

## Denka Report 2023 Third-party Opinion

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### **This year's report meeting expectations**

I have been writing third-party opinions on reports from several companies for approximately 20 years. Over this period, how these reports have been evaluated has changed in line with circumstances at the time, but one thing that has not changed is considering whether the reports are a true reflection of the organization and its future. As a result, I believe that both highly evaluated points and expectations for the future are indispensable elements for clarifying the current and future condition of an organization and to improve corporate value. It would be a great honor for me as a commentator if the latter proves to be even slightly helpful and provide an opportunity to further enhance corporate activities.

This report focuses primarily on how the results achieved this year reflect the expectations included in my third-party opinion last year. I believe it's totally presumptuous to say that the third-party opinion presented last year helped to drive efforts over the current period, however as a commentator, I was excited to read through this year's report.

The following expectations were included in the third-party opinion last year.

- 1) The report for the next term faithfully reflecting the commitments made during the term.
- 2) To see designations of KPIs and explanations of how the 13 items will be deployed within the next-term Management Plan.
- 3) To restructure the corporate philosophy
- 4) To establish an ESG promotion department

In regard to 1), a prime example of this is the statement made in the President's message pointing out that "Denka will work to quickly promote business creation using KPIs linked to the time axis, collaboration with startups, M&A, and other methods." In this regard, Denka has established financial and non-financial KPIs for 2030, and presented a range of strategic investments to support them. Further, concerning business creation, the background behind the establishment of CVC (Corporate Venture Capital), its aims and expectations have been described in detail.

Regarding point 2), while clarifying the connection between ESG policy and material issues that underpin strategies, the report communicates how this policy is being used to incorporate various sustainability issues into management, including risk management and dialogue with stakeholders. Moreover, although the KPIs do not necessarily correspond to the 13 policies, I was able to discern that non-financial KPIs related to human resources value creation and management value creation were established and have been incorporated in the management plan.

In regard to 3), while the former corporate philosophy, “The Denka Value” consisted of mission and action, the new corporate philosophy presents “OUR VISION”, or a united vision, which encompasses core value, purpose and mission. It is particularly noteworthy that the establishment of this corporate philosophy began with discussions among young employees.

In regard to 4), a Sustainability Committee was established in April 2023. I believe this committee will promote a more proactive approach by executive management. In the future, it may be worthwhile to consider the participation of directors beyond observers and the establishment of committees within the board.

In addition, there are some elements of the report that have not yet met expectations. In response to the statement last year that "Denka is working to make non-financial initiatives that will lead to future financial results more visible," I had hoped to see evidence of how non-financial initiatives would be converted to pre-financial and financial results over time. From my experience examining the reports of Japanese corporations, the number of companies achieving this level of visualization is still relatively small. However, it is necessary in order to address the requirements of investors to be provided not with vague information on ESG initiatives, but with information on how ESG initiatives will impact on corporate earnings. The ISSB Standards, the revised Corporate Governance Code, and the Cabinet Office Ordinance on Disclosure of Corporate Information all request this level of information.

**A report that concretely illustrates "the future is words, the future is systems, the future is participation."**

The number of pages in this report has increased significantly (from 58 to 84) from last year's report in response to the points raised in connection with dialogue with institutional investors. This is a sign of Denka's strong commitment to overcome its challenges and improve corporate value over the medium- to long-term through constructive dialogue. It also communicates Denka's commitment to enhancing ESG-focused management for stakeholders other than investors as it embarks on a new eight years. Symbolic examples are the establishment of new corporate bodies (Sustainability Committee, Portfolio Transformation Committee, Financial Strategy Department, New Business Development Department, etc.) and participation in a range of organizations (United Nations Global Compact, Green × Digital Consortium, etc.). Director Akio Yamamoto stated in the report, "The future is words, the future is systems," and I would like to add to this, "The future is participation." I believe that "participation" will open the way to a new corporate image that maintains global standards.

Next, I would like to mention two areas in which I would like to see improvements in the future. The first is human rights. In June 2023, Denka announced its support for the United Nations Global Compact (UNGC), followed by the establishment of its Human Rights Policy in September, demonstrating that it is taking important steps to identify respect for human rights as one of its material

management issues. While this is notable, it is important that this be recognized as just the first step. The United Nations Guiding Principles on Business and Human Rights requires the following actionable steps.

- a. Commitment to a policy to fulfil its responsibility to respect human rights
- b. A human rights due diligence process that takes responsibility for identifying, preventing, mitigating, and how to address human rights impacts
- c. Processes that enable companies to remedy negative human rights impacts that they cause or encourage

In particular, due diligence is an extremely important initiative and the process involved should be disclosed. Therefore, I would like to see a systematic approach as expressed in the report, and disclosure of the mechanisms and results of due diligence. In addition, it is essential for companies that respect human rights to take corrective actions as part of their corporate responsibility, therefore it is important that the mechanisms for such actions be disclosed.

The second area in which I would like to see improvement is the disclosure of the relationship between investment in human capital and management strategies and finance, etc. In August 2022, the Japanese government released the Guidelines for Human Capital Visualization. I believe this is because human capital forms a core element behind social and corporate sustainability, and a large number of investors are increasingly demanding more information on human capital. The focus of this guideline is to establish a relationship (an integrated story) between corporate management strategy and its human capital investment and human resources strategy as one means of visualization. The Denka report also states that it is necessary to strengthen the link between management plans and the human resource strategies. However, I found that an analysis of this correlation and the results have not been disclosed. These analyses are not easy, however, I would like to see Denka take on this challenge and disclose the results.

Finally, I would like to discuss the disclosure of negative information. I have been informed that one of the key points of this year's report is "accident response." This issue is mentioned in several places throughout the report, including the message from the President, however I believe the seriousness of the incidents has been lost on the readers. I feel that a full page should be dedicated to providing information on the background behind the two incidents, investigation into the causes and measures taken to prevent recurrence. Further, I would also like to see a report on how effective the measures implemented to prevent recurrence have been in future reports.

Junkan Workers Club, Specified non-profit corporation: A citizens' group that examines from a global perspective how society and the natural eco-system that should be passed on to future generations can live in harmony. The organization researches, supports and

implements activities so that citizens, companies, and government agencies can work together to form a recycling-based society. Sustainability Workshops are held to conduct research into and present recommendations on optimum report formats.

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