

2018 • REPORTING • KLCI30

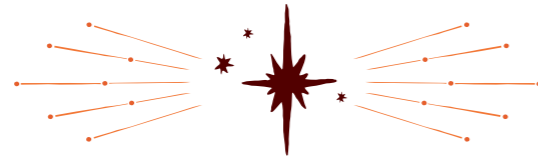
H R I Z O N
S E R I E S



THE GUIDE TO ANNUAL REPORTS

ANALYSIS OF 2018
REPORTING TRENDS
IN MALAYSIA

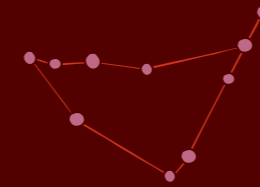




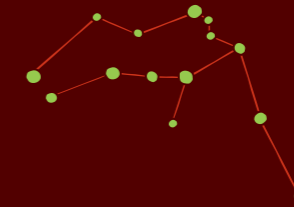
Welcome to the 1st edition of The Guide to Annual Reports in Malaysia, the latest addition to Black Sun's annual flagship research on trends and best practices in corporate reporting, and on how companies are responding to challenges and changes within the reporting landscape.

Our extensive research evaluates the annual reports of companies in the FTSE Bursa Malaysia KLCI (KLCI30) through an audit format that contains over 140 questions. This Guide discusses only a subsection of the research results. The main purpose of our research is to continuously enhance our knowledge of best practice reporting to enable us to support our clients in developing engaging reports that match their levels of ambition. We also hope to stimulate debate around what constitutes 'best practice' and contribute to the wider development towards long-term thinking, disclosure, and transparency.

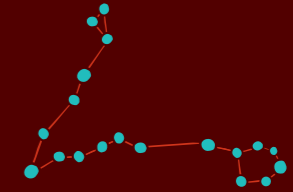
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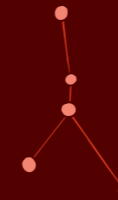
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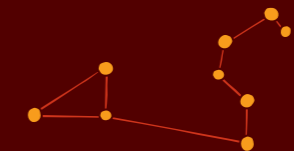
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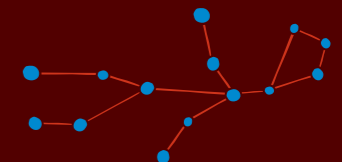
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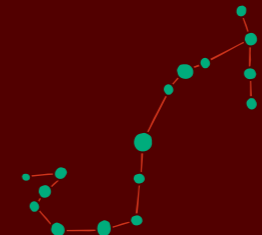
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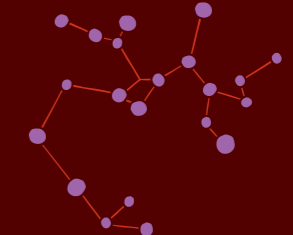
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THE GUIDE TO ANNUAL REPORTS MALAYSIA 2018

For centuries, stars and patterns of stars known as constellations have been relied upon for navigation. The North Star stands out in guiding travellers because of its brightness in the night sky.

Our study aspires to be the North Star to guide companies towards understanding patterns of reporting best practices.

EXECUTIVE SUMMARY

Companies today are experiencing a shift from behaving solely as financially-driven enterprises to embracing both financial goals and non-financial objectives. This shift has been accelerated by changes to the listing rules to require reporting on non-financial indicators, also known as sustainability reporting. In addition, the 2017 revision of the Malaysian Code on Corporate Governance (MCCG) has further spurred the shift by introducing requirements for integrated reporting.

INTEGRATED REPORTING DRIVES SUSTAINABILITY REPORTING

The MCCG encourages large Malaysian companies to adopt the Integrated Reporting <IR> Framework. An integrated report initiates the discussion on how capitals are being utilised to create value for stakeholders, by taking into consideration a multitude of factors, such as market outlook, risks & opportunities, and strategy.

The requirement for integrated reporting comes two years after the rule on mandatory sustainability reporting, which focuses on disclosure of material economic, environmental and social issues. The rule on sustainability reporting has resulted in a rich treasure trove of non-financial data. But simply disclosing the data does not do enough justice to sustainability reporting. Integrated reporting should be the lens that helps stakeholders to look at sustainability data and appreciate the depth and impacts of it. To do so, companies must meaningfully connect the dots between financial and sustainability information via the <IR> Framework. This is the overarching mission that we bear in mind when producing this report.

APPROACHING INTEGRATED REPORTING

With as many as 59% of the KLCI30 companies adopting the Integrated Reporting <IR> Framework this year, our research fits into a strategic window to observe how companies have started their <IR> journey. In our observations on the <IR> content elements in the annual reports, we noted that all integrated reports among the KLCI30 have business models, which provides a snapshot of how they utilise capitals and create value for stakeholders.

However, the state of corporate reporting in Malaysia is still evolving and we have yet to see how connectivity, a key principle of integrated reporting, is being practised throughout the annual reports. Our Guide, therefore, includes many recommendations on how companies can achieve better connectivity by linking key information. This should also set the stage for our research focus next year.

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A unique approach in our analysis of the KLCI30 annual reports is through the use of text analytics. We developed the Annual Reports Analyser search tool to determine the frequency of key words in the annual reports, giving insights into the language used in reporting.

Try out the Annual Reports Analyser here:



This section examines how companies provide contextual information to set a solid foundation for readers before going deeper into the annual report.

Why it is important

The first few pages of the corporate report are crucial in establishing the corporate story. They are used to explain who the company is, what it does and why it exists, with clear articulation of its purpose, values and investment case.

What is required in Malaysia

- There are no requirements in the Main Market Listing Rules (MMLR) on how companies should set up their opening pages of the annual report.
- Practice 1.1 of the MCCG states that “The board should set the company’s values and standards, and ensure that its obligations to its shareholders and other stakeholders are understood and met”. This spells out the companies’ responsibilities to their stakeholders, and not just shareholders.
- In the MCCG, large companies are encouraged to adopt the integrated reporting framework. The adoption of integrated reporting will have a bearing on how the companies produce the opening sections. Instead of being too financial-driven, annual reports now have to communicate the companies’ commitment to create value for all stakeholders. (Practice 11.2 of the MCCG)

Where we are now

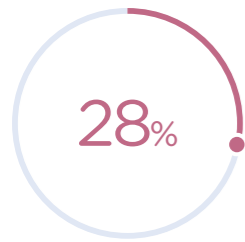
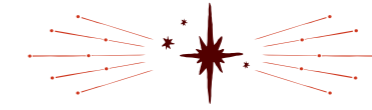
The majority of KLCI30 companies have presented vision statements but most have not provided purpose statements, which explain why companies exist. Few have provided clear investment cases, which help to describe the strengths of the companies.

What is international best practice

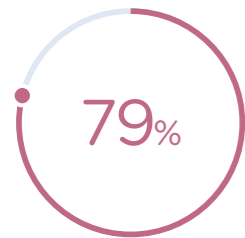
- Provide a clear, concise overview of what the company does, where it does it and how it is structured.
- Use this overview to introduce and contextualise the rest of the annual report.
- Describe the key strengths and points of differentiation from the company’s competitors.
- Present a holistic picture by featuring financial and non-financial aspects of the company.



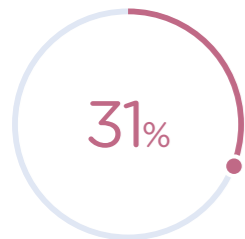
ONE: SETTING THE SCENE



provided purpose statements



described vision



discussed competitive advantage

1 EXPLAIN YOUR PURPOSE AND VISION

Increasingly, the investment community is found to be assessing the future relevance of companies. Against this backdrop, a well-defined purpose statement that explains why a company exists can help to set the scene before delving further into the companies' plans to stay relevant in the future. However, we found that only 28% of the annual reports have provided purpose statements. Vision statements, which explain corporate goals, are comparatively common: 79% have described their vision for the future. Together they can provide a powerful opening message to the annual report and communicate a clear future direction of the company.

Companies should explain their purpose and vision, which are contextually aligned with other key aspects, such as the business model, strategy and material issues.

2 PRESENT SUSTAINABILITY HIGHLIGHTS

Often placed in the first few pages, performance highlights consist of headline figures or charts that help to summarise performance for the year. Our study shows that 83% of KLCI30 companies presented financial or operational performance highlights whereas only 21% showcased sustainability performance highlights. A discussion of sustainability issues gives readers a rounded view of the companies' progress towards creating value for wider stakeholders. Therefore, it is important to present performance highlights of these issues in the opening sections, which are cross-referenced to further elaboration on their impacts on long-term value.

Companies should include sustainability performance indicators in the performance highlights section.

3 PROVIDE A CLEAR INVESTMENT CASE

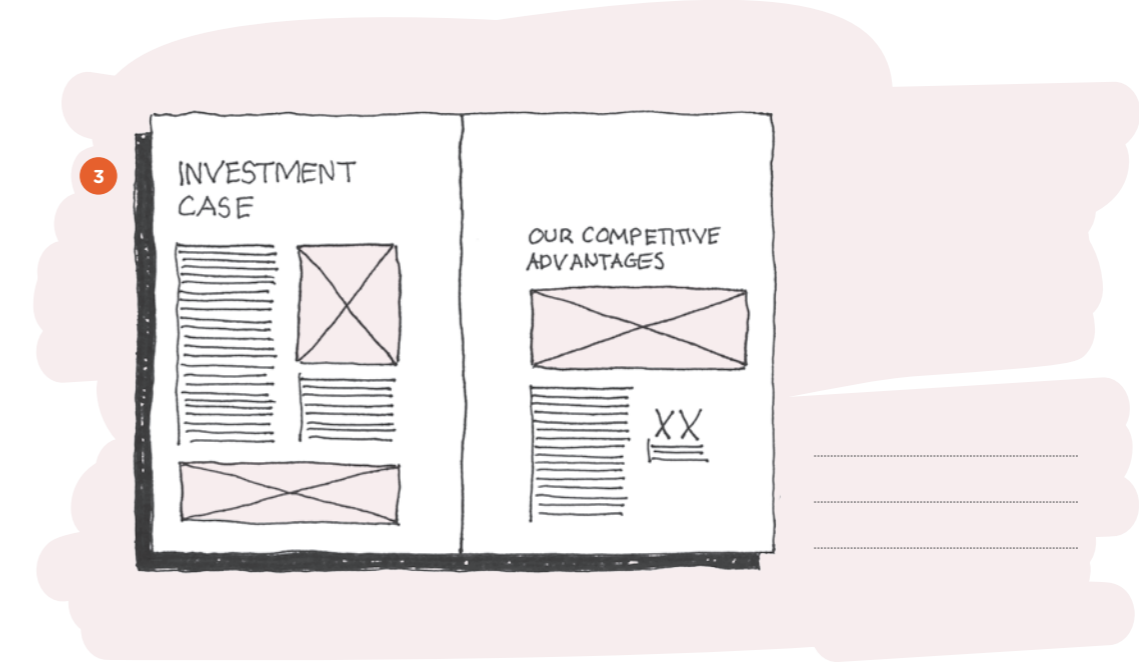
Investment case is a platform for companies to showcase their strengths that support them in staying relevant in the investors' radar. We have found that 31% of KLCI30 featured clear investment cases in their annual reports, with 21% highlighting strengths that arise from the potential of their future plans and long-term investments. This further shows the companies' intention to position themselves as an investment for the long term.

Companies should feature clear investment cases.

KLCI30 ANNUAL REPORTS TEXT ANALYTICS

vision mentioned on average
8.59x

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The leadership statements serve to provide insights into the future strategic direction of the business from management's perspective.

Why it is important

The role of leadership is imperative in enhancing transparency and building trust and confidence among stakeholders. Leadership statements provide an opportunity for the CEO and Chairman to take ownership of key issues and promote authenticity and trust by addressing them in an open and balanced way.

What is required in Malaysia

- Companies are not required to produce leadership statements in annual reports; the Chairman's statement used to be a required section for discussion of trends, performance and future prospects until the amendments to the listing requirements in December 2016. The Chairman's statement was then replaced by the Management Discussion and Analysis (MD&A).
- Practice 12 of the MCGG states that the Chairman "is responsible for instilling good corporate governance practices, leadership and effectiveness of the board", hence the Chairman is widely seen as a champion for good governance within the organisation.

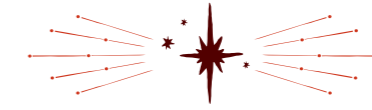
Where we are now

While the listing rules no longer require statements from any senior figures of the companies, the majority of KLCI30 companies still produce leadership statements; many also have separate statements from the Chairman and CEO. However, few have reported statements from senior figures other than the Chairman and CEO.

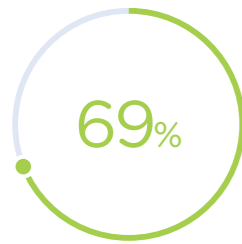
What is international best practice

- Deliver personally written statements that demonstrate the 'tone from the top' and communicate the character and personality of the business.
- Address any key issues or challenges during the year in an open and honest manner, explaining the steps the company is taking to address them.
- Differentiate the topics discussed by the Chairman and CEO to reflect their respective roles with the Chairman expressing the company's commitment to wider society.
- Provide personal insights into the strategy, focusing in particular on the rationale behind it and the process through which it was formulated.





provided separate Chairman and CEO statements



discussed sustainability in Chairman's statements



featured statements from other senior management members

1 DEMONSTRATE CLEAR DIVISION OF RESPONSIBILITIES

The Chairman and CEO often have clear division of responsibilities and it makes sense to produce separate statements to demonstrate that. Our research shows that although 93% of the KLCI30 companies have different individuals holding the positions of Chairman and CEO, only 66% of them featured separate Chairman and CEO statements in annual reports.

Companies should produce separate Chairman and CEO statements with topics that reflect their respective roles and responsibilities.

2 PROVIDE TOP-LEVEL INSIGHTS ON STRATEGIC TOPICS

The leadership statements reflect the individual focus of the Chairman and CEO. The Chairman's role is usually associated with corporate governance, stakeholder engagement and sustainability, whereas corporate strategy, financial and operational performance and sometimes, sustainability, largely defines the CEO's roles.

Our study found that the top three issues covered by the Chairman were:

- Financial or operational performance (76%)
- Sustainability (69%)
- Governance, strategy (each 55%)

On the other hand, the top three issues covered by the CEO were:

- Financial or operational performance (76%)
- Market trends (62%)
- Strategy (59%)

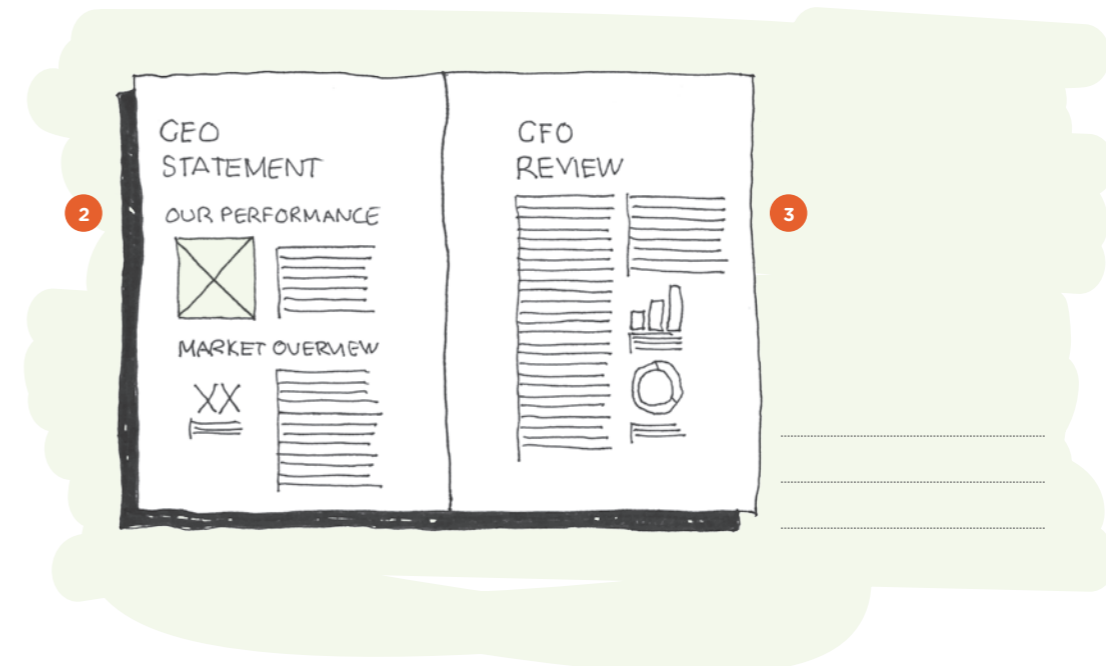
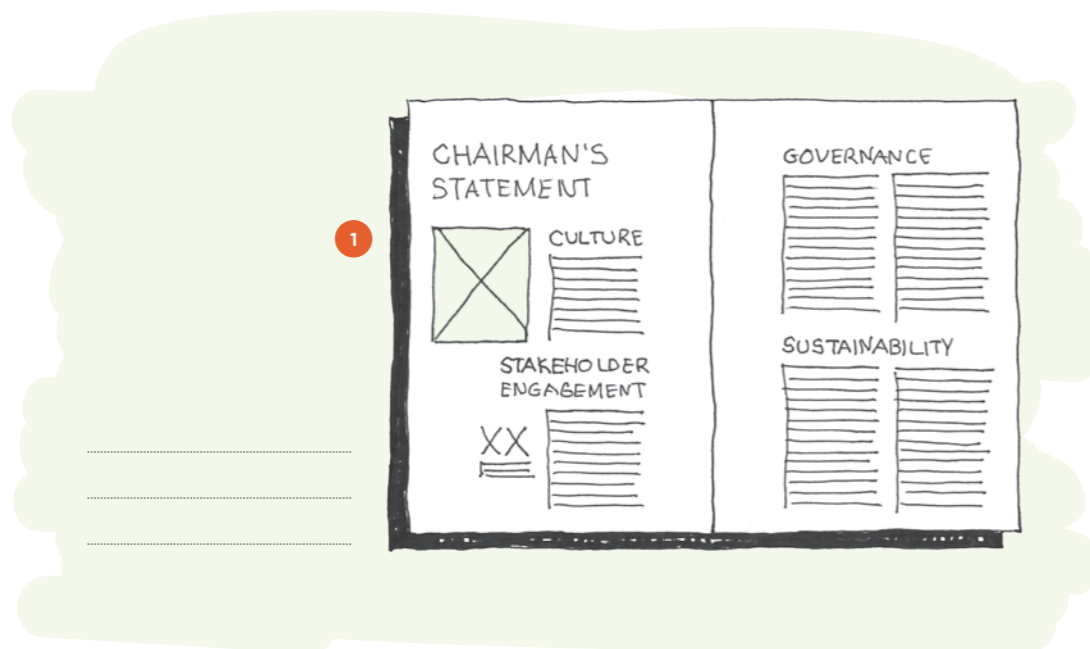
Together they should provide top-level insights into the strategic focus of the company. It is crucial not to overlook other important topics such as corporate culture (21% in Chairman's statement and 28% in CEO's statement) and commitments to engage stakeholders (38% each in the Chairman's statement and CEO's statement) to demonstrate accountability to employees and other stakeholders.

Leadership statements should have more focus on corporate culture and commitment to engage stakeholders.

3 GOING BEYOND CHAIRMAN AND CEO STATEMENTS

The shared leadership model is prevalent in the modern corporate setting to maximise the talent pool in a company. Annual reports should similarly evidence this by having statements from other senior figures. Such senior figures include the CFO, board committee chairmen, a subsidiary's CEO and other group senior management members. As it stands, only 28% produced statements from these senior figures.

Companies should produce statements from other senior figures to demonstrate shared leadership.



The business model helps readers to understand how a company generates, preserves or destroys value in the short, medium and long term.

Why it is important

The business model is a key component of an annual report as it clearly articulates what makes a business different from its peers and how value is generated and delivered, which is central to attracting investors and competing for capital.

What is required in Malaysia

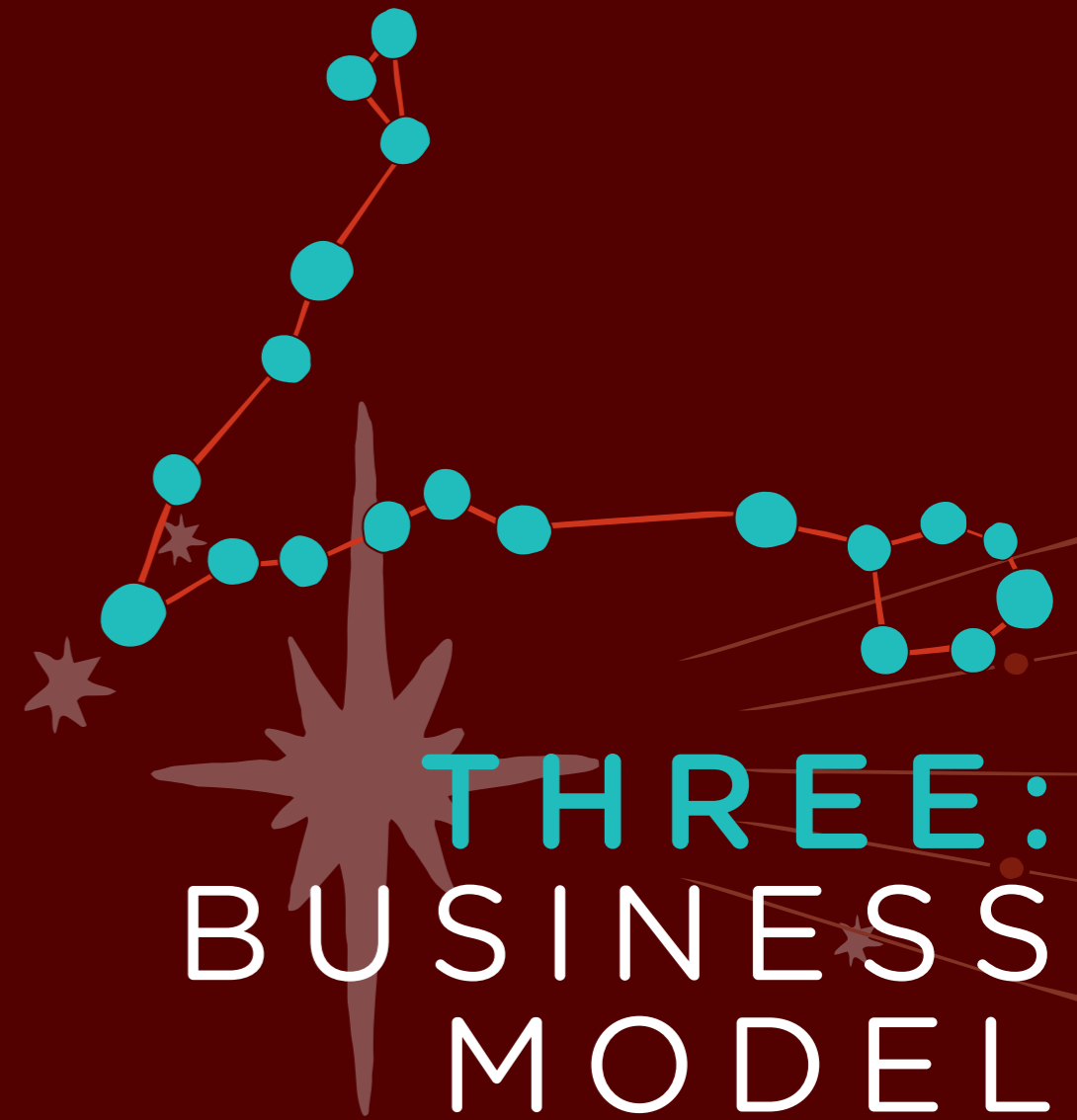
- The listing rules do not require the disclosure of business models.
- Companies are encouraged to adopt integrated reporting which counts business model as one of the eight content elements. (Practice 11.2 of the MCCG)

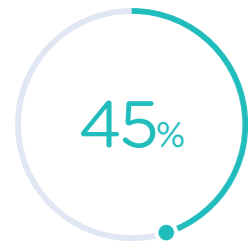
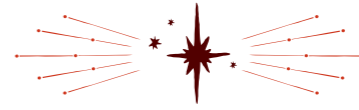
Where we are now

Being one of the eight content elements of the <IR> Framework, the disclosure of the business model is a key component to show that the report is aligned with the framework. Many companies have disclosed their business model, in which majority described how they create value for stakeholders.

What is international best practice

- Draw clear links between the business model, purpose and culture to highlight how the company's business conduct contributes to value creation.
- Identify the critical resources and relationships on which the business depends.
- Describe the company's key strengths and points of differentiation from its competitors.
- Use relevant quantitative indicators to demonstrate how the company creates value for wider stakeholders.

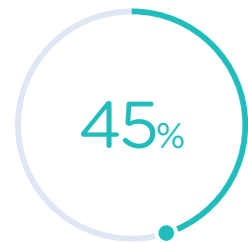




described how value is created for stakeholders



described main products and services



linked business model and strategy

1 ILLUSTRATE HOW THE BUSINESS MODEL CREATES VALUE FOR YOUR STAKEHOLDERS

In the <IR> Framework, the business model generally describes how inputs are transformed into outputs and outcomes. 41% of KLCI30 companies are already <IR> reporters and all of them have reported their business models. Another 18% who have not adopted the <IR> Framework also see the merits of the business model and incorporated it in their annual reports. To take this one step further, it is becoming commonplace to illustrate how value is created for stakeholders – as many as 45% have done so. However, only 21% supported the explanation with both qualitative and quantitative information.

Companies should explain how and what value is created for stakeholders, using both quantitative and qualitative information.

2 DO NOT FORGET THE BUSINESS ASPECTS

With so many moving parts that can be inserted into a business model, it is equally crucial to keep the business aspects visible to readers. Our study indicates that 31% described their main products and services, 7% indicated relative size or importance between key segments, and 14% explained their competitive advantage in the business models.

Companies should make sure that the business model does not dilute the importance of the business side of information.

3 USE THE BUSINESS MODEL TO DRIVE THE VALUE CREATION STORY

While the business model encapsulates how value is created by the company, it can also be positioned as a reference point to connect snippets of the value creation story throughout the annual report. Few have managed to establish these connections. Our research shows that only 21% made the linkage between business model and strategy, 31% explained the connection between sustainability and business model, and none made the management team accountable for value creation performance by linking the business model with KPIs.

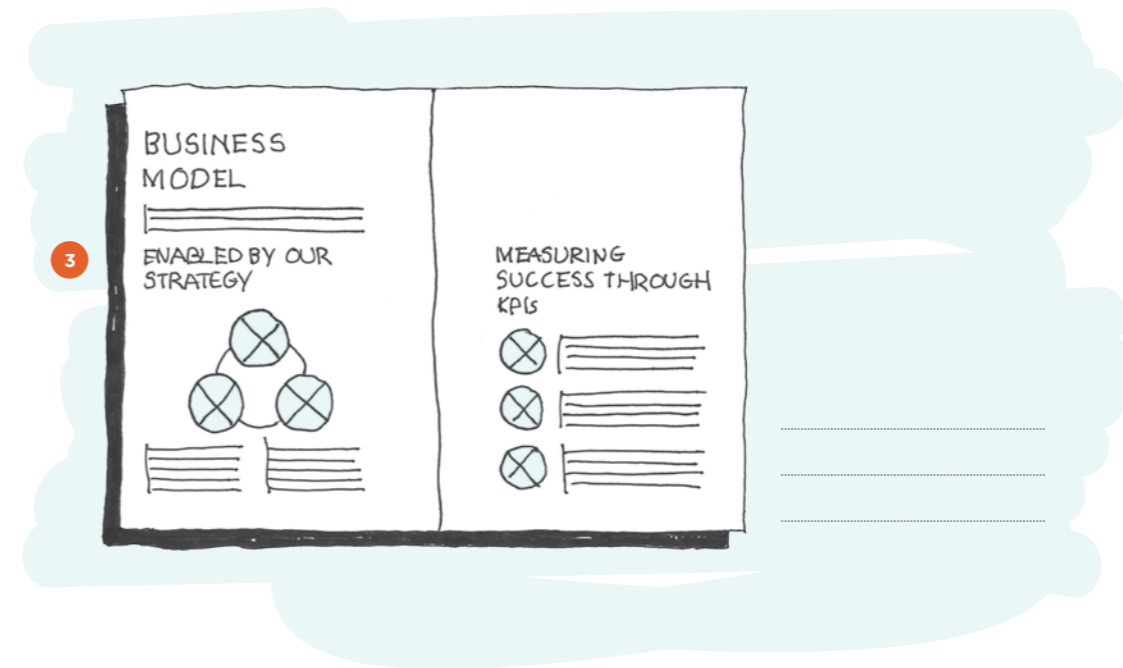
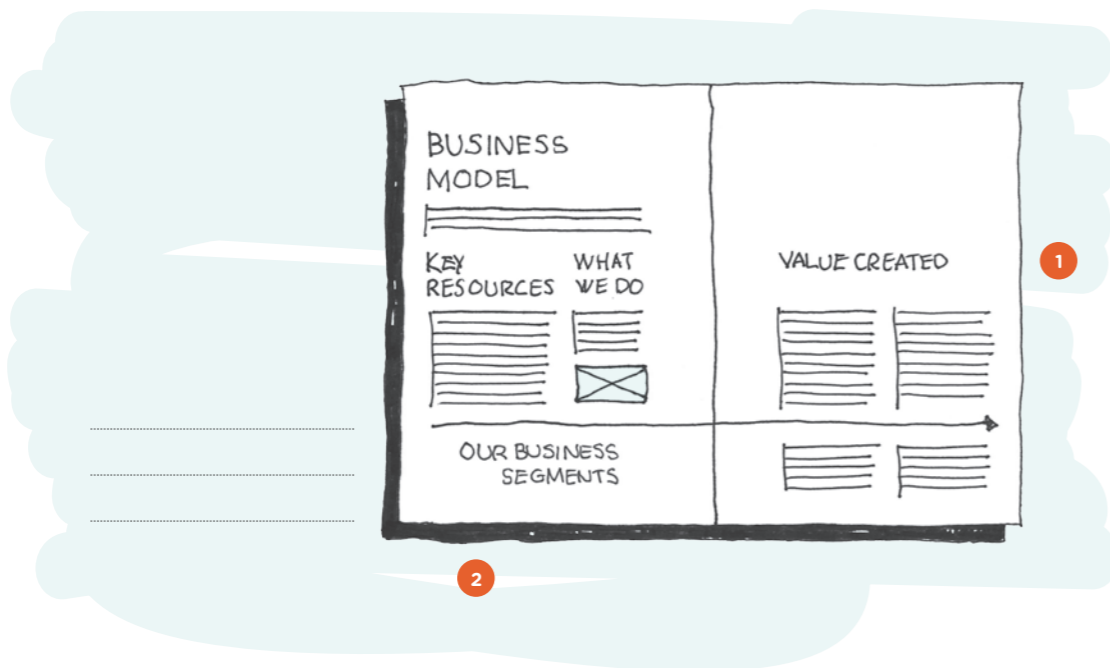
Companies should make use of the business model as the backbone of their value creation story, making linkages with other parts such as strategy, sustainability and KPIs.

KLCI30 ANNUAL REPORTS TEXT ANALYTICS

Business model
mentioned on average
4.66x

Value creation
mentioned on average
9.03x

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In this section we investigate how companies present the market review and its future outlook in the annual report.

Why it is important

The market review section provides an opportunity to highlight the underlying risks and opportunities presented by the market and the company's plans to leverage on market trends. These discussions are important for stakeholders to assess the future performance and prospects of the company.

What is required in Malaysia

- Parts (b) and (e) of the MD&A require companies to disclose known material trends and events, together with the underlying reasons or implications, as well as forward-looking commentary on the group's "possible trend, outlook and sustainability of each business segment". (Bursa Malaysia Main Market Listing Rules, Appendix 9C, Part A, Paragraph 7)

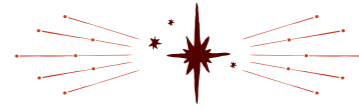
Where we are now

Many KLCI30 companies had separate sections on market review, but the majority of them only focused on discussions about economic or financial factors. We expect companies to review a wider range of emerging trends and better clarify the impacts and their responses to market trends.

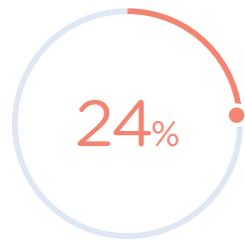
What is international best practice

- Provide explanations of the market, industry trends and opportunities.
- Outline how the company responds to market trends and carry this discussion through to the strategy section.
- Outline the company's competitive landscape and discuss its positioning within key markets, explaining how this allows the company to make the most of opportunities.

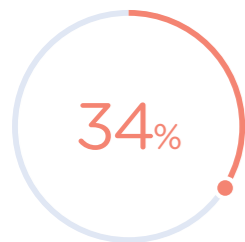




discussed climate change



discussed how market environment influences strategy



explained how they respond to market trends

1 DESCRIBE A HOLISTIC RANGE OF TRENDS

In a world of rising corporate accountability, a sustainable business should consider a wide range of market factors to refrain from overlooking material trends. We have found that in discussing the market environment, 69% of the KLCI30 have included discussions about market dynamics and economics factors, less about other emerging aspects, such as climate change (14%), workforce and demographics (28%) and technological advancement (31%).

Companies should broaden the scope of their market review by including a wider range of material trends, including but not limited to economic, market dynamics, climate change, demographics and technology.

2 PROVIDE DEEP-DIVE ANALYSIS ON MARKET TRENDS

Market review is a mainstay of the annual report as 83% of the reports have provided an overview of the market environment during the year. Nevertheless, not all of them have taken it further to generate deeper insights - only 59% drew meaningful connections between market trends and the impact on the company. Even fewer, which makes up 34% of the KLCI30, explained how they responded to the impact of the market trends.

Besides providing an overview of the market environment, companies should explain the impact of market trends on the company and how it responds to the impacts.

3 DISCUSS HOW MARKET ENVIRONMENT INFLUENCES STRATEGY

An integrated report should describe how strategy is influenced by risks and opportunities of the market environment. In other words, companies should link each market trend with related strategies to show the company's strategic planning process and rationalise "what we plan to do" with "what is happening". Currently, only 24% have done so.

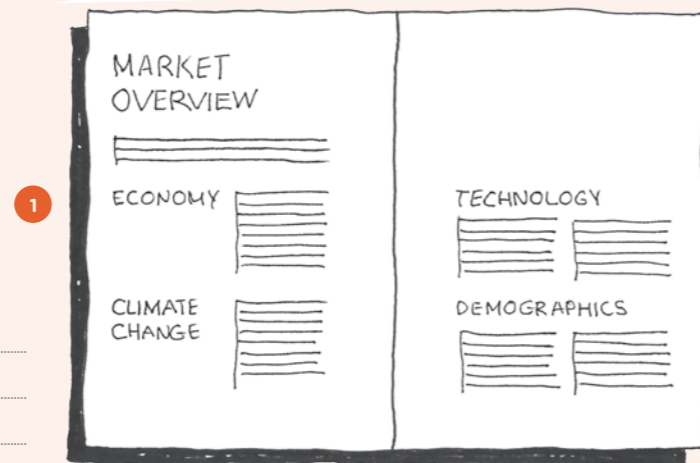
Companies should link market environment with strategy to ensure connectivity of information.

KLCI30 ANNUAL REPORTS TEXT ANALYTICS

20 companies used the term climate change

Technology mentioned on average 35.48x

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1



2

3

This section analyses how companies express their strategy and report on progress in delivering on strategic objectives.

Why it is important

Investors and other stakeholders require information on the company's main objectives and progress against these objectives in order to fairly assess its prospects and growth potential.

What is required in Malaysia

- Part (a) of the MD&A requires companies to disclose its business objectives and strategies for achieving the objectives; Part (c) requires companies to discuss the company's approach in dealing with the main factors that may affect the principal segments of the company. (Bursa Malaysia Main Market Listing Rules, Appendix 9C, Part A, Paragraph 7)

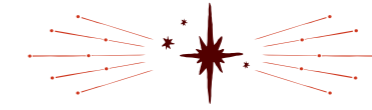
Where we are now

While the listing rules only require disclosure of the company's objectives and strategies for achieving the objectives, a handful of companies have gone to great lengths by linking them with risks.

What is international best practice

- Outline how the company's strategy positions the business to respond to market trends and stakeholder expectations.
- Provide a key explanation of major investments during the year, explaining how these fit in with the strategic framework and support long-term value creation.
- Ensure strategic objectives are specific and measurable with quantifiable targets for the future.
- Link strategic objectives to key performance indicators and risks to communicate a more holistic story.

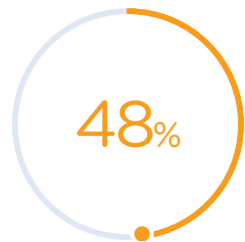




presented standalone strategy section



linked strategy with key risks



presented strategy dashboard or diagram

1 COMMUNICATE AN INTEGRATED STRATEGY

The strategy section is important in reporting the actions and plans that the company has in place to manage market risks and opportunities. 69% of KLCI30 companies have discussed strategic objectives, while as many as 59% presented strategy discussions in standalone sections.

One of the key objectives behind strategy reporting in the spirit of <IR> is to communicate how value can be created by taking into consideration stakeholders' interests. By doing so, the strategy section should fittingly cover a range of material aspects, in addition to the common areas such as growth, operational or financial objectives. In our study, we looked at how well the companies have incorporated a sustainability approach into their strategy. Only 28% have adopted this integrated approach.

Companies should communicate their strategy that incorporates a sustainability focus.

2 LINK STRATEGY WITH RISKS

Each strategic plan of companies comes with inherent risks. For an all-rounded reporting of strategy, companies should discuss this relationship in the strategy section to show adequate risk planning and proper accountability for risks. However, our results show that this link is clearly lacking. Only 17% linked strategy with risks.

Companies should link their strategy with key principal risks, and provide page references to relevant risk management discussions for further reading.

3 USE A STRATEGY DASHBOARD OR DIAGRAM

48% of the KLCI30 companies have used either diagrams or dashboards to represent their strategies and to review their performance against the strategies. The benefits of using diagrams or dashboards are twofold: Not only does it help readers to better grasp the strategy, companies can also use it as a tool to deliberate on the strategic messages, allowing structured thoughts and rounded discussions around the strategies.

Companies should graphically represent the discussions of strategy using dashboards or diagrams.

KLCI30 ANNUAL REPORTS TEXT ANALYTICS

Strategy
mentioned on average
44.93x

22
companies used the term
strategic objectives

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This section analyses the disclosure of business performance in the annual report, including both financial and non-financial performance.

Why it is important

Investors use performance metrics in the annual report to measure management performance both in terms of whether they are measuring the right things and whether they are delivering against their stated strategy.

What is required in Malaysia

- Part (b) of the MD&A requires companies to explain the performance of both financial and non-financial indicators; part (c) requires companies to explain “significant changes in performance, financial position and liquidity”. (Bursa Malaysia Main Market Listing Rules, Appendix 9C, Part A, Paragraph 7)

Where we are now

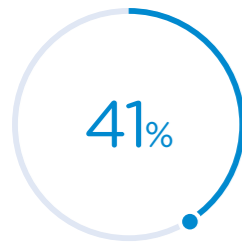
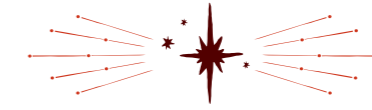
Close to half of the KLCI30 companies have used key performance indicators (KPIs) to review performance in a focused and strategic manner. However, only a few have discussed the link between KPIs and corporate strategy.

What is international best practice

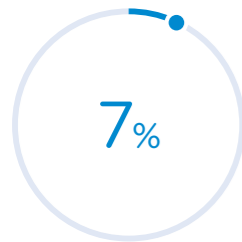
- Clearly define each KPI, explain why it was selected and provide additional context on the factors influencing performance against it during the year.
- Include a mixture of financial, operational and non-financial KPIs to provide a holistic overview of the company’s performance.
- Clearly link KPIs to all of the company’s strategic objectives as well as to the principal risks that could impact the results collected.
- Clearly highlight which key performance indicators are linked to remuneration, including indicators relating to value creation.



SIX: PERFORMANCE



disclosed
key performance
indicators (KPIs)



linked
each strategy
with KPIs



made basic linkage
between KPIs
and remuneration

1 MEASURE PERFORMANCE THROUGH KPIS

Key performance indicators (KPIs) give readers a sense of how well the companies have performed in respect of the company's purpose, mission and strategic objectives. While our study indicates that 41% have disclosed KPIs, most of these metrics appear to be either operational or financial. Not many have disclosed sustainability KPIs in their annual report, such as those related to employees (17%), culture (3%) and environment (0%).

Companies should disclose KPIs that help to measure performance in various aspects, including operations, financial and sustainability.

2 MEASURING SUCCESS USING KPIS

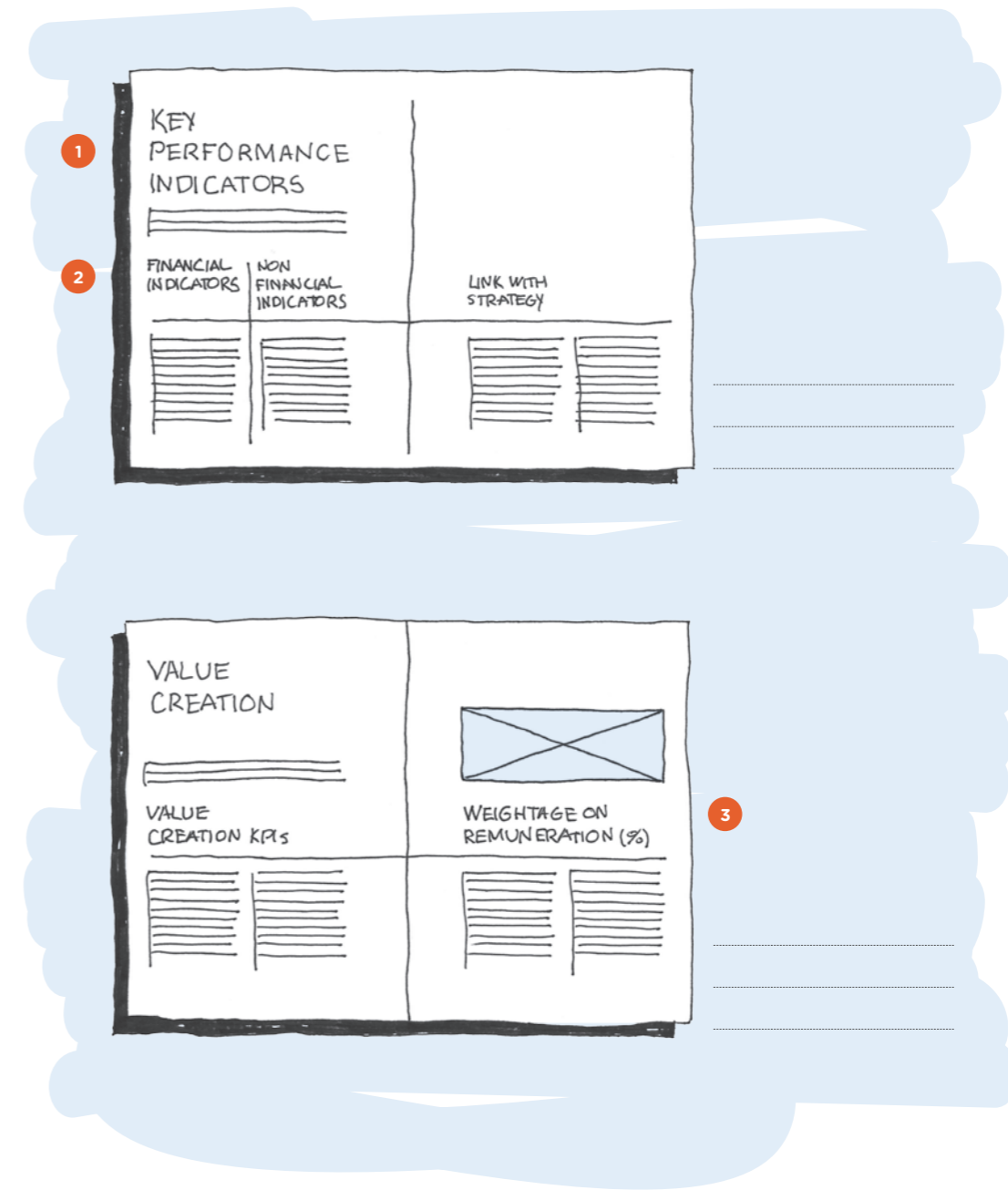
It can be intuitively hard to interpret performance against strategy through qualitative details. Disclosure of quantitative KPIs, which helps to shape perceptions better as they are less ambiguous, alongside qualitative review of the strategic performance should provide the delicate balance. 28% have made generic statements to indicate the relationship between strategy and KPIs, while only 7% have mapped each strategy to KPIs.

Companies should provide both quantitative and qualitative review of strategy.

3 LINKING REMUNERATION WITH KPIS

To ensure alignment with corporate objectives, KPIs are often used as key determinants of the CEO's and executive directors' remuneration package. 28% have made basic reference to the linkage between KPIs and remuneration, yet none have concretely provided a full picture of how the performance of each KPI affects the remuneration packages of the CEO and executive directors.

Companies should discuss the linkage between KPIs and the remuneration of the CEO and executive directors, as well as provide a comprehensive analysis of how KPIs determine the remuneration figures.



Risk disclosures aim to inform readers of the company's appetite for risk, the key risks and their impact on the business, and the robustness of the company's risk management and internal control systems.

Why it is important

As part of reliable and complete disclosure, an annual report should disclose aspects that contribute positively to the business and also aspects of risks impacting the business. A balanced approach to reporting will allow the reader to gain an understanding of all the factors affecting the business and the processes in place to mitigate and manage the accompanying risks.

What is required in Malaysia

- Part (e) of the MD&A requires companies to disclose risks that may have material impact on the group and their mitigation strategies. (Bursa Malaysia Main Market Listing Rules, Appendix 9C, Part A, Paragraph 7)
- The Board of Directors of listed companies are obliged to produce an additional Statement on Risk Management and Internal Control to discuss relevant initiatives such as key processes, policies and frameworks. (Bursa Malaysia Main Market Listing Rules, Chapter 15, Paragraph 15.26(b))
- The MMLR also require that listed companies follow Part II of Principle B of the MCCG, which states that companies should discuss the features of the companies' risk management and internal control framework. (MCCG, Principle B, Part II)

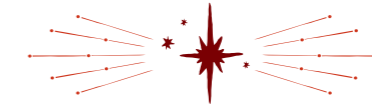
Where we are now

Risk management is relatively well guided by the MCCG and the MMLR. One of the key areas for improvement in risk management disclosure is to ensure connectivity with other key sections, such as strategy and material matters.

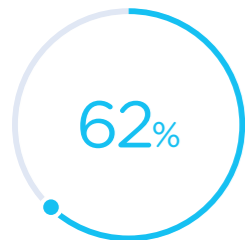
What is international best practice

- Clearly explain the risk identification, management and mitigation processes in place.
- Provide insights into the risk appetite, identify principal risks and whether they have changed over the year.
- Focus on strategic risks and risks related to the business model, rather than simply operational risks.

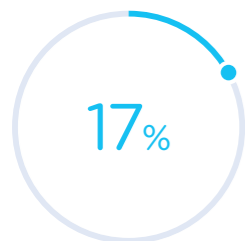




discussed risk management



discussed potential impacts of each principal risk



linked principal risks and material matters

1 PROVIDE HOLISTIC DISCUSSION BUT KEEP DISCLOSURE CONCISE

Risks are inherent in many aspects of the business and it is important to discuss how the risk management process is structured in the business. As a key reporting requirement of the MMLR and MCCG, all of the KLCI30 companies have discussed risk management but only 52% clearly explained the procedure through which risks are identified. This is an area where improvement is needed to aid discussions on risk management.

The various disclosure requirements of the MMLR and the MCCG have also resulted in all of the KLCI30 companies discussing risk management in more than one section, notably in the MD&A, the Corporate Governance Overview Statement and the Statement on Risk Management and Internal Control.

However, our observation indicates that similar information was repeated across different sections. To avoid this, cross-referencing should be used

rigorously to ensure that related information is well-connected and not repeated. To improve clarity and conciseness of risk information, our study shows that 62% have incorporated diagrams to aid in risk management discussions.

Companies should explain clearly the process through which risks are identified, and keep discussions of risk management concise with the use of diagrams and cross-references.

2 PROVIDE THOROUGH EXPLANATION FOR PRINCIPAL RISKS

The MMLR requires that companies disclose “any identified anticipated or known risks” and with “plans or strategies to mitigate such risks”. These requirements have served as good disclosure guidelines but companies can certainly improve upon the quality of disclosure by going beyond fulfilling these requirements.

Specifically, we found that 62% described potential impacts of each principal risk

that are specific to the company and 3% show how risk levels have changed over the year.

Companies should explain the sources of principal risks, the corresponding impact, mitigation approach and whether the risk levels have changed over the previous year.

reported sustainability-related principal risks, which shows a lack of consideration of risk areas that are different from those with financial and operational aspects.

Companies should demonstrate the link between principal risks and material matters.

3 LINK PRINCIPAL RISK WITH MATERIAL MATTERS

The <IR> Framework recommends that risk and material matters be inherently connected. For example, the framework states that stakeholders’ insights can help to “identify material matters, including risks and opportunities”.

However, we found a lack of understanding of this relationship as only 17% have managed to link the two key information together. We believe that this linkage can help to achieve greater integration by incorporating sustainability aspects into risk disclosures. Currently, only 24%

KLCI30 ANNUAL REPORTS TEXT ANALYTICS

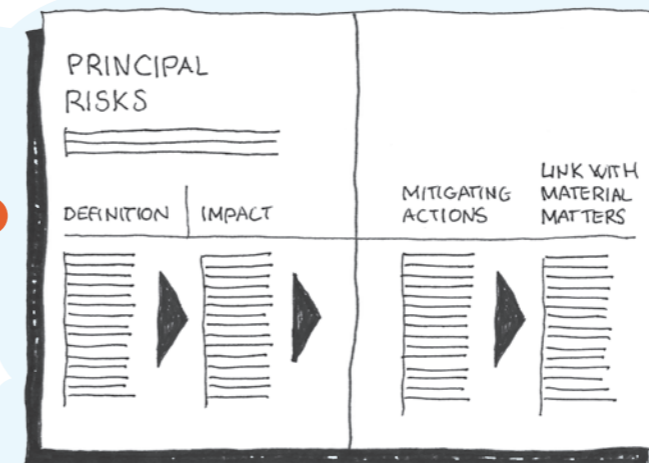
Risk management mentioned on average **137.69x**

5 companies used the term **principal risk**

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1



2

3

This section focuses on sustainability disclosures within the annual report and how this information is positioned to describe the company's ability to deliver value in the long term.

Why it is important

Globally, there is a rising trend in considering sustainability factors when making investment decisions. Disclosure of sustainability information is paramount in ensuring that Malaysia-listed companies stay competitive in the international capital markets.

What is required in Malaysia

- Companies are required to produce a Sustainability Statement that explains how they manage material economic, environmental and social risks and opportunities. (Bursa Malaysia Main Market Listing Rules, Appendix C, Part A, Paragraph 29)
- In the Sustainability Statement, companies have to provide discussions on sustainability governance, scope of disclosure, material sustainability matters, explanation on the importance of these matters and how they are identified and managed. (Bursa Malaysia Main Market Listing Rules, Practice Note 9)

Where we are now

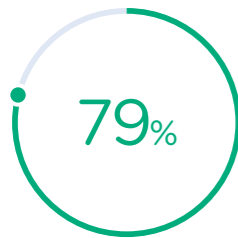
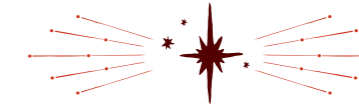
Most companies have incorporated sustainability information, including stakeholder engagement initiatives and material matters, in their annual report. Our observations show, however, that companies need to incorporate more discussions about stakeholders' feedback and their responses to the feedback.

What is international best practice

- Build the sustainability discussion around the most material issues.
- Demonstrate how sustainability is important in delivering the company's corporate strategy.
- Demonstrate how sustainability matters are governed.
- Describe the company's policies with regard to stakeholder engagement, stakeholder expectations and how the company is meeting these expectations.



EIGHT: SUSTAINABILITY



treated sustainability as distinct issues



disclosed feedback received from stakeholders



explained the importance of each material matter

1 EXPLAIN HOW SUSTAINABILITY SUPPORTS VALUE CREATION

As companies begin to adopt the <IR> Framework in their annual report, they should explain how sustainability efforts support the companies' value creation objectives. We believe that a connection between <IR> and sustainability reporting will allow readers to fully appreciate and contextualise the companies' sustainability performance.

The connectivity has yet to be manifested in most annual reports. 79% were still treating sustainability as distinct issues or corporate social responsibilities, and do not help in explaining how it supports value creation. The rest of the companies (21%) have done so by integrating sustainability approaches into their business model or strategy.

Companies should clearly demonstrate that sustainability is integrated into the business and how it supports value creation.

2 FOCUS ON STAKEHOLDER FEEDBACK AND RESPONSE TO FEEDBACK

It is through engagement with stakeholders that companies can receive feedback and then provide appropriate course of action to deal with stakeholders' concerns. Annual reports should therefore reflect the connection between stakeholders' feedback and company responses in the Stakeholder Engagement section.

Our research indicates that 86% disclosed stakeholder engagement initiatives in the annual reports, but only 17% disclosed the feedback received from stakeholders and 24% discussed responses to the feedback.

Companies should disclose the feedback received from stakeholders and their corresponding responses to address the feedback.

3 EXPLAIN WHY MATERIAL MATTERS ARE IMPORTANT

Material matters may not always seem intuitive to the readers of annual reports. A good way to address this gap in understanding is to critically evaluate the messages and more importantly, explain why each material matter is important to the organisation's ability to create value.

28% have provided the explanations for each material matter whereas another 41% provided an overarching justification for the importance of all material matters.

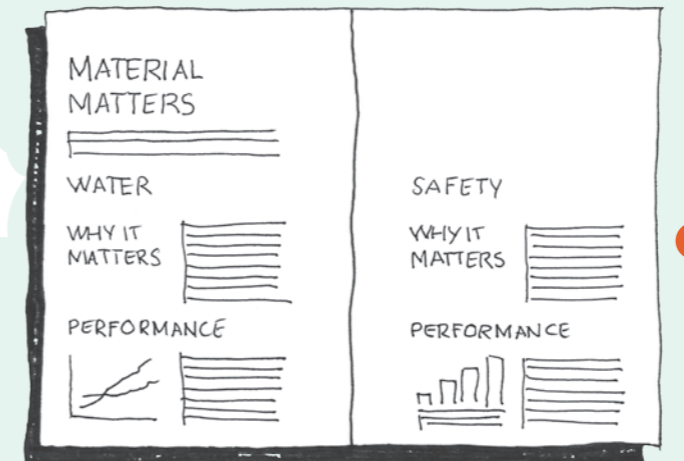
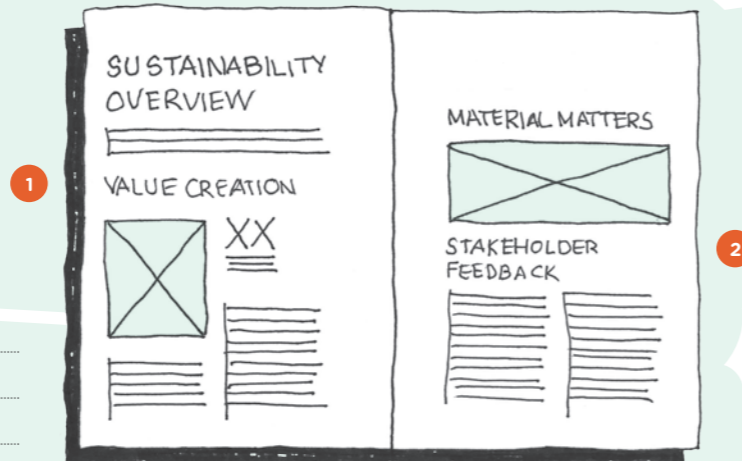
Companies should discuss the relevance of each material matter in their ability to create value.

KLCI30 ANNUAL REPORTS TEXT ANALYTICS

Stakeholder engagement mentioned on average **2.55x**

Sustainability mentioned on average **85.59x**

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The governance section analyses a company's commitment to effectiveness, internal processes, controls and management, and how the company is organised to deliver on its commitments, making it more accountable to shareholders and stakeholders.

Why it is important

A company's governance practices are essential in sustaining corporate performance and in maintaining investor confidence in the marketplace. Investors and other stakeholders seek assurance that the board has sufficient independence, skills and experience to effectively promote the success of the company and deliver long-term value.

What is required in Malaysia

- Companies are required to explain how they apply each practice in the MCCG in a separate Corporate Governance Report, whereas annual reports only need to contain an overview statement of the companies' corporate governance practices. (MCCG)
- Companies should avoid box-ticking or boilerplate statements in the Corporate Governance Overview Statement. Companies should also avoid cluttering the statement with static information such as policies, charters and codes, which should be published on the website wherever possible. (Bursa Malaysia Main Market Listing Rule, Practice Note 9, Paragraph 3.7)

Where we are now

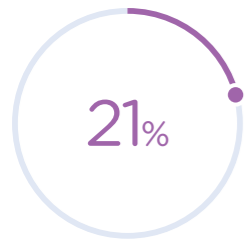
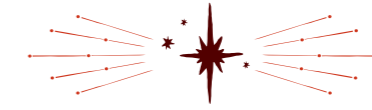
As the disclosure of the Corporate Governance Overview Statement comes into effect, it opens up a window of opportunity for companies to adopt a story-telling approach. The current results indicate that there is still room for improvement. Static information remains common, even though we expect future improvements to engage readers with more current and strategic information.

What is international best practice

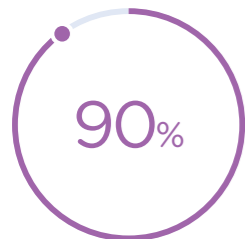
- Provide a clear overview of the board's activities during the year with explanation of how these align with the company's strategy.
- Clearly identify the skills of the board as a whole and how they support delivery of the strategy while acknowledging any potential areas for development.
- Provide a detailed discussion of the board evaluation process, highlighting the outcomes of the current year's evaluation and progress against the prior year's development points.
- Provide a discussion on board diversity policy, targets and the plans to get there.



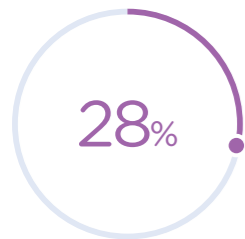
NINE: GOVERNANCE



21% included personal statements from Chairman of the Board or Board Committees



90% provided basic justification for director independence



28% discussed how KPIs influence remuneration

1 ENGAGE READERS WITH CURRENT AND STRATEGIC INFORMATION

Corporate governance disclosures have long been associated with boilerplate discussions, loaded with static information that does not seem to deviate too much from the previous year. To engage readers more, companies should find ways to highlight current information and be strategic-focused.

21% of KLCI30 companies have added personal statements from the Chairman or the chairs of board committees, summarising key developments over the reporting period and priorities for the future. These statements allow for better understanding of key information through the use of a personal tone.

14% have discussed board activities in tandem with the strategic objectives of the company, which is a highly strategic-focused approach in line with the <IR> Framework.

Companies should highlight current corporate governance information and become more strategic-focused in corporate governance disclosure.

2 PROVIDE MORE INSIGHTS INTO DIRECTOR INDEPENDENCE

In addition to the practice surrounding the nine-year limit on independent directors, Guidance 4.2 of the MCCG states that “to justify retaining an Independent Director beyond the cumulative term limit of nine years, the board should undertake a rigorous review to determine whether the ‘independence’ of the director has been impaired”.

Clearly, the MCCG has upped the ante on rules of independence and it is the responsibility of companies to tighten disclosures on independence. We note that 90% of KLCI30 companies provided only basic justifications for independence. Companies should consider contextualising each individual director’s background by

describing their characters, knowledge and experience, backed by the score of independence from the board assessment results.

Companies should offer additional insights into directors’ independence, which should be more than a box-ticking exercise against the criteria listed in the MCCG.

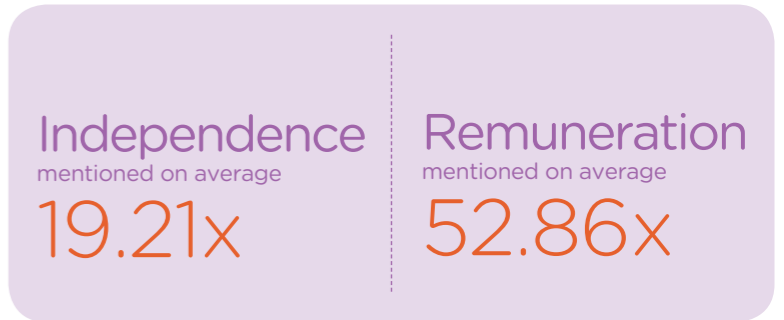
3 DESCRIBE HOW REMUNERATION IS ALIGNED WITH STRATEGY

The limited amount of information most companies have provided in remuneration disclosure has caused readers difficulty in understanding how performance of the company will influence remuneration of the CEO and the executive directors. Companies should establish the linkage between remuneration packages, KPIs and corporate strategy, highlighting to readers that the CEO and executive directors are held accountable for the performance of the company.

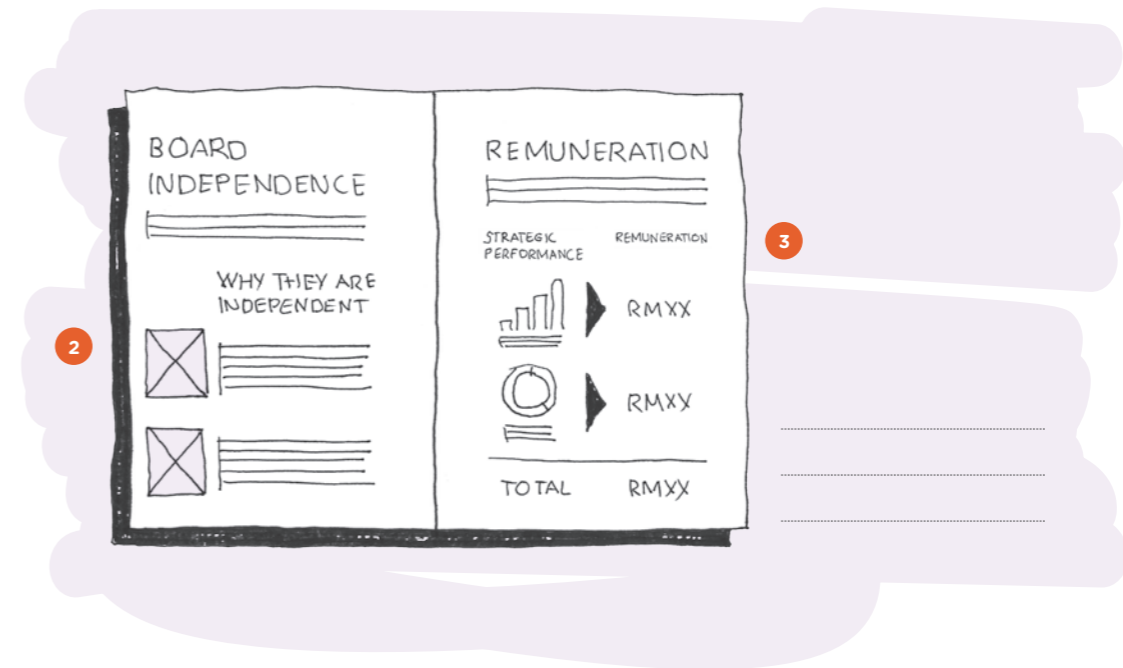
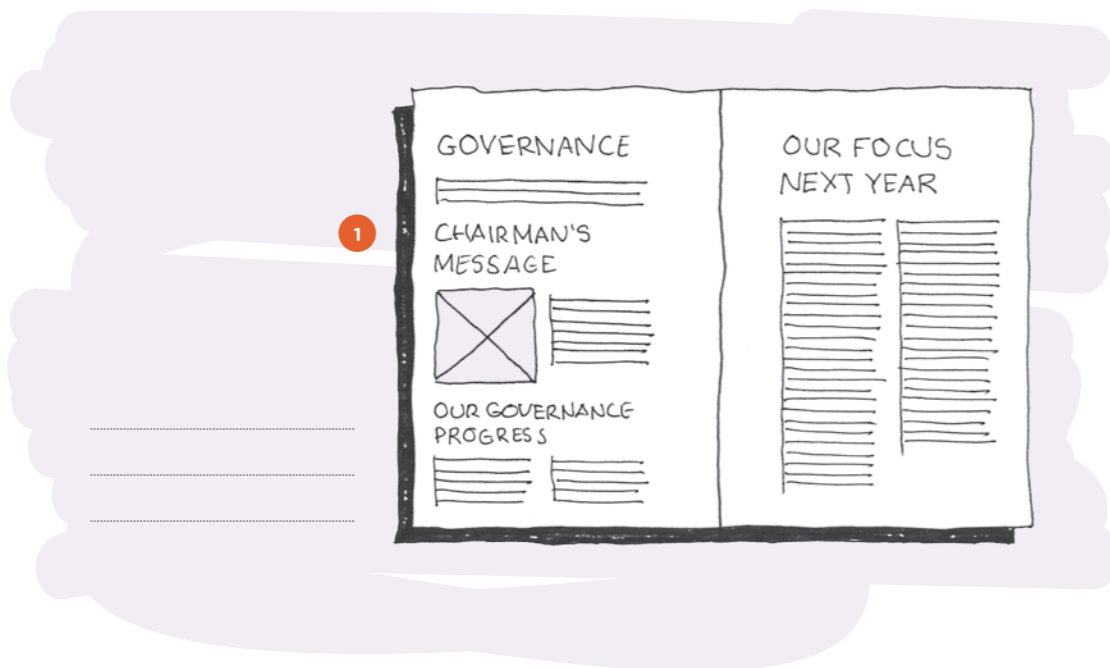
Our research indicates that 28% have provided a link between strategy and remuneration and 28% have provided a link between KPIs and remuneration.

Companies should link CEO and executive directors’ remuneration with the performance of corporate strategy and KPIs.

KLCI30 ANNUAL REPORTS TEXT ANALYTICS



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Methodology

Black Sun's review of the KLCI30 annual reports tracks trends and best practice in the light of the evolving regulatory requirements and reporting landscape.

The purpose of this report is to assess the information KLCI30 companies are providing in the narrative sections of their annual reports.

BENCHMARKING APPROACH

This is the inaugural report of our annual KLCI30 research. Our review has been developed and updated by Black Sun's Insights Team, which encapsulates the Bursa Malaysia Main Market Listing Rules on reporting, its accompanying practice notes, the Malaysian Code on Corporate Governance and the IIRC Integrated Reporting Framework. The focus of our review is on the narrative of the annual report, to assess how effectively companies have communicated information about their business to their investors and wider stakeholders.

Our evaluation does not cover financial statements or notes and we do not use the study to evaluate the accuracy of the information, compliance with industry regulations or financial performance.

SAMPLE GROUP

Our sample consisted of companies within the KLCI30 as at 31 May 2018, encompassing 29* annual reports prepared for FY 2017/2018. We assessed the reports against approximately 140 data points.

LEGISLATION AND REGULATION

The criteria for our analysis are aligned with legislation, regulation, guidance and good practice standards as set out by the Securities Commission Malaysia, Bursa Malaysia and the IIRC.

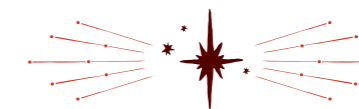
Useful websites:

Malaysian Code on Corporate Governance
<https://www.sc.com.my/>

Bursa Malaysia Main Market Listing Rules
<http://www.bursamalaysia.com/market/>

International Integrated Reporting Council (IIRC)
integratedreporting.org

*There are only 29 reports because Sime Darby and Sime Darby Plantation produced only one annual report as at 31 May 2018. The annual report was published before a demerger exercise.



Data File

Company	Financial year end	Annual Report			Online Format			
		Total number of pages	Number of narrative pages	% of narrative content	PDF	Flip-book/E-book	One-page scroll	Full microsite
AmBank Group	March	492	190	39%	✓	-	-	-
Astro Malaysia Holdings	January	324	148	46%	✓	-	-	-
Axiata Group	December	286	110	38%	✓	-	-	✓
CIMB Group Holdings	December	545	216	40%	✓	-	-	-
Digi.Com	December	188	98	52%	✓	✓	✓	-
Genting	December	230	84	37%	✓	-	-	-
Genting Malaysia	December	170	76	45%	✓	-	-	-
Hap Seng Consolidated	December	304	116	38%	✓	-	-	-
Hong Leong Bank	June	349	99	28%	✓	-	-	-
Hong Leong Financial Group	June	257	66	26%	✓	-	-	-
IHH Healthcare	December	340	174	51%	✓	✓	-	-
IOI Corporation	June	261	122	47%	✓	-	-	-
KLCCP Stapled Group	December	368	207	56%	✓	✓	-	-
Kuala Lumpur Kepong	September	222	111	50%	✓	-	-	-
Malayan Banking	December	527	149	28%	✓	✓	-	✓
Maxis	December	230	77	33%	✓	-	✓	-
MISC	December	344	157	46%	✓	✓	-	-
Nestlé Malaysia	December	318	242	76%	✓	-	-	-
Petronas Chemicals Group	December	240	144	60%	✓	-	-	-
Petronas Dagangan	December	273	161	59%	✓	-	-	-
Petronas Gas	December	377	245	65%	✓	-	-	-
PPB Group	December	226	78	35%	✓	-	-	-
Press Metal Aluminium Holdings	December	276	89	32%	✓	-	-	-
Public Bank	December	613	301	49%	✓	-	-	-
RHB Bank	December	559	275	49%	✓	-	-	-
Sime Darby	June	410	152	37%	✓	-	-	-
Sime Darby Plantation	June	410	152	37%	✓	-	-	-
Tenaga Nasional	August	280	154	55%	✓	-	-	-
Telekom Malaysia	December	323	163	50%	✓	-	-	✓
YTL Corporation	June	291	104	36%	✓	-	-	-

About Black Sun

Delivering inspiring communications that engage and connect with stakeholders

Headquartered in London for over 25 years and operating in Singapore for 10 years, Black Sun has been helping clients deliver corporate stories that build trusted relationships with their stakeholders.

The world is moving faster, and there has never been greater expectations on businesses and we see corporate reporting as an opportunity for more effective stakeholder communications.

Insight forms the foundation for our work and by understanding trends and regulatory developments, we advise on how they impact reporting, moving clients towards best practice and authentic reporting. By also understanding our clients' business, we help them to better communicate with their stakeholders, presenting their long-term value creation story. We know that audience requirements are constantly changing, and through developing inspiring content using creative communications, we help bring a company's story to life throughout not just the report, but all relevant channels: corporate website, social media, film and animation.

By pushing ourselves to understand the world around us, we provide practical but powerful communications solutions.

OUR REPORTING SOLUTIONS

- Annual and integrated reporting
- Sustainability communications and reporting
- Corporate websites
- Digital content and moving image
- Bespoke training, workshops and seminars
- Benchmarking and gap analysis against reporting frameworks
- Best practice advice and guidance

This research is part of Black Sun's Horizon Series which annually identifies best practice and emerging trends in corporate communications, across key channels and geographies. What began as a survey of corporate reporting trends of the FTSE 100 in 2005 has grown into a truly holistic measurement of companies' communication across their key 'storytelling' channels – print reporting, digital and social media, giving the complete picture for communication professionals.

We are committed to ensuring that insights, research and thought leadership are an integral part of our approach. This informs our development of authentic communications solutions which connect the right message, with the right audience, at the right time, on the right channel.



Please visit www.blacksunplc.com/horizon to find more insights.

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If you would like to understand more about the trends in corporate reporting or would like to find out how your reporting compares against the KLCI30 companies, contact us today.

We would be delighted to help you on your corporate communications journey.

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