



Theme:
Rising to the

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Challenge of Delivering Sustainable Growth

Companies must play an increasingly important role

in driving sustainable social progress, notably in terms of tackling climate change, contributing to a circular economy, and fostering human resources diversity.

We exchanged views with ESG experts on the UBE Group's stance from ESG investment perspectives and how it should pursue further growth.

ESG Approach

ESG perspectives are vital to investment decision-making. What is ESG investing, and how do you position UBE from ESG perspectives?

Yoshitaka: Funds have poured into ESG investments owing to the COVID-19 pandemic. It is hard to forecast short-term performances. Investors with long-term perspectives have progressed in assessing corporate value by drawing on non-financial information. It is important to disclose risks and business opportunities for future value assessments among ESG investors. UBE has overcome numerous risks over the years, and it has amassed an array of technologies. As such, I think investors have great expectations for the Company. That said, it perhaps doesn't disclose enough for investors.

The Environment

UBE revised its GHG reduction for 2050. It now looks to become carbon neutral by then instead of lowering emissions by 80%. The Company is undertaking a wide range of initiatives to that end, including stepping up efforts to conserve energy, using more renewable energy, and developing CO₂ immobilization technology. It is also striving to increase sales of environmentally friendly products to help the economy overall become carbon neutral.

Yoshitaka: From an investor's point of view, it's easy to draw up growth strategies relating to the environment. It's therefore important to formulate a long-term environmental vision and numerical targets. A good example would be to lift environmentally friendly products to 50% of consolidated net sales. Investors would view management differently if it were to convey a commitment to not just shrinking the Company's carbon footprint but to also setting more challenging goals and innovating to become carbon neutral with a view to products definitely attracting demand if customer attitudes change.

Izumihara: We must both reduce and offset CO₂ emissions to become carbon neutral. I believe the UBE Group's role is to provide solutions for a circular economy and attain carbon neutrality by integrating the technologies it has amassed in its chemicals, construction materials, and machinery businesses. I want to satisfy investor expectations for change and new growth.

The Japanese government's green growth strategy covers areas relating to UBE's business, notably automobiles and storage batteries and carbon and resource recycling. How might the resulting opportunities shape UBE's efforts in environmentally friendly products and technologies, and how would they drive growth?

Izumihara: Each of our businesses offers numerous products and technologies that contribute to the environment, including the reducing of CO₂ emissions. In the chemicals business, we provide synthetic rubber for eco-friendly tires, nylon composites that help lighten automobiles, and LiB materials for EVs. There is biomass from our construction materials business. Our machinery business offers energy-saving injection molding machines. Being environmentally responsive is itself a growth strategy. We will accordingly generate sustainable growth by contributing to the environment, such as by switching our chemicals business focus from commodity to specialty offerings.

Yamamoto: You can't avoid environmental issues, and staying a step ahead of the crowd in tackling them will create value. Our environmentally friendly products will naturally increase as a proportion of sales, although it is important to accelerate that rise.

Yoshitaka: Investors compare companies in the same industries to determine which will grow faster than others. So, I think it would be easier to state that you are indeed ahead of the times. Investors track Scope 3 CO₂ emissions. Your environmentally friendly offerings should help reduce such emissions, and I think you should also highlight this to investors.

Mari Yoshitaka, Ph.D.

Profile

Ms. Yoshitaka previously worked for an IT company and investment bank in the United States. She later joined the World Bank Group's International Finance Corporation, performing social impact studies for environmental projects in developing nations and conducting environmental enterprise research for launching Japan's first eco-fund.

In 2000, she joined Mitsubishi UFJ Morgan Stanley Securities (former Tokyo-Mitsubishi Securities Co., Ltd.) to establish the Clean Energy Finance Division. She has been engaged in environmental financial consulting for many years, focusing on climate change. She took up her current position in May 2020.

Ms. Yoshitaka conducts research, advises, and lectures on SDG businesses and ESG investments for government ministries and agencies, institutional investors, and corporations. She is a member of the Financial Services Agency's Expert Panel on Sustainable Finance.

Izumihara: We have to overcome a lot of cost hurdles, notably being to develop CO₂ immobilization technology. We're nonetheless continuing R&D because we know our efforts will lead ultimately to innovation.

Yoshitaka: R&D is the best kind of non-financial information. Proactive disclosure enables a company to begin engaging with investors, fostering anticipation.

Sustainable Growth

How should UBE go about convincing investors that it will grow sustainably, including from SDG perspectives?

Yoshitaka: ESG investors base corporate sustainability assessments on whether managements can respond flexibly and decisively to a range of changes. The first focus is on risk information. Investors would want companies with heavy CO₂ emissions to evaluate and disclose the financial impacts of carbon pricing. Companies need to balance disclosure of opportunities and risks.

Each of the 17 SDGs is inter-related, but no company can resolve all of them by itself. I'd like UBE to explain simply which SDGs its chemicals, construction materials, and machinery businesses will help reach. People are vital for sustainability. The SDGs can also be vehicles for communicating with young people, who are more interested in them, so talented individuals will find the Company attractive. I think it's very meaningful for companies to increase engagement by making SDGs relevant.

Izumihara: Our website discloses our SDG efforts. I believe young people these days are more interested than ever in helping make the world a better place, including through their career choices.

UBE and Mitsubishi Materials Corporation will integrate their construction materials businesses in 2022. What makes this move significant?

Yamamoto: UBE was established during World War II and grew thereafter. The cement and chemicals businesses were previously separate companies. The operating environment has changed, and our businesses are moving in different directions. We will thus integrate our construction materials business with that of Mitsubishi Materials to become carbon neutral as the second-biggest player in that field, with UBE turning the tiller to become a specialist chemicals company.

Izumihara: In 1998, when we integrated sales and

logistics units to form UBE-MITSUBISHI CEMENT CORPORATION, domestic cement demand exceeded 70 million metric tons. By 2020, demand dropped below 39 million metric tons, one factor being the COVID-19 pandemic. By merging the domestic cement units of UBE and Mitsubishi Materials we will strengthen operations, including downstream, and concentrate newly available resources on growth businesses.

Yoshitaka: Thanks for the explanation. It was very easy to understand.

What carbon neutrality and circular economy benefits should accrue from integrating the cement business?

Izumihara: I believe we can progress by combining the environmental technologies of the cement businesses of both companies. The cement industry is a huge vein industry. As a vital artery, it contributes much to strengthening social infrastructure and making the nation more resilient. As a vital vein, this industry employs diverse waste materials in manufacturing processes. Life goes on even during the pandemic, with people continuing to generate waste. So, you cannot stop the vein that processes this waste. The cement industry's prime mission in all this is to serve society.

Yamamoto: Our cement manufacturing processes incorporate and process waste, producing no waste. This industry is extremely valuable in that sense because it is the last bastion of the economy.

Yoshitaka: The "3Rs" (Reduce, Reuse, Recycle) is a widely known concept. But a circular economy is about making most of the limited resources without disposing of them. I think it's important that discussions position the cement business from circular economy perspectives.

In the chemicals business, your R&D has led to breakthroughs in recycling waste plastics. How well have you done from circular economy perspectives?

Yoshitaka: Cutting CO₂ emissions isn't a great challenge in Europe, as renewable energy has gone mainstream because of its low costs. Materials innovation is more of a challenge from circular economy perspectives. I think that's one of UBE's greatest advantages. What's your view about plastics in that respect?

Izumihara: We are also undertaking R&D in bioplastics and waste plastic usage. You'll find that UBE's nylon in multilayer films that preserve foods

and serve as gas barriers are helping to reduce food waste. The downside is that multilayer film recovery is tough, so we're developing technology to recover films as monomers. There is an issue of the extent to which society will accept the costs. Still, as a plastics manufacturer we've taken on the responsibility of working on complete life cycles, which include disposal.

The UBE Group has continued to grow over the past 124 years by addressing changes in the business climate and transforming its business structure. What will be UBE's raison d'être as it pushes ahead with specialization?

Yamamoto: Times are changing. We're transferring our construction materials business to a joint venture company, and our chemicals business will focus on specialty offerings. People underscore all we do. We've come this far because our people have kept faithful to our corporate philosophy of pursuing technology and embracing innovation to create value for the future. I believe we will remain important in the years ahead by continuing to innovate value that society needs.

Izumihara: The environment, human life and health, and the digitization of processes in society are keys to growth, and it's important for us to contribute to progress in all those respects. Our technological prowess underpins our capabilities. In some cases, we may shift somewhat away from manufacturing based on technology, but I think that's acceptable.

Yoshitaka: I think that's a very important message. Few executives in Japan so clearly state that a manufacturer doesn't always have to make things. Backed by solid technological capabilities, you can make a clear picture of the future regarding changes in the society.

Corporate Governance and Human Resources

How do you assess UBE's efforts in areas outside the environment?

Yoshitaka: Environment and social efforts are about understanding future risks and opportunities. Governance is about identifying current risks. UBE's governance seems solid. Still, investors increasingly demand more sophisticated governance, so you need to respond accordingly.

Yamamoto: Investors may find it hard to grasp UBE's realities if we only disclose information based on the Corporate Governance Code.

In December 2020, I joined with all of our outside directors in conducting an engagement session for investors. They were quite appreciative, saying that we were the first as a materials manufacturer to provide such an opportunity. They thought that our Board of Directors functions effectively.

Yoshitaka: Participants were impressed with UBE's willingness to engage in dialogue and held the efforts of its outside directors in high regard. ESG investors consider a lack of gender diversity among Japanese companies to be a risk. Figures demonstrate that companies with greater diversity tend to innovate more and offer superior growth potential. So, I would like to see UBE be more proactive, such as by more readily appointing female executives.

Izumihara: Women account for low proportions of employees and management at UBE. We are in the process of hiring more women. Increasing the number of female executives and deploying training programs for them is an urgent priority.

ESG Expectations

What would you like to see from UBE's ESG initiatives?

Yoshitaka: I would like to see UBE proactively disseminate what stakeholders expect from it, notably in terms of its raison d'être. Investors are moving extremely fast in the climate change and carbon-neutrality arenas, so I think you would do well to be the first in your industry to disclose your commitment to the TCFD and the financial impacts.

Conclusion

Izumihara: Safeguarding the environment and pursuing growth are not necessarily mutually exclusive. It's a top priority for management to tackle both challenges. We will do more to disclose how we will address issues.

Yamamoto: As a Board member, I will keep tabs on whether the management team is moving in the right direction fast enough. Thank you very much for today's discussion.

