



ESG Disclosure Study Group Report 2023

-Achieving World-Leading Disclosure and Dialogue Standards-

June 2023

General Incorporation Association of ESG Disclosure Study Group



Index

Preface

Suggestions

1. Introduction

- 1-1. About the ESG Disclosure Study Group
- 1-2. Vision, Mission and Values of the ESG Disclosure Study Group and Purposes of Study
- 1-3. Policy for Production of Term 3 Activity Report
- 1-4. Approach to Term 3 Activities
- 1-5. Background of Term 3 Activities

2. Desirable State of Disclosure

- 2-1. Response to Japanese and Overseas Regulations for Non-financial Information Disclosure
- 2-2. Presentation of Originality in Integrated Report
- 2-3. Discussions on Desirable Forms of Dialogues

3. Specific Manners of Disclosure on Human Capital

4. Connectivity Between Non-Financial and Financial Information

Appendix

Preface

Finishing Production of Term 3 Activity Report

The ESG Disclosure Study Group is conducting more practical activities after its activities during the third term. I am convinced that they are gradually producing positive results. These days, I say in my lectures and other events that a company's fate depends on the quality of ESG information disclosure. This is because it is becoming a means by which investors assess corporate integrity and intelligence.

In Term 3, we had three subcommittees. Specifically, they were the Subcommittee on Improvement of Integrated Reports, the Subcommittee on Human Capital Disclosure, and the Subcommittee on the Relationship between S Factors and Financial Figures. It was confirmed that they each held active discussions and that they afforded participants a great deal of insight

Needless to say, ESG information disclosure should not only meet the minimum required level but aim to be world class in consideration of information readers, and the readers that we should most favorably work together with for creation. Looking at the discussions, I feel that the foundations for that are being built in the Japanese capital market.

In our regular meetings, discussions are becoming increasingly productive. We believe we will be conducting more fulfilling activities in the fourth term, when the International Sustainability Standards Board (ISSB) will make full efforts to formulate its standards.

Tetsuo Kitagawa, Representative Director

Suggestions

- i. Position of Suggestions
- ii. Background
- iii. Suggestions
 1. Basic Stance on Disclosure
 2. Response to Regulations
 3. Connectivity Between Non-Financial and Financial Information
 4. Connectivity Between Non-Financial and Financial Information in Human Capital Disclosure
 5. Effective and Efficient Selection of Multiple Disclosure Media
 6. Expectations of Investors and Companies in Dialogues
 7. Expectations Regulatory Authorities and Standardizing Bodies

i. Position of Suggestions

- The ESG Disclosure Study Group has since its establishment in June 2020 been committed to its mission of creating a mechanism for harmonizing the continuous development of society with corporate efforts to increase their value and to achieve growth. We have discussed the current state of non-financial information disclosure and problems with it in hopes that it will be beneficial to both companies and investors.
- In June 2022, we developed separate suggestions to issuers, investors, and standardizing bodies with regard to the achievements for two years, what the ESG information disclosure should be like based on the achievements, and what more effective dialogues between issuers and investors would look like. They were published in Japan and overseas in form of activity reports.*
* ESG Disclosure Study Group Report 2022 – Achieving World-Leading Disclosure and Dialogue Standards – (<https://edsg.org/wp-content/uploads/2022/06/38892e73de188c07a6273771d05eb4e2.pdf>), and Executive Summary of Activity Reporting (<https://edsg.org/wp-content/uploads/2022/08/207b7d3b5f5ad6e55ee6d827147af01f.pdf>)
- The previous activity report presented suggestions that reflected the fundamental ideas of the Study Group. They are still effective and practical, in view of changes in the external environment, such as Japanese and overseas trends towards instituting laws, regulations and standards for non-financial information disclosure, progress in corporate disclosure, and the state of use of non-financial information by investors.
- During the term in question, the members studied the prescribed performance and improvised performance in the integrated report as a significant means that allows businesses to publish their long-term value creation (LTVC) stories on the subject of human capital disclosure, which is now in growing demand, and discussed a desirable form of dialogue between companies and investors, using the previous suggestions as a basis of our studies and discussions.
- The suggestions in this report have been created on the basis of subject matters in members' discussions about the achievements of activities in the twelve-month period.

ii. Background

- Behind the shift towards the obligation and standardization of non-financial information disclosure, there are investor needs for information that allows them to examine if companies can achieve the LTVC.
- Essentially, companies' response to regulations does not conflict with the LTVC. Corporate management executives are required to increase corporate value in consideration of the balance between financial and non-financial aspects. In this event, it is necessary to review the state of sustainability management from a viewpoint of disclosure.
- The ESG Disclosure Study Group has as its members companies that actively practice sustainability management, including non-financial information disclosure, and investors, to explore ideal visions of disclosure and dialogues.
- The primary purpose of these suggestions is to propose an approach for further improvement to companies already fully working for ESG information disclosure as well as to investors. I hope that they will also serve as a practical guide for companies that will start making ESG information disclosure.

iii. Suggestions

1. Basic Stance on Disclosure

Companies should not define the disclosure of compulsory or standardized items itself as an objective. The point is how non-financial information of a company leads to its LTVC. Integrated reports are a key means of communicating this.

- The scope of non-financial information subject to disclosure is enlarged in line with the introduction of obligations and standards. Today, the disclosure of more specific information, both qualitative and quantitative, is required. It is inevitable to comply with the obligations and standards introduced. However, it should not be regarded as an objective.
- With regard to non-financial items important to the LTVC, it is vital to select them in consideration of the path via which they impact financial matters, and to explain the ideas and conditions behind the selection, indicators, and medium- and long-term targets.
- For this purpose, first, management executives need to recognize that non-financial factors are involved in the procurement and construction of management resources and to manage them. Then, in consideration of their companies' material issues, they should identify which non-financial information is important and endeavor to create value. These are the roles of business managers.
- Companies can exhibit their essential originality by expressing their stories of value creation devised with the close involvement of management executives in conjunction with non-financial factors and intangible assets, such as technological strengths that generate their competitiveness and personnel capabilities. Integrated reports are a key means of communicating this.

iii. Suggestions

2. Response to Regulations

Companies are required to build their optimal implementation structure by monitoring the latest trends on the introduction of obligations and standards for non-financial information disclosure and on the basis of an analysis of any disparity with their status quo.

- The introduction of obligations and standards for non-financial information disclosure is making rapid progress in Japan and overseas. That requires companies to understand what new complicated regulations and standards demand and to meet them in a timely manner. Meanwhile, quite a few companies are facing issues such as the growing burden on disclosure personnel and the limited number of human resources holding expertise.
- Companies are urgently required to take actions for non-financial information disclosure. To take timely action, they need to train internal personnel to have the necessary knowledge and study employing outside experts and tools to understand the latest trends in non-financial information disclosure and for collecting and analyzing data including those about supply chains.
- Corporate managers should understand issues on resources involved in non-financial information disclosure and endeavor to construct an efficient and effective implementation structure.

iii. Suggestions

3. Connectivity Between Non-Financial and Financial Information

Companies should explain the relationship between their non-financial efforts and their LTVC in a visualized form.

- The impacts of corporate non-financial efforts on financial affairs are attracting rapidly growing interest.
- From the perspective of connectivity between non-financial and financial information in information disclosure, it is important to visualize how non-financial efforts, including human capital, leads to the LTVC in their corporate strategies with the use of impact path, logic tree and other methods, and then to explain it. In this event, it is also helpful to give integrated presentations about related indicators, such as employee engagement, turnover ratio, and other indicators of loyalty when discussing human capital.
- As for quantification initiatives, various earlier examples in Japan and overseas are reported, including those in the academic area. An analysis made by a subcommittee of the Study Group has confirmed that data related to human capital, such as investments in human capital and personnel measures, has some impact on financial figures through employee engagement.
- Companies should judge if they need to perform an independent quantitative analysis and to disclose it in view of earlier examples in Japan and overseas.

iii. Suggestions

4. Connectivity Between Non-Financial and Financial Information in Human Capital Disclosure

Companies should develop personnel strategies for achieving the LTVC, identify disclosure items in terms of human capital that are important to management strategies, and explain target settings and the thinking behind them.

- Disclosure of human capital is now in rapidly increasing demand. It is the integration of management strategies with personnel ones that should be considered as a prerequisite.
- It is significant that companies make clear for the achievement of the LTVC in their personnel strategies how human capital links to the LTVC, including in cases where business model reforms are needed, what kinds of personnel (personnel portfolios) are needed, and how such personnel will be acquired and retained (through recruitment and development) and establish a common view shared across the organization from the management team to working-level personnel.
- The Guidelines for Human Capital Visualization presents 19 items, such as personnel development and diversity, as examples of disclosure items concerned with human capital. Companies should explain in their integrated reports and other disclosure media how their indicators and actions are associated with their management strategies.
- Teamwork, which is generated by strategically combining capabilities of individual employees, will also provide strength for the human capital. To display the performance of teamwork, it is necessary not only to disclose individual items but also to give complex explanations about them.

iii. Suggestions

5. Effective and Efficient Selection of Multiple Disclosure Media

Companies should make their own decisions on the selection of media for disclosing non-financial information on the basis of understanding both what information they want to convey and what investors want to know.

- Essentially, companies should decide at their discretion in which of their media they publish their non-financial information. It is also necessary to give consideration to the swift accessibility to investors of the information they seek, which is requisite to their investment decisions and evaluation.
- Integrated reports are an important means by which investors assess the feasibility of companies' LTVC. They should closely explain the stories of value creation and the key non-financial information associated with them. Companies should select ESG-related information and other details, including the way of linking them to websites, at their own discretion.
- This also goes for how to report financial information in integrated reports. While connectivity between financial and non-financial information is significant, arguments are split on whether or not financial information should be acquired from integrated reports. Some say that it is reader-friendly to include summaries of the balance sheet, the profit-and-loss statement, and cash flow statements in a single integrated report.
- It is significant for companies to see integrated reports as a space for an improvised performance that exhibits their value creation and to improve them with a reference to good examples of companies in other sectors as well as those of competitors.

iii. Suggestions

6. Expectations of Investors and Companies in Dialogues

Companies and investors should be more conscious of the viewpoint of intensifying the mutual understanding and interactivity of dialogues to prevent the dialogues themselves from becoming an objective.

- Investors should gain information offered by a company through integrated reports and other materials and develop hypotheses and their own views on the company's value creation process in preparation for a dialogue with it. Continued attempts to eliminate disparities in the company's disclosure information and investors' hypotheses and their own views will help deepen mutual understanding.
- It is vital for investors to understand the aspiration of companies to accurately understand investors' needs and interests and not to neglect to prepare to give plain explanations when requested to do so by companies.
- Investors have a range of management approaches. Depending on that, the specific disclosure items they pay attention to vary. Companies sometimes need to take positive actions, such as asking questions of investors, instead of merely passively responding to investors' questions in dialogues. When they honestly ask investors questions, for example, about their criteria for investment decisions, the relationship between the criteria and their questions in dialogues, and points which they find insufficient with respect to disclosure and dialogues on the company side, they will be able to understand investors' intent in dialogues. That will lead to a qualitative improvement in the dialogues.

iii. Suggestions

7. Expectations Regulatory Authorities and Standardizing Bodies

In terms of developing standards for non-financial information disclosure, it is hoped that interoperability will be increased through a collaboration among international standardization bodies, regulatory authorities in different countries and regions, and equivalent entities.

- If indicators and stances behind the regulations and standards for non-financial information disclosure vary with the country or region, it will be difficult for companies operating globally to grasp disclosure items relevant to their overall groups. In addition, it will be more difficult for investors using such information to make international comparisons.
- To ensure convenience in the disclosure and utilization of non-financial information, we hope that international standardization bodies and regulatory authorities in different countries and regions will continue their efforts to increase the interoperability of non-financial information disclosure standards and to ensure the transparency of ESG evaluation standards while focusing on the balance between globalization and localization.
- We also request that regulatory authorities in different countries and regions take action to ease the heavy burden on companies for meeting regulations in different areas in cases where they have subsidiaries in separate jurisdictions, for instance with the introduction of transitional measures.
- We communicated our stance through our comment letter in July 2022 and discussions to the ISSB, which was working to develop standards to serve as a global baseline. We welcome the ISSB's final draft, because it shares the same orientation with us in the sense that it is not rule-based but principle-based and that it defines human capital as a priority for the future.

1. Introduction

1-1. About the ESG Disclosure Study Group

1-2. Vision, Mission and Values of the ESG Disclosure Study Group and Purposes of Study

1-3. Policy for Production of Term 3 Activity Report

1-4. Approach to Term 3 Activities

1-5. Background of Term 3 Activities

1-1. About the ESG Disclosure Study Group

- The ESG Disclosure Study Group was established in June 2020 to provide a forum for free and open discussion among listed companies, investors, and others on the need for Japanese companies and investors to actively communicate their views overseas, in addition to deepening discussion on the ideal form of disclosure in Japan amid global and Japanese trends in the disclosure of non-financial information.

Name	ESG Disclosure Study Group / EDSG
Established	June 15, 2020
Vision	We will create a system that will harmonize the sustainable development of society with companies' increase in their own value and growth.
Major activities	<ol style="list-style-type: none">(1) Exploring effective and efficient ESG information disclosure frameworks(2) Accumulating practical examples (demonstrations) related to ESG information disclosure(3) Promoting mutual understanding among stakeholders for better decision-making(4) Publishing reports on research results(5) Businesses incidental or related to each of the preceding items, which are required for achieving the purposes of EDSG
Representative Director and Study Group Chair	Tetsuo Kitagawa, Ph.D. (Emeritus Professor of Aoyama Gakuin University and Professor at Tokyo Metropolitan University)
Number of members (As of June 30, 2023)	123 corporations
Web	https://edsg.org/

1-2. Vision, Mission and Values of the ESG Disclosure Study Group and Purposes of Study

- The purpose of the ESG Disclosure Study Group is to organize ESG information disclosure to make it better for both companies and investors, taking into account domestic and international regulatory trends, and to disseminate its findings not only in Japan but also globally. By presenting good practices collected through our research, we also aim to provide information that will be helpful to companies that are considering enhancing their ESG information disclosure in the future.
- To achieve these objectives, we will work based on the following Vision, Mission, and Values.

Vision

We will create a system that will harmonize the sustainable development of society with companies' increase in their own value and growth.

Mission

- Exploring effective and efficient ESG information disclosure frameworks
- Accumulating practical examples (demonstrations)
- Promoting mutual understanding among stakeholders for better decision-making

Values

- Working to solve problems through partnerships, which could not be solved independently
- Respecting each other and diversity
- Taking a long-term, global perspective

Aims of the activity report

1. In the first sense, to provide issuers and institutional investors in the Study Group with insight into the nature of disclosure and dialogue (communication) for long-term corporate value creation.
2. To organize specific and practical disclosure methods to achieve the above and accumulate practical examples
3. To contribute to the development of the overall market by disseminating the knowledge gained to various stakeholders (issuers, institutional investors, standards organizations, etc.)

1-3. Policy for Production of Term 3 Activity Report

- Term 3 Activity Report was prepared based on the following policies.

Approach to the Preparation of Term 3 Activity Report

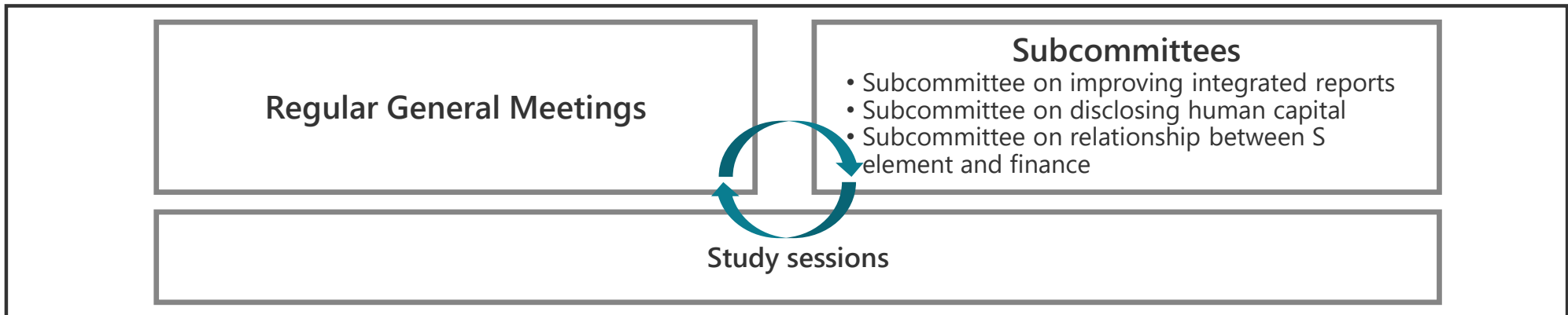
- The proposals in the "ESG Disclosure Study Group Report*" issued in June 2022 represent the **fundamental ideas of the Study Group**. They remain valid and useful in light of changes in the environment, including trends in domestic and international regulations and standards and progress in the responses of issuers and institutional investors to non-financial information disclosure.
* ESG Disclosure Study Group Report 2022 – Achieving World-Leading Disclosure and Dialogue Standards – (<https://edsg.org/wp-content/uploads/2022/06/38892e73de188c07a6273771d05eb4e2.pdf>), and Executive Summary of Activity Reporting (<https://edsg.org/wp-content/uploads/2022/08/207b7d3b5f5ad6e55ee6d827147af01f.pdf>)
- During the term in question, the members studied the prescribed performance and improvised performance in **the integrated report as a significant means that allows businesses to publish their long-term value creation (LTVC) stories on the subject of human capital disclosure**, which is now in growing demand, and discussed a desirable form of dialogue between companies and investors, using **the previous suggestions as a basis of our studies and discussions**.
- Therefore, in the Term 3 Activity Report, we will **summarize the efforts and progress of the Study Group over the past year and compile the implications of these efforts as recommendations**. We will communicate them to key stakeholders in Japan and abroad **as the consensus of the Study Group**.

1-4. Approach to Term 3 Activities

- In Terms 1 and 2, we organized our basic ideas of ESG information disclosure with the cooperation of members in various positions and compiled them in the form of an activity report. In Term 3, we explored specific methods of disclosing ESG information based on the report, focusing on the nature of improvised performance in the integrated report.

Activity Themes in Term 3

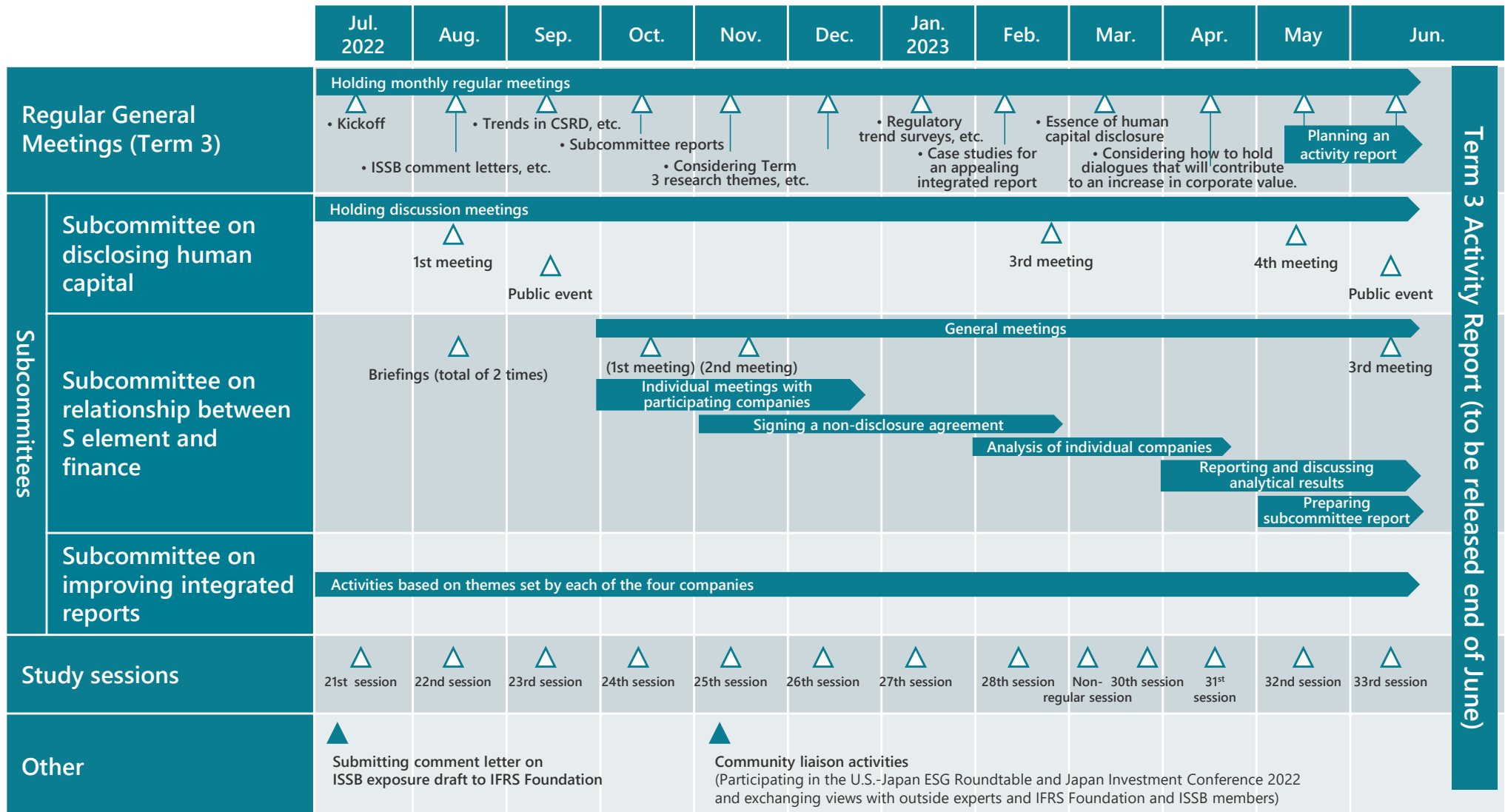
- Summarizing global regulations and trends of leading companies
- Identifying the essence of disclosing human capital
- Improving improvised performance to make it an integrated report appealing to investors



**Derivation of the desired form of disclosure and dialogue
(Term 3 Activity Report)**

1-5. Background of Term 3 Activities

To explore the desirable form of disclosure, we grasped global trends and considered specific methods of improvised performance on the themes of human capital through activities such as regular general meetings, subcommittee meetings, and study sessions. The second and following sections will report specific activities.



2. Desirable State of Disclosure

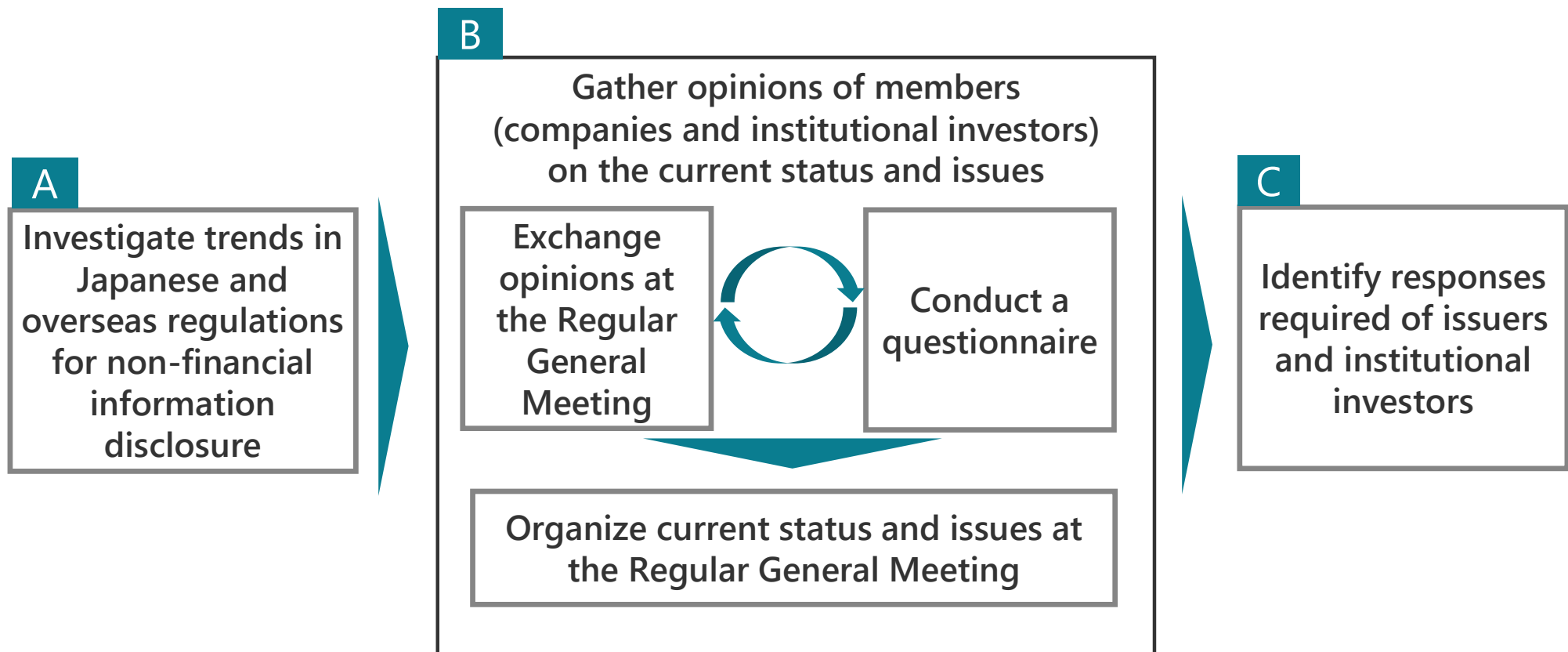
- 2-1. Response to Japanese and Overseas Regulations for Non-financial Information Disclosure
- 2-2. Presentation of Originality in Integrated Report
- 2-3. Discussions on Desirable Forms of Dialogues



2-1. Response to Japanese and Overseas Regulations for Non-financial Information Disclosure





Approach

- We shared the results of the survey on Japanese and overseas regulatory trends at the Regular General Meeting and identified issues and required responses through the members' group discussions and a follow-up survey.



Investigate trends in Japanese and overseas regulations for non-financial information disclosure

- Legal standards for non-financial information disclosure are being rapidly developed. Issuers must take immediate action, including understanding the implementation timing, details of standards, and the gap from the current situation.

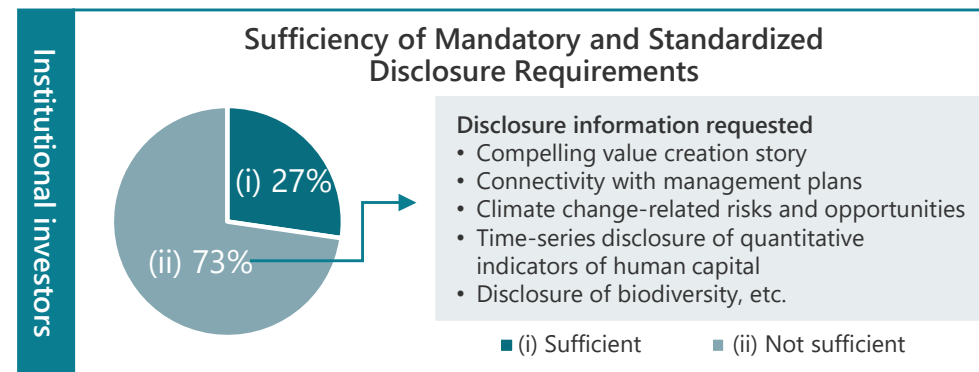
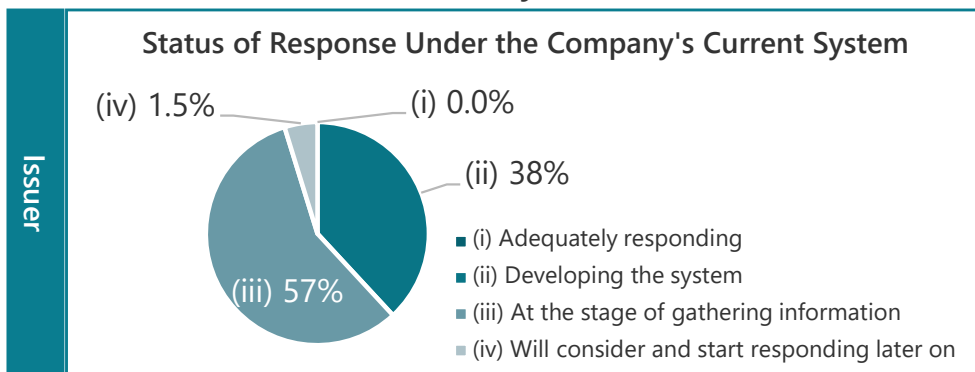
		(i) Global 	(ii) U.S. 	(iii) EU* 	(iv) Japan 	
Base law/standard		IFRS S1/S2	"Proposed rule on climate disclosure requirements"	CSRD ESRS	Proposals for revision such as "Cabinet Office Order on Disclosure of Corporate Affairs"	
Regulator/standard-setting body		IFRS Foundation ISSB	SEC	EC/EFRAG	Financial Services Agency/SSBJ	
Disclosure (mandatory/voluntary)		Depends on institutionalization status of each country	Mandatory	Mandatory	Mandatory/voluntary	
Materiality		Single	Single	Double	Single	
Guarantee (mandatory/optional)		N/A	Mandatory	Mandatory	N/A	
Disclosure item**	E	Climate change	● (Based on the TCFD recommendations)	●	○ (Based on the TCFD recommendations)	
		Scope3 emissions	●	●	N/A	
		Natural capital	△	N/A	●	N/A
	S	Human rights	△	N/A	●	N/A
		Human capital	○	○	●	○
G	Corporate governance	N/A	N/A	●	○	

* This report focuses on disclosure regulations and standards applicable to issuers and does not include the Sustainable Finance Disclosure Regulation (SFDR).

** ●: Standards have already been announced, ○: Standards are under consideration and announcement schedule has been released, △: Standards are under consideration, N/A: No specific mentioning as of January 31, 2023.

Current Status of Member Companies and Recognition of Issues

- Tighter regulations will create a burden on issuers to deal with prescribed performance and an increase in the volume of information to be disclosed. As institutional investors seek the "uniqueness of the company" necessary to make investment decisions, there is concern that the value creation story will be diluted.



Key points	Issuer	Institutional investors
Increased regulatory burden	<ul style="list-style-type: none"> Increased response burden due to jurisdiction-specific regulatory compliance, reporting concurrency, and the trend from limited assurance to reasonable assurance 	<ul style="list-style-type: none"> Increased burden of obtaining information due to a more detailed and broader scope of disclosed information
Inadequate current system	<ul style="list-style-type: none"> Insufficient response under the company's current system Top issues are securing the human resources needed for response and developing a system for collecting information related to CO2 emissions and human capital. 	<ul style="list-style-type: none"> Must rely on alternative data provided by information vendors, but the accuracy of their information is somewhat questionable.
Concerns about dilution of useful information	<ul style="list-style-type: none"> (If the current system remains in place), resources will have to be allocated to respond to the prescribed performance, which will result in inadequate support for improvised performance, and the "uniqueness" of the company, and thus the value creation story, will be diluted. 	<ul style="list-style-type: none"> Mandatory and standardized disclosure requirements are insufficient Want to see the improvised performance of the company and its uniqueness. Tightening regulations without considering the connectivity of financial and non-financial information will cause an increase in information not useful for institutional investors.
Requests to regulators and standard-setting bodies	<ul style="list-style-type: none"> Principle-based standards, not bylaw-based standards Establish reasonable disclosure timing considering data collection and organization Introduce transitional measures for regulatory compliance in consideration of increased burden 	<ul style="list-style-type: none"> Make standards consistent through collaboration among global, national, and regional regulators and standard-setting bodies Visualize and organize ESG assessment methods

Required Response

- In light of Japanese and overseas regulatory developments in non-financial information disclosure, a strategic approach is becoming increasingly important for companies and institutional investors.

Recognition of existing issues

- The trend toward mandatory and standardized disclosure of non-financial information is irreversible and accelerating.
- **There are concerns that the burden of responding to items that will be mandated and standardized (prescribed performance) will increase, and value creation stories (improvised performance) will be diluted.**
- In view of corporate valuation, **the emphasis on the connectivity of financial and non-financial information and stories leading to purpose, vision, business strategy, and value creation remain unchanged.**

Required Response

Issuer

- Acknowledge the latest trends and **analyze the gap from the current status of their companies.**
- **Secure resources and develop and build a promotion system based on the above (in-house production and use of external resources).**

Institutional investors

- **Effective and efficient use of disclosed information (selection of necessary information)**

Issuers and institutional investors

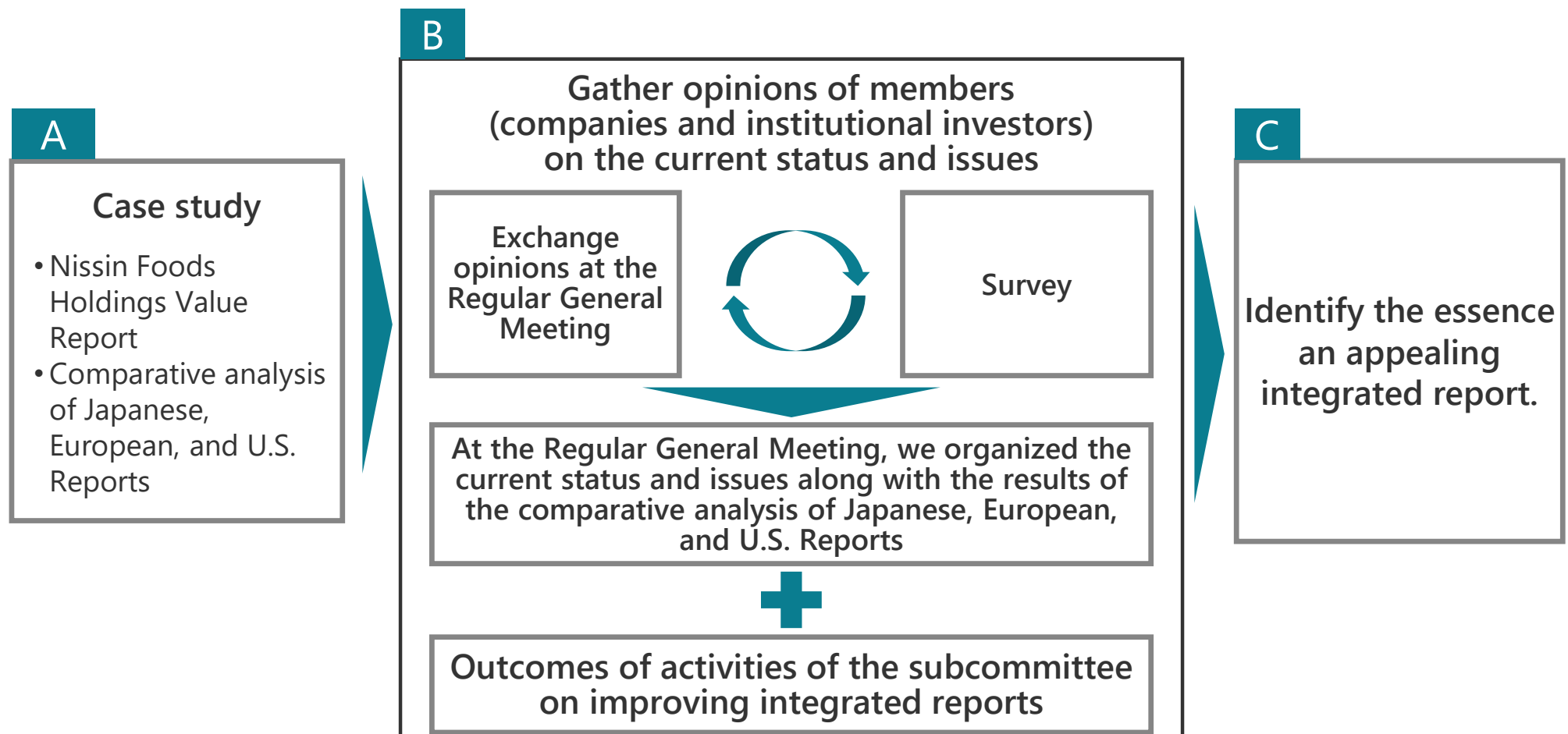
- **Foster a common understanding of the essence required for effective disclosure and evaluation through constant dialogue between issuers and institutional investors.**
- **Elaborate methods for evaluating financial and non-financial information connectivity**



2-2. Presentation of Originality in Integrated Report

Approach

- At the Regular General Meeting, members exchanged opinions and conducted a questionnaire on improvised performance in the integrated report from the viewpoint of originality (uniqueness of the company), using examples of disclosure in Japan and overseas as a reference.
- Together with the results of the activities of the subcommittee on improving integrated reports, we identified the essence required of an integrated report that contributes to investors' investment decisions.



Case Study (i)

- We had Nissin Foods Holdings, which expresses originality (uniqueness of the company) in its Value Report, give a lecture and conducted a case study on its activity policies and systems.

Integrated Report Case Study: Nissin Foods Holdings

Type of business	<ul style="list-style-type: none"> • Manufacturing (Cup Noodle is globally distributed)
Business areas	<ul style="list-style-type: none"> • As Japan's leading general food product manufacturer, Nissin Foods operates a wide range of food-related businesses (domestic instant noodle business, overseas business, chilled and frozen food and beverage business, confectionery business, and new businesses).
Integrated Report	<ul style="list-style-type: none"> • Value Report (integrated report) 2021 (Japanese and English versions) • Started issuing English version in FY2004. • Issued first Japanese version in FY2021.
Structure	<ul style="list-style-type: none"> • Value Report 2021 was prepared in collaboration with the IR Office and Corporate Planning Division. • Built a system of cooperation with in-house designers and related departments. • The storyline was developed by the IR and Corporate Planning Division, and the design was directed by the Design Room.
Features and innovations of the integrated report	<ul style="list-style-type: none"> • Storytelling: The introduction tells a story of the company's growth and keeps the reader interested in the story. • Expressing the company's identity: Pursuing Nissin's identity by presenting the theme of "Japanese culture and food." • Legibility: Innovative design pages and information pages are separated to create different tempos. • Information connectivity: Detailed information is linked to websites.



Source: Value Report 2021, Nissin Foods Holdings



Source: Value Report 2021, Nissin Foods Holdings

Case Study (ii)

- Referring to the work that Nissin Foods Holdings does for its integrated report, we identified four essential points that make you want to read it.

	Issuer (creativity of Nissin Foods Holdings)	Institutional investors
Storytelling	<ul style="list-style-type: none"> The introduction tells a story of the company's growth and keeps the reader excited and interested in the story. 	<ul style="list-style-type: none"> It puts personality at the forefront and makes you want to read it just by looking at the cover.
Expression of the company's uniqueness	<ul style="list-style-type: none"> Focus on creating and visualizing stories As part of ESG quantification efforts, the company conducted an analysis of the relationship between ESG issues and corporate value and disclosed its own analysis. 	<ul style="list-style-type: none"> It conveys the strength of the company's uniqueness that expresses the corporate culture and commitment of senior management. The branding strategy itself is unique to the company. Highly commended for making disclosures in line with the IIRC framework
Legibility	<ul style="list-style-type: none"> Extremely innovative design pages and information pages are separated to create different tempos. Use of in-house designers 	<ul style="list-style-type: none"> Excellent design, individuality, and novelty and the value creation process is well organized Presentation, product differentiation, positioning within the industry, and the balance between these and sustainability are important.
Information connectivity	<ul style="list-style-type: none"> Detailed information is linked to websites since the amount of information that can be included in the integrated report is limited. Separated from financial reports. Going online can provide more in-depth information without the constraints of print. 	<ul style="list-style-type: none"> View the PDF version of the integrated report first to focus on the CEO message and value creation story. The online version should have a value creation story posted on the website and connected to the materiality to show relevance since it is difficult to see the connection among different pieces of information.

- The issuer and institutional investors emphasize the importance of **an exciting and eye-catching design** as an important element in expressing the company's identity while also demanding **the legibility of information and consistency with other corporate information.**
- The issuer places particular emphasis on **the story's consistency** while institutional investors focus on **corporate culture and the management's commitment**, including the CEO's message and value creation stories.

Case Study: Comparative Analysis of Reports by Japanese, European, and U.S. Companies (i)

- We conducted a comparative analysis of reports from three Japanese firms and three Western firms regarding elements that appeal to the reader.

Overview of Subjects of the Comparison Analysis of Reports from Japan, Europe, and the U.S.

Company name (Country of Head office)		Report title and URL	Total number of pages	Financial information
Overseas	Philips (Netherlands)	Philips Annual Report 2021: Innovating healthcare, Improving health	271	Refer to details
	Volvo (Sweden)	Volvo Group Annual and Sustainability Report 2021: LEADING THE TRANSFORMATION	215	Refer to details
	Bank of America (U.S.)	Bank of America Annual Report 2021: Driving Responsible Growth— now and going forward	216	Refer to details
Japan	Sojitz Corporation	Integrated Report 2021: START OF THE NEXT DECADE	117	Several pages of summary
	ITOCHU Corporation	Annual Report 2021: Brand new deal	135	Several pages of summary
	NISSIN FOODS HOLDINGS CO., LTD.	VALUE REPORT 2021	82	Several pages of summary

Case Study: Comparative Analysis of Reports by Japanese, European, and U.S. Companies (ii)

- From each company's report, we have organized the features and elements appealing to the reader.

Company name	Characteristics	Appeals to the reader
Philips	<ul style="list-style-type: none"> • Has been publishing integrated annual reports since 2008 • Obtains reasonable assurance regarding non-financial disclosures • Reports present bulleted one-page summaries of each chapter • Discloses information according to the European Single Electronic Format (ESEF). 	<ul style="list-style-type: none"> • Simple design with a concise summary of necessary information without photos and with color schemes limited to about three
Volvo	<ul style="list-style-type: none"> • Consistent story structure with an innovation theme • Emphasizes contribution to SDGs based on the EU Taxonomy • Disclosure including financial and non-financial (SR and CR) information 	<ul style="list-style-type: none"> • Sophisticated magazine-like design • One-stop delivery of information summarized in a single volume
Bank of America	<ul style="list-style-type: none"> • Emphasizes the strategies of eight business units on the theme of growth • ESG information is gathered in two pages and disclosed using the Stakeholder Capitalism Metrics. • Emphasizes human capital in terms of the company's materiality • The second half of the total 216 pages contains financial information. 	<ul style="list-style-type: none"> • Looks like a business magazine • Extensive use of photos of employees and stakeholders to give the impression that human resources are an asset to the company

Case Study: Comparative Analysis of Reports by Japanese, European, and U.S. Companies (iii)

- From each company's report, we have organized the features and elements appealing to the reader.

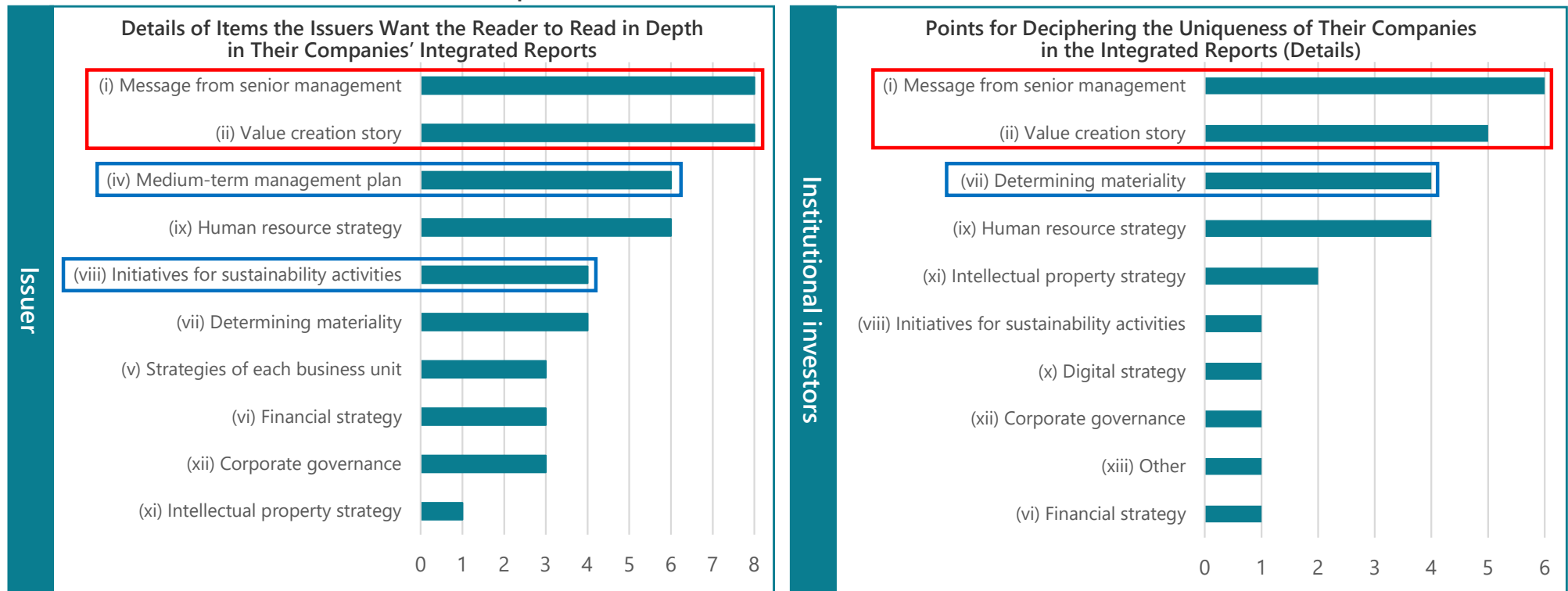
Company name	Characteristics	Appeals to the reader
Sojitz	<ul style="list-style-type: none"> • Clearly linking long-term strategy and sustainability strategy • Visualizes the process of turning non-financial activities into financial activities in the order of "destination → value creation story → value creation strategy → strategy by headquarters → data." 	<ul style="list-style-type: none"> • Logical content structure • Full of dialogues and interviews • Graphic representation of information, concepts, etc.
ITOCHU Corporation	<ul style="list-style-type: none"> • Emphasizes the company's vision and corporate culture through the management's messages (e.g., "Sanpo-yoshi (all three parties (seller, buyer, and society) doing well)"). • Specifies ESG issues by business segment 	<ul style="list-style-type: none"> • Compact despite the extensive information included • Consistently uses the company's color (blue) on all pages
NISSIN FOODS	<ul style="list-style-type: none"> • Expresses a value creation story tied to the company's culture and branding strategy • Discloses the results of relationship analysis between ESG issues and corporate value 	<ul style="list-style-type: none"> • Novel and eccentric designs such as cartoon and anime characters

Current Status of Member Companies and Recognition of Issues (i)

- The following characteristics emerged from the results of the questionnaire to member companies regarding items that the issuers would like the reader to read in depth and the perspectives from which institutional investors would read them.

Comparison of Items the Issuers Want the Reader to Read in Depth and the Perspectives from Which Institutional Investors Read Them

Common items
 Items showing a gap



- The management’s messages and value creation stories are items emphasized by both the issuers, who consider that such items should be read in depth, and institutional investors, who consider them important for understanding the identity of the company being analyzed.
- Institutional investors recognize **materiality** as an important element in deciphering a company's character.

Current Status of Member Companies and Recognition of Issues (ii)

- While issuers are using creative approaches to present and communicate their integrated reports in order to make them attractive to read, they are currently facing several challenges.

Innovations and Issues in the Preparation of Integrated Reports

Innovations (focal areas)		Issues	
Ways to present and communicate	<ul style="list-style-type: none"> • Conscious of the reader's ease of understanding • Focusing on comprehensibly communicating sustainability management centered on the company's core businesses to stakeholders • Collected and posted comments from each business unit and director (regarding the connection between sustainability goals and business) • Expressing the uniqueness of a company by developing a story that focuses on its corporate philosophy, vision, and value creation cycle 	External aspects	<ul style="list-style-type: none"> • Difficulty in design aspects and comprehensible expressions (not well communicated) • Separation and linkage of information in integrated reports and on websites
Methods and measures	<ul style="list-style-type: none"> • Maximum concrete expression of initiatives that embody the company's corporate philosophy and vision • Conscious of differentiation from competitors by posting specific initiatives, featured pages, communication with stakeholders, explanation of the value creation process, materiality, human capital stories, DNA, strengths, and thoroughness of philosophy, etc. 	Internal aspects	<ul style="list-style-type: none"> • Weak messages of the management that must be the basis of the project • Lack of understanding about the intentions of staff preparing the integrated report in the company • Enhancing disclosure of information on each ESG item

- Conscious of storytelling, introduction of specific initiatives, differentiation from other companies, etc. with the reader in mind
- Issues such as employee involvement and penetration, lack of quantitative information, and separation of disclosed information by media

Elements Necessary for Portraying Originality in the Integrated Report (i)

- From the comparative analysis of Japanese, European, and U.S. reports, we identified the following characteristics and implications concerning value creation stories and messaging.

Value Creation Stories and Message

Item	Characteristics of Japan, Europe, and the U.S.		Elements necessary for portraying originality
Value creation story	Europe and the U.S.	<ul style="list-style-type: none"> Clear definition of value Simple and logical explanation of the value creation process. Mentioning customers and supply chains 	<ul style="list-style-type: none"> To clearly define and explain the value that penetrates the company's mission, vision, and purposes To assemble a story with the consciousness of stakeholders involved in the value creation process
	Japan	<ul style="list-style-type: none"> Explanation of the value creation process, focusing on the company's initiatives 	
Messages from the management team	Europe and the U.S.	<ul style="list-style-type: none"> A specific management level (CEO, COO, etc.) delivers a message in line with the theme of the report Use of many descriptions emphasizing customers and supply chains 	<ul style="list-style-type: none"> Consistency with the main theme of the report is maintained. The repeated use of keywords is also effective in making a strong impression. Messages from outside directors help ensure the effectiveness of strategy. Messages from the business unit more likely convince the reader by staying in line with the main theme of the report rather than only introducing the business.
	Japan	<ul style="list-style-type: none"> Tendency to communicate the management's own management philosophy Comprehensible explanation of the intent of the report's preparation, including the editorial policy 	

Elements Necessary for Portraying Originality in Integrated Report (ii)

- Based on the comparative analysis of Japanese, European, and U.S. reports, we identified the following characteristics and implications about the expression of originality (uniqueness of the company) and the combination of information in multiple disclosure media.

Expression of the Company's Character and Cohesiveness of Information

Item		Characteristics		Elements necessary for portraying originality
Characteristics of one's own company	(i) Business model	Europe and the U.S.	<ul style="list-style-type: none"> Organizing product and service lines in line with growth strategies to increase market share 	<ul style="list-style-type: none"> Statements regarding product/service differentiation (including R&D) and positioning within the industry (market share, etc.) are useful.
		Japan	<ul style="list-style-type: none"> Emphasizing differentiation of products and services that are the strengths of each business unit 	
	(ii) Branding, corporate climate/culture	Europe and the U.S.	<ul style="list-style-type: none"> Concise descriptions and refined magazine-like design 	<ul style="list-style-type: none"> Design is important from the perspective of the company's identity (corporate culture and branding strategy). The more sophisticated the design, the easier it is to get the message across.
		Japan	<ul style="list-style-type: none"> Many charts and some novel designs Many management-level messages, dialogues, and interviews with people other than the CEO 	
Links among disclosure media		Europe and the U.S.	<ul style="list-style-type: none"> Financial information is published in reports. 	<ul style="list-style-type: none"> Information to be included in an integrated report should be disclosed in each medium, keeping in mind the expected readers.
		Japan	<ul style="list-style-type: none"> Financial information is in summary form. 	

Summary

- Based on the case studies and the member companies' recognition of current status and issues, we identified the elements necessary for portraying originality in an integrated report. A strategic approach that takes these elements into account is important in order to promote originality.

1. Value creation story

- Develop a systematic story throughout the report (a story that connects purpose, vision, and business strategy)

2. Message

- Management leadership message: Confirm strategies and policies
- Messages from outside directors: Ensure the effectiveness of strategies and governance

3. Expression of the company's identity

- Business model: product differentiation, positioning within the industry, and integration of non-financial and financial **information**
- External elements such as design: branding and expression of corporate climate/culture

4. Information connectivity

- Relevance and connection among information posted in multiple disclosure mediums
- Disclosure of information in each medium with the intended audience in mind



2-3. Discussions on Desirable Forms of Dialogues

Objectives of Discussion

- At the Regular General Meeting, we discussed the desired form of dialogues between issuers and institutional investors that contributes to an increase in corporate value.
- Members raised opinions about challenges and innovations in raising corporate value through dialogues between issuers and institutional investors based on effective disclosure, with the results applied by issuers to their strategies and policies and by institutional investors to their corporate evaluations and investment decisions.

Effective disclosure of non-financial information

(Compliance with laws and regulations = prescribed performance, expression of stories and originality = improvised performance)

Dialogue based on mutual understanding

(Behavioral change)

Reflection on management and business strategies

Enhancement of corporate value

Sustainable growth (corporate, individual, and social growth)

Members' Opinions (i)

Attitudes toward dialogues

- **Bidirectional dialogues are important.** In addition to answering questions from investors, allocating a certain amount of time to interactive dialogues and talking openly and frankly allows them to express their honest opinions.
- **It is important that both parties are aware of the purpose.** When disclosure and dialogue themselves become the purpose, the result is disclosure with little substance and dialogue without an awareness of purpose (examples of dialogue that do not work).
- **Companies need to be actively, not passively, involved.** Frank opinions of investors about the evaluation criteria for investment decisions, the relevance of the evaluation criteria and questions asked in the dialogue, and the areas where the company's disclosure and explanations in the dialogue are insufficient will help improve the quality of the subsequent dialogues for both sides.
- In order for the discussion to be meaningful in dialogues, it is necessary for companies to provide not only short-term plans, but also a good medium- to long-term explanation of the industry.
- **In dialogue with outside directors,** it is necessary to select (outside directors) in line with the agenda.
- **Being able to confirm the purpose of the dialogue in advance** often results in a meaningful, positive dialogue on the day of the event

Members' Opinions (ii)

Purpose of dialogue

- Through dialogue, **information asymmetries** between issuers and investors are **eliminated**, leading to **agency cost reduction**.
- Investors **have different objectives for dialogue depending on their attributes**.
 - For **passive investors**, the ultimate goal is to improve market beta in order to serve a wide range of companies.
 - The objective of **active investors** is to connect the dialogues to investment decisions. They are interested in whether improvement is possible when the actual improvements are in line with our company's ESG framework, and how we might move forward in the future.
 - **Long-term investors** are more sensitive to information about financial values in the medium to long term. In addition, there is confidence in future cash flow in ultra long-term investments.

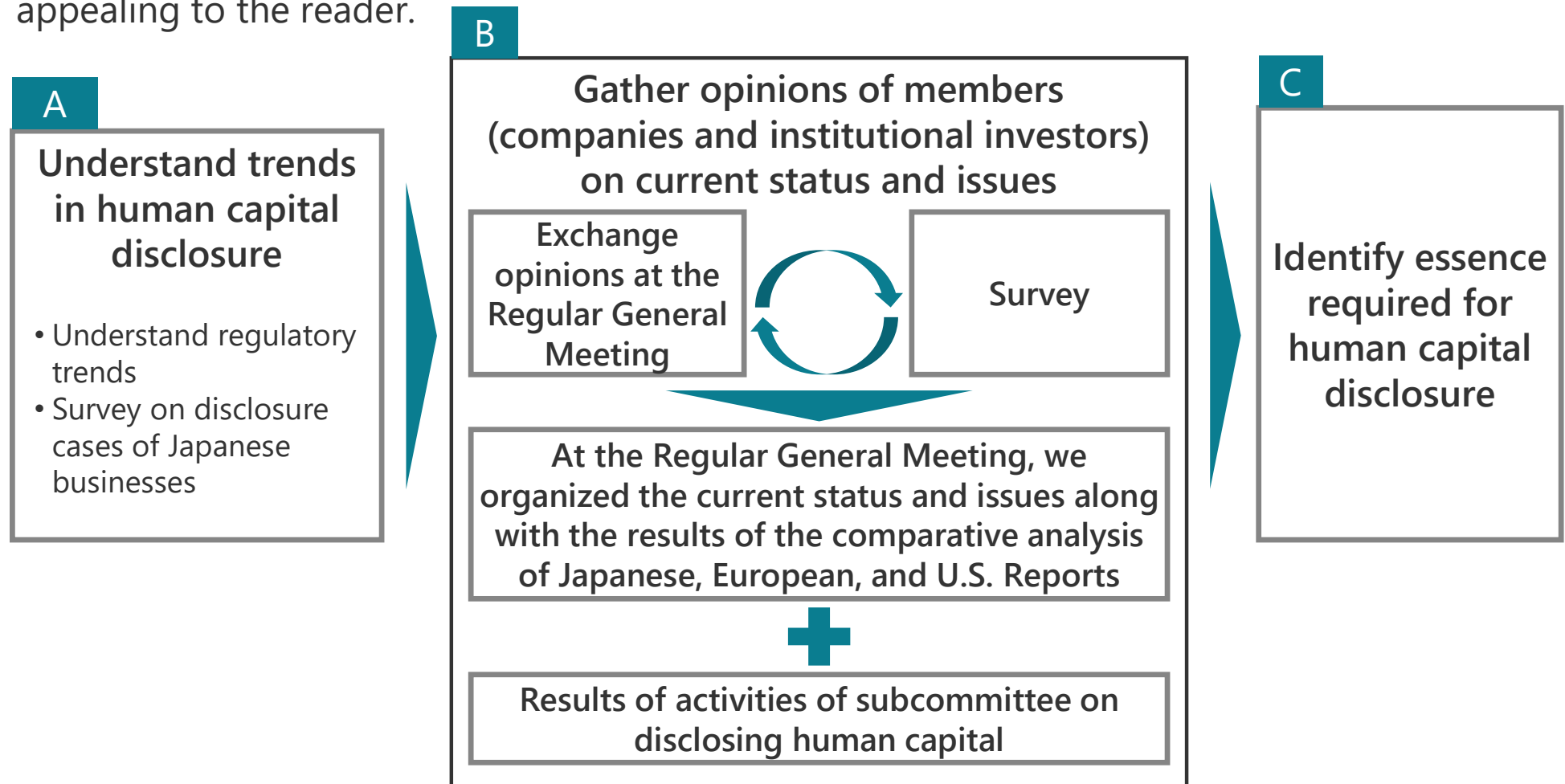
Feedback on dialogues

- While it is not necessary to accept all opinions in the dialogues, how they are actually incorporated into internal actions is important.
- There is a lead department for each issue and theme, and we provide feedback on requests, etc. as appropriate and examine them as necessary.

3. Specific Manners of Disclosure on Human Capital

Approach

- At the Regular General Meeting, the participants reported on global and Japanese regulatory trends and the results of a survey on cases in Japan related to human capital disclosure, which has been increasingly required in recent years. Based on this input, we held discussions and conducted questionnaires, and the results of an examination by the subcommittee on disclosing human capital were used to identify the essence required for human capital disclosure from the perspective of improvised performance to make the integrated report appealing to the reader.



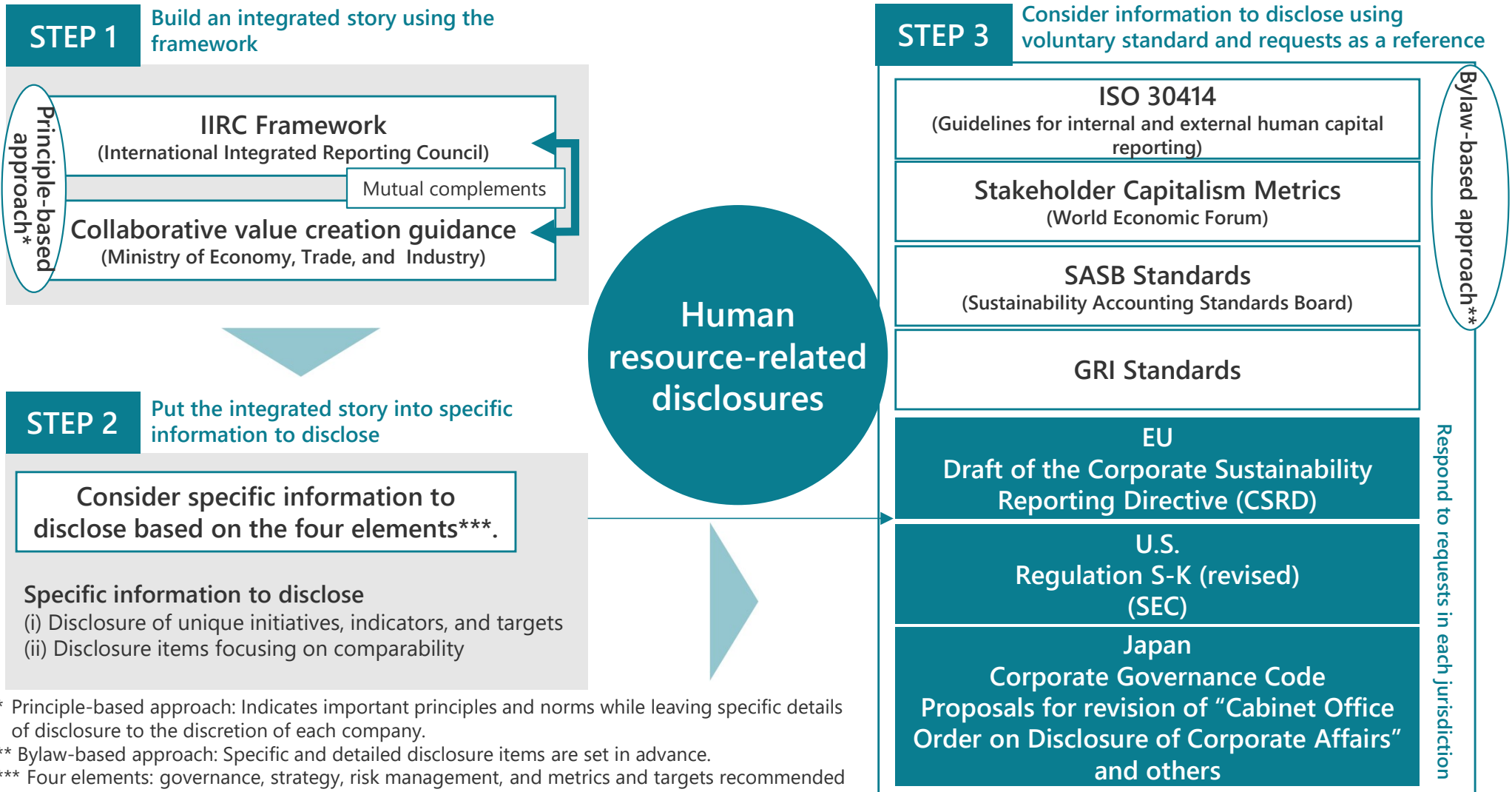
3. Specific Manners of Disclosure on Human Capital

Understanding Trends in Human Capital Disclosure: Regulatory Trends (Global)

- Disclosure standards for human capital disclosure are rapidly being developed in Japan and overseas in line with the principle-based framework.

Major frameworks, laws, regulations, standards, etc. related to human capital disclosure

Disclosure request
Framework



* Principle-based approach: Indicates important principles and norms while leaving specific details of disclosure to the discretion of each company.

** Bylaw-based approach: Specific and detailed disclosure items are set in advance.

*** Four elements: governance, strategy, risk management, and metrics and targets recommended for disclosure in TCFD recommendations

(Source: Prepared by the EDSG based on the "Guidelines for Human Capital Visualization" by Study Group on Visualizing Non-financial Information, etc.)

Understanding Trends in Human Capital Disclosure: Regulatory Trends (Japan)

- Disclosure of human capital information in annual securities reports is mandatory for fiscal years ended on or after March 31, 2023, based on proposed amendments to the Cabinet Office Order on Disclosure of Corporate Affairs of the Financial Services Agency.

	2021	2022	2023
Regulations or restrictions	TSE revised Corporate Governance Code (CG Code).	Cabinet Secretariat established the Guidelines for Human Capital Visualization.	Financial Services Agency proposed revision of "Cabinet Office Order on Disclosure of Corporate Affairs" and others
Target	Companies listed on the TSE Prime and Standard Markets	Companies	Companies that issue annual securities reports and securities registration statements
Time	Revised June 2021	Established August 2022	Scheduled to be applied from the annual securities reports, etc. for fiscal years ended on or after March 31, 2023
Disclosure media	Corporate Governance Report	Forms consistent with and complementary to annual securities reports* are recommended.	Annual securities reports, securities registration statements
Disclosure item	(CG Code Supplementary Principle 2-4(1)) <ul style="list-style-type: none"> • The company's approach to ensuring diversity in the recruitment of core personnel, etc., and its voluntary and measurable targets. • Human resource development policy • Policy for internal environment development • Status of implementing the above approach (CG Code Supplementary Principle 3-1(3)) • Investment in human capital, etc. 	<ul style="list-style-type: none"> • Human resource development policy • Policy for internal environment development • Measurable indicators (input, output, outcomes, etc.) • Targets and progress of the above 	<ul style="list-style-type: none"> • Human resources development policy (including ensuring diversity of human resources) • Policy for internal environment development • Indicators related to the above policies • Targets and progress using the above indicators (Optional information) Percentage of female managers, percentage of male employees taking childcare leave, wage gap between men and women
Related moves	"Report of the Study Group on Improvement of Sustainable Corporate Value and Human Capital" (METI) "ITO Report for Human Capital Management" (Sep. 2020)	"Report of Study Group for the Realization of Human Capital Management" (METI): "Ito Report for Human Capital Management 2.0 (May 2022)"	Meeting of Study Group on Visualizing Non-financial Information held
	Study Group on Disclosure Policies for Non-Financial Information starts.		



* Various voluntary media including business reports, corporate governance reports, integrated reports, sustainability reports, medium-term management plans, and IR information

Understanding Trends in Human Capital Disclosure: Disclosed Information

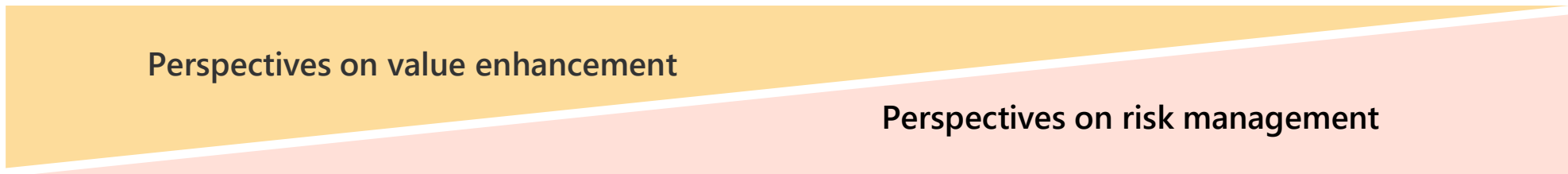
- In human capital disclosure, the Guidelines for Human Capital Visualization and other guidelines point out that it is effective to combine quantitative and qualitative data for explanation, keeping in mind the two perspectives of "value enhancement" and "risk management."

In human capital disclosure, it is effective to combine quantitative and qualitative data to explain while keeping in mind the two perspectives of "value enhancement" and "risk management."

- ▶ **Disclosure for "value enhancement"**
Aim to increase medium- to long-term corporate value through efforts to maximize the value of human capital that supports the realization of management strategies, leading to higher recognition by investors.
- ▶ **Disclosure for risk management**
Respond to investors' demand for risk assessment by disclosing efforts to ensure fairness and equity with respect to human capital

Conceptual Diagram of Human Capital Issues

Examples of Disclosed Information																		
Development			Engage-ment	Liquidity			Diversity			Health and safety			Labor practices				Compli-ance and ethics	
Leadership	Develop-ment	Skills and experience		Recruit-ment	Maintain	Succession	Diversity	Non-discrimi-nation	Childcare leave	Mental health	Physical health	Safety	Labor practices	Child labor and forced labor	Fairness of wages	Welfare facilities and systems		Relation-ship with unions



(Source: Modified by the EDSG based on the Guidelines for Human Capital Visualization)

3. Specific Manners of Disclosure on Human Capital

Understanding Trends in Human Capital Disclosure: Survey of Disclosure Cases in Japan

- Companies participating in the subcommittee on disclosing human capital disclosed qualitative and quantitative information on most of the 19 items.

Disclosure area (Based on human capital disclosure guidelines)		KDDI	SOMPO HD	SHIFT
Development	Leadership	● (Women's leadership development)	○ (Supply of video-based learning systems, etc.)	● (Leadership training)
	Development	● (Growth of human resources for digital transformation)	● (Development of global human resources)	● (Original employee development curriculum)
	Skill and experience	○ (Job-type personnel system)	○ (Job-type personnel system)	● (Original employee development curriculum)
Engagement		●	●	●
Liquidity	Recruitment	● (Identification of human capital gaps)	●	● (Introduction of a unique entrance examination program)
	Maintain	●	●	● (Granting of ESOP**) **Employee Stock Ownership Plan
	Succession	Under consideration (as of August 29, 2022)	○	○
Diversity	Diversity	●	●	● (Number of female engineers)
	Non-discrimination	○ (Promoting active roles for employees of foreign nationality)	●	○ (Harassment training)
	Childcare leave	●	●	●
Health and safety	Mental health	● (Stress checks)	●	● (Implementation of mental check testing)
	Physical health	● (Health guidance, etc.)	●	●
	Safety	●	● (Frequency rate of industrial accidents)	○ (Ensuring safety while telecommuting)
Labor practices	Labor practices	●	●	●
	Child labor and forced labor	● (Conducting human rights due diligence)	● (Statement on the Modern Slavery Act)	N/A
	Fairness of wages	●	● (English only)	●
	Welfare facilities and systems	○	N/A	● (Welfare status by regular/non-regular employees)
	Relationship with unions	●	●	N/A
Compliance and ethics		●	●	●

Legend: ●: Qualitative (explanation of approach, policy, etc.) and quantitative (results, targets, etc.) information is disclosed. ○: Only qualitative (explanation of approach, policy, etc.) is disclosed. N/A: No disclosure (Source: Prepared by EY based on public information on each company's website)

Understanding Trends in Human Capital Disclosure: Issues in Human Capital Investment

- Existing surveys indicate that while many companies are aware of the importance of efforts in human capital investment and disclosure, they face challenges in investment, measurement, and disclosure in the implementation of investment in people as a management practice.

Challenges in recognizing and visualizing investment in human capital

- (i) **No common understanding of "human capital" and priorities for investment are shared in the company.**
 - ▶ "There is a broad common understanding within the HR department, but **no company-wide discussion is held.**" "The **lack of a common understanding** of what constitutes an investment in human capital is very troubling." "From the investor's point of view, they may not be able to make decisions based on the amount of education and training expenses."
 - ▶ "We are discussing what to do and how much it costs to do them, but we are **not talking about education and training costs or recruiting costs from a medium- to long-term perspective** of how things should be done. I think global data collection will be promoted if such a discussion were to start, but at present training is conducted on a company-wide budget (personnel budget) and education and training and recruitment are being conducted in parallel within the budget of each department."
- (ii) **Difficult to set appropriate KPIs**
 - ▶ "There are organizations having various departments and functions within the company, which are unable to establish **indicators that allow evaluation of investment results based on common standards.**"
 - ▶ "We can calculate the costs of training and hiring, but even if we do, **we don't know what those costs mean.**"
- (iii) **Difficult to collect data**
 - ▶ "Calculating human capital investment (training costs) is currently for financial accounting purposes and **not primarily for people management purposes.** Therefore, the calculation is based on the information collected by the accounting system."
 - ▶ "**Data collection is somewhat difficult** on a consolidated basis because **HR department is not recruiting employees for all subsidiaries.**"

(Source: Prepared by the EDSG based on [Survey on the Current Status of Human Capital Investment](#) by METI)

Current Status of Member Companies and Recognition of Issues (i)

- We summarized the current status and issue recognition of issuers and institutional investors regarding human capital disclosure based on discussions in the subcommittee on disclosing human capital and the exchange of opinions at regular meetings.

(i) Develop a human resource strategy that leads to an increase in value

Institutional investors	<ul style="list-style-type: none"> • While there is a move to increase transparency in the disclosure of the executive compensation system, including the design of the system, how to view the evaluation system for employees (levels of division managers and general managers) is important. • Employee engagement is often talked about, and the evaluation system as a whole is important. (e.g., key talent management to select the management candidates for the next generation at Mitsui Chemicals and HR management systems such as HRBP)
-------------------------	---

(ii) Clarify the positions of indicators related to human capital in management strategies.

Issuer	<ul style="list-style-type: none"> • While 19 disclosure items are published, indicators and activities are not linked to strategies. • Indicators are not connected to strategies and not explained narratively. • Difficult to show financial impact
Institutional investors	<ul style="list-style-type: none"> • It is important to disclose the concept and initiatives of human capital in a way that clearly shows their strategic positioning. • How human capital is connected to business model reforms is important.

(iii) Expression of originality and strengths



Institutional investors	<ul style="list-style-type: none"> • Danger of Western-centric standards that do not take into account the strengths of Japanese companies (teamwork, etc.) • I don't think foreign countries are necessarily better, but the emphasis in creating value creation stories is very different.
-------------------------	--

(iv) Compliance with regulatory systems related to human capital

Issuer	<ul style="list-style-type: none"> • Among the 19 human capital disclosure items, the disclosure of recruitment and training is ahead of the others. Disclosure items related to human rights (child labor/forced labor, non-discrimination) tend to be emphasized in Europe and the U.S., but disclosure of such information has not yet been in progress in Japanese companies • The high burden for measurement and disclosure is currently recognized as challenges in human capital disclosure. • Regulations related to human capital vary from country to country, making disclosure of foreign subsidiaries difficult for global companies.
--------	---

Current Status of Member Companies and Recognition of Issues (ii)


- We have summarized the relationship between the efforts made by companies and the evaluation perspectives of institutional investors and the issues (see previous page) raised as examples of human capital disclosure at the meetings of subcommittee on disclosing human capital and Regular General Meetings.

Company name	Innovations by the Issuers 	Evaluation by institutional investors 	Corresponding relationships with issues*
SOMPO	<ul style="list-style-type: none"> • Emphasis on stories to communicate corporate values • Constant discussions between Sustainability and HR departments on what indicators are appropriate for the stories 	<ul style="list-style-type: none"> • Clear positioning of value enhancement in corporate strategy • The human capital impact path is tied to the company's purpose and corporate value. 	(ii), (iii)
Kao	<ul style="list-style-type: none"> • Emphasis on communicating the company's corporate philosophy of trusting, respecting, and needing each other • Human capital is disclosed in a manner based on corporate philosophy and linked to strategy. 	<ul style="list-style-type: none"> • The strength of the human capital of Japanese companies lies in the combination. • Able to see performance by the team as well as individual abilities 	(ii), (iii)
KDDI	<ul style="list-style-type: none"> • Executives are asked to talk about the background of the system in the report to show the connection between strategies and the information disclosed. • Continued discussions with HR to promote disclosure 	<ul style="list-style-type: none"> • The key is how to connect the company's overall business portfolio with its human capital. 	(ii)

* Issues: (i) Develop a human resources strategy that leads to value enhancement. (ii) Clarify the positioning of human capital indicators in the management strategy. (iii) Express originality and strengths. (iv) Respond to regulatory systems related to human capital that differ among countries and regions.

Current Status of Member Companies and Recognition of Issues (iii)

- We have summarized the relationship between the efforts made by companies and the evaluation perspectives of institutional investors and the issues (see previous page) raised as examples of human capital disclosure at the meetings of subcommittee on disclosing human capital and Regular General Meetings.

Company name	Evaluation by institutional investors 	Corresponding relationships with issues*
ASICS	<ul style="list-style-type: none"> • Expresses a "human capital ecosystem" derived from the founding principles 	(ii)
Sojitz	<ul style="list-style-type: none"> • Human capital investment and human capital development guided by purpose and long-term vision are discussed. (Best expressed in connectivity with value creation stories) 	(i), (ii)
Chugai Pharmaceutical	<ul style="list-style-type: none"> • A "logic tree" type of organization is established rather than cases of individual pieces of information 	(ii)
Mitsui Chemicals	<ul style="list-style-type: none"> • Presenting "key talent management" to select management candidates for the next generation. • Succession plans that include not only the management but also the employee level are explained (e.g., mechanisms and measures to select and train mid-level executives and future managers). 	(i)

* Issues: (i) Develop a human resources strategy that leads to value enhancement. (ii) Clarify the positioning of human capital indicators in the management strategy. (iii) Express originality and strengths. (iv) Respond to regulatory systems related to human capital that differ among countries and regions.

Essence Required for Human Capital Disclosure

- Based on domestic and overseas regulatory trends and the current status of disclosure and recognition of issues in Japan, human capital disclosure must first be consistent with the company's strategy and must include qualitative explanations of the impact path of required human resources and human capital initiatives that will lead to financial and corporate value.

Disclosure in a manner consistent with the company's strategy

1. Establish **human resource strategy consistent with management strategy** (goals, initiatives, indicators/KPIs)
 - E.g.: Clarify what kind of human resources are needed to realize a long-term vision (human resource portfolio) and how to achieve it (recruitment/training) and foster a common understanding from the management level to the field.
2. **Understand the importance for the company**
 - E.g.: Based on the company's business model, identify items to focus on and prioritize in human capital disclosure.

Disclosure with a story (originality) by combining qualitative and quantitative information

- **Explanation of human resource strategy:** Explain qualitatively human resources needed (portfolio) starting with the long-term vision.
- **Visualization of impact path:** Visualize the path (impact path) that leads human capital investment to financial and corporate value in the value creation story.
- Set goals (KGIs) and indicators (KPIs) aligned with the impact path and monitor the progress of activities.

4. Connectivity Between Non-Financial and Financial Information

Report on Activities of the Subcommittee on Relationship between S Element and Financial Figures

Background and Purpose of Establishing the Subcommittee

- Little analysis of the relationship between non-financial data related to human resources (the "S element" of ESG) and financial figures.
- While progress is being made in information disclosure and collection, such as non-financial sustainability information disclosed in securities reports, a challenge is to effectively use human capital-related data.

Background

- ▶ **Analysis of connectivity of human capital investment and human resource policy indicators and data with financial figures**

Discussed statistical analysis methods and collected and analyzed internal data.

- ▶ **Analysis of connectivity among human capital-related data, employee attitudes, and financial indicators.**

Conducted analysis using individual company data of participating companies with the aim of deriving practical implications for ESG information disclosure and ESG management.

* Employee engagement data is likely to be included in the S- element, which are of particular interest to this Subcommittee for the following reasons.

- ✓ The importance of employee engagement is reported in the integrated reports of pioneering companies (Sompo Holdings and Ajinomoto).
- ✓ Examining only the direct relationship between human capital-related indicators and financial figures is not sufficient. It is advisable to apply the model with the degree of employee engagement and diversity climate as mediating variables (Barrick et al. [2015], etc.), etc.

4. Connectivity between Non-Financial and Financial Information

- Report on Activities of the Subcommittee on Relationship between S Element and Financial Figures

Activities of the Subcommittee to Date

Time	Item	Outline
2022 Aug.	Seminar	2 meetings held
Oct.	1st general meeting	Introduced literature studies, explained SEM, and took note of data collection
Nov.	2nd general meeting	Explained examples of relationship analysis between ESG and financial data, delivered messages from previous studies, introduced Hitachi's case, and expressed Omron's human creativity in a financial model.
Oct. - Dec.	Individual meetings with participating companies	Shared the current status and purpose of participation of each company and discussed NDA and data collection.
Nov.- Feb. 2023	Signing a non-disclosure agreement (NDA)	The companies and Kyoto University's Isagawa Lab. signed NDAs. Handling engagement data would be particularly time-consuming (e.g., signing an NDA including an engagement survey company).
Feb. - Apr.	Analysis of individual companies	Companies started data analysis using human capital relations, engagement surveys, and financial figures after signing a NDA and obtained all data. Multiple meetings were held with each company to confirm data categories and details.
Apr. - May	Reporting and discussing analytical results	Each company reported on the results of analysis and discussed interpretations, areas for improvement, and additional analysis.
May - Jun.	Preparing subcommittee report	–
Jun.	General meeting of Subcommittee	<ul style="list-style-type: none"> • Each company shared its analysis method and results with other subcommittee members. • They also shared issues with others.

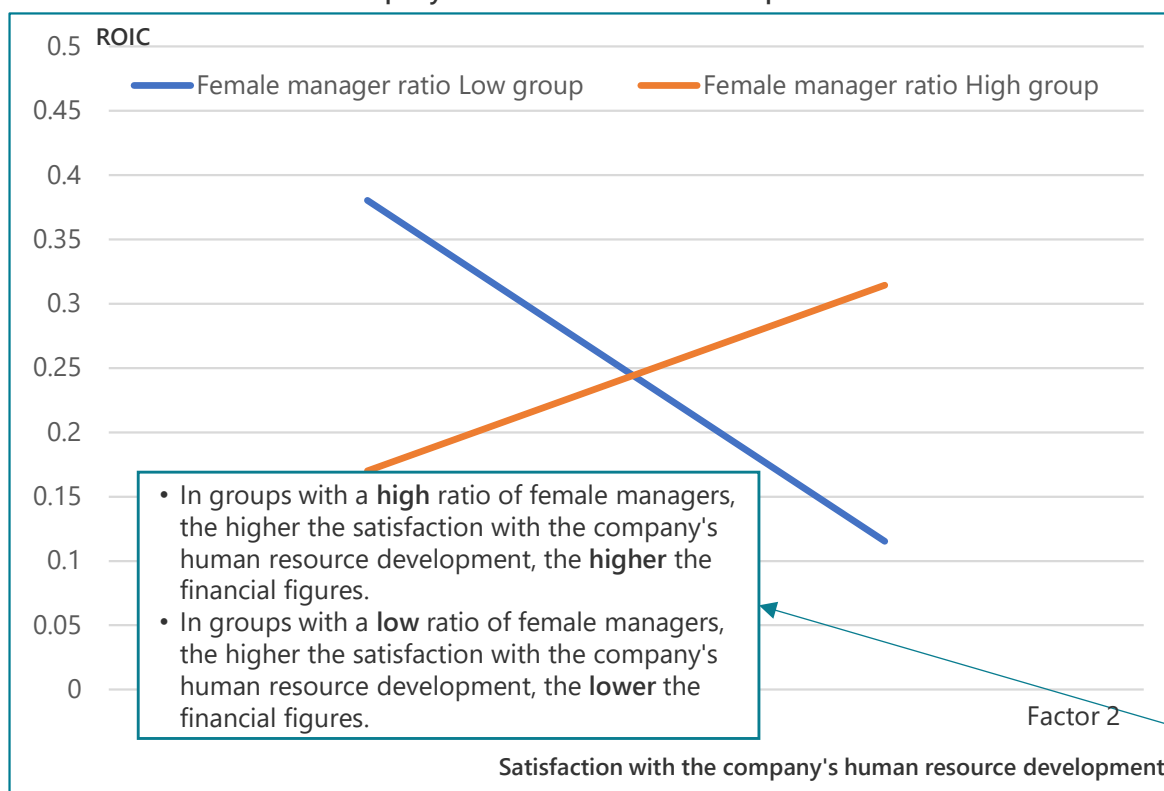
4. Connectivity between Non-Financial and Financial Information

- Report on Activities of the Subcommittee on Relationship between S Element and Financial Figures

Major Cases of Analysis: Company A: Correlation Between Satisfaction with Human Resource Development and Financial Indicator

- The ratio of female managers affects the correlation between satisfaction with human resource development and financial indicator (ROIC).

The Impact of the Ratio of Female Managers on the Correlation between Satisfaction with the Company's Human Resource Development and ROIC



Factor analysis of engagement survey: To avoid the problem of multicollinearity, a factor analysis of the engagement items was conducted and five factors were identified. After consulting with the companies, we named each factor as follows:

- Factor 1 = Workplace comfort and satisfaction
- Factor 2 = Satisfaction with company-wide structure (especially development and use of human capital)
- Factor 3 = Support for the company's aspirations and stance
- Factor 4 = Feeling of contribution of own work
- Factor 5 = Sympathy for aspirations

Regression analysis: Model 1 estimation suggests that, Factor 2 may have a significant negative impact on financial figure.

$$\text{Model 1: ROIC} = \alpha + 0.04 (\text{female manager ratio}) + (-0.56) (\text{Factor 2})$$

Regression analysis with interaction terms: Analysis of Model 2 with a cross term for Factor 2 and the ratio of female managers resulted in a non-significant coefficient for Factor 2 and a significant positive coefficient for the cross term.

$$\text{Model 2: ROIC} = \alpha + 0.31 (\text{female manager ratio}) + (-0.15) (\text{Factor 2}) + 0.72 (\text{female manager ratio}) (\text{Factor 2})$$

SEM analysis using human resource-related data, engagement data, and financial figures yielded the following results.

- The sense of contribution of one's own work (Factor 4) has a positive effect on financial performance.
- Labor expense/person has a positive impact on satisfaction with the company-wide structure (Factor 2).
- In a group with a high ratio of female managers, the sense of contribution of their own work (Factor 4) has a positive effect on financial performance.
- Workplace comfort has a positive effect on financial performance.

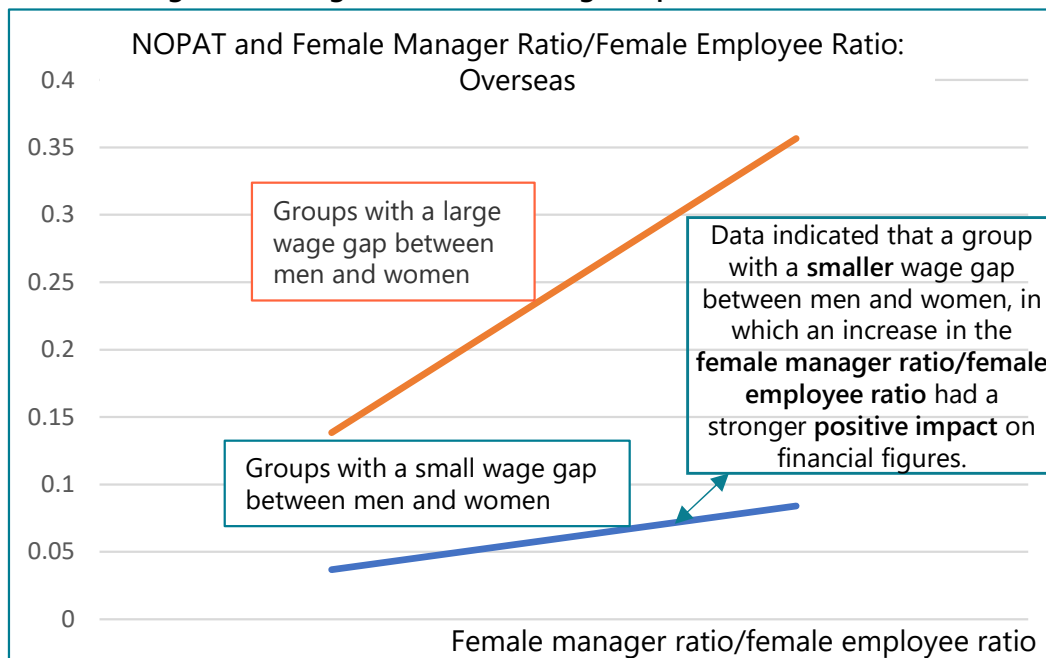
4. Connectivity between Non-Financial and Financial Information

- Report on Activities of the Subcommittee on Relationship between S Element and Financial Figures

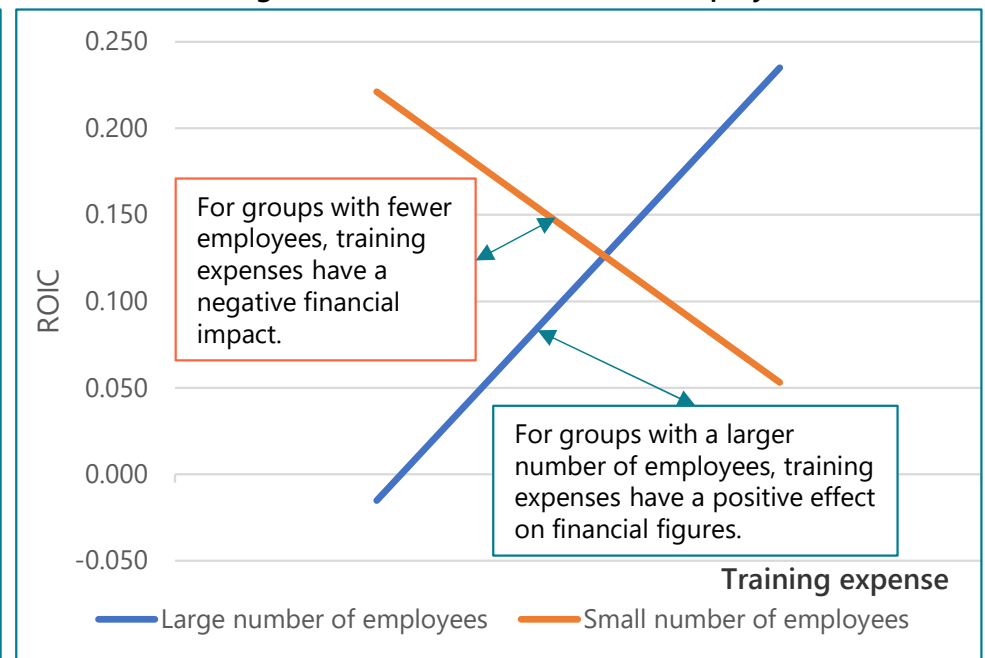
Major Cases of Analysis: Company B: Correlation Between the Ratio of Female Managers and Training Expenses and Financial Figures

- A wage gap between men and women affects the correlation between the female manager ratio/female employee ratio and a financial figure (NOPAT), and the number of employees affects the correlation between training expenses and a financial figure (ROIC).

Relationship Between Female Manager Ratio/Female Employee Ratio and Financial Figures, Taking into Account Wage Gaps Between Men and Women



Relationship Between Training Expenses and Financial Figures, Taking into Account the Number of Employees



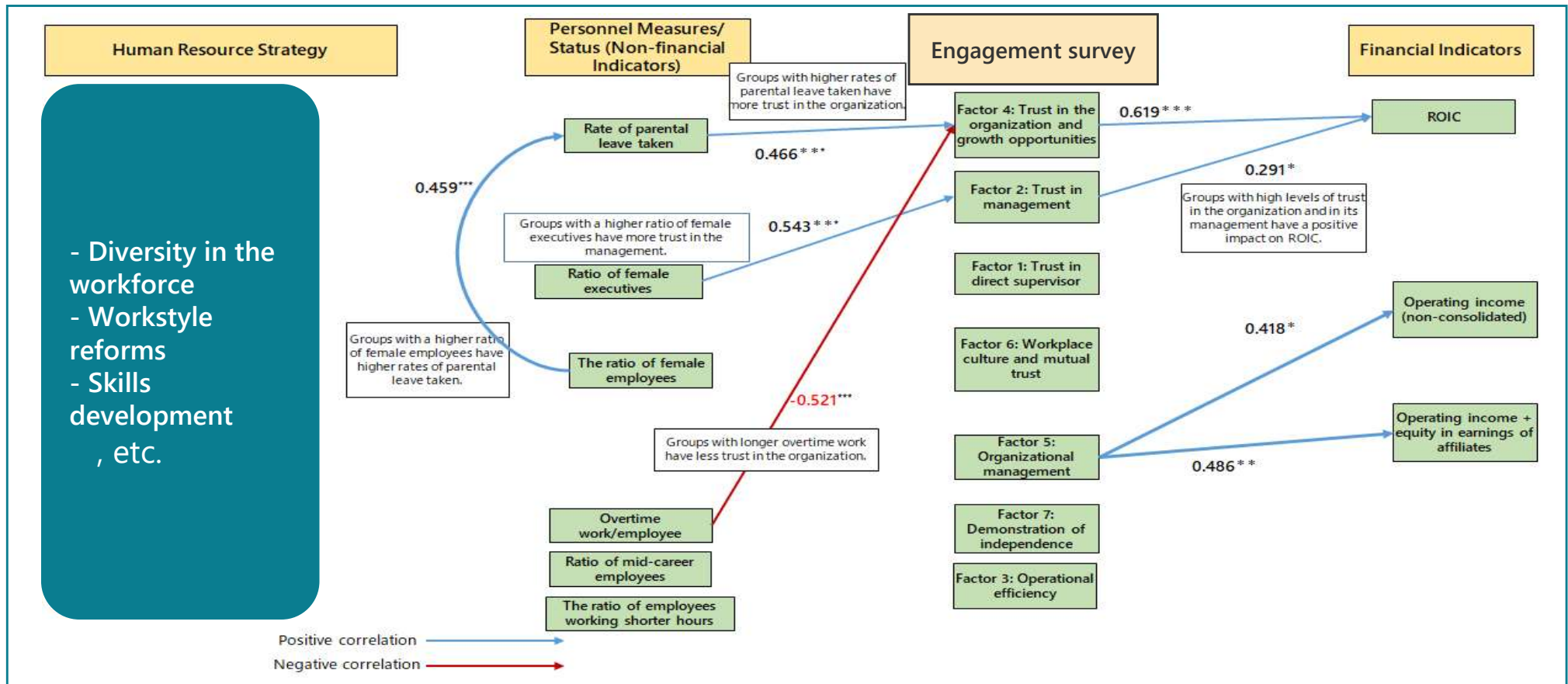
- In this company, the female manager ratio/female employee ratio is larger and the wage gap between men and women is smaller overseas. The female manager ratio/female employee ratio is 90% overseas and about 30% in Japan. The wage of female employees, assuming the wage of male employees is 1.0, is 0.96 overseas while it is 0.66 in Japan.
- The standard deviation (variation) of wage gaps between men and women is larger in foreign countries, and the number of samples available for analysis is larger. Therefore, we analyzed the relationship between the female manager ratio/female employee ratio and financial figures for **foreign countries** using regression analysis that includes an interaction term.
- In addition to the results in the left graph, the smaller the wage gap between men and women, the larger the financial figures tend to be.

4. Connectivity between Non-Financial and Financial Information

- Report on Activities of the Subcommittee on Relationship between S Element and Financial Figures

Major Cases of Analysis: Company C: Relationship Between HR Strategy and Financial Indicators

- Using the impact path method, we visualized the pathways through which HR strategies affect financial indicators through HR measures (non-financial indicators) and engagement surveys.

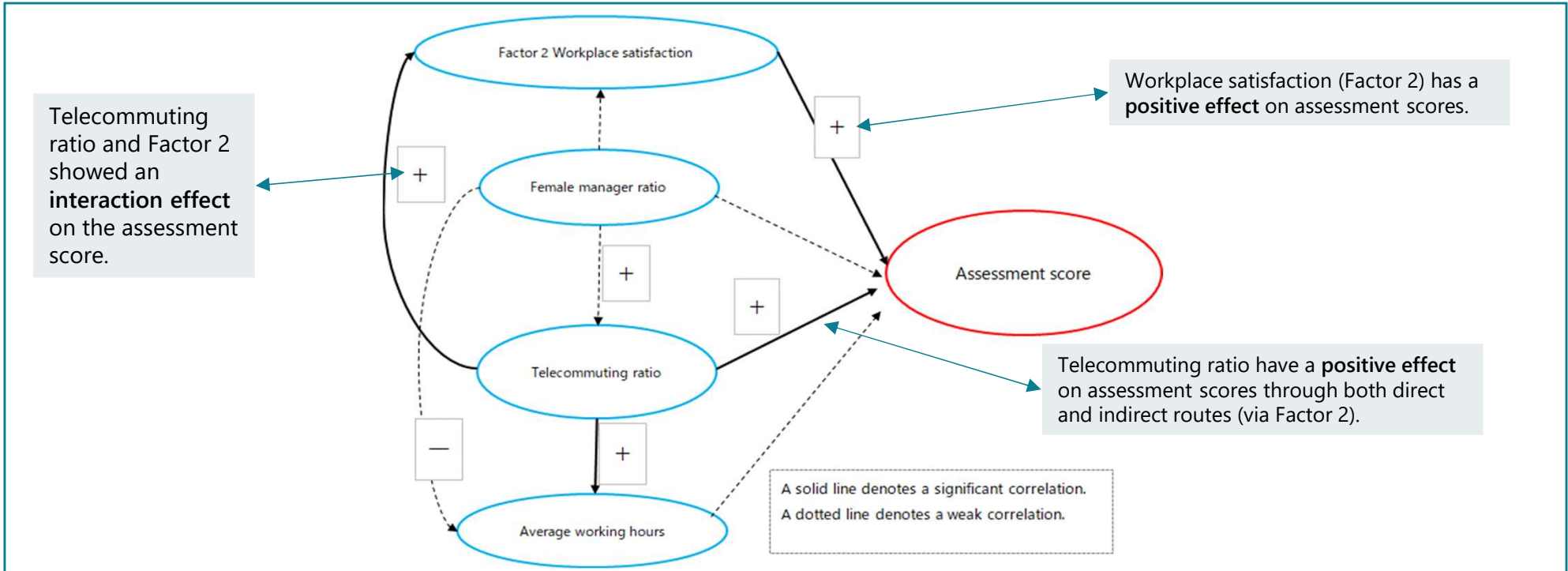


- Data: Non-financial human capital-related data for the past two years, engagement survey results, financial figures (by SBU)
- Key results: The ratio of female executives has a positive effect on trust in the management (Factor 2). The rate of parental leave taken has a positive effect on trust in the organization (Factor 4). Trust in the management and trust in the organization have a positive impact on financial figures. Organizational management (Factor 5) has a positive effect on financial figures.

4. Connectivity between Non-Financial and Financial Information

- Report on Activities of the Subcommittee on Relationship between S Element and Financial Figures

Major Cases of Analysis: Company D: Correlations Between Human Capital-related Indicators and Engagement Survey Results and Assessment Scores



The correlation analysis below shows that each factor is positively correlated with assessment scores and telecommuting ratio.

	Assessment	Diversity	Female manager	Working hours	Telecommuting	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5
Assessment score	1.000									
Diversity ratio	0.066	1.000								
Female manager ratio	-0.038	0.986	1.000							
Average working hours (month)	0.502	0.046	-0.039	1.000						
Telecommuting ratio	0.797	0.119	0.025	0.644	1.000					
Factor 1	0.805	0.174	0.100	0.440	0.791	1.000				
Factor 2	0.807	0.108	0.023	0.671	0.893	0.863	1.000			
Factor 3	0.677	0.087	0.003	0.698	0.766	0.753	0.814	1.000		
Factor 4	0.761	0.104	0.025	0.640	0.837	0.778	0.931	0.752	1.000	
Factor 5	0.721	0.201	0.125	0.493	0.735	0.839	0.779	0.646	0.757	1.000

Factor analysis of 32 items from the engagement survey:
 Factor 1 = work-life balance, Factor 2 = workplace satisfaction,
 Factor 3 = good relationship with the organization, Factor 4 = salary, Factor 5 = growth opportunities
 Yellow fill indicates a significant correlation.

4. Connectivity between Non-Financial and Financial Information

- Report on Activities of the Subcommittee on Relationship between S Element and Financial Figures

Analysis of the Relationship Between Employee Engagement, Human Capital Investment, and Financial Figures: Summary and Issues

Human capital-related data	<ul style="list-style-type: none">▶ The combination of wage gap between men and women and the ratio of women in management positions, the combination of training expenses and the number of employees, and the ratio of adopting telecommuting affect financial figures.
Employee engagement	<ul style="list-style-type: none">▶ Higher levels of satisfaction with the company (workplace satisfaction), satisfaction with human resource development measures, trust in the organization, evaluation of organizational management, and satisfaction with one's own work are associated with a stronger financial performance.

- ▶ Human capital-related data (human capital investment and HR policies) affect financial figures through employee engagement.
 - ▶ Groups with higher female managers: stronger financial performance through satisfaction with the company's human resource development and self-satisfaction with their work.
 - ▶ Groups with less overtime work and higher parental leave taken: stronger financial performance through trust in the organization and satisfaction with growth opportunities

Some relationships between employee engagement, human capital investment, and financial figures are simple, while others are complex, involving mediating variables and interaction effects (combinations of variables).

Need to analyze with appropriate combinations of various methods

- ✓ Understanding and applying statistical methods in the social sciences is desirable.
- ✓ Joint analysis with a university or outside research institutions if such personnel are not available in the company or department (NDA is required).

Issues recognized

Subcommittee implemented an approach of using data analysis to test hypotheses and improve measures.

- It is important to have a hypothesis (story) about the relationship between human capital investment, employee engagement, and financial figures.
- Reaffirming that it takes time and effort to comprehensively collect and organize data of varying granularity and jurisdiction
- It is also necessary to develop human resources, who will perform data analysis in-house

Will open a course on "ESG Sustainability Management and Data Analysis" to resolve issues identified at the Subcommittee

Appendix 1: Subcommittee Activity Report

1-1. Subcommittee on Improving Integrated Reports

1-2. Subcommittee on Disclosing Human Capital

1-3. Subcommittee on Relationship Between S Element and Finance



Appendix 1-1. Subcommittee on Improving Integrated Reports

Outline

- The Subcommittee on Improving Integrated Reports carried out activities based on themes set by each of the four companies.

Company name	Outline
Kao	<ul style="list-style-type: none"> • Understanding through objective evaluation of the improvement of issues identified in the previous fiscal year • Feedback and recommendations to management on activities for the next fiscal year's edition based on the issues identified in this fiscal year's edition. • Understanding investor needs and expectations to Kao through dialogue • Staying up-to-date on the latest developments of integrated reports
Sompo Holdings	Further pursuit of Sompo's unique character and upgrading of its integrated reports, aiming for information disclosure that exceeds investors' expectations
Tokyo Electric Power Company Holdings	Identifying areas for improvement in the integrated reports from the perspectives of financial stakeholders and experts
Hitachi	Refining integrated reports as a tool for dialogue with investors

Activity Plan: Kao

<p>Purpose</p>	<ul style="list-style-type: none"> • Making objective assessment as to whether the issues from the previous fiscal year have been improved. • Organizing issues of this year's edition and linking them to actions for the next edition => FB & recommendations to the management • Understanding the needs of institutional investors and their expectations from and requests to Kao through dialogue • Staying up-to-date on the latest developments of integrated reports 																																																																		
<p>Current issues</p>	<ul style="list-style-type: none"> • Developing specific KPIs for the creation of a value creation model (including the linkage of financial and non-financial data) • Reviewing materiality • Strengthening the coherence of strategies (relationship between management strategy and subordinate strategies, synergy between RK and AK) • Expanding the human resource strategy, intellectual property strategy, and digital transformation strategy • Strengthening global perspectives (area strategy, global position) • Dialogues using integrated reports and the process of feeding back the results to management for improvement 																																																																		
<p>Approach to improvement</p>	<ul style="list-style-type: none"> • Clarify the priority of issues through the review of this fiscal year's integrated report. • Present improvement proposals for issues of particular importance and clarify issues for the next fiscal year. 																																																																		
<p>Schedule</p>	<table border="1"> <thead> <tr> <th data-bbox="338 927 1144 1023">What to do</th> <th data-bbox="1144 927 1240 1023">Jun.</th> <th data-bbox="1240 927 1337 1023">Jul.</th> <th data-bbox="1337 927 1433 1023">Aug.</th> <th data-bbox="1433 927 1529 1023">Sep.</th> <th data-bbox="1529 927 1626 1023">Oct.</th> <th data-bbox="1626 927 1722 1023">Nov.</th> <th data-bbox="1722 927 1818 1023">Dec.</th> <th data-bbox="1818 927 1915 1023">Jan.</th> <th data-bbox="1915 927 2011 1023">Feb.</th> <th data-bbox="2011 927 2098 1023">Mar.</th> </tr> </thead> <tbody> <tr> <td data-bbox="338 1023 1144 1098">Publication of integrated report 2022 (June 29)</td> <td data-bbox="1144 1023 1240 1098">○</td> <td data-bbox="1240 1023 1337 1098"></td> <td data-bbox="1337 1023 1433 1098"></td> <td data-bbox="1433 1023 1529 1098"></td> <td data-bbox="1529 1023 1626 1098"></td> <td data-bbox="1626 1023 1722 1098"></td> <td data-bbox="1722 1023 1818 1098"></td> <td data-bbox="1818 1023 1915 1098"></td> <td data-bbox="1915 1023 2011 1098"></td> <td data-bbox="2011 1023 2098 1098"></td> </tr> <tr> <td data-bbox="338 1098 1144 1173">Arrangements with the secretariat</td> <td data-bbox="1144 1098 1240 1173"></td> <td data-bbox="1240 1098 1337 1173">○</td> <td data-bbox="1337 1098 1433 1173"></td> <td data-bbox="1433 1098 1529 1173"></td> <td data-bbox="1529 1098 1626 1173"></td> <td data-bbox="1626 1098 1722 1173"></td> <td data-bbox="1722 1098 1818 1173"></td> <td data-bbox="1818 1098 1915 1173"></td> <td data-bbox="1915 1098 2011 1173"></td> <td data-bbox="2011 1098 2098 1173"></td> </tr> <tr> <td data-bbox="338 1173 1144 1248">Review by cooperators</td> <td data-bbox="1144 1173 1240 1248"></td> <td data-bbox="1240 1173 1337 1248"></td> <td data-bbox="1337 1173 1433 1248"></td> <td data-bbox="1433 1173 1529 1248">○</td> <td data-bbox="1529 1173 1626 1248"></td> <td data-bbox="1626 1173 1722 1248"></td> <td data-bbox="1722 1173 1818 1248"></td> <td data-bbox="1818 1173 1915 1248"></td> <td data-bbox="1915 1173 2011 1248"></td> <td data-bbox="2011 1173 2098 1248"></td> </tr> <tr> <td data-bbox="338 1248 1144 1343">Organizing issues, summarizing improvements, and sharing internally</td> <td data-bbox="1144 1248 1240 1343"></td> <td data-bbox="1240 1248 1337 1343"></td> <td data-bbox="1337 1248 1433 1343"></td> <td data-bbox="1433 1248 1529 1343"></td> <td data-bbox="1529 1248 1626 1343">○</td> <td data-bbox="1626 1248 1722 1343"></td> <td data-bbox="1722 1248 1818 1343"></td> <td data-bbox="1818 1248 1915 1343"></td> <td data-bbox="1915 1248 2011 1343"></td> <td data-bbox="2011 1248 2098 1343"></td> </tr> <tr> <td data-bbox="338 1343 1144 1433">Production of integrated report 2023</td> <td data-bbox="1144 1343 1240 1433"></td> <td data-bbox="1240 1343 1337 1433"></td> <td data-bbox="1337 1343 1433 1433"></td> <td data-bbox="1433 1343 1529 1433"></td> <td data-bbox="1529 1343 1626 1433"></td> <td data-bbox="1626 1343 1722 1433">○</td> <td data-bbox="1722 1343 1818 1433">○</td> <td data-bbox="1818 1343 1915 1433">○</td> <td data-bbox="1915 1343 2011 1433">○</td> <td data-bbox="2011 1343 2098 1433">○</td> </tr> </tbody> </table>	What to do	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Publication of integrated report 2022 (June 29)	○										Arrangements with the secretariat		○									Review by cooperators				○							Organizing issues, summarizing improvements, and sharing internally					○						Production of integrated report 2023						○	○	○	○	○
What to do	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.																																																									
Publication of integrated report 2022 (June 29)	○																																																																		
Arrangements with the secretariat		○																																																																	
Review by cooperators				○																																																															
Organizing issues, summarizing improvements, and sharing internally					○																																																														
Production of integrated report 2023						○	○	○	○	○																																																									
<p>Cooperators</p>	<p>Investors, advisory bodies</p>																																																																		

Report on Result: Kao

<p>What we have done</p>	<ul style="list-style-type: none"><input type="checkbox"/> Conducted preliminary surveys<input type="checkbox"/> Conducted review meetings with 7 companies (1 hour each) <p>Key questions in the survey:</p> <ul style="list-style-type: none">• Evaluation of each message and topic and reasons for the evaluation, areas for improvement, and requests• Improvements in this fiscal year's edition compared to last fiscal year's edition• Time frame for integrated report disclosure, quantification of outcomes, other disclosure materials, etc.
<p>Output</p>	<ul style="list-style-type: none"><input type="checkbox"/> Analysis of results of preliminary surveys<input type="checkbox"/> Organization of issues pointed out at review meetings<input type="checkbox"/> Organizing improvement policy and issues for the FY2023 edition and clarifying priorities<input type="checkbox"/> Core theme of the FY2023 edition, overall composition, key points of each section, and design concept
<p>Next step</p>	<ul style="list-style-type: none"><input type="checkbox"/> Publishing of the FY2023 edition in Japanese and English (end of June) Policy: Meet investors' demand and expectations by comprehensibly presenting Kao's achievements and challenges at the midpoint of its K25 plan and Kao's unique strengths through a story of value creation from a medium- to long-term perspective.

Report on Result: Kao Key Issues Identified in Reviews and Responses

Common issues	Issues	Response
Setting up a value creation story	<ul style="list-style-type: none"> ● Organizing a story of raising corporate value and disclosing impact path and KPIs ● Relationship between management strategy and raising corporate value ● Alignment of management strategies with individual strategies such as ESG strategy ● Management resources required for implementing strategies (especially human capital and intellectual property) ● Progress of Commitment to the Future, Another Kao (AK) & Reborn Kao (RK) 	<ul style="list-style-type: none"> ● Disclosed information in line with the Guidance for Collaborative Value Creation 2.0 ● Raised consistency and linkage between management strategy and ESG strategy, business strategy, and functional strategy ● Explained results and challenges at the midpoint of the K25 plan and the factors behind them, and clarified the management strategy based on such elements. ● Emphasized EVA management again and explained its relationship with ESG management ● Explained the relationship and synergy between revitalization of existing businesses (AK) and the creation of new businesses (RK) in the overall business strategy. ● Showed DX and human resources as key strategies.
Set goals and indicators	<ul style="list-style-type: none"> ● Disclosure of KPIs related to financial strategy and capital efficiency ● Disclosure of global strategy 	<ul style="list-style-type: none"> ● Disclosed business portfolio and ROIC tree ● Disclosed target and result of overseas sales ratio
Establish governance development and capabilities	<ul style="list-style-type: none"> ● Defining Kao's strengths as the basis of fulfilling its purpose ● Clarify the person responsible 	<ul style="list-style-type: none"> ● Improved disclosure of history and sources of innovation ● Described key strategies in the form of messages from each responsible person
Disclosure and engagement	<ul style="list-style-type: none"> ● Defining the position in the overall information disclosure and focusing on key points ● Disclosure of engagement process 	<ul style="list-style-type: none"> ● Integrated report focused on the value creation story and reduced page count by focusing on key points (120 to 108 pages).
Other	<ul style="list-style-type: none"> ● Organization and consistency of messages ● Lack of visibility of young and mid-career employees 	<ul style="list-style-type: none"> ● Ensured selection and consistency of messages. ● Introduces young and mid-career employees who will take charge of Kao's future.

Activity Plan: Sompō Holdings

Purpose	<ul style="list-style-type: none"> Aiming to further upgrade the business in FY2023 based on the review of FY2022. 																																																														
Current issues	<ul style="list-style-type: none"> Sompō's unique quality for achieving a purpose while creating value, starting with the pursuit of My Purpose, is recognized to have been conveyed to a certain extent. Many investors have pointed to the lack of financial information, which needs to be improved. 																																																														
Approach to improvement	<ul style="list-style-type: none"> While further pursuing Sompō's unique quality, the plan will be refined with the aim of creating a report that provides disclosure information that exceeds investors' expectations. 																																																														
	Schedule	<table border="1"> <thead> <tr> <th>What to do</th> <th>Mar.</th> <th>Apr.</th> <th>May</th> <th>Jun.</th> <th>Jul.</th> <th>Aug.</th> <th>Sep.</th> <th>Oct.</th> </tr> </thead> <tbody> <tr> <td>Preparation policy based on the review</td> <td style="text-align: center;">○</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Planning to fulfill the preparation policy</td> <td></td> <td style="text-align: center;">○</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Production period</td> <td></td> <td></td> <td style="text-align: center;">○</td> <td style="text-align: center;">○</td> <td style="text-align: center;">○</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Issue (Japanese and English)</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td style="text-align: center;">○</td> <td></td> <td style="text-align: center;">○</td> </tr> <tr> <td>Briefing and review</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td style="text-align: center;">○</td> </tr> </tbody> </table>	What to do	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Preparation policy based on the review	○								Planning to fulfill the preparation policy		○							Production period			○	○	○				Issue (Japanese and English)						○		○	Briefing and review								○							
What to do	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.																																																							
Preparation policy based on the review	○																																																														
Planning to fulfill the preparation policy		○																																																													
Production period			○	○	○																																																										
Issue (Japanese and English)						○		○																																																							
Briefing and review								○																																																							
Cooperators	Investors, advisory bodies																																																														

Activity results: Sampo Holdings

What we have done

- Held briefing for investors and advisory bodies (13 companies) on key points in the integrated report.
- Had the above 13 companies take questionnaire.
- Identified issues based on survey results
- Analyzed and examined improvement measures

* Investors' comments in evaluation survey

	高評価	低評価
高評価	<p>コンテンツ</p> <p>主なコメント</p>	
	<p>1. 価値創造サイクル (含む各原動カールート)</p> <p>・独自性が高く、パーパスを如何に経営に根付かせ成長の原動力にしていくのわかりやすい。 ・ルート毎に具体例を示しながら説明されており、理解し易かった。</p>	
	<p>2. 未実現財務価値 (人的資本のインパクトパス)</p> <p>・ロジックを立てようとする意識が明確。資本のインパクトパスを示した例はまだ少なく、先駆的。 ・インパクトパスの図式化と検証が非常にわかりやすい。</p>	
	<p>3. ガバナンス (含むダイアログ)</p> <p>・コーポレートガバナンスの全体像や各会議体の構成や概要など、ここまで詳細に開示している企業はかなり稀。理解促進に良い。 ・業績連動報酬にESG関連の指標を組み込むことが今後の課題ではないか。</p>	
	<p>4. CEOメッセージ</p> <p>・パーパス経営を通じた成長ストーリーに説得力を持たせる内容になっている。未実現財務価値と企業固有のストーリーの関係性への言及、個別事業事例も挙げつつ将来実現したいことやありがたい姿がコミットされている。</p>	
	<p>5. SOMPOのパーパス 特別鼎談</p> <p>・社外取とCXOの対談の中で語られていることにより、監督と執行のベクトルの一致がよく見て取れる。外部ステークホルダーの視点からも、ガバナンス体制の面からも良い体制をとっていることが読み取れる。</p>	
低評価		<p>1. SDGs経営 (特にマテリアリティ)</p> <p>・数が多すぎるため他パートとの関連や全体像が把握できない。 ・マテリアリティ特定プロセスの十分な説明、基本戦略との関係性を示し経営における位置づけをイメージできるようにする必要がある。</p>
		<p>2. 資本政策</p> <p>・経営上の重要性に比して、情報量、説明量が不十分。具体的には下記の説明を求めるコメントがあった。 --政策保有株式に関する具体的な考え方・今後の方針・対話状況、リスクポートフォリオの運営方針、資本市場へのメッセージ、バリュエーションや時価総額に対する認識のギャップなど--</p>
		<p>3. 価値創造サイクル (新たな価値創造ルート)</p> <p>・「DXで目指す姿と期待する効果」の算定プロセスが不明のため、目標数値達成の確度がわかりにくい。 ・介護RDPのシンプルな説明がほしい。</p>
		<p>4. CFO/CSOメッセージ</p> <p>・事業ポートフォリオマネジメント、各セグメントの戦略、グループシナジー創出の取組み等につき、図表を用いて分かりやすく説明いただきたい。 ・資本政策コンテンツをCFOメッセージ化してほしい。</p>
		<p>5. 資本</p> <p>・5つの資本について貴社の独自性、価値創造にとって重要な要素が強調されているとよい。</p>
		<p>6. 価値創造の全体像</p> <p>・「パーパス経営」と「SDGs経営」の関係性、「価値創造プロセス」と「中計」、「サステナビリティ (あるいはSDGs経営)」との関係性が不明瞭。</p>

Activity results: Sompo Holdings

Policies for the next fiscal year based on the analysis

Policy for the preparation of the next year's integrated report was drawn from the results of the analysis of the investor survey on the previous page.

(Preparation Policy)

- The report provides disclosure information that exceeds investor expectations by refining its appeal through the pursuit of Sompo's unique quality.
- Improve appeal of overall information disclosed by aligning and linking it with other disclosure materials.

Creation of specific preparation concept

- Further pursuit of Sompo's unique quality (*)
- Improving financial and non-financial information connectivity
- Transparent disclosure of financial information of interest to investors

* Place Sompo's purpose management is at the center of the report and promote more sophisticated analysis of unrealized financial value (non-financial value), which was highly recognized last year.

Activity Plan: Tokyo Electric Power Company Holdings

Purpose	Identifying areas for improvement from the perspectives of financial stakeholders and experts in the Integrated Report 2022 and apply them in the preparation of the next integrated report.													
Current issues	Lack of objective data on whether investors are aware of the company's aspirations, story, indicators, and targets for long-term value creation (LTVC) based on the company's unique business environment and a lack of clarity on specific areas for improvement for the future.													
Approach to improvement	Conduct a survey of financial stakeholders and others to determine whether each piece of information in the Integrated Report 2022 contributes to the value creation story, and analyze the results to identify areas for improvement.													
Schedule	What to do	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	
	Organize the way the working group operates, share roles, and discuss direction				○									
	Review by cooperators						○	○						
	Analysis of responses in surveys						○	○	○					
	Examine information provided and expressions								○	○				
	Develop draft framework of Integrated Report 2023									○	○	○		
	Content production												○	○
Cooperators	Investors, evaluation agencies, advisory bodies, etc.													

Activity Results: Tokyo Electric Power Company Holdings

What we have done	<ul style="list-style-type: none">• Conducted questionnaires (12 companies) and individual engagement and analyzed results• Discussed analytical results in the integrated report production team.• Reported the production plan for Integrated Report 2023 to the ESG Committee (management) and deliberated on the plan.• Examined and determined story development and structure<ul style="list-style-type: none">(i) Improved the link between materiality and value creation process and content(ii) Clearly showed materiality and the value to be provided, which would lead to increased corporate value, and developed strategies and measures linked to that value as content.
Output	<ul style="list-style-type: none">• Re-organized materiality and the value creation process• Created the overall storyline and structure and the framework for each content
Next step	<ul style="list-style-type: none">• Specific production of each content

Activity Results: Tokyo Electric Power Company Holdings

- Reorganized materiality from the short term to the long term, as the integrated report is the story of an increase in long-term corporate value.

FY2022 management categories	
Examples of categories in key segments (Managed by the Board of Directors)	Example of key management issues (Managed by the executive Board)
[Fukushima matters] Balancing recovery with decommissioning (Steady initiatives aimed at disposing of treated water)	Contribute to recovery in Fukushima through involvement in urban development and initiatives to eliminate harmful rumors
	Steady implementation of decommissioning/contaminated water countermeasures based on the mid/long-term roadmap
[Business foundation] Cultivating human resources and establishing a new corporate culture	Strategic development/deployment of human resources in order to maximize corporate value
[Nuclear power business] Nuclear power/nuclear fuel cycle (Thorough implementation of safety measures at the Kashiwazaki-Kariwa Nuclear Power Station)	Safety measures/reviews aimed at the recommencement of operation of the Kashiwazaki-Kariwa Nuclear Power Station
[Increasing corporate value] Creating/enlarging value for customers in anticipation of a carbon neutral society (Promoting key businesses)	Revise business portfolio in new spheres of business in order to increase corporate value
	Making measures based on ESG strategy a reality
	Increase the value of providing retail energy services
	Establish a global-leading business management foundation
	Turn renewable energies into primary power sources



Activity Plan: Hitachi

<p>Purpose</p>	<p>To have Hitachi review our Integrated Report 2022 for us to use it as a reference for improving the next and future integrated reports.</p>																																																																														
<p>Current issues</p>	<p>To use integrated reports as a dialogue tool.</p>																																																																														
<p>Approach to improvement</p>	<p>Explain the significance of preparing integrated reports according to the IR department and the messages the current integrated report is intended to deliver, and set up an opportunity to receive feedback.</p>																																																																														
<p>Schedule</p>	<table border="1"> <thead> <tr> <th data-bbox="376 692 842 751">What to do</th> <th data-bbox="842 692 943 751">Jul.</th> <th data-bbox="943 692 1043 751">Aug.</th> <th data-bbox="1043 692 1144 751">Sep.</th> <th data-bbox="1144 692 1245 751">Oct.</th> <th data-bbox="1245 692 1346 751">Nov.</th> <th data-bbox="1346 692 1447 751">Dec.</th> <th data-bbox="1447 692 1547 751">Jan.</th> <th data-bbox="1547 692 1648 751">Feb.</th> <th data-bbox="1648 692 1749 751">Mar.</th> <th data-bbox="1749 692 1850 751">Apr.</th> <th data-bbox="1850 692 1951 751">May</th> <th data-bbox="1951 692 2074 751">Jun.</th> </tr> </thead> <tbody> <tr> <td data-bbox="376 751 842 847">Publication of integrated report (Sep. 16)</td> <td></td> <td></td> <td style="text-align: center;">○</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td data-bbox="376 847 842 943">Scheduling, sending reference materials, feedback</td> <td></td> <td></td> <td></td> <td style="text-align: center;">○</td> <td style="text-align: center;">○</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td data-bbox="376 943 842 1038">Organizing feedback and issues</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td style="text-align: center;">○</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td data-bbox="376 1038 842 1182">Examining plans and production policies for next fiscal year</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td style="text-align: center;">○</td> <td style="text-align: center;">○</td> <td style="text-align: center;">○</td> <td style="text-align: center;">○</td> <td></td> <td></td> <td></td> </tr> <tr> <td data-bbox="376 1182 842 1374">Production (structure plan, content discussion, manuscript preparation (including English))</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td style="text-align: center;">○</td> <td style="text-align: center;">○</td> <td style="text-align: center;">○</td> <td style="text-align: center;">○</td> </tr> </tbody> </table>	What to do	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Publication of integrated report (Sep. 16)			○										Scheduling, sending reference materials, feedback				○	○								Organizing feedback and issues						○							Examining plans and production policies for next fiscal year						○	○	○	○				Production (structure plan, content discussion, manuscript preparation (including English))									○	○	○	○
What to do	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.																																																																			
Publication of integrated report (Sep. 16)			○																																																																												
Scheduling, sending reference materials, feedback				○	○																																																																										
Organizing feedback and issues						○																																																																									
Examining plans and production policies for next fiscal year						○	○	○	○																																																																						
Production (structure plan, content discussion, manuscript preparation (including English))									○	○	○	○																																																																			
<p>Cooperators</p>	<p>Investment managers and experts</p>																																																																														

Activity Results: Hitachi

<p>What we have done</p>	<ul style="list-style-type: none"> • Published Hitachi Integrated Report 2022 Hitachi Integrated Report/Annual Report: Information for shareholders and investors: Hitachi (hitachi.co.jp) News release: September 16, 2022:Hitachi (hitachi.co.jp) • Sent reference materials for Hitachi Integrated Report 2022 • Requested feedback on the Integrated Report from investment managers and experts <ul style="list-style-type: none"> < interview questions > <ul style="list-style-type: none"> - Impression of Hitachi's Integrated Report in general - Sections that are particularly impressive and why (both good and bad) - Identifying materiality, goals, objectives, etc. - Direction of disclosure expected from future integrated reports and reasons - Other • Summary of feedback on the Integrated Report and associated issues
<p>Output</p>	<ul style="list-style-type: none"> • Summary of results of feedback on the Integrated Report
<p>Next step</p>	<ul style="list-style-type: none"> • Consideration of planning and production policies for the following fiscal year, reflecting the feedback • Production of the next fiscal year's integrated report (proposals for composition, discussions on details, and preparation of draft integrated report)

Activity Results: Hitachi

Feedback from investors and experts

1. Evaluation

- ✓ Hitachi's reports gained favorable impressions for being compiled in a way that made it easy to grasp the information that was important for understanding Hitachi, and for listing both financial and non-financial data in exhaustive detail. They were described as "reports worth reading" and as reports that "convey Hitachi's passion."
- ✓ The report is useful as information that investors consider important is condensed. Also, it seemed to stay abreast of leading trends and followed a narrative based on the data.
- ✓ With digital publishing in mind, from this year the format was switched to an A4 horizontal layout, and this was highly appreciated for its increased readability.

2. Improvement and proposals

- ✓ Volume of text and number of pages is too high. One proposal is to reduce the volume of text and appeal more visually, or to make other improvements such as linking to a webpage or briefing materials, etc.
- ✓ It is good that every detail is carefully explained, but the report tends to be exhaustive. Therefore, it would be better if the messages delivered clearer emphases and focal points.
- ✓ I request the latest information on the progress of activities that draw attention in the market such as whether PMI is successful in past acquisitions of Hitachi Energy Ltd., GlobalLogic Inc., and others.



Appendix 1-2. Subcommittee on Disclosing Human Capital

Outline

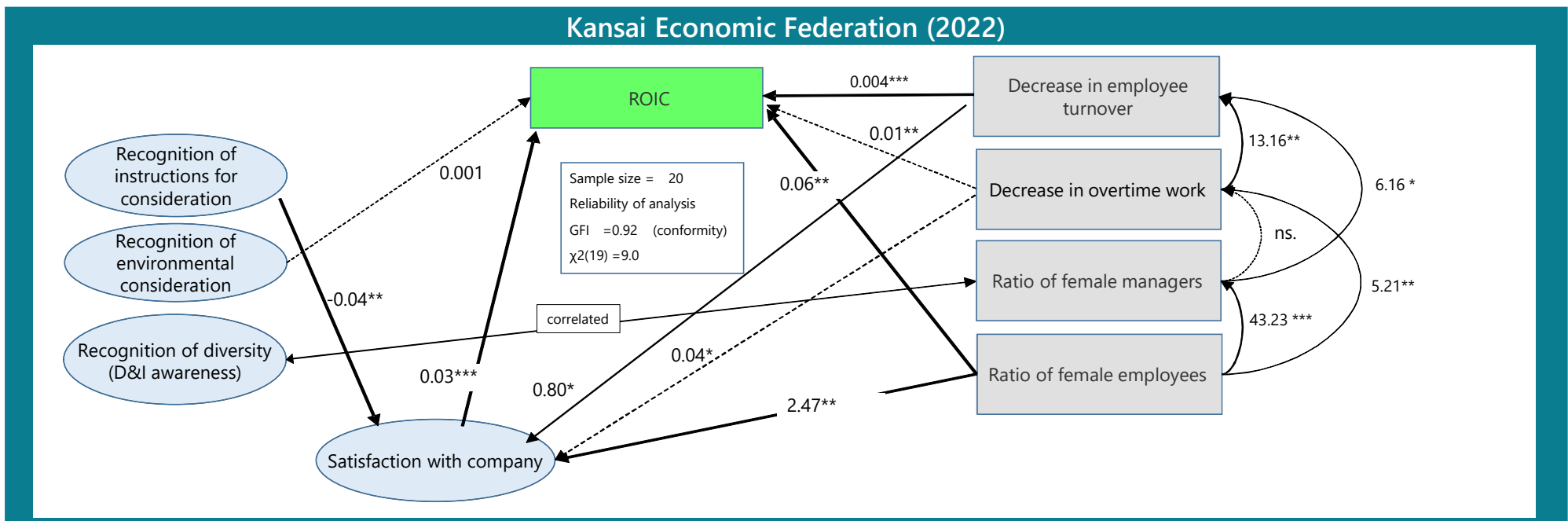
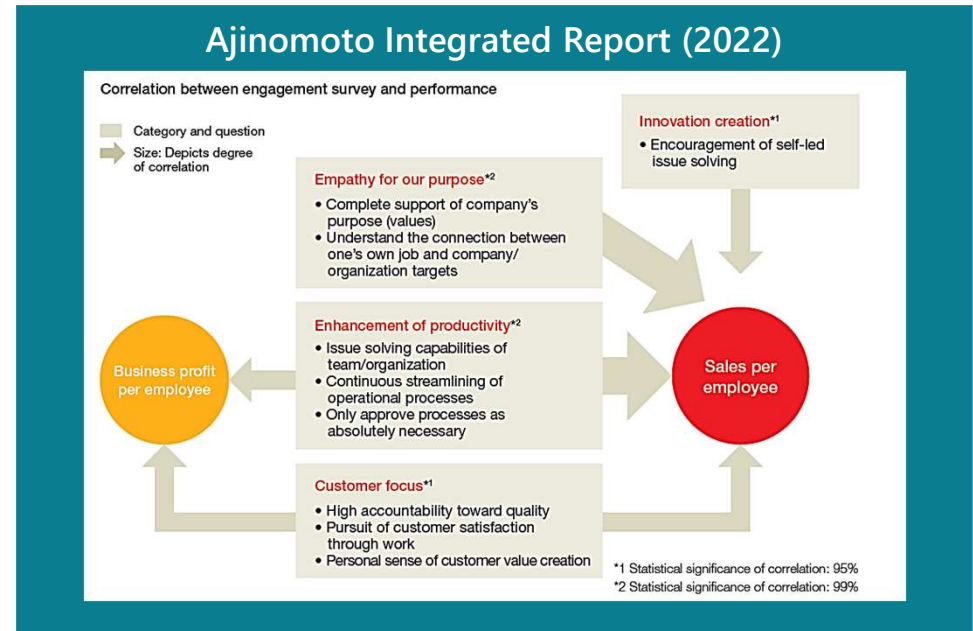
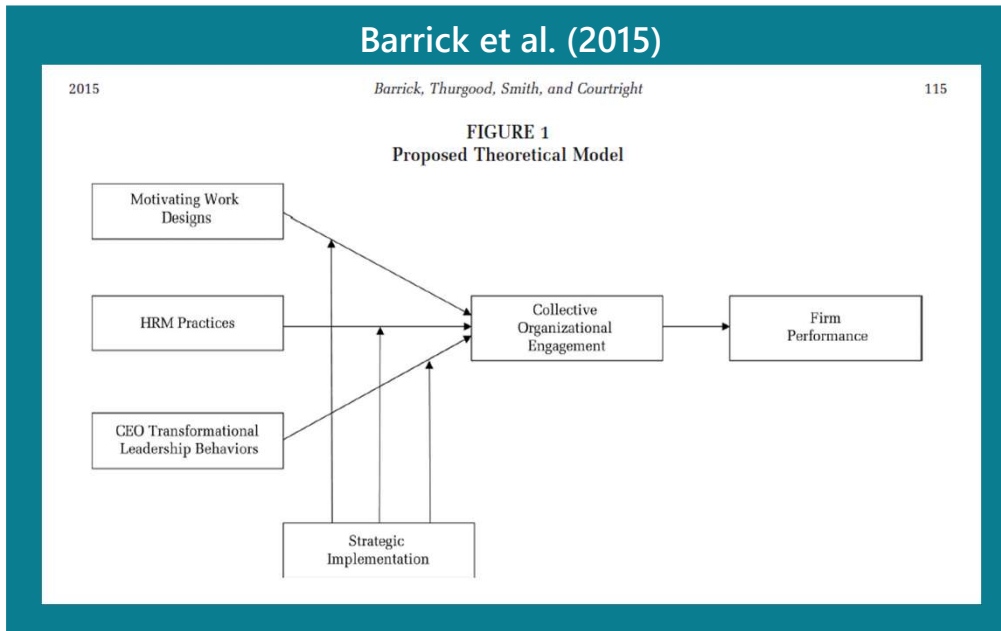
- In the subcommittee on disclosing human capital, executives from the four companies gave presentations on their own initiatives. Based on the presentations, members discussed and explored what are the essence requiring consideration in human capital disclosure.

	Date	Company name	Lecture title
Series 1	August 2, 2022	SHIFT Inc.	How to disclose human capital information "for an increase in corporate value"
Series 2	November 17, 2022	KDDI Corporation	Efforts towards human capital disclosure
Series 3	February 28, 2023	Sompo Holdings, Inc.	Sompo Holdings' human capital management, starting with the pursuit of "My Purpose"
Series 4	May 31, 2023	Not open to the public as requested by the presenting company	



Appendix 1-3. Subcommittee on relationship between S element and finance

Preceding Studies and Cases



Financial Data, Human Resource-related Data, and Engagement Data

Financial Data

	A	B	C	D	E	F	G	H	I	J	
1			Financial Data								
2			Sales 2020	GP 2020	SG&A 2020	OP 2020	Asset 2020	ROIC 2020	Per capita indicator	Human creativity	
3		BU (i)	200	80	40	40	220	12.7%	...	...
4		BU (ii)	180	80	40	40	200	14.0%	...	...
5		BU (iii)	160	60	40	20	180	7.8%	...	...
6		BU (iv)	140	60	40	20	150	9.3%	...	...
7		BU (v)	130	50	35	15	150	7.0%	...	...
8		BU (vi)	120	50	35	15	100	10.5%	...	...
9		BU (vii)	110	40	30	10	100	7.0%	...	...
10		

Human Resource-related Data

		Human resource-related data (ratios)									
		Female employees 2020	Female managers 2020	Foreigners 2020	Turnover ratio 2020	Ratio of employees who returned to work after childcare leave 2020	Years of continuous employment 2020	Wage gap between men and women	...	Female employees 2021	Female managers 2021
	BU (i)	20%	10%	20%	8%	100%	15	...	...	...	...
	BU (ii)	20%	10%	20%	8%	100%	15	...	...	...	...
	BU (iii)	18%	8%	0%	7%	90%	14	...	...	...	...
	BU (iv)	18%	8%	0	7%	90%	13	...	...	...	...
	BU (v)	15%	7%	0	8%	80%	15	...	...	...	...
	BU (vi)	14%	7%	0	8%	80%	12	...	...	...	...
	BU (vii)	13%	6%	80%	7%	80%	12	...	...	...	...

Engagement Data

Engagement Data		2020 Survey Results				
Sample questions		Q1	Q2	Q3	...	Q30
Q1: The company is such a great place to work that I would recommend it to others.	BU (i)					
Q2: I take pride in working for the company.	EU0101 (E unit 1)	4.0	4.2	3.8	...	3.0
Q3: The work environment is comfortable for a diverse workforce.	EU0102	4.2	4.3	4.0	...	3.5
.....	EU0103	4.6	4.0	3.8	...	4.0

Q30	EU0150	3.8	4.2	4.0	...	2.6
	BU (ii)					
	EU0201	4.0	4.2	3.8	...	3.0
	EU0202	4.2	4.3	4.0	...	3.5
	EU0203	4.6	4.0	3.8	...	4.0

	EU0245	3.8	4.2	4.0	...	2.6

- Collect and organize three sets of data with different granularity and quantitatively analyze their relationship using various data analysis techniques
- Create a story (interpretation) by integrating qualitative information such as company characteristics and human resource policies into the analysis results

Major Analytical Methods Used in the Subcommittees

Analysis methods	Interpretation
Correlation analysis	Analysis of whether there is a quantitative relationship between two variables
Factor analysis	An analytical method used to extract a group of items (factors) that have a high degree of commonality from data with a large number of items In this analysis, a small number of factors were extracted from engagement data having a large number of items, allowing the problem of multicollinearity in regression analysis to be avoided and making the interpretation of the results more comprehensible.
Analysis of variance (ANOVA)	An analytical method based on the general linear model (GLM, general linear model). In this analysis, an analysis of variance was applied for the purpose of verifying the effect of the interaction . For example, when analyzing the effect of the ratio of female managers and the factor of diversity climate as explanatory variables on financial figures, not only the effect of each explanatory variable used alone, but the effect of the combination of diversity climate and female manager ratio on financial figures can be analyzed (e.g., a female manager ratio has a positive effect on financial figures in a group having a high diversity climate, but has no effect on financial figures in a group having a low diversity climate).
Regression analysis, simple regression analysis, multiple regression analysis)	An analytical method that estimates a linear model (linear expression) where the explained variable = $\alpha + \beta_1$ (factor 1) + β_2 (factor 2) + ... + β_n (factor n) . Simple regression is used for a model with a single factor and multiple regression for a model with multiple factors. This analysis used simple and multiple regression analysis for data sets in which multiple factors were considered to exist.
Structural equation modeling (SEM)	A statistical method that sets up a specific qualitative hypothetical model for the association between multiple variables and then estimates the quantitative relationship between the variables while simultaneously testing the validity of the model (Murakami and Yukihiro [2018]). It is a combination of regression analyses and a method of estimating a group of models represented by multiple linear equations at once.

Source:

- Asaoka, Sunagawa, Okada [2022] Zemināru Kōporēto Fainansu (Seminar Corporate Finance), *Nikkei Publishing Inc.*
- ESG Disclosure Study Group [2022] "ESG Disclosure Study Group Report 2022"
- Kansai Economic Federation [2022] "Kigyō No Shakaiteki Torikumi To Keizai Kachi No Soukan, Inga Kankei No Kenkyū (Research on Correlation and Causal Relationship between Corporate Social Initiatives and Economic Value." Research Report
- Ministry of Economy, Trade, and Industry [2022] "Establishment of a Working Group on Efficient Collection and Strategic Use of Sustainability-Related Data for Creation of Sustainable Corporate Value."
- Tanikawa, Tomohiko [2020] "Daibāshitli To Pafōmansu: Kizon Kenkyū No Rebyū To Kongo No Houkousei (Workgroup Diversity and Performance : A Review of the Literature and Directions for Future Research)." *The Japan Institute of Labour*, 62(7), p. 59-73.
- Murakami, T. and R. Yukihiro [2018], *Shinrigaku, Shakai Kagaku No Tame No Kouzou Houteishiki Modingu (Structural equation modeling for psychological and social science)*, Nakanishiya Shuppan Co. Ltd.
- Kawamura, S., K. Hioki, et al. [2016] "Honmono No Dēta Bunsekiryoku Ga Mi Ni Tsuku Hon (A Book for Learning Real Data Analysis Skills)." *Nikkei BP Mook*.
- Marray R. Barrick., Gary R. Thurgood, Troy A. Smith and Stephen H. Courtright [2015] "Collective Organizational Engagement: Linking Motivational Antecedents, Strategic Implementation, and Firm Performance", *Academy of Management Journal*, 58 (1)

Appendix 2: Materials for Regular General Meetings

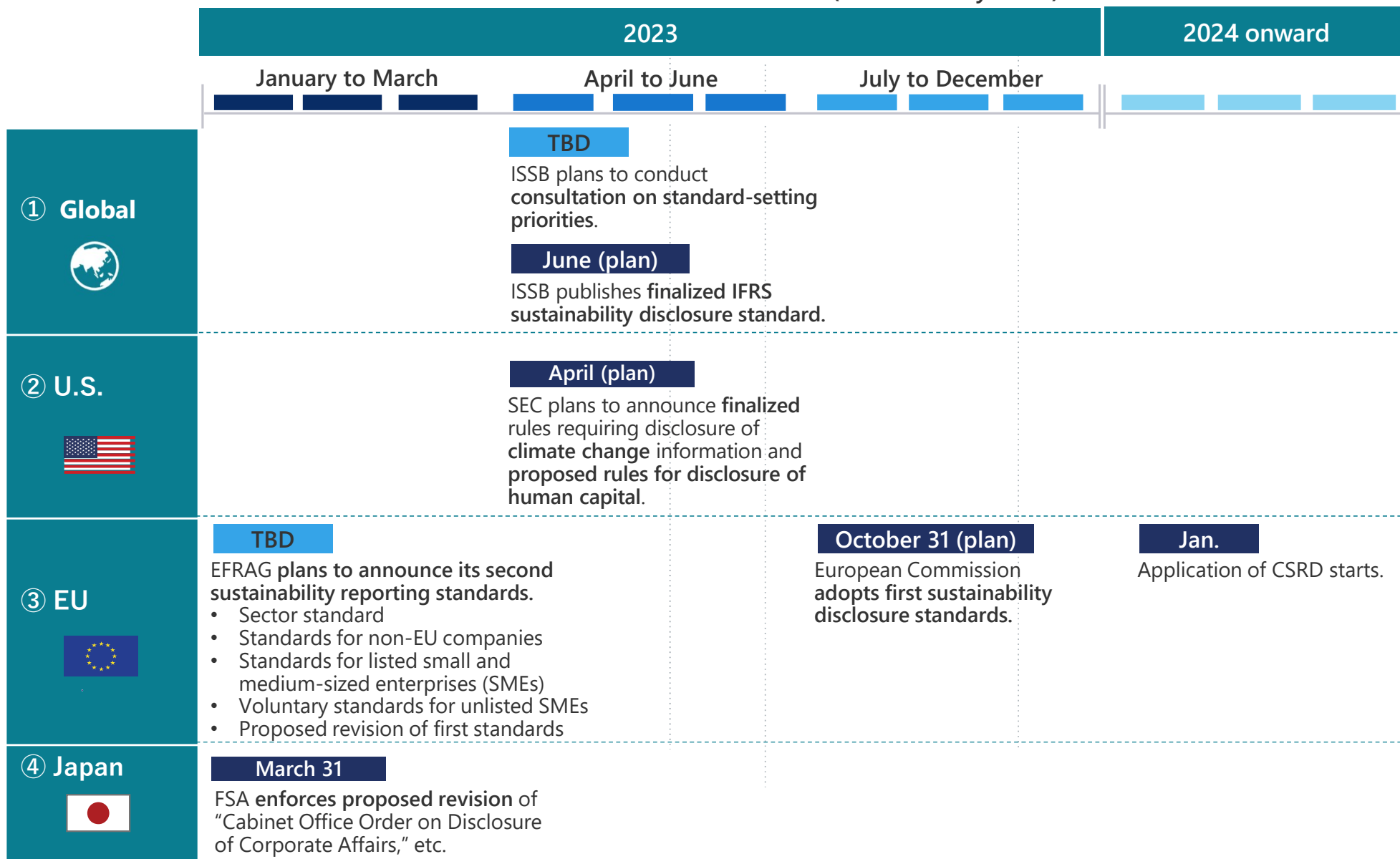
- 2-1. Response to Japanese and Overseas Regulations for Non-financial Information Disclosure
- 2-2. Presentation of Originality in Integrated Report
- 2-3. Specific Manners of Disclosure on Human Capital



Appendix 2-1. Response to Japanese and Overseas Regulations for Non-financial Information Disclosure

Regulatory Trend Survey: Non-Financial Information Disclosure in Japan and Abroad

Schedule for the development of international and major countries' laws and regulations on non-financial information disclosure (as of January 2023)



Regulatory Trend Survey: Overview of ISSB

Overview of ISSB (as of January 2023)

Background and basic information	<p>The Technical Readiness Working Group (TRWG) under the IFRS Foundation has established the International Sustainability Standards Board (ISSB) with the goal of developing internationally uniform and comparable sustainability disclosure standards. At the same time, the TRWG announced two prototypes (draft standards), IFRS S1 "General Requirements for Disclosure of Sustainability-related Financial Information" and IFRS S2 "Climate-related Disclosures."</p>		
Structure of guidelines	<ul style="list-style-type: none"> • Theme- and industry-specific disclosure requirements are defined under the general disclosure requirements (IFRS S1). • Climate-related Disclosures (IFRS S2) have already been published for theme-specific disclosure requirements. Water resources, biodiversity, human rights, labor management, and community relations are also under consideration. • Industry-specific disclosure requirements and indicators are set for 68 industries in 11 sectors. 		
Target company	Companies that prepare general-purpose financial statements	Enforcement schedule	To be finalized in the first half of 2023 and enacted one by one.
Disclosure media	General-purpose financial reports of the reporting entity (Japan: annual securities reports, etc.)	Availability of warranty	<ul style="list-style-type: none"> • IAASB is discussing development of standards. An exposure draft will be approved by September 2023 and finalized between December 2024 and March 2025.
Disclosure item and details	<ul style="list-style-type: none"> • S1/S2: Information on sustainability-related risks and opportunities important for companies is disclosed for core content (governance, strategy, risk management, and indicators and targets). • S2: Scope 1/2/3 (total volume and intensity) as cross-industry indicators, quantitative analysis of assets and business activities affected by risks and opportunities (value and percentage), ICP, finance and investment, executive compensation 		

Impact on Japanese companies

- **Reporting concurrency:** Concurrent reporting of sustainability-related financial disclosure and financial statements is proposed. Concurrent reporting at the time the release of either document is required, whichever is earlier, could significantly increase the burden on companies. Concerns about timeliness of disclosure would also arise.
- **Scope 3 disclosure will be mandatory.** There are concerns about the workload for data collection, timing gap with Scope 1/2 for data compilation, etc.

Regulatory Trend Survey: Composition of ISSB Exposure Draft

Composition of the ISSB Exposure Draft

General requirements

[IFRS S1] Sustainability-related financial information

Objective (Paragraphs 1-7)

To require companies to disclose information about significant sustainability-related risks and opportunities that would assist users of general-purpose financial reports in assessing corporate value and making decisions about whether to provide resources to the company.

Scope (Paragraphs 8-10)

Consistent with the four thematic areas of disclosure in the TCFD recommendations

Core content (Paragraphs 11-35)

- Governance
- Strategy
- Risk management
- Metrics and targets

General features (Paragraphs 36-92)

- Reporting entity
- Connected information
- Fair presentation
- Materiality
- Comparative information

- Frequency of Reporting
- Location of information
- Sources of estimation and outcome uncertainty
- Errors
- Statement of compliance

Appendix

A Defined terms
 B Effective date
 C Qualitative characteristics of useful sustainability-related financial information

Theme-specific requirements

[IFRS S2] Climate-related disclosure

Objective (Paragraphs 1-7)

Climate change-related risks to which the company is exposed and climate change-related opportunities available to the company are covered.

Range (Paragraph 3)

Governance (Paragraphs 4-6)

To require scenario analysis of climate-related risks

Strategy (Paragraphs 7-15)

- Risks and opportunities identified by the company
- Impact on the company's business model and value chains
- Impact on the company's strategy and decision-making, including intention planning
- Corporate financial affairs (financial policy, financial performance, and financial planning)
- Resilience of corporate strategy

Risk management (Paragraphs 16-24)

To require disclosure of Scope 1, 2, and 3 emissions based on the GHG protocol as a cross-industry indicator

Metrics and targets (Paragraphs 19-24)

Appendix

A Defined Terms
 B Industry-based disclosure requirement
 C Effective date

Present specifications for disclosure categories and indicators for 11 sectors and 68 industries based on the SASB standards

Regulatory Trend Survey: Overview of Proposed U.S. Climate Change Disclosure Rules

SEC: Overview of Proposed Rules Requiring Disclosure of Climate Change Information

Background and basic information	In February 2010, the SEC issued “Commission Guidance Regarding Disclosure Related to Climate Change,” an interpretive bulletin for disclosure in Regulation S-K. Since the inauguration of the Biden administration in January 2021, discussions rapidly developed in light of the recent momentum in requiring climate change disclosure. In March 2021, the SEC publicly requested opinions on the revision of climate-related disclosure. As a result of discussions based on the opinions collected, the SEC proposed rule changes requiring companies to disclose certain climate-related information in March 2022.		
Structure of guidelines	<ul style="list-style-type: none"> The SEC added the proposed rule requiring disclosure of climate change information announced in March 2022 to the Commission Guidance Regarding Disclosure Related to Climate Change in February 2010, an interpretive bulletin for disclosure in Regulation S-K. The proposed rule requiring disclosure of climate change information proposes rules for (i) details of the proposed disclosure, (ii) presentation of the proposed disclosure, (iii) assurance on the disclosure of Scope 1 and 2 emissions, and (iv) phase-in period and adaptation of the proposed disclosure. 		
Target company	SEC registered companies (U.S. and non-U.S. companies)	Enforcement schedule	<ul style="list-style-type: none"> Phase-in from fiscal year 2023 Scope 3 is applied one year later. Small reporting companies will be exempted.
Disclosure media	General-purpose financial reports of the reporting entity (Japan: annual securities reports, etc.)	Availability of warranty	Limited guarantee for Scopes 1 and 2 is required for companies that meet certain requirements.
Disclosure item and details	<ul style="list-style-type: none"> Non-financial information (Regulation S-K): (i) governance, (ii) impact on business, strategy, and prospects, (iii) risk management, (iv) transition plan, (v) scenario analysis, (vi) ICP, (vii) GHG emissions (Scopes 1 and 2), (viii) GHG emissions (Scope 3), (ix) target and ultimate objective financial information (Regulation S-X): (x) impact on financial statements non-financial information is disclosed with a climate-related disclosure section. There is safe harbor for forward-looking information such as scenario analysis and GHG emissions (Scope 3 only). 		

Impact on Japanese companies

- Companies that meet certain requirements* are required to have a limited third-party guarantee for Scopes 1 and 2.
- Since financial information disclosure falls within the scope of internal control over financial reporting and existing financial statement audits by accounting auditors, appropriate internal control needs to be in place to ensure the accuracy and completeness of data, especially with regard to monetary effects.

* Accelerated Filers (companies with market capitalization between US\$75 million and less than US\$700 million) and Large Accelerated Filers (companies with market capitalization of US\$700 million or more)
(Source: SEC press release URL: <https://www.sec.gov/news/press-release/2022-46>)

Regulatory Trend Survey: Overview of Disclosure Items in U.S. SEC Proposed Rules

SEC: Proposed Rule Requiring Disclosure of Climate Change Information: Overview of Disclosure Items

Non-financial information: Listed under a separate heading in the non-financial disclosure (Regulation S-K)	
Governance	<ul style="list-style-type: none"> Oversight and governance of climate-related risks by the Board of Directors and management
2 Impact on business, strategy, and outlook	<ul style="list-style-type: none"> Impact of climate-related risks determined to have (or likely to have) a significant effect on a company's business and consolidated financial statements (from the short-, medium-, and long-term perspectives). Impact of climate-related risks on a company's business, strategy, and prospects
3 Risk management	<ul style="list-style-type: none"> Corporate process of identifying, assessing, and managing climate-related risks The extent to which these processes are integrated into the company's company-wide risk management system and process
4 Transition plan	<ul style="list-style-type: none"> If a transition plan is developed as part of a climate-related risk management strategy, a description of the transition plan (including indicators and targets for identifying and managing physical and transition risks)
5 Scenario analysis	<ul style="list-style-type: none"> If a scenario analysis is conducted to assess the resilience of a business strategy to climate-related risks, the scenarios, parameters, and assumptions used, analytical choices made, and key financial impacts expected
6 Internal carbon pricing	<ul style="list-style-type: none"> If internal carbon pricing is used, an explanation of pricing and how it is set up
7 GHG Emissions (Scope1, 2)	<ul style="list-style-type: none"> GHG emissions for each of Scopes 1 and 2 (GHG emissions are disclosed in an absolute amount and intensity (per unit of economic value or per unit of production) with a breakdown and total amount for each gas without offsetting)
8 GHG emissions (Scope3)	<ul style="list-style-type: none"> GHG emissions in Scope 3 (disclosed in the absolute amount and intensity without offsetting) if Scope 3 is important or if targets or goals are set for GHG emissions including Scope 3
9 Goals and end goals	<ul style="list-style-type: none"> If climate-related targets and end goals are set <ul style="list-style-type: none"> Activities and emissions included in the targets, definition of timeline, and interim targets How the company will achieve its targets and end goals Relevant data (showing the progress of the company in achieving its targets and end goals and the status of achievement) updated every fiscal year Information on the carbon offset or renewable energy certificates (RECs) (amount of carbon reduced through the offset or renewable energy generated from RECs) if carbon offset or RECs are used to achieve the targets and end goals
Financial information: Included as a note to the financial disclosure (Regulation S-X)	
10 Impact on the financial statements	<ul style="list-style-type: none"> Effects of climate-related phenomena (serious climatic events such as floods, droughts, wildfires, extreme temperatures, sea level rise, and other natural conditions) and transition activities on consolidated financial statement items and accounting estimates and assumptions in financial statements

(*) Opportunities related to climate change can be disclosed with respect to governance, strategy, and risk management. Each company is required to define short, medium, and long term for itself.

Regulatory Trend Survey: Overview of EU Corporate Sustainability Reporting Directive

EC: Overview of Corporate Sustainability Reporting Directive (CSRD)

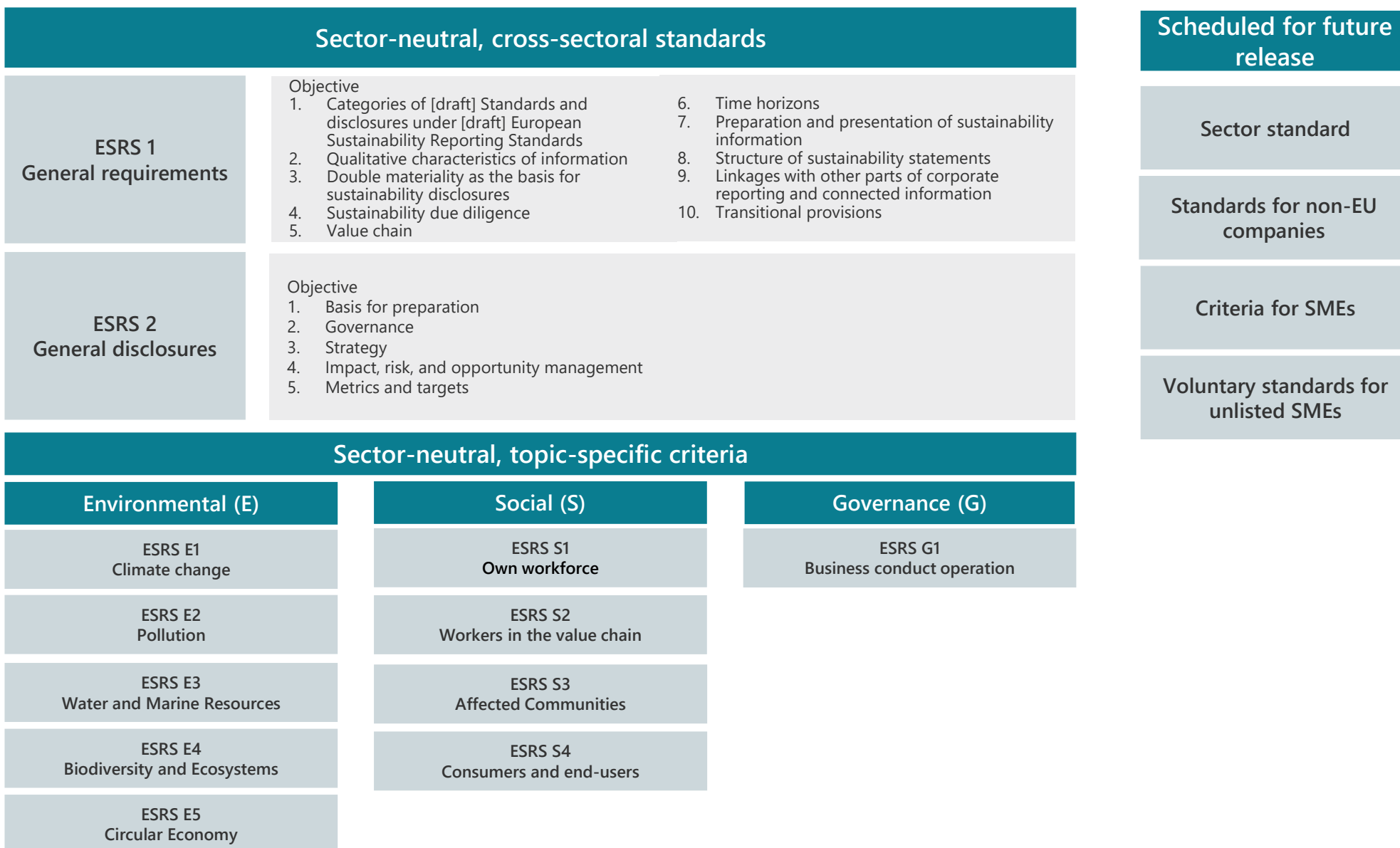
Background and basic information	<ul style="list-style-type: none"> • CSRD: announced in April 2021 as an amendment to the previous Non-Financial Reporting Directive (NFRD) as part of the policy package on sustainable financing in the European Green Deal Formally adopted by the European Parliament and the European Council in November 2022 and entered into force on January 5, 2023. The goal is to harmonize sustainability information with financial information and to expand the number of companies covered by the report (approximately 49,000 companies). • ESRS (draft): submitted to the EC by the European Financial Reporting Advisory Group (EFRAG) in November 2022 as a standard for the disclosure of sustainability information based on the CSRD ESRS will be adopted by the EC in June 2023. 		
Structure of guidelines	<ul style="list-style-type: none"> • CSRD requires a company to comply with the concept of “double materiality” and disclose both “environmental and social materiality” and “financial materiality” in the management report. • Reporting standards (sustainability information, reporting areas, industry-specific information, etc.) are defined in the ESRS based on the provisions of the CSRD. A cross-sectoral standard (ESRS 1-2) and topic-specific standards (ESRS E1-5, S1-4, and G1) were published as the first drafts. Future releases of sector-specific, SME, and non-European company standards are planned. 		
Target company	<ul style="list-style-type: none"> • All listed companies in the EU and large companies that meet two of the following criteria: 250 or more employees, net sales of 40 million euros or more, or total assets worth 20 million euros or more • EU subsidiaries of non-EU companies are included. 	Enforcement schedule	<ul style="list-style-type: none"> • Phased in from fiscal years beginning on or after January 1, 2024
Disclosure media	Management report in annual reports	Availability of warranty	Limited warranty. Considering moving to a reasonable guarantee with a higher level of assurance in the future.
Disclosure item and details	<ul style="list-style-type: none"> • Sustainability information disclosure has four components (all sectors, individual sectors, individual entities, TR: EU taxonomy) • All-sector and individual-sector standards are specified by the ESRS. 		

Impact on Japanese companies

- **Extraterritorial application:** Non-EU groups with significant net sales in the EU market will be required to report in accordance with ESRS or equivalent third-country standards from FY2028.
- **Double materiality:** Disclosure based not only on financial materiality but also on environmental and social materiality is required.
- **Electronic reporting:** Reports must be submitted in electronic format (XHTML) along with financial information

Regulatory Trend Survey: Composition of the European Sustainability Reporting Standards

Composition of the European Sustainability Reporting standards (ESRS)



Regulatory Trend Survey: FSA Proposed Revision of “Cabinet Office Order on Disclosure of Corporate Affairs,” etc.

Overview of FSA Proposed Revision of “Cabinet Office Order on Disclosure of Corporate Affairs,” etc.

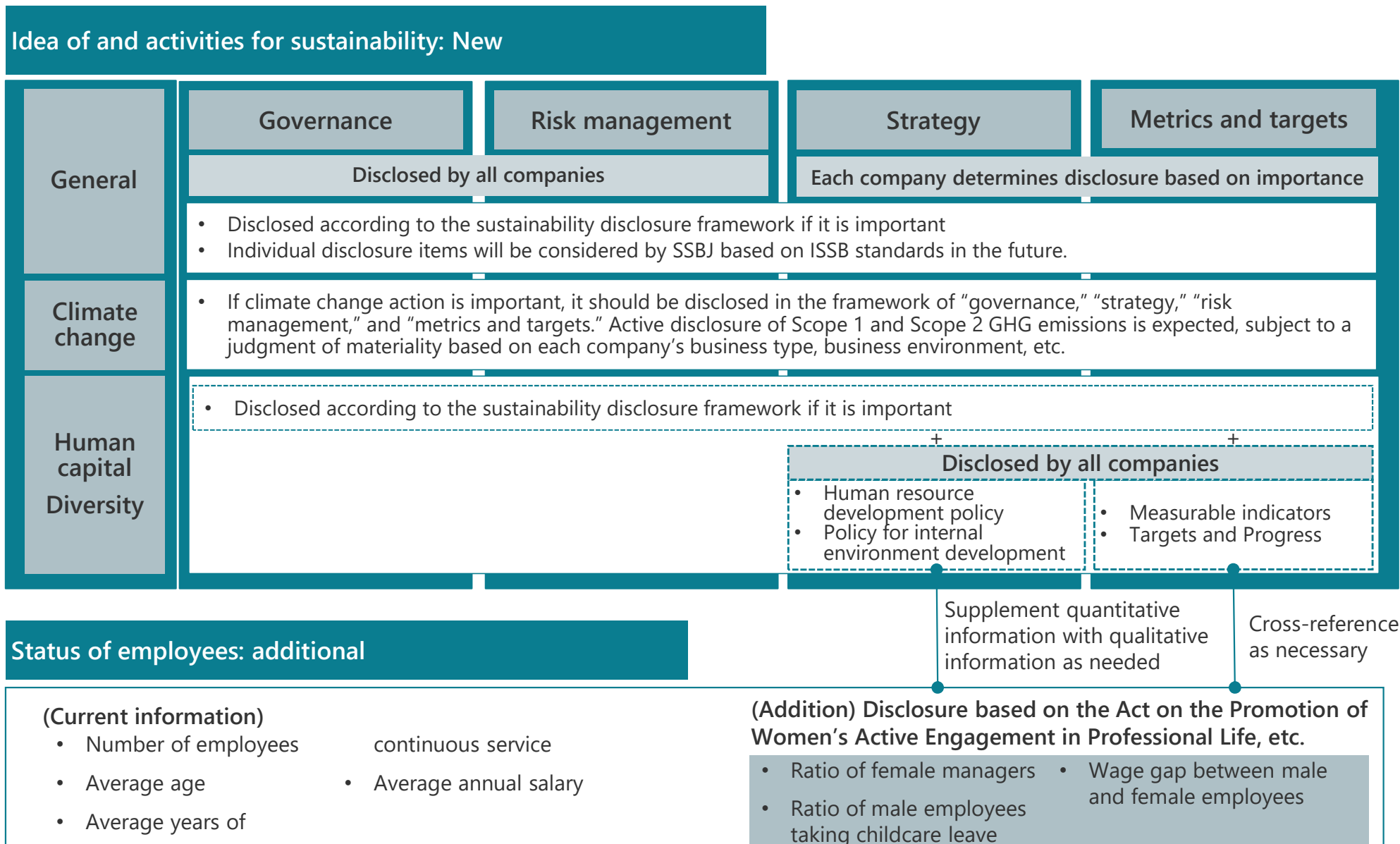
Background and basic information	<ul style="list-style-type: none"> Based on the recommendation in the report of the Working Group on Corporate Disclosure of the Financial System Council that systems for the disclosure of corporate activities for sustainability and the disclosure of corporate governance should be developed, information included in annual securities reports and securities registration statements has been revised. Revised provisions are scheduled to be applied from the annual securities reports, etc. for fiscal years ended on or after March 31, 2023. 		
Structure of guidelines	<ul style="list-style-type: none"> Disclosure of corporate initiatives on sustainability: (1) sustainability in general, (2) human capital and diversity, and (3) ideas and approach to desirable disclosure of sustainability information Disclosure on corporate governance 		
Target company	<ul style="list-style-type: none"> Companies that issue annual securities reports and securities registration statements 	Enforcement schedule	<ul style="list-style-type: none"> Scheduled to be applied from the annual securities reports, etc. for fiscal years ended on or after March 31, 2023
Disclosure media	Annual securities reports, securities registration statements	Availability of warranty	Voluntary (however, the DWG of the Financial Services Agency in December 2022 mentioned the possibility of seeking assurance of such information)
Disclosure item and details	<ul style="list-style-type: none"> Sustainability: (1) mandatory: concepts and initiatives, “governance,” and “risk management”; optional: “strategy” and “metrics and targets,” (2) mandatory: policy for human resource development including ensuring diversity of human resources, policy for improvement of internal environment, indicators related to these policies, “strategy,” and “metrics and targets”; optional: ratio of female managers, ratio of male employees taking childcare leave, and gender wage gap; (3) optional: response to climate change, GHG emissions, etc. Corporate governance: overview of corporate governance, status of audits, stock holdings, etc. 		

Impact on Japanese companies

- **Disclosure of human capital is under consideration.** Need to respond to it while keeping a close eye on developments by regulators.

Regulatory Trend Survey: Composition of FSA Proposed Revision of “Cabinet Office Order on Disclosure of Corporate Affairs,” etc.

Composition of FSA Proposed Revision of “Cabinet Office Order on Disclosure of Corporate Affairs,” etc.



Questionnaire Given at the Regular General Meeting in January

Survey questions

For issuers

1. What is the status of your company's response under its current system? (choose one)

Choices: (i) fully prepared, (ii) building a system, (iii) in the information-gathering stage (regulatory trends, trends of other companies, etc.), (iv) plan to begin consideration at a later date

2. What challenges do you face in dealing with the situation? (choose all that apply)

Choices: (i) learning and understanding laws and standards, (ii) securing personnel necessary for responding, (iii) developing a system for collecting information related to CO₂ emissions and human capital (introduction of a system, global coordination of a system, etc.), (iv) seeking the understanding and cooperation of management and related departments, (v) understanding the scope and level of the detail of information required in dialog with investors, etc.

For institutional investors

1. Are the mandatory and standardized disclosure requirements sufficient for assessing the long-term value and future financial impact of a portfolio company? (choose one)

Choices: (i) sufficient, (ii) not sufficient

2. What information do you consider a priority/what additional information do you need? (Free-form answer)

Issuers and institutional investors

Please write any opinions or requests that you have, that you would direct to regulatory authorities or standard setters. (Free-form answer)

Responses to the Questionnaire Given at the Regular General Meeting in January

Responses (excerpts, some slightly modified)	
Issuer	<ul style="list-style-type: none"> • Information that will lead to future corporate value is needed. For S (Society + α) in particular, unique indicators for each company are needed, but I think unique items disclosed by individual companies can be kept to a minimum because the information that must be disclosed should be highly comparable with the information disclosed by other companies, something like a lowest common denominator. • Companies tend to make the disclosure of mandatory items an objective in itself. Therefore, I am concerned that the company may waste resources (time, money, and effort) thinking about the information that leads to its true value. • I believe that a principles-based standard is preferable to a detailed rule-based standard because an increase in compulsory performance (and a decrease in flexible performance) may result in a loss of originality in corporations' disclosures. • When the company has subsidiaries in multiple countries or regions, complying with the regulations in each area increases the burdens on the company. I request that the company take transitional measures, etc. • Please avoid making the value creation story unclear by adding mandatory items. • Uniform standards and the reasonable timing of disclosures (considering data collection and organization) are desirable.
Investors	<ul style="list-style-type: none"> • I hope to see greater coordination between regulators and standard-setting bodies, which make laws and standards, to enable as much uniformity and consistency as possible. • We need to have a deeper discussion about how large of a role we expect investors to play and the areas in which policy authorities should be responsible for making rules. I believe that drawing a line between hard rules and soft rules in terms of regulations and standards is also an important issue. • As the information disclosed is improved, the analysis burdens on individual companies increase, and the percentage of information that is analyzed by vendors and the percentage of companies that rely on vendors for ESG assessments also increase. In this context, there is a growing tendency to rely on "alternative data" other than the information disclosed by companies. A lack of a unified algorithm for ESG assessment is likely to make ESG assessment increasingly disorganized. I hope that the disclosure of ESG assessment logic, etc. will become mandatory and other measures will be taken. • The information for the systematization of the (impact) path from non-financial to financial information is needed. The information should be selected by backcasting from the objective (financial value).
Other: Opinions on the study group	<ul style="list-style-type: none"> • As the department that handles disclosure, I am concerned that disclosure media standards are different in Japan, Europe and the US. More specifically, many companies in Japan probably make four types of reports — securities reports, integrated reports, sustainability reports, and their website. However, the division of the roles of these reports is slow to be established inside companies. There should be a forum for discussing this issue with investors, issuers and consultants familiar with overseas regulatory trends.



Appendix 2-2. Presentation of Originality in Integrated Report

Questionnaire Given at the Regular General Meeting in February

Survey questions

For issuers

1. When preparing an integrated report, what efforts do you engage in to express the uniqueness of your company and what issues do you see as challenges? (Free-form answer)
2. What sections of your company's integrated report does your company hope that the reader will read particularly carefully? (choose all that apply)
Choices: (i) top management's message, (ii) value creation story, (iii) review of the past, (iv) medium-term management plan, (v) strategy for each business unit, (vi) financial strategy, (vii) specification of material issues, (viii) sustainability initiatives, (ix) human resource strategy, (x) digitalization strategy, (xi) intellectual property strategy, (xii) corporate governance, (xiii) other (free response)
3. If "(xiii) other" is selected in question 2 (free response)

For institutional investors

4. Where do you read about the originality (uniqueness) of a company in its integrated report? (choose all that apply)
Answer choices: (i) top management's message, (ii) value creation story, (iii) review of the past, (iv) medium-term management plan, (v) strategy for each business unit, (vi) financial strategy, (vii) specification of material issues, (viii) sustainability initiatives, (ix) human resource strategy, (x) digitalization strategy, (xi) intellectual property strategy, (xii) corporate governance, (xiii) other (free response)
5. If "(xiii) other" is selected in question 4 (free response)

Responses to the Questionnaire Given at the Regular General Meeting in February (i)

Responses (excerpts, some slightly modified)	
Focus of issuers	<ul style="list-style-type: none"> • Initiatives that embody the company’s corporate philosophy and vision are expressed to the maximum extent possible in a specific manner. • Enable the reader to deepen their understanding by explaining the company’s distinctive activities in a feature article using considerable space in the report or by posting commentary by the executives responsible for each department. • We combined the integrated report and sustainability report and issued an integrated sustainability report. We focused on communicating our sustainability management centering on telecommunications which was set forth in the new medium-term management plan more clearly to stakeholders. • In the integrated report, we expressed the company’s uniqueness by developing a story that included a value creation cycle starting from the superposition of the company’s unique My Purpose and the company’s Purpose in the value creation process. • We obtain and include messages from business units and executives about the connections between the sustainability goals and business. • Value creation process, material issues, and human capital story • We explain how the business model itself differentiates the company from others, its DNA, strengths and the thoroughness of its philosophy when operating its business model, i.e., money-making mechanisms, when achieving the sustainability of the company and society.
Issuer challenges	<ul style="list-style-type: none"> • We want to convey our message as clearly as possible, including through design, but it is not easy to do so. • Weak messages from management, which must be the backbone of the organization, are a problem. • The intent of the production of the report is not fully understood within the company. • A challenge is separating and connecting the information in integrated reports and on websites. • Due to a lack of disclosure of information about each ESG item, we should work to collect and disclose information moving forward.
Institutional investors’ reading of the company’s character (other)	<ul style="list-style-type: none"> • We note the ingenuity in the explanation of financial and non-financial connectivity. An example is the logic tree of a pharmaceutical company introduced by Dr. Kitagawa.

Responses to the Questionnaire Given at the Regular General Meeting in February (ii)

Responses (excerpts, some slightly modified)

Issuers and Investors Opinions on the “essence needed for an appealing integrated report” and the “implications from the comparative analysis of Japanese, European, and US integrated reports”

- External perspectives **such as responses based on demands from society, social change and social forecasts (scenarios)** may be included in the value creation story, but they **could be itemized**.
- The summary of the key differences between Japanese and Western companies, which is something we have felt when analyzing companies, was meaningful.
- My impression is that in the **CEO message, Japanese CEOs talk a lot about conceptual issues** (I think the fundamental problem is that there are few “professional” CEOs). Change is not easy, in part due to Japanese and corporate culture.
- **Japanese companies tend to emphasize their strengths (e.g., superior technological capabilities in the manufacturing industry)**, and may be lacking compared to Western companies when it comes to strategies for responding to a rapidly changing business environment.
- From the viewpoint of an appealing integrated report, two points are important: **(1) consistency with the corporate culture is important** (methods such as those used by Nissin Foods HD are effective only if the corporate culture exists, and it is meaningless to imitate only their form), and **(2) it is difficult to attract the reader’s interest if descriptions are biased toward only the good-looking and good-sounding ones**.
- The opinion, “I don’t think foreign countries are necessarily better, but **their emphasis in creating value creation stories is very different,**” is interesting.
- Going back to basics, it is important to promote “**uniqueness, individuality, and barriers to entry**” from a long-term perspective to be selected as an investment destination by active investment managers.
- From the perspective of institutional investors, the issuer’s medium-term management plan is positioned as a milestone toward achieving its **aspirations and long-term vision**, and **emphasis is placed on PDCA-like disclosure**, including retrospective analyses.



Appendix 2-3. Specific Manners of Disclosure on Human Capital

Questionnaire Given at Regular General Meeting in March

Survey questions

Essence of human capital disclosure

For issuers

1. Your company's responses to disclosure of human capital information

1.1 Information disclosed from the following 19 categories (multiple choice)

Answer choices: (i) leadership, (ii) human resource development, (iii) skills/experience, (iv) engagement, (v) recruitment, (vi) retention, (vii) succession, (viii) diversity, (ix) non-discrimination, (x) parental leave, (xi) mental health, (xii) physical health, (xiii) safety, (xiv) labor practices, (xv) child labor/forced labor, (xvi) wage equity, (xvii) benefits, (xviii) union relations (xix) legal compliance/ethics

1.2 Information other than the above that is disclosed in relation to human capital and the reasons for the disclosure (free answer)

2. Select the issues you feel challenging in human capital disclosure (multiple choice)

Answer options:

- (i) Human capital investment is not clearly positioned in the management strategy.
- (ii) Due to the characteristics of the industry, some types of capital are more important than human capital (manufacturing capital, financial capital, etc.).
- (iii) Unable to clearly define what constitutes human capital and human capital investment.
- (iv) Human capital investment is difficult to properly quantify. There are no standardized criteria or methods for measurement or disclosure.
- (v) Measurement and disclosure is a heavy burden.
- (vi) Other (Specify in the space below)

For institutional investors

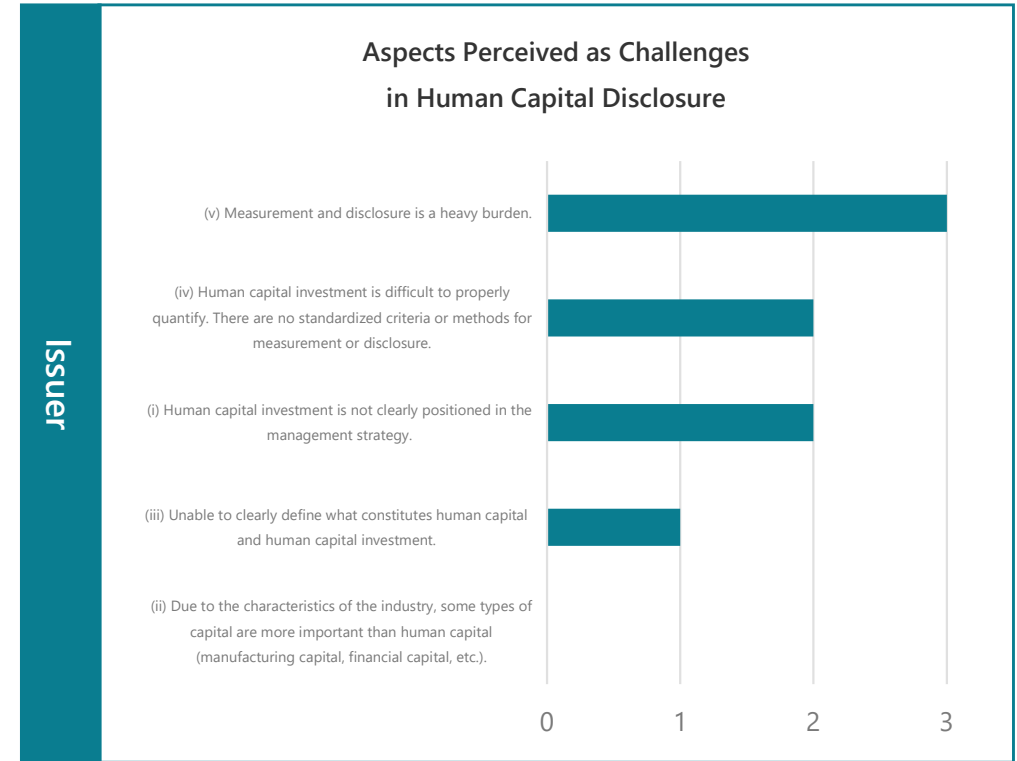
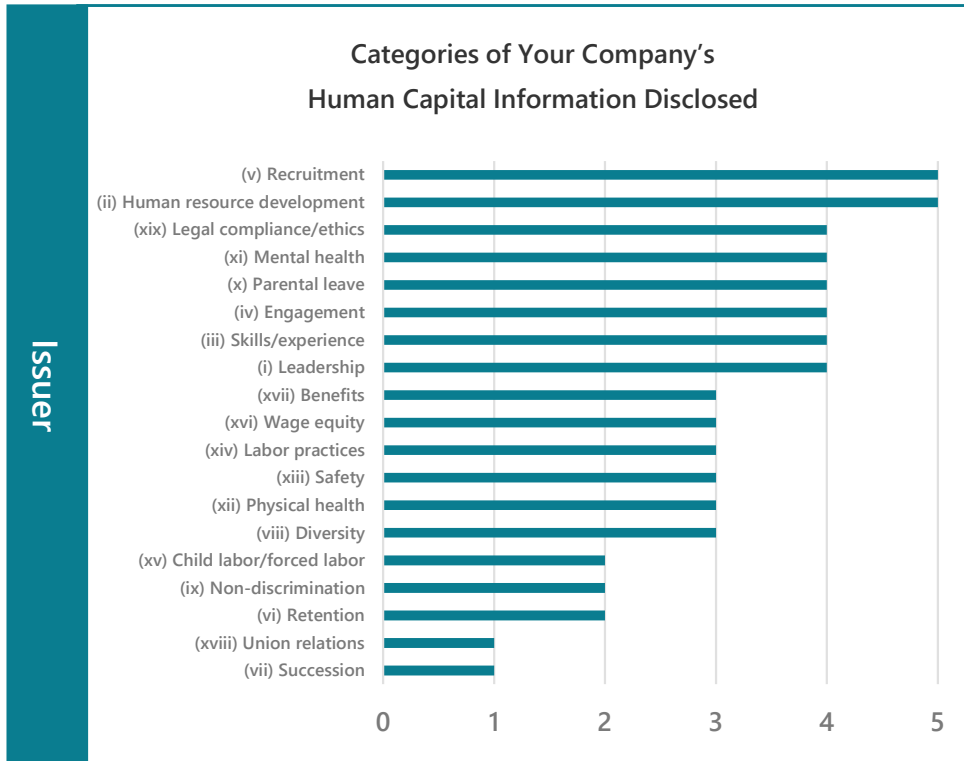
3. What human capital-related information do you consider important in assessing corporate value?

3.1 Qualitative and quantitative information you would like the issuer to disclose as a priority and why (free answer)

3.2 Good examples of human capital disclosure in Japan or overseas and reasons for them (free answer)

Responses to Questionnaire Given at Regular General Meeting in March (i)

Categories and Issues of Human Capital Disclosure



[free answer]

- To demonstrate impact on financial value
- It may be difficult to disclose information about overseas subsidiaries in global companies because the systems differ from country to country.

- Among the 19 human capital disclosure categories, the disclosure of recruitment and human resource development is ahead of the others.
- Disclosure items related to human rights (child labor/forced labor, non-discrimination) tend to be emphasized in Europe and the U.S., but disclosure of such information has not yet be in progress in Japanese companies.
- The high burden for measurement and disclosure is currently recognized as challenges in human capital disclosure.

Responses to Questionnaire Given at Regular General Meeting in March (ii)

Responses (excerpts, some slightly modified)

For institutional investors
Human capital-related information that is important in evaluating corporate value
Qualitative and quantitative information the issuer is desired to disclose as a priority and why

- I think it would be a meaningful report if the issuer could explain in a logical manner how the individual categories of human capital management (personnel development, diversity, etc.) are effective for each strategy. Although it is difficult to quantify the effect, I believe that a logical qualitative explanation will suffice.
- METI's 19 items are only a necessary condition, and it would be helpful for our analysis if not only the disclosure of quantitative and qualitative information about each item, but also a **clear explanation of the link that these items and the organization, etc. have with the strategy is provided.**
- **Succession plan that includes not only the management but also the level of employees.** For example, an explanation about the mechanisms and measures used to select and train mid-level executives and future managers should be useful.
- The impact of human capital-related information on financial value is a very important issue, and while I think that, for example, "logic trees" are very useful, I think it is very important to point out that even something like sensitivity analysis with specific numerical values is not essential (some people think that analysis is the job of investors).
- I think it is important, first, whether a "logic tree" type of organization has been established rather than cases of individual pieces of information. Notable examples include **Chugai Pharmaceutical and Sompo's** attempts at impact paths.
- **Emphasis is placed on human resources development directly related to an increase in value** What skills do the people we train have to achieve our ideal vision? How do we train highly specialized senior staff in the company? How do we manage highly specialized human resources (e.g., servant leadership)? etc.
- Explanation and disclosure that integrates employee engagement and the turnover ratio to measure loyalty, set goals, and present methods for measuring the effectiveness of initiatives.
- **Consistency of the human resources strategy with the management strategy and trends in various disclosed data** Improvement of data categories, especially for understanding not only from data selected by the company, but also from other disclosed data (e.g., for diversity strategy, gender hierarchy, total hours worked, and pay gaps, etc.)

Responses to Questionnaire Given at Regular General Meeting in March (iii)

Responses (excerpts, some slightly modified)

For institutional investors
Human capital-related information that is important in evaluating corporate value
Qualitative and quantitative information the issuer is desired to disclose as a priority and why

- **Consistency of the human resources strategy with the management strategy and trends in various disclosed data** Improvement of data categories, especially for understanding not only from data selected by the company, but also from other disclosed data (e.g., for diversity strategy, gender hierarchy, total hours worked, and pay gaps, etc.)
- We believe that legal disclosures increase side-by-side comparability, and that what we want to evaluate and emphasize from a risk and going-concern perspective is the improvised performance that leads to corporate and future financial value. **It is important to combine quantitative information with qualitative information (stories) to supplement it**, and I hope that, in the future, there will come a time when it can be expressed in causal terms to a certain degree.
- I think it is **realistic to fill how to combine and use indicators with dialogue rather than individual indicators**. Of course, it is best if it is expressed in connectivity with the value creation story. **As a second best, therefore, it is desirable that human capital investment and human resource development derived from purposes and long-term vision are discussed**, and I believe that **Sojitz** is recognized for this. **ASICS** is also commendable in expressing the “human capital ecosystem” derived from its founding philosophy. However, KPI identification is still in the early stages of development, so we are looking forward to more advanced systems.
- Evaluation systems for employees and the organization
- **As for qualitative information, I would like the issuer to disclose the concept of human resources (portfolio) for the ideal vision and long-term vision. Then, as a quantitative indicator, I would like the issuer to disclose an engagement index that indicates whether employees share the “ideal vision” and the “long-term vision.”**
- “The concept of a human resource portfolio in response to key talent management (method and process of selecting personnel for key positions) and business portfolio management.”
- I think **Sompo Holdings’** human capital impact path is excellent as it ties in with Sompo’s purpose and corporate value. This impact path **ends with Sompo’s purpose. Conversely, I felt that it would be effective to create and disclose a (reverse) logic tree starting with the purpose and indicating what kind of human resource portfolio is necessary.**

Responses to Questionnaire Given at Regular General Meeting in March (iv)

Features	Opinions of Issuer	Opinions of Institutional Investors, etc.
<p>Challenges and reasons for human capital disclosure</p>	<ul style="list-style-type: none"> • In human capital disclosure, addressing individual indicators and KPIs leads to the question, “so what?” • The challenge is that although we are disclosing each one, there are areas that are not necessarily linked to a strategy. • “E (environment)” in ESG is easy to connect to the financial impact, from which a story can be easily created; however, how to connect human capital disclosure to a strategy is a difficult question. • The difficulty of the individual items is not the issue; the challenge is to link them to a strategy and explain them in a narrative. • The biggest challenge is to connect and strategically disclose each of the human capital-related initiatives. 	<ul style="list-style-type: none"> • More important than the individual disclosure items themselves is how they are connected. • Although the individual disclosure items are related to individual abilities, etc., and are close to the Western way of thinking, a serious problem is that altruistic behavior, which is the strength of Japanese human capital, does not appear when listening to the discussion of human capital. • Room for including the elements of combination should be left, which should be treated as improvised performance. Investors can also see the performance of teamwork as well as individual abilities. • Evaluation systems in general are important. While the transparency of executive compensation systems is increasing, how the evaluation systems for employees (managers and general manager class) is considered is important. I would appreciate it if the issuer could show us the personnel management system.
<p>Innovations in human capital disclosure</p>	<ul style="list-style-type: none"> • The basic premise is that it leads to corporate value. We are aware of the story to tell it. • First, we create a story, and then we create impact by constantly discussing what indicators are appropriate for that story with the Sustainability Department and Human Resources Department. • Regarding the job-based personnel system, we are making efforts to have Directors talk about the background of the system in the report and show what they are trying to achieve and where it is leading. • Our corporate philosophy includes respect for the individual and the mobilization of power, and we believe it is important to communicate this. • Based on the corporate philosophy, the company is promoting the disclosure of human capital in a way that is connected to its strategy. 	<ul style="list-style-type: none"> • We would greatly appreciate disclosure that clearly shows how an increase in value is positioned in the corporate strategy. • Risk management is not a major focus in Japan, but human rights are an important perspective globally, so disclosure that shows how human rights risks have been reduced in the strategy would be meaningful. • We would like to see a broad disclosure of global human rights and basic aspects in human capital. • (Disclosure related to DX, etc.) The viewpoint that the level of confidence should be increased in terms of whether the human capital is enhanced in specific business strategies and whether new businesses can be established and operated.

Appendix 3: Study sessions

Activities at Study Sessions

Time	Lecture theme (Speaker)	
2022 Jul.	21st session	"Relationship Between E and S Elements and Financial Value" (Prof. Nobuyuki Isagawa, Graduate School of Management, Kyoto University)
Sep.	22nd session	"Five Steps to Realizing SX - An Introduction to SX Practice." (Mr. Mitsunobu Ando, President and Sustainability Consultant, Association for Sustainability Communication)
	23rd session	"Toward Transforming the Way We Earn through Sustainability Transformation (SX)" (Corporate Accounting, Disclosure, and CSR Policy Office, Economic and Industrial Policy Bureau, Ministry of Economy, Trade, and Industry (METI))
Oct.	24th session	"Responses in Consideration of Sustainability Disclosure Regulations in the EU" (Mr. Tomokazu Sekiguchi, KPMG AZSA LLC)
Dec.	25th session	"Public Disclosure of Corporate Information with Consideration for Machine Readability" by Mr. Nicholas Benes, The Board Director Training Institute of Japan
	26th session	"Toward the End of 2022: What I Think about after Writing a Series of Articles in a Professional Journal." Dr. Tetsuo Kitagawa (Aoyama Gakuin University/Tokyo Metropolitan University)
2023 Jan.	27th session	"Creating Sustainable Corporate Value through Human Resource Strategy - Human Capital Management Practices and Disclosure Strategies of the Mitsui Chemicals Group (Mr. Takumi Tsuji, Group Leader, Talent Management & GPA Group, Global Human Resources Division, Mitsui Chemicals, Inc.)
Feb.	28th session	"GPIF's ESG Investment and Stewardship Activities" by Mr. Kenji Shiomura, Chief Strategist and ESG Team Head, and Ms. Mari Murata, Head of Stewardship, Private Market Investment Department, GPIF
Mar.	29th session	"Sustainability Reporting; Global Landscape Update" (Mr. Peter Paul van de Wijs, GRI Chief Policy Officer)
	30th session	"Accounting for Human Capital - Recognition, Measurement and Disclosure" by Kazuyuki Shimanaga, Professor, Faculty of Business Administration, Kobe Gakuin University
Apr.	31st session	"Strategic Use and Efficient Collection of Sustainability-Related Data to Increase Sustainable Corporate Value: Need for Change in Management's Awareness and System Improvement" (Mr. Toyokazu Nagamune, Director, Corporate Accounting, Disclosure, and CSR Policy Office, METI)
May	32nd session	"An Introduction to ESG Integration and Impact Investing Methods by Institutional Investors." (Mr. Masahiro Uchiyama, Head of Quantitative Investment Strategies, and Ms. Ikuko Abino, Client Portfolio Manager, Equity Investment Division, Goldman Sachs Asset Management Co., Ltd. (GSAM))
Jun.	33rd session	"Toward Investment and Utilization of Intellectual Property and Intangible Assets for Future Corporate Value and Competitiveness - IP/Intangible Asset Governance Guidelines Ver. 2.0 - (Mr. Yoshifumi Tsurumoto, Patent Attorney, Assistant Counselor, Secretariat of Intellectual Property Strategy Headquarters, Cabinet Office)

Appendix 4: Definitions of Terms and Concepts in the EDSG

Definitions of Terms and Concepts in the EDSG (i)

Terms and Concepts in the EDSG	Definitions
Purpose (Purpose)	<ul style="list-style-type: none"> A purpose is the meaning of the company's existence and what it wants to accomplish, and can be seen as something universal and not limited to a specific period of time. Therefore, a purpose is thought to have to include answers to why the company should exist in society, what values it has, and what it wants to accomplish with such values. Although many companies have already established a management philosophy or corporate mission, we need to organize the company's philosophy system in light of the definition of its purpose. The purpose is the basis on which management and employees act, and it should always be kept in mind when developing long-term visions and strategies.
Corporate value (Enterprise Value / Corporate Value)	<ul style="list-style-type: none"> Various types of value (social, environmental, economic, and financial value) created by a company are defined and recognized by each company based on its own ideas (which part of the value is important to it). Different stakeholders emphasize different types of corporate value. For instance, shareholders and investors generally focus on financial value while NPOs tend to focus on social and environmental value. Investors are also increasingly aware of the interrelationship between financial value and social and environmental value. A company's business activities offer value to society, the environment, and the economy (positive impact) and also place a burden on society, the environment, and the economy (negative impact), and it is important to view the impact in both aspects. The primary users of corporate reports, including ESG information, are assumed to be providers of financial capital, including shareholders and investors; therefore, the main concern of the EDSG is to identify how the social, environmental, and economic impacts of the company's business activities are linked to its financial impact.
Social Value, Environmental Value and Economic Value	<ul style="list-style-type: none"> Social value is the tangible and intangible value that the company provides to multi-stakeholders through its activities. This includes, for example, taxes paid to the national and local governments and appropriate compensation for employees. Environmental value is the value provided to the global environment, including non-human ecosystems. Attention must be paid to social value and environmental value, which are often discussed without distinguishing between them. Whether to include environmental value in social value or to separate the two depends on the perspective of the company and each stakeholder. Economic value refers to (i) the value inherent in so-called intangible assets, such as technology, intellectual property, human capability, and relationships of trust with business partners and customers, which are the source of a company's competitiveness, and (ii) the value as an economic ripple effect resulting from the company's business activities for a wide range of multi-stakeholders.

Definitions of Terms and Concepts in the EDSG (ii)

Terms and Concepts in the EDSG	Definitions
Financial Value	<ul style="list-style-type: none"> Financial value is the value that is attributable to the company and leads to financial returns for shareholders and investors through shareholder returns and capital market valuation. The idea that financial value should be viewed with a longer-term orientation is a global trend and the direction of the EDSG. In this way, the financial value can be approximated with the economic value in some respects. Investors, who are positioned as major stakeholders by issuers in the EDSG, can be considered to represent the views of various stakeholders in light of their knowledge of capital markets and the diversity of their perspectives of investment terms and investment policies. The ultimate goal is to achieve the simultaneous realization of diverse values through constructive dialogue among stakeholders and the building of win-win relationships through corporate management and investor behavior based on a long-term perspective, thereby benefiting the company and its stakeholders, including shareholders and investors.
Non-financial, intangibles and ESG	<ul style="list-style-type: none"> The various factors focused within the scope of ESG do not necessarily cover non-financial factors and intangible assets that actively create corporate value and are a source of corporate competitiveness, such as technology, intellectual property, human capability, and relationships of trust with suppliers and customers. While there are divergent views globally on whether non-financial factors and intangible assets are identical to ESG, the EDSG (as the name of the study group implies) will explore effective and efficient ways of disclosing ESG information and, from the perspective of further promoting value creation by member companies, will also address non-financial factors and intangible assets that are sources of corporate value, such as those mentioned above.
Pre-financial factors (Pre-financial)	<ul style="list-style-type: none"> Pre-financial factors are not measured as financial figures at this stage but lead to future financial returns and risks. They can also serve as a monitoring indicator for the company's business activities. For instance, in the case of Japan, CO₂ emissions are not measured as financial figures at this stage, but may be measured as financial figures in the future when a carbon tax or emissions trading is introduced. In many cases, pre-financial factors are not expressed as financial events, but are often incorporated into a company's financial value through accounting valuations and investors' projections and considerations. With the increasing demand for corporate reporting based on a long-term perspective, it is becoming increasingly important to identify pre-financial factors as part of management strategy and disclose them to stakeholders.
Who are the users of corporate reports including ESG information? (Whom is the company report for?)	<ul style="list-style-type: none"> Primary audience: Financial capital providers, including shareholders, investors, and creditors Secondary audience: Diverse stakeholders This issue has been discussed at IIRC, the U.K., and elsewhere and are currently organized into the above view. While assuming that companies are social entities (public institutions of society), they report to their capital providers in the capital market. The weight given to both will vary from company to company (related to the materiality of the company).

Definitions of Terms and Concepts in the EDSG (iii)

Terms and Concepts in the EDSG	Definitions
<p>Long term value (LTV) and long-term value creation (LTVC)</p>	<ul style="list-style-type: none"> LTV refers to corporate value from a long-term perspective and reflects a viewpoint based on the materiality of the company. The EDSG emphasizes an approach in which companies realize value creation proactively and independently, taking into account their own strengths and business environment. Through its activities, a company creates long-term social, environmental, and economic value, which in turn increases its financial value. On the other hand, a loss of social, environmental, or economic value can result in a decrease in financial value. Social, environmental, and economic values are often closely interrelated. LTVC refers to the management action and business activities that a company takes to create long-term value based on its own materiality.
<p>Materiality</p>	<ul style="list-style-type: none"> Materiality is a set of priorities extracted from a company from the perspective of realizing its “ideal vision” (target state with commitment), taking into account its mission, values, and strategic aspects. It also indicates the key issues to bridge the gap between the “ideal vision” and “current status,” and its scope is the entire management strategy related to LTV. In identifying materiality, both backcasting and forecasting approaches are required. Materiality should also reflect the philosophy and intent of management. What is considered an important issue varies from one stakeholder to another. For example, investors and NPO/NGOs may have materiality issues that differ from those perceived by the company. Companies need to be aware of the differences in materiality among stakeholder groups when explaining their own materiality. Materiality may also be used as a criterion for selecting priority issues.
<p>Risk</p>	<ul style="list-style-type: none"> There are “risks to which a company is exposed externally,” where a company’s financial value may be impaired by external factors, etc., and “risks that a company poses to outside parties,” where a company has a negative impact on its stakeholders through its business activities. In a broader sense, risk is sometimes used to mean “(a degree of) uncertainty.” If risk is viewed as uncertainty, it can also lead to business opportunities.
<p>Idea of a long term in setting time frames (What is a long-term period?)</p>	<ul style="list-style-type: none"> The long-term time horizon should be 10 years as one of the guidelines. While 10 years can be considered a standard period for identifying the connectivity and correlation between financial and pre-financial factors to some extent and identifying materiality, it is advisable to make individual judgments depending on the type of business, industry, etc. of the company.

Copyrights to this document belong to the ESG Disclosure Study Group (hereinafter, "EDSG"). You may freely use the document without obtaining permission from EDSG as long as it is used by yourself only (e.g. disclosure of information about your company in a stock issuing entity, corporate analysis in an operating agency). However, providing all or part of the document to a third party in such forms as publishing, consulting and an information system requires the prior permission from EDSG in written form. EDSG accepts no liability whatsoever for any loss or damage resulting from use of this document.

© 2023 ESG Disclosure Study Group / EDSG



EDSG