The state of Integrated Reporting in Malaysia

An analysis of the Bursa Malaysia’s top 30 companies’ annual reports
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Corporate Reporting in Malaysia has come a long way. With efforts from the regulators, professional bodies, investor communities and businesses themselves, we’ve seen many local companies now better address the basics of effective communications, such as explaining their business strategy, priorities and KPIs.

Despite this, there is ever increasing demand from investors for further transparency, as well as a more holistic view on value, which is consistent with the principles behind Integrated Reporting.

Integrated Reporting is a demonstration of “integrated thinking” – a process in which companies report more about inputs beyond just the financials and outcomes rather than just outputs, articulating the true value their business delivers to stakeholders. The International Integrated Reporting Council (IIRC) has been driving the Integrated Reporting agenda and in December 2013 released the Integrated Reporting Framework, which establishes guiding principles and content elements that govern the overall content of an integrated report.
Paul Druckman, Chief Executive Officer of the IIRC was in Malaysia recently and said that he was disappointed with the take-up in Malaysia. This isn't only because of a lack of local companies embracing the framework, but also the fact that none of our leading companies were involved in the effort to create the Integrated Reporting framework.

What led to this? Lack of appreciation for the benefits of Integrated Reporting? A misconception that it's just another compliance-driven add on which will mean more work and more pages added to companies’ annual reports? Or just a severe drain on resources and time? With companies in Malaysia chasing regionalisation, growth, and innovation amongst other matters, where does improving their reporting lie in the scheme of things?

We at PwC believe that if companies get integrated thinking right, it goes beyond just more meaningful and valuable reporting. It will help organisations identify and focus on true value drivers of the business, improve risk awareness, and importantly articulate their own story rather than let others define the narration.

The Securities Commission and Bursa Malaysia together with other leading bodies such as ACCA Malaysia and the Malaysian Institute of Accountants (MIA) have recognised the value of Integrated Reporting and taken steps recently to ramp up awareness of what Integrated Reporting entails.

In order to see where things really stand and if our local businesses are ready to take on the Integrated Reporting mindset, we decided to undertake this analysis of Bursa Malaysia’s Top 30 companies’ reporting. Arising from this, we have come up with some recommendations on how companies can further improve stakeholder communications and convey their true value through their reporting.

We hope you find this useful.
Executive summary
Reporting in Malaysia is not yet integrated

Rapidly developing mega trends in technology, population and resources together with increasing uncertainty in the global economy and financial markets make it essential that companies re-think their internal and external reporting to ensure they have the right information to make informed decisions and explain the strategies, priorities, performance and prospects of their businesses.

The results of our benchmarking analysis show that while Malaysian businesses have the basics of reporting covered, their reporting is not yet integrated, and there is significant upside in improving stakeholder communications should companies choose to go down the path towards IR.

Companies need to look beyond the current financial reporting model that’s predominantly rooted in past financial performance to give stakeholders a clearer, more forward-looking perspective on the business.

We have assessed the top 30 listed entities in Malaysia against the Integrated Reporting <IR> Framework, which aims to help businesses communicate clearly how they create value. Our assessment focused on the quality of the information that companies presented in key reporting documents and how well that information was integrated and linked together.
We conducted our analysis on the Top 30 companies listed on the Bursa Malaysia as at 31 May 2014. For each of the companies comprising the Top 30, a detailed assessment of 110 questions was performed.

The questions were based on the Content Elements for an integrated report based on the IIRC’s International <IR> Framework.

As shown in the table below, our analysis shows that most companies already disclose at least some of the key elements from the Framework. However, there is a lack of linkage between these elements, which stems from siloed reporting, and there is more focus on describing process rather than providing insight.

We acknowledge that since the Framework was only introduced in December 2013, companies would not have had a chance to adapt their reporting accordingly, when our analysis was done.
The International Integrated Reporting <IR> Framework

The International Integrated Reporting Council’s (IIRC) Integrated Reporting <IR> Framework was issued in December 2013 and provides companies with a starting point for driving integrated thinking and reporting.

Our PwC experts have been working with the IIRC in a number of ways including supporting the technical development of the Framework through its working group and partnering with the IIRC on practical implementation initiatives for business through its Pilot Programme.
Integrated Reporting Framework

There is already a Framework available that companies can use to start the journey towards integrated reporting. The aim is to enhance business accountability and stewardship, and support integrated thinking and decision making.

Integrated Reporting brings together material information about an organisation’s strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context that it operates in. It’s a process that results in clear communication of how an organisation creates value over time.

Three fundamental concepts of the Framework:

• The relationship between the organisation and the resources and relationships that underpin its success, described within the Framework by reference to six ‘capitals’ (financial, manufactured, intellectual, human, social and relationship, and natural)
• Providing an explanation of the organisation’s business model
• The creation of value in the short, medium and long term

Six guiding principles to help preparers determine what to report and how to structure it:

• Strategic focus and future orientation
• Connectivity of information
• Stakeholder relationships
• Materiality and conciseness
• Reliability and completeness
• Consistency and comparability

What do leading companies say about integrated reporting?

Companies in the IIRC’s pilot programme are very clear about the benefits they see from integrated reporting, according to a report by the IIRC and Black Sun in 2012.

98% agree that IR will lead to a better understanding of how the organisation creates value.

95% say it contributes to a better understanding of their business model and gives them the opportunity to focus on the right Key Performance Indicators (KPIs).

93% say it helps them to overcome silos between departments, such as those dealing with strategy, controls, IT, investor relations, finance, sustainability and communications.
Findings
**Strategy & resource allocation**

Where does the organisation want to go and how does it intend to get there?

*Put together a cohesive story line. First, provide a clear strategic direction for the company. Also include more granular strategic priorities by segment to tie together reporting on the markets your company operates in, the performance in the period and future prospects.*

*Present details in a meaningful way so that your investors have the information they need to make better informed decisions.*

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**What companies are doing today**

- **90%** Provide a high level strategic aim or vision
- **33%** Provide strategic priorities
- **10%** Base their reporting on strategic themes
- **7%** Give a clear distinction between short, medium and long term priorities
- **7%** Provide strategic targets/timeframes for strategic priorities
- **7%** Provide comprehensive and quantified information on progress against each strategic priority
What good reporting should include

- The organisation’s short, medium and long term strategic objectives.
- The strategies it has in place to achieve these strategic objectives.
- The resource allocation plans it has in place to implement its strategy.
- How it will measure achievements and target outcomes for the short, medium and long term.

What we found

- Most of the companies in our assessment disclosed a high level strategic objective or a vision statement.
- However, the overwhelming majority did not break this down into clearly identified strategic priorities.
- Only a small minority provided any indication of a timeline for these targets and how success will be measured.
Our Strategy

Having built a world class infrastructure business with global reach, we now aim to sustain this and grow it into new areas.

### Grow in New Geographies and Market Sectors

We are already one of the largest global infrastructure clients, but the growth opportunities in traditional UK and US markets are currently limited. In order to achieve further growth we need to continue to focus on the remaining key markets. In the last few years, we have maintained a strong presence in the Middle East and Asia, and have expanded in South Africa, India and Brazil, and are investing in the changing growth dynamic of Africa and the energy sector.

In 2013, we have seen some progress in these areas in line with our expectations.

### Deliver Greater Value to Clients

We deliver greater value to clients by leveraging our worldwide capabilities. This allows our clients to better understand our business and access a wider range of services. In 2013, we are focusing on improving our business, including our project management, construction and maintenance.

Every year, Roads and Bridges magazine in the UK evaluates the performance of UK government contracts and awards them with a score based on their public performance. In 2013, we achieved a score of 3.1.

### Improve Operational Performance and Cost Effectiveness

In recent years, our diverse portfolio of activities has resulted in a significant period of expansion, including a number of successful acquisitions. In 2012, recognising the more difficult market conditions, we focused on reinforcing our core business, including our operations and back office support functions to ensure we continue to operate competitively.

In 2013, we achieved a score of 3.1 on operational performance.

### Key Performance Indicators

- **63%** Group order book at target market sector transport, power and energy, water and rail (group average 63%)
- **48%** Revenue from target market sector transport, power and energy, waste and rail (group average 48%)
- **14%** Revenue from higher growth markets outside UK and North America (group average 14%)

### Key Performance Indicators 2013

- **No.1** Roads & Bridges magazine (2013: No. 1)
- **No.2** Bridge and Rail Transport (2013: No. 2)
- **55 awards** During 2013 we delivered 55 awards from customers and industry bodies for our achievements (2012: 55)

### Key Performance Indicators 2014

- **2.8%** Group order back in 2014 (2013: 3.1%)
- **£36m** Achieved in cost efficiencies by the end of 2014 (2013: £15m)
- **£200m** Reduced in cost efficiencies by the end of 2015 (2013: £15m)

### Risk

- **Economic environment**
- **Project execution**
- **Health, safety and sustainability**
Uses a clear, two-page table to set out concisely the main elements of the group’s strategy and what underpins it. The overall strategy is linked to strategic objectives and priorities, then to the financial and non-financial KPIs that measure progress against priorities, and the principal risks that could affect the achievement of strategy.

Grow in New Geographies and Market Sectors

**How are we performing?**

**63%**
Group order book in target market sectors (transport, power and energy, water, mining) as Group % (2011: 59%)

**48%**
Revenue  from target market sectors (transport, power and energy, water, mining) as Group % (2011: 44%)

**14%**
Revenue  from higher growth markets (outside Europe and North America) as Group % (2011: 12%)

**What’s next?**
In the year ahead, we aim to:
- Increase our revenues in target geographies
- Increase our share of business in target sectors

We are already one of the largest global infrastructure players, but the growth opportunities in our traditional UK and US markets are currently limited. To achieve further growth we are looking to increase our footprint to faster growing geographies and sectors. We already have a significant presence in the Middle East and Asia where we are seeing growth; now we are looking to expand our reach further in growth economies - Australia and Canada, where we already have a presence through Professional Services and South Africa, India and Brazil – and intensify our focus on the buoyant transport, power and energy, water and mining sectors.

**Why is this important?**
We do not want our growth to be limited by the economic and cyclical constraints in our traditional markets. The breadth of our capabilities and the extent of our international reach give us access to an exceptionally broad range of markets and clients. Our aim is to focus more of our activity where there are medium to long term opportunities for global infrastructure. But to avoid spreading our resources too thinly we need to be selective. The rationale behind our choice of target geographies and sectors is set out in the market overview on pages 10 and 11.

Shows the development of strategic priorities in a separate section – the rationale for strategy, what they have done and what they plan to do next.

Note: All examples used in this report are based on best practices found in UK FTSE100 companies.
Organisational overview and external drivers

What does the organisation do and what are the circumstances under which it operates?

Companies often rely too much on historical financial data, and provide insufficient market intelligence and business insight.

Be clear about management’s perspective on the macro trends, including the competitive landscape and the future outlook of the company – this gives context to your decisions and strategic priorities. It allows your reader to assess the sustainability of performance and the future viability of the business.

What companies are doing today

- **Provide some detail on the underlying drivers of market growth**
  
  - 90%

- **Provide some discussion on future market trends**
  
  - 23%

- **Clearly link market discussion to their strategic choices**
  
  - 20%

- **Give insight into their customer base**
  
  - 10%

- **Give insight into competitive environment at a detailed level**
  
  - 3%

What good reporting should include

- The organisation’s:
  - Culture, ethics and values.
  - Ownership and operating structure.
  - Principle activities, markets, products and services.
  - Competitive landscape and market positioning.
  - Key qualitative information (e.g. the number of employees, revenue and number of countries in which the organisation operates).
  - Significant factors affecting the external environment.

What we found

- Almost all the companies in our survey did provide some level of insight into the markets in which they operate.
- But there is less detail provided on future market trends, customer base and the competitive environment.
- In an uncertain environment, this is understandable. However, providing management’s perspectives on market trends and external forces will provide context and rationale for actions taken in the period to achieve strategic targets. It will also provide insight into the business model adopted and how the company has positioned itself on the value chain.
An example of what good reporting looks like
Shanks Group annual report 2013 (pages 2 and 11)

We meet the growing need to manage waste without damaging the environment.
Our solutions reduce greenhouse gas emissions, recycle natural resources and limit fossil fuel dependency.

Describes markets and customers for each division.

Sets overall purpose of the organisation in context of current societal and environmental concerns.

Provides a clear overview of growth drivers, both macro and regulatory.

Strong growth drivers

- **Macro market drivers**
  - Reduce greenhouse gas emissions
  - Preserve natural resources
  - Limit fossil fuel dependency
  - Protect local environments

- **Social and business attitudes**
  - Increasing need for cost-effective, sustainable waste management solutions

- **Regulatory and legislative**
  - Landfill tax
  - Green electricity certificates
  - Carbon credits
  - EU, national and local incentives

- **Economic pressures and limited capital**

Note: All examples used in this report are based on best practices found in UK FTSE100 companies.
Explain your key capabilities and the key resources and relationships you depend on to create and sustain value. It’s important to demonstrate clearly and tangibly how your business creates value for your stakeholders in a sustainable manner.

What is the organisation’s business model and to what extent is it resilient?

What good reporting should include

- Key inputs and how they relate to the capitals from which they are derived
- Key business activities, considering such factors as:
  - How the organisation differentiates itself in the market place.
  - The extent to which the business model relies on revenue generation after the initial point of sale.
  - How the organisation approaches the need to innovate.
  - How the business model has been designed to adapt to change.
- Key outputs, explaining the products and services that the organisation places in the market, and material by-products and waste.
- Key outcomes in terms of the capitals including both internal outcomes and external outcomes.

What we found

- Less than half of the companies in our survey included the term ‘business model’ in their reporting.
- Few companies went beyond a high level description of activities to discuss key processes, relationships and the resources they rely upon. An integrated report aims to take this one stage further and links the business model to other key content within the reporting.
- Large conglomerates with diversified businesses are facing challenges in identifying the level of detail they should provide - group versus segment, for example - and the role the corporate centre should play in creating and sustaining value.
What companies are doing today

- 43% include the term ‘business model’ in their reporting. Of those who mention their business model, 20% provide some level of detail, 80% provide no further detail at all.

- 50% explained their business model through a description of the business, 20% set it in a strategic context whilst 7% linked it to value creation

- 10% use graphics to help explain their business model

- 7% give a clear description of their areas of key competitive advantage

- 6% have some explanation of differences in segmental business models
Anglo American aims to become the leading global mining company – the investment, the partner and the employer of choice – through the operational excellence of world class assets in the most attractive commodities, and through a robust commitment to the highest standards of safe and sustainable mining.

As our business model illustrates, mining is only part of the story. Our sector-leading exploration teams strive to find the resources we will mine in the future and we engage with a broad range of stakeholders – from governments to local communities and NGOs – to secure our right to mine those resources. Many of the commodities we mine are processed and refined further before we apply our market knowledge to deliver a quality product our customers value. We believe we can achieve our aim of becoming the leading global mining company through the following four strategic elements:

1. **Investing** in world class assets in those commodities that we believe deliver the best returns through the economic cycle and over the long term – namely, iron ore, metallurgical coal, thermal coal, copper, nickel, platinum and diamonds.
2. **Organising** efficiently and effectively to outperform our competition throughout our value chain.
3. **Operating** safely, sustainably and responsibly, in the belief not only that this is fundamental to our licence to operate, but also that this is an increasingly important source of competitive advantage. The safety of our people is our key core value and we are relentless in striving to achieve our goal of zero harm.
4. **Employing** the best people. We recognise that attracting, developing and retaining the best talent is essential to achieving our ambition.

Our strategic elements are put into action across our business model.

**OUR STRATEGY AND BUSINESS MODEL**

**INVESTING**

- World class assets
- Unique value propositions

**OPERATING**

- Safety
- Sustainability
- Responsibility

**SECURING**

- Finance
- Legal

**EMPLOYING**

- People

During the year, outstanding injections were filled at our Minas-Rio iron ore project in Brazil. Following a detailed review, capital expenditure has increased to $8.8 billion and first ore on ship is expected at the end of 2014.

The LT-SQUID has been employed by our field teams to help search for so-called blind deposits that have no visible expression on the ground surface. This revolutionised how we look at and model the picture beneath the ground surface, particularly at depth.
References further reporting on the key resources, relationships and activities that are core for the delivery of the business model.

Note: All examples used in this report are based on best practices found in UK FTSE100 companies.
Governance

How does the organisation’s governance structure support its ability to create value in the short, medium and long term?

Move beyond a compliance mindset to provide meaningful insight into the activities of your board, the range of skills and experiences of your board and how they work together to set the tone at the top. This will help articulate what makes your company distinctive.

What good reporting should include

- An organisation’s leadership structure, including the diversity and skills of those charged with governance.
- Specific processes used to make strategic decisions and to establish and monitor the culture of the organisation.
- Particular actions those charged with governance have taken to influence and monitor the strategic direction and risk management approach.
- How the organisation’s culture, ethics and values are reflected in its use of and effect on the various forms of capital, including its relationships with key stakeholders.
- How remuneration and incentives are linked to value creation.

What we found

- Governance reporting in Malaysia appears to be viewed as a compliance exercise. The format of the statement on Corporate Governance is largely indistinguishable – with companies providing generic statements supporting the need for effective governance, and lengthy text-heavy descriptions of process.
- Few companies provided any real insight into the activities performed by the board other than a laundry list extracted from the Terms of Reference.

What companies are doing today

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<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
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<tr>
<td>87%</td>
<td>Of governance reports mention the company’s values</td>
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<tr>
<td>80%</td>
<td>Make reference to the board’s / committee’s activities during the year</td>
</tr>
<tr>
<td>10%</td>
<td>Provide insightful information that goes beyond activities that are part of the terms of reference</td>
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An example of what good reporting looks like
Land Securities annual report 2013 (pages 58, 63 and 70)

This was another project that involved significant governance in the investment and financial management of the business. The committee took into account various factors such as the financial implications of the investment and the potential risks involved. The investment committee considered the various options available and recommended the acquisition of the business.

**ALISON CARNWATH (60)**
Chairman of the Board

Skills, competencies and experience:
Alison has some 30 years’ international finance and investment banking experience. Having held Board positions in an executive and Non-executive capacity in a variety of industries and sectors in the UK and overseas, she brings substantial financial knowledge, strategic and leadership experience.

**Build board culture into the performance evaluation.**

**Significant judgements, key assumptions and estimates**
The Audit Committee pays particular attention to matters it considers to be important by virtue of their impact on the Group’s results and remuneration of Senior Management, or the level of complexity, judgement or estimation involved in their application on the consolidated financial statements. The main areas of focus during the year are set out below:

<table>
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<th>Matter considered</th>
<th>Action</th>
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<tr>
<td>Valuation of the investment property portfolio</td>
<td>The Audit Committee reviewed the methodology and outcomes of the valuation. The valuers presented their valuation at the half and full year results meetings. The valuers proposed significant increases in the values of our completed developments, which were discussed by the Committee in detail and accepted on a case-by-case basis. The valuers were also asked to highlight any significant judgements and any significant disagreements with management. The objectivity of the independent external valuers, Knight Frank LLP, was also monitored by the Committee and more information on this can be found on page 69.</td>
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Note: All examples used in this report are based on best practices found in UK FTSE100 companies
What are the specific opportunities and risks that affect the organisation’s ability to create value over the short, medium and long term, and how is the organisation dealing with them?

What good reporting should include

- The specific source of opportunities and risks, which may be internal, external or, commonly, a mix of the two.
- The organisation’s assessment of the likelihood that the opportunity or risk will come to fruition and the magnitude of its effect if it does. This includes consideration of the specific circumstances that would cause the opportunity or risk to come to fruition.
- The specific steps being taken to create value from key opportunities and to mitigate or manage key risks, including the identification of associated strategic objectives, strategies, policies, targets and performance indicators.

What we found

- Risk disclosures were one of the lowest scoring areas for companies in our analysis, which puts us behind more developed markets.
- Whilst all the companies we analysed included a statement of risk management and internal control as required by the Bursa’s listing requirements, very few companies moved beyond a description of process to disclose the actual risks facing the business.
- An understanding of the risk appetite of the company, together with disclosure of key risks provides context to strategic decisions and the prospects of the business.

What companies are doing today

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
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<tbody>
<tr>
<td>93%</td>
<td>Describe the process by which risks are identified and managed</td>
</tr>
<tr>
<td>27%</td>
<td>Actually describe the principle risks facing the business as opposed to generic risk headings</td>
</tr>
<tr>
<td>67%</td>
<td>Do not disclose any risks facing the business at all</td>
</tr>
<tr>
<td>0%</td>
<td>Provide insights into the potential impact and probability of the risks materialising</td>
</tr>
<tr>
<td>0%</td>
<td>Give any indication of how the risk profile has changed over time</td>
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An example of what good reporting looks like
Fresnillo annual report 2013 (pages 48 and 50)

Describes the process used to identify nine principal risks, from 97 original risks.

Follows the narrative description of the risk profile process with a simple diagram setting out the impact and likelihood of each risk in relation to the others; a diagram such as this is easy for the reader to understand and remember.

Risk heat map shows likelihood and impact, and the change in risk profile from prior year.

Uses consistent wording throughout the risk report; the titles shown here are the ones used in the rest of the discussion.

Further detailed discussion of risk context, response and mitigation provided.

 Shows where there is a difference between the risk rating and risk appetite and sets out what action is being taken; gives a clear indication of where there have been changes in each risk during the year, together with an explanation.

Illustrates the balance between the impact and likelihood of risks.

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**Note:** All examples used in this report are based on best practices found in UK FTSE100 companies.
**Future outlook**

What challenges and uncertainties is the organisation likely to encounter and what are the potential implications for its business model and future performance?

Sustainability in the context of integrated reporting requires an understanding of the material sustainability risks and opportunities relevant to your organisation, key stakeholders and disclosure of how they are integrated into your core corporate strategy.

Take a short term, medium term and long term perspective, and consider the impact of your business across your entire value chain when considering the concept of materiality.

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**What good reporting should include**

- Anticipated changes over time
- Information, built on solid and transparent analysis, about:
  - The expectations of senior management and those charged with governance about the external environment the organisation is likely to face in the short, medium and long term.
  - How that will affect the organisation.
  - How the organisation is currently equipped to respond to the critical challenges and uncertainties that may arise.

**What we found**

- Sustainability reporting is continuing to evolve with the majority of companies in the survey either producing a separate sustainability report, or including a corporate responsibility (CR) section in the annual report.
- However, the majority of companies in the survey continue to focus on selected environmental impacts, community donations and a section dealing with the welfare of employees.
- Sustainability in annual reports needs to address the material issues and opportunities that are likely to impact the future viability of the organisation and to describe how management is responding to these challenges.
- Not surprisingly, in our analysis, the companies that performed best in this area were involved in palm oil production where there has been considerable focus on sustainability in recent years. However, the apparent importance given to sustainable growth by these companies was not supported by tangible non-financial measures of success linked to strategic priorities.
### What companies are doing today

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
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<tbody>
<tr>
<td>77%</td>
<td>Include either a separate CR or sustainability section in their annual report</td>
</tr>
<tr>
<td>40%</td>
<td>Embed a strategy for managing non-financial resources and relationships in their overall strategy to some degree</td>
</tr>
<tr>
<td>13%</td>
<td>Disclose KPIs to measure performance against sustainability targets</td>
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<tr>
<td>7%</td>
<td>Consider and discuss the future availability of all relevant material natural, social, human or manufactured resources required to create value for their business</td>
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An example of what good reporting looks like
Sustainability Unilever annual report 2012 (pages 1, 8 and 9), and Sustainable Living Plan Progress report 2012 (page 7)

Our business model is designed to deliver sustainable growth. For us, sustainability is integral to how we do business. In a world where temperatures are rising, water is scarce, energy is expensive, sanitation is poor in many areas, and food supplies are uncertain and expensive, we have both a duty and an opportunity to address these issues in the way we do business.

The inputs to the model, like those of all major packaged goods manufacturers, are threefold: brands; people; and operations. These map directly on to our Compass ‘Winning with’ pillars – both continuous improvement and the market place pillars support the operations strand of the model.

The differentiator in our business model is our USLP and the goal of sustainable living.

Value chain approach to sustainability management – Unilever demonstrates that the company’s scope of responsibility and impact extends beyond operational boundaries.

Three key features of our plan
• Spans our entire portfolio of brands and all countries in which we sell our products.
• Has a social and economic dimension – our products make a difference to health and well-being, and our extended supply chain supports the livelihoods of many people.
• When it comes to the environment, we work across the whole value chain – from the sourcing of raw materials to the way consumers use our products.

Our vision
Double the size of the business, whilst reducing our environmental footprint and increasing our positive social impact

Our purpose
To make sustainable living commonplace

Sustainability is central to the mission, vision, strategy and business model.

Illustrates in the annual report a clear vision of growth that also creates positive social impacts and aims to reduce environmental impacts.

Notes:
- All examples used in this report are based on best practices found in UK FTSE100 companies.
The state of Integrated Reporting in Malaysia
Performance

To what extent has the organisation achieved its objectives and what are the outcomes in terms of the effects on the capitals?

Underpin your strategic priorities with a balanced set of key financial and operational KPIs to measure progress. Explain clearly how management is incentivised, highlighting the link between strategy, KPIs and the remuneration package.

Give investors the information they need to assess the quality and sustainability of underlying performance as a basis to forecast the future.

What we found

• The companies we looked at have embraced the opportunity to discuss performance and in particular underlying drivers of top line performance.
• However, the discussion tends to be focused on the past so it is difficult to understand how the company is positioned for the future.
• All companies disclosed financial highlights to varying degrees of detail, however, few explicitly identified a balanced set of KPIs that were linked to strategic targets. This raises the question as to how performance against these priorities is measured.
• Most companies hinted at some linkage between the remuneration of key management personnel and KPIs. However, no effort was made to disclose the actual percentage of executive pay linked to KPIs or what these KPIs are.
• Where companies did explicitly disclose KPIs, the indicators were predominantly financial rather than balanced with non-financial and operational indicators.

What good reporting should include

• Quantitative indicators with respect to targets, value drivers, and opportunities and risks, explaining their significance and implications and the methods and assumptions used in compiling them.
• The organisation’s effects (both positive and negative) on the capitals, including material effects on capitals up and down the value chain.
• The state of key stakeholder relationships and how the organisation has responded to key stakeholder’s legitimate needs and interests.
• Linkage between past and current performance, and between current performance and future outlook.
What companies are doing today

57% report non-GAAP measures. Of those that report non-GAAP measures 11% clearly reconcile them to statutory reporting with 71% providing a narrative description in a footnote.

43% clearly explain drivers of revenue performance, including the quality and sustainability of revenues.

40% explicitly identify KPIs, of those, 40% had some alignment of KPIs with strategy.

100% made some reference to KPIs driving remuneration of senior management, 0% provided any detail on the degree of pay linked to KPIs and achievements during the period.

71% of all KPIs identified are financial, 15% are operational with the remainder relating to sustainability (CO2 emissions etc).
An example of what good reporting looks like
Capital and Counties annual report 2012 (page 11)

The Group’s Key Performance Indicators are selected to ensure clear alignment between its strategy, shareholder interests and remuneration of its employees.

**TOTAL PROPERTY RETURN**

- **21.7%**

**DESCRIPTION**

Total property return is calculated as capital growth including gains and losses on disposal plus rents received less associated costs, including ground rent. This metric allows comparability to the IPD Total Return All Property Index.

**TARGET**

1.5 per cent pa outperformance since listing.

**PERFORMANCE**

During the year, the Group has outperformed by 19.4 per cent.

**TOTAL RETURN**

- **22.6%**

**DESCRIPTION**

Total return is the growth in the EPRA adjusted, diluted NAV per share plus dividends per share during the period.

**TARGET**

1.5 per cent pa outperformance since listing.

**PERFORMANCE**

During the year, the Group has outperformed by 19.4 per cent.

**TOTAL SHAREHOLDER RETURN**

- **32.1%**

**DESCRIPTION**

Total shareholder return is the increase in the price of an ordinary share plus dividends during the period.

**TARGET**

4.0 per cent pa outperformance on a rolling three-year basis.

**PERFORMANCE**

The Group generated a total shareholder return of 39.1 per cent per annum on a rolling three-year basis, outperforming the comparator group by 17.1%.

Note: All examples used in this report are based on best practices found in UK FTSE100 companies.
Communicating value in the 21st Century

The release of the International Integrated Reporting Council’s (IIRC) <IR> Framework marked an important milestone in the market-led evolution of corporate reporting. As business becomes increasingly complex, the challenge is to communicate more relevant information instead of increasing the volume of information to build trust and drive sustainable growth.

This voluntary framework is a tool for companies to better articulate their strategy, the risks and opportunities and value creation process for various stakeholders of the company.

What is Integrated Reporting?

Integrated Reporting brings together material information about an organisation’s strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context that it operates in. It is not just about producing an integrated report. It’s a process that results in clear communication of how an organisation creates value over time through the eyes of management.

What are the benefits for business?

Companies can only meaningfully report in an integrated way if this joined up picture is mirrored internally. ‘Integrated thinking’ as the IIRC has coined it, is therefore critical to integrated reporting. It is also the key benefit identified by those participating in the IIRC pilot programme who have started to challenge their reporting to become more integrated.

Why stakeholders like it?

The International <IR> Framework identifies investors as the primary audience for an integrated report, but emphasised that other communications resulting from integrated reporting would be of benefit to all stakeholders interested in an organisation’s ability to create value over time.

A clear message from the investors participating in the Pilot Programme was that they wanted to see how companies perform against their strategy and how strategic objectives support the long-term creation of value. Only approximately 20% of the market value of a company today relates to its tangible assets and investors want businesses to account for the 80% intangible value as well.
What does the framework say?

Fundamental concepts
The Framework focuses on the various forms of capital that an organisation uses and affects, the organisation’s business model and the creation of value over time. The business model is the vehicle through which an organisation uses its capital to create value. Value in the context of IR is not limited to monetary or financial value, or a set time frame. Value can be tangible or intangible, it can be created over the short, medium and long term, and is not limited to the organisation but can be created for others as well. It is important to acknowledge that value creation is complex and arises from the interaction between a wide range of factors.

Figure 2: Various forms of capital an organisation uses and affects

**Financial capital**
Includes cash, debt and equity that enable an organisation to produce goods or provide services.

**Manufactured capital**
Includes physical objects such as buildings, equipment and infrastructure.

**Intellectual capital**
Includes knowledge based intangibles of an organisation.

**Human capital**
Includes people’s competencies and capabilities.

**Social and relationship capital**
Includes the relationships between an organisation and communities and other stakeholders.

**Natural capital**
Includes all renewable and non-renewable environmental resources.
Three fundamental concepts of the framework

• The relationship between the organisation and the resources and relationships that underpin its success, described within the framework by reference to six ‘capitals’ (financial, manufactured, intellectual, human, social and relationship, and natural).
• Providing an explanation of the organisation’s business model.
• The creation of value in the short, medium and long term.

Six guiding principles to help preparers determine what to report and how to structure it

• Strategic focus and future orientation
• Connectivity of information
• Stakeholder responsiveness
• Materiality and conciseness
• Reliability and completeness
• Consistency and comparability

The information in an IR should be presented on a basis that is consistent over time and in a way that enables comparison with other organisations to the extent it is material to the organisation’s own value creation story.

An IR should provide insight into the organisation’s strategy and how that relates to its ability to create value in the short, medium and long term.

An IR should show a comprehensive value creation story, the combination, inter-relatedness and dependencies between the components that are material to the organisation’s ability to create value over time.
Are you ready for integrated reporting?

We recognise that companies responding to the challenge of integrated reporting are working in unchartered territory. And as they reshape and broaden their reporting, they will be working in areas where reporting frameworks and standards are often in the early stages of development and less defined.

A good starting point is to ask:

1. **Identify the key themes of your value creation story...**

   Determine the most critical non-financial risks and opportunities. These will become the key themes for your integrated strategy and report. For example, some companies may be exposed to resource scarcity risks or positioned to take advantage of demographic changes or technological advances. Focusing on a few key themes can help you construct a concise and powerful narrative that tells your company’s unique value creation story.

2. **...then decide how to measure them**

   Next you should determine what financial and non-financial information can support this narrative. Keeping an open mind is critical, as this may include data you do not yet report or collect. For example, some leading companies quantify the financial value of their key social and environmental impacts. PwC provides a framework for doing this called Total Impact Measurement and Management. Translating non-financial factors into a common monetary currency can help track and compare performance over time. It is important to prioritise the data that best supports your company’s key value creation themes, as effective integrated reports are concise and focused.

3. **Next, make a plan and act on it**

   Integrated reporting takes time. Successful companies develop roadmaps for where they want to be in three, five, and even ten years. To achieve fully integrated reporting, your value creation story should be supported and reflected in your company’s mission statement, strategy, KPIs, and targets.

   Any discussion of risks and opportunities should focus on the main themes of the narrative. Your financial and non-financial systems and processes should be aligned and/or combined. And to be confident in the quality of your report, you should eventually integrate non-financial data with your financial reporting process.
The journey towards integrated reporting

**Where do you want to be?**

- Develop a blueprint for the future, reflecting risks and opportunities across the value chain
- Identify material issues reflecting market drivers and changing expectations
- Get buy-in from all of your key internal and external stakeholders
- Strike a balance between being transparent and maintaining your competitive advantage

**Implement IR**

- Design your internal and external integrated reporting
- Measure your total impact along your value chain to identify risks and demonstrate contribution across economic, social and environmental dimensions
- Provide assurance over the integrated information set

**Where are you now?**

- Benchmark your reporting against peers based on our integrated reporting tool
- Identify examples of good practice from around the world to inspire
- Engage with internal and external stakeholders to highlight what they want and identify current gaps

**How do you get there?**

- Identify ‘quick wins’ that can be implemented in the current year
- Develop an integrated strategy and embed across the organisation including governance structure, remuneration and training
- Adapt systems and controls to provide timely, reliable and relevant information for internal decision making and external reporting
### Appendix 1 – Companies surveyed

<table>
<thead>
<tr>
<th>Company</th>
<th>Financial year end</th>
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<tbody>
<tr>
<td>AMMB Holdings Berhad</td>
<td>31-Mar 2013</td>
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<tr>
<td>Astro Malaysia Holdings Berhad</td>
<td>31-Jan 2013</td>
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<tr>
<td>Axiata Group Berhad</td>
<td>31-Dec 2013</td>
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<tr>
<td>British American Tobacco (Malaysia) Berhad</td>
<td>31-Dec 2013</td>
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<tr>
<td>CIMB Group Holdings Berhad</td>
<td>31-Dec 2013</td>
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<tr>
<td>Digi.com Berhad</td>
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<tr>
<td>Felda Global Ventures Holdings Berhad</td>
<td>31-Dec 2013</td>
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<tr>
<td>Genting Berhad</td>
<td>31-Dec 2013</td>
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<tr>
<td>Genting Malaysia Berhad</td>
<td>31-Dec 2013</td>
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<tr>
<td>Hong Leong Bank Berhad</td>
<td>30-Jun 2013</td>
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<tr>
<td>Hong Leong Financial Group Berhad</td>
<td>30-Jun 2013</td>
</tr>
<tr>
<td>IHH Healthcare Berhad</td>
<td>31-Dec 2012</td>
</tr>
<tr>
<td>IOI Corporation Berhad</td>
<td>30-Jun 2013</td>
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<tr>
<td>Kuala Lumpur Kepong Berhad</td>
<td>30-Sep 2013</td>
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<td>Malayan Banking Berhad</td>
<td>31-Dec 2013</td>
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<td>Maxis Berhad</td>
<td>31-Dec 2013</td>
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<tr>
<td>MISC Berhad</td>
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<td>PETRONAS Chemicals Group Berhad</td>
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<td>PETRONAS Dagangan Berhad</td>
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<td>PPB Group Berhad</td>
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<td>Public Bank Berhad</td>
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<td>RHB Capital Berhad</td>
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<td>SapuraKencana Petroleum Berhad</td>
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<td>Sime Darby Berhad</td>
<td>30-Jun 2013</td>
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<td>Telekom Malaysia Berhad</td>
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<td>Tenaga Nasional Berhad</td>
<td>31-Aug 2013</td>
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<td>UEM Sunrise Berhad</td>
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<tr>
<td>UMW Holdings Berhad</td>
<td>31-Dec 2012</td>
</tr>
<tr>
<td>YTL Corporation Berhad</td>
<td>30-Jun 2013</td>
</tr>
</tbody>
</table>
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