

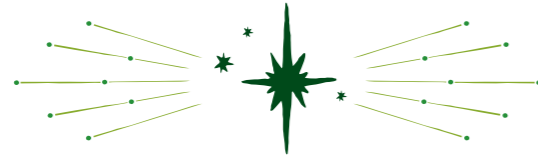
H  R I Z O N
S E R I E S



THE GUIDE TO
ANNUAL REPORTS

2018 VALUE CREATION INDEX
MALAYSIA, SINGAPORE
AND THE UK





Businesses are operating in an ever-changing landscape where disruptions challenge the way businesses are run, and where stakeholder expectations for greater transparency is rising. Regulations around corporate reporting are also fast catching up, such as the new Guidance on the Strategic Report in the UK and the recent changes to the Corporate Governance Codes in Singapore and Malaysia. This backdrop provides a timely opportunity to examine how corporates are responding to reporting.

This Guide summarises the findings from a suite of research pieces called the Horizon Series, comprising analyses of reporting trends among the companies in the STI30 (Singapore), KLCI30 (Malaysia) and FTSE100 (UK). This Guide discusses only a subsection of the results. The main purpose of our research is to continuously enhance our knowledge of best practice reporting to enable us to support our clients in developing engaging reports that match their levels of ambition. We also hope to stimulate debate around what constitutes 'best practice' and contribute to the wider development towards long-term thinking, disclosure, and transparency.

Top considerations to tell a long term value creation story

- 1 Clearly communicate your organisation's purpose, mission and vision
- 2 Identify your key value drivers and illustrate your business model outcomes
- 3 Provide insight into key market trends and how you are positioned to respond to them
- 4 Highlight your competitive advantages and show how your strategy capitalises on them
- 5 Disclose clear strategic goals in the context of opportunities, risks and your purpose
- 6 Explain the near, mid and long-term initiatives that comprise your strategic roadmap
- 7 Identify consistent, long-term metrics for measuring your progress against the strategy
- 8 Explain how your capital and non-capital investments support value creation
- 9 Identify principal risks and describe your systems for mitigating them
- 10 Demonstrate a clear link between remuneration, strategy and value creation



1 DEFINITION OF VALUE

An organisation's ability to create value is only as strong as how it defines what value means to the organisation. Chief to this process is the articulation of purpose, vision, material issues, and stakeholder engagement.

How do companies identify and define what value means to them?



	SG	MY	UK
Is there a statement of the company's purpose?	30%	41%	66%
Does the purpose go beyond creating shareholder value?	27%	38%	60%
Is there reference to stakeholder engagement?	53%	86%	95%
Is there reference to stakeholder expectations?	20%	17%	68%

TOP CONSIDERATIONS:

- Express a clear statement of purpose, mission and vision, making clear the types of value your organisation is designed to create.
- Ensure you have a clear understanding of your company's role in society and then make sure that this is translated into tangible policies for the board's agenda.
- Ensure you consider how stakeholders are engaged, how their interests are considered, and how business decisions are made with these in mind.

2 BUSINESS MODEL

The business model helps readers to understand how a company generates, preserves or destroys value in the short, medium and long term. It includes the key drivers of the business, key business activities and the outputs and outcomes as a result of those activities.

How are companies articulating their business models?



	SG	MY	UK
Is the business model clearly explained?	43%	59%	95%
Does the business model identify key differentiators?	13%	14%	44%
Does the business model include key inputs?	23%	48%	56%
Does the business model identify the value created for other stakeholders?	17%	52%	63%

TOP CONSIDERATIONS:

- Ensure that your organisation and its stakeholders have a shared understanding of your business model and how it creates value.
- Explain how the company's business model creates long-term value by identifying key value drivers. Identify the resources and relationships critical to the long-term success of the organisation. How might these change over time? How does your business model create different types of value for different stakeholders?
- Make sure you demonstrate the value creation process beyond purely financial returns, outlining how your organisation's operations transform.



3 EXTERNAL ENVIRONMENT

An understanding of the organisation's external environment is crucial to its success. Establishing the challenges posed by market conditions is the first step towards setting a plan in place to steer the company through market conditions.

How are companies evidencing their knowledge of the market and their plans for managing the market challenges?



	SG	MY	UK
Does the market discussion provide an explanation of key trends?	67%	83%	98%
Does the market discussion describe the impact of these trends on the company?	43%	59%	57%
Does the market discussion explain how the company is responding to these trends?	27%	48%	51%
Does the market discussion incorporate stakeholder considerations?	7%	14%	42%

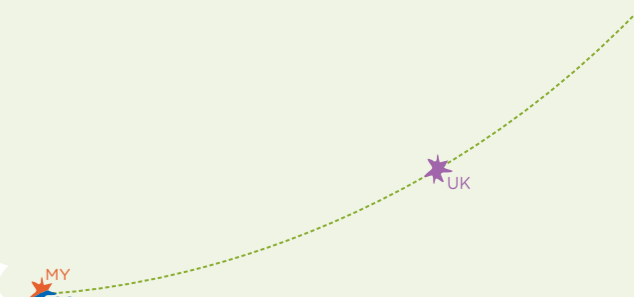
TOP CONSIDERATIONS:

- State management's view of the market, major trends impacting the market, potential for growth, the company's relative positioning and underlying assumptions.
- To provide context, outline trends that have a material impact on the company and its stakeholders and what these mean for the long-term future of your company.

4 KEY DIFFERENTIATORS

In an ever competitive environment it is imperative for organisations to demonstrate their competitive advantages to attract investor interest.

How are companies positioning their investment case in the annual report?



	SG	MY	UK
Is there a clear investment case?	0%	0%	32%
Does the investment case include long-term value creation considerations?	0%	0%	18%
Does the investment case highlight company specific differentiators or simply strengths that could be applied to other companies in the same industry?	0%	0%	32%

TOP CONSIDERATIONS:

- What is special and distinctive about what you do as an organisation?
- Highlight sources of competitive advantage such as talent, access to resources, or other assets that enable the company to execute its strategy and win in the marketplace.
- Focus on characteristics that make your company different, such as your purpose or unique processes for creating value.



5 VALUE CREATION OPPORTUNITIES

The clearer it becomes to an organisation what market conditions are and what stakeholders expect of the organisation, the better it is positioned to create value.

How are companies demonstrating their understanding of their market and stakeholders?



TOP CONSIDERATIONS:

- What are the opportunities that you are trying to exploit?
- Disclose strategic goals ultimately tied to drivers of value creation (e.g. returns on invested capital, organic revenue growth) in the context of current and future market trends, and the company's competitive advantage.

6 STRATEGIC GOALS

Strategy serves as a blueprint towards value creation, aligning decision-making towards agreed goals. An aligned strategy is a strong catalyst towards value creation.

How are companies articulating their strategic blueprint towards value creation?



TOP CONSIDERATIONS:

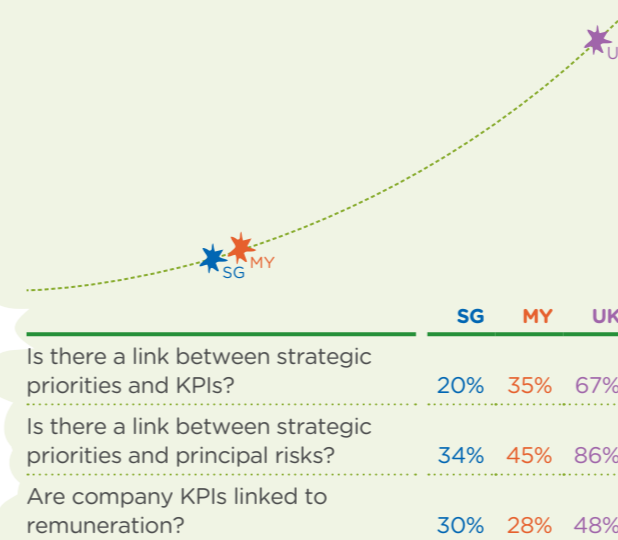
- What are your strategic goals targeted at long-term value creation?
- Lay out a detailed execution roadmap that defines short, medium and long-term actions linked to key milestones.
- Specifically explain strategic priorities, provide strategic timeframes wherever possible and ensure you report back on previous strategic priorities, explaining whether the business has met these priorities or not.



7 CONNECTIVITY

An organisation is a culmination of many factors – its processes, its culture and people and its governance structures, among many others. How these factors interact with one another contributes to the success of an organisation.

How are companies evidencing these interdependencies in reporting?



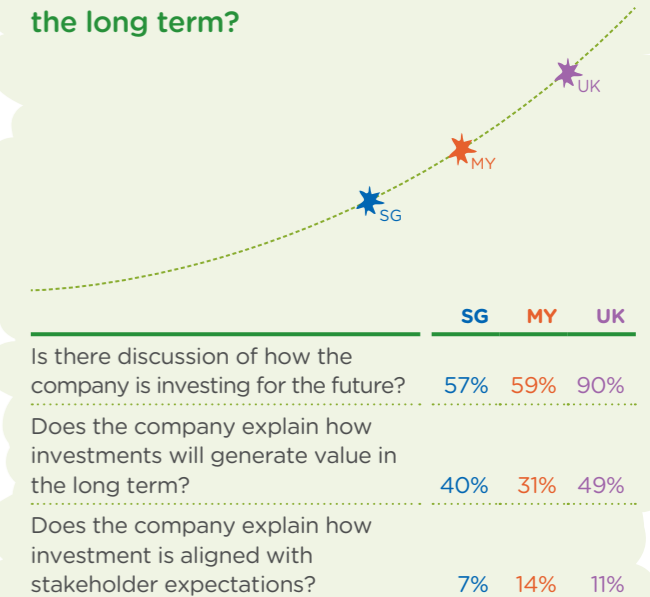
TOP CONSIDERATIONS:

- Do you understand the connection between different value-adding activities and the decisions made?
- Provide medium and long-term metrics and targets that indicate the company's ability to deliver on its strategy, such as customer satisfaction, brand strength, R&D investments linked to the product pipeline, and human capital.
- Demonstrate how your strategy has been designed with consideration of your key stakeholder groups. Explain how these priorities are measured and tracked.

8 RESOURCE ALLOCATION

Resources is the starting point for value creation and thus, it is essential for companies to demonstrate how they are managing their resources.

How are companies demonstrating that they are protecting the company's ability to continue generating value in the long term?



TOP CONSIDERATIONS:

- How well will your business model stand up to changes in your organisation's operating environment?
- Explain how capital and non-capital investments, including a mix of resource allocation, will yield sustained competitive advantage and the creation of long-term value.
- Ensure you provide insight into the areas of the business where you are investing.



9 RISK MANAGEMENT

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

Do companies provide a good level of insight into risk management?



	SG	MY	UK
Is there a discussion of how the board reviews how risks to the future success of the business have been considered?	33%	62%	81%
Is there a discussion of how the board reviews how opportunities for the future success of the business have been considered?	0%	7%	16%
Is there a discussion of how the board reviews the sustainability and viability of the business model?	3%	10%	20%

TOP CONSIDERATIONS:

- What are the key risks you need to understand and manage?
- Provide an overview of risks and their mitigation plans, including sustainability challenges (e.g. EESG issues).
- Clearly outline how the board has assessed the company's viability over the long term.
- Ensure that you demonstrate a direct link between strategic priorities and specific risks, showing also how this aligns with your company's risk appetite.

10 CORPORATE CULTURE AND BEHAVIOUR

Corporate culture is the software of a business and good culture is often correlated with successful outcomes over the long term. Values guide behaviour, and collective behaviour then forms corporate culture.

How do companies ensure that the right culture pervades throughout the organisation?



	SG	MY	UK
Does the report clearly outline the company's values?	60%	76%	74%
Is there a KPI(s) related directly to culture?	7%	3%	3%
Is there evidence of how the board has oversight of culture and values?	17%	59%	71%
Is there a link between strategic priorities and remuneration?	37%	28%	84%

TOP CONSIDERATIONS:

- Do existing KPIs align with how your organisation creates value?
- Articulate how executive and director compensation is tied to long-term value creation and strategic goals.
- Make a clear link to your company's values, explaining how the board provides oversight and embeds culture throughout your company.



HORIZON SERIES

This research is part of Black Sun's Horizon Series which annually identifies best practice and emerging trends in corporate communications, across key channels and geographies. What began as a survey of corporate reporting trends of the FTSE100 in 2005 has grown into a truly holistic measurement of companies' communication across their key 'storytelling' channels - print reporting, digital and social media, giving the complete picture for communication professionals.

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

ANALYSES OF CORPORATE REPORTING TRENDS



13th edition FTSE100 (UK)

1st edition KLCI30 (Malaysia)

2nd edition STI30 (Singapore)

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

About Black Sun

Delivering inspiring communications that engage and connect with stakeholders

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

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

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

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

OUR REPORTING SOLUTIONS

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

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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, KLCI30 and FTSE100 companies, contact us today.

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

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