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Principles (Slide deck 1)

Disclosures that would be seriously prejudicial to the interests of the entity

- A1. Information in management commentary that helps users assess the prospects for future net cash inflows to the entity and assess management's stewardship of the entity's economic resources will ordinarily be more aggregated than information that the entity's competitors could use to the entity's disadvantage. However, there may be occasions when the entity considers that providing in management commentary information about impending developments or matters arising in the course of ongoing negotiations could be seriously prejudicial to the interests of the entity. In such cases, management:
- (a) provides in the management commentary summarised information about the developments or matters that is as detailed as possible but without being seriously prejudicial to the interests of the entity;
 - (b) considers whether information in the management commentary may be misleading without the context of the excluded information and, if so, management adapts the content and tone of the management commentary accordingly; and
 - (c) describes in the management commentary the process undertaken to determine that it was appropriate to exclude material information from the management commentary.
- A2. The exclusion of material information discussed in the preceding paragraph is available only if permitted by the entity's legal and regulatory environment, and is

limited to situations when providing that information would cause serious prejudice to the entity's interests in impending developments or in ongoing negotiations which are not in the public domain, for example when the entity is in negotiations to acquire another entity.

Referencing in management commentary

- A3. The understandability of management commentary is improved if references are included to related information within the management commentary. For example, the description of the business model may discuss a relationship and provide a reference to the discussion of the entity's strategy for developing the relationship.
- A4. Management commentary is complementary to financial statements. Information needed to meet the objective of management commentary may be included in management commentary by cross-reference to information in the related financial statements provided that reduced prominence of the information included by cross-reference does not undermine the understandability or neutrality of the management commentary.
- A5. Management commentary may also incorporate information by cross-reference to other documents prepared by the entity, such as governance reports or risk statements, provided that:
- (a) the reference is to a precisely specified part of the document and that part does not contain information that is immaterial to the management commentary;
 - (b) the reduced prominence of the information included by cross-reference does not undermine the overall understandability or neutrality of management commentary;
 - (c) management commentary states that the referenced information forms part of the management commentary;
 - (d) the referenced document is available:

- (i) at the same (or approximately the same) time as management commentary;
 - (ii) on the same terms as management commentary (users should have access to the referenced material on the same basis as they have for accessing management commentary); and
 - (iii) for as long as the management commentary is available; and
- (e) the referenced information is current at the date the management commentary is approved and cannot be changed after the management commentary has been approved (unless the change is highlighted in an updated management commentary).

Business model (Slide deck 2)

Description of the business model

- A6. Management commentary provides a description of the entity's business model that explains what the entity does and how it relates to its purpose and addresses the following components:
- (a) the structure of the entity (paragraphs A13–A14); and
 - (b) the business activities undertaken by the entity (paragraphs A15–A21), covering the entity's:
 - (i) inputs, including resources and relationships that the entity depends on for its success, irrespective of whether they are recognised in financial statements (paragraphs A16–A21);
 - (ii) processes; and
 - (iii) outputs and impacts.

- A7. A description of the business model includes an overview of the business model and more detailed qualitative and quantitative information about features of the entity's business model that is necessary for users' understanding of:
- (a) trends reflected in the financial statements; and
 - (b) matters identified in other parts of management commentary that could affect the prospects for future net cash inflows to the entity, for example, by affecting the entity's ability to pursue its strategy or its ability to respond to opportunities and risks in its operating environment.
- A8. Features of the business model are described in management commentary if, for example, they provide the entity with a competitive advantage or if the importance of the feature is subject to uncertainty or is expected to change over time.
- A9. Management commentary provides information about the entity's business model that is specific to the entity. This Practice Statement identifies the components of the description of the entity's business model to be addressed in management commentary but does not specify a structure for describing the business model.
- A10. In some circumstances, information provided in the description of the entity's business model may relate to a part of a business activity, segment or financial statements line item, for example, when transactions with one category of customers have different characteristics from those with another. When this is the case, management commentary provides an indication of the proportion of the business activity, segment or financial statements line item that the information is attributable to.
- A11. Entities operating more than one business model consider whether understandability of management commentary is best supported by providing separate business model descriptions or combining them in a single description that provides detail on the distinguishing features of each business model. In selecting the way to provide a description of the business models, management takes into account the extent to

which different business models interact with each other or share common resources and the rationale for operating those different business models.

- A12. Management commentary reflects the entity’s business model current at the date the management commentary is approved. Management commentary describes changes in the business model since the last reporting date, including changes in the importance of the features of the business model, for example, an increased focus on a particular category of customers. Understandability of management commentary is enhanced if features of the business model that have not changed since the last reporting date are described in a manner consistent with their description at that date.

Structure of the entity

- A13. Management commentary provides an overview of the entity’s operating structure, including descriptions of how the different parts of the entity interact and of the common resources and relationships they depend on.
- A14. Management commentary provides an overview of the entity’s legal structure and explains how the legal structure aligns with the operating structure.

Business activities

- A15. Management commentary provides a description of the business activities undertaken by the entity, including an overview of the business activities and more detailed qualitative and quantitative information about features of business activities identified to meet the requirements of paragraph A7. The description of business activities covers information about the entity’s:
- (a) inputs, including a description of (i) the main categories of raw materials and services the entity depends on for its success, and (ii) the arrangements for sourcing the inputs. The description of inputs includes a description of

resources and relationships that the business model depends on (paragraphs A16–A21).

- (b) processes, including a description of both processes involved in producing the entity’s outputs and processes undertaken to develop and maintain the entity’s resources and relationships that the entity depends on for its future success.
- (c) outputs, including a description of (i) the main categories of the entity’s products and services, and (ii) the main categories of the entity’s customers and distribution methods, including a description of the arrangements under which the entity transacts with its customers.
- (d) impacts of the entity’s business activities on the entity’s resources and relationships, if these impacts affect the prospects for future net cash inflows to the entity. Impacts on the entity’s resources or relationships may be positive or negative and could include, for example, impacts on relationships resulting from the entity’s impacts on the environment or on staff satisfaction.

Resources and relationships

A16. Management commentary provides an overview of the entity’s resources and relationships. In addition to the overview, management commentary provides qualitative and quantitative information about those resources and relationships whose continued availability and strength could affect the prospects for future net cash inflows to the entity. That could be the case, for example, if the resource or relationship provides the entity with a competitive advantage, or if there is uncertainty about the continued availability of the resource or relationship that the entity depends on for its success.

A17. The description of each resource or relationship includes qualitative and quantitative information necessary for understanding its nature and its importance to the future operation of the business. Resources or relationships that have different

characteristics, such as retail and wholesale customer relationships, are described separately.

A18. Management commentary provides information about resources that is specific to the circumstances of the entity. Resources described in management commentary may include:

- (a) operating sites and infrastructure;
- (b) expertise, know-how, and other intellectual capital;
- (c) brand and reputation;
- (d) access to natural resources, whether licensed or unlicensed, and public goods such as roads; and
- (e) financial resources, and access to financial resources.

A19. If a resource is depleted as a consequence of the entity's business activities, management commentary provides information to help users understand the current and planned rate of replenishment of the resource relative to the rate of depletion.

A20. Management commentary provides information about relationships that is specific to the circumstances of the entity. Relationships described in management commentary may include:

- (a) customer relationships, including the entity's current and target customer and end-user base, the channels and partners through which the entity distributes its products and services, a description of the entity's markets and its position in them;
- (b) sourcing relationships, including supplier and outsourcing dependencies, and the features of the entity's supply chain;
- (c) staffing relationships, including both those directly with employees and those indirectly with employees and contractors in the supply chain; and

- (d) wider relationships, including those with government, regulators, and society at large to the extent that those wider relationships could affect the prospects for future net cash inflows to the entity.

A21. Depending on the relationship, users may need information to help them evaluate the durability of the relationship, the lifecycle of the relationship, the extent of customers' dependency on the entity to meet their ongoing service needs, the entity's dependency on the relationship or its vulnerability to disruption to the relationship. Management commentary also provides information about any concentration of risk resulting from a particular relationship or group of relationships.

Strategy (Slide deck 3)

Description of the strategy

A22. Management commentary provides a description of the entity's strategy, covering:

- (a) the entity's purpose (paragraph A29);
- (b) the objectives management has set in pursuit of the entity's purpose (paragraphs A30–A32);
- (c) management's plans to develop the entity's business model, including its resources and relationships, in order to achieve the entity's objectives (paragraphs A33–A36).

A23. In describing the entity's strategy, management commentary explains the entity's culture and how the entity's culture supports the execution of the strategy (paragraph A37).

A24. Management commentary addresses the entity's funding strategy (paragraphs A38–A39).

- A25. Management commentary reflects the entity’s strategy current at the date the management commentary is approved. Management commentary identifies and describes changes and adjustments to the entity’s strategy since the last reporting date.
- A26. Management commentary explains the assumptions relating to the entity’s operating environment on which the strategy has been based.
- A27. In describing the entity’s strategy, management commentary identifies and describes both management’s aspirations and the challenges management anticipates in executing the strategy and provides references to related detailed discussion both in other parts of management commentary and in financial statements, such as to discussion of risks, if that is necessary for an understanding of those aspirations and challenges. In describing the entity’s strategy, management commentary distinguishes clearly between statements of fact, predictions and aspirations.
- A28. Management commentary describes how management measures the progress in executing the entity’s purpose, objectives, and plans and provides a link to the discussion of the entity’s current performance. It also discusses how management compensation aligns with the progress in executing the entity’s purpose, objectives and plans.

Purpose

- A29. Management commentary describes the purpose that guides the strategy of the entity. The entity’s purpose can be described, for example, in terms of satisfying a market need or achieving a certain outcome for end-users.

Objectives

- A30. Management commentary describes the objectives management has set in pursuit of the entity’s purpose. Objectives can, for example, relate to the enhancement or

maintenance of resources and relationships that the entity depends on for its future success. For example, objectives can include maintaining a reputation for quality, or building expertise in a new field.

- A31. The description of objectives provides links to other information in management commentary that helps users evaluate the progress made in achieving the objectives and potential implications of that progress for the prospects for the future net cash inflows to the entity.
- A32. Objectives may take a number of years to achieve. Where this is the case, management commentary identifies quantitative or qualitative milestones by which management intends to measure progress towards achieving the objective.

Plans

- A33. Management commentary describes management's plans to develop the entity's business model, including its resources and relationships. The description provides a link to the objective or trend or factor in the operating environment the plan is intended to address.
- A34. The description of plans includes an overview of:
- (a) features of the business model that management expects to change and of any associated potential positive and negative impacts of those changes on the entity's resources and relationships that the entity depends on for its success;
 - (b) the capital and operating investment required to deliver the plan; and
 - (c) how progress in achieving the plan is monitored.
- A35. The description of plans provides links to other information in management commentary that helps users evaluate the progress made in achieving the plans and potential implications of that progress for the prospects for the future net cash inflows to the entity.

- A36. If implementation of the plan has affected the entity's performance for part of the reporting period, for example, if the entity is part way through a cost reduction programme that is not yet complete, management commentary provides information to help users evaluate the full period impact.

Culture

- A37. An entity's culture relates to the values, attitudes and behaviours demonstrated in the entity's activities and relationships. Management commentary describes the features of the entity's culture that support, and those that hinder, the achievement of the entity's purpose. It also describes how the entity's culture is monitored and managed. Information about the entity's culture does not need to be provided as a separate section of management commentary.

Funding strategy

- A38. Management commentary describes the entity's funding strategy, including any leverage and credit rating objectives. That description covers:
- (a) the entity's current financial position, working capital requirements, covenants, and available financial facilities;
 - (b) the entity's current ability to generate net cash inflows;
 - (c) financial resources required to implement the entity's strategy, including working capital requirements; and
 - (d) the entity's current level of dividend distribution and any published statements that create expectations of future levels of distribution.
- A39. The description of the entity's funding strategy addresses, or provides links to a discussion of, the potential effect on the entity's funding requirements arising from

risks or trends and factors in the entity's operating environment. That discussion does not need to quantify those risks to the funding strategy.

Operating environment and risks (Slide deck 4)

Operating environment

- A40. Management commentary describes the entity's markets and competitive position together with those trends and factors in the entity's operating environment that:
- (a) have affected the entity's performance, position or progress in the reporting period; or
 - (b) could affect the operation of the entity's business model, the execution of its strategy, or the entity's performance, position or progress.
- A41. Trends and factors in the entity's operating environment described in management commentary include factors that can have an immediate effect on the prospects for the future net cash inflows to the entity, such as currency or commodities price exposures, and factors that may crystallise over a longer period, such as the emergence of alternative technologies, or potential effects of climate change or related regulation.
- A42. Trends and factors in the entity's operating environment are described in management commentary both if they provide or indicate opportunities for the entity and if they create or indicate risks.
- A43. In determining whether information about a trend or factor is material, management considers the likelihood and magnitude of the potential impact of the trend or factor on the prospects for the future net cash inflows to the entity, including the potential variability in the entity's future net cash inflows attributable to the trend or factor.
- A44. If information about a trend or factor in the operating environment is material, management commentary provides information to help users evaluate the potential

impact of the trend or factor on the prospects for the future net cash inflows to the entity. If the potential impact of the trend or factor is sensitive to small changes in assumptions (for example, if it could cause a business activity to become loss-making), management commentary provides information to help users evaluate the potential impact of the trend or factor across the range of potential outcomes that management considers to be realistic.

- A45. If a trend or factor in the operating environment is monitored using external statistics (such as market size or growth, end-user needs or resource availability), material information from those statistics is included in management commentary. Management commentary identifies the source of the information, date to which the information relates and the part of a business activity, segment or financial statements line item to which the information relates.
- A46. If a trend or factor in the operating environment is monitored through external engagement or feedback, material information relating to its findings is included in the management commentary. Management commentary describes the nature and scope of the engagement undertaken, identifies the date to which information relates and the part of a business activity, segment or financial statements line item to which the information relates.
- A47. Management commentary explains how the entity plans to respond to the trend or factor in the operating environment and provides a link to the discussion of the entity's strategy.

Risks

- A48. Management commentary describes the risks that affect prospects for future net cash inflows to the entity, taking into account the likelihood and magnitude of the potential impact of the risk on the entity's future net cash inflows.
- A49. Risks may arise from:

- (a) the operation of the entity’s business model, and the resources and relationships on which the entity depends on for its success (for example, a major manufacturing quality failure affecting the entity’s reputation);
- (b) the selection and execution of the entity’s strategy (for example, misjudging the needs of a new market) and the operation of the entity’s culture; and
- (c) trends or factors in the entity’s operating environment, including long-term and systemic risks such as climate change and related regulation.

A50. Management commentary sometimes includes information about risks other than those that affect the prospects for future net cash inflows to the entity that is not necessary to meet the objective of management commentary but is, for example, required by law or regulation. Such information should be distinguished from information about risks that is necessary to meet the objective of management commentary.

A51. For each risk identified in management commentary, management commentary describes:

- (a) how the risk is managed;
- (b) the progress in managing the risk, including quantitative indicators if these are used to monitor and manage the risk;
- (c) the actions that management plans to take to mitigate the impact of the risk should the risk crystallise; and
- (d) information to help users evaluate the potential impact of the risk on the prospects for future net cash inflows to the entity.

A52. Management commentary provides an overview of the changes in likelihood and magnitude of the potential impact of the entity’s risks during the reporting period. Management commentary also identifies risks that management considers interdependent.