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# Sumitomo Chemical's Continually Evolving ESG Management

We welcomed Mr. Megumi Sakuramoto, Chief ESG Analyst for Asset Management One Co., Ltd., for a roundtable discussion about the Sumitomo Chemical Group's continually evolving ESG management, and its response to changing times.

## Sumitomo Chemical's Way of Thinking about ESG

**Niinuma** First, I would like to give a brief explanation of Sumitomo Chemical's way of thinking about ESG. We are working to bring about sustainability in accordance with our Basic Principles for Promoting Sustainability, and the basis of these principles is our way of thinking about creating shared value. Part of the Sumitomo Spirit is the idea that "our business must benefit society at large, not just our own interests," or in other words, the idea that Sumitomo's businesses must contribute

to the nation and society while also contributing to its own interests. Moreover, our company was founded in 1913 with the goal of resolving an environmental problem and increasing agricultural production. Our origins as a company are truly founded on creating shared value.

**Sakuramoto** I really like "our business must benefit society at large, not just our own interests" as part of the Sumitomo Spirit. It really accords with the modern idea of creating shared value. When I have engaged with your employees, I have truly felt that this spirit permeates your company.

**Niinuma** Thank you very much. I would like to share a few representative accomplishments that show our stance as a company on these issues. The Olyset Nets developed by our company were recommended by the WHO in 2001 as insect repellent mosquito nets that are an effective countermeasure for malaria in Africa. This is a hybrid product, combining petrochemical technology and agrochemical technology, and it has saved many people from losing their lives to malaria. Moreover, we are also working to support education, with a portion of the sales of the nets going to build schools in Africa. In addition, we established a company to produce Olyset Nets in Tanzania, creating employment opportunities for about 7,000 people. In this way, we have created a business cycle that promotes disease prevention, education, and employment, working to resolve issues in society in an integrated way. We have received an extremely positive response to this initiative, including being invited to participate in the United Nations Private Sector Forum in 2016. I feel that this illustrative example, of contributing to preventing the spread of malaria in a major way, is a sign of the progress the Sumitomo Chemical Group has made in ESG.

**Sakuramoto** That is a good example of how a business created from Sumitomo Chemical's technology can lead to the resolution of issues in society.

## Response to the Problem of Climate Change

**Sakuramoto** I think that Sumitomo Chemical's initiatives in response to climate change are fairly advanced relative to other companies in Japan. You signed on to the TCFD very quickly, and you have been actively spreading the word about the amount that your products and technologies designated as Sumika Sustainable Solutions (SSS), which can contribute to reducing environmental burdens. My honest impression is that this is amazing. Moreover, your active efforts have been extremely well received, such as when you were the first diversified chemical company to obtain recognition from the Science Based Targets (SBT) program for your targets in 2018. I do not think there has been such a proactive company. You have used the technical capabilities cultivated as a diversified chemical manufacturer to seriously face these societal issues. The extent of your sincerity is clear to investors.

**Ueda** Seeking SBT recognition was something we at the top of the company had been continually discussing and pushing, and we expressed our commitment to reducing Group-wide greenhouse gas emissions by 30% by FY2030, and more than 57% by FY2050, both relative to the levels for FY2013. To be honest, this will be quite technically challenging. These are targets that we will not be able to achieve without being prepared

to comprehensively transform the productivity of our plants, such as updating our boilers to new, highly energy efficient models, for example. Employees are putting forward ideas and working hard to make these big improvements.

**Sakuramoto** Are your suppliers also collaborating with you on your Scope 3 goals?

**Ueda** Beginning with the briefing where we announced the targets, we have been in constant contact with our suppliers, offering explanations and having discussions. We feel that they have taken a positive stance, but setting specific reduction targets is still an issue for the future.

## Response to the Waste Problem

**Sakuramoto** With regard to the waste problem, I think you are taking extremely proactive steps. You have participated in the Alliance to End Plastic Waste (AEPW) as a founding member since January 2019. It could be said that taking proactive steps to address the waste problem is a natural extension of your responsible care activities as a chemical company, but there is a great deal of concern for this issue around the world, and I personally think very highly of that initiative, and I am interested in where it goes.

**Ueda** Thank you very much. I would like to explain a little bit about our response to the plastic waste problem. As part of an effort to "reduce," one of the three Rs of recycling (reduce, reuse, recycle), we have reduced the thickness of food packaging materials, for products such as food sold in retort pouches. This means that we can reduce the amount of plastic used. As for "reuse," we have increased the number of products aimed at reusable applications, such as using plastic boxes (returnable box) in place of cardboard boxes. Finally, for "recycle," I think that chemical recycling is very important. This means using chemical reactions to convert waste into basic raw materials, and using catalyst technology to recycle things without using energy. As part of this effort, we are collaborating with Sekisui Chemical to develop technology to convert municipal waste to natural gas, and then convert that to ethanol, and use that to manufacture polyolefins. We are also working with the Muroran Institute of Technology to develop technology to chemically break down waste plastics and reuse it as a raw material for petrochemical products. By promoting chemical recycling, we can reduce both the amount of petroleum resources we use and the amount of waste plastic we generate, and we hope to contribute to the creation of a sustainable society thereby. We would like to communicate that these activities are grounded in technologies developed in Japan.

**Sakuramoto** It sounds like you are undertaking a wide range of activities. I think that your collaborations with the outside parties you mentioned are extremely valuable initiatives. I



think it is wonderful to use open innovation to build win-win relationships.

## Initiatives to Integrate Management and Sustainability Promotion

**Niinuma** In our sustainability promotion, we feel that systems and intentions are very important. For systems, we expanded the existing CSR Promotion Committee in April 2018 to create the Sustainability Promotion Committee. Then in March of 2019, we defined seven material issues for management to focus on. As part of the process of making that definition, we held a number of management meetings with tumultuous discussions. At the end of that, we felt that, while the definitions we had come up with were certainly not perfect, we had better just take the decisions and start promoting sustainability initiatives, so we announced the material issues, and we have now reached the point of setting KPIs for those issues.

**Sakuramoto** I think that Sumitomo Chemical's systems for promoting sustainability have become easier for those of us on the outside to understand as well. I think that the seven material issues you defined were extremely well prepared. A number of companies have identified so many issues as important that investors often do not know which ones actually matter, so I think narrowing the issues down to seven is very good. Moreover, you have linked the material issues with your businesses, and I also appreciate your stance of generating future cash flow. I would like to say, though, that going forward, I hope that you will make your disclosures of KPIs more complete, and aim for information disclosure that more clearly conveys an understanding of your management and your awareness of the PDCA cycle.

**Niinuma** On the disclosure front, we would like to improve things. Next, to touch on intentions, we place a particularly high value on employee participation. In 2016, we created the

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—— Mr. Megumi Sakuramoto

Sustainable Tree website. It is a site where individual employees can submit messages about how they want to contribute to our Group's sustainability efforts, and how they want to contribute to the world more generally. In 2019, we had about 12,000 submissions, which I feel shows that our various Group employees are beginning to view the promotion of sustainability as a personal issue.

**Sakuramoto** I understand that the motivation of your employees is extremely high. I look forward to seeing this attitude embed itself even more deeply within the Group as a whole.

## Future Issues and Expectations

**Sakuramoto** Going forward, what I am looking forward to from Sumitomo Chemical is a presentation on your long-term vision. I think it is very difficult to give a long-term vision by forecasting technologies and needs more than ten years in the future. I would, however, very much like to see you put forward a long-term vision, and take on the challenge of working backwards from that vision to lay out some management strategies and ESG policies.

**Ueda** As you say, we have not clearly laid out our long-term vision. Under our current Corporate Business Plan, we are analyzing trends on the technology front, but we are not yet at a point where we can envision the situation ten or twenty years in the future and lay out a direction for the company in a format that we can show to the public. I think this is an issue we will be discussing more going forward.

**Sakuramoto** Please do. I would also like to raise two more issues facing Sumitomo Chemical. The first is that evaluations of ESG initiatives are not being reflected in executive officers' compensation. This has a high possibility of limiting executive officers' involvement in ESG, which has no immediate effectiveness in terms of improving corporate value. As part of your implementation of the idea of creating shared value



(CSV), measures of this initiative are reflected in compensation for senior management\*, but I think that expanding this to a broader range of executive officers would have the effect of improving corporate value over the long term.

\* Senior management means Executive Officers above Senior Managing Executive Officer, and Managing Executive Officers who are immediately under the President, supervising certain functions.

**Niinuma** Actually, it is included as an element in compensation for Executive Officers outside of senior management. As you point out, however, we have not disclosed this outside the company, so that is another area where I think we have some work to do.

**Sakuramoto** Thank you for saying that. This is something investors will also want to hear, so I hope you will convey this to outside parties in a way that is easy to understand. The other issue is the promotion of diversity within the Board of Directors. From the perspective of improving corporate value over the medium- to long-term, it is of course important for members of the board to be qualified, but I hope you will promote diversity in the Board of Directors as much as possible. Currently, there is only one female director, so I think it may be difficult to make progress with diversity as things are.

**Niinuma** It is as you say. We have identified this as an important issue, and set it as a KPI, so we will be working on it diligently. We are planning to develop talent from within, expanding the pool of candidates, including by increasing the number of female heads of departments and offices, and thereby increase the effectiveness of our efforts.

**Sakuramoto** While there are relatively few women due to the characteristics of chemistry as an industry, I think it is important to develop talent within the company.

**Ueda** I would like to thank you very deeply for your valuable insights today. I think we were able to have an extremely good discussion about our efforts. Going forward, we would like to continue to work on initiatives that incorporate the insights you have given us today, and work to ensure our disclosure of information is more complete.

**Sakuramoto** I look forward to seeing the spirit of “our business must benefit society at large, not just our own interests” continue to be thoroughly embraced and upheld at Sumitomo Chemical. Thank you for meeting with me today.



We will take on the challenge of chemical recycling, and contribute to building a sustainable society.

—— Hiroshi Ueda

It is important for each Group employee to view the promotion of sustainability as a personal issue.

—— Hiroshi Niinuma



**Profile**

**Mr. Megumi Sakuramoto**

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After working for Pacific Consultants International, Megumi Sakuramoto joined Yasuda Trust Bank (currently Mizuho Trust & Banking) in March 1990. He undertook operations work as a fund manager and analyst in the Pension Operations Department. Starting in October 2013, he worked as a corporate investigator as part of the Mizuho Pensions Research Institute until taking up his present job in October 2016. He has been a part of investigative committees for the Ministry of the Environment, including for such topics as environmental information and corporate value and evaluating environmentally sustainable corporations, as well as a member of a working group setting up a business to create a platform for disclosing environmental information. He primarily prepares reports such as *Promoting ESG through Engagement* (Securities Analysts Journal, January 2018). He is a member of the Certified and Accredited Meteorologists of Japan.