



Corporate Governance that Supports Evolution in Business Strategy

Masakazu Tokura, who was appointed Chairman of the Board in April 2019, welcomed two of Sumitomo Chemical's Outside Directors, Koichi Ikeda and Hiroshi Tomono. They reviewed the previous Corporate Business Plan and frankly discussed expectations and challenges for the new Corporate Business Plan, as well as the evolution of corporate governance and the election of a new President.

➤ P20:: Corporate Business Plan

Masakazu Tokura
Chairman of the Board

Koichi Ikeda
Outside Director

Hiroshi Tomono
Outside Director

Corporate Business Plan Phases 1 and 2: Producing Steady Achievements

Tokura Mr. Ikeda and Mr. Tomono, you were both appointed to be directors in June 2015. Mr. Ikeda, you have provided guidance for nine years since your appointment as a corporate auditor in June 2011, and Mr. Tomono, you have provided guidance for five years.

Ikeda When you became President, Mr. Tokura, the top priority was to enhance financial strength. At that time, new businesses and growth strategies were prevalent in many Corporate Business Plans. However, Sumitomo Chemical's first priority was to improve its financial position, and it was able to steadily achieve this goal. As a result, I believe this was the best strategy.

Tomono I joined the discussion of the Corporate Business

Plan starting in Phase 2. I think the most outstanding part of Sumitomo Chemical's Corporate Business Plan is that it is a combined plan over a period of nine years (3 Phases of three years each). We have decided on priorities every three years with continuity and without disruption, and have produced results for Phase 1 (FY2013-FY2015) and Phase 2 (FY2016-FY2018).

Ikeda Phase 1 has achieved dramatic results, prioritizing enhancing financial strength, and Phase 2 has upgraded our portfolio from bulk chemicals to specialty chemicals. The Energy & Functional Materials Sector appeared to be a bunch of different businesses thrown together when it was launched in 2015, but has grown tremendously over the three years of Phase 2. I once again felt how important it is for companies to set out ideas not only using words, but also by first creating a model in this way.

Tokura When we decided to launch another business after the IT-related Chemicals Sector, we considered what businesses we should undertake. We have reached the conclusion that energy and the environment will be the main sources of our business. In response, we created a box for the 'Energy & Functional Materials Sector,' and presented a vision of nurturing and developing businesses in this sector. The IT-related Chemicals Sector and the Energy & Functional Materials Sector have steadily expanded their business scale thanks to the efforts of employees on the ground, although they are still in the process of development.

Improved the Effectiveness of Governance

Tomono So far, we have withdrawn from some of our businesses. As a manager, I have experienced this many times, but it is still difficult in a variety of aspects, including cost and employment. This is why it is important that we have organized processes that are acceptable not only to the Board of Directors, but also to the front-line employees who have worked so hard.

Ikeda In this sense, I have a strong impression of withdrawing from the DPF*¹ business. Over the years, Sumitomo Chemical's corporate governance has evolved, and the Board of Directors has begun to actively discuss business risks. I believe that DPF was the first case where the business sector's report, which is the basis for discussion, was a good deal more candid.

Tokura We withdrew from the DPF business in November 2017, but we had begun the 'Rotation Report'*² system before then, in fiscal 2015. In fiscal 2016, the Board of Directors began reporting on issues discussed at the Management Meetings and other internal meetings, and it may be said that improvements to fill gaps in information for both inside and Outside Directors have been effective.

Tomono Since fiscal 2018, in addition to reporting on the points discussed in the Management Meeting, we have also been talking about the background and context, such as how the original plan changed as a result of the discussion. After understanding that, members of the Board of Directors can decide whether to enter or exit the business.

Ikeda We have introduced a series of measures to revitalize the deliberations of the Board of Directors by incorporating requests from Outside Directors. Monitoring of business execution has also become much easier.

Expectations and Issues for the Corporate Business Plan Phase 3

Tomono Regarding Phase 3 (see p.20), even as Outside Director, we received frequent reports starting from the development stage. I feel that this plan was thoroughly discussed within the company, in light of your confidence from succeeding with Phase 1 and 2, and what you have learned from failures. What should be done is well crafted, so the remaining issue is how we should do it. Because the circumstances surrounding Phase 3 are quite different, it is not possible to draw on previous successful experiences. Therefore, it is vital that we not be led astray by past successes, and that we do not focus too much on self-reliance, but rather make good use of external resources.

Tokura It is exactly what you pointed out. However, this is easy to say but difficult to do. It is very difficult to change familiar work methods and ideas. Therefore, in order to begin by building a model here as well, we are rapidly moving forward, setting up an Innovation Ecosystem with various start-ups, and creating innovation centers overseas. Through these initiatives, we aim to accelerate the creation of next-generation businesses.

Tomono Another key element of Phase 3 is improving productivity through digital innovation. This involves raising the productivity of plants or improving the efficiency of work in internal departments, and I believe that promoting this in a broader and deeper context will lead to better results.

Tokura We understand that. First, we will build a solid data foundation with our existing assets at the core—our organizations and personnel in computational science and process safety engineering—and use that to improve productivity. We included this in our basic policy with the intention of starting from here. Neither the Innovation Ecosystem nor digital innovation will be finished in the next three years, but it is time-consuming so I would like to do it by trial and error, prioritizing speed.

*1 Diesel particulate filter (DPF): Aluminum titanate particulate removal filters for diesel engines. Sumitomo Chemical had manufactured and sold DPF since September 2011. However, we judged it difficult to secure stable earnings over the medium to long term, and announced our withdrawal in November 2017.

*2 Rotation Report: Comprehensive and systematic reporting over a significant amount of time for each sector.



**I think the fact that
the Nomination Advisory Committee
was able to hold effective discussions
merits high praise.**

— Koichi Ikeda

Selected the Next President with Transparency and Objectivity

Tokura In April this year, I was appointed Chairman of the Board, and Mr. Iwata was appointed to be the new President. We have a non-mandatory Nomination Advisory Committee, which consists of six members: all four Outside Directors, the Chairman of the Board, and the President. In deliberations by the Nomination Advisory Committee, you both actively participated in the discussion.

Ikeda For most companies, the Nomination Advisory Committee and the Remuneration Advisory Committee are still non-mandatory. Moreover, there are still few examples of committees functioning effectively. This is the first time at Sumitomo Chemical that the Nomination Advisory Committee, which includes Outside Directors as members, has considered and selected the new President. This is groundbreaking and deserves praise.

Tokura Sumitomo Chemical appoints a President by spending plenty of time deliberating matters in the Nomination Advisory Committee, which then advises the Board of Directors. In order to make deliberations by the Nomination Advisory Committee meaningful, it is necessary for the members of the committee to look in advance at potential candidates for the position of President. Therefore, from an early stage, Sumitomo Chemical has worked to increase the number of opportunities for potential candidates to talk with Outside Directors who are members of the Nomination Advisory Committee. This has meant that, where possible, we have had executives below the level of managing executive officer report to the board—in other words, executives who could be candidates to become directors.

Ikeda I believe that transparency and objectivity are required of the Nomination Advisory Committee. The appointment of a new president, at least from the standpoint of outside directors, tends to be sudden, but Sumitomo Chemical took a considerable amount of time on this occasion. I think the selection process was reasonable.

Tomono I think that taking our time and going through necessary processes helped to increase the transparency of our processes and foster a sense of acceptance among the people involved. As for the content of the deliberations, the next President's qualifications were central.

Tokura Yes. Amid the dramatic changes in the business climate, we have focused on examining what qualities are required of the next President. As a result, we all agreed that bold and precise leadership and decisive action are required to lead the company, and discussed several candidates based on this common awareness. We are a company that operates in the diversified chemical field, which has a wide range of businesses. The next President was expected to have the ability to formulate a vision and make proposals regarding what kind of company Sumitomo Chemical aims to be in the future. Furthermore, we are a company with manufacturing, sales, and research functions supported by a large number of employees, both in Japan and overseas in various regions. The next President would need to be a person with the qualities and abilities, including character and insight, to lead this sort of organization. As a result of deliberations from these perspectives, we concluded that Mr. Iwata was the best candidate for the next President, and as a Nomination Advisory Committee, we advised the Board of Directors to this effect. The Board of Directors then resolved and finalized the decision.

Tomono During this series of processes, Mr. Ikeda and I have thoroughly communicated our experiences as presidents, despite the fact that our industries and business formats differ from those of Sumitomo Chemical. In that sense, I believe that we have fulfilled our role.

Future Expectations for Sumitomo Chemical

Ikeda The chemical industry—and this may be true of the diversified chemical industry in particular—is not highly valued by the stock market. I expect the new President and Chairman of the Board, under the new structure, to undertake activities which further expand the strengths and benefits unique to a diversified chemical company, and activities which grow the pesticides and pharmaceuticals businesses.

Tomono I believe that we are currently in the process of starting to think about the next 100 years. As the pace of change in the business environment is accelerating, if we imagine what Sumitomo Chemical would like to be 80 years from now, or in other words, around 2100, instead of 100 years, we could lead to concrete business growth in the sense that you mentioned, Mr. Ikeda.

Ikeda Looking at Sumitomo Chemical, I feel that companies are established on the history and assets that people have built. Speaking to globalization, over the years, we have been expanding overseas in a way that is closely linked to local communities. I believe that this kind of foundation enables us to consider the next stage of our growth.

Tokura Sumitomo Chemical has passed on its philosophy, in the form of the Sumitomo Business Principle, “Our businesses must benefit society at large, not just our own interests. (Jiri-Rita Koushi-Ichinyo)” which emphasizes the importance of earning the trust of society, for about 100 years since its founding. We aim to realize sustainable growth by addressing societal issues by making the most of our three core abilities: our ability to develop innovative solutions by leveraging our technological expertise in diverse areas, our loyal employees, and our ability to reach global markets, which you mentioned earlier, Mr. Ikeda. Corporate governance is the foundation of these efforts, and there is no end to improving or strengthening corporate governance. As Chairman of the Board, I will continue to work to improve the effectiveness of the system. Thank you very much for meeting with me today.



**I believe that we are currently
in the process of starting to
think about the next 100 years.**

— Hiroshi Tomono

**We are committed to
solving societal issues and
achieving sustainable growth.**

— Masakazu Tokura

