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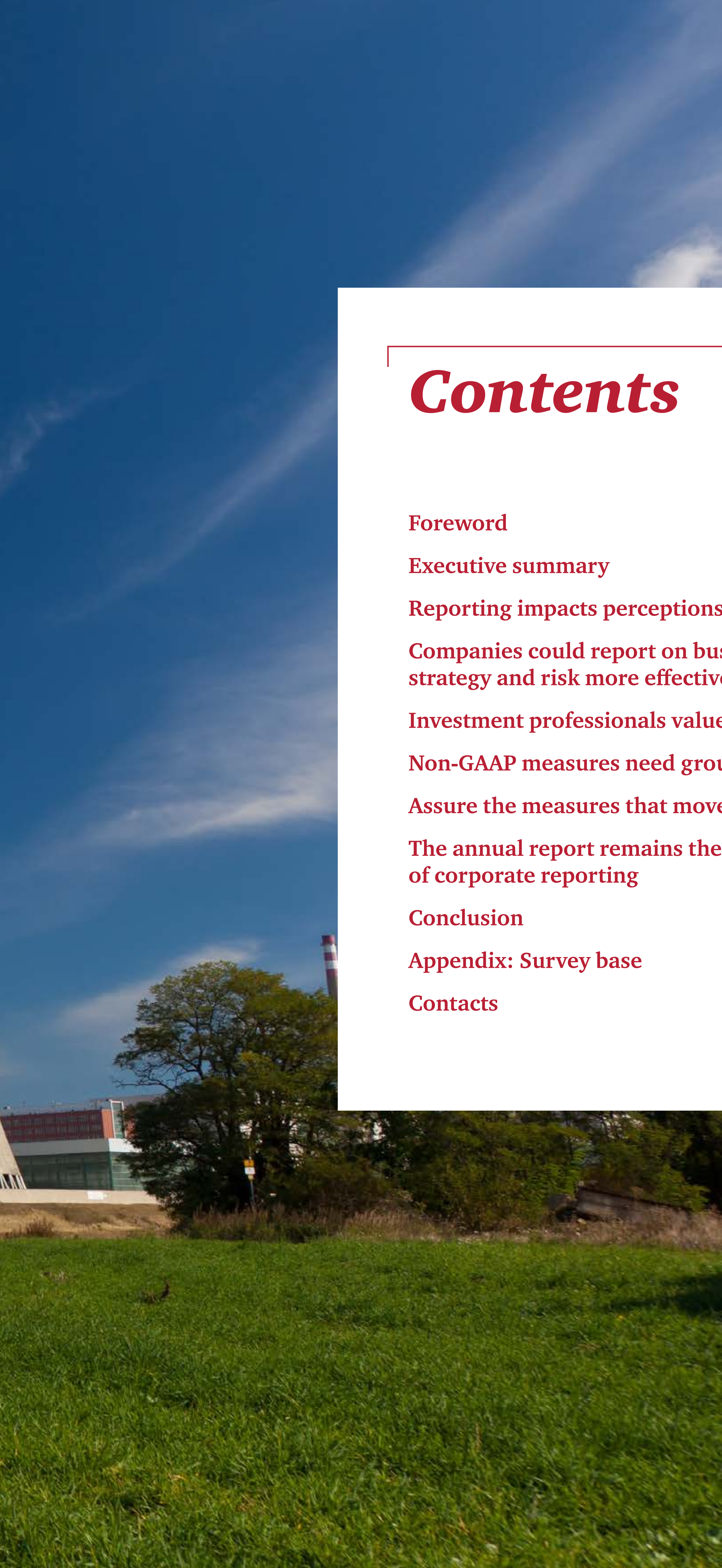
Powerful reporting

What do global power and utilities sector investment professionals want to see in company reporting?

November 2014



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Companies in the power and utilities sector have a significant impact on the countries in which they operate. Typically high profile and with relatively large market capitalisations, utilities supply the power, water and gas that form an economy's lifeblood.

Power and utilities companies are often at the forefront of global sustainability and climate change issues, and are directly affected by the evolving expectations of the communities they serve. As populations become more urbanised and some jurisdictions begin to move towards more renewable energy sources, clear communication becomes even more important. Companies need to tell a powerful story to support ongoing investment in their vital but often aging infrastructure.

One challenge for management arises from the need to communicate and build relationships with many different stakeholders. Your company's performance, strategy and plans are of keen interest to investors, governments, customers, businesses and special interest groups, among others. This report focuses on the particular views and needs of investment professionals – though many of their needs (for clarity and linkage across reporting, for example) would be echoed by other report users.

For this research, part of our ongoing dialogue with the investment community, we spoke to 20 investment professionals who specialise in the power and utilities sector. Survey participants were drawn from key markets across the world, and fulfil many roles. We spoke to equity analysts, fixed income analysts, ratings agencies, portfolio managers, chief investment officers and heads of research. We wanted to understand what is important to them in power and utilities reporting, and where opportunities for improvement lie. We focused many of our questions around networks, generation, supply and energy trading – reflecting the typical industry value chain.

We also asked 'big picture' questions about the usefulness of the annual report itself. We found that the investment professionals we spoke to really value the annual report. Importantly, they also think that the quality of a company's reporting is reflective of the quality of its management.

Could current reporting be improved? Investors and analysts think it could. They see definite improvement opportunities – particularly around business models, the regulatory environment and some critical segmental key performance indicators.

Power and utilities companies need to respond, but not only because investors and analysts are so vital for enabling ongoing investment, we see another potential benefit: improving your reporting can help build and improve trust with all stakeholder groups.

We hope you find this report useful – a springboard for assessing the quality of your own reporting. Please contact us or your usual PwC contact if you would like to discuss any of the ideas or themes raised.

Executive summary

Power and utility company reporting has strengths, but could be improved

Formal reporting by the sector is important. Investment professionals tell us that their perception of reporting quality affects their perception of the quality of company management. Ultimately, companies that fail to provide investors and analysts with the information they need could face a higher cost of capital and greater difficulty in funding infrastructure investment.

Investment professionals focusing on the power and utilities sector are highly interested in business model disclosures – but see huge room for improvement. Companies need to explain more clearly how they generate cash and create value. Similarly, we find substantial 'effectiveness gaps' in the reporting of strategy and risk. Investors and analysts tell us they need clearer explanations of issues such as how long-term strategy relates to the current business model, and how key risks are managed and mitigated. They also want to see clear links between strategic goals, risks and key performance indicators (KPIs).

Investment professionals value detailed information broken down by different business activities – networks, generation, supply and energy trading. Considerable room for improvement exists in three of these areas:

Networks – particularly in relation to capital expenditure, regulatory regimes and additions to regulatory asset base.

Generation – expected ramp down or investment in new generating plant is the main area requiring attention here.

Energy trading – hedging disclosures are particularly hard to understand and need to be explained more clearly.

Most investment professionals surveyed (65%) find non-GAAP measures helpful for their analysis – but they want them to be clearly defined. 60% also want to know management's view of what is 'core' or 'underlying' to the company. However, management could do more to explain how they have adjusted items when calculating their underlying performance. Following a number of ground rules for reporting non-GAAP measures could give investment professionals greater confidence in their usefulness. When asked about the measures that move markets, only 53% of investment professionals we spoke to think these are sufficiently reliable. The more important an item of reported information is perceived to be, the more investors and analysts want it to be subject to some form of assurance.

Given that power and utility companies report a wide variety of information through multiple channels, the annual report might be thought to be losing its importance. Not so, according to investment professionals focusing on the power and utilities sector. They turn to the annual report when seeking many types of information – including financial, governance and environmental. Investors and analysts find it useful to have so many topics addressed in a single document and they typically do review the annual reports of the companies they follow.

The annual report therefore remains the bedrock of financial reporting. Your annual report is important to investment professionals – and it should be important to you too.

Reporting impacts perceptions of management

Given its importance, we asked respondents to score the quality of reporting overall in the utilities sector. Their average mark? 3.5 out of 5.

Investment professionals use a wide variety of information sources for their analysis of company performance. Some are under a company's control – its formal reporting as represented by the annual report, investor presentation, preliminary announcements etc. Some, such as media reports or information from third party data providers, are not. So how much does a company's formal reporting matter?

The investors and analysts we spoke to say that the quality of a power and utility company's formal reporting can have both a direct and indirect impact on their investment decisions.

A majority (60%) of investment professionals specialising in the power and utilities sector say their perception of the quality of a company's reporting impacts their perception of the quality of its management.

In addition, 60% tell us that when companies present information clearly and concisely, they feel more confident in their own analysis.

These findings suggest that power and utilities companies that achieve clearer, higher quality reporting could be rewarded by the allocation of a lower uncertainty or risk premium and more favourable discount rates. This could translate into a lower cost of capital and greater potential over time in raising finance for vital power and utilities infrastructure investment.

The message we hear from investment professionals is therefore clear – reporting matters.

Many of the investment professionals we spoke to noted a significant difference between the leaders in reporting and the majority of the industry. Some power and utilities companies are seen as providing high quality reporting, but many management teams have significant room for improvement.

Figure 1: My perception of the quality of a company's reporting impacts my perception of the quality of its management

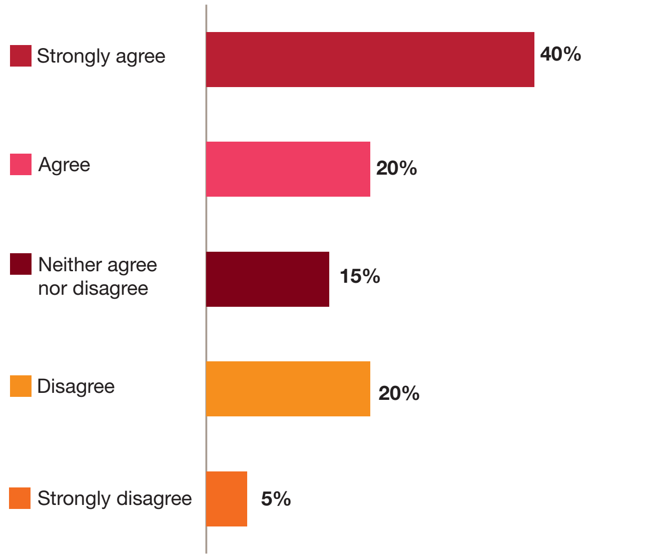
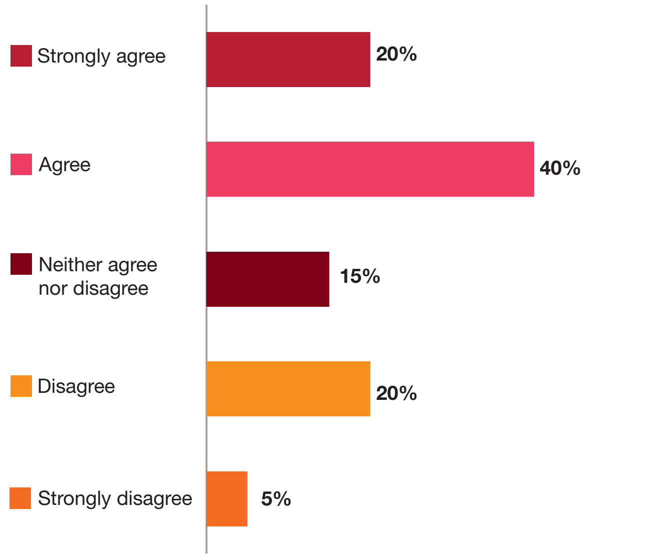


Figure 2: When companies present information clearly and concisely, I feel more confident in my analysis



Companies could report on business models, strategy and risk more effectively

Business models matter

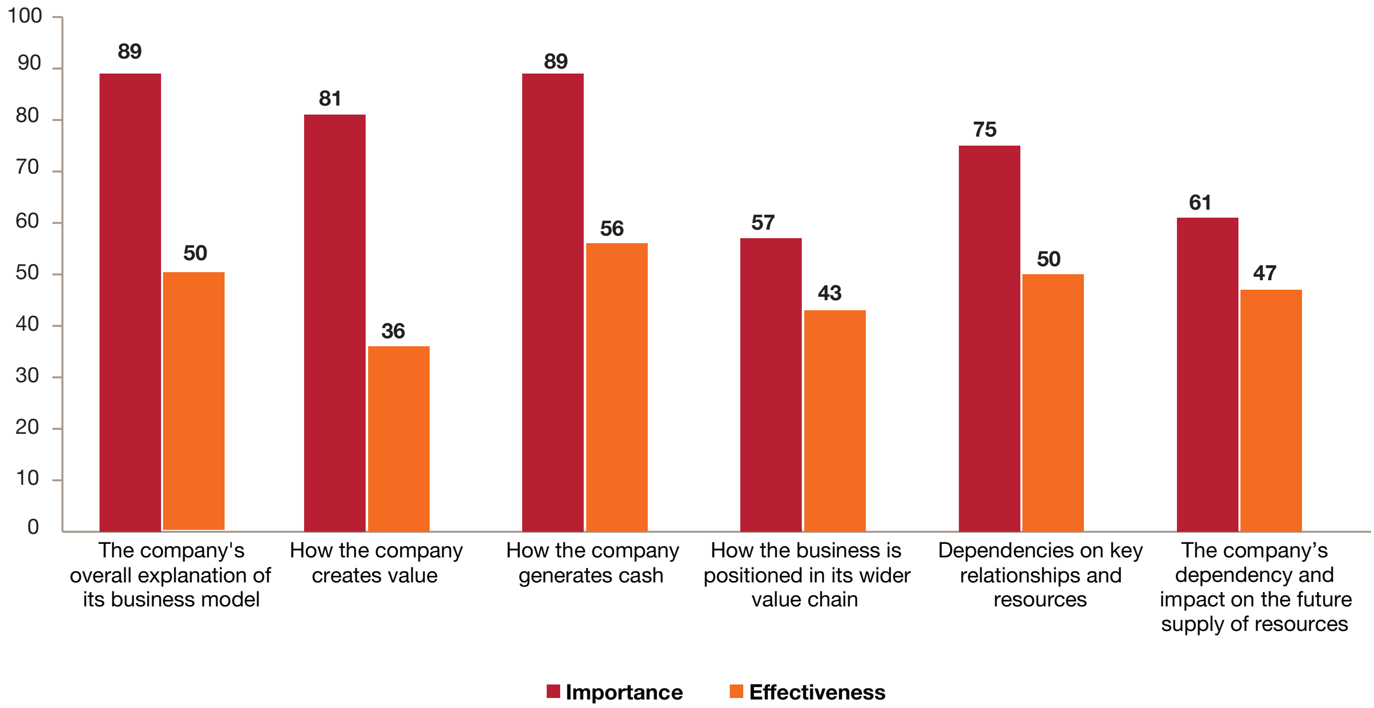
Business model reporting is a hot topic in the global corporate reporting agenda, given prominence by initiatives such as the International Integrated Reporting Council's Integrated Reporting Framework and the UK strategic report guidelines. We asked investment professionals for their views on the importance and effectiveness of the information they currently receive on different elements of power and utility business models, including details such as how the company creates cash and value.

While the most effective business model descriptions or explanations include all such elements, there are gaps in current reporting, perhaps reflecting the evolving nature of these disclosures.

Investment professionals certainly see room the power and utilities sector to improve the effectiveness of their business model explanations: the level of granularity, clarity and specificity are the most frequently cited areas needing attention.

Figure 3: How important is each of these pieces of information provided by a company for your analysis, and how effective is the information that you currently receive in all aspects of company reporting?

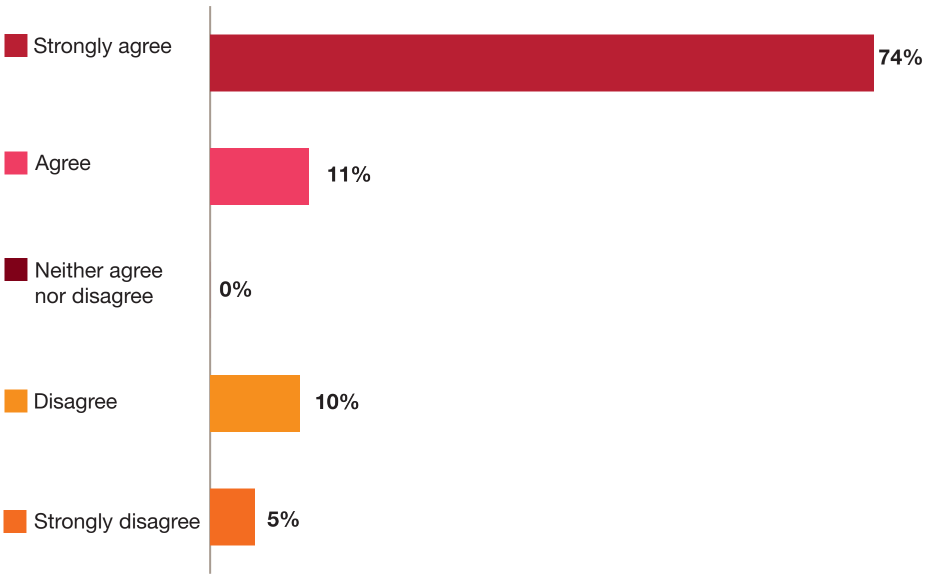
On a scale of 0 to 100, where 0 is not at all important or not at all effective and 100 is very important or very effective



In particular, many investment professionals would like to see more transparency about how capital flows through the company. They are also focused on how power and utility companies make money, both in terms of cash today and value that will convert to cash in the future.

A large majority (85%) of the investment professionals we spoke to told us that a company's description of its regulatory environment, current price controls or rate cases, and progress against commitments is important to their analysis. This type of information – on issues that drive future cash flow modelling – is a crucial area of your company's formal reporting.

Figure 4: A company's description of its regulatory environment, current price controls/rate cases and progress against their commitments is important to my analysis



"I need to be able to understand the business model to assess the overall strategy"

Only 50% of the investment professionals we surveyed think companies generally disclose enough information about their business model to allow them to understand how the different segments are performing on a stand-alone basis, and how the different businesses work together. For example, companies could perhaps improve disclosures explaining the relationship between generation and customer supply businesses or generation and wholesale/trading.

Companies need to strike a balance between providing business model information at the group level and clear descriptions of how the underlying businesses work together.

Only 58% of the investors and analysts we spoke to think that disclosures made by power and utility companies in their Annual Report (or 10-K or 20-F) help them to assess the business model and its resilience over time.

Investment professionals are interested in issues such as how the business model might need to adapt to a changing macro-economic environment or future resource scarcity. Improving such disclosures is one way that many power and utility companies could better meet investors' and analysts' needs.

Figure 6: I think companies generally disclose enough information about their business model to allow me to understand how the different segments are performing on a stand alone basis and how the different businesses work together

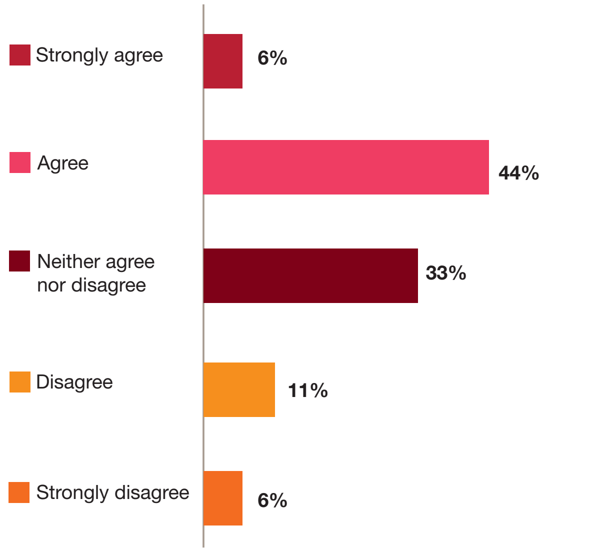
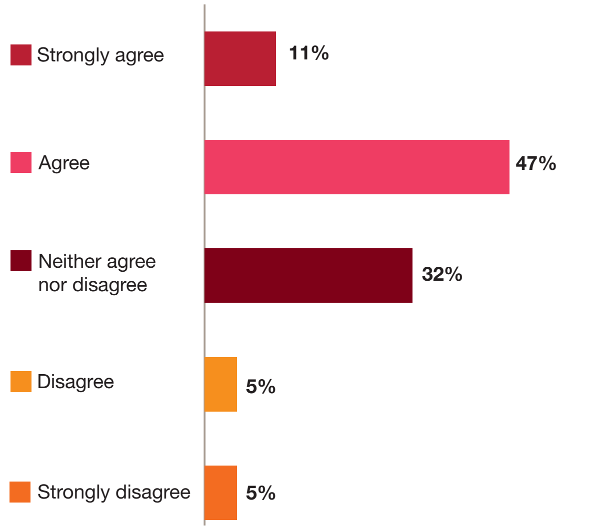


Figure 7: Disclosures made by companies today in their Annual Report or 10K help me to assess the company's business model and its resilience



> "It's not just about the numbers; I need commentary to make it understandable"

Strategy and risk reporting is crucial

An understanding of a company's long-term strategy is crucial for investment professionals. It can provide the link between historical financial information, the present situation and the future they are trying to predict in their models.

Many different information sources are available to investors and analysts. But what information on strategy do they value in company reporting? And how effectively are companies providing it?

When we asked investment professionals for their views we found some striking gaps between the importance of certain information and the effectiveness with which it is reported. One of the largest gaps arises in relation to how the company's long-term strategy relates to the current business model.

We also asked investment professionals about the current state of risk reporting by the sector. Some risk-reporting regimes around the world are more restrictive than others, but our experience suggests that some of the best company reporters challenge themselves to produce innovative and insightful risk reports. Not everyone is best-in-class, however.

The investment professionals we surveyed see a substantial gap between the importance and effectiveness of reporting about the way utilities companies manage and mitigate their risks.

So what are companies doing wrong? Investors and analysts tell us they are frustrated by too much boilerplate language. They want to see specific information on the important risks your company faces.

Figure 8: How important is each of these pieces of information provided by a company for your analysis, and how effective is the information that you currently receive in all aspects of company reporting?

On a scale of 0 to 100, where 0 is not at all important or not at all effective and 100 is very important or very effective

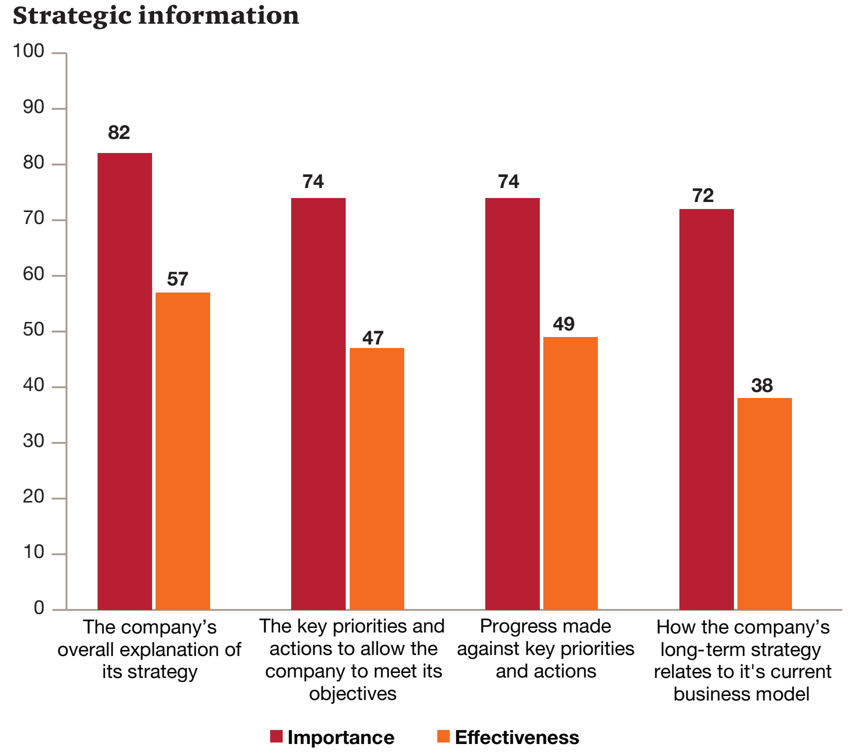
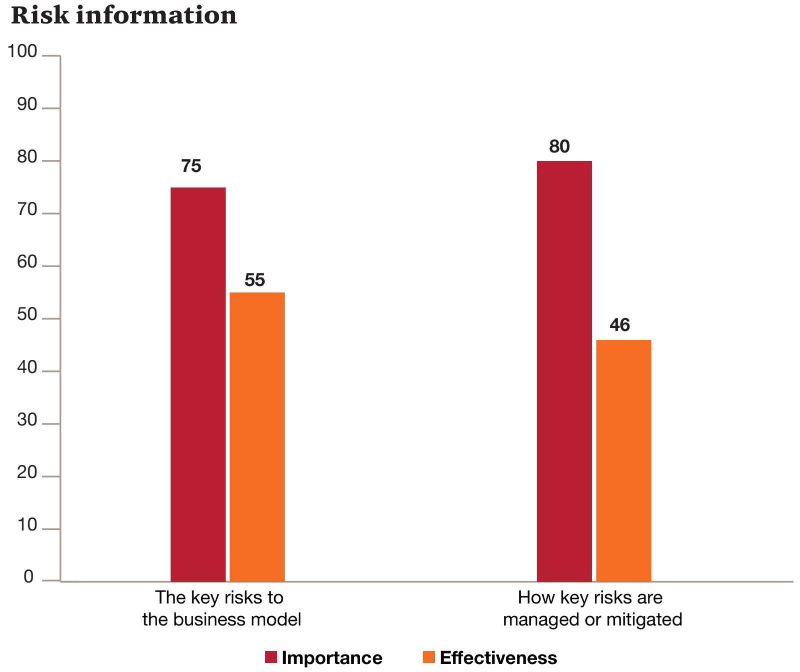


Figure 9: How important is each of these pieces of information provided by a company for your analysis, and how effective is the information that you currently receive in all aspects of company reporting?

On a scale of 0 to 100, where 0 is not at all important or not at all effective and 100 is very important or very effective



Why does strategy and risk reporting matter?

Only 42% of investment professionals we spoke to felt that companies generally disclose enough information on their future strategic plans to allow them to feel comfortable with the judgments they need to make.

This indicates a real opportunity for power and utilities companies to improve their reporting by articulating more clearly their long-term strategy and management's progress against it.

Such enhanced disclosures could reinforce any efforts made to help investment professionals assess business model longevity – a need identified earlier in this report.

Reporting on strategy in isolation is not sufficient, however. A consistent theme emerging from our interviews with investment professionals is their desire for better linkage throughout company reporting.

Better linkage is about telling a clearer, more integrated story: it involves reducing repetition and highlighting interdependencies in the business. For example, a clear link between strategy and key performance indicators (KPIs) allows investment professionals to understand how management measures its progress against strategic objectives. Investors and analysts also want to see strategy linked to the risks the business faces.

This is reflective of the growing trend in all sectors towards more integrated reporting. Power and utilities companies need to grasp this opportunity. The more they can help investors and analysts to navigate through the mass of information they report, the more clearly their corporate story should come through.

"There is a huge variance between companies; some report well, others are very opaque"

"There is not enough granularity in the segmental information"

"Often I can't see the substance in the notes to the accounts. Just having more and more disclosures in a form that is not understandable is not helping"

Figure 10: I think companies generally disclose enough information on their future strategic plans to allow me to feel comfortable with the judgements I need to make

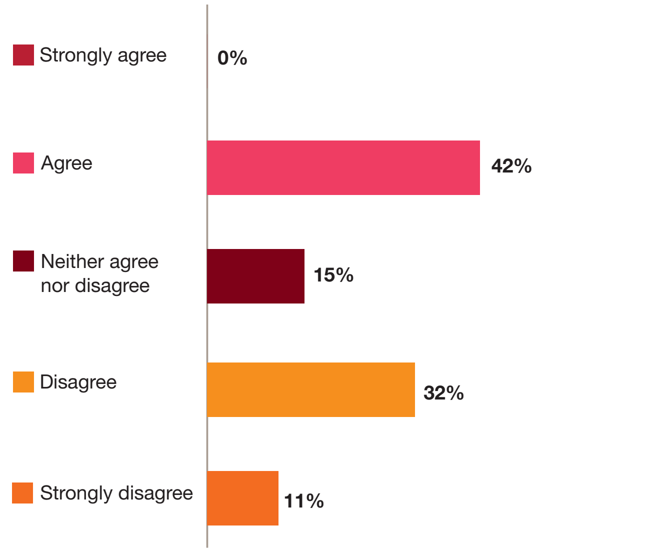
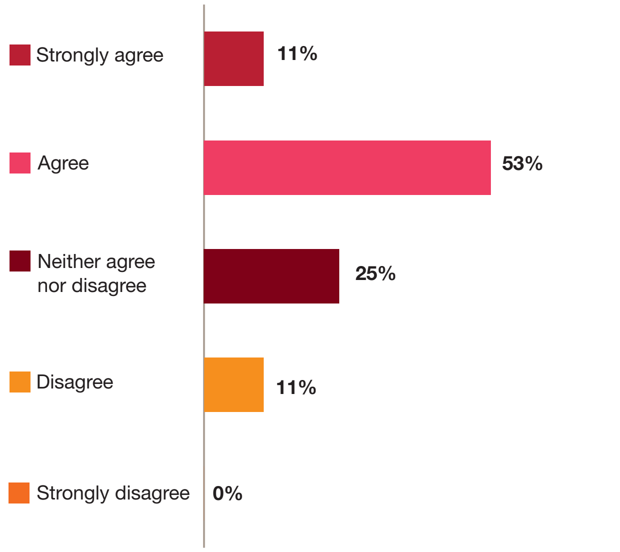


Figure 11: Clear links between a company's strategic goals, risks, KPIs and financial statements is helpful for my analysis. (perhaps visual links, or links drawn out in managements commentary)



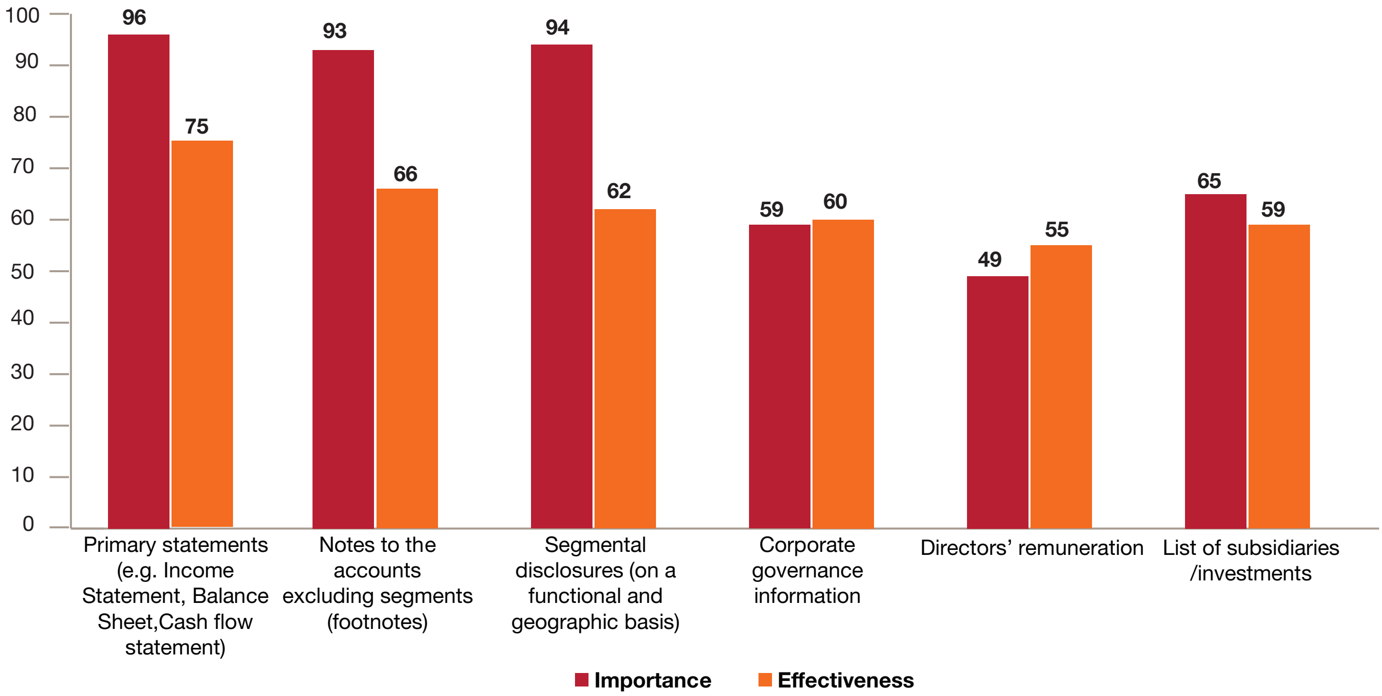
Financial statements and notes are valued

The investment professionals we surveyed place a high value on the importance of information contained in the financial statements and notes found in an annual report.

There is, however, a significant gap between importance and adequacy, particularly for segmental disclosures. Investment professionals want to see much greater granularity in the segmental information provided by power and utilities companies.

Figure 12: How important is each of these pieces of information provided by a company for your analysis, and how effective is the information that you currently receive in all aspects of company reporting?

On a scale of 0 to 100, where 0 is not at all important or not at all effective and 100 is very important or very effective



Investment professionals value sector-specific KPIs

Be clear on KPIs

Management teams produce key performance indicators in order to meet regulatory requirements or enhance their corporate reporting: KPIs can be useful tools to help tell the story of the business and its performance.

Our previous report 'Survey 1 APMs' looked at the reporting of adjusted performance measures (APMs) across all sectors. But what did investment professionals tell us about the opportunities to improve KPI reporting for power and utilities companies? What do they consider to be the most important information, and how effectively is it being provided?

We found that effectiveness gaps do exist to some extent for both financial and operational KPIs. Our conversations with investment professionals reveal a need for clarity on why management has chosen particular measures. Such explanations may help report users to understand the importance of a particular KPI and how the company has performed against its target. Perhaps even more importantly, companies need to demonstrate a link between their KPIs and their strategic priorities and business model.

Investment professionals also frequently express concern about lack of consistency in both the definition and application of industry measures. In the absence of standard definitions, clear disclosure of what these measures include would help comparability.

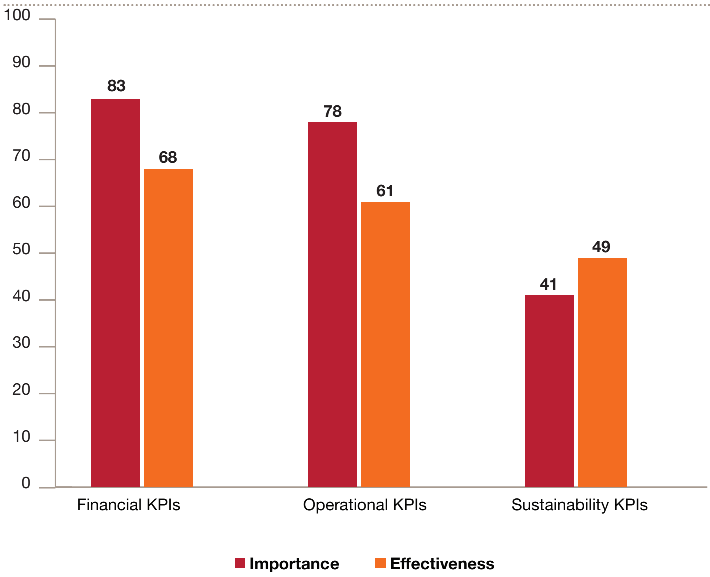
We wanted to dig deeper into investor and analyst perceptions of KPIs specific to the power and utilities sector. We therefore broke down our questions on KPIs into commonly used 'segments' within the sector: networks, generation, supply and energy trading. We found that while investment professionals place importance on such industry-specific KPIs, they don't always perceive what they receive as adequate.

"Effectiveness of reporting of some of these KPIs really differs from company to company…

…I need to see clarity, how are you defining it, how are you performing against targets?"

Figure 13: How important is each of these pieces of information provided by a company for your analysis, and how effective is the information that you currently receive in all aspects of company reporting?

On a scale of 0 to 100, where 0 is not at all important or



KPIs for networks

We first asked investors and analysts about KPIs for networks. We found the biggest effectiveness gaps occurring in relation to capital expenditure, explanations of regulatory regimes and additions to regulatory asset base.

These are all elements that might directly affect the models created by investors and analysts, so perhaps the call for increased granularity, detail and clarity here is unsurprising.

On the other hand, given that the value of the networks business is driven by the regulatory asset base, it is surprising that investment professionals see so much scope for improvement.

Management teams may be too quick to assume that investment professionals can grasp the full meaning of such important KPIs. Our research suggests they might benefit from taking the time to step back and reassess their disclosures on regulatory assets and regimes, expenditure plans and price controls. Are you telling your story as effectively as you could?

Figure 14: How important is each of these pieces of information provided by a company for your analysis, and how effective is the information that you currently receive in all aspects of company reporting?

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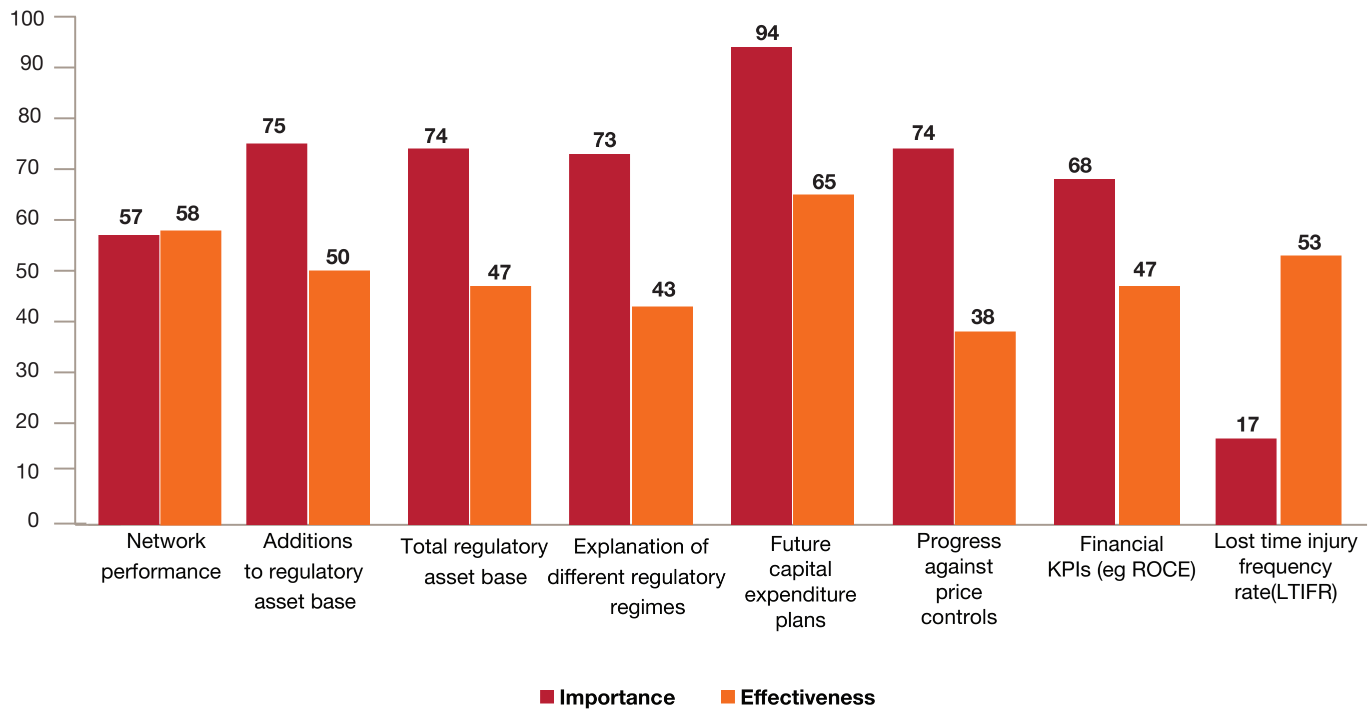


KPIs for generation

We also asked investment professionals focusing on the power and utilities sector about KPIs related to generation. Expected ramp down or investment in new generating plant was considered both most important and the area with greatest scope for improvement. This is crucial information for future capex modelling, so investment professionals would like to see greater clarity and granularity around future cash flow expectations.

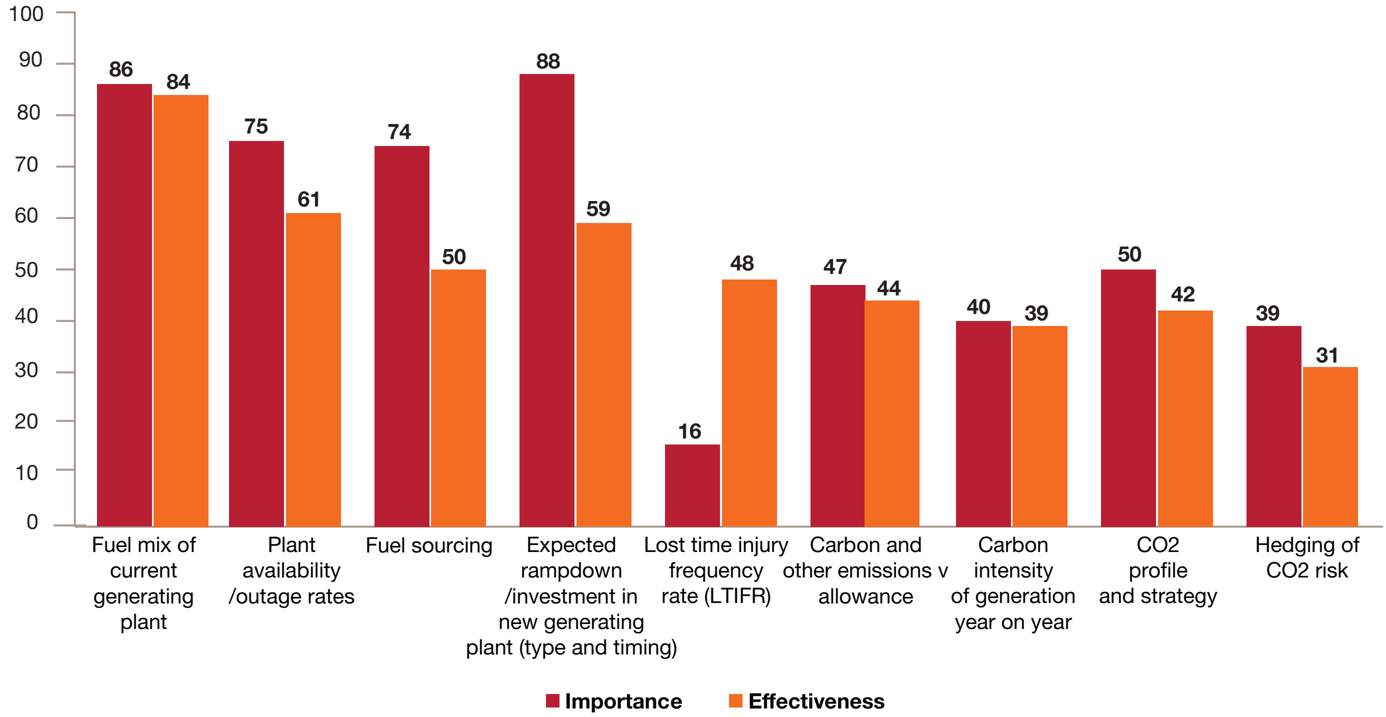
In contrast, investment professionals were more than satisfied with information reported on lost time injury frequency rates.

Investors and analysts scored emissions-related information perhaps more highly than expected, based on some of our previous research. Of the carbon-related items identified, they place most importance on a company's CO2 profile and strategy.

We found a significant effectiveness gap in disclosures around fuel sourcing – an area management teams might want to target for improvement. Such broader strategic and more future-oriented themes are important to investment professionals. New initiatives such as the IIRC's Integrated Reporting Framework might perhaps help companies to report on them more effectively.

Figure 15: How important is each of these pieces of information provided by a company for your analysis, and how effective is the information that you currently receive in all aspects of company reporting?

On a scale of 0 to 100, where 0 is not at all important or not at all effective and 100 is very important or very effective



KPIs for supply and energy trading

Across the board, supply KPIs offer significantly less room for improvement than other areas, suggesting this is one of the better reported aspects of utility company activities.

However, there are significant opportunities to improve reporting in relation to energy trading. In particular, investment professionals tell us they find hedging disclosures difficult to understand. They would also like management teams to be more clear about the underlying economic reality of their hedges.

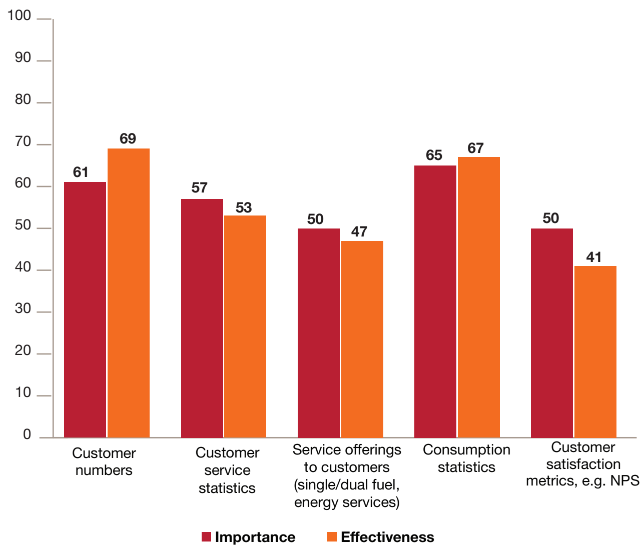
A good way to improve your communications here might be to consider whether your reporting answers three important questions:

- What am I hedging?
- At what price?
- For how long?

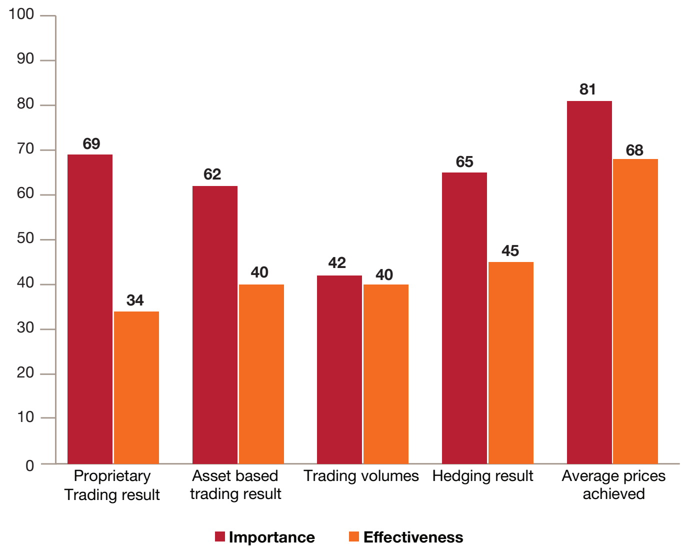
Figure 16: How important is each of these pieces of information provided by a company for your analysis, and how effective is the information that you currently receive in all aspects of company reporting?

On a scale of 0 to 100, where 0 is not at all important or not at all effective and 100 is very important or very effective

Supply



Energy trading



> **"Generally, I find the regulatory accounts more useful for trading results… they bear more resemblance to the underlying economics of the business"**

Non-GAAP measures need ground rules

While generally accepted accounting principles (GAAP) such as International Financial Reporting Standards (IFRS) or US GAAP form the bedrock of corporate reporting, they may not always be enough for investment professionals. Many management teams now identify measures of business performance in addition to the GAAP-based net income or profit or loss figure. These non-GAAP measures are seen by management as providing helpful additional information for users of financial statements – telling a clearer story of how the particular business has performed.

Frequently used measures include 'underlying earnings', 'core earnings', 'adjusted EBITDA' or other management performance measures such as 'regulated asset value'.

But are such measures really useful to investment professionals? And if they are, could their value be increased by changing the way they are disclosed?

The majority (65%) of the investment professionals we spoke to told us that they find non-GAAP measures helpful for their analysis. Management's view of what is 'underlying' or 'core' to the company is important to them: three out of five (60%) of those we surveyed like to receive this information. Many feel it plays an important role in enabling management teams to tell their company's story as they see it, providing real insight into the value drivers of a power and utilities business.

Figure 17: Generally, I find adjusted performance measures helpful for my analysis

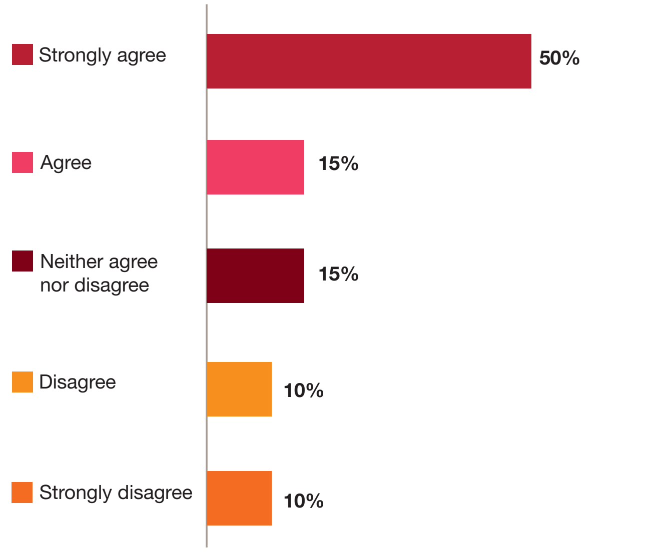
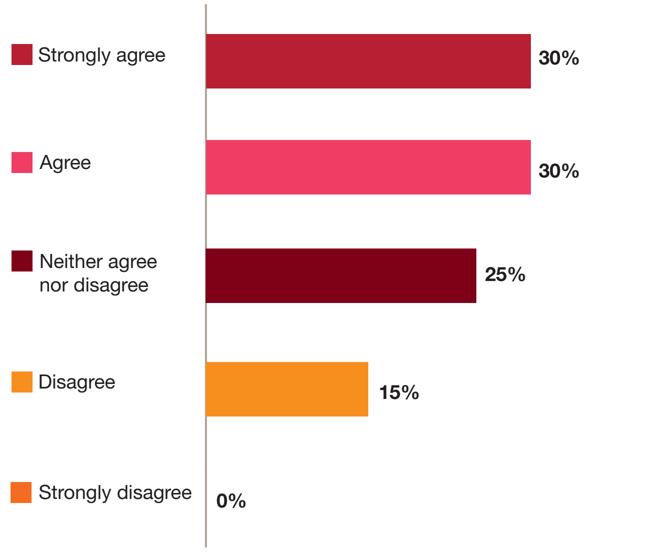


Figure 18: I like being able to see management's view of what is 'underlying' or 'core' to the company



Given that some non-GAAP measures are not formally defined, investment professionals are dependent on company reporting to explain them. Many investors and analysts see considerable room for improvement in this area: 75% of those we spoke to would like management teams to provide clearer descriptions of the items they have adjusted when calculating their 'underlying performance' measure, as well as why they thought it appropriate to make the adjustments.

One challenge for investment professionals is that individual companies tend to define non-GAAP measures in their own way. In the absence of industry standards, management teams could help investment professionals by defining their non-GAAP measures clearly and, if appropriate, explaining why that definition is relevant. Breaking down the components and adjustments clearly would also help investment professionals to take a different approach if they wanted to.

The way management teams define their non-GAAP measures has a real impact on the way that investment professionals perceive those teams. The majority (81%) of those we spoke to said that if management's adjustments to reported GAAP numbers seem aggressive or unusual, their evaluation of the riskiness of management increases.

Such poor perceptions could translate into a direct financial cost for the company through an uncertainty or risk premium being priced into valuations.

"Reconciliations of non-GAAP numbers are helpful, but if I don't understand why management have chosen to add this, or remove that, it doesn't add very much value"

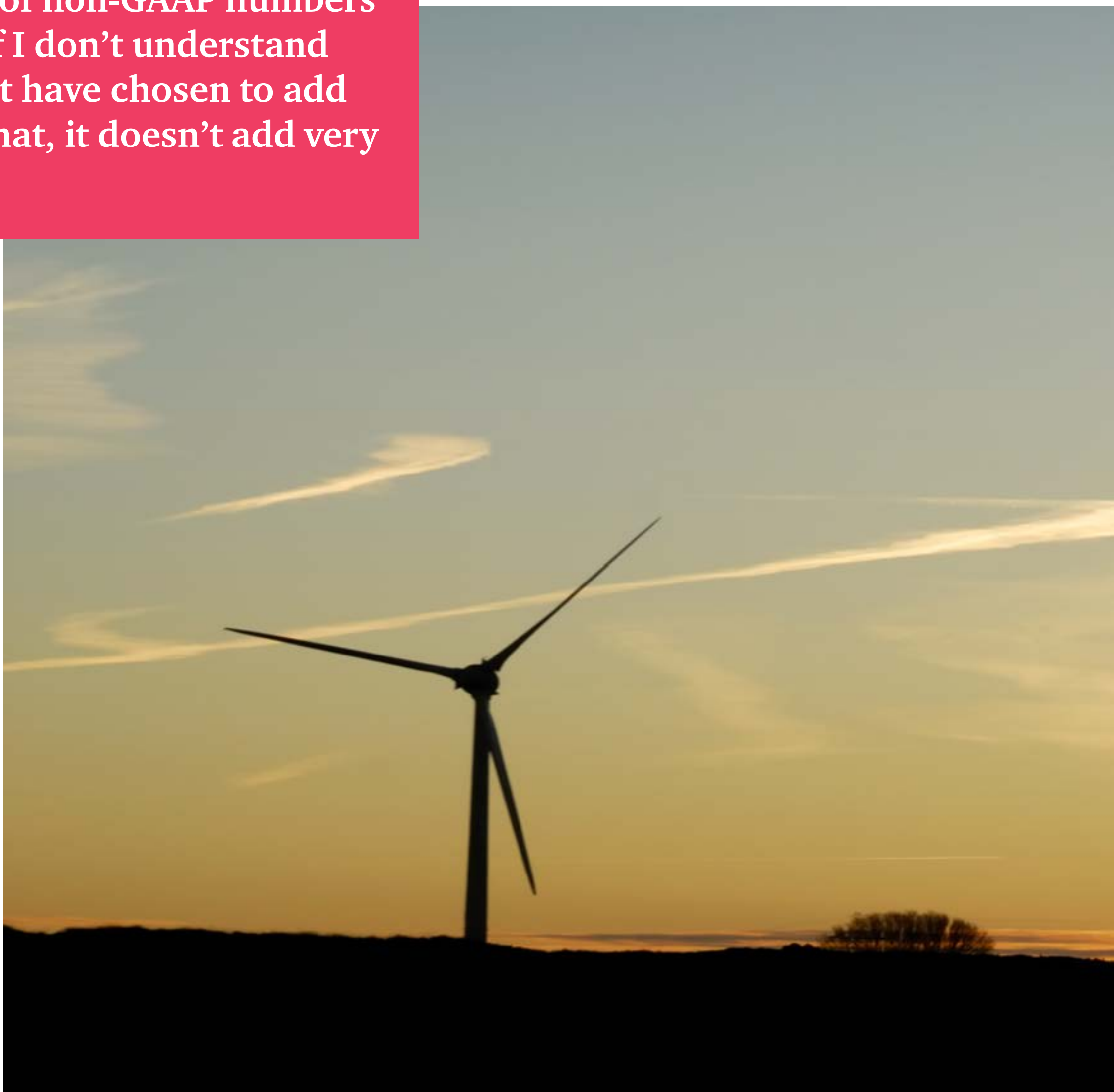


Figure 19: I would like management to be clearer in its descriptions of the items it has adjusted to arrive at ‘underlying performance’ (or a similar measure) and why they chose to adjust for them

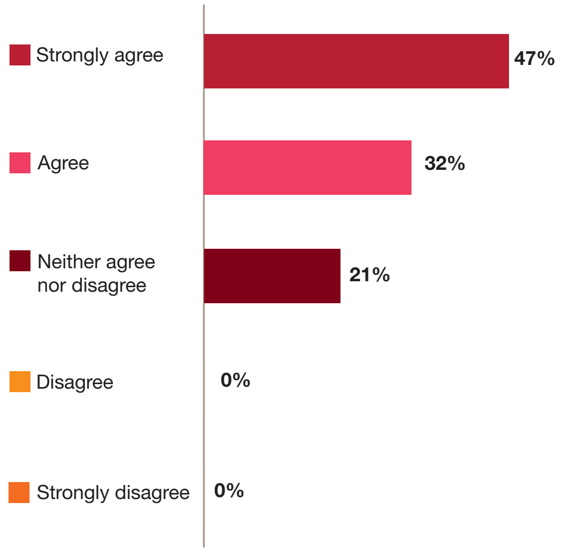
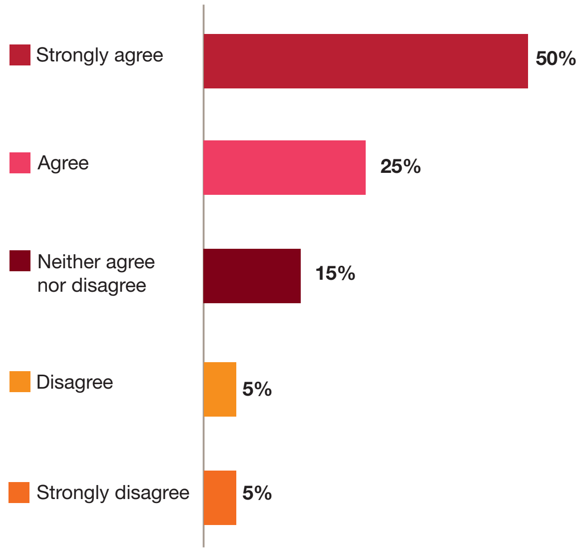


Figure 20: If managements adjustments to reported GAAP numbers seem aggressive or unusual, my evaluation of the riskiness of management increases



Suggested ground rules

The temptation for power and utilities companies to apply a little management 'spin' on non-GAAP measures may be understandable. Perhaps because of this, 83% of the investment professionals we spoke to felt that a reconciliation of a non-GAAP measure to the nearest GAAP measure should be mandatory.

In addition, 80% of investors and analysts surveyed would gain comfort from knowing that non-GAAP measures adhered to some basic 'ground rules'.

"I would like to see more reconciliations to IFRS; this should give some more comparability across companies"

What should these ground rules be? Our latest feedback from investment professionals is consistent with the messages we have been hearing for many years. Based on these views, we have identified some ground rules that management teams could apply when reporting non-GAAP measures:

- Be clear and consistent in definitions of measures and adjustments made.
- Apply balance when making adjustments and only use measures that are relevant for understanding performance.
- Explain the why as well as the what: why particular non-GAAP measures are relevant to understanding performance as well as what adjustments are made.
- Provide comparative data and restate the comparatives if definitions change.
- Reconcile non-GAAP measures to GAAP, showing adjustments clearly in a bridge chart or table.
- Give balanced prominence to GAAP and non-GAAP measures in all communications.
- Be clear about which measures are non-GAAP, and about what is and isn't audited or subject to some other form of assurance.

Figure 21: I would gain comfort by knowing that the non-GAAP measures that move markets reported by management adhere to some basic ground rules

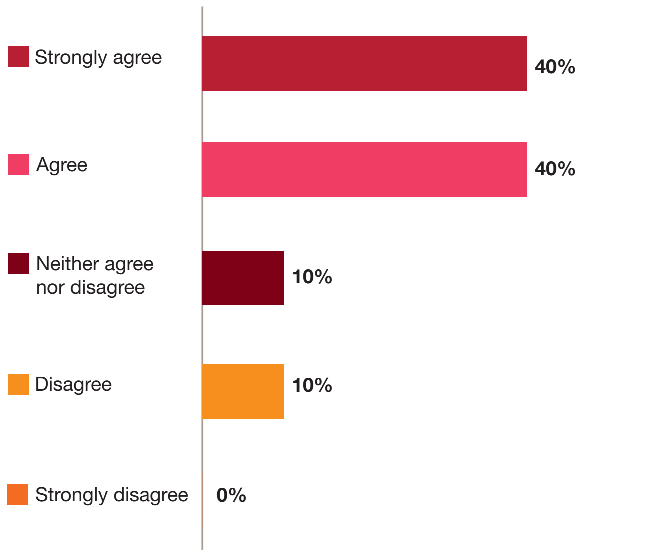
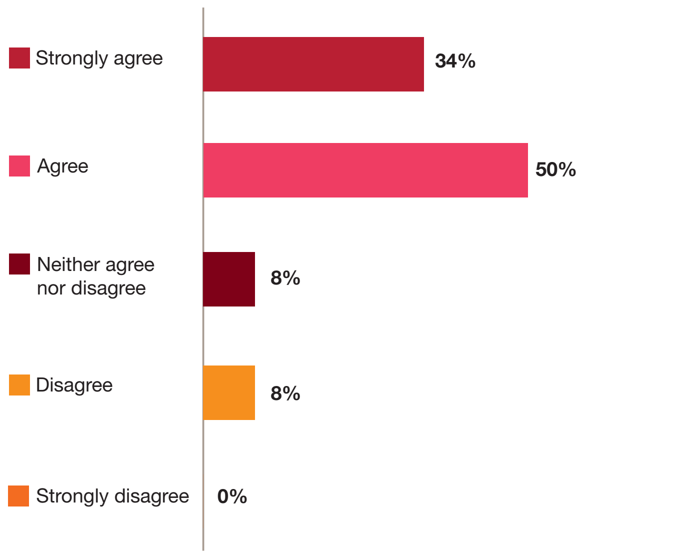


Figure 22: I believe a reconciliation of non-GAAP measures to the nearest GAAP measure should be mandatory



Assure the measures that move markets

Given that some measures have a particular ability to influence markets, they need to be reliable. Only 53% of investment professionals we surveyed, however, feel that the measures that move the market are sufficiently reliable. This is another area where power and utilities companies have scope for improving their reporting.

Audit provides a high level of assurance. Lower levels of assurance can be and are provided for certain types of information and reporting. We asked our survey participants to forget everything they know about what is and isn't audited, then tell us how much assurance they need on each information type and measure.

Across the board, measures of a financial or operational nature are associated with a higher demand for assurance than more strategic measures or corporate social responsibility items, such as emissions.

There is a clear correlation between the importance of an item and investment professionals' demand for assurance.

The investment community is therefore sending an unambiguous message to management teams: if a measure is important, make sure it is reliable. Obtaining some form of external assurance as to the reliability of such measures could be worthwhile: it could help power and utility companies build trust and confidence in the market. Implementing expanded assurance on information outside the financial statements might also present some challenges in some jurisdictions where frameworks would need to be developed.

> "I tend not to trust management's reported ratios unless I can clearly see how they have been calculated"

Figure 23: In general, I believe that the measures that move markets (including industry-specific, non GAAP or adjusted numbers) are sufficiently reliable.

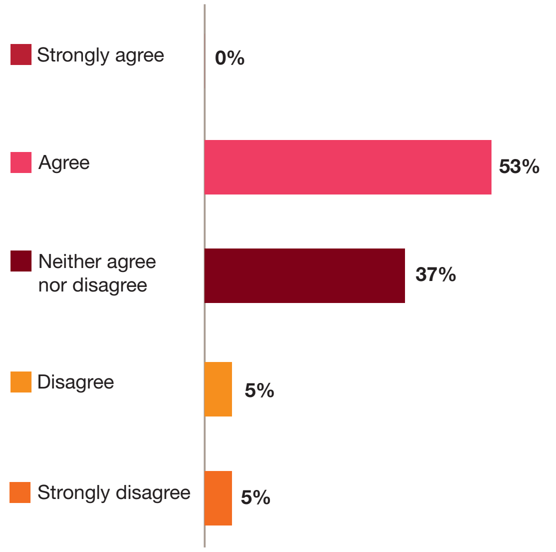


Figure 24: How much assurance do you require? On a scale from 0 to 100, where 0 is no assurance and 100 is the highest possible level of assurance

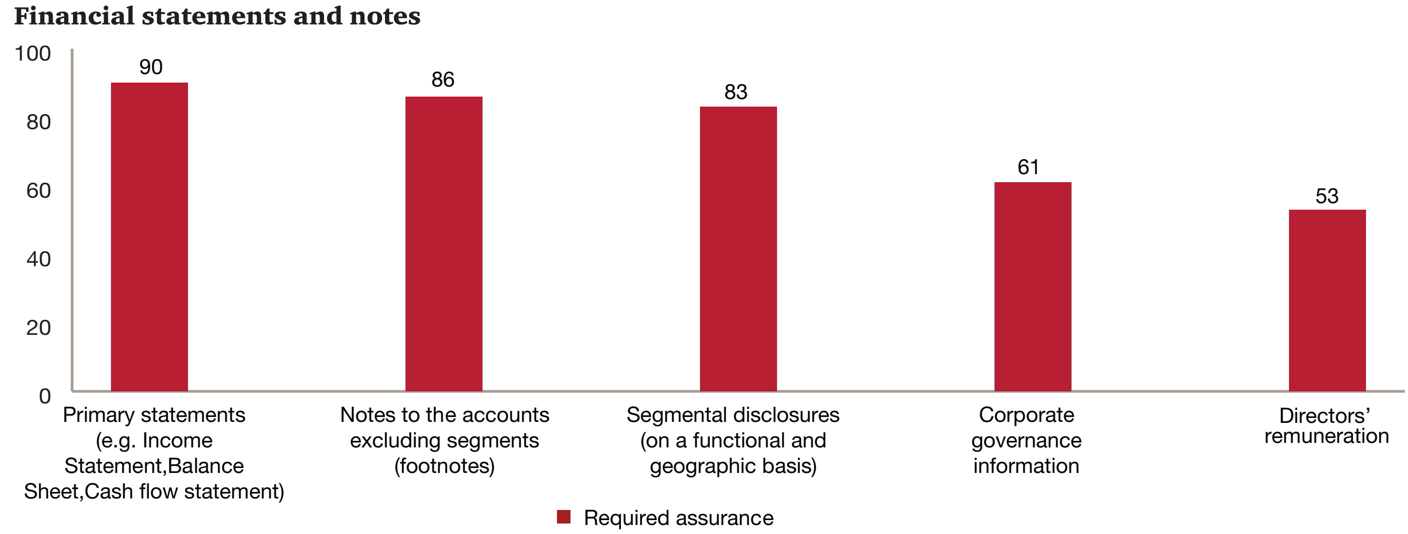


Figure 25: How much assurance do you require? On a scale from 0 to 100, where 0 is no assurance and 100 is the highest possible level of assurance

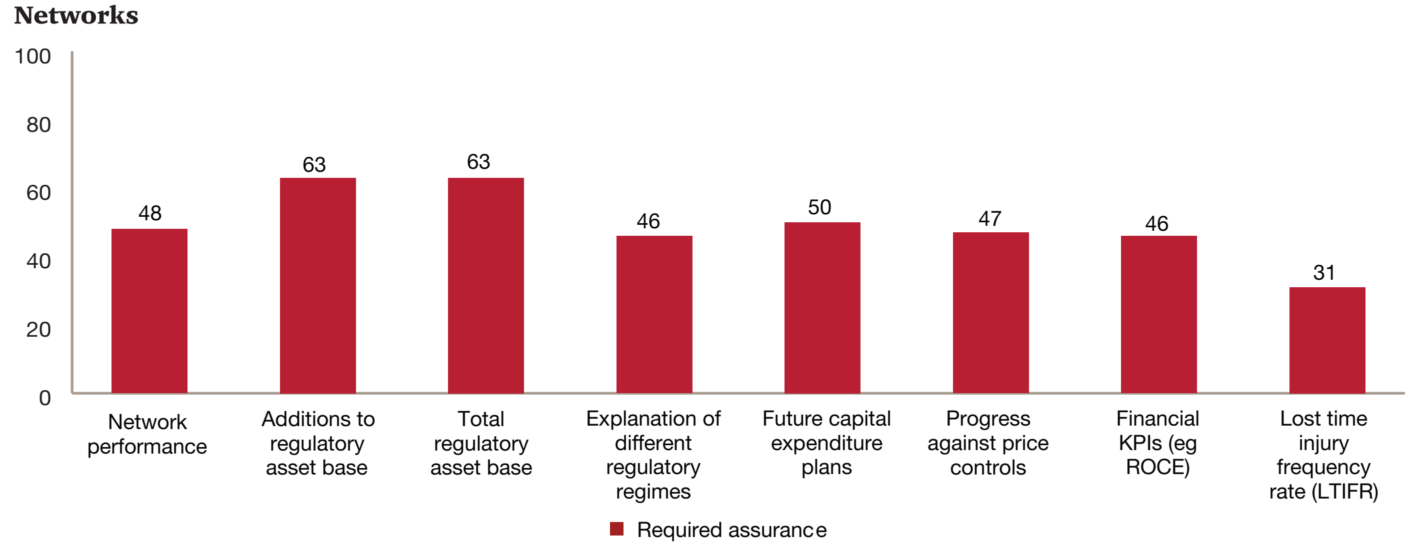


Figure 26: How much assurance do you require? On a scale from 0 to 100, where 0 is no assurance and 100 is the highest possible level of assurance

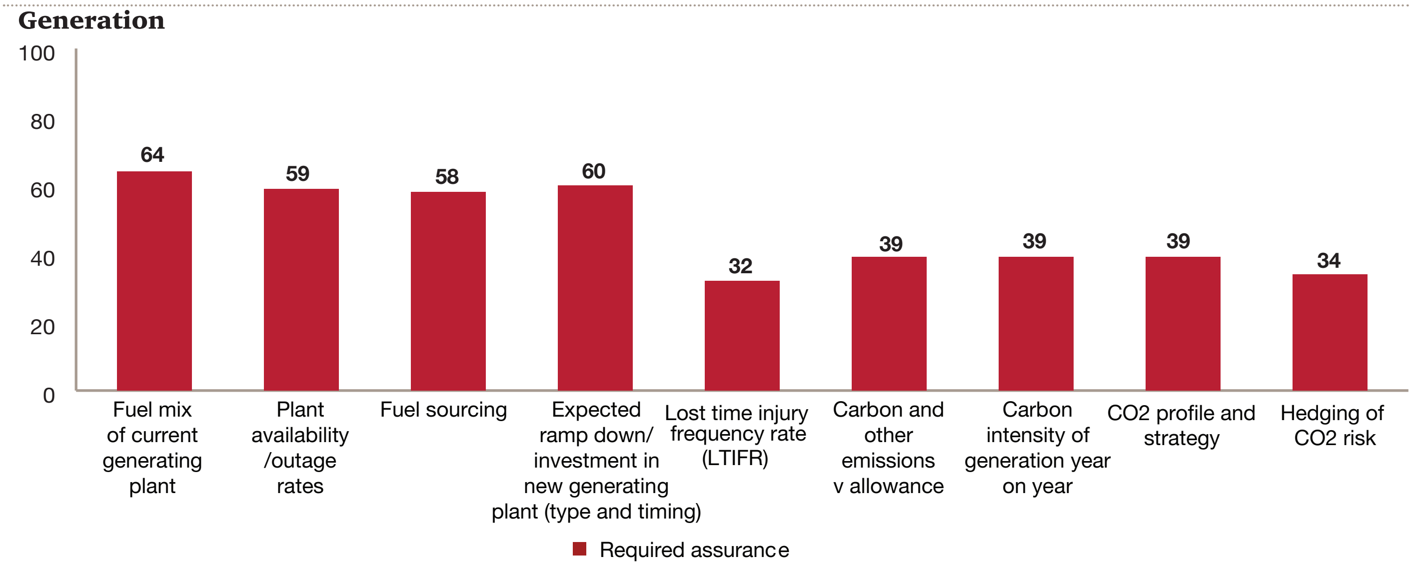


Figure 27: How much assurance do you require? On a scale from 0 to 100, where 0 is no assurance and 100 is the highest possible level of assurance

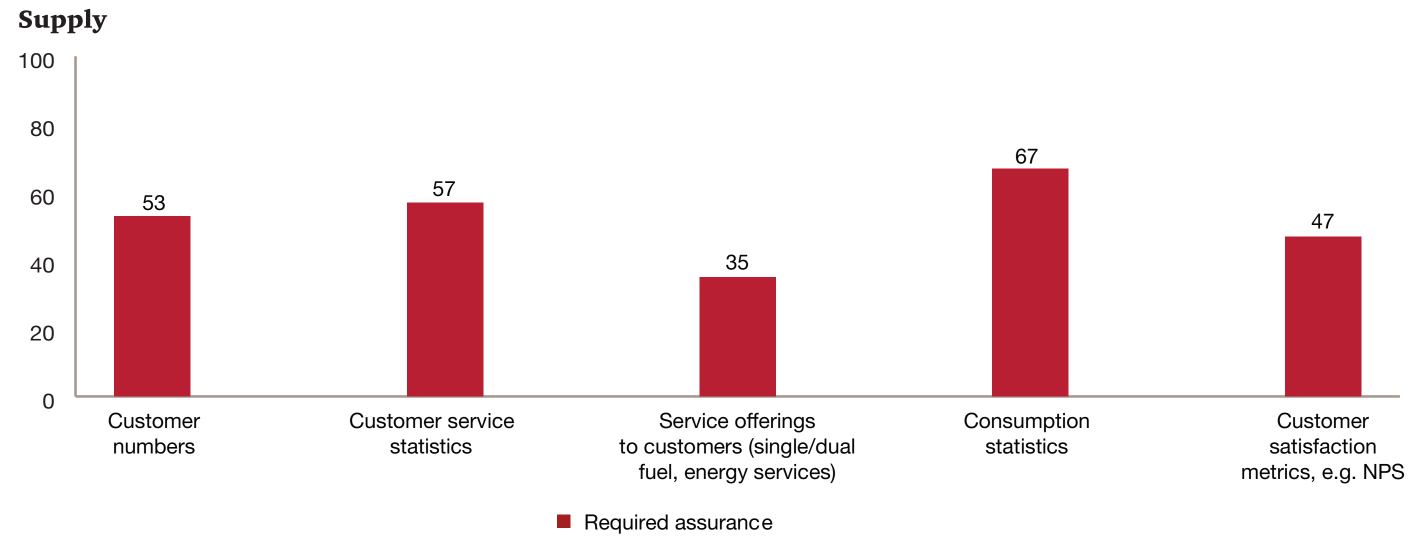
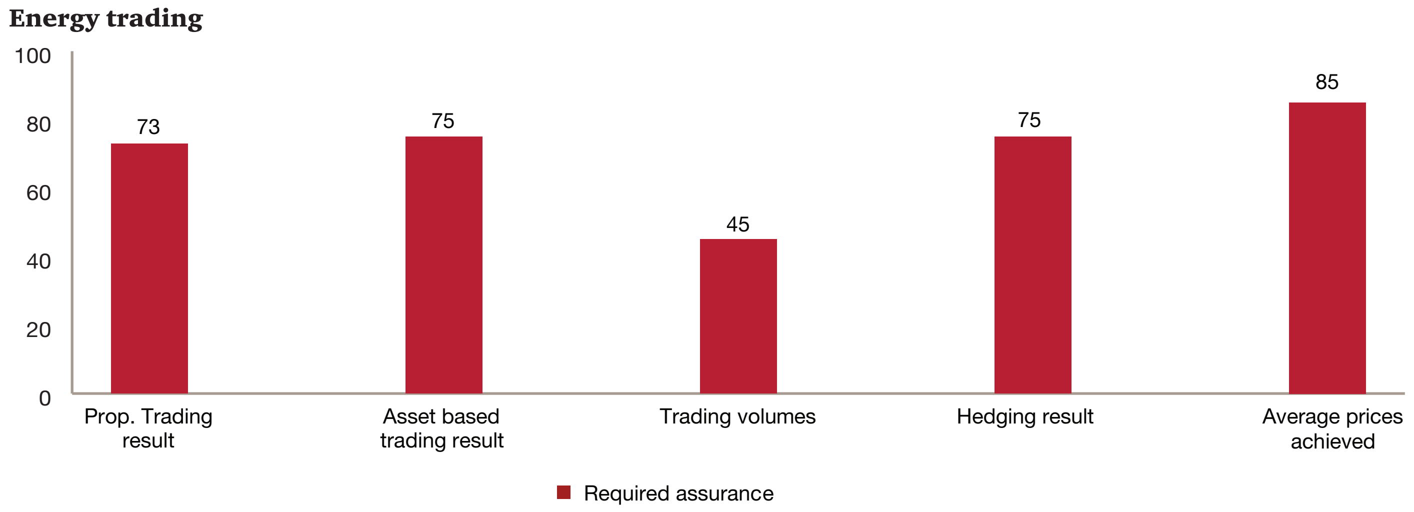


Figure 28: How much assurance do you require? On a scale from 0 to 100, where 0 is no assurance and 100 is the highest possible level of assurance

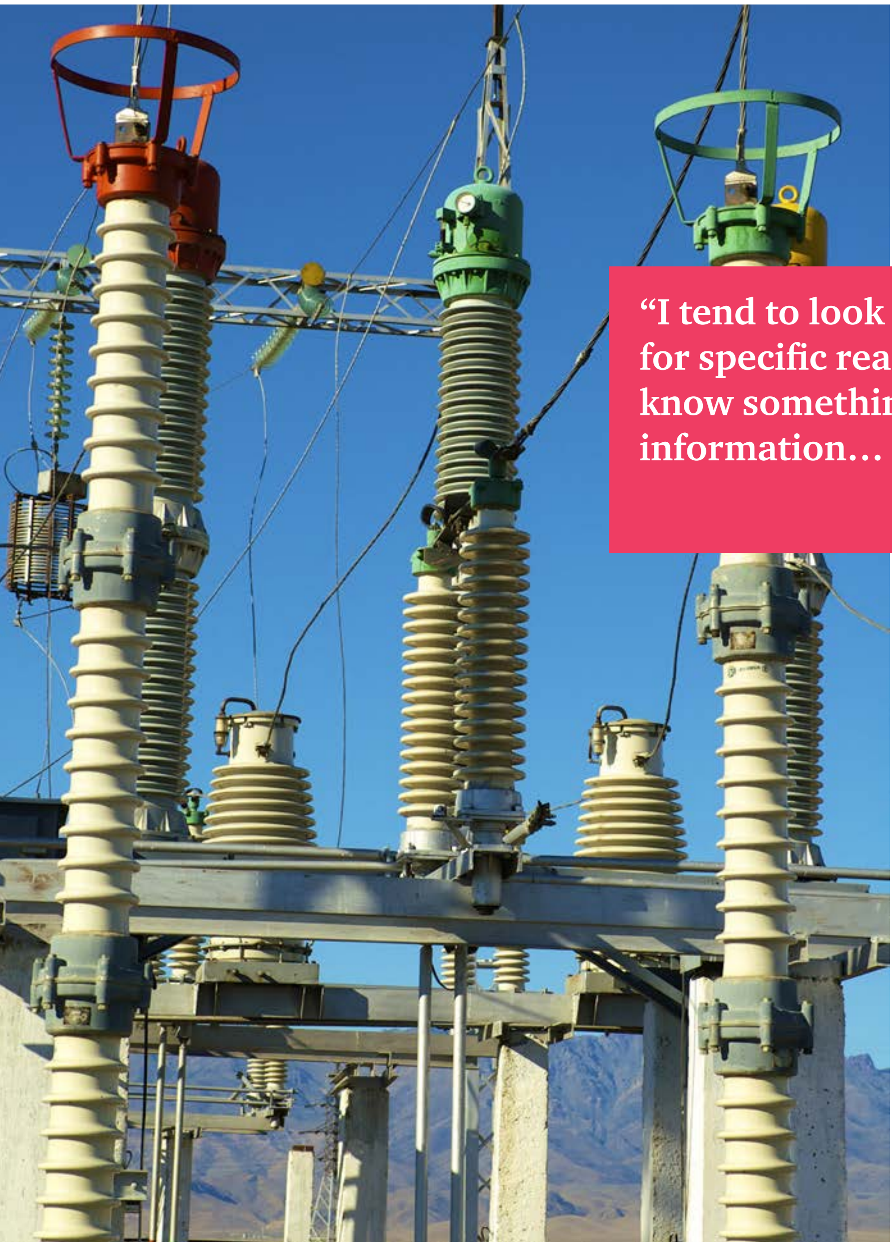


The annual report remains the foundation of corporate reporting

We sometimes hear doubts expressed about the role of the annual report in today's capital markets. Some people argue that it is not timely enough and that investment professionals and other stakeholders can access all the information they need from alternative channels.

Our survey findings challenge this opinion. Investors and analysts tell us that the annual report is an important source of information for them. Four out of five power and utility specialists surveyed said they typically review the annual report of the companies they follow.

In addition, 75% think that having all the elements of the annual report in one document is important. This reflects its usefulness as a source for many different types of information – providing everything in one place makes investors' and analysts' lives a little easier.



"I tend to look at annual reports for specific reasons; when I need to know something, it's a good source of information…

…annual reports are also very useful when initiating coverage"

Figure 29: Having all the elements of an Annual Report/10-K/20-F in one document is important to me when I am performing my analysis

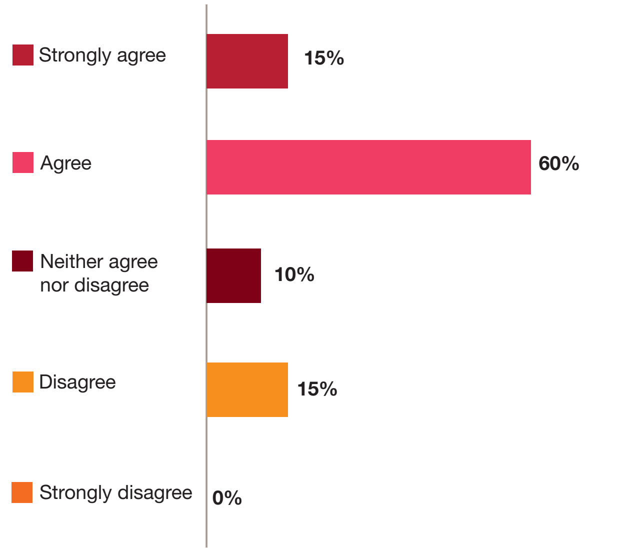
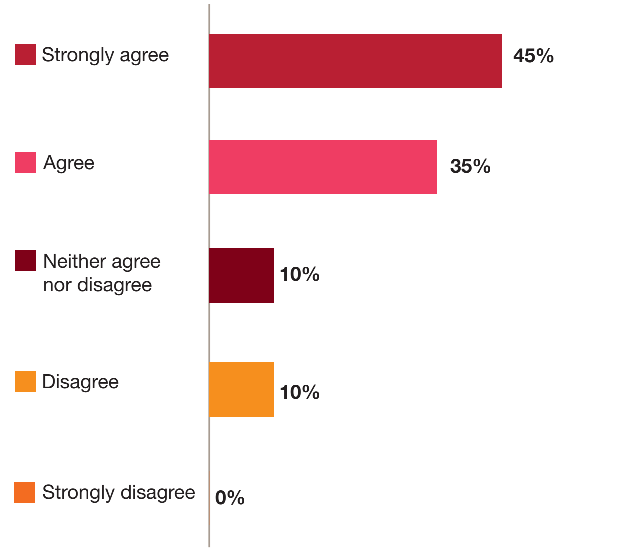


Figure 30: I typically review the Annual Report/10-K/20-F of companies that I follow



The annual report is not the only source of information available to investment professionals, of course. Companies report a wide amount of data in a variety of ways across a range of communication channels. We know that investors and analysts draw on these multiple sources when performing their analyses, but which do they think are most important?

We asked survey participants who focus on the power and utilities sector to name their top sources for five different categories of information. The resulting rankings, based on the most commonly cited sources, reveal the enduring popularity of the annual report.

	Financial information	*Information about a company's strategy, and resource allocation*	*Information on risks and opportunities*	*Governance information*	*Environmental social and human capital information*
1st	Annual Report	Investor presentations	Investor presentations	Annual Report	Annual Report
2nd	Preliminary announcements	Dialogue with Management	Dialogue with Management	Dialogue with Management	Sustainability Report
3rd	Investor presentations	Annual Report	Annual Report	Website	Website

The popularity of the annual report is also illustrated by the 'word cloud' below, which represents the relative number of citations for each data source across all interviews and all information categories.

It is clear that the annual report remains the bedrock of corporate financial reporting. It is important to individuals across the investment community spectrum who follow power and utility companies. So it should be important to management too.

Adhoc company press release

Annual report

Website

Dialogue with management

Investor presentation

Sustainability report

Preliminary statements and earnings releases

"I spend a lot more time with Annual Reports than I do with broker research"

"Having good dialogue with management is critical"

Conclusion

Power and utilities companies have huge impact on, and importance for, the countries and communities in which they operate. Formal reporting through your annual report remains a key channel for telling your company's story: your strategy for future investment, your approach to risks and opportunities, and the way you monitor performance.

Investment professionals have specific information needs and many power and utilities companies struggle to satisfy them completely. Our research indicates some important areas where a review of current content could deliver improvements. Explanations of your business model and how this relates to your long-term strategy could be clearer. Greater clarity around why certain sector-specific measures are important and how you calculate them could also be useful.

Striking the right balance can be a challenge: you want to provide greater granularity without overwhelming report users in a mass of detail. Time and effort is required to get it right – but that effort should be repaid.

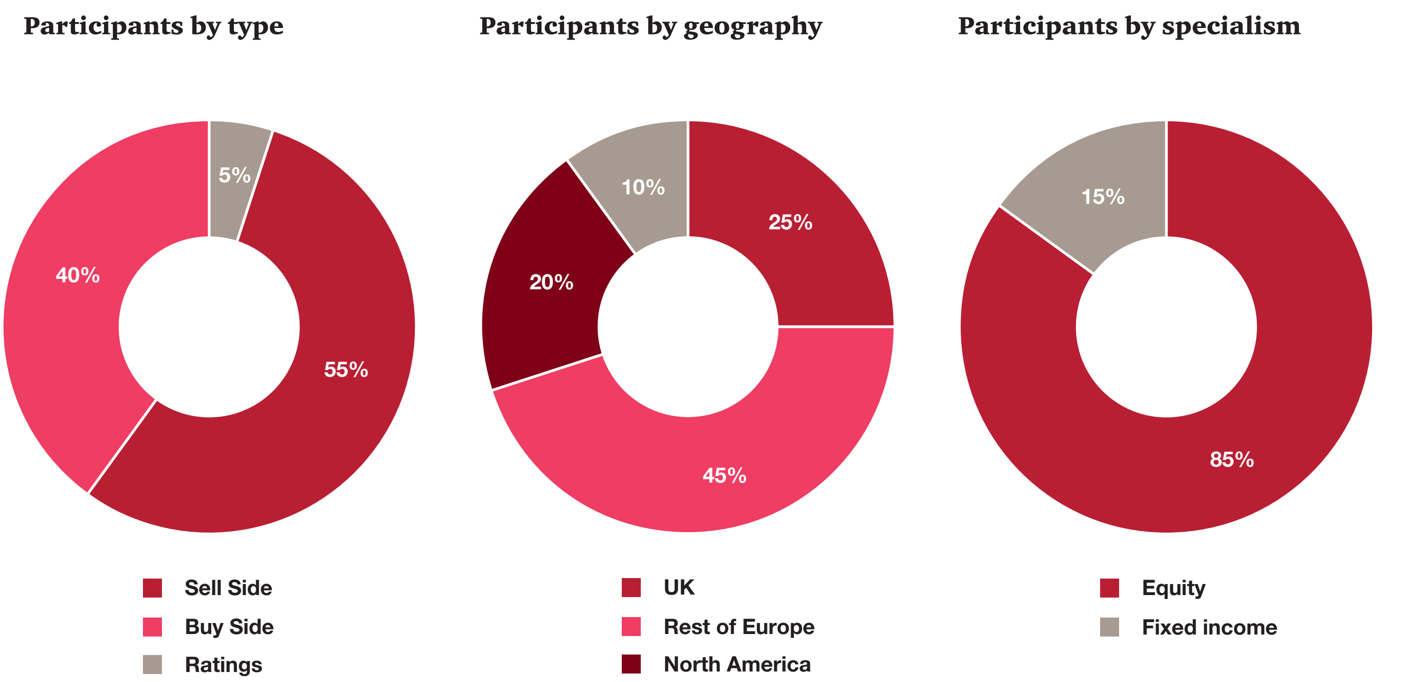
Investment professionals tell us they associate higher quality reporting with higher quality management. Other readers of your reports should be similarly impressed. Many diverse stakeholders show strong interest in the power and utilities sector. The more clearly you can explain your strategy and performance to all these groups, the more likely it is that your company will succeed in achieving its goals and provide value not only to investors, but also to wider society.

Appendix: Survey base

We spoke to 20 industry specialist investment professionals, including representatives of both the buy and sell side, as well as fixed income and equity specialists. These participants were drawn from several markets: the UK, US, Germany, Russia, Spain and Japan.

Throughout this report, we use global findings except where there are significant differences between territories or between types of investment professional.

Figure 31



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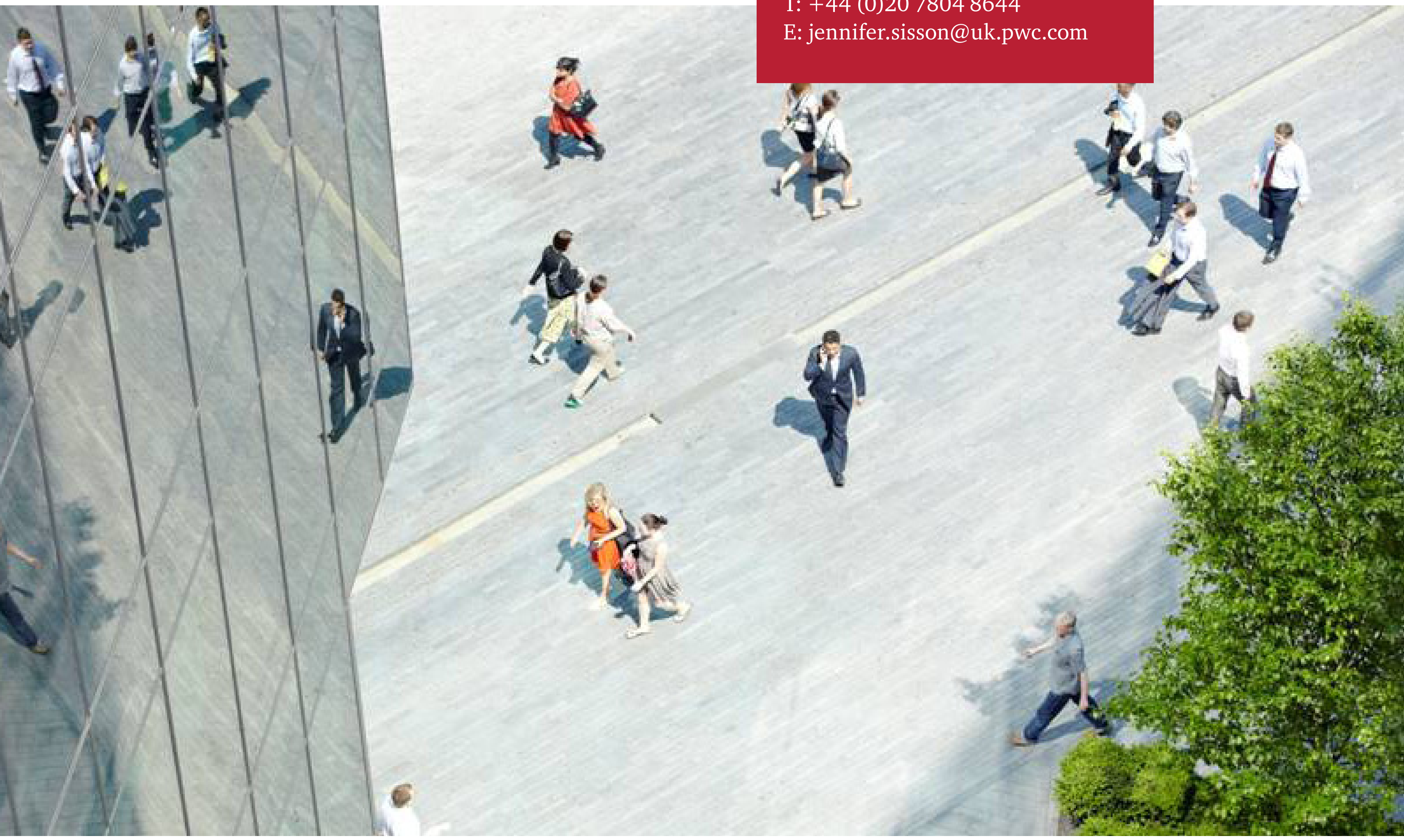

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