

READING ANNUAL REPORTS



Australian
Shareholders'
Association



A good annual report as defined by ASA

- ▶ Should be **written in plain English** and laid out in a way which **enhances retail shareholders understanding of the company and its financial data.**
- ▶ Should include the **history of financial performance.** This is a **critical element of the annual report.**
- ▶ Shareholders prefer this be presented as a table showing a 5-year history of financial performance.
- ▶ The information required to be included in the remuneration report by **s300A (1AA) and S300A (1AB) of the Corporations Act** should be included in this table.
- ▶ Access to the full annual report



Section 300A of the Corporations Act 2001

1AA

... company's performance **must specifically deal with:**

- (a) the company's earnings; and
- (b) the consequences of the company's performance on shareholder wealth;
in the financial year to which the report relates and in the previous 4 financial years.

1AB

... the consequences of the company's performance on shareholder wealth in a financial year, **have regard to:**

- (a) **dividends paid** by the company to its shareholders **during that year**; and
- (b) changes in the price at which shares in the company are traded between the beginning and the end of that year; and
- (c) any **return of capital by the company to its shareholders** during that year that involves:
 - (i) the cancellation of shares in the company; and
 - (ii) a payment to the holders of those shares that exceeds the price at which shares in that class are being traded at the time when the shares are cancelled; and
- (d) any other relevant matter.



The Financial Statements

- The financial statements need to be explained well and should be fairly easy to understand.
- Page 81 onwards in WOW presents good examples of how financial statements and different sections of financial statements can be presented for shareholder ease of understanding
- Page 113 to 118 of the CBA 2020 Annual Report also provide extensive notes explaining accounting standards and the basis on which the financial report is made
- Page 43 of the Blackmores 2020 Annual Report presents a very clear and extensive five-year summary of the organisation



Independent Auditors' Report

ASA believes good corporate governance mandates that audit firms be changed regularly.

There should be a competitive tender for the external audit every 10 years or sooner where audited accounts have been shown to be deficient, inaccurate and in breach of the accounting standards.

The date of the most recent tender should be disclosed in the annual report.



Remuneration Report

- Remuneration framework should be clearly presented and easily understood by shareholders reading the report
- Remuneration mix with clear numbers or multiples representing the target and maximum amounts that an executive can earn
- Hurdles are important!
- There should be clear links between pay and performance as opposed to arbitrary explanations in this regard.
- Disclosure – Has the company provided disclosure on specific targets?
- Some companies will not provide forward looking information, but performance against those hurdles should be disclosed



Governance Statement

- Is the information presented well and easy to understand?
- Are active efforts being made to ensure that the organisational culture is enabling good performance and adhering to shareholders' expectations of a fair company and organisation?



Strategy and Risk

- Does the annual report feature a clear section that outlines past and future strategy?
- If not, does reading the report provide an overview of the strategy for both past and future?
- Has the organisation outlined key risks and issues clearly in accordance with the requirements of the Corporations Act?
- Is there evidence that the organisation is addressing these risks?



Reading annual reports critically

- Maintain a critical outlook towards the information presented
- Keep your eyes peeled for jargon, request clarity in your engagement
- Ensure you are aware of reporting obligations and keep track of if these are being adhered to
- Use your ability and critical understanding to guide you but ask for second opinions from senior monitors or CMC chairs if you do not feel across a particular issue

