

Initiative Aimed at Strengthening the ESG Management Base

Interview with the Director in Charge

Steadily advancing Drive 2022 while strengthening our ESG management base

Director and Senior Managing Executive Officer
Responsible for ESG Management Department,
Digital Transformation Department, and
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Q SEKISUI CHEMICAL Group has identified strengthening the ESG management base as a basic policy under its Medium-term Management Plan Drive 2022, which began in fiscal 2020. As a company that has placed ESG management at the heart of its business activities, can you provide us with an overview of how the Group is promoting initiatives to further strengthen ESG?

There are three pillars that underpin SEKISUI CHEMICAL Group's efforts to practice ESG management: the ability to contribute to the resolution of social issues that allows us to make solid contributions through our products and services, the ability to create profit that is essential in continuously improving this ability to contribute, and the newly established management ability to sustain business. We have also newly adopted our own indicator, the SEKISUI Sustainable Spread, to measure our management ability to sustain business, which is an indication of our sustainability over the long term as a company. Going one step further than the cost of capital, which is generally used in calculating the ROIC spread, we now apply financial and non-financial capital costs, which incorporate new non-financial KPIs that can affect long-term corporate value to calculate the SEKISUI Sustainable Spread. For example, the SEKISUI Sustainable Spread allows us to quantify incidents that could damage corporate value over the long term and negatively affect financial and non-financial capital costs. Conversely, the SEKISUI Sustainable Spread can be used in lieu of non-financial KPIs that help enhance long-term corporate value, but for which it is difficult to measure the direct investment effects, such as investments in work-style reforms, environmental initiatives, employee productivity, and community reputation enhancement, while also positively affecting financial and non-financial capital costs. We encountered considerable difficulty in developing a quantification formula. Over and above the pursuit of accuracy, we recognized

the need to confirm changes in non-financial KPIs over time, and the importance of ensuring a proper evaluation in the event of an improvement in excess of plans. Looking also at the Group's employees, the aforementioned incidents and other non-financial KPIs are easier to link to their own work as opposed to the weighted average cost of capital alone. For this reason, we believe it is significant that we have been able to incorporate ROIC and non-financial KPIs, which are elements of the SEKISUI Sustainable Spread, into each division from fiscal 2021. Looking ahead, we recognize the critical need to implement the SEKISUI Sustainable Spread as a part of efforts to achieve planned value while ensuring that this indicator and approach is widely accepted among employees.

Q The Company has set an ESG investment limit of ¥40 billion to strengthen its ESG management base. Can you provide us with specific details and expected outputs?

The ESG investment limit is aimed at improving non-financial KPIs. From an environmental front as one example, SEKISUI CHEMICAL Group is making the switch to 100% renewable energy for its purchased electricity in a bid to reduce GHG emissions. To this end, we need to undertake forward-looking investments to cover the costs of procuring renewable energy and establishing a procurement scheme. Also included in the ESG investment limit are DX investments to improve employee productivity and promote work-style reforms as well as to curb and minimize serious incidents, and the investments necessary for marketing, hypothesis verification, research, etc., to activate the fusion of various business divisions. The main purpose of the investment is to control capital costs over the long term and contribute to an increase in corporate value.

Q Expansion of the Life Science business is stated in the New Business Drive section of Drive 2022. What is the current status of progress?

In the case of the Life Science business, we are putting a great deal of effort into a business in which we can expect a high growth rate of more than three times, from the current sales scale of about ¥70 billion to between ¥200 and ¥250 billion by 2030. In fiscal 2020, Sekisui Medical Co., Ltd., which engages in the Life Science business, and SEKISUI CHEMICAL jointly formulated a vision to reach this goal. Centered on the Vision Review Team within Sekisui Medical and the Life Science Strategy Group, which was newly established in April 2021 in SEKISUI CHEMICAL Group's corporate department, we have begun to formulate specific strategies toward aggressively expanding investment in the two pillars of diagnostics and Pharmaceutical Sciences while promoting the hiring of people with experience in the pharmaceutical industry. The Diagnostics Business is an area in which SEKISUI CHEMICAL Group possesses strengths, and the point is how to proceed with global expansion from here on in. In the Pharmaceutical Sciences field, which we want to grow the most in the years to come, we will utilize our strengths in plastic materials technologies and processing technologies while aggressively promoting investments in the fields of cell culture and medical materials required for regenerative medicine with a view to M&A and venture investment. In the Pharmaceutical Sciences field, although the market continues to expand with a high rate of growth every year, competition remains fierce, and we will specialize in fields where we can capitalize on our strengths and technologies.

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Q What progress is being made in the biorefinery business, which forms part of the New Business Drive?

A technology that gasifies general combustible waste without the need for garbage separation, biorefinery uses the power of microorganisms to produce ethanol from gas, which is the raw material for plastics. This represents, so to speak, the ultimate in chemical recycling and, as a chemical manufacturer, we recognize that the social significance of engaging in a business that brings this carbon cycle to fruition will be enormous. We have positioned biorefinery as a business that symbolizes SEKISUI CHEMICAL Group's ESG management and will bring about its major growth in the years to come. The technology accumulated in a 1/1,000-scale commercial pilot plant installed at a garbage incinerator in the town of Yoroi Town, Saitama Prefecture, is already in place. Moving forward, we will build a 1/10-scale commercial test plant in Kuji City, Iwate Prefecture, by March 2022 and continue the demonstration. Established as a joint venture with INCJ, Ltd., in April 2020, SEKISUI BIO REFINERY CO., LTD., has received an R&D subsidy from the Ministry of the Environment and cooperation from Sumitomo Chemical Co., Ltd., and will develop plastics with raw materials made from waste-derived ethanol. Having already received interest from a variety of companies, such as manufacturers of cosmetics and daily necessities, we will promote this business with the aim of commercialization and business introduction from 2025 onward.

Q Please tell us about specific measures being taken to promote the fusion of a wide range of businesses.

As each of our businesses, from the housing and plastic materials to infrastructure and medical fields, can contribute to solving social issues, the main purpose of fusion is to combine the technologies and know-how from those businesses to create products and services that solve higher-level social issues. At the core of fusion are our 28 Technological Platforms, which represent our strengths. Serving as a good example of the fusion between the housing and infrastructure businesses, town and community development that is resilient to disasters allowing people to live with peace of mind and is unique to SEKISUI CHEMICAL Group has been realized in ASAKA Leadtown (Asaka City, Saitama Prefecture), and a culture that promotes fusion has been fostered within the Company. In the years to come, we will further accelerate these efforts and, as a developed form of fusion, build a Company-wide system not for each divisional company, but within the Corporate Strategy Department, to consider open innovation and M&A that incorporate external technologies. Last year, amid the impact of the COVID-19 pandemic, we considered how we could contribute to society by utilizing the management resources of our entire company and commenced operation of the ESG Task Force, which is composed primarily of the employees of each divisional company. In addition to the creation of products that apply the HPP's antiviral processing agent to the filter of a residential ventilation system making living spaces safe and comfortable, the development of highly sterilized building materials that incorporate this technology has begun, and the acceleration of their integration is being planned.

Q In fiscal 2020, environment-contributing products evolved into products to enhance sustainability. Please tell us about the differences from the past and the newly established Premium Framework for products to enhance sustainability.

Under the Environment-Contributing Product Program that was launched in 2006, we certified the relevant products as environmentally friendly products in line with assessment items that were formulated literally from environmental viewpoints, such as the volume of CO₂ emissions and waste reduction. This time, however, we have evolved the products to enhance sustainability by adding the new viewpoint of assessing whether they are sustainable. Specifically, high profitability, customer satisfaction, and the soundness of entire supply chains, including geopolitical risks and human rights issues, have been added to the new assessment parameters. As before, once a year, outside experts also participate in the screening of the assessment criteria. Among the products to enhance sustainability are those with a particularly high ability to solve social issues and achieve high profitability—defined in the Premium Framework as symbolizing “offensive ESG management”—and we have positioned these as a product lineup in which to invest management resources and on which to focus our sales expansion efforts. In fiscal 2020, products to enhance sustainability accounted for approximately 60% of total sales and the Premium Framework for approximately 30%, and both are on an expanding trend.

Q In terms of SEKISUI CHEMICAL's environmental initiatives, in addition to joining the RE100* international initiative in 2020, you have adopted as targets a renewable energy ratio of purchased electricity of 100% by 2030 and zero GHG emissions by 2050. Please tell us about your specific efforts and progress toward these targets.

The decisive factor in achieving a renewable energy ratio of purchased electricity of 100% by 2030 will be our SMART HEIM DENKI Power Trading Service business. Engaging in the sales of solar-powered homes, the Housing Company's cumulative sales total stands at about 200,000 units, which is the largest share among solar-powered homes in Japan, but on the customer side, 10 years after applying the feed-in tariff (FIT) fixed-price purchase system, it is necessary to find a purchaser for the surplus electricity. We therefore purchase surplus electricity ourselves and use the renewable energy as electric power for our factories and laboratories. This is a measure peculiar to SEKISUI CHEMICAL Group, and we will proceed with it in a thorough manner. Overseas meanwhile, where the SMART HEIM DENKI business is not deployed, the foundations for procuring renewable energy at a lower cost are being established primarily in Europe and the United States, and we will procure renewable energy in the optimal form in accordance with the local situation and achieve our target. Beyond that, toward the target of zero GHG emissions by 2050, we will invest in technological development for innovation to realize the electrification of steam and city gas, which are becoming an issue, and will enhance the technologies so that the target can be realized ahead of schedule.

* Operated by The Climate Group and CDP, RE100 is an international business initiative that promotes 100% renewable energy for companies. Based on visualizations of company declarations of 100% natural energy, RE100 calls for the spread and promotion of natural energy and its membership includes major influential companies from around the world.

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Q Next, please tell us your thoughts on internal control, which is one of the important issues for ESG.

From the viewpoint of enhancing management's capability to sustain business, a major incident is an event that seriously damages a company's corporate value once it has occurred. Including safety and quality, which are especially important as a manufacturer, at SEKISUI CHEMICAL Group we define accounting, legal/ethics, and information management in our five serious incident categories, while recognizing that internal control to control incidences of them is a particularly important issue. From the current fiscal year, the occurrence or non-occurrence of serious incidents will be linked to the bonuses of executives to further raise each individual's awareness. It is important to assess the issues, put countermeasures in place and conduct them thoroughly and earnestly to prevent any of these incidents from happening. Meanwhile, even for employees involved in management foundation business operations that prevent the occurrence of incidents, we are adding, for example, the ability to defend the Company against a serious incident so that this is assessed as a KPI for management's capability to sustain business and are thereby working to enhance our ESG management base.

Q Please tell us about the current status of your efforts and future prospects with regard to DX promotion.

In April 2020, we established the Digital Transformation Department, compiled a clear Group-wide road map and, having adopted three important themes, are promoting DX transformation. The first theme is the global standardization of business management infrastructure. This seamlessly presents all global management information in visual form and, at the same time, assists in the early detection of signs of an incident and its prevention. Second, we will work to unify our global purchasing bases and develop advantageous purchasing in, for example, materials purchasing. The third theme involves the construction of a sales base that utilizes DX. In sales activities that utilize DX, in which advances have been made due to the COVID-19 pandemic, we are working to build a foundation that enables efficient activities without sacrificing performance.

Q Finally, please tell us about specific initiatives to bring out the spirit to take on challenges from your human resources.

First of all, the president of our company, Keita Kato, attaches great importance to taking on challenges and possessing the spirit to face them. In addition to introducing President Kato's own challenges and thoughts on challenges via the intranet, the comments of employees who are taking on challenges nationwide are posted there. The idea that "challenges themselves are precious" is steadily being conveyed in a top-down manner, so I feel that the human resources are being encouraged to take on challenges. In line with such a policy, we will switch to a new personnel system from next fiscal year to create an assessment and compensation system that will properly reward



those who take on challenges. We are also enhancing in-house communications, such as case studies in which we have contributed to solving social issues and showcasing external evaluations, so that a wide range of employees can share their empathy with the vision. As the head of the Business Strategy Department, I am telling the members of the department that I want them to become a "group of instigators" as a general staff headquarters. Our avowed vision is to take a strong sense of purpose and work toward solutions while involving others in those issues that can be seen only because we are in a position to take a bird's-eye view of the entire company. I also believe that my greatest mission is to deeply establish this ESG management throughout the Company. We have already created plans, visions, and various organizations for that purpose. From now on, I would like to strongly put ESG management into practice while maintaining close communications with each divisional company to establish ESG management in the true sense of the term.