

# ANNUAL REPORTS AS A TOOL OF INTEGRATED COMMUNICATION OF PASSENGER RAILWAY TRANSPORT OPERATORS

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## Abstract

In accordance with sustainable development principles or corporate social responsibility, attention is paid to so-called integrated communication or integrated reporting recently. Keeping with requirements of the accounting directives law, a lot of companies in the Czech Republic must draw up annual reports, the aim of which is to inform about the development of their performance, activity and current economic situation in an integrated, balanced and complex way. Besides, that annual reports must include also financial and non-financial information about activities in the sphere of environmental protection and labour relations. In addition to their annual reports, some companies publish extra separate reports too, within which they inform about their environmental performance (environmental reports) or social responsibility (CSR reports). Some companies publish so-called integrated reports that present their corporate strategy (in context of external factors), corporate governance and performance as well, which helps them in creation of values in the short, the medium and the long term. All these reports can be regarded as communication tools. The paper deals with the annual reports of representative passenger railway transport operators, which are publicly available. A content analysis of these reports is accomplished in context of integrated reporting.

**Key words:** annual report, integrated reporting, passenger railway transport

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## Introduction

The annual report is one of the regularly issued documents through which the company should provide integrated, balanced and comprehensive information on the development of its performance, activities and current economic position (Česko, 1991, § 21). It often represents the only comprehensive set of information about the company, which contains information about the past period, but also the outlook for the future. It can be considered as a tool of external and internal communication. In the Czech Republic, the annual report must be prepared by

accounting entities that are required to have their financial statements audited (Česko, 1991, § 21). The Act defines exactly what information the annual report must contain. In addition to information on performance, the annual report must also include at least financial and non-financial information on events that occurred after the balance sheet date, expected business development, R&D activities, acquisition of own shares or participations, on activities in the field of environmental protection and labour relations and on branches or other parts of the business plant abroad. For certain selected entities, non-financial information is not required. The annual report must also include the financial statements and the auditor's report. The Act also regulates the obligation to publish the annual report and financial statements by depositing them in a collection of documents (Česko, 1991, § 21a).

In recent years, the interest of stakeholders in so-called non-financial information has been growing. It is the material non-financial matters on which undertakings should report; these are environmental matters, social and employee-related aspects, respect for human rights, and anti-corruption and bribery issues (Federation of European Accountants, 2016). At the same time, international efforts to link financial performance and sustainability (i.e. environmental, social and governance) performance in one company report are intensifying (Melloni, Caglio and Perego, 2017). This integrated report should communicate about how a firm's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of sustainable value (IIRC, 2013). International standard-setting organizations and professional literature are leading debates on how to re-set financial reporting and increase its quality (ESMA, 2015). At the same time, however, it is emphasized, that a larger range of information provided does not necessarily increase the quality of reporting (Plumlee et al., 2015; Toms, 2002). The information provided must be concise and focused (Hooks and Staden, 2011). The question of how to optimally balance the quantity and quality of published information will certainly be the subject of further research (Leuz and Wysocki, 2016).

The paper deals with the annual reports of representative passenger railway transport operators, which are publicly available. An analysis of annual reports is performed with a focus on the information provided, in the context of the requirements of the Act and non-financial or integrated reporting.

## **1 Methods**

Within the paper, attention is focused on the annual reports of representative operators of passenger railway transport in the Czech Republic. Three companies were selected that are most

significantly involved in providing this service in the Czech Republic. The annual reports of České dráhy, a.s. (hereinafter CD), RegioJet a.s. (hereinafter RJ) and Leo Express s.r.o. (hereinafter LE), which had the highest share in the performance of the railway network in 2018, were analysed (see Table 1). The company GW Train Regio, a.s. was not selected for the analysis because it operated only regional passenger railway transport.

**Tab. 1: Share of the carriers in network performance in 2018**

Carrier	Share (%)
České dráhy, a.s.	91.76
RegioJet a.s.	3.90
LEO Express s.r.o.	1.44
GW Train Regio, a.s.	1.83
Die Länderbahn GmbH DLB	0.28
Other carriers	0.79

Source: Správa železniční dopravní cesty (2019)

The subject of interest was the annual reports of the companies for the years 2016-2018. To fulfil the goal of the paper, a content analysis was performed, which is an objective analysis of any message or document and examines the content of the message itself and its form (Disman, 2011). The annual reports were assessed primarily in terms of the information they provide, and attention was also paid to the manner in which they were published. The subject of the content analysis was mainly financial and non-financial information that companies should provide and publish in accordance with the requirements of the law (Česko, 1991, §§ 21 and 21a). The information provided and the methods of publication were assessed in the context of non-financial or integrated reporting. Therefore, attention was focused primarily on reporting information on activities of the companies in the field of environmental protection and labour relations.

## 2 Results and Discussion

The following text summarizes results of the analysis focused on the representative companies annual reports from 2016-2018. The results are presented in tables and commented.

The first parameter assessed was the content of the annual reports. The results of the content analysis are summarized in Table 2.

**Tab. 2: Content of the annual reports**

Financial and non-financial information	České dráhy, a.s.	RegioJet a.s.	LEO Express s.r.o.
on the development of performance, activity, and economic position	<ul style="list-style-type: none"> <li>• separate information on economic performance of the company: key economic indicators, financial analysis indicators (indebtedness, profitability, activities), information on the number of employees, basic performance indicators in passenger and freight transport</li> <li>• comparison of performance for two consecutive years (difference, index)</li> <li>• foreword by the Chairman of the Board of Directors, vision, management of the company</li> <li>• report on the activities of the Supervisory Board, report of the Board of Directors on business activities and the state of assets, report on relations, overview of ownership interests</li> <li>• separate chapter on corporate social responsibility (CSR)</li> </ul>	<ul style="list-style-type: none"> <li>• basic indicator of economic performance of the company Adjusted EBITDA (comparison of two consecutive years)</li> <li>• indicator of the number of transported passengers is highlighted (comparison in 4-5 consecutive years)</li> <li>• foreword by the Chairman of the Board of Directors, structure of the Student Agency holding a.s.</li> <li>• report on relations</li> <li>• short statements inserted between individual sections of the annual report (on key results of the company, its activities, market position, etc.)</li> <li>• map of served routes</li> </ul>	<ul style="list-style-type: none"> <li>• basic indicator of economic performance of the company EBITDA</li> <li>• report on relations</li> <li>• in addition for 2016: foreword by the Chairman of the Board of Directors, report of the Board of Directors with tables and graphs of significant performance indicators, market information, map of served routes</li> </ul>
about events that occurred after the balance sheet date	<ul style="list-style-type: none"> <li>• part of the financial statements</li> </ul>	<ul style="list-style-type: none"> <li>• part of the financial statements</li> </ul>	<ul style="list-style-type: none"> <li>• part of the financial statements</li> </ul>
on the expected development of activity	<ul style="list-style-type: none"> <li>• Board of Directors report on business activities of the company presents objectives and a medium-term outlook in the area of passenger and freight transport, and in the area of other activities (research and development, employee policy, international relations, environmental protection)</li> </ul>	<ul style="list-style-type: none"> <li>• foreword by the Chairman of the Board of Directors mentions investments in future projects (acquisition and deployment of new equipment, new connections, operation of regional trains on selected lines)</li> </ul>	<ul style="list-style-type: none"> <li>• basic information (very brief) on the development of individual areas of business</li> </ul>
on research and development activities	<ul style="list-style-type: none"> <li>• goals in the field of research and development are presented (in the Board of Directors report on business activities of the company)</li> <li>• activities of the Railway Research Institute (subsidiary) are characterized</li> <li>• projects that are solved in the company are introduced</li> </ul>	<ul style="list-style-type: none"> <li>• only information that the company does not perform these activities</li> </ul>	<ul style="list-style-type: none"> <li>• brief information on the development of new information technologies, and on investments in the development of new train units</li> </ul>
on activities in the field of environmental protection and labour relations	<ul style="list-style-type: none"> <li>• Board of Directors report on business activities of the company presents objectives in the field of environmental protection and employee policy</li> <li>• activities in the field of environmental protection (according to individual components of the environment) and commitments of the company in this field are presented</li> <li>• no indicators of the development of impacts on individual components of the environment</li> </ul>	<ul style="list-style-type: none"> <li>• emphasis on compliance</li> <li>• information on the importance of staff training and their development for the company</li> <li>• no further comments (no stated goals in these areas, nor the activities that the company implements)</li> <li>• relevant passage contains only two sentences</li> </ul>	<ul style="list-style-type: none"> <li>• emphasis on compliance with environmental regulations</li> <li>• objectives in this area and any indicators characterizing this area are missing</li> <li>• importance of employees for business success and work with them is emphasized</li> <li>• missing indicators characterizing this area</li> </ul>

	<ul style="list-style-type: none"> <li>• priorities in the field of employee policy and activities in the field of staff and youth training are presented</li> <li>• missing indicators monitoring this area</li> <li>• in the section on how the company is managed, there are passages on monitoring and ensuring compliance with regulations and internal standards, with an emphasis on the code of ethics, risk management and ISO management systems</li> <li>• separate chapter on social responsibility (focused on barrier-free travel, education and enlightenment, cooperation with foundations and non-profit organizations, community support in the field of leisure activities, culture and sports)</li> <li>• missing indicators characterizing this area</li> </ul>		
on branches, other parts of the business plant abroad	<ul style="list-style-type: none"> <li>• included in all annual reports</li> </ul>	<ul style="list-style-type: none"> <li>• included in all annual reports</li> </ul>	<ul style="list-style-type: none"> <li>• included in all annual reports</li> </ul>
on acquisition of own shares or stakes	<ul style="list-style-type: none"> <li>• not listed as a separate passage</li> </ul>	<ul style="list-style-type: none"> <li>• included in all annual reports</li> </ul>	<ul style="list-style-type: none"> <li>• included in all annual reports</li> </ul>
financial statements	<ul style="list-style-type: none"> <li>• individual and consolidated for the CD Group; in accordance with the Act</li> </ul>	<ul style="list-style-type: none"> <li>• in accordance with the Act</li> </ul>	<ul style="list-style-type: none"> <li>• in accordance with the Act</li> </ul>
auditor's report	<ul style="list-style-type: none"> <li>• included in all annual reports</li> </ul>	<ul style="list-style-type: none"> <li>• included in all annual reports</li> </ul>	<ul style="list-style-type: none"> <li>• included in all annual reports</li> </ul>

Source: authors based on Ministerstvo spravedlnosti ČR (©2012-2015)

Based on Table 2, it can be stated that the annual reports of all selected carriers meet the requirements arising from the Act. In the case of CD, the annual reports also contain other financial and non-financial information that is in accordance with the requirements of the Business Corporations Act (reports on relations and reports of the Board of Directors).

The annual reports of the companies contain information on the development of performance, activity and economic position. However, the reports differ in the scope (detail) of the information provided. CD provides the most information in this area. In addition to the information reported in the financial statements, they present especially the economic performance of the company in great detail. They use selected indicators, which they present in the form of tables and graphs, and supplement them with comments on their development. All evaluated companies use the EBITDA indicator, or its modification, to present their economic performance. In the case of CD, selected indicators of the financial health of the company are also presented, i.e. indicators used in financial analyses. These are indicators of profitability,

indebtedness and activity. All companies use only a comparison of indicators for two consecutive periods to present performance developments.

All annual reports contain information on the expected development as for activities of the companies. In the case of RJ and LE, however, it is only very strict information that does not allow the user to get an idea of the future direction of the company, respectively about its long-term sustainability. As a rule, the areas on which the company wants to focus are mentioned very generally. The exception is CD. It provides extensive information about its visions and medium-term goals in individual areas of business. At the same time, it focuses not only on the main areas of business (passenger and freight transport), but also pays attention to science and research, employee policy, international relations and environmental protection.

Information on research and development activities is only minimally represented in the annual reports of RJ and LE. It is clear that these passages are included in the reports only because required by the Act. In the case of CD, information on future goals in this area is presented, as well as the projects in the solution of which the company participates.

Large differences in the content of the reports can be found especially in the area of presenting activities in the field of environmental protection and labour relations. RJ and LE only declare their emphasis on compliance. Although both companies emphasize the importance of employees, they limit themselves to general statements. They do not provide any specific details on current approaches, nor do they present their objectives for the future. In the case of CD, more attention is paid to the area of environmental protection and the area of employees. The medium-term goals that the company wants to achieve in both areas are presented, as well as the activities (projects) that the company implemented in the given year. The reports also include a separate chapter that deals with social responsibility and presents the approach of the company to this area. However, specific indicators of environmental and social performance are lacking in the reports of all companies.

Furthermore, the methods of publishing annual reports were examined (see Table 3).

**Tab. 3: Method of publication**

Methods of publication	České dráhy, a.s.	RegioJet a.s.	LEO Express s.r.o.
in the collection of documents	yes	yes	yes
on the website of the company	in the "For Investors" section, under "Financial Reports" (as an Investor Relations tool)	in the "About Us" section, under "Investor Information" (as an Investor Relations tool)	in the "About Us" section, under "For Investors" (as an Investor Relations tool)

Source: authors

According to the Act, annual reports must be published by depositing them in a collection of documents that is available online on the Internet. All companies have complied with this obligation. In addition, all companies publish the reports on their websites in sections intended for investors. It can be deduced that all companies consider annual reports as a tool for communication with investors (Investor Relations tool). This is in accord with international research, some of which confirm the positive effects of balanced integrated reporting towards investors and the financial community (Lee and Yeo, 2015).

Annual reports are a communication tool. Therefore, companies should not perceive the preparation of the annual report only as a legal obligation, but should make maximum use of its potential as a tool for communication with important stakeholders. The results of the analysis showed that the selected companies consider the annual report to be a tool for communication primarily with investors. However, the users of these reports are not only investors, but also other stakeholders (creditors, business partners, employees, public and other stakeholders). In recent years, stakeholders have become increasingly interested not only in economic performance of companies, but also in their impact on the environment (especially in the context of important issues) and society as a whole. Companies should therefore make every effort to inform stakeholders about these non-financial aspects and impacts. These aspects and impacts also affect economic performance, and need to be monitored, evaluated, and information needs to be passed on to users.

The annual report is in itself a one-way communication; however, RJ and LE provide contacts for investor directly on the same website. This provides an opportunity to get feedback.

## **Conclusion**

Within this paper, attention was focused mainly on the content of the annual reports of the selected companies in the context of reporting so-called non-financial information (on activities of the company in the field of environmental protection and labour relations). This information is part of the so-called non-financial reporting. Within the EU, there has been increasing pressure over the last ten years on companies to publish information on environmental, social and employment issues, respect for human rights, and the fight against corruption and bribery in their annual reports. Reporting information on diversity is also required within the administrative, management and supervisory bodies of companies and their policies in this area. If the information is linked with economic performance of the company, then we can talk about so-called integrated reporting. Given that economic performance of the company is increasingly

influenced by its environmental and social performance, companies need to pay heightened attention to this issue. They should therefore inform stakeholders about the environmental and social aspects and impacts of their business activities in an appropriate form. Companies should focus on the most important aspects and impacts. EU recommendations or organizations specializing in this field can help them to set the appropriate form of non-financial reporting. However, companies can also be inspired by the sustainability reports that many companies, including in the field of transport, already publish.

Based on the above-mentioned assumptions and resources, a procedure for setting up the method of reporting information on activities in the field of environmental protection and labour relations can be recommended to the selected companies. The annual report should briefly present the strategy of the company in the area of its approach to environmental protection as well as labour relations (in a broader context with regard to its social responsibility). The main environmental and social aspects that society considers essential and that significantly affect or could affect the economic performance of the company in the future should be mentioned. To present the approach of the company to these areas, it would be possible to use targets of sustainable development in order to clarify that the company adheres to the principles of sustainable development. The same philosophy is used, for example, by Deutsche Bahn AG, which emphasizes the link primarily to health and quality of life, decent work and economic growth, industry, innovation and infrastructure, sustainable cities and municipalities, responsible production and consumption and climate measures in its report (Deutsche Bahn, 2019).

For the selected aspects (areas), the main targets that the company wants to achieve in the medium term should be stated. The most important activities (at least the areas to which they are directed) or projects that the company implemented in the monitored period should be also mentioned. The companies should choose appropriate indicators, through which they will present their performance. These should be indicators that will be monitored and evaluated in the company and that reflect the targets that the company has set itself; e.g. in the field of environmental aspects and impacts: greenhouse gas emissions, the share of renewable energy sources in traction current; in the field of social aspects and impacts: employee satisfaction, attractiveness of the company as an employer, costs of staff training and development, employee turnover.

The companies must also choose a suitable form for presenting the development of these indicators (tables, or graphical representation) and should comment on significant changes in the development of these indicators.



If the companies pay attention to non-financial reporting in their annual reports and include more detailed information on activities in the fields of environmental protection and labour relations to an appropriate extent, the entire process of providing information will be improved. The stakeholders will be provided with additional relevant information that can help them make their decisions. The annual reports can then be used as a tool for communication of the companies not only on their economic performance, but can gradually become the basis for integrated reporting, which is implemented in order to present long-term sustainability of the company.

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