

A fresh start toward becoming highly profitable

Director (non-executive)

Minoru Furukawa

An outside director provides his assessment of the Unitika Group's governance and advice on future management from a supervisory perspective.

Q What is the role you are expected to play as an outside director of the Unitika Group?

As an important part of the supervisory function of the Board of Directors, I believe that the role of an outside director is to supervise corporate management from an objective standpoint, independent from the execution of the business, as a representative of the common interests of shareholders, including minority shareholders. An outside director is also expected to oversee conflicts of interest between management and shareholders.

Specifically, outside directors are expected to harmonize the interests of each stakeholder group (shareholders, investors, partners, local communities, the global environment, and employees) while providing opinions from a broad perspective on the agenda proposed by management for the Unitika Group's sustainable growth and enhancement of corporate value, and to serve as a catalyst for better decision-making. In particular, an important role of outside directors is to provide opinions from different perspectives from those of internal directors and to stimulate discussion.

I believe the following three points are important

prerequisites for stimulating discussion.

- (1) **When management is hesitant to take risks, encourage management to make a decision that takes financial constraints into account. Of course, reckless risk-taking must be avoided.**
- (2) **The appointment of executive directors should be based on a thorough assessment of their suitability for the position. In particular, the appointment of the representative director and president (CEO) should be carefully evaluated based on the candidate's insight, leadership, and popularity. Once the CEO is appointed, reappointment or dismissal should be based on their performance.**
- (3) **Remuneration should be designed to provide appropriate incentives to motivate management.**

As an outside director, I will continue to make efforts to further invigorate the Board of Directors with the aim of achieving the medium- to long-term growth of the Unitika Group.

Q How do you plan to use your experience and skills in this role?

During my tenure at Hitachi Zosen Corporation, I worked mainly in the accounting and finance fields. After becoming president, I spun off the shipbuilding business and made a major shift in the company's business structure toward the environmental business. I also worked to reduce the company's interest-bearing debt and strengthen its financial position. These reforms were possible thanks to the employees who worked hard on the front line of reform. From this experience, I have come to realize that people are the backbone of corporate management and that a sound balance sheet, in other words, a strong financial position, is critical for the survival and development of any company.

The Unitika Group is a company with both a long history and talented personnel. In order to transform into a growing company that maximizes the capabilities of these personnel,

we must first leave no stone unturned in the transformation of the business structure and restructuring of the business portfolio. The Unitika Group has excessive interest-bearing liabilities relative to its shareholders' equity. The orthodox method to steadily reduce interest-bearing liabilities is to become a highly profitable company and secure the resources to repay the debt. For this reason, taking fundamental measures against unprofitable business areas is unavoidable.

I will actively offer my opinions based on my past experience to address the two major issues facing the Unitika Group, namely the future transformation of the business structure and the reduction of excessive interest-bearing liabilities, with the aim of reviving the prestigious Unitika name.

Q

What was the theme that you focused on most at Unitika's Board of Directors meetings in FY 2023? Also, can you think of any memorable moments from the discussions?

My primary focus was on the problem of low profitability that the Unitika Group is facing. Unfortunately, in spite of concerted company-wide efforts, the Company fell into an operating deficit in FY 2023 for the first time in its history. Each time we received monthly reports at the Board of Directors meeting, we requested cost reductions and price increases, but price increases continued in the wake of soaring raw material costs, especially for materials denominated in foreign currencies, which rose due to depreciation of the yen.

The Company was also exposed to attacks through low prices by foreign companies and was unable to reverse the operating deficit. Operating losses for two consecutive fiscal

years are not acceptable for the sake of the Company's survival. Our mandatory targets for FY 2024 are to return to profitability in operating profit and to return to profitability in net income.

Under these circumstances, one of the most memorable moments from the FY 2023 board meetings was the discussion on the FY 2024 budgeting policy. I was very impressed by the passionate discussions that took place about how to achieve profitability, and the clear determination from all the officers to achieve profitability in FY 2024.

The Board of Directors will closely monitor the Company to ensure that it achieves an operating profit surplus in FY 2024.

Q

What kind of discussions do you plan to have at future Unitika board meetings?

Returning operating profit and net profit to a surplus in FY 2024 is essential for the survival of the Unitika Group. We will discuss various measures to achieve this goal and I have the following agenda items in mind.

- (1) **Enact fundamental measures for unprofitable business areas**
– Focused investment of people, assets, and money into profitable businesses –
- (2) **Thorough monthly follow-up of price increases**
– Pursuit of increased operating profit –
- (3) **Thorough monthly follow-up of the progress of cost reductions**
– Pursuit of cost ratio reduction –

- (4) **Implement measures to bring PT. Emblem Asia (Indonesia), the most important subsidiary in the polymers business segment, back to profitability**
- (5) **Promote development of competitive new products**
– Maintain development expenses, even if it hurts –
- (6) **Develop new customers and markets**
- (7) **Reduce fixed costs**
- (8) **Monthly follow-up of cash flow**

Through these discussions, I hope to reach the formulation of concrete plans and implement the measures as soon as possible to achieve a return to profitability in operating profit and net profit.

[Please explain your mission and commitment to the stakeholders.]

The two main features of governance failure in Japanese manufacturing companies are quality issues and false accounting. The real cause of quality issues, especially in the manufacturing industry, is a lack or breakdown of communication between the factory floor and top management. To prevent these issues from arising, I consider the appointment of the CEO to be extremely important, as I mentioned before.

Several years ago, the Unitika Group also experienced a quality deficiency incident. We disclosed the problem to the public, implemented corrective measures, and worked to prevent recurrence. An independent Quality Assurance Office (currently the Quality Assurance Group of the Legal & Compliance Department) was established to ensure close communication with the factory floor and promote daily quality assurance operations, while the Quality Assurance Committee, chaired by the president, monitors quality assurance for the entire Group.

The Compliance Committee, chaired by the officer in charge, monitors the operation of the Unitika Group's whistleblower system and works to prevent various types of harassment and violations

of antimonopoly law. In addition, to manage the risk of losses, we have established a Risk Management Committee and have put in place a system to deal with the major management risks that may arise in the Unitika Group's business activities.

The Board of Directors will monitor the matters reported by the above committees in a timely and appropriate manner and take the measures necessary to improve profitability.

Last March, the Tokyo Stock Exchange requested that companies listed on the Prime and Standard Markets with a P/B ratio of less than 1x disclose their measures to increase their P/B ratio to 1x or more. I am fully aware that strengthening governance is a fundamental part of complying with this demand and becoming a company of choice for investors, and I will strive to enhance the corporate value of the Unitika Group.

