

Dialogue with Outside Director



In order to promote both the defensive and offensive attributes of the governance function, I will help monitor and supervise the activities of management while providing the impetus required to explore new businesses.

Dialogue

Yutaka Kase

Outside Director

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SEKISUI CHEMICAL Group is working diligently to upgrade and expand the governance function, which underpins every aspect of its business activities, in an effort to enhance the fairness and transparency of management. We spoke with Yutaka Kase, who has served as an outside director since June 2016, and solicited his thoughts on the unique features that distinguish corporate governance at SEKISUI CHEMICAL Group as well as his frank opinion on pending issues.

The Role of an Outside Director

How do you view your role as an outside director?

Kase: While serving as an outside director at several companies in the past, I have focused mainly on ensuring that business activities remain sound and determining whether management is inherently transparent and fair.

Historically, the Board of Directors at a large number of Japanese companies have been comprised solely of in-house officers. This has in turn created difficulties in

conveying information to top management. With this in mind, outside directors must play an independent role and provide counter as well as opposing opinions to company presidents and other directors as and when required.

In addition to promoting the defensive attributes of the governance function by monitoring and supervising the activities of management, outside directors must also showcase the positive attributes by providing the impetus to explore new opportunities. While helping to evaluate the potential of each new business, the role of an outside director then extends to the promotion of strategic investments as needed.

Taking the aforementioned into consideration, diversity is key in securing a broad range of external opinions. In this sense, SEKISUI CHEMICAL Group's outside directors bring to the table a wide range of perspectives. A large portion of my career, for example, was spent at a general trading company. For his part, Mr. Oeda is well versed in manufacturing focusing mainly on food-related fields and Mr. Ishizuka, who retired in June 2019, has a background in retail. While all experienced executives, this diversity in specialist expertise helps ensure extremely well-balanced management.

Throughout your career in top management you have served as an outside director at several companies. Undoubtedly, this has provided you with a wealth of experience. What motivates you when accepting to serve as an outside director and what do you see as your sense of mission?

Kase: During my days as chairman of Sojitz Corporation, I was asked to serve as an outside director at Astellas Pharma Inc. As a company that is widely recognized for its advanced governance, I saw it as an opportunity to gain invaluable knowledge and experience.

Building on this extremely fruitful period, I have since served as an outside director at multiple companies. Including my time at relatively small owner/proprietor companies, I have been motivated to make use of my experience within the managements of other companies.

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Diversity and Effectiveness of the Board of Directors

Can you provide us with specific details of the governance function at SEKISUI CHEMICAL Group starting with the Board of Directors? There have been growing calls to include women and foreign nationals in the Boards of Directors of Japanese companies in recent years to ensure that a wide range of diverse perspectives and values are included in management. What are your thoughts on the diversity of SEKISUI CHEMICAL Group's Board of Directors?

Kase: If we confine our discussion to just women and foreign nationals, SEKISUI CHEMICAL Group may indeed have fallen short in efforts to promote diversity. If we look at the Company's Audit & Supervisory Board members, however, we see a wealth of disparate backgrounds and experience that span the legal, quality control, academic, and accounting professions. While all outside directors have experience in top management, each is a specialist in a different field. This in itself is a measure of diversity. In April this year, SEKISUI CHEMICAL Group internally promoted its first female executive officer. Steps have also been taken to promote diversity through the appointment of women to the positions of outside director and Audit & Supervisory Board member in June.

I must point out that the issue here is not the increase in female and foreign national appointments. Of critical importance is the effort made to promote open and constructive debate within management. For example, I know Ms. Ishikura, who was newly appointed an outside director in June 2019, and can vouch for her extensive knowledge across a wide range of fields. Bringing also to the table her perspectives as a woman, I am convinced that she will contribute significantly to the governance of SEKISUI CHEMICAL Group.

How active are the discussions of the Company's Board of Directors? Can you tell us about some of the Board's features including the way in which issues are identified and progressed?

Kase: I believe that SEKISUI CHEMICAL Group's Board of Directors engages in the lively and transparent exchange of opinions and extremely vigorous debate.

In particular, I can sense the strong enthusiasm with which president Koge addresses issues relating to ESG management. I feel that a large portion of the Company's governance function is underpinned by the efforts of top management to take the lead in positioning contributions to the global environment and society as key pillars of its business activities.

Can you also give us your thoughts on the effectiveness of the Board of Directors?

Kase: The Board of Directors is not just a ceremonial show-piece. It is a forum for concerted discussion and debate. Prior to each meeting, Mr. Kato provides a detailed and thoughtful explanation of each agenda item. This helps to ensure that outside directors are provided with the information necessary to fully participate. Taking into consideration these elaborate steps, Board of Directors' meetings are conducted in a brisk and lively manner. The procedures that the Company has put in place assures that the Board's effectiveness is more than sufficient.

Initiatives Aimed at Promoting Compliance

From a defensive standpoint, efforts by outside directors to monitor and supervise management are key components of the governance function. What is your impression of the Company's systems for securing compliance and preventing scandals?

Kase: SEKISUI CHEMICAL Group reflects sincerely on past compliance issues and works diligently to put in place the necessary countermeasures to prevent a recurrence. Rather than just a mere formality, however, it is vital that top management remains fully involved. In addition to instilling a thorough awareness toward the importance of sound management among all employees, it is critical to maintain



Mr. Yutaka Kase

Previously served as President & CEO of Sojitz Corporation, Representative Director and Chairman of Sojitz Corporation, etc. Outside director of our Company from June 2016. Chairman of the Nominating and Remuneration Advisory Committee since June 2019.

a constant state of vigil. Despite all the best intentions and promotion of preventative measures, compliance issues and scandals will nevertheless happen when they happen. In this event, it is absolutely vital to respond in a timely manner and ensure proper disclosure.

In recent years, SEKISUI CHEMICAL Group has rapidly expanded its overseas businesses through various means including M&As. Can we have your thoughts on governance and compliance from a global perspective?

Kase: Properly grasping the operations and management status of subsidiaries outside Japan becomes increasingly difficult as the Group's overseas network continues to expand. When an issue actually arises, or is anticipated, it is imperative to have in place a mechanism that garners

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information in a timely manner and allows the Company's head office Board of Directors to engage in proper debate.

About the Roles of Top Management and the Chairperson of the Board of Directors

Thank you for providing us with your views on governance from a wide variety of viewpoints. Do you have any thoughts on current issues?

Kase: I believe that the Company's current structure and systems well maintained. If I were to voice an opinion, however, it would concern the position of Board chairperson.

The position of chairperson at SEKISUI CHEMICAL Group is currently vacant. As such the president spearheads the Board of Directors. From purely a personal standpoint, I would prefer that this position be filled by an individual other than the chief executive. Should a company president serve concurrently as chairperson, difficulties may arise in holding

oneself responsible for a slump in operating results or a scandal. Taking into consideration the need for fairness and transparency, a separate Board chairperson would be in the position to more appropriately handle such a situation. Given this scenario, shifting to a structure in which the Director and Chairperson spearheads the Board is more likely to benefit the Company.

Succession Planning and Remuneration Systems

What are your thoughts on succession planning?

Kase: A succession plan should not simply focus on identifying next-generation candidates with the potential to lead a company going forward. Starting from an earlier phase, plans should include how to nurture senior executives. This would allow members of the Nomination and Remuneration Advisory Committee to responsibly voice their opinion on a qualified candidate during debate. I would therefore like to see the Company upgrade and expand its succession plan to include training and development at the candidate stage.

Moreover, it is vital that a third-party, external professional organization evaluate officers.

Can you comment on the Company's remuneration system?

Kase: Global trends would suggest the importance of remuneration calculated in line with performance and results based on a definitive formula.

While the Company's remuneration system is currently comprised of the three fixed, performance-based, and long-term incentive components, each amount is not determined automatically. Looking ahead, I would like to see SEKISUI CHEMICAL Group shift to a system where each component is determined automatically at the time of the Company's earnings announcement eliminating the need for arbitrary input from top management. I believe this is a new issue for consideration by members of the Nomination and Remuneration Advisory Committee. While opinions vary

regarding fixed and performance-based component ratios, I am in favor of starting at the current 6:4 split before moving to a formula of around 5:5.

Outlook for SEKISUI CHEMICAL Group

In closing, what expectations do you hold for the Company and its future?

Kase: SEKISUI CHEMICAL Group is an extremely earnest company. On several occasions in the past, I have called directly on a number of the Group's overseas businesses and R&D sites. I believe that one of the Company's principal strengths is its technological development capabilities. Looking back over each actual visit, I was especially impressed by the Group's frontline FFU* manufacturing skills. The broad expanse of SEKISUI CHEMICAL Group's operations from glass fiber to wood-related products is an indication of its chemical prowess. First-hand experience has led me to believe that the Group's technological capabilities nurtured over many years provide the bedrock for its overall power.

Another strength lies in the balance and clearly defined roles of the Group's three divisional companies. I am convinced that efforts to promote and expand business in a timely manner has led to each divisional company's current strengths. Looking ahead to the new era, positive steps are also being taken to pursue challenges by nurturing the Group's medical products operations into a stand-alone business.

As far as expectations are concerned, I hold high hopes for the Group's biorefinery (BR) project and the use of technology to convert waste into ethanol. Should endeavors in this area achieve practical application, SEKISUI CHEMICAL Group can be assured of both rapid and dramatic growth standing head and shoulders above its competitors in addressing the global waste problem.

* FFU: Exhibiting a natural wood-like appearance, FFU is a glass fiber-reinforced foamed polyurethane material. Lightweight, strong and corrosion-free, FFU is applied across a broad range of areas worldwide including as railway sleepers. ▶ P.49

