



GUIDE

June 2010

The annual report: many ways to tell your story

The role of the annual report

Picking the right format

Engaging new audiences

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Purposeful design

When Arthur 'Art' Keeney stood down as president and CEO of East Carolina Bank (ECB), the company wanted to set out its vision for the future.

Keeney had been at the helm of ECB for more than 14 years, overseeing a period of strong, profitable growth. Following his departure, the company wished to reassure investors that the growth and stability of the Keeney years would continue.

ECB chose to make this reassuring statement in the annual report. 'In our report, we did two shareholder letters: one from Art, and another from the new president,' explains Lorie Runion, ECB's chief administrative officer. 'The second letter took a strategic focus. It described how ECB has been a great organization and this is where we are heading. We felt it was a really important story to tell our shareholders.'

As you might expect, ECB also made this point in press releases and interviews, on its website and

through phone calls. But it felt the annual report provided the best place to make a lasting statement about the company's future direction. 'It takes all the strategic initiatives we do and gathers them under one umbrella,' says Runion.

Numerous options, one aim

For its 2009 annual report, ECB produced a 10K wrap, including a mission statement, the two shareholders' letters and three editorial spreads focused, respectively, on customers, employees and sustainable growth. The bank also produced a separate print run of just the wrap section, which it gave to its sales teams to use as additional marketing material.

There are, of course, many ways to deliver the annual report, including the traditional print annual report, the summary annual report, the 10K wrap and the 10K only, as well as online options, such as the online HTML report and the downloadable PDF.

Some produce a separate cor-

WMS Industries produced a traditional print annual report

porate responsibility (CR) report to supplement the main document. Different formats and styles will suit different companies; there is no single way to communicate every company's message.

What's important to recognize is the opportunity the annual report affords. It offers the chance to pull together all the different strands of a company's message in one document, and gives investors a clear idea about why they should invest in your company.

As a result, it's not surprising

the buy side still holds the annual report in high regard. Market data provider Rivel Research conducts detailed telephone interviews with investors. In its most recent survey, released in July 2009, it finds 70 percent of respondents think the annual report is useful when making the decision to buy a stock. In addition, 69 percent of buy-side respondents say the

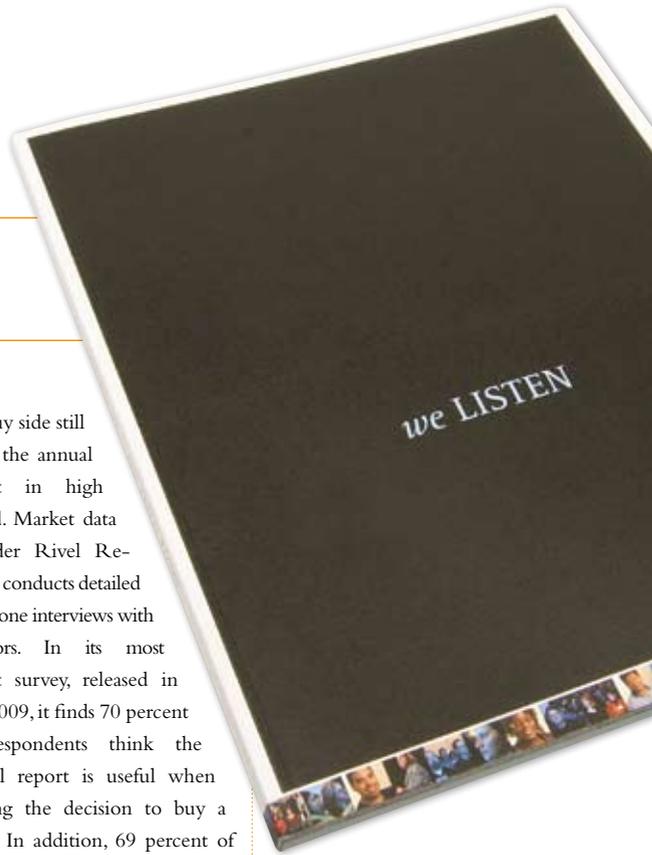
Noise reduction

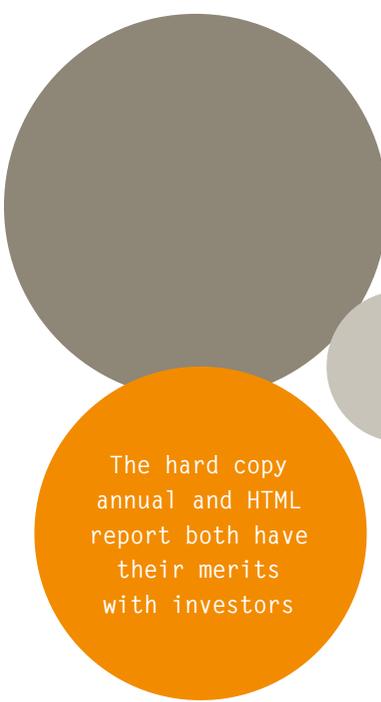
Long-term investors are always trying to block out 'noise', by which they mean the factors that move the market on a day-to-day basis: market rumors, momentum trading and PR disasters. Such factors distract from the fundamental strengths (or weaknesses) of a stock that are borne out over time.

'We use a variety of electronic media to get our message across, such as press releases and a YouTube account,' comments Bill Pfund, vice president of IR at WMS Industries. 'In those channels, however, the balance is tilted toward immediacy and the facts. The annual report gives you the opportunity to balance that with a greater perspective covering the direction of the company.'

annual report is useful for helping them follow a stock once it is in their portfolio.

'The annual report is a document that retains a great deal of credibility,' concurs Bill Pfund, vice president of investor relations at WMS Industries, the gaming company. 'It has a set of audited financial statements. It has the chief executive's letter. If used properly, it is an opportunity to share a greater perspective regarding the company and the industry in which it operates.'





Tailored message

The hard copy annual and HTML report both have their merits with investors

So what kind of annual report is right for your company? It's a complicated question and the answer will be different for each firm. But it's worth bearing in mind that most companies still produce some kind of hard copy annual.

NIRI's most recent annual report survey, conducted in 2008, finds 91 percent of respondents produce either a 10K wrap, a summary report or the traditional annual report. Of those printing an annual report, the most popular format is the 10K wrap, with 53 percent selecting this option.

The printed document is particularly important for connecting with your retail shareholder base, says Robbin Lee, vice president of IR at ProLogis, the global provider of distribution facilities.

'The majority of our shareholder base is made up of institutions, but we have around 65,000 individual shareholders,' she explains. 'These tend to be older individuals who own ProLogis as a yield play, and they like to be able to touch

and feel annual reports.'

Lee doesn't believe the printed annual report is going away any time soon. 'I don't think that will happen in my world,' she says. 'The older investors like to sit down with the report and read it from cover to cover.'

Disappearing act

Engaging with individual shareholders is particularly vital today, after two years of regulatory changes that threaten retail participation at the annual meeting.

There is evidence to suggest notice and access has reduced the retail vote since its introduction in 2007, while this year's change to Rule 452, eliminating the broker vote during directors' elections, should push retail vote levels even lower. Issuers need to do whatever they can to boost retail interest in their stock, and an engaging annual report is one of the best tools available for this task.

This year, ProLogis produced a 10K wrap and, like ECB, printed a separate run of the 16-page

ProLogis produced a 10K wrap, HTML report and online-only CR report to cater to its different stakeholders

front segment to help employees dealing with customers who lease its facilities.

The company also produced an HTML version of the report for its corporate website and a separate, online-only CR report. Lee says the HTML report is useful for professional investors and analysts who tend to prefer the quick access to information afforded by the internet.

‘Professional investors tend to

have a short attention span and an urgent need for immediate gratification,’ she explains. ‘This can be solved by giving them the HTML version, because mailing

out can take a couple of days.’

Whichever method you choose, there is a cost-benefit analysis that makes the case for companies to produce an annual report, according to Curran & Connors. Consider a client with 50 mn shares outstanding and a \$100,000 budget for its annual report. In this instance, the annual report would cost the company less than \$0.002 a share.

Now imagine the company’s share price increases by one penny as a result of the communication provided in the annual report. This would result in total return to shareholders of 400 percent. That’s money well spent, says Curran & Connors. ●

Reinvesting print savings

Notice and access is still evolving. Only the bigger companies have signed up en masse, as they have more to save from reducing larger print runs. Figures from Broadridge tracking notice and access adoption between July 1, 2009 and March 31, 2010 show only 29 percent of eligible companies had used the new option.

As there is evidence to suggest notice and access reduces retail interest, one option is to reinvest at least some of the print run savings in an online annual report. One company doing just that is ProLogis. ‘Do we make any savings from notice and access? Dollar for dollar, it’s probably a wash because we spend a little more money designing the HTML online report,’ says Robbin Lee, vice president of investor relations at ProLogis.





Modern audiences

Social media networks and CR are changing the way annual reports are consumed

Twitter users send, at the last count, around 55 mn tweets a day, and that figure is rising sharply. But the advance of social media does not mean traditional forms of communication, like the annual report, should be sidelined. On the contrary, social media networks can enhance the value of your annual report.

Issuers are now posting their reports to websites like Docstoc, where the documents can be viewed, shared and commented on. Docstoc has an annual report section containing more than 1,600 items and its most viewed item – Chesapeake Energy Corporation’s 2006 report – has clocked up more than 14,000 views on the site. By uploading documents, issuers can take control of the way they are portrayed on social media networks.

Twitter feeds are also being used by corporates to spread their message, mainly as a way to flag

new documents that have been posted to the website. Others are taking a more engaged approach by conducting conversations with stakeholders through the site.

It is worth noting that every one of the millions of tweets sent each day is now being stored by the US Library of Congress. This serves as a reminder to everyone that anything posted to the internet is there to stay.

While the web offers instant access to a wealth of information, it also acts as a massive storage bank that makes material available ad infinitum. That means extra care must be taken over whatever appears online, including such shareholder communications as the annual report.

Earthly concerns

For many investors – both professional and retail – the effort companies put in to protect the environment is becoming a greater and greater concern. In turn, the focus on sustainability has resulted in a rise in the number of investors

Kellogg's produced its second CR report this year

in the US focused on corporate responsibility, says Lee.

To highlight its sustainable approach to business, ProLogis continues to provide an online-only CR report, which this year was released on Earth Day (April 22). The report helps raise awareness about the company's programs supporting CR. 'The CR report makes it very easy to access all the information that's very important to CR investors,' notes Lee. 'It helps them decide whether we fit into their investment profiles.'

ProLogis is not alone. CorporateRegister.com, a website that stores and reviews CR reports, says 3,764 stand-alone reports were produced in 2009 globally, up from 3,408 in 2008 and 3,011 the year before.

This year, breakfast cereal producer Kellogg's delivered its second CR report, which is available in HTML, PDF and print formats. The report features interviews with David Mackay, president and chief executive, and John Bryant, chief operating officer, in order to

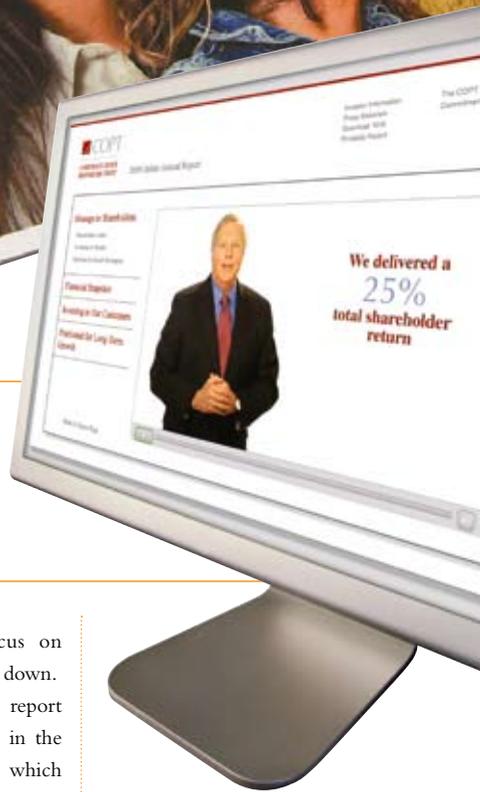


Corporate Office Properties Trust developed a video report starring its management team

emphasize Kellogg's focus on sustainability from the top down.

In general, the CR report complements the content in the traditional annual report, which has the wider aim of making a lasting and comprehensive statement about a company's operations, finances and strategy.

'Shareholders, employees, suppliers and regulators are all



important stakeholders for whom we believe the annual report remains an important part of our communications strategy,' concludes Pfund. ●

Sponsor's statement

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Over the past four decades, Curran & Connors has evolved beyond its core capability – annual report design and production – to meet the challenges of a continually changing corporate environment.

Our ongoing evolution translates into greater creative capacity, enhanced design solutions, cutting-edge web services and better results for you. With design studios in New York, Chicago, Florida and California, and account executives across the country, we continue to offer an unparalleled range of talent, coupled with knowledgeable local representation, to create enduring connections for our clients.

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