



Financial Reporting Council

Annual Review of Corporate Governance Reporting

November 2025

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Executive summary

The UK Corporate Governance Code is part of a wider framework designed to promote the good governance of UK-listed companies. Good governance and transparency are important to companies and investors, as they enable companies to attract capital and pursue business opportunities. They also help investors to make informed decisions that support the long-term sustainable growth of the UK economy.

The high-level principles of the Code offer companies the flexibility to design their corporate governance in a way that suits their individual circumstances, with specific provisions suggesting a good practice approach. Companies that depart from this can explain why their approach to governance is right for them. This transparency assures investors of good governance and supports companies in meeting their obligations against the Listing Rules.

There have been many positive developments over the past five years, including increasingly clear and transparent reporting in areas such as company purpose, culture and values, shareholder and stakeholder engagement, and diversity and inclusion. Companies are moving towards more outcomes-based reporting, focusing less on the inclusion of lengthy policies and more on describing the actions taken during a given year, and the impact those actions have had. This approach delivers more concise and engaging annual reports, although there is still room for improvement and the 2024 Code emphasises this.

There needs to be greater focus on ensuring annual reports are as concise as possible. This year, we have looked at the length of the stakeholder engagement sections of annual reports in particular and have identified opportunities to reduce reporting. Companies are encouraged to assess the volume and relevance of their disclosures in this and other areas, streamlining the content to the most material strategic and governance

considerations. In many instances, we found boilerplate language, repetitive content and generic statements that added little value.

Areas to consider in this context are:

- Focusing on board actions and outcomes: For meaningful governance reporting, annual reports should focus on board actions, cutting down reporting on matters without involvement from the board.
- Avoiding narrative without purpose: Before including any content, consider whether the information is necessary and whether any group of readers would find it useful. If the answer is unclear, it may be worth removing or refining the content.
- Eliminating boilerplate language: Avoid generic statements that offer little or no insight, such as: “People are central to our success.” While well-intentioned, these phrases are often repeated across companies and do not reflect tangible actions or outcomes.
- Avoiding duplication: Disclosures in some areas, for example, stakeholder engagement or risk management, are frequently dispersed across multiple sections of the annual report, resulting in duplication and fragmented narratives. Consolidating related content or using appropriate cross-referencing can significantly enhance coherence and improve readability.
- Minimising regulatory repetition: Some reports reiterate language from the UK Corporate Governance Code or other regulation or guidance without offering context or practical insight. Rather than verbatim repetition, companies should focus on demonstrating how the principles are applied in practice.

Another area of focus in our review has been the extent to which companies are preparing for the implementation of the new Provision 29 on risk management and internal control, which comes into force for financial years starting on or after 1 January 2026. Within our sample, more than half of companies mentioned the new provision, with many providing further information on how they are preparing. Examples of good reporting in this area are included in this review.

Finally, in our third year of reviewing cyber and IT reporting, we found that 66% of companies highlighted board-level oversight of cyber risks, an encouraging sign amid increasingly sophisticated threats from cybercriminals and state actors. And 85% of companies included cybersecurity as a principal risk and a further 12% outlined it within their operational principal risks.

We hope this review will help companies strengthen and streamline their reporting in the areas covered by the Code. To support this, over the summer, the Financial Reporting Council (FRC) released a series of podcasts covering topics ranging from cybersecurity to remuneration, which we encourage companies to review.

Introduction

This annual review of corporate governance reporting is the latest in a series that outlines 2018 Code reporting trends and good practice. The 2024 Code became effective on 1 January 2025, and from next year onwards, we will review annual reports against the updated Code, except for Provision 29, which takes effect one year later.

This review has been produced following detailed analysis of the annual reports of a sample of 100 randomly selected companies that follow the Code. This sample includes a mixture of FTSE 100, FTSE 250 and Small Caps, to ensure all Code companies are included periodically.

A key purpose of the review is to identify trends in reporting and to provide commentary on those areas where reporting is of high quality, as well as identifying opportunities for strengthening or streamlining annual reports. The Code does not take a 'one size fits all' approach and what constitutes good reporting for one company may not work for another. We encourage companies to reflect on this and produce annual reports that are concise and suit their own specific circumstances. Where we have included examples of good reporting in relation to specific areas of the Code, it does not mean the FRC endorses these annual reports, as other aspects of reporting may require improvement.

We expect to see the first annual reports produced under the new 2024 Code in 2026. Reporting on the new Provision 29, the implementation of which was delayed by one year, will commence from 2027 onwards, although this year we were encouraged to see good reporting on preparations for following this provision, which relates to risk management and internal control.

Use of explanations and flexibility of the Code

Overview

In our 2023 and 2024 reviews of corporate governance reporting, we emphasised the importance of applying the high-level principles set out in the Code, alongside providing clear and meaningful explanations of how they have been implemented. The principles form the foundation of the Code. These are subject to an ‘apply and explain’ approach by the Listing Rules, which requires companies to interpret and apply them flexibly in a way that reflects their individual circumstances and governance structures.

This year’s analysis continues to show a broadly consistent approach to reporting compared to last year, with many companies offering high-level commentary under the relevant sections of the Code, often supported by signposts to other parts of the annual report where further detail is provided. This method can be an effective way to communicate governance practices without adding unnecessary length to disclosures.

We welcome departures from provisions of the Code where companies provide clear, meaningful and context-specific explanations for their approach. This flexibility is a core strength of the Code, enabling companies to tailor their governance arrangements to suit their individual circumstances, while maintaining transparency through thoughtful disclosure. This helps to deliver meaningful engagement with investors and gives companies the freedom to use and explain the business model that best suits their needs.

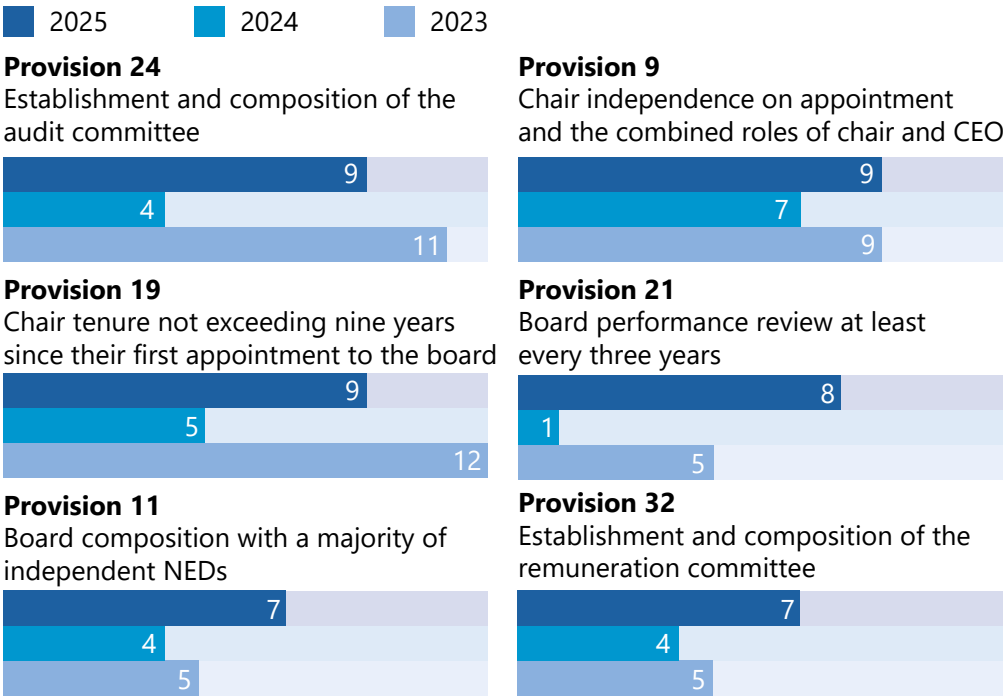
We continue to highlight the value of including a dedicated statement that confirms whether all principles of the Code have been applied and the extent that individual provisions have been followed. This

approach not only enhances users’ understanding of how companies interpret and implement the Code, but also aids concise reporting, contributing to greater transparency and insight, which supports informed stakeholder engagement.

Total number of companies disclosing a departure from at least one Code provision

Annual review	2022	2023	2024	2025
Number of companies	73	63	28	25

Provisions with the highest number of departures



Disclosures where companies elect to explain rather than comply with specific provisions continue to reflect the pattern identified in our previous review, with a smaller number of companies reporting departures from the Code. Provision 38, which relates to the alignment of executive pension contributions with those of the wider workforce, has historically attracted high levels of companies choosing to explain. This year, only three companies included an explanation.

By contrast, Provision 24 concerning the composition of the audit committee, saw a notable increase in the use of explanations, with nine companies reporting departures. The majority of these instances were temporary in nature, often due to board changes and companies using the flexibility of the Code to find transitional solutions.

Provision 21, which recommends that boards undertake an externally facilitated performance review at least every three years, saw a modest rise in companies choosing to explain their approach. Eight companies reported using alternative methods. While some offered thoughtful and transparent explanations, a minority provided minimal detail. It would be useful if companies stated whether an external review would be undertaken in the following year.

Paraphrased example:

An internal review was carried out using a questionnaire designed to ensure anonymity. This approach was considered sufficient to promote honest and transparent feedback.

While this explanation offers some insight into the method used, stronger disclosures would typically include:

- The date of the last externally facilitated review.

- A clear rationale for not undertaking an external review during the current financial year.
- A description of the alternative approach adopted.
- An indication of whether an external review is planned in future.
- Some indication of the findings of the internal review.

A more robust example might read:

The Board evaluation was due to be externally facilitated in 2021, but with the extensive number of Board changes over the past three years, each year it has been discussed by the Nomination Committee and determined that an external evaluation would be of limited benefit given the circumstances at the time of evaluation. A rigorous internal evaluation was carried out for 2022, 2023 and 2024 with the assistance of a third-party survey, which provided a platform for more meaningful analysis of results. Further details can be found on...During 2025, the Board will take a decision, upon the recommendation of the Nomination Committee, as to the best method of Board evaluation for 2025, taking all relevant factors at the time into account.

Provision 19 (chair tenure) saw a slight increase in companies choosing to explain departures, compared to previous years. Many organisations cited the need to retain their chair for a longer period to ensure business continuity, benefit from their valuable experience and industry knowledge, or to facilitate an effective handover to a chair designate. These decisions were often accompanied by explanations that also addressed Provision 9 (chair independence), with companies outlining the governance safeguards in place to mitigate any concerns and justify their approach.

Explanations

The Code welcomes divergence from individual provisions where this better reflects a company's specific circumstances and governance needs. In such cases, it is important that companies provide clear and specific explanations that set out the rationale for the departure and describe the alternative governance arrangements in place. We continue to observe and welcome a varied range of approaches from companies around how they present their explanations. While some disclosures remain relatively narrow in scope and lack clarity, others reflect high levels of transparency.

One company, which declared a departure with Provisions 9 and 19 of the Code, delivered a comprehensive and well-reasoned explanation for its decision to retain an executive chair. The statement outlined several factors underpinning this approach, including the chair's unique experience and strategic value to the business, as well as the specific governance arrangements implemented to mitigate potential risks associated with a dual role. These included oversight mechanisms, clearly defined responsibilities and checks and balances designed to preserve board independence and effectiveness.

Transparent disclosures not only demonstrate a company's commitment to the spirit of the Code but also provide stakeholders with a clear understanding of the organisation's approach to governance and the safeguards in place. We encourage other companies to adopt similarly thoughtful approaches when explaining departures, especially where the reasoning shows a deliberate and principled commitment to maintaining a high standard of governance.

Key message



Explanations better inform and support stakeholder understanding. Companies may wish to reflect on the inclusion of some of the following points within an explanation:

- Whether the chosen approach is clearly articulated and appropriately justified.
- The duration and nature of the departure (e.g. temporary versus long-term).
- How the explanation demonstrates continued alignment with the principles of the Code.
- The clarity and usefulness of the explanation for stakeholders.

Where companies feel strongly that their approach remains consistent with the spirit of the Code, they should not hesitate to articulate this clearly. Providing a thoughtful and well-structured explanation reinforces accountability and builds trust in the company's governance practices.

1. Board leadership and company purpose

Culture

It is encouraging to see continued progress in how companies report on culture, reflecting a growing recognition of the value a strong corporate culture brings to long-term success. While transparent and meaningful reporting on culture is important, it should remain concise and purposeful, avoiding unnecessary length in the annual report. The example below demonstrates it is possible to communicate clearly and concisely on key cultural insights effectively, highlighting the board's actions and oversight in this area.

Source: Foxtons, p.73

STEPS TAKEN TO IMPROVE AND EVOLVE CULTURE IN 2024:

Over the course of 2024, the Board took a number of steps to improve and evolve the Group's culture, including:

- Receiving its annual respect and inclusion workplace training from an external adviser, with similar mandatory training rolled out across the workforce.
- Enhancing and increasing the awareness of the Group's speak up processes, including whistleblowing, to foster an environment where employees feel confident to report any concerns.
- Strengthening the mechanisms used to monitor culture, including enhancing the materials the Board and its Committees reviews to monitor culture and the effectiveness of workforce diversity, equality and inclusion initiatives.
- Enhancing policies and practices in response to the October 2024 Equality Act amendments which introduced new obligations in relation to the prevention of sexual harassment.

Culture embedding

The 2024 Code encourages companies to assess and monitor culture and explain how the desired culture has been embedded. A number of reporters indicated that they intend to further embed their culture across the organisation, aligning with the expectations of the 2024 Code. Some explicitly listed 'further embedding their culture' as a priority for the next reporting year. One company explained how they embed behaviours through a framework, which brings clarity and consistency to behaviour expectations.

Source: Evoke, p.32

To support our values which we launched in 2023, we introduced a behaviours framework that brings clarity and consistency to behaviour expectations throughout the business based on the scope and breadth of a role.

Each behaviour is matched to one of our values and the framework provides positive examples of the behaviour along with a view of what the behaviour should not include and questions colleagues can ask themselves to ensure they are behaving in line with expectations.

The framework ensures consistency across teams by defining how work should be approached, not just what should be achieved. Leaders are expected to model these behaviours, and they now form a key part of performance discussions.

Rather than a checklist, this framework is a practical tool to help colleagues understand their role expectations, develop their careers, and contribute to a high-performance culture.

While most companies in our sample referenced embedding culture, many did so in a generic way, lacking meaningful insight. Often, they described how specific behaviours were embedded, but not how the overall culture is integrated across the organisation.

Culture promotion

Principle B of the Code says that ‘the board should establish a company’s purpose, values and strategy, and satisfy itself that these and its culture are all aligned. All directors must act with integrity, lead by example and promote the desired culture’.

It is disappointing to see that reporting on how directors fulfil this responsibility remains weak across much of our sample. While many companies made general references to culture promotion, the majority failed to provide insight into the specific actions directors are taking to embed the company’s desired culture.

Key message



An explanation of how directors promote the desired culture does not need to add unnecessary length to the annual report. Instead, reporters could consider the ways their directors already engage with their workforce and other stakeholders to understand the current company culture and how they model the behaviours that reflect the company’s values.

Outcome-based reporting

Principle C was introduced to the 2024 Code to emphasise the importance of reporting on the outcomes of governance arrangements. The example below demonstrates an effective way of reporting on the outcomes of a culture review:

Source: Haleon, p.69

The Board conducted an in-depth review of Haleon’s culture, examining both our cultural strengths and areas to be enhanced. This review focused on identifying opportunities to deliver tangible business benefits and strengthen our reputation. The Board assessed progress across five key cultural levers: strategy, operating model, process, people, and reward, evaluating the effectiveness of current initiatives and considering the additional actions required. As a result, a culture road map was developed with clear milestones and success measures, to support the effective oversight of progress in this area by the Board.

To report effectively on outcomes in relation to culture, companies may consider the specific decisions and actions taken by the board during the year that directly influenced or reflected cultural priorities. This includes whether a new culture strategy was developed, approved or implemented, and whether culture-related matters were a focus in board discussions. For example, companies might report on how feedback from employee engagement activities has informed board decisions, or how cultural misalignments were identified and addressed.

Insightful outcomes-based reporting should highlight how decisions have impacted the organisation. By linking board-level decisions to observable cultural outcomes, companies can provide stakeholders with a clearer understanding of how culture is being actively shaped and governed. One company explained the perceived outcomes of embedding their culture, which is demonstrated in the following example.

Source: Smith and Nephew, p.129

Outcomes of embedding our culture

- Improved employee engagement at 92%, overall evidence of higher job satisfaction and winner of the Gallup Exceptional Workplace Award
- Developing and retaining talent
- Opportunities for employees to bring their whole selves to work

Improved employee engagement

92%

Culture alignment

The majority of companies in our sample reported on the alignment between company culture, purpose, values and strategy to some extent. However, in several cases, the disclosures were limited to repeating the wording of the Code, stating that: 'The Board has established the Company's purpose, values and strategy, and has satisfied itself that these and its culture are aligned'. This provides limited insight to investors and other stakeholders.

In contrast, the more insightful reporters provided clear explanations of how these elements are integrated through their governance

frameworks. Some companies used visual aids, such as diagrams or infographics, to show how culture, purpose, value and strategy are aligned, making the narrative more accessible and engaging.

Key message



Strong alignment between culture, purpose, values and strategy is crucial. It ensures that employees and stakeholders have a shared understanding of the company's direction and can see how their individual roles contribute to broader organisational goals. This coherence fosters trust, improves engagement and supports the long-term success of an organisation.

Shareholder engagement

Key messages



- Reporting on shareholder activities carried out and outcomes achieved provides greater clarity for readers on the work undertaken by the board during the year rather than simply listing the existing policies and procedures.
- Reporting on board engagement with shareholders, including outside of formal general meetings, provides insight into the board's ongoing dialogue with shareholders and how their perspectives inform decision making.

Principle 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.

We are pleased to find that nearly all companies clearly reported that the board had carried out some level of engagement with shareholders outside of the Annual General Meeting (AGM).

We have previously emphasised the importance of avoiding general statements on engagement and instead explaining how information was received by shareholders, the issues raised, and how these shaped board considerations. This year, we still found many reports remain generic around the details of the engagement that has taken place. There was limited discussion of the engagement outcomes including how feedback influenced or necessitated board discussions and decision making.

Nevertheless, this year, we did see a growing number of companies provide more specific information on their engagement methods, the topics discussed, and the feedback received. This represents a positive step towards more meaningful and transparent reporting.

Source: NatWest, p.99

The Board engaged with investors in a variety of ways during 2024. As well as receiving regular updates on investor activity and share price performance, directors had the opportunity to engage with private shareholders at two virtual shareholder events and at the Annual General Meeting. Directors also held roundtable discussions with representatives of three institutional investors, enabling a valuable two-way dialogue on a range of topics including the investors' views of NatWest Group's financial performance, strategic priorities, and ESG matters.

Effective board engagement provides an exchange of valuable information between a company and its shareholders, which might result in positive outcomes for both. For example, one of the Stewardship Code signatories reported in their Stewardship report that, initially, they were not happy with the proposed remuneration

of the company's executives. However, following engagement with the board, they reversed their position and chose to vote in favour of the remuneration report, despite their proxy voting provider having recommended a vote against. The decision was reinforced after the board reported that they had engaged with a significant proportion of the company's shareholders.

Examples like this clearly demonstrate not only the benefits of engaging with shareholders but also of reporting this engagement in the annual report.

We encourage companies to provide a concise summary of their shareholder engagement activities and outcomes undertaken by the board, including objectives, summary of issues, participants, progress of the dialogue, and the outcome of the engagement. This expectation is also mirrored in the [2026 UK Stewardship Code Guidance](#).

We also found a higher number of companies had included specific information on their activities and the outcomes of board engagement, which included:

- When engagement took place.
- What types of shareholders the board reached out to (e.g. institutional investors).
- What information was shared with shareholders.
- Feedback received from the shareholders.
- How this engagement informed board's discussions and decision making.

Source: Elementis, p.85

In January 2025, Christopher Mills was appointed to the Board as non-independent Non-Executive Director and will stand for election for the first time at the AGM on 29 April 2025. The Chair of the Remuneration Committee reached out to the top 15 shareholders, sharing the summary of the proposed revisions to the Director’s Remuneration Policy, ahead of its tabling for approval at the 2025 AGM.

Shareholders who engaged were supportive of the policy, particularly tightening of malus and clawback and the changes in application related to introducing return on operating capital employed (“ROCE”) and Sustainability into the long-term incentive plan (“LTIP”).

Provision 3

In addition to formal general meetings, the chair should seek regular engagement with major shareholders in order to understand their views on governance and performance against the strategy. Committee chairs should seek engagement with shareholders on significant matters related to their areas of responsibility. The chair should then ensure that the board as a whole has a clear understanding of the views of shareholders.

Engaging regularly with shareholders beyond formal general meetings enables the board to remain informed about shareholders’ views. It also provides an opportunity for the board to communicate how matters raised by the shareholders are considered in its decision making.

Number of engagements		
Annual review	2024	2025
Chair	68	59
Remuneration committee chair	75	35
Senior independent director	20	12
Nomination committee chair	7	0
Audit committee chair	6	3

During the reporting period, 59 companies reported that the chair engaged with shareholders outside of AGMs. It may be insightful to report instances where the chair actively sought engagement from shareholders but received either no response or a negative one.

Many companies stated in their report that the board and committee chairs are available to meet with shareholders during or outside the general meetings. It is not clear from most of the reporting whether committee chairs reach out to investors to discuss specific issues, to understand shareholders’ views or communicate their decisions. With the forthcoming changes to Provision 29, we encourage companies to include information on this type of engagement in their reporting.

Examples of good reporting identified this year included information on when and how the chair of the board and the chairs of committees engaged with shareholders, an overview of issues discussed and/or the feedback received, and whether the engagement had any impact on board’s discussions or decision making.

Source: SSP Group, p.57

This year, our Remuneration Committee Chair led a remuneration consultation with our largest shareholders regarding our long-term incentive plans. The insights and feedback from this process helped shape our final plan.

Recognising that SSP is in a different place compared to when the Directors' Remuneration Policy was approved at the 2024 AGM, the Remuneration Committee felt it was the right time to consider returning to a performance based long-term incentive plan. Consequently, Carolyn Bradley, Chair of the Committee, and our Investor Relations team, engaged proactively with a number of our top shareholders (covering nearly 50% of our shareholder base) to review potential plan structures and understand their perspectives. The meetings were constructive, discussing how we might align management remuneration and shareholder interests and experience. The vast majority of investors were supportive of a change towards a more performance-based plan, set with appropriately stretching financial targets.

Following this engagement, the Committee is proposing the reintroduction of a Performance Share Award (PSA) to replace our current RSP. The first award under the proposed plan will be subject to EPS (50%), ROCE (25%) and TSR (25%) performance conditions. These measures were chosen based on alignment to the business strategy and with consideration to the views of our shareholders.

20 per cent votes against a resolution

Provision 4 states:

When 20 per cent or more of votes have been cast against the board recommendation for a resolution, the company should explain, when announcing voting results, what actions it intends to take to consult shareholders in order to understand the reasons behind the result. An update on the views received from shareholders and actions taken should be published no later than six months after the shareholder meeting. The board should then provide a final summary in the annual report and, if applicable, in the explanatory notes to resolutions at the next shareholder meeting, on what impact the feedback has had on the decisions the board has taken, and any actions or resolutions now proposed.

In line with Provision 4, companies are reminded to report on the actions they intend to take to consult shareholders following a significant vote against a resolution (20% or more).

We recognise that a 20% vote against does not mean that a resolution does not pass. In addition, there may be a number of investors who, as a matter of well-known policy or an established position which is unlikely to change, vote against a particular position but would not divest from the company. In such scenarios, engagement may not be necessary. However, a 20% vote against can be an indication of concerns from a significant number of investors and, in such cases, this should prompt further dialogue to better understand investor's positions and reduce the chances of votes against in the future. Such dialogue may also encourage investors to ask their proxy advisors to take a different view.

From the companies in our sample, 19 received more than 20% of votes against a resolution recommended by the board. The majority of these votes related to either remuneration or director appointments.

Of those companies, only half of them reported on their actions following the voting result. These companies explained what actions the board had taken to consult with shareholders to understand the reasons behind the voting result.

Reporting on this not only satisfies the requirement of Provision 4 but also demonstrates the board's willingness to communicate with shareholders and address their concerns, or explain in more detail the approach of the board.

Stakeholder engagement

Principle D of the Code states: 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.

The language of this principle makes it clear that boards are not obligated to engage with any particular stakeholder group. Instead, they are expected to foster participation from those stakeholders they consider most relevant to the company's strategic priorities.

Several companies have explicitly noted that, in practice, Non-Executive Directors (NEDs) are not typically expected to engage directly with external stakeholders such as customers or suppliers. These interactions are generally managed by operational teams with the appropriate expertise and day-to-day involvement in these areas.

Among stakeholder groups, the workforce is often the most significant and accessible for board-level engagement. While dialogue with other groups – such as customers and suppliers – can offer valuable insights, it is understandably more complex for boards to maintain direct contact with these. Reflecting this practical reality, the UK Corporate Governance Code does not impose a requirement for boards to engage directly with them.

Workforce engagement

Provision 5 of the Code also reinforces, albeit indirectly, the importance of workforce engagement. It asks companies to engage with their workforce using one or a combination of the following methods:

- A director appointed from the workforce.
- A formal workforce advisory panel.
- A designated NED.

In contrast to the limited engagement reported with other stakeholder groups, a notably higher number of companies – 75 in total – specifically disclosed direct, face-to-face engagement between the board and the workforce. These interactions took various forms, reflecting different approaches to employee involvement at board level. They included:

- Meetings of the designated NED with workforce.
- Meetings of other directors with the workforce.
- Attendance by the designated NED (or other NED) to the workforce panel meetings.
- Site visits.

Independent engagement by board members can provide valuable insights into employee perspectives, enhancing the board's understanding of workforce experience, organisational culture and productivity. It may also serve as a window into how strategy translates into day-to-day operations and how risks are addressed across the organisation.

However, despite the relatively high number of companies reporting direct board engagement with employees, only 25 provided any detail

on the topics discussed or the feedback received. In a few instances, disclosures under headings 'Feedback' consisted of generic statements such as: "employees expressed satisfaction working for our company".

Even fewer companies provided meaningful detail on the outcomes of board-level engagements. While some annual reports included sections titled 'Outcomes', the actions listed were often unrelated to board engagement or lacked clarity on whether they stemmed from such interactions. Importantly, outcome reporting does not require extensive detail. In fact, three companies simply reported as an outcome that the board had summarised the issues raised during their engagement and passed those to the management along with suggested action points, without going into more specific detail. Concise disclosures like these can demonstrate genuine and effective board engagement.

Methods of engagement used by the companies in our sample

NED	Panel	Both NED and panel	Alternative method	Not stated/ clear
49	7	12	15	16

Sixteen companies either did not specify, or their reporting lacked clarity on whether they had adopted one of the methods outlined under Provision 5. Although the Code does not mandate disclosure in the annual report, it may be good practice for boards to clearly articulate the mechanisms chosen to engage with the workforce. Doing this can demonstrate a commitment to meaningful and effective engagement.

Designated non-executive director

The appointment of a designated NED by the board remained the most commonly adopted mechanism for workforce engagement, with 60

companies implementing this approach, including 12 that also operated a workforce panel. A small number of companies appointed more than one designated NED, typically two or three to broaden representation.

While most companies reported some level of interaction between the designated NED and the workforce during the year, 16 did not mention whether the NED had actively engaged with employees.

A few companies included dedicated sections outlining the engagement activities undertaken by the designated NED, often presented from their own perspective. A concise summary detailing how they conducted the engagement, the key insights gathered and how these were communicated to the board can demonstrate meaningful workforce representation at board level.

Panel

20 companies had a panel made up of workforce representatives as a mechanism for engagement with the board. It may be a good addition to the annual report to briefly explain how the panel operates and communicates employee views to the board. Fourteen companies explained how they did this. For those companies that had a panel and a designated NED, usually the NED served as a liaison between the panel and the board, often chairing panel meetings and relaying key discussion points.

Some companies stated that the chair of the board, or other NEDs, attended panel meetings, whereas a few said that the board received reports of the minutes of the panel meetings or the main issues raised.

Alternative arrangements

Provision 5 states: 'If the board has not chosen one or more of these methods [the three methods mentioned above], it should explain what alternative arrangements are in place and why it considers that they are effective'.

Fifteen companies opted to adopt an alternative method, rather than one of the three methods prescribed by Provision 5. We were pleased to see that these companies explained what their chosen method entailed.

However, only eight of them went further to explain why they considered their approach effective. Several companies provided no rationale, while others offered only generic statements such as, 'the board considers this arrangement effective' or 'the board is comfortable with this arrangement', without elaborating how the method supports meaningful workforce engagement.

The most commonly adopted alternative method was to involve all board members in workforce engagement, rather than appointing a single (or more) designated NED. This approach was typically justified by the complexity of the business and the geographic spread of its operations. In such cases, distributing the responsibility across all NEDs was considered a more effective and practical way to ensure meaningful engagement with employees, rather than relying on one or two designated NEDs.

However, few companies explained how they assessed the effectiveness of their approach. A good example was a company that reported evaluating its method by actively seeking feedback from the workforce, which was positive. This kind of reflection helps demonstrate that the engagement mechanism is not only in place, but also functioning as intended.

Other non-executive directors

We were pleased to see that there is broad participation from NEDs in workforce engagement. We found 55 companies that, even though they had adopted one of the methods listed under Provision 5, also involved other NEDs, and in some cases, the entire board. These engagements included attending meetings alongside the designated

NED, attending the workforce panel meetings, joining company townhalls, and visiting operational sites or branches. It was interesting to see that in 18 companies, even the chair of the board was involved in such activities.

We recommend companies provide a concise summary of these board-level engagements in their reports. This could cover the nature of the engagement, key issues discussed and any resulting outcomes, such as matters raised during board discussions, the decisions taken, or requests made to management to address specific concerns.

Engagement with other stakeholders

Most companies did not report any direct board engagement with other stakeholders. All annual reports contained whole sections (sometimes lengthy) titled 'Stakeholder engagement' (or similar phrasing). However, the engagement reported under this section was usually undertaken by the management or through other mechanisms (e.g. a customer helpline), rather than the board being involved. However, many companies reported that even when the engagement was carried out by other means, feedback was being reported to the board.

A minority of reports highlighted instances of board-level engagement. For example, some companies noted that the chair and/or other board members participated in conferences, site visits or meetings where they interacted with major customers or suppliers. Additional stakeholder groups reported as having engaged directly with board members included government ministers, regulators, external advisors, industry peers, trade associations and not-for-profit organisations.

To demonstrate effective engagement with stakeholders as mandated by Principle D, it may be a good addition to the annual report to provide a summary of board engagement activities and any outcomes from these.

The example from NatWest’s annual report illustrates how companies can effectively present a concise summary of board activities and outcomes. Its reporting was notably brief yet substantive, offering clear insights into board-level engagement, unlike many other companies, which had stakeholder sections that spanned across multiple pages without any reference to board involvement.

Many annual reports mentioned indirect engagement by the board stating that the board is kept informed about stakeholder issues through updates and reports received by the management. This type of frank and concise reporting is more effective than lengthy narratives detailing various company-led initiatives to interact with stakeholders, which may lack relevance without board involvement.

Board consideration of stakeholder views and Section 172

Provision 5 of the Code states: ‘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’.

It may be important for the board to be aware of the views and interests of the company’s stakeholders when making decisions on strategy, culture, risk and others. The board can gain an overview of stakeholder views through direct engagement, as a small number of companies did. However, most of the companies explained that the board is kept informed on stakeholder matters through reports and briefings provided by senior management.

Many companies included sub-headings that listed ‘issues that matter to stakeholders’. However, it is not clear whether these are the views communicated by stakeholders or simply arbitrarily assumed by the management or the board.

Reporting on the requirements of Provision 5 took different forms and it was not always effective:

Cross referencing: Some companies provide a table of content that signposts to different parts of the report where stakeholders are

Source: NatWest, p.100

**Regulators**

How the Board engaged

Engagement with regulators in 2024 occurred via bi-lateral and collective meetings on a range of topics. Directors engaged regularly through continuous assessment and proactive engagement meetings with the supervisory teams at the PRA and FCA respectively. Directors also participated bilaterally in regulatory review activity when requested. Representatives of the PRA joined the Board meeting in July to present the outcome of its annual Periodic Summary Meeting (PSM).

During the year the Board also considered key regulatory submissions such as the Operational Resilience Self Assessment.

Outcome of engagement

The bi-lateral meetings are an opportunity to discuss in more depth areas of directors’ expertise and interest with the regulators. Participation in specific reviews or deep dives by the regulators allows directors to discuss matters in more detail to support the regulatory agenda.

Following receipt and review of the outcome of the PSM, the Board was able to understand the key areas of regulatory concern and agree an approach to how these would be addressed.

Following discussion with management, including input from the second and third lines of defence, the Board approved important regulatory submissions.

**Communities**

How the Board engaged

During the visit to India in March 2024, the Board undertook a variety of community engagement sessions. These included spending time at the Vidya School in Gurugram (which provides high quality public-school education to under-privileged children) and the ‘I am Gurgaon’ project in the city (which is seeking to improve the local ecosystem and reduce the risk of flooding). In addition, directors also participated in a Climate Action Roadshow during their time in India. This showcased active environmental projects supported by colleagues, and included contributions from non-government organisations and beneficiaries of the projects.

As part of the Board’s annual training programme, Transition Value Partners provided a dedicated session on climate. This explored how NatWest Group could support broader climate transition, via engagement with external stakeholders on public policy and the use of internally available data to support decision-making.

Outcome of engagement

The valuable insights gained by directors into the community support initiatives undertaken in India provided a deeper understanding of the impact NatWest Group and its colleagues have in the country. The knowledge shared informed directors’ approach to a range of topics including climate activities in the UK and how best to support colleagues in India.

Expanding their knowledge of climate matters ensures the directors meet their regulatory requirements and are able to make better informed decisions on such matters.

**Suppliers**

How the Board engaged

The Board and its committees received regular updates from management on key supplier and partnership relationships and the infrastructure in place to support and engage with third parties.

During their visit to India, directors also met with representatives of a variety of suppliers to hear of their experiences in dealing with NatWest Group and how colleagues might meet future expectations.

During a supplier spotlight with the Group Sustainable Banking Committee, discussions centred around sustainability enhancements to the Supplier Charter and procurement processes, work being undertaken to meet our Human Rights obligations and maturing supply chain decarbonisation.

Outcome of engagement

As well as fulfilling their regulatory obligations in this area, the direct engagement with suppliers enabled directors to build their knowledge of suppliers’ experiences with NatWest Group, and how this was impacted by location. It also highlighted to the Board the varied work undertaken by colleagues to support suppliers and partners.

Engagement with suppliers on matters of importance to NatWest Group enables collaboration towards achieving shared benefits.

It is important to note that the UK Corporate Governance Code is specifically focused on board-level actions and the outcomes of those actions. While it is natural for senior management and other employees to engage with stakeholders in the normal course of business, companies are not required by the Code to report on this operational engagement. Overly detailed reporting on such activities may unnecessarily lengthen the annual report without contributing meaningful insight into the board’s governance responsibilities.

mentioned. However, these references rarely relate to board-level discussions or decisions. Instead, they typically point to parts of the strategic report, such as CEO or CFO statements, or sections covering workforce training, community initiatives, supply chain matters and operational topics. In some cases, companies go as far as signposting the entire strategic report, with vague references such as, 'see pages 5 to 85'.

Use of actual examples: Some companies included examples of decisions to illustrate how stakeholder interests were considered. However, these disclosures often lacked clarity regarding the role of the board. For instance, one company noted that its workforce had been considered during the finalisation of a takeover, yet provided no explanation of how this consideration was incorporated or whether the board played any role. Without such detail, the reference does little to demonstrate meaningful board-level action.

In many cases, companies simply listed the stakeholders considered or used icons to indicate their involvement. This type of reporting – without substance or context – fails to convey how the board factored stakeholder perspectives into its discussions and/or decision-making.

It is important to recognise that Provision 5 places specific emphasis on the role of the board – focusing on how the board itself has considered stakeholder interests and the matters outlined in Section 172, not the management or other units or individuals within the company.

Source: GlaxoSmithKline, p.128

(b) Our workforce

Interests of our people

Our Directors understand that our people are at the core of our Ahead Together ambition, helping to power our purpose and delivering on our strategy and seek to create and oversee an environment at GSK in which outstanding people can thrive. A positive employee experience is critical to attract, retain and motivate the best people

Papers/information relevant to this duty are normally submitted to the Board by the Chief People Officer or Head of Reward for input, challenge and decision or awareness by our Directors

Matters considered by our Directors include:

- Culture progress
- Talent pipeline
- Gender pay gap data, trends and reporting
- Employee engagement practices and feedback
- Health and safety risks
- Pay fairness and benefits
- Performance with choice and the workplace environment

For more details see our culture and people, inclusion and diversity, and engaging with our people disclosures on pages 58 to 60, 54 and 55 and 126

The example from GSK demonstrates how the board has gained an understanding of workforce issues (i.e. reporting by the Chief People Officer etc) and then provides a list of the board discussions where the workforce was included.

Good reporting was demonstrated by another company, that explained the board receives papers from management on stakeholder impacts, which aids board discussions and decision-making. The board then uses such information during its meetings to discuss the impact of its decisions on the company's key stakeholders.

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.

Most companies explain that the board receives a summary of issues related to specific stakeholders by the management of the company. This may be an effective way for the board to understand the views of stakeholders.

Section 172

In addition to stakeholder views, Provision 5 states: 'The board should also describe how it has considered matters under section 172 in their discussions and decision-making'.

Factors under section 172:

- a) the likely consequences of any decision in the long term,
- b) the interests of the company's employees,
- c) the need to foster the company's business relationships with suppliers, customers and others,
- d) the impact of the company's operations on the community and the environment,
- e) the desirability of the company maintaining a reputation for high standards of business conduct, and
- f) the need to act fairly as between members of the company.

Many companies concentrated their reporting on stakeholder-related matters without explicitly referencing all of the matters outlined in Section 172 of the Companies Act 2006. In some cases, elements of Section 172 were partially addressed where they naturally overlapped with stakeholder disclosures. For instance, workforce-related reporting often covered point (b): the interests of the company's employees.

However, there were three specific provisions within Section 172 that were rarely addressed in terms of how the board considered them in its discussions and decision-making:

- The likely consequences of any decision in the long term.

- The desirability of the company maintaining a reputation for high standards of business conduct.
- The need to act fairly as between members of the company.

Reporting on Provision 5 is not just about stakeholder outcomes – it is to demonstrate how the board takes part in developing and scrutinising the company's long-term strategy and future performance. The annual report should explain how the board has discussed and/or made decisions fostering relationships with suppliers, customers and others in the context of strategy, and not just how the company deals with these stakeholders, or these stakeholders' interests. The report should also show how the board discusses the need to act fairly as between members of the company and deal with any conflicting interests.

To fully comply with Provision 5, the annual report should also include relevant and important information on how all the factors under Section 172 have been considered by the board.

Source: GlaxoSmithKline, p.128

(a) Long-term results

The likely consequences of any decision in the long term

When making decisions about long-term proposals, the Board reviews papers and other information and comments on how it:

- fits with, strengthens, or otherwise impacts the business strategy and budget – and the three-year plan, if relevant
- is aligned with our Ahead Together ambition and outlooks

To make sure the Board can consider all factors when making their decisions, they are also apprised of:

- success and risk factors
- alternatives considered, if appropriate
- the rationale for the proposed choice
- any relevant stakeholder impacts of the proposal, whether positive and/or negative

Papers/information relevant to this duty are normally submitted by the CEO; CFO; Chief Scientific Officer; Chief Commercial Officer; President, Corporate Development; President, Global

Affairs, or other GLT members and/or their direct reports for input, challenge and decision or awareness by the Directors

Matters considered by our Directors include:

- Pipeline progression reviews
- Budget planning
- Capital allocation priorities including for R&D, Business development, our Dividend policy and the instigation of a share buyback programme
- Commercial reviews (Specialty Medicines, General Medicines and Vaccines)
- Responsible Business ambitions, including our six focus areas

For more details see our Ahead Together and business model disclosures on pages 1 to 3

Reporting on outcomes

Some annual reports include sub-headings titled 'Outcomes', yet the content beneath them often consists of boilerplate statements such as: 'we allow our employees to take time off to support charities'. Effective reporting should clearly show how stakeholder considerations have influenced board discussions and decision-making, and whether any tangible actions were taken as a result.

Even where outcomes are reported, they typically reflect operational responses by management or other teams, such as reacting to customer reviews or complaints, without any indication of board involvement. However, the intent of the UK Corporate Governance Code is to promote stakeholder consideration by the board. Therefore, for the purposes of the Code, outcome reporting should focus on actions that stem directly from board engagement or consideration. For example, a more effective disclosure might state that, following stakeholder feedback, the board instructed management to allocate a percentage of profits to charitable initiatives. This clearly demonstrates outcomes resulting from board discussions and decisions.

2. Division of responsibilities

Overboarding

Principle H of the Code emphasises the importance of NEDs having sufficient time to meet their responsibilities, which include providing constructive challenge and holding management to account.

The vast majority of companies disclosed information about the external time commitments of their directors and confirmed that each board member has sufficient capacity to fulfil their responsibilities. However, we continue to observe some declaratory statements that do not meaningfully explain how boards assess and determine directors' time availability, and which, therefore, add limited value to the annual report.

The companies that provided the most insightful reporting in this area included information on the expected minimum time commitment and noted whether the time commitment of their directors had increased or decreased and why.

It is interesting to note that one company, as illustrated in the example below, chose not to appoint a new director to its remuneration or nomination committee due to the individual's existing external commitments. By clearly articulating the rationale behind the appointment decision, the company provides valuable insight into the board's governance processes and its commitment to ensuring directors can dedicate sufficient time to their roles.

Source: Diageo, p.119

Each director's situation is considered individually. For example, when (they join) the Board, (the new director) will not also be a member of the Remuneration Committee or the Nomination Committee, due to [their] other commitments. Once appointed, any proposed additional external appointments are also reviewed by the Nomination Committee to ensure that the additional demands on a Director's time will not impact on the Director's ability to perform his or her role as a Director of the company before the additional appointment is recommended for approval by the Board.

Review of time commitments

The majority of companies reported that responsibility for monitoring directors' external appointments lies with their nomination committee. Notably, one company disclosed the specific factors its nomination committee considers when evaluating the time commitments of its directors, offering greater transparency into how potential conflicts of interest and time commitments are assessed.

Source: Fresnillo, p.164

...it also reviewed the time commitments of each Director to ensure that all Board members continue to be able to devote sufficient time and attention to the Company's business. Its philosophy in doing so, is to consider the total workload of each Non-Executive Director and the particular value that each Director brings to the Board. In particular, the Nominations Committee took into account the following factors: 1. With operations primarily in just one country, and because of the relative commonality of the Company's activities, the Board does not consider that it needs more than four scheduled Board meetings with an additional Working Meeting each year.

Key message

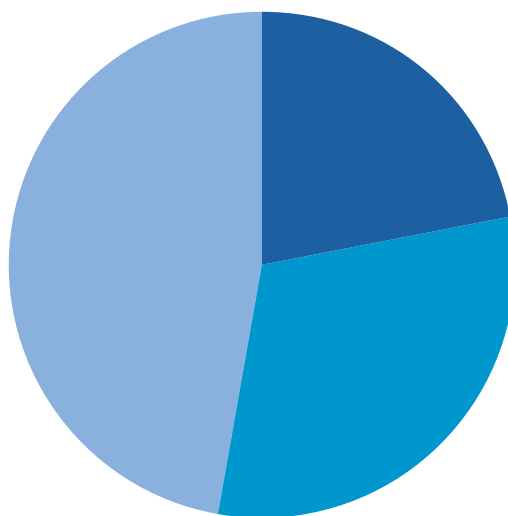


While it is encouraging that the majority of companies in our sample provided some explanation of how they assess directors' time commitments, annual reports could be made more informative and valuable to investors if companies disclosed the specific factors they consider during this evaluation, therefore moving away from a numerical approach to overboarding.

Board committees

One of the factors that can impact the amount of time a director can commit to an external appointment is if they are a member of a board committee, especially if they are a chair of a committee.

- 22 companies disclosed information about the board committees their directors are members of as part their external appointments.
- A further 31 companies only disclosed this information if the directors were a board committee chair.
- 47 companies disclosed no information about the committees that their directors sit on as part of their external appointments.



Overboarding policy

A small number of companies noted that they take proxy voting guidelines into account when assessing the number of external appointments held by their directors. While this demonstrates some awareness of investor expectations, we do not believe a prescriptive or 'one size fits all' approach is appropriate. The suitability of a director's external commitments should be evaluated on a case-by-case basis, considering the nature, scope and time demands of each role, as well as the individual director's capacity to manage their responsibilities effectively.

The role of the senior independent director

Provision 12

In addition to formal general meetings, the chair should seek regular engagement with major shareholders in order to understand their views on governance and performance against the strategy. Committee chairs should seek engagement with shareholders on significant matters related to their areas of responsibility. The chair should then ensure that the board as a whole has a clear understanding of the views of shareholders.

The board should appoint one of the independent non-executive directors to be the senior independent director (SID) to provide a sounding board for the chair and serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair's performance, and on other occasions as necessary.

The primary role of the SID is to act as a sounding board for the chair and to support the delivery of their objectives. The [Code Guidance](#)

provides examples of instances where the role of the SID will be critically important and where they may intervene in the interest of the board and company. However, the role of the SID will vary depending on the individual circumstances of each company. Having a clearly defined role will help the SID and the board to operate effectively.

The majority of companies in our sample provided boilerplate reporting and only listed the responsibilities that are outlined in the Code when explaining the role of their SID. This is an example of reporting that adds to the length of annual reports, without providing useful insights to investors. We urge companies not to list the roles from the Code. Companies could consider disclosing examples of what the role of the SID is in practice and how the role supports both the chair and other NEDs.

Key message



We encourage companies to provide company specific and time relevant information on the role of the SID and to explain the activities of the SID during the year.

Two companies in our sample explained that their SID took on an enhanced role during the year because the role of the CEO and chair was combined.

In the example below, the company clearly outlines how the SID fulfils their responsibilities under Provision 12.

Source: Fresnillo, p.159

INTERVIEW WITH

DAME JUDITH MACGREGOR

SENIOR INDEPENDENT DIRECTOR

Dame Judith Macgregor was appointed Fresnillo's Senior Independent Director (SID) at the Company's AGM in May 2024. Reflecting on her first few months in the role, she explains how the independent directors seek to bring independent judgement and challenge to the work of the Board.



What do you see as the key responsibilities of the SID?

I see my main duty as supporting the role and work of the independent members on the Fresnillo Board. In this capacity, I provide a channel of communication (if required) with the Chairman and the senior executives, helping to ensure that any concerns or uncertainties are understood and addressed. I also see an important aspect of my role as being available for investors if there are corporate questions or concerns that I can usefully discuss with them.

Since being appointed in May, what activities related to the role have you been engaged in? Since the AGM, I have been actively in contact with my fellow independent Board members to consider the performance of the Chairman and our interaction with the Executive Committee members. During the second half of 2024, I also met with investors to see if they would like to raise any questions about corporate governance and performance.

In what ways do the independent directors challenge the performance of the executives, both within and without Board and committee meetings?

In many ways! Primarily through our regular Board meetings and the three-day working meeting in July, which included visits to Fresnillo mines and having discussions with external stakeholders and advisers. This year, in particular, we have been pressing the executives on the growth trajectory, especially in the older mines. We have also challenged them hard on their cost management and efficiency plans. One clear result of this engagement was the revision to the Shared Services Agreement during 2024, which yielded useful cost savings for the Company.

Independent directors make up most of the Board Committees' membership and I think it is fair to say that we are encouraged as Committee members to ask probing questions on issues of concern and to add suggestions on other issues of interest. And we do, I, myself, have served on the HSEC Committee now for some five years. We continue to press management on the Company's safety record in recent years and have seen first-hand

the management response in stepping up training, communications and disciplinary measures to reinforce the right health and safety culture. It is improving but not yet where it should be.

Our visits to mines also offer us the chance to talk directly to miners, site managers and local communities which enables us to get different but related perspectives first-hand. I have now visited the majority of our mines and some more than once. I have found these visits – particularly for a Board member living outside Mexico – really invaluable.

When the independent directors meet without management or non-independent directors present, what do you talk about?

Our talks naturally turn to issues that are live or currently on our agenda. These can range from the length or format of board papers to more strategic subjects, risks and opportunities. It is also a chance to consider how our interactions and discussions could be improved and to share insights reflecting our different backgrounds and professional experience. This is particularly valuable as the range of issues and challenges facing mining companies worldwide are so wide-ranging. As the majority of our independent members are women, the promotion of greater diversity and bringing more women into mining is certainly of considerable interest to us as a group.

What discussions do you have with the Chairman in your capacity as SID?

Following the meeting of the independent Directors, I briefed the Chairman on the points we had discussed. Beyond that, notwithstanding that he is in contact with all of the Directors, I think he particularly looks to the SID to help him keep abreast of any concerns or questions that independent Directors might have, or areas that we feel the Board and committees should explore. Equally, he is keen to assure himself that the independent NEDs are able to have good interaction with the executives and receive timely information to carry out our duties. I see that the Chairman respects and values the role of the independent Directors on the Board. It is a responsibility we all take seriously.

The role of the SID was held by a woman in 52 companies in our sample. The [FCA's Listing Rules](#) say that at least one of the four senior board positions should be held by a woman. Many companies in our sample explained that they met this requirement due to their SID being a woman. Of the 52 SID's in our sample that were female, 23 of these also held the role of the SID as part of their external appointments.

3. Composition, succession and evaluation

Diversity

Key message



The approach to diversity and inclusion reporting across this year's sample of annual reports is consistent with previous years. Companies report on the value diversity has in the workplace, with some outcomes-based reporting on initiatives and actions taken to ensure the reporting is meaningful.

Provision 23:

The annual report should describe the work of the nominations committee, including: the policy and any initiatives on diversity and inclusion, their objectives and link to company strategy, how they have been implemented and progress on achieving the objectives; and the gender balance of those in the senior management and their direct reports.

We continue to see strong disclosure of diversity and inclusion (D&I) policies, with 98 companies in our sample clearly stating their approach. We noted that one company reported it would no longer have a board-level D&I policy going forward, making references to the operating environment.

Most companies briefly outlined their D&I policies and objectives, an approach we support. As seen in previous annual reviews, describing related activities also remains a strong area of reporting, with 91 companies doing so this year. Encouragingly, more companies linked their D&I policies to broader strategy with 64 out of 100 this year, up slightly from 59 last year.

Most reports included workplace-level initiatives, with some also referencing senior management and board-level action. Internal network groups, focused on LGBTQ+ rights, gender equality and ethnicity, were commonly highlighted as mechanisms for driving change.

Our analysis showed that 88 companies stated clear progress against their targets. An example from HSBC focuses on improvement in senior leadership, which offers an example of a diversity initiative with progress clearly stated:

Source: HSBC, p.67

Increasing female representation in our senior leadership roles is one of our longest standing strategic priorities. Since achieving our ambition of having 30% of senior leadership positions held by women in 2020, we set a new ambition to reach 35% by 2025. We are on track to meet our 2025 ambition, with 34.6% of senior leadership roles held by women at the end of 2024.

External targets and regulatory alignment

Established frameworks such as the FTSE Women Leaders Review and Parker Review continue to inform company targets.

The FTSE Women Leaders Review specifies a target of 40% women representation on boards by the end of 2025. From our sample of 79 FTSE 350 companies, 60 have already met this target, with a further 13 stating their intention to do so. Using national data, further analysis found 255 of the total FTSE 350 companies meet the 40% targets of women on their board. This is relatively consistent with what we have found in our sample.

Another target is contained in the 2024 Parker Review, which encourages FTSE 250 to have at least one ethnic minority director on the board. Our analysis showed that 37 of the 41 FTSE 250 companies in the sample have met this recommended target.

Although not formally included in these, one in five of the Small Cap companies within the sample referenced an aim to work towards either of these recommendations.

The FCA’s Listing Rules require companies to meet specific targets on a comply or explain basis. One provision we continue to focus on requires companies to have at least one woman in a senior board role (chair, CEO, SID or CFO). We found that 79 companies met this target, with 14 of these employing more than one woman in a senior leadership role. The most common position to be occupied by a woman is the role of SID, with the number of women CEOs, CFOs and chairs combined being less than the number of women SIDs for the second year in a row. The table below summarises these positions across 100 companies:

Total number of women in senior leadership roles			
Chair	Senior independent director	CEO	CFO
16	52	8	16

ITV also demonstrated transparency by disclosing workforce data across disability, socio-economic background and age, aligning with their representation targets.

Source: ITV, p.33

Characteristic	2027 Target ¹	ITV UK workforce			On and off-screen	
		All colleagues (2024)	Managers (2024)	Senior Leaders (2024) ²	On-screen (Diamond Sixth Cut, 2022-23) ³	Off-screen (Diamond Sixth Cut, 2022-23) ³
Age 50+	–	22.5%	28.3%	53.5%	19.8%	21.4%
Deaf, Disabled or Neurodivergent	12%	12.6%	10.3%	7.5%	8.6%	6.5%
People of Colour	20%: All colleagues 15%: Senior levels	14.5%	11.3%	13.5%	27.4%	16.1%
Lesbian, Gay, Bisexual, Trans or Queer (LGBTQ+) ⁴	7%	9.7%	9.3%	6.3%	23.8%	21.0%
Women	50%	52.7%	48.7%	49.3%	51.7%	47.7%
Working class background ⁵	33%	28.7%	30.8%	20.8%	N/A ⁵	N/A ⁵

Diversity in the board performance review

We explored how our sample companies evaluate their board’s diversity as part of their board performance review. In total, 60 companies referred to diversity in their board evaluation criteria. While this is encouraging to see, these references tended to be minor, for example, the role of the nomination committee in considering diversity.

Some companies produced internal diversity matrices to support their board performance review. This tended to lead to clearer and more informative reporting. Elementis (see below) provides a good example of how diversity can be effectively considered when assessing the board’s performance.

Source: Elementis, p.91

A matrix is maintained which serves as a record of Directors’ experience, attributes and expertise. The Committee reviews this matrix annually to ensure that the Board has an appropriate composition and range of skills, experience and diversity to prevent any dominance, either individually or collectively, over the Board’s decision-making processes.

4. Audit, risk and internal controls

Audit Committees and the External Audit: Minimum Standard

Although it has not yet taken effect, the 2024 Code recommends audit committees follow the 'Audit Committees and the External Audit: Minimum Standard' (the Standard) in Provision 25. This year's annual review included a look at the extent to which companies already refer to the Standard in their reporting.

Engagement with the Standard is increasing across UK-listed companies, though insightful reporting remains limited.

The Standard was originally aimed at FTSE 350 companies. Therefore, it is not surprising that larger companies are leading the way. A total of 63% of FTSE 100 and 51% of FTSE 250 companies in our sample referenced the Standard in their audit committee reports. While most simply stated their compliance, a few provided meaningful detail about what action they had taken or would be taking, such as updating the audit committee terms of reference or plans to incorporate relevant criteria into future auditor tendering processes.

Smaller companies understandably showed lower engagement, as the Standard became relevant for those outside the FTSE 350 with the new Code coming into effect earlier this year. A total of 29% of Small Cap companies in our sample referenced the Standard. Notably, one company stated non-compliance, citing governance practices tailored to its organisational needs. This highlights the opportunity for a more flexible adoption, especially by smaller entities.

Reporting should cover the audit committee's activities during the year and from 2026 onwards, the actions taken to meet the requirements of the Standard. Where a company considers that following a particular

element within the Standard is not proportionate or relevant to its circumstances or business needs, an explanation will support users' ability to understand the company's rationale and approach.

With the new Code applying to financial years beginning January 2025, we look forward to seeing more comprehensive reporting against the Standard in next year's audit committee reports.

Effectiveness and independence

Reporting on the audit committee's assessment of the effectiveness and independence of the external audit process is sometimes grouped under one heading. While they are linked topics and grouping them can be helpful in the context of concise reporting, it is important that companies are clear independence is a separate element of an effective external audit process.

This consolidation can mean some reporting on independence is brief. A small number of (primarily Small Cap) companies stated they were assured the external auditor was independent but did not elaborate on how they reached that conclusion.

Frequently, companies report that they assess the independence of the external auditor solely through their compliance with the Ethical Standard requirements on the provision of non-audit services (NAS). Better reporting on independence, and on effectiveness, sets out the audit committee's criteria for assessing both aspects and outlining how the committee has obtained assurance.

However, not all audit committees make key details of their policy for NAS explicit within their annual report. Some companies note the existence of their policy, without defining the approvals required, or any

financial thresholds applied, making it difficult to understand the policy's impact. Others point to policies on their website, or within their audit committee terms of reference, again without explaining the impact of the policy. This applied across all sizes of company within our sample.

We found that, where policies were available, most companies in our sample took a pragmatic approach to NAS approval. Approaches varied, but included:

- Minimum thresholds for committee approval.
- Gradated approval thresholds based on the expected fee value.
- An annual pre-approval process, where the audit committee authorise expected recurring NAS for the forecast quantum of fees.

Source: Rentokil, p.119

The Audit Committee regularly reviews the amount and nature of non-audit work performed by the auditor to ensure that the auditor's independence is not compromised. Any engagement fee on permitted services in excess of £10,000 requires the approval of the Chair of the Audit Committee and any engagement fee in excess of £250,000 requires the approval of the Audit Committee. The Audit Committee has pre-approved permitted services, as outlined in the policy, with fees below £10,000. A copy of the current policy on the provision of non-audit services by the external auditors is available on our website.

Some companies also referred to the FRC's Audit Quality Indicators in assessing the effectiveness of the external audit process. For the first time, in July 2025 the FRC published a [Firm Metrics¹ report](#), which

¹ Firm Metrics were formerly referred to as 'Audit Quality Indicators'. Provision 9 of the 'Audit Committees and the External Audit: Minimum Standard' states that audit committees should review this information when considering their choice of auditor.

provides a holistic view of audit firms' performance in areas including culture, internal audit quality inspection results, employee workload and partner involvement. Audit committees may find this report a useful perspective when assessing the performance of their external auditor.

This example from Hollywood Bowl clearly illustrates the key topics and criteria that the audit committee considered in its assessment. It takes a broader view of the effectiveness and independence of the external auditor, considering their professional scepticism and inputs, leading to an effective external audit process:

Source: Hollywood Bowl, p.103

Key points noted under each of the headings were as follows:	
FY2023 review	
Mindset and culture	• Professional and ethical mindset demonstrated throughout the engagement • Consistent adherence to relevant accounting and auditing standards • Approach focused on obtaining accurate and reliable information • Impartiality maintained throughout the audit – evidenced in interactions with management (including challenging assumptions) • Open lines of communication maintained throughout the audit
Skills, character and judgement	• Systematic and disciplined approach adopted to evaluate controls effectiveness, assess appropriateness of accounting policies, and test accuracy and completeness of financial transactions • Knowledge of the Group's business enhances the auditor's ability to identify and assess relevant risks, and target the audit approach appropriately • Appropriate scepticism and challenge demonstrated in reviews of key audit matters and areas of management judgement
Quality and control	• Clear discussion on resource requirements for the audit was held with the lead audit partner and signed off by the Audit Committee • Commitment to quality was evident in attention to detail and documentation requirements • Effective communications with the Group finance team

Auditor tenure

Reporting on auditor tenure is generally well-established across UK-listed companies. Except for one, all companies in our sample disclosed how long their external auditor had been in place, typically including the year of appointment within the audit committee report.

This demonstrates a good level of transparency.

It is good to see that audit committees are ensuring that key information, such as auditor tenure, is clearly included in their reporting, rather than assuming it will be covered elsewhere, such as in the auditor’s report. In the case of the one company from our sample that did not disclose auditor tenure in its audit committee report, this information was also missing from the auditor’s report. This highlights the importance of audit committees taking direct responsibility for such disclosures.

Provision 24 of the Standard asks that the annual report includes information on the ‘length of tenure of the current audit firm’. Auditor tenure details should be clearly disclosed in the audit committee report to ensure readers can easily locate this information, such as in the example below:

Source: GlaxoSmithKline, p.144

Auditor’s reappointment	
External auditor	
External auditor appointment	
Last tender	May–December 2016
Transition year	2017
First shareholder approval of current auditor	May 2018
First audited Annual Report and 20-F Year ending 31 December 2018	
New lead audit engagement partner	2023
Next audit tender required by regulations	2026 (to take effect from 2028)

Recommendations to improve tenure disclosures:

- Clearly state the **year of appointment** and ideally the **total years** served in a standalone format, avoiding lengthier and indirect phrases.
- Include a clear and concise **rationale** for reappointment, especially where tenure exceeds recommended thresholds, to help stakeholders understand the audit committee’s choice.

Audit tendering

A number of companies provided forward-looking information, such as the expected timing of the next tender, which supports transparency and planning.

Encouragingly, many companies went beyond the basic requirement and explained the approach taken on the appointment or reappointment of the external auditor. Good reporting included an overview of the tender process, the number of firms invited to participate, and the rationale for the final decision.

Some companies also discussed consideration of non-Big Four firms, aligning with the expectations set out in the Standard. There were also examples of companies which conducted or plan to conduct a price-blind tendering process.

This example from AstraZeneca clearly describes the audit firms – including challenger firms – that were invited and were able to participate in the tender process. It also concisely explains the process, selection criteria, and that it was price blind as suggested in the Standard.

Source: AstraZeneca, p.111

Each of the big four audit firms and two challenger firms were invited to participate in the tender. PwC and KPMG were the only two firms that were able and willing to tender for the audit. The Committee reviewed and approved the selection criteria which covered FRC Audit Quality assessments over the preceding three years, expertise of the proposed global audit teams, audit methodology, use of audit technologies and expertise in auditing organisations upgrading their Enterprise Resource Planning systems technology. The process focused on the quality criteria, in line with the FRC guidance, and was fee-blind. The tender process was supervised by the Audit Tender Panel, which comprised the Chair of the Audit Committee and Anna Manz as well as management representatives.

We encourage companies to provide clear and comprehensive disclosures on audit tendering, including the criteria used and process followed. This supports stakeholder understanding of audit committee oversight and helps demonstrate the company's commitment to audit quality and independence.

Internal audit

The Code does not prescribe the establishment of an internal audit function, instead allowing companies to determine its necessity based on their individual circumstances. The need for it will vary depending on the company's circumstances.

Almost all companies maintained an internal audit function, typically delivered in-house. However, in 30 cases, the function was either outsourced or co-sourced. Only two companies in the sample, both Small Cap, did not have a formal internal audit function.

Provision 25 states that where there is no internal audit function, the audit committee should consider annually whether there is a need for one and make a recommendation to the board. One company reported that it had evaluated the need for an internal audit function and, following changes in circumstances during the year, decided to establish one in the coming year. This kind of concise, yet targeted, disclosure enhances transparency around the audit committee's activities and provides reassurance to investors and other stakeholders that the board has thoughtfully considered the importance of robust assurance processes.

In addition, Provision 26 states that where there is no internal audit function, the annual report should provide an explanation for the absence, as well as how internal assurance is achieved and how this affects the work of external audit. Both companies in our sample that lacked a formal internal audit function attributed this to the limited scale of their operations. They stated that, given their size, assurance could be achieved through alternative mechanisms they considered more proportionate and effective.

However, neither of these companies provided an explanation of how internal assurance is achieved or how it affects the work of the external auditor. Such disclosure would offer shareholders and other stakeholders greater confidence that alternative assurance mechanisms are in place to oversee the company's risk management and internal control systems.

Effectiveness of the internal audit

Provision 25 states that the audit committee is responsible for monitoring and reviewing the effectiveness of the company's internal audit function. Provision 26 then requires an explanation of the work of the audit committee. To comply with this requirement, the report should include confirmation that the committee has undertaken such a review.

65 companies stated that the audit committee had reviewed the effectiveness of the internal audit function. The remaining companies either did not provide any details on whether such work was carried out during the year, or it was unclear from their reporting. Evaluating the effectiveness is necessary, to ensure that the company maintains robust assurance mechanisms and sound internal control systems.

Of the 65 companies, 42 provided some detail on how the review was conducted. Many provided brief information, which provided confirmation that this was carried out. Actions reported by different companies included:

- Questionnaire-based evaluation by the employees of the company.
- Feedback from management.
- One company reported an external review of the effectiveness.

While many offered only brief descriptions, these disclosures nonetheless confirmed that a review of the internal audit function had taken place. Those companies giving additional information included the points above but went further to include:

- Reviews of internal audit reports submitted to the committee
- Results from the external assessment of internal audit effectiveness.

We found a few examples of reporting that provided a good and concise overview of how the effectiveness had been reviewed.

Source: London Stock Exchange Group PLC, p.118

The Committee assessed the effectiveness of the Internal Audit function throughout the year using qualitative and quantitative indicators including:

- The Internal Audit balanced scorecard, which is presented at each Committee meeting and reflects key performance indicators relating to internal audit plan delivery, quality assurance results, staff engagement and resourcing, as well as the financial management of the function
- Completeness of the audit plan against the agreed coverage model
- Quality of the audit reports and the issues raised
- Root cause insights on the issues raised and feedback from executive management on specific audits
- Other performance indicators, such as the distribution of audit ratings, percentage of past due actions and percentage of self-identified issues

The Committee concluded that the Internal Audit function is both independent and effective, in line with principle M of the Code. In addition, the Committee (in conjunction with the Risk Committee) relied on this assurance process throughout the year, as well as the other evidence reviewed on internal controls, to advise the full Board on its reporting to shareholders on the Group's internal control system and risk management systems. This aligns with principle O of the Code.

Outcomes

It may be helpful for the reader to understand the outcome of the review, for example, has the internal audit been effective?

49 companies explicitly stated the audit committee was of the opinion that the internal audit was effective. Sixteen companies went further, affirming the audit committee's satisfaction with the quality, expertise, or resources of the internal audit team.

A number of companies also reported changes or improvements made as a result of the review process, demonstrating that the review was not merely procedural but led to tangible outcomes.

Source: Wickes Group PLC p.102-103

Internal audit effectiveness

During the year, the Committee assessed the effectiveness of internal audit to satisfy itself that the quality, expertise and experience of the function is appropriate for the Group. The assessment was conducted in accordance with a process agreed with the Committee and involved seeking the views of the Committee, as well as the Executive Board and those of colleagues who have regular interactions with the Internal Audit team on the following areas:

- Resource management and the operation of internal audit
- Knowledge and expertise of Group Internal Audit
- Relationships across the business
- Planning, reporting and risk management

A summary of the responses was presented to the Committee at its meeting in December 2024. The Committee used the feedback to assist its assessment of the effectiveness of the internal audit function and discussed its conclusions and opportunities for improvement with Group Internal Audit. The overall feedback was positive and a number of actions to make improvements were identified as part of this process. It was agreed that the internal audit function was effective, although there continued to be opportunities for further improvement to the clarity of reporting and strengthening relationships with senior management. It was also noted that, following the action agreed from the last effectiveness review to move to a co-sourced model, recruitment for an in-house Head of Internal Audit was progressing well.

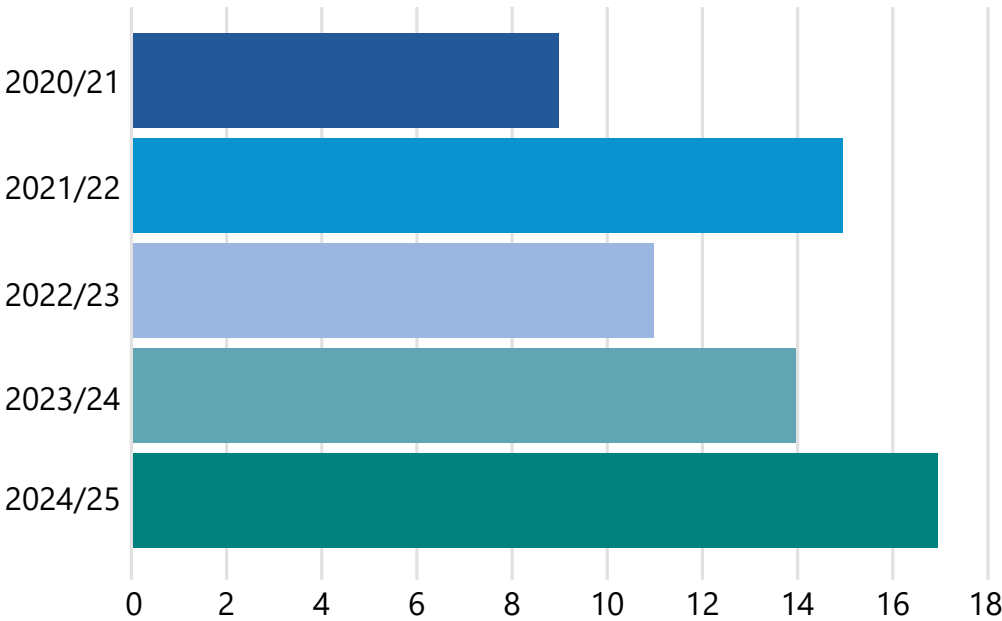
Audit Quality Review inspection results

Principle M:

The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

For the 100 annual reports reviewed, we considered the level of disclosure by audit committees of any Audit Quality Review (AQR) inspection in the year. A relevant inspection report had been issued for 17 of the reports in 2025. Disclosure was made in 11 of these entities' annual reports, while five had appropriate mitigating circumstances for non-disclosure. One entity did not disclose the AQR inspection.

The graph below shows the cycle of the last AQR inspection for the 65 of the 100 entities reviewed by AQR in the last five years.



For the second year, we have performed a separate review on the level and clarity of disclosures by audit committees of the findings and results of the 120 (2023/24:114) audit inspections completed during our 2024/25 AQR inspection cycle. This gave an insight into the quality of disclosures across all companies which had audits in the remit of AQR inspection. The FRC publishes a list of inspected entities for each cycle on its website.

Details of audits subject to AQR inspection – Companies

Our review found clear information disclosed in 66 reports (2023/24: 41) and 15 examples (2023/24: 23) of no disclosure where we would have expected it. There were a further 11 examples (2023/24: 28) where we felt the information given was not sufficiently clear or could be misinterpreted by users of the annual report. This is a substantial improvement in the disclosures.

There were 43 cases (2023/24: 73) where no disclosure had been made. Among these, there were 28 cases (2023/24: 50) where we understood the reasons for this, for example, the company did not have an audit committee.

We would expect the 15 instances where no disclosure was made, or the 11 instances where the disclosure was insufficient, will continue to fall in future years.

We acknowledge that some of our reviews will be of a different audit firm when audit firm rotation occurs. We encourage audit committees to explain how they ensured the new auditor appropriately considered any relevant inspection findings and to demonstrate how audit quality was protected.

We encourage audit committees to continue to improve the usefulness of disclosures by communicating the scope of the AQR inspection and

the actions taken to address any deficiencies identified. In addition, we encourage audit committees to consider referencing other publicly available reports on audit quality concerning their auditor.

To assist, we have provided two examples of good practice:

Source: The Griffin Insurance Association Limited, p.9

On 6 August 2024 the Audit Group received a copy of the FRC's Audit Quality Review (AQR) Inspection Report on Forvis Mazars LLP's audit of the Association's financial statements for the year ended 30 September 2023 (part of the 2024/25 AQR cycle). I was interviewed earlier in the year by the AQR team as part of their review. The AQR team assessed the audit as requiring limited improvements. There were no key findings identified, and only one other finding was identified in relation to related party disclosure, which has been addressed in this year's report and financial statements. They highlighted the audit of technical provisions as following good practice.

I met with the audit partner on 13 August 2024 to discuss the FRC Audit Quality Inspection and Supervision Report 2024 as well as the FRC's Tier 1 audit firm inspection results for the 2023/24 AQR cycle, which had also just been released and which included some critical comments on Forvis Mazars LLP. The audit of the Association was not included in the FRC's sample for 2023/24. The audit partner explained to me, and subsequently to the Audit Group, the various steps and actions being undertaken by the firm to improve audit quality at Forvis Mazars LLP, and how this applies to the audits of insurance companies. We were satisfied by their explanations.

This example demonstrates how the findings identified were subsequently remediated, and how the audit committee considered other FRC reporting to challenge the auditor to maintain high-quality audit work.

Source: Target Healthcare REIT PLC, p.45

In June 2024, the Audit Committee received notification that the FRC's Audit Quality Review ('AQR') team had completed an inspection of EY's audit of the Group's financial statements for the year ended 30 June 2023. This inspection focused primarily on the key audit matters of 'incomplete or inaccurate recognition of rental income' and 'incorrect valuation or ownership of investment properties', and the other audit areas of 'contingent liabilities' and 'carrying value of Parent company investments in subsidiaries'. The Audit Committee was delighted to hear that the audit had been assessed as "Good", the highest of the four possible ratings, and that there were no key or other findings arising from the inspection.

We particularly like how the scope of the inspection was described.

We encourage audit committees to include sufficient detail in their reports to demonstrate how they are contributing to improvements in audit quality, this is particularly valuable on inspections with more significant findings.

The FRCs 'Standard on Audit Committees and the External Audit (May 2023)', paragraph 24 states that information on the findings of an audit inspection, and any remedial action the auditor is taking in response, should be provided in the next annual report.

Key message



Overall, the number of entities disclosing AQR results, and the quality of that disclosure, continues to increase. There remains room for improvement within disclosures particularly around including the scope of the review and how findings were addressed. Audit committees should remember that the work of their committee, and the FRC, is to support improvements in audit quality, therefore effective use of regulator reporting is important.

Interactions with the FRC's Corporate Reporting Review team

The Code, in Provision 26, provides an overview of the matters to be covered in companies' audit committee reports, including any significant issues considered by the audit committee relating to the financial statements. The accompanying Code Guidance provides further detail to help companies in reporting against this provision. These matters include the nature and extent of interaction (if any) with the FRC's Corporate Reporting Review (CRR) team, to ensure transparency on issues which may have been identified as part of this work.

This year, for the first time, this Annual Review looks at the way companies have reported on such interactions. Of the 100 companies in the sample this year, we found that 24 were reviewed by CRR in the preceding year. Of those, eight received what is known as 'Substantive' letters, which ask for additional information and explanation to help the FRC better understand a company's report and accounts or interim report. This type of letter requires a full and formal response from the company. A further 13 received 'Appendix' letters, which include a schedule of observations of less significant matters that the company is asked to consider when preparing its next report and accounts and/or interim report but for which no specific response is required. Three received 'No issues' letters.

An appropriate disclosure by a company depends on the nature of the correspondence with CRR. Where a 'Substantive' letter has been received, it is generally helpful that this information is provided to investors in a transparent way. Companies typically provide a summary of the issues raised and explain how they have addressed them. In contrast, 'Appendix' or 'No issues' letters can be reported on concisely, highlighting to shareholders that the interaction has taken place and, where relevant, that the observations have been addressed. It may be useful to shareholders to provide a brief overview of the observations; however, it is for the companies themselves to determine the extent to which information is material to investors.

Of those companies that received a 'Substantive' letter, Next plc provided the following high-quality disclosure:

Source: Next PLC, p.121

During the year, the FRC's Corporate Reporting Review team completed a review of our 2024 Annual Report and Accounts covering reporting issues of a particular relevance to retail companies. It enquired into the Group's approach to impairment testing of plant, property and equipment and related Retail assets. As a result of the review, no changes to the reported numbers were required. However, we have expanded the disclosure in relation to the cash generating units identified for purposes of impairment testing. This change provides further information on our approach to impairment testing but had no impact on the process or results of such testing.

Of the 24 companies written to last year, 21 disclosed the correspondence in their annual report. The three companies that did not provide a disclosure received either an 'Appendix' letter or a 'No issues' letter. An example of a good disclosure following receipt of an 'Appendix' letter was provided by Greggs, which reported transparently and concisely as follows:

Source: Greggs PLC, p.88

[The Audit Committee] considered the findings of a Financial Reporting Council (FRC) limited scope review of the Company's Annual Report and Accounts for the year ended 30 December 2023. It is pleasing that the FRC did not take any further action in relation to these Accounts and did not require a substantive response to their findings. They raised several points that have been considered and addressed while preparing this Annual Report and Accounts in relation to alternative performance measures and clarification of lease accounting assumptions.

Key message



Reporting on interactions with the FRC's CRR team provides valuable transparency to investors. The appropriate length and detail of the disclosure depend on the nature of the interaction.

Risk management and internal control

Principal risks

Provision 28

The board should carry out a robust assessment of the company's emerging and principal risks. The board should confirm in the annual report that it has completed this assessment, including a description of its principal risks, what procedures are in place to identify emerging risks, and an explanation of how these are being managed or mitigated.

The footnote to Provision 28 states that principal risks should include, but are not necessarily limited to, those that could result in events or circumstances that might threaten the company's business model, future performance, solvency or liquidity and reputation. In deciding which risks are principal risks, companies should consider the potential impact and probability of the related events or circumstances, and the timescale over which they may occur.

The process to assess current and emerging risks, determine the principal risks and consider their implications for the company should be appropriate to the complexity, size and circumstances of the company, and it is a matter for the judgement of the board, with the support of management. Circumstances may vary over time with changes in the business model, performance, strategy, operational processes and the stage of development the company has reached in its own business cycles, as well as changes in the external environment.

Effective governance by the board should not inhibit sensible risk-taking in pursuit of growth. However, the assessment of risks as part of the normal business planning process will support better decision making, ensuring that the board and management respond promptly to risks

when they arise, and that shareholders and other stakeholders are well informed about the principal risks and prospects of the company.

As in previous years, all companies in our sample described their principal risks and actions to manage or mitigate these risks. Many companies provided high-quality reporting in this area including meaningful descriptions of their principal risks. To make these descriptions most useful to investors, it is helpful if they are sufficiently specific and explain why the risks are important to the company. A good example of a risk description can be seen below.

Source: Travis Perkins, p.61

Long-term market trends

Inherent risk:
High

Description

The construction sector is changing, driven by both macro and sector-specific factors. In the short term, the sector saw an improvement following the pandemic, only to be then impacted by multiple macro factors: a recession in the UK, global economic instability and a change of government. In the long-term, there are multiple opportunities and risks for the Group:

- The housing shortage in the UK, covering both private and social housing, presents significant opportunity for the Group. A growing population and desire for home ownership both fuel long-term demand. New government targets look to increase the number of houses built each year, however the ability to deliver on this target in the next five years is considered a significant challenge.
- A growing productivity challenge in the construction sector needs to be addressed alongside an increasing scarcity of technical knowledge and a more general labour shortage.
- The challenges presented by the age and condition of existing housing stock in the UK, further impacted by the need to meet the Decent Homes Standard.
- Manufacturers of the materials and products sold by the Group may look to sell directly to end customers. Disintermediation has the potential to increase in a challenging economic environment where customers are more price sensitive and proposition differentiation becomes less important.
- ESG factors are becoming more fundamental to long-term success but are challenging to address, requiring investment and broad engagement across the sector.
- Changing UK legislation and a move to modern methods of construction drives a need to manage changing building standards and the future framework for heat in buildings through the products and services offered by the Group.

Chief risk officer

While there is no requirement in the Code to have a chief risk officer (CRO), some financial services companies are required to consider having a CRO through other regulatory mechanisms. Like last year, 21% of companies in our sample had appointed a CRO, more than half of which were FTSE100 and/or financial services and insurance firms.

Of those companies that made such an appointment, many reported that the CRO provided regular updates to the risk committee and the board on key risk matters.

Monitoring and reviewing the effectiveness of the risk management and internal control systems

The 2024 Code

The main changes to the 2024 Code concern those parts which deal with the need for a more robust framework of prudent and effective risk management and internal controls. They aim to provide a stronger basis for reporting on, and evidencing the effectiveness of, the framework during the period.

The expectations of the 2018 Code will remain. Namely, the board should monitor the company's risk management and internal control framework and, at least annually, carry out a review of its effectiveness. Also, that the monitoring and review should cover all material controls, including financial, operational, reporting and compliance. The main change to the 2024 Code is that boards will be required to explain, through a declaration in their annual reports, how they have carried out the review of its effectiveness and their conclusions. Further details on the changes to Provision 29 are provided later in this section.

Scope of the review of effectiveness of risk management and internal control systems

It is important that there is a robust annual process for the review of the effectiveness of risk management and internal control systems. Under the 2018 Code the review must encompass all material controls including financial, operational and compliance. The Code and its supporting guidance do not set out a framework that companies should follow or define a material control; this will be dependent on the nature of the principal risk. It is not the FRC's role or intention to prescribe or dictate what a material control is for a company.

While material controls usually include controls over principal risks, there may be other controls that are not designed to manage or mitigate principal risks but may nonetheless be material. These could include, for example, controls over finances, reporting or compliance, which even though may not be considered principal risks by the company/group, are still important and may be considered material controls.

In this review, we looked at reporting against the current Provision 29 (2018 Code). Around half of companies in our sample specifically stated that the review covered financial, operational and compliance controls. Some companies also mentioned other controls covered in the review such as cyber security, IT, governance, legal, climate and whistleblowing.

Reporting on the review of effectiveness of risk management and internal control systems

This year, we found that all companies stated they had reviewed the effectiveness of their risk management and internal control systems, however fewer companies stated that they had monitored their risk management and internal control systems. An effective risk management and internal control framework depends on thorough

and regular evaluation of the nature and extent of the risks to which the company is being exposed. More information on maintaining the effectiveness of the risk management and internal control framework can be found in the [Code guidance](#).

Like last year, we found that 40 companies reported on their review in some detail, including what areas were covered or a simple statement of who carried out the review. We also identified a further 14 examples of good reporting. The other 46 confirmed that a review had been carried out without providing further disclosures.

Good reporting explains the process of the review, including information on who carried out the review, the units and individuals consulted with and what information was provided to the board of relevant committee. Where relevant, the disclosure may also reference the recognised framework, standard, or guidelines the board used to assess effectiveness. It may further outline which material controls were considered and where the information on these controls was sourced from. While not a requirement or expectation in the Code, companies may also include any internal or external assurance received. The following examples illustrate good practice in reporting how the effectiveness of risk management and internal control systems has been reviewed.

Source: Inchcape, p.85

Monitoring the effectiveness of the risk management and internal control systems

The Board, through delegated authority to the Audit Committee, has ultimate responsibility for the effective management of risk across the Group and for monitoring how each business area implements appropriate internal controls.

The Group's risk management systems are designed to support the business in actively managing risk to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss. These systems are also designed to be sufficiently agile to respond to changes in circumstances such as the consequences of new acquisitions, changes triggered by new legislation, and significant external events.

The Committee monitors the effectiveness of the internal control and risk management systems through various sources of assurance including reports from the Group Head of Internal Audit on the ICS framework, the enterprise risk management framework, and the status of internal audits.

When reviewing the effectiveness of the ERM framework, the Committee considered the design of the ERM process, whether it had been applied to all material areas of the business, whether the process had identified the most material risks to the Group, and any new or additional mitigation actions to address the principal risks. The Audit Committee also receives reports on principal risk descriptions and risk footprint, as well as receiving regular updates on the status of the Group's principal and emerging risks. This year, these reviews have covered areas including cybersecurity and IT resilience.

When assessing the effectiveness of the internal control framework, the Committee considers the independent assessment of the effectiveness of risk management and internal control systems provided by the Group Head of Internal Audit. The Audit Committee also receives regular reports on the status of the controls assurance plan which

covers controls in each Market and function, and monitors compliance with and effective operation of the ICS framework. The Committee also considered the actions taken to enhance controls design and effectiveness, testing results and trends analysis derived from the Group's integrated risk management system.

In addition, the Committee reviews the report presented by Deloitte during the year on control improvement recommendations and other observations made on the control environment during the audit.

Any significant control failings or weaknesses are reported to the Board, along with a detailed review of the findings and mitigation plans being put in place. The Board monitors progress against plans until it is satisfied that such matters are resolved appropriately.

The Board has determined that there were no significant failings or weaknesses identified during the review of risk management and internal control processes during the year and further confirms that these systems were in place during 2024 and to the date of this report.

Evaluation of the effectiveness of risk management and internal control systems

Evaluation of the effectiveness of the Group's risk management and internal control systems for all parts of the business has been carried out twice during the year. This covered all material financial, operational and compliance controls. The evaluation process involved the following:

- Executive director review – the most significant corporate level risks of the Group, as identified by the risk management process, and their associated controls were assessed in detail by the executive directors. The objective of this top down review was to ensure that the appropriate risks had been accurately captured within the risk management processes described above, that adequate controls were in place to mitigate these risks and that their potential impact had been robustly assessed. The executives also considered the appropriateness of the principal risks identified.
- Audit Committee review – at the January 2025 meeting, management presented the Committee with details of the ERMF, the risk scoring matrix methodology and the ownership and oversight of risks. The Committee also considered the nature and circumstances around significant risk events that had occurred during the year to assess whether they suggested significant failure or weakness in internal controls. An internal financial controls matrix summarising the key processes and oversight of the Group's financial controls was reviewed, with input from senior finance management. The Committee also satisfies itself that management's response to any financial reporting or internal financial control issues identified by the external auditor is appropriate.
- Board review – at their January 2025 meeting, the Board undertook its formal review of the effectiveness of the risk management systems of the Group. Management supported this review by presenting information about the Group's risk management systems and processes, the output of the reviews undertaken by the Audit Committee and the executive directors, information about the most significant business risks and a summary of the type and regularity of key executive director-led risk governance meetings, mapped to the principal risks.

To support the Audit Committee and Board in discharging their responsibilities, they were provided with the following information:

- Relevant extracts regarding their responsibilities concerning risk from the Corporate Governance Code, the FRC Guidance on the Strategic Report and also on Risk Management, Internal Control and Related Financial and Business Reporting.
- A review of the Principal Risks identified by other comparable listed companies. This helps to ensure that there are no material gaps in our risk identification or impact assessment.

Following the evaluation process described above, the Board is satisfied that the material controls have been operating effectively for the financial year to January 2025 and up to and including the date of this Annual Report (see page 117 for further details). No significant failings of internal control were identified during these reviews.

The business will continue to review opportunities to develop, strengthen and improve the effectiveness of our risk management and internal control systems.

Reporting on the outcome of the review of effectiveness of risk management and internal control systems

In anticipation of the new Provision 29, we looked at how the outcome of the effectiveness review was reported and found there has been little change in the reporting on outcomes since last year's review:

- 43 companies stated that their systems were adequate or effective.
- 33 companies stated that no weaknesses were identified.
- 16 companies stated that their systems are effective and that no weakness was identified.
- 40 companies did not report on the outcome.

An example of good reporting on the outcome of the review:

Source: First Group, p.119

During the course of the financial year, any control weaknesses identified through the operation of our risk management and internal control processes were subject to monitoring and resolution in line with our normal business operations.

In 2024, no material control weaknesses were identified. Overall, the Committee is satisfied that the Group's internal control framework was operating effectively as at the year end. The ongoing controls assurance programme is progressing well to support the formal attestation on controls effectiveness required as part of regulatory reforms.

Enhancements to the control environment are being implemented, and are expected to be completed in the forthcoming financial year. Where specific areas for improvement were identified, mitigating alternative controls and processes were in place. The attestation methodology and recruitment plans are progressing well, and an attestation system has been developed.

The Committee will continue to oversee the approach, scope of compliance work undertaken and assess progress on a regular basis. Regulatory developments will continue to be monitored and the project plan adapted accordingly as the landscape develops.

Some companies stated that their systems were effective while indicating that some weaknesses had been identified during the year. These were not considered to have a significant impact on the company. It is good to see transparency in reporting as this approach provides readers with a clearer understanding of the company's risk profile and the steps being taken to strengthen governance.

Repetition

As with all parts of the annual report and accounts, the board should provide clear and concise information that is tailored to the specific circumstances of the company, and should avoid using standardised language, which may be long on detail but short on insight.

We found that companies often repeated information on risk management and internal controls throughout both the strategic report and the corporate governance report. Not only does repetition increase the length of the annual report, it also makes it more difficult for readers to understand the company's approach to risk management. Therefore, companies are encouraged to consolidate reporting on risk and internal controls into one section of the report to enhance clarity and use cross referencing within the report.

Provision 29

In January 2024, an updated Provision 29 was published as part of the new UK Corporate Governance Code. In addition to the longstanding requirement for companies to describe how the board has monitored and reviewed the effectiveness of the internal control framework, the new provision will require:

- A description of how the board has monitored and reviewed the effectiveness of the framework.
- A declaration of effectiveness of the material controls as at the balance sheet date; and
- A description of any material controls which have not operated effectively as at the balance sheet date, the action taken, or proposed, to improve them and any action taken to address previously reported issues.

As a reminder, the revised Provision 29 is effective for periods beginning on or after 1 January 2026.

The requirements of the new provision should be applied proportionately and take account of the specific risks of each organisation to avoid unnecessary duplication and disclosure of immaterial information.

This year, we found more than half of companies in our sample mentioned the changes to the Code. Many of these also provided information on how they are preparing for the new provision. Examples of this included updating the board and its committees on the changes, enhancing/updating internal control frameworks, identifying material controls, reviewing the development of new frameworks and changing the scope of the audit committee's responsibilities. Some companies also reported carrying out a dry run of the process intended to support the internal control declaration. Examples of reporting on preparations can be found below.

Source: Endeavour Mining, p.122

Internal Controls project in preparation for the 2024 UK Corporate Governance Code ("2024 Code")

Management considered the changes to the risk management and internal control requirements introduced by the 2024 Code, (effective from 1 January 2026), to be an opportunity to refresh and enhance Endeavour's existing Enterprise-wide Risk management process and controls.

With support from an external consultancy firm, we have created a risk and control matrix, which identifies the material financial, operational, reporting, compliance and other risks and controls across all our main business processes. This outcome was achieved by undertaking an extensive series of risk and control workshops, involving a mix of financial, operational, reporting and compliance staff from across the business and from all levels of seniority. We also performed a "deep dive" on the more complex processes, to ensure all risks were fully covered.

The material risks identified represent a consensus view, based on input from the relevant staff across the business including all functions and departments of the Company. In order to comply with the 2024 Code, material risks and controls will be tested in 2025. Throughout this process a small number of gaps were also addressed with compensating controls and in each case, remediation tasks were agreed with the relevant control operators and target completion dates set. As at the year-end we had completed design effectiveness testing for all our material controls.

In parallel, we developed a Governance, Risk and Compliance ("GRC") tool, to automate the entire Enterprise-wide Risk Management process. All material controls have been loaded into the tool, which will be used to retain evidence of the operation of the controls and subsequently record operating effectiveness testing (from early 2025 onwards). The opportunity was also taken to enhance and formally document our Enterprise-Wide Risk Management processes covering: Principal Risk Assessment; Corporate Risk Assessment; Fraud Risk Assessment; and Self-certification. As at the year-end these enhanced processes were being finalised with management and will be rolled out in the first half of 2025. The GRC tool will support the day-to-day operation of these processes. The new oversight and reporting model is set out in the diagram on page 120.

Case study

Preparedness for the UK Corporate Governance Code changes (risk management and internal controls)

The 2024 version of the UK Corporate Governance Code has introduced a new Provision (Provision 29), requiring boards to monitor their company's risk management and internal control framework and, at least annually, to conduct a review of its effectiveness. For financial years beginning on or after 1 January 2026, a description of how the board monitored and reviewed the effectiveness of the framework, a declaration of the effectiveness of material controls, and a description of any material controls that have not operated effectively (including action taken or proposed to improve them) must be reported in the annual report.

In readiness for these changing requirements, Howdens has completed a two-year Company-wide readiness project. Sponsored jointly by the CEO and CFO with the oversight of the Audit Committee, the Key Controls Project was a wide-reaching improvement programme to further improve our governance, controls and evidence. A key objective of the project was to retain Howdens' culture of empowered, entrepreneurial teams operating efficiently while demonstrating effective control and governance.

Our approach mapped our principal risks as well as wider legal, financial, compliance and operational risk areas to a revised governance framework with clear accountability for each Executive Committee member. To do this we have revised our risk appetite matrix and developed a clear link to both operational and financial materiality, ensuring that our governance approach focuses on truly material

controls, while allowing the business to keep track of its wider operational control effectiveness.

For each area, a control framework was developed, focused on providing the Executive member responsible with appropriate information and evidence to ensure it remains effective. Directly aligned with our deeply embedded risk management process, all control owners and reviewers are responsible for understanding individual, evidenced risks in their area and signing off that controls are effective and have fully operated during the period.

Throughout the project we have aimed for a clear and efficient process, covering governance and controls to manage both Economic Crime and Corporate Transparency Act 2023 (ECCTA) and the revised UK Corporate Governance Code in one simple process. We have upgraded our governance, risk and compliance (GRC) tooling, which was already familiar to the business, to provide both management sign-off of control effectiveness and evidence management to support it. Our GRC solution is directly linked with our 3rd line Internal Audit activity, providing a clear link between control sign-off, review and assurance activity for the Executive Committee and Audit Committee.

We are continuing to develop our compliance functions to align against this new model and to ensure that this approach is effective.

Material Controls

In 2024, the Committee focused on ensuring compliance with the enhanced requirements of the 2024 UK Corporate Governance Code regarding internal controls. This included supporting the development of a comprehensive Group-wide programme to reconfirm our material controls, encompassing all key risk areas.

The Committee actively engaged with management on this programme throughout the year, receiving regular updates on key activities such as:

- Defining the scope of those material controls that should be included in the Board's attestation and our approach to assessing their effectiveness
- Engaging with external experts and peers to benchmark best practices
- Reviewing and updating roles and responsibilities for internal controls, considering the impact of the Group's restructuring programme
- Enhancing the Group's Risk and Control Framework to ensure it continues to be robust and includes clear risk appetite statements and metrics
- Establishing our assurance approach to enable us to better provide evidence of the effectiveness of material controls

The Committee is pleased with the progress made in 2024 in strengthening our control environment. This will remain a key focus area in 2025 as we continue to embed these changes and prepare for the 2024 Code reporting requirements

Cyber and information technology

While the Code does not specifically ask for reporting on cyber matters, it does consider the governance of principal and emerging risks. Therefore, for a third year, we have considered reporting on cyber and information technology. According to the Department of Science, Innovation and Technology, a recent survey² found that more than four in ten businesses reported having experienced a cybersecurity breach or attack in the last 12 months. Due to increasing threats from cybercriminals and state actors, as well as the rising sophistication of such threats, there is a necessity for businesses to strengthen their cybersecurity frameworks, enhance resilience and ensure robust risk management practices are in place.

Risk

Like last year, 85% of companies included cybersecurity as a principal risk and a further 12% outlined it within their operational principal risk. Some companies also included a separate section in the report on cyber risk in addition to their principal risks. A quarter of the sample also outlined technology related risks as a standalone principal risk.

Cyber governance

A total of 66% of companies discussed how the board and its committees are involved in mitigating actions or monitoring cyber risks. This included management regularly updating the board on cybersecurity matters and ensuring sufficient time was allocated on the board agenda for their consideration. Several companies reported that their audit committees conducted periodic reviews, while others highlighted dedicated cybersecurity awareness training sessions for board members. One company also mentioned that the outcome of their board evaluation was to have additional board training on

cybersecurity. It is encouraging to see boards proactively engaging with this topic through regular updates and training, rather than relying on a single director with specialist expertise. A good example of reporting on cyber governance can be found below.

Source: Diageo, p.117

The Board has overall responsibility for our risk management, including in respect of cyber security, oversight of which has been delegated to the Audit Committee. The Audit Committee is responsible for ensuring that management has processes in place designed to identify and evaluate cyber security risks to which the company is exposed and implement processes and programmes to manage cyber security risks and mitigate cyber security incidents. The Audit Committee also reports material cyber security risks to the Board. Management is responsible for identifying, considering and assessing material cyber security risks on an ongoing basis, establishing processes to ensure that such potential cyber security risk exposures are monitored, putting in place appropriate mitigation measures and maintaining cyber security programmes. Our cyber security programmes are under the direction of our Chief Information Security Officer (CISO) who receives reports from our cyber security team and monitors the prevention, detection, mitigation, and remediation of cyber security incidents. Our CISO and dedicated personnel are certified and experienced information systems security professionals and information security managers with many years of relevant industry experience and accredited certifications. Management, including the CISO and our cyber security team, regularly update the Audit Committee on the company's cyber security programmes, material cyber security risks and mitigation strategies and provide cyber security reports on a half-yearly basis that cover, among other topics, assessments of the company's cyber security programmes, developments in cyber security and updates to the company's cyber security programmes, security risk footprint with risk appetite, and mitigation strategies.

Twelve companies in this year's sample had either a steering committee or a working group for matters relating to cybersecurity, information security or technology governance. One company also had a board-level data and technology committee, responsible for overseeing and advising the board on all aspects of information technology, data and analytics and cybersecurity.

Culture

As outlined in the National Cyber Security Centre's [toolkit for boards](#), a positive cybersecurity culture is essential because people make an organisation secure, not just technology processes. Almost half of companies in our sample outlined that they promoted a strong security culture through awareness campaigns and/or mandatory training for all colleagues. One company also highlighted that cybersecurity is a risk requiring the active involvement of executive teams and it therefore focused awareness and training exercises on this level.

² Department for Science, Innovation & Technology. Cyber security breaches survey 2025. [Cyber security breaches survey 2025 – GOV.UK](#)

Source: Foresight Group Holdings, p.40

Cyber and information security remains a key risk due to the prevalence and increased sophistication of cyber-attacks. The emergence of simple Artificial Intelligence ("AI") tools has had a significant impact on the quality of phishing emails and therefore phishing attacks are becoming harder to recognise. Foresight continues to monitor these threats regularly alongside employee engagement with cybersecurity training. The cybersecurity training covers the latest phishing techniques to ensure our staff stay abreast of the latest attack techniques. Regular test emails have proved beneficial and enable Foresight to understand what areas required additional training across the business.

While board members do not need to be technical experts, they should be able to engage meaningfully with cybersecurity issues and ask the right questions. A fifth of the companies in our sample reported that the board had access to cybersecurity expertise, with most noting that this was through a board member who possessed prior relevant experience. Boards can also grow expertise by ensuring members have access to relevant training and resources.

More information on cyber security risk management can be found in the [Code guidance](#), including resources to support boards and directors.

Artificial Intelligence

When we looked at reporting on Artificial Intelligence (AI) for the first time in 2023, around half of companies mentioned it in their report. This year, we found that figure rose to 86% of companies,

with many providing detailed insights into their governance arrangements, reflecting growing board-level engagement with AI-related opportunities and risks. Some companies reported that boards were being updated on matters such as the company's AI strategy and policy, the ethical use of AI and the steps being taken to mitigate AI-related risks. It is important for boards to have a clear view of the responsible development and use of AI within the company and the governance around it.

AI risk

Twenty companies disclosed AI as an emerging risk and a further three companies disclosed it as a principal risk, all of which were FTSE350 companies. While not all companies outlined AI as a principal or emerging risk, many outlined the risks associated in other sections of the report. One company also outlined AI as a priority for 2025:

Source: Evoke, p.50

Artificial intelligence and intelligent automation governance framework

As the industry increasingly embraces artificial intelligence (AI) and intelligent automation (IA), we recognise the transformative potential and are eager to integrate these technologies into our operations. Like many organisations, we see the immense value of AI and generative AI, but we also acknowledge the inherent risks that come with this adoption, both in the development and deployment of AI and IA technologies, and in the tools we procure.

As we plan to increasingly integrate AI and IA into our operations, we recognise the importance of a robust risk governance framework to ensure responsible and ethical deployment, prioritising the safety and wellbeing of our customers, employees, and evoke. In 2024, we have prioritised the deployment of a sustainable AI and IA risk governance framework, integrated within our broader Enterprise Risk Management system.

Around a quarter of the sample mentioned AI within their descriptions and the mitigations of their principal risks. One company also linked AI to some of its principal risks:

Source: Sthree, p.87

6. People, talent acquisition and retention

Risk description

SThree's profitability, long-term enterprise value and ultimately our ability to deliver our strategy will be detrimentally impacted if we cannot attract and retain the right talent and drive the right levels of productivity to deliver against our growth ambitions.

The Group is reliant on attracting and retaining people that can deliver against its growth strategy. Sales consultants take time to reach their productivity peak, and this therefore needs to be taken into account when considering timelines. It is vital that SThree attracts and retains an engaged, productive, diverse workforce to ensure the future success of the Company.

Link to artificial intelligence: If left unaddressed, a concern amongst the employee population that artificial intelligence (AI) could replace certain roles could cause issues with engagement and retention. Conversely, inadequate adoption of AI could mean a missed opportunity to use the technology in a way which encourages and enables people to achieve their potential.

AI policy and reporting

Eleven companies reported having an AI policy or reviewing their code of conduct to include a section on AI. While many companies may be using AI to produce or enhance reporting, only one company in our sample mentioned the use of AI in reporting, stating that it was used to develop the chief internal auditor's reports.

AI training and awareness

Ten companies in our sample stated that the board had access to AI expertise, mostly through updates, training or deep dive sessions. Some companies also reported that board members had AI expertise. One company noted that, with the exception of one director, no others had detailed experience of AI, but steps were being taken to enhance expertise:

Source: Capita, p.92

The Committee is taking steps to ensure that directors are provided with requisite training and knowledge in this respect in order that they can provide the appropriate level of challenge and oversight to management and to up-skill the Board in line with our strategy and this matter will be taken into consideration in any future appointment process.

Some companies also discussed the ways the board received information on AI. These included updates to the board and its committees on the company's AI strategy and policy, establishing governance frameworks and allowing time on the board's agenda to consider the impacts of AI. Some companies also established AI committees.

Robust governance and oversight around the use of AI is essential for managing risk and ensuring the ethical development and deployment of AI systems. It is important that there are clear policies and procedures that are embedded across all levels of the organisation.

Source: WPP, p.79

The Chief AI Officer, working together with the CEO and CTO, is responsible for the strategic direction of generative AI in the business.

We have established a Generative AI Governance Committee which oversees the application and adoption of, and risks associated with, generative AI across WPP. This committee includes the CEO, CTO and Chief Privacy Officer and other senior stakeholders in the business with responsibility for the safe and responsible use of generative AI within the Group. This committee will be expanded in 2025 to cover all AI risk.

We have developed and continue to invest in WPP Open, which is available to all staff in order to support our work and deliverables both internally and for clients.

We have established partnerships with leading generative AI platforms, technologies and companies, including NVIDIA.

We actively monitor the changing regulatory landscape and the introduction of new laws regulating AI to assess the impact on our business and work, including detailed review of the EU AI Act and evolving IP laws (including copyright), and how they will impact how we service our clients.

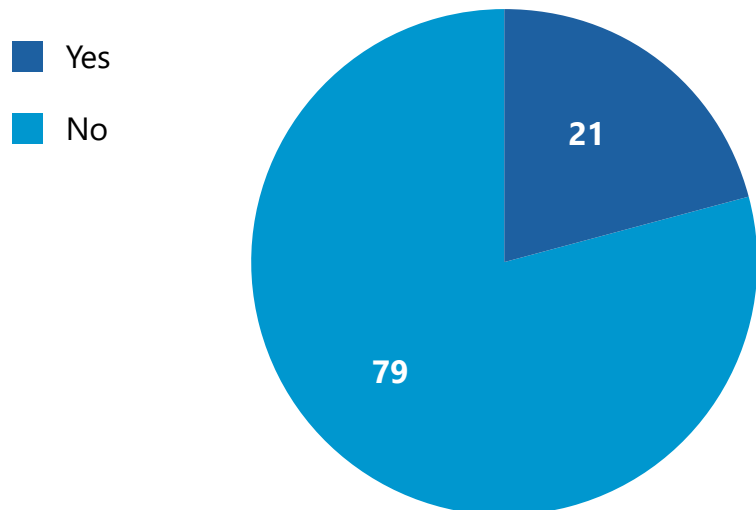
We have a comprehensive due diligence process in place to review the third-party AI tools/platforms used in the business. This process considers the use case for the tool/platform and includes reviews of the security, legal and technology aspects of the tool/platform as well as sources of underlying learning data, where applicable, to develop a 'traffic light' approach to risk.

While AI provides many opportunities (including efficiencies and new services and offerings), we also continue to review and consider the impact around our business model through the Generative AI Governance Committee, reporting to the Board and Audit Committee on identified risks and impacts.

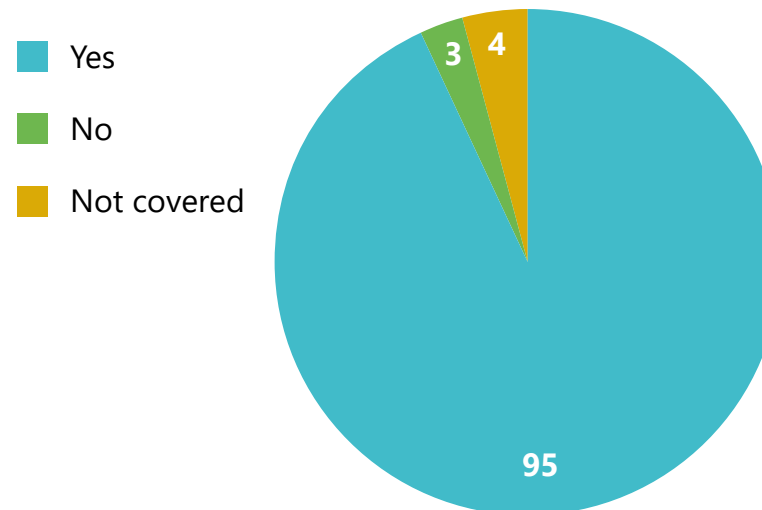
5. Remuneration

Remuneration reporting snapshot

Companies exercising committee discretionary powers this year



Firms reporting post-employment shareholding guidelines



Instances of malus and clawback activation during the year



Frequency of consultant mentions in remuneration reports



Our analysis this year continues to show several notable trends that shape remuneration governance. Only 21 companies reported using discretionary powers in pay decisions, indicating a cautious approach to adjusting variable awards. Meanwhile, although malus and clawback provisions were widely established across companies, they were actively applied by just one company in our sample. Regarding post-employment shareholding guidelines, a strong majority of firms reported having these in place, reflecting a growing alignment with long-term accountability and shareholder interests. In line with Provision 35 of the 2018 Code, we also examined the frequency of mentions of external remuneration consultants, highlighting the continued importance of advisory support in remuneration decision-making.

Remuneration

It is important that companies understand the requirements of the Code as there continues to be a number of misconceptions. The remuneration section does not prescribe the quantum or specific design of pay arrangements. Instead, it emphasises the importance of robust governance frameworks and the accountability of remuneration committees in overseeing executive pay. The focus is on process, transparency and alignment with long-term shareholder interests, not on the setting of pay levels. Below is a high-level summary of the key areas addressed within this area of the Code:

- **Remuneration committee oversight:** A dedicated committee should be in place to determine remuneration policies for the board and senior management, and to review pay practices across the wider workforce.
- **Governance of pay decisions:** Clear accountability is required for decisions relating to director and senior management pay, including the use of discretion to adjust variable awards in response to market conditions or other factors.

- **Use of external advisors:** Relationships with remuneration consultants must be properly governed to ensure independence and transparency.
- **Long-term incentives:** The Code encourages long-term value creation through share-based awards, including extended vesting periods and post-employment holding requirements.
- **Contractual terms:** Notice periods and contract durations should be disclosed to promote transparency and accountability.
- **The work of the committee:** The remuneration committee must provide a clear explanation of its activities and decisions within the annual report.

This year's review continued to focus on the areas outlined above and as noted in last year's findings, disclosures in this area that relate to the Code are often clear, transparent and of a high standard. This remained true across many annual reports. A good example is [Capita plc](#), which, although it did not apply discretion this year, provided a summary of the committee's use of discretion over the past five years:

	2020	2021	2022	2023	2024
Annual bonus	In light of the impact of Covid-19, the annual bonus plan was withdrawn for 2020 for the executive directors (plus the executive committee and selected senior managers) before the targets were agreed.	No committee discretion exercised.	Annual bonus awards for the CEO and CFO for the year ended 31 December 2022 were reduced from 69% to 60% of the maximum, see page 115 of the 2022 annual report.	No committee discretion exercised (albeit it should be noted that the committee accepted management's proposal not to pay an annual bonus for 2023).	No committee discretion exercised.
Share awards	2020 LTIP award levels were reduced by around 70% compared with normal grant levels. In addition, and to reflect underlying financial and operational performance, the committee applied downward discretion when assessing the vesting of the 2018 LTIP.	2021 RSA levels were reduced from the normal policy grant level by around 17%.	The 2022 RSA level for the CEO was reduced from the normal award level of 150% of salary to 100% of salary, see page 116 of the 2022 annual report.	No committee discretion exercised.	No committee discretion exercised.

Another example of clear and transparent reporting was provided by NatWest Group plc. Following the introduction of its proposed changes to the directors' remuneration policy, the Group included a dedicated questions and answers (Q&A) section on pages 131 and 132 of its [annual report](#), outlining a clear rationale behind its proposed amendments:

2025 Directors' remuneration policy – Listening to our shareholders

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 2024, we engaged with a number of institutional shareholders, proxy advisers and the UK regulators to discuss our approach to remuneration for the 2025 performance year and our proposed Policy amendments for executive directors ahead of the next triennial vote on the Policy by shareholders in 2025.

On the whole, feedback received on the Policy proposals was overwhelmingly positive, with shareholders understanding the business context for moving to a PSP construct, as set out in the Chair's letter at the front of this report. In addition, common areas of discussion were expectations regarding the use of stretching, quantifiable targets to incentivise outperformance; the transparent disclosure of such targets; and the bank's rationale for not re-balancing the fixed share allowance following the introduction of the more leveraged PSP. Our responses to the

most commonly raised questions from this consultation are set out to the right and on the next page.

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 this year's consultation.

A summary of the new Policy can be found on page 133, followed by the main Policy tables which set out full details.

In addition to the above discussions, we also held two virtual shareholder events with retail shareholders (including colleague shareholders) in 2024 to ensure we heard from the wider shareholder base on matters of importance. During the events, shareholders raised questions on new digital skills colleagues will need and the impact of Artificial Intelligence; the importance of the leadership skills in our executive directors; and also on our strategy for attracting, retaining and developing future talent. Further shareholder events are planned for 2025.

Q. What are the key changes proposed from the last Policy?

A. We are proposing two key changes:

- Firstly, the RSP award, currently capped at 150% of salary, will be replaced by an annual PSP award, capped at 300% of salary. Performance measures, weightings and targets will be determined by the committee each year, with stretching targets, directly linked to the bank's strategy, set to reflect the increased potential pay out under the PSP.
- Secondly, the annual bonus opportunity, currently 100% of salary, will be increased to 150% of salary. Performance targets will incorporate greater stretch above the target performance level, up to the maximum, to reflect the greater opportunity.

Q. Why are we changing our Policy after one cycle?

A. While our current policy supported our transition to a more market-aligned construct, we are fostering a stronger performance culture and need our Policy to evolve in order to support the business strategy.

For executive directors we want to introduce more performance-based variability of pay outcomes, creating further alignment between executive pay and the long-term value created for our shareholders.

Q. Why are we increasing variable pay?

A. While the new Policy results in higher pay at maximum performance, pay only increases marginally at target performance and, crucially, there is lower pay for executive directors at threshold incentive payment levels.

Nearly all the increased leverage is achieved through the move from RSP to PSP which brings significant downside risk alongside potential upside.

The modest increase to variable remuneration at target (equivalent to 25% of salary), through the increased annual bonus opportunity, provides a stronger link to the achievement of stretching business targets linked to our strategy.

The annual bonus opportunity was set at a conservative level when introduced in 2022, noting that no annual bonus plan had been operated for many years. As this plan has now been established for three years and is working well with robust targets and a good link of pay outs to performance, we are comfortable to make this increase without driving additional risk-taking. These proposals support the next phase of our business strategy and a stronger performance culture by providing a more competitive package to our executive directors, which is an important factor in attracting and retaining highly talented individuals.

In determining the appropriate positioning of variable pay, we also noted that the current package remained behind our main UK banking peers and we are comfortable that the proposed package is appropriate within the context of our FTSE and banking peers.

Q. Given that the limits on fixed to variable remuneration have been removed, why are we retaining the fixed share allowance?

A. We are aware that other UK banking peers may change the balance of their packages in response to the bonus cap removal. While peer practice is one factor that we consider, we do not believe this would be appropriate for us at this time.

Removal of the fixed share allowance was considered; however, this would have required an even greater increase in variable pay opportunity in order to retain market positioning. Given our starting point on variable to fixed pay ratio, the committee concluded that it was appropriate to retain the fixed share allowance for this Policy period, as it acts as a counterweight that ensures the overall package is not too highly leveraged. The continued delivery of the fixed share allowance in shares also ensures alignment with shareholder experience.

The use of the fixed share allowance, and peer practice on pay, will be kept under review.

Q. Why is the first grant under the PSP being made in 2026 rather than 2025?

A. All changes to the Policy will apply to performance year 2025 awards, which will be granted in March 2026. This is in line with regulatory expectations, with the grant of PSP awards contingent on satisfactory performance as assessed with reference to a pre-grant test in respect of performance in 2025. This approach aligns with our historic practice and market practice for our sector.

Q. How will we respond to any changes the PRA and FCA may announce to the remuneration rules?

A. When designing the Policy, we have been mindful of the proposed changes published by the PRA and FCA in November 2024. While the changes that are being proposed remain in consultation, the committee is aware that during the life of the Policy there is likely to be a degree of change which, in general, will provide less onerous requirements in certain areas.

The Policy has been designed in such a way as to allow the committee to operate it under a less stringent regulatory regime, while also still ensuring that the operation of the Policy aligns with market best practice for FTSE listed companies.

Any changes to the operation of the Policy, following any regulatory changes being finalised, will be fully disclosed as part of our reporting on the implementation of Policy.

Q. What are the measures and weightings for our annual bonus and PSP?

A. For the bonus and PSP for performance year 2025, the measures will be split 60% financial, 40% non-financial. The balance between financial and non-financial is representative of business strategy and our priorities, and is aligned to market practice in the UK banking sector. It also recognises the expectation of the UK regulators that remuneration contains a significant element of non-financial performance. The proposed non-financial measures are clearly aligned to the interests of stakeholders and our strategy and form the bedrock of delivering long-term sustainable value creation to shareholders.

The tables on the next page give a breakdown of the planned weighting of metrics. Both the risk modifier for the annual bonus and the risk and conduct underpin for the PSP have the ability to reduce the annual bonus and PSP outcome to zero where deemed appropriate.

Q. What will the Relative Total Shareholder Return (TSR) peer group look like?

A. Following extensive analysis of appropriate peers, we have agreed that TSR performance will be measured against a peer group of large UK and Western European banks. The peer group will include the three other major UK listed retail banks (HSBC, Barclays and Lloyds) and in Europe there is a balance across the market with a broad footprint across the main markets. It is currently anticipated that the TSR comparator group will comprise around 18 constituents.

Our analysis concluded that this is the most appropriate approach, recognising our business mix and taking into account that a UK-only group would not be large enough.

While the peer group has been agreed in principle, the final group will be confirmed shortly before the PSP awards are made in order to ensure that they remain relevant and appropriate.



The inclusion of this dedicated section within its report offered a clear and accessible explanation of the strategic rationale behind proposed changes to its directors' remuneration policy and in adopting this format, the group provides further transparency and facilitates shareholder understanding of complex governance decisions.

Both examples reflect good practice in annual governance reporting. Capita plc's summary of discretion exercised and NatWest Group plc's use of a dedicated Q&A format to explain proposed remuneration changes, illustrate how companies can present information in a clear and contextualised way that supports understanding.

Observations on malus and clawback provisions

We continue to monitor how companies are responding to the revised provisions of the Code, with particular attention to updates concerning malus and clawback arrangements. While many companies already had such provisions in place, we were interested to observe whether any adjustments were being made in light of the 2024 Code.

One company reported:

“With our current Remuneration Policy considered effective and well aligned with market standards and best practice, the only material change being made is an update to the trigger events within our clawback and/or malus provisions—specifically relating to recovery and/or withholding mechanisms in our annual bonus and long-term incentive plans. These updates are being implemented in response to the 2024 UK Corporate Governance Code.”

Other companies acknowledged the revised provisions and confirmed that they had undertaken reviews to ensure alignment with best practice:

“The malus and clawback provisions within our variable incentive plans have been reviewed and updated to reflect best practice and ensure alignment with the 2024 Code.”

One company openly stated its full compliance with the updated Code:

“The new UK Corporate Governance Code, published in early 2024 and effective from 1 January 2025, includes amendments to malus and clawback provisions. Provision 37 now requires that Directors’ contracts and related remuneration documents include malus and clawback clauses, while Provision 38 calls for companies to disclose details of these provisions.

The Company is fully compliant with the updated Code.”

The disclosures suggest that while many companies had existing frameworks in place, the revised Code is prompting a few organisations to revisit and refine their current malus and clawback arrangements to ensure continued alignment with regulatory expectations and evolving best practice.



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