SUMMARY
A brief summary of key insights, trends and best practice on how companies are communicating through their Annual Reports
The number of companies that have a corporate purpose is growing. Companies are increasingly becoming better at using the reporting requirements of the EU Non-Financial Reporting Directive for the first time and both the draft Guidance on the Strategic Report and the draft Corporate Governance Code have been published, fuelling further debate. Finally the draft Companies (Miscellaneous Reporting) Regulations 2018, which set out new reporting requirements in relation to Section 172 of the Companies Act, reinforce the focus on directors’ fiduciary duties, and were published in June.

Many of the new topics that these initiatives are trying to tackle – such as aligning purpose, values, behaviours and strategy – will be central for enhancing public trust in business.

CORPORATE TRUST

Corporate failings in governance, reporting and audit have caused corporate trust to drop to an all-time low, and low corporate trust is bad for business. It means investors are less likely to invest in a company, customers are increasingly less likely to buy its products and banks will be hesitant to provide financing. It is also far more difficult to operate successfully within local communities.

Trust is the responsibility of the board as the guardian of the organisation’s reputation. Consequently, the board needs to see trust in a wider perspective and consider the role of the organisation within its societal context. It needs to understand, prioritise, and balance the needs of a company’s key stakeholders in a way that builds trust, fulfilling its responsibilities to promote the success of the company in the long-term.

A CHANGING LANDSCAPE

Companies are navigating a vastly different operating landscape compared to 20 years ago. The power and speed of communications, social media, automation, and artificial intelligence put corporate trust and reputation under more scrutiny than ever before and make it difficult for companies to control the message in an increasingly transparent environment.

Stakeholders and society at large are increasingly expecting more of companies. They believe companies need to be part of the solution rather than the problem, and it is becoming increasingly clear that it is crucial for corporations to have a societal purpose in order to build trust with important stakeholders.

This is further supported by the growing recognition that good business behaviour supports strong financial performance.

Value is being increasingly driven by intangible factors that don’t show up in the financial statements, such as brand, customer experience, patents and R&D. This puts pressure on companies to find better ways of communicating their full range of value drivers as well as the issues impacting these drivers in order to gain the trust of investors and other stakeholders.

Finally, trust provides resilience. A company that is trusted usually fares better in a crisis and is more likely to emerge with an enhanced reputation if managed effectively.

Ultimately, trust is the responsibility of the board as the guardian of the organisation’s reputation. Consequently, the board needs to see trust in a wider perspective and consider the role of the organisation within its societal context. It needs to understand, prioritise, and balance the needs of a company’s key stakeholders in a way that builds trust, fulfilling its responsibilities to promote the success of the company in the long-term.

LESS PERFECTION, MORE AUTHENTICITY

Trustful and authentic communication plays an integral part in combating low corporate trust. A report needs to adhere to the fair, balanced, and understandable principle and it needs to communicate accountability. However this does not necessarily generate trust on its own.

Equally, combating low corporate trust is not simply a matter of transparency and communication. Companies need to communicate an authentic and company-centric corporate narrative and must be wary of simply regurgitating popular ‘buzz-words’ that hold little meaning to the individual company, and only generate more cynicism with stakeholders.

New corporate reporting requirements are introducing concepts that will prove very powerful in generating corporate trust if companies truly embrace the spirit of them. However, they may equally serve as no more than a smoke screen for those who do not apply them earnestly. Being able to evidence which of the two categories your company fits into will be vital, and authenticity will be absolutely key to doing so.

Every company can produce a best practice Annual Report, even an award winning one if they want – but most do not tell an authentic story that truly communicates their uniqueness, warts and all, in a way that builds trust with investors and other stakeholders. We need less perfection and more authenticity – the imperfections make a corporate narrative honest, relatable, and through that, believable.

TRUST AND AUTHENTICITY

Our research this year shows numerous improvements across the board and dramatic improvements around topics that are driven by new or upcoming regulatory changes. Highlights include:

— The number of companies that have a corporate purpose continues to increase, yet most do not go so far as to explain how their purpose is aligned with their values, culture and strategy – which is one of the key points of the proposed Corporate Governance Code update

— Reporting on culture, which saw a peak in 2018 but slowed slightly last year, has continued to plateau in certain areas while gaining speed in new areas of strategic importance. An example is companies that discuss their links between strategy and culture

— Stakeholder engagement and the manner in which this process informs strategy and decision-making is an area that has developed somewhat, while reporting has moved up several gears in terms of companies identifying their key stakeholder groups and their expectations

— Reporting on diversity has increased as a consequence of new reporting requirements, but companies continue to have stronger reporting on board diversity than on employee diversity and discussions on diversity rarely become very strategic

— The number of companies who explain the value they create for stakeholders beyond shareholder returns continues to increase, with more companies explaining the risks to their business model

— Companies are increasingly becoming better at using the market review to present future trends and impacts. They are now more likely to discuss how they are investing in the future, but are less overt about how these investments will support long-term value creation

This year’s report has four sections. The front section looks at recent external initiatives from regulators, standard setters and others that shape the corporate reporting landscape. The middle section sets out our six principles of trust: Purpose, Culture, Stakeholders, Diversity, Wider value creation and Long-term thinking. These principles contribute to developing corporate trust and are rooted in long-term thinking, planning and preparedness. These provide a framework for discussions on reporting trends by each of the themes. The back section looks at the typical ‘building blocks’ or fundamental elements that should be communicated in an Annual Report. Lastly, at the very end of the report, we note the biggest changes year-on-year.

We hope that this report will be a useful contribution to improving the reporting debate.
Impacts on corporate reporting

Corporate reporting is impacted by regulation and official guidance, and also by a host of other initiatives and developments as well as wider societal discussions on the purpose of corporations. Many of these initiatives aim to make companies more accountable, responsible, future-proofed and ultimately more trustworthy.

**Stakeholders**
- The Investment Association
- Long Term Reporting Guidance
- Task Force on Climate-Related Financial Disclosures
- Embankment Project for Inclusive Capitalism
- Social and Human Capital Coalition
- Natural Capital Coalition
- UN Sustainable Development Goals
- Focus on Capital on the Long Term

*This list is not exhaustive.*
Beginning with the introduction of the strategic report in 2013 and continuing with the 2014 Corporate Governance Code and the Non-Financial Reporting Directive, companies have already had to evolve their reporting significantly since the days of the Business Review. We now see further changes that will impact companies going forward.

**WHAT’S HAPPENED ALREADY?**

- **Non-Financial Reporting Directive**
- **Companies (Miscellaneous Reporting) Regulations 2018**
- **Updated UK Corporate Governance Code**
- **Updated Guidance on the Strategic Report**

**WHAT HAS BEEN THE IMPACT?**

- 59% refer to an environmental policy
- 58% discuss due diligence processes
- 92% of companies discuss due diligence processes
- 13% make explicit reference to section 172
- 61% clearly identify their key stakeholders (outside the scope of the business model)
- 14% provide examples of how the board considered stakeholders in decision-making during the year
- 16% discuss how the board reviews opportunities
- 7% provide clear explanation of how diversity supports strategy
- 56% discuss the company’s key resources and relationships in the business model

**WHAT’S IN THE PIPELINE?**

- **New Reporting Requirements**
  - Inclusion of a clear and separate section 172 statement within the strategic report which must also be published online
  - Inclusion of a discussion of engagement with employees and other stakeholders in the directors’ report
  - The introduction of a CEO pay ratio disclosure requirement as well as other remuneration disclosure requirements including discussion of the impact of share price movements on remuneration outcomes

**NEW REPORTING REQUIREMENTS**

Beginning with the parliamentary select committee inquiries into the corporate scandals at BHS and Sports Direct in 2016, the corporate governance reform debate has gathered momentum over the past two years. With the publication of the Companies (Miscellaneous Reporting) Regulations 2018 in June, we now have a full package of draft reforms. This legislation will introduce the following requirements when it is implemented for financial years beginning on or after 1 January 2019:

- Inclusion of a clear and separate section 172 statement within the strategic report which must also be published online
- Inclusion of a discussion of engagement with employees and other stakeholders in the directors’ report
- The introduction of a CEO pay ratio disclosure requirement as well as other remuneration disclosure requirements including discussion of the impact of share price movements on remuneration outcomes

The draft update to the UK Corporate Governance Code published in November 2017 introduces a new focus on stakeholders and societal contribution and also includes a new focus on linking the governance statement and strategic report. The updated Code also introduces new reporting requirements such as the requirement to explain how diversity supports strategy and how the board assesses opportunities as well as risks. The changes to the Code will also apply for financial years beginning on or after 1 January 2019. Finally, the draft update to the Guidance on the Strategic Report will further promote discussion of a range of topics including stakeholder engagement, purpose, culture, values and resource allocation.

**SUMMARY OF FTSE 100 CORPORATE REPORTING TRENDS © BLACK SUN PLC 2018**

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Percentage</th>
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<tbody>
<tr>
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<td>Provide clear explanation of how diversity</td>
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<td></td>
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<tr>
<td>Discuss the company’s key resources and</td>
<td>56%</td>
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<td>relationships in the business model</td>
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The six principles of trust

<table>
<thead>
<tr>
<th>Principle</th>
<th>Description</th>
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<tbody>
<tr>
<td>Purpose</td>
<td>A company that communicates how it is &quot;part of the solution rather than the problem&quot; is a more trusted company.</td>
</tr>
<tr>
<td>Culture</td>
<td>A company with a healthy corporate culture is seen as a safer and more attractive company to invest in, partner with and work for.</td>
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<tr>
<td>Stakeholders</td>
<td>Social licence to operate by securing the trust of key stakeholders is essential for long-term success.</td>
</tr>
<tr>
<td>Diversity</td>
<td>A diverse board and workforce that represents a wide range of stakeholder views will make a company more informed and ultimately more trusted.</td>
</tr>
<tr>
<td>Wider value creation</td>
<td>Communicating the full range of value created and the actions taken to manage, sustain and develop these sources of value will make a company appear better prepared for the future.</td>
</tr>
<tr>
<td>Long-term thinking</td>
<td>Demonstrating long-term thinking and preparedness is the glue that holds the narrative together and makes it believable.</td>
</tr>
</tbody>
</table>

*Numbers indicate the percentage increase from the previous year.*

66% set out their corporate purpose, up from 60% last year
26% provide a link between purpose and strategy, up from 13% last year
57% provide information around how values are being embedded, up from 53% last year
26% discuss culture or values in relation to value creation, up from 13% last year
52% outline expectations for some of their key stakeholders, up from 7% last year
47% of chief executives or chairmen discuss stakeholders in their leadership statement in the strategic report, up from 32% last year
69% discuss gender pay gap, up from 23% last year
25% discuss the percentage of women they are aiming to employ in the company at a whole, up from 16% last year
66% of business models take a wider value creation approach, up from 63% last year
86% provide some level of link between risk and strategy, up from 83% last year
90% discuss how the company is investing in the future, up from 82% last year
5% discuss additional skills needed at board level, up from 3% last year
Each Annual Report consists of a number of typical content elements which together make up the value creation story. The six principles of trust should be embedded throughout these sections. The following sets out the key trends, developments and best practice for each element.

**Building Blocks**

### Strategy
- **WHAT IS IT?** Explanation of how the company’s principal risks are managed and how the board considers the long-term prospects and viability of the business.
- **WHY IS IT IMPORTANT?** Excludes the need for the board to have the processes in place to understand and manage their key risks in order to protect value in an increasingly uncertain world.

### Performance
- **WHAT IS IT?** Explanation of how the company’s long-term objectives for enhancing value creation with explanation of the company’s progress against these objectives.
- **WHY IS IT IMPORTANT?** It does and why it is important to stakeholders.

### Risk
- **WHAT IS IT?** Explanation of how the financial and non-financial key performance indicators used by management to measure performance and make internal decisions.
- **WHY IS IT IMPORTANT?** Excludes the need for the business model and strategy to be aligned.

### Governance
- **WHAT IS IT?** Explanation of how the system of internal processes, controls and management by which the company is directed and controlled.
- **WHY IS IT IMPORTANT?** Stakeholders look for companies to clearly articulate that their remuneration practices are appropriate and incentivise positive behaviours in pursuit of value creation.

### Remuneration
- **WHAT IS IT?** Explanation of how the remuneration structure promotes strategic delivery and long-term value creation.
- **WHY IS IT IMPORTANT?** Stakeholders look for companies to clearly articulate that their remuneration practices are appropriate and incentivise positive behaviours in pursuit of value creation.

### Market
- **WHAT IS IT?** Explanation of how the company’s main trends and factors likely to affect the future development, performance and position of the company’s business.
- **WHY IS IT IMPORTANT?** The market review is the most fundamental explanation of what the company does and how it creates value, contextualising the information that follows in the report.

### Business model
- **WHAT IS IT?** A clear and concise explanation of the company’s business, with particular focus on key differentiators and value creation.
- **WHY IS IT IMPORTANT?** The business model is the most fundamental explanation of what the company does and how it creates value, contextualising the information that follows in the report.

### Leadership statements
- **WHAT IS IT?** A clear and concise explanation of the company’s business, with particular focus on key differentiators and value creation.
- **WHY IS IT IMPORTANT?** The leadership statements provide an opportunity for the chief executive and chairman to take ownership of key issues and promote authenticity and trust by addressing them in an open and balanced way.

### Setting the scene
- **WHAT IS IT?** An executive overview in the opening pages of the report explaining who the company is, what it does, and why it exists, with clear articulation of its purpose, values and investment case.
- **WHY IS IT IMPORTANT?** The opening pages of the report offer prime real estate for providing crucial context for the rest of the report.

### PROGRESSION ON LAST YEAR
- **OVERALL** The contextual information in the opening pages of their report has improved over the last few years.
- **MARKET** The market review is the most fundamental explanation of what the company does and how it creates value, contextualising the information that follows in the report.
- **BUSINESS MODEL** The business model is the most fundamental explanation of what the company does and how it creates value, contextualising the information that follows in the report.
- **LEADERSHIP STATEMENTS** The leadership statements provide an opportunity for the chief executive and chairman to take ownership of key issues and promote authenticity and trust by addressing them in an open and balanced way.
- **SETTING THE SCENE** An executive overview in the opening pages of the report explaining who the company is, what it does, and why it exists, with clear articulation of its purpose, values and investment case.
## Stakeholder expectations
There has been a big increase in the number of companies referring to the expectations of some stakeholder groups with reference to customer expectations especially common.

| 52% outline stakeholder expectations for some of their key stakeholders, up from 7% last year |

## Diversity policy
Driven by the implementation of the Non-Financial Reporting Directive, more companies are referring to their diversity policy for the board and senior management.

| +45 companies |

## Stakeholder identification
More companies are clearly and explicitly outlining their stakeholder groups.

| +42 companies |

## Stakeholder engagement
More companies than ever are providing a meaningful discussion of how they engage with stakeholders.

| +39 companies |

## Policies for non-financial issues
With the introduction of the Non-Financial Reporting Directive, more companies are referring to their policies in relation to non-financial issues.

| +29 companies |

## Anti-bribery and corruption
Driven by its inclusion as a key matter in the Non-Financial Reporting Directive, there has been a clear increase in companies providing a meaningful discussion of anti-bribery and corruption.

| +28 companies |

## Business model and risk
More companies than ever are providing at least a brief discussion of the relationship between the business model and risk management.

| +25 companies |

## Strategy and risk
There has been a clear increase in the number of companies outlining the link between strategy and risk.

| +22 companies |
Delivering inspiring communications that engage and connect with stakeholders
For over 25 years Black Sun has been helping clients deliver their corporate story, building trusted relationships with their stakeholders.

The world is moving faster, and there have never been greater expectations on business. We see corporate reporting as an opportunity for more effective stakeholder communications.

Insight forms the foundation for our work and by understanding trends and regulatory developments we advise on how they impact reporting, moving clients towards best practice and authentic reporting. By also understanding our clients’ business, we help them to better communicate with their stakeholders, presenting their long-term value creation story.

We know that audience requirements are constantly changing, and through developing inspiring content using creative communications we help bring a company’s story to life throughout not just the report, but all relevant channels: corporate website, social media, film and animation.

By pushing ourselves to understand the world around us, we provide practical but powerful communications solutions.

Our reporting solutions
— Strategic communications frameworks
— Reporting roadmaps
— Content opportunities and assessments
— Benchmarking and gap analysis against reporting frameworks
— Best practice advice and guidance
— Bespoke training, workshops and seminars

Our clients
We are privileged to work with a number of large international organisations in the pursuit of best practice communications.

Last year we had many clients recognised across multiple major awards such as CorpComms, Corporate and Financial, Digital Impact, Finance for the Future, IR Society, ICSA Transparency in Governance and PwC Building Public Trust.

A selection of those clients include: The Adecco Group, Burberry Group, Coca Cola HBC, DS Smith, Inchcape, Indivior, Go-Ahead Group, G4S, Olam International Limited and Taylor Wimpey.

For further enquiries please contact Anne Kirkeby, our Lead Corporate Reporting Consultant
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This research is part of Black Sun’s Horizon Series which annually identifies best practice and emerging trends in corporate communications, across key channels and geographies. What began as a survey of corporate reporting trends of the FTSE 100 in 2005 has grown into a truly holistic measurement of companies’ communication across their key ‘storytelling’ channels - print reporting, digital and social media, giving the complete picture for communication professionals.

We are committed to ensuring that insights, research and thought leadership are an integral part of our approach. This informs our development of authentic communications solutions which connect the right message, with the right audience, at the right time, on the right channel.

Whether it is helping to communicate with investors, capture the spirit of legislation and regulation in your Annual Report, creating a corporate website, reaching and inspiring people through social media, attracting and building talent, or engaging wider stakeholders on sustainability.

By pushing ourselves every day to understand the world around us, we provide practical but powerful communications solutions.