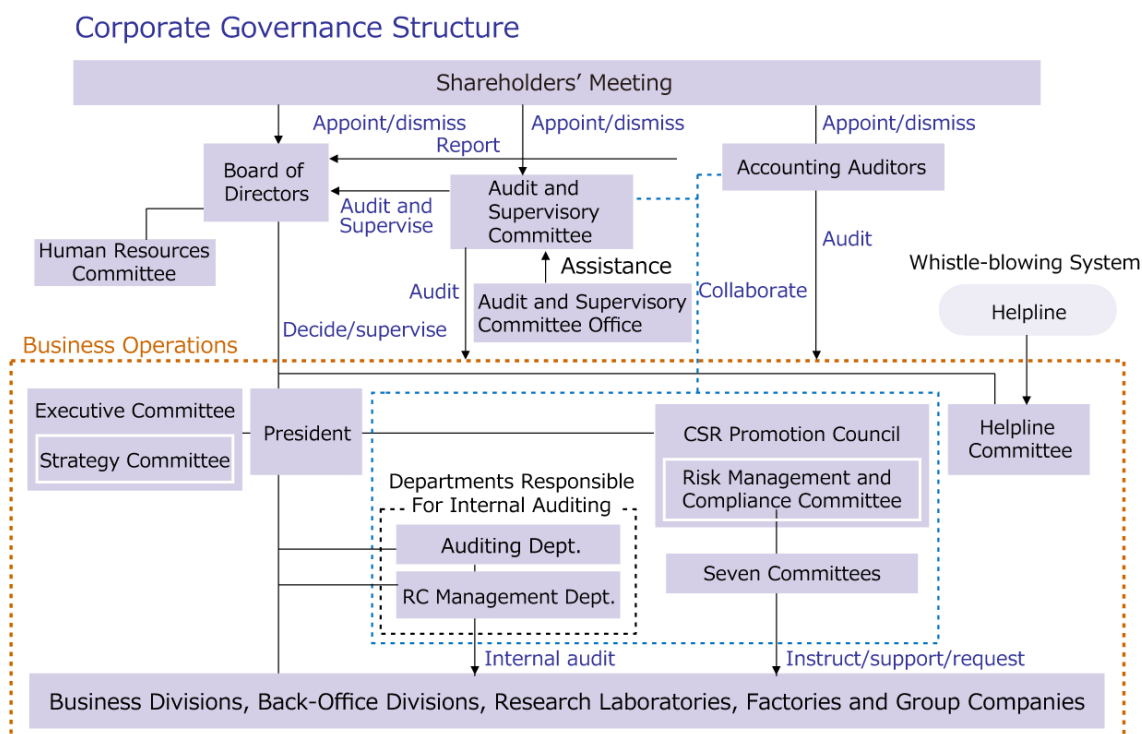


Corporate Governance

Tokuyama strongly believes creating and continuously providing new value is made possible through the trust of and cooperation with its stakeholders, which include shareholders, customers, trading partners, employees and local communities. This in turn enables the Company to grow on a sustainable basis and to increase its corporate value over the medium to long term. In order to make this a reality, Tokuyama has positioned corporate governance as a key management priority. Tokuyama has always been working to improve corporate governance. Taking into consideration the introduction of the Corporate Governance Code in Japan, the Company places the utmost emphasis on ensuring the rights and equality of its shareholders while strengthening the supervisory function and securing the independence of the Board of Directors. At the same time, Tokuyama works diligently to accelerate decision making and to clarify the business execution responsibilities of its Board of Directors while ensuring appropriate disclosure and transparency and promoting constructive dialogue with shareholders.

Corporate Governance Structure

The Company introduced an executive officer system to separate the supervision and execution functions in April 2011, assigning external directors in June of the said year. The number of external directors was subsequently increased in stages. On June, 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 selects three external directors from four Committee members and endeavors to ensure management transparency and fairness. By doing so, it strives to maintain management soundness. As a company with an Audit and Supervisory Committee, the Company seeks to enhance corporate governance at all times by making the best of its rapid decision-making functions and effective supervising/auditing functions.



Board of Directors and Executive Officer System

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 2018, the Board of Directors met on 17 occasions.

As of June 24, 2019, Tokuyama's Board of Directors comprised 8 members. The Company appointed three external directors thereby bolstering the supervisory function of the Board of Directors. Meanwhile, the term of office of directors (excluding directors who are Audit and Supervisory Committee members) is set at one year in order to ensure clear accountability as well as the ability to swiftly address changes in the operating environment.

Tokuyama adopted an executive officer system in April 2011 with the aim of separating the executive and supervisory

functions for business operations. As of June 24, 2019, the Company had 11 executive officers.

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

Audit and Supervisory Committee

Directors who are Audit and Supervisory Committee members attend meetings of the Board of Directors and other important internal meetings for purposes such as gathering information on the status of the execution of businesses, and conduct audits of how the executive officers are executing their duties. During fiscal 2018, Audit and Supervisory Committee met on 25 occasions, making reports, consultations and resolutions on important matters. As of June 24, 2019, the Audit and Supervisory Committee consists of four directors who are the members of the Committee, including three external directors who are Audit and Supervisory Committee members.

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 and executive officers and the selection of director and executive officer candidates before Board of Directors meetings take place.

Executive Committee

Members of the Executive Committee are selected by the president and executive officer from among the Company's 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 rules and regulations determined by the Board of Directors, the Executive Committee deliberates and makes decisions on strategies and other important matters.

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 takes steps to confirm the allocation of management resources aimed at evaluating conditions relating to the execution of business with respect to important matters requiring approval while setting the direction of policies relating to the execution of business with respect to specific projects.

CSR Promotion Council

Chaired by the president, the CSR Promotion Council is comprised of all executive officers working in Japan. The Council sets policies on CSR and lays out the goals of our CSR activities, facilitating the execution and attainment of all such activities and goals. The Council focuses on maintaining appropriate corporate governance and internal control, which together are the foundations of CSR. It also discusses important matters regarding internal control.

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.

Seven Committees of Experts

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 of experts—covering accounting, antitrust law and competition law compliance, trade control, information security, environmental measures, safety measures, product safety and quality—under the CSR Promotion Committee and separate from the Risk and Compliance Committee.

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.

Departments Responsible for Internal Auditing

Tokuyama has established the Auditing Department and the RC Management Department, which are responsible for internal auditing. These departments perform internal audits of individual divisions and departments of the Company as well as of Group companies.

Policies and Procedures when the Board of Directors Selects/Dismisses Management Executives and Nominates Director and Auditor Candidates

To enable the direction and supervision 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 and the nomination of internal candidates for directorships appoints people who are well-balanced in terms of their knowledge of each business segment and area as well as the experience they possess.

When nominating executive officer and 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 the case of the nomination of directors who are Audit and Supervisory Committee members candidates, the Board of Directors makes its decisions having received the assent of the Audit and Supervisory Committee.

Policies and Procedures for Determining the Company's Executives Remuneration

Matters Concerning Policy with Regard to Amount of Executive Remuneration and Methods Used for Calculation

1. Based on the executive remuneration rules and executive remuneration stock issuance rules, the remuneration of the Company's executives (excluding directors who are Audit and Supervisory Committee members) comprises fixed basic remuneration and performance-linked stock remuneration, the specific calculations of which will be made by the representative director, president and executive officer upon authorization by the Board of Directors in accordance with the following policy.

(a) In the fixed portion, the basic remuneration is calculated by taking into consideration the previous year's consolidated performance and the achievement level of each director's business goals.

(b) To realize the Company's Medium-Term Management Plan, performance-linked stock remuneration has been introduced from September 2018 to clarify the link between executive remuneration and the corporate value of the Company.

Consolidated operating income and other indicators, which are the main financial targets of the Medium-Term Management Plan, have been adopted as indicators for performance-linked remuneration. Based on the achievement level for the fiscal year ending March 31, 2021, which is the final fiscal year of the target period, the system involves the issuance of stock, etc. of the Company as executive remuneration.

(c) The appropriateness of the level of remuneration, etc. is to be confirmed based on the findings of surveys of domestic competitors and comparable companies obtained from a remuneration research company.

2. Remuneration for directors who are Audit and Supervisory Committee members is limited to fixed remuneration only, taking into consideration the distinction between full- and part-time work, the status of the division of audit duties, and the content and level of remuneration of directors. This is decided following discussions with directors who are Audit and Supervisory Committee members.

3. To achieve more transparent and objective management from the perspective of corporate governance, we have set up a Human Resources Committee, comprising a majority of external directors, who have the task of deliberating personnel matters and remuneration concerning officers and making reports or recommendations to the Board of Directors. The content of executives' remuneration (excluding directors who are Audit and Supervisory Committee members) is calculated in detail by the representative director, president and executive officer and discussed and determined by the Board of Directors after deliberation by the Human Resources Committee.

In fiscal 2018, a total of ¥262 million and ¥50 million was paid to seven directors (excluding external directors) and two Audit and Supervisory Board members (excluding external directors), respectively. In addition to the aforementioned compensation, a total of ¥40 million was paid to three external officers.

In addition to the aforementioned compensation, an amount of ¥48 million was paid as salaries to four employees, who hold the concurrent position of director.

Anti-takeover Measures

Tokuyama recognizes the need to put in place appropriate countermeasures to protect both the interests of the Company's shareholders and the Company's corporate value from large-scale purchases of its shares (hereinafter referred to as a "Large-Scale Purchase") by another party (hereinafter referred to as a "Large-Scale Purchaser") in cases where the Large-Scale Purchase is judged to significantly damage the common interests of Tokuyama's shareholders and Tokuyama's corporate value.

The decision of whether to accept a Large-Scale Purchase is ultimately left to the discretion of Tokuyama's shareholders. Consequently, in cases where a Large-Scale Purchase is being attempted, we believe that the Large-Scale Purchaser's

provision of an adequate amount of information is necessary. In addition, we believe that the appraisal and opinions of Tokuyama's Board of Directors, as well as the provision of information and the like based on the business features pertaining to any Large-Scale Purchase, are critical for the shareholders to make a decision of whether to accept said Large-Scale Purchase, and contribute to the common interests of Tokuyama's shareholders.

Accordingly, the Company established a set of large-scale purchase rules to ensure that these interests and the Company's corporate value are preserved. Under these rules, each Large-Scale Purchaser is required to provide an adequate amount of information to Tokuyama's Board of Directors prior to undertaking a Large-Scale Purchase. Moreover, an appropriate amount of time must be set aside to allow the Company's Board of Directors to assess and consider the terms and conditions of the Large-Scale Purchase and to put forward its opinion as well as alternative proposals.

In cases where a Large-Scale Purchaser fails to comply with the large-scale purchase rules, or when a Large-Scale Purchaser complies with the large-scale purchase rules, but is deemed to significantly damage the common interests of the Company's shareholders and the Company's corporate value, Tokuyama's Board of Directors may take such measures as the allotment of share options without contribution as stipulated under Article 277 and the following provisions of Japan's Companies Act and oppose the Large-Scale Purchase on the condition that the Company obtains approval at the Ordinary General Meeting of Shareholders concerning.

Specific details outlined above were collated into the Company's "Policy regarding Large-scale Purchases of Tokuyama Corporation's Company Shares (Anti-Takeover Measures)." This policy was approved by the Company's shareholders at the 154th Ordinary General Meeting of Shareholders held on June 22, 2018.

Details of the Policy have been posted on the Company's website:

URL: https://www.tokuyama.co.jp/eng/ir/stock/anti_takeover.html