LTVS - example

Reverse stress testing

To provide additional assurance around the Group's viability, two reverse stress tests have been modelled, expanding on the reverse stress testing initially carried out at the end of FY20. In both of these reverse stress tests we have assumed that variable costs would reduce as sales reduce, that we would be able to save £20m per annum of current fixed costs and that we would reduce the level of capital investment to £10m per annum and suspend the payment of dividends.
In the first reverse stress test, we have modelled the sales decline required to breach either of the current covenants in the existing Revolving Credit Facility (RCF). A sales reduction of 30% from Q2 FY22 and a reduction of 36% in FY23 would be required for covenants to be breached by the end of FY23.
In the second reverse stress test scenario, we have modelled the level of sales reduction required to breach the RCF limit of £165m. This would require a reduction in sales of 50% per annum from the 'central case' to effectively run out of funding by the end of FY23.

Dunelm Group plc

Annual Report & Accounts 2021

Modelling potential downside scenarios

In their consideration of going concern and the future viability of the Group, the Directors have reviewed future profit forecasts and cash projections, which are based on market data and reflect their experience over the last 18 months during the Covid-19 pandemic. Even in these uncertain times, the Group has grown sales and profit whilst navigating the various lockdown restrictions; the Directors have used their experience gained during this period to model two different downside scenarios.

The 'market downturn' scenario assumes a change in consumer spending away from homewares, as the hospitality and travel industries open up, with an additional five-week 'circuit break' lockdown in December 2021. The sales downside assumption is 2% lower growth in stores and 5% lower growth in online sales across all five years and the performance during the five-week lockdown period in December 2021 is based on the actual sales performance experienced in the various lockdowns over the past 18 months. However, we have assumed no upsurge in sales when the stores re-open due to pent-up demand. Throughout this scenario we have assumed no government support, no cost mitigation actions to be taken and the continuation of dividend payments in line with our current dividend policy. In this 'market downturn' scenario, the Group would not breach any of its financial covenants and would not require any additional sources of financing in any of the five years under review.

The 'three-month lockdown' scenario assumes a government enforced national lockdown over our peak trading period of December 2021 to February 2022, where the stores are closed, but similar to the lockdown in Q3 FY21, we are able to offer Click & Collect services. Similar to the 'market downturn' scenario, we have assumed no subsequent benefit from pent-up demand, no government support, no cost mitigation actions taken and the continuation of dividend payments in line with our current dividend policy. As with the 'market downturn' scenario, the Group would not breach any of its financial covenants and would not require any additional sources of financing in this 'three-month lockdown' scenario over any of the five years under review.

Going concern assessment example

Heathrow's regulatory business plan

The Directors have modelled future cash flows for the period beyond 12 months to December 2023 to include the impact of COVID-19 related disruption and have considered the following:

- forecast revenue and operating cash flows from the underlying operations, based initially on a 2022 traffic forecast of 45.5 million passengers;
- forecast level of capital expenditure; an
- the overall Group liquidity position inclu to it, its scheduled debt maturities, its the debt markets.

The Directors acknowledge that this is a critical judgement and has therefore considered two further sensitivity scenarios for financial reporting purposes, described below.

Stress testing

As explained above, even under the most extreme scenario of no revenue, the Group has sufficient liquidity to meet all forecast cash flow needs until at least February 2023.

The Directors have stress tested RBP Update 2, described above, with a number of downturn scenarios taking into account the range of CAA H7 tariffs and further decreases in passenger numbers and a resulting drop in EBITDA.

Under a severe but plausible downside scenario, the Directors have modelled the interim tariff for 2022 and an overall H7 tariff at the lowest end of the range from the CAA's Initial Proposals (£22.94 in 2018 prices). This scenario assumes no further RAB adjustment. Given the continued uncertainty over potential future travel restrictions in the UK and those markets which Heathrow services caused by any new COVID-19 variants, and a resultant impact on consumer confidence, the Directors have modelled downside passenger forecasts in 2022. Whilst the Directors do not consider this scenario likely, a reduction in passenger numbers of over 8 million (18% reduction versus RBP Update 2) under the severe but plausible downside scenario is forecast to result in an ICR covenant breach at ADIF2 in December 2022.

Should there be a covenant breach, the Directors would need to undertake additional actions including identifying additional cashflow mitigations as well as seeking a further covenant waiver or amendment from creditors. During Q3 2021, the Group successfully agreed a further ICR covenant waiver at Heathrow Finance for the period ended 31 December 2021 which follows the agreement of a waiver for the ICR covenant and an amendment to the RAR covenant from Heathrow Finance creditors which resulted in no breach occurring in relation to the financial year ended 31 December 2020. Whilst the Directors are confident it would continue to receive support from its creditors if required, there is no certainty a further covenant waiver would be agreed particularly since unfavourable passenger tariffs may impact access to liquidity due to weaker access to debt capital markets at affordable prices. These factors indicate the existence of a material uncertainty which could cast significant doubt upon the Group and the Company's ability to continue as a going concern.

Heathrow Airport Holdings Limited – Annual Report and Financial Statements 2021

Other ESG disclosures

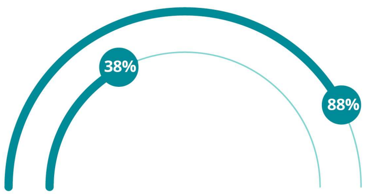
Companies Act 2006 – Acc Regs Sch 7:11

In the directors' report:

- Statement describing employee involvement and engagement – companies with > 250 employees (including subsidiaries)

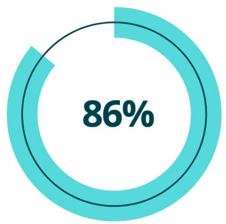
- Statement summarising how the directors have had regard to the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard on the principal decisions taken by the company during the financial year – all large companies – link to s172(1) statements

Other disclosure requirements for quoted companies in the strategic report under s414C(7)(b)

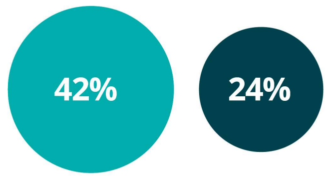


88% described a principal risk related to retention of their people, but just **38%** gave a staff turnover or retention metric

The percentage of companies reporting a principal risk linked to culture has almost doubled in the last three years, from **14% to 26%**



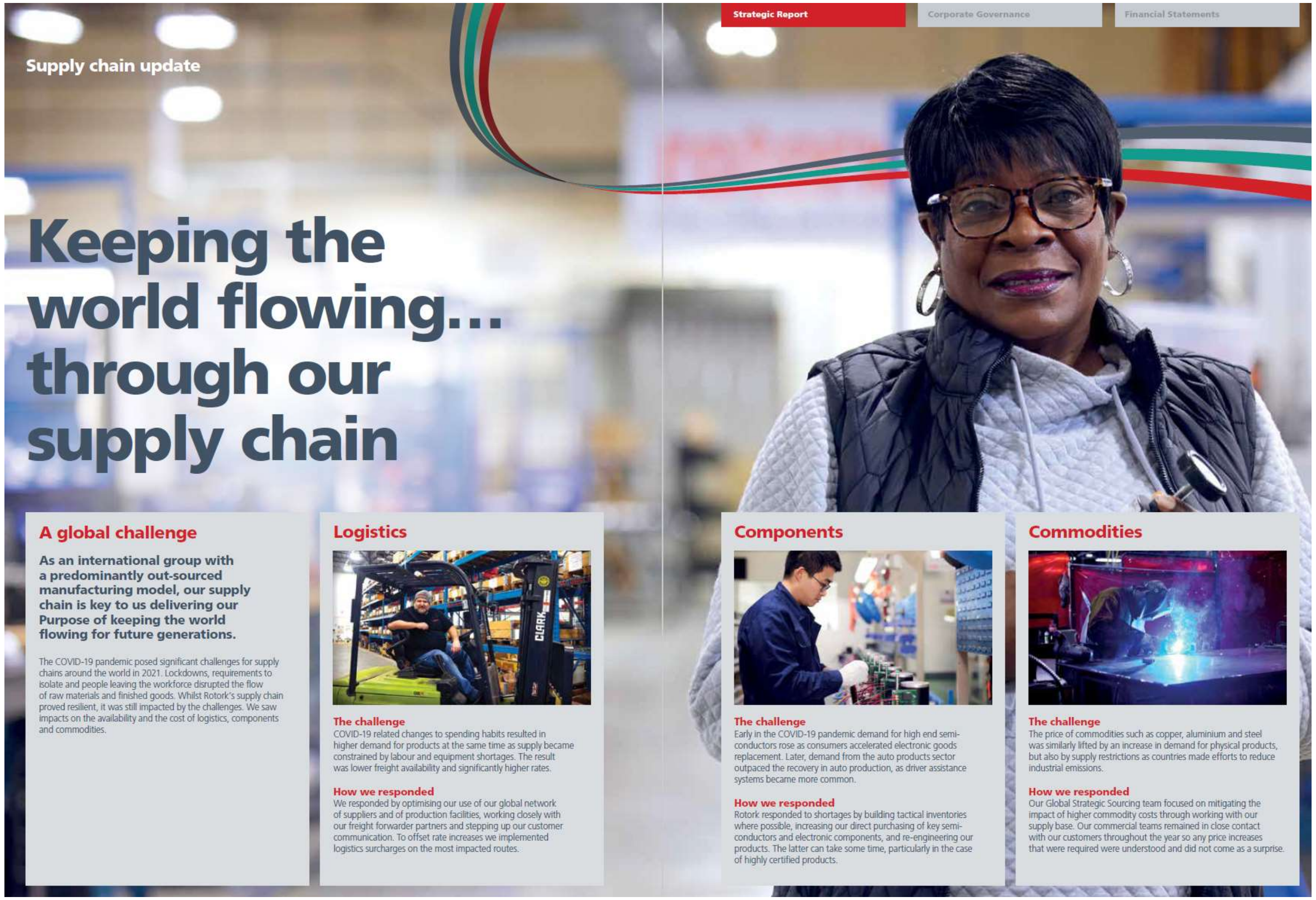
86% discussed the resilience or reputation of the supply chain



42% of business models addressed value creation for suppliers, but only **24%** set out clearly how the board monitors supplier payment practices

www.deloitte.co.uk/corporatereportinginsights

Supply chain - example



Strategic Report | Corporate Governance | Financial Statements

Supply chain update

Keeping the world flowing… through our supply chain

A global challenge

As an international group with a predominantly out-sourced manufacturing model, our supply chain is key to us delivering our Purpose of keeping the world flowing for future generations.

The COVID-19 pandemic posed significant challenges for supply chains around the world in 2021. Lockdowns, requirements to isolate and people leaving the workforce disrupted the flow of raw materials and finished goods. Whilst Rotork's supply chain proved resilient, it was still impacted by the challenges. We saw impacts on the availability and the cost of logistics, components and commodities.

Logistics

The challenge
COVID-19 related changes to spending habits resulted in higher demand for products at the same time as supply became constrained by labour and equipment shortages. The result was lower freight availability and significantly higher rates.

How we responded
We responded by optimising our use of our global network of suppliers and of production facilities, working closely with our freight forwarder partners and stepping up our customer communication. To offset rate increases we implemented logistics surcharges on the most impacted routes.

Components

The challenge
Early in the COVID-19 pandemic demand for high end semi-conductors rose as consumers accelerated electronic goods replacement. Later, demand from the auto products sector outpaced the recovery in auto production, as driver assistance systems became more common.

How we responded
Rotork responded to shortages by building tactical inventories where possible, increasing our direct purchasing of key semi-conductors and electronic components, and re-engineering our products. The latter can take some time, particularly in the case of highly certified products.

Commodities

The challenge
The price of commodities such as copper, aluminium and steel was similarly lifted by an increase in demand for physical products, but also by supply restrictions as countries made efforts to reduce industrial emissions.

How we responded
Our Global Strategic Sourcing team focused on mitigating the impact of higher commodity costs through working with our supply base. Our commercial teams remained in close contact with our customers throughout the year so any price increases that were required were understood and did not come as a surprise.

Rotork plc – Annual Report 2021

Supply chain - example

OUR SUPPLIERS

Our commitment

We focus on ethical trading, traceability and responsible sourcing to ensure our products are made by workers who are treated fairly and whose safety, human rights and wellbeing are respected.

Our approach

In common with other retailers, NEXT's product supply chain is both diverse and dynamic. During the year, NEXT products were manufactured in around 40 countries through over 650 suppliers. Our Tier 1 supply chain comprises circa 2.9 million workers.

Diversity of supply provides us with a cost-effective supply chain and an extensive range of products for our customers. It also increases the risk of sourcing from unethical suppliers, particularly in the lower tiers of the supply chain where visibility is more limited.

Ethical trading

Infringement of workers' rights like safety, human rights, employment and working conditions are a key risk. We induct, train and support our suppliers to make sure they understand what is expected of them and to help them raise standards. Working with suppliers to raise their standards rather than terminating the relationship delivers a better outcome for workers and the supply chain as a whole. Our aim is to support factories in resolving issues, but we will not continue to work with them indefinitely if there is no willingness to improve.

Our drive to support ethical trading in our supply chain includes:

- Working with our suppliers to ensure they understand our requirements and COP Principle Standards.
- Holding regular meetings with individual suppliers to share information and develop relationships.
- Our in-house global COP team which comprises 46 employees that administer our COP programme based on the Ethical Trading Initiative Base Code (ETI) and International Labour Organisation Conventions.

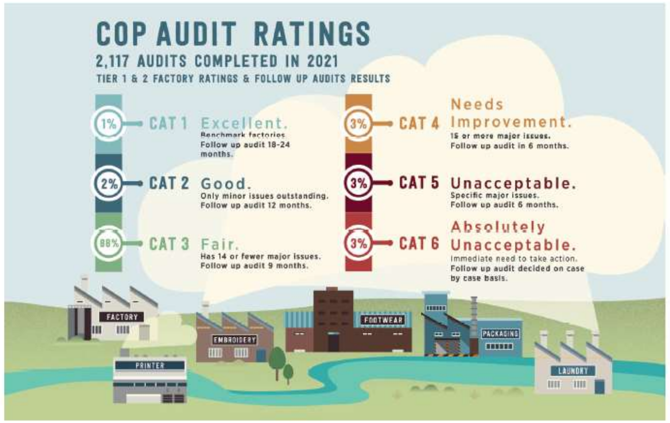
Our COP team works directly with new and existing suppliers and their factories. They are based in key sourcing locations around the world. This enables the team to respond quickly if issues occur. It also allows us to develop trust and build strong relationships with suppliers by offering meetings, training and support, even before orders are placed by our product teams.

Compliance with our COP Principle Standards is monitored through audits by our COP team which generally take place unannounced. Our auditing standards provide detailed information to help our suppliers fulfil their obligations. Our audit plan prioritises the human rights of workers in our supply chain and is risk-based, taking into account geographic location, ethical reputation, the type of manufacturing process and the factory's most recent audit rating. Where we find areas for improvement during an audit, we create a Corrective Action Plan which is agreed with the supplier and factory management. Follow up reviews are undertaken to monitor progress against the Corrective Action Plan.

Actions during the year

During the year, the COP team:

- Carried out over 2,000 audits. The team has encountered travel restrictions, factory closures and local lockdowns during the year, but in person audits have continued where possible, supported by virtual audits as necessary. Of the audits conducted, 89% related to Tier 1 suppliers and 11% related to Tier 2 suppliers.
- Supported 21 factories to successfully remediate 22 critical issues found.
- Disengaged with 20 factories that refused to satisfactorily rectify their critical non-compliance with our COP Principle Standards. A breakdown of audits by rating is provided in the illustration on the previous page.



Traceability

Traceability and transparency of our suppliers' factories are an important part of NEXT's overall approach. Suppliers are categorised into five tiers:

- Tier 1 are suppliers' factories where bulk production of NEXT branded products takes place.
- Tier 2 are factory sites declared and used by a Tier 1 supplier which include subcontractor locations which manufacture or process materials, components or parts of a finished product for processing by a Tier 1 supplier.
- Tier 3 suppliers are fabric and yarn suppliers who spin, knit, weave, dye and print to produce finished fabric.
- Tier 4 suppliers process the raw materials into a fibre.
- Tier 5 is where the raw materials are sourced.

Tier 1 and Tier 2 suppliers are contractually bound by our COP Principle Standards which apply to all their declared sites from which they operate and source. These standards cover workers' safety, human rights, employment and working conditions. Our contracts mean we can visit a supplier (often unannounced) to undertake an audit to ensure it is and remains compliant.

Actions during the year

In addition to publishing lists of our Tier 1 and Tier 2 supplier manufacturing sites which produce NEXT branded products, during the year we published a list of our Tier 3 suppliers on our corporate website, nextplc.co.uk. We are working to extend the visibility of our supply chain to include Tier 4 and 5.

Responsible sourcing

Each stage of our supply chain has an environmental and social impact, from sourcing the materials through to post consumer use and disposal. The majority of the environmental impact lies in the fibre and fabric production stage. While we do not source raw materials directly, we work with our suppliers to ensure we can trace their supply routes. This enables us to source products in ways which support their replenishment, respect human rights and protect natural habitats.

The main raw materials used in our products are cotton, wool, manmade cellulosic (such as viscose), polyester, timber and leather. These materials can have wide-ranging environmental and social risks associated with their production and extraction if not managed correctly.

Our 2025 Responsible Sourcing Strategy sets out our ambition to source 100% of our main raw materials through known, responsible or certified routes. We will also work with our suppliers to help reduce the impact of manufacturing processes on the environment and on the health of those working and living in communities around the sites where our products are made. Products must meet the requirements of our 2025 Responsible Sourcing Manual in order to be promoted as being responsibly sourced.

Actions during the year

We are making it easier for customers to identify sustainably sourced items. Products containing at least 50% responsibly sourced materials which have been certified and verified to a recognised standard can carry a NEXT Generation label.

During the first half of the year, we launched a small trial range called Mr Blue Sky, focused on sustainability and made using 100% responsibly sourced materials. Following a muted customer response, our intention is to subsume the range into our normal lines where our product teams will continue to buy in materials to meet our responsible sourcing targets.

In the year to January 2022:

- 42% (2021: 30%) of all NEXT branded textile products met our 2025 Responsible Sourcing criteria.
- 44% (2021: 39%) of our cotton was sustainably sourced as part of the Better Cotton Initiative (BCI). Our target is to source 100% of cotton from BCI, recycled, Certified Organic or Fairtrade Certified cotton by 2025.
- 38% (2021: 36%) of timber products within our Home division were certified by the Forest Stewardship Council with 0.4% (2021: 2%) responsibly sourced through other routes.

Next plc – Annual Report and Accounts January 2022

ESG reporting landscape for UK corporates

BEIS

- Strategic report and directors' report
- SECR
- Section 172 (CA2006)
- Non-financial information statement
- Statement of corporate governance arrangements
- Modern Slavery*
- Gender pay gap*
- Payment practices and performance*
- Climate related narrative regulations
- UK Green Taxonomy
- Global sustainability reporting standards
- UK Corporate Reform

Financial Reporting Council

- Corporate Governance Code
- Section 172 (CA2006)
- Workforce engagement
- Diversity

Financial Conduct Authority

- Board's approach to diversity
- TCFD – premium listings
- TCFD – extended scope
- Further Board diversity detail

European Union requirements also include:

- Non-financial reporting Directive
- EU Taxonomy
- Corporate Sustainability Reporting Directive (CSRD)
- EU sustainability standards (ESRS)
- Corporate Reporting Sustainability Due Diligence Directive

US – SEC proposals - The Enhancement and Standardization of Climate-Related Disclosures for Investors

Two draft global standards issued by the **IFRS Foundation's International Sustainability Standards Board (ISSB)**

Proposed/in consultation

* BEIS requirement - not required in the annual report

FRC Lab Report: Improving ESG data production

What motivates the company to collect ESG data and how does it identify what is needed?

Each section sets out key challenges, positive actions to take and questions for boards including around whether there are the right committees in place to optimise the use of ESG data

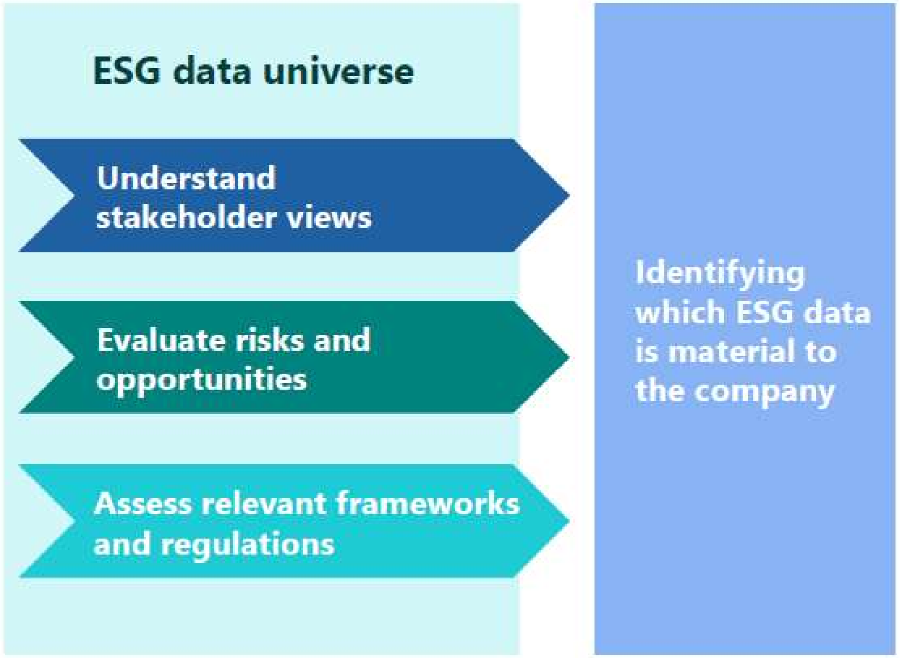
How is ESG data collected?

How is the data used within the company and how does it impact decision-making?

FRC Lab Report: Improving ESG data production

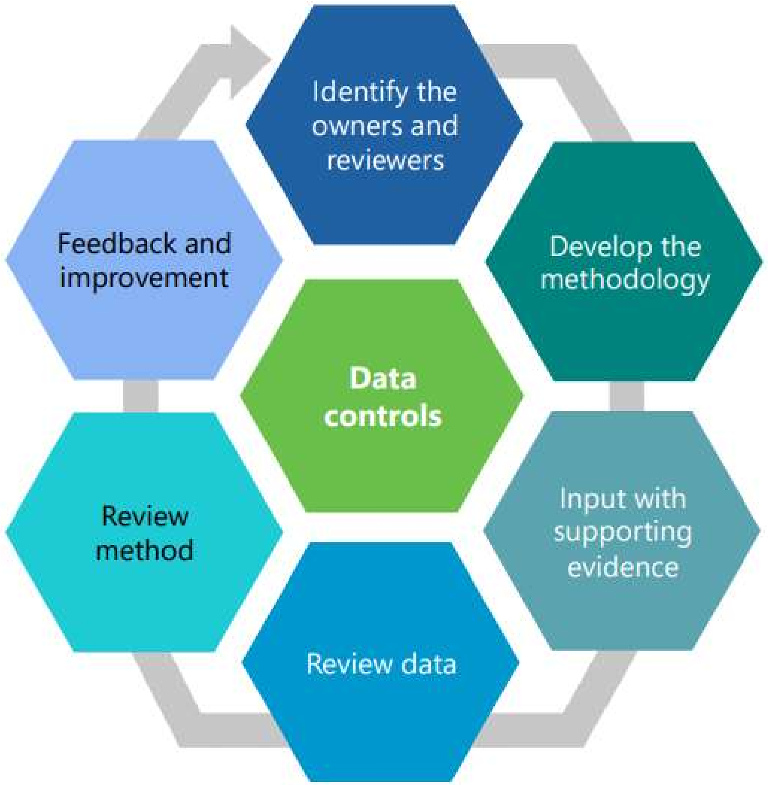
Some examples of ESG topics:

The ESG data universe includes many topics, but companies need to assess which are relevant to them



Identifying the data to collect

FRC Lab Report: Improving ESG data production



Data controls: an iterative process

ESG & s172 statements

- S.172 link to ESG for all companies (not just quoted)

(d) the impact of the company's operations on the community and the environment,

- FRC lab report last July – useful insights into what had been done well and what hadn't
- In particular:
  - S.172 is about more than stakeholders
  - Use of principal decisions brings s.172 disclosure to life and aides understanding
  - Information on outcomes of stakeholder engagement and feedback on these is often missed

33% of

FTSE 350 companies included a principal decision on sustainability in their s172 statement