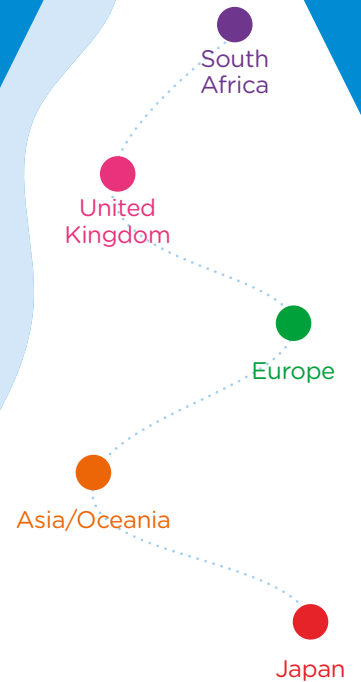


WHAT BETTER REPORTING LOOKS LIKE

A snapshot of 50 organisations from around the world recognised for their integrated reporting

IR



ACCA Aegon Aggreko AkzoNobel AstraZeneca ArcelorMittal Barclays Africa Group Coca-Cola Hellenic Bottling Company Cebu Property
CLP CPA Australia DBS Dimo Eni Eskom Ferrovial Fresnillo Freund Corporation Fujitsu Generali Go-Ahead Gold Fields Indra Interserve Itochu
Lawson Liberty Holdings Marks & Spencer MS & AD Holdings MTN Group National Australia Bank Nedbank New Zealand Post Nissay Novo Nordisk
NYK Group Omron Rosatom Royal Bafokeng Sanford Sasol SK Telecom Standard Bank Stockland Takeda The Crown Estate
Tullow Oil UniCredit SPA Uralkali Wacoal

Black Sun

STAKEHOLDER COMMUNICATIONS

ABOUT BLACK SUN

Black Sun is a stakeholder communications company

We believe that, in today's fast moving and highly uncertain world, successful businesses are those able to deliver long-term value to the people around them – their stakeholders. When stakeholders are heard, engaged and inspired, businesses are understood, trusted and supported. They are more valued by their stakeholders and perform better.

What we do

We help organisations define, articulate and communicate how they create value for stakeholders. We deliver inspiring communications that reach, engage and influence stakeholders.

Why we conduct research

We conduct research to see how organisations are responding to new trends, regulation and legislation in reporting and to spread what best practice looks like.

How we make a difference

We create more valued organisations in the eyes of stakeholders.

Table of contents

Sharing ideas, identifying opportunities	1
The underlying importance of integrated reporting	2
Summary of regions	3
Overall trends	4
South Africa	6
United Kingdom	10
Europe	14
Asia/Oceania	18
Japan	22

Want inspiration?

In partnership with the International Integrated Reporting Council (IIRC), Black Sun has created and maintains a database that supports integrated reporting and thinking. The database is compiled of over 260 best practice <IR> reporting examples from 164 companies around the globe. Users can filter these examples by region, sector, content element, <IR> guiding principle and <IR> fundamental concept to ensure any specific examples are easily identified. Black Sun updates the database on a monthly basis, taking inspiration from the latest award-winning, recognised reports. If you have any further recommendations of best practice <IR> reporting examples, please do suggest a report here for us to review!



Sharing ideas, identifying opportunities

Building on our 2014 research

In 2014 we analysed the organisations on the International Integrated Reporting Council's Pilot Programme to see how they were meeting the requirements of the International <IR> Framework.¹ We found that organisations were using the <IR> Framework to provide a more complete perspective on performance and value. Most organisations were at the experimenting and learning stage of their journey towards <IR>, with the guiding principles proving the most difficult to get to grips with. We also observed organisations taking a diverse rather than uniform approach to implementing the Framework. Regulation emerged as a key driver of quality in integrated reporting with South Africa, the UK and Europe leading the way.

What does this review cover?

In this review, we provide an overview of how the <IR> Framework is being implemented by organisations recognised for their reporting from five regions across the world: South Africa, the UK, Europe, Asia/Oceania and Japan. We chose these regions for the following reasons:

- South Africa is the birthplace of integrated reporting and the only country in this review that has made integrated reporting a regulatory requirement.
- The UK's strategic report legislation requirements are very similar to those of the <IR> Framework.
- In Europe, the EU non-financial reporting directive will raise the minimum requirements for organisations to report on non-financial information.
- Regional developments in Asia/Oceania suggest integrated reporting is gaining pace.
- In Japan, there is a strong market-led movement towards integrated reporting supported by government initiatives and regulation.

We looked at established regions as well as those where an increase in integrated reporting is emerging in order to provide insight into the different factors which may impact reporting. These factors include stronger or weaker legislative requirements, established integrated reporting practice and emerging market drivers.

The review looks at 10 organisations from each region that have come to our attention through their involvement in integrated reporting and award recognition. By doing so, we hope to highlight how organisations are reporting better by following the <IR> principles and identify where there is room for further improvement.

We have highlighted the strengths and areas for development in each region, and have also included one indicator for each of the content elements to give a snapshot of how the regions compare. One indicator on its own does not equate to success, but gives us an indication of the progress in that reporting region.

We believe that the more that integrated thinking is embedded into an organisation's activities, the more naturally connectivity of information will flow into management reporting, analysis and decision-making. This should inevitably lead to better internal and external reporting and communications, particularly during the preparation of the Annual Report.

Purpose of this review

This review is intended as a helpful source of information on developments in reporting across a few regions, which will hopefully give rise to further discussions about how the <IR> Framework can give organisations a means to tell their story better through their reporting. We hope it will be a useful reference and encourage organisations to learn from each other and share their ideas.

The impact of integrated reporting

The impact of integrated reporting has varied across regions as different drivers impact its implementation. Unsurprisingly, those regions with the strongest regulation also exhibit the strongest reporting.

There is also a clear distinction between organisations that are at the start of their integrated reporting journey and those that are more established reporters.

The more established reporters refined their interpretation of the content elements and displayed an increased sophistication in their understanding of the principles of the Framework, while also evidencing how integrated thinking is becoming embedded into their businesses.

The newer integrated reporters, however, still struggled to articulate a sophisticated account of their businesses, or to demonstrate a true understanding of what the different elements and principles of the Framework mean to their business.

Despite this variation, it has been encouraging to see that so many organisations are embracing integrated reporting and are attempting to articulate how they deliver long-term value in line with the principles of the <IR> Framework.

This review shows that there is no uniform approach to integrated reporting. The <IR> Framework has been embraced and implemented in different ways and for different reasons across the globe. The next step is for different regions and organisations to share their ideas and learn from each other. Organisations should think about how the strengths exhibited by organisations in other regions and within their own region can be used to further their own development.

¹ Black Sun, What Good Looks Like, 1 March 2014

The underlying importance of integrated reporting

Annual Reports have for a long time been an important part of the public information provided by organisations. Their purpose is to keep current and potential shareholders informed about organisations and their activities. In today's society, this communication is becoming ever more crucial. Organisations are also beginning to understand how the reporting process can drive positive behaviour change.

Integrated reporting drives integrated thinking

We are now in an age where organisations are accountable to their stakeholders, and corporate reputation is one of business's greatest assets. Stakeholders are looking for more inclusive, less risky and more long-term sustainable organisations. Organisations must, in turn, find ways to meet these demands. 'Business as usual' is no longer enough and in order to make a real impact, organisations need to understand their own inputs, the world around them, and their effect on society and their environment, so that we can all make better and more appropriate decisions.

One of the most effective ways that we can build organisations that meet this changing reality is to use integrated reporting as a tool to promote integrated thinking as a means of decision-making. The International Integrated Reporting Council's long-term vision is a world in which integrated thinking is embedded within the mainstream, facilitated by integrated reporting as the corporate reporting norm.² This aim elevates the role of the annual reporting process to a position where it is a catalyst of change within an organisation, not merely a window-dressing or box-ticking exercise.

Integrated reporting helps to drive important behaviour change by breaking down silos and challenging management to think holistically about how the organisation creates value for its stakeholders while demonstrating the connectivity of the business model, strategy, performance and risks. This in turn provides proven benefits which organisations themselves have acknowledged.³ By identifying their material issues – 'matters that substantively affect the organisation's ability to create value over the short, medium and long term'⁴ – and incorporating a wider set of metrics into corporate reporting, management gains access to a higher quality of information. This helps to inform better long-term decision-making and guards against future risks in order to deliver long-term returns.

Integrated reporting is also a communications tool with external benefits. It provides clear and concise communication of an organisation's most important and relevant issues to their investors and other stakeholders. A well-crafted Integrated Report enables stakeholders to identify how the organisation creates wider value beyond the purely financial and gives them a greater understanding of how the organisation operates. Furthermore, an Integrated Report can be used to demonstrate to stakeholders, whether they are investors, customers, communities or employees that an organisation has a clear purpose in society.

In short, integrated reporting is better reporting which in turn leads to better decision-making.

Integrated reporting is in the mainstream – and it's here to stay

Since its introduction in 2013, the International Integrated Reporting Council's (IIRC) Integrated Reporting (<IR>) Framework has set the standard for integrated reporting around the world. The IIRC aims to promote integrated reporting as the corporate reporting norm in order to facilitate the embedding of integrated thinking within both public and private sector organisations. Following the introduction of the Framework, over 100 organisations signed up for the IIRC's Pilot Programme, a market-led initiative designed to develop and test the principles, content and practical applications of integrated reporting.

Today, the Pilot Programme has developed into the <IR> Business Network, an international network of organisations committed to the adoption of <IR>. At the same time integrated reporting has become recognised as a driver of value creation with both internal and external benefits. As a result, we are seeing an unprecedented movement towards integrated reporting and integrated thinking. We are also seeing that elements of the <IR> Framework are moving into mainstream reporting – driven not least by legislation in some countries such as the UK and South Africa, where the inclusion of non-financial information is mandatory in corporate reporting.

Summary of regions

Strengths	Key areas for development
South Africa	
Clear and concise information	More links needed between the business model and other content elements
Extensive links between most content elements	Clearer explanation needed of performance against strategy
Clear insights into material issues and stakeholder engagement	
Market context integrated throughout the report	
Good level of detail provided on the capitals	
UK	
Sophisticated connectivity of information	More information needed on stakeholder relationships
Long-term focus for strategic objectives	More detail needed on how material issues are identified
Strong governance reporting	
Informative business models	
Strong risk reporting	
Europe	
Comprehensive information on stakeholder engagement and material issues	Additional insight needed into performance against strategy
Market discussions give good insight into external environment	More concise and accessible presentation of information needed
Well-developed business models focused on value creation	
Asia/Oceania	
Good discussion of stakeholder engagement	Need to outline commitment to wider value creation
Extensive discussion of material issues	Need to further integrate the business model with the rest of the report
Strong focus on the capitals by Asian companies	More insight into strategic performance needed
Good insight into strategic priorities	More discussion needed on how market trends impact the organisation
Japan	
Good articulation of mission and purpose	More insight needed into governance
Strong focus on human capital	More detailed information needed on business models and the capitals
Encouraging movement towards more forward-looking information	More insight needed into principal risks and performance against strategy
	Need to identify material issues

² International Integrated Reporting Council (IIRC), The International <IR> Framework, December 2013, page 4

³ Black Sun, Realizing the Benefits, September 2014

⁴ IIRC, The <IR> Framework, December 2013, page 4

Overall trends

What drives good integrated reporting?

Regulation drives sophistication

We saw a clear distinction between regions with more sophisticated regulation and those where regulation is less developed. South Africa and the UK showed the strongest reporting as the regions with the most established regulatory frameworks. Reports from these regions demonstrated a good understanding of value creation, with a nuanced discussion of material issues, and clear and concise presentation of content.

Reporting improves with experience

There was also a distinction between organisations new to integrated reporting and the more established integrated reporters. The most established reporters clearly understood what the guiding principles mean for their business. In comparison, less established reporters typically presented a business model incorporating inputs, outputs and outcomes with few links to the rest of the report.

The need to build stronger relationships with stakeholders

Financial services was the biggest sector in our selection of organisations recognised for their reporting. Due to the 2008 financial crash, these organisations must now prove that they create wider value and perform a role in society that benefits all of their stakeholders. This suggests that the need to re-build tarnished reputations and renew trust among stakeholders might be a driver of integrated reporting.

What stands out?

Clearer purpose

Many organisations articulated their purpose, mission, vision and values and discussed corporate culture. However, the more established reporters clearly demonstrated what these elements mean to their business and consistently articulated who they are and what they do.

Organisations' understanding of how they are creating value over time

In 2014, we found that many organisations were starting to understand how their businesses create value through their business models while using their material issues to structure the value creation narrative.

76%

of organisations clearly identified material issues

94%

of organisations linked resources and relationships to either the business model or strategy

62%

of organisations linked principal risks to the business model or strategy

In conducting this review, we saw much of the same, as well as more sophisticated, detailed and developed discussions of how organisations create wider value, beyond financial value. These discussions considered stakeholders and were used to link the report together.

Moving beyond just financial value

The <IR> Framework identifies six types of capital: financial, manufactured, intellectual, human, social and relationship and natural capital. We found a huge improvement in the identification of these capitals (often referred to as resources and relationships). Almost all organisations had some reference to the capitals in their business model and strategy. This suggests that organisations are considering a broader range of information when thinking about value creation.

Importance of stakeholder relationships

The majority of reporters clearly identified their stakeholders and discussed stakeholder engagement activities. A third of organisations went a step further by providing a specific discussion of how they have responded to feedback from the stakeholder engagement process. This suggests that organisations are beginning to understand that their ability

to create value for themselves is linked to the value they create for others.

Increased focus on materiality

<IR> challenges organisations to disclose information about matters based on their impact on value creation. Most organisations identified their material issues and almost half identified their material determination processes. Additionally, understanding of these issues and their impact on strategy, governance, performance and prospects is increasing. Some organisations integrated their material issues throughout their reports with some even using material issues to define the report's structure.

Connectivity of information

The more established reporters displayed clear elements of integrated thinking throughout their reports, with links between their strategy, risks and performance. They demonstrated a firm understanding of the capitals they rely on to create value and how these link to their business model and strategy. However, organisations could improve by ensuring that connections between all of the key content elements are clear.

90%

of organisations clearly identified stakeholders

84%

of organisations included a mission or vision statement

88%

of organisations explained why they are committed to creating wider value

<IR> guiding principles

The guiding principles underpin the preparation and inform the content of an Integrated Report, and how the information is presented. An Integrated Report should:

Strategic focus and future orientation – Provide insight to strategy and how it relates to the organisation's ability to create value in the short, medium and long term, and its use of and effects on the capitals.

Connectivity of information – Show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organisation's ability to create value over time.

Stakeholder relationships – Provide insight into the nature and quality of the organisation's relationships with key stakeholders, and how and to what extent it understands, takes into account and responds to their needs and interests.

Materiality – Disclose information about matters that substantively affect the organisation's ability to create value over the short, medium and long term.

Conciseness – Be concise.

Reliability and completeness – Include all material matters, both positive and negative, in a balanced way.

Consistency and comparability – The information should be presented on a basis that is consistent over time and in a way that enables comparison with other organisations.

Source: IIRC, The <IR> Framework, page 5

<IR> content elements

An Integrated Report includes eight content elements that are fundamentally linked to each other and are not mutually exclusive.

Organisational overview and external environment – What does the organisation do and under what circumstances does it operate?

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

Business model – What is the organisation's business model?

Risks and opportunities – What specific risks and opportunities affect the organisation's ability to create value over the short, medium and long term, and how is the organisation dealing with them?

Strategy and resource allocation – Where does the organisation want to go and how does it intend to get there?

Performance – To what extent has the organisation achieved its strategic objectives and what are the effects on the capitals?

Outlook – What challenges and uncertainties is the organisation likely to encounter in pursuing its strategy; what are the potential implications for its business model and future performance?

Basis of presentation – How does the organisation determine what to include in the Integrated Report and how are such matters quantified or evaluated?

Source: IIRC, The <IR> Framework, page 5

South Africa

Organisation	Sector	<IR> Business Network	IIRC Database	Award Recognition	Global or Regional Award
ArcelorMittal	Industrials		✓	Nkonki Awards	South Africa
Barclays Africa Group	Financial Services		✓	CSSA IR Awards	Southern Africa
Eskom	Utilities	✓	✓	Nkonki Awards	South Africa
Gold Fields	Basic Materials	✓	✓	EY Excellence in Integrated Reporting Awards	South Africa
Liberty Holdings	Financial Services		✓	Nkonki Awards	South Africa
MTN Group	Telecoms		✓	EY Excellence in Integrated Reporting Awards	South Africa
Nedbank	Financial Services		✓	Nkonki Awards	South Africa
Royal Bafokeng	Basic Materials		✓	Nkonki Awards	South Africa
Sasol	Oil & Gas		✓	Nkonki Awards	South Africa
Standard Bank	Financial Services		✓	CSSA IR Awards	Southern Africa

Overview

As a result of the legislative requirements of the King Report on Governance 2009 (King III), South Africa is considered the birthplace of integrated reporting and is the most developed region included in this review. There have been significant improvements in integrated reporting in South Africa since then. We expect the King IV report on Corporate Governance published on 1 November 2016 to precipitate further developments in integrated reporting in South Africa.⁵ King IV is written through the lens of value creation and the six capitals, and echoes the concept of the 'three shifts' – from financial capitalism to inclusive capitalism, from short-term capital markets to long-term sustainable capital markets and from silo reporting to integrated reporting, which is advocated by the IIRC.⁶

As the strongest region, the reports from the South African organisations showed that they have embraced the spirit of the <IR> Framework, the guiding principles and content elements.

"We can see the increasing importance our customers and other stakeholders are putting on sustainability issues, and it is important that we can convincingly demonstrate that these issues matter for us as well and are integrated into the way we do business."⁷ – Lakshmi N. Mittal, ArcelorMittal, Chairman and CEO

Strengths

Concise and clear information

According to the <IR> Framework, an Integrated Report should provide readers with 'sufficient context to understand the organisation's strategy, governance, performance and prospects without being burdened with less relevant information'.⁸ South African reporters were notably strong for conciseness and accessibility of content, continuing the progress made since the introduction of the Framework. In the early stages of integrated reporting in South Africa, organisations often produced long reports which were effectively a combination of the Annual Report and the Corporate Responsibility Report. However, the 10 South African reports we looked at for this report were on average 131 pages long, a drop of over 200 pages which suggests that these organisations have really begun to integrate the way they communicate their long-term sustainability. The majority of these reports were easy to read and explained industry or complex terms clearly by using visual aids and design features, presenting the information in an accessible and engaging way.

Extensive links between content elements

South African reporters identified clear links between different content elements and, in particular, demonstrated how their material issues link to strategy. This helps to create a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organisation's ability to create value over time. As the Framework acknowledges, this type of connected reporting requires a certain degree of integrated thinking within the organisation.⁹

Encouragingly, the level of connectivity found in these reports implies that a degree of integrated thinking is starting to take hold within these organisations.

Clear insight into material issues and stakeholder engagement

South African organisations provided clear insights into how material issues were identified, with clear consideration of stakeholder engagement and the business's response to stakeholder issues. This helps the reader to understand 'the matters that substantively affect the organisation's ability to create value over the short, medium and long term'.¹⁰ Disclosures concerning stakeholder engagement also demonstrate how stakeholders perceive value, and highlight the role stakeholder engagement plays in determining what issues are material. This suggests that these organisations have a good understanding of the role of these relationships and how it impacts their value creation.

100%

of organisations identified their material issues

70%

of organisations linked their material issues to their strategy

⁵ Institute of Directors Southern Africa (IODSA), King IV™ Report on Corporate Governance for South Africa, 1 November 2016

⁶ IIRC, 'IIRC welcomes the release of King IV as South Africa sets a new global standard for corporate governance',

IIRC news article, 1 November 2016

⁷ ArcelorMittal website, 'ArcelorMittal moves towards integrated reporting with launch of 2015 annual review', 28 April 2016

⁸ IIRC, The <IR> Framework, page 21

⁹ IIRC, The <IR> Framework, page 16

¹⁰ IIRC, The <IR> Framework, page 18

Market context integrated throughout the report

Unlike their UK counterparts whose market information was focused predominately in one section, many top South African reporters had market discussions integrated throughout the report, as well as a specific markets section. This reflects a sophisticated and truly integrated approach setting the scene in terms of the social, environmental and political context influencing the organisation's ability to create value in the short, medium and long term.

Good level of detail provided on the capitals

In 2014, we found that the majority of organisations in the Pilot Programme did not provide detail on the capitals they rely on. However, the South African organisations we looked at for this review stood out for the level of detail given to the capitals, with insights into performance, connectivity to strategy and relation to stakeholders. We found that the majority of the reports had standalone 'resources and relationships' sections providing insight into the various forms of capital that the organisation relies on in order to achieve success.

Areas for development

More links needed between business model and other content elements

Although the reports had clear links between different content elements, there was sometimes a lack of connectivity between the business model and the rest of the report. However, this was not always a reflection of the quality of the business models. Some reporters used a different style of 'storytelling' where, for example, the value creation story or an overview of the businesses' resources and relationships were discussed in more detail in a section separate from the business model.

Clearer explanation needed of performance against strategy

The South African reporters were found to be relatively weak with regard to linking performance to strategy, as less than half did not link all their KPIs to strategic priorities. This suggests that even some of the top reporters aren't making it clear how they measure performance against strategy.

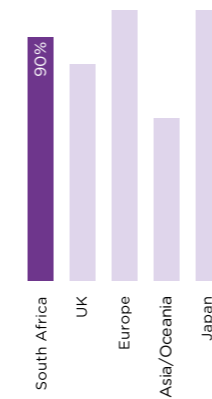
70%

of organisations included a dedicated resources and relationships section

Snapshot of South Africa

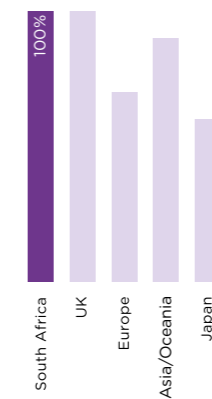
Organisational overview and external environment

Percentage of reports that gave information on the impact of industry or market trends on the organisation.



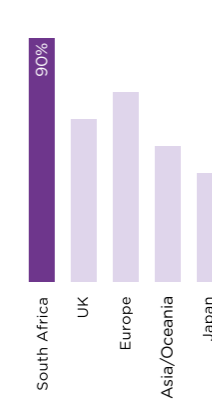
Business model

Percentage of reports in which the business model discussed outcomes.



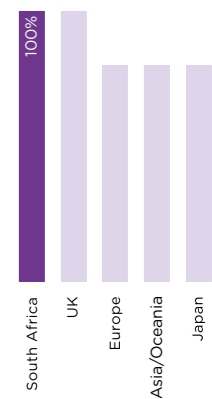
Risks and opportunities

Percentage of reports that linked risk to strategy or business model.



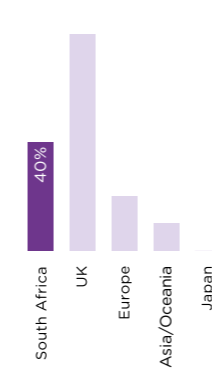
Strategy and resource allocation

Percentage of reports that outlined long-term business objectives/priorities.



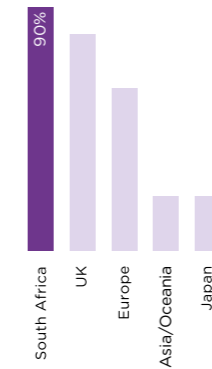
Performance

Percentage of reports that used KPIs to measure progress against strategic objectives.



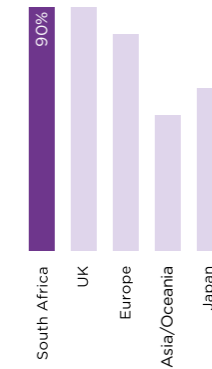
Governance

Percentage of reports that linked KPIs with Directors' remuneration.



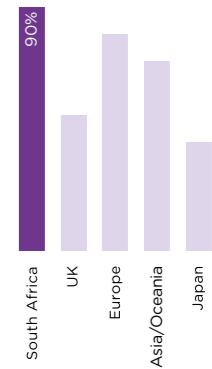
Outlook

Percentage of reports that discussed the organisation's outlook in detail.



Basis of preparation

Percentage of reports that referred to the IIRC.



United Kingdom

Organisation	Sector	<IR> Business Network	IIRC Database	Award Recognition	Global or Regional Award
ACCA	Professional Services	✓	✓		
Aggreko	Oil & Gas		✓	ICSA Hermes Transparency in Governance Awards	Europe
AstraZeneca	Healthcare		✓	IR Society Awards, IR Magazine Awards	Global Global
Coca-Cola Hellenic Bottling Company	Consumer Goods		✓	IR Society Awards	Global
The Crown Estate	Real Estate	✓	✓	PwC Building Public Trust in Corporate Reporting Awards, Finance for the Future Awards	Europe Global
Fresnillo	Oil & Gas		✓	IR Society Awards	Global
Go-Ahead	Consumer Services		✓	IR Society Awards	Global
Interserve	Industrials	✓	✓	Finance for the Future Awards	Global
Marks & Spencer	Consumer Goods	✓	✓	PwC Building Public Trust in Corporate Reporting Awards, Finance for the Future Awards	Europe Global
Tullow Oil	Oil and Gas		✓	PwC Building Public Trust in Corporate Reporting Awards, IR Society Awards, IR Magazine Awards	Europe Global Global

Overview

The UK is another region where the regulatory framework is supportive of integrated reporting which is why we have examined it separately from the rest of Europe. There is a clear overlap between the UK's strategic report regulations, introduced in 2013, which made the inclusion of material non-financial information compulsory for UK companies, and the <IR> Framework.¹¹ The FRC's Guidance on the Strategic Report provides further direction as to how non-financial information should be incorporated into Annual Reports.¹² The strategic report regulations and the market-led integrated reporting initiative have worked together to make the UK one of the stronger regions for integrated reporting.¹³

UK organisations recognised for their reporting demonstrated well-developed content elements and, in particular, articulated clear links between strategy, risk, performance and remuneration. They also displayed strong allegiances to <IR> with references to certain aspects of the Framework, even though some of the reports were not specifically identified as Integrated Reports.

Strengths

Sophisticated connectivity of information

The surveyed reports were especially sophisticated in terms of their connectivity of information. In particular, the reports demonstrated which KPIs and principal risks were linked to strategic objectives and performance. This interconnectivity is a strong indicator that these organisations have a holistic understanding of how their businesses create value over time.

This connectivity is likely to be a result of the strong regulatory requirements that UK reporters adhere to. For example, regulation of the strategic report demands a broad range of content to be included, and the FRC encourages organisations to provide links between related pieces of information in different parts of the Annual Report.

Long-term focus for strategic objectives

Most of the UK reports included strategic objectives with a timeframe of over two years, providing a clear view of where the organisation intends to go and its strategy for getting there. The long-term focus suggests that these organisations are aware of the plethora of external factors that have an impact on their ability to create long-term sustainable value, such as risks and opportunities, relationships with stakeholders and dependence on resources, and that the nature of these constraints means that readers need a longer time frame to assess an organisation's success.

Strong governance reporting

Due to the sophistication of the UK Corporate Governance Code, governance reporting among the UK reporters was strong. The <IR> Framework challenges organisations to explain how they balance short, medium and long-term interests and how their leadership learns from past experiences in determining future strategic direction.¹⁴ The best reports from the UK did this by providing detail of Board activities and evaluation, with the Chairman often taking ownership of the governance section. More common factors like Board changes, evaluation, values and code of conduct were also highlighted.

Additionally, the majority of UK reports linked their KPIs to executive remuneration. This demonstrates accountability, transparency and connectivity, and gives insight into how incentives are linked to value creation in the short, medium and long term.

90%

of organisations covered Board evaluation in their governance discussion

"We recognised the importance of building trust, of looking at wider capitals (not just financial), communicating with authenticity and ensuring that organisations have a long-term vision which they use to explain their decision-making and strategy externally."¹⁵ – Clare Minchington, ACCA, Executive Director, Strategy and Development.

¹¹ Department of Business, Innovation and Skills, The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, 6 August 2013

¹² Financial Reporting Council (FRC), Guidance on the Strategic Report, June 2014

¹³ IIRC, 'IIRC welcomes move towards better quality reporting in the UK', 9 June 2014

¹⁴ IIRC, The <IR> Framework, page 25

¹⁵ ACCA website, 'ACCA embeds integrated reporting', 29 April 2013

Informative business models

Where business models in UK reports were once purely descriptive, the reports in this review displayed a truly sophisticated understanding of the value creation process and how the external environment impacts it. These reporters also provided context for their resources and relationships, which indicates that they have a good understanding of how their business depends on their stakeholders and the capitals.

Strong risk reporting

The UK organisations also demonstrated strong risk reporting with detailed disclosures of risk management. Most of the organisations also discussed changes in risk and risk appetite. In addition, the identified principal risks appeared to be a lot more entity-specific than those found in reports from other regions. These findings reveal that UK organisations have developed a sophisticated understanding of the risks that affect their ability to create value over time. This is an improvement on the findings of our 2014 research in which we identified making risks entity-specific as an area for development.

Areas for development

More information needed on stakeholder relationships

Compared to their European and South African counterparts, the UK reports lagged behind in relaying information on stakeholder relationships. Although a mixed bag, many reports did not include much detail of stakeholder engagement and feedback. In general, UK organisations needed to provide more insight into the matters that are important to stakeholders and how these might affect the organisation's ability to create value.

More detail needed on how material issues are identified

Although the top UK reporters clearly had relevant content in their reports, they often failed to discuss how they identify their material issues. At its most effective, the materiality determination process is integrated into the organisation's management processes. Failure to provide insight into materiality assessment is a significant area for development, as it may suggest that these organisations fail to give sufficient attention to matters that have a substantial impact on their ability to create value.

60%

of organisations showed whether their risks have changed year-on-year

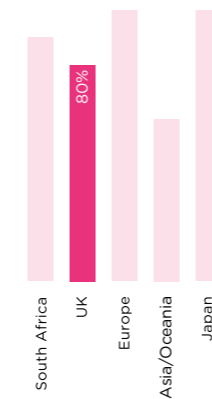
20%

of organisations specifically discussed their materiality assessment

Snapshot of the UK

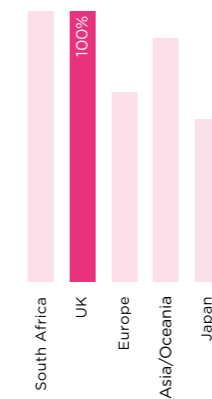
Organisational overview and external environment

Percentage of reports that gave information on the impact of industry or market trends on the organisation.



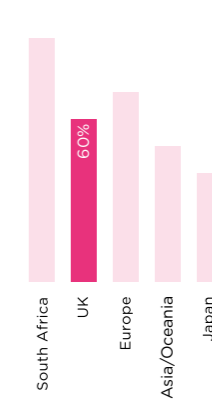
Business model

Percentage of reports in which the business model discussed outcomes.



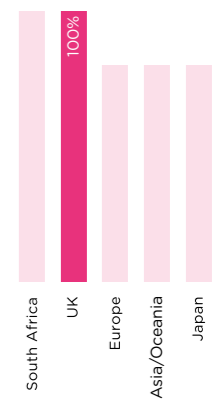
Risks and opportunities

Percentage of reports that linked risk to strategy or business model.



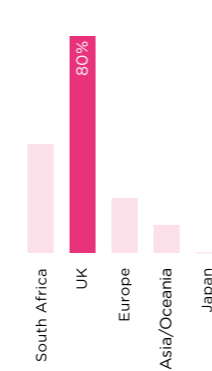
Strategy and resource allocation

Percentage of reports that outlined long-term business objectives/priorities.



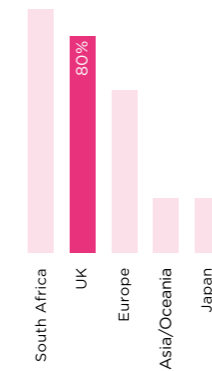
Performance

Percentage of reports that used KPIs to measure progress against strategic objectives.



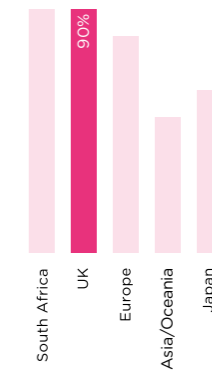
Governance

Percentage of reports that linked KPIs with Directors' remuneration.



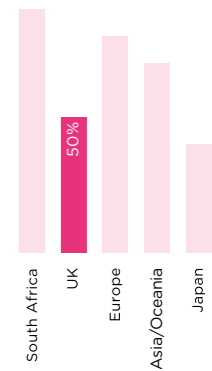
Outlook

Percentage of reports that discussed the organisation's outlook in detail.



Basis of preparation

Percentage of reports that referred to the IIRC.



Europe

Organisation	Country	Sector	<IR> Business Network	IIRC Database	Award Recognition	Global or Regional Award
Aegon	The Netherlands	Financial Services	✓	✓	Pwc Building Public Trust in Corporate Reporting Awards	Europe
AkzoNobel	The Netherlands	Basic Materials	✓		EC Responsible Business Awards, IR Magazine Awards	Global
Eni	Italy	Oil & Gas		✓		
Ferrovial	Spain	Industrials		✓	IR Magazine Awards	Global
Generali	Italy	Financial Services	✓	✓	Business International Finance Awards	Global
Indra	Spain	Technology	✓	✓	AECA Awards for Business Transparency	Spain
Novo Nordisk	Denmark	Healthcare	✓	✓	IR Magazine Awards	Global
Rosatom	Russia	Utilities		✓	International Corporate Communication MarCom Awards	Global
UniCredit SPA	Italy	Financial Services	✓	✓	EC Responsible Business Awards	Global
Uralkali	Russia	Basic Materials		✓	IR Society Awards	Global

Overview

In this sample, we examined organisations from Denmark, Italy, the Netherlands, Russia and Spain that adhere to different reporting regulations and legislation. However, with the introduction of the new EU non-financial reporting directive, all EU countries will have to implement minimum standards for the reporting of non-financial information for organisations with 500 employees or more.¹⁶

From the financial year commencing in 2017, around 6,000 large European entities will have to disclose material non-financial and diversity information on social and environmental matters.¹⁷ The new regulation aligns with the spirit of the <IR> Framework and could lead to further development in the region.

Despite their disparities, it was evident that these organisations followed the spirit of the Framework, displaying good articulation of how they create value.

“Integrated reporting led to additional internal insights, which led to better management decisions in some cases.”¹⁸ – Ivar Smits, Sustainability Reporting Manager, AkzoNobel.

Strengths

Comprehensive information on stakeholder engagement and material issues

In our 2014 research, only a handful of organisations described stakeholder engagement, their materiality processes and the resulting material issues. This time, however, we found comprehensive detail on stakeholder relationships, materiality processes and material issues in the European reports. Encouragingly, these reporters provided good insight into their relationships with key stakeholders and clearly identified the matters that affect their organisation’s ability to create value in the short, medium and long term. They also demonstrated how material issues and stakeholder feedback have been integrated into their organisation’s management processes. The findings suggest that these reporters have a developed understanding of the relationships they depend on in order to create value and the issues that are most pertinent to their continued ability to do so.

80%

of organisations specifically discussed their materiality assessment

50%

of organisations specifically discussed value creation for stakeholders

¹⁶ Official Journal of the European Union, Directive 2014/95/EU of the European Parliament and of the Council, 15 November 2014

¹⁷ IIRC, ‘Only 10% of companies are prepared for non-financial reporting directives. Are you?’, 9 April 2015

¹⁸ IIRC, ‘The Integrated Reporting Journey: The Inside Story’, September 2014

Market discussions give good insight into external environment

The European organisations also tended to report well on the external environment and included information on the legal, commercial, social, environmental and political context in which they operate. Additionally, almost all of the European reports used the market discussion to set up the strategy, and identified macro-economic as well as industry-related trends. They provided clarity on their external environment and the circumstances in which they operate, which reflects a solid understanding of their external environment and the potential impacts it can have on the organisation.

Well-developed business models focused on value creation

The <IR> Framework asks companies to articulate the organisation's system for transforming inputs into outputs and outcomes that aims to fulfil the organisation's strategic purposes – the business model. Reports from Europe for the most part included well-developed business models that articulated the organisation's inputs, outputs and outcomes and identified how the organisation creates short, medium and long-term value.¹⁹ Representing an improvement since 2014, the progress observed in business model reporting among European reporters indicates that organisations have a firm understanding of value creation.

Areas for development

Additional insight needed into performance against strategy

To evidence the organisation's progress against its strategic objectives, an Integrated Report should contain quantitative and qualitative information on its non-financial as well as financial performance. This performance is often measured using KPIs.²⁰ Rather than having a clear set of KPIs to measure strategic progress, some of the European organisations listed a large number of data points throughout the report. This led to a lack of clarity that impaired the level of connectivity between performance data and other content elements in the reports.

More concise and accessible presentation of information needed

Although the best reporters from this region provided a clear and concise read while ensuring the content was material to the Integrated Report, a number of European reporters have further progress to make in ensuring that their reporting is clear and concise. Some European organisations produced long reports that failed to use devices such as page references to avoid repetition. An Integrated Report should avoid duplication of information and only include content that is material to the organisation's ability to create value over the short, medium and long term.²¹ Additional information can be provided elsewhere, such as on the corporate website.

100%

of organisations discussed inputs and outputs in the business model

Snapshot of Europe

Organisational overview and external environment

Percentage of reports that gave information on the impact of industry or market trends on the organisation.



Business model

Percentage of reports in which the business model discussed outcomes.



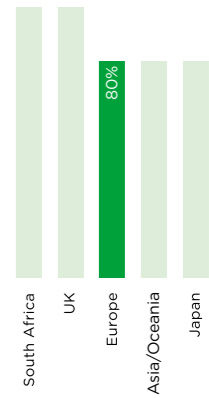
Risks and opportunities

Percentage of reports that linked risk to strategy or business model.



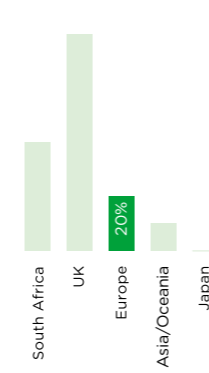
Strategy and resource allocation

Percentage of reports that outlined long-term business objectives/priorities.



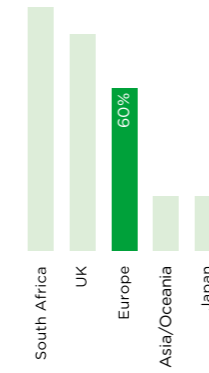
Performance

Percentage of reports that used KPIs to measure progress against strategic objectives.



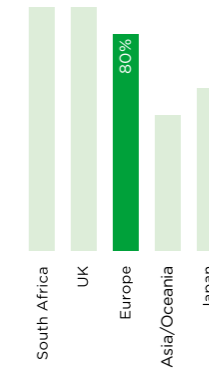
Governance

Percentage of reports that linked KPIs with Directors' remuneration.



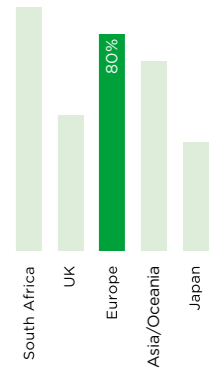
Outlook

Percentage of reports that discussed the organisation's outlook in detail.



Basis of preparation

Percentage of reports that referred to the IIRC.



¹⁹ IIRC, The <IR> Framework, page 25

²⁰ IIRC, The <IR> Framework, page 28

²¹ IIRC, The <IR> Framework, page 18

Asia/ Oceania

Organisation	Country	Sector	<IR> Business Network	IIRC Database	Award Recognition	Global or Regional Award
Cebu Property	Philippines	Financials				
CLP	Hong Kong	Utilities	✓	✓	Australasia Reporting Awards	Australasia
CPA Australia	Australia	Professional Services	✓	✓	Australasia Reporting Awards	Australasia
DBS	Singapore	Financial Services	✓	✓		
Dimo	Sri Lanka	Industrials	✓	✓	Australasia Reporting Awards	Australasia
National Australia Bank	Australia	Financial Services	✓	✓		
New Zealand Post	New Zealand	Industrials	✓	✓	ICA Awards for Sustainability Reporting	Global
Sanford	New Zealand	Consumer Goods		✓	Australasia Reporting Awards	Australasia
SK Telecom	South Korea	Telecommunications	✓	✓		
Stockland	Australia	Financial Services		✓		

Overview

This group contains organisations from the Asia/Oceania region excluding Japan, whose move towards integrated reporting merits a separate chapter. Regional developments in Asia/Oceania suggest that integrated reporting is starting to gain pace. For example, in Malaysia, 20 leading companies are now piloting <IR>. In Australia, integrated reporting is evolving at a slow pace but the country has some reporters who are not yet explicitly referring to the <IR> Framework in their reports but are nonetheless beginning to follow its spirit. Reluctance among those at the top to declare future ambitions due to fear of liability has proved a stumbling block for progress. However, the Government's desire to reduce the amount of red tape for companies is aligned with the <IR> Framework.²²

Strengths

Strong discussion of stakeholder engagement

All organisations we looked at in this region clearly identified their stakeholders, and described what the business does to engage with them. This demonstrates a good understanding of how the organisation's ability to create value for itself is linked to the value it creates for others. The reports from this region provided a significant amount of information to suggest that they have a well-developed understanding of their stakeholders, and how their relationship with them affects their material issues, strategy development and risk management.

Extensive discussion of material issues

Nearly all the reports from this region identified material issues with the majority providing specific discussion of their materiality assessment. This feature suggests that these organisations are beginning to develop an understanding of the link between the way material issues are managed and the organisation's ability to create value. However, their understanding of how these fit in to the larger value creation process appears to be still developing as most were not linked to the business model and strategy.

Strong focus on the capitals by Asian companies

Whilst most companies provided a basic discussion of their resources and relationships, a number of the Asian reporters from this region went above and beyond baseline descriptions of their dependencies to provide specific and detailed discussions of the capitals. These discussions reflect a view of value that extends beyond financials to incorporate non-financial capitals, and takes a broader view of how the organisation creates value and is dependent upon different capitals.

"As NAB's materiality process becomes more integrated, with a fully comprehensive filter for business and societal issues, this also helps change the conversation about strategy development."²³ - National Australia Bank, Australia

70%

of organisations provided insights into feedback resulting from engagement processes

60%

of organisations specifically discussed their materiality assessment

Good insight into strategic priorities

The strategy discussions in these reports, especially from Australia and New Zealand, were fairly detailed - often providing more refined information than the business model - with strategic priorities providing further insights, such as targets and links to risk. This finding suggests that these organisations are beginning to grapple with the role of strategy as a driver of value creation.

²² University of New South Wales, 'How integrated reports are gaining ground by stealth', 16 February 2016
²³ IIRC, IIRC Newsletter - Highlights from 2016, 20 December 2016

Snapshot of Asia/Oceania

Areas for development

Need to outline commitment to wider value creation

Although aimed primarily at investors, an Integrated Report should explain how an organisation creates value over time, both for itself, its stakeholders and society at large.²⁴ The best reporters in this region are moving beyond baseline value creation descriptions and refining their understanding of the value creation process. However, there is significant variance in the application of <IR> across this broad region and some reporters provided less detailed insight into their commitment to wider value creation. For example, three reporters from this region did not provide even a basic outline of their commitment to wider value creation.

Need to further integrate the business model with the rest of the report

Business models in the reports from Asia/Oceania were quite siloed, which suggests that they report to meet the criteria of the Framework, rather than exploring how the Framework can 'fit' the organisation. As a result, the reporters from Asia/Oceania are missing an opportunity to provide a more holistic insight into how the business model and strategy are developed in response to the risks, opportunities and external environment faced by the organisation.

More insight into strategic performance needed

We found that the reporters from Asia/Oceania lag behind the other regions in their reporting on strategic performance. Only three reports from this region specifically linked KPIs to strategic objectives, and two organisations identified a very large number of KPIs without clearly explaining their relevance to the organisation's strategy. This obstructed the ability of the reader to understand how the organisations had performed against their strategic objectives, meaning that these reporters miss an opportunity to communicate how they measure progress and performance. At the same time, two other reports from the region identified no KPIs at all, instead providing a large number of data points without explaining their significance.

More discussion needed of how market trends impact the organisation

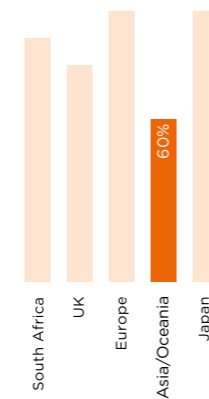
Generally, the market discussions in the reports from this region provided an overview of market conditions, for both macro-economic and industry trends. However, we found that these discussions were relatively weak when it came to outlining how market trends impacted the organisation. Fewer reporters from Asia/Oceania used the market discussion to set up the strategy than those in other regions. These organisations could therefore provide more information on how their ability to create value is influenced by their external environment. Similarly, only a few reports included non-financial issues in the market discussion.

60%

of organisations included strategic objectives that report against previous targets

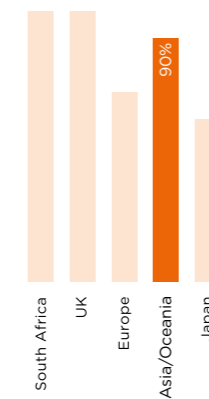
Organisational overview and external environment

Percentage of reports that gave information on the impact of industry or market trends on the organisation.



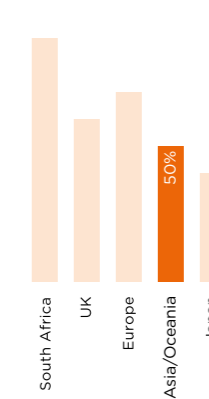
Business model

Percentage of reports in which the business model discussed outcomes.



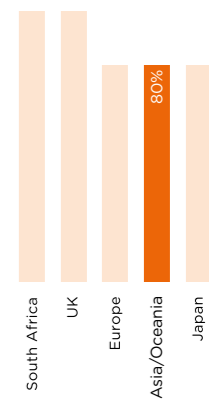
Risks and opportunities

Percentage of reports that linked risk to strategy or business model.



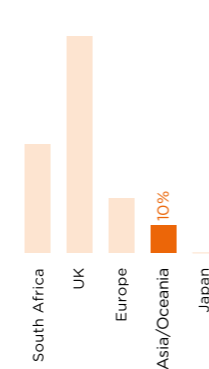
Strategy and resource allocation

Percentage of reports that outlined long-term business objectives/priorities.



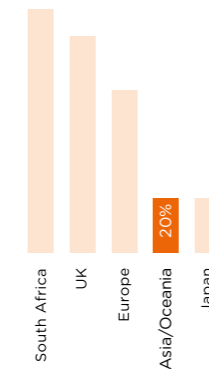
Performance

Percentage of reports that used KPIs to measure progress against strategic objectives.



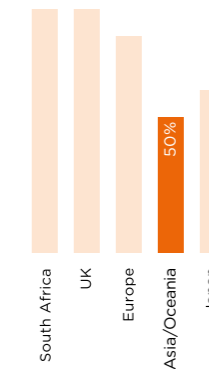
Governance

Percentage of reports that linked KPIs with Directors' remuneration.



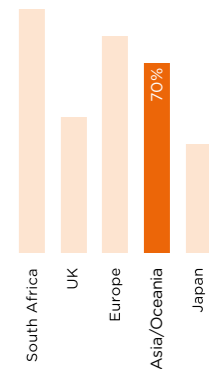
Outlook

Percentage of reports that discussed the organisation's outlook in detail.



Basis of preparation

Percentage of reports that referred to the IIRC.



²⁴ IIRC, The <IR> Framework, page 10

Japan

Organisation	Sector	<IR> Business Network	IIRC Database	Award Recognition	Global or Regional Award
Freund Corporation	Healthcare				
Fujitsu	Technology	✓		Responsible Business of the Year Awards	Global
Itochu	Basic Materials		✓	WICI Awards (Japan)	Japan
Lawson	Consumer Goods		✓		
MS & AD Holdings	Financial Services		✓	WICI Awards (Japan)	Japan
Nissay	Financial Services				
NYK Group	Industrials			Environmental Communication Awards	Global
Omron	Technology		✓	WICI Awards (Japan)	Japan
Takeda	Healthcare		✓	Environmental Communication Awards	Global
Wacoal	Consumer Goods				

Overview

The movement towards <IR> in Japan has been market led but has also received strong backing from the government, which considered <IR> an instrument for increasing long-term investment.²⁵ It is for this reason that we have examined Japan in isolation.

Some of the drivers of progress are the 2014 Ito Review, the 2014 Stewardship Code for institutional investors, the new Corporate Governance Code that came into effect in 2015, and the 2015 report published by the Ministry of Economy, Trade and Industry (METI) recommending integrated reporting as a means of improving the dialogue between companies and investors.²⁶ As a result, according to KPMG's Survey of Integrated Reports in Japan, over 200 Japanese organisations produced Integrated Reports in 2015, an increase of 65 reports from the previous year, making Japan one of the <IR> success stories of recent years.²⁷

Although integrated reporting is not as far advanced in Japan as in the other regions in this review, the Japanese reports clearly demonstrated a move away from their traditional focus on financials and a greater focus on insights into purpose and the value creation story.

Strengths

Good articulation of mission and purpose

Almost all of the Japanese reporters we looked at followed the spirit of the Framework by providing a mission and a purpose statement, usually in the 'at a glance' section of the report.

This provides the reader with a good insight into the organisation's spirit and reason for existing. Although this is an exciting development, few of these mission and purpose statements appeared to be entity-specific.

Strong focus on human capital

Japanese reports often discussed the broader set of capitals that the organisation depends on to create value. In particular, disclosure on human capital was strong, with almost all the reports including a human capital/resources section separate from the business model which covered topics such as employee satisfaction and diversity. Some Japanese reports also included value creation models showing how the capitals that the organisation relies on are transformed into outputs.

Encouraging movement towards more forward-looking information

While Japan remains new to integrated reporting, the Japanese reporters showed signs that they are moving away from historical information and adopting a more future-orientated approach in line with the principles of the <IR> Framework. Although many of the reports continued to include more information than reports from the other regions on the organisation's history and historic performance, some of them are starting to highlight long-term strategic objectives.

"As a pharmaceutical company, we are working for patients whose needs are impacted by environmental and social phenomena. Such aspects are important for Takeda's strategy, and integrated thinking is therefore very important for us."²⁸ - Koichi Kaneda, Senior Director, Takeda.

Areas for development

More insight into governance needed

The governance sections in the Japanese reports displayed a focus on complying with legislation, with little detail on the Board's activities over the past year or personal insights into Board practices. Generally, most Japanese reporters are missing an opportunity to communicate how the organisation's governance structure supports its ability to create short, medium, and long-term value.²⁹

90%

of organisations reported on human capital

²⁵ The Journal of the Hong Kong Institute of Chartered Secretaries (CSJ), 'Integrated Reporting: The View From Asia', 13 May 2016
²⁶ IIRC, 'Japanese Report Calls for Integrated Reporting', 4 June 2015
²⁷ KPMG, Survey of Integrated Reports in Japan 2015, April 2016
²⁸ International Integrated Reporting Council (IIRC), 'Takeda Pharmaceutical Company's journey towards Integrated Reporting', 12 December 2013
²⁹ IIRC, The <IR> Framework, page 25

Better articulation of the business model needed

We found that business model disclosure was less developed in the Japanese reports we looked at, compared to those seen in other regions. This is a noteworthy omission as it represents one of the cornerstones of integrated thinking and reporting.

More detail needed on the capitals

Although most of the Japanese organisations discussed the capitals, these discussions often lacked relevant detail. Unlike the best reporters from other regions, discussion of the capitals in Japanese reports tended to be confined to one section instead of being linked to multiple sections of the report. While Japanese reports discussed the capitals, they did so without making it specifically clear how these form a vital part of the value creation process. This suggests that more work needs to be done in understanding the significance of the capitals and what this means for their organisation and its ability to create value in the short, medium and long term.³⁰

Greater insight needed into principal risks

Very few of the Japanese organisations stated what their principal risks are, and instead opted for a brief explanation of

their risk management processes. Based on this observation, there appears to be room for Japanese reporters to develop further by providing more information on the specific risks and opportunities that affect the organisation's ability to create value.

More information needed on performance against strategy

Few of the Japanese reports linked the organisation's performance to strategic objectives in the spirit of the <IR> Framework, and none of the Japanese reports we looked at linked all of their KPIs to strategic priorities. Moreover, few Japanese organisations identified non-financial KPIs. A suggestion that would enable Japanese reporters to provide a more holistic insight into the organisation is to indicate how it is performing against its strategy.

Need to identify material issues

Only two of the Japanese organisations in this report clearly identified their material issues, which shows that many organisations have more to do to understand and identify relevant matters. This impairs the quality of information provided and raises questions as to whether these reports are truly disclosing the information most relevant to the organisation's ability to create value over time.

30%

of organisations disclosed their Board changes in the governance section

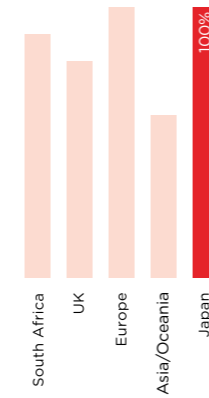
20%

of organisations clearly identified their material issues

Snapshot of Japan

Organisational overview and external environment

Percentage of reports that gave information on the impact of industry or market trends on the organisation.



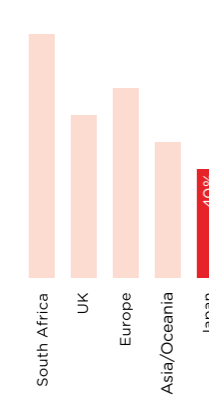
Business model

Percentage of reports in which the business model discussed outcomes.



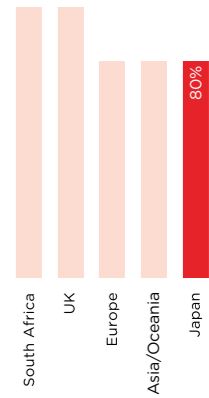
Risks and opportunities

Percentage of reports that linked risk to strategy or business model.



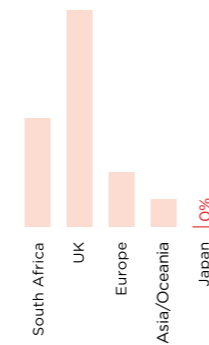
Strategy and resource allocation

Percentage of reports that outlined long-term business objectives/priorities.



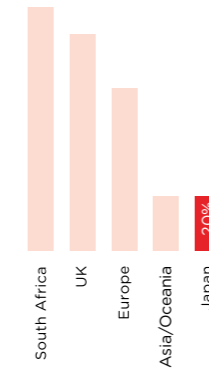
Performance

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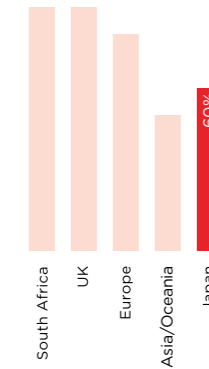
Governance

Percentage of reports that linked KPIs with Directors' remuneration.



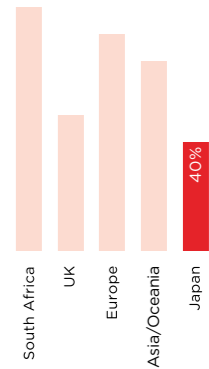
Outlook

Percentage of reports that discussed the organisation's outlook in detail.



Basis of preparation

Percentage of reports that referred to the IIRC.



³⁰ IIRC, The <IR> Framework, pages 11-12

Black Sun Best Practice Communications Database

Created and maintained by Black Sun in partnership with the IIRC, the Integrated Reporting database contains examples of emerging practices in <IR> that illustrate how organisations are reporting concise information about how their strategy, governance, performance and prospects, in the context of their external environment, leads to sustainable long-term value creation.

The database is compiled from over 260 best practice <IR> reporting examples from 164 companies across the globe. Black Sun updates the database on a monthly basis, taking inspiration from the latest award-winning, recognised reports.

To find out more, visit <http://examples.integratedreporting.org/home>

Black Sun Best Practice Communications Academy

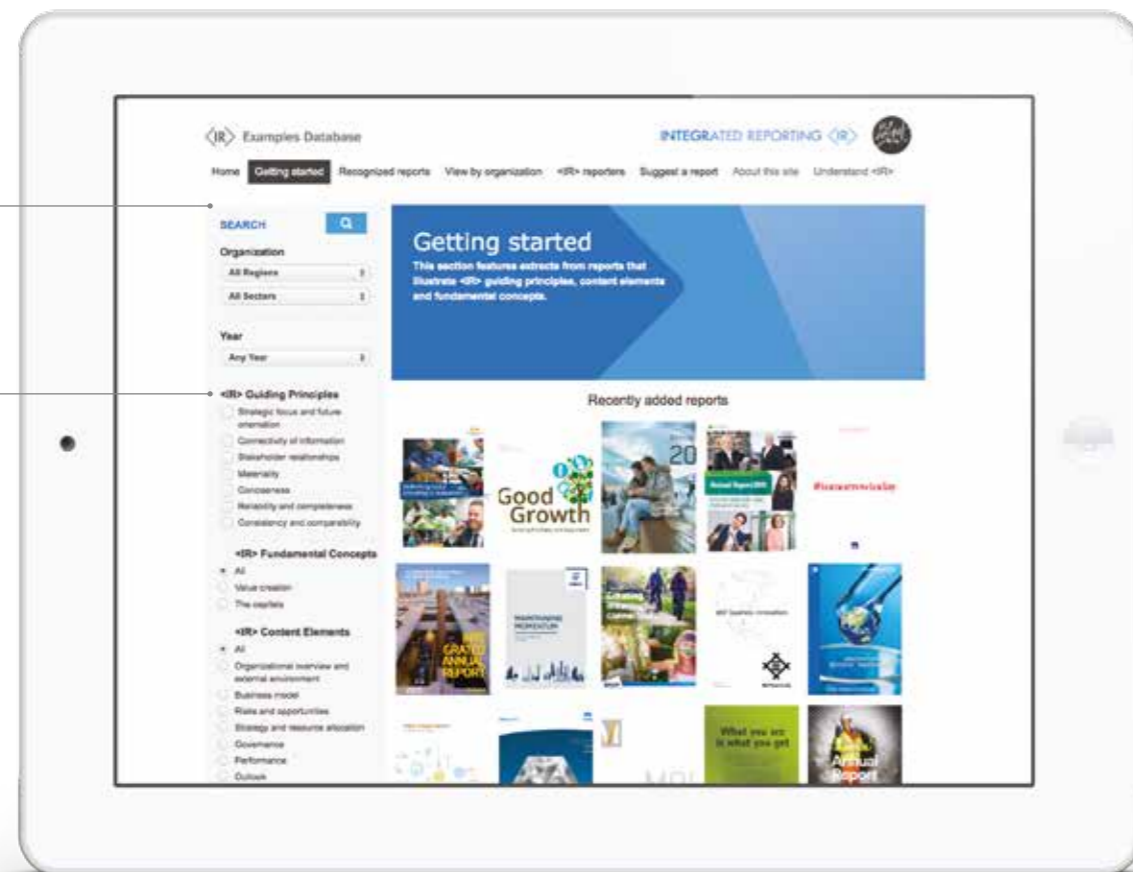
Every day we are helping businesses to tell their value creation story, build trust and strengthen relationships with their stakeholders for the short, medium and long term. We have created the Black Sun Best Practice Communications Academy to help you think and act in ways that illuminate the value your organisation creates for the benefit of all your stakeholders, today and in the future. We are the only company authorised to provide IIRC-licensed and accredited <IR> training in the UK and Singapore. We offer a range of training courses that challenge you to think about the concept of integrated thinking and reporting in the context of your own organisation.

Please contact Academy Manager (kvieru@blacksunplc.com) to learn more.

Tailor your search to the examples that best suit you. For example, you can search by company name, sector or year.

You can also refine your search to find relevant examples of the <IR> Guiding Principles and Content Elements you are interested in.

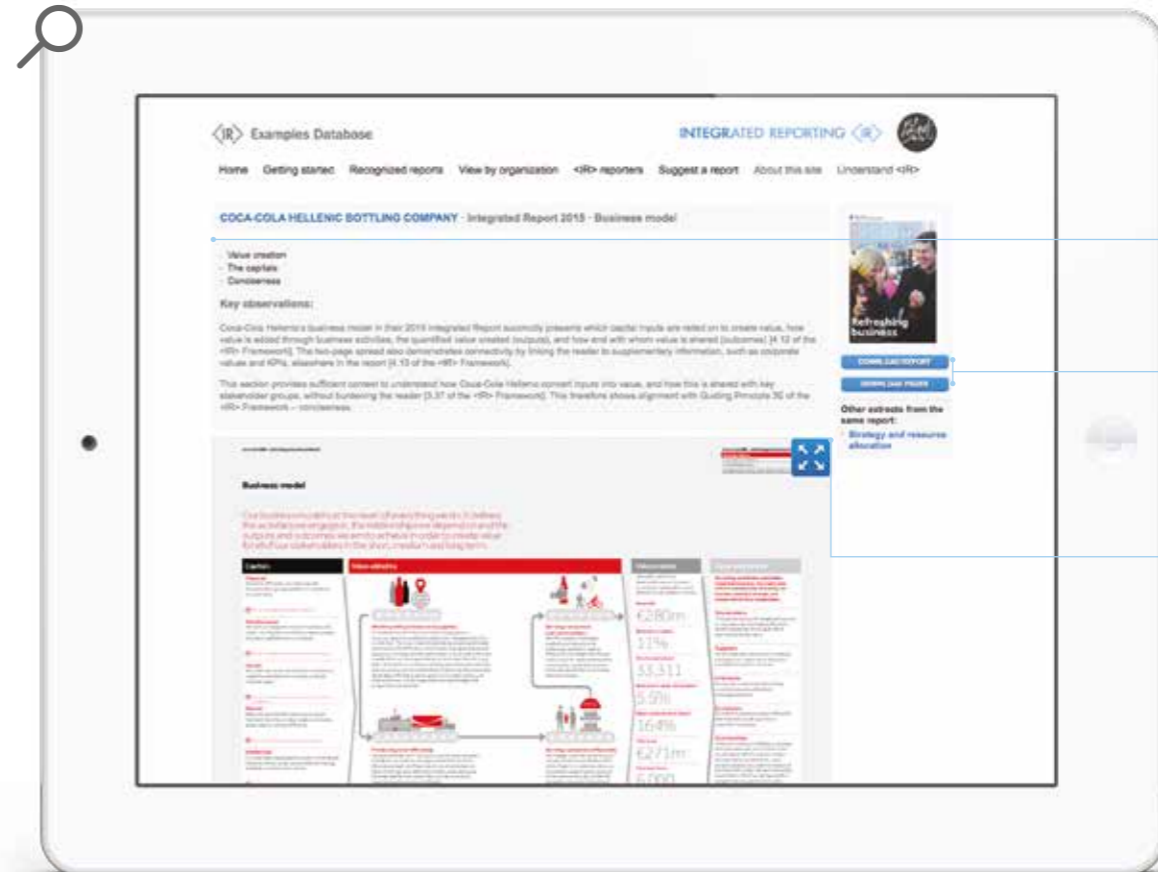
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You can print or download the pages in the extract or the full report using these buttons

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Awards referenced in this report

Organisation	Global or Regional Award
AECA Awards for Business Transparency	Spain
Australasia Reporting Awards	Australasia
Business International Finance Awards	Global
CSSA IR Awards	Southern Africa
Environmental Communication Awards	Global
EY Excellence in Integrated Reporting Awards	South Africa
Finance for the Future Awards	Global
ICA Awards for Sustainability Reporting	Global
ICSA Hermes Transparency in Governance Awards	Europe
International Corporate Communication MarCom Awards	Global
IR Magazine Awards	Global
IR Society Awards	Global
Nkonki Awards	South Africa
PwC Building Public Trust in Corporate Reporting Awards	Europe
Ethical Corporation Responsible Business Awards	Global
WICI Awards (Japan)	Japan