REPORT LEADERSHIP
TOMORROW'S REPORTING TODAY

EFFECTIVE

CIMA PRICEWATERHOUSECOOPERS radley yeldar consistently creative Tomkins

Report Leadership is a multi-stakeholder group that aims to challenge established thinking on corporate reporting. The contributors to this initiative are the Chartered Institute of Management Accountants (CIMA), PricewaterhouseCoopers LLP, Radley Yeldar and Tomkins plc.

You can help shape the way that the Report Leadership project evolves by giving your comments, actively participating, or adopting the elements that appeal to you. Please provide any feedback, register your interest and keep up to date with developments at www.reportleadership.com

CIMA

The Chartered Institute of Management Accountants is a leading membership body that offers an internationally recognised professional qualification in management accountancy, which focuses on accounting in business.

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Radley Yeldar is a creative communications consultancy offering a range of specialist services including brand identity, corporate reporting, corporate responsibility, digital media, internal communications and marketing communications.

PricewaterhouseCoopers

The firms of the PricewaterhouseCoopers global network provide industry-focused assurance, tax and advisory services to build public trust and enhance value for clients and their stakeholders. More than 130,000 people in 148 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

Tomkins

Tomkins plc is a global engineering and manufacturing group listed on the London and New York stock exchanges. Tomkins operates over 130 manufacturing facilities, employs some 37,000 people worldwide and had annual sales of approximately £3 billion in 2005.

Corporate reporting should be more informative and accessible.

But can it provide the information investors want without swamping them in unnecessary detail?

The Report Leadership group came together to develop simple, practical ways to improve narrative and financial reporting. This publication outlines our initial thinking, which reflects input and feedback from a range of investors. It is intended to:

→ Help companies to report in ways that are more relevant and informative to their primary audience

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→ Encourage investors to push for the information they want

→ Prompt standard setters to consider how they might foster beneficial change

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Above all, it is intended to stimulate further debate. We welcome your feedback.

Corporate reporting... rethought

Many investors see corporate reporting like this...

Management spends significant time aggregating and recalculating data from internal sources to construct the information demanded by regulatory reporting.

It is like the creation of a large building, which analysts and investors then spend a lot of time deconstructing so they can see the building blocks.

This process is wasteful and ineffective. So we are developing a better blueprint for corporate reporting that:

- → Aligns external reporting more closely with management reporting
- → Recognises the complexity of business today
- → Will adapt readily to other media
- → Is relevant and accessible to the investment community

Why now?

In recent years there has been much tinkering with accounting and financial reporting standards. But surveys of analysts and investors across the globe indicate that current models are still too backward-looking and compliance-driven. As a result, the markets are finding other ways to get the information they need.

Investors are clear that 'corporate reporting' is not just about the numbers. As the diagram below shows, they also want access to greater contextual information and key underlying data points. So in response, Report Leadership has developed extracts from a fictional annual report that addresses these needs.

To make our ideas practical and realistic, we've focused on what's achievable within current GAAP or IFRS models by improving disclosure and presentation of information.

Why the annual report?

It's easy to knock existing models, but more useful to propose alternatives.

Our ideas cover the whole field of corporate reporting. But to show how they might play out in practice we've applied them to the delivery vehicle that's most familiar – the annual report. You'll find an example in the folder with this handbook.

For most companies, the annual report remains the primary document of record. Yet, sadly, few investors pay it much attention. Why? In part, it's a matter of timing: by the time the report appears, much of its content has already been published elsewhere. But it's also a matter of relevance: not enough of the content tells investors what they want to know.

In our example report, we've shown how the content could be made more relevant and informative. Crucially, the same principles and structures can be applied to all forms of communication including briefings and websites, to ensure that a company's reporting gives all stakeholders information that they will find timely, relevant, sufficient, consistent and clear.

What we've included

This is the first salvo in what we hope will be a continuing debate that engages people in the corporate, investor and regulatory communities.

We haven't attempted to do everything at once. Instead, we've focused on a few areas that are particularly topical and are widely seen as needing improvement. These are discussed in the following pages under three broad headings:

→ **Effective communication** through clear messaging and navigation.

→ **Modelling the future** through the provision of contextual information that allows investors to assess the quality and sustainability of future cash flows.

→ **Rethinking the financials** to provide greater granularity on revenue, costs, segmental information, pensions and debt.

Everyone involved was encouraged to think outside the box of conventional reporting – but not to go completely off-piste. These are pragmatic ideas that draw heavily on the good practice we've seen in company reporting and other information provided outside the regulatory model.

Corporate reporting

Markets, Strategy, Governance, Remuneration
Provides analysts and investors with the contextual information necessary to truly understand the results.

Financial statements and notes
The traditional focus of accounting and reporting presented in a more user-friendly way, allowing investors to assess management accountability as well as disaggregate the summary information.

Key data points, assumptions and sensitivities
Provide key underlying information that helps analysts and investors to populate their own valuation models. Developments in technology mean this element will become more important.

What we've left out

Additional disclosure needn't mean bulkier reports – if you can also leave out what investors *don't* need.

Sheer weight of information remains a problem. We certainly believe there is scope for greater use of company websites to provide supporting detail – and downloadable figures. Much of the information provided in our report lends itself to this medium.

We developed our ideas iteratively, sharing them with senior representatives of the UK capital markets whose insights prompted both additions and deletions.

Not everything we came up with was welcomed. For example, we suggested a section giving management's view on the value of the company. No, said users – putting a value on the company is *our* job. What they wanted was information that helped them formulate their own conclusions.

There is still much more to do. You'll see that our fictional annual report for Generico has gaps – notably in corporate governance, directors' remuneration and auditors' reports, and many of the notes to the financial statements. The only notes in our example accounts are those that illustrate specific proposals for disclosure or presentation.

So what next?

We've subtitled this document *Tomorrow's reporting today.* Because we believe corporate reporting can and should be improved right now, not in five or ten years' time.

We've set out to provide practical ideas that readers can implement immediately. Some may seem too bold or too uncomfortable, but we hope all will stimulate further thinking – and participation in the Report Leadership project.

Are these initial suggestions a step in the right direction? Do they go too far, or not far enough? What other aspects of corporate reporting need urgent improvement? We'd like to know your views.

You can help to shape the way the Report Leadership project evolves by giving your comments, by actively participating, or by adopting the elements that appeal to you.

Please register your interest, suggest how the project should evolve, and keep up to date with developments at **www.reportleadership.com**

In the following pages we set out our initial ideas for improving corporate reporting. We explain how we've applied them in extracts from the annual report of a fictitious company, 'Generico'.

Sources we consulted include:

External:

ASB Pensions ED Reporting Statement.

CESR Recommendations on Alternative Performance Measures.

CFA October 2005 *Eight criteria for development of effective and useful disclosure* and *Proposed disclosures: Revenue recognition.*

Deutsche Bank – *The Art of Accounting.*

IASB Management Commentary discussion paper – suggestions around narrative reporting.

Internal to Report Leadership:

PricewaterhouseCoopers face-to-face surveys of the views of analysts and investors in Canada, the UK and US.

PricewaterhouseCoopers – *Trends in Corporate Reporting.*

Radley Yeldar interviews with analysts and investors.

Radley Yeldar – *Narrative reporting content in the FTSE 100.*

EFFECTIVE COMMUNICATION
STRUCTURE

The problem
There are more and more regulatory boxes to tick. In the effort to cover them all, key messages can be lost. The result: a mass of information, but no clear narrative thread.

Some companies follow the same structure every year. Others look at what peers are doing, and follow suit. But these are off-the-shelf approaches; are they really the best way of addressing the issues a company needs to explain to investors today?

Companies should take a step back from their reports and think about what they need to communicate – and what investors want to know.

People's retention of what they read can be alarmingly limited. But they'll absorb and remember much more if it fits into a compelling story… if facts and opinions are linked together by a rational structure… and if the investment case and strategy are presented step-by-step so that the logic is inescapable. They're also more likely to be convinced.

What investors want

Some form of narrative sequence with a beginning, a middle and an end.

Clear linkage from markets to strategy to key performance indicators to future goals.

An integrated structure:

→ Don't mention one thing as being important and then fail to mention it anywhere else in the report.

→ Don't hide important information away at the back of the report.

→ Don't suddenly introduce a new idea and say it's key to the business halfway through the annual report.

> Clear and logical structuring helps readers to retain more of the story – and to be convinced by it.

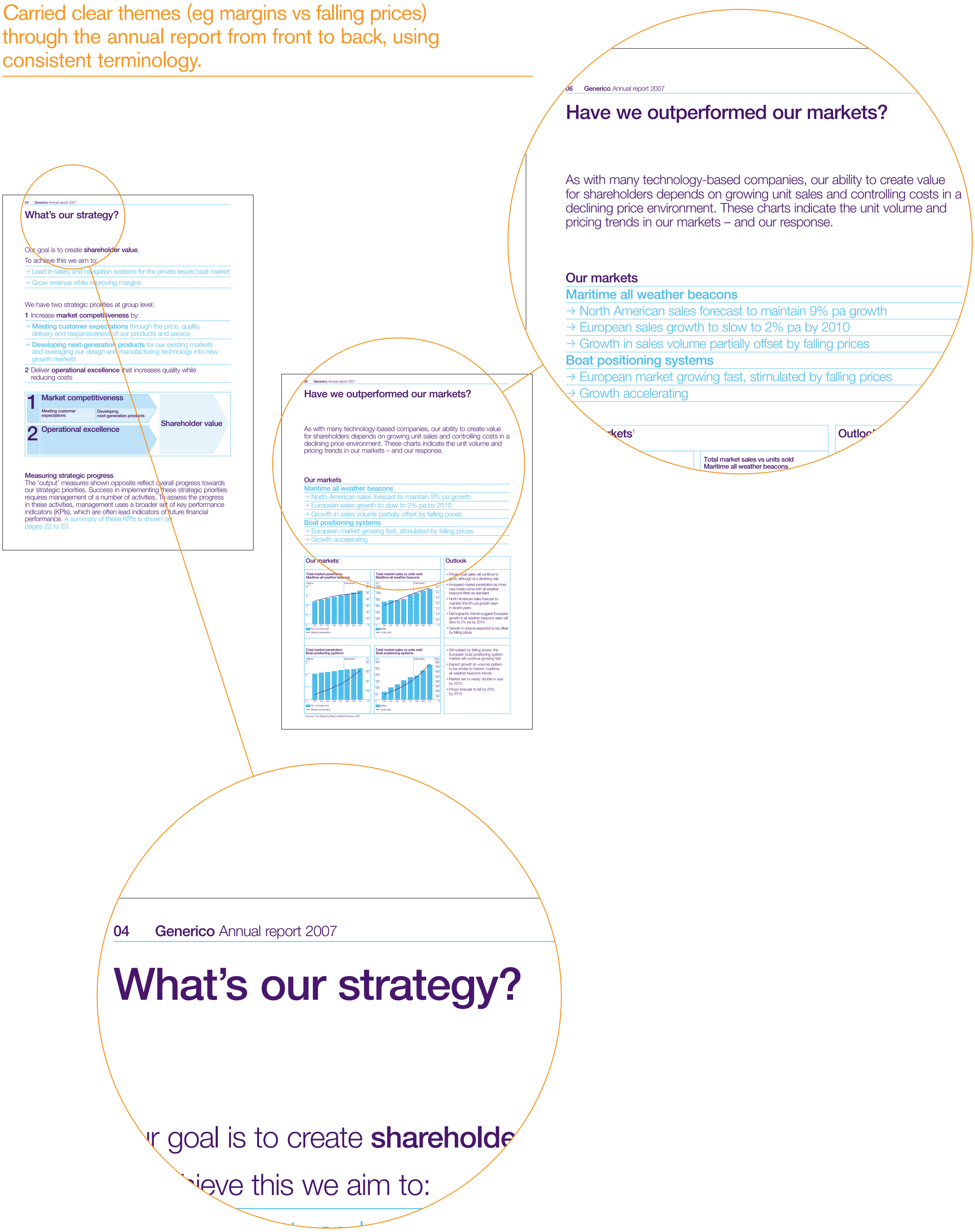
What we've done to make it work

Organised information into a logical sequence: this is what we do; these are the opportunities and risks; this is how we're addressing them; here's how it's working (or not); these are our plans for the future.

Clearly linked strategy to results and key performance indicators, and reported on delivery of overall strategic goals.

Introduced key elements of the story early on – and expanded throughout the report.

Carried clear themes (eg margins vs falling prices) through the annual report from front to back, using consistent terminology.



See pages 4 and 6 of Generico Annual report →

MESSAGING

The problem
Companies often bury key messages in text or fail to spell them out at all.

As a result, investors and other audiences may have to read the whole document before they can work out the main issues.

Many reports also give out mixed messages. There are key investment points that a company needs to get across – but other, less crucial themes or transient issues are bolted on to support an attractive design concept.

Clear messaging helps guide the information that readers take from a report – and shape the conclusions that they draw from it.

Some companies still seem to believe that the way to present their investment case is to show a partial picture, or huff and puff. We disagree. If management talk to people as equals, mention the downs as well as the ups, and explain why they believe in the business – investors are more likely to get the message.

What investors want

- Clarity.
- Messages backed-up by evidence.
- Plain speaking.
- Plain English.
- Balanced discussion of performance.

> [Reporting should focus on the key points, so that readers can't miss them.]

What we've done to make it work

Explained what the group believes are the critical issues, spelling out important messages.

Presented key messages in pull quotes, titles, bullet points, sub-headings etc.

Provided information visually through graphical summaries.

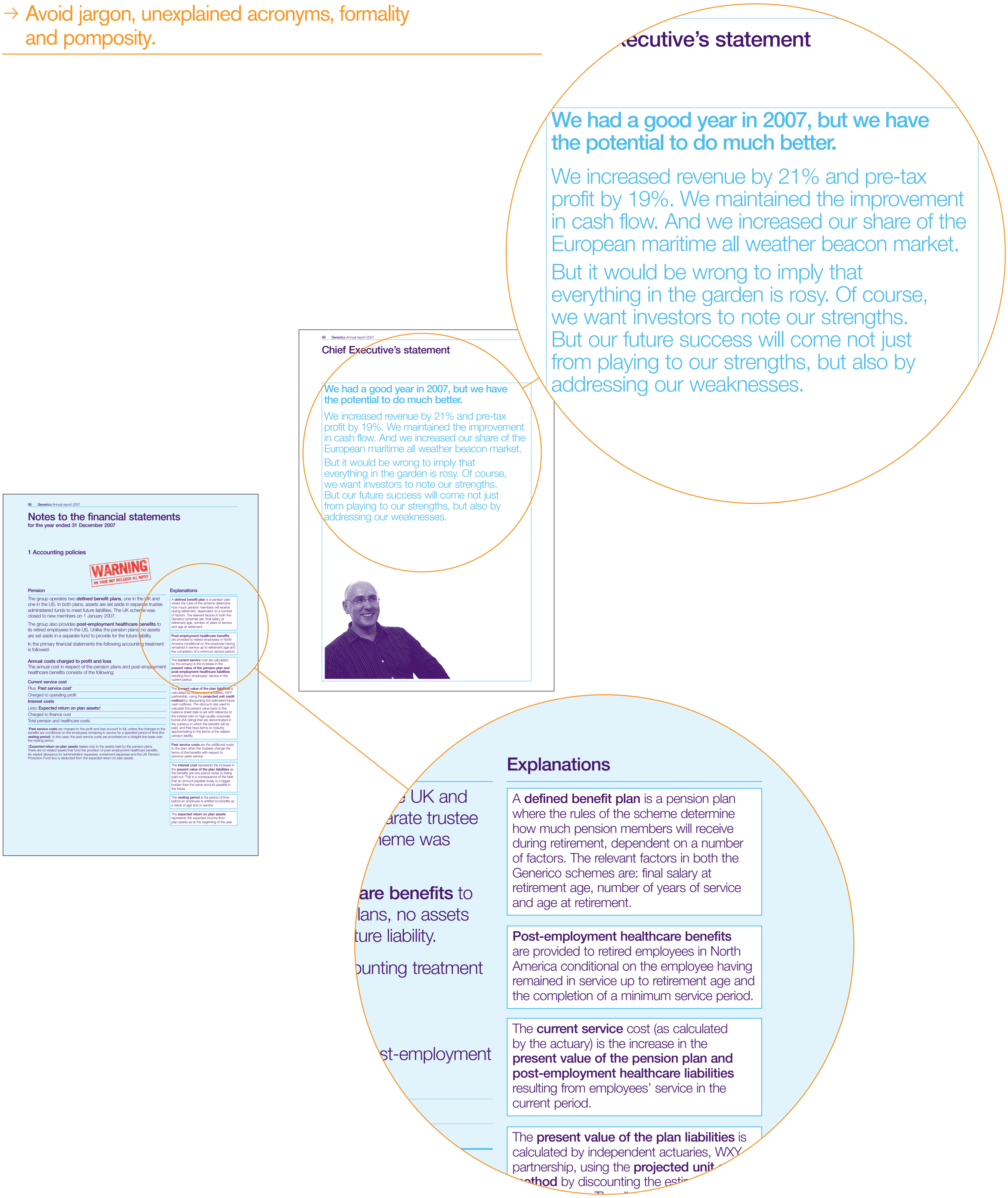
Applied the following golden rules for the text:

→ Tell it like it is.

→ Explain, don't spin.

→ Don't fudge the tricky bits.

→ Avoid jargon, unexplained acronyms, formality and pomposity.



See pages 8 and 56 of Generico Annual report →

EFFECTIVE COMMUNICATION
NAVIGATION

The problem

As regulators, investors and others demand more and more disclosure, they find it harder and harder to locate the information they want.

The challenge for companies is to structure information so that investors can spend their time reading the investment case, not looking for it.

Companies are often reluctant to repeat information in different parts of the report. And certainly, excessive repetition can be tedious. But if they avoid it too ruthlessly, they can undermine communication with 'dip in and out' readers – probably the majority of their audience. A good test is to try reading individual sections on their own: do they tell a clear and complete story, or would the reader benefit from a little more context? Companies should not be afraid to repeat something that appears elsewhere; the average reader may well not see both instances.

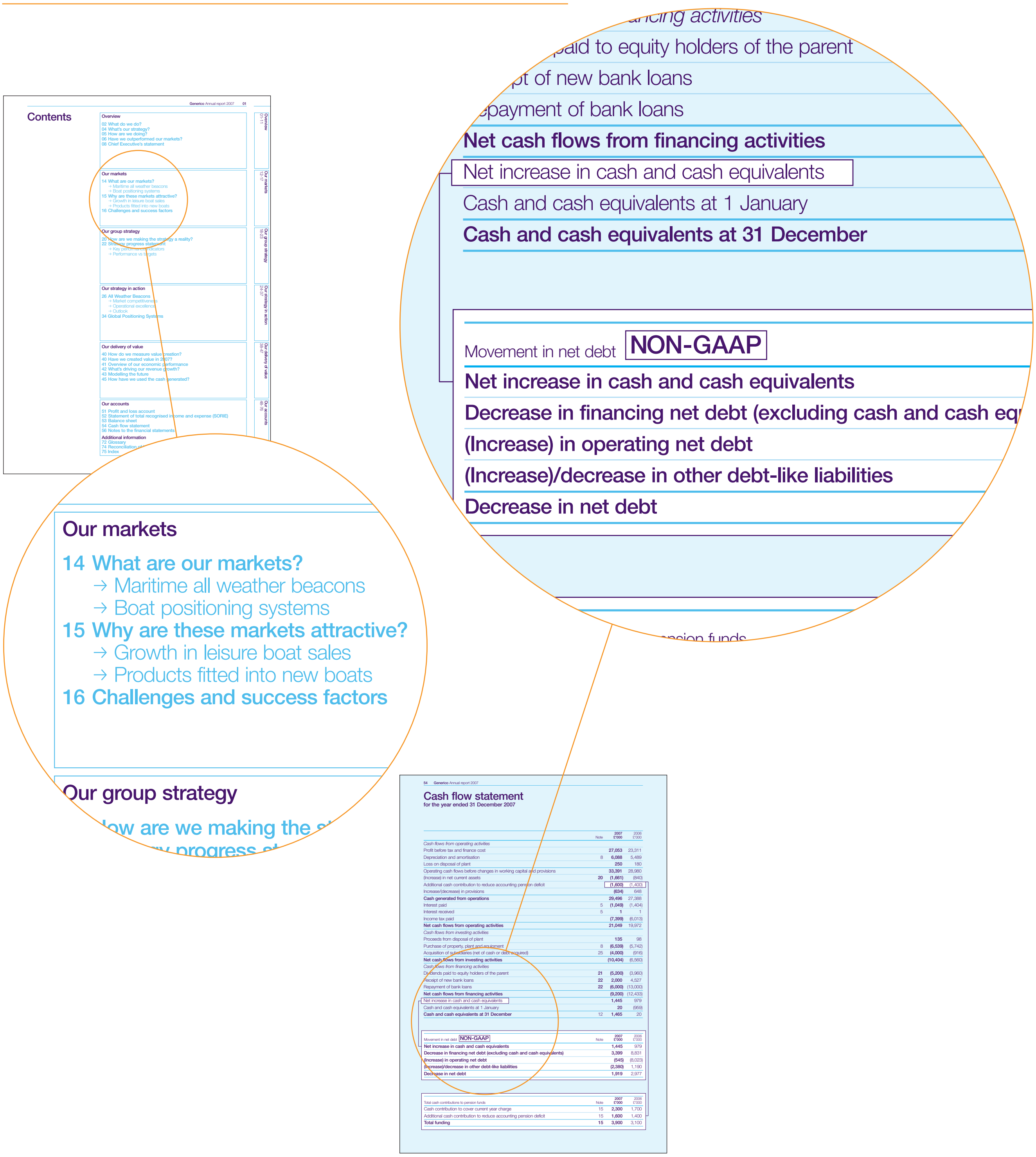
What investors want

- A good table of contents, or even an index.
- Summaries of the information included in each section or even each page or spread.
- Individual sections clearly delineated.
- Clear linkage between the narrative section of the annual report and the financial statements.
- Good navigational aids on each page/spread.

> [Helpful navigation ensures readers can find the information companies have taken such trouble to publish.]

What we've done to make it work

- Included a clear table of contents, supported by a thumb index and colour-coded sections, to help readers move quickly to the right part of the report. As far as possible, sections are self-explanatory if read on their own.
- Repeated information or provided cross-references in order to provide context.
- Provided a quick-read summary at the start of each section – supporting messaging and navigation.
- Included clear titles and sub-headings, and a strong typographic hierarchy.
- Used box-outs in financial statements to emphasise key figures.
- Provided a glossary and an index.



See pages 1 and 54 of Generico Annual report →

MODELLING THE FUTURE
VALUE CREATION

The problem

Before investors can start modelling the future, they need to understand how value has been created in the past. History matters, because it allows users to gain a clearer understanding of how an entity generates returns, thereby providing investors with a tool for assessing what future returns may be. However, traditional financial statements fall short of explaining the value generated for shareholders given the company's asset base, risk profile and required returns.

Traditional financial measures take into account the returns paid to some company stakeholders – such as employees and debt holders – but fail to take into account a charge for the returns that equity investors expect to receive on their investment.

The Weighted Average Cost of Capital (WACC) indicates the return that can be expected from the capital employed (both debt and equity) in the business given its relative risk profile.

By having sufficient information to understand the quality and sustainability of future cash flows and assess whether the return generated on the capital invested exceeds the estimated WACC, investors can begin to form a view on whether value is being created or destroyed.

What investors want

- Analysis of capital employed, by business segment.
- Management's view of the group's risk profile and that of its individual business segments.
- An understanding of the sensitivity of financial performance.
- An analysis of how management has used the cash generated.
- Insight into the quality and sustainability of future cash flows.

[The accounting profit doesn't necessarily tell investors if the returns generated are sufficient.]

What we've done to make it work

Provided a section focused on the group's performance in creating value.

Identified the group's key measures for assessing value creation.

Supplemented traditional financial data with non-GAAP measures used by management.

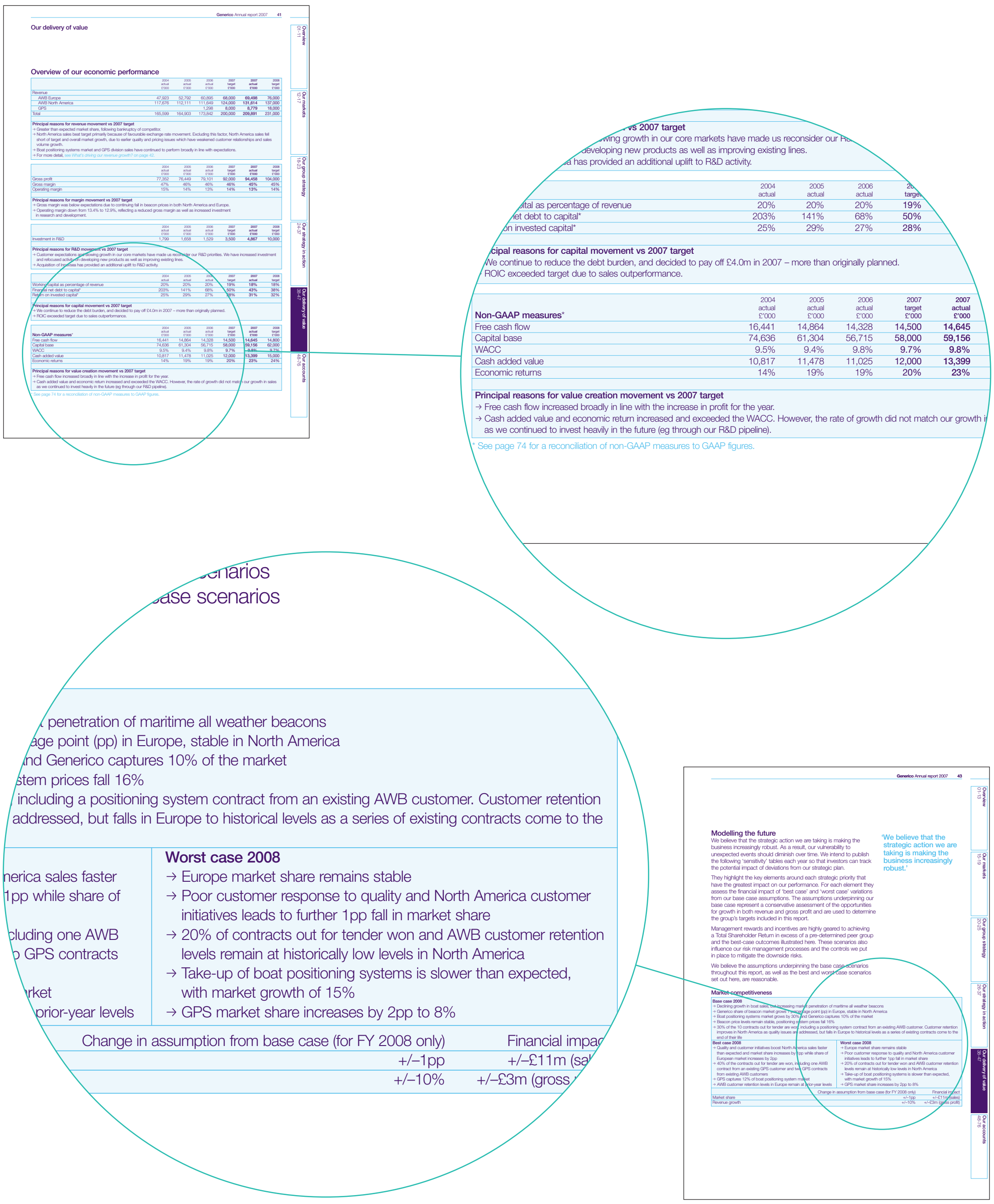
Disclosed the group's estimated WACC, cash added value, and economic return.

Provided a comprehensive set of non-GAAP financial data, including historical trend and forecast data.

Explained actual performance against prior year targets.

Clearly explained how the group has used the cash generated during the year.

Provided alternative scenarios and resulting sensitivities on key financial numbers to help users model the future.



See pages 41 and 43 of Generico Annual report →

MODELLING THE FUTURE
FORWARD-LOOKING ORIENTATION

The problem
As investors model the future they typically have insufficient forward-looking contextual and non-financial information to underpin their cash flow projections. Traditional reporting focuses on past financial performance – which, as every investor knows, is not the only guide to future returns.

What's needed is more information on a company's expectations of future performance, and what will drive it. But, understandably, management are reluctant to make forecasts. They also want to avoid giving sensitive information to competitors. And they fear litigation prompted by forward-looking statements that turn out to be inaccurate.

But in briefings with the investment community they're more forthcoming. They have to be – their investment story depends on painting a convincing picture of the way the company's markets and performance could develop.

What investors want

A medium-term picture made up of:

→ Explanation of market trends and prospects.

→ Explanation of long-term objectives.

→ Understanding of short-term strategic priorities to deliver on the objectives.

→ Key performance indicators used to measure strategic success, complete with targets.

→ The principal risks and uncertainties that may impact long-term prospects.

→ Understanding of how previous views on market trends and prospects compared with reality.

[A rear-view mirror is not the only instrument for judging a company's future potential.]

What we've done to make it work

Applied forward-looking attitudes and language throughout the report.

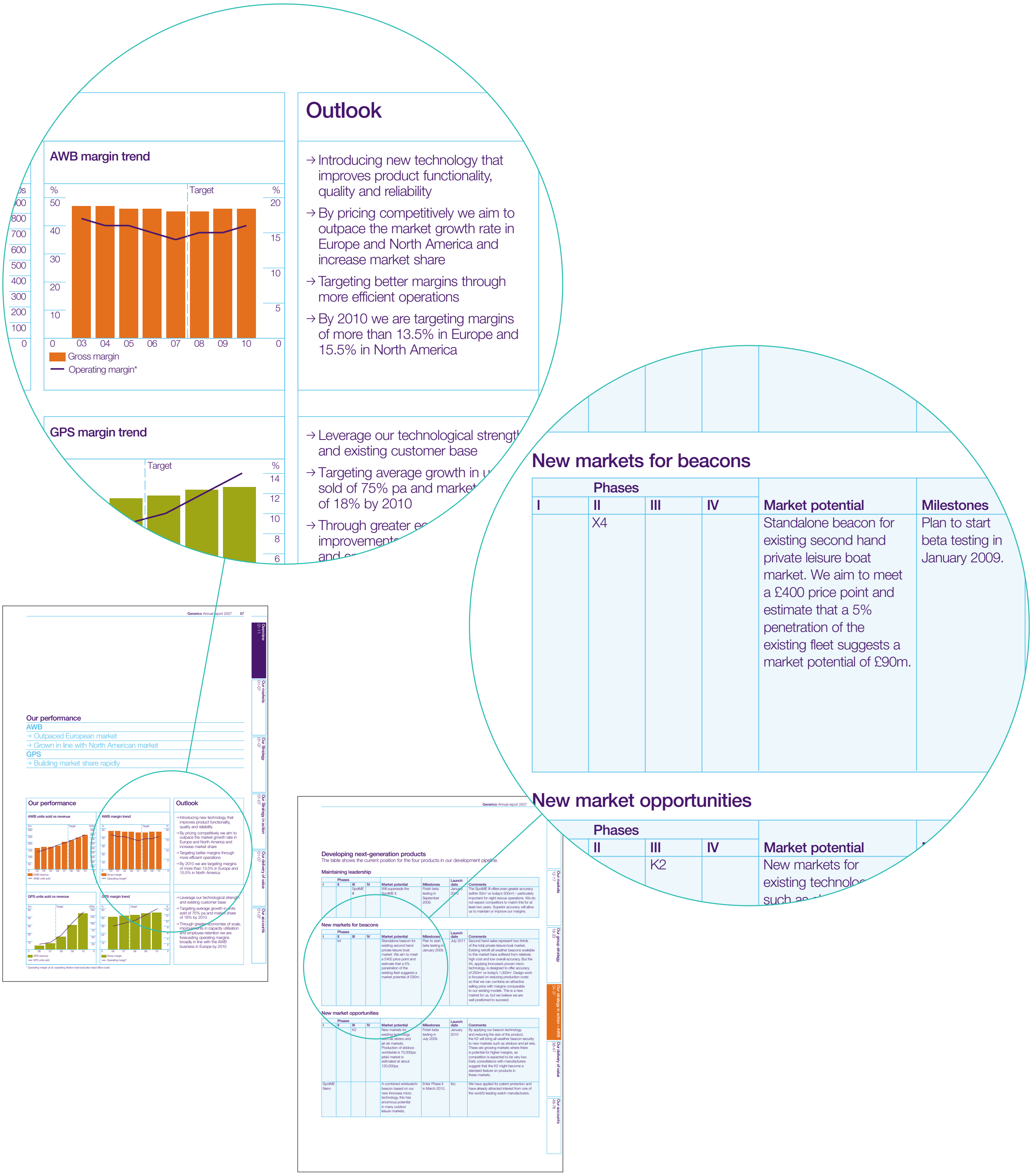
Used the group's strategy as the basis for describing both current and future performance.

Described external trends likely to affect the group's business environment, supported with quantifiable forecast data, externally sourced.

Given targets for each key performance indicator – and all other quantifiable data.

Identified products in the pipeline and their market potential.

Provided an outlook section for each operating division.



See pages 7 and 29 of Generico Annual report →

MODELLING THE FUTURE
BUSINESS ENVIRONMENT

The problem
To understand and evaluate a company's strategy and performance, investors need a clear grasp of its business environment. What are its markets, and the competitive, regulatory and macroeconomic trends impacting it – now and in the future?

Too often, companies report their performance in isolation. Commentary on their business environment, if offered at all, is often too backward-looking or high level to be helpful: 'It has been another challenging year', '… against intensifying competition', 'prospects are good'.

Those who specialise in a sector will understand its markets well, and have their own views on strengths and weaknesses. But they will still be interested to know management's interpretation of market developments and trends. After all, this will impact strategic decision-making.

Other investors need help in understanding a company's markets. Without it, they may misjudge its performance – or fail to see the logic of its strategy. Clear exposition of the business context should enhance the credibility of a company's reporting on past performance, strategy, investment case and outlook.

What investors want

- Understanding of market forces – regulatory, macro and competitive – that impact business performance.
- Forecasts of market trends and factors likely to impact the business.
- Statements supported with quantifiable evidence.

> Management's interpretation of the marketplace, its future challenges and opportunities, is a critical factor in the development of investors' cash flow models.

What we've done to make it work

Included *Our markets*, a section setting the group's business activities in their market context.

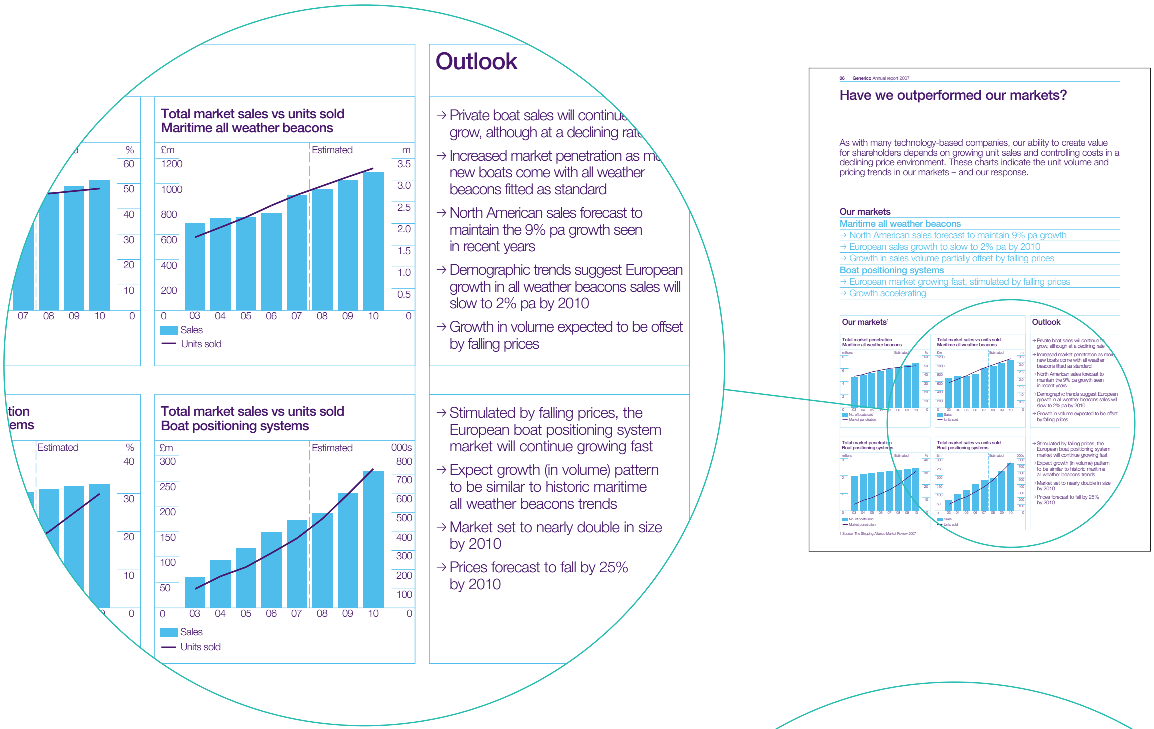
Discussed the marketplace and the trends and factors impacting the group's sales within it.

Discussed competitive and macroeconomic factors.

Reported market statistics, externally sourced.

Identified competitors and quantified their market positions.

Included both historic and forecast market data.



See pages 6 and 13 of Generico Annual report →

MODELLING THE FUTURE
STRATEGY

The problem

What is a company trying to achieve? How? Why? To assess the quality and sustainability of a company's performance, investors need to be clear about its strategy.

They need to know how management intend to address market trends, the threats and opportunities that they represent. They also need to understand the relationship between strategic objectives, management actions and executive remuneration. Then they can judge the appropriateness and success of management actions to deliver the strategy… and what to expect in the future.

Many companies make reference to their objectives and strategies. Yet few strategic statements provide the detail that enables investors to understand the priorities for action or the resources that must be managed to deliver results. Few give explicit guidance on how success is measured, or over what period of time it should be assessed.

What investors want

A clear statement on where the company is heading.

An understanding of:

→ The company's strategic priorities.

→ The resources that must be managed to deliver them.

→ How strategic success is measured.

A timeframe over which to assess strategic success.

Explanation of performance against strategic objectives.

A clear link between strategy, performance and executive remuneration.

> Many strategic statements lack the detail needed to understand the priorities for action, the resources that must be managed, and how success is measured.

What we’ve done to make it work

Used the strategy to underpin the whole report.

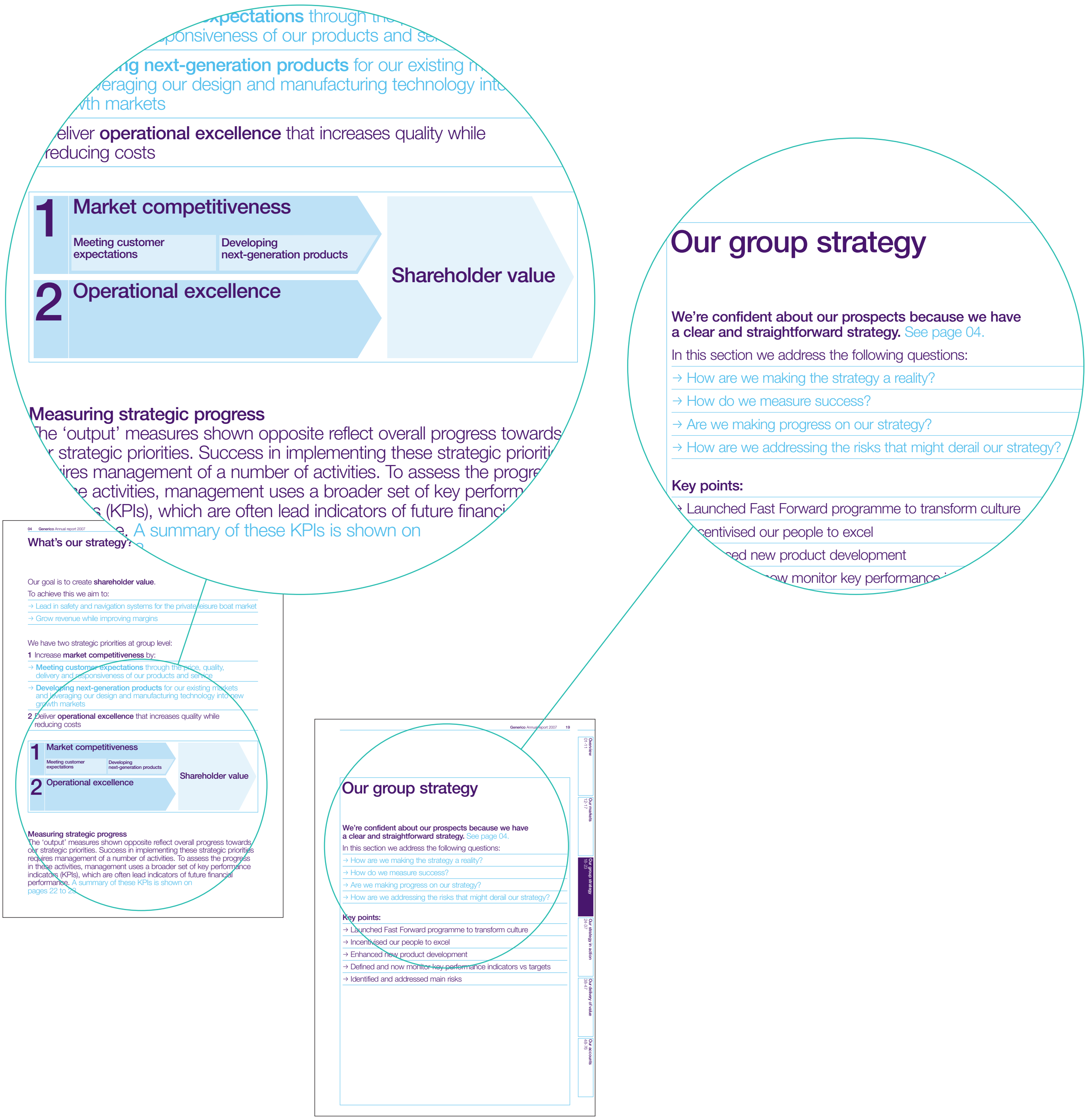
Clearly outlined the group’s strategy and priorities early on, cross-referred to a more detailed *Our group strategy* section.

Used graphics as well as text to express the strategy simply, consistently and memorably.

Identified key actions necessary to make the strategy a reality.

Set out a strategy progress statement providing a clear link between strategic priorities, key performance indicators, performance and risk.

Used the strategic priorities as the basis for applying a consistent structure to the discussion of segmental performance.



See pages 4 and19 of Generico Annual report →

MODELLING THE FUTURE
KEY PERFORMANCE INDICATORS

The problem

Managers identify critical measures that will help them track company performance and strategic progress. But they rarely share these with investors.

Yet these key performance indicators (KPIs) really help deepen investors' understanding of progress and movement in the business. Without them, external perceptions of performance may be at odds with management's own view.

Traditional metrics taken from the financial statements are not enough, as they tend to be output driven and historically focused. It takes both financial and non-financial KPIs (the latter tend to be lead indicators of future performance) to give a clear picture of strategic progress. A clear link should be made between strategic priorities and KPIs, and they should all be published together. Too often, KPIs bear no relevance to stated strategies or highly relevant KPIs are published separately, for example in a Corporate Social Responsibility report.

What investors want

- Explanation of what the KPIs are – preferably all in one place – and how they relate to the strategy.
- A combination of financial and non-financial KPIs.
- Explanation of the definition and source of each KPI.
- Measurement of performance over time.
- Targets for future performance.

> Without KPIs, investors' perceptions of performance may be at odds with management's own view and their ability to model the future diminished.

What we've done to make it work

Made a clear distinction between output measures and KPIs.

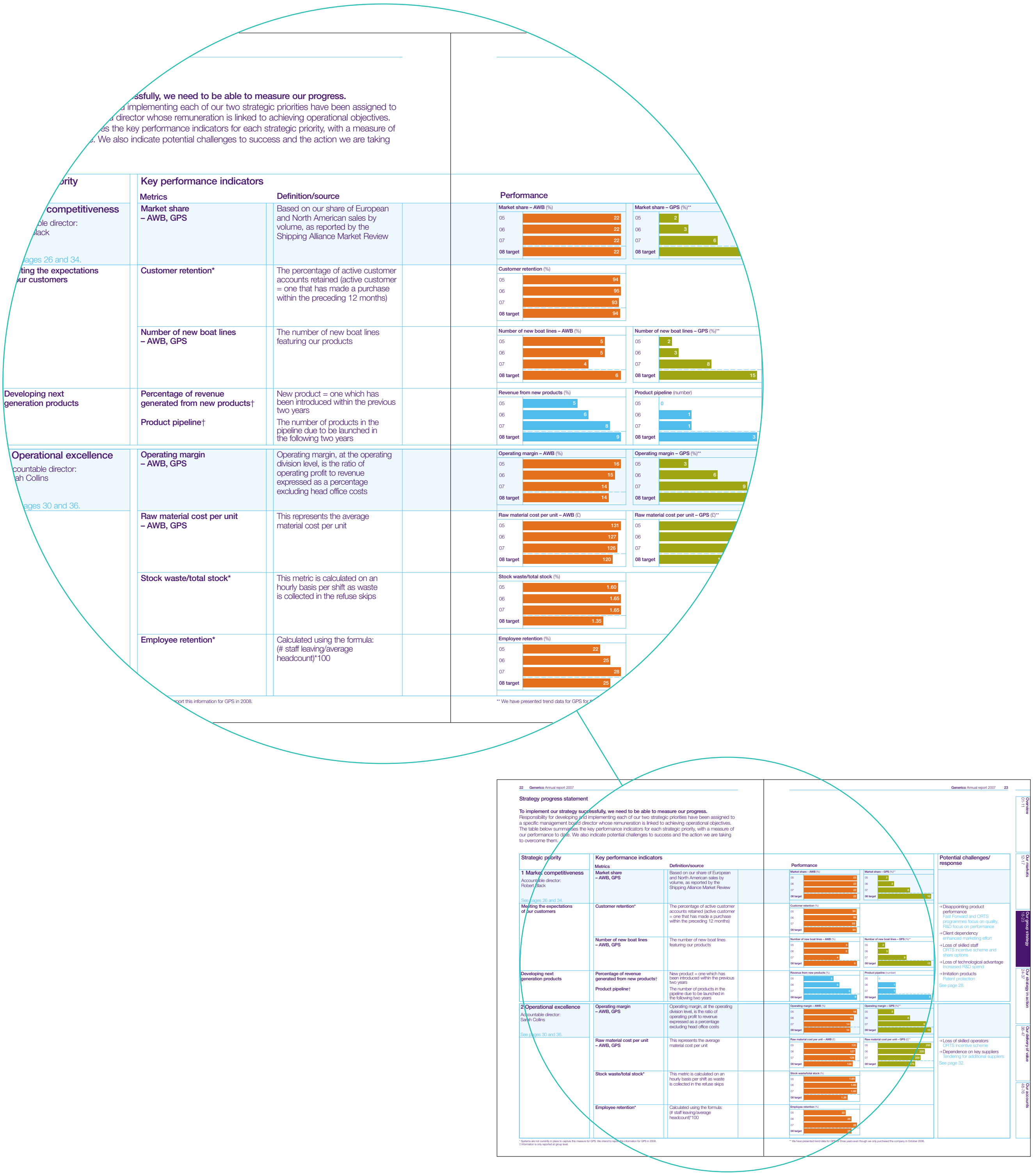
Stated early in the report where KPIs can be found.

Provided a clear link between strategy and KPIs, setting out a strategy progress statement giving the key measures of success for each strategic priority.

Given each KPI a definition, prior year comparisons of performance and targets for the forthcoming year.

Disclosed KPIs at a group and segmental level, depending on the availability of data.

Explained the actions taken by management to improve/maintain their performance around each KPI.



See pages 22 and 23 of Generico Annual report →

RETHINKING THE FINANCIALS
REVENUE AND COSTS

The problem

A high level of aggregation is necessary to present the summary information required in financial statements. However, investors require sufficient disaggregation to be able to fully understand and interpret the summary information provided.

In particular, investors want to understand the components of revenue growth. How much is down to organic growth vs. acquisitions? Is the organic growth a result of realising price increases or volume increases due to price cutting?

Likewise, allocating costs into big buckets impedes investors' insight into the company's cost structure.

What investors want

- An understanding of revenue growth by price vs volume, organic vs acquired.
- Analysis of costs by function (eg 'Cost of goods sold') in the profit and loss statements.
- Analysis of costs by nature (eg 'Raw materials', 'Labour costs') in the notes – and greater granularity in this analysis.
- Limited use of bucket categories such as 'Other'.
- Non-recurring or 'lumpy' costs split out, with adequate disclosure of their nature.

> Providing sufficient granularity of revenue and costs is essential if investors are to understand and interpret the underlying economics.

What we've done to make it work

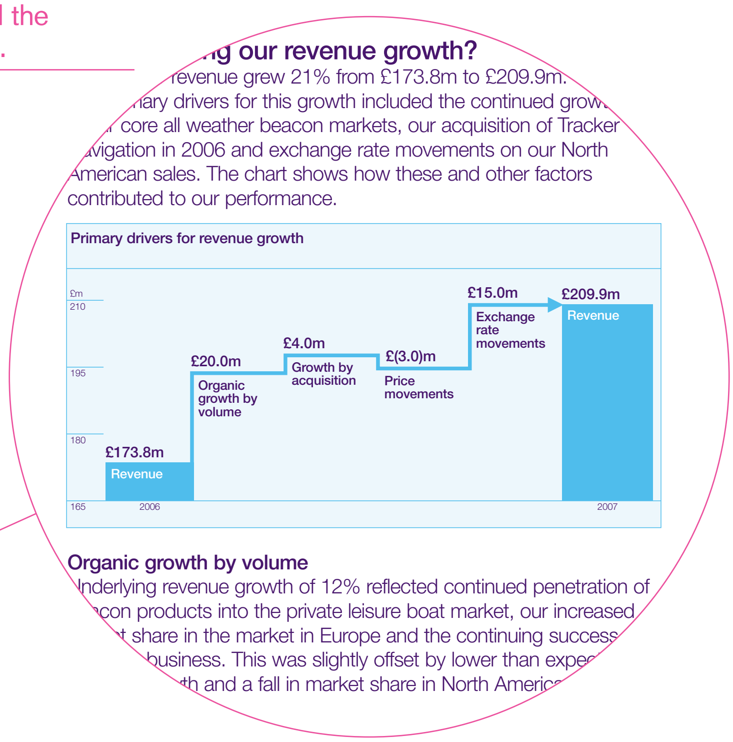
Outlined the key drivers of revenue growth during the year.

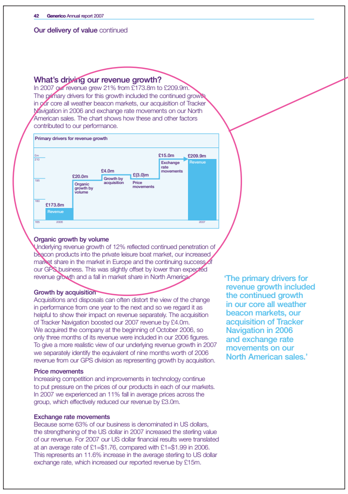
Analysed the nature of both 'Cost of goods sold' and 'Administration and distribution expenses' in the notes.

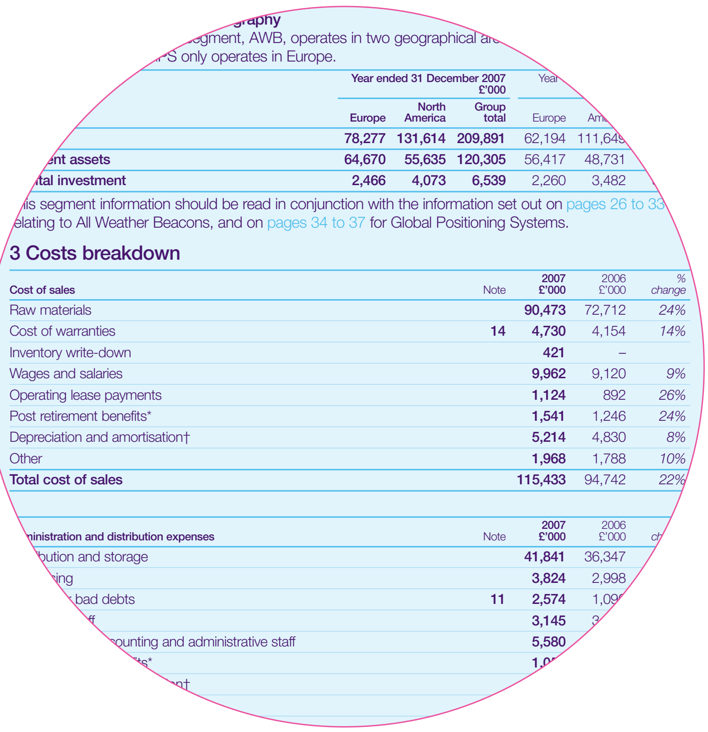
Provided cross-references to further disclosure of the components of these costs arising from movements on provisions. In our example, bad debts expense and cost of warranties are reconciled to movements in these provisions.

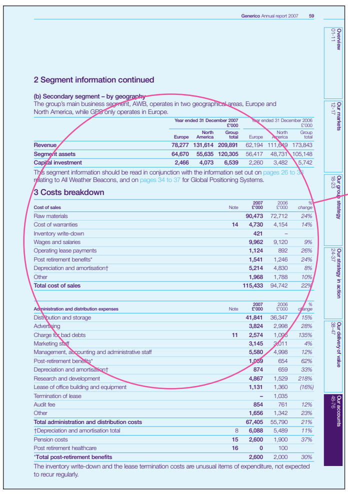
Ensured, as a rule of thumb, that 'Other' doesn't constitute more than 10% of the total expense category, and does not contain any single item larger than the smallest item disclosed separately.

Highlighted non-recurring expenses and indicated the likelihood of such expenses recurring in the future.









See pages 42 and 59 of Generico Annual report →

SEGMENTAL DISCLOSURE

The problem

A good understanding of performance by segment is fundamental for assessing which areas of a business are most productive and where value is – or isn't – being added.

Current levels of segmental disclosure are typically not sufficient to allow investors to build their models and evaluate performance appropriately.

Segmental information is provided in both the front and back sections of the annual report. However, there is not always consistency in how the segments are defined. Furthermore, in some cases managers try to simplify the picture by aggregating numerous segments whose risk and reward profiles may be very different.

As with revenue and costs, the devil is in the detail. Greater granularity will add force to a strong story and highlight the flaws in a weak one.

What investors want

Consistent definition of each segment and, accordingly, the information provided in both the front and back sections of the annual report.

Presentation of a sufficient number of reportable segments to reflect the differing risk and reward profiles.

For each segment more detailed information on:

→ Performance.

→ Assets and liabilities.

→ R&D by division.

→ Return on capital employed.

→ Free cash flow.

[Current levels of disclosure are typically not enough to let investors evaluate performance appropriately.]

What we've done to make it work

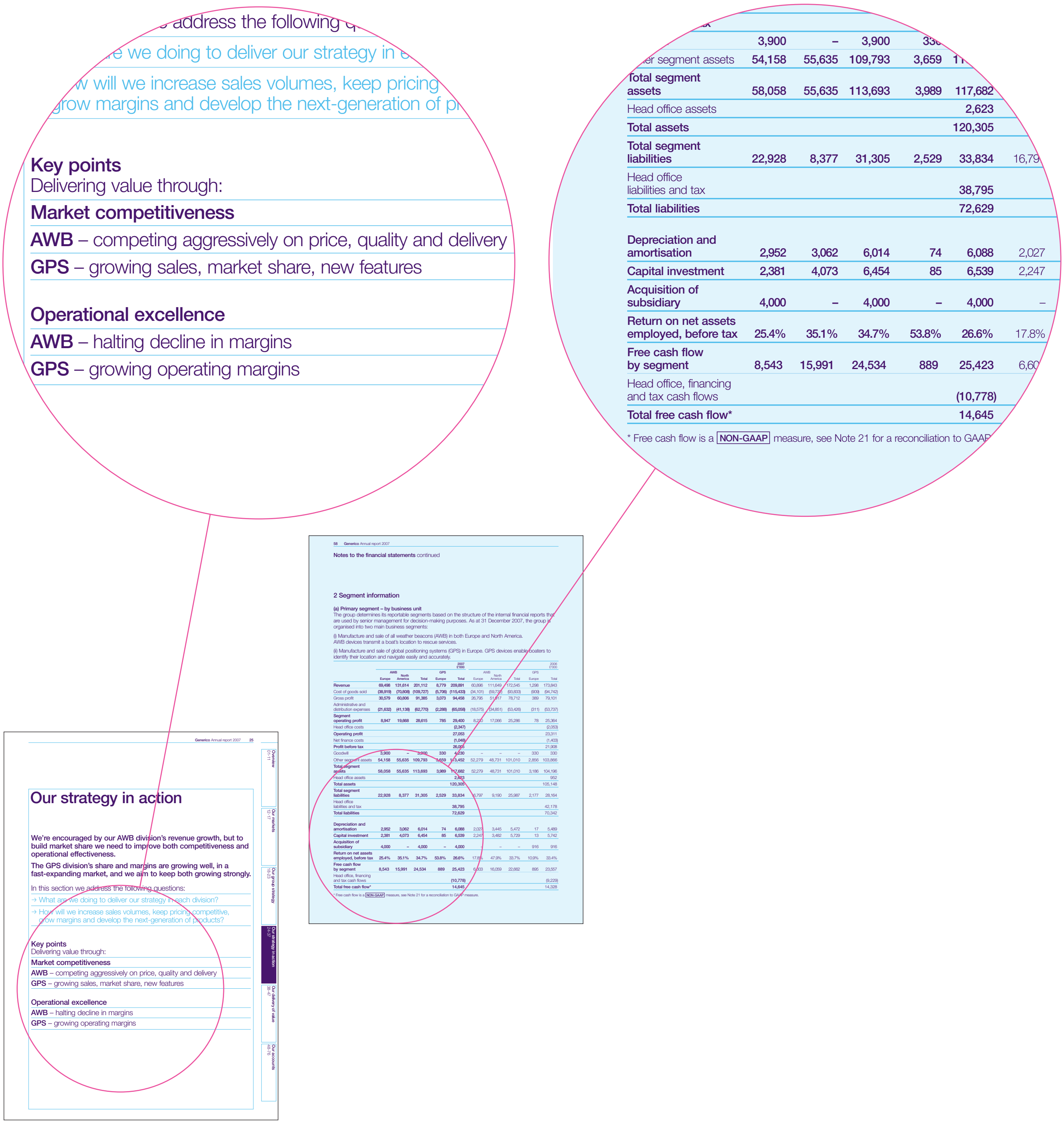
Established consistency in the definition of the segments throughout the report.

Provided context for understanding the strategy and performance by segment in the front section of the annual report.

Presented as many segments as possible within the primary segmental analysis.

Split out head office costs, rather than allocating them across the other segments.

Provided greater segmental data to facilitate investors' modelling of an entity's cash flows and sum-of-parts valuations.



See pages 25 and 58 of Generico Annual report →

PENSIONS

The problem

Defined benefit pensions and other post-employment costs are a significant liability for most companies. Understanding these liabilities is essential for investors.

Falling bond yields and increasing life expectancy are driving these liabilities higher, but too often the disclosures in relation to pension liabilities are not enough to allow investors and analysts to assess the impact of changes of these, and other, factors. For example, without information about longevity assumptions it is difficult to truly understand the risks inherent in the scheme, and the chances of increased cash contributions or other action being needed in the future.

Some companies use the 'corridor' approach in their balance sheets – only recognising actuarial gains or losses that exceed 10% of the scheme's assets or liabilities. Others use the 'SORIE' approach whereby the full actuarial deficit is recognised in the balance sheet. Investors prefer the latter, which saves hunting around in the notes to find the full pension deficit.

The emergence of major pension deficits in recent years has greatly sharpened investors' appetite for detail on this previously rather neglected subject. Calculating pension liabilities is a complex and highly technical business, and it is generally in companies' own interest to help investors understand.

What investors want

Sufficient information about the principal assumptions to allow an understanding of the inherent uncertainties affecting the calculation of the scheme's assets and liabilities.

Sensitivity analysis for the principal assumptions used to measure the scheme's liabilities.

Information that enables an understanding of the funding obligations going forward.

> Investors want to appraise the chances of increased cash contributions or other action being needed in the future.

What we’ve done to make it work

Provided alternative views of the pension deficit in the front section of the annual report.

Graphically presented the volatility of aggregate UK pension deficits over a three year period as context for understanding the volatility of the group’s own pension deficits.

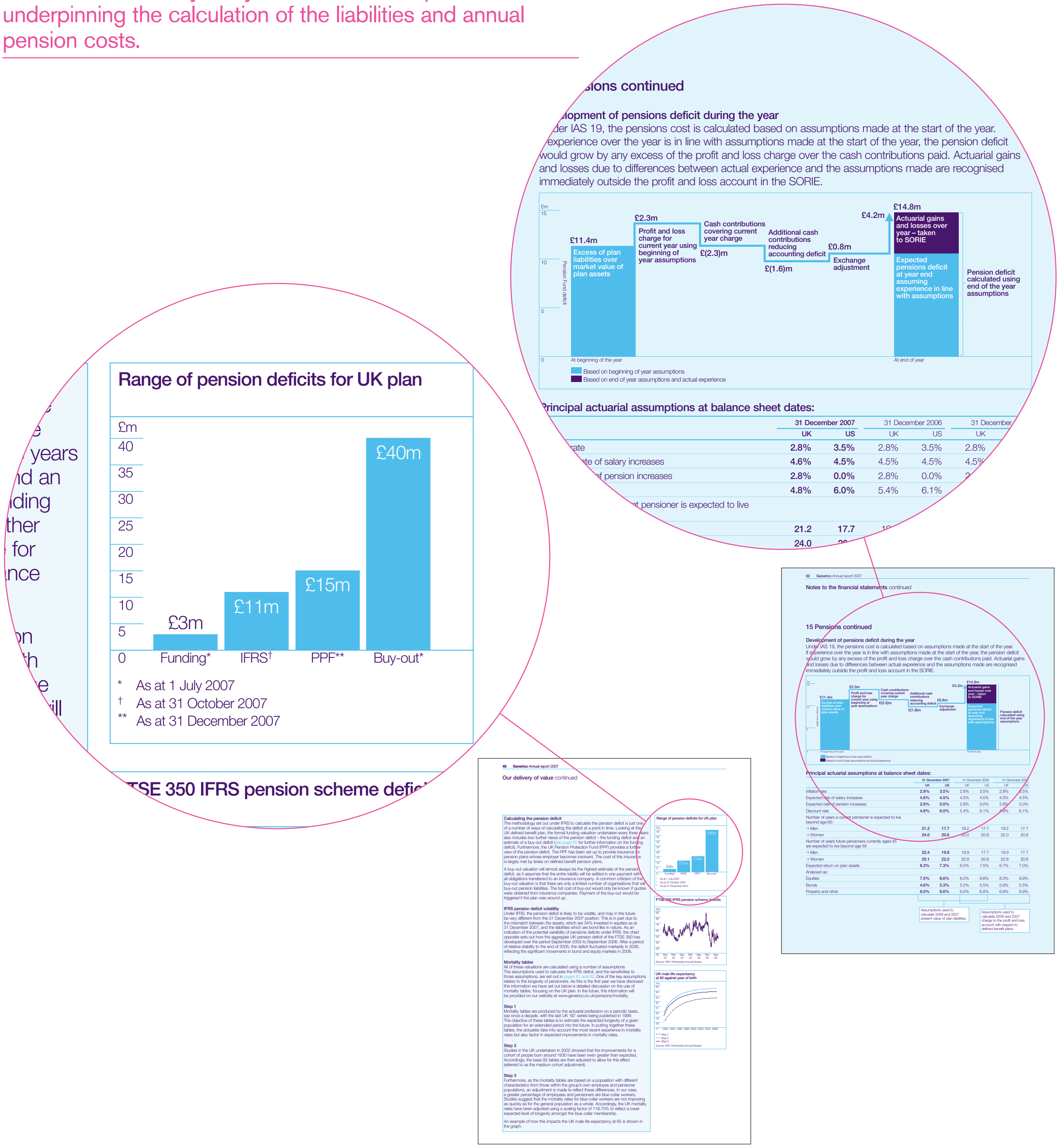
Explained the mortality tables in more accessible, less technical language.

Supported the accounting policy note for pensions and other post-retirement benefits with explanations of key terms in plain English.

Provided alternative presentation of information, eg both graphics and tables.

Located all the assumptions in one table.

Provided a sensitivity analysis of main assumptions underpinning the calculation of the liabilities and annual pension costs.



See pages 46 and 62 of Generico Annual report →

ANALYSIS OF NET DEBT

The problem

Investors want a clear picture of a company's debt position in order to understand management's plans for servicing it and any risks associated with it.

Companies do give information about how they are funded in their annual reports. But it tends to be scattered throughout the financial statements and is frequently presented without details of individual liabilities. In addition, some of the critical information relating to debt isn't provided in the annual report at all – investors get the information outside the regulatory model.

The problem of determining a company's credit risk profile is even greater if it has a number of subsidiaries. In this case, investors need a clear debt profile of the group and its individual business units, as well as an understanding of any restrictions on the transfer of funds between business units.

Investors' view of debt does not stop at financial instruments. They want to know about other debt-like liabilities. These could include revenues paid in advance by customers, operating leases, pensions, or other liabilities such as decommissioning costs that could trigger major cash outflows in the future.

So we've created a new analysis of net debt that incorporates financial debt, operating debt in off balance sheet leases, and other debt-like liabilities. Investors believe all instruments that the company views as debt should be incorporated in this statement – including instruments that IFRS classifies as equity. By the same token, instruments that IFRS classifies as debt but the company sees as equity should be excluded. Some might argue that this analysis should become an additional primary statement – something for the standard setters to ponder . . .

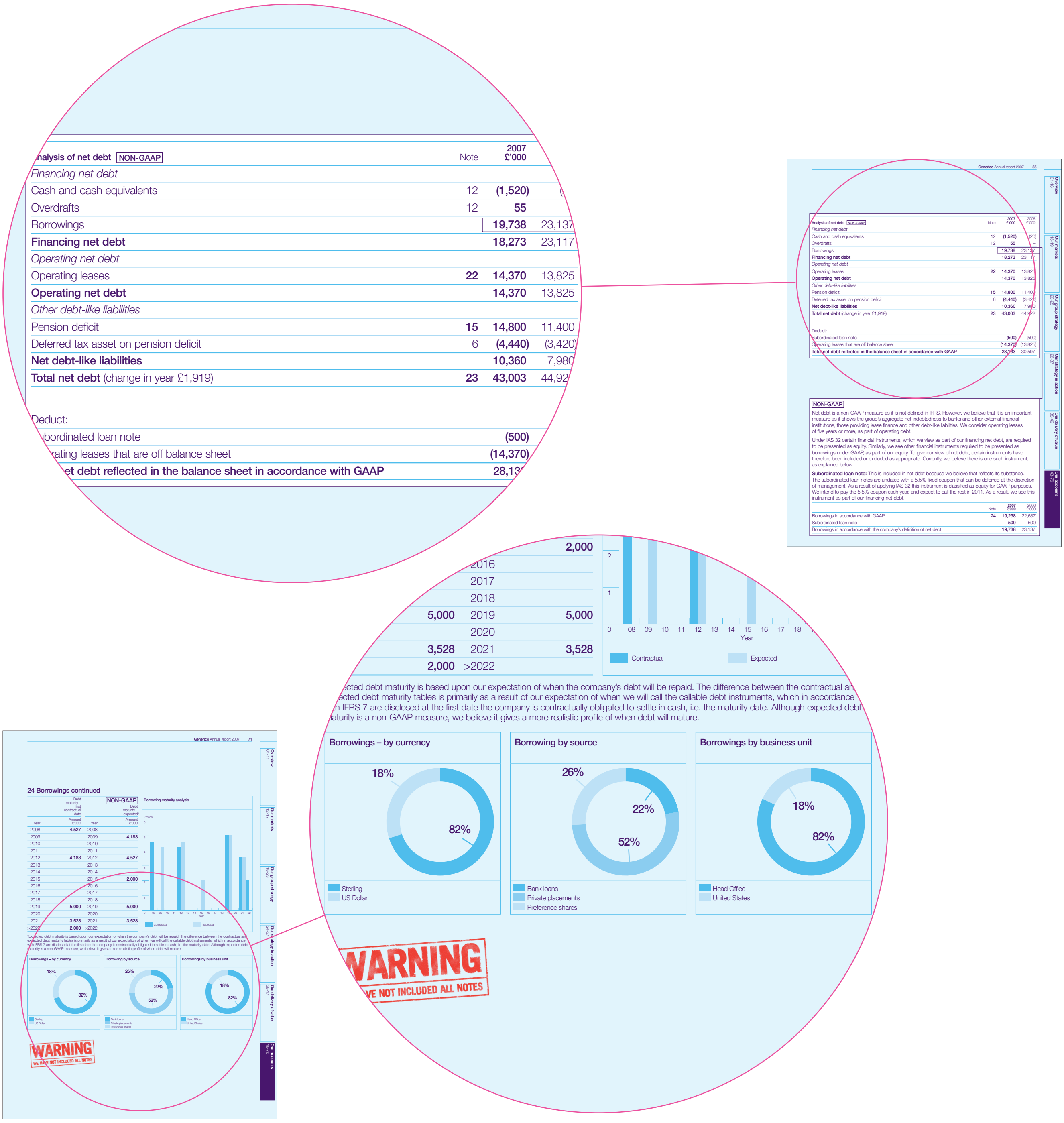
What investors want

- A comprehensive net debt analysis incorporating net debt from financing, operations and other debt-like liabilities.
- A comprehensive maturity table for all components of debt, showing both the contractual maturity of each debt and when management expects it to be repaid.
- Analysis of debt by currency and by subsidiary.
- Details of collateral and any restrictions over debt.
- A net debt reconciliation.

> Investors want to be able to understand and reconcile net debt movements year on year.

What we've done to make it work

- Brought all debts together into a single analysis.
- Included management's non-GAAP definition of net debt.
- Reconciled the cash flow statement to movements in each type of net debt.
- Analysed net debt into its various components – financing, operating and other debt-like liabilities.
- Reconciled annual movements for each type of debt.
- Explained how the debts will unwind.
- Provided a comprehensive analysis of borrowings including information about both contractual and expected maturity dates.
- Disclosed more details of borrowings such as currency, source and a breakdown by business unit.



See pages 55 and 71 of Generico Annual report →