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Vidrala 2017: Deciphering Its Annual Report

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Understanding an Annual Report

The objective of using Vidrala's financial statements throughout these sessions is to learn how to read, analyze, and interpret a real company's annual report. Even experts in accounting find this a complicated task, yet it is crucial that managers in all fields understand the basics of an annual report.

What Is an Annual Report?

An annual report is a publication on a company's activities throughout the preceding year. Annual reports are intended to provide information about the firm's financial performance and financial position to people who are interested in the company (such as shareholders, lenders, and analysts). Annual reports are one means by which the company's directors advise shareholders on how the business has performed during the year. The annual report also provides information to shareholders on how the directors have fulfilled their responsibilities.

Annual reports must be prepared in accordance with the applicable accounting principles in each territory (such as the International Financial Reporting Standards [IFRS]) and should give a true and fair view of the equity and financial position of a company. In Europe, listed (public) companies must report their group's consolidated financial statements based on IFRS and report their parent's statutory financial statements based on the country generally accepted accounting principles (GAAP). In the US, public companies report only their group consolidated financial statements, which are based on US GAAP.

Many jurisdictions require companies to prepare and disclose annual reports, and some (e.g., Spain) require them to be filed at the country's registry. Companies listed on a stock exchange are also required to report at more frequent intervals depending on the rules of their stock exchange. These companies are also generally required to publish their annual reports on their websites (in the investor section).

This case was prepared by Professor Miguel Duro. June 2023.
IESE cases are designed to promote class discussion rather than to illustrate effective or ineffective management of a given situation.

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The main part of the annual report includes the annual accounts or financial statements (balance sheet, income statement, cash flow statement, etc.) together with explanatory notes (notes related to the statements) and the auditor's report on them. Usually, annual reports include another part (normally preceding the accounts) that is more varied in format and may contain key indicators, strategic issues, a letter from the Chief Executive Officer (CEO), etc.

Listed companies also include a managements' discussion and analysis (MD&A) report, also called a management report or directors' report, which plays an important role in meeting shareholders' information needs. The purpose of the MD&A is to provide a narrative explanation (from the management's perspective) of a company's financial condition, risks and prospects, and how it has performed in the past. The MD&A should supplement and complement the information provided in the financial statements. Together, the two documents provide the foundation for financial reporting.

Additional non-compulsory reporting that supports good corporate governance is normally provided in reports from the company's chief executive and the auditors that describe potential weaknesses in the internal controls on financial reporting, remuneration reports, corporate governance reports, etc. The emergence of corporate social responsibility and sustainability reports is a further example of non-compulsory reporting that companies choose to provide to shareholders to enhance market knowledge and understanding of their strategies and risks.

Vidrala: History

Vidrala (which was founded in 1965 as Vidrerías de Álava) is a Spanish company based in Llodio (Álava) that manufactures and sells glass containers for a variety of products in the food and beverage industry (http://www.vidrala.com). With more than 8 billion glass containers produced in 2017, it is the fourth largest manufacturer in Western Europe. The Vidrala group owns production plants in Spain, Portugal, Italy, Belgium, and the United Kingdom. Since 1985, the company has been listed on the Spanish Stock Exchange.

Preparation Questions

You now must read, analyze, and interpret Vidrala's annual report. The goal is to understand the company's performance and financial situation in 2017, its financial risks and prospects, and the accounting principles its managers have used to prepare the accounts. In other words, you need to answer this important question: was 2017 a good year for Vidrala?

To do this, I suggest you begin by digging into the report's structure and read in detail the three main financial statements: the balance sheet, income statement, and cash flow statement (you can skip the "Statement of Comprehensive Income" and "Statement of Changes in Equity").

To help you complete this task, I will give you several assignments with a list of questions with which to go through Vidrala's annual report. In class, I will explain when the assignments are due. No special format is required.

Vidrala's website offers a searchable version of this report that that allows you to look for words related to the questions: http://www.vidrala.com/en/investors/annual-report/. You can also explore the Investor Relations page at http://www.vidrala.com/en/investors/general-information/. I suggest that you mainly use the hard copy so as to become familiar with the structure of an annual report.

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Vidrala Annual Report 2017
Questions: Block I

Auditors' Report

- What was the scope of the auditors' report? (The report is written in Spanish.)
- Which accounting standards did Vidrala use?
- What was the audit firm for the 2017 accounts? What was the audit firm for 2016? Do you see any reason for a change in auditors? For how long had the previous auditors been engaged? How much did the auditors receive in audit fees in 2017?
- Did the auditors give a "clean" opinion of the group's 2017 consolidated accounts? Who was the main person responsible for the formulation of the financial statements?
- List the key questions the auditors raised in the report.
- What did the auditors mean by "reasonable certainty" that the financial statements were free of omissions, misstatements, etc.? How did they interpret the concept of "materiality?"
- What did it mean that they audited the firm on a "going concern" basis? Would the audit have been different under a "liquidation concern" basis?

Presentation Financial Statements

- How did Vidrala classify expenses in its consolidated income statement, by nature or by function? Can you estimate the cost of goods sold?
- How did the firm present assets (liabilities) in the consolidated balance sheet, EU style or US style?
- Was the cash-flow statement presented using the direct or indirect method?

Disclosure of Financial Statements' Notes

- Which of the following did Vidrala disclose in its notes?

  (i) Segment reporting by geographic region: sales, profit, and some other income and balance sheet data

  (ii) Segment reporting by product

  (iii) Remuneration of top executives and directors

  (iv) Financials by quarter: sales and profit data for each of the four quarters in 2017. If you did not find this information in the annual report, where could you find it?

  (v) Distribution of the group's personnel by gender.

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