



Reading annual reports:

From glancing to dissecting



Annual reports are the only published documents that contain abundant information about a company's performance. To get the most out of them, investors should have the right skills and knowledge. This whitepaper outlines the basic components of an annual report and how to glance through the document if one has limited time.

Components of an annual financial report

Although many companies strive to put their own spin on the annual report, the document's format is largely standardised, which aids readers in comparing one company with another and identifying particular information of interest. Usually, an annual report comprises of three sections:

- 1. Letter to shareholders or chairman's statement:** An overview of the organisation's business and financial performance.
- 2. Business review:** A summary of the company's recent developments, trends and objectives.
- 3. Financial review:** A presentation of the company's financial performance including the financial statements and audited financial statements. The basic financial statements include:
 - ✦ Balance sheet: A snapshot of the company's financial position with regard to its possessions and debt
 - ✦ Income statement: A report of the company's profitability during the period presented
 - ✦ Statement of changes in shareholders' equity: A statement of stock transactions and effects on retained earnings
 - ✦ Statement of cash flows: A report on the company's cash movements categorised as operating, investing or financing activities
 - ✦ Footnotes: A section of more detailed information about the financial statements.

How to glance through an annual report

This section outlines the most important things to consider if one has limited time to go through the annual report.

1. Overall look and feel

The financial report should consist mainly of text, financial data and notes, rather than glossy pages filled with photos and graphics that do not add value to the presentation.

2. Letter to shareholders/Chairman's statement

The first and last two paragraphs should be read in detail to get a gist of how the business is going. This section should also provide a comparison with last year's performance and a brief explanation for any changes.

3. Financial statements

Key elements to check:

- ✦ Net profits: positive or not, rising or falling
- ✦ Sales: rising or falling



- ✦ Operating cash flow after working capital adjustments: positive or negative
- ✦ Net debt: rising or falling
- ✦ Dividends: rising or falling (as a percentage of net profits)
- ✦ Shareholder's equity: rising or falling
- ✦ Return on equity: higher is better
- ✦ Return on capital: higher is better

4. Footnotes

Investors can look for the segmental breakdown to see which segment(s) is producing more of the company's sales and earnings and what debt the company has to resolve in the near future.

5. Audit results

Make sure the independent auditors gave the company a clean bill of health.

6. Further explanation

For areas of problems or deterioration, search for an explanation in the report or from the company itself.

To be continued...

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