Corporate Governance Report

Last Update: March 2, 2020

SEKISUI CHEMICAL CO., LTD.
President: Keita Kato
Contact: +81-3-6748-6467
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 Group values most, through the creation of values to the society, as declared in the Corporate Philosophy.

[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.

* In the following translation, "Audit & Supervisory Board Member" stands for "Kansayaku" in the Corporate Governance Code.

[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 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.

For the succession of the President and Representative Director determined in March 2020, the Nomination and Remuneration Advisory Committee has continually deliberated on Mr. Keita Kato as a successor candidate. With his thorough knowledge of manufacturing practices in the manufacturing industry as well as abundant knowledge and experience in technological development, M&A, and global management, Mr. Kato, as the Company President of High Performance Plastics Company, contributed to the Company's achievement of the highest profit ever. In particular, during the past year, he demonstrated leadership in the important work of defining the policy of the SEKISUI CHEMICAL Group by, for example, reporting the general business conditions at the meetings of the Board of Directors from the standpoint of a person responsible for the overall supervision of the entire Group and putting together the Group' next medium-term management plan and long-term vision as the Head of the Business Strategy Department. As a result of the comprehensive deliberation on his performance record, experience, and capability at the meeting held in January 2020, the Committee concluded that he was the right person to realize the enhancement of the corporate value of the SEKISUI CHEMICAL Group and submitted a proposal to recommend him for the President and Representative Director position to the Board of Director held in February 2020, which approved the proposal.

[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 its corporate governance initiatives 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 78 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. Please refer to the following.

http://www.sekisuichemical.com/about/outline/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 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.
<Overview of evaluation>
In accordance with the above-mentioned basic policy, The Board has conducted annual assessment of the individual holdings in terms of stockholding ratio, existence of board representation or dispatched executives, or business alliance, state of business activities, dividend received, etc. and made judgment for appropriateness of holding them at the regular Board meeting held in June, 2019. The total number of share-holdings was reduced to 28 as of the end of March, 2019 from 36 recorded as of the end of March, 2018 as a result of disposition of eight holdings during FY2018.

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.

[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 processes. Audit & Supervisory Board also audits such transactions in accordance with the Note of Audit & Supervisory Board Member Auditing Standards.

[Principle 2.6]
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 representative, 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 a business owner and by and from among the pension plan participants.

[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 on the website of the Company, in earnings results briefing materials, and business reports.
(ii) The basic policy on corporate governance is disclosed on the website of the Company, in corporate governance reports, business reports, etc.
(iii) The policy for the remuneration for Directors and Audit & Supervisory Board Members is disclosed in corporate governance reports, annual securities reports, and the reference materials attached to 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 appointment/dismissal of the senior executive and the nomination of Director/ Audit & Supervisory Board Member 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 appointment/dismissal of the senior executive and nominating candidates for Director and for Audit & Supervisory Board Member 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 4.9]
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 on the SEKISUI Corporate Governance Principles. The three 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.

[Principle 4.11]
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. A female Outside Director is elected at the annual general meeting of shareholders in June 2019. The Company is continuously seeking to ensure diversity of the Board of Directors.
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 Directors and Audit & Supervisory Board Members.

[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 Audit & Supervisory Board Members 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 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 the notice of the general meeting of shareholders, annual securities reports, and corporate governance reports.

[Supplementary Principles 4.11.3]
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.
In FY2018, growth strategies (i.e. R&D, M&A and investment, and large-scale new business, etc.) and foundational strategies (i.e. Work Style Innovation 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 was held nine times and deliberated agendas including succession plan for the President and Representative Director, composition and effectiveness of the Board of Directors, and initiatives to strengthen corporate governance.
In FY2019, 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 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 with opportunities to develop necessary knowledge, skills, etc., 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 Audit & Supervisory Board Members 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 (shares)	Percentage (%)
Master Trust Bank of Japan, Ltd. (Trust Account)	24,389,000	5.24
Japan Trustee Services Bank, Ltd. (Trust Account)	23,050,000	4.95
Asahi Kasei Corporation	21,039,000	4.52
The Dai-ichi Life Insurance Company, Limited	19,681,000	4.23
The Bank Of New York Mellon 140042	12,062,000	2.59
Sekisui House, Ltd.	10,998,000	2.36
Employees Stock Ownership Plan	8,861,000	1.90
Japan Trustee Services Bank, Ltd. (Trust Account 5)	8,398,000	1.80
State Street Client Omnibus Account OM02	7,660,000	1.64
MUFG Bank, Ltd.	7,618,000	1.63

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

Supplementary Explanation

The list is reported as of March 31, 2019.
The Company holds 27,396,102 treasury stocks (5.56%), which are excluded in the above list.
The treasury stocks excludes 201 thousand shares held by entrusted Employee Stock Ownership Plan and 315 thousand shares held by Board Incentive Plan as officer remuneration system, respectively.
The number of shares owned is rounded down to the nearest thousand.
The percentage is calculated after deducting the number of treasury stocks from that of total outstanding shares.

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 yen
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

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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 Audit & Supervisory 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	Chairman of the Board
Number of Directors	9
Appointment of Outside Director	Appointed
Number of Outside Directors	3
Number of Independent Directors	3

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Yutaka Kase	From another company								△			
Hiroshi Oeda	From another company								△			
Yoko Ishikura	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 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/ Audit & Supervisory Board Member
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/ Audit & Supervisory Board Members 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
Yutaka Kase	○	Mr. Kase is taking office of Advisor of Sojitz Corporation and Outside Director of JAC Recruitment Co., Ltd. While the Company has business transaction with each of both parties, the ratio of the transaction value to the net sales of Sojitz Corporation or JAC Recruitment Co., Ltd. and the Company for the business year last closed was less than 1%, respectively. 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 provided advice with respect to the business management of the Company and supervised business execution appropriately by leveraging his abundant experience and past achievements regarding global corporate management and business strategy fostered through his position as a corporate manager of a general trading company. Therefore, the Company has judged that he would be able to contribute to further enhancing the corporate value of the SEKISUI CHEMICAL Group and thus appointed him as Director.
Hiroshi Oeda	○	Although Mr. Oeda is taking office of Corporate Special Advisor of Nisshin Seifun Group Inc. and President of Seifun Kaikan Inc., the Company has business transaction neither with Nisshin Seifun Group Inc. nor Seifun Kaikan Inc. Also, he is taking office of Outside Director of EBARA CORPORATION. While the Company has business transaction with EBARA CORPORATION, the ratio of the transaction value to the net sales of EBARA CORPORATION and the Company for the business year last closed was less than 1%, respectively. 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.	As Mr. Oeda has been a management executive of the largest milling company in Japan, the Company expects him to provide advice with respect to the business management of the Company and supervise business execution appropriately by leveraging his abundant experience and skill regarding global corporate management, business strategies and M&A activities fostered through his positions. Therefore, the Company has judged that he would be able to contribute to enhancing the corporate value of the SEKISUI CHEMICAL Group and thus appointed him as Director.
Yoko Ishikura	○	Although Ms. Ishikura is taking office of Outside Director of Shiseido Company, Limited and Outside Director of NISSIN FOODS HOLDINGS CO., LTD., the Company has business transaction neither with Shiseido Company, Limited nor NISSIN FOODS HOLDINGS CO., LTD. Accordingly, independence of Outside Directorship is sufficiently secured. She is deemed not to be at risk of causing conflict of interest with general shareholders, and has thus been designated as an independent officer.	Ms. Ishikura has advanced academic expertise in international politics/economics and international corporate strategy, and is well-versed in corporate management through her experience as outside director at multiple global enterprises. Furthermore, she has been actively involved in diversity management and promotion of greater participation of women, which are areas being addressed by the Group. Therefore, the Company has judged that she would be able to contribute to enhancing the

			corporate value of the Company and thus appointed her as Director.

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	6	0	2	3	1	0	Outside Director
Committee Corresponding to Remuneration Committee	The Nomination and Remuneration Advisory Committee	6	0	2	3	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")
One Outside Expert is Outside Audit & Supervisory Board Member of the Company.

Chairman : Yutaka Kase
Committee members : Hiroshi Oeda, Yoko Ishikura, Tetsuo Ozawa, Teiji Koge and Keita Kato
In FY2019, the Nomination and Remuneration Advisory Committee was held six times and deliberated agendas including succession plan for the President and Representative Director, composition and effectiveness of the Board of Directors, and initiatives to strengthen corporate governance.
The Nomination and Remuneration Advisory Committee of the Company has function of both Nomination Committee and Remuneration Committee.

[Audit & Supervisory Board Members]

Establishment of Audit & Supervisory Board	Established
Maximum Number of Audit & Supervisory Board Members Stipulated in Articles of Incorporation	The Company does not set a ceiling on the number of Audit & Supervisory Board Members
Number of Audit & Supervisory Board Members	5

Cooperation among Audit & Supervisory Board Members, Accounting Auditors and Internal Audit Departments

- Audit & Supervisory Board Members confirm 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.
-Audit & Supervisory 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 Audit & Supervisory Board Members as appropriate. The results of the internal audit conducted by the Corporate Audit Department and the improvement status of audit findings are reported to the Audit & Supervisory Board Members on a timely basis. With the assistance of the dedicated support staff, Audit & Supervisory Board also collects information from internal departments and conducts any necessary interviews.
-A group-wide internal framework has been put in place to enable Audit & Supervisory Board Members 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 Audit & Supervisory Board (including Outside Audit & Supervisory Board Members). Audit & Supervisory Board Member 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 Audit & Supervisory Board Member, and important audit issues and to make necessary requests to enhance mutual understanding.

Appointment of Outside Audit & Supervisory Board Members	Appointed
Number of Outside Audit & Supervisory Board Members	3
Number of Independent Audit & Supervisory Board Members	3

Outside Audit & Supervisory Board Members' 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													
Kazuyuki Suzuki	Academic													
Ryoko Shimizu	CPA													

* 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. Audit & Supervisory Board Member 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 an Audit & Supervisory Board Member

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 Audit & Supervisory Board Member himself/herself only)
k. Executive of a company, between which and the Company Outside Directors/ Audit & Supervisory Board Members are mutually appointed (the Audit & Supervisory Board Member himself/herself only)
l. Executive of a company or organization that receives a donation from the Company (the Audit & Supervisory Board Member himself/herself only)
m. Others

Outside Audit & Supervisory Board Members' Relationship with the Company (2)

Name	Designation as Independent Audit & Supervisory Board Member	Supplementary Explanation of the Relationship	Reasons of Appointment
Tetsuo Ozawa	○	Mr. Ozawa is an attorney-in-law serving as a representative partner 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. Tetsuo Ozawa has a legal perspective and wide range of knowledge and abundant experience about risk management and mainly in the field of corporate law as an attorney-in-law. Also in the perspective of compliance, to check appropriateness of decisions made by the management, the Company expects him to contribute to improve the public credibility of the Company. Therefore the Company appointed him as an Outside Audit & Supervisory Board Member.
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 expects him to reflect his knowledge and experience in the auditing of the Company. Therefore the Company appointed him as an Outside Audit & Supervisory Board Member.
Ryoko Shimizu	○	Ms. Shimizu serves as a fulltime Professor of School of Accountancy of Kansai University. She 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.	Ms. Shimizu possesses specialized knowledge of accounting in Japan and overseas as well as abundant auditing experience as a Certified Public Accountant and the Company expects her to reflect her knowledge and experience in the auditing of the Company. Therefore the Company appointed her as an Outside Audit & Supervisory Board Member.

[Independent Directors/ Audit & Supervisory Board Members]

Number of Independent Directors/ Audit & Supervisory Board Members	6

Matters relating to Independent Directors/ Audit & Supervisory Board Members

-All Outside Directors and Outside Audit & Supervisory Board Members, currently six persons in total, have been designated as Independent Directors/ Audit & Supervisory Board Members 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 Audit & Supervisory Board Members of the Company. (Please refer to the Criteria for Independence of Outside Board Members (Directors and Audit & Supervisory Board Members) which are disclosed in the form of appendix to the SEKISUI Corporate Governance Principles.)
-In the latest fiscal year, Mr. Ishizuka and Mr. Kase attended all the seventeen meetings of Board of Directors. Mr. Oeda who has assumed the office since June, 2018, attended all the thirteen meetings of Board Directors since then. Mainly from a viewpoint of top executives with rich experienced, they actively made required remarks on a bill under discussion.
-In the latest fiscal year, Audit & Supervisory Board Member, Mr. Ozawa, attended all the seventeen meetings of Board of Directors and all the eighteen meetings of Audit & Supervisory Board. 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. Audit & Supervisory Board Member, Mr. Nishi attended all the seventeen meetings of Board of Directors and all the eighteen meetings of Audit & Supervisory Board. Mainly from a viewpoint of finance and accounting, etc. as a certified public accountant, he made required remarks on a bill under discussion. Audit & Supervisory Board Member, Mr. Suzuki attended all the seventeen meetings of Board of Directors and all the eighteen meetings of Audit & Supervisory Board. 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)

The remuneration for Directors of the Company consists of performance-based remuneration and non-performance-based remuneration. The Company has not determined a policy on the ratio of each component in the remuneration paid to the Directors but such payment is discussed and appropriately managed by the Nomination and Remuneration Advisory Committee to ensure that the performance-based remuneration functions effectively as an incentive toward the improvement of the Group’s corporate value and the achievement of the management plan. The remuneration for Outside Directors does not contain a performance-based remuneration component.

Furthermore, the Company has selected operating income, which is the business performance target of the Company; the business performance of the divisional companies, which reflects the business performance of the Group’s unique divisional company system; ROE, an assessment criteria for the improvement of the Group’s corporate value; and dividends, which provides incentive to return these management results to shareholders, as indicators relating to the performance-based remuneration, with the reasons for the selection being to enable the performance-based remuneration will to function effectively as an incentive for the Directors of the Company to improve the Group’s corporate value and achieve the management plan, as well as to ensure a high level of objectivity and transparency of the remuneration process. The amount of payment is determined to reflect the above indicators by utilizing the executive remuneration data of outside research

agencies and periodically making comparisons with companies similar in size and business performance to the Group.

The targets and results of the indicators for the performance-based remuneration for the current fiscal year are as follows.

Indicators		Targets	Results
Business performance of the Company (Operating income)		102.0 billion yen	95.7 billion yen
Business performance of the divisional companies (Operating income)	Housing	39.5 billion yen	39.0 billion yen
	Urban Infrastructure & Environmental Products	16.5 billion yen	15.0 billion yen
	High Performance Plastics	59.5 billion yen	54.5 billion yen
ROE		11%	11%
Dividends		42 yen	44 yen

Recipients of Stock Options	

Supplementary Explanation

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[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	Total	
Directors (excluding Outside Directors)	275	142	57	475	8
Audit & Supervisory Board (excluding Outside Audit & Supervisory Board Members)	56	-	-	56	2
Outside Officers	61	-	-	61	6

(Notes) 1. The amount paid to Directors does not include the portion of employee's salary (including bonus) amounting to 134 million yen for Directors who concurrently serve as employees (3 persons).
2. The number of eligible officers includes 1 Director who retired at the closing of the 96th Annual General Meeting of Shareholders held on June 27, 2018.

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

(1)Policy on determining remuneration, etc.
The basic policy of the remuneration system for the Company's officers has been determined as follows as part of efforts to realize the Company's corporate philosophy.
-It must contribute to the sustainable growth of the Group and the mid- and long-term improvement of corporate value.
-It must encourage the Company's officers to share a common awareness of interest with the shareholders and to further enhance management awareness that places importance on the interest of the shareholders.
-It must be a remuneration system with a strong link to business performance in order to motivate the Company's officers to achieve the business plan.
-It must be a system with standards capable of attracting and retaining diverse and talented management resources in order to enhance the Group's competitiveness.

Furthermore, the remuneration, etc. for Executive Directors consists of basic remuneration, bonus and share-based compensation, while the remuneration for Outside Directors and Audit & Supervisory Board Members consists only of basic remuneration.
-The basic remuneration is provided in a flat amount commensurate with the officer's roles and responsibilities within the limit of the officers' remuneration allowance. Executive 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 ROE and dividend policy.
-The share-based compensation plan 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. 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.

In a resolution relating to officers' remunerations approved by the 85th Annual General Meeting of Shareholders held on June 28, 2007, the upper limit of remunerations for Directors was set at 1,100 million yen per year, while the upper limit of remunerations for Audit & Supervisory Board Members was set at 120 million yen per year. In a resolution approved by the 94th Annual General Meeting of Shareholders held on June 28, 2016, the upper limit for share-based compensation was set at a total of 330 million yen in the three-year period.

The amount of the officers' remuneration of the Company is determined based on the roles and responsibilities of the officer. The system has been designed so that the higher the rank of the officer the higher the ratio of the performance-based remuneration component. The responsibilities of each officer also reflect the business performance of the divisional company for which he or she is responsible.

(2)Process of determining officers' remuneration
In determining the amount of remunerations, etc. to the Company's Directors and the policy on determining calculation methods, the matter is deliberated by the Nomination and Remuneration Advisory Committee in advance and the results of the deliberation are recommended to the Board of Directors. The Board of Directors determines the policy based on the recommendation of the said advisory committee. The following is a summary of the procedures taken by the Nomination and Remuneration Advisory Committee.
The chairman (Outside Director) convenes the committee and the agenda items are proposed by each committee member and deliberated by the committee. The results of deliberation by the committee are recommended to the Board of Directors by the chairman. The members of the committee are required to determine these matters from the perspective of whether or not it contributes to the Company's corporate value and ultimately to the common interests of the shareholders, and are prohibited from making decisions

that would solely benefit the personal interests of oneself or that of third parties, including the management team of the Company. In determining the amount of remuneration for the 97th fiscal term, the Nomination and Remuneration Advisory Committee deliberated the Directors' remuneration levels and other matters including the personal evaluations and remunerations of each Director in June 2018 and June 2019, and the Board of Directors made a final decision.

[Supporting System for Outside Directors and/or Audit & Supervisory Board Members]

-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.
-Prior to the Board of Directors Meeting, the Secretariat to the Board of Directors makes a visit to independent Outside Directors to enhance the understanding of the discussion agenda by them, explaining about the agenda.
-Corporate Internal Audit Department and the Secretarial Group are in charge of the Secretariat to Audit & Supervisory Board to support the audit activities conducted by Audit & Supervisory Board Members and the administration of Audit & Supervisory Board. In cooperation with each other, they establish the system which enables Outside Audit & Supervisory Board Members to inspect important documents and conduct a hearing to a responsible person in charge of each division as necessary.
-Audit & Supervisory Board exchanges opinions with independent Outside Directors and provides information gained through audit activities.

[Status of individuals retired from Representative Director and President, etc.]

Name	Position/ Title	Description of Duties	Working Pattern/ Condition (Full time/Part time, With/Without remuneration, etc.)	Date of Retirement from President, etc.	Term
Naotake Okubo	Senior Advisor	Activities for business organizations, Social contribution activities etc.	Part time, Without remuneration, etc.	June 26, 2013	One year and thereafter extendable
Naofumi Negishi	Executive Advisor	Activities for business organizations, Social contribution activities etc.	Part time, With remuneration, etc.	June 27, 2018	Maximum five years

Total Number of Senior Advisor/Advisor who is a Former President and Representative Director, etc.	2

Other Matters

The Company has both Executive Advisor System and Senior Advisor System aimed engaging in outside activities by persons with experience of office of President and Director, etc. Executive Advisor and Senior Advisor engage in such activities that have certain significance to the Company from the view point of a public nature and interest in economic and industrial sectors as well as academic and sports world, and never intervene to any management matters.

Appointment of Executive Advisor and Senior Advisor is resolved by the Board of Directors, after being deliberated by the Nomination and Remuneration Advisory Committee, which consists of the majority of Independent Outside Board Members, and is delegated by President and Director.

*1 Mr. Okubo's "Date of Retirement from President, etc." is the day when he retired from Director & Executive Advisor.

*2 Mr. Negishi's "Date of Retirement from President, etc." is the day when he retired from Chairman of the Board and Director.

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 Audit & Supervisory 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.

(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 three Outside Directors to ensure transparency in management and fairness in business decisions and operations. In addition, all Audit & Supervisory Board Members including Outside Audit & Supervisory Board Members 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 Audit & Supervisory Board Members with strong expertise.
In FY2018, growth strategies (i.e. R&D, M&A and investments, and large-scale new business, etc.) and foundational strategies (i.e. Work Style Innovation and CS and Quality, etc.) were taken up as important management issues and sufficiently discussed at the Board of Directors Meeting.

(3) Audit system
The Company has established an Audit & Supervisory Board as a supervisory body to oversee the Board of Directors and business execution system. Together with the adoption of Outside Audit & Supervisory Board Members, 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, Audit & Supervisory Board Members 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.
A group-wide internal framework has been put in place to enable Audit & Supervisory Board Members to perform audits without any obstacles by, among others, attending various important meetings, conducting an investigation into divisions concerned including affiliates, examining the approval documents of important projects, and receiving reports from related divisions including the internal audit division. Audit & Supervisory Board Members also hold a regular meeting with the Representative Directors to exchange opinions on, among others, the issues that the Company should resolve, the status of the improvement of the environment for audit by Audit & Supervisory Board Members, and important audit issues and to make necessary requests to enhance mutual understanding.
The Company's accounting auditor is Ernst & Young ShinNihon LLC (The name was changed from ShinNihon LCC in July 2018), and certified public accountants who execute the accounting audit work are Shunsuke Sakai and Takao Oshitani; each certified public accountant is replaced in a timely manner in accordance with the replacement plan formulated with Ernst & Young ShinNihon LLC.

The accounting auditor and the Audit & Supervisory Board Members confirm the audit plan and mutually periodically exchange information and opinions including receiving audit reports, with the aim of improving effectiveness and efficiency of audits through close collaboration.

(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 Audit & Supervisory Board.
The Company is continuously encouraging to improve corporate value based on the belief that enhancing fairness and transparency and swift decision making are critical.
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 deliberate successor candidates for the President and other Directors, and remuneration of Directors.
Additionally, since FY 2018, the Company set a structure to increase the number of independent Outside Directors by one person to total three.
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).	Yes
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 quarterly 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) Human Rights Policy; 2) Environmental Management Policy; 3) CS & Quality Management Policy; 4) Safety Policy; 5) Personnel Policy; 6) Social Contribution Policy; and 7) 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. 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. <Promotion of Work Style Innovation> The Company set FY 2018 as the" starting year for Work Style Innovation" and is addressing on a company-wide basis, intending to establish a corporate culture where each employee would continuously enjoy actively working, and to be regarded as a company group continuously favored by stakeholders. <Statement of Work Style Innovation> To empower every employee to demonstrate their personal strengths, we will transform our current work style, which requires long hours to achieve results, in to a productive work style that maximizes results in a limited time. To improve productivity, the company will introduce various management resources and enable employees and managers across the company to unite their knowledge and experiences. Improving our quality of work will nurture engagement and enable us to return the reform results to employees, thereby strengthening our culture of diversity.

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 Audit & Supervisory Board Members, 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 Audit & Supervisory Board Members if such employee is requested by Audit & Supervisory Board Members.

If Audit & Supervisory Board Members request 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 Audit & Supervisory Board Members.

(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 an Audit & Supervisory Board Member, the evaluation and transfer of such employee shall require the prior approval of the Audit & Supervisory Board Members.

(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 an Audit & Supervisory Board Member, such employee shall follow the directions and orders of the Audit & Supervisory Board Members.

(9) System for Directors, executive officers, Audit & Supervisory Board Members and employees of the Company and Group companies or recipients of their report to make a report to Audit & Supervisory Board Members and other systems for making a report to Audit & Supervisory Board Members.

Directors, executive officers, Audit & Supervisory Board Members and employees of the Company and Group companies make a report on the following matters to the Audit & Supervisory 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 which are important in terms of 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 Audit & Supervisory Board of the Company on every occasion.

(10) System to ensure that the person who made a report to Audit & Supervisory Board Members, 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 Audit & Supervisory Board Members, etc., and makes this thoroughly known among Directors, executive officers, Audit & Supervisory Board Members and employees of the Company and Group companies.

(11) Matters Regarding Policy on Handling Advance Payment or Repayment of Expenses Resulting from Audit & Supervisory Board Members' Execution of Duties or Other Expenses or Debts Arising from the Said Execution of Duties

Expenses deemed necessary for the execution of duties by Audit & Supervisory Board members shall be budgeted for in advance. However, it shall not be required in cases where unplanned duties should be executed.

(12) Other Systems under Which Audit by Audit & Supervisory Board Members Is Ensured Efficiently to Be Performed

A group-wide internal framework has been put in place to enable Audit & Supervisory Board Members 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 Audit & Supervisory Board (including Outside Audit & Supervisory Board Members). Audit & Supervisory Board Members also hold 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 Audit & Supervisory Board Members, and important audit issues and to make necessary requests to enhance mutual understanding.

Based on the above-mentioned policies, the Company endeavors to administrate its internal control system.

-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 Audit & Supervisory Board Members 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 Audit & Supervisory Board Members 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 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 has established a point of contact for the employees of foreign affiliates in United States, China and ASEAN countries. 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.

2. Basic Views on Eliminating Anti-Social Forces

(1) 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.

(2) 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

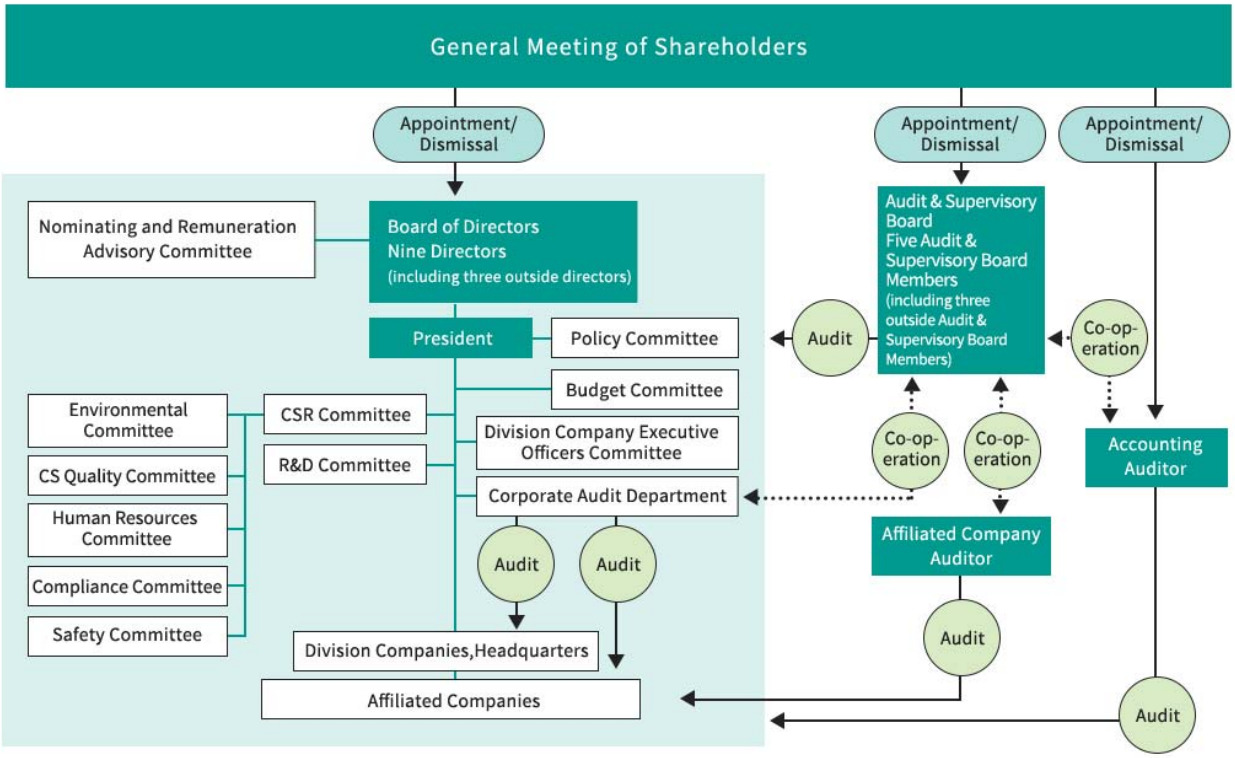
V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted

2. Other Matters Concerning to Corporate Governance System

■ Corporate Governance System



■List of Officers

Name	Position in the Company	Number of Years (At the closing of Annual General Meeting of Shareholders on June 20, 2019)	Number of Attendance of the Board of Directors Meetings of the Company (FY2018)	Number of Attendance of the Audit & Supervisory Board Meetings of the Company (FY2018)	Nomination and Remuneration Advisory Committee	Directors' and Audit & Supervisory Board Members' Outstanding Expertise, Experience and Capabilities						
						Corporate Management/ Management Strategy	Financial Affairs/ Accounting	Legal Affairs	Quality Control	Human and Labor Administration/ Human Resources Development	International Mindset	Research & Development
Teiji Koge	Chairman of the Board and the Representative Director	14 years	100% (17 out of 17)	—	●	●				●		
Keita Kato	President and Representative Director Chief Executive Officer	5 years	100% (17 out of 17)	—	●	●			●		●	●
Yoshiyuki Hirai	Director Managing Executive Officer	4 years	100% (17 out of 17)	—		●	●				●	
Hiroyuki Taketomo	Director Managing Executive Officer	3 years	100% (17 out of 17)	—		●		●		●		
Toshiyuki Kamiyoshi	Director Managing Executive Officer	—	—	—		●						
Ikusuke Shimizu	Director Managing Executive Officer	—	—	—		●			●		●	●
Yutaka Kase	Independent Outside Director	3 years	100% (17 out of 17)	—	●	●					●	
Hiroshi Oeda	Independent Outside Director	1 year	100% (13 out of 13)	—	●	●					●	
Yoko Ishikura	Independent Outside Director	—	—	—	●	●					●	
Moritoshi Naganuma	Fulltime Audit & Supervisory Board Member	2 years	100% (17 out of 17)	100% (18 out of 18)			●					
Yuichi Hamabe	Fulltime Audit & Supervisory Board Member	3 years	100% (17 out of 17)	100% (18 out of 18)						●		
Tetsuo Ozawa	Independent Outside Audit & Supervisory Board Member	5 years	100% (17 out of 17)	100% (18 out of 18)	●			●				
Kazuyuki Suzuki	Independent Outside Audit & Supervisory Board Member	4 years	100% (17 out of 17)	100% (18 out of 18)					●			
Ryoko Shimizu	Independent Outside Audit & Supervisory Board Member	—	—	—			●				●	

(Note) The above list does not present all knowledge held by Directors' and Audit & Supervisory Board Members.