developed.

EY's overview comparing the various approaches to climate reporting and disclosures can be found here.

Quality of TCFD reporting in UK plc ARAs

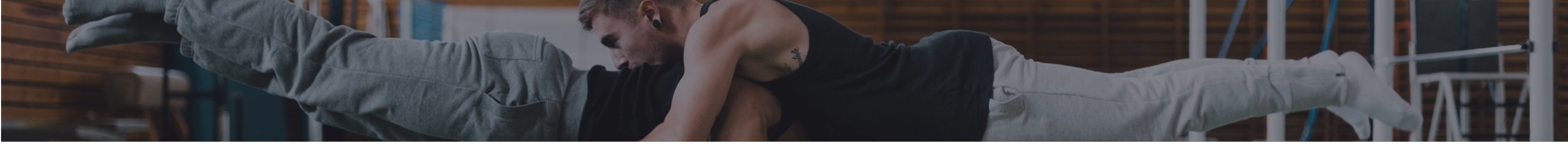
There has been an overall improvement in the quality of TCFD reporting in the second cycle, although disclosure of actual or potential financial impacts remains lacking, as does therefore the connectivity to financial statements. Similarly, principal or emerging risks relating to climate are not always consistent with what is included in the TCFD section of the ARA.

Another area that requires further refinement is moving away from generic industry or sector-based statements to company specific disclosures The better reporters, like **ABF** (ARA 2022, p85), explain which parts of the organisation are impacted by material climate-related risks and opportunities, and disclose a wide range of metrics to measure and manage these. Such an approach helps the reader understand how climate change is influencing the business model, strategy, and financial planning processes of the company.

The FRC's July 2023 Thematic review of climate-related metrics and targets also found that many companies are struggling to present a clear message to investors about which metrics and targets are materially important for managing climate-related risks and opportunities and their transition plans.

A growing number of companies are independently assuring some of their climate metrics. However, companies are also highlighting limitations, with scope 3 emissions recognised as the most challenging area.

For further insights into the global state of climate-reporting, look out for the 5th edition of EY's Global Climate Risk Barometer – a comprehensive analysis of disclosures made by c.1,500 companies globally - due to be published this autumn.



Oversight of climate reporting

Proposed changes to the Code are expanding the responsibilities of ACs beyond their traditional role of overseeing financial reporting to include non-financial reporting.

Requesting clarity on this matter is sensible given that, similar to last year, only around 60% of companies were explicit about who has oversight of TCFD reporting.

It is less obvious, however, that the oversight should lie with the AC by default. In 72% of cases, the AC was responsible but in 13% it was a committee that had an ESG/sustainability-related remit. As many companies have specific committees in place to cover E&S topics, boards need to consider which committee(s) may be best placed to oversee particular aspects of non-financial reporting.

From green washing to green hushing?

In recent years, companies have made bold promises about achieving their environmental ambitions and targets such as achieving net-zero within a certain timeframe or only working with suppliers who have made their own commitments. Meeting these targets requires significant investment in new technologies or more fundamentally for some, a shift in in business model.

Many of these ambitions have turned out to be unsupportable or unachievable – at least not in the original timeframes envisaged - which has led to a backlash against companies and accusations of greenwashing. Given the backlash and the reduced confidence companies have in meeting targets, more recently, the pendulum seems to be swinging towards 'green hushing' i.e., staying quiet about their climate strategies and related goals, as well as suppressing or downplaying information about environmental impacts.

Transition plans and adaptation

This is why transition plan disclosures are essential i.e., translating strategic climate objectives into concrete short- and medium-term steps setting out plans and actions to contribute to and prepare for a rapid transition towards a low-carbon/net zero economy.

In the UK, the Transition Plan Taskforce (TPT) has been tasked with developing a 'gold standard' disclosure framework. Following a consultation which ran in early 2023, a finalised framework is expected by the end of 2023, with a progress update issued in July 2023.

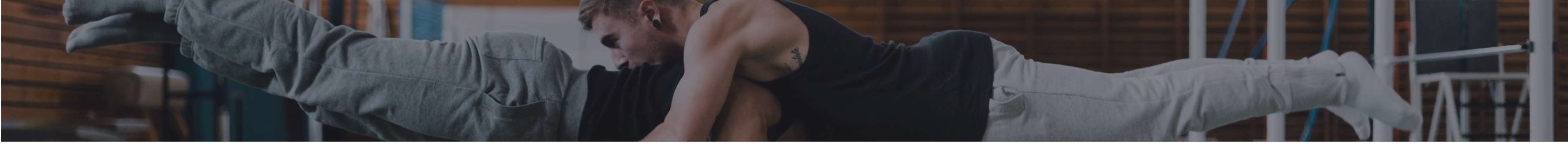
The UK government intends to consult on transition plan requirements for the UK's largest companies in the final quarter of 2023. As per Primary Market Bulletin 45 of August 2023, the FCA plans to consult in 2024 on guidance that will set expectations for transition plan disclosures at the same time as its consultation on the adoption of IFRS S1 and S2.

Even with commitments to cut emissions and transition to a low carbon or net zero economy, global temperatures are on the rise. Therefore, the need for adaptation solutions including new technologies and infrastructure is also growing as it is essential to protect lives, assets, and to ensure the economy can continue to function. We expect increasing emphasis on companies to disclose not just their transition but also their adaptation plans.

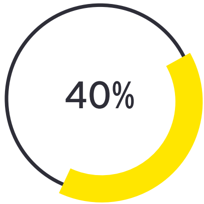
Beyond climate

Some companies are already reporting on other environmental areas beyond climate such as their water use and impact on biodiversity. **BAT** (Figure 8.1) does this as part of its 'Strategic Management' section, **Unilever** (ARA 2022, pp 32) does this as part of its 'Planet and Society' section.

Extending the scope of environmental reporting beyond climate is likely to become more prevalent once the Taskforce on Nature-related Financial Disclosures (TNFD) framework is finalised, regardless of whether it becomes mandated in the UK. On one hand the framework will provide companies with a clear and consistent way to report on their nature-related risks and opportunities, on the other it will drive investor expectations in this regard. **Kao** (Figure 8.2) has already applied the TNFD framework to its biodiversity report, which sets out how the relationship between Kao's business and nature varies across three different scenarios.



As noted in the UK government's 2023 Green Finance Strategy, it will explore how best the final TNFD framework, due to be published in September 2023, should be incorporated into UK policy and legislative architecture.



do not state who oversees TCFD reporting

Review of UK's non-financial reporting framework

Whilst non-financial reporting helps create transparency on companies' and boards' approaches to managing their non-financial risks and their policies and actions to set strategy and allocate resources, thereby enabling more informed investment decision making, there is also recognition of the growing burden and cost especially given the steady and incremental growth in requirements over recent years.

The Department of Business and Trade (DBT) is therefore conducting a review of the UK's non-financial reporting framework to look at opportunities to refresh and rationalise it so that it is fit for purpose and delivers decision-useful information to the market. A recently concluded call for evidence is the first phase of this review. government will use outputs from this phase to develop detailed proposals for public consultation in 2024 before then considering any legislative changes.

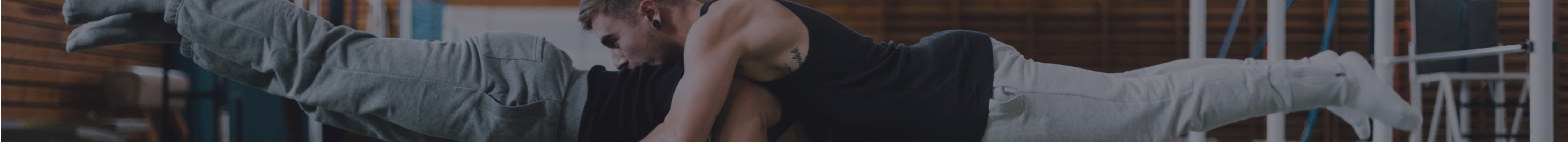


Figure 8.1 BAT – Evaluating the company's impact on biodiversity and water stewardship (2022 ARA, pp 52-53)

Strategic Management

Excellence in Environmental Management

We have a global footprint and rely on natural resources to run our business. Securing resources in a climate-resilient supply chain is key to delivering our business strategy. We are driving environmental excellence for a greener tomorrow.

E

Find our key ESG goals, targets and metrics in our ESG Roadmap on page 47

Tackling climate change
Climate change is a global issue impacting the planet and society, as well our business and supply chain. We have an integrated climate strategy focused on building climate-resilience across our value chain.

By 2030/2050: Carbon neutral operations (Scope 1 and 2 CO_2e emissions) by 2030 and net zero carbon emissions across our value chain (Scope 1, 2 and 3) by 2050.

Eliminating waste
Circularity – and driving a zero-waste economy – is at the core of our bold stance to deliver a greener tomorrow. From using less plastic and recycling more, to being smarter in how our products are designed.

By 2025: 100% plastic packaging to be capable of being reusable, recyclable or compostable; and 100% of our operations sites to be zero waste to landfill.

Sustainable water stewardship
From eliminating loss and leaks to increasing water recycling, we are decreasing water use in our operations. And we are helping our contracted farmers to irrigate their crops more sustainably.

By 2025: 100% of manufacturing sites to be Alliance for Water Stewardship certified; and 35% reduction in amount of water withdrawn (vs 2017 baseline).

Biodiversity and afforestation
We work with our contracted farmers to protect biodiversity and forest resources and support community-based afforestation programmes around the world.

By 2025: Net zero deforestation of managed forests in our supply chain; and net positive impact on forests in our tobacco supply chain.

Our Environmental Policy is adopted by all our Group companies. It outlines our commitment to high standards of environmental protection, adhering to the principles of sustainable development and protecting biodiversity.

Tackling Climate Change

Our ambition to be a carbon neutral (Scope 1 and 2) business by 2030 is supported by a range of operational targets. Already, we're making significant progress with a reduction of 42.7% in Scope 1 and 2 CO_2e emissions against our 2017 baseline.

We also recognise the importance of looking beyond the operations we directly control – so we have set a target for net zero carbon emissions across our value chain by 2050.

To deliver these stretching targets, we have an integrated climate strategy covering both our own business operations and our wider value chain. This includes utilising multiple opportunities, from on-site renewable energy generation and purchasing renewable electricity, to transitioning our distribution fleet to electric and hybrid vehicles.

In addition, in 2021, we incorporated internal carbon pricing into business plans to ensure the impact on environmental performance and targets is formally considered and quantified. This has supported the prioritisation of sustainability projects such as on-site renewable energy generation.

By the end of 2021, 32 of our operations sites were purchasing 100% renewable electricity and 19 were generating renewable energy on-site, such as with solar panels. As of last year, we had on-site generation solar coming online in Pakistan, Indonesia, Germany, and South Korea. In places like South Africa, solar plays an important role in the overall site's electricity decarbonisation. In 2021 the site generated green electricity equivalent to avoiding 1,840 tCO_2. Factories in Brazil and Chile, and Switzerland's manufacturing and commercial sites also passed independent carbon neutral certification in 2021 against PAS 2060 – an internationally recognised certification on carbon neutrality.

In our tobacco supply chain, we support over 75,000 contracted farmers globally, helping them to reduce emissions through innovative technologies and 'carbon-smart' farming practices throughout the growing cycle. We also continue to actively work with our largest 30 direct product materials suppliers that represent 15% of CO_2e emissions for this part of our supply chain. In 2021, they participated in a detailed, one-to-one assessment of their current ESG practices and performance, with a strong focus on carbon emissions, as well as waste, water and biodiversity.

Our products are intrinsically linked to our sustainability ambitions. By building sustainable brands with purpose, we are bringing our consumers on our journey with us. So, in 2021, we were proud to announce that Vuse was certified as the first global carbon neutral vape brand.[1]

Eliminating Waste

Our Circular Economy Position Statement sets out our key principles across our operations and product categories. In 2021, we developed new Circular Economy Guidelines and training to provide our people with a common understanding and details of how to apply these principles across different business areas, products and geographies.

We have conducted studies to map our waste footprint intensity across our value chain and have established cross-functional sustainability workstreams for all our product categories.

We are focused on eliminating unnecessary single-use plastic across all packaging and, by the end of 2021, had achieved a 13% reduction in total weight.

1. Based on ePod, ePen, eTank mini, Alto devices and consumables internal sales forecast (calculated March 2021) for 12 months starting from April 2021.

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Examples of initiatives undertaken include: removing silicone caps from e-liquid pods, replacing plastic trays with a pulp-based alternative and removing plastic film overwrap.

We're also aiming for 100% of plastic packaging to be capable of being reusable, recyclable or compostable by 2025 – by the end of 2021, this was achieved for 75% of our packaging.

To help drive responsible disposal, we have take-back schemes for consumers to return our vapour and THP devices in all markets where they are available.

In 2021, we also supported 12 consumer education and awareness-raising initiatives to prevent cigarette butt littering in five countries. And we are actively looking for new, innovative ways to tackle the issue. For example, we are partnering with an innovate start-up to test a new solution to processing factory waste and cigarette butts from the streets to extract the cellulose acetate.

In our operations, we're driving a zero waste to landfill mindset with an ambitious target for 100% of sites to achieve this by 2025. Despite challenges in some locations that have limited recycling and waste management facilities, 35% of our sites had reached zero waste to landfill by the end of 2021, and a further 7% are close to achieving this and are recycling at least 95% of total waste generated.

Our Integrated Work Systems (IWS) are crucial in helping to achieve this through optimising our overall performance, minimising machine unplanned downtime, reducing waste, optimising energy and water usage and saving personnel time and effort. Significant benefits have been obtained in the last year ranging from a 5 to 15% reduction in waste to a smaller carbon footprint, 4 ppt efficiency improvement, lower energy consumption and utility costs, and the saving of 1,000s of working hours.

Sustainable Water Stewardship

While our manufacturing facilities are not particularly water intensive compared to other industries, with the changing climate, water scarcity is a growing concern.

Our sites implement a range of initiatives to eliminate water losses and improve water efficiency. As a result, we have been making steady progress decreasing water use, with a 27.6% reduction achieved from our 2017 baseline year. At the same time, we've also increased the amount of water we recycle to 16.7% (compared to 15.3% in 2020).

To accelerate progress and deliver further water stewardship opportunities, we are members of the Alliance for Water Stewardship (AWS). AWS is a global collaboration of businesses, NGOs and the public sector that are contributing to the sustainability of local water-resources through adoption of the global AWS Standard.

We have committed to 100% of our manufacturing sites being certified against the AWS standard by 2025. In 2021, 11 sites achieved AWS certification and a further 23 sites are expected to complete the certification process during 2022.

Water stewardship in tobacco growing

Water management is vital to sustainable farming, especially given that agriculture accounts for an average of 70% of freshwater withdrawals globally. Rainwater is commonly sufficient for watering many tobacco crops – due to the variety of locations in which we source our tobacco, only 31% require irrigation.

Our leaf operations in these areas are actively looking at ways to work with our contracted farmers to reduce water usage, with different techniques applied depending on the local circumstances and growing conditions.

Our global leaf agronomy centre in Brazil is playing a vital role in researching, developing and customising cutting-edge innovations to drive water efficiency in tobacco growing. For example, innovative 'floating' systems for growing tobacco seedlings, based on hydroponics, use about 85% less water per hectare. These have been successfully introduced to some 17,000 contracted farmers in six countries, with trials underway in six more countries.

We have also developed innovate drip irrigation technology, that increases water-usage efficiency by up to 90% – so far, this is being used by our contracted farmers in six countries.

Biodiversity and Afforestation

Our Biodiversity Statement sets out the principles we follow to manage our biodiversity footprint across our operations.

In 2021, we announced a new commitment for net zero deforestation of managed forests across our tobacco and paper- and pulp-based product supply chains by 2025. This means that for every tree that is chopped down, we will aim for another to be planted by ourselves or others in our supply chain. In our tobacco supply chain, we take this further by aiming to have a net positive impact on forests by 2025. This means that not only will a tree be planted for each one used, but we will strive to have a net positive impact – planting more trees than are removed.

To achieve these ambitious targets, our leaf operations and third-party suppliers continue to work with tobacco farmers in our supply chain to provide training in forest and biodiversity management, distribute tree saplings for a sustainable source of fuel for curing and help farmers to switch to locally available alternative fuels.

In 2021, monitoring of our contracted farmers wood fuel use for tobacco curing showed that 99.9% is from sustainable sources.

In addition, we support afforestation, biodiversity and environmental conservation programmes around the world as part of our wider community-based initiatives. In 2021, this included 18 projects in 13 countries, including long-standing afforestation programmes in Bangladesh, Brazil, Kenya, Pakistan and Vietnam that have collectively distributed an estimated 380 million trees over the last 40 years.

In our paper- and pulp-based product supply chain, we are committed to working with suppliers that can demonstrate that the material is sourced sustainably, with certification from the Forest Stewardship Council (FSC) or the Programme for the Endorsement of Forest Certification (PEFC). So far, this is the case for 89% of the paper and pulp volumes we purchase – we aim to reach 100% by 2025 as part of our net zero deforestation target.

In addition, we signed up in 2021 as a signatory to Business for Nature's Call to Action, a global coalition uniting influential organisations and forward-thinking businesses to amplify calls for collective action to reverse nature loss in this decade.

SPOTLIGHT

Digital farmer sustainability management

We are leveraging the power of technology to enhance and accelerate our connectivity with our contracted farmers and farming communities. Our Farmer Sustainability Management (FSM) system is a digital platform that supports the work of our field technicians by enabling a consistent approach to farm monitoring and overall sustainability management.

Our field technicians visit our contracted farmers approximately once a month during the growing season, acting as a direct link between the farmers and BAT. Details of each farm visit are recorded in FSM, including any issues identified and details of prompt actions taken to remediate them.

In 2021, the majority of issues recorded in FSM (96.5%) related to the safe handling, use and storage of agrochemicals.

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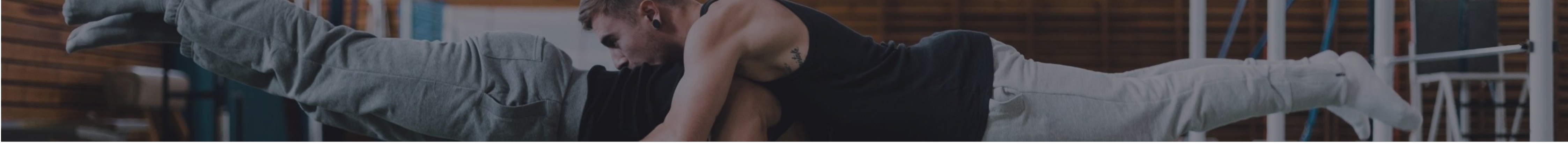
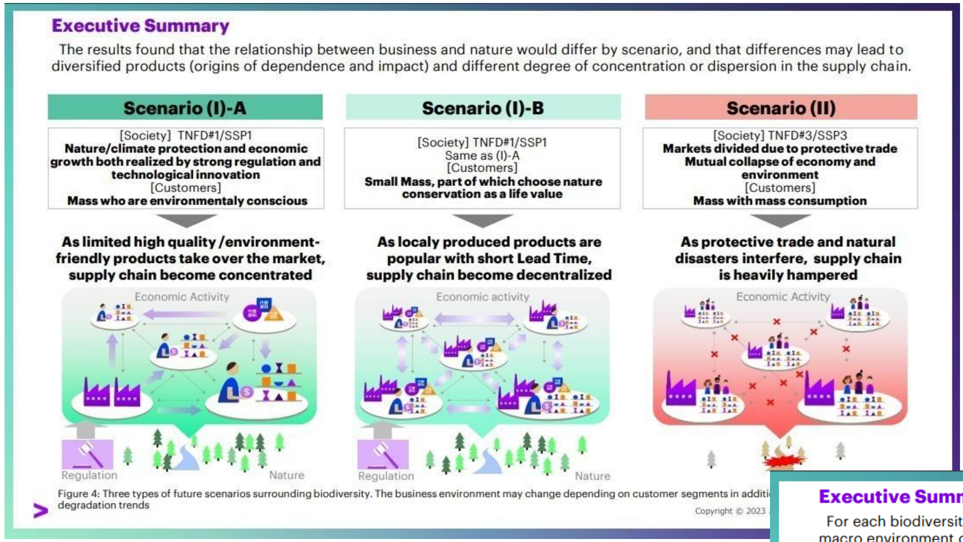
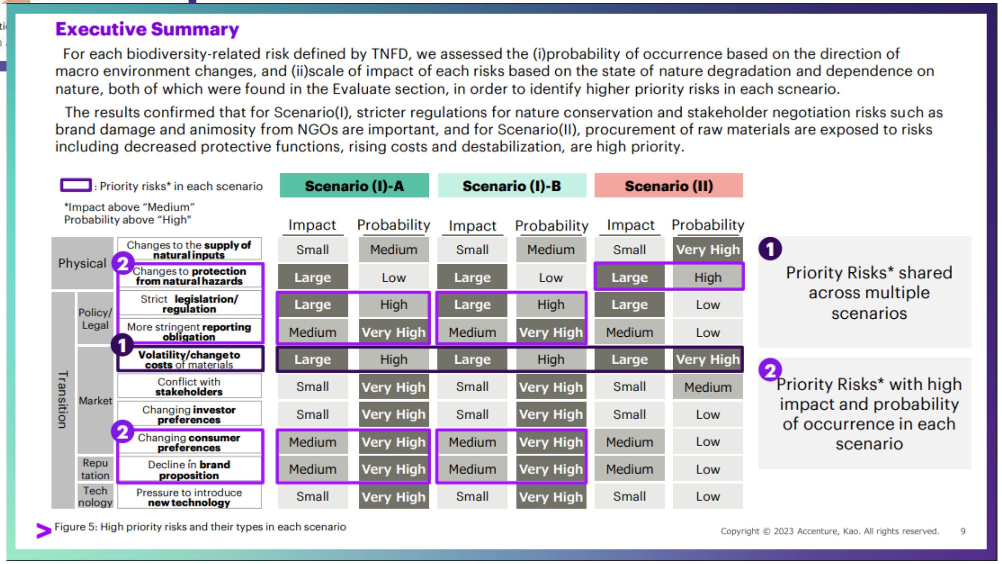
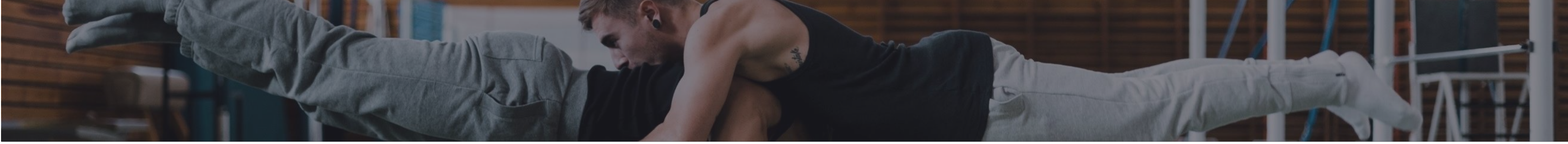


Figure 8.2 Kao – Application of the TNFD Framework, (Biodiversity Report Based on the TNFD Framework, pp8-9)





Category	Risk	(I)-A Impact	(I)-A Probability	(I)-B Impact	(I)-B Probability	(II) Impact	(II) Probability
Physical	Changes to the supply of natural inputs	Small	Medium	Small	Medium	Small	Very High
Physical	Changes to protection from natural hazards	Large	Low	Large	Low	Large	High
Transition – Policy/Legal	Strict legislatrion/regulation	Large	High	Large	High	Large	Low
Transition – Policy/Legal	More stringent reporting obligation	Medium	Very High	Medium	Very High	Medium	Low
Transition – Market	Volatility/change to costs of materials	Large	High	Large	High	Large	Very High
Transition – Market	Conflict with stakeholders	Small	Very High	Small	Very High	Small	Medium
Transition – Market	Changing investor preferences	Small	Very High	Small	Very High	Small	Low
Transition – Market	Changing consumer preferences	Medium	Very High	Medium	Very High	Medium	Low
Transition – Reputation	Decline in brand proposition	Medium	Very High	Medium	Very High	Medium	Low
Transition – Technology	Pressure to introduce new technology	Small	Very High	Small	Very High	Small	Low



9. Risks and viability

- What are the principal risks to the successful delivery of the strategy and how might these manifest in the company?
- What levels of risk is the board willing to take and how does this align with the related mitigating actions?
- Are changes in the likelihood or impact of principal risks explained, together with the evolution of mitigating actions?
- Which of these pose the greatest threat to the viability of the company?
- Is the rationale for the timeframe over which the board has considered the viability of the company robustly explained?
- What specific scenario and sensitivity testing has been performed on the model(s) supporting the viability statement and what was the outcome of this testing?

Current risk reporting practices

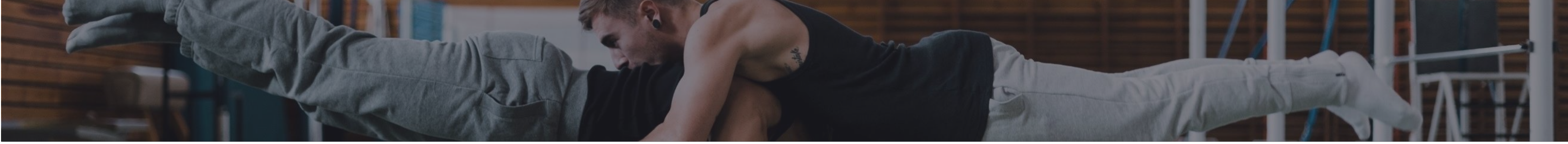
There are numerous sources of risk disclosure requirements and good practice guidance. Applicability varies depending on whether a company is UK incorporated, its listing status and size, with additional expectations of financial services companies. It is not surprising that practice is therefore varied too.

Common practice is for companies to list their principal risks in a tabular disclosure. Some also provide a brief explanation/nature of the risk, including risk drivers. Few disclose the owner of each principal risk, or the specific governance oversight. This strengthens the narrative about accountability.

Mitigating actions are typically disclosed in a generic manner, not specifying whether actions were undertaken in the year or whether they are available but had not necessarily been activated in the year.

Additionally:

- 90% disclose impact, of which 60% provide only a qualitative explanation
- Around a third disclose likelihood, mainly using a heat map and sometimes using a risk radar, like **Rotork** (Figure 9.1).
- Over 80% disclose changes to risks, although it can sometimes be unclear whether this is compared to the prior year, or whether this is an outlook. Only around 30% discuss changes to mitigating actions to some extent.
- Less than a third disclose the level of risk appetite for each of the principal risks, with a few providing a risk appetite statement per risk.
- Very few companies disclose risk velocity or interconnectivity. Only 11% annotate risks with a link to the viability statement, something that might be helpful in addressing the requirements of the RS.



Viability statement

Based on the sample of companies we analysed, the average viability period was 3.6 years, with 3 years being most common and 7 years being the longest. Whilst the narrative supporting the rationale for choice of period is meaningful in around 43% of cases, the narrative about longer term prospects is seldom insightful, with **Persimmon** (2023, pp75-76) being one of the few exceptions. Only around a third of companies clearly link viability scenarios back to principal risks.

The FRC has repeatedly emphasised that viability statement disclosures need to provide sufficient qualitative and quantitative detail in respect of the inputs and assumptions used, like done by **Severn Trent** (Figure 9.2).

The detail and quality of disclosure increased significantly in early 2020 in response to investor demands in the context of the COVID-19 pandemic. This was however a temporary.

One conclusion that might be drawn from the swift contraction of reporting on viability and liquidity under COVID-19 is, that despite investor and wider stakeholder interest in the topic, companies prefer not to be overly transparent about their modelling and its outcomes if they can help it, potentially being worried about a negative market reaction that 'oversharing' might bring in a business-as-usual environment. It remains to be seen whether the introduction of a RS by draft secondary legislation will make a difference.

Looking forward

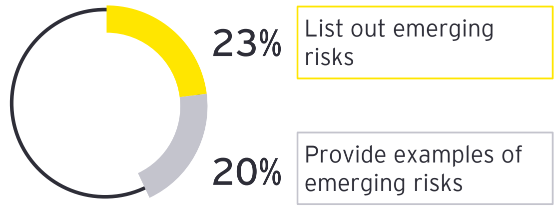
Under the FRC's draft revised Code, companies will need to disclose their emerging risks. Presently only 23% of companies do so, with a further 20% providing only a few examples.

There will also likely be changes to risk reporting arising from the RS. The RS will require the following disclosures with respect to principal risks: likelihood, impact (either qualitative or quantitative), timeframe and mitigating actions alongside changes to all these categories. It will also emphasise the linkages between risk reporting and the viability assessment and introduce a requirement to perform and disclose a reverse stress test in the medium-term section.

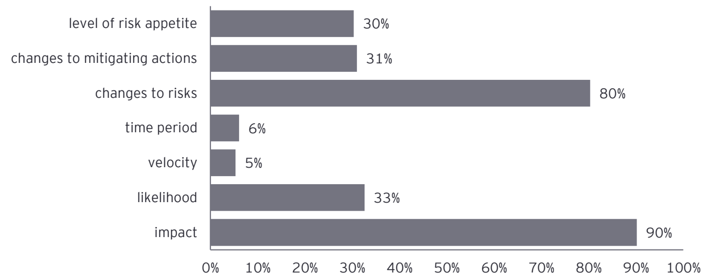
Currently 37% of companies from outside financial services make reference to having conducted a reverse stress test within their viability statement but across all sectors including FS, there is very little to no detail beyond this reference. **Abrdn** (Figure 9.3) is a notable outlier.

Based on the limited information that is provided and our conversations with companies, it appears that understanding and practice on what constitutes a reverse stress test differs significantly between financial services and non-financial services companies. In the latter case, assumptions are successively flexed downward to "break the company" or a prolonged deterioration in trading is modelled as opposed to – in financial services - starting from the assumption that the company is non-viable/has failed and qualitatively assessing the extreme scenarios/circumstances that could have led to this.

It will be important that the FRC's guidance underpinning the RS clarifies expectations in this respect.



Principal risk attributes



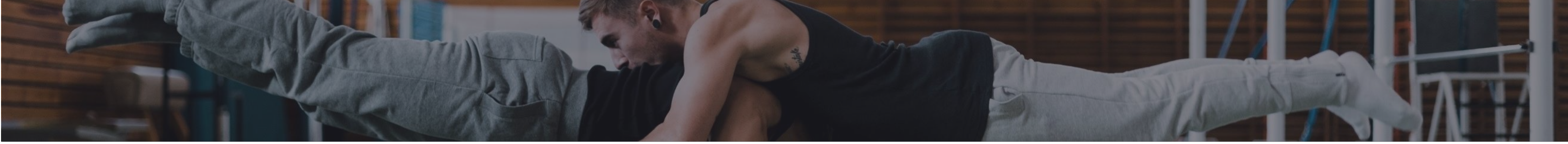


Figure 9.1 Rotork – Likelihood and impact disclosed using a radar visualisation. Tabular disclosure provides clear links to strategy, viability scenarios and sets out the risk trend. It also provides a risk appetite statement and focus areas for the upcoming year, including changes to mitigating actions (2022 ARA, pp91-97)

Focus for 2023

In 2023 we will continue to build on the work performed in 2022. We will focus on the development of our emerging risks, developing the level of detail behind our measurement of those risks. We will continue to develop the business continuity planning exercises and support risk management within the new programmes associated with the Group's Growth+ strategy. We will monitor the effectiveness of our responses to our key risks using our risk appetite dimensions.

Net impact

Low Medium High

Net likelihood

Low Medium High

Principal risks

Economic and market conditions
1. Decline in market confidence
2. Increased competition
3. Geopolitical instability

Environment, Social and Governance
4. Health & safety
5. Compliance with laws and regulations
6. Climate commitments
7. People

Product quality and reliability
8. Major in-field product failure
9. Supply chain disruption

IT security, continuity and system implementation
10. Critical IT system failure and cybersecurity

Change management
11. Business change management

Economic and market conditions

1. Decline in market confidence

Risk owner: Chief Executive Officer

Link to strategy

Link to viability scenario
1: Revenue decline

Likelihood High **Impact** High **Trend**

Description
A decline in government and private sector confidence and spending will lead to cancellations of expected projects or delays to existing expenditure commitments. This lower investment in Rotork's traditional market sectors would result in a smaller addressable market, which in turn could lead to a reduction in revenue from that sector.

Update
This risk remains unchanged from the prior year. We continue to identify opportunities in how we can support our customers to reduce emissions and increase efficiency.

Key mitigating actions
- Product development and innovation to address new markets and new applications in existing markets.
- Geographic and end market diversification provides resilience to a reduction in any one geographic area but may not fully mitigate a change in the larger end markets.
- Small to mid-sized orders are generally less likely to come under pressure during uncertain economic times. We estimate that 75% of Rotork orders by value are small to mid-sized, i.e. less than £100k.
- Increased focus on service offerings to capitalise on increased demand for product maintenance.

Risk appetite statement
We will in the long term move to increase the addressable markets which we serve.

Focus for 2023
Alongside the continuation of our existing key mitigating actions we will:
- Continue our investment in innovation converting the pipeline into launches.
- Identify opportunities to support our customers to increase efficiency, aligned to the electrification of everything trend.

2. Increased competition

Risk owners: End Market MDs

Link to strategy

Link to viability scenario
1: Revenue decline
2: One-off costs

Likelihood Medium **Impact** Low **Trend**

Description
Increased competition on price or product offering leading to a loss of sales globally or market share.

Update
This risk remains unchanged since the prior year, the availability of components is recovering, demand remains strong and our Growth+ strategy has identified key areas of focus for the Group.

Key mitigating actions
- R&D investment and organic product development, or acquisition of companies with new products, to maintain differentiation from the competition both in terms of the features and quality of our products and the services we provide.
- Global procurement team securing lower prices and efficiencies despite difficult market.
- Rotork has production or sales and service operations in many low-cost countries.

Risk appetite statement
We will invest in R&D in order to retain a differentiated product portfolio and will support this by providing a leading service element to our offering. We will invest in new products and technologies where there is evidence of market opportunity. We will in the long term move to increase the addressable markets which we serve.

Focus for 2023
As outlined in our Growth+ strategy, we will:
- Continue our investment in innovative products and services.
- Focus on global key account management.
- Continue to deliver benefits from various key programmes such as lead time reduction, global transportation and global shortages.
- Work with our supply chain partners to build strategic partnerships.
- Review how we deliver to customers including moving forward with our digital strategy.

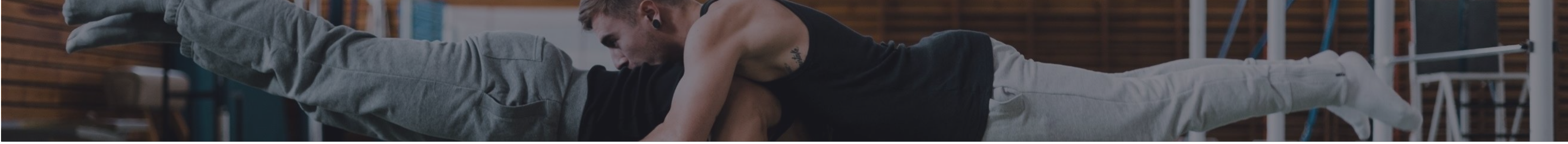


Figure 9.2 Severn Trent – Details of risks and scenarios tested, including the stress tests applied (2023 ARA, pp81-83)

The risks and scenarios tested are described below:

Risk assessed	Severe but plausible scenario	Stress test applied
Due to the nature of our operations we could endanger the health and safety of our people, contractors and members of the public.	Serious injury, ill health or death of employees, contractors or members of the public as a result of what we do.	An extreme one-off event.
We do not provide a safe and secure supply of drinking water to our customers.	Catastrophic breach of a large raised reservoir (>25,000 cubic metres). Service failure leads to increased operating expenditure or failure to meet performance commitment targets.	An extreme one-off event. Totex underperformance in each year of the forecast. ODI penalty in a single year.
We do not transport and treat waste water effectively, impacting our ability to return clean water to the environment.	An extreme breach in a sludge lagoon at a large sewage treatment works. Service failure leads to increased operating expenditure or failure to meet performance commitment targets.	An extreme one-off event. Totex underperformance in each year of the forecast. ODI penalty in a single year.
We do not meet the needs of our customers or anticipate changing societal expectations with the level of customer service we provide.	Our performance is well below customers' expectations across a range of measures.	ODI penalty in a single year.
Key suppliers cannot meet contractual obligations causing disruption to capital delivery and/or critical operational services.	Significant increase in capital programme costs. Service failure leads to increased operating expenditure or failure to meet performance commitment targets.	Totex underperformance in each year of the forecast. ODI penalty in a single year.
Our critical technology capabilities are not maintained due to cyber threats or system failures, impacting the services we deliver through our key infrastructure assets or core systems.	A cyber attack results in a critical loss of personal data leading to regulatory action.	An extreme one-off event.
Changing societal expectations, resulting in stricter legal and environmental obligations, commitments and/or enforcements, increase the risk of non-compliance.	A breach of law or regulations results in a significant one-off penalty.	A financial penalty.
We fail to fund our defined benefit pension obligations sustainably.	Increasing pension deficit leading to higher deficit reduction contributions.	Increased pension contributions.

We also applied stress tests relating to economic factors: higher and lower inflation (including deflation); and higher interest rates, and a combined scenario taking into consideration totex underperformance, ODI penalties and a financial penalty.

The amounts of the stress tests applied were:

Stress test applied	Amount modelled
An extreme one-off event	A one-off impact of £250 million at the point in the forecast with the lowest headroom.
Totex underperformance	An increase in totex of £250 million in each year of the forecast.
ODI penalty	A penalty of £275 million in a single year.
Financial penalty	A penalty of £160 million in a single year (c.6% of turnover).
Increased pension contributions	Contributions increase by £34 million per annum.
Combined scenario	An increase in totex of £250 million in each year, an ODI penalty of 1.5% in one year, and a financial penalty of £250 million in one year.
Higher inflation for three years	10% spike in CPIH followed by two years at 5%.
Lower inflation in each year	Decrease of 2% in CPIH.
Deflation for two years	CPIH of -1%.
Higher interest rates	New debt financed at 2% above the iBoxx index.

We assessed the impacts of the scenarios on our financial metrics, credit metrics and debt covenants. Where the result of the stress test indicated more than a limited impact, a risk of a downgrade of credit rating or a breach of a bank covenant, we considered what mitigating actions would be available and whether they would be sufficient to mitigate the potential impact of the stress test.

The table below sets out the potential impacts of the stress tests and the mitigating actions that would be available to address the impacts.

Stress test applied	Potential impacts on viability without mitigating action	Mitigation available
An extreme one-off event	Increased gearing and deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings although still at investment grade.	Engage with ratings agencies to discuss the short-term nature of the impacts. Manage liquidity by temporarily reducing working capital. Close out derivative financial instruments in asset positions to generate cash. Consider new sources of funding, including hybrid debt. Reprofile capital programme to ease short-term pressure on ratings. Consider reducing dividend in the year or downgrading the dividend policy.
Totex underperformance	Earnings in the year are lower than the dividend indicated by our policy. Increased gearing and deterioration in credit metrics that, without mitigating action might lead to a downgrade in ratings although still at investment grade. Headroom against debt covenants significantly reduced.	Cost reduction programme focused on reducing discretionary expenditure to support profitability. Manage liquidity by temporarily reducing working capital. Close out derivative financial instruments in asset positions to generate cash. Consider new sources of funding, including hybrid debt. Consider reducing dividend in the year or downgrading the dividend policy.
ODI penalty	The penalty would flow through revenue two years after the performance commitment was breached. Earnings in the year are lower than the dividend indicated by our policy. Increased gearing and deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings although still at investment grade.	Accelerate recognition of accumulated ODI rewards not yet taken. Engage with ratings agencies to discuss the short-term nature of the impacts. Manage liquidity by temporarily reducing working capital. Consider reducing dividend in the year.
Financial penalty	Lower profits lead to dividend cover less than one. Deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings although still at investment grade.	Engage with ratings agencies to discuss the short-term nature of the impacts. Manage liquidity by temporarily reducing working capital. Consider reducing dividend in the year.
Increased pension contributions	Deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings although still at investment grade.	Manage liquidity by temporarily reducing working capital. Close out derivative financial instruments in asset positions to generate cash. Consider new sources of funding, including hybrid debt.
Combined scenario	Significant reduction in profitability and cash flow. Earnings in the year are lower than the dividend indicated by our policy. Significant increase in gearing leading to risk of downgrade below investment grade in credit rating and breach of covenants.	Engage with ratings agencies and banks to discuss the impacts on ratings and covenants. Manage liquidity by temporarily reducing working capital. Close out derivative financial instruments in asset positions to generate cash. Cost reduction programme focused on reducing discretionary expenditure to support profitability. Reprofile capital programme. Consider downgrading the dividend policy.
Higher inflation in one year	Short term adverse impact to profit, dividend cover and cash. However, in the longer-term higher inflation increases revenue and RCV leading to higher profits and lower gearing.	Engage with ratings agencies to discuss the short-term nature of the impacts. Manage liquidity by temporarily reducing working capital. Close out derivative financial instruments in asset positions to generate cash.
Lower inflation in one year	Pressure on PBIT and cash in the year following the low inflation year (that may sustain in future years). Increased gearing and deterioration in credit metrics that, without mitigating action might lead to a downgrade in ratings although still at investment grade. Pressure on gearing covenants.	Engage with ratings agencies to discuss the short-term nature of the impacts. Cost reduction programme focused on reducing discretionary expenditure to support profitability. Our dividend policy is index-linked and therefore low inflation would reduce the dividend payable. We would also consider downgrading the dividend policy if necessary.
Deflation for two years	Pressure on PBIT and cash in the year following the low inflation year (that may sustain in future years). Increased gearing and deterioration in credit metrics that, without mitigating action might lead to a downgrade in ratings although still at investment grade. Pressure on gearing covenants.	Engage with ratings agencies to discuss the short-term nature of the impacts. Consider new sources of funding, including hybrid debt. Cost reduction programme. Consider reducing dividend in the year or downgrading the dividend policy.
Higher interest rates	Reduction in profitability. Deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings although still at investment grade.	Engage with ratings agencies to discuss the impacts and the regulatory true-up mechanism that would mitigate the impacts in the longer term. Cost reduction programme focused on reducing discretionary expenditure to support profitability. Manage liquidity by temporarily reducing working capital. Consider reducing dividend in the year or downgrading the dividend policy.

The mitigating actions available are described in more detail below:

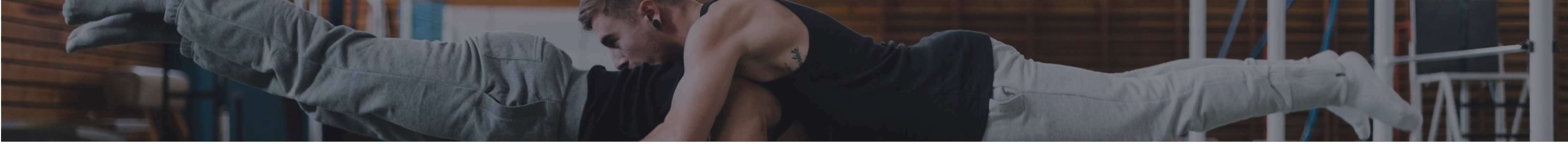


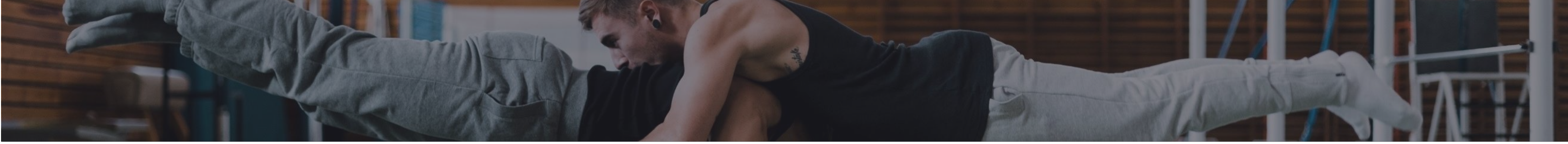
Figure 9.3 Abrdn – Details of the reverse stress test (2022 ARA, p63)

Reverse stress testing involves exploring the quantitative and/or qualitative impacts of extreme scenarios which could threaten the viability of our business model. For this year's exercise, we investigated possible economic conditions that could lead to non-viability. This involved exploring more extreme versions of the scenarios developed under the stress testing and scenario analysis programme, focusing on increasing the size of the equity market shock in Q1 2023.

The reverse stress testing exercise highlighted how the Group's risk appetite monitoring processes, including defined escalation processes, support the early identification of possible issues and provide time for actions to be taken before these issues crystallise.

The exercise found that equity market falls required to threaten viability were viewed as being very remote. This, and the Group's range of mitigants in place to respond to the scenario, supports the assessment of viability and no qualification is considered necessary.

Over recent years the Group has also explored reverse stress tests including the failure of a critical third party administrator in the Investments vector, the loss of critical staff and a significant cyber attack. The work performed concluded that these events had a low likelihood of occurrence and were not



10. Risk management and internal control

- How is the effective management of risks and monitoring of the risk profile of the business embedded across different levels in the organisation? What are the key steps within the risk management cycle/process?
- How does the board monitor the systems of risk management and internal controls on a regular basis during the year? Is the description of the process for their annual effectiveness review comprehensive?
- What are the outcomes of this review? Has the board identified weaknesses or inefficiencies and are the resulting actions clear?
- Has the company explained its definition of emerging risks and stated the procedures in place to identify them and how these differ from those relating to principal risks?

Risk management reporting

Disclosing a risk management framework is a common means of explaining how risks are managed. Additionally, some companies like **Weir** (Figure 10.1) provide an overview of the process itself, commonly including steps like risk identification, assessment, monitoring and response.

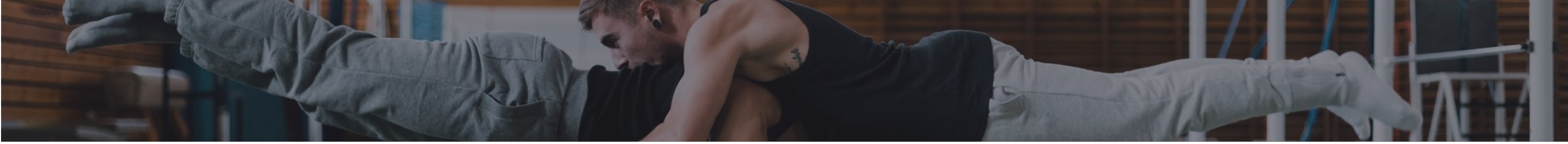
When the 2018 Code introduced the requirement for boards to extend their assessment of risks to also cover emerging risks and to set out procedures in place to identify them and explain how they are managed or mitigated, many companies tended to add on 'and emerging' to existing disclosures on their approach to principal risks. Reporting has since evolved, but only around 27% of companies include a robust narrative about emerging risk identification. Companies like **Balfour Beatty** (2022 ARA, p88) or **National Grid** (2023 ARA, p19) provide more detail on the process, including how they define emerging risks, the timeframe over which they may become significant and specific aspects of the process relating to their identification, like utilising future scenarios and horizon scanning.

Monitoring and reviewing risk management and internal controls systems

In its November 2022 Review of Corporate Governance Reporting, the FRC provided a reminder of reporting expectations on monitoring and reviewing the effectiveness of the risk management and internal control systems, emphasising that "Good reporting should include details on how the board monitors these systems on a regular basis, in addition to a formal annual review. The annual report should describe any actions that companies have taken during the year to improve or strengthen the risk management and internal controls systems, even when the annual review of these has found no weaknesses or inefficiencies."

The issue of enhancing risk management and internal control systems has been much debated in the UK over the last four years as a result of corporate collapses and the various ensuing government-initiated inquiries and reviews. In May 2022, the government decided that a more incremental approach to strengthening these would be appropriate and invited the FRC to revise the Code to do so.

The FRC's proposals retain the existing requirements but expand them to include a declaration of whether the board can reasonably conclude that the company's risk management and internal control systems (covering operational, compliance and reporting controls) have been effective throughout the reporting period and up to the date of the ARA. It will also need to set out the basis for that declaration, thereby implying



the need for both greater transparency on what the board did to reach its conclusion and supporting evidence for what is being reported. Boards will need to describe in the ARA any material weaknesses identified and the remedial action being taken, and over what timeframe.

This will be a significant reporting step up for many companies which today confirm that monitoring takes place and that an annual review has been carried out, but, unlike **Rentokil** (Figure 10.2)l provide little to no detail about these activities or their outcomes.

Forward look

DTR 7.2.5 already requires companies to describe the main features of their internal control and risk management systems in relation to the financial reporting process, although these are seldom robust disclosures. We expect that FRC's proposals will influence risk management and internal controls reporting ahead of the revised Code becoming effective, with granularity of disclosures increasing across all aspects of risk management and internal controls.

Some companies, like **Rolls Royce** (2022 ARA, p43-47) already set out the key entity level controls over specific risks. Such disclosures are likely to aid with making the declaration and may provide a link to assurance considerations. We expect more companies may start providing such information.

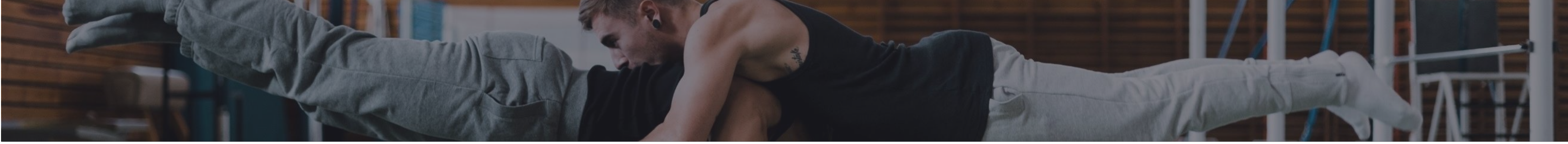
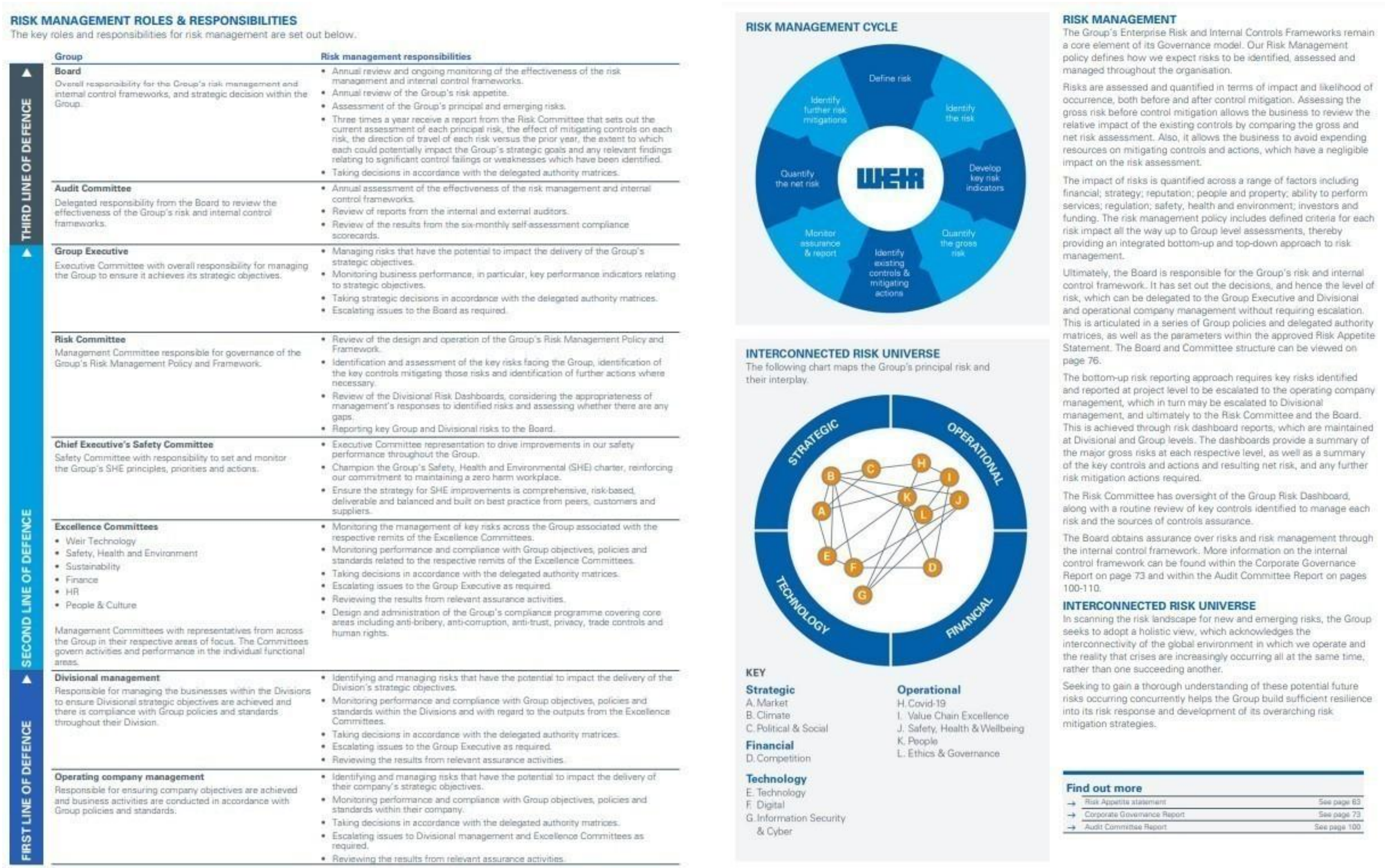


Figure 10.1 Weir – Key roles and responsibilities for risk management mapped against a three lines of defence model, along with a disclosure of the risk management cycle (2022 ARA, pp62, 64)



RISK MANAGEMENT ROLES & RESPONSIBILITIES

The key roles and responsibilities for risk management are set out below.

Line of defence	Group	Risk management responsibilities
THIRD LINE OF DEFENCE	**Board** Overall responsibility for the Group's risk management and internal control frameworks, and strategic decision within the Group.	• Annual review and ongoing monitoring of the effectiveness of the risk management and internal control frameworks. • Annual review of the Group's risk appetite. • Assessment of the Group's principal and emerging risks. • Three times a year receive a report from the Risk Committee that sets out the current assessment of each principal risk, the effect of mitigating controls on each risk, the direction of travel of each risk versus the prior year, the extent to which each could potentially impact the Group's strategic goals and any relevant findings relating to significant control failings or weaknesses which have been identified. • Taking decisions in accordance with the delegated authority matrices.
THIRD LINE OF DEFENCE	**Audit Committee** Delegated responsibility from the Board to review the effectiveness of the Group's risk and internal control frameworks.	• Annual assessment of the effectiveness of the risk management and internal control frameworks. • Review of reports from the internal and external auditors. • Review of the results from the six-monthly self-assessment compliance scorecards.
SECOND LINE OF DEFENCE	**Group Executive** Executive Committee with overall responsibility for managing the Group to ensure it achieves its strategic objectives.	• Managing risks that have the potential to impact the delivery of the Group's strategic objectives. • Monitoring business performance, in particular, key performance indicators relating to strategic objectives. • Taking strategic decisions in accordance with the delegated authority matrices. • Escalating issues to the Board as required.
SECOND LINE OF DEFENCE	**Risk Committee** Management Committee responsible for governance of the Group's Risk Management Policy and Framework.	• Review of the design and operation of the Group's Risk Management Policy and Framework. • Identification and assessment of the key risks facing the Group, identification of the key controls mitigating those risks and identification of further actions where necessary. • Review of the Divisional Risk Dashboards, considering the appropriateness of management's responses to identified risks and assessing whether there are any gaps. • Reporting key Group and Divisional risks to the Board.
SECOND LINE OF DEFENCE	**Chief Executive's Safety Committee** Safety Committee with responsibility to set and monitor the Group's SHE principles, priorities and actions.	• Executive Committee representation to drive improvements in our safety performance throughout the Group. • Champion the Group's Safety, Health and Environmental (SHE) charter, reinforcing our commitment to maintaining a zero harm workplace. • Ensure the strategy for SHE improvements is comprehensive, risk-based, deliverable and balanced and built on best practice from peers, customers and suppliers.
SECOND LINE OF DEFENCE	**Excellence Committees** • Weir Technology • Safety, Health and Environment • Sustainability • Finance • HR • People & Culture Management Committees with representatives from across the Group in their respective areas of focus. The Committees govern activities and performance in the individual functional areas.	• Monitoring the management of key risks across the Group associated with the respective remits of the Excellence Committees. • Monitoring performance and compliance with Group objectives, policies and standards related to the respective remits of the Excellence Committees. • Taking decisions in accordance with the delegated authority matrices. • Escalating issues to the Group Executive as required. • Reviewing the results from relevant assurance activities. • Design and administration of the Group's compliance programme covering core areas including anti-bribery, anti-corruption, anti-trust, privacy, trade controls and human rights.
FIRST LINE OF DEFENCE	**Divisional management** Responsible for managing the businesses within the Divisions to ensure Divisional strategic objectives are achieved and there is compliance with Group policies and standards throughout their Division.	• Identifying and managing risks that have the potential to impact the delivery of the Division's strategic objectives. • Monitoring performance and compliance with Group objectives, policies and standards within the Divisions and with regard to the outputs from the Excellence Committees. • Taking decisions in accordance with the delegated authority matrices. • Escalating issues to the Group Executive as required. • Reviewing the results from relevant assurance activities.
FIRST LINE OF DEFENCE	**Operating company management** Responsible for ensuring company objectives are achieved and business activities are conducted in accordance with Group policies and standards.	• Identifying and managing risks that have the potential to impact the delivery of their company's strategic objectives. • Monitoring performance and compliance with Group objectives, policies and standards within their company. • Taking decisions in accordance with the delegated authority matrices. • Escalating issues to Divisional management and Excellence Committees as required. • Reviewing the results from relevant assurance activities.

RISK MANAGEMENT CYCLE

INTERCONNECTED RISK UNIVERSE

The following chart maps the Group's principal risk and their interplay.

KEY

Strategic
A. Market
B. Climate
C. Political & Social

Financial
D. Competition

Technology
E. Technology
F. Digital
G. Information Security & Cyber

Operational
H. Covid-19
I. Value Chain Excellence
J. Safety, Health & Wellbeing
K. People
L. Ethics & Governance

RISK MANAGEMENT

The Group's Enterprise Risk and Internal Controls Frameworks remain a core element of its Governance model. Our Risk Management policy defines how we expect risks to be identified, assessed and managed throughout the organisation.

Risks are assessed and quantified in terms of impact and likelihood of occurrence, both before and after control mitigation. Assessing the gross risk before control mitigation allows the business to review the relative impact of the existing controls by comparing the gross and net risk assessment. Also, it allows the business to avoid expending resources on mitigating controls and actions, which have a negligible impact on the risk assessment.

The impact of risks is quantified across a range of factors including financial; strategy; reputation; people and property; ability to perform services; regulation; safety, health and environment; investors and funding. The risk management policy includes defined criteria for each risk impact all the way up to Group level assessments, thereby providing an integrated bottom-up and top-down approach to risk management.

Ultimately, the Board is responsible for the Group's risk and internal control framework. It has set out the decisions, and hence the level of risk, which can be delegated to the Group Executive and Divisional and operational company management without requiring escalation. This is articulated in a series of Group policies and delegated authority matrices, as well as the parameters within the approved Risk Appetite Statement. The Board and Committee structure can be viewed on page 76.

The bottom-up risk reporting approach requires key risks identified and reported at project level to be escalated to the operating company management, which in turn may be escalated to Divisional management, and ultimately to the Risk Committee and the Board. This is achieved through risk dashboard reports, which are maintained at Divisional and Group levels. The dashboards provide a summary of the major gross risks at each respective level, as well as a summary of the key controls and actions and resulting net risk, and any further risk mitigation actions required.

The Risk Committee has oversight of the Group Risk Dashboard, along with a routine review of key controls identified to manage each risk and the sources of controls assurance.

The Board obtains assurance over risks and risk management through the internal control framework. More information on the internal control framework can be found within the Corporate Governance Report on page 73 and within the Audit Committee Report on pages 100-110.

INTERCONNECTED RISK UNIVERSE

In scanning the risk landscape for new and emerging risks, the Group seeks to adopt a holistic view, which acknowledges the interconnectivity of the global environment in which we operate and the reality that crises are increasingly occurring all at the same time, rather than one succeeding another.

Seeking to gain a thorough understanding of these potential future risks occurring concurrently helps the Group build sufficient resilience into its risk response and development of its overarching risk mitigation strategies.

Find out more

→ Risk Appetite statement See page 63
→ Corporate Governance Report See page 73
→ Audit Committee Report See page 100

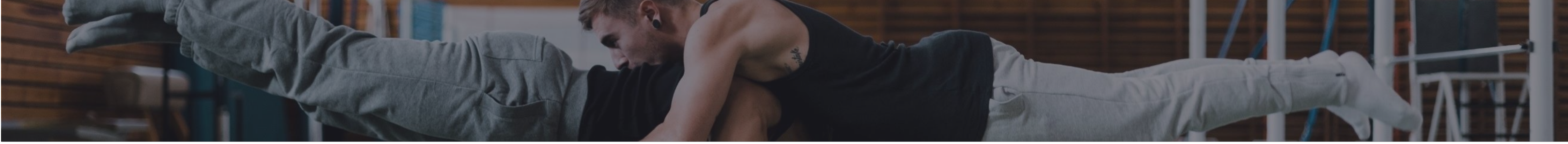


Figure 10.2 Rentokil – Risk management and internal control narrative, with reference to controls beyond financial reporting and transparency on issues identified (2022 ARA, pp94, 101-102)

Risk management and internal control

The Group's approach to managing risk and ensuring that an effective internal control environment is maintained is set out in the Risks and Uncertainties section on page 63. The Board's statement on risk management and internal control is set out in the Corporate Governance Report on page 94. Independent reassurance of the effectiveness of risk management and internal controls across the Group is provided to the Chief Executive and the Board by Group Internal Audit.

The identification and management of risk is fully integrated into the development of the Group's strategy and the day-to-day operational execution of the strategy by the regions and business units. Ensuring that risks are identified and managed effectively is a part of every manager's and supervisor's job through leadership of the teams for which they are responsible.

The Board has overall responsibility for the Group's risk management approach. This includes:

- review and approval of the Group's overall strategy, which includes reviewing the risks that may prevent the Group from achieving its objectives and ensuring that these risks are mitigated or managed to an acceptable level;
- regular reviews of business performance including updates of the risks that the business is facing, and challenging management to obtain assurance that these risks are being effectively managed;
- review of management's approach to identifying and managing risk, including approval of the Group Risk Register and recommending enhancements;
- evaluation of the effectiveness of internal controls, including financial, operational and compliance controls; evaluation of the effectiveness of internal and external audits;
- delegation of authority to the Chief Executive and Chief Financial Officer to make commitments on behalf of the Company; and
- the evaluation of the effectiveness of our internal controls identified material weaknesses relating to IT general controls and aspects of management's overall system of financial controls (lack of sufficient technical accounting knowledge, segregation of duties, management review controls.) The Board has reviewed the remediation plans that form part of management's SOX implementation programme and are satisfied they will address the potential weaknesses identified.

Some of the above responsibilities are delegated to the Audit Committee as previously described. The Audit Committee receives regular reports from the Chief Financial Officer and the Director of Internal Audit & Risk on financial controls and process improvement programmes. These include:

- an annual report on the overall status of the control environment in the Group, including the results of testing and reports on identified areas of weakness in controls;
- action plans on control environment improvements and updates on their implementation;
- updates on control weaknesses and planned actions to prevent a reoccurrence; and
- periodic reports from regional and Group Finance executives, and Internal Audit.

During 2022, the Audit Committee was updated on the risk and control environment in the main businesses, as well as the Regional Finance Directors' assessment of the quality and priorities of the Finance function in the relevant part of the business. Audit Committee members received reports from the Regional Finance Directors for the UK & Sub-Saharan Africa region and the Asia region, respectively during the year. Other regional updates were provided as part of the Board agenda. This provides a high-level insight for the Audit Committee on potential risks. It further supports the discussions that take place in the Nomination Committee on talent and succession in the Finance function.

The Committee continues to evaluate cyber incidents and risk throughout the year and, although there is no indication we are specific targets, we remain vigilant given both the number and seriousness of cyber attacks in the year, with repeated distributed denial-of-service (DDoS) attacks and attempted ransomware incidents. Our cyber technology and resilience have continued to allow us to detect and avert complex and volatile threats before they were able to have any material impact on our operations. This is an area we will continue to develop and monitor as we integrate and synchronise with our IT capabilities in our combined North America business.

The number of control issues across the Group remains relatively low, with those that do occur not resulting in a material impact on Group performance. Nonetheless, some significant control issues were experienced including:

- site risk assessments not routinely being in place for some new commercial customers in our North America business. A regionwide compliance and education programme was implemented to redress this risk; and
- a cyber attack on a non-integrated acquisition in our North America business, our CAWE business in France and our business in Guatemala. The cyber attacks were identified through the security operations centre, with swift remedial work to end the attack, then to investigate the root cause and circumstances, driving threat landscape change in the organisation.

There is a Group Risk Committee composed of key functional and operational senior managers which considers the risk framework, and key and emerging risks. This Committee sits within our governance framework as set out on page 80. Copies of the minutes of the Group Risk Committee are provided to the Audit Committee. Where appropriate, items that are raised as significant or emerging issues by the Group Risk Committee are reflected in adjustments to the control environment.

Internal audit

As a result of the Terminix acquisition, the Internal Audit function has increased in size to a team of 12 (six based in North America) led by the Director of Internal Audit & Risk. The Director of Internal Audit & Risk reports to the Chief Financial Officer and has direct lines of communication with the Chair of the Audit Committee, the Chief Executive and the Chairman of the Board, as well as to all operational and functional leaders in the business.

In 2022, Internal Audit continued to conduct in-depth reviews of a broad range of business processes at business locations across all regions. These included:

- key financial controls;
- entertainment and travel expenses;
- authority schedules;
- payroll;
- IT general controls and IT corporate-level controls including Payment Card Industry Data Security Standard (PCI-DSS) compliance;
- customer contract management;
- stock and warehousing;
- procurement;
- operational effectiveness including compliance with Group technical standards;
- business continuity management; and
- compliance with the Code of Conduct and anti-corruption policy.

The 2022 Internal Audit Plan was approved by the Audit Committee in December 2021. As travel restrictions eased, more audits were conducted on site or in a hybrid manner during 2022, with remote auditing proving to be an effective way to operate some audit work. The common themes arising from the internal audit work during 2022 were presented to the Audit Committee in December 2022, together with recommendations to senior management to improve the controls across some processes.

The 2022 Internal Audit Plan has been designed to address the areas that emerged in 2021, and to improve the process in several ways. The audit scope has been tailored to address risks at a country level, and district level for North America, with flexibility in the processes covered. The IT audit work plan continues to be an important area of focus for Internal Audit and, with input from the Chief Information Officer, specific areas of IT risk are included in the plan for 2022.

None of the failures identified in the control environment by Internal Audit or any of the recommendations relating to individual audits represented a systemic underlying issue. The overall work of the Internal Audit function is supportive of the Audit Committee's and the Board's view that the financial and operational controls environment, set out on pages 101 and 102, is working adequately. The Board's statement on the effectiveness of risk management and internal control can be found on page 94.

The effectiveness of the Internal Audit function was considered by the Audit Committee during its review and approval of the 2023 Audit Plan by means of a review of the resources available, qualifications of the enlarged team and the plans to combine the Rentokil Initial and Terminix Internal Audit colleagues. In addition, at its meeting in November 2022, the Audit Committee received an update on the progress of the action plan to address recommendations from the independent external quality assessment (EQA) which was undertaken by Deloitte in 2021 in order to review the effectiveness of the Internal Audit function. It was reported that the majority of the actions had already been completed.

Board review of risk management and internal control

The Board has overall responsibility for maintaining systems of risk management and internal control that are fully effective and enable compliance with the UK Corporate Governance Code. The Board delegates responsibility for risk management to the Audit Committee where appropriate. You can find further details on the Board's responsibility for the risk management approach in the Audit Committee Report on page 101.

The Group has an accounting manual and a set of key financial controls that define the requirements for internal controls around financial reporting. These documents are regularly reviewed to ensure they are current. Key financial controls are self-assessed by all reporting units twice annually and tested by the Internal Audit function in line with the audit plan. Any identified issues are captured with resolutions and tracked to completion with reported results subject to management review and oversight. As part of the risk management process, the Group maintains a central risk register, updated twice annually, which includes categories to allow for identification of risks relating to the financial reporting process. Any such risks and their mitigating actions are reviewed as part of the regular management review process.

We consider risks in the context of long-term strategic and emerging threats, and shorter-term risks to the completion of the annual operating plan. The Board has assessed the viability of the Group over a period of three years, the potential impact of the principal risks, and stress-tested financial forecasts for severe but plausible scenarios.

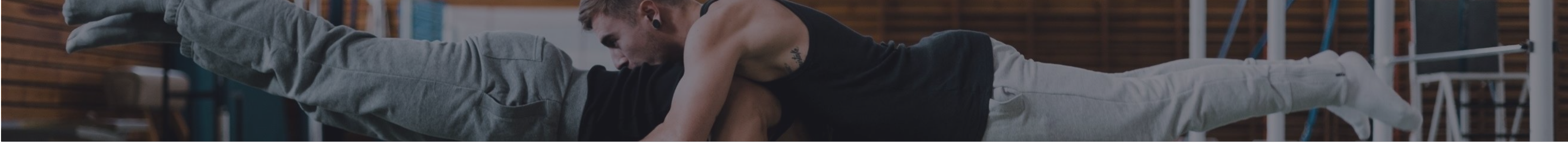
Consideration was also given to the anticipated effectiveness of mitigating actions. The Board has carried out an assessment of the emerging and principal risks facing the Group, including those that would affect its business model and future performance.

You can find the principal risks identified in the Risks and Uncertainties section on pages 63 to 69, along with the Company's viability statement on page 70. Details of the Board's focus on risk and control topics during 2022 are provided on page 83.

The framework of risk management and internal control described here and in the Risks and Uncertainties section on pages 63 to 69 is designed to manage and mitigate risk, rather than eliminate the risk of failure to achieve business objectives. In pursuing business objectives, internal controls and risk management can provide only reasonable, and not absolute, assurance against material misstatement or loss.

We review the effectiveness of this framework through regular and transparent management reporting, the governance processes and external and internal assurance processes, and in the Audit Committee and Board's annual review of strategy and operational risks. The Board has conducted a review of the effectiveness of the system of internal control for the year ended 31 December 2022 and confirms that:

- the Group has an ongoing process for identifying, evaluating and managing the significant risks faced by the Group;
- this process has been in place for the year under review and up to the date of approval of the Annual Report and Financial Statements;
- the Board reviews the process regularly; and
- the process operates in accordance with the UK Corporate Governance Code and the FRC Risk Management and Internal Control Guidance.



11. Governance

- What did the board and its committees actually do in the year to govern the company – what specific governance issues arose and how were they addressed?
- What, if any, changes were made to governance arrangements during the year and why?
- What areas for improvement were identified from the board and committee evaluations and what progress was made against actions from the previous evaluations?
- How is board and committee composition and succession planning being managed, giving due regard to the evolving strategy of the company, skills, experience, diversity, time commitment and tenure?
- Has the fair, balanced and understandable (FBU) assessment adequately considered environmental and social aspects of the front half narrative?

The 'governance section'

While not dictated by law or regulation, it is standard practice for a set of UK plc accounts to have a separate governance section which more often than not, is part of the Directors' Report under law. This section typically has a very different feel to the Strategic Report: it is much more text heavy; often has a different tone; and is dominated by a passive voice.

This year there were quite a few ARAs, where the Strategic Report was in landscape format, whilst the governance section in portrait, creating an even greater divide between the two.

Over recent years an increasing number of companies have started to disclose graphically the time allocated by the board on different activities (e.g., **Hikma** 2022 ARA, pp84-85); a skills matrix (e.g., **Henry Boot** 2022 ARA, p108); and the process followed to appoint directors (notably CEOs) in a fairly extensive way, (e.g., **RS Group** 2022 ARA, p101).

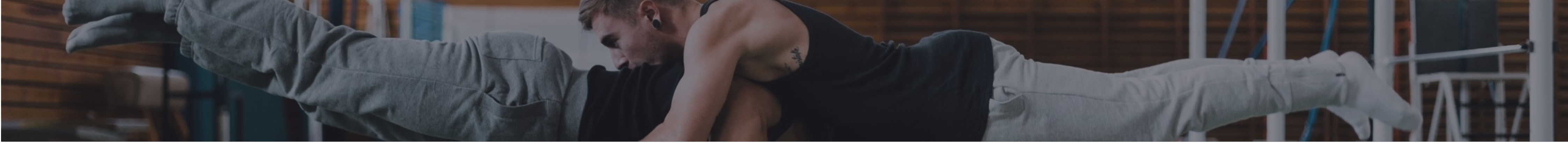
During the COVID-19 pandemic, companies presented very detailed timelines of their meetings and topics covered. As boards moved to a 'business as usual' cadence, the level of detail has rightly reduced.

One aspect that has remained largely unchanged, despite the increasing volume of environmental and social (E&S) content within the Strategic Report, is the description of the process supporting the board's assessment of whether the ARA is fair, balanced and understandable (FBU). This continues to focus on the financial statements and the consistency of the front half narrative with the financials.

Given the active and continual debate around determining what non-financial information is material for inclusion in the ARA this is a missed opportunity to explain disclosure choices, for example to omit certain TCFD recommended disclosures. We would go a step further and suggest that all of the board committees should comment on the FBU considerations relating to disclosures in their areas of remit.

Comply or explain

The FRC has continually emphasised the 'comply or explain' nature of the Code and proposes to include it as a Principle in the body of the draft revised Code rather than just in its preface. A common approach is for the Code compliance statement and explanations of non-compliance to be provided at the outset of the governance section, with **Admiral** (Figure 11.1) being an exception, weaving this throughout the governance section, therefore increasing the connectivity



of this disclosure with the rest of the governance narrative.

A research paper[5] commissioned by the FRC on the influence of proxy advisers and ESG ratings agencies notes that all interviewed proxy advisors stated that the Code is one of the main sources for their respective UK benchmark policies (para 52). At the same time however, proxy advisors were perceived as taking a 'box-ticking' approach which failed to take into account individual companies' specific circumstances which is inconsistent with the 'comply or explain' approach (para 28).

This is concerning especially as the Code is becoming increasingly prescriptive with some of its Provisions and it is likely that more companies will provide explanations for non-compliance in the future.

In order to meet the spirit of the Code, such explanations should clarify whether a departure is temporary (i.e., it is the directors' intention to comply with the Provision in the near term) or whether the departure is more permanent in nature. In the latter case, the explanation should explicitly set out why the alternative governance mechanism(s) that has been adopted is more appropriate in the specific context of the company.

The board's agenda

In September 2021 our *Soaring to new heights* series of reports focussed on what could be gleaned about board governance practices from narrative reporting. Although a lot has happened in the two years since, the themes we discussed in the publications remain relevant, even if some root causes may have changed (e.g., from the COVID-19 pandemic to a cost-of-living crisis) or the emphasis on certain aspects has shifted.

For example, issues related to the workforce haven't reduced in significance since the pandemic but have taken a different slant (see Chapter 7), underlining even further the importance of embedding the right culture across the organisation and board-level workforce engagement.

The rapid acceleration in the use of artificial intelligence (AI) is creating another burning platform for employee and broader stakeholder engagement. Getting a handle over its use will be fundamental for boards in the next few years. The Institute of Directors business paper "AI in the Boardroom"[6] advises that impact assessments must be undertaken for all stakeholder groups including customers, suppliers, partners and shareholders. It advocates for an ethics committee which includes employee representatives to oversee AI proposals, including an evaluation of the transparency of the AI's decision-making process.

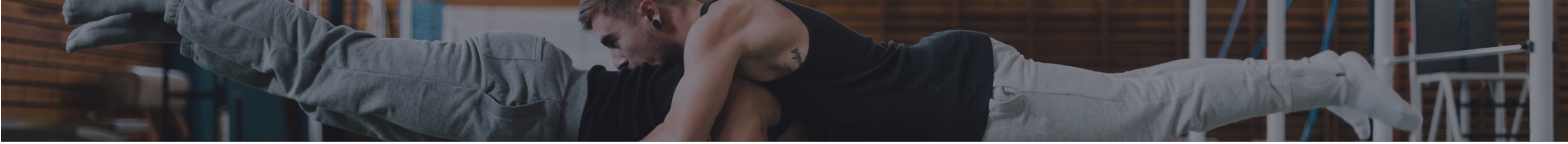
Environmental and social matters remain a societal priority, but boards face an increasingly complex dynamic in light of shifting investor sentiment on these matters in the USA (see Appendix A ESG and sustainability) and the slow development of UK government climate-related policies according to the June 2023 report from the Climate Change Committee.

The one new theme that has clearly emerged relates to geopolitical volatility and tensions – with many boards dealing with resulting supply chain security issues, greater cyber threats from state-sponsored bad actors and increasingly restrictive regulatory environments in key markets.

In a June 2023 survey organised by the Global Risks Initiative within the World Economic Forum's Centre for the New Economy and Society, of the five areas where they were asked to gauge volatility, on average, chief risk officers expect the highest levels in geopolitical and geoeconomic relations, with a majority expecting upheavals on a global scale.

[5] Analytical report: The influence of proxy advisors and ESG rating agencies on the actions and reporting of FTSE350 companies and investor voting; research conducted by Durham University and Morrow Sodali

[6] March 2023 paper produced by the Institute of Directors Science, Innovation and Technology Expert Advisory Group



Reporting on processes, activities and outcomes

With so much on the board's agenda and therefore clearly plenty to talk about, the FRC's view (as noted in paragraph 18 of its Code consultation) that governance reporting still lacks in disclosing activities and outcomes, might seem counterintuitive.

The narrative in governance section has traditionally been process oriented. Partly this has been driven by the current and predecessor Codes requiring narrative on "how" the board or its committees undertook a certain activity.

In some cases, it does follow that a robust description of the how i.e., the process undertaken by the board, will give the reader confidence in the strength of the governance mechanisms. To a great extent, the proposed directors' declaration on the effectiveness of risk management and internal control systems will likely lead to companies having to provide a more robust narrative about the process of monitoring and review (see Chapter 10) especially given the requirement to disclose the basis of the directors' declaration.

For reporting to be meaningful, it is not enough to describe a process in a passive manner – it needs to be translated into activities undertaken during the year along with their results (e.g., actions taken or decisions made), which we interpret to be 'governance outcomes' referenced in the proposed changes to the Code. Those companies that continue to provide a calendarisation summary could, for instance, expand the disclosure by linking it to principal decisions and stakeholder engagement outcomes.

What is most important however is for the governance reporting to demonstrate the directors' active involvement in material matters across the year, like done by **Johnson Matthey** (Figure 11.2).

One of the topics that the Code consultation seeks to address is the issue of director overboarding – a director sitting on an excessive number of boards potentially leading to insufficient time and attention to adequately discharge of their duties. It proposes that the ARA describes **how** each director has sufficient time to undertake their role effectively in light of commitments to other organisations. It is hard to see how this would not result in a boilerplate disclosure. Setting out the directors' activities and their results is probably a better way for investors to get comfort about the level of attention being given.

Role of the audit committee (AC)

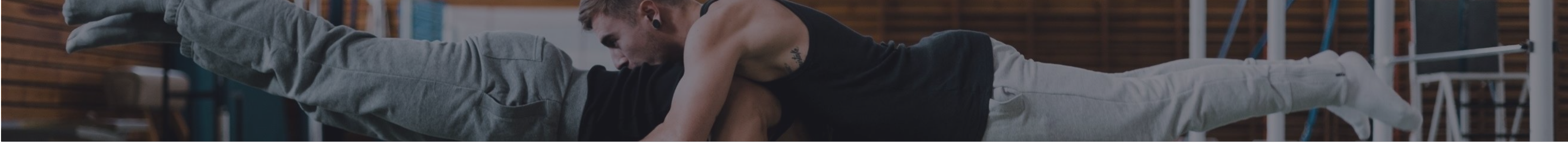
With the ever-expanding remit of the AC, overboarding might become an especially pressing issue for its members.

The vast majority of AC reports in our sample talked about either monitoring or starting to take action in anticipation of secondary legislation to implement the government's reforms on audit and corporate governance and/or changes to RM and IC requirements of the Code. In addition, the draft revised Code allocates responsibility for narrative reporting, including sustainability matters to the AC. This is despite many companies, like **Severn Trent** (Figure 11.3) already having different governance structures over E&S matters fit for their organisations and around a third of companies having a committee with a dedicated role related to E&S matters.

In our view, whilst ACs may be best placed to assess the effectiveness of a company's internal controls over non-financial reporting and monitor the accuracy of non-financial metrics, other committees may be better placed to oversee the accompanying narrative and feed into the overall FBU assessment.

According to the [2022 UK Spencer Stuart Board Index](), FTSE150 ACs already meet 5.4 times on average a year. So, it will be interesting to see to whether these additional responsibilities will result in longer meetings with fuller agendas; or an increased number of meetings.

Already in recognition of the importance and complexity of the AC's role, and the likely increased focus by ACs on overseeing the external auditor, Institutional Shareholder Services' (ISS) December 2022 Proxy Voting Guidelines, stated that for FTSE 350 companies, it will note where four or fewer AC meetings had been held during the reporting period.



Board diversity

The introduction of the Diversity Listing Rule has effectively codified the targets promulgated previously through the Hampton-Alexander/FTSE Women and Parker Reviews. Around 50% of companies within our sample included early disclosure against this LR in their December 2022 ARAs. Although, as noted in our publication from April 2023, these disclosures were seldom fully compliant with the new requirements.

The 'G' in ESG

In the FRC's research report about AC Chairs' views on, and approach to ESG activities and reporting conducted by independent research agency YouGov, many AC chairs agreed that governance is the foundation of good business practice, encompassing company performance, risk, social and environmental activities. Importantly therefore, even though the outcome of the Code consultation is only expected around the end of 2023, boards and company secretaries could take the opportunity now to review their governance mechanisms and related reporting irrespective of the final outcomes of the Code consultation. There could be certain 'no regret' actions on key aspects of the proposals that enhance existing good practice and that are therefore worthwhile taking now. We had highlighted some of these in Part 2 of our *Soaring to new heights* series.

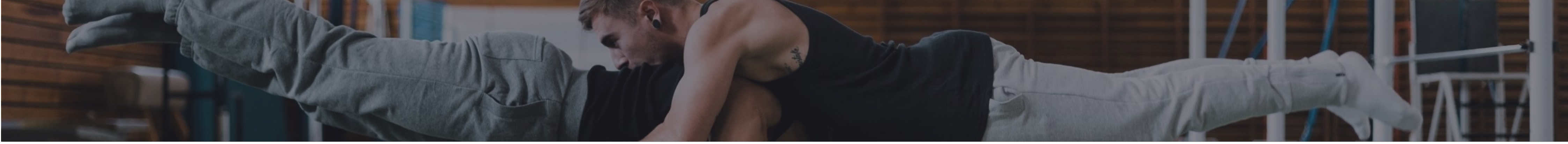
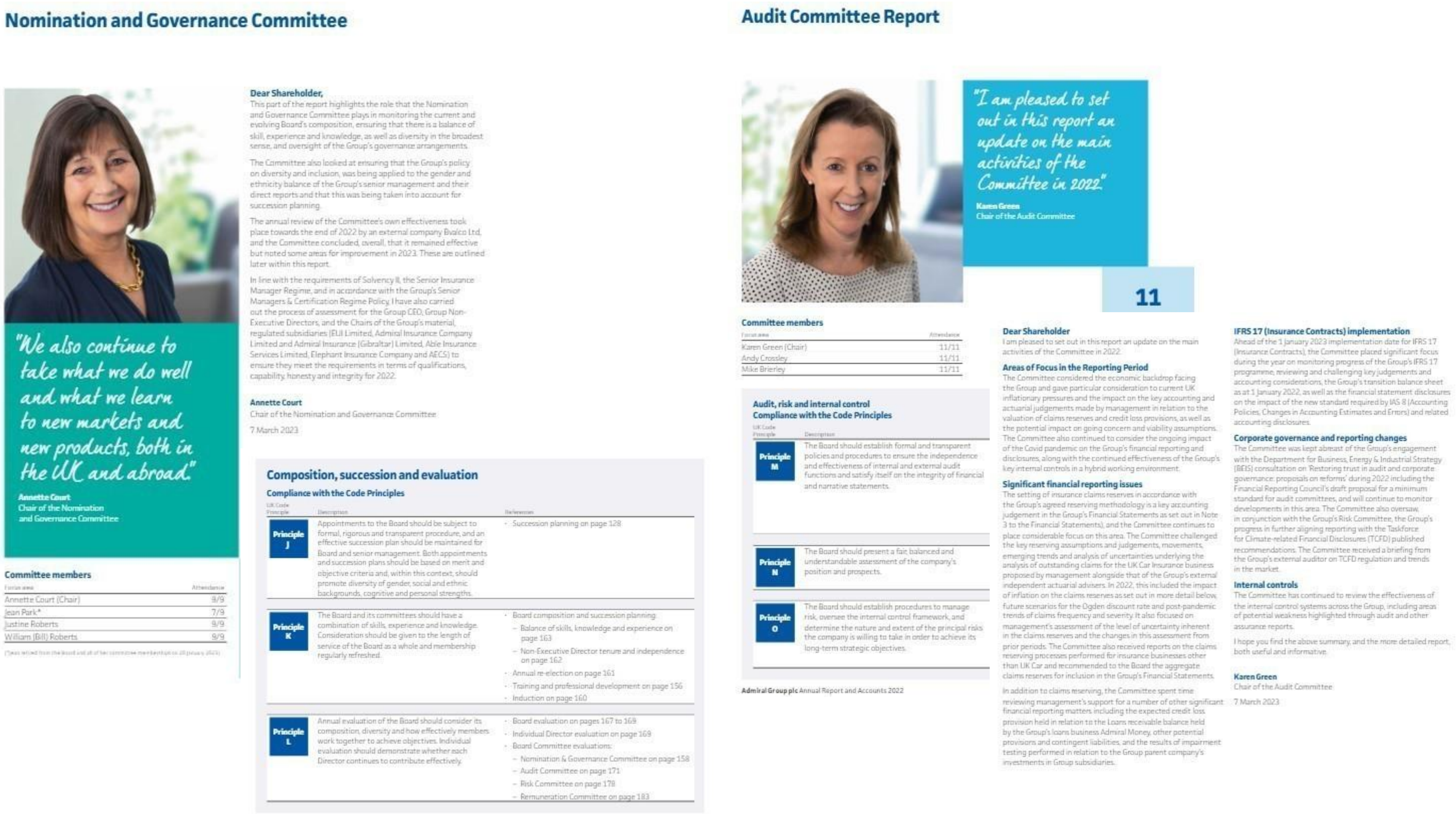


Figure 11.1 Admiral – Compliance against Code Principles integrated across the governance section (2022 ARA, pp157, 171)



Nomination and Governance Committee

"We also continue to take what we do well and what we learn to new markets and new products, both in the UK and abroad."

Annette Court
Chair of the Nomination and Governance Committee

Committee members

Focus area	Attendance
Annette Court (Chair)	9/9
Jean Park*	7/9
Justine Roberts	9/9
William (Bill) Roberts	9/9

Dear Shareholder,

This part of the report highlights the role that the Nomination and Governance Committee plays in monitoring the current and evolving Board's composition, ensuring that there is a balance of skill, experience and knowledge, as well as diversity in the broadest sense, and oversight of the Group's governance arrangements.

The Committee also looked at ensuring that the Group's policy on diversity and inclusion, was being applied to the gender and ethnicity balance of the Group's senior management and their direct reports and that this was being taken into account for succession planning.

The annual review of the Committee's own effectiveness took place towards the end of 2022 by an external company Bvalco Ltd, and the Committee concluded, overall, that it remained effective but noted some areas for improvement in 2023. These are outlined later within this report.

In line with the requirements of Solvency II, the Senior Insurance Manager Regime, and in accordance with the Group's Senior Managers & Certification Regime Policy, I have also carried out the process of assessment for the Group CEO, Group Non-Executive Directors, and the Chairs of the Group's material, regulated subsidiaries (EUI Limited, Admiral Insurance Company Limited and Admiral Insurance (Gibraltar) Limited, Able Insurance Services Limited, Elephant Insurance Company and AECS) to ensure they meet the requirements in terms of qualifications, capability, honesty and integrity for 2022.

Annette Court
Chair of the Nomination and Governance Committee

7 March 2023

Composition, succession and evaluation

Compliance with the Code Principles

UK Code Principle	Description	References
Principle J	Appointments to the Board should be subject to formal, rigorous and transparent procedure, and an effective succession plan should be maintained for Board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.	· Succession planning on page 128
Principle K	The Board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the Board as a whole and membership regularly refreshed.	· Board composition and succession planning: – Balance of skills, knowledge and experience on page 163 – Non-Executive Director tenure and independence on page 162 · Annual re-election on page 161 · Training and professional development on page 156 · Induction on page 160
Principle L	Annual evaluation of the Board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each Director continues to contribute effectively.	· Board evaluation on pages 167 to 169 · Individual Director evaluation on page 169 · Board Committee evaluations: – Nomination & Governance Committee on page 158 – Audit Committee on page 171 – Risk Committee on page 178 – Remuneration Committee on page 183

Audit Committee Report

"I am pleased to set out in this report an update on the main activities of the Committee in 2022."

Karen Green
Chair of the Audit Committee

11

Committee members

Focus area	Attendance
Karen Green (Chair)	11/11
Andy Crossley	11/11
Mike Brierley	11/11

Audit, risk and internal control
Compliance with the Code Principles

UK Code Principle	Description
Principle M	The Board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.
Principle N	The Board should present a fair, balanced and understandable assessment of the company's position and prospects.
Principle O	The Board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

Admiral Group plc Annual Report and Accounts 2022

Dear Shareholder

I am pleased to set out in this report an update on the main activities of the Committee in 2022.

Areas of Focus in the Reporting Period

The Committee considered the economic backdrop facing the Group and gave particular consideration to current UK inflationary pressures and the impact on the key accounting and actuarial judgements made by management in relation to the valuation of claims reserves and credit loss provisions, as well as the potential impact on going concern and viability assumptions. The Committee also continued to consider the ongoing impact of the Covid pandemic on the Group's financial reporting and disclosures, along with the continued effectiveness of the Group's key internal controls in a hybrid working environment.

Significant financial reporting issues

The setting of insurance claims reserves in accordance with the Group's agreed reserving methodology is a key accounting judgement in the Group's Financial Statements as set out in Note 3 to the Financial Statements), and the Committee continues to place considerable focus on this area. The Committee challenged the key reserving assumptions and judgements, movements, emerging trends and analysis of uncertainties underlying the analysis of outstanding claims for the UK Car Insurance business proposed by management alongside that of the Group's external independent actuarial advisers. In 2022, this included the impact of inflation on the claims reserves as set out in more detail below, future scenarios for the Ogden discount rate and post-pandemic trends of claims frequency and severity. It also focused on management's assessment of the level of uncertainty inherent in the claims reserves and the changes in this assessment from prior periods. The Committee also received reports on the claims reserving processes performed for insurance businesses other than UK Car and recommended to the Board the aggregate claims reserves for inclusion in the Group's Financial Statements.

In addition to claims reserving, the Committee spent time reviewing management's support for a number of other significant financial reporting matters including the expected credit loss provision held in relation to the Loans receivable balance held by the Group's loans business Admiral Money, other potential provisions and contingent liabilities, and the results of impairment testing performed in relation to the Group parent company's investments in Group subsidiaries.

IFRS 17 (Insurance Contracts) implementation

Ahead of the 1 January 2023 implementation date for IFRS 17 (Insurance Contracts), the Committee placed significant focus during the year on monitoring progress of the Group's IFRS 17 programme, reviewing and challenging key judgements and accounting considerations, the Group's transition balance sheet as at 1 January 2022, as well as the financial statement disclosures on the impact of the new standard required by IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) and related accounting disclosures.

Corporate governance and reporting changes

The Committee was kept abreast of the Group's engagement with the Department for Business, Energy & Industrial Strategy (BEIS) consultation on 'Restoring trust in audit and corporate governance: proposals on reforms' during 2022 including the Financial Reporting Council's draft proposal for a minimum standard for audit committees, and will continue to monitor developments in this area. The Committee also oversaw, in conjunction with the Group's Risk Committee, the Group's progress in further aligning reporting with the Taskforce for Climate-related Financial Disclosures (TCFD) published recommendations. The Committee received a briefing from the Group's external auditor on TCFD regulation and trends in the market.

Internal controls

The Committee has continued to review the effectiveness of the internal control systems across the Group, including areas of potential weakness highlighted through audit and other assurance reports.

I hope you find the above summary, and the more detailed report, both useful and informative.

Karen Green
Chair of the Audit Committee

7 March 2023

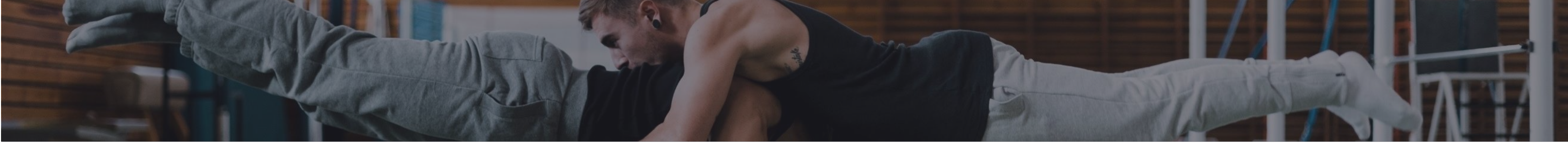
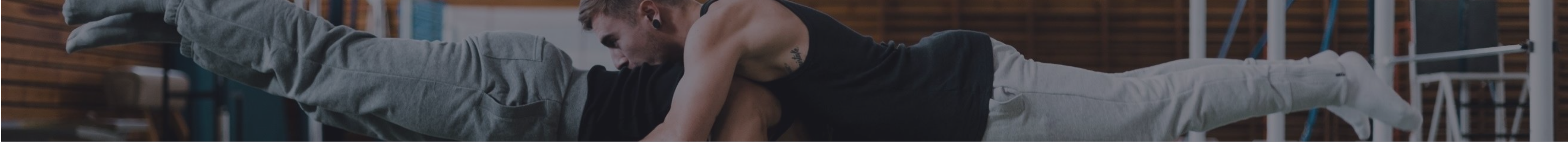


Figure 11.2 Johnson Matthey – Board and committee outcomes (2023 ARA, p82-83, 89)

	Matters considered	Stakeholders considered	How the Board received stakeholder feedback	Outcomes	Links to risk
Governance	Governance is at the heart of the board agenda, including consideration of: • Stakeholder engagement mechanisms • Board effectiveness • Our Governance Framework • Our Delegation of Authority Framework • Policies and processes	• Customers and strategic partners • Employees • Investors • Suppliers • Society • Communities	• Attendance and engagement at the AGM • Investor perception survey • Feedback following meetings and direct engagement with investors • Review material news or regulatory announcements through the Disclosure Committee	• Progressed the actions from the last year's internally facilitated board effectiveness review and conducted another internal board effectiveness review • Reviewed the investor perception study and associated actions • Implemented changes to improve the Governance Framework and simplified committees at GLT level • Approved changes to simplify the Delegation of Authority Framework • Approved updates to policies to ensure alignment with best practice	5 6 10
People and culture	The Board focused on: • Our people strategy and culture • Diversity, inclusion and belonging • Employee engagement surveys	• Employees • Communities	• Insights gained from site visits • Annual talent review by the Nomination Committee • People strategy and culture updates from the Chief Executive Officer and Chief HR Officer • Results and feedback from our internal engagement surveys	• Reviewed the feedback from employee engagement surveys and agreed an action plan • Reviewed progress on changing behaviours to support our cultural ambition through the transformation programme updates	5 6 7 9 10
Risk	The Board reviewed the group's approach to risk management and completed deep dives of principal risks	• Customers and strategic partners • Employees • Investors • Suppliers • Society	• Board reports on the full-year and half-year risk reviews • Deep dive reports into certain principal risks and areas of emerging risks	• Considered any emerging risks as a result of the external environment • Reviewed each principal risk to ensure they remained appropriate • Approved the risk appetite for each principal risk • Reviewed mitigating activities	1 2 3 4 5 6 8 9 10



The Committee's role

Societal value covers a range of economic, social and environmental topics. Given the central role of sustainability to our overall strategy, the Committee was established to bring continued focus to this area. The Committee assists the Board in overseeing the group sustainability strategy, including net zero commitments and science-based greenhouse gas targets; driving a truly inclusive organisation; overseeing the group's ethical conduct; and keeping up to date with societal value topics, including stakeholder expectations.

More information on the governance of sustainability matters beyond the Committee can be found within our TCFD disclosures

How we delivered on our responsibilities

Sustainability	Climate change	Diversity and inclusion	Ethics and compliance
What we did			
• Oversaw plans and actions to execute the group sustainability strategy including 10 roadmaps to deliver on our 2030 target • Discussed the results of an update to our third-party materiality assessment, validated our sustainability framework and refocused our 2030 targets • Challenged sustainability performance data • Reviewed the approach to communication on sustainability • Reviewed the proposed approach on advocacy, including links with external organisations (e.g. trade associations) • Received regular horizon scanning updates, competitor analysis and ESG benchmarking	• Challenged and validated increasing our ambition for GHG emission reductions onto SBTi's 1.5˚C pathway to net zero • Reviewed our strategy's product portfolio alignment with our company purpose of catalysing the net zero transition and estimated GHG emissions avoided by our product sales by 2030 • Agreed the application of internal carbon pricing for capital decisions • Received updates on hydrogen geopolitics and legislative developments	• Reviewed our diversity and inclusion gender target for 2030 and actions to support its achievement • Discussed the approach to employee engagement and areas for immediate focus	• Reviewed actions to continue promoting our ethical culture • Received updates on Speak Up themes and trends • Discussed real examples of ethical dilemmas and how they were managed including actions on responsible sourcing • Received an external presentation on global human rights and legislative developments
Outcomes			
• Agreed the realignment of our sustainability goals to our strategy and recommended to the Board that our public targets for 2023 be refocused to 10 targets • Agreed our new communications and advocacy approaches on sustainability • Agreed and recommended to the Remuneration Committee sustainability targets for 2023 and the next three years for incorporation into our Performance Share Plan. • Reviewed and recommended that the Board approve the sustainability section of the Annual Report	• Confirmed support for our updated 2030 climate ambition in line with SBTi Net Zero Standard • Reviewed and recommended that the Board approve the TCFD report • Recommended GHG emissions targets be included within the Executive Directors' Long-Term Incentive Share plan	• Challenged management on our diversity and inclusion target and provided feedback on ways to improve diversity, inclusion and belonging	• Reviewed and recommended that the Board approve the Modern Slavery Statement and Conflict Minerals Disclosure • Approved a standalone Human Rights Policy

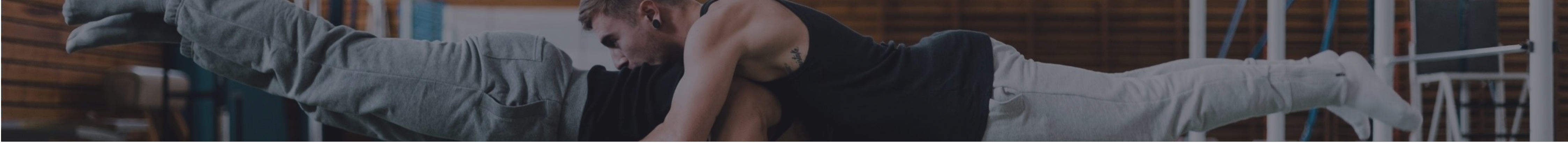


Figure 11.3 Severn Trent – Climate Change Governance Framework (2023 ARA, p41)

Our Climate Change Governance Framework

Strong governance of sustainability issues, including climate-related risks and opportunities specifically, extends below the Board to a number of Board and Committees, as outlined below.

THE BOARD

The Board's role is to ensure the long-term sustainable success of Severn Trent by setting our Strategy through which value can be created and preserved for the mutual benefit of our shareholders, customers, employees and the communities we serve.

Our Board, led by Chair Christine Hodgson, has ultimate responsibility for sustainability. Oversight of the Group's sustainability strategy is a matter reserved for the Board. The Chief Financial Officer is responsible for how market risks connected to our investments (including climate-related risks) are identified, considered and managed.

The Board's responsibilities include:

- overseeing the Group's sustainability strategy;
- providing rigorous challenge to management on progress against goals and targets;
- ensuring the maintenance of an effective risk management and internal control system, review of six monthly Enterprise Risk Management ('ERM') updates and annual approval of the Principal Risks;
- approval of the Board's risk appetite and Policy;
- inclusion of sustainability-related discussion at each Board meeting through a standing agenda item as tabled by the Chair of the Corporate Sustainability Committee; and
- maintaining a high level of sustainability expertise on the Board as a whole (see Board skills matrix on page 106.

Informing

Reporting

THE BOARD DELEGATES CERTAIN SUSTAINABILITY OVERSIGHT MATTERS TO ITS PRINCIPAL COMMITTEES. ALL COMMITTEES MEET AT LEAST FOUR TIMES PER YEAR.

Audit and Risk Committee

Ensures that risks and opportunities, including sustainability and climate-related risks and opportunities, are effectively managed across the Group. The Committee is also responsible for overseeing the production of Group's financial statements, including the TCFD disclosure.

Further detail of the work of the Committee can be found from page 127

Corporate Sustainability Committee

Scrutinises and provides guidance and direction on the Sustainability Framework. Reviews sustainability and climate-related risks and opportunities. Four Directors of the Board sit on the Committee, including the Chair, and the CEO has a standing invitation to attend meetings.

Further detail of the work of the Committee can be found from page 137

Nominations Committee

Monitors the Board's overall size, composition and balance of skills, and ensures sustainability expertise is given sufficient prominence in Board and Executive succession and recruitment activity.

Further detail of the work of the Committee can be found from page 121

Remuneration Committee

Ensures alignment of the Group's remuneration policies and procedures to achievement of sustainability aims by incorporating ESG measures into bonus scheme requirements and carbon reduction measures within the LTIP.

Further detail of the work of the Committee can be found from page 141

Treasury Committee

Ensures incorporation of sustainability into the Group's financing strategy, with a key area of focus on introduction and monitoring of the Sustainable Finance Framework under which the Group can raise debt to support the financing or refinancing of sustainable projects.

Further detail of the work of the Committee can be found from page 135

THE CHIEF EXECUTIVE AND THE SEVERN TRENT EXECUTIVE COMMITTEE ('STEC')

The Chief Executive has overall responsibility for climate change and environmental matters. Responsibility for the development and implementation of the Group's Strategy, including in relation to sustainability, rests with the Chief Executive, who is supported by STEC, which meets weekly.

Sustainability Framework – page 140

STEC Members – page 107

STEC DELEGATES CERTAIN CLIMATE-RELATED RISK AND OPPORTUNITY OVERSIGHT MATTERS TO ITS MANAGEMENT COMMITTEES

Sustainability Steering Committee

Executive and senior management oversee performance and progress against our Sustainability Framework. The Committee is responsible for identifying and reviewing climate-related risks and opportunities.

Carbon and Energy Steering Committee

Sets the Group's overall carbon and energy strategy and targets, ensuring that robust plans are in place to deliver them. Monitors progress and performance against plans.

Strategic Risk Forum ('SRF')

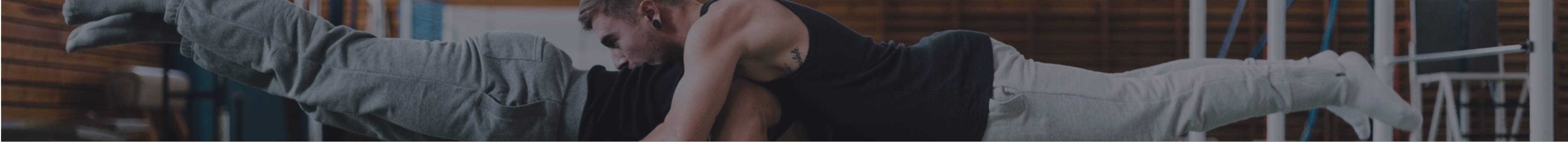
A cross business group which takes a holistic view of ERM risks and focuses on horizon scanning to identify new and Emerging Risks, including climate-related risks.

Disclosure Committee

An Executive Committee responsible for overseeing the Group's compliance with its disclosure obligations, considering the materiality, accuracy, reliability and timeliness of information disclosed and assessment of assurance received. The Committee is also responsible for overseeing the Group's financial statements and non-financial disclosures, including climate-related financial disclosures.

TCFD Working Group

The TCFD Working Group was established in 2020 to provide oversight and drive implementation of the TCFD recommendations and the Group's wider climate change strategy. The Group reports to the Disclosure Committee and the Corporate Sustainability Committee. It includes representatives from business areas including strategy, risk, finance, treasury and compliance.



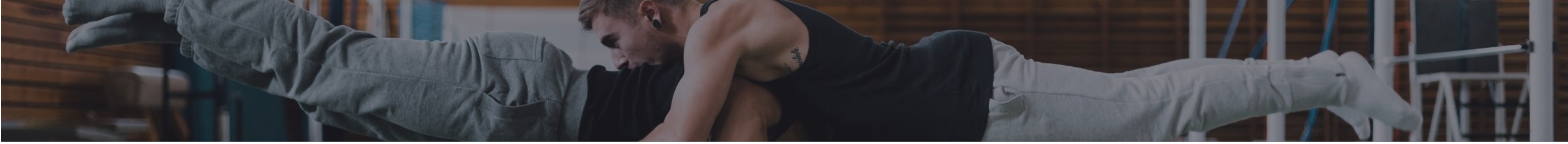
Key questions to assess board and committee effectiveness

Board

1. Is there tangible evidence on how the organisation's purpose guides board decision-making? Are ethics or ethical considerations given airtime in the boardroom?
2. Is the board actively involved in shaping the company's strategy? Does the debate on strategy incorporate a discussion on how emerging risks may impact the business model and resilience?
3. Has the board engaged in defining or refining the risk appetite of the company in the year?
4. Is the board able to articulate the material environmental and social impacts of the organisation? Are these embedded within the broader strategy and not treated separately as compliance matters or as corporate social responsibility topics?
5. Does the board have reliable data to make decisions and measure strategic progress, including in relation to environmental and social matters?
6. Has the board established the appropriate committees with terms of reference that reflect the governance issues and opportunities that need to be addressed for the future success of the business?
7. Do the board dynamics enable dissenting views or is there an atmosphere of overwhelming consensus?
8. Has both the extent and topics of direct engagement between directors and stakeholders been purposefully determined, taking into account both strategic objectives and stakeholder materiality assessments? Does the board actively hold management to account for dealing with material stakeholder feedback?
9. With changes to cultural and working practice, is the board actively engaging in the debate on the future of work?

The board and all its committees

1. Do the board/committee's terms of reference reflect not just the mandatory responsibilities as specified in regulations and Code, but also the de facto ones?
2. Do directors feel they have enough time for their increasing responsibilities?
3. Is there an effective induction programme for new board/committee members and on-going training thereafter?
4. Are the number of meetings, time allocated to agenda items and content of the meeting pack sufficient to discharge the board/committee's responsibilities?
5. Is the meeting pack distributed with sufficient notice to allow the board/committee members to read and analyse the content and therefore have action-oriented meetings?
6. Does the way in which management present at the board facilitate effective debate and discussion on material issues?
7. Is there a clear framework for interaction between committees on overlapping topics, e.g., where human capital metrics impact executive remuneration?
8. Do directors oversee how targets (within their areas of remit) are being set and monitor progress against them? Do they ensure actions are being taken to address the root cause for unsatisfactory progress?
9. Does the board/committee have adequate, regular support from management committees or internal functions to discharge of its duties?
10. Does the board/committee obtain independent insights on specific topics e.g., from external advisers, to allow for robust challenge of management?
11. Does the committee oversee the transparency of ARA disclosures regarding the matters in its remit?



Audit Committee (AC)

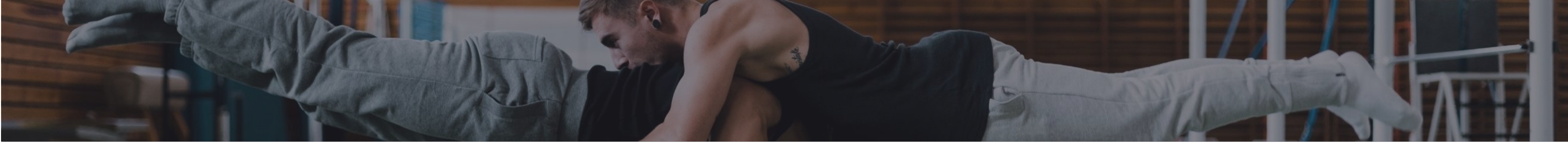
1. Aside from meeting the composition requirements of the Code and DTR, is the AC considering and preparing for the future skills it will need for example, in light of changing circumstances of the company, its business model and the sector it operates in?
2. Where there is a separate risk committee, is the division of responsibilities between the two clearly defined?
3. Is the division of responsibilities regarding oversight of narrative reporting including on environmental and social matters clearly defined between the AC and any other relevant committee dealing with these topics?
4. Is the documentation provided by management to the AC of sufficient detail and quality to allow the AC to challenge management's views? Is the AC's review and challenge of this documentation adequately minuted to withstand future regulatory scrutiny?
5. Does the AC receive information with sufficient regularity to allow it to monitor the effectiveness of risk management and internal controls during the year?
6. Is the AC satisfied that activities undertaken by management are sufficient to allow directors to make a statement on the annual review of effectiveness of risk management and internal controls?
7. Does the AC have a complete and accurate picture of what assurance is obtained over disclosures in the ARA, the rationale for this and how this compares to the expectations of external stakeholders?
8. Is there a structured process in place to assess the audit quality throughout the year with appropriate reference to audit quality indicators?
9. Does the AC report in the ARA present a fair picture of the activities of the AC, including challenges raised and their resolution?

Nomination and remuneration committees

The practice for allocating responsibilities for oversight over human capital varies, and the remits of nomination and remuneration committees continue to evolve. The questions to assess effectiveness have therefore been structured to provide key questions regarding human capital oversight, remuneration and nomination considerations.

Oversight of human capital matters

1. Are directors challenging management on the appropriateness of the human capital metrics which are being monitored by reference to the link to overall business and sustainability strategy?
2. Are directors holding management to account for conducting adequate workforce engagement to explain human capital targets and progress, including but not limited to planned actions to close any gender, ethnic or other form of pay gaps?
3. Does the board/committee oversee the approach to surveys challenging their frequency, topics addressed and whether they provide insights that differentiate between engagement and culture? Does the board/committee challenge how surveys complement other forms of engagement?
4. Are the sources of cultural insights used by the board/committee for culture monitoring sufficiently broad to evidence how effectively the desired culture is embedded? Is the board/committee receiving adequate explanations of the interactions between the various insights and proposed actions?

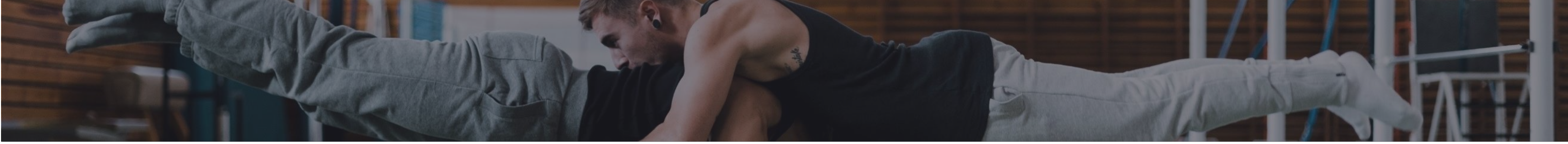


Remuneration matters

1. Is the remuneration committee able to articulate to the workforce how the approach to executive pay is aligned with stated values and culture and how it promotes the right behaviours at the top?
2. Does the remuneration committee robustly debate the stakeholder experience when considering outcomes and the application of discretion? Are the remuneration committee's insights into that experience, independent from those shared by the executive, sufficient?
3. Is the remuneration committee confident that the pay structures do not create undue pressure to prioritise returns in the short-term and give adequate weighting to non-financial value creation? If non-financial metrics are included, are their link to strategy clear and transparently explained?
4. Has the remuneration committee comprehensively considered the range of potential consequences of remuneration structures on behaviours and decision making?

Nomination matters

1. Has the nomination committee debated the most appropriate allocation of new and evolving responsibilities across the board and its committees and accordingly reassessed the skills, diversity and capacity at both the board and individual committee level? Does the nomination committee have a clear approach for determining how best to address skills gaps (through new appointments, advisors or training)?
2. Has the committee considered how board and senior management composition helps bring the stakeholder voice into the boardroom? Are these considerations reflected in succession plans?
3. Does the committee assess the cognitive diversity and culture of the board? Does it understand how the make-up of the board and its culture impact decision making?
4. Does the committee look sufficiently deep into the organisation to identify future talent? Are steady-state succession plans regularly revisited? Is there a contingency plan for dealing with unexpected departures?
5. Is the committee satisfied about the nature and quality of DEI initiatives such as executive development programmes? To what extent have such initiatives been factored into succession planning?



Appendix A ESG and sustainability

Corporate reporting

In its broadest sense, corporate reporting comprises information that a company publicly communicates about itself. With the annual report and financial statements at its heart, it includes, amongst others, RNS announcements, website disclosures and an increasing suite of stand-alone reports covering non-financial topics.

Narrative reporting and non-financial metrics

In its October 2020 Discussion Paper on the future of corporate reporting, the FRC noted that "non-financial reporting is becoming increasingly important and we expect this trend to continue in response to calls for responsible capitalism." In May 2023, the Department for Business and Trade (DBT), working with the FRC, initiated a review of the non-financial reporting requirements.

We consider non-financial reporting to encompass:

- Narrative reporting – which often takes the shape of written 'long-form' reports – such as the front half of ARA, sustainability and climate reports
- Non-financial metrics – metrics based on financial information, but not derived directly from the financial statement (e.g., banking capital ratios) and metrics related to non-financial topics (e.g., greenhouse gas emissions) often referred to as ESG metrics

This makes sustainability and ESG reporting a sub-section of narrative reporting and non-financial metrics.

Changes to the Code are proposing to introduce explicit responsibilities for monitoring the integrity of narrative reporting, including sustainability matters; narratives within ARAs often refer to ESG and sustainability interchangeably – whilst these terms seem to have become almost synonymous, they deal with similar issues from very different viewpoints.

ESG – the outside-in perspective

ESG was first mentioned in the 2006 United Nation's Principles for Responsible Investment (PRI) report. ESG is primarily a risk management and investment framework used to evaluate the financial risks that environmental, social, and governance factors pose to the business and its shareholders.

The three dimensions are distinct and have measurable aspects. Reporting is a central feature - ESG metrics demonstrate how a company manages these risks to reduce their impact, increase economic resilience and protect the company's value.

The perspective is referred to as 'outside-in' as the focus is on the risks to the company, not on those the business creates for the outside world.

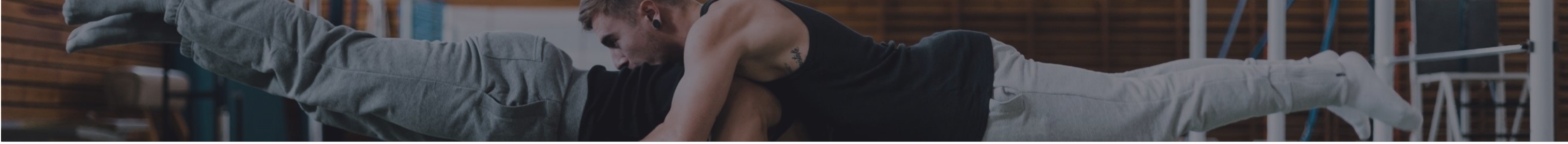
Sustainability – the inside-out perspective

Where ESG aims to minimise harm, sustainability relates to "doing well by doing good."

Emphasis is on the so called "triple bottom line" (people, planet, profit), and governance is typically not a relevant factor.

When a company is operating 'sustainably,' it maintains an appropriate balance between making money and ensuring social and environmental wellbeing in the world today without compromising future generations.

Sustainability adopts an "inside-out" perspective as it focusses on the impact a company has on society and the environment. Companies are increasingly disclosing their contribution to United Nation Sustainable Goals (UN SDGs) as a means of evidencing their positive impact.



Purpose – sustainably contributing to society

Principles A and B of the Code stipulate amongst other things that the role of the board is to establish the company's purpose and promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

It therefore makes sense that sustainability-related initiatives are used to provide examples of 'purpose in action.'

What makes less sense however is the way the broader narrative, rather than being integrated across the front half, tends to be included in the form of a standalone section or insert.

Integrated reporting

The problem with inserts is that they lend themselves to providing too much irrelevant detail – discussing aspects that neither mitigate material risks nor have the potential to make a meaningful contribution to the triple bottom line.

Some inserts referred to as 'ESG' do not actually focus on risks but are used as a means to describe aspects of the company's operations that are positively linked to the social dimension. A potentially more relevant alternative would be to link these themes to the relevant stakeholder within the s172 narrative. For example, both modern slavery and scope 3 emissions can be discussed in the context of suppliers. Modern slavery is a common topic being referenced in supplier engagement disclosures, including by **Whitbread**; some companies, like **CCEP**, tier their suppliers by reference to the level of their emissions.

For a commitment to sustainability to ring true, it needs to be both integrated into the business model as demonstrated by **Mondi** (Figure App 1.1) and form part of the overarching strategy. Where the 'sustainability strategy' touches on the same themes as its 'core strategy' but is presented as something separate, readers might infer that the company is paying lip service rather than being truly committed to doing well by doing good. Similarly, when, unlike **Rio Tinto** (Figure App1.2) companies present their contribution to all UN SDGs, as opposed to just the ones they can truly make a difference towards, credibility can be lost.

Rather than inserts, companies who want to demonstrate their commitments should integrate ESG risks into their principal risk disclosure and explain how their sustainability ethos contributes to delivering strategic objectives, as done by Rolls Royce (Figure 7.3).

This approach will drive a clearer story — on one hand demonstrating the level of investment needed to mitigate risks and improve ESG scores, on the other explaining why an evolution of the business model to make it more sustainable is the right thing to be doing.

If the changing investor sentiment and escalating political backlash against ESG investing in the US is anything to go by, getting the narrative right by focussing on what is of strategic importance and how social-impact initiatives contribute to broader value creation will become even more important.

Already, according to the November 2022 EY Global Corporate Reporting and Institutional Investor Survey, 80% of investors claim that "too many companies fail to properly articulate the rationale for long-term investments in sustainability, which can make it difficult for us to evaluate the investment."

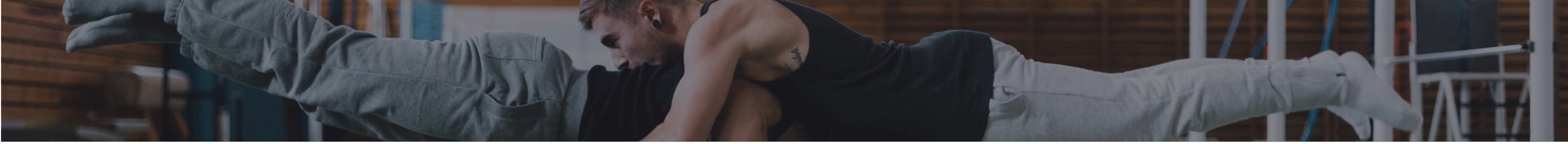
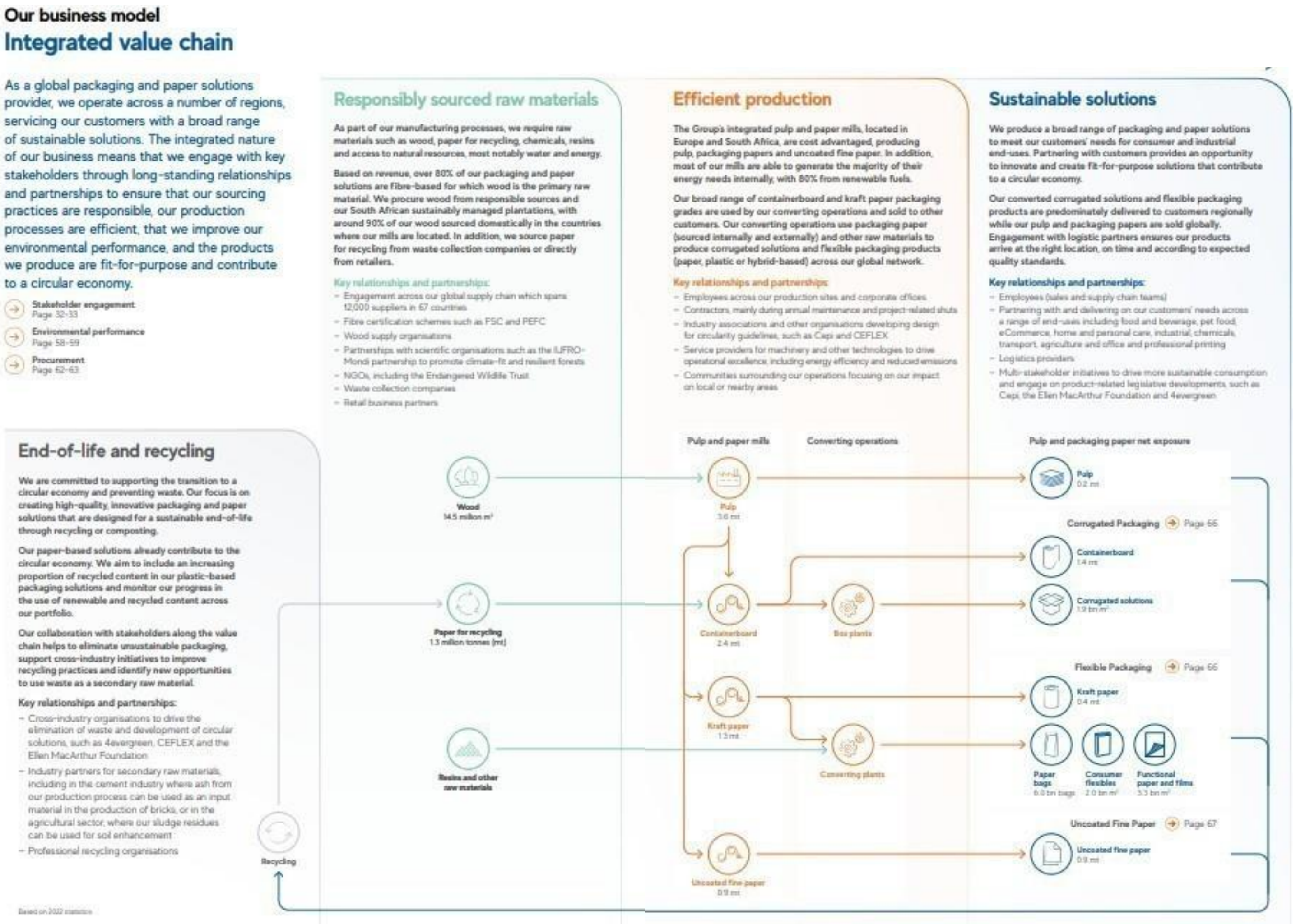


Figure App.1.1 — Mondi: Comprehensive business model overview with effective use of diagrams, cross referencing and integrated sustainability considerations (2022 ARA, pp14-17)



Our business model

Integrated value chain

As a global packaging and paper solutions provider, we operate across a number of regions, servicing our customers with a broad range of sustainable solutions. The integrated nature of our business means that we engage with key stakeholders through long-standing relationships and partnerships to ensure that our sourcing practices are responsible, our production processes are efficient, that we improve our environmental performance, and the products we produce are fit-for-purpose and contribute to a circular economy.

Stakeholder engagement
Page 32-33

Environmental performance
Page 58-59

Procurement
Page 62-63

Responsibly sourced raw materials

As part of our manufacturing processes, we require raw materials such as wood, paper for recycling, chemicals, resins and access to natural resources, most notably water and energy.

Based on revenue, over 80% of our packaging and paper solutions are fibre-based for which wood is the primary raw material. We procure wood from responsible sources and our South African sustainably managed plantations, with around 90% of our wood sourced domestically in the countries where our mills are located. In addition, we source paper for recycling from waste collection companies or directly from retailers.

Key relationships and partnerships:
- Engagement across our global supply chain which spans 12,000 suppliers in 67 countries
- Fibre certification schemes such as FSC and PEFC
- Wood supply organisations
- Partnerships with scientific organisations such as the IUFRO-Mondi partnership to promote climate-fit and resilient forests
- NGOs, including the Endangered Wildlife Trust
- Waste collection companies
- Retail business partners

Efficient production

The Group's integrated pulp and paper mills, located in Europe and South Africa, are cost advantaged, producing pulp, packaging papers and uncoated fine paper. In addition, most of our mills are able to generate the majority of their energy needs internally, with 80% from renewable fuels.

Our broad range of containerboard and kraft paper packaging grades are used by our converting operations and sold to other customers. Our converting operations use packaging paper (sourced internally and externally) and other raw materials to produce corrugated solutions and flexible packaging products (paper, plastic or hybrid-based) across our global network.

Key relationships and partnerships:
- Employees across our production sites and corporate offices
- Contractors, mainly during annual maintenance and project-related shuts
- Industry associations and other organisations developing design for circularity guidelines, such as Cepi and CEFLEX
- Service providers for machinery and other technologies to drive operational excellence, including energy efficiency and reduced emissions
- Communities surrounding our operations focusing on our impact on local or nearby areas

Sustainable solutions

We produce a broad range of packaging and paper solutions to meet our customers' needs for consumer and industrial end-uses. Partnering with customers provides an opportunity to innovate and create fit-for-purpose solutions that contribute to a circular economy.

Our converted corrugated solutions and flexible packaging products are predominately delivered to customers regionally while our pulp and packaging papers are sold globally. Engagement with logistic partners ensures our products arrive at the right location, on time and according to expected quality standards.

Key relationships and partnerships:
- Employees (sales and supply chain teams)
- Partnering with and delivering on our customers' needs across a range of end-uses including food and beverage, pet food, eCommerce, home and personal care, industrial, chemicals, transport, agriculture and office and professional printing
- Logistics providers
- Multi-stakeholder initiatives to drive more sustainable consumption and engage on product-related legislative developments, such as Cepi, the Ellen MacArthur Foundation and 4evergreen

End-of-life and recycling

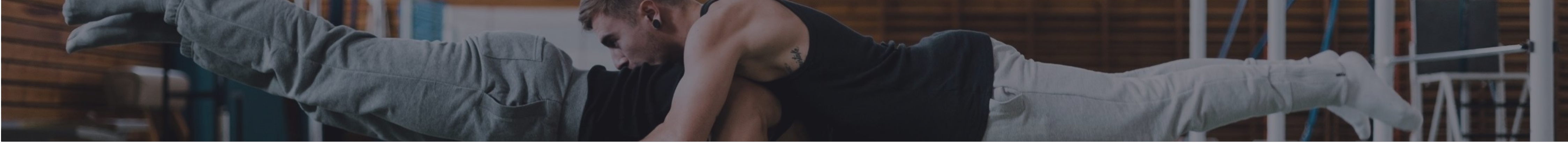
We are committed to supporting the transition to a circular economy and preventing waste. Our focus is on creating high-quality, innovative packaging and paper solutions that are designed for a sustainable end-of-life through recycling or composting.

Our paper-based solutions already contribute to the circular economy. We aim to include an increasing proportion of recycled content in our plastic-based packaging solutions and monitor our progress in the use of renewable and recycled content across our portfolio.

Our collaboration with stakeholders along the value chain helps to eliminate unsustainable packaging, support cross-industry initiatives to improve recycling practices and identify new opportunities to use waste as a secondary raw material.

Key relationships and partnerships:
- Cross-industry organisations to drive the elimination of waste and development of circular solutions, such as 4evergreen, CEFLEX and the Ellen MacArthur Foundation
- Industry partners for secondary raw materials, including in the cement industry where ash from our production process can be used as an input material in the production of bricks, or in the agricultural sector, where our sludge residues can be used for soil enhancement
- Professional recycling organisations

Based on 2022 statistics



Our business model

Creating value through the Mondi Way

The Mondi Way connects purpose, strategy and culture to our business model

Our purpose is to contribute to a better world by making innovative packaging and paper solutions that are sustainable by design. We do this through the execution of our strategy by delivering value accretive growth in a sustainable way for all our key stakeholders. Our strategy builds on the competitive advantages we enjoy today and sets a clear roadmap embedding sustainability into operational and investment decisions into the future.

→ Our strategy
Page 20-29

We foster a culture that connects, guides and inspires our people to achieve Mondi's purpose. Our values of Performance – Care – Integrity underpin our culture, empowering our people to be passionate and entrepreneurial in a respectful and inclusive way. The dedication and commitment of our employees is essential to delivering on our strategic priorities as we contribute to a better world.

→ Empowered People
Page 41-43

What we rely on →

We build and maintain trusted relationships and manage our key resources responsibly to create value for our stakeholders.

Long-standing relationships

The integrated nature of our business means that we rely on the strong relationships we have built over time to drive our business forward for our joint success:

- Caring for our employees and delivering against operational priorities
- Partnering with our customers to innovate and reliably meet their needs
- Optimising our value chain with suppliers and contractors
- Collaborating with our communities to address challenges and create opportunity
- Engaging with investors to share our performance and strategic priorities
- Shaping our context with partners and industry associations

Responsible use of resources

We are determined to protect and safeguard biodiversity and ecosystems. In order to do this, we procure raw materials and use natural resources responsibly.

We have a disciplined capital allocation framework, ensuring we can invest in our portfolio through the cycle and take advantage of value accretive opportunities when they arise.

→ MAP2030
Page 36-65

→ Financial review
Page 68-71

What we do →

As a global leader, we make a broad range of innovative and sustainable packaging and paper solutions to meet our customers' growing needs.

→ Integrated value chain
Page 16-17

Managing our risks

Successfully identifying and mitigating the potential impact of risks on our business and appropriately setting our risk appetite is critical to ensure we continue to generate long-term value for our stakeholders.

→ Principal risks
Page 72-81

The value we create

By combining our integrated value chain, strong relationships, responsible resource management, and leveraging our competitive advantages, we create value for our stakeholders in line with the Mondi Way.

Examples of our value creation in 2022

Employees

443,000
employee and contractor training hours

We invest in the development of our people, providing a safe working environment and supporting a diverse, skilled and committed workforce

Suppliers and contractors

78%
of supplier sites screened since 2019 (based on total spend)

We engage with our suppliers, encouraging supply chain transparency and fair working conditions, and take action to mitigate our risks

Customers

82%
of revenue is from packaging and paper products that are reusable, recyclable or compostable

We deliver innovative sustainable packaging and paper solutions to our customers, with a continuous drive to improve overall customer satisfaction

Investors

70.0 euro cents
total recommended dividend per share

Our dividend policy reflects our disciplined strategy of value creation and aims to offer shareholders long-term dividend growth in line with our cover policy

Communities

€196 million
direct taxes paid

In addition to taxes paid, we invest in local community initiatives supporting health, environment protection, education, local enterprise and infrastructure

Partners and industry associations

Strategic
partnerships and initiatives

Our global collaborations support us to find sustainable solutions to the collective challenges we face and bring about meaningful change

What makes us different

We leverage our distinct competitive advantages to create opportunities for our business and generate value for our stakeholders.

Unique platform

As a leading paper and flexible plastic-based packaging solutions provider, we are well positioned to take a holistic view to meet our customers' requirements with our broad range of sustainable solutions

Leading market positions

Our leading market positions provide scale, reliability and the capability to service key accounts and innovate with our customers and partners

Cost-advantaged assets

We have well-located operations with access to cost competitive raw materials and a high-quality, well-invested asset base

Vertical integration

Our vertically integrated network reduces the Group's exposure to price volatility, providing security of supply and production and logistics optimisation

Focus on continuous improvement

We continuously drive performance along the value chain, focusing on excellence and improvement across our processes

Strong financial position

Our robust financial position and strong cash generation provide us with strategic flexibility

Sustainable by design

Sustainability is embedded in everything we do, making us a strong partner and employer of choice

Entrepreneurial culture

Our entrepreneurial culture brings the best out of Mondi's people, helping to develop an empowered and inclusive team that contributes to a better world

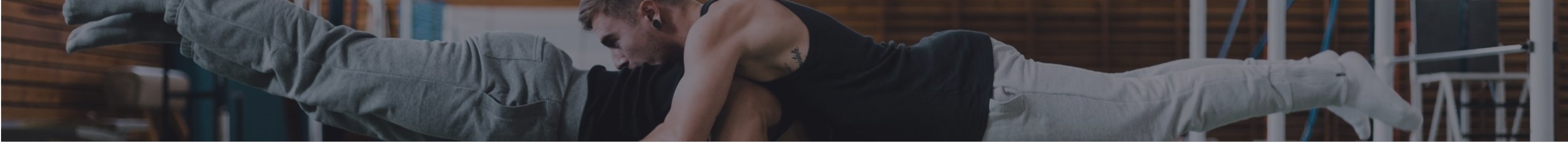


Figure App1.2 – Rio Tinto: Contribution to UN SDGs clearly differentiated between two lead SDGs where the company makes the most substantial impact, and further eight supporting goals (2022 ARA, pp47, 50).

Supplying low-intensity materials

Lead SDGs
Supporting SDGs

Target

To achieve net zero emissions from our operations (Scope 1 and 2) by 2050.

Key achievements

$537 million
(C$737 million) to be invested over eight years to decarbonise our Rio Tinto Iron and Titanium (RTIT) Quebec Operations in partnership with the Government of Canada.

$29 million
invested in constructing an aluminium recycling facility at our Arvida Plant in Saguenay–Lac-Saint-Jean, Quebec, Canada to expand our offering of low-carbon aluminium solutions.

One-year biofuel trial
in partnership with BP to reduce carbon emissions from our marine fleet.

First production
of spodumene concentrate, a mineral used in the production of lithium for batteries, at a demonstration plant in our RTIT Quebec Operations in Canada.

1.2 million
low-carbon beverage cans produced as part of our partnership with Corona Canada. The cans were made using our aluminium leveraging ELYSIS™ technology.

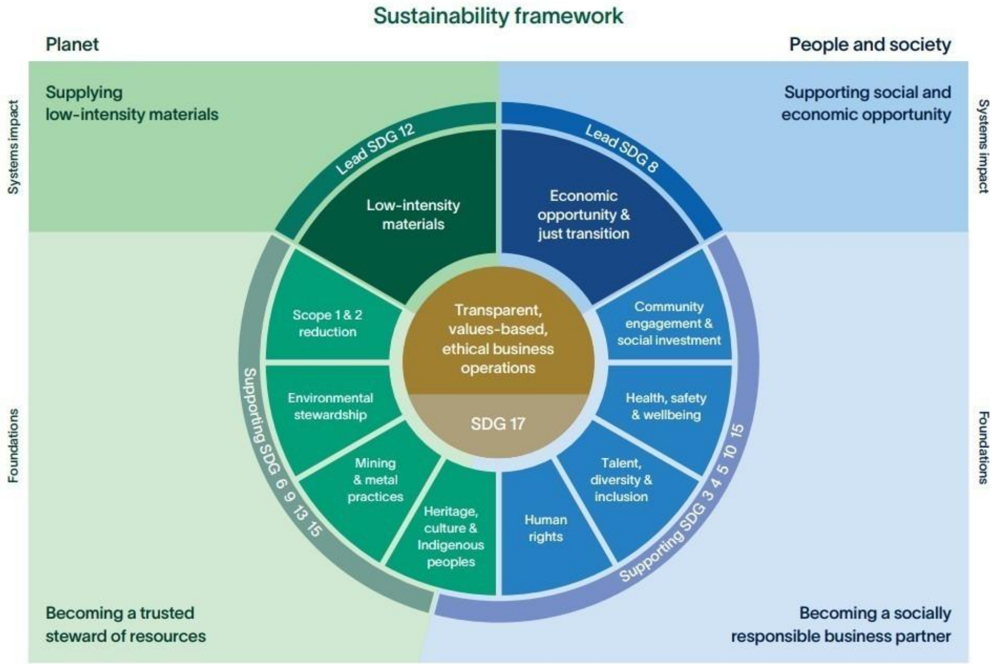
Around 20 tonnes
of tellurium can now be produced every year at Kennecott in Utah, US. Tellurium is a critical mineral used in advanced thin film photovoltaic solar panels.

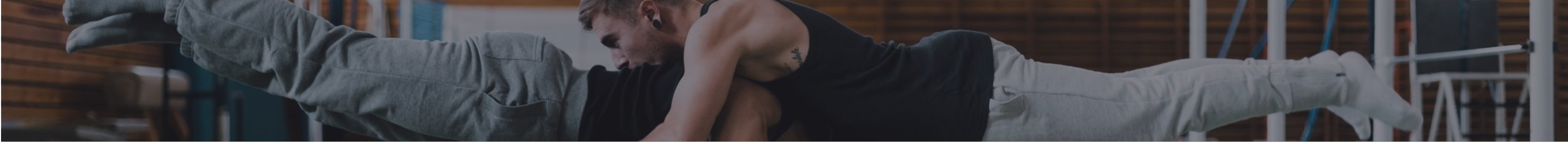
The United Nations Sustainable Development Goals

Our approach to sustainability aligns with the United Nations Sustainable Development Goals (UN SDGs), which are recognised as the global blueprint for a sustainable future. The SDGs are a useful reference point to ensure our sustainable focus areas reflect society's expectations and help us direct our efforts where they can deliver the most impact. Our sustainability framework focuses on the two lead goals that we feel are most relevant to operating our business responsibly and where we can have the biggest impact: responsible consumption and production (SDG 12) and decent work and economic growth (SDG 8).

Our business operations also contribute to eight supporting SDGs (3, 4, 5, 6, 9, 10, 13, 15), while partnerships for the goals (SDG 17) reflects our approach to sustainability and is fundamental to the way we run our business.

For more information
about our approach to the UN SDGs, see our website.





Appendix B Acid Test

Purpose

- What is the company's purpose? Does it explain why the company exists?
- Is the purpose bespoke or could it be for any company?
- How did purpose influence any principal decisions the board has made?
- Are there tangible examples of purpose in action?
- Does the company's purpose clearly inform its strategy?
- Is it clear to a reader how strategy delivery helps with realising purpose?

Culture

- Why are the desired behaviours critical to the achievement of strategic objectives?
- How does the board measure and monitor the extent to which the culture is embedded?
- What actions are needed to close any identified gaps between actual and desired culture?
- Is a clear update provided on progress against any past initiatives to close the gaps?

Business Model

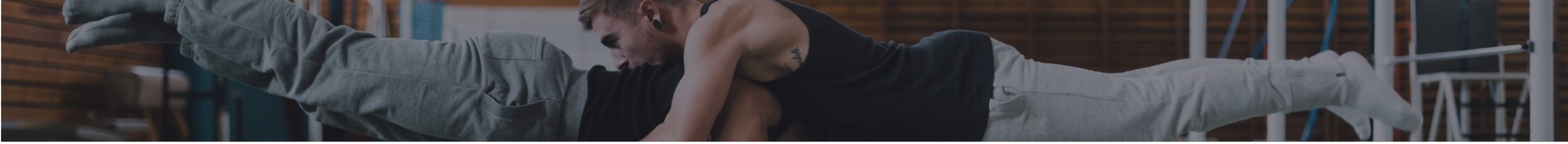
- How does the company generate revenues?
- How and where are the company's key assets and resources engaged in the process of value creation?
- What are the company's competitive advantages; does the BM differ from others in the sector?
- How are environmental and social risks and opportunities being addressed to ensure the BM is sustainable? How is the BM evolving in response?
- Is the BM adapting to long-term trends and factors?

Measuring strategic progress

- What are the company's strategic objectives? Are they clear and measurable? Is it clear why key performance indicators (KPIs) and other metrics used to measure progress against them were selected?
- How did the company deliver against prior year goals and what are its priorities for the near and mid-term?
- Do the remuneration policy outcomes appropriately reflect prominent metrics and KPIs?
- Is the use of prominent financial and non-financial metrics balanced and reflective of their strategic importance?
- Is there clarity on the level of assurance obtained over each of the KPIs and other prominent metrics?

Evolving strategy

- Is there clarity on both short-term and longer-term market/industry trends impacting the business?
- How is the company's strategy responding to these market trends? How are they influencing principal and emerging risks?
- Is it clear how sustainability commitments support the delivery of strategic objectives?
- What is the directors' approach to capital allocation beyond shareholder distributions?



Stakeholder engagement and s172

- Is there a compelling explanation of who the identified key stakeholders are and how they have been grouped?
- How did management, and separately the directors, seek to understand the views of and seek input from stakeholders?
- Does the board articulate the feedback received or the insights gained from such interactions in the current year and any actions taken?
- How did the board take such feedback and insights into account when making principal decisions?

Workforce diversity and engagement

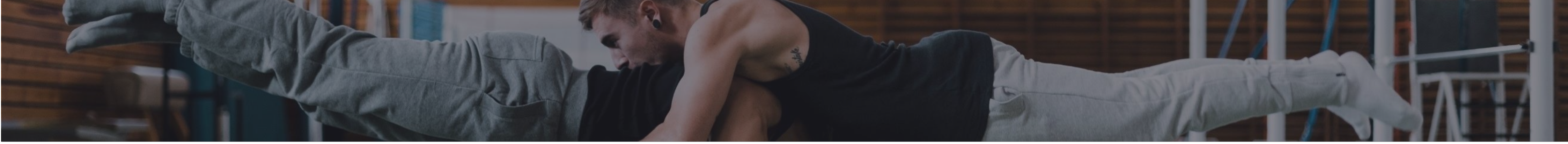
- How has the board engaged with the workforce, what feedback or insights did it receive and how was this considered in the boardroom?
- What actions are being undertaken to address low employee engagement scores, high turnover, culture misalignment or other relevant employee related indicators?
- How successful are initiatives aimed at improving workforce diversity, equity and inclusion and how do these support the achievement of strategic objectives?
- Does the workforce narrative tell a fair and balanced story of how the company has performed against its people commitments?

Environment

- How well is the company's sustainability strategy integrated into the overall business strategy and are environmental and social factors incorporated into the assessment of principal and emerging risks?
- Does the narrative strike the right balance between providing insights into the business strategy versus sustainability strategy?
- Does the narrative provide a fair and balanced overview of the company's impact on the environment and explain how changes to the environment are impacting the business model? Are these impacts quantified?
- Is it clear which metrics and targets are materially important for managing environment-related risks and opportunities? Are these metrics relevant and meaningful?
- What level of assurance was obtained over these metrics?

Risks and viability

- What are the principal risks to the successful delivery of the strategy and how might these manifest in the company?
- What levels of risk is the board willing to take and how does this align with the related mitigating actions?
- Are changes in the likelihood or impact of principal risks explained, together with the evolution of mitigating actions?
- Which of these pose the greatest threat to the viability of the company?
- Is the rationale for the timeframe over which the board has considered the viability of the company robustly explained?
- What specific scenario and sensitivity testing has been performed on the model(s) supporting the viability statement and what was the outcome of this testing?

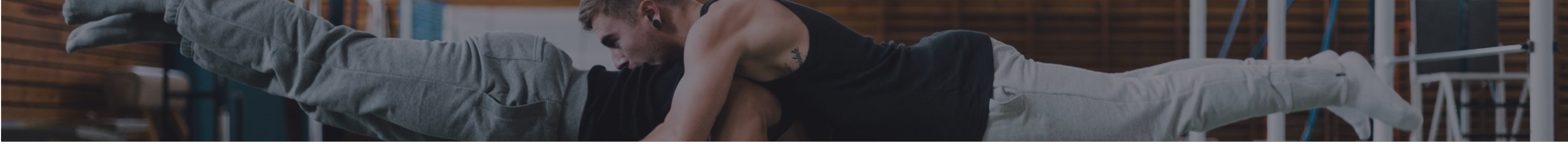


Risk management and internal control

- How is the effective management of risks and monitoring of the risk profile of the business embedded across different levels in the organisation? What are the key steps within the risk management cycle/process?
- How does the board monitor the systems of risk management and internal controls on a regular basis during the year? Is the description of the process for their annual effectiveness review comprehensive?
- What are the outcomes of this review? Has the board identified weaknesses or inefficiencies and are the resulting actions clear?
- Has the company explained its definition of emerging risks and stated the procedures in place to identify them and how these differ from those relating to principal risks?

Governance

- What did the board and its committees actually do in the year to govern the company — what specific governance issues arose and how were they addressed?
- What, if any, changes were made to governance arrangements during the year and why?
- What areas for improvement were identified from the board and committee evaluations and what progress was made against actions from the previous evaluations?
- How is board and committee composition and succession planning being managed, giving due regard to the evolving strategy of the company, skills, experience, diversity, time commitment and tenure?
- Has the fair, balanced and understandable (FBU) assessment adequately considered environmental and social aspects of the front half narrative



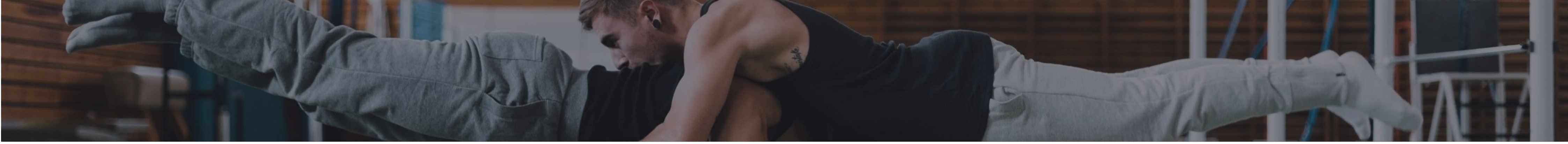
Appendix C Regulatory and legislative developments impacting narrative reporting

a. UK reporting requirements which are final and already effective

These impact September and December 2023 year ends for the first time.

Reporting development and scope	Effective date	Detail
The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 and non-binding guidance **Scope** ▸ UK companies with more than 500 employees and which have either transferable securities admitted to trading on a UK regulated market or are banking companies or insurance companies (namely those UK companies that are currently required to produce a 'Non-Financial and Sustainability Information Statement'. ▸ UK registered companies with securities admitted to AIM, and which have more than 500 employees. ▸ UK registered companies not included in the categories above, which have more than 500 employees and a turnover of more than £500 million.	Financial years beginning on or after 6 April 2022	This expands the non-financial information statement within the Strategic Report to a 'Non-Financial and Sustainability Information Statement' and requires in-scope companies, to publish climate disclosures similar to TCFD. Details of what is required are covered in the non-binding guidance. Companies that to date included their TCFD disclosures in a report other than the ARA will need to consider what material information will need to be brought into the strategic report in FY23. In June 2022 the FRC revised its 'Guidance on the Strategic Report' to reflect the above requirements.

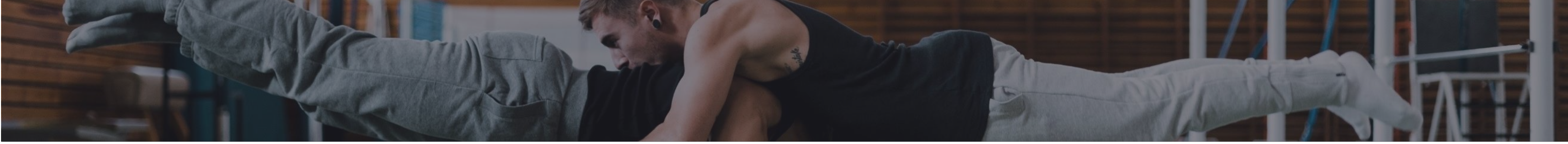
FCA new Listing Rule (LR 9.8.6 (9)) and enhanced Disclosure, Guidance and Transparency Rule (DTR 7.2.8) in relation to diversity on boards and executive committees
Scope
LR – UK and overseas issuers with equity shares, or certificates representing equity shares, admitted to the premium or standard segment of the FCA's Official List, excluding open-ended investment companies and 'shell companies' but including closed-ended investment funds.
DTR - certain UK issuers with securities admitted to UK regulated markets and, through the Listing Rules, to certain overseas listed
	Financial years beginning on or after 1 April 2022	Three new ARA disclosures:
		▸ A comply-or-explain statement confirming whether board diversity targets have been met
		▸ New numerical data tables in a prescribed format on
		  ▸ Sex or gender identity, and
		  ▸ The ethnic diversity
		of members of boards and executive management.
		▸ Expanded disclosures on board diversity policy (under DTR) to cover supplementary factors such as ethnicity, sexual orientation, disability, and socio-economic background (in addition to previously listed factors such



Reporting development and scope	Effective date	Detail
companies subject to existing exemptions for small and medium companies The FCA will review the rules in 2025 to make sure they are working and to check if the diversity targets are still appropriate.		as age, professional/educational background). See further detail in EY's April 2023 publication.

b. Impending UK developments subject to finalisation

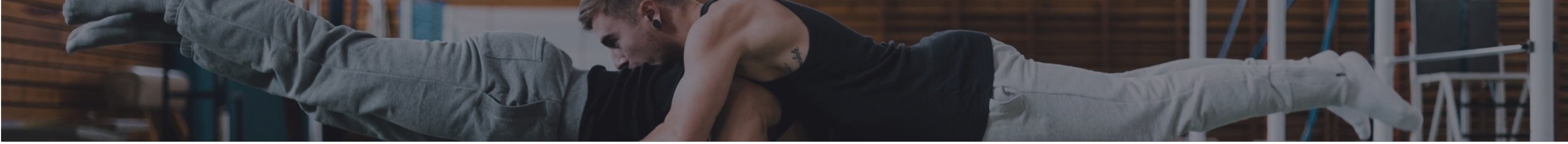
Reporting development. Scope and status	Effective date	Detail
The Draft Companies (Strategic Report and Directors' Report) (Amendment) Regulations 2023 **Scope** UK incorporated companies with a high level of employees and turnover (minimum of 750 employees and a minimum annual turnover of £750 million). The associated guidance notes provide additional information on scoping considerations. **Status- Draft subject to approval** The regulations were laid before Parliament on 19 July 2023 with the expectation that they will come into law before the end of 2023. In the meantime, the FRC is developing guidance, informed by stakeholder outreach and a public consultation, to help companies in complying with the new reporting requirements. The FRC expects to publish the guidance no later than Q1 2024.	1 January 2025 - for in-scope companies with equity share capital admitted to trading on a UK regulated market for the whole of the financial year 1 January 2026 – for other companies in-scope	Four new disclosure requirements: ▸ Triennial Audit & Assurance Policy Statement and annual implementation update ▸ Annual Distribution Statement, with an accumulated realised profits figure, or minimum figure, to be shown as a note to the accounts. ▸ Annual Fraud Statement ▸ Annual Resilience Statement
Revised UK Corporate Governance Code **Scope** Premium listed companies (UK and non-UK incorporated) and companies voluntarily applying the Code. **Status – Draft subject to finalisation**	1 January 2025	Details on the proposed reporting requirements for the UK Corporate Governance Code are set out in our publication. The revised Code will be supported by updated guidance, and work is currently underway to revise the 'Guidance on Audit Committees' and 'Guidance on Board Effectiveness' so they are aligned with the revised Code and Audit Committee Standard.



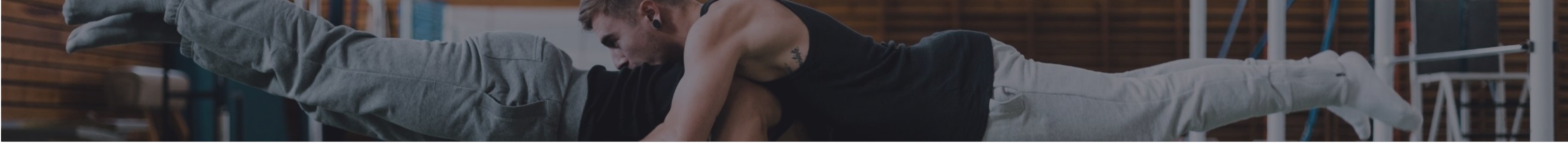
Reporting development. Scope and status	Effective date	Detail
The FRC's consultation closes on 13 September 2023 and a final version of the revised Code is expected to be issued by the end of 2023.		The FRC is also planning to amend the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting', so that it is aligned with the specific changes in the Code relating to risk management and internal control.

c. UK developments companies should keep a watching brief on - likely to impact reporting in the ARA

Development	Implications
Green Finance Strategy 2023 This does not, by itself, introduce new reporting requirements. It does, however, indicate specific initiatives, the outcomes from which are likely to impact environment related reporting for UK incorporated companies and financial institutions.	Examples of sustainability-related reporting developments include: ▸ Exploring explore how the final TNFD framework, due to be published in September 2023, should be incorporated into UK policy and legislative architecture; ▸ UK Green Taxonomy – to introduce mandatory company disclosures against a future green taxonomy; and ▸ 'Call for Evidence' in Q3 2023 on Scope 3 Emissions reporting, nature-related financial risks, dependencies, and effects.
TPT Framework **and Guidance on 'gold-standard' climate transition plans.** TPT was launched by HM Treasury in April 2022 and has a two-year mandate to develop a "gold standard" for private sector climate transition plans applicable to the UK. The TPT plans to publish the final Disclosure Framework and Technical Annex in October 2023. At the same time the TPT will publish an initial version of the Implementation Guidance, this will be updated further over coming months with a final version published by February 2024.	The final Disclosure Framework will be supported by sector-neutral Implementation Guidance and a suite of sector-specific guidance. Updated sector neutral guidance will be published alongside the Framework and then expanded in the coming months. Sector-specific work will be published for consultation later in 2023 and finalised in early 2024. Once the TPT framework is finalised, the UK government intends to begin a consultation on transition plan requirements for the UK's largest companies in the final quarter of 2023. As per Primary Market Bulletin 45, the FCA will consult on guidance that will set expectations for transition plan disclosures at the same time as its planned consultation on the adoption of IFRS S1 and S2.

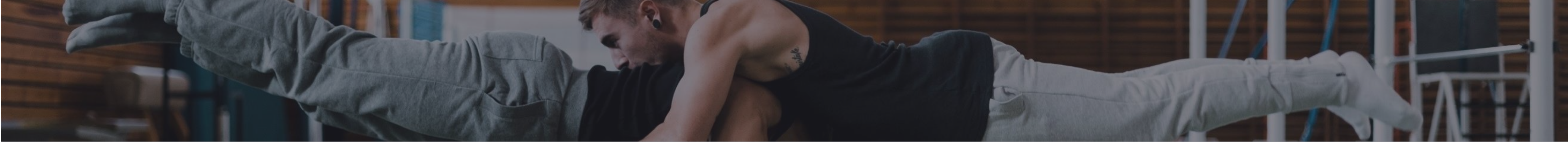


International Sustainability Standards Board's (ISSB) two new reporting standards launched in June 2023: ▸ IFRS S1 'General Requirements for Disclosure of Sustainability-related Financial Information' covers the overall requirements for a reporting entity to disclose its sustainability-related risks and opportunities over the short, medium, and long term. ▸ IFRS S2 'Climate-related Disclosures' sets out specific requirements for the identification, measurement and disclosure of climate-related financial information and is designed to be used in conjunction with IFRS S1.	These two standards fully incorporate the recommendations of TCFD and as a result, the IFRS Foundation will take over the monitoring of climate-related disclosures from 2024. The Secretary of State for Business and Trade will consider the endorsement of the standards, to create UK Sustainability Disclosure Standards (UK SDS) by July 2024. UK endorsed standards will only divert from the global baseline if absolutely necessary for UK specific matters. Following endorsement, decisions to require disclosure will be taken independently by the FCA for listed companies and by government for UK registered companies and limited liability partnerships As noted in Primary Markets Bulletin 45, the FCA's aim is to finalise its policy position by the end of 2024, with a view to bring new requirements into force for accounting periods beginning on or after 1 January 2025. It also expects to consult on moving from the current comply or explain compliance basis to mandatory disclosures for listed issuers.
Government statutory review of the Reporting on Payment Practices and Performance Regulations 2017. Large UK companies and LLPs are required to report (via a government portal) on their payment practices, policies, and performance every six months.	The government is yet to decide whether to amend the expiry date of the current Regulations, so it is extended beyond 6 April 2024, or introduce legislative requirements for companies to include a summary of their payment practices in the annual report and accounts.
Modern Slavery Bill The 2022 Queen's Speech included the announcement of a Modern Slavery Bill. The intention is to build on the requirements of the Modern Slavery Act 2015.	Among other things, the Bill if enacted may mandate and enhance the reporting to be covered in modern slavery statements. It may introduce a legal requirement for organisations to publish their statements on a government-run registry.



d. EU and SEC developments with potential relevance to certain UK companies

Development	Effective date	Commentary
Corporate Sustainability Reporting Directive (CSRD) **Scope (as it applies to non-EU undertakings)** UK companies with 'substantial activity' in the EU market (more than €150m annual net turnover in the EU) and which have at least one subsidiary (large or listed) or branch (net turnover of more than €40m) in the EU. **Status - Final** The Directive came into force in January 2023, with reporting standards applicable to non-EU undertakings to be developed by June 2024.	For non-EU undertakings: 1 January 2028	EU undertakings (this includes EU-incorporated subsidiaries of UK groups, or UK groups listed in the EU) caught by CSRD will be required to produce a sustainability report using European Sustainability Reporting Standards (ESRS) on a phased implementation basis. The ESRSs are intended to establish a framework that will bring sustainability reporting to the same level as financial reporting, and to facilitate the standardisation and comparability of sustainability information among companies. Annex I contains the final first set of twelve ESRS as adopted by the European Commission. Annex II includes a glossary and a list of acronyms. However, separate EU reporting standards (i.e., not the ESRSs referenced above) will apply to UK companies with substantial activity in the EU market that are not themselves EU undertakings. These are expected to be developed by June 2024, and they will focus on impact, not risks. The sustainability report produced by the UK parent, covering the EU operations, will require an assurance opinion.
Securities and Exchange Commission (SEC) proposes rules **Scope** SEC registrants with shares valued at over $250M, including EU and UK based SEC registrants **Status - Draft** The SEC has been considering whether to scale-back requirements on Scope 3 disclosures, and consequently the final publication of the climate disclosure rules is not expected before the autumn of 2023.	TBC	In March 2022 the SEC proposed new climate-related reporting requirements. Under this proposal companies will be required to disclose their direct and indirect greenhouse gas emissions, and climate-related risks. Companies that have developed transition plans, conducted scenario analysis, or set public climate-related targets or goals will also be subject to specific disclosures. The rules are expected to introduce assurance over Scope 1 and 2 emissions only, first subject to limited assurance one year after emissions disclosures are required and 2 years later subject to reasonable assurance.



Development	Effective date	Commentary
SEC has adopted new rules on the reporting of cyber security risks and incidents **Scope** The rules apply to nearly all registrants that are required to file periodic reports (e.g., Form 10-K, Form 20-F) with the SEC, including smaller reporting companies (SRCs) and foreign private issuers (FPIs). **Status - Final** The rules were adopted in July 2023	FPIs must comply with the requirements in Form 20-F beginning with annual reports for fiscal years ending on or after 15 December 2023.	The SEC announced in July 2023 that it will be adopting new rules to enhance and standardise disclosures regarding cybersecurity risk management, strategy, governance, and incidents by public companies that are subject to the reporting requirements of the Securities Exchange Act of 1934. EY's summary of the rules sets out the risk management, strategy and governance disclosures as well as those related to incident reporting.
SEC is considering whether to adopt two new rules on human capital disclosure **Scope - TBC** **Status – Expected**	TBC	Whilst proposals from the SEC on human capital reporting were expected in April 2023, they had not been issued as of August 2023.The SEC has indicated its intention to introduce such disclosures such as human capital metrics (e.g., workforce turnover, skills and development training, compensation and benefits) and workforce demographics (e.g., diversity). A separate draft rule on corporate board diversity was also mooted, but its release is not expected until October 2023. Further information on the SEC's considerations relating to new rules on human capital reporting can be found in the EY publication 'SEC top four - What public companies, boards and investors should watch for in 2023.'

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