

Interview with CFO (General Manager, Headquarters of Planning and Management)

Communicating the overall picture of value creation at Daiseki and correctly conveying its value in the social and economic sphere.

Daiseki's present and future as shown in the Integrated Report

Hideki Katase Managing Executive Officer General Manager, Headquarters of Planning and Management



— Please tell us about the aim of upgrading the ESG Report to the Integrated Report.

Daiseki has been actively disclosing non-financial information from an ESG (Environment, Social, and Governance) perspective since 2020, when it reorganized its existing CSR Report into an ESG Report to better clarify its corporate social responsibility. This has made it possible to communicate our corporate activities that have contributed to environmental protection and resource protection, as well as our corporate activities that contribute to CO₂ reduction for our customers. As a result, Daiseki's social and environmental value has been highly regarded in the market, leading to an increase in our corporate value and market capitalization.

We believe that corporate value and future potential lie not only in financial information but also significantly in non-financial information that is not quantified. We have further revised our ESG Report and publish an Integrated Report that combines financial and non-financial information to create a consistent "story of value creation" that describes Daiseki's Management Principles, DNA, business model, strategy, governance, and other aspects of the company, to widely communicate the value of Daiseki's existence and transform it into a force for further growth.

In preparing this Integrated Report, about 10 mid-career employees were selected as editorial staff members.

This also links to our succession plan, which is designed to develop our IR Department and executives. The editorial meeting started with a thorough discussion of Daiseki's inherited DNA, competitive advantages, intellectual property, customer assets, human capital, and brand. These members were also involved in the complete revision of our website, which was renewed last year, and I expect that these efforts to objectively understand and proactively communicate the value of the Company will directly lead to the enhancement of Daiseki's human capital.

— What type of non-financial information have not you disclosed in the past?

Discussions with the Integrated Report editorial staff members have visualized various aspects of our value that are difficult to express in numbers. Daiseki has many technologies that are unrivaled by other companies, giving it pricing power in the industry. In addition, the activated sludge that we have cultivated contains many microorganisms that can decompose specific substances, and this can be considered a treasure trove for future patents. Furthermore, we currently are contributing to the reduction of approximately 600,000 tons of CO₂ emissions annually for our customers, and when carbon pricing becomes mandatory in Japan, we believe it will give us a further advantage us in price negotiations.

Our emergency support activities in disaster-stricken areas, such as the Noto Peninsula Earthquake, the Great East Japan Earthquake, and the heavy rains in western Japan are based on our desire to be a company that is useful to the world and that can be relied on in times of need. The trust and relationships gained through these community-based sales activities are enduring and will be passed on to future generations. This is Daiseki's fundamental strength and the source of its sustainable growth.

In terms of human capital, in addition to enhancing systems such as training and support for qualification acquisition, we also launched a restricted stock incentive plan for the shareholding association system this year. Daiseki has long made it a corporate policy to put employees first. We are proud that this has led to Daiseki's low turnover rate of 1.9% on a non-consolidated basis and 3.9% on a consolidated basis, as well as an ability to

secure employees with a strong desire to improve.

We are in the midst of our Long-Term Business Plan VISION 2030, and five new businesses have been launched, each of which is receiving aggressive investment. Group synergies are also being demonstrated in these areas, such as technological development through collaboration with venture companies and both upstream and downstream sales. We hope you will read this report to gain a more accurate understanding of Daiseki's sustainability and social value, and to learn more about the significance of Daiseki as a company and its future growth strategy.

— What is the main information newly disclosed in the Integrated Report?

We have clearly stated our management approach with an awareness of the share price and the cost of shareholders' capital, as requested by the Tokyo Stock Exchange. The cost of shareholders' capital is calculated using CAPM (Capital Asset Pricing Model), and is believed to be around 8.5%. ROE is currently between 10% and 11%, and we intend to increase ROE to 12% and the equity spread (ROE - cost of shareholders' capital) to at least 3.5% to 4% within three years. To achieve this, we need to stabilize the cost of shareholders' capital, in other words, reduce the β value (volatility risk) of Daiseki's consolidated cost of shareholders' capital. We have begun measures to reduce the volatility of Daiseki Eco. Solution's soil contamination remediation business, which has relatively large earnings volatility within the Group. We are developing sales activities to acquire customers ahead of other companies by utilizing Daiseki's customer network and working with Daiseki Eco. Solution to identify potential customers in advance. Our policy is to lower the cost of shareholders' capital by steadily accumulating projects each year to even out performance.

In addition, as an initiative to increase the ROE and stock price, we will control shareholders' equity, which is the source and denominator of ROE, by raising the dividend payout ratio to at least 40% and by buying back 12 billion yen of company shares over the next three years. Furthermore, we will enhance earning power, which is the numerator of ROE, by accelerating investments in growth, such as new businesses, expansion of the number of works, and human capital investment. We will increase the ROE through both of these efforts.

In terms of the path to achieving VISION 2030, we are now in the phase of aggressively allocating investments for the growth strategy. We will invest 26 billion yen in businesses with local governments such as Gamagori City, resource recycling businesses from gases such as ammonia recovery, R&D investments, human capital investments, and growth investments such as large-scale plant renovations. Although there will be a temporary period of restraint, we have set a course to increase ROE to at least

12% within three years and to at least 15% by FY2031, which is the long-term goal of VISION 2030. The new disclosures this time have been brought about through dialogues with investors, and we will continue to strive to disclose information that meets the needs of investors.

— What kind of stakeholders do you want to actively appeal to in the future?

While environmental initiatives are considered a cost by most companies, at Daiseki, environmental initiatives themselves are a business, and are directly related to CSV management*, which make it possible to contribute to society while making a profit. With a tailwind blowing in Daiseki's favor now, we intend to roll out an aggressive growth strategy and enhance the external dissemination of information.

In December 2023, Daiseki was featured in a program called "The Unknown Gulliver - Excellent Company File." Daiseki was also featured in Nagoya City's FY2025 career education support materials, Work Notebook for third grade elementary school students. Daiseki is attracting attention from society, and we felt hopeful that we can be of help in environmental education for children, who will be responsible for the future. We would like to become an environment-creating company that can meet the expectations of not only companies and factories, but also citizens and local governments, as well as children, by making them aware of Daiseki.

* CSV management
CSV is an abbreviation for "creating shared value." It has been advocated by Professor Michael Porter of Harvard University. The aim is to make profits as a company through business that leads to social contribution. It is an approach that combines social contribution and business.

