







WICI Intangibles Reporting Framework

WICI Japan Board Member Mariko Mishiro

Information and Knowledge for All:

Towards an Inclusive Innovation

The World Conference on Intellectual Capital for Communities

UNESCO, July 3&4 2017







- C.P.A. (California)
- Waseda Business School(MBA)
- Audit Experience @ EY Shinnihon

- Integrated Reporting Expert Advisor/Founder of RIDEAL
- Former IIRC Technical Manager
- •IIRC Connectivity Background Paper Project member
- Knowledge management @EY Shinnihon
- Publication "Intellectual Assets based Management"
- Project lead for WICI Intangibles reporting framework



http://www.rideal.org





Photo source: Wikipedia



Table of Contents

- 1. What are WICI and WIRF?
- 2. What are the Merits of WIRF?
- 3. What are the Characteristics of WIRF?
- 4. What are the Examples?
- 5. How to Participate?



1.What are WICI & WIRF?



1 Who we are?

Economy

- Global Business reporting Network
- Focus: management and reporting of intangibles

2What we are doing?

- Framework development
- KPIs development
- XBRL
- Awareness
- Influence

3Where we are going?

- Dissemination of WIRF
- Continuous support for organizations

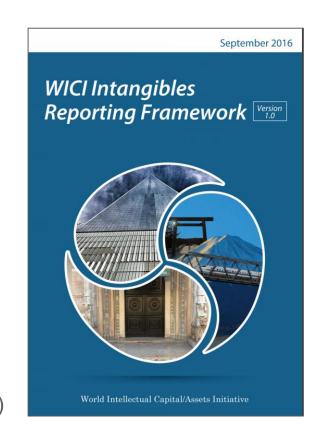


WICI Intangibles Reporting Framework (2016)

- Published September 2016
- Held Consultation
- Provides definition of Intangibles, interpretations of principles, and reporting structure.



- ① U.S.A Freedom Tower (Resilience)
- 2 JapanIse Shrine (Sustainability)Mt. Fuji (Spiritual Culture)Bullet Train (Technology)
- 3 Europe
 Ferrara Cathedral (Value of the Experience and Knowledge Inheritance)





Finalization Process

Due Process Steps	Date/Period
Decision made on the development of an intangibles reporting Framework by WICI Governance Group	13th May 2015
Formation of a dedicated technical team within WICI	31st May 2015
Public presentation of the Draft Framework at WICI Symposium 2015	4th December 2015
Approval of the Framework Consultation Draft by the WICI Governance Group	11th February 2016
Publication of the "WICI Intangibles Reporting Framework Consultation Draft" including an associated set of consultation questions for stakeholders	15th February 2016
Period of public consultation	15th Feb 2016 ~16th May 2016
Analysis of the comments and responses received	17th May 2016 ~ 31th May 2016
Revision of the Framework on the basis of the comments and responses received	1st June 2016 ~31st August 2016
Final approval by the WICI Governance Group	15th September 2016
Launch of the final version of WIRF	22nd September 2016

Monthly or bi-monthly conference calls by the WICI Governance Group and the technical team have also been held.



16 Comments have been received from:

















GLOBAL















PAUL KEARNS

Professional People Management & Development

U.S.A.



History of Intangibles reporting



^{*1} METI's Guidelines for Disclosure of Intellectual Assets Based Management

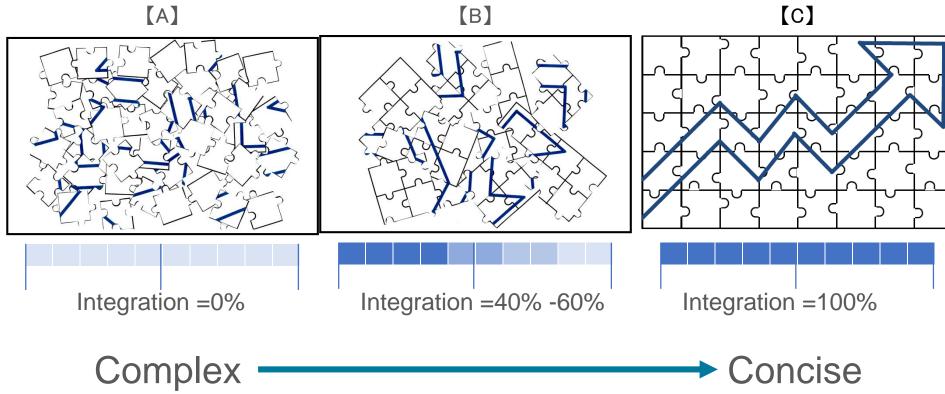
^{*2}METI's Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation



2. What are the merits of WIRF?



Before & After



"Simplicity is easy to use but can be hard to design. You may need some creativity." Edward de Bono



Economy

Before

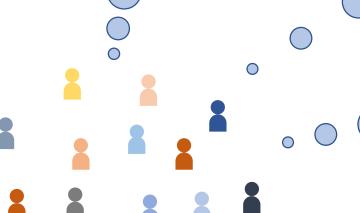
Challenges/distress/questions from Organizations

"How can we measure and monitor our intangibles?"

"How to choose and report most material matters on our long-term value creation?"

"How to visualize the value of our people?"

"How can we express our company's uniqueness ?"

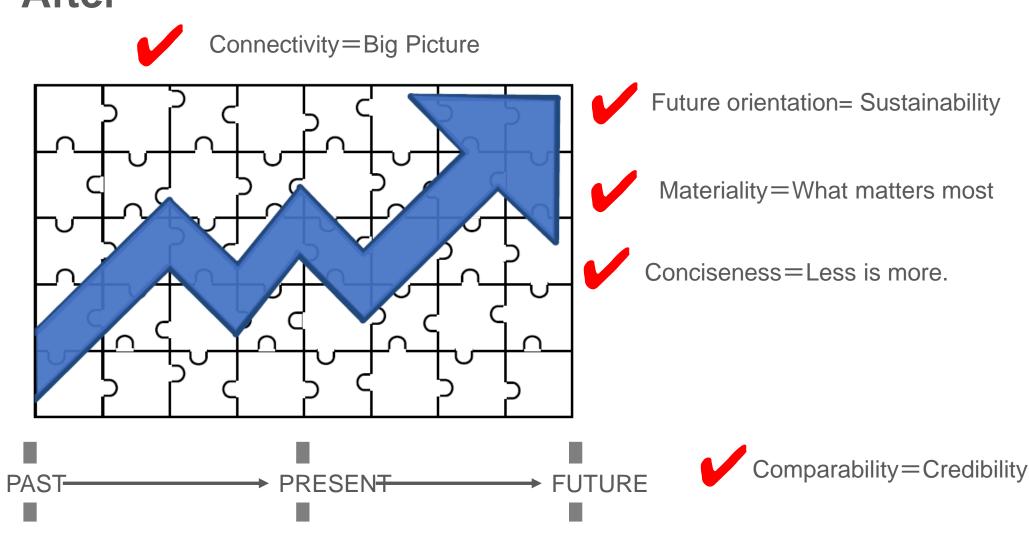


"How to understand the relationships between intangibles?"



Economy

After





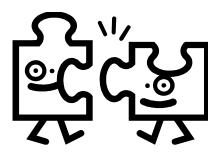
Measuring and managing your company's intangibles can lead to:

- ✓ Optimize capital allocation more efficiently
- ✓ Strengthen competitive advantage since Intangibles are Invisible Advantage
- ✓ Gain a clearer view of corporate value
- Enhance integrated thinking for the future
- ✓ Fill the information gap between organization and investors/other important stakeholders
- ✓ Improve financial results





Integrated Thinking and Intangibles



What hinders organisations in achieving integrated thinking?

- 'silo mentality' and 'protection of turf'
- reliability and accuracy of information, especially non-financial information
- an historical precedent of focusing on financial information and the needs of providers of financial capital
- understanding the relationships between the capitals
- inappropriate KPIs, both for the organisation and for executive remuneration. Often these are set primarily against financial targets.

Source: "INTEGRATED THINKING An exploratory survey" The South African Institute of Chartered Accountants February 2015 p20

→WIRF can be a big push for Integrated Thinking!



3. What are the characteristics of WIRF?





The Purpose of the Framework

For an organization's value creation process and their communication to stakeholders from the perspective of showing business sustainability over time, the Framework provides;

Definitions

Interpretations

Structure of the reporting

- Intangibles
- KPIs

Most relevant principles;

- Materiarlity
- Connectivity
- Conciseness
- Comparability
- Future orientation

Material Intangibles

A: Outline of Business and Management Philosophy

B: Intangibles and Value Creation from Past-to-Present

C: Intangibles and Value Creation from Present-to-Future





The Definition of Intangibles

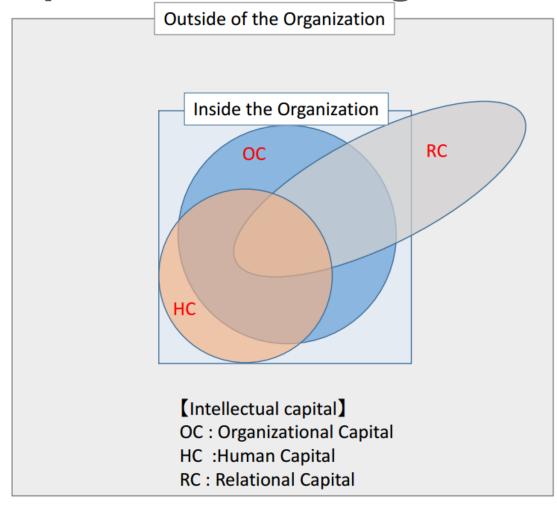
Intangibles are non-physical resources which, either alone or in conjunction with other tangible or intangibles resources, can generate a positive or a negative effect on the value of the organization in the short, medium and long term.





Economy

Relationships between Intangibles







Interpretations

of Principles

- Articulate Intangibles that contribute to its ability to create value in the future
- The intangibles-related leading indicators predictively suggest the organization's capacity of creating value in the future
- Material intangibles may be useful in comparing and contrasting organizational visions
- Related KPIs to empower users to compare them over time
- KPIs can be *comparable to other entities* if the the same or similar KPIs are reported

Future Orientation



- Report on what matters most to its ability to create value over time
- Material intangibles may be *easily overlooked* due to their non-physical nature
- Carefully select and report on those intangibles

Connectivity

- *Link* among strategy, business model and financial performance
- · Dynamic interactions of tangibles and intangibles
- The sources of sustainable value creation for organizations



Conciseness

- Most of the intangibles are unique
- Their explanation can lead to *lengthy*
- Report the essential points in a simple and understandable





Structure of Intangibles Reporting

A: Outline of Business and Management Philosophy

- Management Philosophy
- Outline of the Business

B: Intangibles and Value Creation from Past-to-Present

- Strategy
- Business/Activity Model
- Intangibles as Strategic Resource(s)
- Current Performance

C: Intangibles and Value Creation from Present-to-Future

- Strategy in a Changing Business Environment and Intangibles Utilized
- Identification of Risks and Actions to Maintain and/or Improve Intangibles
- Future Targets and Business Sustainability





Examples of KPIs

Degree of internal penetration of management principles

Operating profit margin of major business line(s)

The numbers of competing companies providing the same products or services

Ratio of specialized sales to total sales

Agility related to withdrawal from unprofitable business

Degree of R&D concentration

Ratio of R&D expenditure compared with sales13

Human Resource Development (HRD) expenditure per employee

New product ratio

Price elasticity of product sales compared to cost of goods purchased

Number of recalls

Changes in customer unit price

Level of credit confidence

Number of proposed and implemented internal improvement proposals

Intellectual property owned and its citation

Degree of customer satisfaction

Inclusion in Socially Responsible Index (SRI) funds at the end of year or during the year

Corporate image

Credit rating

Outsourced R&D cost ratio14

Average age of employees

Degree of employee satisfaction

Number of products in the pipeline covered by patents

Number of patents with economically meaningful remaining terms

Compensation claims in pending lawsuits

Diversification of risks



Link to each organization's strategy is very important.



4. What are the real examples and voices from Organizations?



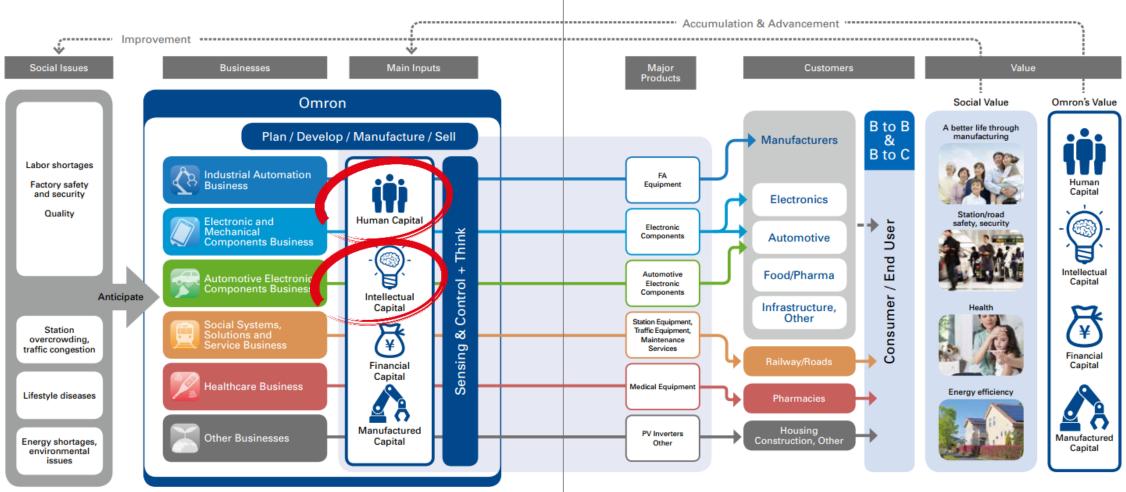


Utilization of the Framework

The Framework will be helpful in providing a deeper understanding and a better reporting of intangibles and it can be used to create either a stand-alone intangibles report or along with other existing frameworks for producing various forms of reporting.



OMRON





OMRON

"Disclosure of business model reflecting the relationships of intangibles such as <u>human and intellectual capital</u> is an appeal for internal/external stakeholders and **enhancing the constructive dialogue to evolve our integrated thinking.**

Also, "a sense of unity" has been strengthening among our people to implement our business with integrity and increasing in motivation for sustainable value creation globally."

OMRON was awarded the Corporate Value Improvement Award by the Tokyo Stock Exchange(2014)



Mr. Satoshi ANDO Director, OMRON

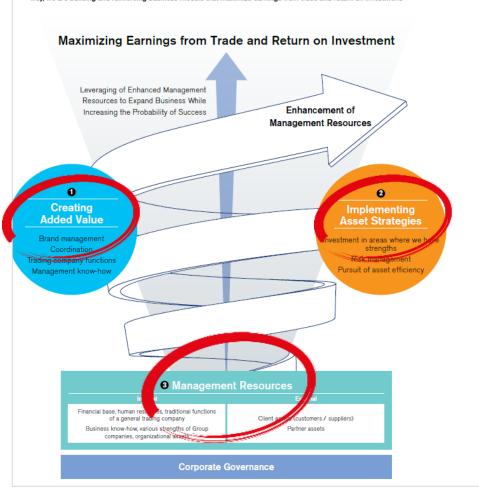


In the Knowledge

Economy

Creating Added Value and Implementing Asset Strategies

In conjunction with progress in our business development, we have implemented business models that involve both the "creation of added value" to take the initiative in the flow of commercial distribution and "implementing asset strategies" comprising investment in areas where we have strengths, risk management, and the pursuit of asset efficiency. In this way, we are building and reinforcing business models that maximize earnings from trade and return on investment.



1 Creating Added Value

We strive to stabilize commercial rights, expand trade, and increase the value of businesses, including the companies that we have invested in, by leveraging the distinctive functions of a general trading company, continually creating added value from the customer's viewonint.

Brand Management

Through integrated management of the entire merchandising function, including sales channels and product nurturing, ITOCHU strives to increase brand value and take the initiative in business activities.

Coordination

Leveraging its client assets and partnerships with leading companies, ITOCHU works to cultivate sales channels and suppliers and takes steps to foster the creation of new businesses, such as large-scale project structuring.

Trading Company Functions

ITOCHU offers its business partners more than just the traditional functions of a general trading company, such as credit, insurance, logistics, and IT. We also provide new functions aligned with needs to create new businesses.

Management Know-how

By providing the management know-how that we have accumulated and by dispatching management personnel, we promote increases in the corporate value of companies that we have invented in 2 Implementing Asset Strategies

As the strategic importance of business investment has increased, we have developed asset strategies comprising investment in areas where we have strengths, risk management, and the nursuit of asset efficiency.

Investment in Areas Where We Have Strengths

Our fundamental principle is to invest in areas where we have strengths, such as the non-resource sector, centered on consumer-related businesses, and in China and Asia. On this basis, we are working to further reinforce our competitive edge. \$\sum_{\text{P}} \text{Pase} 40

Risk Management

ITOCHU is implementing comprehensive management of risk through risk assets, risk management on a project-by-project basis through evaluation of investments using a hurdle rate based on the cost of capital, and analysis and control of a wide range of risk factors that affect business.

→ Page 32

Pursuit of Asset Efficiency

We exit from investments that are determined to be low-efficiency assets from such perspectives as scale of earnings, investment efficiency, and strategic significance. In this way, we are working to increase asset efficiency and to maximize free cash flow under strengthened cash flow management ... Drage 43

3 Management Resources

Internal

Financial Base

ITOCHU's foundation for investing aggressively to expand future earnings is supported by (1) its capacity to steadily generate operating cash flows, (2) its sound financial base, and (3) its strong fundraising ability, including Group financial systems in Japan and overseas. Cp Page 26

Human Resources

It is human resources that are the driving force behind the functioning of ITOCHU's business models. We are working to develop industry professionals who have high levels of expertise in specific areas.

Page 46

Traditional Functions of a General Trading

Company

The traditional functions of a general trading company, such as credit, insurance, logistics, and IT, are the foundations of the provision of solutions for smooth progress in business transactions.

Business Know-How

ITOCHU is developing businesses in a broad array of industries spanned by its seven Division Companies, and has accumulated a wide range of business know-how. This know-how is an indispensable intangible asset in creating new businesses and in advancing into new business fields.

Various Strengths of Group Companies

The combination of the strengths of ITOCHU's 212 subsidiaries and 114 associated companies (as of the end of March 2016) and the strengths of the Company itself substantially expands the potential for the creation of added value.

Organizational Assets

In addition to rapid decision-making systems, ITOCHU also has functional organizations that possess high levels of expertise in such fields as legal affairs, risk management, accounting, taxation, finance, and more. These organizations provide strong backup for ITOCHU's ability to generate income from a front-line perspective.

→ Page 52

External

Client Assets (Customers / Suppliers)

Partner Assets

From the viewpoints of rapidly advancing into new business areas and increasing the probability of business success, ITOCHU emphasizes win—win relationships with partners. Over many years, ITOCHU has built excellent relationships with many leading companies.

→ Page 50

ITOCHU Annual Report 2016 p36, 37 https://www.itochu.co.jp/en/files/ar2016E.pdf



"ITOCHU covers a broader range of business and our trading products and our roles in distribution channels are diversified. Expansion of business areas by new investments have been even more activated.

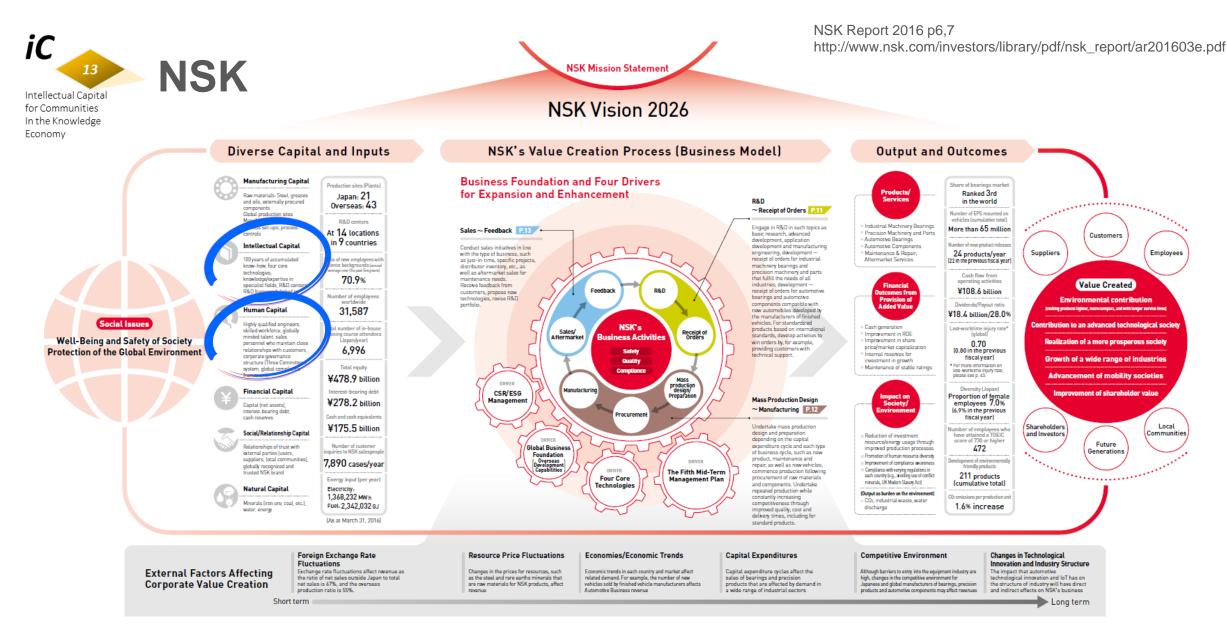
In order for us as a trading company, which holds no long-term fixed products, **to grow sustainably**, it is important to take a look at our strengths exercised since our foundation in 1858. In other words, we have to have a close look at our internal and external Intangibles and **keep functioning the process to sophisticate such Intangibles.**

It is often said that Trading company's business inside out is difficult to understand. However, since the first publication of our integrated report in 2012, we have been realizing that **OUR dialogue with**investors has been deepened by explaining our trading products as well as expressing our Intangibles and their roles in our business model.

"To recognize our intangibles is also a **reaffirmation process of ITOCHU's strengths toward to further growth**. As a result, such process highly affects to sophisticate one of <u>our</u>
most important intangibles and our main source of competitiveness, human capital. "



Mr. Kazuaki YAMAGUCHI General Manager, IR Dep. ITOCHU





"Intangibles are critical to express our raison d'etre and value creation.

The meaning of our existence as company is to be justified by how much we are contributing to the society through our business.

There would be no sustainable business unless we have **the ability to grasp the change in the demand for value on a timely manner**. So we need to
understand what kind of Intangibles we have to be able to respond to such value change.

Through the process of integrated reporting, we took an overview of both tangible and intangible assets. We held several discussions internally and noticed again about intangibles we have accumulated. For now, we understand and share our situation on intangibles within the company.

From now on, we would like to deepen the dialogue with our investors and other important stakeholders about our intangibles."



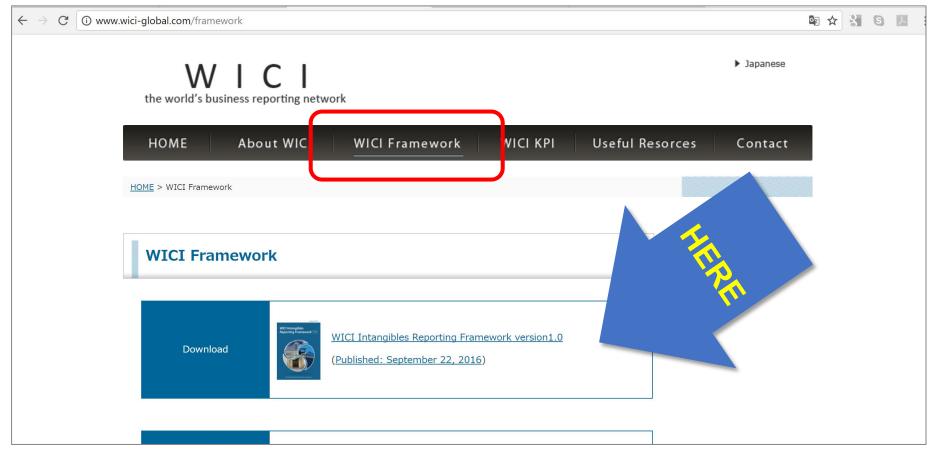
Mr. Yasushi UCHIDA
Head of IR Office
Senior Manager
CSR Division HQ
NSK



5. How to participate?



Visit our website and download WIRF





Come and Join Us at WICI Symposium 2017!



"To utilize the experience of the dialogue with investors and expand the dialogue with society through integrated reporting"

Information	
Date	December 1st, 2017
Venue	Waseda University/ Tokyo, Japan
Hosted by	WICI
Program includes;	Panel discussion • The 5 th "WICI Japan Award for Excellence in Integrated Reporting"





Award for Excellence in Integrated Reporting



Purpose: To encourage and accelerate better Integrated thinking and Integrated reporting in Japan. Reviewers: Experienced & retired buy and/or sell-side analysts, corporate valuation professionals, academic experts, etc.

Review process: 3 steps ([Step1]Basic presention [Step 2]Integrated presentation, [Step 3] Disclosure persuasiveness) based on WICI Japan's original review standards& sheet.

Year	Awarded Organizations
1 st (2013)	Award for excellence: ITOCHU Corporation, OMRON Corporation, Lawson, Inc. Special Award for Web Disclosure excellence: TOTO LTD., Mitsubishi Corporation
2 nd (2014)	Award for excellence: ITOCHU Corporation, OMRON Corporation, NYK Line, HORIBA, Ltd., Lawson, Inc.
3 rd (2015)	Award for excellence : Asahi Group Holdings, Ltd. ITOCHU Corporation, OMRON Corporation, MS&AD Holdings
4 th (2016)	Award for excellence: NSK Ltd., MS&AD Holdings, ITOCHU Corporation, OMRON Corporation, Encouraging prize: Hitachi Chemical Company, Ltd.



WICI Global wici-global-questions@wici-global.com



