

Third-Party Opinion for *Denka Report 2020*

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This third-party opinion has been prepared through exchanges of opinion based on my comments submitted during the production of the *Denka Report 2020*. During this opinion exchange, I received sincere responses to my comments and was able to confirm that further improvements would be made to the report going forward. As I was also shown examples in which typical disclosure could not accurately reflect the actual state of affairs, it was very informative for me.

I have highly evaluated the following three points in this report.

First, the fact that the results of various reforms were shown together with motivation for such initiatives. Charles Darwin said, “It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change.” As we find ourselves in a whirlpool with poor visibility, our previous experiences of success no longer apply—we need to formulate new management strategies and measures to achieve these. Based on a sense of crisis that only companies truly needed by society will survive, the business and management structural reforms shown in the growth strategies meet these demands, demonstrating that Denka is “adaptable to change.” I believe that many readers of this report will empathize with Outside Director Fujiwara’s message of “I strongly feel appeal of our company as a developing corporation.”

Second, the fact that major reforms related to the environment were conducted. In the 2019 report, these were focused on as part of ESG management. In this report, environmental strategies were cited alongside growth strategies and business strategies, and at the start of the section dealing with strategies. While the significance of this was not clearly stated, this positioning is suggestive of the SDGs wedding cake model. That is, the perception of our economy as being held up by society, while society is being held up by the environment. In terms of climate change, rapid response to Japan’s Carbon Neutral Declaration made in October 2020 was implemented in order to achieve the goals of the said declaration. It is hoped that new goals will be established for 2030 and 2040

through a combination of forecasting and backcasting, and that initiatives to achieve such goals will be enhanced. In addition, participation in the TCFD was declared, and risks and opportunities were verified by means of scenario analysis. From the next fiscal year onward, please precisely describe the four core elements (governance, strategies, risk management and indices/goals) and take care to avoid insufficient disclosure as this can involve risks in some cases.

Third, the fact that the purpose of measures as well as specific examples were included. I was able to discern the purpose as, under the title of “Responsibility and Contribution” toward the world advocated by SDGs for 2030, “focusing on the SDGs’ Goal 12 ‘Responsible consumption and production,’ the Denka Group’s issues and social responsibilities based on the concept of circular economy.” The term “purpose” has become very important in the field of management. This is because employees who can discern the purpose of their work have been proven to perform more work and more highly advanced work, exhibiting dramatic growth. Focusing on purpose rather than profit is essential for achieving sustainability. The International Integrated Reporting Council (IIRC) has published a report entitled, *Purpose Beyond Profit*. This report shows that companies with a purpose have been found to be more profitable with higher market capitalizations. I would recommend that all employees read this report thoroughly and enhance their conviction of the importance of the purpose.

There are also some points of the report that I would like to be considered in order to improve its quality. This is related to “identifying materiality.” The current materiality was identified based on the GRI Guidelines in 2017, which is generally considered to be used to identify CSR materiality issues. This appears to be why “Materiality definition was changed in fiscal 2020 from ‘CSR materiality issues’ to ‘management materiality issues’ in order to more clearly demonstrate the relationship with the Denka Value-Up management plan.” As I believe that many people will be in agreement with this change in definition, I hope that new materiality will be identified based on this definition. Incidentally, the IIRC framework also defines materiality as an important phenomenon when it practically affects the value creation ability of an organization in the short, medium and long term. I believe that this fits the definition of “management materiality issues.”

Moreover, while we cannot predict when the COVID-19 pandemic will end, in the 2021 report, I would ask that Denka gives an overview of its response to the pandemic. As pandemic response ability is demonstrative of an organization’s resilience, I consider it necessary to be included in an integrated report. I believe that necessary items to be covered in relation to the COVID-19 pandemic include “changes to the management environment and the company’s response,” “opportunities and risks,” “infection management including workstyle reform” and “capital finance strategy.”

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