



The Annual Report

and

Leadership Paradoxes

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The Annual Report Paradox

Perception: The annual report is primarily a quantitative tool for investors

Quantitative Value

- Financial Statement Trends / Consistency
- MD&A – Anticipates and Clarifies Issues
- Footnotes – Investor Juice

The Annual Report Paradox

Reality: The annual report is primarily an analytic tool for all stakeholders

Qualitative Value

- Strengthens Relationships
- Reveals Leadership
- Defines Corporate Culture
- Creates Performance Expectations and Performance

The Annual Report Paradox

A candid annual report solidifies key stakeholder relationships

Investors

1. Attracts new investors
2. Strengthens current ownership
3. Squeezes out hedge funds

Customers

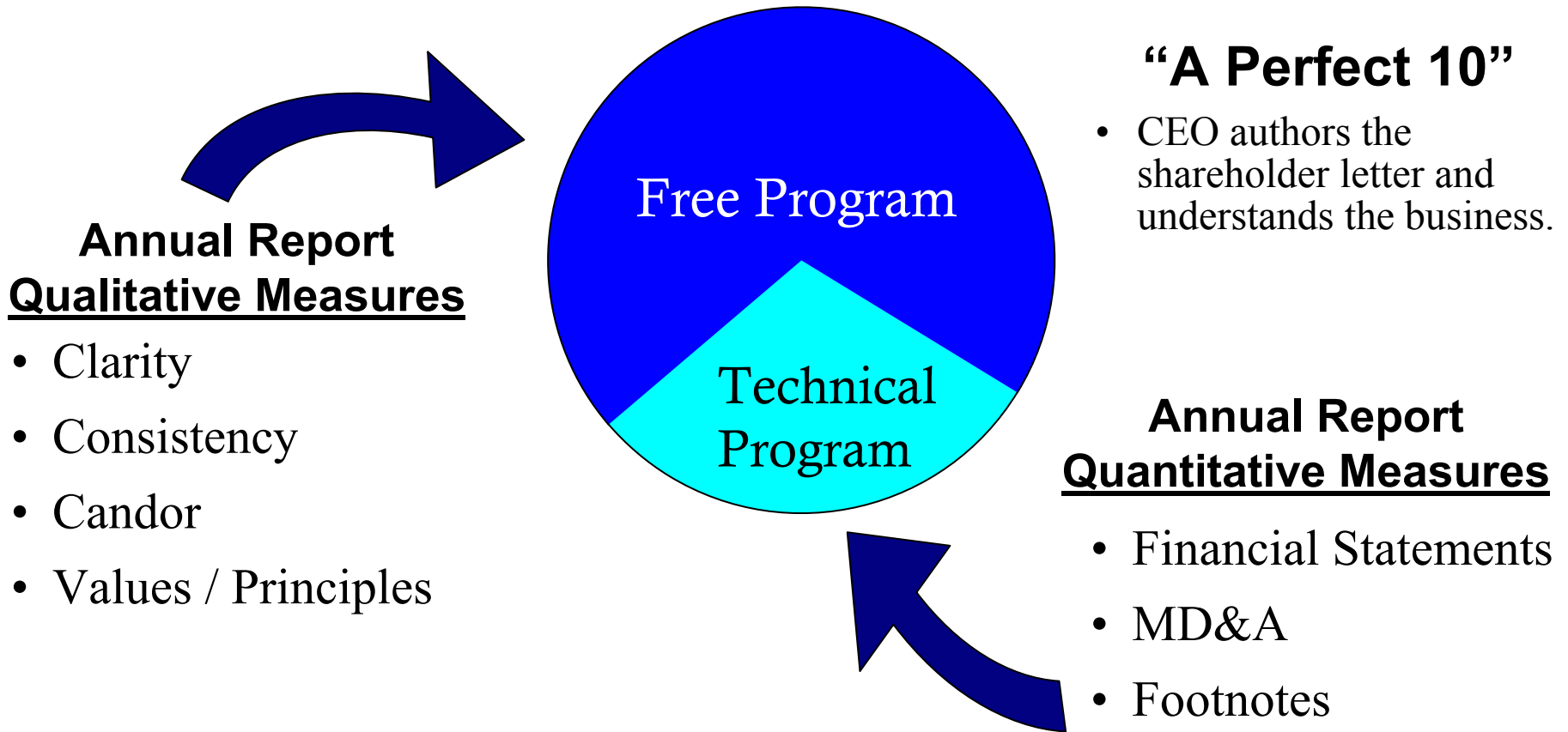
1. Markets existing products / services
2. Used to launch new products / services
3. Strengthens brand identity

Employees

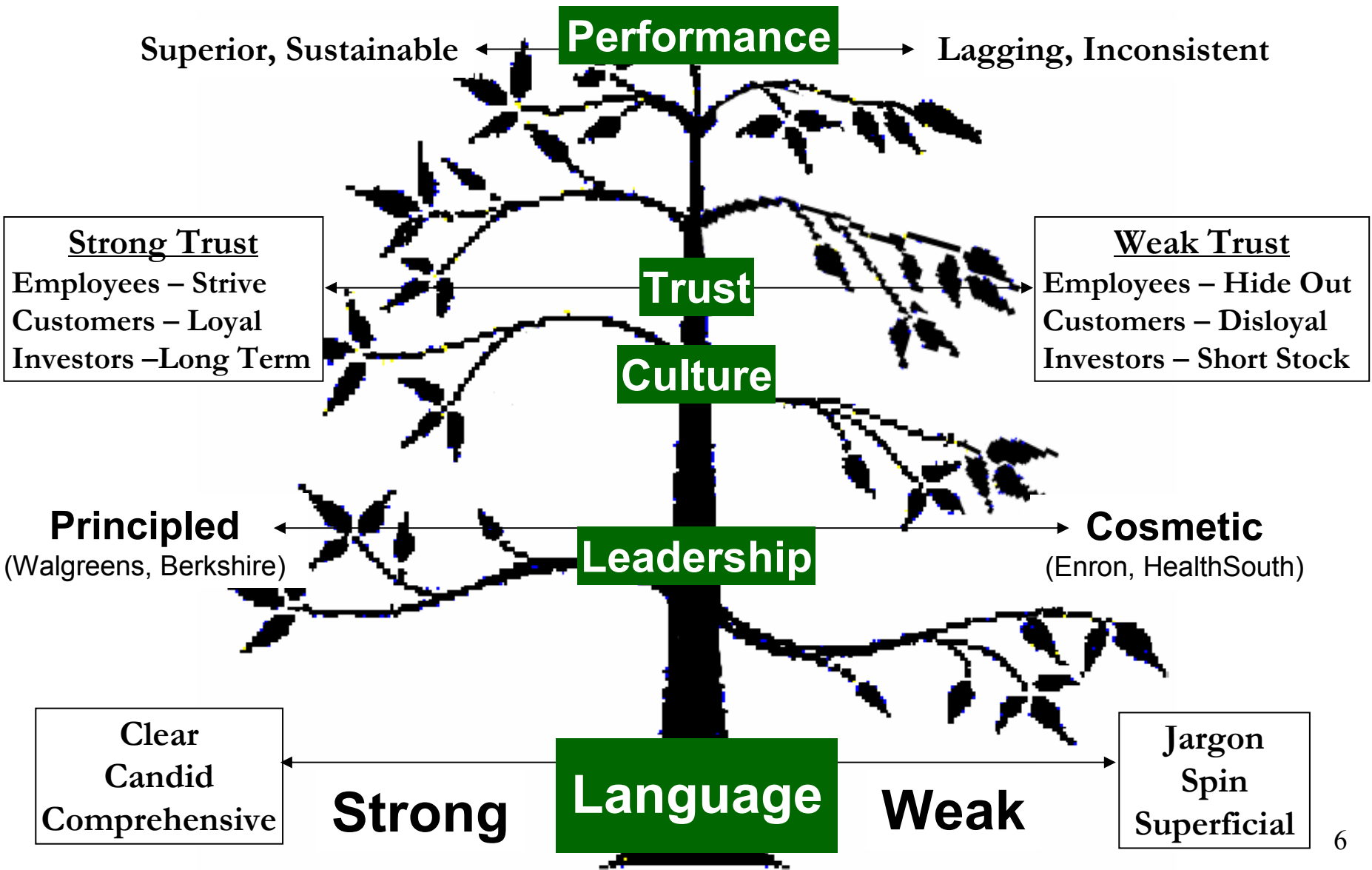
1. Inspires action
2. Guides execution
3. Attracts right people “to the bus”

Qualitative Measures of Leadership and Culture

Competitive Figure Skating Scoring Weights



Leadership Paradox: Language, Not Past Performance, Reveals Expected Performance



Correlating Rittenhouse Rankings of CEO Communication with Stock Price Performance

2001 Shareholder Letter Survey

| | 25 Top-Ranked Companies | | 25 Bottom-Ranked Companies | |
|--------------------|-------------------------|-----------|----------------------------|-----------|
| | 2001 | 2001-2002 | 2001 | 2001-2002 |
| Stock Price Change | 4.5% | -12.7% | -7.0% | -18.2% |

**Companies that publish clear, candid and motivational
shareholder letters gain market recognition.**

Correlating Rittenhouse Rankings of CEO Communication with Financial Performance

2001 Shareholder Letter Survey (\$ Billions)

| 25 Top-Ranked Companies | | | 25 Bottom-Ranked Companies | | |
|-------------------------|-----------|-----------|----------------------------|-----------|-----------|
| 1999-2000 | 2000-2001 | 1999-2001 | 1999-2000 | 2000-2001 | 1999-2001 |

| | | | | | | |
|---------------------------------|--------|--------|----------|--------|---------|-----------|
| Change in Total Net Earnings | (0.05) | (4.08) | \$(4.13) | (5.64) | (21.01) | \$(26.65) |
|---------------------------------|--------|--------|----------|--------|---------|-----------|

Companies that publish clear, candid and motivational shareholder letters outperform companies that do not.

Can You Tru\$ Language?

Need an analytic model that is:

1. Reality-Based
2. Detailed and Rigorous (*Tru\$*)
3. Relevant – Primacy of leadership
4. Comprehensive
5. Multi-Dimensional

Rittenhouse Rankings Content Categories

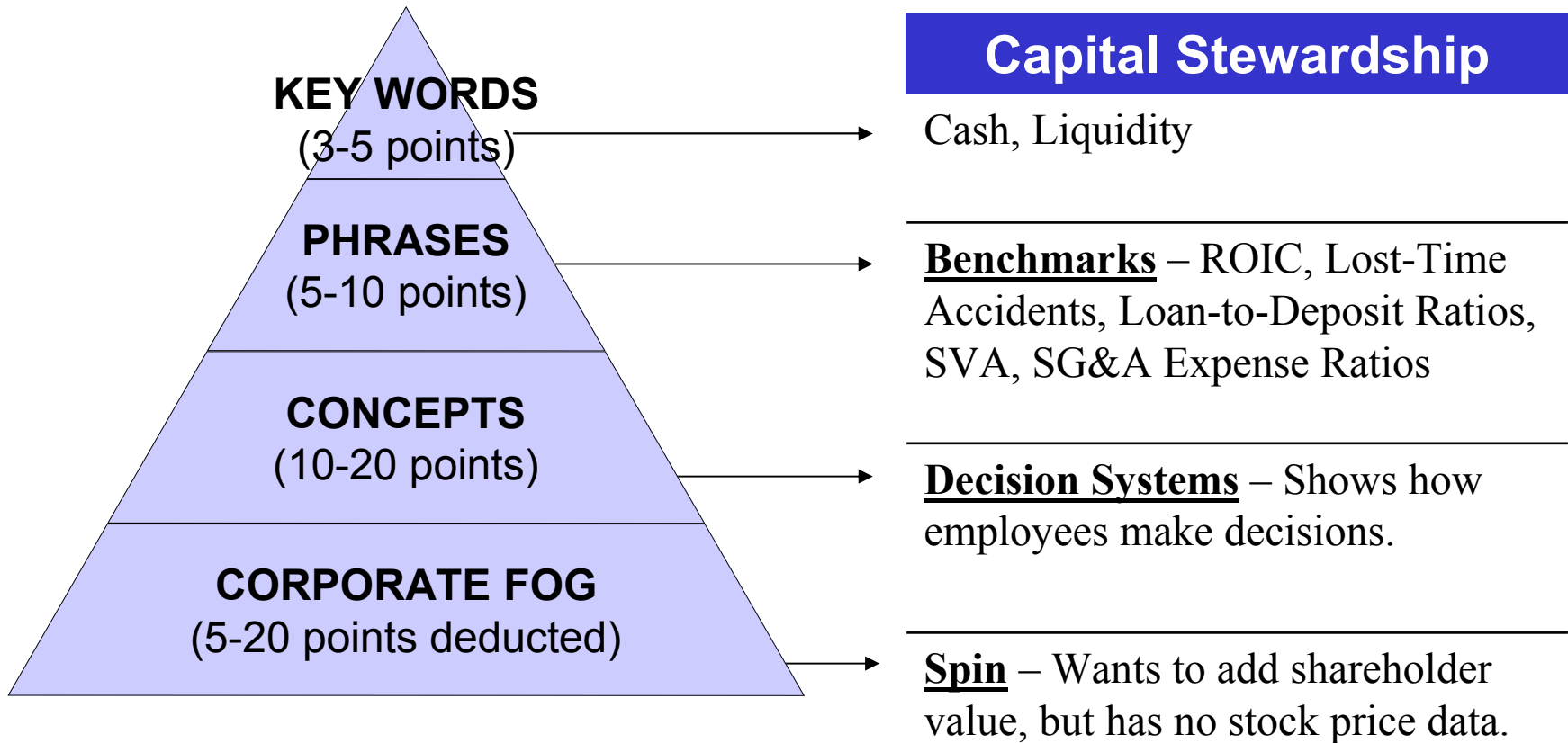
1. Capital Stewardship
2. Strategy
3. Accountability
4. Vision
5. Leadership
6. Stakeholders
7. Corporate Fog



Strategic / Visionary
Factual / Emotional
Internal / External
Detailed / Efficient
Words / Phrases / Concepts

Annual Report and Leadership Paradoxes

Leaders gain a competitive advantage when they articulate complexity in plain English.



2001 Shareholder Letter Survey Excerpts

Decision Systems: CSX Corporation

Building on the effort started in 2000, CSX Transportation set challenging service, safety and operating goals for 2001, which were consistently met, stretched and met again as the year progressed. Performance against a set of these 18 measurements was posted every day across the railroad so that our people all knew how we were doing and what areas required more attention. Key measurements include network velocity, the number of cars-on-line in the network, safety data, the time a railcar spends in a yard before proceeding to destination, on-time departures and arrivals as well as crew utilization and locomotive productivity. By monitoring daily performance and reviewing weekly, monthly and quarterly trends, the railroad identified issues that needed to be resolved and took prompt action to improve results. By year-end, the railroad was running faster and more efficiently than at any time in its long history.

Describes the metrics and plans employees followed to restore customer confidence in railroad services.

Annual Report and Leadership Paradoxes

Capital Stewardship Scores

| Rank | Co. | Cash Flow | Fin. / Oper. Bench | Dec. Sys. | Cap-Ex | Bal. Sheet / Credit Rat. | Fin. Flex | Cost-Cutting / Prod. | Incen. / Long Term | Short Owner -ship | Stock Price | Stock Split / Repur | Dividend | Total |
|------|-----------------|-----------|--------------------|-----------|--------|--------------------------|-----------|----------------------|--------------------|-------------------|-------------|---------------------|----------|-------|
| 1 | CSX | 18 | 26 | 10 | 30 | | 3 | 26 | | 2 | 3 | | 12 | 130 |
| 49 | Ebay | 6 | | | 6 | 9 | 6 | 3 | | 7 | | | | 37 |
| 100 | AOL Time Warner | | | | | | | | | | | | | 0 |

Capital Stewardship scores in the 2001 Shareholder Letter Survey range from a high of 130 points for CSX Corporation to zero points for AOL Time Warner.

What's Next?

Leadership Analysis as Investor Tool

Leadership Analysis as Investor Tool

Tru\$ ratings of a large cap energy company show a gradually declining trend even as the stock price strengthens.

Tru\$ ratings now track the industry index.

