

# THE ART AND SCIENCE OF BETTER REPORTING

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Analysis of reporting trends among  
STI30 companies in 2017



*Black Sun*

STAKEHOLDER COMMUNICATIONS

# ART + SCIENCE = BETTER REPORTING

Welcome to the inaugural edition of Black Sun's annual flagship study on the Straits Times Index (STI30) which identifies reporting trends and best practice in corporate reporting and assesses how companies are responding to challenges and changes within the reporting landscape. Our extensive research assesses the annual reports of STI30 companies through an audit format that contains over 100 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.

## AN ANNUAL REPORT SHOULD TELL AN



# ART + SCIENCE = BETTER REPORTING

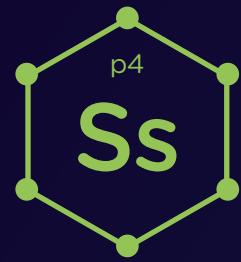


## CONTENTS

Ss = SETTING THE SCENE	4	P = PERFORMANCE	26
L = LEADERSHIP	8	Su = SUSTAINABILITY	30
Bm = BUSINESS MODEL	12	Ms = MATERIALITY AND STAKEHOLDER ENGAGEMENT	34
M = MARKET	16	R = RISK	38
S = STRATEGY	20	G = GOVERNANCE	44
Data file	49	Methodology	50
		About Black Sun	50

# AT-A-GLANCE

## CHAPTER 1 SETTING THE SCENE



Setting out the basics of a business up front – what it does, where it operates, why it exists and how it plans to achieve its goals – presents a solid basis for understanding a company and its annual report. The majority of STI30 are beginning to set the foundations in place, addressing basic questions readers would have at the beginning of the report. Moving forward, we expect further focus on non-financial highlights as companies seek to present a more holistic view of the company.

## CHAPTER 2 LEADERSHIP



The role of leadership is critical in enhancing transparency and building trust among stakeholders. While performance and market discussions are most commonly discussed in STI30 leadership statements, we have also observed more strategic discussions that serve to set the future direction of the business. Demonstrating the tone from the top and setting future strategic direction through the leadership statement will continue to be key to building confidence among stakeholders.

## CHAPTER 3 BUSINESS MODEL



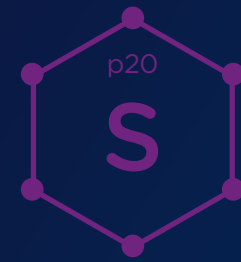
Investors are increasingly seeking to understand the fundamentals of business – the building blocks which make a company tick. Business model reporting is beginning to take hold among the STI30 companies, however there are opportunities in articulating the role corporate culture and sustainability play in the conduct of business. As operating environments evolve, companies will increasingly seek to articulate their business model, allowing stakeholders to develop an informed view of the long-term viability of the business.

## CHAPTER 4 MARKET



In prevailing market conditions, discussions on how macroeconomic and industry trends impact business and how the company plans to steer the business within its environment will provide confidence and clarity. While many STI30 companies have discussions on their market, they merely scratch the surface and lack meaningful insights into how the trends impact the past, present and future of the business. In ever-changing market conditions, we expect to see STI30 companies mature further in market reporting.

## CHAPTER 5 STRATEGY



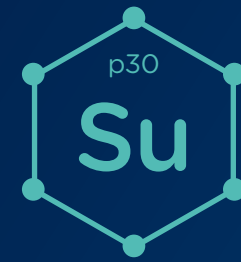
Providing clarity around corporate strategy informs readers of the future direction of the business. We are seeing clear leaders in strategy reporting among STI30 companies, however the majority have yet to communicate how strategy is integral to the business. Perhaps this is because companies are apprehensive of revealing too much to their competitors. As STI30 companies learn to strike a balance, strategy will slowly become a mainstay in reporting.

## CHAPTER 6 PERFORMANCE



Key performance measures quantify performance for the year and serve as metrics to which performance can be compared year-on-year. Reporting on key performance measures is still in its infancy among STI30 companies. However efforts are being made to contextualise performance in some way from both financial and non-financial perspectives. As regulation become increasingly focused on sustainability issues, we believe more companies will take the step in disclosing their key non-financial performance measures.

## CHAPTER 7 SUSTAINABILITY



Sustainability is on the worldwide reporting agenda and Singapore has introduced sustainability reporting on a 'comply or explain' basis on material environmental, social and governance (ESG) matters. While there are a handful already established in sustainability reporting, our study found that the majority of STI30 companies are in its infancy in sustainability reporting and have some way to go to be fully compliant with the SGX's sustainability reporting rules. We remain upbeat about the outlook of sustainability disclosure amidst rising awareness of the ESG issues among established investors.

## CHAPTER 8 MATERIALITY AND STAKEHOLDER ENGAGEMENT



Material matters are the most important issues facing the business. Material matters may be identified through stakeholder engagement which is a channel through which companies can understand key stakeholders' concerns in relation to the business. We observe a number of STI30 companies that have yet to incorporate discussion of materiality and stakeholder engagement. With mandatory sustainability reporting rules coming into effect, we believe disclosure of material matters and stakeholder engagement will improve in coming years.

## CHAPTER 9 RISK



Discussions on risk are important to provide readers with a full appreciation of the business. All STI30 companies have risk discussions, however the degree of insights provided vary across the board. Discussions on principal risk are established but there is great opportunity for STI30 companies to improve by describing how the risks are identified and managed. We expect further developments in risk reporting, not solely because investors continue to demand further transparency around risk but also because we believe that companies will seize the opportunity to better communicate their risk management.

## CHAPTER 10 GOVERNANCE



Robust and resilient corporate governance is the bedrock that underpins long-term business success. As governance disclosures are mandated by law, it is unsurprising that governance reporting is matured in the market. The challenge now is for companies to make the discussion informative rather than boilerplate, by providing sufficient detail to allow outsiders to understand how the business is governed and how it specifically relates to business operations. With the coming review of the Code of Corporate Governance, it is without question that governance will continue to be an area of focus in the future.



# THE ART AND SCIENCE OF BETTER REPORTING

2017 was a year of notable changes to reporting requirements in Singapore. It is against this backdrop that we are pleased to publish our inaugural study on reporting trends among the Straits Times Index (STI30) companies.

## The changing direction of reporting

We are in a new era of corporate reporting worldwide – the proliferation of legislation and changes to corporate reporting standards followed hot on the heels of worldwide movements such as the Sustainable Development Goals and the Paris Agreement.

In Singapore, we are also beginning to see significant shifts in the disclosure regime, such as the introduction of mandatory sustainability reporting and the impending review of the Code of Corporate Governance, to ensure that companies are competitive with their peers in capital markets. Undoubtedly, regulation is evolving to meet the pressure and demands for improved levels of transparency and accountability in corporate governance, and more meaningful insight into the long-term performance of companies.

These regulatory developments will certainly shape corporate culture and reporting. However, there are uncertainties and even confusion as to how regulation will translate into practice. It is against this backdrop that we seek to gain a deeper understanding of the reporting issues, trends, approaches that are being developed to meet the demands for a more enhanced narrative and establish a baseline on the current state of reporting.

## The art and science of better reporting

This study, 'The Art and Science of Better Reporting', is the first of what we intend to be a year-on-year analysis of how companies have responded to the changing reporting environment. Using the benchmarks we have established in our 'Complete 100', our yearly analysis of the trends in narrative reporting of the FTSE100 now well into its twelfth year, we have honed our assessment on the distinct Singapore market. These benchmarks will provide continuity in our assessment and analysis through monitoring the major issues, identifying key trends and best practice and providing insights into the future.

In this study, we investigate reporting against the content elements of an annual report based on standard global practice. While these 'building blocks' may not be fully established in Singapore yet, we expect them to be regularly featured in reporting moving forward.

Overall, we are seeing the top-tier STI30 reporters embracing the opportunity and competing effectively with international peers in reporting. A handful of these companies are established in reporting, having communicated their sustainability initiatives or reported against the Integrated Reporting principles for some time. These companies are leading the way in demonstrating best practice reporting in the marketplace. The mid and bottom-tiers form the majority in terms of reporting quality, where robust information is presented but have not been leveraged upon effectively.

## Sustaining confidence

Moving forward, it is likely that the annual report will become a more important communications piece for a business to engage with diverse stakeholder groups and it will be critical that it contains focused discussions that portray a cohesive corporate narrative.

We observed that sustainability information, which provides a more rounded picture of a business, often sits within a sustainability report or section but is rarely considered in the context of other aspects of the business, like the corporate strategy.

However, it is encouraging to note that companies are already reporting on sustainability before the sustainability reporting requirements become effective. As sustainability reporting is in its infancy for most STI30 companies, this is a commendable effort in providing transparency and sustaining confidence in the marketplace.

## Telling the value creation story

Although there are no regulation surrounding the reporting of business models, strategy and market, there is an indication that companies recognise the value of these discussions to articulate how they create value for the wider community.

While the majority of STI30 companies have yet to make these disclosures, we are beginning to see some companies taking positive steps towards explaining how they do business, how their environment influences business and the strategies they employ to meet their goals. Leading reporters are also discussing how they create value for their stakeholders in the course of business.

## Spotlight on leadership

Governance reporting is an area that is perhaps most influenced by regulation. Regulation is a double-edged sword because we can be assured that governance disclosures are robust; however, as companies align their disclosures to the letter of the law, the disclosures risk losing depth.

Robust and resilient corporate governance is the bedrock that underpins long-term business success, and it is therefore important to translate robust governance practices into robust reporting. This is undoubtedly the aim of the impending revision to the Code of Corporate Governance which seeks to make the 'comply or explain' regime more effective. We hope more companies will take innovative approaches to demonstrating the role of the Board and its committees by including greater insights into the internal workings of the company and evolve from a compliance-driven approach.

## In summary

The role of reporting is growing in importance and will be increasingly integrated within the management and communications process as more and more companies begin to see that the process of reporting can deliver benefit in its own right.

We believe that as the investing community evolves, corporate narratives can only become more engaging in form and substance. Good reporting, after all, is not just what one says but how one tells it – the art and science of reporting in balance.

We hope that you find our research a constructive contribution to the corporate reporting debate in Singapore.

# SETTING THE SCENE

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

## Why it is important

The first few pages of the corporate report are crucial in establishing context to the discussions within. As an introduction to a corporate story, they are often used to establish who the company is as an organisation, why it exists, and the values that form the foundation of how the company operates.

## 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 2012 highlights that it is the Board's role to "set the company's values and standards (including ethical standards), and ensure that obligations to shareholders and other stakeholders are understood and met" (Code of Corporate Governance 2012)
- 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)

## Where we are now

The majority of STI30 companies are beginning to set solid foundations in place, addressing the basic questions readers would have at the beginning of the report. Moving forward, we expect further focus on non-financial highlights as companies seek to present a more holistic view of the company.

## 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
- Maintain consistency in how business segments are presented and reported on



**How many companies provide a separate overview section?**

Typically discussed under headings such as 'About Us' or 'At a Glance', this section is designed to provide a snapshot of what the company does, where it operates, why it exists and how it plans to achieve its goals.

Encouragingly, 80% of STI30 companies have a separate section to help explain what they do and how well they do it. The titles of these sections vary, but what is common is that many appear at the beginning of their annual reports and provide context for the rest of the report and the business itself.

More than half provide detail on their key business segments, geographical footprint and financial statistics. A smaller group of leading reporters provide even greater detail with broader non-financial statistics and insights into culture and values in the organisation.



**Are companies outlining their purpose and vision?**

This year, 57% outline their vision, an expression of future aspiration that sets out what the company's overarching ambition is. In addition, almost the same proportion of companies also referenced what we would describe as an overall purpose for their business; articulating a 'raison d'être' or why the company exists. In the majority of cases this is labelled as a mission, and most companies are opening their reports with a distinct statement of vision and mission together. Through these two statements, encouragingly, the majority of these companies are articulating their commitment to wider stakeholders, not just investors, signalling the evolving concept of value creation beyond purely financial.

**Are companies discussing their values?**

This year, 50% sought to differentiate themselves by discussing their corporate culture or values, which provides some insights into what guides their behaviours and informs actions taken to achieve their vision. Guiding



values such as integrity, transparency and innovation provide an opportunity to convey a unique sense of company identity. Leading reporters will describe and link their values to their business model to explain how the organisation's fundamental beliefs underpin long-term value creation.

**How many companies outline a clear investment case?**

An investment case is a tool which allows report preparers to position content effectively primarily for an investor audience. It allows key investment messages to come through, such as key strengths and competitive advantages, without getting lost in the clutter of legal and regulatory disclosures which are often targeted at multiple audiences. We observed that only 13% have showcased key strengths or competitive advantages which set them apart from their peers.

**How many companies provide financial highlights?**

All companies contextualise their performance by including financial



highlights such as Net Asset Value or Return on Equity, with 9 financial metrics outlined on average. 70% also provide a five year financial summary as part of the front section of the report, showing that reporting from a financial perspective is established among the STI30.

**How many companies provide non-financial highlights?**

In contrast, about 30% provide sustainability or non-financial highlights such as Employee Strength or Customer Satisfaction. On average, 4 sustainability or non-financial metrics are highlighted. The stark imbalance in quantifying financial and non-financial performance is perhaps a reflection of the level of emphasis placed on the respective aspects of the company.

**How many companies communicate a theme in their annual report?**

Although over three quarters of companies communicate a 'theme' or 'story' in their annual report in some



way, the degree to which the theme is carried through the report varies. Only a handful of companies, the leading communicators, set up the theme and consistently use it to drive discussions throughout the entirety of the report, weaving individual sections into a whole and bringing the corporate story to life. Others only had a theme on the front cover or featured it sporadically throughout the report. This is certainly an area where we believe we will see developments as the annual report begins to be seen as an integral part of an overall communications strategy for companies.

**So what does the future hold?**

The broadening role of business in society and the increasing complexity of reporting will drive companies to ensure that they clearly describe and present their business by setting out the basics up front.



Sun Facts

9

companies use signposting tools to aid navigation

10

companies provide key milestones during the year

22

companies have a separate 'awards' page

**Innovation, Value and People**

are the top three elements featured as a reporting theme

70%

of STI30 companies are December year-ends

44%

is the average proportion of narrative content



# LEADERSHIP

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

### Why it is important

Effective leadership is often seen as the linchpin of a successful organisation. As the face of the organisation, the leaders of a company are the connecting piece between the company and its stakeholders. Personal perspective in the leadership statements gives readers a sense of the ‘tone from the top’ as well as a sense of ownership and commitment to the issues faced by the company. The role of leadership is imperative in enhancing transparency and building trust and confidence among stakeholders.

### What is required in Singapore

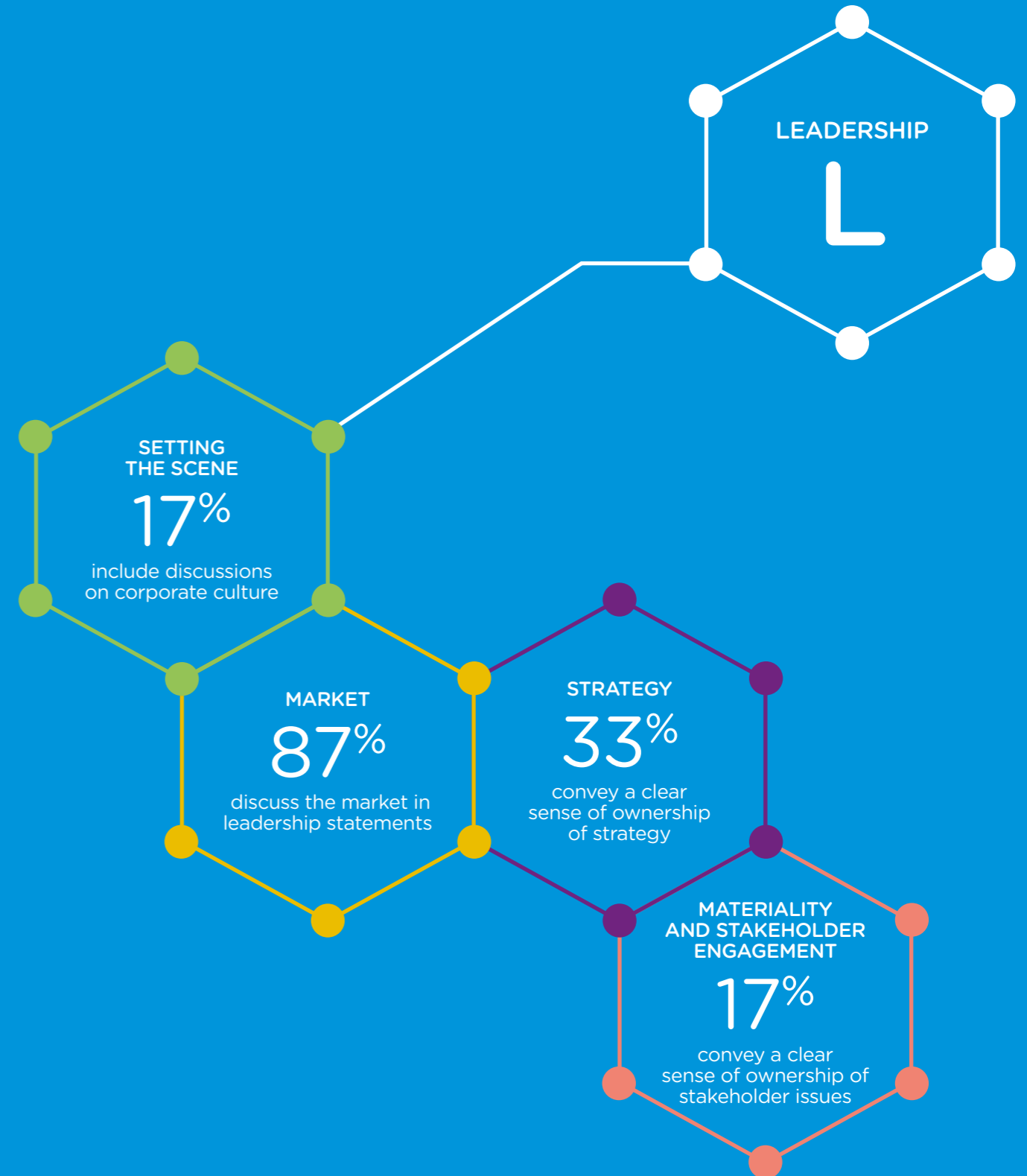
- “A balanced and readable summary” of the company’s performance and prospects should be provided in the Chairman’s statement or equivalent (SGX Rule 708)
- The Code of Corporate Governance 2012 (“Code”) states that “every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company.” The leadership statements should convey ownership of responsibility and active leadership (Code of Corporate Governance 2012)

### Where we are now

While performance and market discussions are most commonly discussed in STI30 leadership statements, we have also observed more strategic discussions that serve to set the future direction of the business. Demonstrating the tone from the top and setting future strategic direction through the leadership statement will continue to be key to building confidence among stakeholders.

### 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
- Ensure the report is a reflection of the business as seen ‘through the eyes of management’
- Clearly differentiate the roles of the Chairman and CEO through the content of the company’s statements
- Clearly articulate the corporate strategy and commitment to good governance



### How do companies present their leadership statements?

Principle 3 of the Code outlines that “there should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company’s business” and that “the division of responsibilities between the Chairman and the CEO should be clearly established.

The division of responsibilities between Chairman and CEO was not immediately evident in our analysis of leadership communication among the STI30. We observed that 43% contain only one statement, either from the Chairman or the Chief Executive Officer. This could be an indication that the discussions within these statements are designed to cover the scope of both the Chairman’s and CEO’s

remit, even though the statement is issued by either the Chairman or the CEO. While responsibilities may be defined in practice, having a single statement from either individual may lend to the notion that the Chairman and CEO’s responsibilities are not distinct or separate.

At the other end of the spectrum, we observed 27% featuring separate Chairman and CEO statements. It is evident that approaches to leadership statements vary widely and this could be an area of focus for companies aiming to improve perception among stakeholders on the governance of their business issues.

### What do the Chairman and CEO discuss in their statements?

Many leadership statements are being used to set up the key themes for the report, as they are a reflection of the

business as seen through the eyes of the management.

Almost all companies discuss market conditions during the year and how they have impacted performance, with some discussing opportunities or challenges that arise from these. Other common topics observed in the leadership statement are strategy, sustainability and governance. Topics such as materiality, business model, stakeholders and culture are rarely discussed.

### Where is the experience and knowledge of the Board featured?

About 77% feature the biodata of the Board of Directors or Senior Management team in the front section of the report. Often, the biodata follows after the leadership statements, demonstrating that the

company is equipped with the right skillsets and experience within its leadership to execute its strategic plans. The placement of biodata up-front could also be an indication of the importance placed on the diversity of experience and skills of the Board and management.

### How many companies included a Q&A with the CEO?

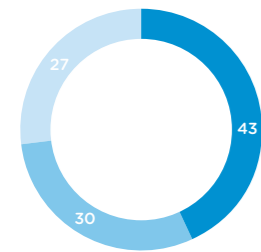
We noticed a trend of featuring a question and answer (Q&A) section with the CEO; 17% of companies have adopted this approach in place of the conventional narrative CEO statement. One company has used the Q&A as a way to introduce the new CEO. In the interview, the CEO discusses his background, his thoughts about the company’s current performance and his plans for the future. The Q&A approach is useful to demonstrate a

personal tone and involvement of the leadership, and it offers the opportunity for leadership to address particular concerns of stakeholders.

### So what does the future hold?

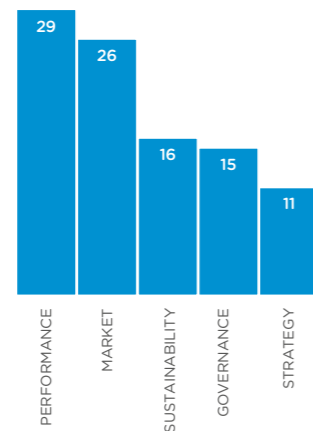
As stakeholders increasingly seek better engagement and accountability from the business, the leadership’s role will undoubtedly gain further prominence in the eyes of stakeholders. We expect to see developments in not just the type of disclosures made in the leadership statements, but also a more personal tone to the narratives, offering an honest and balanced view of the business.

### HOW DO COMPANIES PRESENT THEIR LEADERSHIP STATEMENTS? (%)

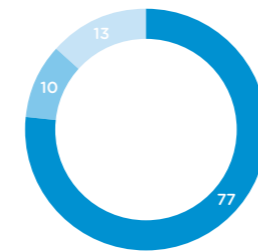


- Chairman statement or CEO statement only
- Joint Chairman and CEO statement
- Separate Chairman and CEO statements

### TOP 5 TOPICS DISCUSSED IN A LEADERSHIP STATEMENT



### WHERE IS THE EXPERIENCE AND KNOWLEDGE OF THE BOARD FEATURED? (%)



- In the front section of the report
- As part of the governance report
- Other

17%  
INCLUDE A CEO Q&A

## Sun Facts

11  
companies reinforce the theme in their leadership statements

83%  
feature portrait photography of individual Board members

3%  
feature group photography of the Board



# BUSINESS MODEL

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

## 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. This information is useful to investors and other stakeholders, including customers and employees, because of the wider emphasis on value creation.

## What is required in Singapore

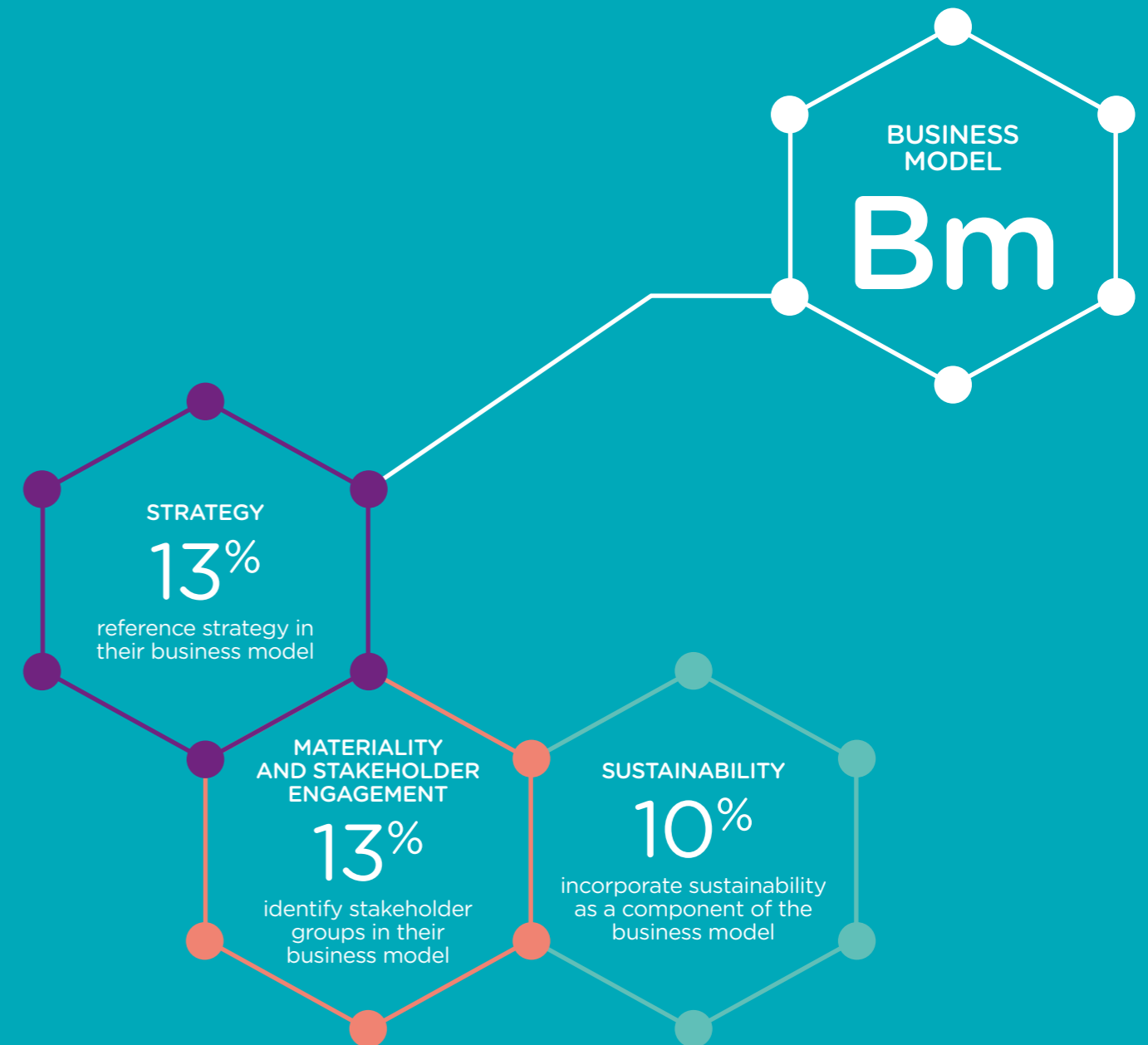
- There are currently no requirements on business model reporting in Singapore. However, we have seen the SGX Sustainability Reporting Guide referencing elements of a business model, especially when referring to value creation for stakeholders

## Where we are now

Business model reporting is beginning to take hold among STI30 companies, however there are opportunities in articulating the role corporate culture and sustainability play in the conduct of business. As operating environments evolve, companies will increasingly seek to articulate their business model, allowing stakeholders to develop an informed view of the long-term viability of the business.

## What is international best practice

- Make the business model clear and show how the company generates and preserves value for stakeholders
- Identify the critical resources and relationships on which the business depends
- Describe the company's key strengths and points of differentiation from its competitors
- Identify the principal risks which could impact the business model



**How many companies report on their business model?**

We observed that 47% of companies outline their business model. Of the companies that do, a majority include the business model in the front narrative section of the report, some of which present it before discussing corporate strategy. By including the business model up front, a reader would have a clear understanding of what the business does before moving on to the strategic discussions.

**Of those reporting on business model, how do they approach it?**

Investors are increasingly pushing to understand the fundamentals of how value is generated and preserved in order to assess the long-term viability of companies in which they invest. At this early stage in reporting, there are three evident approaches:

- Business description, which explains how the company is structured and how it delivers its products or services;
- Integral to strategy, where strategy is an integral part of the business model, or vice versa; and
- Value creation, where the business model aims to demonstrate the value created by the business, usually taking the form of an input-output-outcome model, similar to the model advocated by the Integrated Reporting framework.

Of the companies that disclose their business model, 5 companies adopt the business description approach, while 8 companies describe how value is generated for their stakeholders through their business activities. Only one company has described their business model in the context of being integral to its corporate strategy.

As businesses become increasingly conscious of their impact on the wider community, we expect a positive trend in business model reporting with more companies evidencing how they generate value for their stakeholders from both financial and non-financial perspectives, providing a more holistic context for understanding the company's performance.

**Of those reporting on business model, what are the key components included?**

We also examined the components that are reported within business models. Our study revealed that the most common component in a business model is business activity, where companies describe what they do to generate value for their stakeholders. Almost equally common is the discussion on inputs or resources

that companies draw on for their operations accordingly. Although less established, we are beginning to see some positive steps towards articulating what the company produces (outputs) and the impact created by these outputs (outcomes).

**How many companies incorporate corporate culture, values and sustainability into their business model?**

Interestingly, 13% discuss corporate culture or values as a component of business model, and another 10% incorporate components of sustainability into their business models. This reflects a more holistic perspective in defining how companies conduct business, where corporate culture, values and sustainability are inextricably linked to the way things are done.

As the market reacts to the SGX's requirement on sustainability reporting, more companies will re-examine how sustainability practices can be ingrained into their business models, and how corporate culture and values can be aligned to achieve sustainable excellence. Rather than being a mechanical piece, we see the business model as an opportunity for companies to articulate the spirit of the business and to differentiate themselves from their peers.

**So what does the future hold?**

As operating environments evolve, and with the rise of technological disruption, companies will be compelled to demonstrate the resilience and long-term viability of their business models. We expect to see more companies explaining their business model in a clearer and more defined way.

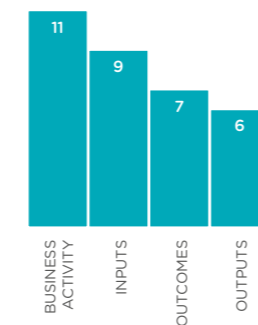
**47%**  
DESCRIBE THEIR BUSINESS MODEL

**HOW IS THE BUSINESS MODEL PRESENTED?**



- Companies using 'Business Description' approach
- Companies using 'Integral To Strategy' approach
- Companies using 'Value Creation' approach
- Companies without a business model

**KEY BUSINESS MODEL COMPONENTS INCLUDED**



**13%**  
INCORPORATE CORPORATE CULTURE OR VALUES AS A COMPONENT OF BUSINESS MODEL

**10%**  
INCORPORATE SUSTAINABILITY AS A COMPONENT IN THE BUSINESS MODEL

Sun Facts

**Business Model** is a key content element in the Integrated Reporting framework

3

approaches to business model reporting

10%

adopt the Integrated Reporting framework

13%

identify stakeholders in the business model

# MARKET

In this section we investigate how the market review for the year and the company's future outlook are presented in the annual report.

## Why it is important

The market review section provides an opportunity for reporters to highlight the underlying risks and opportunities presented by the market and how they plan to leverage on market trends, as far as their competitive advantages support. These discussions are important for investors to assess the future performance and prospects of a company.

## What is required in Singapore

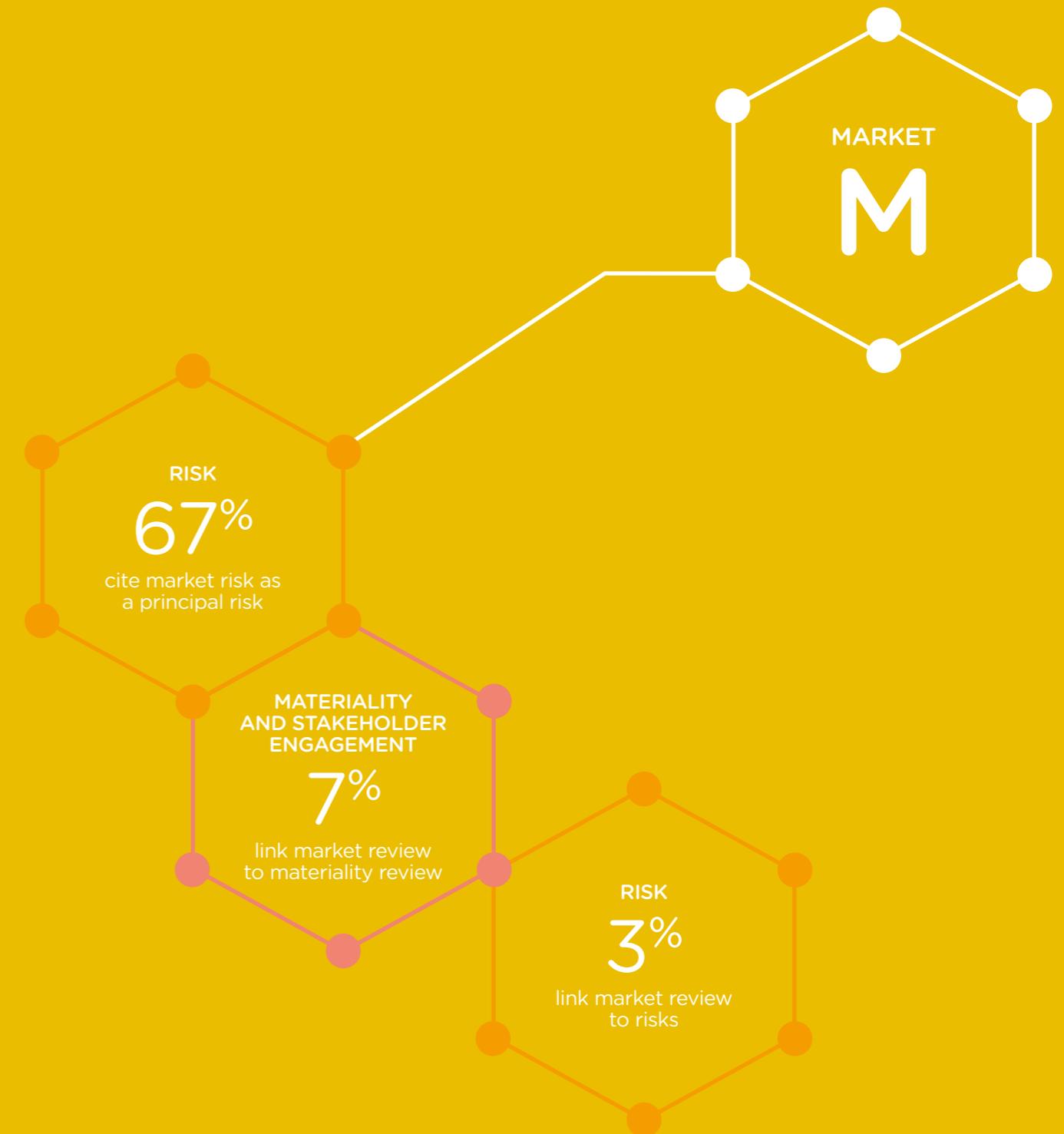
- SGX Listing Rules have a broad requirement in relation to the market review, by stating that the report must include "an analysis of the business outlook" (SGX Rule 1207)

## Where we are now

While many STI30 companies have discussions on its market, they merely scratch the surface and lack meaningful insights into how market trends impacts the past, present and future of the business. In ever-changing market conditions, we expect to see STI30 companies mature further in market reporting.

## What is international best practice

- Provide explanations of the market, industry trends and opportunities
- Include insights into the competitive landscape
- Validate performance and strategy through clear connectivity to market trends
- Present a forward-looking orientation to give context to strategy





**How many companies are providing details on the market?**

A majority (83%) of companies have provided an overview of the market but only 27% have provided detailed discussions of the market that are close to best practice.

**Of those reporting on the market, how are they providing details?**

42% are parking the discussion of the market as a subsection. Generally speaking, we have seen it being discussed under subsections of the leadership statements and operating review. Another 33% choose to integrate the discussion throughout the report. This might sometimes result in repetition of information and even missing context if the readers do not diligently study the whole annual report. The best practice is to incorporate the discussion into a separate section, which allows readers to understand the full context of the market without going through the entire annual report.

**How many companies outline macro-economic trends and industry trends?**

Around 70% have highlighted both macro-economic and industry trends in the market review. Specifically, many of them cite factors such as economic growth and industry supply and demand conditions as the major trends impacting the business.

However, there is a lack of detailed description in the market review. Many fail to provide meaningful explanation but merely scratch the surface and resulting in a significant void to fill when trying to understand the impact of trends on the past, present and future of the business.

**So what does the future hold?**

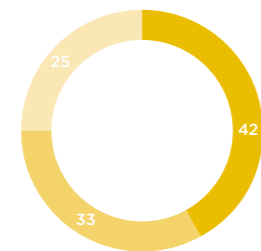
We think more clarification is needed in explaining the impact, in terms of risks and opportunities, of each trend to provide context to the business outlook. Using signposting tools or tables that link together the relevant information, the market review section can be further integrated with other strategic information of the annual report.

A successful market review, which supports an effective annual report as a whole, serves to balance performance discussions by providing the market context affecting the company's outlook and ability to deliver long-term value to investors and wider stakeholder audiences.

83%

PROVIDE AN OVERVIEW OF THE MARKET

**WHERE IS MARKET REVIEW LOCATED? (%)**



- Distinct subsection
- Integrated throughout the annual report
- Separate section

73%

DISCUSS MACRO-ECONOMIC TRENDS

80%

DISCUSS INDUSTRY TRENDS

70%

HIGHLIGHT BOTH MACRO-ECONOMIC AND INDUSTRY TRENDS

Sun Facts

30%

cite third party data in market review

10%

include an independent market review conducted by third party (all from the REIT sector)

# STRATEGY

This section analyses how companies express their strategy and objectives to provide a clear indication of what they aim to achieve in the future and how they plan to deliver on them.

## Why it is important

Readers look to this section to understand what the company's strategies are and how they plan to execute them to generate value in the short, medium and long-term. Read in conjunction with the business model, readers will be able to develop a more rounded understanding of the company's strategic direction and the value the company generates through its business.

## What is required in Singapore

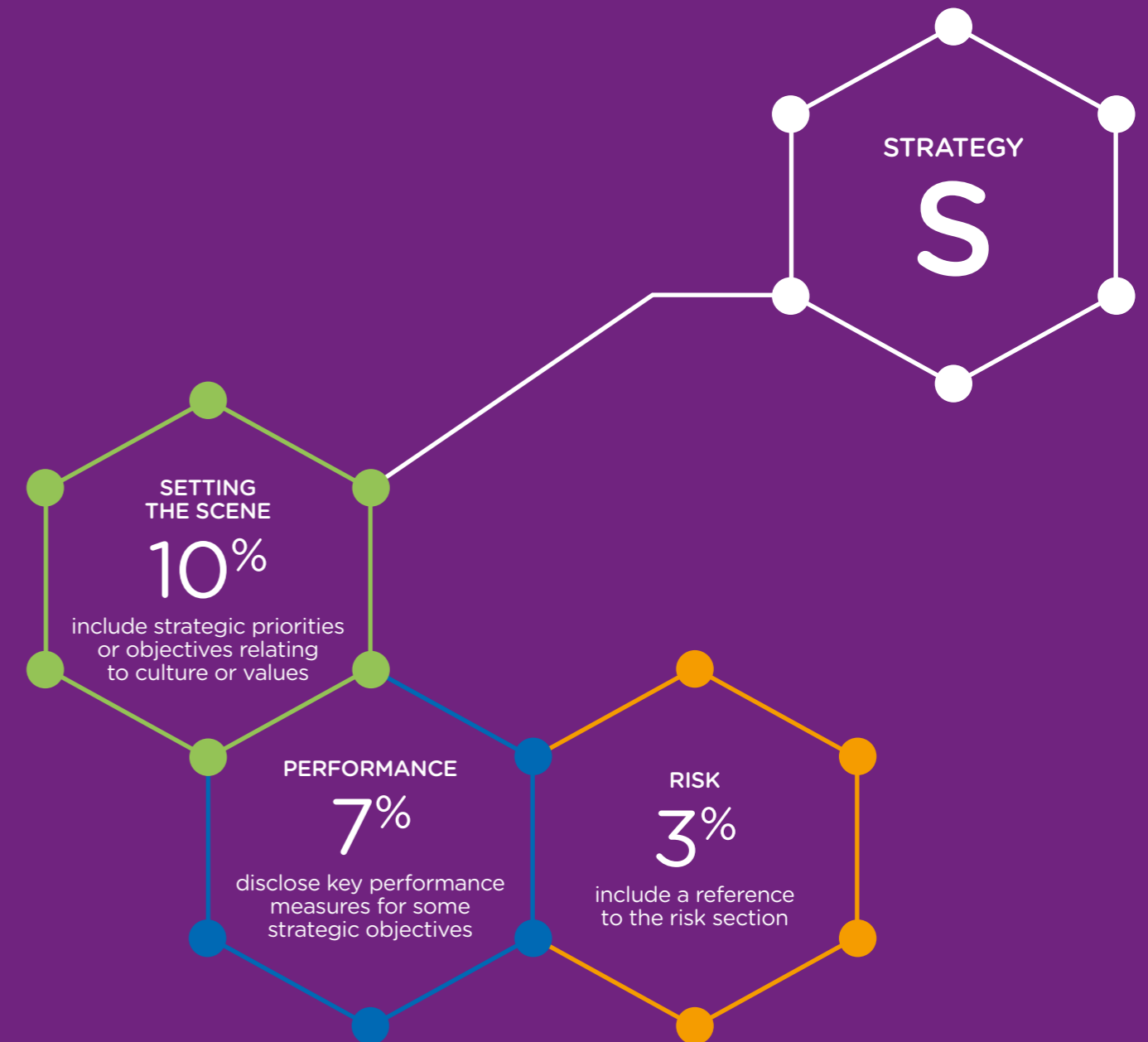
- There are currently no formal requirements on strategy reporting in Singapore, although the Code of Corporate Governance 2012 describes that the Board's role is to "provide entrepreneurial leadership, set strategic objectives, and ensure that the necessary financial and human resources are in place for the company to meet its objectives". A statement on strategy will help to communicate the Board's commitment to this responsibility

## Where we are now

We are seeing clear leaders in strategy reporting among STI30 companies, however the majority have yet to communicate how strategy is integral to business. Perhaps this is because companies are apprehensive of revealing too much to its competitors. As STI30 companies learn to strike a balance, strategy will slowly become a mainstay in reporting.

## What is international best practice

- Use a consistent strategy to underpin the entire narrative
- Explain why the strategy is appropriate given the market conditions
- Ensure strategic objectives are specific and measurable with quantifiable targets for the future
- Link strategic objectives to key performance measures and risks to communicate a more holistic story



### How many companies discuss strategy in a standalone strategy section?

While strategy is often discussed in the leadership statements, our study focused on identifying those that discuss strategy in a distinct strategy section. Featuring the strategy discussion as a prominent standalone section rather than having the discussion buried in narrative will draw the readers' attention and improve the accessibility of this information. We observed 40% showcasing their strategy discussions in a standalone section, indicating that strategy has begun to enter into public consciousness in the reporting space.

### Of the companies that have a standalone strategy section, how are they presenting this information?

The presentation format of strategy varies among STI30 companies. Out of the companies that have a standalone strategy section, we found that 4 companies explain their strategy through a diagram, 5 companies present their strategy through a dashboard, in a tabular format, which illustrates priorities along columns or rows with accompanying data such as key performance measures and targets alongside. Both approaches are a step

in facilitating the understanding of strategic information which may not be immediately clear to readers.

The remaining companies capture their strategy discussions through narrative, for instance within the leadership statements. These discussions are often vague, providing little insight into the future strategic progress of the company.

### What details do companies report on strategy?

Clear articulation of the strategy provides readers with a sense of where the business is headed, while simultaneously allowing them to develop an informed view of the company. This would be particularly

helpful for investors when making decisions about their investments.

We observed that 43% of companies explain their overarching elements of strategy being referred to by terms such as 'priorities', 'thrusts' or 'focus areas'. 37% describe strategic objectives, or the tangible steps the company intends to take in order to help them achieve their priorities. Only one company, 3%, described its strategic targets with specific quantitative measures against which it can be held accountable. Target-setting is an indication of the company's commitment to development and therefore demonstrates accountability and transparency. In an increasingly competitive market, it is important for companies to demonstrate solid commitments to their goals in order to build investor trust and confidence.

### What are top five strategic priorities outlined?

We have seen a strong focus in strategic discussions on traditional business and financial aspects such as business growth, customers and products, geographic expansion, operating efficiency and technology. This is unsurprising as such aspects are relatively easy to measure and therefore benchmark performance against. However, strategic discussions around non-financial aspects, such as people (employees), culture and values, environment, society and health & safety are clearly lacking. As frameworks measuring these non-financial aspects become more mainstream, we expect to see greater integration of these within strategy.

**40%**  
HAVE A STANDALONE STRATEGY SECTION

#### HOW IS THE STANDALONE STRATEGY PRESENTED?

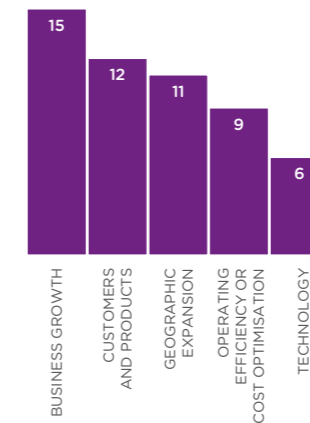


- Companies discussing strategy in the narrative
- Companies presenting strategy in a dashboard
- Companies presenting strategy in a diagram

**43%**  
DISCLOSE STRATEGIC PRIORITIES

**37%**  
DISCLOSE STRATEGIC OBJECTIVES

#### TOP 5 STRATEGIC PRIORITIES OR OBJECTIVES





**How many companies specifically link strategy to risk?**

The management of risk enables companies to deliver on their strategy. By identifying risks and sourcing opportunities, companies are better informed and will be able to effectively drive corporate strategy. As risk and strategy are closely linked, it is therefore important to demonstrate a visible link between strategy and risk in reporting. Such considerations may be made in practice, however it has yet to be evidenced in reporting, with only 3% linking strategy and risk.

**3%**  
LINK STRATEGY AND RISK

**How many companies specifically link strategy to culture and values?**

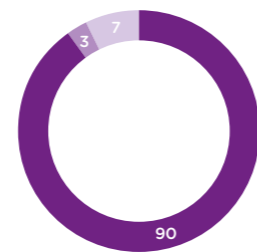
We have noted that 10% of companies link strategy with their corporate culture and values, indicating that the alignment of corporate behaviour is inherent to the success of the company. We expect to see further developments in reporting on culture as companies look internally to define their competitive advantage.

**10%**  
LINK STRATEGY AND CULTURE OR VALUES

**How do companies incorporate sustainability into their strategy?**

The corporate strategy also serves as a blueprint for companies to keep themselves on track in delivering value in the short, medium and long-term. As sustainability issues have an influence on the long-term viability of the business, it is important that the strategy addresses these in some way. We have seen that the majority (90%) do not incorporate sustainability into strategy discussions in any way, while the remaining 10% either express that sustainability forms part of their overarching ambition, or incorporate sustainability as a strategic priority.

**DOES THE STRATEGY INCORPORATE A SUSTAINABILITY FOCUS? (%)**



- No reference to sustainability issues in the strategy section
- The Group's overarching ambition or goal incorporates a sustainability focus
- One or more of the Group's strategic priorities is focused entirely on sustainability issues.

Joining up the story will allow for more holistic insight into how the company is preparing for the future. We expect sustainability elements to feature more prominently in strategic discussions in the advent of the 'comply or explain' Sustainability Reporting Rules by the SGX and the growing role of Integrated Reporting.

**So what does the future hold?**

As companies balance the desire to communicate their plans to stakeholders and the apprehension of potentially revealing too much to competitors, we expect that developments in strategy reporting will be positive but at a slower pace due to the sensitive nature of such disclosures.

Sun Facts

**3**

approaches to strategy reporting

**Sign-posting**

is an effective way to make connections to other sections of the report

**3**

companies articulate strategy in action through case studies

**1**

company discloses targets for strategic priorities

# PERFORMANCE

In this section we focus on assessing whether performance has been meaningfully evaluated using key performance measures. In Singapore, performance is usually evaluated in the leadership statements and operating and financial reviews.

## Why it is important

Key performance measures allow consistent metrics to be used when assessing results, especially where strategic performance is concerned. Through these measures, stakeholders can track the progress against strategic objectives and assess the company's future prospects.

## What is required in Singapore

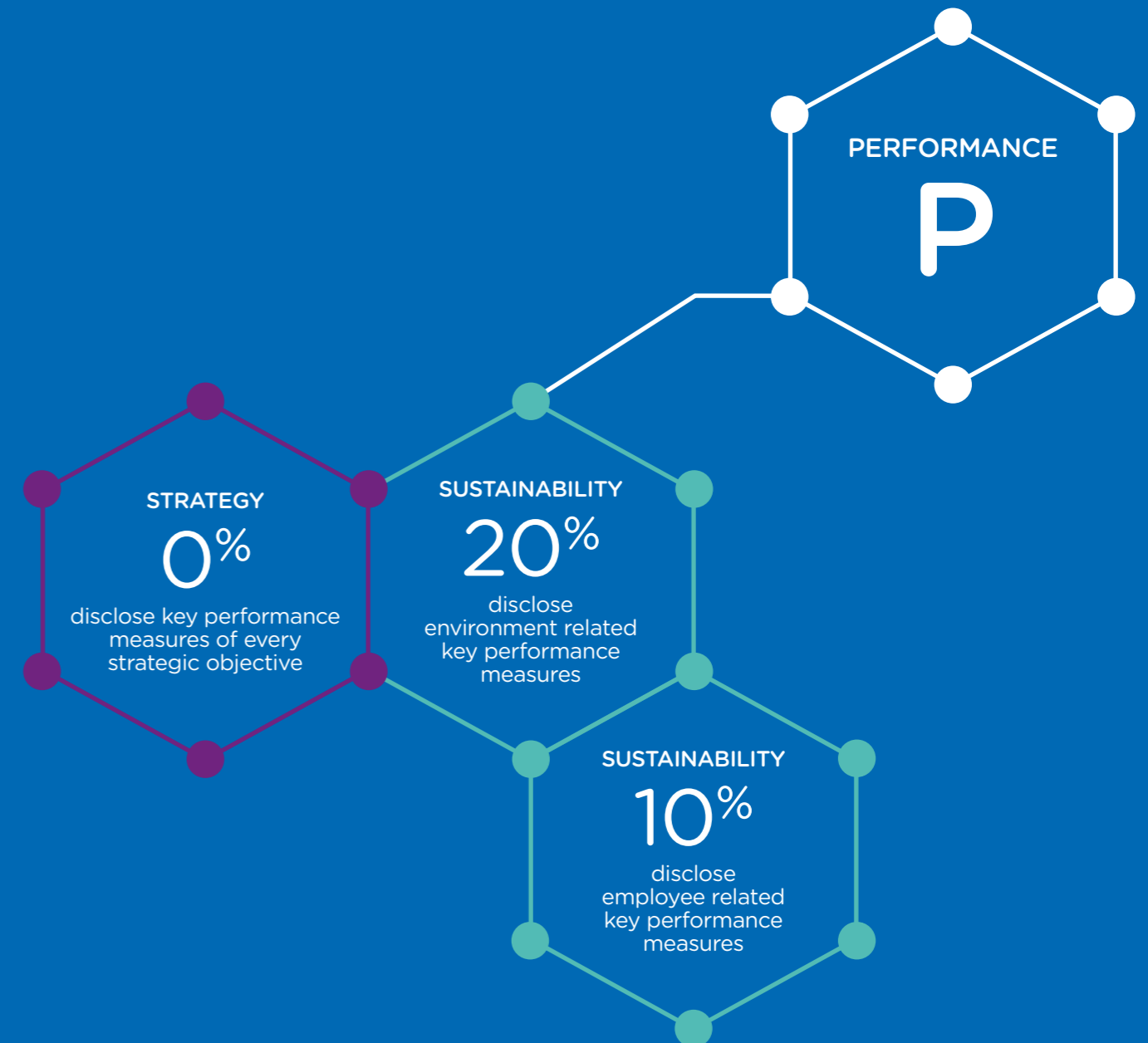
- Listed issuers are required to discuss the operational and financial performance in the past financial year, including any developments subsequent to the release of the issuer's preliminary financial statement, which would materially affect the issuer's operating and financial performance; and an analysis of the business outlook (SGX Rule 1207)
- SGX's Sustainability Reporting Guide ("SGX Guide") recommends having a performance measurement system to allow for the benchmarking of performance against stated objectives and to facilitate comparison over time and across entities. The SGX Guide says, "an effective policy and operational response to sustainability risks and opportunities requires performance measurement and its linkage to performance incentives" (SGX Practice Note 7.6)

## Where we are now

Reporting on key performance measures is still in its infancy among STI30 companies. However efforts are being made to contextualise performance in some way from both financial and non-financial perspectives. As regulation become increasingly focused on sustainability issues, we believe more STI30 companies will take the step in disclosing their key non-financial performance measures.

## What is international best practice

- Provide an understandable rationale for the use of each key performance measure
- Clearly articulate the alignment of key performance measures to strategy and outline targets
- Demonstrate which risks could affect the outcome of certain key performance measures
- Clearly highlight which key performance measures are linked to remuneration



**How many companies are identifying key performance measures?**

We see disclosure of key performance measures as a good opportunity for Singapore reporters to further enhance the strategic value of the annual report, aligning investors with a focus on key metrics and helping them view performance through the eyes of the management. According to our study, 27% of companies clearly highlight key performance measures to fortify their performance discussion.

**27%**  
OUTLINE KEY PERFORMANCE MEASURES

**What are the most commonly disclosed key performance measures?**

We observed an equal proportion of companies disclosing financial and non-financial key performance measures. The most common number of financial or operational measures disclosed is between 1 and 5 measures, while the most common number of non-financial measures disclosed is between 11 and 15 measures. As companies mature in their reporting on non-financial aspects, measures identified as 'key' would increasingly be limited to those that truly are material to the business.

**10%**  
ESTABLISHED A CONNECTION BETWEEN STRATEGY AND KEY PERFORMANCE MEASURES

As operational measures are industry-specific, we have not seen consistent operational metrics used across the board.

Among those that disclose non-financial key performance measures, all disclose metrics relating to environment. This is followed by key performance measures relating to health & safety and employees respectively. This shows a reasonable level of awareness towards environmental protection and employee-related issues.

**20%**  
DISCLOSE NON-FINANCIAL KEY PERFORMANCE MEASURES

**So what does the future hold?**

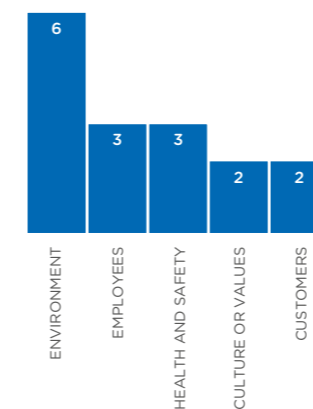
Over the past few years, we have seen more companies disclosing key sustainability performance measures to stay aligned with the national sustainability movement. Chapter 4.2 of the SGX Guide states that "the issuer should review its business in the context of the value chain and determine what ESG factors in relation to its interaction with its physical environment and social community and its governance, are material for the continuity of its business."

Furthermore, chapter 4.1 of the SGX Guide specify that issuers

should set out its "policies, practices and performance in relation to the material ESG factors identified, providing descriptive and quantitative information on each of the identified material ESG factors for the reporting period. Performance should be described in the context of previously disclosed targets."

Moving forward, we would expect development of performance reporting to be driven by SGX requirements, particularly in identifying material ESG factors and in the reporting of performance beyond just a financial standpoint.

**TYPES OF NON-FINANCIAL KEY PERFORMANCE MEASURES DISCLOSED**



**Sun Facts**

**10%**  
use ROE as a key performance measure

**53%**  
review operational performance by division

**7%**  
review operational performance by geography

**3%**  
review operational performance by strategic priority



# SUSTAINABILITY

From 2018, the SGX will require sustainability reporting on a ‘comply or explain’ basis from every listed issuer to help investors make better judgements about performance and prospects. Our study focuses on the disclosure of sustainability within the annual report, and how this information interacts with other key components of the annual report, with reference to the upcoming mandatory requirements in Singapore.

### Why it is important

Globally, there has been a rising trend in considering sustainability factors when making investment decisions. Disclosure of sustainability information is paramount to ensure that Singapore’s listed companies stay regularly on the radar of the foreign funds and established investors.

### What is required in Singapore

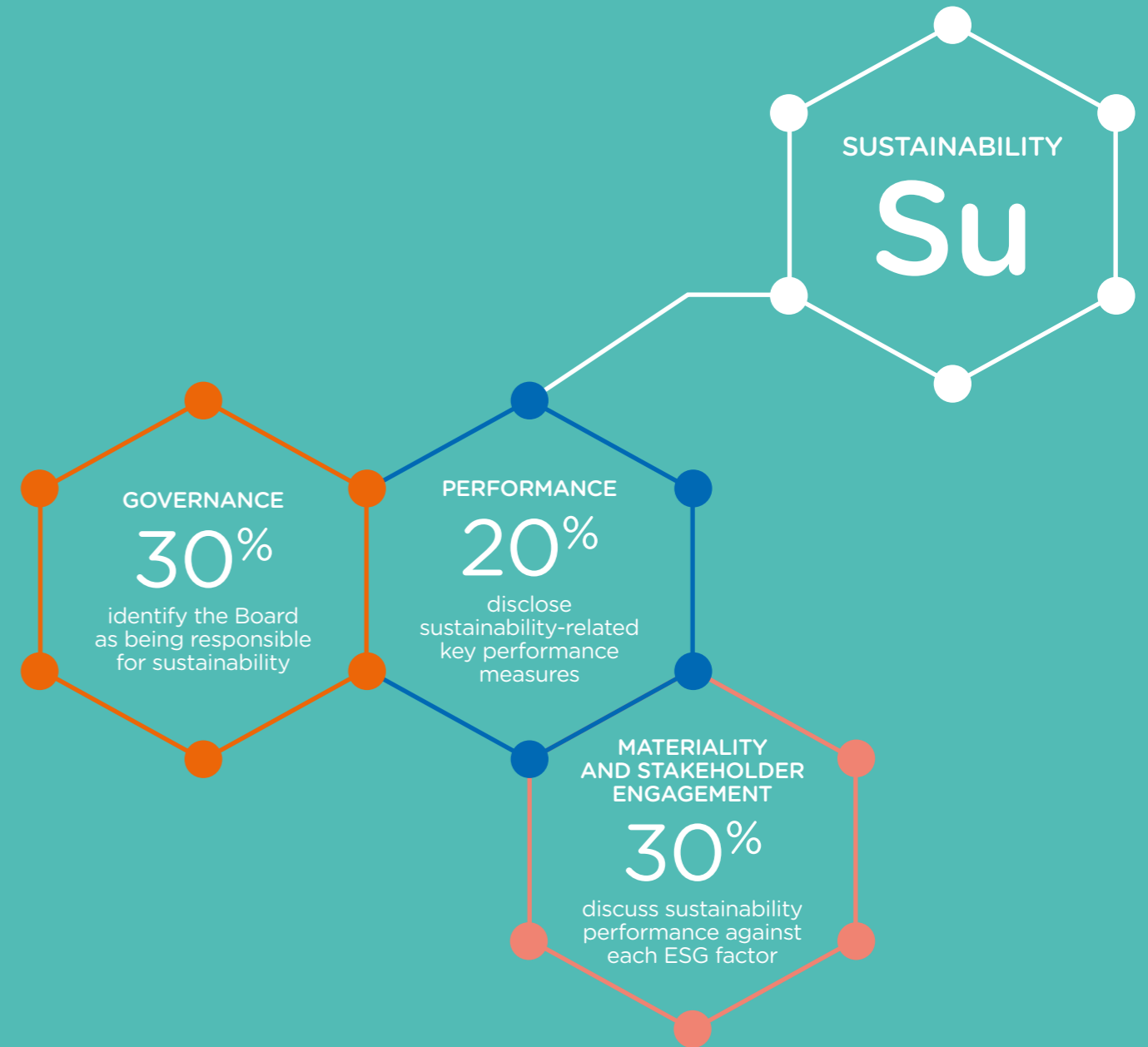
- SGX-listed issuers are required to report on sustainability starting from reporters with 31 December 2017 year-ends
- Discussion on the sustainability practices with reference to the following five primary components are required: Material ESG factors; Policies, practices and performance; Targets; Sustainability reporting framework; and Board statement (SGX Rule 711B)

### Where we are now

While there are a handful already established in sustainability reporting, our study found that the majority of STI30 companies are in its infancy in sustainability reporting and have some way to go to be fully compliant with the SGX’s sustainability reporting rules. We remain upbeat about the outlook of sustainability disclosure amidst rising awareness of the ESG issues among established investors.

### What is international best practice

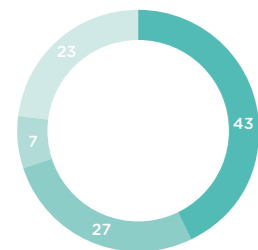
- Build the sustainability discussion around the most material issues
- Demonstrate how sustainability is important in delivering the company’s corporate strategy
- Provide non-financial key performance measures that link to the corporate strategy
- Demonstrate the governance of sustainability



### How do companies report sustainability in their annual reports?

We observed different approaches to sustainability disclosure in the annual report, which reflects the different levels of maturity in sustainability reporting among STI30 companies. Encouragingly 77% of companies are already reporting on sustainability in the annual report in some way. The most popular approach by companies (43%) is to have a sustainability section within the annual report. This usually takes the form of a summary of a more comprehensive sustainability disclosure as we found that about half of these companies (20% of STI30 companies) also published a standalone sustainability report. A minority (7%) are established reporters, integrating sustainability as a core element of their business model and strategy.

#### APPROACHES TO SUSTAINABILITY REPORTING (%)



- Sustainability section
- Sustainability report within the annual report
- Integrated throughout the annual report
- No discussion

### How many companies discuss material ESG issues?

The SGX Sustainability Reporting Guide (“SGX Guide”) states that “the sustainability report should identify the material ESG factors, and describe both the reasons for and the process of selection, taking into consideration their relevance to the business, strategy, business model and key stakeholders”. 13 companies have included discussion of ESG material factors in the annual report. Of these, we found that only about half take material ESG factors into consideration for business strategy.

### How many companies report on policies, practices and performance?

The SGX Guide says that the sustainability report should provide “descriptive and quantitative information on each of identified

20%

DISCUSS SUSTAINABILITY IN BOTH THE ANNUAL REPORT AND IN A STANDALONE SUSTAINABILITY REPORT

57%

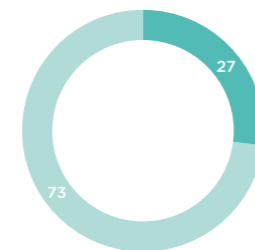
PROVIDE COMPREHENSIVE DETAILS ON SUSTAINABILITY POLICIES, PRACTICES AND PERFORMANCE

material ESG factors for the reporting period”. We observed that 57% have provided comprehensive details on sustainability policies, practices and performance. The remaining companies have some way to go in meeting the requirements.

### Are sustainability targets included in the annual report?

Only 27% have provided sustainability targets in the annual report. This figure does not come as a surprise because setting targets requires companies to have a mature sustainability framework in place, detailing specific ways of measuring performance and thus having reasonable targets. Moving forward, companies should keep in mind that “performance should be described in the context of previously disclosed targets”, as recommended in the SGX Guide.

#### DISCLOSURE OF SUSTAINABILITY TARGETS (%)



- Targets provided
- No targets

### Who is responsible for sustainability?

The SGX Guide provides that “the Board should determine the ESG factors identified as material to the business and set to it that they are monitored and managed”. 30% have identified the Board as a whole as having ultimate ownership of sustainability issues, while 13% have established a separate sustainability committee to oversee sustainability issues. However, the majority do not explicitly disclose where the responsibility lies. Having a main responsible body is important to assure stakeholders that sustainability issues are well taken care of.

### Which reporting frameworks are used?

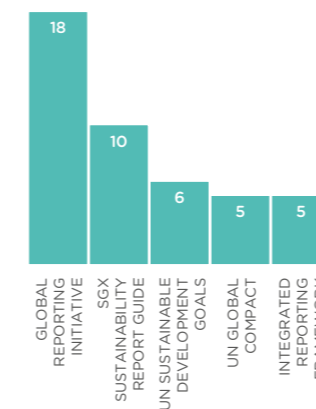
SGX does not give preference to any particular framework for reporting sustainability. 60% of companies across

their annual report or sustainability report have adopted GRI as the guiding framework. This comes within our expectations as GRI serves as a comprehensive framework that guides users, especially first-time reporters, on collecting the appropriate sustainability data. 17% have used the Integrated Reporting Framework, which we expect to become more common as companies increasingly incorporate sustainability into the corporate mind-set.

### So what does the future hold?

As sustainability reporting has just started to take shape in Singapore, we observe reporting gaps among the STI30 companies. Admited pressure for greater transparency, we expect companies to substantially improve their sustainability reporting quality beyond regulatory requirements.

#### SUSTAINABILITY REPORTING FRAMEWORK



## Sun Facts

90%

disclose sustainability information in either the annual report or the sustainability report

43%

have a standalone sustainability report

23%

incorporate sustainability case studies in the annual report

30%

provide URL for online sustainability information

83%

refer to Code of Conduct to align employees' behaviour

# MATERIALITY AND STAKEHOLDER ENGAGEMENT

This section focuses on how materiality and stakeholder engagement are discussed, as both play an integral role in distilling what is important for disclosure in the report. These discussions are crucial following the introduction of mandatory sustainability reporting on a 'comply or explain' basis by SGX.

## Why it is important

'Materiality' as a term has grown in significance to corporate consciousness, with more companies than ever referring to the key areas – material factors – that they believe to be important to the long-term sustainability of their business. In the global context, materiality is becoming a filter for the report, helping reporters to distil the information to be included in the report. In fact, in many jurisdictions reporters are encouraged to disclose information based on material factors. The <IR> Framework highlights that "an integrated report should disclose information about matters that are material to the company's ability to create value over the short, medium and long-term".

## What is required in Singapore

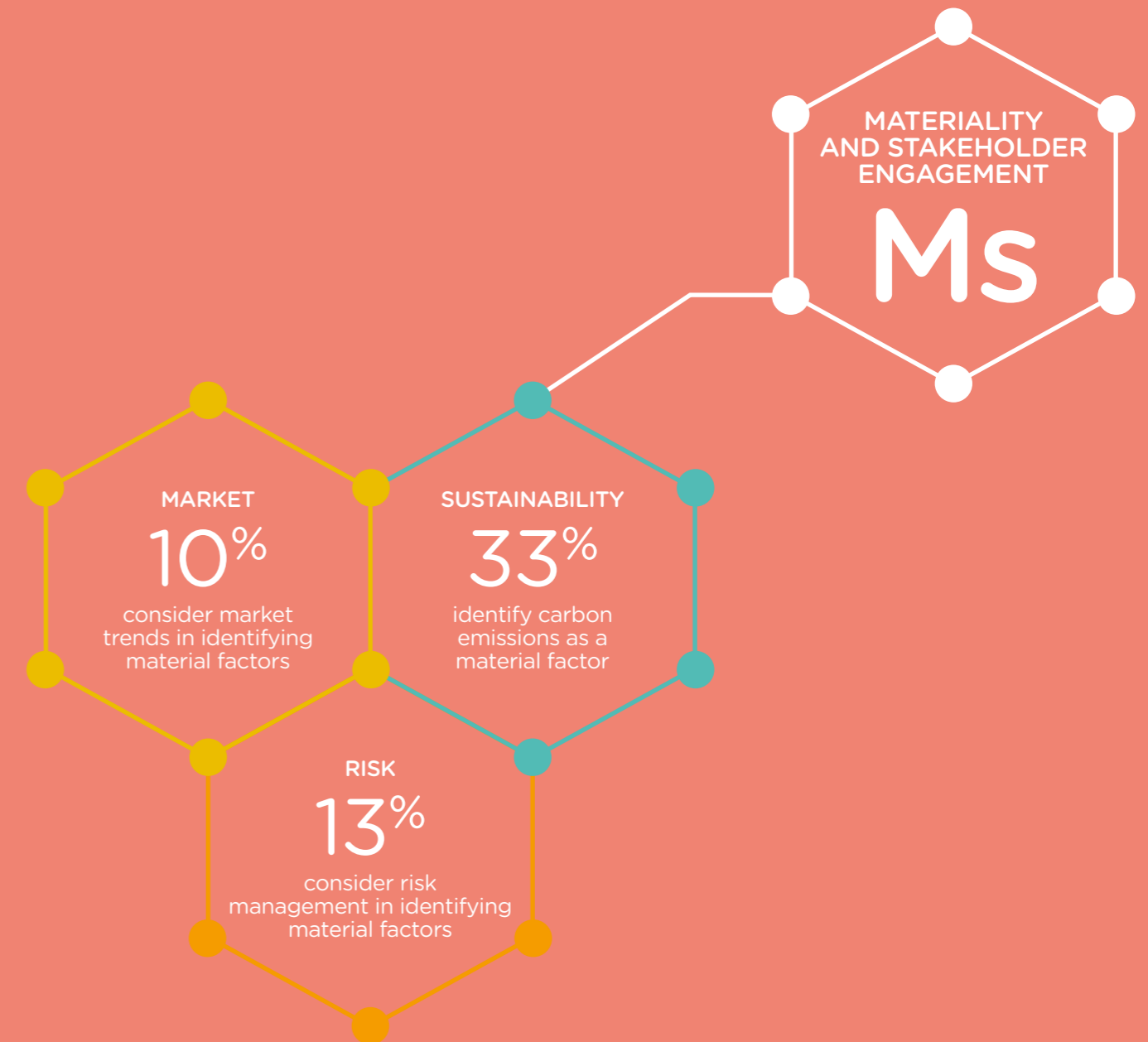
- Listed issuers are encouraged to discuss known factors and influences that may have a material effect on future performance and financial position (SGX's Practice Note 7.4)
- Listed issuers are required to report on the material environmental, social and governance factors, as part of the Sustainability disclosures (SGX Rule 711B)
- 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)

## Where we are now

We observe a number of STI30 companies that have yet to incorporate discussion of materiality and stakeholder engagement. With mandatory sustainability reporting rules coming into effect, we believe disclosure of material matters and stakeholder engagement will improve in coming years.

## What is international best practice

- Demonstrate an understanding of material risks and opportunities to be managed to ensure long-term sustainability
- Demonstrate the significance of stakeholder engagement in the company's operations
- Summarise how the company has engaged with stakeholders, what their main concerns are and how the company has taken those views into consideration



**MATERIALITY AND STAKEHOLDER ENGAGEMENT**

**What is the scope of the materiality discussion?**

“As guidance, sustainability reporting relates to the most important environmental, social and governance risks and opportunities that will act as barriers or enablers to achieving business goals in the short, medium and long term and generally, what is material in sustainability reporting will also be considered material in financial terms, if not in the immediate period, then over time”, states the SGX Guide. It goes on to suggest that in assessing materiality of ESG factors, they should be relevant to business strategy and outcomes, so the main risks and opportunities are focused on. This year, there were 43% of companies with some materiality discussion in their report. However, when we look at this more closely we see that slightly less than half of the companies that discuss materiality are assessing material matters in a business-wide context. This refers to those that take

into consideration issues beyond the scope of ESG factors, which may arise from other business-wide frameworks, such as value drivers, risk management, business models and strategy.

Among the companies that incorporate a materiality discussion, 13% declare they have referenced a risk management framework to identify material factors. This follows the SGX Guide’s recommendations that issuers should use a process similar to the widely practised Enterprise Risk Management (ERM) process and expand the breadth of the assessment to account for material ESG factors.

**What are the top five material matters?**

Among those that disclose material matters in the annual report, most are environmental and social factors. In particular, environmental sustainability has been widely considered as material in the midst of rising awareness towards environmental

protection. For instance, energy use ranks top as the most commonly identified material matter, with 12 companies disclosing it as a key issue. The SGX Guide also suggests that corruption is a factor on which many investors require reassurance and gender, skill and experience have been highlighted as diversity indicators material to business sustainability.

We found that only three companies have disclosed the materiality determination process through which they prioritise material matters. Despite the low level of disclosure, the SGX Guide only states that the “issuer should disclose the outcomes of the process”. We see it as an important piece because it helps stakeholders to understand the scope of the factors that the company has taken into consideration.

**Is there a link between stakeholders and materiality?**

Stakeholder engagement, through which companies obtain feedback,

is particularly important for companies to distil material matters. According to the SGX Guide, “discussion with stakeholders contributes to an accurate appreciation of what is important in the business on an ongoing basis”. In this regard, although stakeholder engagement discussion is being disclosed in 60% of the annual reports, the relationship between stakeholder engagement and materiality discussion is relatively weak. We found that only 2 companies have established a direct relationship between stakeholders and material matters.

**Who are the top five stakeholders identified and engaged?**

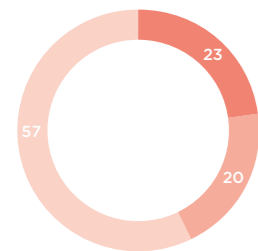
Communities are most commonly identified as key stakeholders in the annual report. We believe that this is because many companies have established a corporate social responsibility framework, which involves philanthropic activities even

before the sustainability reporting rule came into effect. Also, our study shows encouraging signs where companies are actively engaging stakeholders beyond the group of investors.

**So what does the future hold?**

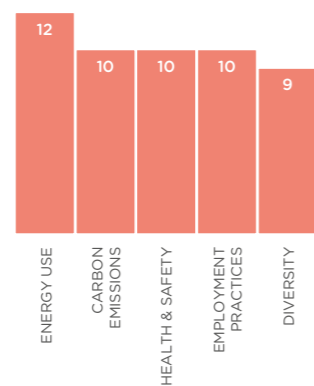
We believe that materiality discussion, currently being positioned as a basis of sustainability reporting in Singapore, will become more comprehensive and include business-wide matters. To achieve this, companies will have to first strengthen engagement with stakeholders to understand what is important to the business.

**TYPE OF MATERIAL MATTERS IDENTIFIED (%)**

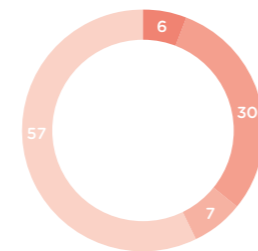


- ESG material matters
- Business-wide material matters
- No materiality discussion

**TOP FIVE MATERIAL MATTERS**



**LINK BETWEEN STAKEHOLDERS AND MATERIALITY**

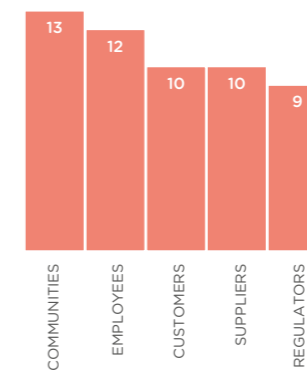


- No link
- Basic link
- Direct link
- No materiality discussion

**3 COMPANIES PRIORITISE MATERIAL MATTERS IN THE ANNUAL REPORT**

**60% DISCUSS STAKEHOLDER ENGAGEMENT IN THE ANNUAL REPORT**

**TOP FIVE STAKEHOLDERS IDENTIFIED AND ENGAGED**



**Sun Facts**

**47%**

use the term ‘materiality’ to refer to important matters

**30%**

provide explanation on why each material factor is important

**27%**

discuss feedback during stakeholder engagement

**23%**

discuss responses to stakeholders’ feedback



# RISK

Risk disclosures aim to inform readers of the company's appetite for risk, the key risks themselves, its impacts 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 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 these.

## What is required in Singapore

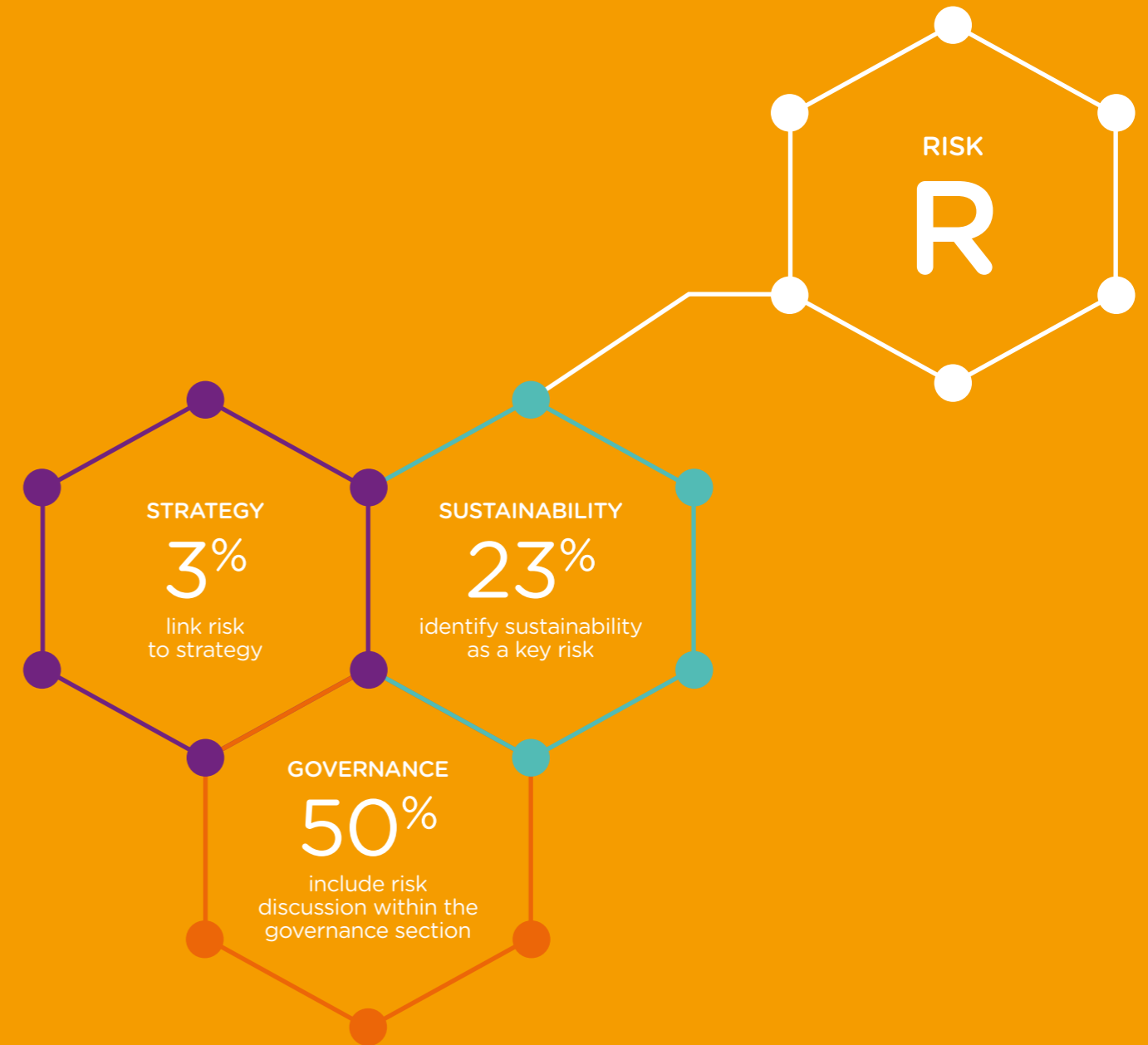
- Listed issuers are required to provide information on their risk management policies and processes (SGX Rule 1207)
- This could include a discussion identifying the significant opportunities, risks and threats facing the business, together with a commentary on the strategies and processes applied to managing them, and in qualitative terms, the nature of their potential impact on performance. Known factors and influences that may have a material effect on future performance and financial position, particularly within the 12 months from the date when the financial statements are authorised for issue, should be discussed (SGX Practice Note 7.4)

## Where we are now

All STI30 companies have risk discussions, however the degree of insights provided varied across the board. Discussions on principal risk are established but there is great opportunity for STI30 companies to improve by describing how the risks are identified and managed. We expect further developments in risk reporting, not solely because investors continue to demand further transparency around risk but also because we believe that companies will seize the opportunity to better communicate its risk management.

## What is international best practice

- Clearly explain the risk identification, management and mitigation processes in place
- Provide insights into the risk profile and identify risks specific for the company
- Focus on strategic risks and risks related to the business model, rather than simply operational risks
- Identify whether there have been any changes in the risk profile and what the priority risks are for the year



**How many companies discuss risk?**

The increased importance and profile attributed to risk makes this one of the areas of reporting with great potential for improvement. Encouragingly, all STI30 companies have discussions on risk in place, providing varying levels of insight into their risk management processes. While 77% identify what their key or principal risks are, only two thirds provide a description of why the risk is important and what its potential impact is. Preceding discussions on the risk identification process and ensuing discussions on how these key risks are managed are not immediately evident.

**Where is the risk discussion found in the annual report?**

While all companies discuss risk in some way, half report on risk within the corporate governance section, signalling that risk is at the heart of governance discussions. A number of companies (37%) emphasise the importance of risk management even more by dedicating a standalone section, often as an extension of the corporate governance section, which reinforces the notion that risk narrative is developing into a more comprehensive analysis than it has been. Several companies (13%) integrate the risk discussion throughout the report, showing how risk is actively managed at every level of the business.

**How many companies disclose a clear risk identification methodology?**

Half the reports reviewed disclose a clear identification methodology. Being able to articulate a clear methodology reassures investors that the appropriate risks are being identified.

**How many companies detail how risks are managed?**

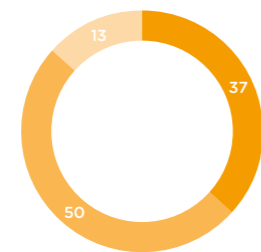
Two thirds of companies (67%) discuss risk management to varying degrees. While it is heartening that risk reporting is prevalent, the depth of these discussions does not necessarily paint a complete picture. Leading reporters clearly outline their methods for risk identification and then provide an in-depth analysis of how these will be managed.

It is possible that their minimalist approach to disclosure is indicative of a cautious mentality, where there is reluctance to document specific processes and responsibilities for fear of reprisal if things go wrong.

The challenge to provide meaningful disclosure is apparent as companies struggle to strike a balance between meeting the needs of regulators and investors, and the liability arising from disclosing too much information. This is evident in boilerplate disclosures, often lacking so much in character and detail that it is not possible to identify the company or industry should the discussions be read independently of the report.

100%  
DISCUSS RISK

WHERE IS THE RISK MANAGEMENT OR PRINCIPAL RISK DISCUSSION FOUND? (%)



- Standalone risk section
- In the corporate governance section
- Discussion is spread across more than one section

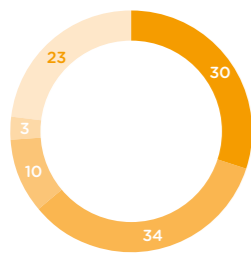
50%  
DISCLOSE RISK IDENTIFICATION METHODOLOGY

67%  
DISCUSS RISK MANAGEMENT

### How many principal risks are being identified by companies?

Understanding the risk management process is important, but the real value from an investor's perspective comes from the detail provided for each of the key risks. The majority of companies (34%) identify between 6 and 10 key risks with 3% discussing more than 15. The average number of risks disclosed is 7, ranging from 2 to 16. While an organisation can be affected by any number of risks, it is essential that companies focus their risk discussion and provide insight into the relevance and the impact of these risks on strategy.

### HOW MANY PRINCIPAL RISKS DOES THE ANNUAL REPORT IDENTIFY? (%)

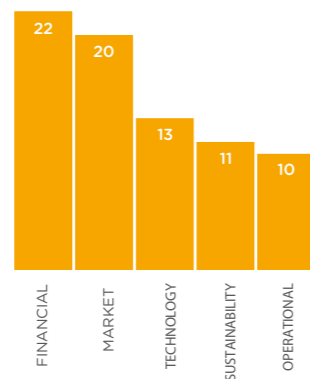


- 2 - 5 risks
- 6 - 10 risks
- 11 - 15 risks
- > 15 risks
- No risk identified

### What are the most common risks reported?

We observed that the most commonly reported categories of risk relate to financial, market and operational aspects, reflecting the tangible nature of these risks. It is likely that this also reflects industry interest in prevailing market conditions and trends. Some companies are beginning to discuss technology (43%), and 37% identify sustainability as a key risk, where issues such as health & safety, environment and reputational damage are highlighted. This points to an increasing focus on considering and managing broader issues in view of the long-term sustainability of the business.

### DO ANY OF THE PRINCIPAL RISKS RELATE TO THE FOLLOWING?



### How many companies link risk to their strategy?

Among the risks identified, only one company has identified 'strategic risk' as a key risk. While this does not necessarily suggest that companies fail to assess risk from a strategic perspective, we have not found strong evidence that there had been consideration of risk in strategy, or how strategy itself addresses risk. Establishing a clear correlation between the two elements will reinforce the message that active risk management plays a role in the long-term sustainability of the business.

**1**  
COMPANY LINKS RISK TO STRATEGY

### So what does the future hold?

Internally, risk is certainly an area of focus for companies. However there is some way to go for risk reporting to reflect this notion and to meet the level of best practice disclosure. As investors continue to demand further transparency around this topic, the onus falls on companies to provide more meaningful risk disclosures to enlighten readers and help with the process of building trust. Companies which communicate their understanding of risks to the business strategy and the management of those risks generate confidence that they have robust processes and systems in place to deliver on market expectations.

## Sun Facts

7

key risks are identified on average

2

is the lowest number of key risks identified

16

is the highest number of key risks identified

**Financial risk**

is the most common key risk identified

**Culture**

has not been identified as a key risk

# GOVERNANCE

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.

## Why it is important

A company's governance practices are essential in sustaining corporate performance and in maintaining investor confidence in the marketplace. Insights into how the Board operates in ensuring the long-term success and sustainability of the business give readers an insight into boardroom culture and evidences more accountability to shareholders and stakeholders alike.

## What is required in Singapore

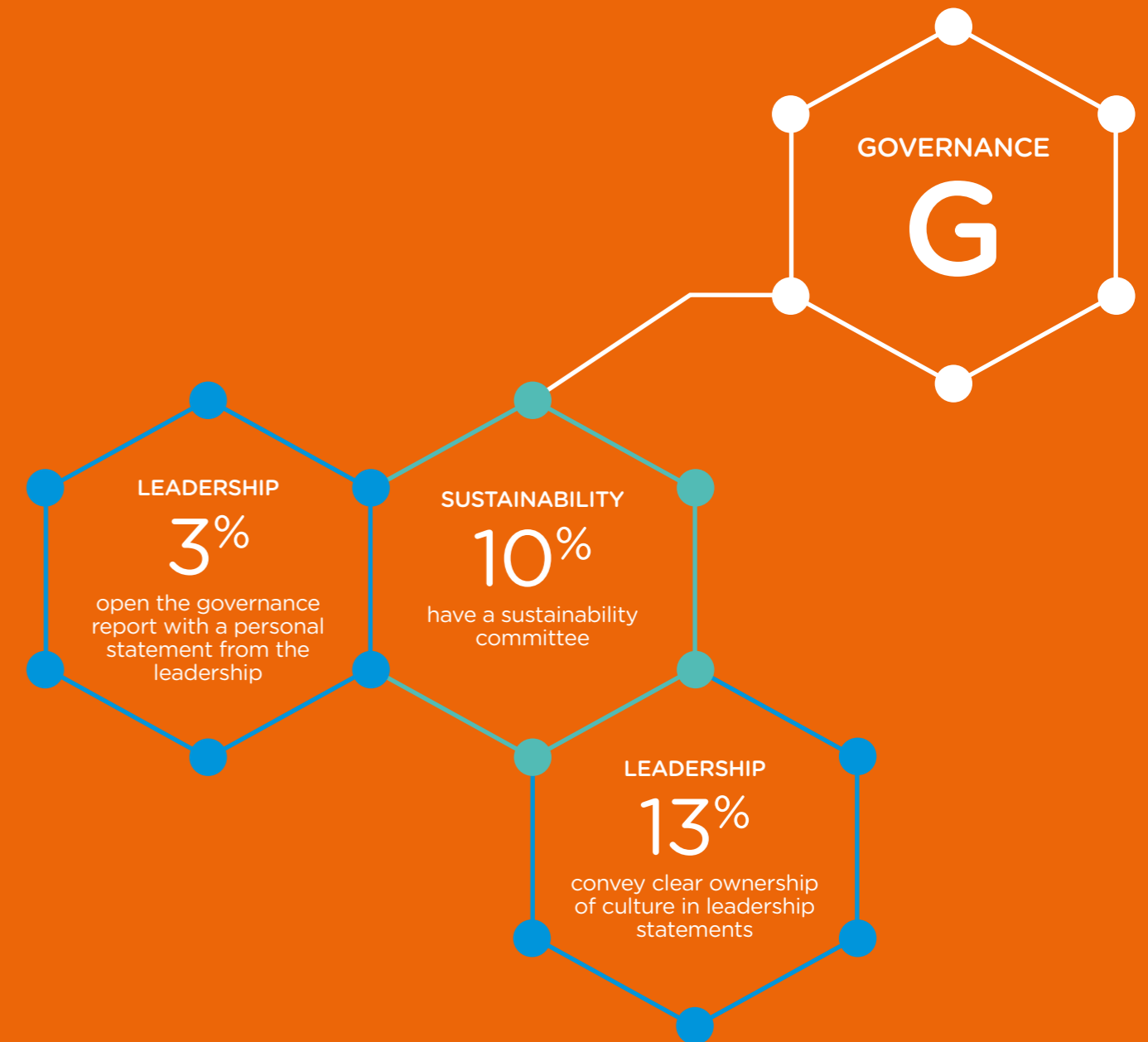
- Listed companies in Singapore are required to report on corporate governance practices with specific reference to the principles of the Code of Corporate Governance ("Code") in the annual report on a 'comply or explain' basis (SGX Rule 710)
- The Code contains 16 principles covering, among others, board composition, membership, performance, remuneration, risk management and internal controls and shareholder rights (Code of Corporate Governance 2012)
- 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)

## Where we are now

As governance disclosures are mandated by law, it is unsurprising that governance reporting is mature in the market. The challenge now is for companies to make the discussion informative rather than boilerplate, by providing sufficient detail to allow outsiders to understand how the business is governed and how it specifically relates to business operations. With the coming review of the Code, it is without question that governance will continue to be an area of focus in the future.

## What is international best practice

- Demonstrate accountability through personal reporting from the Chairman
- Present governance as a key component of the report narrative that relates to other areas
- Demonstrate the boardroom culture and how this contributes to a well-run company
- Provide insight into governance activities, performance against prior objectives and targets for the coming year, and how these link to strategy





### How are companies presenting their governance information?

The majority (56%) of companies present their governance discussion in a boilerplate fashion, often reporting based on the principles outlined in the Code. While the principles-based reporting approach is reliable, disclosures often tend to be compliance driven with little insight provided on governance activities. Some companies (37%) have taken the principles-based approach as a foundation while layering on additional information which adds further depth to the discussions. Finally, 7% have approached their governance reporting from a communications

perspective, offering clear and comprehensive insights into the Board's activities and achievements over the year, and focus areas for the following year.

### How many companies have a personal report on governance?

The Code requires positive confirmation on the adherence to the principles and guidelines of the Code, or specify each area of non-compliance. This could be an area for opportunity for companies to engage with their readers by opening the section with a personal statement from a member of the Board, covering this as well as outlining the Board's key achievements or activities over the year.

We found that almost 10% of innovative communicators are beginning to take this approach. This kind of reporting will help provide the reader with a greater understanding of the Board's role and focus, while also illustrating a sense of the company's culture.

### What Board committees are companies using to run their businesses?

The number of Board committees outside the statutory requirement of audit is significant, with nominations, remuneration and risk committees established in more than two thirds of all companies. This signals a greater commitment to increased transparency and a trend towards

increasing high standards of corporate governance. With the increased focus on sustainability reporting by the SGX, and the broader importance of these issues to stakeholders, we expect to see a corresponding rise in the number of companies having a committee dedicated to managing sustainability issues.

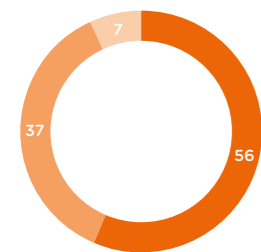
### What information is provided for each committee?

Efforts to provide meaningful and engaging information within governance reporting are varied. Most companies disclose the membership and terms of reference for each committee, the numbers of meetings held, and

attendance of committee members. This may be a reflection of the general boilerplate approach to reporting, as disclosure of this information is required by the Code. For example, Guideline 1.4 requires the disclosure of "the number of meetings of the Board and board committees held in the year, as well as the attendance of every board member at these meetings".

30% discuss the key achievements of the year for each committee and even fewer still (only one company) discuss priorities for the year.

### WHAT APPROACH IS TAKEN TO GOVERNANCE REPORTING? (%)

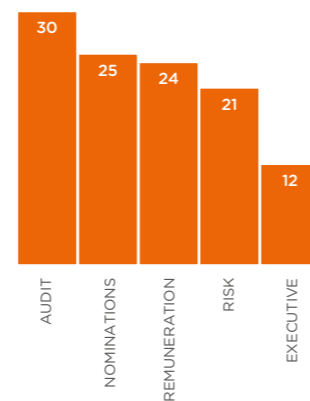


- Boilerplate information
- Compliance-driven with some additional 'storytelling' or insight
- Communications driven with clear and comprehensive insight

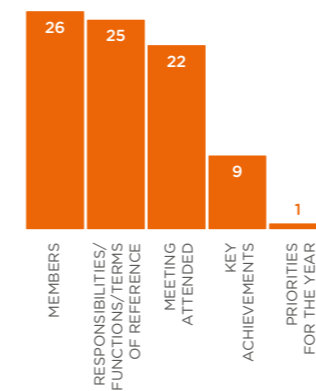
**1**  
COMPANY OPENS THE SECTION WITH A PERSONAL STATEMENT FROM THE BOARD CHAIRMAN

**3**  
COMPANIES OUTLINE KEY ACTIVITIES OF THE BOARD

### TOP 5 COMMITTEES HIGHLIGHTED IN THE ANNUAL REPORT



### WHAT INFORMATION IS PROVIDED FOR EACH COMMITTEE?



## Chapter 10

## GOVERNANCE

### How many companies discuss Board evaluation and succession planning?

Guideline 4.2 of the Code states that the nominations committee should make recommendations to the Board on “the review of board succession plans for directors” and “the development of a process for evaluation of the performance of the Board, its board committees and directors”. We noticed that most companies discuss board evaluation (77%), while just over half discuss succession planning. It is clear that companies recognise the importance of providing reassurance that there are plans in place for Board replenishment in the event of turnover, while ensuring the diversity and strength of the Board as a whole.

# 77%

DISCUSS BOARD EVALUATION

# 53%

DISCUSS SUCCESSION PLANNING

### So what does the future hold?

The Monetary Authority of Singapore has announced that it will be reviewing the Code in view of evolving global corporate governance practices. Among other things, the review will consider how to improve the effectiveness of the comply-or-explain regime. As regulatory pressure increases we expect growth in the maturity of governance reporting as more Boards want to demonstrate their collective strength, prove they are ensuring the long-term success of the business and provide a window into their Board culture.

## Sun Facts

# 100%

highlight the audit committee in the annual report

# 83%

highlight the nominations committee in the annual report

# 4

companies provide individual committee reports

## Data File

Company	Financial year end	Annual Report			Online format		
		Total number of pages	Number of pages of narrative	% of narrative content	PDF	Flip-book	Full online microsite
Ascendas REIT	March	232	125	54%	✓	✓	-
CapitaLand	December	236	109	46%	✓	-	-
CapitaLand Commercial Trust	December	196	112	57%	✓	✓	-
CapitaLand Mall Trust	December	220	132	60%	✓	✓	-
City Developments Limited	December	266	102	38%	✓	✓	-
ComfortDelGro	December	176	84	48%	✓	✓	-
DBS Bank	December	216	119	55%	✓	-	✓
Genting Singapore	December	116	32	28%	✓	-	-
Global Logistic Properties	March	204	86	42%	✓	-	-
Golden Agri-Resources	December	196	58	30%	✓	-	-
Hongkong Land	December	86	40	47%	✓	-	-
Hutchison Port Holdings Trust	December	138	69	50%	✓	✓	-
Jardine Cycle and Carriage	December	142	82	58%	✓	-	-
Jardine Matheson Holdings	December	126	27	21%	✓	-	-
Keppel Corporation	December	215	101	47%	✓	-	✓
Oversea-Chinese Banking Corporation	December	236	83	35%	✓	-	-
SATS	March	184	72	39%	✓	-	✓
Sembcorp Industries	December	372	152	41%	✓	-	✓
Singapore Exchange	June	164	76	46%	✓	✓	-
Singapore Airlines	March	224	79	35%	✓	-	-
SIA Engineering Company	March	188	61	32%	✓	-	-
Singapore Press Holdings	August	224	112	50%	✓	-	-
Singtel	March	239	127	53%	✓	-	✓
Starhub	December	210	126	60%	✓	✓	-
ST Engineering	December	276	103	37%	✓	-	-
Thai Beverage	September	266	138	52%	✓	✓	-
United Overseas Bank	December	280	134	48%	✓	-	✓
United Overseas Land	December	205	79	39%	✓	-	-
Wilmar International	December	204	72	35%	✓	-	-
Yangzijiang Shipbuilding Holdings	December	176	52	30%	✓	✓	-
<b>Average/Total</b>		<b>207</b>	<b>91</b>	<b>44%</b>	<b>30</b>	<b>10</b>	<b>6</b>

# Methodology

## Benchmarking approach

Black Sun's benchmarking review of the STI30 annual reports tracks trends and best practice in the light of the evolving regulatory requirements and reporting landscape.

Our review has been developed by Black Sun's Insight Team, which encapsulates the SGX Mainboard Rules on reporting and its accompanying practice notes, the Code of Corporate Governance 2012, and the content elements and guiding principles of the IIRC's 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 the 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 annual reports of STI30 companies available as at 1 July 2017, encompassing annual reports prepared for FY2016/2017. We assess them against roughly 100 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 Monetary Authority of Singapore, the Singapore Exchange and the IIRC.

Useful websites:

Code of Corporate Governance 2012  
[www.mas.gov.sg](http://www.mas.gov.sg)

SGX Rulebook  
[rulebook.sgx.com](http://rulebook.sgx.com)

International Integrated Reporting Council (IIRC)  
<https://integratedreporting.org>

Securities Investors Association Singapore (SIAS)  
[www.sias.org.sg](http://www.sias.org.sg)

# About Black Sun

## Delivering inspiring communications that engage and connect with stakeholders

In today's fast moving and highly uncertain world, successful businesses are those able to deliver long-term value to the people around them – their stakeholders. When stakeholders are heard, engaged and inspired, businesses are understood, trusted and supported.

Black Sun helps organisations define, articulate and communicate how they create value for stakeholders. Through developing inspiring content and using creative communications we help to bring a company's story to life through all relevant channels: digital communications, social media, print, film and animation.

## What we do

- Annual and Integrated reporting
- Sustainability communications and reporting
- Corporate websites
- Digital content and moving image
- Strategic consultancy

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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 STI30 companies, contact us today.

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

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