

Listed Company

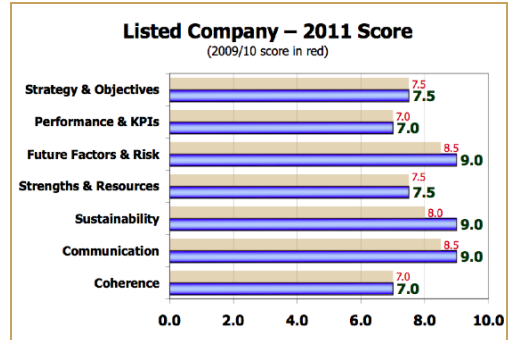
Year ended: 31 December 2010

Core Finding

LC [stock symbol LC] scores 8.0 for the strategic value added in its 2010 Annual Report narrative. This reflects a notable advance of +0.3 over the previous year and elevates the Company into the elite echelon in the vanguard of the Strategic Value Ranking. This is an impressive narrative that has a strong and pervasive strategic theme with copious commentary around objectives and strategy, strategy-related performance, future sensitivity and an integral approach towards sustainability-related matters. And yet, this could have even more impact on its stakeholders. The rigour and clarity of LC's strategic thinking get lost in the telling of the story here. The scope and extent of strategy content is impressive but the impact is less so. LC's newly introduced and expansive, if slightly laboured, Business Model piece suggests uncertainty as to what the simple business model is at the core of the business – how LC uniquely creates and delivers value and for whom. Competition features as a 'high impact' risk yet competitive positioning and key sources of advantage receive little attention. If this risk is truly principal, and of high impact, then shouldn't strategy address it more effectively? But, these are details. The better a narrative becomes in terms of its strategic value, the more apparent become the limitations. All in all, this should enthuse most analysts and investors, but it will still leave them with some unanswered questions.

The Group publishes its 2010 Annual Report online through a reporting centre giving access to the HTML online version and offline PDF derived from the print version. The Report presents vision, financial mission and short-term operating objectives. The strategic framework also links corporate strategy and operational strategy to convey the perception of the strategic management of the business. The commentary on performance supported by most of the KPIs does indicate strategy in action and builds on the general impression of effectiveness. The future orientation to the narrative addresses short- and long-term horizons, while the evaluation of risks promotes an impression of LC's future sensitivity. The scope of references to strengths and resources offers some notion of developing strategic capability, while reporting of sustainability-related matters is excellent. Design and use of media here enhance the standard of communication while the small content limitations hold back the coherence standard.

Overall score	8.0
Change this year	+0.3



What we said last year

LC scores 7.7 for its 2009 Annual Report narrative with a gain of +0.1 over the previous year. The profile of scores for the underlying factors is broadly similar, with only Sustainability showing any substantive improvement this year [+1.0]. The Group shows how it has integrated its approach to corporate responsibility with the business strategy and the Group strategic objective of "Total Performance". Report users will certainly gain a sense of strategic leadership from the 2009 Annual Report that would be even more intense with a clearer statement of the business model, a more developed explanation of the Group's competitive context, distinct segment operating objectives and strategies and a measured definition of what "Total Performance" actually means in hard data terms. The design is also perhaps a little busy and over-elaborate, contributing to the sense of fragmentation and clutter in the content. All the same, analysts and investors should react positively to the strategic value added here. It could be even better.

Summary of Key Engagement Issues for Asset Owners and Managers

1	The rigour and clarity of LC's strategic thinking get lost in the telling of the story here. The scope and extent is impressive but the impact is less so. Where is the weakness in the executive team?
2	LC's expansive but laboured Business Model piece suggests a degree of uncertainty as to what the simple business model is at the core of the business – how LC uniquely creates and delivers value and for whom.
3	LC's mission is financial. This is akin to 'increasing shareholder value' as a strategic goal. Is this really how they see their mission, or is this just to satisfy the stock market?
4	Competition features as a 'high impact' risk yet positioning or sources of advantage receive little coverage in the discussion of strategy. If the risk is truly principal, the strategy needs to address it more effectively. Why is this not the case?
5	KPIs are grouped under the 4 themes of Total Performance but lose some impact when LC reports that three of these relating to customers and programme execution are too complex to report as data here. Is there something more to this?

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Contents: Core Finding – 1; Key Engagement Issues – 1; Strategy & Objectives – 2; Performance & KPIs – 3; Future factors & Risk – 4; Strengths & Resources – 5; Sustainability – 6; Communication – 7; Coherence – 8; Ranking – 9

STRATEGY & OBJECTIVES

Question	Rating						Comment
	N/A	Definitely	Mostly	Largely	Partially	Not really	
1 How effectively does the Company explain its business model?							LC devotes a double-page spread to its business model. This is an expanded piece, falling short of being a simple, distinct exposition of how the group uniquely creates and delivers value. It is as though LC has struggled to define the core model.
2 Does the Company include a discussion of competitive dynamics, competitors and sources of advantage or key strengths?							Competition features in this narrative only as a 'High impact' risk factor: " <i>The Group's business is subject to significant competition</i> ". The mitigation comments should really inform the strategic thinking but are quite cursory in this case.
3 To what extent does the Company present its vision, business goals or the objectives of the business?							LC declares the Executive Committee's top ten objectives that are in effect operating objectives or priorities for the year ahead. These seem a little generic. There are both vision and [financial] missions in the Group Strategic Framework.
4 How effectively does the Company address the core strategy of the business – its corporate strategy?							Clear corporate strategy and underlying strategic actions in the Group Strategic Framework.
5 To what extent does the Company include operating objectives and strategies for divisions (or of the business as a whole where not a Group)?							Some 2010 top ten objectives relate directly to the 4 main segments. A little more depth in terms of operating strategy would help here, e.g. global land systems strategy. 'Outlook' for each segment partly satisfies this.
6 What evidence is there for the Board's engagement with and involvement in the strategy and strategy processes?							The Chairman starts his letter with a focus on the strategy processes within LC. Board performance in 'Corporate Governance' develops this further. " <i>Executive directors' remuneration is linked to certain of these measures</i> ", notes the KPIs section.

Does the Company's presentation of its objectives and strategies add up to clear and rigorous strategic thinking and its application?

Report users may feel overwhelmed by the scope and extent of LC's strategy-related content and it is impressive, but seems to lose something in the telling. The business model lacks a clear crisp exposition and this should set the foundation for the strategic framework and short-term objectives that follow. It all feels rather laboured when copious strategic thinking such as this should jump from the page. It is good, 'though. But could be better.

Score **7.5** out of 10

PERFORMANCE & KPIS

Question		Rating						Comment
		N/A	Definitely	Mostly	Largely	Partially	Not really	
1	Does the Company demonstrate strategy in action through its commentary on performance at group-level?							LC reports 2010 performance against the top ten operating objectives set by the Executive Committee in 2010.
2	Does the Company demonstrate strategy in action in its commentary on performance at divisional level ?							The 'Operating group reviews' present operational as well as financial performance for the four main divisions relating to a tailstrip on the page that reminds the user of the respective Executive Committee top ten objective.
3	How complete is the array of KPIs – is it strategic and operational as well as financial?							There are five financial, two customer, one programme execution and two responsible behaviour KPIs. These four areas are the four components of LC's 'Total Performance' model. Good in concept but short of data.
4	How useful are the KPIs? Do they have an immediate relevance to stakeholders outside of the Company? Do they include trend data? Do they indicate strategic progress?							There is a definition and comment for each of the KPIs. Financial KPIs give five years' data. The inability to produce some sort of aggregate Customer Focus and Programme Execution data for these three KPIs is disappointing.
5	Does the Company explain how it sets and uses KPIs to assess performance and strategic progress?							"The Board uses a range of quantitative financial and non-financial performance indicators ... to monitor the Group's performance against its Total Performance and ... top ten objectives."
<p>Does the presentation and evaluation of performance and KPIs show a capacity for strategic management across the business?</p> <p>Report users should get a good sense of strategic management ability from the way LC tackles and reports performance commentary, linking it to the short-term top ten objectives in both a Group and divisional sense. KPIs too are extensive and grouped under the four themes of Total Performance but lose some impact when the narrative announces that three of these KPIs are too complex to report as data here. If that is the case are they 'Key Performance Indicators'?</p>								

Score

7.0

out of 10

FUTURE FACTORS & RISK

Question		<div style="display: flex; justify-content: space-between; width: 100%;"> N/A Definitely Mostly Largely Partially Not really Not at all </div>						Comment
		N/A	Definitely	Mostly	Largely	Partially	Not really	
1	In what depth does the Company address factors likely to influence performance in the next trading period?							'Outlook' in the summary up front encapsulates 2011 expectations well. LC reviews the prospective market environment, and in 'Key home markets' discusses 'imminent potential'. Each operating group also presents its 2011 'Outlook'.
2	To what extent does the Company address factors likely to influence progress towards its strategic goals over the medium-term and beyond?							For each 'Key home market' there is a detailed 'Outlook' that spells out the medium-term potential as well as the short-term. LC translates this into 'Opportunities'. Operating group 'Outlooks' also consider the medium-term factors .
3	Does the Company appear to address the full scope of risks and uncertainties: strategic, operational and financial?							The Group lays out descriptions and potential impacts for fourteen risks that it parses into 'High impact' and 'Medium impact' factors, splitting them between the components of Total Performance – Customer focus, Programme Execution etc.
4	How effective are mitigating or specific management comments for each risk or uncertainty listed?							There are comprehensive mitigation comments for most of the fourteen principal risks.
5	Does the Company increase confidence in its evaluation of risks and uncertainties through the related explanation of its risk governance and management?							LC reports on risk governance, risk management and business risk identification as a prelude to the specific discussion of principal risks. The operational framework captured in a comprehensive schematic is impressive and makes good sense.
<p>Does the consideration of future factors and of risk enlarge upon the Company's strategic thinking and indicate a business sensitive to its future?</p> <p>There is an excellent future orientation to the narrative underpinned by an exemplary evaluation of risk governance and principal risks. It would add further if this risk information linked more directly to the strategy discussion.</p>								

Score

9.0

out of 10

STRENGTHS & RESOURCES

Off-Balance Sheet Resources Grid				
	Customers	Partners/Suppliers	Employees	Organisation
Strategy	Market Position	Value Chain Position	Employee Engagement	Strategy Definition
Culture & Values	Relationships	Mutuality	Alignment	Adaptive Capability
Leadership	Authority	Relationship	Role Clarity	Leadership Distribution
Innovation	Product Improvement	Collaborative Capacity	Creativity	Systemic Innovation
Systems	Customer Management	Systems Integration	Leverage Capacity	Technology Infrastructure
Process	Engagement/ Involvement	Partner/ Distribution/ Supply Chain Management	Task Clarity	Process Management
Knowledge	Intelligence & Insight	Sharing Process	Competence	Explicit/Tacit Knowledge
Reputation	Brand	Probity	Trust	Governance
Colour Code	circa 4 or > positive references	9	1 positive reference	7
	circa 3 positive references	3	Inference	1
	circa 2 positive references	4	No mention	8
Do the references to strengths and resources throughout the narrative reflect the development of capability likely to help deliver the Company's strategy?				
<p>LC makes sixty-seven identifiable references to its apparent investment in its intangible value drivers. Process, Culture and Leadership are the most referenced intangible elements, while there is nothing discernible on Systems. The focus of the narrative and the balance identified here seem to reflect a bias towards focus on broad governance issues, the culture required for strong governance and its achievement.</p>				

Score **7.5** out of 10

Note: The score for Strengths & Resources is a function of the narrative coverage of the Off-Balance Sheet Resources Grid.

SUSTAINABILITY

Question	<div style="display: flex; justify-content: space-between; width: 100%;"> N/A Definitely Mostly Largely Partially Not really Not at all </div>						Comment
	1	Does the Company identify principal stakeholders, both economic and non-economic, and how it addresses their roles, issues and value to the business?					
2	To what extent does the Company identify and address the environmental issues caused by the business?						New to LC's CR framework for 2011 is the environmental strand: <i>"We aim to improve the environmental performance of our products and operations by developing and launching an environmental sustainability programme."</i>
3	How well does the Company address social and environmental performance and achievements in the year?						The narrative reports on Business Conduct, Safety and Diversity and inclusion in some depth. Environment is new within responsible behaviour but still reports on environmental achievements for carbon emissions since 2007.
4	How well does the Company address CR, CSR or Sustainability-related governance, processes and underlying ethical standards?						'Corporate responsibility' addresses the CR governance in the early part of the section. 'Business conduct' is a major focus of the Group and features strongly in this CR section.
5	To what extent is the Company's approach to CR, CSR or Sustainability integrated with its business strategy?						<i>"Responsible Behaviour is embedded within our business through delivery of our corporate responsibility (CR) strategy."</i> Responsible behaviour is a part of LC's declared 'Total Performance Culture' in the 'Group Strategic Framework'.
6	What is the strength of independent assurance or external proxies for assurance included here to validate the Company's content on CR, CSR or Sustainability ?						LC includes an independent assurance statement by Auditor for its 'Corporate Responsibility' section in the Annual Report. This is comprehensive and fits the circumstance.
<p>Does the CR, CSR or Sustainability-related content in the Annual Report demonstrate a fundamental, long-term and strategic commitment to sustainability?</p> <p>Report users should get a clear impression of how the Group has committed fundamentally to responsible behaviour. The incorporation of the environment with a clear set of commitments as a theme of responsible behaviour going forward is a token of this.</p>							

Score **9.0** out of 10

COMMUNICATION

	Question	N/A	Definitely	Mostly	Largely	Partially	Not really	Not at all	Comment
1	Does the design enable accessibility and assimilation of the essential narrative content by the Report user?								Good professional design that helps to make the content accessible.
2	How wide a range of media does the Company use for its annual report? Is this effective? Is this adequate?								A Reporting Centre online pulls together the online and offline versions with the separate CR Report. There is also an iPad App this year. The PDF version is easily findable here.
3	Does the Company help its Report users to access and assimilate the narrative – in respect of contents, index, glossary, referencing and general navigability?								The Contents page is quite detailed yet could add more guidance. There is a plethora of referencing throughout the narrative, but still perhaps not capturing all the right things.
4	Does the narrative make elegant, effective use of charts for data, and effective application of graphics and visuals, in support of the narrative text?								Very good use of charts, schematics and visuals.
<p><i>Does design and the use of media influence investor confidence and the value of the narrative content?</i></p>									
<p>Both design and the use of media contribute effectively to boosting confidence in the content and the strategic value of the content.</p>									

Score **9.0** out of 10

COHERENCE

	Question	N/A	Definitely	Mostly	Largely	Partially	Not really	Not at all	Comment
1	Does the Company structure its narrative effectively? Is it free from clutter?								This is a long narrative. Arguably the structure of the front-end could be simplified to make the strategic thinking even clearer. The length creates a perception of clutter.
2	To what extent does the style of the narrative seem open and transparent?								LC bends over backwards here to convince its Report users of its transparency and responsibility in every respect – and succeeds.
3	Does the Company succeed in integrating the key elements that add strategic value?								This is remarkably comprehensive but somehow not easy to follow. This starts with the business model that is not really a simple clear business model and seems more like a rationale of the status quo. It could be so much more powerful.
4	How readable is the narrative?								It is very readable in parts but not in its completeness. The story gets lost in the slightly cumbersome telling.

Does the Company manage to construct an effective, cohesive strategic value adding discussion?

All the components are there and in some detail, but it somehow doesn't quite come together in the telling and loses its impact. The evidence is there for good strategic leadership but the overall articulation of the content just takes the edge off it.

Score **7.0** out of 10

