

Sustainability Reporting Guide

Singapore Exchange



Introduction

Listing Rule 711A requires every listed issuer to prepare an annual sustainability report, which must describe the issuer's sustainability practices with reference to the primary components set out in Listing Rule 711B on a 'comply or explain' basis. This Sustainability Reporting Guide (the "**Guide**") provides guidance on the expected structure and contents and the preparation of the sustainability report.

Sustainability reporting disclosure does not detract from the issuer's obligation to disclose any information that is necessary to avoid the establishment of a false market in the issuer's securities or would be likely to materially affect the price or value of its securities pursuant to Listing Rule 703.

A glossary of the common terms used in the Guide is set out on page 14 of this Guide.

Policy Statement on Sustainability Reporting

Issuers make regular financial reports to their investors that are used for assessment of the likelihood of repayment (in the case of debt securities) and the returns on investment (in the case of equity securities). Increasingly, investors are demanding that issuers fulfil these obligations in a responsible and sustainable manner.

Reflecting these expectations, financial reports increasingly need to be supplemented by descriptive and quantitative information on how business is conducted and the sustainability of the current business into the future.

SGX believes that the addition of sustainability reporting to financial reporting provides a more comprehensive picture of the issuer: statements of financial position and comprehensive income provide a snapshot of the present and an account of the past year, while sustainability reports of environmental, social and governance factors ("**ESG factors**") show the risks and opportunities within sight, managed for future returns. Taken together, the combined financial and sustainability reports enable a better assessment of the issuer's financial prospects and quality of management.

To achieve the additional transparency which encourages efficiency and innovation, SGX-ST requires each listed issuer to publish an annual sustainability report on a 'comply or explain' basis, in accordance with the Listing Rules. This Guide provides guidance to the issuer on compliance with the requirements under the Listing Rules.

Principles

Board responsibility

Under the Code of Corporate Governance issued on 2 May 2012, the Board is collectively responsible for the long term success of the issuer. It provides strategic direction and specifically considers sustainability issues as part of its strategic formulation. Consistent with its role, the Board should determine the ESG factors identified as material to the business and see to it that they are monitored and managed. The Board's close interaction with management will enable the Board to satisfy itself on the way sustainability governance is structured and functioning through the various levels of management. The Board has ultimate responsibility for the issuer's sustainability reporting. If any question is raised regarding the issuer's sustainability reporting, the Board should make sure it is addressed.

'Comply or explain'

Each issuer is required to prepare an annual sustainability report. The sustainability report should include the primary components as set out in Listing Rule 711B and page 4 of this Guide, on a 'comply or explain' basis. Where the issuer cannot report on any primary component, the issuer must state so and explain what it does instead and the reasons for doing so.

Report risks as well as opportunities

In identifying material ESG factors, the issuer should consider both risks and opportunities. In addition, it is conceptually sound, and validated by experience, that risks well-managed represent strengths which can be applied to fulfill opportunities. The risks and opportunities within sight have direct bearing on strategies and operations and should be reported for clearer understanding of the issuer's performance, prospects and management quality. To facilitate understanding, issuers should give the whole explanation in a concise manner.

Balanced reporting

In reporting on sustainability, care should be taken to give an accurate and balanced view. There may be a tendency to give more prominence to what is favourable and understate what is negative. Both situations require comprehensive explanations. In reporting performance, factors beyond the issuer's control are as relevant to exceeding the target as to a performance shortfall. In the event of underperformance, the issuer's response is also important and should be included to bring about confidence in its longer term sustainability objectives.

Performance measurement system

An effective policy and operational response to sustainability risks and opportunities requires performance measurement and its linkage to performance incentives. Having a good performance measurement system allows the issuer to benchmark performance against stated objectives and facilitates comparison over time and across entities. Clearly linking sustainability risks and opportunities with strategy, other organisational risks, operational indicators, performance measures and performance incentives not only enhances understanding but provides an engine for improvement, innovation and accountability.

Global standards and comparability

The issuer needs to give priority to using globally-recognised frameworks and disclosure practices to guide its reporting. The increasingly borderless markets for funds as well as for goods and services mean that corporate reporting standards tend to gravitate toward global best practice. Added to this is the international character of SGX-ST both in terms of listed issuers as well as investors. The individual issuer should take care that its disclosure efforts not be considered inadequate by stakeholders. Where the issuer is applying a portion of a particular framework, the issuer should provide a general description of the extent of the issuer's application of the framework.

Stakeholder engagement

The issuer's responsibility on disclosure, including annual reports and sustainability reports, is first and foremost to current and potential shareholders, i.e. the investing public. Interaction of the issuer with its other stakeholders is also of interest to investors for its relevance to sustainability across the value chain of the issuer. The views of stakeholders also contribute to inform the issuer's identification of material ESG factors. On a continuing basis, regular and sustained engagement with stakeholders provides the issuer with an up-to-date picture of its sustainability within both its business and physical environments. The material outcomes of such engagement should be included in the sustainability report.

Independent assurance

Independent assurance increases stakeholder confidence in the accuracy and completeness of the sustainability information disclosed. An issuer whose sustainability reporting has already matured after several annual exercises would want to undertake external assurance by independent professional bodies to add credibility to the information disclosed and analysis undertaken. An issuer new to sustainability reporting may wish to start with internal assurance before progressing to external assurance for its benefits. The issuer should also consider whether it would be worthwhile to undertake independent external assurance on selected important aspects of its report even in its initial years, expanding coverage in succeeding years.

Contents of Sustainability Reporting

Primary components

Material ESG factors

The sustainability report should identify the material ESG factors, and describe both the reasons for and the process of selection, taking into considering their relevance to the business, strategy, business model and key stakeholders.

Policies, practices and performance

The sustainability report should set out the issuer's 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.

Targets

The sustainability report should set out the issuer's targets for the forthcoming year in relation to each material ESG factor identified.

Sustainability reporting framework

The issuer should select a sustainability reporting framework (or frameworks) to guide its reporting and disclosure. The sustainability reporting framework(s) selected should be appropriate for and suited to its industry and business model. The issuer should state the name of the framework(s), explain its reasons for choosing the framework(s) and provide a general description of the extent of the issuer's application of the framework(s).

Board statement

The sustainability report should contain a statement of the Board on the Board having considered sustainability issues as part of its strategic formulation, determined the material ESG factors and overseen the management and monitoring of the material ESG factors.

The sustainability report should comprise the above primary components.

Identification of material ESG factors

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. The issuer is expected to report the criteria and process by which it has made its selection with reference to how these factors contribute to the creation of value for the issuer.

In broad terms, environmental factors would include materials, energy, water, emissions, effluents and waste as well as environmental complaint mechanisms. Social factors would include health and safety, employment practices and labour rights such as collective bargaining, as well as product responsibility, anti-corruption and supplier assessments. The framework chosen is likely to have additional factors that the issuer would report on.

Corruption is a factor on which many investors require reassurance, whether inducement is being offered to employees or by employees to others. Where corruption has been addressed in the Corporate Governance report, the issuer may refer to that report. If corruption is not assessed to be a material ESG factor by the issuer, where stakeholders express sufficient interest in the information, the issuer is advised to state its policy and safeguards on its website.

Gender, skill and experience have been highlighted as diversity indicators material to business sustainability. Diversity greatly enhances the issuer's capacity for breadth of input and perspectives into decision making, risk alertness and responsiveness to change. The issuer should be aware of this trend and assess whether diversity is a material social factor in its business. It should engage stakeholders in assessing the necessity of reporting on this matter. In satisfying investors and other stakeholders, diversity should be examined through broad levels of staff and also importantly, in the Board. Where diversity has been addressed in other sections of the annual report, the issuer may refer to those sections. If diversity is not assessed to be a material ESG factor by the issuer, where stakeholders express sufficient interest in the information, the issuer is advised to state its policy and actions on its website.

The issuer should consider not just its internal circle of operations but also widen that circle to include persons and processes in the value chain that contribute to the issuer's product or service. Parts of the business outsourced to third parties (for example, freight and logistics), as well as downstream processes (for example, product defect response), constitute an integral part of the issuer's business and need to be included in the sustainability report.

Materiality

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. The omission or misstatement of these risks or opportunities could influence the decisions of investors.

Generally, what is material in sustainability reporting would also be considered material in financial terms, if not in the immediate period, then over time.

In assessing materiality of the ESG factors on which it reports, the issuer should first satisfy itself of the relevance of selected factors to its business strategy and outcomes. This has the benefit of focusing both executives and employees on uniform key risks and opportunities that deliver (or impede) desired outcomes.

The issuer should use risk ranking and prioritisation to distil the material ESG factors. This process is similar to the widely-practised Enterprise Risk Management (ERM) process. The issuer should expand the breadth of the assessment to account for material ESG factors.

The Board should determine the material ESG factors and the issuer's response to the attendant risks and opportunities. Discussion with stakeholders contributes to an accurate appreciation of what is important in the business on an ongoing basis.

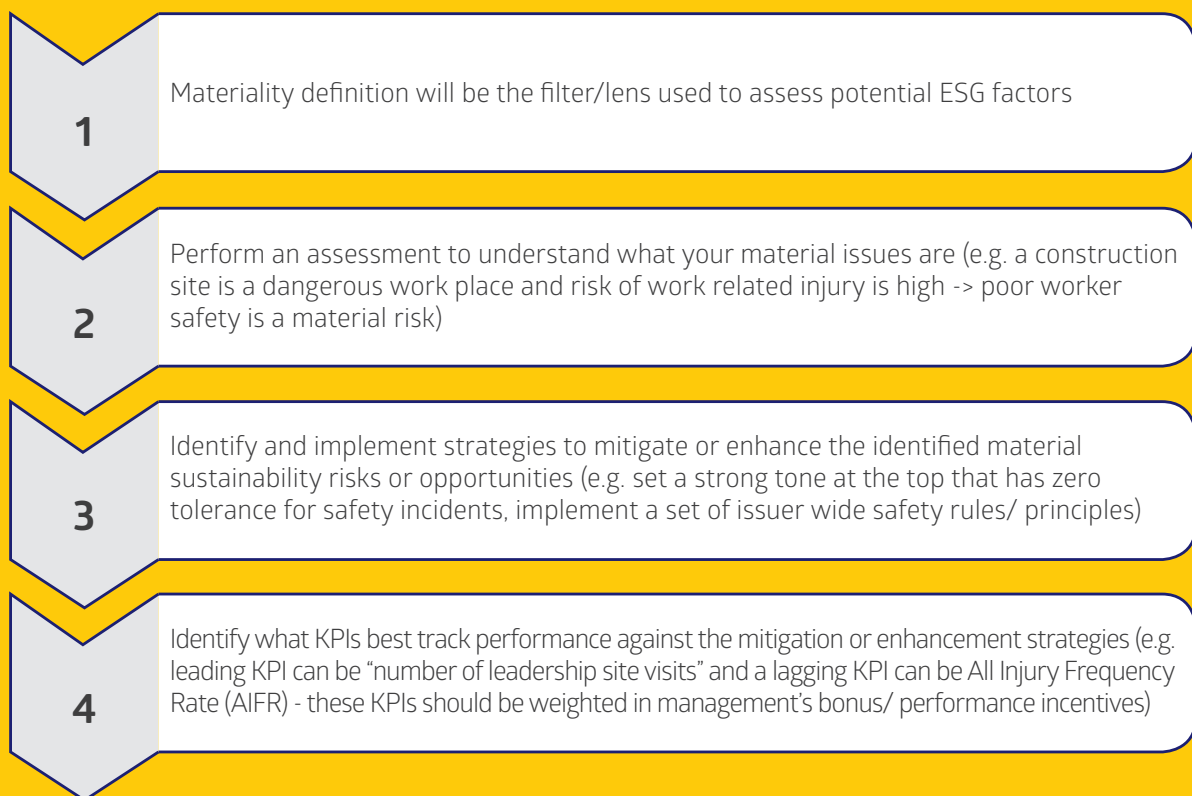
Possible process and tools

A possible process for assessing ESG factors with material relevance to the business and business model are set out in the following paragraphs.

In assessing materiality of the ESG factors on which it reports, the issuer may consider:

- Value drivers
- Stakeholder engagement
- Risk management
- External factors, for example sector, geography, economics, market, social, environment
- Internal factors, for example business model, business cycle, strategy
- Qualitative perspectives, for example operational, strategic, reputational and regulatory
- Timeframe of these considerations

Order of considerations and determination of the material ESG factors



The issuer may use the following Materiality Determination Process tools (templates) and step-by-step guidance (Identify – Rate – Prioritise – Validate). These tools are guidance and not mandatory. The issuer should disclose the outcomes of this process but can use its discretion as to whether it would like to disclose any part of the tools in their sustainability report.

STEP 1:

IDENTIFY. The issuer can use this template to identify the most pressing (material) factors (impact/opportunities) for the issuer (or for each subsidiary in the group). It will also help formulate management's approach and response, and identify where data collection needs to be strengthened.

Template 1: Issue identifications template

XX Issuer	Issue 1	Issue 2 etc.	
INDUSTRY	Construction		
COUNTRY OF OPERATION	Singapore, Malaysia, China, Indonesia		
NO. OF EMPLOYEES	XXX (this is only permanent employees which make up approx. 40% of workforce)		
MATURITY	Fairly good. Has a 2014 Sustainability Report.		
WHAT	What is the issue? (What should the issuer be reporting)	Worker safety	Diversity
WHY	Why is it material?	Construction sites, working at heights. Labour intensive. Exposure risk is high.	xxx
RESPOND	How is/should the issuer strategically respond to address the issue?	Operational decisions made by Safety Forum. Issuer has 5 cardinal rules for safety and management's performance bonus linked to leading safety targets.	xxx
MEASURE	How is the issuer measuring performance in this area?	All Injury Frequency Rate (AIFR) Fatalities Number of leadership site visits	xxx
AVAILABILITY	How easy will it be to collect?	Yes- reported for regulatory compliance	xxx
TARGET	What are/should the targets be? (benchmark)	All Injury Frequency Rate (AIFR) target at 9 Number of leadership site visits: 6	xxx
STAKEHOLDERS	Which stakeholder group is impacted or impacts the business.	Employees, Regulator, Shareholder	xxx
VALUE CHAIN	Is the impact inside or outside the organisation	Inside	xxx

Source: KPMG

STEP 2:

RATE. Once the issues of the issuer and its subsidiaries have been explored using Template 1, the issuer will need to cluster similar issues e.g. safety and health issues can be clustered together. If the issuer is a holding company, a rating process can be done to assess what issues are pervasive/most common across the group. The issuer can use Template 2 as a guide.

Template 2: Clustering and rating of issues

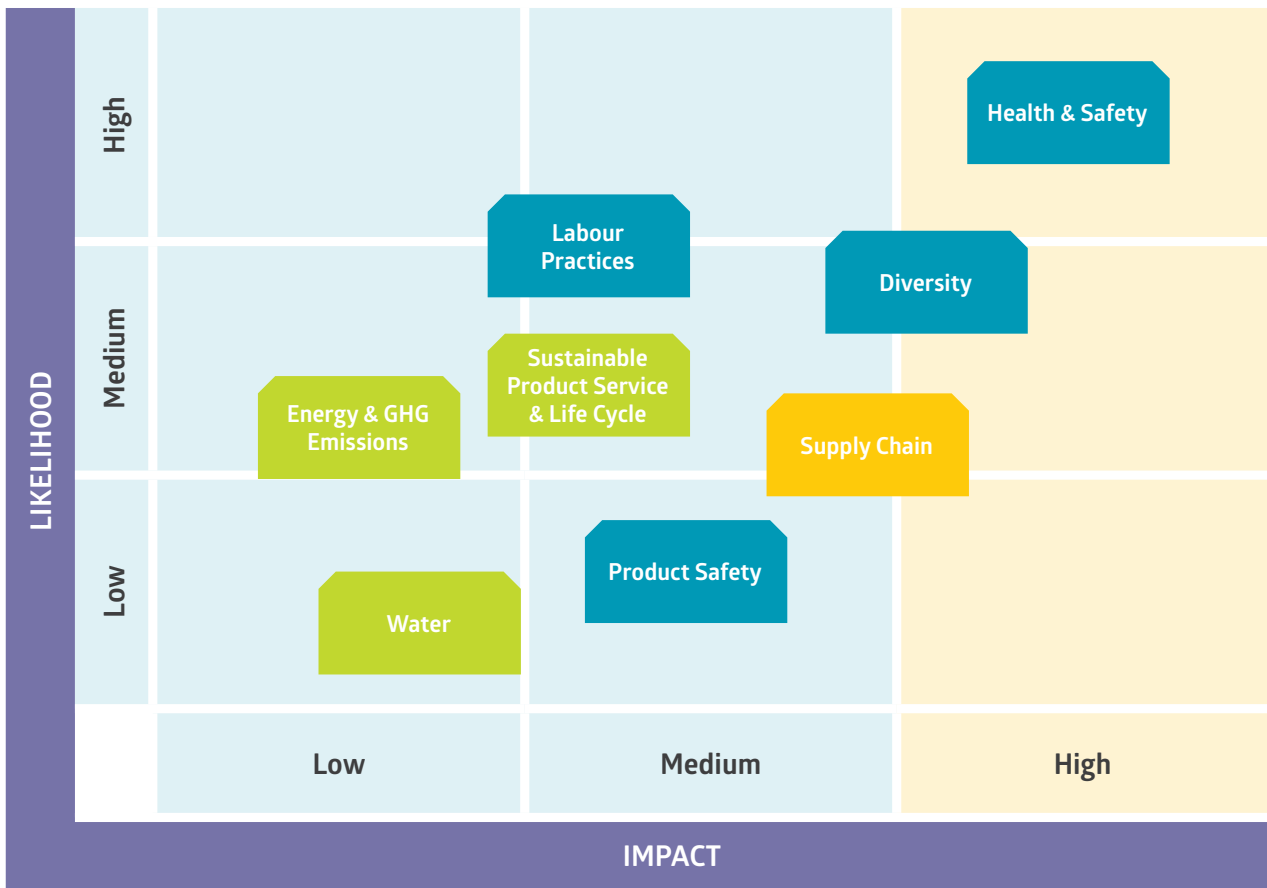
Potential issue clustering and rating							
	Safety and Health	Diversity	Labour Practices	Supply Chain	Climate Change	Water	Etc
Construction							
Subsidiary 1	✓	✓	✓	✓	✓		
Subsidiary 2	✓	✓	✓	✓	✓	✓	✓
Subsidiary 3	✓	✓	✓				✓
xxx	✓		✓	✓		✓	
xxx	✓	✓		✓	✓		
Chemical							
xxx	✓	✓	✓		✓	✓	✓
xxx	✓	✓	✓		✓	✓	✓

Source: KPMG

STEP 3:

PRIORITISE. Once the issues of the issuer and its subsidiaries have been clustered and rated using Template 2, the issuer will need to prioritise them using a matrix. The following matrix plots the potential issues based on likelihood and impact.

Template 3: Material factors matrix



Source: KPMG

STEP 4:

VALIDATE. Once the issuer has prioritised its factors, they need to be internally validated and signed off by leadership. The factors in the top right are the “critical factors” (if the issuer gets these factors wrong – business is at risk; conversely, if the issuer gets these factors right – business will benefit).

Sustainability reporting framework

The issuer should select a sustainability reporting framework which is appropriate for and suited to its industry and business model, and explain its choice. In doing so, the issuer should place importance on using a globally-recognised framework for its wider acceptance in an increasingly global marketplace. The issuer can be more easily understood and compared with its peers in Singapore as well as in other jurisdictions across the world. The issuer should exercise considerable caution if it chooses to deviate from generally-accepted frameworks.

Among the well-known and globally-recognised sustainability reporting frameworks, the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines set out generic sustainability factors and general principles and indicators that an issuer can use to report sustainability policies, practices, performance and targets. The International Integrated Reporting Council's Framework (<IR>) also sets out a general framework for reporting. An issuer using <IR> should consider ESG factors when determining their material factors for inclusion in the integrated report. The issuer may also consider referring to the Sustainability Accounting Standards Board's (SASB) standards which adopt an industry-specific approach to material ESG factors.

The issuer may consider provisions of the Climate Disclosure Standards Board or the Carbon Disclosure Project to be particularly relevant for industries sensitive to environmental matters, such as mining, minerals and agriculture, while standards of the Roundtable on Sustainable Palm Oil may be the choice of an issuer in that industry. More than one sustainability reporting framework may be chosen as relevant to the issuer's business.

The issuer is expected to follow the chosen framework(s) from year to year and build up its knowledge and understanding of how to report effectively. In turn, it can expect to be building up investors' and stakeholders' understanding, leading to increased confidence. In the absence of regulatory changes, only major changes in business strategy and/or model are likely to require change in sustainability reporting framework. This does not preclude examination of framework relevance from time to time.



Time horizons used in the sustainability report

In making its sustainability report, the issuer should consider whether it would be useful to report matters for their relevance in the short, medium and long term. Accordingly, sustainability policies, practices, performance and targets would be considered along the same time horizons. Typically the short-term is considered less than one year for banking and financial instruments. Beyond a year, the issuer may wish to take reference from their typical planning horizon, investment cycle or plant renewal or other considerations relevant to its business. The long-term should be a useful time horizon over which expectation can be formed and efforts planned.

Stakeholder engagement

Stakeholder engagement is integral to any business and would be conducted regularly. The issuer should consider ESG factors in their engagement with stakeholders, not just with investors, but also customers, staff, suppliers, regulators, local communities and others in the value chain. The issuer should monitor carefully its communication with stakeholders so as to avoid any information asymmetry as it may lead to unfair trading in the securities market.

Group and investment holding company reporting

Where holding companies and operating subsidiaries are both listed issuers having to undertake sustainability reporting, the operating entities can report on the ESG factors within their scope of operations. If the ESG factors are also material to the holding company, the holding company may make reference in its sustainability report to the sustainability reports of the operating subsidiaries. If the holding company has material investee companies which are not subsidiaries, its sustainability report should include the selection and management of these investee companies.



Form and Frequency of Sustainability Reporting

The issuer should report on sustainability at least once a year. The issuer's sustainability disclosure may be done in its annual report. The inclusion of sustainability risks and opportunities with the businesses' other risks and strategy in the same document presents advantages to the user. Sustainability reports contained within annual reports would observe annual report deadlines. Alternatively, if more appropriate for the circumstances of the issuer, the issuer may include a summary in its annual report and issue a full standalone sustainability report within 5 months of the end of the financial year.

In either case, the issuer should make available its sustainability reports on SGXNet and on its company website. After a few years of sustainability reporting, the issuer may wish to maintain static information, such as, policies and historical sustainability information, on its website while presenting the current year's changes as well as performance in the annual sustainability report.

To provide sufficient time for preparation, an issuer in its first year of reporting may report within 12 months of the end of its financial year.

Phased Approach

Sustainability reporting takes effect for any financial year ending on or after 31 December 2017. Issuers who do sustainability reporting say that employees gain clarity and focus around common company priorities. Smaller issuers like larger ones, already manage their sustainability issues as part of risk management and good business practice. They need only take the next step to articulate what they do in sustainability terms. The sooner they commence sustainability reporting, the sooner they can benefit from doing so. Early adoption is encouraged.

While all issuers will begin sustainability reporting for any financial year ending on or after 31 December 2017, they may differ in the speed at which they progress in quality and depth.

For the first year of sustainability reporting, the issuer should have at least the assessment of material ESG factors, policies and/or practices to address the factors; but if their reporting is lacking in qualitative or quantitative descriptions, they need only state progressive targets for reaching maturity of reporting and do their best to meet them in subsequent years.

An example of a phased implementation approach is illustrated in the table below:

Illustration of Possible Phased Approach

Primary Components	Adoption		
	Year 1	Year 2	Year 3
Material ESG Factors (identified through process on pages 7 to 9 of this Guide, defined as, for example, high impact and high likelihood)	Addressed most critical factors	Reviewed factor assessment and added factors which have become material and removed existing factors which are no longer material	Reviewed factor assessment and added factors which have become material and removed existing factors which are no longer material
	Material ESG factors would be dependent on current business strategy, market conditions, stakeholder concerns etc., therefore the number of material ESG factors may vary year-on-year.		
Policies, practices and performance	Minimal description of how issuer manages material factors No previous targets for comparison of performance One metric per factor Plans for improved reporting in future	Description includes specific policies, practices per material factor More quantitative metrics and qualitative description per factor Comparison against previously disclosed qualitative commitments and targets with explanation of overachievement and shortfall	Description includes specific policies, practices per material factor Qualitative and quantitative description per factor Comparison against previously disclosed targets and commitments with explanation of overachievement and shortfall
Targets	Qualitative commitments if no quantitative targets	Short and long term qualitative targets and some quantitative targets	Short and long term qualitative and quantitative targets Include peer/sector benchmarks Targets linked to management performance incentives
Sustainability Reporting Framework	GRI	GRI	GRI
Board Statement	Complied	Complied	Complied

For an issuer listed on or after 1 January 2017, sustainability reporting will be required from its first full financial year of listing.

Glossary

ESG factors	Environmental, social and governance factors that affects the issuer's performance and prospects. Also referred to as sustainability issues, or sustainability risks and opportunities. Does not mean philanthropy or other charitable activities.
Sustainability reporting	The publication of information on material ESG factors in a comprehensive and strategic manner.
Materiality	In relation to ESG factors, the most important environmental, social and governance risks and opportunities that will act as barriers or enablers to achieving business goals in short, medium and long term. The omission or misstatement of these risks or opportunities could influence the decisions of investors.

Contact Us

For more information, please contact sustainability.reporting@sgx.com

www.sgx.com/sustainability

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Singapore Exchange

Beijing ■ Chicago ■ Hong Kong
■ London ■ Mumbai ■ Shanghai ■ Tokyo

2 Shenton Way
#02-02 SGX Centre 1
Singapore 068804

main: +65 6236 8888
[sgx.com](http://www.sgx.com)