

Aiming for the Improvement of Corporate Governance

“Improvement of Corporate Governance” is one of the seven key policies of the Medium-Term Business Plan. Our three Outside Directors exchange their opinions on the enhancement of corporate value and strengthening of risk management and compliance.



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Strengthening of Financial Structure and Demonstration of Creativity to Be Tested Under New System

About the New System Started in 2024

NISHIO: With the appointment of Mr. YOKOYAMA as President on November 1, 2024, a new system started. The basic policy is based on the Medium-Term Business Plan that is currently underway. Mr. YOKOYAMA was a core member of the team that formulated the Medium-Term Business Plan alongside former President, Mr. TAKAGI. While building on the strong management foundations established under the previous leadership team, the new team has clearly shown that they will not shy away from change, and all of the executives appear to be moving in the same direction.

On the other hand, Mr. YOKOYAMA's appointment coincided with a time of drastic change in the management environment. For this reason, I believe that he has a stronger awareness of the need to strengthen the financial structure, including profitability and share price. The “social contribution through business” that Mr. YOKOYAMA has emphasized contains a message that no matter how wonderful our philosophy may be, if there is no profit, there can be no social contribution. Mr. Yokohama himself has declared that the company will create a breakthrough in R&D to follow on from AXEEV® during his tenure, so I have great hopes for him.

IKEDA: In the appointment of Mr. YOKOYAMA as the new President, I fulfilled a small role as a member of the Nomination and Remuneration Committee. In the nomination process, Mr. TAKAGI clearly outlined the qualifications required for the top position, and I felt that the selection process was highly transparent. In addition, under the new system, the appropriate people have been assigned to the appropriate positions. To powerfully embrace the challenge of new issues based on the foundation of innovation established by the previous system. I think we can say that we have a team that has such strengths.

YAMANASHI: Mr. TAKAGI's intention regarding his successor was that he wanted to pass the baton onto someone who could run faster and longer than himself. My impression of Mr. YOKOYAMA is that of a leader of a character who treats everyone equally, regardless of position. While inheriting the intentions of his predecessor, I have expectations that he will take on the challenge with new sensibilities and that he will become a presence who will propel Kumiai forward swiftly over the long term.



To Overcome Major Profit Decline and Further Enhance Corporate Value

Review of the FY2024 Results

NISHIO: Thanks to the continued growth supported by sales of AXEEV®, the company achieved record-high net sales of 161.0 billion yen in the final year of the previous Medium-Term Business Plan. However, the situation took an about-turn in FY2024, and although net sales remained level, operating profit took a major dive. The impact of inventory adjustments was likely a temporary factor in this decline, but from a more over-arching perspective, the growing prevalence of generic products will warrant serious consideration. In particular, the problems of legal action in China and Australia have become a major topic on the agenda of Board of Directors meetings. The company will need to address patent infringement countermeasures over the medium to long term.

On the other hand, the Fine Chemicals Business achieved what I regard as a strong performance, with net sales increasing by approximately 11% year on year and operating profit by approximately 46%. The growth of semiconductor demand is behind this result, and we expect that growth to continue this fiscal year and beyond. However, net sales in the Fine Chemicals Business accounts for only about 16% of the whole, so this business is still a long way from being described as a pillar of management. Further resources will need to be

poured into it and strategies will need to be refined.

IKEDA: The deterioration in results in FY2024 is something that all of the Directors are taking seriously. While we are still at the stage of receiving reports of detailed analysis, the situation is being addressed calmly and objectively, and I do feel that there is a shared awareness of the issues. In regards to patent infringement countermeasures, the achievement of settlements in Kumiai's favor in legal proceedings to date is worthy of attention. The experiential value gained from the series of legal actions will surely be put to use going forward.

The immediate challenge is to maintain and expand results in the AXEEV® business, but at the same time, research and development of new active ingredient is also needed. The strong performance of the Fine Chemicals Business is something to be welcomed, so the company should now work to accelerate the expansion of that business, with a focus on bismaleimides.

YAMANASHI: Regarding AXEEV®, it would appear that one particular business model has shifted from a growth stage to a maturity stage and is now entering a phase in which it must confront change. As the causes of the profit decline are being analyzed, it will also be important to keep other changes in the environment in mind. Over the past twelve months, the Board of Directors has been working to implement a variety of policies, and we have been reviewing strategies, including other businesses. I think the effects of these efforts will start to appear in the results of the next fiscal year and beyond.

IKEDA: Along with the business results, it is also a fact that the share price has been sluggish since FY2024. If we were to look at this with a severe eye, it is not necessarily the case that the share price will improve even if business results recover. What is important is to make the company's corporate value visible to investors. If we can communicate business growth clearly, that will likely link to the share price, so I believe that developing mechanisms for the dissemination of information is another challenge.

Strengthening the Governance Framework for the Practice of Sustainability Management

Kumiai's Corporate Governance

NISHIO: The role of the Outside Directors is to monitor and supervise to realize sound corporate management. In business strategies and visions, we strive constantly to notice issues and risks that are prone to being overlooked by internal judgments alone and to make recommendations from an objective and neutral position.

In the modern age of increasingly diverse stakeholders, in a

growing number of companies, judgments and inappropriate decisions that ignored the existence of local communities and shareholders have resulted in the discovery of improper conduct and in a loss of trust in those companies. Kumiai upholds a strong sense of ethics, and happily, we have observed no signs of compliance breaches at this time. However, the need for thorough transparency of management remains unchanged, so I will continue my monitoring and supervision efforts.

YAMANASHI: Having been appointed as an Outside Director from an outside company, I see my role as strengthening compliance and risk management. When I first assumed this position, Mr. TAKAGI told me that he hoped that I would express opinions from viewpoints that the other officers did not hold. As is the case with overseas companies, the true significance of a governance framework lies in giving people with diverse values the chance to exchange opinions from independent standpoints. I imagine that this was Mr. TAKAGI's intent.

The atmosphere in meetings of Kumiai's Board of Directors is always egalitarian, and my impression is that genuine attention is paid to my opinions, despite my completely different professional background. Going forward, I would particularly like to incorporate the viewpoints of consumers and women and make frank recommendations about the risks and potential of Kumiai.

IKEDA: The Board of Directors meetings have a free and open atmosphere, and I feel that it is easy to have discussions, even as an Outside Director. My role is to express opinions from a specialist standpoint, mainly in the sustainability and R&D areas. While the steady progress being made in sustainability management is to be commended, there are still deep-rooted misunderstandings and prejudices against agricultural chemicals and fine chemicals among the general public in terms of the environment. More proactive efforts should be made to communicate to stakeholders the fact that Kumiai's business is contributing to the global environment and to society and the economy.

YAMANASHI: In Kumiai's case, conveying the safety of agricultural chemicals in particular is a matter of urgency. The company is currently engaged in educating the next generation, targeting elementary and high school students, but I think that these awareness-raising activities should be stepped up even further.

IKEDA: In terms of R&D, the environment for improving performance is steadily being developed, with the Chemical Research Institute (ShIP) at the center of those efforts. Sowing the seeds for new discoveries and inventions and growing them in that ground is the challenge for the future. To that end, the development of fresh human capital with a wealth of imagination will be essential. Exchanges with other industries, both here in Japan and overseas, as well as

collaborations with academic research institutions, are already being progressed, but these measures should also be accelerated.

For Further Growth Amid a Rapidly Changing International Situation and Global Environment

Strengthening Risk Management and Compliance Promotion

YAMANASHI: In the Medium-Term Business Plan, strengthening of risk management and compliance promotion have been set as the foundations of corporate management. Kumiai is currently advancing a stringent awareness-raising campaign about risk management and compliance among its employees. So that each individual can take ownership, a variety of ingenious methods have been adopted, such as expressing the issues in picture book and manga form, and initiatives aimed at the understanding and penetration of compliance are steadily continuing. I consider this to be worthy of commendation.

IKEDA: In the area of compliance, society's demands are becoming more and more complex. Even the approach to work varies significantly across generations. We would



probably need to investigate individual circumstances as we proceed with actions.

In risk management as well, changes in international circumstances are becoming increasingly intense. Given that overseas sales now account for 60% of total sales, the fact is that Kumiai is susceptible to the impacts of global risk. It will need to be constantly on guard to ensure that diverse risks remain within the range of expectations. The greatest of those risks is the climate change crisis. The planet is currently experiencing unprecedented high temperatures, excessive droughts, and even the possibility of crops being attacked by pests that have not previously been a problem. A situation that makes maintaining food production difficult would be a crisis, but it also represents an opportunity for agricultural chemicals to fulfill their mission. By anticipating needs and pursuing research in cutting-edge fields, Kumiai will see its potential to contribute to future society grow and expand.

NISHIO: The external environment, including the international situation, will likely remain unstable into the future. On the other hand, global trends also have the potential to be a tailwind for the company, such as total global population growth leading to demand for agricultural chemicals. The risk factor in those circumstances is the presence of competitors. In particular, due to the downturn in the chemical industry, there is an increasing trend to enter and focus efforts on the agricultural chemical area, where growth is expected. A situation in which another company comes up with a revolutionary



product and Kumiai falls behind must be avoided. Swift action should be taken to drive the creation of breakthroughs in R&D.

YAMANASHI: In this day and age, when diverse social changes are intricately intertwined, cross-departmental collaboration will be effective. For example, the insights in legal responses in the overseas business gained through the responses to patent-infringing products should be useful in other businesses. Because each department has different know-how, I expect that bringing that know-how together across the entire company from a risk response perspective would create a synergy effect.

Holding Repeated Dialogue with All Stakeholders to Share the Vision for the Future

Dialogue and Cooperation with Stakeholders

NISHIO: Companies today have many different stakeholders, including investors, employees, customers, business partners, local residents, and government organizations. The impact of business activities on those stakeholders also varies greatly, such as distribution of profits for shareholders, wages and workplace environments for employees, and the economy and pollution for local residents. Depending on their standpoints, stakeholders also have different needs and concerns, so there will sometimes be a conflict between the benefits they receive and the damage inflicted on them. For this very reason, companies need to build good relationships with each of these stakeholder groups through dialogue.

What is important in this regard is to communicate highly transparent messages to those stakeholders. Kumiai surely possesses many strengths, such as its excellent products, including AXEEV® and EFFEEDA®, its R&D capabilities demonstrated by the provision of those products, its responses to climate change and other social issues, and its sense of mission toward food production. Through these strengths, I believe that it is all the more important to communicate the messages that Kumiai will contribute to the realization of a safe, secure, and prosperous society and that it will create sustainable agriculture.

IKEDA: In particular, the areas where Kumiai can demonstrate its uniqueness are its development and technological capabilities. However, no numerical indications have been presented of how much the outcomes of those capabilities are contributing to food production in Japan and overseas and how much the Fine Chemicals Business is helping to improve consumers' lives. More efforts should be concentrated on communicating in a clear way to all stakeholders, from shareholders to end consumers, the current status of the

social contributions that Kumiai is making.

In particular, even though Kumiai's products are being used in the field in agricultural production in Japan and overseas, there is not enough understanding of the actual scenarios in which they are being used and why they are realizing the stabilization and improved efficiency of production. I believe that it would be worth reexamining the company's communication processes, from the use of internet media to visually accessible commentaries and detailed explanations in PR materials. No matter how excellent a business may be, if the information is not being communicated, it cannot receive the support of stakeholders. That is why more proactive public relations activities should be pursued.

YAMANASHI: As exemplified by the increase in individual investors, we may refer collectively to stakeholders, but their needs are many and varied. Corporate value is likely to be judged from increasingly diverse perspectives from now on. However, even amid such diversity, the universal hope for "safety and security" will never waver. Guaranteeing the safety of business and products and building up trust in them should be constantly at the top of our minds.

Human Capital Management

YAMANASHI: Safety and security are strengths of Kumiai. In my interactions with many employees, I have felt a real sense of the company's sincere and honest corporate culture. Steady R&D efforts, sales activities that emphasize trust, and a transparent management structure are key factors that support our strengths.

Another distinctive feature is the inclusive culture, in which—in a good way—I, personally, rarely feel conscious of being a woman. If we can grow into a company that can navigate the age of diversity, where employees of diverse values and attributes participate more actively, it will surely be able to respond to the increasingly diverse needs of society. To that end, efforts should also be focused on more visible initiatives, such as increasing the number of female role models advancing into managerial and executive positions.

IKEDA: I am constantly struck by how many honest and sincere employees this company has. In fact, I sometimes feel that it wouldn't hurt to allow a certain amount of "playful" behavior now and then. In R&D in particular, in a positive sense, it is often important to have out-of-the-box ideas. We may occasionally need a corporate culture that respects the agile footwork and flexibility of thinking that the younger generation of employees possesses.

NISHIO: It is also important to make the workplace environment better, such as work-life balance and the practice of KENKO Investment for Health. When I look at Kumiai's in-house magazine, I am astounded by how many of its employees are passionate about their hobbies. Job turnover

is also exceptionally low, and people are staying with the company for a long time. It is precisely because top management considers the employees when managing the company that there are so many employees working energetically.

YAMANASHI: Initiatives aimed at balancing work and private life are currently being progressed, such as the adoption of a scheme that allows employees to choose their own working hours. On the other hand, when we look at society, there are many families that face the pressures of caring for children and elderly family members, giving rise to even greater demand for more work style options. The realization of diverse work styles will have a positive effect on human capital acquisition, which is likely to become more difficult as the working population decreases. Human capital management in line with social circumstances is sure to be effective on the management front as well.

Turning Risks into Business Opportunities and Creating New Value

Message to Stakeholders

NISHIO: Amid an unstable, uncertain external environment, corporate management will become increasingly complicated. Even under these circumstances, as President, Mr. YOKOYAMA has a responsibility to accomplish the Medium-Term Business Plan and to enhance the company's R&D capabilities and human capital. For the corporate value of Kumiai to increase, as an Outside Director, I will steadfastly make recommendations and voice my opinions, and provide back-up for the new system under Mr. YOKOYAMA.

IKEDA: The worsening environmental changes surrounding food production, including climate change, are a challenge for all humanity. However, this is where Kumiai comes into its own. I hope to present more clearly an approach of changing risks into business opportunities and stepping forward together into the next era alongside the company's stakeholders.

YAMANASHI: There is no doubt that executives and employees have started to unite as one toward the next growth of Kumiai. If it can speed up that process, it will surely be able to take the leap to become a company that responds to new needs. For that to happen, it is essential that all stakeholders identify with the company. For Kumiai to be a company that realizes sustainable management and diverse human capital can play active roles, as an Outside Director, I will strive for the greater sophistication of corporate governance.