

Message from the Executive Officer in Charge of Sustainability



Executive Officer
General Manager of the Corporate
Social Responsibility Division

Michiko Seki

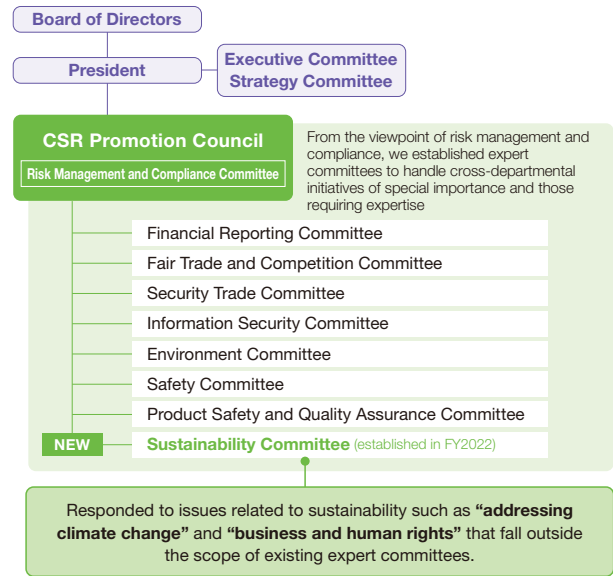
Tokuyama's Views and System on Sustainability

Guided by our Mission—"to create a bright future in harmony with the environment, in collaboration with its customers, based on chemistry,"—we will improve our corporate value to continue to be a company needed by society and that takes action to help create a sustainable society.

In Tokuyama's promotion system for CSR management, the CSR Promotion Council, chaired by the President and including all Executive Officers, encourages corporate governance and makes decisions on important items related to sustainability. In addition, Tokuyama's Risk Management and Compliance Committee, chaired by the director supervising the Corporate Social Responsibility Division, has been established under the CSR Promotion Council to handle risk management and compliance, seen as the core and the "two wheels" of internal control. At the same time, expert committees were spun off from the Risk Management and Compliance Committee to respond to issues in highly specialized and important fields. In FY2022, the Sustainability Committee was established as the eighth expert committee, responding to sustainability issues not covered by other expert committees in order to strengthen our governance. In FY2022, this committee had four meetings to mainly discuss initiatives to be taken for climate change, soft law responses related to

external disclosure, and responding to human rights issues, including those in the supply chains.

Promotion System for CSR Management



Connecting to Tokuyama's Vision and Sustainability Initiatives

Promoting CSR management is one of the high-profile issues in Medium-Term Management Plan 2025. First, we must clearly state our fundamental approach and views on sustainability, so we recently established the Tokuyama Group Sustainability Principles showing what our company is supposed to be based on Tokuyama's vision. By inculcating these principles into officers and employees' behavior, we revised the Tokuyama Group Code of Conduct. As it has been more than 10 years since the Code of Conduct was last revised, we updated the code to address value creation, diversified working styles, climate change mitigation, reflecting a recent trend for ESG (environmental, social, and governance) as well as requests from society. Detailed descriptions of action guidelines are included for the related principles and policies, which have also been organized and systematized.

For more information, please refer to the List of Policies on Tokuyama's website.
<https://www.tokuyama.co.jp/eng/csr/policies.html>



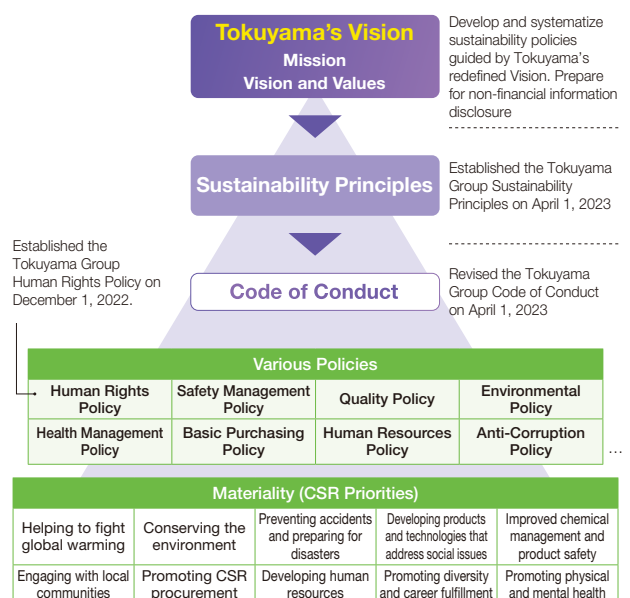
For example, for one new policy that addresses respect for human rights, we established the Tokuyama Group Human Rights Policy, which was influenced by the UN Guiding Principles on Business and Human Rights.

To distribute information on these policies, Group company CSR caravans encourage Group-wide understanding and sharing, under the theme of "promoting sustainability centered on Group management." We also began e-learning programs to raise awareness of the Tokuyama Group Human Rights Policy.

In addition, KPIs for Materiality (key CSR issues), which are the foundation for growth, are determined and monitored by the CSR Promotion Council in order to strengthen our initiatives. From FY2023, we will clarify the responsibilities of all executive officers for addressing materiality, and reflect the progress made in their remuneration for the following fiscal year.

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Developing and Systematizing Sustainability Policies



Progress of Sustainability Initiatives in FY2022

To make a “contribution to the mitigation of global warming,” one of the priority issues in Medium-Term Management Plan 2025, we set the goal of reducing our GHG emissions by 30% by FY2030 (compared with FY2019). Further, we have declared our intention to achieve carbon neutrality by FY2050. We have put in a TCFD report on Tokuyama’s company-wide and sweeping initiatives for becoming carbon neutral. This report is designed to disclose detailed information on 11 items, based on the TCFD Recommendations, with the goal of gaining the understanding of stakeholders and conveying our desire to meet the expectations of society.



For more information, please refer to Disclosures Based on TCFD Recommendations on Tokuyama’s website.
https://www.tokuyama.co.jp/eng/csr/tcfid_information.html



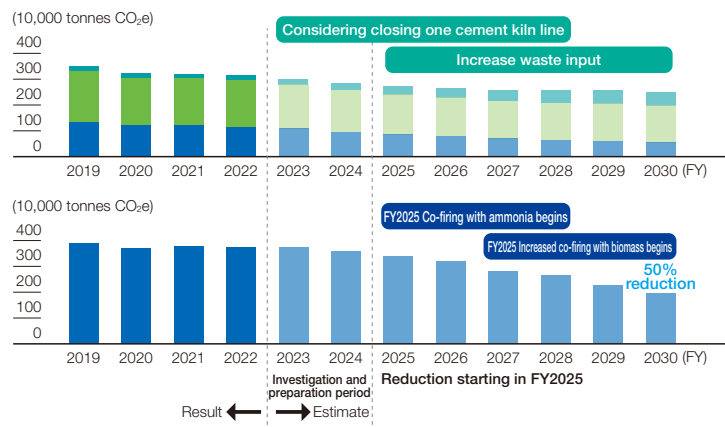
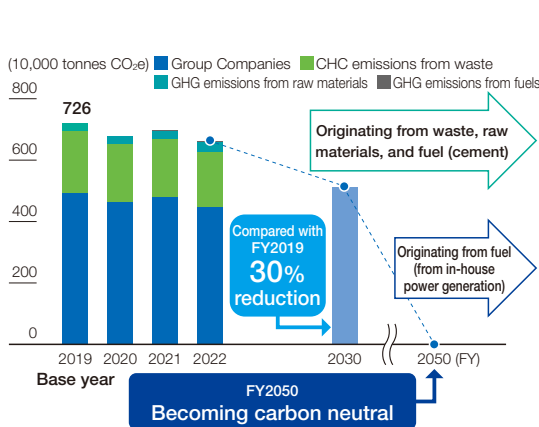
pp. 40–42 | Disclosures Based on TCFD Recommendations

Until now, Tokuyama’s strengths have been in a recycling-oriented and highly efficient production system, which is lean and highly integrated, enabling us to produce power from coal-fired in-house power generation as well as to use waste products as raw material for cement production. This is a sustainable approach from the perspective of

generating no waste; however, considering the response to climate change, it has become necessary to overhaul our business portfolio. We need to tackle issues such as how to optimize the production system, shift to a portfolio with more growing businesses, and reduce the total output of in-house power generation.

To meet the goal of reducing our GHG emissions by 30% by FY2030 (compared with FY2019), we took two major GHG emission sources and promoted a reduction plan for each of them: one source is GHG emissions from fuels for in-house power generation and the other is emissions from cement production, which includes raw materials, fuels, and waste that is burned. For fuels used for in-house power generation, we have been conducting experiments on the mixed combustion of non-fossil fuels, such as biomass and ammonia. Based on this result, we are going to invest in the technology for mixed combustion. On the other hand, to reduce GHG emissions from making cement—since we plan to increase using combustible waste, including waste plastics—we will work on boosting production efficiency and reducing our overall GHG emissions.

GHG Emissions Reduction Targets



What Needs to Be Addressed from Now

We are working to practice management that enables a PDCA cycle for each of the CSR priorities, with the aim of visualizing a path to resolving issues. For promoting CSR management, I think the following three approaches are common for tackling any issue: (1) to firmly establish short-, medium- and long-term objectives (Vision), (2) to move forward while getting stakeholders widely involved, and (3) to disclose information externally and leverage feedback from stakeholders for the next step. In particular, the external disclosure of non-financial information will be essential for

accountability in business activities and the transparency of our governance. These disclosures must be made on a consolidated basis, which requires that the entire Group make concerted efforts for sustainability.

For Tokuyama “to create a bright future” and be sustainable, we will disclose timely information externally that is used for determining corporate value, including the ESG that is now required of a company, respond to stakeholders’ trust, and contribute to more improvement of our corporate value.

Vision and Materiality

Achieving Our Vision through Socially Responsible (CSR) Management

CSR management is essential for realizing Tokuyama's Mission, as redefined in 2021, "to create a bright future in harmony with the environment, in collaboration with its customers, based on chemistry." For example, for creating products and services that contribute to a "bright future," we must first correctly understand the expectations and requirements of society, and then for every person in the Group to have a "vision" of what needs to be done and to work every day from a long-term perspective and have an awareness of potential social issues. This attitude and this behavior are also important for us as we move from the traditional business model and transform ourselves into a value creating company. In other words, Tokuyama's CSR management covers the creation of new value for a sustainable society and it should be promoted by the concerted effort of all managers and all employees.

The Tokuyama Vision has been developed so that we can clearly visualize our future image in order to realize our Mission. Materialities (material issues) refer to CSR priority issues identified by CSR management that are used when making up an action plan for realizing our Vision.

We work on our initiatives to realize our Vision, while connecting with the objectives of the divisions and departments for their goals for materiality as well as KPIs. Every year, the Corporate Social Responsibility Division summarizes the implementation of their initiatives, which is then reported to the CSR Promotion Council, chaired by the President, and with all executive officers. In addition, for calculating executive remuneration for executive officers, we incorporate items for addressing materiality as criteria and evaluate executives according to the degree of contribution, taking into account our calculation of the executives' specific roles and responsibilities. We are working hard to continually raise the level of CSR management by following the company-wide PDCA cycle that we use to check on progress and analyze current conditions.




The Sustainability Committee, established in FY2022, has begun to promote CSR procurement and information disclosure based on the TCFD recommendations. We have also established, after obtaining approval from the Board of Directors, the Tokuyama Group Human Rights Policy, which is central to initiatives related to human rights.

Tokuyama's Materiality

Material issues are used as guidelines to devise action plans for realizing Tokuyama's Vision. The table below shows the aspirations and KPIs for each material issue as well as results and the people and departments who are

responsible. Our actions for addressing materialities also contribute to the realization of the UN's SDGs. For reference, our material issues and their main SDGs are shown in the table below.

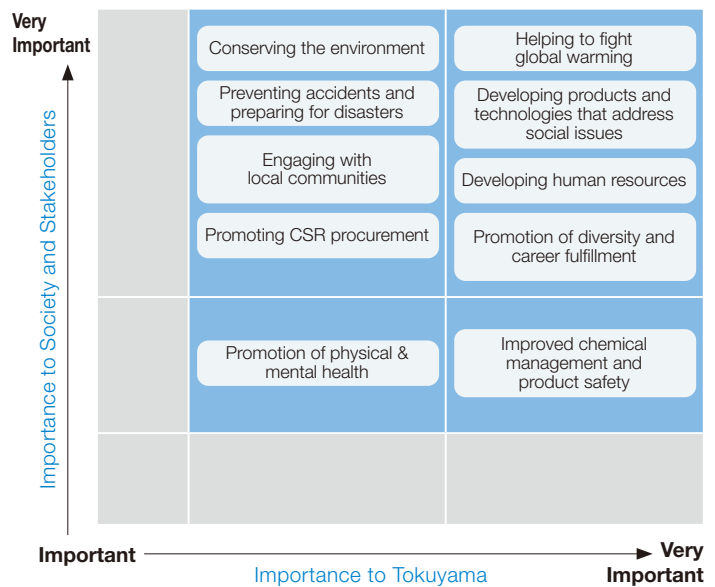
Materiality KPIs and Results

Material Issue Relationship to SDGs	Our Vision	KPI / Target
<p>Helping to fight global warming</p> 	<ul style="list-style-type: none"> Achievement of carbon neutrality by FY2050 	<ul style="list-style-type: none"> Reduction of GHG emissions of the Tokuyama Group: 30% reduction in FY2030 (compared with FY2019) Active disclosure of climate-related information
<p>Conserving the environment</p> 	<ul style="list-style-type: none"> Promoting recycling and maintaining zero landfill waste Maintaining low emissions of environmental impact substances Complying with legal requirements and other regulations, achievement of zero environmental accidents Contribution to biodiversity conservation 	<ul style="list-style-type: none"> Reduced environmental impact: <ul style="list-style-type: none"> Effective utilization rate for waste ≥94% Zero waste emission rate ≥99.9% Maintaining low emissions of environmental impact substances Complying with legal requirements and other regulations, achievement of zero environmental accidents Contributing to biodiversity conservation
<p>Preventing accidents and preparing for disasters</p> 	<ul style="list-style-type: none"> Accident prevention and disaster preparation Improvements in process safety management level Fostering and improving the safety culture 	<ul style="list-style-type: none"> Zero accidents and zero lost time injuries; number of incidents: zero Deepened risk assessment Promoting smart security

Process of Identifying Materiality

In 2019, the Company identified nine material issues based on important social factors, dialogues with stakeholders, and third-party opinions from external experts. In 2021, after reviewing these issues, in line with the new Medium-Term Management Plan 2025, we increased the number of materialities (material issues) to ten, then formulated targets and KPIs for FY2025.

We are determined to always take action for building a sustainable future with society, to contribute to resolving social issues, increase trust from diverse stakeholders, as we aim to improve corporate value. Tokuyama will solidify relationships of trust with society by strengthening initiatives for dealing with material issues, while pursuing our own unique approach to CSR management.



For detailed information on our activities, please refer to the CSR page section of Tokuyama's website.
<https://www.tokuyama.co.jp/eng/csr/>



○ 80% or more △ 50% or more × less than 50%

FY2022 Results	Achievement level	Person responsible* Department responsible
<ul style="list-style-type: none"> Promoting coordination with regions, local governments, and within the Industrial Complex, aiming for carbon neutrality Considered introducing alternative fuels, such as biomass Acquired third-party certification for GHG emissions (Scopes 1, 2, and 3) Responded to CDP Climate Change Questionnaire (score: B) Changed the method of calculating GHG emissions to comply with the GHG Protocol Introduced internal carbon pricing to the screening of prospective investments 	○	Director (President and Executive Officer) Carbon Neutral Strategy Div. Responsible Care Management Department Factory Planning and Administration Department
<ul style="list-style-type: none"> Effective utilization rate for waste: 94.7% Zero waste emission rate: 99.9% Maintained low emissions of environmental impact substances; actions are being taken by every department Complying with legal requirements and other regulations, and zero environmental accidents Forest volunteers, cleanup drives, etc. Responded to designated alien species 	○	Director (Chairperson of Environment Committee) Responsible Care Management Department
<ul style="list-style-type: none"> Number of serious accidents/disasters: zero Number of accidents: 2 Occupational accidents: Employees with no lost time injuries: 4 Contractors with lost time injuries: 2; No lost time injuries: 2 Identified risks through risk assessment and began mitigation Promotion of smart security: Considered the use of a detector for unusual items in maintenance work 	△	Director (Chairperson of Safety Committee) Responsible for Care Management Department

*Person responsible: Someone who serves as a director and chairperson of the committee/meeting body that he/she is in charge of

Material Issue Relationship to SDGs	Our Vision	KPI / Target
<p>Developing products and technologies that address social issues</p> 	<ul style="list-style-type: none"> Increased development of products and technologies that help to resolve social issues, focusing on SDGs 	<ul style="list-style-type: none"> Promoting the development of products and technologies that help to resolve social issues, focusing on SDGs <ul style="list-style-type: none"> [Electronics] Expansion of product line and creation of new business in peripheral materials [Healthcare] Creation of new technologies for product line expansion and globalization [Environment] Creation of new technologies to reduce CO₂ emissions
<p>Improved chemical management and product safety</p> 	<ul style="list-style-type: none"> Maintaining effective chemical management and promoting product safety within the Tokuyama Group 	<ul style="list-style-type: none"> Complying with chemical laws and regulations in each country: Zero infractions of chemical-related regulations and zero accidents due to product safety Risk management of chemical products, including the whole Group
<p>Engaging with local communities</p> 	<ul style="list-style-type: none"> Harmoniously co-existing and cooperating with communities: Contributing to a decentralized society through business Contribution to communities: Providing a place where people can grow and flourish 	<ul style="list-style-type: none"> Harmoniously co-existing and cooperating with communities: <ul style="list-style-type: none"> Dialogue with community Active participation and cooperation in various community events (for residents, government, and other organizations) Helping resolve community issues and contributing to the sustainable development of the community: <ul style="list-style-type: none"> Hiring from local community Social contributions Contributions to the community through business
<p>Promoting CSR procurement</p> 	<ul style="list-style-type: none"> Management of supply chains based on CSR procurement guidelines 	<ul style="list-style-type: none"> Promoting survey and management of supply chains based on CSR procurement guidelines: <ul style="list-style-type: none"> More detailed investigations of suppliers by using refined assessment checklists Establishing a system for on-site audits of suppliers Reduced environmental impact from logistics
<p>Developing human resources</p> 	<ul style="list-style-type: none"> Developing and strengthening human resources, the source of corporate competitiveness Strengthening human resources for the next generation 	<ul style="list-style-type: none"> Developing management personnel for the next generation Training highly skilled engineers to support business execution Begin suitable employee deployment and rotation of personnel based on career planning and job skills Established human resource development by linking with goal setting and feedback
<p>Promotion of diversity and career fulfillment</p> 	<ul style="list-style-type: none"> Acceptance and utilization of diverse human resources Respect for human rights 	<ul style="list-style-type: none"> Promotion of diversity and inclusion <ul style="list-style-type: none"> Active promotion of women: 20% of new graduates, ≥5% of management positions, ≥10% of executives, etc. Promotion of employment of persons with disabilities: 2.3% Promotion of work-life balance: annual paid leave acquisition rate: ≥75%; childcare leave acquisition rate: ≥75% Number of male employees on childcare leave: ≥10 or ≥75% of male employees Acquisition rate of women taking childcare leave ≥70%
<p>Promotion of better physical & mental health</p> 	<p>Cultivation of physical & mental health of employees and their families, and creation of a work-friendly environment</p> <ul style="list-style-type: none"> Cultivating better physical and mental health Promotion of measures to address lifestyle diseases 	<ul style="list-style-type: none"> Enhanced individuals' awareness of health: smoking rate <15% Maintaining and lowering percentage of findings <ul style="list-style-type: none"> Regular health consultation rate: 100% Re-examination rate: ≥90% Specific health guidance rate: ≥80% Lowering the leave rate: <5% Stress check examination rate: ≥95%

All non-consolidated

○ 80% or more △ 50% or more × less than 50%

	FY2022 Results	Achievement level	Person responsible* Department responsible
	<p>[Electronics] Accelerated initiatives aimed at commercialization through marketing originating from customers</p> <p>[Healthcare] Decided to commercialize products based on multiple themes</p> <p>[Environment] Promoted Medium-Term Management Plan 2025 strategies and created businesses based on multiple themes</p>	△	<p>Director (in charge of Research & Development)</p> <p>Research & Development Division</p>
	<ul style="list-style-type: none"> 63 product reviews (second and third rounds); 706 labeling reviews Understood and responded to domestic and overseas regulatory trends <ul style="list-style-type: none"> Japan (Chemical Substances Control Act, Industrial Safety and Health Act, and Law for Promotion of Chemical Management) Overseas (EU Chemicals Strategy for Sustainability, Nano Material Regulations, China's Yangtze River Protection Law, etc.) Labeling and SDS-related (JIS and others overseas) Provided education to departments and Group companies involved in chemical product management and conducted regular inspections and interviews on their state of management Promoted the management system for chemicals contained in products 	○	<p>Director (Chairperson of Product Safety and Quality Assurance Committee)</p> <p>Responsible Care Management Department</p>
	<ul style="list-style-type: none"> Dialogue with community <ul style="list-style-type: none"> Conducted a dialogue with the community while taking COVID-19 countermeasures, such as online conversations Conducted factory tours for local community, local elementary school students, etc. Sponsored Tokuyama Summer Festival and Shunan Winter Tree Festival Social contribution <ul style="list-style-type: none"> Participated in volunteer activities (cleanup drives, Tokuyama Chemical Club, etc.) Educational support for neighboring schools (Mikage Bunko book program, work experience for junior high school students, etc.) Contributions to the community through business <ul style="list-style-type: none"> Provided specific power supply to Shunan City (for City Hall, Tokuyama Station Building, etc.) 	○	<p>Director (in charge of CSR, and General Affairs and Human Resource)</p> <p>General Affairs Department Environment & Safety Department Factory Planning and Administration Department</p>
	<ul style="list-style-type: none"> Revised CSR procurement guidelines (December 2022) Raised awareness of new CSR procurement guidelines <ul style="list-style-type: none"> Requested written consent from companies with a transaction value of 30 million yen or more (collected from 215 out of 296 companies) Began to implement supplier assessments for companies with a transaction value of 100 million yen or more by using the SAQ published by GCNJ (collected from 133 out of 181 companies) 	○	<p>Director (Chairperson of Sustainability Committee)</p> <p>Procurement Department Logistics Department</p>
	<ul style="list-style-type: none"> Implemented new business leader training (attended by 20 employees with a cumulative total of 37) Formulated an education plan on DX Implemented training related to global human resource development: Attended by 33 employees Launched a new self-development program Defined ideal images for the desired personnel and skills based on 13 job groups; published company-wide in April 2022 Created a system for strategic rotation; established HR business partners; Organized human resource information through an HR management system Conducted four training sessions for evaluators (75 employees) to deepen their understanding of appropriate goal setting 	○	<p>Director (in charge of General Affairs and Human Resources)</p> <p>Human Resources Department</p>
	<ul style="list-style-type: none"> Promotion of diversity and inclusion <ul style="list-style-type: none"> Continued career hiring incorporating diverse skills and values (38 people in FY2022) Number of female managers increased by five, reaching 2.7% (non-consolidated) with target raised from 2.0% to 2.5% in FY2022, to 5% in FY2023; Consolidated percentage of women among all managers: 4.7% Percentage of people with disabilities: Although actions have been taken, the employment rate for this group compared with FY2021 stayed at 2.02% (three people hired in FY2022) Established an agricultural corporation in December 2021 with the aim of creating employment for people with disabilities, preparing for the start of production in July 2023 Number of male employees on childcare leave: 22 (average of 32 days) Respect for human rights <ul style="list-style-type: none"> Established and released human rights policy (December 2022) 	○	<p>Director (in charge of General Affairs and Human Resources)</p> <p>Human Resources Department</p>
	<ul style="list-style-type: none"> Antismoking drive <ul style="list-style-type: none"> Smoking rate: 18.9% (FY2021)→17.6% (FY2022) (FY2022 goal of less than 18% achieved) Banned indoor smoking, no smoking campaign Health guidance and measures after health diagnosis <ul style="list-style-type: none"> Regular health checkup rate: 100% (FY2021)→100% (FY2022) Re-examination rate: 81.0% (FY2021)→89.2% (FY2022) Specific health guidance rate: 85.3% (FY2021)→84.5% (FY2022) Mental healthcare <ul style="list-style-type: none"> Leave rate: 0.66% (FY2021)→0.75% (FY2022) Stress check examination rate: 98.1% (FY2021)→97.5% (FY2022) Implementation of mental health training and e-learning (for workers in management positions and regular workers) Selected as an enterprise engaging in a health management program and certified as a health and productivity enterprise (White 500) in FY2023 	○	<p>Director (in charge of General Affairs and Human Resources)</p> <p>Health Care Center</p>

All non-consolidated

*Person responsible: Somebody who serves as a director and chairperson of the committee/meeting body that he/she is in charge of

Disclosures Based on TCFD Recommendations

The Tokuyama Group supports the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and has conducted repeated investigations into climate change risks and opportunities based on the TCFD recommendations. In FY2022, we further analyzed these risks and opportunities, strengthened our strategy, and clarified our metrics and targets. See Disclosures Based on TCFD Recommendations (*Tokuyama TCFD Report*, or *TCFD Report*) for more details.



Disclosures Based on TCFD Recommendations (*TCFD Report*)
https://www.tokuyama.co.jp/eng/csr/tcf_information.html



1 Governance

The Tokuyama Group has identified climate change as one of the most significant management risks. Accordingly, helping to mitigate global warming is one of the key objectives under Medium-Term Management Plan 2025.

The new Sustainability Committee was established under the CSR Promotion Council in FY2022 for addressing major risks for sustainability, with a framework created for identifying and assessing cross-organizational risks and opportunities. Items of special importance are discussed by the CSR Promotion Council, and reported to and overseen by the Board of Directors. The Board of Directors verifies the progress of these mitigation initiatives

and other key objectives of Medium-Term Management Plan 2025, as well as future investment plans, among other items.

As mitigation initiatives transitioned from the concept stage to the implementation stage from April 2023, Tokuyama is accelerating efforts by establishing the Carbon Neutral Strategy Division, which operates independently. The *TCFD Report* provides more details, including supervision by the Board of Directors and the role of the management team.

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System to Promote Carbon Neutrality Achievement



2 Strategy

The Group's Medium-Term Management Plan 2025 addresses both the risks related to climate change and the potential new business opportunities in the environmental field. For Tokuyama, risk mitigation includes making visible the carbon costs coming from the introduction of carbon pricing, addressing the impact of potential changes in customer procurement policies, and identifying the impact on financing from potential policy changes at financial and investment companies. Moreover, by focusing on international risk

scenarios, we analyzed risks and opportunities using the 1.5°C and 4°C global warming scenarios covering the period from the present to 2050. Our aim is to monetize promising business opportunities while reducing climate change risks by shifting our business portfolio from energy-intensive to value-creating companies. The *TCFD Report* covers the impact of climate-related risks and opportunities on the company's businesses, strategy, and financial planning, and the resilience of the company's strategy.

Risks Posed by Climate Change (scenario analysis)

Short term: by FY2025, medium term: by FY2030, long term: by FY2050

Scenario	Risk category	Target of risk assessment	Potential impacts on the Group (financial) (identified risks)	Financial impact	Timing of risk materialization	Impact on business	Priority level	Response measures
1.5°C	Government policy and regulations	Carbon pricing and energy procurement costs	<ul style="list-style-type: none"> Increase in operating costs due to expanded carbon pricing 	Moderate	Medium to long term	Large	Low	<ul style="list-style-type: none"> Monitoring carbon pricing policy trends and conversion to non-fossil fuels Evaluation and implementation of measures based on internal carbon pricing Participation in the GX League
			<ul style="list-style-type: none"> Increase in costs for mitigation initiatives due to tightening the GHG emission regulations 	Moderate	Medium to long term	Large	High	
	Technology	Green process adoption measures	<ul style="list-style-type: none"> Increased green energy production and procurement costs 	Large	Medium term	Large	High	
			<ul style="list-style-type: none"> Increased costs for green material procurement and green process conversion due to lack of technology and market maturity 	Large	Medium to long term	Large	High	
Evaluation	Evaluation by stakeholders	<ul style="list-style-type: none"> Decline in market value and increase in financing costs due to a poor evaluation of carbon neutrality initiatives Risk of litigation by local residents to shut down or decommission coal-fired power plants owned by Tokuyama Sustainability risks for biomass fuel 	Large	Medium to long term	Large	High	<ul style="list-style-type: none"> Enhanced disclosure of information and setting GHG emission reduction targets Transform business portfolio Ensuring the sustainability of biomass fuel 	
		<ul style="list-style-type: none"> Rejection of products by the market based on large carbon-footprint evaluation Decrease in profitability due to the inability to pass on the price fully covers the costs for green process adoption 	Large	Medium to long term	Large	High	<ul style="list-style-type: none"> Steady reduction in GHG emissions Creation of green products based on mass balance approach certification Enhancing supply chain cooperation for green market formation Construction of a carbon footprint evaluation system 	
4°C	Physical risks (acute)	More frequent extreme weather events and sea level rise	<ul style="list-style-type: none"> Wind and flood damage to production plants; production plan delays and increased costs due to supply chain disruptions, etc. 	Moderate	Long term	Moderate	Moderate	<ul style="list-style-type: none"> Enhanced BCP measures
	Physical risks (chronic)	Long-term intensification of extreme weather events and rising sea levels	<ul style="list-style-type: none"> Decrease in production capacity due to insufficient factory cooling capacity caused by rising average temperatures Production halts due to storm surges caused by rising sea levels 	Minimal	Long term	Minimal	Low	<ul style="list-style-type: none"> Setting GHG emission reduction targets

Climate Change Opportunities (scenario analysis)

Short term: by FY2025, medium term: by FY2030, long term: by FY2050

Scenario	Opportunity Type	Opportunity Assessment Target	Impact on Tokuyama Group	Impact Level	Term	Priority Level	Response Measures
1.5°C	Market	Expanding demand in the environmental market	<ul style="list-style-type: none"> Expansion of businesses offering waste disposal, effective utilization of resources, and measures to combat global warming 	Large	Medium to long term	High	<ul style="list-style-type: none"> Commercialization of renewable resources and energy (biomass and hydrogen)
		Shift to carbon neutrality by regions and industrial complexes	<ul style="list-style-type: none"> Enhancing site competitiveness by promoting large-scale green supply chains for energy and materials 	Large	Medium to long term	High	<ul style="list-style-type: none"> Joining the Decarbonization Promotion Council, promoting green supply chain construction, and participating in and promoting the development of green technology
	Resource use efficiency	Requests for CCU-related products	<ul style="list-style-type: none"> Entering new business fields by establishing a carbon recycling system 	Large	Medium term	Moderate	<ul style="list-style-type: none"> Accelerating R&D, demonstration projects, and actual green technology adoption in business operations

3 Risk Management

Climate change risks are positioned as the most significant type of risk as defined by “Responding to global decarbonization” in the Mapping of Significant Enterprise Risks.

Given the accelerating global trend toward decarbonization, under the Group’s Medium-Term Management Plan 2025, we have decided that we must shift away from our energy-intensive business structure, which has been our strength up to this point. So, one of

the priority issues of Medium-Term Management Plan 2025 is to “Contribute to Mitigation of Global Warming” and we are pursuing group-wide initiatives to achieve this. The *TCFD Report* covers details of the Company’s processes for identifying and assessing climate-related risks, processes for managing climate-related risks, and how they are integrated into the company’s overall risk management.

➔ pp. 50-51 | Risk Management

4 Metrics and Targets

Fuel-derived GHG emissions account for about 70% of our total GHG emissions, and we are aiming to reduce these by promoting energy-saving measures and switching to carbon-neutral fuels. We will be reducing GHG emissions from raw materials-derived by reducing the amount of limestone used. We will go ahead with the development and introduction of these measures, while evaluating the economic viability. At present, however, it appears that reducing these emissions to zero will be difficult, so CO₂ capture, utilization, and storage (CCUS) could be necessary. The Group will go ahead with the development and introduction of these measures. The *TCFD Report* provides details of climate-related metrics, Scope 1, Scope 2, and, Scope 3 greenhouse gas (GHG) emissions, as well as the targets and performance against the targets.

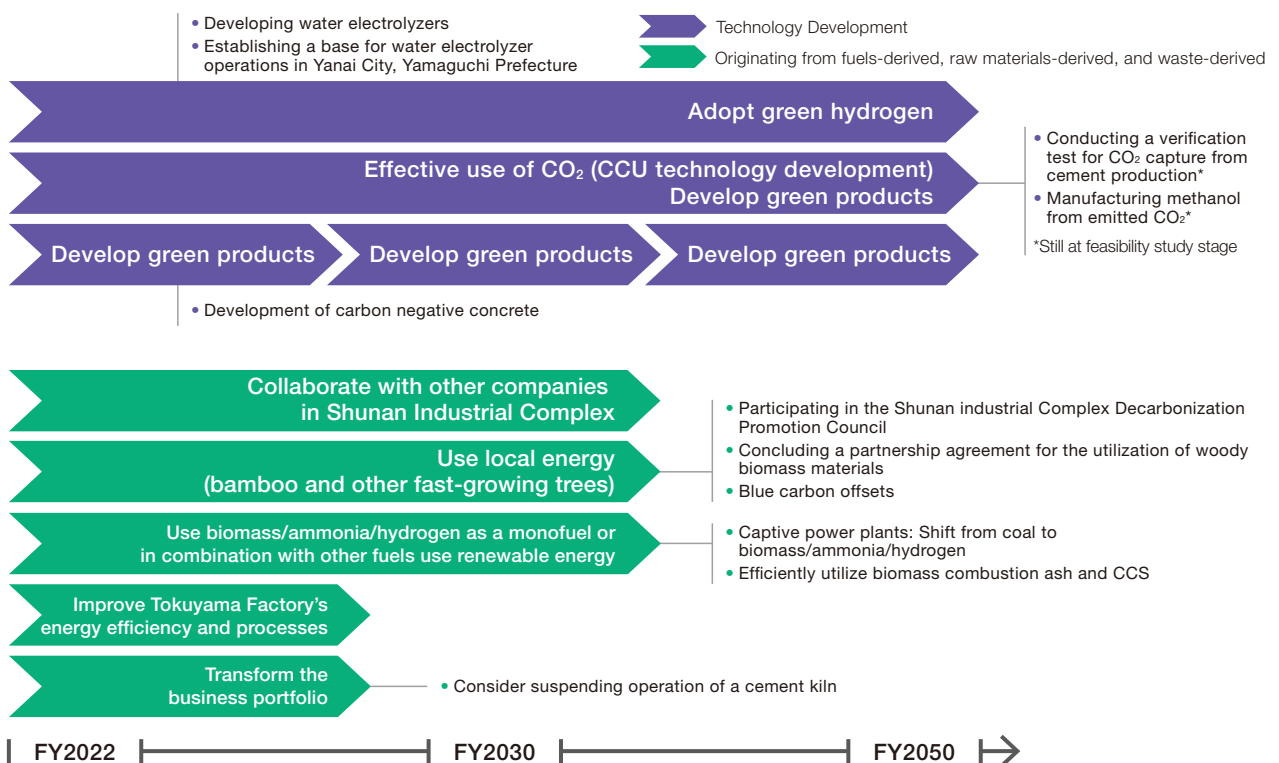
While the steady reduction of GHG emissions is our responsibility as a company, we also recognize that reducing GHG emissions caused by our products is important. Tokuyama is taking a multi-faceted approach to

achieving global decarbonization (see the diagram below; “Initiatives to achieve carbon neutral FY2050”). In FY2022, initiatives for adopting green hydrogen included the development of water electrolyzers, the development of technologies for the effective use of CO₂ included CO₂ capture from cement production, the development of green products included the development of carbon negative concrete, and the reduction in GHG emissions originating from fuels-derived, raw materials-derived, and waste-derived included collaborating with local governments and industrial complexes. See the *TCFD Report* for more details on these initiatives. Looking ahead, we will continue contributing to achieving global carbon neutrality by expanding our lineup of eco-friendly products and further developing innovative technologies.

➔ pp. 34-35 | Message from Director in charge of sustainability

➔ pp. 52-55 | Financial and Nonfinancial Highlights

Initiatives to achieve carbon neutral FY2050



Compliance

Basic Stance and System

For Tokuyama the word *compliance* has a broad meaning, including not only complying with laws and internal rules but also behaving sensibly in a way that conforms with corporate ethics to meet social expectations. To communicate and spread awareness of compliance throughout the Group, the Company has put together a leaflet that

includes the Tokuyama Group Code of Conduct. It is distributed to all Group officers and employees. In addition, we also conduct training based on job level for raising awareness and hold meetings with managements and those in charge of compliance at Group companies.

Whistleblowing System

An internal helpline has been established to enable safe, anonymous reporting and consultations on compliance violations involving the Tokuyama Group (including potential violations) without fear of retaliation. Reporting and consultations can be carried out by mail, email, or telephone. The helpline is operated in a way that protects whistleblowers. Employees can use the helpline without disclosing to the Company their name or department, and a female attorney is available for consultations. In FY2022, the Company endeavored to boost the effectiveness of the internal reporting system by setting up the system and to be compatible with Japan's revised Whistleblower

Protection Act, while ensuring that employees familiarize themselves with the system, as well as inviting external lecturers to provide training to employees working in the Group's internal reporting system as a way of standardizing and improving their employee support skills. There were no occurrences of serious noncompliance in FY2022.

	FY2018	FY2019	FY2020	FY2021	FY2022
Number of reports	36	29	24	34	29

Note: Includes reports on workplace harassment and reports from Group companies in Japan.

Stakeholder Engagement

Tokuyama emphasizes communication with diverse stakeholders, working in harmony with society to build a sustainable future.

Stakeholders	Main Avenues for Communication
Customers	<ul style="list-style-type: none"> • ISO 9001 • TV commercials • Factory tours
Global Environment	<ul style="list-style-type: none"> • Responsible Care • Environmental management • ISO 14001 • Reduction of GHG emissions, energy conservation • Waste disposal • Biodiversity initiatives • Development and provision of environmentally friendly products
Local Communities and Society	<ul style="list-style-type: none"> • Accident prevention • Responsible Care Community Dialogue program • Community volunteers • Sponsorship of and participation in summer festivals • Grants to promote science and technology • Grants for raising the next generation, and safety and disaster prevention activities
Shareholders and Investors	<ul style="list-style-type: none"> • Briefing session for individual investors • Briefing session on financial results • Brief statement of accounts • <i>Annual Securities Report</i> • General Meeting of Shareholders
Business Partners	<ul style="list-style-type: none"> • Purchasing management • CSR purchasing • Joint Occupational Health and Safety Conference
Employees	<ul style="list-style-type: none"> • Workplace patrols • In-house newsletters • Education and training • Health and Safety Committee • Labor-Management Council

Aiming to Establish Effective Governance and to Sustainably Improve Corporate Value



Yuzo Kawamori
External Director, Audit &
Supervisory Committee Member



Nobuko Mizumoto
External Director, Audit &
Supervisory Committee Member

Career Backgrounds and Valued Concepts

Kawamori After joining Kansai Paint Co., Ltd., I spent 17 years in its International Business Unit and 17 years in the Japan Business Unit. Then from 2010, I was in charge of group management as the Representative Director of the Board and President. You could say that my strength lies in my varied experiences and achievements in both domestic and international businesses. My creed in business is *profitability and fairness*. Although a company's fundamental mission is to generate revenue, no company can last without conducting business in a fair way with deep consideration for social values. Ever since I was appointed as External Director of the Company, I have always strived to monitor Tokuyama's management structure and strategies from the perspectives of *profitability and fairness*.

Mizumoto After joining Ishikawajima-Harima Heavy Industries, Ltd. (currently IHI Corporation), I was involved in various types of technical-related work and was later in charge of the digital transformation (DX). Since the time I was appointed as External Director of Tokuyama in June 2021, I have been providing advice on the suitability of the Company's management strategy, mainly from a technical point of view. In recent years, more and more women have been appointed to the board of directors of various companies in line with the concept of diversity. However, I believe that there are no real gender-based differences in corporate management, so I am not really thinking about the fact that I am a woman as I carry out my duties as External Director. I feel that diversity of knowledge is more important than diversity of genders.

Assessment of Corporate Governance



Kawamori I think there are seven important themes surrounding the management of any manufacturer: 1. financial soundness, 2. continuity as a business entity, 3. transparent management, 4. growth (profit generation), 5. compliance, 6. quality improvement, and 7. safety. The agenda items addressed by Tokuyama's Board of Directors always include topics related to these management themes, and lively discussions are held on these topics. In addition, the content of the discussions during the Executive Committee are explained in detail to External Directors through briefings, and executive training sessions are held from time to time where Directors receive reports on business progress from the general managers of each department. I think that effective discussions and information sharing by the Board of Directors are the two things that make governance at Tokuyama superior to governance at other companies.

Mizumoto I also agree with that idea. Each time the Board of Directors meet, Directors have energetic discussions, allowing all of them to frankly express their opinions. This means that the Company has created a corporate culture that values other people. Also, there are four External Directors, including myself, who all have different professional backgrounds. Combining the specialized knowledge of Tokuyama's Directors with the wide-ranging knowledge and insight of the External Directors helps to ensure the effectiveness of our strategies and actions. This is my impression of Tokuyama's corporate governance.



Executing Medium- and Long-Term Strategies: The Roles of External Directors

Kawamori The Company is currently moving ahead with Medium-Term Management Plan 2025, centered on transforming the business portfolio. To realize sustainable growth when market conditions are uncertain, it is essential to accurately grasp the potential needs of customers with a high level of sensitivity and then to build a new business model in line with the changing times. I recognize that, from the perspectives of profitability and fairness, maintaining the support that comes from these initiatives is the mission of the External Directors as well as the Audit and Supervisory Committee Members. Creating a next-generation business portfolio is a common theme for the industry as a whole. At first, successfully reforming Tokuyama's business structure and optimizing global expansion should allow the Company to communicate the type of company we should be in the Japanese and global economic communities.

Mizumoto From the perspectives of *profitability and fairness*, which Mr. Kawamori previously mentioned, we could use different words and say that there are elements that will change as well as elements that will remain unchanged in the Company. Something that will change is the Company's business model; in other words, building a new value creation process by reorganizing business areas and regions of operation. In contrast, I think the elements that will remain unchanged are the Company's Mission, Vision, and Values. I believe that the role and mission of External Directors is to realize Tokuyama's Mission—defined as “To create a bright future in harmony with the environment, in collaboration with its customers, based on chemistry”—in management and business operations that contribute to creating strong foundations.

Achieving Sustainable Growth: Outlook and Issues That the Company Faces

Kawamori For Tokuyama to continue growing now, during a period where the industrial structure is experiencing major changes, every employee must become a leader in fostering a corporate culture of creativity and must take the initiative in their daily work. The Genroku period of the Edo era was a time of creativity and independence, since Japan transitioned from a focus on the samurai culture to one more focused on the average person. Talented individuals were produced in the new arts, such as *yoruri* (music) and *kabuki* (theater), and new trends that would later give shape to modern Japan were born in the fields of academics, thought, and religion. I believe that in order to live during times of uncertainty, we must learn from history and demonstrate our uniqueness, such as during the Genroku period, enabling us to create value for the next generation.

Mizumoto It can probably be said that the reason why Tokuyama has remained in business for more than 100 years is because of the ability to respond flexibly to changes in business conditions and market trends during each era. If the Company takes advantage of the ability to look forward to figure out the changes that lie ahead, as well as the skills and knowledge accumulated within the Group, I believe that Tokuyama will definitely be able to achieve the goals of Medium-Term

Management Plan 2025. President Yokota has also taken a proactive stance for co-creation with external partner companies and is committed to global environmental sustainability such as responding to the recommendations of the Task Force on Climate-related Financial Disclosures, as well as social contributions through the Company's businesses. I would like to see us, as External Directors, work to maximize the economic and social value that the Company provides, while sharing policies and strategies with the President.

Kawamori Since Tokuyama is a long-established corporation, for more than 100 years, there is a tendency for employee's attitudes to drift in a conservative direction. Taking this into consideration, Tokuyama's current management team is putting everything on the line by developing new business domains and cultivating overseas markets. The most important thing in corporate management is taking appropriate risks. There is a large market and need associated with risk taking. We, as External Directors and Audit and Supervisory Committee Members, will support the astute decisions of top management and drive ahead to create a corporate culture where employees can comfortably work energetically as well as the sound, sustainable growth of the Group.

Corporate Governance

Basic Stance

Amid the major transformations taking place throughout society, Tokuyama, in line with the business environment we face today, has redefined the corporate Mission as “To create a bright future in harmony with the environment, in collaboration with customers, based on chemistry.” This redefinition incorporates the Company’s desire to contribute to a sustainable society by pursuing business in harmony with the environment and working to create the future together with customers. This is only possible with the trust and support of shareholders, customers, suppliers, employees, local communities, and all other stakeholders, which the Company believes will fuel sustainable growth and greater corporate value over the medium to long term. Corporate governance includes a priority issue for management in order for the Company’s Mission to be realized, and the Company therefore recognizes the need to constantly strive to make improvements.

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

Steps to Strengthen Our Governance Structure

FY2018	Evaluation of effectiveness of Board of Directors conducted by external organization (conducted annually after that date) Introduction of performance-linked share-based remuneration plan
FY2019	Revision of criteria for determining independence of external directors
FY2020	Announcement of Tokuyama’s New Vision Decision to abolish anti-takeover measures
FY2021	One external director added (to strengthen diversity of Board of Directors)
FY2022	Revision to “Basic Policy on Establishing the Internal Control System” (revision to a policy focused on Group management)
FY2023	Enhance policies, such as establishing the Tokuyama Group Sustainability Principles and the revision of the Tokuyama Group Code of Conduct

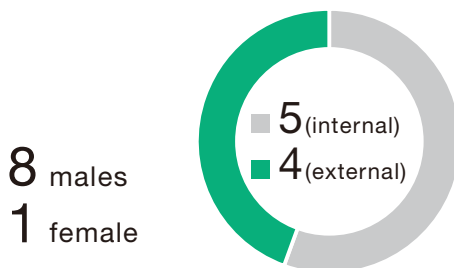


Corporate Governance Report
<https://www.tokuyama.co.jp/eng/company/governance/index.html>

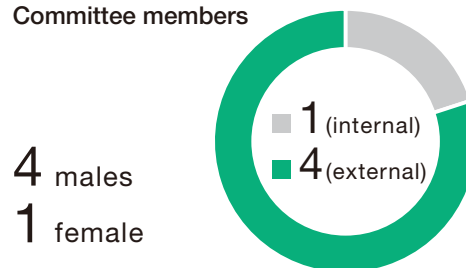


Corporate Governance Structure

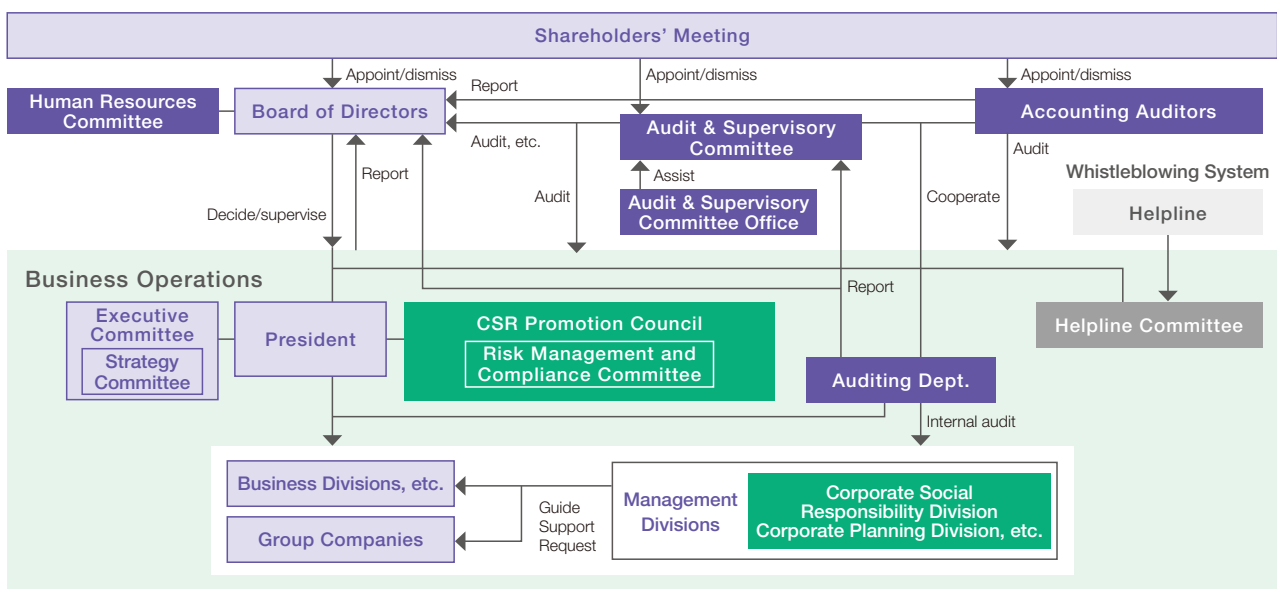
Number of Directors



Number of Audit & Supervisory Committee members



Corporate Governance Structure



Meeting Bodies on Governance

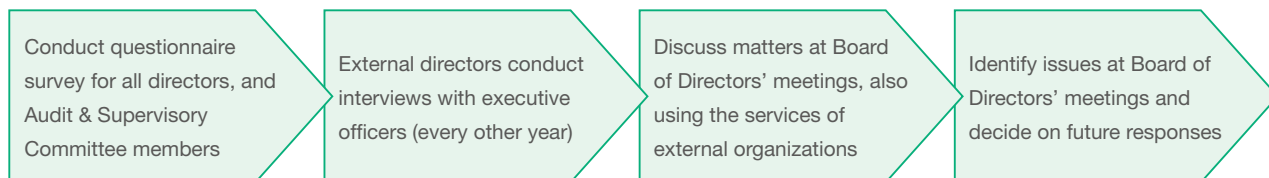
Board of Directors	The Board of Directors supervises business operations in addition to deliberating on and making resolutions on important matters related to the activities of the Company • Number of meetings held in FY2022: 17
Audit & Supervisory Committee	Directors who are Audit & Supervisory Committee members attend meetings of the Board of Directors and other important internal meetings in order to gather information on the state of business operations. They also conduct audits on how well the executive officers are performing their duties. • Number of meetings held in FY2022: 24
Human Resources Committee	This committee holds discussions on such matters as the selection of director and executive officer candidates (excluding those on the Audit & Supervisory Committee) and their remuneration, before Board of Directors meetings take place.
Executive Committee	Members of the Executive Committee are selected by the president and executive officer (referred to here 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 on 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 works to confirm the allocation of management resources with the aim of evaluating conditions relating to business execution in respect to important matters requiring approval. It also sets the direction of policies related to business execution with regard to specific projects.
CSR Promotion Council	Chaired by the president, the CSR Promotion Council includes all executive officers. The Committee sets CSR policies and goals, while also enabling initiatives to achieve those goals. The Committee focuses on maintaining effective corporate governance and internal controls, which together form the foundation of the Company's CSR. It also discusses important matters regarding internal controls.
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.
Expert Committees	Tokuyama operates various committees focused on risk management and compliance in critical and specialized areas, separately from the Risk Management and Compliance Committee. These committees operate under the CSR Promotion Council: the Financial Reporting Committee, Fair Trade and Competition Committee, Security Trade Committee, Information Security Committee, Environment Committee, Safety Committee, and Product Safety and Quality Assurance Committee. From FY2022, a new Sustainability Committee was established to discuss areas that fall outside any existing framework, such as climate change and human rights.
Helpline Committee	The Helpline Committee is responsible for the administration of Tokuyama's helpline (whistleblowing) system that was established for the internal reporting of legally questionable actions and behavior by Group executives and employees.
Internal Audit Department	This department, established to be responsible for internal auditing, performs internal audits of divisions and departments of the Company as well as Group companies.

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 contribute to building a sustainable society by conducting business in harmony with the environment and working to create the future together with customers against a backdrop of today's challenging

business environment. To earn and retain this trust and support, the Company has positioned corporate governance as a material issue for management, and consequently has determined to evaluate the effectiveness of the Board of Directors every year.

Evaluation Process



In the FY2022, the Company engaged an external organization to conduct a questionnaire survey of all the directors, and analyzed their responses. The results were submitted to the Board of Directors for review and discussion.

The evaluation revealed that the effectiveness of the Board of Directors is generally being confirmed. The evaluation also showed that initiatives to address the issues identified in the previous evaluation achieved a certain level of results overall. A high score was given for the board's monitoring and oversight of management team

selection, evaluation, and compensation, while the score for communication with stakeholders was relatively low, making it a high-priority issue.

Additionally, the Board needs to keep focused on effective monitoring of the progress made on initiatives to address the priority issues identified in the Medium-Term Management Plan 2025. The Board of Directors will continue to monitor and oversee the executive management team as it steadily implements the Medium-Term Management Plan 2025 to achieve the plan's goals.

Adoption of Diverse Perspectives

Executive officers are appointed in each business segment and area based on their knowledge and experience to make certain that they direct the execution of business and make appropriate decisions with regard to the Company's business operations, centered on chemicals.

When nominating candidates for directorships, the Company selects those who have demonstrated a high level of insight, diverse experience and expertise, and then take into consideration 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 operations.

When selecting and dismissing executive officers and nominating candidates for directorships (excluding directors who are Audit & Supervisory Committee members), discussions are held in advance of the subject appearing on the agenda at a Board of Directors' meeting

at a meeting of the Human Resources Committee (an body that includes representative directors and external directors). The Board of Directors then makes decisions in response to the Human Resources Committee's report.

For 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 & Supervisory Committee member candidates, the Board of Directors makes decisions after receiving assent from the Audit & Supervisory Committee.



* See the Company's corporate website for the criteria used for determining the independence of external directors
<https://www.tokuyama.co.jp/eng/company/governance/index.html>



Skills Matrix of the Board of Directors

In light of the Company's Vision and Medium-Term Management Plan 2025, important skills are identified (see below) in areas where directors are expected to contribute

for the Board of Directors to conduct effective discussions and exhibit the required decision-making and management-supervision abilities:

		Management Planning and Strategy	Sales and Marketing	Finance and Accounting	R&D, Production Technology and Engineering	CSR (Legal, ESG, Safety)	Utilization of Digital Technology	Overseas Business Operations
Internal	Hiroshi Yokota (Representative Director, President and Executive Officer)	●	●			●		●
	Hideo Sugimura (Representative Director, Senior Managing Executive Officer)	●		●		●	●	●
	Fumiaki Iwasaki (Director, Managing Executive Officer)	●	●		●	●	●	
	Tomohiro Inoue (Director, Managing Executive Officer)	●	●		●	●		●
	Youji Miyamoto (Director, Audit & Supervisory Committee Chair)	●		●		●		
External	Yuzo Kawamori (External Director, Audit & Supervisory Committee Member)	●	●	●		●		●
	Nobuko Mizumoto (External Director, Audit & Supervisory Committee Member)	●			●	●	●	
	Hiraku Ishizuka (External Director, Audit & Supervisory Committee Member)	●		●		●		
	Naoki Kondo (External Director, Audit & Supervisory Committee Member)	●		●		●		●

Note: The above list does not show all the knowledge and experience possessed by the directors.

Response to Chief Executive Officer Succession Plan

In August 2021, the Company established the President Nomination Committee, which formulates, implements, and deliberates on the Chief Executive Officer (President and Executive Officer) Succession Plan, and which reports to the Human Resources Committee.

The operations of the President Nomination

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

Director Training

Since 2001, the Company has maintained a policy of requiring newly appointed directors to participate in external executive training. Since the executive office system was introduced in 2011, all newly appointed Executive Officers participate in this training, as all of them are candidates for

future directorships. The content of the training program can be selected based on the experience and knowledge of the individual, but with corporate governance in mind, the required content includes legal affairs and corporate governance as well as accounting and finance. The Company

also allows participants to attend external seminars related to their corporate responsibilities on their own.

External directors are given the opportunity to visit factories and to learn about the Company when they take office, so that they can understand the current condition of

Executive Remuneration

Policy on Determining Individual Director Remuneration

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 & Supervisory Committee). The following is an overview of this information, where individual remuneration is determined by the Board of Directors following deliberations by the Human Resources Committee.¹⁾

Basic Policy

- The remuneration plan for the Company's directors is based on the following perspectives:
 - Ensures that directors contribute to charting sustainable growth for corporate performance and corporate value based on the Tokuyama Vision
 - 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
- Remuneration for the Company's directors consists of basic remuneration and bonuses²⁾ in the form of monetary remuneration and performance-linked share-based remuneration in the form of nonmonetary remuneration.³⁾

Policy on Determining Director Remuneration on an Individual Basis

- Basic remuneration
 - The basic remuneration (annual amount) is determined from a comprehensive perspective, taking into consideration the roles and responsibilities to be undertaken.
 - The determined basic remuneration is divided into 12 equal monthly payments.
- Bonuses
 - Bonuses are determined on a scale from 0% to 150% of the standard bonus amount pre-determined for each position. Each bonus is calculated according to the degree of achievement with respect to performance targets set in advance for each fiscal year.
 - The performance targets are established based on the main financial performance targets for the entire Group.
 - The determined bonuses are paid at a fixed time of year.
- Performance-linked share-based remuneration
 - Performance-linked share-based remuneration is based on the total number of standard points determined for each position during the target period, which is the fiscal years covered by the Medium-Term Management Plan. Tokuyama share options are granted to the individual on a scale of 0% to 150% of the standard points concerned, according to the level of achievement of the pre-determined performance targets.
 - The performance targets are established based on the main financial targets under the Medium-Term Management Plan.
 - In principle, the share options are only granted after the end of the target period.
- Level of remuneration
 - The levels of remuneration are decided on using compensation survey data from specialized external agencies.

Policy on Determining the Percentage of Each Type of Remuneration for Directors

The percentage of remuneration for Company directors by type is determined after considering the ideal balance between the basic standard for the required roles/responsibilities on the one hand and incentives to stimulate the desire to achieve performance targets on the other.

Policy on Holding Listed Shares for Purposes Other than Pure Investment

The Company holds shares of publicly listed companies for strategic reasons in accordance with the requirements for business activities as part of the overall management strategy. This includes the need to maintain and bolster transactions, raise funds, and consistently procure raw materials. As far as the strategic holding of shares in publicly listed companies is concerned, the Company will limit holdings to the minimum level possible, taking into consideration the need to ensure efficient corporate management. The Company sold all shares of one listed

the Company's businesses and operations.

Finally, the Company also holds study sessions, when needed, for all directors to gain a better understanding of domestic and international economic conditions, legal revisions, and new systems.

Method for Determining Director Remuneration on an Individual Basis

- Basic remuneration

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.

As of FY2023, each individual's specific roles and responsibilities regarding important material issues for the realization of the Company's CSR management are taken into consideration. This is a factor in the calculation of an individual's remuneration, and part of the Company's ESG initiatives.
- Bonuses

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 percentage 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. The specific performance target for FY2023 is the target consolidated ordinary income set under the Medium-Term Management Plan. Each remuneration amount is calculated by multiplying the individual's standard amount by the performance-linked coefficient (ranging from 0% to 150%) set according to the degree of target achievement.
- Performance-linked share-based remuneration

The granting of share options as part of performance-linked share-based remuneration is based on the executive share-based remuneration regulations deliberated by the Human Resources Committee and adopted by the Board of Directors. The number of share options to be granted to each individual is calculated by multiplying the total number of standard points determined for the position concerned by the performance-linked coefficient (ranging from 0% to 150%) set according to the degree of target achievement.

In addition, the specific performance target is the Company's target total consolidated operating income for the target period.

- The Human Resources Committee is composed of a majority of external directors and they deliberate on issues related to human resources and remuneration regarding officers; the committee also serves as a voluntary advisory body for the Company that issues reports and makes recommendations to the Board of Directors.
- Directors eligible for the bonus plan are those who are executive officers.
- 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.

Amount of Remuneration Paid to Directors and Audit & Supervisory Committee Members (FY2022)

Subject of Remuneration	Number of People	Remuneration Amount
Directors (excluding directors who are Audit & Supervisory Committee members)	4	¥176 million
Directors who are Audit & Supervisory Committee members (excluding external directors)	1	¥29 million
External Directors	4	¥56 million

Notes: The above amount includes the expenses recorded for FY2022, as well as an adjustment of -25 million yen for the amount of expenses recorded for performance-linked share compensation, which takes into account the level of achievement of performance evaluation indicators (accumulated consolidated operating income, etc.) in FY2021 and FY2022 during the period covered by the plan. The figures above do not include the employee salary portion for directors also serving in employee positions

issue in FY2022, resulting in a total of 20 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 holdings based on a future outlook each year. The Company exercises voting rights in shares based on the contribution to corporate value for both the Company and the investee.

Risk Management

Strengthening Our Risk Management System

Tokuyama has established the Risk Management and Compliance Committee under the CSR Promotion Council as part of our company-wide risk management system, as outlined on p. 34: System to promote CSR management.

The Risk Management and Compliance Committee considers events and issues that have recently emerged or that have undergone a change in the degree of impact, by monitoring social conditions and coordinating with other committees. This committee then assesses whether or not these are real risks and meets with expert committees to develop a response.

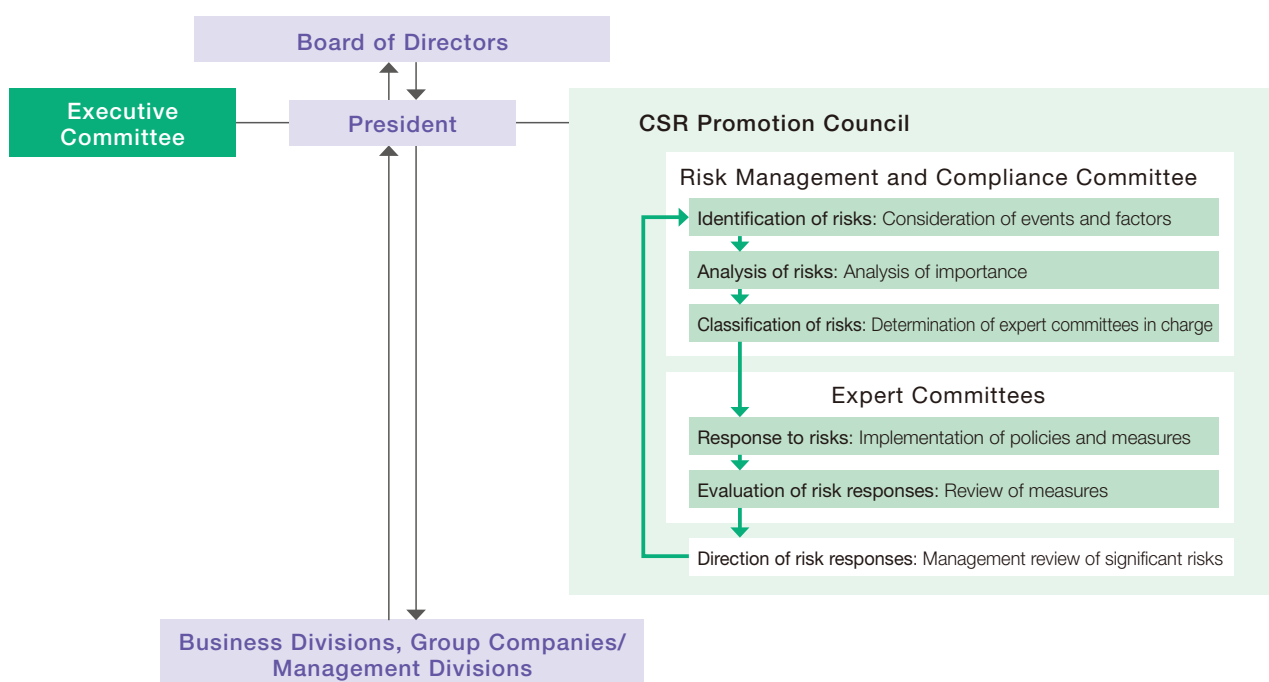
The Risk Management and Compliance Committee performs group-wide enterprise risk management by making visible and mapping risk levels both quantitatively and qualitatively from several perspectives: impact (monetary loss, decrease in market share, and scale of impact, etc.); occurrence frequency and probability;

and Company's vulnerability.

The expert committees examine and determine mitigation policies for the risks they are responsible for (including risk reduction, avoidance, transfer, and retention). Based on the policies that are developed, the Group plans and implement ways to manage risks as well as conducts periodic reviews to check on the performance of the risk management system.

For instance, we are working to mitigate compliance risk by setting up management systems for understanding the laws and regulations that cover business execution. As well, we are tracking trends in amendments to those laws and regulations. The Company has established the Cybersecurity Department to prepare for changes in the business environment as well as cyberattacks, which have become increasingly sophisticated.

Process of Identifying Significant Risks



Business Continuity Management (BCM)

The Company has formulated, and continues to update, a BCP (business continuity plan) to ensure that circumstances do not prevent important operations from continuing. We also secure funding and resources to make certain that business keeps going, as we engage in business continuity management in normal times, including taking preventive measures, while we strengthen our ability to continue business operations.

To address the COVID-19 pandemic, the Company set up a crisis response headquarters in February 2020 with the President as general manager. The headquarters held six meetings in FY2022. Actions included notification of

instructions issued by the government and industry bodies, infection prevention measures, and establishing a structure for contacts and public relations should an infection event occur. Crisis response measures included acquiring an understanding of infection responses and the state of production at business sites in and outside Japan, as well as recommending remote work and staggered commuting. With the main threat of the COVID-19 pandemic considered now over, the crisis response headquarters was disbanded on February 28, 2023, subsequently transitioning to liaison meetings with each department.

List of Enterprise Risks (FY2023)

*The chairperson of each committee/meeting body is a director and is responsible for managing the risks (risk owner)

Hazard risk (external environment risk) Risks posed by the external environment and potential events

Moderate category	Minimal category	Relevant committee/ meeting body*
Natural disasters	Earthquake, tsunami, weather-related disaster, abnormal weather event (typhoon, storm surge, heavy rains, etc.)	Risk Management and Compliance Committee
Accident or breakdown	Fire, explosion, chemical leak, equipment or device damage or failure, utility supply interruption, accident with aircraft, ship or railway	Safety Committee
Pandemic disease	Widespread outbreak of COVID-19 or another endemic infectious disease	Risk Management and Compliance Committee
Country risks	War, conflict, terrorism incident, riot, unlawful political change, or economic crisis	Risk Management and Compliance Committee
Information security risks	Cyberattack, virus infection, information leaks, failure of system facilities/equipment, system failure	Information Security Committee

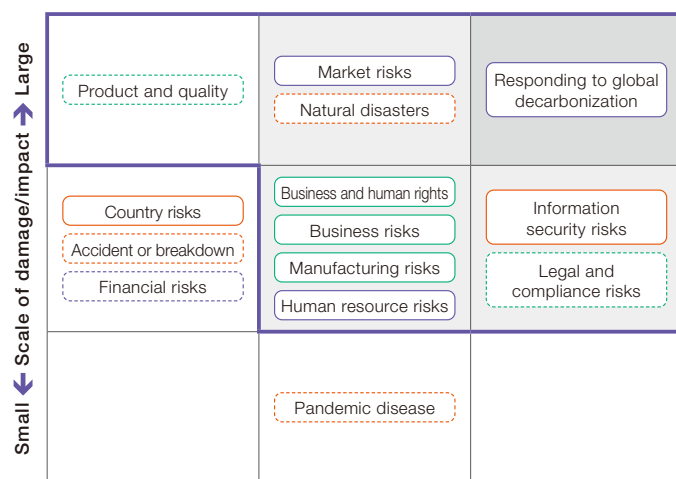
Business risk (strategic risk) Risks posed by the quality and accuracy of corporate strategies that affect performance and corporate value

Moderate category	Minimal category	Relevant committee/ meeting body*
Global decarbonization risks	Adoption of carbon pricing, adoption of international carbon taxation, progress of green procurement, popularization of ESG investment and environmental finance, tighter regulations, increased political pressure, and accelerating climate change	Sustainability Committee
Market risks	Changes in market needs, marketing failures or deficiencies, emergence of new competitors, product development failures or obsolescence, delays in responding to rapid technological innovations, and delays or barriers to overseas expansion	Executive Committee Board of Directors
Human resource risks	Mass turnover, difficulty in securing human resources, workforce aging, distorted human resource pyramid, failure to adopt new workstyles such as human resource development and technology transfer (including workers from overseas), and human resource mismatch due to business transitions	Executive Committee Board of Directors
Financial risks	Funding plan or financing failure, paid capital increase, suspension of financial support, interest rate or foreign exchange rate fluctuation risk, and stock price decline	Executive Committee Board of Directors

Operational risk (business process risk) Risks arising from deficiencies in internal processes related to business execution, or from inadequate functions

Moderate category	Minimal category	Relevant committee/ meeting body*
Manufacturing risks	Equipment or machine stoppages or accidents due to operating errors, industrial accidents, and aging equipment or machinery	Safety Committee
Business risks	Soaring raw material or fuel prices, failed pricing policies, declining price competitiveness, dependence on a small number of suppliers, and dependence on a small number of customers	Executive Committee Board of Directors
Serious product defects or quality risks	Quality defects, voluntary recalls, product liability accidents, deficiencies in chemical safety management when exported, management of chemical substances contained in products, and mislabeling or counterfeit labeling	Product Safety and Quality Assurance Committee
Business and human rights	Human rights violations in supply chains, boycotts, and consumer movements	Sustainability Committee
Legal and compliance risks	Non-performing loans/bad debts, intellectual property rights infringement, invention compensation disputes, antimonopoly law violation, Unfair Competition Prevention Act violation (bribery), improper contract signing, insider trading, inadequate management of licenses and permits, misconduct involving executives or employees, ties to antisocial forces, and intimidation	Fair Trade and Competition Committee Risk Management and Compliance Committee

Mapping of Significant Enterprise Risks



Definition of scale of damage and impact

Large ↑	Damage that threatens the survival of the company, as well as substantial damage such as loss of assets
Moderate	Significant decrease of profits, or minor loss of assets
Small ↓	Little impact on corporate profits and assets

Definition of occurrence frequency and probability

High →	Occurs more than once a year; Will almost certainly occur in the near future
Moderate	Occurs several times a decade
Low ←	Occurs once every decade or more

Definition of vulnerability

High	Mitigation measures have not been implemented or are completely inadequate
Moderate	Some measures have been implemented, but they are still insufficient
Low	effective measures have been implemented and a management cycle is in place