

Helping clients meet the increasing demands for greater transparency in corporate reporting

Trends 2006: Good Practices in Corporate Reporting provides a guide for preparers of corporate reports faced with demands for greater transparency by presenting a summary of examples and a brief introduction to our Corporate Reporting Framework.

Our new interactive website: www.corporatereporting.com lets you search the full catalogue of over 40 good practice examples from companies worldwide and full details of our leading Corporate Reporting Framework, based on our 7th annual review of Trends 2006. The website provides good practice reporting examples from a range of companies, including six Canadian companies: BMO Financial Group, Cameco, Canadian Tire, Potash, TransAlta and TimberWest. There are also 29 industry-tailored reporting frameworks, and links to the survey work that underpins the thought leadership in corporate reporting. Our review of recent trends also highlights *The IASB Management Commentary Discussion Paper*, which pulls together many of these common threads and which is based on a review of guidance and requirements across several jurisdictions.

New regulations, new requirements and ever-increasing demands for transparency - how can companies make sense of it all?

<p>The meaning and scope of narrative reporting</p>	<p>We use the term 'narrative reporting' to include the contents of the sections usually referred to as Management Discussion and Analysis (MD&A) that are commonly located in the front sections of corporate annual reports. Our definition of narrative reporting, however, is broader than that type of information alone, since it also comprises quantified metrics that support the narrative commentary, and other materials included in the annual reports.</p>
<p>Who is the key audience for narrative reporting</p>	<p>While investors should be the primary audience for narrative reporting, narrative reporting does not replace forms of reporting aimed at a broader group of stakeholders, such as Corporate Social Responsibility (CSR) reports. In most jurisdictions, the defined target audience for narrative reporting is confined to 'investors'. In Germany, it refers more broadly to the "user" of reports. In the UK, where the audience is defined explicitly by regulation, there has been widespread debate about which users should be the focus of narrative reporting, with many participants taking the view that it should meet the needs of all stakeholders. In Canada, directors have a fiduciary duty to "the Corporation" and all its stakeholders, not just the shareholders.</p>
<p>Principles & Qualitative Characteristics of high quality narrative reporting</p>	<p>Trends 2006 identifies a strong convergence of opinion on the concepts that underpin the preparation and presentation of narrative reporting for investors. In general, these principles lead to a requirement for narrative reporting to supplement and complement the financial statement information, provide an analysis of the entity through the eyes of management, and be forward-looking. Based on our research, what makes information useful to investors appears to be the following attributes: understandability, relevance, supportability, balance, and comparability over time</p>
<p>Frameworks to support effective narrative reporting</p>	<p>To meet the objective of effective narrative reporting, our Trends 2006 research indicates that an entity's Management Commentary should disclose information on:</p> <ul style="list-style-type: none"> • The nature of its business • Its objectives and strategy • Its key resources, risks and relationships • Its results and prospects • Its performance measures and indicators.

Helping clients meet the increasing demands for greater transparency in corporate reporting

PwC's Corporate Reporting Framework

Four broad categories of information, underpinned by relevant performance measures

Tailored industry versions of the framework are available on the website, and enable companies to discover a wealth of practical insights. Investor information requirements differ depending on a number of factors in addition to the industry perspectives, such as the external climate, the specific strategies adopted by the company and its ability to deliver the promised outcomes.



Market Overview

Despite the critical importance of the information covered in the Market Overview, our research has shown this is often less well communicated and consequently not understood as clearly as one might expect. Companies often justify their silence on such issues by claiming that those who need such marketplace information can obtain it from other sources. Companies with a more enlightened, active view prefer to provide their own descriptions, analyses, and opinions of the environment in which they operate.

Strategy & Structure

A company should clearly communicate how its strategy and corporate structures enable the company to compete and thrive. Management should support its strategy with quantified medium-term targets and relevant milestones, including a description and rationale for its chosen mix of risk (e.g. the cost of capital) and return (e.g. cash flow) for the enterprise as a whole and for each business segment. Furthermore, management should clearly distinguish the portion of its growth strategy that will be achieved organically compared to the portion that requires acquisitions.

Managing for Value

Regardless of how well it has defined and explained its Strategy and Structure, management must also bring it to life by explaining in sufficient detail the complex web of assets, relationships, capabilities, and processes it has in place for executing strategy. Companies that have learned how to link their disparate value-creating elements to strategy and then manage them effectively are in a position to report to the investment community the kind of information it needs to assess both current performance and future prospects.

Performance

This is the category where the elements of risk, return, and growth come together in the form of performance outputs. This is a test of whether or not a company has delivered results in line with expectations, and implicitly, of how well management has understood its market, executed its strategy, and managed its value-creating resources and relationships.

Relevant corporate reporting information available on our website

For more information

Visit www.corporatereporting.com to search for information on good practices in your industry. Contact your local PwC representative for more information, or:

Mike Harris	416 941 8256	mike.harris@ca.pwc.com
Rick Snidal	416 869 2477	rick.j.snidal@ca.pwc.com