Survey of Integrated Reports in Japan 2017

Integrated Reporting Center of Excellence
KPMG in Japan

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Message from global thought leaders

In this, the fourth year this survey report has been issued, KPMG has solicited the observations of thought leaders on integrated reporting in Japan, the United States, and Europe about Japanese companies.

As take up of integrated reporting continues to build in Japan, so do its benefits. Research into businesses using the <IR> Framework indicates a positive impact on market value, demonstrating integrated reporting can make a lasting impact on the Japanese economy.

With disclosure across the multi-capitals becoming more widespread, businesses can expect to break down siloes and to improve their understanding of risk and dialogue with stakeholders.

I congratulate the Japanese businesses at the forefront of these developments and urge those not yet on the journey towards articulating their long-term value creation story not to be left behind.

At the IIRC, we are learning from your achievements and sharing your stories internationally, including at our 2018 global conference in Tokyo, as an example of what can be achieved through good corporate governance, stewardship and reporting.

There is still much to be done to advance the quality of reporting internationally and I look forward to seeing Japanese reporting improve and develop further over the coming years. My thanks to KPMG for all they do to support this progress and congratulations on this report.

— Richard Howitt

International Integrated Reporting Council, CEO

It' s noteworthy that an increasing number of Japanese companies are embracing integrated reporting, and that this is a multi-year trend. There are now 341 Japanese companies producing integrated reports, up from 291 last year. This is a very positive trend in the right direction, but there is even greater opportunity and promise for improvement.

As more of the right type of metrics are included, reports will become more informative, improving accountability, comparability and transparency.

The Sustainability Accounting Standards Board can support Japanese companies in their engagement efforts with investors—they are cost-effective for companies and decision-useful for investors. SASB' s standards are tailored by industry and focused on sustainability factors that are financially material to a company, so they can be a very helpful tool in integrated reports. We look forward to helping the Japanese business community in this regard.

— Jean Rogers, PhD

Founder, SASB
Chair of the SASB Standards Board

Integrated reports have made remarkable progress in Japan over the last few years. Only 26 companies issued integrated reports in 2010, but 341 did in 2017.

More importantly, report content is improving. Companies are working harder to make their reports more worth reading by concretely describing, in their own words, their path to long-term value creation, while integrating elements such as governance and management, strategy and finance, risks and opportunities, and economic and social value. This is probably a sign that managers, sensitive to changes in the environment, have begun to take integrated thinking seriously.

A good integrated report serves as the policy declaration of top management. Companies should not think it sufficient to gather information from each department and present it in fine-sounding phrases. I look forward to seeing more reports that spell out the future vision, seriously confront management issues, and encourage high-quality dialogue with shareholders and other stakeholders.

— Chieko Matsuda, Ph.D.

Professor of Management, Graduate School of Social Science, Tokyo Metropolitan University

Introduction

This is the fourth edition of the annual Survey of Integrated Reports in Japan. Thanks to our readers, this survey has been widely used not only in Japan, but also internationally.

With the utilization of intangible assets now accounting for the lion' s share of corporate value creation and the global focus on sustainability sharper than ever, companies are recognizing that they must radically reexamine how they do business—and working hard to translate the results of this process into concrete action.
Today, various stakeholders, including the investors that companies wish to attract, are broadly evaluating companies' value in light of their own concepts, ethics, and timeline, and making decisions with their own social responsibility in mind. Creating an integrated report is an effort that requires everyone involved—from their unique perspectives in different positions and roles—to reflect upon how the company provides the desired value in order to build a more sustainable world. To that end, there is a growing recognition that corporate leaders must play a central role in integrated reporting in order to make the report a tool that actually supports their decision-making.

The emergence of unexpected risks due to technological innovation, changing social attitudes, and social transformation—accompanied by the uneven distribution of wealth—has triggered the need for "now or never" change in companies. However, if companies only take measures to comply formally with minimum regulatory requirements, this will not result in change that generates corporate value. I am confident that many business leaders are already keenly aware of this fact.
When empowering change, we must at the same time recognize that "what is unchangeable" and "what should not be changed" ; there is a growing need for companies to share these thoughts as their own values with stakeholders including people within the company. Efforts toward harmonious coexistence rather than division are now needed.

KPMG is determined to "Inspire Confidence, Empower Change." This is our purpose. You keep striving to spark change and contribute to society. I hope this report will serve to help all those who are working hard to fulfill their responsibilities in the midst of these challenging times.

Chairman, KPMG in Japan
Tsutomu Takahashi

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About the survey

Purpose and background

Understanding of the necessity for constructive dialogue between companies and investors is on the increase, as reflected in both policies and discussions, including the introduction of Japan's Corporate Governance Code in 2015.

Since 2014, the KPMG Japan Integrated Reporting Center of Excellence (CoE) has continually studied the disclosure trends of Japanese companies that prepare integrated reports, which would help to facilitate this kind of dialogue.

To help ensure that the voluntary efforts of companies that issue integrated reports actually help to raise value by enhancing dialogue between companies and investors, thereby increasing the competitive edge of Japanese companies, it is worthwhile to look at the existing situation and highlight some achievements and challenges.

Thus, we decided to continue to survey integrated reports, targeting reports issued in 2017.

Scope

A broadly agreed-upon set of requirements for the integrated report does not yet exist.

Therefore, KPMG used the List of Japanese Companies Issuing Self-Declared Integrated Reports in 2017, which is issued by the Corporate Value Reporting Lab. This year, KPMG surveyed and analyzed reports of all 341 companies on their list.

Please note that past comparative data in this survey is based on the number of companies issuing reports at the time of each survey. Therefore, the number of companies issuing reports in past surveys diverged from the number of companies issuing based on the latest survey of the Corporate Value Reporting Lab.

Reference: The number of issuing companies at the time of the survey
2014: 142 companies (as of December 31, 2014)
2015: 205 companies (as of December 31, 2015)
2016: 279 companies (as of December 31, 2015)

Methodology

Survey items were selected taking into account the expected content elements in integrated reports and its significance for investors, who are assumed to be the primary readers.

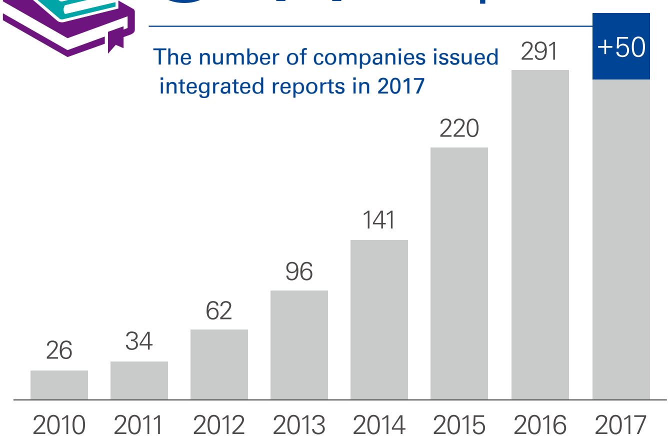
For this year's survey, after all the researchers discussed and determined the report evaluation criteria, two researchers are assigned to each area to check each company's report.

Thereafter, the entire research team discussed, summarized and compiled the results of the analysis and recommendations.

About the Issuing Companies

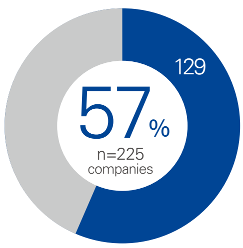
341 companies

The number of companies issued integrated reports in 2017

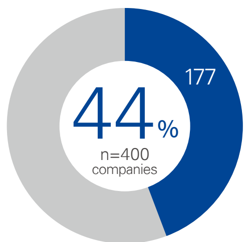


Index attributes of issuing companies

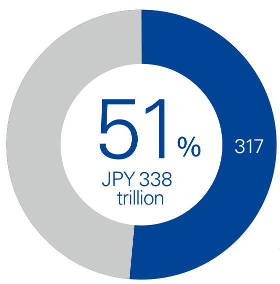
Nikkei 225 component percentage



JPX Nikkei 400 component percentage



Percentage in total market capitalization(TSE)



n=JPY 657 trillion (2,068 companies listed on the First Section of the Tokyo Stock Exchange)
* As of February 28, 2018

List of Japanese Companies Issuing Integrated Reports p.23 >

Key Recommendations

—Three recommendations for communicating more robust value creation story

1

Explain the financial strategy to make the value creation story credible

"Communicate a more robust value creation story with the financial strategy"

The integrated report is a report on value creation, and it is critical to provide information that allows the reader to gain a profound understanding of how the company creates value.

For a company to pursue sustainable value creation that is rooted in its own reason for being, management—the business execution leaders—must create a long-term vision and articulate a business strategy that creates a competitive advantage. This vision and strategy then become a driving force. However, to convince stakeholders that the vision and strategy are feasible, the financial strategy must be explained. Unless funds are raised and those limited funds are managed efficiently to earn sufficient profits, ultimately the company cannot achieve its business strategy and set a course that contributes to social value.

In order to gain support from investors with a medium- to long-term perspective, it is critical to help them understand how the company plans to create value by explaining the financial strategy to go along with the value creation story. This, in turn, will lead to quality dialogue.

2

Present and explain the material matters being considered in management decisions

"Present the issues the company sees as material to its medium- to long-term value creation"

An increasing number of companies are conducting materiality assessments, and then describing how they did it and what they found. In many cases, social issues that could impact the company are identified, and these are then described as material issues.

However, perhaps companies are confusing social issues that their value creation may help solve with issues that affect them in the pursuit of medium- to long-term value creation. Companies need to execute their management strategies while allocating and utilizing limited resources efficiently to achieve value creation. To demonstrate how they do this, it is essential that they elucidate the material issues that are considered in business decision-making. Clarity about material issues is critical to explaining the value creation story persuasively and evoking specific measures.

3

Identify and present the non-financial elements related to medium- to long-term value creation

"Present non-financial indicators relevant to the value creation story to deepen reader understanding"

Although the number of non-financial indicators that companies are presenting in their integrated reports increased over the previous year, the indicators, on average, do not fully elucidate the path to corporate value creation or establish the likelihood of success.

Non-financial information is more than so-called ESG information. Companies must not forget to consider all their invisible assets, including human capital. For example, today, at the dawn of an era where artificial intelligence and other digital technologies can fulfill a role traditionally played by human beings—and with higher productivity—the ability to acquire and retain exceptional human resources with the experience and knowledge it takes to create competitive advantage will be even more vital to corporate value creation. Have companies been able to show how their human resources contribute to this kind of value improvement using quantitative indicators?

Understanding of the relationship between non-financial information and value creation will likely deepen. To deepen this understanding, it is vital that companies recognize what kind of social value they should provide (contribute), then think through, in light of that, how their pursuit of sustainable value creation is linked to their financial value, and finally rationally define that path. The first step is for the board to discuss materiality in light of a timeline.

Executive Summary

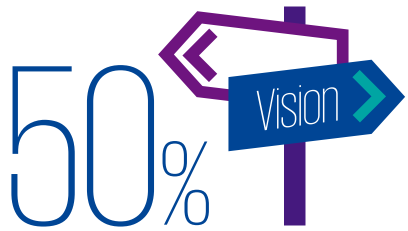
Long-term orientation

Long-term orientation p.07 >

The integrated report explains the medium- to long-term value creation story. Management is expected to tell the value creation story based on their long-term vision. In this survey, only 50% of companies' long-term visions are described in the message from the top management. Further, although there are many companies that describe the medium-term management plan and strategic investment, there are few companies that explain it together with their financial strategy. If the management message clearly spells out the future vision and direction that the organization is aiming for, this key point can be extended throughout the report, making the value creation story easy to understand and the report persuasive. In particular, an explanation by top management of the financial strategies that support the feasibility of the company's value creation provides helpful information for decision-making by investors, the providers of financial capital.

In addition, there were few companies with clear timelines in their description of value creation. Defining the timeline may lead to conscious dialogue about the value creation path with stakeholders and then adjust it to the timeline that reflects stakeholders' expectations,

Companies that described their long-term vision in the message from the top management



Value Creation

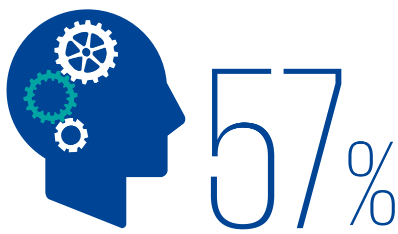
Value creation p.09 >

Over half (57%) of the companies created sections on the value creation process, and this trend is on the increase. However, many of the value creation processes presented by companies were similar to the diagram illustrating the IIRC's International Integrated Reporting Framework (IIRC Framework), and in many cases they ended up being similar to those of other companies.

The value creation process should be unique to each company. KPMG understand that it makes sense to reference the IIRC Framework, but the key to better communicating one's own value creation process is to indicate what kinds of capital the company possesses, and how they are utilized to create value. Rather than seeing general terms from the IIRC Framework, such as "human capital" and "intellectual capital," readers want to be able to comprehend the human resource ideal and the technologies for achieving value creation.

There are few companies that can quantitatively and qualitatively explain the relationship between capital that is invested in value creation and capital that they create. An understanding of the changes in capital produced by the business is the foundation of the value creation process, and concrete, accessible presentations will help the reader assess the value creation outcome.

Companies that described the value creation process



Governance

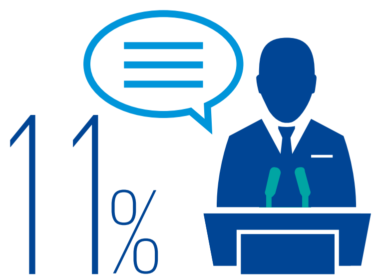
Governance p.11 >

Compared to the previous year, more companies listed basic information that indicates the effectiveness of governance, such as the reasons for appointing the directors, the action plan concerning the board evaluation results, and the remuneration policy. It appears that awareness and initiatives for governance reform are becoming widespread.

However, only a few companies explained this governance information in relation to the strategy. In addition, only 11% of those responsible for corporate governance, such as the chairman of the board, deliver their message in the integrated reports to discuss their governance policy, their assessment of the current state, or their recognition of medium- to long-term future tasks.

Once those responsible for governance have explained in their own unique words that their governance system can execute company-specific strategies and demonstrated their enthusiasm for and commitment to realizing their value creation story, stakeholders will understand the company's potential to create corporate value.

Companies including a message from the chairman of the board



Materiality

Materiality p.13 >

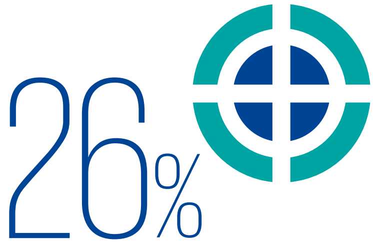
References to materiality are becoming more common, and the number of companies engaged in related efforts is increasing year by year. However, a clear majority, at 62% of companies, are merely conducting materiality analyses for the purpose of selecting CSR activities.

Since materiality analysis in the integrated report should consider the matters that affect the company's medium- to long-term value creation, management involvement is essential to the assessment process. According to the survey, 26% of companies reported that management is involved in the materiality assessment process. However, in reality, their involvement is for the most part not sufficient; for example, often they only review and approve the results of the secretariat's analysis.

In addition, while most companies used "stakeholders" as the basis for the materiality assessment, very few mentioned which stakeholders they are targeting.

The position and degree of impact will vary for each stakeholder depending on the matters that affect value creation over the medium to long term. Companies must sort out who their key stakeholders are, as this is the basis of materiality assessment, in order to determine what they need to explain.

Disclosure of the materiality assessment process



Risks and opportunities

Risks and opportunities p.15 >

Of the companies surveyed, 79% provided risk information, but reports with some sort of statement about opportunities were still few in number, at 23%.

The challenges facing companies can bring both risks and opportunities. Whether they consider a matter a risk or an opportunity will make a major difference in how they represent the overall picture of value creation and their strategic direction.

In the descriptions of risks and opportunities, only 12% of companies, an even smaller number, took into account explanations and timelines associated with the strategy. The integrated report should explain the overall picture of value creation over the medium to long term. When companies explain their understanding of medium- to long-term risks and opportunities and define the timeline of targeted value creation, their value creation story comes across much more clearly.

If we take the integrated report as management's assertion, the risks thought to have a significant impact on value improvement should correspond to the risks the report describes. However, the results of this survey clearly indicated a gap between them. Given the role of the integrated report, this calls for improvement.

Companies that mentioned opportunities

Key Performance Indicators

Key Performance Indicators(KPI) p.17 >

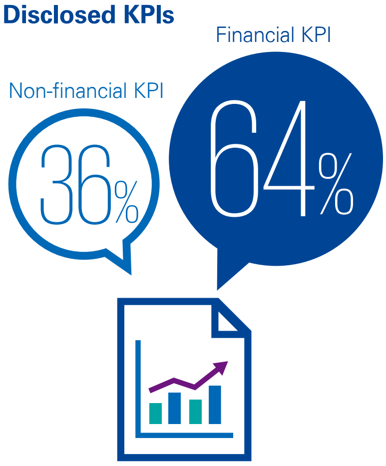
KPIs are used to clarify strategic objectives and verify the degree of achievement and progress. Since most integrated report content is qualitative, it is vital to quantitatively show the feasibility of value creation using KPIs that make the information credible.

In this year's survey, non-financial KPIs accounted for 36% of the KPIs shown in highlights sections of reports, up from the previous year, showing that companies are trying to enhance non-financial KPI content. However, few companies explained the selected KPIs in connection with their background strategies and objectives, and only a few companies' management explained the KPIs and declared their commitment to them.

The KPIs selected by companies ought to be understandable and useful to investors, as well. An examination of the disclosure of KPIs aligned with the ESG indices of the Government Pension Investment Fund (GPIF) revealed overall weakness. Although the company itself selects the KPIs, choosing KPIs with the readers' perspective in mind will very likely stimulate effective dialogue between companies and investors.

The need for unique KPIs that express each company's character should be respected. On the other hand, a robust discussion about how best to standardize non-financial KPIs could be undertaken to enhance reader convenience and increase KPI usefulness.

Disclosed KPIs



Long-term orientation

1 Ensure that top management communicates the value creation story based on the long-term vision

The long-term vision is what the organization seeks to achieve and clearly shows the direction forward to stakeholders inside and outside the organization. The main point of the value creation story is to communicate what opportunities the company should seize, what it should consider as risks, and what kind of action it should take to achieve its vision. Top managements' communication of this vision helps employees better understand the significance and role of their work and motivates them. It also provides basis for evaluation which helps stakeholders to decide whether they agree with the organization's path to value creation.

This year, only 50% of CEOs (including senior management, such as the president and COO) explained the long-term vision in their message (Figure 1-1).

The message from the management should be a summary of the value creation story communicated throughout the integrated report. The long-term vision should be the core of the value creation story. If top management's commitment to achieving the vision is clear, the entire report will be more persuasive, resulting in better understanding.

2 Show the feasibility of the medium- to long-term value creation story with the financial strategy

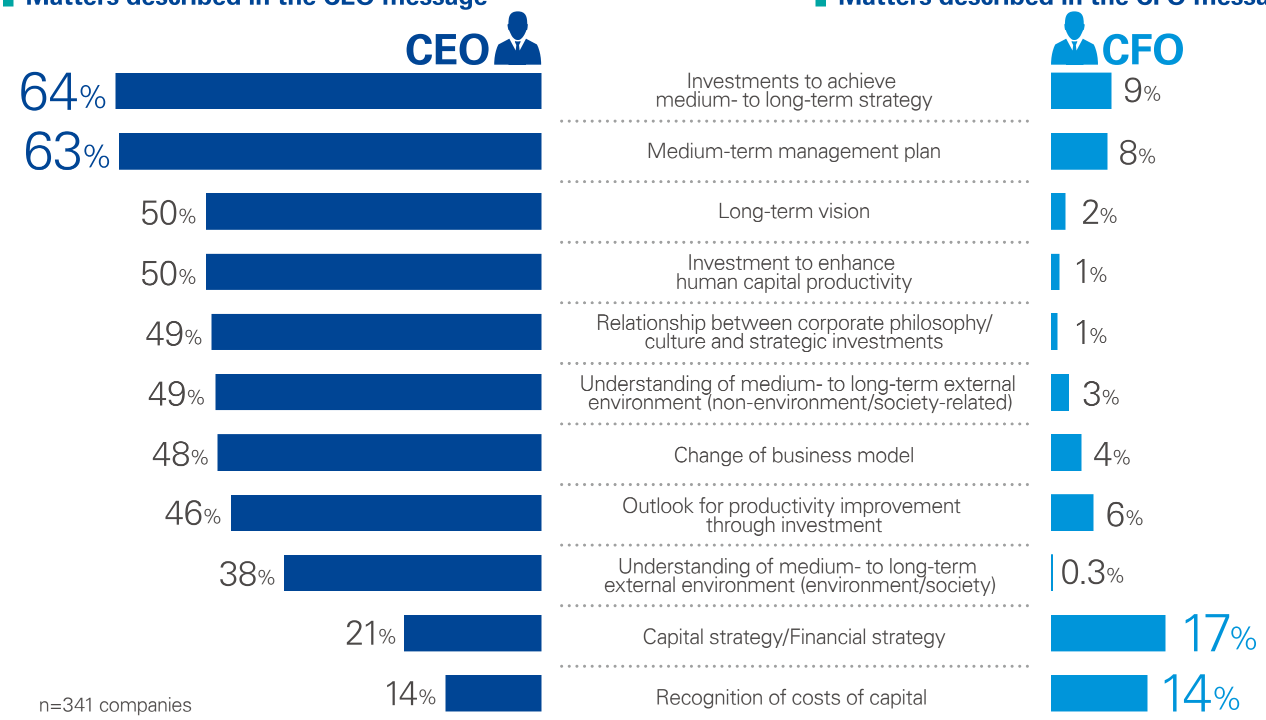
The explanation of the management strategy is persuasive if management describes not only the business strategy to create a competitive advantage, but also a convincing financial strategy that backs up its feasibility. Companies need to explain to shareholders how much of the funds acquired are to be allocated to strategic investments, how much profit will be returned to shareholders, and why it was decided that such a balance is optimal.

In this survey, many cases where the financial strategy was explained not by the CEO, but the CFO(including those in charge of finance such as the general manager of finance). However, even with CEOs and CFOs combined, only 34% (CEOs 21%, CFOs 17%, excluding overlapping companies) referred to the financial strategy in their management messages (Figure 1-1, Figure 1 -2). The percentage of companies where the CEO explained the medium-term business plan and strategic investments was relatively high, exceeding 60% in both cases (Figure 1-1). However, unless the financial strategy is part of the explanation of medium- to long-term value creation, it is not possible to show the effectiveness of the plan or strategic investments, nor to obtain the confidence of shareholders in the company's internal reserves.

An explanation of the financial strategy is an essential element in making the path to value creation more concrete as well as reinforcing its feasibility, and it may also contribute to better dialogue.

Figure 1-1：
Matters described in the CEO message

Figure 1-2：
Matters described in the CFO message



One of the features of the integrated report is the descriptions of the ability to create value over the medium and long term. In that case, how much is explained about elements that require a medium- to long-term perspective?

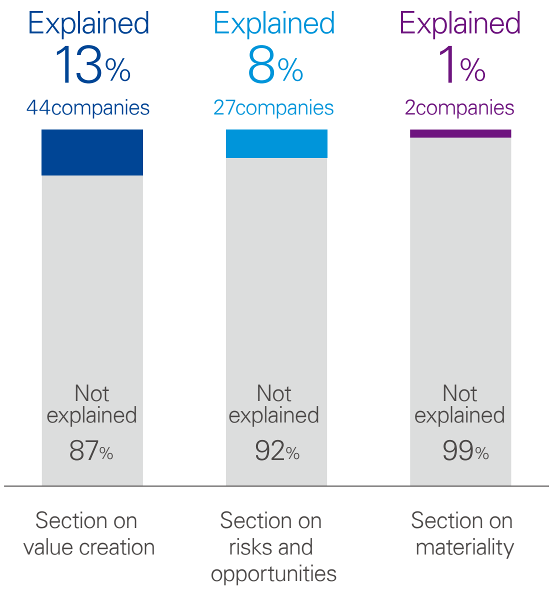
In this survey, KPMG examined the messages from CEO and CFO to see how much of contents that described the company's long-term orientation are in it . KPMG also examined the description of the timeline in each section of the integrated report.

3 Show the timeline of value creation and develop a dialogue for value co-creation from a long-term perspective

Even if the reader understands and agrees with the long-term vision and path that the company presents in its integrated report, mutual understanding will not be achieved if the two parties have a different sense of how fast the vision should be implemented. It is difficult to define the length of "long term". However, bearing in mind the length of the company's business cycle, it is important for the parties to dialogue about their views of the timeline, mindful of "the longest period possible as long as a reasonable forecast is possible." In their integrated reports, few companies present the elements along the timeline, such as the value creation models and business models that are critical to describing the path to value creation, the materiality assessment to identify the material elements that greatly influence value creation, and the risk recognition (Figure 1-3).

Companies, the party to be affected most by corporate sustainability, ought to think from a longer-term perspective than outside stakeholders. It is the company's job to present the value creation timeline, which makes it possible then to reconcile it with the timeline readers have in mind. This leads to true value co-creation by stakeholders and companies mutually influencing each other.

Figure 1-3：
Explanation with timeline



n=341 companies

• Column

Significance of awareness of ROE

One of the indicators emphasized by investors is return on equity (ROE). This is an indicator that measures how management is fulfilling its responsibility to utilize retained earnings and capital deposited by shareholders.

Investors compare risks and returns and will only invest when they can expect to obtain a return that offsets the risk. In this process, they will determine the level of expected return based on the perception of the risks of the companies in which they invest. This is the shareholders' equity cost. When ROE, which is the resulting value of profit gained, is less than the shareholders' equity cost in relation to the invested capital stock, shareholders will see damage to corporate value, even if the company posts an accounting profit. This is because they did not obtain a risk-adjusted return. The shareholders' equity cost is a subjective determination based on risk perception, and risks are constantly changing due to changes in the operating environment. Therefore, individual shareholders seldom provide answers on the ROE or shareholders' equity cost they expect.

However, in situations where the price book-value ratio (PBR) is less than a multiple of one, many investors indicate that the medium-to long-term ROE is expected to be lower than the shareholders' equity cost, which can be interpreted that a further increase in ROE is needed.

"Is low PBR due to low ROE? Is low ROE due to a low profit ratio? Is the profit ratio low because high value-added products have not been developed or because efforts to improve service profitability were delayed?" If companies dig deeply into these questions by taking the signal from capital markets as a clue, and apply these ideas down to operational issues, this could encourage corporate initiatives to achieve value creation. As a result, if ROE improves and PBR also rises over the medium to long term, this could be seen as proof that value creation has been achieved. Although only one example, companies should probably take this point of view.

Value Creation

1 Present a one-of-a-kind value creation process

As integrated reports become common year by year, an increasing number of companies are indicating their value creation process (Figure 2-1 and Figure 2-2).

However, while there are a certain number of companies that describe the value creation process based on their own unique approach, many companies that adhere to the value creation process diagram (the "Octopus Model") illustrated in the IIRC Framework have lost their individuality and identity, and the value creation process they describe is similar to that of other companies, despite differences in industry and business.

KPMG believes that it makes sense to refer to the IIRC Framework. However, to better communicate the realities of the value creation process to readers and gain their understanding, companies must recognize how they create value and describe it in their own words. Management's involvement is essential to this process.

2 Forge a unique identity by specifying the kinds of capital that express the company's strengths and direction

To communicate the value creation process, it is vital to show what kinds of capital the company possesses and how they are utilized to create value.

Many companies that showed the value creation process diagram also mentioned capitals (Figure 2-3).

However, there were reports that simply used the names of the capital illustrated in the IIRC Framework, such as "human capital" and "intellectual capital," and did not specifically say what kind of human resources and knowledge were important to their companies. There were also reports in which it was difficult to understand how the capitals were related to the company's value creation process.

When examining the capitals, there is no need to adhere to or cover them all, because the six capitals shown in the IIRC Framework are merely examples. Sorting out what kinds of capital the company uses and is trying to create and specifically showing them as elements that make up the value creation process helps show the strengths and direction of the company.

Figure 2-1：
Section on the value creation process

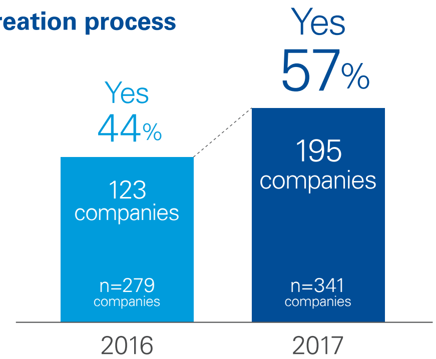


Figure 2-2：
Disclosure of the value creation process diagram or the business model diagram

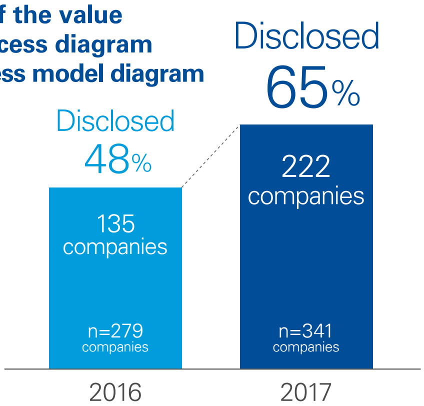


Figure 2-3：
Disclosure of capital in the value creation process diagram

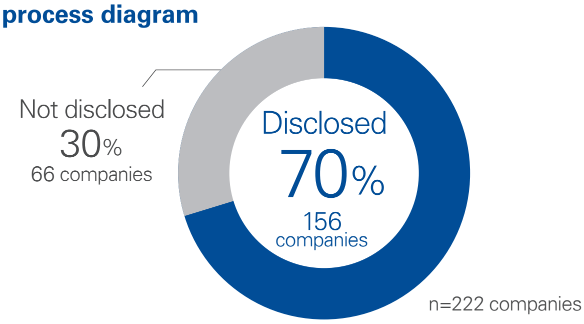
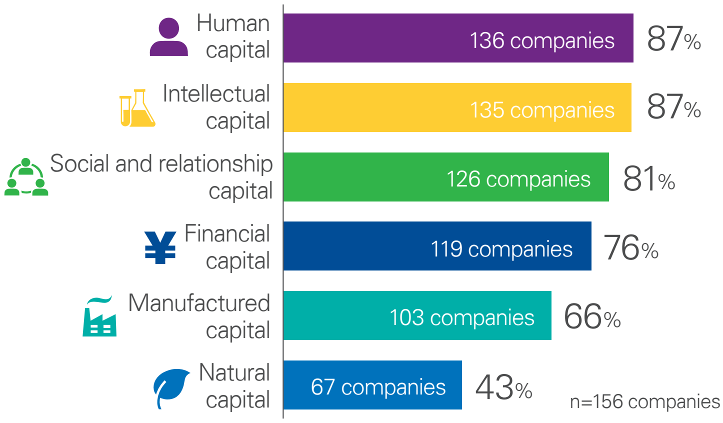


Figure 2-4：**Disclosed capitals**



The “value creation process,” which explains a company’s sustainable value creation, is an essential element of the integrated report. It also reflects a unique corporate identity. Therefore, in the integrated reports, KPMG examined whether the company’s unique value creation process was discussed, and whether the capital necessary for and able to influence the company’s value creation was identifiable. KPMG also looked at whether the reports indicated the approach to how the nature and value of capital change after the value creation process.

3 Acknowledge how the value creation process changes the value and nature of capital

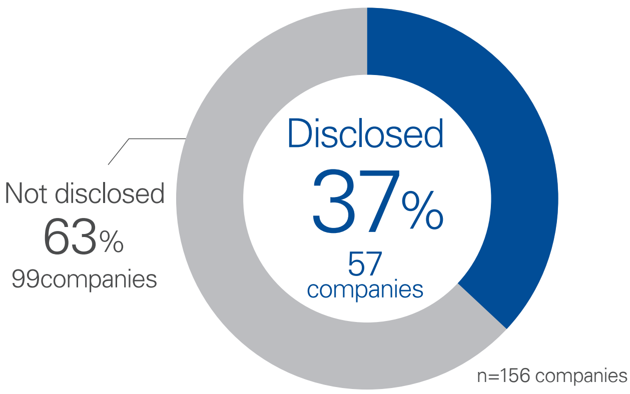
Capital is converted to different kinds of capital and is reused in the value creation process. For example, investing funds (financial capital) in human resource development will increase the number of superior salespeople (human capital), and in turn the resulting profit (financial capital) could be invested in building a new factory (manufacturing capital). Thus, there is a relationship to capital invested in value creation and creative capital.

In the survey, a certain number of companies tried to quantitatively show capital in the value creation process diagram (Figure 2-5). On the other hand, few companies quantitatively and qualitatively explained how the invested capital was converted and increased or decreased in the value creation process.

Explaining the conversion of capitals makes it easier for the reader to understand why the capitals are important. In particular, quantitative explanations are able to show, in concrete terms, how specific capitals are being utilized for the company’s value creation.

It is not always necessary to explain all of the capital conversions in the value creation process diagram, but showing the overall picture in the value creation process diagram and explaining in detail the capital conversion in another section is one recommended approach.

Figure 2-5：
Disclosure of quantitative information on capital in the value creation process diagram



Column

Institutional investors have started to emphasize the integrated report

More than five years have passed since IIRC issued the International Integrated Reporting Framework in December 2012. In 2017, more than 300 Japanese companies issued integrated reports, but this is still a limited number compared to all listed companies.

According to Corporate Governance Overview 2017, researched by KPMG Japan, the most common answer among companies, when asked which disclosure document became more important after the introduction of the Corporate Governance Code, was the corporate governance report, with far fewer companies mentioning the integrated report.

On the other hand, institutional investors named the integrated report as the top disclosure document which became more important, with nearly 90% of all survey respondents indicating that they have already used integrated reports or plan to do so in the future.

In the timeline of dialogue between companies and investors, with the medium- to long-term being increasingly emphasized, institutional investor interest in the integrated report, which describes the medium- to long-term value creation story, is natural. In January 2018, GPIF announced the “excellent integrated report” and the “most-improved integrated report” selected by asset managers of Japanese equity investments. This is another sign of the growing interest in integrated reporting among institutional investors in Japan.

In light of this change in institutional investors’ thinking, it may be time for companies that have not yet issued an integrated report to consider doing so.

KPMG in Japan	GPIF
Corporate Governance Overview2017	Excellent integrated report/ Most-improved integrated report

For those browsing online, please click the QR code

Governance

1 Explain the governance system to show feasibility of its value creation

The governance system created to set the direction of value creation and support the execution of strategy should vary from company to company. Uniqueness are expected to be seen in the design of governance, the appointment of directors, the remuneration policy, and so forth.

Baseline information on governance, such as the reasons for appointing internal and external directors, the commitment to address the board evaluation results, and remuneration policies, are increasingly common. Survey results indicate that corporate initiatives to improve governance, triggered by the introduction of the Corporate Governance Code, are increasingly popular (Figure 3-1 to Figure 3-3).

Relevancy to the value creation story makes explanations of baseline information about governance more persuasive: for example, giving the reasons for the appointment of directors, describing their skills with their relevance to strategy, enhancing disclosure of the board evaluation, and describing the process of determining remuneration in relations to its PDCA cycle. The company-specific governance system must be presented as the foundation of the value creation story.

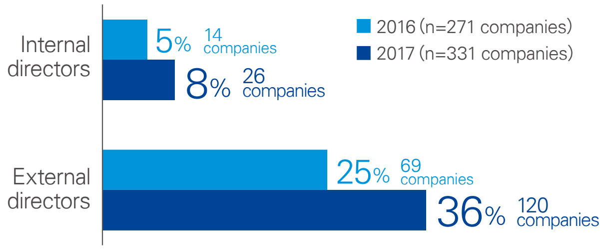
2 Take advantage of integrated report whose purpose is different from that of corporate governance report

KPMG examined how governance information is explained in relation to other elements, such as strategy, from the viewpoint of the value creation story, focusing on these three points: (1) approach to board system, size, and diversity; (2) reasons for appointment of directors; and (3) policy for determining remuneration. It was discovered that fewer than 10% of companies explained these points (Figure 3-4).

On the other hand, many companies included in the integrated report nothing more than the summary of the corporate governance report. What is disclosed in the corporate governance report help determine its effectiveness and viability only when their relevance to the value creation story and strategy is shown.

When a company clearly and specifically describes a governance system that is consistent with its company-specific strategy in its integrated report, stakeholders can properly understand the path of value creation that leads to a competitive advantage in the marketplace. This will improve the quality of the integrated report as a useful tool for dialogue.

Figure 3-1：
Disclosure of internal directors' experience, skills, and reasons appointed



Number of companies that disclosed all: experience, skills, and reasons appointed

Figure 3-2：
Disclosure of board evaluation

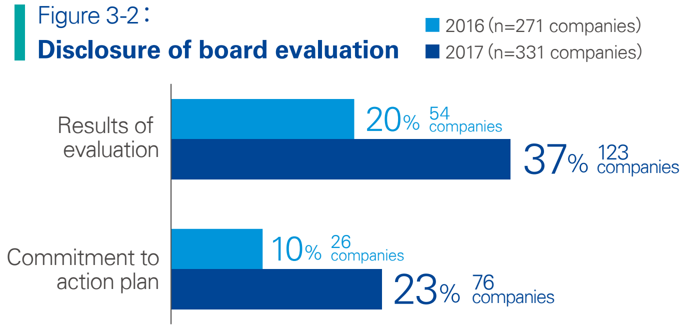


Figure 3-3：
Disclosure of remuneration policy

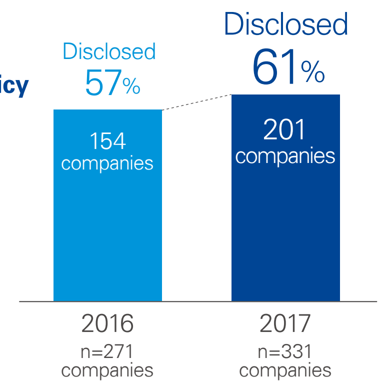
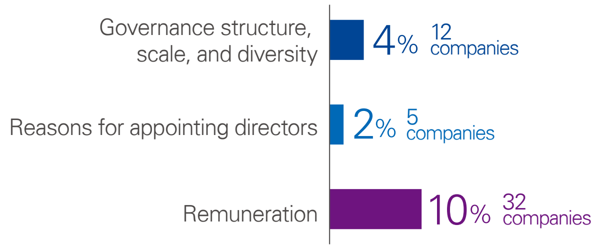


Figure 3-4：
Connectivity of governance information and strategy



n=331 companies

* In this section, out of 341 issuing companies, we surveyed 331 excluding nine companies that did not disclose governance information and one accounting firm that did not apply the Corporate Governance Code (as surveyed in the previous year using the same criteria).

It is expected that the integrated report will explain governance as it relates to the medium- to long-term value creation story and strategy. A statement about governance that demonstrates the effectiveness of the value creation story helps build a foundation for rapport with the company.

Therefore, in this survey, KPMG focused on three points essential to showing the effectiveness of the value creation story: (1) information related to the governance system; (2) connectivity of strategy and governance; and (3) message from those in charged with governance.

3 Indicate recognition and involvement of the person responsible for governance

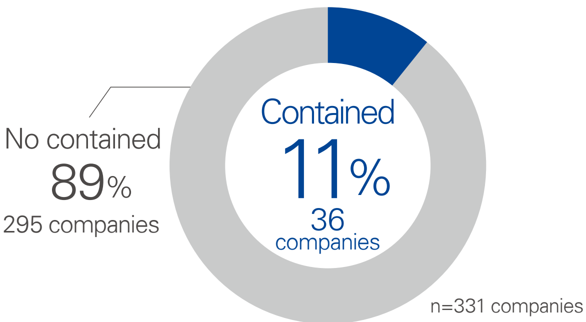
It is important to explain the governance system in detail and present quantitative data. However, while discussing the company's governance policy, the person responsible for governance is expected to show his or her perception of the current situation, and its awareness of issues for the medium- to long-term future, the comprehensive relationship between the big-picture view of governance and the value creation story.

Only 11%, or 36 companies, included messages from the person responsible for governance, for instance, the chairman of the board (Figure 3-5). However, the content of these messages was extensive and included explanations about the restructuring of the governance system design in accordance with the medium-term management plan and the commitment to improve the results of board evaluation, and clearly showed the relationship to strategies and other content elements.

An integrated report that not only has information on governance, but also directly communicates a message from the person responsible for governance, will articulate his or her enthusiasm for company-wide measures and initiatives for achieving the company's value creation story.

To achieve beneficial communication with readers, it is recommended to indicate the views of the person responsible for governance on medium- to long-term issues.

Figure 3-5：
Message from the chairman of the board



Column

Governance of subsidiaries and instilling the corporate philosophy

Recently, there has been a number of scandals at the subsidiaries of corporate groups, such as accounting fraud and compliance violations. One of the reasons for these scandals is the inadequate functioning of governance over the subsidiaries in the first place. In subsidiaries that are located far away from the parent company and given significant authority, scandals may occur.

Then, what kind of effort is needed to make governance effectively function in subsidiaries? Various initiatives are conceivable, such as sending in management from the parent company or clarifying the lines of reporting. However, an important prerequisite is for the entire group, including employees of subsidiaries, to share one set of values. To that end, it is vital that the corporate philosophy be widely instilled. Many corporate philosophies are short and abstract, and figuring out how to turn them into something that can be easily instilled and understood is a challenge.

More and more companies are expected to seek to expand their business by entering foreign markets. Due to mergers and acquisitions and other factors, the number of overseas subsidiaries that are located far away from the parent company will increase. To integrate management after businesses combination and to make the group function efficiently, efforts are needed to communicate principles such as the corporate philosophy and values in a clearer and understandable manner across international borders. It will become increasingly necessary to take into account regulations, social and historical background, and differences due to generation gaps. Some integrated reports describe the origin of the corporate philosophy and explain it in a way that is easy to understand. It will be one good idea to utilize the integrated report as a tool to widely instill the corporate philosophy in employees of subsidiaries and enhance unity within the group.

Materiality

1 Explain matters material to corporate value creation

The understanding that materiality is to be communicated in the integrated report is gaining ground, and the numbers of companies that do so are increasing (Figure 4-1). However, it appears that there is not yet a widespread understanding as to what kind of materiality needs to be shown. Most companies describe materiality as it influences selection of CSR activities, but only a limited number of companies are able to show how material matters affect corporate value creation; few show an awareness of why it is critical to address materiality in an integrated report (Figure 4-2).

However, many companies have a growing recognition about integrating and unifying CSR initiatives into business activities, so there appears to be at least some change in the positioning of materiality assessment and related efforts.

The reason it is vital to explain materiality is to allow the reader to understand management's decision-making basis for sustaining growth. Therefore, matters affecting medium- and long-term value creation are expected to show up in the materiality assessment table. For that to happen, companies must clearly define their own visions of value creation, and on that basis, they must evaluate how much the material issues affect their value creation.

Process of assessing materiality also helps share awareness about improving the organization's value, and this should be considered as an ongoing effort.

Figure 4-1：
Companies that disclose "materiality"

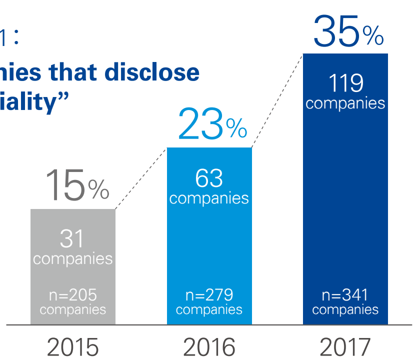
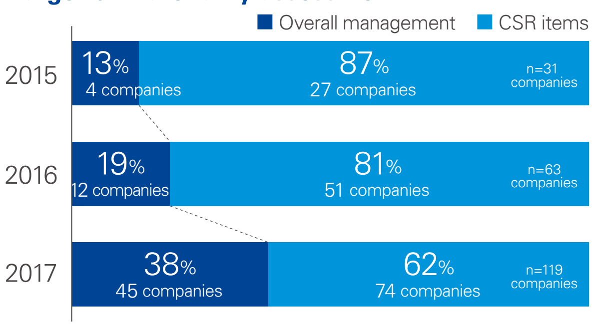


Figure 4-2：
Target of materiality assessment



2 It is management to determine materiality

Management's substantial involvement is essential in the materiality assessment process. Management decisions are needed for questions such as: what enables the company to generate value, what the company's strengths and competitive advantages are, what the company should strengthen and what it should preserve to further raise value, and what it should allocate resources to on a priority basis.

The survey found that, although 26% of companies indicated management involvement (Figure 4-4), much of it involved chairing CSR Committees, and in most cases the actual involvement was only to review and approve study results from the secretariat.

Since the discussion of materiality expected in an integrated report is related to the medium- to long-term value creation, management must be more actively involved, not merely reviewing and approving. If it is for over a few year period, the persons responsible for corporate planning may make certain decisions and assessments of materiality under certain conditions, but assessment of materiality in a long time horizon, such as 10 or 20 years, should be the responsibility of the board of directors. Based on materiality determined by the boards, concrete business strategies can be developed. This, in turn, will help align management' intention and employee' action in the workplace, thereby ensuring management is actually executed based on integrated thinking toward value creation.

Figure 4-3：
Disclosure of materiality assessment process

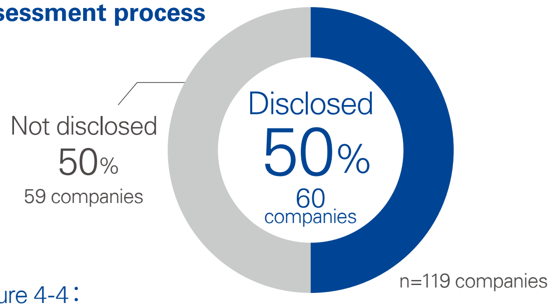
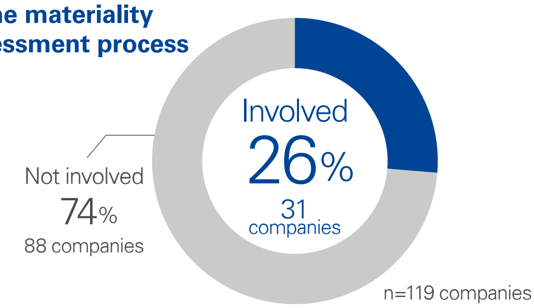


Figure 4-4：
Management involvement in the materiality assessment process



In the integrated report, matters that impact corporate value and the management's perception of them must be presented in the description of materiality. Readers expect the report to explain management decisions that shape the company's medium- to long-term value creation and the basis for those decisions.
This survey examined the explanation of materiality, while taking note of how materiality is used in the companies and the level of management' involvement in materiality assessment.

3 Reconsider the significance of stakeholder evaluation

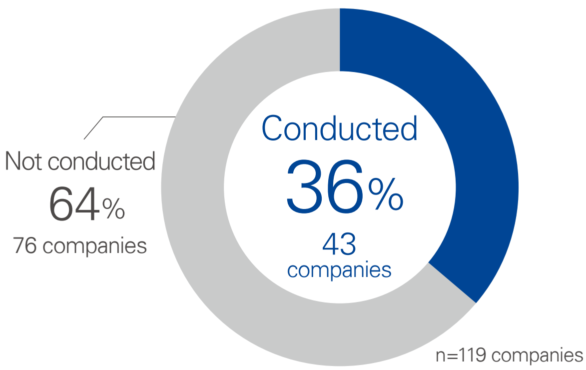
Many companies use "stakeholders" as the focal point of their materiality assessment, yet do not mention what kind of stakeholders they are targeting or what kind of influence those stakeholders have on the company.

It may not so important to list stakeholder groups, as long as the company shows an awareness of social problems and the natural environment in relation to the "shared vision of humanity," or social sustainability. However, since social issues and environmental problems have an impact on the company's value creation and sustainable growth, the degree of each stakeholder group's involvement should vary depending on their function and impact on the company's value chain.

Companies would do well if they reconsider what they are trying to explain via the stakeholder materiality assessment, for instance, the position and role of various stakeholders in companies' value creation.

The discussion on materiality, which is deeply rooted in the relationship between each company and its stakeholders, should assess the degree of its influence on value creation, taking into account various social issues, and thereby contribute to management decision-making. If materiality is disclosed after verifying the positioning and mutual relationship of individual stakeholder groups, taking into account the degree of their influence, it can also be used to effectively communicate with those stakeholders. Moreover, companies and their stakeholders can then engage in dialogue in areas that both see as highly significant, or vice versa, areas where their views differ. This, in turn, can deepen mutual understanding and raise corporate value.

Figure 4-5：
Stakeholder engagement in materiality assessment



Column

What exactly is Materiality?

Materiality as discussed in the integrated report refers to those factors that have a great deal of impact on the value that the company creates or is attempting to create. Materiality assessment is the process of determining what those factors are. Those judged most significant are identified as material issues that must be addressed. A key premise is that each company on its own decides which factors are material.

Companies redefine the tangible and intangible value that they create and provide, taking into account the time horizon, such as the business cycle and social trends, and then analyze the matters that affect their activities and outcomes. The longer the time horizon, the greater the relevance environmental and social trends have, and the shorter it is, the greater impacts on issues within the company, urgent geopolitical risks, and market trends have. Optimally deploying intellectual and human capital requires study and strategies from the short- to medium- to long-term.

Materiality is the basis for deciding where to allocate finite resources. The resources to be considered are not limited to those retained by the organization at that particular time, but are the total capital required to create value. What the board has decided in terms of materiality and material issues will contribute to prompt decision-making. It will also lead to constructive dialogue with investors and others.

In fact, companies do not have to stick to the word "materiality." In many reports, we found statements that describe the materiality of the company on pages other than the "materiality" section. It is not because an integrated report ought to state "materiality". Instead, the actual concept of materiality is vital to the process and practice of integrated reporting. Companies that share the materiality analysis results determined by the board and deploy them in business processes and daily activities may lead to increasing their "earning power." Companies need to be more intentional about piecing together all the factors they consider material—no matter what particular terms they use—in order to establish a foundation for true integrated thinking.

Risks and opportunities

1 Risks and opportunities inextricably linked

According to the survey, 79% of companies provided risk information, well above the 53% of the previous year (Figure 5-1). Those providing information on opportunities stood at 23%, which is more than 5% higher than the previous year, but still a minority (Figure 5-2).

The challenges facing companies can bring both risks and opportunities. How a company envisions the overall value creation process will differ depending on whether a company perceives a matter as a risk or an opportunity. If perceived as a risk, from the standpoint of risk management, it is better to carefully explain the probability of occurrence, its magnitude, and countermeasures. On the other hand, if perceived as an opportunity, the company would need to explain its relevance to the strategy and the resource allocation plan, showing how it will lead to improved corporate value.

It is effective to include statements that consider aspects not only of risk, but also of opportunity, in order to communicate the overall value creation picture and specifically discuss the possibility of its realization and achievement.

Figure 5-1：
Companies that disclosed risks and opportunities

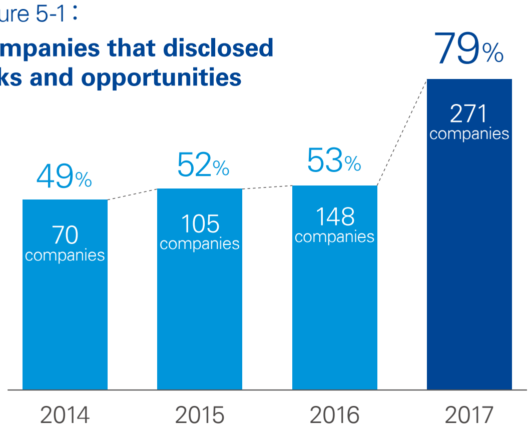
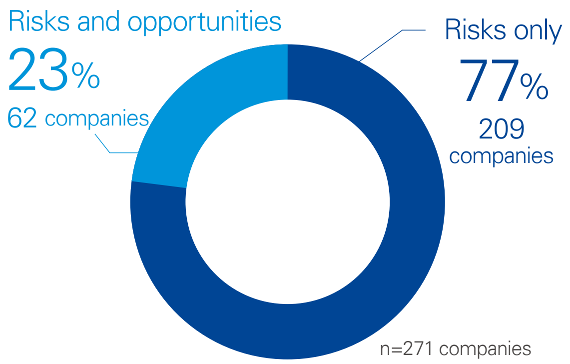


Figure 5-2：
Breakdown of risks and opportunities disclosed



2 Show management's risk recognition

In this survey, KPMG found a gap between the risks considered significant by management and the risks explained in the integrated report.

In the KPMG Global CEO Survey 2017, KPMG examined the risks that most concern 100 Japanese CEOs (65% of the responding companies had sales of at least US$10 billion). The survey found that Japanese CEOs saw the following as their top risks: reputational/brand, emerging technology, cyber security, regulatory, and strategic risk. However, the top risks in this survey on integrated reporting were: operational, regulatory, cyber security, geopolitical and environmental risk. The two lists clearly differ (Figure 5-3).

Companies who want to properly communicate the overall value creation process are advised to describe the risks that most concern management in their integrated reports. The inconsistency between risks recognized by management and those described in the integrated report is a major issue.

Figure 5-3：
Gap between integrated reports and risk recognition of CEOs in Japan

KPMG Japan Survey of Integrated Reports in Japan 2017	Risk weight	KPMG Global CEO Survey 2017 (Japan) Partial revision
Operational risk	1st	Reputational/brand risk
Regulatory risk	2nd	Emerging technology risk
Cyber security risk	3rd	Cyber security risk
Geopolitical risk	4th	Regulatory risk
Environmental risk	5th	Strategic risk
Changing customer needs	6th	Geopolitical risk
Supply chain risk	7th	Operational risk
Interest rate risk	8th	Changing customer needs
Human capital risk	9th	Environmental risk
Third-party risk	10th	Supply chain risk
n=271 companies		n=100 companies

In communicating the overall picture of value creation, explaining how the company recognized and responded to risks and opportunities helps win medium- and long-term support from stakeholders.

KPMG studied whether companies answered these questions: "What are the specific risks and opportunities that influence ability to create the short, medium, and long term value?" and "What is the company doing to address them?"

3 Explain how the risks and opportunities affect strategy, with the timeline

Companies analyze risks and opportunities based on business characteristics, the business environment, and other factors, and formulate strategies after evaluating their impact. However, only 12% explained how risks and opportunities related to their strategy (Figure 5-4).

Different strategies and risk management methods emerge depending on whether the risks and opportunities are expected to appear in the short-term, or in the medium- to long-term. Therefore, recognition of the timeline should have a major impact on decision-making. However, only 10% of companies surveyed clearly showed that they took the timeline into account when recognizing risks and opportunities (Figure 5-5).

The integrated report explains the overall picture of short- to medium- to long-term value creation. The time element of value creation is clearer and management's intent is more easily communicated when due consideration is given to the time element in recognizing risks and opportunities.

Figure 5-4：
Relationship between "risks and opportunities" and strategy

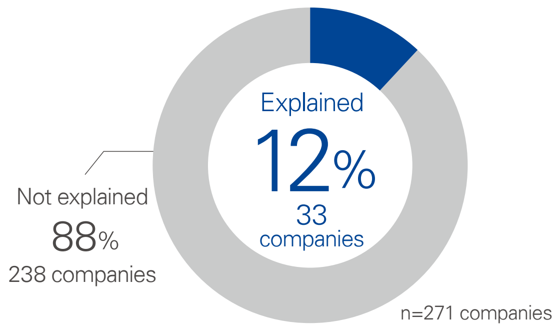
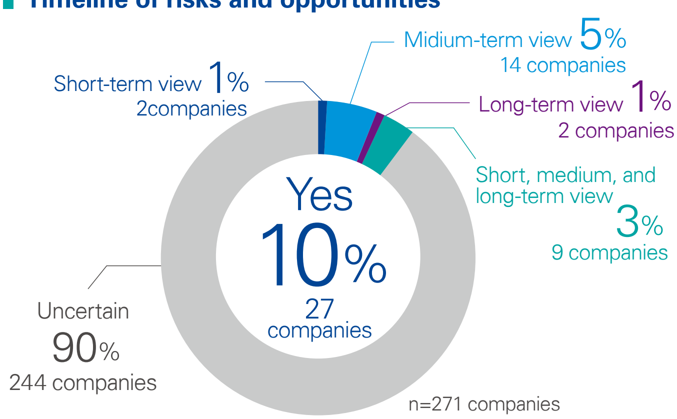


Figure 5-5：
Timeline of risks and opportunities



• Column

Human rights risk in business

With economic globalization, companies are exposed to more risks than ever. Recently, companies are expected to monitor for risks related to human rights violations.

Since the 2011 publication of the United Nation's "Guiding Principles on Business and Human Rights," awareness of the issue of human rights violations in business has become widespread, primarily in Europe. In addition, substantive regulations to prevent human rights abuses, such as the UK Modern Slavery Act, have increased human rights risks for companies.

Consumers, NGOs and other stakeholders criticize human rights violations in business activities. Social media has spread news of violations worldwide, instantly triggering massive boycotts and seriously impacting corporate reputations.

Foreign media outlets in Japan have criticized issues such as the forced labor of foreign technical trainees burdened by debt as a case of human rights abuse by business. In addition, at suppliers in emerging countries, there are many cases where migrant workers have forced into slave labor, as well as cases of child labor.

Human rights risk in business affects both people and business. For companies that are seeking to expand their business globally, human rights abuses are not "someone else's problem." To achieve both sustainable social development and long-term value creation, companies must consider the entire value chain. To that end, the international community has identified and is addressing human rights risks, including damage to human health caused by environmental pollution and hindrances to health and safety, forced labor, child labor, and discrimination. Companies are responsible for meeting the expectations of stakeholders that their business activities are sound and sustainable.

It would be instructive for companies to re-examine whether they have an unaddressed risk in light of international norms. Management and investors cannot remain indifferent when it becomes clear that human rights risk could significantly impact their corporate value.

Key performance indicators

1 Management should indicate commitment to value creation by showing the related KPIs

Non-financial KPIs accounted for 36% of the KPIs shown in highlights sections of reports, up 7% from the previous year, showing companies' efforts to enhance non-financial KPI content (Figure 6-1). Based on the premise that coverage of financial KPIs is already well-established (Figure 6-2), in this survey KPMG examined whether the non-financial KPIs shown in the highlights section were described in detail in any other section of the report.

The survey found that 62% of companies included a detailed explanation of non-financial KPIs in a separate section (Figure 6-4). The message from the management explained KPIs in 12% of the reports (Figure 6-4). Among these KPIs, many were related to R&D expenses and globalizing human capital.

KPIs related to the value creation process should show the link to strategy and performance targets, and not just in the highlights section. If this is done, the KPIs will not be separated from the value creation story and not stand alone, thus promoting a better understanding. Furthermore, if management explains the KPIs and shows its commitment to them, the reader can more easily understand how management's thinking on value creation and specific value creation goals are connected. Stating the reason for choosing each KPI is also useful. Providing this kind of explanation makes the relationship between the KPIs and the value creation story easier to understand.

Figure 6-1：
Percentage of KPIs disclosed in highlight section, by capital

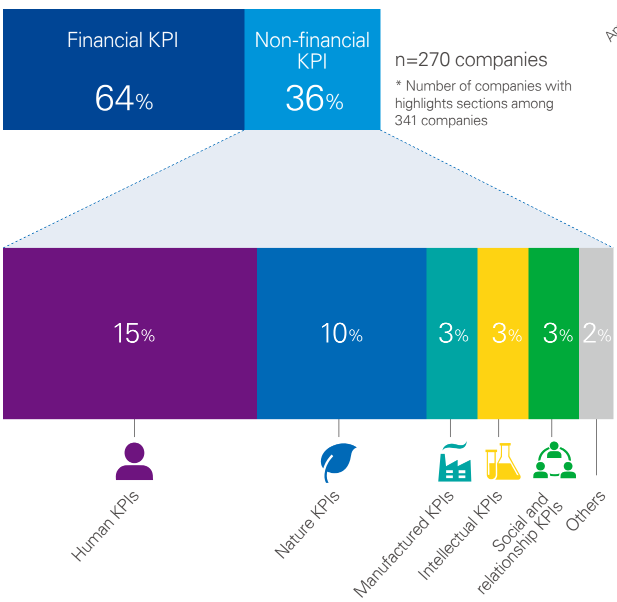
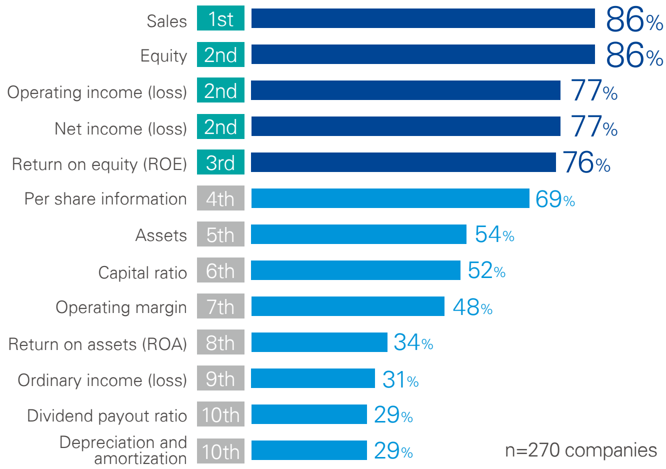


Figure 6-2：
Top 10 financial KPIs disclosed in the highlights section



* For details about return on equity (ROE), see the related column on page 8

Figure 6-3：
Top 3 non-financial KPIs disclosed in the highlights section

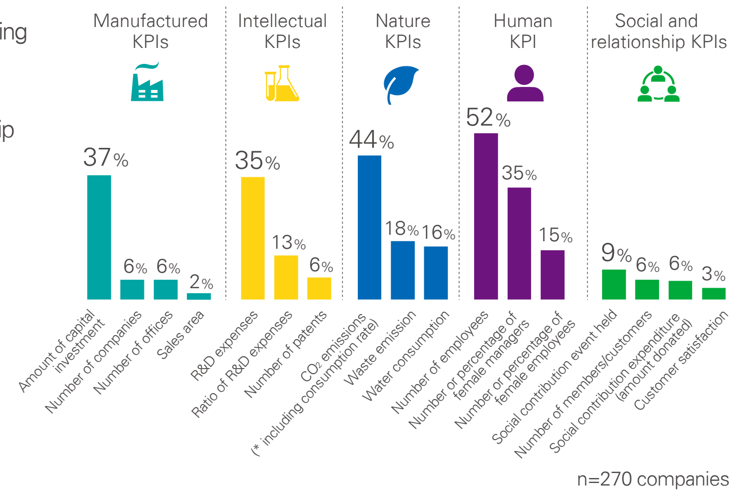
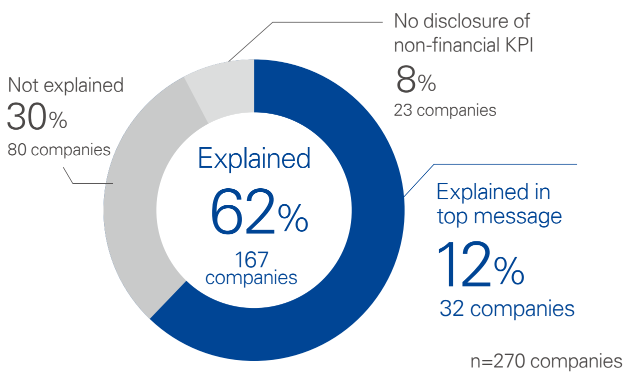


Figure 6-4：
Explanation of non-financial KPIs in another section



Key performance indicators (KPIs) are determined and adopted by companies to clarify strategic goals and quantitatively verify its progress and achievement. KPIs that clearly communicate strategy-related medium- to-long-term goals, as well as current circumstances and outcomes, should be selected and presented in the integrated report.

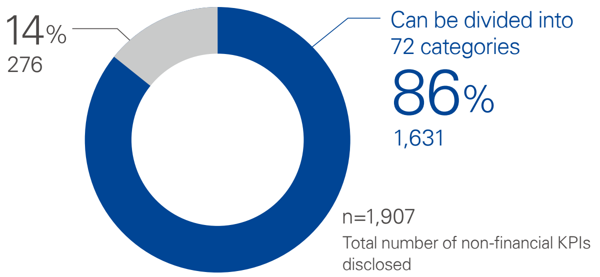
In this survey, KPMG examined the characteristics and tendencies of the KPIs described in the highlights section and conducted an analysis from the standpoint of the six capitals (financial, manufactured, intellectual, human, social and relationship, and nature) and environmental, social, and governance (ESG) performance.

2 Comparability beyond uniqueness of Non-financial KPIs

To assess the comparability of non-financial KPIs, KPMG classified non-financial KPIs included in highlights sections. When categorizing the same or similar non-financial KPIs disclosed by three or more companies, 86% of the total number of KPIs could be grouped in 72 categories (Figure 6-5). There were, however, variations in the names of KPIs, and cross-company comparisons were difficult to make in many cases (Figure 6-6).

When creating and utilizing unique non-financial KPIs linked to value creation efforts, it is vital for a company to share the goals within the organization and strive to obtain external understanding of the company's distinctive characteristics. On the other hand, taking into account usefulness and a shared awareness of non-financial KPIs from a reader's view point, it is worth considering the development of a common infrastructure for reporting non-financial KPIs. With recent trends at Japan's GPIF and the spread of ESG investment, calls for non-financial indicators to be made more comparable could increase. Moreover, as Extensible Business Reporting Language (XBRL) for the disclosure of information becomes more popular, its use for improving the taxonomy of non-financial indicators will become feasible. It seems that time has come to begin a debate on how to sophisticate non-financial indicators in the market.

Figure 6-5：
Classification based on similar non-financial KPIs



3 Take into account reader needs and materiality

In July 2017, Japan's GPIF selected three ESG Japanese equity indices,* and commenced passive investment tracking of those indices. ESG investments are expected to secure long-term returns.

Assuming that the FTSE and MSCI indices that GPIF selected took into account the leading ESG indicators used by investors, and identifying 28 indicators common to these indices, KPMG examined to what extent these were disclosed in integrated reports. Results showed that, although about half disclosed CO2 emissions-related indicators, the rate of disclosure of other indicators was very low, with only six indicators exceeding 10% (Figure 6-7).

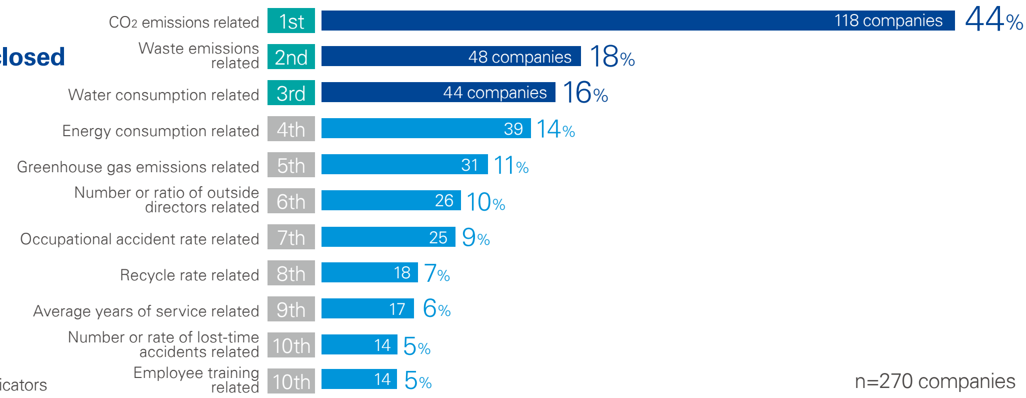
It is important to adopt non-financial KPIs that take into account the needs of readers, while judging their impact on corporate value based on compatibility with strategy and inherent business risks. In our view, this will help promote effective dialogue.

* The GPIF selected three indices, the FTSE Blossom Japan Index and MSCI Japan ESG Select Leaders Index (integrated indices), and the MSCI Japanese Empowering Women' s Index (a theme-based index).

Figure 6-6：
Example of non-financial KPIs with different names in the same category

Category	Name actually used for KPIs
Number of skilled professionals	Number of content developers, construction engineers, technicians, all engineers in Japan, etc.
Recycle volume or rate	Recycle rate, resource recovery volume (rate), factory waste recycle rate, waste recycle rate, food waste recycle rate, etc.
Social contribution expenditure	Social contribution activities expenditure, CSR activity expense, total donation, cumulative amount donated

Figure 6-7：
Top 10 indicators disclosed in the ESG index



* KPMG categorized what appeared to be common in FTSE and MSCI indicators

Basic information

Number of companies that issued an integrated report

Number of Japanese companies issuing Self-Declared Integrated Reports

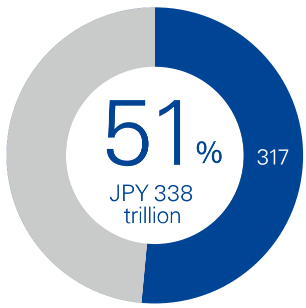
Since 2015, the number of issuing companies has increased substantially, reaching 341 companies in 2017.

According to KPMG's analysis, the introduction of the Corporate Governance Code has caused the number of companies issuing integrated reports to steadily increase, because management understands the importance of maintaining constructive dialogue with investors and that understanding continues to spread.

Percentage in total market capitalization

As of February 28, 2018, of the total market capitalization of 2,068 companies listed on the First Section of the Tokyo Stock Exchange (TSE), the market capitalization of the 317 companies issuing integrated reports accounted for 51%, a majority.

In terms of the number of companies, the percentage of issuing companies was only 15%, indicating that the issuance of integrated reports is progressing at large companies.

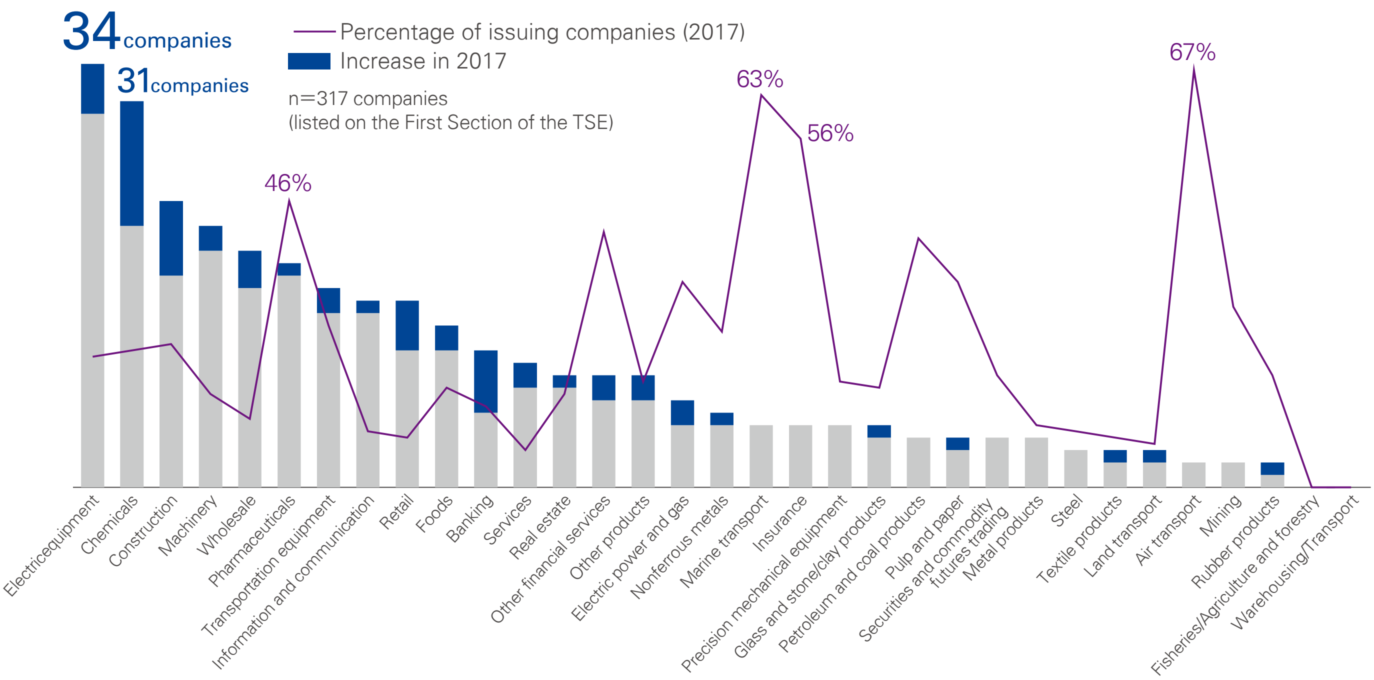


n=657 trillion
(2,068 companies listed on the First Section of the TSE)

Industries of issuing companies

Among all 33 industries, companies in 31 of them have taken up integrated reporting, unchanged from past years. Over the last year, the number of companies in the chemical industry increased by 10, for a total of 31 companies.

Looking at the percentage of companies by industry that issued integrated reports, reporting activity remained brisk in air transport (67%), marine transport (63%), insurance (56%), and pharmaceuticals (46%).

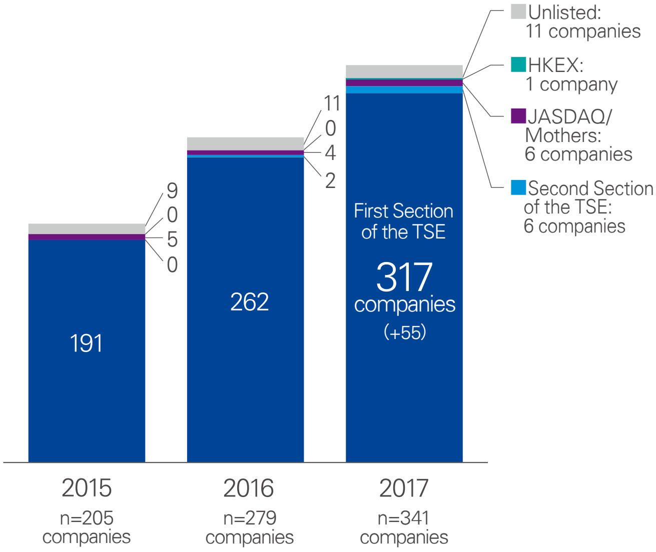


Attributes of issuing companies

Listing market of issuer companies

As in the previous year, companies listed on the First Section of the TSE have driven growth in the number of issuing companies, increasing by 55 to 317 companies, now accounting for 93% of all issuing companies.

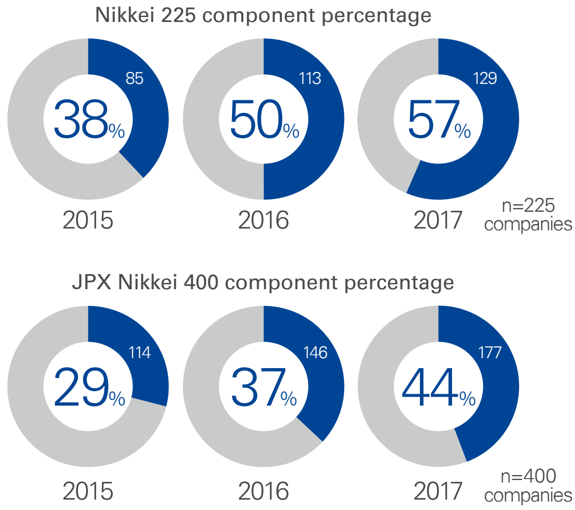
This year, one company listed on the Hong Kong Exchanges and Clearing (HKEX) issued integrated reports for the first time.



Index attributes of issuing companies

The percentage of issuing companies that are components of the Nikkei 225 and the JPX Nikkei 400 has steadily increased year by year.

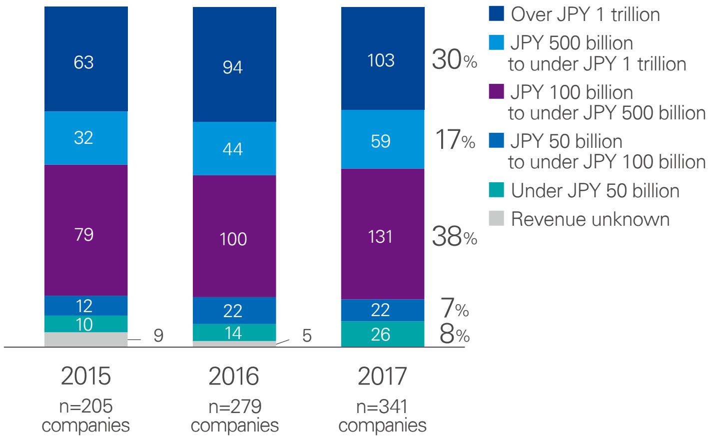
Companies that are actively traded on the stock market, a requirement to be a component of the Nikkei 225, and companies that are highly rated financially and non-financially, a requirement to be a component of the JPX Nikkei 400, tend to actively use the integrated report as a tool to promote dialogue with investors.



Revenue of issuing companies

The number of issuing companies by revenue level increased at all levels, and there was no major change in the percentages in each level.

In addition, the number of issuing companies of the 145 listed companies (Source: Japan Company Handbook Autumn 2017) with revenue of \1 trillion or more was 103 (71%), a significant increase from 62% in 2016.

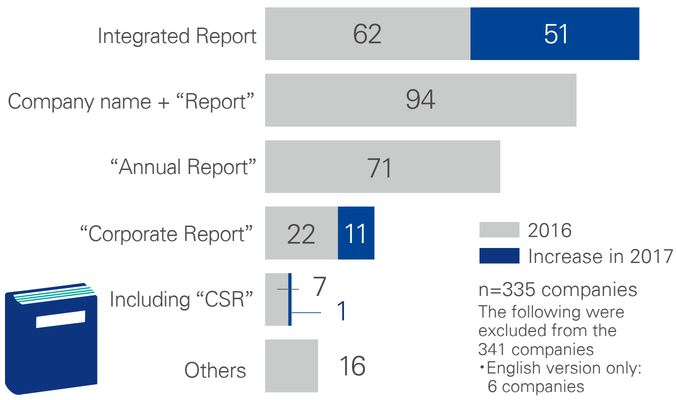


Overview of integrated reports

Title of reports

Companies that had been publishing an "annual report" tended to change the name of the report to "integrated report." The number of companies using the name "integrated report" was the highest since the survey started.

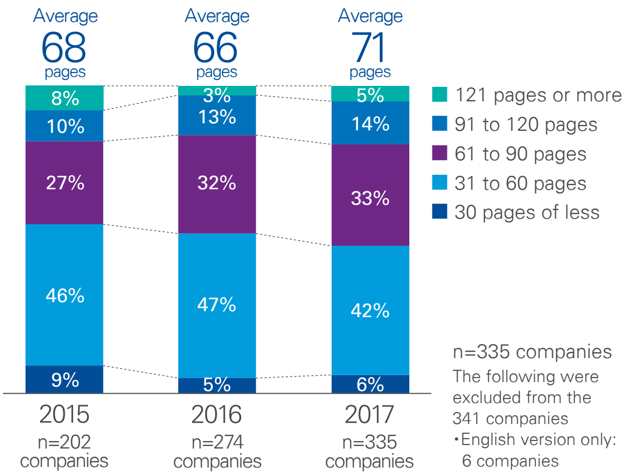
In addition, KPMG found that companies in the manufacturing industry (excluding pharmaceuticals) tended to adopt the name "company name + report," and the financial and wholesale industries tended to adopt the name "integrated report," while the construction industry tended to adopt "corporate report."



Page volume

Since there was no major change in the average page volume over three years, integrated reports have become well established and attention is turning to the content within the report rather than the volume of information.

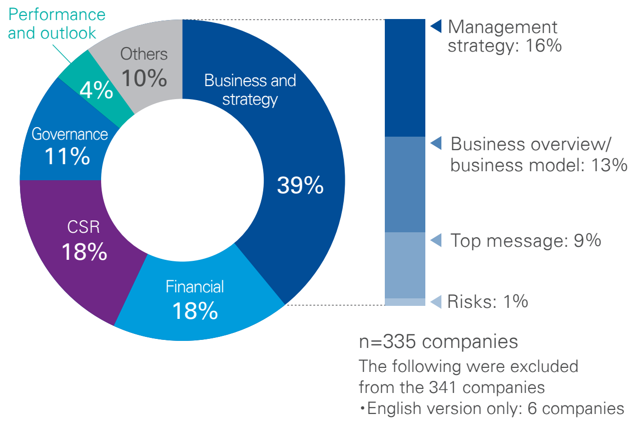
Out of the 62 companies that issued an integrated report for the first time in 2017, nearly 80% of them produced reports of 30 to 90 pages in length.



Page breakdown

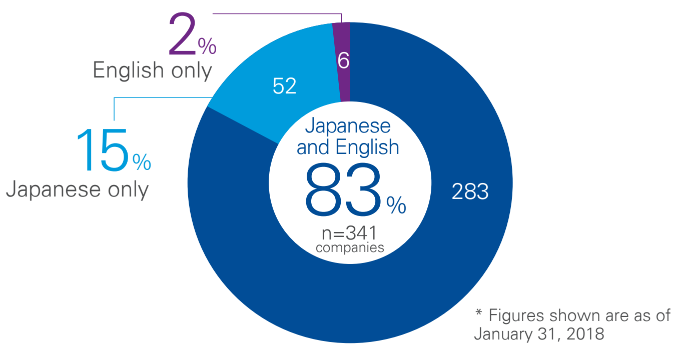
Descriptions of "performance and outlook," "governance" and "risk" were relatively few in number.

On the other hand, many reports described "business and strategy," inferring that companies, aware of their investors, are using the pages to communicate their companies' future strategy.



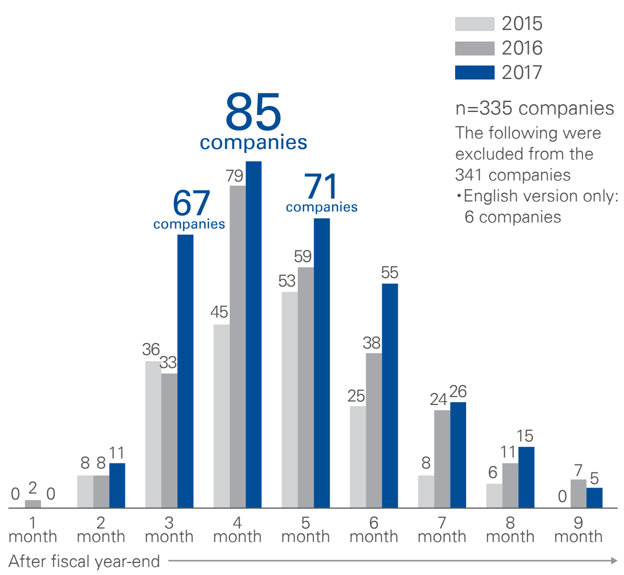
Issuance of English version

More than 80% of companies issued both Japanese and English versions of the integrated report in 2017.



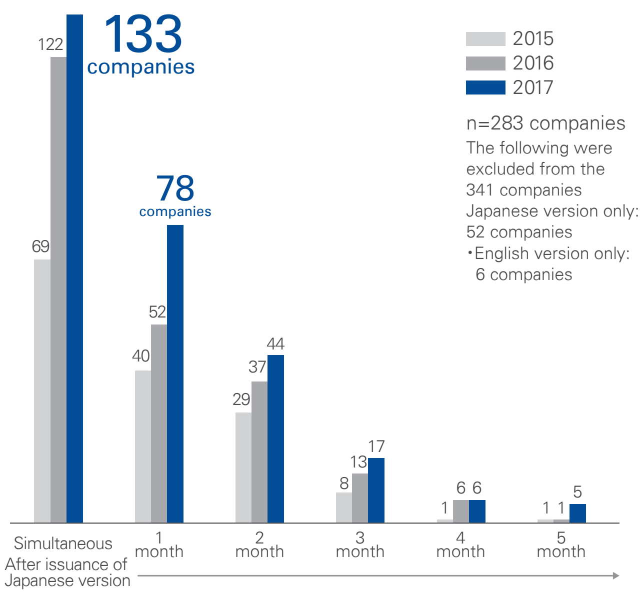
Timing of issuance (Japanese version)

The basic trend of issuance, featuring a peak in four months after the fiscal year-end, was unchanged. However, where in past years the peak started sharply in fourth month after the fiscal year-end, this year it was third months after.



Timing of issuance (English version)

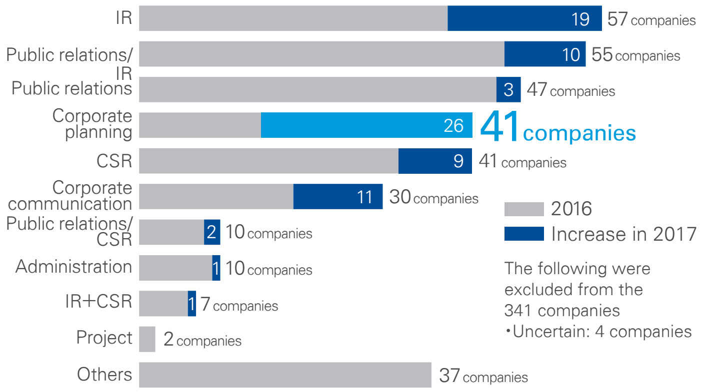
Approximately 80% of companies issued an English version of their report within one month of the issuance of the Japanese version, and companies are working to eliminate the gap in the date of release due to language difference.



Departments in charge of issuing integrated reports

A noteworthy feature of this year was a significant increase of corporate planning department from the 15 companies (6%) of last year.

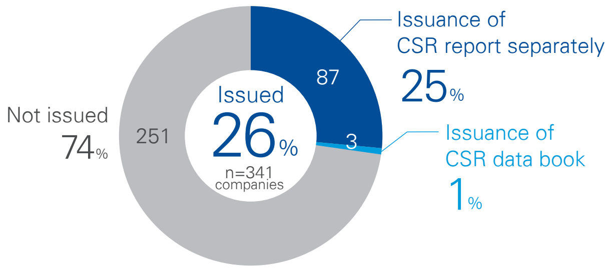
This shows that management is increasingly seeing the integrated report as a tool for dialogue with investors and other stakeholders and therefore selects a department that is close to where management decisions are made to be in charge of issuing the integrated report.



Issuance of CSR reports

The proportion of companies that publish CSR reports (including data books) in parallel with the integrated report was 26%.

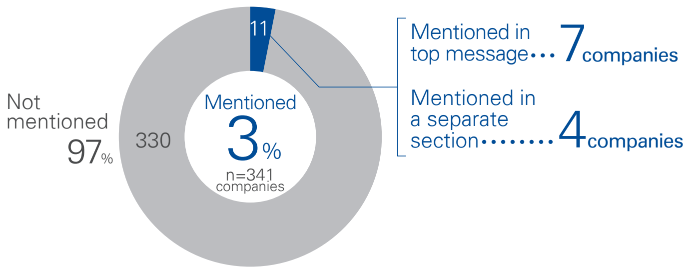
The fact that the number of companies issuing a CSR report exceeded one in four is thought to be due to the effect of methods used by institutions that assess ESG factors.



Management mentioned issuance of report

The same as the previous year, 11 companies' president, CEO or other equivalent described their thinking behind issuing an integrated report. Of those 11 companies, CEO of two companies clearly stated that the reports were compiled in accordance with the IIRC Framework.

The issuance of the integrated report is voluntary and does not necessarily mean that the company must comply with the Framework. On the other hand, because there is no rule or standard, it is critical to show a clear commitment of accountability by top management.



Column

Revisions to "Management Commentary Practice Statement,"

At the board meeting held in November 2017, the International Accounting Standards Board (IASB), the standards setting body for International Financial Reporting Standards (IFRS), decided to initiate a project to update the Management Commentary (MC) framework. MC is a descriptive reporting optionally attached to financial statements that allows management to explain corporate objectives, strategies for long-term value creation, business models, risks, and other information that complements the financial information shown in the tables.

The MC framework is to be updated for the first time since it was initially released in 2010. Communication about value creation through the integrated report began to spread with the publication of the IIRC Framework in 2013. With increasing concern over sustainability risk typified by climate change and the social issues that shaped the sustainable development goals (SDGs), companies as well as investors have greater awareness of the importance of information that affects the company's long-term value creation during the stage before the impacts are reflected in financial statements. This lies behind the decision to update the MC.

The timing of publication of the exposure draft has not been determined and the decision of what approach to take to update the MC framework is much anticipated. Of note, IASB Chairman Hans Hoogervorst stated in a speech in September 2017 that the management commentary enables a company to explain its strategy for long-term value creation, which is the essence of the International Integrated Reporting Framework. It is expected that an MC framework strongly compatible with the integrated report will be proposed

According to data released by the TSE in July 2017, the number of companies that voluntarily applied IFRS as of June 30, 2017 was small, at 171, but the total market capitalization was ¥188 trillion, accounting for about 30% of the total market capitalization of all companies listed on the TSE. Even in companies that apply IFRS, MC remains optional, but companies that are aware of global investor expectations would do well to pay attention to future MC framework revision.

IASB	Tokyo Stock Exchange
Chairman's speech (September 2017)	Analysis of Disclosure in "Basic Policy Regarding Selection of Accounting Standards"

For those browsing online, please click the QR code

List of Japanese Companies Issuing Integrated Report in 2017

AEON CO.,LTD.
AEON Financial Service Co., Ltd.
Ahresty Corporation
AIRDO Co., Ltd.
Aisin Seiki Co., Ltd.
Ajinomoto Co., Inc.
Akebono Brake Industry Co., Ltd.
Alfresa Holdings Corporation
Alpine Electronics, Inc.
ALPS ELECTRIC CO., LTD.
AMITA HOLDINGS CO.,LTD.
ANA HOLDINGS INC.
ANRITSU CORPORATION
Asahi Glass Co., Ltd.
Asahi Group Holdings,Ltd.
ASAHI INDUSTRIES CO., LTD.
Asahi Kasei Corp.
ASKA Pharmaceutical. Co., Ltd.
Astellas Pharma Inc.
Azbil Corporation
BANDAI NAMCO Holdings Inc.
Bridgestone Corporation
BROTHER INDUSTRIES, LTD.
CAPCOM CO., LTD.
Chiome Bioscience Inc.
CHUBU Electric Power Co.,Inc.
CHUGAI PHARMACEUTICAL CO., LTD.
Concordia Financial Group, Ltd.
Cosmo Energy Holdings Co., Ltd.
Dai Nippon Printing Co., Ltd.
Daicel Corporation
DAI-DAN CO., LTD.
Daifuku Co., Ltd.
Dai-ichi Life Holdings, Inc.
DAIICHI SANKYO COMPANY, LIMITED
DAIKEN CORPORATION
DAIKYO INCORPORATED
DAIO PAPER CORPORATION
Daito Trust Construction Co., Ltd.
DAIWA HOUSE INDUSTRY CO., LTD.
Daiwa Securities Group Inc.
Denka Company Limited
DENSO CORPORATION
DENTSU INC.
Development Bank of Japan Inc.
DIC Corporation
DKS Co. Ltd.
Don Quijote Holdings Co., Ltd.
DUSKIN CO., LTD.
DyDo GROUP HOLDINGS INC.
DYNAM JAPAN HOLDINGS Co.,Ltd.
EBARA CORPORATION
Echo Electronics Industry Co,.Ltd.
Eisai Co., Ltd.
Electric Power Development Co.,Ltd.
FamilyMart UNY Holdings Co.,Ltd.
FANCL CORPORATION
FISCO Ltd.

FP Corporation
Freund Corporation
FUJI ELECTRIC CO., LTD.
FUJI MACHINE MFG. Co., Ltd.
FUJICCO Co., Ltd.
FUJIFILM Holdings Corporation
Fujikura　Ltd.
FUJITA KANKO INC.
FUJITSU LIMITED
Furukawa Electric Co., Ltd.
GS Yuasa Corporation
Hakuhodo DY Holdings Inc.
Heiwa Paper Co., Ltd
Hitachi Capital Corporation
Hitachi Chemical Company, Ltd.
Hitachi Construction Machinery Co., Ltd.
Hitachi High-Technologies Corporation
Hitachi Metals, Ltd.
Hitachi Transport System, Ltd.
Hitachi Zosen Corporation
Hitachi, Ltd.
Hokuetsu Kisyu paper Co., Ltd.
HORIBA, Ltd.
Hulic Co., Ltd.
IBJ Leasing Company, Limited
Idemitsu Kosan Co.,Ltd.
IHI Corporation
IINO KAIUN KAISHA, LTD.
INPEX CORPORATION
ITO EN, LTD.
ITOCHU Corporation
ITOCHU ENEX CO., LTD.
ITOCHU Techno-Solutions Corporation
J. FRONT RETAILING Co., Ltd.
JACCS CO., LTD.
Japan Airlines Co., Ltd.
Japan Asia Group Limited
Japan Exchange Group, Inc.
Japan Petroleum Exploration Co., Ltd.
JAPAN POST BANK Co., Ltd.
Japan Wool Textile Co., Ltd.
JCR Pharmaceuticals Co., Ltd.
JFE Holdings, Inc.
JGC CORPORATION
J-OIL MILLS , Inc.
JTEKT CORPORATION
JUKI CORPORATION
JVC KENWOOD Corporation
JXTG Holdings, Inc.
KAGOME CO.,LTD.
KAJIMA CORPORATION
KANEKA CORPORATION
KANEMATSU CORPORATION
Kansai Paint Co.,Ltd.
Kao Corporation
Kawasaki Heavy Industries, Ltd.
Kawasaki Kisen Kaisha, Ltd.
KDDI CORPORATION

Kirin Holdings Company, Limited
KITO CORPORATION
KITZ Corporation
KOKUSAI PULP&PAPER CO.,LTD.
Komatsu Ltd.
KONDOTEC INC.
KONICA MINOLTA, INC.
KPMG Japan
Kubota Corporation
Kurimoto,Ltd.
KYORIN Holdings, Inc.
KYOWA EXEO CORPORATION
Kyowa Hakko Kirin Co., Ltd.
Kyushu Electric Power Company, Incorporated
Kyushu Railway Company
Lawson, Inc.
Leopalace21 Corporation
LINTEC Corporation
Lion Corporation
LIXIL Group Corporation
Marubeni Corporation
MARUI GROUP CO., LTD.
MATSUDA SANGYO Co., Ltd.
Maxell Holdings, Ltd.
MEDIPAL HOLDINGS CORPORATION
MEIDENSHA CORPORATION
Meiji Holdings Co., Ltd.
Meiji Yasuda Life Insurance Company
METAWATER Co., Ltd.
MISAWA HOMES CO., LTD.
Mitsubishi Chemical Holdings Corporation
Mitsubishi Corporation
MITSUBISHI ESTATE CO., LTD.
Mitsubishi Heavy Industries, Ltd.
Mitsubishi Paper Mills Limited
Mitsubishi Research Institute, Inc.
Mitsubishi Tanabe Pharma Corporation
Mitsubishi UFJ Financial Group, Inc.
Mitsubishi UFJ Lease & Finance Company Limited
MITSUI & CO., LTD.
Mitsui Chemicals, Inc.
Mitsui Engineering & Shipbuilding Co.
Mitsui Fudosan Co., Ltd.
Mitsui O.S.K. Lines, Ltd.
Mitsuuroko Group Holdings Co.,Ltd.
Mizuho Financial Group, Inc.
Monex Group, Inc.
MORINAGA MILK INDUSTRY CO., LTD.
MS&AD Insurance Group Holdings, Inc.
Nabtesco Corporation
NAGASE & CO., LTD.
NCXX Group Inc.
NEC Capital Solutions Limited
NEC Corporation
NEC Networks & System Integration Corporation
NGK INSULATORS, LTD.
NGK SPARK PLUG CO., LTD.
NHK SPRING CO., LTD.

Resource:Website of Corporate Value Reporting Lab
http://cvrl-net.com/archive/index.html

NICHICON CORPORATION
Nichirei Corporation
NIHON CHOUZAI Co., Ltd.
NIHON KOHDEN CORPORATION
Nihon Unisys, Ltd.
NIKON CORPORATION
NIPPON CHEMI-CON CORPORATION
Nippon Chemiphar Co., Ltd.
Nippon Kayaku Co., Ltd.
NIPPON KOEI CO., LTD.
Nippon Life Insurance Company
Nippon Paint Holdings Co., Ltd.
Nippon Shinyaku Co., Ltd.
NIPPON SIGNAL CO., LTD.
NIPPON TELEGRAPH AND TELEPHONE CORPORATION
Nippon Yusen Kabushiki Kaisha
NISHIMATSU CONSTRUCTION CO.,LTD.
Nissan Chemical Industries, Ltd.
Nissha Co., Ltd.
Nisshinbo Holdings Inc.
NISSIN FOODS HOLDINGS CO., LTD.
NITORI Holdings Co., Ltd.
Nitto Denko Corporation
NOMURA Co.,Ltd.
Nomura Holdings, Inc.
Nomura Real Estate Holdings, Inc.
Nomura Research Institute, Ltd.
Noritz Corporation
NS UNITED KAIUN KAISHA, LTD.
NSK Ltd.
NTN Corporation
NTT DATA Corporation
NTT DOCOMO, INC.
NTT Urban Development Corporation
OBAYASHI CORPORATION
OHARA INC.
Oji Holdings Corporation
OKASAN SECURITIES GROUP INC.
Oki Electric Industry Co., Ltd.
Olympus Corporation
OMRON Corporation
ONO PHARMACEUTICAL CO., LTD.
ORIX Corporation
PACIFIC INDUSTRIAL CO., LTD.
Panasonic Corporation
PARCO CO.,LTD.
PENTA-OCEAN CONSTRUCTION CO., LTD.
Pigeon Corporation
POLA ORBIS HOLDINGS INC.
Recruit Co., Ltd.
Resona Holdings, Inc.
Ricoh Company, Ltd.
ROHM COMPANY LIMITED
S.T. CORPORATION
Sangetsu Corporation
SANKI ENGINEERING CO.,LTD.
Santen Pharmaceutical Co., Ltd.
Sanwa Holdings Corporation
SANYO DENKI CO.,LTD.
SATO HOLDINGS CORPORATION
Sawai Pharmaceutical Co., Ltd.
SCREEN Holdings Co., Ltd.
SCSK Corporation
SEGA SAMMY HOLDINGS INC.
SEIKO EPSON CORPORATION
SEKISUI CHEMICAL CO.,LTD.
Sekisui House, Ltd.
SENSHUKAI CO.,LTD.
Seven & i Holdings Co., Ltd.
Seven Bank, Ltd.
Shikoku Electric Power Company, Incorporated
SHIMADZU CORPORATION
SHIMIZU CORPORATION
Shin Nippon Air Technologies Co., Ltd.
Shin-Etsu Chemical Co., Ltd.
SHIONOGI & CO., LTD.
Shiseido Company, Limited
Showa Denki Co., Ltd.
Showa Denko K.K.
SHOWA SHELL SEKIYU K. K.
SKYLARK CO., LTD
Sodick Co., Ltd.
SOHGO SECURITY SERVICES CO.,LTD.
Sojitz Corporation
Solaseed Air Inc.
Sompo Holdings, Inc.
SUBARU CORPORATION
Sumitomo Chemical Company, Limited
SUMITOMO CORPORATION
Sumitomo Dainippon Pharma Co., Ltd.
Sumitomo Forestry Co., Ltd.
Sumitomo Heavy Industries, Ltd.
SUMITOMO LIFE INSURANCE COMPANY
Sumitomo Metal Mining Co., Ltd.
Sumitomo Mitsui Construction Co., Ltd.
Sumitomo Mitsui Financial Group, Inc.
Sumitomo Mitsui Trust Holdings, Inc.
Sumitomo Riko Company Limited
Sun Messe Co., Ltd.
SUZUKEN　CO.,LTD.
SYSMEX CORPORATION
T&D Holdings, Inc.
Taiho Kogyo Co., Ltd.
TAISEI CORPORATION
TAISHO PHARMACEUTICAL HOLDINGS CO., LTD.
TAIYO NIPPON SANSO CORPORATION
Takara Leben Co.,Ltd.
TAKARA PRINTING CO.,LTD.
Takasago Thermal Engineering Co., Ltd.
Takeda Pharmaceutical Company Limited
Takenaka Corporation
TDK Corporation
TechnoPro Holdings, Inc.
TEIJIN LIMITED
Terumo Corporation
T-Gaia Corporation
THE HACHIJUNI BANK,LTD.
The Kansai Electric Power Company,Incorporated
The Nisshin OilliO Group, Ltd.
THE SHIGA BANK，LTD.
THE SHIMANE BANK, LTD.
ThreePro Group Inc.
TIS Inc.
Toagosei Co., Ltd.
TOBISHIMA CORPORATION
TODA CORPORATION
TOHO Co., Ltd.
TOHO TITANIUM CO.,LTD.
TOKAI RIKA CO., LTD.
Tokio Marine Holdings, Inc.
Tokyo Century Corporation
TOKYO DOME CORPORATION
Tokyo Electric Power Company Holdings, Inc.
TOKYU CONSTRUCTION CO., LTD.
Tokyu Fudosan Holdings Corporation
TOPCON CORPORATION
TOPPAN FORMS CO., LTD.
TOPPAN PRINTING CO., LTD.
Topy Industries, Ltd.
Torishima Pump Mfg. Co., Ltd.
TOSHIBA CORPORATION
TOTO LTD.
TOYO CONSTRUCTION CO.,LTD.
TOYO DENKI SEIZO K.K.
Toyo Engineering Corporation
Toyoda Gosei Co., Ltd.
TOYOTA BOSHOKU CORPORATION
TOYOTA INDUSTRIES CORPORATION
TOYOTA MOTOR CORPORATION
Toyota Tsusho Corporation
TS TECH CO.,LTD.
TSUBAKIMOTO CHAIN CO.
UACJ Corporation
Ube Industries, Ltd.
ULVAC, Inc.
Unicharm Corporation
UNITED ARROWS LTD.
Wacoal Holdings Corp.
Yahoo Japan Corporation
YAMADA DENKI CO., LTD.
Yamaha Motor Co., Ltd.
YAMATO HOLDINGS CO., LTD.
YASKAWA Electric Corporation
YASUHARA CHEMICAL CO.,LTD.
Yokogawa Electric Corporation
YOSHINOYA HOLDINGS CO., LTD.
Zeon Corporation

Afterword

A total of 341 integrated reports were issued in 2017. With the ever expanding number of reports, we needed to make various efforts from the planning stage to identify ways to conduct the survey so it would make clear the “present circumstances and challenges of Japanese companies’ integrated reporting.”

The survey team decided to conduct the survey by collecting all the relevant reports and gathering in one place for a five-day period. Doing so enabled the team to share findings not only in each area of responsibility but overall trends of issues through information exchange and discussion, and this enabled efficient research and review. We also used Robotic Process Automation (RPA) to improve work efficiency at the preparatory stage.

The “three recommendations for communicating a more robust value creation story” at the beginning of this report were drawn up including not only the awareness gained from conducting the survey, but the exchange of ideas with companies and stakeholders both in and outside Japan, as well as the trends of various initiatives. The integrated report should clearly express corporate activities and their outcomes based on the “integrated reporting” and “integrated thinking” of companies, and show responsibility for the future. This is not easy. What is needed is a shift from the traditional reporting to the concept of a true integrated report. That is why integrated reporting efforts are called “a long journey.”

The need for integrated reporting is often mentioned in the contexts of revitalizing the investment chain, corporate governance reform, and dialogue between the company and investors. For the integrated report to fulfill its expected function, its content should properly reflect the actual situation and initiatives within the company. The descriptions of individual content that make up the integrated report have substantially improved. However, it is still not easy to see what companies are aiming for and that their activities to deliver value creation are integrated.

Going forward, I hope reports will include a committed statement of management about their decisions based on broad integrated thinking and a mechanism to achieve what is decided. Companies should also take another look not only at their integrated reports, but also at their other information provision media and methods, from the user’s perspective.

I hope that this report is able to provide useful suggestion to all who are making this “long journey.” I firmly believe that integrated reporting efforts will contribute to the creation of value based on a competitiveness that fully leverages each company’s uniqueness, thereby helping to solve the problems that face our world.

Lead partner,
KPMG Japan Integrated Reporting Center of Excellence

Toshihiro Otsuka

Survey Team

KPMG Japan Integrated Reporting Center of Excellence

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KPMG Japan Integrated Reporting Center of Excellence (CoE)

In response to the growing demand for the better business reporting that the integrated report represents, the CoE was formed in 2012 by professionals across member firms of KPMG in Japan. Making full use of KPMG's research expertise in corporate reporting and its practical experience, the CoE seeks to contribute to the reliability and transparency of capital markets and support better communication between companies and capital markets by contributing to the advancement of corporate reporting.

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