



## Message from an External Director

### Shin Kato

Director, Audit and Supervisory Committee Member  
(External Director)

#### Toward the Facilitation of Management

I have been involved in the management of Tokuyama as an external director for about seven years. Through my duties during that time, I have strongly felt that there are no definitive answers in the tasks of external directors. Different directors have different areas of expertise and different careers, and each company that brings in external directors also has different needs.

At Tokuyama, external directors have had diverse careers. I have learned a lot from working with them. In this environment, I have always asked where in the Company I can apply my expertise and experience. Manufacturing and technology are not my fields of expertise and there is little I can do here in the way of assistance. I have thus sought to contribute to the facilitation of management by giving advice about organizational structures, personnel affairs and management methods.

#### The Corporate Culture of Tokuyama and Challenges to Address

It is not easy for a manufacturer to operate for 100 years. Over a century, the things needed by society change. Products do not continue to sell. Manufacturers cannot survive unless they respond to changes in society. Tokuyama's strengths lie in its history of responding to social change.

However, Tokuyama has not been able to respond to certain changes. Tokuyama is said to be a sound and diligent company in society. From a different perspective, Tokuyama appears to be a company that avoids risk and does not take on challenges. This will not create problems if things go well. However, if the Company faces difficulties, the employees involved tell themselves that they can somehow deal with any difficulties if they work together and do not assume responsibility for doing so. I think this is the type of corporate culture and the challenge that needs to be addressed.

The Company is confident about the products and technologies that it has developed over its 100-year history and has actively conducted research and development. In the past, however, the Company was not enthusiastic about bringing in outside human resources and tended to adopt a self-reliant policy. The Company is not determined enough to demonstrate greater-than-expected,

overwhelming speed or technology, maybe because of its long history. If the Company continues to take this attitude, it may be able to maintain its traditional businesses, but will not succeed in advanced materials.

#### Not Repeating the Failure of Tokuyama Malaysia

The failure at Tokuyama Malaysia is related to the Company's unique corporate culture. The direction of the business plan as a whole was wrong. The system was unclear. The person in charge was not able to correctly respond to drastic changes in the business environment. There was a discrepancy between management and frontline staff. Tokuyama Malaysia was not able to correct its direction.

Considering this failure, Tokuyama changed its management system significantly in 2017. In addition to changing from a company with a Board of Auditors to a company with an Audit and Supervisory Committee, the Company reviewed the organization of Board of Directors meetings and the methods for discussion. To exchange information in and outside the Company, a communicative system has been established enabling employees to talk directly with the president and executive officers at any time if necessary. One of the roles of external directors in this system is to take the lead in gathering negative information about possible risks and proposing agenda items related to this information. This is an important initiative that ensures that the failure in Malaysia is not repeated.

#### Expectations for Tokuyama and Recommendations

The COVID-19 that we are facing now will substantially affect the Company. The effects are not limited to numerical results. Management will be requested to make decisions more actively than ever before regarding what they expect each employee to do, how they ask employees to work and how they connect employees' work to business results. Employees are important assets that we cannot replace. Moreover, we have human resources that overcame the failure of Tokuyama Malaysia. I believe that we can overcome COVID-19.

External director Yuzo Kawamori stated: "When a drastic change occurs, change is irreversible and a new world emerges. Companies cannot survive unless they

quickly become aware of this new world. If companies can respond to the change, they will find opportunities to develop.” This is an important message. We should already

be responding to the change. Considering this, I will continue to actively help Tokuyama grow.

\* Interview held on April 7, 2020

## Corporate Governance

### Basic Stance

Tokuyama, guided by its philosophy, contributes to people’s happiness and the development of society by continuing to create and provide new value using the chemical technologies developed by the entire Group. We believe that the relationships of trust and cooperation that have been built with customers, business partners, employees, local communities and other stakeholders are indispensable in continuing to create and provide new value. These relationships result in sustainable growth and an increase in corporate value over the medium to long term. We believe that corporate governance is an important management issue for achieving sustainable growth and enhancing corporate value, and we consider it necessary to continue striving to strengthen corporate governance.

Taking into consideration the introduction of the Corporate Governance Code in Japan as its basic policy, the Company places the utmost emphasis on ensuring the rights and equality of its shareholders and cooperating properly with various stakeholders 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 its shareholders.

### Corporate Governance Structure (as of June 25, 2020)

Tokuyama introduced an executive officer system to separate the supervision and execution functions. It has

appointed three external directors as of June 2020.

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 four directors, including three outside committee members. They attend Board of Directors meetings and other important meetings to monitor the execution of business by executive officers.

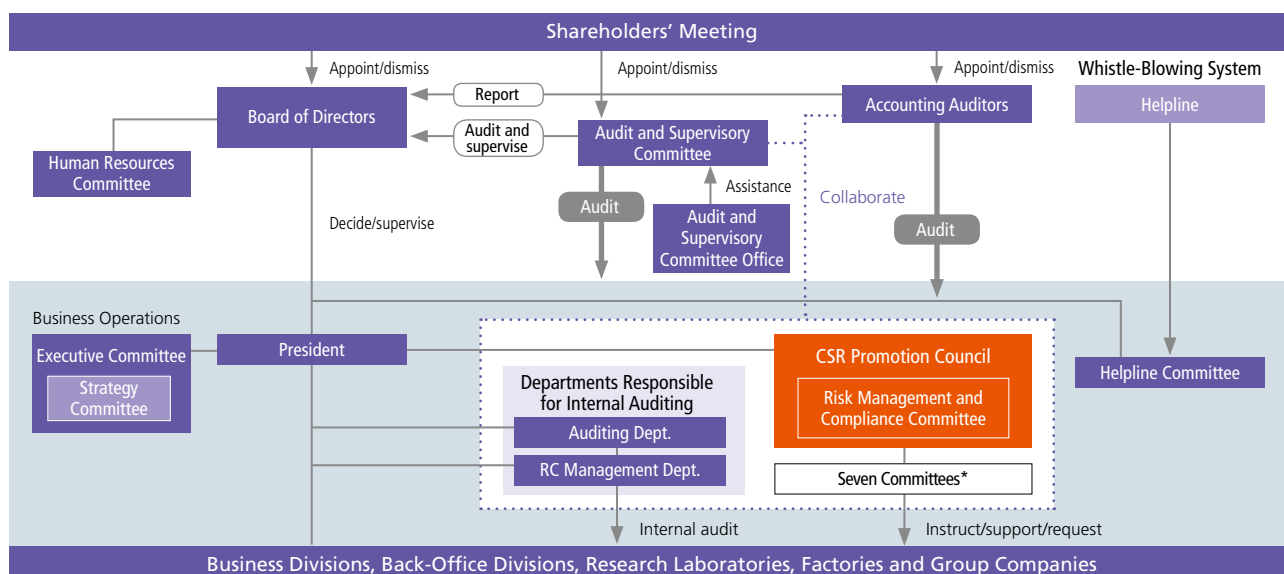
As a company with an Audit and Supervisory Committee, Tokuyama seeks to enhance corporate governance at all times by making the best of its rapid decision making as well as effective supervising/auditing functions.

### 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

#### ● Corporate Governance Structure



\* Tokuyama operates committees focused on risk management and compliance in seven critical and specialized areas, separately from the Risk Management and Compliance Committee. The committees operate under the CSR Promotion Council, overseeing the following areas: financial reporting, antimonopoly and security trade, export trade control, information security, environmental measures, security measures and product safety and quality assurance.

## Corporate Governance

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 member candidates, the Board of Directors makes its decisions after receiving the assent of the Audit and Supervisory Committee.

### Criteria for Defining the Independence of External Directors

In April 2019, the criteria for selecting external directors was revised. This enables freer choice of independent external director candidates suitable for improving the governance of the Company and enhances the independence and supervisory function of the Board.

### Support System for External Directors

Prior to each meeting of the Board of Directors, the Corporate Planning Division explains the agenda items to external directors and answers their questions. If external directors have any inquiries about management issues, industry trends, business strategies, the construction and operation of internal control systems or other issues, directors and executive officers meet with them individually to answer their questions.

When external directors take office, the Company provides opportunities to take plant tours and understand the Company, including the status of business operations and functions.

### Analysis and Evaluation of the Effectiveness of the Board of Directors

To ensure transparent and fair processes, the Company commissioned an external organization to evaluate the effectiveness of the Board of Directors.

From March to May 2020, all directors answered a questionnaire and were interviewed, and an analysis of the results was reported at a meeting of the Board of Directors held in May 2020. The answers to the questionnaire revealed that the Board of Directors is generally effective. The promotion of digital transformation and the development of a risk management system were pointed out as challenges to be addressed.

The interviews reveal that relationships of trust have been built between those supervising (external directors) and those executing business activities (management) and that the provision of adequate information to the external directors has contributed to enhancing the advisory and supervisory functions of the Board of Directors. Meanwhile, it was pointed out that the examination of medium- to long-term management policies from a broad perspective based on an objective analysis of the business environment is not adequate.

The Board of Directors will continue to increase its effectiveness by selecting agenda items at Board of Directors meetings, reinvigorating deliberation through intelligent explanations and creating meeting materials that make points clear.

#### ● External Directors

Name	Audit and Supervisory Committee Members	Independent External Directors	Reason for Selection	Attendance (FY2019)	
				Meetings of the Board of Directors	Meetings of the Audit and Supervisory Committee
Shin Kato	○	○	Given his wealth of experience and broad insight and knowledge as an attorney at law, Mr. Kato is put forward for election as an external director who is an Audit and Supervisory Committee member.	17 / 17	25 / 25
Yuzo Kawamori	○	○	The Company appoints those whom it judges, from their outstanding insight and wealth of experience in overseas business development as managers of industry-leading companies, to be suitably qualified to serve as external directors who will be members of the Company's Audit and Supervisory Committee.	13 / 13	18 / 18
Naoki Matsumoto	○	○	The Company appoints those whom it judges, from their wealth of experience and outstanding insights into finance and accounting as managers in a wide variety of businesses in the finance industry, to be suitably qualified to serve as external directors who will be members of the Company's Audit and Supervisory Committee.	12 / 13	17 / 18

\* The difference in the total number of times for both the Board of Directors and the Audit and Supervisory Committee is due to the difference in the time of inauguration.

### Executive Remuneration

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.

- (1) For 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.
- (2) 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 profit 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.

- (3) 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. 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.

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 on 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.

● Amount of Remuneration Paid to Directors and Audit and Supervisory Committee Members (For FY 2019)

Subject of Remuneration	Number of People	Remuneration Amount
Directors (Excluding external directors)	7	¥238 million
Directors who are Audit and Supervisory Committee members (Excluding external directors)	2	¥33 million
External Directors	5	¥42 million

### Policy on the Holding of Listed Shares for Purposes Other Than Pure Investment

Tokuyama 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 2019, resulting in a total of 24 listed issues of shareholdings as of March 31, 2020.

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.

### Risk Management

Tokuyama manages risk through the Risk Management and Compliance Committee, which operates under the CSR Promotion Council. It also has expert committees focused on risk management and compliance in seven critical and specialized areas to ensure management through the deliberation of key issues. The Company has

designated a unit responsible for regulations concerning management of the risk of loss and conducts activities based on the management regulations.

It also works to mitigate compliance risk by establishing management systems for understanding important laws and regulations that are relevant to business execution and keeping track of trends in amendments to these laws and regulations. The Company also has established a business continuity plan (BCP) and other measures in order to ensure an appropriate response for the type and severity of any crisis.

### Compliance

Tokuyama understands "compliance" to have a broad meaning, including not only compliance with laws and internal rules but also behaving sensibly in a manner that conforms with corporate ethics and meets social expectations. To communicate and spread awareness of compliance throughout the Group, the Company has put together a handbook that includes the Tokuyama Group Code of Conduct. It is distributed to all Group employees.

### Promoting Information Security

In order to reinforce the security of information assets, such as client information, Tokuyama has formulated a security policy and implemented various measures, including the establishment of a computer security incident response team (CSIRT) which works to prevent incidents and to minimize damage if an incident occurs. In March 2020, it was found that at an overseas subsidiary, employees' account information was stolen and (approximately 440) spam emails were sent by an entity that was not authorized to access the system. No secondary damage has been confirmed. We will take steps to prevent a recurrence, including the thorough management of accounts and passwords, and will bolster information security.

### Business Continuity Management (BCM)

For the continuation of important operations in unforeseen circumstances, the Company has formulated a BCP and updates it, secures funding and resources to ensure business continuity, engages in business continuity management in normal times, including the taking of preventive measures, and thereby improves its ability to continue its business operations.

### Responsibility in the Value Chain

Tokuyama recognizes that the cooperation and support received from all of its trading partners play an underpinning role in the Company's business activities. We would also like to remain a good partner with the common goal of creating valuable products that enhance people's lives. To achieve this goal, we will carry out purchasing activities according to the following basic policy and CSR procurement guidelines.

[https://www.tokuyama.co.jp/eng/company/purchase\\_policy.html](https://www.tokuyama.co.jp/eng/company/purchase_policy.html)