

2005 was characterized by...

3 + One  
 A Better Work Experience  
 A Brand New Start  
 A Global Biopharma Leader  
 A Global Perspective  
 a global solution provider to mobile workforces...  
 A Milestone for the Future: Our Challenge  
 A Mission of Endless Opportunity  
 A new silk road  
 A New Way  
 A safe haven. The UK's number one ports operator  
 A vital part of your world  
 A World of Innovation  
 A year of achievements  
 A year of global gains  
 Accelerate  
 Accelerating Global Growth  
 Acceleration  
 Achieving our goals  
 All the World's a Stage  
 Always earning the right to be our clients' first choice  
 Annual Accountability Report  
 Another step towards global leadership  
 Assembling the vision  
 Assets People Projects  
 Balance and Leadership  
 Be fearless. Lead  
 Being the best business information bridge between buyers and sellers means...  
 better together  
 Beyond All Expectations  
 Big Ideas Start Small  
 bold  
 Born and bred in Asia  
 branching out  
 Brand Quality  
 Brands that Delight, Business that Reward  
 Bringing it all together  
 Building a Biopharmaceutical Company  
 Building bridges. Connecting markets.  
 Building Momentum  
 Building our future  
 Building the New Bell

Company - Financials - Sustainability  
 Contributes to the health of individuals worldwide  
 Corporate Review with Financial Information  
 Create car  
 Creating Value as an AI  
 Creating Value. Advancing Health  
 Delivering international growth  
 Delivering our Potential  
 Delivering outstanding value to our shareholders  
 Delivering profitable growth  
 Delivering real advantage  
 Delivering Sustainable Growth  
 Driving Values  
 Driving life  
 Driving innovation  
 Driving performance  
 Driving quality  
 Driving investment for the future  
 Engineering the next tomorrow  
 enriching our world  
 Every Day  
 Executing our strategy for profitability  
 Experts in Networks  
 Extreme conditions demand exceptional abilities  
 Find it easy  
 Finding, mining and processing the earth's minerals  
 First Choice  
 First-Class Future  
 Five ambitions for becoming number one  
 Flux  
 Focus on delivery  
 Focused on Strengths  
 Focused. Integrated. Global.  
 Free Inside  
 Fresh Start  
 Financing the Future  
 Future Hi-Definition TV.  
 Gaining momentum  
 Global destination  
 going  
 Growing potential  
 Growing together  
 Growing. A business as great as our products  
 Growth 2005

Human Energy  
 I can see farther.  
 icy seas, burning deserts  
 Real  
 Realizing Technology Innovation  
 Results in 2005  
 Improving health-growth value  
 Innovation  
 Information. Intelligence. Entertainment.  
 Ingredients for Growth  
 Ingredients for life  
 Initiate. Innovate. Invest.  
 Innovate. Participate. Share. Grow. Profit.  
 Innovating to grow  
 Innovation  
 Innovation - more than just work  
 Innovation Breakthrough  
 Innovation strategies  
 Inside Invensys  
 Insights. Perspectives.  
 inspire creativity  
 Inspiring Discovery  
 Integration  
 Interconnecting  
 Investing in our customer future  
 It all starts with a cup of coffee  
 It's all about people  
 Leading Light for Life  
 Leap ahead  
 Let us tell you how we create long-term  
 Share the value.  
 Leveraging Momentum  
 Live and Learn  
 Local knowledge. Global power.  
 Local service worldwide  
 Local Strength. Group Expertise.  
 Let it happen  
 Making a difference  
 Making energy more  
 Making every day a better day  
 Making glass for the world's buildings and vehicles  
 Making our customers successful  
 Making things that really matter, work better.

# Annual Report

## on Annual Reports

# 2006



Business Made Simple  
 Caring and curing  
 Celebrating life, every day, everywhere  
 Change the Game  
 Changes for the Better  
 Choose Wisely  
 Clear Thinking  
 come closer  
 Committed

Growth is life  
 Growth needs minds  
 Growth through transformation  
 Gut positioniert in Pharma und Chemie  
 Heidelberg on true course...  
 High Performance Today and Tomorrow  
 how do olives from Spain light homes in Belfast?  
 How Do We Picture the Next Stage of Success?  
 How Novo Nordisk is changing diabetes  
 How we do what we do  
 How We Grow  
 Human Chemistry, Human Solutions

Managing for long-term profit growth  
 Managing time and space  
 Maximizing Our Competence  
 Meeting Challenges With Responsible Actions  
 Mobile Me  
 more profit  
 more to the story  
 Move the world  
 Moving people  
 Multi-faceted  
 No

Report **Watch**  
 e-com

10th anniversary

## On the covers

Front and back covers show the messages as put on front covers of hundreds of 2005 annual reports. Covering so extensively would have been less easy ten years ago, when a large majority of reports were just titled “annual reports”. In 2006, 60% of annuals from large corporations wear a title or message. Covers are “Us and Them” history: the front one features the N°1 reports since the launch of the ranking (they are blown up in the inside back cover), and the back cover displays the covers of e.com’s own **Annual Reports on Annual Reports** since 1997. Covers and contents have changed over the years, but the initial motto has always appeared on the back cover: **Company Value > Report Value.**

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Advertorial

### REPORT SCAN?

Why did your report rank there? Or didn’t rank? Would you like to know how your report scores on all assessment criteria used for the **Annual Report on Annual Reports**? Order a **REPORT SCAN**. Besides the score breakdown, it provides your company with a quick overview (an edit of our internal desk research) and key pluses and minuses of your annual report.

The price? € 600 or US\$ 750 or £ 500.

E-mail your order - and any question or request to:  
[e.com@reportwatch.net](mailto:e.com@reportwatch.net)

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# Company

### THE REPORT DRIVE

Many things have changed since we started out in our report evaluation business, driven by a competitive approach to reporting, and then embarked on a global benchmarking and ranking exercise that lies at the heart of the **Annual Report on Annual Reports**.

We’ve been going through - or have entered (in disorder): cycles as usual, smart acquisitions and stupid mergers (of “equals”, of course), bubbles of various sizes, tyranny of EPS guidance, stock options, corporate greed (from enronish to raymondish), shareholders’ activism (not most aptly named for Gekko-Icahnish funds’ intrusion), mergers of stock exchanges (failed or not), the internet age, etc.

Have annual reports been impacted by those events? To some degree. Hence perhaps the question mark placed after what has been our motto since the inception of our survey.

In addition to the contents expected by our annual readers, for this special **10-year anniversary issue**, we have invited some report specialists to address a few key **trends** and **burning issues**. The bar of reporting excellence has moved higher, yet not everyone everywhere has kept up.

First, the good news: the overall quality of reporting has increased these last years. There are more A ratings, more Bs, less Cs. We reckon with this by adapting the definition of our ratings. Luckily, there are still IR officers, CC departments - and sometimes executives up above - who seem to be committed to the value of company reporting, and, as a net result, there all still great reports.

# value; report value?

“Luckily, there are still IR officers, CC departments - and sometimes executives up above - who seem to be committed to the value of company reporting, and, as a net result, there all still great reports.”

Among these stand some “making the most of corporate disclosure”, as our first guest writer Catherine Gordon explains from Toronto on **p10**. Others (or is it the same?) should be “blessed” for just answering the real questions, as Ewold de Bruijne reminds us in cool words on **p20**, while best in class also use the annual report as “a reputation management vehicle”, as Dennis Larsen wrote it between Oslo, Rotterdam and London (**p14**). Who reports better and best? Read through our “top 300” (**p2**) (a first premiere, due to the increased number of companies selected and reports scored) and our “top 50” (**p9**) of financial sector reports (another 2006 first for which we’ve used a different weighting grid). To trace a report (yours?), use **p8** “Who ranks where?” Which reports (and companies?) have stood the test of time? Check “The long run” on **p30**. The world map has changed in reporting too, and keeps on changing: a comparison of the reporting hierarchy in 2000 and 2006 is stunning (see our “Mapping” **p36**), with the “fall of American reports” as one major trend described by a staunch supporter (is he from Mars or Venus?) on **p17**.

## WHAT’S ON THE HORIZON?

“The financial world certainly is flat and has become a very small place”, says a managing director at the CFA Institute (Financial Times, June 19, 2006). “Annual reports turned online” are one of the most visible signs of this, as the (Swedish) inventors of the corporate webranking survey write it (**p26**). Another concern shared over the planet is to stop playing down the importance of “reporting non-financials”, states our cosmopolitan Münchener panelist Kaevan Gazdar (**p23**).

Whatever the format, the reporting challenge is not to make... flat reports. And this is a risk that derives from the other looming trend: replacing annuals with 10-K or 20-F files. Let’s make it clear, in that event, there would simply be no raison d’être for a ranking of reports! In the meantime, the guys who are still crazy (about reports, of course) after all these years hope you’ll enjoy this special anniversary issue.

## The Editor

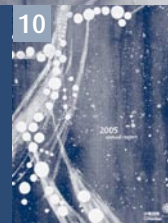
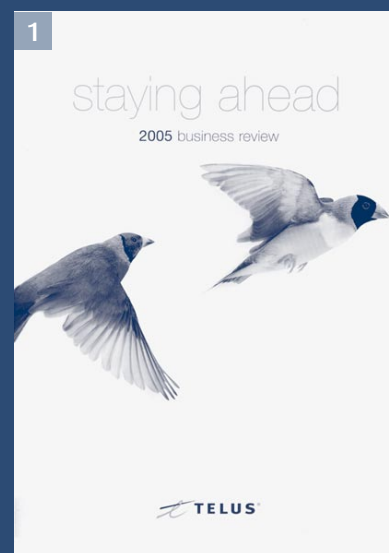
### (Much more than a) postscript:

Many thanks to our customers, who, yet sometimes reluctantly in the past (“We are not really comparable”, said some), gave us the idea of benchmarking reports in the first place. This resulted in an *Annual Report on Annual Reports* that has lasted longer than we were expecting: “It’s only reporting, but we like it.” Without them the survey would simply not exist. Besides its own characteristics, and without false modesty, one of the main features that seem to be valued in our ranking and rating process is its independence. We can enjoy this “state of independence” thanks to the revenues generated from our range of report assessment services, from which we dedicate a portion to the research and its publication. Thanks to our readers, who have gone from a few dozens reading a short fax ranking in 1996 to a few thousands receiving - and requesting - our survey today. And thanks to our Amsterdam-based design partner. One of the key qualities of design is consistency, taught us Terry Tyrrell, a renowned communication specialist who was on our very first rating panel. Dart Design has applied it to the packaging, but also to its behavior, which is much rarer these days.

RANK 2006	RANK 2005	COMPANY	COUNTRY	REPORT RATING
1	2	TELUS	Canada	A+
2	17	SAS	Sweden	A+
3	3	SCA	Sweden	A+
4	11	STORA ENSO	Finland	A+
5	18	WIENERBERGER	Austria	A+
6	4	TRELLEBORG	Sweden	A+
7	12	PHILIPS	Netherlands	A+
8	32	VOLVO	Sweden	A+
9	5	WPP	UK	A+
10	10	CLP	Hong Kong	A+
11	8	DANONE	France	A
12	22	POTASHCORP	Canada	A
13	N/R	ALFA LAVAL	Sweden	A
14	27	ATLAS COPCO	Sweden	A
15	15	SASOL	South Africa	A
16	7	ADIDAS	Germany	A
17	14	ELECTROLUX	Sweden	A
18	N/R	VATTENFALL	Sweden	A
19	16	NOVARTIS	Switzerland	A
20	19	SECURITAS	Sweden	A
21	25	ALCOA	U.S.	A
22	29	CATERPILLAR	U.S.	A
23	187	WOLSELEY	UK	A
24	N/R	ALCAN	Canada	A
25	23	NOVO NORDISK	Denmark	A-
26	45	AUTOLIV	Sweden-U.S.	A-
27	N/R	AGRIUM	Canada	A-
28	N/R	PILKINGTON	UK	A-
29	9	TNT	Netherlands	A-
30	48	SAPPI	South Africa	A-
31	N/R	CANADIAN TIRE	Canada	A-
32	13	WOOLWORTHS	Australia	A-
33	46	HOLMEN	Sweden	B+
34	30	BAA	UK	B+
35	26	INFINEON TECHNOLOGIES	Germany	B+
36	N/R	DIAGEO	UK	B+
37	96	METSO	Finland	B+
38	93	DSM	Netherlands	B+
39	72	ASSA ABLOY	Sweden	B+
40	21	FOSTER'S	Australia	B+
41	N/R	TELE2	Sweden	B+
42	37	LAND SECURITIES	UK	B+
43	N/R	ROCHE	Switzerland	B+
44	184	KELLOGG	U.S.	B+
45	31	M-REAL	Finland	B+
46	38	BAYER	Germany	B+
47	43	HARLEY-DAVIDSON	U.S.	B+
48	63	HONDA MOTOR	Japan	B+
49	N/R	TRANSALTA	Canada	B+
50	34	GFK	Germany	B+

## RATINGS

- A+ WORLD-CLASS
- A FIRST-RATE
- A- EXCELLENT
- B+ FINE
- B AVERAGE
- B- UNEVEN
- C+ ORDINARY
- C DEFICIENT
- C- UNSATISFACTORY
- D UNCOMPETITIVE





RANK 2006	RANK 2005	COMPANY	COUNTRY	REPORT RATING
51	108	KIMBERLY-CLARK	U.S.	B+
52	125	FORTUM	Finland	B+
53	58	BHP BILLITON	Australia-UK	B+
54	N/R	PETRO-CANADA	Canada	B+
55	75	DEUTSCHE POST	Germany	B+
56	49	SKANSKA	Sweden	B+
57	N/R	AMER SPORTS	Finland	B+
58	135	ITOCHU	Japan	B+
59	41	HEIDELBERG	Germany	B+
60	69	TOYOTA MOTOR	Japan	B+
61	47	NORSKE SKOG	Norway	B+
62	64	DAIWA HOUSE	Japan	B+
63	52	FEDEX	U.S.	B+
64	116	GAMBRO	Sweden	B+
65	N/R	HUSKY ENERGY	Canada	B+
66	N/R	ENIRO	Sweden	B+
67	39	BP	UK	B+
68	44	ABP (ASSOCIATED BRITISH PORTS)	UK	B+
69	151	CASCADES	Canada	B+
70	78	CIBA SPECIALTY CHEMICALS	Switzerland	B+
71	N/R	XSTRATA	UK-Switzerland	B+
72	N/R	UNITED TECHNOLOGIES	U.S.	B+
73	189	SINGAPORE AIRLINES	Singapore	B+
74	N/R	HEINEKEN	Netherlands	B+
75	33	SCOTTISH POWER	UK	B+
76	N/R	WYETH	U.S.	B+
77	51	BUHRMANN	Netherlands	B+
78	73	HENKEL	Germany	B+
79	50	SARA LEE	U.S.	B+
80	N/R	JOHN KEELLS	Sri Lanka	B+
81	88	GENERAL ELECTRIC	U.S.	B+
82	59	OCÉ	Netherlands	B+
83	N/R	BAE SYSTEMS	UK	B+
84	87	PEARSON	UK	B+
85	85	AVERY DENNISON	U.S.	B+
86	55	SKF	Sweden	B+
87	62	RIO TINTO	Australia-UK	B+
88	74	ASAHI BREWERIES	Japan	B+
89	106	PROCTER & GAMBLE	U.S.	B+
90	136	ENTERGY	U.S.	B+
91	N/R	NESTE OIL	Finland	B+
92	N/R	CHEVRON	U.S.	B+
93	190	LUFTHANSA	Germany	B+
94	65	VNU	Netherlands	B+
95	N/R	FINNAIR	Finland	B+
96	102	WALT DISNEY	U.S.	B+
97	N/R	CANADIAN NATURAL	Canada	B+
98	N/R	SIGNET	UK	B+
99	82	UNILEVER	Netherlands-UK	B+
100	N/R	ANTAM	Indonesia	B+



GLOBAL REPORT **top 300**

RANK 2006	RANK 2005	COMPANY	COUNTRY	REPORT RATING
101	N/R	CARDO	Sweden	B+
102	N/R	RANDSTAD	Netherlands	B+
103	126	WESTON	Canada	B+
104	200	ROHM AND HAAS	U.S.	B+
105	91	GUS	UK	B+
106	109	SWEDISH MATCH	Sweden	B+
107	118	SYNGENTA	Switzerland	B+
108	53	VOLKSWAGEN	Germany	B+
109	N/R	PARTYGAMING	UK	B+
110	76	SABMILLER	UK	B+
111	N/R	KONICA MINOLTA	Japan	B+
112	N/R	CONAGRA FOODS	U.S.	B+
113	105	KINGFISHER	UK	B+
114	99	DAIMLERCHRYSLER	Germany	B+
115	N/R	J SAINSBURY	UK	B+
116	N/R	WHIRLPOOL	U.S.	B+
117	129	RWE	Germany	B
118	60	IBM	U.S.	B
119	N/R	LANXESS	Germany	B
120	N/R	INTERNATIONAL POWER	UK	B
121	N/R	MINEBEA	Japan	B
122	N/R	BG	UK	B
123	N/R	SHISEIDO	Japan	B
124	104	DOMTAR	Canada	B
125	N/R	STATOIL	Norway	B
126	N/R	TOSHIBA	Japan	B
127	N/R	WOLTERS KLUWER	Netherlands	B
128	N/R	TATE & LYLE	UK	B
129	N/R	CRH	Ireland	B
130	164	HAGEMEYER	Netherlands	B
131	N/R	LUNDBECK	Denmark	B
132	165	AUDI	Germany	B
133	195	ACCOR	France	B
134	133	BMW	Germany	B
135	68	WHITBREAD	UK	B
136	71	SONY	Japan	B
137	101	ROYAL DUTCH SHELL	Netherlands-UK	B
138	N/R	WENDY'S	U.S.	B
139	148	UCB	Belgium	B
140	N/R	EMERSON	U.S.	B
141	141	JOHNSON MATTHEY	UK	B
142	171	INTRUM JUSTITIA	Sweden	B
143	N/R	BOUYGUES	France	B
144	N/R	SMITHS	UK	B
145	N/R	AEP (AMERICAN ELECTRIC POWER)	U.S.	B
146	155	REED ELSEVIER	UK-Netherlands	B
147	174	NTT DOCOMO	Japan	B
148	N/R	ASSOCIATED BRITISH FOODS	UK	B
149	137	ERICSSON	Sweden	B
150	119	ISS	Denmark	B

44



THE TIGER INSIDE

KELLOGG COMPANY ANNUAL REPORT 2005

69



Cascades

81

2005 ANNUAL REPORT




85



This is Emotion



RANK 2006	RANK 2005	COMPANY	COUNTRY	REPORT RATING
151	186	JOHNSON & JOHNSON	U.S.	B
152	94	DELHAIZE	Belgium	B
153	158	NATIONAL GRID TRANSCO	UK	B
154	131	KAO	Japan	B
155	111	HYDRO (NORSK HYDRO)	Norway	B
156	173	ABB	Switzerland	B
157	156	STARBUCKS	U.S.	B
158	124	SPEEDY HIRE	UK	B
159	N/R	OMV	Austria	B
160	147	AES	U.S.	B
161	130	VINCI	France	B
162	169	SCHERING	Germany	B
163	197	AHOLD	Netherlands	B
164	N/R	ENCANA	Canada	B
165	N/R	mitsubishi	Japan	B
166	166	PEABODY ENERGY	U.S.	B
167	172	DEUTSCHE TELEKOM	Germany	B
168	185	WAL-MART STORES	U.S.	B
169	191	UPS	U.S.	B
170	N/R	CARLSBERG	Denmark	B
171	97	BCE (BELL CANADA ENTERPRISES)	Canada	B
172	117	FORD MOTOR	U.S.	B
173	177	INFOSYS TECHNOLOGIES	India	B
174	N/R	IMPERIAL TOBACCO	UK	B
175	80	CONOCOPHILLIPS	U.S.	B
176	162	IOI	Malaysia	B
177	188	THYSSENKRUPP	Germany	B
178	N/R	XEROX	U.S.	B
179	120	SIEMENS	Germany	B
180	N/R	MISYS	UK	B-
181	N/R	VODAFONE	UK	B-
182	N/R	MONSANTO	U.S.	B-
183	N/R	EPSON	Japan	B-
184	N/R	COLOPLAST	Denmark	B-
185	N/R	TUI	Germany	B-
186	N/R	KARSTADT QUELLE	Germany	B-
187	N/R	COMPASS	UK	B-
188	N/R	MERCK KGAA	Germany	B-
189	154	METRO AG	Germany	B-
190	199	H.J. HEINZ	U.S.	B-
191	178	VEDIOR	Netherlands	B-
192	N/R	JENOPTIK	Germany	B-
193	N/R	COLGATE-PALMOLIVE	U.S.	B-
194	N/R	MERCK	U.S.	B-
195	N/R	NISSAN MOTOR	Japan	B-
196	N/R	ESCADA	Germany	B-
197	N/R	BT	UK	B-
198	139	TEIJIN	Japan	B-
199	N/R	NORTHERN FOODS	UK	B-
200	N/R	BELGACOM	Belgium	B-

# GLOBAL REPORT **top 300**

RANK 2006	RANK 2005	COMPANY	COUNTRY	REPORT RATING
201	N/R	WH SMITH	UK	B-
202	N/R	TELSTRA	Australia	B-
203	181	RTL	Luxembourg	B-
204	N/R	ANDRITZ	Austria	B-
205	127	SHIRE	UK	B-
206	90	NOVOZYMES	Denmark	B-
207	N/R	JEAN COUTU	Canada	B-
208	N/R	TXU	U.S.	B-
209	146	THOMSON	U.S.-Canada	B-
210	N/R	BEKAERT	Belgium	B-
211	N/R	NTT	Japan	B-
212	N/R	SERONO	Switzerland	B-
213	N/R	YELL	UK	B-
214	N/R	RODAMCO	Netherlands	B-
215	N/R	ELECTROCOMPONENTS	UK	B-
216	N/R	EPCOS	Germany	B-
217	N/R	TAKEDA PHARMACEUTICAL	Japan	B-
218	N/R	FORTIS INC.	Canada	B-
219	N/R	FRESENIUS	Germany	B-
220	N/R	GENERAL MILLS	U.S.	B-
221	N/R	ALTANA	Germany	B-
222	N/R	YAMAHA	Japan	B-
223	N/R	BARRICK	Canada	B-
224	N/R	NISSIN FOOD PRODUCTS	Japan	B-
225	N/R	ST ENGINEERING	Singapore	B-
226	N/R	BOEING	U.S.	B-
227	N/R	LINDE	Germany	B-
228	N/R	ANA (ALL NIPPON AIRWAYS)	Japan	B-
229	N/R	LONZA	Switzerland	B-
230	N/R	DE LA RUE	UK	C+
231	N/R	UMICORE	Belgium	C+
232	N/R	HANSON	UK	C+
233	N/R	MEDTRONIC	U.S.	C+
234	153	NESTLE	Switzerland	C+
235	N/R	CASINO	France	C+
236	N/R	CENTRICA	UK	C+
237	N/R	BURBERRY	UK	C+
238	N/R	MVV ENERGIE	Germany	C+
239	N/R	PORSCHE	Germany	C+
240	N/R	SWISSCOM	Switzerland	C+
241	N/R	NACCO INDUSTRIES	U.S.	C+
242	N/R	STORK	Netherlands	C+
243	N/R	SCHINDLER	Switzerland	C+
244	N/R	MORPHOSYS	Germany	C+
245	N/R	RELIANCE INDUSTRIES	India	C+
246	N/R	DANISCO	Denmark	C+
247	N/R	READER'S DIGEST	U.S.	C+
248	N/R	INDIAN RAYON	India	C+
249	N/R	CAMPBELL SOUP	U.S.	C+
250	N/R	BOLIDEN	Sweden	C+







RANK 2006	RANK 2005	COMPANY	COUNTRY	REPORT RATING
251	182	TORAY INDUSTRIES	Japan	C+
252	N/R	VOSSLOH	Germany	C+
253	145	ALTRIA	U.S.	C+
254	N/R	3M	U.S.	C+
255	N/R	MCGRAW-HILL	U.S.	C+
256	N/R	TELEKOM AUSTRIA	Austria	C+
257	N/R	CABLE & WIRELESS	UK	C+
258	193	ABBOTT	U.S.	C+
259	N/R	FORTUNE BRANDS	U.S.	C+
260	N/R	ESPRIT	Hong Kong-Bermuda	C+
261	N/R	DENTSU	Japan	C+
262	N/R	ACCENTURE	Bermuda-U.S.	C+
263	N/R	HYDRO-QUEBEC	Canada	C+
264	N/R	INNOGENETICS	Belgium	C
265	N/R	SSL	UK	C
266	N/R	GAP	U.S.	C
267	N/R	BEIERSDORF	Germany	C
268	N/R	BRIDGESTONE	Japan	C
269	N/R	NEC	Japan	C
270	N/R	BERTELSMANN	Germany	C
271	168	SANOMAWSOY	Finland	C
272	N/R	CONTINENTAL	Germany	C
273	N/R	MAZDA	Japan	C
274	N/R	ORIFLAME	Belgium-Sweden	C
275	N/R	NIKON	Japan	C
276	N/R	GROSVENOR	UK	C
277	N/R	DENSO	Japan	C
278	N/R	SODEXHO ALLIANCE	France	C
279	N/R	SALZGITTER	Germany	C
280	159	TYCO	Bermuda-U.S.	C
281	N/R	SHARP	Japan	C
282	N/R	DEGUSSA	Germany	C
283	N/R	ALBERTSONS	U.S.	C
284	N/R	ROCKWOOL	Denmark	C
285	N/R	DUKE ENERGY	U.S.	C
286	N/R	WOLFORD	Austria	C
287	N/R	CISCO SYSTEMS	U.S.	C
288	N/R	CORNING	U.S.	C
289	N/R	INCHCAPE	UK	C
290	N/R	DOW JONES	U.S.	C
291	N/R	ALK-ABELLO	Denmark	C
292	N/R	HEWLETT-PACKARD	U.S.	C
293	N/R	ESTEE LAUDER	U.S.	C
294	N/R	SYMANTEC	U.S.	C
295	114	UNAXIS	Switzerland	C
296	N/R	KOMATSU	Japan	C
297	N/R	HINDALCO	India	C
298	N/R	INVENSYS	UK	C
299	N/R	AIR FRANCE-KLM	France	C
300	N/R	TDC	Denmark	C

# Who ranks where?

The number in brackets indicates the report ranking. The word Fin refers to the ranking of financial institutions. Companies not ranked or referred to in other sections are not indexed.

**ABB** (156) **ABBOTT** (258) **ABN AMRO** (23 Fin) **ABP (Associated British Ports)** (68) **ACCENTURE** (262) **ACCOR** (133) **ADIDAS** (16) **AEGON** (38 Fin) **AEP (American Electric Power)** (145) **AES** (160) **AGRIUM** (27) **AHOLD** (163) **AIFUL** (10 Fin) **AIG (American International Group)** (28 Fin) **AIR FRANCE-KLM** (299) **ALBERTSONS** (283) **ALCAN** (24) **ALCOA** (21) **ALFA LAVAL** (13) **ALK-ABELLO** (291) **ALLIANZ** (24 Fin) **ALTANA** (221) **ALTRIA** (253) **AMER Sports** (57) **AMERICAN EXPRESS** (44 Fin) **ANA (All Nippon Airways)** (228) **ANDRITZ** (204) **ANTAM** (100) **ANZ (Australia and New Zealand Banking)** (3 Fin) **ASAHI BREWERIES** (88) **ASSA ABLOY** (39) **ASSOCIATED BRITISH FOODS** (148) **ATLAS COPCO** (14) **AUDI** (132) **AUTOLIV** (26) **AVERY DENNISON** (85) **BAA** (34) **BAE SYSTEMS** (83) **BANCO SABADELL** (32 Fin) **BANK MANDIRI** (46 Fin) **BANK OF AMERICA** (16 Fin) **BARCLAYS** (49 Fin) **BARRICK** (223) **BAYER** (46) **BCE (Bell Canada Enterprises)** (171) **BEIERSDORF** (267) **BEKAERT** (210) **BELGACOM** (200) **BERTELSMANN** (270) **BG** (122) **BHP BILLITON** (53) **BMO Financial** (1 Fin) **BMW** (134) **BOEING** (226) **BOLIDEN** (250) **BOUYGUES** (143) **BP** (67) **BRIDGESTONE** (268) **BT** (197) **BUHRMANN** (77) **BURBERRY** (237) **CABLE & WIRELESS** (257) **CAMPBELL SOUP** (249) **CANACCORD CAPITAL** (40 Fin) **CANADIAN NATURAL** (97) **CANADIAN TIRE** (31) **CANADIAN WESTERN BANK** (45 Fin) **CARDO** (101) **CARLSBERG** (170) **CASCADES** (69) **CASINO** (235) **CATERPILLAR** (22) **CENTRICA** (236) **CHARLES SCHWAB** (19 Fin) **CHEVRON** (92) **CIBA Specialty Chemicals** (70) **CIBC (Canadian Imperial Bank of Commerce)** (4 Fin) **CISCO SYSTEMS** (287) **CITIGROUP** (6 Fin) **CLP** (10) **COLGATE-PALMOLIVE** (193) **COLOPLAST** (184) **COMMERZBANK** (50 Fin) **COMPASS** (187) **CONAGRA FOODS** (112) **CONOCOPHILLIPS** (175) **CONTINENTAL** (272) **CORNING** (288) **CREDIT SUISSE** (35 Fin) **CRH** (129) **DAIMLERCHRYSLER** (114) **DAIWA HOUSE** (62) **DANISCO** (246) **DANONE** (11) **DBS** (36 Fin) **DE LA RUE** (230) **DEGUSSA** (282) **DELHAIZE** (152) **DENSO** (277) **DENTSU** (261) **DEUTSCHE BANK** (25 Fin) **DEUTSCHE POST** (55) **DEUTSCHE TELEKOM** (167) **DIAGEO** (36) **DOMTAR** (124) **DOW JONES** (290) **DSM** (38) **DUKE ENERGY** (285) **ELECTROCOMPONENTS** (215) **ELECTROLUX** (17) **EMERSON** (140) **ENCANA** (164) **ENIRO** (66) **ENERGY** (90) **EPCOS** (216) **EPSON** (183) **ERICSSON** (149) **ERSTE BANK** (21 Fin) **ESCADA** (196) **ESPRIT** (260) **ESTEE LAUDER** (293) **FEDEX** (63) **FINNAIR** (95) **FORD MOTOR** (172) **FORTIS** (18 Fin) **FORTIS Inc.** (218) **FORTUM** (52) **FORTUNE BRANDS** (259) **FOSTER'S** (40) **FRESENIUS** (219) **GAMBRO** (64) **GAP** (266) **GENERAL ELECTRIC** (81) **GENERAL MILLS** (220) **GFK** (50) **GOLDMAN SACHS** (11 Fin) **GROSVENOR** (276) **GUS** (105) **H.J. HEINZ** (190) **HAGEMeyer** (130) **HANSON** (232) **HARLEY-DAVIDSON** (47) **HEIDELBERG** (59) **HEINEKEN** (74) **HENKEL** (78) **HEWLETT-PACKARD** (292) **HINDALCO** (297) **HOLMEN** (33) **HONDA MOTOR** (48) **HSBC** (31 Fin) **HUSKY ENERGY** (65) **HYDRO (Norsk Hydro)** (155) **HYDRO-QUEBEC** (263) **3 I** (34 Fin) **IBM** (118) **IMPERIAL TOBACCO** (174) **INCHCAPE** (289) **INDIAN RAYON** (248) **INFINEON Technologies** (35) **INFOSYS Technologies** (173) **ING** (22 Fin) **INNOGENETICS** (264) **INTERNATIONAL POWER** (120) **INTRUM JUSTITIA** (142) **INVENSYS** (298) **IOI** (176) **ISS** (150) **ITOCHU** (58) **J SAINSBURY** (115) **JEAN COUTU** (207) **JENOPTIK** (192) **JOHN KEELLS** (80) **JOHNSON & JOHNSON** (151) **JOHNSON MATTHEY** (141) **KAO** (154) **KARSTADT QUELLE** (186) **KELLOGG** (44) **KIMBERLY-CLARK** (51) **KINGFISHER** (113) **KOMATSU** (296) **KONICA MINOLTA** (111) **LAND SECURITIES** (42) **LANXESS** (119) **LAURENTIAN BANK** (33 Fin) **LEGAL & GENERAL** (47 Fin) **LEHMAN BROTHERS** (20 Fin) **LINDE** (227) **LONZA** (229) **LUFTHANSA** (93) **LUNDBECK** (131) **3M** (254) **MAZDA** (273) **McGRAW-HILL** (255) **MEDTRONIC** (233) **MERCK** (194) **MERCK KGaA** (188) **MERRILL LYNCH** (26 Fin) **METRO AG** (189) **METSO** (37) **MINEBEA** (121) **MISYS** (180) **MITSUBISHI** (165) **MONSANTO** (182) **MORPHOSYS** (244) **M-REAL** (45) **MUNICH RE** (9 Fin) **MVV ENERGIE** (238) **NACCO Industries** (241) **NATIONAL GRID TRANSOCO** (153) **NEC** (269) **NESTE OIL** (91) **NESTLE** (234) **NIKON** (275) **NISSAN MOTOR** (195) **NISSIN Food Products** (224) **NORDEA** (7 Fin) **NORSKE SKOG** (61) **NORTHERN FOODS** (199) **NOVARTIS** (19) **NOVO NORDISK** (25) **NOVOZYMES** (206) **NTT** (211) **NTT DoCoMo** (147) **OCBC Bank** (29 Fin) **OCE** (82) **OLD MUTUAL** (42 Fin) **OMV** (159) **ORIFLAME** (274) **PARTYGAMING** (109) **PEABODY ENERGY** (166) **PEARSON** (84) **PETRO-CANADA** (54) **PHILIPS** (7) **PILKINGTON** (28) **PORSCHE** (239) **POTASHCORP** (12) **PROCTER & GAMBLE** (89) **RANDSTAD** (102) **RBC (Royal Bank of Canada)** (5 Fin) **READER'S DIGEST** (247) **REED ELSEVIER** (146) **RELIANCE Industries** (245) **RIO TINTO** (87) **RLI** (37 Fin) **ROCHE** (43) **ROCKWOOL** (284) **RODAMCO** (214) **ROHM and HAAS** (104) **ROYAL BANK OF SCOTLAND** (13 Fin) **ROYAL DUTCH SHELL** (137) **RTL** (203) **RWE** (117) **SABMILLER** (110) **SALZGITTER** (279) **SANOMAWSOY** (271) **SANTANDER** (15 Fin) **SAPPI** (30) **SARA LEE** (79) **SAS** (2) **SASOL** (15) **SCA** (3) **SCHERING** (162) **SCHINDLER** (243) **SCOTIABANK** (8 Fin) **SCOTTISH POWER** (75) **SEB (Skandinaviska Enskilda Banken)** (2 Fin) **SECURITAS** (20) **SERONO** (212) **SHARP** (281) **SHIRE** (205) **SHISEIDO** (123) **SIEMENS** (179) **SIGNET** (98) **SINGAPORE AIRLINES** (73) **SKANSKA** (56) **SKF** (86) **SMITHS** (144) **SOCIETE GENERALE** (48 Fin) **SODEXHO ALLIANCE** (278) **SONY** (136) **SPEEDY HIRE** (158) **SSL** (265) **ST Engineering** (225) **STARBUCKS** (157) **STATOIL** (125) **STORA ENSO** (4) **STOREBRAND** (39 Fin) **STORK** (242) **SWEDISH MATCH** (106) **SWISSCOM** (240) **SYMANTEC** (294) **SYNGENTA** (107) **TAKEDA Pharmaceutical** (217) **TATE & LYLE** (128) **TD Bank Financial** (17 Fin) **TDC** (300) **TEIJIN** (198) **TELE2** (41) **TELEKOM AUSTRIA** (256) **TELSTRA** (202) **TELUS** (1) **THE HARTFORD** (43 Fin) **THOMSON** (209) **THYSSENKRUPP** (177) **TNT** (29) **TORAY Industries** (251) **TOSHIBA** (126) **TOYOTA MOTOR** (60) **TRANSALTA** (49) **TRELLEBORG** (6) **TUI** (185) **TXU** (208) **TYCO** (280) **UBS** (27 Fin) **UCB** (139) **UMICORE** (231) **UNAXIS** (295) **UNILEVER** (99) **UNITED OVERSEAS BANK** (30 Fin) **UNITED TECHNOLOGIES** (72) **UPS** (169) **VATTENFALL** (18) **VEDIOR** (191) **VINCI** (161) **VNU** (94) **VODAFONE** (181) **VOLKSWAGEN** (108) **VOLVO** (8) **VOSSLOH** (252) **WACHOVIA** (12 Fin) **WAL-MART Stores** (168) **WALT DISNEY** (96) **WELLS FARGO** (14 Fin) **WENDY'S** (138) **WESTON** (103) **WH SMITH** (201) **WHIRLPOOL** (116) **WHITBREAD** (135) **WIENERBERGER** (5) **WOLFORD** (286) **WOLSELEY** (23) **WOLTERS KLUWER** (127) **WOOLWORTHS** (32) **WPP** (9) **WYETH** (76) **XEROX** (178) **XSTRATA** (71) **YAMAHA** (222) **YELL** (213) **ZURICH Financial Services** (41 Fin)

RANK 2006	FINANCIAL INSTITUTION	COUNTRY	REPORT RATING
1	BMO FINANCIAL	Canada	A+
2	SEB (SKANDINAVISKA ENSKILDA BANKEN)	Sweden	A+
3	ANZ (AUSTRALIA AND NEW ZEALAND BANKING)	Australia	A+
4	CIBC (CANADIAN IMPERIAL BANK OF COMMERCE)	Canada	A
5	RBC (ROYAL BANK OF CANADA)	Canada	A
6	CITIGROUP	U.S.	A
7	NORDEA	Sweden	A
8	SCOTIABANK	Canada	A
9	MUNICH RE	Germany	A
10	AIFUL	Japan	A-
11	GOLDMAN SACHS	U.S.	A-
12	WACHOVIA	U.S.	A-
13	ROYAL BANK OF SCOTLAND	UK	B+
14	WELLS FARGO	U.S.	B+
15	SANTANDER	Spain	B+
16	BANK OF AMERICA	U.S.	B+
17	TD BANK FINANCIAL	Canada	B+
18	FORTIS	Belgium-Netherlands	B+
19	CHARLES SCHWAB	U.S.	B+
20	LEHMAN BROTHERS	U.S.	B+
21	ERSTE BANK	Austria	B+
22	ING	Netherlands	B+
23	ABN AMRO	Netherlands	B+
24	ALLIANZ	Germany	B
25	DEUTSCHE BANK	Germany	B
26	MERRILL LYNCH	U.S.	B
27	UBS	Switzerland	B
28	AIG (AMERICAN INTERNATIONAL GROUP)	U.S.	B
29	OCBC BANK	Singapore	B
30	UNITED OVERSEAS BANK	Singapore	B
31	HSBC	UK	B
32	BANCO SABADELL	Spain	B
33	LAURENTIAN BANK	Canada	B
34	3 I	UK	B
35	CREDIT SUISSE	Switzerland	B
36	DBS	Singapore	B
37	RLI	U.S.	B
38	AEGON	Netherlands	B
39	STOREBRAND	Norway	B-
40	CANACCORD CAPITAL	Canada	B-
41	ZURICH FINANCIAL SERVICES	Switzerland	B-
42	OLD MUTUAL	UK-South Africa	B-
43	THE HARTFORD	U.S.	B-
44	AMERICAN EXPRESS	U.S.	B-
45	CANADIAN WESTERN BANK	Canada	B-
46	BANK MANDIRI	Indonesia	B-
47	LEGAL & GENERAL	UK	B-
48	SOCIETE GENERALE	France	B-
49	BARCLAYS	UK	B-
50	COMMERZBANK	Germany	B-



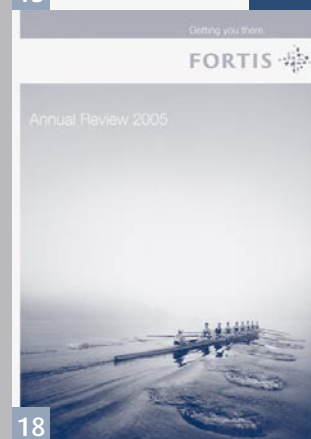
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3



13



18

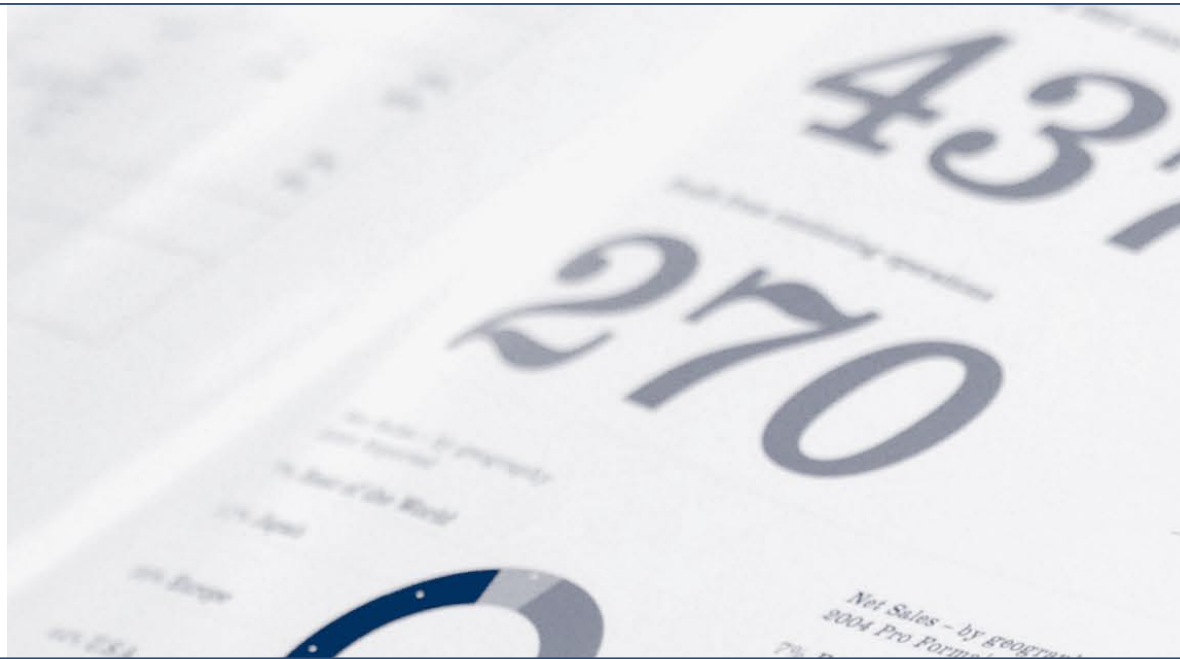


37

# Making the most of corporate disclosure

**“In the post-Enron era, the reaction the regulators have taken is to tighten down on governance – to enforce regulations and procedures to try to combat misleading information, fraud, etc. While it’s important, some of it is completely meaningless and gets in the way of good business.”**

(The CEO of a public corporation)



The regulations this executive is talking about are, of course, the many changes to rules about how companies disclose related-party transactions, director independence, corporate governance practices, executive compensation, proxy voting and more.

## **Disclosure requirements are getting more onerous**

The number of changes is making compliance more costly and time-consuming than ever. Few, however, will argue with the fact that change is necessary.

The regulations are designed to prevent the kind of misrepresentations we saw in Enron’s documents. Enron’s management did, in fact, include information about related-party transactions in their disclosure, but they didn’t include enough detail or context to make it easy to understand what this information really meant.

William Powers, member of the

Enron Board of Directors and Chairman of the Special Investigation Committee, said in his report to the Enron Board of Directors in February, 2002:

“...the Company’s proxy statement descriptions of the related party transactions ...were factually correct, as far as they went. Nevertheless, it is difficult for a reader... to understand the nature of the transactions or their significance...”

## **Look at disclosure as an opportunity**

Reality is, though, that despite the recent scandals, few companies have anything to hide. As one executive in a large public company puts it: “Companies are really a bunch of people who make decisions and can sometimes make mistakes.”

So how can you make the most of the time and expense required to comply with disclosure rules? You can look at it as an opportunity

to communicate more effectively with your shareholders and others who read your documents.

The same CEO who made the comment about regulations getting in the way is also a firm believer in making disclosure do more for his company: “The commodities business is risky. Our readers need to understand what those risks are, why we’ve made the decisions we’ve made, how that’s affected our performance, and what we’re doing to make sure we continue to be successful. We present the facts in a clear, compelling way, so nobody comes back to us later saying they didn’t understand.”

## **Make more information into better communication**

“Once SEC-mandated information is available, is it understandable? The answer all too often is a resounding and frustrated no”, SEC Chairman Christopher Cox said in his April

2006 speech to the U.S. Senate Committee on Banking, Housing and Urban Affairs.

The Canadian Coalition for Good Governance, a group of over 45 of the largest institutional investors in Canada, includes disclosure in its analysis of the companies its members invest in. The Coalition believes that truly effective disclosure is:

- easy to find
- easy to understand
- accurate and complete
- given in context so that the information has meaning.

In its guidance document, Best practices in shareholder communication (2005), the Coalition says: “The more transparent a company is in their disclosure practices, the better risk assessment can be made... The Coalition has focused on the importance of transparency and exemplary disclosure because this is



million EUR	2005 Reported	2004 Pro Forma
Revenue*	2 341	2 124

million EUR	2005 Reported	2004 Pro Forma
Recurring EBIT <sup>®</sup>	437	367

million EUR	2005 Reported	2004 Pro Forma
Profit from continuing operations	270	234

the only window shareholders have into the boardroom. Shareholders have no choice but to assess the calibre of directors, the board and its governance regime based on the quality and clarity of the picture presented through its disclosure.”

**Make it part of a broader communications strategy**

Shareholders aren’t the only audience for disclosure. Publicly filed corporate documents are used by corporate directors, investment analysts and potential investors, company employees and the communities the company operates in, among others.

Using this opportunity to talk to all of these audiences in a clear and consistent way simply makes good business sense. It:

- increases your company’s credibility
- gets you to focus more on your audience – as part of the process

you’ll ask yourself if people can find what they need and understand what you’re telling them

- gives readers a better understanding of your business and your industry, and the things that affect your corporate performance.

**Three ways to make your disclosure better**

- structure it for shareholders, not regulators - don’t just follow the order of the items in the rule
- write in the active voice - it’s more direct and gives readers a better sense of your personality as an organization
- design it - make it look like you actually want people to read it.

Finally, when you’re describing your business, tell it like a story so people get a better sense of who you are. This will put the information in context, make the discussion more interesting, help

investors make informed decision, and may even help to improve shareholder value.



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# Share and investor information

## TOP 10

Rank	Company	IR officer
1	SCA	Bodil Eriksson
2	ALFA LAVAL	Mikael Sjöblom
3	STORA ENSO	Keith B. Russell, Ulla Paajanen-Sainio
4	SECURITAS	Henrik Brehmer, Asa Larsson
5	SAS	Sture Stölen
6	ELECTROLUX	Peter Nyquist
7	ATLAS COPCO	Mattias Olsson
8	SEB	Per Anders Fasth
9	ASSA ABLOY	Hedvig Wennerholm, Britt Renman
10	CLP	Angela Chang

## BETTER ON Risk factors and management (A-Z)

Autoliv  
CLP  
Gambro  
Infosys  
Itochu  
Philips  
SAS  
Scottish Power  
Telus  
Vattenfall

**NOTE:** Due to their specificity and for comparability reasons financial institutions are not part of the above A-Z selection.

## WHAT'S so special (or not)?

**ANTAM** Among share and investor pages that could put to shame other state-controlled groups (the Indonesian government owns 65% of this one) and even a few listed companies, the potential investor can find the utilization of net proceeds of the IPO, a comment made by fifteen fund managers and analysts, and an equation that shows the link between increased transparency and shareholder value.

**BURBERRY** Is it because Kate was still lying between the sheets? "Underlying" highlights are skinny, the financial review is meager, and it pays lip service to shareholder information.

### CIBA SPECIALTY CHEMICALS

Speedy as another specialty: the Swiss company that serves fifteen-plus markets also serves stakeholders with one of the fastest published reports.

### DEUTSCHE TELEKOM

Crackling: there's been a series of "special factors" repeated over the last years, as the extremely complicated table shows on p 75. A free one-year connection should be offered to the ones able to unscramble.

### GAMBRO

Renal care and blood component technology make up the core businesses of the Stockholm-based medical firm. Sensitivity analysis supports the matter-of-fact risk report, thanks to four diagrams and seven well-selected tables.

### RBC

Risk management analysis stands out: it is comprehensive, clearly structured and based on multi-year comparisons.

### ROYAL BANK OF SCOTLAND

Another bulky banker: 268 pages of thick paper. Still, the worthwhile risk report is nicely introduced with a risk "wheel".

**SANTANDER** The way to display the total shareholder return does, bueno, some good.

**SAS** High-flying information: extraordinarily rich in data, transparent on challenges, convincing on strategy, its execution, and the potential value, no matter the difficulties. A pity that the "LCC" layout option sometimes results in congested pages to make it transportable (116 pages only).

**SECURITAS** The display of the financial model and related indicators remains a yardstick. Besides, market trends are finely described, and supplementary information next to all statements is most useful.

**UBS** With three documents packed under "Annual Reporting" and making 428 pages in total, it certainly keeps on showing a banking heavyweight. Not poor in information, but what to find where remains a problem (a case in point: risk management in the handbook and not with financials).



# Financial and performance reporting

## TOP 10

Rank	Company	CFO
1	<b>POTASHCORP</b>	<b>Wayne R. Brownlee</b>
2	<b>BMO Financial</b>	<b>Karen Maidment</b>
3	<b>TELUS</b>	<b>Robert McFarlane</b>
4	<b>PHILIPS</b>	<b>Pierre-Jean Sivignon</b>
5	<b>SAS</b>	<b>Gunilla Berg</b>
6	<b>WIENERBERGER</b>	<b>Hans Tschuden</b>
7	<b>HUSKY ENERGY</b>	<b>J. Michael D'Aguiar</b>
8	<b>TRELLEBORG</b>	<b>Bo Jacobsson</b>
9	<b>SCA</b>	<b>Lennart Persson</b>
10	<b>ATLAS COPCO</b>	<b>Hans-Ola Meyer</b>

## BETTER ON Financial review and management discussion (A-Z)

Avery Dennison  
BCE  
Canadian Tire  
Husky Energy  
Itochu  
Petro-Canada  
Philips  
PotashCorp  
Rohm and Haas  
Telus

**NOTE:** Due to their specificity and for comparability reasons financial institutions are not part of the above A-Z selection.

## WHAT'S so special (or not)?

**AVERY DENNISON** Remains among the rare American reports departing from the 10-Kish "MD&A as usual" and building it a more comprehensible and thus usable way. Worth noting: the clarity of financial position analysis, and a rarity in the U.S.: a special paragraph for the "Analysis of Selected Financial Ratios".

**BHARAT PETROLEUM** "Performance Profile" sets forth 18 categories of indicators, from production quantity to sales to key ratios. Over 25 years!

**CITIGROUP** Highlights are pushed to the back. Why not? But "2005 in Summary" spells out what follows in a very substantial financial review.

**INFOSYS** The quantity and quality of financial ratios and share indicators remain a real yardstick. A pity they are not featured a more accessible way in a report not most engaging. First, because they are shown. Second, because of their selection. Third, because they are calculated for the reader.

**JOHN KEELLS** The diversified holding group from Sri Lanka employs, calculates and charts ratios much better than many: besides some classics, "Capital Productivity", leverage and margins are finely measured and smartly reported. The MD&A is clearly structured and introduced with investor pages filled with ratios.

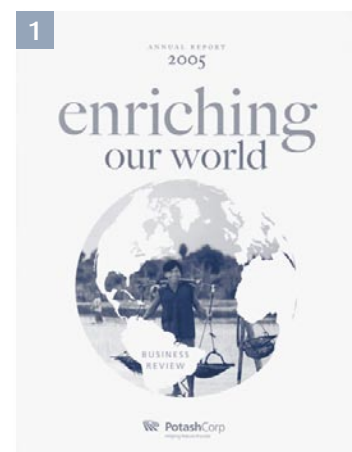
**PHILIPS** Like for many, the MD&A and financials make up the core of the report. Contrary to many, and whatever the operating context and the (sometimes weaker) performance, Philips has showed a sustained commitment to structure the financial report clearly and back it with numerous charts and tables. Moreover, risk factors are fairly addressed, statements - including one for segments - and notes are most readable. And for this switching year a 30-page IFRS recap was added.

**RENTOKIL INITIAL** Is that about cleaning the place, or perhaps pest control? Key figures are much too short and "continuing/discontinued" historical data almost swept away.

**SCA** Nearby comments for each financial statement include supplemental disclosure on capital employed by currency, clear-cut breakdowns of cash flows. And

quarterly information includes gross and operating margins.

**TYCO** Should window dressing follow a "wardrobe malfunction?" Or post-scandal compliance result in reporting conformity, with a vengeance? Another wrapped 10-K, with non-gaap measures as a not indecent (of course!) report conclusion.



# The annual report: a reputation management vehicle

**Individuals often turn to annual reports as a first port of call when familiarising themselves with an organisation. Stakeholders use them to help inform their opinions which ultimately influence their decision making processes.**



Along with company brochures and websites, the annual report is a key corporate communications tool. It has evolved from a financial information conveyor to a reputation management device. The annual report has the power to influence the way companies are perceived by those that matter to them.

The communication of operational and financial information is becoming increasingly standardised through market requirements and regulation.

The backlash of recent corporate scandals has resulted in many codes, reviews, regulations and guidelines leaving mainly the front sections of annual reports and design aspects for companies to stand out. Those that effectively combine form with function and target a broad audience with their reports can succeed in unleashing their power as reputation enhancing tools.

## **Reputation, perceptions, dimensions**

In essence, reputations are built

from stakeholders' perceptions about an organisation. Research has shown that corporate reputations exist along a certain set of dimensions such as financial performance, quality of products and services, leadership qualities, corporate responsibility, quality of employees and management and general emotional appeal. The importance or relative weight of each of the dimensions for the company's overall reputation and performance depends greatly on the company, its business, operations, sector or model. Furthermore, stakeholders focus on different priorities in assessing a company. Investors, for example, may focus on financial performance, and consumers on product and service quality. Both reputation dimensions affect each stakeholder group's behaviour towards the company, which results in either improvement or impairment of investment and purchasing intention.

Corporate reputations exist both as intangible assets within businesses, and as ideas or beliefs

in the minds of the individuals interacting with these businesses. Any individual interacting with an organisation will hold an impression of that interaction for a period of time in their mind. Such impressions do impact behaviour. The better the impression, the more favourable the behaviour. Product buying behaviour can be impacted greatly by new information related to corporate misdemeanours and can even result in boycotts. In these cases consumer behaviour is influenced by emotive aspects of reputation. Trust relationships are severed and the consumer withdraws support and even actively protests against the organisation.

## **A host of factors**

Other types of relationships are of a more functional nature. Investors and other financial audiences rely on the accuracy of financial information in an annual report to make informed decisions. These decisions are unlikely to be greatly swayed by style and design of a report when they are based on purely factual information. However, the better an analyst

or individual investor perceives a company the greater the likelihood of increased positive supportive behaviour, before the analyst even opens the annual report. These perceptions are further influenced in part by a host of factors in annual reporting that can broadly be categorised as follows:

- Content
- Design and Form
- Service and delivery

Content factors include those used in the rating of reports for the Annual Report on Annual Reports. Financial performance is a core driver of a firm's reputation amongst many of its stakeholders, the way in which this information is communicated has a significant effect on perceptions. Even at times of lower than expected performance, firms can maintain support when they transparently and honestly communicate the real reasons behind lacking performance and explain steps underway to remedy the situation.

A recent Deloitte study has shown that currently more than 55%





of the annual report consists of narrative content. Other studies show that there is some divergence between narrative sections and the accounting data – raising questions about the necessity to regulate this discourse. Some researchers have noted that companies expecting both good and bad earnings surprises will exhibit much clearer, more truthful, sincere and legitimate communications in their reports than the composite average firm would. Whatever previous and expected performance looks like, it makes solid business sense to adhere to accurate and correct communications.

Many content factors must be taken into account when drawing together a report and companies are advised to combine corporate communications and marketing specialists with the financial experts of the reporting equation to get the most out of this exercise. An important step in the process must be to consider the desired attitudes and behaviours of their target audiences. Content can

then be drawn up that portrays the facts accurately and brings across the required message whilst being effective in strengthening and modifying stakeholder perceptions.

#### **Stamping your identity**

Design factors include the look and feel and especially the degree to which the company's own corporate brand is conveyed through the report. The most admired companies are able to stamp their own identity throughout the report on par with all other communications output, whilst not allowing form to overtake function. Only through consistency and authenticity can the annual report work in tandem with all other corporate communications to manage the firm's reputation collectively.

Service and delivery factors are to do with the timely delivery of the reports, online access to supporting information and general follow-up. Customer care of the report's readers is essential in maintaining favourable reputation.

All of these factors mean that corporate reporting is more than a financial communications or investor relations exercise – it has taken place firmly as a key tool in stakeholder engagement and an essential part of corporate reputation management. Reports should be the first link for stakeholders by providing more than a financial picture – giving clear insight into the companies values, strategy, vision, internal structures and operational aspects. Annual reports thus become an essential tool in reputation management allowing companies to enhance the way all its readers perceive them on all fronts.



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# Packaging, visuals and communication

## TOP 10

Rank	Company	Designer
1	<b>DANONE</b>	<b>Angie</b>
2	<b>FEDEX</b>	<b>Unboundary</b>
3	<b>ENERGY</b>	<b>N/A</b>
4	<b>WIENERBERGER</b>	<b>Mensalia - Büro X Wien</b>
5	<b>LEHMAN BROTHERS</b>	<b>Ross Culbert &amp; Lavery</b>
6	<b>CATERPILLAR</b>	<b>VSA Partners</b>
7	<b>DIAGEO</b>	<b>35 London</b>
8	<b>CASCADES</b>	<b>Ardoise</b>
9	<b>PARTYGAMING</b>	<b>Radley Yeldar</b>
10	<b>AUDI</b>	<b>Audi Communication</b>

## BETTER ON Theme, thread and branding (A-Z)

AES  
Audi  
Cascades  
Caterpillar  
Danone  
Energy  
Fedex  
J Sainsbury  
PartyGaming  
Tele2  
Wienerberger

## WHAT'S so special (or not)?

**AUDI** "If it captivates people, we have got it right", states chief designer Walter de'Silva. Right! After having been functional for years Audi has proved this can still apply to annuals and has produced a captivating report, made of exciting stories and smart views.

**DANONE** A 5-P approach to reporting. Packaging is user-friendly, with 82 pages that read like a magazine. Positioning is clearly decoded thanks to a keyworded P-DG message. Products are on display from the covers on. People share their views. Pictures tell or back stories. A voir!

**DIAGEO** Branded, from the cover "Black Label" red bubbles, and endorsed at the top: "I travel all over the world and I can always rely on the character and flavour

of Johnnie Walker", writes the Chief executive. This departs pleasantly from today's brewers' tokenism.

**ENERGY** How quality design and artwork can serve with sobriety for reporting about disasters and their impact on business - and people inside and around.

**FEDEX** Covered, packed and delivered. First-class for the theme, personality branding, the message and the thread. But substance is not up to the wrap.

**HSBC** A heavyweight (420 pages) that has not tried to improve its report communication for ages. Sheer reading torture from start to finish.

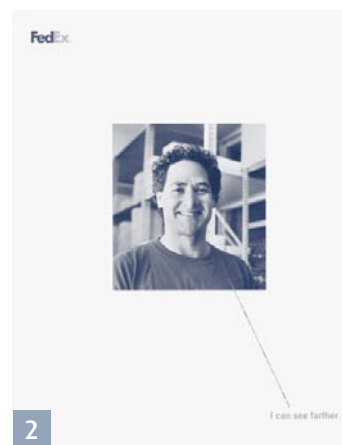
**PIRELLI** Tiresome. Not that tires should be macho stuff, but from the unused covers through the dtpish 228 pages, and the absence of a real financial review, some watchers probably prefer to peep at the calendar.

**RM** The magazine format has been used more than once for annuals. This provider of educational services showcases a consistent design work that even applies to the CEO's operating review.

**TELE2** A good calling card for a broadband penetration? In a 20-page "Review" (part of a report that weighs less than 70 pages in total), the pan-European "monopoly-breaker" packages more market analysis in an entertaining format than some do it in 40, 60 or other multiples.

**TIFFANY & CO** Appearances can be deceptive: having turned the gift-wrapping front cover leads the reader into another soulless 10-K, with a "page intentionally left blank" as conclusion.

**VEDIOR** Flashy, far-fetched, from outrageous - who's got the finest hairdo above highlights? - to ludicrous - "Light my fire" next to "Corporate social responsibility". Gratuitous design and unbridled branding. Fortunately, content goes a bit deeper than skin-deep.



**PARTYGAMING** The glossary includes "clean EBITDA", "flop", "sign-up bonus", "Texas Hold'em". Enron-jangling games? Party jokes? No, the HQ is in Gibraltar (and the registrar in Jersey) but this first report is not dealt as monkey business and is superbly illustrated and animated.

# The rise and fall of American annual reports

**T**he Securities and Exchange Act of 1934 mandated that all publicly traded U.S. companies provide yearly financial reports to investors. “In 1959, IBM hired Paul Rand, a prominent book designer, to create its annual report. As a result, the high-concept annual report was born”. (Addison Annual Report Handbook 2005). The invention of the modern annual report, as well as more formal, structured and transparent reporting practices and their derivatives - including the financial review or MD&A - and of investor relations as a whole, is indisputably as American as bluegrass and blue jeans. In the 1999 *Annual Report on Annual Reports* more than 50 percent of top 100 annuals were born in the U.S.A. In 2006, one-third rank in top... 200.

## Then and now

For decades the key features of American reports were summed up by 6 C’s: confident, communicative, convincing, creative, constructed, and, for a number, compelling. Those were the days: opening an envelope containing a U.S. annual was for many almost like unwrapping a “Western gift” with the expectation to be wowed, and sometimes even a kind of magic. The reporting model worked so well that it was emulated around the world, like management techniques were in the 60s and 70s. These last years, for a majority, it’s just about opening a mail (or “saving trees” by being required to print a PDF file) made of a mix of “Digest-style” narrative, Washington consensus, Californian-inspired PCness, and a Wall Street kowtow. The tune is now: “Just another 10-K”, not made to be read in a New York minute. Hardly jazzy, that is. What happened between the yesterday’s wow and today’s yawn? A “net” bubble, the Enronitis, and those “S” effects (SEC-SFAS-SOX) that have turned into a pale substitute for KISS (keep it..., unfortunately as outmoded as many buzzwords). Comparing dozens of annuals produced in the seventies through the nineties by preeminent U.S. companies with what the same or their successors are doing today - and with the way their international peers have progressed - would be ruthless. We

saw it coming. In the *Annual Report on Annual Reports 2000* (produced and published in New York, by the way), besides a still very U.S. top 20, we pointed out an “American slip” marked by a continued decrease of annuals ranked, and a 50% increase of non-U.S. reports making top 50 in two years. Let’s admit it, even for trenchant supporters of American reports, and the editor and undersigned is indisputably one, there was also an optical illusion. At two levels: while some of the big companies were coming out with the greatest reports in the world, the rank and file kept on churning out very basic “for filing only” documents. The perception was a bit like seeing the New York Times and the mainstream instead of “fozier” news. Second, among the best reports in their heyday, a mix of bullying “size matters” CEO statements, slick “style matters” PR and ingenious “money matters” IR was making it up because not a lot of alternatives were provided elsewhere on report output, substance and style. The fall is not only due to intrinsic factors but also to the continued progress made outside the United States. And, let’s insist, on report assessment and comparison criteria made more demanding. In a vacuum, and considering content, it is still possible to find good features in a number of American reports and from IR officers (e.g. investor kits). And then you see the international ones.

## The symptoms

We are now down to 3 C’s: (excessive) complacency, compliance, and conformism have become the main characteristics of American reports, bar a few ones. The symptoms are:

- 10-Ks simply copied and pasted have replaced the effort of writing a report, especially for the core financial part of, with a blind obedience to one single reporting format and layout. Besides the covers - and the figures! - the two 2005 reports of two leading semiconductor archrivals just look, sound and feel the same. Thousands of reports are as interchangeable as hundreds of country songs. Differentiating through reports, also for enhancing better figures, seems to be a secondary concern, to say the least.



## TREND

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- A lack of long-term perspective and measures (hampered also by those successive year-on-year comparisons which, oddly, do not apply to financial condition). Should we chalk this up to the “Making the quarter” EPS culture (sorry, guidance)? Perhaps. And who asked for two-year balance sheets while equity statements span over three?
- A catalog of brands and marks often substitutes for quick and thorough segment breakdown and effective contribution analysis, which often comes late. And the way mandatory segment information is reported has not at all been improved by recent changes.
- An excessively positive self-image sustained with high doses of self-indulgence but not further substantiated. For many the model is a mix of Hollywood clichés for the first section and layout made in dullsville for the largest part of it, that is financials.
- Governance matters are pushed to proxies, often not sent out to potential investors.
- Most reports do not compare objectives and their achievement, and do no set targets.
- Split accounting policies and estimates that now seem to prevail over a commitment to in-depth financial analysis.
- A much lower use of ratios, charts and share indicators than make some international annuals much more valuable for analysis.

### NFL vs. ROW

What is puzzling is that after having copied and often improved U.S. best practice, the ROW (“rest of the world”) -a “rest” that now weighs much more than today’s U.S. economy- follows suits, for better or worse. The American report practice seems to have joined a list of other declining industries (such as automobile or, uh, ports). The reasons echo somewhat with the ones observed in these. Complacency, sometimes bordering on arrogance, is certainly one of them. In a recent survey the Boston Consulting Group pointed out two of the behaviors that encourage innovation (BusinessWeek,

“Thousands of reports are as interchangeable as hundreds of country songs. Differentiating through reports, also for enhancing better figures, seems to be a secondary concern, to say the least.”

April 24, 2006): “*asking the right questions*”, and “*going outside (and abroad) for ideas*”. This also applies to reporting practices and American companies often do it better on the former than on the latter. Compare how the Northern neighbors -the often despised Canadians- have improved the quality of financial reports while others were dabbling, and do not even seem to have been looked across the border. Worse, a “my world is the world” tendency, reinforced these last years from Main Street to Wall Street, results in pushing others to adopt rules, good or bad, including by stretching the long arm of the law across the board and the world. Another translation of “*The Unipolar Moment*” (as defined by the Washington Post columnist Charles Krauthammer)? An opposite view was recently taken: “*Congress exportation of Sox’s standards has created difficulties for multinational companies and produced scorn for US standards.*” Who says this? Harvey Pitt, former chairman of the SEC! (Financial Times, June 21, 2006). Another explanatory factor is that American companies (like the Japanese but contrary to the European ones) remain closely tied to their domestic markets. Foreign sales of S&P 500 companies amount to a modest 25% of total revenues. U.S. stocks (but not bonds!) are also less in foreign hands than vice versa, yet it is not often noted that the average American investor doesn’t buy as many securities abroad as in the homeland. This explains or has generated a habit of not trying to communicate with an international audience, contrary to the way the Swedes have been used to do it for decades and have translated it so effectively into their reports. A symbol? In 2006, virtually no American annual shows the country dial code yet. Everybody knows? But how many Americans know the country code for France, Hong Kong, or India? “*Companies cannot continue to structure everything around local law if they have a material U.S. shareholder base*”, says a governance specialist at the Bank of New York. This is a bit like trying to apply NFL rules to a world playing football! The opposite is as true, and will increasingly be. American companies cannot continue to structure their reporting output and practice around U.S. local (yes, local!) law if they operate in increasingly globalized capital markets with a material foreign shareholder base, and competitors getting stronger not only on products and technologies but also on their reporting practice. It looked easier to ask others’ reports to look more American than to be able to make American ones sound more international. Bluegrass is old-fashioned, original blue jeans have been copied everywhere, and reporters got the blues. Even a comeback - another American strength - would be in a much larger and more level playing field.



# Business, operations and market information

## TOP 10

Rank	Company	Industry
1	VATTENFALL	Utilities
2	SAS	Airlines
3	STORA ENSO	Paper and pulp
4	HOLMEN	Paper and pulp
5	METSO	Engineering (paper)
6	VOLVO	Industrial equipment
7	WPP	Communication services
8	SCA	Consumer goods and paper
9	TRELLEBORG	Engineering
10	ALFA LAVAL	Process technology

## BETTER ON Profile and business at a glance (A-Z)

CLP  
Danone  
Fortis  
Infineon  
SCA  
SEB  
Telus  
Trelleborg  
Volvo  
WPP

## WHAT'S so special (or not)?

**DEL MONTE** "Dogs and Cats enjoy great tasting foods and snacks" comes before skimpy highlights and a Chairman's statement made of basic foodstuff. And then? Another flavorless 10-K.

**FORTIS** "How we did (and do) it" is a remarkable highlighting effort, especially in a financial sector not always eager to show the business of money. That commitment to highlighting and to making the strategy clear and visible for each area continues inside.

**HENKEL** Twenty-odd product innovations are displayed. Sending a separate thematic and dynamic report on R&D prefaced by the CTO substantiates the message - and the company position.

**HILTON HOTELS** A basic suite: key figures down to four items, then a 32-page report that reads as an advertising booklet, and finally another 10-K for sleepers.

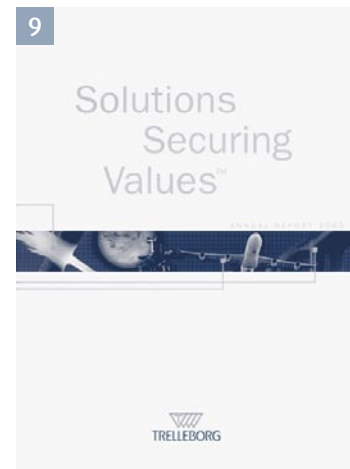
**INFINEON** Remains one of those rare annuals naming key customers and competitors in highlights.

**KELLOGG** Compare the cracking form of 2002 and 2003 annuals and their crisp financial communication with this 2005 stuffy 10-K. No waffle inside, but the texture is not up to it.

**SCHERING** Very comprehensive data shown "at a Glance" in the inside front cover. Those include: top selling products, dividend volume, and very detailed sales and trends both by therapeutic and regional areas.

**TOSHIBA** "A Part of Toshiba's History" is a time line that goes from 1799, with the invention of an ink-stone case with secret lock (?), to 2005 with a dozen of product innovations. An impressive technology tree indeed.

**TRELLEBORG** If "advanced polymer technology" doesn't mean much to you, check the way the Swedish group highlights the five businesses they have built on them during one century. A feat of report engineering: market positions, locations, 5 x 5 breakdown charts. Furthermore, each area is introduced with bullet points and lively depicted with diagrams.

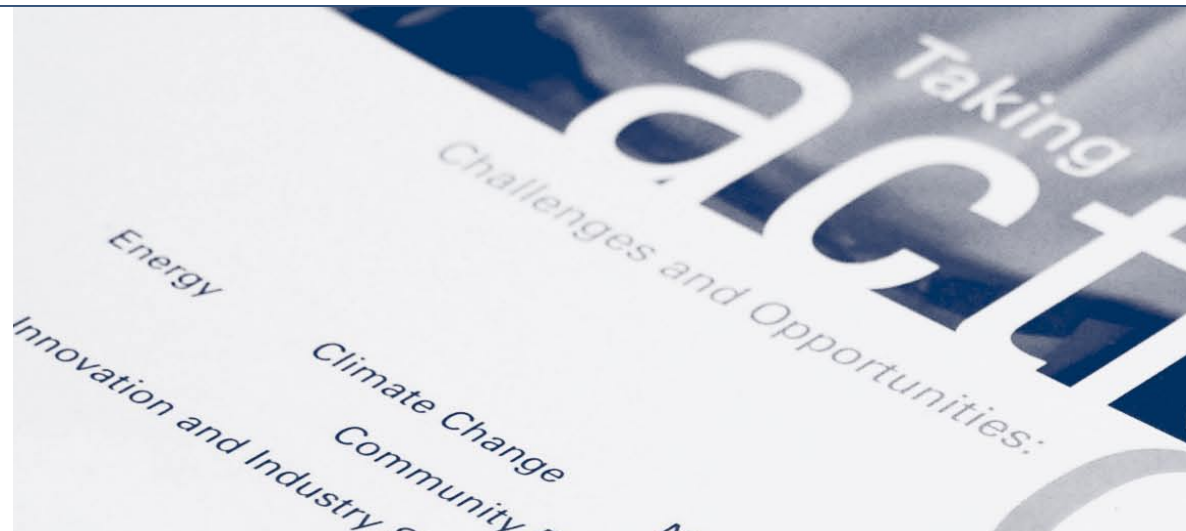


**UNILEVER** Food? Surely. But innovation applies for tea packaging redesign, not to reporting. This report lacks most of the vitamins that are vital to good communication: covers are cosmetic (look inside), highlights are scanty, summary tables are not summed up, and the OFR has lost its face care and should be beefed up.

**VATTENFALL** Proven utility of annual reporting: strategy clearly defined, markets most clearly analyzed, trends and challenges outstandingly described. And don't miss the table comparing eight indicators and strategies for ten European competitors.

# Bless the annual report, for we have sinned

**Annual reports are essential guidebooks to understanding a company and are as such essential milestones. Yet, not all annual reports live up to this promise.**



The strategic importance of the annual report from a communications point of view is that it enables investors and other stakeholders to understand and evaluate a company. It is with good reason that the annual report as we know it has proven to be such an extremely powerful format. For one, because it is a highly regulated publication with regard to its contents - isn't certified by the company's Board Members and an external auditor? This means that everyone familiar with the concept knows what can be expected from an annual report. More importantly, however, the format dictates the inclusion of very specific information, in an orderly manner. Information that helps readers to become educated about the identity and character of a business, about the context in which it operates and its direction, and about the management's focus, priorities and personality. In fact, annual reports are intended specifically to enable anyone who is interested in a company to put any new or additional information into context.

## **1. Never be boring**

Unfortunately, it does not take enormous effort to list seven deadly sins when it comes to annual reports. One or more of these mistakes, sadly enough, are to be found effortlessly in many of today's specimen. The first one being narratives written in boring, fluffy, all too often self-congratulatory corporate speak. "We are proud to report another year of record results" or "Despite the challenging external circumstances, the diligent execution of our focused strategy has enabled us to improve our market position and operating efficiency." Sure, the vocabulary we have at our disposal for the discussion of the company's operating performance is limited. Okay, certain conventions do exist when it comes to style. But still, this is one of the main reasons why comic strips such as Dilbert make many of us laugh in relief. Exaggerating stereotypical behaviour suggests that there may be something absurd about it. Be careful when using financial, legal, or industry jargon.

Too much of it can be hazardous to your credibility.

## **2. Don't repeat yourself, again**

Now that we're touching upon the subject of quantity, the obvious second deadly sin is that of needless repetition. Repetition can be used strategically, to put emphasis on certain important information. But when I get a feeling that I have read an annual report four times when I have only gone from cover to cover once, I often fail to restrain myself. Enough, enough! No need to keep rubbing it in. Tell me something I don't know!

## **3. Answer the real questions**

Talking about redundant information... which is - sadly enough - not redundant at all in today's world... Legal disclaimers! This type of information, along with all other obligatory statements - routinely included in annual reports as part of the greater box-ticking exercise - can, of course, not be qualified as a sin. What is a sin though, is to think that the annual report is finished once

all this mandatory legal stuff is included in one stack of paper. From a communications point of view, getting all the technicalities in - and getting them right - can be a challenge. However, the real challenge is producing an annual report that succeeds in getting the key messages across about what the company does, its financial condition, operating performance, and guidance about where it is going. The third deadly sin is: failing to do this.

## **4. Be realistic**

Fourth sin, directly related to messaging and giving guidance: missing the point, misleading, or burying relevant facts. Like the company that publishes an exposé of forty pages about division A, which is the exciting part of the business that keeps the management's adrenaline flowing... while the existence of division B - representing the other fifty percent of revenues and eighty percent of the profit - can only be derived from one of the notes to the accounts. Admittedly,



there can be perfectly good reasons for providing a greater level of detail with regard to part of the business... but never without stating explicitly and upfront why from the management's perspective this is deemed to be appropriate.

#### 5. Show the merchandise

Sin number five: Over-the-top art work. While using a creative graphic design is a sign of good taste, making the design too extravagant is a huge disqualifier. Annual reports are often regarded by the management as one of their pet projects. Nothing wrong with that. And being associated with good taste matters a lot to many corporate executives (a commendable attitude). But a word of caution seems to be appropriate here: pictures of works of art from the company's own collection, are only very seldom good illustrations of what the company does. These images may be beautiful, but if they are not relevant illustrations that help to further people's understanding of the core concepts

of what the business is about, they should go out. Images are messages. If the message is that the CEO likes walking around in a museum, why would that make him the right person to run the business?

#### 6. Stick (it) together

Related to the art issue, sin number six: packaging the annual report in an ineffective delivery format. There seems to be a growing preference for slicing the annual report up into smaller bits. Some companies present it in two booklets: one with the management report and one with the financials. Some go even further than that and divide it into three separate volumes, putting a document on top that most resembles a corporate brochure. Apart from the fact that this is a cosmetic exercise (the complete annual report consists of all the volumes in combination), this presents a real danger that all five previously mentioned deadly sins will also be committed.

#### 7. Beat the real competition

Here comes sin number seven: craving a high score on a benchmark which is totally irrelevant to most of your constituents. Annual reports are important stuff. I applaud the fact that most CEOs and CFOs want to win prestigious awards with their annual reports. Still it puzzles me that local awards get so much more attention than truly international benchmarks. After all, aren't most companies competing for capital and talking to investors in places far away from the head office. Keeping track of international peers makes much more sense. If communication is taken seriously as a relevant factor in competing for capital, one should strive for high scores on truly international rankings.



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# Governance, leadership, boards and compensation

## TOP 10

Rank	Company	CEO
1	WPP	Sir Martin Sorrell
2	ANZ	John McFarlane
3	SCOTTISH POWER	Ian Russell
4	WHITBREAD	Alan Parker
5	FOSTER'S	Trevor O'Hoy
6	WOLSELEY	Charles A Banks
7	BHP BILLITON	Chip Goodyear
8	J SAINSBURY	Justin King
9	BG	Frank Chapman
10	DIAGEO	Paul S Walsh

## BETTER ON Strategy, outlook and prospects (A-Z)

Adidas  
Alfa Laval  
CLP  
Konica Minolta  
PotashCorp  
Procter & Gamble  
SAS  
SCA  
Telus  
Securitas  
Vattenfall

## WHAT'S so special (or not)?

**ALFA LAVAL** Growth strategy - including order trends and acquisitions -, financial goals, "target standards" perceptibly defined.

**BHP BILLITON** The carbon steel (and more) group does it clean on governance and remuneration: thirty pages in total, with insets for committee reports, a summary of remuneration incentive schemes and broken-down remuneration tables.

**DAIMLERCHRYSLER** A change in the driver seat hasn't changed that much the reporting style and engineering, which has remained similar since the "merger of equals". Note the way the former Chairman is not praised, except in a postscript to the Supervisory Board's report.

**FOSTER'S** Among the most comprehensive directors and remuneration reports, including individual "mix" charts.

**HONDA** CEO's "Review" is here aptly named as it reads as a substantial and supported review and not the statement as usual.

**HVB** "Realize the large potential synergies inherent in the business combination" states the report. Heard that tune before? Shouldn't this include renewed governance, too? First test: the CEO of the new parent (Italian Unicredit) becomes the chairman of the Supervisory Board of the German daughter.

**ITOCHU** "Outlook for Fiscal 2006" sets out forecasts for no less than 16 financial indicators.

**OLD MUTUAL** Let's wish that the acquisition of Skandia brings in a more Swedish reporting model, at least on business and financials. Not for governance, which is up to best UK practice, even setting forth AGM resolutions, which is not commonplace.

**POTASHCORP** Thirty-plus long-term goals checked out, targets set out, earnings compared to objectives and guidance, prospects and performance drivers most clearly described.

**PROCTER & GAMBLE** Makes out a convincing case for growing factors including the logic behind Gillette's acquisition.

**SAPPI** Despite negative results and targets not met, the pulp and paper group bravely compares performance - not - achieved

against objectives in the very first pages. No-pulp reporting, with "paper is our future" bravely stated as at the core of strategy.

**WASHINGTON POST** From the CEO statement: "All of us feel we have a chance to be a ... more valuable business a few years from now. That's a chance, not a certainty (certainty departed the media business some time ago)."

**WPP** Governance and responsibility issues make up sustained report strengths. First for their substantial contents and high level of transparency: 15 pages including reviews of committees, followed with a comprehensive 15-page remuneration report with charts, breakdowns, tables. Second, for the remarkable clarity in the way to lay out matters usually made extremely plain.





# Reforming reporting with nonfinancials

**I**t's commonplace wisdom that financial reporting is rich in detail and poor on clarity. Above all, it seems geared to outmoded priorities and procedures.

The accounting profession in the U.S.A. has produced the staggering quantity of around 5,000 pages of accounting rules. However, as KPMG partner Bob Elliott points out: *'At best, today's financial statements are an obsolete product.'* In actual fact, the accounts published focus on the assets of the industrial age: inventory, machinery, buildings, etc.

## **If you can't count it...**

*'Accountants are blind to the assets that really matter'*, contends Simon Caulkin in *The Observer*. There have in fact been vociferous protests that the accounting profession has continued to ignore nonfinancials and play down their importance. The logic behind it is indeed: if you can't count it, it doesn't count.

The question being: Who can explain why Microsoft's market cap far exceeds book value and has at times been larger than that of the U.S. Big Three auto manufacturers added together? The company's fixed assets are insignificant. But the Microsoft brand is trusted and feared across the world, its intellectual capital is immense, its business strategies highly effective. And, last but not least, the Gates foundation spends more money on good causes than any other foundation.

Those reading the company's annual reports are none the wiser as to its fortes. Microsoft presents a series of catchwords on integrated innovation, responsiveness to customers and intellectual property without specifying or indeed quantifying major assets. The world's leading software producer's 10-K Note on Intangible Assets is a typically formal statement primarily addressing acquisitions. On the other hand, its Global Corporate Citizenship Report is a lot more specific, concentrating on issues like Internet safety and digital inclusion that are close to its core business. Despite this, nonfinancials play an insignificant role in the company's reporting.

Microsoft is no exception. Most companies fail to address the N question. SAP, a world leader in business process software, has a more systematic approach to reporting nonfinancials than Microsoft. It provides relatively good insights into its innovation track record and customer service, while however failing to focus on the business environment or its intellectual capital. Beyond this, the German software producer has published various Innovation and Employee reports, giving an excellent overview of know-how exchange, personnel development etc. But the fact remains that the reporting of two of the world's best IT companies hasn't kept pace with performance; both Microsoft and SAP fail to communicate their true value.

Most reports, whether annual or quarterly, consist of an array of tables and notes, embellished by mundane commentary that rarely provides insights into the figures. MD&As or OFRs seldom give investors a coherent interpretation of the previous year, let alone a clear outlook to the coming year. Investor Relations presentations, often published on websites, put the company's equity story across a lot more eloquently than conventional reporting does. However, they tend to be equally deficient on nonfinancials.

## **The overheads of the 21st century**

Dissatisfaction with the current state of financial reporting is increasingly expressed by investors. Anita Skipper, Head of Corporate Governance at Morley Fund Management, has been quoted as saying: *'A traditional financial report doesn't necessarily tell you about a company's culture, its research and development, its brands, how it treats its employees and its customers. We want to know as much as possible about these issues because they can be just as important to the future health of a company.'*

Despite this pressure, it would be naïve to assume that accounting procedures are going to change radically. Accounting needs continuity; financial reports have to be comparable

# Reforming reporting

## with nonfinancials

**“Nonfinancials are the overheads of the 21st century; the major challenge facing corporate management is how to grasp their importance, define their parameters and report on them.”**

over long periods of time. Trying to introduce quantifications nonfinancials into financial statements is difficult at best. Valuing nonfinancial assets for instance is like squaring a circle and has failed so far. A prime example is Skandia (now part of Old Mutual). It pioneered the concept of Intellectual Capital (IC) in the mid-1990s, publishing a series of supplements to its annual reports. This was an intellectually stimulating attempt to pin down intangible assets like human capital, structural capital and customer capital. However, Skandia faced the same problem that the Balanced Scorecard has been confronted with: it was trying to harmonise indicators that don't fit together. Beyond this, Skandia's scope was too narrow: it considered intellectual capital to account for the entire difference between book value and market cap, whereas the kinds of know-how, skills and potentials covered by IC only account for a part of the gap.

Nonfinancials are the overheads of the 21st century; the major challenge facing corporate management is how to grasp their importance, define their parameters and report on them on an ongoing basis. The question being: how can today's value drivers be reflected in corporate reporting? The accent should indeed be on reporting, not on accounting. However, as in accounting, reporting nonfinancials only makes sense if a long-term view is taken. No one would dream of disclosing ROI or EVA once and never again. Similarly, brand value, employee loyalty, customer satisfaction, social rating and many other indicators only make sense if they are consistently measured and reported on.



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Kaevan Gazdar is responsible for Reporting at HVB, one of Germany's largest banks, whose annual reports received the German manager magazin awards six times in succession.

Kaevan is co-author of the annual report book *Geschäftsbericht ohne Fehl und Tadel* (Luchterhand, 2001) and also published a book on Corporate Citizenship and Sustainability *Unternehmerische Wohltaten: Last oder Lust?* (Luchterhand, 2003). He is a member of the international panel of the Annual Report on Annual Reports. An Advisory Board member of Ethical Corporation, Kaevan is the author of the forthcoming book *Reporting Nonfinancials* (John Wiley).

# Citizen case.

## An A-Z list of best - and not as good - practice on corporate responsibility and sustainability reporting

**ALTRIA** (TOBACCO AND FOOD) "Solid Results in 2005": "The litigation climate continued to evolve favorably, with greater clarity emerging as a result of key decisions" (excerpted from year events in the inside front cover).

**BP** (OIL AND GAS) "BP and climate change" addresses the burning issue more frankly than peers from other oilfields. Still, more directly linked actual performance measures would help know and go further. Check also the cleverly presented BP's "approach to reporting".

**CIBC** (BANKING) Not that many companies, and even less in the financial sector, integrate so much non-financial measures in their reporting. But year disappointments - including significant Enron settlements - and their (non-)financial impact could have deserved more attention.

**DSM** (CHEMICALS) The long-standing DSM "Triple P Report" squares - literally - figures with facts and trends.

**EPSON** (ELECTRONIC EQUIPMENT) "Reducing the Environmental Burden of Transportation". Some talk while Epson walks, e.g. by showing how it has changed routes to reduce emissions (by ten!) during product transportation.

**HOLMEN** (PAPER) Check, among the many other explanatory charts, earnings by stakeholder category, compared growth and felling in group's forests. Plus an enlightening glossary.

**IMPERIAL TOBACCO** (TOBACCO) No smoke screen in the separate CR "Review" that includes clearly defined KPIs, a thorough review of targets (met or not), numerous performance charts, and expert commentaries.

**KAO** (COSMETICS) Does it clean: addresses issues directly connected with operations, such as the impact of laundry detergent, newly hired staff, child-care leave, lifecycle of operations, changes in waste.

**LINDE** (GAS AND ENGINEERING) A comprehensive table lists about 200 applications in six market segments for the gas business and rates their impact on environmental protection from low to high. It would be even more convincing with effective measures and data.

**MITSUBISHI** (DIVERSIFIED HOLDING) Relations with key stakeholders are charted a win-win way.

**NOVARTIS** (PHARMACEUTICAL) The citizenship chapter is almost as long as the operational review, and enlivened with striking photos. It includes a list of "Access to medicine projects".

**NOVOZYMES** (SPECIALTY CHEMICALS) Still one of the rare combined reports, aiming to reflect "the increasing integration of business and sustainability", as written by the Head of IRs in a cover letter.

**POTASHCORP** (CHEMICALS) One-third of strategic goals are socially or environmentally driven.

**RICOH** (ELECTRONIC EQUIPMENT) Certainly a good piece of work on responsibility. Is this a good reason to make it to the detriment of operations and financials, which are very weak?

**ROCHE** (PHARMACEUTICAL) The very extensive R&D pipeline, handily displayed in a fold-out section, also discloses project ID, pharmaceutical class and even partner firms involved.

**SHARP** (ELECTRONICS) Sharpest on major objectives, year achievements + "Self-Evaluation". Then come next year objectives, and targets within two years. Check also the customer satisfaction analysis for a refrigerator.

**STARBUCKS** (BEVERAGE) It took time to translate the coffee shop promise into corporate reporting practice. From preach to practice, with some straight talking. Check the progress report on purchasing practices, among others.

**STORA ENSO** (PAPER) "Sustainability" packed with the two other reports. Progress checked for nineteen 5-year targets. Economic responsibility depicted through value added and "material flows". Issues less addressed by many are here not overlooked: e.g. purchasing, transport and even redundancies (the latter often left out).

**UNITED TECHNOLOGIES** (BUILDING AND AEROSPACE PRODUCTS) "At UTC, we don't choose between responsibility and profitability. We pursue both", states the Chairman. Well-shot pictorials do not make up for the lack of substantiation.

**VOLKSWAGEN** (AUTOMOTIVE) "Moving Generations" is the title of a sustainability report whose cover shows... a baby carriage and whose content is really lacking in indicators.

**WENDY'S** (RESTAURANTS) "Nutrition Information" is displayed in a miniposter sent as a part of annuals, with ingredients and allergens on the B-side.

# How annual reports have turned online

**A**nual Reports are still built as printed publications. From the first look it might appear that nothing has happened to them in the electronic age. This is not true. Even if the printed products still are on glossy paper they have undergone a number of changes. But much remains to be done and few companies have dared to make full use of the ever-changing new techniques. Mastering these could increase the value of reports towards stakeholders.

In the production of today's annuals every stage is computer-based. We have reached the point where all financial information is electronically based and stored: numbers, files, texts and pictures. The financial accounts are presented in interim or quarterly reports, filings to the regulatory authorities and in annual reports. The same numbers are combined with comments and texts reused or not in different contexts. Internet, Intranet and Extranet are indeed different outputs from a common database.

The production has been speeded up, making it possible to hold AGMs earlier and thus also distribute dividends faster. A special effect is that second language versions (often English) are now made available much earlier than they used to be.

## Distributing...

As the reports grow bigger year by year due e.g. to extra requirements, the IFRS implementation, CSR and governance, electronic versions make it possible to slim down the basic publication and have tailor-made appendices for different stakeholders, printed or just as "print-on-demand" on the website.

The annual report is also an essential part of a company's website. In some Scandinavian countries, it is even mandatory to have a corporate website that features reports and other investor information.

The professional financial community is linked up to Internet. According to a Hallvarsson & Halvarsson study almost all analysts, investors and journalists use the Internet every day and they value Internet as their prime source of information. Many private investors (and even most in some countries) are also wired at their work or elsewhere, through broadband or other connections. The most valued dimension is topicality. A website must be updated immediately.

The printed circulation of the annual reports is still high, but the actual use lies around fifty-fifty paper vs computer. Even the receivers of the printed publication often use the Internet version to look for a specific number or a certain formulation. Many have stopped archiving reports in paper format.

## ... and formatting

The distribution of the report is partly digital. You can find the report presented in a corporate website in different formats for the most adequate presentation. The pdf version is probably the most used one. It works as a print-out, print on demand, available with no delay 24/7. The pdf files used to be divided into sections to minimize the size of the downloads, but are today 3-10 Mb documents. Sadly, many companies don't use the facilities for bookmarks and miniatures and search engines. Another irritating factor is that page numbering is not synchronized with the printed version. In HTML the Annual report is structured for reading online, changing page along the menu or through the Return-button. For the number-crunching financial analysts the Excel version for tables simplifies their work. Many companies still overlook that such tables are printed out for use.

The flexibility of the Internet allows for making the information more accessible. With the W3C/WAI standard (Web Accessibility Initiative) the visitor can tab navigate, change font size and even "read" the pictures if they have a describing text. Accessibility is now mandatory in the United Kingdom.



**“With the W3C/WAI standard (Web Accessibility Initiative) the visitor can tab navigate, change font size and even “read” the pictures if they have a describing text.”**

The first corporate websites were like billboards, and many websites still are. That was underusing the new dimensions in communicating on the Internet: interactivity, linking, searching, converting information into other media (printing, moving numbers into spreadsheets) etc. Faster and broader communication lines make it possible to combine texts with pictures and even streaming media.

The new technique allows the visitor/user to navigate a corporate website looking for information helped by links and search engines. The visitor also can put questions, make comments or order and subscribe to information.

An annual report could have links to information disseminated on a more permanent basis. It might contain links to exchange rates or price information for recalculation of the accounts. The CEO or Chairman letters could be delivered as a speech in audio or video format. Some facts like the share price and turnover or the prime owners could be updated. Still the legal annual report must not be touched. The auditors have scrutinized and commented that version and nothing else.

Many companies make appendices to the report available on the web. Sustainability or governance reports have other target groups than shareholders only. From a distribution point of view they might be distributed in print just to special interest groups and made available for others on the website.

From a communication viewpoint the lack of originality, misguided cautiousness and legal restrictions make many corporate websites look like the billboards of yesterday. But the web versions can be tailor-made for every stakeholder group, interactive for the visitor, accessible 24/7. You can even measure the reading of the report. This promotes higher efficiency in financial communication. More bang for the buck.



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#### **The Webranking study**

Hallvarsson & Halvarsson (H&H) this year publish its tenth **Webranking** survey, in cooperation with the Financial Times and business papers in ten different countries. It all started 1997. At that time a quarter of the companies didn't even have a website.

In Webranking 2006 H&H will review 550 European corporate websites. The first step in the study is a survey with 500 financial analysts, investors and journalists about their use of Internet and corporate websites.

[www.webranking.nu](http://www.webranking.nu)  
[www.halvarsson.com](http://www.halvarsson.com)

# Journey through the past

“Ever independent. Never neutral” was the motto of Horace Greeley, founder of the New York Tribune. That’s the principle we have always tried to apply in our way to assess the thousands of annual reports we’ve seen and checked over the years. As well as in writing about trends and reporting issues.

Sometimes we proved right, sometimes we got it wrong, but we have remained consistent. Some things have changed, and some not. For better or for worse. A kind of “invitation to relativity”. Hereafter selected excerpts from the **Annual Reports on Annual Reports** published from 1997 through 2006. Some are from editors or writers, others from hotshots. Those are words “between the lines of age”, for what it’s worth.

careless implementation (not sustained) that undermine the make-up.



**2000** - Good, bad and ugly.

Insurance, banking and... computers are industries where you can get the best and the worst from annual (and online) reports. The impact of mergers between banks or insurance companies on the quality of their reporting (if it was just on reporting!) would be worth a pre-MBA homework. And how's the “new economy” doing... reports? Well, look at the lists.

Then came...



(Enron's last annual report, 2000)



**1997** - The bulk and the bottom.

71% of top 100 reports are only rated B for their financial report and shareholder information. Which means they tend to produce “reports as usual”. The most usual mistakes or gaps: insufficient financial reviews, too short high-lights and long-term summary, purely accounting-based presentations, too vague notes about special subjects (derivatives, etc.).

**1998** - A strong concept.

That is, recognizable, solid... and sustained. Either you recognize the company and its style or the report leaves a mark by itself. Though based on visuals, better concepts shouldn't be mixed up with cosmetic reports. Yes, design is a visual thing, but a matter of intelligence, too. Cosmetic reports often don't live up to the promise inside because of a lack of design groundworks (not solid) or a

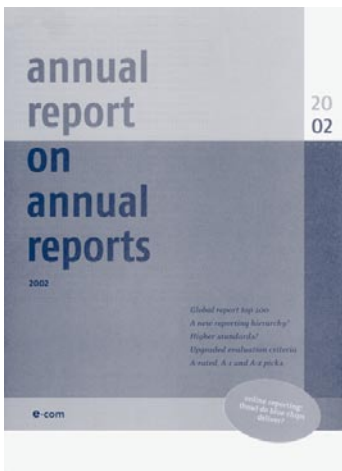
**1999** - Looking forward. Sound and vision.

Looking forward. Sound and vision. Not more than 10% of the reports dare to compare past objectives and results achieved. Even, and this is surprising, when these are financially sound. And even less - 5 to 6% - set goals for the medium-term future. Great reports don't seem to stop at the year end and “don't stop thinking - and telling - about tomorrow.” In the future, reports should dare showing expectations, prospects and - measured - targets, and look ahead and not only backward. Why should the vision stuff be another business fad, without any number to substantiate?



## 2001 - Strategy and reporting.

What Harvard's professor Michael E. Porter recently said (Fast Company, March 2001) about strategy - and the need for it - may be applied to reporting - and the need for it. Almost word for word - just replace strategy by report. "Strategy has suffered (from) the emergence of the notion that in a world of change, you really shouldn't have a strategy... things were moving so fast, you couldn't afford to pause. If you had a strategy, it was... outdated by the time you produced it... That view has become very well entrenched."



## 2002 - Standards.

Name this a reporting crisis. "The use of IAS standards could have prevented the Enron fall-out." (Marylin Pendergast, President of the ethics committee of the International Federation of Accountants). "I have seen a lot of signatures by auditors, but from now on I will not look at them without doubting whether they are valid or not." (John Kenneth Galbraith, in The Independent). "If you think companies have rededicated themselves to clear disclosure in the wake of endless corporate scandals, you'd be sorely mistaken." (Carol J. Loomis, in Fortune).



## 2003 - Confidence.

We have carried out a special exercise: taking company reporters' and executives' words and checking if walk is up to the talk. The results are mixed, to say the least. No Sarbanes, no Oxley, no Merrill or no Lynch can make up for bad new (or old) corporate habits or post-bubble (gum) financial communication. Regulation is necessary, but compliance is not sufficient. Confidence takes more.



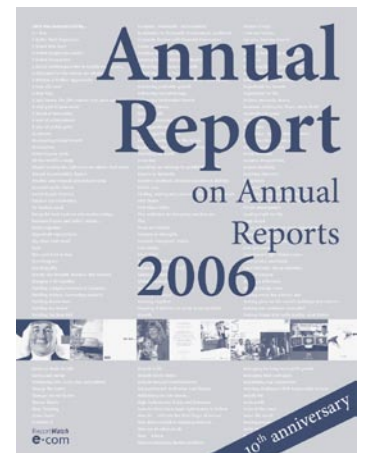
## 2004 - Measuring the wrong things.

"Simply put, our industry often measures the wrong things. It's using measures from the stagnant, old banking industry to measure success in today's dynamic financial services industry... Total assets simply show how big you are. Many "banks" have learned the hard way: bigger is not always better. You cannot simply acquire your way to success. You get bigger by being better. You don't get better by getting bigger." (Richard M. Kovacevich, CEO of Wells Fargo, ranked N°1 report in 2004).



## 2005 - The weight.

Q to an industry financial analyst: What is your preferred volume for an annual report? A: 100 pages, or a bit more or less. Say from 80 to 120. I think this shows the ideal balance between digestible information and effectively organized communication. 42% of companies selected report in 100 pages or less.



## 2006 - Books by the covers.

I can see farther... Same story... How do olives from Spain light homes in Belfast?... Live and Learn... Change the Game... Practicing values to create value... The most exhausting annual report in years... Today's Work. Tomorrow's World... It all starts over a cup of coffee... are among the titles (titles only!) the Report Watch e.com team and rating panel liked, and found original or less banal for some reasons this year. Cautionary statement: "You can't judge a book by the cover", as the old blues goes.

# The long run: these outperform

We have compiled our rankings, tracked reports that have made top 50 since the year 2000, and scored them. Those are reports that have topped the charts for more than one year and have stood the test of time, going through the market and company changes, and passing the increasingly demanding ReportWatch assessment criteria.

Though not scientific, the result is a ranking based on the number of occurrences, the (high) position/rating and the trend (premium placed on reports going up).

As a financial analyst and panelist puts it: "This might be a way to check the relation between report value, company value, and value for an investor. A company that reports consistently and regularly better than its peers should probably deserve more attention and be regarded as a long-term investment."

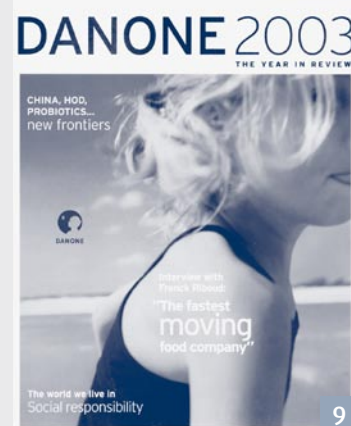
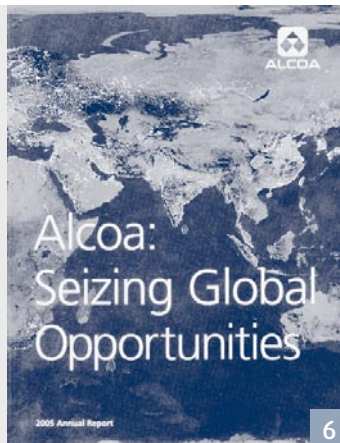
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7. PHILIPS (NETHERLANDS)
8. STORA ENSO (FINLAND)
9. DANONE (FRANCE)
10. ADIDAS (GERMANY)
11. NOVARTIS (SWITZERLAND)
12. NOVO NORDISK (DENMARK)
13. SARA LEE (U.S.)
14. INFINEON (GERMANY)
15. WELLS FARGO (U.S.)
16. WPP (UK)
17. ATLAS COPCO (SWEDEN)
18. CLP (HONG KONG)
19. TNT (NETHERLANDS) - TELUS (CANADA)
20. BAYER (GERMANY)



# Where have all the good times gone? Those performed well...

Since we started screening, ranking and benchmarking annuals (and, as our selection shows, even before) we have spotted hundreds of documents doing or showing better than others. We have trashed hundreds of them (never mind, that paper was, at least these last years, recycled), but also archived a few ones. Some were trendsetters, others were just great as such. Some reflected a capacity for reporting lost by many companies since then. Hereafter a selection of the ones we miss (note the number of American ones).

**FORD:** "Among other things, great companies are distinguished by seeing and speaking the truth about their situation", wrote the CEO in his year 2000 statement, before being ousted a few weeks later. At that time, Ford ranked N°1 then N°2. The reasons for the drop are both intrinsic - no more targets checked, a business section now very superficial, etc. - and also external - our evaluation criteria have turned tougher. Just as drivers' expectations.

**APPLE:** Check the reports from 1988 through 1994. Even in those troubled times and CEO changes - and the company has lived some - it used to report with style (the Mac made it easier) without lacking in substance (gross margin analysis). Today's jobs? 10-Ks printed in dullsville.

**NOKIA:** The last valuable attempt to connect effectively and with insight was in 2000, following years of continuous improvement (yet less on financials). Has now turned into a dedicated follower of 20-F fashion (or is it aping the Redmond model?) who sends analysts packing (we mean downloading) on their 3250 or else.

**AMERITECH:** The 1998 report was a model of growth display, highlighting and communicative MD&A, delivered in 56 pages only (!). Hardly attained by most U.S. annuals since then. The company has now disappeared. For still vibrant telecom broadcasts? Move northbound.

**KNIGHT RIDDER:** The publishing group's report made top 10 in 1998 and 1999 and top 30 for six consecutive years. It certainly stood among the most homogeneous U.S. annuals, with an equal commitment to cover, tell stories, chart, and, remember, make an MD&A in plain language. A private group, the McClatchy Company, bought Knight Ridder this year.

**REEBOK:** "It's about raising the bar" was the powerful yet soberly threaded theme of the 1992 annual. Not the most substantial - it has never been - but stylish (designed by Addison), with a pictorial sequence going from end to end (financials included). Then came Nike - with style - and came back Adidas, who really raised the reporting bar in the industry and for the Deutsche Geschäftsmannschaft. Now? "Adidas is the perfect partner for Reebok", said founder Paul Fireman on Reebok's website.

**CHRYSLER:** "Passion. Speed. Growth" built up the theme of the 1996 report. Tremendous drive and branding exercise. Simple with a strong American style (remember this?), and even a chart-backed MD&A (remember that?). All vehicles were displayed in the back cover flap. What happened after the "merger of equals?" Annuals not showing any passion, lacking in speed - and about growth...

**CAMPBELL SOUP:** One of the problems of many corporate reporters is to stick to "format as usual". In 1998 the soup producer dared a 32-page folded newsletter format that allowed a **Big Picture, Big Stories** and a forceful personality display. Why haven't - many - more companies taken a leaf out of it? Now the soup has turned less tasty.

**INTEL:** Another American report that has bowed to the compliance me-tooism. Where has Andy Grove's daring culture gone? What is it now? Another tedious 10-K, with the originally year-descending layout used for historical data (surprisingly never emulated) as the sole trace of past reports' little feats.

**KODAK:** The last great visual effort dates back to... the year 2000, with superb covers from front to back, snappy visuals, a rocking theme, and even a readable financial section. Five years later, what have we got? An unflashy report that wears the **Imaging, Technology, Innovation** words on the front cover, and refers to graphic communication. Inside? Neither imaginative nor innovative: another 10-K preceded with "Reconciliation and Safe Harbor" (?), without any table of contents.

**AHOLD:** Take the terrifically exciting "Future of Food" introduction to the 1999 report, or one of the most striking highlight sequences ever reported, in the 2000 one (both made top 20 in the **Annual Report on Annual Reports**). Then see the palatable but dull 2005 "Review" (whose highlights overlook net profit). Fortunately, this one is lighter than the stodgy 240-page report that goes with it. Giant food? Perhaps, but the "compliance-first" storing format is not retail-made.

**LUCENT:** Achieved a commendable and effective first report as a spin-off. And then fell behind the best from all viewpoints. As a spin-off, the German Infineon and the Danish Novozymes were off to a better reporting start, though.

# How we do it

## How companies were selected

### What is our (report) world?

The Report Watch monitoring process, a joint initiative of Corporate Essentials, Inc. and enterprise.com, consists of selecting a sample of listed companies around the globe. What is our universe? We do not claim to have all companies from everywhere selected. But it is fair to say that our list of companies is a representative cross section based on the relative importance of stock markets, aiming at reflecting the industrial and geographical diversity. Therefore, and since the beginning, our selection has always been based on six major criteria:

- **Listed companies**
- **Company position**
- **Market, financial and commercial performance**
- **International presence**
- **Peer groups**
- **Past reporting performance.**

Those features can either complement or contradict each other. Our selection is based on published rankings as well as on a continuous market monitoring and database updating.

The number of companies selected has grown to 1,300 from 250 in 1996. 1,300 is a big number. And a small one, too. Although striving for a sample as representative and large as possible, we easily admit to cover a small portion of the worldwide quantity of listed companies, now estimated at 35,000. A survey of all of them would be a mission impossible to accomplish. Even gathering larger resources would probably not allow any updated rating or ranking exercise. Our main goal is not to be exhaustive. It is to benchmark best - and worst - practice in order to continuously enhance reporting financial reporting, investor and stakeholder information, and corporate communication standards.

### Who can run?

1,300 listed companies reporting for a fiscal year having ended any time in 2005 were selected and contacted. Reports were formally requested via e-mail, by fax or through the website. For the sake of formality, but also to overcome time zone difference and language problems, requests are never made by phone.

Any company - even not listed or currently planning a listing - may submit its report for rating. However, the report is subject to the same criteria as the ones applying to listed corporations. Any company officer or duly mandated person has the right to decline to participate in our survey and to compete for scoring, rating and ranking.

However, e.com reserves the right to judge reports that are ordered via public annual reports services or transfer agents.

Were not considered for the 2006 selection:

- **Privately owned companies (except those electing to compete)**
- **Purely government-owned companies (except those electing to compete)**
- **Wholly-owned subsidiaries (except those electing to compete)**
- **Investment, income, mutual or real estate funds and trusts**
- **Listed stock exchanges**
- **Central banks**
- **Development or reconstruction banks and similar financial institutions**
- **Public agencies**
- **Non-profit organizations**
- **Group submissions made by intermediaries or agencies (which might create bias)**
- **Reports for a fiscal year before 2005 or interim/quarterly reports.**

Selection or submittal do not guarantee scoring, rating and final ranking. The name of the company that appears in this document is the one as referred to on the covers or as written or abbreviated in key report sections. For legibility reasons, legal forms or words such as corporation, company, group, holding, etc. have not been reproduced. Names do not take into account mergers, acquisitions or identity changes that might have occurred and been approved after the fiscal year-end or the report release.

Except of course for report mailing costs incurred, participation to the survey is entirely free of charge.

The use of e.com report evaluation services is no prerequisite to - and no guarantee for - rating or ranking and is independent of the Report Watch process and the results as published in the **Annual Report on Annual Reports**.

### Which documents are judged?

The answer is simple: only the documents received are judged.

Forms 10-K, 20-F or other similar forms are considered as annuals and are therefore subject to the same criteria as more finished and designed materials. Companies neglecting to send parts of reports to which evaluation criteria apply are of course penalized. An example: a company sending a short annual review without a financial report (packed or in a 10-K or 20-F file), without governance and compensation documents (these lie in proxies in some countries, and these are far from being sent along systematically), and not having a responsibility chapter or report, etc. scores much lower than others.

Those factors can seriously impact on the report scoring, rating and final ranking. Only the documents received by June 30 were scanned and scored. There is still a lot of debate about the effective availability of information on the web, and the fair and equal treatment of all stockholders. After all, reports are primarily written for all of them and not only for investment funds and analysts. Why were internet downloads not considered? First, because we believe it is the right of any shareholder or investor or any third party to ask and receive a copy of annuals - and the job of someone in any listed company to send them out, instead of simply inviting them to download. Second, because reading a report on screen is not considered as valid and thus requires a print-out for analysis. Last but not least, the feel and touch of a printed report cannot be compared with the annoying process of searching, downloading, printing out, flipping through (those loose leaves!), and filing a PDF.

## How reports were scored

### Which criteria to mark reports?

1. **Report packaging - Volume - Layout**
2. **Use of covers**
3. **Theme, branding, identity, differentiation**
4. **Key figures - Financial highlights**
5. **Charts, ratios, performance metrics**
6. **Profile - Year events - Major products**
7. **Snapshot of business and geographic segments**
8. **Executives statement(s): substance and style**
9. **Strategic direction - Outlook - Targets**
10. **Review of operations, businesses and markets**
11. **Segment and contribution analysis**
12. **Stakeholder/social responsibility chapter or report**
13. **Operating, social, environmental measures and statistics**
14. **Financial review - Management discussion**
15. **Medium-term performance - Growth factors and components**
16. **Risk factors, analysis, mitigation and management**
17. **Statements, accounting policies (IFRS, GAAP)**
18. **Board and management details and changes**
19. **Corporate governance - Committees (and reports)**
20. **Executive compensation: policies and figures**
21. **Shareholders and investor communication**
22. **Earnings and dividends highlighted**
23. **Share fundamentals reported and compared**
24. **Read appeal - Reading facilities**
25. **Visuals - Illustration - Photography**

The sets of criteria entirely rebuilt in 2002, refined in 2004, and with broader evaluation margins since 2005 have been maintained. The overall balance of criteria remains.

Reports are scored on a maximum total of 100 marks, i.e. 4 marks for each report item scanned. For the 2006 survey a few report items have been modified, emphasized or upgraded. Due to the peculiarities of the financial sector it has been decided to set up a separate ranking for banking, insurance, investment, securities and other listed financial companies. These are basically submitted to similar criteria, ranked in a

different order, with a different weighting, and a special emphasis placed on financial, contribution and risk management.

The total score or breakdown is never publicly disclosed. It may be obtained by companies or their advisers through an order for a **Report Scan**, which is the edited version of e.com's internal desk research. Revenues generated through these services and other evaluation tools help us produce the **Annual Report on Annual Reports** - and keep it independent.

**Cautionary statement:** The ranking as well as the rating or undisclosed score are based on an evaluation of the company report and output and cannot be interpreted as such as an assessment of the company that releases the report. It does not represent directly an offer to buy, sell, hold or trade the securities to which the reports cited or ranked in this survey are related.

## How reports were rated

### The sifting process

All reports received (approximately 50% of the ones requested reached us on time) went through a scoring process based on the 25 items listed above. This was conducted by e.com report analysts.

The top 100 reports were then submitted to an independent rating panel. This year's panel was made up of: a certified accountant, an auditor, a financial analyst, a fund manager, two communication specialists, and two e.com consultants. Due to the position of some of the panelists all names have been withheld by request.

The primary role of the rating panel is to double-check reports scored by e.com and to help move from a very quantitative scoring to a more qualitative rating. As a result, some reports were upgraded while others were marked down, sometimes significantly. Panel members have to judge independently of e.com scoring process. For that reason internal score and ranking are not disclosed in advance to panelists.

Panel members must judge independently of their own interests.

Panelists' individual votes are not publicly disclosed.

Finally, the top 20 reports were double-checked by four annual report experts (two from e.com and two external ones).

### The ratings

- A+** World-class
- A** First-rate
- A-** Excellent
- B+** Fine
- B** Average
- B-** Uneven
- C+** Ordinary
- C** Deficient
- C-** Unsatisfactory
- D** Uncompetitive

## How reports ranked

Check (again) on p 2-9.

# About e.com

**enterprise.com (e.com) specializes in report input, evaluation, analysis and benchmarking. Our core business is to assess and compare corporate & financial communication tools and investor & market information vehicles, mainly annual reports.**

We have developed an international, independent, integrated and competitive approach to report preparation and evaluation. Our founders, staff and network have operated in 30 countries and consulted for 100-plus corporate clients from Stockholm to Amsterdam to Vancouver, from Connecticut to Surrey to Hong Kong. A spin-off from The Enterprise Group (est. 1986, inc. 1990, liq. 1999), and originally controlled by Dutch and British investors, e.com is now part of U.S.-based Corporate Essentials, Inc. Our operating office is located in the middle of the three largest European stock markets and our team is directly or via network partners in the loop with the major financial centers in America, Europe and Asia-Pacific.

e.com is the researcher and publisher of the "Annual Report on Annual Reports" (created in 1996), often regarded as the most comprehensive and authoritative survey, and the only ranking, of annual reports. e.com provides customized reporting services to companies. ReportWatch is the name given to the continuous report monitoring, scanning and scoring process that results into the annual survey.

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**"The Annual Report on Annual Reports is often regarded as the most comprehensive and authoritative survey, and the only ranking, of annual reports."**

## The Annual Report on Annual Reports 2006

**A PUBLICATION OF ENTERPRISE.COM (E.COM)**

**Publisher and Editor:** Mike Guillaume.

**Report Watch research, scanning and scoring:** e.com staff, interns and network.

**Company selection:** Corporate Essentials, Inc.

**Contributors:** Ewold de Bruijne, Vero Escarmelle, Kaevan Gazdar, Catherine Gordon, Mike Guillaume, Henner Lappe, Dennis Larsen, Staffan Lindgren, Franklin Manchester, Jérôme Pétiou, Gabriel Thulin, Henk van Dijke, Tim Williams.

"Journey through the past": Neil Young (Wea, 1972).

**Photos:** Sara Alinder, Matt Greenslade, Ann Shier, Merel 't Hart.

Report rating panel advised by Vero Escarmelle and composed of eight members (all names withheld by request).

**Report concept:** e.com and Dart Design.

**Design, layout and production:** Dart Design (Amsterdam).

**Printed in The Netherlands.**

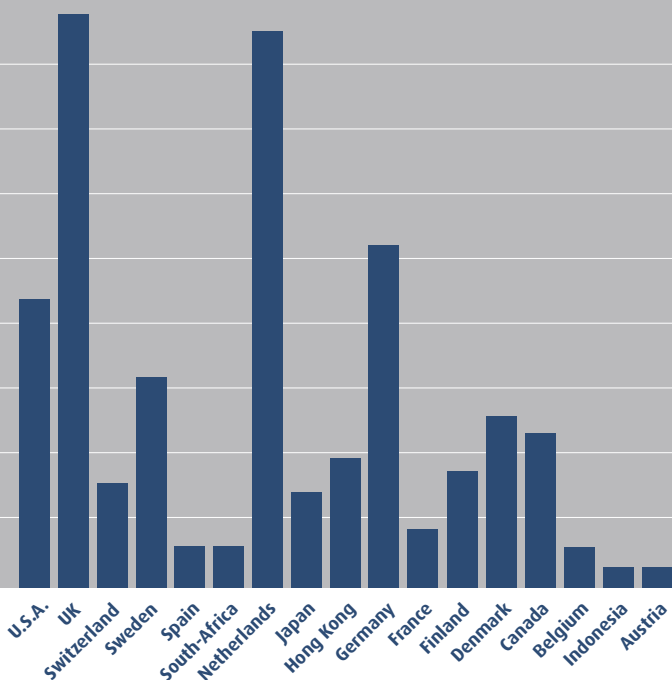
**ISSN 1782-1037**

Survey and research methodology created in 1996 at The Enterprise Group. Copying for other than personal or internal company reference is prohibited. Quoting is authorized with prior permission of the publisher. Additional copies of this report and back copies of previous issues may be ordered (free of charge) from e.com. All prices for report evaluation services advertised in this publication are subject to change, due to currency fluctuations, company policy, or modified product content. The material included in this publication does not represent an advice or offer to buy, sell or trade the securities related to companies herein referred to.

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Country breakdown (2000-2006)



# Breaking

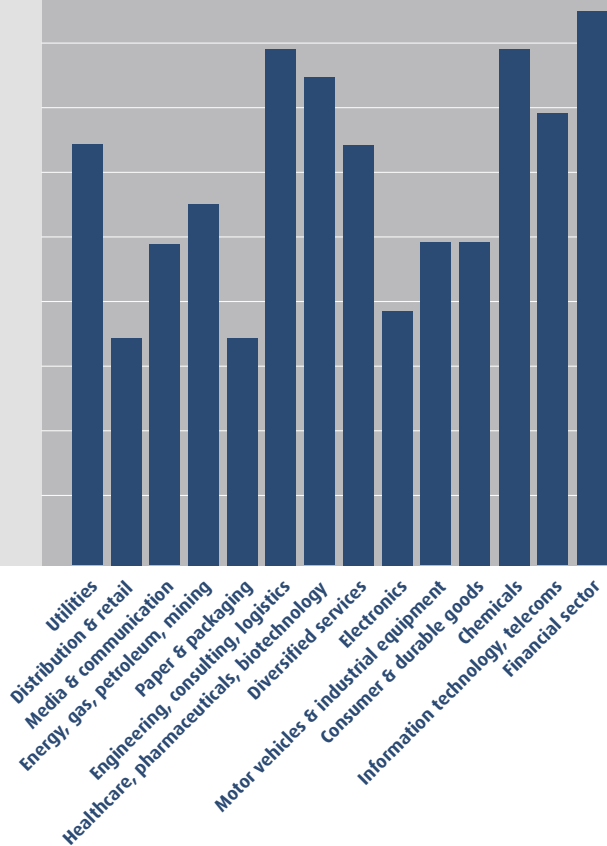
As consultants involved in the reporting input and process, we consider that our clients have the right to confidentiality. Although we are proud of the work we have done for them we do not disclose their names, except when asked in one-on-one meetings. We don't break off, but thought that the anniversary issue was a good opportunity for a breakdown. We are convinced that the geographical and industrial diversity of our customer base has made us more outward-looking. We view this as an advantage. And will keep it up!

Advertorial

## PEER GROUP REVIEW?

How does your report perform against major competitors - or challengers - in your industry?  
 The price per report compared? € 500 or US\$ 600 or £ 400.  
 E-mail your order - and any question or request to:  
[e.com@reportwatch.net](mailto:e.com@reportwatch.net)

Industry breakdown (2000-2006)



# Mapping

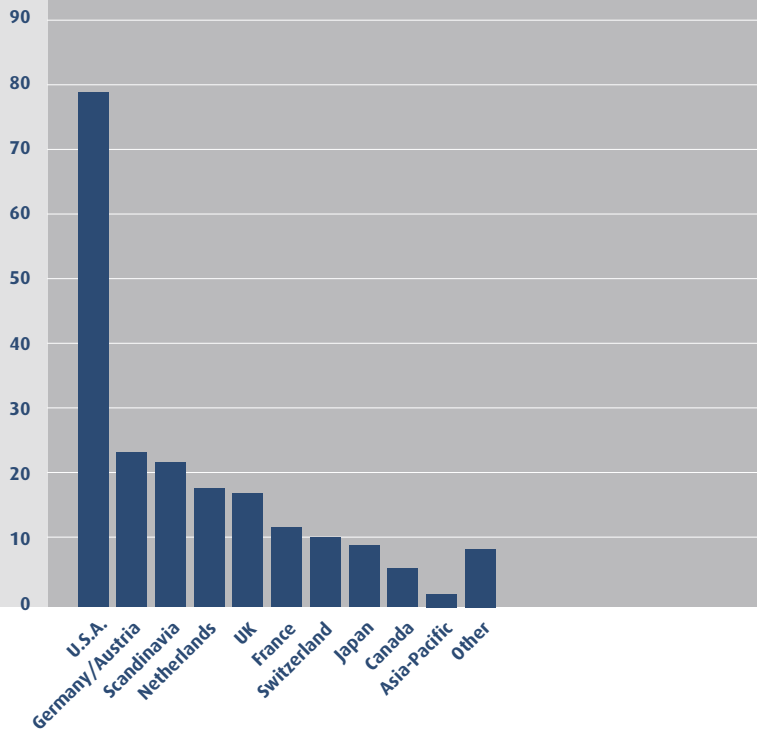
In less than a decade the report map has perhaps changed even more than report contents. Or, somehow, it has been aligned with it. The most noticeable trend is the decline of U.S. reports, both in quality and in “market share”: twice as many ranked in 2001. Already high ten years ago, Scandinavian reports (mostly, yet not only, Swedish and Finnish) now outstrip American ones, by delivering better in many areas (segmentation, share indicators, overviews...).

Note the surge of Canadian annuals, explained not only because of their eagerness to compete, but also by their increasingly high financial reporting standards (previously seen mostly in the financial sector). A British comeback may be observed too. In the past decade, UK reports were at the cutting edge of design and visual appeal, which is less the case today. These last years they have set standards on governance and compensation matters (disclosed, contrary to American peers, in the core reports). However, the UK OFR still lags behind the average North American MD&A or Scandinavian and German openness and intelligibility. Japanese annuals have improved on a number of areas - market analysis and forecasts not being the least. As a result, they have doubled their presence in the top 200 in six years. Sign of the times, though not yet spectacular in number of reports and on a number of report items, annuals from Asia-Pacific are on the rise, with Australia, Hong Kong and Singapore still leading the way, and Indian putting substance before style. In 2006 we were pleased to welcome the first top 200 reports from Indonesia and Sri Lanka. Africa and the Middle-East are not (yet?) on the reporting map, but South African blue chips map it out clearly. Note that getting hold of annuals from mainland China is not easy.

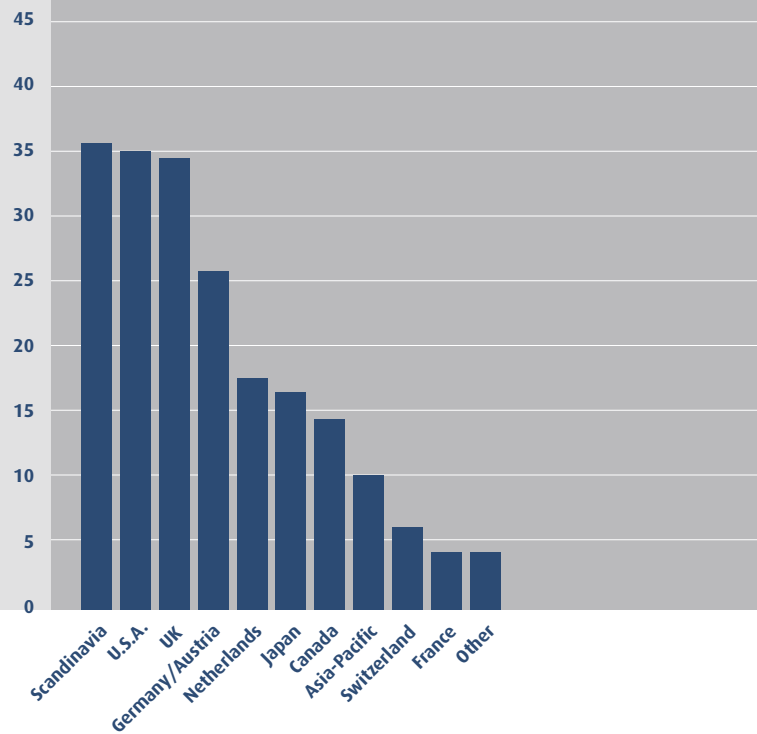
Let us point out the remarkable stability of “Germanic” and Dutch reports, the former having maintained greater clarity and Struktur in reporting the links between operating performance and the bottom line, while the latter caught up on governance and financial reports.

Finally, why are there so few French, and, more broadly, Latin reports? The primary reason is the slowness in making annual hard copies available in English to international investors (if there were two times more French reports in 2001, it is because the survey was published later). That said, the average output of le rapport français and the Spanish informe annual has significantly improved over the last five to ten years.

Top 200 annual reports: the 2001 map



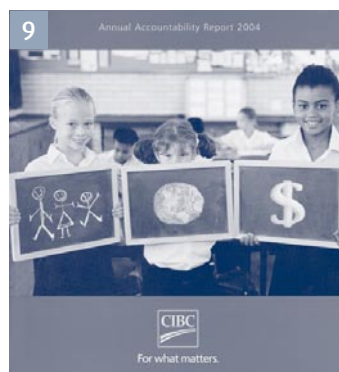
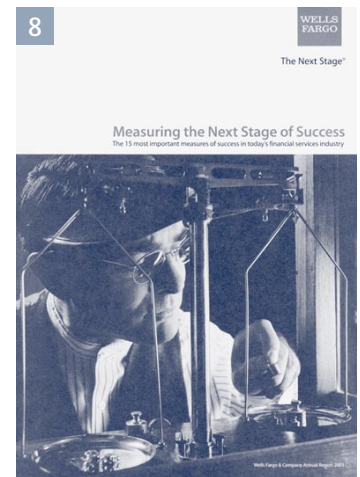
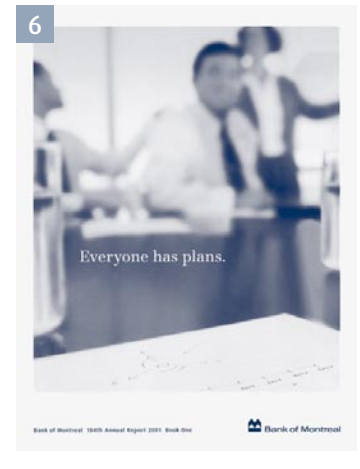
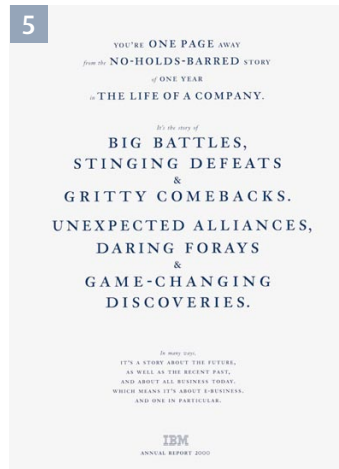
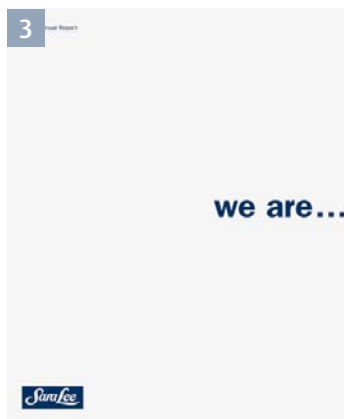
Top 200 annual reports: the 2006 map



# 10 N°1 annual reports

## 1997 - 2006

Company	Year	Image
N°1: <b>Quaker Oats</b> (U.S.)	<b>1997</b> (1996 reports)	<b>1</b>
N°1: <b>Sara Lee</b> (U.S.)	<b>1998</b> (1997 reports)	<b>2</b>
N°1: <b>Sara Lee</b> (U.S.)	<b>1999</b> (1998 reports)	<b>3</b>
N°1: <b>Ford Motor</b> (U.S.)	<b>2000</b> (1999 reports)	<b>4</b>
N°1: <b>IBM</b> (U.S.)	<b>2001</b> (2000 reports)	<b>5</b>
N°1: <b>Bank of Montreal</b> (Canada)	<b>2002</b> (2001 reports)	<b>6</b>
N°1: <b>SCA</b> (Sweden)	<b>2003</b> (2002 reports)	<b>7</b>
N°1: <b>Wells Fargo</b> (U.S.)	<b>2004</b> (2003 reports)	<b>8</b>
N°1: <b>CIBC</b> (Canada)	<b>2005</b> (2004 reports)	<b>9</b>
N°1: <b>Telus</b> (Canada)	<b>2006</b> (2005 reports)	<b>10</b>



OMV on the move in 2005  
 On Course: Success Driven by Efficiency  
 On track for the future  
 One Family. Good Food, Good Life  
 One Firm  
 Our commitment to building greater value  
 Our Next Chapter Begins  
 Our Prospects Know No Boundaries  
 Passion for Brands, Passion for People  
 Passion to serve, passion to perform  
 Paving the way for opportunities  
 Paying Dividends  
 People with Energy  
 Performance and Growth  
 Performance products for active sports  
 Power and Scale: The Key to Victory  
 Powerful Performance. Raising the Bar.  
 Practicing values to create value.  
 Preview. A future we can see  
 Progress. It's in our blood  
 Proven Value for Dynamic Growth  
 Pursuing Our Multiplatform Future  
 Raising our game  
 Reaching more people. Serving more health needs.  
 Recommit. Reaffirm. Reinvent.  
 refining the future  
 Registration Document  
 Report to Shareholders and Society  
 Results  
 Return on retail  
 Same story  
 Science For A Better Life  
 Seizing Global Opportunities  
 Serving 4.7 million customers worldwide  
 Setting targets, achieving targets.  
 Setting the pace for excellence.  
 shaping the future  
 Share the Soul of Sound  
 Sharpening Our focus  
 SHV 2005  
 Solutions Securing Values  
 Start talking.  
 staying ahead  
 strategy focus multi-product international growth

Strengths to build on  
 Structured for Success  
 Success Through Innovation  
 Supplier of choice  
 Sustaining Growth  
 Swedish Match is a unique company...  
 Tackling Issues for Sustained Earnings Growth  
 Tested  
 Testimonial  
 The Bank for Central and Eastern Europe  
 The essentials of imaging  
 The Goldman Sachs Approach  
 The Keys to Growth  
 The most exhausting annual report in years  
 The New Face of SSL  
 the new world of advanced packaging  
 The Next Move  
 The Novozymes Report  
 The Premium Value, Defined Growth, Independent.  
 The Spirit of Commerce  
 The Tiger Inside  
 The vision to see. The power to treat.  
 The world's largest specialty retail jeweller  
 There for you - 24 hours, 365 days  
 They're all over the world...  
 Think Scale  
 This is Innovation  
 Time to Create a New DoCoMo Brand  
 Together the world's most powerful team  
 Trend-setting. The Linde Annual.  
 True Colors  
 unique strengths, ingenious solutions  
 Uniquely  
 Unmet needs met  
 Valspar celebrates 200 years  
 Value and Values  
 Values creating value  
 Vested Interest  
 We believe  
 We Innovate Healthcare  
 We make it easy to choose the best  
 Welcome  
 Welcome aboard  
 Welcome to the Whitbread PLC

what matters most  
 What we ENVISION, and what we're DOING NOW  
 What will it take to make Sainsbury's great again?  
 What's next  
 When people are inspired...  
 Winning Strategies to Achieve the Next Stage  
 Working for Lanxess  
 Working hard to make life easier for our customers  
 Your Energy of Life  
 Your future awaits  
 Your Satellite Connection to the World  
 3 + One  
 A Better Work Experience  
 A Brand New Start  
 A Global Biopharma Leader  
 A Global Perspective  
 a global solution provider to mobile workforces...  
 A safe haven. The UK's number one ports operator  
 A vital part of your world  
 A World of Innovation  
 A year of achievements  
 A year of global gains  
 Accelerate  
 Accelerating Global Growth  
 Acceleration  
 Achieving our goals  
 All the World's a Stage  
 Assembling the vision  
 Assets People Projects  
 Balance and Leadership  
 Be fearless. Lead  
 Being the best business information bridge  
 between buyers and sellers means...  
 better together  
 Beyond All Expectations  
 Born and bred in Asia  
 branching out  
 Brand Quality  
 Brands that Delight, Business that Reward  
 Bringing it all together  
 Building a Biopharmaceutical Company  
 Building bridges. Connecting markets.  
 Building Momentum  
 Building our future

