

Stakeholder Dialogue 2017

We held a dialogue with experts from outside the Nippon Soda Group on the theme of “CSR activities to improve corporate value,” which aim to increase the positive effect on society, for the purpose of discussing materiality for a chemical company that creates innovative products useful to achieve a sustainable society.



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Participants

<Experts from outside the Nippon Soda Group>

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Notes:

1. The position and job titles of the participants are those effective as of December 2017.
2. Titles omitted in the text

Improving CSR activities through opportunities for communication

In the stakeholder dialogue held last fiscal year, we sought advice from the perspective of how to incorporate and connect social issues that are associated with “the Nippon Soda’s CSR activities to improve corporate value” with our business in three domains: agriculture, the environment and information. Based on the opinions gathered, which have been shared among all departments, we are having productive discussions to find clues for the development of new business projects.

We have started in fiscal 2019 to identify materiality issues in the health care domain. We have also expanded the Nippon Soda Group’s activity domains that aim to contribute to society through products from three to four domains, as well as increased the number of Sustainable Development Goals (SDGs) we should aim to achieve from four in the last year to nine in fiscal 2019.

The objective of the dialogue with experts held in fiscal 2018 was to promote engagement to help the PDCA cycle of CSR activities to “spiral up.”

Efforts to address materiality issues in the four domains

Nippon Soda: In the **agriculture domain**, with the aim of contributing to sustainable agriculture, we take two opposite approaches in our research and development of biopesticides: inside-out and outside-in. We are also developing new agents that enable effective agricultural production without being affected by climate conditions. Our efforts include research on plant growth regulators designed to increase high-temperature tolerance and desiccation tolerance.

In the **health care domain**, we have identified a new materiality issue associated with NISSO-HPC for fiscal 2019, which aims to provide medicines that are easier for patients to take. NISSO-HPC, which is used in about 57% of drug products in Japan, is effective in reducing tablet sizes and maintaining the efficacy of drugs over long hours. By reducing the burden on patients of all ages, from children to the elderly, related to taking a drug, we hope to contribute to achieving a society where people can enjoy health and wellbeing.

In the **environment domain**, in November 2017, we completed acquisition of a plant health business from Zoetis Japan, including Green Guard, an agent for preventing pine tree withering. After assessing the effects of Green Guard, which is designed to be injected into pine trunks, we have concluded that it can help reduce environmental impacts. Based on this result, we have added contribution to greening/landscape preservation as a new materiality issue.

In last year's dialogue, it was suggested that it might be possible to expand the scope of application of Nippon Soda's technology for toilets for disaster use. In response, we are developing a toilet for those who need long-term care. In order to cope with the aging population, we are aiming to launch this product into the market in the near future.

In the **information domain**, as an environmentally conscious chemical manufacturer with its own accumulated manufacturing technologies, we comply with the Industrial Safety and Health Act and other laws and regulations. We also perform the necessary registrations required under the Act on the Evaluation of Chemical Substances and Regulation of Their Manufacture, etc. Furthermore, we are discussing how to create products that contribute to resolving social issues in an age where we are expected to take quick action to cope with the future innovation of digital devices and to meet increasingly diversified user needs.

In last year's dialogue, the relationship between chemical materials and universal design was also pointed out. With a focus on how to communicate the relationship between chemical materials and universal design to children, the next generation, we would like to consider incorporating children's opinions into the development of solutions in the future.

Seki: The Charter of Corporate Behavior of Keidanren (the Japan Business Federation) was revised in November 2017. In the revision, emphasis was placed on the concept of "Society 5.0 for SDGs," which aims to contribute to achieving SDGs by creating a human-centered super smart society. The major focus of the revision is to encourage Japanese industry to provide as many solutions as possible. In this regard as well, addressing any of the materiality issues you have identified is a promising step toward the future. I encourage you to continue your efforts.

You seem to be too reserved in terms of your ambitions for achieving SDGs. If there is a goal you have failed to achieve, you should at least express your intention to achieve it by 2030, instead of giving up and excluding it from the list of future goals. I think you should be more positive, even if it seems like a pipe dream.

Another point I would like to make is about transformation unique to a chemical company. You should communicate to young people about how the power of chemistry can play a part in drastically changing people's lifestyles, making our society function much more efficiently, or producing terminals that are easy for anybody to use.



Materiality with an eye toward medium- and long-term growth

Nippon Soda: People have increasing expectations for chemical companies to provide functions in addition to products. Our priority is on meeting our customers' needs. At the same time, we have recently come to the conclusion that it is difficult to create something new unless we understand the thoughts and needs not only of customers but also of users.

In this context, we have started, for the first time, displaying our products, such as Hi-chlon and a urinary calculus removal agent for toilets, at exhibitions of athletic gyms. Through direct communications with users of our products on such occasions, we have received many comments that make us aware of new perspectives. For example, some visitors to such exhibitions told us that Hi-chlon alone is sometimes not convenient to use. In response, we developed an automated disinfection system using Hi-chlon, which enables people to use the agent easily without touching it with their hands.

In the process of achieving medium- and long-term business growth, it is essential to develop products that can lead to new business opportunities. We are sure that we can provide products that better meet the expectations of the public by making comprehensive proposals based on our own technology and manufacturing capabilities to cope with issues raised by customers and social demands.

Yamazaki: It goes without saying that the Nippon Soda Group's "CSR activities to improve the corporate value" constitute materiality with an eye toward medium- and long-term growth, which cannot be achieved without the commitment of management. "CSR activities to protect the corporate value" and "social activities" are within the framework incorporating responsible care and ISO 26000. I think you may still need to sort out the priority issues of these activities in a more organized manner. I recommend that you identify possible downside risks associated with these activities in the process of pursuing medium- and long-term business growth.



I think "initiatives for the next generation" is a very important theme. I recommend that you also identify impacts of employee satisfaction (ES)-related issues, which can affect safety and human resources, on medium- and long-term business growth from the perspective of non-financial information. I believe this will help you identify issues that you should address in the future.

I suggest that you plan the path of your company's growth over a long span of 10, 20 and 30 years, which I'm sure will help you develop a background story about how to create the Nippon Soda Group's value. In that process, I recommend that you assess materiality in terms of CSR activities that will help create business opportunities and support medium- and long-term growth to protect the company, while taking into account the increasing expectations of society for sustainable development.

Seki: I fully agree with what Mr. Yamazaki has said. For example, climate-related information has been categorized as non-financial information but, recently, I think such information surely has come to be regarded as financial information. According to the TCFD's¹ report, in the process of significant changes in regulations and markets through the long-term transition toward a low-carbon society, companies are required to disclose future-oriented information, including their business strategy to respond to such changes. The TCFD recommends that companies perform scenario analysis to assess climate-related risks and opportunities. It will become important to disclose information on such risks and opportunities from a long-term perspective.

I don't think that the SDGs contain no element of social contribution at all; but I think they rather offer huge business opportunities. In other words, if there are unmet needs and if a company can provide business solutions to fulfill them, this will be a business opportunity.

With regard to the classification of materiality, the main social risk and opportunity lie in human rights. From this perspective, I think that consumer issues, human rights and labor issues for employees, and fair operating practices, which were classified as materiality issues under "social activities," should be included under the category of "CSR activities to protect the corporate value." Companies are now expected to have proactive dialogues with the public. In response to this trend, I strongly recommend that you assess human rights risks across the value chain and also re-categorize materiality issues in "social activities."

1. Task Force on Climate-related Financial Disclosures

Improvement in CSR activities that leads to sustainable development

Nippon Soda: The dialogue helped us realize that there are different approaches, for example, to social contribution and ESG investment. In this and other respects as well, the dialogue provided us with an opportunity to reconsider our products from new perspectives and in light of new concepts.

With regard to SDGs, after the dialogue, we started a new discussion related to Goal 17 (Strengthen the means of implementation and revitalize the global partnership for sustainable development) of the SDGs. We have offices in Bangkok and India and an affiliated company in Brazil, which are engaged in agriculture-related business. We are currently discussing with personnel in charge at other departments the possibility of partnerships with local companies and industrial organizations as well as what solutions are possible through collaboration with them. We believe these efforts at a local level can lead to activities that help improve the medium- and long-term corporate value of the Nippon Soda Group.

Yamazaki: In the dialogue, I had the impression that you have been implementing CSR activities in a meticulous and well-organized manner. I applaud your efforts as excellent. In the future, I would like to focus my attention on the process

whereby each effort will be more deeply integrated with the medium- and long-term strategies.

All companies seem to have difficulty involving individual employees and translating theory into practice. Since efforts to get employees involved and put theory into practice are very important, I hope you will make untiring efforts to further improve relevant activities.

Seki: One year has passed since the last dialogue. I appreciate your sincere efforts in the last 12 months. I got the sense that the overall concept behind your CSR activities has been much better organized than the last year. I also think that the PDCA cycle has been implemented in a well-harmonized manner to step up and improve your activities.

In particular, with regard to “CSR activities to improve the corporate value,” progress was made in discussions and efforts. Because your company aims to achieve CSR management that helps build a sustainable society, you should always pay careful attention to ensure that all the necessary elements to achieve this goal are there. Please keep this in mind at every step of the way in CSR management.