

Guide to forward-looking information

Don't fear the future:
communicating with confidence*

I have for many years urged companies to use the narrative aspects of their reporting in as an imaginative and informative way as possible so that they may provide their investors with real insight into their business and the strategies that they as Management have adopted. I welcome this publication as a powerful contribution to helping make this a reality.

Tony Good
Chair of Accounting Advocacy,
UK Society of Investment Professionals

Evolving good practices in corporate reporting should provide investors with far greater transparency on a company's internal performance targets and how management assesses the company's performance against those targets. This publication provides very useful guidance on how management can provide the information valued by investors, in a practical way.

Lindsay Tomlinson
Vice-Chairman, Barclays Global Investors Europe

Introduction

The corporate reporting debate is gathering pace worldwide whether in the form of legal requirements, guidance or evolving good practices. Aspects of this debate are, understandably, causing concern amongst preparers of annual reports. Not least of these is the provision of a “forward-looking orientation” which, in our experience, many companies find a real challenge. But what does this mean in practice? Will it require providing competitively-sensitive information? What about the reliability of such forward-looking information? Will companies face the threat of litigation? Will this mean making profit forecasts?

Put simply, the reporting of forward-looking information is a critical component of effective communication to the market and this “how to” guide has been developed to provide practical guidance on how it can be achieved.

This guide is not just a theoretical paper – progressive companies worldwide are already adopting a forward-looking orientation in their corporate reporting.

To bring forward-looking reporting alive, we have included a collection

of examples from some of these companies that demonstrate aspects of what we believe is effective communication of the future that others can learn from.

So regardless of whether it is described as a management discussion and analysis, operating and financial review, or something else, the issue remains “how well does your reporting articulate the direction of travel, in relation to the markets in which you operate, your chosen strategy and the performance that is delivered?”

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“ *As a strong supporter of broader corporate reporting, CIMA has an active interest in ensuring that concerns of companies surrounding exposure to litigation do not result in boilerplate statements. This publication provides companies with a practical approach to reporting appropriate forward-looking information.* ”

Charles Tilley
Chief Executive, Chartered Institute of Management Accountants

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Why the future matters

A change in mindset towards reporting

Companies worldwide are increasingly being encouraged to place an emphasis on providing a more forward-looking orientation in their reporting whether through regulatory requirements, guidance or evolving good practice. This has raised a number of concerns amongst companies. Some fear that the publication of forward-looking information could compromise competitive advantage. Others think the quality of information provided could provoke legal and regulatory sanctions. Yet those companies who approach reporting with the right mindset – one of transparency, not merely a perceived response to increasing red tape, will have a real opportunity to leverage their reporting to increase investor understanding.

Increasing demands for a view of the future

An overview of some of the worldwide regulatory requirements and good practice guidance is shown in Exhibit 1 below:

Exhibit 1: Examples of legislation & guidance on forward-looking information

GUIDANCE



Global

“MC should have an orientation to the future” – IASB discussion paper on Management Commentary (*published October 2005*)



“The purpose of the MD&A is to provide management’s... assessment of factors and trends which are anticipated to have a material effect on the company’s financial condition and results of operations in the future” – International Organization of Securities Commissions (IOSCO) General Principles Regarding Disclosure of Management’s Discussion and Analysis of Financial Condition and Results of Operations (*published February 2003*)



Australia

“...the Review should also address known trends and those factors relevant to forming a view as to likely future performance” - Group of 100’s Guide to review of operations and financial condition (*published 1998, updated 2003*)



Canada

“A forward-looking orientation is fundamental to useful MD&A reporting” - CICA guidance on MD&A disclosure (*published November 2002, updated May 2004*)



United Kingdom

“The OFR should have a forward-looking orientation, identifying those trends and factors relevant to the members’ assessment of the current and future performance of the business and the progress towards the achievement of long-term business objectives.” – Accounting Standards Board Reporting Statement: Operating and Financial Review (*published January 2006*)



United States

“One of the principal objectives of MD&A is to provide information about the quality and potential variability of a company’s earnings and cash flow, so that readers can ascertain the likelihood that past performance is indicative of future performance.” – SEC Guidance Regarding Management’s Discussion and Analysis of Financial Condition and Results of Operations (*published December 2003*)

LEGISLATION



Germany

“The main factors which could influence changes in the value of the enterprise in the future should be disclosed and discussed” – German Accounting Standard 15, Management Reporting (adopted December 2004)



United Kingdom

“...the main trends and factors likely to affect the future development, performance and position of the company’s business” – Companies Act 2006 Section 471 (*date of implementation tbc*)

“Telling the future by looking at the past assumes that conditions remain constant. This is like driving a car by looking in the rear-view mirror.” Herb Brody

Fear of the future

Many companies fear the increasing demand for forward-looking information will force them to disclose competitively-sensitive information, make profit forecasts or expose themselves to the threat of litigation. However, companies need to understand what the demand for this forward-looking information really means.

The danger is that, without such an understanding, they will take fright at the call for ‘forward-looking’ statements, taking refuge instead in bland and highly-caveated

reviews that provide no benefits to investors, or to the companies themselves. Like any new initiatives, these demands will bring a number of risks for companies that fail to prepare adequately for them. But it should also bring real business benefits, notably: enhanced business understanding, governance and board effectiveness; improved relationships with key stakeholders; and heightened efficiencies flowing from the proper alignment of reporting and communications strategies.

Giving investors what they need

“ I couldn’t stress more the two things that I spend most of my time doing: trying to understand what’s happening to the underlying business and getting any help I can to understand how it will look in five to ten years’ time. ”

Transparent information on current and future corporate performance is the raw material of effective decision-making in the capital markets. This is demonstrated by the comments highlighted in this section, all drawn from research conducted by PricewaterhouseCoopers with buy- and sell-side analysts.

As things stand, existing financial statements are not, of themselves, sufficient to meet the needs of investors to assess the quality and sustainability of corporate performance. The current reporting status quo is unsatisfactory. Investors know this – and so do the regulators.

Giving investors what they need (continued)

“... As much forward-looking information as possible. That’s the most interesting thing.”

“...But really what we are trying to do is to get a view of the economic picture of the company and how that is going to change into the future.”

In its ‘Framework for the Preparation and Presentation of Financial Statements’ the International Accounting Standards Board (IASB) says:

“The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions.”

“Financial statements prepared for this purpose meet the common needs of most users. However, financial statements do not provide all information that investors may need to make economic decisions since they largely portray the financial effects of past events and do not necessarily provide non-financial information.”

The rest of this guide will highlight:

- The issues and challenges facing companies tasked with providing forward-looking information.
- Offer some practical ideas on how companies might successfully meet the needs of investors, whilst addressing regulations and good practice guidance, and
- Provide examples, drawn from companies reporting worldwide, that demonstrate how some have genuinely embraced the spirit of providing a forward-looking orientation

A view of the future

Going beyond historical financial reporting

Despite a recognition that investors need more forward-looking information very few companies come close to providing the breadth of information required. Instead of providing a clear and balanced discussion of the trends and factors likely to impact future prospects, Companies have continued to take refuge behind historical information. From now on, given the increasing demand for a more forward-looking orientation in companies reporting, a different approach will be called for.

Determining what is required

There are no hard and fast rules dictating what forward-looking information a company must provide. Companies must decide which information to include – and which to leave out – on the basis of their own unique business dynamics and those of the industry sectors in which they operate. Our companion 'Preparers' Guide' goes into further detail on what should be considered in reaching this decision.

However, the provision of a forward-looking orientation will mean identifying and communicating whatever trends and factors are relevant to an investor's assessment of current and future business performance. It also means communicating the progress that has been made towards achieving long-term business objectives.

Relevant factors will be those that have affected a company's development, performance and position during the financial year – as well as those likely to affect its future development, performance and position. These might include the development of new products and services, current and planned levels of investment expenditure, and clear explanations of how that expenditure is to be used to achieve business objectives.

In forming a view on what to report, companies should also consider whether robust, quantifiable financial and non-financial key performance indicators (KPIs) are available to support whatever assertions have been made and, to the extent necessary, whether they should be disclosed. Assuming that they are, good practice would also encourage the inclusion of information on future targets. As we explain later, however, this does not mean that profit forecasts must be provided.

Forward-looking information

Putting the concerns into perspective

The ever increasing demand for forward-looking information has raised a number of frequently-voiced concerns amongst companies (see below). The fact is that, by concentrating too closely on these perceived risks, real opportunities are being overlooked. The value, for companies, of providing a clear forward-looking picture lies in the potential it has to challenge internal perceptions and reporting, as well as the insights that it provides investors into the health and sustainability of the business and the way in which it helps put financial performance into context.

In seeking to avoid these demands for a forward-looking orientation the danger is that companies may miss out on these benefits. By resorting to bland statements, these companies will do nothing to enhance investors' understanding of their business, while exposing themselves to a potential loss of competitive advantage if competitors steal a march with their reporting.

Frequently-voiced concerns

Amongst the most commonly-heard concerns provoked by the increasing demand for a forward-looking orientation, the following stand out:

- Does this mean having to provide potentially competitively-sensitive information?
- What can be done to ensure the supportability of forward-looking information?
- Does this mean that we have to publish profit forecasts?

The following sections address each of these concerns.

Competitively-sensitive information

For any company, there will be certain information which – were it to be disclosed – would undermine its market position. However, this should not be seized upon as a convenient smokescreen for avoiding full and frank disclosure.

Companies need to approach the disclosure of forward-looking information with the right mindset. Instead of adopting a compliance-based approach and asking ‘What are we going to report?’, companies need to ask themselves: ‘What should we withhold?’. For example, pharmaceutical companies disclose details of their products – in terms of pipeline, stage of development, planned launch and potential

market size – without prejudicing their competitive position. Specific information on the underlying patent formulations is withheld. With this approach, they provide investors with information which is critical to understanding the sustainability of their performance, without compromising the interests of the company.

Arriving at a balancing point between disclosing and withholding forward-looking information needs to be a realistic process. In reality, competitors are already likely to be better informed than people realise, as the flow of people and information from one organisation to another has never been greater.

Supportability of forward-looking information

Clearly, forward-looking information cannot, by its nature, be 100% supportable. But companies that attempt to rely on this as a reason for opting out of providing a forward-looking orientation are missing the point. Forward-looking information is different from information found

in historical financial statements. Because it is based on assumptions that might prove to be wrong (rather than being based on actual facts), there is no expectation that it should be 100% accurate.

Supportability of forward-looking information (continued)

Obviously though, the fact that information has been disclosed may raise an expectation of reliability in investors. Companies are therefore expected to scrutinise whatever evidence has been used to underpin this information and, where appropriate, to explain its source and the extent to which it is objectively supportable.

The overall intention is for investors to assess this information themselves before deciding whether or not to rely on it. For them to do so effectively, it is important that they should have a clear understanding of how certain (or uncertain) it is.

What about profit forecasts?

Concerns are often raised that communicating about future prospects means providing profit forecasts with all the additional regulatory attention that such information can attract and the potential for short-term pressure to meet those forecasts rather than focus on value delivery.

However, with due consideration given to local regulations, forward-looking information can be provided without specific reference to profits, looking instead to the broader picture of the company shown by contextual information.

Non-financial drivers of performance can be used as lead indicators of future financial performance. Similarly, market trends and clearly presented strategic priorities will provide investors with valuable insights on which to base their investment decisions. And, of course, targets for these non-financial drivers and market trends can also be important aspects of this information, communicating companies' aspirations to the market – without straying into the realms of profit forecasts.

Failure to do so can mean investors relying on historical financial performance, thereby exacerbating 'short-termism'.

Facing up to the challenge

Realising the benefits

Nothing to fear – much to gain

Businesses that are well run on the basis of comprehensive and accurate information about all aspects of their operations have nothing to fear from providing forward-looking information. Indeed, they have much to gain. Provided management can adopt the right mindset – one of transparency, communicating financial and non-financial information as a way of increasing genuine market understanding of the business and its sources of value – they have an opportunity to secure significant competitive edge.

If they take advantage of this opportunity, they will be able to:

- improve the quality of management by making sure the information that really matters is available, aired and acted upon at board level;
- help stakeholders to differentiate good management from bad, judgement from luck;
- simplify and clarify their corporate reporting, particularly where the presentation of non-financial information is concerned; and
- start to move beyond the 'earnings game', where a company is only considered to be as good as its latest figures.

Making it happen

The seven pillars

for effective
communication
of the future

- 1 Explain the resources available to your company that help to attain your objectives and how they are managed.
- 2 Describe the principal risks and uncertainties that may affect your company's long-term value or prospects.
- 3 Clarify the significant relationships with stakeholders that are likely to influence the performance of your company and its value.
- 4 Provide quantified data relating to trends and factors likely to affect your company's future prospects.
- 5 Spell out any uncertainties underpinning forward-looking information.
- 6 Communicate targets relating to those key performance indicators (KPIs) used to manage your business.
- 7 Demonstrate the linkage of other content areas within your reporting to your longer-term objectives and the strategies to achieve those objectives.

Making it happen

The seven pillars for effective communication of the future

By considering the following factors, companies will be providing investors with the forward-looking orientation increasingly demanded worldwide.

-
- 1 Explain the resources available to your company that help to attain your objectives and how they are managed**

An explanation of your company's principal resources, both tangible and intangible, employed in executing your strategies, is a key pillar to providing forward-looking information. Simply stating, for example, that "our employees are our greatest asset" without articulating how employees are vital to your future success provides little information of use to investors.

Instead, an explanation of the resources currently available, how you expect them to develop going forward, as well as how they are managed and how success is measured, using quantifiable data, provides valuable insights into your commitment to these resources and future prospects.

 - 2 Describe the principal risks and uncertainties that may affect your company's long-term value or prospects**

A description of your principal risks and uncertainties is an essential aspect of providing a forward-looking orientation. Providing a generic list of all the risks facing companies in your industry, that fails to reflect the changing external environment, your company's particular circumstances, or how the risks are managed, results in bland, ineffective reporting.

Effective reporting of risk will set out how your company identifies its principal risks, what these risks are, whether the level of risk, or opportunity, is increasing or decreasing, and your approach to mitigating them.

 - 3 Clarify the significant relationships with stakeholders that are likely to influence the performance of your company and its value**

The behaviour of your stakeholders, from regulators through to suppliers and customers, can have a considerable impact on your future prospects. Accordingly, explaining which stakeholders are significant to your company is an essential feature of effective forward-looking information.

The explanation should include the nature of the relationship, the current profile of significant stakeholders and how these relationships are managed. Articulating, and quantifying where possible, any dependency on stakeholders and how well the relationship is being managed is also important.

4	<p>Provide quantified data relating to trends and factors likely to affect your company's future prospects</p>	<p>Analysing current and future development, performance and position of any company is impractical without the provision of relevant contextual information, including the quantification of appropriate trends and factors impacting the business.</p>	<p>Whether these are, for example, demographics for an insurance company, buying habits for a consumer products company, or raw material costs for a manufacturing company, quantifying prospective trends provides investors with a better understanding of the environment your company operates in.</p>
5	<p>Spell out any uncertainties underpinning forward-looking information</p>	<p>Forward-looking information cannot, by its nature, be 100% supportable.</p> <p>Where appropriate, you should explain the source of the information and any uncertainties, to allow</p>	<p>investors to assess for themselves the extent to which they wish to rely on the information. Further, you might consider providing a statement of caution.</p>
6	<p>Communicate targets relating to those key performance indicators (KPIs) used to manage your business</p>	<p>A simple narrative description of the key resources, risks and relationships that are fundamental to the successful implementation of your strategies is not sufficient. It is only by providing the KPIs used by you in managing your business that investors will be able to assess the potential for your strategy to succeed.</p>	<p>For each KPI, trend information should be provided, including information for at least the current and prior year, along with quantification and/or commentary on future targets.</p>
7	<p>Demonstrate the linkage of other content areas within your reporting to your longer-term objectives and the strategies to achieve those objectives</p>	<p>A key objective of reporting is to help investors assess the strategies adopted and their potential to succeed.</p>	<p>Accordingly, it is essential you demonstrate and communicate how the external environment, and management of resources, risks and relationships, underpins the achievement of your objectives and strategies. These elements are related and should not be presented in isolation.</p>

Bringing the seven pillars alive

Practical examples of reporting on the future

The importance of alignment and linkage

Although we have set out seven pillars, each of these pillars should not be considered in isolation. Each one represents a logical building block for effective communication of the future.

The challenge for companies is to communicate their view of the future across all pillars relevant to their business, thereby demonstrating a forward-looking orientation in a consistent and coherent way.

Real-life examples

Some companies are already incorporating the spirit of a forward-looking orientation into their annual reporting, publishing broad-based information that provides valuable insights into the sustainability of their business performance – succinctly, effectively and persuasively. In the following pages we set out examples from the reporting of some of these companies. While no single company has communicated their view of the future across all seven pillars,

these examples clearly demonstrate that each company has genuinely embraced the spirit of providing a forward-looking orientation by reporting one, or more, of the seven pillars of effective reporting on the factors affecting future business performance.

We urge you to look through the following good practice extracts to get a feel for what is already being achieved by progressive companies.

How to get the most out of the real-life examples

The accompanying illustration serves as a guide for “reading” the examples found in the following pages.

To the companies that allowed us to feature their work, PricewaterhouseCoopers expresses its sincere appreciation.

PricewaterhouseCoopers' commentary on the extracts presented. The comments indicate how each example demonstrates the characteristics of the featured pillar

Images of the front cover and selected pages of the document from which the extracts are taken. The extracts may also have been taken from pages not shown as separate images

2 Describe the principal risks and uncertainties that may affect your company's long-term value or prospects

A number of companies already try to provide a connection between corporate responsibility issues and their future sustainability. However, in this example, BAA goes considerably further, linking an environmental factor, namely local air quality, to its long-term objective of ensuring that Heathrow "remains the world's busiest and leading international airport". One of the strategies to achieve this is to obtain approval from the Government to build a third runway. As set out in the extract below, the Government concluded in its White Paper that "it could not support the building of a third runway at Heathrow without clear evidence that the area will comply with EU air quality standards, due to come into force in 2010".

Accordingly, by describing how current activities have the potential to impact on future regulatory decisions, BAA provides a clear understanding of the risks associated with these activities and links current non-financial activities with its future financial performance.

BAA plc

Corporate Responsibility Doing the Right Thing

BAA has always taken ethical and moral responsibility seriously. It's not just right, it is also in our commercial interests.

Local Air Quality
Air quality management remains a key priority among local and national stakeholders. In its White Paper, the Government concluded that it could not support the building of a third runway at Heathrow without clear evidence that the area will comply with EU air quality standards, due to come into force in 2010.

BAA has worked closely with the Department for Transport on this issue and is a government member of the Government-led expert group which is assessing air quality monitoring and modeling methodologies around Heathrow. A report on the findings is due in 2008.

We've taken a number of actions to address air particle and NO_x related emissions, although airport emissions are only one source of local air pollution. Emissions around Heathrow also come from other sources, notably the M25, M4 and A4. One of the key initiatives introduced in the past few years has been an airport emissions charging scheme under which airlines pay according to their fleet's NO_x emissions. This programme, the first of its kind in the UK, has been in place at Heathrow for a year, and was introduced at Gatwick from 5 April 2008.

Air Quality
Air quality monitoring is required by DEFRA to assess compliance with national air quality objectives and EU limit values. There are a number of local monitoring sites at locations close to Heathrow. This year's figures indicate a 98% compliance with future 2010 EU limit for nitrogen dioxide at a number of locations. However, from 1 January 2008, a 20% margin of tolerance, applied to compliance with the limit value, meaning that only the Hounslow and Brentford sites exceeded the limit. Future compliance is the subject of a Department for Transport study on the sustainable development of Heathrow. For more information visit www.dfq.gov.uk

Source: BAA plc Annual Report 2004/05 and used with kind permission

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Extracts selected to illustrate the featured pillar

Company name and source of information shown

1 Explain the resources available to your company that help to attain your objectives and how they are managed

Many companies give general statements about “their important assets”, for example, customers and people, but without explanations of how those resources will help them attain their objectives. However, in this example, British Land clearly identifies active development of the Group property portfolio as

key to enhancing property returns and thereby long-term growth in shareholder value.

British Land goes on to quantify its development prospects, including the potential impact on future rental income.

Furthermore, this is a good example of a company explaining how it manages its resources – in this case the process of obtaining planning permission for its development prospects.

The British Land Company PLC



Corporate Strategy

British Land seeks to achieve long-term growth in shareholder value by:

- enhancing property returns through active management and development; and

Operating and Financial Review

Development programme

Development prospects, as shown below, are those sites and properties where we have identified opportunities and are progressing with design, planning applications and site preparation for development projects. For example, at The Leadenhall Building a detailed planning consent has been obtained for a new 47 storey tower to provide 55,800 sq m (601,000 sq ft) of office accommodation; that is three times the floor space of the existing building.

Development prospects				
Project	Sector	Sq ft 000	Cost £m*	Planning
201 Bishopsgate	City office	836	279	Revised submitted
The Leadenhall Building	City office	601	270	Detailed
Ludgate West	City office	123	47	Detailed
Regent's Place	West End office/ Residential	1,036	370	Osnaburgh submitted NEQ pending
Blythe Valley Park	Business Park	751	115	Outline/Detailed
New Century Park	Business Park/ Distribution	657	88	Outline
Meadowhall Casino	Leisure	409	124	Pending
Theale	Residential	254	46	Submitted
Daventry (BLR)	Distribution	335	5	Outline
Redditch (BLG)	Distribution	227	4	Detailed
Total		5,229	1,348	

* estimated costs of construction excluding land and interest costs
Based on Group and 50% share of JVs (except areas which are at 100%)

We have planning permission for 58% of the development prospects for commercial properties which, if they were built at a total cost to the Group of £529 million and fully let, would add further rental income of some £60 million per annum at current market rental values. This does not include 201 Bishopsgate where we have an existing permission but are in the process of seeking a revised planning consent for 77,630 sq m (835,600 sq ft).

At current market rents, if all these development prospects were completed and let, they would add a further £151 million per annum to rental income.

Development Process

Obtaining planning permissions for the Company's development programme is a complex and expensive process involving many organisations and expert consultants.

The professional expertise needed, from architects, engineers, ecologists, environmental consultants and other specialist consultants means that securing planning permissions gets more expensive every year.

Focusing on one particular planning application, the proposal for the redevelopment of 122 Leadenhall Street in the City of London cost some £5 million alone, demonstrating the technical expertise and resource commitment which is required.

Our strategy was to work with English Heritage and the Government's advisors on architecture, the Commission for Architecture and the Built Environment (CABE) at an early stage, and to secure agreement to the application from the City Corporation.

We held a number of briefing sessions with owners and occupiers of neighbouring properties to ensure that they were fully informed and understood the scheme, and that we could take into account any concerns they may have. For example we met with two neighbouring churches who raised concerns about construction noise and its impact on church services. We reassured them that when services are taking place the noisiest activities would be kept to a minimum.

A planning application checklist

Planning and land use	Air quality
Transportation	Noise and vibration
Townscape and visual including building heritage	Ground conditions, hazardous and contamination
Ecology	Telecommunications
Archaeology	Sustainability
Daylight and sunlight	Demolition and construction
Wind	Water resources
Socio-economics	Civil aviation

Property development risk

Principal risk

Letting risk for speculative developments; construction cost and time overruns; adverse changes in planning and/or planning policy which may cause delay and affect profitability.

Principal control

These include limiting the amount of speculative development; assessing letting potential and prospective profitability of developments prior to commencement of construction; on-going assessment of development expenditure by quantity surveyors with regular comparisons of costs against budget; and ensuring executives are kept up to date with planning policies.

2 Describe the principal risks and uncertainties that may affect your company's long-term value or prospects

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international airport”. One of the strategies to achieve this is to obtain approval from the Government to build a third runway. As set out in the extract below, the Government concluded in its White Paper that “it could not support the building of a third runway at Heathrow without clear evidence that the area will comply with EU air quality standards,

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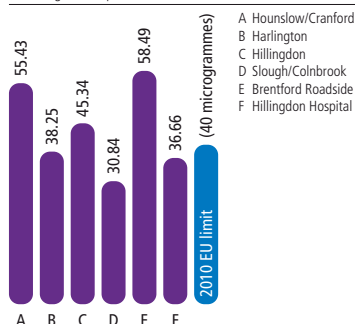
Local Air Quality

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Air Quality Monitoring – Heathrow Area
(in microgrammes per metre cubed)



Air Quality

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3 Clarify the significant relationships with stakeholders that are likely to influence the performance of your company and its value

Engagement with stakeholders is mentioned in many companies' reports. However, in this example, BT goes into more detail, identifying its customers as a key stakeholder in the company's business success, as well as providing a business case to explain why investors should consider corporate social responsibility and customers as

integral to the future success of the Group's strategy.

In order to assess progress in managing customers, BT measures and communicates customer satisfaction as one of its 12 key performance indicators (KPIs). For each KPI, BT reports historical trend data, provides a target and

discusses those instances where the target has not been met, thereby retaining balance in its reporting.

Further, BT describes the methods it uses to measure customer satisfaction and dissatisfaction, along with the initiatives for improving performance in this area in the future.

BT Group plc



Chief Executive's statement

Relentless customer focus

Our 20 million customers are a wonderful asset and we have to continue to show how much we value every one of them.

A key target for us was driving down customer dissatisfaction – we've reduced dissatisfaction levels by 23% on a compound annual basis over the past three years. There is still more to be done and we must continue this focus.

Our business case

Our CSR work is integral to the BT strategy, and affects business performance in five key areas:

CSR for investors

The key issue for investors is the business case for sustainable development and corporate social responsibility (CSR) and how social, environmental and ethical risks and opportunities are managed to preserve and grow shareholder value.

BT's approach

We want to present investors with a forward-looking, quantitative business case for CSR and sustainable development. Our business case sets out how good CSR performance is critical to the delivery of BT's strategy.

We measure our CSR performance through a series of key performance indicators (KPIs) which have been developed in consultation with stakeholders.

2. Reputation

When people trust a company they in effect deliver a societal 'licence to operate'. This is reflected in the company's reputation which, in BT's case, we know directly affects customer loyalty.

Through this relationship we have understood how CSR is critical to optimising customer satisfaction. For example, we estimate that BT's CSR performance accounts for over 25 per cent of the image and reputation element of customer satisfaction. Further statistical analysis shows that a one per cent improvement in the public's perception of our CSR activities translates to a 0.1 per cent increase in our retail customer satisfaction figures.

Key performance indicators and targets

Category	Indicator	2005	2004	2003	Target 2006
Customers	Customer Dissatisfaction – against an objective of reducing the number of dissatisfied customers by 25% per year over three years	23% compound reduction*	29% compound reduction*	37% compound reduction*	To increase the number of extremely and very satisfied customers by 5%†

Satisfaction measures

To improve levels of customer satisfaction, we need a thorough understanding of what makes customers satisfied and dissatisfied.

To achieve this, we carry out more than 3,000 face-to-face interviews with residential customers every month. We ask them about their overall perception of BT and the quality of service. Customers who use competitors are asked how satisfied they are with our competitors. The interviews also examine image and reputation, price and value, contact and experience, and products and services.

BT Global Services uses three types of survey to measure customer satisfaction:

- Face-to-face interviews, normally with senior decision-makers in the larger organisations
- Tracker surveys, an overall satisfaction survey conducted over the telephone
- An Event Driven Customer Satisfaction Survey, which is a telephone survey conducted immediately after a repair or provision event.

We publish customer-satisfaction and quality-of-service measures every six months.

Initiatives to improve customer satisfaction

Our customers have told us that we must:

- Be easy to contact
- Keep them informed (we shouldn't need to be chased)
- Take ownership of their issues and champion their cause
- Live up to the commitments we make to them.

4 Provide quantified data relating to trends and factors likely to affect your company's future prospects

While a number of companies are starting to take positive steps in this direction, others already incorporate this information into their annual reports. In this extract from Emap's 2005 Annual Report, investors are shown market data on both historical and future estimated advertising growth rates. This provides information relating to trends and factors underlying historic performance and likely to affect future performance.

Whilst Emap could have provided its own company metrics relating to growth prospects, it has chosen to use data from an accepted external industry benchmark. A number of companies provide similar external market information. However, Emap balances this data with alternative external views, which in this case are less optimistic about future growth rates.

This forward-looking orientation is useful to investors in assessing the market in which Emap is likely to be operating in the coming years and provides a context for them to assess the potential success of the company's strategies and future performance.

emap plc



Macro-economic environment

In the UK, the current advertising growth forecasts from the Advertising Association (AA), set out in the table, indicate some improvement in most of Emap's markets. These forecasts are updated quarterly.

AA is recognised by the industry as a good benchmark of future growth rates. However, other forecasters have started to reduce their expectations for 2005/06, for example Deutsche Bank reduced their advertising growth forecast from 4.9% to 2.2%, Lehman Brothers have also taken a view that is more pessimistic for the sector than these AA forecasts.

UK Advertising growth forecasts	2002	2003	2004	2005	2006
Total advertising	1.6%	3.9%	5.4%	6.3%	5.6%
Consumer magazines	0.8%	(0.2%)	4.5%	4.2%	4.4%
Business/professional mags	(9.4%)	(3.6%)	3.2%	3.6%	2.9%
Radio	1.1%	6.8%	3.4%	5.3%	5.2%
TV	4.9%	3.4%	5.4%	6.7%	4.6%

Source: Advertising Association

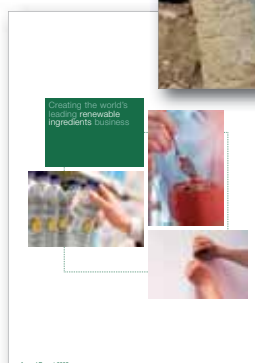
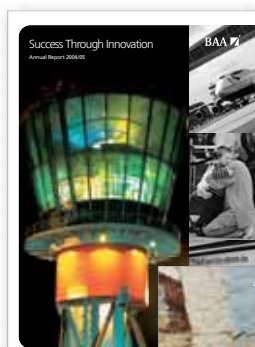
5 Spell out any uncertainties underpinning forward-looking information

Companies often include a statement within their reporting advising readers to treat forward-looking information with caution. Many incorporate “hold harmless” or “safe harbour” statements, often geared towards the US markets.

In the example below from BAA, the uncertainties relating to future forecast growth in passenger numbers are highlighted and clearly explained.

Furthermore, examples from British Land and Tate & Lyle demonstrate simple statements of caution.

BAA plc, The British Land Company PLC, Tate & Lyle PLC



Drivers of Future Performance

As passenger numbers are set to continue growing for the foreseeable future and our airports become increasingly busy, the Group is focusing ever more on improving the quality of service delivered across the whole range of airport activity – from first impressions on arrival, through check-in and security and on to departure. The move to an airport-led operating model will ensure maximum accountability as close to the customer as possible and a more effective and agile organisation.

Operating and Financial Review

From March 2006 British Land is required to publish an Operating and Financial Review in accordance with new regulations. Although guidance on its preparation is not finalised, this OFR aims to anticipate most of the new requirements.

In preparing this operating and financial review, we are required to advise the reader that by their nature, all forward looking statements made involve uncertainty since future events often cause outcomes and results to differ from those anticipated.

Cautionary statement

This Annual Report and Accounts contains certain forward-looking statements with respect to the financial condition, results, operations and businesses of Tate & Lyle PLC. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this Annual Report and Accounts should be construed as a profit forecast.

6 Communicate targets relating to those key performance indicators (KPIs) used to manage your business

Companies often present performance indicators based on traditional financial information alone. We, however, would encourage companies to present the KPIs and accompanying targets – both financial and non-financial – used by management to measure progress in delivering against their stated strategies and in managing their business.

In this example, Wells Fargo clearly explains why it chooses

to use different measures, giving frank descriptions where common measures such as total customers can be meaningless, and identifies the key measures – financial and non-financial – that it believes matter most, and provides targets for each one.

Wells Fargo goes on to measure progress in achieving those targets, as shown here for cross-selling. Not only does it identify cross-selling

“as the most important customer-related measure”, it goes further by providing the rationale for the selection of this measure and its importance to current and future financial performance, namely that “about 80 percent of our revenue growth comes from selling more products to existing customers”. The disclosure is made more readily understandable by good use of graphics.

Wells Fargo & Company



We are simply suggesting a new set of value-creation measures for financial services companies so there is an apples-to-apples way to compare companies' performance across the industry in the measures that really matter. That's why we say financial services companies measure the wrong things, often based on the traditional measures of the banking industry. For example:

- Asset size and return on assets — important to banks in the “old days” — do not reflect contributions from such fee-based businesses as mortgage, insurance and money management.
- Total customers can be a meaningless measure — it gives you little or no insight into breadth and depth of relationships. Think of the profit difference between ten customers who entrust you with 100 percent of their business versus 100 who give you just ten percent of it.

Which Measures Really Matter?

We measure success differently than our competitors. We believe these measures matter most. They're the most important long-term indicators of success in the financial services industry.

- Revenue Growth
- Earnings Per Share
- Return On Equity
- Revenue vs. Expense Growth
- Assets Managed, Administered
- Managing Risk
- Retaining Team Members
- Team Member Engagement
- Retaining Customers
- Customer Service
- Customer Access Options
- Cross-Selling
- Product Solutions (Sales) Per Banker Per Day
- Market Share
- Total Stockholder Return

Our 10 Strategic Initiatives guide us toward our vision and help us achieve double-digit revenue and earnings growth. Here's a brief progress report on each:

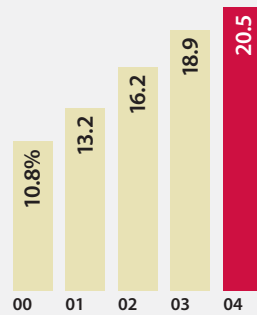
Cross-Selling

- Cross-selling: our most important customer-related measure.
- About 80 percent of our revenue growth comes from selling more products to existing customers.

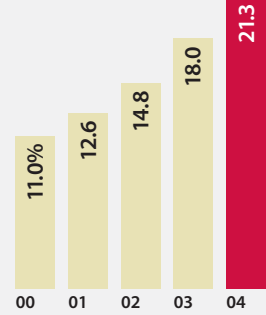
Goal: Sell at least eight products to every customer.

2. "Going for Gr-Eight"

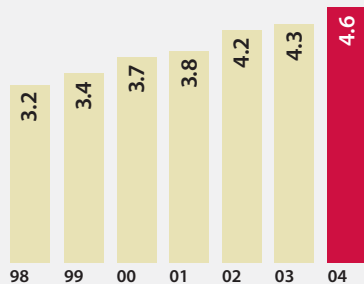
Our average banking household has 4.6 products with us (about double the industry average). Our average commercial/corporate customer has 5.3. But both purchase about 16 financial products from someone. We want our consumer and business customers to have at least eight products with us.



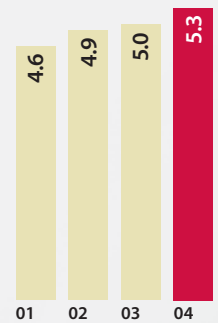
Homeowner-Banking Customers with Mortgage Products
percent



Homeowner-Banking Customers with Home Equity Products
percent



Products Per Banking Household



Commercial/Corporate Products Per Banking Customer

Source: Wells Fargo & Company Annual Report 2004 and used with kind permission.

7 Demonstrate the linkage of other content areas within your reporting to your longer-term objectives and the strategies to achieve those objectives

Every company is affected by its external environment and most include some commentary on the markets in which they operate. Pilkington's Operating and Financial Review 2005 does this, but goes further by providing a clear emphasis on future growth opportunities and linkage to Group strategy.

Investors need to know that the Directors' objectives for the business and the strategies to achieve them are reasonable in the context of the external market. In this example, Pilkington links disclosures about its markets to its strategy. It provides detailed information on the growth prospects of these markets – supported by clear graphics – and

their growth drivers. Furthermore, it provides detailed information on each of its three strategic priorities, shown here by the third strategic priority "Invest in profitable growth opportunities", including the specific actions it will take to implement the strategy and the risks involved in pursuing it.

Pilkington plc



Our industry

GROWTH IN GLASS

Over the past 20 years, glass demand has grown more quickly than GDP. Over the long-term, glass demand is still growing at around 3.9 per cent per annum. Demand growth for glass is driven not only by economic growth, but also by legislation and regulations concerning safety, noise attenuation and the response to the growing need for energy conservation. Architects and car designers are using increasingly more glass in buildings and vehicles.

Our strategy

3

Invest in profitable growth opportunities

ACTION

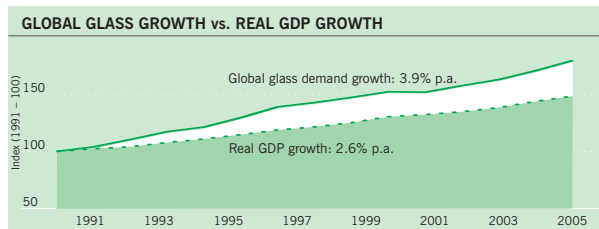
We will identify opportunities for profitable growth in our existing businesses, new products and emerging markets. We will consider organic growth and/or acquisition.

VALUE GROWTH – AUTOMOTIVE

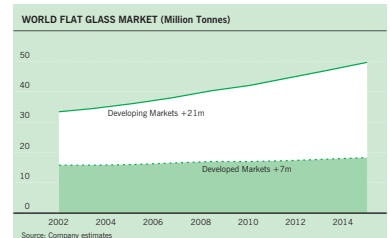
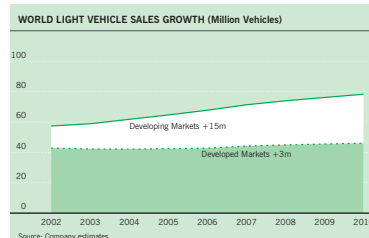
DEMAND	GROWTH DRIVERS
Complexity	Designers see glazing as a crucial element in designs to differentiate vehicles
Curvature & surface tolerance	Styling demands increase the complexity and depth of curves in vehicle glazing, making surface tolerances critical, e.g. for efficient windscreen wiper operation
Solar control	Larger glass areas require tinted and coated glazing to reduce solar heat build-up and air-conditioning load
Security	Crime and vandalism increase the need for enhanced security, provided by laminated side glazings
Glazing systems	Reduced time to market and lean manufacturing require modularised glazing, including trim and other fittings, in one unit
Integrated systems	Complex antenna arrays and electronics integrated into glazing
Acoustic	Demand for increased vehicle comfort through noise reduction

VALUE GROWTH – BUILDINGS

DEMAND	GROWTH DRIVERS
Energy saving (heating)	Energy saving legislation and building regulations; reduction of energy loss from buildings and energy labelling of windows
Energy saving (cooling)	Energy saving legislation, reduction of air-conditioning load in buildings. Preventing non air-conditioned buildings from overheating
Safety	Increasing legislative requirement for safety glass in certain applications
Security	Requirement for transparency combined with security features
Fire protection	Requirement for good light transmission and compliance with regulations on fire protection
Acoustic	Increasing noise levels caused by traffic, aircraft etc progressively backed by legislation
Self-cleaning	Reduction in use of detergents, safety at heights. Product range now extended to combine self-cleaning with additional features



MOST FUTURE GROWTH OPPORTUNITIES WILL COME FROM EMERGING MARKETS



ACHIEVEMENTS TO DATE

- ✓ Pilkington-constructed fourth float line in Brazil for our South American joint venture is in full production.
- ✓ Sound base established in China as a platform for future growth. Automotive plants now fully under Pilkington management.
- ✓ Float line joint venture in Russia on target to start production in summer 2005.

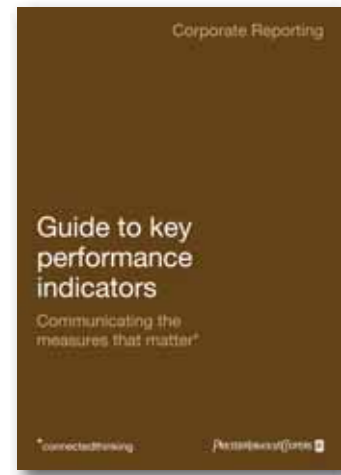
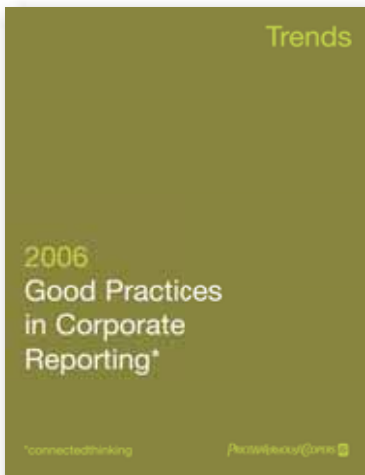
NEXT STEPS

- Key factor influencing the timing of our transition from Stage 2 to Stage 3 will be progress in building our financial strength.
- China, Russia, India and the Middle East have been identified as top four priority areas for growth.
- Robust systems implemented to assess viability of all growth opportunities.
- Groundwork laid for growth investments during Stage 2, structured to minimise cash outlay until the transition to Stage 3.

RISKS

- Demand growth in mature markets slows in both building and automotive sectors, emphasising the need to grow in emerging markets.
- Risks of operating in new territories minimised through working with joint ventures and local partners where appropriate and by spreading our investments over several markets.

Other narrative reporting publications



Report Leadership

Report leadership is a multi-stakeholder group that aims to challenge established thinking on corporate reporting. The contributors to this initiative are the Chartered Institute of Management Accounts (CIMA), PricewaterhouseCoopers LLP, Radley Yeldar and Tomkins plc.

Contact us

For more information on the implications of evolving corporate reporting practices, both internally and externally, and to obtain copies of other corporate reporting publications please contact the corporate reporting team at info@corporatereporting.com, or visit our website www.corporatereporting.com

