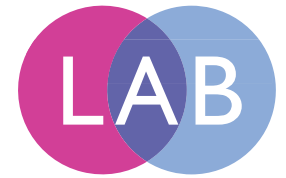




Financial Reporting



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Lab insight report:

# Towards Clear & Concise Reporting

August 2014



Financial Reporting Council

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# Introduction and report process

## Introduction

The 2013 reporting cycle brought significant change for UK companies (see box). Companies now have an opportunity to make their accounts clearer and more concise, with some companies having already taken action in this direction.

This insight report is based on observations that the Financial Reporting Lab (Lab) made during a review of 2013 year end reporting. It highlights progress made by companies towards clearer and more concise reporting and provides ideas on the process of change.

The first part of the report looks at examples of what companies have done to aid clarity and conciseness. Companies have thought about:

- the communication channels they use and how to match information to users' needs (page 5);
- how to focus content on what is most important to investors (page 6);
- materiality criteria; removing immaterial disclosures and focusing on significant accounting policies (page 8), and
- layout to improve clarity, and cross-referencing to reduce duplication (page 9).

The report provides illustrative examples representing how companies have made changes.

The second part lays out a continuous process for making annual reports clearer and more concise and provides practical steps which companies can use in their own process of improvement (page 10).

Key phases of continuous improvement include:

- Plan the change: build momentum, get leadership from the top of the organisation and decide on the scope.
- Manage the process: identify who will make the changes, set targets and get agreement from the board.
- Do what is needed: start with a blank piece of paper, ensure that changes in business and regulation are reflected and make sure that the auditors are brought into the changes.
- Evaluate the process: debrief early, ask for feedback from investors, and reflect how to make improvements continuous.

This section of the report also highlights how two companies, Prudential (page 12) and BP (page 14), have managed the process of change.

To further assist companies we have included some tips originally published by the Financial Reporting Review Panel on the characteristics of good corporate reporting (page 17).

The report also includes an illustration of how clear and concise qualities are consistent with legal requirements and FRC codes and guidance (page 18).

While we hope that this report is helpful, we note that it does not form guidance or new requirements. Companies should consider whether the steps identified are suitable to their own circumstances.

## Regulatory background

In October 2013, the UK government introduced a requirement for certain companies to prepare a strategic report. The strategic report is a new section in a company's annual report that gives investors insight into the way that a business is run and its strategic direction. At the same time the government introduced legislation on remuneration reporting (see box overleaf).

In the same reporting cycle, many companies also reported for the first time in accordance with the 2012 changes to the UK Corporate Governance Code which introduced a requirement that the annual report and accounts as a whole be fair, balanced and understandable. Auditor reporting was also revamped together with the introduction of enhanced audit committee reporting.

The Financial Reporting Council's (FRC) has recently finalised its Guidance on the Strategic Report<sup>1</sup> and announced the Clear & Concise initiative<sup>2</sup> a programme of activities aimed at ensuring that annual reports provide relevant information for investors. Clear & Concise builds on the FRC's previous work including Cutting Clutter<sup>3</sup>. The FRC hope its activities will provide companies with an opportunity to rethink aspects of the annual report and innovate.

<sup>1</sup> <https://frc.org.uk/Our-Work/Codes-Standards/Accounting-and-Reporting-Policy/Clear-and-Concise-Reporting/Guidance-on-the-Strategic-Report.aspx>

<sup>2</sup> <https://frc.org.uk/Our-Work/Headline-projects/Clear-Concise.aspx>

<sup>3</sup> <https://www.frc.org.uk/getattachment/8eabd1e6-d892-4be5-b261-b30cece894cc/Cutting-Clutter-Combating-clutter-in-annual-reports.aspx>

## Future activity

Later in the year, the FRC's Corporate Reporting Review function will publish its annual report for 2013. The report will include example suggestions that have been made to companies about how they might cut clutter as a step towards producing clearer and more concise reports.

The Lab is pursuing a series of case studies focusing on the theme of clear and concise reporting and input will be sought through these case studies on approaches investors consider to be most effective. Any companies or investors wishing to take part should contact the Lab at: [FinancialReportingLab@frc.org.uk](mailto:FinancialReportingLab@frc.org.uk)

## Report process

The observations in this report are the result of a review of the annual reports of FTSE 350 companies having year ends between 30 September and 31 December 2013, released between 15 October 2013 and 20 March 2014.

The aim of the review was to identify those companies which had made a significant effort in making their annual reports clearer and more concise. Reduction in page count was identified as one measure indicative of conciseness. Clarity is a more difficult quality to identify however we also looked for examples of good practice from companies.

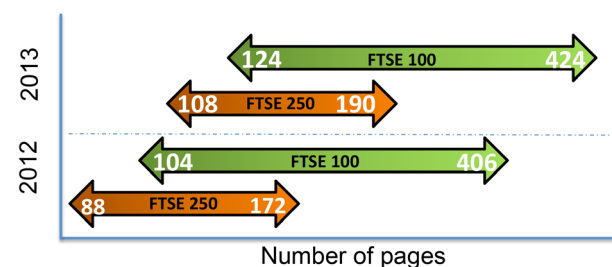
Annual reports were reviewed for year on year change. Analysis of the structure and content of the annual reports identified areas where companies had reduced or significantly clarified their disclosures.

The average page count of the reports that the Lab team reviewed (41 companies) increased by 10% (9% for FTSE 100 and 15% for FTSE 250 companies).

Of the 41 reviewed companies:

- 4 reduced the length of their annual reports (between 3 and 6%);
- 1 kept the length constant;
- 10 increased the length by less than 10%; and
- 26 increased the length by more than 10%.

By looking at those companies which cut the overall length or increased less than average we identified examples of practice that forms the basis of this report. The grouping of the observations under thematic titles represents the Lab's interpretation of companies actions and objectives.



**Figure 1: Range of annual report page counts reviewed by the Lab team (41 companies)**

## Remuneration reporting

Remuneration reporting was one of the key areas of increasing length in companies' annual reports. The Lab considered the length of the remuneration sections (remuneration policy and remuneration report) and noted that overall, FTSE 100 companies with December year ends increased the average length of remuneration sections by 34%, equating to 5 pages.

The increase was a result of companies implementing the new remuneration reporting requirements<sup>4</sup>. However, for the next (and subsequent) year(s), companies may consider whether the directors' remuneration policy can be omitted from the annual report. This is permitted where the company does not intend to make a change to the remuneration policy which requires a resolution (vote) to approve. If omitted, the regulations require that companies must include a reference to when the policy was last approved and where it can be found online.

<sup>4</sup> [SI 2008/410 The Large and Medium-sized Companies and Groups \(Accounts and Reports\) Regulations.](#)

# Observations on clearer and more concise reporting

## Thinking about communication channels

For many companies, the annual report still forms the cornerstone of their communications. However, investors and companies have multiple other ways in which to communicate and exchange information. By taking steps to match communication channels to audiences, companies can improve the clarity and conciseness of what is presented. Companies have:

- **Targeted reports to match users' needs**

Some companies have revised which information is presented through each channel, allowing the targeting of information to specific user groups. One example was the placement of extensive breakdowns of non-GAAP measures (e.g. embedded value reporting for insurance companies or breakdowns of sales and space data for retailers), which are principally of interest to analysts, outside of the annual report, or in a supplementary section. Effective signposting in the annual report was used to direct users who wished to review the information.

- **Sent standalone strategic reports to shareholders**

The Strategic Report and Directors' Report Regulations<sup>5</sup> (the Regulations) allow a company (in certain circumstances) to send its members a strategic report with supplementary material<sup>6</sup> instead of the full annual report (replacing the summary financial statements under the previous regime). While there is no requirement to include any further information, other information may be included if the directors consider it appropriate.

Some companies produced a strategic report which was included as part of a package containing additional complementary information (e.g. Q&As, case studies and further voluntary information about the company's operations). This approach allowed companies to produce a document better targeted to the interests of a subset of their shareholder base (e.g. retail investors).

1. Within the Annual Report
2. Within the Annual Report and as a Standalone Report



3. Within the Annual Report and incorporated with additional information into a separate report



**Figure 2: Different ways in which strategic reports have been used**

<sup>5</sup> [The Companies Act 2006 \(Strategic Report and Directors Report Regulations 2013 \(the 'Regulations'\)\)](#)

<sup>6</sup> The supplementary material is specified in section [426A of the Companies Act 2006](#).

## Thinking about content

The content of annual reports has developed over time reflecting changes in regulation, business and reporting. During our review we observed companies that have refocused the contents of their annual report and have:

- **Reported on actions rather than just process**

The Lab's recent report on audit committee reporting<sup>7</sup> noted that investors are interested in what a committee actually did to resolve an issue rather than just a description of what they do. Depicting the specific activities during the year and their purpose is more relevant than just covering process and policy.

Some companies have taken a similar approach with risk reporting, concentrating on the principal risks and how they are being mitigated and managed. Less focus was given to risk policy and process (often putting this online). This approach was especially pertinent when the information had not changed from the prior period.

- **Focused the level of sustainability reporting**

The Regulations require that information that is material to an understanding of the development, performance and position of an entity's business relating to the environment, employees, social, community and human rights matters ('sustainability information') is presented in the strategic report.

Some companies have focused the sustainability information on only those aspects which are material to their business or are mandated disclosure, and have placed more detailed information in a separate annual sustainability report or in an appendix to the annual report.

- **Removed standing information**

Some companies have removed standing information from the annual report improving the prominence of the remaining disclosure. For example, the terms of reference of the nomination, audit and remuneration committees were removed and placed on the company's website, meeting the UK Corporate Governance Code<sup>8</sup> requirement that the terms of reference of committees be made available.

**Ursula Innes,**  
ACA, BSc First Class  
**Non-Executive Director**

*Ursula Innes*

Ursula has extensive experience in business and commerce. Ursula undertook her first degree at the University of Stevenage where she studied Ancient Pottery Techniques of Meso-America, this led her to a career in accountancy. Ursula began her career as an articled clerk at Willis, Hicks Booth and Associates where she specialised in taxation. From there she became a manager at Wigston building society where she worked for three years. She then moved on to become a senior manager in the accounting team of Saarbrücken savings and loan. After a year off to travel the world she returned to accounting, eventually becoming a partner in the banking audit department of F.V. Staridge & co. Two years later she left to start her own consultancy firm specialising in supporting audit committees. Ursula was appointed to the board of the company in 1998 and has been a member of the nominations committee since 2013. In her off time Ursula enjoys painting and playing lead oboe with her band. She is also chair of the Willet Foundation, and is a governor at her daughter's school.

**Age: 57** **Joined the board in 1998**

**Ursula Innes**  
Non-Executive  
Member of the  
Nominations Committee

Ursula has extensive experience in business and commerce having worked in senior positions in banking and consulting over 25 yrs. Ursula's experience of banking in the German market is particularly helpful given the groups German retail bank. Ursula is a chartered accountant. Ursula was appointed to the board of the company in 1998 and has been a member of the nominations committee since 2013.

Full directors biographies can be found at [www.CCRRL.co.uk/Dir](http://www.CCRRL.co.uk/Dir)

**Ways in which the biography was improved**

1. Removed irrelevant information
2. Clarified relevant skills and experience
3. Indicated membership of committees
4. Linked to a fuller biography online

**Figure 3: Illustrative example of how companies have tailored directors' biographies**

<sup>7</sup> <https://frc.org.uk/Our-Work/Codes-Standards/Our-Work-Codes-Standards-Financial-Reporting-Lab/Published-project-reports.aspx>

<sup>8</sup> <https://frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.aspx>

- **Changed the placement of five year financial summaries**

Some companies have moved five year financial summaries from the annual report and placed them on the company's website. Providing access to this information can be useful for investors in assessing trends; however there is no UK requirement for this to be included in the annual report.

- **Reduced shareholder information**

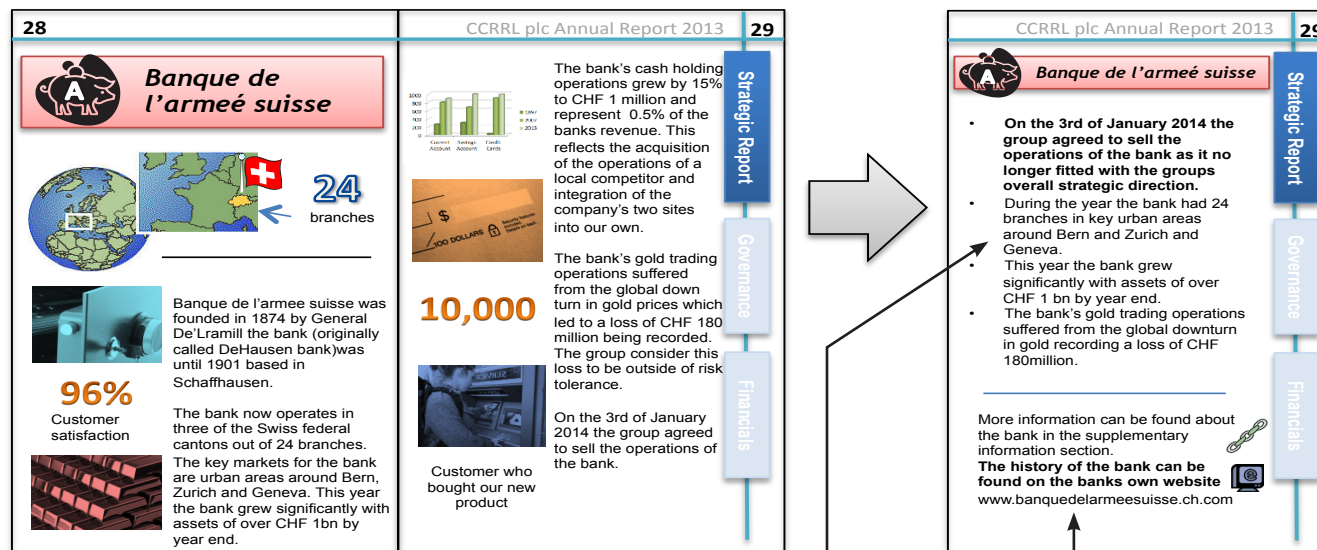
Provision of information about the AGM, registrars, etc. is important for shareholders. Some companies have kept such information to a minimum in the annual report and used the investor section of the website to provide more detailed and up to date information.

- **Tailored directors' biographies**

Some companies provided more focused board and executive biographies. They concentrated on key recent experience and skills relevant to the director's position on the company's board. Some companies have accompanied this clear disclosure with a link to longer biographies online.

• **Reduced the detail presented in the financial review**

The level of detail that companies presented in the financial review varied considerably over the reports examined. Some companies presented extensive narrative detail of their operations, histories, and performance, often at a country, business unit, and/or segment/product level. Others presented shorter narratives focused on key developments. These companies covered the breadth of their operations, but moderated the depth of information to achieve reporting that was comprehensive and concise. Examples included removing customer or product case studies, reducing graphics and making text more concise. In some cases information was split, leaving key information in the strategic report with more detailed information in an additional information section within the annual report.



**Figure 4: Illustration of how some companies could make the financial review more concise.**

Key facts are presented more clearly and concisely with immaterial information removed.

Links are provided where users can find additional background information about the operations.

## Thinking about materiality

Some companies made progress in using materiality to aid clarity and conciseness, including companies that have:

- **Reviewed elements which are no longer relevant**

Some companies have taken out disclosures related to the financial crisis. The reporting cycle by its nature generates inertia reporting (reporting an item simply because it was there last year). During the financial crisis companies included disclosures in response to market issues at the time (e.g. concerns about certain European sovereign debt instruments). While these disclosures may still be relevant to some (and if so should be retained) companies should consider whether they are relevant to the current reporting period and make an active, rather than passive, choice on whether to include them.

- **Removed elements which are no longer required**

Similarly the Regulations removed disclosure requirements for a number of items (e.g. creditor payment policies and practice, charitable donations made, and disclosure of essential contractual arrangements). Many companies removed these items, although some continued to disclose these elements in the directors' report. Companies may wish to consider if these disclosures provide relevant information for their investors and if not, they could consider their removal.

- **Improved the quality of accounting policy disclosures**

In July the Lab released a project report on accounting policy disclosures. Investors think accounting policy disclosures include boilerplate text, with repetition of language from accounting standards, and are not specific enough to companies. Investors want significant accounting policies to be positioned prominently within the annual report. Investors consider policies to be significant if:

- they are important or unique to the business' operations;
- they are in respect of distinct revenue streams;
- there is choice of policy under IFRS or there is significant judgement in the selection of the policy, and
- their application requires significant estimation or judgement.

Most institutional investors were supportive of only significant policies featuring in the annual report (with perhaps a fuller list online). However, nearly half of retail investors surveyed preferred a complete list to be disclosed in the annual report. Companies should consider the specific needs of their investor base. Moving the non-significant policies to an appendix within the annual report may be an acceptable compromise.

- **Removed immaterial notes to the financial statements**

Some companies have improved the focus of financial statement disclosure by removing notes to the financial statements judged to be immaterial.

Companies may wish to ask themselves what each note is showing and what value the disclosure may provide to investors. Where information is clearly immaterial (both qualitatively and quantitatively) and there is no overriding disclosure requirement then it could be removed.

Examples where companies took out disclosures included fixed asset notes and parent entity income statements.



## Thinking about layout

Annual reports that are logically laid out and present information with the minimum of duplication, are user friendly. Companies have:

- **Made effective use of the chairman’s, chief executive’s and finance director’s reports**

While there is no requirement to include a chairman’s, chief executive’s or finance director’s report, many companies do. Ensuring that each report is appropriately focused can build a clearer picture of the business and, when these reports are included in the strategic report, can aid conciseness. Some companies have changed the balance of the three reports, removing duplication with other sections of the report and cutting overall length. Some produced a shorter, more focused personal statement, from the chairman along with a more detailed chief executive’s report on performance and strategy.

- **Used layout**

Some companies reduced the overall length of the annual report by effective use of layout to improve conciseness and clarity.

Some:

- put current and comparative data side by side, rather than in separate tables. This helps show comparability of information and provides clarity;

- used the inside covers of the report to display useful information (such as a glossary or links to other information); and
- used white space on contents pages to highlight information such as key performance indicators. Contents pages are not clutter, they provide useful navigation for investors.

- **Used cross-referencing and signposting**

The Guidance on the strategic report highlights that companies can cross-refer to information required to be included in the strategic report but which is placed elsewhere in the annual report. Some companies did this, referencing to information which they believed thematically sat better within another section, rather than repeating it in the strategic report (e.g. gender disclosures in the nominations report or principal risks in the risk section). This may have improved the flow and readability of the annual report.

Others used signposting to supplementary information outside the annual report when they believed it provided additional insight but was not required to be presented within the annual report (e.g. additional information about the company’s corporate social responsibility programme). This contributed to concise reporting. Further details of cross-referencing and signposting are given in Appendix 1.

- **Let tables speak for themselves**

Narrative explanations in notes are most valuable when they give information and insight to investors. Some have made text accompanying tables concise, removing elements which repeated narratively what was clearly shown in the table, or have presented tables only (where no further narrative was necessary).

# Observations on process of change

## The improvement cycle

This section of the report was developed to help companies manage the change process. It has been produced by the Lab to reflect the experiences of those who have undertaken a process of corporate reporting improvement.

It provides a set of steps (plan, manage, do, evaluate) that companies might wish to take towards continuous improvement.

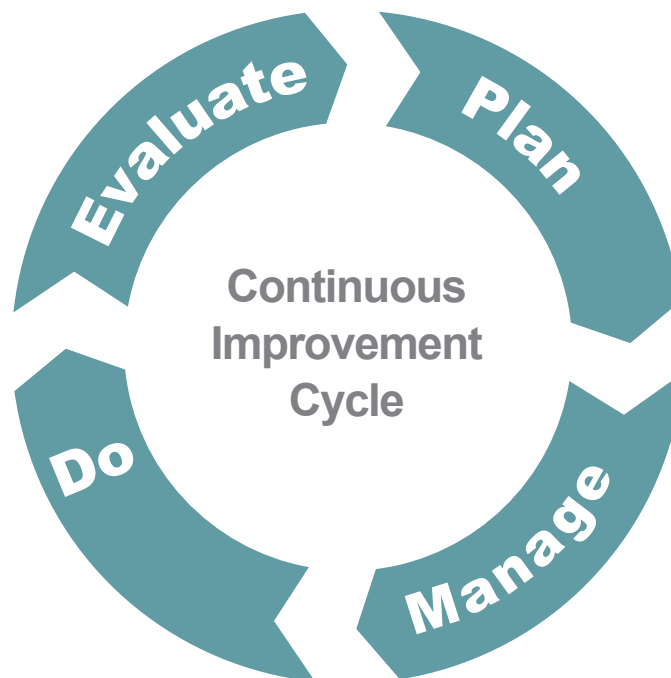


Figure 5: The continuous improvement cycle

### Plan (the change)

- **It is never too early.** Change happens when action is prioritised. In the ‘plan’ phase companies can build consensus that change is needed.
- **Identify a project sponsor.** Change needs leadership. Identify a sponsor (usually a senior board member or part of the executive team) and set targets and time-lines.
- **Identify your audience.** Be clear about the intended audience for the annual report (or its components); this helps identify relevant content.
- **Speak to investors.** Use comments received by the investor relations teams or from retail shareholders via the company’s website. Taking part in a Lab project is also a good way of understanding what investors want.
- **Use the data.** Look at the analytical data from your website to understand what information is popular.
- **Speak to advisors.** Advisors can provide insight into what is current best practice. Looking at peers’ reports can identify alternative ways of doing things.
- **Decide on scope.** Consider the scope of the project; decide if it will be focused just on the annual report or on the entire set of reporting channels.

## Manage (the process)

- **Understand governance.** Ensure there is agreement and understanding on the governance of the process. Who needs to sign off each section?
- **Set the overall aim.** The annual report as a whole (narrative and financial statements) should be fair, balanced and understandable.
- **Obtain board agreement.** Get early agreement from the board on key elements such as the business model and strategy, to help focus the document.
- **Assign responsibilities.** Identify specific individuals who will be working on each disclosure.
- **Set the number of pages.** Each team needs to know how many pages they are allocated (e.g. through a shared pagination plan). Stress the importance of the document working as a whole.
- **Get another perspective.** Get some input from someone outside of the core team using last years' report. Which areas do they think could be cut or improved?
- **Keep on track.** Have regular steering meetings to keep the process on track.

## Do (what's needed):

- **Start with a blank piece of paper.** Write without using the prior year's narrative as a roll forward. This focuses the mind on what the key messages are for this year, rather than being constrained by last year's text.
- **Ask whether it reflect the company's developments?** Early on, challenge the emphasis of the narrative in the annual report to ensure that it clearly reflects the significant developments of the company in the period.
- **Consider regulatory changes.** Think how best to comply with and reflect new regulatory requirements.
- **Ask whether it is material?** Develop a common understanding of what is material (both qualitatively and quantitatively).
- **Read the annual report all the way through.** Don't duplicate information which is elsewhere in the annual report (unless required).
- **Use each other.** Ask teams to review each others' disclosures for clarity and conciseness.
- **Involve the auditors early.** Auditors will need to be comfortable with changes to the annual report especially when they relate to disclosures or accounting policies. Early communications with the audit team and obtaining buy-in to the process from the audit partner will reduce the chance of last minute changes.

## Evaluate (the changes)

- **Debrief early.** Review while the process is fresh to capture good quality feedback. One way to do this is to include a comments card in the mail out or put a survey online to collect peoples' views, both internally and externally.
- **Ask investors.** Ask investor relations teams to track the types of questions they receive from analysts. Analyst questions often present a good indication of where information is not clear or where further information could be useful. Think about bringing issues in relation to specific disclosures to the Lab as areas for a future projects.
- **Start the cycle again.** Improvement is a continuous process. Lessons learned in one cycle can be taken forward to the next as a basis for further improvement. What has been learned may also be relevant to the half year, or other forms of reporting.

## Case study: Prudential plc

Prudential’s annual report has changed significantly over the last two years. The company’s business has been described more concisely and the format streamlined to reduce the document page count from 479 for the 2011 report to 374 for 2013. The Lab spoke to the financial accounting team and asked how and why they did it.

### Q: What were the drivers for making the changes?

A: It was recognised that with the growth in the business and the level of additional disclosure requirements, as well as discretionary information included in recent years, the annual report could benefit from streamlining, improved narrative explanation, and better linkage between the various sections.

### Q: Which team led the project?

A: The project was sponsored by the Chief Financial Officer with support from the Group Audit Committee and was developed by the Financial Accounting team within the Group Finance function at Prudential’s Group Head office.

### Q: Was the project planned for two years?

A: From the outset it was recognised that the improvements needed to be undertaken in an evolutionary rather than revolutionary manner. Aside from operational considerations we were conscious of the need to maintain a level of continuity from period to period and the first stage of the process would be undertaken ahead of the development of the new strategic report requirements. For the 2012 report the focus of the team was on removing unnecessary duplication of information and disclosures which had been in place historically but which were no longer relevant to users. This resulted in progress towards the streamlining we were aiming for, with a consequent initial reduction of around 80 pages.

### Q: What was the focus for the next stage of the project?

A: 2013 presented a challenge as some changes in regulation (e.g. the changes to auditor and remuneration reporting) increased pressure on the length of the annual report. The new strategic report requirements might also have put pressure on the length of the annual report depending on how the new requirements were met. The team had already made significant progress in “cutting clutter” and was therefore ready for further change. In meeting the introduction of the requirements for the strategic report we took the opportunity to change the presentation of how we explained the Group’s business model by drawing on similar material previously used for other communications to investors.

### Q: What other changes did you make?

A: As part of the project we also reconsidered the presentation format and content of the financial tables in the preliminary announcement and full financial statements in the annual report. These reviews led to an alignment of format for both aspects with the opportunity taken to validate or alter the disclosures. In the process, despite the increased page count arising from new regulatory / IFRS requirements (e.g. disclosure of the impact of altered IFRS requirements for consolidation of investments in joint ventures in the primary statements), there was an overall reduction in the length of the annual report.

### Q: Do you have plans to continue to change?

A: The Company will continue to evolve the annual report to provide users with a document that is informative and digestible as well as meeting all its disclosure obligations.

2011: 479 pages

2012: 399 pages

2013: 374 pages

Figure 6: Total page count reduced over two years

The figure displays three overlapping pages from the Prudential 2013 annual report. The top-left page (page 16) is titled 'Our strategy' and outlines the company's focus on three long-term opportunities: the significant protection gap in Asia, the transition of US baby boomers into retirement, and the UK 'savings gap' and ageing population. It features a circular diagram with four quadrants: 'Asia: accelerate', 'United States: build on strength', 'United Kingdom: focus', and 'Asset management: optimise', all centered around 'Focus on customers & distribution'. The top-right page (page 20) is titled 'Our businesses and their performance' and features the 'Asia: accelerate' section. It includes a circular diagram with 'Focus on customers & distribution' at the center, surrounded by 'Asia: accelerate', 'United States: build on strength', and 'United Kingdom: focus'. Below this are performance highlights for 'New business profit' and 'Net cash remittances' from 2008 to 2013, along with a quote from Barry Stowe, Chief Executive of Prudential Corporation Asia. The bottom-right page (page 25) is titled 'United States: build on strength' and features logos for JACKSON, CURIAN, National Planning, and PPMAMERICA. It includes a circular diagram similar to the others, performance highlights for 'New business profit', 'IFIS operating profit', 'Net cash remittances', and 'Growth in statutory admitted assets' from 2008 to 2013, and a quote from Mike Wells, President and Chief Executive Officer of Jackson.

Prudential have used the business model as a framework to discuss their strategy and the performance of segments.

Figure 7: Excerpt from the Prudential 2013 annual report

## Case Study: BP p.l.c.

BP used the changes to disclosure requirements as embodied in the strategic report requirements as an opportunity to focus their annual report. BP achieved a 5% reduction between 2012 and 2013 (to 288 pages in 2013 from 303 pages in 2012). The average FTSE100 Company increased the length of their accounts by around 13 pages. The Lab team asked the finance and communications teams about the process.

### Q: What was the driver for making the change?

A: The Company has a culture which always challenges itself to strive for continual improvement. Moving the reporting agenda forward is something that we look to do each year. However, the introduction of the strategic report and the emphasis on fair, balanced and understandable was a great opportunity to rethink things and avoid duplication whilst meeting the new requirements.

### Q: Which team(s) led the project?

A: The financial reporting process is by its nature collaborative, but was even more so in this case. Finance, communications and company secretary's office started the project in early summer 2013, long before the draft guidance or regulation was issued. The finance team produced an early illustrative example focused on what was needed from a compliance perspective. The communications team then worked on the skeleton document and edited the content to ensure it was understandable by our various audiences. This was then shared at an early stage with UK and US legal teams for their input.

Communications and finance also had to work with other internal teams (segments, strategy team etc.) to make sure that the linkages between core sections were as strong as we could make them – the regulations encouraged stronger collaboration across the wider teams.

### Q: When undertaking the project did you have a type of investor in mind?

A: BP produces a standalone strategic report which is sent out to shareholders. Making sure that this was suitable for both retail and institutional investors was an important consideration and helped us focus on producing a front half which worked in a standalone context.

### Q: Were there any specific challenges?

A: The fact that BP is a dual listed company added some complexity as our annual report is also our US filing document (20-F) which is subject to different regulation. We found that involving UK and US legal teams early was actually very helpful as they provided great objective challenge. People inevitably have views as to the placement of information and making changes always leads to debate, but the process of discussion helped to focus what was produced.

### Q: What was BP's approach to placement?

A: We created an additional disclosures section at the end of the report which contained information which we felt was useful but not fundamental to understanding the performance and position of the company. The section included more detailed information about our group, upstream and downstream operations. This approach aided the conciseness of the strategic report but still means the same level of information is accessible in the full report.

### Q: Do you have plans to continue to change?

A: We are already thinking about next year and will continue to think about how we can enhance our Annual Report/20-F.

## Strategic report

An overview of the key activities, events and results in 2013, together with commentary on BP's performance in the year and our priorities as we move forward.

- 2 BP at a glance
- 6 Chairman's letter
- 8 Group chief executive's letter
- 10 Our market outlook
- 12 Our business model
- 13 Our strategy

## Additional disclosures

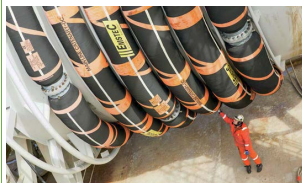
- 236 Selected financial information
- 239 Upstream analysis by region
- 242 Downstream analysis by region
- 245 Oil and gas disclosures for the group
- 252 Environmental expenditure
- 252 Contractual obligations

Segment performance information has been split between the strategic report and additional information sections.

Key information is up front with more detailed disclosure in the back of the report.

### Upstream

In 2013 we continued to actively manage and simplify our portfolio, strengthening our incumbent positions to provide a platform for growing value.



Slavsk started up in December 2012 and produces up to 160mboed. The field development includes around 50 miles of gas export pipeline that allows export to markets in Europe.

#### Our business model and strategy

Our Upstream segment is responsible for our activities in oil and natural gas exploration, field development and production, and midstream transportation, storage and processing. We also market and trade natural gas, including liquefied natural gas, power and natural gas liquids. In 2013 our activities took place in 27 countries.

We deliver our exploration, development and production activities through five global technical and operating functions:

- The exploration function is responsible for renewing our resource base through access, exploration and appraisal, while the reservoir development function is responsible for the stewardship of our resource portfolio.
- The global wells organization and the global projects organization are responsible for the safe, reliable and compliant execution of wells (drilling and completion) and major projects, respectively.
- The global operations organization is responsible for safe, reliable and compliant operations, including upstream production assets and midstream transportation and processing activities.

The delivery of these activities is optimized and integrated with support from global functions with specialist areas of expertise: technology, finance, procurement and supply chain, human resources and information technology.

Technologies such as seismic imaging, enhanced oil recovery and real-time data support our upstream strategy by helping to gain new access, increasing recovery and reserves and improving production efficiency (see Our distinctive capabilities on page 16).

We actively manage our portfolio and are placing increasing emphasis on accessing, developing and producing from fields able to provide the greatest value (this includes those with the potential to make the highest contribution to our operating cash flow). We sell assets that we believe have more value to others. This allows us to focus our leadership, technical resources and organizational capability on the resources we believe are likely to add the most value to our portfolio.

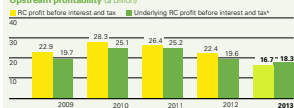
Our strategy is to invest to grow long-term value by continuing to build a portfolio of material, enduring positions in the world's key hydrocarbon basins. Our strategy is enabled by:

- A continued focus on safety and the systematic management of risk.
- A simpler, more focused portfolio with strengthened incumbent positions and reduced operating complexity.
- Playing to our strengths – exploration, deep water, giant fields and gas value chains.
- An execution model that drives improvement in efficiency and reliability – through both operations and investment.
- A bias to oil with selective gas value chains focusing on where we have strong core positions, can play in premium growth markets or bring advantaged technology to bear.
- Strong relationships built on mutual advantage, deep knowledge of the basins in which we operate, and technology.

#### Our performance – 2013 summary

- We continue our focus on improving safety performance. For more details on personal and process safety (see Safety on page 41).
- Our exploration function gained access to new potential resources covering more than 43,000km<sup>2</sup> in seven countries.
- In 2013 there were three major upstream project start-ups.
- We achieved an upstream BP-operated plant efficiency<sup>1</sup> of 86%.
- Disposal transactions generated \$1.3 billion in proceeds in 2013.

#### Upstream profitability (\$ billion)



See Financial performance on page 27 for an explanation of the main factors influencing Upstream profit in 2013 compared with 2012.

#### Outlook

- We have announced plans to establish a separate BP business to manage our onshore oil and gas assets in the US lower 48, which we expect to be operational in early 2015. Our goal is to build a stronger, more competitive and sustainable business that we expect to be a key component of BP's portfolio in the future.
- We expect reported production in 2014 to be lower than 2013, mainly due to the expiration of the Abu Dhabi onshore concession, with an impact of around 140mboed, and divestments. After adjusting for the impacts of the concession expiry, divestments and entitlement effects in our production-sharing agreements (PSAs), we expect underlying production to be higher in 2014.
- In addition to the Chirag oil, Mars B and Na Kika Phase 3 projects, which started in January and February, we expect a further four major projects to come onstream in 2014, which will contribute to the group's plan to generate an increase of around 50% in operating cash flow in 2014 compared with 2011.
- Capital investment in 2014 is expected to increase, largely reflecting the progression of our major projects.

<sup>1</sup>Plant efficiency is the actual production of a plant facility expressed as a percentage of total achievable installed production capacity of the asset including the reservoir, well, plant and export systems.

<sup>2</sup>Underlying replacement cost (IC) profits before interest and tax is not a recognized GAAP measure. See footnote 1 on page 23 for further information. The equivalent measure on an FPS basis is IC profit before interest and tax.

<sup>3</sup>See footnote 1 on page 56.

### Upstream analysis by region

The following discussion reviews operations in our upstream business by geographical area, and lists associated significant events for 2013. BP's percentage working interest in oil and gas assets is shown in parentheses. Working interest is the cost-bearing ownership share of an oil or gas lease. Consequently, the percentages disclosed for certain agreements do not necessarily reflect the percentage interests in reserves and production.

In addition to exploration, development and production activities, our upstream business also includes midstream and LNG activities. Midstream activities involve the ownership and management of crude oil and natural gas pipelines, processing facilities and export terminals. LNG processing facilities and transportation, and our natural gas liquids (NGLs) extraction business.

Our LNG supply activities are located in Abu Dhabi, Angola, Australia, Indonesia and Trinidad. We market around 25% of our LNG production using BP LNG shipping and contractual rights to access import terminal capacity in the liquid markets of the US (via Cove Point), the UK (via the Isle of Grain), Spain (Ibiza) and the UK (Roxwell), with the remainder marketed directly to customers. LNG is supplied to customers in multiple markets including Japan, South Korea, China, the Dominican Republic, Argentina, Brazil and Mexico.

#### Europe

In Europe, BP is active in the UK North Sea and the Norwegian Sea. Our activities in the North Sea include a focus on maximizing recovery from existing producing fields and selected new field developments.

In January production from the new facilities at the Valhall field in the southern part of the Norwegian North Sea commenced and has now ramped up to 70 mboed. Production from Skarv, which started up in December 2012, has now ramped up to 160 mboed.

In March BP and its partners, ConocoPhillips, Chevron and Shell, announced the decision to proceed with a two-year appraisal programme to evaluate a potential third phase of the Clair field, west of the Shetland Islands. By the end of 2013, two appraisal wells had been completed and we are currently drilling a third.

In April we completed the sale of our interest in the Sean (BP 50%) field in the North Sea to SSE plc for \$288 million.

In June we completed the sales of our interests in the Harding (BP 70%), Maclure (BP 37.04%), Braes (BP 27.7%), Braemar (BP 52%) and Davenick (BP 88.7%) fields in the North Sea to TADA Britain Ltd for \$1,058 million plus future payments which, depending on oil price and production, are currently expected to exceed \$180 million after tax.

In June BP announced that it had been awarded two licences in the Barents Sea as part of Norway's 22nd offshore licensing round.

In August the Clair Ridge platform jackets (the steel support structure) were installed, a major milestone in the project.

In September BP announced that more than \$1.5 billion in contracts had been awarded to UK-based companies to provide services and equipment for the major redevelopment of the Scheffhallion and Loyal oil fields to the west of Shetland. The project to redevelop the fields, which are operated by BP on behalf of its partners, involves two main elements: a new floating production, storage and offloading vessel (FPSO) and a major upgrade of the subsea infrastructure that will lie on the seabed.

In October the UK government announced a temporary management scheme to allow the restart of production from the Rhum gas field in the central North Sea, which has been suspended since November 2010 following the imposition of EU sanctions on Iran. The field is owned by BP (60%) and the Iranian oil company (40%) under a joint operating agreement dating back to the early 1970s. BP intends to recommence operations at Rhum in the future in accordance with the temporary management scheme, under which the UK government will assume control of the IOC's share of Rhum for a period of up to five years. Revenue from the IOC's share will be placed in a blocked account. See Further note on certain activities on page 267 for further information.

In December BP was awarded 14 licences in the 27th UK Offshore Oil and Gas Licensing Round, subject to final government approval. In the UK sector of the North Sea, BP operates the Forties Pipeline System (FPS) (BP 100%), an integrated oil and NGLs transportation and

processing system that handles production from more than 80 fields in the central North Sea. The system has a capacity of more than 675mboed, with average throughput in 2013 of 421mboed. BP also operates and has a 96% interest in the Central Area Transmission System (CATS), a 400-kilometre natural gas pipeline system in the central UK sector of the North Sea. The pipeline has a transportation capacity of 293mboed to a natural gas terminal at Teesside in north-east England. Average throughput in 2013 was 52mboed. CATS offers natural gas transportation and processing services. In addition, BP operates the Sullion Voe oil and gas terminal in Shetland.

#### North America

Our upstream activities in North America take place in four main areas: deepwater Gulf of Mexico, Lower 48 states, Alaska and Canada. For further information on BP's activities in connection with its responsibilities following the Deepwater Horizon oil spill, see page 38. BP has around 620 leases blocks in the deepwater Gulf of Mexico, more than any other company, and operates four production hubs.

- In 2013 BP started up an additional three rigs in the Gulf of Mexico, and by the end of the year had ten rigs in operation.
- In April the Atlantis North expansion Phase 1 major project (BP 56%) started up.

In April we completed the sale of our interest in the Freedom (BP 31.5%) field in the Gulf of Mexico to Ecopetrol America.

In April the decision was taken not to move forward with the existing plan for the Mad Dog Phase 2 project in the deepwater Gulf of Mexico as market conditions and industry cost inflation made the project less attractive than previously modelled. This decision resulted in an impairment of \$169 million. BP and its partners reviewed alternative development concepts and the current concept being considered is a single production host designed for future flexibility to capture additional potential resource.

In December BP announced it had made a significant oil discovery at its Gas prospect (BP 80%), which it co-owns with ConocoPhillips, in the deepwater Gulf of Mexico.

In February 2014 the Shell-operated Mars B major project (BP 28.5%) and the BP-operated Na Kika Phase 3 project (BP 50%) started up.

For information on the temporary suspension and mandatory debarment notices issued by the US Environmental Protection Agency (EPA) in November 2012 and February 2013 and related proceedings, see Legal proceedings on page 257.

The US onshore business operates in the Lower 48 states producing natural gas, NGLs and condensate across nine states, including production from tight gas, coalbed methane (CBM) and shale gas assets.

During 2013 BP participated in the drilling of several hundred wells as a non-operating partner in the Eagle Ford shale, Anadarko basin and Fayetteville shale. In the Eagle Ford shale BP, together with the operating partner, continued to expand its position, with around 450,000 gross acres at the end of 2013 and nine rigs operating. Production from the liquids-rich Anadarko basin is from over 1,000,000 gross acres, with around 12 rigs operating, and at Fayetteville there is an average of eight rigs running over the 145,000 gross acreage position.

In March 2014 we announced plans to establish a separate BP business to manage our onshore oil and gas assets in the US lower 48, with the goal of building a stronger, more competitive and sustainable business. We expect the separate organization to be operational in early 2015.

For further information on the use of hydraulic fracturing in our shale gas assets see page 45. BP's onshore US crude oil and product pipelines and related transportation assets are included in the Downstream segment (see page 31).

In Alaska, we operate 13 North Slope oilfields including Prudhoe Bay, Endicott, Northstar and Milne Point and four North Slope pipelines, and own significant interests in other producing fields.

Development of the Point Thomson initial production facility project continued throughout 2013. Engineering design is substantially complete, construction of field infrastructure is in progress and fabrication of the four main process modules has commenced. Overall, the project is on track. BP holds a 32% working interest in the Point Thomson field, and ExxonMobil is the operator.

Additional disclosure

Figure 8: Excerpt from the BP 2013 annual report

# Appendix 1

## Cross-referencing and signposting

The Strategic Report Guidance includes the following definitions:

*Cross-referencing: A means by which an item of information, which has been disclosed in one component of an annual report, can be included as an integral part of another component of the annual report<sup>10</sup>. A cross-reference should specifically identify the nature and location of the information to which it relates in order for the disclosure requirements of a component to be met through the relocated information. A component is not complete without the information to which it cross-refers. Cross-referenced information must be located within the annual report. Cross-referencing is different to signposting.*

*Signposting: A means by which a shareholder's attention can be drawn to complementary information that is related to a matter disclosed in a component of the annual report. A component must meet its legal and regulatory requirements without reference to signposted information. Signposts should make clear that the additional information does not form part of the component from which it is signposted<sup>11</sup>. Signposted information may be located either within or separately from the annual report. Signposting is different to cross-referencing.*

<sup>10</sup> A letter was provided to the FRC by the Department for Business Innovation and Skills which clarified that safe harbour applies only to information which has been cross-referenced (and is required content of the relevant component) The letter is available on the [FRC's website](#).

<sup>11</sup> Signposting is the term used to describe links to information which is not required content of a component. Companies do not need to highlight that the item is not required disclosure of the component as this should be clear from the nature of the information.

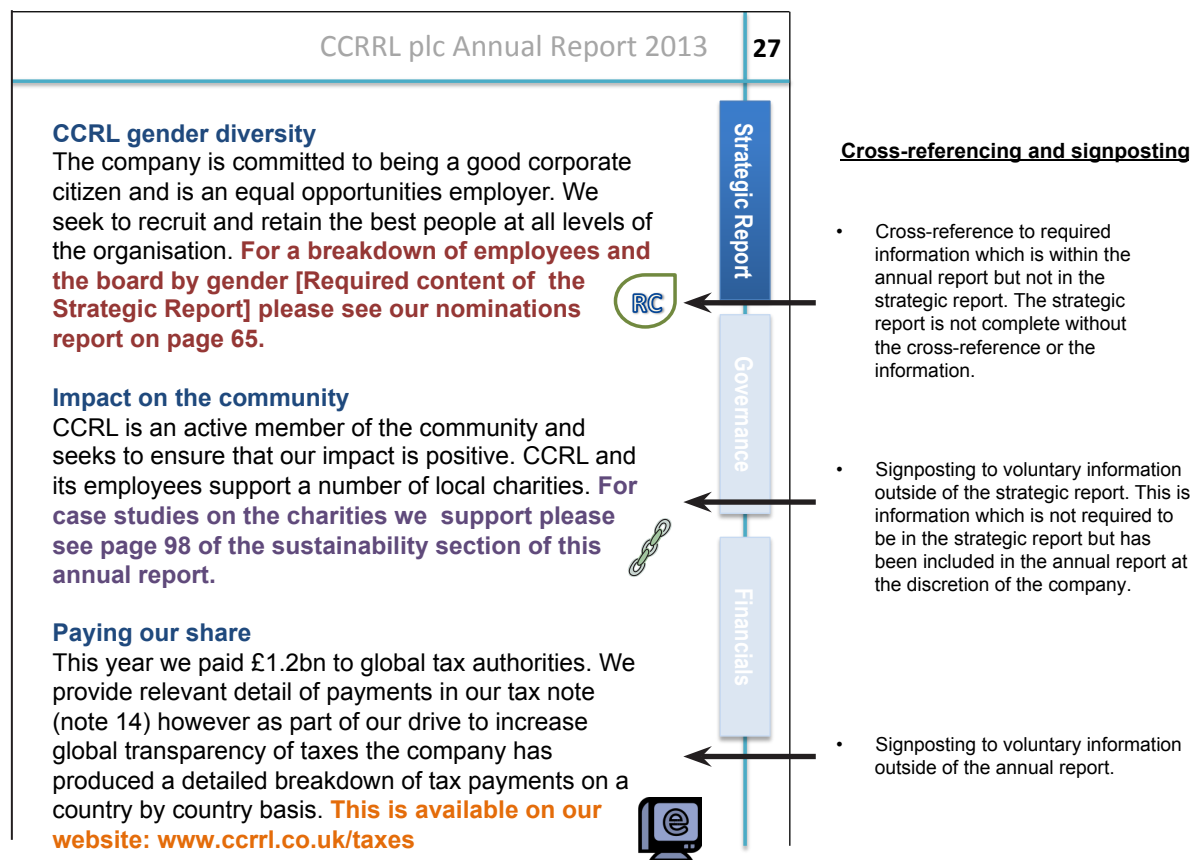


Figure 9: Illustrative example of cross-referencing and signposting



## Appendix 2

# Characteristics of good corporate reporting

The Financial Reporting Review Panel set out in its annual reports for 2011 and 2012 the characteristics of corporate reporting which it believed make for a good annual report.

The characteristics (updated for current legislation) still provide a useful guide for companies. The characteristics are consistent with the FRC's initiative for Clear & Concise reporting.

### Nine characteristics of good corporate reporting

#### A Good set of Report and Accounts

Beyond basic compliance with the fundamental requirements of the law and accounting standards and the need for complete and accurate publication of accounting information, there are characteristics of corporate reporting which we believe make for a good annual report.

#### 1. A single story

The narrative in the front end is consistent with the back end accounting information; significant points in the financial statements being explained in the narrative reports so that there are no surprises hidden in the accounts.

#### 2. How the money is made

The strategic report gives a clear and balanced account which includes an explanation of the company's business model and the salient features of the company's performance and position, good and bad.

#### 3. What worries the Board

The risks and uncertainties described in the strategic report are genuinely the principal risks and uncertainties that the Board are concerned about. The descriptions are sufficiently specific that the reader can understand why they are important to the company. The report also describes the mitigating actions taken by the Board to manage the impact of its principal risk and uncertainties. The links to accounting estimates and judgements are clear.

#### 4. Consistency

Highlighted or adjusted figures, key performance indicators (KPIs) and non-GAAP measures referred to in the strategic report are clearly reconciled to the relevant amounts in the accounts and any adjustments are clearly explained, together with the reasons why they are being made.

#### 5. Cut the Clutter

Important messages, policies and transactions are highlighted and supported with relevant context and are not obscured by immaterial detail. Cross-referencing and signposting is used effectively; repetition is avoided.

#### 6. Clarity

The language used is precise and explains complex accounting and reporting issues clearly; jargon and boiler-plate are avoided.

#### 7. Summarise

Items are reported at an appropriate level of aggregation and tables of reconciliation are supported by, and consistent with, the accompanying narrative.

#### 8. Explain change

Significant changes from the prior period, whether matters of policy or presentation, are properly explained.

#### 9. True and fair

The spirit as well as the letter of accounting standards is followed. A true and fair view is a requirement of both UK and EU law and applies equally to accounts prepared in accordance with UK GAAP and IFRS.

# Appendix 3

## The regulatory context

The clear and concise qualities for corporate reporting, are consistent with legal requirements and the FRC's codes and guidance.

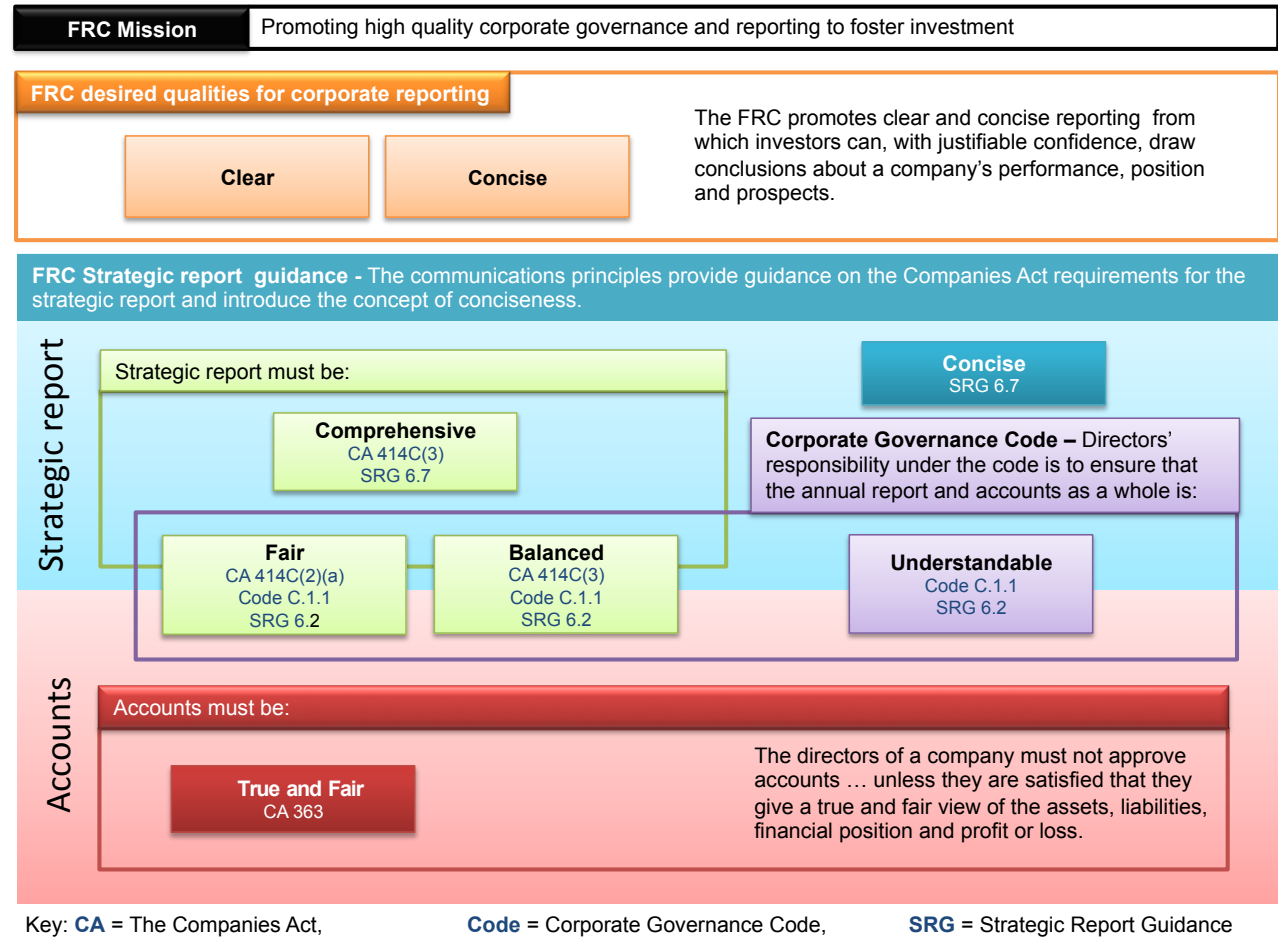


Figure 10: Illustration of how legal requirements and FRC codes and guidance interact

## Project reports from the Lab:

The Lab's project reports provide practical suggestions on reporting from our work with both the corporate and investment communities.

Each of the following highlights reporting that is focussed on meeting the needs of the investment community for consideration by companies.

### Governance:

- A single figure for remuneration
- Reporting of Audit Committees
- Reporting of pay and performance

### Financial Reporting:

- Accounting policies and integration of related financial information
- Debt terms and maturity tables
- Net debt reconciliation's
- Operating and investing cash flows
- Presentation of market risk disclosures

The reports are available at: <https://frc.org.uk/Lab>

### What is the Lab?

The Financial Reporting Lab was set up by the FRC to improve the effectiveness of corporate reporting in the UK.

This report is the first insight report from the Lab. Insight reports are designed to provide snapshots of trends and developing practice that the Lab team identifies.

As well as insight reports, the Lab also works with companies and investors more directly, with the aim of discussing improvements in financial reporting. Findings from the Lab's work with companies and investors are published as project reports. To date, the Lab has published eight project reports. These reports cover a range of governance and financial reporting topics.

### Do you have suggestions to share?

The Lab encourages readers of this report to provide comments on its content and presentation. As far as possible, comments will be taken into account in shaping future projects. To provide comments, please send us an email at:

[FinancialReportingLab@frc.org.uk](mailto:FinancialReportingLab@frc.org.uk)

The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing and actuarial work.

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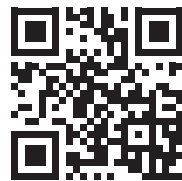
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