

## TREND REPORT 2011

### - Observations and Trends -

10<sup>th</sup> HGB Summer Lounge, June 20<sup>th</sup>, 2011

Hamburg, June 20<sup>th</sup> - Let us take a quick look back. Last year we could not find any signs of pessimism or resignation in the annual reports. **On the contrary:** as much as the economic situation was perceived as an extraordinary challenge and burden, it was also seen as an opportunity. The objectives were the same across the board: tackle the problems, adjust the strategy, give credible answers and make the company viable for the future. **Today there is a different message:** "Because we mastered the crisis years so well, we are well equipped for what is to come."

#### What happens in times of economic upturn and growth?

Have **report style and tonality** become exuberantly optimistic? No, companies pick up where they have left off last year. Almost all of them stress that they are back on their way up and returning to pre-crisis results. Some even say they had the best year in company history. We can see a strong **continuity** between crisis report 2009 and growth report 2010. This creates trust. Just as there was no crisis report in sackcloth and ashes then, there is no growth report in pomp and circumstance now.

**Revealed:** During the crisis, often only the crisis itself was to blame when a company performed badly. During the upturn, it is the company's own achievements that are put to the fore. Take **FMC** as an example: the company focuses expressly on its own strengths and the power of its strategy. **Henkel** claims that all of this does not come from economic recovery but mostly results from strategic priorities. Which brings us to the **management board**.

#### How does the CEO use the report for communication and presentation?

The **prefaces in 2010** are confident, optimistic, focussed. They take stock without using superlatives and give a positive outlook. The CEOs believe in the future and appear more than ready for action. All signs point to the way ahead. Almost every report defines a clear goal for the company: "We strive for profitable growth and want to increase the company's value."

With this in mind, the CEOs focus on **credibility** and **content**, often using clear, precise **language** in a likeable, confident and down-to-earth way. **BASF's** CEO is a very good example: he is objective, gets to the point and appears relaxed (without a tie). An unconventional photo presents the entire management board in a casual look. Once more, this underlines the company's unpretentious image, which is conveyed throughout the entire report.

Even when things are not running this smoothly, as for example at **Beiersdorf**, one can make an impression by being frank. The CEO's way of communication is credible, addressing the company's problems without much ado. ("...we're not satisfied...")

**What else is remarkable?** Many prefaces used to be very short summaries of the management report, which did not present content too coherently. Today it is obvious that a different approach is very well possible. Take **BMW** for example: the CEO's preface reads like an editorial for the 100 page magazine. There is no trace of the usual explanations for business development. The reader however is not likely to miss them. There is an authentic tonality and the statements are concise.

**Heidelberg Cement** differs completely in this respect. The preface is unwieldy, reciting the financial statement in a very long-winded way. Any personal notes are drowned out. No attempt is made to bridge the distance between report and reader.

**Daimler's** Dieter Zetsche exaggerates the tone of businesslike restraint. The CEO comes across a little too matter-of-factly (as does the entire annual report by the way); he's on the verge of boring the reader. This does not seem to be the appropriate way to present an automotive visionary, rather a car engineer from South-Western Germany, who uses slightly clumsy words to "create the car's future from the top". This somewhat unsophisticated appearance is underlined by a boring photo of the management board, which we have seen several times before. The report does not really seem to reach out to the reader.

The **Henkel** preface does not quite hit the mark either. It is too lengthy and detailed. The CEO gets lost in trivia and does not focus on key points. Who wants to say everything, ends up saying nothing at all.

**What is particularly pleasant:** the majority of CEOs is by now able to keep the letter to shareholders short and concise (two pages).

### **There is more beyond the horizon**

**What is particularly remarkable:** last year, companies had a hard time setting definite goals for the business year 2011. Statements about future development remained vague descriptions. To quote Woody Allen: "Summing up, it is clear the future holds great opportunities. It also holds pitfalls. The trick will be to avoid the pitfalls, seize the opportunities, and get back home by six o'clock." (from: Munich Re GB 2010, blurb)

**And now?** In good economic times it becomes much easier to make **prognoses** and formulate **goals**. The DAX companies once more offer an outlook, putting up resilient numbers - sometimes even in the preface, in any case in the prognosis report. The **BASF** report for example is very elaborate on strategies and goals, looking as far as 2020 (!). In a 16-page prognosis report, **Deutsche Post** describes very elaborately and transparently its future business development, defining measurable goals and the strategic focus. Just for the sake of **comparison: Henkel** is almost as transparent while using only four pages.

In many reports, **long-term goals** are given much more weight than **short-term success**. In the DAX30, hardly any company focuses as much on the future and the strategy as **adidas** does in its report - whether it is in detail on the blurb with an exemplary overview of aims for 2010 and 2011 in table form, in the interview with the CEO or on 30 pages (!) in the management report. The program "Route 2015" is based on goals which are clearly defined and are also partly put into quantitative terms.

But we have also found the opposite. Take **Bayer** for example: there is a lack of clarity and credibility when it comes to depicting the company's not entirely satisfactory state. Strategy and long-term goals are not communicated convincingly at all, as this kind of information is scarcely present and thus hard to find.

**airberlin** too has its very own view of the world. The company did not profit as much from the upturn as other airlines or sectors. The reason given sounds rather simple when summarised: We are not responsible for our bad performance, being extremely dependent on the unforeseeable factors of air traffic. Nonetheless airberlin has a clear goal: increasing the company's value through exceptional and profitable growth. Sounds good. How they want to reach that goal - short, mid or long term - remains as unclear as the strategic plan behind it.

The **Daimler** report does not present too many strategic paths either. The company's grand plan remains hazy despite the report's 250 pages. The chapter on company strategy is only two pages long and barely scratches the surface. The same goes for the image part, which rarely looks beyond 2011, if at all. Instead of being aimed at the future, the report almost exclusively gives an account of the past year.

### **What about sustainability?**

The big topic these days is sustainability, and this not only applies to the current report season. It is an issue that is more or less professionally tackled from all angles. All sectors declare their commitment to sustainable business. There are however great differences in quantity and quality. Sometimes as early as in the preface, sometimes in the image part and more and more often in the management report.

What can sometimes be expressed on one page of the management report (**Heidelberg Cement**), or in one chapter (**Infineon**), can well be expanded into a stand-alone publication to be released before the actual financial report. **Siemens** for example uses 66 impressive pages to tell the reader how the company is growing profitably thanks to a sustainable strategy. And **Linde** describes in its current annual report what

contributions an innovative technology group can make to master a great variety of social tasks while doing sustainable business at the same time. **Metro** too emphasises that the success of a company is closely linked to its sustainability strategy. Profitable growth is only possible through sustainable actions - this is the unanimous credo in all the reports.

**Corporate responsibility** has become a much stronger topic in annual reports than it used to be. By now it is a substantial issue. Whoever manages to be convincing on this topic will gather valuable points. Once again **BASF** turns out to be the trendsetter. Unlike the other DAX companies, BASF does not release a separate corporate responsibility report but combines financial and sustainability data. The company publishes an **integrated report** that documents economic, environmental and social achievements. This means it merges financial and sustainability reporting in one publication, communicating all the time how value is being created for BASF and society. Value orientation and responsibility are central parts of the company's strategy. An extraordinary significance is given to this topic. It is treated systematically and credibly, and statements are backed up with specific examples, facts and data.

**Puma** too for the first time takes the option of **integrated reporting**. Persuasively and with all implications for the company, Puma presents an 'ecological' consolidated income statement, which is based on environmental standards and completely covers environmental costs as well. This also includes showing clearly the effects on the environment. The aim is to create more transparency and new standards for environmental company reporting. Why? The CEO puts it this way: "What isn't measured isn't managed." The report lives up to this claim by presenting elaborate information, even if the strategic connection between financial aims and sustainable business may still need an even clearer outline. To provide a visual counterpoint to growth optimism and to express the sustainability strategy, the entire report is kept in black and white.

**Henkel** begins to approach **integrated reporting**. Annual report and sustainability report are still released separately, albeit simultaneously. The close thematic connections between both publications are underlined by reader-friendly references and internet links. Sustainable and responsible business and decision making are part of the company's strategy and regarded as factors of success and drivers of innovation.

Many more will certainly follow these fine examples. **However**, integrated reports are only **relevant** when the company is able to deliver solid sustainability facts and figures. And this still will not be enough. What is also necessary is a comprehensible description of the respective interactions, and facts and figures will have to be embedded into the overall corporate plan. So it is best to wait and see where the journey will take us in the long run. Until then it is worth noting that even today sustainability plays a significant part in some annual reports. Take for example **Lanxess**: the report has a comprehensive 20-page chapter on sustainability, providing extensive information on strategy and fields of activity and backing it up with key data.

**All this serves to clarify one thing:** sustainability has become much more than a trendy topic or a green veneer. Today it is the indispensable basis for the lasting success of a company. Seriously implementing sustainability in a company means making it measurable and thus a predictable factor for the stakeholders. At the moment we are at the beginning of a fundamental change. It is about making business long-lasting and essentially different. In many companies it is not entirely clear whether sustainability is about corporate calculations or real conviction. One thing however is obvious: sustainability has to become a dominant part of the corporate strategy and central to all entrepreneurial actions. We think this will bring annual and sustainability reports much closer together in the future. The complexity and multidimensionality of global business should no longer result in a fragmented but in an integrated communication. This is the only way the picture will be complete.

To standardise integrated annual reporting on sustainability and financial issues and to make it comparable, a new group of experts was formed last year: the "International Integrated Reporting Committee" (IIRC). Its goal: to establish an internationally recognised and practicable standard for integrated reporting by 2020. This means the challenge for the next couple of years will be to optimise internal reporting systems for this task.

### **Image: Old acquaintances or new formats?**

When it comes to the image section, companies rely on tried and tested models. A glance into current reports reveals well-known formats: articles, features, eye-catching photo sections, interviews or statements. These elements should work together to tell a story - not too abstract, not too detached, not too promotional, but still unusual, with messages that strike home. This is however not always done successfully. This year's solutions are also varying in design and scope.

Let us have a look at some examples: **Siemens** gives us not one but three articles to demonstrate how the company faces the challenges of our time. **SAP** begins with image sections, in which customers tell us about their success with SAP solutions. **Metro** gives us a great magazine that takes the reader to Shanghai. And **RWE** replies to criticism of the company, using the motto "Straight talking". This, by the way, is done by the management board itself. **BMW** uses the entire image section - a magazine that is almost 100 pages thick - to talk exclusively about strategy "Number one" and the future concept of mobility, showcasing the fascination and emotionality of innovative cars. This is a growth report *par excellence*, full of confidence, modernity and optimism. Using a variety of text and design formats, the magazine does an outstanding job of telling a story. This is well thought out and well composed.

DAX-Berichte 2010 für Summer Lounge 2011

|                          | Gewicht (g) |           | Dicke (mm) |        | Seitenzahl |        | SZ Lagebericht |        | Differenz zum Vorjahr | SZ Jahresabschluss |        | Differenz zum Vorjahr | SZ Nachhaltigkeitsbericht, intern |        | Differenz zum Vorjahr | Titellogan 2010er (deutscher Bericht)             |
|--------------------------|-------------|-----------|------------|--------|------------|--------|----------------|--------|-----------------------|--------------------|--------|-----------------------|-----------------------------------|--------|-----------------------|---|
|                          | 2009er      | 2010er    | 2009er     | 2010er | 2009er     | 2010er | 2009er         | 2010er | H                     | 2009er             | 2010er | H                     | 2009er                            | 2010er | H                     |   |
| adidas ag                | 1234        | 1208      | 21         | 20     | 228        | 242    | 114            | 105    | -9                    | 56                 | 52     | -4                    | 26                                | 4      | -22                   | FIT FOR THE <b>FUTURE</b>                         |
| Allianz Gruppe           | 2236/1758   | 2042/1432 | 46/36      | 40/27  | 373        | 328    | 174            | 104    | -70                   | 137                | 160    | 23                    | 0                                 | 0      | 0                     | Allianz Gruppe Geschäftsbericht 2010              |
| Allianz SE               | 480         | 608       | 10         | 12     | 108        | 141    | 69             | 85     | 16                    | 24                 | 37     | 13                    | 0                                 | 1      | 1                     | Allianz SE Geschäftsbericht 2010                  |
| BASF AG                  | 1028        | 996       | 19         | 17     | 216        | 214    | 95             | 100    | 5                     | 61                 | 60     | -1                    | 17                                | 13     | -4                    | Ökonomische, ökologische und gesellschaftliche    |
| Bayer AG                 | 1062        | 1080      | 19         | 17     | 270        | 266    | 92             | 96     | 4                     | 116                | 115    | -1                    | 7                                 | 10     | 3                     | Science For A Better Life                         |
| Beiersdorf AG            | 824         | 696       | 13         | 14     | 133        | 146    | 58             | 39     | -19                   | 44                 | 48     | 4                     | 5                                 | 3      | -2                    | Facing Markets                                    |
| BMW AG St                | 980         | 1072      | 20         | 23     | 248        | 260    | 62             | 62     | 0                     | 68                 | 67     | -1                    | 0                                 | 0      | 0                     | BMW Group Geschäftsbericht                        |
| Commerzbank AG           | 1310        | 1462      | 20         | 23     | 322        | 382    | 122            | 88     | -34                   | 130                | 171    | 41                    | 2                                 | 2      | 0                     | Herausforderungen annehmen, Ziele erreichen       |
| Daimler AG               | 1216        | 1234      | 17         | 18     | 256        | 252    | 112            | 60     | -52                   | 82                 | 80     | -2                    | 9                                 | 11     | 2                     | Innovation aus Tradition                          |
| Deutsche Bank AG         | 1288        | 1508      | 24         | 25     | 423        | 479    | 135            | 148    | 13                    | 172                | 222    | 50                    | 2                                 | 3      | 1                     | Leistung aus Leidenschaft                         |
| Deutsche Börse AG        | 1078        | 1252      | 15         | 17     | 226        | 264    | 45             | 58     | 13                    | 113                | 114    | 1                     | 1                                 | 2      | 1                     | Neue Perspektiven                                 |
| Deutsche Lufthansa AG    | 978         | 1020      | 15         | 15     | 227        | 236    | 101            | 104    | 3                     | 68                 | 80     | 12                    | 4                                 | 5      | 1                     | Weitblick   |
| Deutsche Post AG         | 1154        | 1140      | 19         | 18     | 226        | 234    | 86             | 92     | 6                     | 98                 | 92     | -6                    | 4                                 | 0      | -4                    | Ihre Wahl sein                                    |
| Deutsche Telekom AG      | 1050        | 1122      | 16         | 16     | 230        | 236    | 74             | 89     | 15                    | 96                 | 94     | -2                    | 3                                 | 3      | 0                     | Erleben, was verbindet                            |
| E.ON AG                  | 586         | 638       | 8          | 11     | 172        | 192    | 50             | 54     | 4                     | 92                 | 106    | 14                    | 1                                 | 1      | 0                     | Geschäftsbericht 2010 e.on                        |
| Fresenius Medical Care A | 1400        | 1276      | 28         | 27     | 268        | 286    | 108            | 122    | 14                    | 66                 | 74     | 8                     | 0                                 | 8      | 8                     | Erfahrung   |
| Fresenius SE Vz (neu)    | 634         | 682       | 13         | 14     | 198        | 216    | 63             | 67     | 4                     | 80                 | 84     | 4                     | 5                                 | 0      | -5                    | Fresenius Geschäftsbericht 2010                   |
| HeidelbergCement AG      | 730         | 1080      | 12         | 20     | 160        | 236    | 44             | 79     | 35                    | 72                 | 88     | 16                    | 3                                 | 2      | -1                    | HeidelbergCement Geschäftsbericht 2010            |
| Henkel KGaA              | 662         | 686       | 9          | 10     | 144        | 144    | 58             | 62     | 4                     | 61                 | 55     | -6                    | 2                                 | 2      | 0                     | Excellence is our Passion                         |
| Infineon Technologies AG | 670         | 800       | 14         | 16     | 206        | 250    | 49             | 55     | 6                     | 61                 | 80     | 19                    | 2                                 | 0      | -2                    | Aus Potenzial <b>Wert</b> schaffen                |
| K+S AG                   | 1116        | 1136      | 17         | 23     | 248        | 229    | 120            | 121    | 1                     | 80                 | 57     | -23                   | 0                                 | 0      | 0                     | Wachstum erleben                                  |
| Linde AG                 | 1600        | 1688      | 31         | 26     | 316        | 308    | 60             | 60     | 0                     | 124                | 126    | 2                     | 4                                 | 7      | 3                     | Stetig besser.                                    |
| MAN AG                   | 814         | 946       | 13         | 15     | 172        | 200    | 48             | 68     | 20                    | 58                 | 71     | 13                    | 1                                 | 3      | 2                     | Engineering the <b>Future</b> - since 1758        |
| Merck                    | 784         | 1084      | 13         | 17     | 168        | 216    | 69             | 93     | 24                    | 66                 | 75     | 9                     | 3                                 | 9      | 6                     | 2 x Logo Merck, Geschäftsbericht 2010, kein Slog  |
| METRO AG                 | 978         | 1070      | 20         | 24     | 218        | 262    | 67             | 74     | 7                     | 80                 | 108    | 28                    | 4                                 | 0      | -4                    | Beschleunigen! Hier bewegt Shape 2012             |
| Münchener Rück AG        | 1464        | 1410      | 26         | 25     | 317        | 294    | 123            | 100    | -23                   | 124                | 137    | 13                    | 0                                 | 1      | 1                     | Weiter denken                                     |
| RWE AG                   | 964         | 1044      | 15         | 15     | 221        | 245    | 84             | 84     | 0                     | 65                 | 67     | 2                     | 6                                 | 6      | 0                     | Vorweg gehen heisst Klartext reden.               |
| SAP AG                   | 904         | 1210      | 14         | 19     | 265        | 291    | 88             | 100    | 12                    | 103                | 110    | 7                     | 0                                 | 3      | 3                     | Mehr erreichen                                    |
| Siemens AG               | 1428        | 1314      | 22         | 30     | 314        | 303    | 77             | 101    | 24                    | 97                 | 128    | 31                    | 10                                | 2      | -8                    | Unser Weg zur nachhaltigen <b>Wert</b> steigerung |
| ThyssenKrupp AG          | 1152        | 1236      | 18         | 24     | 276        | 294    | 103            | 101    | -2                    | 89                 | 97     | 8                     | 3                                 | 2      | -1                    | Menschen, Ideen, Lösungen.                        |
| Volkswagen AG            | 1364        | 1450      | 19         | 26     | 308        | 332    | 78             | 78     | 0                     | 102                | 101    | -1                    | 0                                 | 0      | 0                     | Vielfalt erfahren                                 |
|                          | 30932       | 33148     | 520        | 577    | 7457       | 7978   | 2628           | 2649   | 21                    | 2685               | 2956   | 271                   | 124                               | 103    | -21                   |   |