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## Corporate Governance Report

Last Update: September 5<sup>th</sup>, 2022

Tokuyama Corporation

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Securities Code: 4043

<http://www.tokuyama.co.jp/>

The corporate governance of Tokuyama Corporation (the “Company”) is described below.

### I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

#### 1. Basic Views

Amid the major transformations taking place throughout society, the Company has redefined its Mission as “To create a bright future in harmony with the environment, in collaboration with its customers, based on chemistry” in line with the business environment being faced today. This redefinition incorporates the Company’s desire to continuously conduct business in harmony with the environment and to create the future together with its customers as a means of contributing to a sustainable society.

This only becomes possible with the trust and support of shareholders, customers, suppliers, employees, local communities, and all other stakeholders, which the Company believes will connect to sustainable growth and greater corporate value over the medium- to long-term.

Corporate governance comprises a priority issue for management in order for the Company to realize its Mission. The Company therefore recognizes the need to constantly make enhancements. This forms the Company’s Basic Concept on corporate governance.

In light of the Corporate Governance Code, the Company’s Basic Policy is to respect the rights and equality of shareholders, appropriately cooperate with all stakeholders, achieve a balance between proper disclosure and transparency, maintain the independence of the Board of Directors and enhance the Board’s oversight function, accelerate decision-making, clarify responsibility, and strive for constructive dialogue with shareholders.

#### [Reasons for Non-compliance with the Principles of the Corporate Governance Code]

The Company complies with all Principles of the Corporate Governance Code.

#### [Disclosure Based on the Principles of the Corporate Governance Code]

updated

##### Principle 1-4 [Policy on the Holding of Listed Shares for Purposes Other Than Pure Investment]

The Company holds shares of publicly listed companies on a strategic basis in accordance with the necessities of its business activities as a part of its overall management strategy.

This includes the need to maintain and bolster transactions, raise funds and stably procure raw materials. As far as the strategic holding of shares in publicly listed companies is concerned, the Company will limit its holdings to the minimum level possible taking into consideration the need to ensure efficient corporate management. It sold all shares of one listed issue in FY2021, resulting in a total of 21 listed issues of shareholdings as of March 31, 2022.

In addition, the Board of Directors takes steps to verify the economic rationality of holding shares in publicly listed companies by comparing capital costs that factor in associated risks with accrued benefits while confirming the propriety of its holdings based on an outlook of the future each year.

##### Principle 1-7 [Transactions with Related-Parties]

In accordance with the “Rules for the Board of Directors,” the Company requires the prior approval of the Board of Directors, as well as subsequent reporting to the same, for any competitive transaction, proprietary transaction, or transaction that may involve a conflict of interest.

##### Supplementary Principle 2-4-1 [Ensure Diversity]

In addition to instilling the four values stated in the Tokuyama Vision, Tokuyama is actively engaged in developing talent and promoting diversity in a way that ensures every employee can make the most of their individuality and abilities.

Tokuyama’s diversity promotion activities are aimed at creating a situation in which our employees can work with energy and succeed as a means of driving the sustainable growth of the Company. Tokuyama values

diversity of knowledge and intelligence, and seeks to create workplaces that are pleasant and motivating, while aiming to improve productivity, by reforming the workplace culture. In March 2019, we included prioritizing diversity and motivation as one item of materiality that was extracted and identified as a very important issue from the perspective of practicing CSR. In the "Medium-Term Management Plan 2025," published in February 2021, we defined the practice of socially responsible management as one of our priority issues, and are working to solve and achieve materiality by concentrating management resources on this matter.

Moreover, Tokuyama introduced a multiple career-path personnel system in 2020 to accommodate employees with diverse value systems and work styles. Along with establishing training systems that correspond to the role and course of each employee, we are also engaged in developing talent by offering open-enrollment training programs.

Although Tokuyama has not set numerical targets related to foreign nationals and mid-career hires appointed to management positions, the Company employs these individuals in accordance with the spirit of "Fair Evaluation and Treatment" as a goal of the personnel system introduced in 2020. The ratio of management positions accounted for by mid-career hires increased from 6.8% in FY2018 to 8.7% in FY2021. At the current time, no foreign nationals have been promoted to management positions, but the Company will revise the promotion screening process to include a greater awareness of ensuring diversity as a means of advancing the appointment of foreign nationals to management positions.

Details on our human resources development system and targets regarding the promotion of opportunities for women are available on the Company's website (<https://www.tokuyama.co.jp/eng/csr/employee.html>).

#### **Principle 2-6 [Roles of Corporate Pension Funds as Asset Owners]**

The Company has established a basic investment policy with the goal of ensuring the income required to reliably provide pension benefits to beneficiaries over the long term. While striving to ensure the expertise and reliability of fund management through the use of management consultants, the Company in accordance with this policy also appoints investment trustees, monitors reports from the investment trustees on a regular basis, and conducts appropriate management operations, including quantitative and qualitative evaluations, to avoid any conflicts of interest. In addition, the Company has established a Pension Investment Committee chaired by the General Manager of the General Affairs and Human Resources Division and composed of pension investment managers with a high level of expertise in the field and the Chairman of the Labor Union Executive Committee, who acts as a representative of the beneficiaries. The committee meets on a regular basis to confirm financial conditions and investment performance, and provides reports directly to management.

#### **Principle 3-1- (I) Corporate Mission (management philosophy, etc.), Management Strategies, and Management Planning**

In recognition of greater environmental awareness around the globe and the rapid advancement of the digital revolution as the current historical context, the Company redefined its Mission in 2021.

In addition, the Company declared the Vision for which it aims in order to achieve its Mission. Each employee continuously moves forward to realize this Vision with four Values.

##### Mission

To create a bright future in harmony with the environment, in collaboration with its customers, based on chemistry

##### Visions

- Be a value-creative company that places first priority on R&D and marketing
- Be a company that never stops challenging new domains while refining and exploiting its unique strengths
- Be a company with healthy employees who have healthy families and take pride in their work at their company
- Be a company that fosters bonds with people in communities and societies worldwide

##### Values

- Commitment to customer satisfaction as a profit source
- A broader, loftier perspective
- Employees who consistently surpass their predecessors
- Integrity, perseverance, a playful spirit and boldness

The Management Policy and Medium-term Management Plan are available on the Company's public website (<https://www.tokuyama.co.jp/eng/>).

**Principle 3-1- (II) [Basic Views and Guidelines on Corporate Governance based on Each of the Principles of the Corporate Governance Code]**

Please refer to "I-1 Basic Views" in this report.

**Principle 3-1- (III) [Board Policies and Procedures in Determining the Remuneration of the Senior Management and Directors]**

For details regarding the policy for determining the remuneration of directors, please refer to the "Disclosure of Policy for Determining Remuneration Amounts and Calculations Methods" section in the portion dedicated to director remuneration in the "II-1. Organizational Composition and Operation" section of this report.

**Principle 3-1- (IV) [Policies and Procedures When the Board of Directors Selects/Dismisses Management Executives and Nominates Director and Auditor Candidates]**

To enable the direction of business execution as well as appropriate decision making with regard to the Company's business operations, which are centered on chemicals, the selection of executive officers appoints those with knowledge and experience in each business segment and area. When nominating director candidates, the Company selects candidates who are believed to have a high level of insight, diverse experience, and expertise in consideration of the balance and diversity of the Board of Directors in order to ensure the Board properly supervises and provides advice on important decisions and business execution.

When selecting and dismissing executive officers and nominating director candidates (excluding directors who are Audit and Supervisory Committee members), discussions are held at a Human Resources Committee meeting in advance of the subject appearing on the agenda at a Board of Directors' meeting. The Human Resources Committee is an entity that comprises representative directors and external directors. The Board of Directors makes its decisions in response to the Human Resources Committee's report.

In regard to the selection and dismissal of the President and Executive Officer, the President Nomination Committee deliberates on these matters, and the details of these deliberations are then presented to the Board of Directors following a report by the Human Resources Committee, at which point the Board of Directors makes a decision.

In the case of the nomination of directors who are Audit and Supervisory Committee member candidates, the Board of Directors makes its decisions after receiving the assent of the Audit and Supervisory Committee.

**Principle 3-1- (V) [Explanations with Respect to Individual Appointments and Dismissals when the Board of Directors, based on (iv) above, Nominates Director Candidates or Appoints/Dismisses Senior Management Personnel.]**

For an explanation regarding the appointment and nomination of individual directors and executive officers, please see the appendix at the end of this report.

This report also covers matters related to the appointment and independence of outside directors.

**Supplementary Principle 3-1-3 [Sustainability Disclosures]**

In response to worsening climate change and the trend towards practicing ESG within society, the "Medium-Term Management Plan 2025," published in February 2021, raises the three priority issues of "transform business portfolio," "contribute to mitigation of global warming," and "practice socially responsible management."

"Transform business portfolio" aims to transform the Company's portfolio from its current reliance on energy-intensive businesses to sustainable businesses that are energy efficient and serve to solve social issues. "Contribute to mitigation of global warming" raises and aims to steadily achieve the lofty goal of "carbon neutrality by FY2050."

As part of "Practice socially responsible management," we have positioned the CSR priority issue of "materiality" as a specific action objective for achieving the "Vision" included in the Medium-Term Management Plan, and will build a solid foundation for growth by faithfully engaging in these efforts.

The company's disclosures based on 'Taskforce on Climate related Financial Disclosure' (TCFD) recommendations are available on the company's website.

([https://www.tokuyama.co.jp/eng/csr/pdf/2022\\_tokuyama\\_tcfde.pdf](https://www.tokuyama.co.jp/eng/csr/pdf/2022_tokuyama_tcfde.pdf))

Moreover, Tokuyama aims to be a company that creates value and provides solutions which places first priority on R&D and marketing, and recognizes that investing in intellectual property is essential for realizing this goal. In addition, we have raised developing human resources as a materiality, under which we aim to develop and strengthen those human resources that will serve as a source of corporate competitiveness, and to enrich those human resources that will be responsible for future generations. Similarly, we have clarified the types of personnel and skills required for each occupation, and are engaging in efforts to improve and enrich the education system. Tokuyama also introduced a multiple career path personnel system, and has established a framework for implementing rotations and assignments that realize employee career plans. Information regarding the Company's intellectual property and human resources development has been disclosed in the integrated report (Tokuyama Report).

#### **Supplementary Principle 4-1-1 [Duties of the Board of Directors and the Scope of Management Delegation]**

Matters requiring resolutions by the Board of Directors in accordance with laws and regulations or the Articles of Incorporation, as well as important management matters are resolved by the Board of Directors in accordance with the "Rules for the Board of Directors" and the "Rules for Decision Making," while matters related to business execution are delegated system specifically designed for the execution of business.

#### **Supplementary Principle 4-1-3 [Chief Executive Officer Succession Plan]**

In August 2021, Tokuyama newly established the "President Nomination Committee," which serves to formulate, implement, and deliberate on the Chief Executive Officer (President and Executive Officer) Succession Plan, and functions to report to the Human Resources Committee.

The actions of the President Nomination Committee are regularly reported to the Board of Directors by the Human Resources Committee, and are appropriately audited by the Board, in order to ensure that sufficient time and resources are invested in the systematic training of succession candidates based on the Mission, Vision and management strategies of the Company.

#### **Principle 4-9 [Criteria for Defining the Independence of External Directors]**

With regard to its Criteria for Defining the Independence of External Directors, the Company adjudges those who do not fall into any of the following categories as demonstrating sufficient independence.

A) Persons who are not currently nor in the past 10 years been engaged in the execution of business operations of the Company or its affiliated companies\*1.

B) Persons who are not currently nor in the past three years been engaged in the execution of business operations of a major trading partner of the Company, or executives thereof. However, the Company's major trading partners are defined as those that fall into either of the following categories:

(1) Financial institutions that have financed more than 2% of the Company's total borrowings.

(2) Trading partners that account for more than 2% of the Company's consolidated net sales.

C) Persons who currently deem or in the past three years have deemed the Company or an executive thereof to be a major trading partner. However, persons who deem the Company to be a major trading partner are defined as those cases in which the amounts paid by the Company account for 2% or more of the said trading partner's consolidated sales.

D) Consultants, accountants or legal professionals who currently receive or in the past three years have received large financial considerations or other property\*2 from the Company besides their compensation as a director/auditor. (If the entity in receipt of the assets is an organization, such as a legal entity or an association, the person who belongs to such organization.) However, includes those that fall into either of the following categories:

(1) Auditors who are responsible for the statutory audit of the Company.

(2) Law firms that serve as legal counsel to the Company.

E) Spouses or relatives within the second degree of kinship of the relevant persons in the sections above (but limited to important persons\*3.

\*1 Pursuant to Article 2, Paragraph 3, Item 6 of the Ordinance for Enforcement of the Companies Act of Japan.

\*2 In the case of an individual, a substantial compensation payment is defined as an annual amount of compensation that exceeds 10.0yen million, and in the case of an organization, an amount of 2% or more of the annual total income of that organization.

\*3 In the case of a company, important persons are defined as those who hold the responsible positions of director, executive officer, operating officer and positions equivalent to manager; in the case of an accounting office and audit corporation, certified accountants; in the case of law offices and legal corporations, lawyers; and in the case of a tax accountant office and tax accountant corporation, tax accountants. In other organizations, an important person means directors, such as a director or a councillor.

**Supplementary Principle 4-10-1 [Independent Nomination/Remuneration Committee]**

To improve independency and objectivity, director and executive officer nominations and remuneration are deliberated by the Human Resources Committee, of which independent outside directors make up the majority of members in addition appropriate reports and recommendations are provided to the Board of Directors.

The Chief Executive Officer (President and Executive Officer) Succession Plan is implemented in a more focused, professional manner by the President Nomination Committee, which was established within the Human Resources Committee. The President Nomination Committee is only attended by one internal director, namely the President and Executive Officer), and independent outside directors account for the majority of members and serve as the chairperson.

**Supplementary Principle 4-11-1 [Concept on the Diversity of the Board of Directors]**

The Company considers the composition of the Board of Directors with respect to the number of directors, the balance of fields in which Directors can be expected to contribute using their individual areas of expertise, experience, and abilities, and the Board's diversity in a way that enables the Board of Directors to hold effective debates in view of the Management Policy and Medium-term Management Plan established by the Company, and to appropriately exhibit the required decision-making and management execution supervising/auditing functions.

Please refer to the General Shareholder Meeting reference materials for the composition of the Board of Directors, including the skill matrix related to the above.

([https://www.tokuyama.co.jp/eng/ir/pdf/2022\\_Jun\\_Notification\\_e.pdf](https://www.tokuyama.co.jp/eng/ir/pdf/2022_Jun_Notification_e.pdf))

**Supplementary Principle 4-11-2 [Status of Directors Concurrently Serving as Officers at Other Listed Companies]**

When a director at the Company assumes the position of director or auditor at another company, the Board of Directors of the Company is charged with determining whether there is any conflict of interest. For outside directors, the Board of Directors confirms that individuals serving in concurrent positions have the time and ability to fulfill their roles and responsibilities to the Company.

Information regarding outside directors is disclosed in the portion dedicated to directors in the "II-1. Organizational Composition and Operation" section of this report.

**Supplementary Principle 4-11-3 [Analysis and Evaluation of Overall Effectiveness of the Board of Directors]**

Amid the major transformations taking place throughout society, the trust and support of stakeholders is essential for the Company to continuously conduct business in harmony with the environment and to continue to create the future together with its customers as a means of contributing to a sustainable society in line with the business environment being faced today. In order to realize this trust and support, the Company has positioned corporate governance as a material issue for management, and has determined to evaluate the effectiveness of the Board of Directors every year as a part of this effort.

**[Evaluation Process]**

In regard to the Board's effectiveness evaluation for the period ended March 2022, the Company conducted a questionnaire survey and interview of all directors, after which the Board members held discussions based on the results of the interviews.

Along with verifying those matters considered to be of material importance to the Board's ability to effectively fulfill its roles and responsibilities (composition and operations of the Board of Directors, discussions involving strategies, etc.), during the year under review the Company also confirmed the ways in which the Board should contribute to advancing "Medium-Term Management Plan 2025," and the related perspectives and measures. In order to objectively ascertain the opinions of each director, the evaluation utilized an external organization to conduct the questionnaire survey and interviews. In addition, the Company requested the external organization to facilitate the discussions in order to objectively organize the issues and to obtain opinions that will enhance the Board's effectiveness.

**[Overview of Evaluation Results]**

The evaluation results confirmed that the Company's Board of Directors consists of a diverse range of members and comprises a character that respects free and open discussions against the background of a corporate culture with a positive atmosphere. The results also confirmed that the Board functions effectively owing to the concrete accumulation of initiatives intended to improve the effectiveness of corporate governance.

One future issue for the Board of Directors of which the Board members share a common awareness is the need to hold deeper discussions regarding the two management challenges of carbon neutrality initiatives and business portfolio transformation, in particular, as raised in the Medium-Term Management Plan. The Company has confirmed that backing self-deprecating and self-reforming management, as well as deepening discussions from a strategic and overarching perspective, are important responsibilities of the Board in regard to how the Company addresses these management challenges.

In order to engage in these issues, the Company's Board of Directors will advance initiatives to enhance its effectiveness, including (1) deepening insight regarding changes in the business environment in which the Company is situated and creating opportunities to debate measures for handling the important management challenges of carbon neutrality initiatives and business portfolio transformation, (2) effectively monitoring the progress of priority measures, including human capital strategies and technology development strategies, in order to support the achievement of "Medium-Term Management Plan 2025," and (3) rationalizing the Board's operation method, including Board meeting agendas, materials, and presentations, etc., in order to fulfill these responsibilities.

**Supplementary Principle 4-14-2 [Policy on Training Directors]**

The Company has maintained a policy of requiring newly appointed directors to participate in external executive training since 2001. Since the introduction of the executive officer system in 2011, the Company has maintained a policy of also involving newly appointed executive officers who are candidates to be future directors.

The content of the training program can be based on the experience and knowledge of the individual, but with corporate governance in mind, required content includes "legal affairs and corporate governance" and "accounting and finance." The Company also allows participants to attend external seminars related to their corporate responsibilities on their own.

Outside directors are given the opportunity to learn about the Company when they take office, including through facility visits and in respect to the current condition of operations and the Company's businesses.

Finally, the Company also holds study sessions when needed for all directors in order to better understand domestic and international economic conditions, legal revisions, and new systems.

**Principle 5-1 [Policy on Constructive Dialogue with Shareholders]**

In order to gain the understanding and trust of our shareholders and investors, the Company strives to disclose not only management and financial information, but also non-financial information, including in regard to the products and services it provides to society, as well as in regard to information related to environmental and social subjects in a timely, appropriate, and easy-to-understand manner. For information on the Company's basic stance on disclosing information and its timely disclosure system, please see "V-2. Other Matters Concerning to Corporate Governance System in this report.

The section chief of the Corporate Communication and Investor Relations Department will take the role of promoting constructive dialogue with shareholders and investors.

The Corporate Communication and Investor Relations Department works closely with other internal departments, including the Corporate Strategic Planning Department, the Corporate Accounting Department, the Finance and Investment management Department, the Corporate Social Responsibility Planning Department, the General Affairs Department, the Research and Development Division, and business divisions in the planning and promotion of dialogue.

In regard to IR activities in which executives communicate with shareholders and investors directly, the Company holds a results briefing session for analysts and institutional investors four times a year, and participates in conferences and small meetings held by securities firms whenever necessary. The Corporate Communication and Investor Relations Department, which is in charge of IR activities, holds interviews with institutional investors inside and outside Japan, as well as sessions for introducing the Company to individual investors. For the details of other IR activities, please see "III-2. IR Activities" in this report.

The opinions and views of shareholders and investors received through dialogue are confirmed and shared at our IR meetings, which are attended by executives and relevant section chiefs. The subsequent IR report is then distributed to each section within the Company to provide feedback, and is used to formulate and revise management and business strategies with the goal of improving corporate value.

In regard to the management of insider information, the Company has formulated in-house rules and ensures comprehensive management through non-disclosure agreements and other measures.

**2. Capital Structure**

Foreign Shareholding Ratio	From 20% to less than 30%
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**[Status of Major Shareholders]**

Name / Company Name	Number of Shares Owned (Shares)	Percentage (%)
The Master Trust Bank of Japan, Ltd. (trust account)	13,487,500	18.71

Custody Bank of Japan, Ltd. (trust account)	3,993,700	5.54
Nippon Life Insurance Company	2,174,958	3.02
The Yamaguchi Bank, Ltd	1,649,252	2.29
Meiji Yasuda Life Insurance Company	1,488,425	2.07
Sojitz Corporation	1,296,840	1.80
Tokuyama Corp. employee share ownership	1,292,840	1.80
Sumitomo Metal Mining Co., Ltd.	1,180,800	1.64
Tokyo Marine & Nichido Fire Insurance Co., Ltd.	1,104,449	1.53
NORTHEN TRUST GLOBAL SERVICES SE, LUXEMBOURG RE LUDU RE: UCITS CLIENTS 13.315 PCT NON TREATY ACCOUNT	1,008,000	1.40

Controlling Shareholder (except for Parent Company)	-----
Parent Company	none

Supplementary Explanation

Note: As of March 31st, 2022. The percentage of shares held is calculated after deducting the shares held by the Company as treasury share (14,275 shares).

### 3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange Prime Market
Fiscal Year-End	March
Type of Business	Chemicals
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1000
Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥100 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 50 to less than 100

### 4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

Not applicable

### 5. Other Special Circumstances which may have Material Impact on Corporate Governance

Not applicable

## II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

### 1. Organizational Composition and Operation

Organization Form	Company with Audit and Supervisory Committee
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#### [Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	20
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	President
Number of Directors	9
Number of Outside Directors	4
Number of Independent Directors	4

#### Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*											
		a	b	c	d	e	f	g	h	i	j	k	
Shin Kato	Lawyer												○
Yuzo kawamori	From another company									△			
Naoki Matsumoto	From another company					△				△			
Nobuko Mizumoto	From another company									△			

\* Categories for "Relationship with the Company"

\* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

\* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries

b. Non-executive director or executive of a parent company of the Company

c. Executive of a fellow subsidiary company of the Company

d. A party whose major client or supplier is the Company or an executive thereof

e. Major client or supplier of the listed company or an executive thereof

f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/*kansayaku*

g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)

h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)

i. Executive of a company, between which and the Company outside directors/*kansayaku* are mutually appointed (the director himself/herself only)

j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)

k. Others

#### Outside Directors' Relationship with the Company (2)

Name	Membership of Supervisory Committee	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Shin Kato	○	○	Mr. Shin Kato has been appointed as an Independent External Director. He is an attorney at law affiliated with	Although he has not been involved in corporate management other than in his capacity as External Director or External Auditor, given his wealth of expertise and



			the Kato Law Office. There are no special interests between Mr. Kato or the Kato Law Office and the Company.	outstanding insight as an attorney at law, the Company judged him to be suitably qualified as an External Director who will serve on the Company's Audit and Supervisory Committee and has appointed him as such.
Yuzo Kawamori	○	○	Mr. Kawamori has been appointed as an Independent External Director. Until 2013, he served as an operating officer of Kansai Paint Co., Ltd., one of the Company's trading partners. Given that the Company's transactions with this trading partner total less than 1% of both the Company's and the trading partner's consolidated net sales, it is not classified as a major trading partner. Moreover, nine years have already passed since his retirement. The Company therefore judged his independence as an Independent External Director to be satisfactory.	Given his outstanding insight as a manager of an industry-leading company and wealth of experience in overseas business development, the Company judged him to be suitably qualified as an External Director who will serve on the Company's Audit and Supervisory Committee and has appointed him as such.
Naoki Matsumoto	○	○	Mr. Naoki Matsumoto has been appointed as an Independent External Director. Until 2007, he served as an operating officer at The Bank of Tokyo-Mitsubishi UFJ, Ltd. (currently, MUFJ Bank, Ltd.), a trading partner of the Company. Although this trading partner is the Company's so-called main bank, fifteen years have passed since his	Given his wealth of experience as a manager in a wide variety of businesses in the finance industry and outstanding insights into finance and accounting, the Company judged him to be suitably qualified as an External Director who will serve on the Company's Audit and Supervisory Committee and has appointed him as such.

			retirement. The Company therefore judged his independence as an Independent External Director to be satisfactory. He also served as President and CEO of MST Insurance Service Co., Ltd., until 2019. Given that the Company's transactions with this trading partner are minor and total less than 1% of both the Company's and this trading partner's consolidated net sales, it is not classified as a major trading partner, and was therefore judged to have NO impact on his independence as an Independent External Director.	
Nobuko Mizumoto	○	○	Ms. Nobuko Mizumoto has been appointed as an Independent External Director. Until 2020, she served as an operating officer at IHI Corporation, one of the Company's trading partners. Given that the Company's transaction status with this trading partner totals less than 1% of both the Company's and this trading partner's consolidated net sales, it is not classified as a major trading partner and was therefore judged to have NO impact on her independence as an Independent External Director.	Given her wide range of outstanding knowledge based on her experience as a researcher and as a manager in major posts in the head office divisions of a major heavy industry company, the Company judged her to be suitably qualified as a Director who will serve on the Company's Audit and Supervisory Committee and has appointed her as such.

**[Audit and Supervisory Committee]**

Committee's Composition and Attributes of Chairperson

	All Committee Members	Full-time Members	Inside Directors	Outside Directors	Chairperson
Audit and Supervisory Committee	5	1	1	4	Inside Director

Appointment of Directors and/or Staff to Support the Supervisory Committee      Appointed

Matters Related to the Independence of Such Directors and/or Staff from Executive Directors

The Audit and Supervisory Committee Office was established and employees assigned to it so as to assist the Audit and Supervisory Committee in their duties. The Audit and Supervisory Committee has the right to direct these employees in their actions, and the Audit and Supervisory Committee's consent must be obtained in regard to any related personnel evaluations, hiring, transfers, or disciplinary actions.

Cooperation among Audit and Supervisory Committee, Accounting Auditors and Internal Audit Departments

The Audit and Supervisory Committee and the Accounting Auditor hold regular meetings to strengthen mutual cooperation.

The Audit and Supervisory Committee receives reports from the Accounting Auditor on audit policies, audit plans, audit implementation status, and audit reviews, and participates in the exchange of opinions related to those subjects.

The Company has established the Internal Audit Department as internal auditing department.

The Audit and Supervisory Committee Chair holds regular meetings with the head of the Internal Audit Department to hear audit policies, audit plans, and the status of audit implementations, etc., and to exchange opinions. The Committee Chair also receives reports on the results of audits conducted by the Internal Audit Department each time an audit is conducted.

In addition to making regular audit reports at the Board of Directors, the Internal Audit Department also ensures that all directors, including Audit and Supervisory Committee members, can view any of its audit reports at any time.

**[Voluntary Establishment of Nomination/Remuneration Committee]**

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee      Established

Committee's Name, Composition, and Attributes of Chairperson

	Name	All Committee Members	Full-time Members	Inside Directors	Outside Directors	Outside Experts	Other	Chairperson
voluntary committee in lieu of a nomination committee	The Human Resources Committee	7	0	3	4	0	0	Inside Director
Voluntary committee in lieu of a remuneration	The Human Resources Committee	7	0	3	4	0	0	Inside Director

Supplementary Explanation

The Human Resources Committee is composed of Representative Directors and Outside Directors. The Committee was established to discuss the nomination, appointment, and remuneration of Directors (excluding those who are Audit and Supervisory Committee members) and Executive Officers prior to the Board of Directors meetings.

#### [Independent Directors]

Number of Independent Directors	4
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Matters relating to Independent Directors

For information related to criteria for Defining the Independence of External Directors, please see principle 4-9 in the Corporate Governance Code.

#### [Incentives]

Incentive Policies for Directors	Performance-linked Remuneration
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Supplementary Explanation

For details regarding the policy for determining incentive-based compensation for directors, please refer to the “Disclosure of Policy for Determining Remuneration Amounts and Calculations Methods” section in the portion dedicated to director remuneration in the “II-1. Organizational Composition and Operation” section of this report.

Recipients of Stock Options	Not applicable
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Supplementary Explanation

#### [Director Remuneration]

Disclosure of Individual Directors’ Remuneration	Compensation NOT disclosed on an individual basis
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Supplementary Explanation

Director remuneration, etc., for FY2021 is listed below.

- ¥223 million paid to five Directors (excluding those serving on the Audit and Supervisory Committee)
- ¥27 million paid to one Director serving on the Audit and Supervisory Committee (excluding External Directors)
- ¥52 million paid to four External Directors

(Notes)

1. The above amounts include one Director who retired during the fiscal year under consideration.
2. The above amounts include performance-linked stock remuneration combining the total of [1] provisions for share-based remuneration disclosed during the past fiscal year that were deducted from the amount calculated in accordance with the achievement level for the performance targets covering the period from FY2018 to FY2020 and [2] the amount recorded as expenses during the fiscal year under consideration.
3. The above amounts do not include employee salaries paid to directors with duties in an employee’s capacity.

Policy on Determining Remuneration Amounts and Calculation Methods	Established
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Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

Policy on Determining Director Remuneration on an Individual Basis  
 The Company has established a policy for determining the content of remuneration for Directors on an individual basis (excluding those who serve on the Audit and Supervisory Committee). The following provides an overview of such, where individual remuneration is determined by the Board of Directors following deliberations by the Human Resources Committee\*1.

(Basic Policy)

- 1) The remuneration plan for the Company’s Directors is based on the following views.

- Ensures that Directors contribute to charting sustainable growth for corporate performance and corporate value based on the “Vision of Tokuyama”
- Provides a level of remuneration that secures and retains human resources that can support the Company’s management
- Considers the performance of the Company
- Employs a highly transparent, objective remuneration decision process

2) Remuneration for the Company’s Directors consists of basic remuneration and bonuses in the form of monetary remuneration and performance-linked Share-based Remuneration in the form of non-monetary remuneration\*2.

(Policy on Determining Director Remuneration on an Individual Basis)

1) The content (annual amount) of basic remuneration is determined from a comprehensive perspective that takes into account the roles and responsibilities of each Director. Further, the determined basic remuneration is divided into 12 equal parts and paid on a monthly basis.

2) The content of bonuses is determined in accordance with the achievement level of the predetermined performance targets for each fiscal year in respect to the standard amount for bonuses determined separately for each position. The performance targets are established based on the main financial targets for Tokuyama’s overall performance. Further, the determined bonuses are paid at a specific period each year.

3) Performance-linked Share-based Remuneration is based on the fiscal years covered by the Medium-term Management Plan as the target period, and is provided in the form of Company shares in accordance with the achievement level for the predetermined performance targets. The performance targets are established based on the main financial targets in the Medium-term Management Plan. Further, as a general rule, this form of remuneration is provided at the completion of the target period.

4) The level of remuneration takes into consideration remuneration survey data provided by external expert organizations.

(Policy on Determining the Ratio of Remuneration for Directors by Type)

The ratio of remuneration for Company Directors by type is determined in consideration of the ideal balance between the basic standard for the required roles/responsibilities and incentives to stimulate the desire to achieve performance targets.

(Policy on Determining Director Remuneration on an Individual Basis)

1) The final annual amount of basic remuneration for each individual is calculated and determined by the Representative Director, President and Executive Officer, having received authorization to do so from the Board of Directors, based on a standard amount predetermined for each position.

The Human Resources Committee deliberates on whether the calculated basic remuneration is appropriate or not.

2) Bonuses are determined by the Representative Director, President and Executive Officer, having received authorization to do so from the Board of Directors, based on performance for the target fiscal year after first determining the payment ratio in accordance with the standard bonus amounts for each position, the performance targets for the target fiscal year, and the achievement level for those targets.

The Human Resources Committee deliberates on whether the performance targets, calculation methods, and calculation results are appropriate or not.

3) Performance-linked Share-based Remuneration is calculated by the Board of Directors using points granted to Directors on an individual basis based on the established executive remuneration share delivery regulations following deliberations by the Human Resources Committee.

\*1 The Human Resources Committee is composed of a majority of External Directors and deliberates matters related to human resources and remuneration regarding officers. This Committee also serves as a voluntary advisory committee for the Company that makes appropriate reports and recommendations to the Board of Directors.

\*2 All directors, except those who serve on the Audit & Supervisory Committee, Non-executive Directors, External Directors, and those NOT residing in Japan, are eligible for the performance-linked Share-based Remuneration plan.

#### [Supporting System for Outside Directors]

1. The Corporate Planning Division explains the contents of each agenda item to the outside directors in advance of each Board of Directors meeting and holds a question-and-answer session.

2. Directors and executive officers meet with outside directors individually and respond to inquiries from them regarding management issues, industry trends, business strategies, and the operational status of the internal controls system.

3. In regard to the auditing plan of the accounting auditor, reviews of quarterly and year-end accounts, and audit results, internal directors who are members of the Audit and Supervisory Committee (hereafter internal Audit and Supervisory Committee members) and outside directors who are members of the Audit and Supervisory Committee (hereafter outside Audit and Supervisory Committee members) receive related information directly from the Accounting Auditor.

4. In accordance with the Companies Act, internal Audit and Supervisory Committee members when auditing financial statements receive detailed information from the departments in charge of accounting and provide an outline on this information to outside Audit and Supervisory Committee members.

5. For internal audits, internal Audit and Supervisory Committee members receive detailed information from the Auditing Department and provide an outline on this information to outside Audit and Supervisory Committee members.

6. The Corporate Social Responsible Division reports on the development and operational status of the internal controls system to the outside directors at the Board of Directors meetings.

**[Retired presidents/CEOs, etc. holding advisory positions (sodanyaku, komon, etc.)]**

Information on retired presidents/CEOs holding advisory positions (sodanyaku, komon, etc.)

Name	Job title/ position	Responsibilities	Employment terms (Full/part time, with/without compensation, etc.)	Date when former role as president/ CEO, etc. ended	Term
Masao Kusunoki	Corporate Advisor	<ul style="list-style-type: none"> <li>• Industry association and other public facing activities</li> <li>• Advice in response to requests from the current management</li> </ul>	<ul style="list-style-type: none"> <li>• Part-time</li> <li>• With compensation (term-limited)</li> </ul>	June 21, 2019	Indefinite

Number of retired presidents/CEOs, etc. holding advisory positions (sodanyaku, komon, etc.)	1
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Others

The Company, by resolution of the Board of Directors, may appoint those with experience as chairman or president/CEO to Corporate Advisor. The term, compensation, and other benefits are stipulated in the Company's internal rules. Corporate Advisor engages in public facing activities and provides advice when requested by the Company's management.

**2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)**

The following section outlines the Company's management structure, its operations, and the status of accounting audits.

**(1) Board of Directors**

In addition to deliberating and making resolutions on important matters relating to the activities of the Company, the Board of Directors supervises business operations. During fiscal 2021, the Board of Directors met on 17 occasions.

As of the date this report was submitted, there were nine directors on the Company's Board of Directors. The Company is working to strengthen the supervisory function of the Board of Directors through the appointment of four outside directors. With the goal of clarifying management responsibilities and responding quickly to changes in the business environment, the term of office for directors (excluding directors on the Audit and Supervisory Committee) is set at one year.

Tokuyama adopted an executive officer system in 2011 with the aim of separating the executive and supervisory functions for business operations. As of the date this report was submitted, the Company had 12 executive officers.

Based on the rules for approval determined by the Board of Directors, authority is delegated to the business executive system.

## **(2) Audit and Supervisory Committee**

Directors who are Audit and Supervisory Committee members attend meetings of the Board of Directors and other important internal meetings in order to gather information on the status of the execution of businesses. They also conduct audits on how well the executive officers are executing their duties. During fiscal 2021, Audit and Supervisory Committee met on 24 occasions, making reports, participating in consultations, and making resolutions on important matters. As of the date this report was submitted, the Audit and Supervisory Committee consists of five directors, including four external directors.

## **(3) Human Resources Committee**

The Human Resources Committee consists of representative directors and external directors. This committee holds discussions on such matters as the remuneration for directors (excluding those on the Audit and Supervisory Committee) and executive officers, and the selection of director and executive officer candidates before Board of Directors meetings take place.

For the purpose of implementing the Chief Executive Officer (President and Executive Officer) Succession Plan in a more focused, dedicated manner, the Company established the President Nomination Committee within the Human Resources Committee. The President Nomination Committee is composed of the President and Executive Officer and the outside directors.

## **(4) Executive Committee**

Members of the Executive Committee are selected by the president and executive officer (hereinafter referred as the president) from among the Company's other executive officers. The Executive Committee serves as the Company's decision-making body with respect to the execution of business operations. In principle, the committee meets two times each month. Based on the approval-related rules and regulations determined by the Board of Directors, the Executive Committee deliberates and makes decisions on strategies and other important matters.

## **(5) Strategy Committee**

Members of the Strategy Committee are selected by the president from among the Company's executive officers. The committee meets once a month and serves as an advisory body to the president. In addition to deliberating on the direction of business execution, the Committee works to confirm the allocation of management resources with an aim at evaluating conditions relating to the execution of business in respect to important matters requiring approval. It also sets the direction of policies related to the execution of business in respect to specific projects.

## **(6) CSR Promotion Council**

Chaired by the president, the CSR Promotion Council is comprised of all executive officers working in Japan. The Committee sets CSR policies and goals, while also facilitating activities to achieve those goals. The Committee focuses on maintaining appropriate corporate governance and internal controls, which together form the foundation of the Company's CSR. It also discusses important matters regarding internal controls.

## **(7) Risk Management and Compliance Committee**

Tokuyama's Risk Management and Compliance Committee, chaired by the director supervising the Corporate Social Responsibility Division, operates under the CSR Promotion Council. The Committee takes the initiative in promoting risk management and compliance, which are central to effective internal control.

## **(8) Eight Committees**

With regard to areas requiring specialist expertise and of great importance from the viewpoint of risk management and compliance, the Company has set up and is developing the activities of seven committees.

Additionally, the Company determined to newly establish the "Sustainability Committee" to address new risks and issues.

These committees cover accounting, antitrust law and competition law compliance, trade control, information security, environmental measures, safety measures, and product safety and quality. They operate under the CSR Promotion Committee and are separate from the Risk and Compliance Committee.

The existing seven committees implement the required measures based on an awareness of each of their issues. The new committee has begun activities starting in FY2022.

## **(9) Helpline Committee**

The Helpline Committee is responsible for the administration of Tokuyama's helpline (whistle-blowing) system, which has been established for the purpose of enabling the internal reporting of legally questionable actions and behavior by Group executives and employees.

**(10) Department Responsible for Internal Auditing**

Tokuyama established the Internal Audit Department, which are responsible for internal auditing. This department perform internal audits of individual divisions and departments of the Company as well as of Group companies.

**(11) Accounting Auditors**

Tokuyama has appointed Grant Thornton Taiyo LLC. as its independent accounting auditor. There are no special interests between the Company and Grant Thornton Taiyo LLC or the executives at that firm engaged in audits of Tokuyama. The names of the certified public accountants conducting audits for the year under review, and the number of persons providing auditing assistance are shown below.

- Names certified public accountants

Certified Public Accountant, Designated and Engagement Partner: Tomohiro Ohki (3 year)

Certified Public Accountant, Designated and Engagement Partner: Noriaki Yamauchi(2years)

- Number of accounting audit assistants

Certified public accountants:4, Other: 11

**3. Reasons for Adoption of Current Corporate Governance System**

The Company introduced an executive officer system to separate the supervision and execution functions. It has appointed four external directors as of June 2021.

In 2017, the Company transitioned from a company with a Board of Auditors to a company with an Audit and Supervisory Committee. The Audit and Supervisory Committee is comprised of five directors, including four outside committee members. They attend Board of Directors meetings and other important meetings to monitor the execution of business by executive officers.

As a company with an Audit and Supervisory Committee, Tokuyama seeks to enhance corporate governance at all times by making the best of its rapid decision making as well as effective supervising/auditing functions.



### III. Implementation of Measures for Shareholders and Other Stakeholders

#### 1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

	Supplementary Explanations
Early Notification of General Shareholder Meeting	The Company released the convocation notice for the 158th Ordinary General Shareholder Meeting held on June 24, 2022, 29 days prior to the meeting on TDnet of Tokyo Stock Exchange, Inc., and on the Company's website.
Scheduling AGMs Avoiding the Peak Day	The Company holds general shareholder meetings on days other than the peak day to ensure that as many shareholders as possible can attend the meeting.
Allowing Electronic Exercise of Voting Rights	Voting rights may be exercised electronically via personal computers on the website for the exercise of voting rights designated by the Company's shareholder registry administrator.
Participation in Electronic Voting Platform	The Company participates in the Electronic Voting Platform for Institutional Investors provided by ICJ Inc.
Providing Convocation Notice in English	The Company prepares a notice of convocation (summary) in English and discloses it on its webpage.
Other	<p>The main content of the Company's Business Report and important issues were presented in a point format using video materials to shareholders at the 158th Ordinary General Meeting of Shareholders held on June 24, 2022 to prevent further spread of COVID-19.</p> <p>The Company also held a participatory virtual General Meeting of Shareholders for those shareholders who could NOT attend, and broadcasted the event live. Questions were also accepted in advance.</p>

#### 2. IR Activities

	Supplementary Explanations	Explanation by Representatives of the Company
Preparation and Publication of Disclosure Policy	<p>The Company took steps to put in place Tokuyama Group Guidelines for Business Activities, which were ratified by the Board of Directors in March 2012. Turning to Part IV of these guidelines, the Company identified certain stipulations governing its relationships with shareholders and investors and clarified its basic stance toward the disclosure of information.</p> <p>About guidelines and Internal Structure for Timely Disclosure, please see "V—2. Other Matters Concerning to Corporate Governance System" or on the Company's webpages. <a href="https://www.tokuyama.co.jp/eng/ir/business_policy/disclosure.html">https://www.tokuyama.co.jp/eng/ir/business_policy/disclosure.html</a></p>	
Regular Investor Briefings for Individual Investors	The Company holds briefing sessions for individual investors several times a year. In addition, its websites are dedicated to individual investors, with the aim of providing easy-to-understand summaries of materials relating to company briefings and company information.	No
Regular Investor Briefings for Analysts and Institutional Investors	The Company holds results briefing sessions or conference calls via the telephone network for institutional investors four times a year when it announces the quarterly results. It also holds briefing sessions and small meetings on medium-term management plans, factory tours, etc. for institutional investors from time to time.	Yes
Regular Investor Briefings for Overseas Investors	The Company holds interviews with foreign investors several times a year on an irregular basis to explain its strategies, etc. and to exchange views. In addition, it participates in conferences for foreign investors hosted by securities companies several times a year and holds similar interviews on those occasions	Yes
Posting of IR Materials on Website	The Company posts earnings reports, annual securities reports, documents related to general shareholder meetings, annual	

	reports, presentation materials and videos for results briefing meetings and the main questions and answers, and business results and financial data on Excel, etc. In addition, IR materials in English (with the exception of certain materials) are posted at the same time as the Japanese versions.	
Establishment of Department and/or Manager in Charge of IR	The Company has a dedicated team for IR activities in Corporate Social Responsibility Division, Corporate Communications and Investor Relations Department. In implementing IR activities, the Company strives to maintain timely, appropriate and comprehensible disclosure of information through close coordination between the senior management, the Corporate Planning Division, the business divisions and other departments of the Company.	
Other		

### 3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	<p>Tokuyama's basic philosophy in regard to CSR management is to improve corporate value, enhance the trust of our various stakeholders, and contribute to the resolution of social issues by continuously carrying out activities that contribute to the building of a sustainable future for society.</p> <p>In line with the basic philosophy on CSR management, the Company has established the Tokuyama Group Guidelines for Business Activities to serve as a guide to action for all group companies and to stipulate acceptable relationships with each of the Company's stakeholders.</p>
Implementation of Environmental Activities, CSR Activities etc.	<p>The Company stipulates the protection and conservation of the environment as key points in the Tokuyama Group Guidelines for Business Activities. Solving environmental issues is a challenge common to all of humankind, and the Company is taking proactive action as it believes this to be an essential reason for the existence and activities of companies in general. In researching, developing, and manufacturing products, as well as in selling and disposing of products and goods, the Company is always sure to fully recognize the importance of environmental protection and comply fully with all environmental laws and regulations. As a good corporate citizen, Tokuyama is committed to the active engagement in social contribution activities, and the Company outlines those activities on its website and in the annual CSR report.</p>
Development of Policies on Information Provision to Stakeholders	<p>The Company also stipulates the disclosure of information to stakeholders as a key point in the Tokuyama Group Guidelines for Business Activities. The Company discloses not only management and financial information, but also non-financial information, including in regard to the products and services it provides society, as well as information related to environmental and social subjects in a timely, appropriate, and easy-to-understand manner.</p> <p>In addition, the Company has established rules for the internal management of information, as well as a system to ensure compliance with all relevant rules and regulations, with this system including in-house educational activities aimed at preventing insider trading.</p>
Other	

#### IV. Matters Related to the Internal Control System

##### 1. Basic Views on Internal Control System and the Progress of System Development

At the Board of Directors meeting held on April 21, 2022, the Board resolved to revise the “Basic Policy on Establishing the Internal Control System” into a policy that places a greater focus on Group Management. The Company has established and operates a suitable internal control system in accordance with the Basic Policy.

###### Views on the Internal Control System

Tokuyama’s basic philosophy in regard to CSR management is to improve corporate value, enhance the trust of our various stakeholders, contribute to the resolution of social issues, and continuously carry out activities that contribute to the building of a sustainable future for society.

When promoting CSR management, the Company recognizes that corporate governance must function effectively within all business activities performed by the Company and our Group companies (hereafter, Tokuyama Group). The Company therefore continuously works to establish internal control systems and to make improvements to these in accordance with changes in the business environment in order to ensure the appropriateness of business and maintain the health of the organization.

###### Basic Policy on Establishing the Internal Control System

###### (1) System for ensuring the legality and efficiency of execution of duties by Directors

1) Directors shall execute their duties based on the division of duties to which they are entrusted under the applicable laws and regulations, Articles of Incorporation, Rules for the Board of Directors, and other internal rules, as well as under Board of Directors’ resolutions.

2) Directors shall make the necessary proposals and reports at the Board of Directors regarding their execution of duties, and the Board of Directors shall provide oversight for the execution of duties by Directors. Moreover, the Board of Directors shall include External Directors in order to strengthen the Board’s oversight function.

3) Directors shall provide mutual monitoring and oversight regarding the legality and efficiency of execution of duties by other directors via attendance at important meetings in addition to the Board of Directors.

4) Directors shall efficiently execute their duties pursuant to the stipulated company organization, executive responsibilities, and division of duties for each organization, and to the delegated authority based on the Company’s approval rules.

Progress Update: This system has been established as described in "Organizational Composition and Operation, etc."

###### (2) System for retaining and managing information relating to execution of duties by Directors

The Company, in accordance with applicable laws and regulations and the stipulations of the Company’s management regulations, shall retain information relating to the execution of duties by Directors for the designated retention period at the responsible department.

Progress Update: Appropriate information retention and management has been implemented.

###### (3) Rules and other systems relating to management of risk of loss

1) The Company shall define the responsible department for rules regarding risk management of loss within the Tokuyama Group, establish management regulations, and work to ensure the thorough implementation of these.

2) The Company shall establish a management system that understands important laws and regulations that are relevant to business execution and that tracks movements in the revision thereof as a means of reducing compliance risk within the Tokuyama group.

3) The Company shall respond appropriately when a risk manifests within the Tokuyama group by establishing a crisis response headquarters in accordance with the severity of the manifest risk, and shall rapidly engage in recovery and post-event management efforts.

Progress Status: In addition to establishing rules to reduce compliance risk and rules to address risks that have manifested, the Company is also undertaking business continuity management in an ongoing manner.

###### (4) System to ensure that the execution of duties by employees complies with laws and regulations and the Articles of Incorporation

1) The Company shall establish a Whistle-blowing System contact point (helpline) that allows individuals to report and consult on compliance violations, or matters that are believed to hold the potential to violate such, in a safe, anonymous manner without receiving disadvantageous treatment, and shall implement appropriate management and countermeasures according to the report or consultation.

2) The Company shall conduct monitoring and self-assessments led by the responsible party for the business divisions, etc., and management divisions in order to ensure the appropriateness of duties. At the same time, each Group company shall also be requested to conduct monitoring and self-assessments.

3) The Company shall provide the required guidance, support, and requests regarding important matters to all business divisions, etc., and Group companies through the Corporate Planning Division, the Corporate Social Responsibility Division, and other management divisions.

4) The Company shall conduct internal audits of business divisions, etc., management divisions, and Group companies via an auditing department that is independent of the divisions, etc.

5) The Company shall report any discovery of compliance violation matters to those within and outside the organization in accordance with the severity of such, and shall immediately correct for the violation and deploy such horizontally within the Tokuyama group in order to prevent a recurrence.

Progress Update: Past cases regarding compliance within and outside the Company have been compiled and shared within the Tokuyama group using groupware. Moreover, the Company conducts compliance training using group training and e-learning on an ongoing basis.

(5) System to ensure appropriateness of business within the corporate group

1) The Company shall establish the CSR Promotion Council for the purpose of promoting CSR management within the Tokuyama Group, and shall deliberate and determine important matters regarding internal control.

2) The Company considers risk management and compliance to be central and equally important to internal control, and shall therefore establish the Risk Management and Compliance Committee within the CSR Promotion Council in order to effectively and efficiently carry out internal control within the Tokuyama Group.

3) With regard to areas requiring specialist expertise and of great importance from the viewpoint of risk management and compliance (financial reporting, antitrust law compliance, security export controls, cyber and information security, security and environmental measures, product safety and quality, and sustainability), the Company shall establish expert committees separate from the Risk Management and Compliance Committee.

4) The Company shall evaluate the effectiveness and efficiency of internal control for the Tokuyama Group through the above meeting structure and shall engage in ongoing improvements.

5) The Company shall establish an internal management system for group companies and shall operate and manage group companies thereby.

6) The Company shall respect the principle of self-responsibility in order for each group company to achieve healthy growth while at the same time providing the required guidance, support, and requests to ensure the appropriateness of business.

7) The Company shall dispatch Company Directors and employees as Directors or Auditors for group companies as necessary.

8) The Company shall include group companies as being subject to the Whistle-blowing System and internal audits.

Progress Update: The Company has entered Basic Operation and Management Agreements with each group company, and requires each group company to report and receive approval on important matters. Moreover, the Company provides the required guidance, support, and requests to group companies to ensure the appropriateness of business within the corporate group.

(6) System to ensure effective audits by the Audit and Supervisory Committee

1) The Company shall establish an Audit and Supervisory Committee Office to aid the duties of the Audit and Supervisory Committee, and shall appoint Company employees for this purpose. Moreover, the Company shall receive consent from the Audit and Supervisory Committee regarding personnel evaluations, hiring, transfers, and discipline in regard to such employees.

2) The authority to instruct and provide orders to employees of the Audit and Supervisory Committee Office shall reside in the Audit and Supervisory Committee.

3) The Company shall immediately report on any cases to the Audit and Supervisory Committee when a request is made by the Audit and Supervisory Committee for an explanation of matters relating to the execution of such duties and when a compliance violation matter is discovered by the Company, including that reported by a group company. Moreover, NO disadvantageous treatment shall be made against the reporting party due to the provision of information to the Audit and Supervisory Committee.

4) The Company shall permit the necessary audit expenses, including those for employing attorneys at law, certified public accountants, consultants, and other external advisors for the purpose of supporting an audit by the Audit and Supervisory Committee, when such is deemed necessary by the Audit and Supervisory Committee.

5) The Audit and Supervisory Committee shall cooperate closely with the Internal Audit Department and accounting auditors in order to improve the efficiency of audits.

6) The Company shall establish other systems for the purpose of ensuring that audits by the Audit and Supervisory Committee are carried out effectively.

Progress Update: In addition to the Board of Directors, important matters are reported to the Audit and Supervisory Committee through the Executive Committee and the CSR Promotion Council.

(7) System to ensure the reliability of financial reporting

1) The Company shall establish and operate internal controls relating to business processes (including business processing controls relating to IT) and general controls relating to IT, and shall ensure the reliability of accounting data through the evaluation and improvement of such controls.

2) The Company shall work to standardize and improve the efficiency and quality of accounting and financial duties, and shall maintain and operate internal controls relating to financial reporting in order to ensure the reliability of financial reporting.

3) The Company shall establish a Financial Reporting Committee that fully ensures the reliability of financial disclosures through deliberations.

Progress Update: The Company receives appropriate opinions on the internal control and reporting systems mandated under the Financial Instruments and Exchange Act from an auditing firm on an ongoing basis for the purpose of ensuring the reliability of financial reporting.

(8) System for blocking ties with anti-social forces

1) The Company shall address unfair demands made by anti-social forces throughout the organization, from upper management on down. Moreover, the Company shall ensure the safety of Directors and employees who address such unfair demands.

2) The Company shall prepare for unfair demands made by anti-social forces by building close cooperative relationships with external expert organizations during normal times.

3) The Company shall NOT maintain any relationships, including transactional relationships, with anti-social forces. Moreover, the Company shall reject all unfair demands made by anti-social forces.

4) The Company shall take legal action from both a civil and criminal standpoint against unfair demands made by anti-social forces.

5) The Company shall prohibit backroom dealings with and providing funding for anti-social forces, and shall never engage in such.

6) The Company shall establish and maintain a structure for itself and each Group company for the purpose of blocking ties with anti-social forces.

## 2. Basic Views on Eliminating Anti-Social Forces

The Company has included its basic concept on eliminating anti-social forces as an item in the "Basic Policy on Establishing the Internal Control System" described above.

Progress Update: The Company has defined internal rules founded on the Basic Policy, and has appointed individuals responsible for preventing unfair demands, provides internal training, cooperates with external expert organizations, confirms that new trading partners are NOT anti-social forces, and includes organized crime exclusion clauses in agreements.

## V. Other

### 1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
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#### Supplementary Explanation

##### **Summary of the Basic Policy Regarding Persons Who Control the Company's Decisions on Financial Matters and Business Policies**

Tokuyama aims to emerge as an entity that creates new value that makes peoples' lives healthier, more convenient, and more comfortable. Therefore, we redefined our mission statement that outlines our management philosophy as "to create a bright future in harmony with the environment, in collaboration with our customers, based on chemistry." Moreover, if the Company's value creation process is not in harmony with the environment, we will not survive for long.

Under this philosophy, Tokuyama established the following "Vision" for which all employees working at the Tokuyama Group must aim in order to achieve this transformation into a value-creative company.

Be a value-creative company that places first priority on R&D and marketing

Be a company that never stops challenging new domains while refining and exploiting its unique strengths

Be a company with healthy employees who have healthy families and take pride in their work at their company

Be a company that fosters bonds with people in communities and societies worldwide

Through initiatives aimed at realization of our Vision, we plan to pursue sustained growth as a company that keeps providing value deemed essential even amid drastic societal change.

Therefore, persons who control the Company's decisions on financial matters and business policies must first and foremost sympathize with and understand the Tokuyama Group mission statement and Vision, and must be able to maintain the trust of our many stakeholders who support the Group, while securing and increasing the corporate value of the Group and the common interests of the shareholders from a medium- to long-term perspective.

##### **Mechanisms for Preventing Control by Persons Deemed Unsuitable in Light of the Basic Policy**

As a listed company, Tokuyama has accepted the unrestricted transaction of the Company's shares by shareholders, and therefore believes that decisions regarding the need to address Large-Scale purchases of the Company's shares should ultimately be made based on the will of the shareholders. However, among such Large-Scale share purchases, judging from the purpose of such, some actions present the risk of loss to the corporate value of the target company, and therefore to the common interests of the shareholders.

In order to secure the corporate value of the Tokuyama Group and the common interests of the shareholders, Tokuyama implements all appropriate countermeasures in accordance with relevant laws and regulations. This includes requesting any party who intends to conduct a high-volume purchase of the Company's shares to furnish all necessary and adequate information, and providing shareholders with pertinent details including the Board of Directors' appraisal and opinion of that information, as well as the business features pertaining to any Large-Scale purchase.

### 2. Other Matters Concerning to Corporate Governance System

The Company took steps to put in place Tokuyama Group Guidelines for Business Activities, which were ratified by the Board of Directors in March 2012. Turning to Part IV of these guidelines, the Company identified certain stipulations governing its relationships with shareholders and investors and clarified its basic stance toward the disclosure of information.

Part IV of the Tokuyama Group Guidelines for Business Activities

IV. Relationships with Shareholders and Investors

#### 1. The Proper, Timely and Easy-to-understand Disclosure of Information

The Company shall make every effort to ensure the proper, timely and easy-to-understand disclosure of information to society at large beginning with its shareholders and investors. Extending beyond the Company's operations, performance, and financial standing, this information will cover such wide-ranging fields as the Company's products and services as well as non-financial data including contributions to the environment and society.

## 2 . Insider Trading Prevention

The Company shall make every effort to prevent the purchase and sale of marketable securities including shares as well as the granting of gains, favors, or benefits to a third party on the basis of undisclosed information obtained either within or outside the Group pertaining to business operations and transactions.

### Internal Structure for Timely Disclosure

Based on its timely disclosure rules and regulations, the disclosure of information pertaining to the Company and its subsidiary companies with respect to:

- a) decisions of fact:
- b) incidents of fact, and:
- c) financial results:

shall be undertaken in accordance with the following process and flow.

- a) Disclosure of information pertaining to decisions of fact:

Departments that put forward important matters for ratification by such decision-making bodies as the Board of Directors shall forward the item in advance to the officer responsible for the handling of information. The officer responsible for the handling of information shall determine whether or not the item is a matter that requires disclosure. In the event that disclosure is deemed necessary, the item shall be presented to the officer responsible for information disclosure and disclosed after ratification by such decision-making bodies as the Board of Directors. The department governing subsidiaries shall also follow the same procedure for subsidiary company information.

- b) Disclosure of information pertaining to incidents of fact:

Departments involved in major incidents of fact shall report to the officer responsible for the handling of information. The officer responsible for the handling of information shall determine whether or not the item is a matter that requires disclosure. In the event that disclosure is deemed necessary, the item shall be presented to the officer responsible for information disclosure and disclosed. The department governing subsidiaries shall also follow the same procedure for subsidiary company information.

- c) Disclosure of information pertaining to financial results and other important information:

The Financial Reporting Committee, which is chaired by the director overseeing the Corporate Planning Division, is charged with the responsibility of carrying out operations relating to the Company's financial reporting. This committee is made up of members from various areas within the Company including departments and divisions. In this manner, steps have been taken to put in place a framework under which the Company undertakes both internal and mutual reviews within and between departments that comprise the committee. The Financial Reporting Committee Secretariat is charged with the responsibility of seeking approval to the disclosure of financial results and related information from the Board of Directors and Management Committee Secretariat. While the Financial Reporting Committee Secretariat puts forward matters for discussion to the Board of Directors, agenda items are forwarded to the officer responsible for the handling of information in advance. Item are then presented to the officer responsible for information disclosure by the officer responsible for the handling of information and disclosed after ratification by the relevant decision-making body.

Meanwhile, members of the Audit and Supervisory Committee, independent auditors, and the Auditing Department are responsible for ensuring that financial reporting operations are conducted in a proper manner while undertaking audits during each period.

**Principle 3-1- (V) [Explanations with Respect to Individual Appointments and Dismissals when the Board of Directors, based on (iv) above, Appoints/Dismisses Senior Management Personnel.**

**President and Executive Officer Hiroshi Yokota**

Mr. Hiroshi Yokota executes overall corporate business as President and Executive Officer.

He has extensive management experience in the wide range of business sectors engaged in by the Company, and has also served in the human resources management and information systems business sectors.

He was reappointed as Executive Officer for the purpose of driving change in the Company's organizational culture and structure, leading the reorganization of the business strategy, and sustainably growing the Company in the future.

**Senior Managing Executive Officer Hideo Sugimura**

Mr. Hideo Sugimura executes his duties as Senior Managing Executive Officer and General Manager of both Corporate Planning Division and New Business Center.

Following his involvement in corporate business management, as well as in management of domestic operating companies and overseas sales subsidiaries, he was handed overall responsibility for corporate management as the General Manager of the Corporate Planning Division.

He was reappointed as Executive Officer as a driver for further growth in the future.

**Senior Managing Executive Officer Hiroshi Nomura**

Mr. Hiroshi Nomura executes his duties as Senior Managing Executive Officer and General Manager of the Electronic Materials Business Division.

Following his many years of involvement in the silicone products manufacturing technology sector, one of the Company's core Business Domains, he launched the Company's China production site.

He was reappointed as executive Officer under the judgement that he was essential to the further growth of the business due to his in-depth understanding of overseas business development.

**Managing Executive Officer Fumiaki Iwasaki**

Mr. Fumiaki Iwasaki executes his duties as Managing Executive Officer and as General Manager of the Research & Development Division, and serves as the keyperson for "Transform Business Portfolio" as the primary issue in the Medium-Term Management Plan.

He was reappointed as executive officer given his outstanding knowledge beyond research and development, particularly in the areas of manufacturing technology and business development.

**Managing Executive Officer Takahide Taniguchi**

Mr. Takahide Taniguchi executes his duties as Managing Executive Officer and General Manager of the Cement Business Division.

Following his many years of engagement in the Company's business management, he became involved in business planning aspects of the Specialty Products Business Division and thus has an in-depth understanding of the Company's wide range of business domains.

He was reappointed as executive officer given the expectation that he will transfer his knowledge to the Cement Business Division for the purpose of further developing this traditional business for the Company.

**Executive Officer Yutaka Tarutani**

Mr. Yutaka Tarutani has executed his duties as Executive Officer and General Manager of the Corporate Social Responsibility Division.

He was reappointed as executive officer given the expectation that he would effectively apply his knowledge for the purpose of practicing socially responsible management as one of the issues in the Company's Medium-Term Management Plan and of realizing materiality as a priority point.

**Executive Officer Hiroshi Fujimoto**

Mr. Hiroshi Fujimoto executes his duties as Executive Officer, and General Manager of the General Affairs & Human Resources Division.

With experience in chemicals and resins sales in addition to procurement and human resources, he has an in-depth understanding of both business divisions and management divisions.

He was reappointed as executive officer under the judgement that he is suitably qualified to manage divisions in charge of general affairs and human resources.

**Executive Officer Naoki Tamura**



Mr. Naoki Tamura executes his duties as Executive Officer and General Manager of the Life Science Business Division.

Following his involvement in the sale of semiconductors, fine chemicals, and other advanced materials, he took responsibility for the Company's China sales subsidiary.

He was reappointed as Executive Officer under the judgement that he is suitably qualified to manage divisions that play a role in driving the Company towards its goal of becoming a global leader in advanced materials.

**Executive Officer Hirotaka Nishihara**

Mr. Hirotaka Nishihara executes his duties as Executive Officer and General Manager of the Chemicals Business Division.

For many years he was responsible for sales of chemicals at the Company, after which he acquired experience in electronic materials sales, procurement, and other duties.

He was appointed as executive officer under the judgement that he is suitably qualified to increase the competitiveness of the Company's chemicals business.

**Executive Officer Tomohiro Inoue**

Mr. Tomohiro Inoue executes his duties as Executive Officer, General Manager of Environmental Business Division and Deputy General Manager of the Cement Business Division.

In addition to his primary responsibilities for new business development in the Company's Research & Development Division, he also has experience as the General Manager of the Recycling and Environment Promotion Department and has an in-depth understanding of various aspects of many different businesses.

He was appointed as executive officer under the judgement that he is suitably qualified to promote the recycling business, improve energy efficiency, and reduce environmental impact, all of which are key to strengthening the competitiveness of the Company's cement business.

**Executive Officer Takashi Satou**

Mr. Takashi Satou executes his duties as Executive Officer and General Manager of the Procurement & Logistics Division.

He was responsible for logistics duties for many years at the Company and was responsible for upgrading its Core Information System.

He was appointed as executive officer under the judgement that he is suitably qualified to take responsibility for promoting efficiency improvements in procurement and sales logistics duties.

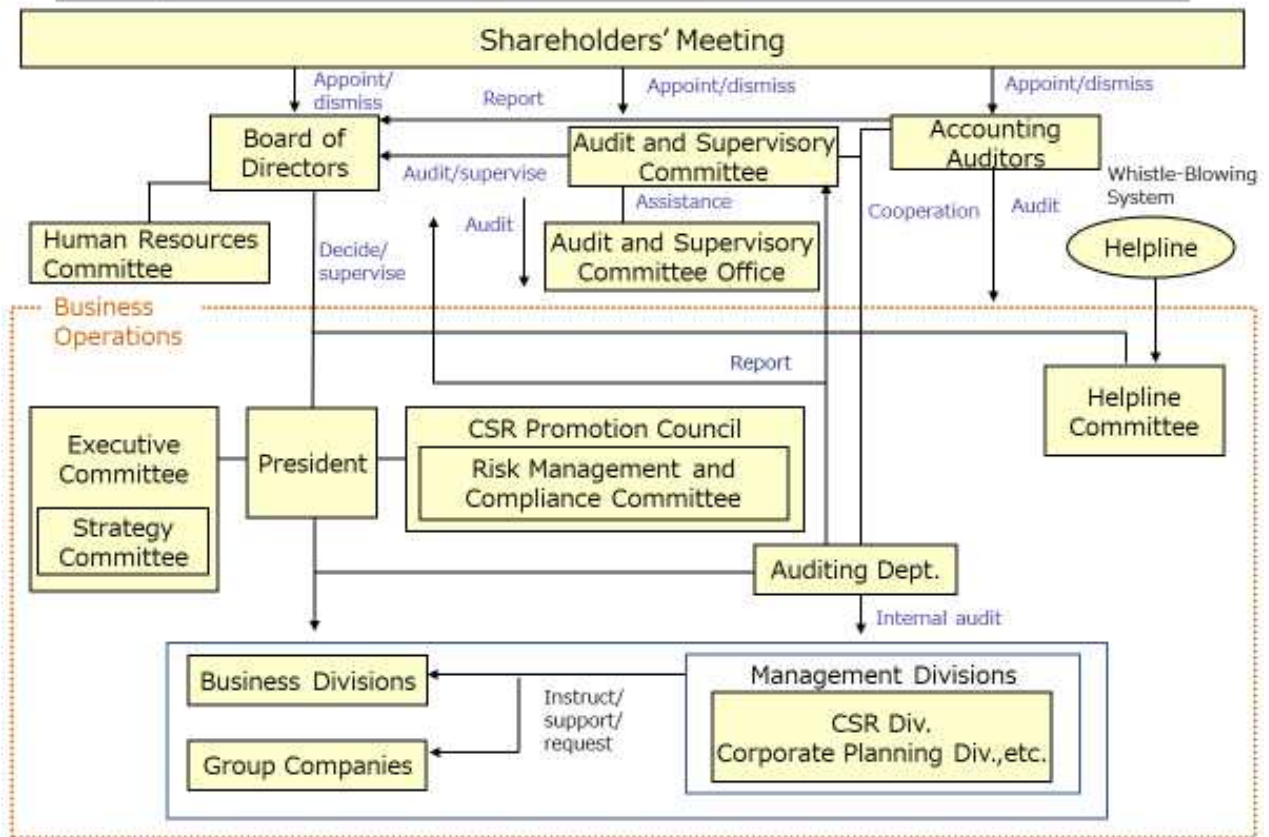
**Executive Officer Yasushi Okuno**

Mr. Yasushi Okuno executes his duties as Executive Officer and General Manager of the Tokuyama Factory.

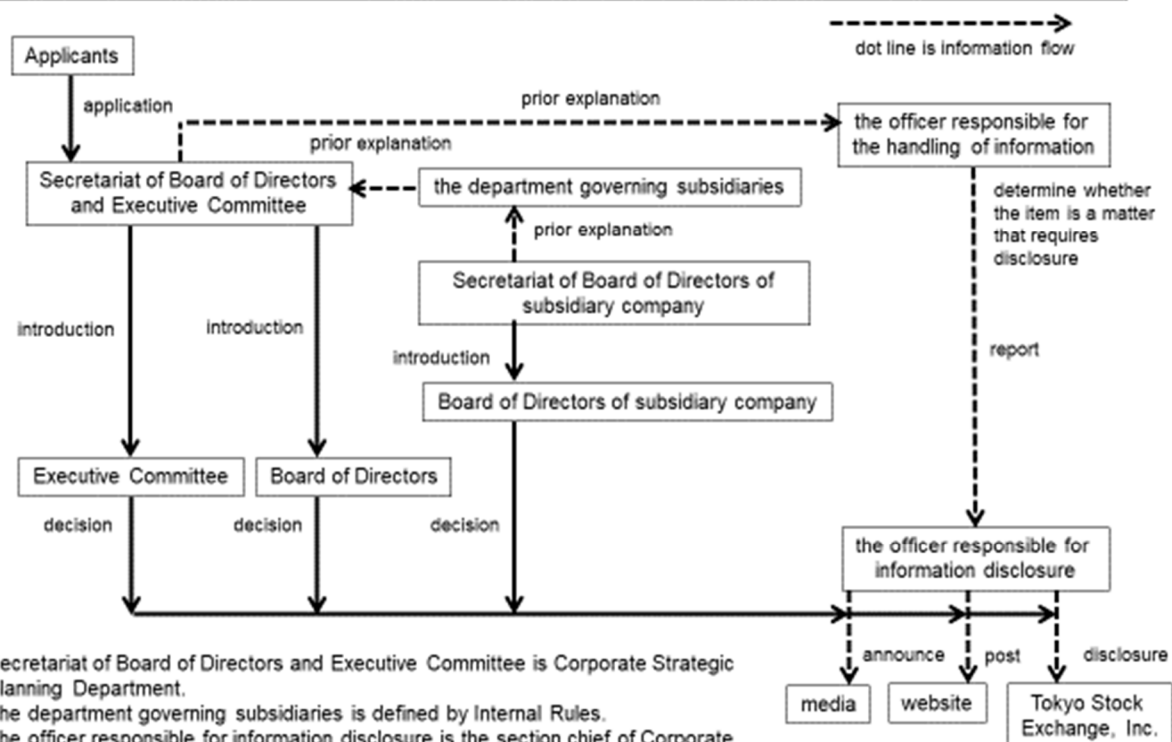
Following his many years engaged in duties as a mechanical engineer at the Company, he was appointed as the plant manager for Tokuyama Malaysia.

After returning from his duties at Tokuyama Malaysia, he was assigned the task of overseeing management at the Tokuyama Factory. More recently, he was appointed as executive officer under the judgement that he is suitably qualified to serve as the General Manager of the Tokuyama Factory.

# Corporate Governance Structure

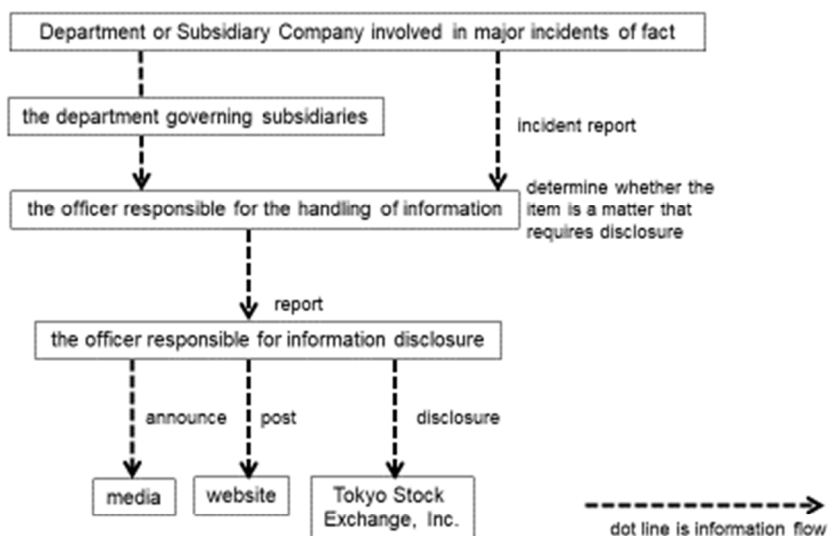


(a) process and flow of disclosure of information pertaining to decisions of fact



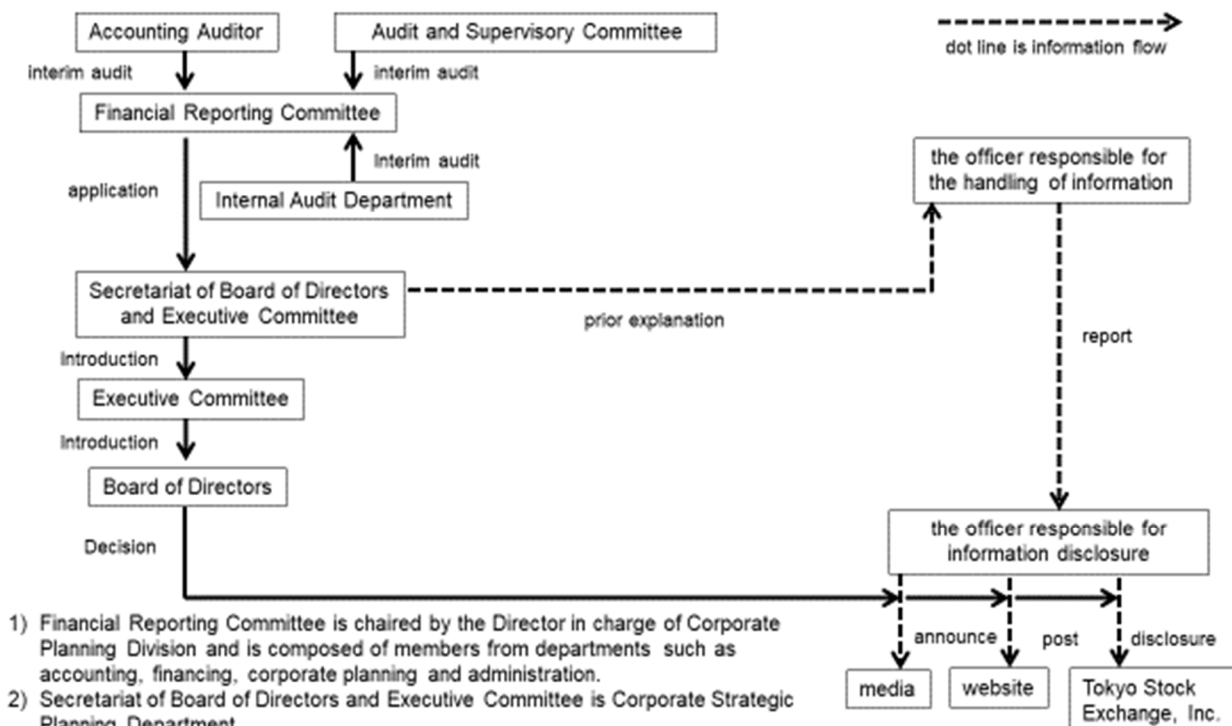
- 1) Secretariat of Board of Directors and Executive Committee is Corporate Strategic Planning Department.
- 2) The department governing subsidiaries is defined by Internal Rules.
- 3) The officer responsible for information disclosure is the section chief of Corporate Communication and Investor Relations Department.
- 4) The officer responsible for the handling of information is the General Manager of Corporate Communication and Investor Relations Department.

(b) process and flow of disclosure of information pertaining to incidents of fact



- 1) The officer responsible for information disclosure is the section chief of Corporate Communication and Investor Relations Department.
- 2) The officer responsible for the handling of information is the General Manager of the Corporate Communication and Investor Relations Department.
- 3) The department governing subsidiaries is defined by Internal Rules.

(c) process and flow of disclosure of information pertaining to Financial Results



- 1) Financial Reporting Committee is chaired by the Director in charge of Corporate Planning Division and is composed of members from departments such as accounting, financing, corporate planning and administration.
- 2) Secretariat of Board of Directors and Executive Committee is Corporate Strategic Planning Department.
- 3) The officer responsible for information disclosure is the section chief of the Corporate Communication and Investor Relations Department.
- 4) The officer responsible for the handling of information is the General Manager of the Corporate Communication and Investor Relations Department.