

The Communications Journal

November 2011

Editorial

Dear Reader,

We are pleased to present our latest Communications Journal, the fourth edition of our electronic newsletter.

This edition is dedicated to the topic of “Financial Communication,” highlighting the third of IRF Communications’ five main activity fields. A central aspect of Financial Communications is Financial Reporting, on which this Journal focuses. How to best respond to the different needs and interests of various target groups and how to address the constantly growing demand for online presentation are major challenges for many companies and institutions. Moreover, an increasingly regulated environment has created more and more communication pitfalls. In this context, the overriding objective is to provide transparency in a clear and concise manner and, at the same time, improve the Value Reporting score.



Have we kindled your interest? Your [feedback](#) is most welcome. If you prefer to have a hard copy, please click on the button below to [print](#) the entire Journal. Enjoy the reading.

Michael Düringer
[IRF Communications AG](#)



Editorial

... Interview

... Expert report

... Case Study

... Communication trends

Interview

with Dr. Kathrin Amacker-Amann, Head of Group Communications and Member of the Swisscom Group Executive Board

Swisscom was asked what makes a good annual report ... [Podcast](#)

Expert report

How to provide greater insight into value creation efforts

Prof. Dr. Alexander Wagner and Florian Eugster share their point of view... [More](#)

Case study

Migros annual report case study: Setting new standards

The Swiss retailer Migros talks about its pioneering role in financial reporting ... [More](#)

Communication trends

Integrated reporting – the common future standard?

Read about the new magic word for state-of-the-art annual reports ... [More](#)

Online reporting – offering individual modeling

Find tips and recommendations on how to best respond to these trends ... [More](#)

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**Interview Dr. Kathrin Amacker-Amann, Head of Group Communications
and Member of the Group Executive Board of Swisscom**

What are the ingredients of a state-of-the-art annual report?

IRF: Swisscom is the winner of the Annual Reporting Contest 2011. Already in prior years, Swisscom was ranked among the top companies. Mrs. Amacker-Amann, what is your recipe for success? What you are doing better than the others?



Kathrin Amacker-Amann: A major difference may be that we do not see the annual report as a box-ticking exercise. For Swisscom, the annual report is an excellent platform for presenting our company and explaining to our target groups who we are and what we are doing. In the broadest sense, the annual report is an expression of our corporate identity.

The image concept of the latest Swisscom annual report focuses on the Solar Impulse project. How does Solar Impulse relate to Swisscom?

We are an official partner of Solar Impulse. Solar Impulse wants to fly around the world in a solar-powered plane in 2014. We share this idea, and this vision, with Solar Impulse. We must reexamine the way we use renewable and finite resources. The Solar Impulse project is an excellent example of what is possible today thanks to technological advances. From a visionary perspective, Solar Impulse and Swisscom are very close. In addition, Swisscom is also one of Solar Impulse's technology partners.

We equipped the team with a communications solution that we developed especially for this project. It is a small box that is very sophisticated and very robust in order to withstand the harsh conditions it is exposed to. It allows the pilot to establish a connection with the ground control center to transmit images, voice and other data. These data also can be presented to the interested public around the world to let them participate in this special endeavor.

What was the reaction of shareholders and investors to the concept with the portraits of Stefan Eicher, Circus Knie and Solar Impulse?

Many people believe that financial analysts are mainly focused on facts and figures. We beg to differ. Swisscom received many positive comments about the way it presented its vision and identity in these image volumes. This perception was also shared by financial analysts.

To what extent did these image publications have a positive effect on Swisscom's share price?

This is a tough question! First, I would like to state that there are many factors that influence a company's share price, and these factors are not always based on rational considerations. But we strongly believe that the authenticity of these image campaigns was at least indirectly positive for the share price. Especially the latest edition with Solar Impulse, is underlining our thoughts about sustainability.

How important is the online version of the annual report for Swisscom?

There is an unmistakable trend towards the digital world. Up to now the paper form served as the starting point for the annual report and it was adapted for the Internet platform. We think this will be the other way around in the future. The digital world will be the primary reporting channel and only in a second step will companies decide what they want to present in the haptic, attractively laid out paper version. These reports will also tend to be shorter than today's reports.

What trends are emerging in this regard, what new tools are you using?

We have worked with PDF applications for many years. Now we are turning our attention to an application for tablet computers and are gathering experience in this field.

Value Reporting in Switzerland – status and perspectives

IRF Communications asked Prof. Dr. Alexander Wagner, Assistant Professor of Finance at Zurich University's Department of Banking and Finance and Chairman of the "Value Reporting Jury" of the annual Swiss Annual Report Rating, and Florian Eugster, Project Leader "Value Reporting" at the Department of Banking and Finance, University of Zurich, about their views of the current status and future prospects of value reporting by Swiss companies.

Value reporting refers to enhanced and improved reporting and disclosure with the objective of sharing information about how value is created and distributed in a firm. Companies practicing value reporting provide additional data and information regarding their business model to institutional and private investors and other stakeholders, for example financial analysts or creditors. Thus, they go beyond offering those pieces of financial information that are required from a regulatory perspective. Academic studies show that value reporting can help companies reduce the gap between the internal and external perceptions of company value, allowing them to tap financial markets at lower costs of capital.

The Department of Banking and Finance of the University of Zurich has compiled an annual value reporting rating of Swiss companies since 1999. In doing so, it examines the value reporting quality of most publicly traded companies using an index with over 100 questions aggregated into 35 items in 9 categories that are important for investor decision-making processes. Overall, the good news is that the quality of reporting has improved over time, but there are still opportunities for further development, based on the rating of 2011.

Areas of strengths

More than 75% of the companies obtained a passing score in the following areas:

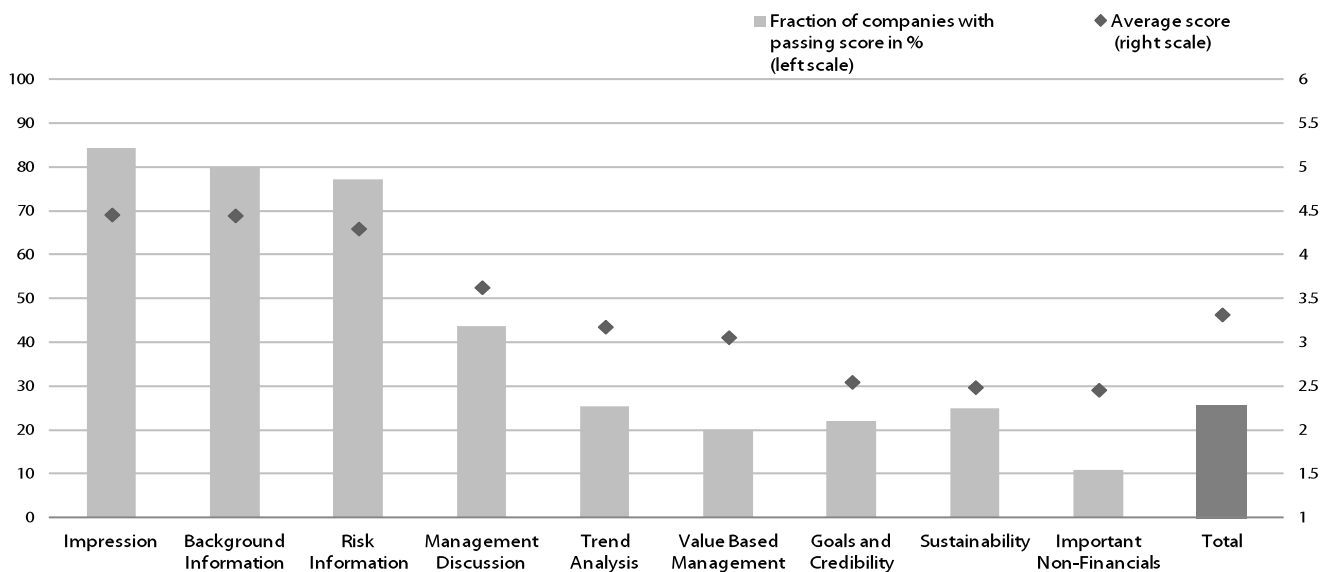
- Accurate background information is offered and the general impression is good.
- Information on risks/risk management and corporate governance is presented in detail.
- Important products and the positioning of the company in its particular market are described.

Areas for improvement

More than 75% of the companies obtained an insufficient score in the following areas, where the experts therefore recommend that companies consider improvements:

- A more explicit and more easily understandable link between the management compensation structure, the level of pay, and performance is often needed.
- With regard to targets, credibility, and non-financial information, more transparent information (e.g., regarding future investments) could be provided (of course, subject to certain limits for competitive reasons).
- Sustainability issues and reporting deserve more attention.

Furthermore, the experts note that online value reporting offers challenges as well. For example, only 5% of the companies explain their "value proposition" on the corporate website to their (potential) investors.



Summary data on the Total Value Reporting Score and the 9 Dimensions of the Value Reporting Scorecard, based on data collected by the Department of Banking and Finance, University of Zurich, 2011

Of course, the scorecard applied here is, ultimately, subjective and not the only possible mode of evaluating the quality of value reporting. The scores should also not be taken too absolutely. On a more general level, however, the issues raised here should be of interest to companies independent of the particular rating system employed. In light of the current economic crisis, many investors have lost faith in corporate reporting practices and financial markets are still unstable. Value reporting can help (re)build trust and confidence, two basic requirements for the smooth functioning of markets and the sustainable success of companies.



Alexander Wagner is an Assistant Professor of Finance at the Department of Banking and Finance, University of Zurich and the chairman of the annual “Value Reporting Rating” Jury. He is also an Independent Counsel for PricewaterhouseCoopers in the area of Executive Compensation. He holds a Ph.D. from Harvard University and degrees in economics and law from the University of Linz.



Florian Eugster is a doctoral student and the Project Leader “Value Reporting” at the Department of Banking and Finance, University of Zurich.

Please visit www.bf.uzh.ch for further information. The website also presents several additional articles that deal with value reporting in more detail.

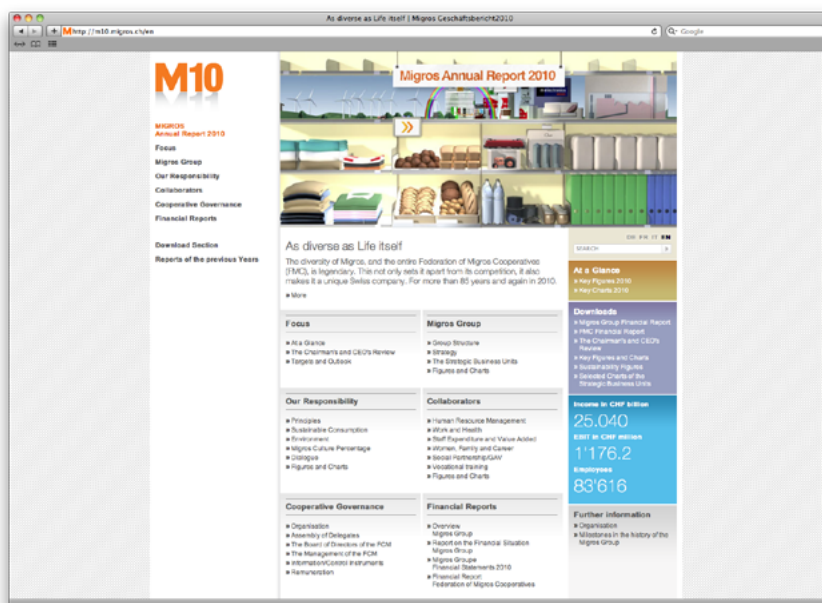
Migros embraces new trends

During the past few years Switzerland's biggest consumer goods retailer observed that a growing regulatory framework and new reporting requirements forced them to increase the number of pages in their annual report by 50 pages a year. At the same time the company realized that most target groups were only interested in a specific set of topics, and few were interested in all the information given. Against this background, Migros completed a paradigm change and now overwhelmingly relies on online reporting tools to communicate its annual results.

"In view of these recent developments Migros decided to adopt new trends in communicating its annual results," commented Annina Arpagaus-Erb, secretary general of Migros Genossenschafts-Bund. Migros came to the conclusion that printing thousands of comprehensive reports, most of which ended up unread in a storage room or trash bin, was no longer in keeping with best practices nor did it make any sense from a sustainability perspective.

Meeting the needs of each target group

The primary goal of Migros is to best serve the needs of all its various target groups. This ambition is expressed in the theme "diversity," to which the 2010 Migros annual report is dedicated. "The publication of an annual report is required by our articles of incorporation," explained Arpagaus-Erb. Management informs the members of the Migros Cooperative of the institution's operational and financial achievements in the past year. Its annual report is also addressed to the business and financial community, the media, CSR organisations, NGOs and, very importantly, its highly committed staff throughout the group, ranging from market leading brands such as Globus, Interio or Office World to Migros and Denner.



Making complex messages accessible and easy to understand

Migros decided in 2009 not to produce a printed annual report and instead focus on an electronic, online format. In doing so, Migros took advantage of modern online tools in order to reach a larger audience and explain its messages in a clear and easy to understand way. Its annual report website features podcasts with the Chairman as well as the CEO summarizing the highlights of the reporting period. In addition, the site is easy to navigate and offers tools that allow readers to create individual reports according to their own interests and to easily find links to related information.

The response to the company's decision to prioritize online presentation was predominantly positive. "Obviously, whenever you implement a change, there will always be people who complain," admits Arpagaus-Erb. But the negative reactions were small in number; most readers appreciated the new concept. As for the costs, an

online-only format will save money in the long term. But as the experience of Migros shows, the introduction of new tools and the corresponding adaptation of existing processes require new investments, both in terms of labor and money, which offset the initial savings in printing costs.

Integrated reporting – the common future standard?

“Integrated Reporting” is the new magic word for state-of-the-art annual reports. According to the definition of the International Integrated Reporting Committee (IIRC), it brings together the material information about an organization’s strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates.

Globalization, advances in technology, fast population growth and increasing industrialization in emerging markets have changed the world substantially. These developments have put greater emphasis on resources such as energy, water and food, and also on essential ecosystems. The political, social and commercial implications are growing. Today, businesses are being compelled to respond to these economic, social and environmental developments in order to remain successful and increase their competitiveness.

The Global Reporting Initiative (GRI), one of the world’s most common standards for sustainability reporting, states that the successful companies of tomorrow require integrated strategies to achieve good financial results and create lasting value for itself, its stakeholders and the society at large. In other words, companies need a better understanding of their non-financial performance, better ways of disclosing it and better ways of factoring it into their strategy and operations. Accordingly, more and more companies have started to integrate sustainability disclosures into their regular reporting cycle. They use for example annual sustainability reports or equivalent documents, websites, newsletters and other corporate reports. According to a study by PWC, some 4,500 organizations reported on their sustainability performance in

The outcome of truly Integrated Reporting is an Integrated Report that links different strands of reporting (financial, management commentary, governance and remuneration, and sustainability reporting) into one comprehensive and coherent report, explaining an organization’s ability to create and sustain value. So far, there are only a few pioneers of Integrated Reporting, such as BASF or Novo Nordisk. In order to drive the process forward, GRI co-founded the IIRC in 2010. The committee represents a cross-section of leaders from the corporate, investment, accounting, securities, regulatory, academic and standard-setting sectors. Presently, the IIRC is developing an integrated reporting framework that intends to consolidate the principal financial reporting stand-

ards, such as the International Financial Reporting Standards (IFRS) or country-specific Generally Accepted Accounting Principles (GAAP), and major sustainability reporting frameworks, such as the GRI, SA8000 or the AA1000. In parallel, GRI is developing the next generation of the Guidelines (G4) to provide companies with practical guidelines for formulating content for both stand-alone sustainability reports as well as integrated reports in the context of the IIRC’s framework.

[More](#)



Online reporting – offering individual modeling

2 billion people are connected to the world wide web today and this impressive number is constantly rising. Moreover, young people are growing up with electronic devices from earliest childhood. PCs have become a common tool for gathering information and interacting with others. For companies and institutions of all kinds, electronic reporting instruments are becoming increasingly important as the usage of online platform increases.

Today’s challenge for companies is to address the specific target groups with the right content and technology mix. The goal of listed and unlisted companies is to meet the needs of traditional user groups that may prefer a printed report as well as of demanding younger users who want an interactive, digital format. In Switzerland HTML formats, PDF reports as well as so-called flip books as a specific application of a PDF solution are most common solutions today. State-of-the-art practice is the offering of new applications for tablets and smart phones.

Different solutions with varying functions

Whereas a simple PDF online report solution allows for the electronic search of specific topics, HTML solutions additionally offer the possibility of integrating modeling functions to build a report tailor-made to the specific needs of the reader including, e.g., interactive chart builders or podcasts summarizing the Chairman’s and CEO’s key messages. Concrete pricing for these online solutions might be difficult. However, given a Swiss standard annual report with around 150 pages published in two languages, the costs for online reporting tools might move towards the directions:

Category	Functions	Cost projections
Simple PDF version	Search tool	No additional costs if a printed version is created.
Flip book	In addition: <ul style="list-style-type: none"> • ‘Look and Feel’ of print version 	Some CHF 1,000
HTML solution	In addition: <ul style="list-style-type: none"> • Individual modeling • Interactive chart builder • Videos/podcasts 	Some CHF 10,000
iPad application	<ul style="list-style-type: none"> • ditto 	As of some CHF 1,000 (incl. Apple fee of approx. CHF 500)
iPhone application	<ul style="list-style-type: none"> • ditto 	As of some CHF 1,000 (incl. Apple fee of approx. CHF 500)

Communications trends

In 2011 Nobel Biocare, Georg Fischer, Novartis, BKW, Rieter and other companies also offered their annual reports in a smartphone format. This trend will continue to grow with respect to all target groups. Companies that want to increase their readership will have to take advantage of all communication channels. More and more people are also using their electronic business devices outside the office whilst travelling, for example, or commuting to work.

Printed reports are static tools and do not allow for updates, e.g. in the Corporate governance section following any organizational changes during the year. An additional benefit of electronic platforms is that they allow companies to create added value by evoking emotions and, e.g., presenting video sequences or animated messages and pictures.

Efficient content management is key
Addressing different target groups with individual needs normally requires additional resources. In order to ensure coherent messages as well as keep working hours and costs under control, communication specialists are now focusing their attention on efficient content creation and management tools. Their goal is to use one CMS platform that delivers modular text blocks to the specific applications. The intention is to avoid having various text versions that have to be updated separately whenever a text element has been changed.

When evaluating the outline and scope of an online report, the following aspects are of importance:

- **Individual stakeholder orientation**
Under this aspect the goal of an online report is not to merely duplicate the print version. Moreover, it should offer additional functions in order to justify the investment.
- **Access to additional information**
Electronic platforms offer the functionality of links to related news and background information for specific reader needs and preferences. They can serve as an information tool that enlarges the reader's understanding of a specific topic. To avoid getting lost on an unwanted page clear navigation and reader guidance are imperative.
- **Facilitate understanding thanks to multimedia and visualizations**
The internet offers new ways to emphasize messages by adding graphs, pictures or animations. Sometimes they make it easier to understand or even express the underlying meaning in a more accurate and precise way. In an age in which we are all inundated with information, multimedia tools and visualizations can make the difference whether the message is perceived or not).

