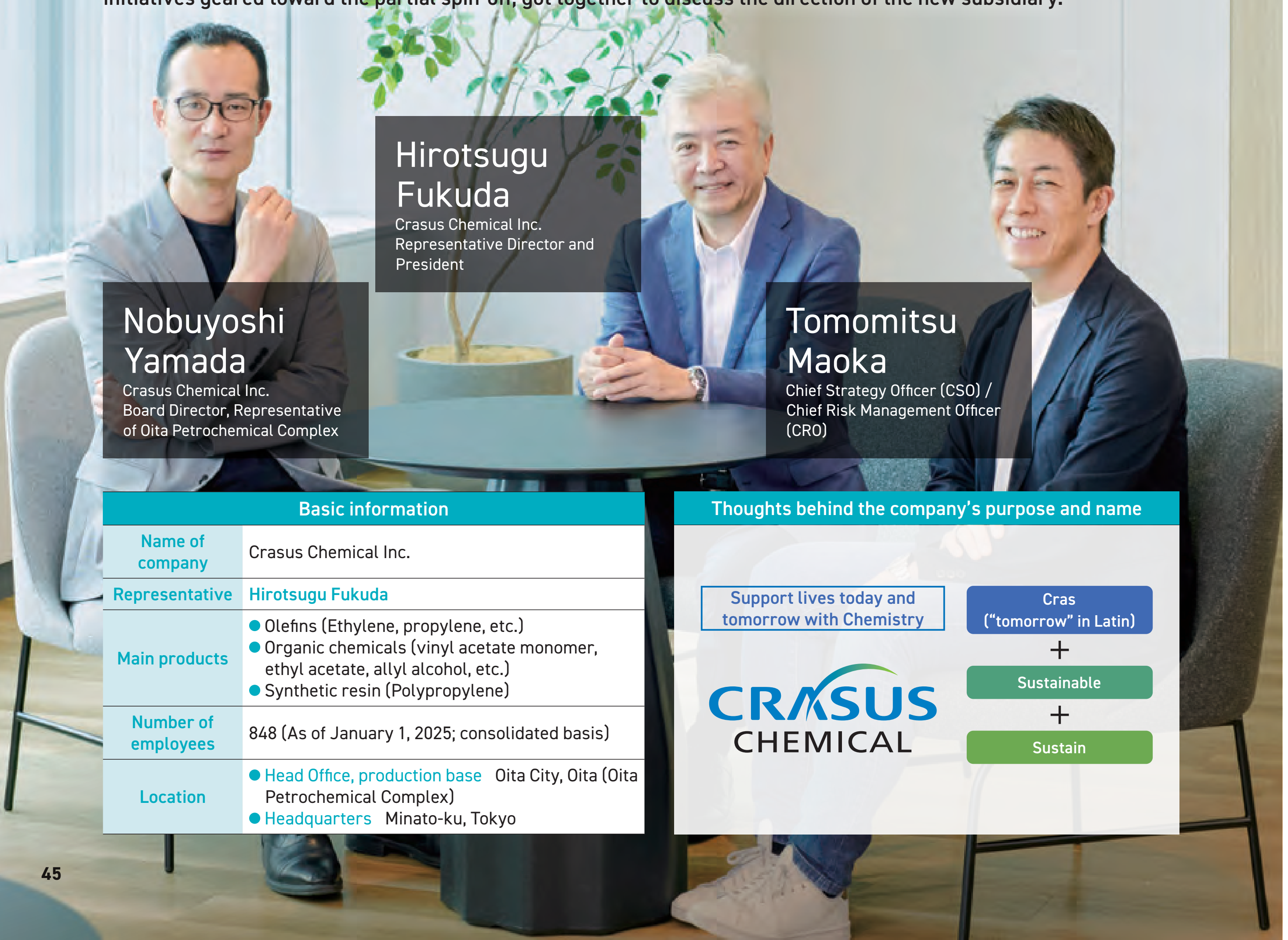
Dialogue: Choosing to Execute a Partial Spin-off

Road ahead for the petrochemical business

In August 2024, Crasus Chemical, a wholly-owned subsidiary to succeed Resonac Corporation's Olefins and Derivatives business, was newly established. Upper management of Crasus Chemical, which has started its journey toward becoming Japan's leading petrochemical manufacturer, and the CSO/CRO of Resonac, which is implementing initiatives geared toward the partial spin-off, got together to discuss the direction of the new subsidiary.



Nobuyoshi Yamada
Crasus Chemical Inc.
Board Director, Representative of Oita Petrochemical Complex

Hirotsugu Fukuda
Crasus Chemical Inc.
Representative Director and President

Tomomitsu Maoka
Chief Strategy Officer (CSO) / Chief Risk Management Officer (CRO)

Basic information

Name of company	Crasus Chemical Inc.
Representative	Hirotsugu Fukuda
Main products	● Olefins (Ethylene, propylene, etc.) ● Organic chemicals (vinyl acetate monomer, ethyl acetate, allyl alcohol, etc.) ● Synthetic resin (Polypropylene)
Number of employees	848 (As of January 1, 2025; consolidated basis)
Location	● Head Office, production base Oita City, Oita (Oita Petrochemical Complex) ● Headquarters Minato-ku, Tokyo

Thoughts behind the company's purpose and name

Support lives today and tomorrow with Chemistry

CRASUS CHEMICAL

Cras ("tomorrow" in Latin)
+
Sustainable
+
Sustain

This spin-off will enable us to independently decide where to invest earned funds

Maoka: The Olefins and Derivatives Business Unit, which made a new start as Crasus Chemical, was regarded as the "eldest son" of the former Showa Denko. It was a segment that generated stable profits, and its financial results were announced first for olefins and derivatives, followed by basic chemicals. I also feel that the business has strong pool of talent.

Fukuda: There are certainly a lot of talented employees. It also developed human resources for other business units. In terms of net sales, the Olefins and Derivatives Business Unit accounted for about one-third of former Showa Denko's total net sales.

In addition, the Oita Petrochemical Complex, the largest business base of the Olefins and Derivatives Business Unit, has a unique culture. Because of the many hazardous materials handled, the Oita Petrochemical Complex provides its own extensive training for new employees on top of company-wide training, resulting in a well-disciplined organization.

Maoka: The idea of spinning off the Olefins and Derivatives Business Unit wasn't something we had from the beginning. This is because the olefins and derivatives business is an extremely important source of revenue, and also bears social responsibility in terms of achieving carbon neutrality. Given his position as a corporate executive, CEO Takahashi had not planned to easily separate such a vital businesses from the get-go. Meanwhile, discussions continued within the management team regarding whether Resonac was the best-suited owner for the Olefins and Derivatives Business Unit.

After the birth of Resonac, there were two main factors that prompted us to consider spinning off the olefins and derivatives business. One was the feedback from shareholders we received through repeated discussions with them about our strategies. The semiconductor materials business is expected to experience significant growth and high profitability in the medium to long term, but it is subject to substantial short-term fluctuations in performance. In contrast, the olefins and derivatives business generates a stable cash flow, making it an attractive investment option for investors seeking stability.

In other words, when viewing them as individual investment options, semiconductor materials and olefins and derivatives have a relationship that could potentially interfere with one other, so to investors, keeping them separate is preferable.

As various options were being considered, another incentive came in the form of the establishment of special measures based on the Act on Strengthening Industrial Competitiveness in June 2023 regarding partial spin-offs, creating a new mechanism for tax breaks. This led to the idea that these partial spin-off tax rules could be used to split up the olefins and derivatives business more smoothly and efficiently, kicking off concrete deliberations regarding this possibility.

Fukuda: I had assumed that the olefins and derivatives business would remain part of Resonac, so when I heard about the partial spin-off, I honestly had a lot of thoughts. It's not something I could simply say, "Sure, we will operate independently from now on."

At the time, Resonac was already focusing its investments on semiconductor materials, and even when we at the Olefins and Derivatives Business Unit brought up our intent to make investments at the Management Committee meetings, there were several times when we were unable to move forward with these plans. After thinking about it calmly and carefully, we realized that separating the olefins and derivatives business to establish a separate company through a partial spin-off meant that we could invest the funds we have earned at our own discretion. We felt great appeal and potential in the idea of being able to make investment decisions and move forward more flexibly toward our goals, which motivated us to take on this challenge. We were ultimately able to make the decision because the Olefins and Derivatives Business Unit had the underlying strength to operate independently, namely its stable profitability and organizational capabilities built up over the years.

Leading discussions over shaping the new company's approach and vision

Fukuda: Ever since the partial spin-off was decided, everyone involved has been working at full capacity. First were the tangible aspects, such as organizations, governance, personnel acquisition, and IT systems. Basically, shaping ourselves as an operating company. These efforts were carried out with the help of Resonac and outside experts. Another crucial aspect we need to address is the intangible aspects. The culture of the new company; its soul. I think this is something that needs to be built up carefully over time.

Yamada: The plan for the partial spin-off was announced to Olefins and Derivatives Business Unit employees on February 14, 2024, the same day that Resonac announced it to the press.

In the beginning, shock and confusion spread across the Oita Petrochemical Complex. I think there were concerns over the growth potential and future of the Oita Petrochemical Complex once it became independent. However, in March and April, not long after the announcement, the management team set up a series of opportunities to talk with Oita Petrochemical Complex employees. Hearing about plans and outlooks from management at town-hall meetings and roundtable discussions helped to dispel much of this anxiety, which led an increasing number of people to start speaking of their determination to move forward with renewed enthusiasm.

Fukuda: Shortly after Resonac announced it would start considering a partial spin-off, mid-level and young employees of head office from the Olefins and Derivatives Business Unit voluntarily came together to launch the Petrochemical Vision Project, and started conducting discussions on the new company. Through this project, employees took it upon themselves to discuss and develop the new company's vision, purpose, value creation process, and so on. In August, it was renamed the ASU Project after Oita Petrochemical Complex employees joined to form a dynamic team under my direct control. The name of the project, ASU, embodies our desire that we (us) will all work together to create Crasus Chemical's tomorrow (*Asu* in Japanese). Crasus Chemical's purpose, "Sustain daily lives of tomorrow with chemistry" was also born out of discussions within this ASU Project. The activities of the ASU Project are very dependable, and I personally find them reassuring. We are currently working with the management team to formulate a long-term vision. In addition to the strong sense of unity that has existed until now, an environment is emerging that fosters various bottom-up discussions.

As Takahashi-san has been doing at Resonac, since last year, I have held more than 30 town-hall meetings and roundtable discussions, speaking with more than 200 employees so that we can exchange our thoughts.

Maoka: While maintaining organizational leadership, we will increase the value of the company through the self-driven actions of our employees. This culture shows that while Crasus Chemical is inheriting Resonac's uniqueness, it is also building its own identity.

Fukuda: After hearing about the partial spin-off, some people in other business units or those stationed overseas that used to work in the Olefins and Derivatives Business Unit are also volunteering to join Crasus Chemical. Even among people with no prior involvement with the Olefins and Derivatives Business Unit, highly motivated people have joined us who want to take on IPO-related work or transfer to Crasus Chemical to expand the scope of their work.

Superior safety and operation technologies have turned Oita Petrochemical Complex into an "unstoppable petrochemical complex"

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Yamada: The Oita Petrochemical Complex's greatest strength is that it boasts the first- to second- highest uptime in Japan, backed by its excellent maintenance and operation technologies. With the exception of scheduled maintenance periods, there have been no plant shutdowns for over five years due to problems occurring. A single shutdown of the plant can result in losses in the hundreds of millions of yen, so the fact that it can operate stably is a major strength.

Another notable feature of the Oita Petrochemical Complex is that it is a pioneer within the Resonac Group in the use of IoT, smart solutions, and other technologies. We are actively taking on new challenges, such as introducing a system to predict plant malfunctions and using drones for inspections.

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Fukuda: Another major strength is the ability to use various raw materials other than naphtha. While the main raw material is naphtha, which is extracted from crude oil, the Oita Petrochemical Complex has long sought to diversify its raw materials, and is also able to use LPG, kerosene, and diesel as raw materials. This means that costs can be reduced by flexibly procuring raw materials other than naphtha depending on prevailing prices. No other industrial complex exists that can use raw materials other than naphtha to this extent.

Yamada: The Oita Petrochemical Complex also produces a number of competitive and unique derivatives. We hold the top global external sales market share for high-purity allyl alcohol and the top domestic market share for ethyl acetate. In particular, following the start of operations at an additional plant for high-purity allyl alcohol in August last year, we are now well positioned to expand sales.

We cannot survive unless more emphasis is placed on co-existing harmoniously with local communities and society to promote greening

Maoka: Over a longer timeframe, a huge challenge faced by the petrochemical industry is decarbonization. The Oita Petrochemical Complex has drawn up a roadmap and has been carrying out various initiatives geared toward carbon neutrality, and unless they accelerate their initiatives, it would likely not survive as a company.

Fukuda: I agree. Up until now, we have focused on increasing profitability by selling products made from fossil fuels. However, that approach is by no means sufficient. Unless we place more emphasis on coexisting harmoniously with local communities and society to promote greening, including carbon neutrality, the olefins and derivatives business will not be viable in the future.

Yamada: With regard to greening, we have implemented various measures to date, regardless of the spin-off. I believe that moving forward, we will need to move more swiftly and flexibly than ever before in cooperation with local communities.

As our medium- to long-term plan, we have been working on the "development of a low-concentration CO_2 separation

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system employing an innovative separation agent" (adopted as part of the NEDO's Green Innovation Fund Project) with Nippon Steel and several universities. We are also participating in the "Feasibility Study on a Carbon Recycling Project Utilizing Cross-industry Collaboration at the Oita Complex" (adopted as a NEDO project), and have begun considering ways to contribute to reducing CO_2 emissions from the perspective of chemical manufacturing that uses CO_2 as a raw material. Furthermore, together with Kyushu University, Marubeni Corporation, and Sumitomo Mitsui Trust Bank, we have established a "knowledge hub" in Kyushu aimed at building a circular economy model. By bringing together the strengths of Kyushu's industry, government, and academia, we aim to establish local production for local consumption processes by recycling waste plastics and other waste materials through chemical recycling.

Cherishing our synergy-creating relationship while remaining independent as two companies with the same origins

Maoka: In the near future, Crasus Chemical and Resonac will have to build a new relationship as independent, publicly listed companies.

Fukuda: Once Crasus Chemical is listed, it is natural for the two companies to go their own way. However, this does not mean that Resonac and Crasus Chemical will break off their relationship. We want to remain emotionally connected to each other, and this is reflected in Resonac continuing to hold an appropriate proportion of shares. I believe that both Resonac and Crasus Chemical will benefit from educational, technological, and personal exchanges. In the future, I think there will be opportunities for us to take on various challenges together.

Yamada: We are also confident in our safety, production, and maintenance technologies. There are aspects in which the directions of our businesses align with one another, so we would like to continue our cooperative relationship in various areas going forward.

Maoka: I would like to consider whether we can build a cooperative relationship in terms of human resources as well. Of course, ensuring a certain degree of independence will be necessary when going public, so we will need to carefully consider specific plans going forward. Even so, as companies with the same origins, I believe we have personnel that can thrive in either company. So, I'd like us to come together to consider how we can establish a relationship that will support the career development of employees from both companies.

Molding a new image of the petrochemical industry around our purpose of "sustain daily lives of tomorrow with chemistry"

Maoka: We need to make this partial spin-off something that all stakeholders will feel glad we have done. To this end, I am determined to achieve results that meet the expectations of not only our shareholders, but also our employees, customers, and local communities.

I also sincerely hope to surprise those who are worried about the future of Japan's petrochemical industry through this partial spin-off. I believe that one of the objectives of this partial spin-off is to create a company that will open up bright prospects for the petrochemical industry, and I have confidence that Crasus Chemical can and will achieve this.

I will do my best to ensure that in a few years' time, employees will feel glad they are working at Crasus Chemical. [Fukuda]

Yamada: The Oita Petrochemical Complex boasts high on-site capabilities cultivated over many years. For example, we mentioned earlier that we are diversifying raw materials and are able to use raw materials other than naphtha. In other words, the complex is capable of flexibly handling a variety of operations. I believe our strengths lie in the fact that the departments that support on-site operations have both the autonomy and expertise to fully recognize their roles and responsibilities, and the organizational capabilities and leadership to execute operations properly.

We have been carrying out various activities with the aim of becoming the strongest industrial complex in Asia, where prosperity, sustainability, and growth potential are in harmony. As the current Oita Petrochemical Complex exists on the back of steady, daily efforts, we must never forget our ambition to become the strongest industrial complex in Asia and the importance of our daily efforts. We will continue to work hard and remain steadfast in this regard.

Furthermore, having become Crasus Chemical, we will strive to be even more flexible in our research and development and technology development activities through internal and external co-creation, including with Resonac, with the aim of becoming a company that creates a sustainable future.

Fukuda: Splitting up a company through a partial spin-off and then aiming for an IPO is certainly a very challenging undertaking. Nevertheless, I bet achieving this will provide an incredible sense of accomplishment. Of course, I understand that what comes after completion of the IPO is more important, but for now, I want everyone to experience that sense of accomplishment together.

Right now, I also feel strongly about valuing the purpose we created: "Sustain daily lives of tomorrow with chemistry." Moving forward, we must constantly think about how we can truly contribute to society through our corporate activities, not solely for the sake of making money. As such, only by always keeping in mind our purpose "Sustain daily lives of tomorrow with chemistry" as we conduct our business can we gain the trust of local communities and our stakeholders. I believe that this will ultimately motivate employees, which will in turn lead to increased profitability and enhanced corporate value. I am currently doing my best to convey these thoughts to all our employees. And I will do my best to ensure that in a few years' time, all stakeholders will recognize this partial spin-off as a positive and worthwhile decision.

• About this dialogue

Participants: Resonac CSO/CRO Tomomitsu Maoka; Crasus Chemical Representative Director and President Hirotsugu Fukuda; Board Director, Corporate Officer, Representative of Oita Petrochemical Complex Nobuyoshi Yamada

Aim: Raise expectations for the future growth of both Resonac and Crasus Chemical by holding a discussion between members of Crasus Chemical, an independent entity that has started deliberating the partial spin-off, with Resonac's CSO

• Keywords of the dialogue

Background to the commencement of the deliberation on the partial spin-off	Shareholder perspective, investment in R&D and facilities in the olefins and derivatives business
Progress with preparations for establishing a new company	Steady progress with preparations for governance, organizations, IT systems, and other tangible aspects Active participation in the ASU Project, joined voluntarily by young and mid-level employees
Confidence in the operation of the "unstoppable petrochemical complex"	Maintenance and operation technologies developed over many years of operating the petrochemical complex combined with the latest IoT and smart solutions
Striving to become a green industrial complex	Promoting the realization of carbon neutrality through R&D of new technologies via industry-academia collaboration