

Material 3

Provisional
Translation

Reference Material for the Twenty Fourth Council

Sustainability: Medium- to Long-Term Sustainability,
including ESG Factors

February 15, 2021
Japan Financial Services Agency

(1) General opinions

① Domestic initiatives

(1) Excerpt from the Prime Minister's Speech (Cabinet decision, 10/26/2020)

(Excerpt) (10/26/2020) Policy Speech by the Prime Minister to the 203rd Session of the Diet

- My administration will devote itself to the greatest possible extent to bring about a green society, while focusing on a virtuous cycle of the economy and the environment as a pillar of our growth strategy. **We hereby declare that by 2050 Japan will aim to reduce greenhouse gas emissions to net-zero, that is, to realize a carbon-neutral, decarbonized society. Addressing climate change is no longer a constraint on economic growth. We need to adjust our mindset to a paradigm shift that proactive climate change measures bring transformation of industrial structures as well as our economy and society, leading to dynamic economic growth.**
- The key here is revolutionary innovations, such as next-generation solar cells and carbon recycling. We will accelerate research and development aimed at realizing utilization of such technologies in society. We will make our utmost efforts in this area, such as establishing a forum for the national and local governments to conduct a review towards realizing a decarbonized society, while making green investment more common through the full mobilization of regulatory reforms and other policy measures. Also, we will advance green transformation more efficiently and effectively through digital transformation in fields related to the environment. We will lead the green industry globally and realize a virtuous cycle of the economy and the environment.
- We will establish a stable supply of energy by thoroughly conserving energy and introducing renewable energies to the greatest possible extent, as well as by advancing our nuclear energy policy with the highest priority on safety. We will also drastically change our longstanding policies on coal-fired power generation.

(1) Excerpts from “Comprehensive Economic Measures to Secure People’s Lives and Livelihoods toward Relief and Hope” (12/08/2020)

- On December 8, 2020, a new economic package was decided by Cabinet in response to the COVID-19 crisis and the current situation of the economy. This included measures to promote the realization of a green society.

Comprehensive Economic Measures to Secure People’s Lives and Livelihoods toward Relief and Hope (Excerpt) **Chapter 2. Measures to be taken**

II. Promoting Structural Change and a Virtuous Economic Cycle for the Post-Corona Era

1. Realizing Digitalization and Green Society

(2) Realization of a green society

The challenge to reduce greenhouse gas emissions to net-zero, that is, to realize carbon neutrality by 2050, is our country's "new growth strategy" and the Government will make a big step forward in environmental investment in these economic measures in order to realize a green society. The key is innovation. The Government will promote the implementation of new technologies and research and development in the energy and industrial fields, including SMEs, at an accelerated pace, while mobilizing all available policies, such as conducting a comprehensive review of regulations concerning renewable energy, etc., and taking bold steps to ease them, as well as considering the development of necessary systems including a cross-sectoral legal framework. In addition, by shifting to “decarbonized society,” “circular economy,” and “decentralized society” the Government will redesign the economy and society, create new demand, and reform the economy and society in order to realize a green society. The Government will also promote international cooperation on greening through international organizations.

Fund for New Technologies for 2050 Carbon Neutrality

Toward the carbon neutral target by 2050, the Government will reform the energy sector and change the structure of its manufacturing industry, given that energy-related CO2 accounts for about 85% of greenhouse gas emissions in our country.

In particular

- (1) Electrification and the greening of electricity (Next generation storage battery technology, etc..)
- (2) The realization of a hydrogen society (Technology to supply and use large quantities of hydrogen to decarbonize the thermal and electric power fields)
- (3) CO2 fixation and reuse (Carbon recycling using CO2 as a raw material or fuel, etc..)

The Government will establish a fund of 2 trillion yen and continue to support companies' ambitious research and development activities over the next 10 years, which show a commitment to specific target periods and targets, with the aim of establishing innovative technologies at an early stage and implementing them in various fields such as power generation, steel manufacturing and chemical manufacturing, and the transportation sector such as automobiles.

(1) Excerpt from the Prime Minister's Speech (Cabinet decision, 01/18/2021)

(Realizing a green society)

I have declared that Japan would realize carbon-neutrality by 2050. Environmental measures are no longer constraints on economic growth. Instead, they are the keys to transforming the industrial structure and producing robust growth by dramatically changing our economy and society, promoting investments, and enhancing productivity. To begin with, the Government will take a major step forward in environmental investment.

We will establish a fund of two trillion yen, an unprecedented sum, and offer tax credit of up to 10 percent, the highest level ever. Furthermore, we will accelerate the development and commercialization of leading-edge technologies by supporting companies taking on the challenge of ambitious innovations, such as next-generation solar power, low-cost storage batteries, and carbon recycling.

We will boldly increase the use of renewable energies, such as hydrogen and offshore wind power, and expand the capacity of transmission lines. We will use digital technology to efficiently generate electricity from dams. Moreover, we will establish a stable supply of energy by advancing our nuclear energy policy that puts safety as the highest priority. By 2035, we will achieve 100 percent of new vehicles sold to be electric.

We will also work on carbon-pricing that contributes to growth. We are also committed to carbon pricing that will lead to growth. We will broaden the scope of decarbonization efforts among all the stakeholders, such as by creating leading-edge decarbonized areas. We will promote the development of forests with rapid CO2 absorption cycle.

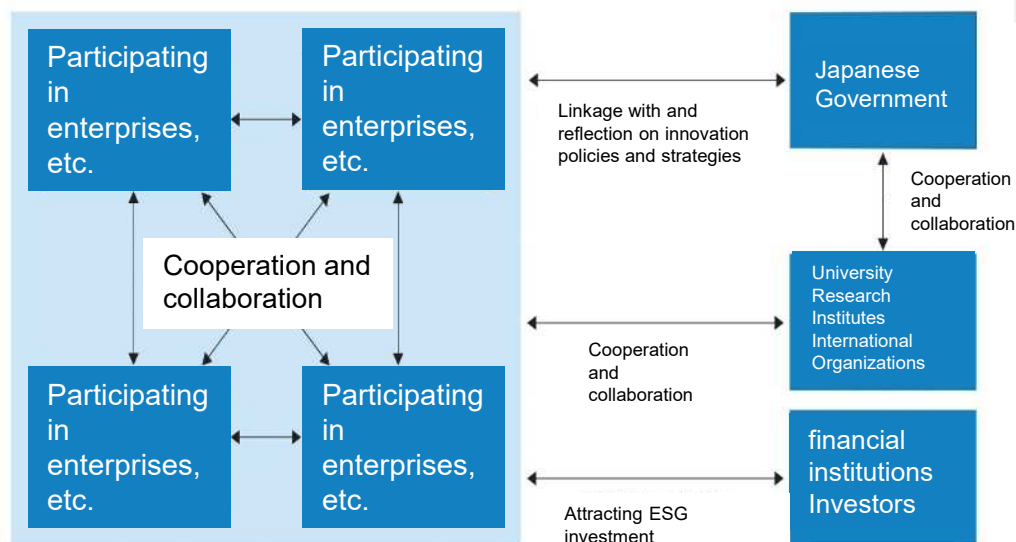
Capitalizing on global trends, we will stimulate the use of 240 trillion yen of cash on hand and on deposit lying dormant in private companies and attract environmental investment from abroad, which is said to amount to as much as three quadrillion yen. We will also create a framework of a financial market to this end. The realization of the Green Growth Strategy is expected to produce an annual economic impact of 190 trillion yen in 2050, while generating vast employment opportunities.

Japan will realize a decarbonized society ahead of the rest of the world.

(1) “Challenge Zero” (Japan Business Federation (Keidanren) 06/08/2020)

- ❑ "Challenge Zero" is a new initiative by Keidanren (Japan Business Federation), in collaboration with the Japanese government, **aiming to proactively publicize and support actions to create innovation taken by companies and organizations towards a "decarbonized society," both in Japan and internationally.**
- ❑ Participating companies and organizations **show their support for the "Declaration on 'Challenge Zero'" and announce their concrete actions.**
- ❑ Through promoting "Challenge Zero," **Keidanren will encourage ESG investment in companies that take on challenges towards a decarbonized society and collaboration among/across industries, academia, and the government to create innovations.**

Encouraging ESG investment and collaboration through “Challenge Zero”

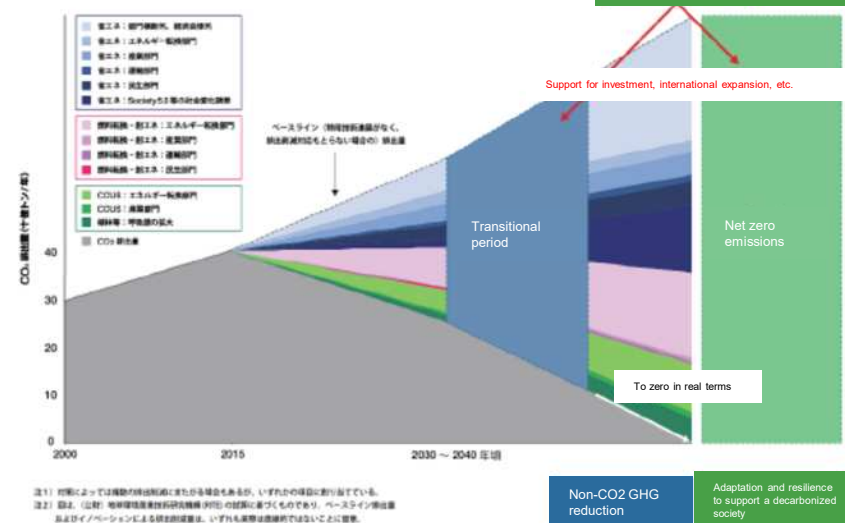


Comprehensive roadmap for the realization of a decarbonized society

The path towards a decarbonized society is shown below based on the implementation of “Challenge Zero” initiatives in society.

A comprehensive picture for the realization of a decarbonized society

Support for overseas deployment of green finance technologies



(1) The New Growth Strategy (Japan Business Federation (Keidanren) 11/17/2020)

- ❑ In November 2020, Keidanren announced its “New Growth Strategy,” describing the actions to be taken for the establishment of sustainable capitalism.

Extract from “The New Growth Strategy” (Japan Business Federation (Keidanren) 11/17/2020)

Conclusion

The key to achieve sustainable capitalism, which is the basic principle of this growth strategy, will be the visualization of issues and creation of solutions through DX, or, in other words, the realization of Society 5.0. To put this in action, regulatory reform, that is, the updating of regulatory systems in line with technological progress so that they do not hinder innovation, and the reform of public administration, that is, encouragement through policies from comprehensive viewpoints that eliminate the bureaucratic sectionalism, will be essential.

Also, for the Japanese economy and society to achieve sustainable growth, it will undoubtedly require the fiscal consolidation over the medium to long term. The sustainability of the social security system will also need to be ensured. Through wise spending that concentrates investment on the key areas mentioned in this proposal, the government should recover and grow the economy and draw up a path that will lead to the realization of fiscal consolidation.

On the other hand, **Japanese corporations need to extend and deepen their efforts through the promotion of constructive dialogue with investors, who are one of their multiple stakeholders. In addition to Japanese corporations continuing to actively disclose information, including building stories aimed at co-creation with multiple stakeholders about the value generated through business activities, investors also need to clarify their investment stances and deepen their ESG investments, to contribute to the realization of Society 5.0 for SDGs.** Furthermore, it will be important to pursue the development of methods for the evaluation of ESG investment returns and solutions to social issues so that the significance of long-term and ultra-long-term investments is widely known more than ever.

To establish sustainable capitalism, as described above, co-creation among diverse entities, including corporations, citizens, and government, is required for the realization of Society 5.0 for SDGs. The business community hereby declares that it will steadily implement the actions stated in this growth strategy, starting with those actions that can be taken immediately.

(1) Joint research by Keidanren, the University of Tokyo and GPIF

- Keidanren, the University of Tokyo, and the Government Pension Investment Fund (GPIF) published a joint research report, “The Evolution of ESG Investment, Realization of Society 5.0, and Achievement of SDGs” on March 26, 2020, and declared that they will implement an action plan to realize Society 5.0 for SDGs.
- The joint research recognized and proclaimed the importance of stable medium- to long-term funding for companies, universities, and start-ups promoting problem-solving innovation.

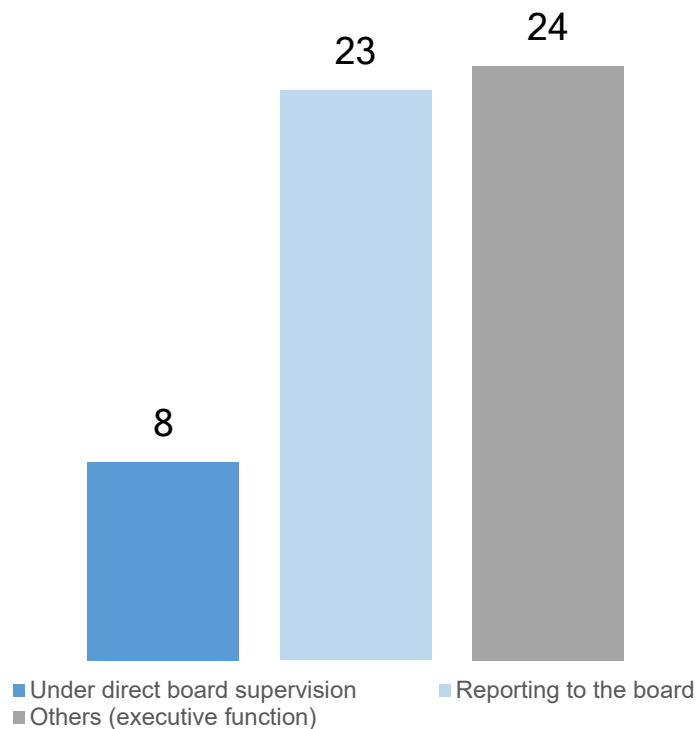
The report covers four themes: 1) Current status of understanding of Society 5.0 and measures to improve it; 2) Economic and social impacts; (3) Information disclosure by companies promoting Society 5.0; (4) Improvement of the investment environment. In particular, in terms of the economic and social impact in (2), it is estimated that if Society 5.0 is realized, a growth opportunity of 250 trillion yen (nominal GDP: 900 trillion yen) would be created in the economy as a whole in 2030.



(1) Establishment of Sustainability Committees

- ❑ Out of all companies in the JPX400, **55 have a sustainability committee**. In eight of these companies, the board has a sustainability committee, while in 24 of these companies the committee is an executive body.
- ❑ **In the UK, 21.3% percent of FTSE150 boards have a sustainability committee.**

**Status of sustainability committees
(Japan)**



**UK: Number and type of board
committees in FTSE 150**

	2019	2018
Number of committees		
3 committees	43.3%	42.0%
4 committees	34.7%	37.3%
5 committees	17.3%	16.0%
6 committees	4.7%	3.3%
7 or more committees	0%	1.3%
Type of committees		
Supervisory	100.0%	100.0%
Remuneration	99.3%	99.3%
Nomination	100.0%	100.0%
Corporate /Social Responsibility/ Sustainability	21.3%	20.0%
Health/Safety/Environment	12.7%	11.3%
Risk	17.3%	19.0%

Source: FSA data, based on the results of a survey conducted by HR Governance Leaders on corporate governance reporting at JPX400 companies

Source: FSA data, based on Spencer Stuart Board Index 2019 (UK)

(1) Opinions from follow-up meetings

- ❑ Concerning sustainability, the following opinions have been submitted at follow-up meetings.

Follow-up meeting opinions

- With respect to sustainability, instead of just leaving it to the executive body, **the board needs to have opportunities of discussing sustainability in the future, for example, by establishing a sustainability committee**, and to oversee business execution from the perspective of sustainability.
- **The establishment of a Sustainability Committee as a forum for meaningful discussions with diverse human resources should be considered.** To some extent, Sustainability Committees are becoming commonplace overseas. This does not have to have an audit and supervisory function as in Europe. The Sustainability Committee can also be an executive body, conducting discussions with diverse human resources. **Statements by the Sustainability Committee should also be discussed and clearly stated.**
- The view of the Chartered Insurance Institute (CII) is **"If stakeholder governance and sustainability are a cover for inappropriate management and inhibit necessary changes, the economy will suffer more widespread losses."**
- When it comes to sustainability, we tend to focus on themes such as ESG and environmental issues. **For companies to be involved, the company needs to be sustainable in the first place**, so it is important to carefully consider the sustainability of the company itself. Originally, this was for financial benefit. Nowadays, especially where disclosure is concerned, there is an emphasis on the disclosure of non-financial information. What is the purpose of this? I think it is for the future value of the company and the sustainability of the company itself. **Therefore, we need measures that push companies further on sustainability, or else this needs to be reviewed in the governance code.**

② International trends

(1) Principles for Responsible Investment (PRI)

- ❑ The Principles for Responsible Investment (PRI), incorporating the concept of ESG investment, were launched by Kofi Annan, the seventh United Nations' Secretary General, in partnership with the United Nations Environment Programme Finance Initiative (UNEP FI) and the United Nations Global Compact (UNGC).
- ❑ PRI requires investors to adopt a long-term view in their corporate analysis and evaluation, and to utilize ESG information in their investment activities. The number of signatories to the PRI is continually growing.

Trend in number of PRI-signatories



Source: FSA data based on publicly available PRI data

Six Principles for Responsible Investment

1. We will incorporate **ESG issues** into investment analysis and decision-making processes.
2. We will be active owners and incorporate **ESG issues** into our ownership policies and practices.
3. We will seek appropriate disclosure on **ESG issues** by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

(1) Sustainable Development Goals (SDGs)

- ❑ The **Sustainable Development Goals (SDGs)**, consisting of 17 goals and 169 targets, were adopted at the UN General Assembly in September 2015. These goals are objectives for all countries, both developed countries and developing countries.

Details of the SDGs

持続可能な開発目標 (SDGs) の詳細

	目標1【貧困】 あらゆる場所あらゆる形態の貧困を終わらせる		目標2【飢餓】 飢餓を終わらせ、食料安全保障及び栄養の改善を実現し、持続可能な農業を促進する		目標9【インフラ、産業化、イノベーション】 強靱（レジリエント）なインフラ構築、包摂的かつ持続可能な産業化の促進及びイノベーションの推進を図る		目標10【不平等】 国内及び各国間での不平等を是正する
	目標3【保健】 あらゆる年齢のすべての人々の健康的な生活を確保し、福祉を促進する		目標4【教育】 すべての人に包摂的かつ公正な質の高い教育を確保し、生涯学習の機会を促進する		目標11【持続可能な都市】 包摂的で安全かつ強靱（レジリエント）で持続可能な都市及び人間居住を実現する		目標12【持続可能な消費と生産】 持続可能な消費生産形態を確保する
	目標5【ジェンダー】 ジェンダー平等を達成し、すべての女性及び女児のエンパワーメントを行う		目標6【水・衛生】 すべての人々の水と衛生の利用可能性と持続可能な管理を確保する		目標13【気候変動】 気候変動及びその影響を軽減するための緊急対策を講じる		目標14【海洋資源】 持続可能な開発のために、海洋・海洋資源を保全し、持続可能な形で利用する
	目標7【エネルギー】 すべての人々の、安価かつ信頼できる持続可能な近代的なエネルギーへのアクセスを確保する		目標8【経済成長と雇用】 包摂的かつ持続可能な経済成長及びすべての人々の完全かつ生産的な雇用と働きがいのある人間らしい雇用（ディーセント・ワーク）を促進する		目標15【陸上資源】 陸域生態系の保護、回復、持続可能な利用の推進、持続可能な森林の経営、砂漠化への対処ならびに土地の劣化の阻止・回復及び生物多様性の損失を阻止する		目標16【平和】 持続可能な開発のための平和で包摂的な社会を促進し、すべての人々に司法へのアクセスを提供し、あらゆるレベルにおいて効果的で説明責任のある包摂的な制度を構築する
					目標17【実施手段】 持続可能な開発のための実施手段を強化し、グローバル・パートナーシップを活性化する		

Source: FSA, "User Oriented Financial Services in a New Era - Financial Services Policy: Assessments and Strategic Priorities" (August 2019)

(1) Speech by former Bank of England Governor Carney (2) (Green Horizon Summit, 11/09/2020 London)

- ❑ Mark Carney, former Governor of the Bank of England **emphasized the pivotal role of private finance in the transition to a net zero carbon economy** at a global conference ahead of COP26.
- ❑ He outlined four deliverables for private finance in the move to net zero:
(1) Reporting, (2) Risk management, (3) Return, and (4) Mobilization

Reporting

Improve the quality and quantity of climate-related financial disclosures, through implementation of the TCFD framework (Task Force on Climate-related Financial Disclosures).

- Recommend voluntary disclosure by private sector based on TCFD recommendations
- On the other hand, in order to achieve comparable and decision-useful disclosure, encourage authorities and SSBs to **establish a pathway to mandatory disclosure of climate-related information based on TCFD recommendations**.

(Note) UK Chancellor, Rishi Sunak, announced his intention to make TCFD disclosures mandatory by 2025.

Risk Management

Companies, investors and authorities should **measure and manage climate change risk**

- Embed use of scenario analysis in the financial sector using the **NGFS reference scenarios**.
- Identify **data gaps**
- Improve physical risk analysis by the insurance sector
- Recommendations to international organizations:
 - Implement IMF's FSAP (Financial Stability Assessment Program)
 - Review according to Basel Committee on Banking Supervision (BCBS) and IAIS (International Association of Insurance Supervisors) standards
 - FSB Financial Stability Analysis

Return

Companies/investors identify investment opportunities **for transition to net zero carbon society**

- **Creation and disclosure of net zero transition plan** zero by companies and institutional investors
- **Recommendations to financial institutions that are sources of capital:**
 - Evaluate credibility of net zero transition plan
 - Make commitments to net zero. Align portfolios with the transition to net zero.

Mobilization

Increase private financial flows to emerging and developing economies

- Develop pipeline of investable projects
- **Encourage development banks to act in line with the goals of the Paris Agreement**
 - Work towards green compliance of own investment
 - Reduce risk and enable private sector investment by 2030
- New product design and market construction

(1) Overseas Corporate Governance Codes that mention sustainability ①

- Some overseas codes mention sustainability initiatives and disclosures.

Examples of descriptions in codes prior to the application of the Japanese Corporate Governance Code (2015)

OECD	Singapore	Malaysia	ICGN
<p>[2004] V. Disclosure and transparency A. Important information to be disclosed includes (but is not limited to) the following: 2. Company objectives In addition to their commercial objectives, companies are encouraged to disclose policies relating to business ethics, the environment and other public policy commitments. Such information may be important for investors and other users of information to better evaluate the relationship between companies and the communities in which they operate and the steps that companies have taken to implement their objectives.</p> <p>[Current 2016] V. Disclosure and transparency A. Important information to be disclosed includes (but is not limited to) the following: 2. Company objectives In addition to their commercial objectives, companies are encouraged to disclose policies and performance relating to business ethics, the environment and, where material to the company, social issues, human rights and other public policy commitments. (Hereafter, the same as the 2004 version)</p>	<p>[2012] (The Board's conduct of affairs. Principle 1) Guidelines 1.1 The Board's role is to consider sustainability issues, such as (f) environmental and social factors, as part of its strategic formulation.</p> <p>[Current 2018] The description for 2012 was deleted. No sustainability principles</p>	<p>[2012] (Recommendation 1.4) The board should ensure that the company's strategies promote sustainability.</p> <p>(Commentary) The board should formalize the company's strategies on promoting sustainability. Attention should be given to environmental, social and governance (ESG) aspects of business which underpin sustainability. Balancing ESG aspects with the interests of various stakeholders is essential to enhancing investor perception and public trust. The board should ensure the company discloses these policies and their implementation in the annual report and the corporate website.</p> <p>[Current 2017] (Guidance 1.1) Every director is required to keep abreast of his responsibilities as a director and of the conduct, business activities and development of the company. To enable the board to discharge its responsibilities in meeting the goals and objectives of the company, the board should, among others, ensure that the strategic plan of the company supports long-term value creation and includes strategies on economic, environmental and social considerations underpinning sustainability.</p>	<p>[2014] Session A Board 1.2 Responsibilities The board is accountable to shareholders and relevant stakeholders and responsible for preserving and enhancing sustainable value over the long-term. In fulfilling their role effectively, board members should: b) monitor the effectiveness of the company's governance, environmental policies, and social practices, and adhere to applicable laws.</p> <p>[Current 2017] Principle 1: Board role and responsibilities 1.1 Responsibilities Same as in 2014 (1.2 Responsibilities)</p> <p>(Principle 5: Risk oversight (5.2 Comprehensive approach)) The board should adopt a comprehensive approach to the oversight of risk which includes material financial, strategic, operational, environmental, and social risks (including political and legal ramifications of such risks), as well as any reputational consequences. Fundamental to this is the board's agreement on its risk appetite, and the board should seek to publicly communicate this in basic terms.</p>

(1) Overseas Corporate Governance Codes that mention sustainability ②

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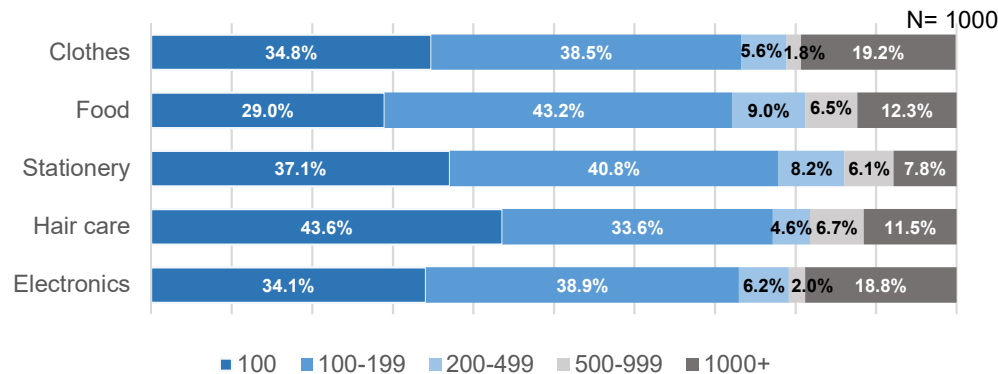
UK	France (Afep_Medef-Code)
<p>[2018] 1. Board Leadership and Company Purpose (Principle A) A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.</p>	<p>[2018] 1. The Tasks of the Board of Directors (1-1) The Board of Directors performs the tasks conferred by the law and acts at all times in the corporate interest. It endeavors to promote long-term value creation by the company by considering the social and environmental aspects of its activities.</p> <p>(1-4) It is informed about market developments, the competitive environment and the most important aspects facing the company, including in the area of social and environmental responsibility.</p> <p>(1-5) It regularly reviews, in relation to the strategy it has defined, the opportunities and risks, such as financial, legal, operational, social and environmental risks, as well as the measures taken accordingly. To this end, the Board of Directors receives all of the information needed to carry out its tasks, notably from the executive officers.</p>

③ Changes in attitudes and behavior

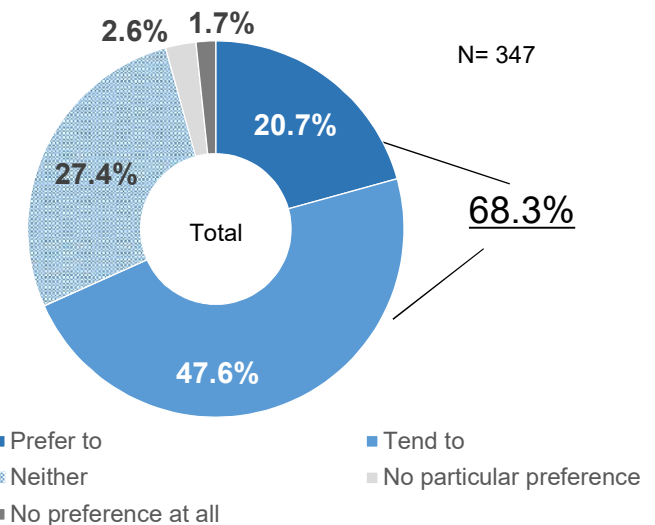
(1) Attitude of Generation Z

- Recently, even in Japan, interest in companies with clearly-defined environmental and social policies is increasing, especially among the so-called “Generation Z” of younger people.
- More than half of young people are willing to pay higher than average prices for products made by companies with clearly-defined environmental and social policies. Of young people who invest, about 70% of them want to invest in those companies that pay attention to environmental and social issues.
- Amongst young people, about 40% of men and 50% of women would like to work in a company that pays attention to environmental and social issues.

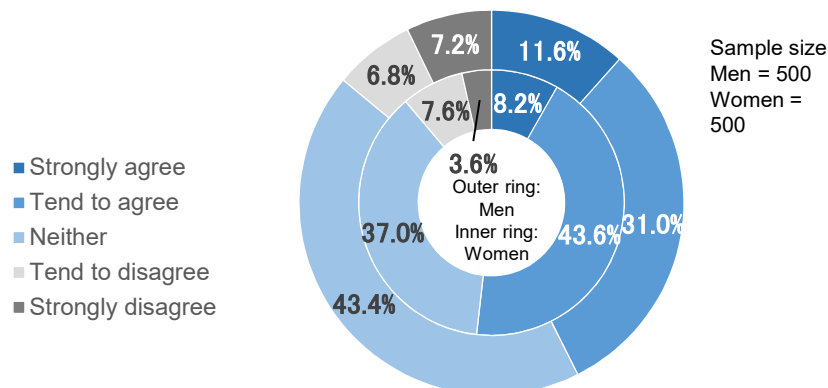
Price that young people are willing to pay for the products of companies that pay attention to environmental and social issues (100 = regular price)



Preference for investing in companies with clearly-defined environmental and social policies (single answer)



Desire to work at a company with clearly-defined environmental and social policies (Single or multiple answers)



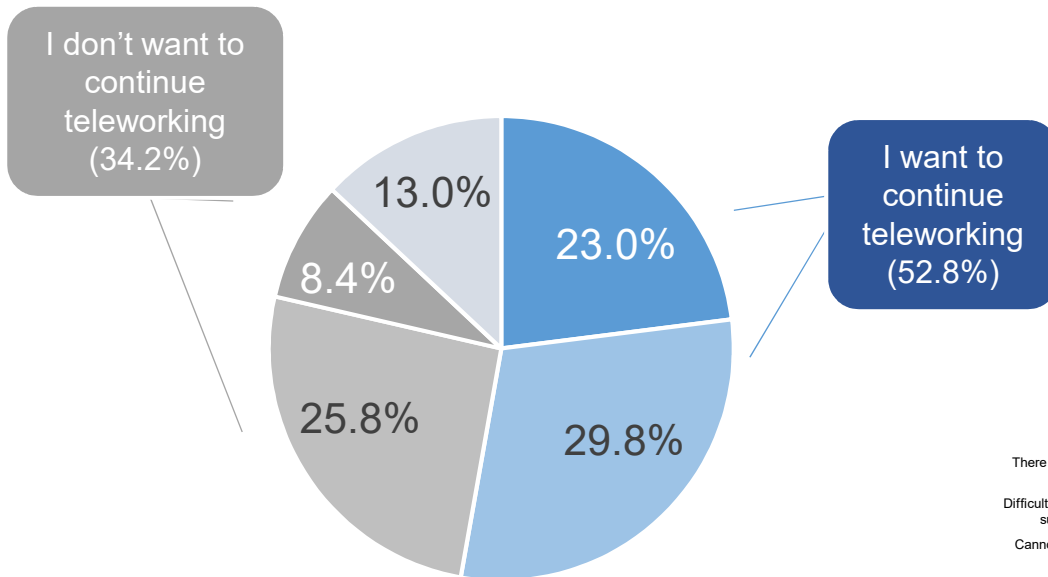
Note: Internet questionnaire survey conducted from May 8-10, 2020 for junior high school students, high school students, and university students nationwide. The total number of students was 1,000 (300 junior high school students, 300 high school students, 400 college students).

Source: FSA data based on the Survey of Youth Attitudes (Report): ESG Policies, SDGs and Career (published on August 13, 2020) by The Japan Research Institute, Limited

(1) Changes in people's values and behaviors

□ 52.8% of employees want to continue teleworking in future.

Willingness to continue teleworking/ remote work



Note: Sample size = 453

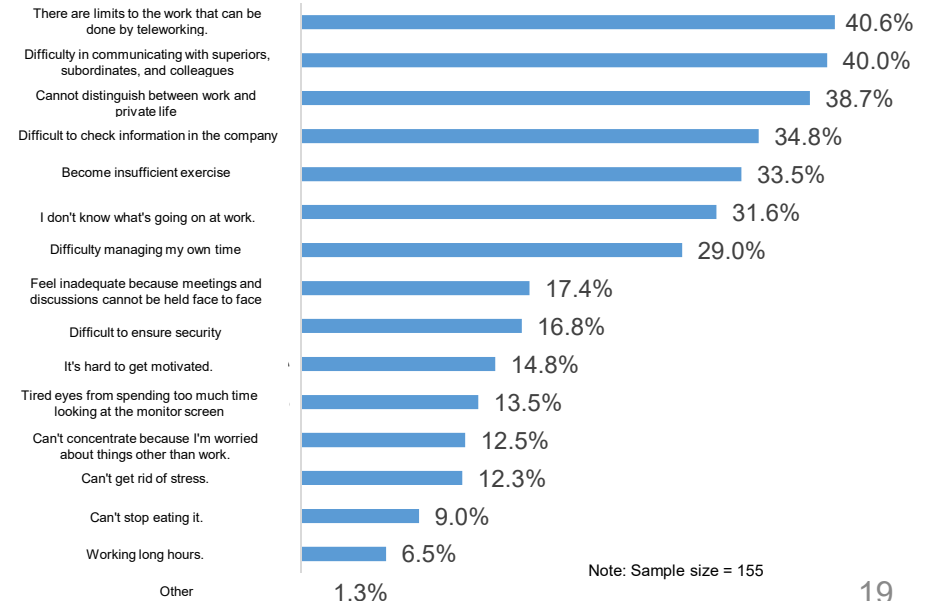
Note: Workers in businesses with 10 or more employees, full-time employees including managers and executives, and white collar occupations (over the age of 20). Survey period April 7-10, 2020. Internet survey

Source: FSA data compiled from "Urgent Survey: Measures against the COVID-19 Pandemic and Workstyles" (April 20, 2020) NTT Data Institute of Management Consulting, Inc./ NTTCom Online Marketing Solutions Corporation

Reasons for wanting to continue

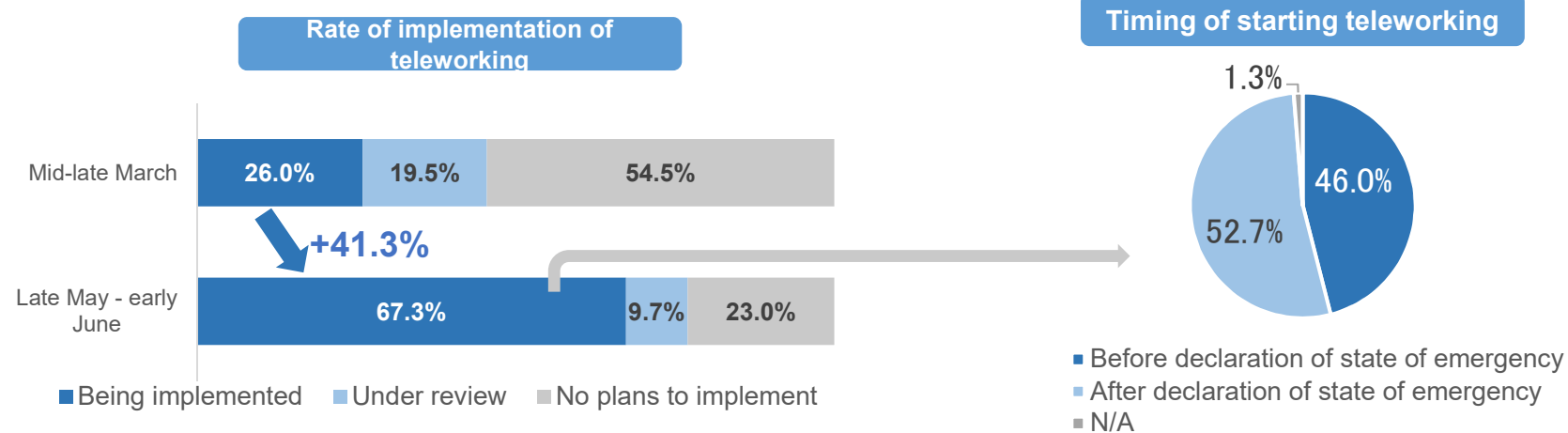


Reasons for not wanting to continue



(1) Increasing need for review of employee workstyles and the emergence of issues related to employment and utilization of human resources ①

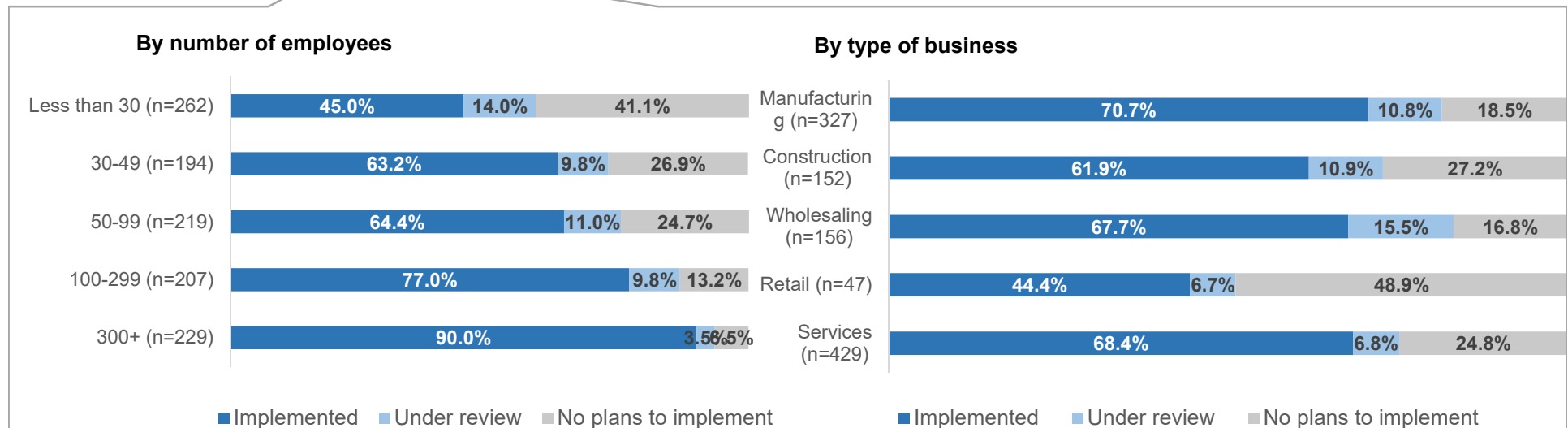
Rapid increase in **rate of teleworking** following the outbreak of the pandemic, with variations depending on company size and industry.



Note: Mid-late March: Survey period from March 13 to 31, 2020; respondents 1,238 TCCI member companies (Survey form sent by fax or email to 13,297 companies).

Late May-early June, 2020: Survey period from May 29 to June 5, 2020; respondents 1,111 TCCI member companies (Survey form sent by fax to 12,555 companies, response by FAX, email or online; if delivered by email, response online).

Source: Compiled by FSA, based on Tokyo Chamber of Commerce and Industry "Questionnaire on disaster prevention measures by member companies; ancillary survey, Response to COVID-19" published on 04/08/2020



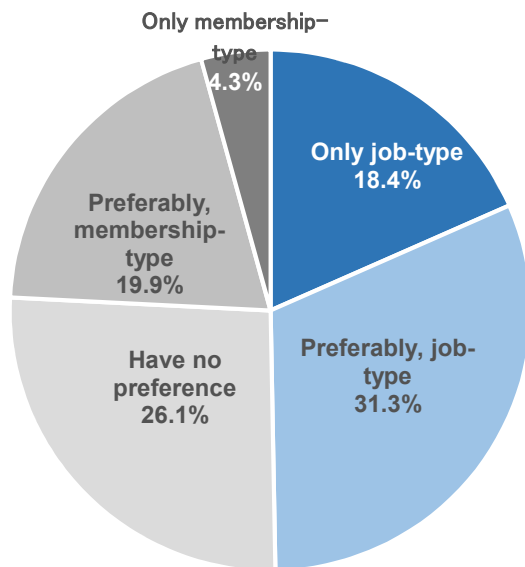
Source: Compiled by FSA, based on Tokyo Chamber of Commerce and Industry "Urgent Questionnaire on Implementation of Teleworking" (06/17/2020)

(1) Increasing need for review of employee workstyles and the emergence of issues related to employment and utilization of human resources ②

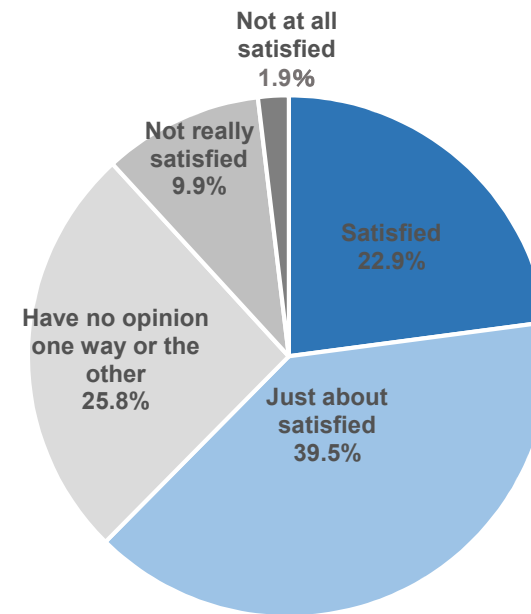
- As of August 2020, in terms of job-type and membership-type employment, over 50% of workers preferred job-type employment.

Preference for job type

Which do you prefer: job- or membership-type employment?



If you moved to a job-type position, would you be satisfied with this?



Note 1: Internet questionnaire survey conducted from August 18-22, 2020. 1,107 respondents. Men 77.4%, Women 22.6%. 14.5% 30s or younger, 34.1% 40s, 50.9% 50s, 0.4% in 60s or older. Includes 77.6% of employees working from home.

Note 2: Job-type: Employment based on allocation of people according to specific job

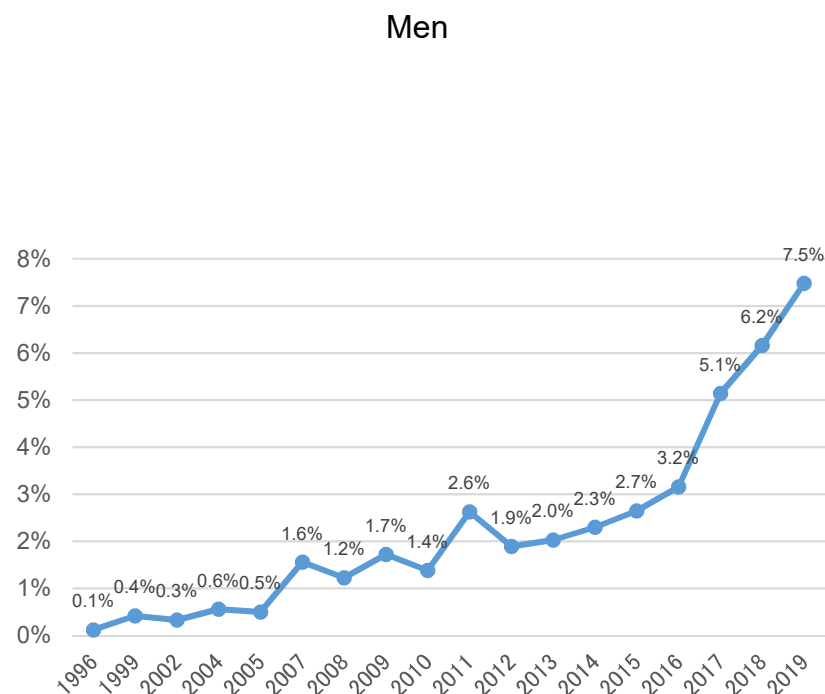
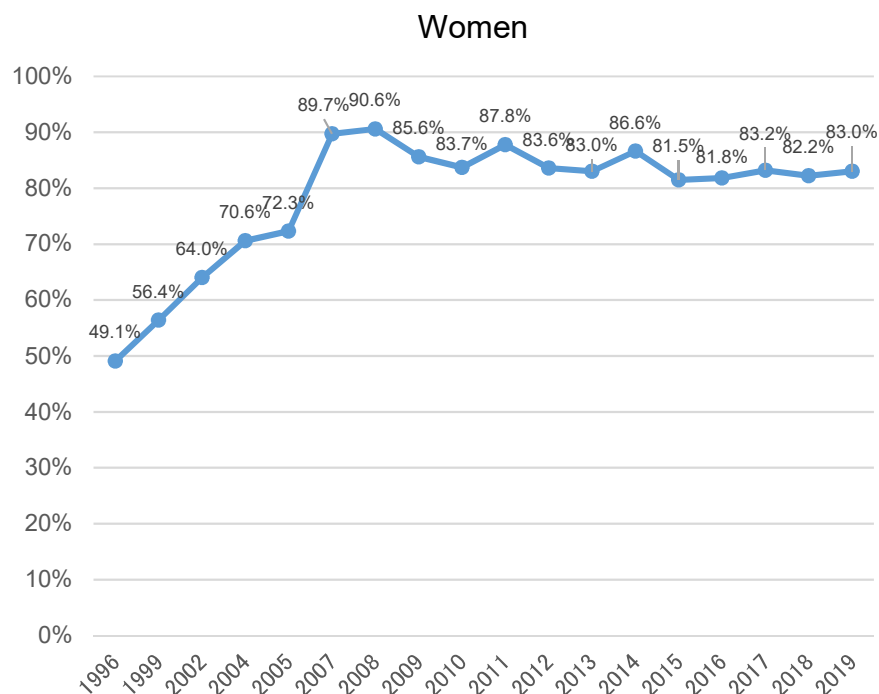
Member-ship type: Employment based on development of human resources suited for the company

Source: FSA data, compiled from Nikkei Business and Nikkei BP Consulting "Study on workstyle changes due to the coronavirus pandemic"

(1) In-house diversity, human resource development, management of internal working environment

- In recent years, the percentage of workers taking childcare leave has been in the 80% range for women. It is also increasing for men, albeit from very low levels (FY2019: 7.5%).

Trends in percentage of workers taking childcare leave



Note 1: Percentage taking childcare leave = Number of workers who had started childcare leave by the time of the survey (including those who were due to start) / Number of workers who had given birth (for men, whose spouse had given birth) in the 12-month period up to September 30.

Note 2: Up to 2010 for the 12-month period prior to the survey.

Note 3: The percentage in [] in 2011 is the national result, excluding Iwate, Miyagi and Fukushima prefectures

Source: Compiled by FSA, based on Basic Survey of Gender Equality in Employment Management, Ministry of Health, Labor and Welfare (07/31/2020)

(1) Opinions on workstyles and employment systems in post-COVID economy and society

Based on interviews carried out by the FSA on [reviewing workstyles and the employment system](#).

The feedback from investors is that companies should review their approach to [investment in human capital](#); [make changes to improve productivity](#); [diversity is essential for a culture of openness](#).

The feedback from companies was that [the job-type management infrastructure is inadequately developed](#), and that this will be an issue in the future.

Investors

- All companies believe that the role of individual employees will become more important post-COVID, and workstyle reforms will gain added momentum. Against the backdrop of such rapid change, [it is important for management and the board to understand the situation of their employees](#). (Repeated)
- [Sustainability will become more important than before, including how companies can contribute to employee safety and social stability](#). (Repeated)
- Investment in human capital is required (reforms aimed at [motivating employees, development of ideas, productivity improvement](#), rather than workstyle reforms just focused on time saving).
- There is a need for Diversity & Inclusion ([diverse background](#) including foreigners as well as women; need for openness to avoid Galapagos syndrome). (“Chicken and egg” situation: breadth of diversity cannot be understood without exposure to diversity)

Companies

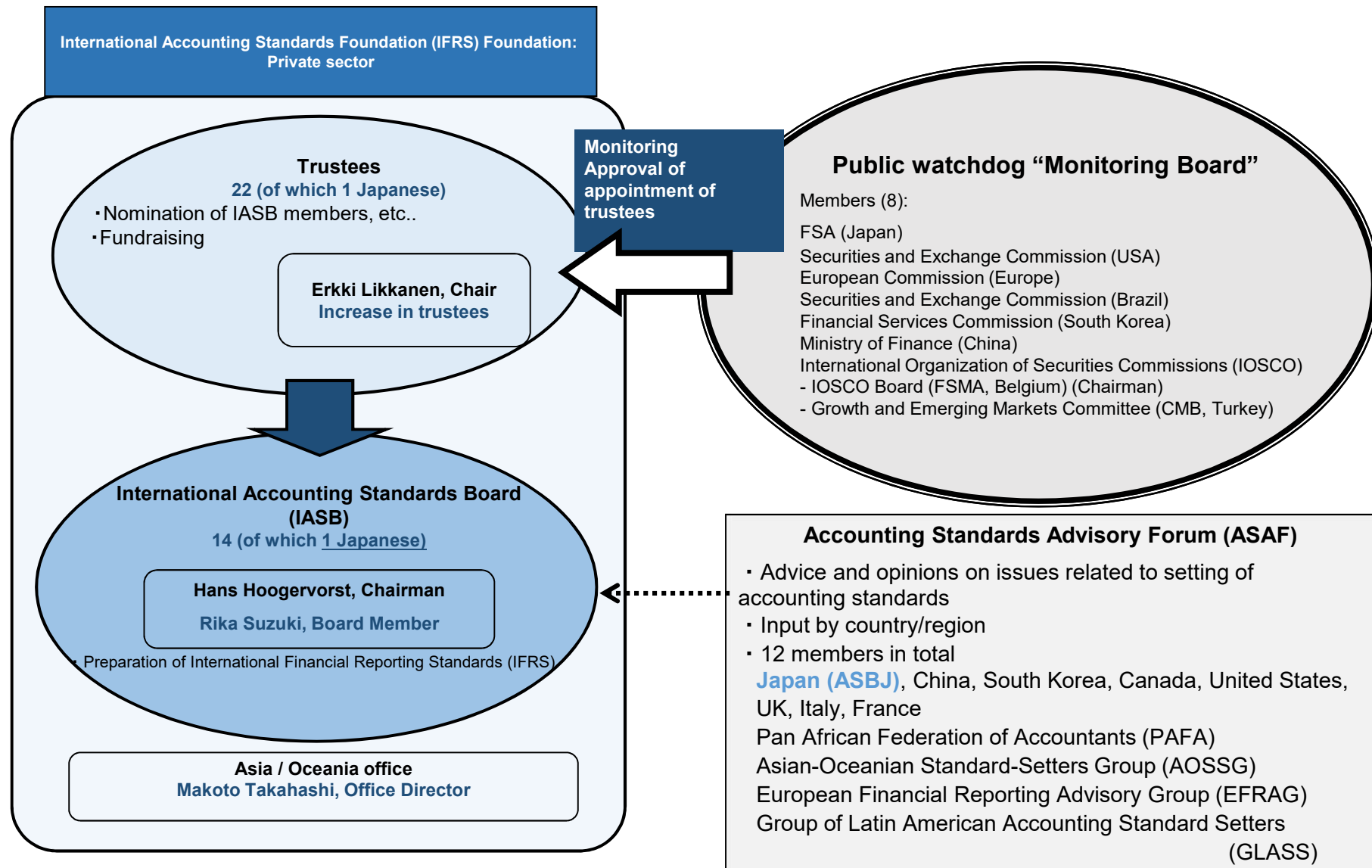
- [With new ways of working required](#), we need to review of our business operations so far, such how we do internal audits and face-to-face sales activities, which have been part of business etiquette up till now.
- [Our inadequate job-type management infrastructure](#) when COVID-19 hit is something we have to address in future.

Note: Some interview details taken from Secretariat reference materials for the Twentieth Follow-up Meeting.

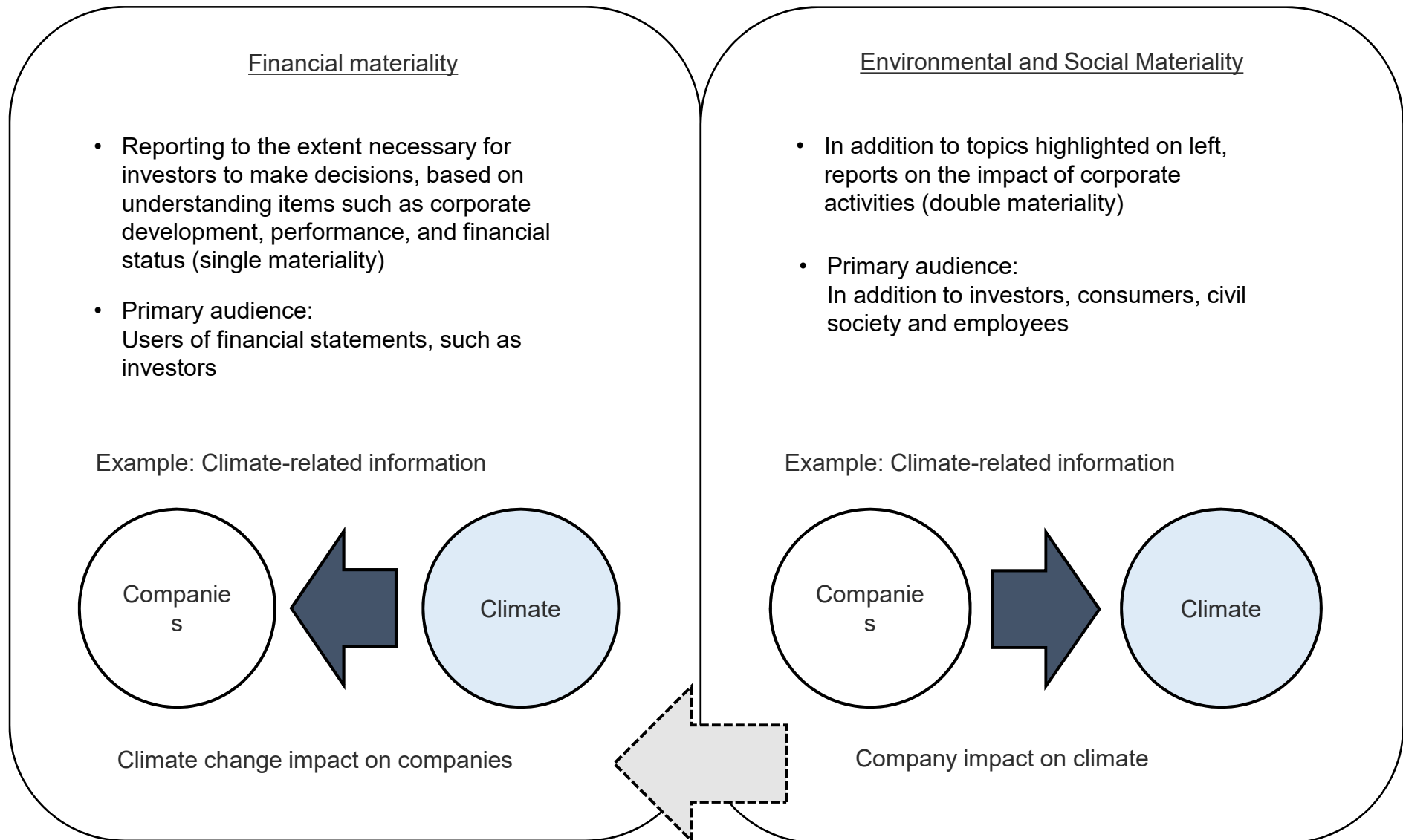
(2) Sustainability Disclosures

① International framework for the disclosure of non-financial information

(2) International Financial Reporting Standards Foundation



(2) Single materiality and double materiality (e.g. Reporting on climate-related information)



Company impact on climate can be financially material.

(2) Main statements of Keidanren in comment letter to the IFRS Foundation

❑ Keidanren's Committee on Financial and Capital Markets, Global Strategy Task Force on ESG Disclosure published its support for the IFRS Foundation's initiative to develop international sustainability reporting standards and to create a new Sustainability Standards Board (SSB) under the governance structure of the IFRS Foundation on 12/18/2020.

❑ The main opinions expressed are as follows.

- (1) We request that the number of the SSB members be at least similar to that of the IASB members and that the SSB members be selected from various countries, regions or backgrounds by reference to the IASB member composition.
- (2) If the IFRS Foundation is to seek financial support from each country for the development of the standards by the SSB, it is a prerequisite that the IFRS Foundation makes its own efforts to reduce the financial burden. We believe that the IFRS Foundation should take reasonable measures such as making many of the SSB members part-time in order to ensure the number of the SSB members similar to that of the IASB members while reducing the financial burden of the SSB, and having board meetings online.
- (3) In order to enhance flexibility of disclosure by each company, the SSB should avoid adopting a rules-based approach but adopt a principles-based approach similar to the IFRS Standards.
- (4) The SSB should give the highest priority to climate change and proceed with the development of internationally harmonized standards.
- (5) The SSB should first focus on disclosure of the impact of non-financial factors on a company's value creation (single materiality) which is most relevant to investors.
- (6) As there is no international consensus on the need and procedures of audit or external assurance for the sustainability information, it is premature to start discussions on the introduction of such audit or assurance.

② Current status of sustainability disclosures in Europe and the U.S.

(2) Trends in sustainability disclosures overseas

- ❑ In Europe and the United States, in addition to climate change-related issues, **there are moves to require companies and financial institutions to disclose a wide range of information on sustainability, such as respect for human rights and prevention of corruption and bribery.**

Europe		USA	
Non-Financial Reporting Directive (NFRD)(Note 1)		Sustainable Finance Disclosure Regulations (SFRD) (Note 2)	
		Regulation S-K	
Environment (E)	<ul style="list-style-type: none">■ Protection of the environment (Prevention and control of pollution, environmental impact of energy use, atmospheric emissions (direct and indirect), use and conservation of natural resources, preservation of biodiversity)	<ul style="list-style-type: none">■ Greenhouse gases■ Energy performance■ Biodiversity■ Water■ Waste materials	No items specified or displayed (However, the U.S. authorities have developed disclosure guidelines for climate-related information)
Social (S)	<ul style="list-style-type: none">■ Social responsibility and employees (Implementation of ILO Basic Conventions, diversity (gender, equal employment and occupation, etc..), employment (consultation process for employees, employment and working conditions, etc..), human resources management, workplace satellite offices and safety, etc..)■ Respect for human rights (Implementation of commitment to respect for human rights, human rights due diligence, disclosure of processes and measures taken to prevent human rights abuses (e.g. addressing human rights issues in supply chain contracts, etc..))	<ul style="list-style-type: none">■ Society and employees (Implementation of the ILO basic Conventions, gender pay gap, excessive CEO pay ratio, gender diversity of the board, insufficient protection of whistleblowers, investment in companies that do not have a workplace accident prevention policy)■ Human rights (Human rights policies, due diligence, processes and measures to prevent human trafficking, operations and suppliers with significant risk of accidents involving child labor, operations and suppliers with significant risk accidents involving forced labor accidents, number and type of significant human rights issues, exposure to arms-related manufacturing/transactions)	<ul style="list-style-type: none">■ CEO Pay Ratio■ Human capital (No detailed provisions; request for disclosure as required to understand the business)
Governance (G)	<ul style="list-style-type: none">■ Prevention of corruption and bribery (Systems related to anti-corruption, anti-bribery, management methods and measures, etc..)	<ul style="list-style-type: none">■ Anti-corruption, bribery (Anti-corruption and bribery policies, cases of insufficient action taken to address breaches of standards of anti-corruption and anti-bribery, number of convictions and amount of fines for violation of anti-corruption and antibribery laws)	N/A

(Note 1) Non-Financial Reporting Directive (2014) ■ Disclosure items required by the Directive Items in parentheses are expected to be disclosed under the Non-Financial Information Guidelines (2017) developed under the Directive.

(Note 2) Sustainability-Related Disclosure Regulations (2019) ■ Disclosure items required by regulations Items in parentheses are items that are required to be disclosed in the draft bylaws (public consultations conducted from April to September 2020).

Source: Various websites, etc..

(2) European trends ① (EU Commission "Action Plans")

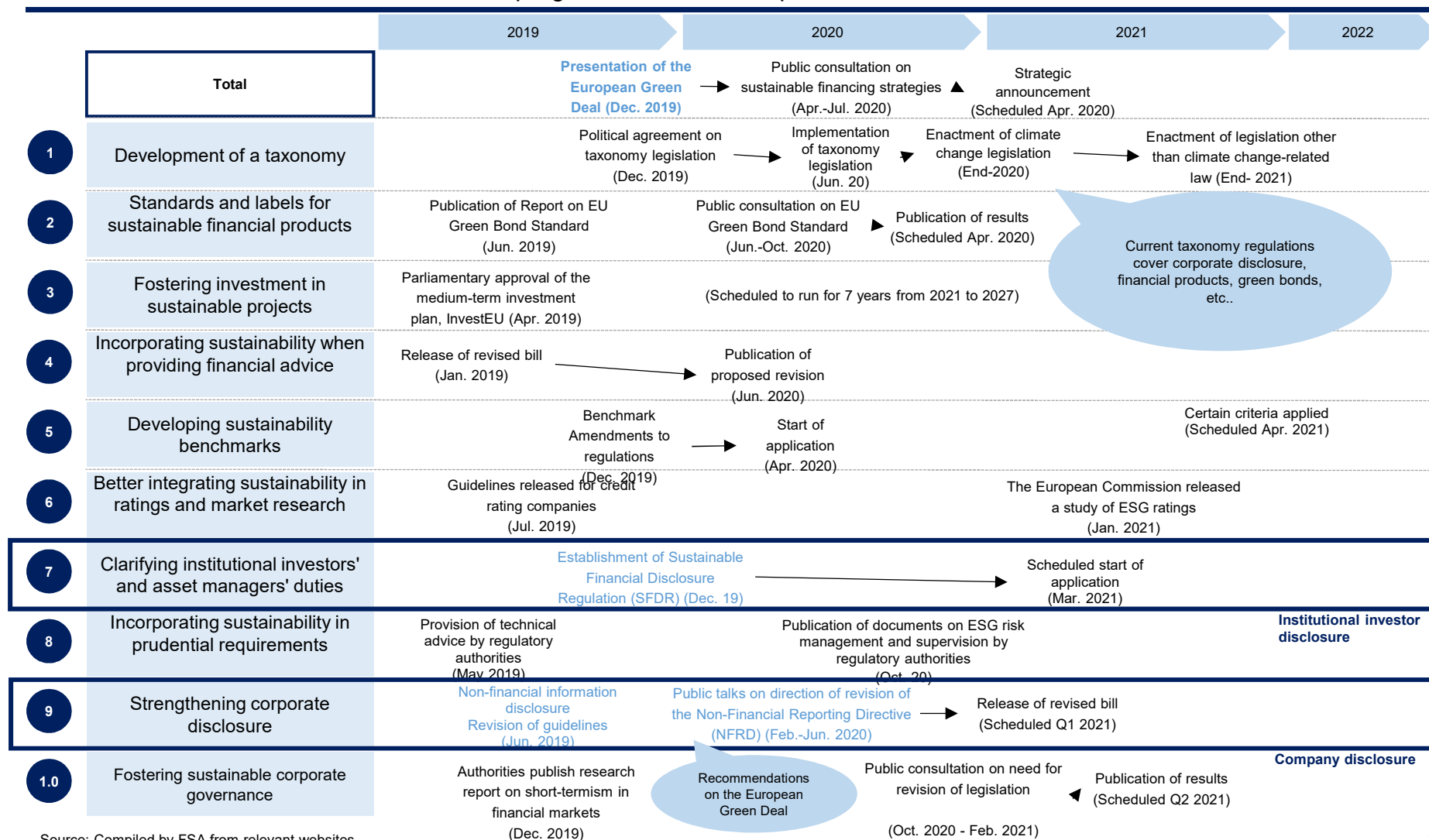
- ❑ In March 2018, the Commission published "Action Plan: Financing Sustainable Growth," detailing 10 key action points
- ❑ ① Development of a taxonomy is identified as the key issue forming the basis of each action.

Objective	Plan	Overview
Shifting capital flows to sustainable investment	1 Development of a taxonomy	Establishing a classification system for sustainable activities
	2 Standards and labels for sustainable financial products	Creating standards and labels for green financial products
	3 Fostering investment in sustainable projects	Strengthening support for sustainable projects related to infrastructure
	4 Incorporating sustainability when providing financial advice	Consider revising the system to include provisions on customer sustainability preferences
	5 Developing sustainability benchmarks	Development of the low carbon benchmark
Incorporating sustainability in risk management into the mainstream	6 Better integrating sustainability in ratings and market research	Clarification of sustainability considerations in determining credit ratings
	7 Clarifying investors' and asset managers' duties	Institutional investors should disclose how they consider sustainability in their investment decisions
	8 Incorporating sustainability in prudential requirements	Review the impact of prudential rules for banks and insurance companies on sustainable investments, with a particular focus on climate change mitigation.
Strengthening sustainability disclosure and accounting rule-making	9 Strengthening corporate disclosure	Revision of corporate non-financial disclosure guidelines in line with TCFD recommendations
	10 Fostering sustainable corporate governance	Review concerns that short-term pressure from capital markets obstructs corporate sustainability considerations

(2) European Trends ② (Schedule for action plans)

- ❑ In December 2019, the European Commission released “A European Green Deal” that includes legislation on climate-neutral targets by 2050. The current action plan will be revised as the “Sustainable Finance Strategy.”
- ❑ Efforts are also being made to improve disclosure from investors and companies.

Current progress of each action plan and future schedule



Source: Compiled by FSA from relevant websites

(2) European trends ③ (Non-Financial Reporting Directive for large corporations)

- ❑ In the EU, the [Non-Financial Reporting Directive \(NFRD\)](#) was published in 2014, requiring disclosure of non-financial information on a “comply or explain” basis. Subsequently developed [guidelines \(published in 2017\) provide examples of Subsequent guidelines \(published in 2017\) provide examples of sustainability matters that are expected to be disclosed to large enterprises.](#)
- ❑ Regarding the directive, public consultations on potential amendments were held (Feb.-Jun. 2020), but no details of amendments have been clarified as yet.

Non-Financial Reporting Directive (NFRD*) for large corporations (previous pag 9

Note: Directive 2014/95/EU (published in 2014) is due to be amended, but no draft has been released as yet.

Partner	<ul style="list-style-type: none"> Large-scale utility companies that issue stocks and bonds within the EU. Listed companies, banks (including non-listed companies), insurance companies, etc.. with 500 or more employees
Disclosure medium	<ul style="list-style-type: none"> Main Management Report (may be published in a separate report and noted in the Management Report)
Disclosure details	<ul style="list-style-type: none"> Information to the extent necessary for an understanding of the business' development, performance, conditions at the end of the fiscal year, impact of its business activities, such as respect for human rights, anti-corruption and bribery matters, key risk business activities, relating to environmental, social, non-financial KPIs, etc.. (Comply or explain principle where no policy is stated)

The Guidelines on non-financial information developed based on this directive include the following list of themes that should be considered for disclosure purposes.

(Not legally binding)

Guidelines	Protection of the environment	<ul style="list-style-type: none"> Prevention and control of pollution, environmental impact of energy use, atmospheric emissions (direct and indirect), use and conservation of natural resources, preservation of biodiversity
	Social responsibility and employees	<ul style="list-style-type: none"> (Implementation of ILO Basic Conventions, diversity (gender, equal employment and occupation, etc..), employment (consultation process for employees, employment and working conditions, etc..), human resources management, workplace satellite offices and safety, etc..)
	Respect for human rights	<ul style="list-style-type: none"> Implementation of commitment to respect for human rights, human rights due diligence, disclosure of processes and measures taken to prevent human rights abuses (e.g. addressing human rights issues in supply chain contracts, etc..)
	Prevention of corruption and bribery	<ul style="list-style-type: none"> Systems related to anti-corruption, anti-bribery, management methods and measures, etc..

(2) Trends in Europe ④ (Disclosure regulations for financial institutions, etc..)

- ❑ The Sustainability-related Disclosure Regulations (SFDR) for EU financial institutions were published in 2019.
- ❑ The draft regulatory standards (deadline for submission of public comments on September 1, 2020) outline items related to sustainability that require disclosure.

Disclosure regulations for Financial institutions (SFDR*) (previous page 7)

Note: EU Regulation on Sustainability-Related Disclosure in the Financial Services Sector (published Dec. 2019)

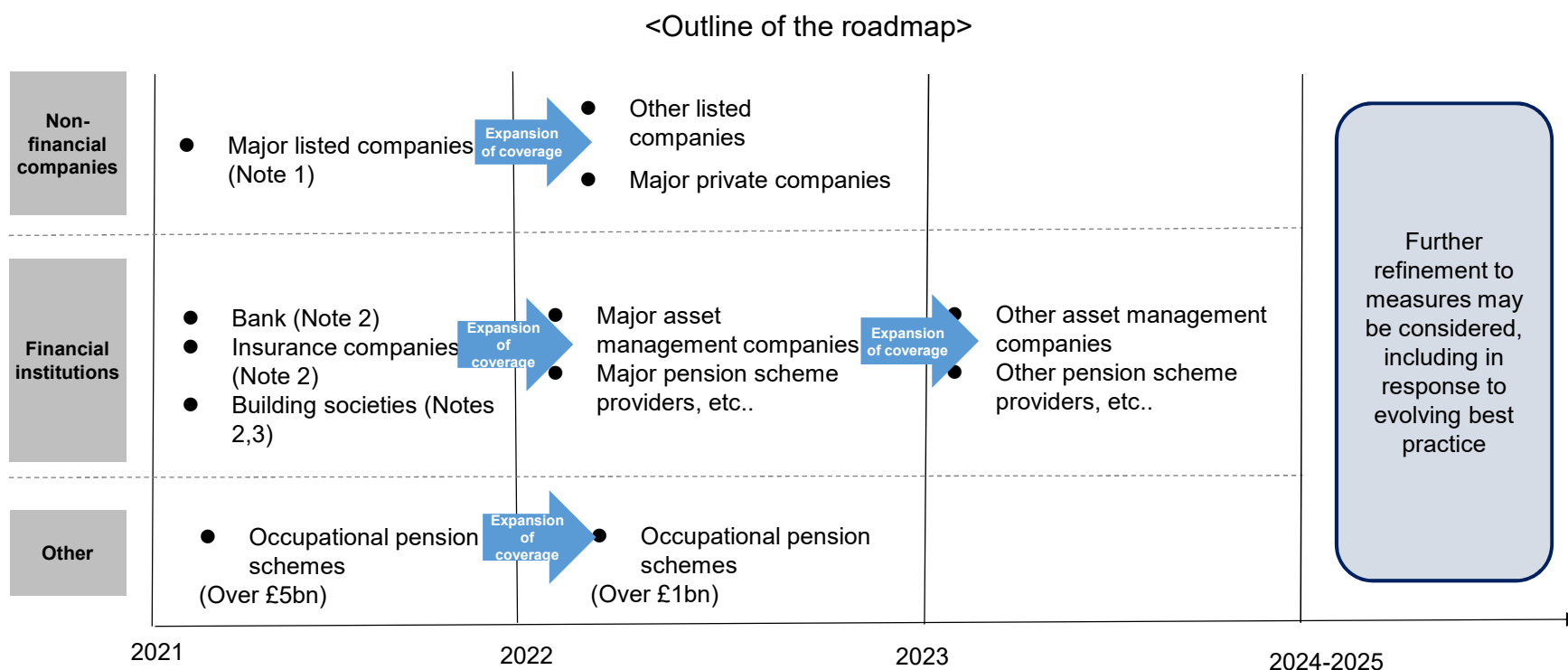
Partner	<ul style="list-style-type: none"> Financial institutions and financial advisors who offer financial services such as asset management
Disclosure medium	<ul style="list-style-type: none"> Many of these items are published on company websites (some items are designated for inclusion in the annual reports according to type of business)
Disclosure details	<p>[By business unit]</p> <ul style="list-style-type: none"> Policies on sustainability risk, consideration of sustainability impacts, sustainability risk integration, etc.. (Comply or explain principle unless specifically required) <p>[By financial products]</p> <ul style="list-style-type: none"> Disclosure of adverse sustainability impacts, promotion of environmental or social characteristics, sustainable investment initiatives, etc.. (Comply or explain principle unless specifically required)

Regarding adverse sustainability impacts, the draft regulatory standards require disclosure of 32 items as follows in line with the format.

Disclosure items in the draft regulatory technical standards (RTS)	Greenhouse gases	1. Carbon emissions 2. Carbon Footprint 3. Weighted Average Carbon Intensity 4. Solid fossil fuel exposure
	Energy performance	5. Total energy consumption from non-renewable sources 6. Breakdown of energy consumption by type of nonrenewable sources of energy 7. Energy consumption intensity 8. Energy consumption intensity per sector
	Biodiversity	9. Biodiversity and ecosystem preservation practices 10. Natural species and protected areas 11. Deforestation
	Water	12. Water emissions 13. Exposure to areas of high water stress 14. Untreated discharged wastewater
	Waste	15. Hazardous waste ratio 16. Non-recycled waste ratio
	Social and employee matters	17. Implementation of fundamental ILO Conventions 18. Gender pay gap 19. Excessive CEO pay ratio 20. Board gender diversity 21. Insufficient protection of whistleblowers 21. Investment in companies without workplace accident prevention policies)
	Human rights	23. Human rights policies 24. Due diligence 25. Processes and measures for preventing trafficking in human beings 26. Operations and suppliers at significant risk of incidents of child labour 27. Operations and suppliers at significant risk of incidents of forced or compulsory labour 28. Number and nature of identified cases of severe human rights issues and incidents 29. Exposure to controversial weapons (land mines and cluster bombs)
	Anti-corruption and anti-bribery	Anti-corruption and anti-bribery policies 31. Cases of insufficient action taken to address breaches of standards of anti-corruption and anti-bribery 32. Number of convictions and amount of fines for violation of anti-corruption and anti-bribery laws

(2) Roadmap towards mandatory disclosure based on UK TCFD recommendations

- ❑ HM Treasury in the UK published a roadmap towards mandatory climate-related disclosures over the next five years based on proposals of the TCFD. The Chancellor of the Exchequer has stated that he intends to make compliance with these recommendations mandatory by 2025.
- ❑ In addition, as part of this roadmap, the FCA (Financial Conduct Authority) has revised its listing rules and required disclosures in accordance with the TCFD recommendations for all companies with a premium listing on a comply-or-explain basis. Effective for accounting periods beginning on or after 1 January 2021.



Note 1 Comprises all companies with a premium listing on the LSE.

Note 2 Disclosure requirements for listed companies are based on listing regulations. For private companies, disclosure requirements are expected to be based on future regulatory supervision and processes.

(Note 3) Depositary financial institution whose main business is mortgages (housing-backed loans), established in accordance with the Building Societies Act 1986.

Source: FSA data compiled from the UK Treasury

(2) TCFD disclosures: UK (London Stock Exchange Listing Rules)

- In December 2020, the FCA (Financial Conduct Authority) revised its listing rules and required disclosures in accordance with the TCFD recommendations for all companies with a premium listing on a comply-or-explain basis. Effective for accounting periods beginning on or after 1 January 2021.

Item	Disclosure items
Disclosure item; Document in which disclosed	<div> <div> <ul style="list-style-type: none"> ■ Are all items of the TCFD Recommendations and Recommended Disclosures (Note 1) disclosed in the annual report? (9.8.6R(8)(a)) </div> <div> <p>No</p> <ul style="list-style-type: none"> ■ If the company has made disclosures consistent with the TCFD Recommendations and Recommended Disclosures, but some or all items are disclosed in a document other than the annual financial report, the following disclosure is required (9.8.6R(8)(b)(I))) <ul style="list-style-type: none"> • Items disclosed in a document other than the annual financial report • Description of the disclosure document • Reasons for including the relevant disclosures in that document (Explain) ■ If the company has not made disclosures consistent with the TCFD Recommendations and Recommended Disclosures in the annual financial report or any other disclosure document, the following disclosure is required (9.8.6R(8)(b)(II))) <ul style="list-style-type: none"> • Non-disclosed item • Reason for non-disclosure (Explain) • Plans for making this disclosure in the future, and timeframe within which said disclosure shall be made <p>Yes</p> <ul style="list-style-type: none"> ■ Where in the annual financial report the disclosure item based on the TCFD Recommendations and Recommended Disclosures can be found (R 9.8.6R(8)(c)) </div> </div>
Consideration of guidance on TCFD recommendations	<ul style="list-style-type: none"> ■ In determining whether disclosures are consistent with the TCFD Recommendations and Recommended Disclosures, companies should undertake a detailed assessment which takes account of the guidance (R 9.8.6B G) (Note 2). ■ In determining whether a company's disclosures are consistent with the TCFD Recommendations and Recommended Disclosures, the FCA states that the company should take account of the guidance (R 9.8.6C G) (Note 3).
Determining whether disclosures are consistent with the TCFD Recommendations and Recommended Disclosures	<ul style="list-style-type: none"> ■ A listed company should consider whether its disclosures provide sufficient detail to enable users to assess its exposure to and approach to addressing climate-related issues. A listed company should carry out its own assessment to ascertain the ■ This assessment should take into account two factors: (1) the level of its exposure to climate-related risks and opportunities (2) the scope and objectives of its climate-related strategy. (R 9.8.6D G) ■ The FCA would ordinarily expect a listed company to be able to make climate-related financial disclosures consistent with the TCFD Recommendations and Recommended Disclosures, except where it faces transitional challenges in obtaining relevant data or embedding relevant modelling or analytical capabilities (R 9.8.6E G) <ul style="list-style-type: none"> • Specifically, for "Governance, Risk Management, and Strategy, excluding scenario analysis"

Note 1: Refers to the recommendations (governance, strategy, risk management, metrics and targets) and recommended disclosures (11 items) shown in Figure 4 of Section C of the TCFD Final Report (published in June 2017).

Note 2: (Note 2) Refers to guidance for all sectors, financial and non-financial, in the annex of labor the TCFD Final Report "Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures" (published in June 2017)

Note 3: Refers to the Technical Supplement (published June 2017), the Guidance on Risk Management Integration and Disclosure (published October 2020) and the Guidance on Scenario Analysis for Non-Financial Companies (published October 2020)

Source: FSA data based on Financial Conduct Authority "Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations"(published 12/21/2021)

(2) TCFD Recommendations and Recommended Disclosures

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended disclosures	Recommended disclosures	Recommended disclosures	Recommended disclosures
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2° C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Note: Blue text refers to disclosure items for which quantitative information is required

Source: Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures

(2) Trends in the United States

- ❑ In the United States, unlike Europe, there are no regulations that require disclosure by individual examples of sustainability. **SEC-registered companies are required to disclose any “material information” that influences their investment decisions.**
- ❑ In the past, the government has been cautious about tightening up ESG disclosure requirements because this would lead to an increase in the burden on issuers. Recently, however, there has been greater momentum behind calls for stricter ESG disclosure. In accordance with Democratic Party’s election pledges, the Biden administration is expected to tighten disclosure regulations centered on climate change.

Current Rules (disclosure of “material information”) ← → Move to setting standards for disclosure of ESG matters

Regulation S-K		Commission Guidance Regarding Disclosure Related to Climate Change
SEC (1977) (Partially revised in 2020)		SEC (2010)
Disclosure of non-financial information in annual report		Disclosure of climate change risk information in annual report
Requirement to disclose “material” information that affects investment decisions. For example... <ul style="list-style-type: none"> ① Description of the business <ul style="list-style-type: none"> ➢ Includes estimated significant capital expenditures for environmental control facilities. ② Legal proceedings ③ Risk factors ④ MD&A (Management’s Discussion & Analysis) 	Revised August 2020 Disclosure of human capital required to the extent it is deemed important (material) for understanding the business in relation to Sustainability. (See next page for details)	Examples of climate change-related issues that companies may need to consider for disclosure purposes <ul style="list-style-type: none"> ① Influence of legislation and regulation <ul style="list-style-type: none"> ➢ Kyoto Protocol, etc..) ③ Indirect consequences of regulation or business trends <ul style="list-style-type: none"> ➢ Decreased demand for services related to carbon based energy sources ④ Physical impacts of climate change <ul style="list-style-type: none"> ➢ Severe weather, elevation of sea level, etc..

Proposed by the ESG Subcommittee under the SEC Advisory Committee (December 2020)

President Biden’s pledges

Recommendations Regarding Issuer Disclosure

- **The SEC should require the adoption of standards by which corporate issuers disclose material ESG risks**
 - Existing disclosure rules are already very clear that material risks must be disclosed by issuers. What is lacking is consistent standards by which to make these disclosures. Those standards should be 1) authoritative and binding, akin to generally accepted accounting principles (GAAP); 2) apply to disclosure of material ESG risks and guide issuers in determining whether an ESG risk is material (for example, Sustainability Accounting Standards Board (SASB) standards) 3) comprehensively address all material ESG risks.
- **The SEC should utilize standard setters’ frameworks to require disclosure of material ESG risks**
 - The SEC is recommended to designate those third-party ESG disclosure frameworks as authoritative and binding, putting them at parity with standards promulgated under GAAP.
- **The SEC should require that material ESG risks be disclosed in a manner consistent with the presentation of other financial disclosures**

- **Re-enter the Paris Agreement on day one of the Biden Administration (January 20, 2021) and lead a major diplomatic push to raise the ambitions of countries’ climate targets**
- **Achieve net-zero emissions by 2050 at the latest**
- **Require public companies to disclose climate risks and the greenhouse gas emissions in their operations and supply chains.**

Source: FSA excerpts from SEC website and The Biden Plan for a Clean Energy Revolution and Environmental Justice

(2) SEC Rule Amendments on Human Capital

- ❑ The U.S. Securities and Exchange Commission (SEC) **revised its rules on disclosure of non-financial information in August 2020 and required new disclosures on human capital** (effective November 9, 2020).
- ❑ The amendments concerning human capital disclosure in the new rules are summarized below:

Summary of amendments

- The revised regulations state that a description of the registrant's human capital resources should be included to the extent such disclosures would be material to an understanding of the registrant's business. A principles-based approach is adopted.
- The SEC did not include more prescriptive requirements because the exact measures and objectives included in human capital management disclosure may evolve over time and may vary significantly, based on factors such as the various regions in which the registrant operates and its general strategic posture.
- The details of the amendments concerning human capital disclosure in the new rules are summarized below:

- **Disclosure of the company's human capital resources is required in the Description of the Business section to the extent that such disclosures are material for understanding the business.**
- **Disclosures on human capital resources include (1) a description of human capital (including the number of employees), and (2) any human capital measures or objectives that the registrant focuses on in managing the business** (for example human capital measures and objectives that address the attraction, development, and retention of personnel, depending on the nature of the registrant's business and workforce)

ITEM 1. Business

Human Capital

The Company's key human capital management objectives are to attract, retain and develop the highest quality talent. To support these objectives, the Company's human resources programs are designed to develop talent to prepare them for critical roles and leadership positions for the future, reward and support employees through competitive pay, benefit, and perquisite programs; enhance the Company's culture through efforts aimed at making the workplace more engaging and inclusive; acquire talent and facilitate internal talent mobility to create a high-performing, diverse workforce; engage employees as brand ambassadors of the Company's content, products and experiences; and evolve and invest in our workforce.

The Company employed approximately 203,000 people as of October 3, 2020. Our part-time employees, with nearly 1% of the part-time population being seasonal employees of our employees worked in the Parks, Experiences and Products segment.

Some examples of key programs and initiatives that are focused to attract, develop and retain talent include:

- Diversity and inclusion (D&I). Our D&I objectives are to build teams that reflect a diverse array of voices in our creative and production content.

- Established six pillars that serve as the foundation for our D&I commitments: culture, talent, leadership, content, community, and technology.

Created a pipeline of next-generation creative executives from underrepresented backgrounds through programs such as the Executive Incubator, Creative Talent Development and Inclusion (CTDI), and the Disney Launchpad: Shorts Incubator.

In addition to a description of human capital and objectives related to it, and the number of employees, some companies disclose the breakdown of employees and details of major programs for developing and maintaining human resources.

③ Current status of sustainability disclosures in Japan

(2) Overview of sustainability disclosure system in Japan

- ❑ The domestic sustainability disclosure framework is as follows.

Major Japanese ESG systems (Environment-related)

Disclosure system	Year of establishment	Primary targets	Overview
Act on Promotion of Global Warming Countermeasures	1998	Business operators	Since 2006, businesses that emit in excess of a prescribed level of greenhouse gases are required to calculate their own greenhouse gas emissions and report these to the national government. The Energy Conservation Act (Note 3) requires similar reporting for some businesses.
Environmental Consideration Act (Note 2)	2004	Specified business operators (Note 3) Large companies	Establishment of institutional framework for promoting environmental reporting, etc., in order to encourage <u>voluntary environmental initiatives</u> by businesses Publication of environmental report is mandatory for specified business operators. Environmental initiatives are <u>mandatory for large enterprises</u> (Note 4).

Note 1: Energy Conservation Act: Act on Rationalizing Energy Use. Note 2: Environmental Consideration Act: Act on the Promotion of Business Activities with Environmental Consideration by Specified Corporations, etc., by Facilitating Access to Environmental Information, and Other Measures

Note 3: Specified business operators: For corporate entities established by a special act, those entities specified by a Cabinet order, taking into consideration the degree of relevance to national government affairs or businesses, organizational status, degree of environmental load, the scale of business activities, etc.. Specifically, certain public corporations, such as independent administrative corporations, national universities, and Japan Environmental Safety Corporation. Note 4: Large enterprises: Non-SMEs (excluding specified business operators)

Major Japanese ESG systems (Non-environmental)

Disclosure system	Year of establishment	Primary targets	Overview
Act on Promotion of Women's Participation and Advancement in the Workplace,	2015	Permanent employers Companies with more than 100 employees	<u>Mandatory provision of details enabling understanding of situation regarding women's advancement, analysis of issues, action planning, notifications, etc..</u> 2020 amendment expands the scope of obligations from companies with over 300 regular employees staff to companies with over 100 regular employees.
Cabinet Office Order on Disclosure of Corporate Affairs	1973 (Amended 2019)	Listed companies	<p><u>Mandatory disclosure of the number of employees in the consolidated company; number of employees, age, average number of years of service, average annual salary for companies submitting an annual securities report; average number of temporary employees in one year (if there are a large number of temporary employees); ratio of female officers.</u></p> <p>2019 amendment Amendment of information provided in the annual securities reports, etc.. to enhance financial information and descriptive information For disclosure of "business risks", companies <u>are required to disclose the extent and the potential timing of materialization of these risks, the impact on the business, and countermeasures in response..</u></p>

(2) Best practice for narrative information

- ❑ A working group was held with investors, analysts and companies on the **Examples of Best Practice Regarding the Disclosure of Narrative Information** published in March 2019. Based on subsequently published annual securities reports, best practice examples of disclosure of management policies, risk factors, management analysis of operating results (MD&A: Management Discussion and Analysis), an amended/updated report was published in December 2019. In addition, positive case studies concerning the COVID-19 pandemic and ESG matters were published in November 2020.

- In each example, points of best practice are highlighted in the blue box.
- For the best practice examples, in addition to examples of disclosures in the annual securities report, disclosure examples in arbitrary disclosure documents (such as the integrated report) are also highlighted as references for disclosures in the annual securities report.
 - ideally, based on the comments in the blue box, key elements of these disclosure examples will be incorporated in the annual securities report.
- In FY2020, in addition to the existing items, new items related to COVID-19 and ESG matters were added and published as Examples of Best Practice Regarding the Disclosure of Narrative Information 2020.
- Examples include disclosures that reflect discussions from a management perspective and the management's approach, incorporate information in arbitrary disclosure documents into the annual securities report, and incorporate the use of charts and diagrams into the text.

The collage consists of three pages from the 'Examples of Best Practice Regarding the Disclosure of Narrative Information 2020' document.

- Left Page:** The 'Table of Contents' (目次) for the '2020 Best Practices for Disclosure of Narrative Information' (記述情報の開示の好事例集 2020). It lists sections on COVID-19 and ESG, with page numbers. A blue box highlights the 'CONTENTS' section, which includes '1. 「新型コロナウイルス感染症」に関する開示例 (公表)」 and '2. 「ESG」に関する開示例 (公表)」.
- Middle Page:** A screenshot of a company's annual securities report. A blue box highlights a disclosure about COVID-19, mentioning the company's response to the pandemic and its impact on operations. The text is in Japanese.
- Right Page:** A screenshot of a company's annual securities report. A blue box highlights a disclosure about ESG matters, specifically regarding the company's approach to environmental and social issues. The text is in Japanese.

(2) Current status of sustainability information disclosures in Japan

- ❑ Some companies also have **quantitative ESG-related indicators in their annual securities reports** and **descriptions of ESG solutions and objectives in relation to their management strategies**.

Management policies, business environment, issues to be addressed, etc.. *Excerpt

(2) Review of previous medium-term management plan

② Non-financial targets (social values)

Setting of quantitative goals to contribute to “Healthy mind and body,” “Food resources,” and “Global sustainability” through the business, in line with ESG principles (“Environment” “Social” “Corporate Governance”)

	Details of non-financial targets		2017 Actual	2018 Actual	2019 Actual	2020 Target * Some targets set for 2020 and beyond.
Social	Better nutritional balance by eating more protein and vegetables with umami	Meat and vegetable consumption through Ajinomoto Group products (Five Stars, Japan)	Meat: 7.2 mil. tonnes Vegetables: 4.4 mil. tonnes	Meat: 7.2 mil. tonnes Vegetables: 4.4 mil. tonnes	Meat: 7.0 mil. tonnes Vegetables: 4.3 mil. tonnes	Meat: 8.6 mil. tonnes 19% (9.7 kg/person/year) (+3% (+2.0kg) vs. 2015) Vegetables: 5.5 mil. tonnes 8% (6.2 kg/person/year) (+2% (+1.6kg) vs. 2015)
	More eating together.	Contribution to eating together through the Group's products (Five Stars, Japan Note 1)	60 times	60 times	58 times	70 times/household/year (+20 times vs. 2015)
	Smart and delicious cooking.	Spare time created through the Group's products (Japan)	37 mil. hours	37 mil. hours	37 mil. hours	38 mil. hours/year (6hours/household/year) (+7 mil. hours vs. 2015)
	People's comfortable lifestyles	Contribution to comfortable lifestyles through the Group's amino acid products (AminoScience)	19.8 mil. people	19.9 mil. people	19.5 mil. people	22.0 (+4 mil. people vs. 2015)
Environment	Reducing greenhouse gases: Making products carbon neutral throughout entire life cycle.	Greenhouse gas emissions per production unit	35% reduction (vs. 2005)	33% reduction (vs. 2005)	39% reduction (vs. 2005)	2020: 9% reduction (vs. 2015) (Note 2) 2030: 50% reduction (vs. 2005)
		Renewable energy ratio	23%	24%	26%	2020: 28% 2030: 50%
		CFC elimination	-	-	-	2025: 100% fully introduced 2030: HFCs (Note 3) Minimal ownership

Environment	Reduction of food loss: Halve lifecycle food loss by 2050.	Reduction of food loss from receipt of raw materials to delivery to customer	4% increase	17% increase (Note 4)	2% increase	2020: 20% reduction vs. 2016 2025: 50% reduction vs. 2016
	Securing food resources and preserving the natural environment including ecosystems and biodiversity: Contribute to securing food resources for the next generation and preserving the natural environment including ecosystems and biodiversity, and realize sustainable procurement.	Sustainable procurement	Palm oil 14%	Palm oil 25%	Palm oil 25%	2020: Palm oil/paper 100% 2030: Raw material issues 100%
		Reduction of natural raw material usage by low resource utilization fermentation technologies, by-product utilization, and raw material alternative technologies	79%	79%	79%	2025: 100% introduced

(3) New medium-term management plan

- Ajinomoto Group's ASV Management ((The Ajinomoto Group Creating Shared Value) - Vision for 2030 and 2020–2025 Medium-Term Management Plan

⑤ KPIs

(b) Non-financial targets

In particular, we are focused on solving health and environmental issues in the context of ESG (Environment, Social and Governance). As for environmental issues, we will work toward reducing greenhouse gas emissions by 50% by fiscal 2030 and mitigating economic risks such as those related to carbon taxes by 8 to 10 billion yen. At the same time, we will work alongside stakeholders to reduce the impacts of other important issues concerning water risk, plastic waste, food loss and waste, and sustainable procurement.

ESG課題		解決施策	目標	リスク
気候変動	温室効果ガス	<ul style="list-style-type: none">国際イニシアティブへの参加省エネ、再生可能エネルギー活用新技術による社会への貢献	温室効果ガス削減率 FY25: 25%削減(対FY18) FY30: 50%削減(対FY18)	80-100億円 相当のリスク。 軽減を目指した 施策を実行
	水リスク	<ul style="list-style-type: none">製造工程水使用量削減水源の森林整備	水使用量削減率 ¹ FY30: 80%削減(対FY05) 飲料使用水森林整備率 FY25: 100%以上	
資源循環型 社会構築	プラスチック 廃棄物	<ul style="list-style-type: none">リデュース: 包装コンパクト化等リサイクル: モノマテリアル素材転換 産官連携成果技術の共有	プラスチック廃棄物 FY30: ゼロ化	
	フードロス	<ul style="list-style-type: none">製造工程廃棄物削減有効活用拡大	フードロス削減率 ² FY25: 50%削減(対FY18)	
サステナブル 調達	森林破壊 生物多様性 人権 動物との共生	<ul style="list-style-type: none">持続可能なコーヒー豆、パーム油、紙、大豆、牛肉の調達「動物との共生に関するグループポリシー」に沿った調達	持続可能な調達比率 FY30: 調達原料100%	

1: 対生産量単位削減率 2: 原料受け入れからの客先納品まで (Scope 1)

(2) Current status of sustainability information disclosures in Japan ②

- Regarding climate change-related disclosures, there are examples where prescribed scenarios and the analytical results of each scenario are specifically described in accordance with the TCFD framework.

シナリオ分析

シナリオ設定

●シナリオ分析とは

気候関連リスクと機会を正しく認識した上で、現在の事業戦略に及ぼす影響を評価し、将来の事業戦略策定に活用していくものです。当社事業は気候変動の影響を大きく受ける可能性のある事業であるため、以下の2つのシナリオを

設定しました。

いずれのシナリオも国際エネルギー機関(IEA)が公表しているシナリオをベースとしつつ、カーボンプライスについては2℃目標達成の実現性を高めるために主要排出国に共通で導入されることを前提として分析を実施しました。

設定シナリオ		2℃シナリオ	4℃シナリオ
参照シナリオ	移行面	国際エネルギー機関(IEA)による移行シナリオ ●「持続可能な発展シナリオ(SDS)」 ^{※1} ●「2℃シナリオ(2DS)」 ^{※2}	国際エネルギー機関(IEA)による移行シナリオ ●「新政策シナリオ(NPS)」 ^{※1} ●「参照技術シナリオ(RTS)」 ^{※2}
	物理影響面	国連気候変動に関する政府間パネル(IPCC)による気候変動予測シナリオ ●「代表的濃度経路シナリオ(RCP)」 ^{※3}	
社会像		今世紀末までの平均気温の上昇を2℃未満に抑え、持続可能な発展を実現させるため、大胆な政策や技術革新が進められる。 脱炭素社会への移行に伴う社会変化が、事業に影響を及ぼす社会を想定。 ●全世界/産業共通のカーボンプライス ^{※4} ●自動車販売に占める電動車比率拡大	パリ協定に則して定められた約束草案などの各国政策(新政策)が実施されるも、今世紀末までの平均気温が4℃程度上昇する。 温度上昇等の気候の変化が、事業に影響を及ぼす社会を想定。 ●洪水被害の発生回数増大 ●海水面の上昇

※1 出典：IEA「World Energy Outlook 2018」 ※2 出典：IEA「Energy Technology Perspectives 2017」 ※3 出典：IPCC「第5次評価報告書」

※4 国によってカーボンプライスが異なる場合、CO₂排出権が輸入国の産業と輸出国の産業との間で国際競争力に差が生じ、その結果としてカーボンリーケージ(輸入国の生産・投資が縮小してCO₂排出量が減る一方、輸出国の生産・投資が拡大してCO₂排出量が増加する)を引き起こすこととなります。参照シナリオであるSDSでは、先進国と一部途上国へのカーボンプライス導入が想定されています。当社は、SDSを踏まえ、2℃目標達成の実現性を高めるために、主要排出国に共通でカーボンプライスが導入されることを前提として2℃シナリオを設定しました。

●分析対象事業と期間

JFEスチール：鉄鋼事業、JFEエンジニアリング：エンジニアリング事業、JFE商事：商社事業を対象とし、一部グループ会社の事業も含めてシナリオ分析を実施しました。また、分析対象期間は2050年までとしました。

●日本鉄鋼連盟「長期温暖化対策ビジョン」との整合性

日本鉄鋼連盟で策定した「長期温暖化対策ビジョン」は、2100年までを見据えた最終的な「ゼロカーボン・スチール」への挑戦を意味するものです。一方、当社グループのシナリオ分析の対象期間は、長期的な挑戦の途中段階において、当社グループの事業戦略の強靱性を確保していくことを企図して、2050年に設定しました。

事業に影響を及ぼす重要な要因の選定プロセス

●重要なリスク機会・要因の選定プロセス

STEP1: 対象事業に影響を及ぼす要因をバリューチェーン上で俯瞰して整理

STEP2: 要因を網羅的に俯瞰した上で、「要因に与える影響度」と「ステークホルダーの期待と懸念」を勘案し、特に重要な要因を選定

	2℃シナリオ	4℃シナリオ
調達への影響		⑤気象災害多発による原料調達不安定化
直接操業への影響	①鉄鋼プロセスの脱炭素化 ②鉄スクラップ有効利用ニーズの高まり	⑥気象災害による拠点損害
製品・サービス需要への影響	③自動車向け等の鋼材需要の変化 ④脱炭素を促進するソリューション需要の拡大	⑦国土強靱化

影響度

ステークホルダーの期待と懸念

重要な要因の選定

重要な要因の選定軸：●影響度(リスク機会が発生する可能性)×発生した場合の影響の大きさ) ●ステークホルダーの期待と懸念

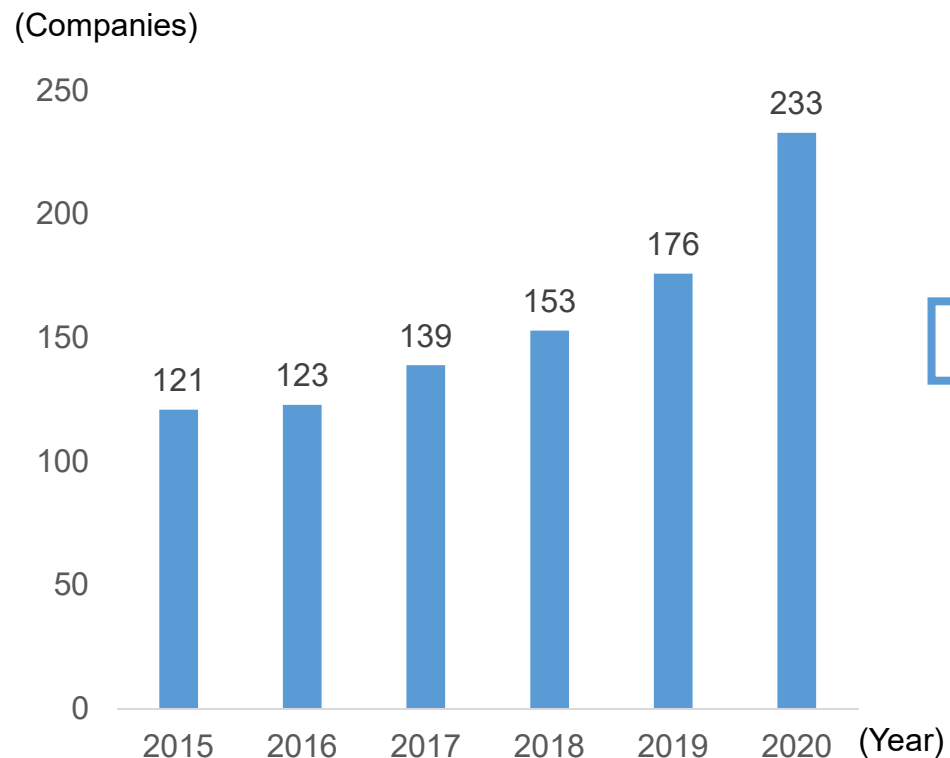
シナリオ分析結果

	社会の変化・変化への対応		JFEグループに対するステークホルダーの期待と懸念	評価結果
2℃シナリオ 重要な要因① 鉄鋼プロセスの脱炭素化	鉄鋼プロセスに対する社会的な脱炭素要求の高まり	大規模な脱炭素を実現する革新技術の導入 カーボンプライスの導入	●革新技術で大きく貢献 ●革新技術導入のための投資負担の増加 ●カーボンプライス導入による操業コスト増加	【機会】 ●既存技術に加えて革新技術を開発・実装 【リスク】 ●革新技術導入の投資負担は可能 ●カーボンプライスは世界共通で導入されコスト競争力は維持
	2℃シナリオ 重要な要因② 鉄スクラップ有効利用ニーズの高まり	炭素排出量が小さい電炉法への注目の高まり スクラップ発生量の増加	●電炉鋼による転炉鋼の代替 ●JFEグループにおける電炉鋼生産の拡大	【機会】 ●スクラップ供給量に制約があり、電炉鋼生産は増加 ●電炉鋼生産、電炉エンジニアリングの拡大 ●スクラップ物流ビジネスが拡大
2℃シナリオ 重要な要因③ 自動車向け等の鋼材需要の変化	自動車に求める需要の変化	EVモーター増加 内燃機関減少 軽量化でマルチマテリアル化	●EVモーター用の電磁鋼板需要が増加 ●内燃機関の減少で特殊鋼需要が減少 ●マルチマテリアル化による自動車向け鋼材の代替	【機会】 ●EV化で電磁鋼板の需要増加 ●自動車販売台数の増加で特殊鋼需要増加 ●自動車用高強度鋼板の需要増加 ●鋼材のリサイクル性に再注目
	素材への環境性能要求の高まり	脱炭素・リサイクル性要求	●鋼材へのさらなる脱炭素・リサイクル性要求	【リスク】 ●マルチマテリアル化の影響は限定的
2℃シナリオ 重要な要因④ 脱炭素を促進するソリューション需要の拡大	脱炭素社会への移行	移行を促進するソリューション需要の拡大 省エネ技術の海外展開	●再生可能エネルギー発電プラント ●日本で開発・実用化した先進省エネ技術(BAT)の、途上国などにおける低炭素ビジネス(エコソリューション)	【機会】 ●再エネ(バイオマス、地熱、太陽光発電)プラントの一貫施工・運営 ●ごみ焼却炉、プラスチックリサイクルプラントの一貫施工・運営 ●CO ₂ -CCS設備の一貫施工 ●低炭素ビジネスの海外展開
4℃シナリオ 重要な要因⑤ 気象災害多発による原料調達不安定化	気候変動に伴う気象災害の激化	原料調達の不安定化	●原料調達の不安定化	【リスク】 ●具体的対策を推進中「代替調達・ソース分散」「設備能力増強」
	4℃シナリオ 重要な要因⑥ 気候変動に伴う気象災害の激化による拠点損害	気候変動に伴う気象災害の激化	●台風や大雨による被害増加 ●洪水被害増加 ●海面上昇による浸水被害発生	【リスク】 ●洪水・浸水対策などは既に実施中 ●海面上昇による浸水影響は対応可能なレベル
4℃シナリオ 重要な要因⑦ 国土強靱化	気候変動に伴う気象災害の激化	インフラ強化の重要性増大 災害対策製品の需要増加	●インフラ強化に資する鋼材・関連製品で貢献	【機会】 ●鋼材・関連製品でインフラ強化

(2) Awareness of human rights as a business risk

- In recent years, a growing number of companies have referred to “human rights” in their annual securities reports. In particular, there has been a rapid increase in the number of companies mentioning human rights as a “business risk.”

**In the Annual Securities Report
Number of companies mentioning "human rights"**



**Changes in the location of mention of
“human rights” in the Annual Securities
Report**

(Companies)

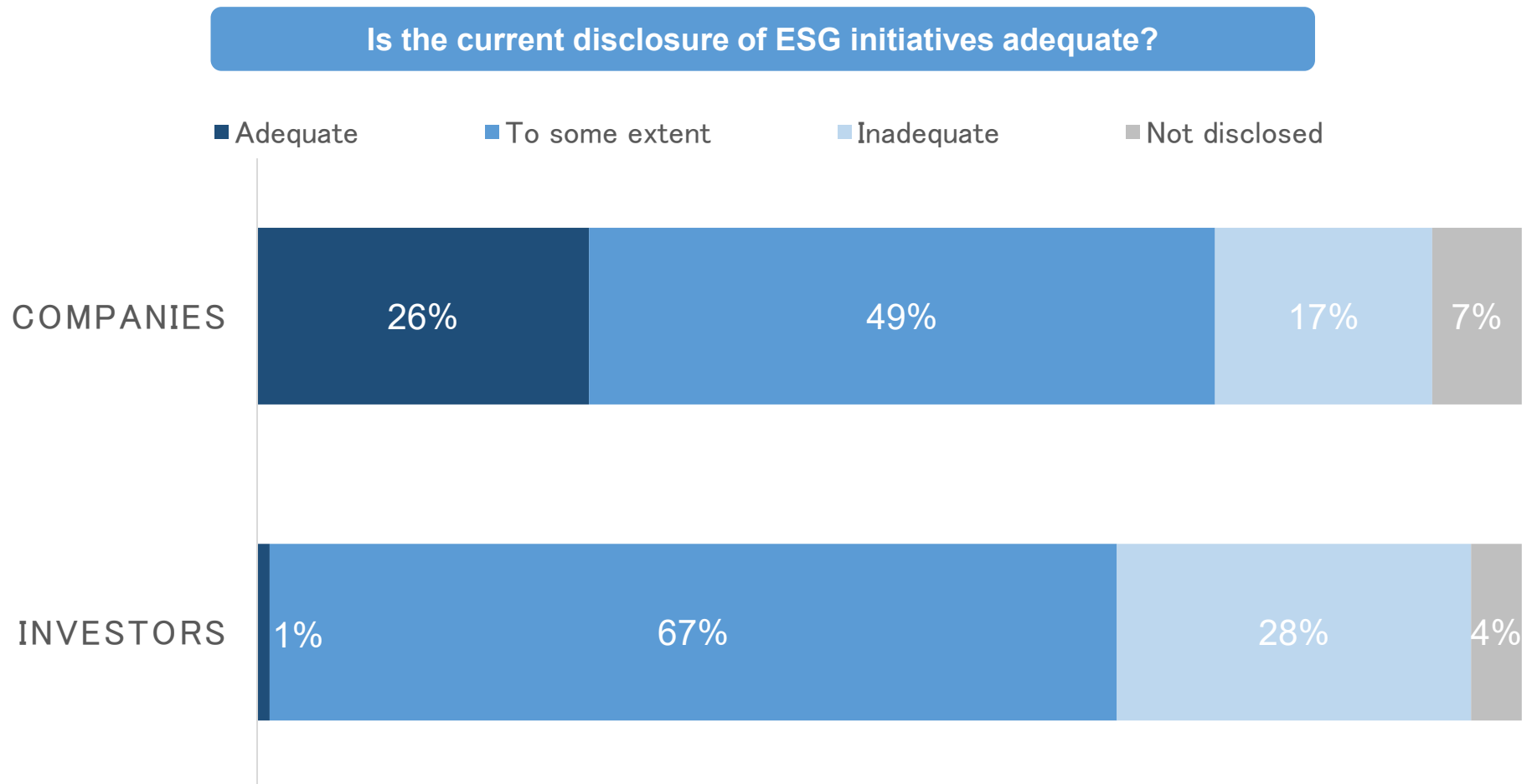
	2018	2019	2020
Management policies, business environment, issues to be addressed, etc..	43	56	80
Business Risks	23	30	80
Status of corporate governance	72	92	112

Note: Survey covers annual securities reports for fiscal year ending April 1, 2019 through March 31, 2020

Source: Compiled by FSA from “ESG Vol.15 - Human Rights as mentioned in statutory disclosure documents” (December 23, 2020)

(2) Company and investor awareness of sustainability disclosures

- Regarding disclosure of information on ESG initiatives, 26% of companies answered they comply with “full disclosure,” but only 1% of investors.



(Note) Respondents: 540 listed companies, 104 investors

Source: FSA data, compiled from “Initiatives by Life Insurers to Reinvigorate the Equity Market and Achieve a Sustainable Society through Asset Management”(April 2020), The Life Insurance Association of Japan.