

3rd Activity Report – Executive Summary

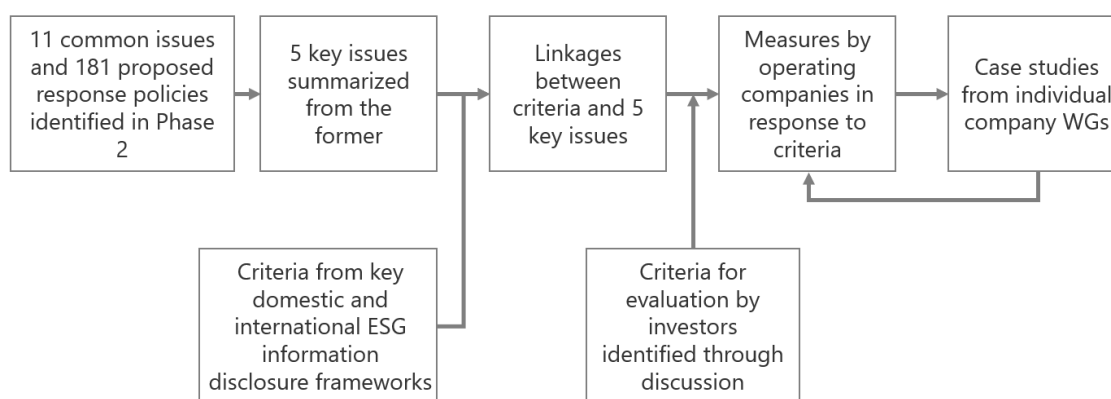
■ Approach to Organize the Practical Guidance on ESG Information Disclosure

The objectives of Phase 3 were to extract, systematically organize, and demonstrate practical solutions to ESG information disclosure, building upon the issues that had been identified in Phase 1 and Phase 2 of this study group. To achieve the objectives, 2 working groups (WGs) were formed and conducted studies in Phase 3.

In pursuit of these objectives, we summarized the 11 common issues and 181 proposed response policies identified in Phase 2 into 5 key issues aligned with the “practical process of developing a long-term value creation story”, and examined practical solutions for each issue from the perspectives of both investors and issuers.

Additionally, 11 member companies that participated in this project demonstrated their practical solutions by considering the key issues in the study group and applying them to their own ESG information disclosure practices for further improvement.

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■ Results

① Extraction of practical solutions and systematic organization (WG on Practical Guidance)

We identified key domestic and international ESG information disclosure frameworks and linked reporting matters required in the frameworks with the 5 key issues aligned with the “practical process of developing a long-term value creation story”. A total of 6 WG meetings were held by institutional investors and reporting companies. In addition, in the WG’s discussions, questionnaires were sent to investors on multiple occasions to better understand the investor needs and identify the corresponding technical issues.

Through these discussions, it became clear what investors value in communication of a long-term value creation story, and how issuers can improve the disclosure practices to meet these expectations.

Results of Discussion from the WG on Practical Guidance on ESG information

Issue	Actions	Criteria for evaluation by investors	Measures by operating companies (examples)	
① Establishing an ideal vision from a long-term perspective	1. Group discussion by investors and issuers 2. Investor surveys 3. Collecting and sharing best practices To be considered in Individual Company WGs and Phase 4	Expression of what makes the company unique : To understand the company's unique strengths and other competitive advantages that are key to achieving the ideal vision	<ul style="list-style-type: none"> • Explaining the past events that led to the current business model and future ideal vision • Clarifying the company's perception of their value in the value creation story 	
② Formulating a value creation story from a long-term perspective		Consistency with the company's strategy : To determine whether the strategies and corporate activities lead to the achievement of the ideal vision	<ul style="list-style-type: none"> • Explanation of the linkage between corporate philosophy and value creation 	
③ Setting goals and indicators from a long-term perspective		Commitment by Management : To judge the seriousness of the management's commitment to achieving the ideal vision	<ul style="list-style-type: none"> • Designing a system for regular discussions by management, including the understanding of the progress of materiality in the content of reports to the Board of Directors 	
④ Establishing governance structures that support long-term value creation				
⑤ Disclosure and engagement				

② Case studies by demonstrating practical solutions

In this phase, 11 member companies demonstrated practical solutions to key issues related to ESG information disclosure in parallel with the development of the practical guidance.

Specifically, each of the 11 companies selected aspects of their ESG information disclosure (e.g. integrated reporting) that they wish to be reviewed, and compiled practical measures to improve the content of their disclosure through feedback from cooperators such as institutional investors and with reference to the practical solutions described above. After drafting of initial improvement measures, the company once again received feedback from them, and examined effectiveness and practicality of the solutions by comparing the content of their disclosure before and after the demonstration.

■ Schedule for future activity

Based on the practical issues related to the formulation of long-term value creation stories, clarified evaluation criteria by investors, methods for disclosure by reporting companies, and good practices systemized in this phase, three activities are planned for the next phase. Specifically, we plan to analyze the indicators, including the background concepts, proposed by existing ESG information disclosure frameworks and identify which ESG indicators are common and applicable to all issuers and which are industry-specific indicators. Secondly, we plan to share the issues and challenges faced through the process of preparation and implementation of enhanced ESG disclosure, and conduct case-studies and discussions on how to improve operational efficiency. Third, the outcomes of these three activities will be compiled into a white paper that will become the culmination of this study group.

■ Message

Many Japanese companies face similar difficulties how long-term value of the companies can be



effectively communicated through ESG information disclosure. In this phase, we derived practical solutions to overcome these challenges by examining operational challenges through rigorous discussions and extensive case studies. As a result, we were able to share among member companies the specific points that investors expect when evaluating ESG information disclosures and the methods that that issuers can take to effectively meet these expectations and fully express their unique corporate value.

In addition, with 11 member companies volunteering to demonstrate practical solutions using their own ESG information disclosures, the "effective and efficient ESG information disclosure framework" that the study group aims for has become more robust and backed by practice. This linkage between theory and practice was also a major achievement of this phase.

In disclosing the long-term value of the company and the value creation process along with its effectiveness, issuers tend to limit their focus on disclosing in accordance with certain frameworks and methodologies. However, through dialogue between investors and issuers in this phase, we were able to broaden the issuers' perspectives to understand what investors truly expect. For example, a major finding from these discussions was the importance of not only the output, but also the context of the process and the management's intent by which the long-term value creation story was created.

Further discussion is, however, needed on how ESG can be incorporated into corporate value in the future. Nonetheless, the study group has already built consensus on how we all aim to interpret socio-environmental and economic values as corporate value. This consensus is something we can build upon to further the narrative on the significance of socio-environmental value for management. The fact that investors and issuers are equally involved in the discussion is the most distinctive characteristic of this study group. The continuation of discussion and refinement of the ideal visions and definition of ESG information disclosure by investors and issuers alike will enhance dialogue between the two parties and thus improve the quality of ESG information disclosure by Japanese companies. We look forward to the continued discussions among our member companies.



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