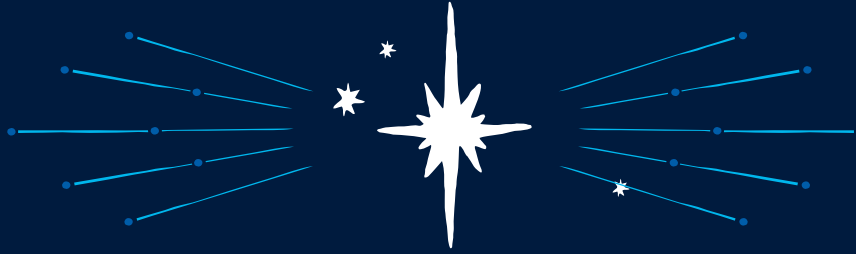




THE GUIDE TO ANNUAL REPORTS

ANALYSIS OF 2018
REPORTING TRENDS
IN SINGAPORE





Welcome to the 2nd edition of The Guide to Annual Reports, Black Sun's annual flagship research, which identifies trends and best practice in corporate reporting, and assesses how companies are responding to challenges and changes within the reporting landscape.

Our extensive research evaluates the Annual Reports of companies in the Straits Times Index (STI30) through an audit format that contains around 140 questions. This report 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 level 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.

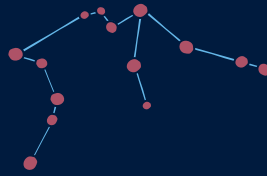
WHAT'S INSIDE



ONE: SETTING THE SCENE

Page: 2

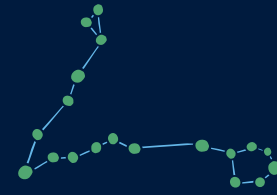
An overview of the business in the opening pages.



TWO: LEADERSHIP

Page: 6

An insight into the tone from the top.



THREE: BUSINESS MODEL

Page: 10

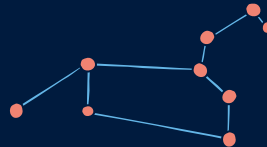
An explanation of the company's business and how it creates value over time.



FOUR: MARKET

Page: 14

A review of the company's operating environment and market trends.



FIVE: STRATEGY

Page: 18

An explanation of the company's long-term objectives.



SIX: PERFORMANCE

Page: 22

A discussion of the financial and non-financial key performance indicators.



SEVEN: RISK

Page: 26

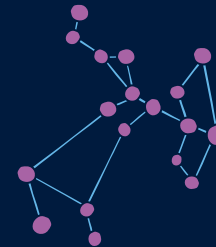
An explanation of how the company's principal risks are managed.



EIGHT: SUSTAINABILITY

Page: 30

A review of how the company manages material environmental, social and governance issues.



NINE: GOVERNANCE

Page: 34

An explanation of the system of internal processes, controls and management

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



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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 Singapore

- There are currently no requirements on how companies set up their annual reports in Singapore. However, the Code of Corporate Governance 2018 (SCCG) requires Boards to set appropriate tone-from-the-top and desired organisational culture.
- SGX requires companies to describe sustainability practices with reference to a sustainability reporting framework. The report in which the sustainability discussion is featured should identify the reporting framework used for sustainability reporting (SGX Rule 711B)

Progression on last year

Overall, STI30 companies are outlining their corporate values more clearly with significant improvement observed in discussions on competitive advantages.

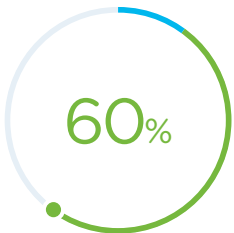
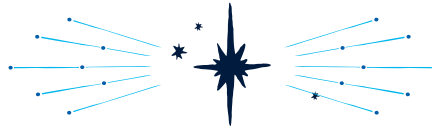
What is international best practice

- 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 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

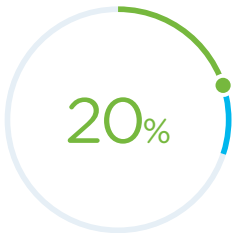


ONE:
SETTING THE
SCENE

OVERVIEW



60% outline corporate values (2017: 50%)



20% provide sustainability highlights (2017: 30%)

1 DEFINE THE CORPORATE IDENTITY

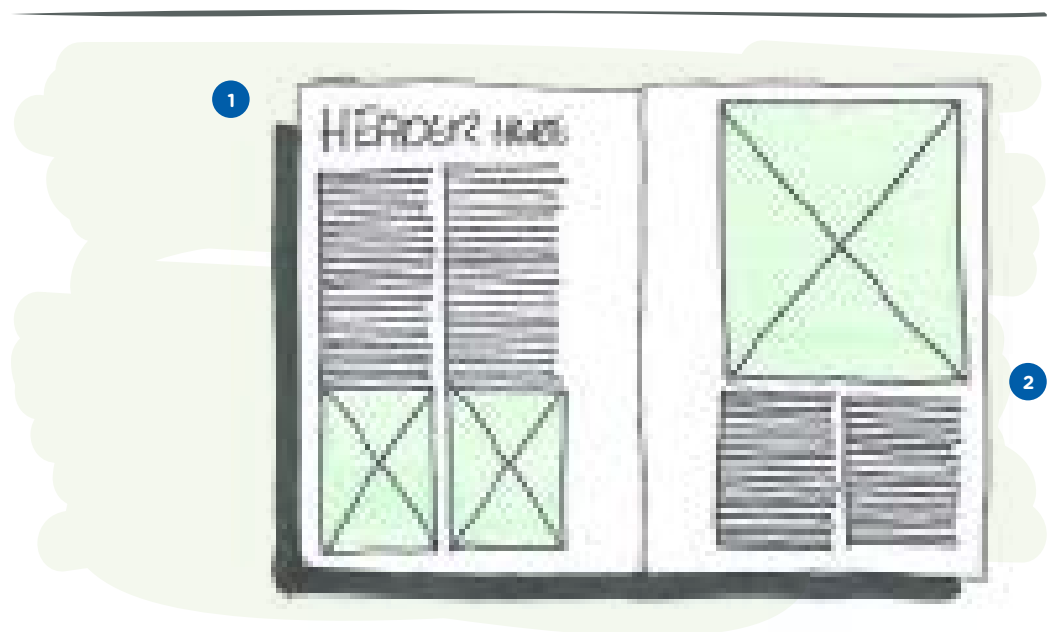
Expressing the company's vision, mission, purpose and values is crucial in establishing the corporate identity in the mind of readers. 60% (2017: 50%) of STI30 companies clearly outline their corporate values. The importance of corporate values has been further elevated through the revised SCCG, which encourages companies to "incentivise the right behaviour and values".

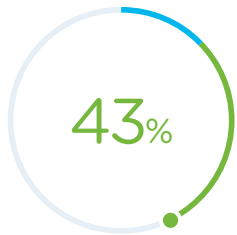
57% of STI30 companies have expressed the company's commitment to creating value for stakeholders at the start of the report. We expect this trend to grow as the SCCG has introduced a requirement for companies to define value creation for stakeholders and how it is measured.

Companies should discuss their corporate values as it provides an insight into the principles that drive corporate culture and in turn, corporate performance.

2 PROVIDE A BALANCED INSIGHT INTO PERFORMANCE

Companies that present both financial and non-financial highlights at the beginning of the report provide a clearer picture of performance as a whole. We have observed that 20% (2017: 30%) of STI30 companies feature sustainability highlights compared to 86% (2017: 97%) of STI30 companies that report financial highlights at the start of the report, signalling a heavy financial focus. We have also observed 53%





43% discuss competitive advantages (2017: 13%)

vision
mentioned on average
6.13x

competitive advantage
mentioned on average
0.53x

(2017: 43%) of STI companies preparing standalone sustainability reports.

- Companies should report holistically within the Annual Report as it serves as a one-stop source of company information for all stakeholders.

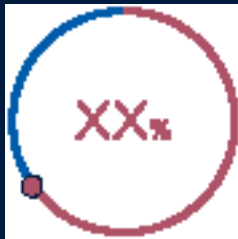
- Companies should present their competitive advantages in a standalone section to give more prominence to the information, instead of being presented within other sections like the CEO letter or in the operations review.

3 PRESENT AN INVESTMENT CASE

The investment case is a platform for companies to showcase the competitive advantages that make them a compelling investment choice. 43% (2017: 13%) of STI30 companies discuss their competitive advantages, with 13% focusing on competitive advantages that will bring about long-term value creation considerations.

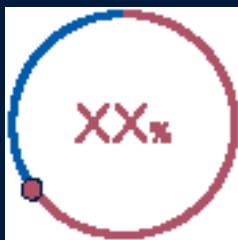


The leadership statements serve to provide insights into the future strategic direction of the business from management's perspective.



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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 Singapore

- “A balanced and readable summary” of the company’s performance and prospects should be provided in the Chairman’s statement or equivalent (SGX Rule 708)
- A clear division of responsibilities between the leadership of the Board and Management (SCCG)

Progression on last year

We are seeing more companies having separate CEO and Chairman statements but companies continue to find it challenging to differentiate the topics covered between the CEO and Chairman

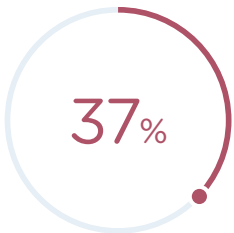
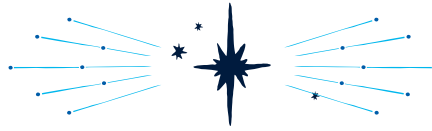
What is international best practice

- 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 chief executive to reflect their respective roles with the chairman expressing the company’s commitment to wider society
- Provide personal insight into the strategy focusing in particular on the rationale behind it and the process through which it was formulated



TWO:
LEADERSHIP

OVERVIEW



provide separate Chairman and CEO statements (2017: 27%)



feature a CEO Q&A (2017: 17%)

1 PROVIDE SEPARATE CHAIRMAN AND CEO STATEMENTS

The SCCG calls for a clear division of responsibilities between the leadership of the Board and management, particularly between the Chairman and the CEO. 37% (2017: 27%) of STI30 companies have provided separate Chairman and CEO statements, signalling that STI30 companies are placing greater emphasis on being accountable to their stakeholders through the unique perspectives of the Chairman and CEO.

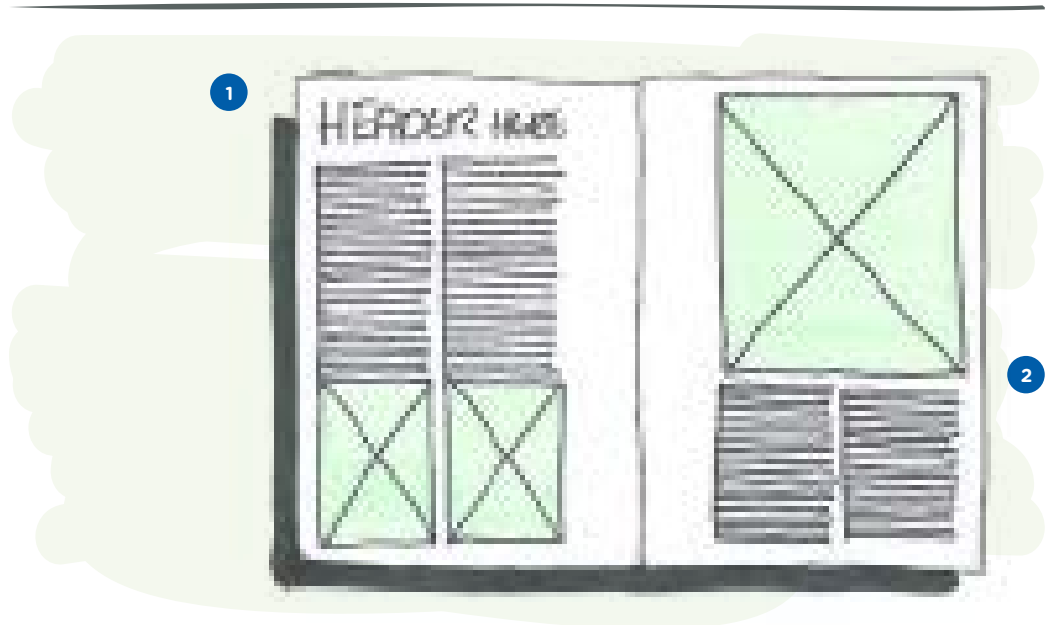
- As the roles of the Chairman and CEO are distinctly different, companies should present the perspectives of both individuals in separate statements.

2 DESCRIBE PERFORMANCE THROUGH THE EYES OF MANAGEMENT

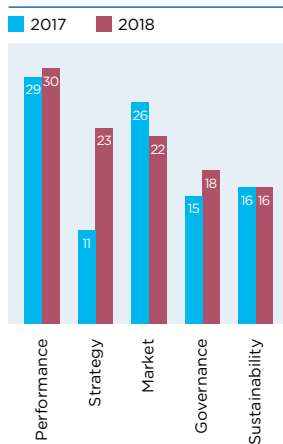
The Chairman's domain typically encompasses corporate culture, governance, sustainability and stakeholder engagement whereas the CEO's remit cover the more operational aspects like strategy and business model.

Among the STI30 reports that have separate Chairman and CEO statements, the top three topics covered by the Chairman were:

- financial or operational performance (63%)
- market conditions (47%)
- Governance (33%)



TOP 5 TOPICS DISCUSSED IN A LEADERSHIP STATEMENT



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

- financial or operational performance (33%)
- market conditions (30%)
- strategy (27%)

The overlaps in the topics covered provides opportunities for companies to streamline their leadership statements. More importantly, we observed a lack of focus on culture, sustainability and stakeholder issues which are becoming more prominent in the revised SCCG.

- Companies should put more focus on culture, sustainability and stakeholder issues in the leadership statements to demonstrate greater accountability and transparency.

3 ENGAGE WITH A PERSONAL TOUCH

The perspectives of the management is one of the many factors investors consider in making investment decisions. 13% (2017: 17%) of STI30 companies feature a CEO Q&A indicating that the majority still prefer to have conventional narrative statements. Encouragingly, we note that 20% feature a Q&A from other senior management like the CFO or a Board member.

- Using a Q&A format offers an opportunity for the leadership to provide a unique personal perspective to issues that are most material to stakeholders.



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



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Why it is important

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

What is required in Singapore

- There are currently no requirements on business model reporting in Singapore. However, we have seen the SGX Sustainability Reporting Guide referencing elements of a business model, especially when referring to value creation for stakeholders
- Companies are encouraged to provide a definition of value creation (Practice Guidance, SCCG)

Progression on last year

STI30 companies have demonstrated better integration of strategy and sustainability into their business models. Although there are a few describing how the company creates value, the majority have yet to embrace this approach.

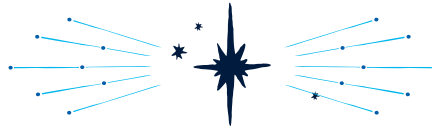
What is international best practice

- 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



THREE: BUSINESS MODEL

OVERVIEW



integrate value creation into the business model (2017: 27%)



integrate strategy into the business model (2017: 13%)

1 DESCRIBE HOW THE BUSINESS CREATES VALUE FOR STAKEHOLDERS

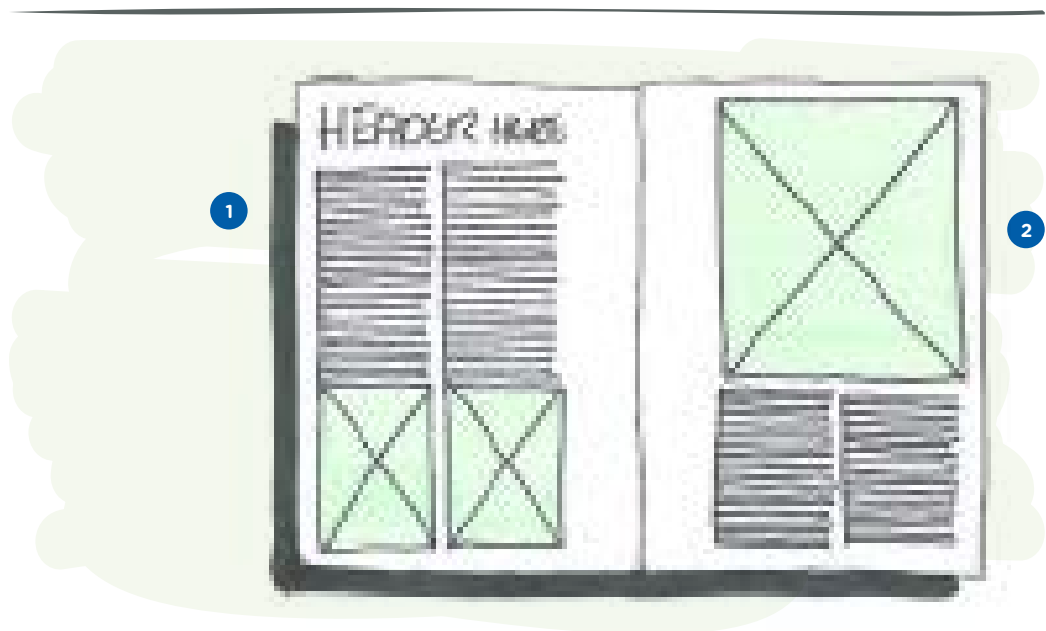
Many businesses would have no trouble describing the activities (outputs) they undertake. However, when asked how these activities translate into benefits for stakeholders (outcomes), few businesses are able to articulate it.

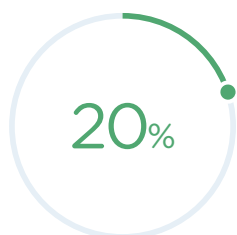
30% (2017: 27%) of STI30 companies have taken a value creation approach in describing their business model, where they go a step further to describe the value generated for their key stakeholders through their business activities.

The input-output-outcome model as advocated by the Integrated Reporting Framework would be valuable in demonstrating how the business creates value for stakeholders

2 DEMONSTRATE THE LINK BETWEEN THE BUSINESS MODEL, STRATEGY AND KPIS

No man is an island. An effective business model will show alignment with strategy, KPIs and in turn how KPIs influence remuneration. 30% (2017: 13%) of STI30 companies demonstrate a link between strategy and business model. Only one company demonstrated a link between KPIs and the business model.





integrate sustainability
into the business model
(2017: 10%)

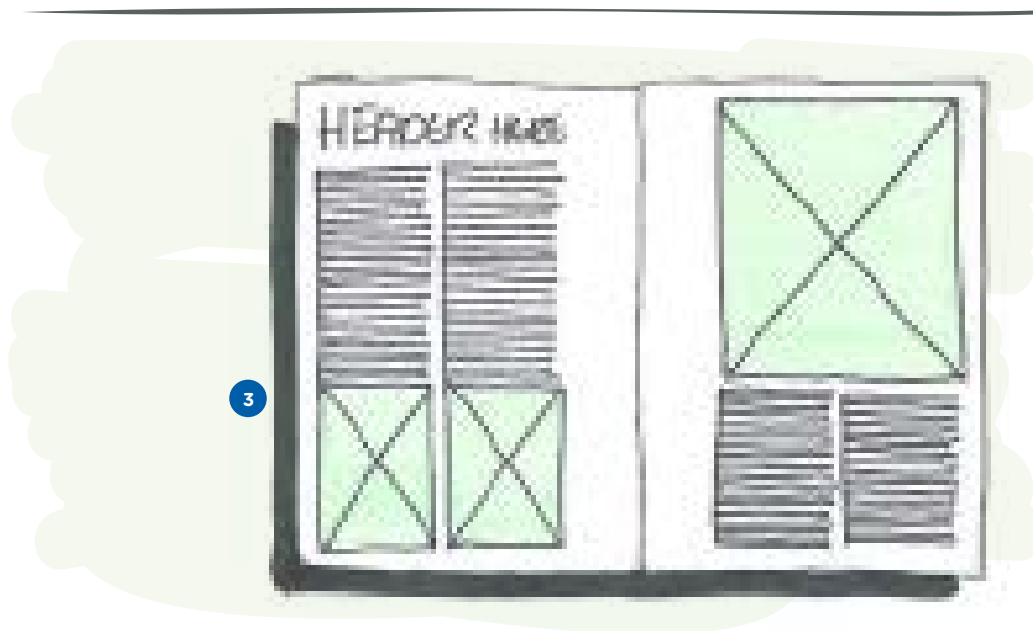
business
model
mentioned on average
4.03x

In light of the recent changes to the SCCG, companies should report the relationship between strategy, KPIs, value creation and remuneration.

Companies should incorporate sustainability into their business models as it demonstrates a long term strategic view towards sustainability.

3 CONSIDER INCORPORATING A SUSTAINABILITY PERSPECTIVE IN THE BUSINESS MODEL

Since SGX introduced mandatory sustainability reporting in the listing rules, businesses are increasingly considering sustainability issues in their day-to-day operations. 20% (2017: 10%) of STI30 companies incorporate sustainability as a component of their business model.



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 a company.



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What is required in Singapore

- SGX Listing Rules have a broad requirement in relation to the market review, by stating that the report must include “an analysis of the business outlook” (SGX Rule 1207)

Progression on last year

Overall, discussions on the market environment have regressed. The majority provide an overview of the market but fewer companies are providing meaningful market information such as the impact of the trends on the company and the mitigating actions taken.

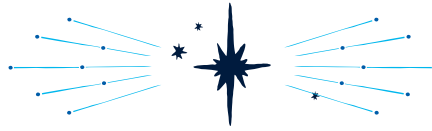
What is international best practice

- 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



FOUR: MARKET

MARKET



have a standalone market section (2017: 25%)



cite external sources (2017: 30%)

1 CAPTURE MARKET DISCUSSIONS IN AN ENGAGING STANDALONE SECTION

Insights into the company's operating environment is useful in providing context to readers, allowing for a better appreciation for the company's performance. 80% (2017: 83%) of companies have provided an overview of the market but only 20% (2017: 25%) have presented the discussion in a standalone section.

73% of companies present the market review in text heavy paragraphs which makes reading difficult.

- Companies should present market discussions as a standalone section early in the report to provide a backdrop of the company's environment.

2 FOCUS ON ACTION POINTS

A good market section does not simply list the market trends faced by the company but also elaborates on the company's plans to navigate the market. 67% (2017: 83%) of companies explain what the trend is, 43% (2017: 50%) explain the impact of the trend on the company, and 37% (2017: 40%) explain how the company is responding to these market trends.

- Such insights provide greater depth to the discussion and demonstrates that the company has plans to best position the company to mitigate risks as well as to seize market opportunities.

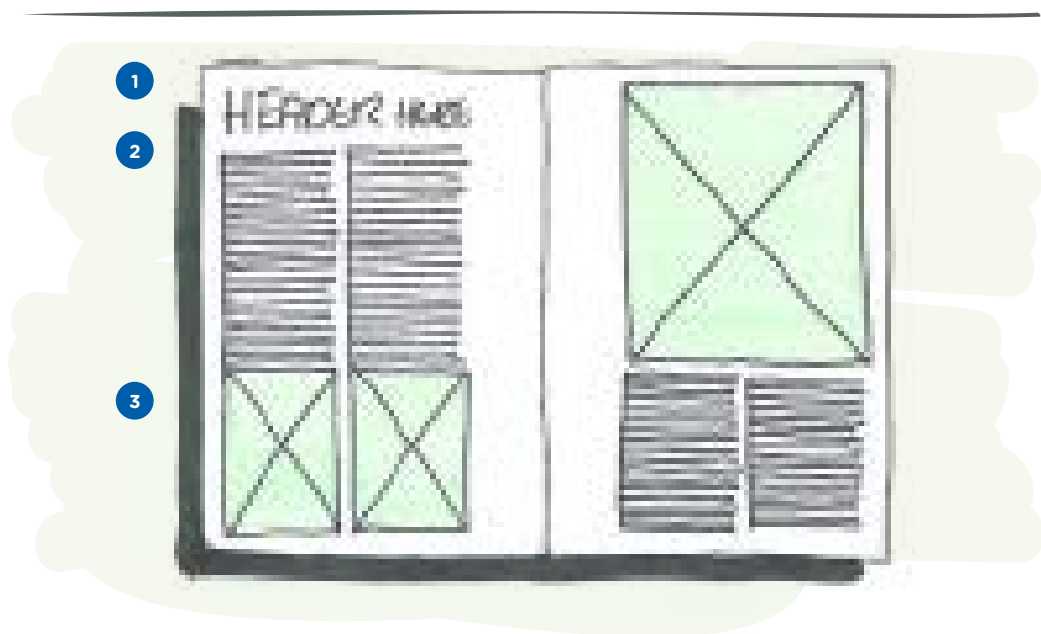
3 DEMONSTRATE ENGAGEMENT WITH STAKEHOLDERS IN THE MARKET SECTION

In an era where stakeholder voice is increasingly important, it is imperative for companies to understand their needs and address their issues. In the market review section, companies should report how they have consulted their key stakeholders to understand their views. However, only 7% (2017: 7%) have made a reference to stakeholder considerations in the market review section.

- Companies should report on stakeholder engagement efforts in determining the company's key market issues.

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macro-
economic
mentioned on average
1.4x



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 Singapore

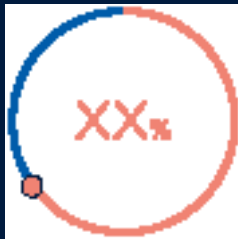
- There are currently no formal requirements on strategy reporting in Singapore, although the SCCG describes that the Board's role is to "provide entrepreneurial leadership, set strategic objectives, which should include appropriate focus on value creation, innovation and sustainability"

Progression on last year

Although there are no significant changes year-on-year, we are seeing more STI30 companies incorporating sustainability into strategy. Two areas of opportunity for STI30 companies: (1) discuss strategic targets and performance; and (2) articulate how stakeholders have been involved on strategic decisions

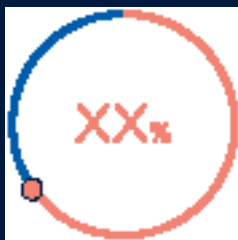
What is international best practice

- 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



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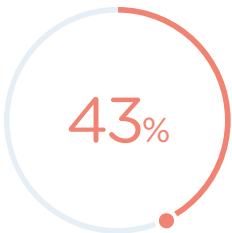
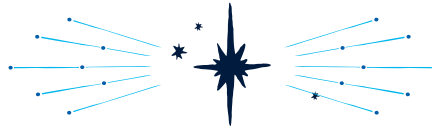
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FIVE: STRATEGY

STRATEGY



described strategic priorities (2017: 43%)



described strategic initiatives (2017: 37%)

1 DISCUSS STRATEGIC TARGETS

The strategy section is important to report the actions and plans the company has in place to manage market risks and opportunities. The level of strategic information provided varied among the companies studied.

43% (2017: 43%) described their strategic priorities, commonly referring to them as strategic 'pillars' or 'thrusts'. 53% (2017: 37%) described the strategic initiatives or steps that the company intends to take to achieve their goals.

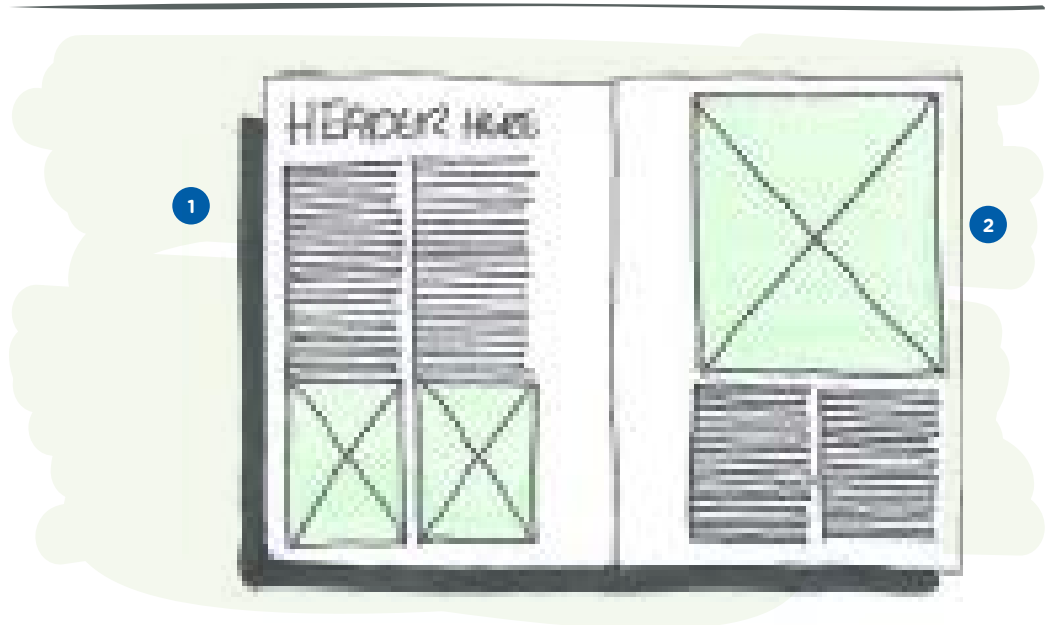
As observed last year, companies are still shying away from disclosing strategic targets with none (2017: 3%) of the companies with such practice.

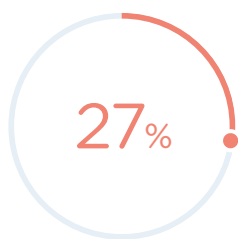
Providing targets and discussing performance against these targets helps to demonstrate accountability and commitment to stakeholders and enhances the discussions on strategic priorities and initiatives.

2 CONSIDER LONG TERM VALUE CREATION FACTORS AT A STRATEGIC LEVEL

The revised SCCG introduces the concept of value creation where the Board's role is to set strategic objectives which include appropriate an focus on value creation, innovation and sustainability.

40% explained how investment decisions will support strategy and long-term value creation. Key to value creation is sustainability which considers





incorporate a sustainability focus in strategy (2017: 10%)

strategy mentioned on average 31.5x

environmental, social and governance aspects that will accrue benefits to stakeholders if managed well. 27% (2017: 10%) of companies incorporate a focus on sustainability in their strategy, indicating that more companies are tackling sustainability issues at a strategic level.

Companies should report robust discussions on strategy, sustainability and value creation as well the interdependencies between them.

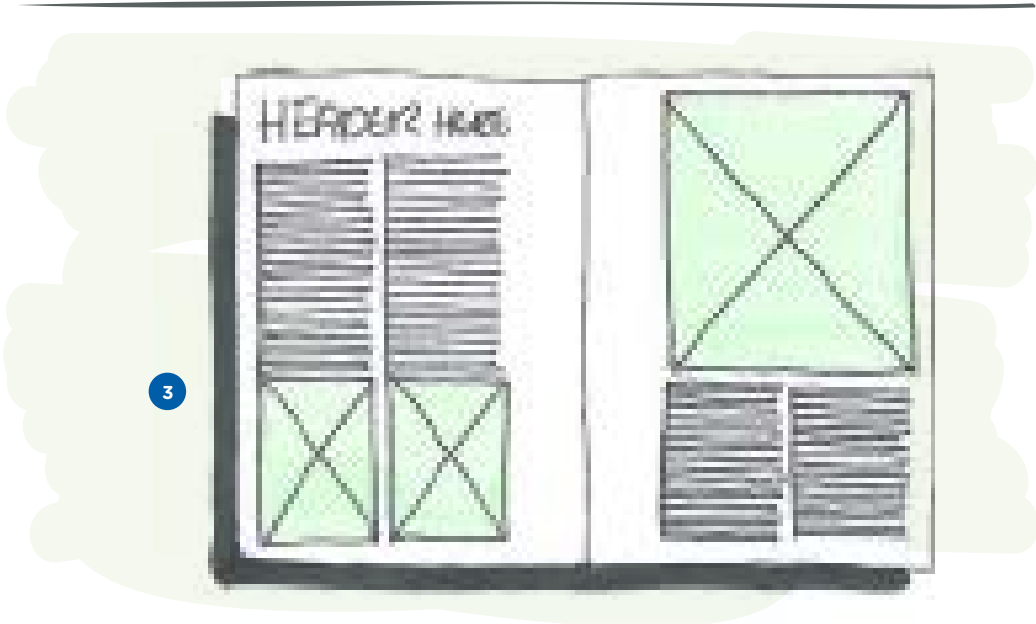
strategic decisions. Of the companies we observed, only one company has discussed how it has engaged with shareholders on major investment decisions while only two companies have explained how investments are aligned with stakeholder expectations.

As shareholder and stakeholder voices become more prominent, it is increasingly important to report on stakeholder engagement in strategic decisions.

3

EVIDENCE STAKEHOLDER ENGAGEMENT IN STRATEGIC DECISIONS

The revised SCCG requires engagement of both shareholders and the wider stakeholder group. Thus it is important to report that the company has engaged with shareholders on



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



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Why it is important

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

What is required in Singapore

- Listed issuers are required to discuss the operational and financial performance in the past financial year, including any developments subsequent to the release of the issuer's preliminary financial statement, which would materially affect the issuer's operating and financial performance; and an analysis of the business outlook (SGX Rule 1207)
- SGX's Sustainability Reporting Guide encourages issuers to have an effective policy and operational response to sustainability risks and opportunities which requires performance measurement and its linkage to performance incentives (SGX Practice Note 7.6)

Progression on last year

We have observed an improvement in performance reporting, where more STI30 companies are discussing KPIs and linking them to strategy and sustainability. More progress is needed in discussing the link between KPIs and remuneration.

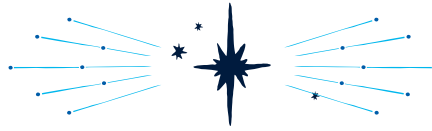
What is international best practice

- 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

PERFORMANCE



use the term “KPIs”
(2017: 27%)



linked strategy
and KPIs
(2017: 10%)



disclosed
non-financial KPIs
(2017: 20%)

1 IDENTIFY KEY PERFORMANCE INDICATORS

Principle 3 of SGX’s Practice Note 7.4 Guide for Operating and Financial Review identifies discussions of KPIs as a precursor to a good review.

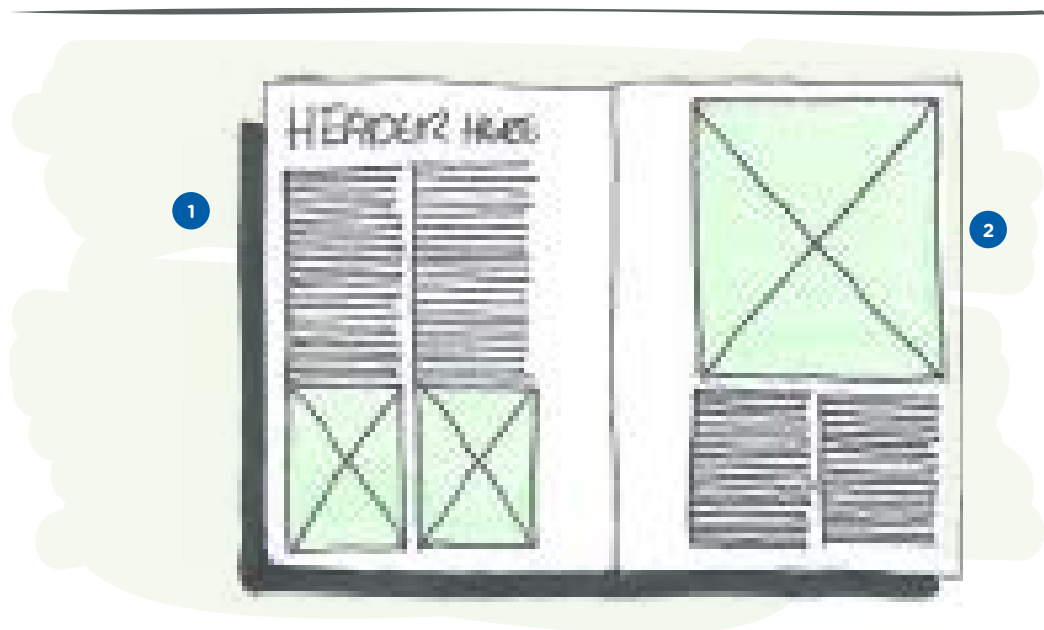
KPIs are evidence of alignment of the organisation towards its strategic goals. We observed a positive trend in performance discussions over the year, where 57% (2017: 27%) of companies have used the term “Key Performance Indicators”. 20% (2017: 10%) of mature reporters have also established a link between KPIs and strategy.

- Companies should identify their key performance indicators and report how they link with their strategies.

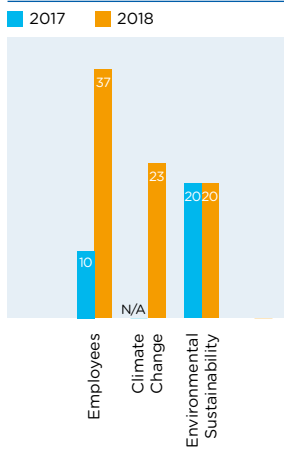
2 DISCLOSE FINANCIAL AND NON-FINANCIAL KPIs

Chapter 4.2 of SGX’s Practice Note 7.6 Sustainability Reporting Guide encourages companies to review its business in the context of the value chain and to determine the sustainability factors that are material to the continuity of its business.

Presenting non-financial KPIs in addition to financial KPIs will provide a balanced view of performance compared to KPIs that are only focused on financial aspects. This year, we have seen 43% (2017: 20%) of companies disclosing non-financial KPIs, which may be indicative of the increased focus on sustainability after the introduction of mandatory reporting on sustainability. Popular non-financial KPIs



TOP 3 NON-FINANCIAL KPIS



relate to:

- employees (37%)
- climate risk and opportunities (23%)
- environmental sustainability (20%)

Companies should report both financial and non-financial KPIs when describing their performance.

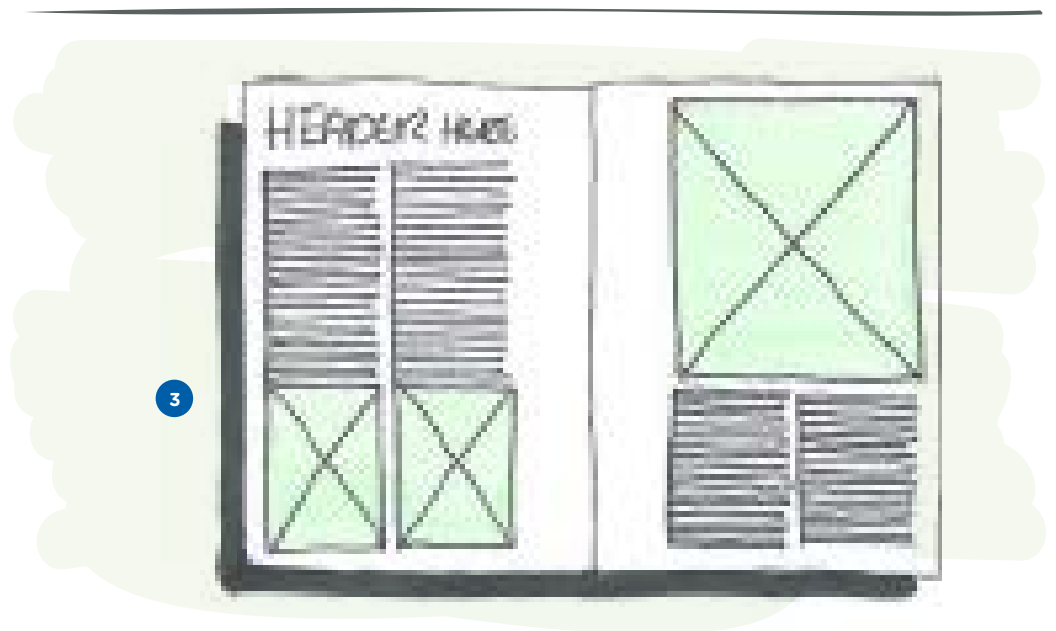
Companies should report how they align their remuneration policies with the value creation focus of the revised SCCG.

3 LINK REMUNERATION WITH KPIS

In light of the recent changes to the SCCG, companies will be expected to demonstrate the link between remuneration and value creation. Thus, it is important to show that the KPIs influencing remuneration are aligned with the overarching goal of value creation. This year, we have searched for evidence of companies with discussions of KPIs relating to long term value creation but found none.

No
companies

discuss KPIs relating
to value creation



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



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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 risk impacting business. A balanced approach to reporting will allow the reader to gain an understanding of all the factors affecting the business and the internal processes in place to mitigate and manage them.

What is required in Singapore

- Listed issuers are required to provide information on their risk management policies and processes (SGX Rule 1207)
- The annual report should contain disclosure from the Board that it has received assurance from the CEO and other key management personnel on the adequacy and effectiveness of the company's risk management and internal control systems (Principle 9, SCCG)

Progression on last year

Overall, STI30 companies are better at discussing the relationship between risk and strategy. More progress is needed in linking risk and sustainability, and discussing how companies are addressing opportunities.

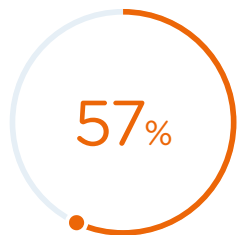
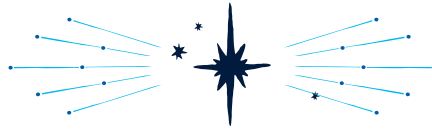
What is international best practice

- 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



SEVEN: RISK

RISK



discuss risk in more than one section (2017: 13%)



establish a link between risk and strategy (2017: 3%)

1 DISCUSS RISK HOLISTICALLY

Risks influences every aspect of the business and it is essential to demonstrate how the business is managing them.

57% (2017: 13%) of companies discuss risk in more than one section, often having these discussions in a standalone 'Risk Management' section and in the Corporate Governance section. Additionally, 34% (2017: 3%) of companies established a link between risks and strategy, describing how each influences the other. These indicate a positive development where risk is increasingly being communicated from the governance and strategy lenses.

An area that remains to be improved on is the link between risk management and sustainability materiality where only 17% (2017: 13%) linked risk management and sustainability material issues. This shows that in reporting, risk and sustainability remain mutually exclusive issues and the dynamics between risk and sustainability is rarely explored.

SGX's Practice Note 7.6, paragraph 5.1 states that "The inclusion of sustainability risks and opportunities with the businesses' other risks and strategy in the same document presents advantages to the user."

Companies should report on risks from multiple dimensions such as governance, strategy and sustainability to engender greater stakeholder trust.

2 CONSIDER PERSPECTIVES OF RISK AND OPPORTUNITY

The focus on risk reporting often causes discussions on market opportunities to be overlooked. None of the reports we have

reviewed discussed how opportunities for the future success of the business have been considered and addressed. Discussion on both risks and opportunities would offer a balanced insight into the outlook of the business and help readers to understand the business' capacity to build value over time.

Companies should look on the bright side and report on discussions related to market opportunities to complement existing risk discussions.

3 DEFINE, DESCRIBE IMPACT, EXPLAIN ACTION POINTS ON PRINCIPAL RISKS

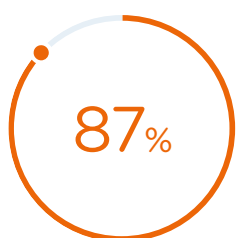
Discussions on principal risks help readers to appreciate the environment the business is operating in and how the business is dealing with them. 87% (2017: 77%) use the term "principal risk" and all companies (2017: 100%) have at least a basic discussion on risk management

Reporters are also maturing in their reporting of principal risks, where 73% (2017: 67%) have defined and described their principal risks; 50% (2017: 67%) have described the potential impact of the principal risks; and 63% (2017: 67%) explained how the company is managing or mitigating the principal risk. This shows that STI30 companies are highly aligned and consistent in risk reporting, due partly to risk reporting being highly regulated.

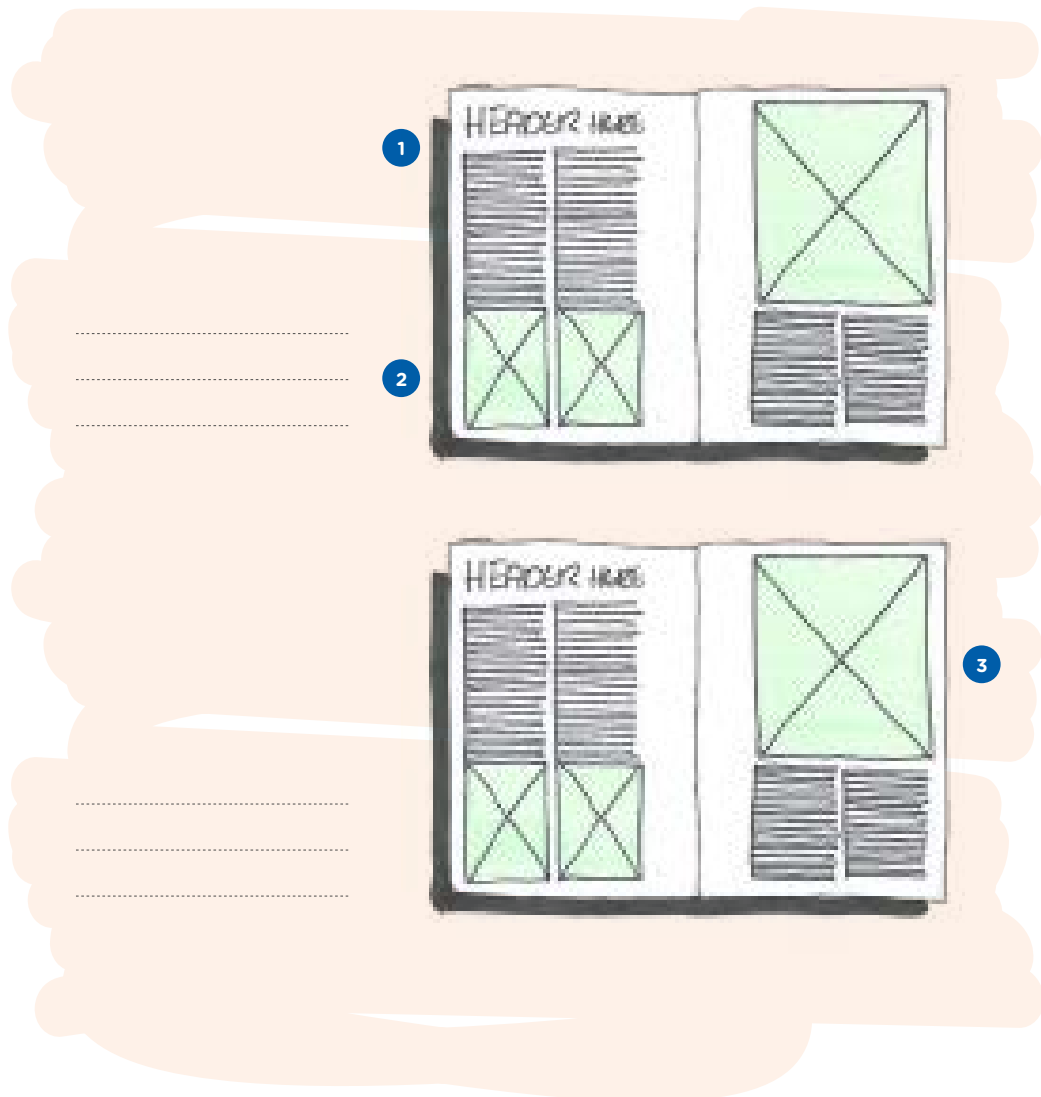
Companies should continue to report their principal risks, their potential impact and how they are managing them.



link risk management
with sustainability
materiality
(2017: 13%)



use
principal
risk



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 Singapore listed companies stay competitive in the international capital markets.

What is required in Singapore

- Discussion on sustainability practices with reference to five components: Material ESG factors; Policies, practices and performance; Targets; Sustainability reporting framework; and Board Statement (SGX Rule 711B)
- Listed issuers are encouraged to discuss known factors and influences that may have a material effect on future performance and financial position (SGX Practice Note 7.4)
- Companies are required to disclose in its annual report its strategy and key areas of focus in relation to the management of stakeholder relationships during the reporting period (SCCG)
- SGX recommends providing information around the process of identifying and prioritising material factors. Stakeholder engagement is a significant part of the process (SGX Practice Note 7.6)

Progression on last year

More STI30 companies are producing standalone sustainability reports but sustainability disclosures in the annual report have diluted. Information on stakeholder engagement in the annual report is notably lacking.

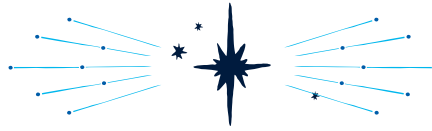
What is international best practice

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



EIGHT: SUSTAINABILITY

SUSTAINABILITY



53%

produce a separate sustainability report
(2017: 43%)

1 CAPTURE ESSENTIAL SUSTAINABILITY INFORMATION IN THE ANNUAL REPORT

The debate around whether it is better to publish a standalone sustainability report compared to containing the discussions within the annual report is ever robust. While there are merits to both sides of the argument, the fact that the annual report is the main literature for stakeholders still stands and therefore should contain all salient information pertaining to the business.

This year, we observed 53% (2017: 43%) of companies opting to produce a standalone sustainability report. However as many as 54% (2017: ?%) of companies had either no detail or had an overarching outline of their sustainability policies.

Companies should communicate key sustainability information in the annual report to allow for readers to access such information in one place.



40%

consider sustainability as a business issue
(2017: 20%)

2 EXPLORE HOW SUSTAINABILITY FITS INTO THE BUSINESS

The SGX mandatory sustainability reporting requirement has driven businesses to consider material environmental, social and governance issues beyond a philanthropic perspective.

We have observed 40% (2017: 20%) of companies considering sustainability as a business issue, indicating a greater understanding of how the sustainability piece fits into the wider business. Furthermore, 2 companies (2017: 10%) have



50%

consider stakeholder feedback in materiality assessments
(2017: 7%)





discuss feedback received from stakeholders (2017: 27%)



discuss company's response to stakeholder feedback (2017: 23%)

stakeholder engagement mentioned on average 2.6x

incorporated sustainability into the company's corporate strategy.

Companies should consider sustainability as integral aspect of corporate reporting.

3 FOCUS ON STAKEHOLDER FEEDBACK AND RESPONSE TO FEEDBACK

Stakeholder engagement is a vital channel for businesses to understand the matters that are most material to both internal and external stakeholders. This year, we have noted that 50% (2017: 7%) of companies have indicated that stakeholder considerations have been taken into account in their materiality assessments.

However, the discussions often do not delve deeper. We have observed that only 17% (2017: 27%) of companies have discussed feedback received from stakeholders and 16% (2017: 23%) have taken a step further to discuss the company's response to this feedback. This observation may point to the trend of companies publishing standalone sustainability reports, leading to a dilution of stakeholder information in the annual report.

Companies should report more in depth discussions on stakeholder engagement to allow readers to understand how companies are performing against stakeholder expectations.



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, skill and experience to effectively promote the success of the company and deliver long-term value.

What is required in Singapore

- Listed companies in Singapore are required to report on corporate governance practices with specific reference to the principles of the SCCG in the annual report on a 'comply or explain' basis (SGX Rule 710)
- The Code contains 13 principles covering, among others, board composition and guidance, membership, performance, remuneration, risk management and internal controls and engagement with stakeholders (SCCG)
- Listed companies are also required to provide information relating to the background of directors and key management staff in the annual report (SGX Rule 1207)

Progression on last year

Governance disclosures among STI30 companies have not varied significantly from last year. Looking forward, STI30 companies have much ground to cover in the areas of remuneration, diversity and stakeholder engagement.

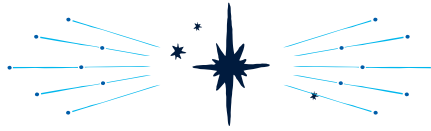
What is international best practice

- 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 these 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



GOVERNANCE NINE:

GOVERNANCE



board
diversity
mentioned on average
0.6x

diversity
policy
mentioned on average
0.37x

1 DESCRIBE HOW REMUNERATION INFLUENCES VALUE CREATION

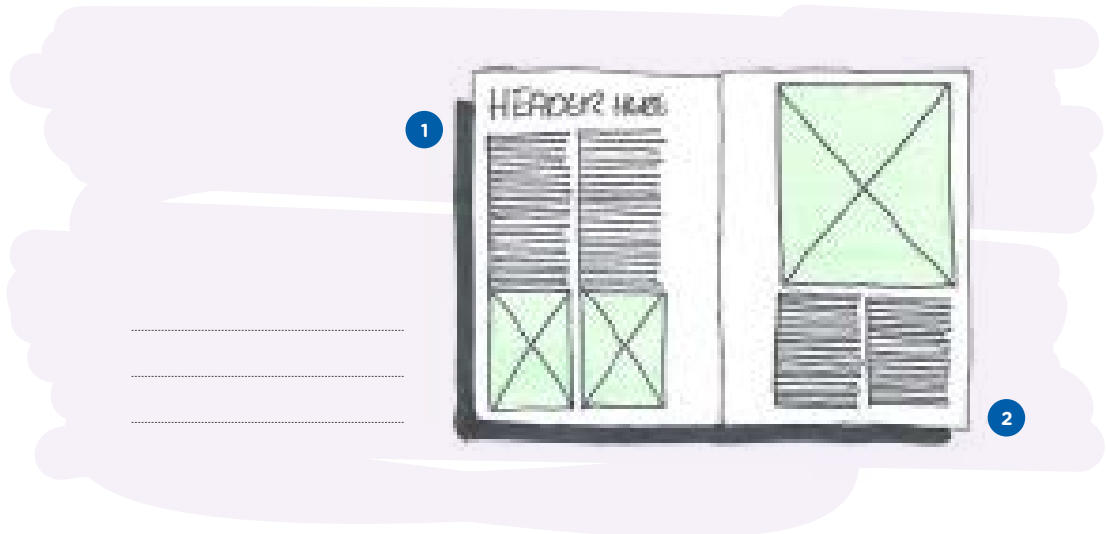
The concept of value creation is introduced in the revised SCCG, where companies are required to explain how remuneration policies incentivises decisions that will ultimately generate value for the company and its stakeholders.

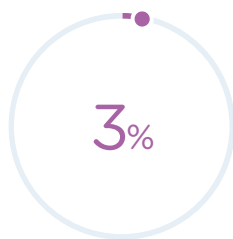
Our findings show that 16% of reports have established a link between remuneration and value creation. Similarly, our findings show that none of key performance indicators disclosed by STI30 companies are explicitly aligned with value creation (CHECK).

Companies should define value creation, describe the company's remuneration policies with regards to value creation, identify the key performance indicators, disclose the remuneration paid and finally provide the rationale for the level of remuneration.

2 PROVIDE MORE INSIGHTFUL DIVERSITY DISCUSSIONS

The revised SCCG requires that the board have an appropriate level of diversity of thought to enable it to make decisions that are in the best interests of the company. Current diversity disclosures are non-committal, lacking solid action plans and targets to demonstrate how the company plans to improve board diversity.





feature a personal statement from leadership in the governance section (2017: 3%)

54% have made reference to a board diversity policy but only 17% have included a clear discussion of the Company's objectives with regards to Board diversity and an explanation of the steps taken to achieve those objectives. Fewer still, 10%, provided targets for Board diversity.

- Companies should report their board diversity policy, the progress made and plans to improve board diversity.

3 INCLUDE MORE DISCUSSIONS INTO THE BOARD'S INVOLVEMENT WITH MATERIAL STAKEHOLDERS

The importance of the stakeholder engagement in sound corporate governance has been enshrined in the revised SCCG. The Board is required to adopt an inclusive approach by considering and balancing the

needs of material stakeholders as part of their role.

Discussions on stakeholder engagement from the perspective of the board is reported using boilerplate templates which merely state that the board as a whole has a responsibility towards stakeholders but without explaining specifically how the board have influenced the company's stakeholder engagement policies.

- Companies should include a personal statement on stakeholder engagement by the Board in the annual report.

