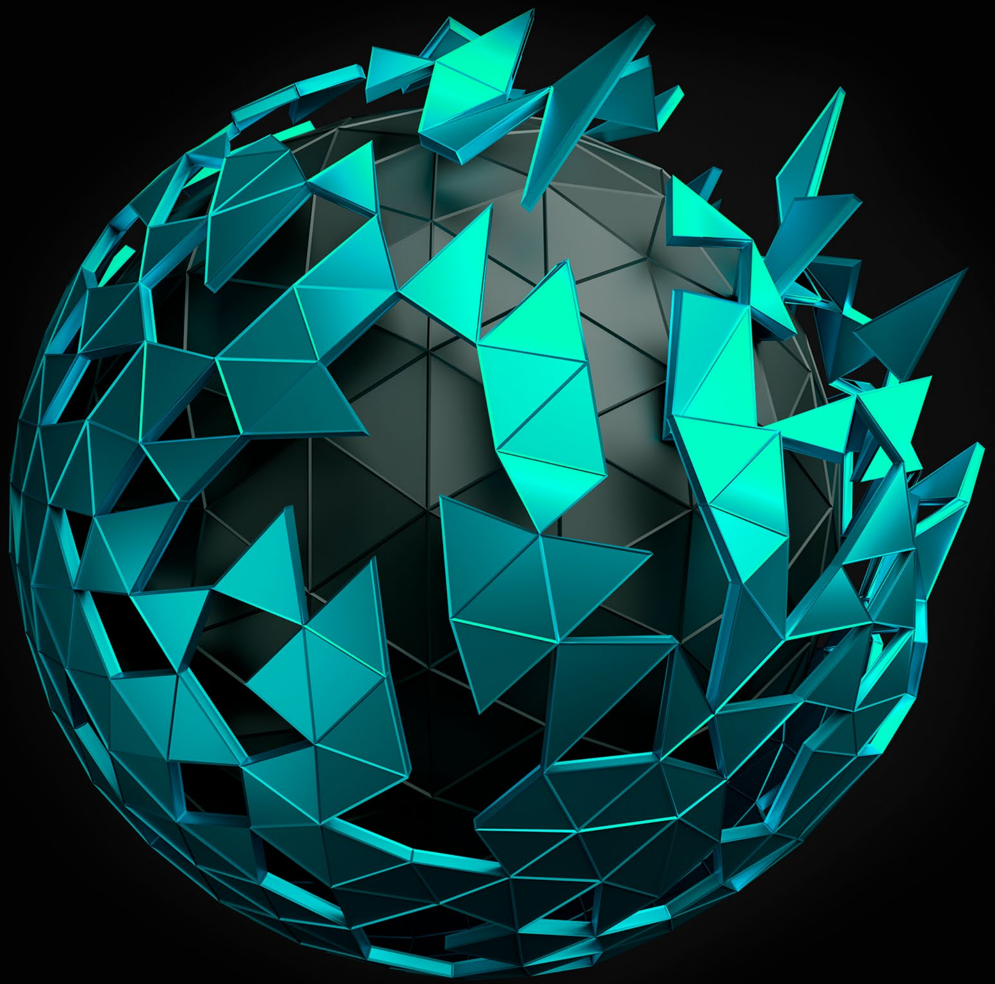


Corporate governance reporting highlights
Areas for future focus

September 2022

GO

Introduction

Introduction

Welcome to Areas for future focus

Our intent in making this report available is to help companies deliver more effective reporting, avoid boilerplate and provide the information which investors and wider stakeholders seek. The report provides examples of disclosure which we believe demonstrate elements of good practice in key areas highlighted by the FRC in its November 2021 Review of Corporate Governance Reporting (the 2021 Review).

The FRC's 2021 Review delivered key messages and expectations for improvements in corporate governance reporting. We explore these messages, set out the underlying source of legal and / or regulatory requirements and we provide examples of disclosure. The topic areas we cover are mainly those highlighted in the FRC's 2021 Review but we have also added other hot topics and emerging areas to help you stay ahead of the game – and we have clearly explained why the topic is a focus of attention. These areas include the viability statement, which has received recent focus from the FRC's Financial Reporting Lab and will be reshaped into the new Resilience Statement, the audit committee's reporting on the use of Alternative Performance Measures (APMs), and the Audit & Assurance Policy which will become a legal requirement as part of the implementation of the BEIS reform package. Of course, the area of technology is also receiving increasing focus from regulators in the UK and the US and on this topic you may wish to refer to our recent publication Cyber risk and governance reporting in the UK: Improvement required!

As the FRC works towards issuing consultations on revisions to the UK Corporate Governance Code in 2023, companies will wish to ensure their existing disclosures are of a high standard and meet regulatory expectations.

We focus in this report on disclosures by premium listed companies, but of course the examples will also be useful to other companies looking for examples of disclosure in practice.

"Unfortunately, as last year, we continue to see the use of boilerplate or declaratory statements".

"There has been an improvement in reporting on environmental and social issues, with better quality information on the issues under consideration and how this has been considered at board-level".

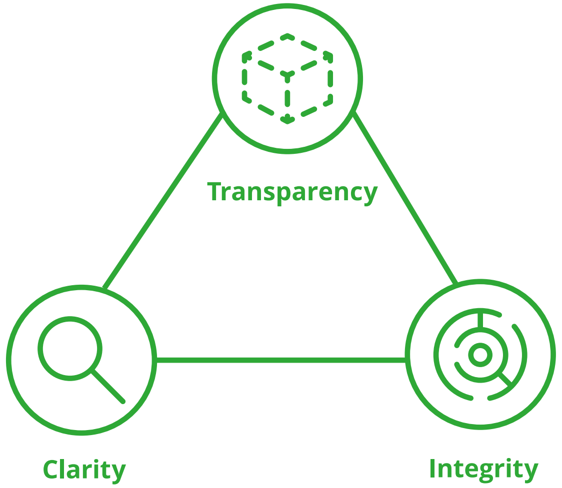
FRC, Review of Corporate Governance Reporting, November 2021

What to keep in mind when reporting

"Good reporting is characterised by clear and consistent explanations, supported by real-life examples of application and cross-referencing between related initiatives and sections."

FRC, November 2021

The FRC has reiterated the underlining principles of good quality reporting:



Companies should be clear about:

The impact of engagement with stakeholders, including any areas where the company failed to meet targets

The impact of engagement with stakeholders, including shareholders, on decision-making, strategy and long-term success

Departures from Provisions and provide a detailed explanation

Engagement with shareholders and the workforce in relation to remuneration and the outcome of that engagement

Diversity policies, objectives and targets and their connection to company strategy

The relationship and level of oversight between the board and committees

Monitoring & enforcement of governance reporting – a reminder of the CRR's[1] powers and responsibilities

"The Government intends to proceed with the proposals set out in the White Paper to strengthen and widen the regulator's powers to review corporate reporting... These include the proposals to extend the regulator's review powers to the entire annual report, including the voluntary elements, and to give the regulator power to require or commission an expert review."

Government response to the consultation on strengthening the UK's audit, corporate reporting and corporate governance systems, May 2022

"The government expects companies to engage voluntarily with the FRC and make necessary revisions to annual statements in respect of issues raised in areas which are currently outside of the FRC's formal enforcement remit. Given this direction, CRR have begun, on a sample basis, reviewing annual reports and engaging with companies in respect of areas which were previously outside remit where it appears that there is, or may be, a question as to whether there is a breach of the relevant reporting requirement; or in cases where there is an opportunity for a company to improve the quality of its reporting."

FRC Thematic Review: Viability and Going Concern, September 2021

1. Corporate Reporting Review

Code compliance

The Listing Rules require that premium listed companies should explain how they applied the Principles of the UK Corporate Governance Code, thus companies should be able to demonstrate how they have embedded each Principle into their governance framework. In addition, premium listed companies must make clear the extent to which they have complied with the Provisions of the Code. The Code offers flexibility through its ‘comply or explain’ approach but there must be a clear explanation in relation to any non-compliance. Although the FRC has observed an improvement in the quality of non-compliance reporting they believe there is still scope to enhance the quality of explanations.

Reporting framework

Legal and regulatory requirements

LR9.8.6(5) A statement of how the listed company has applied the principles set out in the UK Corporate Governance Code, in a manner that would enable shareholders to evaluate how the principles have been applied.

LR9.8.6(6) [The annual financial report should include] a statement as to whether the listed company has complied throughout the accounting period with all relevant provisions set out in the UK Corporate Governance Code.

Regulators' expectations

"We would encourage premium listed issuers to consider carefully whether, when stating how they have applied the Principles of the Code under LR9, they have done so in a manner which enables shareholders to evaluate how the Principles have been applied rather than merely stating they have been applied."

Corporate Governance Disclosures by Listed Issuers, FCA, November 2020

"Better reporters signposted to other parts of the annual report that showed how the Principles have been applied."

The FRC expects companies to report in a clear and transparent way any non-compliance with any Provisions of the Code and provide a clear and meaningful explanation for any departures from the Code.

Review of Corporate Governance Reporting, FRC, November 2021

What to look out for when reporting

A clear structure of a narrative statement regarding the Code should include:

Appliance statement

- ***how*** the company has applied the Principles in a manner that would enable shareholders to evaluate how they have been applied.

Compliance statement

- whether the company has:

a) fully complied with all elements of the Provisions of the Code throughout the whole financial year;

b) departed from any of the Provisions of the Code (whether throughout the whole financial year or part of it), citing any Provisions that they have not complied with by name and stating where in the report the explanation can be found.

A good explanation of non-compliance should include the following elements:

Set the context and background

Give a convincing rationale for the approach being taken

Consider any risks

Describe any mitigating actions

Set out timescale (when the company indents to comply)

Ensure the explanation is understandable and persuasive

What to look out for when reporting

Carefully check whether a company has complied with the Provisions throughout the reporting period, especially with the following:

Highest levels of undisclosed non-compliance

Provision 4 Significant shareholder dissent

Provision 5 Engagement with stakeholders for engagement with the workforce

Provision 9 Chair independence on appointment

Provision 19 Chair remaining in post beyond nine years

Provision 24 Audit committee composition

Provision 26 Audit tenure

Provision 28 Robust assessment of the company's emerging and principal risks

Provision 32 Remuneration committee composition

Provision 36 Post-employment shareholding requirement

Provision 41 Engagement that has taken place with shareholders and the workforce on remuneration

Highest levels of reported non-compliance

Provision 9 Chair independence on appointment

Provision 11 Half the board (excluding the chair) to be independent

Provision 19 Chair remaining in post beyond nine years

Provision 24 Audit committee composition

Provision 32 Remuneration committee composition

Provision 36 Post-employment shareholding requirement

Provision 38 Alignment of pension contributions

Application of Code Principles – examples

Victrex plc presented a statement on the application of the Code Principles in a table format with a narrative description for each Principle and references to further information.

Governance report 2021 (pages 68-72)

How the Principles have been applied, articulating what action has been taken and the resulting outcomes

1. Board leadership and Company purpose

A. Role of the Board	The Board performs its role to promote the long-term sustainable success of the Company and is considered to be effective in its approach. An explanation of how the Board operates can be found on pages 73 to 76. The action plan following the 2021 internal Board and Committee effectiveness evaluation is contained on page 78.	For a description of the business model and a description of strategy, please see pages 10 to 17.
B. Purpose, values, strategy and culture	The Board endorses the Company's purpose which informs our strategy, our values and our culture and inspires our people. The Board reviews workforce culture and employee engagement through a range of touchpoints throughout the year. We have developed a dashboard of cultural indicators which is reviewed formally twice each year, with any actions to address any areas of concern being monitored more frequently. In addition, the Audit Committee has reviewed the results of internal audits which provide insights into the culture of the Group and individual areas of the business. Following a detailed review of culture which included consideration of the Group's values, the behavioural framework and employee insights from our non-executive Director with designated responsibility for workplace engagement, in conjunction with the annual review of purpose and strategy undertaken, the Board confirmed the alignment between purpose, strategy, values and desired culture.	For more information on our purpose, strategy, values and culture, please see page 78.
C. Resources and controls	The Board ensures that the necessary resources are in place for the Company to meet its objectives and measures performance against them. The Board has a framework of controls which enables risk to be assessed and managed. The Group has established an Executive Risk Management Committee which manages risks and establishes and monitors controls in place.	For more information about the risks faced by the Company and the associated governance framework, see pages 33 to 38. See the Audit Committee report on page 89 for information about controls.

Application of Code Principles – examples

Britvic plc's and **Beazley plc's** appliance statement provides cross-references to those parts of the annual report that describe how each Principle has been applied.

Britvic plc (to the right), Governance report 2021 (page 69)

Beazley plc, Governance report 2021 (page 77)

Precise cross- references to disclosures elsewhere in the annual report

Application of UK Corporate Governance Code Principles

	Code Principle	Section
A	**Board leadership and company purpose** A successful company is led by an effective and entrepreneurial Board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.	The Board (page 78) Corporate governance framework (page 79)
B	The Board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	Our business model (page 06) Statement of the chair: company purpose and vision (page 11) The Board (page 78)
C	The Board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The Board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	Risk management (pages 64 to 68) The Board (page 78)
D	In order for the company to meet its responsibilities to shareholders and stakeholders, the Board should ensure effective engagement with, and encourage participation from, these parties.	Stakeholder engagement and Board decision-making (pages 42 to 45)
E	The Board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.	Culture & People (pages 46 and 47) How we engage with our workforce page (page 42) Whistleblowing (page 70)

	Section 1: Board leadership and company purpose	Section	Page
A.	An effective and entrepreneurial Board promotes the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.	– The Board in 2021	78 – 81
B.	Purpose, values and strategy are set and align with culture, which is promoted by the Board.	– Strategy at a glance – How governance supports strategy	22 78
C.	Resources allow the company to meet its objectives and measure performance. A framework of controls enables assessment and management of risk.	– Risk management – Internal control and risk management	61 – 66 91
D.	Engagement with shareholders and stakeholders is effective and encourages their participation.	– Shareholders – Stakeholder engagement	80 30 – 31
E.	Oversight of workforce policies and practices ensures consistency with values and supports long-term sustainable success. The workforce is able to raise matters of concern.	– Employees – Whistleblowing	81 91

	Section 2: Division of responsibilities	Section	Page
F.	The Chair is objective and leads an effective Board with constructive relations.	– Our governance framework	74
G.	The Board comprises an appropriate combination of Non-Executive and Executive Directors, with a clear division of responsibilities.	– Directors – Our governance framework	77 74
H.	Non-Executive Directors commit appropriate time in line with their role.	– Directors	77
I.	The Company Secretary and the correct policies, processes, information, time and resources support Board functioning.	– How the Board works	76 – 77

Application of Code Principles – examples

A fully narrative approach was presented by **Barclays plc.** This approach provides readers with a summary of the application of the Principles and explains what processes have been set to meet the Code Principles.

Corporate Governance report 2021 (pages 148 -101)

Board leadership and company purpose

Role of the Board

Our governance is designed to deliver an effective and entrepreneurial Board which:

- is effective in providing challenge, advice and support to management
- provides checks and balances and encourages constructive challenge
- drives informed, collaborative and accountable decision-making
- creates long-term sustainable value for our shareholders, having regard to the interests of all our other stakeholders.

You can read more about our governance in the context of the Board, including our Group-wide governance framework and how the Board discharged its responsibilities during 2021, on pages 117 to 123.

Culture

The Barclays Way sets out our Purpose, Values and Mindset, and is the Code of Conduct for everyone working at Barclays, providing a clear path for achieving a dynamic and positive culture within the Group. You can read more about *The Barclays Way* in our ESG report on page 80.

The Board is fully supportive of *The Barclays Way* and our Purpose, Values and Mindset, and you can read more about Board's role in this area, including how the Board receives feedback on our culture through a number of channels to ensure it is aligned to our Purpose, Values and Mindset, on page 120.

Our Group Whistleblowing Standard enables employees to raise any matters of concern anonymously and is embedded into our business. You can read more about Whistleblowing in the ESG report on page 93, and the role of the Board Audit Committee in reviewing and monitoring the Group's Whistleblowing policies on page 137.

Relations with shareholders and stakeholders

Considering the views and interests of our stakeholders is an important part of the way in which the Board makes decisions and provides oversight and challenge. You can find more details about how the Board engages with stakeholders in our Section 172 Statement on page 16. You can also read more about how we engage with our stakeholders, including what they told us in 2021 and how we responded, in our Strategic report on pages 14 to 15.

Our comprehensive investor relations engagement helps to inform the Board about investors' views on Barclays, which are communicated regularly to the Board; and our Chairman engages with shareholders on governance and related matters. Our Investor Relations programme returned to a more normalised process in 2021, combining both virtual and in-person formats, as we adapted to new ways of working, allowing high-quality interaction in the ways our investors prefer.

Our shareholder communication guidelines are available on our website at home.barclays/investor-relations/shareholder-information/.

Institutional investors

In 2021, the Directors, in conjunction with the senior executive team and Investor Relations colleagues, were able to participate in investor meetings, seminars and conferences across many locations, increasingly in person. We held conference calls and webcasts for our quarterly results briefings for both our equity and fixed income investors, and look forward to continuing this engagement through 2022.

During 2021, discussions with investors included, but were not limited to:

- the impact of the COVID-19 pandemic on Barclays, including macroeconomic effects of higher inflation and interest rates
- opportunities arising from the subsequent reopening of global economies, and the recovery in consumer and corporate activity
- drivers of sustained double-digit Group return on average tangible shareholders' equity (RoTE) post-COVID-19 pandemic
- Group Chief Executive succession and its impact on the Group's strategic priorities and targets over the medium term
- capital allocation and shareholder distributions, while managing capital towards our target range
- the advance of the climate agenda and furtherance of the Barclays' climate strategy.

Private shareholders

During 2021, we continued to actively communicate with our private shareholders through shareholder mailings, information available on our website and at our AGM. Our Private Shareholder Relations team is also available to support with any feedback or questions from shareholders. You can read more about our 2021 AGM on this page.

The Group issues regulatory announcements via the Regulatory News Service (RNS) and shareholders can subscribe to receive notifications of such announcements via our website home.barclays/investor-relations/investor-news/regulatory-news-email-alerts/.

More information for shareholders is available on pages 105 to 106, which
signing up to Shareview (
shareholders to easily ma
shareholdings and perso
receiving dividends elect
unclaimed funds to shareholders and useful contacts.

Cross-references for further information are clear and precise

Stakeholder engagement

Seeking to understand all stakeholders' views, and the impact of our behaviour and business on our customers and clients, colleagues, suppliers, communities and society more broadly, is a key part of how the Board makes decisions and provides oversight and challenge. Accordingly, the Board monitors key indicators across areas such as culture, citizenship, conduct, and customer and client satisfaction on an ongoing basis.

We engaged extensively with shareholders and other stakeholders (including proxy advisory agencies and investor associations) in 2021 on key topics including strategic priorities, governance and succession planning, as well as further engagement on Barclays' climate strategy.

Throughout 2021, we have engaged with our stakeholders through a variety of means including surveys, participation in forums and global and regional industry initiatives.

For further detail about how we engage with our stakeholders, including what they told us in 2021 and how we responded, please refer to our Strategic report on pages 14 to 15. You can read more about how the Board engages with stakeholders in our Section 172 Statement on pages 16 to 19.

Application of Code Principles – examples

Principles of the Code

1. Board leadership and company purpose (pages 76 to 81)	Page(s)
Chair's introduction	70
Our Board	72 to 73
Purpose, values and strategy	02 to 25
Culture	22 to 23, 26 and 29
Board stakeholder engagement and decision-making	26 to 29
Key performance indicators and strategic performance	30 to 36
Risk assessment	37 to 43
Risk management	134 to 193
Rewarding our workforce	101 to 129
2. Division of responsibilities (page 82)	
Our Board and governance structure	76
Board independence and time commitments	88
Committee reports	87 to 102 and 117
Board and Committee meeting attendance	77
3. Composition, succession and evaluation (pages 83 to 85)	
Our Board	72 to 73
Our Board and governance structure	76
Board and Committee meeting attendance	77
Nomination and Governance Committee report	87 to 89
4. Audit, risk and internal control (page 86)	
Audit Committee report	90 to 93
Statement of Directors' responsibilities	133
Risk management	134 to 193
Principal risks and emerging risks	38 to 42
Board Risk Committee report	94 to 99
Going concern	43
Viability statement	43
5. Remuneration	
Directors' remuneration report	101 to 121
Other remuneration disclosures	122 to 129

The Sage Group plc and **Lloyds Banking Group plc** presented their appliance statement in a table format with five sections of the Code and key areas of each section.

The Sage Group plc, Governance report 2021 (page 69)

Lloyds Banking Group plc, Corporate Governance report 2021 (page 71)

Board leadership and company purpose	Pages
Purpose and culture	3, 38 to 41, 61 and 99
Shareholder engagement	89
Colleague engagement	90
Other stakeholder engagement	92 to 94
Conflicts of interest	83
Division of responsibilities	**Pages**
The role of the Board	74
The role of the Committees	74 and 75
Board composition	75
Committee composition	84
Independence of Non-executive Directors	83
Time commitment	83
Composition, succession and evaluation	**Pages**
Board composition and succession	104 and 105
Diversity and Inclusion	106 to 109
Annual re-election of Directors	83
Induction, Director training and development programme	78 and 79
Board effectiveness and evaluation	80 to 82
Audit, risk and internal control	**Pages**
Significant reporting and accounting matters	112 to 115
Fair, balanced and understandable	116
Viability statement and going concern	113
Risk management and internal controls	116
Internal audit	117
External auditor	118 and 119
Principal and emerging risks	57, 111 and 116
Remuneration	**Pages**
Remuneration principles	121
Remuneration Policy	130 to 139
Pension and benefits	149 and 150
Directors' shareholdings and share interests	153
External advisors	157

Application of Code Principles – examples

Howden Joinery Group plc combined a box format with some narrative disclosures provided for each Principle separately.

Corporate Governance report 2020 (pages 88-93)

Section 1: Board leadership and company purpose

A

A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

Howdens' founding principle of being worthwhile for all concerned supports the premise that its role is to ensure long-term, sustainable growth and value for all its stakeholders.

During 2020, the Board led the Company's response to the unprecedented challenges which arose as a result of the COVID-19 pandemic. The Company's primary focus was on keeping our employees and customers safe from COVID-19 at all times. Once this had been established, action was taken to safeguard the Company's cash position to ensure that it remained viable in the face of extremely challenging external conditions.

In the latter part of the year, as pressures eased on cash, depots and manufacturing operations reopened and trading returned to a more normalised cycle (albeit in a COVID-secure way), the Board was able to focus on longer-terms strategic initiatives and stakeholder experience. In line with Howdens' values-led approach, the Board decided to return Government support received during the year relating to the Coronavirus Job Retention Scheme and business rates relief. More information on our sustainable business model and strategy, and our contribution to wider society may be found in the Sustainability report beginning on page 48.

Governing in an effective way ensures the framework and controls needed to align our operations with our strategy are in place. It is only by doing this that we can ensure long-term strategic success of the Company for our stakeholders. We discuss throughout the Governance section how our actions support the strategy. For example, we have set out the way our remuneration structure supports our strategic aims in the Remuneration Committee report on page 108.

B

The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

An explanation of our purpose, values and strategy are set out in the Strategic report which starts on page 4. The Board regularly discusses the importance of Howdens' unique culture and are mindful that it remains aligned with its purpose, values and strategy. This remains an area of regular scrutiny following the transition from the Founder CEO. Workforce engagement is also an important part of the Board's agenda and more information about the methods of engagement with the workforce may be found on pages 82 and 83.

Integrity and sympathy to the Howdens culture are paramount when the Board recruits new members to the Board. More information about our recruitment and inductions process can be found on pages 99 to 101.

C

The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

The Board are satisfied that the necessary resources are in place to ensure that the Company meets its objectives and measures performance against them. Our KPIs and how we have performed against them can be found on pages 30 to 32.

More information on our risk processes, including our principal and emerging risks, can be found in the 'Princip risks and uncertainties' section starting on page 38. Our A dit Committee report provides a summary of our internal co l framework on page 132.

Cross-references to further information are clear and precise

Section 1: Board leadership and company purpose continued

D

In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.

Howdens has a broad group of clearly defined stakeholders and the Board actively engage with each of these groups on a regular basis. A detailed explanation of our engagement with our shareholders and wider stakeholder base and how this engagement has informed the Board's decision making processes can be found on pages 82 to 87. How the Board members discharged their 'section 172' statutory directors duties is described on pages 78 and 79.

E

The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

The Board and its committees review workforce policies and practices on a regular basis. A Group policy framework has been established and is reported on to the Board on an annual basis, as well as any updates needed for Group policies. Part of this review includes ensuring that policies remain aligned to the Howdens culture and support long-term success.

One example of this is how our Remuneration Committee consider the pay policies and practices of the wider workforce when determining Executive reward. More information in this regard can be found on page 114.

All employees are able to raise any matters of concern via the confidential whistleblowing helpline. The helpline is available 24 hours a day, is multilingual and operated by an independent third party. The Board receive reporting from the helpline twice a year and any matters of significant concern are escalated as appropriate by the Company Secretary who oversees the helpline with support from the internal audit team.

Explanation of non-compliance with Provisions – examples

RELX plc's compliance statement clearly names the Provisions that the Company has not complied with; when the Company intends to comply with the Code and explains the reasons for non-compliance.

Governance Overview 2021 (page 77)

Corporate governance compliance statements

The 2018 UK Corporate Governance Code (the Code) applied to RELX PLC (the Company) during the year.

The Company has complied with the provisions of the Code throughout the year ended 31 December 2021, with the exception of provision 19 (length of tenure of the Chair) until 1 March 2021, and provision 38 (alignment of executive director pension contribution rates with those available to

The value of pension benefits for current Executive Directors has decreased over the last several years, and continues to decrease. They will transition from their current arrangements to the level of pension benefits provided under the Company's regular defined contribution plans (currently capped at 11% in the UK) by the end of this year (2022), in line with the recommendations of the Investment Association. Notwithstanding provision 38 of the Code, the Board viewed it as appropriate that there be a phased transition of existing pension benefits for Executive Directors. The current Remuneration Policy, which was approved by shareholders at the 2020 Annual General Meeting (AGM) and applies for three years from the date of approval, includes a pension policy for any newly appointed Executive Directors which is aligned to the general workforce. The pension benefits received by the Executive Directors in 2021 were in line with the terms of the Directors' Remuneration Policy.

A description of how the Company has applied the main principles of the Code is set out on pages 77 to 124.

Explanation of a phased approach for pension alignment

Explanation of non-compliance with Provisions – examples

Intertek Group plc's compliance statement states explicitly the reasons for non-compliance areas. The Company's disclsoures are clear and transparent – as recommended by the FRC's "Improving the quality of 'comply or explain' reporting" publication. The explanations also provide an understandable and persuasive reason for non-compliance.

Governance report 2021 (page 101)

Compliance with the 2018 UK Corporate Governance Code ('Code')

This report has been prepared in order to provide stakeholders with a comprehensive understanding of our governance framework and to meet the requirements of the Code, the Listing Rules ('LR') and the Disclosure Guidance and Transparency Rules ('DTR'). A copy of the Code is publicly available at frc.org.uk.

Page 98 sets out how this Governance section has been structured around the Code Principles.

The Board confirms that during 2021, the Company has consistently applied the principles of good corporate governance contained in the Code and has complied with the provisions apart from the following:

- Provision 13 states that the Chair should hold meetings with the Non-Executive Directors without management present. Two such meetings are scheduled every year but during 2021 these meetings included the CEO as necessitated by the business at the time. Two Chair and Non-Executive Director meetings have been scheduled for 2022 with the first having taken place in February 2022.
- Provision 38 stipulates that the pension contribution rates for Executive Directors should be aligned with that of the workforce. The pension contribution for all new Executive Directors appointed to the Board since 2018 has been aligned with that of the workforce. However, when the CEO joined Intertek in 2015 and prior to the introduction of provision 38 in the Code issued in 2018, his contract stipulated a pension contribution of 30% of base salary per annum. This is more than the pension contribution of the majority of the UK workforce. Regardless of the obligations outlined in the CEO's contract, agreement was reached with the CEO to reduce his pension from 30% of base salary to 5% over a period of five years from 2021. More information on the engagement with shareholders on this issue is outlined in the letter from the Chair of the Remuneration Committee on pages 136 to 137.

A more detailed explanation of our compliance can also be found on our website at intertek.com. The information required to be disclosed in accordance with DTR 7.2.6 can be found in the Other Statutory Information section on pages 163 to 165.

Explanation of non-compliance with Provisions – examples

Admiral Group plc provided a clear and comprehensive explanation for non-compliance with Provision 19 setting out the background of the issue and providing a rationale for the approach taken, supported by a timescale when the company is intending to comply. In addition, the disclosure covers consideration of the risk of the board not being effective and mitigating actions taken.

Strategic report 2021 (page 114)

Explanations:

Provision 19 of the Code states that 'The chair should not be in post beyond nine years from the date of their first appointment to the board.' Annette Court was appointed as Board Chair in April 2017, having spent five years as a Non-Executive Director of the Board. Annette reached her nine-year tenure as Non-Executive Director on the Board in March 2021. As reported in the Annual Reports for the two prior periods, in 2019, the Board considered and agreed, having consulted shareholders, that she should remain in post as Board Chair for up to three years beyond March 2021, with the expectation that she would serve two years, subject to annual approval by the shareholders. This represents a departure from the Code for the 2021 financial year.

Provision 19 of the Code goes on to state that 'To facilitate effective succession planning and the development of a diverse board, this period can be extended for a limited time, particularly in those cases where the chair was an existing non-executive director on appointment.' Not only was Annette an existing Non-Executive Director upon her appointment as Board Chair, but we also believe that it continues to be necessary to extend her tenure until March 2024 at the latest, in order to facilitate Board continuity and succession following David Stevens, a founder of Admiral, stepping down from his role as CEO in December 2020 and Milena Mondini assuming the role of Group CEO in January 2021.

The Board takes comfort from the fact that Annette's re-election was supported by shareholders at the previous AGM on 30 April 2021 (99.93% votes in favour) and that her 2021 performance review, led by the SID, concluded that she continued to perform effectively as Board Chair, continued to exercise objective judgement and promoted constructive challenge amongst Board members.

Owen Clarke: 'The Board concluded that the risk of the Chair failing to operate with sufficient independence is low, but the Board, led by the Senior Independent Director, will continue to monitor the Chair's performance and objective judgement during 2022 in order to mitigate any risk of reduced challenge to decision-making and any compromise in the Chair's objectivity.'

The 2021 Board evaluation also concluded that the Board continued to function well, under the leadership of Annette. In addition, the Board's composition has continued to be refreshed during 2021, with the appointment of Evelyn Bourke and Bill Roberts, further strengthening the Board's mix of skills, experience and knowledge whilst further mitigating any potential reduction of challenge.

Purpose, Values and Culture oversight

The concepts of purpose was first introduced into the Code in 2018. A company's purpose should be the driving force in decision-making and should be aligned with the company's values. Cultural indicators should be identified within the business to allow boards to monitor and assess whether the company exists and operates in alignment with its purpose.

Reporting framework

Legal and regulatory requirements

Principle B: "The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture."
Provision 2: "The board should assess and monitor culture. Where it is not satisfied that policy, practices or behaviour throughout the business are aligned with the company's purpose, values and strategy, it should seek assurance that management has taken corrective action. The annual report should explain the board's activities and any action taken."

Regulators' expectations

FRC comments: "Companies should have a well-defined purpose and clearly show the progress towards achieving it."

"FRC expects companies to demonstrate further improvements in the quality of disclosures of how purpose, values, and strategy are connected."

"FRC expects more companies to take a more rigorous approach to culture and set up effective ways of monitoring and assessing both the culture and its alignment with purpose, values and strategy, including setting out any actions taken in this area in line with Provision 2."

Review of Corporate Governance Reporting, FRC, November 2020

"While the majority improved their purpose statement some companies continue to confuse it with vision and mission statements, and operational descriptions."

"Companies should be aiming to join the dots – not only between culture, purpose, values and strategy, but also between different culture-related activities across the organisation."

"Those [companies] that did explicitly report on their culture assessment/monitoring and/or embedding unfortunately provided limited evidence of any link between different workstreams or a feedback loop."

Review of Corporate Governance Reporting, FRC, November 2021

What to look out for when reporting

While the general increase in reporting on culture, purpose and values has been acknowledged by the FRC, companies are urged to give greater attention to the following:

Alignment between culture, purpose, values and strategy, *supported by real-life examples*

Joining the dots between different culture-related initiatives across the organisation to put data into context

Providing information on how stakeholder feedback influenced board decisions

Reporting on the impact, not only the process

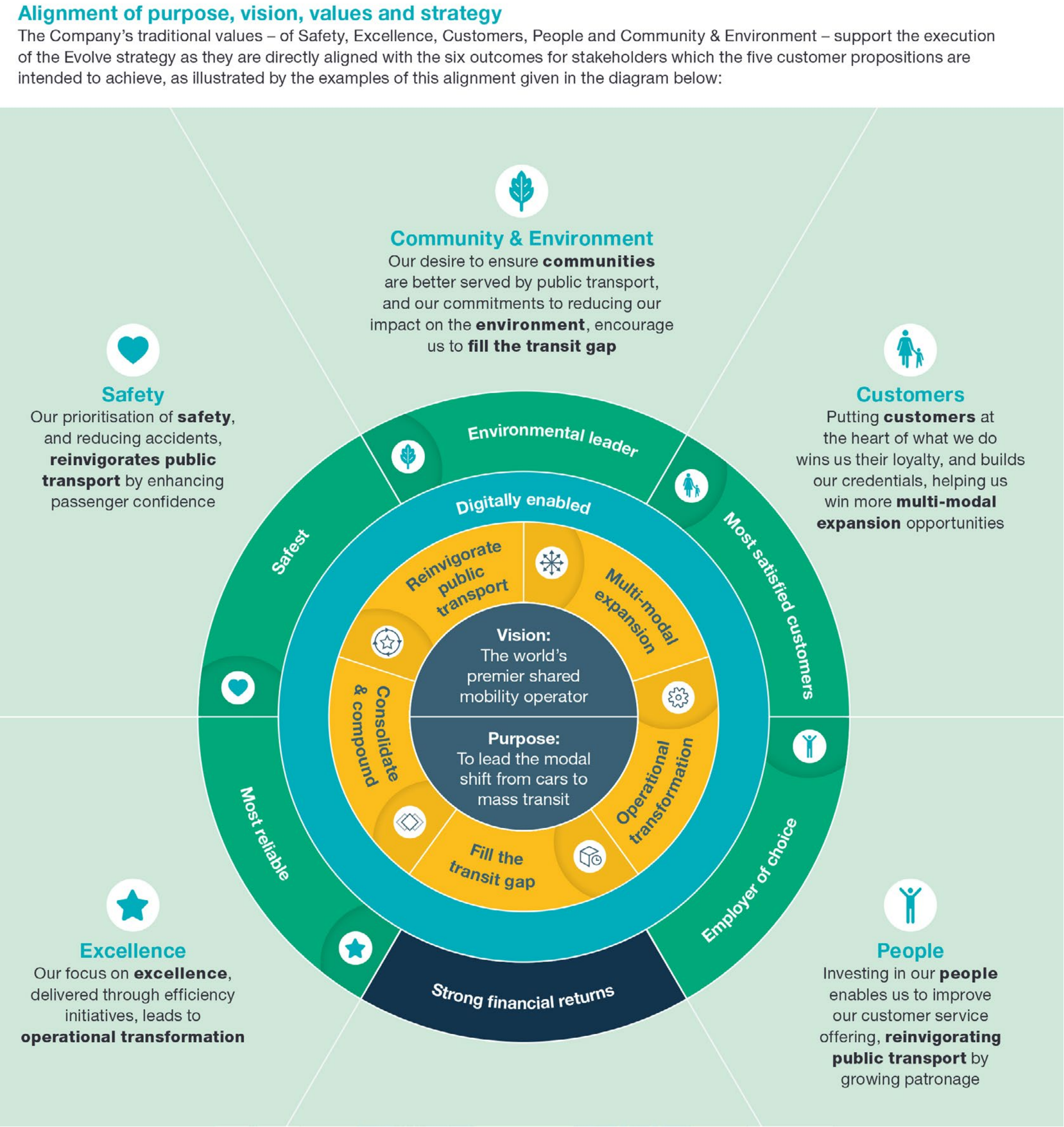
Reviewing their culture cyclically and consistently

Ensuring transparent, insightful and connected, yet concise, reporting on culture assessment, monitoring, embedding and assurance

Purpose, Values and Culture – examples

National Express Group plc provided a diagram which demonstrates how the company's values support and are aligned with both its purpose and their strategy pillars.

Governance report, page 62



Purpose, Values and Culture – examples

Lloyds Banking Group plc's Board receives regular updates with certain performance metrics. This set of metrics was developed in order to monitor implementation of corporate purpose. Moreover, the report described the actual outcomes of monitoring activities and the Board's responses to those.

Governance report 2021 (page 80)

Looking to the future

Recognising that we are at an inflection point on our cultural journey, driven by evolving ways of working, changes in senior leadership and strategic changes in the Group, we are taking the opportunity to reset our culture.

The Board has been actively engaged in understanding our culture, joining colleague focus groups to understand the current strengths and challenges. The Board has also discussed the themes which impact our current culture and our future cultural aspirations.

We are strengthening the connection between our culture, purpose and strategy with increased clarity about what Helping Britain Prosper means and new values which clarify the expectations we have of each other. Through effective embedding of these new values in 2022 and beyond, we can continue to build on the progress already made in creating a truly purpose-driven and values-led culture.

Explanation of alignment between purpose, values and culture monitoring activities

Outcomes of review based on certain performance metrics

Focusing on culture

We are focused on creating a healthy culture which is purpose-driven and values-led to help us deliver the right outcomes for customers.

Our six culture drivers provide a clear focus for our culture activities and a consistent structure for Group and Divisional culture plans. Our drivers are:

Board support in 2021

This year the Board continued actively to assess, oversee and monitor our culture through a number of updates and discussions. This included its support to move the 2020 Culture Acceleration Initiatives into 'business as usual' activity, aligned to our culture drivers, as part of the Group culture plan. Action in 2021 built on 2020 with a focus on embedding changes made and continuing to 'raise the bar'.

Key areas of focus

- Building empathy into the way we support customers, clients and colleagues
- Continuing to embed Your Best[2] and use this to help colleagues and teams connect to our purpose
- Powering up Behavioural Experiments[4], encouraging everyone to use this as a tool to simplify how we work
- Simplifying our approach to risk, encouraging all colleagues to have a healthy risk mindset
- Build on the foundations laid for adoption of hybrid ways of working, with guidance and training for teams to have conversations on their future ways of working

Monitoring progress

The Board has continued to monitor the progress the Group has made on culture and colleague feeling. Updates included details of the Colleague pulse surveys, Financial Services Culture Board survey and Colleague survey, with updates on critical activities and discussions on cultural challenges and tensions.

In addition, culture progress is also measured through our Culture Index, which brings together key metrics from the Colleague and Financial Services Culture Board surveys. The full results from these surveys and a behavioural diagnostic tool are also used to understand our culture.

Specific monitoring activities

2021 progress

While we have seen a drop across some of our engagement metrics[1] through our colleague surveys in 2021, we have seen some increases in areas where we have had a targeted cultural focus, such as the two areas below.

89%
(+2 versus 2020)
Where I work, people take responsibility for solving customer problems

82%
(+7 versus 2020)
As a result of my Your Best[2] Check-ins[3], I'm clear on how I'm performing

1 Read more on our employee engagement index **on page 31**.
2 Your Best is our straightforward, simplified, collaborative approach to performance management.
3 Check-ins are honest, two-way conversations between a colleague and their manager to share feedback on objectives, development goals and growth in skills.
4 Behavioural Experiments is teams and individuals intentionally using our Group Behaviours to tackle everyday challenges through a series of small experiments.

Purpose, Values and Culture – examples

Victrex plc explained how the company's purpose, values and culture are aligned plus the use of a dashboard of cultural indicators and clarity on the regularity of the Board's review.

Governance report 2020 (page 64)

Company purpose, values, strategy and culture

The Board has established the Company's purpose, values and strategy and monitors Company culture to ensure that these are aligned.

- Our purpose is to bring transformational and sustainable solutions that address world material challenges every day.
- Our strategy is to drive core business and create and deliver future value through Polymer & Parts. We will do this by innovating in high performance polymer solutions to focus on its key strategic markets of Automotive, Aerospace, Energy & Industrial, Electronics and Medical. This is with the aim of shaping future performance for our customers and creating long-term value for our shareholders, enabled by differentiation through innovation and underpinned by safety, sustainability and capability.
- Our long-term values of Passion, Innovation and Performance shape our culture and drive responsible business conduct in line with our Code of Conduct. You can find more on our Code of Conduct on pages 48 to 50.
- Our entire workforce (including our Directors) are reviewed against our core behaviours of driving results, working together, doing the right thing, continuously improving and focusing on our customers.
- Throughout its annual programme of business and meeting with employees, the Board gains an insight into the culture of Victrex. A formal review of corporate culture is conducted by the Board twice a year, using the dashboard of cultural indicators which has been developed.

Clear oversight and timing to evidence consistency of review

The Board endorses the Company's purpose which informs our strategy, our values and our culture and inspires our people. The Board reviews workforce culture and employee engagement through a range of touchpoints throughout the year. We have developed a dashboard of cultural indicators which is reviewed formally twice each year, with any actions to address any areas of concern being monitored more frequently. In addition, the Audit Committee has reviewed the results of internal audits which provide insights into the culture of the Group and individual areas of the business. Following a detailed review of culture which included consideration of the Group's values, the behavioural framework and employee insights from our non-executive Director with designated responsibility for workplace engagement, in conjunction with the annual review of purpose and strategy undertaken, the Board confirmed the alignment between purpose, strategy, values and desired culture.

Our cultural dashboard has a behavioural focus tracking cultural insights in the following areas:

Safety	Employee engagement, inclusion and diversity
Doing the right thing	Service for customers
Innovation	Sustainable business practices

Purpose, Values and Culture – examples

Compass Group plc not only explained the role of each committee in the culture monitoring process, but also provided a set of metrics described as “cultural indicators” that the Board monitors, which also includes metrics related to external stakeholders (clients and suppliers).

Corporate Governance report 2021 (pages 102 & 103)

and regard with which we treat our stakeholders. The Board, with support from its committees, monitors the alignment of the Group’s culture with our purpose, values and strategy, through a variety of mechanisms, cultural indicators and reporting lines including those summarised below.

CULTURAL INDICATORS

Health and safety

- lost time incident frequency rate
- food safety incident rate
- safety walks and results

People

- results of global employee engagement survey and pulse surveys
- gender pay gap disclosures
- diversity and inclusion statistics

Ethics and integrity

- Internal Audit reports
- annual confirmation of compliance with the Code of Ethics and Code of Business Conduct by senior managers
- Speak Up, We’re Listening statistics and trends

Clients and suppliers

- adherence to the Global Supply Chain Integrity Standards
- client retention rates
- supplier audits

Sustainability

- greenhouse gas emissions
- waste reduction
- sustainable sourcing

THE BOARD

The Group CEO’s review is presented to each Board meeting. The review is structured around the Group’s three strategic pillars of People, Performance and Purpose, which underpin the Company’s culture and performance and provide indicators of the overall health of the Company.

The performance against the Group’s health and safety strategy and agreed KPIs are also considered at each meeting, allowing the Board to monitor the effectiveness of the safety culture within the Group. How the Board monitors culture is also considered as part of the annual Board and committee evaluation process.

DIRECTORS

The directors receive feedback from executive management in respect of workforce engagement, which includes feedback from people surveys and informal forums such as townhall meetings.

The Designated NED for workforce engagement engages directly with groups of employees on a range of matters important to the workforce, including cultural matters. Board site visits (which have been curtailed in the pandemic) provide the opportunity for directors to engage with senior management and other colleagues and to hear their views directly.

AUDIT COMMITTEE

The Audit Committee receives regular reports from the Head of Risk and Internal Audit and the Internal Audit function which monitors adherence to the Group’s internal controls, policies, procedures and practices and acts as an early warning system for identifying potential threats to the Company’s culture, as well as monitoring the implementation and success of remediation plans.

The Committee reviews reports concerning potential fraudulent activity or financial impropriety, and reviews the delivery and effectiveness of the Company’s Speak Up, We’re Listening arrangements for its workforce, contractors and other stakeholders to raise concerns in confidence. Trends identified through the helpline and web platform can also provide indicators of cultural issues which, once identified, can then be addressed.

CORPORATE RESPONSIBILITY COMMITTEE

The Corporate Responsibility Committee receives reports from Group functions which monitor aspects of the Company’s culture as part of their remit, including regular reports from the Group Chief People Officer, which cover oversight of the employee engagement strategy, and analysis of employee feedback received through the global engagement survey and other sources of information. The Group Commercial Director and Group sustainability team provide reports which cover the sustainability matters most important to the businesses and our stakeholders, and progress against our commitments, including those related to climate, human rights and modern slavery.

The Committee monitors ethics and integrity matters, including compliance with the Code of Business Conduct and Code of Ethics and associated employee training statistics, through regular reports from the Group Head of Ethics and Integrity. The Committee also receives reports on matters raised through the Group’s Speak Up, We’re Listening helpline and web platform that fall within its remit.

Purpose, Values and Culture – examples

The Sage Group plc also clearly set out how the Board oversees culture. One mechanism used is employee surveys. The company also described follow-up activities in response to findings.

Strategic report (page 33) and Corporate Governance report 2021 (page 91)

How the Board monitors culture

The Board recognises the impact of culture and the role it plays in delivering the long-term success of the Company. The following mechanisms are used by the Board in monitoring Sage's culture:

- Regular updates on and annual reviews of Sage's core compliance policies
- Colleague representation at Board meetings through the Board Associate and further engagement as part of the Board engagement programme to monitor colleague sentiment
- Bi-annual meetings with the Associates' Council
- The Board is regularly presented at Board meetings with reports detailing progress against culture objectives
- Approved the Board Diversity, Equity and Inclusion Policy, aligned with our Sage DEI strategy and Group-wide DEI Policy to set the tone at the top
- Progress against Sage's DEI strategy is reported annually
- Oversaw Sage Foundation activities through its annual review
- Received a deep dive on People strategy which includes metrics on colleague attrition, talent and succession for senior management, presented by the Chief People Officer
- Monitored senior leadership capability, development and succession
- Communicated with colleagues on engagement day programmes and small group sessions
- Oversaw progress against Colleague Success KPIs

Working together to create outstanding experiences

Timing of monitoring

Listening to our colleagues, and understanding their experiences and how they feel, remains vital to our success. Through bi-annual colleague 'Pulse' surveys, ongoing 'Always Listening' channels and other feedback channels around moments that matter, colleague feedback helps us to knock down barriers, remove obstacles that hinder the customer or the colleague experience and drive positive change.

Over the last year this feedback has helped to simplify metrics used by the customer services team and provide valuable insight into how our colleagues' experience can impact the customer experience.

Outcomes achieved

Everyone at Sage is accountable for driving action from our listening strategy. Results are openly shared and leaders and managers create their action plans with teams, and share case studies of changes they have made.

Listening to colleagues has also formed a crucial part of our hybrid working strategy, as colleague input helped us develop our Flexible Human Work framework (see next page).

How stakeholder feedback influenced board decisions

We have a clear communications framework in place to keep colleagues informed about what's happening across our business, including: an annual global kick off; live monthly Q&As with leaders; regular updates on our global intranet; and localised channels to make global messages relevant at a team level.

See page 43 of our Sustainability and Society Report for more on our listening strategy and our latest colleague engagement indicators.

Purpose, Values and Culture – examples

Direct Line Insurance plc's disclosure explained how the board monitors the company's culture and provided details on what metrics are considered as part of the board's review together with the roles taken by the Board Risk Committee and the Audit Committee.

Governance report 2021 (page 105)

Culture and purpose

The Board monitors culture and seeks to ensure that business practices and behaviours are aligned with the Company's culture, purpose and values. Below are examples of reports, metrics and activities which assist the Board in its ongoing monitoring and assessment:

- The Board closely monitors customer metrics including the Company's Net Promotor Score ("**NPS**") (which is an index that measures the willingness of customers to recommend products or services to others) and customer complaints data. These measures are important indicators of how Company actions affect customers.
- The Board closely monitors the Company's employee engagement survey results and workforce diversity statistics. It monitors the Company's gender pay gap and actions being taken to address this gap. Going forward it will also be monitoring the Company's ethnicity pay gap. These data points provide useful insight into the wellbeing of the workforce and the extent to which objectives around diversity and inclusion are being met.
- Board members regularly attend meetings of the Employee Representative Body ("**ERB**") in order to hear first-hand from colleagues about how strategic initiatives are working in the business. More information about the work of the ERB can be found on pages 109 and 111.
- The Board Risk Committee reviews issues raised via RightCall, the Group's independent and confidential whistleblowing telephone helpline. In doing so, it considers whether there are any trends in reporting that indicate behavioural or cultural issues in a particular area of the business.
- The Audit Committee receives regular reports from the Internal Audit function which include insights into culture and behaviour in the business.

Explanation of what metrics are included to the papers for board review

Role of Risk and Audit Committees is specifically described

Purpose, Values and Culture – examples

CULTURE, PURPOSE AND VALUES

Culture is the character and personality of a business. It is what makes us unique and is the sum of our Purpose and Values, behaviours and traditions. It guides our relationships not just with our employees but with our other stakeholders as well. Our culture is unique and permeates throughout the whole business. It sets the tone for good governance.

We are proud of our Purpose to create the space that enables extraordinary things to happen and our five Values. In 2015, our Executive Committee invested in a significant programme to engage everyone in the business in creating our Purpose and Values. We wanted to develop a unifying purpose which aligned with our strategy and a set of principles to guide the development of our future culture. Six years on, our Purpose and Values are now well embedded in the business and form the basis of our workforce policies. They help to unify employees and describe the core beliefs about how SEGRO does business. They are a universal language across our business and the countries in which we operate.

It is essential th… example and li… Directors are o… around the bus… tone. When the Directors are to…ther, they live the Values in the boardroo… as follows:

Five values explained from the leadership perspective

SAY IT LIKE IT IS

The Directors are honest and transparent in dealings with each other and those who interact with them both in and out of the boardroom. The Chair encourages constructive debate and challenge during meetings.

STAND SIDE BY SIDE

The Non-Executive Directors bring to the Board their knowledge and experience from other businesses. The Directors are supportive and take collective responsibility for decisions.

KEEP ONE EYE ON THE HORIZON

The Directors look to the long term in their decision making. They want to understand future trends and how the Company can use them for the benefit of itself and others.

IF THE DOOR IS CLOSED…

The Non-Executive Directors support the Executive Directors to find solutions to more complex transactions and provide assistance where more difficult judgement calls and decisions need to be made.

DOES IT MAKE THE BOAT GO FASTER?

The Directors look at different ways of working to create effective relationships and discuss regularly where they can best add value.

SEGRO plc demonstrated how the board satisfies themselves that purpose, values and culture are aligned.

Governance Report 2021 (page 108)

Within the boardroom, the consistent feedback from all of the recent evaluations is that all of the Directors feel they can contribute, speak freely and do not feel constrained. The Chair encourages open debate and no one individual dominates. The seasoned relationships of most of the Board members mean they can say it like it is and have their thoughts heard in a challenging yet supportive environment. The Board has adjusted well to the new members who joined during the year, who bring a fresh perspective to discussions and debate. This culture has helped us remain focused and cohesive during the year. This close understanding amongst the Directors has meant that whilst meetings were held remotely until June 2021, the Board has continued to operate effectively and efficiently.

The Board considers that the Company's culture can be defined by the following characteristics:

- a strong desire to create a successful business we can be proud of;
- trust and strong professional integrity – we deliver on promises;
- pragmatism – a 'sleeves up' approach regardless of status;
- thoughtful, detailed and measured decision making;
- respect and transparency; and
- caring about people and taking an interest in their wellbeing.

Metrics the board considers to monitor culture

Mechanisms used to monitor culture

…he Board continues to monitor the culture of the Company through indicator… which serve as a temperature check. They consider:

- employee engagement survey results;
- workforce engagement sessions;
- feedback from office and site visits by Executive Directors and the Board as a whole;
- data on employee turnover;
- Health and Safety incident statistics;
- customer satisfaction surveys;
- breaches of the Code of Business Conduct and Ethics;
- internal audit reports; and
- whistleblowing incidents.

Purpose, Values and Culture – examples

Dunelm Group PLC clearly outlined the approach to monitor culture with specific details and metrics reviewed by the board.

Governance report 2021 (page 131)

HOW THE BOARD MONITORS OUR CULTURE

The Board regularly monitors the culture of the business in a number of ways:

- Through interaction with Executives, members of the leadership team, and other colleagues in Board meetings and on visits to stores and other Company locations. Colleagues are able to (and do!) speak openly to all Board members and Executives and to feed back ideas of how we can do better.
- Through regular Board agenda items and supporting papers, covering 'culture indicators' such as risk management, internal audit reports and follow-up actions, customer engagement, health and safety, colleague engagement and retention, Glassdoor scores, whistleblowing and regulatory breaches.
- We review a colleague scorecard at least twice a year, looking at a range of colleague indicators, including engagement, retention, absence, gender pay, diversity, workforce composition and demographics. These inform Board and Committee decisions on talent management, share incentives and executive pay, and form part of the assessment of the performance of the Executives.
- Our Chief Executive, Nick Wilkinson, and at least one of our Non-Executive Directors (by rotation) engages formally at monthly meetings with the colleague representative body, the National Colleague Voice, as well as informally through site visits. Marion Sears, as designated NED for colleague matters, provides a direct, regular and formal route of contact with colleagues. Each meeting includes a 'Big Topic' where members are encouraged to feed back views and ideas, and Marion reports back to the Board after each meeting. Further details are set out on page 111.

OVERVIEW

Dunelm has an open and straightforward culture, with a focus on doing things properly and taking decisions for the long term. This reflects the shared values instilled by the Adderley family, who founded our business over 40 years ago and are still our major shareholders. The Board has always been careful to ensure that we protect and retain this culture as the business grows and becomes more complex.

PURPOSE AND SHARED VALUES

The Board has been involved in shaping and, ultimately, approving in July 2021 the Group's new 'purpose', namely 'To help create the joy of truly feeling at home. Now and for the generations to come'. This is underpinned by our shared values which define how we act towards others. Members of the Board and the leadership team act as role models for our shared values, and all colleagues are appraised against them. Further details of this are set out opposite and in the Strategic Report on pages 2 and 11.

COLLEAGUES, PEOPLE AND CULTURE

We aim to inspire, engage and develop all of our colleagues to reach their full potential, without any form of discrimination. The Board engages directly with our colleagues in a number of ways as set out below. By training, hearing, respecting and responding to our colleagues, we inspire them to deliver the best experience to our customers and deliver our strategy. People and culture is one of our principal risks considered formally by the Executive Board and Board twice a year.

How the Board oversees our culture

CODE OF BUSINESS CONDUCT

Alongside our shared values we have a Code of Business Conduct, available on our corporate website dunelm.com, which sets out the specific standards of conduct that our Board and colleagues are expected to meet. We have a separate Anti-Bribery and Anti-Corruption Policy, and senior colleagues and colleagues who have the ability to influence purchasing decisions receive training on induction and annual refresher training. Other relevant policies include our Privacy Policy and our Equality and Diversity Policy.

SUPPLIERS

We also expect our suppliers to adhere to our standards of conduct; all suppliers are required to sign our Anti-Bribery and Anti-Corruption Policy (or commit to an equivalent policy), and to sign our Ethical Code of Conduct which commits them to appropriate ethical and human rights standards (including anti-slavery) and to minimise their impact on the environment. Adherence is monitored closely by the Executive Board and Board.

- We review a set of 'culture' KPIs once a year alongside our risk register. These are set out below:
  - Customer — NPS, recommendation, satisfaction
  - Colleague — eNPS, home-grown talent, labour turnover, gender pay gap
  - Product — Ethical audits completed, ethical audit scores, ethical policy breaches, product recalls
  - Safety — RIDDORs, accident/footfall rate
  - Compliance — Prosecutions, reportable data breaches, Bribery Act training completed, whistleblowing reports
- As an overall proxy for measuring 'culture' we use our colleague engagement (eNPS) – a Group KPI, which is also a remuneration measure (annual bonus) for our CEO and CFO and all members of the Executive Board.

GROUP KPI BONUS

1. Introduction
2. Code compliance
3. Purpose, Values and Culture
4. Stakeholder engagement
   a. Shareholders
   b. Workforce
   c. Supplier focus
   d. Community & Climate
   e. Effectiveness of engagement
   f. Outcomes of engagement
5. Diversity
6. Succession planning
7. Board evaluation
8. Audit Committee Report
9. Risks and internal controls
10. Remuneration
11. Viability statement
12. Resources and emerging practices

Purpose, Values and Culture – examples

Our ITV values

Our ITV values underpin the culture at ITV and these are embedded through our Code of Conduct:

Creativity

From everyone, for everyone, every day

Collaboration

Working together at pace

Inclusion

Respecting and embracing differences

Integrity & judgement

If something doesn't feel right, speak up

The ITV Way

The ITV Way encapsulates the values that underpin the culture at ITV:

Make it Brilliant

Creativity for everyone

Make it New

Openness to change, with no barriers

Make it Together

Collaborating and embracing differences

ITV plc described the values underpin their culture and for each monitoring activity explained the board's oversight, cultural insights and actions taken in response to the feedback gained.

Governance report 2021 (pages 116-117)

Key highlights

- **97%** Completion rate of Code of Ethics and Conduct annual training
- **10.8%** Voluntary UK employee turnover
- **4x** Speaking Up reports reviewed by the Board in 2021
- **1** Internal culture audit

2021 engagement survey findings

- **82%** 'I feel I can be my authentic self at work'
- **83%** 'My line manager genuinely cares about my wellbeing'
- **76%** Overall employee participation
- **84%** 'I am proud to work for ITV'

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 2021 engagement 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 page 58) in ITV's culture, and that ITV's values and stated purpose authentically reflect its culture and behaviours.

Outcome

Actions taken to address the insights gained from the engagement survey will be monitored by the Board 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.

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 113 to 115 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.

Stakeholder engagement
Shareholders

In line with Principle D, the board should ensure effective engagement with all their shareholders, regardless of nature and size. By reporting clearly and providing company-specific information boards demonstrate how they have taken into account the interests of shareholders in the long term.

Reporting framework

Legal and regulatory requirements

Provision 3 of the Code urges the chair and committee chairs to seek engagement with shareholders. The chair should also ensure 'that the board as a whole has a clear understanding of the views of shareholders'.
Provision 4: "The board should provide a summary on what impact shareholder feedback has had on the decisions the board has taken and any actions or resolutions proposed when 20 per cent or more of votes have been cast against the board recommendation for a resolution in the period since the last annual report."

Regulators' expectations

"The FRC expects companies to address their shareholders' concerns formally and publicly, and in a timely manner."

"The FRC expects companies to genuinely engage with a wide spectrum of their shareholders, not only the largest few, to understand and try to address their concerns as far as practically possible. Also, views received from shareholders and other stakeholders, and actions taken, need to be communicated in a clear manner and within a specified timeframe".

Review of Corporate Governance Reporting, FRC, November 2021

What to look out for when reporting

The FRC noted that those that reported insightfully on Provision 3 provided:

- A clear schedule of meetings between the chair; each committee chair and shareholders
- An outline of issues covered and any follow-ups
- Explicit information on how the chair ensured that the board as a whole has a clear understanding on investor views, and how those views have influenced board decisions

It was also noted that better reporting for the purposes of Provision 4 demonstrates that the board takes investor views into account and should include:

- An explanation of what engagement has taken place since the AGM
- A description of the feedback that the board has received from shareholders
- An explanation of how the received views impacted board decisions
- Any follow-up actions or resolutions taken or proposed

Engagement with shareholders – examples

Centrica plc demonstrated how the Chair sought engagement with shareholders and described themes covered during the engagement with its shareholders.

Governance report 2021 (page 59)

Shareholder engagement

The Board is committed to maintaining open channels of communication with all of the Company's stakeholders. An important part of this is providing a clear explanation of the Company's strategy and objectives, and ensuring feedback is acknowledged, considered and, where appropriate, acted upon. During 2021, the Chairman held 20 one-to-one meetings with investors.

Meetings, roadshows and conferences

The Group Chief Executive and Group Chief Financial Officer typically meet with our major institutional shareholders twice a year, following the Company's Preliminary and Interim results, which provides an opportunity for a review of the Company's strategy and performance. In addition, management and/or Investor Relations attend a number of investor conferences throughout the year, giving shareholders further opportunity to meet and receive updates directly from Company representatives, while senior management are also available to meet on an ad hoc basis with major shareholders if requested. The Company was due to hold a Capital Markets Event in November. However it announced in October the decision to postpone the event, with the focus on looking after customers during the unprecedented commodity environment.

Engagement themes with our institutional shareholders

Issues covered

During the year, engagement themes included:

- Centrica's strategic refresh and organisational restructure;
- Interim results;
- Sale of Direct Energy in North America;
- Progress on the planned divestments of Nuclear and Spirit Energy;
- The regulatory and political environment for UK energy;
- Impact of rising commodity prices;
- Ongoing impacts of the COVID-19 pandemic;
- Terms and Conditions changes;
- Board succession; and
- Environmental, Social and Governance (ESG) matters.

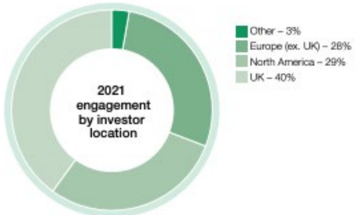
Engagement with shareholders – examples

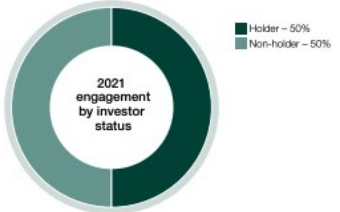
Croda International Plc described areas frequently asked by investors and what activities have been undertaken during the year.

Governance report 2021 (page 71)

Investor engagement

Spread of investors covered





Approach

The Board is committed to maintaining regular dialogue with investors and communicating in a clear and transparent manner. The investor engagement programme is led by the Investor Relations and Corporate Affairs Director and is a comprehensive programme compromising results events, investor roadshows, attendance at conferences, investor seminars and ad-hoc meetings.

The investor relations programme includes direct Board engagement through the Group Chief Executive and Group Finance Director. The Chair and other Non-Executive Directors also make themselves available to engage on topics such as formance, t topics. This gives ' views, helping to d shape the future Board is also thly Board papers, d feedback from s extends to ironment and peers.

opportunity for n the Board and performance. As it is in the usual way ctions, we hosted er session offering investors the opportunity to engage directly with the Board. Results presentations are webcast live, with a replay facility available on our website, ensuring all investors have equal opportunity to participate in our results presentations. Investors can also sign up to receive regulatory alerts on our website making sure they are notified of any company updates.

In addition to engaging with investors, the Group engages with other key audiences such as analysts and ESG ratings agencies. We typically hold regular analyst calls following results, ensuring all covering analysts have the same opportunity to discuss our results.

Activities during the year

Investor engagement in 2021 was of a hybrid nature, predominantly compromising virtual meetings. Throughout 2021 we met with over 500 investors, covering a balance of both holders and non-holders. This includes all active fund managers among our top 30 shareholders. Over the last two years there has been an increase in engagement with fund managers outside the UK, particularly in the European Union, with the geographic breakdown of the meetings reflecting the global nature of our investor base.

We have continued to see increased engagement around ESG, with investors looking for increased disclosure and transparency. Sustainability is a core part of Croda's strategy and the Group has a well embedded sustainability programme. In March 2021 we hosted a virtual seminar to launch our 2020 sustainability report covering our non-financial performance in 2020 against key metrics and new interim milestones to ensure we achieve our Commitment to be Climate, Land and People positive by 2030. We saw good engagement from a range of audiences, with questions from institutional and private investors, ESG specialists and sell-side analysts. The seminar also led to further engagement with several follow up meetings and questions from investors.

Looking forward to 2022 we will continue to proactively engage with investors with seminars and site visits to provide a better understanding of our business model and investment case.

Commonly asked investor questions

1. What has the impact of raw material inflation been on Croda?

Inflation and price increases have been a key theme throughout the economy in 2021. Croda uses a diverse range of raw materials in production and we have experienced significant cost increases in 2021 averaging approximately 17% in the underlying business. We typically provide critical ingredients into formulations at low concentrations, so the cost of our ingredients in our customers' formulations in comparison to other ingredients is relatively small. As a result, we have broadly managed to pass on raw material cost increases to customers and have not seen any negative impact on our operating margins due to inflation.

2. What is driving the recovery in Consumer Care?

The Consumer Care sector was created at the beginning of 2021 comprising Croda's leading global position in Personal Care and the high-growth Home Care and Iberchem fragrances and flavours businesses. Personal Care sales improved in early 2021, led by a resurgence in Beauty Actives. Sales and demand remained strong throughout the year with a recovery in "going out" sales offsetting a moderation in customer restocking. Consumer Care is a sustainability driven sector and our innovation programme is driving growth as consumers seek 'green, clean and conscious' beauty products.

3. How sustainable is revenue in lipid systems and how will this evolve?

We delivered approximately US$200m of sales of lipid systems in 2021, and expect a similar level of sales in 2022. Lipid drug delivery has significant potential for applications beyond COVID-19 in areas such as gene therapy and oncology. We expect to see an ongoing expansion in the range of applications for lipid systems in vaccines and therapeutic drugs.

4. How will you utilise proceeds from the divestment of the majority of your PTIC operations?

We have a clear capital allocation policy which prioritises organic investment and we see exciting opportunities to invest in new capacity, product innovation and attractive geographic markets to support our growth in Consumer Care and Life Science markets. This organic investment will be complemented by inorganic investment, targeting knowledge intensive businesses in exciting niches that can accelerate our growth. In line with our capital allocation policy, we will continue to make regular returns to shareholders and should we not identify suitable opportunities to deploy capital with our leverage ratio remaining consistently below our targeted range, we would look to return capital to shareholders.

5. How will the divestment of the majority of your PTIC operations impact the progress you are making implementing your sustainability strategy?

We have set out a bold sustainability commitment to be Climate Positive by 2030, and for 75% of our raw materials to be bio-based from 69% today. The operations being divested have a higher bio-based footprint than the Croda average, meaning that on divestment the Group average will fall, but we will retain our 75% target. Conversely, as the divested operations are more energy intensive, on divestment our scope 1 & 2 emissions intensity will fall, so we will re-baseline our carbon reduction targets accordingly. As a result, the divestment and the approach we are adopting to adjusting our targets, will enhance the positive impact of our sustainability strategy overall.

Engagement with shareholders – examples

Shareholder and debt provider engagement

SSE engages with equity and debt investors to understand the views of those that invest in SSE and to communicate its strategic plans, Environmental, Social and Governance (ESG) approach and financial performance. Investors are able to contact the Company at any time through SSE's dedicated channels (see page 315).

Retail shareholders. To allow management of an individual's shareholding, SSE's investor website provides a source of equivalent information, housing all regulatory news announcements and published financial and non-financial reports. The Investor Relations team, and the Company Secretariat, with support from SSE's Registrar, engage with retail shareholders in response to private shareholding queries.

Institutional investor programme. Across 2020/21, standing engagement supported by SSE's Investor Relations team, comprised 112 one-to-one and 25 group meetings, representing direct engagement between the Board and over 40% of SSE's actively-managed issued capital. These contacts were conducted virtually across investor roadshows, conferences and ad-hoc meetings. The majority of which were led by the Executive Directors, with the Chair, the Senior Independent Director, and members of SSE's senior leadership team joining where requested or deemed appropriate to the subject of the meeting. Conversations were more international with virtual visits to over 12 countries, and this form of meeting will continue as an available option.

Feedback was provided to the Board following each engagement, supplemented by a monthly report of investor and market sentiment and share price performance, and two independent sessions co-ordinated by SSE's Brokers. Outcomes included improved disclosure around SSE's renewable operational fleet and development pipeline, its thermal generation assets, and its financial framework including a target net debt/EBITDA ratio.

ESG. Engagement on ESG issues. Against the backdrop of increasing investor focus on ESG and sustainability practice, SSE has engaged regularly with shareholders on a broad range of ESG topics. As well as increasingly frequent discussions of ESG issues during regular investor engagement, numerous ESG-themed one-to-one meetings were held during the year and SSE's Finance Director, Group Energy and Commercial Director, and Chief Sustainability Officer, jointly presented at two ESG-themed investor events.

ESG ratings agencies. SSE actively engages with key ESG ratings agencies and investor-led initiatives to help demonstrate SSE's performance to its stakeholders, while allowing identification of areas for improvement in its operations and disclosure.

Green debt financing. Recognising increasing investor demand for debt used to fund sustainable assets, in March 2021, SSE – via SSEN Transmission – issued its fourth green bond in five years. The issuance reaffirmed SSE's status as the largest issuer of green bonds from the UK corporate sector, with over £1.9bn in green debt outstanding. In addition, SSE has set out a new framework for issuing innovative sustainability-linked bonds in the future.

Remuneration. The engagement between the Remuneration Committee Chair and SSE's largest shareholders on the expanded Group Energy and Commercial Director role, and associated terms, are set out on page 145.

Remuneration Chair engagement specifically called out

SSE plc clearly explained how the Board has sought engagement with retail and institutional shareholders, alongside the outcomes of the engagement and follow-up actions.

Governance report 2021 (page 105)

Engagement with shareholders – examples

Dunelm Group PLC described in detail what feedback they have sought from investors who voted against a resolution and described actions taken as a result of this feedback.

Governance report 2021 (page 138-139)

VOTING ON THE REMUNERATION REPORT AT THE 2021 AGM

At the 2021 AGM there were two remuneration-related votes to approve the new Directors' Remuneration Policy and to approve the Directors' Remuneration Report.

Resolution	Votes for including discretionary votes	Percentage for	Votes against	Percentage against	Total votes cast excluding votes withheld	Votes withheld[1]	Total votes cast including votes withheld
Directors' Remuneration Report	439,578,484	59.73	296,353,504	40.27	735,931,988	6,776,342	742,708,330
Directors' Remuneration Policy	706,375,474	95.28	34,958,557	4.72	741,334,031	1,374,300	742,708,331

1. Votes withheld are not included in the final figures as they are not recognised as a vote in law.

The strong support received for the Directors' Remuneration Policy followed extensive engagement with our largest shareholders during 2020. The input we received from shareholders was extremely helpful. Although the DRR resolution was carried, we were disappointed with the level of votes that were cast against.

In the run up to the 2021 AGM we engaged with a number of our shareholders to understand their concerns. The principal point at issue for them, and some of the proxy voting guidance services, was the level of base salary for Stefan Bomhard, CEO on his appointment.

Following the AGM, we continued to engage with our largest shareholders and their input has resulted in a number of actions the Committee has taken as a result of the feedback.

Feedback received

A key lesson learned is the need for the Committee to be clearer in the DRR about why it takes its decisions. The Committee would, therefore, have liked to highlight two aspects which were important in its considerations of setting Stefan Bomhard's remuneration at the time of his appointment. In competitive terms, his base salary is lower than the median of the FTSE 30 (excluding financial services) as is his total target remuneration and this was an important aspect of the Committee's consideration. Furthermore, in setting the salary of the CEO, the Committee took into consideration the need to balance restraint with paying fairly for the significant role being undertaken. These points should have been made more clearly in last year's report.

Follow-up actions and resolutions taken

The Committee would also highlight a number of decisions it has taken as a result of the feedback it has received during its ongoing dialogue with investors:

- As announced on 18 February 2021, on an exceptional basis, the 2021 LTIP award to Stefan Bomhard was reduced from 350 per cent of salary to 315 per cent, a reduction of 10 per cent of the usual annual award. This decision took into account both share price performance over the year as well as feedback from shareholders about his base salary on appointment.
- As detailed in the Company's announcement of 17 February 2021 Lukas Paravicini joined the Board as Chief Financial Officer on 1 May 2021.
  - His annual salary is £730,000 (compared with his predecessor's salary of £750,000) and will not be increased before January 2023.
  - Lukas' base salary is between the median and the upper quartile of the FTSE 50 and at the median of the FTSE 30. His maximum total remuneration is at the median of the FTSE 50 and between the lower quartile and median of the FTSE 30.
  - In line with the Remuneration Policy approved by shareholder at our 2021 AGM, his pension allowance is equivalent to a maximum of 14 per cent of salary (in line with UK employees). His annual bonus is a maximum of 200 per cent of salary (pro-rated for time served in the first year of appointment), and the long-term incentive award a maximum of 250 per cent of salary.
  - The Committee considered external benchmarking data and internal relativities as reference points. It also considered the skills and experience that Lukas brings which are required to fulfil the role as the Company implements its new strategy.
  - The Committee also considers Lukas' pay reflects his proven track record in international consumer goods companies, and his impeccable finance credentials as well as considerable operational experience.
  - No LTIP awards were bought out but the Company has agreed to compensate him for a guaranteed bonus award he would have received from his previous employer ED&F Man in the amount of US$750,000. The payment will be made in December 2021 and will be forfeited if his employment with the Company is terminated for cause or he has given notice to terminate his employment on or before the date of payment.

The Committee understands that shareholders have diverse views in respect of remuneration, and therefore continues to engage with the Company's largest shareholders to ensure it understands the range of views which exist on remuneration issues.

Engagement with shareholders – examples

Elementis plc highlighted engagement of each committee chair with shareholders as well as demonstrating a clear schedule of meetings held during the year with topics covered.

Governance report 2021 (page 87)

Shareholder communications

The Chairman is responsible for effective communication with shareholders. The CEO and CFO are the Company's principal contacts for investors, analysts, press and other interested stakeholders.

There is a dedicated investor relations programme for current and potential investors, which is managed by the Director of Investor Relations, who reports to the CFO. Further information regarding shareholder services can be found on page 196.

Shareholder engagement

Investor meetings

The Board receives an investor relations report at each of its meetings outlining recent dialogue with investors and feedback received and updates from our corporate brokers, JP Morgan and Numis. Analysts' reports are also made available to the Board. The Chair attends the financial results presentations, where he has the opportunity to meet with those analysts who attend. All Board members are invited to attend results presentations.

The Chair and Senior Independent Director (SID) are available to shareholders to discuss governance and strategy concerns as appropriate. The SID regularly meets with the Company's major investors. At these meetings, investors are also given the opportunity to meet with other members of the Board, for example, the Chair of the Audit, Nomination or Remuneration Committee. During the year, our Remuneration Chair consulted with investors and leading advisory bodies relating to proposed changes to the Directors' Remuneration Policy ahead of submitting for shareholder approval at the 2022 Annual General Meeting. In 2021, a total of over 150 meetings were held with investors.

Private investors

The Board is keen to hear the views of our private shareholders and they are encouraged to use our shareholder mailbox, company.secretariat@elementis.com. The Company's website is kept updated with Company reports and related information. Enquiries may also be addressed to the Company Secretary and sent to the registered office.

Annual General Meetings

The Company held a hybrid AGM for the first time on 13 May 2021. As a consequence of public health advice, the meeting was constituted with a minimum quorum in physical attendance. This format enabled shareholders to attend the meeting in a safe and secure remote environment and a telephone line was available for shareholders to ensure that they could be heard. The proceedings of the AGM is available on demand. All resolutions were approved by shareholders on a poll. Shareholders were able to submit questions ahead of the AGM; however, no questions were submitted prior to or at the AGM.

The 2022 AGM will be held on 26 April 2022 at 10.00am and further information can be found in the Notice of Meeting.

Key shareholder activities during the year

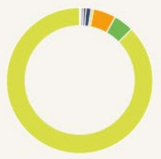
Q1
- Trading statement
- FY20 results presentation
- Results roadshow
- Chairman Governance roadshow

Q2
- AGM trading statement
- Retail Investor presentation
- UBS Small and Mid-cap conference

Q3
- H1 21 results presentation
- Results roadshow
- Berenberg chemicals conference

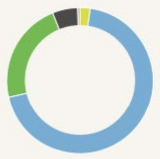
Q4
- 9 month trading update
- Investor event – Innovation webinar Jefferies industrials conference
- JPM – Best of British conference
- Berenberg European conference

Shareholders by number of shares



Balance ranges	
1-499	0.13%
500-999	0.13%
1,000-4,999	0.77%
5,000-9,999	0.49%
10,000-49,999	0.95%
50,000-99,999	0.78%
100,000-499,999	4.88%
500,000-999,999	4.55%
1,000,000-999,999,999	87.32%

Shareholders by type



Party type	
Private individuals	2.35%
Nominee companies	69.34%
Limited and public limited companies	22.38%
Other corporate bodies	5.70%
Pensions funds, insurance companies and banks	0.23%

Clear schedule of meetings alongside insights on shareholders

Stakeholder engagement
Workforce

The workforce is a key stakeholder for almost every business, it is therefore crucial that the board establish an effective workforce engagement mechanism and reflect on the purpose they want that engagement to serve. The 2018 Code was the first edition of the Code to place a significant focus on workforce engagement and suggested a number of different approaches to promote workforce engagement which companies may choose from, combine or develop an alternative.

Reporting framework

Legal and regulatory requirements

Provision 5: For engagement with the workforce, one or a combination of the following methods should be used:
- a director appointed from the workforce;
- a formal workforce advisory panel;
- a designated non-executive director.

If the board has not chosen one or more of these methods, it should explain what alternative arrangements are in place and why it considers that they are effective.

Regulators' expectations

"FRC expects further clarity to ensure that investors and stakeholders are aware of how companies engage with their workforce."

"The FRC expects companies to fully explain why their method of employee engagement is effective. This can be reported through examples of discussions in relation to the impact of the engagement on decision-making."

Review of Corporate Governance Reporting, FRC, November 2020

"The FRC expects outcomes from either form of employee engagement to be illustrated within the report, alongside views and workforce concerns that ought to be taken on board."

"It was also encouraging to see that many companies also escalated their engagement efforts with the use of pulse surveys to gather employee sentiment. These surveys were particularly useful when seeking views on wellbeing and workforce health initiatives implemented by the company during the period."

Review of Corporate Governance Reporting, FRC, November 2021

What to look out for when reporting

The disclosures should make it very clear whether one of the Provision 5 mechanisms has been used or a combination of those measures or whether a different mechanism has been adopted:

Designated non-executive director (NED)

- a clear description of the expected role and responsibilities of NED
- what mechanisms are available to the NED to meet their responsibilities
- a description of the decisions/outcomes as a consequence of the NED's activity

Workforce Advisory Panel

- clarity of the terms of reference
- information on composition
- how the panel communicates with the board
- decisions/outcomes as a consequence of the panel's activity

Workforce director

- an explanation of how the views of the workforce are obtained
- level of involvement the workforce director is having in board meetings
- related decisions/outcomes

Alternative arrangements

- what the alternative arrangements are
- why they were deemed to be more effective than the options set out in Provision 5
- decisions and outcomes

In all cases it should be clear that arrangements are the subject of feedback from the workforce in determining that it is an appropriate and effective mechanism for engagement.

COVID-19 impact on alternative arrangements: consider whether new innovative approaches may lead to more appropriate use of different methods to meet company circumstances.

Engagement with the workforce (Designated NED) – examples

Workforce engagement statement – hearing the employee voice

Brendan Connolly was appointed the designated non-executive Director for workforce engagement with effect from 1 October 2019 (the 'Workforce Engagement NED'). This statement summarises the second year of the 'employee voice' programme.

Objectives and role

The Workforce Engagement NED is responsible for the following matters to support the Directors' collective responsibility to consider a wide range of stakeholder perspectives when arriving at Board decisions:

- Understand the concerns of the workforce and articulate those views and concerns in Board meetings on an ongoing basis.
- Ensure that the Board, and particularly the executive Directors, take appropriate steps to evaluate the impact of proposals and developments on the workforce.
- Where relevant and appropriate, provide feedback to the workforce on Board decisions and direction during the engagement process.
- Primarily use existing engagement mechanisms, including the employee survey, quarterly staff briefings, works council meetings, union meetings, regional forums and Q&A sessions, to gather the relevant feedback from the workforce.
- Ensure that feedback is obtained from all levels of the workforce in multi-locations.
- Organise bespoke events for additional feedback where required.

Victrex plc's disclosure clearly sets out the designated NED's responsibilities and methods of engagement.

Corporate Governance report (page 80)

Roles and responsibilities

Topics covered during engagement

Outputs of the engagement

The Workforce Engagement NED is not expected to take on responsibilities that are those of an executive Director or of the HR team or act as a proxy for those teams.

During the year the role of the Workforce Engagement NED was reviewed and updated by the Board in order to build in the soliciting of employee views about executive remuneration and share feedback obtained with the Remuneration Committee.

Second year highlights

The Workforce Engagement NED had interactions with over 30% of all the employees representing every level and region in the organisation which, due to the impact of COVID-19 pandemic restrictions during the year, were conducted virtually in the main. Separate sessions were held at the end of routine regional employee forums without management and the Workforce Engagement NED held a bespoke virtual session attended by over 150 employees which included an overview of executive director pay with the opportunity for employees to raise questions about this. The various Q&A sessions explored themes such as:

- The Group's approach to Inclusion & Diversity.
- How to enhance engagement at Victrex.
- What could we do to improve quality and safety.
- How the COVID-19 pandemic was handled.
- The strength of our leadership, management and brand.

The questions were generated primarily by employees and most sessions were flexible to allow those participating to ask the questions they wanted.

Examples of feedback provided by employees on the topics discussed included:

- On Inclusion & Diversity – "that we are at the start of that journey, progress is being made but we have some way to go".
- On engagement – "that they had enough opportunities to engage currently but need to return to face to face post-COVID restrictions".
- On safety and quality – "that there was always more to do".
- On COVID-19 – "this was managed well and with the employees always in mind".
- On our brand – "our brand and reputation are strong".

Engagement with the workforce (Designated NED) – examples

SSE plc presented informative disclosure on employee engagement by describing the mechanisms deployed to listen to the workforce and the outcomes in response to the feedback gathered.

Governance Report 2021 (pages 114-115)

Engagement highlights

VIRTUAL SESSIONS LED BY THE EXECUTIVE DIRECTORS 12	EMPLOYEES ENGAGED VIRTUALLY +2,800
NON-EXECUTIVE DIRECTOR FOR EMPLOYEE ENGAGEMENT SESSIONS 9	ALL-EMPLOYEE SURVEY 2020 ENGAGEMENT SCORE: 82%*
VIRTUAL SESSIONS LED BY THE EXECUTIVE AND NON-EXECUTIVE DIRECTORS 5	

* 8/10 employees recommend SSE as a good place to work and feel energised and able to fulfil their role.

Assessment of effectiveness

Board listening approach

Board listening channels	Engagement class	What this channel brings
Non-Executive Director for Employee Engagement (see page 116)	**Formal:** Virtual focus groups and trade unions discussions **Informal:** Hosted calls with diverse employee groups	**All-employee setting.** Offers a Board perspective which can otherwise be missed from business-led communications, and provides the Board with insight of employee opinion on life at SSE. **People leaders.** Provides the opportunity to replay key messages which have been heard through listening channels, and supports and challenges management actions and response. **Senior leadership.** Creates a platform for two-way interaction between senior leaders and the Board through which the Board can offer views and personal external perspectives.
Virtual Director-employee meetings and interactive sessions	Informal	Provides employees with Board accessibility and direct two-way interaction, and supports discussion of specific topics in detail.
Virtual focus groups	Formal	Allows interaction with different geographies and diversities across the Group, and being smaller in size, provides the opportunity to seek out added context surrounding employee sentiment through true conversation. The impact can be fast and help influence decisions which may affect employees.
All-employee surveys	Formal	Exists as a long-standing tool with a mature strategy that attracts ... nse rate, with the results viewed as ... ty of employee voices. The question ... are used to enhance the cultural agenda, ... timent and feedback is considered in
Blogs and written communications	Formal	... rces matters of importance and embeds the tone through ... e Board's written reflections.

How the board responded to concerns raised during the engagement

Listening insights and Board action

What employees requested	How the Board responded
Understanding of SSE's vision and strategy from the Board and senior leadership.	• The Chair delivered a session to wider senior leaders on the power of purpose-led strategy and how sustainable businesses provide profitable solutions to world issues. • The Senior Independent Director and the Group Energy and Commercial Director held a focus group to present on energy markets, and in return listened to employee views on the climate transition and opportunities. • Each Board member that participated in virtual sessions provided views on SSE's strategy and long-term direction.
Confirmation that action will be taken on employee views.	• Dedicated calls covered the findings of the all-employee survey results, with one shaped through pre-submitted employee questions. • The Chief Executive personally sponsors key areas of focus following each all-employee survey. • The Non-Executive Director for Employee Engagement presented on the outcomes of the all-employee survey to people-leaders, identifying clear accountabilities specific to that group.
External perspectives including different sectoral responses to coronavirus.	• The Finance Director hosted a senior leadership call in which SSE's Brokers and the Company Secretary and Director of Investor Relations covered financial results and investor views. • The Chief Executive and Melanie Smith hosted a CEO-to-CEO roundtable answering questions from a cross-section of SSE's senior leaders. • The Chief Executive hosted Cindy Rose, President of Microsoft, Western Europe, and a group of over 150 leaders, to consider how the world of work is evolving during the pandemic.
Opportunity to learn more about the Board and to get to know the Directors.	• See 'Engagement highlights' on page 114 for details of the breadth of engagement undertaken. • All non-Executive Directors participate in informal written Q&As which are issued via SSE's all-employee newsletter. • The Group Energy and Commercial Director has maintained a personal blog on daily life and working from home which employees have interacted with, and requested he continue.

Engagement with the workforce (Workforce Panel) – examples

ITV plc clearly described that the company embedded two engagement methods – a designated NED and a formal workforce advisory panel. Clear objectives of their roles and terms of reference have been provided. And then in Q&A format results of the designated NED's engagement have been presented.

Governance report 2021 (pages 114-115)

Engaging with our workforce

The Board ensures effective engagement with the workforce using two of the methods stipulated under the Code: a designated Workforce Engagement Director (Edward Bonham Carter, our Senior Independent Director) and a formal workforce advisory panel (our Ambassador network).

The Board recognises the benefits of personal interaction and informal discussion to both learn more about day-to-day operations and the practical execution of strategy, as well as gather direct insights into workforce sentiment. Colleagues have direct contact with the Chief Executive through her Ask Carolyn email address and the Chairman has regular meetings with Management Board members and Divisional heads, who feed back to him on workforce issues. The Committee Chairs also have individual meetings with employees in relation to the business of their Committee meetings.

For other key instances of the direct and indirect engagement the Board members have had with our colleagues, refer to page 113, and for the cultural insights gained through engagement (including other ways in which the Board has monitored and assessed culture), refer to pages 116 to 119. For a definition of our workforce see page 56.

Our Ambassador network

Our Ambassador network represents all parts of the business and was established in 2015 to represent employee interests, share information and help inform our culture by giving our employees a voice.

- Each Ambassador usually represents approximately 50 colleagues from their business area, called their constituency.
- There are approximately 90 Ambassador constituencies which are organised into five regional and international groups.
- The Ambassadors meet in their groups four times a year and, given the pandemic, additional remote meetings were organised to ensure Ambassadors were connected and able to share any concerns effectively.

What were your activities during 2021?
In total I attended 13 Ambassador meetings (seven UK Ambassador meetings covering three UK regions and six international Ambassador meetings representing all ITV territories).

How often do you report to the Board on engagement activities?
During 2021, I gave four verbal updates to the Board on activities and presented one formal paper on the insights gained from engagements and on outcomes and proposed recommendations that have arisen. I also use my insight to ensure the employee voice is considered during Board and committee decision-making and discussions, and to raise the profile of the issues raised to me by colleagues.

What are the benefits of having this designated role on the Board?
Through active two-way dialogue, attendance at Ambassador meetings has given me the opportunity to share insights into external factors affecting ITV which the Ambassadors then share with their constituents. I'm also able to feed back to the Board on employee topics and issues of interest and/or concern.

Ambassador feedback loop

Attending both UK and International Ambassador meetings gives me a broader perspective of company culture and priorities for colleagues, including the impact of operational changes, and I am able to give feedback to the Board on cultural alignment across offices and internationally. Also, in hearing feedback first hand regarding management's approach to, and understanding of, employee issues, I can provide the Board with assurance that management are clearly attuned to company morale and workforce issues and that colleagues have effective wellbeing and mental health support.

What were your takeaways from Ambassador meetings during 2021?
This year, attending the Ambassador meetings has been invaluable to my understanding of colleague sentiment. 2021 has again been a year of change for colleagues, with an ongoing focus on digital, organisational and strategic transformation. Working environments have also changed with return to office working, yet part-time remote working is now here to stay. The pressures of the COVID pandemic have continued to affect us. Our London colleagues will also be moving to a new office. I was able to obtain feedback on the impact of these changes and on culture and morale. Key issues highlighted to me by colleagues included what the 'return to work' would look like and the extent of organisational changes and digital initiatives.

I have also been able to develop better awareness and understanding of colleague initiatives and policies, for example on Climate Action targets, Speaking Up policy and ITV Fast Forward through receiving presentations from employees.

I also enjoyed sharing the Board's views with colleagues and discussing important topics. In 2021, this included sharing the Board's views on the changing media and regulatory landscape (SVOD market growth, HFSS advertising ban, PSB regulation, changes in viewer habits and the advertising market) and how this has affected ITV.

Attendance at the meetings also highlighted to me the extent and effectiveness of management's communication and engagement with colleagues. Direct engagement has harnessed culture whereby colleagues can be their authentic self at work, feel supported by their managers and are proud to work for ITV.

Have you faced any challenges during the year?
Usually there are plenty of opportunities for formal and informal meetings with colleagues during visits to the offices but this has been restricted during the COVID pandemic. While virtual meetings have been effective, I hope that we can resume more regular in-person meetings in 2022 as these provide valuable insight into the day-to-day operations and practical delivery of strategy.

What are your key areas of focus for engagement in 2022?
I am looking forward to meeting colleagues in person more regularly, as soon as circumstances permit. Following changes to the Company's business structure and operating model over the past two years it is as important as ever to gather direct colleague sentiment and build relationships with the workforce. I will also continue to engage with Ambassadors on important topics, such as diversity and inclusion, ESG, and wellbeing and mental health support, which continue to be a focus in 2022.

Have Ambassadors found engagement to be effective?
I have had feedback from individual Ambassadors that they have found my participation to be valuable, particularly in relation to having Board representation at meetings and receiving business as well as strategic updates. I enjoy giving updates on the Board's perspective on issues and opportunities facing ITV. Part of my role is to listen to any and all feedback that Ambassadors or their constituents want to share with me, even if the issues are at a local level.

Engagement with the workforce (Workforce Panel) – examples

NatWest Group PLC clarified the terms of reference of the workforce advisory panel and also information in relation to the composition of the panel. It also explained how the Panel communicates with the board and the decisions/outcomes as a consequence of the Panel's activity.

Governance Report 2021 (pages 108)

Workforce engagement

NatWest Group's Colleague Advisory Panel (CAP) was set up in 2018 to help promote colleague voices in the boardroom and supports our compliance with Code requirements in relation to Board engagement with the workforce.

Through the CAP, colleagues can engage directly with senior management and the Board on topics which are important to them, thereby strengthening the voice of colleagues in the Boardroom. The CAP is made up of 28 colleagues who represent employee-led networks, talent programmes, employee representative bodies or are self-nominated. In this way we ensure the panel is diverse, inclusive and representative of the workforce.

Panel composition

Terms of reference

The CAP met with representatives from the Board three times in 2021 to discuss issues such as wellbeing, remuneration (including executives and the wider workforce), climate, retail banking strategy, sustainability and purpose. The CAP continues to be highly regarded by those who attend and has proven to be an effective way of establishing two-way dialogue between colleagues and Board members. In 2022 we are reviewing our approach to how the Board engages with the workforce.

Colleague Advisory Panel reports	March June December	Feedback on discussions from Colleague Advisory Panel meetings. Topics covered included wellbeing support for colleagues, retail banking strategy, purpose, remuneration (including executives and the wider workforce), climate and ways of working.

How the Panel interacts with the Board

Engagement with the workforce (Workforce director) – examples

The Sage Group plc had chosen to appoint a workforce director to deal with engagement. The disclosure set out in a Q&A format clearly explained what training and support has been provided for the workforce director, what the appointment process was, length of tenure, how the views of the wider workforce are obtained and what level of involvement the workforce director is having in board meetings.

Corporate Governance report 2021 (page 95)

FY21 through the lens of our Board Associate, Pamela Novoa Ralli

Terms of reference

The Board Associate programme, first adopted in 2017, continues to be an effective and efficient alternative method of colleague engagement, as permitted by the Code. The Board Associate attends all scheduled Board meetings, has direct access to all Board Directors and is entrusted to bring the colleague voice into the Boardroom. Colleagues are encouraged to reach out to the Board Associate directly with their views and virtual round table discussions are held on specific topics. This ensures that the Board is appropriately informed and that the interests of our colleagues are considered in all key decision making. The Board considers that the Board Associate role has also been successful in increasing awareness of the role of the Board with colleagues and thereby providing a successful and effective two-way communication channel.

Composition

Colleague engagement by the Board has been further enhanced by the formation of Associates' Council in FY20 comprising past and present Board Associates and selected candidates from the most recent Board Associate appointment process.

Almost 18 months into the role of Board Associate, Pamela Novoa Ralli, our third Board Associate, reflects on her key highlights:

How the views of the wider workforce are obtained

Our colleagues: This has been a hard year for everyone, leading to unprecedented human and humanitarian challenges. Covid-19 and Black Lives Matter (BLM) have been two major global events that have deeply affected our colleagues and the wider community at large. For me, Sage has led the way, acting swiftly to safeguard our colleagues and their wellbeing based on colleague engagement through Sage Belong listening sessions, localised support groups, Wellbeing Days, Flexible Human Work and the Global DEI Accountability Board amongst other initiatives. I have been able to canvass colleague views on topics of focus such as barriers to execution and creating an inclusive culture by reflecting upon how colleagues have felt on the matters mentioned above.

Sustainability and Society strategy: Our commitment to doing the right thing is not new to Sage, but the launch of our Sustainability and Society strategy is, I feel, an important moment in our journey and a step further in the right direction. It showcases our determination to knock down barriers to digital equality and to protect the climate.

Support the company provides

I have observed the active support received from the Board, constructively challenging and building on the strategy presented, so Sage can action our commitment.

Board Associates' Council: Set up in June 2020 to canvass a broader range of colleague views, the Council has met with the Board twice since its inception. A range of topics has been discussed, such as accountability, DEI and views on Company strategy and colleagues have been encouraged to speak openly and honestly. I feel the evolution of this forum and the way it operates is evidence of a great company culture and shows how we truly live our Values.

The Board Associate role has been transformational for me. I have regularly updated the Board and made targeted contributions to bring an insight on colleagues' views to the Board deliberations. It has also made me deeply appreciate the role of the Board and how its consideration of our stakeholders in decision making has influenced the Company's strategy, Values, and our culture.

Over this period, I have undertaken several activities to bring the role of our Board and its Directors to our colleagues. I have regularly blogged on Sage's intranet site on the activities of the Board. Colleague engagement was further enhanced by seeking active participation from our colleagues, asking them to choose Non-executive Directors they would like to hear from. Based on such feedback, the Non-executive Directors shared their views and insights on topics related to innovation, opportunities in Machine Learning and the role of good corporate culture.

Engagement with the workforce (Alternative arrangements) – examples

HSBC Holdings plc clearly stated that they decided to use an alternative approach for workforce engagement and explained what activities were developed within this method.

Governance report 2021 (page 210)

Workforce engagement

The Board continued to place great emphasis on the importance of engagement with the workforce, including colleagues affected by the continued impact of the Covid-19 pandemic and the return to offices in the UK and elsewhere. The Board also considered the impact of the launch of our new purpose and values and the ongoing transformation activity, including the announcement of the disposal of our retail businesses in the US and France.

In accordance with the UK Corporate Governance Code, the Board reaffirmed that it continued to believe that the 'alternative arrangements' approach remained most appropriate for the Group in engaging and understanding the views of the workforce. The programme of engagement covered a variety of interaction styles: more bespoke sessions with smaller groups; formal presentations; Q&A opportunities; and other sessions to facilitate engagement across a breadth of experience, geographical spread and seniority. This variety of engagements enabled open dialogue and two-way discussions between Directors and employees. These sessions allowed the Board to gain valuable insight on employee perspectives, which in turn informed their deliberations and decision making at Board and committee meetings. The Board receives updates on how the Group engages with stakeholders, including the workforce, by way of the Group Chief Executive's Board report and the Group Chairman's weekly Board note. In addition, the Board's agenda regularly includes non-executive Director workforce and other stakeholder engagement updates. These help to inform the Board of employee initiatives and sentiment and allow the Board to plan for future engagement activities. For further details of how the Board considered the views of employees and other stakeholders, see the 'Board decision making and engaging with stakeholders' on page 21.

The flexibility of this approach allowed all Board members the opportunity for direct engagement – albeit often virtually during 2021 – with a broad cross-section of the workforce, spanning global businesses, functions and geographies. It also gave insights provided by management through our employee listening tools and surveys. The Board received formal updates from the Group Chief Executive and the Group Chief Human Resources Officer on employee views and sentiment. These include results of employee engagement surveys, benchmarked data, and additional surveys to understand well-being throughout the Covid-19 pandemic. The Chairman's Forum meetings also discussed employee feedback from the Group's subsidiaries.

Specific engagement between the Board and the wider workforce included meetings and events with:

- representatives of the employee resource groups and each of the non-executive Directors who have been partnered to support the designated groups: Ability, Balance, Embrace, Faith, Generations, Nurture, Pride, and Communities;
- the Nurture employee resource group, which hosted online events on domestic abuse and working fathers, during which non-executive Directors discussed with a small group of employees how the Group had supported them during such challenging times and how the Board could promote further initiatives;
- first and second year members of the HSBC graduate scheme, who discussed their experiences of hybrid working and HSBC's culture, purpose and values;
- US executive management, who held succession and emerging talent sessions, and who also discussed our net zero ambitions, career pathways, and the delivery of our strategy; and
- African heritage employee resource group leaders, who held a roundtable event to discuss inclusivity at work.

Engagement with the workforce (Alternative arrangements) – examples

EMPLOYEE ENGAGEMENT

The Board has a tailored approach to its adoption of Provision 5 of the Code on workforce engagement mechanisms. The Group has a non-unionised business with a headcount of 385 people spread across offices in nine geographies. The Board felt that it was important that its approach should mirror the Company's Values of openness and transparency for the engagement to be authentic, meaningful and received positively. Against this backdrop, it was agreed that alternative arrangements as permitted by the Code were more appropriate to the business. This involves a three-stage approach which continues to evolve as we implement it, recognising that it should be appropriate and add value to our business as well as encompass the spirit of the provision, which is to enable the voice of the employee to be heard in the boardroom.

1) INDIVIDUAL MEETINGS WITH THE DIRECTORS

There are many formal and informal occasions when the Non-Executive Directors meet with employees, including through the induction of a Non-Executive Director, or where a Non-Executive Director makes an ad hoc asset visit or otherwise meets with individuals to discuss a particular topic.

The Committee Chairs have individual meetings with employees in relation to the business of their Committee meetings.

Following the success of last year's workforce engagement sessions the Board agreed a similar approach for 2021, and expanded the sessions to include more Non-Executive Directors, more employees and more focused topics for discussion (as detailed on the left). Feedback from these meetings was discussed during the year, and will continue to be used to develop policies for the future and underpin the Board's discussions and decision making in the boardroom.

2) PRESENTATIONS AT BOARD AND COMMITTEE MEETINGS

The Executive Directors encourage their teams to present at Board meetings and join asset tours. This year, the Board received presentations from: the Central Europe and National Logistics teams, who delivered updates on recent activities in their business units; the Director of Digital & Technology, who provided updates on digital strategy, data centre strategy and PropTech; the Managing Director, Group Investment, who discussed the Company's growth strategy and investment stance; as well as the Group Health and Safety Manager, the Head of Risk and the Head of Tax, who all provided regular updates on their areas. The Responsible SEGRO Driving Group attended several board meetings during the year to keep the Board well informed of progress against our Responsible SEGRO ambitions.

SEGRO plc clearly stated that they decided to use an alternative approach for workforce engagement and explained what activities were developed within this method, following a case study with specific themes covered during engagement sessions.

SEGRO plc, Governance report 2021 (pages 114)

An alternative approach is clearly described

3) INFORMAL MEETINGS WITH THE WHOLE BOARD

Since March 2020, the usual formal and informal occasions where Non-Executive Directors meet with employees have been restricted due to the pandemic. These were able to resume to some extent from June 2021 and the Board met with employees whilst visiting the office for Board meetings, during their asset tours and at the Strategy Day. We hope to resume informal lunches with employees during the Board's office visits in 2022.

In June 2021 the Board joined the Thames Valley team for an open-top bus tour of the Slough Trading Estate. The team gave a presentation and guided tour of some of our assets, showed the Board our progress on some of our current developments and discussed future plans. In September, the Board visited a number of sites across our West London portfolio, including the Heathrow and Park Royal properties, Premier Park, Perivale, Greenford Park, and the Heathrow Cargo Centre, as part of a tour organised by the Greater London team. In addition to meeting with one of our larger customers during the Greater London tour, the Board enjoyed the opportunity to spend time with many members of the Thames Valley and Greater London teams.

CASE STUDY:

WORKFORCE ENGAGEMENT SESSIONS

During 2020, Martin Moore and I held a series of informal virtual meetings with employees to gain feedback on how they felt about working at SEGRO. For us, they provided valuable insight into life at SEGRO and a first-hand look at the culture within the organisation. I was pleased to hear that the sessions were also well received by the employees who took part. We proposed to the Board that not only should we continue with these meetings into 2021 but we should do more of them.

We agreed that pairs of Non-Executive Directors should host sessions with groups of employees from across the business. As the meetings were virtual, it meant that we could meet employees from all around the Group. We also felt it was important to hear from a range of employees in different roles and grades so that we heard a broad cross-section of views and from people of different cultures. We requested that the Leadership team members should not be invited to these meetings, so we could hear from the teams themselves and encourage open and transparent discussions.

Building on our experience in the first year, we thought the meetings might flow more naturally if there was a theme for each session and included participants who would be able to talk about or had expressed particular interest in that topic. However, we did make sure that the meetings were sufficiently flexible to be used as a forum for anything else which employees wished to raise.

We held five sessions, each with a different theme, which were:

- Digital and PropTech strategies;
- Mental health;
- Customer accounts;
- Carbon emissions; and
- Executive Remuneration.

Topics covered

The Directors agreed that the meetings should be open and we should encourage two-way dialogue. In the meetings I joined, we spent some of the time explaining our roles as Independent Non-Executive Directors and gave the employees a flavour of the sorts of things which we were discussing in the boardroom and, in return, we heard about people's experiences about working day-to-day in the business. Employees shared with us their views on the theme for the meeting as well as how they felt about the Group's culture and Values, the remuneration framework, sustainability challenges and the positive impacts of Responsible SEGRO. I was particularly impressed with people's enthusiasm for the business, their understanding of what was happening outside their own areas and their commitment.

Non-attributable feedback from the sessions was relayed to the Board for discussion at the December meeting. I think that each of the Non-Executive Directors really valued the transparent conversations and the opportunity to hear first-hand, candid feedback from employees.

SUE CLAYTON
INDEPENDENT NON-EXECUTIVE DIRECTOR

Engagement with the workforce (Alternative arrangements) – examples

Britvic plc clearly explained what alternative arrangements have been implemented and why the Board considers a range of different arrangements to be more effective than the options set out in Provision 5.

Governance report 2021 (pages 81)

The Board is committed to engaging with employees throughout the company on subjects that affect them and providing them with updates on the company's performance. Towards the end of 2019, the Board implemented an approach to employee engagement that built on existing mechanisms, with clear plans to enhance and adapt these going forward. Examples of these mechanisms are set out on this page. The Board acknowledged that although this is not one of the recommended approaches set out in the 2018 Code, by adopting a range of different engagement practices, the Board will be provided with greater opportunities to hear the employee voice in a variety of settings. The Board considers this to be more effective than allocating responsibility to a single Director or limiting engagement to an advisory panel, as it opens up possibilities for a wider range of activities.

The Board set out an engagement plan at the start of the 2021 financial year, which included in person site visits and face-to-face meetings. It was not possible to complete these activities, but a range of alternative measures were implemented instead. The Board has resumed site visits in November 2021, meeting employees at the Beckton site, and plans to visit other sites in 2022.

Leadership Forum with John Daly

Regular Leadership Forum calls, chaired by Simon Litherland, are held with the 100 most senior Britvic leaders worldwide, to keep the community connected and spend time together for updates on key strategic initiatives and performance. These interactive online sessions include time for Q&A sessions between the participants. John Daly occasionally joins these calls to share his views and give the leadership population the opportunity to ask questions.

> "The Leadership Forum calls are a great way for me to stay connected to my colleagues around the world. I particularly enjoy hearing about progress against our strategy, and it was great to hear direct from our Chairman as to how we're doing, and how our work is landing in the City."
>
> **Leadership Forum member**

B-Diverse lunch and learn with Suniti Chauhan

The B-Diverse Network aims to promote diversity and inclusion across the company, providing opportunities to learn and helping to create an environment where all Britvic employees feel confident to bring their true selves to work and inspire everyone to demonstrate inclusive behaviours.

The network organised a virtual event in January 2021 at which Suniti Chauhan spent time talking to around 100 employees about her career journey and the experiences and opportunities she navigated as a woman of colour in the financial and corporate world.

> "The inclusiveness of the B-Diverse Network is truly inspiring – a testament to the many people at Britvic who want to contribute, learn and be a part of the solution."
>
> **Suniti Chauhan**

Employee Involvement Forum

The Employee Involvement Forum (EIF) provides a formal mechanism for elected representatives of Britvic employees to meet regularly with senior management representatives for the purpose of exchanging information and consulting on issues that have a general impact on business performance for topics such as company strategy, business performance, environmental matters and employment policy.

It also provides a mechanism for the ad hoc exchange of information and consultation on issues that impact business performance between elected representatives and senior management as required.

John Daly and Sue Clark attended an EIF meeting in August 2021 and led a Q&A session on a number of topics including:

- Executive Director pay and how non-financial performance is considered in relation to this
- External market view of Britvic performance
- Recent acquisitions
- The growing importance of ESG
- Company culture and ambition

John and Sue fed back to the Board following this session and going forward, different Directors will participate in further EIF meetings each year.

> "It was an open and informative session which bodes well for future meetings and ways of working together."
>
> **EIF Chair**

EMPLOYEE Heartbeat

Employee Heartbeat surveys

In November 2020 we introduced our new employee engagement framework – Employee Heartbeat. Twice a year we take the Heartbeat of our people, providing us with valuable insights on employee engagement, what works well in the organisation, and what can be improved. All our employees are given an opportunity to make their voice heard, and an average 86% took the opportunity, giving over 10,000 comments.

Results are released to the Board for discussion following each survey, highlighting the insights gained from Heartbeat, the current business context, and the actions planned. Following this detailed feedback, at these sessions Board input is taken on how we continue to build our culture and, across our business, the insights gained from the surveys are used to develop meaningful action plans.

All-employee connect calls

The CEO, Simon Litherland, hosts regular global connect calls to bring together all Britvic people to update them on key activities that impact and work towards our strategy in all our business units. They are our live global townhalls, and are available in three languages to ensure that, no matter where in the world, all Britvic employees are included and are together as one team working towards the same goals.

Over the last 12 months, we have held three all-hands connect calls with an average of 1,800 attendees from all areas of the business, covering a range of topics including updates on our People, Planet and Performance agendas, our local brands, the introduction of our Working Well programme and Beyond the Bottle innovation, and included informative and interactive Q&A sessions with members of the Executive team.

> "It was an excellent session, and I am proud to work for a large international group with real business opportunities and innovative projects. My team found it inspiring."
>
> **Britvic employee**

Stakeholder engagement
Supplier focus

In recent years, supply chain matters have often been at the top of the board's agenda. Dialogue-driven engagement helps companies to inform and improve decision-making in line with Provision 5. Where appropriate, the FRC is keen that boards are explaining how they are managing this key stakeholder relationship, including in relation to payment performance. Companies actively engaging with their suppliers can build a resilient supply chain and establish common goals for growth and sustainable development.

Reporting framework

Legal and regulatory requirements

Principle D of the Code states that the board should ensure effective engagement with, and encourage participation from, its stakeholders.
Provision 5 of the Code states that: "The board should understand the views of the company's other key stakeholders and describe in the annual report how their interests and the matters set out in section 172 of the Companies Act 2006 have been considered in board discussions and decision-making."

Regulators' expectations

"We were disappointed that more companies did not report on channels of engagement with suppliers and their importance as a source of risk. Failures and concerns within the supply chain will impact the success of the company, even if only in the short term."

Review of Corporate Governance Reporting, FRC, November 2020

"The reporting lacked detail and companies are failing to provide sufficient information on board-level decisions relating to suppliers."

Review of Corporate Governance Reporting, FRC, November 2021

What to look out for when reporting

Dialogue-driven engagement methods may include:

Companies should disclose Key Performance Indicators ('KPIs') or other methods used to measure the effectiveness of their engagement activities

Supplier focus – examples

Countryside Properties plc's disclosures demonstrate two-way dialogue with suppliers established by the company both on company and board levels.

Governance report 2021 (page 30)

Partners

Strategic priority

Creating enduring relationships with local authorities, housing associations and PRS providers helps us to maintain our reputation as a preferred delivery partner. We engage with them at all stages of a development to ensure that we create communities where people love to live.

How we engage

→ Engagement with large housing associations through the G15 group and other forums
→ Membership of the Home Builders Federation
→ District Council Network, County Council Network, Civic Voice and National Planning Forum
→ Regular engagement meetings with other partners

Management-level engagement

What they tell us

→ Community engagement is key
→ Use of local labour and suppliers is encouraged
→ Accelerated delivery of affordable housing is critically important for communities
→ We must minimise disruption to existing residents

Board decisions and what we are doing

→ Introduction of regular engagement sessions with different partners at Board meetings
→ Early planning discussions, public engagement and master planning workshops
→ Regular community events to engage residents in planning and design
→ Commitment to apprenticeships and local supply chains on our developments
→ Creation of tenure-blind communities
→ Clear delivery programmes and communication at all stages
→ Annual partnering awards to celebrate supply chain excellence

Direct interactions with suppliers

Rio Tinto plc established supplier-focused surveys aimed at gathering their feedback.

Governance Report 2021 (page 22)

Suppliers

Engaging with suppliers is an important way in which we can have a positive impact on communities. In the areas where we operate, we work hard to partner with and develop local businesses so they can share in our success. In 2021, we spent $19.4 billion with suppliers globally, including almost A$8 billion in Western Australia.

We increased our spend with Indigenous suppliers in Australia by 40% from 2020 to 2021 to A$400 million. In Mongolia, between 2010 and the end of 2021, Oyu Tolgoi spent $4.1 billion on national procurement*.

Quality relationships with our suppliers are vital to ensure that we remain at the forefront of technological and market developments, and we continually strive to improve our supplier experiences. As with our customers, we ask our suppliers to participate in a yearly survey to ensure we capture their feedback for improvement. To further support our suppliers, in 2021, we introduced new faster payment terms in Australia to ensure Indigenous, small and regional suppliers are paid more quickly.

Actively seeking feedback from suppliers

We also continue to engage with both customers and suppliers on innovative climate change partnerships, including with BlueScope in Australia, China Baowu in China, Nippon Steel Corporation in Japan and POSCO in South Korea, to tackle emissions across the steel value chain. On the supplier side we are partnering with Komatsu and Caterpillar on zero-emissions haul trucks. More information on some of these partnerships can be found in the Innovation pages 70-71.

Supplier focus – examples

Lloyds Banking Group plc disclosures highlight the board's oversight over prompt payment practices and other elements of the board's review.

Strategic report 2021 (page 28)

Suppliers

The Group relies on a number of partners for important aspects of our operations and customer service provision. The Board recognises the importance of these relationships, and engagement with suppliers included:

- The Board's Audit Committee considered reports from the Group's Sourcing and Finance teams on the efficiency of supplier payment practices, including those relating to the Group's key suppliers, ensuring the Group's supplier payment practices continue to meet wider industry standards
- The Board continued to oversee resilience in the supply chain, ensuring the Group's most important supplier relationships were not impacted by potential material events
- The Board continues to have zero tolerance towards modern slavery in the Group's supply chain, and receives updates on ongoing enhancements to the Group's supplier practices, including measures to address the risk of human trafficking and modern slavery in our wider supply chain.

SSE plc described a gap analysis used to tackle Modern Slavery risks.

Governance report 2021 (pages 47)

Mitigating the risk of modern slavery

Modern slavery in any form is unacceptable in any circumstances. SSE undertakes steps to mitigate the risk of modern slavery in its direct and supply chain operations and in 2020/21 commissioned human rights experts Stronger Together to undertake a gap analysis of SSE's approach to preventing human rights violations and modern slavery against best practice.

Gap analysis used as a method to address Modern Slavery risks

Using the result of this process with Stronger Together, SSE has developed a new Modern Slavery Action Plan for 2021-23, focused on five key areas of focus: Tier 1 and beyond; Due diligence; Awareness and education; Response and doing the right thing; and Messaging and comms. This Action Plan is underpinned by robust governance, with the SSE Human Rights Steering Group now reporting directly to the Risk Committee, as well as to the GEC and to the Board annually.

Detail on the gap analysis carried out by Stronger Together, SSE's Modern Slavery Action Plan and an update of SSE's activity over 2020/21 to mitigate the risk of human rights abuses within its direct and supply chain operations will be found within its Modern Slavery Statement 2021 which will be located on the sse.com homepage.

Supplier focus – examples

ITV plc specifically described the board's role in engagement with suppliers, as well as the Audit and Risk Committee's review of supplier payment practices.

Governance report 2021 (page 109)

Partners (including Suppliers, other Broadcasters and Platform Owners)

Description	Link to strategic priorities
Strong relationships with our partners are fundamental to our business and operating model, and to ensure we meet the high standards of conduct that we set ourselves.	Optimise Broadcast: see Our Strategy (from page 22)

Forms of engagement

Meetings and presentations
- Executive Directors' engagements (meetings, conferences) with key suppliers and partners (including distribution partners)
- Executive Directors sit on the BritBox Partnership Board with their BBC counterparts and other senior managers, and regular Chief Executive counterpart meetings take place with other key partners

Board and Committee reviews and assessments
- Strategy sessions on the impact of the supercharged streaming strategy on third parties (including PSBs, suppliers and platform owners)
- Board approval of significant contracts with suppliers or partners
- Board update on engagement with third-party suppliers, including supplier management policies, processes and controls
- Chief Executive reports on key/strategic partner relationships and Group CFO & COO reports on important negotiations with key partnerships, at every Board meeting
- Board review of ITV's Modern Slavery Statement, including report on steps taken to identify, address and prevent modern slavery in our operations and supply chains
- Audit and Risk Committee review of the Group's supplier payment practices and the procedures in place to safeguard both ITV and suppliers from fraud (see page 129)

Outcomes and impact on principal decisions

- Approval of new long-term commercial partnerships with Virgin Media O2 and Sky
- Development of ITV's Partnership strategy to deliver Phase Two of the strategy
- Consideration of key themes/risks across supplier stakeholder groups and how they are being addressed by management
- Strengthened creative talent through new partnerships and strong development slates
- Further collaboration with streaming platforms to drive reach and consumption
- Board support for targeted engagement with distribution partners to define approach to the supercharged streaming strategy
- Endorsement of partnership initiatives to develop commercial addressable propositions and support ITV's data strategy

Stakeholder engagement

Community engagement & Climate reporting

With increasing stakeholders' demands to understand how companies are tackling climate change, boards need to consider climate-related issues when making key decisions. In addition, companies which demonstrate a genuine desire to listen to broader stakeholders, including communities, and consider their interests, are likely to benefit in the long run.

Reporting framework

Legal and regulatory requirements

Principle D of the Code states that the board should ensure effective engagement with, and encourage participation from, its stakeholders.
Provision 5 of the Code states that: "The board should understand the views of the company's other key stakeholders and describe in the annual report how their interests and the matters set out in section 172 of the Companies Act 2006 have been considered in board discussions and decision-making."

Regulators' expectations

Community engagement

"Although companies are identifying issues important to their communities, the vast majority are not articulating the actual or potential impact to local communities as a result of their business operations."

"The FRC expects more information and transparency on why the board approved community initiatives or programmes, and how these align with strategy."

"Reporting on community engagement focuses almost entirely on good news stories and philanthropic giving, with little reporting on any challenges encountered or negative impacts as a result of business operations and activities."

Review of Corporate Governance Reporting, FRC, November 2021

Climate reporting

"We were pleased to see that many companies are preparing the ground to ensure that they will be complaint with the new FCA Listing Rule. The majority of companies had taken time to acknowledge the work of the task force and had said that reporting in line with the recommendations would start next year."

Review of Corporate Governance Reporting, FRC, November 2021

What to look out for when reporting

Processes and practices that can help boards integrate community engagement and climate reporting into decision-making, may include:

Community engagement

- Board approval of investment, community programmes and donations;
- Updates to the board on stakeholder engagement activities, stakeholder materiality analysis and research conducted by different business functions;
- Executive board member on a social diversity impact board, led by independent experts and reporting directly to the Group board;
- Direct board engagement in various geographies on geopolitical and social issues influencing regions in which the company operates; and
- Reports to board on community metrics/outcomes of engagement.

Climate reporting

- Training undertaken by board and audit and risk committee members on climate change reporting;
- Updates on collaborative initiatives and international forums, e.g. the World Business Council for Sustainable Development and Task Force for Climate-related Financial Disclosures (TCFD); and
- TCFD compliance statement:

– The disclosure of targets and metrics is a central pillar to the TCFD Disclosures; and

– It is important for companies to undertake the work to assess the level of climate-related risk and determine what governance arrangements should be put in place.

Stakeholder engagement (Community & climate) – examples

The Sage Group plc clearly described initiatives and investments approved by the Board in relation to communities and climate.

Corporate Governance report 2021 (page 94)

Communities and the planet

Board engagement

- Ensures Sage Foundation's plans focus on what matters most to Sage's colleagues and communities, and receives regular updates on its activities and plans
- Continued to promote and endorse a culture where all colleagues are actively encouraged to take their volunteer days as part of Sage Foundation activities in order to give back time, skills and technology
- Oversaw the development and approved Sage's Sustainability and Society strategy and attended its launch (along with other colleagues) in June
- The Board made commitments at the Company's 2021 AGM to support TCFD and SASB disclosure recommendations

Company engagement

- We proactively consider and manage the impact we have on our local communities as part of the delivery of long-term sustainable business performance
- Sage Foundation celebrated its fifth anniversary in FY21. To date, colleagues spent a total of 110,000 days volunteering, the value of Sage Foundation's volunteer hours reached £14m, 600 grants were awarded to non-profits and 2,000 non-profits have benefitted from discounted software
- We are committed to managing our use of resources and proactively managing our environmental impact. We continue to focus our commitment on areas that are most relevant to Sage, our people and our customers
- Sage also continues to participate in the Carbon Disclosure project and is fully compliant with the Streamlined Energy and Carbon Reporting requirements

For further information about Sage's strategy and commitment regarding the environment, see pages 29 to 37 of the Strategic Report.

Tangible metrics provided to demonstrate engagement

What we did in FY21

- Approved the adoption of an ambitious new Sustainability and Society strategy, for more information please see our Sustainability and Society Report on our website
- Signed up to the United Nations Global Compact 'Business Ambition for 1.5°C', the United Nations Climate Change 'Race to Zero' and the commitments of the Science Based Targets initiative
- Adopted a robust sustainability reporting framework with industry-specific SASB standards and continued to enhance our TCFD disclosures
- Colleagues spent a total of 22,055 days volunteering as part of Sage Foundation in FY21

Approved investments & supported initiatives

Stakeholder engagement (Community & climate) – examples

Countryside Properties plc described its investments approved by the Board.

Governance report 2021 (pages 33)

Communities

Strategic priority

A critical element for the success of the Company's strategy of creating "places people love" involves interacting with the local communities to take their views fully into account. Countryside develops a tailored planning and community engagement strategy for each development site, working closely with communities, local councils and other local stakeholders throughout all aspects of the planning process.

How we engage

- → Consultation through the planning process to understand the needs of the local community
- → Meetings with councillors, planning officers and other key officials such as in highways and education
- → Town hall meetings, consultation events and drop-in sessions
- → Collaboration with local charities and community groups
- → Developing scheme-specific websites and social media to reach a wider group of people
- → Newsletter drops to surrounding community to keep them informed of proposals
- → Employing local people who understand local needs
- → Dedicated community development team with community liaison officers

What they tell us

- → Want attractive, safe environments, close to transport and amenities
- → Investment in local infrastructure and ensure delivery early in project
- → Engagement with the needs of local people, listening to their views
- → Support and investment for local community groups and charities

Board decisions and what we are doing

- → Maintaining the £1m Communities Fund
- → Ensuring that community engagement is at the heart of developing new proposals
- → Supporting community champions
- → Delivering timely infrastructure to support our new communities
- → Creating "community chests" where residents choose how money is invested on our regeneration projects
- → Employee volunteering within communities as part of our charity initiatives
- → Visiting local schools

Investments approved by the Board

Shaftesbury plc created a Community Investment Committee to oversee their programme of activities. The report illustrates the nature of investments.

Governance report 2021 (pages 66)

Our Community Investment Committee (CIC) is responsible for overseeing our programme of community investment initiatives in line with our focus on supporting young people and communities in the boroughs of Westminster and Camden.

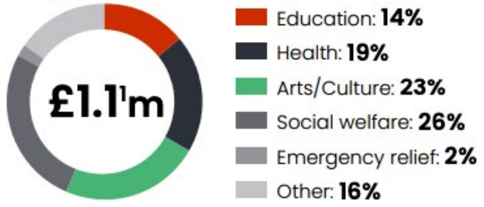
This year our focus has been on providing targeted support to help our local community partners to recover from the impacts of the pandemic. Our support has taken a variety of forms, including financial and in-kind donations through provision of short and long-term accommodation, and time given by our employees. In 2021, the value of our contributions totalled £1.2m, an increase of 33.7% on last year. This is set out below and detailed in our Sustainability Data Report, available on our website. This increase is due mainly to the provision of more space for charities and not-for-profits, and additional staff volunteering time.

Our change in focus from last year has resulted in a lower proportion of spend on emergency relief which was necessary during the pandemic, with a greater emphasis on arts and culture to support the recovery.

In September we hosted our seventh annual community breakfast, which brought together thirty-four of our stakeholder organisations in an informal atmosphere to network and build relationships. Held at the House of St. Barnabas, this was the first in person networking event for many organisations in eighteen months.

HOW:

WHAT:



Stakeholder engagement
Effectiveness of engagement

The 2018 Code focus on stakeholders, together with the introduction of the Section 172 statement, has led companies to provide more details on how they are engaging with their key stakeholders. As an extension of this, investors are looking for an honest dialogue and assessment of where the company stands with its stakeholders. By disclosing how they consider stakeholder engagement performance metrics, boards show a recognition of effective stakeholder engagement as a source of differentiation which can help companies achieve their strategic objectives.

Reporting framework

Legal and regulatory requirements

Principle D of the Code states that the board should ensure effective engagement with, and encourage participation from, its stakeholders.
Provision 5 of the Code states that: "The board should understand the views of the company's other key stakeholders and describe in the annual report how their interests and the matters set out in section 172 of the Companies Act 2006 have been considered in board discussions and decision-making."

Regulators' expectations

"FRC expects companies to report a coherent narrative on their approach to measuring the performance of their engagement strategies."

"FRC expects the information provided to be a fair and honest assessment of the company's performance in relation to stakeholder engagement, including the identification of any areas where they failed to meet targets."

Review of Corporate Governance Reporting, FRC, November 2020

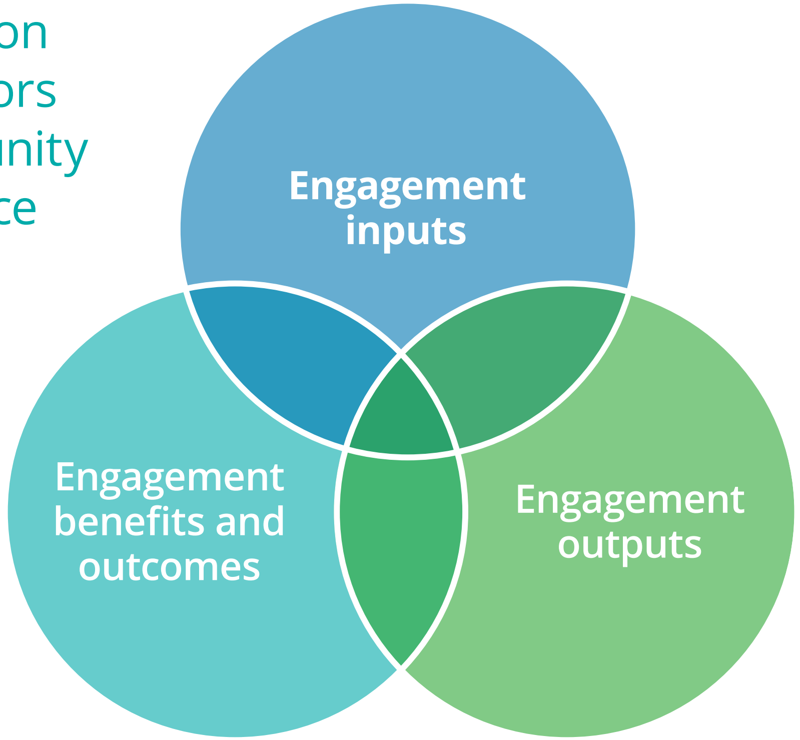
"The FRC expects companies to report on how the board oversees stakeholder decisions. Issues include how, and on what basis, stakeholder information is passed to the board, as well as on how often the board reviews engagement methods and identification of any issues discussed."

Review of Corporate Governance Reporting, FRC, November 2021

What to look out for when reporting

In their annual review of corporate governance reporting, the FRC noted where metrics by which companies measure their effectiveness of stakeholder engagement are provided, reporting should also describe on how such indicators have been considered in board-level decision-making. Reporting on targets not met can build trust with investors and stakeholders and provides an opportunity for companies to demonstrate the resilience of their business model.

- Who is responsible for engagement at company level?
- How is the information passed to the board?
- What are the methods of engagement?
- Why does the company engage?
- Where is engagement taking place (geography, product level)?



- Tangible benefits to stakeholders
- Business outcome: how a decision contributes to the long-term success of a company

- The feedback gathered, how stakeholders are affected by company's activities
- Data for metrics used to measure effectiveness of engagement

Effectiveness of engagement - examples

Rathbone Brothers Plc disclosed the engagement metrics used to measure the effectiveness of engagement with each stakeholder group.

Governance report 2021 (pages 11-15)

Our partners and regulators

Link to operating more efficiently strategic priority

How the firm engaged

We engaged with regulators and our partners through the following activities:

- we held regular meetings with our regulators during the year and continue to have a proactive and transparent relationship with them
- we ensured our payment terms with all suppliers were fair and in compliance with payment practices
- we engaged our suppliers to understand both their exposure to environmental, social and governance (ESG) risk (including modern slavery risk) and their management of these matters. Our modern slavery statement is updated annually and reviewed by our board
- we maintained ongoing relations with our key suppliers and partners during the year with regular board updates
- engaged with our existing lenders to refinance our debt facility

How the firm responded

- worked in close collaboration with the firm's regulators and responded on a timely basis
- maintain a constructive relationship with HMRC to help ensure alignment with the relevant regulatory frameworks
- reviewed our preferred, strategic and critical suppliers for alignment to our ESG policies and processes. See page 57
- regularly interacted with the industry bodies and associations we are affiliated with to ensure we were engaged with issues impacting our industry
- refinanced and increased our debt facility with our existing lending partner, M&G

Measuring our engagement

% of suppliers paid within 30 days

2021	94%
2020	90%
2019	92%

% of payments to suppliers made in agreed timeframe

2021	70%
2020	63%
2019	65%

Response to regulators

All responses to regulators have been made in line with the agreed deadline

People

Link to inspiring our people strategic priority

How the firm engaged

We engaged with our people through the following activities:

- regular colleague opinion surveys to measure engagement, wellbeing and opinions, e.g. our approach to hybrid working, change programme, etc
- ongoing and regular virtual management briefings
- webcast, internal magazine and management blogs
- virtual presentations by the executive team to discuss performance and the firm's progress on the strategic plan
- workforce engagement sessions held with the NEDs

How the firm responded

- working with the cross industry network Inclusive Companies to broaden our reach and appeal as part of our commitment to improve employee diversity, e.g. Rathbones featuring on the Inclusive Jobs portal and employee access to inclusive webinars
- shared our hybrid working principles see pages 28 and 58
- supported employee wellbeing through the provision of ongoing physical and mental health support. During the pandemic this was offered through virtual sessions
- continued to develop and expand Rathbones mentoring programme
- inclusive leadership training
- invested in virtual training and developing our employees

Measuring our engagement

2021 colleague engagement survey:

	2020	2021	Financial Services Benchmark
Employee response rate	82%	83%	
Overall engagement	91%	8.1/10*	7.7/10
Employee Net Promoter Score (eNPS)		44*	18

* In 2021 we used a new engagement system; this means direct comparisons to previous years was not possible.

Further links to:

Responsible business review	page 54
Workforce engagement	page 84
Enabling our people	page 28
Culture	page 83

Measuring our engagement

Employee response rate

Overall engagement

8.1/10

2021	8.1
Benchmark	7.7

I am able to work effectively

8.4/10

2021	8.4
Benchmark	7.5

I feel well communicated with

7.8/10

2021	7.8
Benchmark	7.3

My manager cares about me as a person

8.4/10

2021	8.4
Benchmark	8.3

Effectiveness of engagement - examples

Dunelm Group PLC clearly described how the Board assesses the effectiveness of engagement.

Strategic report 2021 (pages 32-33) and Governance Report 2021 (page 106)

4 Effectiveness of engagement

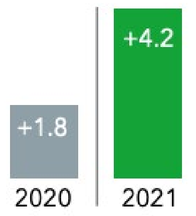
On pages 32 to 33 in our Strategic Report, we share Group KPIs, sustainability KPIs and other measures relating to the effectiveness of our engagement that are routinely reviewed by management and the Board. Narrative on performance against Group KPIs and targets for each measure (where available) are reported in detail on pages 32 and 33. Sustainability metrics are presented on pages 42 to 43, with commentary on pages 44 to 75. For some measures, performance is not published owing to commercial sensitivity, or simply owing to their recent adoption.

GROUP KPI

Net promoter score (NPS)

Year-on-year improvement %pts

+4.2%pts BONUS



Customer NPS improved year on year as we were able to retain our Click & Collect offering in store throughout the whole of the closure periods this year. We continued to experience high online demand, but the necessary suspension of our 'room of choice' delivery option due to Covid-19 restrictions resulted in lower NPS for our online sales compared to store sales.

Why this measure is important
The NPS metric is a common business tool that measures how likely people would (or would not) be to recommend a product, service or company. At Dunelm we use this to measure how our customers rate their full experience with us.

Employee net promoter score (eNPS)

Year-on-year improvement %pts

+1.0%pts BONUS

We measure our colleague engagement every six months in our colleague survey. Overall, employee NPS has again improved in the year, which is pleasing given the continued disruption to the working environment due to the ongoing pandemic.

Why this measure is important
This measure rates our colleagues' experience with us and the survey helps us understand where we need to improve. It is also used as an executive bonus measure.

Owing to the lockdown period, we postponed the May 2020 survey, and the 2020 year-on-year improvement quoted compares the November 2019 survey to the November 2018 survey, and the 2021 year-on-year improvement compares the May 2021 survey to the November 2019 survey.

Stakeholder engagement
Outcomes of engagement

In recent years, the FRC has been consistent in messaging that good governance reporting focuses on outcomes as well as process. As with any business process, understanding of the outcomes is vital for purpose-driven integration. Reporting on how boards engage with its stakeholders can be a reflection of the culture, but information on results of this engagement and the actions taken as a result of the feedback received is particularly insightful.

Reporting framework

Legal and regulatory requirements

Principle D of the Code states that the board should ensure effective engagement with, and encourage participation from, its stakeholders.

Provision 5 of the Code states that: "The board should understand the views of the company's other key stakeholders and describe in the annual report how their interests and the matters set out in section 172 of the Companies Act 2006 have been considered in board discussions and decision-making."

Regulators' expectations

"FRC expects companies to report on how the board has reached key decisions and the likely impact of those decisions, including how it has taken account of the company's stakeholders in doing so."

Whilst most companies reported on at least one principal decision that impacted its stakeholders, these were often routine decisions which did not involve difficult stakeholder trade-offs.

Review of Corporate Governance Reporting, FRC, November 2020

"The FRC expects companies to report on the actual or intended outcomes of engagement and decisions on both (i) the company's key stakeholder and (ii) the business."

"The FRC expects companies to provide evidence to support their statements when they are reporting on the performance of particular decisions, which may come in the form of key metrics supported by narrative or case studies."

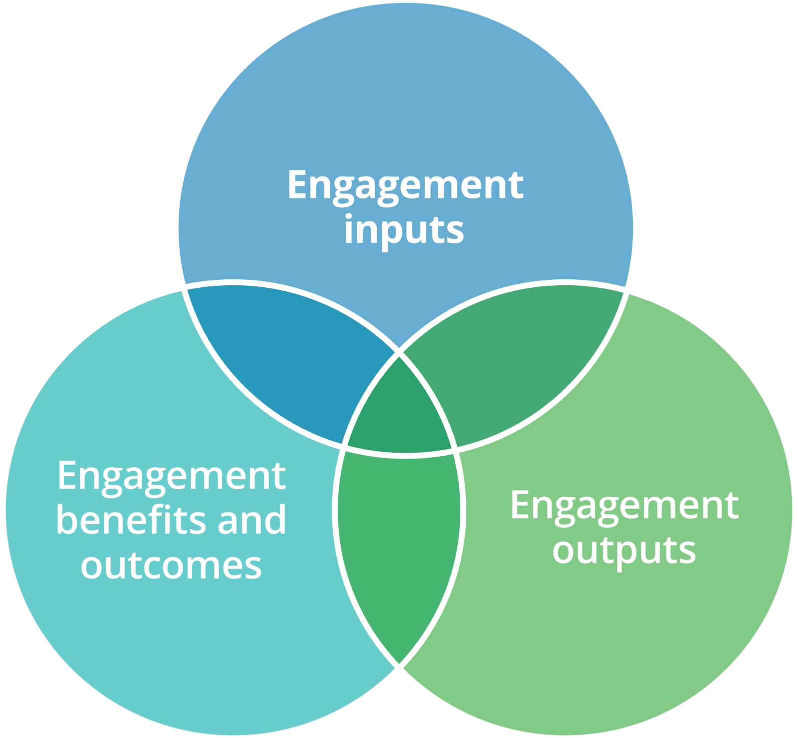
Review of Corporate Governance Reporting, FRC, November 2021

What to look out for when reporting

- Tangible benefits to stakeholders
- Business outcome: how a decision contributes to long-term success of a company

Better practice reporting should have:

- Any associated potential risks & opportunities to company and/or stakeholders impacted by potential courses of action
- Feedback received from engagement and action taken in response
- Use of external evidence and advice to support decisions
- How such evidence and data was used to drive strategy
- Any overlaps in stakeholder interests and difficult trade-offs made



Outcomes of engagement – examples

WHO THEY ARE

HOW DID THE BOARD ENGAGE WITH THEM IN 2021?

DIRECT ENGAGEMENT

EMPLOYEES

… deliver SEGRO's strategy in line with our Purpose and Values, and culture.

- Reviewed the results of the biennial Employee Engagement Survey in January 2021.
- Held five workforce engagement sessions with Non-Executive Directors and a cross section of employees from across the business.
- Visited assets in the Thames Valley and Greater London portfolios with the local teams.
- Encouraged the Leadership team and their reports to present at Board meetings.

INDIRECT ENGAGEMENT

- Received updates from the Group HR Director on topics such as talent and succession planning, diversity and inclusion in the workforce.
- Achieved accreditation with the National Equality Standard in recognition of our strong and inclusive culture, see page 33, and became an accredited Living Wage UK employer.
- Kept informed on progress against Responsible SEGRO ambitions, including the Nurturing Talent pillar.
- Executive Directors delivered regular employee webinars and briefings with Q&A sessions.
- Reviewed take up rates of all-employee share schemes.

HOW DID THEY INFLUENCE THE BOARD'S DECISION MAKING IN 2021?

- Feedback from the Executive Remuneration workforce engagement session was beneficial in shaping the new remuneration framework and the proposed 2022 Remuneration Policy.
- Feedback from the other workforce engagement sessions was considered when a range of company-wide decisions, topics, policies and disclosures were approved by the Board throughout the year. Examples of these include the Code of Business Conduct and Ethics, talent management and succession planning.
- Continued to encourage employee share ownership in the Company through awards of all-employee share schemes.

CUSTOMERS

… are our occupiers and SEGRO want
hear about what they want from our as
the Company can continue to create th
that enables extraordinary things to hap

- Discussed results of the Annual Customer Satisfaction survey.
- Noted KPIs on vacancy and customer retention.
- Provided ongoing support and concessions on an ad hoc basis to customers who continue to be impacted by the pandemic.

- Customer site visit was greatly appreciated by the Board in furthering its understanding of what customers value in SEGRO's developments.
- In approving investment decisions, including redevelopment, the Board is mindful of the value that customers place on lower-carbon growth and sustainability investments, and regeneration within the wider portfolio.
- Feedback from the Carbon Emissions workforce engagement session, heightened the Board's awareness of some of the challenges faced by some customers and the support they need to drive sustainability initiatives.
- Feedback from the Customer Accounts workforce engagement session further highlighted what was important to customers.
- The Board supported innovative ways of providing services to customers through digital solutions as explored in the Digital/PropTech strategy session.

SEGRO plc's section 172 statement described how each stakeholder group influenced the board's decision making in 2021.

Governance report 2021 (pages 112-113)

Outcomes of engagement – examples

easyJet plc demonstrated how the board considered different stakeholders in making a decision and how the feedback was incorporated in the decision-making process.

Governance Report 2021 (page 108)

Stakeholders as part of decision making – the rights issue

Decision: Launching a 31 for 47 rights issue in September 2021 to raise gross proceeds of £1.2 billion.

Considerations: The Board considered a number of factors when looking at launching an equity raise during the year, including the best interests of customers, employees and investors, amongst other stakeholders.

- The Board had acted decisively on liquidity during the pandemic to ensure that easyJet was well placed to navigate through the uncertainty. However, as part of a review of its capital structure, the Board concluded that raising additional equity would be necessary.
- The Board was mindful that shareholders had supported the Company previously with participation in an equity placing, and that the quantum of the rights issue would require significant investment by shareholders. However, it also considered that the trading environment remained uncertain and having reviewed the Group's long term capital and liquidity needs, raising the additional equity would not only protect the Company's position in the European aviation sector and provide resilience from downside risks, but also improve management's ability to deliver long term value for shareholders. This included through having the flexibility to take advantage of long term strategic and investment opportunities.
- The Board and its advisers consulted with a number of major shareholders both shortly before and during the proposed rights issue. Discussions centred around the timing and how the Board had determined the quantum of the raise. The rationale for the timing was explained, noting the above points. The factors that influenced the size of the equity raise were also discussed.
- As a result of this engagement, management reflected on the feedback received and articulated the growth ambitions in their presentations around capacity, EBITDAR and ROCE.
- The ability to use the proceeds to invest in the customer proposition and take advantage of growth opportunities, and strengthening the ability to continue to invest in sustainability, was also considered to be important for customers.
- Additionally, providing resilience and certainty was felt to be important for employees, many of whom are also shareholders.

Outside of the specific events highlighted above, the Group actively engages with investors and seeks their feedback. easyJet has an Investor Relations function which runs an active programme of engagement with actual and potential investors based on the financial reporting calendar as set out on the timeline on page 107. This year the programme has included one-to-one meetings with institutional investors, roadshows and conferences.

easyJet has particularly targeted and engaged with European investors during the year as part of an enhanced programme related to disenfranchisement. There is also regular communication with institutional investors on key business issues.

Outcomes of engagement – examples

Dunelm Group PLC described follow-up activities as a result of Board engagement and also presented a case-study with consideration of trade-offs between relevant stakeholders.

Governance Report 2021 (page 107 & 109)

7 Actions/change resulting from Board engagement and discussions

When making decisions which require balance across different stakeholder interests, the Board is careful to consider each stakeholder group separately and in the context of the long-term interests of the Company. We also carefully consider whether a decision is consistent with our culture and shared values, and to ensure that we maintain the Group's reputation.

Principal decisions made by the Board during the period where different stakeholder interests were discussed and considered include:

- Payment of a one-off 'thank you' bonus of £250 to all colleagues.
- Decision to declare an interim dividend in February 2021.
- Decision to pay rent and service charges due to landlords (albeit monthly in advance rather than quarterly for part of FY20).
- Decisions about repayment of amounts received in FY20 and FY21 by way of government support through Covid crisis.
- Payment of some element of bonus and LTIP relating to FY20 to Executives.
- Decision to increase warehousing capacity and appoint a new partner to provide fulfilment services for our one-man home delivery service.
- Increased investment to support our sustainability objectives.

On pages 108 to 110 we share three case studies that show how principal decisions made by the Board involved considerable debate and discussion and the balancing of competing interests of key stakeholders.

Investment in new warehouse capacity with a new partner

to support the growth of our home delivery business

In May 2021, we entered into an agreement with a new partner, GXO, to provide increased capacity for our home delivery fulfilment operations, together with a lease of a new site close to our existing warehouse operation in Stoke.

With existing operations at full capacity, a new operation to support our future growth ambitions is essential. Our new partner's improved systems and processes will enhance our competitive position and allow us to offer better service to our customers, for example faster delivery, later order cut-offs, and more combined deliveries; the latter will also reduce our environmental impact, as we will need to make fewer deliveries. In making its decision, the Board considered the risk to profit of increasing our fixed cost base (offset by lower variable costs) and of disruption as we transfer to a new partner – potentially impacting shareholders and any colleagues whose pay included performance-related incentives. The investment is significant and funds could have been allocated elsewhere.

The Board noted that although no Dunelm colleagues would be impacted, the permanent employees of the incumbent partner (currently operating at our Stoke site) would transfer to GXO under legislation, and GXO was also likely to engage agency workers. Dunelm will meet its commitments in respect of termination of the contact with the incumbent supplier and there is no impact on product suppliers. The Board decided that the long-term benefits of investing in capacity to meet our growth and improved customer proposition with a proven service provider outweighed the disadvantages.

RISKS TO DUNELM
Short-term impact on profit; increased fixed cost base; diversion from other investments.

OPPORTUNITIES FOR DUNELM
Improved customer proposition; additional capacity for growth of the home delivery business; reduced carbon emissions; long-term benefit to shareholders, customers, suppliers and communities.

KEY STAKEHOLDER TRADE-OFFS
Customers v Shareholders

Outcomes of engagement – examples

Meggitt PLC clearly described what actions have been taken in response to the feedback received during the engagement.

Governance report 2021 (pages 90-92)

Stakeholder	How we engage at Board level	Further engagement activities	What matters to them	Governance in action
Customers **Understanding our customers' priorities is imperative to meeting their needs.**	Continuous engagement by our CEO and divisional presidents and product group teams to discuss performance and technologies. The Board receives regular reports on customers, customer-related key performance indicators, and ongoing actions to improve performance.	The Group's Services & Support division is entirely focused on civil and defence aerospace aftermarket customer service. The Board receives regular updates on the division's progress from the CEO and an annual update from the divisional president. Customers are invited for site visits and to speak at leadership conferences to strengthen our collaborative relationships.	Interests relate to: • Product value and quality. • On time delivery. • Excellent customer service and support. • Innovative and sustainable technologies. • Strong, collaborative relationships. • Sustainability. • Ethical conduct and behaviour with increased focus on human trafficking and modern slavery.	The Meggitt High Performance System (HPS) provides continuous improvement to our manufacturing processes for the benefit of our customers. HPS measures are included in the Long Term Incentive Plan and progress with HPS is discussed by the Board and Remuneration Committee. We hold monthly leadership meetings with a consistent focus on our customers and performance. We also meet with customers to discuss technology road maps. We share our customers' commitment to sustainability and have signed up to the United Nations' Race to Zero campaign. Further details can be found on page 79. We are committed to conducting our business in an ethical manner. During 2021 we revised and merged our Ethical Business Conduct and Anti-Bribery and Corruption policies and introduced a new compliance plan to combat human trafficking and modern slavery. We regularly monitor customer scorecards and ensure responsiveness to issues via the Voice of the Customer process.
Suppliers **Strong relationships with our supply base enhance our effectiveness and profitability.**	The Corporate Responsibility Committee receives regular updates on supplier engagement activities from our Chief Procurement Officer, which is reported back to the Board. The Corporate Responsibility Committee monitors the communication channels and relationships with our suppliers to ensure that they facilitate open discussion on areas of concern and support best practice. Payment practices are managed by the Chief Financial Officer and Chief Procurement Officer who monitor actions to improve payments to suppliers. The Board and Corporate Responsibility Committee also receive biannual updates on payment practices.	Our requirements for suppliers to demonstrate compliance to industry-wide policies regarding quality, security and a wide range of corporate social responsibility matters including environmental performance, modern slavery and human trafficking and conflict minerals are documented and made available to our suppliers. The requirements are included in our standard terms and conditions. Supplier risk assessments are undertaken and we engage with those suppliers perceived to be higher risk to seek confirmation of compliance on certain matters. We also conduct site visits of our suppliers' facilities.	Interests relate to: • Being treated fairly during the sourcing stage. • Solid two-way communication channels. • Timely financial payments. • Strong, collaborative relationships.	Our supplier development process enables suppliers to feed back comments and if necessary seek our help to resolve systemic issues. Through this process we have achieved an overall reduction in total supplier responsible quality escapes of more than 10%. We have taken actions to improve our Pay on Time performance with increased focus on addressing bottlenecks and using metrics to identify and address underlying causes.

Diversity

Investors are demanding information on how businesses deal with diversity and inclusion. Reporting both board and workforce diversity policies allows companies to explain areas where the policy for the organisation as a whole differs from that at board level. Diversity commitments can only be evidenced by progress against targets or objectives that are formulated in such a way that demonstrates the link between a diverse workforce and focus on inclusivity with the company's strategy.

Reporting framework

Legal and regulatory requirements

Provision 23 states: "The annual report should describe the work of the nomination committee, including: ...
- the policy on diversity and inclusion, its objectives and linkage to company strategy, how it has been implemented and progress on achieving the objectives; and
- the gender balance of those in the senior management and their direct reports".

DTR 7.2.8AR: "The statement must contain a description of the diversity policy applied to the company's administrative, management and supervisory bodies [the board] with regard to aspects such as, for instance, age, gender, educational and professional backgrounds; the objectives of this policy; how the policy has been implemented and the results during the reporting period; or, if the company has no diversity policy, an explanation why that is the case".

Regulators' expectations

FRC comments: "Companies should have both a board and a workforce diversity policy, and we expect those companies that have not published their policies or easily signposted them to do so next year.

Review of Corporate Governance Reporting, FRC, November 2020

FCA comments: "In some cases we found it difficult to evaluate how premium listed issuers had applied what are now Principles J and L with respect to Board Diversity Reporting. Also, we felt descriptions of the work of the nomination committee, particularly of diversity and inclusion (Provision 23) could have been better."

Corporate Governance Disclosures by Listed Issuers, FCA, November 2020

"The FRC expects companies to either describe their diversity policies in full in their annual report or summarise them and link to the full document on their website to enable easy access."

"The FRC expects to see all companies promoting and recruiting on merit. Those that use it as a justification for not actively pursuing diversity policies should demonstrate how their approach brings about diversity in the boardroom and workforce."

Review of Corporate Governance Reporting, FRC, November 2021

Reporting framework

New Listing Rule

LR 9.8.6R(9) and **LR 14.3.33R(1)**: 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 must include a statement in their annual financial report setting out whether they have met specific board diversity targets on a 'comply or explain' basis, as at a chosen reference date within their accounting period and, if they have not met the targets, why not.

These new requirements will apply to financial years starting on or after 1 April 2022. However, companies whose financial years began before then (from 1 January 2022 onwards) are encouraged to consider reporting on the targets and making numerical disclosures in relation to their current accounting period on a voluntary basis.

The targets are:
- at least 40% of the board are women;
- at least one of the senior board positions (Chair, Chief Executive Officer (CEO), Senior Independent Director (SID) or Chief Financial Officer (CFO)) is a woman;
- at least one member of the board is from a minority ethnic background.

Table 1: Reporting on sex/gender representation

	Number of board members	Percentage of the board	Number of senior positions on the board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
Men					
Women					
(Other categories					
Not specified/ prefer not to say					

Table 2: Reporting table on ethnicity representation

	Number of board members	Percentage of the board	Number of senior positions on the board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
White british or other White (including minority-white groups)					
Asia/Asian British					
Black/African/ Caribean/ Black British					
Other ethnic group, including Arab					
Not specified/ prefer not to say					

What to look out for when reporting

Effective policies should include:

Policy objective	Targets & progress towards them
Link to company strategy	Actions taken to implement the policy

Diversity – examples

Mondi plc described key aspects of their diversity policies on Board and broader workforce levels.

Governance report 2021 (page 124)

Diversity is linked to the company strategy

Diversity and inclusion

Mondi is committed to encouraging and promoting diversity and inclusion (D&I) in all its forms. This is reflected in one of our strategic value drivers, Inspire our people.

As a global organisation operating in more than 30 countries, D&I forms an integral part of the way we do business and we know that having a diverse Board and workforce and the broad range of perspectives this brings supports the achievement of our strategy and contributes towards our success. We are committed to creating a culture that embraces D&I and provides a working environment that is fair and non-discriminatory, from recruitment and people development to reward and our talent management approach. We strive for an inclusive environment where differences are valued and embraced. We empower and develop our people, helping them to grow to their full potential thereby developing and maintaining a competitive business advantage.

The Group's D&I Policy, which was approved by the Board, is intended to help us meet these goals and support the development of a diverse pipeline up to the Board, Executive Committee and all other levels of the organisation. It sets out guidelines for such matters as recruitment, the use of search firms, succession and annual reviews, both at Board level and in relation to the wider workforce.

The policy can be found on Mondi's website
www.mondigroup.com/en/sustainability/governance-of-sustainability

Key policy requirements include:

At Board and Executive Committee level:

- The Board supports the principles outlined in the Hampton-Alexander Review in relation to gender diversity on the Board and across the Executive Committee and in direct reports to the Executive Committee.
- The Board supports the principles outlined in the Parker Review in relation to ethnic diversity on boards.
- For Board appointments, Mondi will, wherever possible, engage executive search firms that have signed up to the Voluntary Code of Conduct for Executive Search Firms.
- Search firms will be requested to include a sufficient number of credible and suitably qualified female candidates and candidates from a variety of ethnic backgrounds.
- The Nominations Committee will review, at least annually, succession plans in relation to the Board, the Executive Committee and other senior managers in light of D&I levels across the Group and taking into account skills, experience and diversity requirements.
- Mondi commits to complying with the seven UN 'Women Empowerment Principles'.

At employee level:

- Recruitment activities are aligned with the aims of our D&I Policy and applicable employment/equality legislation in jurisdictions in which we operate, including to promote diversity of all types and to ensure fair and non-discriminatory working practices.
- We aim to ensure that a sufficient pipeline of candidates of diverse backgrounds is considered during succession planning.
- We aim to ensure that the nationalities of candidates at long and short list stages are appropriately representative of our international footprint, subject to the availability of candidates with the necessary qualifications and experience.
- We will ensure fair and equal training and development opportunities.

While appointments at all levels will continue to be made based on skill and ability, ensuring that we have the right mix of backgrounds, knowledge and experience to meet our future business needs, it is clear that gender, ethnicity, race and other forms of D&I must form a key part of our succession planning discussions and are critical to the long-term sustainable success of our business. Additional information on the specific process followed for Board-level appointments can be found on page 123.

Diversity – examples

Board diversity objectives

During the year, the Committee received a detailed progress update on the company's DE&I strategic approach, framework, governance and measurement models, and priority areas. As part of this, the Committee reviewed and updated the objectives which underpin the Board Diversity Policy. The current objectives, and Pearson's performance against them, are set out below:

Key

- ✔ Target achieved
- ✖ Target not met

Objectives	Progress
We will strive to achieve and maintain a Board composition of: — at least 40% female Directors — at least two Directors of colour	As at 31 December 2021: ✔ The Board included 50% female Directors ✔ The Board included one Director who identifies as Mixed – White & Black Caribbean, and one Director who identifies as Mixed – White and Black African *As at 28th February 2022 the Board includes 3 Directors of colour.
All Board appointments will be made on merit, in the context of the skills and relevant experience that are needed for the Board to oversee Pearson's strategic development and that reflect the global nature of our business.	✔ The Chair search process in 2021 considered a wide range of candidates, including from diverse backgrounds, all of whom were evaluated on the basis of merit. The process resulted in the appointment of Omid Kordestani whom the Board believes possesses the requisite skills and experience for the role.
The Board will continue to incorporate a focus on a diverse pipeline in its succession and appointment planning including to prioritise the use of search firms which adhere to the Voluntary Code of Conduct for Executive Search Firms (the Voluntary Code) when seeking to make Board-level appointments.	✔ The Committee actively includes diversity in its search criteria for Board appointments, and proactively encourages engaged search firms to include candidates from a range of diverse backgrounds in its candidate lists. Russell Reynolds Associates and Spencer Stuart both assisted Pearson with search activity during 2021, including for the external element of the Chair and Non-Executive Director search processes. Both companies are signatories to the Voluntary Code.
The Board will continue to adopt best practice, as appropriate, in response to the Hampton-Alexander Review and the Parker Review.	✔ The recommendations of the Hampton-Alexander Review, Parker Review and the FRC Board diversity and effectiveness report in respect of gender and ethnic diversity have been noted by the Board, and were considered as part of the Committee's diversity deep dive in 2021. In addition, the Board is cognisant of the FTSE Women Leaders Review, which has succeeded the Hampton-Alexander Review.
The Board will consider its composition and diversity as part of its consideration of effectiveness in the Board evaluation review process.	✔ These matters were considered in the 2021 evaluation process. Read more on page 90.
Where appropriate, we will assist with the development and support of initiatives that promote all forms of DE&I in the Board, Pearson Executive Management team and other senior management.	✔ The Board scheme of mentoring senior leadership talent was renewed with a fresh cohort in 2021.
We will review and report on our progress in line with the policy and our objectives in the annual report, including providing details of initiatives to promote DE&I in the Board, Pearson Executive Management team and other senior management.	✔ The Nomination & Governance Committee reviewed the Board's Diversity Policy and accompanying objectives during the year, as well as developments on DE&I in the external landscape.
We will continue to make key DE&I information, about the Board, senior management and our wider employee population, available in the annual report, and aim for ongoing transparency in this area in line with best practice.	✔ This information is included in the annual report. Read more about DE&I matters in the wider employee population on page 49.

Pearson plc set clear targets which the company considers right for their own circumstances and then they reported the progress against their targets. Separately, the company set a non-financial KPI linked to diversity and inclusion progress.

Strategic report 2021 (page 50), Governance report 2021 (page 97)

Diversity and Inclusion non-financial KPI

The percentage of diverse candidates in a leadership role and succession planning for leadership roles are key measures of our non-financial KPI of building an inclusive culture and increasing diverse representation.

Pearson exceeded succession plan objectives with 72% of plans including a women successor and 24% of plans including people of colour (target 50% women; 20% people of colour). Please read more on our response to the Hampton-Alexander and Parker reviews on page 96.

Diversity – examples

Dunelm Group PLC described key aspects of their diversity policies both on Board and broader workforce levels.

Nomination Committee report 2021 (page 121,128-129) & Strategic report 2021 (page 68)

DIVERSITY AND INCLUSION

The Board's ambition to secure the best talent in Dunelm includes being known for our inclusive, diverse and tolerant culture, as encapsulated in our 'stronger together' shared value. For Dunelm to continually improve as a business, it is crucial that we select and recruit the best people in the industry. This involves calling on the widest possible pool of candidates and selecting them based on their ability to do the job regardless of their gender, marital status, sexual orientation, disability, race, religion, colour, nationality, ethnic origin, age or gender reassignment. The Board agrees that diversity of input helps to promote better decision-making and is focused on three broad activities:

- Refine the way we recruit.
- Identify, support and mentor existing diverse talent in the business.
- Increase the diversity amongst senior appointments as they are made.

Concrete actions taken

'This is Me' programme

In FY21, a significant programme - overseen by the Board - was launched to promote inclusion and diversity throughout the Group under the theme 'This is Me' with the support of a specialist consultancy. In the past year, the focus has been on 'educating' and 'starting the conversation'. Over 300 leaders in the business participated in 'Leading in an Inclusive World' training and the Group Board and Executive Board attending awareness-raising workshops on specific topics, designed to educate and stimulate discussion (see below).

FY21 BOARD AND EXECUTIVE BOARD INCLUSION AND DIVERSITY PRESENTATIONS

Topic	Presenter
Diversity	Amanda Cox, People and Stores Director
Diversity – 'This is Me' proposal	Amanda Cox, People and Stores Director
Black Lives Matter Discussion	Raph Richards, Chair of Governors, Djangoly Strelley Academy, Mentor
LGBT+	Martin Mason and Leng Montgomery (Unleashed)
Social mobility	Tunde Banjoko, OBE

DIVERSITY AND INCLUSION

Precise cross-references

We fully support diversity and inclusion in all its dim... important contribution to high quality decision-making and ...novative thinking. In the past year, the Board and Executive Board ha...e significantly increased our focus on this, developing and r...lling out a full programme across the business under the theme 'This is Me'. Further details are in the Sustainability section on page 68 and page 128. At the Board level we have received stimulating presentations from a number of speakers on a range of topics, which have built our awareness and understanding of how our business can take active steps to promote diversity and inclusion, see page 128. When making our Board appointments our policy is that our Board should always be of mixed gender, and in all recent appointments we have requested that a range of candidates from diverse social and ethnic backgrounds be brought forward for consideration. Further details are in our report on page 129.

Link to succession planning

OUR BOARD DIVE... POLICY

Separately presented a summary of board policy

Our overriding concern is to ensure that the Board and Group comprise outstanding individuals who can lead the business effectively in a manner aligned to our purpose and shared values. We believe the Group's best interests are served by ensuring that these individuals represent a range of skills, experiences, backgrounds and perspectives. Our Company culture must be inclusive and it is our policy that the Board should always be at least one third female - and ideally higher to meet higher increasing expectations. We also aim to ensure that we have at least one Board Director from an ethnically diverse background.

- We support the objective of promoting diversity in all of its forms on our Board and throughout the Group.
- We shall continue to ensure that specific effort is made to bring forward diverse candidates for senior management and Board appointments.
- We will monitor the Group's approach to people development to ensure that it continues to enable talented individuals, regardless of gender, marital status, sexual orientation, disability, race, religion, colour, nationality, ethnic origin, age or gender reassignment, to enjoy career progression within Dunelm.

OUR GROUP EQUALITY AND DIVERSITY POLICY IS AVAILABLE ON OUR CORPORATE WEBSITE, CORPORATE.DUNELM.COM AND IS REVIEWED PERIODICALLY, GIVING DUE CONSIDERATION TO LEGISLATIVE CHANGES.

POLICY

Inclusive and diverse

Our aspiration is to achieve a colleague base reflective of society at all levels, providing opportunity for all, regardless of background, gender, sexual orientation, disability or a...

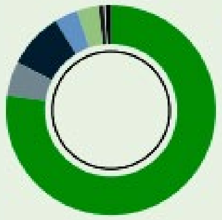
Details of our Equality and Diversity Polic... can be found on our corporate website, corporate.dunelm.com

POLICY

Company-level policy

Ethnicity data

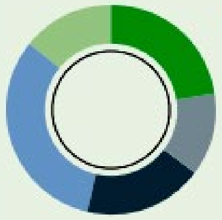
Collected November 2019-April 2021[1]



	%
White British	77.3
White - other	5.4
Asian British	8.7
Black	3.4
Multi-ethnic	3.3
Other	0.8
Arab	0.3
Prefer not to say	0.7

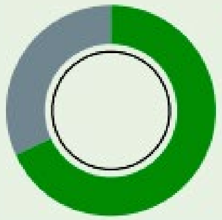
1. Data collated from November 2019 to April 2021 from new joiners, covers around 29% of our colleagues.

Age split



50+	2,523
41-50	1,412
31-40	2,031
21-30	3,549
Under 21	1,569

Gender split



Female	7,564
Male	3,520

Diversity – examples

Lloyds Banking Group plc set clear targets for broader diversity both at the board and senior management levels. It also described the action plan developed to achieve those and clearly explains the results of the policy.

Governance report 2021 (page 89)

Board diversity policy

The Board diversity policy (the Policy) sets out the Board's approach to diversity and provides a high-level indication of the Board's approach to inclusion and diversity in senior management roles which is governed in greater detail through the Group's policies.

The Board places great emphasis on ensuring that its membership reflects diversity in its broadest sense. Consideration is given to the combination of demographics, skills, experience, race, age, gender, educational and professional background and other relevant personal attributes on the Board to provide the range of perspectives, insights and challenge needed to support good decision-making.

New appointments are made on merit, taking account of the specific skills and experience, independence and knowledge needed to ensure a rounded Board and the diverse benefits each candidate can bring to the overall Board composition.

Objectives for achieving Board diversity may be set on a regular basis. On gender diversity, the Board is committed to maintaining at least three female Board members and over time will aim to reach 50 per cent male and female representation on the Board to match the 50 per cent ambition that the Group has set for female senior executives.

Targets set

Reflecting these aspirations, the Board will aim to meet any recommendations set out by the FTSE Women Leaders review (formerly the Hampton-Alexander Review). Female representation on the Board is currently 40 per cent (based on four female Directors and six male Directors).

The Group has also set a target of 13 per cent of senior roles to be held by Black, Asian and minority ethnic executives by 2025. The Board will therefore aim over time to reflect this goal with regard to Board members. As at 31 December 2021, the Board met, and continues to meet, the objectives of the Parker Review with at least one Black, Asian and minority ethnic Board member.

As noted, the Board places high emphasis on ensuring the development of diversity in the senior management roles within the Group and supports and oversees the Group's ambition of achieving 50 per cent of senior roles held by female executives by 2025, and of 13 per cent of senior roles held by Black, Asian and minority ethnic executives by 2025 (including a minimum of 3 per cent of senior roles being held by Black heritage colleagues). This is underpinned by a range of policies within the Group to help provide mentoring and development opportunities for female and Black, Asian and minority ethnic executives and to ensure unbiased career progression opportunities. Progress on this objective is monitored by the Board and built into its assessment of executive performance.

As at 31 December 2021, female representation within the Group Executive Committee and their direct reports was 35 per cent in total (with 20 per cent for the Group Executive Committee and 37.1 per cent for their direct reports). Female representation across all senior roles was 37.7 per cent, and Black, Asian and minority ethnic representation in senior roles was 8.8 per cent. The Group's Race Action Plan, which was launched during 2020, aims to drive cultural change, recruitment and progression across the Group. This includes a goal to increase Black representation in senior roles from 0.6 per cent to at least 3 per cent by 2025, aligning the Group with the overall UK labour market. Further details of the Race Action Plan, and the Group's further achievements in championing inclusion and diversity in its widest sense, can be found on **page 34**.

Progress on achievements of targets set

A copy of the Policy is available on our website at www.lloydsbankinggroup.com/who-we-are/responsible-business/downloads and further information on the Board's broader approach to diversity and inclusion as part of its strategic priorities, and continued investment in being a leading inclusive employer, can be found on **page 34**.

Diversity – examples

The Sage Group plc described key aspects of their diversity policies and its linkage to company strategy

Nomination Committee report 2021 (page 106-109)

Targets & progress achieved

Board DEI Policy objectives	Implementation and progress against objectives
All appointments to the Board should be made on merit against objective criteria which take into account experience, skills, and the need to ensure an appropriately diverse balance in the resulting membership of the Board.	The Board and the Committee strongly believe that a diverse Board, sharing a range of views, insights, perspectives, and opinions will improve its decision making and effectiveness. The Board and the Committee are committed to ensuring the composition of the Board exhibits a diverse mix of skills, professional and industry backgrounds, geographical experience and expertise, gender, age, tenure, ethnicity and independence of thought. In FY21 the Committee reviewed the composition of the Board in the context of the annual Board effectiveness review. The overall conclusion from this year's evaluation was that the Board, its Committees, individual Directors and the Chair continue to work well to achieve Group objectives and are operating effectively. Please see pages 80 to 82 for further information on this year's annual effectiveness review and evaluation. The recommendations of the Committee in respect of the two Board appointments made in FY21 were conducted in full consideration of the Code, relevant regulatory guidance, our Sage Belong strategy and applicable internal policies. • The appointment of Derek Harding as an independent Non-executive Director brought varied and rounded operational and financial experience. The appointment of Derek Harding and Sangeeta Anand to the Audit and Risk Committee further enhanced its composition and capabilities. For further information on their key skills please refer to page 76. • The appointment of Andrew Duff as an independent Non-executive Director and Chair of the Board and the Committee brought significant experience in transforming high-profile international businesses and strong focus on purpose, culture and customer-centricity to the Board's deliberations together with non-executive Chair experience and leadership attributes.

Summary of the board policy with a link to a full version on web-site

Board DEI Policy

The Committee recommended (and in July 2021 the Board approved) the adoption of a formal Board DEI Policy.

The Board DEI Policy is available on our website at sage.com.

The Board DEI Policy applies only to the Board but it forms part of, and is aligned to, our Sage Belong strategy, and sits alongside our Group-wide Diversity, Equity and Inclusion Policy, Code of Conduct and associated global policies, which set out our broader commitment to diversity, equity and inclusion.

The purpose of the Board DEI Policy is to set out the approach to diversity, equity and inclusion for the Board itself with the intention of supporting the succession planning work of the Committee in creating and maintaining the appropriate Board and Committee composition.

Even though the Board DEI Policy was formalised recently, its objectives have already been guiding the Board and the Committee in their activities throughout FY21. The objectives of the Board DEI Policy, their implementation and progress made against each of them are set out on pages 108 and 109.

The Board and the Committee will continue to monitor progress against the Board DEI Policy to provide meaningful disclosure in the Annual Report and Accounts on its implementation and progress in meeting its objectives. The Board and the Committee will review the Board DEI Policy and its effectiveness annually.

Strategy

As we continue our journey with the Group-wide Diversity, Equity and Inclusion strategy ("DEI strategy") called "Sage Belong", we are making diversity, equity and inclusion in its widest sense a greater focus for all colleagues, through awareness, training and transparency. Please see pages 38 to 40 for more information.

The Board and the Committee are advocates of our Sage Belong strategy and as an extension of our DEI initiatives to wider stakeholders, the Board also endorsed our Sustainability and Society strategy launched in June 2021. Our Sustainability and Society strategy aims to tackle societal and economic inequality so that everybody has the opportunity to thrive. It is recognised by the Board that knocking down barriers will enable us to support a generation of diverse and sustainable businesses, helping our customers, colleagues, communities and wider society to thrive. Please see pages 29 to 31 of the Strategic Report and the Sage Sustainability and Society Report on our website for more information on sustainability at Sage.

Link to strategy

Cross-reference to the workforce policy

Diversity – examples

SSE plc clearly pointed to workforce and board diversity policies, and described policy measures alongside with the achievement of those.

Nomination Committee report 2021 (page 106-109)

Board Inclusion and Diversity Policy measures, implementation and progress

Policy measures	Implementation and progress
Identify the needs of the Board and its Committees, and in doing so consider the balance of: skills; knowledge; perspectives; experience; gender; ethnicity; and length of membership.	See page 122 Composition and succession and page 124 Appointment of Chair of the Board.
Adopt a formal, rigorous, transparent and inclusive Director appointment process.	
Recruit based on an objective and shared understanding of merit, with due consideration of any agreed criteria such as SSE's needs.	
Work with executive search firms that are best placed to deliver a diverse pool of candidates aligned to the Board's needs.	SSE's Board Inclusion and Diversity Policy is a key input into the selection of external recruitment firms and the methodology and principles they go on to apply. The Committee will stipulate where diversity criteria forms a primary objective of a search process, and as a minimum sets expectations surrounding the diversity of candidate pools. To support transparency, details will be reported where possible for each recruitment process carried out, however GDPR-based limitations continue to exist. In line with Board Policy, Sam Allen Associates and Spencer Stuart, both of whom were engaged in the year, are accredited for the FTSE 350 category under the standard and enhanced voluntary code of conduct for Executive search firms respectively.
Nurture an inclusive Board and Committee culture.	See page 112 Focusing on culture and page 118 Assessing Board effectiveness.
Oversee work to promote and progress inclusion and diversity within the talent pipeline.	See page 127 Ambitions and initiatives.
Support diversity through relevant initiatives and ambitions where appropriate	

Group-wide targets and progress on those

Gender balance at senior levels

Gender split of:	Unit	2020/21 target	2020/21	2019/20	2018/19
Group Executive Committee[1]	Male/female headcount in group[3] (% female shown in brackets)	–	6/2 (25%)	7/2 (22%)	7/2 (22%)
Group Executive Committee[1] and direct reports (excl. admin employees)		**30% female**	39/13 (25%)	48/12 (20%)	44/10 (19%)
Group Executive Committee[1], its sub-committees and Business Unit Executive Committees[2]		**25% female**	67/26 (28%)	62/23 (27%)	53/17 (24%)
Roles at £70,000 or above (indexed to 1 April 2017)		**20% female**	518/100 (16%)	524/108 (17%)	477/91 (16%)

Inclusion and diversity

SSE's Group-wide approach to inclusion and diversity is explained across pages 49 to 50, with the role of the Committee being to confirm the adequacy of plans, targets and progress, and to consider insights and findings from the initiatives which are in place.

Precise reference to company-wide diversity policy

Board Inclusion and Diversity Policy

The Board operates under a standalone inclusion and diversity policy, the objective of which is to ensure that Board membership remains appropriately balanced and relevant to SSE's purpose, strategy and values. As highlighted below, it sets out measures that the Committee and Board will take in order to achieve this. During the year, the Committee reviewed and confirmed the Policy's ongoing application within the context of its work. The Policy can be viewed in full on sse.com.

Succession planning

The formalisation of a proactive succession plan helps companies to identify the board's composition needs in particular areas and develop a course of action. Reporting on how succession plans link to diversity commitments and board evaluation provides cohesion in the report.

Reporting framework

Legal and regulatory requirements

Provision 23 states: "The annual report should describe the work of the nomination committee, including:
- the process used in relation to appointments, its approach to succession planning and how both support developing a diverse pipeline..."

Principle J of the Code: "Appointments to the board should be subject to a formal, rigorous, and transparent procedure, and an effective succession plan should be maintained for board and senior management".

Regulators' expectations

"FRC expects to see an improvement in reporting on succession planning. This is particularly the case for companies which highlight succession planning as an outcome of a board evaluation as an area to improve. We would also like to see improved cohesion between diversity commitments, board evaluations and succession plans."

Review of Corporate Governance Reporting, FRC, November 2020

"Succession plans should be written down, regularly reviewed and updated. They should be linked closely to talent pipelines and diversity and inclusion plans. Consideration should also be given to how planning arrangements are operated across short, medium and long-term planning."

"Effective succession planning should pre-empt situations, for example ensuring that the chair and a senior independent director (SID) are not likely to leave the board in close proximity to each other. Disclosures should explain how the nominations committee would avoid situations like this in the future."

Review of Corporate Governance Reporting, FRC, November 2021

What to look out for when reporting

The disclosures should discuss how the nomination committee had assessed the skills required for the board, when recruitment would begin, and how plans would change if recruitment timelines changed:

Reporting on succession arrangements

- Include a summary of short-term, medium-term and emergency succession plans within your report
- Ensure that your succession plans are proactive and not just purely reactive
- Ensure that your disclosure offers a structured way of identifying the board's composition needs (e.g. a skills matrix)
- Consider how succession plans link to other policies and targets such as diversity targets
- Ensure that you disclose how frequently succession plans are reviewed, the scope of these plans, how internal talent is managed and whether external search consultants are engaged

Work of the Nomination Committee

- Choose a diverse search firm and provide a clear mandate
- Manage the pipeline of diverse talent
- Set clear diversity targets and report regularly
- Use a skills assessment to recruit directors
- Invest time and energy into making diverse appointments
- Ensure that the nomination committee itself is diverse

Succession planning – examples

Lloyds Banking Group plc demonstrated the results of short-term succession planning. The disclosure explain that the board's approach is to assess the Board's skills to identify any gaps in the desired collective skills profile.

Governance report 2021 (page 89)

The outcomes of the process

Succession planning

Arrangements put in place to cover the interim period prior to Charlie Nunn joining the Group illustrate how effective succession planning can be used to address short-term requirements. Effective succession planning also contributes to the ability of the Group to deliver on its strategic objectives over the medium and longer term by ensuring the desired mix of skills and experience of Board members now and in the future, of particular relevance in the context of the Group's strategic development. The Board is also committed to recognising and nurturing talent within the executive and management levels across the Group to ensure that the Group creates opportunities to develop current and future leaders.

The Committee supports the Chair in keeping the composition of the Board and its Committees under regular review and in leading the appointment process for nominations to the Board. This helps ensure continued focus on increasing the overall diversity of the Board, and capacity for future succession planning.

The appointment process set out on the previous page helps illustrate how this works in practice.

The Chair leads an ongoing assessment of the collective Board's technical and governance skill set. From this, the Chair creates a Board skills matrix which is used to track the Board's strengths and identify any gaps in the desired collective skills profile of the Board. Various factors are taken into consideration such as the Group's future strategic direction, and helping ensure due weight is given to diversity in its broadest sense. The skills matrix is considered in the appointment of all Board members. The Group's diversity commitments and outcomes of the Board evaluation process are also taken into consideration.

The role of succession planning in promoting diversity is fully recognised. The Group has a range of policies which promote the engagement of under-represented groups within the business in order to build a diverse talent pipeline. Further details can be found on **page 34**.

Skills are assessed to identify gaps

The Committee continued to focus on the adequacy of succession arrangements for key senior management roles. During the year, consideration was given to the overall strengthening of succession plans, and ensuring an appropriate focus on continuing to improve diversity, in addition to the need to recognise the potential opportunities that development of the Group's strategy may provide. This was also discussed at a full Board meeting during the year.

The Chair is responsible for developing and maintaining a succession plan for the Group Chief Executive who is, in turn, primarily responsible for developing and maintaining succession plans for key leadership positions in the senior executive team.

Link to diversity targets

Succession planning – examples

The Sage Group plc described the group's approach to succession planning is to assess the Board's skills to identify any gaps in the desired collective skills profile.

Nomination Committee Report 2021 (page 75-76, 103-105)

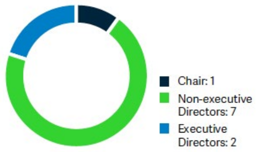
Board and Board Committee composition

During the year, the Committee focused on the structure, size and composition of the Board and its Committees. It considered the length of service of the members of the Board, the combined capabilities, experience and knowledge of the Directors and Committees, and made recommendations to the Board as appropriate.

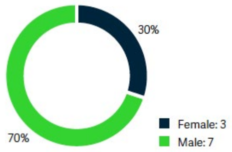
The process for making new appointments to the Board is usually led by the Chair, except when the Committee is dealing with the Board Chair succession. The Committee has procedures for appointing a new Non-executive and Executive Director which are clearly set out in its Terms of Reference, which are reviewed annually to ensure they remain suitable.

When considering new appointments, all recommendations to the Board are made on merit against objective criteria which take into account experience, skills and an appropriately diverse balance, in the broadest sense, in the resulting membership of the Board. Time commitment, independence and potential conflicts of interest are considered before any recommendation is made to the Board. Any candidates who are shortlisted are interviewed by the Board Chair and other Directors. The Board is updated on the progress of the selection process and receives recommendations from the Committee for appointment.

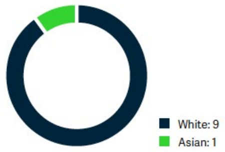
Directors by role



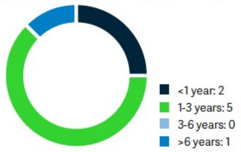
Gender



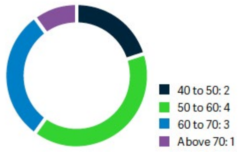
Ethnicity



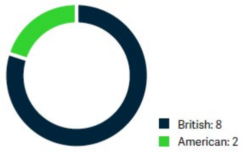
Tenure
(Chair and Non-executive Directors)



Age



Nationality



Link to skills and diversity matrix

Directors' key skills and experience

The Board recognises the relationship between the delivery of the Company strategy and objectives and the skills needed on the Board now and in the future. The mix of key skills, experience and knowledge on the Board set out below provides insight for the Board and the Nomination Committee to ensure the Board and its Committees are optimally composed to maximise their effectiveness.

	Executive and strategic leadership	Financial acumen	Technology and innovation	Remuneration and people	Audit and risk	Sustainability and environment	Strategy and M&A	Customer centricity	International experience
Andrew Duff	●	●	●	●		●	●	●	●
Sangeeta Anand	●	●	●		●			●	●
Dr John Bates	●	●	●	●			●	●	●
Jonathan Bewes	●	●		●	●		●	●	●
Annette Court	●	●	●	●	●			●	●
Drummond Hall	●	●		●	●	●	●	●	●
Derek Harding	●	●	●		●		●	●	●
Steve Hare	●	●	●	●	●	●	●	●	●
Jonathan Howell	●	●	●	●	●	●	●	●	●
Irana Wasti	●		●				●	●	●

Succession planning – examples

Dunelm Group PLC demonstrated succession planning over short and medium terms and linked it back to the independence assessment of Chair and NEDs.

Governance report 2021 (page 114) and Nomination Committee report (page 122)

Board tenure and diversity

Board refreshment is a continued area of focus. Both tenure and diversity are considered in our succession planning and covered in more detail in the report of the Nominations Committee on pages 120 to 124.

Current Board composition and independence

Member	Position	Status
Andy Harrison	Chair	Independent
Sir Will Adderley	Deputy Chair	Executive Director
Nick Wilkinson	CEO	Executive Director
Laura Carr	CFO	Executive Director
Ian Bull	Non-Executive Director	Independent
William Reeve	Non-Executive Director	Independent
Peter Ruis	Non-Executive Director	Independent
Arja Taaveniku	Non-Executive Director	Independent
Marion Sears	Non-Executive Director	Non-Independent

Overview of FY21 and future Board succession planning

Actions/rationale	Notes	Timings
NED with international digital and commerce experience	Arja successfully appointed after a process which started in FY20 and was delayed by Covid-19	Completed
Additional female NED to replace Paula Vennells	New action following Paula stepping down in April 2021 before the end of her term and Vijay joining the Board on 1 October 2021	Ongoing since July 2021
NED with current digital experience, deeper understanding of digital/cyber risk and additional financial expertise specifically to enhance the capability of the Audit and Risk Committee	Original process commenced in FY20 but paused due to the preferred candidate being unavailable and the Covid-19 pandemic	Completed with the appointment of Vijay Talwar
Chairman	Longer-term planning ahead of end of tenure in September 2023	Preliminary process started with specialist search agency

Succession planning – examples

SSE plc illustrated an approach taken to succession planning by steps, including considerations of diversity.

Nomination Committee report 2021 (page 124)

BOARD PRINCIPAL DECISION
APPOINTMENT OF THE CHAIR OF THE BOARD

Key: Build, Operate, Invest, Develop

Background	The Nomination Committee confirmed in 2019/20, that work had been initiated with the support of Sam Allen Associates (SAA)[1], to identify a suitable candidate who would succeed Richard Gillingwater as Chair of the Board. This was conducted in line with the previously disclosed time limited extension in Chair tenure which would end no later than 31 March 2021. Peter Lynas was nominated as the non-Executive Director to lead the process, with Richard Gillingwater abstaining from involvement to preserve the objectivity of considerations.
Board discussion	The Nomination Committee managed the search as set out below and provided standing updates to all independent Board members at each stage.
Nomination Committee process	**Stage 1.** A detailed candidate specification was agreed, setting out the key responsibilities, experience and personal qualities required for the position of Chair. This included specific attributes which aligned with SSE's long-term direction and culture. **Stage 2.** SAA identified a candidate longlist which was mapped against the role profile and a core skills matrix comprising Chair, public listed company (FTSE 100 or FTSE 250) and regulatory experience. The candidates with the strongest fit were reviewed by the Committee and progressed to the next stage. SAA LONGLIST GENDER DIVERSITY Male (72%) / Female (28%) **Stage 3.** Discussions between SAA and candidates confirmed time capacity, interest in the role and potential conflicts to deliver a shortlist who would meet with members of the Committee. SAA SHORTLIST GENDER DIVERSITY Male (60%) / Female (40%) **Stage 4.** Face-to-face interviews took place between the shortlist and each member of an appointed sub-Committee. Preferred candidates were nominated to meet the full complement of independent Board members. **Stage 5.** A final evaluation which included a benchmarking exercise against the candidate specification, core skills matrix and specific personal qualities which the Committee wished to preserve covered the broader considerations set out below.
Board and Nomination Committee stakeholder considerations and impacts	• **Supporting SSE's long-term success.** With the Chair instrumental in directing the development and delivery of SSE's strategy; fit and enthusiasm for SSE's purpose and vision and strategy, including its business goals and sustainability ethos was key. • **Leading the Board and culture.** An individual with the ability to create the conditions for overall effectiveness within and outside Board meetings was a priority. This would require constructive relations with Directors and senior leadership, and was considered a prerequisite to promoting a cohesive culture that respects and supports the needs of all employees. • **Professional experience.** In order to support high standards of corporate governance and business ethics, demonstrable experience of working at an appropriate level within a listed business of a similar scale and complexity as SSE was requested. • **Understanding stakeholders.** As a lead ambassador for the Group, strong communication skills to further SSE's approach to stakeholder engagement was mandatory, alongside a commitment to engage personally where appropriate. Complementary to this, was an understanding of how SSE creates financial and non-financial value.
Outcome, next steps and related decisions	The Nomination Committee confirmed that Sir John Manzoni possessed the desired capabilities and experience, and would bring sound leadership to the Board and SSE Group. The Board approved the recommendation that he be deemed independent on appointment and take on the role of non-Executive Director from 1 September 2020 prior to becoming Chair of the Board from 1 April 2021. Full biographical details are set out on page 98 and details of the Board induction programme are on page 125.

Strategic link:	Link to Principal Risk:	See also:
Invest	People and culture	Pages 4 to 5 and 96 to 97.

Board evaluation

Regular board evaluation stimulates boards' thinking on how they can carry out their role and encourages them to focus on continually improving their effectiveness. Approaching the evaluation process in a rigorous manner with a clear set of recommendations, actions, and a time period for review of progress against agreed outcomes will likely help to understand how effectively members of the board work together to achieve objectives.

Reporting framework

Legal and regulatory requirements

Principle L states: "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."

In addition, **Provision 23** of the Code states that the Nomination Committee should describe "how the board evaluation has been conducted, the nature and extent of an external evaluator's contact with the board and individual directors, the outcomes and actions taken, and how it has or will influence board composition."

Regulators' expectations

FRC comments: "Reporting on board evaluations should not be approached as a compliance exercise. Instead, a clear set of recommendations, actions, and a time period for review of progress against agreed outcomes should be made."

"FRC expects companies to consider reporting on how the board works together as a unit, the tone set by the chair, and the chief executive, the relationships between board members particularly chair/chief executive, chair/senior independent director, and executive/non-executive directors."

Review of Corporate Governance Reporting, FRC, November 2020

"It was also encouraging to see some companies acknowledging difficulties with administering some of the actions following evaluation assessment."

Review of Corporate Governance Reporting, FRC, November 2021

What to look out for when reporting

Companies should aim to describe:

Aspects of the board's performance where an improvement is needed

Actions arising from the evaluation

A timetable for completing these actions should be given

Board evaluation – examples

Dunelm Group PLC clearly explained the approach taken to evaluation as well as describing actions taken to address findings of a previous review and outcomes with actions for the next year.

Nomination Committee report 2021 (page 126)

Clearly demonstrated review cycle

Five-year Board evaluation cycle summary

2017	External	External evaluation led by Lorna Parker
2018	Internal	Chair-led evaluation with individual members
2019	Internal	Chair-led evaluation with individual members
2020	External	External evaluation led by Lorna Parker
2021	Internal	Chair-led evaluation with individual members

OVERVIEW OF FY21 BOARD EVALUATION PROCESS

CONFIDENTIAL QUESTIONNAIRE
Completed by each Director and Company Secretary

INDIVIDUAL MEETINGS WITH DIRECTORS AND COMPANY SECRETARY
Focus on specific topics, informed by questionnaire results

PRESENTATION OF RESULTS TO BOARD
Discussion
Agreed actions

Clearly explained approach taken for evaluation

FY20 Board evaluation summary

The recommendations arising from our FY20 external Board evaluation, conducted by Lorna Parker, and the actions implemented in response are set out below:

Outcomes and recommendations from FY20 evaluation	Actions implemented
Conclude the appointment of a Non-Executive Director with digital experience.	Specification expanded, and Arja Taaveniku appointed. Search commenced for a further Non-Executive Director with digital/financial expertise and was completed with Vijay Talwar's appointment.
Schedule time for more discussion of Board and Executive Board succession.	Specialist external consultant appointed and new succession and talent management process adopted see above. Five presentations on talent and succession made to the Nominations Committee or Board during the year.
Revise Board schedule to include virtual meetings focused on performance, and face-to-face meetings covering strategy and more discursive topics.	The majority of meetings in the year were held virtually due to national restrictions. The FY22 agenda has been revised in this way
Schedule more discussions of our approach to sustainability, and develop long-term objectives on priority topics.	Agenda items at four of the ten meetings in th Regular progress updates from the Company Initial climate change risk assessment comple greenhouse gas reduction targets set. Becam Consortium's Climate Action Roadmap. Long-term objectives also set on key material signatories to Textiles 2030. Supporters of the BRC Diversity and Inclusion
Refine a formal 'risk appetite' and conduct a horizon scanning exercise.	Risk appetite agreed in June 2021. Horizon sc the Audit and Risk Committee/Board. Risk and Resilience Committee formed to cre management and stimulate cross-functional c
Agree how best for the Board to keep up to date with, and responsive to, competitors.	Competitor updates included in Board packs

Actions implemented in response to recommendations identified from previous evaluation

Outcomes of this year evaluation and actions agreed

Topic	Conclusions	Action
Learnings from the last 12 months	Board relationships have been strong and collegiate, with a good level of support for the Executive Board. The Board faced a number of difficult decisions and some suggestions were made as to how the process could be improved. The Board felt that it should continue to focus on the factors that make us resilient to future shocks. We should continue to refine the KPIs to measure business performance.	Chairman and Company Secretary to manage agenda carefully. Ensure that there are regular discussions of 'What keeps us awake at night?'. Continue to develop the work of the Risk and Resilience Committee. Board members to feed back suggestions to Nick and Laura on additional KPIs which they would find useful.
Governance and strategy	Given the increasing burden of governance requirements, the Board agreed to continue to address these pragmatically, and not allow the time spent on these to impact our focus on strategy. The Board should increase its focus on looking at the changing competitive landscape, changing consumer trends, technology changes and evolving social trends.	Chairman, Committee Chairs and Company Secretary continue to manage this. Keep Committee membership and agendas under review.
Composition	Agreement that we should aim for a Board size of between nine and eleven Directors.	Continue search for an additional female NED, being mindful of the need to comply with regulatory and investor requirements on diversity.
Talent and succession	Continue to build on succession plans for the Executive Board, and to oversee the talent management activity throughout the Group.	The Board should consciously focus on building on the progress made in the year. Aim to develop formal emergency and planned succession plans for Nick, Laura and members of the Executive Board.

Board evaluation – examples

The Sage Group plc not only described outcomes of the evaluation, but also the actions taken to address the points.

Corporate Governance report 2021, Nomination Committee (page 82)

Board evaluation outcomes

The Board considered the results of the evaluation and has separately assessed the independence and time commitment of each Director. It concluded that each Director's performance continues to be effective and that they demonstrate commitment to their roles. These findings are fully considered when making recommendations in respect of their election or re-election to the Board

The overall conclusion from this year's evaluation was that the Board, its Committees, individual Directors and the Chair continued to work well to achieve Group objectives and are operating effectively

The Board fosters a culture of open, constructive debate, underpinned by a cohesive and appropriately challenging Board. The Board Associate role and the Associates' Council continued during the year to provide valuable insight into colleagues' views leading to better Board decision making

Positive progress was noted in areas pertaining to risk strategy and cyber risk, defining Sage's competitive advantage, succession planning, monitoring of colleague and customer success and advancing Sage's sustainability and social purpose. Areas of continued focus related to Sage's M&A strategy, competitive differentiation, Artificial Intelligence/ Machine Learning roadmaps and product integration, partner ecosystem and overall competitor performance

Key areas of focus for FY22

- Monitor the investments, technology and talent needed to deliver the new strategic framework across the Group
- Understand execution challenges, key decisions to be taken and Sage's performance against its competitors over the short to medium term. Evolve Sage's annual Strategy Day to better meet these objectives
- Continue Board and executive succession planning, talent development and embedding of diversity, equity and inclusion objectives
- Determine the appropriate governance structures for Board and Board Committees to monitor the performance and delivery of Sage's Sustainability and Society strategy
- Continue to find opportunities for the Directors to spend time outside meetings with each other and also with senior management, customers and partners

Board evaluation – examples

Evaluation process
The process was divided into four stages:

Stage 1
Bvalco worked with the Chairman, CEO and Company Secretary, as well as the Committee Chairs, to agree the scope of the review, including areas of focus.

Stage 2
Bvalco carried out interviews with all Board members and members of senior management who have regular contact during Board and Committee meetings, as well as external participants such as the audit partner and remuneration consultants.

Stage 3
Bvalco was provided with recordings of Board and Committee meetings that took place via video conference in order to observe the proceedings and interactions.

Stage 4
Bvalco analysed the interview outputs and meeting observations to draw out key themes and created a report of findings and recommendations which they presented to the Board.

Recommendations and proposed actions

Key theme	2022 actions
Succession planning at Board level	The Nomination Committee will continue to actively review the Board composition and skills, and build on the recruitment processes to set up a diverse pipeline of potential Non-Executive Directors over the next two to five years. There are already actions in progress with respect to succession for the Chair of Audit and Senior Independent Director roles.
Succession planning for the Executive team and senior management	The Chairman, CEO and other Board members will continue to review talent and Executive succession and development with dedicated meeting time set aside for detailed discussions. There have been early stage discussions regarding senior teams succession to ensure appropriate planning.
Non-Executive Director engagement – facilitating more unstructured discussion and debate on broader topics	The Chairman, CEO and Company Secretary will work to develop the forward agenda to better facilitate open discussion. All Directors have given input and engaged in setting the 2022 programme of business. The Board will invite more external experts to extend and challenge their thinking. More use will be made of time for informal and Non-Executive Director-only discussions.
Non-Executive Director engagement – access to business	As further opportunities arise post pandemic, Board meetings will be held at different sites on a more regular basis to allow Directors to gain a richer perspective of the people and culture. Opportunities will be created for the Non-Executive Directors to engage more fully with senior leaders in the business, both formally and informally. Executives will be encouraged to approach the Board for assistance with strategic issues to draw on their experience and skills with key questions and specific dilemmas.

Britvic plc clearly explained the approach taken to evaluation and provided a narrative description for findings and actions taken to address those.

Nomination Committee report 2021 (page 86-87)

Context
The Board recognised the value of the timing of this evaluation process, reflecting on the relevance of the strategy announced at the beginning of 2020 and the subsequent dislocation arising from the pandemic. Occasions to meet face-to-face with the Board, the Executives and management within the company were very limited during the pandemic and it was helpful to use this opportunity to reset the Board's ways of working and ability to add value, through the Board agenda to emerging priorities. Needless to say, the focus during the pandemic was supporting the management team and their ability to navigate through a difficult environment, with a collective approach to maintaining stability whilst doing all the right things for the business and its stakeholders. As a result, succession planning took a backseat and therefore emerges as a key focus for 2022.

Findings and outcomes
Following the presentation of Bvalco's report, the Board reflected on the findings and discussed the recommendations before agreeing a series of actions to be implemented.

Bvalco reported that the Board is valued for its commercial acumen, with Board members having good knowledge of and confidence in each other and the business. Directors were seen to ask good questions and to be collegiate and supportive. The mix of strategic change, marketing and commercial experiences from a broad range of industries was noted to be valued and leveraged to good effect. A good mix of formality and informality was observed in Board meetings.

Two key themes were identified for the Board to focus attention on in order to continue to steward the growth and success of the business. The first theme was succession planning, at both Board and Executive level, and the second was continuing to improve the value add of the Board, enabling the board to contribute to a wider range of strategic topics. These themes were subdivided into eight topics and a total of 15 detailed recommendations were suggested. The Board considered the recommendations and accepted the majority of them, with some specific actions already incorporated into the plans for the Board and others being implemented immediately.

The Board expects to continue to work with Bvalco to follow up the on the implementation plans within six months and to plan for a further review in 2022.

In addition to the Board and Committee reviews, Bvalco collected feedback from the Directors on the Chairman's performance which they shared with the Senior Independent Director. The Senior Independent Director took this feedback into consideration when leading the review of the Chairman's performance with the other Non-Executive Directors. The Chairman is considered to be a thoughtful, supportive and challenging leader of the Board, with strong relationships with both Executive and Non-Executive Directors. He encourages views from all Board members, to ensure that the focus remains on areas critical to the business and its stakeholders.

The Chairman met with the individual Directors, including the CEO and CFO, both virtually and face-to-face where possible during the year to get feedback on the business and the Board. Discussions covered each director's individual performance and the Chairman also asked for feedback to help improve his performance.

Board evaluation – examples

Mondi plc provided insights to the internal evaluation process and described outcomes of the evaluation.

Governance report 2021 (page 120)

2021 Board evaluation process

In 2021, the Board took the decision to undertake a questionnaire-based evaluation facilitated by Lintstock. Given Lintstock carried out Mondi's external Board evaluation in 2019 and supported Mondi with its internal evaluation in 2020, it was agreed that the follow-up support and insight Lintstock could offer in 2021 would be valuable. Lintstock has no other connection to Mondi. Anonymity was ensured throughout the process to allow for the provision of candid and open feedback by participants. The evaluation process was led by Philip Yea in conjunction with the Nominations Committee.

The process is illustrated below:

Engagement

Decision to engage Lintstock to conduct the evaluation

Questionnaires completed

Questionnaires relating to the Board, committees and individual performance completed by directors, the Company Secretary and other regular attendees at Board and committee meetings

Report issued

Detailed report issued and reviewed with the Chair

Findings reviewed

Findings discussed by the Chair with each Board member and findings related to individual committees reviewed and considered by committee chairs

Report considered

Report considered by the Nominations Committee

Action plan recommended

Action plan recommended by the Nominations Committee and agreed by the Board

As a result of the process, the Board concluded that it continues to operate in an effective manner, benefiting from positive dynamics, strong engagement and relationships with senior management and a boardroom culture that allows for open and constructive challenge. Each director continues to contribute effectively to the Board.

There was consensus around the priorities for the forthcoming year and the key actions agreed by the Board as a result of the evaluation include:

- to reinstate full physical attendance at Board meetings as well as Board site visits as soon as safe and practicable to do so in light of the continuing impact of COVID-19
- to continue to develop succession planning at senior management level, focusing particularly on succession planning for the Group CEO and CFO
- to successfully conclude the recruitment of a new non-executive director to succeed Enoch Godongwana
- to move oversight of the MAP2030 people-related commitments from the Nominations Committee to the Sustainable Development Committee, the committee responsible for overseeing progress against all other MAP2030 commitments, allowing the Sustainable Development Committee to have full oversight on behalf of the Board and the Nominations Committee to focus on senior-level succession planning
- to continue the development of Mondi's strategy in light of the growing importance of sustainability and ensure sustainability matters are appropriately considered in all investment decisions

The Board considers that it continues to benefit from the annual review process, the results from which help guide the future focus of meeting agendas and behaviours.

Audit Committee Report

Assessment of external auditor effectiveness and independence; APMs

The audit committee has a particular role, acting independently from the executive, to ensure that the interests of shareholders are properly protected in relation to financial reporting and the risk management and internal controls over that reporting, and through the appointment and oversight of auditors. Given increased attention on the cohesion between the front and back half of the annual report, it is also expected that the audit committee report explains the degree to which audit committee reviewed and challenged the company's use of APMs, where significant. Finally, boards that decide to develop Audit & Assurance Policy will be able to convey users of corporate reporting the extent of assurance over the information they communicate. Reporting on all these matters facilitates dialogue between the company and shareholders and other stakeholders.

Reporting framework

Legal and regulatory requirements

Principle M of the Code states: '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.'

Provision 26 of the UK Code states that, an annual report should describe how the audit committee has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans'

Regulators' expectations

The FRC expects companies to report fully and clearly on both the tender process and tenure for the external auditor.

The Corporate Governance Code requires the annual report to describe the work of the audit committee, including the significant issues that the audit committee considered relating to the financial statements, and how these issues were addressed.

Review of Corporate Governance Reporting, FRC, November 2021

What to look out for when reporting

If It is important that companies disclose the date of both tender and tenure as there may be a lag between the tender date and the start of a contract.

When reporting on **assessment of the effectiveness of the external audit process**, disclosures should include:

- What actions are taken to do this? Who is involved and what are the outcomes?
- Discussions with who?
- On what matters?
- How often?

When assessing the **auditor's independence** consideration should be also given to:

- Whether the auditor was exercising an appropriate level of scepticism
- Evaluation of all the relationships between the external auditors and the Group, including employment of former employees of the external auditors
- Compliance with the policy on the provision of non-audit services by the external auditors
- Reviewing the details of the non-audit services including any potential threats to independence or objectivity of the auditor

Audit (Assessment of the effectiveness of the external audit process) – examples

Victrex Plc illustrated the steps the Committee has taken to assess external auditor effectiveness.

Audit Committee report 2021 (page 88)

How did the Committee assess the effectiveness and quality of the external audit?

The Committee actively considers the effectiveness and quality of the external audit process on an ongoing basis.

Following the process outlined below, the Committee assessed the effectiveness of the external audit. In summary, the Committee concluded that the external audit process and services provided by PwC were satisfactory and effective.

PwC present key findings from the FRC's Audit Quality Inspection Report for PwC and planned actions

Committee discusses and agrees at the planning stage the draft list of specific risks to audit effectiveness and quality (specific audit quality risks)

Committee assesses audit planning work in respect of specific audit quality risks and ensures that matters of key interest (including those listed as significant issues above) are addressed in the audit plan

PwC report against audit scope and subsequent meetings provide the Committee with an opportunity to monitor progress and raise questions

PwC report on specific audit quality risks applicable to Victrex and how these have been addressed at the planning and final stages of the audit

Committee discusses both internally and with PwC the extent to which PwC have demonstrated professional scepticism and challenged management's assumptions through the audit process, particularly in areas of estimation and judgement

Private meetings are held at most Committee meetings between the Audit Committee and representatives from the external auditors without management being present in order to encourage open and transparent feedback by both parties

Committee assesses final audit work and reporting along with the overall conclusion reached regarding specific audit quality risks and the significant audit issues (as outlined above)

All Committee members, key members of management, and those who regularly provide input into the Audit Committee or have regular feedback with the external auditors are asked for feedback on how well PwC performed the year-end audit

Feedback and conclusions are discussed, along with the conclusion and transparency of reporting regarding specific audit risks and issues, with an overall conclusion on audit effectiveness and quality reached. Any opportunities for improvement brought to the attention of the external auditors

The FRC's Audit Quality Inspection Report for PwC, published in July 2021, showed that after three years of declining scores PwC's score had significantly improved with the FRC recognising the improvements which had been made whilst also noting there was still work to do. The Committee has engaged with PwC during each year of their appointment to discuss PwC's response to weaknesses identified by the FRC in general, but particularly those relevant to the Company's audit. The Committee seeks evidence in the final audit report of the work performed by PwC on those areas relevant to the Company's audit, probing the audit team on the level of professional scepticism they have demonstrated and the level of challenge they have given management. Whilst trading conditions have improved from 2020, the Committee remains focused on the ongoing challenges facing the global economy, including, for example, tightness in global supply chains with continued attention on the level of work and challenge over short-term cash flow forecasts and growth assumptions used in relation to impairment, viability and going concern assessments. PwC were asked to formally report to the Committee on the work performed. Due to the time lag between the FRC issuing findings to PwC for response and the publication of the report, evidence of PwC's revised approach has been evident across the prior two audits. The Committee, as a matter of course, does seek full explanation of work undertaken in the more judgemental aspects of the accounts.

Audit (Assessment of the effectiveness of the external audit process) – examples

Mondi plc described a formal framework for external audit assessment, specifically covering the Audit Committee's role and outcomes.

Governance report 2021 (page 131)

External audit independence, objectivity and effectiveness

A formal framework for the assessment of the effectiveness of the external audit process and quality of the audit has been adopted by the committee, covering all aspects of the audit service provided by PwC. While part of the assessment is managed annually, it is treated as an ongoing review throughout the cycle.

Evaluation focus

- Robustness of audit process
- Audit quality, including quality controls
- Audit partners and team, including skills, character and knowledge
- Independence and objectivity
- Formal reporting

Inputs

Audit Committee

- Continual monitoring of audit performance throughout the year
- Reviewed and agreed the audit plan
- Reviewed the quality of reporting to the committee, the level of challenge and professional scepticism and the understanding demonstrated by PwC of the business of the Group
- Reviewed the quality of the audit team, technical skills and experience and the allocation of resources during the audit
- Considered the interaction with management and the level of challenge
- Regular meetings held between the Chair of the committee and the audit engagement partner
- Reviewed feedback from committee members including views on how PwC has supported the work of the committee and communication with the committee
- Considered the effectiveness of Mondi's policies and procedures for maintaining auditor independence

Management

- Feedback from engagement with the Group CFO, Group Controller and Group Head of Internal Audit
- Feedback from questionnaires issued at corporate and business unit level to those personnel involved with the audit

PwC

- Provided the committee with confirmation that they operate in accordance with the ethical standards required of audit firms
- Confirmed the policies and procedures they have in place to maintain their independence

Regulators

- The UK Financial Reporting Council's (FRC) 2020/21 report on Audit Quality Inspections included a review of audits carried out by PwC

Key outputs

- The quality of the audit partners and team were confirmed with no material issues raised in the feedback received
- The audit had been well planned and delivered with work completed on schedule and management comfortable that any key findings had been raised appropriately, active engagement on misstatements and appropriate judgements on materiality
- PwC demonstrated a good understanding of the Group and its internal control systems, and had identified and focused on the areas of greatest financial reporting risk
- PwC's reporting to the committee was clear, open and thorough, including explanations of the rationale for particular conclusions as appropriate
- It was confirmed that, through the review of management papers and analyses and the discussion of key matters with management and the auditor, there had been an appropriate level of challenge during the course of the audit, with the external auditor and the Audit Committee challenging management's judgements and assertions on matters including critical accounting judgements and key sources of estimation uncertainty; impairment of property, plant and equipment and goodwill; and assumptions underlying the going concern basis of accounting in preparing the financial statements and the viability statement

Conclusion

The committee, having considered all relevant matters, has concluded that it is satisfied that auditor independence, objectivity and effectiveness have been maintained.

Audit (Assessment of the effectiveness of the external audit process) – examples

The Sage Group plc explained the degree to which they reviewed and challenged the company's APMs, where significant.

Audit Committee report 2021 (page 114)

Significant reporting and accounting matters	Response and challenge	Cross reference
Alternative Performance Measures (APMs) The Committee closely monitors management's interpretation and definition of Alternative Performance Measures (APMs), in particular Annualised Recurring Revenue (ARR). In addition, the Committee considers the presentation of APMs in the Group's Annual Report and Accounts in the context of the requirement that they be fair, balanced and understandable.	• The Committee continues to review and challenge management's use of APMs and, as part of the preparation for the interim and annual financial statements, requests a clear reconciliation between key APMs and statutory reporting measures. • There is a continued focus by the Committee on the ARR APM given its importance as a key measure of business performance. At each Committee meeting, an update on ARR performance is provided. No changes to APM definitions have been made during the year. • The Committee has challenged the sufficiency, adequacy and clarity of disclosures related to APMs in the Annual Report and Accounts and considers them to be appropriately disclosed. • At the request of the Committee, and on behalf of the Remuneration Committee, EY performed a set of agreed-upon procedures over the mathematical calculation of ARR. In doing so, EY considered the appropriateness of the calculation against the defined policy and reviewed in detail any proposed adjustments. • The Committee also reviewed supplementary information issued alongside the financial statements, including the Group's press release, to ensure consistency in the way APMs are disclosed and presented on a balanced basis alongside statutory reporting measures.	The definition of APMs can be located in the glossary on pages 249 to 250. Reconciliations of statutory revenue, operating profit and basic earnings per share to their underlying and organic equivalents are in the Financial review starting on page 42.

Risks and internal controls

The FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (issued in 2014) states that "effective and ongoing monitoring and review are essential components of sound systems of risk management and internal control". The UK has been considering the introduction of a US-style attestation by the board on the effectiveness of internal controls over financial reporting. In advance of any future change in requirements, board should make sure that their monitoring and review processes are robust, clearly explained and that the outcome of those monitoring and review processes is transparent.

Reporting framework

Legal and regulatory requirements

Code **Provision 29** states the following: "The board should monitor the company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness and report on that review in the annual report. The monitoring and review should cover all material controls, including financial, operational and compliance controls."

This is supplemented by paragraph 58 in the FRC's Guidance on Risk Management, Internal Control Guidance which states that: "The board should summarise the process it has applied in reviewing the effectiveness of the system of risk management and internal control. The board should explain what actions have been or are being taken to remedy any significant failings or weaknesses."

Regulators' expectations

"The FRC expects companies to provide disclosures, specific to the company, of their governance structure (who and what) and processes (how and when) in place to manage risk that clearly demonstrate the way that the company identifies, monitors and mitigates risks."

"The FRC expects companies to explain the process of how the board has determined the company's risk appetite; and the risk appetite for each of the company's principal risks."

"Reporting should include a detailed description of the whole process that the board or the committee has undertaken to do this."

Review of Corporate Governance Reporting, FRC, November 2021

What to look out for when reporting

Effective reporting on internal control effectiveness should include:

A detailed description of the process for reviewing the effectiveness of risk management and internal control systems

Explain the outcome of the review. Are these systems operating effectively? If not, what weaknesses or inefficiencies were identified?

If any weaknesses or inefficiencies were identified, explain what actions the board has taken, or will take, to remedy these

Risks and internal controls - examples

Barclays PLC explained how the control effectiveness review was carried out.

Audit Committee report 2021 (page 137)

Areas of focus	*Matters addressed*	*Role of Committee*	*Conclusion/action taken*
Internal controls and business control environment (read more about Barclays' internal control and risk management processes on pages 154 to 155)	The effectiveness of the overall control environment, including the status of any significant control issues and the progress of specific remediation plans.	The Committee: ▪ evaluated and tracked the status of the more significant control issues through regular reports from the Chief Controls Officer, including updates on the progress of remediation programmes, ongoing COVID-19 related issues and return to office planning ▪ discussed reports relating to individual Group entities, businesses and functions on the control aspects of key matters such as the COVID-19 related environment including Government loan schemes and return to office planning ▪ received an update on operational resilience, which included a review of the operational resilience planning framework ▪ received an annual update on data protection ▪ received independent evaluations from BIA and external auditors ▪ monitored Client Assets Sourcebook (CASS) updates and compliance with CASS.	Throughout 2021, the Committee has: ▪ scrutinised the pathway to 'Return to Satisfactory' in respect of internal controls (operated by the various functions and businesses) that were not already rated 'Satisfactory' ▪ reviewed the 2020 Risk and Control Self Assessment (RCSA) results and monitored the 2021 RCSA plan.

Risks and internal controls - examples

The Sage Group plc explained how an assessment of internal controls was carried out and provided the outcome of the review.

Audit Committee report 2021 (page 116)

Risk management and internal controls

The Committee assists the Board in its monitoring of the Company's internal control and risk management systems, and in its review of their effectiveness. This monitoring includes oversight of all material controls, including financial, operational, regulatory and compliance controls, and assessing whether the control systems are fit for purpose and whether any corrective action is necessary. As part of the Group's continuing evolution of its approach to risk management and internal controls, the Risk and Assurance (Internal Audit) functions have been separated during the year. As such, the Risk function now reports into the EVP Chief Risk Officer, with the Assurance function reporting directly to the Committee and administratively into the General Counsel and Company Secretary.

During the year, the Committee:

- Reviewed the principal risks, their evolution during the year, and the associated risk appetites and metrics, challenging and confirming their alignment to the continued achievement of Sage's strategic objectives. At each meeting, the Committee considered and challenged the ongoing overall assessment of each risk, their associated metrics and management actions and mitigations in place and planned;
- Supported the General Counsel and Company Secretary in the recruitment process for the newly appointed VP Assurance;
- Reviewed and considered an assessment of the effectiveness of risk management more broadly, and reviewed summary reports from Sage Business Integrity and Sage Legal on the Group's adherence to policies, including Conflicts of Interest, Anti-Money Laundering, Sanctions, Competition Law, Anti-Bribery and Corruption and Modern Slavery;
- Reviewed updates from the Sage Business Integrity team on the operating effectiveness of controls within the Sage Business Control Framework;
- Received reports from Sage Assurance and management on internal control and monitored the implementation of management actions to remediate issues identified and make improvements. The Committee also satisfied itself that management's response to any financial reporting or internal financial control issues identified by the external auditor was appropriate;
- Reviewed at each Committee meeting any escalated incidents and any instances of whistleblowing and management actions to remediate any issues identified (see Incident management, fraud and whistleblowing paragraph below for further details); and
- Considered individual incidents and associated actions to assess whether they demonstrated a significant failing or weaknesses in internal controls, of which none were identified.

For further details on the Group's risk management and internal control systems, its risk-informed decision-making process and its principal risks and uncertainties, refer to the Risk Management section on pages 50 to 56.

Risks and internal controls - examples

ITV plc provided some insights to the implementation of improvements to the financial reporting controls framework.

Governance report 2021 (page 133)

Internal financial controls

During 2021 the Committee has overseen the design and implementation of improvements to ITV's financial reporting controls framework. A Head of Financial Governance and Compliance was recruited in 2021 and, together with her team, is responsible for designing and implementing the controls operating model and leading the risk and controls workstream on the HR and Finance Transformation Programme (ITV Together). The core components of the controls operating model include performing annual scoping and risk assessments (define), design and implementation of the financial reporting controls framework and associated policies (optimise), delivery of focused training sessions and communications to further enhance the risk and controls culture (embed) and finally leveraging technology to facilitate real-time monitoring and testing (assure). By the end of 2021, the team had made significant progress against the define, optimise and embed components of the controls operating model and will be focusing on strengthening ITV's monitoring and testing approach to financial controls in 2022. For the subsidiary companies, control operating model baseline activities are underway.

The Committee Chair met regularly with management and the Financial Governance and Compliance team to receive more detailed updates on the control operating model implementation and to ensure that the Committee's key concerns were being appropriately addressed. Similarly, external consultants were also engaged throughout the year to review the design of the financial reporting controls framework to ensure it is fit for purpose and in line with Committee of Sponsoring Organizations (COSO) principles. The Committee welcomed the actions taken by management and the plans to continue enhancing the financial controls (and related IT general controls) across the Group and will closely monitor the ongoing improvements during 2022.

Further, ITV continues to address the key improvement opportunities identified in relation to its IT environment (including legacy systems), prioritising its IT controls over financial systems. Throughout the year, the Committee obtained regular progress updates in respect of this area, providing independent challenge on the roadmap, including prioritisation of activities in light of ITV's digital transformation strategy.

The Weir Group PLC described a compliance scorecard, a control mechanism monitored by the company aimed at operating companies' internal controls.

Governance report 2021 (page 112)

COMPLIANCE SCORECARD

The Compliance Scorecard is a control mechanism whereby each operating company undertakes self-assessments, every six months, of their compliance with Group policies and procedures, including key internal controls across a range of categories including finance, anti-bribery and corruption, tax, treasury, trade and customs, HR, cybersecurity, IT and legal. As far as the elements relating to finance are concerned, these cover (but are not limited to) management accounts and financial reporting, balance sheet controls, employee costs and other financial policies. Each operating company is expected to prepare and execute action plans to address any weaknesses identified as part of the self-assessment process.

Operating companies are required to retain evidence of their testing in support of their self-assessment responses. Internal audit has responsibility for confirming the self-assessment during planned audits. Any significant variances are reported to local, Divisional and Group management. Any companies reporting low levels of compliance are required to prepare improvement plans to demonstrate how they will improve over a reasonable period of time. The overall compliance scores (as a percentage) are tracked over time and reported to the Audit Committee twice a year, with the Committee paying particular attention to the variances between self-assessed and internal audit assessed scores as well as trends and the performance of newly acquired companies.

As noted in this report, the Compliance Scorecard process was not completed for the second half of 2021 (refer to the Cybersecurity incident section for further details).

Risks and internal controls - examples

CLS Holdings plc's report described the process of how the board has determined the company's risk appetite and provided the risk appetite for each principal risk.

Strategic report 2021 (page 44)

Explanation of risk appetite grading

Risk appetite
The Board recognises its overall responsibility for undertaking a robust risk assessment and for establishing the extent to which it is willing to accept some level of risk to deliver its strategic priorities.

Our risk appetite is reviewed at least annually and assessed with reference to changes both that have occurred, or trends that are beginning to emerge in the external environment, and changes in the principal risks and their mitigation. These will guide the actions we take in executing our strategy. Whilst our appetite for risk will vary over time, in general we maintain a balanced approach to risk. The Group allocates its risk appetite into five categories:

Very low: Avoid risk and uncertainty

Low: Keep risk as low as reasonably practical with very limited, if any, reward

Medium: Consider options and accept a mix of low and medium risk options with moderate rewards

High: Accept a mix of medium and high risk options with better rewards

Very high: Choose high risk options with potential for high returns

The Board has assessed its risk appetite and current status for each of the Group's principal risks as follows:

The Board's risk appetite in relation to the Group's principal risks is broadly aligned. As shown in the table above, there is divergence of risk appetite and risk status in relation to the property, sustainability, business interruption, and political and economic principal risks. The Board accepts there are factors in relation to these principal risks that are outside the Group's control and are likely to change over time. Mitigating actions have been put in place to ensure these risks are adequately managed and monitored to reduce the potential impact on the Group. The Board also recognises that not all risk can be fully mitigated and that they need to be balanced alongside commercial considerations. If a difference between the Board's risk appetite and the risk assessment persists for an extended period, this variance is debated as to whether and how the gap should be closed.

	Board risk appetite	Principal risk assessment
Property	Medium	High
Sustainability	Medium	Medium
Business Interruption	Low	Medium
Financing	Medium	Medium
Political & Economic	Medium	High
People	Medium	Medium

Risks and internal controls - examples

OCADO GROUP PLC explained the extent of risk tolerance for each of principal risks.

Strategic report 2021 (pages 87-92)

Talent and Capability

What is the risk

Our business operations and growth plans could be at risk from a difficulty finding and retaining sufficient employees to support our growth, in filling key positions and critical roles, a loss of top performers, a potential shortfall of future leaders, and an inability to embed diversity and inclusion.

How we manage it

- Developing and implementing strategic and tactical resourcing plans and monitoring the talent pipeline.
- Deploying talent development programmes and surveying employee opinions.
- Undertaking succession planning, periodically reviewing remuneration and incentives and proactively supporting diversity and inclusion.

Movement:

Target tolerance:

Flexible – To maintain our leadership position, we will take strongly justified risks and manage impact.

Emerging threats:

We operate in a competitive environment and risk will continue from existing sources e.g. the retention of Technology and Ocado Logistics employees. We anticipate threats will also evolve in areas such as integration of acquisitions.

Owner:

Chief People Officer

ESG materiality reference:

Talent Attraction and Development

Strategy reference:

Cybersecurity and Data

What is the risk

We risk the loss of critical assets and sensitive information as a result of a cyber attack, insider threat, or a data breach. This could result in business disruption, reputational damage, significant fines or the loss of confidential business information.

How we manage it

- Structuring IT systems to operate reliably and securely.
- Testing by third party.
- Overseeing an information security governance programme by the Information Security Committee.
- Monitoring security issues and responding to security incidents by a dedicated information security team.
- No customer payment card data is held in Ocado Group's databases.
- Overseeing the Group's privacy compliance programme by the Data Protection Officer.
- Planning Cyber incident contingency.

Movement:

Target tolerance:

Minimal – We are extremely conservative in selecting options that impact this risk. We will only accept options that come with a limited possibility of failure.

Emerging threats:

Cyber risk is constantly evolving, driven by technology advances and developments in the geopolitical environment. We anticipate continued risk from existing sources and incrementally from areas such as supply chain, an increasingly remote workforce, the use of AI and machine learning.

Owner:

CEO Ocado Technology

ESG materiality reference:

Cybersecurity; Data Privacy Management

Strategy reference:

Risk appetite/ tolerance is explained for each principal risk separately

Remuneration

Engagement with shareholders and workforce; Link to strategy

With a growing focus on executive pay through the wider stakeholder lens, the ability of remuneration committees to demonstrate a responsible approach to pay policies not just at executive level - but around the wider workforce and fairness agenda - is critical in building trust. Pro-active engagement with shareholders and the workforce on remuneration matters facilitates better understanding and consideration of their views when making decision on these matters.

Reporting framework

Legal and regulatory requirements

Principle P: "Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy."

Provision 38: "The pension contribution rates for executive directors, or payments in lieu, should be aligned with those available to the workforce."

Provision 40 states that companies' remuneration arrangements "should be transparent and promote effective engagement with shareholders and the workforce".

Provision 41 requires companies to provide a description of the work of the remuneration committee in the annual report, including what engagement has taken place with shareholders and the impact this has had on remuneration policy and outcomes; and what engagement with the workforce has taken place to explain how executive remuneration aligns with wider company pay policy.

Regulators' expectations

"RemCo should also engage with their workforce meaningfully, ensuring there is a two-way dialogue. Good practice would be to separate engagement on executive remuneration policy from other workforce engagements to ensure a focused discussion."

Review of Corporate Governance Reporting, FRC, November 2020

"If a company has not engaged with shareholders or the workforce in relation to remuneration, it is not compliant with Provision 40, nor 41."

Review of Corporate Governance Reporting, FRC, November 2021

"The annual report should describe actual engagement with shareholders by the board or remuneration committee. To comply with Provision 41, there should be a description of the impact the engagement has had on the policy and outcomes."

"The FRC expects companies to improve reporting on how remuneration is aligned to company's purpose and values."

Review of Corporate Governance Reporting, FRC, November 2021

What to look out for when reporting

The report should clearly draw out the following elements in engagement with:

Workforce

- Two-way dialogue
- Specifically discuss the company's remuneration arrangements
- Explain how executive remuneration aligns with wider company policy
- Opportunity to ask questions/raise issues
- Explain this engagement and the outcome from it in the annual report

Shareholder

- What remuneration issues were discussed
- What was the feedback received from shareholders
- What impact, if any such feedback had on remuneration policy and outcomes

The report should clearly explain how their chosen performance metrics:

Link to strategy

- Support the company's strategic objectives
- Are linked to the successful delivery of long-term strategy
- Promote long-term sustainable success

Engagement on Remuneration – examples

Imperial Brands PLC described how the Committee engaged with the workforce to explain executive remuneration, as well as engagement with their shareholders and the outcomes of that engagement.

Remuneration Committee report 2021 (pages 122-123)

Consideration of colleagues' views

The Committee has been directly involved in the Board's work during the year on workforce engagement which is described in detail on page 103 and has been led by Steven Stanbrook who is the Workforce Engagement Director. Our new "Meet the Board" sessions are a valuable way of having open conversations with colleagues about a wide range of matters, which have included the role of the Board in decision-making, our strategy, ESG agenda, our purpose, vision and culture and diversity and inclusion. We have also explored the topic of reward, giving participants the opportunity to learn about how the Committee aligns executive reward with the wider workforce and to understand their views on reward at Imperial Brands. We also spent time answering their questions on a range of reward topics. I have been encouraged by the level of engagement and interest shown by our colleagues, and would like to thank them for their valued contribution.

Understanding investors' views – what we have done since the 2021 Annual General Meeting (AGM)

We are very grateful for the strong support we received for the Directors' Remuneration Policy (95.28 per cent) at the 2021 AGM. However, the level of support for the 2020 DRR was disappointing. We engaged with shareholders both before and after the AGM and reflected on their views regarding the salary level of the new CEO and the way it was disclosed in the DRR, both of which impacted on the outcome of the vote. Their input has resulted in a number of actions taken by the Committee:

- Reduced on a one-off basis the CEO's 2021 long-term incentive award by 10 per cent to 315 per cent of salary.
- Identified opportunities in the DRR to enhance the messaging and transparency, such as an improved Remuneration at a Glance section.
- Disclosed our new CFO's remuneration arrangements on the announcement of his appointment and invited investors to give us their views.

Engagement on Remuneration – examples

NatWest Group PLC described how the Committee engaged with the shareholders, including retail shareholders and also specifically discussed the company's remuneration arrangements .

Remuneration Committee report 2021 (page 141)

Engagement with stakeholders on remuneration

Every year we undertake an engagement programme with major shareholders and other stakeholders before the Committee makes final decisions on pay awards. In late 2021 and early 2022, we met with several institutional shareholders, UK Government Investments, proxy advisors and the UK regulators to discuss our approach to remuneration for the 2021 performance year and our proposed policy amendments for executive directors.

One of the principal areas of focus during meetings was the transition to the new Policy including the new variable pay structure with annual bonus and RSP awards. The Committee Chairman explained that NatWest Group remained committed to prudent yet competitive compensation levels that would assess long-term performance and ensure alignment with shareholder interests. Discussions also highlighted that under the new Policy shareholders would expect continued adherence to best practice and transparent remuneration disclosures. The Committee acknowledged the need to ensure the ongoing alignment of all aspects of the new Policy with market best practice. A summary of the new Policy and how it compares to the current Policy can be found on the next page, followed by the main Policy tables which set out further details.

In addition to the above discussions, we also held three virtual shareholder events with retail shareholders in 2021 to ensure we heard from the wider shareholder base on matters of importance. The event held in November 2021 focused on climate and one of our shareholders asked how we link executive pay to ESG measures including climate. Yasmin Jetha, one of our directors who was present at the event, confirmed that climate measures had been introduced for executive directors in 2020 which assessed performance with reference to progress towards climate positive operations, the funding and financing of climate and sustainable finance, and the setting of sector specific targets for emissions reduction.

Ms Jetha's response also noted that executive director performance had, for several years, also been assessed with reference to social and governance measures, with diversity and inclusion targets having been in place since 2017. Further shareholder events are planned for 2022. Shareholders play a vital role in helping us develop remuneration practices that meet the needs of all our stakeholders and we are grateful for their involvement in the process.

It is also now more important than ever that we listen to our colleagues and use the insight we gain to attract, engage and retain the talent we need for the future. In November 2021, the Committee Chairman met with our Colleague Advisory Panel to discuss executive and wider workforce pay. The outcome of such discussion is summarised in more detail in the 'colleague listening strategy' section later in this report.

Engagement with the workforce

Engagement on Remuneration – examples

Victrex plc and **The Sage Group plc** explained how the Committee engaged with the workforce to explain executive remuneration, as well as engagement with their shareholders and the outcomes of that engagement.

The Sage Group plc, Remuneration Committee report 2021 (page 126)

Engagement with stakeholders

The Committee values input from shareholders and is committed to ensuring open and transparent dialogue between parties in regards to executive remuneration. Where appropriate, the Committee seeks the views of the largest shareholders individually and others through shareholder representative bodies when considering any significant changes to the Policy. Any feedback received is thoughtfully reviewed and where appropriate changes are implemented. Ahead of the 2022 AGM, the Committee consulted individually with Sage's top 17 shareholders and proxy agencies on the proposed 2022 Policy. This was initially in written format and included a number of virtual meetings. In response to the feedback received from a small number of shareholders, we have: addressed duplication of measures in the annual bonus and PSP; strengthened the PSP measures, including introducing long-term ESG metrics, to ensure they directly align to our strategy of creating long-term sustainable growth and reward for impact achieved. We hope the clear articulation of the 2022 Policy and implementation changes provide a clear understanding of how our plans will reward executives for the value created for stakeholders.

Colleague Success is critical for Sage and engaging with the workforce in meaningful, two-way dialogue underpins this. The CEO hosts frequent 'All-Hands' calls for the whole workforce, during which he provides Company performance updates explaining how this translates to the bonus plan. Colleagues are encouraged to ask questions and the CEO provides open and transparent answers. Additionally, Company performance at a Group and regional/functional level and bonus updates are periodically provided on our intranet site and by email, this ensures that colleagues are able to understand how the business is performing during the financial year and the impact that can have on their reward package.

Colleagues have the opportunity to share their thoughts and feedback on all topics, including our remuneration policies and practices, through our 'Always Listening' survey. Originally launched during 2020 in response to the pandemic, this is a continuous feedback survey which colleagues can access at any time. Our bi-annual colleague 'Pulse' surveys and CEO round tables also provide opportunities for colleagues to provide feedback.

A global Reward and Recognition policy available to all colleagues applies across the entire workforce. Furthermore, colleagues are able to access a more detailed explanation of executive pay through this Report and of our PSP through our colleague intranet.

Victrex plc, Remuneration Committee report 2021 (pages 90-91)

Other considerations during the year

During the year the Committee had oversight of the reward and compensation packages that operate across the Company, which are considered competitive. In addition, Brendan Connolly who is the appointed designated workforce engagement non-executive Director, enables employees to provide feedback on remuneration during the various

Other considerations during the year continued

engagement mechanisms he undertakes that includes attendance at works council meetings and regional forums. The views he receives on remuneration (including executive and wider employee remuneration) are then fed back to the Committee and the wider Board as part of his membership of the Committee and his wider workforce engagement role. Given that the remuneration structures were not raised as material issues in the discussions during the year, and the Company's biannual engagement survey results included that the majority of employees expressed satisfaction with their current arrangements, it was not considered necessary to make material changes to the current remuneration structures across the Group with all employees participating in Group-based incentives.

Engagement with the workforce

Engagement with the workforce continued

During the upcoming year, the Committee will review methods to directly engage with the wider workforce and will report on the impact of this engagement in the FY 2022 Directors' remuneration report. The Committee considers executive pay to be appropriate based on all forms of employee engagement, pay across the Company and gender pay ratios.

Prior to determining the implementation of the policy for FY 2022, we engaged with our shareholders. In particular, we asked our shareholders for feedback on the proposed changes to the application of policy, including the adjustment to the CEO's salary and the inclusion of sustainability metrics in the FY 2022 LTIP. At the date of this report, we were pleased to have received some shareholder feedback with the general response being supportive, and limited concerns raised.

Engagement with shareholders

Engagement on Remuneration – examples

Mondi plc described a two-way dialogue with their workforce and shareholders in relation to remuneration, as well as linked the reward to business strategy pillars.

Governance report 2021 (pages 138 & 140)

Executive director pay and the broader workforce

The Remuneration Committee is regularly informed on matters of pay and employment conditions throughout the Group. At least once a year a detailed analysis of pay and incentives is presented to the Committee, covering approximately 98% of the global workforce in all geographies and business units. In addition during 2021, we launched a new initiative where Sue Clark, our non-executive director responsible for understanding the views of employees, was able to virtually connect with a range of employees (covering various levels of seniority, location, business unit and gender). Sue was able to listen to their thoughts on pay and performance matters, and the relationship between local and Group level. The outputs from these engagements are reported to the Board, and are taken into account when the Remuneration Committee makes decisions relating to executive pay. Specifically, the Remuneration Committee will take the output from these engagements into consideration as it develops the DRP review during 2022, which will include engagement with shareholders before the revised policy is taken to the AGM in 2023.

Linking our reward and business strategy

Our strategy:

- Delivering value accretive growth sustainably

Underpinned by our four strategic value drivers:

- Drive performance along the value chain
- Invest in assets with cost advantage
- Inspire our people
- Partner with customers for innovation

- Above maximum
- Between threshold and maximum
- Below threshold

Annual bonus

U. EBITDA	ROCE	Safety	Personal
35%	35%	10%	20%
Outturn 35%	Outturn 35%	Outturn 10%	Outturn 17% / 16%

LTIP

TSR	Average 3-yr ROCE
50%	50%
Outturn 0%	Outturn 91.3%

Shareholder engagement

During 2021, we engaged with a cross-section of shareholders and proxy agencies with regard to developments in executive pay. In particular, shareholder views on linking executive pay to sustainability provided context, and informed our decision to introduce a sustainability scorecard into our annual bonus from 2022, in line with our MAP2030 framework. Further details are set out on page 142.

In line with the three-year cycle under the directors' remuneration reporting regulations, we will be submitting the DRP for shareholder approval at the 2023 AGM. In advance of this, the Remuneration Committee will be reviewing the DRP to ensure that it continues to align to and support the forward-looking strategy. We look forward to continuing engaging with our shareholders on this later in the year.

Link to strategy in remuneration – examples

Imperial Brands PLC and **The Sage Group plc** provided specific explanations, by referring directly to the company's KPIs.

Imperial Brands PLC plc, Remuneration Committee report 2021 (page 124)

OUR APPROACH TO REWARDING EXECUTIVE DIRECTORS IN 2022

Our strategic priorities

Measuring performance

Annual Bonus:

Organic adjusted operating profit growth at constant currency (40%)
Cash conversion (20%)
Market share growth (20%)
Strategic/individual (20%)

LTIP:

Organic adjusted EPS growth at constant currency (40%)
Adjusted net debt/ EBITDA (20%)
Return on Invested Capital (ROIC) (20%)
Relative TSR (20%)

The Sage Group plc, Remuneration Committee report 2021 (page 122)

1) Reshaped FY22 performance measures

FY22 award	FY22 measures	Why the Remuneration Committee has adopted the measure in FY22	How it will be measured	How value will be created for stakeholders
Annual bonus – incentivises management to scale the business	**Removal of duplication of measures and focusing on our annual growth model:** • 70% of bonus based on ARR growth* • 10% based on customer NPS • 20% based on personal strategic goals aligned to strategy execution * Payout is subject to the achievement of an underlying operating margin underpin.	To incentivise management to deliver the annual growth model with steadily improving margin. **ARR is a strategic KPI as detailed on page 24.**	• ARR is defined on page 250 • NPS is measured on a closing-quarter basis • Personal strategic goals are set with reference to indicators in the strategy and budget and disclosed at the end of the performance period	ARR is a forward-looking indicator of reported recurring revenue growth, linking directly to Sage's investment proposition.

Link to strategic KPI

Link to strategy in remuneration – examples

John Wood Group PLC presented in a table format which elements of remuneration address particular strategic value outputs.

Strategic report 2021 (page 114)

Remuneration link to strategic value outputs		Annual bonus plan						Long term incentive plan					Underpins	Other	
		EBITDA	Cash generation	Serious injury and fatality (SIF)	Safety leadership engagement	Employee engagement improvement	Corporate and personal objectives	TSR	EBITDA margin % improvement	Revenue growth	Carbon emission reductions	Improvement in leadership gender diversity	Discretionary matrix	Holding periods	Shareholding
For investors	Total shareholder return	●	●					●	●	●			●	●	●
	Growth and cash generation	●	●						●	●			●		
For our people	Rewarding careers and employee retention					●	●		●	●	●	●	●	●	
	A workplace where different backgrounds, experience and expertise are welcomed and celebrated				●	●	●					●	●		
For clients	Best-in-class delivery, consistently			●	●	●						●	●		
	Global reach with balanced portfolio of long-term partner relationships with clients						●						●		
	Leading technical services and smarter, more sustainable solutions			●	●		●				●		●		
	Track record on industry-leading projects			●	●		●						●		
For communities	Significant contribution to local employment and communities				●								●		

Viability statement

Introduced in the 2014 edition of the Code, the viability statement responded to the drive from regulators and investors to obtain more information on how a business will evolve, adapt and respond to changes in the external business environment. Useful disclosure provides insights into the company's assessment process, key judgments and assumptions applied, resilience to risks (demonstrated through the use of scenario and stress testing) and mitigation actions.

Reporting framework

Legal and regulatory requirements

LR 9.8.6R(3): Statements by the directors on:

(b) their assessment of the prospects of the company (containing the information set out in Provision 31 of the UK Corporate Governance Code); prepared in accordance with the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' published by the Financial Reporting Council in September 2014.

Regulators' expectations

"The length of the period should be determined, taking account of a number of factors, including, without limitation: the board's stewardship responsibilities; previous statements they have made, especially in raising capital; the nature of the business and its stage of development; and its investment and planning periods".

"We encourage companies to address both resilience and mitigations for identified risks to viability. While some companies in our sample linked mitigating actions to risks, none of the companies addressed both resilience and mitigation for these identified risks."

"Viability disclosures should present scenarios that are specific to the company. A scenario is not specific unless it is tailored to the company's circumstances and accompanied by an explanation of the potential impact on the business."

Thematic Review: Viability and Going Concern, FRC, September 2021

What to look out for when reporting

The FRC provided the following clarifications for each component of company's viability statement:

Assessment period	Risk discussed	Resilience to risks and mitigating actions	Assumptions and judgements
• the nature of the business and its stage of development • debt repayment profiles • planning and investment periods • strategy and business model • capital investment • consistent with other forward-looking elements of the financial statements	• linkage to scenarios • explanation why included or excluded from the analysis	• clear description of mitigating actions that could be taken should the risk crystalise • clear description of resilience to the identified risks	• include sufficient qualitative and quantitative analysis • scenarios that are tailored to the company's circumstances

Viability statement – examples

Victrex plc indicated which risks were considered as part of the viability statement in the risks section, and also which ones were used for sensitivity analysis.

Strategic report 2021 (pages 36-39, 41)

Detailed description of scenario modelled

The downside scenarios applied to the strategic plan are as follows:

Scenario modelled

1. General competitive pressure in the marketplace resulting in a decrease of Industrial and Medical revenue for both core and mega-programmes. Annual volume reduction between 10% and 25% in each year of the strategy.
2. A natural or other event impairing key manufacturing assets resulting in supply disruption for c2 years, with associated reputational damage. Annual volume reduction of 25% for two years followed by 10%.
3. Mega-programmes not achieving all milestones set or investment/adoption is delayed, for example by economic conditions, therefore delaying the time to meaningful revenue (>£1m).
4. Increase to direct cost base potentially arising from:
   a. additional regulatory compliance, environmental or otherwise;
   b. increase in duty and tariffs;
   c. product liability issues;
   d. increases in tax/levies on utility or waste usage to support net zero carbon; or
   e. increase in raw material and/or other input prices.

   Operating costs increased 10% over the base case in each year of the strategy.
5. A sudden period of economic contraction (in line with scenario 2 for going concern) caused by further waves of COVID-19 or other factors, resulting in a contraction in 2022 before returning to strategy growth rates thereafter. Annual volume reduction between 8% and 22% in each year of the strategy.
6. All of the above*, with an associated reduction in the overhead cost base and capital expenditure. Annual volume reduction between 20% and 40% in each year of the strategy (averaging 30% over the five years).

* Where two or more scenarios impact the same revenue stream in the same period, the lower outcome is t

Viability statement

1. Assessment of prospects

The Directors have assessed the Group's longer-term prospects, primarily with reference to the results of the Board-approved five-year strategic plan. This is driven by the Group's business model (detailed on pages 10 and 11) and strategy (detailed on pages 14 and 15), which are fundamental to understanding the future direction of the business, while factoring in the Group's principal risks (detailed on pages 35 to 38). The Directors continue to consider the ongoing challenges to the global economy and the uncertainty this creates, particularly in the early years of the strategic plan. The Directors have also considered the Group's ability to maintain a strong financial position throughout FY 2020 and FY 2021, including the level of available cash at 30 September 2021, and retains the strength to generate cash.

The strategic planning process is undertaken annually, and includes analyses of profit performance (including our core business and new product pipeline and 'mega-programmes'), cash flow, investment programmes (including manufacturing capacity increases and our acquisition pipeline) and returns to shareholders. Completion of the strategic plan is a Group-wide process engaging employees throughout the business, including all senior management in their respective areas. The strategy was reviewed and approved by the Board in March 2021 (covering the five years to September 2026). The strategy is built market by market, geography by geography recognising the differing dynamics in each market, including the impact of and speed of recovery from COVID-19 and the longer-term impact of achieving net zero carbon. The Company also operates a more short-term rolling 24-month forecast, predicated on the IBP process, which forms the basis for the FY 2022 budget and key operational decisions over this shorter timeframe. The first two years of the strategy align to the rolling forecast.

The Board considers five years to be an appropriate time horizon for our strategic plan, being the period over which the Group actively focuses on its development pipeline and resulting capital investment programme. As part of our longer-term considerations, to support capacity planning and assessment of projects which will take longer to reach meaningful revenue, the Group does prepare forecasts for a period of more than five years; however, a period greater than five years is considered too long for the strategic plan given the inherent uncertainties involved.

Explanation of assessment period

BUSINESS GROWTH 3

Primary link to strategy

Risk area and description

The growth of our existing business is driven by innovation in our core product range, the quality of our technical service offering and continuous improvement activity in our operations. A failure to maintain our investment in these areas could lead to competitive pressure, as well as the loss of business to competitors and/or competing materials.

Growth can be impacted by the performance (growth, stability or turbulence) in the end markets that we serve. Challenging market conditions could lead to a fall in customer demand.

Growth could also be impacted by the emergence of lower cost competition or lower cost alternatives to our high quality PEEK.

Mitigation

We address price pressure by being focused on cost efficiency and continuous improvement in our operations, by having an appropriate pricing policy and by offering a strong value proposition as a solutions company – unique chemistry, specification of products with end users, quality and technical service, the performance benefits of our products and the ability to develop new applications.

We keep abreast of technological changes to materials and potential challenges for PEEK and PAEK polymers by developing new grades with differing properties, as well as creating new markets for PEEK/PAEK polymers.

Although certain end markets remain unsettled as the world emerges from the COVID-19 pandemic, the accelerating sustainability agenda is creating even more opportunities for the adoption of PEEK. Our strategy and the mitigation measures noted above remain valid in these
In the longer term, principa
weak market conditions wi
penetration in less cyclical
our target end markets.

Change

Risk decreased on the potential impact from COVID-19 on end markets

Viability statement links

V Risk considered

V Risk focused on in sensitivity analysis

RECRUITMENT AND RETENTION OF THE RIGHT PEOPLE 4

Primary link to strategy

Risk area and description

Our success depends on recruiting and retaining the right people in all areas of our business. Victrex relies on the skills, knowledge and intellectual property ('IP'), experience and competence of our people in order to: comply with internal procedures and external regulations, drive business growth, deliver our strategy, operate our manufacturing assets safely and with a strong regard to the environment, and successfully execute our downstream strategy.

Mitigation

We have strategies in place to determine our future resourcing needs and attract and retain the best talent.

Our employees have clear objectives, aligned to our strategy, personal development plans and regular reviews to assess their performance and support their development.

We have succession plans in place for key roles and develop our future leaders so that we are able to promote internally as well as bringing in new talent from the outside.

Where necessary, we supplement the skills of our own employees with those of third parties in order to deliver our downstream strategy.

We operate equal opportunities and flexible working policies and aim to continually enhance the diversity of our workforce. We regard this as a commitment to make full use of the talents and resources of all our employees.

mployees return to our sites following
9, we are making full use of our
vorking policies to provide the best
environment for our existing
es and expand our reach when
g externally.

Change

No change

Viability statement links

V Risk considered

Principal risks are linked to viability statement and sensitivity analysis

Viability statement – examples

Dunelm Group PLC provided granular details on company-specific scenarios modelled, alongside quantification of assumptions in reverse stress testing.

Strategic report 2021 (page 90)

Reverse stress testing

To provide additional assurance around the Group's viability, two reverse stress tests have been modelled, expanding on the reverse stress testing initially carried out at the end of FY20. In both of these reverse stress tests we have assumed that variable costs would reduce as sales reduce, that we would be able to save £20m per annum of current fixed costs and that we would reduce the level of capital investment to £10m per annum and suspend the payment of dividends. In the first reverse stress test, we have modelled the sales decline required to breach either of the current covenants in the existing Revolving Credit Facility (RCF). A sales reduction of 30% from Q2 FY22 and a reduction of 36% in FY23 would be required for covenants to be breached by the end of FY23. In the second reverse stress test scenario, we have modelled the level of sales reduction required to breach the RCF limit of £165m. This would require a reduction in sales of 50% per annum from the 'central case' to effectively run out of funding by the end of FY23.

Modelling potential downside scenarios

In their consideration of going concern and the future viability of the Group, the Directors have reviewed future profit forecasts and cash projections, which are based on market data and reflect their experience over the last 18 months during the Covid-19 pandemic. Even in these uncertain times, the Group has grown sales and profit whilst navigating the various lockdown restrictions; the Directors have used their experience gained during this period to model two different downside scenarios.

The 'market downturn' scenario assumes a change in consumer spending away from homewares, as the hospitality and travel industries open up, with an additional five-week 'circuit break' lockdown in December 2021. The sales downside assumption is 2% lower growth in stores and 5% lower growth in online sales across all five years and the performance during the five-week lockdown period in December 2021 is based on the actual sales performance experienced in the various lockdowns over the past 18 months. However, we have assumed no upsurge in sales when the stores re-open due to pent-up demand. Throughout this scenario we have assumed no government support, no cost mitigation actions to be taken and the continuation of dividend payments in line with our current dividend policy. In this 'market downturn' scenario, the Group would not breach any of its financial covenants and would not require any additional sources of financing in any of the five years under review.

The 'three-month lockdown' scenario assumes a government enforced national lockdown over our peak trading period of December 2021 to February 2022, where the stores are closed, but similar to the lockdown in Q3 FY21, we are able to offer Click & Collect services. Similar to the 'market downturn' scenario, we have assumed no subsequent benefit from pent-up demand, no government support, no cost mitigation actions taken and the continuation of dividend payments in line with our current dividend policy. As with the 'market downturn' scenario, the Group would not breach any of its financial covenants and would not require any additional sources of financing in this 'three-month lockdown' scenario over any of the five years under review.

Viability statement – examples

Taylor Wimpey plc provided a clear justification of the period chosen for assessment, which is aligned with budgeting and forecasting cycles.

Governance report 2021 (pages 70-71)

Time period

The Directors have assessed the viability of the Group over a five-year period, taking account of the Group's current financial position, current market circumstances and the potential impact of the Principal and Emerging Risks facing the Group. The Directors have determined this as an appropriate period over which to assess the viability based on the following:

- It is aligned with the Group's bottom-up five-year budgeting and forecasting cycle; and
- Five years represents a reasonable estimate of the typical time between purchasing land, its progression through the planning cycle, building out the development and selling homes to customers from it.

Five years is also a reasonable period for consideration given the following broader external trends:

- The cyclical nature of the market in which the Group operates, which tends to follow the economic cycle;
- Consideration of the impact of Government policy, planning regulations and the mortgage market;
- Long term supply of land, which is supported by our strategic landbank; and
- Changes in technology and customer expectations.

In assessing the Group's prospects and long-term viability due consideration is given to:

- The Group's current performance, which includes the current year performance (pages 2 to 3) and the output from the annual business planning process and financing arrangements;
- The wider economic environment and mortgage market (further details of which are provided on pages 18 to 21), as well as changes to Government policies and regulations, including those influenced by sustainability, climate change and the environment, that could impact the Group's business model including the recent announcement on the Future Homes Standard (further details of which are provided on page 19) and Residential Property Developer Tax;
- Strategy and business model flexibility, including build quality, customer dynamics and approach to land investment. Further detail is provided on pages 22 to 27; and
- Principal Risks associated with the Group's strategy and business model including those which have the most impact on our ability to remain in operation and meet our liabilities as they fall due.

Assumptions are clearly described

We have applied the sensitivities encountered at those times, as well as the mitigations adopted, to our 2022 expectations in order to test the resilience of our business. As a result, we have stress tested our business against the following severe but plausible downside scenario which can be attributed back to the Group's Principal Risks that have been identified as having the most impact on the longer-term prospects and viability of the Group.

Volume (Principal Risk: A, B, C, F) a decline in total volumes of 20% from 2021, recovering by the end of the forecast period.

Price (Principal Risk: B) a reduction to current selling prices of 20%, recovering by the end of the forecast period.

Quantification of assumptions in sensitivity tests

Principal risks included in the viability assessment

Principal Risks

The Principal Risks, to which the Group are subject, have undergone a comprehensive review by the GMT and Board in the current year. Consideration is given to the risk likelihood based on the probability of occurrence and potential impact on our business, together with the effectiveness of mitigations. The full list of Principal Risks, including mitigations, can be found on pages 62 to 65 and are referenced 'A' to 'I'.

The Directors identified the Principal Risks that have the most impact on the longer-term prospects and viability of the Group, and as such these have been used in the modelling of a severe but plausible downside scenario, as:

- Government policies, regulations and planning (A);
- Mortgage availability and housing demand (B);
- Availability and costs of materials and subcontractors (C);
- Quality and reputation (F); and
- Cyber Security (I)

Explanation why some principal risks have been excluded

The impact from 'Natural resources and climate change' (H) is not deemed to be material within the five year forecast period, albeit known costs from regulation have been included in the modelling (e.g. updates to Parts L&F of the building regulations in England and Future Homes Standard).

Costs (Principal Risk: A, F, I) a one-off exceptional charge and cash cost of £150 million for an unanticipated event, change in Government regulations or financial penalty (e.g. from a Cyber Security breach).

Viability statement – examples

National Grid plc modelled a scenario for each principal risk and described the specific matters considered and overseen by the board.

Strategic report 2021 (pages 28-29)

Principal risk	Viability scenario	Matters considered and overseen by the Board
Catastrophic cyber security incident: catastrophic cyber security breach of business, operational technology and/or Communications, Navigation and Identification (CNI) systems/data.	**Scenario 1** – A terror-related cyber-attack. Included in the risk cluster testing of **Scenario 9.**	**The Board reviewed and discussed cyber security reports in:** • July 2020; and • December 2020. • Cyber security training was also delivered in June and December 2020.
Significant disruption of energy: failure to predict and respond to a significant disruption of energy that adversely affects our customers and/or the public.	**Scenario 2** – Significant supply disruption event occurring in US leading to loss of license. Included in the cluster testing of **Scenario 9**.	**Two Board Strategy sessions were held during the year covering:** • bi-annual overviews; • reviews of the gas business strategy; • external reviews of operational issues within the US Gas business; and • review of the sequence of events that resulted in the partial UK power outage on Friday 9 August 2019.

Operational impacts

Scenario 1 – A significant cyber-attack.

Scenario 2 – Significant supply disruption event occurring in the US leading to loss of licence.

Scenario 3 – A significant process safety gas pipeline failure in the US.

Scenario 4 – Significant physical damage due to climate change event, along with a failure to meet stakeholder expectations on our climate commitments.

Performance impacts

Scenario 5 – The breach of personal data information.

Scenario 6 – Poor outcome of future US rate case filings, and low performance under RIIO-2.

Scenario 7 – A breach of compliance rules for onshore competition in electricity transmission by NGET. NY legislation and political relationships leading to loss of NY licences.

Scenario 8 – Inability to recover US COVID-19 related bad debts through future regulatory agreements.

Scenario 9 – Anticipated value from our business acquisition and disposals is not fully realised.

Cluster impacts

Scenario 10 – A significant cyber-attack, resulting in a significant data breach and a catastrophic asset failure, causing a significant disruption of energy supply, leading to loss of operator licence for our NY Gas business.

1. Introduction
2. Code compliance
3. Purpose, Values and Culture
4. Stakeholder engagement
a. Shareholders
b. Workforce
c. Supplier focus
d. Community & Climate
e. Effectiveness of engagement
f. Outcomes of engagement
5. Diversity
6. Succession planning
7. Board evaluation
8. Audit Committee Report
9. Risks and internal controls
10. Remuneration
11. Viability statement
12. Resources and emerging practices

Resources and emerging practices to consider

Emerging practices to consider

In this section we cover some other disclosure hot topics that boards and audit committees should consider in light of the current environment.

The importance of **the audit committee** making their **self-assessment** with confidence is a key part of the audit committee's role to be able to scrutinise the quality of the financial statements on behalf of shareholders. The audit committee report could explain how this self-assessment has been undertaken and what actions arose as a result of it.

In light of the conflict between Russia and Ukraine, the audit committee should consider undertaking and reporting on **deep dives on key judgements and estimates** relying on forecasts, valuations during market disruption, financial instruments, and events after the balance sheet date.

Ongoing **Board education** is essential to enable the Board to function effectively and efficiently. Providing a clear summary of education activities undertaken can instil confidence in stakeholders that responsibilities are being taken seriously. The Deloitte Academy offers a series of briefings and bespoke training which boards can attend and reference in their disclosures.

In May 2022, the Government indicated that it would introduce a requirement for an **Audit & Assurance Policy** for all large public interest entities. The aim of this policy is to provide clarity on the nature and level of assurance obtained and to allow for engagement with key stakeholders (principally shareholders and employees) on decisions that are made in this regard. Although the timetable for introduction of such a requirement remains unclear, some companies have started to provide disclosure around assurance activities (see the following two pages).

The BEIS also confirmed that companies which are Public Interest Entities with 750 employees or more and an annual turnover of at least £750m will be required to provide a **Resilience Statement**. Following the consultation, the Government intends to replace the proposed five-year mandatory assessment period for the combined short- and medium-term sections of the Resilience Statement with an obligation on companies to choose and explain the length of the assessment period for the medium-term section. Please see an example of resilience statement reporting on page 130.

Assurance developments – examples

Spirax-Sarco Engineering plc described the steps taken to establish the company's Audit and Assurance Policy in response to the BEIS Proposals.

Strategic report 2021 (page 121-122)

Assurance

In fulfilling its responsibility for reviewing the effectiveness of the Group's control systems the Committee relies on a number of sources of assurance. These include external audit, internal audit and regular management updates, including those from the Business Finance Directors.

There are a range of other measures in place at local, Business and Group level that provide assurance that risks are being managed in line with the Group's appetite for risk. The key measures include: a strong corporate culture of doing the right thing, supported by a strong 'tone from the top'; the oversight of financial performance and operations by the Group Executive Committee and Business Executive teams; detailed control and governance processes and procedures and a dedicated Internal Audit function, which performs regular audits of all Group companies and manages an annual self-assessment process.

During 2021, the Group commenced an exercise to map our external disclosures alongside the current level of assurance obtained over each element. This will help us to consider if we wish to change the associated level of assurance in line with changes in market practice and increased regulatory requirements; for example, in relation to reporting around climate change and sustainability. This work will continue into 2022 and will form the foundations of an Audit and Assurance Policy as set out in the BEIS Proposals.

Network International Holdings Plc described an ongoing development of the company's integrated assurance approach.

Strategic report 2021 (page 125)

Assurance

We have continued to develop our overall assurance approach this year with a highly integrated plan agreed with the Risk & Technology Committee across Group Risk and GIA. This plan ensures strong coverage by both principal risks and operating geographies which, combined with assurance activities being performed by third-party providers, gives considerable assurance to the Committee.

Assurance developments – examples

3i Group plc disclosed their resilience statement covering three periods of assessment: short-, medium and long-term.

Strategic report 2021 (page 121-123)

Audit and Assurance policy

As an investment company, our business model is to allocate, invest and manage risk capital. We do this from a platform that has good and responsible values, a grounded team culture, a prudent financial approach and a wide international reach and diversity through our well-established office network. Our investment executives are able to use the power of broader portfolio experience and learnings to grow and improve each specific investment. This only works with rigorous processes, robust central control and an uncompromising attitude to the resilience of the investment portfolio, all of which is governed by the Investment Committee.

Through a comprehensive and consistent process, we apply a high degree of judgement in setting the investment valuations which underpin our periodic reported financial performance and are the most material area of judgement in the financial statements. The Valuations Committee sets policy and provides oversight of the integrity of this valuation process. On behalf of the Board, the Audit and Compliance Committee receives quarterly reports from the Chairman of the Valuations Committee and the External auditor, with a focus on key assumptions, valuation uncertainties and disclosure in the financial statements. As a FTSE100 company, transparency and integrity of our reporting of investment outcomes and valuations is fundamental.

Purpose and scope

This Audit and Assurance policy ("Policy") sets out how the Board ensures that our investment, valuation and reporting processes and controls (in the broadest sense) are adhered to, and that the employee culture is aligned with our strategic delivery, providing appropriate mitigation of the risk and judgement inherent in our business model. The Policy covers external and internal audit activities and other sources of assurance available to the Board.

The scope and nature of the Group's audit and assurance activities are influenced by the Group's legal, regulatory, governance and operating structures. As a listed company, the Group is subject to the Listing Rules of the UK Listing Authority and the provisions of the UK Corporate Governance Code. In headcount terms, 3i is a relatively small organisation with a non-hierarchical operating structure.

The Group provides investment management and other services for which regulatory authorisation is required. It does not, however, have permission to deal with retail clients. 3i is regulated in a number of jurisdictions; primarily in the UK by the Financial Conduct Authority. The contracts for 3i's investment services and its regulatory authorisations carry a wide range of obligations which are incorporated into the Group's systems and controls and apply to all staff. These requirements include the need to maintain minimum levels of regulated capital which are monitored by way of an Internal Capital Adequacy Assessment Process ("ICAAP"). With effect from 1 January 2022, the Group is subject to the FCA's MIFIDPRU sourcebook, the result of which is that the Group's ICAAP will be replaced by the internal capital and risk assessment of 3i Investments plc. The assessment involves the use of stress testing scenarios which also link into the Group's viability assessment work.

Development

This Policy is owned by the Board and developed based on a range of inputs including the views of Executive Committee and assurance providers, and benchmarking against emerging good practice. The Policy is reviewed at least annually and its operation overseen by the Audit and Compliance Committee.

Approach to fraud risk

The assessment of fraud risk forms part of the assurance planning presented to the Audit and Compliance Committee. Internal Audit, for example, undertakes a detailed fraud risk assessment and carries out a cyclical programme of anti-fraud assurance work, the results of which are reported to the Audit and Compliance Committee.

3i investment executives are required to report any significant fraud incidents occurring at the investment portfolio company level. This includes details of the root cause and remedial actions. This reporting enables both the Group Risk and Audit and Compliance Committees to assess any potential reputational risks to 3i and possible reporting or notification requirements.

Audit and assurance approach

The Group's audit and assurance approach is adapted to reflect changing circumstances. Specific examples during the year included:

- increased focus on new and emerging cyber security risks, and additional management updates and assurance work in relation to: (i) protective and detective cyber controls; (ii) results of penetration and other tests; and (iii) cyber and IT security staff training and awareness;
- a review, with input from Internal Audit, of lessons learned from the experience of the pandemic and consideration of a broader range of "severe but plausible" business disruption scenarios;
- additional processes put in place to assess the impact of increased market and geopolitical uncertainties, including sanctions, on investment portfolio company performance and valuations (and subject to additional assurance work where appropriate);
- greater focus on the review of sustainability reporting, covering reporting obligations, data capture, and related internal processes and controls; engaged EY's sustainability practice to advise on 3i's climate disclosures and related processes;
- ongoing assurance with respect to the oversight and performance of key service providers, including business continuity arrangements; and
- independent views sought from Group Compliance and Internal Audit on people related matters; for example, the transition to a hybrid working model, staff morale, conduct, culture and behaviours.

Resilience statement – examples

3i Group plc also disclosed their resilience statement covering three periods of assessment: short-, medium and long-term.

Strategic report 2021 (page 121-123)

Short-term resilience

In assessing our short-term resilience, we undertake regular portfolio monitoring, including six-monthly strategic portfolio company reviews and monthly trading updates for each portfolio company. These reviews highlight and appraise sources of risk at a portfolio company level and feed into the quarterly valuation process. Regular portfolio updates are provided to the Board and Audit and Compliance Committee.

We also carry out regular assessments of the Group's operational resilience, including key people risks, IT systems and security infrastructure, and critical third-party suppliers.

Active management of liquidity underpins our short-term resilience, which is supported by the ready availability of short-term funding and a conservative balance sheet policy that ensures a low level of structural gearing at the holding company level. This short-term resilience was demonstrated throughout the Covid-19 pandemic, with 3i continuing to invest in new acquisitions and buy-and-build opportunities.

The identification of material uncertainties, that could cast significant doubt over the ability of the Group to continue as a going concern, forms the basis of the Directors' Going concern statement below.

Going concern statement

Going concern is assessed for a period of at least 12 months from the date that the Annual report and accounts is approved. The Directors are required to evaluate that the Group has adequate resources to continue in operational existence for at least the next 12 months. The Directors have made an assessment of going concern, taking into account both the Group's current performance and outlook using the information available up to the date of issue of these financial statements.

Resilience statement

Our resilience is dependent on the success of our investment strategy, careful management of our balance sheet and costs, and the ability to attract and retain a capable and diverse team. This is underpinned by a strong institutional culture and values, robust corporate governance, and effective risk and operational management.

Medium-term resilience

The assessment of medium-term resilience, which includes the modelling of stress tests and reverse stress tests, considers the viability and performance of the Group in the event of specific stressed scenarios which are assumed to occur over a five-year horizon in line with the Group's strategic planning process.

The stress testing focuses upon the principal risks, but also considers those new and emerging risks which are considered to be of sufficient importance to require active monitoring by the Group Risk Committee ("GRC"); these include, for example, concentration risk in the portfolio, and the impact of climate change. The medium-term resilience of the Group is examined through analysing the impact of these scenarios on key metrics such as net asset value and liquidity.

In each stress test scenario, the Group remains viable. The medium-term resilience of 3i is further supported by the availability of controllable management actions that can mitigate the impact of certain stress events. These actions include, for example, the flexing of investment and dividend levels for liquidity purposes.

Viability statement

The stress testing as detailed above forms the basis of the Viability statement. 3i conducts its strategic planning over a five-year period; the Viability statement is based on the first three years, which reflects the nature of the Group's business and its risk appetite to invest in Private Equity and Infrastructure investments for a period of four to five years and, therefore, provides more certainty over the forecasting assumptions used. The Directors assess 3i's viability and medium-term resilience over a three-year period from the date that the Annual report and accounts is approved. 3i's strategic plan and associated principal risks, as set out on pages 67 to 71, are the foundation of the Directors' assessment.

The assessment is overseen by the Group Finance Director and is subject to challenge by the GRC, review by the Audit and Compliance Committee and approval by the Board.

The success of our investment strategy, in particular, requires a long-term, responsible and risk-based approach to building a resilient portfolio with strong growth potential, and maintaining and developing the expertise, relationships and institutional culture to support this. This foundation supports 3i's ability to generate attractive returns through sustainable growth.

Our resilience assessment draws upon a number of interdependent components, illustrated below. Further information can be found in the sections on the Group's business strategy (pages 12-17) and Approach to risk management and Sustainability (pages 50-74).

The Group's strategic plan projects the performance, net asset value and liquidity of 3i over a five-year period and is presented at the Directors' annual strategy meeting in December and updated throughout the year as appropriate. At the strategy meeting, the Directors consider the strategy and opportunities for, and threats to, each business line and the Group as a whole. The outcome of those discussions is included in the next iteration of the strategic plan which is then used to support the assessment of viability and medium-term resilience. The current iteration of the strategic plan reflects the effect of the Covid-19 pandemic and other recent economic developments.

Long-term resilience

The long-term resilience of our business is underpinned by our capabilities as a leading investor in the Private Equity and Infrastructure sectors and our effective risk management of the core elements of our business model (pages 12 to 13). This includes our long-term responsible approach to investment, conservative balance sheet strategy and an effective team built on a consistent set of shared values.

Fundamental to our long-term resilience is our investment strategy. We invest capital in businesses to deliver capital returns and portfolio and fund management cash income to cover our costs, and increase returns to our investors. Our long-term investment horizon is possible because we have a permanent capital base and are not driven by fundraising cycles. We adopt a thematic approach to origination and portfolio construction which in turn supports long-term sustainable growth in the portfolio.

Crucially, this investment approach can be adapted in response to new and emerging risks and challenges including climate change, societal and demographic trends and technological changes. It also informs decision taking on portfolio realisations enabling the composition of the investment portfolio to evolve over time.

The analysis and management of our principal risks is focused on the short to medium term, and used as a basis to develop a range of stress test scenarios. Although these are modelled over a five-year horizon, the resilience shown by the Group, and its ability to recover from these stressed situations, supports the assessment of our resilience over a longer term. The availability and effectiveness of management actions employed in the stress testing demonstrates the flexibility with which we can respond to new and emerging risks.

Further resources

This section pulls together a selection of resources we have referred to throughout this deck. We provide a brief introduction to each of them and a source link so they can be easily accessible.

Review of Corporate Governance Reporting

FRC, November 2021

The FRC has published its 'Review of Corporate Governance Reporting' which is based on a review of a sample of 100 companies drawn from the whole premium listed market. The comprehensive report presents the findings from the review and sets out the FRC's expectations for the future application of the Code and reporting. The issue of this report is a positive example of the FRC's positioning as an improvement regulator as it transitions to ARGA. Link

FRC, November 2020

Thematic Review: Viability and Going Concern

FRC, September 2021

Building on these reports from the Lab, the FRC published its thematic review of companies' viability and going concern disclosures which found several areas where viability and going concern reporting could be improved. The review examines a selection of annual reports and accounts, identifies areas where viability and going concern disclosures could be improved and provides examples of better disclosures in the hope that companies will provide much more informative disclosure than is currently the case. Link

Thematic Review: Alternative Performance Measures (APMs)

FRC, October 2021

In October, the FRC published the results of its thematic review into the use of Alternative Performance Measures (APMs) by UK-listed companies. The review is based on 20 companies from different sectors and identifies areas of good practice, opportunities for improvement and areas to be avoided. Link

The Deloitte Centre for Corporate Governance

If you would like to contact us please email corporategovernance@deloitte.co.uk or use the details provided below:

Tracy Gordon
Tel: +44 (0) 20 7007 3812
Mob: +44 (0) 7930 364431
Email: trgordon@deloitte.co.uk

Corinne Sheriff
Tel: +44 (0) 20 7007 8368
Mob: +44 (0) 7824 609772
Email: csheriff@deloitte.co.uk

William Touche
Tel: +44 (0) 20 7007 3352
Mob: +44 (0) 7711 691591
Email: wtouche@deloitte.co.uk

Designed and produced by CoRe Creative Services RITM0950301