

# Global Crossing

It had to happen. What? A bank report rated and ranked as best annual report in the world? Well, why not? Our global ranking has always included a number of financial institutions, some of which keeping up a good report work -consider e.g. our N°1's archival ROYAL BANK OF CANADA, or insurers AEGON, RLI, SKANDIA.

Still, it's true that many banks, financial or insurance companies tend to produce informative although just compliant, uncommunicative -and often heavy- documents (HSBC or HVB as cases in point) or have showed erratic report output these last years. BARCLAYS and UBS or even ABN AMRO go up -chalk it up both to intrinsic improvement and e.com's enhanced evaluation grid. While SKANDIA, ING, AMERICAN EXPRESS, CITIGROUP or MERRILL LYNCH (not received last year but N°9 in 1998) are losing ground for various reasons, DEUTSCHE BANK has been far from convincing for a while, and JPMORGAN CHASE didn't even think of mailing its annuals.

## **Why -and how- a Canadian bank made a first-rate report for years.**

BANK OF MONTREAL is rewarded for three reasons. First, as a recognition for the steady care shown in its report practice over the years. The Canadian bank made top 10 four times (incl. this year) since the inception of this survey -and has been regularly singled out for key financial or operating report items. Only ALCOA and VOLVO can claim more top-10 entries, showing the highest sustained effort in our annual reporting league. Second, our N°1 report remains a benchmark -not only in its industry but across the board- with information thoroughness as a primary concern (just consider those extraordinary historical data), but also significant communicative pluses (charts, multiple highlights, competitive analysis, boxes, etc.). Third, it still stands as one of those -should we write still or now?- rare companies for which reporting is not just about complying and following the crowd -or the way of the world. But also adding value, giving insights, reviewing + highlighting,

describing + explaining. Where so many still go for opacity, evasiveness, cosmetic surgery, or even misrepresentation and lies, BANK OF MONTREAL took the opposite course. This must be appreciated, and not only because of that post-Enron context but as a rule of conduct. And that should be emulated, to get over today's terrible reporting crisis.

### **Scandinavian reports deliver more.**

Reports from Northern Europe lead the pack -and the way. Most of them not suffering from e.com's renewed evaluation system. On the contrary, as many have showed for years greater capabilities for charting (both meanings) operations, segment, stock, ratios and return indicators. And these constitute key features in our grid.

Whatever the circumstances -that included the sale of the core business and then a merger- VOLVO has made top 10 for seven years both in overall rankings and for financials. It epitomizes the sustained report's strength -and international investor drive- of Swedish financial and business annuals.

Says our Report Panelist Charles de Haan, *"SCA's annual report is a gem. The design's not great, but the amount and the quality of the information -even about their competitors!- makes it so easy to feel that although I'd never previously heard of them, I'd trust them with my money"*.

Other outstanding examples are ELECTROLUX which scores high for strategic communication -and a fair (and humorous!) way to report a CEO handover. Also, highlighting margin percentage or setting out cash flow vs working capital, etc. are scarce commodities west-bound. And compare SAS information content with any American airline's report not only for 2001 but over the last... five years or more.

The most spectacular jump this year is made by an outsider, the Norwegian paper manufacturer NORSKE SKOG. Outsider? Not really: *"Norske Skog is the world's second largest producer of publication paper."* (Introduction, p 2). According to the renowned annual report specialist Reg Pauffley, the report forte goes *"far beyond the smart use of a well-illustrated magazine style for*

*wrapping*". This acts as "a vehicle for real substance" -from quick yet thorough highlights to clear geographical analysis, from outstanding share information to clarity on governance.

This also underlines the quality of reports in the forest and paper products industry -with 5 making top 50, and trail-blazing environmental reports.

### **German ways, Dutch showpieces.**

Northward? Move down a bit souther. ADIDAS-SALOMON, INFINEON and DEUTSCHE TELEKOM have made significant progress these last three years (two for INFINEON). For Dennis Larsen, Consultant at the Reputation Institute (Rotterdam), "*DEUTSCHE TELEKOM's report typifies the stellar ability to report dismal figures in an entirely honest and extremely detailed manner. Absolutely nothing is left out but within the apparent bulk of information, everything is extremely easy to find and understand. An example many others should follow*". Why CEO Ron Sommer wasn't given the credit for that (too) is the same mystery as what happened to another CEO in a high-rated report of past

years: FORD MOTOR (N°1 in 2000), whose report's 2002 fall reflects a decrease in quality, a total lack of renewal, and financial & operational items not up to our new criteria anymore. Strange to see how many poor chief reporters -and officers- have been kept in place over the same period. In Germany, America, France, Spain, UK -you name it...

*"INFINEON manages to make the fresh impression of a new company on the way to great achievements"*, comments our German Panelist Kaevan Gazdar, yet he points out that "*some unachieved concept and content details don't justify full marks*". While for Mike Guillaume, "*ADIDAS-SALOMON fully deserves an A-1 for report progress (a new category suggested by our Rating Panel's chair Janet Kersnar)and not only as a Beispiel of German reporting development -and catchup.*" Some blatant weak points remain in Frankfurt, Stuttgart, München and other places, but efforts made by companies such as GFK or the surprising East Germany-based JENOPTIK are worth a praise. Northern reports also comprise two top players from the Netherlands -PHILIPS

and AEGON- whose financials can make a show-piece for different reasons, and the outstanding STORA ENSO (up to N°19 from N°111, and not only owing this leap to our tougher criteria).

**Investors' leanings, French cookies, Swiss pills, eastbound views.**

And beyond the Northern European compass? Devices for finding better reporting directions may now be found under different skies.

Fly East, too. SINGAPORE AIRLINES's comeback is due not only to report shipment, but to proven qualities. Lower, two financial institutions from Singapore and Hong Kong are neck and neck with more famous Western rivals, such as ABN AMRO and the ROYAL BANK OF SCOTLAND, respectively. Talking ties. Yes, with revenues of \$ 3.2 billion, Hong Kong utility CLP Holdings is not only up to GE (revenues: \$ 126 billion), it even delivers better on a few key aspects. Japan? Moving piano. Besides SONY's and TOYOTA's striking progress these last years, ASAHI BREWERIES also received praise from Panelist Reg Pauffley for its *"effectively*

*communicative and easily digestible document."*

As the first *rapport annuel français* ranking in top 10, and the only one in top 50, DANONE belongs to a group of companies that our Panelist Vero Escarmelle describes as *"still strongly locally rooted"* and *"nevertheless having gone, for some years ago, for genuinely international-oriented reports."*

The French company, managed by the founder's son, makes it *"crunchy, and reader-friendly, even on governance issues which are set out a vivid way."*

She adds: *"In today's global context, it is amazing to see how some still mainly locally-owned or family-managed companies walk their talk -and sometimes talk more openly than well-known listed blue chips. Instead of focusing on their traditionally local neighborhood and audience they tend to go for more substance, style, sincerity... and reports that travel."*

Besides DANONE, Vero's favorites, some for more than one year, include MOLEX (*"one of the only American reports speaking multilingual"*), family-

controlled CASCADES from Québec, and NOVO NORDISK (with a foundation as main shareholder) that has kept on improving on the “infocom” mix. The Belgian BEKAERT and INTERBREW (this one used to be parochial not so long ago), and the Missouri-based ANHEUSER-BUSCH (though on a more predictable trail) belong to that category.

*“Investors and analysts compare different companies from a sector, internationally. I think some well known UK companies would be rather surprised how good some other companies abroad are when it comes to transparent reporting and effective communication with the world's investors,”* insists Charles de Haan. The broad report rivalry now even includes some Swiss companies, such as NOVARTIS -much more communicative than rival GSK-, UBS (N°30, next to BARCLAYS, which has much improved though), or even ZURICH Financial Services (whose concern for mapping out its business model is deserving). *“Continental European reports always provided a fair amount of information but lacked a sense of*

*relevance and focus. Though still often understating their case, a lot of European companies put out very professional equity stories and are gaining ground with regard to "soft factors" - vision, mission, message, and, more and more, corporate strategy,”* adds Kaevan Gazdar. Do British reports fall under that category? Except for governance, far from that.

Incidentally, let's also point out that the gap between British report champions and average to weak ones has widened. Just look at who... doesn't rank for a check.

### **Ups and downs in the “New Wild West”?**

What's up -and down- in the “New Wild West” (title of a Jewel's song on “This Way”, Atlantic, 2001)? 5 (five) U.S. reports making top 20 vs; 15 (fifteen!) in 1999 -and one single in top 10, vs.7 in 2000!

Unprecedented availability problems that might be interpreted as a not that benign neglect towards foreign requests -and investors? Ask yourself why so few U.S. pharmaceutical or oil companies are ranked this year. Insufficient

business overviews (with segment analysis reduced to notes). Inadequate governance data. Conservative and uncommunicative financial reports that often hardly qualify as “discussion” or “analysis” and somehow contradict (we wrote somehow) the “aggressive accounting” practices.

Name this a reporting crisis. And don't blame it all on ENRON, WORLDCOM, or “The Dirty Dozen”. Because it goes further and deeper than stock options, SPUs, off-balance-sheet items, book-cooking, etc. And because it was looming: no brag, but e.com had seen something coming (see our Archive quotes, or ask for previous surveys). Carol J. Loomis wrote in “Fortune” (July 22, 2002): *“If you think companies have rededicated themselves to clear disclosure in the wake of endless corporate scandals, you'd be sorely mistaken.”*

Let's be clear. Some American companies still stand among the greatest reporters in town -and farther. Whatever their size -consider ALCOA but also ALLERGAN-, performance -look at KNIGHT RIDDER or

INTERNATIONAL PAPER-, snags -it's upper SIEBEL Systems or now lower UNITED TECHNOLOGIES. Counting out American reporting practice as such and as a whole would be exaggerated. What has happened these last five years is an upgrading of European reports against a downgrading of U.S. ones. *“It's fascinating to see how the gap between the U.S. - still by far the world's largest and most mature financial market - and Europe is decreasing,”* comments the German report expert Kaevan Gazdar.

Let's be balanced. The Enronitis is no small beer. But so weren't CREDIT LYONNAIS in France, PHILIPP HOLZMANN in Germany, or the big Japanese banking and conglomerate (reporting) disaster, to name but a few recent cases, and ignore the buried ones. How those reported -and were reported- may rightly be questioned. Let's be fair. Our updated, more demanding and international-based criteria have taken a toll that can sometimes look heavy yet is often deserved. The plain truth being: after having ruled for years a growing number of U.S. reports do not hold water

anymore -we mean international waters.  
Action needed? For starters, look at  
best in class, wherever they come from  
(even India, or down under). And then  
don't mix up accounting standards and  
reporting practice. The former are part  
of the latter but don't make it up.

Remember, and pardon the pun: we're  
facing both a GAAP and a gap crisis.

And so on.

Our more challenging evaluation system  
-sometimes mixed with decreasing  
report quality and output- has made  
victims all over. In case you hadn't

noticed, and barring the ones that didn't  
even spend a few minutes for mailing a  
report (see Arrivals & Departures lists),  
AIB, BT, CIBA, H.J. HEINZ, HEINEKEN,  
KODAK, MARKS & SPENCER, NOKIA,  
PRUDENTIAL, VODAFONE are out.

Surprised?

Comments to the global top 200 report ranking  
published in the "Annual Report on Annual  
Reports 2002" (September 2002). New  
subheadings.

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