

Theme:

# The Roles of Outside Directors in Enhancing Corporate Value



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## Roundtable Discussion between Directors, Institutional Investors, and the Chairman of the Board of Directors



UBE adopted a Company with Audit & Supervisory Committee structure in June 2019. As such, we are transferring authority to executives and enhancing management flexibility while bolstering Board of Directors' oversight. That entity comprises nine members, of whom four are outside directors. We aim to enhance corporate value by incorporating third-party perspectives.

### Governance Structure and Positioning of Outside Directors

**What do institutional investors think of UBE's shift to a Company with Audit & Supervisory Committee structure? What do you seek from outside directors in terms of governance?**

**Kimura:** I think this is a big step forward structurally speaking because the Company has clearly segregated supervision and implementation while strengthening monitoring. The shift to a Company with Audit & Supervisory Committee structure and a consolidation into a three-company operating structure should make selection and concentration easier. I look for this arrangement to prove effective.

**Uesako:** I believe it's important to ensure that the Board of Directors is effective. The Corporate Governance Discussion section in last year's integrated report outlined its initial aims. The transition to a Company with Audit & Supervisory Committee structure was most likely the right move. Given changes in the auditing approach and an increasing reliance on internal control systems, we will look for the committee to ensure that the system is functioning well.

**Yamamoto:** The consciousness of directors has changed over the past year. We require executives to explain how they will increase corporate value. So, while they enjoy greater management

freedom, they also face the pressure of explaining their efforts to the Board of Directors. The nature of deliberations changed greatly during the year, as directors now ask executives on behalf of shareholders to explain what they will do over the medium and long terms.

### Expansionary Perspectives

**How are outside directors helping materialize Vision UBE 2025 –Prime Phase–, the medium-term management plan?**

**Higashi:** I want executives to accord more time to explaining the background and direction of decisions rather than the details of implementation. That's a transformation of itself. The industry environment is changing rapidly, so we need to know if executives are identifying and responding to transitions. We also seek explanations in that respect, as business climate shifts could compel modifications to the medium-term management plan. Being an outsider makes you more sensitive to change.

**Terui:** Outside directors have varying backgrounds and experience, so I believe their role is to advise suitably and frankly about how best to create corporate value in view of the backdrop.

**What do you seek from the Board of Directors to help foster growth for UBE?**

**Uesako:** From a growth perspective, I would like the Board to help improve corporate value as a management supervisor. Instead of discussing details, I want it to advise accurately about areas relating to the overall essence of management.

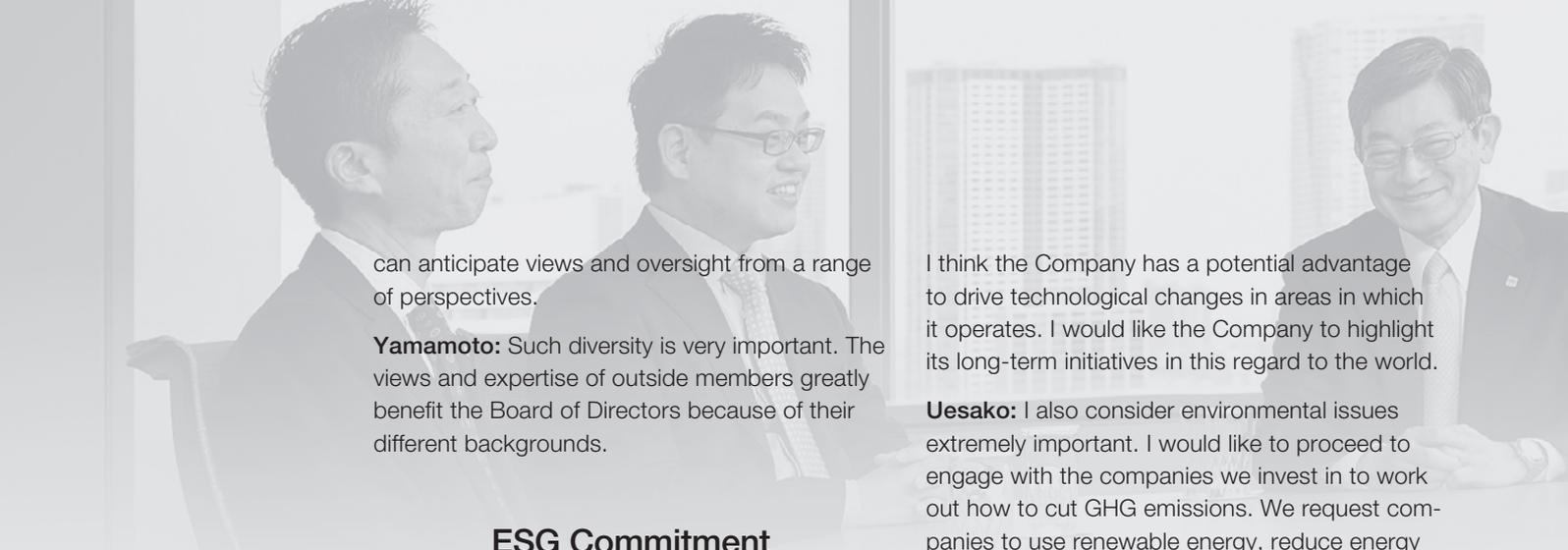
**Kimura:** Diverse perspectives are vital for outside directors. The customer base is particularly broad in the chemicals field, so there are tremendous opportunities there. At the same time, there is a risk of missing changes in the business climate. Many of UBE's outside directors have had solid experience in corporate management, so you

#### Profile of Kazuya Uesako

- 2001 Joined Sumitomo Trust Bank, Limited
- 2009 Securities analyst in Equity Investment Department
- 2012 Securities analyst in Equity Research Department of Sumitomo Mitsui Trust Bank, Limited
- 2015 Head of Material Team in Research Department
- 2018 Head of Material Team and Infrastructure Team in Research Department
- 2018 Head of Material Team and Infrastructure Team in Research Department of Sumitomo Mitsui Trust Asset Management Co., Ltd. (current position)

#### Profile of Mitsuhiro Kimura

- 1991 Joined Nomura Securities Investment Trust Co., Ltd. (now Nomura Asset Management Co., Ltd.), as Corporate Research Department analyst
- 1993 Portfolio manager in Investment Department
- 1999 Senior Equity Analyst in Equity Research Department of Nomura Asset Management (current position)



can anticipate views and oversight from a range of perspectives.

**Yamamoto:** Such diversity is very important. The views and expertise of outside members greatly benefit the Board of Directors because of their different backgrounds.

## ESG Commitment

**UBE emits a considerable amount of GHGs. How has the Board of Directors discussed this? And how do you think you will monitor efforts to reach your goals?**

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**Terui:** The Board often discusses environmental issues as important focuses for the Company. The future for coal is uncertain, so we need to work out where to take our business in that area. We have yet to determine a response timeframe, but we will set a course and act appropriately.

Cement is essential to society, but we generate CO<sub>2</sub> emissions through the production process. We naturally need to minimize emissions. I think the UBE Group has been more willing even than others, including companies in its industry, to make cuts.

At the same time, we've created numerous products and technologies that contribute to a better environment, so the Company can help resolve environmental issues by expanding such efforts. Our endeavors very much prioritize the environmental element of ESG.

**Higashi:** It is a top priority to address environmental issues, and we have discussed them frequently in Board of Directors' meetings. Individual businesses are exploring all sorts of ideas, such as by employing alternative, environmentally friendly materials, adopting alternative processes, and recycling resources. Still, if we fail to think of how to rebalance our business portfolio we will find it difficult to reach our goal of cutting our global GHG emissions under the Paris Accord and other agreements.

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**What do you seek from Ube Industries in terms of the environmental aspects of ESG?**

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**Kimura:** The issue of CO<sub>2</sub> emissions is the Company's greatest threat. It could also be an opportunity. Your emissions could be from energy or from manufacturing processes. It is impossible to resolve emissions from non-energy sources without major technological advances.

I think the Company has a potential advantage to drive technological changes in areas in which it operates. I would like the Company to highlight its long-term initiatives in this regard to the world.

**Uesako:** I also consider environmental issues extremely important. I would like to proceed to engage with the companies we invest in to work out how to cut GHG emissions. We request companies to use renewable energy, reduce energy usage intensity, and overhaul business portfolios. We also believe CO<sub>2</sub> emissions are an issue for humanity to address, including people consuming goods and services, and not just producers. So, I would like the Company to proactively collaborate with industry groups to tackle problems rather than being forced to do so.

**Yamamoto:** The environment is the greatest focus for the UBE Group from an ESG perspective, so efforts to lower environmental impact also serve as a growth strategy. People are coming to understand that. You cannot change conventional manufacturing processes by yourself. We will collaborate with other industries to roll out various technologies and change things with them. I think that's a mission for us.

## Defensive Perspectives

**Do you think your regular Evaluation Meeting for Effectiveness of the Board of Directors is worthwhile? What do you discuss?**

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**Terui:** Meeting attendees are non-executive directors, specifically Chairman of the Board Yuzuru Yamamoto, as well as Atsushi Yamamoto, who is director and a member of the Audit & Supervisory Committee, and four outside directors. So, none of the participants are UBE executives. The meeting discusses the composition of the Board of Directors, management approaches, the contents of its deliberations, and proactive and defensive governance from board perspectives. It also considers whether the Board of Directors properly supervises the execution of management. We conduct questionnaires first and discuss and evaluate findings in the meeting.

**Yamamoto:** Primarily, outside directors deliberate after seeing questionnaire findings. It is also worth noting that UBE belongs to the Japan Association of Corporate Directors. We study the effectiveness of other companies' evaluations and incorporate good practices. So, all in all,



I think we are assessing the current situation effectively.

**Outside directors chair the Nominating Committee and the Compensation Committee. What are their decision-making processes and how are they related?**

**Terui:** Each committee has two outside directors and a non-executive director of the Company. Outside directors chair both bodies. The President and CEO is not on either committee. Rather, he produces and explains drafts. Committee members point out issues, ask questions, advise, and make decisions.

**Yamamoto:** Outside directors are deeply involved with these committees. When we reviewed our executive compensation program last year, we reflected feedback from outside directors.

**Uesako:** From a defensive perspective, I particularly look for a solid compensation and nomination setup from outside directors. I want these people to fulfill a robust supervisory role.

**Kimura:** I think you disclose your compensation standards clearly and have solid goals. As such, if you maintain not only profit targets for your compensation standards but also your ESG perspectives you will make it clear that you are earnestly pursuing goals linked to remuneration. If you can emphasize that the Company has incorporated compensation standards in its specific initiatives, I believe you will further increase trust among external stakeholders.

**Yamamoto:** In reviewing our compensation program, we increased the number of qualitative elements of evaluation criteria for each year and over the medium and long terms. The criteria for assessing the President and CEO used to be exclusively management benchmarks, but we now also incorporate ESG and other qualitative factors in evaluations.

## Challenges

**How do you assess UBE's governance and growth, and what are the issues?**

**Terui:** Last year, we shifted to a Company with Audit & Supervisory Committee structure and decided to accelerate management while solidifying defensive elements. The prime issue for

governance is to make this approach effective. On the growth front, the main challenge is to cultivate emerging opportunities, especially in chemicals. Also, we need to promote further globalization, overhaul our business portfolios, undertake extensive M&As, and drive growth.

**Higashi:** The journey between UBE's products and final markets is long. Given dramatic changes in the business environment, it will be extremely challenging to overcome the handicaps of such distances. It is also worth noting that it is tough to ensure complete governance for what is a very broad and deep supply chain. Management will need to strengthen its capabilities in that respect.

**Kimura:** CO<sub>2</sub> emissions are UBE's biggest issue from an investor's perspective. That's also a business opportunity. I hope you can translate that challenge into growth in the years ahead. Your adopting a Company with Audit & Supervisory Committee structure positioned you to progress in that regard, and having a three-company operating structure makes selection and concentration easier. Over the past year, you have built your underpinnings far faster than anticipated. One fruit of your efforts is that your Construction Materials Company began looking to reorganize its cement business. While you face many challenges, you have so many opportunities. I hope you can maintain the pace of the past year and keep the Company changing.

**Uesako:** We believe non-financial information is vital for delivering growth, which is why we adopted a Sumitomo Mitsui Trust Asset Management-created framework called MBIS (for management, business franchise, industry, and strategy). Under MBIS, the perfect score for the 500 companies in the First Section of the Tokyo Stock Exchange would be 20 points. UBE's score is 11.5 points, which is slightly below the average. That's largely because of the Company's high CO<sub>2</sub> emissions and shortfalls in terms of lowering emissions or in the previous planning for the future. On the upside, UBE rates highly in terms of its business strategy implementation. This is because of the people underpinning your ability to execute strategies. I have found through various contacts that your Company has many top-notch people. We hope you can bring together the strengths of all your people to deliver sustainable growth.

**Yamamoto:** Thank you all for your time today.