

## Corporate Governance Report

Last Update: October 30, 2015

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.

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

\* In the following translation, “*Kansayaku*” represents “Audit & Supervisory Board Member”

The Company respects the purport of the Corporate Governance Code and will implement each principle set forth in the Code, including those that need to be considered in the future. There are no items to be explained with reasons for no-implementation.

[Items implemented this time (as of October 29, 2015)]

1. Disclosure of basic policy for cross-shareholdings of the other listed companies and policy for the exercise of voting rights [Principle 1.4]
2. Disclosure basic policy for constructive dialogue with shareholders [Principle 5.1]
3. Establishment and disclosure of the criteria for independence of outside board members (Directors and *Kansayaku*) [Principle 4.9]

The following items will be implemented going forward.

[Items decided for new implementation]

1. Establishment of advisory committees concerning nomination and remuneration (during fiscal 2015) [Principle 4.10] [Supplementary Principle 4.10.1]

[Items decided for further enhancement]

1. Establishment of SEKISUI Diversity Management Policy [Principle 2.4]
2. Establishment and enforcement of training policy for directors and *Kansayaku* [Supplementary Principle 4.14.2]
3. Consideration at the meeting of Board of Directors
  - (1) Analysis of votes against proposals made at the general meeting of shareholders and consideration of measures to deal with them [Supplementary Principle 1.1.1]
  - (2) Consideration of the necessity of major cross-shareholdings [Principle 1.4]
  - (3) Report and consideration of implementation status of the Corporate Activity Guidelines [Supplementary Principle 2.2.1]
  - (4) Report and consideration of the enforcement status of the framework for whistleblowing [Principle 2.5]
  - (5) Analysis and evaluation of the effectiveness of the Board of Directors and disclosure of the analysis and evaluation results [Principle 4.11]

#### [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.

<http://www.sekisui.co.jp/ir/pdf/20151029cgpe.pdf>

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.sekisui.co.jp/ir/pdf/20151029cgie.pdf>

## 2. Capital Structure

Foreign Shareholding Ratio	More than 30%
----------------------------	---------------

#### [Status of Major Shareholders]

Name / Company Name	Number of Shares Owned	Percentage (%)
Asahi Kasei Corporation	31,039,000	5.96
Sekisui House, Ltd	20,592,000	3.95
The Dai-ichi Life Insurance Company, Limited	19,681,000	3.78
Japan Trustee Services Bank, Ltd. (Trust Account)	16,515,000	3.17
The Master Trust Bank of Japan, Ltd. (Trust Account)	14,039,000	2.69
Tokio Marine & Nichido Fire Insurance Co., Ltd.	11,946,000	2.29
State Street Bank and Trust Company 505225	10,316,000	1.98
Employees Stock Ownership Plan	9,090,000	1.74
JPMorgan Chase Bank 385164	8,557,000	1.64
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	7,618,000	1.46

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

Supplementary Explanation

-
---

### 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 1000
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(corresponding to directors) are dispatched; however, the representative director(corresponding to representative director) is hired 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 <i>Kansayaku</i> 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	9
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	
Toru Nagashima	From another company								Δ				
Kunio Ishizuka	From another company								○				

\* Categories for "Relationship with the Company"

\* "○" when the director presently falls or has recently fallen under the category;

"Δ" 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
Toru Nagashima	○	Senior Advisor of Teijin Limited	<p>Mr. Nagashima is a Senior Advisor of Teijin Limited ("Teijin"). The Company considers that Mr. Nagashima's advice based on the affluent experience and rich knowledge accumulated through engagement in a management executive of basic materials industry, especially high performance products and the Company appointed him as an outside director so that he can strength the corporate governance of the Company.</p> <p>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.</p> <p>While the Company has business with Teijin, net sales of Teijin to the Company represented less than 0.01% of the Company's total net sales; and net sales of the Company to Teijin represented less than 0.01% of total net sales of Teijin, in each case for the business year last closed. Accordingly, independence of outside directorship is sufficiently secured.</p>
Kunio Ishizuka	○	<p>-Chairman and Representative Director, Executive Officer of Isetan Mitsukoshi Holdings Ltd.</p> <p>-Chairman and Representative Director, Executive Officer of Isetan Mitsukoshi, Ltd.</p>	<p>Mr. Ishizuka has insight and experiences as a management executive of retail and service industry since he is the chairman of the board and representative executive officer of Isetan Mitsukoshi Holdings Limited and chairman of the board and representative executive officer of Isetan Mitsukoshi Ltd. ("Isetan Mitsukoshi"). The Company considers that Mr. Ishizuka's advice based on the affluent experience and rich knowledge accumulated through a management executive of retail and service industry and the Company appointed him as an outside director so that he can contribute to strengthening the corporate governance of the Company.</p> <p>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.</p> <p>While the Company has business with Isetan Mitsukoshi, net sales of Isetan Mitsukoshi to</p>

			the Company represented less than 0.01% of the Company's total net sales; and net sales of the Company to Isetan Mitsukoshi represented less than 0.01% of total net sales of Isetan Mitsukoshi, in each case for the business year last closed. Accordingly, independence of outside directorship is sufficiently secured.
--	--	--	---

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Not Established
---	-----------------

#### Supplementary Explanation

The Company has decided to establish optional advisory committees concerning nomination and remuneration, which is under discussion.

#### [Kansayaku]

Establishment of <i>Kansayaku</i> Board	Established
Maximum Number of <i>Kansayaku</i> Stipulated in Articles of Incorporation	The Company does not set a ceiling on the number of <i>Kansayaku</i>
Number of <i>Kansayaku</i>	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 <i>Kansayaku</i>	Appointed
Number of Outside <i>Kansayaku</i>	3
Number of Independent <i>Kansayaku</i>	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 <i>Kansayaku</i>	Supplementary Explanation of the Relationship	Reasons of Appointment
Tetsuo Ozawa	○	Attorney-in-law of Tokyo Fuji Law Office	Mr. Tetsuo 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 <i>Kansayaku</i> so that he can reflect his knowledge and experience in the auditing of the Company.
Yasuhiro Nishi	○	Representative of Yasuhiro Nishi Certified Public Accountants' Office Outside <i>Kansayaku</i> of Kirindo Holdings Co., Ltd.	Mr. Nishi is qualified as a certified public accountant, and the Company appointed him as an Outside <i>Kansayaku</i> so that he can reflect his profound knowledge about finance and accounting in the auditing of the Company.
Kazuyuki Suzuki	○	Professor of Graduate School of Informatics of University of Electro-Communications	Mr. Suzuki possesses profound knowledge and extensive experience on quality control and reliability engineering, and the Company appointed him as an Outside <i>Kansayaku</i> so that he can reflect his knowledge and experience in the auditing of the Company.

### [Independent Directors/*Kansayaku*]

Number of Independent Directors/ <i>Kansayaku</i>	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, both of Director, Mr. Nagashima, and Director, Mr. Ishizuka, attended all the eighteen meetings of board directors out of eighteen meetings. 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. Osada, retired from the office of *Kansayaku* in June 2015, attended all the eighteen meetings of board directors out of eighteen meetings and all the eighteen meetings of *Kansayaku* Board. With profound knowledge and extensive experience on quality control and technological management, he made required remarks on a bill under discussion. *Kansayaku*, Mr. Onishi, retired from the office of *Kansayaku* in June 2015, attended all the eighteen meetings of board directors out of eighteen meetings 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. Ozawa, who has assumed the office since June, 2014, attended all the fourteen meetings of



board directors out of fourteen meetings and all the thirteen meetings of *Kansayaku* Board since then. 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.

## [Incentives]

Incentive Policies for Directors	Stock Options
----------------------------------	---------------

## Supplementary Explanation

Recipients of Stock Options	Inside Directors / Outside Directors / Employee / Other
-----------------------------	---

## Supplementary Explanation

-Executive officers of the Company are also eligible for stock options.  
 -Employees of the Company who are senior-level employees of the Company are eligible for stock options as they are in a position to exert significant influence over company-wide business performance.  
 -Representative directors and a part of directors of affiliates are eligible for stock options as they have a significant influence over the Group's business performance from the perspective of consolidated management.

The Company has adopted a stock option plan in order to improve awareness regarding the improvement of financial performance, enhancement of corporate value and shareholder-oriented management.

## [Director Remuneration]

Disclosure of Individual Directors' Remuneration	Individual remuneration are not disclosed.
--	--

## Supplementary Explanation

In regards to the remuneration for directors and *Kansayaku*, the aggregate amount is disclosed in the annual securities report by distinguishing between directors and *Kansayaku*.

Policy on Determining Remuneration Amounts and Calculation Methods	Established
--	-------------

## Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

The remuneration for the directors and *Kansayaku* of the Company consists of monthly remuneration, bonus, and stock options. Monthly remuneration is provided in a flat amount commensurate with the roles and responsibilities of each director. The amount of bonus is determined based on the payment standards linked to the financial performance and the dividend policy of the Company. The number of stock options granted to each director is determined in accordance with the duties of each director.

## [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.

-*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)**

### **<The Board of Directors>**

The Board of Directors, aiming to fulfill the fiduciary duty to shareholders through sustainable growth and medium/long-term enhancement of the corporate value of the Company, exercises the supervisory function over the entire operations of the Company to secure the fairness and transparency of its management through, among others, the nomination of director candidates, *Kansayaku* candidates and executive officers, the determination of the remuneration for directors and executive officers, and making decisions on important business executions. It also indicates the general direction of corporate strategies and determines the allocation of important management resources.

Pursuant to the Articles of Incorporation, the number of directors shall be 15 persons or less; however, the Company is enhancing speedy management decision-making and supervisory functions of the Board of Directors by appointing two outside directors who meet the criteria of outside officers and making the Board of Directors consist of no more than 10 directors as a matter of policy.

### **<The structure of the Board of 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.

The election of directors is currently properly performed in light of the management principles and strategies. However, the Company is considering the establishment and the active use of optional advisory committees concerning nomination and remuneration to further enhance fairness and transparency for its procedure.

### **< Business execution system>**

Under the Divisional Company System since April 2008, the Company has adopted the Executive Officer System in order to clearly distinguish the business execution function from the decision-making function in management.

### **<About Executive Officers system>**

The Company appoints Executive Officers whose role is to focus solely on business execution and to respond swiftly to business opportunities. 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.

### **<Audit system>**

The Corporate Audit Department, which reports directly to the President, conducts internal audits on operations of the Group as a whole. The Company's accounting auditor is Ernst & Young ShinNihon LLC, and certified public accountants who execute accounting audit work are Mikio Konishi, Yoshio Ogawa 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.

A group-wide internal framework has been put in place to enable *Kansayaku* to exercise without any obstacle to 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 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 *Kansayaku*, and important audit issues and to make necessary requests to enhance mutual understanding with the representative directors.

Internal audits involve field audits based on internal audit regulations, annual audit policies and audit plans, and the audit results are reported to the President, directors, *Kansayaku* and relevant departments/offices. Also, written replies relating to improvements from the audited departments/offices are obtained and follow-up audits are conducted as necessary, to help develop and improve the internal control system

### **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.

The Company thinks that it is important to enhance the transparency and fairness of the management for sustainable growth of its corporate value and to pursue prompt decision making. The Company has adopted the Executive Officer System in order to clearly distinguish the business execution function from the decision-making function in management.

Having established a highly effective system to supervise directors by appointing two outside directors who are independent and ensured management transparency and fairness by enhancing the audit system, the current system is deemed suitable to the Company.

The Company is also considering the establishment and the active use of optional advisory committees concerning nomination and remuneration to supplement the functions of the Board of Directors and to further enhance managerial fairness and transparency.

### 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
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).
Regular Investor Briefings for Analysts and Institutional Investors	Held on a quarterly basis to provide wrap-up of business performance and explain financial results.
Regular Investor Briefings for Overseas Investors	IR activities are conducted periodically in Europe, North America and Asian region.
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).

	<p>To this end, the Group's CSR management is conducted based on Three Prominences: Environment, CS &amp; Quality, and Human Resources—along with Three Attitudes of Sincerity: Compliance, Risk Management, and Communication, which form the foundation of initiatives. 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:</p> <ol style="list-style-type: none"> <li>1) Environmental Management Policy;</li> <li>2) CS &amp; Quality Management Policy;</li> <li>3) Safety Policy;</li> <li>4) Human Resources and Human Rights Policy; and</li> <li>5) Social Contribution Policy.</li> </ol> <p>For the details of each policy and information on specific initiatives, please refer to the CSR Report (published annually).  <a href="http://www.sekisuichemical.com/csr/report/">http://www.sekisuichemical.com/csr/report/</a></p> <p>-The Environmental Management Policy is as follows.</p> <p>&lt; Mission&gt;  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.</p> <p>&lt;Basic Policy&gt;  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.</p> <ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> <li>4. We comply with the related laws, regulations, international rules, etc.</li> <li>5. We make efforts to improve environmental consciousness through education, and advance continual improvements by setting our own objectives and targets.</li> <li>6. We enhance our confidence through close communications with society.</li> <li>7. We actively work on social contribution activities such as nature conservation activities in each region.</li> </ol>
Development of Policies on Information Provision to Stakeholders	<p>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.</p>
Other	<p>&lt;Promotion of Diversity&gt;  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”.</p> <p>In order to realize the sustainable growth, the Company believes that it is indispensable to have active participation by diverse human resources</p>

	<p>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.</p> <p>(Please refer to the page 43 – 54 of the Company’s annual CSR Report.)</p> <p>The Company will establish “Diversity Management Policy” to ensure greater participation by women and further promote diversity going forward.</p>
--	---

## 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	Adopted
------------------------------------	---------

#### Supplementary Explanation

The Company adopted countermeasures against large-scale acquisitions of the Company shares (hereinafter referred to as "the Plan") with the approval of shareholders.

This Plan is purported to enable shareholders to secure necessary and sufficient time and information required for shareholders to make an appropriate judgment, securing an opportunity to discuss and negotiate with the persons conducting the large purchase action for the purpose of securing and enhancing the corporate value and in turn common interest of shareholders in the event that a large purchase action of shares is conducted.

The Plan is described in the Notice of Convocation of the 93rd Annual General Meeting of Shareholders held on June 25, 2015.

For said Notice, please refer to the Company's website

( [http://www.sekisuichemical.com/ir/stock/shareholder\\_info/index.html](http://www.sekisuichemical.com/ir/stock/shareholder_info/index.html) ).

### 2. Other Matters Concerning to Corporate Governance System

#### Corporate Governance System

