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## 2023 COMMENTARY

I was pleased to review Ajinomoto Group's sustainability disclosures once again this year. I have the benefit of several years of closely following the Group's activities and disclosures, and I continue to find the scale and breadth of the

Group's sustainability practices impressive.

In this second year of the tenure of the new President and CEO, Mr. Taro Fujie, I think we are seeing a step change in the positioning of the Group. I like the new strategy comprising four pillars that are both long-term growth and profit generators for the Group and also levers of positive impact for people, society and the planet. I believe this strategy is clearer than ever before in its ambition and evidences a real connection between business growth and social benefit. The new iteration of the corporate purpose that places "AminoScience" at the core reflects the Group's unique legacy and strength; it's good to see this articulated in a way that differentiates the Group and guides its future direction.

### Ambition and Progress

The group has retained two broad sustainability ambitions: help extend the healthy life expectancy of 1 billion people and reduce our environmental impact by 50%. I think the roadmap for the former is somewhat plausible, even if I continue to find the details of how this will be achieved and proven a little vague. As I have noted in previous years, raising awareness of the benefits of umami as a salt replacement seems like a good plan, but will awareness alone help increase life expectancy? Does product purchase

equate to food behavior change? I believe the Group could deliver greater confidence by being more explicit about the correlation between product sales and the contribution to extending life expectancy of behavioral change relating to food habits.

The second goal of "reducing environmental impact by 50%" is less clear, as I also noted last year. I see several environmental targets including Scope 1 & 2 emissions. However, these do not seem to represent the totality of the Group's environmental impact. For example, Scope 3 emissions are more than six times the volume of the total of Scope 1 and 2 emissions, but it is not clear whether these are included as part of this 50% reduction in impact. I believe there is an opportunity – perhaps an obligation – for the Group to spell out the definition of this goal in clearer language and define a roadmap to achieve it.

On a positive note, it is encouraging that the Group shows progress against several sustainability targets. Even if the goal is not quite specific, the direction of travel is positive and the achievements are significant.

### Materiality and Strategy

Alongside the new strategic business focus, this year's disclosure presents a change in the Group's materiality framework. To understand what this new materiality means for Ajinomoto Group and how the list of material topics was developed, I consulted the report of the Group's Sustainability Advisory Council, which is referenced in the Sustainability Report. Even after a couple of readings, I did not discover enough detail about the process to help me understand how the final set of sustainability materiality topics was selected.

The material topics are noted as reflecting risks and opportunities for the Group in relation to value creation and stakeholder expectations. The stakeholders are represented by the Sustainability Advisory Council members. Although

itself a very positive addition to the Group's array of sustainable practices, the Council comprises food science and social finance experts from primarily the Japanese community—hardly representative of a broad range of stakeholders for a global business such as Ajinomoto. As these stakeholders selected and prioritized the material topics, I have to wonder how balanced this list of topics is.

The twelve topics are expressed in language that is impossible to understand without a deep dive into the definitions and sub-definitions of each, and even then, it's still not clear what action is needed and what will be measured to drive business growth and value creation. Further, I sense a disconnect between the new business strategy and materiality, with areas relating to advancing healthcare through medical innovations and promoting smart society through ICT not fully reflected.

### Materiality and Disclosure

As a framework for disclosure, I find the materiality presentation a little puzzling. There appears to be no explicit reference to material impacts—positive and negative—of the Group's business activities, as the material issues are noted as reflecting risks and opportunities in the context of value creation. In this sense, the Group's new materiality framework does not support a Double Materiality approach, which is becoming leading thinking in the sustainability disclosure space globally. My recommendation is to consider the twelve material topics from an impact standpoint as well, and use this insight to create a clearer focus for activities to support progress against each item, with appropriate metrics.

## Information and presentation

As usual, the Group's sustainability disclosure is fascinating and enlightening. The breadth of topics and activities that the Group manages to progress every year is impressive. This leaves no room for doubt that the Group is passionate about shared value and sustainable practice, and assigns significant resources to leading the way across several dimensions of activity.

The Sustainability Report covers many topics and provides depth of disclosure and significant amounts of data. But it is too long, making it very difficult to focus on what really matters. The disclosure should describe key areas of progress and actions in the reporting year; the objective should not be to include everything, but only to include what's significant.

Also, given the restructuring of the materiality framework, I am not able to correlate the material disclosures to the material topics in the GRI Content Index, unlike reporting in prior years where this was very clear. By shortening the report, and improving the materiality alignment, it would be more impactful and enable its users to more easily find relevant information.

The ASV Report (Integrated Report) contains fascinating sections on the four strategic focus areas and several interviews. I wonder how many people actually take the time to read these word-heavy sections. Here again, I feel a focused and compact presentation would be more effective.

In short, I recommend that the Ajinomoto Group significantly reduces the content of the annual Sustainability and ASV Reports by eliminating non-current and non-essential content and by aligning the sustainability content of both reports more effectively to avoid duplication.



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## Degree of Information Disclosure

As always, the Ajinomoto Group's annual disclosures through the ASV Report, Sustainability Report, Data Tables, Website, and SASB and GRI Indexes provide an impressive collection of qualitative and quantitative information. This wealth of information can be somewhat overwhelming, requiring a very focused effort to extract the

sustainability related information that investors seek.

Without too much effort however it is clear to see that the Group has managed to decouple economic growth from environmental impacts, reporting double-digit growth in Sales, Profit, and EPS while simultaneously improving environmental outcomes, such as reducing GHG emissions throughout the value chain, increasing its resource recovery ratio (despite increasing waste), and reducing food loss.

While the Ajinomoto Group's story around social and economic value creation is becoming clearer qualitatively, additional work needs to be done around quantifying financial materiality and linking this work with the impressive, year-on-year double digit growth reported. This work may help streamline future reporting to focus on risks and opportunities that meet the threshold for financial materiality only, which should be integrated into the financial reports. The increased focus on pre-financial intangibles is encouraging. However, in the financial report, the combination of intangibles and goodwill together account for barely ten percent of total assets. In the future, I'd like to see a stronger link between the financial, economic, and societal

value created.

I was pleased to see a lot more detail regarding climate-related risks and opportunities in both the ASV and Sustainability Report – including quantification of certain physical and transition risks under 1.5 and 4 degree scenarios, countermeasures, and mapping of societal and economic impact in the ASV Report. However, I would have liked to see a bit more supporting narrative with this table including the timeline and basic methodology for analysis in the ASV report.

To me, the Environmental and Social Data Tables in the Sustainability Report Appendixes – with their multi-year trends and standardized metrics – are the best source to quickly get a read on the company's progress. Additionally, the 'Key initiatives and progress' section of the Sustainability Report provides a handy overview. I would welcome the inclusion of related financial information in both places. Goals presented in the ASV Report 'What the Ajinomoto Group will be in 2030' section are a little misleading and could be perceived as actual progress metrics rather than goals, an issue that could be easily solved with improved labeling.

## Improvements and Issues

Several important improvements were made to this year's disclosures that enhance the authenticity, clarity, and depth of the reporting, as well as strengthen the integrated strategy overall.

For instance, in this year's disclosures, the Group brings the workforce engagement to life through quotes from internal stakeholders about what ASV means to them. This adds a level of authenticity to the discussions around initiatives connecting employees with ASV, and the link between engaged employees and sustainable value creation. Throughout the reports and website this year, I did sense a retrenchment in the representation of diversity that was present previously, with the bulk of the imagery

depicting Asian people. Perhaps this too is actually a more authentic representation for the Group, while the broader diversity previously represented was more aspirational.

In terms of clarity, thematically, the ASV Report has shifted into symmetrical groups of four – four sets of ESG metrics (improving economic value, reducing environmental impact, nutrition commitment, and intangible assets), four growth areas (Healthcare, Food & Wellness, ICT, Green), four sets of important/material areas (Co-creation, “Seikatsusha” perspective, Wellbeing, Shared Value), and four sets of connected HR strategies (Diversity, Challenge, Wellbeing, Purpose). These constructs are helpful to the readers in understanding the complex, multi-dimensional story that the Ajinomoto Group puts forward in their suite of disclosures.

Importantly, the shift in focus around the four growth areas that all are rooted in the Ajinomoto Group’s core competency, “AminoScience”, does elucidate the overall purpose of the Group, as well as the value creation process through integrating long-term sustainability strategy into the core business strategy qualitatively.

In this year’s ASV Report, the Group clearly pins the time horizon for its strategic vision to 2030 – another helpful focal point. While this timeline coincides with the goals and targets of the SDGs, it was interesting to note that explicit connection to the SDGs was less prominent in this year’s ASV and Sustainability Report than in previous years.

Updates to the website are a definite improvement, making it easier to navigate and connect with the wealth of sustainability information provided. The top part of the screen is now being used much more effectively, highlighting case studies of “Along with Society” that exemplify the integrated sustainability work in action! I was also happy to see the “Latest News” section back on the site.

Improvements to the depth of reporting include further elaboration in several important areas. As noted above, climate-related risks were a welcome addition. This year’s

Sustainability Report also included a detailed account of the Group’s Scope 3 GHG emissions, which helps give a more detailed picture of the nature of the Group’s climate impacts through the value chain. The newly introduced guidelines on biodiversity and reviews of three key products following the LEAP approach framework were a welcome beginning to the Group’s adoption of the Taskforce on Nature-related Finance Disclosures (TNFD) recommendations. It will be interesting to see how this body of work develops. Further, the detailed human rights assessment demonstrates the Ajinomoto Group’s commitment to sustainability throughout the value chain and food system.

Two key opportunities for improvement are the SASB and GRI Indexes. While the practice of linking to the information sources in the Indexes represents streamlined reporting in theory, in practice, it is inconvenient for readers to scavenge for the data sought throughout the various reports. I would recommend summarizing the data and information directly in the SASB and GRI Indexes in addition to the external links, to reduce the burden.

### Materiality Assessment Approach

While I find the new Materiality Relation Chart an inspiring and effective articulation of the Ajinomoto Group’s purpose-driven business strategy, I struggle somewhat with the nomenclature.

At first glance, these unique “material topics” bear no relation to the typical sustainability reporting frameworks - GRI, SASB, WEF, etc. However, upon closer inspection, many of the KPIs are metrics from the GRI topic-specific disclosures, and goals are in many cases neatly lined up with the 2030 goals of the SDGs. I worry that less-informed readers may not make the connection and assume that the Group does not follow established reporting standards, especially if consuming this information in the ASV Report only, which does not provide the historical context around

the Group’s materiality assessment journey going back to 2015.

As this framework develops, I expect to see more consistency among the KPIs and goals between the topics and clear links to financial impact on the Group.

### Preparedness for Future Reporting Requirements

As leaders and early adopters of integrated strategy and reporting, the Ajinomoto Group is well positioned overall for the upcoming slew of sustainability reporting regulations that are emerging around the globe. However, the newly created risk management committee will certainly be kept busy refining and quantifying the financial impact of material sustainability topics, as this is the area most lacking in the company’s reporting to date.

This year’s detailed disclosures around the link between executive compensation and sustainability goals and targets at different time-horizons highlight the Ajinomoto Group’s leadership role in this arena. Compared with leading American companies, the Group’s transparency is exemplary and will serve them well in complying with upcoming reporting requirements and regulations.

Relatively complete SASB reporting, as well as disclosures based on the TCFD recommendations, will prove to be a useful foundation for compliance with the new IFRS standards, if/when the Japanese Securities and Exchange Surveillance Commission choose to enforce the implementation of them for companies listed in Japan.

In this year’s reporting, coverage of SASB disclosures increased to nearly 75% compared to nearly 65% in the previous year. The Group currently reports on all ten IFRS Industry-based disclosures according to the SASB Index, although two of the disclosures use units that are different from those specified in SASB/IFRS. The fact that the Group has been using IFRS Standards since 2017 to prepare its

financial report, should aid the process of integrating IFRS disclosures S1 and S2 into the financial reports. However, given the difference in the nature of the two reports currently, as well as the lack of any sustainability-related information in the financial report currently, it will be interesting to see how the Group harmonizes these disclosures.

Should the Ajinomoto Group be subject to the EU's CSRD when it eventually comes into effect, the Group is reasonably well prepared for the CSRD reporting requirements as well. In terms of impact materiality, the Group's previous work guided by the GRI framework will serve them well as material topics and their attendant metrics, targets, policies, risks/opportunities, and initiatives reported by the Group line up well with ESRS disclosures on Climate Change, Pollution, Water, Biodiversity, Circular Economy, Workforce, Workers in the Value Chain, Affected Communities, Consumers and End-Users, as well as Business Conduct. From a financial impact perspective, work remains to quantify the financial impact of most of these topics. Through implementation of the TCFD Recommendations, the financial impact aspect does seem to be covered for climate-related topics (ESRS E1).

I look forward to following the Ajinomoto Group's further development of their sophisticated, integrated strategy and to their continued progress against an ambitious 2030 Vision!



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I have been working with companies around the world for over twenty years to support them to embed human rights due diligence. And therefore since the review as Dialogue and Collaboration I completed for Sustainability Report 2023, I am delighted to see much more prominence of human rights on both the website and the various reports and data books the Ajinomoto Group produce.

There is clearly a lot of activity in relation to human rights and it is good to see the level of transparency and the fact that the Group is sharing Human Rights Impact Assessment Reports and clear action plans for example. In my last commentary I remarked that there was very little mention of the international Human Rights frameworks such as the UN Guiding Principles and hard to see the overarching human rights strategy with more of a focus ad hoc activities. This strategy has now been clearly updated with a Human Rights Due Diligence Framework and this is now clearly described in relation to these international frameworks.

There are still some areas for improvement, for example there is a long list of activities undertaken but it is not always clear how this links to the overall business strategy and what the final goal is. I would love to see the Group weaving human rights into their wider strategy and embedding it with the wider business and sustainability strategy. At the moment it feels very stand alone.

We are seeing more and more companies committing to livelihoods, living wages and living income as part of their human rights strategies and this often links very well to overall business and responsible sourcing approaches, there is a huge opportunity for the Group here that links to their wider sustainability and corporate strategy.

I am also surprised that the materiality assessment does not include more explicit human rights issues. We are seeing more companies complete double materiality assessments to comply with the EU CSRD legislation, they are becoming more explicit about specific human rights topics such as forced labor and child labor and the impacts surrounding these issues.

What are some of the other opportunities for the Group?

In the Sustainability Report, the human rights elements are largely a repeat of the website and strategy. Going forward it would be good to see some SMART targets and Ajinomoto reporting on progress and impact, much in the way they are doing on some of the health and climate targets.

There are so many places in the strategy where human rights could be incorporated which is a way to increase the Group's overall impact. The strategy on human wellbeing could cover human rights, worker dignity and livelihoods for example as these are all intrinsically linked. Likewise, the sustainable food systems strategy only mentions worker health and very little about responsible sourcing and supply chain human rights yet a solid strategy for respecting human rights should underpin this. Overall there is such a great opportunity to add to the 'joyful life through food' strategy and really make a difference for thousands of workers and farmers in your supply chain.

What are we seeing in Europe ?

We are seeing more and more focus on human rights as companies start to prepare for the recently ratified legislation (German Supply Chain Act, CSRD) and also the up coming EU DDD which is due to be confirmed imminently. The legislation is built upon the foundations of the UN Guiding principles but many companies are now reviewing their human rights strategies again, looking at their risk assessments and their governance structures to ensure they are suitable and robust to meet the legislation.

We are also seeing the beginnings of a move from ad hoc stakeholder engagement to much more mature and strategic stakeholder engagement driven by the requirements of the CSRD. Finally the role of the buyer and purchasing practices is becoming more and more in focus – thanks to organizations such as Better Buying and the Responsible Contracting project, organizations are really understanding what is required to them from a legislation and best practice point of view.

In conclusion it is good to see the progress that the Group has made to make human rights within the business more high profile. I hope in the coming years to see a more embedded human rights strategy.

There are plenty of lessons to learn from those businesses who are now embedding more solid governance structures and formalised risk assessments as well as formalised programmes to embed human rights within their purchasing practices. Whilst a lot of this is being driven by legislation, if this is done well and thoughtfully there is no reason this cannot align with corporate strategies to ensure more resilient supply chains. The overall aim, however, is to ensure that any work on human rights due diligence is designed to ensure that businesses understand their impacts and ultimately drive positive impact for rightsholders up and down the value chain. With the Group's ambitious sustainability strategy I hope to see more evidence of positive impact and change in future.



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to resolving food system and health issues globally. The reports highlight the Group's focus on material issues based on essential underlying thinking – co-creation, seikatsusha, wellbeing, and shared value – that shape the business strategy. I find this is impressive and unique that the Group embraces a Japanese concept to define its approach in business operations and stakeholder engagement.

Throughout the Sustainability Report, complimented by the ASV Report, clear metrics and targets are outlined for each area along with specific initiatives.

A strength of the report is the linkage of sustainability goals, business opportunities, and impact. Efforts to promote protein diversification are effective strategies that align sustainability with commercial aims.

The report balances transparency on challenges alongside achievements. By reading the report, it is difficult to miss the two impactful 2030 goals – extending the healthy life expectancy of 1 billion people and reducing the environmental impact by 50%. These ambitious goals are supported by initiatives that can be featured as industry best practices, e.g. the Smart Salt initiatives to globally promote salt reduction by working and collaborating with multiple, local stakeholders.

On the environmental front, the report highlights

Ajinomoto Group's Sustainability Report 2023, ASV Report, and the Group's sustainability webpage provide a comprehensive overview of the company's sustainability strategies and performance. The reports detail Ajinomoto Group's sustainability framework centered around the unique "AminoScience" technology and outlines the group's commitment

Ajinomoto Group's efforts to contribute to circular economy, reduce food loss, and response to climate change. The report includes a comprehensive Task Force on Climate-related Financial Disclosures (TCFD) recommendations, which are not only informative but demonstrate its commitment to responding to the urgent climate change issue. The challenge is the implementation of the plans and perhaps with more ambitious emissions reduction targets.

In terms of society, the report showcases Ajinomoto Group's initiatives on increasing product safety, respecting human rights, and developing a sustainable supply chain. More information on supply chain audits and engagement data with local suppliers would strengthen disclosure. The Group's Human Rights Roadmap 2030 illustrates advanced and comprehensive plans while aligning with the UN Guiding Principles on Business and Human Rights.

One area the reports excel in is the presentation of the data, especially in the ASV Report. Infographics are used throughout the report to present sustainability related data in an approachable way. Changing the report format to horizontal page in PDF helps a lot in consuming a huge amount of information in the sustainability report.

In summary, Ajinomoto Group's sustainability report provides a detailed, thoughtful review of sustainability issues relevant to the Group and demonstrates a serious commitment to stakeholder-driven sustainability initiatives. With some refinements to data disclosure, it can provide an even more compelling platform and become industry-leading over time.