

# Quo vadis, annual report?

## Trends in corporate reporting

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Corporate reporting is still playing an important role in investor relations. At the same time, it is indispensable for efficient capital markets functioning properly. One of the decisive tasks of the annual report is to explain the business model and the value drivers. Good annual reports give the capital market players an extensive insight into the most diverse areas that are necessary for assessing and evaluating a company and explain these in a coherent fashion (see fig. 1).

### More extensive reports

The globalisation of the financial markets and a complex and dynamic economic environment have resulted in increasingly more detailed and more complex financial reporting standards. This applies in particular to IFRS and US GAAP. In addition, the reporting requirements with regard to corporate governance have expanded greatly. A visible result is that reports are becoming ever more extensive. The various publications of the Credit Suisse annual report thus weigh just under 2 kg, and the actual annual report is only handed out to shareholders at the general meeting upon request. So, what are the benefits of this? The challenge lies in filtering out and clearly representing the information of relevance to investment decisions. It is frequently the case that the reader no longer sees the wood for the trees and that essential facts are drowned out by the flood of information.

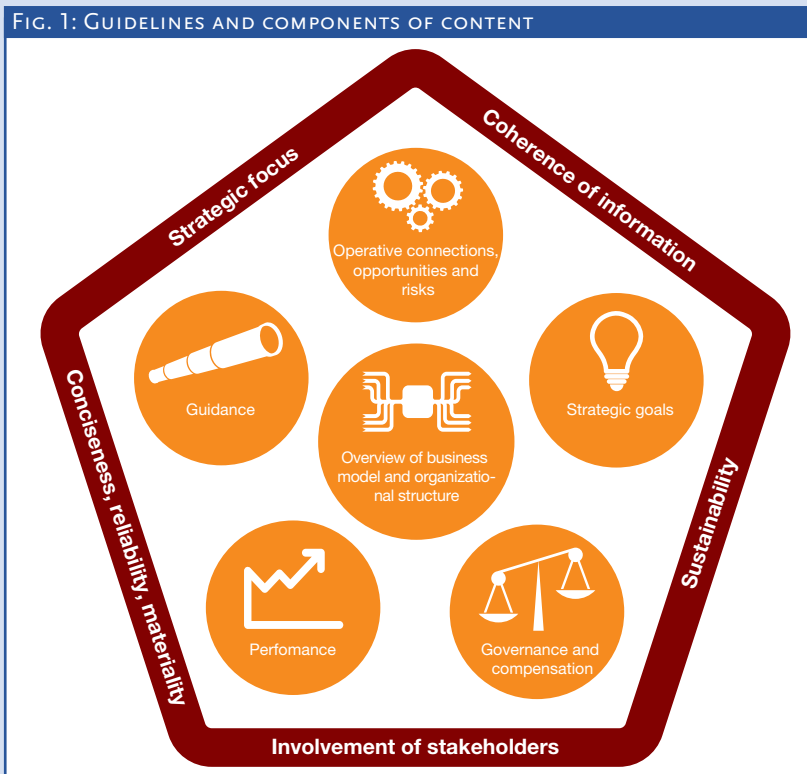
### Effective communication hierarchy

On the one hand, the art of creating a annual report lies within satisfying the increasingly stringent regulations – but on the other hand consistently and reliably highlighting how well a company overcomes the challenges and market opportuni-

ties. In order that the reader can absorb the relevant facts and figures, these are to be presented in an easy-to-grasp manner:

- ◆ What business is the company involved in?
- ◆ What are the relevant value drivers of the sector?
- ◆ Where do the challenges and opportunities lie with respect to regulation, competition and technological developments that influence the success of the company?

The corporate strategy and competitiveness are to be explained in a credible manner. An investor wants to understand the play of forces and know how values can be created in the long term. In brief, how is the money earned? How is the created value distributed to the shareholders and other stakeholders? Good communication in a annual report is characterised by the



Source: Integrated Reporting, 2012 Yearbook

**TAB.1: AUSGEWÄHLTE RICHTLINIEN UND LEITLINIEN FÜR DIE BERICHTERSTATTUNG /  
SELECTED DIRECTIVES AND GUIDELINES FOR REPORTING**

IFRS	BEST PRACTICE STATEMENT FÜR DEN MANAGEMENT COMMENTARY BEST PRACTICE STATEMENT FOR THE MANAGEMENT COMMENTARY
GRI	LEITLINIEN FÜR DIE BERICHTERSTATTUNG ZU DEN ESG-THEMEN: ÖKOLOGIE, SOZIALES UND GOVERNANCE GUIDELINE FOR REPORTING ON ESG ISSUES: ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE
IIRC	INTEGRIERTE BERICHTERSTATTUNG/INTEGRATED REPORTING

substantial information being quick to find thanks to a logical structure, and, combined with a good design, presented in an easy-to-grasp manner.

### Convincing versus compliant

Convincing annual reports have to go far beyond the regulatory requirements and may neither hide nor sugar-coat the negative aspects. That's because investors are naturally sceptical towards reports that only tell a positive tale. An overview of the sector, business and financial risks is important. This includes categorising and explaining the main risks providing an explanation of the influence these could have on business development. Only a few companies understand the notion of combining the essential performance criteria with the corporate strategy and placing them in the context of sector development. These performance indicators help with assessing whether the company is on the right path. An open discussion of the opportunities and risks also forms part of every good annual report.

In Switzerland, "narrative reporting" hasn't been given all that much importance compared with other countries until now. The Swiss Code of Obligations art. 663d stipulates only that companies ought to represent their business performances and economic and financial situations in the annual report. But in an international comparison, the recommendations and regulations go even further. In the US and Germany, the requirements for the Management Discussion and Analysis (MD&A), or the management report, are much more extensive. The non-binding Practice Statement of the IASB provides recommendations that issues such as strategy, objectives, risk, resources and performance indicators are to be explained within the so-called management commentary. Commenting in the form of a management report complements the financial report by explaining the past, current and future business development in an understandable manner. A further important element of "narrative reporting" is reporting from the perspective and viewpoint of management. In brief, the management commentary should be based on information that the management perceives as being relevant to run the company.

### The "next big thing" – integrated reporting

Integrated reporting is currently receiving a lot of attention. In simple terms, what belongs together is being brought together – the financial and non-financial information. But this isn't achieved by simply publishing financial and sustainability reports within a single

report. Rather, it is about highlighting what information is relevant to understand the risk/opportunity profile of a company. Many topics reported on nowadays with regard to sustainability are simply irrelevant to investors, as they have no material influence on the earnings, financial and asset situations. But it shows that investors, to all intents and purposes, use ESG data when it is appropriately available in the annual report, i.e. in a table, quantified, comparable and when the link with the business model is comprehensible. Investors are then requested to also include this information in their evaluation models. An integrated report can help to orientate the investor's investment horizon more towards increasing the company's value in the long term, instead of thinking from a short-term quarterly perspective.

### The condemned live longer – increasing diversity of communication channels

At the very latest since the commercialisation of the internet during the 1990s, it has been speculated whether the printed report would survive. The past development is showing that the online opportunities, such as HTML sites and interactive features like dynamic graphs and diagrams, are increasingly being used. But they have not ousted the printed report quite yet. Indeed, new opportunities, where the best of both offline and online communication are combined, are increasingly being developed. Some companies have thus published their annual reports as apps. Bayer, General Electric and Siemens are showing interesting new ways as to how the annual report can be presented in a mobile world. And this is setting entirely new standards.

### Conclusion

Companies should therefore work in a dedicated way on continually improving their corporate reporting. If they manage to explain the material circumstances surrounding the financial and non-financial information in a cohesive and easy-to-grasp manner, they have the chance of standing out from the crowd. It is and remains necessary for all information to be substantial, credible and relevant – regardless of whether it is communicated in the printed media, online or as an app. When creating the annual report, apart from having the contents well-represented, companies also have to consider the new opportunities offered by multi-media communication, in order to add authority to the corporate message being disseminated.