ANNUAL REPORTING IN EUROPE

RESEARCH 2017
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Among the community of corporate communicators, investor relators and financial officers, annual reporting remains ahead of the curve.

The times when this fundamental communication tool was an annual ritual ending with a publication being sent to few institutions seem to belong to a prehistoric era. In recent years, a steady increase of social awareness, the acceleration of technological transformations as well as new guidelines and regulations channelling these changes, have transformed annual reports from a duty whose ownership was confined to financial departments to a cross-function project, from a statement of past performance to a strategic document and from a cryptic book on the shelf of a restricted community of followers to a masterpiece of digital design.

The fourth edition of our research amongst the top 800 European listed companies is telling us that two major forces are driving innovation in annual reporting, integration and conciseness.

The first one, integration, is a profound transformation of content structures seeking to explain the interdependencies of economic, social and environmental aspects. As a natural consequence, even before the transposing of European Union directives into national legislations, many companies have included non-financial information in their annual report or have decided to move from publishing two separate reports (financial and sustainability report) into one single integrated report. As shown by our analysis, from 2015 the number of companies publishing one report has increased by 34% while the number of companies publishing two reports has decreased by 30%.

The second trend of this evolution is conciseness.

Conciseness means focusing on what really matters as well as adopting new types of language, styles and forms of communication.

“An integrated report is a concise communication...In achieving conciseness, an integrated report applies the materiality determination process, expresses concepts clearly and in as few words as possible, favours plain language over the use of jargon or highly technical terminology, follows a logical structure and includes internal cross-references, may link to more detailed information or external
sources…” (International Integrated Reporting Council – IIRC). Conciseness is becoming the main ingredient in the presentation and communication of annual reports. We could even say that the more integrated a report, the more digital its nature.

The presentation of annual reports as micro-websites focusing on what is really material to companies and stakeholders shows that organizations are taking all the advantages offered by digital platforms: connecting business models to strategies and linking the value creation process to policies and performance by means of visual techniques, animated infographics, interactive tools and concentrated video clips. In the last four years, Annual Reviews have grown by 52% and, as a digital summary in html, account for 64% of all interactive reports amongst the European organizations included in the 800 STOXX® index.

To better visualize these trends, compared to previous editions of the research, we have introduced more examples and case studies. We hope that the analysis helps you not only to keep up-to-date with ongoing changes in how annual reports are communicated but also acts as a source of inspiration and ideas for your next annual report project.

KEY POINTS

- Increase of social awareness, acceleration of technological transformations and new regulations are changing the annual reporting landscape
- Integration and conciseness seem to be the main driving forces
- Annual reports communicated through micro-websites have experienced an exponential growth
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DATABASE
The research covers companies belonging to the STOXX® All Europe 800 index, representing the largest 800 companies in 25 countries.
COMPANIES HAVE BEEN CLASSIFIED BY INDUSTRY AND BY MARKET CAPITALISATION

With regard to the industry, the research follows the ICB (Industry Classification Benchmark) standard and includes each company in 19 super-sectors.

1. Oil & Gas
2. Chemicals
3. Basic Resources
4. Construction & Materials
5. Industrial Goods & Services
6. Automobiles & Parts
7. Food & Beverage
8. Personal & Household Goods
9. Health Care
10. Retail
11. Media
12. Travel & Leisure
13. Telecommunications
14. Utilities
15. Banks
16. Insurance
17. Real Estate
18. Financial Services
19. Technology

<table>
<thead>
<tr>
<th>MARKET CAP (Euro)</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
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<tr>
<td>LESS THAN 5 bn</td>
<td>338</td>
<td>371</td>
<td>331</td>
<td>387</td>
</tr>
<tr>
<td>BETWEEN 5 AND 16 bn</td>
<td>288</td>
<td>273</td>
<td>289</td>
<td>253</td>
</tr>
<tr>
<td>MORE THAN 16 bn</td>
<td>174</td>
<td>157</td>
<td>176</td>
<td>155</td>
</tr>
</tbody>
</table>
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GENERAL TRENDS IN REPORTING
TREND 1  
STEADY POPULARITY OF ANNUAL REVIEWS

Compared to 2016 (for financial year 2015), in 2017 (for financial year 2016) the number of companies publishing an integrated report has risen by 14%, while Annual Reviews have grown by 18%.

Overall, Annual Reviews have shown a 52% growth over the last 4 years.

There is a significant drop of CSR reports, showing a 24% decrease: companies are integrating large amounts of their ESG (Environmental, Social and Governance) results into one single report. The same trend towards integration of sustainability aspects into the overall strategy and business model can be observed in the online estates of large organisations, both within corporate websites and in the digital versions of annual reports.

The decline of CSR Reporting and the rise of Annual Reviews have been the two main ongoing trends for the past 4 years, while Integrated reports are slowly gaining momentum.
We can therefore sum up the evolution of annual reporting in Europe in two words:

**INTEGRATION** (of content) and **CONCISENESS** (in presentation)
TREND 2
INTEGRATING INFORMATION IN ONE SINGLE REPORT

In 2017, companies publishing one single report have grown by 13% percent compared to 2016.

During the 2016-2017 biennium, the trend has been completely overturned when compared to the 2014-2015 biennium: the number of companies publishing one report has increased by 34% from 2015 while the number of companies publishing two reports has decreased by 30%.

This return to the one report format is consistent with one of the aspects highlighted in Trend 1: integration of financial and non-financial information. The push coming from the market for having a broader picture of the company on one side and the adoption of the European directive 2014/95 /EU on the other are bringing significant changes both in company organization and in the reporting process.
TREND 3
ANNUAL REPORT? ALIVE AND KICKING!

Combinations of reports in 2017

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td>ANNUAL REPORT ONLY</td>
<td>37%</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td>ANNUAL REPORT + CSR REPORT</td>
<td>17%</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td>INTEGRATED REPORT</td>
<td>12%</td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
<td>ANNUAL REPORT + CSR + ANNUAL REVIEW</td>
<td>9%</td>
</tr>
<tr>
<td>5</td>
<td></td>
<td></td>
<td>ANNUAL REPORT + ANNUAL REVIEW</td>
<td>9%</td>
</tr>
</tbody>
</table>

1. The majority of companies have moved from publishing both CSR and Annual Reports to focusing on one report – the Annual Report, including ESG aspects in one single report, but still reluctant to call it integrated.

2. The Annual Report and CSR combination, although less frequent, still has a major presence in the database. Possible reasons for companies choosing to produce 2 reports are:
   - They still have to start the integration process.
   - Companies prefer to differentiate reporting by having a specific focus on certain stakeholders – Financial stakeholders (Annual Report) and Institutional stakeholders (CSR report).
MOST POPULAR COMBINATION
DIGITAL REPORTS ARE HERE TO STAY

As in 2016, the number of iPDF reports in 2017 confirms a steady decline. In one year, we can notice a 30% drop, while in two years the percentage is almost double (59%). Such a result clearly shows this format is being abandoned as it probably does not add sufficient value to information compared to the standard PDF or digital HTML report.

Thus, the reducing number of companies (from 573 in 2015 to 423 in 2017) producing some kind of interactive format for their annual report is explained by two main trends:

- the declining popularity of the interactive PDF
- the integration of more reports into one: companies which used to publish two or more interactive reports now publish just one interactive report, which is consistent with Trend 2 of our research

Out of 800 companies, how many companies produced:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>A PDF REPORT</td>
<td>771</td>
<td>776</td>
<td>783</td>
<td>784</td>
</tr>
<tr>
<td>AT LEAST ONE INTERACTIVE REPORT (iPDF+HTML)</td>
<td>491</td>
<td>573</td>
<td>447</td>
<td>423</td>
</tr>
<tr>
<td>HTML REPORT</td>
<td>313</td>
<td>343</td>
<td>324</td>
<td>324</td>
</tr>
<tr>
<td>iPDF REPORT</td>
<td>230</td>
<td>262</td>
<td>165</td>
<td>115</td>
</tr>
</tbody>
</table>

For two consecutive years (2016 and 2017), out of 800 companies, 324 have produced an HTML report, accounting for 41% of the total. Listed companies confirm that digital annual reports, no matter whether in the form of a summary or whether presenting the full content, have a stable place in their digital communication strategy.

What these numbers don’t say is that the quality of digital reporting has been growing and growing. Through infographics, video, animations and interactive tools, companies are explaining and communicating business models, value creation models, governance models and sustainability plans in a more transparent and understandable way to all stakeholders.
THE LEADERSHIP OF ANNUAL REVIEWS

Creativity, story-telling, innovative templates and navigation paths, yet clarity, visuality, conciseness and the focussing on key ideas: these are some of the features that are pushing communication, IR and CSR departments to choose this type of report (Annual Review).

The brief, visually outstanding, almost marketing-like Annual Review in HTML is becoming the favourite way to present company dynamics and performance in the digital space. In parallel with the decline of full reports in html, online Annual Reviews have boomed from 40 to 208 companies adopting this format, accounting for 64% of all interactive reports amongst the 800 European organizations of the 800 STOXX index.

Out of number of companies making a HTML report, how many companies produced:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANNUAL REPORT HTML</td>
<td>155</td>
<td>169</td>
<td>93</td>
<td>65</td>
</tr>
<tr>
<td>CSR REPORT HTML</td>
<td>111</td>
<td>107</td>
<td>75</td>
<td>58</td>
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<tr>
<td>INTEGRATED REPORT</td>
<td>134</td>
<td>136</td>
<td>67</td>
<td>47</td>
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<tr>
<td>HTML</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>ANNUAL REVIEW HTML</td>
<td>32</td>
<td>40</td>
<td>154</td>
<td>208</td>
</tr>
</tbody>
</table>
THE TELECOMMUNICATION SECTOR
THE MOST INNOVATIVE

The TELECOMMUNICATION sector is once again predominant for HTML reports, with 69% of companies publishing annual reports as a website.

In the Telecom sector, 18 out of 26 companies have published a digital report. Not only is the percentage (69%) of conversion from static to digital the highest among all industries, but the quality in terms of design, content organization and use of innovative features is also at the top of digital corporate communication initiatives. Deutsche Telekom, Orange, Telecom Italia and KPN have published some of the most remarkable annual report websites in Europe.

As for the other sectors, compared to last year, companies belonging to the Basic Resources industry have lost the second position to the Automotive & Parts industry companies: 61% of the companies in the vehicle sector produced one or more interactive reports.

<table>
<thead>
<tr>
<th>INDUSTRIES</th>
<th>companies</th>
<th>HTML report</th>
<th>%</th>
</tr>
</thead>
</table>
| TELECOMMUNICATIONS          | 26        | 18          | 69%
| AUTOMOTIVE & PARTS          | 18        | 11          | 61%
| BASIC RESOURCES             | 29        | 17          | 59%
| CHEMICALS                   | 33        | 18          | 55%
| INSURANCE                   | 44        | 24          | 55%
| RETAIL                      | 37        | 19          | 51%
THE NETHERLANDS ARE LEADING THE MARKET FOR DIGITAL REPORTS IN EUROPE

The Netherlands hold the record with 72% of companies publishing an annual report in the form of a website.

Dutch companies, such as ING, Philips, Delta Lloyd, Akzo Nobel and Unilever have a long-standing tradition of digital reporting, and are dragging other companies in the country towards giving annual reports a digital format.
Despite the low representation in the STOXX 800 index in terms of number of companies, **Poland, in the second place of the ranking**, is showing an increasing effort towards digital reporting. On the other hand, the UK and Ireland as a region have the highest rate of companies producing an interactive report (47% of companies, followed by Germany, Austria and Switzerland with 44%).
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CASE STUDIES
Clariant – Switzerland
Integrated Report

Integrated reporting is building a path leading to a new comprehensive and dynamic landscape, far-removed from the siloed old-school format of financial reporting.

Clariant, a world leader in the chemical industry, has used clear navigation paths to effectively present the integrated reporting content pillars and has designed one of the most complete infographics to explain its value creation model.
Delta Lloyd – Switzerland
Annual Report

The Delta Lloyd Annual Report has two focal points – integrated view of financial and non-financial performance and value creation process. The annual report presents all the information in a revolutionary way by giving visitors the option to select how to surf the report:
by content: visitors can go through the report following the “traditional” content map;
by subject: visitors can choose the topics and have a cross-vision of the report.

A third option to access the most relevant topics is given by the horizontal scrolling page which explains “How we create value”: the various steps of value creation (Input – Capitals – Business model – Output – Performance – Impact) becomes an additional gate to the internal pages of the report.

In addition, visitors who like numbers can choose to start their journey from the “Highlights” section where each key performance indicator becomes the 4th door to get inside the most important content areas.
EFFECTIVE NAVIGATION

TDC – Denmark
CSR Report

TDC, as many companies in Europe, has decided to present an online summary of the key achievements, main results and most material topics by developing two digital Annual Reviews, two concise interactive scroll pages of the Group Annual Report and the CSR Report. The communication strategy is very clear:

• From the home-page, it is transparent that both reports are a summarised online publication. Those who prefer the full pdf can download it as soon as they land in the report
• The 2 micro-sites offer a very consistent navigation experience: the content is distributed along a scroll page, where the content layers merge with effective transitions, while all topics are always accessible via a side menu
• Although visitors can open many “sub-sessions” and dig into more details, they never get lost.
TIM – Italy
CSR Report

TIM’s CSR Report offers a stimulating navigation path by adding to the content structure, accessible via the hamburger menu, a second option for entering the report: a road map (We think, We listen, We do, We measure) taking visitors from objectives (SDGs) and priorities to stakeholder engagement, CSR projects and the shared value that has been created by the company in 2016.

Key performance (Interactive KPI), Key topics (Materiality matrix), key documents (Download centre) and connections with GRI indicators (Search by GRI) are some of the features always available at the bottom of every page of the report.
After opening with a video clip highlighting values, business model, market presence, results and strategies, the four pillars of PZU Annual Report (Who we are, What we do, What we achieved and Our plans) tell the equity story of the company by means of infographics and interactive animations.

Icon, charts, very short texts and videos are the main ingredients of PZU corporate digital narrative and the same essential approach is consistently kept throughout the internal pages of the report.
L'Oreal – France Annual Report

Navigating the L'Oreal 2016 Annual Report is a real immersion in a world of beauty. Every single page is designed to provide an emotional brand experience driven by large photographs, videos and luxury-inspired backgrounds.

The main pages such as Prospects, Mission and Strategy, Cosmetics market and Brands make a wide use of parallax scrolling, close-ups, bold visuals and hero imagery. By combining the use of video, story-telling and visual effects in a harmonious and effective way, L'Oreal manages to balance content and multimedia features admirably.
STORY-TELLING

Banco Santander – Spain
Annual Report

Stories of Entrepreneurship, Innovation, Customers and Employees: they all are stories of change, narrated in 10 videos opening the doors to Santander’s 2016 online Annual report.

Santander has put its stakeholders at the very centre of the scene. Stories of how people joined and developed their professional career within the organization, as well as new businesses that now prosper thanks to the relationship and the support of the banking group, become the “human” introduction to more technical topics such as business model, value creation, governance and key results.
Telefonica DE – Germany
Annual Report

We all expect annual report websites to start with the CEO Letter to Shareholders, key facts, financial highlights and business strategies. This is not the case with the Telefonica DE annual report.

Telefonica DE has created an entirely new experience for visitors of its Annual Report – an everyday life situation giving voice to “people on the street”, showing the digital transformation process through the lives and thoughts of its stakeholders and customers.

The topics of the report and the people introducing them become one entity while results and performance become a consequence of relationships and dialogues.
METHODOLOGY
The research process includes the following activities:

- Visiting each single corporate website of the companies belonging to the STOXX® All Europe 800 index
- Analysing in what formats the reports were published: PDF, iPDF and HTML.

All data has been collected in a database where each company is classified by 17 parameters*. The database now contains four years of data (2014, 2015, 2016 and 2017 for reports referring to fiscal years 2013, 2014, 2015 and 2016) allowing us to spot annual reporting trends with regard to:

- Number of reports published by each company
- Type of reports
- Format of the reports
- Combinations of reports
- Digitization of reports
- Result communication behaviour filtered by country, macro-region, industry and market capitalization

TIME-FRAME OF THE RESEARCH

As companies publish Annual reports at different times of the year, the research process started on 2 February and finished on 1 of August 2016.

The data analysed was for reports published in 2017 for the fiscal year of 2016.

Reports published after 1 August 2017 are not included in the database.


* Source: http://techterms.com/definition/pdf
ANNUAL REPORT
The Annual report is a report on a company’s activities throughout the preceding year. Usually, Annual reports include General Corporate Information, Accounting Policies, Balance Sheet, Cash Flow Statements, Non-audited Information, Profit and Loss Accounts, Notes to the Financial Statements, Chairperson Statement, Operating and Financial Review, Auditors Report and other features such as governance and sustainability often defined as non-financial.

CSR REPORTS
Corporate Social Responsibility reports refer to non-financial policies, procedures and results. CSR reports give evidence of “the impact of business on critical sustainability issues such as climate change, human rights, corruption and many others” (source: GRI).

INTEGRATED REPORTS
Integrated reports aim at giving a cross vision of company life by restructuring the content organisation of an annual report according to the following pillars: organisational overview and external environment, governance, business model, risks and opportunities, strategy and resource allocation, performance and outlook (source: IIRC).

ANNUAL REVIEWS
Annual Reviews are more concise versions of Annual Reports including a summary of the most important events of the year, the main financial highlights, messages by the President or the CEO, the pillars of company strategy and storytelling materials often presented, in their digital formats, with videos and infographics.

STANDARD PDF
PDF stands for “Portable Document Format” and is a multi-platform file format developed by Adobe Systems.

INTERACTIVE PDF
Interactive PDFs, also referred to as digital flipbooks, are software applications, which add interactive features to the standard Adobe PDF reader.

HTML
By HTML report, we mean the publication of an Annual Report, a CSR Report, an Integrated Report or an Annual Review in the form of a website.
MESSAGE is an Italian company which works on online IR and digital Corporate Communication.

MESSAGE helps its customers, mostly industrial and financial groups with international operations, to effectively address their stakeholders and communicate their brand through the digital environment.

MESSAGE
• designs and builds listed company corporate websites and investor relations websites
• designs and builds annual report websites
• develops Investor & Media mobile applications
• provides video communication and social media strategies.

Clients can benefit from a professional team equipped with:
• Corporate communication knowledge and financial markets culture
• Project management skills
• Creative approach
• Editorial skills
• IT competence
• Web-writing and content production capabilities

MESSAGE’s headquarters are in Milan while a subsidiary was opened in Warsaw three years ago.