



Financial Reporting Council

Guidance on the Strategic Report

February 2026

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1. Introduction

Background

- 1.1 The Financial Reporting Council's (FRC's) purpose is to serve the public interest and support UK economic growth by upholding high standards of corporate governance, corporate reporting, audit and actuarial work.
- 1.2 The *Guidance on the Strategic Report* (the Guidance) relates to the requirement to prepare a **strategic report** in the Companies Act 2006 (**the Act**). It is intended to help entities meet their reporting obligations in a way that is proportionate and supports high-quality reporting. High-quality strategic reports provide shareholders and other **primary users** with a holistic and meaningful picture of the entity's development, performance, position and future prospects.
- 1.3 The Guidance is written for all entities that prepare UK strategic reports and mainly uses the broader term 'entity' unless the term 'company' is more appropriate in a specific context. In addition to companies, it is also relevant to other entities such as certain **limited liability partnerships** (LLPs) and qualifying partnerships that are required to prepare a strategic report (see [Section 3](#)).
- 1.4 The FRC believes that the strategic report should be clear and concise and result in fair, balanced and understandable reporting. The Guidance is therefore intended to encourage preparers to consider how the strategic report fits within the **annual report** as a whole with a view to improving the overall quality of corporate reporting.

Purpose of the Guidance

- 1.5 The Guidance is non-mandatory and intended to serve as a proportionate and practical guide for the directors (or members) of all entities preparing strategic reports. It is:
 - principles-based;
 - mindful of recent developments in corporate reporting practice; and
 - aligned with the *UK Corporate Governance Code 2024* (**the Code**).
- 1.6 The objectives of the Guidance are to:
 - ensure that relevant and **material information** that meets the needs of shareholders and other primary users is presented in the strategic report;
 - provide communication principles and encourage entities to be innovative in the drafting of their annual reports in a way that enables them to best 'tell their story', while remaining within the regulatory framework; and
 - promote greater cohesiveness in the annual report through improved linkage between information within the strategic report and the rest of the annual report.

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- 1.7 This Guidance covers a range of entities that are required to prepare a strategic report and therefore should be applied proportionately. The disclosure requirements that apply to an entity vary depending on the size and type of entity. To support proportionality, [Sections 7 to 12](#) summarise the scope of the disclosure requirements addressed in each section. In addition, [Section 6](#) explains how materiality applies to disclosures in the strategic report.
- 1.8 A detailed analysis of the legal requirements in respect of the strategic report, including information on the application of the requirements to different types of entity, is set out in: [Companies Act Disclosure Requirements for the Strategic Report. Directors' Report and Energy and Carbon Report: Scoping Tables](#).

The annual report

- 1.9 Annual reports should provide information that is relevant and material to shareholders and other primary users. With that in mind, the Guidance is framed in the context of the annual report as a whole. In practice, an annual report comprises a number of **components**. The information contained in each of these components has different objectives that should guide preparers to where disclosures should be located. The aim is to promote cohesiveness and enable related information to be linked together.
- 1.10 In meeting the needs of shareholders and other primary users, the information in the annual report may also be of interest to other stakeholders. The annual report should not, however, be seen as a replacement for other forms of communication addressed to other stakeholders.
- 1.11 Placement is a key theme in the Guidance with a view to providing entities with the building blocks to be innovative in the location of information while working within the regulatory framework. The aims are to ensure that important information is prominent and improve the accessibility of information. The Guidance recommends that information that is not relevant and material for shareholders or other primary users should be provided outside the annual report when this is permitted by law or regulation (see [Section 4](#)).
- 1.12 The communication principles (set out in [Section 5](#)) are intended to emphasise that the annual report, including the strategic report, is a medium of communication between a company's board and its shareholders. The communication principles encourage entities to consider the most effective methods of communicating material information in the annual report. They suggest that strategic reports, and annual reports, when appropriate, should: be fair, balanced and understandable; have a forward-looking orientation; include entity-specific information; link related information; include only relevant information; and be comparable, accessible and verifiable.

The strategic report

- 1.13 The purpose of the strategic report is to provide information for shareholders and help them to assess how the directors have performed their duty under section 172 of the Act to promote the success of the company for the benefit of its members as a whole, and, in

doing so, had regard to the matters set out in that section. This includes considering the interests of other stakeholders which will have an impact on the long-term success of the entity.

- 1.14 The strategic report reflects the board's view of the company and provides context for the related financial statements.
- 1.15 The Guidance recommends that information that is relevant and material to shareholders and other primary users should be included in the strategic report. Immaterial information should be excluded as it can obscure the key messages and impair understandability.
- 1.16 The content elements for the strategic report set out in the Guidance are derived from the Act. Subject to scoping that varies for different types of entities, the content elements include: a description of the entity's **strategy** and **business model**; the main trends and factors affecting the entity; an analysis of the development, performance and position of the business, including **key performance indicators**; a description of **principal risks** and uncertainties; a **section 172(1) statement**; and certain non-financial and sustainability information, including climate-related financial disclosures.

Key changes in this edition

- 1.17 This edition of the Guidance issued in February 2026 updates the edition of the Guidance issued in June 2022 for the following:
- Changes in the corporate reporting framework, including changes introduced by *the UK Corporate Governance Code 2024*, the *Companies (Accounts and Reports) (Amendment and Transitional Provision) Regulations 2024* (SI 2024/1303), the *Companies Directors' Report (Payment Reporting) Regulations 2025* (SI 2025/1152) and other developments in sustainability-related and wider corporate reporting practice.
 - Changes to emphasise the status of the Guidance as non-mandatory, good practice guidance and the importance of proportionate application of the legal and regulatory requirements as appropriate to an entity's specific circumstances. Mandatory requirements are clearly indicated and distinguished from good practice guidance.
 - Improvements to place additional emphasis on the purpose and objectives of reporting and updates to the communication principles.
 - Improvements to the structure and accessibility of the Guidance. The Guidance is now structured into separate sections addressing general principles and content requirements in the strategic report, rather than separate sections for different types of entities. Updated versions of the scoping tables, that were previously included as appendices, have been published separately on the [FRC website](#).
 - Other typographical and presentational improvements.
- 1.18 The effective date of the requirements that this Guidance relates to vary. The Guidance is intended to be used when entities apply the relevant legal requirements.

How to use the Guidance

- 1.19 The Guidance is structured to include good practice guidance and other suggestions explaining how the requirements and principles might be applied. It also includes highlighted text as follows:

Summary of requirements



This information is intended to summarise important aspects of legal requirements and certain Code provisions. It is not intended to be a comprehensive analysis of the law, regulation or other requirements and provisions that may apply. References to legal and regulatory requirements and provisions are generally given in the footnotes to this Guidance.

Example



Practical examples are included. These examples are intended to be illustrative only and may not be appropriate for all entities and circumstances.

Principle or key definition



Communication principles are provided as guidance for preparing the annual report as a whole, including the strategic report, so that it serves as an effective communication tool.

Key definitions are also highlighted with this boxed text. Other terms are defined in the Glossary ([Appendix A](#)).

- 1.20 The Guidance uses the following terms to distinguish between mandatory legal or other regulatory requirements, principles and good practice guidance, suggestions or examples:

Terminology

- 'Must' or 'required to' are used to refer to mandatory legal or other regulatory requirements for entities within their scope. Such requirements might be mandatory only when resulting information would be material.
- 'Should' is used throughout this document to refer to good practice guidance and recommended ways of applying the requirements in law, other regulatory requirements, or principles.
- 'Could' or 'may' are generally used when preparers may wish to consider alternative ways to present information, or when providing examples of issues or disclosures which may be applicable depending on the entity's specific circumstances.

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- 1.21 Terms defined in the Glossary ([Appendix A](#)) are in bold type the first time they appear in each section.
- 1.22 Provisions of the Code apply on a 'comply or explain' basis to companies that apply the Code (Code companies). Details of how the 'comply or explain' regime works are available via the [FRC website](#).

2. The annual report

- 2.1 High-quality **strategic reports** are prepared in the context of the **annual report** as a whole. This section provides an overview of key aspects of the wider annual report that are relevant to preparing a high-quality strategic report.

Purpose of the annual report

Principle



- 2.2 The purpose of the annual report is to provide shareholders with relevant information that is useful for making resource allocation decisions and assessing the directors' stewardship.
- 2.3 In meeting the needs of shareholders, the information in the annual report is also likely to be relevant to other existing and potential investors, lenders and other creditors. These users are referred to as the **primary users** of the annual report.¹
- 2.4 Other stakeholders such as customers, employees and members of society more widely may also wish to use information contained within it. The annual report should address issues relevant to these other users if information about those issues is also **material** to shareholders because of the influence of those issues on the development, performance, position or future prospects of the entity. The annual report should not, however, be seen as a replacement for other forms of communication addressed to other stakeholders.

Principle



- 2.5 The annual report as a whole should be fair, balanced and understandable, and should provide the information necessary for shareholders to assess the entity's development, performance, position or future prospects.²
- 2.6 The board of a company that is required to report on how it has applied the *UK Corporate Governance Code 2024* (**the Code**), or to explain when it has not, should include a statement in the annual report confirming that the board considers the annual report and accounts to be fair, balanced and understandable.³

Components of the annual report

- 2.7 Table 1 provides an overview of the annual report. It identifies the principal **components** of an annual report, sets out their different but linked objectives and Table 2 sets out the main

¹ The Guidance generally uses the term shareholders when referring to the target audience for the annual report unless the term 'shareholders and other primary users' is considered more appropriate in a particular context.

² The Guidance uses the broader description 'development, performance, position or future prospects of the entity' rather than the description 'development, performance or position of the company's business' contained in the Act, unless the latter is more appropriate in a specific context.

³ The Code, Provision 27.

sources of disclosure requirements. Considering these different objectives when drafting each component of the annual report will help ensure that only relevant and focused information is included in them.

Table 1: The annual report

Component	Component objectives
Strategic report⁴	To provide information for shareholders and help them to assess how directors have performed their duty under section 172 (duty to promote the success of the company). To provide context for the related financial statements.
Directors' report	To provide other statutory/ regulatory information about the entity.
Corporate governance report⁵	To provide information necessary to explain how the composition and organisation of the entity's governance structures supports the achievement of the entity's objectives.
Directors' remuneration report⁶	To set out the entity's directors' remuneration policy, its implementation, amounts awarded to directors and the link between the entity's performance and directors' performance.
Financial statements⁷	To give a true and fair view of the entity's financial position, performance and, when required, to present its cash flows.

2.8 Table 1 and Table 2 are intended to help preparers make judgements regarding where information would be best located. Further guidance on the placement of information is provided in [Section 4](#).

⁴ The objectives of the strategic report are considered more fully in [Section 3](#).

⁵ The corporate governance report is often included as a component of the directors' report by **cross-reference**.

⁶ Separate guidance on the disclosures to be included in the directors' remuneration report has been published by the GC100 and Investor Group.

⁷ Under section 393(1) of the Act the directors must not approve accounts unless they are satisfied that they give a true and fair view of the assets, liabilities, financial position and profit or loss of the company.

Table 2: The annual report requirements

Component	Main sources of annual report disclosure requirements for an unquoted UK company ⁸	Main sources of annual report disclosure requirements for a UK company listed on the London Stock Exchange
Strategic report	The Act s414C, s414CZA, s414CB	The Act s414C, s414CZA, s414CB The Code, including Provisions 1, 5 and Section 4 DTR 4.1 ⁹
Directors' report	SI 2008/410 ¹⁰ Schedule 7 ¹¹	SI 2008/410 ¹⁰ Schedule 7 ¹¹ DTR 4.1 ⁹ DTR 7.2
Corporate governance report	n/a	UKLR 6.6.6R(5)-(6) ¹² DTR 7.1 DTR 7.2 The Code
Directors' remuneration report	n/a	SI 2008/410 Schedule 8 The Code Section 5
Financial statements	Accounting standards The Act, Part 15 SI 2008/410 ¹⁰	Accounting standards The Act, Part 15 SI 2008/410 ¹⁰

⁸ Small companies are not required to prepare a strategic report, corporate governance report or directors' remuneration report. Those companies should refer to *The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008* (SI 2008/409) in respect of the legal requirements for the financial statements and directors' report.

⁹ DTR 4.1 refers only to a 'management report' which will usually comprise the strategic report and directors' report.

¹⁰ *The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008* (SI 2008/410).

¹¹ This includes a requirement for certain large private companies to include a statement of its corporate governance arrangements. Companies could use the *Wates Corporate Governance Principles for Large Private Companies* to meet this requirement.

¹² UKLR 6.6.6R requires all this information to be included in the annual report without specifying the location.

- 2.9 Law or regulation defines the components of the annual report but does not dictate a structure. Similarly, Table 1 and Table 2 are not intended to impose a specific structure or order for the annual report or restrict the directors to including only the components it specifically identifies. Other sections that are not required by law or regulation (e.g. a chair's statement or a chief financial officer's report) may be included in the annual report as a subsection of a mandatory component, or in a separate non-mandatory section, if that is considered the best way of ensuring that the document is both relevant and understandable.
- 2.10 Table 1 and Table 2 are not intended to stifle innovation or experimentation. This Guidance encourages entities to consider and challenge the structure of their annual reports using the flexibility available within the framework and by applying the communication principles.

Audit and assurance

Summary of requirements



- 2.11 When an entity obtains an audit of the financial statements, the auditor has responsibilities for considering, based on the audit work performed, whether the other information included in the annual report (other than the financial statements and the auditor's report) is materially misstated or materially inconsistent with the financial statements, and for reporting in relation to such matters. This other information includes the information in the strategic report.¹³
- 2.12 The auditor's report is required to state whether, based on the work undertaken in the course of the audit, the information in the strategic report and **directors' report**:
- is consistent with the financial statements;
 - has been prepared in accordance with applicable legal requirements; and
 - contains any material misstatements and, if applicable, give an indication of the nature of the misstatements.¹⁴
- 2.13 The scope of the auditor's opinion is limited to the financial statements and does not provide any assurance over the strategic report. The Act currently imposes no requirement for external assurance over the strategic report.

¹³ ISA (UK) 720 (Revised November 2019) *The Auditor's Responsibilities Relating to Other Information*

¹⁴ Section 496(1) of the Act. Sections 497 and 497A of the Act contain requirements for the auditor's report in relation to the directors' remuneration report and any separate corporate governance statement.

3. The strategic report

Scope

Summary of requirements



- 3.1 Section 414A of **the Act** requires all companies that are not **small companies**¹⁵ or micro-entities¹⁶ to prepare a **strategic report**.
- 3.2 For a financial year in which the company is a parent company and group accounts are prepared, the strategic report must be a group strategic report relating to the entities included in the consolidation.¹⁷
- 3.3 Regulation 4(1)(a) of the *Partnerships (Accounts) Regulations 2008* (SI 2008/569) requires certain qualifying partnerships to prepare a strategic report. Regulation 12A of the *Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008* (SI 2008/1911), which modifies section 414A(1) of the Act, also requires a **traded limited liability partnership (LLP)** or **banking LLP** to prepare a strategic report.
- 3.4 Sections 414C *Contents of the strategic report*, 414CB *Contents of non-financial and sustainability information statement* and 414CZA *Section 172(1) statement* of the Act set out the content requirements for the strategic report. The scoping for different content requirements in the strategic report varies for different sizes and types of entities, and is summarised in the sections of this Guidance that follow.
- 3.5 A detailed analysis of the legal requirements in respect of the strategic report, including information on the application of the requirements to different types of entity, is set out in: [Companies Act 2006 Disclosure Requirements for the Strategic Report, Directors' Report and Energy and Carbon Report: Scoping Tables](#).
- 3.6 Clarifications of the Act's requirements in respect of the strategic report are provided in a letter from the Department for Business, Innovation and Skills (BIS) (now the Department for Business and Trade (DBT)) which can be found on the [FRC's website](#).

¹⁵ Section 414B of the Act. A company or qualifying partnership is entitled to the small companies' exemption in relation to the strategic report for the financial year if: (a) it is entitled to prepare accounts for the year in accordance with the small companies' regime (section 381), or (b) it would be so entitled but for being or having been a member of an ineligible group. The small companies regime does not apply to any company or qualifying partnership that is, or was at any time within the financial year to which the accounts relate: a public company, a company that is an authorised insurance company, a banking company, an e-money issuer, a MiFID investment firm or a UCITS management company, carries on insurance market activity or is a scheme funder of a Master Trust scheme (section 384).

¹⁶ Section 384A of the Act.

¹⁷ Section 414A(3) of the Act.

Purpose of the strategic report

Summary of requirements



- 3.8 The purpose of the strategic report is to inform members¹⁸ of the company and help them assess how the directors have performed their duty under section 172 of the Act.¹⁹
- 3.9 The duty of a director, as set out in section 172 of the Act, is to ‘act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:
- (a) the likely consequences of any decision in the long term;
 - (b) the interests of the company’s employees;
 - (c) the need to foster the company’s business relationships with suppliers, customers and others;
 - (d) the **impact** of the company’s operations on the community and the environment;
 - (e) the desirability of the company maintaining a reputation for high standards of business conduct; and
 - (f) the need to act fairly as between members of the company.’
- 3.10 The strategic report should provide shareholders with information that enables them to assess how the directors have performed their duty to promote the success of the company for the benefit of shareholders as a whole, while having regard to the matters set out in section 172 of the Act.
- 3.11 The disclosure requirements set out in section 414C and section 414CB of the Act, on which the content elements in [Sections 7 to 9, 11 and 12](#) of this Guidance are based, are intended to ensure that the strategic report achieves its statutory purpose. These are supplemented by section 414CZA of the Act which requires directors to explain how they have had regard to the matters set out in section 172(1)(a) to (f) of the Act (see [Section 10](#)).
- 3.12 Directors should apply judgement in determining the level of information that is disclosed, which could in some cases involve disclosing information additional to that specifically listed in the Act. [Section 6](#) explains how materiality applies to disclosures in the strategic report.

¹⁸ Section 414C of the Act refers to ‘members’ of the company, however the Guidance uses the term ‘shareholders’ unless the term ‘members’ is more appropriate in a specific context.

¹⁹ Section 414C(1) of the Act.

Objectives of the strategic report

- 3.13 The strategic report has five main content-related objectives, with the extent of reporting against each of these depending on scoping and materiality to the entity:
- to provide insight into the entity's **business model** and its main **strategy** and **objectives**;
 - to provide an analysis of the entity's past performance;
 - to describe the **principal risks** the entity faces and how they might affect future prospects;
 - to provide information to enable shareholders to assess how directors have had regard to stakeholders and other matters when performing their duty under section 172; and
 - to provide relevant non-financial and sustainability information.
- 3.14 The strategic report reflects the board's collective view and provides essential context to the financial statements to support an understanding of developments in the year, and the future financial performance, position and prospects of the entity.
- 3.15 The strategic report must, when appropriate, provide additional explanations of amounts recognised in the financial statements²⁰ and should explain the conditions and events that shaped the information contained in the financial statements.
- 3.16 The strategic report could also include information relating to key sources of value that have not been recognised in the financial statements and how those sources of value are managed, sustained and developed; for example, a highly trained or experienced workforce, natural capital, intellectual property or intangible assets, to the extent these are relevant to an understanding of the entity's development, performance, position or future prospects. The success of an entity is dependent on its ability to generate and preserve value over the long term. Entities do not exist in isolation; they need to build and maintain relationships with a range of stakeholders in order to generate and preserve value.
- 3.17 Matters of strategic importance otherwise required to be disclosed in the **directors' report** may be disclosed instead in the strategic report.²¹ The requirements in the Act and its associated regulations²² in respect of the directors' report are set out in the [Companies Act 2006 Disclosure Requirements for the Strategic Report, Directors' Report and Energy and Carbon Report: Scoping Tables](#).

²⁰ Section 414C(12) of the Act.

²¹ Section 414C(11) of the Act.

²² Section 415 of the Act. In the case of a medium-sized or large company, *The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008* (SI 2008/410). In the case of small companies, *The Small Companies and Groups (Accounts and Directors' Reports) Regulations 2008* (SI 2008/409).

4. Placement of information

- 4.1 The placement of information within the **annual report** or elsewhere should facilitate the effective communication of that information.
- 4.2 The annual report is a medium of communication between the board and shareholders. Its structure should facilitate communication while also complying with **the Act** and other regulatory requirements. The aims are to ensure that important information is prominent and accessible.
- 4.3 In general, information should be placed in the annual report when it is relevant and **material** to shareholders and other **primary users**. Information that is provided to meet the needs of other stakeholders should usually be placed elsewhere (e.g. online or in another report) if law or regulation permits. The annual report could **signpost** to other related disclosures outside the annual report that are provided for a different purpose or audience.

Annual report components

- 4.4 The Act envisages each **component** of the annual report to be a separately identifiable part of the annual report. Therefore, the **strategic report**, **directors' report**, corporate governance report, directors' remuneration report and financial statements should generally include only the content that is necessary to meet the objectives of those components. Refer to Table 1 in [Section 2](#) for an overview of each of the components of the annual report and their corresponding objectives.
- 4.5 It follows that information that is required to meet the requirements of the strategic report should generally be placed in the strategic report.
- 4.6 The components of an annual report should not be drafted independently. An integrated approach to drafting the annual report helps to ensure that the annual report overall is clear, and that all relevant relationships and interdependencies resulting in linkages are highlighted and explained.

Cross-referencing within the annual report

- 4.7 It may be helpful to group together similar or related disclosure requirements arising from different legal or regulatory requirements that apply to different components of the annual report. This reduces duplication and enables linkages to be highlighted and explained clearly in one place.
- 4.8 If information satisfying a disclosure requirement that applies to the strategic report is presented in a different component of the annual report, **cross-referencing** must be used in order for the disclosure requirement to be met.

Example



- 4.9 The **section 172(1) statement** is required by the Act to be in the strategic report (see [Section 10](#)), but companies applying **the Code** could provide the disclosures by cross-reference to the corporate governance report if the directors consider it helpful to locate these disclosures together with related Code disclosures such as stakeholder engagement and key decisions made.
- 4.10 Cross-references should be clear and specific. They should refer to a precisely specified part of the annual report (e.g. using specific page numbers, subheadings or hyperlinks) rather than an entire component or broad section of the annual report. If disclosures are spread across several locations, it can be helpful to provide an index table indicating the location of each element required.
- 4.11 Cross-referencing may also be applied to other components of the annual report. The use of cross-referencing should be limited to when a piece of information would tell the company's story more effectively if it were located in another component of the annual report.

Safe harbour

Summary of requirements



- 4.12 Section 463 of the Act provides that directors are liable to compensate the company if the company suffers any loss as the result of any untrue or misleading statement in (or any omission from) the strategic report, the directors' report, the directors' remuneration report and any separate corporate governance statement. The extent of the liability is limited: directors are only liable to the company. Further, directors are only liable to the company if they knew that the statements were untrue or misleading or if they knew that the omission was a dishonest concealment of a material fact. This protection is sometimes known as 'safe harbour'.
- 4.13 Accordingly, provided directors do not issue a deliberately or recklessly untrue or misleading statement or dishonestly conceal a material fact by way of an omission, they will not be liable to compensate the company for any loss incurred by it in reliance on the report. This 'safe harbour' protection applies to the strategic report, the directors' report, the directors' remuneration report and any separate corporate governance statement.
- 4.14 In order to benefit from this protection, it is generally accepted that information required in one of the specified reports or statements must be included in those reports, either directly or via a specific cross-reference. Information placed outside the annual report is not covered by the safe harbour provision even if the annual report signposts it.
- 4.15 The exact scope and extent of the protection (including whether it extends to information included in a report on a voluntary basis) has not been tested in court and hence the legal position in relation to the inclusion of such information remains uncertain.
- 4.16 Further information on the application of the 'safe harbour' provisions is provided in a letter from BIS (now the Department for Business and Trade, DBT) which can be found on the [FRC website](#).

Complementary information

- 4.17 **Complementary information** that is not required to be included in the annual report (i.e. it is voluntary and not necessary for meeting the purpose of the annual report or the objectives of that component), but which the directors wish to place in the public domain, should generally be published separately (e.g. on the company website).
- 4.18 The directors may sometimes consider it appropriate to include some of this complementary information in the annual report. In such cases, that information could be included in a separate, non-mandatory component of the annual report.

Signposting

- 4.19 The strategic report should be considered as the top layer of information for shareholders and other primary users. Some users may require a greater level of detail. In this case, the strategic report could signpost to other complementary information.
- 4.20 Signposting enables shareholders and other primary users to 'drill down', to any more detailed complementary information that is related to a matter addressed in a particular component but that is not necessary to effectively communicate the information that is required by law or regulation in respect of that component. Signposts to such information should make clear that it does not form part of the component from which it is signposted.

Example



- 4.21 An entity could provide more detailed information about non-financial metrics in datasheets made available as downloadable spreadsheets on the entity's website, which could include, for instance, more detailed information about the methodology applied.


Structure of information within a component

- 4.22 Effective communication of the matters required to be addressed in a component of the annual report will not usually be achieved through the use of a 'checklist style' approach to drafting. This can result in the structure of the component being driven by the order in which disclosure requirements arise and the presentation of more granular detail in such a way that other relevant and material information is obscured.
- 4.23 Each component of the annual report should be structured in a way that allows for a clear narrative flow and cohesiveness in the information that it contains. The ultimate aim of this is to ensure that the component, and the annual report more broadly, is relevant and understandable.

5. Communication principles

- 5.1 The following principles provide guidance for preparing the **annual report** as a whole, including the **strategic report**, so that it serves as an effective medium of communication between a company’s board and its shareholders.
- 5.2 Entities should consider the most effective methods of communicating **material information**, as well as its placement within the annual report (see [Section 4](#) and [Section 6](#)).

Fair, balanced and understandable

Principle 	
5.3	The annual report should be fair, balanced and understandable. It should also be comprehensive.
5.4	Information is fair and balanced when it is free from error, complete and neutral.
5.5	Some information in the annual report may be free from error without being perfectly precise or perfectly accurate in all respects, depending on the nature of the information and the matters to which it relates. Free from error means, for example, that there should be no material errors in factual information, descriptions of events or circumstances, or in selecting and applying the process for developing information. Significant estimates should be clearly identified as such, and judgements, assertions and inputs to estimation processes should be based on reasonable and supportable information.
5.6	An annual report that is fair and balanced, addresses the positive and negative aspects of the entity’s development, performance, position and future prospects transparently and without bias. It is important that shareholders are not misled as a result of the selection or presentation of, or emphasis given to, information in the annual report, or by the omission of material information from it.
5.7	Information is understandable when it is clear and concise. To be clear, the annual report should be written in plain language. The excessive use of jargon should be avoided. If the use of industry-specific terms is necessary for clear communication, they should be clearly defined and used consistently. Relevant but complex information should not be omitted on the grounds that it may be difficult for some shareholders to understand.
5.8	Conciseness is achieved through the efficient communication of all material information, and avoiding the disclosure of immaterial, generic or ‘boilerplate’ information.
5.9	The unnecessary duplication of information should be avoided as it usually leads to unnecessary volumes of disclosure detracting from the understandability and usefulness of the annual report as a whole.

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- 5.10 Comprehensiveness reflects the breadth of information that should be included in the annual report rather than the depth of information. The strategic report does not need to cover all possible matters in detail to be considered comprehensive. It should include information that is necessary for an understanding of the entity's development, performance, position or future prospects.
- 5.11 The method of presentation can significantly affect the understandability of information in the annual report. The most appropriate method of presentation will depend on the nature of the information but may include tabular, graphical or pictorial methods as well as narrative text. A combination of these methods may also sometimes be appropriate.

Forward-looking

Principle



- 5.12 When appropriate, information in the strategic report, and certain other parts of the annual report, should have a forward-looking orientation.
- 5.13 Information on how a fact or circumstance might affect the entity should be included in the strategic report when it is material to an assessment of the development, performance, position or future prospects of the entity. The provision of this information does not require disclosure of a forecast of future results.
- 5.14 The strategic report should not concentrate solely on a single timeframe. When relevant to an understanding of the development, performance, position or future prospects of the entity, the strategic report should give due regard to the short-, medium- or long-term implications of the fact or circumstance being described.
- 5.15 Entities should communicate relevant and material information that enables shareholders to assess the matters that may have an impact on the long-term success of the business.

Entity-specific

Principle



- 5.16 Information in the annual report should be entity-specific.
- 5.17 Information on how a particular fact or circumstance might affect, or has affected, the development, performance, position or future prospects of the entity and how it is responding to that fact or circumstance provides information that is useful to shareholders in the assessment of the entity's future prospects. The inclusion of generic or 'boilerplate' information on its own is of limited use to shareholders.

Linkage

Principle



- 5.18 The annual report should highlight and explain linkages between related matters and related pieces of information.
- 5.19 Linkages are relationships or interdependencies between, or the causes and effects of, facts and circumstances disclosed in the annual report. Linkages can arise within and across different disclosures or **components** of the annual report.
- 5.20 When linkages occur, the information, inputs and assumptions applied should usually be consistent throughout the annual report. Any differences or apparent inconsistencies should be explained. For example, the same term should have the same meaning if it is used in different parts of the annual report, and a metric should be the same amount if it is referenced multiple times. If an entity's performance is discussed using different measures of performance in different parts of the annual report, reconciling information should be provided to explain the difference.
- 5.21 Separate sources of requirements that apply to different disclosures or different components of the annual report may result in the disclosure of related information. While each disclosure and each component of the annual report is independently useful, more valuable insight can be provided by highlighting and explaining linkages between the information disclosed in them, including the nature of the relationship or interdependency.
- 5.22 For example, linkages often arise between:
- **principal risks** and uncertainties and **key performance indicators** (KPIs);
 - trends and factors, **strategy**, principal risks and current year performance;
 - strategy, the entity's KPIs and directors' remuneration outcomes; and
 - principal risks, viability statements and going concern disclosures.
- 5.23 The most appropriate method of dealing with these linked requirements depends on factors such as the nature of the information and any regulatory requirements specific to the disclosures being made. The methods are closely linked to the guidance on the placement of information in the annual report set out in [Section 4](#) and may involve the use of **cross-referencing**, **signposting** or combining related disclosures. Using hyperlinks, icons, numbering, colour-coding or other graphics can also help in highlighting linkages.
- 5.24 It would be impracticable to highlight and explain all relationships and interdependencies that exist within the annual report while also ensuring the annual report is concise. Priority should be given to the relationships and interdependencies that are most relevant to the assessment of the development, performance, position and future prospects of the business.

Relevant

Principle



- 5.25 The annual report and the strategic report should only include information that is relevant to shareholders and other **primary users**, and consistent with the purposes and objectives of these reports.
- 5.26 Content that is brought forward from previous years should be reviewed to ensure that it continues to be relevant. Information that is no longer necessary in meeting the purpose and objectives of the annual report and the strategic report should generally be removed. Sometimes law or regulation requires the disclosure of information regardless of relevance or materiality (see [Section 6](#)).

Comparable

Principle



- 5.27 Information in the annual report should be comparable with similar information provided by the entity in previous periods and with similar information provided by other entities.
- 5.28 Comparability enables shareholders to understand the similarities in, and differences among, items, including information produced by the entity over time, as well as information produced by other entities. Comparability with other entities can be enhanced by considering sector practices and information disclosed by peer group companies.
- 5.29 Consistent structure, presentation and content will facilitate comparison from year to year but the benefits of continuity should not override innovation if this will improve the relevance and understandability of the information presented. Comparability is enhanced if significant changes are explained, such as any changes in the performance measures used, or how they are defined or calculated, in the analysis of the entity's performance.
- 5.30 It is often necessary to provide comparative information to help shareholders understand the entity's performance over time, particularly for quantitative data and metrics. Comparative information should be presented transparently and without bias. Comparatives should be calculated consistently year-on-year with any significant differences and restatements explained.

Accessible

Principle



- 5.31 Information in the annual report should be accessible so that shareholders can easily find the information they require.
- 5.32 Including text searches, detailed contents pages, navigation panes, clear titles and descriptions, specific cross-references and hyperlinked cross-references may improve the

accessibility of information within the annual report, particularly when the annual report is intended to be accessed as a PDF file or in a web-enabled format. The information in annual reports is increasingly consumed by shareholders in digital form. Preparing a digitally structured and tagged version of the annual report also improves the searchability of information.²³

- 5.33 Making the annual report (including any digitally tagged and viewer version) easily available on the company's website can help shareholders access it.

Verifiable

Principle



- 5.34 Information in the annual report should be provided in a way that enhances its verifiability.
- 5.35 Information is verifiable if it is possible to corroborate the information, or the inputs used to derive it. Verifiable information supports shareholder confidence and is more useful than information that is not verifiable.
- 5.36 Verifiability can be enhanced by providing information that can be corroborated by comparison to other available information. If information is based on estimates, verifiability is enhanced by including information about inputs, sources and calculation methods used.
- 5.37 Material information should be included in the annual report even if it is not verifiable. Information that might not always be verifiable could include some forward-looking information and explanations such as those that depend significantly on directors' views or strategic plans that have not been communicated. Disclosing assumptions made, sources and methods of producing the information and other supporting factors helps shareholders decide whether to use such information.

²³ Since 2021, certain entities with securities admitted to trading on UK regulated markets have been required under the Financial Conduct Authority's rules (DTR 4.1.15) to produce their annual financial report in a structured digital format enabling that information to be machine-readable. For some entities, specified disclosures in this report must be marked up digitally using Inline Extensible Business Reporting Language (iXBRL) and a permitted taxonomy (DTR 4.1.18).

6. Materiality

Materiality in the strategic report

Definition



- 6.1 In the context of the **strategic report**, information is **material** if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the shareholders and other **primary users** take on the basis of the **annual report** as a whole, which includes the strategic report.
- 6.2 Only information that is material in the context of the strategic report should be included within it. Immaterial information can obscure key messages and impair the understandability of information provided in the strategic report. Immaterial information should be excluded from the strategic report.
- 6.3 The strategic report and the annual report more broadly should contain information that is material to shareholders and other primary users, including information that enables shareholders to assess the directors' stewardship. A company's shareholder base may comprise groups with different needs and interests (e.g. retail investors vs. institutional investors). The needs of all significant shareholder groups, including those who take a long-term view on investment, should be considered when determining whether information is material.
- 6.4 The strategic report and annual report should provide information that meets the common information needs of shareholders and other primary users, not the specialised needs of particular shareholders or users.
- 6.5 Materiality is entity-specific and depends on the nature or magnitude (or both) of the actual or potential effect of the matter to which the information relates in the context of an entity's annual report and the particular circumstances of the entity.
- 6.6 Determining whether information is material requires directors to apply judgement based on their assessment of the relative importance of the matter to the entity's development, performance, position or future prospects. This includes considering whether the fact or circumstance would affect the ability of the entity to generate or preserve value over the long term (i.e. its **business model** and **strategy**), as well as whether the shareholders and primary users need that information and why they need it. For example, when considering if information on the **impact** of an entity's activities on the environment is material, the directors should consider the implications for the company's long-term value generation arising from stakeholder, legal or regulatory responses.

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- 6.7 To inform their judgement, the directors could consider:
- the importance of matters to the business and how they are prioritised for the board agenda and in information reviewed by the board;
 - matters reported and raised in engagement with shareholders and other stakeholders; and
 - information and matters reported by other companies with similar activities or operating in the same industry.
- 6.8 Strategic reports contain more analysis, explanations and forward-looking information than the financial statements, and may refer to matters that have not been recognised or disclosed in the financial statements. Due to the nature of the information contained in the strategic report, and the purpose it serves:
- (a) qualitative factors often have a greater influence on the determination of materiality in the context of the strategic report, particularly in relation to non-financial information; and
 - (b) different time periods may need consideration. The materiality of an item in the financial statements may be based on its magnitude relative to other items included in the financial statements in the year under review, but may also be based on the potential effect over the long term. The potential magnitude of the future effects of a matter on the entity's development, performance, position or future prospects in the long term should also be considered when identifying material information about a matter in the context of the strategic report.
- 6.9 The assessment of materiality for the strategic report should be reviewed annually to ensure that the information included in the report continues to be material over time in light of changes in facts and circumstances affecting the entity.

Aggregation and disaggregation

- 6.10 Identifying material information involves judgements about how much to aggregate and disaggregate information. Too much or too little aggregation can result in omitting or obscuring material information. Only similar items of information should be aggregated. Aggregating items of information that are dissimilar can obscure material information.
- 6.11 Further disaggregation of information in the strategic report may sometimes be necessary when providing additional explanations of amounts reported in the financial statements, including the factors affecting them. Some information in the strategic report could be disaggregated using a different basis (such as by geographic location) even if the entity otherwise analyses its financial performance on another basis (such as by operating activities or product lines).

Materiality and the Companies Act

- 6.12 Certain strategic report requirements in **the Act** include a filter to ensure that neither too little nor too much information is included and serve as a guide to the level of detail that should be provided. Examples of filters that apply include:
- (a) 'principal' for **principal risks** and uncertainties;
 - (b) 'key' for **key performance indicators** (KPIs); and
 - (c) 'to the extent necessary for an understanding of' when referring to trends and factors and non-financial information.
- 6.13 The terms 'principal' and 'key' refer to matters that are (or should be) considered significant for an understanding of the development, performance, position or future prospects of the business. This will generally be the risks or performance measures considered by the board.
- 6.14 The number of items disclosed as a result of the requirements to disclose principal risks or KPIs will generally be relatively small; they should not, for example, result in a comprehensive list of all risks and uncertainties that may affect the entity or of all performance measures used within the business.
- 6.15 When considering the application of materiality to non-financial information, entities should, consider the importance of a particular matter to the business and then identify material information to disclose in relation to that matter. The disclosure requirements for non-financial information in the Act should not be applied as a checklist.
- 6.16 The strategic report should focus on those matters that are important to an understanding of the development, performance, position or future prospects of the business. In the annual report of a parent company, for example, the strategic report should be a consolidated report and should include only those matters that are important in the context of the consolidated group.
- 6.17 The concept of materiality cannot, however, be applied to disclosures that are required by company law or its associated regulations unless explicitly allowed (for example, through the use of the terms 'principal' or 'to the extent necessary for an understanding of').

Example



- 6.18 The following disclosures must be provided in a strategic report irrespective of the directors' view of their materiality or strategic importance:
- For an entity in scope of climate-related financial disclosures, a description of the entity's governance arrangements in relation to assessing and managing climate-related risks and opportunities (see [Section 12](#)); and
 - For a **quoted company**, a breakdown by sex of the number people it employs (see [Section 11](#)).

Directors' report

- 6.19 Unlike the strategic report, most of the requirements for the **directors' report** are required irrespective of the directors' view of materiality.

Example



- 6.20 An entity in scope of streamlined energy and carbon reporting (SECR) must, to the extent it is practical to obtain the information, provide its energy use and greenhouse gas emissions disclosures in its directors' report even if the directors do not consider the information to be material. In addition, if it is not practicable to obtain the information, the entity must disclose what information is not included and why.²⁴

Disclosure of confidential information

Summary of requirements



- 6.21 Sections 414C(14) and 414CB(9) of the Act state that for the purpose of sections 414C and 414CB the disclosure of information about impending developments or matters in the course of negotiation is not necessary if the disclosure would, in the opinion of the directors, be seriously prejudicial to the interests of the company.²⁵
- 6.22 There may be occasions when the directors consider the disclosure of detailed information about impending developments or matters in the course of negotiation would be seriously prejudicial to the interests of the entity. The Act provides an exemption from disclosure of such information. This is the case even if that information is considered material. However, the directors should still consider whether there is summarised information that is not seriously prejudicial which should be disclosed.

²⁴ *Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008* (SI 2008/410), Schedule 7, Parts 7 and 7A.

²⁵ Under section 414CB(9) this applies provided that the non-disclosure does not prevent a fair and balanced understanding of the company's development, performance or position or the impact of the company's activity.

7. Strategy, business model, trends and factors

Scope

7.1 The disclosures covered in this section apply as follows:

Disclosure	Quoted company	Public interest entity (>500 employees)	Code company
Strategy	✓ ²⁶	✓ ²⁶ (quoted companies only)	✓ ²⁷
Business model	✓ ²⁸	✓ ²⁹	✓ ²⁷
Trends and factors	✓ ³⁰	– ³¹	–

7.2 **The Act** does not require entities other than **quoted companies** or **public interest entities** with more than 500 employees to provide the disclosures in this section in the **strategic report**. Some entities that are not within scope of the requirements may consider preparing proportionate disclosures relating to these matters to support and give context to other disclosures in the **annual report**, such as any corporate governance reporting and climate-related financial disclosures.

²⁶ Section 414C(8)(a) of the Act.

²⁷ The Code, Provision 1.

²⁸ Section 414C(8)(b) of the Act.

²⁹ Sections 414CB(2)(a) and 414CB(7) of the Act.

³⁰ Section 414C(7)(a) of the Act.

³¹ Section 414CB(7) of the Act exempts public interest entities with more than 500 employees from disclosing trends and factors under section 414C(7)(a) of the Act if the strategic report complies with the requirements in section 414CB(1)-(6) of the Act for a non-financial and sustainability information statement. The FRC encourages such entities to disclose material information relating to trends and factors as good practice, particularly when it relates to matters not addressed in the non-financial and sustainability information statement.

Disclosure objectives

- 7.3 Disclosures about an entity's **strategy, business model**, and trends and factors provide insight into the development, performance, position and future prospects of the entity, and important context for other financial and non-financial information in the strategic report and the annual report.
- 7.4 The description of an entity's strategy helps shareholders understand how the entity intends to achieve its **objectives**, respond to risks and opportunities, and the progress made, which helps shareholders assess the appropriateness of that strategy in generating and preserving value over the long term.
- 7.5 The description of an entity's business model helps shareholders understand what the entity does and how it generates and preserves value, which helps shareholders assess the long-term success of the business.
- 7.6 Disclosures about trends and factors help shareholders understand actual and potential facts and circumstances in the entity's internal or external environment that have affected or could affect the entity's development, performance, position and future prospects, including those that give rise to risks and opportunities that could affect the entity's strategy and business model.

Relationship between an entity's purpose, strategy, objectives and culture

- 7.7 An entity's **purpose**, strategy, objectives and business model are inter-related concepts. Different businesses may use different terms for these concepts and/or may approach them in a different order. The disclosure of an entity's purpose, strategy, objectives and business model together explain what an entity does, and how and why it does it.
- 7.8 An entity's purpose is why it exists. It could encompass generating benefits for members through its economic success while having regard to the matters identified in section 172 of the Act and, in the broader social context, contributing to inclusive and sustainable growth. The entity's strategy should be informed by what it wants to achieve in the future.
- 7.9 A description of an entity's values, desired behaviours and culture could help to explain and put its purpose in context. An entity's culture can help to drive its success. The purpose, strategy and values should be aligned with the entity's culture.³²
- 7.10 An entity will usually have a number of formal objectives that it intends to achieve in pursuit of its purpose, and a strategy for how it intends to achieve those objectives. Objectives can be financial or non-financial in nature and may be expressed in quantitative or qualitative terms.

³² The Code, Principle B.

Strategy

Summary of requirements



- 7.11 The strategic report for a quoted company must include a description of the entity's strategy.³³
- 7.12 The description of the strategy explains what the entity aims to achieve in the future and how it intends to achieve its objectives. The disclosure of the entity's objectives places the strategy in context and allows shareholders to make an assessment of its appropriateness.
- 7.13 The description of strategy could include or be linked to:
- the **principal risks** and opportunities that the strategy addresses;
 - any targets or milestones the entity has set for achieving its objectives;
 - any plans for reaching such targets and milestones; and
 - any metrics or **key performance indicators** (KPIs) used to assess progress in implementing the strategy.
- 7.14 Linking the development and performance of the entity during the year to the strategy that was in place at the time allows shareholders to assess the directors' actions in pursuit of the entity's objectives, how directors have discharged their duty under section 172 of the Act and may be relevant in an assessment of the entity's future prospects.

³³ Section 414C(8)(a) of the Act and the Code, Provision 1. Companies that apply the Code should describe in their annual report how opportunities and risks to the future success of the business have been considered and addressed, the sustainability of the company's business model and how their governance contributes to the delivery of its strategy.

Business model

Summary of requirements



- 7.15 The strategic report for a quoted company must include a description of the entity's business model.³⁴
- 7.16 A public interest entity with more than 500 employees must include a brief description of its business model in the **non-financial and sustainability information statement** to the extent necessary for an understanding of the entity's development, performance and position and the **impact** of its activity.³⁵
- 7.17 The description of the entity's business model³⁶ should explain how the entity generates and preserves value, including over the long term. The business model should be consistent with the entity's purpose.
- 7.18 The description of the business model should be entity-specific and make clear what makes it different from, or the basis on which it competes with, its peers.
- 7.19 The description of the business model could include:
- the nature and extent of the entity's operations, activities and processes;
 - how the entity is structured;
 - the markets in which the entity operates;
 - how the entity engages with those markets (e.g. what part of the **value chain** it operates in, its main products, services, customers and its distribution methods); and
 - key sources of value, resources and relationships the business model depends on.
- 7.20 An important part of understanding an entity's business model is understanding its key sources of value, being the key resources and relationships that support the generation and preservation of value, including in the long term.
- 7.21 In identifying its key sources of value, an entity should consider both its tangible and intangible assets. An entity could also disclose those resources and relationships that have not been reflected in the financial statements because they do not meet the accounting definitions of assets or the criteria for recognition as assets to the extent these are relevant to an understanding of the entity's development, performance, position or future prospects. This information may provide insight into how the board manages, sustains and develops these unrecognised assets.

³⁴ Section 414C(8)(b) of the Act and the Code, Provision 1. Companies that apply the Code should describe in their annual report how opportunities and risks to the future success of the business have been considered and addressed, the sustainability of the company's business model and how their governance contributes to the delivery of its strategy.

³⁵ Section 414CB(2)(a) of the Act.

³⁶ This Guidance refers to the term business model in the singular for simplicity. An entity could have multiple business models.

Example



- 7.22 An entity may generate a significant portion of its value from its workforce. The strategic report could explain this and the actions the entity takes to manage, sustain and develop the workforce and other key sources of value. Other sources of value may include: corporate reputation and brand strength, customer base, natural resources, research and development, intellectual capital, licences, patents, copyrights and trademarks, outsourcing relationships, and market position.
- 7.23 An entity often creates value through its activities at several different parts of its business process. The description of the business model should focus on the parts that are most important to an understanding of the generation and preservation of value, including any parts that are important because they contain principal risks.

Example



- 7.24 An entity operating in the pharmaceuticals sector might have a ready market for an innovative drug. The key to the value creation process is in the development and approval of that drug. In this case, the business model description could emphasise the critical drug development and approval processes.
- 7.25 The description of the entity's business model should reflect the way that the business is managed, as should the segment analysis presented in the financial statements. While the level of aggregation and detail may vary, there should be overall consistency between these two information sets.
- 7.26 The business model should provide context for other information presented in the strategic report and the annual report more broadly.
- 7.27 Identifying relationships between the business model and other content elements could provide linkage with other relevant information in the strategic report. For instance, it could highlight the principal risks that affect, or strategy that relates to, a specific part of the business model.

Example



- 7.28 When an entity is reliant on technological innovation, this could be reflected in the disclosed KPIs, the review of the business and the principal risks and uncertainties. Similarly, when an entity is reliant on a highly trained and engaged workforce, or other stakeholder relationships, the strategic report could set out related principal risks and uncertainties and how the entity manages, measures and nurtures those relationships. For instance, an entity with a digital transformation programme relating to the implementation of artificial intelligence, could link its business model disclosures to risks and uncertainties relating to workforce displacement and mitigations to invest in reskilling the workforce.

- 7.29 An entity's business model may evolve as the entity responds to trends and factors in the internal and external environment. The strategic report should provide information about the business model that operated during the current year, and explain any changes since the previous year or that are expected in the future.

Trends and factors

Summary of requirements



- 7.30 To the extent necessary for an understanding of the development, performance or position of the entity's business, the strategic report for a quoted company must include the main trends and factors likely to affect the future development, performance and position of the entity's business.³⁷
- 7.31 Trends and factors affecting the business may arise as a result of the external environment in which the entity operates or from internal sources. They may have affected the development, performance or position of the entity in the year under review or may give rise to opportunities or risks that may affect the entity's future prospects. In considering the external trends, it is important that entities consider both the trends in the market in which the entity operates and the trends and factors relating to society more generally. For example, an entity should consider the risks and opportunities arising from factors such as technological change, digital transformation and emerging technologies including artificial intelligence, and disclose **material information** about the effect of these trends on the entity's future business model and strategy.

Example



- 7.32 The environment within which an entity operates, particularly that related to consumer sentiment, can change quickly as a result of a specific incident or media interest. A recent incident or media coverage need not be directly related to the entity, and need not have affected the current year performance, to have the potential to give rise to new risks or opportunities that could affect its future prospects.
- 7.33 The strategic report should also cover other significant features of an entity's external environment and how those influence the business. This could include trends in the regulatory, macro-economic or geopolitical environment and changes in societal expectations. The strategic report should set out the directors' analysis of the potential effect on the entity's future development, performance, position or future prospects of the trends or factors identified.

³⁷ Section 414C(7)(a) of the Act. Under section 414CB(7) of the Act, if a strategic report complies with the requirements in section 414CB(1)-(6) of the Act for a non-financial and sustainability information statement, it is treated as complying with section 414C(7) of the Act except as it relates to community issues.

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- 7.34 The discussion of internal trends and factors will vary according to the nature of the business, but could, for example, include the development of new products and services or the benefits expected from capital investment.
- 7.35 When practicable and relevant, the trend or factor could be quantified and the source of the evidence underpinning it identified.

Example



- 7.36 An entity may wish to state in its strategic report that the market in which it operates has grown substantially in the past five years. In this case, the strategic report could, if practicable, indicate by how much the market has grown and reference the source of the statistic used.
- 7.37 Given the influence trends and factors might have on many aspects of the entity's development, performance, position or future prospects, the linkage of this type of information to other areas of the strategic report and the annual report more broadly is important, especially in relation to forward-looking information involving estimation.
- 7.38 The strategic report could highlight the principal risks or opportunities that arise from, or the strategy that has been adopted as a result of, significant trends and factors identified. It could also highlight how certain trends or factors have affected the development, performance or position of the entity through reference to information in the financial statements.
- 7.39 Increasing focus on sustainability may result in an entity making changes to its business model such as to adapt its investment strategy. Information on these trends could be linked to the entity's strategy and business model explaining the potential effects on the development, performance, position or future prospects of the entity.

8. Business performance and position

Scope

8.1 The disclosures covered in this section apply as follows:

Disclosure	All strategic reports	Large company Quoted company	Public interest entity (>500 employees)
Fair review of the business	✓ ³⁸	✓ ³⁸	✓ ³⁸
Financial KPIs	✓ ³⁹	✓ ³⁹	✓ ³⁹
Non-financial KPIs	– ⁴⁰	✓ ⁴⁰	✓ ⁴¹
Additional explanations	✓ ⁴²	✓ ⁴²	✓ ⁴³

Disclosure objectives

8.2 The fair review of the business, including analysis using **key performance indicators** (KPIs) and additional explanations of amounts in the financial statements, helps shareholders understand the development and performance of the entity's business during the year and the position of the business at the end of the year. It provides additional context to the financial statements and helps shareholders assess the future prospects of the business.

³⁸ Section 414C(2)(a) and (3) of the Act.

³⁹ Section 414C(4)(a) of the Act.

⁴⁰ Section 414C(4)(b) and (6) of the Act. Medium-sized entities do not need to disclose non-financial KPIs.

⁴¹ Section 414CB(2)(e) of the Act.

⁴² Section 414C(12) of the Act.

⁴³ Section 414CB(5) of the Act.

Fair review of the business

Summary of requirements



- 8.3 The **strategic report** must provide a fair review of the company's business, which is a balanced and comprehensive analysis of the development and performance of the business in the financial year and of its position at the end of that year consistent with the size and complexity of the business.⁴⁴
- 8.4 The strategic report should include a narrative of the development, performance and position of the business in the financial year which is consistent with and complementary to the information contained in the financial statements.
- 8.5 The development and performance of the business should be analysed in the context of the **strategy** applied by the entity during the financial year. Any segmentation of the analysis of the development, performance or position should usually be consistent with the segments identified in the financial statements, or any differences should be explained.
- 8.6 When necessary for an understanding of the development, performance, position or future prospects of the entity, the analysis should address all significant transactions, events and movements in the financial statements for the year, including those in the statement of cash flows and balance sheet. When appropriate, the analysis could make reference to cash flows during the year and factors that may affect future cash flows, which may provide insight into the entity's current and prospective liquidity and its ability to fund its stated strategy.
- 8.7 The strategic report should explain the entity's performance during the year in the context of how it has performed relative to prior periods. It could explain performance relative to any stated targets and relative to the external environment in which it is operating, so that shareholders and other **primary users** can make an assessment of the future development, performance or position of the business.
- 8.8 Shareholders should be able to distinguish between movements in performance which have resulted from one-off events and movements which are expected to continue. It is also important to identify the impact of acquisitions and disposals on performance so that shareholders can understand how the existing business has performed and the likely future impact of the acquisition or disposal.
- 8.9 If the structure of a group has changed significantly in the period, for instance, as a result of a major acquisition or disposal, an entity could use pro-forma figures to explain performance in addition to the statutory figures. When pro-forma figures are presented, explanations of how those figures have been calculated and their relationship to amounts extracted from the financial statements should also be presented.

⁴⁴ Section 414C(2)(a) and (3) of the Act.

Additional explanations of amounts in the financial statements

Summary of requirements



- 8.10 The strategic report must, where appropriate, include references to, and additional explanations of, amounts included in the financial statements.⁴⁵
- 8.11 The analysis should complement the financial statements, providing additional explanations of material amounts recognised in the financial statements and the events and conditions that shaped the information contained in them, when relevant.

Example



- 8.12 The strategic report could, when relevant, include comments on, for example:
- any one-off, or significant items affecting the current year results;
 - the existence and timing of commitments for capital expenditures;
 - changes in the effective tax rate and the reasons for those changes;
 - material prior year items;
 - changes in revenue from year to year that result from organic growth, acquisitions, price, volume, product mix, foreign exchange, etc. (a 'revenue bridge');
 - changes and further analysis of costs; and
 - financing and working capital arrangements (e.g. changes in net debt, factoring or reverse factoring arrangements, or approach to financing of long-term liabilities).

Key performance indicators

Summary of requirements



- 8.13 The review in the strategic report must, to the extent necessary for an understanding of the development, performance or position of the company, include analysis using financial KPIs, and where appropriate, analysis using other KPIs, including information relating to environmental and employee matters.⁴⁶
- 8.14 The KPIs used in the analysis should be those that the directors judge are most effective in assessing progress against **objectives** or strategy, monitoring **principal risks**, or otherwise used to measure the development, performance or position of the business or its future prospects.
- 8.15 Non-financial KPIs provide insight into future financial prospects and progress in managing risks and opportunities. They could include indicators used by the board to monitor matters

⁴⁵ Section 414C(12) and section 414CB(5) of the Act.

⁴⁶ Section 414C(4) and (6) of the Act and section 414CB(2)(e) of the Act. Medium-sized companies do not need to include an analysis using non-financial KPIs.

that could significantly affect the long-term success of the business, including indicators which measure performance in managing stakeholder relationships or the **impact** of the entity's activities, when relevant.

Example



8.16 Non-financial KPIs could include measures related to:

- operations (e.g. production capacity, production volumes and product quality);
- environmental matters (e.g. greenhouse gas emissions);
- employees (e.g. turnover, engagement scores, health and safety incidents, and diversity);
- suppliers (e.g. payment practices and performance); and
- customers (e.g. retention rates and satisfaction scores).

8.17 KPIs should usually reflect the way that the board manages the entity's business. They may be generally accepted measures that are widely used, either within the entity's industry sector or more broadly. However, the comparability of the KPIs with other entities should not override the effectiveness of the KPIs for assessing the performance or position of the business.

Example



8.18 The use of KPIs that also form part of directors' current or future incentive plans in the analysis of principal risks, strategy and performance in the strategic report provides a clearer indication of how these matters might affect or have affected executive remuneration.

8.19 KPIs should usually be presented and calculated consistently from year to year unless a different approach results in more useful information. Comparatives should be included and the reasons for any significant changes from year to year explained.

8.20 The entity should provide information that enables shareholders and other primary users to understand each KPI used in the strategic report. This could include for example:

- (a) its definition and calculation method;
- (b) its purpose;
- (c) the source of underlying data;
- (d) any significant assumptions made; and
- (e) any changes in the calculation method used compared to previous financial years, including significant changes in the underlying accounting policies adopted in the financial statements which might affect the KPI.

- 8.21 Similar KPIs should be clearly distinguishable from each other and entities should explain why different measures are used.

Example



- 8.22 If an entity uses one earnings per share measure when discussing performance and another when discussing executive remuneration in the directors' remuneration report, the relationship between and the reason for using different measures should be explained. The terms adopted to describe each KPI should be unique and used consistently, and the differences between the two KPIs clearly identified.

Adjusted and alternative performance measures

- 8.23 If a KPI is derived by adjusting a line-item from the financial statements, or a commonly used KPI:
- (a) the label used for that adjusted measure should be clear and distinct from the financial statement line-item;
 - (b) the adjusted measure should not be more prominent than the financial statement line-item; and
 - (c) a reconciliation to an appropriate financial statement line-item and an explanation of any material adjustments should be provided.

Example



- 8.24 When an entity uses earnings before interest, tax, depreciation, amortisation (EBITDA) and certain restructuring costs to analyse business performance, the measure could be referred to as 'EBITDA before restructuring costs' or similar. A reconciliation to an appropriate financial statement line-item and explanation of the adjustment should be provided.
- 8.25 Financial KPIs can be Alternative Performance Measures (APMs) as defined in the European Securities and Markets Authority's (ESMA) *Guidelines on Alternative Performance Measures*⁴⁷ which continue to apply to strategic reports amongst other documents under the Financial Conduct Authority's (FCA) rules.⁴⁸

⁴⁷ These guidelines are available at <https://www.esma.europa.eu/sites/default/files/library/2015/10/2015-esma-1415en.pdf>

⁴⁸ These only apply to issuers with securities admitted to trading on a regulated market. Following the UK's Exit from the EU, the ESMA Guidelines are included in the FCA Handbook as part of non-legislative [Level 3 materials](#), as explained in [Brexit: our approach to EU non-legislative materials](#). The FCA expects issuers to continue to apply the Guidelines to the extent they remain relevant.

8.26 The ESMA Guidelines set out principles for disclosure for APMs. The ESMA Guidelines define an APM as a measure of historical or future performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. Following the UK's exit from the EU, the ESMA Guidelines continue to reflect good practice for APM disclosures in all strategic reports as they are consistent with the purpose of the strategic report and an **annual report** that is fair, balanced and understandable.

9. Principal risks and uncertainties

Scope

9.1 The disclosures covered in this section apply as follows:

Disclosure	All strategic reports	Public interest entity (>500 employees)	Code company
Principal risks and uncertainties	✓ ⁴⁹	✓ ⁵⁰	✓ ⁵¹
Emerging risks	-	-	✓ ⁵¹

Disclosure objectives

9.2 The disclosure of **principal risks** and uncertainties (and **emerging risks** for **Code** companies), helps shareholders understand the nature of and exposure to risks and uncertainties that could threaten the entity's **business model** and future prospects. Shareholders also want to understand how such risks are managed and mitigated.

⁴⁹ Section 414C(2)(b) of the Act.

⁵⁰ Section 414CB(2)(d) of the Act.

⁵¹ The Code, Provision 28.

Principal risks and uncertainties

Summary of requirements



- 9.3 The **strategic report** must include a description of the principal risks and uncertainties facing the entity.⁵²
- 9.4 A **public interest entity** with more than 500 employees must include in relation to the matters addressed in the **non-financial and sustainability information statement** (see [Section 11](#)), to the extent necessary for an understanding of the entity's development, performance and position and the **impact** of its activity, a description of the principal risks arising in connection with the entity's operations, and where relevant and proportionate:
- i. its business relationships, products and services which are likely to cause adverse impacts in those areas of risk; and
 - ii. how the principal risks are managed.⁵³
- 9.5 The Code states that the board should carry out a robust assessment of the company's principal risks. The board should confirm in the **annual report** that it completed this assessment, including a description of principal risks, and an explanation of how these are being managed or mitigated.⁵⁴

Definition



- 9.6 Principal risks should include, but are not necessarily limited to those that could result in events or circumstances that might threaten the entity's business model, future performance, solvency or liquidity, and reputation.
- 9.7 Principal risks are generally risks, or a combination of risks, that can significantly affect the development, performance, position and future prospects of the entity, or result in significant value erosion.
- 9.8 The number of risks and uncertainties included in the strategic report should generally be relatively small. Risk registers may contain a comprehensive list of risks that may affect the entity but principal risks should be limited to those considered to be most important to the entity. They are generally matters that the board regularly monitors and discusses because of their likelihood, the magnitude of their potential effect on the company, or a combination of the two.

⁵² Section 414C(2)(b) of the Act.

⁵³ Section 414CB(2)(d) of the Act.

⁵⁴ The Code, Provision 28.

Identifying and assessing principal risks and uncertainties

- 9.9 In assessing the entity's exposure to risks and determining which risks are the principal risks, entities should consider:
- both the magnitude of their potential effect on the entity and the probability of the related events or circumstances arising; and
 - the timescale over which they may occur.
- 9.10 The board should consider the full range of business risks, including both those that are financial in nature and those that are non-financial. Principal risks should be considered irrespective of how they are classified or from where they arise, including those resulting from strategic decisions, operations, resources and relationships, technology, financial and competitive position or from external factors over which the board may have little or no direct control, such as market, regulatory, sustainability-related or geopolitical factors or events.
- 9.11 Principal risks may include those which result in threats to solvency and liquidity.⁵⁵ When assessing principal risks an entity could consider the period over which risks may crystallise and how these have been taken into account when making going concern disclosures or a viability statement (if applicable).⁵⁶ If a viability statement uses a timeframe shorter than that over which risks may crystallise, the entity could explain the impact of these long-term risks on the entity's future prospects.
- 9.12 Principal risks may include long-term systemic risks which may have a significant effect on the entity's ability to generate and preserve value in the long term.

Example



- 9.13 Risks arising from climate change could include the risks facing the entity's operations from a transition to a low carbon economy and the physical risks posed by climate change (e.g. direct damage to assets or supply chain disruption). These different types of risk may not be relevant for every entity, but directors should consider whether they constitute principal risks.
- 9.14 The entity should look beyond its own operations to its **value chain** and consider how risks and impacts arising from business relationships, products and services, affect its principal risks.⁵⁷ For instance, entities could consider the reputational risk arising from factors such as poor labour practices in their value chain or purchasing products which have been produced in a manner which has a significant environmental impact.

⁵⁵ The [Guidance on the Going Concern Basis of Accounting and Related Reporting \(including Solvency and Liquidity Risks\) \(February 2025\)](#) contains further guidance about assessing and disclosing solvency and liquidity risks.

⁵⁶ The Code, Provision 31. A viability statement is only required for Code companies. For further guidance, refer to the [Corporate Governance Code 2024 Guidance](#), Section 4.

⁵⁷ Section 414CB(2)(d)(i) of the Act.

Example



- 9.15 An entity may be reliant on the continuity of products from areas of the world where there is geopolitical uncertainty. An entity should consider in its risk assessment whether this is a principal risk or contributes to a principal risk. Factors to consider include the extent to which geopolitical uncertainty may disrupt the supply of essential materials, the effect on relationships with suppliers and customers, and how the entity manages that risk.

Disclosing principal risks and uncertainties

- 9.16 The descriptions of the principal risks and uncertainties facing the entity should be specific so that shareholders and other **primary users** can understand why they are important to the entity. They could include:
- the factors, events or circumstances causing the risk;
 - the possible effects of the risk on the entity if they crystallise;
 - a description of the likelihood of the risk; and
 - an indication of the circumstances under which and potential timing of when the risk might be most relevant to the entity.
- 9.17 An explanation of how the principal risks and uncertainties are managed or mitigated should⁵⁸ also be included to enable shareholders and other primary users to understand the effect on the future prospects of the entity. This could include references to the entity's risk management framework, internal controls, and any actions taken or planned to reduce the entity's exposure to the risk and increase the entity's resilience to the risk.⁵⁹

Example



- 9.18 An entity could describe the potential consequences of digital and information security risks for the entity, such as operational disruption from a cyber attack or failure of IT systems, reputational damage from loss of sensitive data and financial costs such as fines. It could also disclose the processes and controls in place to mitigate the risks, and the measures in place to enhance digital security resilience, including any simulation exercises, disaster recovery considerations, use of external consultants, and training and education of staff.
- 9.19 When relevant, the description of principal risks should be linked to, and discussed in the context of the entity's strategy, business model, **key performance indicators** and relevant trends and factors. Highlighting links to accounting estimates and judgements disclosed in the notes to the financial statements, going concern disclosures,⁶⁰ the viability statement and other related disclosures within the annual report can provide additional insight.

⁵⁸ This is required for Code companies by Provision 28 of the Code and recommended as good practice for other entities.

⁵⁹ Refer to the [Corporate Governance Code 2024 Guidance](#) (in particular Section 4) for further guidance.

⁶⁰ Refer to the [Guidance on the Going Concern Basis of Accounting and Related Reporting \(including Solvency and Liquidity Risks\) \(February 2025\)](#) for further guidance.

- 9.20 Emphasising the relationship between an entity's principal risks and its ability to meet its **objectives** may provide relevant insight into an entity's risk appetite.

Example



- 9.21 The transition risk related to climate change and associated changes in legislation may cause an entity to make changes to its business model, adapt its products and production processes or alter the markets in which it is engaged. In these situations, the entity's strategy and business model disclosures could explain how climate change might influence the entity's business in the future and the potential effects of climate change on the development, performance, position or future prospects of the entity.
- 9.22 Significant changes in principal risks such as a change in likelihood, potential timing or possible effect, or the inclusion of new risks, should be highlighted and explained. An entity could explain whether the individual risks identified have increased, decreased or remained the same in severity. Risk mitigation disclosures could show how the entity has responded to changes.

Emerging risks

- 9.23 Emerging risks include risks whose impact and probability are difficult to assess and quantify at present, but which could affect the entity in the future. These risks constantly change, can materialise quickly, and can significantly affect the entity and its operations.⁶¹
- 9.24 The Code states that the board should carry out a robust assessment of the company's emerging risks, confirm in the annual report that it has completed this assessment, and explain what procedures are in place to identify and manage such risks.⁶²
- 9.25 Emerging risks could arise from recent internal or external developments, and could be short-, medium- or long-term in nature. Some may eventually become principal risks, while others may not.
- 9.26 As these risks have a greater level of uncertainty, there may be less detailed information available to disclose. Shareholders and other primary users are interested in understanding how the entity is considering and preparing for such risks, whether and how they relate to principal risks, when they could materialise, why the company sees them as important and what could lead them to become principal risks.

⁶¹ [Corporate Governance Code 2024 Guidance](#), Section 4.

⁶² The Code, Provision 28.

10. Section 172 reporting

Scope

10.1 The disclosures covered in this section apply as follows:

Disclosure	Large company	Code company
Section 172(1) statement	✓ ⁶³	-
How stakeholder views and section 172 matters have been considered in board discussions and decision-making	-	✓ ⁶⁴

10.2 The requirement to prepare a **section 172(1) statement** applies to all **large companies**. The section 172 duty applies to all directors and is a duty owed by a director to their company. The directors' section 172 duty is set out in [Section 3](#) of this Guidance.

Group considerations

10.3 A separate section 172(1) statement is required for all large companies within a group. There is no exemption for parent or subsidiary companies from the requirement to produce a section 172(1) statement.

10.4 The section 172(1) statement must be prepared at an individual company level. However, the ability to generate and preserve value in a parent company is dependent on the ability of its subsidiaries to generate and preserve value. When appropriate, parent companies should disclose how they had regard to the matters listed in section 172(1) of **the Act** as they relate to the group as a whole when preparing a group **strategic report**.

10.5 Directors of subsidiary companies owe their section 172 duty to their company. In most cases, the interests of the subsidiary and parent company are closely aligned, but it depends on individual circumstances. Decisions and policies affecting employees, the environment, suppliers and other stakeholders can be taken or made at a group level. However, directors should still consider matters that are specific to the individual company.

⁶³ Section 414CZA of the Act.

⁶⁴ The Code, Provision 5.

Disclosure objectives

- 10.6 The purpose of the strategic report in the Act is to inform members of the company and help them assess how the directors have performed their duty under section 172 of the Act. To fulfil this duty, a director must act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of shareholders as a whole and in doing so, have regard to a number of broader matters.
- 10.7 The section 172 duty is consistent with the principle of enlightened shareholder value; recognising that companies are run for the benefit of shareholders, but that the long-term success of a business is dependent on maintaining relationships with stakeholders and considering the external **impact** of the company's activities.
- 10.8 The objective of the section 172(1) statement⁶⁵ is to set out how the directors have had regard to broader matters in their actions, behaviours and decisions when performing their duty to promote the success of the company.

Section 172(1) statement

Summary of requirements



- 10.9 A strategic report of a large company for a financial year of a company must include a 'section 172(1) statement' which describes how the directors have had regard to the matters set out in section 172(1) (a) to (f) when performing their duty under section 172.⁶⁶ The matters set out in section 172(1) (a) to (f) of the Act are:
- (a) the likely consequences of any decision in the long term;
 - (b) the interests of the company's employees;
 - (c) the need to foster the company's business relationships with suppliers, customers, and others;
 - (d) the impact of the company's operations on the community and the environment;
 - (e) the desirability of the company maintaining a reputation for high standards of business conduct; and
 - (f) the need to act fairly between members of the company.

⁶⁵ Section 414CZA of the Act.

⁶⁶ Section 414CZA of the Act. The requirements of the Act should be read in conjunction with the Department for Business, Energy & Industrial Strategy's (now DBT) [The Corporate governance: The Companies \(Miscellaneous Reporting\) Regulations 2018 – Q&A](#).

10.10 There will be linkages and overlaps between information contained in the strategic report and that required to be included in the section 172(1) statement. The Act requires the statement to be separately identifiable, but the information can be included in other parts of the strategic report and incorporated into the section 172(1) statement by **cross-reference**. Companies are encouraged to avoid repetition and maintain the cohesion of the narrative contained within the strategic report.

Content of the section 172(1) statement

- 10.11 This section provides guidance to companies to determine the appropriate reporting to meet the requirements of the section 172(1) statement. It is not intended to interpret how the section 172 duty should be met.
- 10.12 The section 172(1) statement should focus on matters that are of strategic importance to the company with disclosures proportionate to its size and complexity.
- 10.13 The information contained in the section 172(1) statement will depend on the individual circumstances of each company, but companies should consider including information on some or all of the following:
- (a) The issues, factors and stakeholders the directors consider relevant in complying with section 172(1)(a) to (f) and how they have formed that opinion;
 - (b) The main methods the directors have used to engage with stakeholders and understand the issues to which they must have regard; and
 - (c) Information on the effect of that regard on the company's decisions and **strategies** during the financial year.

The long term

- 10.14 The Act requires directors to have regard to the likely consequences of decisions in the long term. The section 172(1) statement could provide information on how the long-term success of the company has been considered in making strategic decisions. This could include considering the interests of other key stakeholders, the long-term impact of the entity's activities on the community and environment or other broader matters that may affect company performance over the long term.
- 10.15 Identifying the likely consequences of decisions in the long term, and then having regard to those likely consequences, may form part of the risk management process within a company. Companies could consider the linkage between the **principal risks** disclosed in the strategic report and disclosures made in the section 172(1) statement.

Stakeholders

10.16 The description of the company's business model in the strategic report should provide an insight into the key resources and relationships that support the generation and preservation of value in the company. Stakeholder relationships are often a key source of value that help to ensure that an entity's success is sustainable over the long term. It is important that boards identify their key stakeholders and the importance of those stakeholders to the long-term success of the company.

Example



- 10.17 A company could disclose a stakeholder map, that identifies its key stakeholder relationships showing the dependencies of each part of the business on different groups of stakeholders and the impacts that the business has on each of those groups. This could include the environmental and community resources that the company is dependent on and how those resources generate and preserve value.
- 10.18 Information which helps to explain the benefits created for other stakeholders may sometimes be difficult to measure, but it can provide significant insight. Companies are encouraged to innovate and experiment in order to provide useful information.
- 10.19 The key stakeholder relationships may be those set out in section 172(1), however, companies are encouraged to consider all relevant stakeholders in making the section 172(1) statement. In particular, companies could consider disclosures regarding their relationships with pension schemes, pensioners and their entire workforce.
- 10.20 The Act uses the term 'employees'. However, companies are encouraged to consider workforce issues more generally and not limit consideration to those persons who have a contract of employment.⁶⁷
- 10.21 In discharging their section 172 duty to have regard to stakeholder interests, directors need appropriate information to make informed judgements. This information is likely to involve stakeholder engagement, whether through day-to-day business interactions or through any specific process, structures or channels established for engagement.
- 10.22 The way in which a company engages and communicates with its stakeholders provides insight into the relative importance that it places on those relationships.

⁶⁷ The Code refers to the workforce.

Example



10.23 The company could describe how it engages with its key stakeholders. This could include the main methods of communication and how the company seeks to understand the key issues affecting those stakeholders. For instance, **the Code** recommends the following methods for engagement with the workforce – a director appointed from the workforce, a formal workforce advisory panel or a designated non-executive director. There may also be regular surveys of stakeholder groups or impact assessments related to the environment and community.

10.24 A company could explain the outcomes of its engagement with key stakeholders and the impact on the board's decision making.

10.25 A company could link its disclosures about stakeholder engagement to any **key performance indicators** or other metrics in the strategic report used to measure performance in these areas. This could include metrics such as supplier payment performance data, employee engagement or customer satisfaction scores.

Principal decisions

10.26 The section 172(1) statement could identify the principal decisions taken by the board during the year, how regard was had to the matters set out in section 172(1) when making decisions and the effect of that regard.

10.27 The interests of one group of stakeholders may not always be aligned with the interests of other stakeholders or with the interests of shareholders. When there are conflicts, or when the interests of one group have been prioritised over another, the section 172(1) statement could explain how the directors have considered the different interests and the factors taken into account in making that decision.

Example



10.28 A board may decide to exit a significant segment of the market in which the entity operates when its activities in that market are no longer profitable. This may have an impact on employees working in those markets or the local community. The strategy may, however, be critical to the long-term success of the company. The section 172 statement could explain how the interests of the employees and the community were taken into account and any actions taken by the board to mitigate the impact on those stakeholders.

10.29 There should be consistency between the principal decisions discussed in the section 172(1) statement and the review of the business contained in the strategic report.

Capital allocation and dividend policy

- 10.30 For many companies, determining how a company allocates capital may be a principal decision. These capital allocation decisions could include considering working capital requirements, investment, capital expenditure, research and development, capital distribution, and investment in skills and training.
- 10.31 Part of that capital allocation decision may be the determination of whether to pay a dividend, and, if so, how much to pay.
- 10.32 On a year-to-year basis, directors will decide how to apply the company's capital allocation and dividend policies given events and circumstances that have arisen during the period. In both the setting of the policy and the application of that policy in any given period, directors are encouraged to consider the interests of the company's shareholders as a whole, while having regard to, for example, the long-term viability of the company, the need for research and development or capital investment and the interests of other stakeholders, such as the pension fund or current employees.
- 10.33 If the setting and application of the capital allocation and dividend policies are principal decisions, the section 172(1) statement could explain how directors have had regard to the long term and the interests of stakeholders, both in the setting of the capital allocation and dividend policies and then in the application of those policies each year.

Example



- 10.34 The company could explain how its capital allocation and dividend policies have had regard to the matters set out in section 172(1). In particular, the statement could include how directors have had regard to the long-term success of the company and the interests of other stakeholders in determining the dividend level.
- 10.35 The company could include a quantified analysis of allocations of free cash flow, to enable users of the accounts to understand how discretionary resources have been allocated between shareholders, other stakeholders and retained in the company.

Culture

- 10.36 The board has a role in ensuring that a business is sustainable in the long term. This includes embedding the desired culture. Culture is a combination of the values, attitudes and behaviours demonstrated by a company in its activities and relations with stakeholders. These stakeholders include shareholders, employees, customers, suppliers, the wider community and the environment. Demonstrating the desired culture may be a way in which the company maintains the desired reputation for high standards of business conduct. The culture of the company may also be important in having regard to the need to act fairly as between members of the company.

Example



- 10.37 The section 172(1) statement could disclose information in relation to the culture that the board has set in order to ensure that decisions taken are in line with the company's values and **objectives**.
- 10.38 The section 172(1) statement could explain the factors which the board considers are important to the company's reputation for high standards of business conduct and the actions taken during the year to ensure that its reputation is maintained.

Website publication of section 172(1) statement

- 10.39 The section 172(1) statement must be made available on the company's website. **Quoted companies** are required to make their **annual report** available on their website. Unquoted companies, however, are not required to publish their annual report on a website but need to make the section 172(1) statement available on a website.⁶⁸ This does not need to be the company's own website; it may be a website maintained on behalf of the company (such as the website of a parent company) provided it identifies the company in question.
- 10.40 Unquoted companies may choose to publish either the section 172(1) statement, the strategic report (containing the section 172(1) statement) or the whole of the annual report on the company website. Unquoted companies must ensure that disclosures included by cross-referencing to other parts of the annual report are included within the statement if published on a website without the rest of the annual report. The approach adopted may depend on the extent of cross-references to information included in other parts of the annual report.

⁶⁸ Sections 426B and 430 of the Act.

11. Non-financial and sustainability information

Scope

11.1 The disclosures covered in this section apply as follows:

Disclosure	Quoted company	Public interest entity (> 500 employees)
Environmental matters	✓ ⁶⁹	– ⁷⁰
Employees		(except as it relates to community issues – quoted companies only)
Social, community and human rights issues		
Policies on these matters and their effectiveness		
Environmental matters	–	✓ ⁷¹
Employees		
Social matters		
Respect for human rights		
Anti-corruption and anti-bribery matters		
Policies on these matters, associated due diligence and outcome of policies		
Non-financial and sustainability information statement	–	✓ ⁷²
Breakdown of directors, senior managers and employees by sex	✓ ⁷³	✓ ⁷³ (quoted companies only)

⁶⁹ Section 414C(7)(b) of the Act.

⁷⁰ Section 414CB(7) of the Act. Under section 414CB(7) of the Act, if a strategic report complies with the requirements in section 414CB(1)–(6) of the Act for a non-financial and sustainability information statement, it is treated as complying with section 414C(7) of the Act except as it relates to community issues.

⁷¹ Section 414CB(1), (2)(b) and (2)(c) of the Act.

⁷² Section 414CA(A1), (1) and (4) of the Act.

⁷³ Section 414C(8)(c) of the Act.

-
- 11.2 Section 414CA(1) and (4) of **the Act** require a **traded, banking or insurance company** (a **public interest entity** (PIE)) with more than 500 employees, or a parent company in a group headed by that company with more than 500 employees, to include a **non-financial and sustainability information statement** as part of its **strategic report**.
- 11.3 The requirement to provide a non-financial and sustainability information statement also applies to an **AIM** company with more than 500 employees and a company with turnover of more than £500 million and more than 500 employees (**high turnover company**). However, these entities are only required to disclose climate-related financial disclosures (see [Section 12](#)).
- 11.4 Section 414CB of the Act sets out the content of the non-financial and sustainability information statement which effectively requires entities within its scope to include additional non-financial information. As many of the disclosures in section 414CB of the Act are similar to those required in section 414C of the Act for **quoted companies**, section 414CB(7) of the Act provides exemptions from overlapping disclosure requirements.

Disclosure objectives

- 11.5 The disclosure of non-financial information and sustainability-related matters helps shareholders understand the impact of these broader factors on the business and the **impact** of the business on stakeholders and society. This helps shareholders assess an entity's ability to generate and preserve value over the long term and how it manages risks which may impact the sustainability of the entity's business and its future prospects.
- 11.6 Information about environmental, employee, social, community, human rights, and anti-corruption and anti-bribery matters (as applicable) should not be considered in isolation. Reporting on these matters could be integrated throughout the strategic report and, in particular, considered when disclosing the entity's **strategy** and **business model**, **principal risks** and uncertainties and **key performance indicators** (KPIs), as applicable and appropriate for the entity.
- 11.7 There is overlap between the information required by this section and the **section 172(1) statement** (see [Section 10](#)). Entities should consider both requirements when determining appropriate disclosures.

Non-financial information

Quoted companies

Summary of requirements



- 11.8 To the extent necessary for an understanding of the development, performance or position of the entity's business, the strategic report of a quoted company must include information about:
- (a) environmental matters (including the impact of the business of the entity on the environment);
 - (b) the entity's employees; and
 - (c) social, community and human rights issues,
- including information about any policies of the entity in relation to those matters and the effectiveness of those policies.
- 11.9 If the report does not contain information of each kind mentioned in (a) to (c) above, it must state which of those kinds of information it does not contain.⁷⁴

⁷⁴ Section 414C(7)(b) of the Act.

Public interest entities with more than 500 employees

Summary of requirements



11.10 To the extent necessary for an understanding of the development, performance or position and impact of the entity's activity, the strategic report of a PIE with more than 500 employees must include a non-financial and sustainability information statement⁷⁵ that contains information relating to:

- (a) environmental matters (including the impact of the business of the entity on the environment);
- (b) the entity's employees;
- (c) social matters,
- (d) respect for human rights; and
- (e) anti-corruption and anti-bribery matters.⁷⁶

To the extent necessary for an understanding of the development, performance or position of the entity's business, the strategic report of a quoted company must include information about community issues.⁷⁷

11.11 The information must include a description of the policies pursued by the entity in relation to the matters and any **due diligence** processes implemented by the entity in pursuance of those policies.⁷⁸ It must also include a description of the outcome of those policies.⁷⁹

11.12 If the entity does not pursue policies in relation to one or more of these matters, the statement must contain a clear and reasoned explanation for the entity not doing so.⁸⁰

⁷⁵ Section 414CA (A1), (1) and (4) of the Act.

⁷⁶ Section 414CB(1) of the Act.

⁷⁷ Section 414C(7)(b)(iii) of the Act. This applies to quoted companies only.

⁷⁸ Section 414CB(2)(b) of the Act.

⁷⁹ Section 414CB(2)(c) of the Act.

⁸⁰ Section 414CB(4) of the Act.

Matters and information to disclose

11.13 Disclosures should not necessarily be limited to the matters stated in the Act. Entities should consider all the resources and relationships which are necessary for an understanding of the development, performance, position or future prospects of the entity's business. Such resources and relationships could include customers, suppliers, the entity's pension scheme and intellectual property.

11.14 When determining the appropriate level of non-financial information to disclose in the strategic report, entities could consider the following (non-exhaustive) list of factors:

- the extent to which the matter has an effect on an entity's business model, strategy, **objectives, purpose**, or culture;
- the extent to which the matter has an effect on an entity's tangible assets, intangible assets or other sources of value, such as key stakeholder relationships (including any reputational risks) or other factors that may contribute to the entity's long-term success;
- the extent to which the matter could have an effect on an entity's market share or position in the market;
- the extent to which the matter constitutes a major issue facing the sector in which the entity operates; and
- the potential severity or frequency of impacts on the environment and society.

11.15 Disclosures should be entity-specific. The questions included below have been provided to help boards consider the types of issues which could be relevant to their business, and to encourage discussion on the types of disclosures that could be appropriate in relation to the specific matters stated in the Act. Questions for boards to consider include:

- *Environmental matters*: Is the entity's business model reliant on natural resources such as water, land or minerals? Does the use of these resources result in other secondary impacts on natural resources? What is the entity's impact on the environment? What are the pollution risks from the entity's activities? Will the entity's business be affected by climate change, either as a result of regulation or climate change affecting how the business can operate? What are the effects of an entity's activities on climate change?
- *Employees*: Is the entity's business model dependent on current employees' skills and experience? What is the composition of the workforce? Are there any risks associated with its employment model? How does the entity consider the interests of employees and maintain good employee relationships? What channels of communication are there with employees? Are there different approaches in different part of the world or at different levels of seniority?
- *Social and community⁸¹ matters*: Is the entity's business dependent on relationships with certain communities? Does the entity perform a strategically important role in society - by providing essential or critical services for example?

⁸¹ Community matters apply to quoted companies only.

- *Respect for human rights*: How does the entity's business model ensure protection of human rights? Where are the areas of risk to those rights? How does this vary in the different geographical locations in which the entity operates?
- *Anti-corruption and anti-bribery*.⁸² How does the entity's business model ensure adequate regard is given to anti-corruption and anti-bribery requirements? How does the entity's culture ensure that this is effective throughout the organisation? What are the areas of risk to the entity? How does this vary in the different geographical locations in which the entity operates and the different sectors in which it operates?

11.16 While the Act refers to employees, the changing nature of the workplace means that not all people who are working for an entity fall within the legal definition of an employee. Entities could broaden their disclosures to consider workforce issues more generally and not just limit information to those persons who have a contract of employment.

Impact – applies to PIEs with more than 500 employees

11.17 The impact of an entity's activities is the effect that it has externally. These impacts may pose threats to and provide opportunities for the success of the entity's business. Impacts may be positive or negative. A board should consider the impact of the entity's business on key stakeholders and society. **Material information** should be disclosed in relation to those matters and impacts which could affect the long-term success of the entity.

11.18 The impact of an entity's activities should be considered in the context of its business model and its ability to generate and preserve value over the long term. An entity should also consider whether the threats or opportunities are expected to change in the future, particularly when considering trends in the global regulatory environment and trends in societal expectations.

Policies

11.19 The description of the policies relating to the matters should be sufficient to understand the entity's approach to the matters stated. The policies and effectiveness or outcomes disclosures, together with the other information disclosed in respect of paragraph [11.8](#) or [11.10](#) above, should enable shareholders to understand the importance of the matter to the entity and the way in which an entity addresses those matters.

11.20 The description of each policy should be clear, concise and be proportionate to the risks posed and should only be provided when relevant.

11.21 When an entity's business model is dependent on the matters described in paragraph [11.8](#) or [11.10](#), or when there are principal risks posed in these areas, an entity may use KPIs to monitor its performance. In such circumstances, the most efficient way of communicating information on the effectiveness or the outcome of its policies on those matters could be through reference to those measures.

⁸² This applies to PIEs with more than 500 employees only.

Omission of policies, due diligence and outcomes – applies to PIEs with more than 500 employees

- 11.22 If an entity does not have a policy in place in relation to one of the matters, it must state that fact and explain why it is not considered relevant to have a policy.
- 11.23 The strategic report should include a description of any due diligence processes over relevant matters that an entity has in place to ensure that its policies relating to these matters are adhered to throughout the group, and, when appropriate, through its **value chain**.
- 11.24 It may be that an entity has a framework for managing a number of risks rather than specific processes relating to each policy area. In this case, the entity could describe its framework, how breaches of policy are identified, the escalation procedures relating to breaches of policy and the outcome of those escalation procedures.
- 11.25 Any disclosures relating to due diligence processes should be entity-specific and informative. Boilerplate disclosures are of limited use.
- 11.26 If the outcome of policies is measured by reference to a survey or other external evidence, the strategic report could **signpost** where this **complementary information** can be found. If information is derived from sources external to the entity, the strategic report could signpost these sources.

Examples



- 11.27 An entity may have a policy of not using suppliers that employ child labour. The due diligence process could be a rolling series of unannounced site visits to suppliers and the outcome of the policy could be stating whether any supplier contracts have been terminated as a result of failures.
- 11.28 Due diligence processes which may be necessary to ensure the entity's anti-bribery and anti-corruption policy is followed may differ from jurisdiction to jurisdiction if the risks of such behaviours vary. In such cases, the information disclosed should be sufficiently specific to enable shareholders and other **primary users** to understand the different risks posed by different parts of the entity's operations.

Non-financial and sustainability information statement

Summary of requirements



- 11.29 The non-financial and sustainability information statement must contain the following information. The section references indicate where guidance on each element can be found.
- (a) A brief description of the entity's business model ([Section 7](#));

- (b) Information, to the extent necessary for an understanding of the entity's development, performance and position and impact of its activity, relating to environmental matters, employees, social matters, respect for human rights and anti-corruption and anti-bribery matters ([Section 11](#));
- (c) A description of the policies pursued in relation to the matters and any due diligence process implemented in pursuance of those policies ([Section 11](#));
- (d) A description of the outcome of those policies ([Section 11](#));
- (e) If the entity does not pursue policies in relation to one or more of the matters, a clear and reasoned explanation for the entity's not doing so ([Section 11](#));
- (f) A description of the principal risks arising in relation to the matters arising in connection with the entity's operations, and where relevant and proportionate – a description of its business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and a description of how it manages the principal risks (Section 9);
- (g) A description of the non-financial key performance indicators relevant to the entity's business ([Section 8](#));
- (h) Where appropriate, references to, and additional explanations of, amounts included in the entity's annual accounts ([Section 8](#)); and
- (i) Climate-related financial disclosures ([Section 12](#)).

11.30 If an entity's strategic report is a group strategic report, the non-financial and sustainability information statement must be a group non-financial and sustainability information statement relating to the entities included in the consolidation.⁸³

11.31 For a financial year in which the entity is a subsidiary company, and the directors of its parent company prepare a group strategic report, including a group non-financial and sustainability information statement, there is no requirement for the subsidiary to provide a non-financial and sustainability information statement as part of its strategic report.⁸⁴

11.32 The Act requires the statement to be separately identifiable, but the information can be included in other parts of the strategic report and incorporated into the non-financial and sustainability information statement by **cross-reference**. Entities are encouraged to meet the requirements through a title and series of cross-references, so as to maintain the coherence of the strategic report. Entities are discouraged from duplicating information located elsewhere in the strategic report in the non-financial and sustainability information statement.

⁸³ Section 414CA(2) of the Act.

⁸⁴ Section 414CA(7) of the Act.

Breakdown of directors, senior managers and employees by sex

Summary of requirements



- 11.33 The strategic report for quoted companies must provide a breakdown showing, as at the end of the financial year:
- (a) the number of persons of each sex who were directors of the company;
 - (b) the number of persons of each sex who were senior managers of the company (other than persons falling within sub-paragraph (a)); and
 - (c) the number of persons of each sex who were employees of the company.⁸⁵
- 11.34 A 'senior manager' is an employee who has responsibility for planning, directing or controlling the activities of the entity or a strategically significant part of it. In the strategic report of a consolidated group, directors of subsidiary companies that are included in the consolidated financial statements are also considered 'senior managers'.⁸⁶
- 11.35 In referring to a 'strategically significant' part of an entity and by including directors of subsidiaries included in the consolidated financial statements, the definition of a 'senior manager' in paragraph [11.34](#) is wider than the definition of key management personnel in IAS 24 *Related Party Disclosures* and FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.
- 11.36 An entity might not consider that including all directors of all subsidiaries included in the consolidated financial statements in the statutory definition of 'senior managers' accurately reflects its executive pipeline. This may be the case, for instance, if a subsidiary is insignificant in the context of the group as a whole. In such cases, it may be appropriate to provide an enhanced analysis of the statutory 'senior manager' category. For example:

Example



	Male	Female
Directors of the company	x	x
Employees in other senior executive positions	x	x
Directors of subsidiary companies not included in the above	x	x
Total senior managers other than directors of the company	x	x
Other employees of the group	x	x

⁸⁵ Section 414C(8)(c) of the Act.

⁸⁶ Section 414C(9) and (10) of the Act.

11.37 When the strategic report includes an enhanced analysis such as that suggested in paragraph [11.36](#), a description of how employees included in any non-statutory category have been identified should be provided. Information on other executive pipeline or general employee diversity matters should also be provided if it is necessary to put the diversity statistics into context. While percentages of male and female directors and employees can be informative, numbers must also be provided.

12. Climate-related financial disclosures

Scope

12.1 The disclosures covered in this section apply as follows:

Disclosure	AIM company (>500 employees)	Certain LLPs (>500 employees)	High turnover company (>500 employees)	Public interest entity (>500 employees)
Non-financial and sustainability information statement	✓ ⁸⁷	-	✓ ⁸⁸	✓ ⁸⁷
Climate-related financial disclosures	✓ ⁸⁹	✓ ⁹⁰	✓ ⁸⁹	✓ ⁸⁹

Disclosure objectives

12.2 Climate-related financial disclosures help shareholders understand an entity's exposure to climate-related risks and opportunities that could affect the entity's **business model** and prospects, and how such risks and opportunities are being managed or realised.

⁸⁷ Section 414CA(A1), (1) and (4) of the Act.

⁸⁸ Section 414CA(1A) of the Act.

⁸⁹ Section 414CB(A1) and (2A) of the Act.

⁹⁰ *The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008* (SI 2008/1911) requires: LLPs with more than 500 employees and a turnover of more than £500 million to make these disclosures in the energy and carbon report, and traded and banking LLPs with more than 500 employees to make these disclosures in the strategic report.

Climate-related financial disclosures

Summary of requirements



- 12.3 The **non-financial and sustainability information statement** of companies that are within scope must contain the climate-related financial disclosures of the entity.⁹¹
- 12.4 The required disclosures are:⁹²
- (a) a description of the company's governance arrangements in relation to assessing and managing climate-related risks and opportunities;
 - (b) a description of how the company identifies, assesses, and manages climate-related risks and opportunities;
 - (c) a description of how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management process;
 - (d) a description of:
 - the principal climate-related risks and opportunities arising in connection with the company's operations, and
 - the time periods by reference to which those risks and opportunities are assessed;
 - (e) a description of the actual and potential **impacts** of the principal climate-related risks and opportunities on the company's business model and strategy;
 - (f) an analysis of the resilience of the company's business model and strategy, taking into consideration different climate-related scenarios;
 - (g) a description of the targets used by the company to manage climate-related risks and to realise climate-related opportunities and of performance against those targets; and
 - (h) a description of the **key performance indicators** (KPIs) used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and of the calculations on which those key performance indicators are based.
- 12.5 Guidance in the form of non-binding Q&A to support companies and **LLPs** in their application of these requirements has been prepared by BEIS (now DBT) and is available on its website through the following link: <https://www.gov.uk/government/publications/climate-related-financial-disclosures-for-companies-and-limited-liability-partnerships-llps>.

⁹¹ Section 414CB(A1) of the Act. LLPs within scope are required to provide these disclosures in an energy and carbon report or in the strategic report under *The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008* (SI 2008/1911).

⁹² Section 414CB(2A) of the Act.

- 12.6 Some entities may also report on climate-related matters to address other requirements (such as listing rules or requirements from other jurisdictions) or on a voluntary basis. Such entities may be required to or may choose to apply frameworks or standards that address climate-related financial disclosures. Reporting against other frameworks or standards can help entities provide the climate-related financial disclosures required by **the Act**, but entities must also comply with all specific legal requirements of the Act.
- 12.7 All material climate-related financial disclosures required by the Act must be included in the **annual report**. Entities could provide **cross-references** from the non-financial and sustainability information statement (or energy and carbon report) to disclosures provided elsewhere in the **strategic report** or annual report to maintain overall coherence. However, **signposting** to disclosures outside the annual report does not comply with the Act.
- 12.8 Disclosures should be entity-specific and should focus on climate-related risks and opportunities that are relevant to an understanding of the entity's business. When appropriate, disclosures could be linked to and consistent with related disclosures such as **principal risks**, **strategy**, business model, the **section 172(1) statement**, greenhouse gas emissions disclosures and other KPIs. In addition, entities should consider explaining any significant financial statements effects of climate-related risks and opportunities and the entity's strategies for addressing them.

Omission of climate-related financial disclosures

Summary of requirements



- 12.9 Where the directors of a company reasonably believe that, having regard to the nature of the company's business, and the manner in which it is carried on, the whole or a part of a climate-related financial disclosure required by section 414CB(2A)(e), (f), (g) or (h) is not necessary for an understanding of the company's business, the directors may omit the whole or (as the case requires) the relevant part of that climate-related financial disclosure.⁹³
- 12.10 Where the directors omit the whole or part of a climate-related financial disclosure in reliance on section 414CB(4A), the non-financial and sustainability information statement must provide a clear and reasoned explanation of the directors' reasonable belief.⁹⁴

⁹³ Section 414CB(4A) of the Act.

⁹⁴ Section 414CB(4B) of the Act.

Appendices

A. Glossary

Term	Meaning
the Act	The Companies Act 2006.
annual report	For the purposes of the Guidance, the annual accounts and reports that members of the company are entitled to receive under section 423 of the Act .
Alternative Investment Market (AIM)	The London Stock Exchange's market for small and medium-size growth companies.
banking company	An entity that has permission under Part 4A of the <i>Financial Services and Markets Act 2000</i> (c8) to accept deposits. Defined in sections 1164(2) and (3) of the Act.
business model	How the entity generates or preserves value over the long term. ⁹⁵
complementary information	Complementary information is information that is relevant to shareholders but is not necessary to effectively communicate the information that is required by law or regulation. Complementary information can be more detailed information or additional voluntary information (e.g. a five-year summary or a glossary).
components	The distinct reports and other sections that are required to be included in the annual report by law or regulation (e.g. the strategic report , the directors' report , the corporate governance report, the directors' remuneration report and the financial statements).
cross-referencing	A means by which an item of information, which has been disclosed in one component of an annual report, can be included as an integral part of another component of the annual report. A

⁹⁵ The Code, Provision 1.

Term	Meaning
	cross-reference should specifically identify the nature and location of the information to which it relates in order for the disclosure requirements of a component to be met through the relocated information. A component is not complete without the information to which it cross-references. Cross-referenced information must be located within the annual report. Cross-referencing is different to signposting .
the Code	<i>UK Corporate Governance Code 2024.</i>
directors' report	The report that is required by section 415 of the Act which incorporates the disclosures specified by the Act and its associated regulations.
DTR	The Financial Conduct Authority's Disclosure Guidance and Transparency Rules.
due diligence	The work undertaken to ensure that an entity's policies are being adhered to.
emerging risk	A risk whose impact and probability are difficult to assess and quantify at present, but which could affect the entity in the future.
high turnover company	As set out in section 414CA(2A) of the Act, a company with turnover in that financial year of more than £500 million, or aggregate turnover of more than £500 million net by a group headed by the company if the company was a parent company at any time within that financial year.
impact	The impact that the entity's operations have on stakeholders and the outside world.
insurance company	An authorised insurance company – an entity which has permission under Part 4A of the <i>Financial Services and Markets Act 2000</i> (c8) to effect or carry out contracts of insurance (section 1165(2) of the Act).

Term	Meaning
	A company carrying on insurance market activity or who may effect or carry out certain contracts of insurance, as defined in section 316(3) of the <i>Financial Services and Markets Act 2000</i> (sections 1165(3), (7) and (8) of the Act).
key performance indicators (KPIs)	Quantitative measures used by directors to assess progress against objectives or strategy , track principal risks , or otherwise monitor the development, performance or position of the business.
large company	A company that does not qualify as medium-sized under section 465 of the Act or is excluded from being treated as medium-sized under section 467 of the Act.
limited liability partnership (LLP)	A body corporate (with legal personality separate from that of its members) which is formed by being incorporated under the <i>Limited Liability Partnerships Act 2000</i> .
UKLR	The Financial Conduct Authority's UK Listing Rules.
material information (in the context of the strategic report)	Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the shareholders and other primary users take on the basis of the annual report as a whole, which includes the strategic report.
medium-sized company	A company meeting the medium-sized company size threshold and eligibility conditions, as set out in sections 465-467 of the Act.
non-financial and sustainability information statement	The statement required by section 414CA of the Act, which is part of the strategic report, that includes non-financial and sustainability information.
objective	A specific aim that the entity wishes to achieve.
primary users	Existing and potential investors, lenders and other creditors.

Term	Meaning
principal risk	Includes but is not necessarily limited to those risks that could result in events or circumstances that might threaten the entity's business model , future performance, solvency or liquidity and reputation.
public interest entity (PIE)	As set out in section 414CA(1) of the Act, a UK traded, banking or insurance entity.
purpose	Why an entity exists.
quoted company	As set out in section 385 of the Act, a company whose equity share capital has been included in the official list in accordance with the provisions of Part 6 of the <i>Financial Services and Markets Act 2000</i> ; or is officially listed in an EEA State; or is admitted to dealing on either the New York Stock Exchange or the exchange known as Nasdaq.
section 172(1) statement	The statement required by section 414CZA of the Act which is part of the strategic report.
signposting	A means by which a shareholder's attention can be drawn to complementary information that is related to a matter disclosed in a component of the annual report. A component must meet its legal and regulatory requirements without reference to signposted information. Signposts should make clear that the complementary information does not form part of the component from which it is signposted. Signposted information may be located either within or separately from the annual report. Signposting is different to cross-referencing .
small company	A company that meets the small company size threshold and eligibility conditions, as set out in sections 381-384 of the Act.
strategic report	The report, required by section 414A of the Act, which provides shareholders of the company with the ability to assess how the directors have performed their duty under section 172 (duty to promote the success of the company).

Term	Meaning
strategy	A plan or approach which is intended to help the entity achieve an objective.
traded company	A company with transferable securities admitted to trading on a UK regulated market (section 474(1) of the Act).
value chain	The interactions, resources and relationships related to an entity's business model and the external environment in which it operates.

B. Strategic report with supplementary material

Summary of requirements



- B.1 Section 426 of **the Act** allows a company, in certain circumstances, to send its members the **strategic report** with supplementary material instead of the full **annual report**. The supplementary material, which is specified in section 426A of the Act, includes information on the audit report issued on the annual accounts and, in the case of a **quoted company**, limited extracts from the directors' remuneration report.
- B.2 When this statutory option is taken, the Act requires a complete strategic report to be sent to the company's members. Compliance with the law would not be achieved if the members were sent a summarised version of, or selected extracts from, the strategic report that is included in the company's annual report.
- B.3 Similarly, disclosures that are included in the strategic report by **cross-reference** to another part of the annual report must also be sent to members along with the main body of the strategic report in order to comply with the law.

Example



- B.4 A quoted company has chosen to present the strategic report's quantitative employee gender diversity disclosures alongside the description of the board's policy on diversity, its objectives for implementing the policy and its progress on achieving those objectives, which are included in the company's corporate governance report. It has included a cross-reference to these quantitative disclosures in the company's strategic report in order for it to meet the requirements of section 414C(8)(c) of the Act. If the company wishes to take the option to send its members the strategic report and supplementary material instead of the full annual report, it must ensure that the quantitative employee gender diversity disclosures form part of the supplementary material that is sent with the main body of the strategic report.
- B.5 The strategic report could **signpost** or otherwise refer to **complementary information** presented elsewhere in the annual report. This signposting could include a reference to a page number in the full annual report. When the directors have chosen to prepare a strategic report with supplementary material, they may need to draw attention to the fact that this information is not included as part of the document that has been issued.
- B.6 While there is no requirement to include any supplementary information other than that specified under section 426A of the Act under this statutory option, a company may include additional extracts from, or summaries of, information contained in the full annual report, if the directors consider it appropriate. The nature and extent of these extracts will vary from company to company and will depend on the information needs of the company's members and the nature and format of the information already included in the strategic report.

Basis for Conclusions

1. This Basis for Conclusions accompanies, but is not part of, the *Guidance on the Strategic Report* (the Guidance) and summarises the main issues that have been considered by the FRC in developing the Guidance.
2. Feedback from the Exposure Drafts and other consultation and stakeholder engagement activities has been considered in the development of the Guidance. Detailed feedback statements to all consultations are available on the FRC website. The table at the end of this Basis for Conclusions sets out the relevant Exposure Drafts along with the corresponding publications in which those consultations were finalised.
3. The Basis for Conclusions reflects considerations relevant to the structure and content of the 2026 edition of the Guidance. Issues specific to previous editions are addressed in the Basis for Conclusions that accompanies previous editions of the Guidance.

Development of the Guidance

4. The Department for Business, Innovation and Skills (BIS) (now the Department for Business and Trade (DBT)) asked the FRC to develop non-mandatory guidance on the application of the strategic report requirements introduced into the Act by *The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013* (SI 2013/1970).
5. The Guidance was first issued in August 2014 and replaced the Accounting Standards Board's *Reporting Statement: Operating and Financial Review*. The Guidance drew on, but was not bound by, the earlier guidance.
6. In July 2018, the Guidance was updated to reflect the new requirements introduced into the Act by *The Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016* (SI 2016/1245) (the NFR Regulations) and *The Companies (Miscellaneous Reporting) Regulations 2018* (SI 2018/860) which included legislative requirements on reporting on section 172 of the Act. The FRC received positive feedback from stakeholders that the 2014 Guidance was a helpful document, therefore no fundamental review of the Guidance was undertaken as part of the 2018 update. The 2018 update focused on:
 - (a) incorporating the new requirements introduced by the NFR Regulations and the section 172 reporting legislation;
 - (b) strengthening the link between directors' section 172 duties and the strategic report; and
 - (c) reflecting changes in practice and other developments which had occurred since the 2014 Guidance was published.
7. The UK implementation of the EU Non-Financial Reporting Directive (NFRD) resulted in two sets of similar legal requirements for the strategic report, but with some key differences, that

apply to different types of entity. This created additional complexity in the reporting framework.

8. In June 2022, amendments were made to the Guidance to reflect the changes introduced by *The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022* (SI 2022/31); and *The Limited Liability Partnerships (Climate-related Financial Disclosure) Regulations 2022* (SI 2022/46) which introduced mandatory climate-related financial disclosures for certain entities including public interest entities, large private companies and LLPs. These disclosures must be made in the non-financial information statement, renamed the 'non-financial and sustainability information statement' to recognise its expanded scope. LLPs that do not prepare a strategic report can make the disclosures in the Energy and Carbon Report which forms part of their annual report.
9. The 2022 revision also:
 - (a) reflected the amendments to *The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008* (SI 2008/1911) introduced by *The Statutory Auditors Regulations 2017* (SI 2017/1164), which require a traded LLP or banking LLP to prepare a strategic report; and
 - (b) revised the definition of a public interest entity (PIE) to align it to the existing definition in the legislation.
10. In February 2026, the FRC updated the Guidance after completing the first comprehensive review of the Guidance since it was first issued in 2014. This review was performed in the context of an expectation that further changes to the Guidance are likely to be necessary to reflect changes to the reporting framework as a result of the *Modernising Corporate Reporting* programme announced by the Government in October 2025⁹⁶. Limited amendments were made as part of this interim update to:
 - (a) reflect changes in corporate reporting practice and other developments in the wider corporate reporting framework, such as developments in sustainability-related reporting and the International Accounting Standards Board's (IASB)'s revised IFRS Practice Statement 1 *Management Commentary*. This included refreshing the communication principles, guidance on materiality and some of the examples provided in the guidance, as well as limited updates to good practice guidance relating to the content elements of the strategic report;
 - (b) align the guidance with the *UK Corporate Governance Code 2024* (the Code) and related guidance;
 - (c) reflect the changes introduced by *The Companies (Accounts and Reports) (Amendment and Transitional Provision) Regulations 2024* (SI 2024/1303) which removed certain disclosure requirements from the directors' report, and *The Companies Directors' Report (Payment Reporting) Regulations 2025* (SI 2025/1152) which introduced a requirement for

⁹⁶ [Written statements - Written questions, answers and statements - UK Parliament](#)

large companies to report on supplier payment practices and performance in the directors' report;

- (d) reframe the status of the Guidance as non-mandatory good practice guidance rather than a best practice statement. This included removing recommendations that certain disclosures be included in all strategic reports if material, regardless of scoping, and emphasising the importance of proportionate application of the legal and regulatory requirements as appropriate to an entity's specific circumstances. Mandatory requirements are clearly indicated and distinguished from good practice guidance;
- (e) improve the structure and accessibility of the Guidance. The Guidance is now structured into separate sections addressing general principles and content requirements in the strategic report, rather than separate sections for different types of entities. Updated versions of the scoping tables, that were previously included as appendices, have been published separately on the FRC website.

11. In developing the Guidance, the FRC was mindful of developments in 'integrated reporting' and other international developments in narrative reporting. In contrast to an integrated report, the strategic report is required as part of the annual report in the UK, with its purpose and content largely determined by legislation. This fact notwithstanding, the *Integrated Reporting Framework* (now maintained by the IFRS Foundation) and the Guidance encourage similar qualitative characteristics and content. At the time of the 2026 update to the Guidance, it was also broadly consistent with the guidance in the IASB's revised IFRS Practice Statement 1 *Management Commentary*. In developing the 2026 Guidance, the FRC has also considered developments in sustainability reporting standards, including the IFRS Sustainability Disclosure Standards issued by the International Sustainability Standards Board (ISSB) and the UK Sustainability Reporting Standards (UK SRS) that are expected to be made available in 2026.

Purpose and objectives of the Guidance

12. The Guidance is framed as non-mandatory good practice guidance that supports entities in addressing their reporting obligations relating to strategic reports in a way that is proportionate and supports high-quality reporting. The Guidance encourages appropriate judgement in the application of legal and regulatory disclosure requirements to the entity's specific circumstances so that disclosures in the strategic report are proportionate to the size, complexity and particular circumstances of the entity. It is not intended to be authoritative or prescriptive.
13. The objectives of the Guidance are to ensure that strategic reports (and annual reports more generally):
- (a) are focused on the needs of shareholders and other primary users;
 - (b) tell a cohesive story of the business; and
 - (c) make full use of the flexibility that exists within the regulatory framework.

Scope

14. The Guidance is intended for all entities preparing strategic reports and should be applied proportionately.
15. The FRC saw the introduction of the strategic report as an opportunity to make the annual report a more cohesive document; this could only be achieved by setting the strategic report in the context of the annual report as a whole. Therefore, the scope of the Guidance goes beyond just the strategic report, to provide communication principles and emphasise linkages between the strategic report and other parts of the annual report.
16. Respondents to previous Exposure Drafts expressed a concern that the Guidance was principally aimed at quoted companies and noted a need for the scope of the legislative requirements for different types of entities to be clear within the Guidance, particularly in light of the different scoping requirements in the NFR Regulations. They noted that the majority of entities preparing a strategic report would not be quoted companies and, as such, would not be required by law to provide all content elements drawn from the Act. They also noted that relatively few entities preparing a strategic report would be within the scope of the Code from which, for example, the term 'fair, balanced and understandable' has been drawn.
17. In light of such concerns, the FRC structured previous editions of the Guidance to include separate sections addressing the content elements applicable to different types of entities and separately highlighted requirements that apply to quoted companies only with icons. The FRC noted that the different categories of entity set out in the Act are not mutually exclusive. Therefore, it is not possible to structure the Guidance simply on the basis of whether an entity is quoted or unquoted. Previous editions of the Guidance also included Appendices II, III, IV(a) and IV(b) which explained the application of the strategic report, directors' report, and energy and carbon report (for LLPs) disclosure requirements to different types of entity.
18. As part of the 2026 update, the FRC revised the structure of the Guidance and how the scope of legislative requirements is indicated to support proportionate application, remove duplication, make the Guidance easier to navigate and easier to update for future changes to the framework. Amendments were made to:
 - (a) structure sections addressing content elements thematically rather than by entity type;
 - (b) remove the detailed scoping tables for legislative requirements previously included as appendices. Revised versions of these tables are now published separately on the FRC website, which allows for timely updates when thresholds or reporting requirements change; and
 - (c) reorganise the sections on content elements to include: a table summarising the scope of disclosure requirements addressed; disclosure objectives; and legal requirements and Code provisions in boxed text so that they are clearly distinguished from good practice

guidance. The source references for requirements drawn from the Act, its regulations or the Code are set out in footnotes.

The annual report

19. To set the Guidance in context, it is necessary to understand the purpose of the annual report and its intended audience.

The purpose of the annual report

20. In order to ensure that the annual report is relevant, concise and understandable, it is essential for there to be clarity around both its purpose and primary audience. Therefore, in line with the Act, the annual report should be primarily for shareholders.
21. Section 414C(1) of the Act states that the legal addressees of the strategic report are the members of the company. In consequence, paragraph [2.2](#) acknowledges that the strategic report provides information to meet their needs (members are referred to in the Guidance as the 'shareholders'). However, the FRC believes that the needs of a wider investor group, other than just current shareholders, should be borne in mind when the annual report is being drafted; preparers should also consider the needs of other existing investors (including debt investors) and potential investors. The 2026 Guidance refers to this wider audience as 'primary users' defined as existing and potential investors, lenders and other creditors. The Guidance generally uses the term shareholders when referring to the target audience for the annual report unless the term 'shareholders and other primary users' is considered more appropriate in a particular context.
22. Paragraph [2.4](#) acknowledges the fact that information in the annual report may also be of interest to users other than investors. However, the annual report should not seek to address the needs of these other stakeholders, unless that information is also material to shareholders. The Guidance makes clear that the annual report should not be seen as a replacement for other forms of communication addressed to other stakeholders. Information that is more specialised or detailed than is necessary to meet the requirements of law or regulation can be provided elsewhere and signposted from the annual report.
23. For the avoidance of doubt, when information is not material for shareholders or other primary users, it should be excluded from the annual report, except when law or regulation requires disclosure regardless of materiality.

Components of the annual report

24. Table 1 in the Guidance clarifies the objectives of each component of the annual report. By clarifying the objectives of each of these components, preparers are better able to make judgements regarding where and how information should be presented.
25. In developing the objectives set out in Table 1 of the Guidance, the FRC built on concepts that had already been developed by the FRC or the IASB. Therefore, the purpose of the

annual report is as set out in the FRC's 2009 Discussion Paper *Louder than Words* and is consistent with the IASB's objective of financial reporting as set out in its *Conceptual Framework for Financial Reporting*.

26. The objectives for the directors' remuneration section were based on Directors' Pay: Consultation on revised remuneration reporting regulations issued by BIS (now DBT) in June 2012.
27. A risk associated with a graphical representation of an annual report, or indeed any systematic description of the components and purpose of an annual report, is that it implies a desired or preferred structure for all annual reports. This was not the FRC's intention. The FRC believes that it is important that an annual report is drafted and structured in such a way that, as well as being compliant with all the relevant laws and regulations, it is fair, balanced and understandable. Entities are encouraged to consider and challenge the 'traditional' structure of the annual report with an objective of organising information so as to improve its understandability and accessibility.
28. During the development of the 2018 Guidance, respondents noted that Table 1 in the Guidance did not include a chair's statement. Similarly, it did not include the audit committee report or nomination committee report as separate components. Other respondents thought that the table should include the financial highlights, a chief executive officer's report, or a sustainability report, all of which are commonly found in annual reports in practice.
29. The FRC noted that the table was intended to show the minimum requirements for reports set out in law and regulation, and that the inclusion of these other items might result in a greater risk that entities would see it as being more structurally prescriptive than was intended.
30. As part of the 2026 update, the objectives and source information in Table 1 were reviewed, with wording condensed to focus on the higher-level objectives of each component rather than specific content, and the table was split into two separate tables to enhance accessibility.

The strategic report

31. The purpose of the strategic report is to inform members of the company and to help them assess how the directors have performed their duty under section 172 of the Act.
32. When developing the first edition of the Guidance, the FRC was made aware of a commonly held misconception that the strategic report would be an additional higher-level summary of information contained within the annual report; that it would contain only 'strategically important' information which may be of a different level of materiality or importance to the information formerly included in the business review. However, the purpose and required content of the strategic report, as it is described in the Act, does not differ significantly from that of the business review which it replaced.

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33. The five content-related objectives of the strategic report, as set out in paragraph [3.13](#), ensure that the purpose of the strategic report, as defined by the Act, is met. In meeting these objectives, the strategic report will contribute to the overall objectives of the annual report which are to provide information that is useful for making resource allocation decisions and for assessing management's stewardship. During the 2026 update the FRC added wording to paragraph [3.13](#) to emphasise proportionality and clarify that the extent of reporting against each of the five-content related objectives depends on scoping and materiality to the entity.
 34. As part of the 2018 update, the guidance about the purpose of the strategic report was amended to refer to section 172 of the Act and to recognise that disclosure of information additional to that prescribed by the Act may be necessary in some cases to ensure that the strategic report meets its overall purpose.
 35. In light of concerns that entities were focused too much on short-term profits, to the potential detriment of long-term success, amendments were made in the 2018 Guidance to encourage entities to focus on and disclose the factors which are important to long-term value generation, and to recognise the importance of considering the interests of and maintaining relationships with key stakeholders as part of this.
 36. The FRC recognises the growing divergence between sources of value in an entity and the assets which are recognised on an entity's balance sheet. The strategic report should provide a narrative of how an entity generates value, which could also include, when necessary, those sources of value which are not recognised assets in the balance sheet.

Placement of information

37. The 2026 Guidance includes a separate section that brings together all guidance relating to the placement of information, cross-referencing and signposting, which is intended to encourage cohesive and concise reporting of material information without undue duplication.
38. The FRC would like to encourage a flexible approach for placement of information in the annual report and its components to facilitate the effective communication of information. The most appropriate structure for effective communication is a matter of judgement based on the entity's facts and circumstances and the directors' assessment of the needs of its shareholders and other primary users.
39. The FRC considers that one role of the strategic report is to be an aid to navigation around the myriad of corporate information that is available about an entity. The FRC believes that signposting from the strategic report should facilitate 'drill-down' to further detail elsewhere in the annual report and beyond, while maintaining the focus of the strategic report on material information about strategic matters.
40. Directors may wish to communicate more detailed, complementary information related to a matter in the strategic report, which is not required to be disclosed in the strategic report by

law or regulation but would be useful for some users of the annual report. If the directors judge that the level of detail would inhibit the effective communication of material information to shareholders and other primary users, usually the most appropriate way of communicating that information is outside the annual report (e.g. on the website). If such complementary information is included in the annual report, it could be included in a separate, non-mandatory component of the annual report, so that it does not detract from the effective communication of the information that the directors consider to be most relevant and material to shareholders.

Communication principles

41. The communication principles in [Section 5](#) of the Guidance were originally drafted to provide guidance on qualitative characteristics that are specific to the strategic report, but it was noted that they would also be relevant in the drafting of the annual report as a whole. The qualities described were generally those which were highlighted as desirable by investors, although in some cases, the qualities also had a legal or regulatory source.
42. As part of the 2026 revision, the FRC updated the communication principles to apply to the annual report as a whole in order to emphasise the importance of a cohesive annual report. The FRC was mindful of developments in similar principles included in accounting standards, the IASB's revised IFRS Practice Statement 1 *Management Commentary*, and sustainability reporting standards and frameworks. The principles were aligned with other key sources relevant for UK entities, including the FRC's 2022 report *What Makes a Good Annual Report and Accounts*. Additional principles were added referring to comparability, accessibility and verifiability.
43. The Code requires the annual report as a whole to be fair, balanced and understandable. Although the Act requires the strategic report to be both fair and balanced, there is no similarly direct requirement for it also to be understandable. The FRC considers that the strategic report section must have those same characteristics as the annual report as a whole and therefore must also be understandable. The FRC considers this an appropriate principle for all entities preparing strategic reports, not only those that apply the Code.
44. A reference to 'comprehensive' was included because it is an explicit requirement of the Act. Its inclusion does not conflict with the recommendation that the strategic report should also be concise as the FRC has interpreted 'comprehensive' to be a function of the breadth rather than depth of information. The depth of information on any subject should be a function of materiality, which is considered in [Section 6](#) of the Guidance.
45. 'Fair, balanced and understandable' incorporates the 'clear and concise' concept because an understandable annual report is one that is clear and concise. The Guidance explains what fair means, including in the context of forward-looking and non-financial information which might involve more estimation and judgement.
46. The Guidance makes reference to the short, medium and long term to indicate that the strategic report should not concentrate solely on a single timeframe (e.g. it should not just

consider the short term). Information in the strategic report should not necessarily be categorised or organised in this way, although the timescale associated with a particular fact or circumstance may be relevant information to disclose.

47. Effective linkage enhances the usefulness of related matters and individual pieces of information in an annual report and increases their relevance to investors. The FRC considers that 'linkage' is a key quality for investors. In developing the 2026 Guidance, the FRC considered developments in corporate reporting relating to 'connectivity', 'coherence' and 'integration' in reporting and as a result expanded the concept of 'linkage' in the Guidance to explain the importance of consistency and explaining any differences when linkages arise. Linkage examples are provided in the content sections of the Guidance for entities to consider. However, the FRC does not expect entities to link all related matters and pieces of information in the annual report; the focus should be on those that are most important for an understanding of the business.
48. A revised principle on relevance recommends that entities should only include information in the annual report and strategic report that is relevant to shareholders and other primary users, and consistent with the purposes and objectives of those reports. It is noted that in some cases law or regulation requires information to be disclosed regardless of relevance or materiality. The Guidance recommends an annual review of the content of disclosures in the strategic report. This annual review process will ensure that the information remains relevant for the current year.
49. It is important that shareholders are able to make comparisons between information in the annual report and similar information provided by the entity in previous periods, as well as similar information provided by other entities. Consistency in structure, presentation and content in the annual report from year to year supports comparability and makes information more useful to shareholders. However, the intention is not to discourage improvements in communicating information that is more relevant and understandable. The FRC also notes that there is an inherent tension in providing information that is both entity-specific and comparable with other entities.
50. A principle on 'accessibility' encourages entities to make the annual report easy to locate and navigate so that shareholders can find the information they require. Annual reports are increasingly distributed to and consumed by shareholders in a digital format (e.g. as PDF files, in web-enabled formats or as digitally-tagged iXBRL files) which can be an important consideration for the effective communication of information in annual reports.
51. Shareholders have greater confidence in information that is verifiable. Providing information about inputs, sources and calculation methods of information helps shareholders corroborate information. In some circumstances material information in the annual report may not be verifiable but may be supported by appropriate descriptions and supporting factors.

Materiality

52. The application of the concept of materiality is a key matter for the strategic report. The inclusion in the strategic report of narrative information that is not material to shareholders or other primary users, and is not otherwise required by law or regulation, is considered a key driver of 'clutter.' In addressing materiality in a separate section, as well as embedding references within other sections, the Guidance reinforces the importance of the application of materiality in the context of the strategic report.
53. While the introduction of the requirements for a strategic report into the Act in 2013 represented only a relatively modest change to the pre-existing legal requirements, the FRC hoped that they might act as a catalyst for entities to revisit their policies and practices with a view to preparing relevant and focused annual reports. The section on materiality provides guidance on the level of detail that should be included in the strategic report.
54. Respondents who commented on the Exposure Drafts were generally supportive of the approach taken to the application of materiality. Some respondents to the 2013 Exposure Draft suggested that the proposed concept of materiality was too narrow. Some respondents were of the view that the role of the strategic report is to report on the matters outlined in section 172 of the Act and that the application of materiality should go beyond the needs of shareholders. At the time, BIS (now DBT) confirmed to the FRC that the concept of materiality as set out in the Guidance is consistent with the Act. This has since been clarified further with the introduction of the section 172(1) statement and the non-financial and sustainability information statement as discussed in paragraph [78](#) of this Basis for Conclusions.
55. Several respondents also requested additional guidance on the application of the concept of materiality in the strategic report, with some respondents suggesting the inclusion of material taken from UK GAAP, IFRS Accounting Standards and auditing standards. While sympathetic to the call for greater guidance on the application of materiality in the context of the strategic report, amendments to the Guidance were limited to the clarification of a relatively small number of specific application points raised by the respondents.
56. The materiality principle in the Guidance is based on accounting standards and is a concept that is well understood. Since the Guidance was first published in 2014, the IASB has revised its definition. This included the addition of the phrase 'reasonably be expected to' and 'obscuring' which were reflected in the 2018 Guidance. As part of the 2026 update, a revised definition of 'material information' was included in the Guidance consistent with the definition in accounting standards and other IFRS Foundation materials, including the IASB's revised IFRS Practice Statement 1 *Management Commentary*. The FRC does not expect the revised definition to result in significantly different materiality judgements in practice as the key concepts were already included in the principles of the Guidance. As a result of the revised definition, the Guidance uses the term 'material' in the context of 'material information' rather than material matters or risks. Guidance was also added to support the

process for making materiality judgements, and the aggregation and disaggregation of information.

57. The FRC considers that it is important to emphasise the importance of qualitative as well as quantitative factors in assessing materiality for the purpose of including information in the strategic report, particularly in respect of non-financial and sustainability information. In addition, different time periods may need consideration compared to the financial statements.
58. The FRC believes that it is important to provide clarity on the terms used in the Act which are similar in concept to materiality. Entities should apply these terms as a filter to determine the appropriate level of information that is needed for the specific disclosures in the Act.

The strategic report: content

59. The content elements in the Guidance closely follow the legal requirements and any relevant Code provisions, which are set out in 'summary of requirement' boxed text. These content elements are supplemented with supporting guidance that describes the nature of information that the FRC believes should be considered for disclosure in respect of each requirement.
60. The FRC wished to provide some guidance on how information might be presented in the strategic report without being too prescriptive regarding its structure or content. It sought to achieve this by including examples of the way in which the content elements might be disclosed, combined or interact with each other throughout the Guidance.
61. The FRC considered different methods for structuring the content in [Sections 7 to 12](#), in particular the content in [Sections 11 and 12](#) relating to non-financial and sustainability related information. The strategic report requirements in the Act are complex and different disclosures apply to different types of entity. In addition, the scoping categories used in the Act are not mutually exclusive.
62. As part of the 2026 revisions, the content elements of the Guidance were restructured thematically by content area rather than by type of entity (which was the approach in the 2018 and 2022 editions of the Guidance). This was intended to reduce duplication, make the Guidance easier to navigate, and also easier to adapt to future changes in scope or disclosure requirements.
63. [Sections 7 to 12](#) on the content elements of the strategic report include a table summarising the scope of the disclosure requirements addressed in that section, disclosure objectives explaining why shareholders are interested in that information, legal requirements and Code provisions in boxed text, following by good practice guidance and any examples.

Strategy business model, and trends and factors

64. Provision 1 of the Code describes a business model as ‘the basis on which the company generates or preserves value over the long term’. The definition used in the Guidance is consistent with the Code.
65. During the development of the Guidance, preparers and investors indicated that it was important that the description of the business model explained how the entity differs from its competitors. It is important for investors to understand how the value generated by the business activities was captured and converted into financial benefits. This quality of a business model description was added into the content element guidance.
66. It was acknowledged that different businesses use different terms for objectives, strategy and business model. In addition, distinguishing between these concepts is challenging and reaching a consensus on how they should be differentiated is difficult, as they are inextricably linked. However, despite some respondents suggesting that these concepts be approached as a single requirement, the FRC concluded that the approach proposed in the 2013 Exposure Draft be retained so that the concepts were defined and described separately. In reaching this decision, it was noted that stakeholders believed this would be an area that would be difficult to apply and further guidance would be helpful. The Act treats strategy and business model as separate concepts.
67. Although the Act, and this Guidance, deals first with strategy and then with the business model, entities could apply a different order to these concepts when presenting this information in their annual report. Other definitions or terminology can be used in the strategic report.
68. As part of the 2018 amendments to the Guidance, the FRC added the concept of the purpose of an entity to encourage entities to put discussions relating to objectives, business model and strategy into context.
69. The amendments placed greater emphasis on value in the business model with a view to encouraging entities to consider the broader sources of value that contribute to the long-term success of the business. These could include intangible assets and relationships with key stakeholders.

Business performance and position

70. As part of the 2026 update, it was noted that IFRS 18 *Presentation and Disclosure in Financial Statements* introduced a new concept of ‘management performance measures’ (MPMs) with additional disclosure requirements in the financial statements. The FRC considered whether to make changes to the Guidance in relation to alternative performance measures (APMs) which might overlap with the new MPM disclosures. The FRC decided not to do so until IFRS 18 has been implemented in the UK and any changes in reporting practices relating to APMs can be observed.

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71. The Guidance refers to the European Securities and Markets Authority's (ESMA) *Guidelines on Alternative Performance Measures*. The 2026 Guidance notes that following the UK's exit from the EU, the ESMA guidelines continue to be referenced in the Financial Conduct Authority's rules and they continue to reflect good practice for UK entities reporting APMs.

Principal risks and uncertainties

72. The definition of a principal risk, and the language used in the Guidance, was originally developed taking into account the FRC's review of its guidance on risks and going concern arising from the Sharman Inquiry.
73. The 2026 update aligned the Guidance with the revised 2024 Code. As a result, the definition of a principal risk was revised to be consistent with the Code definition. The FRC considers that the previous definition was substantively aligned with the Code and does not expect the revised definition to change judgements in identifying principal risks. Emerging risks were also added to the Guidance.
74. Taking decisions on how a company should approach the principal risks it faces is a fundamental role of a director. Information on how the principal risks are managed is therefore important to shareholders when making resource allocation decisions and assessing management's stewardship. Consequently, the FRC concluded that such information should be included in the strategic report. When a company has a non-UK listing (e.g. on the New York Stock Exchange or Nasdaq), directors will need to consider the regulatory requirements in those jurisdictions before including this information in their overseas filings.
75. The 2018 amendments enhanced the Guidance on risk reporting, particularly relating to non-financial matters. The FRC was mindful at that time of the Task Force for Climate Related Financial Disclosures recommendations and encouraged entities to consider climate-related risks as part of their assessment of principal risks and reporting on these matters when material. Mandatory climate-related financial disclosures were introduced in 2022 for some entities (covered in [Section 12](#) of the Guidance), but entities not subject to those requirements should continue to consider such risks when assessing principal risks.

Section 172 reporting

76. The guidance on section 172 reporting is based on the legislative requirement and incorporates key aspects of the BEIS (now DBT) Frequently Asked Questions relating to *The Companies (Miscellaneous Reporting) Regulations 2018* (SI 2018/860). The Guidance includes some broad principles for reporting relating to the long-term success of the business, principal decisions of the board and stakeholder engagement.
77. The Guidance also encourages entities to consider in the context of their section 172 reporting whether disclosures relating to capital allocation, dividend policy and value generation would be informative.

Environmental, employee, social, community, human rights, anti-corruption and anti-bribery matters, and climate-related financial disclosures

78. The guidance relating to the NFR Regulations and climate-related financial disclosures were drafted within the existing legislative framework for the strategic report. The FRC carefully considered the interpretation of the EU and UK legislative provisions and applied the following principles:
- The purpose of the annual report and accounts, under the Act, is to report to members of the company. The purpose of the strategic report, as set out in section 414C(1) of the Act, is to inform members of the company and help them assess how the directors have performed their duty under section 172 of the Act. Therefore, the information in the strategic report is primarily for shareholders. However, in meeting the needs of shareholders, the information is also likely to be useful to other stakeholders.
 - Non-financial information should only be disclosed when it is necessary for an understanding of the entity's development, performance and position and the impact of its activity.
 - The non-financial and sustainability information statement is part of the strategic report and the new requirements should be read within that broader context.
 - It follows, for example, that the assessment of principal risks relating to non-financial matters should form part of the overall review of principal risks to the business as whole.
79. The FRC encourages integration of non-financial and sustainability matters within the strategic report. However, the legislation requires that the climate-related financial disclosures and the disclosures required by the NFR Regulations be included in a separately identifiable statement. The Guidance reflects this requirement, while also noting that the information can be included in the statement by cross-referencing to other parts of the strategic report.
80. As part of the 2018 amendments, the FRC decided to enhance the Guidance in respect of reporting on broader environmental, employee, social, community, human rights, anti-corruption and anti-bribery matters. This was in part driven by the NFR Regulations but also to reflect the increasing interest by investors in this area.
81. The FRC believes that it is important for this information to be considered in the broader context of the entity's business model and that this information should be linked to other disclosures in the strategic report.
82. The Guidance was expanded to include the factors that boards should consider in relation to the broader matters.
83. In the 2026 Guidance [Section 11](#) now covers content for both quoted companies and entities within the scope of the NFR Regulations. It includes separate guidance on anti-corruption

and anti-bribery matters, due diligence and impact of activities which were additional requirements for PIEs with more than 500 employees.

- 84. A number of respondents requested the inclusion of explicit references to third-party guidance that deals with specific aspects of non-financial reporting.
- 85. While the FRC acknowledged that directors may wish to refer to other third-party guidance when developing and monitoring the entity's policies in respect of non-financial matters or when drafting disclosures for inclusion in the annual report, it did not believe it to be practicable or desirable to identify specific sources of third-party guidance in the Guidance. Instead, the FRC took the approach of providing more general guidance.

Employee diversity by sex

- 86. The main issues identified by respondents in respect of the employee diversity disclosures arose from the practical consequences of the definition of a 'senior manager' used in the Act. In particular, they highlighted the potentially onerous task of undertaking an analysis by sex of subsidiary directors in very large groups and the lack of differentiation between directors of strategically significant and less important subsidiaries.
- 87. As the definition of 'senior manager' is defined in law, the Guidance clarified the statutory meaning of the term in order to prevent its misinterpretation. Some respondents expressed concern that applying the statutory definition could lead to a misleading disclosure. To address this, the Guidance included an example of an additional voluntary analysis that might be used to further illustrate the diversity of the entity's senior executive pipeline.

Strategic report with supplementary material

- 88. A large number of respondents to the 2013 Exposure Draft noted that it did not include guidance on the replacement of the summary financial statements with the strategic report (along with some specified supplementary material). Respondents highlighted some practical questions such as:
 - (a) Whether sending a summarised strategic report instead of the full strategic report contained in the annual report was appropriate?
 - (b) How the guidance on the placement of information in the annual report interacted with the new requirements?
 - (c) What is the appropriate level of formal financial information that should be included (voluntarily) in the supplementary information?
- 89. As part of the 2018 amendments, guidance was added to address those questions, which is now in Appendix B.

Exposure drafts and consultations

	Consultation	Date of issue	Finalised as	Date of issue
Exposure draft	Guidance on the Strategic Report	Aug 2013	Guidance on the Strategic Report	June 2014
Exposure draft	<i>Draft amendments to the Guidance on the Strategic Report – Non-financial reporting</i>	Aug 2017	Guidance on the Strategic Report	July 2018
N/A	N/A	N/A	Guidance on the Strategic Report	June 2022
N/A	N/A	N/A	Guidance on the Strategic Report	February 2026



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