GUIDANCE FOR INTEGRATED CORPORATE DISCLOSURE AND COMPANY-INVESTOR DIALOGUE FOR COLLABORATIVE VALUE CREATION 2.0

(Guidance for Collaborative Value Creation 2.0)

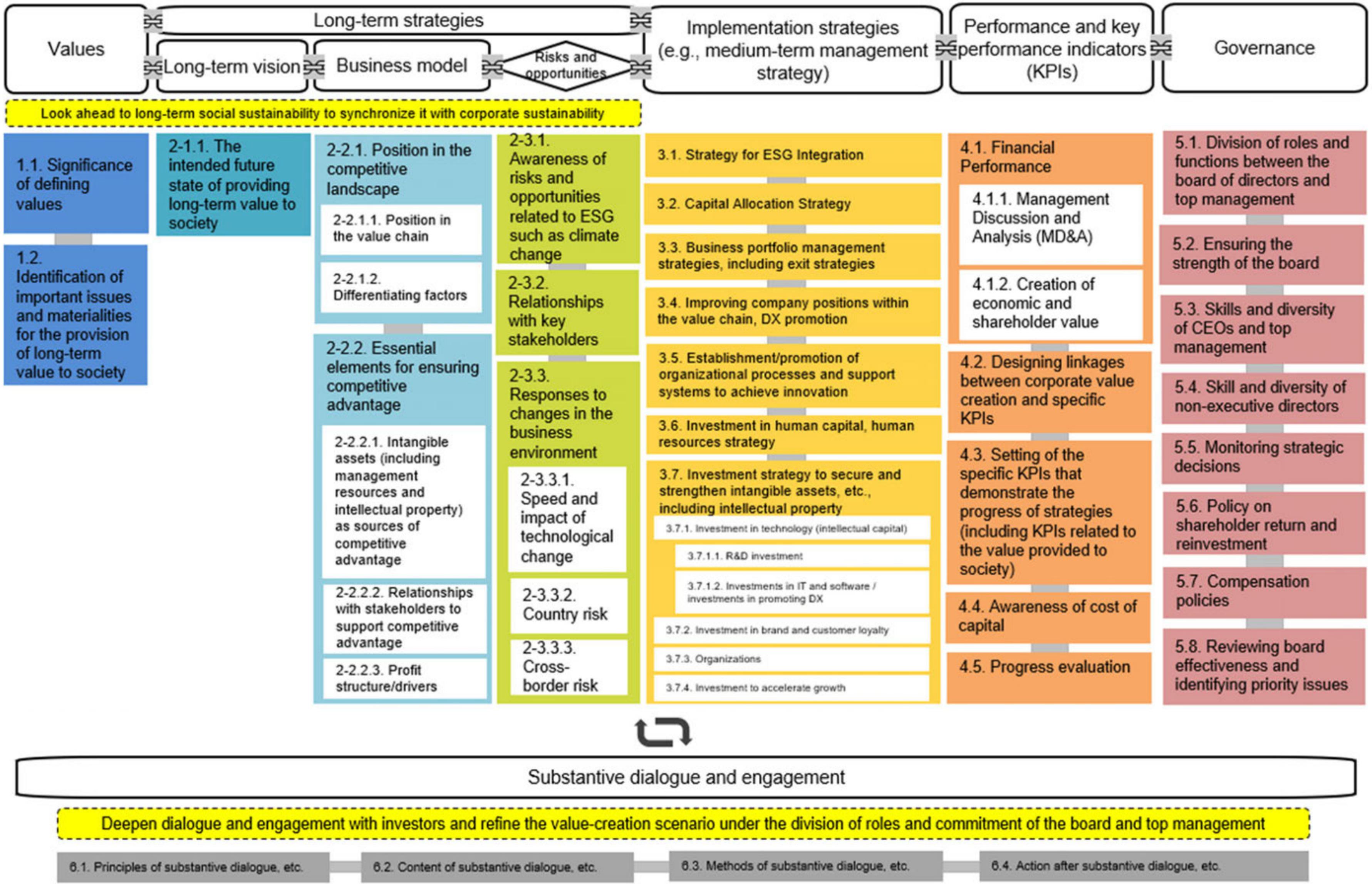
- Collaborative Creation of Value-Creation Scenarios to Achieve Sustainability Transformation (SX) -

Formulated: May 29, 2017

Revised: August 30, 2022

Ministry of Economy, Trade and Industry

<Overview of the Guidance for Collaborative Value Creation 2.0>



Background

[Background of Formulation of the Guidance for Collaborative Value Creation]

In August 2014, the Ministry of Economy, Trade and Industry (METI) released the Ito Review in order to break through the quarter century-long slump in business profitability and capital productivity of Japanese companies (persistent low profitability) and the persistently low stock price, an indicator of future corporate value. The Review looks at the entire investment chain and discusses the need to improve corporate earning power and continue to create sustainable corporate value.

Then the "Study Group on Long-term Investment (Investment evaluating ESG Factors and Intangible Assets) toward Sustainable Growth," established in August 2016, discussed the importance of companies investing in intangible assets such as human resources, intellectual property, and brands, which are the source of competitive advantage and innovation, and the importance of investors actively promoting ESG investment based on non-financial information, in order to achieve medium- to long-term corporate value growth amid the shift of the source of competitive advantage from tangible assets to intangible assets. In this context, it was pointed out that a common language linking companies and investors is necessary to accelerate "collaborative value creation" in which value-creation scenarios are refined through dialogue with investors.

Based on these discussions, the Guidance for Collaborative Value Creation was formulated in May 2017 as a framework for building a company-specific value-creation scenario and leading to high-quality information disclosure and dialogue, and the Ito Review 2.0 was released in October 2017 as a report summarizing these discussions.

[Background of the Revision of the Guidance for Collaborative Value Creation -- Clarification of Its Position as a Framework for Achieving SX]

Since the formulation of the Guidance, the business environment surrounding companies has undergone even more rapid changes. The accelerating pace of the 4th industrial revolution and various ESG issues, including global climate change issues, and the situation surrounding country risk, are having a significant impact on the sustainability of corporate activities. Companies are under pressure to not only respond to risks related to changes in their external environments, but also to incorporate social sustainability into their own management and business activities, in both risks and opportunities, by searching for business opportunities to enhance their own medium- to long-term value.

Under these circumstances, the Interim Report by the Study Group on Approaches to Making More Substantial the Dialogues for Creation of Sustainable Corporate Value, released by METI in August 2020 advocated "sustainability transformation (SX)" in which companies enhance the resilience of corporate management by synchronizing social sustainability (responding to the demands for a sustainable society) and corporate sustainability (maintaining and strengthening their ability to generate funds for growth (earning power) in a long-term and sustainable manner) and by refining their value-creation scenarios through constructive dialogues with investors, in order for companies to enhance their corporate value in a long-term and sustainable manner while responding to changes in their external environments.

The Study Group on Dialogues that Contribute to Long-term Corporate Management and Investment for Creation of Sustainable Corporate Value (SX Study Group), launched in May 2021 as the successor to the Study Group on Approaches to Making More Substantial the Dialogues for Creation of Sustainable Corporate Value, and the Working Group for the Revision of the Guidance for Collaborative Value Creation, a subordinate working group of the SX Study Group, examined how to incorporate into the Guidance for Collaborative Value

Creation the details required for long-term management and the specific desirable ways of company-investor dialogue to achieve SX, and released the Ito Review 3.0 (Ito Review SX Edition) in August 2022, in which the content of these discussions and the essence of SX are summarized.

The Review redefines SX as the "synchronization of social sustainability and corporate sustainability, and the necessary management and business transformation" and positions itself as a "volume on theory" that summarizes the essence of SX. Accordingly, given the increasing importance of addressing sustainability as a fundamental element of business strategy, the Review goes on to explain the importance of various players in the investment chain, including companies and investors, implementing SX by engaging in constructive and substantive dialogues on how long-term management should be and refining such management.

The Review recommends to position the Guidance for Collaborative Value Creation 2.0 as, so to speak, a "volume on practice" for incorporating SX into management and dialogue, and utilize a series of reports and the entire framework in an integrated and consistent manner by reference to the Ito Review for Human Capital Management 2.0, the Guidelines for Human Capital Visualization (to be discussed later), etc.

[Trends in the "New Capitalism"]

In recent years, there has been a lot of debate in Japan and abroad over how the capitalism should be and how we should conceive it.

Discussions on stakeholder capitalism are gaining momentum internationally, beginning with the 2019 U.S. Business Roundtable statement to the effect that the purpose of a company is to work on providing value to all stakeholders.

In Japan, a concept of new capitalism based on a virtuous cycle of growth and distribution was proposed in 2021, and in June 2022, the Cabinet approved the Grand Design and Action Plan for a New Form of Capitalism: Investing in People, Technology, and Start-ups. The Grand Design and Action Plan points out the importance of intangible assets and, in particular, advocates the thorough strengthening of "investment in people" as a "pillar" for creating innovation and achieving a virtuous cycle of growth and distribution.

In addition, as reports focusing on desirable ways of human resources strategy, the Ito Review for Human Capital Management (September 2020) and the Ito Review for Human Capital Management 2.0 (May 2022) have already been referenced by many corporate managers, persons in charge of practical matters and investors. Furthermore, the Guidelines for Human Capital Visualization (August 2022), a set of guidelines focusing on how the disclosure of human capital-related information should be, incorporates discussions regarding the revision of the Guidance for Collaborative Value Creation.

[Trends in International Sustainability-related Disclosure]

At the same time, there have been a variety of developments with respect to frameworks for disclosure of non-financial and sustainability-related information.

More than 1,000 companies and institutions in Japan (as of July 25, 2022) have expressed their support for the disclosure of climate-related information based on the recommendations released in June 2017 by the Task Force on Climate-related Financial Disclosures (TCFD) established by the Financial Stability Board (FSB).

In September 2020, the five major standard-setting bodies for non-financial disclosure (CDP, CDSB, GRI, IIRC, and SASB) issued a joint statement that they would work together to achieve comprehensive corporate reporting, and in December of the same year, they released a document entitled "Reporting on enterprise value: Illustrated with a prototype climate-related financial disclosure standard."

Of the five bodies, the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) merged to form the Value Reporting Foundation (VRF) in June 2021. In addition, the Climate Disclosure Standards Board (CDSB) and VRF were integrated into the IFRS Foundation in January 2022 and August 2022, respectively.

The IFRS Foundation announced the establishment of the International Sustainability Standards Board (ISSB) in November 2021, and in March 2022, the ISSB published the exposure drafts of the “General Requirements for Disclosure of Sustainability-related Financial Information” and "Climate-related Disclosures." It has indicated its intention to establish disclosure standards that focus on information that is important for investors' decision making, including those for areas other than climate change.

In April 2021, the European Commission published a proposal for a Corporate Sustainability Reporting Directive (CSRD) as a new directive to amend the Non-Financial Reporting Directive (NFRD). In April 2022, the European Financial Reporting Advisory Group (EFRAG) launched a call for comments on a working paper on the European Sustainability Reporting Standard, which details disclosure requirements under CSRD.

In August 2020, the U.S. Securities and Exchange Commission (SEC) amended its rules to require listed companies to disclose information on human capital. In addition, in March 2022, the SEC issued a proposal to revise rules on climate-related disclosures.

[Summary and Significance of the Revision of the Guidance for Collaborative Value Creation]

In revising the Guidance for Collaborative Value Creation, we have taken into account the discussions in the SX Study Group and various trends in intangible assets and sustainability-related disclosures in Japan and overseas.

However, the revised Guidance will not result in any changes to the importance of companies and investors collaborating on value-creation scenarios through constructive and substantive dialogue for the purpose of providing long-term value towards the achievement of a sustainable society, because such importance is what the Guidance has emphasized since its formulation. Therefore, in revising the Guidance, we proceeded with our work to incorporate the discussions in the SX Study Group and trends in intangible assets and sustainability-related disclosures in Japan and overseas, while utilizing the content of the initial version of the Guidance for Collaborative Value Creation as much as possible.

First, we clarified the significance of SX in the Guidance. Specifically, all items clearly state the importance of long-term sustainable value provision by companies towards the achievement of a sustainable society, and the direction of responses based on such importance.

Second, in response to the recent intensifying changes in the industrial structure and business environment and to the growing demand for a sustainable society, we have emphasized the importance of management and business transformation on a long-term timeframe to achieve long-term and sustainable corporate value growth.

To this end, we have added a new major item entitled "Long-term Strategies," which consists of three sub-items: "Long-term Vision" that describes the intended future state of company; "Business Model" that serves as the foundation for long-term sustainable corporate value growth; and "Risks and Opportunities" that is used to identify and analyze risk factors and business opportunities and apply them to short-, medium- and long-term actions.

In addition, at the beginning of each item, we have briefly described "points" that should be particularly emphasized.

Third, in order to ensure consistency with the disclosure structure of "governance," "strategy," "risk management," and "metrics and targets," which has been gaining ground since the TCFD recommendations, we have organized the Guidance so that the corresponding items of "Governance," "Implementation Strategies (e.g., medium-term management strategy)," "Risks and Opportunities" and "Performance and Key Performance Indicators (KPIs)" in the Guidance for Collaborative Value Creation can be utilized.

Fourth, we have reorganized the Guidance to emphasize the importance of human capital investment and human resources strategies in "Implementation Strategies (e.g., medium-term management strategy)" in light of the fact that there is a growing awareness that human capital—as an important intangible asset that serves as the starting point for the value generated by a company—is closely related to various components of corporate value and is an important element from the perspective of ensuring the compatibility between social sustainability and corporate sustainability, and the fact that human capital investment is a core element that raises entry barriers against competitors and forms a competitive advantage.

Finally, we have added a new item on "Substantive Dialogue and Engagement" in order to further clarify the importance of companies and investors collaboratively creating and refining the overall value-creation scenario through constructive and substantive dialogue.

[What is expected of a company]

As the debate on sustainability deepens both domestically and internationally, there have emerged various ways of understanding the scope of "stakeholders" to be captured by companies and the "value" to be created by companies.

As long as a company is organized as a stock company, the ultimate profits generated by the company belong to its shareholders. At the same time, in order for a company to conduct business activities sustainably, it is important to solve the issues of various stakeholders (e.g., customers, business partners in the value chain, partners in joint research and joint ventures, local communities, and public institutions) and to earn profits in return therefor.

Therefore, it is important to view the "value" created by a company in a cyclical manner where the company earns profits by solving the issues faced by stakeholders through its competitively advantageous business activities, thereby enhancing corporate value in a medium- to long-term and sustainable manner, while using such profits for shareholder return and reinvestment to solve further issues. Such cyclical thinking will accelerate the synchronization of social sustainability (responding to the demands for a sustainable society) and corporate sustainability (maintaining and strengthening companies’ ability to generate funds for growth (earning power) in a long-term and sustainable manner).

However, how the value provided to internal and external stakeholders and society as a whole (social value) and the companies’ ability to generate funds for growth (earning power) in a long-term and sustainable manner related to each other varies depending on the companies’ business models and strategies. In disclosing information to and engaging in dialogue with investors and capital markets to achieve SX, companies are required to proactively consider their value-creation scenarios and disclosed information without falling into the trap of standardizing the content (boilerplating).

We must also remember that "SX" is "X (transformation)" and the Guidance for Collaborative Value Creation 2.0 is a framework for management and business transformation, not just a framework for disclosure and dialogue. It is expected that the

Guidance for Collaborative Value Creation 2.0 will be utilized in a series of processes, such as developing a value-creation scenario to achieve SX, and implementing management and business transformation while further refining the scenario through dialogue with investors and capital markets. In this connection, it is important that not only top management responsible for business execution but also the board of directors, including outside directors, engage in multifaceted discussions. Individual outside directors, as well as internal directors, are expected to contribute to further refining the value-creation scenario from various perspectives, including governance, while actively utilizing the Guidance.

It is also important to increase the robustness of the value-creation scenario by flexibly changing it in response to changes in the external environment and suggestions obtained through dialogue, rather than making it a fixed scenario.

[What is expected of investors and capital markets]

In the SX Study Group, the following issues are raised for investors and capital markets:

- ✓ Investment based on evaluation and analysis of company-specific value-creation scenario is stagnant;
- ✓ Also in ESG investment, due to a growing tendency to evaluate companies' current efforts based on specific indicators, there are a limited number of investors evaluating companies based on how changes in the external environment over the medium to long term will affect companies and based on companies' activities towards transitions;
- ✓ While it has become difficult for sell-side analysts to differentiate themselves in services such as short-term earnings forecasts, there remains a strong need for analysis and communication of long-term industry trends and corporate value, but, in spite of such need, sufficient resources are not currently being allocated to such analysis; and
- ✓ There are many calls for more commonality, transparency, and conviction in the evaluation methods by ESG evaluation agencies.

While the importance of corporate efforts to achieve SX is undisputed, it is also expected that not only companies but also other players in the investment chain, including investors and sell-side analysts, will utilize the Guidance in their respective positions to solve and improve their own issues in order to collaboratively create corporate value.

Expected Roles of the Guidance

The Guidance is intended to deepen mutual understanding between companies and investors through information disclosure and dialogue/engagement based on integrated thinking and promote activities to collaboratively create sustainable value. From that viewpoint, the Guidance is expected to fulfill the following roles.

[As a Guideline for Corporate Managers and Directors]

First, the Guidance is expected to serve as a guide according to which corporate managers and directors are able to communicate key information (e.g., their management philosophies, business models, strategies and governance systems) as a set of value-creation scenarios to investors, based on integrated thinking. As a direct goal, the Guidance aims to enhance the quality of corporate information disclosure and company-investor dialogue. Through efforts to achieve this goal, corporate managers and directors are expected to review their approaches to business management towards corporate value creation and utilize the Guidance as the management tool to achieve SX by ensuring management efficiency and reinforcement, thereby leading the way to specific actions.

Corporate value creation processes are specific to individual companies. Therefore, when using the Guidance as a basic framework, companies are expected to flexibly incorporate specific items relevant to their business models, rather than being rigidly bound by each item, and apply them in a manner suited to their own value-creation scenarios. Consequently, it is assumed that the order and content of the elements of the Guidance will be applied flexibly in accordance with individual companies' circumstances and goals.

It is not appropriate to regard the Guidance as principles to be implemented independent of institutional requirements such as mandatory disclosure rules and the Corporate Governance Code and other disclosure frameworks that companies apply voluntarily. Rather, companies are expected to regard the Guidance as a means of systematically and comprehensively organizing the overall information that they should provide, thereby proactively determining the value relevance and importance of such information in accordance with their respective disclosure requirements and/or the circumstances of their communication and dialogues, and providing such information accordingly.

[As a Guideline for Investors]

Second, the Guidance is expected to serve as a guideline for investors in evaluating companies from a medium- to long-term perspective, making investment decisions, and conducting stewardship activities. While there are various types of investors in the capital markets, the Guidance is intended for institutional/individual investors who are interested in long-term sustainable growth of corporate value. Instead of waiting for companies to provide the information with respect to the items in the Guidance, investors and analysts are expected to initiate dialogue with companies in order to obtain the information necessary for their investment decisions and remedy any information/perception gaps by referring to the Guidance.

The Guidance is also designed to be used as a framework for institutional investors to monitor investee companies and conduct dialogue to fulfill their stewardship responsibilities. It is expected that the Guidance will not only be used when institutional investors engage in stewardship activities themselves, but also when asset owners hold dialogue with asset managers.

[As a Shared Language That Evolves through Practice]

In order for the Guidance to function as a shared language that enhances the quality of corporate disclosure and dialogue with investors, it needs to evolve through practical use.

While using the Guidance presented here as a basis, it is also important to constantly review it in order to improve its content and explore better usage while identifying and analyzing companies' good practices and investor assessments. In doing so, it is essential to avoid treating disclosure and dialogue, which are means to an end, as ends in themselves, and to maintain a focus on how companies can achieve sustainable value creation and how companies and investors can cooperate with each other to achieve the goal.

The drafting/revising process of the Guidance took into consideration global inputs and other relevant frameworks. As Japanese corporate activities and shareholding structure are globalized, it is important to obtain feedback from stakeholders around the world in order to make effective use of the Guidance.

Given that the Guidance provides a broad framework for deepening understanding of the medium- to long-term value-creation scenario, it is hoped that the readers, including companies and investors, will not be overly preoccupied with the individual terms used in the Guidance, but rather will grasp the essence of what they mean, and then deepen dialogue and promote efforts for collaborative value creation.

1. Values

[Points]

- “Values” are the core principles or basis for a company and individual employees to decide on action to be taken to solve social issues.
- It is important for a company to demonstrate its own unique values and, based on these values, to consider what social issues it considers "important issues" to be solved in its long-term and sustainable value creation.

1. Values

Indicate the company's unique values and, based on these values, consider what social issues are considered "important issues".

1.1. Significance of defining values

- Extract the essential parts of the corporate philosophy and motto that have supported the company's raison d'etre
- Core principles for making decisions to rethink the company’s value-creation scenario
- Increase engagement of individual employees by instilling the values in them

1.2. Identification of important issues and materialities for the provision of long-term value to society

- Opportunities and risks for a company change as social issues change
- Identifying social issues that have materiality for the company and how to incorporate responses to these important issues into long-term strategies are important management decisions that affect the company's raison d'etre.

01. In today's society, where the industrial structure and business environment are rapidly changing due to the growing demand for a sustainable society, the values exemplified in corporate philosophies/principles and corporate culture will serve as the core principles for making decisions on future corporate directions and strategies when companies regard solving social issues as business opportunities and seek to establish their own unique raison d'etre while continuously pursuing competitive advantage amidst the global competition.

02. A company can provide value to society while maintaining its long-term perspective and forward-looking attitudes without being content with the status quo, by identifying the essence of the corporate philosophies that have supported its raison d'etre in society and clarifying the values that will serve as the core principles for the company and individual employees to decide on action to be taken. Having clear corporate philosophies and visions is also important for emerging companies, including startup companies, in generating social value and achieving growth.

03. Corporate culture directs business processes and priorities of management and employees. It is also an important management challenge for a company's management to foster a corporate culture that supports the actions of individual employees by clearly presenting and instilling the corporate philosophy, etc., and to increase the engagement (active involvement) of individual employees, sometimes by reviewing areas that have become obsolete or out of step with the times, and guiding them in the right direction.

04. For investors with long-term perspectives, becoming familiar with values such as corporate philosophies and corporate culture is important in understanding a company's core principles for decision-making. This knowledge is also an important element in judging a company's ability to execute its strategies and the feasibility of its business model. Explaining the linkage between corporate values and long-term strategies [2.] is the first step in allowing investors to appropriately assess corporate value.

1.1. Significance of Defining Values

05. Amid the rapid changes in the industrial structure and business environment and the diversification of individual values, values such as corporate philosophy and corporate culture become common decision criteria that support the actions of individual employees. By clearly stating its values and instilling them in individual employees, a company's management can increase employee engagement and lead to the medium- to long-term value creation that the company aims for. Therefore, it is not sufficient to set forth values merely as ideals.

06. It is important for a company, while keeping an eye on changes in the industrial structure and business environment brought about by the growing demand for a sustainable society, etc., to present the corporate philosophy which serves as the basis for its business model and management decisions, and to demonstrate the basic ideas about how to embody the philosophy through what business and by what systems and methods over short-, medium-, and long-term timeframes to internal and external stakeholders, including investors and employees, to gain their understanding.

07. In doing so, it is desirable for a company to refine its own unique value-creation scenario based on its values by reviewing why it has come to express such values (e.g. its corporate philosophy) and why it intends to provide such value to society, from the perspective of how it envisions a future sustainable society and what values it can provide to achieve it, while providing its own answers to these questions.

08. By understanding the values of companies, investors can appropriately evaluate corporate long-term strategies [2.], implementation strategies [3.], key performance indicators (KPIs) [4.], and execution plans that indicate the timeframe for achieving KPIs.

Column: "Purpose"

- Attention is increasingly focused on the keyword "Purpose" as a concept that is in close proximity to values such as corporate philosophy and corporate culture.
- Against this background is a growing need to communicate externally about the significance of each company's raison d'être in society beyond the goals of profit-making and maximization of shareholder value amid the growing international trend to emphasize the impact of corporate activities on the environment, society and the economy as a whole (externalities).
- However, many Japanese companies already have mission statements such as corporate philosophies, mottos and precepts that they have upheld since their establishment.
- It is thought that these mission statements have often been communicated internally and to stakeholders (e.g., business partners) and have had the effect of increasing engagement.
- From the standpoint of synchronizing "social sustainability" and "corporate sustainability," it is required for a company to refine the mission statement (e.g., corporate philosophy, motto and precept) that it has upheld as an external message to investors and a wider range of stakeholders, and further link them to the long-term vision and business model, without being excessively influenced by the keyword "Purpose," but rather, grasping the essence and background of the "Purpose" that has attracted attention as a keyword.

1.2. Identification of Important Issues and Materialities for the Provision of Long-term Value to Society

09. Social issues which change with the times can become risks for companies as well as business opportunities. It is a crucial management decision affecting even the raison d'être for a company to identify social challenges as important issues based on corporate values, incorporate these issues into its long-term strategies [2.] and short-, medium-, and long-term implementation strategies [3.], and provide value to society through these strategies on a long-term basis.

10. Over time, as the business environment and society as a whole change, the issues surrounding a company and its priorities can naturally change as well. It is important for companies not to view important issues once identified as immutable, but to flexibly reassess them as necessary in response to changes in the business environment and society as a whole.

11. When evaluating corporate value from a long-term perspective, it is important for investors to understand which social issues are identified as important issues by a company, how important issues are incorporated into its long-term strategies [2.] and short-, medium-, and long-term implementation strategies [3.], and how its competitive advantage is linked to its raison d'etre that no other company has.

12. In identifying important issues, it is thought that a company will determine the priority level of issues surrounding the company, and, for example, identify issues surrounding the company, analyze risks and business opportunities related to the issues, and the impact on stakeholders related to the issues, and conduct interviews with experts, using its own criteria (i.e., materialities) for identifying important issues. In doing so, it is beneficial to take into consideration the relationship with various stakeholders such as shareholders, employees, business partners, and local communities [2-2.2.2.] and relevant global frameworks, such as the Sustainable Development Goals (SDGs), which have identified shared and global social issues.

13. The process of identifying important issues concretely expresses management's view of how it perceives changes in the business environment and society as a whole, and how it intends to link these changes to medium- to long-term growth of corporate value. A company can further deepen dialogue with its investors by showing them not only the materialities and important issues but also the process of identifying them.

14. Investors are expected to work with companies to enhance medium- to long-term corporate value by contributing to the identification of important issues through dialogue with companies.

Column: Views on Materiality

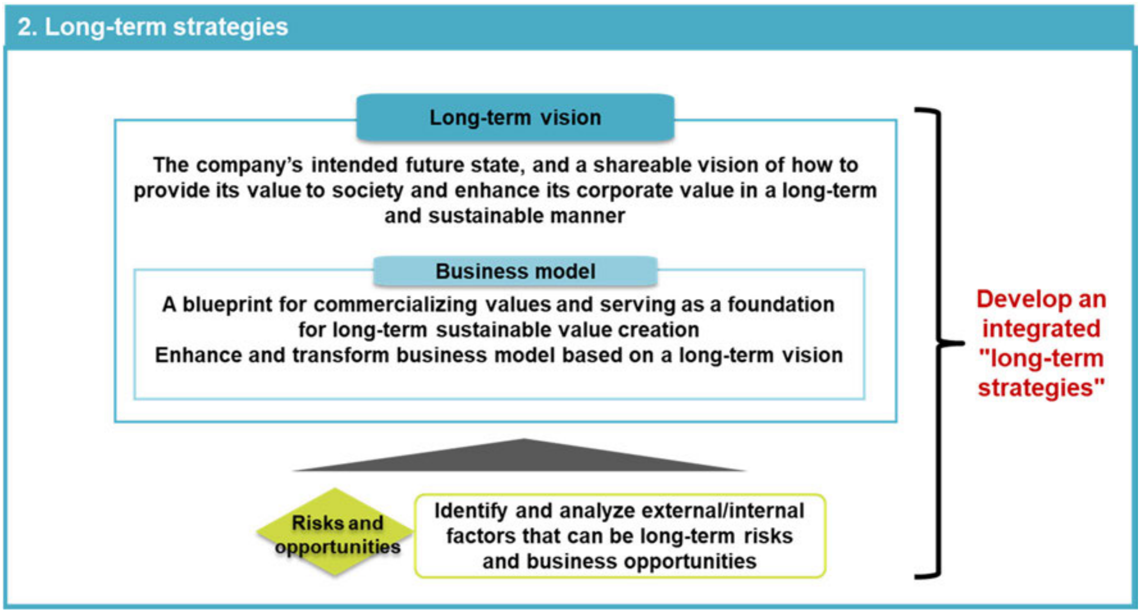
- There are various views on the criteria for identifying important issues (materialities).
- There are different views on materialities: that focuses on the impact on corporate finances, such as corporate development, business performance and financial position ("single materiality"); that determines materiality from two aspects, i.e., the financial impact and the impact of corporate activities on the external environment and society ("double materiality"); and that deems materiality as something that changes over time and as the external environment changes ("dynamic materiality").
- It is thought that, by taking a longer-term view on corporate value and examining changes in the business environment and society as a whole that may be future opportunities or risks for a company over a longer timeframe, a link can be made between the impacts of corporate activities on the sustainability of the external environment and society (environmental and social impacts) and on the sustainability of the corporate activities per se (financial impact).
- It is desirable for a company to deepen the consideration of what social issues should be identified as important issues, while keeping an eye on the debate over such materialities, and keeping in mind its overall long-term value-creation scenario: how it will provide value to society in a long-term and sustainable manner, what business model it will build and what strategies it will implement to provide its value to society.

2. Long-term strategies

[Points]

- Based on a company's own values, a "long-term strategies" can be developed by integrally conducting the formulation of a long-term vision to determine long-term trends in society as a whole, the construction and transformation of a business model that will serve as the pillar for the realization of that vision, and an analysis of the risks and opportunities to be taken into account.

- In order to show how long-term and sustainable value creation should be in response to changes in the industrial structure and business environment, it is desirable for companies to develop their long-term strategies, consisting of a long-term vision (i.e., their intended future state) and a business model (i.e., a blueprint for value creation), in a way integrated with values and important issues, based on an understanding and analysis of risks and opportunities.



01. In order to respond to changes in the industrial structure and business environment due to the growing demand for a sustainable society, it is desirable for a company to formulate long-term strategies of how they will enhance corporate value in a long-term and sustainable manner by providing long-term and sustainable value to society over a specific long-term period, in light of important issues [1.2.] as the pillars for achieving its values [1.].

02. At this point, it is important for a company to organize the relationships among its values, important issues, and long-term strategies, and to construct them as an integrated scenario.

03. Specifically, it is desirable for a company to formulate a long-term vision of their intended future state about how it will enhance its corporate value by providing its value to society over a specific long-term period, in light of important issues. On top of this, the company will be required to build or reform its business model to serve as a foundation for long-term sustainable value creation, based on the long-term vision.

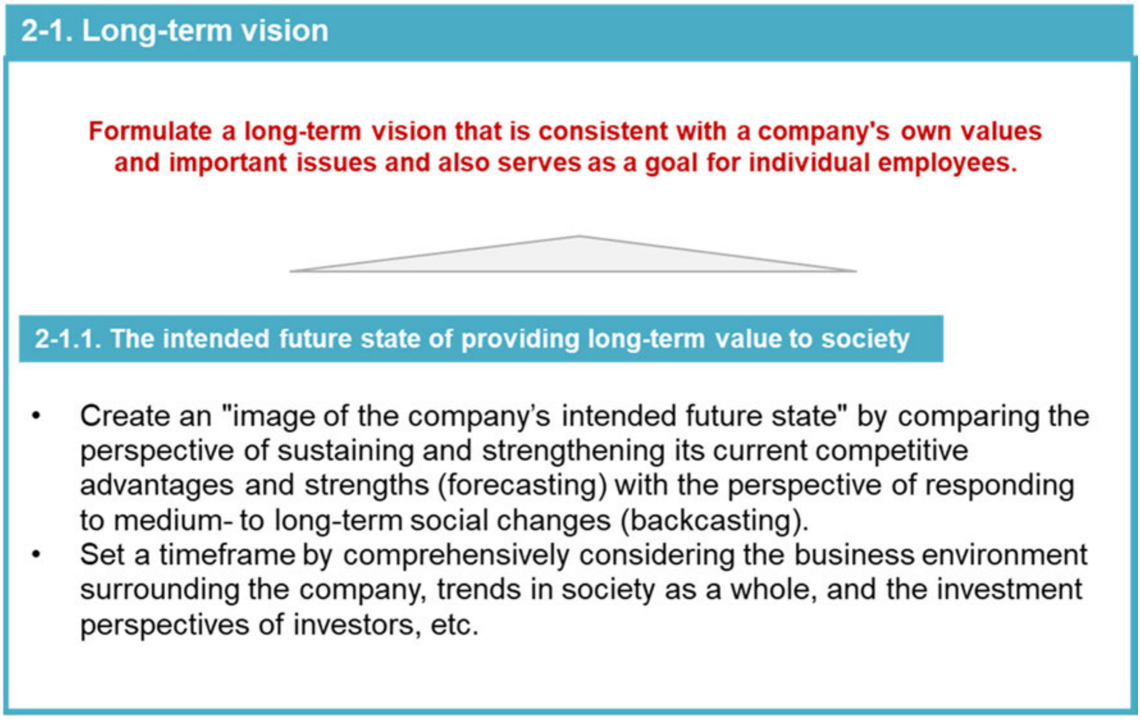
04. At this point, in order to make the business model the foundation for long-term sustainable value creation, it is essential to identify and analyze the risks and opportunities that affect long-term strategies.

05. In light of the long-term strategies, investors can understand what a company aims to become over the long-term timeframe, how it intends to build and transform its business model to achieve its intended future state, and how it identifies and analyzes risks and opportunities as prerequisites thereto.

2-1. Long-term vision

[Points]

- A "long-term vision" is a company’s intended future state, and is a shareable vision of how to provide its value to society over a specific long period of time and enhance its corporate value in a long term and sustainable manner.
- Companies should formulate their own long-term visions that are consistent with their values and important issues and also serve as goals for individual employees.



01. A long-term vision is the state that a company intends to achieve over a specific long-term period of time. It is desirable for a company to embody its values [1.] over a specific long-term period and formulate a long-term vision for its intended future state of how it will enhance its corporate value in a long-term and sustainable manner by providing value to society, based on its important issues [1.2.]

02. It is important for a company to clearly indicate the long-term time period covered by its long-term vision. In doing so, the company should set the target period according to its own circumstances by comprehensively taking into consideration the business environment surrounding the company and the overall social trends.

03. By communicating its long-term vision both internally and externally, a company can further specify the goals of individual employees, improve engagement, and strengthen the foundation for medium- to long-term value creation through a deeper understanding of the stakeholders who support the company's business model.

04. In light of the long-term vision, investors can more concretely understand what future state is intended by a company over a specific long-term period based on its values and important issues, and can more appropriately evaluate the implementation strategies [3.], major Key Performance Indicators (KPIs) [4.], and execution plans, etc., that take into account the necessary action period to achieve them.

2-1.1. The Intended Future State of Providing Long-term Value to Society

05. It is desirable for a company to present a policy of building and transforming its business model towards the long-term sustainable value creation and a business portfolio policy to realize such business model, taking into account important issues, as its intended future state of how it enhances corporate value in a long-term and sustainable manner by providing value to society over a specific long-term period.

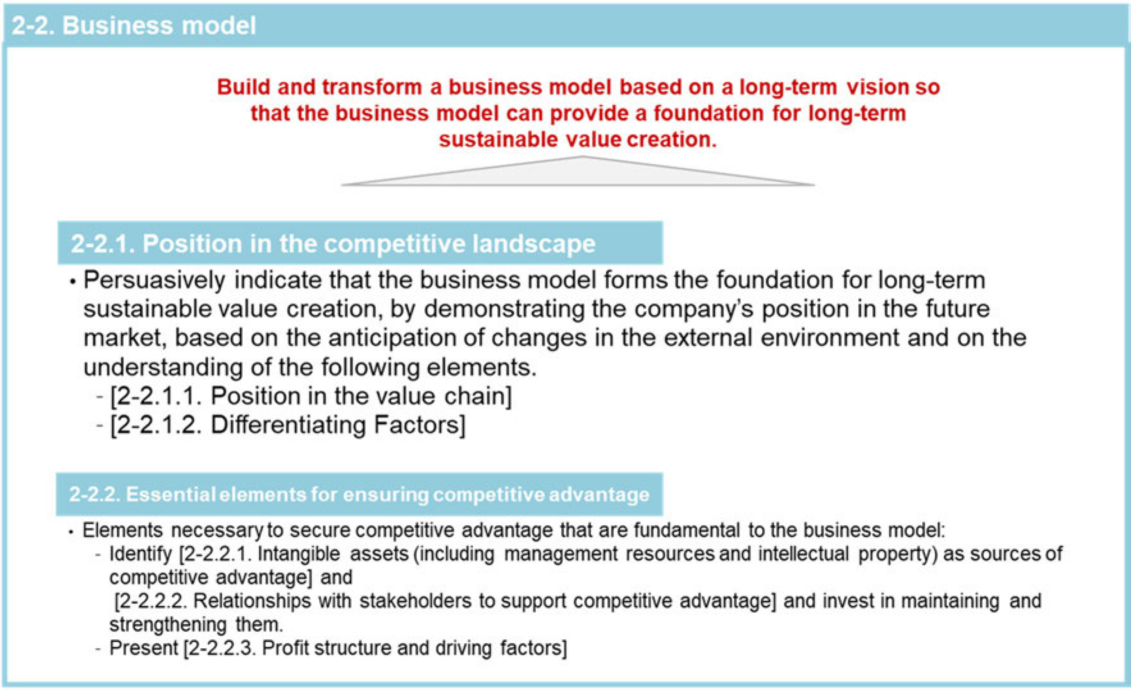
06. In setting the intended future state, it is beneficial for a company, for example, to conduct "forecasting" (i.e., considering how to sustain and strengthen its competitive advantages/strengths, based on the proper analysis and identification of its current competitive advantages, strengths and weaknesses [4.1.]) and "backcasting" (i.e., considering what efforts need to be taken to achieve its intended future state, looking ahead to changes in society that can be expected in the short-, medium-, and long-term timeframes, and assuming the size of the future market and its positioning, etc., therein).

07. In addition, for the purpose of increasing the resilience of the long-term vision and the flexibility of the strategy to achieve the long-term vision, it is effective means for a company to draw up multiple scenarios of possible changes in the business environment and other factors that may affect the company during the target period, and then deepen the study so that it can respond to any of the scenarios.

2-2. Business model

[Points]

- A "business model" is a blueprint that serves as a foundation for long-term sustainable value creation and is a mechanism by which a company provides value to customers and society by investing tangible and intangible management resources and operating businesses with a competitive advantage, thereby leading to long-term sustainable growth of corporate value.
- It is important for companies to build business models to serve as a foundation for long-term sustainable value creation, and to transform them as necessary, based on their long-term visions.



01. A business model is a system in which a company provides value to its customers and society by sustaining its business with competitive advantage and thereby leads to long-term sustainable growth in corporate value. Specifically, it refers to the sequence of processes whereby a company creates products and services using tangible and intangible resources as inputs and provides them to customers at prices commensurate with the added value.

02. A business model is not just an outline of a company's business or profit-earning structure. A business model can be seen as a "model," because the systems and methods whereby a company establishes and maintains its competitive advantage are described as a blueprint in which the company commercializes its values [1.] based on its long-term vision [2.1], serving as a foundation for long-term sustainable value creation. Therefore, if companies have created clear business models, it suggests that they are likely to have higher levels of growth, profit margins, or capital efficiency over the long-term compared with their competitors.

03. In today's society where the industrial structure and business environment are rapidly changing, transforming a company's own business model towards long-term value creation can itself be a source of sustainable competitive advantage. Companies are expected to look ahead to changes in the industrial structure and business environment brought about by demands for a sustainable society and other factors, and, if necessary, required to reform their business models to serve as a foundation for long-term sustainable value creation.

04. For investors, the description of a company's business model should include what the company does as a business, in which market or field it maintains a competitive advantage and holds an important position in the value chain, what value it provides or how it provides such value to customers and society through its business, and how it creates long-term sustainable cash flow as a result. Therefore, the business model is the most important blueprint for investors in evaluating the company's ability to generate funds for growth in a long-term and sustainable manner.

05. The most important question for investors interested in the growth of a company's corporate value is whether the company can be successful in the face of global competition. For investors to evaluate the feasibility of the business model from that viewpoint, they must understand the competitive environment of the market, the management resources and relationships with stakeholders essential for maintaining the competitive advantage, the main earning sources, and the profit-earning structure. Investors seek to identify these factors that drive the long-term sustainable growth of corporate value ("drivers").

06. When disclosing information or conducting dialogue with investors, companies should link important elements of their business model, including the items described below, into a value-creating scenario. In particular, when a company engages in multiple businesses, it is important to explain, in a concrete and persuasive manner, the rationale for selecting those businesses, the overall corporate business model, and the respective business models of the main individual businesses, including the competitive advantages common to each business and the mechanism by which synergies among multiple businesses based on those advantages will lead to improved consolidated cash flow generation.

2-2.1. Position in the Competitive Landscape

07. In order to understand a company's business model and evaluate the model's feasibility, it is necessary to identify the value chain and competitive environment of the company's main market, the company's position in the value chain, and the differentiating factors that provide a competitive advantage. In doing so, a company can more convincingly demonstrate that its business model serves as the foundation for long-term sustainable value creation, by looking at medium- to long-term changes in the industrial structure and business environment, and presenting the expected size of the future market and the company's positioning within that market, even in today's rapidly changing industrial structure and business environment.

08. For management, presenting their viewpoints and recognizing gaps between corporate and investor perspectives through dialogue is an important opportunity to review and revise their long-term strategies [2.] and implementation strategies [3.]. In particular, it is beneficial for companies to know whether their assessments of sources of competitive advantages are regarded as such by the investors who compare multiple companies for these qualities.

2-2.1.1. Position in the Value Chain

09. What kind of value-add a company provides in the various processes ranging from upstream to downstream in the value chain constitutes the core of its business model.

10. Investors attempt to understand which of the various players in the value chain is setting the direction of the value chain by providing the greatest or most critical value-add, the influence and leadership that the company has, and whether there are ways of increasing its influence and leadership.

11. If a company communicates its view concerning these matters to the investors, it will increase their understanding. In doing so, it is important for the company to explain the sources of its products' and services' success in the market and with customers, rather than describing the detailed specifications of the products and services.

12. In the case of companies that provide products and services for business users, identifying both direct and final product consumers and the company's specific value-add in the value chain will be useful for increasing investor understanding.

2-2.1.2. Differentiating Factors

13. In order for a company to create competitive advantage and maintain such advantage over the long term in the face of severe market changes and competitive threats, it is important that its business model has factors that can differentiate it from competitors.

14. In evaluating companies' business models, investors require information concerning the sustainability and growth potential of the market itself, their competitive positions in the market and the prospects for future changes in the industrial structure and business environment, including those factors, and in particular factors that differentiate the company from competitors. In this respect, it is important for companies to understand that what investors need is not classified information (which, if leaked, could put the companies at a competitive disadvantage), but an overview of the differentiation factors that enables investors to appropriately understand the business models.

2-2.2. Essential Elements for Ensuring Competitive Advantage

15. If companies identify management resources, assets/liabilities that serve as the foundation for long-term sustainable value growth, and their relationships with stakeholders that are the key to maintaining their competitive advantages and enhance their efficiency by investing to maintain and strengthen these elements, the sustainability of their business models will improve.

16. When investors assess the future potential and sustainability of companies' business models, it is necessary to understand those elements and how the companies intend via their corporate strategies to maintain and strengthen the elements through resource allocation, investment, etc. [3.2.].

17. In particular, the greatest threat to company business model is the obsolescence, loss, or failure to secure stable supplies of these and other management resources. For investors, how companies recognize and intend to deal with such risks is important information.

2-2.2.1. Intangible Assets (Including Management Resources and Intellectual Property) as Sources of Competitive Advantage

18. Even in today's society where the industrial structure and business environment are rapidly changing, companies that maintain competitive advantage and enhance their corporate value in a long-term and sustainable manner possess essential management resources and assets for providing customers with unique value that cannot be easily acquired or emulated by competitors. Because the determining factor of companies' competitiveness and abilities to generate funds for growth in a long-term and sustainable manner (i.e., earning power) lies in securing and enhancing intangible assets such as human capital, technology, knowhow and intellectual property, rather than physical expansion of equipment and facilities, appropriate recognition and evaluation of the value of intangible assets not listed in financial statements is crucial for corporate managers and investors.

19. Companies should identify the essential management resources and intangible assets, including intellectual property, through detailed and appropriate analysis of their operating performance [4.1], for maintaining their competitive advantages of their business models and communicate, together with their implementation strategies [3.], the necessary investment (e.g., acquisition, resource allocation, and training) for developing and reinforcing those resources/assets. Companies should also comprehensively explain, together with their performance and the KPIs [4.], how those resources/assets contribute to long-term sustainable value creation and maintenance and strengthening of sustainable profitability and within what timeframes and methods they evaluate the effect and efficiency of the investment based on objective facts. These efforts will promote appropriate evaluation of companies by investors.

20. Because essential management resources and intangible assets, including intellectual property, should be regarded as facets of value-creation scenarios specific to individual companies, they should not be evaluated by a uniform standard. However, it will be useful for obtaining investors' understanding if companies build their unique value-creation scenarios and explain their competitive advantages keeping in mind relevant indicators established in Japan and overseas and the competitive environment in the business fields and sectors in which their businesses operate.

21. When doing so, it is important for companies to indicate how they recognize and plan to respond to risks/threats of infringement and disruption of their key resources/assets, including intellectual property, and reduction or elimination of their competitive advantages. For investors, appropriately assessing the impact of such risks/threats, together with the factors that could be risks and business opportunities in the long-term sustainability and growth potential of the business model, such as ESG factors [2-3.], is critical for making long-term investment decisions and conducting stewardship activities.

2-2.2.2. Relationships with Stakeholders to Support Competitive Advantage

22. In order for companies to maintain their competitive advantages over the long term and execute on their business models, it is essential to develop productive relationships with various stakeholders, including suppliers, business partners in joint research/business, customers, local communities and public organizations in the value chain, based on an assumption that stakeholders are not confined to those with which the company has direct contact, but are expanded to include those that can indirectly affect or be indirectly affected by the company's business activities, and the importance of such relationships has increased in recent years. Companies should explain how their relationships with stakeholders should be and indicate how they are developing the relationships from a strategic perspective based on their values.

23. Establishing productive relationships with business partners in the value chain contributes to strengthening the foundation for long-term sustainable value creation of companies, even in the sense of increasing added value and strengthening competitiveness in the value chain as a whole. Companies should also understand, work on and evaluate activities such as seeking collaboration with business partners (including partners engaged in joint research and business with different industries that are not bound by existing value chains, such as open innovation) and promoting the establishment of fair and appropriate business practices, from the perspective of strengthening the foundation for long-term sustainable value creation.

24. For evaluating the sustainability and growth potential of business models, information concerning relationships with the various stakeholders is also critical. In many cases, ESG information sought by long-term investors provides information on how companies view their relationship with society, including whether they view the relationship as a risk or a business opportunity [2-3.] in value creation, and what actions they will take from a strategic perspective. Therefore, integrated explanation of these issues is important for sharing understanding with investors.

25. Furthermore, when there are not only stakeholders involved through formal contracts or business relationships but also stakeholders who support or collaborate with the company out of sympathy, it is beneficial for investors if companies indicate how they intend to maintain the relationships with this type of stakeholder.

2-2.2.3. Profit Structure/Drivers

26. When investors attempt to understand company business models, they pay attention to what factors (“drivers”) generate earnings, leading to growth in returns, including revenues and profits, and whether those drivers will continue into the future. These drivers serve as a shared language in dialogue between companies and investors.

27. Investors look at drivers linked to profits and corporate value from various perspectives. For example, they evaluate increases in production volumes, product price increases due to increased value-add and cost reductions from the perspective of factors related to growth (“growth drivers,” such as the market, demand trends, and convenience breakthroughs), factors that determine the supply capacity (“supply capacity drivers,” such as production capacity, workforce, R&D, and technology), and factors related to profit margins (“margin drivers,” such as pricing power, cost control capability, and the fixed and variable cost structure), as well as factors existing inside and outside of the company (internal and external drivers).

28. Therefore, when companies explain their business models and profit structures through dialogue with investors, it is beneficial if they bear in mind those drivers and link them with their implementation strategies [3.] and financial results and KPIs [4.].

Column: Towards Building Long-Term Sustainable Value Chains

- In order to maintain and strengthen competitive advantage over the long term and build a sustainable business model, it is essential to synchronize "social sustainability" and "corporate sustainability" throughout the value chain. To this end, it is important to promote, for example, the optimization of cost and profit allocation, the establishment of a risk management system, and efforts to improve productivity throughout the value chain.

- As for optimization of cost and profit distribution, we can say that it is desirable for entities in the entire value chain, rather than just respective companies that receive orders, to appropriately share the burden of cost increases, such as increases in purchase prices of fuel and other items due to fluctuations in exchange rate and destabilization of the international order.

- In establishing a risk management system and promoting efforts to improve productivity, it is first important for key companies in the value chain to take the initiative in establishing an intended future state of the entire value chain for a long-term period while engaging in dialogue also with the other companies in the value chain to share such intended future state with them.

- At the same time, companies on the receiving end of orders are expected to increase their competitive advantages in the value chain by actively pursuing sustainable long-term value creation efforts and transforming their own management and business practices as necessary.

- Through such coordination and cooperation, it is expected that sustainable competitive advantage will be enhanced throughout the value chain.

2-3. Risks and opportunities

[Points]

- Risks and opportunities are external and internal factors that need to be analyzed if a company is to achieve long-term sustainable value creation.
- Companies are required to identify and analyze long-term risk factors and potential business opportunities, and reflect the results of their analysis in their long-term vision, business model, and implementation strategies.

2-3. Risks and opportunities

Identify and analyze long-term risk factors and internal/external factors of potential business opportunities, and reflect the results of their analysis in their long-term vision, business model, and implementation strategies

2-3.1. Awareness of risks and opportunities related to ESG such as climate change

- Analyze the potential impact of long-term ESG factors on a company and reflect such impact in the risk response measures and the strategies for potential business opportunities

2-3.2. Relationships with key stakeholders

- Present measures to maintain and strengthen relationships with stakeholders that support the business model, based on values and key issues

2-3.3. Responses to changes in the business environment

- Consider responses to risk and opportunity factors that could impact on long-term sustainable value growth in an increasingly complex business environment
- Common considerations for the industrial sector:
  - [2-3.3.1. Speed and impact of technological change]
  - [2-3.3.2. Country risk]
  - [2-3.3.3. Cross-border risk]

01. For a company to build long-term strategies to enhance its corporate value in a long-term and sustainable manner, it is essential not only that it has a clear business model but also that its business model is sustainable and has growth potential. To ensure that, the company must first identify factors that may pose a threat to the long-term sustainability and growth of its business model.

02. Although many threats are risk factors for companies, they can also be important business opportunities. If companies overcome such threats, they can gain long-term and sustainable competitive advantages. The sustainability and growth potential of a business model is not merely a matter of continuity, but is made possible by quickly recognizing changes in the industrial structure and business environment as threats, taking appropriate action, and reforming the business model as needed. In today's society where the industrial structure and business environment are rapidly changing in response to the growing demand for a sustainable society, it has become even more important to quickly and accurately identify potential threats to the long-term sustainability and growth of business models and how to respond to them.

03. Companies are required to identify and analyze potential long-term risk factors and business opportunities while keeping an eye on long-term changes in the industrial structure and business environment, and reflect the results in their long-term visions [2-1.], business models [2-2.], and implementation strategies [3].

04. The greatest threat to the sustainability of the business model is the inability to secure and maintain its core management resources, intangible assets including intellectual property, and stakeholder relationships. In particular, from a long-term perspective, it is important for a company to look ahead to changes in society itself that is a prerequisite for a company's survival, and how to perceive and maintain the receptivity of the company within that context, and how to provide value to society and link that to corporate value.

05. From this viewpoint, investors with long-term perspectives attach importance to ESG (environmental, social, and governance) factors. For investors, it is important to understand how companies perceive the importance of these factors in the context of company-specific value-creation scenarios and how they intend to respond to these factors to enhance their corporate value over the medium to long term, rather than looking at these factors in isolation.

06. In particular, institutional investors are required to understand the business risks and opportunities for investee companies and matters that may undermine corporate value from the perspective of fulfilling their stewardship responsibilities for their clients and beneficiaries. For instance, it is important for institutional investors to understand how ESG factors relate to and affect the business risks, opportunities, and corporate value.

07. When disclosing information or engaging in dialogue with investors, companies should identify the risks and business opportunities in maintaining and developing their business models on a long-term basis, including the items described below, and explain how they intend to create value in a long-term and sustainable manner through their implementation strategies [3.].

2-3.1. Awareness of Risks and Opportunities Related to ESG Such as Climate Change

08. Particularly for investors with long-term perspectives, the importance given to ESG factors in evaluating their investments is growing. Such investors evaluate ESG factors to assess their impact on the sustainability and growth potential of the business model and feasibility of strategies, rather than evaluating respective ESG factors in isolation.

09. The concept and scope of ESG factors vary widely; however, from the perspective of long-term sustainable growth of corporate value, it is important to view ESG not only as a medium- to long-term risk factor, but also as a factor that can become an important business opportunity. On top of this, it is desirable to deepen the analysis according to the nature of individual factors, such as factors regarding the environment (E) (e.g., climate change issues) which is related to corporate sustainability, the society (S) (e.g., human rights issues), and governance (G) as discipline that forms the prerequisite for corporate value enhancement, and to reflect the results of such analysis in the long-term vision [2-1.], business model [2-2.], and implementation strategies [3.].

10. Therefore, companies should indicate what ESG factors they have identified as risk factors and business opportunities that affect their medium- to long-term corporate value, sustainability and growth potential of their business models or as those to the very survival of their business, and indicate how they perceive such impacts. It would also be beneficial to explain their responses to such risks and efforts to link them to business opportunities in the implementation strategies [3.].

11. When companies identify material ESG factors, it is useful to keep in mind the items widely recognized as major risk factors and business opportunities in their industrial sectors in order to gain investors' understanding. However, working according to the items recommended by various agencies is not an end in itself. It is important for a company to proactively identify items that it should work based on such items' impact on its corporate value and explain the reasons for doing so.

12. With respect to the governance factor, it is important to gain the confidence of investors that the company is steadily implementing its strategy to realize its business model and that it has a system in place that provides discipline and incentives to enhance corporate value in a long-term and sustainable manner, with reference to the matters listed in section 5.

2-3.2. Relationships with Key Stakeholders

13. If a company is to sustain and develop its business model, it is necessary to secure management resources and intangible assets, including intellectual property, and to maintain and strengthen its relationships with stakeholders [2-2.2.2.]. In particular, from a medium- to long-term perspective, a company can enhance its corporate value in a long-term and sustainable manner by designing its business model that minimizes conflicts of interest with stakeholders and expands mutually shared interests.

14. Investors believe that creating value for non-investor stakeholders also leads to the sustainable and stable provision of value to investors, so they are interested in how companies engage with key stakeholders and how they reflect the results of that engagement in their business.

15. Based on their values and important issues [1.], companies should communicate to their investors how they develop relationships with key stakeholders, and what measures they implement in order to maintain the relationships, and how these measures will enhance their own corporate value.

2-3.3. Responses to Changes in the Business Environment

16. The business environment surrounding companies is becoming increasingly complex. Specifically, there have been an increase in the uncertainty of business activities and an expansion in the scope of changes in the business environment that must be taken into account, due to circumstances such as where companies are connected with the world through IoT (Internet of Things),
where their domestic businesses are affected by overseas events through supply chains, where trends in security can have a significant impact on economic activities, and where social sustainability and relevant rulemaking are having an increasing impact on corporate activities. For the purpose of ensuring sustainability and growth potential of a company, it is important to recognize such uncertainty, thereby responding to risks that threaten business activities while at the same time converting such risks to business opportunities.

17. The threats that should be taken into consideration by companies vary depending on the industrial sectors in which their businesses operate. In particular, the items described below are risks to be considered across all sectors.

2-3.3.1. Speed and Impact of Technological Change

18. With the progress of the Fourth Industrial Revolution, rapid technological evolution and market entry from various industries may pose risks to the competitive advantages or sustainability of companies. In particular, disruptive innovations created by competitors may mean risks that threaten the survival of a company.

19. In contrast, companies can also create such technological change and new business opportunities by following the organizational process and support system for achieving innovation [3.5.], acquiring and investing in intangible assets, etc. [3.7.] to respond to technological change, developing strategies to reconfigure their business portfolio [3.3.] when necessary, and strengthening and transforming their business models [2-2.].

20. Companies should communicate to investors how they identify and respond to risks and opportunities related to such technological changes and timeframes of the impacts on their competitive advantages, linking these factors with their implementation strategies [3.], including investment in R&D and human capital.

2-3.3.2 Country Risk

21. For companies conducting business globally, country risk is a factor that may significantly affect the sustainability of their business models. It is important for companies to identify and analyze material country risks to their business as part of their external environments and share the results and strategies based on that analysis with investors. Sharing analyses of companies and investors with respect to country risks will provide companies with insights and opportunities to test and review their hypotheses.

2-3.3.3. Cross-Border Risk

22. In a situation where companies' businesses and their supply chains extend across multiple countries, responding to changes in local laws and regulations and to social responsibilities constitute both cost factors and long-term risk factors. Explaining and obtaining the understanding of investors on the significance of and response to these challenges, such as securing resilient supply chains, will contribute to the shared interests of stakeholders, including investors.

Column: Attitude towards Changes in the Business Environment

- Amid rapid changes in the industrial structure and business environment and accelerating technological innovation, the risks and opportunities that companies need to recognize are becoming increasingly complex, ranging from sustainability-related issues such as climate change and human rights, to various changes in the rules environment including these issues, and economic security-related issues such as supply chain risk and cyber security.
- Companies are expected to always have a broad perspective, increase their information sensitivity to trends in their external environments, identify matters that require special attention in light of their important issues, proactively consider and analyze their impact on management, and link this to the enhancement of their own value-creation scenarios.

○ Climate-Related Disclosures

- The issue of climate change is widely recognized as a serious global challenge, and companies are increasingly required to disclose information on climate-related risks and opportunities in relation to their own strategies.
- Against this backdrop, the Task Force on Climate-related Financial Disclosures (TCFD), established by the Financial Stability Board (FSB), released recommendations in June 2017 that include a framework for disclosure on climate-related risks and opportunities. (The recommendations identify "governance," "strategy," "risk management," and "metrics and targets" as core elements of climate-related financial disclosure.)
- The four-elements explanation is internationally accepted, and the similar disclosure structure is adopted also in a draft of international sustainability disclosure standards ("General Requirements for Disclosure of Sustainability-

related Financial Information" and "Climate-related Disclosures") released by the International Sustainability Standards Board (ISSB) in March 2022.

- Investors are interested not only in the climate-related information itself, but also in the integrated value-creation scenario of how climate-related efforts are positioned in the context of overall corporate activities, how they are connected to other efforts, and how they impact financial performance.

- Companies can respond effectively and efficiently to climate-related disclosure requirements, as represented by the TCFD recommendations, by using the Guidance for Collaborative Value Creation, integrally organizing value elements such as values, long-term visions, business models, implementation strategies, KPIs, and governance, and by clearly positioning climate-related efforts in their own value-creation scenarios.

○ Business and Human Rights

- With the globalization of the economy, including the establishment of overseas supply chains, the scope of the impact of corporate activities on human rights has expanded, and interest in "business and human rights" is growing internationally.

- Following the unanimous endorsement of the Guiding Principles on Business and Human Rights by the UN Human Rights Council in 2011, countries have been formulating national action plans based on the Guiding Principles and developing laws and regulations related to business and human rights.

- In this context, companies can fulfill their social responsibilities and reduce human rights risks in business activities by establishing responsible supply chains that take human rights into consideration and properly implementing human rights due diligence (i.e., a process to identify, prevent, and address human rights impacts).

- In addition, given the growing interest in global human rights issues among a wide range of stakeholders, it can be said that active engagement in the above activities is desirable in order to deepen stakeholders' understanding and sympathy towards the company and to strengthen the foundation for long-term value creation as well.

○ Active and strategic involvement and contribution to rulemaking

- In recent years, amid intensifying competition in the development of technologies and services related to the environmental field, digital, and other areas, there has been a growing international movement to reorganize and establish rules (e.g., regulations, standards, and guidelines) with an eye on solutions to global social issues such as climate change, human rights, and the resource circular economy.

- Rules are often taken for granted, to which companies should adapt, but if companies just respond passively to the trend of global rulemaking, they will face risks of falling into disadvantageous circumstances from a perspective of their own competitive advantages and medium- to long-term corporate value creation.

- On the contrary, in order to synchronize social sustainability and corporate sustainability, it is effective for a company to view the rulemaking with a high impact on the company's important issues as an opportunity for contributing to the construction of sustainable society, and to actively and strategically participate and involve in such rulemaking. Some investors have shown high regard for such active and strategic participation and involvement of companies.
- Companies are expected not to take global rulemaking as granted, but to view such rulemaking as a strategic issue to be addressed for long-term value creation, and then to actively and strategically address such rulemaking, with an eye on their collaboration with relevant stakeholders.

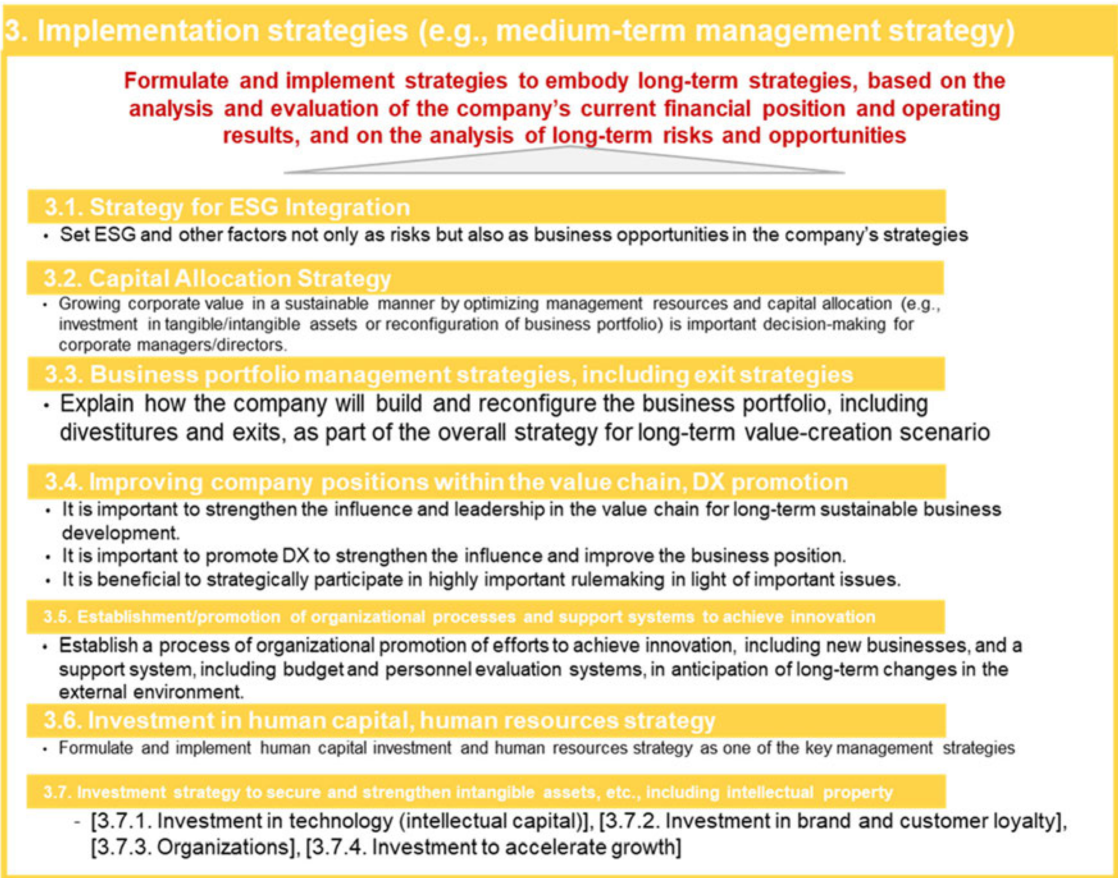
○ Economic Security

- Amid the increased fluidity of the international order and the complication of inter-state economic dependencies, the importance of economic security (i.e., ensuring national security from an economic perspective) is increasing, and at the same time, the impact of various security-related developments on companies' economic activities is also increasing.
- Under these circumstances, companies need to take measures to ensure sustainability and resilience in order to respond to risks to supply chains and cyber security that are the foundation of corporate activities, while keeping a close eye on the situation of the international community, including security, and international developments in rulemaking.
- In economic security, it is an effective strategy to acquire and expand technologies and resources, etc., that are indispensable to the industrial structures in the international community as a whole, as well as to strengthen the foundations of economic activities. In light of this, it is also desirable for individual companies to explore business opportunities that could involve advanced technology and economic security in parallel with the risk responses described above.

3. Implementation strategies (e.g., medium-term management strategy)

[Points]

- "Implementation strategies (e.g., medium-term management strategy)" are strategies that companies will address in the immediate and medium- to long-term in order to maintain and strengthen their management resources and relationships with stakeholders, and to embody and achieve their long-term strategies.
- Companies are required to formulate and implement strategies to embody their long-term strategies, based on the analysis and evaluation of their current financial position and operating results, and on the analysis of long-term risks and opportunities.



01. The main objective of a strategy is to realize a long-term vision and a long-term sustainable business model by maintaining and strengthening companies' management resources, intangible assets, including intellectual property, and relationships with stakeholders, which constitute sources of competitive advantage, based on an analysis of possible risks and opportunities. Companies can acquire growth potential by executing strategies at various levels, such as management and business strategies, and increase shared value by gaining the trust of stakeholders, including investors, to enhance corporate value in a long-term and sustainable manner.

02. Based on the long-term vision, companies should communicate to investors their strategies to secure and reinforce management resources and other factors that underpin the competitive advantages of their business models to improve their respective positions in the value chain [2-2.1.1.], in light of the analysis and evaluation of their current financial positions and operating results and the analysis of long-term risks and opportunities.

03. Companies should also explain to investors their strategies that they will undertake in the immediate and medium- to long-term to embody their long-term strategies [2.], including how they will incorporate social challenges (e.g., ESG) into their value creation process over the medium to long term and how they will develop relationships with stakeholders.

04. When doing so, it is important for companies to explain how they measure the success of strategies (performance and KPIs [4.]) and reflect these evaluations in future activities.

3.1. Strategy for ESG Integration

05. How companies manage risks related to ESG challenges [2-3.] that they have identified and integrate measures to mitigate any impacts on their strategies is valuable information for investors.

06. It is essential for companies to indicate within their strategies whether/how they recognize ESG factors not only as risks but also as opportunities to strengthen and transform their business models. Strategic investments and resource allocation to this end is also important information.

07. For companies conducting global business activities in particular, it is useful to keep in mind creating "shared value" (CSV), meaning that a company's efforts to grow its corporate value in a sustainable manner contributes to the resolution of societal challenges. One of the frameworks identifying global societal challenges is the Sustainable Development Goals (SDGs), and companies may prioritize and address the SDGs as part of their business activities based on their corporate values [1.] as well as their assessment of the social and environmental impact of their business operations.

08. Referring to frameworks concerning globally recognized societal challenges is useful for promoting global investors' understanding of their activities and promote constructive and substantive dialogue with them. In doing so, it is important for a company not to simply follow internationally recognized frameworks, but to proactively identify items to be addressed by itself based on their impact on its corporate value and incorporate such items into its strategy

by reference to such frameworks. Engaging in global discussion and dialogue may also allow companies to recognize previously untapped and unnoticed advantages and value they possess.

3.2. Capital Allocation Strategy

09. It is an important decision for corporate managers/directors to enhance corporate value in a sustainable manner by optimizing management resources and capital allocation, through the promotion of digital transformation (DX) [3.4.], establishment and promotion of organizational processes and support systems to achieve innovation [3.5.], investment in human capital [3.6.], and investment strategies for intangible assets, including intellectual property [3.7.].

10. In order to optimize management resources and capital allocation, the important points for the business model of each company are how each investment will contribute to increasing earnings and enhancing corporate value over the medium to long term and how the company evaluates and monitors these investments and make investment decisions, in light of the company's position in the market power structure [2-2.1.], including the value-added chain, and the factors essential to securing a competitive advantage [2-2.2.].

11. For investors, it is also important to understand how a company develops and reconfigures its business portfolios [3.3.] within the overall long-term value creation scenario, including its values [1.] and long-term strategies [2.], and how it views the relationship between each management resource and asset.

3.3. Business Portfolio Management Strategies, Including Exit Strategies

12. In order to encourage investors to support corporate strategies and make long-term investments, it is important for companies not only to steadily execute their strategies but also to clearly communicate their business portfolio management, including strategies for M&A and business exit (e.g., sale of business operations), in a manner consistent with long-term strategies.

13. When a company has multiple businesses, it is useful to explain that developing multiple businesses based on the company's competitive advantage that underlies these businesses will lead to the maintenance and expansion of competitive advantage, which in turn will enhance corporate value over the medium to long term, by relating this to values, important issues and long-term strategies.

14. As the resources possessed by individual companies are limited, investors attach importance to management decisions on existing businesses that are not expected to contribute to long-term sustainable growth of corporate value and allocating resources to priority businesses for the purpose of securing and maximizing management options and freedom, keeping an eye on long-term changes in the industrial structure and business environment. It is important for a company to gain the trust of investors by communicating its thinking about its policies and its long-term value creation scenario, including the relationship between such scenario and its values [1.], long-term strategies [2.], and governance [5]. In doing so, it is also be useful to show the financial performance of each business using its cost of capital by business.

3.4. Improving Company Positions within the Value Chain, DX Promotion

15. For the purpose of long-term sustainable business development, it is important for a company to strengthen its influence and leadership in the value chain [2-2.1.1.] on which its business model is predicated.

16. If companies provide an overview of strategies to maintain or change their position in the value chains, and whether they have proper systems to execute such strategies, investors can understand the companies' resilience against changes in the environment, which is a factor essential for making investment decisions from a long-term perspective, and appropriately evaluate their business models and strategies.

17. In order to strengthen its influence and improve its business position on the value chain, it is important for a company to actively promote digital transformation (DX) to transform its products/services, business process, business model, and corporate culture by utilizing data and digital technologies.

18. The purpose of DX goes beyond mere system renewal and upgrading. A company is required to aim to establish a long-term sustainable competitive advantage by acquiring the ability to adapt quickly to rapid changes in industrial structure and business environment and, at the same time, transforming its business model and corporate culture using such ability.

19. In order to promote DX, it is beneficial to formulate and implement strategies that include securing human resources and developing a promotion system for DX from the perspective of how to achieve medium- to long-term value growth based on long-term strategies [2.], while taking into account the company's values [1].

20. In addition, also from the viewpoint of long-term demonstration of competitive advantage based on a sustainable society, it is beneficial for a company to actively and strategically participate and involve in the formation of highly significant rules (regulations, standards, guidelines, etc.) in light of the company's important issues [1.2.], with a view to collaborating with relevant stakeholders.

3.5. Establishment/Promotion of Organizational Processes and Support Systems to Achieve Innovation

21. Innovation is often said to refer to technological innovation, but innovation (innovative value creation) is a broader concept than invention (technological innovation and invention), and care should be taken not to confuse the two. Innovation is achieved through the creation of new businesses or the transformation of existing business models, and inventions are often used for this purpose. In view of long-term changes in the industrial structure and business environment, systematically promoting efforts to achieve innovation, including new businesses, is an important strategy for strengthening growth and competitive advantage.

22. Innovation is achieved through human resources, but it is difficult to achieve long-term sustainable innovation if such innovation relies on the abilities, initiatives, and other personal factors of specific employees. In addition, efforts to achieve innovation are not a linear activity of steadily implementing decisions, but a nonlinear activity of increasing the feasibility of ideas through repeated trial and error in light of many uncertainties. Based on this, it is effective for a company to establish a systematic trial-and-error process for achieving innovation, as well as to set in place an organizational support system that includes rapid decision-making, budgets, and personnel systems, and to promote individual efforts based on these systems.

23. In light of important issues [1.2.], a company should establish a process and support system optimal for itself from the viewpoints of how to acquire and invest in tangible assets and intangible assets (e.g., intellectual property), including open innovation and M&A, how to link these assets to its business portfolio strategy, how to establish a human resources strategy to support these efforts, and how to develop the governance structure of the entire organization, while looking at innovation necessary to enhance corporate value over the medium to long term. In this connection, it is also beneficial to refer to international standards for corporate innovation management, etc., as appropriate.

24. Investors are interested in the sequence of events leading up to the long-term value creation of an innovation efforts: under what timeframe, in what market it is expected to grow, and how much revenue it is expected to generate. In order to meet these needs, it is beneficial to present an overall picture of the process and support system for achieving corporate innovation.

3.6. Investment in Human Capital, Human Resources Strategy

25. Human capital is an important intangible asset that serves as the starting point for the value created by a company. Investments in a company's human capital are made to acquire, train, and utilize various human resources within the company, including management personnel, research and professional personnel, and employees who run the frontline. It is important for companies to view human capital as a source that supports their competitive advantages and generates innovation, and to position investments that are treated as part of current expenses in the form of research, compensation, etc., for accounting purposes as investments to enhance corporate value over the medium to long term.

26. Companies are required to formulate and implement investment in human capital and human resources strategy as one of their key management strategies from the perspective of how to achieve medium- to long-term value growth based on long-term strategies [2], in light of their own values [1].

27. It is beneficial for a company to formulate and implement a human resources strategy while taking into consideration that there are three perspectives, and five specific common factors, in the human resources strategy.

28. The three perspectives are: (1) whether the human resources strategy is linked to the management strategy; (2) whether the gap between the business model and management

strategy to be pursued and the current human resources and human resources strategy has been identified; and (3) whether the human resources strategy has promoted the organizational and individual behavior change and has been gaining ground as corporate culture in its execution process of the strategy.

29. The first of the five common factors is (1) the factor of whether a company has built a human resource portfolio in which diverse individuals can play an active role towards the achievement of the business model and management strategy to be pursued (dynamic human resource portfolio). Furthermore, in order to improve productivity and achieve innovation, it is necessary to activate diverse individuals, teams, and organizations, in addition to building a human resource portfolio. From this perspective, the following factors are important: (2) whether the diversity of individuals is conducive to dialogue, innovation, and business outputs and outcomes (diversity and inclusion of knowledge and experience); (3) whether the skills gap between the present and intended future is being filled (reskilling and relearning); (4) whether diverse individuals are working proactively and willingly (employee engagement); and (5) whether employees are working regardless of time and place.

30. Companies should also present quantitative and qualitative information to investors on how their investment in human capital and human resource strategies are linked to their long-term strategies, how their human resources strategies are progressing, and how they are enhancing corporate value over the medium to long term.

3.7. Investment Strategy to Secure and Strengthen Intangible Assets, etc., Including Intellectual Property

31. Important elements of corporate strategy include the strategic investment to secure and develop management resources and intangible assets (e.g., intellectual property) that constitute the source of their competitive advantages [2-2.2.1.] and the deployment of the resources/assets to provide value to customers and enhance corporate value in a long-term sustainable manner.

32. In this connection, in order to establish and strengthen competitive advantage internationally, it is also effective for a company to take market strategies that utilize standards, for example, by standardizing new technologies developed by the company in order to rapidly capture and expand markets. In light of this, it is also beneficial for a company to develop and promote strategies for differentiation through the utilization of intangible assets, including intellectual property, and strategies for market expansion through the utilization of standards, in an integrated manner.

33. Indicating the expected timeframes and the methods for evaluating strategies in the context of KPIs [4.] is important for allowing investors to assess corporate strategies and execution capability.

34. On company balance sheets, most intangible assets, including intellectual property, are not recognized as assets, so strategic investment in those assets with a view to enhancing corporate value over the medium to long term is treated as expenses for the current

expenditure. Moreover, disclosure concerning intangible assets is not always linked with companies' business models and business portfolios/segments. Therefore, investors may regard strategic investment in intangible assets merely as inefficient expenditures that reduce profits. Investment in tangible assets (e.g., equipment and facilities) recognized as assets on the balance sheet is not necessarily explained in relation to the business model or strategy either.

35. Failing to appropriately recognize and quantify the value of intangible assets, including intellectual property, in the same manner as tangible and financial assets could impede the optimization of resource and capital allocation (insufficient or excessive investment) by companies. In particular, in order to "capitalize" investments (expenditures) in intangible assets that grow corporate value over the long-term, it is necessary to introduce appropriate timeframes and methods of measurement. If the contribution of investments to corporate value is properly evaluated, it will be useful in formulating and executing strategies and increasing the understanding of investors for these underlying investments.

36. Therefore, in order for investors to appropriately evaluate strategic long-term investment by companies, description of the scale and contents of such investments and their contribution to sustainable value creation is important. Communicating that information with qualitative/quantitative data together with the benchmarks and methods for evaluation is also useful. In this respect, "capitalizing" such investment (expenditure) with the life of the investment generating cash flow is useful information for investors to assess the return on investments.

37. Indicating alternative measures to be taken in the event that key management resources or assets, including intellectual property, are lost, such as making up for the loss with other resources/assets, is also important for gaining the trust of investors.

38. While these management resources and intangible assets, including intellectual property, and how to invest in them vary by business field and industry sectors, it is useful to refer to the ideas in the dialogue with investors regarding the key elements (technology, brand, organization, and M&A) listed below and incorporate them into strategies of companies.

3.7.1. Investment in Technology (Intellectual Capital)

39. Technology in the broad sense of the term, i.e., intellectual capital, is a source of both differentiation and competitive advantage for companies. Turning tacit knowledge such as skills and knowhow into explicit knowledge throughout the business processes, including R&D, business development, production, distribution, sales, and service provision, in order to create innovation is an important management challenge for companies.

40. In order to evaluate their competitiveness, companies need to understand whether and to what extent their technology is superior to those of competitors. If their technology is currently inferior, how the company intends to overcome the disadvantages and at what speed, are also important information for investors to evaluate companies' strategies.

41. It is beneficial for investors to understand companies' technologies if companies provide various opportunities for communicating with investors such as factory tours or technology seminars in addition to general information disclosures.

42. The technology/intellectual capital of companies varies depending on the business field and industry. Described below are important points for corporate disclosure and dialogue with investors regarding R&D and IT/software investment, which concern many companies.

3.7.1.1. R&D Investment

43. Developing a strategy that connects R&D investment to competitive advantage and creates intellectual assets that contribute to the long-term and sustainable growth of corporate value, and leads to inventions and innovations, is an important challenge for the managers/directors of companies. Investors need to understand this in evaluating company's value creation capacity from a long-term perspective.

44. On the other hand, it is difficult to objectively evaluate how R&D investment contributes to profitability and corporate value (i.e., R&D efficiency) for various reasons: the causal relationship is complex, because a typical research project leads to multiple development programs; basic research does not directly lead to product development; and generating earnings takes a long time.

45. The focus of attention for investors when they evaluate a company's R&D investment is how the investment is positioned within its business model. For example, it would be beneficial if companies disclosed not only the total amount of R&D expenditure but also R&D expenditure by segment and provided objective data that indicate the market viability of their R&D, possible changes in their position(s) in the value chain, and the source of their advantages (e.g., the specialties and number of researchers). Information on the useful life of R&D is also informative for investors' evaluation.

46. Concerning patents and licenses acquired as a result of investment, investors focus their attention not only on the numbers of patents, etc., but also on their quality in terms of whether they are useful in creating barriers to entry for other companies.

47. These information items are generally monitored by companies and are often disclosed in some way or another. The focus of attention for investors is not classified information that may affect the competitive conditions of companies, but how companies position the information items under their business models and strategies, and from what viewpoint and based on which facts performance is evaluated.

48. Moreover, R&D investment is also an important element from the viewpoint of promoting invention, responding to "discontinuous (disruptive) innovation" [2-3.3.1.], and establishing organizational processes and support systems [3.5.] for innovation achievement. However, it is beneficial for investors if companies explain the importance of the social challenges and markets that underlie their R&D fields and directions, specific targets for generating earnings, and unconventional organizational structures and methodologies used to create such inventions and innovations.

3.7.1.2. Investments in IT and Software / Investments in Promoting DX

49. In the Fourth Industrial Revolution, it is becoming increasingly important to view the introduction of IT systems, software development/embedding, etc., not only as a business cost, but also as an investment in intangible assets that will become a source of a company's growth and competitive advantage, and to promote investment in digital transformation (DX) [3.4] by all employees, not just those in IT departments, with a sense of ownership, to reform business processes, business models, corporate culture, etc. In its business model, it would also be beneficial for a company to present quantitative facts, evaluation methods, etc., on how such "aggressive IT investments" or investments for DX will enhance the company's technological capabilities and establish long-term sustainable competitive advantage, and what period of time the company believes such investments will lead to a return on investment.

3.7.2. Investment in Brand and Customer Loyalty

50. Corporate brands and customer bases represent the trust in companies and their products and services that has been gained through their past activities. Considering what investment to make in order to develop and enhance brands and customer bases, which are intangible assets, is a strategic investment decision.

51. Although the asset value of brands and customer base does not appear on the balance sheet, their value declines if nothing is done to maintain or grow them, as with the value of equipment. From that viewpoint, some companies evaluate how much the brand value declines each year and report the amount of investment intended to make up for the decline.

52. There are different views of brands and customer bases between corporate managers and investors. While corporate managers tend to believe that these values are difficult to quantify, investors consider that the value should somehow be quantified. For example, investors assume that a company's brand superiority is reflected in their profitability through their pricing power and their influence in the value chain. Investors also believe that the development of customer bases and customer loyalty leads to reduced expenditures in sales activities, improvements in contract renewal rates for contract-based services, and decreases in the costs of obtaining new customers or preventing contract cancellations.

53. Therefore, it would be effective in deepening the understanding of investors if companies showed that they are measuring and monitoring those effects, by sharing strategic objectives that incorporate the effects of those investment and activities intended to maintain the superiority of their brands and customer bases.

3.7.3. Organizations

54. Deciding how companies are organized and operated is one of the most important management decisions. Reorganization indicates both management's recognition that existing business models cannot adapt to changes in the competitive environment and their intention to develop new business models.

55. For investors, verifying the objectives and process of a company's reorganization, its relevance to their strategies, the organization's decision-making/operational processes, and the relevant KPIs, are important issues.

56. It is beneficial for investors if companies explain their views concerning the above items and continuously show the results of reorganizations together with the progress of the KPIs [4.].

57. How companies develop and enhance their relationships with business partners or their franchises in the value chain and how they establish production and supply systems, including distribution systems, are also important elements of corporate strategies.

58. In particular, for companies whose supply chains, including group companies, are the source of their competitive advantages, strategies for maintaining resilient supply chains is information that investors should obtain and understand.

3.7.4. Investment to Accelerate Growth

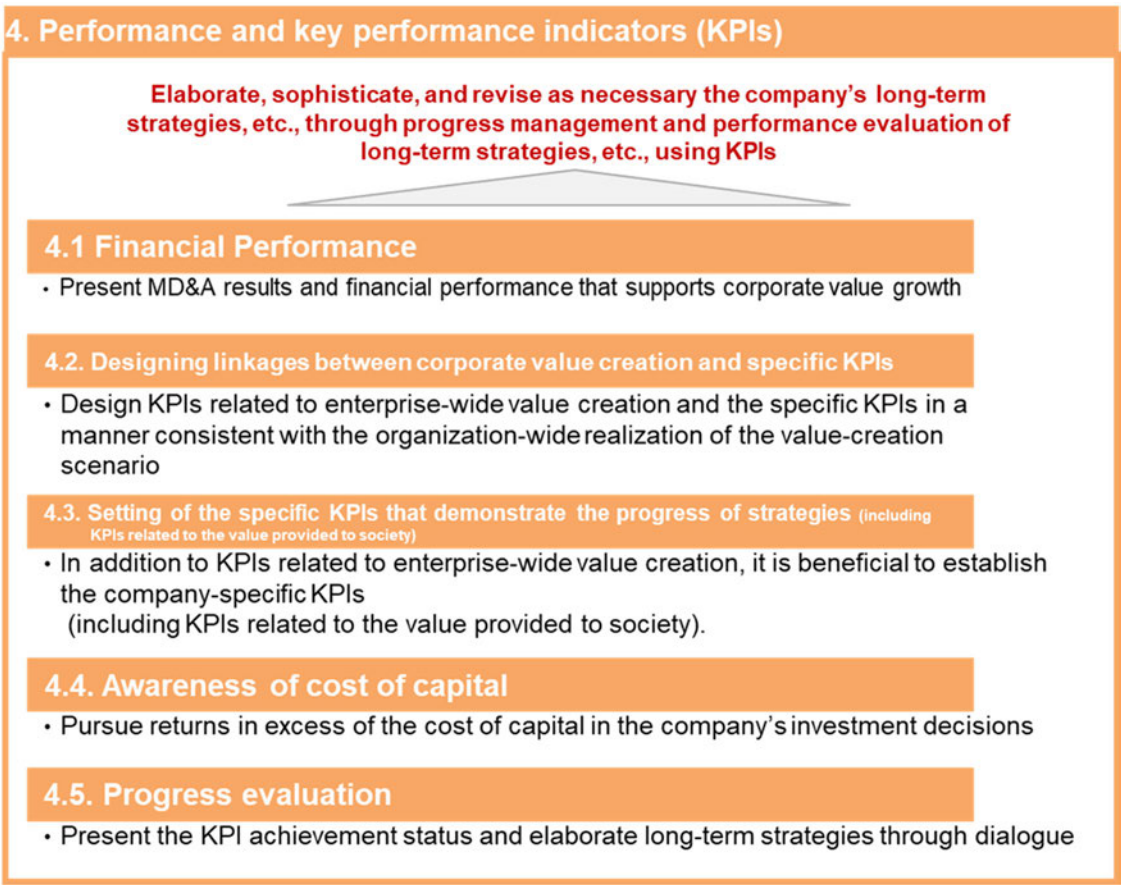
59. Strengthening business models and accelerating growth by forming alliances with or acquiring companies with desirable technologies, networks, or human capital and investing in management resources and intangible assets, including intellectual property, are important strategies for companies.

60. Facing rapid technological evolution and change, companies are expected to explain to investors how they intend to complement and enhance their competitive advantages through open innovation and M&A in relation to their business portfolio [3.3.]. It is also important to explain the governance structure with respect to business divisions and subsidiaries, including monitoring systems to be developed after the acquisition and the division of responsibilities with alliance partners.

4. Performance and key performance indicators (KPIs)

[Points]

- "Performance and Key Performance Indicators (KPIs)" are indicators that show how much value a company has created to date through its value-based long-term strategies and implementation strategies, and how its management analyzes and evaluates such value.
- It is important for companies to elaborate, sophisticate, and revise as necessary their long-term strategies, etc., through progress management and performance evaluation of long-term strategies, etc., using KPIs.



01. Discussing plans for the next 100 years without demonstrating past achievements does not gain the trust of investors. In order for a company to increase its corporate value in a long-term and sustainable manner, it must first demonstrate the economic value it has created and indicate how corporate managers analyze and evaluate its financial performance.

02. From this perspective, it is beneficial for a company to set key performance indicators (KPIs) as benchmarks for embodying its values [1.] through businesses and enhancing its corporate value through long-term strategies [2.] and implementation strategies [3.] and as a yardstick to measure the achievement of their objectives, and to share the KPIs with investors. Setting KPIs and sharing evaluations of progress on specific objectives is important for companies to enhance their accountability to investors and gain their trust.

4.1. Financial Performance

03. Sustainable growth of companies can be realized by achieving performance (cash-on-cash return) above the cost of capital over the long-term. Investors can make long-term investments in companies in expectation of long-term sustainable value creation.

04. Therefore, how management evaluate and analyze the result of their value creation, business performance and financial circumstances, in the process of executing the strategy for growth of corporate value, is an important element that investors take into consideration.

4.1.1. Management Discussion and Analysis (MD&A)

05. Companies can review their existing long-term strategies and implementation strategies and the business environments that have affected such strategies by analyzing and evaluating current financial conditions and business performance (e.g. financial results for the current fiscal year).

06. It is beneficial to use the review as an opportunity to revise strategies and set effective and appropriate KPIs.

4.1.2. Creation of Economic and Shareholder Value

07. When companies aim to grow their corporate value over the long-term, they should review the economic/shareholder value that has increased and communicate the results to investors. For example, they should indicate the total shareholder return (TSR; the increase/decrease in the share price plus dividends) if investors had possessed their shares about five to ten years in the past and how shareholders who made long-term investments in the companies have been rewarded.

08. Analyzing corporate outcomes, including business strategies, investments made and the cash flow and profit generated thereby, is important for enhancing the effectiveness of future strategies and gaining the trust of investors.

4.2. Designing Linkages between Corporate Value Creation and the Company's Own KPIs

09. Although sharing KPIs with respect to the creation of overall corporate value, such as ROE (Return on Equity) and ROIC (Return on Invested Capital), is beneficial, those KPIs alone

are not sufficient to convince investors to invest in a company, because it is difficult to grasp the linkage between specific actions companies intend to take and those KPIs.

10. Therefore, companies should formulate forward management plans in line with their own long-term strategies [2.] and set company-specific quantitative/qualitative KPIs in order to monitor the progress of the plans.

11. In this connection, setting KPIs that are linked to factors that generate revenue or drive financial figures [2-2.2.3.] is also useful in showing how specific actions based on long-term strategies and implementation strategies are linked to the business model.

12. In some cases, pursuing only company-specific KPIs might obscure the linkage to KPIs related to overall company value creation (e.g., ROE, ROIC). For example, if the company-specific KPIs are too detailed, investors may find it difficult to understand and evaluate them.

13. Therefore, companies should set KPIs in such a way that the breakdown of more general KPIs can be linked with the company-specific KPIs, or in such a way that the total results expressed through the individual KPIs can lead to the more general KPIs.

14. In doing so, a company can deepen investors' understanding by showing, by reference to timeframes, how the company-specific KPIs reflect the value that customers recognize in the products and services it provides (customer value) and how this is linked to KPIs related to financial value, while also utilizing IT and digital technologies, etc.

15. If companies provide such a structure of the KPIs, investors can monitor and evaluate the performance in light of company-specific KPIs and understand them in relation to other information items, including organizational design and outcomes, performance evaluations, and remuneration.

4.3. Setting of the Company’s Own KPIs That Demonstrate the Progress of Strategies (Including KPIs Related to the Value Provided to Society)

16. In setting company-specific KPIs, it is also useful for a company to set KPIs related to the value it provides to society (e.g., social impact and outcomes), in addition to KPIs related to financial value, based on its values and important issues [1], and long-term strategies [2].

17. In doing so, it is desirable for a company to explain why it set such KPIs, linking them to its values and important issues, and to their positions in its long-term strategies and implementation strategies. The company can further deepen investors' understanding by showing the linkage of KPIs related to the value it provides to society to KPIs related to financial value, and the outlook for how they will be achieved over a longer timeframe.

18. As changes to KPIs can be regarded as significant revisions to strategy, companies are expected to explain the reason for these changes to investors.

4.4. Awareness of Cost of Capital

19. Fostering awareness of KPIs for the creation of corporate value and communicating strategies that ensure a return greater than the cost of capital in making corporate investment

decisions is important for gaining high regard from investors. In doing so, it is useful for a company to show not only the awareness of the cost of capital of the company as a whole, but also the awareness of the cost of capital for each major business segment.

20. Cost of capital refers to the rate of return expected by the market. While “weighted average cost of capital” (WACC) is a quantitative measure that takes the weighted average cost of a company’s equity capital and debt capital, there is no absolute definition of a company’s cost of capital. It is important for companies to recognize the variety of factors that underpin a company’s cost of capital, including the trust and expectations of investors, and communicate their views on their cost of capital as part of their awareness of their creation of economic and shareholder value.

4.5. Progress Evaluation

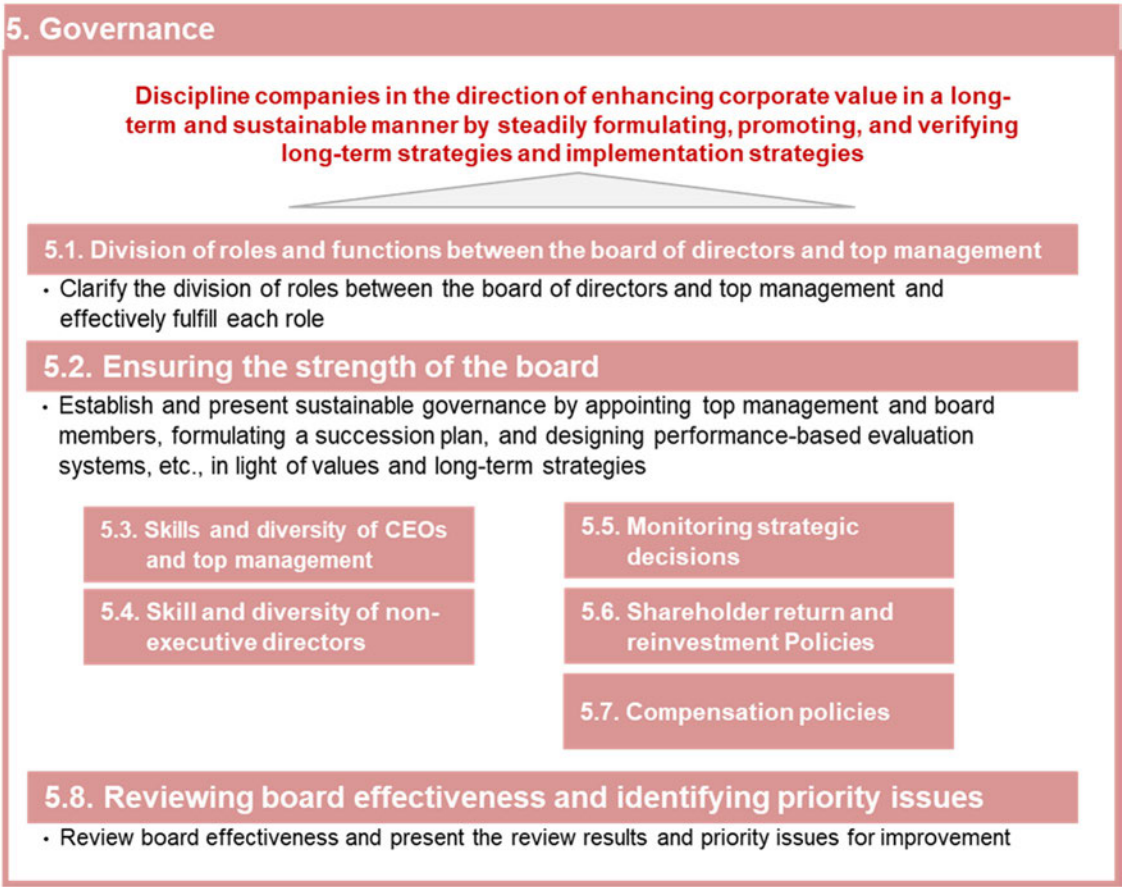
21. After setting KPIs, it is important to manage the progress and evaluate the results of strategies using KPIs, as well as to report to investors on the status of their achievement. In particular, if companies fail to achieve KPI targets, explaining the reason for failure in reference not only to the business environment but also to their business models and strategies is important for obtaining investor understanding.

22. It is beneficial for companies to develop a PDCA (plan-do-check-act) cycle to strengthen their management capabilities by refining, upgrading, and when necessary, revising their strategies so that they are resilient to changes in the industrial structure and business environment through the accumulation of such dialogues. For investors, it is important to understand KPIs and companies’ underlying strategies to increase their confidence in companies.

5. Governance

[Points]

- "Governance" is a mechanism or function to discipline companies in the direction of enhancing corporate value in a long-term and sustainable manner by steadily formulating, promoting, and verifying long-term strategies and implementation strategies.
- Companies are required to develop governance mechanisms to discipline corporate behavior, such as long-term strategies, so that such mechanisms can be effective and sustainable.



01. It is essential for investors that companies have formulated long-term strategies [2.] and steadily promoted implementation strategies [3.] to embody such long-term strategies, as well as that the company has a properly working governance system to discipline itself towards enhancing its corporate value in a long-term and sustainable manner. By confirming the functioning of corporate governance, investors can trust and invest in companies with confidence.

02. Companies should clearly communicate the effectiveness of their governance systems through information disclosure and dialogue with investors with particular reference to the items described below.

03. In this connection, each company should review why it has built its governance system from the perspective of enhancing its long-term sustainable value, and how such governance system is positioned and works in its own unique value-creation scenario, and should present its unique ideas on these questions.

5.1. Division of Roles and Functions between the Board of Directors and Top Management

04. Companies are required to design an appropriate organizational structure based on the clarification of the division of roles and functions between the board of directors and top management responsible for business execution (i.e., the president/CEO, executive directors, executive officers, executive managing officers, and other important employees), and effectively fulfill the roles and functions of each. In particular, in the case of stock companies, it is desirable to clarify the roles and functions required of individual directors and the board of directors as a whole, keeping in mind that directors are elected by the shareholders.

05. The board of directors must responsibly fulfill its role in nominating the president and CEO, but it is also desirable to clarify how the board of directors should be involved in the nomination of top management other than the president and CEO, based on whether the board's role and function should focus solely on the supervisory function or also on individual decision-making functions.

5.2. Ensuring the Strength of the Board

06. Investors view the sustainability of companies' governance systems that governs a set of corporate actions, including long-term strategies, as necessary information for making investment decisions. Investors focus their attention on whether companies elect top management/directors suitable for resolving challenges in the execution of corporate strategies, whether performance-based evaluation is conducted, and whether appropriate governance systems can be continuously ensured.

07. Companies should share management priorities and major challenges with investors, and present the systems for electing and fostering qualified managers and clear succession plans based on the clarification of the most suitable qualifications for top management that are necessary for resolving challenges. Companies should also demonstrate that their board of directors is capable of ensuring such systems.

5.3. Skills and Diversity of CEOs and Top Management

08. Investors expect top management responsible for business execution to have the required qualifications and abilities, and to steadily implement the decisions made. Furthermore, investors consider it important that companies ensure a sufficient diversity of attributes, experiences, and other elements are present in the board and executive team so that they can exercise their roles as a unit, and that a highly transparent and objective decision-making process exists.

09. Companies should provide information concerning the qualifications of the board and executive team with investors and effectively use feedback gained through dialogue with investors.

5.4. Skill and Diversity of Non-executive Directors

10. Investors expect that directors mainly responsible for supervision of business execution (i.e., non-executive directors) hold an independent and objective position and a will to act with independence and objectivity from the viewpoint of securing general shareholders' interests. Furthermore, investors expect individual non-executive directors to have sufficient capabilities and experiences to allow them to discuss with executive directors on an equal basis. Further, non-executive directors are expected to act and contribute to monitoring conflicts of interest with general shareholders by ensuring diversity of expertise among non-executive directors.

11. Companies should provide information concerning the career backgrounds and attributes of non-executive directors and the roles that they have actually played. As necessary and appropriate, non-executive directors should also be involved in dialogue with investors.

5.5. Monitoring Strategic Decisions

12. Investors often insist that highly competent directors who represent the shareholders appropriately supervise/monitor and evaluate strategic decisions by top management. Companies should explain the supervision and evaluation systems and the results of monitoring.

5.6. Profit Distribution and Reinvestment Policy

13. For investors, shareholder return is an essential source of income, and a company's shareholder return policy will affect investment decisions. Companies are required to indicate to investors their policy on shareholder return and reinvestment in the business for the next and subsequent years.

5.7. Compensation Policies

14. When evaluating companies, investors take into consideration how executive remuneration is linked to a company's management strategies and performance, rather than the remuneration amount alone.

15. Companies should communicate the design of the remuneration system, including the relationship between remuneration and corporate performance and KPIs [4.] to investors. It

is also important for companies to make efforts to obtain investor understanding and trust in terms of executive remuneration and its contribution to the growth of corporate value.

16. In doing so, it is also beneficial to design medium- to long-term incentive compensation, such as executive compensation linked to KPIs [4.] related to important issues and long-term strategies, and equity compensation, from the perspective of motivating the steady formulation and implementation of important issues [1.2.] and long-term strategies [2.] and enhancing long-term corporate value.

5.8. Reviewing Board Effectiveness and Identifying Priority Issues

17. Investors hold the board of directors responsible for its decision-making and objective evaluation of whether its past board decisions were effective. Companies should inform investors of the results of board evaluations and the challenges to be tackled in order to improve the effectiveness of the board.

6. Substantive dialogue and engagement

[Points]

- "Substantive dialogue and engagement" is a collaborative process in which a company and its investors refine the details of the overall corporate value creation scenario and its various components through interactive dialogues between the company and its investors.
- It is important for a company and its investors to collaboratively create long-term sustainable corporate value while deepening substantive dialogue and engagement.

6. Elements of substantive dialogue and engagement

Refine the company's overall value-creation scenario and the content of each element through interactive dialogue between the company and its investors.

6.1. Principles of substantive dialogue, etc.

- Conduct corporate/investor dialogue and engagement to contribute to medium- to long-term growth of corporate value

6.2. Content of substantive dialogue, etc.

- Collaboratively create a coherent value-creation scenario by setting an agenda for dialogue based on important issues and sharing a long-term timeframe

6.3. Methods of substantive dialogue, etc.

- Identification of investors who can provide useful suggestions for strengthening and developing the value-creation scenario, and appointment of corporate counterparts (CEO/president, outside directors, IR staff, etc.) according to investor attributes and dialogue objectives.

6.4. Action after substantive dialogue, etc.

- Form a virtuous cycle of dialogue and management improvement by reviewing corporate efforts and systems based on suggestions obtained through dialogue, etc., and explaining the progress and results of the review to investors.

01. Through deepening constructive and substantive dialogue and engagement with investors towards value creation, companies can reduce the cost of capital by promoting investor understanding and improve the quality of management by reflecting outside opinions in management. This will lead to medium- and long-term growth of corporate value, thereby benefiting both the company and its investors.

02. Keeping in mind the significance of such dialogue, etc., it is important for companies and investors to engage in substantive dialogue, etc., with reference to the following elements in order to refine the overall value-creation scenario and the content of each element and to collaboratively create medium- to long-term corporate value.

03. These elements are examples of how a substantial dialogue, etc., should be. Even if it is difficult to conduct a dialogue with all of these elements, it is important to incorporate them into the dialogue step by step, starting with those that can be put into practice.

04. It is also desirable to proactively add elements that are considered important for dialogue to strengthen the value-creation scenario, based on the company's unique competitive advantages and strengths, trends in the business environment, and other own unique circumstances, and to further develop dialogue and other activities.

6.1. Principles of Substantive Dialogue, etc.

05. In order to substantiate dialogue, etc., towards the collaborative creation of medium- to long-term corporate value, dialogue, etc., between companies and investors must contribute to the growth of such corporate value. With this principle in mind, companies need to consider how the content and methods of dialogue, etc., and post-dialogue actions should be.

06. With each dialogue, companies and investors should further clarify the issues that need to be addressed to enhance corporate value over the medium to long term, and deepen the dialogue, etc., on what actions should be taken to resolve these issues.

07. In this connection, it is advisable for investors to review on why they have become or are considering becoming shareholders of the company, what role they should play as shareholders or prospective shareholders, and what they should do to fulfill that role, and to have their own ideas on these issues before engaging in dialogue with the company.

08. Based on the results of such a dialogue, etc., companies can promote their efforts to resolve issues, and by placing the progress and results on the agenda of dialogue, etc., and receiving further advice from investors in response, a virtuous cycle can be formed between dialogue, etc., and improvement of management quality. In this way, the dialogue, etc., between companies and investors will be substantive, with content and results, rather than being superficial.

6.2. Content of Substantive Dialogue, etc.

09. It is important for a company to build a consistent long-term value-creation scenario with reference to the Guidance as a prerequisite for substantive dialogue, etc., with investors.

10. On top of this, the company and investors should deepen dialogue, etc., on such topics as what are the weaknesses of the company's value-creation scenario and how the company can overcome the weaknesses and strengthen the medium- to long-term value creation.

11. To this end, companies should set the agenda for dialogue according to the level of importance, taking into account the important issues [1.2.], as well as the business environment and overall social conditions surrounding the company and the attributes of the other party's investors.

12. Companies should share with investors the long-term timeframe on which their long-term strategies [2.] are based, and then talk about how they intend to enhance value over that timeframe.

13. Investors are expected to take such a long-term timeframe into account and, based on their own knowledge and experience, to offer advice and opinions that will further strengthen and develop the medium- to long-term value-creation scenario.

6.3. Methods of Substantive Dialogue, etc.

14. By providing effective disclosure that contributes to a deeper understanding of the value-creation scenario as a precondition for dialogue to enhance medium- to long-term value, companies can encourage investors to set a more focused agenda and engage in specific dialogue based on that agenda.

15. Companies should pay close attention to their own shareholder composition and engage in dialogue to understand the attributes of their investors in order to gain useful insights for strengthening and developing their value-creation scenarios.

16. While keeping an eye on these efforts of companies, investors should set an agenda that they believe will be beneficial from the perspective of strengthening companies' value-creation scenarios, and enhance the dialogue by incorporating the information and opinions they have.

17. In this connection, it is also beneficial for investors to devise ways to proceed with agenda setting and dialogue, etc., from the perspective of encouraging companies to deepen their own thoughts from a broad perspective on how to demonstrate competitive advantage and strength in the midst of major changes in society as a whole by providing information and exchanging opinions, taking also into consideration trends in the industry as a whole and different industries.

18. Companies should assign appropriate responders (e.g., CEO/president, outside directors, IR staff, etc.) according to the attributes of the other party's investors and the purpose of the dialogue, etc.

6.4. Action After Substantive Dialogue, etc.

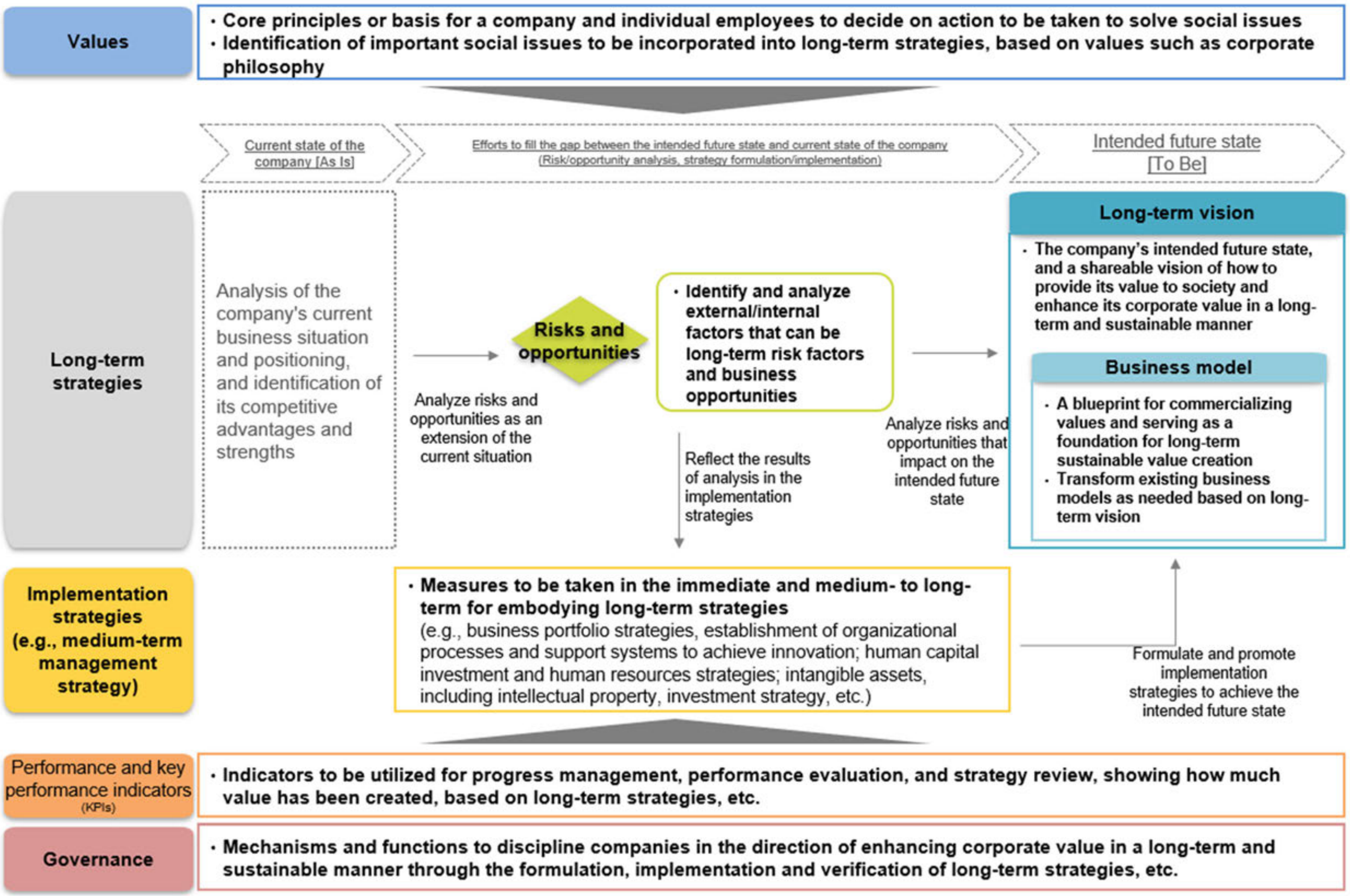
19. Companies should be flexible in responding to questions and advice from investors, review their corporate value components (e.g, values, important issues, long-term strategies, implementation strategies, KPI setting, and governance) based on suggestions obtained through dialogue, etc., and implement measures to improve them as necessary.

20. By disclosing the progress and results of these efforts as appropriate, seeking further advice and opinions from investors, and reflecting them in future efforts, companies and investors can collaboratively create a virtuous cycle of dialogue, etc., and management improvement based on such dialogue, etc., and further strengthen and develop their value-creation scenarios.

Column: Expected Roles of Sell-Side Analysts

- It has been noted that investors' needs for sell-side analysts have diversified in recent years.
- At the same time, there is still traditional needs for services such as short-term earnings and stock price forecasts, and corporate access. However, it has been pointed out that it has become difficult to differentiate these services from those of competitors due to changes in the environment surrounding the communication of corporate information, as well as the expansion of information dissemination by companies themselves and the strengthening of access to companies by investors themselves.
- At the same time, there is a growing need to build hypotheses and analytical models on how industry, market, and technological trends can affect the value chain and medium- to long-term corporate value growth from a broad and long-term perspective, thereby disseminating them widely to the market.
- In addition, some say that the efforts of both investors and analysts to evaluate medium- to long-term corporate value while incorporating social sustainability (e.g, by developing methods to reflect ESG factors in corporate value, and establishing dedicated positions such as ESG analysts) are becoming more and more active.
- Sell-side analysts can contribute to further deepening the collaborative corporate value creation throughout the entire investment chain by widely disseminating the results of their analysis of long-term industry trends and corporate value to market players inside and outside their own companies through reports and other media. In particular, for the purpose of sound development of capital markets, it is useful to the importance of long-term corporate valuation to investors, including individuals who do not have the opportunity to engage in dialogue with companies.
- In this connection, it is also useful for sell-side analysts to utilize the Guidance to organize their perspectives in analyzing a company's long-term value-creation scenario.

＜（Reference）diagram using the As Is - To Be Framework＞



<（Reference）Overall diagram of the Guidance for Collaborative Value Creation before the revision>