luminous

Issue 10

Reporting Matters 10

Change is coming. Are you prepared?

INTRODUCTION

10 years of illuminating corporate reporting

Stephen Butler

Investor Communications & ESG Director

To mark this 10th anniversary, we have revised the format of Reporting Matters to address the key questions we get asked by our clients:

- What is driving change?
- How effectively are companies integrating ESG?
- How prepared are companies to meet the incoming changes?
- What emerging trends are we seeing?
- How can companies prepare?

We also delve into the proactive approaches of early adopters outside of the UK, who have started to incorporate the CSRD and ISSB frameworks into their annual reports.

We hope that the insights and examples we provide will inspire and motivate preparers to embrace change ahead and see their reporting as a vital tool in telling their story to investors and other stakeholders.

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Report contributors

I would like thank Nina Kefer for leading this research, and Grace Tanner and Kay Kayachith for support in the research.

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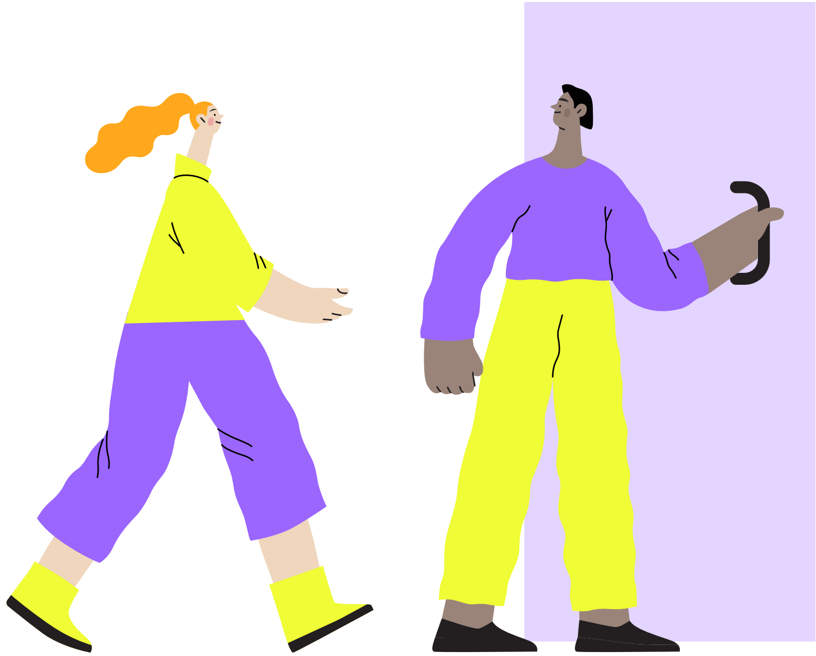
WHAT'S IN THIS ISSUE?

WHAT IS DRIVING CHANGE?

Increasing regulations

UK Corporate Governance Code 2024
The updated UK Corporate Governance Code was published in January 2024. It is aimed at strengthening transparency and trust in the wake of high-profile corporate failures and will apply to financial years starting on or after 1 January 2025. Key changes include the following:

- Reporting on governance should focus on board decisions and their outcomes in the context of the company's strategy.
- Boards should not just monitor culture, but also how this culture has been embedded across the company.
- Companies are asked to include a description of malus and clawback provisions in the annual report, including:
  - the period for malus and clawback and why the selected period best suits the organisation
  - the circumstances in which these provisions could be used
  - whether the provisions were used in the last reporting period and, if so, a clear explanation of the reason.
- Boards should provide a declaration that their material internal controls, including financial, operational, reporting and compliance controls, are effective as at the date of the balance sheet (effective January 2026).



International Sustainability Standards Board (ISSB)
In June 2023, the ISSB published two global disclosure standards which aim to meet the needs of investors for globally comparable, decision-useful sustainability information:

- IFRS S1 'General Requirements for Disclosure of Sustainability-related Financial Information'
- IFRS S2 'Climate-related Disclosures'

The ISSB framework is based on the concept of single (financial) materiality and builds on existing investor-focused reporting initiatives, especially the Sustainability Accounting Standards Board (SASB) Standards and the Task Force on Climate-related Financial Disclosures (TCFD). ISSB reporting is currently voluntary, but the UK Government is working on UK-endorsed ISSB Standards, which are expected to become mandatory for financial years starting on or after 1 January 2026.

What is driving change?

Corporate Sustainability Reporting Directive (CSRD)

The CSRD succeeds and builds on the Non-financial Reporting Directive. It is based on the concept of double materiality and aims to provide reliable, relevant and comparable sustainability information to drive capital to more sustainable companies. The 12 European Sustainability Reporting Standards (ESRS) which were developed by the European Financial Reporting Advisory Group (EFRAG) cover general, ESG disclosures and were adopted by the European Commission in July 2023. CSRD reporting is becoming mandatory in phases starting from the financial year 2024 for both EU companies and non-EU companies with EU-based subsidiaries or securities on EU-regulated markets, depending on certain criteria, such as the size of the company.

Taskforce on Nature-related Financial Disclosures (TNFD)

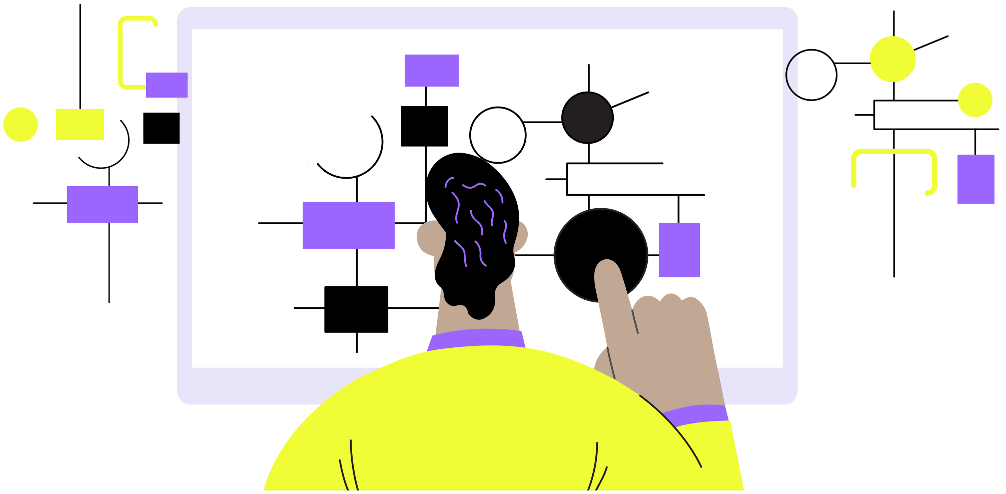
The TNFD framework was launched in September 2023. It is designed to help companies report and act on nature-related issues with the aim of supporting a shift in global financial flows away from nature-negative outcomes and towards nature-positive outcomes. Like ISSB, TNFD is based on the four-pillar structure of TCFD, which it seeks to complement. While TNFD is currently voluntary, the Financial Conduct Authority (FCA) has been a strong supporter and the UK has signed up to several agreements, such as the Environment Act 2021, the Kunming-Montreal Global Biodiversity Framework and the Leaders' Pledge for Nature, which commit it to take action on biodiversity loss and other nature-related ESG issues, all by 2030. This suggests that TNFD is likely to move into regulatory focus.

Transition Plan Taskforce (TPT)

In October 2023, the TPT published its final Disclosure Framework. It aims to establish a 'gold standard' for climate transition plans and builds on the global baseline established by the ISSB. It is based on three guiding principles – ambition, action and accountability – and five disclosure elements:

- Foundations
- Implementation strategy
- Engagement strategy
- Metrics and targets
- Governance

Both the UK Government and the FCA are considering transition plan disclosures for UK companies as well as mandatory ISSB reporting. Given that the ISSB's parent organisation, the IFRS Foundation, is taking over responsibility for the materials developed by the TPT, this is likely to involve the TPT Framework.



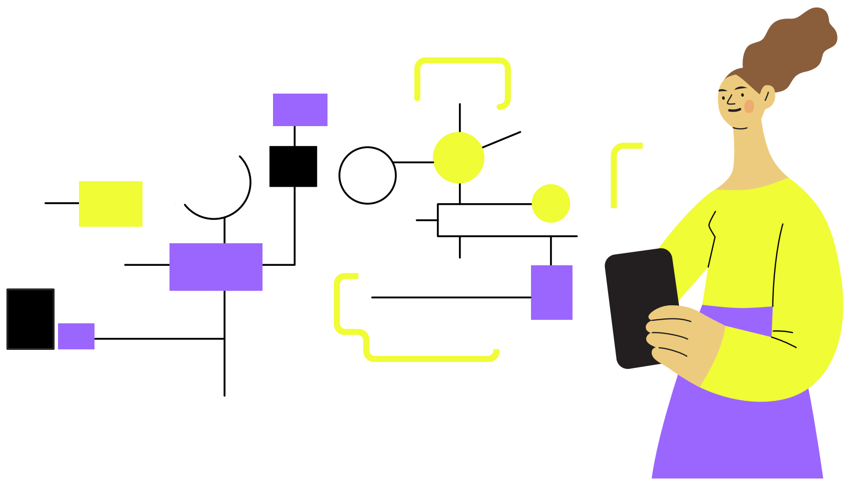
Reporting is the main source of sustainability information the outside world has about companies and 'non-financial' ESG issues can have very real financial implications, including access to capital. For example, an investor's assessment of a company's employee relations and customer satisfaction is likely to influence his/her expectations for that company's future profitability. The more transparently companies report on the ESG issues affecting them and the more comparable the information they report is, the more accurately it can be assessed by their stakeholders, including investors. Frameworks such as ISSB, CSRD, TPT and TNFD were developed to help with this.

Changing stakeholder expectations

It is no accident that frameworks such as ISSB, CSRD and TNFD aim at providing globally comparable, decision-useful sustainability information for investors and other stakeholders. They were developed in consultation with these stakeholders and in response to strong demand. Companies should remember that reporting is the main source of sustainability information the outside world has about them and that 'non-financial' ESG issues can have very real financial implications, including access to capital. The more transparently companies report on the ESG issues affecting them and the more comparable the information they report is, the more accurately it can be assessed by their stakeholders. Indeed, in May this year a group of 120 financial institutions, trade associations, companies and stock exchanges issued a letter calling on authorities across jurisdictions to adopt the ISSB Standards by 2025.

The rise of technology

The rise of technology in general and AI in particular is having an impact on corporate reporting, in terms of both content and processes. Companies are keen to demonstrate that they are alive to the associated opportunities and risks, such as increasing efficiency while examining data security and ethical implications. As readers consume annual reports increasingly on screen, rather than as printed documents, presentation formats continue to shift from portrait to landscape, while hyperlinks and QR codes link reported disclosures with supplementary content online. Last but not least, electronic tagging systems are being developed for both ISSB and CSRD to make sustainability information machine readable.



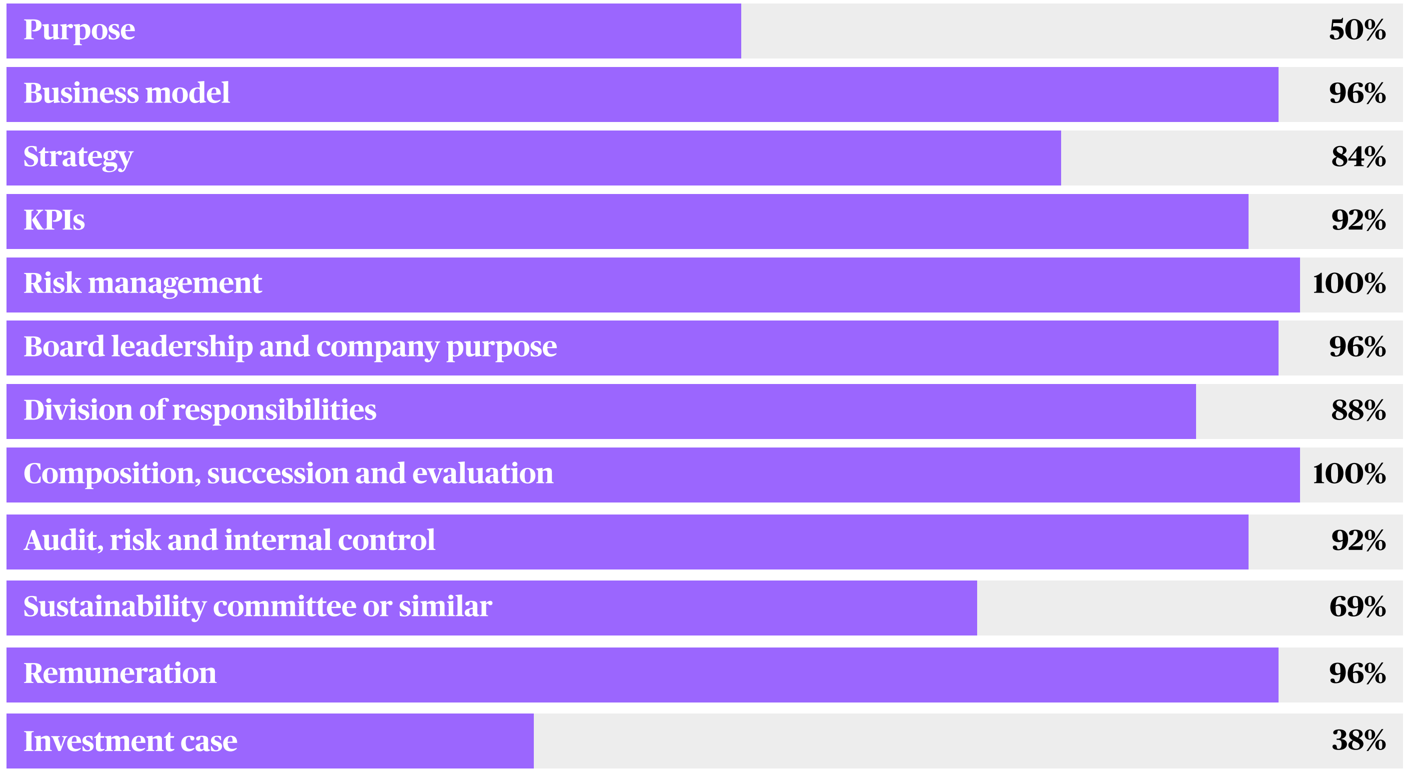
HOW EFFECTIVELY ARE COMPANIES INTEGRATING ESG?

Strong integration across reporting sections

We analysed a selection of annual reports from all sectors of the FTSE 350, except closed-end investments. All of them referenced ESG in multiple reporting sections across both the strategic and governance reports. The integration of ESG metrics into KPIs, risk management and executive remuneration continued unabated and a majority of companies had also established a dedicated sustainability committee or similar. Only the company purpose and investment case remained relatively unaffected, which was partly explained by the fact that around one-third of the reports sampled did not include an investment case at all – despite investors viewing this as a company's key differentiator. A recent survey carried out by Workiva found that 88% of institutional investors are more likely to invest in companies that integrate financial and ESG/ sustainability data, so we would expect this ongoing incorporation of ESG, particularly into quantitative elements such as metrics and targets, to have a positive effect on investor sentiment.

Overview

ESG Integration



How effectively are companies integrating ESG?

Key ESG issues

Climate change, attracting and retaining talent, and diversity and inclusion continued to dominate ESG disclosures. All companies in our sample discussed people-related ESG issues as part of their talent or ESG strategies and only one company had not identified any climate-related ESG issues. The majority had also set targets to reach net zero by 2050 or sooner and increase diversity in the workforce, although ethnic diversity lagged gender diversity by a substantial margin. However, the human capital strategy was often poorly defined and only a minority had specified targets to increase ethnic diversity in senior management positions, in line with the updated Parker Review recommendations for building a diverse and inclusive talent pipeline.

Companies should remember that, while this is not currently mandatory, the ethnic diversity target in the FCA's board diversity rules was adopted from the previous Parker Review and investors increasingly consider diversity in their company analysis. Moreover, the ISSB recently announced a research project on the risks and opportunities associated with human capital. Emerging board skills, such as ESG and technology, were also often poorly documented, despite AI clearly moving up the corporate agenda, and some reports did not even include a skills matrix. Companies should be aware that investors want to understand how these specialist areas are governed and look for evidence that boards are 'fit for purpose' in terms of skills and experience.

Highlights

96%
report their scope 3 emissions

62%
have set timebound targets to increase gender diversity in the workforce

19%
have set targets to increase ethnic diversity in senior management

8%
mentioned scope 4 (avoided) emissions

Materiality is still not common

Materiality discussions are still not as common as one would expect on the eve of ISSB and CSRD reporting. Half the reports we reviewed either didn't provide any details of how ESG issues were identified as material or didn't mention materiality at all. In some cases, this was because this information was available in a separate report, but only a minority clearly stated that they had carried out a materiality or double materiality assessment. Companies should be aware that explaining materiality is instrumental in helping readers understand how well they manage ESG-related impacts, risks and opportunities, and therefore their ESG strategy's relevance to the corporate strategy and performance.

37%
have carried out a materiality assessment or were planning to

30%
didn't mention materiality

20%
mentioned material topics but provided no details of the assessment

Mapping the value chain is essential yet underdisclosed

Another foundation of ISSB and CSRD reporting is value chain mapping. Both frameworks require companies to disclose the impacts their material ESG issues have on their value chain, i.e. the interconnected stages that deliver a product or service into their customers' hands, such as sourcing materials from suppliers, manufacturing, transport and sales. Only a small minority of the reports we reviewed included information on the company's value chain and linked this to ESG reporting. That said, over one-third mentioned the value chain in the context of emissions reduction; so, like materiality, value chain mapping appears to be taking place, but isn't disclosed in annual reports.

38%
mentioned their value chain but provide no details of its boundaries

35%
mentioned their value chain in relation to decarbonisation

10%
have mapped their value chain and linked it to ESG reporting beyond decarbonisation

Aligning ESG disclosures with global frameworks

Most companies continued to reference multiple ESG frameworks, of which the UN Sustainable Development Goals (SDGs), CDP and the UN Global Compact were the most popular ones. However, how these aligned with the company's disclosures was often not explained and even companies who submitted all three of the challenging CDP responses did not always mention this in their annual reports. And while roughly one-third of companies referenced ISSB and/or CSRD, this was usually limited to statements that their implications were being assessed. SASB, the Global Reporting Initiative (GRI), TNFD and TPT received relatively few mentions.

Highlights

62%
have submitted a CDP response

77%
have aligned with the UN SDGs

42%
support the UN Global Compact

How effectively are companies integrating ESG?

Reporting suites need careful planning

Looking at the number and types of documents companies published as part of their annual reporting, we found that over half maintained a separate sustainability report and almost one-quarter published a dedicated climate or TCFD report.

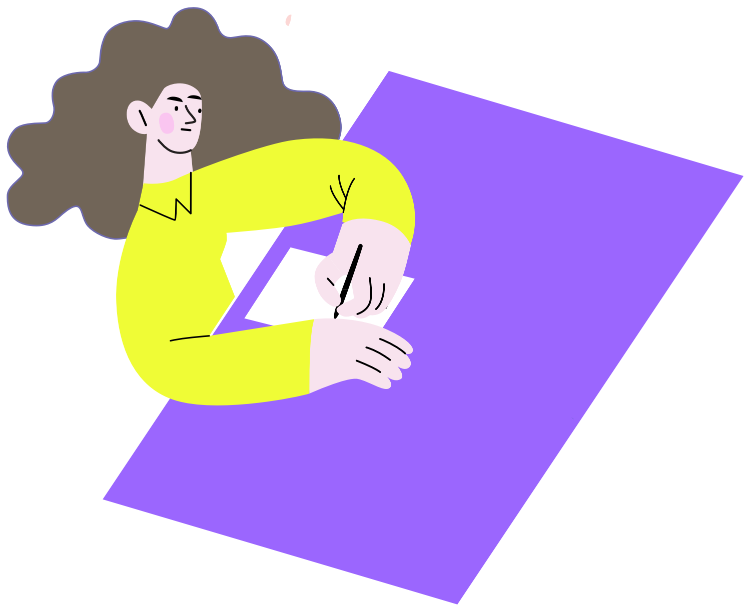
Many also produced other topic-specific documents, such as social or environmental impact, tax or ethics reports, and almost one-third made the data tables underpinning the ESG disclosures in their annual and sustainability reports available in a data book. GRI and SASB reports and calculation methodologies were also often published separately. Only two companies in our sample produced just an annual report.

Specialist reports play an important role in corporate reporting. For example, the TPT recommends the publication of a standalone climate transition plan every three years with progress and material updates reported annually as part of TCFD or ISSB. However, companies should be aware that suites of many separate publications, as found in our sample, some of which were only a few pages long, make it harder for investors and other stakeholders to understand how the disclosures hang together.

This was exacerbated by poor signposting between reports and the fact that financial and sustainability-related reports were often presented in separate download centres which didn't necessarily include all relevant documents. GRI and SASB reports in particular were difficult to find.

It should also be pointed out that both the ISSB and CSRD require companies to ensure that their ESG disclosures are not made less cohesive or understandable through cross-referencing. The CSRD in particular restricts 'incorporation by reference' to a finite list of documents which must be subject to at least the same level of assurance and digitalisation (i.e., tagging) as the sustainability statement.

Companies might want to use this as an opportunity to review their reporting suites based on regulatory requirements, materiality of information, as well as purpose and audiences for each report, and tailor them accordingly.



Overview

Report types

Sustainability report	61.54%
Climate report	19.23%
Environmental impact report	7.69%
Social impact report	7.69%
Other topic-specific report	11.54%
TCFD report	3.85%
GRI report	30.77%
SASB report	19.23%
Data book	30.77%
Other	61.54%

How effectively are companies integrating ESG?

HOW WELL ARE COMPANIES PLACED TO MEET THE INCOMING CHANGES?

UK Corporate Governance Code 2024

Many of the sampled reports were published before the updated Code. However, the Code review had been flagged for some time and several reports referenced the proposed changes. In most cases, this was limited to a statement acknowledging the new requirements and that they were being considered, but some companies decided to publish the work they had done. This particularly applied to focusing on the outcomes of board decisions in the context of the company's strategy.

In some cases, changes had already been addressed, such as reviewing the effectiveness of the internal control framework, including financial, operational, reporting and compliance controls, and providing information on malus and clawback provisions. Several companies mentioned that their audit or risk committee is responsible for overseeing non-financial reporting, such as TCFD, while others had established dedicated sustainability or other ESG-focused board committees. The vast majority of companies in our sample already provided information on malus and clawback provisions in their remuneration report, including circumstances in which they could be used.

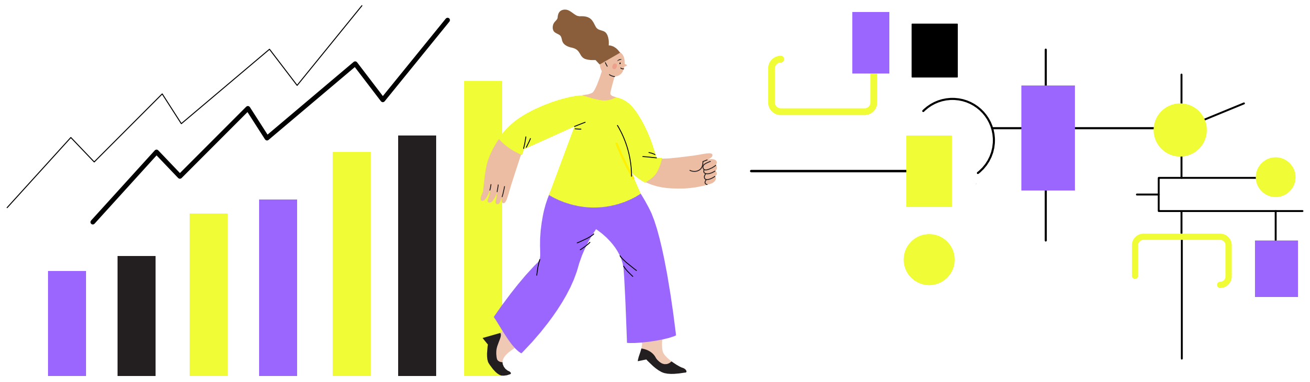
Conversely, monitoring culture appeared to be less of a focus compared with previous years, with over half of companies in our sample only providing a high-level overview or not mentioning it at all. Culture was also increasingly linked to people, in addition to or instead of purpose or values. Nevertheless, almost half explained how their desired culture is embedded within the company.

Highlights

77%
didn't mention the outcomes of board decisions outside the section 172 statement

50%
referenced non-financial reporting in the audit committee report

42%
provided a detailed explanation of how the board monitors culture, including metrics

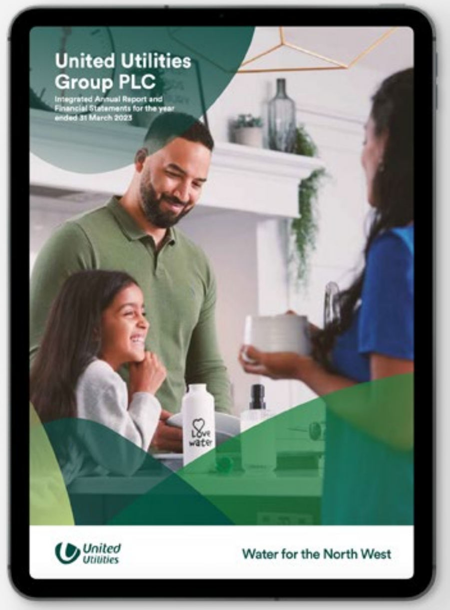


How well are companies placed to meet the incoming changes?

Case study

United Utilities
Annual Report 2023

The matters discussed by the Board are clearly presented as actions and their outcomes, anticipating the incoming requirements of the updated UK Corporate Governance Code 2024. Additionally, they are linked to the company's strategic priorities using colour-coded icons.



1 Corporate governance report

Board leadership and company purpose

Providing great water for a stronger, greener and healthier North West continued

Actions	Outcomes	Cross reference	Link to strategic priorities
Governance			
Reviewed and debated the overall risk profile of the group, and in particular the principal risks, emerging risks and risk appetite, including a review of the most significant operational risks.	Endorsed the nature, extent and management of key business risks and endorsed the view that the risk appetite approach and framework remained fit for purpose.	See page 60	
Reviewed the risk management systems, including financial, operational and compliance controls and reviewed the effectiveness of the internal control systems.	The risk management and internal control systems were considered to be effective.	See page 150	
Reviewed and discussed developments in cyber crime.	Approved the activities undertaken to enhance the effectiveness of the group's security controls.	See page 73	
Reviewed the terms of reference for the audit, remuneration, treasury and ESG committees and received post-meeting reports from the chairs of each committee summarising discussions and actions.	Approved amendments to the terms of reference of the company's committees as appropriate.	–	
Considered the proposal to establish a board committee with delegated responsibility to oversee compliance with regulatory assurance requirements and to be kept abreast of any changes thereto.	Established the compliance committee chaired by Alison Goligher.		
Reviewed biannual updates on changes and developments in corporate governance.	Matters implemented as considered appropriate.	–	
Reviewed and discussed the internal evaluation of the board, its committees and individual directors and conflicts of interest.	Identified action points and any ongoing training needs.	See page 145	
Reviewed the performance of the statutory auditor and recommendation for reappointment at the 2023 AGM.	Accepted the recommendation from the audit committee that KPMG be proposed for reappointed at the 2023 AGM.	See page 165	
Reviewed the resolutions and notice of meeting for the 2023 AGM.	Approved the resolutions to be proposed at the 2023 AGM, and convened the meeting.	See page 214	
Reviewed the approach and progress of work to identify areas where there is any risk of modern slavery occurring in our supply chain.	Approved the 2023/24 slavery and human trafficking statement.	See page 213	
Reviewed the effectiveness of the whistleblowing policies and processes and incidents under investigation and noted the activities within the business to prevent and detect fraud.	Concluded that the whistleblowing policies and processes were effective and noted the activities within the business to protect and detect fraud.	See pages 137 and 167	
Treasury hedging policies deep-dive session.	Provide the board with an in-depth session into the group's treasury hedging policies regarding interest rates, inflation, electricity and other commodity prices.	See page 169	
Considered the impact of the Russian invasion of Ukraine on the supply chain.	Sought to mitigate the impact on the supply chain and source alternative suppliers where possible.	See page 74	
Regulated business and its stakeholders			
Regular review of the progress of the Direct Procurement for Customers (DPC) approach and readiness of UUW as part of the project to replace sections of the Haweswater Aqueduct.	Board kept fully apprised of progress at key stages of the project through regular presentations at board meetings and the UUW board approved the issue of the tender pre-qualification questionnaire.	See page 68	
Water quality deep-dive session.	Provide the board with an in-depth view of the strategy for managing and improving water quality; an understanding of the importance of critical assets in the integrated supply zone during the future construction activity to replace sections of the Haweswater Aqueduct.		
Reviewed the 2022 Annual Performance Report and supporting assurance..	Approved the submission of the 2022 Annual Performance Report to Ofwat.		

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Key
Improve our rivers
Create a greener futu

Actions	Outcomes	Cross reference	Link to strategic priorities
Regulated business and its stakeholders			
Reviewed customer service performance measures.	In-year customer performance measures monitored against regulatory targets.		
Drainage and Wastewater Management Plan deep dive.	Provided an in-depth review of the submission and the opportunity for the board to challenge management's approach and provide strategic guidance prior to submission of the draft plan in June 2022.		
Considered the capital sanction to support the project at Oswestry water treatment works.	Approved the capital sanction.		
Other group business			
Considered the offer for the entire issued capital of United Utilities Renewable Energy Limited.	Approved the disposal of United Utilities Renewable Energy Limited.	See page 246	
Considered the renewal and extension of the existing revolving credit facilities until December 2026 to support the working capital needs of the Water Plus Group, the joint venture with Severn Trent.	Approved the renewal and extension of revolving credit facilities until December 2026, aligning with those provided by Severn Trent, the joint venture partner.	See page 278	
Shareholder relations			
Received and discussed a presentation by Rothschild Investor Advisory on investors' views and perceptions of the group in relation to, among other things: strategy; the group's unique selling proposition; performance; and how the company compares with other listed water and wastewater companies.	Provided the board with an indirect view of investor perceptions.	See page 137	
Regularly received and discussed feedback from roadshows, presentations, face-to-face meetings and correspondence between investors and the Chair, CEO and/or the CFO, and other communications received from large investors.	Provided the board with a direct view of investor perceptions and the opportunity for review and discussion and review of the group's response as applicable.	See page 137	
Financial			
Reviewed the 2020–25 business plan and the 2022/23 budget.	Noted the 2020–25 business plan and approved the 2022/23 budget.	–	
Reviewed and approved the half and full-year results and associated announcements and applicable dividend payments.	Approved the half and full-year results and associated announcements and considered and approved the interim and final dividend payments to be paid to shareholders.	–	
Reviewed management's proposed going concern and long-term viability statement.	Approved the going concern and long-term viability statement.	See pages 150 to 152	
Reviewed tax policies and objectives proposed by management for 2021/22.	Approved tax policies and objectives for 2021/22.	See page 208	
Reviewed the annual pensions update.	Pensions strategy affirmed and endorsed the preferred methodology for Guaranteed Minimum Pension equalisation.	See page 255	
Reviewed the annual treasury update.	Approved the treasury policies; the group's funding requirements for the year and the potential sources to meeting these funding requirements; and managing the group's interest rate and other market risk exposure.	See page 169	
Reviewed the annual insurance programme for 2022/23.	Approved the annual insurance programme for 2022/23.	–	
Reviewed progress with material litigation involving the group.	Strategy to defend claims robustly affirmed.	See page 75	

Stock code: UU. 133

Governance

West continued
Outcomes
Endorsed the nature, extent and management of key business risks and endorsed the view that the risk appetite approach and framework remained fit for purpose.
The risk management and internal control systems were considered to be effective.
Approved the activities undertaken to enhance the effectiveness of the group's security controls.
Approved amendments to the terms of reference of the company's committees as appropriate.

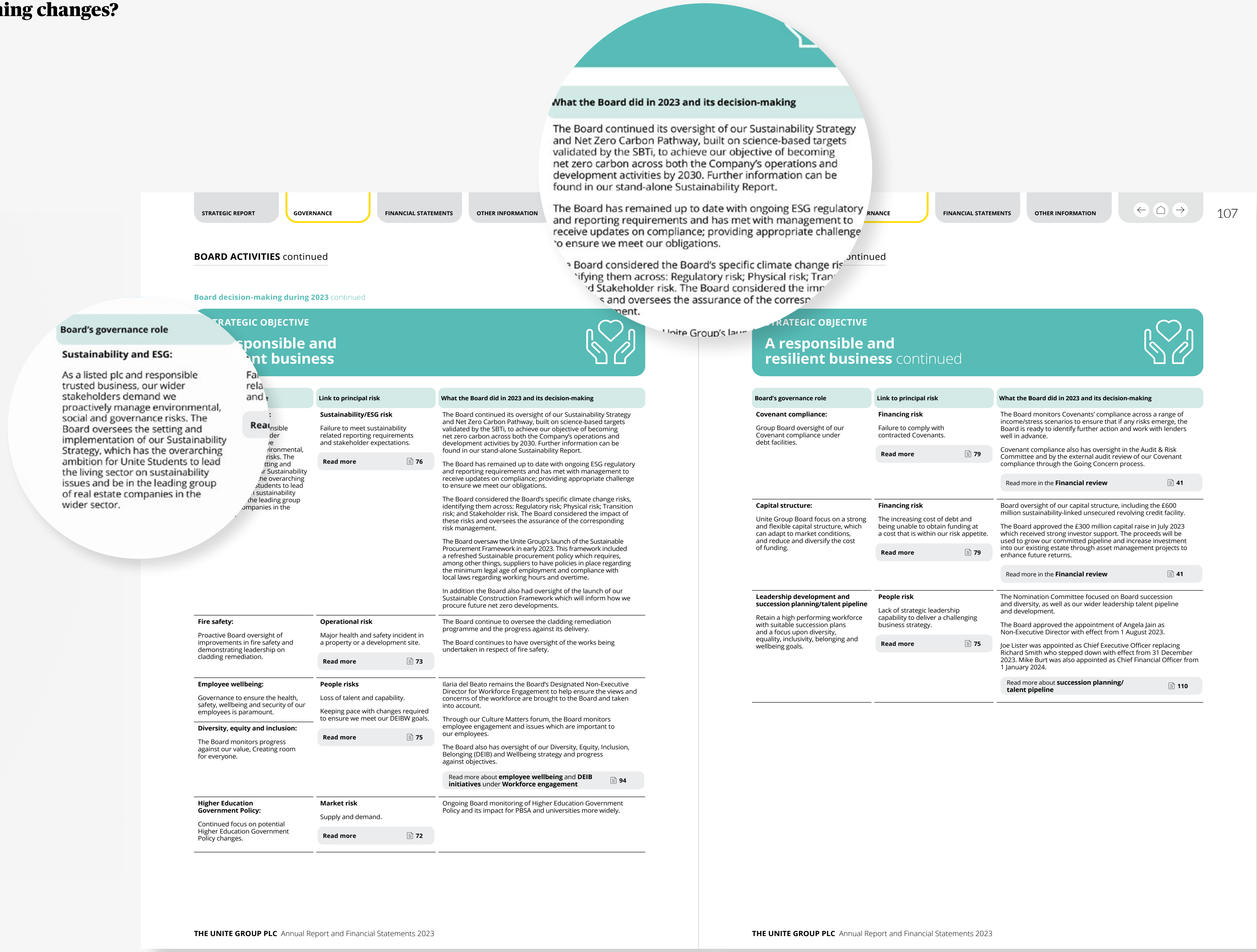
Outcomes
ers continued
In-year customer performance measures monitored against regulatory targets.
Provided an in-depth review of the submission and the opportunity for the board to challenge management's approach and provide strategic guidance prior to submission of the draft plan in June 2022.
Approved the capital sanction.

How well are companies placed to meet the incoming changes?

Case study

Unite Group
Annual Report 2023

Having provided an overview of the activities its Board undertook during the year, Unite Group deep dives into the Board's decisions related to its strategic objectives. The Board's governance role for different aspects associated with each strategic objective and the decisions taken are clearly explained and linked to principal risks.



STRATEGIC REPORT | GOVERNANCE | FINANCIAL STATEMENTS | OTHER INFORMATION

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BOARD ACTIVITIES continued

Board decision-making during 2023 continued

STRATEGIC OBJECTIVE

A responsible and resilient business

Board's governance role	Link to principal risk	What the Board did in 2023 and its decision-making
Sustainability and ESG: As a listed plc and responsible trusted business, our wider stakeholders demand we proactively manage environmental, social and governance risks. The Board oversees the setting and implementation of our Sustainability Strategy, which has the overarching ambition for Unite Students to lead the living sector on sustainability and be in the leading group of real estate companies in the wider sector.	**Sustainability/ESG risk** Failure to meet sustainability related reporting requirements and stakeholder expectations. Read more 76	The Board continued its oversight of our Sustainability Strategy and Net Zero Carbon Pathway, built on science-based targets validated by the SBTi, to achieve our objective of becoming net zero carbon across both the Company's operations and development activities by 2030. Further information can be found in our stand-alone Sustainability Report. The Board has remained up to date with ongoing ESG regulatory and reporting requirements and has met with management to receive updates on compliance; providing appropriate challenge to ensure we meet our obligations. The Board considered the Board's specific climate change risks, identifying them across: Regulatory risk; Physical risk; Transition risk; and Stakeholder risk. The Board considered the impact of these risks and oversees the assurance of the corresponding risk management. The Board oversaw the Unite Group's launch of the Sustainable Procurement Framework in early 2023. This framework included a refreshed Sustainable procurement policy which requires, among other things, suppliers to have policies in place regarding the minimum legal age of employment and compliance with local laws regarding working hours and overtime. In addition the Board also had oversight of the launch of our Sustainable Construction Framework which will inform how we procure future net zero developments.
Fire safety: Proactive Board oversight of improvements in fire safety and demonstrating leadership on cladding remediation.	**Operational risk** Major health and safety incident in a property or a development site. Read more 73	The Board continue to oversee the cladding remediation programme and the progress against its delivery. The Board continues to have oversight of the works being undertaken in respect of fire safety.
Employee wellbeing: Governance to ensure the health, safety, wellbeing and security of our employees is paramount. **Diversity, equity and inclusion:** The Board monitors progress against our value, Creating room for everyone.	**People risks** Loss of talent and capability. Keeping pace with changes required to ensure we meet our DEIBW goals. Read more 75	Ilaria del Beato remains the Board's Designated Non-Executive Director for Workforce Engagement to help ensure the views and concerns of the workforce are brought to the Board and taken into account. Through our Culture Matters forum, the Board monitors employee engagement and issues which are important to our employees. The Board also has oversight of our Diversity, Equity, Inclusion, Belonging (DEIB) and Wellbeing strategy and progress against objectives. Read more about **employee wellbeing** and **DEIB initiatives** under **Workforce engagement** 94
Higher Education Government Policy: Continued focus on potential Higher Education Government Policy changes.	**Market risk** Supply and demand. Read more 72	Ongoing Board monitoring of Higher Education Government Policy and its impact for PBSA and universities more widely.

THE UNITE GROUP PLC Annual Report and Financial Statements 2023

STRATEGIC OBJECTIVE

A responsible and resilient business continued

Board's governance role	Link to principal risk	What the Board did in 2023 and its decision-making
Covenant compliance: Group Board oversight of our Covenant compliance under debt facilities.	**Financing risk** Failure to comply with contracted Covenants. Read more 79	The Board monitors Covenants' compliance across a range of income/stress scenarios to ensure that if any risks emerge, the Board is ready to identify further action and work with lenders well in advance. Covenant compliance also has oversight in the Audit & Risk Committee and by the external audit review of our Covenant compliance through the Going Concern process. Read more in the **Financial review** 41
Capital structure: Unite Group Board focus on a strong and flexible capital structure, which can adapt to market conditions, and reduce and diversify the cost of funding.	**Financing risk** The increasing cost of debt and being unable to obtain funding at a cost that is within our risk appetite. Read more 79	Board oversight of our capital structure, including the £600 million sustainability-linked unsecured revolving credit facility. The Board approved the £300 million capital raise in July 2023 which received strong investor support. The proceeds will be used to grow our committed pipeline and increase investment into our existing estate through asset management projects to enhance future returns. Read more in the **Financial review** 41
Leadership development and succession planning/talent pipeline Retain a high performing workforce with suitable succession plans and a focus upon diversity, equality, inclusivity, belonging and wellbeing goals.	**People risk** Lack of strategic leadership capability to deliver a challenging business strategy. Read more 75	The Nomination Committee focused on Board succession and diversity, as well as our wider leadership talent pipeline and development. The Board approved the appointment of Angela Jain as Non-Executive Director with effect from 1 August 2023. Joe Lister was appointed as Chief Executive Officer replacing Richard Smith who stepped down with effect from 31 December 2023. Mike Burt was also appointed as Chief Financial Officer from 1 January 2024. Read more about **succession planning/ talent pipeline** 110

THE UNITE GROUP PLC Annual Report and Financial Statements 2023

How well are companies placed to meet the incoming changes?

Case study

Lloyds Banking Group
Annual Report 2023

Lloyds Banking Group provides information on how the Board oversees the embedding of a value-led corporate culture. This is highlighted by the Chair in his introduction to the governance section.

Early adoption of the ISSB Standards remains rare

Two-thirds of companies in our sample didn't mention ISSB at all and most of those who did only issued a holding statement, so it was difficult to gauge the level of preparedness among FTSE 350 constituents. Only two companies had started to report against the four ISSB pillars, although not all required disclosures.

To be well prepared for this challenging new framework, we would expect to see an indication that companies have carried out a materiality assessment to identify their material ESG topics, mapped their value chain and report against TCFD and SASB – and therefore should have some or all of the necessary data collection processes in place. However, few companies provided clear information on materiality and value chain mapping and, while all reported against TCFD, only about one-third mentioned SASB.

That said, thanks not least to mandatory TCFD reporting for LSE-listed companies, ESG-related governance and risk management are relatively well established, so almost all sampled reports provided information on responsibilities and processes, with the majority also linking them to key ESG issues beyond climate change. Likewise, most companies had set timebound targets for these issues. However, they were generally not discussed in terms of risks and opportunities, and their impacts on the business, strategy and financial planning, except as part of risk management. Even the impacts of climate change were often discussed in qualitative, rather than quantitative, terms.

This suggests that companies still struggle to connect ESG issues with their corporate strategy or are reluctant to talk about it. If ISSB becomes mandatory in the UK, we would expect its strategy pillar to be a key area of consideration given the detailed disclosures required, including for quantitative data linked to the financial statements.

While this is not expected to happen until 2026, companies in scope of the UK Companies Act 2006 and/or listed on the LSE should start preparing now. Value chain mapping in particular is likely to be complex and time consuming, as it requires companies to define their value chain and collect data from suppliers, customers and other third parties, often for the first time.

Are you preparing for ISSB? Luminous can help with:

- Materiality assessment
- IFRS S1 and S2 gap analysis
- Roadmap development
- Report planning
- Disclosure tracking

Please don't hesitate to contact us at stephen.butler@luminous.co.uk

Highlights

50%
reported risk management for key ESG issues other than climate change

35%
reported against SASB

15%
provided information on the impact of ESG risks and opportunities other than climate change on business, strategy and financial planning

How well are companies placed to meet the incoming changes?

Client case study

Severn Trent
Annual Report 2024

Severn Trent has started to consider the IFRS S2 requirements in its TCFD disclosures. It also includes an index table showing where in its reporting suite the metrics and topics of the SASB standards that companies in its sector are recommended to report against under ISSB's IFRS S2 can be found.

This section of our TCFD disclosure sets out the industry and cross industry metrics and targets against which we have reported. We have incorporated metrics used by the Board and management to measure progress towards our targets, and the impact this has had in terms of financial investment. These meet the ISSB and FCA guidance and our metrics go above and beyond what the Sustainability Accounting Standards Board ('SASB') recommends. The table on page 75 shows how measures map across to the recommendations of SASB, and further detail can also be found within our Sustainability Report.

METRICS AND TARGETS

We measure and manage a wide range of metrics, w… help us assess how effective these are in minimising … risks in a changing future. These include a range of metrics that measure our ability to provide and take awa… water, our influence and impact on natural capital, our adaptation measures and any changes in the regulatory environment. These are reported annually in our Annual Performance Report to Ofwat, which provides a transparent assessment of our performance.

Severn Trent has reported against the Metrics and Targets TCFD recommendations and CFD requirements below

TCFD recommendation	Progress this year
CFD requirements g) Describe the targets used by the company to manage climate-related risks and to realise climate-related opportunities, and performance against those targets. h) Describe the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities, and the calculations on which those key performance indicators are based.	We were again awarded an A- from the Carbon Disclosure Project ('CDP') for our 2022/23 disclosure (awarded in 2023/24). CDP requests information from companies about climate change and scores each company on the quality and completeness of responses. Our climate change information is publicly accessible. We continue to expand on our TCFD disclosure to incorporate financial information, as we recognise the importance of this in providing greater transparency over the impact climate change has on our investment decisions. This will continue to expand as we set new targets and challenge ourselves to deliver against our net zero ambitions in the next five years. Our PR24 Business Plan incorporates new metrics and targets against a range of objectives, including tackling the challenges of water scarcity and flood risk alleviation.
TCFD recommendations – Metrics and Targets a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas ('GHG') emissions and the related risks. c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	We implemented an internal carbon tax in 2022/23 which continued into 2023/24 across all directorates. This raised another £5.2 million of funds, in addition to £5.2 million in 2022/23, that were invested in our Net Zero Transition Plan, including new research and development innovations. We continue to hold the Advancing Tier for the Carbon Trust Route to Net Zero Standard: this certification recognises the progress of an organisation on its route to net zero. Our financial planning processes – both for this AMP and for AMP8 – integrate carbon prices within both our annual processes and our investment objectives, to support delivery of our ambitious transition plan over the next AMP. In collating our submission to Ofwat for our PR24 Plan, we used a benefits assessment tool ('BAT') to ensure our decisions are driven by least cost and best value, taking into account natural capital, social, biodiversity and other non-monetary benefits, alongside financial return. Our analysis and research for our PR24 Business Plan also provided customer insights into the impact of increased investment on affordability. Customers support increased bills to benefit future generations, provided that bill impacts are gradual. More information can be found in our LTDS.

Set out below are cross industry metrics and targets against which we aim to report, and our current process maturity which helps us assess where to develop and enhance our reporting to meet evolving requirements.

Cross industry metrics and targets	Reference	Process maturity
GHG emissions	See table on page 72	3
Transition risks – the amount and percentage of assets or business activities vulnerable to transition risks	See sections 1 – 3 of Key Metrics and Investment table on pages 65 to 66	2
Physical risks – the amount and percentage of assets or business activities vulnerable to physical risks	See sections 4 – 6 of Key Metrics and Investment table on pages 65 to 66	2
Climate-related opportunities – the amount and percentage of assets or business activities aligned with climate-related opportunities	See Key Metrics and Investment table on pages 65 to 66	2
Capital deployment – the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities	See Key Metrics and Investment table on pages 65 to 66	3
Internal carbon prices (amount and explanation of how it is used)	See section 1 of Key Metrics and Investment table on pages 65 to 66	3
Remuneration (% remuneration recognised in current period that is linked to climate-related considerations, and how these are factored in)	See section 3b of Key Metrics and Investment table on pages 65 to 66. Further detail can be found within the Directors' Remuneration Report on pages 169 to 173	3

We have rated our disclosure by reference to the maturity of our processes and readiness to disclose the required level of detail against the above cross industry metrics:
3 = we have incorporated the required detail within this disclosure across the subsequent pages.
2 = we have sought to provide detail on some of the required information while we establish more mature processes to improve the level of information available in future.
1 = we are working to establish new processes that support our work to provide a more detailed disclosure in future.

SEVERN TRENT PLC ANNUAL REPORT AND ACCOUNTS 2024 63

DISCLOSURE UNDER SUSTAINABILITY ACCOUNTING STANDARDS BOARD

Companies in the Water Utilities and Services industries are recommended to report against the following metrics and topics for SASB standa… in the standard IFRS S2 (Climate-related Disclosures).

Topic	Accounting Metric	Severn Trent Disclosure
Energy Management	(1) Total energy consumed, (2) percentage grid electricity, (3) percentage renewable	Annual Report and Accounts
Distribution Network Efficiency	Water main replacement rate	Annual Performance Reports
	Volume of non-revenue real water losses	Annual Performance Reports
Effluent Quality Management	Number of incidents of non-compliance associated with water effluent quality permits, standards, and regulations	Annual Performance Reports
	Discussion of strategies to manage effluents of emerging concern	Drainage and Wastewater Management Plan ('DWMP')
Water Affordability & Access	Average retail water rate for (1) residential, (2) commercial, and (3) industrial customers	Refer to our 2023/2024 Scheme of Charges – Household Customers Refer to our 2023/2024 Scheme of Charges – Wholesale Charges Non-Household
	Number of residential customer water disconnections for non-payment, percentage reconnected within 30 days	We do not disconnect household customers for non-payment of bills
	Discussion of impact of external factors on customer affordability of water, including the economic conditions of the service territory	Annual Report and Accounts
Drinking Water Quality	Number of incidents of non-compliance associated with drinking water quality standards and regulations	Annual Performance Reports
	Discussion of strategies to manage drinking water contaminants of emerging concern	Annual Report and Accounts
End-Use Efficiency	Percentage of water utility revenues from rate structures that are designed to promote conservation and revenue resilience	Annual Performance Reports
	Customer water savings from efficiency measures, by market	Annual Performance Reports
Water Supply Resilience	Total water sourced from regions with High or Extremely High Baseline Water Stress, percentage purchased from a third party	Refer to the EA Water Scarcity Strategy R… ('WSSR'), our reporting on sourcing fr… regions is outlined within the EA WS…
	Volume of recycled water delivered to customers	Annual Performance Reports
	Discussion of strategies to manage risks associated with the quality and availability of water resources	Draft WRMP
Network Resiliency & Impacts of Climate Change	Wastewater treatment capacity located in 100-year flood zones	DWMP
	(1) Number and (2) volume of sanitary sewer overflows (SSO), (3) percentage of volume recovered	Event Durat…
	(1) Number of unplanned service disruptions, and (2) customers affected, each by duration category	Annual Per…
	Description of efforts to identify and manage risks and opportunities related to the impact of climate change on distribution and wastewater infrastructure	Annual Report and Accounts DWMP and draft WRMP

The reports referenced above can be located on the regulatory library section of our website.

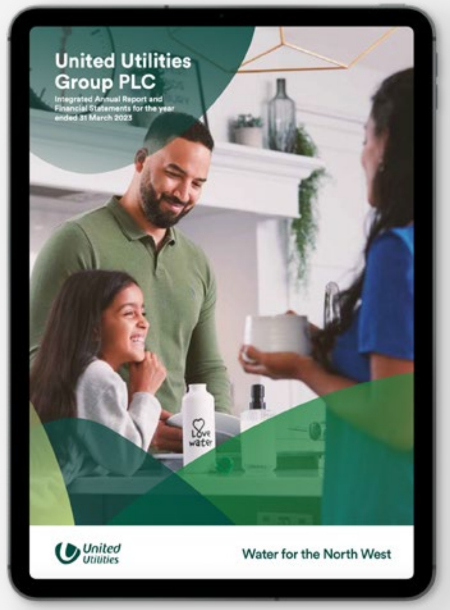
SEVERN TRENT PLC ANNUAL REPORT AND ACCOUNTS 2024 75

How well are companies placed to meet the incoming changes?

Case study

United Utilities
Annual Report 2023

United Utilities explains that its Annual Report incorporates the four pillar structure of TCFD, ISSB and TNFD. To help readers find the information relevant for each framework, it has placed an index table on the opening pages of the report which includes page references for all three frameworks.



Benchmarking our ESG performance

For over 20 years we have measured ourselves aga... national and international benchmarks of responsibl... business practice, often breaking new ground in the w... the water sector approaches challenges such as catchm... management and helping customers struggling to pay the... bills through affordability schemes.

We align ourselves to recognised management standards and accreditations to give confidence in the way we are operating. We continue to evolve existing programmes, develop new initiatives, and respond to the changing world in which we operate. For example, we have been undertaking a project to integrate six-capitals thinking into business processes and planning to better inform our decision-making and enable us to create and protect value for all stakeholders.

Read more about the six capitals on page 34

We actively participate in a range of global ESG ratings, indices and frameworks to benchmark our approach against best practice and emerging sustainability challenges. Our strong consistent performance against these external benchmarks demonstrates our commitment to operating in a responsible manner, and we monitor our performance against a suite of trusted indices as one of our operational key performance indicators (KPIs).

Read more about our performance against these ratings and indices on pages 104 to 109

Many of the ESG indices in which we participate draw their data from this report. We collate, monitor and report publicly on a wide range of performance measures across ESG categories, with consideration to what stakeholders tell us matters most, as well as our contribution to wider value and global goals such as the UN SDGs and climate change mitigation goals.

In addition to the wealth of ESG disclosures and performance data throughout this report, the following indicates where further information on certain frameworks can be found:

World Economic Forum (WEF) International Business Council (IBC)

The WEF IBC has proposed a set of common metrics for the consistent reporting of sustainable value creation in mainstream annual reports. We already integrate many of these metrics in our integrated annual report and to make this easier for those searching for the information we have collated them into one place on our website.

Read more on our website at unitedutilities.com/corporate/responsibility/our-approach/cr-reporting/wef

Sustainability Accounting Standards Board (SASB)

SASB standards aim to standardise disclosure of material sustainability information mainly for companies based in the United States. As many of our shareholders are located in North America we publish comparable SASB data on our corporate website. This covers the main SASB data points for the water utilities industry, of which we are part.

Read more on our website at unitedutilities.com/corporate/responsibility/our-approach/cr-reporting/sasb

Stock code: UU.

Updating our report to further integrate ESG disclosures

The frameworks and standards for ESG reporting are developing rapidly in response to growing expectations and increasing interest from investors and other stakeholders. For example, the draft standards from the International Sustainability Standards Board (ISSB) ask that all material sustainability-related risks and opportunities be disclosed in line with the four-pillar approach used by the Task Force on Climate-related Financial Disclosures (TCFD), i.e. providing information on strategy, governance, risks and opportunities, and metrics and targets.

As part of our drive to continuously improve our reporting to meet investor and other stakeholder needs, we have evolved our report this year to incorporate these four pillars centrally to our business model. As a result, our sustainability disclosures (including the required components of TCFD reporting) are integrated much more fully across our report. Each pillar of our business model provides general company information as well as more specific climate and nature-related information, and other key issues of material interest to readers.

This mirrors the integrated thinking approach we take to running the business, with sustainability considerations integral to everything we do. While this provides the most accurate reflection of our business, we recognise that some readers have targeted areas of interest and may not wish to read the report in full to find the relevant information.

To ensure it is as easy as possible for all readers to find what they are looking for, we use colour coding and iconography to enable quick and easy identification of climate, nature and other elements throughout this report, and pages 04 and 05 signpost to the pages on which non-financial information and the requirements of TCFD and TNFD can be found.

We have also adapted the way we present our operational performance for the year and our key performance indicators. These are now structured across the ESG headings, in alignment with the 'stronger', 'greener' and 'healthier' ambitions of our refreshed purpose. We continue to monitor and disclose how our activities and performance impact our stakeholders, retaining a comprehensive spread of metrics in relation to each stakeholder group.

Open, honest and transparent reporting is at the core of our responsible business approach. As the reporting landscape develops further, we will continue to adapt our disclosures to take account of international best practice in the presentation of ESG performance and data.

Integrated reporting and our sustainability report

We are keen to help meet the information needs of all our stakeholders, and have published a separate sustainability report this year to present our ESG disclosures in a format that some readers may find more familiar and easier to use. For the avoidance of doubt, readers of this integrated annual report do not need to read the sustainability report as well as sustainability-related disclosures are already included throughout this report. The additional sustainability report is a presentational alternative for stakeholders who are not interested in the financial aspects of our performance.

Read our sustainability report at unitedutilities.com/corporate/responsibility/our-approach/esg-performance

03

Our TCFD, TNFD and other sustainability disclosures

Sustainability concerns, including climate and nature, are fundamental to our business and integrated in everything we do.

Our activities are so reliant on the natural environment that assessing and managing the risks, opportunities, dependencies and impacts we have in relation to climate change and nature is integral to our entire business model, therefore disclosures in relation to these issues are integrated throughout our report to reflect the way we think about these issues. Other material matters are integrated in the same way, including cyber security, financial risk management, affordability and vulnerability, health, safety and wellbeing, responsible business in our supply chain, and equity, diversity and inclusion.

As mentioned on page 03, we have adapted our business model to follow the four-pillar structure that links the Task Force on Climate-related Financial Disclosures (TCFD), Task Force on Nature-related Financial Disclosures (TNFD) and International Sustainability Standards Board (ISSB) recommendations. To assist readers with finding the disclosures of interest to them, this page shows where disclosures can be found throughout the report, and these are colour-coded and icon-indicated throughout for easy identification, as demonstrated in the table below.

	Where to find our TCFD disclosures		Where to find our TNFD disclosures		Where to find our Other disclosures	
	Pages	Topic	Pages	Topic	Pages	Topic
Governance	50–59	Company-wide governance				
	130–138	Further detail on board and management committees, including structure responsibilities and meeting frequency				
	58	Section 172(1) Statement				
	52	Board oversight of climate-related risks and opportunities	53	Board oversight and management role in managing and assessing nature-related dependencies, impacts, risks and opportunities	53–55	Governance around other risk and opportunities of material interest
	52	Management role in assessing and climate-related risks and opportunities				
Strategy	38	Strategic priorities				
	39–41	Planning horizons : what we mean by short term, medium term and long term				
	28–31	Our approach to materiality assessment				
	42–44	Climate risks and opportunities identified over short, medium and long term	49	How nature influences our approach, strategy and planning, and the resilience of our strategy to different scenarios, with adaptive planning	49	Other risk and opportunities of material interest that influence our approach
	43–44	Impact of climate-related risks on our strategy and planning				
	44	Use of climate-related scenarios				
	45–47	Net zero transition plan				
	71	Our risks most sensitive to climate change				
	241	Climate-related financial planning				
Risk and opportunities	60–69	Our approach to identifying , assessing and managing risks and opportunities including our principal risks, common themes, most significant event-based risks, and new and emerging risks and opportunities				
	70	How we identify and assess climate-related risks	72	How we identify, assess and manage nature-related risks, and how this is integrated into our risk management processes	73	How we identify, assess and manage other risks other risk and opportunities of material interest
	71	Management of climate-related risks				
	71	Integration of climate-related risks into our risk management processes				
	71	Our risks most sensitive to climate change				
Metrics and targets	76–83	Metrics and targets for assessing general company performance, and assurance of those metrics				
	83	Short, medium and long-term targets				
	84–111	Operational performance for 2022/23				
	81	Metrics and targets used to assess climate-related risks and opportunities	82	Metrics and targets used to assess and manage nature-related dependencies, impacts, risks and opportunities	82	Metrics and targets in relation to other risks and opportunities of material interest to stakeholders
	93–95	Energy and carbon report with scope 1, 2 and 3 greenhouse gas (GHG) emissions				
	81	Targets used to manage climate-related risks				

Stock code: UU.

05

How well are companies placed to meet the incoming changes?

Spotlight

Setting the pace: Nigeria's early embrace of the ISSB standards

We reviewed the annual reports of 13 Nigerian companies as they prepare to align their reporting with the IFRS S1 and S2 standards that were launched in Nigeria on 26 June 2023. The Financial Reporting Council of Nigeria has been proactive in promoting the early adoption of these standards. The hope is to attract much-needed capital into Nigeria's local markets through more transparent reporting around sustainability-related financial disclosures. As Emmanuel Faber, ISSB Chair, states: "Nigeria is leading the pack in Africa with these standards, which Nigeria is willingly adopting, which will unlock sustainable capital inflows through foreign direct investments, promote inclusivity in value chains and facilitate the decarbonisation of the national economy."

Of the companies in our sample, only Seplat Energy, which is dual listed on the Nigerian and London Stock Exchanges, was an early adopter. With its report broadly based on the Integrated Reporting <IR> Framework, Seplat used an integrated approach for its ISSB reporting with an index table – segmented into the four ISSB pillars of governance, strategy, risk management, and metrics and targets – guiding the reader to where disclosures relevant to IFRS S1 and S2 were located. The material topics underlying these standards were presented in a table which showed them alongside an explanation of their importance and impact on the company, and linked to the strategy, stakeholders and KPIs. However, the risks and opportunities arising from each topic and how these are managed was not discussed in detail, except for climate change, which had previously been reported under TCFD, and there was no linkage to the financial statements except for a note explaining the impact of ISSB on accounting policy disclosures. We applaud Seplat for volunteering to be an early adopter, but overall the company appeared to be at an early stage in its journey towards ISSB compliance.

Companies should also be aware that the ISSB guides against 'obscuring' material information by 'scattering' it, which seems difficult to reconcile with Seplat's index table approach, and it is easy to see why. Although the report used colour-coded icons to mark pages that included ISSB-related information, the identification of specific disclosures was often left to the reader, which made them difficult to follow and assess. It is worth remembering that this readership includes investors, regulators and rating agencies, so it is in a company's interest to make it as easy as possible for them to find the information they depend on for their decision making.

CSRD discussions are lacking

Similar to ISSB, over half of companies in our sample didn't mention CSRD at all and those who did only issued a holding statement, so their level of preparedness was difficult to assess. This might be partly due to the fact that UK companies are less likely to be in the first phase of mandatory CSRD reporting than their continental peers, although in the case of ISSB this silence was harder to understand.

In order to be as well prepared as possible for the very challenging CSRD framework, we would expect companies to have carried out a double materiality assessment, mapped their value chain and report against the GRI, which is similar in structure to CSRD although less demanding in terms of its disclosure requirements. However, few companies appeared to have done this and none had started to align with the CSRD framework, including some in the first phase of mandatory CSRD reporting.

The complexity of the work required to align with the CSRD requirements should not be underestimated, particularly as our research suggests that some FTSE 350 constituents might not have mapped their value chain or undertaken a materiality assessment before, let alone a double materiality assessment. It is perhaps instructive that, according to a recent PwC study, the number of ESG-related impacts, risks and opportunities that companies were evaluating in preparation for CSRD dropped from over 100 to fewer than 50 after applying its materiality requirements, while the percentage of companies evaluating fewer than 20 doubled.

Most companies in our sample did provide information on ESG-related governance and risk management, and had set metrics and targets for ESG issues other than climate change, but we would expect those in scope of CSRD to substantially step up the granularity of their reporting over the next 12 months.

23%
reported against GRI

17%
have carried out a double materiality assessment

0%
were early adopters of CSRD

Are you preparing for CSRD? Luminous can help with:

- Double materiality assessment
- ESRS gap analysis
- Roadmap development
- Report planning
- Disclosure tracking

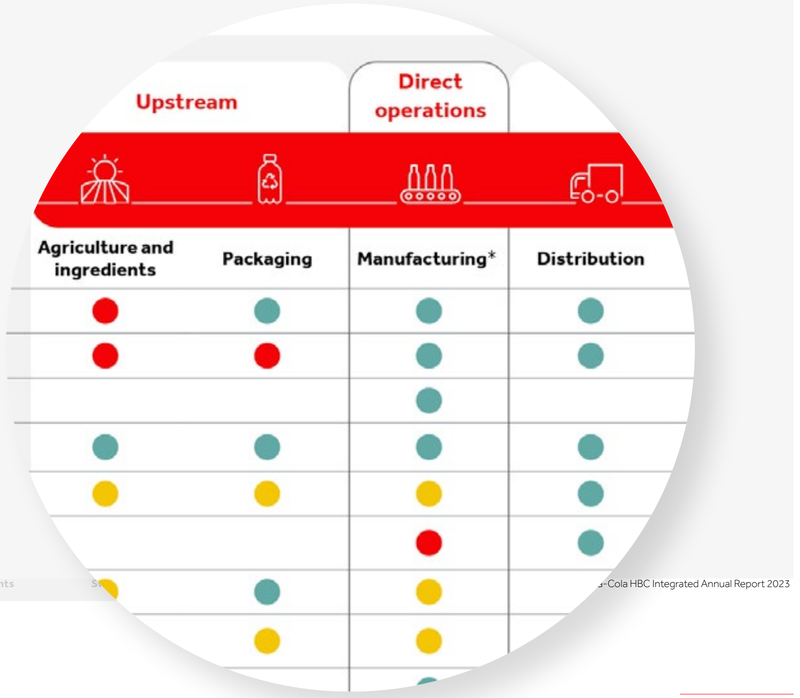
Please don't hesitate to contact us at stephen.butler@luminous.co.uk

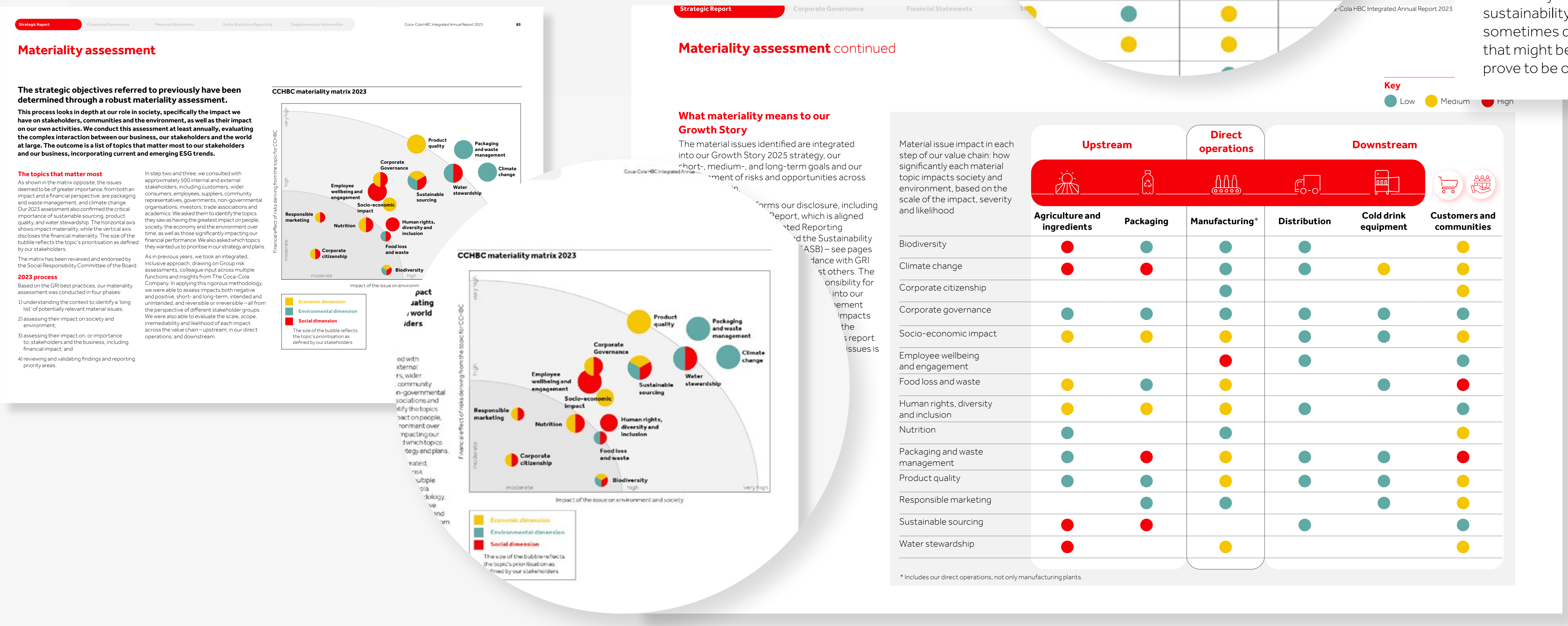
How well are companies placed to meet the incoming changes?

Client case study

Coca-Cola HBC
Annual Report 2023

Coca-Cola HBC is in scope for the first phase of mandatory CSRD reporting. Although the company doesn't yet align with the CSRD framework, it has carried out a double materiality assessment in preparation for CSRD reporting, mapped its value chain and reports against GRI.





Material issue impact in each step of our value chain: how significantly each material topic impacts society and environment, based on the scale of the impact, severity and likelihood	Upstream: Agriculture and ingredients	Upstream: Packaging	Direct operations: Manufacturing*	Downstream: Distribution	Downstream: Cold drink equipment	Downstream: Customers and communities
Biodiversity	High	Low	Low	Low		Medium
Climate change	High	High	Low	Low	Medium	Medium
Corporate citizenship			Low			Medium
Corporate governance	Low	Low	Low	Low	Low	Low
Socio-economic impact	Medium	Medium	Medium	Low	Low	Medium
Employee wellbeing and engagement			High	Low		Low
Food loss and waste	Medium	Low	Medium		Low	High
Human rights, diversity and inclusion	Medium	Medium	Medium	Low		Low
Nutrition	Low		Low			Medium
Packaging and waste management	Low	High	Medium	Low	Low	High
Product quality	Low	Low	Medium	Low	Low	Medium
Responsible marketing		Low	Low		Low	Medium
Sustainable sourcing	High	High		Low		Low
Water stewardship	High		Medium			Medium

* Includes our direct operations, not only manufacturing plants.

Future-fit materiality

A key milestone in 2023 was pivoting towards a double materiality methodology in preparation for the forthcoming Corporate Sustainability Reporting Directive (CSRD). In addition to the impact materiality, where we assess impacts the organisation has or could have on the economy, the environment, people, and human rights, which in turn can indicate their contribution to sustainable development (inside-out approach), we take also an 'outside-in' approach, focusing on the financial impact which identifies and analyses the material topics from a financial point of view, namely those that affect or could affect the Company's financial condition or operating results (outside-in approach). As a first step, we've applied this approach qualitatively by considering mainly the ESG risks and opportunities. Dynamic materiality recognises that the materiality of sustainability impact can evolve over time, and sometimes quite rapidly. In other words, topics that might be considered immaterial today could prove to be of critical importance tomorrow.

How well are companies placed to meet the incoming changes?

Spotlight

Starting the CSRD journey: assessing European first movers

We analysed 18 reports of European companies reviewing core reporting areas:

- Double materiality
- Value chain mapping
- Sustainability strategy
- Metrics and targets
- Consolidated versus subsidiary reporting
- Length
- Location of disclosures
- Assurance

We found that their disclosures varied, with some companies integrating everything into the annual report, while others produced a content ecosystem, including separate sustainability reports, topic-specific reports covering areas such as climate, diversity, equity and inclusion, human rights, green bonds and data supplements, as well as digital content.

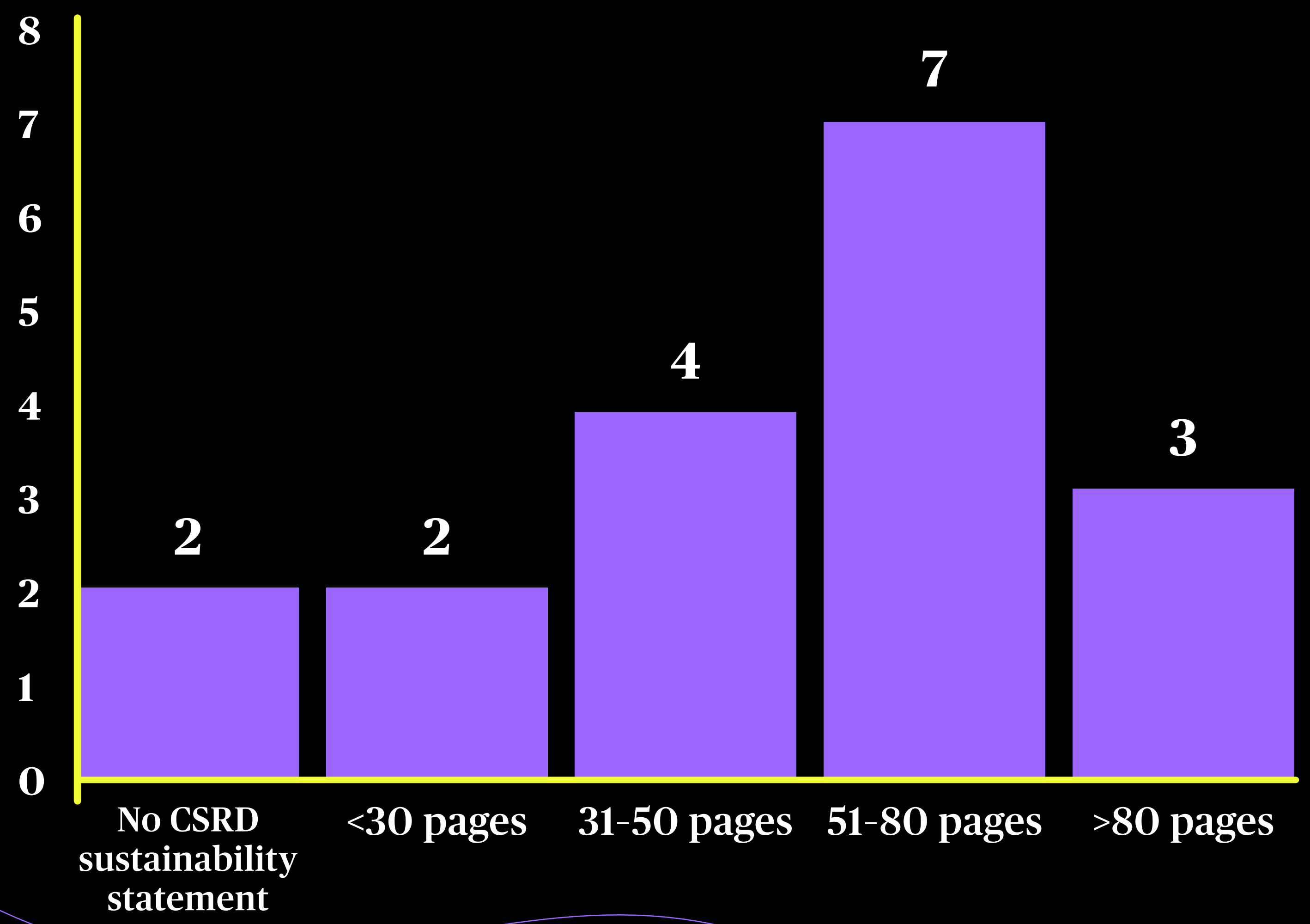
All companies in our sample provided group consolidated reports, rather than individual reports for in-scope EU subsidiaries, with three-quarters including a clearly marked sustainability statement in line with EFRAG guidance. It is worth noting that, even at this early stage, due to the level of detail required, over half of these statements were at least 50 pages long, so in-scope companies should brace themselves for a substantial increase in the page count of their annual reports.

Most early adopters made a strong start in addressing double materiality and providing an overview of material topics for each ESRS. However, while the majority had defined sustainability strategies, many had not updated these strategies based on their materiality assessments, with over half categorised as either having no alignment or being at an early stage. Value chain mapping also remained high level, with over half of companies assessed to be in the early stages of meeting EFRAG's communication requirements. This was likely due to the complexity of mapping and collecting accurate data from all parts of the value chain, especially from external partners.

Lastly, reporting on the metrics and targets associated with material topics was also relatively weak. The majority of our sample presented inconsistent targets and performance reporting, had not set metrics or targets for all material topics or aligned only partially with the ESRS. Again, this was likely due to the complexity of the requirements and challenges in data collection, expertise and resources.

If you would like to discuss the full research, please contact us at stephen.butler@luminous.co.uk

How long was the sustainability statement?



How well are companies placed to meet the incoming changes?

TNFD is gaining traction

As mentioned in the context of ISSB and CSRD, environmental issues beyond climate change, particularly waste management and water stewardship, are beginning to receive greater attention than in the past. It was encouraging to see companies moving from year-on-year performance reporting to timebound targets, which points towards a more strategic approach. However, few companies in our sample reported against TNFD, including some who had participated in TNFD pilots. Of course, it is difficult to gauge the degree of preparation that might be going on behind the scenes, and the complexity of nature-related dependencies, as well as the absence of agreed metrics and targets, makes TNFD reporting challenging. However, companies should remember that market and societal expectations often precede regulation, as was the case with climate change. Moreover, the ISSB has endorsed TNFD and is currently planning research projects on the risks and opportunities associated with biodiversity and ecosystems, as part of which it will consider how to build on the recommendations of the TNFD. This suggests that if ISSB becomes mandatory, nature will play a part in this.

Highlights

69%
didn't mention TNFD

42%
have set targets for key nature-related ESG issues

15%
have started TNFD reporting

TPT alignment is in its infancy

Climate change was one of the most comprehensively discussed ESG issues in the reports we reviewed and all companies in our sample had climate transition plans. However, the level of detail provided varied from high-level commitments without clear milestones to science-based targets and only a small minority had started to align with TPT.

Companies who haven't done so already should consider fleshing out their transition plans, as the ISSB's climate-related standard, IFRS S2, includes requirements to explain how they plan to achieve their climate-related targets, including the use of carbon credits, whether the offsets are nature based or based on technological carbon removals, and which third-party scheme(s) will certify them.

Moreover, the UK Government is planning to consult on how the UK's largest companies can most effectively disclose their transition plans and the FCA has announced its intention to make transition plans mandatory for FTSE 100 companies. Given the overlap between IFRS S2 and TPT, and the fact that the ISSB's parent organisation is taking over responsibility for the TPT's resources, this is likely to involve the TPT Framework.

Highlights

92%
explained how net-zero ambitions are integrated into their corporate strategy

81%
have a climate transition plan with milestones or targets

19%
have started to align with TPT

How well are companies placed to meet the incoming changes?

Client case study

Severn Trent
Annual Report 2024

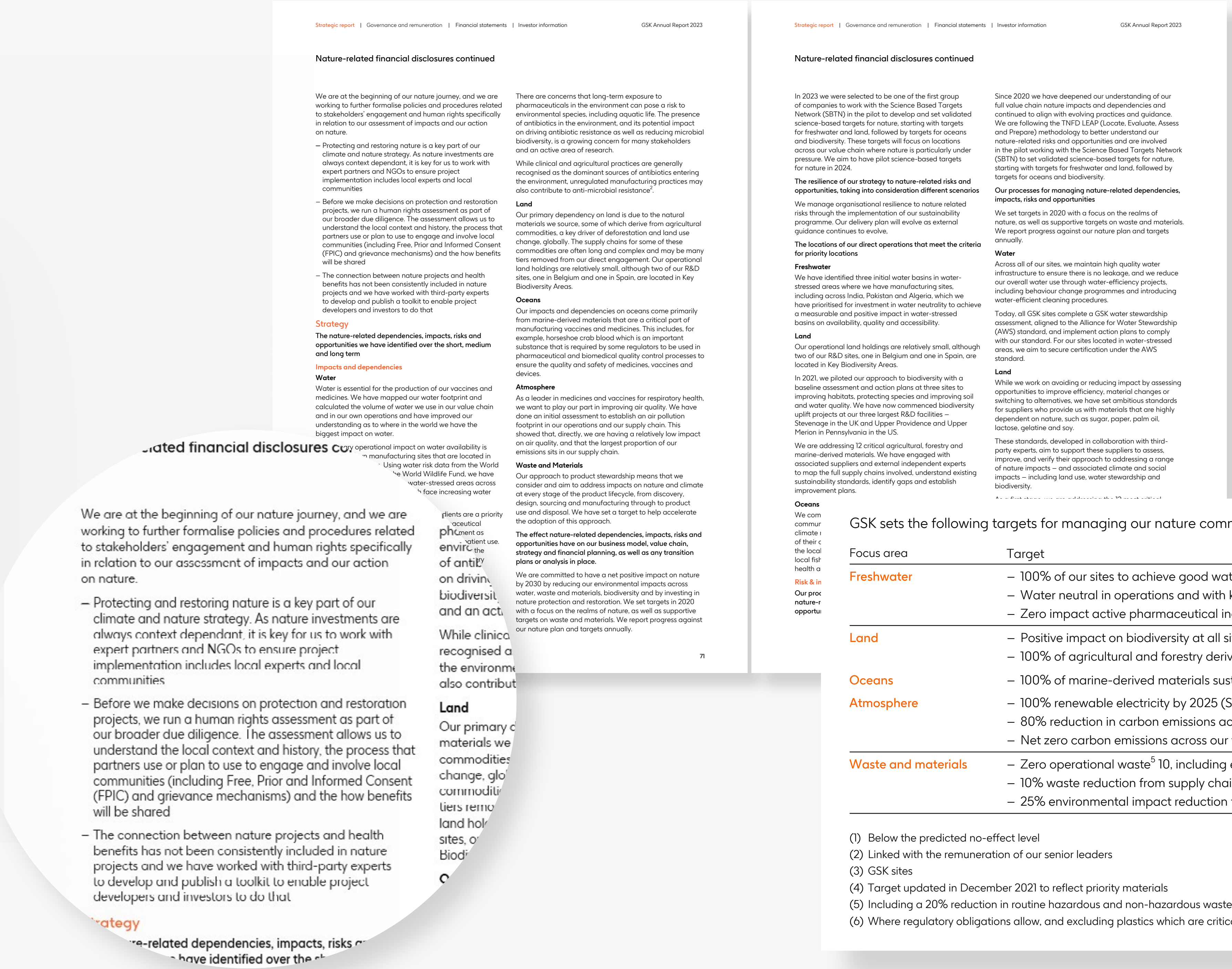
Severn Trent's report includes high-level disclosures against the four TNFD pillars, including clear targets for future reporting and current gaps. The LEAP (Locate, Evaluate, Assess and Prepare) process is identified and discussed with regard to the supply chain.

How well are companies placed to meet the incoming changes?

Case study

GSK
Annual Report 2023

GSK has started to report against TNFD. Its annual report includes a section on nature-related financial disclosures, alongside climate-related financial disclosures.



GSK sets the following targets for managing our nature commitments:

Focus area	Target
Freshwater	– 100% of our sites to achieve good water stewardship by 2025 and reduce overall water use by 20% by 2030 – Water neutral in operations and with key suppliers in water-stressed regions by 2030 – Zero impact active pharmaceutical ingredient levels[1] for all our sites and key suppliers by 2030[2]
Land	– Positive impact on biodiversity at all sites[3] by 2030 – 100% of agricultural and forestry derived materials sustainably sourced and deforestation free by 2030[2,4]
Oceans	– 100% of marine-derived materials sustainably sourced by 2030
Atmosphere	– 100% renewable electricity by 2025 (Scope 2)[2] – 80% reduction in carbon emissions across our full value chain by 2030[2] – Net zero carbon emissions across our full value chain by 2045[2]
Waste and materials	– Zero operational waste[5] 10, including eliminating single use plastics[6] by 2030[2] – 10% waste reduction from supply chain by 2030 – 25% environmental impact reduction for our products and packaging by 2030

(1) Below the predicted no-effect level
(2) Linked with the remuneration of our senior leaders
(3) GSK sites
(4) Target updated in December 2021 to reflect priority materials
(5) Including a 20% reduction in routine hazardous and non-hazardous waste
(6) Where regulatory obligations allow, and excluding plastics which are critical to product discovery and development and health & safety

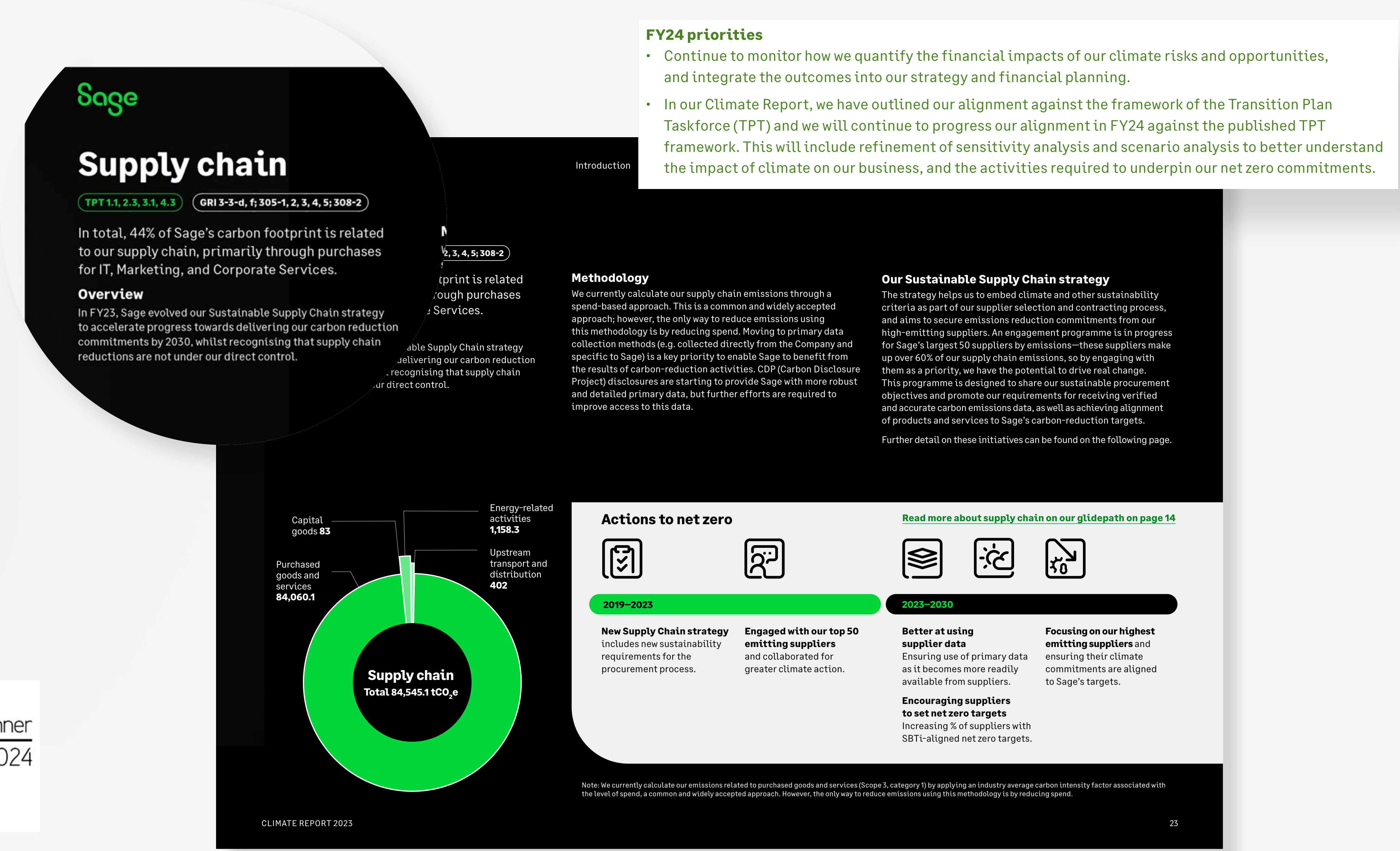
How well are companies placed to meet the incoming changes?

Client case study

Sage
Annual and Climate Report 2023

The TCFD disclosure in Sage's Annual Report signposts to its TPT-aligned Climate Report, where information relevant for individual TPT disclosure elements is clearly indicated with tags.

IR Award winner Europe 2024 magazine



Sage

Supply chain

TPT 1.1, 2.3, 3.1, 4.3 | GRI 3-3-d, f; 305-1, 2, 3, 4, 5; 308-2

In total, 44% of Sage's carbon footprint is related to our supply chain, primarily through purchases for IT, Marketing, and Corporate Services.

Overview

In FY23, Sage evolved our Sustainable Supply Chain strategy to accelerate progress towards delivering our carbon reduction commitments by 2030, whilst recognising that supply chain reductions are not under our direct control.

Introduction

FY24 priorities

- Continue to monitor how we quantify the financial impacts of our climate risks and opportunities, and integrate the outcomes into our strategy and financial planning.
- In our Climate Report, we have outlined our alignment against the framework of the Transition Plan Taskforce (TPT) and we will continue to progress our alignment in FY24 against the published TPT framework. This will include refinement of sensitivity analysis and scenario analysis to better understand the impact of climate on our business, and the activities required to underpin our net zero commitments.

Methodology

We currently calculate our supply chain emissions through a spend-based approach. This is a common and widely accepted approach; however, the only way to reduce emissions using this methodology is by reducing spend. Moving to primary data collection methods (e.g. collected directly from the Company and specific to Sage) is a key priority to enable Sage to benefit from the results of carbon-reduction activities. CDP (Carbon Disclosure Project) disclosures are starting to provide Sage with more robust and detailed primary data, but further efforts are required to improve access to this data.

Our Sustainable Supply Chain strategy

The strategy helps us to embed climate and other sustainability criteria as part of our supplier selection and contracting process, and aims to secure emissions reduction commitments from our high-emitting suppliers. An engagement programme is in progress for Sage's largest 50 suppliers by emissions—these suppliers make up over 60% of our supply chain emissions, so by engaging with them as a priority, we have the potential to drive real change. This programme is designed to share our sustainable procurement objectives and promote our requirements for receiving verified and accurate carbon emissions data, as well as achieving alignment of products and services to Sage's carbon-reduction targets.

Further detail on these initiatives can be found on the following page.

Capital goods 83
Energy-related activities 1,158.3
Upstream transport and distribution 402
Purchased goods and services 84,060.1
Supply chain Total 84,545.1 tCO_2e

Actions to net zero

Read more about supply chain on our glidepath on page 14

2019–2023

New Supply Chain strategy includes new sustainability requirements for the procurement process.

Engaged with our top 50 emitting suppliers and collaborated for greater climate action.

2023–2030

Better at using supplier data Ensuring use of primary data as it becomes more readily available from suppliers.

Encouraging suppliers to set net zero targets Increasing % of suppliers with SBTi-aligned net zero targets.

Focusing on our highest emitting suppliers and ensuring their climate commitments are aligned to Sage's targets.

Note: We currently calculate our emissions related to purchased goods and services (Scope 3, category 1) by applying an industry average carbon intensity factor associated with the level of spend, a common and widely accepted approach. However, the only way to reduce emissions using this methodology is by reducing spend.

CLIMATE REPORT 2023 23

WHAT EMERGING TRENDS ARE WE SEEING?

AI is rising fast

The interest in the risks and opportunities related to AI shows no sign of slowing down, so it isn't surprising that it featured heavily in the annual reports we reviewed. Only three companies didn't mention it at all.

References to AI were found across all sections, but particularly in the market review and risk management sections. Over one-quarter of reports even dedicated a standalone feature to it, ranging from leadership interviews to in-depth case studies. The themes most frequently discussed were how the company harnesses AI to gain a competitive advantage, such as increased operational efficiency and data analysis, followed by data protection, ethical considerations and employee training. One company had recruited a board member with AI skills, while another pondered using AI to support the work of the audit committee.

Where AI was discussed as part of a principal risk, such as cybersecurity, oversight and management were explained and some companies had set up dedicated bodies, such as technology committees and AI ethics councils. However, most often it was categorised as, emerging risk and over one-quarter didn't identify it as a risk at all. This suggests some tension between companies being keen to leverage the opportunities of AI, and being seen to do so, and catching up on managing the risks associated with it. While this is understandable given the rapid development of AI, companies should be wary of inadvertently creating the impression that they might be buying into hype in the short term while underappreciating serious implications in the longer term.

Highlights

73%
reference AI in the risk management section

73%
discuss AI as a tool to gain advantage

27%
dedicate a standalone feature to AI

Digital reporting formats are gaining traction

While the majority of reports continue to be published in A4 portrait format, landscape is becoming a more widespread consideration in view of the changing reading habits in the 'screen-first' age. In the majority of cases, reports are still presented in simple download centres, but scrolling webpages which provide the opportunity to engage the reader with a sneak preview of highlights, animated key stats and links to sub-pages or specific reporting sections are catching up fast.

A minority of companies had even developed a microsite for their annual report. Download options were fairly evenly split between a PDF version of the full report and a choice between the full report and key sections. However, only two companies in our sample offered additional Excel options for the convenience of time-poor investors – one for the financial statements and the other for ESG data tables.

Highlights

77%
of reports were published in A4 portrait format

42%
presented the annual report on a scrolling webpage

12%
have created an annual report microsite

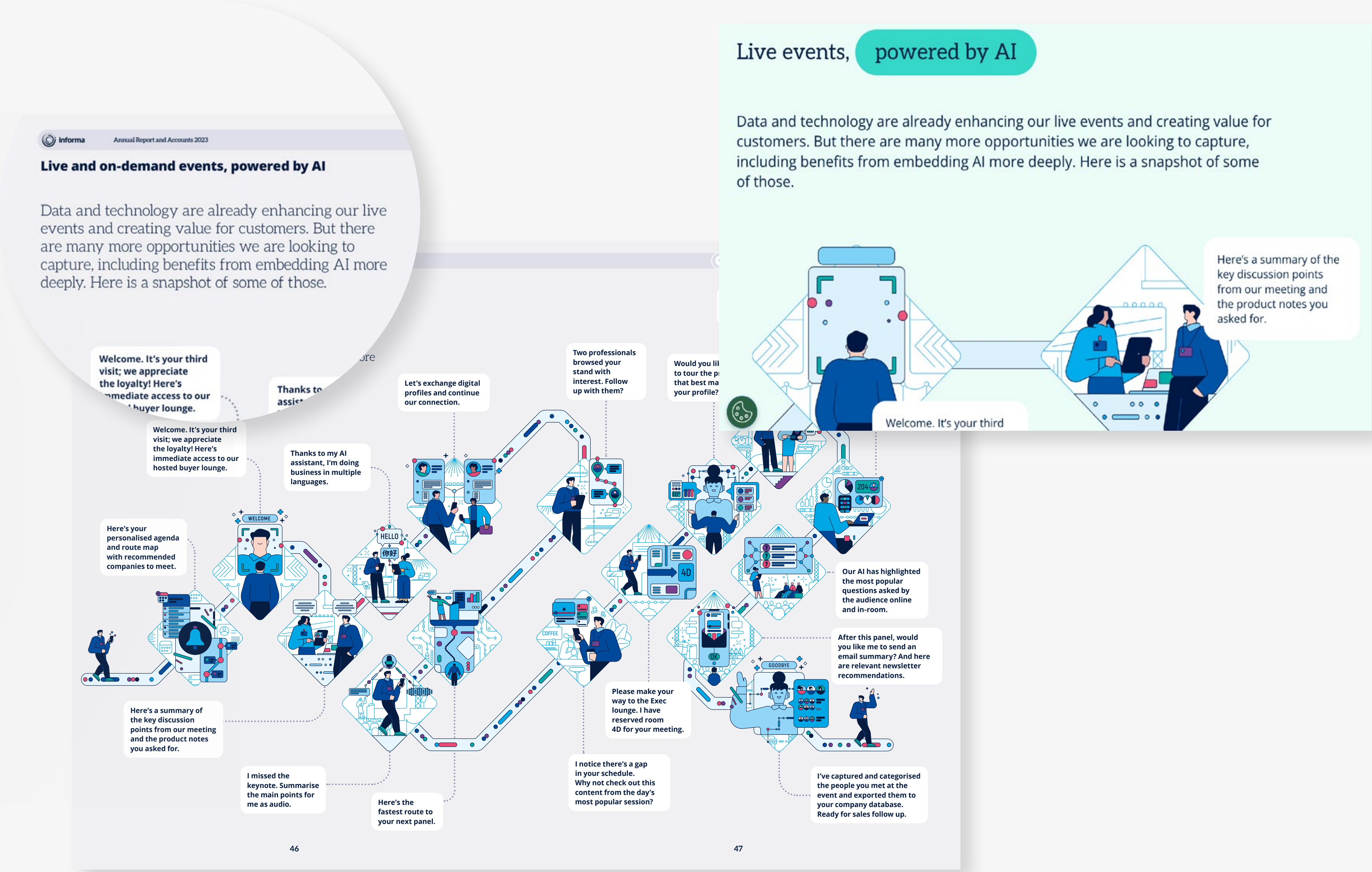
What emerging trends are we seeing?

Client case study

Informa
Annual Report 2023

As part of its business review, Informa provides an overview of the many different ways in which AI enriches its events and creates value for customers. The Annual Report is presented on a dedicated microsite, which includes an animated version of this infographic.

Check out our case study



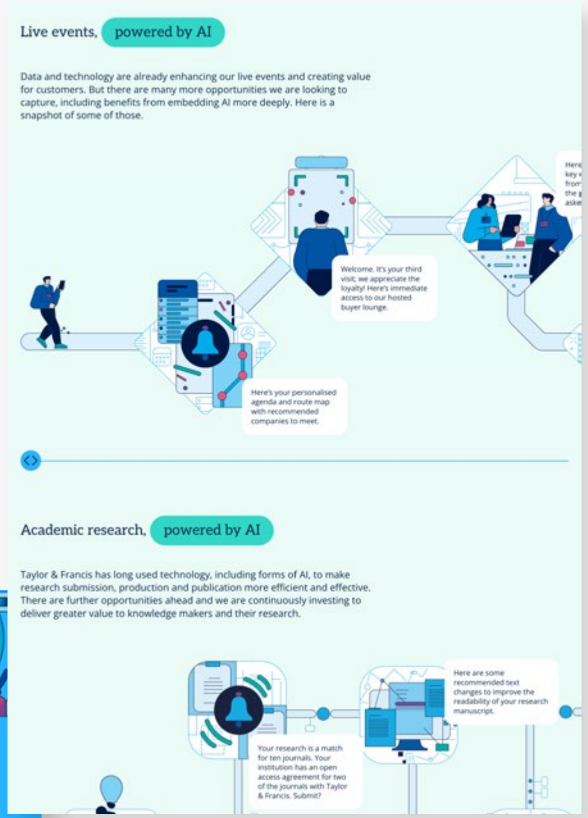
What emerging trends are we seeing?

What emerging trends are we seeing?

Client case study

Informa
Online Annual Review

Informa has created a microsite for its annual report. This includes videos featuring leaders from across the business discussing products, performance during the year and other insights, PDF downloads of key reporting sections, financial and non-financial highlights and animations explaining how the company uses AI.



What emerging trends are we seeing?

HOW CAN COMPANIES PREPARE FOR CHANGE?

- **Proactively align with standards**
  Aligning with new regulatory standards and ESG frameworks before mandatory implementation can provide a competitive edge. Companies should take proactive steps to adopt frameworks such as the ISSB Standards (IFRS S1 and S2) and CSRD. This involves conducting gap analyses to identify areas where current practices fall short and developing a clear roadmap for alignment. Early adoption demonstrates leadership in sustainability reporting and prepares the company for upcoming regulatory changes, ensuring that disclosures meet the expectations of investors and other stakeholders.

- **Cut the clutter**
  Clear and concise reporting is essential in an era of information overload. Companies should focus on cutting the clutter in their reports by emphasising material information directly relevant to stakeholders. Streamline disclosures by avoiding repetitive content and prioritising key messages. Use summaries, infographics and visual aids to enhance readability and ensure that critical information is easily accessible. A well-organised report improves transparency and enhances stakeholder engagement and understanding.

- **Understand your investors**
  Knowing your audience is crucial for effective reporting. Companies should tailor their disclosures to meet their investors' needs and interests. This involves understanding what information investors consider decision-useful and ensuring that reports provide comprehensive, comparable and relevant data. Engage with investors to gather feedback on current disclosures and identify areas for improvement. Transparent and targeted reporting builds investor confidence and supports informed decision making.

- **Think about your ecosystem**
  Corporate reporting is not isolated; it is part of a broader ecosystem. Consider how digital can connect key messages to wider audiences, taking that 'bite-sized', designed content and cascading it to your wider communications channels such as your website, social channels, internal channels and other communications. This will create a more aligned communications suite and ecosystem of assets that tell the company's story and messages for the year.

- **Tell your story**
  Effective reporting is more than just presenting data – it's about weaving a compelling narrative. Your reports should serve as a platform to share your sustainability journey, highlighting your achievements, challenges and future goals. Storytelling is a powerful tool that brings the data to life, making it more relatable and engaging for your stakeholders. Use case studies, testimonials and narratives to illustrate how your company's actions are making a positive impact. A well-crafted story has the potential to inspire stakeholders, enhance your brand reputation and foster a deeper connection with your company's mission and values.

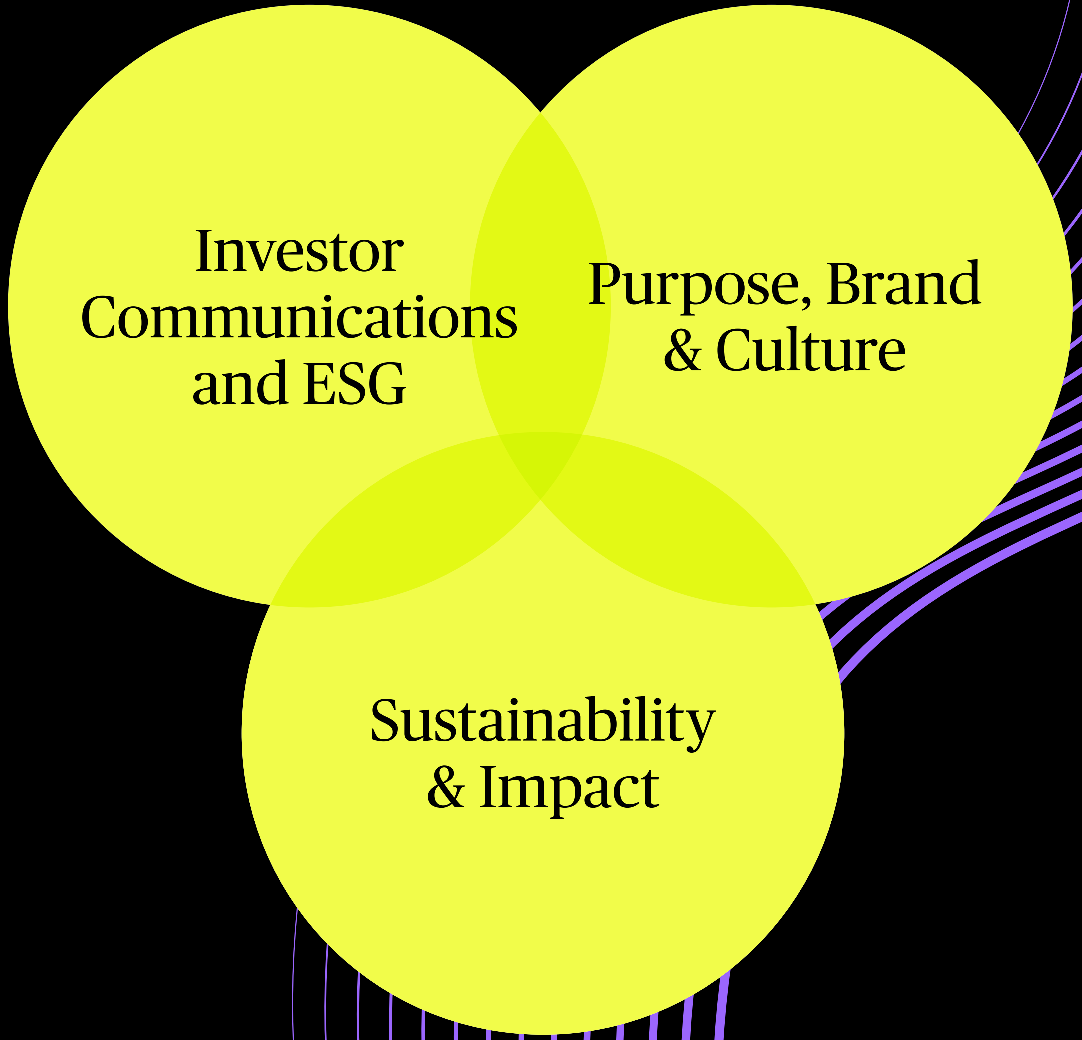
- **View reporting as a way to drive business-wide value**
  It is vital for organisations to regard reporting as a tool for delivering business-wide value. Increased scrutiny is being placed on the reports and commitments of organisations due to the growing demand for transparency by stakeholders and the need to avoid greenwashing. Creating a well-defined reporting strategy can help organisations to tell their story and highlight their performance and progress in solving local and global challenges.

If you would like help with the above, please get in touch.

Stephen Butler
Investor Communications
& ESG Director

Our services

In the fast-paced world of investor communications, we help businesses to present a clear and compelling equity story.



REPORTING COMMUNICATIONS

- Annual reports
- Integrated reports
- Presentations
- ESG data reporting
- Gender pay gap reporting
- Sustainability reports
- TCFD guidance and compliance

COMMUNICATIONS CONSULTANCY

- Content benchmarking
- Technical consultancy
- Best-practice guidelines
- Content planning and development
- Culture and purpose
- Investment case development
- Investor perception analysis

ESG COMMUNICATIONS

- Double materiality assessments
- SASB, GRI and SDG alignment and reporting
- ESG disclosure and integration
- ESG capital markets and investor events
- Board training and Executive Committee training on ESG issues
- Improving ESG scores

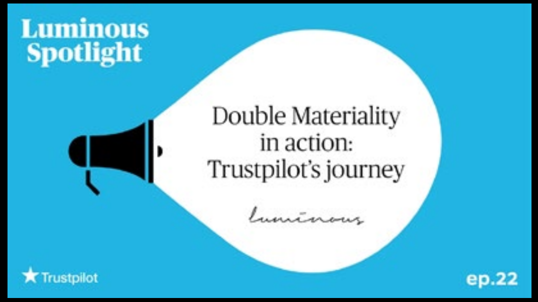
DIGITAL COMMUNICATIONS

- Corporate websites
- Film and animation
- Social media
- Digital reporting

Our latest work

Our publications

For more information visit: **Insights.luminous.co.uk**



Our recent work

Informa
Online Annual Review 2023

IMI
Rebrand

PPHE
Online Annual Review 2023

Coca-Cola HBC
Integrated Annual Report 2023

Sage
Sustainability and Society Report 2023

Issue 10

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