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BEST PRACTICE IN  
FTSE 100 corporate reporting

Emperor has analysed the December 2005 year-end published annual reports of the FTSE 100. We are pleased to share with you the varied approaches taken and highlight the best practice examples of corporate reporting in response to the changing regulations.



16 Alliance UniChem Plc

Pg20



**Our wholesale division performed well in 2005 in relatively difficult market conditions**

which led to slower market growth, our underlying performance improving as the year progressed.

17 Alliance UniChem Plc

Pg24



**Throughout 2005 our retail division continued to perform strongly**

despite slow market growth, resulting in a healthy increase in operating margins and lift for its operating profits.

Pg28

**The Group has continued its well established track record**

of generating cash flow to fund investment in growth. Net cash generated by operations was

**£275.1m**

Pg34



**As a leading European healthcare group we must be trusted and responsible.**

Materially corporate responsibility issues have been managed at a local level by each of our businesses. In 2005 we started to take a more coordinated approach in establishing new management structures, gathering data and setting targets for a number of key areas.

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## Operating and financial review

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## BEST PRACTICE

# Signposting and navigation

With the content of the annual report expanding, it is becoming increasingly important to help shareholders find the specific information they are looking for. Most companies provide a detailed list of contents, but others have gone further, grouping the contents under headings to help navigation.

### BEST PRACTICE EXAMPLES

Legal and General use colour very effectively to create a clear, well structured list of contents.

Aviva's index makes it very easy for shareholders to go straight to the page they need and it supports this with the use of colour coded virtual tabs throughout.

Alliance Unichem devotes a double page spread to an expanded list of contents for the OFR. Photography and summary statements are presented to give a flavour of the OFR and direct readers to specific messages.

**BEST PRACTICE**

# Using key performance indicators

The Business Review requires the use of both financial and non-financial Key Performance Indicators (KPIs) to help measure the development, position and performance of the business.

**FINANCIAL KPIs**

Financial KPIs are generally covered in the financial review, often without an explanation of why they have been selected or any supporting commentary.

**BEST PRACTICE EXAMPLES**

Aviva highlights its chosen KPIs effectively, describing the rationale behind those selected, using charts and tables to show the trends and illustrate progress.

Kazakhmys not only highlights its key financial indicators, it links these to the key drivers that impact the financial performance in each of its businesses.

**KAZAKHMYRS**  
Key drivers to financial performance

The screenshot displays the 'Financial Review' section of the Kazakhmys Business Review. It features five numbered indicators, each with a bar chart and a brief explanatory text. The indicators are: 1. EBITDA excluding special items, 2. EBIT based on continuing operations, 3. Free cash flow, 4. Working capital, and 5. Net debt. A 'Key financial indicators' table is also present. The right side of the page lists 'Key drivers to financial performance' for Kazakhmys, categorized into Commodity prices and efficiency, Market competition and efficiency, and Exchange rates. Each driver includes a detailed explanation of its impact on the company's performance.

**Financial Review**

### Five key financial indicators

Five key indicators to measure the financial performance of the Group are set out below to assist comparability with other international mining companies.

- 1** EBITDA excluding special items
- 2** EBIT based on continuing operations
- 3** Free cash flow
- 4** Working capital
- 5** Net debt

**Key financial indicators**

Indicator	2019	2018
EBITDA excluding special items	1,234	1,123
EBIT based on continuing operations	987	876
Free cash flow	654	543
Working capital	321	210
Net debt	109	210

**Key drivers to financial performance**

There are broadly four key drivers that significantly impact the financial performance of each of the Group's business segments.

- Commodity prices and efficiency:** This driver is dependent on the ability to secure the optimum mix of commodities and to manage the cost of production. It is impacted by market conditions, operational performance, and the ability to optimize production costs.
- Market competition and efficiency:** This driver is dependent on the ability to compete in the market for commodities and to optimize production costs. It is impacted by market conditions, operational performance, and the ability to optimize production costs.
- Exchange rates:** This driver is dependent on the ability to manage the risk of foreign exchange rates. It is impacted by market conditions, operational performance, and the ability to optimize production costs.
- Market competition:** This driver is dependent on the ability to compete in the market for commodities and to optimize production costs. It is impacted by market conditions, operational performance, and the ability to optimize production costs.

**BEST PRACTICE**

# Using key performance indicators

**NON FINANCIAL KPIs**

Only a few companies have embraced this wholeheartedly and have comprehensive measures across the organisation, including corporate and environmental areas.

**BEST PRACTICE EXAMPLES.**

Centrica is one of these exceptions, providing comprehensive KPIs for each sector of its business, showing trends and commenting on performance.

Cairn Energy presents some of its key KPIs in graphical form, illustrating trends clearly and benchmarking them against independent standards.

**CAIRN ENERGY**  
Corporate responsibility

22  
CAIRN ENERGY PLC ANNUAL REPORT AND ACCOUNTS 2005

**CORPORATE RESPONSIBILITY**

**OUR FOCUS IS:**  
Operating safely, minimising accidents and incidents

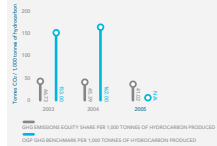
**Corporate Responsibility – what does it mean to Cairn? We aim to make a positive difference wherever we work and Cairn has a vision of its Corporate Responsibility (CR) which is encapsulated in the '3 R's' – Respect, Relationships and Responsibility.**

**Respect** – People are Cairn's key asset and the attitude of the Cairn team is critical to our business culture. In our India and Bangladesh assets we complement local knowledge and expertise with the additional wider perspective that Cairn can bring from a team of people who have worked in most of the oil and gas provinces in the world.

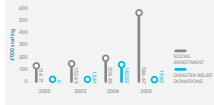
**Relationships** – Relationships are the key to developing any business and Cairn's success in South Asia would not be possible without the consistent support we have enjoyed. Relationships are all important, whether with people living next to a drill site in Rajasthan in India or officials and politicians making decisions in Bangladesh.

**Responsibility** – We have a responsibility to manage the expectations of the people who are affected by Cairn's operations. Operating in any country is only possible when values are shared. We believe that our core values of integrity, social and environmental responsibility, teamwork and nurturing of individuals, creativity, risk management and alliances with key partners are all ingredients that are central to our success. Cairn is operating in areas that are economically, socially and environmentally sensitive and as such the Company needs to take due recognition of these challenges when developing plans.

**GHG emissions**



**Social Investment**



**Our Approach to CR**  
As a company grows it becomes more visible and accountable to numerous interested parties ranging from governments and shareholders, to staff and to those who live in the vicinity of our operations. Cairn recognises that it is essential for our long term success that CR is part of the way we do business.

While ultimate responsibility for CR performance lies with the Board, management responsibility and accountability has been delegated to specific executive directors, who are supported by group functional managers with expertise in each of the areas covered by CR. A Group CSR Committee, comprising both executive directors and group functional managers, has also been in place since 2003 to inform the Board and management on strategic direction and setting of policies on CR matters within the Group.

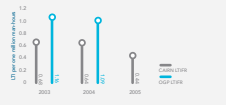
The Board are provided with regular updates on CR matters and performance. This includes presentations on CR matters by external specialists. For example, a human rights specialist provided an overview of the 'rights-aware approach' to addressing human rights issues at the January 2006 Board meeting.

CR risks, along with other business risks, are managed through implementation of our risk management strategy, through which we regularly and systematically identify, analyse, assess, treat and monitor CR risks faced at the asset, country and Group levels.

Group Health, Safety and Environment (HSE), Security and Corporate Social Responsibility (CSR) Policies have been in place since 2002 and in 2004 we also established Group HSE, Security and CSR Guiding Principles that describe our fundamental values and approach to managing CR in accordance with these policies, and identify the international standards to which we aspire in our business activities.

In 2005 we agreed that in addition to complying with our policies, we would also strive to conduct our activities in accordance with the International Finance Corporation's policies and in conformance with IFC's best practice guidance and new performance standards, which are expected to come into effect in the first half of 2006. Our Guiding Principles will be amended to reflect these additional requirements during 2006.

**Safety performance – Lost Time Injury Frequency Rate (LTIFR)**



**2005 Performance and Plans for 2006**  
During 2005 we made good progress in both developing and implementing our approach to managing the many CR challenges facing our business. At a Group level, specific attention has been placed on emerging CR issues such as assessing and managing biodiversity risks, security and human rights, and the potential impact of climate change on our business.

At an operating level the main CR challenges addressed include the maintenance of health and safety of our staff and contractors through to the specific challenges in Rajasthan of managing the risks associated with road transportation, water resources, land acquisition and minimising community impacts.

Our CR progress in 2005 in addressing these challenges and our plans for further improvements in 2006 are presented in more detail in our 2005 Corporate Responsibility Report, which is distributed with the 2005 Annual Report & Accounts.

At an operating level there were a number of notable achievements during 2005. Our Sang operators in Bangladesh have recorded six million man-hours (seven years) without a lost time injury (LTI) and our Sual and Rava operators have also achieved over one million and four million man-hours without an LTI respectively. Greenhouse gas emissions from our producing fields have been reduced (per tonne of hydrocarbon) during 2005 and our total investment on local community and social projects was up 75% to just over £60,000.

As in 2004, we have sought independent external assurance on our 2005 Corporate Responsibility Report from Environmental Resource Management (ERM) and their assurance statement can be found on page 34 of that report. Implementation of our CR policies and Guiding Principles has also been assessed by IFC as part of the 'due diligence' process associated with the negotiations for additional funding arrangements. IFC's findings are presented in their Environmental Review Summary (ERS) which can be accessed via the IFC website at [www.ifc.com](http://www.ifc.com)

We also benchmark our approach and performance with other UK and international companies. In their 2005 Energy, Environment and Social Index, Goldman Sachs ranked Cairn in the second quartile, positioned 11th out of the 31 companies in the Index.



BAE SYSTEMS  
Group strategic objectives

## BEST PRACTICE

# Communicating strategy

With the Business Review requiring more detail on strategy and likely future developments, a short paragraph in the Chairman or Chief Executive's statement is no longer sufficient. Whilst many companies now have a separate strategy section, some still require a trawl through the document to find the relevant detail.

### BEST PRACTICE EXAMPLES

BG Group has a 'Strategy in action' section that shows how it generates value across the gas chain.

Alliance & Leicester highlights new developments planned for the forthcoming year.

BAE Systems shows how its strategy cascades from the Group level throughout its business and describes in detail how it intends to deliver this, with a separate spread for each strategic objective.



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## What's next?

There will be more change to come. The European Transparency Directive (due in January 2007) and the Company Law Reform Bill (currently making its way through Parliament) contain clauses that will impact the content, timing and distribution of the annual report. Also, the International Accounting Standards Board has issued a discussion paper to solicit views on whether it should be setting standards on management commentary as well as the financial statements.

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## Useful links

IRS Best Practice Guidelines  
[www.irs.org.uk](http://www.irs.org.uk)

Environmental Guidelines  
[www.defra.gov.uk](http://www.defra.gov.uk)

Company Law Reform  
[www.dti.gov.uk](http://www.dti.gov.uk)

Management Commentary Discussion Paper  
[www.iasb.org.uk](http://www.iasb.org.uk)

European Transparency Directive  
[www.fsa.gov.uk](http://www.fsa.gov.uk)

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## About Emperor

Emperor is a design and communications company specialising in investor, corporate and marketing communications. We design and produce annual reviews, annual reports, CSR reports and websites for companies from FTSE 100 to AIM.

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