



To drive the transformation of Sumitomo Chemical, we will review the composition of the Board of Directors and further strengthen governance.

Masakazu Tokura
Chairman of the Board



We will seize this opportunity to deepen discussions and thoroughly execute structural reforms, turning it into a chance to transform Sumitomo Chemical into a stronger company.

Hiroshi Tomono
Outside Director

Joined Sumitomo Metal Industries in 1971. In 2005, appointed as Representative Director and President of the company. In 2012, following the business integration of Nippon Steel Corporation and Sumitomo Metal Industries, appointed as Representative Director, President, and COO of Nippon Steel & Sumitomo Metal Corporation (now Nippon Steel Corporation). Subsequently held positions as Vice Chairman of the Board, Director and Corporate Advisor, among others. Appointed as an outside director of Sumitomo Chemical in 2015. In 2016, appointed as an outside director of Japan Nuclear Fuel Limited, and in 2020, as an outside director of Kansai Electric Power Company, Incorporated.

Chairman of the Board with Outside Director

Special Dialogue on Governance

Strengthening Corporate Governance to Further Improve Performance and Enhance Corporate Value

We spoke with Chairman Tokura, who serves as Chairman of the Board, and Outside Director Tomono about Sumitomo Chemical's efforts to strengthen corporate governance.

Through various initiatives, the discussions within the Board of Directors have deepened, allowing us to move forward by reflecting on past performance challenges.

— Could you share your thoughts on the efforts made so far to strengthen corporate governance?

Chairman Tokura (hereafter, Tokura) In March 2015, the Financial Services Agency and the Tokyo Stock Exchange formulated the Corporate Governance Code. In June of the same year, Sumitomo Chemical strengthened its governance by increasing the number of outside directors by two, bringing the total to three. Director Tomono was appointed at that time and has since been involved in our company's management.

Director Tomono (hereafter, Tomono) Since 2015, various efforts have been made to strengthen governance, but the most significant change I have noticed is the deepening of discussions. When I first joined, the Board meetings were brief and somewhat formal. However, various mechanisms have since been introduced to invigorate discussions. For example, pre-meeting briefings. To engage in more meaningful discussions, outside directors need to have an appropriate level of knowledge, so we started receiving explanations on agenda items before the Board meetings.

Tokura The pre-meeting briefings are conducted a few days before the Board meetings and typically last around two hours. This preparation allows us to dedicate nearly half a day to the Board meetings, which are held early in the morning, ensuring ample time for thorough discussions. Additionally, for important topics, we hold informal meetings and study sessions where directors and audit & supervisory board members can exchange opinions outside of the formal pre-meeting briefings. Moreover, to ensure that outside directors and outside audit & supervisory board members have a comprehensive understanding of the company—not just at the management level but also at the operational level—they participate in various activities such as the DX repository*, the Sustainability Promotion Committee, and site visits, including those overseas. I believe they dedicate a considerable amount of time to these engagements.

*An internal event where various workplaces share and showcase examples of their DX initiatives.

Tomono Yes, that's correct. During informal meetings such as the pre-meeting briefings and the discussion sessions of directors and audit & supervisory board members, we outside directors often provide substantial input. We don't hesitate to make critical remarks, such as, "That's an internal logic that we don't understand," and the management team consistently addresses these concerns thoroughly.

Tokura Indeed, we do receive quite

tough questions and comments. For particularly sharp questions or observations raised during the pre-meeting briefings, I, as the chairman, sometimes deliberately bring these points up during the Board meetings for further discussion. This approach helps us recognize our internal logic and serves as a catalyst for deeper discussions.

Tomono There is no doubt that discussions have become more dynamic. However, since there is no definitive goal, we need to continue deepening our governance reforms. At the same time, I believe that as directors, including myself, we need to reflect on the fact that we faced tough financial performance in FY2023.

Tokura The primary reasons for our poor performance this time are the deteriorating results at Sumitomo Pharma and Petro Rabigh. Since nearly 50% of Sumitomo Pharma's shares are held by general shareholders, we have respected its autonomy as a listed company while sharing the overall group strategy. As for Petro Rabigh, it is an affiliated company in which both Saudi Aramco and Sumitomo Chemical hold a 37.5% stake. Given these capital relationships, we were unable to exert the same level of governance over these companies as we do with Sumitomo Chemical. This led to delayed responses to business challenges, contributing to the decline in performance—a point that we must reflect on.

Tomono From my own management experience, I believe it is crucial to thoroughly analyze why such a situation occurred and to clearly identify areas for reflection. However, what is even more important is to not remain fixated on these points but to channel energy into the next steps. This approach is healthier for the organization and also boosts employee motivation. Sumitomo Chemical should take this opportunity to further deepen discussions among everyone about the company's challenges and the direction we should take moving forward. If this shared understanding reaches even the frontline employees, the company will truly become stronger. Sumitomo Chemical, with its long and storied history, is now at a turning point where it can undergo significant change. We must turn this into an opportunity.

Revise the Board of Directors' composition with a focus on cross-functional perspectives and financial discipline.

— In June 2024, the composition of the Board of Directors was changed. Could you share the intent behind this decision and the expected outcomes?

Tokura This time, we have changed the composition of the Board of Directors by reducing the number of internal directors and adding one more outside director, bringing the proportion of outside directors to 50%. Additionally, instead of appointing heads of business divisions as internal directors, we have selected executive officers responsible for cross-functional management roles within the company. Previously, appointing business division heads as directors was intended to enable them to represent the company in external discussions and negotiations and to accelerate the execution speed for business growth. However, this approach tended to emphasize the growth potential of individual businesses. Given the current challenging business performance, we must operate within financial constraints and carefully select investments from a company-wide perspective. To ensure that financial discipline is emphasized in decision-making from a cross-functional standpoint, we appointed internal directors from those who handle

management functions. However, I do not believe that this structure should be maintained indefinitely. As Alfred Chandler's principle that "structure follows strategy" suggests, if the environment changes, we may need to reassess the composition again.

Tomono That's exactly right; we shouldn't rigidly adhere to a fixed structure. There is no such thing as a universally superior structure. I once asked the executives of the Kashima Antlers, where I was involved as a sponsor, "What makes a good coach?" Their response was, "There is no absolutely superior coach." There are various types of coaches—some who emphasize the individuality of players and others who strictly enforce rules and discipline—but the role of management is to choose the coach who best fits the team's current situation and build a strong team. I believe the same applies to company management. We should create the optimal organizational structure for the company's situation at any given time, and as the phase changes, we should adapt the structure accordingly. By doing this in a healthy manner, I believe we can build a strong company.

"Stopping the bleeding of cash comes before talking about the future" Intense discussions toward structural reforms

— What discussions took place in the Board Meetings regarding structural reforms?

Tokura This fundamental structural reform was based on a new growth model for Sumitomo Chemical, primarily developed by younger executive officers. Recognizing that it must not become "an internal logic," we engaged in extensive discussions, not only in regular Board meetings but also in extraordinary sessions and informal gatherings. We received a significant number of opinions from our outside directors as well.

Tomono Our initial impression of the reform proposal was that it was too future-focused. There were many explanations about what we "want to do," but given the company's current situation, the focus should be on the present before discussing the future. Without a clear path to stabilizing our

crisis, we cannot gain the understanding of shareholders and society. Therefore, in response to the initial reform proposal, the outside directors and outside audit & supervisory board members strongly argued, "That's not right—stopping the bleeding of cash must come first." This led to significant changes in both the substance of the reform proposal and how it was communicated externally.

Tokura Your point was absolutely correct. In our discussions regarding the most pressing issues, Sumitomo Pharma and Petro Rabigh, we received extremely valuable advice on how to engage with Sumitomo Pharma and how to formulate our plans.

Tomono Having experienced several situations as a manager where stopping the bleeding of cash was necessary, I also voiced the opinion that the proposed methods were "still too lenient." Additionally, I emphasized the need to further grow the currently profitable businesses.

Tokura Our outside directors were so passionate and vocal in sharing their opinions that it was hard to tell who were the internal directors.

Tomono The outside directors all possess a high level of expertise and have each navigated through extremely challenging situations in their respective fields. We offer our opinions based on these experiences, and Sumitomo Chemical considers the characteristics of its business to effectively utilize our advice. Therefore, I believe the role of an outside director goes beyond mere supervision; it is also advisory in nature.

Tokura Our outside directors bring expertise in various fields, including law, international economics, and corporate management. Their advice, offered from perspectives outside the chemical industry, provides us with many valuable insights.

Thoroughly execute structural reforms to achieve performance recovery and realize our envisioned goals.

— In the current structural reform plan, we have set "Innovative Solution Provider" as our long-term corporate vision. Could you share the intention behind this vision?

Tokura When discussing where to seek our new growth model, we conducted a thorough review of Sumitomo Chemical's assets, including our technology and human resources. For over 100 years, Sumitomo Chemical has been a manufacturing company, producing and selling excellent products based on strong research and development capabilities. However, the pace of change in the world is rapid, and the boundaries between businesses are becoming increasingly blurred. We need to shift towards a business model that offers solutions, fully utilizing the assets we possess, rather than being fixated on the traditional manufacturing process.

Sumitomo Chemical possesses key assets that can significantly contribute to three transformations: Green Transformation (GX), Digital Transformation (DX), and Bio Transformation (BX). For instance, in GX, we are leading the way as a chemical company by advancing the largest number of Green Innovation Fund projects. In DX, we have been ahead of the curve in accumulating data and engaging in materials informatics and bioinformatics. For BX, we leverage our extensive knowledge of ecosystems, built over many years in

the pharmaceutical and agrochemical sectors. By fully mobilizing these assets, we aim to become an "Innovative Solution Provider," which we have set as our long-term vision.

Tomono The keyword for making this vision a reality is "thoroughness." The goal is clear, and we have talented personnel in place. The question is whether all employees can fully commit and carry out their tasks with thorough dedication. This applies across the board, even in tough situations like mobilizing people to stop the bleeding of cash. We must be careful not to fall into the trap of using simplistic and comforting phrases like "Sumitomo Chemical values its people" as an excuse for half-hearted efforts.

However, we must not neglect nurturing the seeds of growth for the future. If we can apply this "thoroughness" to everything we do, Sumitomo Chemical, with its accumulated technologies and talented people, should be able to transform the company significantly in a relatively short period of time.

Tokura We have been advancing the reform of our business portfolio, but I believe there are still many areas where we have not done enough. To

realize our long-term growth strategy, we will thoroughly execute structural reforms. Additionally, we must establish a cycle that allows us to immediately correct course when we recognize any mistakes.

Tomono It's natural that things don't always go as planned. What's important is to have multiple plans in place and to build a system that allows for quick adaptation when things aren't working. As an outside director, I will be closely monitoring this aspect. All of us outside directors, myself included, feel responsible for the fact that the company has found itself in this situation despite our presence. We are committed to working together to revitalize the company and realize structural reforms. I have high expectations because Sumitomo Chemical has more than enough capability to carry out these reforms.

Tokura Director Tomono is absolutely right. We will not limit this opportunity to merely recovering our performance; we will use it to build a stronger organizational culture and transform Sumitomo Chemical into a dynamic, revitalized company.

