

Main Substance of the Question and Answer Session

Asahi Kasei DX Strategy Briefing, held on December 13, 2022

Participants:

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Questioner 1: Compared to domestic and foreign chemical companies, where does your company stand in terms of DX (Digital Transformation)? What are the advantages and disadvantages? It seems to me that you are making excellent efforts, but are there any issues that need to be addressed?

Kuse: In addition to promoting utilization of Materials Informatics (MI), which I described today, we have also been working on human resource development at R&D and manufacturing sites since around 2015. The development of human resources onsite is a unique aspect of our efforts, and we believe that we are more advanced than our domestic competitors.

While overseas companies are also promoting the use of MI, we handle a wide variety of materials, and we believe that we are much more advanced than our overseas competitors in terms of combining MI with the accumulation of know-how onsite and our commitment to quality.

Such efforts in R&D and manufacturing sites are leading the way, but on the other hand, one area where we lag behind foreign companies is the use of digital technology in areas such as marketing and business planning. In April 2021, we established a new organization dedicated to digital marketing and are working to accelerate the process.

While the status of DX promotion differs in each business, the company as a whole is moving toward reform through human resource development, culture development, and data utilization, and I am proud to say that we are making advanced efforts in this area.

Questioner 2: We assume that the 40,000 digital personnel will include overseas employees, but how will they be incentivized? Also, while agile efforts onsite are likely to yield results in the short term, I think they may cause legacy system problems in the long run, because they are site-based rather than based on an integrated concept. What is your view on that?

Kuse: For overseas, the DX Open Badge Level 1 and 2 programs are currently being rolled out to subsidiary companies in 10 countries. The content of the example questions as well as language is changed to suit the country, and more than 4,000 overseas employees have taken the course so far.

However, how to proceed overseas needs to be carefully considered, because, especially in Europe and the U.S., they are already quite advanced in terms of digital, and people tend to have clear individual roles and missions and may consider IT and digital to be not their job. We are also having discussions with the heads of overseas companies we have acquired. Since there are many digital professional human resources overseas who are level 4 or above of the DX Open Badge, expanding the base of digital human resources from high level employees to other employees, in the opposite direction from Japan, would be one option, for example. Various ways of proceeding are being considered in cooperation with overseas sites.

You are right about the legacy system problem. Digital technology is advancing at a very fast pace, and onsite issues are also changing, so systems can become obsolete in two to three years. We need to update the systems, but there is a limit to what one company can do, so we are considering collaboration among multiple companies. There may be opportunities to share contents and educational materials, including the Open Badge.

Questioner 2: Are you envisioning a consortium or virtual organization to increase the scale and

raise its metabolism?

Kuse: That's right.

Questioner 3: I think DX is one of the examples of effective utilization of management infrastructure among your company's three sectors. Do you have any feeling that you have actually been able to promote your DX strategy to an advantage over specialized companies, for example, in chemicals, medical devices, homes, etc.? Has the common use of infrastructure, such as an in-house training system and the high quality of the digital platform, resulted in higher investment efficiency?

Kuse: Human resource development and platform development have been strengthened considerably, and DX has been promoted in R&D and manufacturing sites. One of the synergistic effects among the three sectors is human resource development. In addition, communication across sectors is being activated using digital as a common language. In the "Asahi Kasei Garage" initiative, members from different divisions and business sectors are coming together to come up with new concepts and ideas. As examples accumulate, we expect that new business models and fusions among business sectors will emerge.

Questioner 4: On page 5 of the presentation material, there is a mention of a 10 billion yen contribution to profit increase in the cumulative period from FY 2022 to FY 2024. What are the major contributions specifically? Also, I guess it is difficult to measure the effect, but how will you visualize and materialize that?

Kuse: As you point out, it is difficult to measure only the effect of DX. Cases that are relatively easy to measure include quality control in plants. For example, at a glass fabric production site, there was a quality issue of fluff defects occurring in winter, which tended to lower profits. However, by digitally analyzing various factors such as temperature, humidity, and production speed, the cause was identified and countermeasures were taken, resulting in a profit increase of tens of millions of yen. Such cases are easy to measure.

On the other hand, the contribution to profit increase by MI takes time to evaluate. In the cases of synthetic rubber and catalysts, the use of MI has increased the speed of development, enabled prompt proposals in response to customer requests, and shortened the time required to bring a product to market. These efforts are difficult to measure the contribution to profit increase because it takes time before they are released to the market as products. It is a challenging undertaking, but we are reviewing each individual case with the business divisions.

Although the results of major initiatives do not appear immediately, we believe we will see many specific cases with the contribution in various businesses, such as the glass fabric business, in the future.

Questioner 4: Your company has had several accidents including fires in recent years. Is there anything that can be done to enhance safety by promoting DX?

Kuse: Safety management will be further strengthened with DX. Safety is a top priority at plants. Since we cannot solve everything with digital technology, we need to change the management of processes and way of working by staying close to the work site. We will actively utilize digital technology to enhance safety.

Questioner 5: On page 5 of the presentation material, it is stated that cumulative DX-related investments are expected to total approximately 30 billion yen. Specifically, what are the major investments? Will the hiring of digital professionals incur fixed costs in addition to that? How much do you plan to invest, including variable costs such as training expenses? Since the investment is large, we would like you to explain a little more.

Kuse: The largest increase in related investments will be in cloud usage fees. Until recently, we have

used our own servers and data center servers, but the use of cloud services is rapidly increasing.

With regard to strengthening human resources, although we will hire new people, the majority of the 2,500 digital professional personnel will be trained within the group, and the costs are mainly related to training.

There is also upfront investment in new digital technology. The IT and digital technologies are advancing rapidly, and since this is a major part of our DX strategy, we are investing with a certain degree of foresight.

Questioner 6: You joined Asahi Kasei in 2020 after serving as CTO at IBM Japan, Ltd. I would like to ask you about your impression of Asahi Kasei's IT infrastructure and the IT literacy of its employees when you joined the company, how the actual situation has changed since then, and how it can be enhanced in the future.

Kuse: Asahi Kasei's DX had been underway since around 2015–2016, with a focus on R&D, manufacturing, and other onsite activities. Since the capability of these sites was high and had traditionally been able to produce products of excellent quality and functionality, I do not think they initially had a strong desire for IT and digital, but there was already a team that had built up a track record and gained the trust onsite by persuading them. When I joined the company, I listened to these people and was surprised at how advanced Asahi Kasei's DX efforts were. I felt it was unfortunate that it was not communicated outwardly that much.

IT literacy among employees as a whole is not yet sufficient, but the same is true for other companies. I believe we are advanced in terms of efforts toward 40,000 digital personnel and accumulating results through a site-based approach.

The challenge is, in addition to external information disseminating, to share information and data within the group. Asahi Kasei has an open and free-spirited atmosphere, and communication among employees is good, but the sharing of data and information across business units is a bit behind. We are working on improving it. The company is trying to enhance literacy, including judgment of which data should be kept within the business units and which data should be shared.

Questioner 6: What are the "CEO milestone projects" mentioned on page 6 of the briefing material? Does that include hydrogen-related themes, etc.?

Kuse: It includes important themes common to the entire group, such as carbon footprint visualization and management dashboards.