Corporate Governance Report

Last Update: June 28 2017

SEKISUI Chemical CO., LTD.
President: Teiji Koge
Contact: +81-3-5521-0522
Securities Code: 4204
http://www.sekisuichemical.com/

The corporate governance of SEKISUI CHEMICAL (the "Company") is described below.

I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

1. Basic Views

The SEKISUI CHEMICAL GROUP ("the Group") sets forth as the basic policy for corporate governance the promotion of sustainable corporate growth and the increase of corporate value. To realize this, the Group will enhance the transparency/fairness of management, pursue prompt decision-making, and continue to fulfill the expectations of "customers," "shareholders," "employees," "business partners," and "local communities and the environment," the five major categories of stakeholders that the Company values most, through the creation of values to the society, as declared in the Corporate Philosophy.

[Corporate Philosophy] "The 3S principles"
Service
We create the social* values through our corporate activities.

Speed
We bring reform to the market at "a speed like the bursting of pent-up waters into a chasm thousand fathoms deep."

Superiority
We gain the society's* confidence in us with our superior technologies and quality.
* Social and society: The entire society including the five categories of stakeholders.

* In the following translation, "*Kansayaku*" represents "Audit & Supervisory Board Member"

[Reasons for Non-compliance with the Principles of the Corporate Governance Code]

[Supplementary Principles 4.1.3]
Based on the company objectives (business principles, etc.) and specific business strategies, the board should engage in the appropriate oversight of succession planning for the CEO and other top executives.

Succession planning for the Chief Executive Officer (President and Representative Director) is appropriately conducted in consideration of the management principles and strategies, but not supervised by the Board of Directors.
The election of a succession for the Chief Executive Officer (President and Representative Director) is conducted 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 based on the recommendations made by the advisory committee with respect. This process ensures that the succession planning and supervision are implemented based on the management principles and strategies, and objectivity, transparency and fairness of the deliberations.

[Disclosure Based on the Principles of the Corporate Governance Code]

The Company has established and disclosed the SEKISUI Corporate Governance Principles for the purpose of further evolving the initiatives of the Group to improve its corporate governance and communicating our corporate governance approach and initiatives to our stakeholders.

In addition to the above Principles, the status of the Company's initiatives and its approach with respect to all 73 items of the Corporate Governance Code consisting of the General Principles, Principles and Supplementary Principles have been summarized and disclosed in the form of the Initiatives to Each of Principles of the Corporate Governance Code, including the items for which the implementation method is currently being considered. Please refer to the following.
http://www.sekisuichemical.com/about/governance/index.html

Descriptions of the items disclosed based on each Principle of the Corporate Governance Code are as follows:

[Principle 1.4]
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 holds shares in its business partners that are indispensable for the medium/long-term enhancement of its corporate value for the purpose of maintaining and strengthening the relationship with them to the extent considered strategically necessary.
Based on the above policy for shareholding, the Board annually verifies the medium/long-term economic rationality and future outlook for major shareholdings in light of, among others, the risk/return relationship and confirms the necessity for continued holding of these shares.

ii. Policy for the exercise of voting rights
The Company exercises voting rights in its investee companies after examining the proposals from the perspective of enhancing the medium/long-term interest of its shareholders as well as the corporate value of the companies and also in view of the existing relationship with the companies.

[Principle 1.7]
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 stipulates 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. *Kansayaku* Board also audits such transactions in accordance with the Note of *Kansayaku* Auditing Standards.

[Principle 3.1]
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 midterm management plan are disclosed in the website of the Company, earnings results briefing materials, and business reports.

(ii) The basic policy on corporate governance is disclosed in the website of the Company, corporate governance reports, business reports, etc.
(iii) The policy for the remuneration for directors and *Kansayaku* is disclosed in corporate governance reports, annual securities reports, and the notice 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 is 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 based on the recommendations made by the advisory committee with respect.
(iv) The policy concerning the nomination of director/corporate auditor candidates 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 based on the recommendations made by the advisory committee with respect.
(v) Reasons for electing/nominating candidates for director and for *kansayaku* are disclosed on the notice of the general meeting of shareholders.

[Supplementary Principles 4.1.1]
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 respond to changes in the environment.
With regard to such delegation of authority, the Company has also established the approval standards that take into consideration of 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

[Principle 4.8]
The Company has appointed two 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 *Kansayaku*)."
The percentage of independent outside directors will be reviewed as appropriate in comprehensive consideration of such factors as future expansion of business size and business domains and the environment surrounding the Company.

[Principle 4.9]
The Company has developed the "Criteria for Independence of Outside Board Members (Directors and *Kansayaku*)" to secure the independence of outside directors. These criteria are disclosed on 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 who can expect 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.

[Supplementary Principles 4.11.1]
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, they effectively perform the roles and responsibilities of the Board of Directors, taking the balance with respect to diversity, optimal size, and capabilities, with *Kansayaku* with strong expertise.
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 based on the recommendations made by the advisory committee with respect.

[Supplementary Principles 4.11.2]
Directors and *Kansayaku* 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 *Kansayaku* is disclosed each year in the notice of the general meeting of shareholders, annual securities reports, and corporate governance reports.

[Supplementary Principles 4.11.3]
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 management of the Company, and between *Kansayaku* Board (including outside *Kansayaku*) and accounting auditor, as well as by analyzing the attendance at the Board meetings and the status of active participation of each directors and *Kansayaku*.

The Board of Directors has been engaged in sufficient discussion under an appropriate agenda with opinions and recommendations actively provided by directors (including outside directors) and *kansayaku*. The Company has evaluated that the current Board of Directors is sufficiently functioning and contributing to enhance the corporate value of the Group.

In FY2016, thorough deliberation took place at the Board Meeting on important management issues including the development of the Midterm Management Plan. The company also reviewed the criteria for matters to be discussed by the Board, which enabled the Board to spend sufficient discussion time for an appropriate agenda, whereby opinions and recommendations were actively provided by both outside and inside directors and *kansayaku*.

The newly established Nomination and Remuneration Advisory Committee met 7 times during the year, deliberating and making recommendations to the Board of Directors on such matters as the nomination of the Representative Director and other Directors, individual performance evaluation and level of remuneration, revision of the remuneration system for the directors, and adequacy of continuation/discontinuation of anti-takeover measures.

The design of the new share-based remuneration system has been revised, prompted by a comment from an outside director, to incentivize Directors more appropriately.

In FY2017, the Company will continue to enhance deliberation on important management issues to make appropriate decisions as the Board of Directors and to ensure fairness and transparency in the Company's management.

[Supplementary Principles 4.14.2]
The Company provides training and information that are necessary for directors and *Kansayaku* 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 *Kansayaku* are provided with opportunities to develop necessary knowledge, skills, etc., where necessary and to receive an explanation about the management strategy of the Company, the financial conditions 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 *Kansayaku* are required to always collect information and study proactively on such matters as the financial conditions 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.

[Principle 5.1]

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," which had been deliberated and approved by the Board of Directors, and discloses it in corporate governance reports, etc.

2. Capital Structure

Foreign Shareholding Ratio	More than 30%

[Status of Major Shareholders]

Name / Company Name	Number of Shares Owned (thousand shares)	Percentage (%)
Asahi Kasei Corporation	28,039	5.49
Japan Trustee Services Bank, Ltd. (Trust Account)	22,365	4.38
The Dai-ichi Life Insurance Company, Limited	19,681	3.85
The Master Trust Bank of Japan, Ltd. (Trust Account)	18,396	3.60
Sekisui House, Ltd.	11,998	2.35
Tokio Marine & Nichido Fire Insurance Co., Ltd.	11,946	2.34
JPMorgan Chase Bank 385164	8,991	1.76
Japan Trustee Services Bank, Ltd. (Trust Account 5)	8,735	1.71
Employees Stock Ownership Plan	8,474	1.65
State Street Bank and Trust Company 505225	7,706	1.50

Controlling Shareholder (except for Parent Company)	-
Parent Company	None

Supplementary Explanation

The list is reported as of March 31, 2017.
The Company holds 30,854 thousand treasury stocks (excluding the holdings by entrusted Employee Stock Ownership Plan and Board Incentive Plan as officer remuneration system), which are excluded in the above list.
The number of shares owned is rounded down to the nearest thousand.

3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	March
Type of Business	Chemicals
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1,000
Sales (consolidated) as of the End of the Previous Fiscal Year	More than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 100 to less than 300

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

-

5. Other Special Circumstances Which May Have Material Impact on Corporate Governance

One subsidiary is listed on the Korea Exchange, to which the majority of directors are dispatched; however, the representative director is appointed from said business company and management is conducted according to local circumstances.

II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

1. Organizational Composition and Operation

Organization Form	Company with *Kansayaku* Board

[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	15
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	Company Chairperson (except when concurrently serving President)
Number of Directors	10
Appointment of Outside Director	Appointed
Number of Outside Directors	2
Number of Independent Directors	2

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Kunio Ishizuka	From another company								△			
Yutaka Kase	From another company								△			

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;
"△" when the director fell under the category in the past

* "●" when a close relative of the director presently falls or has recently fallen under the category;
"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries
b. Non-executive director or executive of a parent company of the Company
c. Executive of a fellow subsidiary company of the Company
d. A party whose major client or supplier is the Company or an executive thereof
e. Major client or supplier of the listed company or an executive thereof
f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/*Kansayaku*
g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
i. Executive of a company, between which and the Company outside directors/*Kansayaku* are mutually appointed (the director himself/herself only)
j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
k. Others

Outside Directors' Relationship with the Company (2)

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Kunio Ishizuka	○	Mr. Ishizuka serves as a Senior Advisor of Isetan Mitsukoshi Holdings Ltd. and a Senior Advisor of Isetan Mitsukoshi, Ltd. While the Company has business with Isetan Mitsukoshi, net sales of Isetan Mitsukoshi Holdings Ltd. to the Company represented less than 0.1% of the Company's total net sales; and net sales of the Company to Isetan Mitsukoshi Ltd. represented less than 0.1% of total net sales of Isetan Mitsukoshi Ltd. in each case for the business year last closed. Accordingly, independence of Outside Directorship is sufficiently secured. He is deemed not to be at risk of causing conflict of interest with general shareholders, and has thus been designated as an independent officer.	Mr. Ishizuka plays an important role as an Outside Director of the Company and gives advice to the Company by utilizing his experience and knowledge as a management executive in the leading retail and service industry. He has been elected again as an Outside Director as we expect his considerable insight on corporate management would be reflected in the management of the Sekisui Chemical Group.
Yutaka Kase	○	Mr. Kase serves as a Senior Advisor of Sojitz Corporation. While the Company has business with Sojitz Corporation, the ratio of the transaction value to the net sales of Sojitz Corporation and the Company for the business year last closed was less than 0.1% for both parties. Accordingly, independence of Outside Directorship is sufficiently secured. He is deemed not to be at risk of causing conflict of interest with general shareholders, and has thus been designated as an independent officer.	Mr. Kase has abundant experience and past achievements regarding global corporate management and business strategy, which were developed as a corporate manager of a general trading company. He has been elected as an Outside Director as we expect his advice given with his international knowledge and experience would be useful to promote the globalization of the Sekisui Chemical Group.

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established

Committee's Name, Composition, and Attributes of Chairperson

(person)

	Name of Committee	All Committee Members	Full-time Members	Inside Directors	Outside Directors	Outside Experts	Other	Chairperson
Committee Corresponding to Nomination Committee	The Nomination and Remuneration Advisory Committee	5	0	2	2	1	0	Outside Director
Committee Corresponding to Remuneration Committee	The Nomination and Remuneration Advisory Committee	5	0	2	2	1	0	Outside Director

Supplementary Explanation

The Company has established an optional advisory committee for nomination, remuneration, or the like for the purpose of complementing the Board functions and enhancing fairness and transparency in the process. (hereinafter translated as "the Nomination and Remuneration Advisory Committee")

[*Kansayaku*]

Establishment of *Kansayaku* Board	Established
Maximum Number of *Kansayaku* Stipulated in Articles of Incorporation	The Company does not set a ceiling on the number of *Kansayaku*
Number of *Kansayaku*	5

Cooperation among *Kansayaku*, Accounting Auditors and Internal Audit Departments

- *Kansayaku* confirms the audit plan with accounting auditor Ernst & Young Shin-Nihon LLC and exchange information and opinions periodically with the accounting auditor including receiving audit reports, with the aim of improving the effectiveness and efficiency of audits through close collaboration.
-The coordination between the Internal Audit Department and directors/*Kansayaku* is directly liaised and handled by the directors in charge of each business domain and full-time *Kansayaku*. In addition, the Secretariat conducts necessary research and provides necessary information under their instructions.
<Directors>
The results and findings of the internal audit conducted by the Corporate Audit Department are promptly delivered to each director in the form of audit report. Findings are addressed and improvements are reported by each director in charge. In addition, the President regularly receives a detailed explanation of the status directly from the Corporate Audit Department.
<*Kansayaku*>
Kansayaku Board regularly holds a regular meeting for exchange of opinions with the Internal Audit Department to understand the current internal issues and to determine the need for any on-site audit by *Kansayaku* as appropriate. With the assistance of the dedicated support staff, *Kansayaku* Board also collects

information from internal departments and conducts any necessary interviews.
The results of the internal audit conducted by the Corporate Audit Department and the improvement status of audit findings are reported to the *Kansayaku* on a timely basis. The coordination with the Internal Audit Department is directly liaised and handled by the directors in charge of each business domain and full-time *Kansayaku*. In addition, the Secretariat conducts necessary research and provides necessary information under their instructions.
-A group-wide internal framework has been put in place to enable *Kansayaku* to exercise without any obstacle its authorities by, among others, attending various important meetings, conducting an investigation into divisions concerned including affiliates, and examining the approval documents of important projects. Sufficient information sharing and exchange of opinions take place among the members of *Kansayaku* Board (including Outside *Kansayaku*). *Kansayaku* also holds a regular meeting with the representative directors, directors, and executive officers to exchange opinions on, among others, the issues that the Company should resolve, the status of the improvement of the environment for audit by *Kansayaku*, and important audit issues and to make necessary requests to enhance mutual understanding.

Appointment of Outside *Kansayaku*	Appointed
Number of Outside *Kansayaku*	3
Number of Independent *Kansayaku*	3

Outside *Kansayaku*'s Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Tetsuo Ozawa	Attorney-in-law													
Yasuhiro Nishi	CPA													
Kazuyuki Suzuki	Academic													

* Categories for "Relationship with the Company"
* "○" when the director presently falls or has recently fallen under the category;
"△" when the director fell under the category in the past
* "●" when a close relative of the director presently falls or has recently fallen under the category;
"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiary
b. Non-executive director or accounting advisor of the Company or its subsidiaries
c. Non-executive director or executive of a parent company of the Company
d. *Kansayaku* of a parent company of the Company
e. Executive of a fellow subsidiary company of the Company
f. A party whose major client or supplier is the Company or an executive thereof
g. Major client or supplier of the Company or an executive thereof
h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a *kansayaku*
i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the *kansayaku* himself/herself only)
k. Executive of a company, between which and the Company outside directors/*kansayaku* are mutually appointed (the *kansayaku* himself/herself only)
l. Executive of a company or organization that receives a donation from the Company (the *kansayaku* himself/herself only)
m. Others

Outside *Kansayaku*'s Relationship with the Company (2)

Name	Designation as Independent *Kansayaku*	Supplementary Explanation of the Relationship	Reasons of Appointment
Tetsuo Ozawa	○	Mr. Ozawa serves as an attorney-in-law of Tokyo Fuji Law Office. He does not meet the criteria provided for in Rule 211(6)(v), etc. of the Enforcement Rules for Securities Listing Regulations and is deemed not to be at risk of causing conflict of interest with general shareholders, and has thus been designated as an independent officer.	Mr. Ozawa is an attorney-in-law with a legal perspective and wide range of knowledge about risk management and mainly in the field of corporate law, and the Company appointed him as an Outside *Kansayaku* so that he can reflect his knowledge and experience in the auditing of the Company.
Yasuhiro Nishi	○	Mr. Nishi serves as a Representative of Yasuhiro Nishi Certified Public Accountants' Office. He does not meet the criteria provided for in Rule 211(6)(v), etc. of the Enforcement Rules for Securities Listing Regulations and is deemed not to be at risk of causing conflict of interest with general shareholders, and has thus been designated as an independent officer.	Mr. Nishi is qualified as a certified public accountant, and the Company appointed him as an Outside *Kansayaku* so that he can reflect his profound knowledge about finance and accounting in the auditing of the Company.
Kazuyuki Suzuki	○	Mr. Suzuki serves as a professor of Graduate School of Informatics of University of Electro-Communications. He does not meet the criteria provided for in Rule 211(6)(v), etc. of the Enforcement Rules for Securities Listing Regulations and is deemed not to be at risk of causing conflict of interest with general shareholders, and has thus been designated as an independent officer.	Mr. Suzuki possesses profound knowledge and extensive experience on quality control and reliability engineering, and the Company appointed him as an Outside *Kansayaku* so that he can reflect his knowledge and experience in the auditing of the Company.

[Independent Directors/*Kansayaku*]

Number of Independent Directors/*Kansayaku*	5

Matters relating to Independent Directors/*Kansayaku*

-All Outside Directors and Outside *Kansayaku*, currently five persons in total, have been designated as independent directors/*Kansayaku* pursuant to the provisions of the Tokyo Stock Exchange, based on the Company's policy to designate persons who are sufficiently independent and meet the criteria of independence for outside board members prescribed by the Company as outside directors and Outside

Kansayaku of the Company. (Please refer to the Criteria for Independence of Outside Board Members (Directors and *Kansayaku*) which are disclosed in the form of appendix to the SEKISUI Corporate Governance Principles.)

-In the latest fiscal year, Mr. Ishizuka attended fifteen meetings of board directors out of seventeen meetings. Mr. Kase who has assumed the office since June, 2016, attended all the thirteen meetings of board directors out of thirteen meetings since then. Mainly from a view point of richly-experienced top executives, they made required remarks on a bill under discussion.

-In the latest fiscal year, *Kansayaku*, Mr. Ozawa, attended sixteen meetings of board directors out of seventeen meetings and seventeen meetings of *Kansayaku* Board out of eighteen meetings. Mainly from a view point of specialist as an attorney-at-law, he made required remarks on establishing and maintaining the compliance system of the Company group. *Kansayaku*, Mr. Nishi attended all the seventeen meetings of board directors and all the eighteen meetings of *Kansayaku* Board. Mainly from a view point of finance and accounting, etc. as a certified public accountant, he made required remarks on a bill under discussion. *Kansayaku*, Mr. Suzuki attended sixteen meetings of board directors out of seventeen meetings and seventeen meetings of *Kansayaku* Board out of eighteen meetings. With profound knowledge and extensive experience on quality control and technological management, he made required remarks on a bill under discussion.

[Incentives]

Incentive Policies for Directors	Performance-Based Remuneration, Share-Based Compensation Plan

Supplementary Explanation (Policy for granting incentive)

As described in "Policy on Determining Remuneration Amounts and Calculation Methods."

Recipients of Stock Options	

Supplementary Explanation

-

[Director Remuneration]

Disclosure of Individual Directors' Remuneration	Partially disclosed.

Supplementary Explanation

Total amount of remuneration, etc., per class of officers, total amount of remuneration, etc., per category thereof, and number of eligible officers

Class of officers	Category of remuneration, etc. (millions of yen)					Number of eligible officers (persons)
	Basic remuneration	Bonus	Share-based compensation	Stock options	Total	
Directors (excluding Outside Directors)	308	191	65	8	573	8
Kansayaku (excluding Outside *Kansayaku*)	49	14	-	-	63	4
Outside Officers	52	-	-	1	54	6

(Notes) 1. The amount paid to Directors does not include the portion of employee's salary (including bonus) amounting to 115 million yen for Directors who concurrently serve as employees (3 persons).

2. The number of eligible officers includes 1 Outside Director and 2 *Kansayaku* who retired at the closing of the 94th Annual General Meeting of Shareholders held on June 28, 2016, and 1 Director, 1 Outside Director and 2 *Kansayaku* who were appointed at said meeting.
3. The annual allowance for the total amount of basic remuneration, bonus and stock options during the fiscal year under review is 1,100 million yen for Directors and 120 million yen for *Kansayaku*. On the other hand, the annual allowance for share-based compensation (Board Incentive Plan Trust) is 110 million yen for Directors.

The names of, and the amount paid to, the officers whose remuneration, etc., amounts to 100 million yen or more are individually disclosed in the annual securities report.

Policy on Determining Remuneration Amounts and Calculation Methods	Established

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

<Policy on determining remuneration, etc.>
The remuneration, etc., for Directors of the Company consists of basic remuneration, bonus and share-based compensation (excluding Outside Directors), whereas the remuneration for *Kansayaku* consists of base remuneration and bonus (excluding Outside *Kansayaku*).
The basic remuneration is provided in a flat amount commensurate with the roles and responsibilities of each Director within the limit of the officers' remuneration allowance. Directors are obliged to allocate a certain amount of the base remuneration to purchase the shares of the Company through the Officers Stock Ownership Plan with the aim of enhancing management awareness of placing an emphasis on the stock price.
The bonus represents the performance-based remuneration, the amount of which is determined based on the payment standards linked to the business performance of the Company and each divisional company, the dividend policy and ROE (return on equity).
The share-based compensation plan, which was newly introduced in fiscal 2016, is an incentive plan aimed at further raising motivation to contribute to the improvement of mid- and long-term business performance and improve the Group's corporate value, under which the number of shares to be granted is determined in accordance with the position of Directors (excluding Outside Directors). Said plan has a structure enabling Directors to receive a benefit at the time of retirement for the results for which they contributed to enhancing the Company's mid- and long-term corporate value in the form of the Company's shares reflecting such enhancement in share value, thereby enhancing the link with mid- and long-term shareholders' value.

<Process of determining officers' remuneration>
The Nomination and Remuneration Advisory Committee, which has been established as the advisory body to the Board of Directors to achieve the purpose of the officers' remuneration plan, deliberates the structure and level of Directors' remuneration and validates the reasonableness of individual remuneration. The Committee is consist of five members, the majority of whom are independent outside officers, and is chaired by a person elected from among the independent outside officers.

[Supporting System for Outside Directors and/or *Kansayaku*]

-Corporate Business Strategy Department functions as Secretariat to the Board of Directors. The Company develops further the environment in which sufficient materials are provided to the directors in advance for their deliberation through the appropriate organization-wide coordination depending on the nature of the discussion in the Board of Directors so that directors can ask questions in advance.
-The Secretariat to the Board of Directors provides independent outside directors with explanation about the discussion agenda in advance and otherwise strives to enhance the understanding of the discussion agenda by them.
-Corporate Internal Audit Department and the Secretarial Group are in charge of the Secretariat to *Kansayaku* Board to support the audit activities conducted by *Kansayaku* and the administration of *Kansayaku* Board. In cooperation with each other, they establish the system which enables Outside *Kansayaku* to inspect important documents and conduct a hearing to a responsible person in charge of each division as necessary.
-*Kansayaku* Board exchanges opinions with independent outside directors and provides information gained

through audit activities.

2. Matters on Functions of Business Execution, Auditing and Oversight, and Determination of Nomination and Remuneration (Overview of Current Corporate Governance System)

(1) Organizational structure and business execution system

As an organizational structure under the Companies Act, the Company has chosen to be a company with *Kansayaku* Board.

Under the Divisional Company System, the Company has adopted the Executive Officer System in order to clearly distinguish the business execution function from the decision-making function in management. Each divisional company has an Executive Officers Committee, which serves as the company's highest decision-making body. The Executive Officers Committee has been delegated substantial authority previously entrusted to the Board of Directors. Executive Officers are appointed by a resolution of the Board of Directors, and their term of office is one year.

(2) The Board of Directors

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. In addition, all *Kansayaku* including Outside *Kansayaku* shall attend the meetings of the Board of Directors.

The number of directors shall not exceed 15, and 2 or more of them shall be independent outside directors. 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, they effectively perform the roles and responsibilities of the Board of Directors, taking the balance with respect to diversity, optimal size, and capabilities, with *Kansayaku* with strong expertise.

(3) Audit system

The Company has established a *Kansayaku* Board as a supervisory body to oversee the Board of Directors and business execution system. Together with the adoption of outside *Kansayaku*, the system ensures wide-ranging viewpoints and fairness.

The Corporate Audit Department has been established under the direct control of the President, and conducts internal audits on the operations of the entire Group. Internal audit field work is conducted in accordance with the internal audit regulations and based on the audit policy and the audit plan for the year. The findings are reported to the President, directors, *Kansayaku* and divisions concerned. The Corporate Audit Department receives action plans for improvement from the audited parties or conducts follow-up audits where necessary, through which it streamlines and improves the internal control system.

The Company's accounting auditor is Ernst & Young ShinNihon LLC, and certified public accountants who execute the accounting audit work are Mikio Konishi and Hiroshi Matsuura; each certified public accountant is replaced in a timely manner in accordance with the replacement plan formulated with Ernst & Young ShinNihon LLC.

(4) Nominating and Remuneration Advisory Committee

The Company has established an optional advisory committee on nominations and remuneration policies as a complementary function to the Board of Directors, and for the purpose of enhancing fairness and transparency.

The Nomination and Remuneration Advisory Committee deliberates and makes recommendations to the Board of Directors on important management issues as necessary, in addition to the nomination of senior executives including Representative Directors and other directors, etc. and adequacy of the system and the level of remuneration for the directors. The Committee consists of 5 members, the majority of which must be independent outside officers and the chairperson of which must be elected from among the independent outside officers.

3. Reasons for Adoption of Current Corporate Governance System

As an organizational structure under the Companies Act, the Company has chosen to be a company with *Kansayaku* Board.
Based on the belief that enhancing fairness and transparency and swift decision making are important for the continuous improvement of corporate value, the Company adopted an Executive Officer System in 2008, for the purpose of separating the supervisory function (directors) and the business execution function (executive officers), and elected 2 outside directors who met the criteria for independent officers. In 2015, the "Nominating and Remuneration Advisory Committee," which consists of the majority of independent outside officers and is chaired by an independent outside officer, was established, in order to enhancing fairness and transparency in the process of electing a successor candidate for the President and other directors and determining director remuneration.
The Company ensures fairness and transparency by establishing a highly effective system of supervision over directors and improving the audit system, and judges that the current system is appropriate for the Company.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

	Supplementary Explanations
Early Notification of General Shareholder Meeting	Notice is dispatched three weeks before the day on which the general meeting of shareholders is to be held.
Scheduling AGMs Avoiding the Peak Day	Holding the general meeting on a day not falling on the so-called general meeting concentration date.
Allowing Electronic Exercise of Voting Rights	A system for exercising voting rights by electromagnetic method for investors has been adopted since the annual general meeting of shareholders in June 2005.
Participation in Electronic Voting Platform	Yes
Providing Convocation Notice in English	English translation of the notice of convocation is posted on the website.
Other	A questionnaire survey targeted at shareholders who attended the general meeting of shareholders is conducted in order to further enhance communication with shareholders.

2. IR Activities

	Supplementary Explanations	Explanation by Representative
Preparation and Publication of Disclosure Policy	Set in “Corporate Information Disclosure Regulations” and “Basic Policy for Constructive Dialogue with Shareholders.”	
Regular Investor Briefings for Individual Investors	Held in Tokyo and Osaka as necessary (general meetings of shareholders are held in Osaka).	No
Regular Investor Briefings for Analysts and Institutional Investors	Held on a quarterly basis to provide wrap-up of business performance and explain financial results.	Yes
Regular Investor Briefings for Overseas Investors	IR activities are conducted periodically in Europe, North America and Asian region.	Yes
Posting of IR Materials on Website	Information on financial results, materials to be disclosed in a timely manner other than information on financial results, annual securities reports or semiannual reports and IR briefing materials are posted on the website.	
Establishment of Department and/or Manager in Charge of IR	Division in charge of IR: Investor Relations Group within the Business Strategy Department / Officer in charge of IR: Executive Director & Head of Business Strategy Department.	
Other	E-mail newsletter for investors is published.	

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	Provided in the Corporate Philosophy and the Corporate Code of Conduct.
Implementation of Environmental Activities, CSR Activities etc.	-The SEKISUI CHEMICAL GROUP has declared its commitment to meeting expectations of its “Five Stakeholders”—i.e., “Customers,” “Shareholders,” “Employees,” “Business Partners,” “Local Communities

	and the Environment"—in its Corporate Philosophy, which describes the underlying approach to and policy for corporate activities, and believes that fulfilling this commitment will translate into carrying out its corporate social responsibility (CSR). As well as fulfilling our responsibilities to society in the business process through our "Three Pledges to Society": Safety, Compliance and Respect for Human Rights, and Working Environment based on corporate governance, we also aim to contribute to solve social problems through business using our "Three Prominences": Environment, CS & Quality, and Human Resources. Further, we are also promoting constructive dialog by strengthening our relations with stakeholders in order to improve our corporate value. . Of note, the following CSR-related policies have been established with the aim of conducting CSR management from a global perspective while standing out as a progressive company: 1) Environmental Management Policy; 2) CS & Quality Management Policy; 3) Safety Policy; 4) Human Resources and Human Rights Policy; 5) Social Contribution Policy; and 6) Procurement Policy. For the details of each policy and information on specific initiatives, please refer to the CSR Report (published annually). http://www.sekisuichemical.com/csr/report/ -The Environmental Management Policy is as follows. < Mission> We, SEKISUI CHEMICAL GROUP, aim to be a Global Environmental Top Runner that contributes to the realization of a sustainable society by enabling the continuous growth and co-existence of ecology and economy. <Basic Policy> Each company in SEKISUI CHEMICAL GROUP advances approaches that contribute to the prevention of global warming, the preservation of biological diversity and the construction of a recycling-based society in all countries and regions where they have operations, in order to leave this beautiful earth for our children in the future. 1. We contribute to the environment through our products and services, with consideration given to the environment in all stages of the product life cycle covering all of research, procurement, production, sales, use and disposal as waste. 2. We carry out environmentally conscious business activities in all our workplaces and offices, and promote our approach to the environment through cooperation with our customers and business partners. 3. We make efforts to reduce the environmental impact of greenhouse gas emissions and hazardous chemicals, etc., and to prevent pollution by promoting effective use of limited resources and energy. 4. We comply with the related laws, regulations, international rules, etc. 5. We make efforts to improve environmental consciousness through education, and advance continual improvements by setting our own objectives and targets. 6. We enhance our confidence through close communications with society. 7. We actively work on social contribution activities such as nature conservation activities in each region.
Development of Policies on Information Provision to Stakeholders	The Company has formulated and disclosed the Information Disclosure Policy and the Basic Policy for Constructive Dialogue with Shareholders. Upon their implementation, the Company has also formulated an own

	Principle of Corporate Information Disclosure and strives to strictly enforce it in all corporate activities.
Other	<Promotion of Diversity> The Company develops the plan aiming at promoting the maximum activation of potential power from each diverse group 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 female, senior-aged, foreign citizen, etc., so that the Company promotes diversity by setting and disclosing concrete numerical targets for hiring, employment, and cultivation plans. (Please refer the Company’s annual CSR Report.) The Company established “Diversity Management Policy” to ensure 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.

IV. Matters Related to the Internal Control System

1. Basic Views on Internal Control System and Progress of System Development

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 Group.

(1) System to ensure that directors, executive officers and employees of the Company and Group companies execute their duties in compliance with laws, regulations and the Articles of Incorporation

The CSR Committee, chaired by the President, deliberates the Fundamental Compliance Policies, which are subject to approval by the Board of Directors. Also, the Compliance Sub-committee has been established as a special subcommittee of the CSR Committee with the aim of strictly enforcing compliance in the Company and Group companies and making them steadily carry out CSR in practice. The Compliance Sub-committee plans, examines and determines important matters related to compliance, for the purpose of building and implementing the compliance system in the Company and Group companies. The Sub-committee, which shall be chaired by a director or executive officer appointed by the President, supervises the Company and Group companies' compliance initiatives on a Group-wide scale.

The Company has also prepared the "SEKISUI CHEMICAL GROUP Compliance Manual", presenting the guidelines for directors, executive officers and employees of the Company and Group companies to act in accordance with laws, regulations, the Articles of Incorporation and corporate ethics. The Company also conducts training targeted at directors, executive officers and employees of the Company and Group companies in regards to various laws and regulations and corporate ethics in the form of group training sessions and e-learning. The Company has developed an internal system to prevent damage from being caused by antisocial forces, and by using the "SEKISUI CHEMICAL GROUP Compliance Manual", thoroughly inform directors, executive officers and employees of the Company and Group companies to have no relationship whatsoever with antisocial forces and to take a firm stand if unreasonable demands are made by antisocial forces.

In addition to the above, the intra-company whistle-blowing system S.C.A.N. (Sekisui Compliance Assist Network) enables employees to directly call the internal hotline or a lawyer's hotline when a compliance problem has arisen.

(2) System to store and manage information on the execution of duties of directors and executive officers of the Company and Group companies

In accordance with the Document Management Rules, information on the execution of duties of directors and executive officers of the Company and Group companies are recorded in document or electromagnetic media format and stored and managed in an appropriate manner.

(3) Rules and other systems related to management of risk of loss of the Company and Group companies

The Company strives to prevent risks from arising by identifying significant risks through the collection and evaluation of risk information in a centralized/complete manner based on the "SEKISUI CHEMICAL GROUP Risk Management Guidelines." In the event a significant risk has arisen, the Company will establish the emergency response headquarters to take prompt and appropriate measures based on the "SEKISUI CHEMICAL GROUP Crisis Management Guidelines"

(4) System to ensure that directors and executive officers of the Company and Group companies execute their duties in an efficient manner

The meeting of the Board of Directors shall be held at regular intervals—i.e., once a month—and shall also be held whenever necessary. Important matters relating to the Company's management policy and management strategy are discussed at the meeting of the Policy Committee separately, and following its deliberation, they are determined at the meeting of the Board of Directors.

Furthermore, the Company has delegated authority by adopting the division company system and executive officer system. Each divisional company has an Executive Officers Committee, which serves as the company's highest decision-making body, to facilitate prompt decision-making in the company. In addition, meetings of senior-level employees, meetings of branch general managers, etc. are held within the divisional company as necessary, and reports are made in a prompt and precise manner to the divisional company's president, who is responsible for the execution of duties in the divisional company.

(5) System to ensure proper business operations of the Company and Group companies

The Company and Group companies collaborate closely with each other in terms of supervision, directives and communication, having formulated the "Corporate Activity Guidelines" based on the Group's management principles in order to improve the corporate value of the Group as a whole and fulfill its social responsibility. The Company also seeks to conduct business operations in an appropriate manner on a Group-wide scale while guiding, advising and assessing Group companies.

In regards to the business management of Group companies, monitoring is conducted by *Kansayaku*, the Corporate Audit Department, etc., and enhancements are made to the system for Group companies to seek approval from and make reports to the Company based on the “Rules for handling affiliated companies” and “Guidelines for final decisions at affiliated companies”.

In addition, if a misconduct arises at the Company or a Group company, thoroughgoing efforts will be made to prevent it from occurring again by requiring that a report on the nature of the scandal be made to the divisional company in charge or the Compliance Promotion-Subcommittee at the corporate headquarters without fail and that the Compliance Subcommittee be contacted by the Compliance Promotion Subcommittee so that all information will be collected and brought to the director or executive officer appointed as the chairperson of the Compliance Subcommittee.

(6) Matters concerning employee to assist in the duties of *Kansayaku* if such employee is requested by *Kansayaku*

If a *Kansayaku* requests an employee to assist in his/her duties, the Company takes appropriate action such as appointing an employee to serve as his/her assistant subject to consultation with the *Kansayaku*.

(7) Matters concerning independence of the employee referred to in (6) from directors and executive officers

In cases where an employee is to be appointed to assist in the duties of a *Kansayaku*, the evaluation and transfer of such employee shall require the prior approval of the *Kansayaku*.

(8) Matters related to ensuring effectiveness of instructions to the employee referred to in (6)

In cases where an employee is to be appointed to assist in the duties of a *Kansayaku*, such employee shall follow the directions and orders of the *Kansayaku*.

(9) System for directors, executive officers, *Kansayaku* and employees of the Company and Group companies or recipients of their report to make a report to *Kansayaku* and other systems for making a report to *Kansayaku*.

Directors, executive officers, *Kansayaku* and employees of the Company and Group companies make a report on the following matters to the *Kansayaku* Board:

(i) Matters that are important in the context of monthly management status;
(ii) Matters that may inflict significant damage to the Company or Group companies;
(iii) Important matters related to risk management;
(iv) Material breach of laws, regulations or the Articles of Incorporation;
(v) Whistle-blowing status of the intra-company whistle-blower system; and
(vi) Other matters that are important in terms compliance.

Also, the Internal Audit Department of the Company conducts operational audits and accounting audits with respect to the Company and Group companies, and reports the audit results to the Representative Director and the *Kansayaku* Board of the Company on every occasion.

(10) System to ensure that the person who made a report to *Kansayaku*, etc. will not be treated unfairly on the grounds of making such report

The Company prohibits the unfair treatment of anyone who works at the Company or Group company on the grounds that he/she has made a report to *Kansayaku*, etc., and makes this thoroughly known among directors, executive officers, *Kansayaku* and employees of the Company and Group companies.

-The Company has developed internal controls over financial reporting, which are operated by a separate department in charge of the promotion of internal control. The status of company-level internal controls and the appropriateness of business processes at significant locations/units are monitored and the results of the audit conducted by the External Accounting Auditor are reported directly from the External Accounting Auditor to the directors in charge and *Kansayaku* as appropriate. The operation status of these controls and its evaluation are deliberated annually by the Board of Directors.

-The Company has clearly stipulated in the Board of Directors Regulations the conflict of interest transactions

between the Company and its Directors as a matter requiring the resolution of the Board of Directors. Opinions of outside directors and *Kansayaku* on these transactions are sought at the meeting of the Board of Directors through the approval or reporting processes pertaining to actual individual transactions. The execution status of these transactions is also required to be reported as appropriate at the meeting of the Board of Directors.
-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.
-As part of the whistle-blowing 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. The protection of the whistleblower is prescribed by the Whistle-blowing Policy 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.

2. Basic Views on Eliminating Anti-Social Forces

<Basic Views>
The Company has prepared the "SEKISUI CHEMICAL GROUP Compliance Manual", presenting the guidelines for directors, executive officers and employees of the Company and Group companies to act in accordance with laws, regulations, the Articles of Incorporation and corporate ethics. The Company has developed an internal system to prevent damage from being caused by antisocial forces, and by using the Manual, thoroughly inform directors, executive officers and employees of the Company and Group companies to have no relationship whatsoever with antisocial forces and to take a firm stand if unreasonable demands are made by antisocial forces.

<Progress of System Development>
The Company is promoting to nurture corporate culture emphasizing compliance and is carrying through an internal system to prevent damage from being caused by antisocial forces, to have no relationship whatsoever with antisocial forces and to take a firm stand if unreasonable demands are made by antisocial forces

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted

Supplementary Explanation

The Company has introduced, by the resolution of the general meeting of shareholders every three years corresponding to the period of midterm management plan, a rule to require any shareholder intends to acquire 20% or more of the Company's total outstanding number of shares to provide information that enables the Company to confirm that the proposed purchase will enhance the corporate value of the Company and is in accordance with the common interest of shareholders. However, the Company determined to abolish the rule at the conclusion of the ordinary general meeting of shareholders in June 2017, when the effective period of the rule expires.

2. Other Matters Concerning to Corporate Governance System

Corporate Governance System

