



Integrated Reporting and Value Creation in Japan

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**Information and Knowledge for All:
*Towards an Inclusive Innovation***

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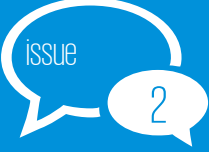



01

What are issues?

What are issues of integrated reports in Japan?

KPMG Japan has conducted the survey of Integrated Reports in Japan from 2014. We are also having many meetings and dialogues with various companies and players in the markets. I would like to share some results and insights in order to increase the quality of integrated reports.

issue	For examples...
 <p data-bbox="379 579 675 743">Tried to produce reports, is it useful? Informative?</p>	<ul data-bbox="841 589 1976 732" style="list-style-type: none">✓ Are contents of integrated reports to meet users' expectation and requirements?✓ Who are main users of the report?
 <p data-bbox="379 822 654 986">Diversified communication targets and media/devices</p>	<ul data-bbox="841 853 1696 946" style="list-style-type: none">✓ Is it delivered by user-friendly formats and style?✓ Who are significant audiences?
 <p data-bbox="379 1079 689 1200">Is it contributable for crating corporate value?</p>	<ul data-bbox="841 1039 1976 1232" style="list-style-type: none">✓ Is it understandable to know/evaluate corporate value?✓ How to connect with reporting practice and crating value ?✓ Is integrated thinking implemented to integrated reporting and its results? ?



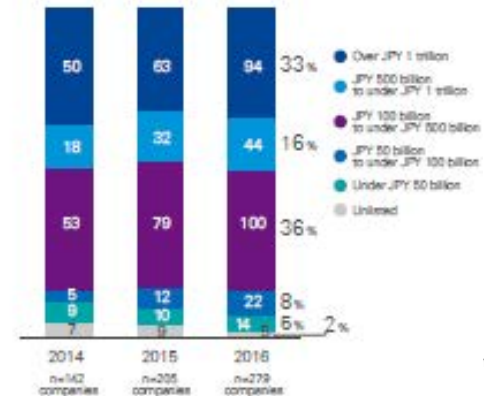
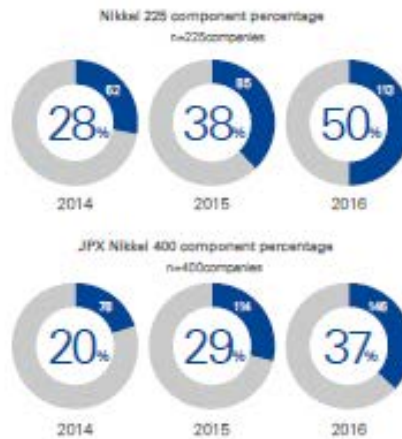
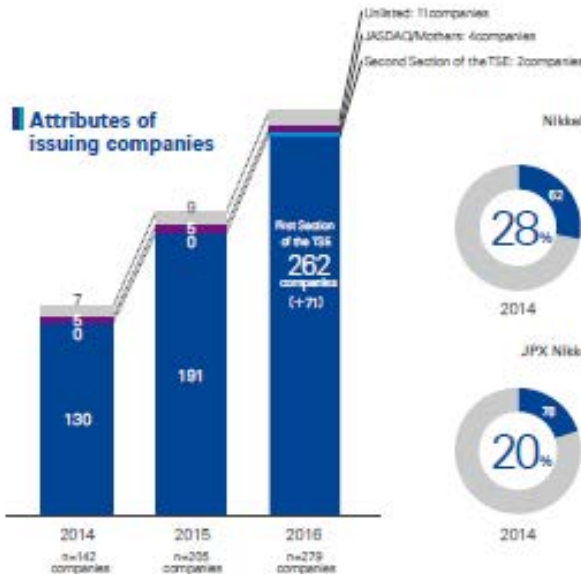
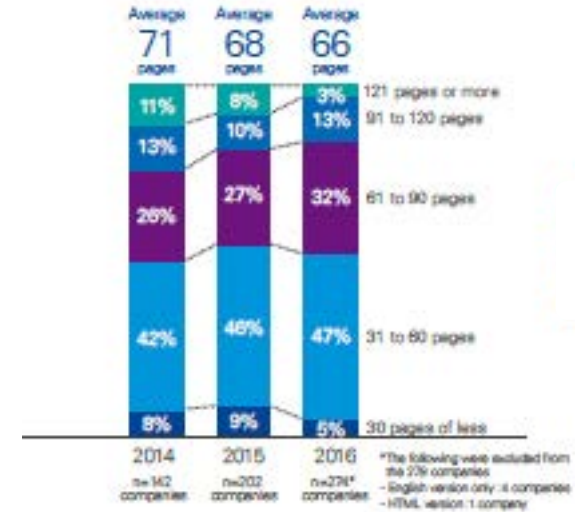
02

Integrated Reports in Japan 2016

Basic information



- ✓ A number of issuing reports grew steadily.
- ✓ Major listed companies are trying and issuing.
- ✓ To be concise.





03

How to organize relevancy
to purpose of integrated
reporting in Practice?

Integrated thinking, Integrated reporting and Integrated report – Is it contributable for value creation?

Companies have responsibilities for creating sustainable society through business practices. Integrated reporting and its movements are expected as one of effective initiatives. IIRC's <IR> framework is the great achievement to prepare the effective tool for improvement of corporate communication for sustainable growth.

What are purpose of companies?

KPMG has summaries the feedback from participants of some seminars regarding integrated reporting. (2012-2017)

- For more informative disclosure (39%)
- Integrated reporting may be positive for increasing corporate value (over 90%)
- Integrated reporting is providing meaning information with investors (84%) and promoting to share policies and strategy among internal stakeholders (58%).
- Main target of the integrated report is investors (over 80%).

Discussion points

1 Value creation story is telling from long-term perspective?

- Story oriented
- Contributable information for investors' decision making

2 Materiality on businesses is identified ?

- Consideration materiality on businesses
- Disclosure issues based on discussion for materiality

3 Management and the board are involving?

- CEO's commitment to integrated report.
- Understandable corporate governance for sustainable growth

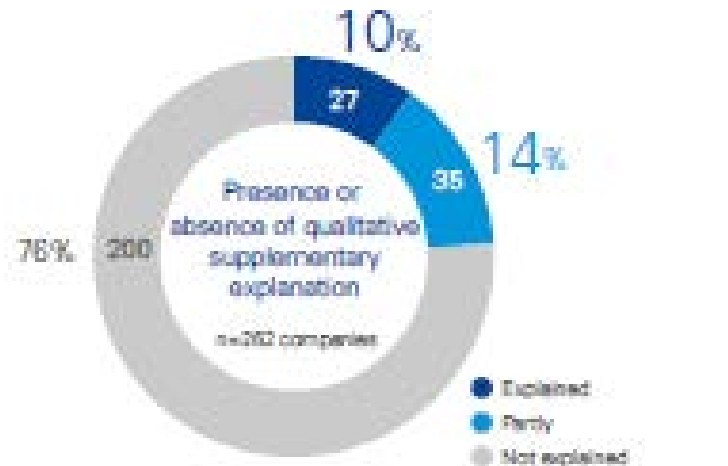
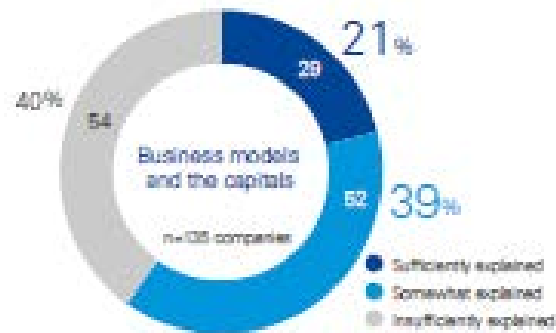
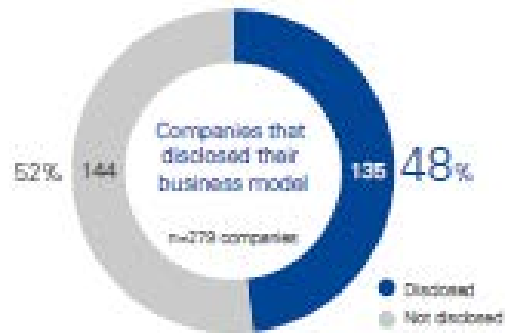


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Analysis

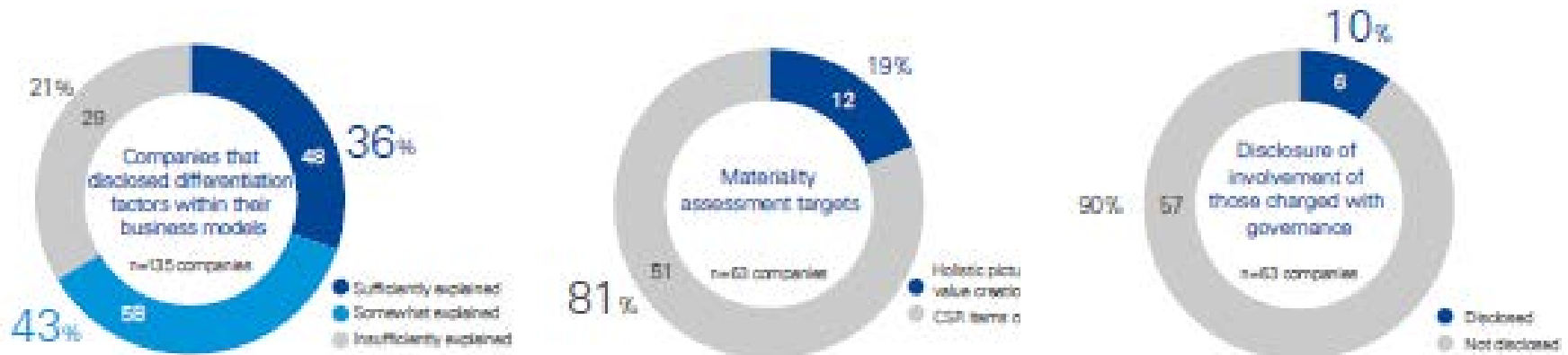
Value Creation Story

- ✓ Explain for capitals are NOT connected with business model.
- ✓ Not understandable how to conduct practices among Business models, mid-term strategy and actions.
- ✓ Financial targets are set in mid-term strategy, however, not concrete.



Materiality on Business

- ✓ Discussion and consensus for own capability and business model are NOT matured.
- ✓ For informative reporting, discussion for materiality and its issues are NOT implemented.
- ✓ Concrete discussion and practice should be conducted by top managements' leadership, that may contribute to improve the quality of engagements with significant audiences.

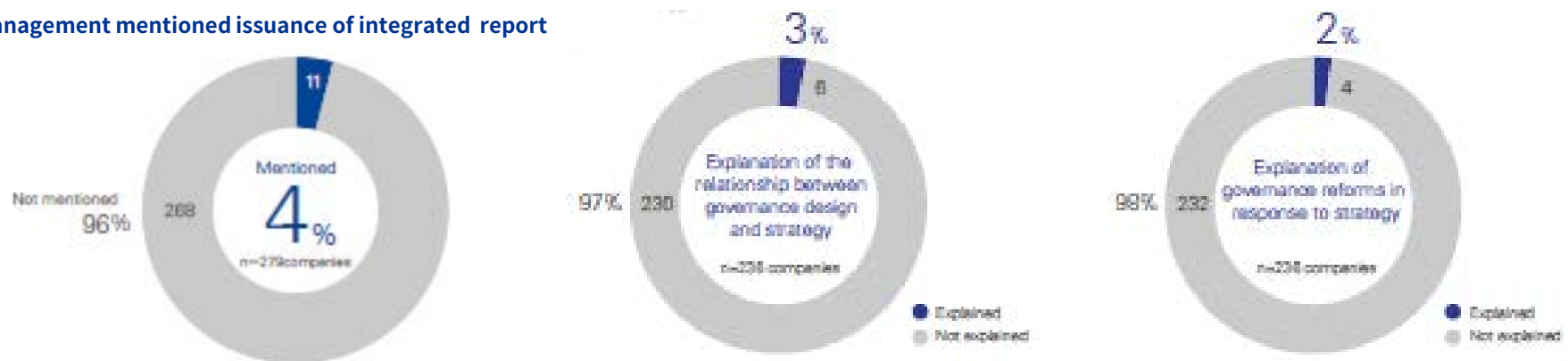


Management Leadership

- Corporate Governance point of views

- ✓ Integrated reports are expected as an effective tool for the engagement with investors. However, contents are NOT included of key interested elements for investors.
- ✓ Corporate Governance is fundamentals for long-term corporate value creation. Description for its system should be connected with corporate strategy.
- ✓ While <IR> framework has required to include a statement of governance in –charge, it is impossible to find it. Like AEGON and Atlas Copco typed “statement” are also NOT available.

Management mentioned issuance of integrated report



? By the survey conducted by Tokyo Stock Exchange, over 80% of listed companies are over 90% complied with elements of “corporate governance code”.

? A number of companies which have own “corporate governance guideline” is 314 (13.9%).

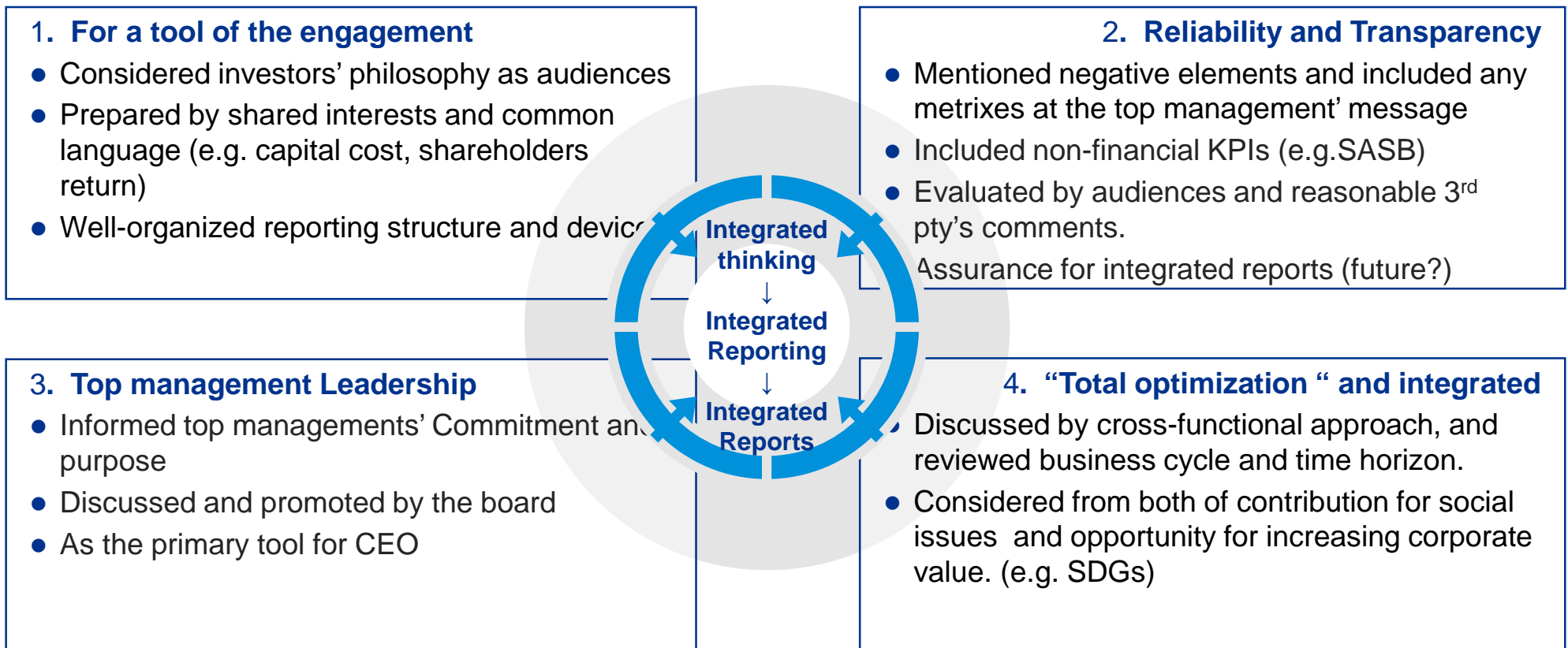


05

Concern for creating
corporate value by
integrated reporting

How to promote utilization of integrated reports?

Throughout the investment chain, following actions may be effective. The results are also activities to achieve sustainable corporate growth and value creation.



Future issues – discussion for materiality

In order to increase the quality of integrated reports, discussion for materiality is the most significant activity. Most critical discussion body is the Board. It would be the starting point for corporate value creation.

Future Issues	context
Materiality discussion and analysis for mid-term management plan and KPI setting	Many companies are trying to implement non-financial KPI to the mid-term management plan. Materiality discussion is the base for justified decision making.
Disclosure and financial performance	Concrete evidence may be strong impact to positive motivation for challenging.
Communication gap among stakeholders	Who is a significant audience? What are requirements of them? How to organize expectation from various stakeholders? Based on materiality discussion, it should be clarified.

Integrated Reporting and its practice contribute to implement internal and external integrated thinking, and contribute for sustainable society based on optimized resource allocation.



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