

# Global review

The Ajinomoto Group's Integrated Report 2021 and Sustainability Data Book 2021 have been reviewed by representatives of important stakeholder groups in Europe, the Americas, and Asia. The Group will use their input to help shape its future sustainability initiatives as a "solution-providing group of companies for food and health issues."

## Perspective from Europe

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### Transformation AND continuity

In the Ajinomoto Group's 2021 Integrated Report, the President and CEO, Mr. Takaaki Nishii, presents a frank overview of his thoughts about creating a culture of AND rather than OR. This is not new. The Triple Bottom Line (TBL) concept, first created more than 25 years ago, reflects leadership in both advancing business AND improving environmental and social impacts. TBL is an AND, not an OR concept. Today, there are ample statistics to demonstrate that companies that adopt sustainable practices deliver higher shareholder value over time than those that do not. And yet, many companies are still lagging, stuck at the level of trade-offs when it comes to sustainability, imagining conflict between responsible and sustainable practices on the one hand, and profitable growth on the other. Any approach that embraces the possibilities of achieving multiple objectives simultaneously is a strong basis to drive sustainable AND profitable business growth; the articulation of this by the Group's leader as his expectation of the Group's future path is clear. The future of humanity will not be one-dimensional; companies will need to multi-task, efficiently and effectively across several priorities.

The Ajinomoto Group's new vision is about contributing to greater wellness, an objective that in itself requires a high level of AND thinking. First, it serves as the basis of transforming the company in many ways – culture, digital, innovation etc. – AND maintaining the continuity of the Group's leadership in food and nutrition and sustainable business. Health and wellness are impacted by so many factors – nutrition, lifestyle, food habits and of course the physical environment – all of which must be addressed in parallel as part of a whole ecosystem. Similarly, AND is the basis for integrated reporting. Integrated reporting is often said to be the outflow of integrated thinking, which by definition must be grounded in an AND philosophy. The Group's 2021 Integrated Report does an exceptional job of merging both financial and sustainability themes to deliver a whole picture of the Group's activities, results and impacts.



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### Strong investment in robust governance

A noticeable feature of the Ajinomoto Group's progress this year is the strong emphasis on robust governance for ESG matters. The strengthening of the Board of Directors to include three Board Committees and the elevation of external Directors are positive moves that will surely help the Group's top governing body be better informed, more efficient, and more balanced in its decision-making. Additionally, the creation of the Sustainability Advisory Council (SAC) to advise and support the Board of Directors in ESG matters is an important step, demonstrating the willingness of the Board to engage, listen and learn. While this SAC is populated by impressive nine experts with deep experience in ESG, I wonder if this body might not be enriched by more global representation, given the Group's global business reach and material topic related to "preparation for intense global competition."

### A clear and focused vision

There is great simplicity in the two outcomes that the Ajinomoto Group seeks by 2030: (1) Help extend the healthy life expectancy of one billion people and (2) Reduce our environmental impact by 50%. Simple as they sound, execution is far from simple. The first encompasses everything from the way products are designed, made, packaged, and brought to market, and the vast range of research, innovation and product development needed to connect specific food products to healthy lifestyles. The incredible depth of the Group's commitment can be seen throughout the company's reporting, in particular, the leveraging of big data, nutritional profiling, the new health ecosystem approach with the *AminoIndex*<sup>®</sup> *Risk Screening* (*AIRS*<sup>®</sup>) test, and functional foods under development, truly connecting nutrition to disease risk and improving health through nutrition. These kinds of initiatives leverage the unique capabilities of the Group and provide examples that inspire confidence in the Group's ability advance health. With about 2.5 billion people suffering from malnutrition

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and overnutrition, and many more who suffer from a range of diseases caused or exacerbated by preventable nutrition-related issues, impacting one billion lives is huge. It will be critical for the Group's long-term credibility to define precisely how it intends to measure the success of this objective – simply reaching more consumers who buy the Group's products is not enough. We need to understand the explicit connection between product consumption and increased healthy life-expectancy. Early stage research by the Group connecting umami to salt intake reduction and increased healthy life expectancy is good progress.

On the environmental side, the Ajinomoto Group's pathway to reducing impact focuses on climate change, waste reduction and food loss minimization. While the key elements of these plans are clearly laid out, I'd like to see a clearer articulation of how delivery of this goal will be measured. Is it a 50% reduction in each of these three areas, or is it a cumulative reduction of these three elements combined? Nonetheless, the Group describes its many initiatives underway, including an innovative focus on ammonia as a low-carbon fuel. The Group's climate objectives are science based targets for Scope 1, 2 and 3 to be achieved by 2030 – a timeframe that is near-term enough to reflect the urgency of the need. Scope 3 data is thoroughly reported – a practice most companies are still struggling with.

### Forward looking and planning

I can't help but remain impressed with the quality of reporting that the Ajinomoto Group achieves year after year. Detailed, precise, comprehensive, aligned with leading standards, and inclusive of illustrative examples of practice are credible features of the Group's reporting. Additionally, the Group achieves noticeable improvement each year in the quality of its execution and of its reporting. This 2021 reporting suite is noticeably forward looking. In each strategic area, detailed plans to achieve targets are disclosed, reinforcing confidence that the Group has its finger on the pulse for the future while delivering in the present.

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The Ajinomoto Group offers its stakeholders a comprehensive overview of its sustainability performance. The 2021 Integrated Report in combination with the Sustainability Data Book shows a strong commitment to managing environmental, social and governance (ESG) aspects. The Group's global website is a rich additional source of sustainability information.

### Strengthened sustainability governance

In my work with international companies and non-profit organisations I put a lot of emphasis on top management commitment to the sustainability strategy and the governance of integrated operational processes. The quality of the sustainability dialogue in the boardroom, senior involvement in stakeholder engagement, dealing with dilemmas and short-term pressures while staying focused on long-term value creation is, I believe, vital for addressing ESG challenges effectively and for contributing positively to the Sustainable Development Goals.

In 2021 the Ajinomoto Group has enhanced its sustainability governance by establishing the Sustainability Advisory Council under the Board of Directors and the Sustainability Committee under the Executive Committee. I applaud this decision as it underpins the Group's drive to continuously improve its sustainability performance. The new governance structure is likely to support the systematic execution of the Group's long-term agenda. The involvement of outside experts will inspire well-informed dialogues on trends and challenges that will shape the ways in which the Group creates long-term value for all its stakeholders.



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### ■ Transparent reporting on material subjects

Operating at intersection of the food and biotechnology sector, the Ajinomoto Group can be potentially exposed to a variety of ESG risks and opportunities. Through its sustainability communication the Group provides clear and comprehensive disclosure across many material topics, including management of environmental impacts, responsible sourcing of sensitive raw materials, nutrition, product quality and safety and workforce management. In line with international best practice, the Group regularly reviews the list of materiality items to include the latest sustainability trends and expectations of its stakeholders. In 2021 the Group has announced that it will also assess materiality items from the long-term perspective (up to year 2050) to further improve long- and medium-term strategy and business planning. The Group has also mapped disclosed information to relevant GRI and SASB indicators and provides easy-to-use reference tables on its website to facilitate effective access to the vast amount of information.

### ■ Continuous improvements in key environmental and social areas

It is encouraging to see that the Group is actively engaging with external stakeholders and seeks to continuously improve its sustainability performance within key environmental and social areas. Notably, strong climate change performance, including science-based carbon reduction targets covering Scope 1, 2 and 3 emissions, has led to the inclusion of the Ajinomoto Group in the CDP A List that features companies with high level of disclosure and exemplary climate-related initiatives. The Group is also committed to report in line with the TCFD framework and provides details on the scenario analysis conducted, including potential impacts of physical and transitional climate risks. Given the potential impact of physical climate risks in the food sector, it is recommended that the Group continues to provide transparency on actions taken to ensure climate resilience across its business operations and within supply chain.

Food companies have an important role to play in shaping consumers dietary habits by increasing access to products with improved nutritional value and reduced fat, sodium, and sugar content. The Ajinomoto Group has been committed to promote nutritionally balanced diets and has set quantitative targets to increase its range of products with 'high nutritional value.'

Throughout 2020-2021, the Ajinomoto Group has also taken steps to strengthen its approach to animal welfare by holding several roundtables with external experts. This has led to the revision of the Group Shared Policy on Animal Welfare and Commitment to Minimizing Animal Testing, which shows that the Group recognizes the growing importance of the ethical consumption trend among its customers.

### ■ Going forward

The Ajinomoto Group's sustainability reporting is both impressive and overwhelming. I assume it will become ever more challenging for the Group to communicate progress on its sustainability strategy and its wide range of actions and initiatives in a way that readers can consume effectively.

ESG experts and sustainability investors will appreciate detailed information that is available, but will they have and take the time to really read and digest it? As they research many more companies, they will appreciate for example a table that includes a quick overview of the prioritised material ESG issues, related targets and KPIs and the actual performance over several years.

Stakeholders that are not experts in the field of sustainability may have difficulties capturing the core of topics that are of most interest to them. They may appreciate a 'concise reflection,' tailored to address their specific relationship with the company; for example as consumer, NGO, potential employee, etc.

Personally, I appreciate that companies share dilemmas and challenges they face on their sustainability journey of continuous improvement. Becoming more sustainable implies having to deal with 'trade-offs' such as between short-term and long-term perspectives and balancing environmental and social aspects, as well as their financial implications. Regardless of a strong commitment, not everything will always play out as planned. A Dutch sustainability champion among multinationals goes as far as including a section 'What still went wrong' in its integrated report. Reporting near-misses and incidents is considered a part of its learning process and its commitment to do better next time. For stakeholders such statement provides additional comfort that the company is sincere in its drive to be a sustainability leader that intends to contribute positively to all, including society as a whole. This is just an example and not necessarily the best way for the Ajinomoto Group to report. However, I hope that the Group will further expand on its sustainability leadership and will be successful in its outcomes of helping extend the healthy life expectancy of one billion people and reducing its environmental impact by 50%, while improving business performance by 2030.

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### Perspective from the Americas

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#### ■ Developments in the reporting year

The Ajinomoto Group's sustainable vision for the creation of both social and economic value is really coming together. Grounded in the Group's 100-year core competency in AminoScience, and applying a policy of "Nutrition Without Compromise," the vision feels authentic. What follows from this vision are specific, time-bound medium-term and long-term strategies through 2025, 2030, and 2050 respectively that are aligned with the SDGs and a low-carbon future.

As a reaction to the global pandemic, the Group improved upon stakeholder engagement initiatives, embracing a spirit of unity - (AND) culture in the reporting year. Engaging with stakeholders through validation of material topics, the formation of the Sustainability Advisory Council, building innovation collaboration eco-systems, as well as considering a broader set of stakeholders - such as animals and migrant workers - are a few examples of this culture in action.

The appointment of the Sustainability Advisory Council was a major development towards a long-term focus. I was pleased to see that the group includes three female members, including the Chair of the Board. In terms of competencies, the group is strong in terms of health, nutrition, finance, and consumer products, but seems somewhat lacking in expertise on environmental issues such as climate, water, forests, and bio-diversity.

Internally, a multi-year series of digital transformations were launched to prepare for intense global competition. Issuance of an SDG Bond to finance sustainability-related projects such as biomass co-generation, onsite ammonia production, and the strategic acquisition Nualtra, is further evidence that the Ajinomoto Group is taking the steps to invest in realizing the sustainable future they seek. These initiatives set the foundation for the Group successfully practice Stakeholder Capitalism.

#### ■ Integrated Report: Strategy integration

In the Integrated Report, the Ajinomoto Group makes great strides in conveying its long-term, integrated strategy. However, more work is needed to clearly articulate positive and negative outcomes of the Group's activities in terms of the <IR> Six Capitals. By reordering the information to start with the discussion on the 'Macro environment surrounding the Ajinomoto Group' and then get more specific about the Group's 2030 Outcomes, and the medium-term plan would provide readers with more context to better understanding the overall 'Vision and Strategy' though.

While I would have liked to see 'Review of Fiscal 2020 Financial Results by Segment' more towards the beginning of the report, I liked that 'Growth Strategies' and 'Core Businesses and Solutions for Social Issues' followed the format of reporting by core business unit. In the Integrated Report, I was very pleased to see new metrics attributing approximate CO<sub>2</sub>, plastic usage, and food loss and waste disposal percentage/footprint to each business unit. This evidences that environmental issues are taken into consideration in the risk and opportunity assessments. However, elaboration of these environmental risks and opportunities would strengthen the discussion of 'Growth Strategies for the Core Business,' particularly as they relate to the Frozen Foods and Health Care.

Generally speaking, there is some work to do to integrate sustainability components into the financial accounting. While the medium-term management plan incorporates material topics the financial plan does not quite seem to keep pace. Sustainability-related references from the 'Our Vision and Strategy' section do not yet fully carry over to the sections on 'Financial Capital Strategy.' One wonders: How does Rapid Response to Consumer Lifestyle Changes relate to enhancing ROIC in terms of increased profitability through organic sales growth? What effect does Climate Change Adaptation and Mitigation have on objectives to improve operational efficiency? Do efforts for Conservation of Water Resources reduce tax cost, optimize working capital, and invest effectively for the long-term? Does Contribution to a Circular Economy effect efforts to improve capital efficiency through working capital optimization and effective long-term investment?

As stakeholder expectations around climate related-risk disclosures mount, stakeholders will expect closer adherence to the TCFD framework. I look forward to seeing how the Group uses this framework to link climate issues to financial statements.



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### **Sustainability Data Book: Data and activity reports**

As always, the Ajinomoto Group presents a wealth of impressive sustainability data points and information around a very comprehensive set of programs. Much of the data is third party assured. Presenting the Environmental, Personnel and Labor-Related data in Excel format shows a dedication to transparency which is admirable. An additional SASB metrics workbook would be helpful as well. As the Group's Climate-related Scenario Analysis develops, I would expect to see metrics around climate-related risks and opportunities disclosed in a similar format.

The Group discloses more than half of the recommended SASB disclosures for its primary industry and is transparent about which disclosures are omitted. There is an opportunity to improve on SASB disclosures by harmonizing reported metrics with SASB recommended metrics. Reporting standardized metrics will become increasingly important as SASB reporting becomes more prevalent and expected by stakeholder.

For the Data Book itself, the balance between words and numbers feels lopsided. Currently, many metrics are interspersed with qualitative content throughout the 'Activity Reports,' making it difficult to get an overview of the trends easily. I'd like to see the 'Data Book' evolve into more of a pure play numbers book, and the 'Activity Reports' for each material item move into the disclosures on 'Materiality.' What is currently presented in the Data Book as the table of contents for the 'Activity Report by Materiality Items' would benefit greatly from the addition of columns for key metrics along with a traffic light-style status against targets for each material topic.

Throughout the 'Activity Reports' qualitative information could be streamlined. However, the scorecard-style overviews at the beginning of each material topic's 'Activity Report' are excellent for giving readers a quick overview of Ajinomoto's impacts, opportunities, risk and initiatives. While quantitative metrics and/or performance against targets are presented for most material topics in conjunction with the scorecard, this information should be further developed. Key metrics for the material topics 'Rapid Response to Consumer Lifestyle Changes' 'Assurance of Product Safety' 'Strong Corporate Governance,' and 'Preparation for Intense Global Competition' seem to be missing. For the latter two in particular, there is a real opportunity to connect these material topics with financial KPIs.

### **Perspective from Asia**

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Global climate change, COVID-19 Pandemic have been reshaping all walks of life. From individuals to businesses and governments, we all share various responsibilities to make our global village a better place to live in. It is very encouraging to see not just many accomplishments of the Ajinomoto Group as a reputable global corporate citizen has made amidst the current challenging time but also its commitments to sustainable development under its Vision for 2030 stated in their 2021 Integrated Report and the Sustainability Data Book.

The Ajinomoto Group's dedicated efforts in sustainability to resolve social and environmental issues significantly impacts people's lives around the globe is highly appreciated. The Group has not been satisfied by putting issues on the agenda only but has been committed to pragmatic progress and embedded the determination into its corporate structure at the global level with an aim to realizing the two outcomes toward 2030 – to help extend the healthy life expectancy of one billion people and reduce its environmental impact by 50%.

Its 2020-2025 Medium-Term Management Plan ("MTP") has set out a clear framework and roadmap towards its Vision 2030 is a good echo of the United Nation Sustainability Development Goals (UNSDGs). The establishments of the Sustainability Advisory Council and Sustainability Committee have demonstrated that the management is willing to formulate strategic direction towards its Vision and identify risks and opportunities on the way together with both external and internal stakeholders. Its inclusion of the young generation as key stakeholder is a forward-looking commitment and a good model. On this ground, I look forward to the expansion of the Sustainability Advisory Council and Sustainability Committee to include an even wider range of stakeholders, especially buyer and consumer groups, not just at the global level but also at the regional and local levels who are the final beneficiary of the achievement of sustainability, as well as global business partners and initiatives, who are also walking the same path together with the Ajinomoto Group so as to enrich the diversified stakeholder dialogues, knowledge exchange, experience sharing and most importantly, avoid duplication of resources, to formulate a resilient plan towards year 2030.

In addition to corporate framework, there are also positive developments in the materiality items outlined by the Ajinomoto Group in echo of the UNSDGs reflecting its action to seek sustainable materials sourcing, ensure partnerships



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with various initiatives and establish its own traceability systems as well as audits. Its key raw materials, as revealed in its Sustainability Data Book 2021, are sourced from all around the world especially countries in the Asia Pacific region including China and ASEAN member states. As Asia has been becoming the key sourcing region as well as evolving diverse buyer market for the rest of the world, the roles of all stakeholders in Asia will grow significantly, including policymakers, practitioners and professional organizations, especially in areas such sustainable sourcing, responsible production and sustainable development, through the alignment of national policies and environmental performance and human rights due diligence and ESG reporting standards, etc., that can benefit all.

It is delighting to see the Ajinomoto Group has been actively participating in supply chain initiatives and stating expectations to suppliers, with its strong presence in global market, the Group is naturally expected to step further to lead to advocate at the regulatory level for sustainable policies in Asia region where it is headquartered to foster a more transparent and responsible supply chain. Take an example of the protection of migrant workers, given its large number as major workforce for multiple industries in Asia especially across the ASEAN member states, the Group has demonstrated a good example in this field by participating in an advisory capacity in putting together the Japan Platform for Migrant Workers towards Responsible and Inclusive Society created by the Japan International Cooperation Agency with an aim to resolving the issues faced by migrant workers in Japan. In this regard, we can foresee the potential of the Group in contributing to streamline and align sustainability standards through more engagement with regional governmental regulatory forum in ASEAN or global initiatives. amfori will be delighted to work together with the Group and other stakeholders on aligning global standards and to jointly explore best practices to excel the social performance of all.

Environmental issues have been well addressed by the Ajinomoto Group during the reporting year as it spares no efforts in adapting and mitigating the impact brought by climate change, with an aim to reducing greenhouse gas emissions by 50% by fiscal 2030 compared with fiscal 2018. We look forward to more joint collaborations of the Group with Asia's regional stakeholders to establish a mechanism for carbon emission trading to combat climate change and reduce greenhouse gas emissions cost-effectively in the coming years. It is encouraging to see that the Group has invested a lot in managing the environmental performance in multiple disciplines including raw materials, packaging, circular economy, etc.

Moving forward, through the Ajinomoto Group's unified actions with multi-stakeholders as championed by its leadership, amfori very much look forward to seeing more joint solutions that can continue to embed the UN Guiding Principles for Business and Human Rights and UNSDGs to be developed for addressing sustainability challenges of the Group and its supply chain partners especially those many Small Medium Size Enterprises (SMEs) facing in Asia.