

# Third-Party Opinion for *Denka Report 2018*

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## ■ A Report Featuring a Number of Promising Value Creation Initiatives

This third-party opinion has been prepared for an expanded PDF edition of the original *Denka Report 2018*. In the course of preparing this opinion, I was given access to drafts of the report's text and asked to submit my comments. Denka responded to these comments very sincerely, with relevant departments providing feedback on a total of 85 recommendations. Denka thus demonstrated how to implement best practices pertaining to CSR reporting by acting on external inputs gleaned through the process for compiling *Denka Report* to step up its CSR initiatives.

Although this edition is Denka's first officially recognized integrated report, a survey of previous years' reports reveals that the Company's actual first integrated report was the 2013 edition. Despite being labeled a CSR report, the 2013 edition was compiled in "a style that is more consistent with recent trends in integrated reporting (citation from Editorial Policy)," with quite a few pages allocated to forward-looking value creation initiatives. Because of this, I believe the *Denka Report 2018*, despite being the first official integrated report, reflects the benefit of the Company's experience in such reporting accumulated over the course of the last several years.

The quality of integrated reporting hinges largely on how an issuing organization explains its process of value creation. The earlier pages of *Denka Report 2018* feature "A Message from the President," which provides an overview of the "Denka Value-Up" management plan, a five-year plan for value creation. In a narrative structured like a story, the text of the message elaborates on concrete initiatives and how Denka aims to achieve its goals under this plan. Although this presentation style is not particularly original, this approach is effective in terms of promoting mutual understanding between management and employees. To ensure that the "story" is understood by all employees, the Company has engaged in a variety of initiatives, including producing videos and posters as well as holding dialogue sessions and presentation meetings.

Having read about the initiatives featured in this report, I truly expect that Denka will accomplish its goals under Denka Value-Up. In addition, the *Denka Report 2018* was compiled by a newly established editorial committee run by corporate department staff. I believe that the editorial committee will be able to redefine Denka's business model through discussions that reflect the insights provided by a membership boasting a broad range of perspectives. I therefore expect the deliberative process to facilitate integrated thinking, which is essential to integrated reporting in that it requires constant acknowledgement of the intertwined nature of the whole complex process of value creation.

On the other hand, I think Denka's long-term vision or ideals could have been better presented in this report. Despite the inexactness of the phrase "long term," I would expect Denka to formulate and publicize a vision that covers as long a period of time as possible, given the business cycles of the industry. I would suggest the formulation of a plan with a duration three or four times of the Company's typical medium-term management plan. I believe that the establishment of such a vision would help Denka formulate a better medium-term management plan as the Company will be able to employ the "backcasting" planning method based on the long-term vision.

The *Denka Report 2018* PDF edition is an expanded version encompassing various CSR topics and environmental performance data. With ESG-centric investment becoming the mainstream investment approach, ESG-related information and its relationship with value creation is attracting

investor attention. Given this background, the addition of the aforementioned topics and data to the PDF version is worthy of praise. However, because the content of the printed brochure meets the requirements for integrated reporting and does not need to incorporate detailed ESG-related information, I would rather recommend that the title of the PDF edition be changed to distinguish it as a totally separate publication, for example, it could be named the “ESG Data Book.” Also, the “Denka’s Approach to ESG-Oriented Management” section features a listing of the 10 Denka Group CSR Basic Policies. Although none of the policies are associated with financial information, I believe they will somehow affect financial performance in the future. Accordingly, I expect Denka to present data on the estimated financial impacts of the Company’s efforts to make improvement in areas covered by these policies. This will better position Denka to clarify its approach to ESG-oriented management. In response to my recommendation, Denka staff gave me feedback noting that the Company is aware of the need to clearly explain relationships between profit-generating business activities and ESG initiatives. I therefore look forward to reading articles addressing this matter in the upcoming edition of the *Denka Report*.

The report also highlights the 13 CSR materiality issues Denka is currently taking on, along with the process for selecting these issues. Initiatives being undertaken thus far and their results are presented in a pretty organized way that allows the reader to easily perceive their relationships with 13 CSR materiality issues. However, these CSR materiality issues are selected in accordance with methodologies recommended by the Global Reporting Initiative (GRI). The International Integrated Reporting Council (IIRC) framework defines materiality as factors that substantially affect the organization’s ability to create value in the short, medium and long term. In my opinion, GRI focuses on the selection of issues, while IIRC emphasizes the organization’s ability to create value. In this light, Denka is obviously leaning toward presenting a “value creation story” in its reporting. With this in mind, I would rather expect the Company to incorporate the latter’s principles in the selection of materiality issues and clearly present the relationships between these issues and value creation.

In addition, a great number of CSR reports feature articles linking corporations’ existing initiatives with United Nations’ SDGs. This approach plays a necessary role in confirming whether the company’s operations are in conformity with global trends. However, it is strongly recommended that Denka take a more advanced approach. Namely, as suggested by the SDGs, the Company should embrace an “outside-in” goal-setting approach that begins by focusing on the needs of society and then identifying risk and future opportunities. Denka has long been conscious of issues society is confronting while providing solutions through its business activities. I expect that, building on its track record, Denka will conduct in-depth analysis of and devise initiatives to eventually address all 169 targets under the SDGs, becoming an industry pioneer.

\* An NPO dedicated to fostering the harmonious coexistence of society and natural ecosystems through research conducted from a global perspective. It studies and spearheads local community efforts for creating a recycling-oriented society joining citizens, businesses and governments, presenting recommendations through CSR workshops and other means.

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