

# Annual Review of Corporate Governance Reporting

Financial Reporting Council

November 2026

# Contents


| | |
|---|---|
| Executive summary | 3 |
| Use of explanations and flexibility of the Code | 5 |
| Flexibility of the Code | 5 |
| 1. Board leadership and company purpose | 10 |
| Culture | 10 |
| Outcomes | 14 |
| Shareholder engagement | 19 |
| 2. Composition, succession and evaluation | 23 |
| Diversity | 23 |
| 3. Audit, risk and internal controls | 24 |
| Audit Committees and the External Audit: Minimum Standard | 24 |
| Audit Quality Review inspection results | 27 |
| Interactions with the FRC's Corporate Reporting Review | 30 |
| Risk | 31 |
| Cyber risk and artificial intelligence | 33 |
| Preparedness for Provision 29 of the 2024 Code | 36 |
| 4. Remuneration | 41 |
| 5. Additional reporting insights | 44 |
| Small-cap companies | 44 |
| Simplifying reporting | 47 |



The FRC does not accept any liability to any party for any loss, damage or costs however arising, whether directly or indirectly, whether in contract, tort or otherwise from action or decision taken (or not taken) as a result of any person relying on or otherwise using this document or arising from any omission from it.

© The Financial Reporting Council Limited 2026



The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered Office: 13th Floor, 1 Harbour Exchange Square, London E14 9GE

# Executive summary

The UK Corporate Governance Code provides a clear and internationally recognised framework for high standards of governance, accountability, transparency and communication, while retaining the flexibility companies need to apply that framework in ways that reflect their individual circumstances. Its principles, underpinned by the Listing Rules, establish common expectations required to deliver effective governance, while the 'comply or explain' approach to the Code's provisions enables proportionate, company-specific arrangements. This flexibility is a core strength of the Code, provided that departures are supported by clear, meaningful and context-specific explanations that allow shareholders to understand the rationale, risks and mitigating actions.

This is the first year of reporting against the updated 2024 Code, which places greater emphasis on reporting the outcomes of board decisions and on the quality of explanations for departure. It also highlights the importance of assessing, monitoring and explaining how the desired culture is embedded and reporting on how the board's objectives and initiatives link to strategy. At the request of government, we strengthened malus and clawback reporting. We also incorporated the Audit Committees and the External Audit: Minimum Standard into the Code to provide a single source of relevant and authoritative information. The revisions to Provision 29 on risk management and internal controls have a later implementation timetable, so this year's review focuses on companies' preparations ahead of making a declaration of material controls effectiveness next year.

Some stakeholders assert that the Code is 'comply or else' and departures are not possible. However, our review of 100 companies found this not to be the case, with increased use of the Code's flexibility: 39 companies reported departing from at least one Code provision, compared with 25 in the previous year, broadly consistent with the longer-term pattern of around one third of companies reporting a departure. Nearly all companies clearly identified the provisions concerned, although the quality of explanations continues to require improvement. Reporting against the 2024 Code also shows that outcomes-based reporting is developing but is not yet consistently delivering insightful reporting. Better disclosures connect a board decision or action to what changed and why it mattered; too often, reports describe what the board reviewed or discussed, or simply label information as an 'outcome' without explaining the resulting impact. The strongest examples of outcomes-based reporting were found in reporting on shareholder engagement and board performance reviews.

In response to stakeholder feedback, we have included in this report a section on reporting by small-cap companies. The small-cap companies in the sample demonstrated that high-quality governance reporting need not be lengthy or complex and that the Code can be applied proportionately to reflect company size and resources. Small-caps showed a slightly higher incidence of departures, particularly from Provisions 9 and 19, but also provided examples of concise explanations and effective reporting.

Preparations for revised Provision 29 were well advanced: 92 of the 100 companies reported some form of readiness activity. The strongest disclosures described board and committee oversight of work to identify material controls, assess their effectiveness, test assurance processes and monitor implementation. As the new requirements take effect, companies will need to move from describing preparations to clear, company-specific reporting that supports the board's declaration on the effectiveness of material controls.

Finally, our work on simplifying annual reporting this year has demonstrated that there is scope to make annual reports clearer and more concise by reducing unnecessary duplication and repetition. Simplification could involve identifying a single location for each substantive disclosure, and using precise cross-reference and signposting with sufficient context to guide readers.

# Use of explanations and flexibility of the Code

## Flexibility of the Code

While the high-level principles of the Code are to be applied by companies, the provisions that support them follow a 'comply or explain' approach, allowing companies to report in a flexible way that reflects their circumstances. We support 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.

### Use of explanations

Elements of a good explanation, as set out in the FRC's guidance, include:

- Setting out the context and background
- Ensuring that the explanation is understandable and offers a convincing rationale for the approach being taken
- Describing any mitigating actions
- Considering any risks
- Setting out when the company intends to comply

Nearly all companies in our sample clearly stated the number of the provision(s) they did not comply with and instead chose to explain this departure. This demonstrates progress from previous years' reporting, which had fewer instances of clear statements about exactly which provisions had been departed from.

This year's analysis found that the number of companies that have reported departing from at least one of the provisions has increased to 39, from 25 last year. This is in line with an underlying historic trend of around a third of companies stating they have departed from at least one provision. This clearly demonstrates departures from the Code can be taken where needed and have support from investors.

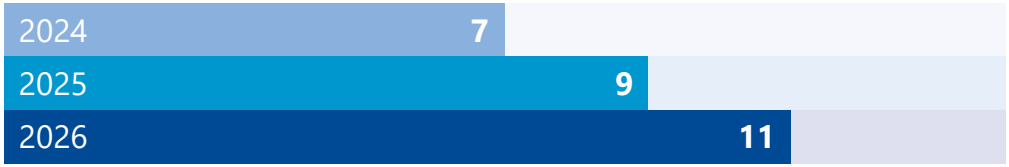
### Total number of companies disclosing a departure from at least one Code provision

| Annual review | 2024 | 2025 | 2026 |
|---|---|---|---|
| Number of companies | 28 | 25 | 39 |

### Provisions with the highest number of departures

The provisions that were most departed from this year were Provisions 9 (Chair independence), 19 (Chair tenure) and 21 (Annual board performance review), which were also among those most commonly departed from last year.

### Provision 9: Chair independence




In this year's data, 11 companies departed from Provision 9 regarding chair independence, up from seven and nine companies in 2024 and 2025 samples, respectively. All 11 companies indicated the grounds on which the chair was not considered independent on appointment. In most cases, this was either owing to companies having a combined chair and CEO, or owing to executive roles the chair has previously held in the same company or related companies.

Only some of those stating they did not have an independent chair on appointment supported this with better reporting, indicating some action to mitigate issues arising from lack of independence, or how shareholders have been engaged and approved the choice of chair. Approximately a third of companies that did not comply with this provision indicated their intention to comply with the provision in the future.

Below is an example of better-quality reporting in relation to this departure from Provision 9, which explains why the Chair was not considered independent on appointment and how shareholders have been engaged, noting the temporary nature of this arrangement.

**Source: Gym Group, pages 58–59**

John Treharne was not considered independent on appointment as Chair of the Board in July 2022 as he is the founder of The Gym Group and formerly held the positions of CEO until September 2018 and Founder Director until July 2022.

During 2025, the Senior Independent Director consulted with the Company's major shareholders on John's continuation as Chair of the Board for the short to medium term. In November 2025, this support was further bolstered by the results of the internal review of John's performance in that capacity, which concluded that he continues to be effective in role.

Similarly, the explanation below explains the circumstances around the departure from the provision, as well as the actions being taken by the company to address this.

**Source: Videndum, page 28**

2024 Code. Provision 9 outlines that the roles of the chair and chief executive should not be exercised by the same individual. Due to exceptional circumstances facing the Company, Stephen Harris succeeded as Executive Chairman with effect from 25 October 2024 and has since occupied both roles.

We confirm that the recruitment process of a permanent Chief Executive commenced in 2025 and Stephen Harris will continue to lead the Company until that process has been concluded. Upon the appointment of a new Chief Executive, Stephen Harris will revert to his former role as Chairman of the Company. To mitigate any risks associated with this position, the Board has increased meeting frequency and communication throughout 2025. In addition, the Board appointed Graham Oldroyd as Deputy Chairman on 31 July 2025. Further, the Board has regular updates and interaction with the Executive Committee and Finance Committee, both of which were set up in December 2024 ahead of 2025 to navigate this period of change for the Company.

### Provision 19: Chair tenure




Our 2026 sample shows 13 companies departed from Provision 19 on chair tenure, up from five and nine in 2024 and 2025, respectively. Consistent with previous years' reporting, most companies cited the need to retain their chair for a longer period to ensure business continuity and/or benefit from their valuable experience and industry knowledge.

A few examples of better reporting indicated action that has been taken to mitigate issues arising from the Chair's extended tenure, or how shareholders have been engaged on the issue. However, most companies did not include these elements in their explanation, nor did they provide information on whether or when they intended to comply with this provision in the future. We would encourage greater transparency and quality of explanations by including such details in future reporting.

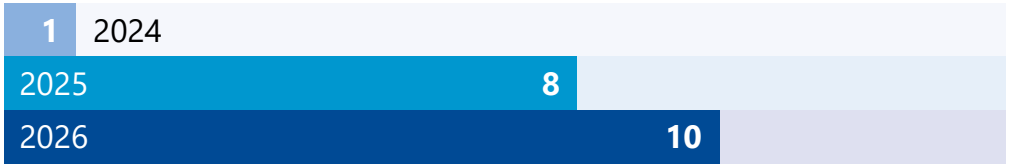
**Source: PensionBee Annual Report 2025, pages 72–73**

As reported in the prior two years' Annual Report and Financial Statements, the Company's Chair, Mark Wood, was appointed as Chair of the prevalent PensionBee Group entity in January 2016 (including as Chair of the listed entity since the Company's IPO in 2021). Our Senior Independent Director, Mary Francis, chaired the Nomination Committee that reviewed and recommended to the Board the extension of Mark's three-year tenure, which was set to expire in 2024. At the time of the extension, Mary wrote to the Company's major shareholders setting out the position and reported that feedback was supportive and positive. It was noted that the extension until 2027 would mean his total service would exceed nine years from April 2025 onwards. Consequently, this extension has necessitated an 'Explanation' under Provision 19 of the Code for the financial year ended 31 December 2025 onwards, as set out below.

Mary Francis and the other Non-Executive Directors meet at least annually to review Mark's performance in addition to the Board Performance Review process. The Nomination Committee noted the strong and positive results of the Chair's performance review, which concluded that Mark continued to perform effectively, demonstrating objective judgment and promoting constructive challenge, and bringing his skills, knowledge and extensive experience to his role as Chair. In addition, the importance of leadership continuity continued to be of particular importance during the Company's current stage of growth. Shareholders have been supportive, and Mark's re-appointment received 99% approval at the 2025 AGM.

The Board believes that it is in the best interests of the Company and its stakeholders that Mark remains as Chair.

## Provision 21: Board performance review




We found 10 companies departed from Provision 21 which recommends that there should be an annual performance review of the board, and that for FTSE 350 companies this should be externally facilitated at least every three years. This figure was up from one and then eight in 2024 and 2025, respectively.

Two of the 10 companies that did not hold a formal performance review of the board were small-cap companies. A good use of an explanation from one of these companies was its reported move from AIM to the Main Market, and its need to focus on establishing appropriate corporate governance structures accordingly, while monitoring the effectiveness of the board informally in the interim. The other small-cap company that departed from Provision 21 cited that an informal review was deemed more appropriate and cost effective. By contrast, this poorer explanation fails to demonstrate how the performance of the board and its committees were robustly 'self-assessed' and there was no indication that the company aims to comply with this provision in the future.

The remaining eight companies were FTSE 350 companies that offered an explanation that deferring the board performance review was due to board personnel changes, and most stated their intention to comply with the provision in the future.

One company in our sample which departed from this provision in 2025 due to an extensive number of board changes had also departed from it in the previous year, citing the commencement of a new CEO.

**Source: IP Group Annual Report, pages 62–73**

> Provision 21 recommends that the Chair should commission a regular externally facilitated board performance review. In FTSE 350 companies this should happen at least every three years. As the Company's last external performance review was in 2022, an externally facilitated review was due in 2025.

Given the 2023 and 2024 reviews were internal reviews, the Board recognised that the 2025 review was due to have been an externally facilitated review. However, mindful of the impending change of Chair and anticipated evolution of the Board over the short- to medium-term, the Board and Nomination Committee felt it would be prudent to delay the full externally facilitated Board performance review until the appointment of a new Chair is finalised, given the significant time and resource that would have been required to have been invested in both selecting a new reviewer and undertaking such review.

In the meantime, however, the Committee was keen to ensure that the findings of the internal reviews undertaken by the Chair and Company Secretary in 2023 and 2024 were supplemented with some fresh perspectives. As a result, the Committee agreed to commission a lighter touch external review using SJT Consulting ("SJT").

The flexibility of the Code is unambiguous. As explored further in the dedicated section on small-cap companies, this flexibility appears to be valued especially by smaller companies. However, a key area of focus going forward should be on the quality of disclosures and explanations that companies provide about their application of the Code, which are especially important for investors and other stakeholders to be able to use disclosures discerningly. We invite all companies to read our guidance on what a good quality explanation looks like to improve the quality of reporting in this area.

# 1. Board leadership and company purpose

## Culture

Provision 2 of the Code was revised in 2024 and now states: 'The board should assess and monitor culture and how the desired culture has been embedded.'

The updated provision places greater emphasis on companies explaining not only the culture they seek to promote, but also how that culture has been embedded throughout the organisation and how the board monitors this. Last year we observed some early examples of reporting against this element of the Provision, and the quality and depth of disclosures have improved significantly this year.

### Culture embedding

The example below demonstrates that reporting on culture embedding does not need to be overly complex. Effective disclosures clearly articulate the practical actions taken to embed the desired culture. These examples link cultural aspirations to tangible behaviours, process and monitoring mechanisms.

**Source: Lloyds Banking Group, page 79**



**Embedding the desired culture**

The Group culture dashboard is a key element of how the Group embeds the desired culture throughout the organisation. Introduced in November 2023 and shared twice yearly with the Board, the dashboard tracks insights related to performance, change and customer outcomes and identifies blockers to our cultural goals.

The dashboard's outcomes are a key input to culture plans, driving action towards cultural transformation and creating a strong culture that drives good customer outcomes.

This, alongside our Group cultural framework, which aligns values throughout the organisation and promotes colleague listening activity and culture and people plans, plays a key role in embedding the Group's culture.

The Code guidance highlights the importance of ensuring that the board's desired culture is embedded throughout the organisation. For organisations with multiple sites, offices or business units operating across different regions and jurisdictions, embedding a desired culture is not always a one-size-fits-all exercise. We observed examples of companies demonstrating this approach in practice. For instance, one company reported on how it managed the integration of culture following an acquisition, recognising the importance of ensuring the cultures are aligned with the desired culture while preserving valuable aspects of the existing culture within the acquired organisation. Another company explained that, as a multinational organisation, it tailors certain aspects of its approach to cultural norms to reflect the markets in which it operates, while maintaining a strong corporate culture that acts as a universal framework.

While many companies reported on initiatives designed to support culture, we noted that disclosures often focused on individual cultural attributes rather than on the embedding of the company's desired corporate culture as a whole. In particular, several companies included boilerplate statements referring to the embedding of a culture of continuous feedback, safety, learning or other specific behaviours.

Whilst these aspects may contribute to their overall culture, such disclosures do not necessarily demonstrate how the board's desired corporate culture has been embedded, which is the key focus of the updated Provision 2. More meaningful disclosures explain how behaviours such as feedback, safety and learning support and reinforce the board's desired culture, and how they are reflected in decision making, leadership actions and everyday working practices across the organisation.

### How the board has monitored how culture has been embedded

Whilst we found that most companies refer to how their culture has been embedded, we saw fewer companies explain how the board has monitored this. There were 83 companies that referred directly to the embedding of culture, but only 48 of those companies reported on how the board assesses and monitors how the desired culture has been embedded. However, we have also seen some transparent and innovative examples of reporting in this area.

Reporting on how the board monitors how the desired culture has been embedded does not need to add unnecessary length to the annual report. Rather, companies can explain to their stakeholders in a concise but clear way that provides them with insight to understand how the board monitors this.

This example from Morgan Sindall clearly distinguishes between the actions taken to embed the organisation's culture and the mechanisms used by the board to monitor how effectively that culture is being embedded throughout the business. This distinction is helpful for stakeholders as it provides greater transparency regarding both the initiatives undertaken to promote the desired culture and the processes used to assess whether those efforts are having the intended impact. By separating implementation from oversight, the example demonstrates how the board maintains accountability for cultural outcomes.

## Source: Morgan Sindall, page 79



**Board review** continued

### Purpose, values, strategy and culture

The Board ensures we maintain a positive culture so that we can attract and retain talent and achieve the highest levels of productivity and performance. This is vital to retaining a competitive market presence and achieving our purpose and strategy.

Our culture has developed from our long-held Core Values, which form the basis of our Group Code of Conduct. The Code of Conduct is designed to ensure that our employees understand the need to act responsibly and maintain our reputation when working and interacting with our stakeholders. The Code of Conduct and supporting policies are approved by the Board.

**1 How culture is embedded by the divisions**

- Recruitment processes
- Induction and mandatory e-learning, including on our Code of Conduct
- Objective-setting, development plans and remuneration policies
- Leadership development programmes
- Annual conferences and other internal communications
- Employee share plan participation
- Ensuring our suppliers meet the expected standards of behaviour set out in our Supplier Code of Conduct

**2 How the Board promotes the desired culture and monitors the degree to which culture and values are embedded**

- Regular meetings with management
- Inviting employees to present at Board and committee meetings
- Non-executive directors' meetings and discussions with a wide range of employees during the strategy review process and without senior management present enable the directors to strengthen their assessment of cultural alignment and the degree to which it is consistently reflected across the divisions
- Whistleblowing feedback and any external or internal audit reports of possible breaches of the Code of Conduct
- Considering meeting papers to identify any areas of concern, for example:
  - people statistics, including employee turnover, internal promotions, absenteeism and diversity
  - health and safety performance
  - client/partner feedback and satisfaction scores
- Investor feedback
- External ESG ratings

**3 Looking behind the stats**

The Board reviews activities and initiatives by our divisions in the following areas to ensure they are on the right track to achieving desired outcomes:

- succession planning and talent development;
- health, safety, physical, mental and financial wellbeing;
- inclusion and diversity;
- employee engagement, such as survey participation, feedback and follow-up actions; and
- remuneration, to ensure that it aligns with our values and encourages desired behaviours.

**4 Outcomes**

The Board was satisfied that:

- engagement levels across the Group remain strong, with employees demonstrating a willingness to speak up. This is evidenced by whistleblowing submissions, which have provided the Board with valuable insights into the Group's culture and employee perspectives;
- discussions between non-executive directors and employees did not identify any issues requiring further intervention. Employees engaged in these sessions were consistently open, positive and constructive; and
- all whistleblowing reports received during 2025 were appropriately resolved and did not indicate any systemic concerns across the Group. Where allegations of theft or fraud were substantiated, the individuals involved were dismissed, reinforcing the Group's commitment to lawful and ethical conduct.

**5 Future priorities**

The Board will continue to monitor, in particular:

- incidents of unsafe behaviour on our sites, which may indicate the need for policy changes or additional training;
- the effectiveness of divisional activities aimed at advancing equality, inclusion and diversity;
- the performance of the whistleblowing helpline, ensuring it is well communicated and that employees remain willing to use it appropriately; and
- processes that enable non-executive directors to gain meaningful insight into organisational culture and employee perspectives, ensuring these mechanisms remain effective and appropriate.

During 2026, the chair of the remuneration committee and the company secretary will be meeting with the Group's HR forum and with groups of employees from within the businesses to understand any issues impacting the wider workforce at a deeper level (see page 99).

**Construction employee survey response rate**
86%

**Infrastructure employees' engagement index score**
85%

**Mixed Use Partnerships employees agreeing Muse is a great place to work**
86%

The example below from PageGroup is insightful as it not only explains the methods used to monitor and assess how the organisation's culture is embedded, but it also provides meaningful insights into the findings generated through these activities. Importantly, the company goes beyond describing its approach by outlining the actions taken during the year in response to the information gathered and the outcomes achieved. This demonstrates a clear link between monitoring activities, board oversight and tangible outcomes, making it a strong example of effective outcomes-based reporting.

## Source: PageGroup, page 44



| | How the Board monitors culture and how it is embedded | Insights Gained |
|---|---|---|
| **Employee Voice** | Annual Have Your Say, Onboarding, and Exit surveys, employee engagement activities | Our employees care about where we are heading and want to shape what comes next.<br>Pride in working at Page remains high and, in line with our strategy, there are high levels of confidence in how well our people understand customer needs which in turn is driving our increased NPS score. |
| **Inclusive Culture** | Bi-annual review of inclusion measures and activities | Our efforts to build a culture of belonging are landing and making a difference, evidenced by strong feedback on inclusive leadership questions in Have Your Say results.<br>Women in leadership dipped slightly in 2025, minus one percentage point to 45%. However, Page remains on track for 2030 targets. |
| **Growth & Reward** | Bi-annual review of key measures, including training completion, retention, career progression and international mobility<br>Annual salary review<br>Nomination Committee Talent & Development sessions | Have Your Say results indicate development and reward are the key reasons our employees choose to stay with Page.<br>Page is nurturing future talent through formal talent practices such as talent reviews and succession planning. The outcomes are presented to the Board in addition to mentoring and other on-the-job exposure opportunities for talent to meet the Board. |
| **Wellbeing & Flexibility** | Bi-annual review of wellbeing measures, employee engagement and retention | Have Your Say results indicate high satisfaction with flexible working arrangements, and strong office attendance reflects the value placed on in-person collaboration and connection. |
| **Social Impact** | Bi-annual update of changing lives measures<br>Board members partake in Social Impact activities (see page 43) | Have Your Say results indicate this issue is key for our employees, and they are proud of PageGroup's approach to date. Page is nurturing strong and long-term relationships with key charity partners. |
| **Tools and technology** | Technology and strategy sessions | 10% of employees believe having the tools & technology that give us a competitive edge is a reason to stay with Page, which is a 2% increase year over year. |
| **Customer** | NPS and strategy sessions | Increase in NPS score and Customer experience is a focus of the Executive Board and future strategy. |
| **Whistleblowing** | Annual review of whistleblowing | Have Your Say results show 92% of employees know how to report ethical concerns or observed misconduct. |

### 2025 outcomes

1. Continue to invest in our People against a backdrop of challenging economic circumstances
2. The Board considered desired culture appropriately embedded, with no intervention required
3. Implemented updated whistleblowing policy and framework
4. The Board is satisfied that leaders and all layers of management are driving correct culture and behaviours



## Alignment between purpose, values, culture and strategy

The 2024 Code places greater emphasis on purpose, strategy, culture and values all being aligned. The example below explains what this alignment involves, why it is important and how the relationship between purpose, strategy and values is linked to culture.

## Source: TT Electronics, page 51

### RELATIONSHIP BETWEEN PURPOSE, STRATEGY AND VALUES

#### WHY?

Our corporate **Purpose** describes **why we do what we do** and aligns the whole of the Company.

#### WHAT?

Our **strategy** defines **what we do** for both our employees and our wider stakeholders. The Company's strategy is clearly defined and regularly reviewed by the Board. The multi-year strategic plan is discussed in detail and is approved annually, based on the Company's activities; its progress on delivering strategic priorities; and challenges identified within the business and in the wider macroeconomic and geopolitical environment.

#### HOW?

The Company's **values**, culture and behaviours drive **how we execute our relationships** with internal and external stakeholders and our **strategic vision**. Our TT Way values (see page 44) describe our culture and set out how we expect our employees, from the top down, to conduct business and act with integrity, transparency and professionalism.

Good governance sets the tone for the culture of TT. The Board and Executive Directors strive to promote an atmosphere of openness and trust throughout the Group.

**Taylor Wimpey** provided a comprehensive explanation of how its Board monitors alignment between the organisation's culture, purpose, values and strategy. The Board achieves this through a range of engagement and oversight mechanisms, including their employee champion, employee forums, Board site visits and regular Board updates, which collectively provide insight into employee perspectives and the embedding of organisational values.

### Culture and board performance reviews

Nearly half of the companies in our sample referenced culture within their reporting on board performance reviews, highlighting the role that board review processes can play in assessing cultural oversight. One insightful example came from a company that disclosed that "supporting the CEO in embedding the desired culture" had been identified as an area for further improvement through its board performance review. This disclosure demonstrates a thoughtful and transparent approach to evaluating the board's effectiveness in promoting and reinforcing the organisation's desired culture.

## Outcomes

**Principle C**

Governance reporting should focus on board decisions and their outcomes in the context of the company's strategy and objectives.

The 2024 Code was updated to include a specific reference, in Principle C, to the importance of outcomes-based reporting. This was supplemented with an update to the Code guidance.

In annual reports, the word 'outcomes' can have different meanings depending on the context. In remuneration reporting, it generally describes the award or payment resulting from a remuneration policy. Elsewhere in the report, companies use it to describe actions taken or decisions made. As used in Principle C, 'outcomes' are the effects of board decisions, describing the action taken, but also what changed as a result and why it mattered. A useful way to identify outcomes is to ask: 'So what changed because of the board's actions?'

At first glance, companies seem well advanced in their outcomes-focused reporting. But labelling something as an outcome does not necessarily constitute outcomes-based reporting. Outside of the remuneration report, the heading was most frequently used in companies' Section 172 reporting, where it was often intended to explain the result of engaging with various stakeholders. However, the outcomes described were sometimes unrelated to the engagement or were not outcomes at all. Some companies used phrases such as "the board decided" or "the board reviewed". While these statements are a useful start in terms of describing the board's activities and decisions, better reporting would explain what changed as a result. In other cases, the outcomes described lacked specificity. For example, describing "valuable insights" as the outcome of engagement with a

stakeholder does not tell the reader very much. Better reporting would describe what the insights were, what the board did with them, and what changed as a result. Reporting on the consequences of the board's actions allows the reader to see the governance process in action from start to finish.

Some of the better outcomes-focused reporting was on shareholder engagement, particularly when that engagement concerned remuneration. Several companies explained how they had consulted with shareholders on their remuneration policy and how this engagement had influenced the proposals they subsequently put to their Annual General Meeting (AGM). This excerpt from the letter by the Chair of Croda's Remuneration Committee describes how the committee engaged with the company's major shareholders and, in response to their feedback, decided not to proceed with its original proposal.

**Source: Croda, page 80**

**Response to shareholder consultation**

Following our review of the Policy, we wrote to our largest shareholders in September 2025. In total, we contacted over two-thirds of Croda's issued share capital as well as the Investment Association, ISS and Glass Lewis.

Whilst not proposing any material change to the overall structure or quantum of the Policy, we were keen to engage on our performance framework and the alignment of our incentives with our strategy and stakeholder interests.

Of those shareholders we wrote to, we held meetings with over a third and received written feedback from a further third.

One of the original proposals we consulted on, in line with emerging market practice, was that where an Executive Director had met their share ownership guideline, they would not be required to defer a proportion of their bonus. Some shareholders were supportive of this provided alignment with shareholder interests was maintained. Others expressed concerns and were more in favour of a reduction in deferral rather than full removal. Reflecting on this feedback as well as our approach to the overall Policy review, we concluded that now was not the right time to move forward with this proposal. The Committee will revisit deferral arrangements as part of the next Policy review.

On the performance framework, many shareholders welcomed the introduction of ROIC to the PSP, viewing it as a necessary step to align management incentives with shareholder interests, drive improved operational performance and overall quality of earnings.

The inclusion of a customer-focused metric in the annual bonus, was also welcomed. Shareholders recognised its potential to drive increased customer-centric behaviours and reinforce non-financial priorities.

We also heard feedback on other potential performance measures, including some shareholders who expressed a preference for a cash flow metric. Whilst considering this feedback, the Committee was mindful of introducing too many new measures at this time. Notwithstanding this, Croda will report externally on a free cash flow-to-sales ratio for the first time this year and the Committee considers broader performance factors as part of its Discretion Framework when reviewing outcomes. We also retain the flexibility to review and adjust our performance framework year-on-year in line with normal market practice.

There were also some instances where companies described the outcome of engagement with shareholders on topics other than remuneration. This excerpt from the letter by the Chair of Johnson Service Group describes how shareholders were consulted on the company's plans to move from AIM to the Main Market and indicates that the engagement contributed to the successful transition.

**Source: Johnson Service Group, page 11**

> In 2025, I also led a consultation with major Shareholders in advance of the Company's proposed transition from AIM to the Main Market. This process reflected the Board's commitment to meaningful Shareholder engagement and ensured that investor feedback was carefully considered and informed the Board's decision to proceed with the transition to the Main Market. We were pleased to welcome new Shareholders to the register, replacing those investors whose mandates did not permit continued investment following the move to the Main Market, and were encouraged by the support of existing Shareholders who have increased their holdings since the transition.

Another area of good outcomes-focused reporting related to board performance reviews. Many companies explained the actions they had taken in response to the previous year's board performance review and, importantly, described the impact of those actions. In this example from International Workplace Group, a recommendation from the 2024 board performance review resulted in additional time being set aside for discussion at in-person board meetings. The company then describes the outcome of this change in terms of the improved quality of board discussions.

**Source: International Workplace Group, page 61**

> The Committee uses the review process to monitor effectiveness, performance, balance, independence, leadership and to guide our succession planning, enabling the Committee to identify strengths and weaknesses and ensuring that we are able to identify the capabilities required for particular Board appointments. Our 2024 External Board Performance Review identified that Non-Executive Directors would benefit from additional time being added to our in-person Board meetings. This was implemented in 2025 and its enhancement of both the integration of our new Board members and our Board strategy implementation discussions was noted as an improvement during the 2025 Board Review.

This excerpt from IMI's annual report describes the areas for development identified in the previous year's review and the progress made in response. It explains the outcome of measures taken to maintain board effectiveness during a period of personnel change, how the board has strengthened its focus on M&A opportunities and what impact this has had.

**Source: IMI, page 93**

| Area of development | Update |
|---|---|
| Maintain the Board's effectiveness and dynamics during Board changes in 2025 | A structured induction programme was delivered for the Chair and the Chief Financial Officer, ensuring they were well-prepared to contribute effectively from the outset. As part of the 2025 internal Board performance review, specific questions were included to assess how well the Board had maintained its dynamic during these changes. Feedback from the directors confirmed that new members had integrated smoothly and that the Board continued to operate cohesively and effectively throughout the transition period. |
| Deepen the Board's focus on the M&A pipeline | To deepen the Board's focus on the M&A pipeline, updates on potential acquisition activity were added to the executive report, and presented at each Board meeting. Additionally, during the strategy session, Sector Presidents provided detailed overviews of their respective acquisition strategies and pipelines, enabling the Board to engage more directly with forward-looking M&A opportunities and assess alignment with Group growth objectives. |

Companies were less successful in reporting on the outcomes of other board activities. For example, when reporting on board engagement with the workforce, several companies described town hall meetings at which employees were able to raise issues directly with board members. However, very few disclosed what the issues were, or if the board had taken any action in response. Fewer still explained the impact of those actions. Many simply cited various workforce surveys as evidence of positive outcomes without explaining if those results related to any specific actions taken by the board, making it difficult for readers to assess whether the reported outcomes could be attributed to the actions of the board.

Better reporting provided greater insight into how the board responded to issues raised by the workforce and the effects of that response. In this example from Prudential, the company describes how engagement between non-executive directors (NEDs) and employees has improved understanding of each other's perspectives and informed the board's consideration of people and culture matters.

**Source: Prudential, page 94**

Members of the Sustainability Committee and other Non-executive Directors spent time with employees to hear from them directly, and shared feedback with the Board.

Through their engagements, the Board has gained deeper insight into the Group's operations across different markets; the strengths of the local businesses and the challenges they face; how well the Group's culture and values are embedded within the leadership and across the business; and other issues affecting employees.

Conversely, employees have had an opportunity to gain a better understanding of the Board's perspective and areas of interest, and to provide direct feedback on matters of importance to them or their area of the business.

The Board also considered how the organisation supports employees in their development and monitored the impact made by our suite of development programmes, assessing the need for leadership development across the Group to support the workforce and grow the talent pipeline. Taking into account employee survey results and the strategic direction of the Group, the Board identified people and culture priorities for 2026.

When reporting on monitoring culture, several companies also reported workforce survey results as evidence that the desired culture had been embedded, without explaining how those results could be linked to company efforts or monitoring by the board. Without comparative figures for the previous year's survey, it is difficult to assess progress. While we appreciate that attributing cultural outcomes to specific actions by the board is not easy, some companies were able to indicate how board activity had contributed to those outcomes. The following example from Playtech plc explains how the board monitored culture during a transformation project and incorporated cultural considerations into its decision making. It states that this helped to maintain cultural alignment during a period of strategic change.

**Source: Playtech, page 104**

**Case Study**

### Monitoring Culture During Strategic Transformation

As Playtech progressed its transition to a pure-play B2B business, the Board recognised that cultural alignment would be critical to the success of the transformation. The shift required new ways of working across the organisation — deeper regulatory discipline, greater cross business and functional coordination, and, crucially, a relentless focus on putting customers at the heart of what we do with a stronger focus on innovation and product integration.

To ensure that culture supported the Group's evolving strategic direction, the Board increased its consideration and oversight of culture and values. During the course of the year, the Board engaged and endorsed the output of a year-long process to refresh the Company's values alongside development of a new set of defined leadership behaviours. The Board will continue to be engaged and updated on the progress to communicate and hardwire the refreshed values and behaviours into everything the Company does. This work will continue into next year and is part of the ongoing transformation work. The Board was also briefed on workforce sentiment during the year.

Directors received regular updates on how teams were adapting to increased regulatory expectations and stakeholder scrutiny, particularly in newly regulated markets. The Board reviewed insights from employee engagement data, senior leadership observations and management reports on values, behaviours and ways of working. Particular attention was given to cultural dynamics in teams supporting high-growth B2B markets, where collaboration across borders and functions is essential.

The Board also considered cultural risks associated with the integration of B2B platforms, including potential pressure points around workload, resourcing, communication and leadership development. These themes were incorporated into strategic discussions, and Directors sought assurance that management actions — such as enhanced training, clearer communication and targeted leadership development — were reducing friction and reinforcing the desired culture.

By embedding cultural considerations into major decisions and transformation projects, the Board ensured that the evolution of culture remained aligned with Playtech's long-term strategic objectives and regulatory responsibilities, supporting the overall sustainability of the Group during a pivotal period of change.

Another good example from PageGroup is included in the Culture section on **page 13** of this report.

When reporting on oversight of cyber security, few companies demonstrated outcomes that were directly linked to decisions taken by the board. Several said that cyber security remained a priority for the board or that the board received regular briefings on cyber security, without offering further detail. The following example from Breedon goes further than many companies by linking board oversight to a specific decision and subsequent action.

**Source: Breedon, page 101**

### Value created

The Board dedicated time to enhancing its oversight and increasing its understanding of cyber risks and resilience. This included participating in a cyber incident simulation exercise as part of the Board's strategy day, which was facilitated by external cyber security experts. The exercise generated a number of actions to strengthen ongoing programmes, including undertaking similar exercises for the Executive Committee and key teams within the Group.

Effective outcomes-based reporting goes beyond describing what the board reviewed, discussed or decided to explain what changed as a result. It explains the impact of the board's work. In other words, it answers the 'so what?' question. While we have seen some good reporting, particularly on the outcomes of shareholder engagement and board performance reviews, there is still work to be done.

## Shareholder engagement

**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.

Almost all companies reported their engagement with shareholders outside the annual general meeting (AGM). Reports commonly referred to the number of engagements they carried out, methods used, issues and topics raised by shareholders. This provides helpful context, and stronger reporting went further by showing what the board learned and how that information was considered. The below example from Mondi Group provides useful detail on what type of shareholders the chair engaged with, how the meetings were conducted and the topics discussed, helping readers understand the scope of board engagement.

**Source: Mondi Group, page 76**

Meetings with the Chair are offered on a regular basis. Philip Yea held meetings with a number of Mondi's major shareholders during the year. The meetings had no specific agenda, instead offering an opportunity for open discussion and engagement. Topics included capital allocation including dividends, market developments and the Board's approach to governance, culture and succession planning.

In our previous review, we encouraged companies to provide a summary of the 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 year, we found that many reports continue to remain generic around the details of actual engagement activities, with few specific examples of board engagement with shareholders in the reports. Many companies discussed their engagement through roadshows and their investor relations team, but few offered any detail on whether members of the board attend these meetings and what information they might glean from such engagement. Effective reporting on board engagement with shareholders could provide valuable information about how the engagement was initiated, what information was shared, and how the engagement supported decision making.

The below example from Gamma Communications links its Remuneration Committee's consultation with shareholders to its remuneration policy review, and reports on the voting result of its updated policy, helping readers understand the context and outcome of the engagement.

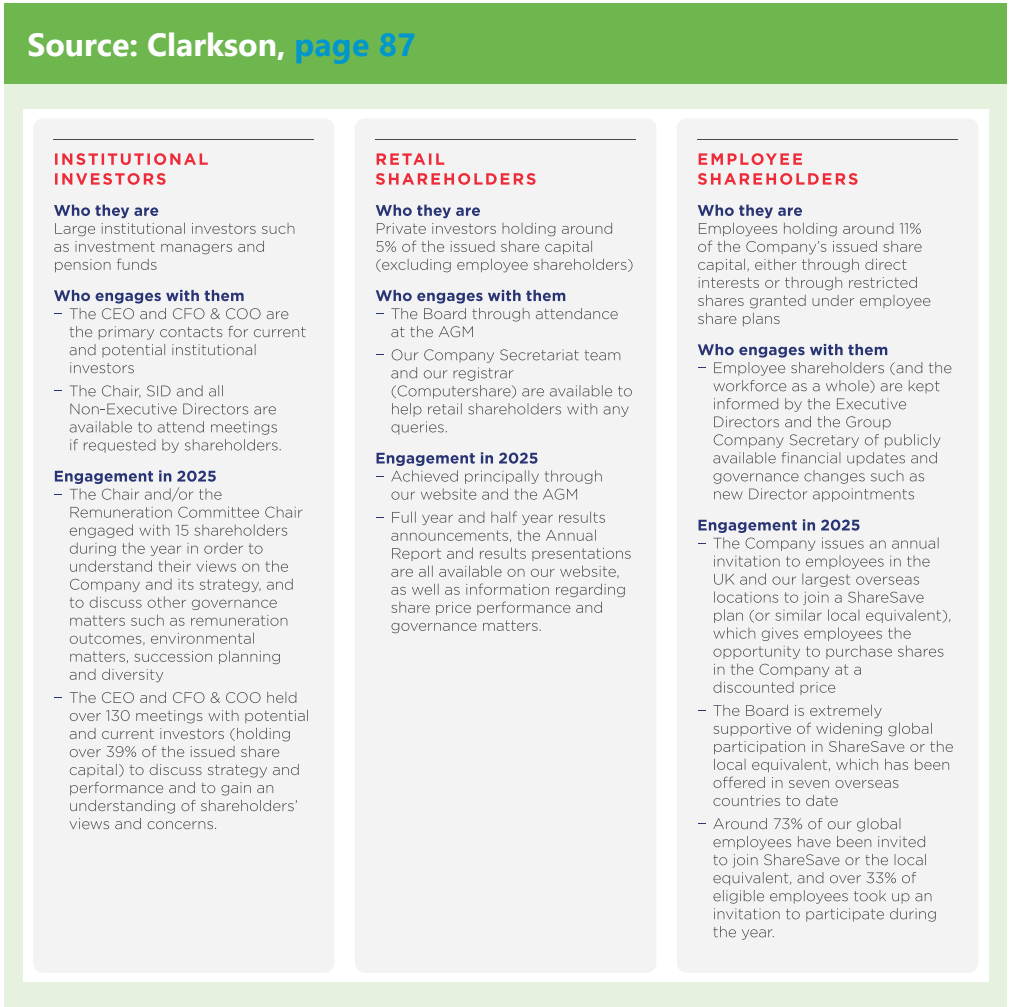
**Source: Gamma Communications, page 91**

As a reminder, during late 2024 and early 2025, the Committee undertook a review of Executive Directors' remuneration in the context of the long-term growth of the Company, evolving market practice and the intended move to the Main Market. Following consultation with our major shareholders as well as the proxy advisory bodies, the outcome of this review resulted in a Remuneration Policy which reflected Gamma's size, performance and future growth opportunities, and the updated policy was approved with an advisory vote in favour of more than 99% at the AGM held in May 2025.

Like last year, we looked at Stewardship Code reports to demonstrate further the value to investors of effective shareholder engagement. For example, one report outlined how its engagement with board members provided further context on a proposed leadership change and the company's safeguards in place, enabling the investor to support a proposal at the AGM. This demonstrates clearly the value of engaging with shareholders, and reporting on this engagement in the annual report.

Several companies distinguished between different groups of shareholders in their reporting, rather than describing shareholder engagement as a single activity. This can provide a clearer picture of how the company's approach reflects its register and the engagement channels it makes available to shareholders. The example from Clarkson clearly distinguishes its different types of shareholders, including institutional, retail and employee shareholders, and explains how it engages with them, with examples of engagement activities provided. We would also encourage companies to report on the outcomes of their engagement, helping readers understand what the board learned and how different types of shareholders' views informed the board's decisions.

**Source: Clarkson, page 87**



**INSTITUTIONAL INVESTORS**

**Who they are**
Large institutional investors such as investment managers and pension funds

**Who engages with them**
- The CEO and CFO & COO are the primary contacts for current and potential institutional investors
- The Chair, SID and all Non-Executive Directors are available to attend meetings if requested by shareholders.

**Engagement in 2025**
- The Chair and/or the Remuneration Committee Chair engaged with 15 shareholders during the year in order to understand their views on the Company and its strategy, and to discuss other governance matters such as remuneration outcomes, environmental matters, succession planning and diversity
- The CEO and CFO & COO held over 130 meetings with potential and current investors (holding over 39% of the issued share capital) to discuss strategy and performance and to gain an understanding of shareholders' views and concerns.

**RETAIL SHAREHOLDERS**

**Who they are**
Private investors holding around 5% of the issued share capital (excluding employee shareholders)

**Who engages with them**
- The Board through attendance at the AGM
- Our Company Secretariat team and our registrar (Computershare) are available to help retail shareholders with any queries.

**Engagement in 2025**
- Achieved principally through our website and the AGM
- Full year and half year results announcements, the Annual Report and results presentations are all available on our website, as well as information regarding share price performance and governance matters.

**EMPLOYEE SHAREHOLDERS**

**Who they are**
Employees holding around 11% of the Company's issued share capital, either through direct interests or through restricted shares granted under employee share plans

**Who engages with them**
- Employee shareholders (and the workforce as a whole) are kept informed by the Executive Directors and the Group Company Secretary of publicly available financial updates and governance changes such as new Director appointments

**Engagement in 2025**
- The Company issues an annual invitation to employees in the UK and our largest overseas locations to join a ShareSave plan (or similar local equivalent), which gives employees the opportunity to purchase shares in the Company at a discounted price
- The Board is extremely supportive of widening global participation in ShareSave or the local equivalent, which has been offered in seven overseas countries to date
- Around 73% of our global employees have been invited to join ShareSave or the local equivalent, and over 33% of eligible employees took up an invitation to participate during the year.

**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.

In line with Provision 3, many companies reported on the chair and committee chairs' engagement with shareholders, and we were pleased to see an increase in this type of engagement. In our sample this year, 64 companies described engagement involving the chair outside formal general meetings, compared with 59 companies from last year. The number of companies reporting Remuneration Committee Chair engagement in our sample increased from 35 to 53 companies. Reporting of engagement by Senior Independent Directors also increased from 12 to 15 companies.

We still find some companies noted their chair or committee chairs were available to meet shareholders when requested, without confirming whether any engagement has taken place during the year. Such statements are merely adding words to the annual report without offering specific information as to whether they met with investors or if investors did not ask for engagement. Provision 3 expects the chair and committee chairs to seek engagement with shareholders or respond to requests for engagement to understand their views. It is helpful in reporting to identify the relevant board members participating in engagements, purpose of the engagement, views expressed and how these were communicated to the wider board.

As Provision 29 of the 2024 Code becomes applicable, matters relating to the effectiveness of internal controls may form part of the dialogue between the board and shareholders. Where a material control has not operated effectively, shareholders may wish to understand the nature and the impact of the issue, the board's assessment and any action being taken to address it. Audit committee chairs may be involved in explaining these matters, reflecting their role in overseeing risk management and internal controls.

**Source: Croda International, page 56**

A corporate governance lunch was held in October, with the Chair, Senior Independent Director and Remuneration Committee Chair, and Audit Committee Chair. Shareholders representing over a quarter of the register attended. Discussions covered strategy, sustainability, talent and succession planning, and governance matters, providing the Board with clear insight into shareholder priorities and concerns.

## 20 per cent votes against a resolution

This year, 26 companies in our sample received 20% or more votes against the board's recommendation on at least one resolution. It was good to see that most of these companies reported some form of response or action as a result, including the consultation undertaken, specific views received from shareholders, and how those views affected the board's decisions.

**Source: Harworth Group, page 131**

The resolution relating to the approval of the Policy was approved with a 75.67% majority and therefore, in accordance with the UK Corporate Governance Code, the Committee Chair wrote to shareholders following the 2025 AGM to explain the decision to move forward with the Policy, to reiterate why the Committee considered the performance flexed RSP to be in the best interests of Harworth's shareholders, and to offer a further opportunity to engage with the Company and provide feedback. Shareholders that responded re-affirmed their previous views and did not consider further engagement necessary.

**Key message**

Effective reporting explains what the board heard from shareholders, and how that dialogue contributed to the board's decision making. Specific information on who engaged with the shareholders, the issues or topics discussed, and any follow-up actions gives readers a clear view of how the board maintains relationships outside of AGMs.

# 2. Composition, succession and evaluation

## Diversity

Provision 23 of the 2024 Code includes an updated reference to diversity and inclusion initiatives, inviting companies to include information on objectives, links to strategy and progress made.

In line with last year, 98 companies referred to a board diversity policy, or a wider diversity policy that applied to the board. Of the two that did not reference a diversity policy, one set out their approach to diversity, even though the board had decided not to adopt a specific policy. Of the companies that referred to a board diversity policy, 87 included insight into the policy or a link to where it is available on their website. In some cases, the policy was set out in full.

### Initiatives related to diversity

Clear objectives and initiatives supporting diversity and inclusion provide a useful way to understand how a company is approaching diversity. Information about initiatives provides context for any progress or outcomes achieved in this area. Clear objectives relating to diversity and inclusion were reported by 61 companies. These varied from those who had adopted the UK Listing Rules targets (stemming from the FTSE Women Leaders and Parker Reviews) to those who had implemented bespoke targets connected to the nature of the company. A further 14 companies expressed a general aim to increase diversity among the board and senior leadership.

Quantitative targets have value in terms of providing a tangible outcome for which to aim. However, it is the explanation of how the board intends to achieve its aims or objectives that provides a genuine sense of how any diversity policy operates in practice.

The example from M&S is particularly useful because it details how each objective has been implemented and so captures progress both quantitatively and qualitatively.

Overall, the strongest reporting went beyond confirming that a diversity policy or objective existed. It explained how objectives were implemented, the progress achieved and how diversity supported the company's strategy or wider success.

**Source: M&S, page 57**

| Board Diversity & Inclusion Policy objectives | Implementation | Progress |
|---|---|---|
| **Maintain a continuous level of at least 40% female directors on the M&S Group plc Board.** | Succession planning reviews evaluate the Board's capabilities to ensure they support our long-term strategic ambitions. Use of independent executive search firms ensures appointments are drawn from a diverse pool of candidates. | Ahead of target with 60% female representation as at financial year-end and up to the date of this report. |
| **Appoint a female director to at least one of the senior Board positions (Chair, CEO, SID, CFO).** | Consideration of this forms part of the Board and ExCo succession planning process, as well as in the development of our internal talent pipeline. | Ahead of target with two of the senior Board positions (SID and CFO) held by female directors. |
| **Maintain at least one director from an ethnic minority background on the Board.** | Succession planning reviews evaluate the Board's capabilities to ensure they support our long-term strategic ambitions. Use of independent executive search firms ensures appointments are drawn from a diverse pool of candidates. | Target met with one Board member identifying as being from an ethnic minority background. |
| **Assisting the development of a pipeline of high-calibre candidates by encouraging a diverse range of senior individuals within the business to take on additional responsibilities and roles to gain valuable board experience.** | Our high-potential programmes were paused during the year, as recovery from the cyber incident was prioritised. We did, however, undertake a broader review of our approach to identifying top talent and succession planning for executive and senior roles. Following the review, we have set a revised 7% target for ethnic minority leadership by 2027. This will be supported by the relaunch of our high-potential programmes with embedded representation principles in the next financial year. | Progress in diversifying our senior leadership pipeline has been limited during the year, reflecting a period of significant disruption. Our current ethnic minority representation amongst senior managers is 5.3%. Achieving our revised target will require renewed focus, strengthened accountability and more deliberate action as we move forward. More information is in the People and Culture section on pages 25 to 26. |

# 3. Audit, risk and internal controls

## Audit Committees and the External Audit: Minimum Standard

The incorporation of the Audit Committees and the External Audit: Minimum Standard (the Standard) into Provision 25 of the 2024 UK Corporate Governance Code marks an important development in audit committee reporting. This year's review provides an early indication of how companies are responding to the revised expectations.

The Standard was originally developed with FTSE 350 companies in mind, so it is unsurprising that larger companies continue to lead adoption. In our sample, all FTSE 100 and FTSE 250 companies referenced the Standard in their audit committee reports. Reference to the Standard among small-cap companies remained broadly consistent with last year.

As might be expected in the first year following implementation, approaches varied. Larger companies generally provided more extensive disclosures, often explaining how the Standard had influenced their activities, oversight processes and future plans. However, there were also examples of strong reporting among small-cap companies.

### Demonstrating implementation

A key difference across our sample was the extent to which companies explained how the Standard had been implemented in practice, rather than simply stating that they complied with it. Examples included narrative about how they had responded to the new requirements, such as updating audit committee terms of reference and enhancing existing processes to reflect the Standard's requirements.

**Source: Card Factory, page 95**

***FRC Audit Committees and the External Audit: Minimum Standards***

The Committee has reviewed its activities during the year and confirms that the description of its work, as set out in this Annual Report, includes all matters required by the Financial Reporting Council's Audit Committees and the External Audit: Minimum Standard applicable to FTSE 350 companies.

In line with these Minimum Standard, the Committee has:

- Engaged, where appropriate, with shareholders on matters relating to the scope of the external audit.
- Supported full and unrestricted access by the external auditor to staff, information and records necessary for the audit.
- Encouraged robust challenge from the external auditor, ensuring that points raised are fully considered and reflected appropriately in the Financial Statements.
- Monitored the external auditor's independence, objectivity and effectiveness, taking account of relevant UK professional and regulatory requirements.
- Implemented and overseen the policy on non-audit services provided by the external auditor, ensuring prior approval of such services and assessing any impact on independence in line with regulatory and ethical guidance.
- Reported to the Board on how the Committee has discharged its responsibilities in respect of the external audit.
- The Committee also confirms that the disclosures provided in this Annual Report reflect the Minimum Standards requirement for transparent reporting on how the Committee has exercised oversight of the external audit.

The Committee has overseen all audit-related matters in accordance with the Statutory Audit Services Order and confirms that no circumstances arose during the year that would constitute non-compliance. The Company continues to support the Order's objective of strengthening auditor independence, improving market competition, and ensuring robust governance over the statutory audit process.

Forvis Mazars LLP were appointed as the Group's external auditors for the year ended 31 January 2024. The next transparent bidding process for external audit services is for the year ended 31 January 2034.

***Whistleblowing***

The Committee received updates on any significant whistleblowing matters. No whistleblowing matters in the year resulted in a significant incident.

Internal Audit, along with other key functions have reviewed the effectiveness of the whistleblowing process during the year and actions to further improve the process will be implemented in the next financial year.

***Loss prevention***

The loss prevention team and its programme of activities are embedded in the business. Direct engagement and regular communication with colleagues across the business remain critical to the team's effectiveness and the team's core fraud and theft detection activities are supplemented by a programme of data reviews, store audits, KPI monitoring, colleague education, training and development.

By contrast, many companies limited their disclosure to a statement of compliance with little explanation of what had changed or how the Standard had influenced the audit committee's activities during the year. More company-specific reporting would help readers understand how the Standard has been embedded in practice. This need not mean lengthy reporting; concise explanations of actions taken, governance changes or process enhancements can provide valuable insight while maintaining proportionate disclosure.

## Composition and independence

Reporting on audit committee composition remains strong, with most companies identifying individual members and confirming independence. There were very few instances where independence was implied rather than explicitly stated. Information regarding committee membership was often presented clearly and concisely, with some companies making effective use of tables and summary graphics to communicate key information.

Nearly all audit committees comprised at least three independent non-executive directors, consistent with the expectations of the Code. This exceeded the minimum requirement of two for small-cap companies.

## Auditor Independence and non-audit services

Many companies provided thoughtful and granular reporting on how the audit committee assessed auditor independence.

The strongest disclosures went beyond reporting on non-audit services and explained the wider safeguards and processes used to protect auditor independence and objectivity. Some companies continued to focus primarily on the monitoring of non-audit services, while others described how the audit committee assessed and maintained auditor independence throughout the year.

Reporting on non-audit services was generally strong. Most companies explained that non-audit fees remained well below the thresholds permitted by the Ethical Standard and UK law and described the safeguards in place to protect auditor independence. Several companies presented this information particularly effectively through tables setting out approval thresholds, categories of work and the associated fees.

Where information on non-audit services was reported elsewhere in the annual report, companies should consider whether the audit committee report provides sufficient information or signposting to enable readers to locate the relevant disclosures.

## Auditor effectiveness

Reporting on auditor effectiveness continues to improve and is now a well-established feature of audit committee reporting. Compared with previous years, companies paid greater attention to explaining the criteria used to assess audit quality and auditor performance, providing more meaningful insight into the committee's evaluation process.

Areas commonly considered included:

- quality of challenge provided by the external auditor
- handling of significant accounting judgements
- responsiveness to audit committee feedback
- audit quality and delivery
- professional scepticism demonstrated by the audit team

A number of companies provided particularly insightful descriptions of how effectiveness reviews were performed, helping readers understand the committee's role in supporting high-quality external audit.

As the use of advanced technology within external audit develops, including agentic and generative AI, audit committees will wish to consider how to build oversight of the use of technology by their auditor into their assessment of audit quality and effectiveness. This could include discussing with the auditor significant uses of technology in the audit, the associated governance and safeguards around its use, any implications for company data and audit risk, and how its use supports audit quality.

**Source: Taylor Wimpey, page 126**

**Audit effectiveness**

The relationship with PwC is well established and the Committee is satisfied with the effectiveness of the overall external audit process. PwC's performance has been kept under regular review by the Committee and reported to the Board as appropriate.

The Committee received a comprehensive audit plan from the external Auditors setting out the proposed scope and key audit matters, as well as their assessment of the key areas of risk.

During the course of the audit, the Committee noted that the external Auditors challenged management in a number of areas. Particularly on the areas below, PwC challenged, amongst other things, estimation methodologies, basis for assumptions and management's judgements and assertions:

- Margin recognition and site forecasting
- Cladding fire safety provision

In relation to each of these judgements, the external Auditors confirmed that the approach adopted by management in accounting for these in the financial statements was appropriate.

Each year a full evaluation of the external Auditors' performance is performed. The process in respect of the review of the 2024 year end audit was as follows:

- A questionnaire was distributed to the Board and key stakeholders in the audit process to evaluate the effectiveness of the external audit process
- The Committee considered the nature and extent of the non-audit work performed by PwC during the year
- The Committee considered whether PwC had appropriately challenged management's estimates and judgements
- The Committee reviewed the latest external report on PwC issued by the FRC
- The Committee considered whether PwC showed an appropriate level of challenge and scepticism in their work. An example of PwC's challenge and professional scepticism, as noted by the Committee, was their detailed review and challenge regarding the increase in the cladding fire safety provision recognised in the year

Overall, the results of the evaluation confirmed that the external audit process is effective and the quality and sufficiency of resources provided by the audit engagement team remains appropriate. The Committee welcome the external Auditors' clear reporting at each meeting and that the audit team demonstrate a strong understanding of the business.

Based on this evaluation, the Committee recommended to the Board, which in turn is recommending to shareholders in resolution 15 at the 2026 AGM (in the Notice of AGM on page 234), that PwC should continue as external Auditors to the Company.

The Company will of course keep the matter of audit effectiveness under regular review, taking into account the annual performance review to be conducted by the Committee in 2026.

## Auditor appointment, reappointment and tenure

Most companies explained their approach to the appointment or reappointment of the external auditor where relevant. The strongest disclosures clearly distinguished between the routine annual reappointment of the external auditor at the AGM and a formal tender process. These companies provided useful context on the committee's rationale and the factors informing its recommendation, providing readers with good insight into how the committee discharged its responsibilities.

Companies could enhance reporting by providing greater insight into the range of information and factors considered by audit committees, for example audit firm metrics[1], audit market diversity, price blind tendering, the inclusion of challenger firms and other relevant public interest considerations that influenced their conclusions.

Some companies also referred to the FRC's Audit Firm Metrics (previously Audit Quality Indicators) when assessing the effectiveness of the external audit process. The FRC's Firm Metrics report provides a holistic view of audit firms' performance across areas including culture, audit quality inspection results, employee workload and partner involvement. Audit committees may find this information a useful additional perspective when assessing the effectiveness and performance of their external auditor and when considering auditor appointment and reappointment decisions.

Auditor tenure reporting was already well established. Almost all companies clearly disclosed the tenure of their external auditor, with most also providing the original appointment date. This information provides valuable transparency and helps readers better understand the committee's approach to auditor oversight and rotation.

1 Firm Metrics were previously referred to as Audit Quality Indicators (AQIs). Provision 9 of the audit committees and the External Audit: Minimum Standard states that audit committees should consider this information when assessing auditor appointments and performance.

Although only a small number of companies undertook a formal tender during the review period, those that did often provided informative disclosures. The best examples explained how considerations such as audit quality, independence, challenge and technical capability were assessed during the selection process, demonstrating a clear focus on quality-led decision making.

As this was the first year in which the Standard was incorporated into the Code, it was also encouraging to see some companies explain how its requirements would influence future auditor tendering and auditor selection decisions, including through planned retendering exercises and consideration of challenger firms. Companies that are not currently planning a tender may nevertheless wish to explain how the Standard will inform future auditor selection processes and related decision making.

### Presentation and accessibility

As in previous years, the presentation of audit committee reporting varied considerably.

Some companies provided concise, well-structured reports, using colour, tables, graphics and summary sections to communicate key information. Examples included visual summaries of committee activities during the year, dedicated sections on the Standard, and tables presenting key audit-related information. These help make the report more digestible for the reader.

The most effective reports were not necessarily the longest. Rather, they combined clear structure, concise but relevant explanations along with company-specific insight to provide a coherent account of how the committee discharged its responsibilities during the year. In a small number of cases, further relevant detail and context would have provided readers with a clearer understanding of the committee's work and oversight activities.

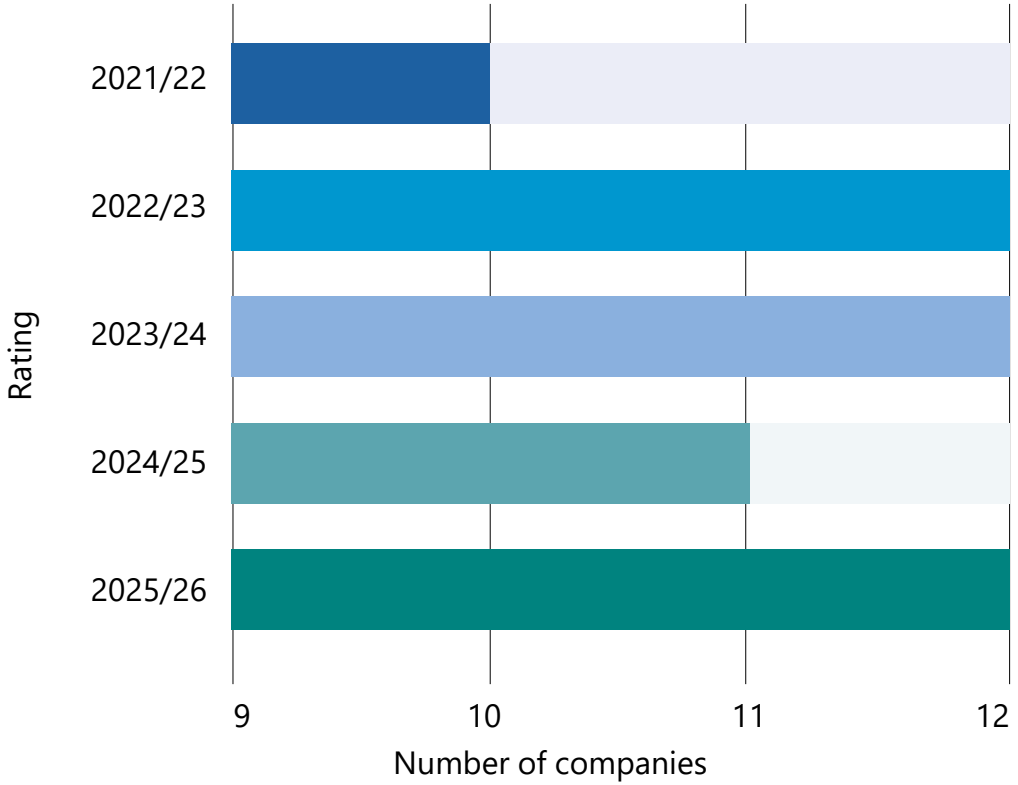
## Audit Quality Review inspection results

**Principle M**

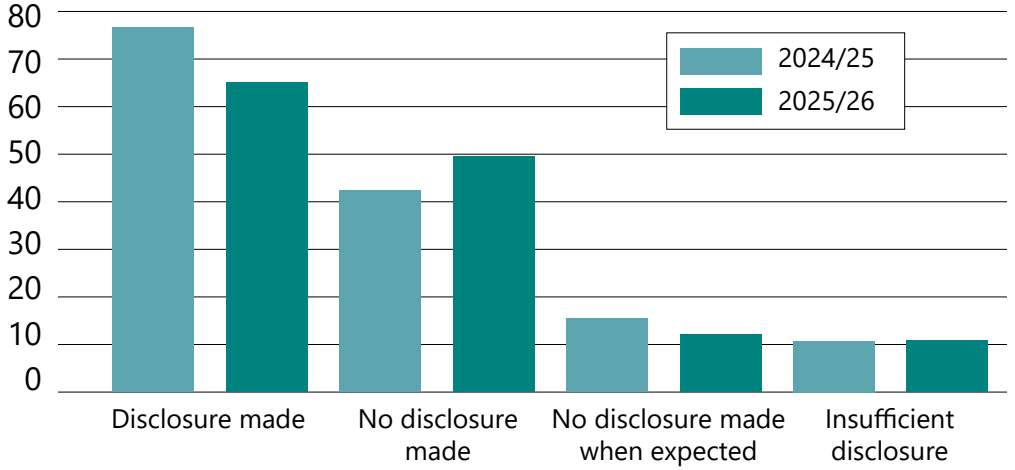
The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

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 12 of the reports in 2026. Disclosure was made in nine of these entities' annual reports, while three had appropriate mitigating explanations for non-disclosure.

Of the 100 entities within the sample, 57 had been reviewed by AQR in the last five years. The table below shows the year these entities were inspected.




For the third year running, we have also performed a separate review over the level and clarity of disclosures by Audit Committees of the findings and results of the 116 (2024/25: 120) corporate audit inspections completed during our 2025/26 AQR inspection cycle. This excludes inspections of government agencies and Crown Dependency entities. This gave an insight into the quality of disclosures across all companies whose audits are in the remit of AQR inspection. The FRC publishes a list of inspected entities for each cycle **here**.




There were 50 (2024/25: 43) cases where no disclosure had been made which was an increase from the previous cycle. However, among these, there were 38 cases (2024/25: 28) where we understood the reasons for this; for example, the company did not have an audit committee or the inspection report was finalised after the annual report date. The number of instances of failing to disclose when expected was 12 (2024/25: 15).

For the past two AQR inspection cycles, we have monitored the disclosure of inspections where key findings[2] were identified. Inspections receiving key findings are those which result in lower grades. Inspections receiving an 'improvements required grade' were disclosed appropriately only 5% of the time (2024/25: 20%) and no disclosures were made for inspections receiving a 'significant improvements required grade' (2024/25: 30%).

We have noticed considerable variation in inspection disclosures between companies receiving better inspection results and those for which key findings were identified.

2 A key finding relates to the sufficiency or quality of the audit evidence obtained, the appropriateness of key audit judgements or another important matter.

The reduced level of disclosure might indicate a reluctance by audit committees or others to disclose such findings. We encourage audit committees to use these inspection findings to demonstrate how they ensure high-quality audits have been undertaken.

We encourage audit committees to continue to improve the usefulness of disclosures by communicating the scope of the AQR inspection and the remedial actions taken to address deficiencies identified. In addition, we encourage audit committees to consider referring to other public reporting on audit quality about their auditor.

To assist, we have provided the following example of good practice disclosure:

**Source: Harbour Energy, page 96**

The Financial Reporting Council (FRC) Audit Quality Review (AQR) selected the external audit by EY of the Group's financial statements for the year ended 31 December 2024 for review as part of its annual inspection of audit firms. The AQR included the audit work performed in respect of the purchase price allocation of the Wintershall Dea acquisition, oil and gas reserves estimation and impairment of property, plant and equipment and goodwill.

The Committee reviewed and discussed the scope of the AQR and the AQR report. The AQR highlighted good practice in respect of the audit of impairment of property, plant and equipment and goodwill which was noted by the Committee. The report pleasingly included no observations or findings.

**Key message**

Overall, the number of entities disclosing AQR results, and the quality of that disclosure, has improved across the recent years. However, there needs to be significant improvement on inspections with key findings.

## Interactions with the FRC's Corporate Reporting Review

Provision 26 of the Code sets out the matters that should be covered in companies' audit committee reports, including any significant issues considered by the audit committee in relation to the financial statements. The accompanying Code Guidance provides further detail on reporting expectations, including disclosure of any interactions with the FRC's Corporate Reporting Review (CRR). Such disclosure helps provide transparency around issues identified through the review process and how companies have responded to them.

The FRC may undertake either a routine or limited scope (for example, as part of a thematic) review of a company's annual report and accounts or interim report. For the second consecutive year, we have assessed how companies report their interactions with CRR. Within our sample, 16 of the 100 companies reviewed were subject to a CRR review in the previous year. Of these, six received a 'Substantive Letter' and ten received an 'Appendix Letter'. Of the 16 companies that were written to, 15 disclosed that they had received correspondence in their annual report.

While it is for companies to decide the extent of disclosure and how much detail to provide, transparency can be particularly valuable for investors. This is especially true where a company has received a substantive letter, as investors can gain a clearer understanding of the issues raised and the actions taken to address them. In contrast, disclosures relating to an appendix letter are often more focused on acknowledging the interaction and summarising any observations made by CRR.

The following is an example of a high-quality disclosure from a company after receiving a substantive letter.

**Source: Mears, page 70**

In November 2025, we were notified that our FY24 Annual Report and Accounts had been subject to a routine review by the FRC's Corporate Reporting Review Team. The FRC sought clarification regarding the disclosure relating to a sale and leaseback transaction completed by the Group during that year, and whether the Group's gainshare arrangements with various customers represent a contract liability within IFRS 15. The response by the Company to this request for information was discussed initially with me in my capacity as Chair of the Audit and Risk Committee, the Chair of the Board as the recipient of the letter and with our auditors, PwC. Details of the Company's proposed responses were considered by the Committee before they were submitted.

As a result of these enquiries the Company committed to augment its disclosure in the event of any future Sale and Leaseback arrangements. As it happens, a new Sale and Leaseback was completed in December 2025, and the relevant disclosures are consolidated within note 23 to the financial statements to assist the reader. In respect of amounts owed under gainshare, the Committee recognised that disclosing this balance as a "Repayments due to customers" rather than "contract liabilities" would be more appropriate and compliant with IFRS 15. This is detailed within note 18, including a restatement of the prior year. In addition, the Company has looked to enhance its disclosure within these financial statements in other areas separately highlighted by the FRC for the Board's consideration.

We recognise that the FRC's review was based on the Group's Annual Report and Accounts for the year ended 31 December 2024 and did not benefit from detailed knowledge of the Company's business or an understanding of the underlying transactions. The FRC's role is not to verify the information provided, but to consider compliance with reporting requirements. Given the scope and inherent limitations of their review, it would not be appropriate for the Company or any third party to infer any assurance from this FRC review.

In addition to routine reviews, the FRC published five thematic reviews during the year based on a sample of 75 companies. These limited scope reviews enable CRR to assess the quality of corporate reporting on specific topics or sectors, set out clear expectations, and provide companies with good practice examples. Within our sample, several companies reported that they had been included in a CRR thematic review and several companies specifically referenced using CRR thematic reviews as a source of insight to enhance their own reporting. This demonstrates how thematic reviews can support continuous improvement in the quality of corporate reporting, even where no specific concerns have been raised with a company.

**Key message**

Providing transparent disclosure of CRR interactions, together with how findings have been incorporated, considered and applied, helps investors assess the quality of companies' reporting and their commitment to continuous improvement.

# Risk

## Risk management and internal controls

This year, in our review of risk and internal controls reporting, we focused on the preparations companies are making to report against the updated Provision 29 in the UK Corporate Governance Code. More detail on this is included below. However, as the starting point for much of this work is rightly focused on the principal risks to which each company is exposed, we have also conducted our usual review on principal risk reporting against Provision 28.

## Principal risks (Provision 28)

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. Many companies have treated the revisions to Provision 29 as an opportunity to review their principal risks, and we were pleased to see good reporting in this area this year.

The average number of principal risks reported in the sample was 10. Better reporting clearly explains how the board has determined which risks are principal risks and demonstrates how these relate to the company's specific circumstances. While companies may maintain extensive risk registers, annual report disclosures should concentrate on the relatively small number of risks considered by the board to be most significant.

The strongest disclosures we saw this year provided insight into the board's assessment process, including how principal risks have been evaluated against the company's risk appetite and strategic objectives. They also explained how those risks are monitored and mitigated through the broader risk management and internal control framework.

Connecting principal risks, risk appetite, mitigating actions and material controls can help readers understand how the company manages risks in practice and how these activities support long-term resilience.

## Source: Chesnara, page 65

**IT/DATA SECURITY RISK** — **PR5**

IT and data security risk could have a material impact on the Group's operational resilience, financial performance and reputation. As a custodian of sensitive customer and business data, the Group is exposed to information security risks arising from failures in internal systems, processes or controls, as well as from increasingly sophisticated malicious cyber activity, including targeted attacks, malware, phishing and ransomware. The Group's exposure is further influenced by its reliance on third-party service providers, which may introduce additional vulnerabilities.

A significant cyber or data security incident could result in financial losses, regulatory sanctions, or remediation and recovery costs, as well as the inability to perform critical business functions or deliver services to policyholders. The loss, corruption or unauthorised disclosure of sensitive data could lead to reputational damage, reduced stakeholder confidence and adverse regulatory outcomes.

| Sub risk | Risk appetite | Mitigations | Recent change/outlook |
|---|---|---|---|
| **PR5.1** Risk that cyber-attacks or failures in IT data security controls could compromise the confidentiality, integrity, or availability of information systems and data. | The Group aims to minimise its exposure to this risk, to the extent possible, but acknowledges that it may need to accept some risk as a result of carrying out business. | Robust IT frameworks, continuous monitoring and proactive vulnerability testing are in place to support the protection of data confidentiality, integrity and availability.<br>Technical controls are supported by routine penetration and vulnerability testing across internal systems and key third-party service providers.<br>A comprehensive security awareness programme is in place, including regular staff training and periodic employee phishing simulations.<br>Implementation of disaster recovery and business continuity plans, which are regularly reviewed, tested, and monitored to ensure operational resilience and timely recovery in the event of a security incident or system disruption.<br>Chesnara has cyber insurance in place which covers all of the UK operations including Head Office. Elsewhere in the Group, where cyber insurance is not in place, we are able to access support and resources (e.g. forensic analysis) through existing contracts with third parties. | The Group continues to invest in the incremental strengthening of its cyber risk resilience and response options.<br>Cyber risk remains elevated and persistent, driven by evolving threat actors, geopolitical tensions, and increased system interconnectivity across the financial sector.<br>The growing use of AI and automation introduces additional risks related to model security, data integrity, and control transparency.<br>Regulators continue to treat cyber security and IT resilience as core supervisory priorities for financial services firms. In the UK, the FCA, PRA and Bank of England have reinforced expectations under the operational resilience framework and introduced the Critical Third Parties (CTP) regime, extending regulatory oversight to key technology and service providers whose disruption could threaten financial stability. In the EU, DORA introduces harmonised and more prescriptive requirements for ICT risk management, cyber incident reporting, resilience testing, and oversight of critical ICT third-party providers. |

## Source: Rentokil, page 72

**Principal risk:** Strategic

**Failure to develop products and services that are tailored and relevant to local markets and market conditions**

**Overall risk:** Medium — **Strategic priorities** 1 2 3 4

**Trend: Stable**
No significant changes, resulting in a stable trend.

We operate across markets that are at different stages in the economic cycle, at varying stages of market development, and have different levels of market attractiveness. We must be sufficiently agile to develop and deliver products and services that meet local market needs, which allows us to meet our growth objectives and stay ahead in a highly competitive industry.

**Impact should the risk materialise**
If we are not able to adapt to local business and consumer needs, our existing customers may choose not to renew contracts, or seek reductions in prices. This would negatively impact our ability to maintain or increase margins and cash flow.

Examples include:
- We must adapt to changes to the regulatory environment that may ban certain products or service models from being used, such as permanent rodent baiting.
- We need to respond to the expectations from customers and society for us to reduce our own environmental impact and support our customers in reducing their environmental impact.
- We need to develop products that are networked and capable of being monitored in real time, or react to competitor technology developments that are disruptive to the market.

**Mitigating actions**
- Acquisition of targets with specific capabilities that address future changes in our markets, governed by a defined authority matrix.
- Investment Committee to approve targeted investment in innovation to meet market and regulatory needs.
- Category Boards for Pest Control and Hygiene & Wellbeing categories overseeing the roll-out of innovations at pace across our regional businesses.
- Continued investment in digital platforms to support Sales and Service frontline colleagues.
- Formalised Group key performance indicators (KPIs) for innovation at a customer and colleague level to monitor progress.
- Further development of our range of sustainable, non-toxic, and humane pest control solutions, with the Technical Compliance team working closely with all relevant governing bodies.

**Changes in 2025 versus 2024**
- The use of digital technologies at customer sites was increased
- Increased use of data analytics to deliver enhanced business insights, in both the International businesses via the Command Center and the North America business via the Rentokil Terminix data hub
- Ongoing research into non-toxic pest control solutions

**Performance measures to monitor risk**
- Sales growth for key innovations
- Percentage of sales revenue from innovation
- Number of sites with digital solutions
- Percentage of commercial customers registered for digital platforms
- Percentage of colleagues using digital applications

**Emerging risk**
- Potential for increasing regulatory requirements

**Principal risk:** Financial

**Failure to grow our business profitably in a changing macroeconomic environment**

**Overall risk:** High — **Strategic priorities** 1 2 3

**Trend: Reducing**
Remains high but reducing due to less economic volatility in our larger countries.

The Company's two core categories (Pest Control and Hygiene & Wellbeing) operate in a global macroeconomic environment that is subject to uncertainty and volatility.

**Impact should the risk materialise**
Changes in the macroeconomic environment could have a number of different impacts on the ability of the business to grow profitably, to sustain recruitment, and to deliver against targets.

Examples include:
- Recession and economic slowdown in some of our key markets.
- Changes to the global job market and the dual challenges of recruitment and retention.
- Increased costs of doing business, with rising costs as a consequence of political instability, increasing interest rates, and civil unrest.
- Low-growth economies with inherent cost inflation where the Company has weak pricing power may make it difficult to maintain profitability, especially in areas of hyperinflation.
- Growing market presence of multinational competitors may increase the cost of acquisitions and drive down prices, impacting profitability.
- Legislation (including CSRD ESG), regulation, or society expectation limits our 'licence to operate'.
- Inflationary pressures causing us to pass on costs potentially pricing out customers in challenging financial positions, and with wage inflation demands.

**Mitigating actions**
- Resourcing being driven by the capital allocation model, differentiated by line of business to maximise opportunities.
- Maintaining a low-cost operating model, focused IT investment, incentives to deliver efficient operations, and back-office process alignment and standardisation programme.
- International Key Accounts team developing business with multinational customers to take advantage of the unique global capabilities.
- A regionally focused defined pricing programme to drive profitability on existing portfolio, build insight, and enable profitable growth from new business and innovations.
- Group Procurement team tasked to deliver economies of scale while ensuring robust supply chain.
- Regular reviews of customer contracting minimum standards to drive consistent contracting across the Group.

**Changes in 2025 versus 2024**
- Specific programmes at regional level to focus on reduction of back office SG&A costs
- Increased focus at regional level on inflationary impacts and mitigating actions through the use of data and profitability tools
- Continued focus on governance of pricing decisions in region
- Recruitment of colleagues in North America with strong pricing experience

**Performance measures to monitor risk**
- Revenue and Organic Revenue Growth, in total and by category
- Revenue contribution from acquisitions
- Adjusted Operating Profit
- Group Adjusted Operating Margin
- Adjusted Free Cash Flow Conversion
- Net capital expenditure
- Customer retention
- Colleague retention

Most reporting on principal risks is found within the strategic report. As explored in greater detail in the section of this Review which covers simplifying annual reports, effective cross-referencing throughout the annual report can help demonstrate these relationships and provide a more joined-up picture of risk management, whilst also offering opportunities for reducing the length of the overall report.

Many companies in this year's sample chose to include a principal risk centred around cyber or technology, and these disclosures have been analysed in more detail below.

## Cyber risk and artificial intelligence

Board members play a crucial role in ensuring principal and emerging risks are approached strategically, ensuring operational resilience and continuous functioning of the business. Since the effective management of cyber risks has become increasingly important to the operation of many modern businesses, we have looked at the extent to which boards considered cyber risks and governance as part of this work.

This year, 97 companies included cybersecurity in their principal risks, either as a standalone risk or grouped, whilst the remaining 3 reported that they are managing cyber risks as other strategic or business risks.

In some cases, companies aligned their risk framework explicitly with their strategy, and discussed cyber risks in a strategic context. In other cases, we saw cyber risk grouped with other operational risks. It is clear that the companies in our sample view cybersecurity and resilience as fundamental to the successful delivery of their business models.

### Cyber governance

Ninety-eight companies discussed how the board and its committees are involved in mitigating or monitoring cyber risks. This included boards taking an active role in assurance reviews, and in responding to cyber incidents, as described in the following example.

**Source: IMI, page 92**

#### Responding to the cyber incident

In the first quarter of 2025, IMI experienced a cyber incident involving unauthorised access to its systems. Upon discovery, the Company acted swiftly, engaging leading external cyber security experts to investigate, contain and remediate the incident. Throughout the incident, IMI prioritised transparent and timely communication with all stakeholders. Regulatory bodies, including the Information Commissioner's Office ('ICO'), were notified promptly and IMI engaged with law enforcement throughout the investigation. Regular updates were issued to customers and employees, with communications reviewed and approved by the Board where appropriate to ensure consistency and accuracy. To oversee the response and assess the evolving impact, the Board convened regularly. Throughout the incident, IMI employees displayed exceptional teamwork and resilience, maintaining focus on customer service and operational continuity. This proactive and inclusive approach to stakeholder engagement helped IMI preserve investor confidence, retain customer trust and reinforce employee morale. The incident also served as a catalyst for a broader review and enhancement of the Company's cyber security framework.

Eighty-three companies mention the cybersecurity expertise their board and committees have access to, with several mentioning deep dives and training sessions for board members.

Many of the reports also mention relevant cybersecurity standards and accreditations, with 11 referring to the resources from the UK's National Cyber Security Centre[2]. The following is an example of a Board taking action in response to UK Government guidance on Cyber Governance.

**Source: BAE Systems, page 89**

**Key actions taken by the Board in 2025**

– The Company, along with other UK FTSE companies, received a letter from the UK Government outlining the Cyber Governance Code of Practice and its recommendations. As part of its review, the Board was updated on the Group's alignment with the Cyber Governance Code of Practice. Given the importance of this topic, the Board requested that this be an agenda item for discussion every six months.

2 Overview | National Cyber Security Centre

The Cyber Governance Code of Practice is the foundation of the UK government's free package of support on cyber governance and sets out the key actions for board members to take to govern cyber security risks effectively. It is underpinned by resources and toolkits from the National Cyber Security Centre.

## Cyber culture

A strong cybersecurity culture is an important aspect of effective risk controls. Ninety companies in our sample discussed the work they are doing to promote a cyber-resilient culture, with many requiring their staff to complete regular training, and others running phishing simulation campaigns to keep security awareness high. Several other companies also looked beyond their own organisation to promote cyber security to their customers and suppliers.

This company discussed its work to promote cyber and tech skills for its customers and the wider community.

**Source: Admiral Group, page 64**

### Technology that puts people first

At Admiral, technology isn't just about systems – it's about people. In 2025, we invested in digital innovation that makes life fairer, safer, and more accessible for customers, colleagues, and communities. From advanced cybersecurity to inclusive skills programmes that open doors for future tech talent, we're using technology to drive progress responsibly.

## Artificial Intelligence

The number of companies mentioning Artificial Intelligence (AI) in their reports has risen again, from 86 last year to 95 this year. We saw many examples of boards taking an interest in AI and of companies developing or maturing their governance arrangements for the responsible development and use of AI in support of their strategic objectives.

Sixty-eight companies considered AI in their risk frameworks in some way, either embedded in their principal or emerging risks, or recognised as a cause or factor in other risks. For example, many recognise the potential for AI to have a significant impact on cyber threats and included this in their cybersecurity principal risks.

Better risk reporting recognised both the risks and opportunities of AI, as well as the need for careful governance.

**Source: Harworth Group, page 68**



**PRINCIPAL RISKS**

| Risk | Description | Commentary | Mitigation | Risk profile |
|---|---|---|---|---|
| **Risk 11: Digital Transformation Project** | Failure to implement a scalable and integrated digital architecture that enables operational efficiency, business growth, continuous innovation and effective AI adoption. | Like all organisations, Harworth operates in an environment defined by rapid technological change, including the emergence and mounting prominence of Artificial Intelligence. While evolution of the technologies we use is and will remain progressive, we recognise the need for a step-change in our digital maturity and are addressing this via our Digital Transformation Project. This carries a host of opportunities to drive operational efficiencies and enhance decision-making. | – We have selected a **strategic delivery partner** which has extensive expertise in digital transformation, project/system delivery and software development.<br>– **KPIs** have been defined and are tracked/monitored on a monthly basis.<br>– **Project and Programme Governance** is in place for the project which includes regular meetings of Senior Management to ensure risks are effectively managed and the project is on track to meet its objectives within budget and timeframe.<br>– **Business Engagement** – regular communication to the Business; with training taking place at key points throughout the DTP lifecycle as well as involvement of key user groups to ensure successful adoption of new systems. | **Current residual risk status**<br>Medium (NEW Principal Risk)<br>**Risk appetite**<br>Cautious<br>**Target residual risk**<br>Low (below current risk rating)<br>**Additional measures planned for 2026 to reduce risk in line with target:**<br>– **DTP initiatives** will continue to progress and mature in 2026, delivering on key milestones within the roadmap.<br>– **Technology Target Operating Model** is being developed to ensure new technology systems, services and process can be maintained and benefits sustained once the Digital Transformation Project has been delivered.<br>**Link to Growth Drivers & Group Targets**<br>£ H |

## Source: International Consolidated Airlines Group, page 86



Strategic Report | Corporate Governance | Financial Statements | Sustainability Statement

Risk management and principal risk factors *continued*

**11 Transformation, innovation and AI**

Chief Transformation and Procurement Officer

| Strategic imperatives | Category | Stakeholder impact | Risk trend 2025 | Risk trend 2024 | Viability scenarios |
|---|---|---|---|---|---|
| | | | = | = | 4 |

**Strategic relevance**

- The transformation, innovation and AI agenda is critical to the Group's ability to deliver strong returns and to compete in the competitive marketplace, where distortionary effects of any aviation support schemes may allow competitors to address debt or accelerate their change agendas and invest to improve capabilities and customer propositions
- Competitors and new entrants to the travel market may use digital tools, innovate or use AI and technology more effectively and disrupt the Group's business model

**Status**

The Group continues to focus on its cost base to offset price increases in the supply chain, particularly costs from fleet and engine manufacturers and the additional costs of resilience, to ensure that the Group is well prepared for any further external headwinds that may impact the aviation industry. Opportunities for AI adoption to drive efficiencies and better insights have been identified across the Group's businesses with business cases and implementation subject to guardrails to help protect against unexpected outcomes. The people impact of change and the talent and skill sets needed for the future size and shape of the Group's businesses are considered as part of the Group's transformation and innovation programmes.

The Group has an established Transformation Programme Management Office, which has oversight of an agreed portfolio of initiatives across the Group focused on improving customer service, revenue and cost efficiency, and the transformation mindset is becoming part of our culture. Many of the programmes are multi-year and all are subject to the ongoing review and investment approvals of the IAG Board. This has strengthened the Group's operating companies' focus on addressing their legacy estates to deliver digital customer experiences.

**Risk description**

- Failure to transform the business to effectively deliver cost-efficiency initiatives, maintain or grow share in the new competitive environment, fully implement all programmes across the Group and realise the benefits of the change initiatives to deliver Group digital platforms and customer propositions
- The pace of change may expose the Group to execution risk as multiple initiatives are delivered across processes and systems that serve our operations and customers
- The impact on our people of the wide-ranging change agenda, if poorly managed or uncoordinated, could lead to logistical and engagement challenges, with the potential to negatively impact NPS, revenue and efficiency benefits
- Further simplification, optimisation and efficiencies from end-to end domain transformation are not delivered
- Competitors, or new entrants, may invest and innovate in deploying digital technologies, AI, sustainability initiatives and/or platforms ahead of the Group
- Technology disruptors may use tools to position themselves between our brands and our customers
- The levels of data capture, data storage and security and availability of data are not sufficient and ready to exploit AI use cases
- Lack of accuracy or insufficient human oversight of AI tools and agentic AI development and outputs within technical teams and by employees in the operating companies could result in errors, suboptimal business decisions or reputational or brand impacts
- The Group does not understand the scope or depth of the use of AI and agentic AI across its businesses and third parties as its prevalence accelerates

**Mitigations**

- The Chief Procurement and Transformation Officer has clear oversight of all programmes across the Group's businesses
- Mirrored structures in the operating companies
- Consistent core metrics and dashboard reporting used to assess performance against plan
- The IAG Management Committee has regular operating-company-specific meetings to assess their transformation agenda and the risks to delivery
- The Group transformation agenda is subject to Board approval and progress is regularly monitored by the Board
- Group AI governance committee to assess AI initiatives to allow the Group businesses to exploit AI capabilities, with mirrored committees in place across all operating companies
- There are operating company-led communications to our employees on change initiatives and changes that may affect them
- Consideration is given to the Group's sustainability commitments and agenda for all programmes
- Any potential changes that could impact the brands are reviewed to mitigate against reputational and brand damage
- The IAGi accelerator programme continues to create early-stage engagement and leverages new opportunities with startups and technology disruptors

Descriptions of AI governance sometimes appeared in other parts of annual reports, such as this example from a CEO's Review.

## Source: Evoke, page 6

> To ensure AI is deployed responsibly and at scale, we strengthened governance and oversight during the year. A dedicated AI Committee and a newly established AI Centre of Excellence provide structured risk assessment, lifecycle management and cross-functional coordination, ensuring that innovation remains aligned with regulatory expectations and our risk appetite.

Not every company that mentioned AI in its annual report included disclosures about the approach to governance of the associated risks and opportunities. Sometimes this was because it only briefly mentioned AI as one factor in its wider business opportunities, such as a mining company attributing rising copper demand to increasing numbers of AI data centres. However, 10 companies discussed their use of AI in their operations without also explicitly discussing AI governance and risk management.

Fifty-six companies included information in their report about the actions they are taking to promote a culture where AI is used in a secure and responsible way, for example, through training or governance and policies.

**Source: Aviva, page 54**



**BRILLIANT LEADERS, LEARNING AND CAREERS**

Building the workforce and skills we need for today and tomorrow is critical. We're investing in retaining, re-training, and re-deploying our people - especially in key areas. We have re-skilled c250+ colleagues with over 100 moving to new roles so far.

We launched new Aviva University Academies aligned to our strategic priorities including Project Management & Change, Pricing & Underwriting, and Customer Service. We're also focussed on the impact of Gen AI, launching a Gen AI apprenticeship in partnership with Decoded.

**Source: ITV, page 46**

**Actions taken & risk management approach**

- We maintain a Group-wide governance framework to support the responsible and compliant use of AI
- We provide access to licensed and secure AI tools to reduce reliance on unapproved solutions
- We build AI capability and awareness through mandatory training for employees and freelancers on responsible AI use, with targeted training for colleagues in higher-risk roles
- We assess and prioritise AI use cases through defined approval and oversight processes
- We monitor AI usage to identify emerging risks and ensure alignment with policies and controls
- We collaborate with industry partners to support the development of standards for IP protection and watermarking
- We continue to strengthen data governance to support safe and effective use of AI
- We monitor regulatory developments affecting the use of AI

This year we saw a slight increase in the number of companies saying that they used AI in reporting, from one company last year to nine this year. This was generally for sustainability reporting or analysis of staff surveys.

**Source: THG, page 45**

We report in accordance with the GHG Protocol, and in 2024 we strengthened our Scope 3 calculation processes sufficiently to report Scope 1, 2 and 3 emissions for the same financial year for the first time. This year we have been able to do the same, applying our updated methodologies and boundaries to 2025 data. In addition, GHG analysis has been completed in-house for the first time, using AI-based technology to map products with associated emissions factors alongside a robust testing and assurance process. This ensures that the 2025 report presents a standardised and accurate emissions dataset to support long-term target setting and performance tracking.

## Preparedness for Provision 29 of the 2024 Code (effective on 1 January 2026)

Reporting on the updated Provision 29 will apply to annual reports for periods commencing on or after 1 January 2026. This year, we focused on companies' preparations for implementation.

The revised provision strengthens board accountability for the effectiveness of risk management and internal control frameworks and introduces a requirement for a board declaration on the effectiveness of material controls, with material controls being determined by the board.

For reporting periods beginning on or after 1 January 2026, boards are expected to declare whether material controls were effective at the balance sheet date, based on evidence from their monitoring and review activities. Annual reports should explain how the board reached its conclusion, including the processes, evidence and assurance sources considered. Where controls are ineffective, reporting should identify the issues, outline remedial actions and provide updates on progress. As with all Code reporting, the expectation is that disclosures will be company-specific, balanced and focused on meaningful insight rather than boilerplate descriptions.

This year, most companies (92/100) reported undertaking some form of preparation for the revised Provision 29 requirements. We have seen examples of insightful reporting covering not only the technical work undertaken to prepare, but also the role played by the board and its committees in overseeing and challenging that work. The strongest disclosures explain how boards have engaged with management, internal audit and others to identify material controls, assess effectiveness, review progress against implementation plans and monitor readiness for the new reporting requirements.

The readiness activities reported this year are likely to form the foundation of future Provision 29 disclosures. As the new requirements take effect, it is anticipated that companies will move beyond describing preparation activities and provide clear, company-specific reporting on how the board has monitored and reviewed the effectiveness of the framework, assessed material controls and supported its declaration on their effectiveness.

**Source: Gulf Marine Services, page 59**

The Group responded to the 2024 Code Provision 29 by initiating a project aimed at enhancing the documentation of controls, and identifying those controls considered to be material to the Group, building on the existing robust risk management process.

An extensive exercise was undertaken to reconfirm key risks, enhance the documentation of controls in place and determine which of those controls should be considered material. The Group has identified its key risks, control objectives, control activities, which controls are material and the evidence required to demonstrate that the control is in place, along with control owners and operators, and departments. This information is summarised within a consolidated risk register. The material risks identified represent a consensus view, based on input from the Executive team and relevant staff across the business, including all functions and departments of the Group.

An external consultancy firm was engaged to provide feedback on this work and to provide advice on the documentation of controls, including the methodology used by the Group to determine which controls are material, to validate the identified material controls and mitigations and to confirm their effectiveness through sample testing. Additionally, they assessed and recommended any further actions required to support compliance with the Code's disclosure requirements from 2026.

The Audit and Risk Committee actively engaged with management on this programme of work, receiving regular updates on all key activities. The Committee is pleased with the progress made in 2025 in enhancing the control environment and to put in place robust arrangements to enable the monitoring and review of the effectiveness of material controls during 2026.

Overall, the Committee is satisfied that the Group's system of internal control and risk management remains effective and appropriate to the nature and scale of the business. The enhancements undertaken during the year, including the programme aligned to the UK Corporate Governance Code, further strengthen the control environment and support the Board in discharging its governance responsibilities.

**Source: Melrose Industries, page 106**

The Committee has overseen the preparations that are underway to ensure compliance with the requirements of provision 29 of the UK Corporate Governance Code for the financial year commencing on 1 January 2026 ("Provision 29").

Senior management has established steering and working groups, which consist of senior members of the finance, legal and internal audit functions, and a roadmap has been developed with review and oversight from the Committee. The work done in preparation for the implementation of Provision 29 has leveraged the existing risk management, control and internal assurance frameworks that are already in place within the Group in order to develop a comprehensive roadmap for achieving compliance.

Throughout 2025, senior management has provided regular updates to the Committee on the Company's preparations for the implementation of Provision 29. Good progress has been made in preparing for Provision 29, and the Committee notes that all milestones which were planned for 2025, and which were detailed in the Company's roadmap, have been achieved.

As a first step, the Company's key risks and material controls were identified by senior management. This process involved a review of the Group's principal risks, in addition to the central and divisional risk registers, with discussions being held with risk owners, which informed the identification of key risks for the purposes of Provision 29. Once the key risks were identified, discussions were held with each key risk owner and senior management, to understand what controls were in place to manage the relevant risks, in order to confirm the applicable material controls.

Following identification of all key risks and as part of our ongoing preparatory work, deep dive sessions with individual risk owners have also been held for those key risks which were considered the most material to the Group as identified by senior management. Materiality was informed by, amongst other things, the Board's risk appetite in the context of the Company's principal risks. To date, these deep dive sessions have been focused on key risks associated with product quality, health and safety, and cyber risk, for which the Board has a low risk appetite. It is intended that these sessions will be expanded to cover the Company's key risks in future periods. For further information on the Company's principal risks and the Board's risk appetite, please refer to the Risk Management and Principal Risks and Uncertainties sections on pages 32 to 34 and 35 to 39 respectively.

Once the key risks and material controls were identified, senior management undertook a 'dry run' to assess the effectiveness of the identified material controls. This involved a targeted assessment of the Company's material controls to confirm that the proposed assurance processes were effective and efficient from an operational perspective, and to identify any opportunities for enhancement across the Company's existing control environment. In particular, key risk and material control owners provided supporting materials which assisted senior management in their targeted review of the material controls and enabled them to conclude that the proposed assurance processes were practical, and that the proposed assurance testing programme could be conducted in an effective and efficient manner. Follow-up discussions were also held with key risk owners where opportunities were identified to enhance the operation of certain controls, and the implementation of these follow-up actions are being tracked by senior management, with updates provided to the Committee.

## Reporting under current Provision 29 (2018 Code)

The existing Provision 29, from the 2018 Code, includes many of the elements which have been retained in the updated version. For example, the existing Provision refers to the monitoring and review of risk management and internal control systems by the board, including a requirement for this review to cover all material controls. Although reporting this year has been focused on preparatory activities, several companies have provided disclosures under the existing Provision 29 which meet some of the requirements of the updated version.

**Source: Ibstock, page 89**

Twice a year the Committee considers in detail the risk management and internal control environment within the Group. During these meetings, the Committee considers the current and proposed regulatory and best practice requirements alongside a review of Ibstock's internal controls. This includes the Group's culture and values, risk management evaluation and procedures, financial controls, Internal Audit focus and processes, and ethics and compliance. This review provides an opportunity to identify areas for improvement and development.

The Committee also receives reports on compliance with internal controls throughout the year alongside independent reports from RSM on the audits and reviews they have undertaken. RSM carry out independent testing of internal controls on a six-monthly basis and the outcome is shared with the Committee.

The review of effectiveness included the following elements:

- Consideration of the principal risks and uncertainties and their associated mitigation prepared by management in advance of their submission to the Board. This formed a key component of the Board's robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The Group's principal risks are set out on pages 48 to 52.
- Review of a report from the Interim CFO on the internal controls operating in the business and any associated action plans.
- Review of fraud risks (including those under the Economic Crime and Corporate Transparency Act 2023), including the results of a fraud risk assessment, the Code of Business Conduct and Whistleblowing Policy.
- Oversight of risk and internal control arrangements.
- Review of work undertaken to comply with Provision 29 of the Code.

Based on this review the Committee concluded there were no material weaknesses. However, a number of areas were identified where improvements are required to enhance formality and consistency of control operation including timeliness and retention of evidence.

## Internal control weaknesses

Where the risk management and internal control framework has not operated effectively, Provision 29 of the 2024 Code asks companies to describe the actions taken or proposed to improve them, and any action taken to address previously reported issues.

Although not required under the 2018 Code, a number of companies already disclosed weaknesses identified through their monitoring and review of the effectiveness of risk management and internal control systems this year. Such reporting can provide useful insight into how boards identify, assess and respond to deficiencies in the control environment.

Better reporting provides sufficient context for shareholders to understand the nature of the issue, its impact and the actions taken by the board or relevant committee. These disclosures focus on governance, oversight and corrective actions rather than technical details of individual controls.

In future reporting, we expect companies to include a clear explanation of the issue, the actions taken or proposed to address it, the board's oversight of remediation activities and progress made in addressing previously reported weaknesses. Such disclosures can help investors understand how boards are fulfilling their responsibility to monitor and review the effectiveness of the risk management and internal control framework and support the declaration on the effectiveness of material controls.

**Source: Metlen Energy, page 305**

From the Committee's review of the effectiveness of the system of internal controls, several control findings were identified during the period, including those relating to project governance controls in the MPP subsector and deficiencies in approvals process for finance transactions. The Committee has focused on ensuring appropriate remediation actions are in place, with a clear enhancement and investment in the Group's finance function, strengthening of the governance in place for long-term projects and the establishment of more clearly defined delegated authorities and associated controls.

# 4. Remuneration

## Remuneration

Our sample this year marks the first assessment of reporting against the revised remuneration provisions in Section 5 of the Code. The changes include strengthened requirements on malus and clawback arrangements through the amendment of Provision 37 and the introduction of new Provision 38. Given these changes to the Code, we have focused more closely on the operation and disclosure of malus and clawback arrangements.

Almost all companies highlighted that they had malus and/or clawback provisions in place, although some noted that clawback could not be enforced in certain jurisdictions where it was not permitted under local law.

One company reported that it does not currently operate malus and clawback provisions for the variable remuneration arrangements of its executive directors. It explained that the Committee considers this approach proportionate given the structure and governance of the company's equity incentive arrangements, while noting that the position will be kept under review. Such approaches highlight the flexibility provided by the Code's 'comply or explain' approach, enabling companies to depart from specific provisions where they consider alternative arrangements to be more appropriate and can provide a clear justification for doing so.

In previous reviews, reporting on malus and clawback generally included a description of the circumstances in which these provisions could be applied, together with details of the periods over which they operated. Under the 2024 Code, companies are additionally asked to explain why the selected malus and clawback period is most appropriate for the organisation and disclose whether the provisions were used during the reporting period, providing a clear explanation where they have been exercised.

Reporting against this new provision varied considerably. One example of particularly comprehensive disclosure was provided by London Stock Exchange Group, which contained the previous general disclosures alongside the new reporting elements in which the organisation has clearly explained the rationale for its chosen malus and clawback period and confirmed whether the provisions had been exercised during the year.

**Source: London Stock Exchange Group, page 96**

**Malus and clawback provisions**
Malus and clawback provisions apply to all share incentive awards granted to Executive Directors. Clawback provisions apply to annual bonuses paid to Executive Directors.

In respect of awards under the EIP, the malus provisions allow the Committee in its absolute discretion to determine, at any time prior to the payment or vesting of an award, to reduce, cancel or impose further conditions in certain circumstances, including:

(a) material misstatement or restatement in the Company's or any member of the Group's audited financial accounts (other than as a result of a change in accounting practice);

(b) the negligence, fraud or serious misconduct of an individual, or fraud or serious misconduct with the knowledge of a participant;

(c) conduct by an individual which results in, or is or was reasonably likely to result in (whether or not such result has transpired e.g., if undiscovered and/or if no mitigating steps had been taken):

(i) significant reputational damage to the Company, any member of the Group or to a relevant business unit (as appropriate);

(ii) a material adverse effect on the financial position of the Company, any member of the Group or to a relevant business unit (as appropriate);

(iii) a material downturn in the financial performance of the Company, any member of the Group or to a relevant business unit (as appropriate);

(iv) a material corporate failure of the Company, any member of the Group or to a relevant business unit (as appropriate);

(v) a material adverse effect on the business opportunities and prospects for sustained performance or profitability of the Company, any member of the Group or relevant business unit (as appropriate); or

(vi) a material failure of risk management in the Company, any member of the Group or to a relevant business unit (as appropriate),

or an individual being (or having been): a member of; an employee of; or responsible for, a business unit, the Company or a member of the Group that suffers (or may or could reasonably have suffered) any of the same;

(d) where the grant, vesting, exercise, payment or release of an award would not be sustainable according to the financial situation of the Group as a whole nor justified on the basis of the performance of the Group, the relevant business unit and the relevant individual;

(e) conduct or behaviour by an individual that, following an investigation, is reasonably considered by the Committee to constitute a breach of the Company's values and/or standards as stipulated by the Group's Code of Conduct or any of the Company's policies, procedures or any provision of any staff handbook in force from time to time;

(f) unreasonable failure by an individual to protect the interests of the Group's stakeholders;

(g) where a participant ceases to be an employee by reason of their retirement (as determined by the Committee) at any time prior to payment or vesting, but becomes employed in an executive role by any entity other than a role for which they receive no remuneration;

(h) an error in assessing any performance conditions applicable to an award or in the information or assumptions on which the award was granted, vests or is exercised, paid or released; or

(i) any other circumstances that the Committee, in exercising appropriate discretion and acting fairly and reasonably, considers to be similar in nature or effect to those above.

Clawback provisions allow the Committee in its absolute discretion to claw back from individuals some or all of the vested EIP awards or paid bonus in the same circumstances outlined for malus above.

Clawback will normally apply for a period of three years following vesting of share awards and/or payment of cash bonus unless the Committee determines otherwise. The Committee believes this is an appropriate time period which aligns with the length of the performance period for long-term incentives.

Similar but not identical malus and/or clawback triggers apply to existing awards under other LSEG discretionary share incentive plans, and to annual bonuses.

The malus and clawback provisions were not used in FY2025 for any awards granted to Executive Directors.

Across our sample, only one company reported an instance where a malus or clawback provision had been activated during the reporting period.

## Malus and clawback circumstances

Eighty-four companies disclosed the circumstances in which their malus and clawback provisions may be applied, while 15 did not provide this information in the current year's report. Most of these companies indicated that the relevant information could be found in a previous remuneration report. As noted above, only one company reported that it does not currently operate malus and clawback provisions for the variable remuneration arrangements of its executive directors.

| | |
|---|---|
| Companies with disclosed circumstances | 84 |
| Companies not disclosing circumstances | 15 |
| Companies stating no malus/clawback provision | 1 |

The table below summarises the most common circumstances disclosed by companies in our sample (not a definitive list):

| Circumstance | No. of companies |
|---|---|
| Material misstatement in the company's accounts | 77 |
| Misconduct | 79 |
| Payment based on an error, inaccurate or misleading information | 75 |
| Reputation | 66 |
| Corporate failure | 58 |
| Failure of risk management | 38 |
| Financial loss/deterioration | 35 |
| Breach of health and safety standards/regulations | 3 |
| Contravention of company values | 11 |
| Other, including fraud | 83 |

## Updated guidance on non-executive director remuneration

In November 2025, we updated the Code Guidance to provide greater clarity on the remuneration of non-executive directors (NEDs). The update recognised that companies may wish to encourage NEDs to build personal shareholdings to support alignment with shareholders and a long-term perspective, while emphasising that remuneration arrangements should be appropriate to a company's individual circumstances. The guidance also clarified that boards may choose to pay a proportion of NED fees in shares, provided they are transparent about their approach and rationale, while reaffirming that performance-related remuneration remains inappropriate for independent NEDs.

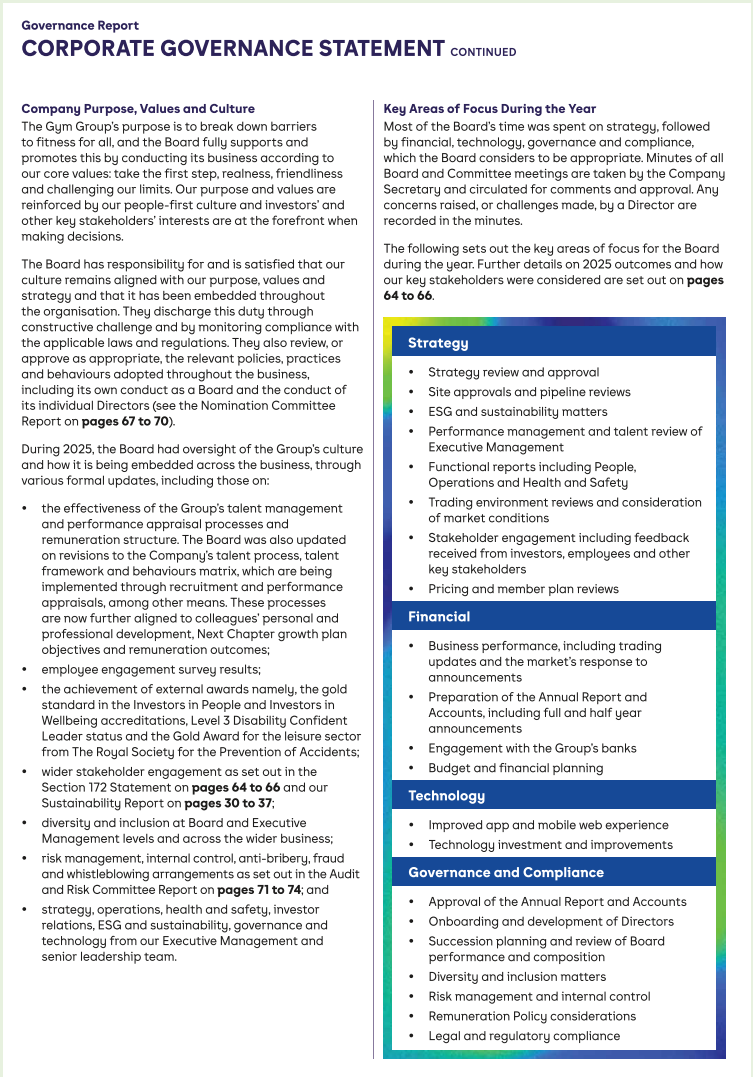
The reporting reviewed this year showed that many companies disclosed personal shareholdings held by NEDs (or connected persons). Some companies also described shareholding guidelines or arrangements under which a proportion of NED fees may be delivered in shares. Two companies noted that they were considering changes to future remuneration policies following the clarification to the guidance. These included arrangements that would provide greater flexibility for NEDs to receive a proportion of their fees in shares. None of the companies in the sample referred to the use of share options for NEDs following the publication of the revised guidance.

# 5. Additional reporting insights

## Small-cap companies

We have heard from stakeholders that it would be useful for our Annual Review of Corporate Governance Reporting to shine a light on examples of good reporting by small-cap companies. The Code is flexible and the approach taken to applying its principles, and complying with or explaining against its provisions, can be tailored to a company's size and the resources available. This year, we are therefore sharing some reflections on the reporting by the small-cap companies within our sample. It is worth noting that within this sample, we have both small-cap companies that have been listed for many years, as well as some that have recently listed or joined the Main Market within the reporting period.

**Source: The Gym Group, page 60**



Governance Report

CORPORATE GOVERNANCE STATEMENT CONTINUED

**Company Purpose, Values and Culture**

The Gym Group's purpose is to break down barriers to fitness for all, and the Board fully supports and promotes this by conducting its business according to our core values: take the first step, realness, friendliness and challenging our limits. Our purpose and values are reinforced by our people-first culture and investors' and other key stakeholders' interests are at the forefront when making decisions.

The Board has responsibility for and is satisfied that our culture remains aligned with our purpose, values and strategy and that it has been embedded throughout the organisation. They discharge this duty through constructive challenge and by monitoring compliance with the applicable laws and regulations. They also review, or approve as appropriate, the relevant policies, practices and behaviours adopted throughout the business, including its own conduct as a Board and the conduct of its individual Directors (see the Nomination Committee Report on **pages 67 to 70**).

During 2025, the Board had oversight of the Group's culture and how it is being embedded across the business, through various formal updates, including those on:

- the effectiveness of the Group's talent management and performance appraisal processes and remuneration structure. The Board was also updated on revisions to the Company's talent process, talent framework and behaviours matrix, which are being implemented through recruitment and performance appraisals, among other means. These processes are now further aligned to colleagues' personal and professional development, Next Chapter growth plan objectives and remuneration outcomes;
- employee engagement survey results;
- the achievement of external awards namely, the gold standard in the Investors in People and Investors in Wellbeing accreditations, Level 3 Disability Confident Leader status and the Gold Award for the leisure sector from The Royal Society for the Prevention of Accidents;
- wider stakeholder engagement as set out in the Section 172 Statement on **pages 64 to 66** and our Sustainability Report on **pages 30 to 37**;
- diversity and inclusion at Board and Executive Management levels and across the wider business;
- risk management, internal control, anti-bribery, fraud and whistleblowing arrangements as set out in the Audit and Risk Committee Report on **pages 71 to 74**; and
- strategy, operations, health and safety, investor relations, ESG and sustainability, governance and technology from our Executive Management and senior leadership team.

**Key Areas of Focus During the Year**

Most of the Board's time was spent on strategy, followed by financial, technology, governance and compliance, which the Board considers to be appropriate. Minutes of all Board and Committee meetings are taken by the Company Secretary and circulated for comments and approval. Any concerns raised, or challenges made, by a Director are recorded in the minutes.

The following sets out the key areas of focus for the Board during the year. Further details on 2025 outcomes and how our key stakeholders were considered are set out on **pages 64 to 66**.

**Strategy**

- Strategy review and approval
- Site approvals and pipeline reviews
- ESG and sustainability matters
- Performance management and talent review of Executive Management
- Functional reports including People, Operations and Health and Safety
- Trading environment reviews and consideration of market conditions
- Stakeholder engagement including feedback received from investors, employees and other key stakeholders
- Pricing and member plan reviews

**Financial**

- Business performance, including trading updates and the market's response to announcements
- Preparation of the Annual Report and Accounts, including full and half year announcements
- Engagement with the Group's banks
- Budget and financial planning

**Technology**

- Improved app and mobile web experience
- Technology investment and improvements

**Governance and Compliance**

- Approval of the Annual Report and Accounts
- Onboarding and development of Directors
- Succession planning and review of Board performance and composition
- Diversity and inclusion matters
- Risk management and internal control
- Remuneration Policy considerations
- Legal and regulatory compliance

Much like the reporting by FTSE 350 companies, the quality of reporting varied across the small-cap companies in our sample. High-quality reporting was not limited to those small-caps that had been listed for a longer time, and we saw some excellent reporting by companies that recently joined the Main Market. This demonstrates that the transition onto the Main Market does not need to be an onerous one from a corporate governance perspective, and it is likely that many companies already report well in this area prior to this move.

Small-caps demonstrated that reporting on governance arrangements does not need to be intricate, lengthy or make extensive use of graphic design to fulfil the requirements of the Code. The reporting by The Gym Group shows good reporting on alignment of culture, purpose and values without adding unnecessary length to the report. It also demonstrates clear signposting to avoid duplication. Similarly, the reporting by Videndum shows that good explanations regarding a departure from the Code can be concise while still covering the necessary points.

In line with our expectations when starting this review, there was a slightly higher incidence of small-cap companies departing from the Code, demonstrating the ability of small-cap companies to use its flexibility. The most common departures were against Provision 9 on chair independence and Provision 19 on chair tenure. Provision 9 had the most departures, with reasons given including the Chair being a founder of the company, an agreement with a significant shareholder, and/or the small scale of the business.

As long as the impacts and mitigatory actions are considered and explained, we welcome companies adopting the governance arrangements that work for them and their investors.

**Source: Videndum, page 28**

We acknowledge that Provision 29 of the 2024 Code is effective from 1 January 2026 and we will report on compliance with that in the 2026 Annual Report.

In accordance with DTR 7.2.3, we take this opportunity to declare non-compliance and departure with Provision 9 of the 2024 Code. Provision 9 outlines that the roles of the chair and chief executive should not be exercised by the same individual. Due to exceptional circumstances facing the Company, Stephen Harris succeeded as Executive Chairman with effect from 25 October 2024 and has since occupied both roles.

We confirm that the recruitment process of a permanent Chief Executive commenced in 2025 and Stephen Harris will continue to lead the Company until that process has been concluded. Upon the appointment of a new Chief Executive, Stephen Harris will revert to his former role as Chairman of the Company. To mitigate any risks associated with this position, the Board has increased meeting frequency and communication throughout 2025. In addition, the Board appointed Graham Oldroyd as Deputy Chairman on 31 July 2025. Further, the Board has regular updates and interaction with the Executive Committee and Finance Committee, both of which were set up in December 2024 ahead of 2025 to navigate this period of change for the Company.

We also considered the adoption by small-cap companies of Provision 21, which includes a three-year cycle for externally facilitated board performance reviews and specifically refers to FTSE 350 companies. Eight of the 20 small-cap companies within our sample stated they had adopted the timeline established by Provision 21 and a further five had conducted an external board performance review within the relevant period. All but two companies within our sample conducted a formal internal board performance review at least annually. One of those that did not complete a formal internal board evaluation explained this was due to its move to the Main Market during the reporting period.

**Source: Elixirr International, page 65**

> During the year under review, the Board did not undertake a formal annual evaluation of the performance of the Board, its committees, the Chair and individual Directors in the manner contemplated by the UKCG. Given the Company's transition to the Main Market during the year and the focus on establishing an appropriate governance framework, the Board considered it appropriate to prioritise the implementation of core governance structures. In place of a formal evaluation, the Chair kept Board effectiveness under ongoing review during the year, having regard to the operation of the Board and its committees in practice. The Board considered that it operated effectively during the year.

It is good to see small-cap companies actively considering the issue of reviewing board performance and making use of the proportionality provided by the Code.

We were pleased to see that there were a number of examples that demonstrate that these companies are equally able to provide insightful reporting on their governance. Below is an example from Mears Group, discussing the role of its 'Employee Director', a position that has existed since 2018. This shows adoption of one of the rarer methods of engaging with the workforce – a director appointed from the workforce.

**Source: Mears Group, page 7**

> The Employee Director position, held by Hema Nar until December 2025, is a testament to our commitment to fostering a more inclusive and representative leadership structure within our organisation. Kiren Sampla was selected as our new Employee Director, effective from 2 January 2026.
>
> The Employee Director represents the views and opinions of employees at Board level and within a number of workforce groups and forums. They also lead the ERT, directing the work of the Deputy Employee Director and Trade Representative.
>
> From setting up and leading the ERT, working with our HR team to set up and support our employee networks and forums, to championing employee voice across the Group, the ERT plays a significant part in shaping the way we do things at Mears – ensuring our Board receives full, open and honest insights into how our people are feeling and where improvements are needed.
>
> Throughout 2025, the ERT was instrumental in championing the work of our nine employee networks, driving the agenda, together with HR, to ensure appraisals work at every level and facilitating how we engage with front-line colleagues and onboard our apprentices.

PensionBee presented its approach to culture in a way that was engaging and showed broader consideration of outcomes by focusing on culture highlights from the reporting period, as well as goals for 2026.

**Source: PensionBee, page 23**



### Our Cultural Framework

To achieve our vision of a world where everyone can enjoy a happy retirement, we must first empower the people who build it. At PensionBee, we know that the wellbeing of our team, our customers, and our company are all deeply connected. This is why we deliver our promises through our 'Six Bees of Wellbeing' framework, created to ensure our global team of over 200 professionals remains motivated, aligned, and supported.

Grounded in the latest workplace wellbeing research, our strategy focuses on the four core components of wellbeing: ensuring our team feels a deep sense of satisfaction and purpose, while experiencing regular happiness and appropriate stress levels.

Our 'Six Bees' translate our values into a tangible workplace experience:



By focusing on wellbeing, we create a sustainable workforce capable of driving the growth required to transform the retirement landscape. When our team feels secure and supported in their own journey, they are best equipped to deliver that same peace of mind to our customers across the globe. Ultimately, we want every team member to look back from their own happy retirement and feel proud that they were part of a positive change, achieved their career goals, and were there for the moments in life that truly mattered.

### 2025 Culture Highlights

Over 2025 we focused on unifying our workforce under a shared culture across the UK, US, and our new engineering hub in Latin America, to ensure our commitment to wellbeing reaches every team member regardless of location.

- Our 'Six Bees of Wellbeing' framework was developed in conjunction with our team through a global, multi-level, cross-departmental Book Club hosted by our CEO, and is now deeply embedded into our daily people operations, aligning our values with actionable initiatives to ensure our team feels supported and rewarded.
- We launched the first of our new simplified, tri-annual wellbeing surveys, demonstrating a global workplace wellbeing score of, which compare favourably to external industry benchmarks, and further highlighting the success of our inclusive and supportive working environment across all locations.
- We significantly enhanced our 'Bee Rewarded' offering by increasing employer contributions to pensions and 401(k) plans, directly aligning with our vision of a happy retirement, and introduced comprehensive private medical insurance to proactively support our team's physical health and wellbeing.
- Our commitment to leading with inclusion allowed us to maintain diverse representation across the Company comprising 49% female and minority gender representation and 35% minority ethnic representation of those that disclosed, validating our belief that demographic diversity naturally follows inclusive principles.

### 2026 Culture Priorities

Across 2026, we will continue with embed our 'Six Bees' framework.

- Growing our team's skills: We will implementing new Learning & Development approaches to meet our 'Bee Developed' goals, including the launch of an internal skills-sharing network, the introduction of Company-wide development days to foster shared problem-solving and team bonding, and the launch of a Bee Developed Fund for training needs.
- Globalising our people management infrastructure: We will drive efficiency and alignment by optimising our new people management processes and software. Responding to feedback: We will continue to respond to our team's priorities and feedback as our company grows and meets the increasing needs of our customers.

## Simplifying reporting

Annual reports have grown in length over time and, as part of this year's Annual Review, we examined whether they could be made more concise. Our analysis considered the report as a whole to identify opportunities to streamline content by reducing unnecessary duplication and repetition across different sections. While some overlap is inevitable and can help reinforce important messages, our focus has been on identifying instances where it adds limited value and could be removed.

Almost half of the annual reports reviewed contained either duplication, repetition or both, irrespective of company size. To ensure good quality reporting, it is important to make sure each occurrence of a particular piece of information performs a function. Repeating relevant information can make individual sections appear complete, but it can also make it more difficult for readers to find the substantive disclosure and require them to work through several instances of repetition. For example, in one report, the same explanation of the scope of a sustainability measure appeared in four separate locations. This could have been improved with the use of hyperlinks.

To address these issues, companies could consider identifying one location for the substantive disclosure, while retaining some context in other locations alongside a cross-reference. Simplifying the annual report does not just involve deleting information, but also a decision about which location should contain the complete account and where a cross-reference would work better.

## Distribution of findings

We have also analysed where duplication and repetition are most likely to occur. Principle O, concerning risk management and internal controls, was one of the more frequent principles against which companies reported information which was also elsewhere in the annual report. At provision level, the revised Provision 29 was also an area where repeated information was found. This could be an opportune time to consider how related risk-management and internal-control disclosures could be organised more clearly. This is explored further in the risk and internal controls section. While it is for companies themselves to determine what works best for them, a concise and easy-to-read reporting method identified this year was where the main risk and internal control disclosure covered the overall approach, scope and progress, while the Audit Committee report focused on the Committee's oversight, challenge and assurance during the year and directed readers to the fuller account with a cross-reference.

We recognise that legislative, regulatory and reporting requirements may determine where particular information must appear within an annual report. For example, principal risks are required to be reported in the strategic report. Simplification should therefore focus on avoiding unnecessary repetition elsewhere, while retaining required disclosures in their appropriate location and using clear cross-references where helpful. Where related information appropriately appears in more than one part of the annual report, companies should be clear about the distinct purpose of each disclosure. For example, where related information appears in an overview, a substantive section and a committee report, companies should identify the main disclosure, be clear about the contribution of each other location, and shorten, consolidate or remove material that performs no additional function.

## Using cross-referencing and signposting to support clear organisation

Good examples of cross-referencing were identified in almost all of the reports reviewed, demonstrating that companies are generally familiar with using signposting to connect information across the annual report and, where appropriate, to external documents. This is not yet consistently applied throughout annual reports. Signposting improves reporting especially where enough context is provided and a precise location is referred to. Generic references such as "see our website" or "see the Strategic Report" are less useful because they do not identify where the relevant information can be found or what the reader should expect to find there.

PageGroup provided a good example by directing readers from its governance introduction to the pages of the Audit Committee report containing the detailed review of risk management and internal-control effectiveness. The reference connected the introductory discussion with the substantive account without reproducing it, allowing each location to perform a different reporting function.

**Source: PageGroup, page 77**

### Corporate Governance Code 2024

During the year, the Board sought to ensure the principles and provisions of the UK Corporate Governance Code 2024 (the 'Code') were fully embedded across the business. Further information on how the Board has monitored and reviewed the effectiveness of its risk management and internal control frameworks can be found in the Audit Committee report on pages 98-104.

PageGroup directs readers to the detailed disclosure in the Audit Committee report (page 77).

The findings indicate better and more concise reporting is possible where companies think about the purpose of each disclosure. Having a whole-report review helps with this, as it can help identify whether the main disclosure is placed where readers would expect to find it and whether associated signposting is helpful.



Financial Reporting Council

**Financial Reporting Council**
London office:
13th Floor,
1 Harbour Exchange Square, London,
E14 9GE

Birmingham office:
5th Floor,
3 Arena Central,
Bridge Street,
Birmingham, B1 2AX

+44 (0)20 7492 2300
www.frc.org.uk

Follow us on
LinkedIn