December 10, 2021

SEKISUI CHEMICAL CO., LTD.

Initiatives to Each of Principles of the Corporate Governance Code

* In the following translation, “the Company” or “we” represents “SEKISUI CHEMICAL CO., LTD.,” and “the Group” represents “SEKISUI CHEMICAL Group.”
* In the following translation, “Audit & Supervisory Board Member” stands for “Kansayaku” in the Corporate Governance Code.
* Principal or Supplementary Principle mandated to explain is highlighted gray.
* Figures in endnotes ( ) show the relevant descriptive portion of the SEKISUI Corporate Governance Principles

Section 1: Securing the Rights and Equal Treatment of Shareholders

General Principle 1

Companies should take appropriate measures to fully secure shareholder rights and develop an environment in which shareholders can exercise their rights appropriately and effectively.

In addition, companies should secure effective equal treatment of shareholders.

Given their particular sensitivities, adequate consideration should be given to the issues and concerns of minority shareholders and foreign shareholders for the effective exercise of shareholder rights and effective equal treatment of shareholders.

The Company regards shareholders as holding the central position among our various stakeholders and the key primary point of corporate governance. The Company ensures appropriate collaboration with shareholders in consideration of the smooth exercise of various rights of all shareholders to ensure that these rights are effectively protected. (II.2.1)

Principle 1.1 Securing the Rights of Shareholders

Companies should take appropriate measures to fully secure shareholder rights, including voting rights at the general shareholder meeting.

The Company takes lawful and appropriate measures to ensure that shareholder rights are exercised in a manner to substantively protect the rights of all shareholders and we are engaged in a variety of voluntary initiatives.

Supplementary Principles 1.1.1

When the board recognizes that a considerable number of votes have been cast against a proposal by the company and the proposal was approved, it should analyze the reasons behind opposing votes and why many shareholders opposed, and should consider the need for shareholder dialogue and other measures.

If a proposal set forth by the Company has met a number of opposing votes, the analysis of the cause of such votes will be carried out at the meeting of the Board of Directors to decide whether any future responses are required. **(II.2.2.iv)**

Supplementary Principles 1.1.2

When proposing to shareholders that certain powers of the general shareholder meeting be delegated to the board, companies should consider whether the board is adequately constituted to fulfill its corporate governance roles and responsibilities. If a company determines that the board is indeed adequately constituted, then it should recognize that such delegation may be desirable from the perspectives of agile decision-making and expertise in business judgment.

As a result of focused efforts to strengthen corporate governance that the Company has been making, the Company currently has two Outside Directors and three Outside Audit & Supervisory Board Members who are highly independent and a framework that enables the Company to develop and implement management plans to realize sustainable growth of its corporate value has been put in place.

The Company also makes the effective use of share buybacks as part of our measures to enhance shareholder return and the decision concerning share buybacks has been delegated to the Board of Directors to execute the capital policy in a flexible manner to respond to changes in the business environment.

Supplementary Principles 1.1.3

Given the importance of shareholder rights, companies should ensure that the exercise of shareholder rights is not impeded. In particular, adequate consideration should be given to the special rights that are recognized for minority shareholders with respect to companies and their officers, including the right to seek an injunction against illegal activities or the right to file a shareholder lawsuit, since the exercise of these rights tend to be prone to issues and concerns.

The Company gives adequate consideration to the exercise of shareholder rights by minority shareholders so that it is not unduly prevented. For example, our Share Handling Regulations prescribe the method of exercising certain rights of minority shareholders that are recognized under the Companies Act, such as the right to claim access to the shareholder registry.

Principle 1.2 Exercise of Shareholder Rights at General Shareholder Meetings

Companies should recognize that general shareholder meetings are an opportunity for constructive dialogue with shareholders, and should therefore take appropriate measures to ensure the exercise of shareholder rights at such meetings.

In consideration of constructive dialogue with shareholders and the provision of information for such dialogue, the Company makes efforts to set an appropriate schedule related to the general meeting of shareholders including the early distribution of the Notice of Convocation and to enhance the provision of information in the Notice of Convocation. In addition, the Company puts in place an appropriate environment for the exercise of rights by enabling the exercise of voting rights via the Internet and participating in an electronic voting platform for shareholders. **(II.2.2.ii)**

Supplementary Principles 1.2.1

Companies should provide accurate information to shareholders as necessary in order to facilitate appropriate decision-making at general shareholder meetings.

The Company makes efforts to enhance the explanation of the meeting agenda in the reference materials for the general meeting of shareholders and provides information accurately with the use of charts and photos for better understanding of the meeting agenda to the shareholders. **(II.2.2.i)**

Supplementary Principles 1.2.2

While ensuring the accuracy of content, companies should strive to send convening notices for general shareholder meetings early enough to give shareholders sufficient time to consider the agenda. During the period between the board approval of convening the general shareholder meeting and sending the convening notice, information included in the convening notice should be disclosed by electronic means such as through TDnet or on the company's website.

In order to facilitate the exercise of voting rights by shareholders, the Company sends the Notice of Convocation at least three weeks before the date of the general meeting of shareholders and discloses it electronically before the notice is sent through TDnet or on the websites of the Company. **(II.2.2.iii)**

Supplementary Principles 1.2.3

The determination of the date of the general shareholder meeting and any associated dates should be made in consideration of facilitating sufficient constructive dialogue with shareholders and ensuring the accuracy of information necessary for such dialogue.

The Company, in accordance with the Basic Policy for Constructive Dialogue with Shareholders, maintains dialogue with shareholders throughout the year except during the quiet periods. In particular, to make the general meeting of shareholders a forum for constructive dialogue with shareholders, the Company distributes a Notice of Convocation at least three weeks before the date of the general meeting and provides information electronically before the Notice of Convocation is sent, in order to help more shareholders to exercise their voting rights at the general meeting of shareholders based on the sufficient understanding of the proposals of the Company. The Company also takes comprehensive measures to help more shareholders to attend the general meeting of shareholders. For example, the Company holds the general meeting on a day not falling on the so-called general meeting concentration date and at an appropriate venue.

Supplementary Principles 1.2.4

Bearing in mind the number of institutional and foreign shareholders, companies should take steps for the creation of an infrastructure allowing electronic voting, including the use of the Electronic Voting Platform, and the provision of English translations of the convening notices of general shareholder meeting.

In particular, companies listed on the Prime Market should make the Electronic Voting Platform available, at least to institutional investors.

Recognizing the necessity for the provision of an environment that facilitates the exercise of voting rights by institutional investors and foreign investors as well as the provision of information in English for foreign shareholders, the Company has participated in an electronic voting platform and posted the English translation of the Notice of Convocation (the Notice of Convocation itself (date/time, place and objectives etc. of the general meeting of shareholders) and the reference materials attached to the Notice of Convocation of the general meeting of shareholders) on the website of the Company and the website of the Tokyo Stock Exchange.

Supplementary Principles 1.2.5

In order to prepare for cases where institutional investors who hold shares in street name express an interest in advance of the general shareholder meeting in attending the general shareholder meeting or exercising voting rights, companies should work with the trust bank (*shintaku ginko*) and/or custodial institutions to consider such possibility.

In principle, the Company does not permit a beneficial shareholder, such as an institutional investor who holds shares in street name, to attend the general meeting of shareholders as a shareholder.

However, if such a beneficial shareholder requests to attend the general meeting of shareholders in advance and the Company has been able to confirm that the proposing person is actually the true beneficial shareholder, the Company will accept the attendance.

Principle 1.3 Basic Strategy for Capital Policy

Because capital policy may have a significant effect on shareholder returns, companies should explain their basic strategy with respect to their capital policy.

The Company has set “Basic Capital Policy" as follows and discloses it, as part of the Corporate Governance Principle.

i. The Company recognizes the capital policy as one of the most important tasks in corporate governance.
ii. The Company avoids implementing any capital policies that are not considered supportive to the creation of long-term shareholder value. When implementing any capital policy involving a change in control or a substantial dilution, the Board of Directors will carefully examine its purpose and necessity/reasonableness and ensure other due processes so that the shareholders will be provided with a clear and adequate explanation.
iii. The Company discloses in the Medium-Term Management Plan our targets for various indicators of capital productivity such as ROE (Return On Equity).
iv. The Company will pursue an optimal balance between investment for sustainable growth and its shareholder return by always keeping in mind the optimal state of the balance sheet and placing importance on accurately identifying the Company’s cost of capital.
v. The return of profits to shareholders will be carried out in accordance with the financial results and in consideration of the ROE, the DOE (Dividend-On-Equity) ratio and the total return ratio, as well as the optimal balance between the policy for stable dividend payments and the ability to share buyback flexibly. The Medium-Term Management Plan which commenced in FY2020 aims at a 35% or higher dividend payout ratio on a consolidated basis, with a 3% or higher secured DOE and a 50% or higher (if the D/E ratio is less than 0.5) total return ratio. **(II.2.3)**

Principle 1.4 Cross-Shareholdings

When companies hold shares of other listed companies as cross-shareholdings, they should disclose their policy with respect to doing so, including their policies regarding the reduction of cross-shareholdings. In addition, the board should annually assess whether or not to hold each

individual cross-shareholdings, specifically examining whether the purpose is appropriate and whether the benefits and risks from each holding cover the company's cost of capital. The results of this assessment should be disclosed.

Companies should establish and disclose specific standards with respect to the voting rights as to their cross-shareholdings, and vote in accordance with the standards.

The Company sets and discloses SEKISUI Corporate Governance Principle where basic policy for Cross-Shareholdings of the other listed companies and policy for the exercise of voting rights are shown as follows.

i. Basic policy

The Company may strategically hold shares of the other publicly-listed companies, to a limited extent, that are important business partners of the Company provided that the Company made its judgment on such holdings to be beneficial for the purpose of maximizing medium to long-term enhancement of corporate value of the Company and the business partners.

Strategic rationale shall be reviewed in an appropriate and timely manner and the Company will reduce those holdings without sufficient strategic benefits or inconsistent with the Company's capital policies.

The Board conducts annual assessment of such holdings to examine specific benefits by such share-holdings and consistency with the risk-benefit evaluation of such individual holdings over the cost-of-capital and other factors. The Company shall disclose the overview of the evaluation in Corporate Governance Report.

ii. Policy for the exercise of voting rights

The Company exercises voting rights at shareholder meeting of the share-holding companies in accordance with the specific standards with respect to the voting rights established by the Company to reflect perspectives of connecting the medium to long-term enhancement of the Company's corporate value with the corporate value enhancement of the above companies based on strategic position of such holding and dialogue and so forth with them, thereby shall perform its monitoring function as a shareholder.

As to exercising of voting rights, the Company applies a judgment standard, considering significance of agendas proposed by companies (including special resolution items), business performance (equity ratio, profit/loss condition, etc.) in their current fiscal year, and their business sustainability. The Company then makes the final comprehensive decision on proposals integrating on-going engagements (dialogues) with the said companies. **(II.2.4)**

Supplementary Principles 1.4.1

When cross-shareholders (i.e., shareholders who hold a company's shares for the purpose of cross-shareholding) indicate their intention to sell their shares, companies should not hinder

the sale of the cross-held shares by, for instance, implying a possible reduction of business transactions.

When the Company is approached about sales of the shares of the Company by the cross-shareholder (as defined in the above), the Company respects the intention of a cross-shareholder and never hinders the sale, etc.

Supplementary Principles 1.4.2

Companies should not engage in transactions with cross-shareholders which may harm the interests of the companies or the common interests of their shareholders by, for instance, continuing the transactions without carefully examining the underlying economic rationale.

Regardless whether a business partner is a cross-shareholder or not, the Company never enters into business transaction which might damage the Company or common interest of shareholders, by carefully examining the underlying economic rationale.

Principle 1.5 Anti-Takeover Measures

Anti-takeover measures must not have any objective associated with entrenchment of the management or the board. With respect to the adoption or implementation of anti-takeover measures, the board and *director* should carefully examine their necessity and rationale in light of their fiduciary responsibility to shareholders, ensure appropriate procedures, and provide sufficient explanation to shareholders.

The Company has no anti-takeover measures. The Company abolished one at the closing of the Annual General Meeting of Shareholders held in June 2017.

Supplementary Principle 1.5.1

In case of a tender offer, companies should clearly explain the position of the board, including any counteroffers, and should not take measures that would frustrate shareholder rights to sell their shares in response to the tender offer.

In case of a tender offer of the shares of the Company, the Company will thoroughly review the terms and conditions of the tender offer and information regarding the tender offeror, based on which it will clearly explain the position of the Board from the perspectives of protecting the common interests of shareholders and enhancing the corporate value of the Company in the middle to long term (II-2-5).

Principle 1.6 Capital Policy that May Harm Shareholder Interests

With respect to a company's capital policy that results in the change of control or in significant dilution, including share offerings and management buyouts, the board and *kansayaku* should, in order not to unfairly harm the existing shareholders' interests, carefully examine the necessity and rationale from the perspective of their fiduciary responsibility to shareholders, should ensure appropriate procedures, and provide sufficient explanation to shareholders.

The Company's policy with respect to a capital policy that would result in a change of control or in significant dilution is as described in ii. of "Principle 1-3 Basic Strategy for Capital Policy." The same policy is also included in the SEKISUI Corporate Governance Principles and is disclosed.

Principle 1.7 Related Party Transactions

When a company engages in transactions with its directors or major shareholders (i.e., related party transactions), in order to ensure that such transactions do not harm the interests of the company or the common interests of its shareholders and prevent any concerns with respect to such harm, the board should establish appropriate procedures beforehand in proportion to the importance and characteristics of the transaction. In addition to their use by the board in approving and monitoring such transactions, these procedures should be disclosed.

The Company has taken the following measures to prevent any transaction between the Company and an officer of the Company or a major shareholder from harming the interest of the Company or the common interest of the shareholders. The Board of Directors Regulations stipulate a conflict of interest transaction between the Company and its Director as the matter requiring the resolution of the Board of Directors. Actual individual transactions are monitored by the Board of Directors through the approval or reporting processes. Audit & Supervisory Board also audits such transactions in accordance with the Note of Audit & Supervisory Board Member Auditing Standards.

Section 2: Appropriate Cooperation with Stakeholders Other Than Shareholders

General Principle 2

Companies should fully recognize that their sustainable growth and the creation of mid- to long-term corporate value are brought about as a result of the provision of resources and contributions made by a range of stakeholders, including employees, customers, business partners, creditors and local communities. As such, companies should endeavor to appropriately cooperate with these stakeholders.

The board and management should exercise their leadership in establishing a corporate culture where the rights and positions of stakeholders are respected and sound business ethics are ensured.

The Company as a Group regards as our most important mission the creation of shareholder value that is sustainable in the long term through the best corporate governance practice. To this end, the Group strives to create and maintain a good, long-term relationship with our stakeholders other than shareholders such as customers, employees, business partners, and local communities so that we can thrive together. In accordance with the CSR management policy of the Company, we regard our social responsibility as our fiduciary duty to all stakeholders and are committed to fulfill it, mainly through our Board of Directors and the Sustainability Committee, with sufficient consideration to the environment, human rights, etc., from a global perspective. Specific policies and measures with regard to our social responsibility and our relationship with all stakeholders are developed by the Sustainability Committee, chaired by the President and consisting of the senior executive and employee representatives, based on the reports from its "Environment," "CS & Quality," "Human Resources," "Safety," "Compliance," "Cyber Security" and "DX" Sub-committees. They are also deliberated at the Board of Directors as necessary. The SEKISUI Corporate Governance Principles disclose policies and initiatives focusing on the relationship with our shareholders. **(II.1)**

Principle 2.1 Business Principles as the Foundation of Corporate Value Creation Over the Mid- to Long-Term

Guided by their position concerning social responsibility, companies should undertake their businesses in order to create value for all stakeholders while increasing corporate value over the mid- to long-term. To this end, companies should draft and maintain business principles that will become the basis for such activities.

The management principles of the Company are composed of our Corporate Philosophy which describes our ideas and policies at the root of our corporate activities; the Group Vision which describes an ideal format aimed for by the Group in the medium to long-term by following the

Corporate Philosophy; and our concrete Management Strategies to implement the Group Vision.

[Corporate Philosophy] "The 3S principles"

Service--- At SEKISUI, we serve our stakeholders by creating social, environmental and economic value through responsible business practices.

Speed--- At SEKISUI, we accelerate innovation by eagerly taking on new challenges, adapting to change and staying ahead of the times.

Superiority---At SEKISUI, we contribute to society by helping to solve social issues with our superior technologies and quality.

[Group Vision]

Through prominence in technology and quality, SEKISUI CHEMICAL Group will contribute to improving the lives of the people of the world and the Earth's environment, by continuing to open up new frontiers in residential and social infrastructure creation and chemical solutions.

[Management Strategies]

Medium-Term management plan, strategies by business unit/function, etc. **(I.2)**

In response to the "Group Vision," in FY2020, the SEKISUI CHEMICAL Group formulated "Vision 2030," the Long-Term Vision spanning the period until 2030, as guidelines to materialize the Management Strategies and to expand the Company's contributions to solving social issues through reform and creation centered on ESG management. Additionally, as the first step in these initiatives, the Medium-Term Management Plan, "Drive 2022" was formulated for the period from FY2020 to FY2022. The plan seeks to enhance the SEKISUI CHEMICAL Group's business base and accelerate preparations for the next stage of growth through full-scale ESG management.

Principle 2.2 Code of Conduct

Companies should draft and implement a code of conduct for employees in order to express their values with respect to appropriate cooperation with and serving the interests of stakeholders and carrying out sound and ethical business activities. The board should be responsible for drafting and revising the code of conduct, and should ensure its compliance broadly across the organization, including the front line of domestic and global operations.

By establishing the "Sekisui Chemical Group Corporate Code of Conduct," the behavior guidelines that should be observed by the officers and employees of the Group, the Company aims at enhancing the confidence that society places in us and becoming an even more highly acclaimed enterprise through our day-to-day business activities. This Code of Conduct has been included in the Intranet site and the Employee Handbook as well as the "Sekisui Chemical Group Compliance Manual" so that the officers and employees of the Group can readily refer to them as necessary. **(I.4)**

Supplementary Principle 2.2.1

The board should review regularly (or where appropriate) whether or not the code of conduct is being widely implemented. The review should focus on the substantive assessment of whether the company's corporate culture truly embraces the intent and spirit of the code of conduct, and not solely on the form of implementation and compliance.

The implementation status of the Code of Conduct is effectively reviewed through regular survey targeting Group employees. The results of survey are reported to the Board of Directors to confirm the knowledge sharing and the penetrance of the Code of Conduct in practice.

Principle 2.3 Sustainability Issues, Including Social and Environmental Matters

Companies should take appropriate measures to address sustainability issues, including social and environmental matters.

In 2020, the Company has formulated the Long-Term Vision, "Vision 2030," and upholds "Innovation for the Earth" as its vision statement. This statement embodies the strong desire to support life infrastructure and create "peace of mind that continues into the future" toward the realization of a sustainable society by continuing to generate innovation. The SEKISUI CHEMICAL Group will make efforts to resolve social issues, support the basis of LIFE for the individual and society and create and provide peace of mind and the value evolved from such peace of mind to all generations including the future generation, through products and services that enhance sustainability.

The Company has established by the Board of Directors basic policies regarding CSR and sustainability (Environment, Human Rights, CS & Quality, Human Resources, Safety, Information Security, Social Contribution Activities), while the Sustainability Committee, chaired by the President and with the participation of members of management, receives reports from "Environmental," "CS & Quality," "Human Resources," "Safety," "Compliance," "Cyber Security," and "DX" Sub-committees and deliberates the specific policies and measures, If necessary, these policies and measures are deliberated by the Board of Directors.

Supplementary Principle 2.3.1

The board should recognize that dealing with sustainability issues, such as taking care of climate change and other global environmental issues, respect of human rights, fair and appropriate treatment of the workforce including caring for their health and working environment, fair and reasonable transactions with suppliers, and crisis management for natural disasters, are important management issues that can lead to earning opportunities as well as risk mitigation, and should further consider addressing these matters positively and proactively in terms of increasing corporate value over the mid-to long-term.

The Company promotes ESG-based management as a way of improving social sustainability while at the same time improving the Company's sustainability. The Company recognizes five key ESG issues (governance (internal control, BCP), DX, environment, human resources, and fusion (*)) where the importance for stakeholders is extremely high, and is also extremely high for management of SEKISUI CHEMICAL Group. In relation to the issue of governance (internal control), the Company has identified five areas (safety, quality, accounting, legal/ethical, and information management) where the occurrence of serious incidents should be prevented.

Specifically, the Company is working on the following initiatives.

(1) The Company has been taking appropriate measures to address sustainability issues, and established the "Sustainability-contributing Products" system, in order to proactively work toward the resolution of environmental and social issues and lead to opportunity for profit through its products and services, as stated in Principle 2.3. The Company has been committed to the certification and the expansion of products that significantly contribute to the resolution of these issues.

(2) In regard to environmental issues, in addition to identifying climate related risks and opportunities as disclosed based on the recommendations of the TCFD, the Company also aims to maintain biodiversity of the earth and strives to recycle the natural capital that we have used in our business activities through the three activity categories: "the provision of products that contribute to the environment," "resource conservation, energy conservation and similar activities to reduce environmental impact," and "activities to conserve the natural environment."

Based on these activities, the Board of Directors receives regular reports on sustainability initiatives and deliberates on them.

* "Fusion"

Based on the Long-Term Vision "Vision 2030", SEKISUI CHEMICAL Group is advancing the expansion of its existing businesses and the creation of new businesses using ESG management as its main policy. With "fusion" as an important issue for ESG, we aim to achieve wider-ranging and more effective fusion, including technological development, personnel cultivation, cooperation with external organizations, and open innovation.

Principle 2.4 Ensuring Diversity, Including Active Participation of Women

Companies should recognize that the existence of diverse perspectives and values reflecting a variety of experiences, skills and characteristics is a strength that supports their sustainable growth. As such, companies should promote diversity of personnel, including the active

participation of women.

The Company develops a plan aimed at promoting the maximum activation of potential power from each diverse group of employees working in and outside of Japan from the viewpoints of "Group," "Global," and "Diversity."

In order to realize the Sustainable Growth, the Company believes that it is indispensable to have active participation by diverse human resources including females, senior-aged, foreign citizens, and so forth so that the Company promotes diversity by setting and disclosing concrete numerical targets for hiring, employment, and cultivation plans.

The Company has established and deploys a "Diversity Management Policy" to further promote diversity, including greater participation by women, to foster an organization culture, which create much more synergy effect.

<Diversity Management Policy>

We recognize the need for diversity for realizing a "strong corporate value for the next 100 years," understand and acknowledge the fact that each individual employee's attitude toward work and lifestyle, as well as their characteristics, are different, and positively take advantage of these differences. For creating such corporate culture, we will continue to develop various systems, through dialogues with employees, to provide employment and work opportunities and assistance to employees' progress.

Supplementary Principle 2.4.1

Companies should present their policies and voluntary and measurable goals for ensuring diversity in the promotion to core human resources, such as the promotion of women, foreign nationals and midcareer hires to middle managerial positions, as well as disclosing their status.

In addition, in light of the importance of human resource strategies for increasing corporate value over the mid-to long-term, companies should present its policies for human resource development and internal environment development to ensure diversity, as well as the status of their implementation.

The Company is currently working to develop a personnel strategy to support the promotion of core human resources to director or senior management posts through the process of experience accumulation. The Company believes that the key feature of this strategy should be to ensure diversity of employees who are promoted to middle management positions in the expectation that they will become future executive/successor candidates.

As for active participation of women, the ratio of women to total new graduate hires has reached around 30% in the last five years, and the Company intends to maintain the ratio at

or above the current level. To ensure diversity of employees in middle management positions, the Company aims to raise the ratio of women to total employees promoted to middle management positions to 30% by 2030.

To achieve this goal, targeting women employees who hope to be appointed to management positions (manager candidates) and their direct supervisors, the Company is conducting a "Career Development Program for Women." This training program has been put in place with the aim of fostering awareness and gaining the achievements appropriate for management positions. The Company has been continually conducting this program across the entire Group.

Mid-career hires currently account for 14% of employees in management positions. In particular, when the Company undertakes new endeavors, such as starting a new business or promoting an important theme (DX, etc.), going forward, it will recruit mid-career experts in the relevant fields as appropriate. As for foreign nationals, the Company has currently appointed 11 foreign nationals to management positions in Japan on a non-consolidated basis. The Company expects that more foreign nationals will be promoted to such positions as its global business grows going forward.

For human resource development and internal environment development to ensure diversity, the Company is working on the following initiatives:

(1) Role-based personnel system

The Company plans to introduce a role-based personnel system in FY2022. Under the role-based personnel system, the Company will clarify the image of the career path from junior/middle management positions to senior management positions by clearly indicating the roles of individual positions ranging from senior management positions to junior management positions (section manager or equivalents). The Company will define roles of individual positions based on linkage to/backcasting from the management policy and the achievement of business goals, making this system one with a view to the future.

(2) Work-style not relying on long working hours

The Company has been working to design a system to embrace diverse work-styles and to streamline operations by promoting the use of IT and work-style reform investments. In particular, the Company has established "Work-style Reform Guide" in October 2021 to provide clear guidance on autonomous work-styles to be adopted by each employee.

(3) Follow-up training for mid-career hires

The Company ensures that mid-career hires can demonstrate their technical expertise immediately after joining the Company by providing them with training to learn the businesses, systems, etc., of the Company.

(4) Support to help employees to raise children while working

To promote the use of childcare leave by male employees, the Company gives encouragement to applicable employees and their supervisors. The ratio of male employees who have taken childcare leave is currently in the 30% range.

(5) Fusion and development of global human resources across region

To develop future global leaders to be pillars of SEKISUI CHEMICAL Group, the Company provides presidents and senior executives of foreign subsidiaries and senior management of the Company opportunities to interact with each other to learn diverse perspectives and values from each other. Examples of such opportunities include:

・Sharing and instillation of the Long-Term Vision

In FY2020, the first year of our Long-Term Vision, all presidents of foreign subsidiaries participated in an online discussion for the sharing and instillation of the Long-Term Vision and to discuss the implementation method of the vision at each company.

・Global Saijuku School

Executives from all over the world enroll in the school for a one-year program. Most recently, these students made recommendations on global management on the theme of "Implementation of the Values of SEKISUI."

Through these initiatives, the Company encourages diverse human resources, such as women, mid-career hires, and foreign nationals, to actively aspire to be promoted to management positions and to play an active role as managers leveraging their unique strengths. For more details, please refer to the Company's CSR Report.
https://www.sekisuichemical.com/csr/assets/images/csr_report2021e.pdf

Principle 2.5 Whistleblowing

Companies should establish an appropriate framework for whistleblowing such that employees can report illegal or inappropriate behavior, disclosures, or any other serious concerns without fear of suffering from disadvantageous treatment. Also, the framework should allow for an objective assessment and appropriate response to the reported issues, and the board should be responsible for both establishing this framework, and ensuring and monitoring its enforcement.

The Company has developed the "S.C.A.N. (Sekisui Compliance Assist Network)" an intra-

company whistle-blowing system, and since then we have made it available for use by all Group employees. This system is operated under the supervision of the officer appointed by the President and the operation status of the intra-company whistle-blowing system is reported to the Board of Directors annually. **(IV.6.3)**

Supplementary Principle 2.5.1

As a part of establishing a framework for whistleblowing, companies should establish a point of contact that is independent of management (for example, a panel consisting of outside directors and outside *Kansayaku*). In addition, rules should be established to secure the confidentiality of the information provider and prohibit any disadvantageous treatment.

As part of the whistleblower system, the Company has secured a reporting contact at an external law firm that is independent from the Company in addition to the internal reporting contact in Japan. Additionally the Company is boosting a point of contact especially for the employees in foreign affiliates. The protection of the whistleblower is prescribed by the Whistleblower Rules to put in place an environment in which whistleblowers do not suffer any disadvantage. For example, the identity of the whistleblower is kept secret from anybody other than the reporting contact. **(IV.6.3)**

Principle 2.6 Roles of Corporate Pension as Asser Owners

Because the management of corporate pension funds impacts stable asset formation for employees and companies' won financial standing, companies should take and disclose measures to improve human resources and operational practices, such as the recruitment or assignment of qualified persons, in order to increase the investment management expertise of corporate pension funds (including stewardship activities such as monitoring the asset managers of corporate pension funds), thus making sure that corporate pension funds perform their roles as asset owners. Companies should ensure that conflicts of interest which could arise between pension fund beneficiaries and companies are appropriately managed.

The pension fund of the Company has established a system which can play an expected role in asset management by way of arranging professional staff both to the administrative board, which is an executive body, and the secretariat.

Further, the board of representatives, which is a decision-making body of the pension fund, is appropriately administered to balance conflict of interest between the Company and beneficiaries, by way of selecting the same number of representatives chosen by the business owner and by/from among the pension plan participants.

Section 3: Ensuring Appropriate Information Disclosure and Transparency

General Principle 3

Companies should appropriately make information disclosure in compliance with the relevant laws and regulations, but should also strive to actively provide information beyond that required by law. This includes both financial information, such as financial standing and operating results, and non-financial information, such as business strategies and business issues, risk and governance.

The board should recognize that disclosed information will serve as the basis for constructive dialogue with shareholders, and therefore ensure that such information, particularly non-financial information, is accurate, clear and useful.

The Group discloses corporate information in a fair, timely, and appropriate manner in order to ensure corporate transparency and to fulfill social responsibilities, and also to deepen the understanding of the Group by shareholders and all other stakeholders. The Group actively discloses information as required by relevant rules and regulations, etc. including the Companies Act, the Financial Instruments and Exchange Act. The Group also discloses corporate information that is presumed material from a financial, environmental, and/or social perspective, and any other corporate information, that it is so determined, should be disclosed. Further, we actively pursue communication with all stakeholders, and we work hard to ensure that opinions regarding the Group are appropriately reflected in corporate activities. **(III-1)**

Principle 3.1 Full Disclosure

In addition to making information disclosure in compliance with relevant laws and regulations, companies should disclose and proactively provide the information listed below (along with the disclosures specified by the principles of the Code) in order to enhance transparency and fairness in decision-making and ensure effective corporate governance:

i) Company objectives (e.g., business principles), business strategies and business plans;

ii) Basic views and guidelines on corporate governance based on each of the principles of the Code;

iii) Board policies and procedures in determining the remuneration of the senior management and directors;

iv) Board policies and procedures in the appointment/dismissal of the senior management and the nomination of directors and *kansayaku* candidates; and

v) Explanations with respect to the individual appointments/dismissals and nominations based on iv).

The Company believes that timely, appropriate and active information disclosure is essential for us to ensure management transparency and fulfill our social responsibility. To steadily put this belief into practice throughout the Group, we have established the "Principle of Corporate Information Disclosure" and the "Corporate Information Disclosure Regulations" to strengthen our internal information disclosure framework.

The disclosure status of each item is as follows:

(i) The Group Principles, management strategies, and the Medium-Term Management Plan are disclosed on the website of the Company, in Earnings Results Briefing Materials, and Business Report.

(ii) The basic policy on corporate governance is disclosed on the website of the Company, in Corporate Governance Report, Integrated Report, and Business Report, etc.

(iii) The policy for the remuneration for Directors and Audit & Supervisory Board Members is disclosed in Corporate Governance Report, Annual Securities Report, and reference materials attached to the Notice of Convocation of the general meeting of shareholders.
To enhance transparency and fairness in the process, the determination of the system and the level of remuneration for the directors are deliberated by the Nomination and Remuneration Advisory Committee, which consists of the majority of independent outside board members and is chaired by an independent outside officer. The Board of Directors makes a final policy decision respecting the recommendations made by the advisory committee.

(iv) The policy concerning appointment/dismissal of the senior executive and the nomination of Director and Audit & Supervisory Board Members is disclosed in the SEKISUI Corporate Governance Principles.
To enhance transparency and fairness in the process, the nomination of candidates for Director is deliberated by the Nomination and Remuneration Advisory Committee. The Board of Directors makes a final policy decision respecting the recommendations made by the advisory committee.

(v) Reasons for appointment/dismissal of the senior executive and nomination of candidates for Director and for Audit & Supervisory Board Member are disclosed in the Notice of Convocation of the general meeting of shareholders.

Supplementary Principles 3.1.1

These disclosures, including disclosures in compliance with relevant laws and regulations, should add value for investors, and the board should ensure that information is not boiler-plate or lacking in detail.

The Company strives to provide descriptions that are easy to understand and specific so that information is communicated accurately to shareholders and other stakeholders.

Supplementary Principles 3.1.2

Bearing in mind the number of foreign shareholders, companies should, to the extent reasonable, take steps for providing English language disclosures.

In particular, companies listed on the Prime Market should disclose and provide necessary information in their disclosure documents in English.

Given that the share ownership rate by foreign investors is approximately 40%, the Company is pushing ahead with the provision of information in English to foreign shareholders through Notice of Convocation (date/time, place and objectives etc. of general meeting of shareholders), reference materials attached to the Notice of Convocation of the general meeting of shareholders, earnings report (main section), earnings results briefing materials, integrated report, CSR report, etc. on the website. The Company will start the provision and disclosure in English of Notice of Convocation of the general meeting of shareholders (business report, consolidated and non-consolidated financial statements) from the meeting scheduled for June 2022. In addition, the Company plans to disclose and provide the English version of the annual securities report for FY2021 around the end of July 2022 (the Japanese version will be disclosed after the General Meeting of Shareholders scheduled for June 2022) and to continue to disclose and provide the English version of the annual securities report for each fiscal year around the end of July of the following year, for FY2022 onward.

Supplementary Principles 3.1.3

Companies should appropriately disclose their initiatives on sustainability when disclosing their management strategies. They should also provide information on investments in human capital and intellectual properties in an understandable and specific manner, while being conscious of the consistency with their own management strategies and issues.

In particular, companies listed on the Prime Market should collect and analyze the necessary data on the impact of climate change-related risks and earning opportunities on their business activities and profits, and enhance the quality and quantity of disclosure based on the TCFD recommendations, which are an internationally well-established disclosure framework, or an equivalent framework.

In the Long-Term Vision "Vision 2030," which was adopted after deliberation by the Board of Directors, "sustainable management" was added as a new area to be strengthened by the Company in an effort to enhance its corporate value by enhancing sustainable contribution to the resolution of social issues. This is in addition to "contribution to solving social issues" and "profitable growth," which are the areas that the Company has been working and will continue to work to strengthen under the Long-Term Vision.

In the area of human resources, SEKISUI CHEMICAL Group aims to be an entity that gives rise to innovation and creativity, and brings employees and the Company together in the drive to tackle social issues and contribute to finding solutions to them. We share this commitment Group-wide while promoting the creation of workplaces that are full of energy and enthusiasm. For details, pleases refer to the relevant page on our website from the link below.
(https://www.sekisuichemical.com/csr/human/)

In our Medium-Term Management Plan "Drive 2022," the Company has allocated 130 billion yen to R&D expenses, which represent the core part of our intellectual property investment. As part of these R&D expenses, some of our Divisional Companies and subsidiaries/affiliated companies have set an R&D expense target for "A-type new products" (meaning products expected to generate new demand), aiming to create a marginal profit in excess of R&D expense. In the future, a "Strategic Domain Map" will be created showing, by keywords, the areas that each Divisional Company aims to enter, and will be discussed by the Board of Directors to direct long-term investments of management resources. The "Strategic Domain Map" will be discussed and reviewed by the Board of Directors regularly once every year.

In the area of climate change, the Company declared support for the TCFD in January 2019 and started in July 2019 to disclose the impact of climate change risk and associated revenue opportunities on the Group's business activities, earnings, etc., under the four disclosure items recommended by the TCFD (governance, strategy, risk management, and metrics and targets) (updated annually). In particular, for the purpose of disclosure on "strategy," we developed four scenarios relating to the future of the business of the Company based on the combination of the following two axes: (1) whether the social system, such as city planning and energy, will be centralized (urban concentration, centralized management) or decentralized (regional decentralization, local production for local consumption) and (2) whether a low temperature increase (by less than 2℃) or a high temperature increase (by 4℃) will be expected based on the fifth assessment report of the UN's Intergovernmental Panel on Climate Change (IPCC) (published 2014) and disclose opportunities, risks, and the Company's responses for the four scenarios represented by each quadrant.

Principle 3.2 External Auditors

External auditors and companies should recognize the responsibility that external auditors owe toward shareholders and investors, and take appropriate steps to secure the proper execution of audits.

The Company supports the proper execution of audits by an External Accounting Auditor by securing the audit schedule and support environment through coordination among the Corporate Finance & Accounting Department at Headquarters and Administrative

Management & Control Department at each divisional company (and the Business Administration Department at the Housing Company).

Supplementary Principles 3.2.1

The *kansayaku* board should, at minimum, ensure the following:

i) Establish standards for the appropriate selection of external auditor candidates and proper evaluation of external auditors; and

ii) Verify whether external auditors possess necessary independence and expertise to fulfill their responsibilities.

(i) Audit & Supervisory Board monitors the audit practice by, for example, receiving audit reports from the accounting auditor and attending site visits by the accounting auditor. It also evaluates the accounting auditor and decides whether to re-appoint the accounting auditor each term as part of deliberations of Audit & Supervisory Board based on the standards that take into consideration the quality control system, audit system, and the appropriateness of audit, etc.

(ii) The independence and expertise of the accounting auditor are also included in the evaluations standards in (i) above and are verified each term.

Supplementary Principles 3.2.2

The board and the kansayaku board should, at minimum, ensure the following:

i) Give adequate time to ensure high quality audits;

ii) Ensure that external auditors have access, such as via interviews, to the senior management including the CEO and the CFO;

iii) Ensure adequate coordination between external auditors and each of the kansayaku (including attendance at the kansayaku board meetings), the internal audit department and outside directors; and

iv) Ensure that the company is constituted in the way that it can adequately respond to any misconduct, inadequacies or concerns identified by the external auditors.

The Company's practices of each item are as follows:

(i) By examining the audit status of the accounting auditor, the Company confirms that the audit scope specified in the audit plan is appropriate and that sufficient man-hours are secured from the perspective of securing quality.

(ii) Upon request of the accounting auditor, interviews with the President and the executive officer responsible for Corporate Finance & Accounting Department are arranged.

(iii) The accounting auditor reports audit results directly to Audit & Supervisory Board including Outside Audit & Supervisory Board Members so that sufficient coordination

between them is secured. The accounting auditor conducts audits in coordination with the Internal Audit Department to secure the completeness of internal control through the development of audit plans and sharing of audit results and risk information between the accounting auditor and the internal auditors. The accounting auditor also meets periodically with Outside Directors mainly to discuss audit results.

(iv) The Company is constituted in the way that such findings are investigated or corrected through coordination among departments concerned under the instruction of the President and the leadership of the executive officer responsible for Corporate Finance & Accounting Department and the results of such investigation/correction are reported.

Section 4 Responsibilities of the Board

General Principle 4

Given its fiduciary responsibility and accountability to shareholders, in order to promote sustainable corporate growth and the increase of corporate value over the mid to long-term and enhance earnings power and capital efficiency, the board should appropriately fulfill its roles and responsibilities, including:

(1) Setting the broad direction of corporate strategy;

(2) Establishing an environment where appropriate risk-taking by the senior management is supported; and

(3) Carrying out effective oversight of directors and management (including *shikkoyaku* and so-called *shikkoyakuin*) from an independent and objective standpoint.

Such roles and responsibilities should be equally and appropriately fulfilled regardless of the form of corporate organization – i.e., Company with *Kansayaku* Board (where a part of these roles and responsibilities are performed by *kansayaku* and the *kansayaku* board), Company with Three Committees (Nomination, Audit and Remuneration) or Company with Supervisory Committee.

The Company believes that enhancing business transparency and fairness and speeding up management decision-making is essential to sustaining steady growth in corporate value and has adopted the Executive Officer System designed to separate the supervisory function (Directors) from the business execution function (executive officers).

The Board of Directors continually strives to strengthen its role as a body responsible for decision-making concerning the Company's fundamental policies and upper-level management issues, and supervising the execution of business. The Board includes two Outside Directors to ensure transparency in management and fairness in business decisions and operations.

All of the Outside Directors of the Company satisfies the Company's "Criteria for Independence of Outside Board Members."

Principle 4.1 Roles and Responsibilities of the Board (1)

The board should view the establishment of corporate goals (business principles, etc.) and the setting of strategic direction as one major aspect of its roles and responsibilities. It should engage in constructive discussion with respect to specific business strategies and business plans, and ensure that major operational decisions are based on the company's strategic direction.

The major roles and responsibilities of the Board of Directors of the Company are to present the general direction of the Company through the development of corporate strategies and to determine the allocation of significant management resources. As such, the Board of Directors

discusses the management strategy and the management plan at the beginning of the term (twice a year) for the annual plan and during the development process for the midterm plan. In addition, each time a significant management issue arises in the course of the Company's business, the board promptly discusses and responds to it.

Supplementary Principles 4.1.1

The board should clearly specify its own decisions as well as both the scope and content of the matters delegated to management, and disclose a brief summary thereof.

Whereas the Board of Directors of the Company is responsible for performing high-level corporate management functions (decision-making, development of strategies, and supervision), the Executive Officers Committee established in each divisional company is responsible for business execution based on the decision of the Board of Directors. A significant part of the business execution function has been delegated to each divisional company so that the Company can make appropriate and timely responses to changes in the environment.

With regard to such delegation of authority, the Company has also established the approval standards that take into consideration the effect on the corporate-level management. These standards clarify the scope of the matters requiring the deliberation of the Board of Directors and that of the matters for which decisions can be made by each divisional company.

* Matters requiring the deliberation of the Board of Directors (examples)

- Business management: Management policies/plan, election of officers, significant organizational change, significant capital investment, annual budget
- General affairs/personnel affairs: Change in important regulations such as the articles of incorporation, basic personnel policies, change in the personnel system
- Accounting/finance: Financial policies, large borrowing or lending of funds, large investment, financial reporting
- R&D and technology: Introduction/licensing of important technologies, transfer of intellectual property rights to/from a third party
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Supplementary Principles 4.1.2

Recognizing that a mid-term business plan (*chuuki keiei keikaku*) is a commitment to shareholders, the board and the senior management should do their best to achieve the plan. Should the company fail to deliver on its mid-term business plan, the reasons underlying the failure of achievement as well as the company's actions should be fully analyzed, an appropriate explanation should be given to shareholders, and analytic findings should be reflected in a plan for the ensuing years.

The Group has developed a Medium-Term Management Plan with targets for sales figure of

1,220 billion yen, operating income of 110 billion yen, net income of 70 billion yen, ROIC of 8.6% and ROE of 10.6% for FY2022. The progress and achievement status of these targets, including related management challenges and responses in addition to results, are explained to shareholders at results briefings and the general meeting of shareholders and also published on the website of the Company.

The Company will continue to enhance and strengthen the analysis of the status of the Medium-Term Management Plan and the explanation of it to shareholders.

Supplementary Principles 4.1.3

Based on the company objectives (business principles, etc.) and specific business strategies, the board should proactively engage in the establishment and implementation of a succession plan for the CEO and other top executives and appropriately oversee the systematic development of succession candidates, deploying sufficient time and resources.

Succession planning for the Chief Executive Officer (President and Representative Director) is appropriately conducted in consideration of the management principles and strategies. To enhance the objectivity, timeliness and transparency of the procedures, the Nomination and Remuneration Advisory Committee deliberates on eligibility of a candidate as President over sufficient time, and make recommendations to the Board of Directors, which makes a final decision regarding succession.

Principle 4.2 Roles and Responsibilities of the Board (2)

The board should view the establishment of an environment that supports appropriate risk-taking by the senior management as a major aspect of its roles and responsibilities. It should welcome proposals from management based on healthy entrepreneurship, fully examine such proposals from an independent and objective standpoint with the aim of securing accountability, and support timely and decisive decision-making by the senior management when approved plans are implemented.

Also, the remuneration of the management should include incentives such that it reflects mid- to long-term business results and potential risks, as well as promotes healthy entrepreneurship.

The Company has adopted the executive officer system designed to separate the supervisory function (Board of Directors) from the business execution function (executive officers) and strives to develop further an environment to support appropriate risk taking by senior executives.

The Board of Directors examines such matters as important projects discussed at the Executive Officers Committee at each divisional company sufficiently from various angles and from the independent and objective standpoint to fulfill its accountability, and supports prompt and resolute decision-making by senior executives.

The Company has introduced a mid- and long-term incentive type share-based remuneration system described in Supplementary Principle 4.2.1 in order to focus the awareness of the senior executives on the improvement of financial performance, enhancement of corporate value, and shareholder-oriented management.

Supplementary Principle 4.2.1

The board should design management remuneration systems such that they operate as a healthy incentive to generate sustainable growth, and determine actual remuneration amounts appropriately through objective and transparent procedures. The proportion of management remuneration linked to mid- to long-term results and the balance of cash and stock should be set appropriately.

The remuneration for the directors of the Company consists of fixed monthly remuneration, a performance-based bonus, and mid- and long-term incentive type share-based compensation. Monthly remuneration is provided in a flat amount commensurate with the roles and responsibilities of each Director. The amount of bonus is determined based on the payment standards linked to the financial performance and the dividend policy of the Company. As for the share-based compensation, the number of shares to be granted is determined in accordance with the directors' rank and the shares are granted at the time of directors' retirement from the office.

The remuneration system, proportionate ratio, the standard level for each type of remuneration and actual remuneration amounts are set through objective and transparent procedures where the Nomination and Remuneration Advisory Committee deliberates and the Board of Directors' makes a final policy decision respecting the recommendations made by the Advisory Committee.

Supplementary Principle 4.2.2

The board should develop a basic policy for the company's sustainability initiatives from the perspective of increasing corporate value over the mid- to long- term.

In addition, in light of the importance of investments in human capital and intellectual properties, the board should effectively supervise the allocation of management resources, including such investments, and the implementation of business portfolio strategies to ensure that they contribute to the sustainable growth of the company.

As stated in Supplementary Principle 2.3.1, the Company recognizes five key ESG issues (governance (internal control, BCP), DX, environment, human resources, and fusion). In relation to the issue of governance (internal control, BCP), the Company has identified five areas (safety, quality, accounting, legal/ethical, and information management) where the occurrence of serious

incidents should be prevented. The Board of Directors has established the basic policy on CSR and sustainability (environmental, human rights, CS & quality, human resources, safety, information security, and social contribution activities). The Board of Directors deliberates on the status of key implementation items pertaining to key ESG issues as well as financial KPIs and sustainability KPIs twice a year.

As for human resources, as stated in Supplementary Principle 2.4.1 and Supplementary Principle 3.1.3, to contribute to the creation of workplaces that are full of energy and to ensure diversity of core human resources, the Board of Directors deliberates on the new graduates recruitment plan once a year and monitors the changes over time in the number of mid-career hires and the ratio of women to total new hires.

The R&D Committee reports its deliberation results on R&D expenses, which represent the core part of intellectual property investment, once a year to the Board of Directors. As part of this report, the R&D Committee also reports changes in R&D expense as well as changes in sales and marginal profit of "A-type new products" (meaning products expected to generate new demand). In addition, as stated in Supplementary Principle 3.1.3 a "Strategic Domain Map" will be created in the future showing, by keywords, the areas that each Divisional Company aims to enter and will be discussed and reviewed by the Board of Directors regularly once a year.

Principle 4.3 Roles and Responsibilities of the Board (3)

The board should view the effective oversight of management and directors from an independent and objective standpoint as a major aspect of its roles and responsibilities. It should appropriately evaluate company performance and reflect the evaluation in its assessment of the senior management.

In addition, the board should engage in oversight activities in order to ensure timely and accurate information disclosure, and should establish appropriate internal control and risk management systems.

Also, the board should appropriately deal with any conflict of interests that may arise between the company and its related parties, including management and controlling shareholders.

Effective supervision of directors and executive officers is viewed by the Company as one of the major roles and responsibilities of the Board of Directors. Any personnel matters among executive officers or higher officers are determined by the Board of Directors based on the objective evaluation of their performance.

The Company, pursuant to the provisions of the Companies Act, has established and implemented the "Basic Policy for the Internal Control System" as the system to ensure proper business operations of the Company and the Group companies.

Any transactions with related parties with possible conflicts of interest are subject to approval at the meeting of the Board of Directors where opinions of Outside Directors and Audit & Supervisory Board Members and timely and appropriate reporting on the status of such transactions are requested. **(IV.6)**

Supplementary Principles 4.3.1

The board should ensure that the appointment and dismissal of the senior management are based on highly transparent and fair procedures via an appropriate evaluation of the company's business results.

To enhance fairness and transparency, the Nomination and Remuneration Advisory Committee deliberates on the nomination/dismissal of senior executives and the Board of Directors makes a final decision respecting the recommendations by the Nomination and Remuneration Advisory Committee.

Supplementary Principles 4.3.2

Because the appointment/dismissal of the CEO is the most important strategic decision for a company, the board should appoint a qualified CEO through objective, timely, and transparent procedures, deploying sufficient time and resources.

When the Company appoints the Chief Executive Officer (President and Representative Director), the Nomination and Remuneration Advisory Committee deliberates on the nomination over sufficient time, and the Board of Directors makes a final decision regarding an appointment of the Chief Executive Officer (President and Representative Director), substantially respecting recommendations by the Nomination and Remuneration Advisory Committee.

With regard to the change in President and Representative Director in March 2020, the Nomination and Remuneration Advisory Committee had been conducting ongoing discussions of nominating Mr. Keita Kato as a successor, given his familiarity with the production sites in the manufacturing business, his extensive knowledge and experience of technological development, M&As, and global management, and his contribution to achieving record-high profits at the High Performance Plastics Company, as its President. Particularly, in the past year, he had been driving the essential task of determining the Group's policies, which involved reporting on general business conditions from a perspective of companywide oversight at the Board of Directors and putting together the new Medium-Term Management Plan and the Long-Term Vision as the Head of the Business Strategy Department. At the meeting held in January 2020, the Nomination and Remuneration Advisory Committee concluded that upon comprehensively taking into account his achievements, experience and capabilities, Mr. Keita

Kato would be the most suitable person to achieve the improvement of corporate value of the Group and approved the proposal to recommend him as President and Representative Director, and in February 2020, reported these findings to the Board of Directors and finalized the nomination.

Supplementary Principles 4.3.3

The board should establish objective, timely, and transparent procedures such that a CEO is dismissed when it is determined, via an appropriate evaluation of the company's business results, that the CEO is not adequately fulfilling the CEO's responsibilities.

Capability of the Chief Executive Officer (President and Representative Director), based on the Company's business results, etc. is evaluated on a regular basis by the Nomination and Remuneration Advisory Committee and the evaluation result is submitted to the Board of Directors. Substantially respecting the recommendations of the Nomination and Remuneration Advisory Committee, the Board of Directors makes a final decision to ensure objective, timely, and transparent procedures for dismissal.

Supplementary Principles 4.3.4

The establishment of effective internal control and proactive enterprise risk management systems has the potential to support sound risk-taking. The board should appropriately establish such systems on an enterprise basis and oversee the operational status, besides utilizing the internal audit department.

The Company has established the "Sustainability Committee" chaired by the President to determine basic Compliance Policies, etc. which should be resolved at the Meeting of the Board of Directors. The Company has also established a separate dedicated department in charge of promotion of compliance and prepared the "Sekisui Chemical Group Compliance Manual", which all Group employees are made aware of and required to follow. The status of implementation is regularly reported to the Board of Directors.

The Company has also developed a risk management structure that unifies activities to prevent risks from occurring in the first place (risk management) and activities to respond to risks that have manifested (crisis management). Through this unification of concepts, the system has been made capable of responding to ever-changing risks and crises in line with the situation of the organization.

Assigning the Director in charge of the ESG Management Department as a superintendent who concurrently serves as the Head of the Business Strategy Department, the Company identifies significant risks through the collection/evaluation of risk information in a centralized and comprehensive manner based on the "Sekisui Chemical Group Risk Management

Guidelines." The "Sustainability Committee" and each Sub-committee deliberate companywide measures to prevent risks from occurring as well as regularly report and confirm with the Board of Directors. Furthermore, from FY2020, new risk assessments by specialized area and by region are being conducted in order to promote an ERM structure that combines conventional risk management activities conducted by each organization with companywide risk management activities. Additionally, when significant risks become manifest, the Company will establish the emergency response headquarters to take prompt and appropriate measures based on the "Sekisui Chemical Group Crisis Management Guidelines." **(IV.6)**

The results of internal audits including the risk management activities conducted by the Corporate Audit Department, which is an Internal Audit Division, are reported regularly to the management meeting. As for the findings of internal audits, their improvement status, etc. are reported by the Directors in charge or full-time Audit & Supervisory Board Members to the Board of Directors as necessary.

Principle 4.4 Roles and Responsibilities of *Kansayaku* and the *Kansayaku* Board

Kansayaku and the *kansayaku* board should bear in mind their fiduciary responsibilities to shareholders and make decisions from an independent and objective standpoint when executing their roles and responsibilities including the audit of the performance of directors' duties, appointment and dismissal of *kansayaku* and external auditors and the determination of auditor remuneration.

Although so-called "defensive functions," such as business and accounting audits, are part of the roles and responsibilities expected of *kansayaku* and the *kansayaku* board, in order to fully perform their duties, it would not be appropriate for *kansayaku* and the *kansayaku* board to interpret the scope of their function too narrowly, and they should positively and proactively exercise their rights and express their views at board meetings and to management.

Each corporate auditor actively and aggressively exercises its authority and states his/her opinions appropriately to the Board of Directors and management from an independent and objective standpoint.

Full-time Audit & Supervisory Board Members visit various departments by themselves to conduct audits and attend important meetings concerning business execution such as the meetings of the Board of Directors and other executive meetings to collect information from executive officers and others. The Company has also put in place an environment in which Outside Audit & Supervisory Board Members can conduct audits efficiently.

The Outside Audit & Supervisory Board Members are a lawyer, a certified public accountant, and an expert in quality control. They state their opinions in their respective field of expertise at the Board of Directors meetings and visit various departments to conduct audits from their

own perspectives as an expert.

Supplementary Principle 4.4.1

Given that not less than half of the *kansayaku* board must be composed of outside *kansayaku* and that at least one full-time *kansayaku* must be appointed in accordance with the Companies Act, the *kansayaku* board should, from the perspective of fully executing its roles and responsibilities, increase its effectiveness through an organizational combination of the independence of the former and the information gathering power of the latter. In addition, *kansayaku* or the *kansayaku* board should secure cooperation with outside directors so that such directors can strengthen their capacity to collect information without having their independence jeopardized.

Audit & Supervisory Board of the Company consists of three Outside Audit & Supervisory Board Members and two internal full-time Audit & Supervisory Board Members. As noted in Principle 4-4, they work to increase the effectiveness of audits by making the most of their own strengths.

Recognizing the need for the coordination between the Audit & Supervisory Board and the Outside Directors, the Company holds regular meetings for exchanging opinions between them.

Principle 4.5 Fiduciary Responsibilities of Directors and *Kansayaku*

With due attention to their fiduciary responsibilities to shareholders, the directors, *kansayaku* and the management of companies should secure the appropriate cooperation with stakeholders and act in the interest of the company and the common interests of its shareholders.

Recognizing their respective fiduciary duty to the shareholders, Directors, Audit & Supervisory Board Members and the management of the Company strive to increase the corporate value of the Company, while securing appropriate collaboration with various stakeholders, such as employees, customers, business partners, creditors, and local communities.

Principle 4.6 Business Execution and Oversight of the Management

In order to ensure effective, independent and objective oversight of management by the board, companies should consider utilizing directors who are neither involved in business execution nor have close ties with management.

The Company has appointed two Independent Outside Directors with different backgrounds, thereby putting in place the effective framework for management supervision from the objective standpoint.

Principle 4.7 Roles and Responsibilities of Independent Directors

Companies should make effective use of independent directors, taking into consideration the expectations listed below with respect to their roles and responsibilities:

i) Provision of advice on business policies and business improvement based on their knowledge and experience with the aim to promote sustainable corporate growth and increase corporate value over the mid- to long-term;

ii) Monitoring of management through important decision-making at the board including the appointment and dismissal of the senior management;

iii) Monitoring of conflicts of interest between the company and management or controlling shareholders; and

iv) Appropriately representing the views of minority shareholders and other stakeholders in the boardroom from a standpoint independent of management and controlling shareholders.

The Independent Outside Directors of the Company, taking advantage of their extensive knowledge and experience, provide opinions and advice on management policies and plans, supervise business execution and watch for any conflict of interest, and reflect opinions of stakeholders to the Board of Directors. They also provide from the objective standpoint appropriate advice on such initiatives as global expansion, business model innovation, and reinforcement of ESG management, which the Company is pushing forward with its focused efforts.

Principle 4.8 Effective Use of Independent Directors

Independent directors should fulfill their roles and responsibilities with the aim of contributing to sustainable growth of companies and increasing corporate value over the mid- to long-term. Companies listed on the Prime Market should therefore appoint at least one-third of their directors as independent directors (two directors if listed on other markets) that sufficiently have such qualities.

Irrespective of the above, if a company listed on the Prime Market believes it needs to appoint the majority of directors (at least one-third of directors if listed on other markets) as independent directors based on a broad consideration of factors such as the industry, company size, business characteristics, organizational structure and circumstances surrounding the company, it should appoint a sufficient number of independent directors.

The Company has appointed Independent Outside Directors from candidates who have a thorough knowledge of corporate management, corporate governance, etc., based on the "Criteria for Independence of Outside Board Members (Directors and Audit & Supervisory Board Members)." **(IV.2.3)**

The Board of Directors of the Company ensures the segregation between execution and supervision by appointing a Director as the President to lead execution and appointing another Director as the Chairman of the Board to lead supervision. In addition, Outside Audit & Supervisory Board Members have been selected from among persons with strong expertise, such as certified public accountants, attorneys, and scholars (specialized in quality control etc.). For this reason, the Company believes that the appropriate number of Independent Outside Directors is one third or more of all Directors. Although the number of Independent Outside Directors has not yet reached one third as of now, the Company is preparing for the appointment of a sufficient number of Independent Outside Directors at the Annual General Meeting of Shareholders scheduled for June 2022 to meet this criteria.

Supplementary Principles 4.8.1

In order to actively contribute to discussions at the board, independent directors should endeavor to exchange information and develop a shared awareness among themselves from an independent and objective standpoint. Regular meetings consisting solely of independent directors (executive sessions) would be one way of achieving this.

The Independent Outside Directors exchange opinions with each other on occasions other than the Board of Directors Meeting to ensure the exchange of information and the sharing of perspectives from an independent and objective standpoint. Opportunities where opinions of each of the Independent Outside Directors are reported to the President and other senior executives are set on a regular basis so that they are reflected in the management of the Company.

Supplementary Principles 4.8.2

Independent directors should endeavor to establish a framework for communicating with management and for cooperating with *kansayaku* or the *kansayaku* board by, for example, appointing the lead independent director from among themselves.

The Company provides various opportunities including a monthly briefing on the agenda arranged by the Director who supervises the Secretariat to the Board of Directors, information exchange with management in the Nomination and Remuneration Advisory Committee, and periodic communication with Audit & Supervisory Board, including Outside Audit & Supervisory Board Members and accounting auditors, to enable coordination between Independent Outside Directors and management or Audit & Supervisory Board Members.

Supplementary Principles 4.8.3

Companies that have a controlling shareholder should either appoint at least one-third of

their directors (the majority of directors if listed on the Prime Market) as independent directors who are independent of the controlling shareholder or establish a special committee composed of independent persons including independent director(s) to deliberate and review material transactions or actions that conflict with the interests of the controlling shareholder and minority shareholders.

The Company does not have a controlling shareholder.

Principle 4.9 Independence Standards and Qualification for Independent Directors

Boards should establish and disclose independence standards aimed at securing effective independence of independent directors, taking into consideration the independence criteria set by securities exchanges. The board should endeavor to select independent director candidates who are expected to contribute to frank, active and constructive discussions at board meetings.

The Company has developed the "Criteria for Independence of Outside Board Members (Directors and Audit & Supervisory Board Members)" to secure the independence of Outside Directors. These criteria are disclosed in the SEKISUI Corporate Governance Principles. The two incumbent Outside Directors have been designated as independent officers in accordance with the rules of the Tokyo Stock Exchange.

The Company appoints the Outside Directors from whom can be expected impartial advice and constructive discussion based on their extensive administrative experience and specialized knowledge in different background from the Company. The reason for the appointment of each Outside Director is disclosed in the reference materials for the general meeting of shareholders, annual securities reports, corporate governance reports, etc. **(IV.2.3)**

Principle 4.10 Use of Optional Approach

In adopting the most appropriate organizational structure (as stipulated by the Companies Act) that is suitable for a company's specific characteristics, companies should employ optional approaches, as necessary, to further enhance governance functions.

As an organizational structure under the Companies Act, the Company has chosen to be a company with Audit & Supervisory Board.

Also, as a complementary function to the Board of Directors and to enhance fairness and transparency in the Company's management, the Nomination and Remuneration Advisory Committee has been established. The Nomination and Remuneration Advisory Committee deliberates and makes recommendations to the Board of Directors on effectiveness and improvements of the Board of Directors and important management issues as necessary, in addition to the nomination/dismissal of senior executives and adequacy of the system and the

level of remuneration for the directors.

Moreover, the Nomination and Remuneration Advisory Committee is enhancing and expanding its coverage by adding deliberations about appointment/removal and remuneration of senior advisors to the board or corporate advisors, from those who have taken the office of President and Representative Director, etc. **(IV.1)**

Supplementary Principle 4.10.1

If the organizational structure of a company is either Company with kansayaku Board or Company with Supervisory Committee and independent directors do not compose a majority of the board, in order to strengthen the independence, objectivity and accountability of board functions on the matters of nomination (including succession plan) and remuneration of the senior management and directors, the company should seek appropriate involvement and advice from the committees, including from the perspective of gender and other diversity and skills, in the examination of such important matters as nominations and remuneration by establishing an independent nomination committee and remuneration committee under the board, to which such committees make significant contributions.

In particular, companies listed on the Prime Market should basically have the majority of the members of each committee be independent directors, and should disclose the mandates and roles of the committees, as well as the policy regarding the independence of the composition.

Although Independent Outside Directors do not currently comprise a majority of the board of the Company as there are two Independent Outside Directors among nine Directors in total, as noted in "Principle 4-10 Use of Optional Approach," the Company has established the Nomination and Remuneration Advisory Committee, which currently consists of five members including two Independent Outside Directors. Although Independent Outside Directors do not constitute a majority of the members, one of the members is an Independent Outside Audit & Supervisory Board Member and the Committee is chaired by an Independent Outside Director. As such, the Company believes that the fairness and transparency of the Committee are ensured. The Company is preparing for an increase in the number of Independent Outside Directors at the Annual General Meeting of Shareholders scheduled for June 2022. If this is approved, Independent Outside Directors will constitute a majority of the members of the Nomination and Remuneration Advisory Committee.

Principle 4.11 Preconditions for Board and *Kansayaku* Board Effectiveness

The board should be well balanced in knowledge, experience and skills in order to fulfill its roles and responsibilities, and it should be constituted in a manner to achieve both diversity, including gender, international experience, work experience and age, and appropriate size. In

addition, persons with appropriate experience and skills as well as necessary knowledge on finance, accounting, and the law should be appointed as *kansayaku*. In particular, at least one person who has sufficient expertise on finance and accounting should be appointed as *kansayaku*.

The board should endeavor to improve its function by analyzing and evaluating the effectiveness of the board as a whole.

The number of Directors shall not exceed 15, and 2 or more of them shall be Independent Outside Directors. The Board of Directors of the Company shall consist of directors who have an excellent character, insight, and a high moral standard in addition to knowledge, experience, and skills. The Long-Term Vision of the Company has set the expansion of global business as one of its goals, and from the point of view of international work experience, the current board members include three persons who have experience in working abroad including as a head of local operations and an Outside Director who has experience in heading a global business. As for composition by age, the board members represent a broad range of ages including Directors in their fifties. There is currently no female Director, but the Company is preparing for the appointment of at least one female Director at the Annual General Meeting of Shareholders scheduled for June 2022.

The number of Audit & Supervisory Board Members shall be 3 or more, with half or more of them being Independent Outside Audit & Supervisory Board Members elected from outside of the Company. At least one of the Audit & Supervisory Board Members shall be an individual who has knowledge and expertise in corporate finance and accounting, and at least one of the Audit & Supervisory Board Members shall have knowledge and expertise in legal systems. The Outside Audit & Supervisory Board Members in particular shall be elected from individuals with high specialties such as a certified public accountant, a lawyer, a scholar (on quality control etc.).

The Company evaluates and improves the Board's function by discussing the effectiveness of the Board and points to improve at the Nomination and Remuneration Advisory Committee, holding regular meetings to exchange views between Outside Directors and the senior executive of the Company, and between Audit & Supervisory Board (including Outside Audit & Supervisory Board Members) and accounting auditor, as well as Board of Directors Meeting agenda-setting and the status of active participation of each Director and Audit & Supervisory Board Member. (IV-2～4)

Supplementary Principles 4.11.1

The board should identify the skills, etc. that it should have in light of its managing strategies, and have a view on the appropriate balance between knowledge, experience and skills of the board as a whole, and also on diversity and appropriate board size. Consistent with its view, the

board should establish policies and procedures for nominating directors and disclose them along with the combination of skills, etc. that each director possesses in an appropriate form according to the business environment and business characteristics, etc., such as what is known as a "skills matrix." When doing so, independent director(s) with management experience in other companies should be included.

The Company ensures diversity among board members and keeps the number of Directors at an optimal level for appropriate decision-making that is commensurate with the business domain and size. The presidents of the divisional companies who are the top management of each business and senior corporate officers with significant experience and strong expertise are appointed as Inside Directors. Together with the Outside Directors who have broad knowledge and experience and Audit & Supervisory Board Members with strong expertise, balance is ensured with respect to diversity, optimal size, and capabilities, and the roles and responsibilities of the Board of Directors are effectively performed.,. Both of the two Independent Outside Directors of the Company have management experience in other companies, and the Company intends to continue to appoint persons with management experience in other companies as Independent Outside Directors.

The Board of Directors has already prepared and disclosed a skills matrix to define the skills that it should have. The Board will consider a review of specific items of the skills matrix to include a complete set of skills representing manufacturing functions such as R&D, production, and sales as well as other skills that will contribute to the achievement of "doubling sales volume by FY2030" set forth in the Company's Long-Term Vision including new business development and alliance and will review them further as appropriate in response to any changes in the business environment. The skills matrix will also be utilized in discussions on appropriate director candidates by the Nomination and Remuneration Advisory Committee in the future.

The election of Directors is conducted in consideration of the management principles and strategies, through deliberation by the Nomination and Remuneration Advisory Committee, consisting of the majority of Independent Outside Board Members and chaired by an Independent Outside Officer. The Board of Directors makes a final policy decision respecting the recommendations made by the advisory committee. **(IV.2.2)**

Supplementary Principles 4.11.2

Outside directors, outside *kansayaku*, and other directors and *kansayaku* should devote sufficient time and effort required to appropriately fulfill their respective roles and responsibilities. Therefore, where directors and *kansayaku* also serve as directors, *kansayaku* or management at other companies, such positions should be limited to a reasonable number and disclosed each year.

Directors and Audit & Supervisory Board Members are required to secure time and efforts

necessary to appropriately fulfill their respective roles and responsibilities. Therefore, where they also serve as officers at other listed companies, they are required to limit to four or less concurrent positions to the extent that does not interfere with the execution of their duties at the Company. The status of the concurrent positions at listed companies held by Directors and Audit & Supervisory Board Members is disclosed each year in Notice of Convocation of the general meeting of shareholders, Annual Securities Report, and Corporate Governance Report.

Supplementary Principles 4.11.3

Each year the board should analyze and evaluate its effectiveness as a whole, taking into consideration the relevant matters, including the self-evaluations of each director. A summary of the results should be disclosed.

The Company evaluates the effectiveness of the Board of Directors each year as set out in [Principle 4.11 Preconditions for Board and *Kansayaku* Board Effectiveness]. The Board of Directors has been engaged in sufficient discussion time under an appropriate agenda with opinions and recommendations actively provided by Directors (including Outside Directors) and Audit & Supervisory Board Members. The Company has evaluated that the current Board of Directors is sufficiently functioning and contributing to enhance the corporate value of the Group.

The Long-Term Vision, the new Medium-Term Management Plan, growth strategies (i.e. R&D, M&A and investments, and large-scale new business, etc.) and foundational strategies (i.e. work style reform, digital transformation and CS & Quality, etc.) as important management issues, are discussed sufficiently at the Board of Directors Meeting. The company confirmed that sufficient discussion time was secured, and opinions and recommendations were actively provided by both Outside and Inside Directors and Audit & Supervisory Board Members.

The nomination of directors, individual performance evaluation and level of remuneration were deliberated by the Nomination and Remuneration Advisory Committee and the final decision was made at the Board of Directors Meeting considering the recommendation. The Nomination and Remuneration Advisory Committee deliberated agendas such as a succession plan for the President and Representative Director, composition and effectiveness of the Board of Directors, and initiatives to strengthen corporate governance, etc.

Principle 4.12 Active Board Deliberations

The board should endeavor to foster a climate where free, open and constructive discussions and exchanges of views take place, including the raising of concerns by outside directors.

The Director who supervises the Secretariat to the Board of Directors explains the Board of Directors Meeting agenda individually to each Independent Outside Director in advance so that

Outside Directors can raise issues or engage in constructive discussion and exchange of opinions at the Board of Directors Meeting.

The Company also provides Outside Directors with explanations about the background of businesses as necessary on an individual basis, periodical opportunities for office visits and the sharing of news releases and media articles relating to the Company to help them to understand the Company better. In addition, the Company actively provides opportunities for exchange of opinions at other than the Board of Directors Meeting such as lecture meetings by Outside Directors or Outside Audit & Supervisory Board Members to the Directors and executive officers of the Company.

Supplementary Principle 4.12.1

The board should ensure the following in relation to the operation of board meetings and should attempt to make deliberations active:

i) Materials for board meetings are distributed sufficiently in advance of the meeting date;

ii) In addition to board materials and as necessary, sufficient information is provided to directors by the company (where appropriate, the information should be organized and/or analyzed to promote easy understanding);

iii) The schedule of board meetings for the current year and anticipated agenda items are determined in advance;

iv) The number of agenda items and the frequency of board meetings are set appropriately; and

v) Sufficient time for deliberations.

The Company has taken the following measures to ensure active deliberation at the meetings of the Board of Directors:

(i) The Board of Directors Meeting presentation materials are distributed together with the Notice of Convocation well in advance. In particular, Outside Directors are provided with explanations of them directly and on an individual basis.

(ii) Besides the Board of Directors Meeting presentation materials, additional information is provided to Directors as necessary.

(iii) The annual Board of Directors Meeting schedule is determined and notified before the beginning of the relevant fiscal year to secure the schedule of the attendees of the Board of Directors Meeting, which resulted in a high attendance ratio.

(iv) (v) To secure sufficient time for deliberation, the number of agenda items and the frequency of Board of Directors Meetings are set appropriately. **(IV.4)**

Principle 4.13 Information Gathering and Support Structure

In order to fulfill their roles and responsibilities, directors and *kansayaku* should proactively

collect information, and as necessary, request the company to provide them with additional information.

Also, companies should establish a support structure for directors and *kansayaku*, including providing sufficient staff.

The board and the *kansayaku* board should verify whether information requested by directors and *kansayaku* is provided smoothly.

Directors and Audit & Supervisory Board Members of the Company request the Secretariat and the departments concerned to submit any information or materials that are necessary for the execution of their respective duties and upon such request, the departments concerned promptly provide requested information and materials. Outside Directors and Outside Audit & Supervisory Board Members have regular meetings with the President and Directors for mutual provisions of information and exchange of opinions on the issues that the Company should resolve, and important audit issues, etc.

Support to Directors is mainly provided by the Business Strategy Department, which is the Secretariat to the Board of Directors, and the Secretarial Office. For Audit & Supervisory Board Members, a group-wide internal framework has been put in place to enable them to exercise their authority such as attending other executive meetings, conducting an investigation into divisions concerned including affiliates, and examining the approval documents of important projects. In addition, the Secretariat to Audit & Supervisory Board consisting of members from each corporate department has been established to support the audit activities conducted by Audit & Supervisory Board Members and the administration of the Audit & Supervisory Board.

Supplementary Principles 4.13.1

Directors, including outside directors, should request the company to provide them with additional information, where deemed necessary from the perspective of contributing to transparent, fair, timely and decisive decision-making. In addition, *Kansayaku*, including outside *kansayaku*, should collect information appropriately, including the use of their statutory investigation power.

As noted in "Principle 4-13," Directors and Audit & Supervisory Board Members of the Company request the departments concerned to submit any necessary information/materials and upon such request, the departments concerned promptly provide requested information/materials. The Audit & Supervisory Board Members also obtain necessary information by exercising their investigation authority as appropriate.

Supplementary Principles 4.13.2

Directors and *kansayaku* should consider consulting with external specialists at company

expense, where they deem it necessary.

The Company has prepared a system in which Directors and Audit & Supervisory Board Members may obtain advice from external specialists at the Company's expense, if deemed necessary for consideration of significant management matters, and provides training sessions in the field of compliance and risk controls as necessary to raise capability of business judgment.

Supplementary Principles 4.13.3

Companies should ensure coordination between the internal audit department, directors and *kansayaku* by establishing a system in which the internal audit department appropriately reports directly to the board and the *kansayaku* board in order for them to fulfill their functions. In addition, companies should take measures to adequately provide necessary information to outside directors and outside *kansayaku*. One example would be the appointment of an individual who is responsible for communicating and handling requests within the company such that the requests for information about the company by outside directors and outside *kansayaku* are appropriately processed.

The coordination between the Corporate Audit Department, which is an Internal Audit Division and Directors/ Audit & Supervisory Board Members is directly liaised and handled by the Directors in charge of each business domain and full-time Audit & Supervisory Board Members. As stated in Supplementary Principle 4.3.4, as for the findings of internal audits, their improvement status, etc. are reported by the Directors in charge or full-time Audit & Supervisory Board Members to the Board of Directors as necessary. In addition, in regard to the provision of information to Outside Directors and Outside Audit & Supervisory Board Members, the Secretariat conducts necessary research and provides necessary information under their instructions.

<Directors>

The results and findings of the audits conducted by the Corporate Audit Department are reported to the President in the form of an audit report to each Director in charge and other Directors concerned. The President regularly receives a detailed explanation of the status of audit practice from the Corporate Audit Department. Audit results are also reported regularly from the Corporate Audit Department to the management meeting attended by Inside Directors for discussion on management issues, etc.

< Audit & Supervisory Board Members>

The audit report addressed to the President is also delivered simultaneously to full-time Audit & Supervisory Board Members. The Audit & Supervisory Board regularly receives reports from the Corporate Audit Department on audit policy, audit plan, and audit results and exchanges opinions to understand internal issues and to determine the need for any on-site audit by Audit

& Supervisory Board Members on a timely basis. With the assistance of the dedicated support staff under the instructions of Audit & Supervisory Board Members, the Audit & Supervisory Board also collects information from internal departments and conducts any necessary interviews etc..

Principle 4.14 Director and *Kansayaku* Training

New and incumbent directors and *kansayaku* should deepen their understanding of their roles and responsibilities as a critical governance body at a company, and should endeavor to acquire and update necessary knowledge and skills. Accordingly, companies should provide and arrange training opportunities suitable to each director and *kansayaku* along with financial support for associated expenses. The board should verify whether such opportunities and support are appropriately provided.

As described in Supplementary Principles 4.14.1 and 4.14.2 below, the Company provides Directors and Audit & Supervisory Board Members with opportunities for necessary knowledge accumulation and study as necessary so that they can respond to any new management challenges and social demands. To this end, the Company bears the cost for such opportunities and provides other support. **(IV.4.3)**

Supplementary Principles 4.14.1

Directors and *kansayaku*, including outside directors and outside *kansayaku*, should be given the opportunity when assuming their position to acquire necessary knowledge on the company's business, finances, organization and other matters, and fully understand the roles and responsibilities, including legal liabilities, expected of them. Incumbent directors should also be given a continuing opportunity to renew and update such knowledge as necessary.

The Company provides newly appointed Directors and Audit & Supervisory Board Members with opportunities to gain knowledge on the Companies Act and corporate governance as necessary, as well as to familiarize themselves with the Company's management strategy, finance and other important areas at the time of assuming office. Subsequently, the Company provides opportunities at appropriate times to obtain latest information necessary for management, such as act amendment and changes in accounting system, etc.

The Company conducts an office study tour and business explanation sessions for outside board members, so that they can deepen their understanding of the management principles, policies and business of the Company. **(IV.4.3)**

Supplementary Principles 4.14.2

Companies should disclose their training policy for directors and *kansayaku*.

The Company provides training and information that are necessary for Directors and Audit & Supervisory Board Members to adequately fulfill their respective roles and responsibilities as appropriate in accordance with the following policy:

<Training policy>

i. Newly appointed Directors (including Independent Outside Directors) and Audit & Supervisory Board Members are provided opportunities to develop necessary knowledge, skills, etc., and to receive an explanation about the management strategy of the Company, the financial condition of the Company, and other important matters from the President of the Company and designated executive officers by the President within three months of the date of the assumption of office.

ii. Directors and Audit & Supervisory Board Members are required to always collect information and study proactively on such matters as the financial condition of the Company, legal compliance, and corporate governance in order to fulfill their roles adequately. Any cost for such study such as attending seminars given by external parties is borne by the Company through prescribed procedures. **(IV.4.3)**

Section 5: Dialogue with Shareholders

General Principle 5

In order to contribute to sustainable growth and the increase of corporate value over the mid- to long-term, companies should engage in constructive dialogue with shareholders even outside the general shareholder meeting.

During such dialogue, senior management and directors, including outside directors, should listen to the views of shareholders and pay due attention to their interests and concerns, clearly explain business policies to shareholders in an understandable manner so as to gain their support, and work for developing a balanced understanding of the positions of shareholders and other stakeholders and acting accordingly.

The Group believes that timely, appropriate, and active information disclosure is essential for deepening mutual understanding and builds a relationship of trust with all stakeholders to achieve sustainable growth and medium/long-term enhancement of the corporate value of the Group. To steadily put this belief into practice throughout the Group, we have established the "Corporate Information Disclosure Regulations" under the "Principle of Corporate Information Disclosure," which prescribe the content and the system of disclosure, correspondence after disclosure, internal feedback, report to the Board of Directors, etc., to strengthen our internal information disclosure framework. **(III.1)**

Principle 5.1 Policy for Constructive Dialogue with Shareholders

Companies should, positively and to the extent reasonable, respond to the requests from shareholders to engage in dialogue (management meetings) so as to support sustainable growth and increase corporate value over the mid- to long-term. The board should establish, approve and disclose policies concerning the measures and organizational structures aimed at promoting constructive dialogue with shareholders.

The Company believes that timely, appropriate and active information disclosure and two-way communication activities are essential for us to deepen mutual understanding and build a relationship of trust with shareholders. Therefore, the Company positively responds to any requests from shareholders that are considered to support sustainable growth and the medium/long-term enhancement of the corporate value of the Company. The Company has also established the "Basic Policy for Constructive Dialogue with Shareholders," (to refer Supplementary Principles 5.1.2) which had been deliberated and approved by the Board of Directors, and discloses it in corporate governance reports, etc. **(III.1)**

Supplementary Principles 5.1.1

Taking the requests and interests of shareholders into consideration, to the extent reasonable, the senior management, directors, including outside directors, and kansayaku, should have a basic position to engage in dialogue (management meetings) with shareholders.

Senior management, Directors including Outside Directors and Audit & Supervisory Board members may conduct a dialogue with a shareholder on an individual basis, while paying attention to the fairness in information disclosure if such a dialogue is determined to be beneficial for sustainable growth and the medium/long-term enhancement of the corporate value of the Company.

Supplementary Principles 5.1.2

At minimum, policies for promoting constructive dialogue with shareholders should include the following:

i) Appointing a member of management or a director who is responsible for overseeing and ensuring that constructive dialogue takes place, including the matters stated in items ii) to v) below;

ii) Measures to ensure positive cooperation between internal departments such as investor relations, corporate planning, general affairs, corporate finance, accounting and legal affairs with the aim of supporting dialogue;

iii) Measures to promote opportunities for dialogue aside from individual meetings (e.g., general investor meetings and other IR activities);

iv) Measures to appropriately and effectively relay shareholder views and concerns learned through dialogue to the senior management and the board; and

v) Measures to control insider information when engaging in dialogue.

The Company has developed a system and efforts to promote constructive dialogue with the investors, including shareholders, as follows. **(III.1)**

SEKISUI Corporate Governance Principles Appendix 2
From "Basic Policy for Constructive Dialogue with Shareholders"

i. The Company appoints the Director in charge of the Business Strategy Department who is in charge of the overall supervision of the development of medium to long-term management strategies and investor relations as the person responsible for such dialogue and develops the framework and undertakes initiatives for the realization of constructive dialogue with investors under his/her leadership.
ii. The Head of the Business Strategy Department is responsible for ensuring organic

coordination among departments that support dialogue, by, for example, ensuring information sharing among them, while ensuring that insider information is not leaked particularly through each Company, the Corporate Finance & Accounting Department, the Legal Department, the Public Relations Department and other departments concerned.

iii. To promote constructive dialogue with shareholders, the Company strives to understand the shareholder structure and to enhance the dialogue by implementing the following measures as a means to have a dialogue:

- To conduct quarterly results briefings by the President and the Director in charge of the Business Strategy Department
- To hold one-on-one meeting with domestic and foreign investors
- To conduct business briefings and factory tours for shareholders as appropriate
- To enhance the disclosure of corporate information on the website of the Company targeting both domestic and foreign investors (including materials for results briefings and voice recordings from such briefings)
- To provide opportunities to post an opinion through the website of the Company

iv. The Director in charge of the Business Strategy Department shall, in accordance with the "Corporate Information Disclosure Regulations," summarize the opinions and comments of investors obtained from the dialogue with them and share them in the meetings of the Board of Directors and in other occasions as appropriate on a timely basis so that they can be reflected in the management of the Company.

v. The Company has established the "Corporate Information Disclosure Regulations" and "Insider Trading Restriction Regulations" to thoroughly practice fair disclosures and strengthen information management. The Company will also pay utmost attention to information management in conducting a dialogue with shareholders.

Supplementary Principles 5.1.3

Companies should endeavor to identify their shareholder ownership structure as necessary, and it is desirable for shareholders to cooperate as much as possible in this process.

As well as grasping the distribution of its share-ownership structure based on the shareholder registry as of March 31 and September 30 each year, the Company keeps up on the actual (or beneficial) institutional ownership structure through shareholder identification research and analysis. Information obtained through such research is being effectively used in the Company's Investor Relations program and constructive dialogues with shareholders.

Principle 5.2 Establishing and Disclosing Business Strategy and Business Plan

When establishing and disclosing business strategies and business plans, companies should

articulate their earnings plans and capital policies, and present targets for profitability and capital efficiency after accurately identifying the company's cost of capital. Also, companies should provide explanations that are clear and logical to shareholders with respect to the allocation of management resources, such as reviewing their business portfolio and investments in fixed assets, R&D, and human capital, and specific measures that will be taken in order to achieve their plans and targets.

When establishing and disclosing management strategies and management plans, the Company publishes its targets for net sales, operating income, return on equity (ROE), and return on invested capital (ROIC) on the Company website and explains them to the shareholders at the financial results briefings after accurately identifying the Company's cost of capital. In doing so, the Company strives to provide explanations that are clear and logical to shareholders with respect to the allocation of management resources and specific measures to be taken.

Supplementary Principles 5.2.1

In formulating and announcing business strategies, etc., companies should clearly present the basic policy regarding the business portfolio decided by the board and the status of the review of such portfolio.

As the basic policy regarding the business portfolio, the Company has clarified its "approach to expansion of sustainable contribution" in the Long-Term Vision and the Medium-Term Management Plan, which have been adopted after they were deliberated by the Board of Directors, and has announced it during the briefing on the Medium-Term Management Plan, earnings briefings, etc. The Company has adopted ROIC as one of the key indicators to strengthen its sustainable management ability. The achievement status of key indicators in management strategy/plan is reflected in the compensation of executive officers and managers.

In reviewing the business portfolio, the Board of Directors will focus on the quality and quantity of social issues resolved and the sustainability of management from a long-term perspective and will make resolute decisions including investments in new businesses with high growth potential/M&A and the withdrawal from/divestiture of a business. In addition, as stated in Supplementary Principle 3.1.3 a "Strategic Domain Map" showing, by keywords, the areas that each Divisional Company aims to enter will be created in the future and will be discussed and reviewed by the Board of Directors regularly once a year.