

The Hundred Group
of Finance Directors

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Annual Review
Autumn 2009

Foreword

Welcome to the first Annual Review of the Hundred Group of Finance Directors, which provides an overview of the activities undertaken by the Group over the past twelve months.

Who we are

The Hundred Group is a non political, not-for-profit organisation which represents the Finance Directors of the UK's largest companies, with membership drawn mainly from boardrooms of the FTSE 100.

What we do

The Hundred Group plays an important role in influencing the business agenda and has done so for over 30 years.

Our aim is to contribute positively to the development of UK and International policy and practice on matters that affect our businesses, including taxation, financial and corporate reporting, corporate governance, pensions and capital market regulation.

How we operate

The Hundred Group sets and oversees the strategic direction through our Main Committee. The assessment of emerging issues and engagement with stakeholders is principally undertaken by members of our sub-committees: Tax, Financial Reporting, Investor Relations & Markets and Pensions. Active participants on our Committees include current CFO's supported by senior finance personnel from member organisations. Approximately one third of FTSE 100 companies are currently represented at our regular committee meetings.

We ensure we remain representative of our entire membership, through quarterly Speaker Dinners, surveys, working groups, email alerts and updates to our website: 100groupfd.co.uk.

The views expressed in this document are those of The Hundred Group of Finance Directors as a whole, they are not necessarily those of our individual members or their respective employers.



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Ashley Almanza
Chair of the
Hundred Group of
Finance Directors

Chairman's Statement

The year has been unprecedented, both in terms of the severity of the financial downturn and the tightness in the capital markets that ensued.

It is a cliché to say that “we live in unprecedented times”, but a cliché that fits the times. I cannot recall a busier time for CFO's, both in terms of the commercial demands of the role and navigating the regulatory landscape which governs our businesses. It is with this in mind that your Main Committee decided to publish this Review. I hope it provides you with a helpful picture of our activities and the key challenges we are seeking to address, namely:

- **Overall competitiveness** – the UK tax burden on large companies continues to increase and the cost of doing business and employing skilled resource is both high and rising in the UK. This adversely affects the competitiveness of the UK for businesses that must make decisions regarding the long-term location of human, physical and financial capital. Developed and developing countries alike recognise the great economic and social benefit that comes with business investment. Business responds to economic signals and those countries that develop and maintain competitive and predictable business policies will attract investment at the expense of those that do not. The trend increase in rates of taxation on wages and profits in the UK must be reversed if we are to retain and grow the capital base and skills needed to compete in the global economy.
- **Comparable, understandable information** – society benefits from an accounting standard setting body which is free to develop high quality accounting standards that are used by all. We strongly support the development of global financial reporting standards under the International Accounting Standards Board (“IASB”) and we call on the UK Government to ensure that the European Commission remains committed to this objective. We also call on the IASB to pursue a more focused agenda; updating the conceptual framework and issuing fewer standards by concentrating in those standards which have the greatest impact. In the area of corporate reporting we support the Financial Reporting Council's (“FRC”) efforts to simplify disclosure.
- **Supportive regulation** – The Hundred Group has been encouraged by the measured UK regulatory response to the financial crisis. We recognise that

Government and Regulators must respond to legitimate public concerns, and we engage with Regulators to contribute to the development of efficient and effective regulation. In the area of UK Pension regulation and taxation the picture in recent years has been less encouraging with frequent and drastic changes made without adequate consultation. We continue to engage with Government to encourage the development and maintenance of predictable pension policies that incentivise employees to make private provision for retirement.

The future

The role of The Hundred Group continues to grow in importance. Increasingly Governments, Standard Setters, Policy Setters and Regulatory Authorities are looking to engage with our organisation. They actively seek our view on emerging issues and want us to contribute to the debate. And interest in our work extends beyond the UK's shores.

We will aim to ensure that our engagement is focussed and effective, making a positive contribution to policy formation and implementation. The UK faces many challenges over the next few years. Public finances must be consolidated and growth must be restored. As demonstrated by our annual Total Tax Contribution Survey, the Hundred Group companies already make an enormous economic and social contribution to the UK. The Hundred Group remains committed to continuing to work with the UK Government to ensure that the UK becomes more competitive and that our businesses remain at the heart of the UK's economy.

The Hundred Group is a voluntary organisation, reliant upon the goodwill of the individuals who serve on our Committees and those who support our activities. Without this support, the Group would not survive and I would like to offer my sincere thanks to everyone who has contributed to the Hundred Group's work over the past year.

Ashley Almanza
Chairman
November 2009

Responding to the Economic Crisis

In observing first hand the impact of the credit crisis over the past year or so, the Hundred Group has followed the work of Regulators, Governments, Standard Setters and other Commentators as each has sought to identify the cause of the crisis and to formulate policies which will reduce systemic financial risk.

It is clear that the combined effect of a number of factors caused the financial crisis. Global current account imbalances together with very high levels of leverage and illiquidity in financial institutions played a major part. In some cases investor passivism and inadequate board and regulatory oversight played a part. Some have pointed to the pro-cyclicality of IFRS.

The Hundred Group has been assessing the implications of the crisis under three broad themes:

- **The role of Financial Reporting** – Given the length and complexity of Annual Reports, can they be relied upon to provide meaningful information to users?
- **The role of Accounting Standards** – Has the current economic crisis highlighted a need for changes in Accounting Standards and the Accounting Standard setting process?
- **The role of Corporate Governance** – Would a different approach to Corporate Governance and Risk Management have helped avert the recent economic crisis?

During the course of the year, we set in motion a number of work streams to consider these points, and have published our findings on our website.

We believe that Annual Reports provide meaningful information to investors, but recognise that further improvements to corporate reporting can be achieved through a combination of supportive regulation and through increased effort by preparers. We support the work of the FRC with regard to complexity, and more generally, other parties who are looking at longer-term proposals to enhance the quality of investor reporting.

We believe that in general, IFRS stood up well to the crisis. In some cases necessary changes have been identified and the crisis stimulated an urgent

review of IAS 39. Some commentators and interest groups have gone further and called for European exceptions to IFRS. We reject this approach and strongly support global accounting and financial reporting standards. The crisis has emphasised the need for pro-active engagement between the IASB and stakeholders, including national and supra-national political institutions.

We believe that the Combined Code is fundamentally sound and that good governance is not merely about regulation, but also about people, behaviours and culture. Within the financial services sector there are opportunities to improve regulation and we support a measured approach using existing regulatory infrastructure.

The Hundred Group has:

- Updated its Statement of Principles – the yardstick by which our members measure good accounting standards. We have published our new Principles (available on our website), and will continue to work with the IASB to try to ensure the quality of accounting standards is enhanced;
- Engaged closely and constructively with the IASB to represent our members. We have urged the adoption of a more focused IASB agenda and pro-active engagement with legislators and government;
- Instigated a review of the findings of the FRC's Complexity project and have committed to work with it in assisting with the "calls to action"; and
- Provided views to the FRC during its consultation on the review of the Combined Code.

Total Tax Contribution

Each year the Hundred Group commissions the Total Tax Contribution survey, which assesses the total UK taxes borne and collected by Hundred Group member companies. The survey is prepared by PricewaterhouseCoopers for the Hundred Group and is compiled from members' data – making it an authoritative report on the total tax contribution by the UK's largest public companies.

The 2009 Total Tax Contribution ("TTC") survey highlights that the Hundred Group companies continue to bear and collect a substantial amount of tax. A worrying trend is the increasing rate of total tax paid by these companies – a trend that threatens the competitiveness of UK companies and the UK as a place to invest and do business.

The 2009 survey was issued in the Spring prepared using results from FTSE 100 companies for the 2008 reporting period.

It highlights the important contribution that Hundred Group members continue to make to both public finances and employment.

During 2007/08 the Hundred Group:

- Employed 4% of the UK workforce; paying average wages of approximately double the national average;
- Paid 25% of all UK Corporation Tax;
- Paid £1.14 in additional taxes for every £1 of Corporation Tax paid; and
- Collected £3.88 in taxes on behalf of Government for every £1 of Corporation Tax paid.

Of the total value distributed by Hundred Group participant companies, almost half (49%) was paid to the UK Government in taxes borne and collected.

Of course, the current economic outlook and growing intensity of global competition make the competitiveness of the UK tax system more important than ever. Against this background, the Hundred Group notes with concern that the UK's Total Tax rate (as a percentage of profit before all taxes) for Hundred Group companies has increased significantly over 2007/08, rising from 34% to 45%, reflecting the changed mix of profits in the tax base (some entities with higher effective tax rates) and the impact of taxes such as NI, business rates and unrecoverable VAT which do not fall in line with falling profits.

We believe that it is in the best interests of the UK to have a system of taxation that encourages investment, offers simplicity and certainty for tax payers and is competitive with other countries.

We are concerned that the 2009 budget further threatens the competitiveness of UK companies and the attractiveness of the UK as a place to do business.

This year's survey will be published in March 2010.



Julian Heslop
Chair of the Tax
Committee

Report of the Tax Committee

The work of the Tax Committee this year has demonstrated that consultation works. On issues such as foreign profits, the Hundred Group, supported by its members, has worked closely with HMRC and Treasury to reach a satisfactory outcome on dividend exemption and the debt cap.

Review of the year

The Hundred Group has worked closely with the Treasury and HMRC during the year to influence proposed Government legislation on a number of matters including Dividend Exemption, the Debt Cap and Senior Accounting Officer Certification. The latter was introduced by the Government without prior consultation and although the Hundred Group did not believe the changes proposed were necessary, it worked to ensure the final law was improved to the extent possible.

With respect to Foreign Profits, work continues to influence the Treasury's development of Controlled Foreign Companies proposals.

The Hundred Group continues to support the work of the Oxford Centre for Business Taxation. The Centre (now in its fourth year) has established a first class research team which contributes to the UK strategic tax policy debate.

The Hundred Group meets regularly with the Centre to help identify future policy questions. Over the next year, the Centre will tackle projects such as the impact Government's current finances will have on business taxation and the impact of tax avoidance.

Activity snapshot

Key policy matters	Stakeholder engagement	Public comment responses
The 2009 Finance Bill	HM Treasury Ministers and advisers	No public comment letters issued, but our group has provided considerable input into the design of Government legislation.
Foreign profits and controlled foreign companies	HMRC	
Senior Accounting officer and XBRL requirements	Members of the Oxford Centre for Business Taxation	
Total Tax Contribution	Business Tax Forum	
“Tax Gap” issues, such as tax havens and additional disclosures	Business Government Forum on Tax and Globalisation	
Double tax treaties	Members of the Shadow Treasury team	
Publish what you pay campaign	Parliamentary committees	

The year ahead

The challenges for our Tax Committee are obvious – public finances are in a dire state, tax take will need to be raised and Government efficiencies will need to be achieved.

We will continue to work with Treasury and HMRC, extolling the virtues of a fair, stable and competitive tax system.



Chris Lucas

Chair of the
Financial Reporting
Committee

Report of the Financial Reporting Committee

This year's activities have been dominated by the fall-out from the economic crisis. Whilst in our view International Financial Reporting Standards stood up well to the test, the Hundred Group continues to work closely with all stakeholders to enhance the relevance of financial reporting.

Review of the year

Over the last 12 months, the FRC has continued to engage actively with our key stakeholders to evaluate a broad policy agenda.

More than ever, international markets require comparability, transparency and stability of financial information. A globally consistent set of high-quality accounting standards is at the heart of this.

We have reiterated our support for the joint aims of the IASB and its US equivalent, FASB, along with other accounting standard setting bodies, in converging accounting throughout the World.

We consider it vital for the EU Commission to continue to support a global approach to regulation and financial reporting through reinforcing its commitment to the existing convergence framework. We believe removal of this support is a backward step for multinational business and furthermore urge the FASB to remain committed to a road map for adoption of International Financial Reporting Standards by 2012.

In our view the economic crisis has exposed weaknesses in the standard setting process. We believe:

- The IASB was slow to react to emerging issues and that it should make enhancements to its "fast-track" process;
- The IASB's standard setting agenda has proved too ambitious and has not prioritised the areas that require the most urgent attention; and
- High quality accounting standards are only achievable if the IASB canvasses the views of preparers and users and takes positive action in response to the feedback it receives.

Any organisation must be held accountable for its actions and therefore the Hundred Group supports a stronger IASB constitution. We believe the role of the Trustees is essential in ensuring the IASB delivers global, independent, high-quality accounting standards within an effective due process. Better accountability will eliminate the temptation for political interference in the future.

Activity snapshot

Key policy matters	Stakeholder engagement	Public comment responses
The Hundred Group statement of principles	Members of the IASB Board Trustees to the IASC Foundation	Consolidation Financial Statement Presentation
The role of the IASB during the economic crisis and support for high quality global accounting standards	Members of the Financial Crisis Advisory Board EFRAG Technical Expert Group	Income Taxes Revenue Recognition IAS 39 related projects
New accounting standards and convergence projects	FRC CRUF (Corporate Reporting Users Forum)	FRC's review of complexity
Complexity in financial reporting	ICAEW PRG (representative body of the Big 6 audit firms)	

The year ahead

Over the last year, the Hundred Group has revisited our Statement of Principles to ensure that they continue to articulate the characteristics of good accounting standards.

Throughout the coming year we will continue to support the IASB, and provide constructive challenge to its proposals with reference to these Principles. We can expect it to be another busy year.



Peter Williams

Chair of the
Investor Relations
& Markets
Committee

Report of the Investor Relations & Markets Committee

The Investor Relations & Markets Committee (“IR&M”) continue to work across a broad spectrum of issues, with the aim of ensuring market related regulation continues to both protect stakeholders and encourage business growth and enterprise.

Review of the year

History has shown that turbulent market conditions and new market regulation are always close bedfellows. We have seen through the output of the Treasury Select Committee a volley of regulatory reviews – be it Turner, Walker, the Combined Code – which has sought to ask “would a different regulatory model performed better in the past 18 months?”

At the time of writing this Review, the FRC is part way through a comprehensive review of the Combined Code. In our discussions and formal response to the FRC we reiterated a common-held view that the existing Code is not broken. What is clear is that there is no place for a “knee-jerk” reaction which imposes excessive costs on business which undermines the quality and effectiveness of regulation in those areas where it is important.

In other areas, we have seen the challenge in raising capital and keeping the markets informed of changes in market conditions. In our discussions with the Financial Services Authority (“FSA”) and Investor Groups, we have been encouraged by the Rights Issue Reform – this is an example of better, more sensible, regulation – and by the FSA’s desire not to impose more rigid rules on Interim Management Statements.

Perhaps the most concerning area of confused and conflicting legislation is the Government’s sustainability agenda. Our Committee is investing time in understanding this evolving area as its impact is starting to hit our desks. The Hundred Group supports the overarching aim of protecting the environment, but we believe it needs to be done through mechanisms which continue to encourage business growth and enterprise. Meantime, the Carbon Reduction

Commitment comes into force next April, with real financial implications for UK companies.

We have also been engaged on matters related to audit – reacting to auditing standards, audit partner rotation and monitoring the lack of progress on liability limitation agreements.

Activity snapshot

Key policy matters	Stakeholder engagement	Public comment responses
UK competitiveness	FRC	APB's review of ethical standards
The Financial Reporting Council's review of the Combined Code	FSA The CBI's Sustainability team	European Commission's consultation on rights issue reform
Update guidance on going concern	Ministers and advisers from the Department for Business, Innovation and Skills	Government consultation on the Carbon Reduction Commitment
Audit partner rotation	Association of British Insurers	FRC's review of the Combined Code
Auditor liability agreements	Auditing Practices Board ("APB")	FRC's guidance on Going Concern
Market disclosures	The Walker Review team	
Rights issue reform		
The Carbon Reporting guidelines and the Carbon Reduction Commitment		

The year ahead

Business regulation is vastly improved by having the right balance in stakeholder representation and consultation. In particular, Regulators should ensure that they have adequate representation from practitioners and the businesses which are responsible for implementing regulations. We believe that this dialogue can be improved further without compromising the independence of Regulators.

The remit and responsibility of the Investor Relations & Markets Committee seems to increase each year, reflecting not only the wider CFO agenda, but also the alarming increase in regulation and regulators that govern UK business.



Eddie Weiss
Chair of the
Pensions
Committee

Report of the Pensions Committee

Hundred Group companies constitute some 40% of the market value of UK quoted companies and a substantial proportion of the UK labour force. As such the effects of the present economic situation have a significant effect on both short-term employment and longer-term pension provision.

Review of the year

The Pensions Committee has continued to lobby for “fair” pension regulation. We recognise the strategic importance of our members in providing pension arrangements for our aging population. Therefore we continue to actively engage with Government in ensuring that both interests of employees and employers are protected.

It was with this in mind, that we wrote to the Chancellor, Alistair Darling, in early 2009 ahead of the budget, to provide some ideas where favourable Government policy would encourage companies to maintain the level of pension benefits to their employees.

Unfortunately, the Spring budget had the opposite effect since, in our view, the changes contained within the new Finance Bill with regard to the basis of taxation on pensions will have serious implications for both employers and employees.

Just recently, we again wrote to the Chancellor (and other relevant Government departments) outlining our concerns in several areas:

- changes in A-day settlement;
- complexity of legislation;
- costs of implementation;
- incidence of double taxation;
- the impact on defined benefit schemes;
- the impact on irregular contributions; and
- the arbitrariness of measures.

Perhaps what is most worrying is that the lack of stability and clear Government policy on pensions. This may encourage employers to walk away from their responsibilities – this is something we all wish to avoid – with the proposals further undermining confidence in pensions amongst Hundred Group companies and their employees. In particular, it impairs the UK’s ability in a global market to attract and retain highly skilled employee groups.

On a more positive note, the Pension Committee has worked closely and successfully with the Regulator in developing the material detriment code. Our work with the PPF to ensure that the levy is fairly charged to companies is ongoing. We note, that the PPF has now postponed its plans for long term changes to the levy and is engaging in further consultation with interested groups.

Activity snapshot

Key policy matters	Stakeholder engagement	Public comment responses
Issues arising from the 2009 Finance Bill	Representatives from the Pensions Regulator	Future development of the PPF
Government policy, generally, in respect of pension provision	Representatives from the Pension Protection Fund	Application of the material detriment test
PPF levy	Representatives from the Department for Work and Pensions	
Material detriment code		
Return of surpluses	Representatives from the National Audit Office	

The year ahead

The Pensions Committee will continue to lobby Government on pension policy – in particular we would like to see the issue of public sector pensions tackled. This ticking time-bomb weighs disproportionately on the private sector, as we will not only have to continue to pick up the cost of our own employees but we will also be asked to fund the burgeoning public sector schemes through increased taxes. Our work in this area remains critical.

Membership Update

The Hundred Group brand is strong in lobbying circles, because the UK Government, Regulators and standard setters understand that our Committees represent the views of our members. Our voice is strong because we act as one body.

To remain representative of our members and “big business”, we maintain a continuous dialogue.

Once a quarter, the Hundred Group hosts a dinner, where all members of the Hundred Group are encouraged to attend. Speakers have included current and former cabinet ministers, opposition party spokespersons and leaders of UK and International business organisations.

This year we hosted:

- Richard Lambert, Director General of the CBI;
- Philip Hammond MP, Shadow Chief Secretary to the Treasury;
- Lord Mervyn Davies, Trade Minister; and
- Mervyn King, Governor of the Bank of England.

Over half our members attended one or more dinner event this year.

This year, we have invested in upgrading and enhancing our website, where we retain all public information, and in the publication of this Annual Review.

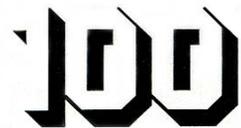
Informally, members of the Main Committee and sub-committees regularly receive telephone calls from members on “hot topics”. And as major issues unfold, we communicate directly with members (either via email or letter).

We believe that the Hundred Group network works and the views expressed by Committee members – both in public and private – truly represent the majority view of the FTSE 100.

Contact us:

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